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Ratings

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Credit Suisse Group AG (Holding Company)

Credit Suisse AG (Lead Bank)

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Table Of Contents

Credit Suisse Group AG (Holding Company)

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SACP	a-

+

Support	+2

+

Additional Factors	-1

Anchor	a-	
Business Position	Adequate	0
Capital and Earnings	Adequate	+1
Risk Position	Moderate	-1
Funding	Average	0
Liquidity	Adequate	

ALAC Support	+2
GRE Support	0
Group Support	0
Sovereign Support	0

Issuer Credit Rating
A/Positive/A-1
Resolution Counterparty Rating
A+/--/A-1
Bank Holding Company ICR
BBB+/Stable/NR

Major Rating Factors

Strengths:	Weaknesses:
• High levels of capital to absorb losses as a going concern and in a resolution scenario. • Stable and low-risk earnings from global wealth management and Swiss retail, private, and corporate banking. • Demonstrated sound asset quality and a highly collateralized lending book.	• Profitability still to emerge fully and sustainably at higher levels from recent years' restructuring. • Complexity and elevated market and operational risk from the high share of capital markets-related businesses and residual non-strategic assets after material reductions of these assets in recent years.

Outlook: Stable

Credit Suisse AG and operating subsidiaries: Positive outlook

The positive outlook reflects the likelihood that the group will achieve sustainably stronger levels of profitability from 2019 while containing risk, maintaining strong capitalization, and further rebalancing its business mix toward wealth management activities.

We could raise the ratings on Credit Suisse AG (CSAG) and the group's core operating subsidiaries over the next six to 18 months if the group demonstrates that its earnings have sustainably recovered and become more in line with peers'. This could be the case if we became comfortable about the group's ability to broadly achieve management's profitability objectives for 2019 and 2020 while further reducing reliance on revenues from trading and investment banking. Sustainably restoring profitability of its currently underperforming Global Markets division would support an upgrade. All else being equal, these developments could lead us to remove our one-notch negative adjustment from the long-term issuer credit rating (ICR), consistent with a view that Credit Suisse is no longer a negative outlier among its highly rated peers.

We could revise the outlook to stable if the group were to miss its earnings objectives materially or took actions that would put into question the sustainability of its earnings recovery. This could occur if, contrary to our expectations, the bank aggressively changes the sound profile of its loan book, or takes materially higher market or loan underwriting risks to achieve its goals. Continued low earnings in its Global Markets division could also prevent an upgrade.

Credit Suisse Group AG: Stable outlook

The stable outlook on the group's holding company, Credit Suisse Group AG (CSG), compared with the positive outlook on its operating bank subsidiaries, reflects that we do not make the one-notch negative adjustment for the group's current underperformance at CSG's lower rating level. Therefore, its ratings would not benefit from these more near-term positive developments. The factors behind our outlook on CSG contribute to our unsupported group credit profile (UGCP) of 'a-'. Changes in the UGCP could also affect our ratings on CSAG and the group's hybrid debt instruments (see section "Hybrid issue ratings" below).

Specifically, our stable outlook considers that the group's franchises in global wealth management and domestic corporate retail banking will continue to provide favorable growth to group earnings and that the period of successive restructurings at Credit Suisse has ended. It further reflects our assessment of reduced risk of major one-off charges such as from litigation, and that the group will sustain capitalization near current levels.

We see an upgrade of CSG based on a stronger UGCP as unlikely over the two-year outlook horizon. We consider that peers with higher UGCPs typically have more diversified and larger franchises than Credit Suisse and show longer track records of sound profitability.

We could lower the ratings on CSG based on a weaker UGCP in case of any large unexpected charges or litigation risk, in particular if they jeopardized our projection of a risk-adjusted capital (RAC) ratio comfortably above 10%. We could also lower our ratings if, contrary to our expectations, the group were to embark on a more aggressive lending strategy, materially boosting exposures to higher risk economies or exposures with weak collateralization.

Rationale

We base our ratings on Credit Suisse on its globally diversified business mix with a strong footprint and domicile in

Switzerland. Offsetting factors are the low profitability of Credit Suisse's important markets-related activities.

We view the group's capitalization as a strength, reflecting our projection that its RAC ratio will remain firmly above 10%. The strong RAC ratio is offset by our assessment that Credit Suisse's risk profile remains complex. Market and operational risks remain material components of Credit Suisse.

We anticipate that the group will retain a sound liquidity and funding profile. This remains underpinned by high amounts of customer deposits and excess coverage of potential outflows of short-term wholesale funding by liquid assets.

These factors lead to an 'a-' UGCP. We add two notches of uplift to arrive at the long-term ICR on Credit Suisse AG and the other operating subsidiaries to reflect that Credit Suisse has built substantial buffers of bail-in-able debt instruments. However, in our ICR on these entities, this is partly offset by the negative one-notch adjustment to the rating that we make to reflect that Credit Suisse's earnings are below similarly rated peers' until it fully emerges with improved and sustainable earnings from its restructuring.

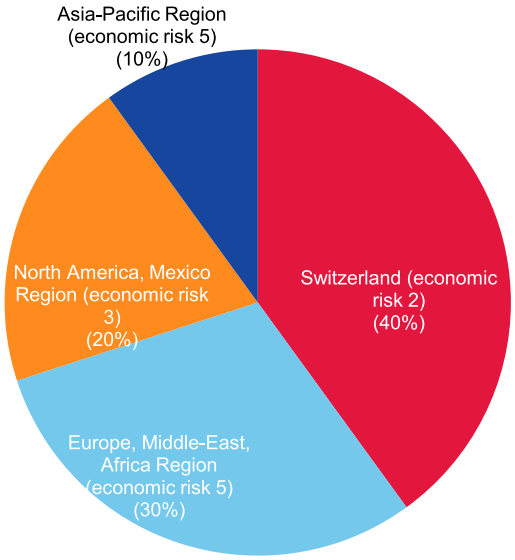
We set the resolution counterparty ratings (RCRs) on Credit Suisse AG and subsidiaries in Switzerland, the U.K., Spain, and Germany one notch above our 'A' long-term ICRs, while we align our RCR on U.S.-based Credit Suisse Securities (USA) LLC with its 'A' ICR.

Anchor: 'a-', owing to the Swiss home market and a global blend of exposures

The 'a-' anchor reflects Credit Suisse's regulatory domicile, Switzerland, and its geographic mix of credit exposure. It benefits from the high share of exposures to Switzerland.

Chart 1

Credit Suisse Group's Weighted-Average Economic Risk Benefits From Strength of Switzerland



Data reflects gross credit exposure by geography as of Dec. 31, 2017 (rounded to nearest 5%).

We use our Banking Industry Country Risk Assessment economic risk and industry risk scores to determine a bank's anchor, the starting point in assigning an ICR. We establish a weighted-average economic risk score for Credit Suisse's mix of exposures of '3' (rounded from 3.4) on a scale of 1-10 (1 is the lowest risk and 10 is the highest). This is weaker than the '2' score for banks operating in Switzerland only, but not to an extent that it would negatively affect the anchor. This could be the case if the weighted average score were to deteriorate toward '4'.

