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Research Update:

Credit Suisse Group AG And Credit Suisse AG Ratings Affirmed On Completion Of Swiss Resolution Framework; Outlook Stable

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Overview

- We believe the prospect of extraordinary government support for Swiss commercial banks is now uncertain in view of the country's enhanced and effective resolution regime.
- We are therefore removing the uplift for government support and associated adjustment notch that we had previously incorporated in the long-term counterparty credit ratings on Credit Suisse AG and the other core operating subsidiaries of ultimate parent Credit Suisse Group AG.
- However, we now include one notch of uplift into the long-term ratings on these operating companies because we consider that Credit Suisse AG continues to build substantial additional loss-absorbing capacity (ALAC).
- We are affirming the 'A/A-1' ratings on these core subsidiaries, and the 'BBB+' ratings on Credit Suisse Group AG. The outlooks on all related entities remain stable.
- The stable outlook on Credit Suisse AG reflects our expectation that the long-term rating will initially remain at 'A' as the bank implements its new strategy and continues to build ALAC buffers.

Rating Action

As previously announced on Dec. 2, 2015, Standard & Poor's Ratings Services affirmed the 'A-1' short-term and, where relevant, 'A' long-term counterparty credit ratings on Credit Suisse AG and core subsidiaries.

At the same time, we affirmed the 'BBB+' long-term counterparty credit ratings on Credit Suisse Group AG.

We also affirmed the issue credit ratings on subordinated and hybrid capital instruments issued by these entities and related entities in the group.

Rationale

The rating action reflects our view that the sizable and growing buffer of additional loss-absorbing capacity (ALAC) at Credit Suisse offsets the now limited prospects that the Swiss government would provide extraordinary government support to failing commercial banks. While we anticipate that Credit Suisse AG will continue to build substantial additional loss-absorbing buffers, we currently see it as unlikely that we would raise the issuer credit

rating on the bank over our two-year rating horizon as the bank implements its revised strategy (see "Credit Suisse AG 'A/A-1' Ratings Affirmed On Announcement Of New Strategy And Capital Increase; Outlook Stable," Oct. 22, 2015).

As we anticipated in June 2015 (see "Credit Suisse AG And UBS AG Outlooks Revised To Stable As Bail-In Framework Develops; 'A/A-1' Ratings Affirmed"), we believe that the prospect of extraordinary government support for the Swiss banking sector is now "uncertain," taking into account the enhancements to the Swiss resolution framework that will take effect on Jan. 1, 2016. These include giving the regulator (FINMA) a bail-in power over holding companies and an ability to effect a legal stay on the close-out of derivative contracts.

In our view, this enhanced, "effective" resolution framework would allow a well-defined and effective bail-in process--under which FINMA would permit nonviable, systemically important banks to continue critical functions as going concerns following a bail-in of eligible liabilities. While Credit Suisse will continue to pursue further operational changes to enhance its "resolvability", we believe the Swiss government now has significant leeway to determine how much, if any, solvency support to provide to a failing systemic bank. Indeed, we believe that the prospect of such support is now lower and much less predictable.

As a result, we have removed the two government support notches that we previously included in the 'a-' group credit profile (GCP) and so the long-term counterparty credit rating on Credit Suisse AG and its core subsidiaries. Compensating this reduction we have added one notch of uplift to the long-term ratings on Credit Suisse AG and core subsidiaries. We also removed the notch of negative adjustment that reflected our view that government support was diminishing. Together, these changes result in an affirmation of the GCP.

By our measures, Credit Suisse will have issued enough ALAC-eligible instruments by the end of 2015 to achieve over 8% of our projected Standard & Poor's risk-weighted assets. We now anticipate that the ALAC ratio will reach over 12% by the end of 2017, a somewhat slower pace than originally forecasted given the phase-in of FINMA's newly designed "Too Big To Fail" (TBTF) leverage targets. By 2019, Credit Suisse will have to meet an enhanced leverage ratio requirement of up to 5.0% for going concern capital and up to 10.0% for total loss-absorbing capacity (TLAC), which includes other, "bail-inable" instruments. In our view, FINMA's TBTF targets will act as a capital constraint for the Group and result in relatively higher levels of loss-absorbing instruments for Credit Suisse than for its global peers abiding by the recently announced Financial Stability Board's TLAC requirements.

We use 5.25% and 8.5% thresholds for one or two notches of uplift for ALAC capacity for Credit Suisse because we consider that the group's loss-absorbing capacity may be positioned in a way that would make it challenging to deploy flexibly in a stress scenario. As regulatory requirements and common practices

emerge in this area, we may raise or lower this threshold.

As we said in October, the newly injected capital will improve the bank's capital metrics and increase its ALAC buffers; however, we anticipate that the initial improvement will be offset by one-time restructuring expenses and implementation costs over our two-year rating horizon. We believe that the new strategy could improve Credit Suisse's overall creditworthiness over time, but remain cautious given the challenges and costs of implementation, legacy legal risks, and the uncertainties related to the Strategic Resolution Unit's (SRU) winding down of non-core operations. As such, we expect that the unsupported GCP and stand-alone credit profile of Credit Suisse will remain stable at 'a-' until the benefits of revised strategy become more tangible.

The pro forma risk-adjusted capital (RAC) ratio was 12.6% at end-June 2015, including the group's announced CHF6 billion capital raise. The capital injection and increased buffer reduces downside risks to the GCP and reinforces our current view of strong capital by reversing the downward capital trend by our measures since the peak of 11.5% in December 2013. We anticipate the capital ratio will remain relatively stable at 12.5%-13.0% through 2017, as the bank reduces RWA in the SRU and deploys capital in the Asia Pacific, Switzerland, and the International Wealth Management divisions. We note that further stepwise improvements in capital and ALAC metrics could arise from an eventual IPO of the Swiss legal entity in 2017, but anticipate that the new capital will be deployed to acquire domestic assets, likely raising our projections of risk-weighted assets.

