S&P Global
Ratings

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Credit Suisse Group AG (Holding Company)

Credit Suisse AG (Lead Bank)

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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	Strong	+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/Stable/A-1

Bank Holding Company Rating
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 asset quality and a highly collateralized lending book.	• Profitability burdened by ongoing restructuring and run-off of illiquid non-strategic activities. • Limited visibility of sustainable earnings potential post-restructuring. • Complexity and elevated market and operational risk from the high share of capital markets-related businesses and non-strategic assets.

Outlook: Stable

The stable outlook on Credit Suisse and CSG reflects our assessment that it is unlikely that its restructuring program would vastly derail or cause a materially miss of its targets for cost cutting, risk reduction, and capital strengthening. It also reflects our assessment that the group's franchises in global wealth management and domestic corporate and retail banking will continue to expand, providing favorable stability to group earnings. Finally, it also reflects our assessment that the risk of major one-off charges from litigation risk has diminished and that the group will be able to sustain capitalization near current levels. These factors contribute to our UGCP of 'a-'.

We could lower the ratings on Credit Suisse, CSG, and the hybrid debt instruments issued by group entities over the next 12-24 months if Credit Suisse failed to make further progress toward its 2018 restructuring objectives, signaling the need for additional material strategic initiatives. The emergence of substantial unexpected charges or litigation risk would also be negative, in particular if they jeopardized our projection of a RAC ratio comfortably above 10% or if Credit Suisse materially missed its 2018 capital target of a 13% look-through CET1 ratio. These developments would lead us to revise down the UGCP.

We could upgrade Credit Suisse if the group's earnings recovered and became more in line with peers. This would lead us to remove the one-notch negative adjustment from the rating. We believe that we may see signs of such a sustained earnings recovery as we head into 2018, supported by further material reductions in noncore assets and replacement of costly legacy capital instruments, but this may not be confirmed until 2019. An upgrade would also hinge on Credit Suisse maintaining strong levels of bail-in-able capital, demonstrated by our metric of ALAC above 8.5% of S&P Global Ratings' risk-weighted assets.

An upgrade of Credit Suisse and CSG based on a stronger UGCP appears unlikely over the outlook horizon. It might occur if Credit Suisse demonstrated that the new business model was well-positioned for the regulatory and economic environment, allowing it to generate strong and stable earnings over the cycle. We believe that a longer track record is required to support this stronger assessment after years of restructuring and the group's recent weak performance.

Rationale

We base our ratings on Credit Suisse on its globally diversified business mix with a strong exposure footprint and domicile in Switzerland. This leads to an 'a-' anchor, the starting point for our ratings. Stable and diverse earnings streams of its global wealth management and domestic corporate and retail banking activities further support the ratings. Offsetting factors are the volatility of Credit Suisse's earnings from its capital markets-related activities. It also suffers from low profitability as it executes on its costly restructuring program that should be completed in 2018.

We view Credit Suisse's capital as a strength, reflecting our projection that the group's risk-adjusted capital (RAC) ratio will remain firmly above 10%. Credit Suisse completed a capital increase in June 2017, generating proceeds of Swiss franc (CHF) 4.1 billion ($4.2 billion). Pro forma this rights issue and hybrid capital issuance in the first quarter 2017, Credit Suisse's year-end 2016 RAC ratio was 13.9%. We project that it will settle between 13.0% and 13.5% in the next 18 months. The rights issue also lifts its regulatory look-through common equity tier 1 (CET1) capital ratio to slightly above 13%, which is its 2018 target level. This should position Credit Suisse well to absorb potentially rising regulatory capital requirements from Basel III reforms. Also, Credit Suisse has reduced risks in its trading books, which should limit earnings volatility. These factors are offset by our assessment that Credit Suisse's risk profile remains complex.

Market and operational risk remain material risk components. The group retains a high level of capital markets-related activities. Likewise, exposures to illiquid nonstrategic assets remain sizable, despite achieving material exposure reductions.

The group's funding and liquidity is neutral to our ratings. The group's metrics are solid and regulatory ratios are well above the minimum. However, we also consider the high share of nonguaranteed wealth management deposits. We generally consider such deposits as inherently more confidence sensitive than normal retail deposits.

These factors lead to an 'a-' unsupported group credit profile (UGCP). We add two notches of uplift to reflect that Credit Suisse has and continues to build substantial buffers of bail-in-able debt instruments. We calculate its additional loss-absorbing capacity (ALAC) at 11.7% of S&P Global Ratings' risk-weighted assets at year-end 2016. Additional issuance required under Swiss too-big-to-fail regulation should lead to a further strengthening of the ratio by 2019. Senior unsecured debt issuances by the group's nonoperating holding company, Credit Suisse Group AG, are the main instruments that we consider in our analysis. These instruments could absorb losses in a resolution scenario upon discretion of the Swiss regulator and keep Credit Suisse a going concern. This is partly offset, however, by the negative one-notch adjustment to the rating that we make to reflect that Credit Suisse's earnings are lower than peers'.

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 mix of credit exposure mainly in Switzerland, other European countries, North America, and Asia-Pacific (APAC). Our bank criteria 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 issuer credit rating. The weighted-average economic risk score for Credit Suisse's mix or exposures is close to '3' on a scale of 1-10 (1 is the lowest risk and 10 is the highest). This is slightly weaker than the '2' score for banks operating in Switzerland only but not to an extent that it would negatively affect the anchor.

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 have increased, owing to the cumulative rise in Swiss house prices and domestic lending over past several years. Although these imbalances are still low in a global context, they have also led the regulator to enact macroprudential measures to rein in robust growth in mortgage indebtedness. We recognize that house price and lending growth have cooled since the beginning of 2014. However, in our view, house prices and household indebtedness remain historically high, in particular when considering the low rate of home ownership in Switzerland. The very high mortgage debt level is mitigated by the large amount of financial assets, including pensions, held by households in Switzerland.

The industry risk score of '2' for Credit Suisse is based solely on its home market of Switzerland. The score primarily reflects the banking sector stability and a 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 regulatory 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)	**2017***	**2016**	**2015**	**2014**	**2013**
Adjusted assets	806,946.0	814,735.0	815,801.0	912,569.0	864,597.0
Customer loans (gross)	274,891.0	273,871.0	269,855.0	268,888.0	242,909.0
Adjusted common equity	33,805.3	34,021.9	36,063.9	31,889.0	31,151.0
Operating revenues	5,151.0	18,444.0	21,878.0	24,136.0	23,772.0
Noninterest expenses	4,206.0	17,627.0	19,281.0	19,226.0	19,218.0
Core earnings	814.0	124.0	1,750.0	2,900.1	2,991.0

*Data as of March 31. CHF--CHF-Swiss Franc.

Business position: Strategic changes could improve long-term creditworthiness but large share of capital market activities may weigh on earnings stability

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. In late 2015, Credit Suisse embarked on a strategic shift away from badly performing and highly capital intensive areas of investment banking and toward an increased focus on growth in wealth management activities and in APAC. This entailed the creation of a Strategic Resolution Unit (SRU) tasked with winding down noncore operations, mainly former sales and trading positions. Management also announced wide-ranging cost cuts and exposure reductions, mainly targeted at its global markets division and central services. Some of the cost savings are being allocated to growth initiatives in its other business divisions.