Our economic risk score of '2' for Switzerland is supported by the country's highly diversified and competitive economy, very high household income levels, and banks' prudent loan underwriting standards. However, it also reflects that risks remain, owing to the cumulative rise in Swiss house prices over past several years. Although imbalances remain moderate in a global context, they have led the regulator to enact macroprudential measures to contain growth in mortgage indebtedness. We recognize that house price growth has cooled since the beginning of 2014, while lending has recently picked up again after several years of moderate growth. In our view, house prices and household indebtedness remain historically high. The very high mortgage debt level is mitigated by the large amount of financial assets, including pensions, held by households in Switzerland.

Our industry risk score of '2' primarily reflects the banking sector stability and a relatively high share of deposit funding. Banks' net interest margins continue to decline gradually, given the pressure on deposit margins from the

negative yield environment. This is partly offset, however, by higher margins on lending products, fee income from investment advisory-related activities, and cost management. As a result, banks are still able to generate returns on core banking products that are adequate to meet their cost of capital. Moreover, in our view, the Swiss regulator's initiatives are more stringent than those in other European banking industries.

Table 1

Credit Suisse Group AG Key Figures

		--Year-ended Dec. 31--			
(Mil. CHF)	**2018***	**2017**	**2016**	**2015**	**2014**
Adjusted assets	763,594	791,324	814,735	815,801	912,569
Customer loans (gross)	283,873	277,894	273,871	269,855	268,888
Adjusted common equity	34,615.5	34,366.4	31,050.0	36,063.9	31,889.0
Operating revenues	15,096	19,483	18,444	21,878	24,136
Noninterest expenses	11,539	16,502	17,627	19,281	19,226
Core earnings	2,134.2	2,024.0	124.0	1,750.0	2,900.1

*Data as of Sept. 30. CHF--Swiss Franc.

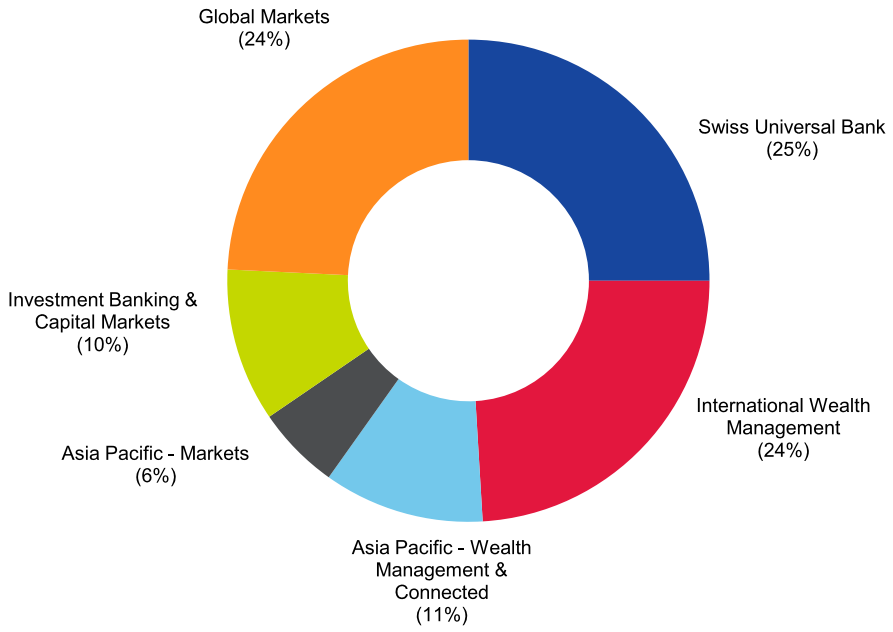
Business position: Restructuring finalized in 2018

Credit Suisse is a universal banking group that ranks among the largest global wealth managers and among the top 10 banks globally in terms of aggregate capital market revenues. Next to UBS AG, it is also the leading retail, private, and corporate bank in Switzerland. We view the group's domestic position and its geographically diverse revenues from wealth management as material stabilizing factors to our assessment. The businesses demonstrate low volatility in quarterly revenues and earnings, sound net inflows of assets under management, and a stable trend in net earnings margin on assets under management. Accordingly, we view positively the group's much stronger strategic focus of recent years on wealth management. However, compared with UBS, which we assess in a higher business position category, we regard Credit Suisse's wealth management franchise as smaller, somewhat more narrowly focused on being a leading bank in the ultra high-net-worth individuals segment, and geographically not present in the U.S.

Despite the stronger focus on wealth management, its investment banking divisions (including sales and trading) still contribute a high 40% of total operating revenues (adjusted for non-recurring items and the impact of non-strategic activities) for the nine months ended Sept. 30, 2018.

Chart 2

Credit Suisse Group Operating Revenues By Division For First Nine Months Of 2018



Source: Credit Suisse. Based on adjusted revenues for each division. Excludes Corporate Center and Strategic Resolution Unit.

We note positively the strategic revamp of recent years, which has strengthened client-led activities and cooperation between the investment banking and wealth management divisions. However, we still generally consider investment banking-related activities to be less stable and more sensitive to market perception of creditworthiness. Securitized products business and leveraged finance are the main earnings engines for the investment banking divisions. Furthermore, the group is investing in expanding its equity derivatives franchise where it sees product demand from its wealth management divisions.

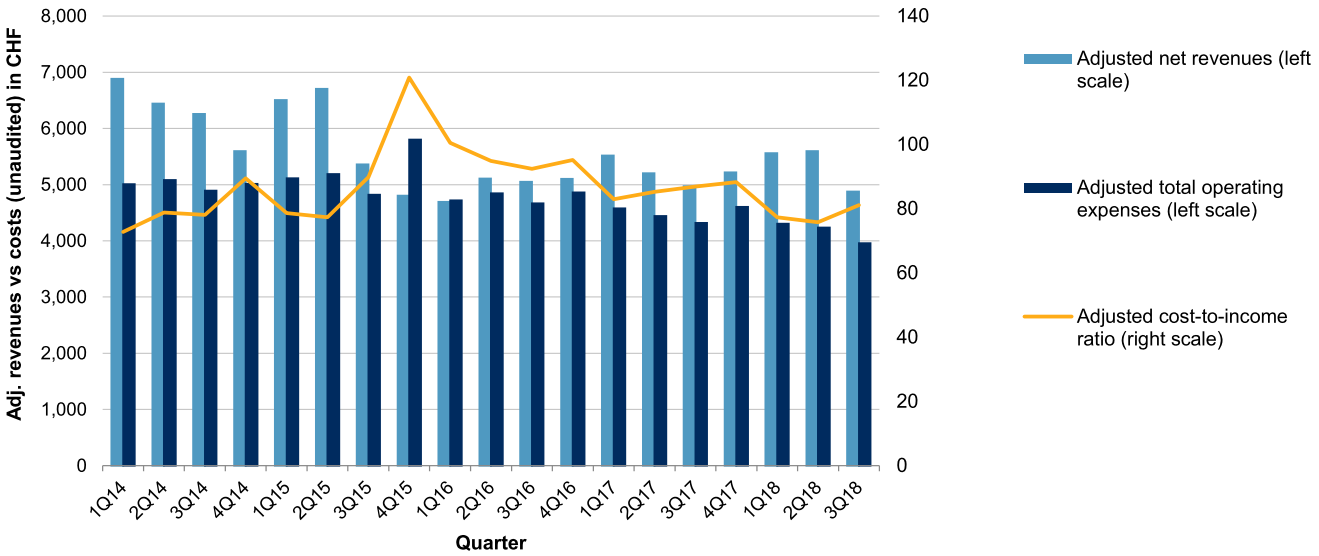
Our business position assessment also reflects that the starting point for our ratings (the 'a-' anchor) on Credit Suisse is higher than for its global peers because it is domiciled in Switzerland, while it is exposed to similar competitive dynamics in its investment banking activities as these peers. In our assessment, we compare Credit Suisse with other banks that have major global franchises in wealth management and investment banking. This includes UBS, Deutsche Bank, Barclays, Morgan Stanley, BNP Paribas, Societe Generale, and large U.S. universal banks.

