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Research Update:

Credit Suisse Outlook Revised To Negative On Potential Government Support Reduction; 'A/A-1' Ratings Affirmed

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Overview

- We consider that potential extraordinary government support for European banks will likely decrease as resolution frameworks are put in place.
- In our opinion, Credit Suisse AG and Credit Suisse Group AG now have stronger creditworthiness thanks to continued improvements to the combined entities' capital position, decreases in market risk, and reductions in the size of the balance sheet, but we also take into account our view that that the likelihood of extraordinary government support available to the senior unsecured bondholders will likely diminish within our two-year rating horizon.
- We are revising our outlook on Credit Suisse and Credit Suisse Group to negative and affirming our 'A/A-1' ratings on Credit Suisse and the 'A-' ratings on Credit Suisse Group.
- The negative outlook reflects the possibility that we may lower the long-term ratings by one notch by year-end 2015 if we believe there is a greater likelihood that senior unsecured creditors may incur losses if the bank fails.

Rating Action

On April 29, 2014, Standard & Poor's Ratings Services revised its outlook on Switzerland-based Credit Suisse AG, nonoperating holding company Credit Suisse Group AG, and several rated subsidiaries to negative from stable (see "Ratings List"). At the same time, we affirmed our 'A/A-1' long- and short-term counterparty credit ratings on Credit Suisse and our 'A-' long-term counterparty credit rating on Credit Suisse Group.

Rationale

The outlook revisions follow the completion of our review of potential extraordinary government support for European banks (see "Standard & Poor's To Review Government Support In European Bank Ratings," published on March 4, 2014, on RatingsDirect). We believe that the potential extraordinary government support available to Credit Suisse's senior unsecured bondholders will likely diminish within our two-year rating horizon. Notwithstanding this, we have revised upward the stand-alone credit profile (SACP) for Credit Suisse to 'a-' from 'bbb+' to reflect the bank's improving capital position. However, we believe that the likelihood of extraordinary government support available

to the senior unsecured bondholders will likely diminish within our rating horizon. We have therefore incorporated a negative adjustment to the counterparty credit rating, offsetting the one-notch uplift to the SACP. As a result, we do not anticipate a reduction in government support to have more than a one-notch impact on the counterparty credit rating on Credit Suisse.

We observe that the Swiss authorities have taken steps toward making taxpayer solvency support for failing systemic banks unnecessary (see "Standard & Poor's Takes Various Rating Actions On European Banks Following Government Support Review," published on April 29, 2014). Since November 2012, the Swiss Bank Recovery and Resolution Regime ("Bankeninsolvenzverordnung") has given the authorities wide-ranging powers to deal with a failing institution, including the statutory ability to bail#in senior unsecured creditors. Official statements, such as the Swiss Financial Market Supervisory Authority's position paper of August 2013, suggest that the authorities will use these powers to enforce losses on bank creditors, potentially including uninsured senior unsecured creditors, where doing so would not risk financial stability.

We consider that the resolution regime provides a credible framework to resolve less complex institutions, to the potential detriment of senior unsecured creditors. However, we currently expect that the government will remain supportive of the senior unsecured creditors of the banks we view as having "high" systemic importance to Switzerland. The authorities are working to improve the resolvability of these complex banking groups. For example, in 2013 Credit Suisse and UBS, the two largest Swiss banks, proposed reorganizations of their legal structures to support resolution. Both banks intend to establish dedicated subsidiaries to hold their domestic businesses so as to prevent wider systemic contagion.

At this stage, we consider that Credit Suisse has "high" systemic importance to Switzerland, which we view as "supportive" of private-sector commercial banks. As a result, and in line with our criteria, the 'A' long-term rating on Credit Suisse includes two notches of uplift for government support. We could reduce or remove these notches by year-end 2015.

Specifically, if we perceive that support for senior unsecured creditors is less predictable, we would likely remove the notches of government support from our ratings on Credit Suisse. This would most likely arise from a reclassification of Switzerland's support for private-sector commercial banks to "uncertain" under our criteria. Any decision to reclassify government support would be subject to our review of the bank's progress in its legal entity restructuring, further regulatory developments, and other relevant information.

Conversely, if our view was that extraordinary government support may still be forthcoming to the senior unsecured creditors of Credit Suisse, we could retain one or more notches of support in the ratings. This would be the case if, contrary to our expectations, the Swiss authorities publicly confirmed their supportive stance toward senior unsecured creditors, or if we believed

that precautionary capital injections would still be likely to minimize the wider economic impact of the resolution of a systemically important bank. In this case, we may consider that Switzerland remained "supportive" and that Credit Suisse had "high" or "moderate" systemic importance. We could revise our view of Credit Suisse's systemic importance to "moderate" from "high" if we considered that its resolution under the new framework would have a material, but manageable, adverse impact on the country's financial system and economy.

We note the considerable steps that Credit Suisse has taken over the past two years to build capitalization, reduce costs, and manage down noncore assets, which should facilitate compliance with regulatory leverage requirements. We expect that these measures will support our revised assessment of the bank's capital and earnings as "strong." We project that our risk-adjusted capital ratio for Credit Suisse will remain close to 12% over the coming two years, versus 11.5% at year-end 2013.