We currently position our counterparty credit rating on Credit Suisse Group AG one notch below the unsupported GCP, in line with our approach to the nonoperating holding companies (NOHCs) of other Swiss and U.K. banking groups. While we do not anticipate a change, we will continue to evaluate the relative default prospects of NOHC instruments in the light of the new and untested resolution framework in Switzerland and the bank's issuance profile.

Outlook

The stable outlook on Credit Suisse and Credit Suisse Group AG reflect our expectation that the implementation of the new strategy will not materially change our view of the creditworthiness of the bank, at least initially. While the newly injected capital will improve the bank's capital metrics and increase its ALAC buffers, the initial improvement will be offset by one-time restructuring expenses and implementation costs over our two-year rating horizon.

The stable outlook also reflects the stability we see in the group's GCP, which acknowledges ongoing build-up of capital and challenges linked to the implementation of the revised strategy. While we could raise the ratings on Credit Suisse AG and its core subsidiaries, if it builds its ALAC ratio sustainably beyond 8.5%, the stable outlook reflects that a positive rating action would also depend on a comparison of the issuer credit rating on the

bank with global peers and confirmation that the new business model is well funded and well positioned for the regulatory and economic environment, allowing it to generate stable statutory earnings. We could raise the ratings if ALAC buffers were in place and our concerns about the business model and peer comparisons were satisfied.

We could lower the ratings on Credit Suisse and Credit Suisse Group AG if we revised down the unsupported GCP, for example, if there was a substantial increase in unexpected losses. We could also lower the ratings on Credit Suisse if the ALAC buffer unexpectedly weakens, or if unexpected regulatory developments have a negative effect on the bank's legal entity restructuring and our view of the parent's creditworthiness.

Ratings Score Snapshot

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

Related Criteria And Research

Related criteria

- Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Bank Capital Methodology And Assumptions, Dec. 6, 2010
- Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Commercial Paper I: Banks, March 23, 2004
- Methodology For Mapping Short- And Long-Term Issuer Credit Ratings For Banks, May 4, 2010
- Bank Rating Methodology And Assumptions: Additional Loss-Absorbing

Capacity, April 27, 2015
- Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions, Jan. 29, 2015
- Assessing Bank Branch Creditworthiness, Oct. 14, 2013
- Revised Market Risk Charges For Banks In Our Risk-Adjusted Capital Framework, June 22, 2012
- Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Group Rating Methodology, Nov. 19, 2013
- Ratings Above The Sovereign-Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings, Oct. 1, 2012
- Standard & Poor's National And Regional Scale Mapping Tables, Sept. 30, 2014
- National And Regional Scale Credit Ratings, Sept. 22, 2014
- Principles For Rating Debt Issues Based On Imputed Promises, Dec. 19, 2014
- Rating Government-Related Entities: Methodology And Assumptions, Mar. 25, 2015
- Use Of 'C' And 'D' Issue Credit Ratings For Hybrid Capital And Payment-In-Kind Instruments, Oct. 24, 2013

Related research

- Most European Bank Ratings Affirmed Following Government Support And ALAC Review, Dec. 2, 2015
- Credit FAQ: How Standard & Poor's Applied Its Government Support And ALAC Criteria To European Banks In December 2015, Dec. 2, 2015
- Credit Suisse AG 'A/A-1' Ratings Affirmed On Announcement Of New Strategy And Capital Increase; Outlook Stable, Oct. 22, 2015
- Standard & Poor's To Conclude Its Review Of Systemic Support For Remaining EU Banks By Early December 2015, Oct. 1, 2015
- Government And ALAC Support Ratings Uplift For Systemically Important European Banking Groups, Oct. 1, 2015
- Credit Suisse AG And UBS AG Outlooks Revised To Stable As Bail-In Framework Develops; 'A/A-1' Ratings Affirmed, June 9, 2015
- How Standard & Poor's Applied Its Government Support And ALAC Criteria To U.K., German, Austrian, And Swiss Banks, June 9, 2015
- S&P Takes Various Rating Actions On Certain U.K., German, Austrian, And Swiss Banks Following Government Support Review, Feb. 3, 2015
- The Rating Implications Of The Emerging Bank Resolution Frameworks In The U.K., Germany, Austria, And Switzerland, Feb. 3, 2015
- Banking Industry Country Risk Assessment: Switzerland, Jan. 7, 2015
- How The Regulatory Reform Process Could Reshape Banks' Business Models And Affect Issuer Ratings, Aug. 18, 2014

Ratings List

Ratings Affirmed

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/Stable/A-1
Credit Suisse Group AG	
Counterparty Credit Rating	BBB+/Stable/--
Credit Suisse AG	
Senior Unsecured	A
Senior Unsecured	Ap
Subordinated	BBB
Junior Subordinated	BB+
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
Credit Suisse Group AG	
Junior Subordinated	BB
Credit Suisse Group Capital (Guernsey) III Ltd.	
Preferred Stock*	BB
Credit Suisse Group Finance (Guernsey) Ltd.	
Senior Unsecured*	BBB+
Junior Subordinated*	BB+
Credit Suisse Group Finance (U.S.) Inc.	
Subordinated*	BBB-
Credit Suisse Group Funding (Guernsey) Ltd.	
Senior Unsecured*	BBB+
Credit Suisse International	
Senior Unsecured	A
Senior Unsecured	D
Junior Subordinated	BBB-

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