Credit Suisse started later than many peers in adapting its business model and cost structure to a changing regulatory and market environment negatively affecting mainly its investment banking business. Therefore, the group's earnings have taken a harder hit from the slump in capital markets activities since end-2015 than many of its peers, and by exit costs from winding down non-strategic businesses and illiquid trading positions.

That said, under its current management team, the bank has made steady progress on its announced restructuring initiatives since October 2015, lifting operating revenues (excluding seasonal quarterly effects) while cutting costs in 2017 and 2018.

Chart 3

Credit Suisse Group (Consolidated) -- Quarterly Revenues And Expenses



Note: Figures are based on Credit Suisse's adjusted net revenues and operating expenses. They exclude fair value impact from movements in their own credit spreads, real estate gains, and gains/losses on business sales, goodwill impairments, restructuring expenses, and major litigation provisions as reported by Credit Suisse. Cost-to-income ratio as adjusted total operating expenses divided by adjusted net revenues.
CHF--Swiss franc.

The group also managed to cut non-strategic exposures ahead of plan and at a lower exit cost than planned. Accordingly, Credit Suisse completed its restructuring program at year-end 2018. It is set to emerge from the program with stronger profitability in 2019. In December 2018, management re-affirmed its ambition to achieve reported 10%-11% return on tangible equity (RoTE) in 2019, possibly rising to 11%-12% in 2020. The group estimates that its RoTE would be 6% for 2018, clearly below its cost of capital. We anticipate that Credit Suisse will make further material progress toward its targets without aggressive risk-taking. However, our business position assessment is not dependent on the assumption that it will fully achieve these targets.

Credit Suisse has also been preparing for the U.K.'s expected exit from the EU in March 2019, assuming that Credit Suisse's material U.K. subsidiaries, like other U.K. financial firms, will lose their right to "passport" or sell their services across the EU. Among other things, the group has invested in the expansion of its Spanish and German operations (see "Spain-Based Credit Suisse Securities Sociedad de Valores Assigned 'A/A-1' Ratings; Outlook Positive," published Oct. 11, 2018, and "Germany-Based Credit Suisse (Deutschland) AG Assigned 'A/A-1' Ratings; Outlook Positive," published

Nov. 7, 2018, both on RatingsDirect). These moves should ensure that the group can continue servicing clients from April 2019 even if the U.K. and the EU do not ratify a withdrawal agreement that allows for a period of continuity, stretching until end-2020.

Table 2

Credit Suisse Group AG Business Position

		--Year-ended Dec. 31--			
(%)	**2018***	**2017**	**2016**	**2015**	**2014**
Total revenues from business line (mil. CHF)	16,119.0	19,483.0	18,868.0	22,174.0	24,783.0
Commercial banking/total revenues from business line	12.0	12.8	10.9	8.7	8.0
Retail banking/total revenues from business line	40.0	41.6	42.6	35.5	33.4
Commercial & retail banking/total revenues from business line	52.1	54.4	53.4	44.2	41.4
Trading and sales income/total revenues from business line	34.0	28.5	29.1	41.0	38.6
Corporate finance/total revenues from business line	10.6	20.7	22.2	14.3	13.7
Asset management/total revenues from business line	6.6	7.7	7.0	6.0	7.5
Other revenues/total revenues from business line	(3.2)	(11.4)	(11.8)	(5.5)	(1.1)
Investment banking/total revenues from business line	44.5	49.2	51.4	55.2	52.3
Return on average common equity	5.6	(2.3)	(6.3)	(6.7)	4.2

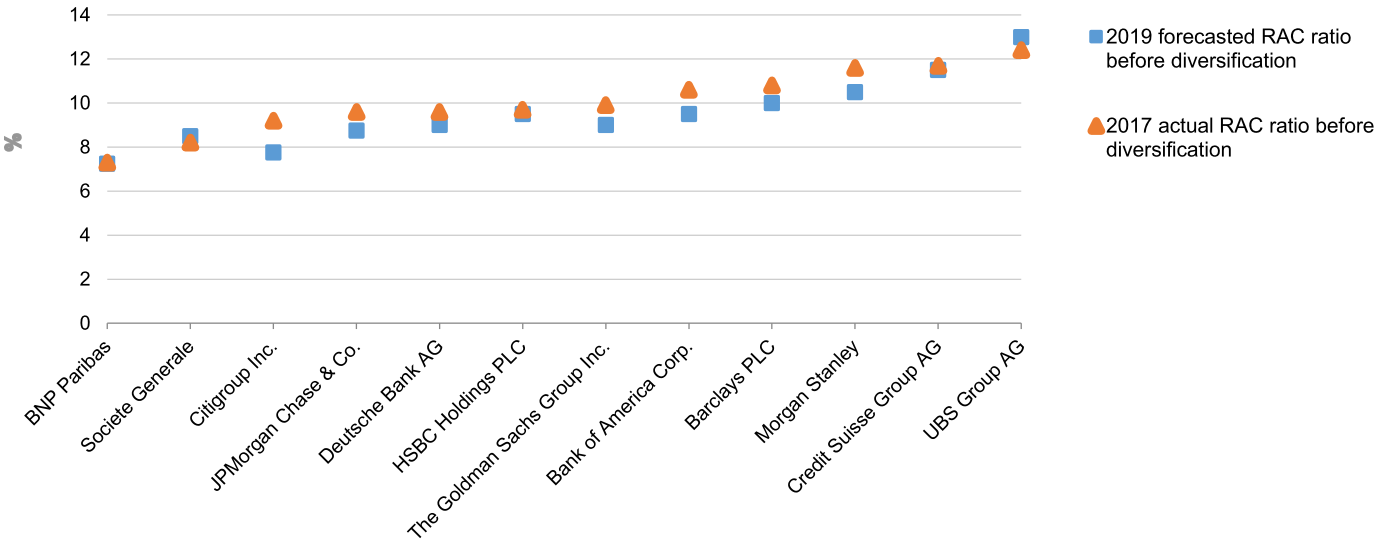
*Data as of Sept. 30. CHF--Swiss franc.

Capital and earnings: Sound regulatory CET1 and S&P Global Ratings' risk adjusted capital ratios

Credit Suisse's capitalization is a ratings strength. Its RAC ratio of 11.5% as of June 30, 2018, is higher than that of several international peers. We expect its RAC to hover at this level for the next two years. The group also shows a sound 12.8% regulatory risk-weighted common equity tier 1 (CET1) ratio on a fully-loaded basis as at Sept. 30, 2018. It is positioned to meet stringent regulatory going concern capital requirements in Switzerland, which are being phased in and will become fully effective on Jan 1, 2020. The capital levels also largely anticipate that regulatory risk-weighted assets will increase, particularly in 2022, due to the finalization of Basel III reforms.

