FITCH AFFIRMS CREDIT SUISSE AT 'A'; OUTLOOK POSITIVE

Fitch Ratings-London-08 December 2015: Fitch Ratings has affirmed Credit Suisse AG's (Credit Suisse) Long-term Issuer Default Rating (IDR) and Viability Rating (VR) at 'A' and 'a', respectively. At the same time, Fitch has affirmed the ratings of Credit Suisse's holding company (Credit Suisse Group AG; CSGAG) and Credit Suisse's subsidiaries.

The Outlook on the Long-term IDRs of Credit Suisse and Credit Suisse New York branch remains Positive. The Outlook on Credit Suisse's rated subsidiaries as well as on CSGAG's Long-term IDR is Stable. A full list of rating actions is available at the end of this rating action commentary.

The rating actions have been taken in conjunction with Fitch's periodic review of the Global Trading and Universal Banks (GTUBs), which comprises 12 large and globally active banking groups. Fitch's outlook for the GTUBs is stable as we expect the stable outlook for the groups' commercial banking and wealth and asset management businesses in 2016 to mitigate pressure on earnings from capital markets activities, particularly in fixed income trading.

As globally active universal banks, the 12 GTUBs are among the most affected by evolving regulation, which is bringing capital and resource constraints to some businesses. This means that business models are being adjusted. Specific changes and their timing vary by bank. In the medium term, we believe that the GTUBs with the strongest franchises in their core businesses, sound business models and clear strategies are best placed in this environment, and these company profiles are an important rating factor for many of the GTUBs.

The Positive Outlook primarily reflects our view that due to a build-up of substantial buffers of qualifying junior debt, including around CHF15bn total loss absorbing capacity (TLAC) debt issued indirectly out of the holding company, default risk of senior creditors at Credit Suisse (but not CSGAG) could become lower than the risk of the bank failing (as reflected in its VR). This could lead to a one-notch uplift of the Long-term IDRs above the VR over the next 12-24 months (see 'Fitch Affirms Credit Suisse; Revises CS AG to Positive Outlook' published on 23 October 2015 and available on www.fitchratings.com for further detail).

KEY RATING DRIVERS

VR

Credit Suisse's business model and capitalisation/leverage are key drivers of the bank's VR. We expect that under the bank's recently revised medium-term strategy, the securities and other investment banking businesses will continue to account for more than half of Credit Suisse's risk-weighted assets (RWAs) and leverage exposure. This exposes the bank, in our view, to additional earnings and risk exposure volatility and constrains its VR at the current level of 'a'.

Credit Suisse's 4Q15 CHF6bn capital increase has brought risk-weighted capital and leverage ratios more in line with the bank's GTUB peer group and strengthened its core capitalisation. Its end-2017 leverage ratio targets include a buffer above the revised end-2019 Swiss leverage ratio requirements (3.5%-4% CET1 leverage ratio compared with the 3.5% minimum requirement; 5.0%-6% Tier 1 leverage ratio compared with the current requirement of 5%).

The VR also reflects Credit Suisse's sound risk controls and underwriting standards, strong domestic asset quality, adequate funding and sound liquidity profile. Similar to its GTUB peers, we expect the bank to remain exposed to significant litigation and conduct risks.

IDRs AND SENIOR DEBT

Credit Suisse's and CSGAG's IDRs are currently equalised with Credit Suisse's VR. The Positive Outlook on Credit Suisse's Long-term IDR reflects our expectation that following the capital increase, Credit Suisse's common equity capitalisation is sufficiently strong to support its 'a' VR without considering the significant subordinated debt layers Credit Suisse has built up in recent years. This will mean that the subordinated debt layer will be available to support a one-notch uplift of Credit Suisse's Long-term IDR relative to its VR.

SUPPORT RATING AND SUPPORT RATING FLOOR

Credit Suisse's Support Rating (SR) and Support Rating Floor (SRF) reflect our view that senior creditors of both the holding and the operating banks can no longer rely on receiving full extraordinary support from the sovereign in the event that Credit Suisse becomes non-viable largely due to progress made in Swiss legislation and regulation to address the 'too big to fail' problem for the two large Swiss banks.

SUBORDINATED DEBT AND OTHER HYBRID SECURITIES

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

Subordinated lower Tier 2 debt is rated one notch below the VR for loss severity, reflecting below-average recoveries.

Low trigger contingent capital Tier 2 notes are rated two notches below the VR, reflecting loss severity, due to contractual full and permanent write-down language.

Upper Tier 2 instruments are rated three notches below the VR, including one notch for loss severity and two notches for incremental non-performance risk reflecting cumulative coupon deferral.

High trigger contingent capital Tier 2 notes are rated four notches below the VR. The notes are notched down twice for loss severity, reflecting poor recoveries as the instruments can be converted to equity or written down well ahead of resolution. In addition, they are notched down twice for high non-performance risk, as the trigger can result in contractual loss absorption ahead of non-viability.

Legacy Tier 1 securities are rated four notches below the VR, comprising two notches for high loss severity relative to average recoveries, and two further notches for non-performance risk, reflecting that coupon omission is partly discretionary.

High and low trigger contingent capital Tier 1 instruments are rated five notches below the VR. The issues are notched down twice for loss severity, reflecting poor recoveries as the instruments can be converted to equity or written down well ahead of resolution. In addition, they are notched down three times for very high non-performance risk, reflecting fully discretionary coupon omission.