In addition to our view of the SACP and potential extraordinary government support, future rating actions on Credit Suisse AG may also result from other relevant factors. These may include measures to mitigate bail-in risks to senior unsecured creditors, such as building a large buffer of subordinated instruments (see "The Rating Impact Of Resolution Regimes For European Banks," published on April 29, 2014).

The revision of the outlooks on Credit Suisse's "core" subsidiaries in the U.S. and the U.K mirrors that on Credit Suisse.

The revision of the SACP improves the ratings on all rated hybrid capital and subordinated debt instruments issued by the various subsidiaries of Credit Suisse Group by one notch (with one exception due to sovereign rating caps). However, we have long believed that subordinated creditors would not receive extraordinary government support in a stress scenario and already rate these instruments by notching down from the SACP. We therefore expect that the potential reduction of extraordinary government support will not affect our ratings on the subordinated debt instruments.

Outlook

The negative outlook indicates that we could lower the ratings on Credit Suisse by year-end 2015 if we believe there is a greater likelihood that senior unsecured creditors may incur losses if the bank fails. Specifically, we may lower the long-term rating by up to one notch, net of the removal of the notch of adjustment described above, if we consider that extraordinary government support has become less predictable under the new Swiss legislative framework.

In addition to potential changes in government support, we will review other relevant rating factors before taking any rating actions. These include potential changes in the SACP and any steps the bank might take to mitigate

bail-in risks to senior unsecured creditors, such as building a large buffer of subordinated instruments. Furthermore, we could revise our assessment of the SACP on Credit Suisse downward if, contrary to our base-case expectation, the bank is unable to maintain its capital targets and a risk-adjusted capital ratio above 10%.

We could revise the outlook to stable if we consider that potential extraordinary government support for Credit Suisse's senior unsecured creditors is not entirely removed, despite the introduction of bail-in powers and efforts to increase banks' resolvability.

Ratings Score Snapshot

	To	From
Issuer Credit Rating	A/Negative/A-1	A/Stable/A-1
SACP	a-	bbb+
Anchor	a-	a-
Business Position	Adequate (0)	Adequate (0)
Capital and Earnings	Strong (+1)	Adequate (0)
Risk Position	Moderate (-1)	Moderate (-1)
Funding and Liquidity	Average and Adequate (0)	Average and Adequate (0)
Support	+2	+2
GRE Support	0	0
Group Support	0	0
Sovereign Support	+2	+2
Additional Factors	-1	0

Related Criteria And Research

Related Criteria

- Group Rating Methodology, Nov. 19, 2013
- Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Bank Hybrid Capital Methodology And Assumptions, Nov. 1, 2011
- Banks: Bank Capital Methodology And Assumptions, Dec. 6, 2010
- Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- Standard & Poor's Takes Various Rating Actions On European Banks Following Government Support Review, April 29, 2014
- The Rating Impact Of Resolution Regimes For European Banks, April 29, 2014

- Standard & Poor's To Review Government Support In European Bank Ratings, March 4, 2014

Ratings List

Ratings Affirmed; Outlook Action		
	To	From
Credit Suisse AG		
Credit Suisse Securities (USA) LLC		
Credit Suisse Securities (Europe) Ltd.		
Credit Suisse International		
Credit Suisse AG (New York Branch)		
Credit Suisse AG (Cayman Islands Branch)		
Credit Suisse (USA) Inc.		
Counterparty Credit Rating	A/Negative/A-1	A/Stable/A-1
Credit Suisse Group AG		
Counterparty Credit Rating	A-/Negative/--	A-/Stable/--
Upgraded		
	To	From
Credit Suisse AG		
Subordinated	BBB	BBB-
Subordinated	BBB+	BBB
Junior Subordinated	BBB	BBB-
Credit Suisse (USA) Inc.		
Preferred Stock	BBB	BBB-
Credit Suisse Group AG		
Junior Subordinated	BB	BB-
Credit Suisse Group Capital (Guernsey) III Ltd.		
Preferred Stock (2)	BBB-	BB+
Credit Suisse Group Finance (Guernsey) Ltd.		
Junior Subordinated (2)	BBB-	BB+
Credit Suisse Group Finance (U.S.) Inc.		
Subordinated (2)	BBB	BBB-
Credit Suisse International		
Junior Subordinated	BBB	BBB-
Ratings Affirmed		
Credit Suisse AG		
Senior Unsecured	A	
Subordinated (3)	BBB	

Short-Term Debt	A-1
Commercial Paper	A-1
Credit Suisse (USA) Inc.	
Senior Unsecured	A
Commercial Paper	A-1
Credit Suisse AG (New York Branch)	
Senior Unsecured	A
Short-Term Debt	A-1
Credit Suisse Group Finance (Guernsey) Ltd.	
Senior Unsecured (2)	A-
Credit Suisse International	
Senior Unsecured	A
Senior Unsecured	Ap

(1) Guaranteed by Credit Suisse AG.
(2) Guaranteed by Credit Suisse Group AG.
(3) Guaranteed by Commonwealth of the Bahamas.

Additional Contact:
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Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at spcapitaliq.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following Standard & Poor's numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.