S&P Global
Ratings

Research

Research Update:

Credit Suisse AG Outlook To Positive On Restructuring Progress; 'A+/A-1' Resolution Counterparty Ratings Assigned

Primary Credit Analyst:
Bernd Ackermann, Frankfurt (49) 69-33-999-153; bernd.ackermann@spglobal.com

Secondary Contact:
Anna Lozmann, Frankfurt (49) 69-33-999-166; anna.lozmann@spglobal.com

Table Of Contents

Overview

Rating Action

Rationale

Outlook

Ratings Score Snapshot

Related Criteria

Related Research

Ratings List

2061855

Research Update:

Credit Suisse AG Outlook To Positive On Restructuring Progress; 'A+/A-1' Resolution Counterparty Ratings Assigned

Overview

- Credit Suisse is making progress in executing its restructuring program, making a sustained earnings recovery more likely.
- As a result, we are revising our outlook on Credit Suisse AG and the group's other core operating subsidiaries to positive from stable, and affirming our 'A/A-1' issuer credit ratings.
- We are also affirming our 'BBB+' issuer credit rating on Credit Suisse Group AG with a stable outlook.
- The positive outlook on Credit Suisse AG and its core subsidiaries reflects our view that we could raise the ratings if the group's earnings recover sustainably and become more in line with peers'.
- Separately, we are assigning our 'A+/A-1' long- and short–term resolution counterparty ratings (RCRs) to Credit Suisse AG and its rated subsidiaries in Europe, while assigning our 'A/A-1' RCRs to its broker-dealer subsidiary in the U.S., following the publication of our methodology for assigning RCRs on April 19, 2018.

Rating Action

On June 25, 2018, S&P Global Ratings revised to positive from stable its outlook on Switzerland-based Credit Suisse AG (CSAG), the principal operating bank of the Credit Suisse group (Credit Suisse), and the group's other core subsidiaries. At the same time, we affirmed our 'A/A-1' long- and short-term issuer credit ratings on these entities.

We also affirmed our 'BBB+' long-term issuer credit rating on Credit Suisse Group AG (CSG), the group's nonoperating holding company. The outlook on CSG remains stable.

In addition, we affirmed our issue ratings on subordinated and hybrid capital instruments issued by these entities and related entities in the group.

We assigned 'A+/A-1' long- and short-term resolution counterparty ratings (RCRs) to CSAG and rated subsidiaries in Switzerland and the U.K. We assigned 'A/A-1' long- and short-term RCRs to Credit Suisse Securities (USA) LLC.

Rationale

The outlook revision on CSAG reflects our assessment that Credit Suisse continues to make progress on its three-year restructuring plan. It follows recent quarters of sustained earnings improvement and risk exposure reductions. As the restructuring is nearing its final stage, we now have a clearer picture of the group's earnings potential from 2019.

The bank has made steady progress on its announced restructuring initiatives since October 2015, lifting operating revenues while cutting costs in 2017. This trend might continue in 2018 as suggested by first-quarter results. Moreover, since 2015 it has trimmed noncore operations, mainly former sales and trading positions in its Strategic Resolution Unit (SRU), by about 80%, at lower exit costs than initially planned. Overall, we expect the restructuring to be completed by the end of 2018, with further cost cutting, redemption of expensive callable hybrid capital instruments in the second half of the year, and the closing of the SRU at year-end. Execution of these final steps would provide further uplift to earnings, in particular from 2019.

These improvements could gradually narrow the material earnings gap between Credit Suisse and similarly rated peers, which we currently reflect in a one-notch negative adjustment to our ratings on CSAG.

We continue to base our ratings on the group's globally diversified business mix with a strong exposure footprint and domicile in Switzerland. Diverse earnings streams of its global wealth management and domestic corporate and retail banking activities further support the ratings. These divisions are the main drivers of the group's recent headline revenue growth. Offsetting factors are the still low profitability of group's markets-related activities. In 2018, the group's profitability is set to remain below its medium-term potential despite further improvements, as some of the additional restructuring benefits are back-loaded in the year.

We view the group's capitalization as a strength, reflecting our projection that its risk-adjusted capital (RAC) ratio will remain firmly above 10%, standing at 11.7% at year-end 2017. Our projection assumes that Credit Suisse will replace a material part of the aforementioned callable hybrid capital instruments with new additional tier 1 (AT1) instruments at lower cost this year and next. 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. For example, Credit Suisse is one of the largest players in the leveraged loan market, which we view as one of the riskier areas of the capital markets business. Residual SRU exposures will not disappear completely with the closing of the division. However, Credit Suisse has reduced risks in its trading books, which should limit earnings volatility, an important factor in light of these businesses' still high cost base.

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. However, we also consider the high share of nonguaranteed wealth management deposits.

These factors lead to an 'a-' unsupported group credit profile (UGCP). We add two notches of uplift to reflect that Credit Suisse has built substantial buffers of bail-in-able debt instruments. Its ratio of additional loss-absorbing capacity (ALAC) of 12.1% of S&P risk-weighted assets at year-end 2017 is well above our threshold for this uplift, which we set at 8.5%. However, in our issuer credit rating (ICR) on CSAG, this is partly offset by the negative one-notch adjustment to the rating that we make to reflect that Credit Suisse's earnings will remain below similarly rated peers' until it fully emerges from its restructuring.

Resolution counterparty ratings (RCRs)

The assignment of RCRs to CSAG and certain operating subsidiaries follows our publication of RCR criteria and our assessment of its impact on Switzerland and on Credit Suisse (see "Criteria - Financial Institutions - General: Methodology For Assigning Financial Institution Resolution Counterparty Ratings ," published April 19, 2018, and "Resolution Counterparty Ratings Jurisdiction Assessment For Switzerland Completed," published June 25, 2018). We previously published our impact assessments on the U.K. and the U.S., countries with effective resolution regimes where rated foreign subsidiaries of Credit Suisse's are domiciled.