We regard Credit Suisse's business position as neutral factor compared with banks in Switzerland and international peers with major global franchises in wealth management and investment banking. This includes UBS, Deutsche Bank, Barclays, Morgan Stanley, BNP Paribas, or Societe Generale. Negative factors are the volatilities inherent in the relatively high share of sales and trading revenues, and its ongoing business restructuring. The latter is demonstrated by the current poor profitability on a group level. These points are offset by the stability and diversification of Credit Suisse's franchises in global wealth management and in Switzerland. It also reflects our expectation that its strategy will improve Credit Suisse's creditworthiness over time. This would be achieved by reducing the degree of revenue and profit volatility associated with sales and trading and investment banking activities (see charts 1 and 2) and lifting bottom-line returns. We also consider that Credit Suisse is exposed to similar competitive dynamics in its investment banking activities to its global peers, while the starting point for our ratings (the 'a-' anchor) is higher because it is domiciled in Switzerland.

Chart 1

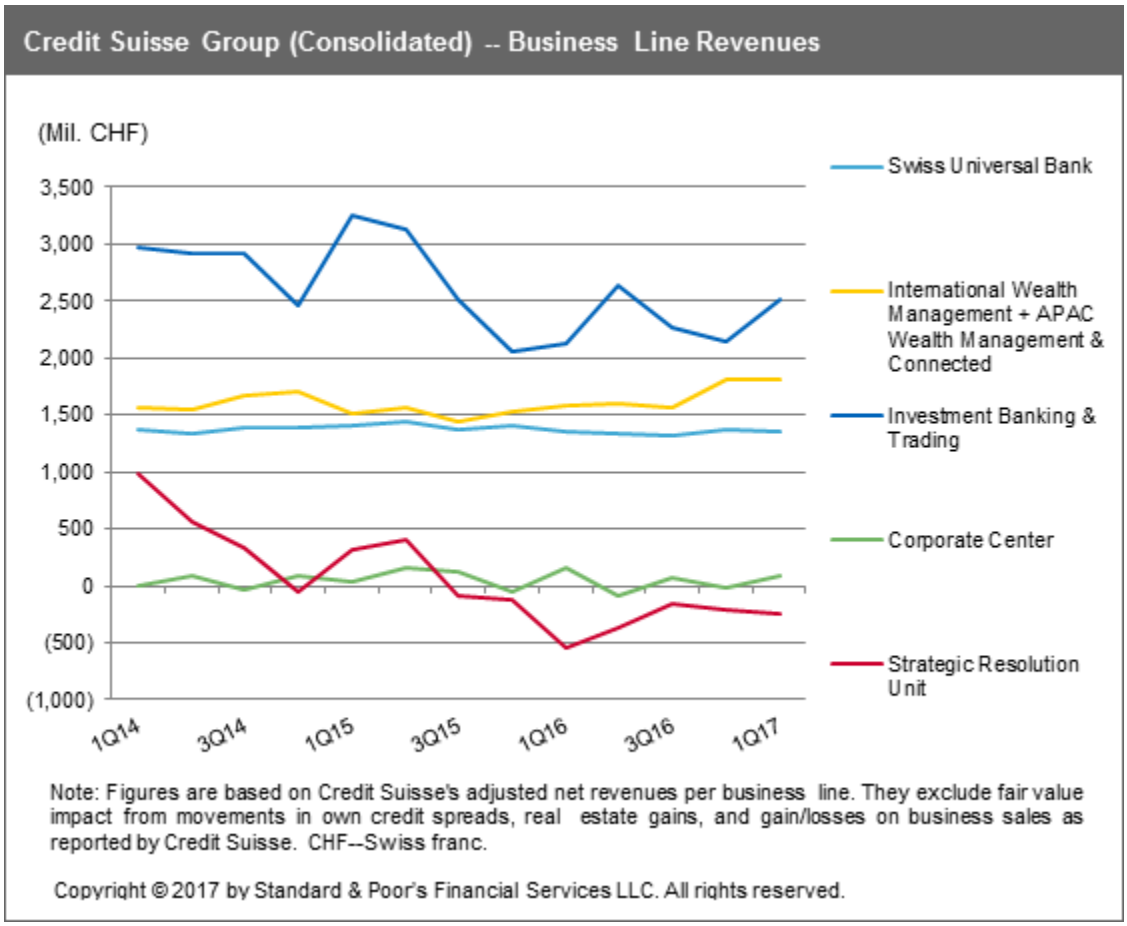
Credit Suisse Group (Consolidated) -- Business Line Revenues
(Mil. CHF)
3,500
3,000
2,500
2,000
1,500
1,000
500
0
(500)
(1,000)
1Q14
3Q14
1Q15
3Q15
1Q16
3Q16
1Q17
Swiss Universal Bank
International Wealth Management + APAC Wealth Management & Connected
Investment Banking & Trading
Corporate Center
Strategic Resolution Unit
Note: Figures are based on Credit Suisse's adjusted net revenues per business line. They exclude fair value impact from movements in own credit spreads, real estate gains, and gain/losses on business sales as reported by Credit Suisse. CHF--Swiss franc.
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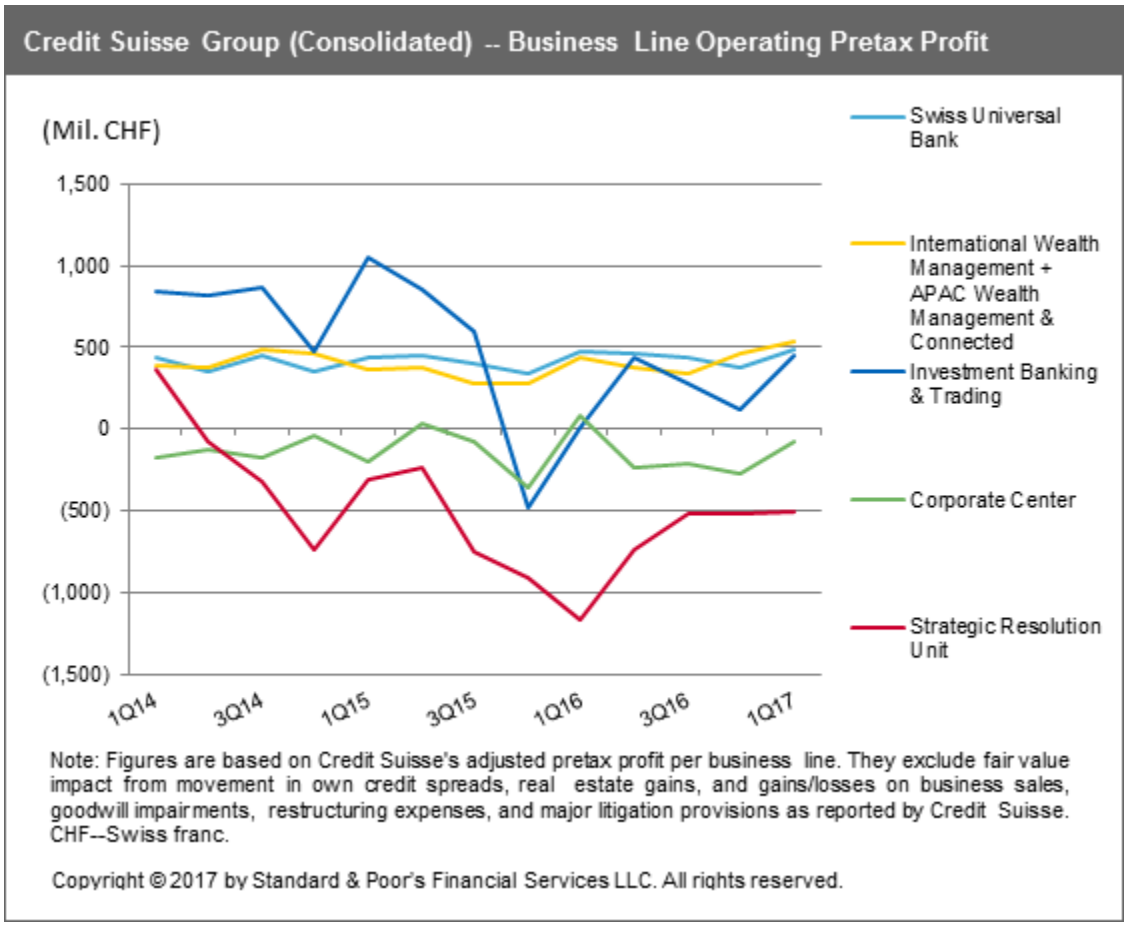
Chart 2



We view the group's domestic position in corporate and private banking and its geographically diverse revenues from wealth management as material stabilizing factors to our assessment. They provide a source of fairly reliable and low-risk revenues. This is underpinned by low volatility in quarterly revenues and earnings, sound net inflows of assets under management (see charts 3 and 4) despite gross outflows from customer tax regularization, and a stable trend in net earnings margin on assets under management (see chart 5). In our ratings, we anticipate that the earnings contribution by these activities will increase in light of allocation of further resources to these divisions while reducing overhead costs.

