FITCH AFFIRMS CREDIT SUISSE AT 'A'; OUTLOOK STABLE

Fitch Ratings-London-19 May 2015: Fitch Ratings has affirmed Credit Suisse AG's Long-term Issuer Default Rating (IDR) and senior debt ratings at 'A', Short-term IDR and debt ratings at 'F1' and its Viability Rating (VR) at 'a'. The Outlook on the Long-term IDR is Stable. At the same time, Fitch has affirmed the ratings of Credit Suisse's holding company (Credit Suisse Group AG) and subsidiaries. A full list of rating actions is available at the end of this rating action commentary.

The rating affirmations are in conjunction with Fitch's review of sovereign support for banks globally, which the agency announced in March 2014. In line with its expectations announced in March last year and communicated regularly since then, Fitch believes legislative, regulatory and policy initiatives have substantially reduced the likelihood of sovereign support for US, Swiss and European Union commercial banks.

As a result, Fitch believes that, in line with our Support Rating (SR) definition of '5', extraordinary external support while possible can no longer be relied upon for Credit Suisse. We have, therefore, downgraded its SR to '5' from '1' and revised its Support Rating Floor (SRF) to 'No Floor' from 'A'. Credit Suisse's Long-term IDR is driven by its VR and is therefore not affected by today's actions on the bank's SR and SRF.

The ratings actions are also part of a periodic portfolio review of the Global Trading and Universal Banks (GTUBs), which comprise 12 large and globally active banking groups. A strong rebound in earnings from securities businesses in 1Q15 is a reminder of the upside potential banks with leading market shares can enjoy. However, regulatory headwinds remain strong, with ever higher capital requirements, costs of continuous infrastructure upgrades and a focus on conduct risks.

As capital and leverage requirements evolve, GTUBs are reviewing the balance of their securities operations with other businesses and adapting their business models to provide the most capital-efficient platforms for the future. We expect the GTUBs' other core businesses, including retail and corporate banking, wealth and asset management, to perform well as economic growth, which we expect to be strongest in the US and UK, will underpin revenue. However, pressure on revenue generation in a low interest-rate environment is likely to persist, particularly in Europe, but low loan impairment charges in domestic markets should help operating profitability.

KEY RATING DRIVERS - VR, IDRs AND SENIOR DEBT

Credit Suisse's IDRs are driven by the bank's standalone strength as reflected in its VR. Credit Suisse's business model and its capital/leverage position remain key drivers of its VR.

The VR benefits from Credit Suisse's strong and stable franchise in global wealth management and, to a lesser extent, from its solid asset management and Swiss domestic and retail banking franchises. Credit Suisse is committed to allocating additional capital to its non-investment banking franchise with the aim of achieving a balanced split of risk-weighted assets (RWA) between its investment banking and non-investment banking business (roughly 60:40 at end-1Q15) which is in our view positive for Credit Suisse's risk profile and the quality of its earnings base.

Credit Suisse's VR also reflects management's commitment to maintaining sizeable and global investment banking operations whose risk positions and earnings base are, in our view, more volatile than for commercial banks. In addition, while exposure to non-core activities (largely from investment banking) was substantially reduced in 2014 and 1Q15, Credit Suisse remains -similar to its GTUB peers - exposed to litigation and conduct risk.

Credit Suisse's revised leverage ratio targets, including a fully-loaded Basel III Tier 1 leverage ratio target of 4% by end-2015 (3.6% at end-1Q15) are supportive of its VR. While its core capitalisation as expressed in its common equity Tier 1 ratio (10% at end-1Q15) has improved by about 200 basis points in the last two years (8% at end-2012), it remains at the lower end of its GTUB peer group. However, overall capitalisation benefits from substantial buffers of subordinated debt, which accounted for around 8.5% of look-through RWA at end-1Q15 and has largely been factored into its VR because of regulatory recognition.

Credit Suisse's strategy is transparent and strategic adjustments, as with the establishment of non-core units, have been clearly communicated and soundly executed. The bank's VR reflects our view that this will remain the case under Credit Suisse's new CEO who will take office in June.

We view Credit Suisse's overall risk controls and underwriting standards as sound. Domestic asset quality has remained strong despite a slowdown of the Swiss economy. Investment banking exposures, which can be sizeable, are adequately controlled and typically short-term.

Similar to most GTUB peers, Credit Suisse lags its profitability targets (which include a return on equity of 15%; 10% in 1Q15). However, the bank has a sound track record in meeting its cost-cutting targets and additional cost saving measures announced in April 2015 should support overall profitability. In addition, the earnings drag from its non-strategic units should reduce. For the remainder of 2015, revenue generation will, in our view, continue to be challenging, both in wealth management and most investment banking businesses. Investment banking revenue in 1Q15 benefited from improved market conditions and seasonality effects (see 'Fitch: Robust 1Q15 at Credit Suisse; RWA Cuts Challenging, published 22 April 2015).

Credit Suisse's VR also reflects the bank's diversified funding and sound liquidity profile. It factors in our expectation that the bank will be able to continue running a central liquidity model despite increasing regulatory demands on legal entity-specific liquidity requirements.