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 institution. RCRs apply to issuers in jurisdictions, such as Switzerland, the U.K. and the U.S., where we assess the resolution regime to be effective and the issuer is likely to be subject to a resolution that entails a bail-in if it reaches nonviability.

We set the RCRs on CSAG and subsidiaries in Switzerland and the U.K. one notch above our 'A' long-term ICRs, reflecting the typical approach under our framework when the ICR ranges from 'BBB-' to 'A+'. By contrast, our RCRs on U.S.-based Credit Suisse Securities (USA) LLC are at the same level as the ICRs on this entity. This outcome is consistent with our U.S. jurisdiction assessment, which concluded that there is insufficient visibility on whether certain senior liabilities have lower default risk than others in a bail-in resolution.

We are not assigning RCRs to CSG, the group's non-operating holding company, and Credit Suisse (USA) LLC. In our view, these entities are unlikely to hold a material amount of RCR liabilities, which are explicitly excluded from a bail-in.

Outlook

Credit Suisse AG and operating subsidiaries

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 CSAG and the group's core operating subsidiaries over the next 12-24 months if the group demonstrates that its earnings have sustainably recovered and become more in line with peers. This could be the case if the group demonstrates its ability to broadly achieve management's profitability objectives of combined net income generation between Swiss franc (CHF) 9 billion and CHF10 billion in 2019 and 2020 while further reducing reliance on revenues from trading and investment banking. Sustainably restoring profitability of its currently underperforming Global Markets division to its stated target of an adjusted return on regulatory capital of 10%-15% by 2018 would underpin an upgrade. All else being equal, these developments could lead us to remove our one-notch negative adjustment from the ratings.

We could revise the outlook to stable if the group were to miss its earnings objectives materially or took actions that would 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

The stable outlook on the group's holding company compared with the positive outlook on its operating bank subsidiaries reflects that we do not make the one-notch negative adjustments 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 have implications on our ratings on CSAG and the group's hybrid debt instruments.

Specifically, our stable outlook considers that over the next 12-24 months 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 will come to an end. 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 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 over the next 12-24 months, materially boosting exposures to higher risk economies or exposures with weak collateralization.

Ratings Score Snapshot

Resolution Counterparty Ratings*	A+/A-1
Issuer Credit Rating*	A/Positive/A-1
Unsupported GCP	a-
Anchor	a-
Business Position	Adequate (0)
Capital and Earnings	Strong (+1)
Risk Position	Moderate (-1)
Funding and Liquidity	Average and Adequate (0)
Support	(+2)
ALAC Support	(+2)
GRE Support	(0)
Group Support	(0)
Sovereign Support	(0)
Additional Factors	(-1)

*Refers to the rating level of Credit Suisse AG and other core operating subsidiaries of Credit Suisse.

GCP—Group credit profile. GRE—Government-related entity.

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

- Resolution Counterparty Ratings Jurisdiction Assessment For Switzerland Completed, June 25, 2018
- 31 European Banking Groups Assigned Resolution Counterparty Ratings; Four Collateralized Notes Upgraded; UCO Removed, June 12, 2018
- Certain U.S. Global Systemically Important Bank Subsidiaries Assigned Resolution Counterparty Ratings, June 12, 2018
- Resolution Counterparty Ratings Jurisdiction Assessment For The U.S. Completed, June 7, 2018
- Resolution Counterparty Ratings Jurisdiction Assessment For The U.K. Completed, April 30, 2018
- Credit Suisse Group AG, July 3, 2017

Ratings List

```
* * * * * * * * * * * * *  Credit Suisse Group AG * * * * * * * * * * * * *

New Rating

Credit Suisse AG
Credit Suisse Securities (Europe) Ltd.
Credit Suisse International
Credit Suisse AG (New York Branch)
Credit Suisse AG (Cayman Islands Branch)
Credit Suisse (Schweiz) AG
 Resolution Counterparty Rating         A+/--/A-1

Credit Suisse Securities (USA) LLC
 Resolution Counterparty Rating         A/--/A-1

Outlook Action; Ratings Affirmed
                                        To                 From
Credit Suisse (USA) Inc.
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 (Schweiz) AG
Credit Suisse AG
 Issuer Credit Rating                   A/Positive/A-1     A/Stable/A-1


Ratings Affirmed

Credit Suisse Group AG
 Issuer Credit Rating                   BBB+/Stable/--

Credit Suisse (USA) Inc.
 Senior Unsecured                       A

Credit Suisse AG
 Senior Unsecured                       A
 Subordinated                           BBB
 Commercial Paper                       A-1

Credit Suisse AG (Guernsey Branch)
 Senior Unsecured                      A

Credit Suisse AG (London Branch)
 Senior Unsecured                       A
```

Senior Unsecured	Ap
Subordinated	BBB
Credit Suisse AG (New York Branch)	
Senior Unsecured	A
Subordinated	BBB
Credit Suisse AG (Sydney Branch)	
Senior Unsecured	A
Credit Suisse AG (Tokyo Branch)	
Commercial Paper	A-1
Credit Suisse Group AG	
Senior Unsecured	BBB+
Junior Subordinated	BB
Junior Subordinated	BB-
Credit Suisse Group Finance (Guernsey) Ltd.	
Senior Unsecured*	BBB+
Credit Suisse Group Finance (U.S.) Inc.	
Subordinated*	BBB-
Credit Suisse Group Funding (Guernsey) Ltd.	
Senior Unsecured*	BBB+
Credit Suisse International	
Senior Unsecured	A

*Guarantor: Credit Suisse Group AG.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings 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.