Chart 4

Credit Suisse's RAC Is Stronger Than Most Peers
2017 actual and 2019 projected RAC ratios for Credit Suisse Group AG and peers



All RAC ratios are calculated at the group level.Source: S&P Global Ratings. For more details, see "Top 100 Banks: Banks Are On Track To Withstand A Credit Cycle Turn," published Oct 1, 2018.

Credit Suisse management targets to operate at a CET1 ratio above 12.5% ahead of the phasing in of additional Basel 3 reforms starting 2020. This implies broadly stable core capital from current levels. Accordingly, we project that its RAC ratio will remain broadly unchanged between 11.5% and 12.0% until year-end 2020.

That said, we anticipate that at year-end 2018 the RAC ratio may have temporarily dipped slightly below the 11.5% mark, but will recover in 2019. Management exercised call rights on several tier 1 hybrid capital instruments in the second half of 2018. Issuance of new tier 1 capital during 2018 only partly replaced these maturities. However, the bank's issuance plan for 2019 indicates that it will continue issuing between CHF1 billion and CHF2 billion new additional tier 1 instruments during the course of the year.

We consider management's risk-weighted CET1 ratio target to operate above 12.5% as sustainable. It is well above the 10% regulatory minimum requirement effective Jan. 1, 2020. However, in setting its capital target, the bank anticipates that until 2022 its risk-weighted minimum capital requirement might well increase by about 16% in nominal terms from its current base. This reflects projected inflation in regulatory risk-weighted assets from the finalization of Basel III reforms and methodological changes. Moreover, Credit Suisse is subject to a 5% going concern leverage ratio requirement under Swiss regulation, effective Jan. 1, 2020. This is currently the binding capital constraint on the group, given its actual ratio of 5.1% fully loaded as of Sept. 30, 2018. It implies that the group is unlikely to lower its

going-concern capital base from current levels.

Credit Suisse's earnings are set to improve further from the weak levels reported over the past few years. This should provide the group with stronger flexibility to balance capital levels, shareholders' dividend expectations, and growth investments. Considering recent management guidance, we anticipate 2018 full-year net income after tax of about CHF2.1 billion. This year might bring another step-change in profitability with, in our view, net income after tax potentially reaching about CHF4 billion, and some more modest further progress in 2020. Management has announced that it plans to pay out at least 50% of net income from 2019 onward while investing about 20% in business growth and earmarking about 30% as an additional safety buffer for effects of regulatory changes. The fine-tuning of pay-outs will be through a combination of ordinary dividends and share buybacks. The bank has announced a share buyback program for 2019 of at least CHF1.0 billion, subject to market and economic conditions, and up to CHF1.5 billion. It anticipates launching a similar program for 2020.

Table 3

Credit Suisse Group AG Capital And Earnings

		--Year-ended Dec. 31--			
(%)	**2018***	**2017**	**2016**	**2015**	**2014**
Tier 1 capital ratio	17.1	18.9	18.0	18.0	17.1
S&P Global Ratings' RAC ratio before diversification§	N/A	11.7	12.4	12.0	10.2
S&P Global Ratings' RAC ratio after diversification§	N/A	13.0	14.7	14.3	11.8
Adjusted common equity/total adjusted capital	78.3	75.2	75.2	75.2	75.2
Net interest income/operating revenues	30.5	33.7	41.0	42.5	37.4
Fee income/operating revenues	53.4	53.3	52.3	47.6	47.6
Market-sensitive income/operating revenues	11.3	7.2	1.7	6.8	9.7
Noninterest expenses/operating revenues	76.4	84.7	95.6	88.1	79.7
Preprovision operating income/average assets	0.6	0.4	0.1	0.3	0.5
Core earnings/average managed assets	0.4	0.3	0.0	0.2	0.3

*Data as of Sept. 30. §2016 and earlier is based on our previous criteria. RAC--Risk-adjusted capital. N/A--Not applicable.

Table 4

Credit Suisse Group AG Risk-Adjusted Capital Framework Data

(Mil. CHF)	**Exposure***	**Basel III RWA**	**Average Basel III RW (%)**	**S&P Global RWA**	**Average S&P Global RW (%)**
Credit risk					
Government and central banks	117,366	3,249	3	266	0
Institutions and CCPs	55,740	12,226	22	15,061	27
Corporate	191,762	91,162	48	151,177	79
Retail	197,032	30,637	16	62,661	32
Of which mortgage	111,247	17,313	16	36,239	33
Securitization§	43,493	10,775	25	27,920	64
Other assets†	15,668	23,895	153	26,577	170
Total credit risk	621,061	171,944	28	283,661	46
Credit valuation adjustment					
Total credit valuation adjustment	--	5,239	--	6,811	--

Table 4

Credit Suisse Group AG Risk-Adjusted Capital Framework Data (cont.)

Market risk					
Equity in the banking book	1,962	7,817	398	16,629	848
Trading book market risk	--	19,565	--	28,437	--
Total market risk	--	27,382	--	45,067	--
Operational risk					
Total operational risk	--	72,563	--	66,385	--
		Basel III RWA		**S&P Global RWA**	**% of S&P Global RWA**
Diversification adjustments					
RWA before diversification	--	277,127	--	401,924	100
Total Diversification/Concentration Adjustments	--	--	--	(43,624)	(11)
RWA after diversification	--	277,127	--	358,300	89
		Tier 1 capital	**Tier 1 ratio (%)**	**Total adjusted capital**	**S&P Global RAC ratio (%)**
Capital ratio					
Capital ratio before adjustments	--	51,019.0	18.4	46,125.1	11.5
Capital ratio after adjustments‡	--	51,019.0	18.4	46,125.1	12.9

*Exposure at default. §Securitization exposure includes the securitization tranches deducted from capital in the regulatory framework. †Other assets includes Deferred Tax Assets (DTAs) not deducted from ACE. ‡Adjustments to Tier 1 ratio are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons). RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital.CHF--Swiss Franc. Sources: Company data as of June. 30, 2018, S&P Global Ratings.