The Stable Outlook on Credit Suisse's Long-term IDR reflects our expectation that the bank will achieve its financial targets, including its revised leverage ratio target, that earnings volatility in its investment bank will remain moderate and that any incremental litigation- or conduct-related charges will not significantly affect capital and leverage ratio build-up.

RATING SENSITIVITIES - VR, IDRs AND SENIOR DEBT

Among the GTUBs, we expect Credit Suisse to remain more reliant on its securities business franchise, which limits upside potential for its VR.

Downside risk to Credit Suisse's VR is also limited given the bank's well-defined strategy, overall risk appetite as well as its sound risk control framework. In addition, its revised leverage ratio targets make a substantial increase in its risk appetite unlikely in the medium-term.

However, one or several of the following developments could put pressure on Credit Suisse's VR:

-Increasing reliance on its strong leveraged loans and securitised products business, such as a material increase in risk appetite in these businesses, including loosening underwriting standards;

-Despite its more narrow investment banking franchise, we expect investment banking earnings to be adequately diversified to generate sufficient profitability in most market conditions. Should earnings or risk volatility in the investment bank be higher than expected by us, this would be negative for the bank's VR;

-We expect Credit Suisse's leverage and capital ratios to improve further in 2015 and 2016. Any significant slippage in progressing towards its leverage ratio target or a meaningful increase in RWA, eg following a recalibration of internal ratings-based models, could be VR-negative;

-Higher-than-expected litigation or conduct costs leading to additional related charges in a given quarter in excess of two quarters' pre-tax profit.

Fitch equalises Credit Suisse's VR and Long-term IDR despite significant layers of subordinated debt. However, the same reason could ultimately lead to a one notch uplift of Credit Suisse's Long-term IDR relative to its VR if common equity capitalisation improves. This is largely because Credit Suisse's subordinated debt layers are a key rating driver of its VR (and considering them for IDR uplift would effectively be double-counting) but also because Fitch does not have sufficient visibility on Credit Suisse's final capital and liability structure until (global) regulatory requirements regarding debt and legal entity structures have been finalised.

KEY RATING DRIVERS AND SENSITIVITIES - SR AND SRF

The SR and SRF reflect Fitch's view that senior creditors can no longer rely on receiving full extraordinary support from the sovereign in the event that Credit Suisse becomes non-viable. In Fitch's view, Swiss legislation and regulation to address the 'too big to fail' problem for the two big Swiss banks are now sufficiently progressed to provide a framework for resolving banks that is likely to require senior creditors participating in losses, if necessary, instead of or ahead of a bank receiving sovereign support.

Any upgrade to the SR and upward revision to the SRF would be contingent on a positive change in the sovereign's propensity to support its banks. While not impossible, this is highly unlikely in Fitch's view.

KEY RATING DRIVERS AND SENSITIVITES - SUBORDINATED DEBT AND OTHER HYBRID SECURITIES

Subordinated debt and other hybrid securities issued by Credit Suisse, Credit Suisse Group AG and by various issuing vehicles are all notched down from the VRs of Credit Suisse or Credit Suisse Group AG in accordance with Fitch's assessment of each instrument's respective non-performance and relative loss severity risk profiles, which vary considerably.

Subordinated debt and other hybrid capital ratings are primarily sensitive to a change in the VRs of Credit Suisse or Credit Suisse Group AG. The securities' ratings are also sensitive to a change in their notching, which could arise if Fitch changes its assessment of the probability of their non-performance relative to the risk captured in the issuers' VRs. This may reflect a change in capital management in the group or an unexpected shift in regulatory buffer requirements, for example.

KEY RATING DRIVERS AND SENSITIVITIES - HOLDING COMPANY

Credit Suisse Group AG's IDRs and VR are equalised with those of Credit Suisse and reflect its role as the bank holding company and modest double leverage at end-2014 at holding company level (around 106% according to our calculation, well within our usual notching threshold of 120%).

In 1Q15, Credit Suisse started issuing total loss absorbing capacity (TLAC) debt out of an entity guaranteed by its holding company whose terms include an acknowledgement of Swiss resolution powers including the partial or full write-down and cancellation of interest and/or principal. This is in line with the Swiss regulator's preference for a single-point-of-entry resolution approach. Given our expectation for further significant TLAC issuance linked to the holding company, the gradual build-up of this additional buffer for the operating bank's senior creditors could affect the relative positions of creditors of the holding company and of the operating bank.

Credit Suisse Group AG's SR and SRF reflect Fitch's view that support from the Swiss authorities for the holding company is possible, but cannot be relied on, primarily because of the holding company's low systemic importance on a standalone basis but also taking into account progress with Swiss legislation and regulation addressing 'too big to fail' banking groups. As the SRF is 'No Floor', the holding company's Long-term IDR is driven solely by its VR and is therefore primarily sensitive to the same drivers as Credit Suisse's VR.

TLAC senior notes are rated in line with Credit Suisse Group AG's Long-term IDR and are therefore primarily sensitive to a change to the Long-term IDR, in particular increasing double leverage (see above).