Chart 3

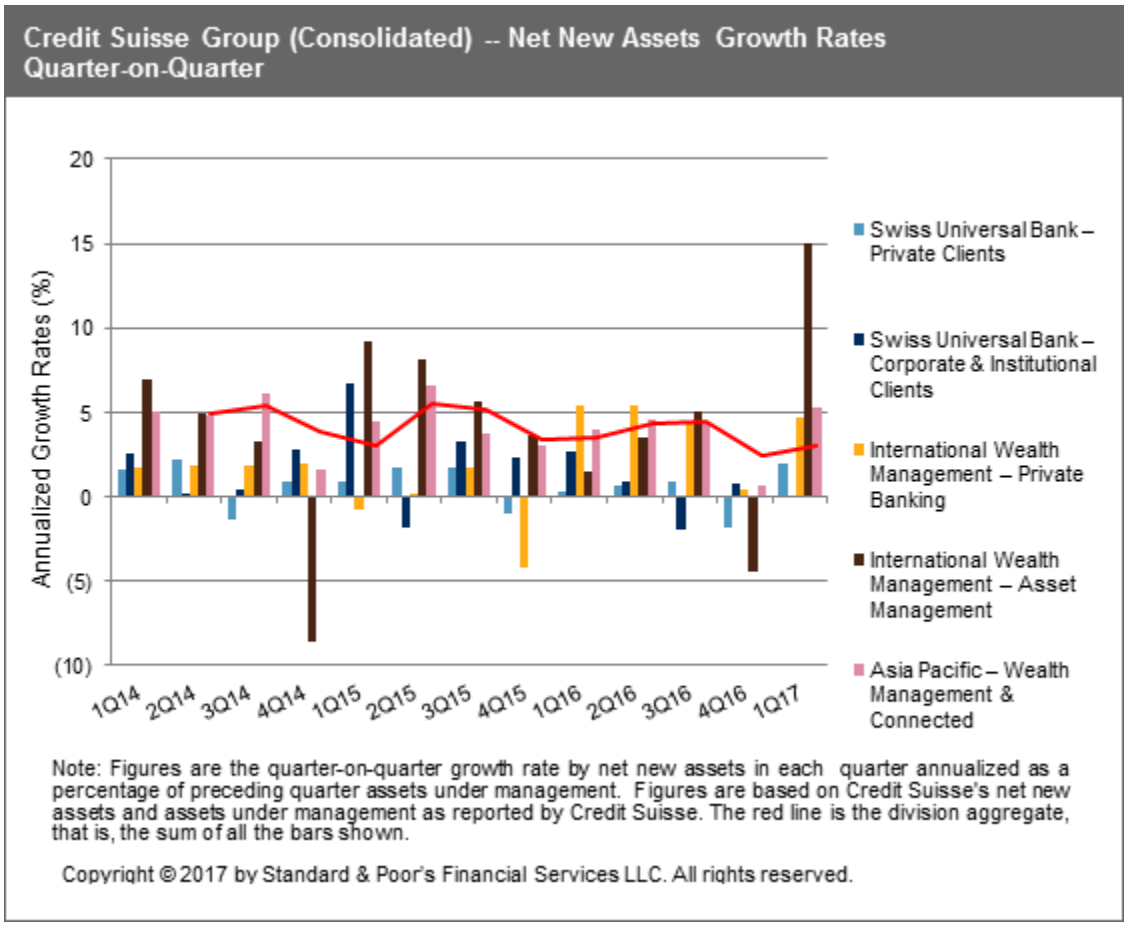

Credit Suisse Group (Consolidated) -- Net New Assets Growth Rates
Quarter-on-Quarter
Annualized Growth Rates (%)
20
15
10
5
0
(5)
(10)
1Q14
2Q14
3Q14
4Q14
1Q15
2Q15
3Q15
4Q15
1Q16
2Q16
3Q16
4Q16
1Q17
Swiss Universal Bank – Private Clients
Swiss Universal Bank – Corporate & Institutional Clients
International Wealth Management – Private Banking
International Wealth Management – Asset Management
Asia Pacific – Wealth Management & Connected
Note: Figures are the quarter-on-quarter growth rate by net new assets in each quarter annualized as a percentage of preceding quarter assets under management. Figures are based on Credit Suisse's net new assets and assets under management as reported by Credit Suisse. The red line is the division aggregate, that is, the sum of all the bars shown.
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Chart 4

