Nov 22, 2018

## R&I Affirms A, Changes Outlook to Stable: Credit Suisse Group AG

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

**ISSUER:** **Credit Suisse Group AG**
**Issuer Rating: A, Affirmed**
**Rating Outlook: Stable, Changed from 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 there is no liquidity concern. By reducing dependence on markets activities, the Group has improved earnings stability. Moreover, its risk resilience has recovered. In light of these factors, R&I has affirmed the Issuer Rating at A and changed the Rating Outlook to Stable. The rating for the holding company reflects a one notch reduction 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 2017, the Group reported an after-tax loss due principally to the U.S. tax reform, but moved into profitability at a pre-tax level. The restructuring of the Global Markets division made it less dependent on earnings from markets activities, leading to higher earnings stability. The cost reduction program for 2016 through 2018 calls for net cost savings of more than CHF 4.2 billion, of which CHF 4.0 billion was achieved by end-September 2018. A target adjusted operating cost base (operating expenses excluding the effects of foreign exchange rate fluctuations and other factors) for end-2018 is set at less than CHF 17.0 billion. The Group intends to operate with adjusted operating expenses of CHF 16.5 billion to CHF 17.0 billion in 2019 and 2020. Of the cumulative restructuring expenses of CHF 2.0 billion that are expected to be incurred by end-2018, around CHF 1.8 billion was already recognized. A pre-tax loss in the Strategic Resolution Unit (SRU), which consolidated non-strategic businesses in accordance with a new management strategy launched in 2015, is projected to remain large at about US$1,400 million for 2018, but for 2019, the initial pre-tax loss target of US$800 million was improved to US$500 million.

The credit cost ratio and the non-performing loan ratio are low. The gross impaired loans/gross loans ratio is stable at a modest level, staying broadly flat year on year at end-September 2018. Furthermore, gross impaired loans in the SRU decreased. The Group's risk resilience has recovered, mainly driven by a reduction in risk-weighted assets of the SRU and an improvement in earning capacity. As of end-September 2018, the going concern common equity tier 1 capital ratio was 12.8% based on the Swiss systemically relevant bank (SRB) framework. The going concern leverage ratio was 5.1%, and the gone concern leverage ratio was 4.3%, both on a fully applied basis. The Group needs to meet 5% going and gone concern leverage ratio requirements by 2020. In R&I's view, it is manageable for the Group to replace existing debt with total loss-absorbing capacity (TLAC)-eligible debt in order to fulfill the gone concern capital requirement.

There is no particular problem with liquidity. The loan to deposit ratio is broadly sound, in the lower 80% range as of end-September 2018. The average liquidity coverage ratio (LCR) for 3Q (July-September) 2018 was 202%, far exceeding a minimum LCR of 100% required by the Swiss Financial Market Supervisory Authority. The Group maintains a conservative level to ensure that the entire Group, including subsidiaries, can meet LCR requirements.

Credit Suisse International is a U.K.-based subsidiary of the Credit Suisse Group. Because it has a strong unity with the Group, the ratings for the MTN programs listed below directly reflect the creditworthiness of the entire Group.

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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

**R&I RATINGS**

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| **ISSUER:** | **Credit Suisse Group AG** |
| | **Issuer Rating** |
| **RATING:** | **A, Affirmed** |
| **RATING OUTLOOK:** | **Stable, Changed from Negative** |
| | |
| **ISSUER:** | **Credit Suisse International** |
| | **Debt Issuance Prog. (MTN Prog.)** |
| **SUPPORT:** | Unsecured |
| **RATING:** | **A+, Affirmed** |
| | |
| | **Joint Unlisted Securities Prog. (MTN Prog.)** |
| **SUPPORT:** | Unsecured |
| **RATING:** | **A+, Affirmed** |

A credit rating for a medium-term note (MTN) program is assigned to the program and not to individual notes issued under the program. The credit rating of individual notes is generally the same as that of the program. As regards credit-linked notes, index-linked notes or other notes, however, there are some cases where the rating on each note will not be on par with the program or no rating will be assigned, depending on the details of the individual note contract. Upon the issuer's request, R&I may assign a credit rating to individual notes issued under the program.