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Research Update:

Credit Suisse AG 'A/A-1' Ratings Affirmed On Announcement Of New Strategy And Capital Increase; Outlook Stable

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Overview

- On Oct. 21, 2015, Credit Suisse AG announced significant changes to its organizational structure, business strategy, and key financial targets, and increases in the group's capitalization.
- In our view, these changes support our existing credit rating and reduce downside risks by improving the bank's already strong capital position, but we believe the bank will still face challenges and implementation costs.
- We are affirming our 'A/A-1' ratings on Credit Suisse and our 'BBB+' ratings on Credit Suisse Group AG. The outlook on both entities remains stable.
- The stable outlook reflects our expectation that the group will maintain satisfactory risk and balance sheet metrics as it implements its revised strategy.

Rating Action

On Oct. 22, 2015, Standard & Poor's Ratings Services affirmed its 'A/A-1' long- and short-term counterparty credit ratings on Credit Suisse AG (Credit Suisse). We also affirmed our 'BBB+' long-term ratings on its nonoperating holding company, Credit Suisse Group AG. The outlook on both entities remains stable.

Additionally, we affirmed our issue credit ratings on the hybrid capital instruments issued by Credit Suisse as well as the issuer credit ratings (ICRs) on the group's core subsidiaries.

Rationale

The affirmation reflects our view that the capital raise Credit Suisse announced, as part of its new strategy, will more than compensate for the anticipated costs of restructuring and achieving the bank's new financial targets. The Swiss franc (CHF) 6 billion (about $6.3 billion) capital injection supports our existing credit rating by improving the bank's already strong capital position and additional loss-absorbing capacity (ALAC). However, we believe that the bank will still face considerable challenges and costs in implementing its new strategy.

In addition to somewhat modest third quarter results, Credit Suisse made the following major announcements:

- The bank will create five new operational divisions (Swiss Universal Bank, International Wealth Management, Investment Banking & Capital Markets, Global Markets, and Asia Pacific). It will also make changes to the Corporate Center and establish a new Strategic Resolution Unit (SRU) to reduce non-core operations.
- The bank intends to increase its focus on the domestic market with the creation of the Swiss division. Credit Suisse expects domestic revenues and efficiency to improve and is considering an IPO to increase capital for further domestic investments in market consolidation.
- As widely anticipated, Credit Suisse plans to reduce its Investment Banking division by about 25% in terms of risk-weighted assets (RWA), with some operations moving to the Asia Pacific division.
- The bank will increase its focus on Asia Pacific. It anticipates doubling earnings in the region by increasing regional investments.
- Credit Suisse has changed its internal cost-reduction target to a net reduction of fixed costs of CHF2.0 billion by 2018. The bank anticipates a CHF3.5 billion cost reduction from today's levels through 2018, countered by CHF1.5 billion in further investments.
- Finally, the bank will strengthen capital with a CHF6.05 billion capital injection and make meaningful upward revisions to its internal capital and leverage targets. The new targets are well aligned with the phasing in of revised leverage requirements announced yesterday by the Swiss Financial Market Supervisory Authority (FINMA).

In implementing these changes, Credit Suisse expects increased restructuring costs (CHF1.3 billion), additional costs to achieve its strategy (CHF0.7 billion-CHF1.2 billion), and initial costs of CHF0.7 billion associated with an early redemption of phased out capital instruments.

By our measures, the equity injection will raise our mid-year 2015 risk-adjusted capital ratio to 12.6% from 10.8%, all else being equal. The capital injection and increased buffer reduces downside risks to the group credit profile (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 investment bank and SRU deploys capital in the Asia Pacific, Switzerland, and the International Wealth Management divisions. We note that further improvements in capital ratios 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.

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 SRU's winding down of non-core operations. We believe that the new reporting structure encourages further oversight and market-induced discipline on costs and performance in the group's key growth areas. As such, we expect that the

unsupported GCP and stand-alone credit profile of Credit Suisse will remain stable at 'a-' over the foreseeable future.

We continue to believe that, although the prospect of extraordinary government support for systemic Swiss banks remains "supportive," it is likely to become less predictable from the end of 2015 and expect to complete this review in December ("Standard & Poor's To Conclude Its Review Of Systemic Support For Remaining EU Banks By Early December 2015," published Oct. 1, 2015, on RatingsDirect). At that time, we expect to recognize the Swiss resolution regime as likely to 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. As was the case in June, we consider it highly likely that Credit Suisse's GCP and our ICR on the group will continue to benefit from one notch of uplift, either for government support or ALAC support.

We expect that the additional capital injection and the redemption of capital instruments being phased out of the capital base could result in the ALAC ratio approaching 8.5% by the end of 2015, which could make it eligible for two notches of uplift. We intend to review the details more closely for our December review, but now believe that ALAC could reach the higher end of our previously stated 11%-12% range by the end of 2016, a marked improvement from 3.2% of Standard & Poor's RWA at year-end 2014. We described the details of Credit Suisse's ALAC, our ALAC threshold for the group, and our primary assumptions in our June 2015 research update, "Credit Suisse AG and UBS AG Outlooks Revised To Stable As Bail-In Framework Develops; 'A/A-1' Ratings Affirmed," Published on RatingsDirect.

Since February 2015, we no longer include uplift for government support in the ratings on Swiss bank nonoperating holding companies, including Credit Suisse Group AG. We similarly consider it unlikely that we would include ALAC support in these ratings because we do not believe that their senior obligations would continue to receive full and timely payment in a resolution scenario.

Outlook

The stable outlooks 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 credit worthiness 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 on Credit Suisse also reflects our view that Swiss government support will remain predictable for systemic banks until a credible resolution regime is implemented in Switzerland around the end of 2015. We expect this to be offset by the bank's ALAC buffers in the coming two years, meriting at least one notch of uplift for ALAC support.

Given 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, we believe the potential for two notches of ALAC support would be the most likely cause of an upgrade. We could raise the ratings on Credit Suisse, and its core subsidiaries, if Credit Suisse builds its ALAC ratio sustainably beyond 8.5%, resulting in a two notches of ALAC uplift in the rating. However, a positive rating action would also depend on a comparison of the bank's ICR 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 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 credit worthiness.

Related Criteria And Research

Related Criteria

- 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
- Group Rating Methodology, Nov. 19, 2013
- Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Revised Market Risk Charges For Banks In Our Risk-Adjusted Capital Framework, June 22, 2012
- 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
- Banks: Methodology For Mapping Short- And Long-Term Issuer Credit Ratings For Banks, May 4, 2010
- Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- Standard & Poor's To Conclude Its Review Of Systemic Support For Remaining EU Banks By Early December 2015, 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
- Watch Placements For Systemic Austrian, German, And U.K. Bank Operating Companies To Be Reviewed Around End May 2015, April 16, 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
- Austria, Germany, And The U.K. Are Set To Fast Track EU Bank Bail-In Rules, Sept. 29, 2014
- How The Regulatory Reform Process Could Reshape Banks' Business Models And Affect Issuer Ratings, Aug. 18, 2014
- 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

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/NR

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(1)	BB

Credit Suisse Group Finance (Guernsey) Ltd.

Senior Unsecured(1)	BBB+
Junior Subordinated(1)	BB+
Credit Suisse Group Finance (U.S.) Inc.	
Subordinated(1)	BBB-
Credit Suisse Group Funding (Guernsey) Ltd.	
Senior Unsecured(1)	BBB+
Credit Suisse International	
Senior Unsecured	A
Senior Unsecured	Ap
Junior Subordinated	BBB-

(1)Guaranteed by Credit Suisse Group AG.

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