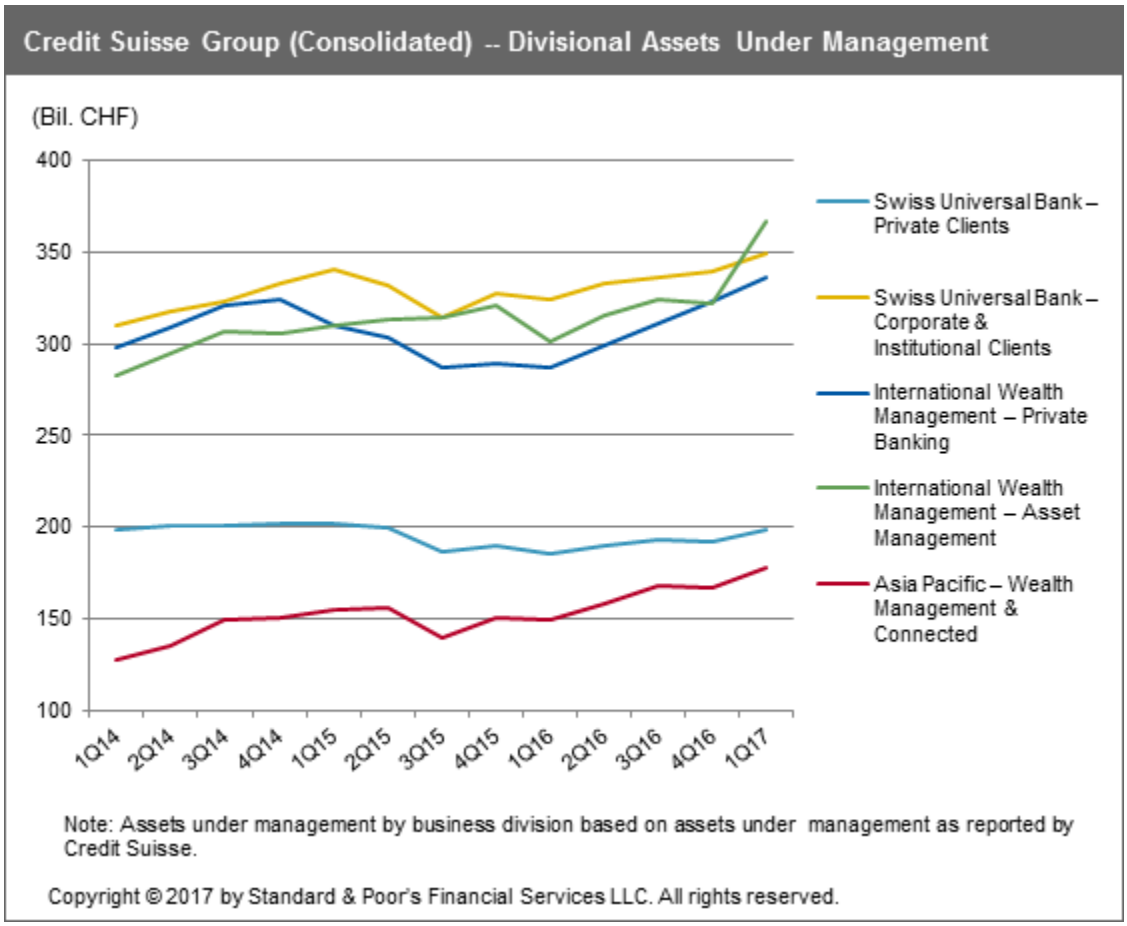
Credit Suisse Group (Consolidated) -- Divisional Assets Under Management
(Bil. CHF)
400
350
300
250
200
150
100
1Q14
2Q14
3Q14
4Q14
1Q15
2Q15
3Q15
4Q15
1Q16
2Q16
3Q16
4Q16
1Q17
Swiss Universal Bank – Private Clients
Swiss Universal Bank – Corporate & Institutional Clients
International Wealth Management – Private Banking
International Wealth Management – Asset Management
Asia Pacific – Wealth Management & Connected
Note: Assets under management by business division based on assets under management as reported by Credit Suisse.
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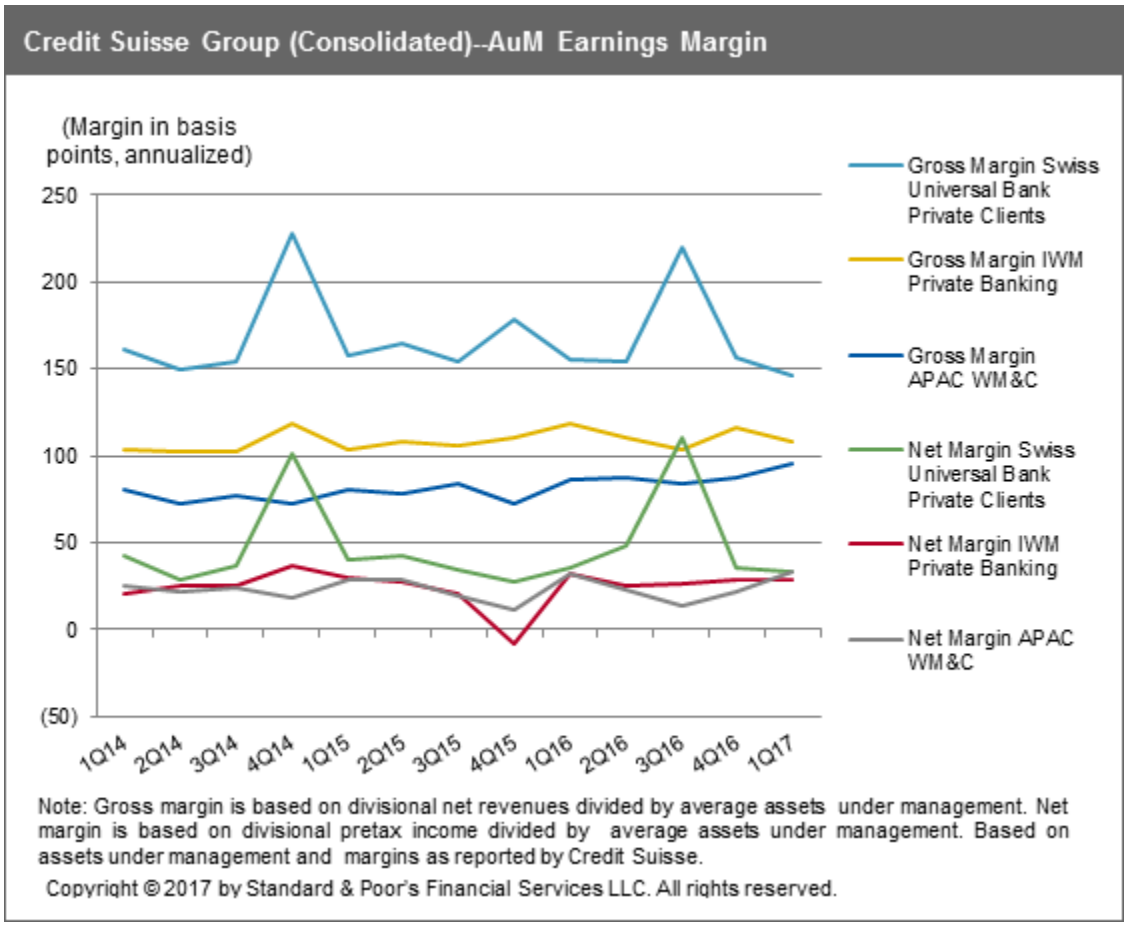
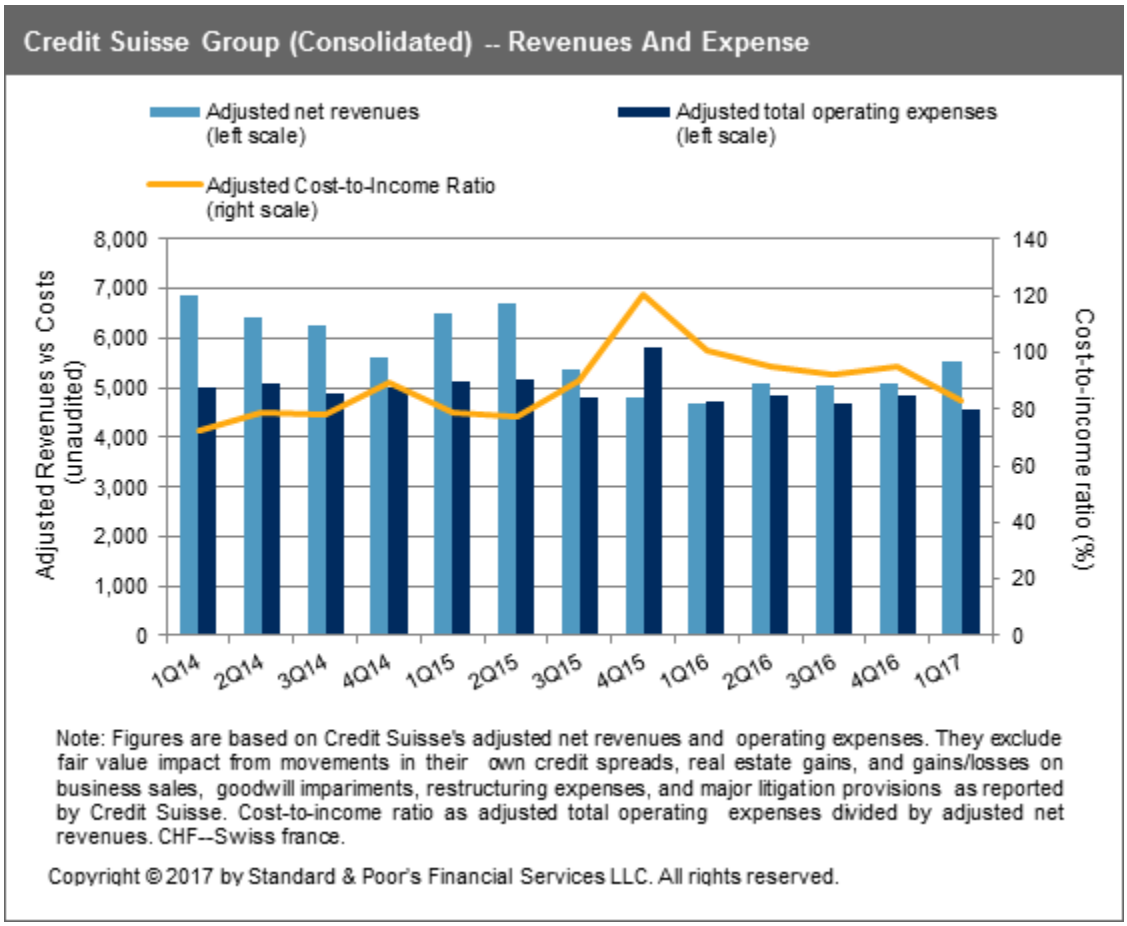
Chart 5