Risk position: Exposure to capital market fluctuations, limited litigation risk

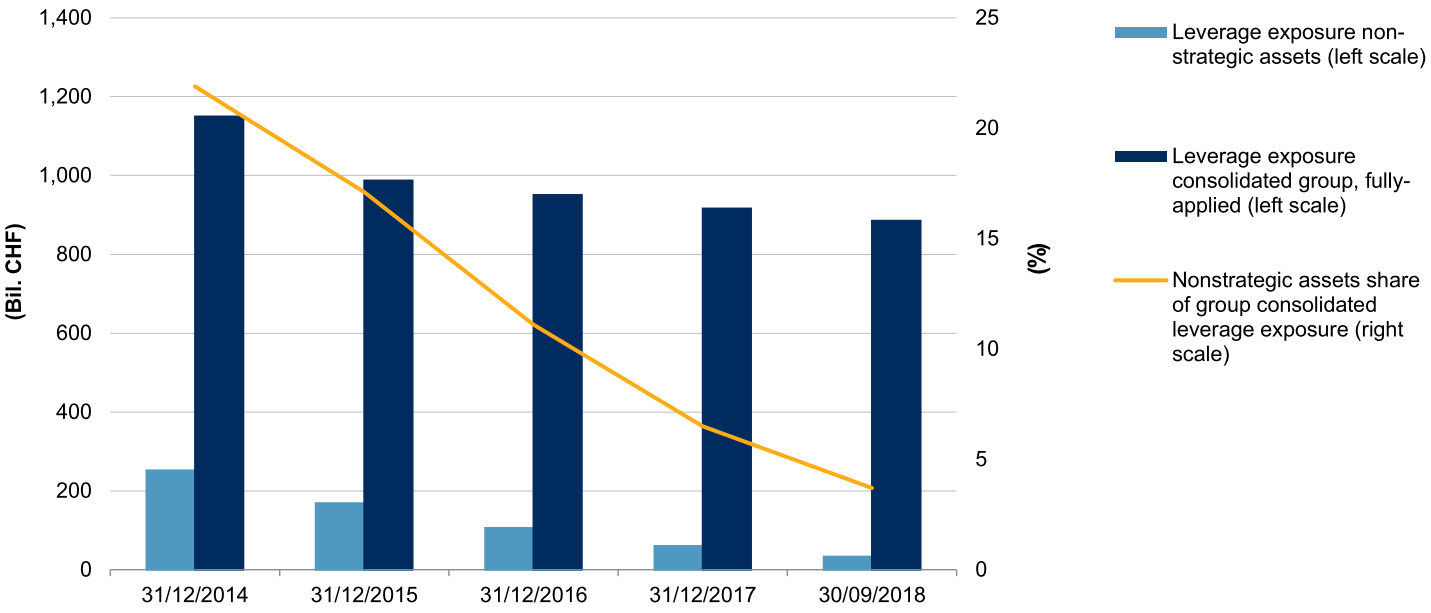
In our view, Credit Suisse's risk profile still includes a relatively high share of market risk from its investment banking activities and operational risk from running a complex global wealth management and investment banking franchise, despite material risk exposure reductions achieved since October 2015. At that time, the company announced its new strategy. There is limited residual risks related to the wind-down of nonstrategic portfolios and litigation. Credit Suisse also holds a large loan book. However, compared with most international peers, we expect loan loss provisioning requirements to remain very low. This reflects the high share of exposures to Swiss residents and ultra-high net-worth individuals. This has resulted in low levels of nonperforming assets and high collateralization of large parts of the loan book.

The bank has substantial trading portfolios, given its position as a major global investment bank and a significant issuer of securitized instruments. The bank has made significant efforts to reduce the size of its balance sheet, and the magnitude of market making and position taking while emphasizing client-oriented activities. This should reduce revenue volatility and revaluation risk on the bottom line. However, we believe that volatility in capital markets and assumptions for modelling asset valuations can still affect Credit Suisse's profits. Also, Credit Suisse is exposed to underwriting risk as one of the leading banks in leveraged finance. We note, however, that the bank has materially reduced its notional leveraged finance underwriting exposure and underwriting duration since 2007, and, in line with industry trends, improved its ability to pass on higher market rates to borrowers during the commitment phase.

In addition, Credit Suisse still holds a sizable leverage exposure to nonstrategic assets, an estimated CHF31 billion for year-end 2018. This is about 3.5% of the group's total leverage exposure. Two-thirds of the exposure relates to long-dated, exotic, or uncollateralized derivatives. In U.S. dollar terms, non-strategic assets have shrunk by 82% compared with fourth-quarter 2015. Accordingly, Credit Suisse has closed its Strategic Resolution Unit, which has managed these exposures as a separate division, at the end of 2018 and folded remaining exposures into its Corporate Center function as "Asset Resolution Unit." This is one year earlier and at a lower cost than initially expected. Reflecting this progress, we assume that nonstrategic assets pose a materially smaller risk to the group than previously.

Chart 5

Credit Suisse Group Leverage Exposure



Finally, the group also remains exposed to litigation risk. Credit Suisse estimates that the aggregate amount of reasonably possible losses that are not covered by existing provisions for identified cases could be up to CHF1.5 billion. We understand that none of the pending litigation matters represents a material concentration risk.

The asset quality of the predominantly domestic lending book remains very strong underpinned by very low new loan loss provisions on customer loans of 9 basis points in the first nine months of 2018. Likewise, nonperforming exposures after deducting existing loss reserves, represent a small 1.4% of the group's capital base (total adjusted capital). We expect that asset quality metrics will remain similarly strong over our two-year projection period given the resilience of the Swiss economy and high collateral levels including mortgage and Lombard loans. Even at the peak of the 2008-2009 financial crisis, Credit Suisse's impaired loans and provisions were minimal.

Table 5

Credit Suisse Group AG Risk Position

		--Year-ended Dec. 31--			
(%)	**2018***	**2017**	**2016**	**2015**	**2014**
Growth in customer loans	2.9	1.5	1.5	0.4	10.7
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N/A	(10.3)	(15.3)	(15.6)	(13.7)
Total managed assets/adjusted common equity (x)	22.2	23.2	26.4	22.8	28.9
New loan loss provisions/average customer loans	0.1	0.1	0.1	0.1	0.1
Net charge-offs/average customer loans	0.1	0.1	0.1	0.1	0.1
Gross nonperforming assets/customer loans + other real estate owned	0.5	0.6	0.7	0.6	0.4
Loan loss reserves/gross nonperforming assets	59.6	56.5	50.5	56.3	63.0

*Data as of Sept. 30. RWA--Risk-weighted assets. N/A--Not applicable.

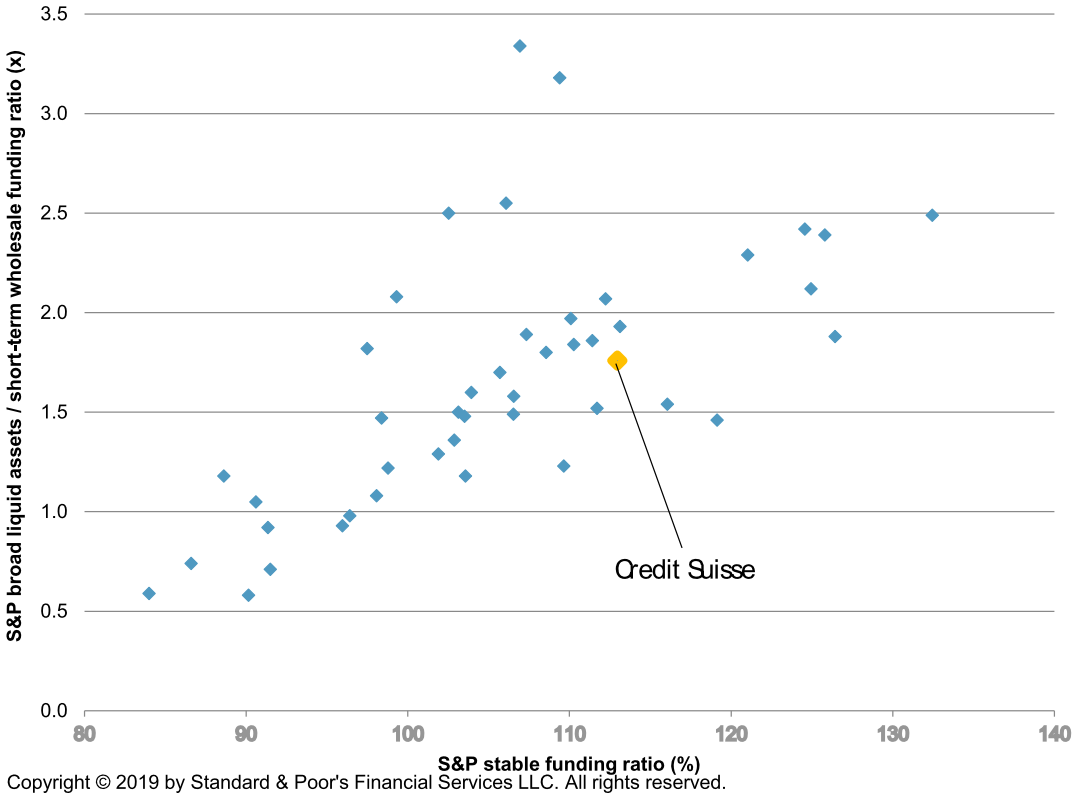
Funding and liquidity: Sustainable profile through balance sheet deleveraging