HOLDING COMPANY

CSGAG's Long-term IDR is based on the holding company's VR and is equalised with Credit Suisse's. This reflects CSGAG's role as the bank holding company and modest double leverage at holding company level (106% at end-3Q15, well within our usual notching threshold of 120%).

TLAC-eligible senior unsecured debt issued by Credit Suisse Group Funding (Guernsey) Limited and guaranteed by CSGAG is rated in line with the IDR of the guarantor.

SUBSIDIARY AND AFFILIATED COMPANY

The Stable Outlooks on CSI and CSUSA take into account that the amount of junior debt buffers to be downstreamed to those entities and the timing of this is unclear at this stage. Credit Suisse International (CSI) is a UK-based wholly owned subsidiary of CSGAG, and Credit Suisse (USA) Inc. (CSUSA) is the holding company of the group's main US-based broker-dealer. We view these entities as core to Credit Suisse's strategy and their IDRs are equalised with Credit Suisse's. 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. CSUSA benefits from a guarantee, put in place in 2007, by both Credit Suisse and CSGAG for its outstanding SEC-registered debt securities, which indicates in our view an extremely high support probability.

RATING SENSITIVITIES

VR

In the short- to medium-term, Credit Suisse's VR is primarily sensitive to a successful execution of its strategic plan, notably with regard to cost-saving targets, expected revenue improvement and the winding down of exposures (largely from its downsized global macro and prime brokerage businesses) in its newly established strategic resolution unit.

We believe Credit Suisse will remain more reliant on its securities business franchise than its higher-rated peers, which limits upside potential for its VR.

Downside risk to Credit Suisse's VR is also limited. However, one or several of the following developments could put pressure on Credit Suisse's VR.

-Significant slippage in implementing cost savings measures announced as part of its strategic plan as well as insufficient revenue improvements, notably in its capital-intensive global markets (formerly its sales and trading division) as well as Asia-Pacific divisions.
-Higher-than-expected earnings volatility in its restructured investment bank or increasing reliance on its strong leveraged loans and securitised products business.
-Significant slippage in achieving its revised Swiss leverage and TLAC requirements.
-Higher-than-expected litigation or conduct costs leading to additional related charges in a given quarter in excess of two quarters' pre-tax profit.

IDRs AND SENIOR DEBT

As Credit Suisse's IDRs and VR are currently equalised, its Long-term IDR is primarily sensitive to changes in its VR. An upgrade of Credit Suisse's (and its New York branch's) Long-term IDRs is contingent on our assessment of the permanence of qualifying junior debt buffers available to senior creditors following the capital increase as well as Credit Suisse's general capital and funding plan under the revised Swiss leverage framework.

Based on our assumed intervention point (at a CET1 ratio of around 6%) and post-resolution recapitalisation point of above 14.3% (the envisaged Tier 1 capital requirement for Credit Suisse under the revised rules), a one-notch uplift of the Long-term IDR relative to the VR would be contingent on qualifying junior debt buffer being at least 9%. Based on our calculations, the parent bank's junior debt buffer (excluding around 2% legacy subordinated debt) stood at around 11.5% in early December 2015. Total going and gone concern TLAC post capital increase will amount to around 25% of RWAs and 6.7% of leverage exposure. This indicates that the bank will have to generate around CHF30bn additional TLAC (largely gone concern TLAC) to meet its 10% TLAC leverage requirement. Based on 11M15 issuance volumes (around CHF15bn), this could be achieved within the next 12-24 months.

Failure to execute successfully on the planned restructuring, including not meeting capital targets, or a material reduction in the size of the qualifying junior debt buffer would lead to a revision of the Outlook to Stable, or further negative rating action. The Outlook is also sensitive to changes in assumptions on the Swiss authorities' resolution intervention point, post-resolution capital needs for Swiss GTUBs and the development of resolution planning more generally.

SUPPORT RATING AND SUPPORT RATING FLOOR
An 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. This is highly unlikely in our view, though not impossible.

SUBORDINATED DEBT AND OTHER HYBRID SECURITIES
Subordinated debt and other hybrid capital ratings are primarily sensitive to a change in the VRs of Credit Suisse or CSGAG. 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.

HOLDING COMPANY
Similar to Credit Suisse's IDRs, CSGAG's IDRs are equalised with Credit Suisse's VR and therefore primarily sensitive to a change in its VR. The Stable Outlook on CSGAG's Long-term IDR reflects our view that qualifying junior debt buffers at the CSGAG level are unlikely to be sufficient to allow us to notch up the IDR relative to the VR over the next 12-24 months.

CSGAG'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. 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 CSGAG's Long-term IDR and are therefore primarily sensitive to a change to the Long-term IDR, in particular increasing double leverage (see above).

SUBSIDIARY AND AFFILIATED COMPANIES
The Positive Outlook on Credit Suisse New York branch reflects that of the parent bank, underlining our view that senior creditors of the branch would be treated identically to senior creditors of the parent bank.

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.

More clarity about the ultimate TLAC prepositioning requirements at these entities could lead us to revise the Outlook on CSI and CSUSA to Positive from Stable assuming we view local TLAC buffers as sufficient to provide additional senior creditor protection.

The rating actions are as follows:

Credit Suisse:
Long-term IDR: affirmed at 'A'; Outlook Positive
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 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'

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-'

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 Positive
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 (pub. 20 Mar 2015)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=863501
Global Non-Bank Financial Institutions Rating Criteria (pub. 28 Apr 2015)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=865351