Nevertheless, we consider Credit Suisse to be less advanced than some other banks with material capital markets businesses in adapting its business model and cost structure to a changing regulatory and market environment. Therefore, the group's earnings have been more strongly affected by the slump in capital markets activities since end-2015 than many of its peers. Management faced dwindling revenues in its markets-driven activities, which partly offset the cost benefits of its restructuring program. We view positively that management has so far over-delivered on its target for reduction in non-core illiquid assets and is on track to meet its cost-cutting goals. Moreover, the group's revenues have been rising over the last three quarters, supported by a more constructive environment, while costs continued to fall (see chart 6). We note that Credit Suisse's global markets division achieved its return on equity ambition of 10%-15% in the first quarter of 2017, but consider this a short track record.

Chart 6



An important consideration is that the restructuring will be largely completed by end-2018 according to Credit Suisse. This should incrementally benefit bottom-line profitability until then, both by increasing operating profit and lowering restructuring and other one-off charges. At its investor day in December 2016, Credit Suisse updated its pretax profit targets for its Swiss Universal Bank, International Wealth Management, and APAC segments of CHF5.7 billion in aggregate in 2018. Overall, we estimate that this implies an ambition to achieve about CHF6.0 billion pretax profit before restructuring charges in 2018. This takes into account management's return ambitions for its global markets and investment banking and capital markets segments, which are more dependent on market conditions; guidance of a CHF1.4 billion loss in the SRU; and an unchanged corporate center loss of about CHF0.5 billion. In our ratings, we anticipate that Credit Suisse will make further material progress toward these targets but may struggle to fully achieve them. We remain cautious regarding the sustainable earnings potential of its franchise and its ability to earn its cost of capital over the cycle. The potential weakening to its franchise from the material cost cutting underway remains difficult to assess at this stage, but is a risk. Credit Suisse will have cut the group's annual cost base by a net CHF4.2 billion--or about 20% compared with 2015 on constant foreign currency exchange rates--if it delivers on its 2018 expense target.

Table 2

Credit Suisse Group AG Business Position

		--Year-ended Dec. 31--			
(%)	**2017***	**2016**	**2015**	**2014**	**2013**
Total revenues from business line (mil. CHF)	5,166.0	18,868.0	22,174.0	24,783.0	24,263.0
Commercial banking/total revenues from business line	12.4	10.9	8.7	8.0	8.2
Retail banking/total revenues from business line	42.3	42.6	35.5	33.4	34.8
Commercial & retail banking/total revenues from business line	54.7	53.4	44.2	41.4	43.1
Trading and sales income/total revenues from business line	36.8	29.1	41.0	38.6	39.5
Corporate finance/total revenues from business line	11.7	22.2	14.3	13.7	13.7
Asset management/total revenues from business line	6.5	7.0	6.0	7.5	8.2
Other revenues/total revenues from business line	(9.8)	(11.8)	(5.5)	(1.1)	(4.5)
Investment banking/total revenues from business line	48.5	51.4	55.2	52.3	53.2
Return on equity	5.7	(6.3)	(6.7)	4.2	5.4

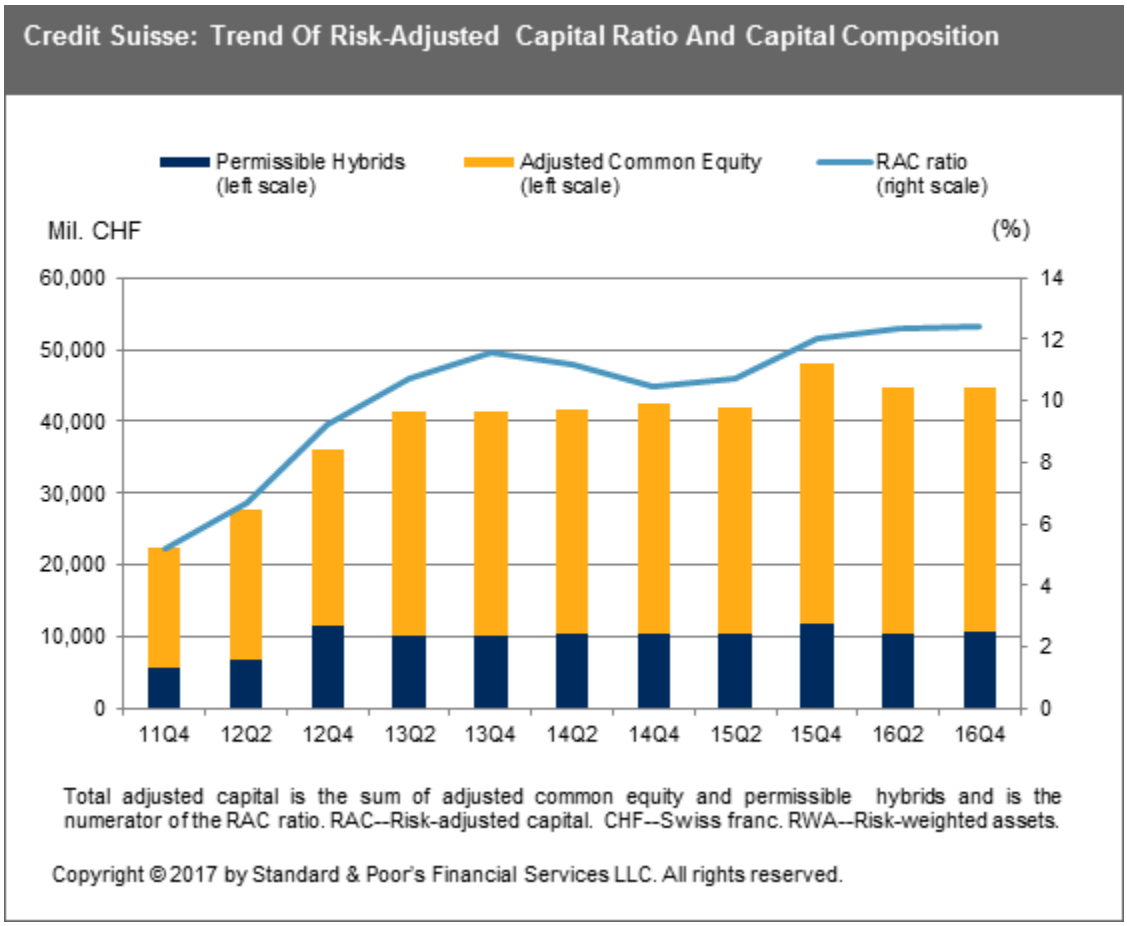
*Data as of March 31. CHF--Swiss franc.