We view Credit Suisse's funding as average compared with those of Swiss peers and other banking systems with the same favorable industry risk score. We view the bank's liquidity position as adequate, which is an absolute view on how well placed it appears to be to withstand an extended period of market or idiosyncratic stress. In our assessment, we consider both the bank's active management of asset and liability mismatches and the inherent funding risk, which we generally associate with a low share of guaranteed deposits.

We think that the bank prudently manages its asset and liability mismatches including extensive stress testing and forward-looking modeling of its liquidity position, both at group and subsidiary levels. It also adopted the regulatory net stable funding ratio early. Its ratio of S&P Global Ratings-adjusted broad liquid assets to short-term wholesale funding was a comfortable 1.8x on Sept. 30, 2018, and its adjusted stable funding ratio is 108%. Both ratios compare well with other large European banks. By comparison, Credit Suisse reported a weighted average regulatory liquidity coverage ratio of 202% on Sept. 30, 2018. The ratios indicate sound matching of assets and liabilities. However, they also reflect that the sum of local requirements including management buffers for the group's branches and subsidiaries is higher than consolidated requirements. Therefore, we anticipate that Credit Suisse's liquidity and funding metrics will remain at similar levels over the foreseeable future.

Chart 6

European Top 50 Banks' Key Funding And Liquidity Metrics At End-2017



There are additional factors that limit our assessment of Credit Suisse's funding and liquidity. We understand that many of Credit Suisse's depositors are high net worth and ultra-high net worth individuals. We generally consider wealth management deposits to be more sensitive to bank-specific risk than those in mass-market retail banking. Wealth management deposits tend to exceed the maximum amount covered by deposit guarantee schemes. Finally, we consider investment banking to be an activity that relies on the effective functioning of wholesale funding markets, and we therefore see sensitivity to variations in investor confidence and refinancing risk.

Table 6

Credit Suisse Group AG Funding And Liquidity

		--Year-ended Dec. 31--			
(%)	**2018***	**2017**	**2016**	**2015**	**2014**
Core deposits/funding base	52.5	50.1	46.8	46.4	44.1
Customer loans (net)/customer deposits	85.2	84.7	87.5	88.2	84.6
Long-term funding ratio	78.3	77.3	76.0	77.5	69.0
Stable funding ratio	108.0	110.3	114.8	108.2	97.9
Short-term wholesale funding/funding base	23.4	24.4	25.7	24.3	33.1
Broad liquid assets/short-term wholesale funding (x)	1.8	1.8	1.9	1.8	1.5
Net broad liquid assets/short-term customer deposits	84.6	40.9	50.7	43.9	34.7

Table 6

Credit Suisse Group AG Funding And Liquidity (cont.)

		--Year-ended Dec. 31--			
(%)	**2018***	**2017**	**2016**	**2015**	**2014**
Short-term wholesale funding/total wholesale funding	47.7	47.2	46.9	43.8	57.4
Narrow liquid assets/3-month wholesale funding (x)	2.4	2.4	2.4	2.2	1.7

*Data as of Sept. 30.

External support: Two notches of uplift for operating entities, due to strong buffers of subordinated capital in bail-in resolution

We add two notches of uplift to arrive at the long-term ICRs on CSAG and other operating bank subsidiaries, to reflect the substantial buffers of subordinated bail-in-able capital (additional loss-absorbing capacity; ALAC), which now largely reside at the holding company, CSG. We believe that these ALAC buffers would enable FINMA, the Swiss financial services regulator, to recapitalize Credit Suisse and keep the operating bank a going concern should it ever approach a point of non-viability. In our view, Credit Suisse is subject to a well-defined resolution plan by FINMA due to its status as a global highly systemic financial institution and as Switzerland's second-largest banking group. Conversely, since December 2015, we consider that extraordinary government support for systemically important banks in Switzerland has become uncertain.

We estimate that the group's ALAC buffer may stand at about 11% of S&P Global Ratings' risk-weighted assets as of Dec. 31, 2018, well above the 8.5% threshold we set for Credit Suisse for two notches of uplift. We consider this level of ALAC to be sustainable and likely to strengthen further. Swiss globally systemic important banks such as Credit Suisse are subject to high statutory requirements to build regulatory bail-in ("gone concern") capital by Jan. 1, 2020, being 5% of regulatory leverage exposure or 14.3% of risk-weighted exposure. At Sept. 30, 2018, the group's fully applied gone concern capital was €37.8 billion. Management plans to issue another CHF5 billion–CHF7 billion in 2019, and anticipates that its gone-concern capital may increase further to about CHF51 billion in the medium term. These rising buffers alone should sustain an ALAC ratio comfortably above 10% of our risk-weighted assets for Credit Suisse (CHF402 billion at June 30, 2018). In addition, our ALAC ratio includes other capital buffers such as hybrid tier 1 capital instruments to the extent that they are not needed to sustain the group's RAC ratio above 10%, the threshold for our strong assessment of capital and earnings.

We use 5.25% and 8.5% thresholds for one or two notches of uplift for ALAC support, respectively, for Credit Suisse because we consider that a material part of the group's loss-absorbing capacity will be pre-positioned in its main subsidiaries in Switzerland, the U.K., and the U.S., and in CSAG, the main operating bank itself. Prepositioning could make it more challenging for Credit Suisse to deploy ALAC flexibly in a stress scenario than for banking groups without such requirements. It could also mean that the sum of individual local requirements eventually exceeds consolidated requirements. Therefore, we anticipate that Credit Suisse will likely maintain a level of regulatory gone concern capital close to statutory requirements in Switzerland, even if FINMA can grant rebates on these requirements for resolvability or quality of bail-in capital. As regulatory requirements and common practices emerge in this area, we may raise or lower our thresholds.

