NEWS RELEASE

Oct 04, 2017

R&I Assigns A, Negative: Credit Suisse Group AG

Rating and Investment Information, Inc. (R&I) has announced the following:

ISSUER: **Credit Suisse Group AG**
Issuer Rating: A, Assigned
Rating Outlook: Negative

RATIONALE:

Credit Suisse Group AG is a holding company for the Credit Suisse Group, one of the two major financial groups in Switzerland. The Group has a robust franchise in asset management and wealth management for high-net-worth clients, and also enjoys high competitiveness in investment banking services. Its asset quality is sound and liquidity risk is small. However, the Group reported a net loss for two consecutive years, which is mainly attributable to litigation expenses. If the stagnation of the earning capacity is prolonged or the risk resilience weakens further, maintaining the rating will be difficult. The Rating Outlook is therefore Negative. R&I will pay attention to improvements in the Group's earnings.

The rating for the holding company reflects a one notch down for what R&I considers as structural subordination of holding companies and risks inherent to holding companies under the Swiss resolution regime assuming the application of a bail-in (absorption of losses by shareholders, unsecured creditors, etc.) and other factors.

In December 2016, the Group updated its cost reduction program. It intends to save net cost by more than CHF 4.2 billion and reduce the cost base to less than CHF 17 billion by end-2018. Although the Group's profits were maintained in the first half of 2017, restructuring expenses and a loss in the Strategic Resolution Unit, which is expected to continue handling non-core businesses until 2018, put a downward pressure on the entire Group's earnings. While steadily implementing its cost reduction program, the Group needs to fully restore its earning capacity through efforts such as enhancement of the quality of profits in the Global Markets Division and increase of operating assets.

The credit cost ratio and the non-performing loan ratio are at low levels. The impaired loans/gross loans ratio at end-December 2016 was almost the same as a year earlier, and the ratio at end-June 2017 was somewhat lower compared to early this year. As of end-December 2016, 97% of the aggregate Swiss residential mortgage loan portfolio had a loan-to-value ratio equal to or lower than 80%. Given this, an impact of a potential fall in property prices is considered limited. Eyes should be on, however, indirect impacts of the stagnant domestic economy and other factors.

The risk resilience requires improvement, given the current rating. As a result of capital raises, the Group's capital was enhanced ahead of its original plan. Even so, there is concern that the earning capacity may remain stagnant or the risk resilience may be weakened by capital erosion, because of, for example, the deterioration of the market environment and a revenue fall stemming from business restructurings. Constant attention needs to be paid.

The loan to deposit ratio is sound at less than 80% as of end-June 2017. The liquidity coverage ratio (LCR) of 165% (the average for 2Q 2017) far exceeds a minimum LCR of 110% required by the Swiss Financial Market Supervisory Authority. Liquidity concern is small.

The primary rating methodologies applied to this rating are provided at "R&I's Basic Methodology for Corporate Credit Ratings", "Shared Rating Approach for Financial Institutions, etc.", "Depository Financial Institutions" and "R&I's Analytical Approach to Financial Groups". The methodologies are available at the web site listed below, together with other rating methodologies that are taken into consideration when assigning the rating.

https://www.r-i.co.jp/en/rating/about/rating_method.html

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R&I RATINGS:

ISSUER:	**Credit Suisse Group AG**
	Issuer Rating
RATING:	**A, Assigned**
RATING OUTLOOK:	**Negative**

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