Capital and earnings: On target to meet potential future regulatory requirements

We view Credit Suisse's capital and earnings as strong, underpinned by its RAC ratio of 12.4% as of Dec. 31, 2016, which is 13.9% pro forma including a CHF4.1 billion capital increase completed in June 2017 and hybrid capital issuance in the first quarter 2017. We estimate that the RAC ratio will settle between 13.0% and 13.5% over the next 12-18 months. We consider the group's regulatory capital targets and our earnings and balance sheet projection.

The bank's capital management has radically shifted since June 2011 (see chart 7) and is now more conservative. Over the last 12 months, new management took further significant steps to raise fresh equity and cut costs and risk exposures. This has enabled Credit Suisse to strengthen its regulatory capital and RAC ratios despite incurring high restructuring and litigation charges and facing a slump in revenues from a challenging operating environment. The bank has raised CHF4.1 billion of capital in June 2017 through a rights issue, which will increase the regulatory CET1 ratio (on a look-through basis) to around 13%. This is the target management had set for 2018. Based on management's estimates of the likely effect of further Basel III reforms, such capital strengthening is necessary to remain compliant with Swiss "Too Big To Fail" (TBTF) capital requirements, which are being phased in by Jan. 1, 2020. With the CHF4.1 billion rights issue, Credit Suisse's CET1 capital would already by compliant with the group's estimated going concern TBTF capital requirements for 2020. As such, we believe that the capital raise allows a better balance between investment for growth and managing capital toward higher regulatory requirements.

Chart 7



Junior subordinated (such as Additional Tier 1; AT1) hybrid capital instruments, which we regard as weaker forms of capital, represented a high 25% of Credit Suisse's total adjusted capital (TAC), the numerator of our RAC ratio, as of March 31, 2017. In the first quarter of 2017, the bank issued AT1 capital of US$1.5 billion and CHF200 million. Following the capital raise, Credit Suisse already satisfies TBTF capital requirements for 2020 also at a Tier 1 level. As such, we expect Credit Suisse to keep the level of AT1 instruments broadly unchanged. New AT1 hybrid capital instruments, like those issued in the first quarter of 2017, are convertible into equity or are subject to write-down should its CET1 ratio under Basel III standards fall below 7%. New issuances during 2017 and the following two years are set to replace a range of regulatory grandfathered instruments that are callable in 2018. As a result, we expect the level of hybrid capital instruments in TAC to settle at about its current level in 2019.

We expect the group's RAC ratio to remain firmly above our 10% threshold for a strong capital and earnings assessment. We project RAC to settle between 13.0% and 13.5% over the next 18 months. We consider the strengthening of capital levels through recent new issuances and improved earnings. However, we also consider that the RAC ratio might decline modestly from the pro forma 13.9% given that its look-through regulatory pro forma CET1 ratio of 13.4% is above its 13% target. Further, since Credit Suisse settled its largest litigation risk in 2016, we anticipate a material reduction in these charges. Nevertheless, our projection conservatively includes the assumption

that CHF1.2 billion of litigation charges would materialize without an immediate adjustment in Credit Suisse's dividend policy. This amount is the estimate that Credit Suisse reports as potential reasonable worst-case additional litigation charges. We include a cash dividend distribution near current levels increasing gradually as earnings recover in 2019. Credit Suisse revised its dividend policy in connection with its capital increase this year and it will cease scrip dividends from 2017. Our earnings projection includes a planned reduction of operating costs (as reported by Credit Suisse) to below CHF17 billion by 2018, supporting profitability. We expect revenues to increase modestly in most of the segments compared with 2016 levels. We also factor in the replacement of high-yielding grandfathered and legacy capital instruments. This will likely reduce total funding costs by about CHF0.6 billion (net of interest expense on additional bail-in bonds), boosting net interest income in 2019. Also, as the bank completes its restructuring, we also expect these expenses to decline.

Table 3

Credit Suisse Group AG Capital And Earnings

		--Year-ended Dec. 31--			
(%)	**2017***	**2016**	**2015**	**2014**	**2013**
Tier 1 capital ratio	18.3	18.0	18.0	17.1	16.8
S&P RAC ratio before diversification	N.M.	12.4	12.0	10.2	11.5
S&P RAC ratio after diversification	N.M.	14.7	14.3	11.8	13.5
Adjusted common equity/total adjusted capital	75.2	76.1	75.2	75.2	75.2
Net interest income/operating revenues	31.7	41.0	42.5	37.4	34.1
Fee income/operating revenues	52.0	52.3	47.6	47.6	48.3
Market-sensitive income/operating revenues	12.1	1.7	6.8	9.7	12.8
Noninterest expenses/operating revenues	81.7	95.6	88.1	79.7	80.8
Preprovision operating income/average assets	0.5	0.1	0.3	0.5	0.5
Core earnings/average managed assets	0.4	0.0	0.2	0.3	0.3

*Data as of March 31. RAC--Risk-adjusted capital. N.M.--Not meaningful.

Table 4

Credit Suisse Group AG Risk-Adjusted Capital Framework Data

(Mil. CHF)	**Exposure***	**Basel III RWA**	**Average Basel III RW (%)**	**S&P Global Ratings' RWA**	**Average S&P Global Ratings' RW (%)**
Credit risk					
Government and central banks	135,544	3,124	2	4,297	3
Institutions	36,111	9,117	25	8,624	24
Corporate	185,928	81,183	44	136,906	74
Retail	186,403	28,363	15	43,215	23
Of which mortgage	105,040	14,089	13	30,665	29
Securitization§	48,033	10,088	21	16,893	35
Other assets	15,139	26,891	178	17,172	113
Total credit risk	607,158	158,765	26	227,107	37
Market risk					
Equity in the banking book†	3,488	11,183	400	28,164	807
Trading book market risk	--	23,248	--	33,598	--

Table 4

Credit Suisse Group AG Risk-Adjusted Capital Framework Data (cont.)					
Total market risk	--	34,431	--	61,762	--
Insurance risk					
Total insurance risk	--	--	--	0	--
Operational risk					
Total operational risk	--	66,050	--	71,121	--
		Basel III RWA		**S&P Global Ratings' RWA**	**% of S&P Global Ratings' RWA**
Diversification adjustments					
RWA before diversification		271,429		359,990	100
Total Diversification/Concentration Adjustments		--		(54,969)	(15)
RWA after diversification		271,429		305,022	85
		Tier 1 capital	**Tier 1 ratio (%)**	**Total adjusted capital**	**S&P Global Ratings' RAC ratio (%)**
Capital ratio					
Capital ratio before adjustments		48,865	18.0	44,728	12.4
Capital ratio after adjustments‡		48,865	18.0	44,728	14.7

*Exposure at default. §Securitization exposure includes the securitization tranches deducted from capital in the regulatory framework. †Exposure and S&P Global Ratings' risk-weighted assets for equity in the banking book include minority equity holdings in financial institutions. ‡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 Dec. 31, 2016, S&P Global Ratings.

Risk position: Vulnerable to capital market fluctuations, regulatory developments, and limited litigation risk

We assess Credit Suisse's risk position as moderate, reflecting the bank's vulnerability to capital market developments and the risk associated with its high volume of trading in securities and derivatives. The group is also exposed to risk in securities underwriting, and retains exposure to litigation risk.

Credit Suisse's risk profile includes a relatively high share of market and operational risk. The bank has significant trading portfolios, given its position as a major global investment bank, a significant issuer of securitized instruments, and an alternative asset manager. We estimate that investment banking and trading-related revenues will continue to represent a sizeable 40%-50% of group consolidated revenues and leverage exposure in the medium term. The bank has made significant efforts to reduce the size of its balance sheet, and the magnitude of market making and position taking. This should reduce revenue volatility and revaluation risk on the bottom line. However, we believe that volatility in capital markets and assumptions for modeling asset valuations can significantly affect Credit Suisse's profits.