Additional Factors

Additional rating factors: Negative adjustments due to weak earnings

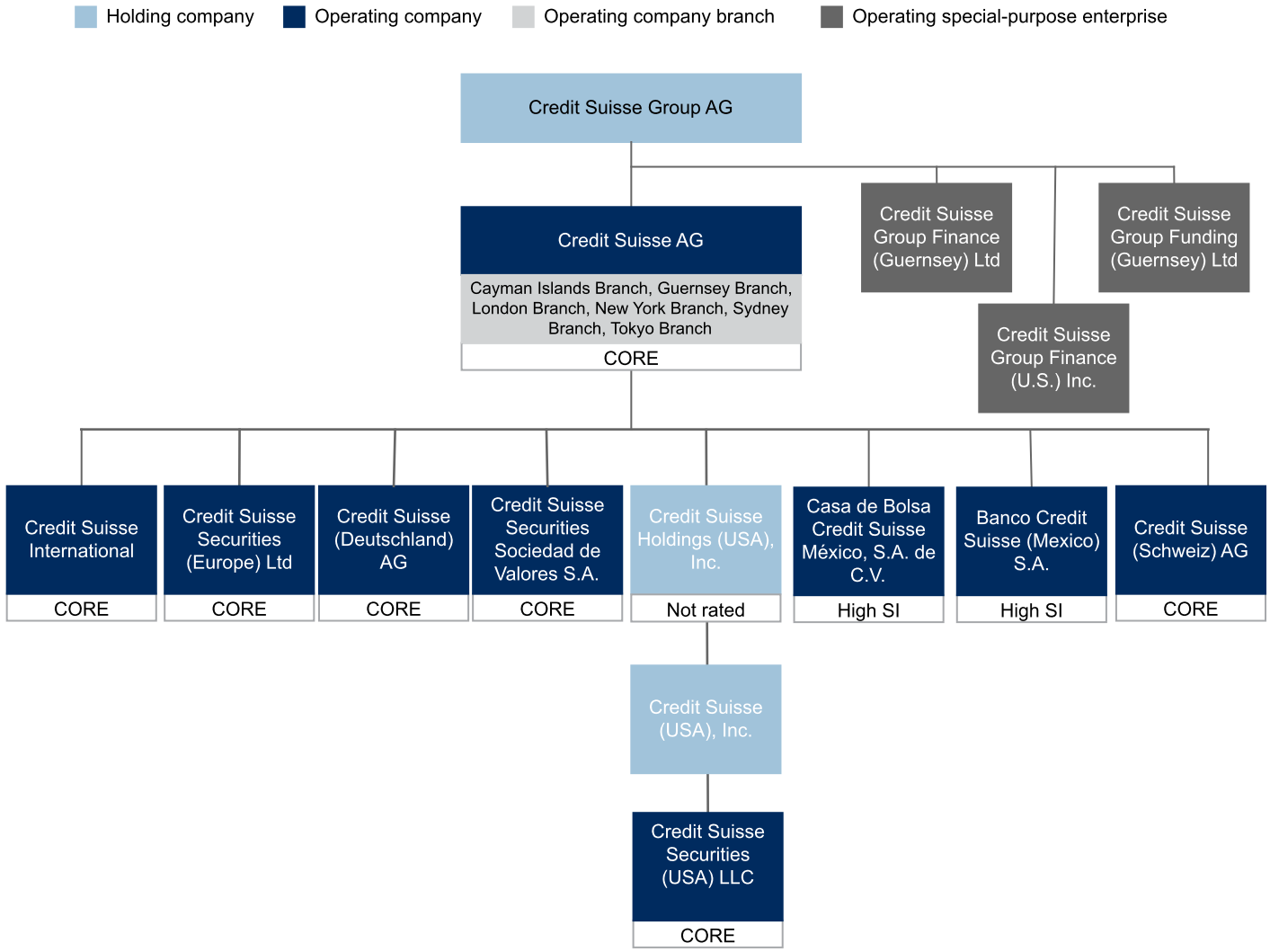
To arrive at our ICRs on CSAG and the other operating subsidiaries, we deduct one notch to balance Credit Suisse's improving but still lower-than-peers earnings--as it emerges from its strategic repositioning--against its strong capital and ALAC levels. Without this adjustment, the ICR on the bank would be 'A+', at the upper end of its peer group and of banks globally excluding certain government-related entities. For now, we assess its capacity to absorb unexpected losses by earnings to still be lower than peers' when measured by cost-to-income, return on average common equity, or our earnings buffer metric. However, material earnings progress in 2019 might propel earnings capacity closer to peer levels. For example, we estimate that achieving the lower end of management's pre-tax profit ambition for 2019 of about CHF5.5 billion to CHF6.1 billion could lift the earnings buffer to about 100 basis points of S&P Global Ratings' risk-weighted assets. Such a level would likely be in line with the average of other major European banks with 'a-' stand-alone credit profiles although still somewhat lower than major U.S. investment banks.

Group Ratings: CSG and subsidiaries

Credit Suisse Group AG is a nonoperating holding company. It is the parent of CSAG, the group's principal operating bank, which in turn owns the group's other operations (see chart 7).

Chart 7

Highly Simplified Overview Of Credit Suisse's Organizational Structure, Focusing On Rated Entities



CSG is rated one notch below the UGCP, which leads to us rating it two notches lower than its core operating companies. This reflects structural subordination as a nonoperating holding company, and our view that it would not benefit from ALAC support. CSG has taken over the primary position for long-term capital markets funding for the group as it builds its buffer of bail-in-able capital. Senior unsecured issuances by CSG count into bail-in-able gone concern capital under Swiss too-big-to-fail bank regulation. It is our understanding of Swiss regulatory approaches that the holding company would be the first point of entry in resolution, forcing losses on the holding company bondholders without invoking a general default on the bank.

We also rate a number of subsidiaries and branches:

- We rate Credit Suisse AG's New York and Cayman Islands branches, and debt obligations issued by various other

branches, at the same level as the ICR on CSAG. Our ratings are not constrained by the respective host sovereign foreign currency ratings, and we regard Cayman Islands as an offshore branch.

- We view the main bank subsidiaries operating in Switzerland, the U.S., the U.K. and the EU as core to the group. We therefore equalize the ratings on these entities with those on CSAG.
- We similarly rate Credit Suisse (USA) Inc., an intermediate holding company, at the level of Credit Suisse. This reflects that Credit Suisse has guaranteed fully and unconditionally on a senior basis all outstanding U.S.-registered debt securities issued by Credit Suisse (USA) Inc. Moreover, we expect parental support for its subsidiaries, including in a resolution scenario, would be routed through Credit Suisse (USA) Inc., as the entity plays an important role in the groups recovery and resolution plan.
- We rate two highly strategic Mexican subsidiaries--Casa de Bolsa Credit Suisse Mexico and Banco Credit Suisse Mexico--'mxAAA', using our Mexico national scale.
- We also rate debt obligations by Credit Suisse Group (Funding) Guernsey Ltd, Credit Suisse Group (Finance) Guernsey Ltd, and Credit Suisse Finance (U.S.) Inc. at the level of CSG, based on guarantees provided by the group parent.

Hybrid issue ratings

Hybrid capital instruments are notched down from the 'a-' UGCP because we expect these instruments to be written down or converted into equity in a bail-in resolution scenario. Therefore, they do not benefit from the group's ALAC buffers. For hybrids issued by CSG, we also deduct one notch to reflect the structural subordination of holding company creditors.

In addition, we deduct one notch due to the hybrids' contractual subordination to senior obligations, and a further notch due to the risk of write-down ahead of resolution, if the Swiss government were to recapitalize the group before it became non-viable. We assume that the Swiss government would seek to impose losses on regulatory capital instruments in such a scenario, typically detailed by explicit viability event clauses in these instruments' terms and conditions. We then deduct two further notches in our ratings on the group's additional tier 1 instruments reflecting their status as Tier 1 regulatory capital.