KEY RATING DRIVERS AND SENSITIVITIES - SUBSIDIARY AND AFFILIATED COMPANY

Credit Suisse International (CSI) is a UK-based wholly-owned subsidiary of Credit Suisse Group AG, and Credit Suisse (USA) Inc. (CSUSA) is the group's main US-based broker-dealer. Their IDRs are equalised with Credit Suisse's and reflect support from their parent, as we view them as core to the group's strategy in its investment banking business and integrated into the group's securities operations.

The IDRs of Credit Suisse New York branch are at the same level as those of Credit Suisse as the branch is part of the same legal entity without any country risk restrictions.

CSI is incorporated as an unlimited liability company, which underpins Fitch's view that there is an extremely high probability that it would receive support from its parent, if needed.

In 2007, CSUSA's parent companies (Credit Suisse and Credit Suisse Group AG) issued full, unconditional and several guarantees for the company's outstanding SEC-registered debt securities, which in Fitch's opinion demonstrates the important role of the subsidiary and the extremely high probability that it would be supported, if needed.

As CSI's and CSUSA's IDRs are equalised with Credit Suisse's, they are primarily sensitive to changes in the parent's IDR. The subsidiaries' IDRs are also sensitive to changes in the parent's propensity to provide support, which Fitch currently does not expect. In addition, while we expect Credit Suisse's legal entity structure to evolve in the short- to medium-term, we do not expect Credit Suisse's propensity to support its main subsidiaries to change as a result.

The rating actions are as follows:

Credit Suisse:
Long-term IDR: affirmed at 'A', Outlook Stable
Short-term IDR: affirmed at 'F1'
Viability Rating: affirmed at 'a'
Support Rating: downgraded to '5' from '1'
Support Rating Floor: revised to 'No Floor' from 'A'
Senior unsecured debt (including programme ratings): affirmed at 'A'/'F1'
Senior market-linked notes: affirmed at 'Aemr'
Subordinated lower Tier 2 notes: affirmed at 'A-'
Subordinated notes: affirmed at 'BBB+'
Tier 1 notes and preferred securities: affirmed at 'BBB-'

Credit Suisse Group AG
Long-term IDR: affirmed at 'A', Outlook Stable
Short-term IDR: affirmed at 'F1'
Viability Rating: affirmed at 'a'
Support Rating: affirmed at '5'

Support Rating Floor: affirmed at 'No Floor'
Senior unsecured debt (including programme ratings): affirmed at 'A'/'F1'
Senior market-linked notes: affirmed at 'Aemr'
Subordinated notes: affirmed at 'A-'
Additional Tier 1 notes: affirmed at 'BB+'
Preferred stock (ISIN XS0148995888): affirmed at 'BBB'
Preferred stock (ISIN XS0112553291 and JPY30bn issue): affirmed at 'BBB-'

Credit Suisse International:
Long-term IDR: affirmed at 'A', Outlook Stable
Short-term IDR: affirmed at 'F1'
Support Rating: affirmed at '1'
Senior unsecured debt (including debt issuance and CP programme ratings): affirmed at 'A'/'F1'
Dated subordinated notes: affirmed at 'A-'
Perpetual subordinated notes: affirmed at 'BBB'

Credit Suisse (USA) Inc.:
Long-term IDR: affirmed at 'A', Outlook Stable
Short-term IDR: affirmed at 'F1'
Support Rating: affirmed at '1'
Senior unsecured debt (including programme ratings): affirmed at 'A'
Commercial paper programme: affirmed at 'F1'
Subordinated notes: affirmed at 'A-'

Credit Suisse NY (branch):
Long-term IDR: affirmed at 'A', Outlook Stable
Short-term IDR: affirmed at 'F1'
Senior unsecured debt (including programme ratings): affirmed at 'A'
Commercial paper programme: affirmed at 'F1'
Senior market-linked notes: affirmed at 'Aemr'

Credit Suisse Group Funding (Guernsey) Limited
Senior unsecured notes (with TLAC language): affirmed at 'A'/'F1'

Credit Suisse Group (Guernsey) I Limited
Tier 2 contingent notes: affirmed at 'BBB-'

Credit Suisse Group (Guernsey) II Limited
Tier 1 buffer capital perpetual notes: affirmed at 'BB+'

Credit Suisse Group (Guernsey) IV Limited
Tier 2 contingent notes: affirmed at 'BBB-'

Contact:

Primary Analyst
Christian Kuendig
Senior Director
+44 20 3530 1399
Fitch Ratings Limited
30 North Colonnade
London E14 5GN

Secondary Analyst

Bridget Gandy
Managing Director
+44 20 3530 1095

Committee Chairperson
Christopher Wolfe
Managing Director
+1 212 908 0771

Media Relations: Elaine Bailey, London, Tel: +44 203 530 1153, Email: elaine.bailey@fitchratings.com.

Additional information is available on www.fitchratings.com

Applicable criteria, Global Bank Rating Criteria, 20 March 2015, are available on www.fitchratings.com.

Applicable Criteria and Related Research:
Global Bank Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=863501