Credit Suisse also still holds a material US$83 billion leverage exposure to non-strategic assets in its SRU as of March 31, 2017, mainly through derivatives and loan and financing facilities. The leverage exposure has shrunk by about 50% compared with one year earlier. Reflecting this progress, in April 2017 Credit Suisse announced that it believes it would be able to largely unwind and thereby release capital from its non-strategic assets portfolio by 2018, that is, one year earlier than the original plan without incurring additional costs. Nevertheless, a sudden adverse change in market

conditions over the next few quarters could still result in losses by the division that exceed our base-case assumption of CHF3.0 billion CHF3.5 billion aggregate losses (before litigation and restructuring costs), for 2017 and 2018.

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 CHF1.2 billion. Although we include the same amount of charges in our capital projection, the amount is difficult to anticipate and could vary substantially. The risk is mitigated by our understanding that none of the pending litigation matters represents a material concentration risk following the group's multi-billion U.S. dollar settlement with the U.S. Department of Justice in late January 2017 related to legacy residential mortgage-backed securities business.

The asset quality of the predominantly domestic lending book remains very strong, and we expect it will remain so over our two-year outlook horizon 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.

Economic conditions in Switzerland have been resilient to tougher conditions for Swiss exporters given the unexpected exchange rate appreciation in January 2015. Impaired loans and provisions in both private banking and investment banking lending remain very low by global comparison. We regard individual and corporate repayment capacity as high and believe that the low interest-rate environment and our view of the bank's strong underwriting, its high-wealth clients, and high share of collateralized loans support low credit risk.

Table 5

Credit Suisse Group AG Risk Position

		--Year-ended Dec. 31--			
(%)	**2017***	**2016**	**2015**	**2014**	**2013**
Growth in customer loans	1.5	1.5	0.4	10.7	2.4
Total diversification adjustment / S&P RWA before diversification	N.M.	(15.3)	(15.6)	(13.7)	(14.8)
Total managed assets/adjusted common equity (x)	24.0	24.1	22.8	28.9	28.0
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	0.6	0.7	0.6	0.4	0.5
Loan loss reserves/gross nonperforming assets	57.2	50.5	56.3	63.0	75.6

*Data as of March 31. RWA--Risk-weighted assets. N.M.--Not meaningful.

Funding and liquidity: Sustainable profile through balance sheet deleveraging

We view Credit Suisse's funding as average compared with 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 generally associated with the low share of deposit guarantees and high market-confidence sensitivity, given the short-term nature of a large portion of the balance sheet.

We believe that the bank adequately manages its asset and liability mismatches including extensive stress testing and

forward-looking modeling of its liquidity position. 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 1.7x at March 31, 2017, and its adjusted stable funding ratio is 110%. Both ratios compare well with other large European banks. By comparison, Credit Suisse reported a weighted average regulatory liquidity coverage ratio of 205% during the first quarter 2017. The ratios indicate sound matching of assets and liabilities. We note that improvements in the bank's stable funding ratio have occurred due to further reductions in the share of short-term wholesale funding, which nevertheless represents 27% of Credit Suisse's total funding base (see chart 8). Credit Suisse bolstered its liquidity cushions ahead of its multi-billion U.S. dollar settlement with the U.S. Department of Justice in December 2016, which explains the peak of its liquidity ratios in the second half of 2016. It has since scaled down its liquidity buffer.

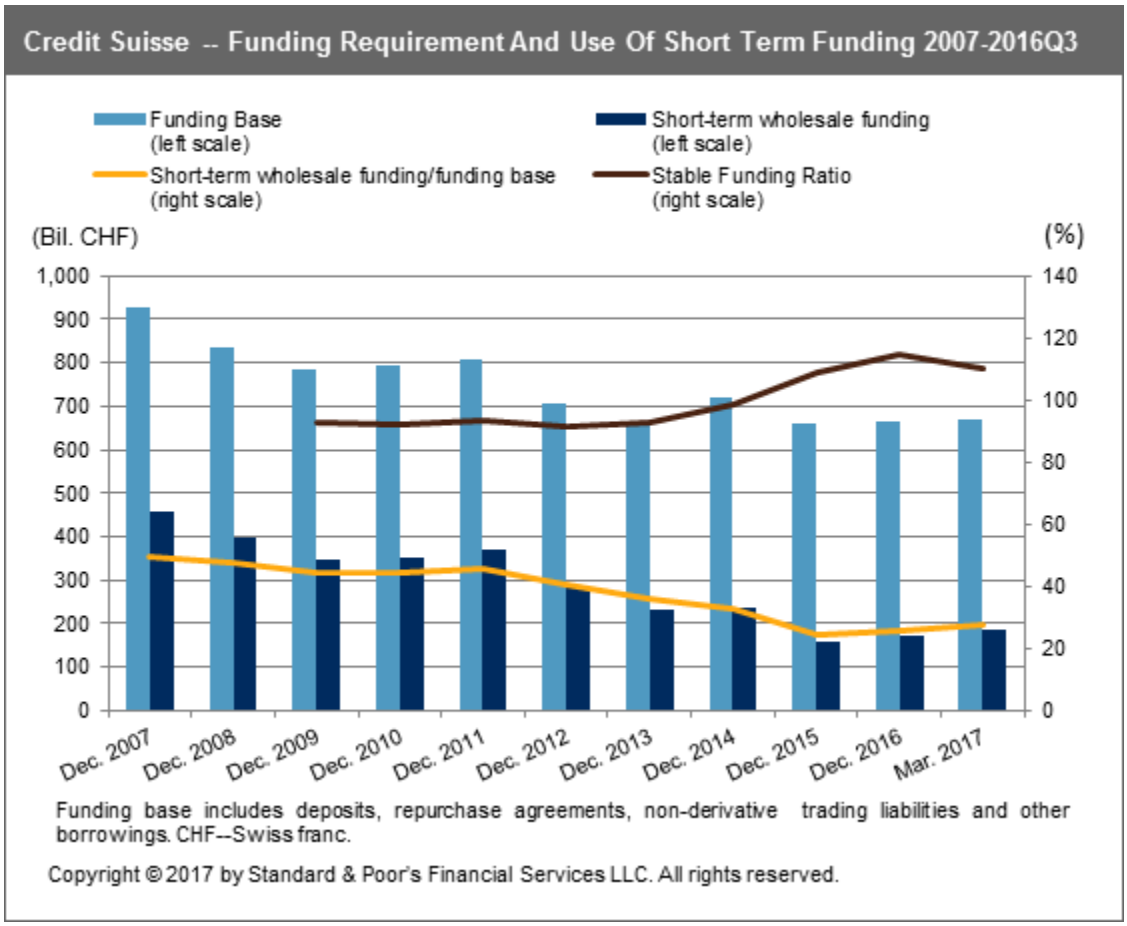
Table 6

Credit Suisse Group AG Funding And Liquidity

		--Year-ended Dec. 31--			
(%)	**2017***	**2016**	**2015**	**2014**	**2013**
Core deposits/funding base	47.9	46.8	46.4	44.1	45.4
Customer loans (net)/customer deposits	85.6	87.5	88.2	84.6	81.5
Long term funding ratio	74.4	76.0	77.5	69.0	66.7
Stable funding ratio	110.3	114.8	108.6	98.3	92.6
Short-term wholesale funding/funding base	27.5	25.7	24.3	33.1	35.8
Broad liquid assets/short-term wholesale funding (x)	1.7	1.9	1.8	1.5	1.5
Net broad liquid assets/short-term customer deposits	90.3	50.7	44.6	35.4	36.8
Short-term wholesale funding/total wholesale funding	51.0	46.9	43.8	57.4	63.6
Narrow liquid assets/3-month wholesale funding (x)	2.1	2.4	2.2	1.7	1.6

*Data as of March 31.