We deduct an additional notch in our ratings on the group's additional tier 1 instruments with a conversion or write-down trigger if the applicable Basel III CET1 ratio falls below 7%. We consider such a high trigger level as a going concern trigger, where we may lower the ratings depending on the distance of the actual ratio above the trigger level. Given the group's capital target of a CET1 ratio above 12.5%, we consider that the ratio will remain 301–700 basis points above the 7% threshold over the next 12-24 months, which is commensurate with deducting one notch.

Resolution Counterparty Ratings

We set the RCRs on Credit Suisse AG and subsidiaries in Switzerland, the U.K., Spain, and Germany one notch above our 'A' long-term ICRs. This reflects the typical approach under our RCR framework when the ICR ranges from 'BBB-' to 'A+'. It also reflects our jurisdiction assessments on these countries. By contrast, our RCR on U.S.-based Credit Suisse Securities (USA) LLC is at the same level as the ICR on this entity, given that we concluded that in the U.S. there is insufficient visibility on whether certain senior liabilities have lower default risk than others in a bail-in resolution.

An RCR is a forward-looking opinion of the relative default risk of certain senior liabilities that may be protected from default through an effective bail-in resolution process for the issuing financial institutions. RCRs apply to issuers in jurisdictions where we assess the resolution regime to be effective and we consider the issuer likely to be subject to a resolution that entails a bail-in if it reaches nonviability.

Related Criteria

- Criteria - Financial Institutions - General: Methodology For Assigning Financial Institution Resolution Counterparty Ratings, April 19, 2018
- Criteria - Financial Institutions - General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- Criteria - Financial Institutions - Banks: Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, April 27, 2015
- Criteria - Financial Institutions - Banks: Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions, Jan. 29, 2015
- General Criteria: Principles For Rating Debt Issues Based On Imputed Promises, Dec. 19, 2014
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Financial Institutions - Banks: Assessing Bank Branch Creditworthiness, Oct. 14, 2013
- Criteria - Financial Institutions - Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria - Financial Institutions - Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Criteria - Financial Institutions - Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Criteria - Financial Institutions - General: Methodology: Hybrid Capital Issue Features: Update On Dividend Stoppers, Look-Backs, And Pushers, Feb. 10, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Financial Institutions - Banks: Commercial Paper I: Banks, March 23, 2004

Related Research

- Banking Industry Country Risk Assessment: Switzerland, Nov. 30, 2018
- Germany-Based Credit Suisse (Deutschland) AG Assigned 'A/A-1' Ratings; Outlook Positive, Nov. 7, 2018
- Spain-Based Credit Suisse Securities Sociedad de Valores Assigned 'A/A-1' Ratings; Outlook Positive, Oct. 11, 2018
- Credit Suisse AG Outlook To Positive On Restructuring Progress; 'A+/A-1' Resolution Counterparty Ratings Assigned, June 25, 2018

- Resolution Counterparty Ratings Jurisdiction Assessment For Switzerland Completed, June 25, 2018
- Resolution Counterparty Ratings Jurisdiction Assessment For Germany Completed, June 11, 2018
- Resolution Counterparty Ratings Jurisdiction Assessment For Spain Completed, June 11, 2018
- Resolution Counterparty Ratings Jurisdictional Assessment For The U.S. Completed, June 7, 2018
- Resolution Counterparty Ratings Jurisdictional Assessment For The U.K. Completed, April 30, 2018

Anchor Matrix

Industry Risk	Economic Risk									
	1	2	**3**	4	5	6	7	8	9	10
1	a	a	a-	bbb+	bbb+	bbb	-	-	-	-
2	a	a-	**a-**	bbb+	bbb	bbb	bbb-	-	-	-
3	a-	a-	bbb+	bbb+	bbb	bbb-	bbb-	bb+	-	-
4	bbb+	bbb+	bbb+	bbb	bbb	bbb-	bb+	bb	bb	-
5	bbb+	bbb	bbb	bbb	bbb-	bbb-	bb+	bb	bb-	b+
6	bbb	bbb	bbb-	bbb-	bbb-	bb+	bb	bb	bb-	b+
7	-	bbb-	bbb-	bb+	bb+	bb	bb	bb-	b+	b+
8	-	-	bb+	bb	bb	bb	bb-	bb-	b+	b
9	-	-	-	bb	bb-	bb-	b+	b+	b+	b
10	-	-	-	-	b+	b+	b+	b	b	b-

Ratings Detail (As Of January 24, 2019)

Credit Suisse Group AG		
Issuer Credit Rating		BBB+/Stable/NR
Junior Subordinated		BB
Junior Subordinated		BB-
Issuer Credit Ratings History		
03-Feb-2015	*Foreign Currency*	BBB+/Stable/NR
29-Apr-2014		A-/Negative/NR
02-Jul-2013		A-/Stable/NR
03-Feb-2015	*Local Currency*	BBB+/Stable/NR
29-Apr-2014		A-/Negative/NR
02-Jul-2013		A-/Stable/NR
Sovereign Rating		
Switzerland		AAA/Stable/A-1+
Related Entities		
Banco Credit Suisse Mexico S.A.		
Issuer Credit Rating		
CaVal (Mexico) National Scale		mxAAA/Stable/mxA-1+
Casa de Bolsa Credit Suisse Mexico S. A. de C. V.		
Issuer Credit Rating		
CaVal (Mexico) National Scale		mxAAA/Stable/mxA-1+

Ratings Detail (As Of January 24, 2019) (cont.)	
Credit Suisse AG	
Issuer Credit Rating	A/Positive/A-1
Resolution Counterparty Rating	A+/--/A-1
Commercial Paper	
Foreign Currency	A-1
Senior Unsecured	A
Subordinated	BBB
Credit Suisse AG (Cayman Islands Branch)	
Issuer Credit Rating	A/Positive/A-1
Resolution Counterparty Rating	A+/--/A-1
Credit Suisse AG (Guernsey Branch)	
Senior Unsecured	A
Credit Suisse AG (London Branch)	
Senior Unsecured	A
Subordinated	BBB
Credit Suisse AG (New York Branch)	
Issuer Credit Rating	A/Positive/A-1
Resolution Counterparty Rating	A+/--/A-1
Senior Unsecured	A
Subordinated	BBB
Credit Suisse AG (Sydney Branch)	
Senior Unsecured	A
Credit Suisse AG (Tokyo Branch)	
Commercial Paper	
Foreign Currency	A-1
Credit Suisse (Deutschland) AG	
Issuer Credit Rating	A/Positive/A-1
Resolution Counterparty Rating	A+/--/A-1
Credit Suisse International	
Issuer Credit Rating	A/Positive/A-1
Resolution Counterparty Rating	A+/--/A-1
Senior Unsecured	A
Credit Suisse (Schweiz) AG	
Issuer Credit Rating	A/Positive/A-1
Resolution Counterparty Rating	A+/--/A-1
Credit Suisse Securities (Europe) Ltd.	
Issuer Credit Rating	A/Positive/A-1
Resolution Counterparty Rating	A+/--/A-1
Credit Suisse Securities Sociedad de Valores S.A.	
Issuer Credit Rating	A/Positive/A-1
Resolution Counterparty Rating	A+/--/A-1
Credit Suisse Securities (USA) LLC	
Issuer Credit Rating	A/Positive/A-1
Resolution Counterparty Rating	A/--/A-1

Ratings Detail (As Of January 24, 2019) (cont.)	
Credit Suisse (USA) Inc.	
Issuer Credit Rating	A/Positive/A-1
Senior Unsecured	A

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.