Chart 8



Despite adequate ratios, there are additional factors that we consider in our assessment of Credit Suisse's funding. We generally consider wealth management deposits to be more sensitive to bank-specific risk than those in mass-market retail banking, given the lack of guaranteed deposits and higher proportion of high net worth and ultra-high net worth individuals in the depositor base. Moreover, we consider the risk from structured funding to be higher, given uncertain maturity, which could significantly shorten the anticipated duration of about 10% of its funding base. 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.

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

We add two notches of uplift to the long-term ICR on Credit Suisse 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, level. 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. We believe that Credit Suisse is subject to a well-defined resolution plan by FINMA due to its status as 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.

In 2016 and first quarter of 2017, Credit Suisse has further added to its ALAC buffers by issuing material amounts of bail-in-able senior unsecured debt at its holding company, CSG. We calculate that its ALAC buffer was 11.7% of risk-weighted assets as of Dec. 31, 2016, up from 11.4% in June 2016 and 8.3% at year-end 2015. Through the holding company, further bail-in instruments of US$4 billion were issued in the first three months of 2017. 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 the group's loss-absorbing capacity will be pre-positioned in a number of material entities, such as its U.S. intermediate holding company or Credit Suisse (Schweiz) AG. Prepositioning could make it more challenging for Credit Suisse to deploy ALAC flexibly in a stress scenario than for banking groups without such requirements. As regulatory requirements and common practices emerge in this area, we may raise or lower these thresholds.

We project that Credit Suisse's ALAC buffer will reach around 17% of S&P Global Ratings' risk-weighted assets by 2019. The projection is underpinned by its requirement to build further regulatory bail-in ("gone concern") capital by 2020 under Swiss banking regulation. In our view, FINMA's TBTF targets will result in higher levels of loss-absorbing instruments for Credit Suisse than for its global peers abiding by the Financial Stability Board's (TLAC) requirements. By 2020, Credit Suisse will have to meet an enhanced leverage ratio requirement of 5.0% for gone concern capital (currently Credit Suisse's binding constraint), or 14.3% on a risk-weighted basis. With a 3.2% gone concern leverage ratio on March 31, 2017 (assuming grandfathering of capital instruments as at Jan. 1, 2020), Credit Suisse has achieved roughly two thirds of its 2020 requirements. It will likely have to raise its gone concern capital mark by a further CHF17 billion by year-end 2019.

Additional Factors

Additional rating factors: Negative adjustment due to weak earnings

We lower the indicative ICR on Credit Suisse downward by one notch to balance Credit Suisse's low earnings --as it emerges from its strategic repositioning-- against its strong capital levels. The 'a+' indicative ICR mainly benefits from three notches of uplift from the high levels of going and gone concern capital. It positions Credit Suisse at the upper end of its peer group and of banks globally excluding certain government-related entities. However, we think that its earnings will remain weaker during 2017 and 2018 compared with many global peers with similar UGCPs. Therefore, we view its financial profile as being commensurate with a lower rating than 'A+'.

Group Ratings: CSG and core subsidiaries

CSG is the group's holding company and parent company of Credit Suisse, which is by far CSG's largest subsidiary. Credit Suisse and its subsidiaries conduct the majority of the group's banking business, and Credit Suisse owns stakes in most other group subsidiaries.

CSG is rated one notch below the unsupported Group Credit Profile (UGCP), which leads to us rating it two notches lower than its core operating companies. This reflects structural subordination as a non-operating 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 TBTF 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. With the ICR on CSG being one notch below the UGCP, our ratings approach on its senior unsecured issuances is consistent with how we rate bail-in bonds by other European banks, where the issuer is an operating group parent bank instead of a holding company. We similarly factor no support into the ratings on the hybrid capital instruments issued by Credit Suisse and its affiliates, and so rate these instruments by notching downward from the UGCP.

We continue to regard the four rated subsidiaries--Credit Suisse (USA) Inc., Credit Suisse Securities (USA) LLC, Credit Suisse Securities (Europe) Ltd., and Credit Suisse International--as core to the group's global operations. Our ratings on these entities are therefore in line with those on Credit Suisse.

We also rate Credit Suisse's New York and Cayman Islands branches at the same level as Credit Suisse. They are not constrained by the respective host sovereign foreign currency ratings, because our ratings on the U.S. sovereign are higher than Credit Suisse and because we regard Cayman Islands as an offshore branch.

We regard Credit Suisse Securities (Moscow) Ltd. as highly strategic subsidiary to the group but we cap our ratings on this entity by the foreign currency long-term sovereign rating on Russia. We rate two highly strategic Mexican subsidiaries--Casa de Bolsa Credit Suisse Mexico and Banco Credit Suisse Mexico--'mxAAA', using our Mexico national scale.

Related Criteria And Research

Related criteria

- 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
- Criteria - Financial Institutions - General: Nonbank Financial Institutions Rating Methodology, Dec. 9, 2014
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- 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: Revised Market Risk Charges For Banks In Our Risk-Adjusted Capital Framework, June 22, 2012
- Criteria - Financial Institutions - Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Criteria - Financial Institutions - Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Criteria - Financial Institutions - Banks: Bank Capital Methodology And Assumptions, Dec. 6, 2010
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010
- 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

- Credit Suisse AG 'A/A-1' Ratings Affirmed On Restructuring Progress; Outlook Stable

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 July 3, 2017)

Credit Suisse Group AG		
Counterparty Credit Rating		BBB+/Stable/NR
Junior Subordinated		BB
Junior Subordinated		BB-
Counterparty Credit Ratings History		
03-Feb-2015	*Foreign Currency*	BBB+/Stable/NR
29-Apr-2014		A-/Negative/NR
02-Jul-2013		A-/Stable/NR
27-Jul-2012		A/Negative/NR
03-Feb-2015	*Local Currency*	BBB+/Stable/NR
29-Apr-2014		A-/Negative/NR
02-Jul-2013		A-/Stable/NR
27-Jul-2012		A/Negative/NR
Sovereign Rating		
Swiss Confederation		AAA/Stable/A-1+
Related Entities		
Banco Credit Suisse Mexico S.A.		
Issuer Credit Rating		
CaVal (Mexico) National Scale		mxAAA/Stable/mxA-1+

Ratings Detail (As Of July 3, 2017) (cont.)	
Casa de Bolsa Credit Suisse Mexico S. A. de C. V.	
Issuer Credit Rating	
CaVal (Mexico) National Scale	mxAAA/Stable/mxA-1+
Credit Suisse AG	
Issuer Credit Rating	A/Stable/A-1
Commercial Paper	
Foreign Currency	A-1
Junior Subordinated	BB+
Senior Unsecured	A
Short-Term Debt	A-1
Subordinated	BBB
Credit Suisse AG (Cayman Islands Branch)	
Issuer Credit Rating	A/Stable/A-1
Credit Suisse AG (New York Branch)	
Issuer Credit Rating	A/Stable/A-1
Senior Unsecured	A
Short-Term Debt	A-1
Credit Suisse International	
Issuer Credit Rating	A/Stable/A-1
Senior Unsecured	A
Short-Term Debt	A-1
Credit Suisse Securities (Europe) Ltd.	
Issuer Credit Rating	A/Stable/A-1
Credit Suisse Securities (Moscow) Ltd.	
Issuer Credit Rating	BB+/Positive/B
Credit Suisse Securities (USA) LLC	
Issuer Credit Rating	A/Stable/A-1
Credit Suisse (USA) Inc.	
Issuer Credit Rating	A/Stable/A-1
Commercial Paper	
Local Currency	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.

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