FITCH AFFIRMS CREDIT SUISSE; REVISES CS AG TO POSITIVE OUTLOOK

Fitch Ratings-London-23 October 2015: Fitch Ratings has affirmed the Long-Term Issuer Default Rating (IDR) and Viability Rating (VR) of Credit Suisse AG (Credit Suisse) 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 Outlooks on the Long-Term IDRs of Credit Suisse and Credit Suisse New York branch have been revised to Positive from Stable. The Outlooks on Credit Suisse's rated subsidiaries as well as on CSGAG's Long-Term IDR are Stable. A full list of rating actions is at the end of this rating action commentary.

The revision of Credit Suisse's Outlook to Positive follows the publication of Credit Suisse's revised strategy on 21 October 2015, which includes a CHF6bn capital raise, a restructuring of the investment bank and revised leverage ratio targets.

The Positive Outlook reflects our expectation that following the announced capital increase and based on the bank's current capital planning, a substantial junior debt buffer is likely to be freed up that could benefit senior creditors at the parent bank in the event of group resolution. This assumes that the strategic plan does not fall significantly off course and requires the capital being raised to absorb earnings shortfalls. Credit Suisse's qualifying junior debt includes significant amounts of internally downstreamed total loss absorbing capacity (TLAC) debt issued by Credit Suisse's parent, CSGAG, as well as junior debt at both CSGAG and Credit Suisse.

Once qualifying junior debt buffers are fully in place, we believe that the risk of default on senior obligations, as measured by the Long-Term IDR, is lower than the risk of Credit Suisse failing, as measured by its VR. While junior debt buffers at CSGAG will also be substantial, we exclude external TLAC, a reference obligation for CSGAG's IDRs, in our calculation. Consequently, CSGAG's Long-Term IDR is unlikely to benefit from an uplift, which is reflected in its Stable Outlook.

Revised leverage and capital requirements for Switzerland's global systemically important banks (G-SIBs), announced on 21 October 2015, will ensure that junior debt buffers remain permanently in place irrespective of the banks' capital management. By end-2019, Swiss G-SIBs will have to maintain a common equity Tier 1 (CET1) leverage ratio of 3.5% (current requirement: 2.4%), Tier 1 leverage ratio of 5% and TLAC buffers of 5% of leverage exposure. The banks' risk-weighted CET1 ratio requirement will remain unchanged at 10% while the Tier 1 requirement (CET1 plus Tier 1 high-trigger capital instruments) will increase to 14.3%. Going-concern and gone-concern (TLAC) buffers combined will have to amount to 28.6% of risk-weighted assets.

Following the announced capital increase, management expects Credit Suisse's pro forma CET1 leverage to stand at 3.6% and Tier 1 leverage at 4.7%.

KEY RATING DRIVERS

VR

Credit Suisse's VR, a reflection of the bank's standalone strength, is primarily driven by the bank's business model and capital/leverage position. On balance, Credit Suisse's revised strategy - if executed well - is likely to be neutral or mildly positive for its VR. The VR remains sensitive

to a successful execution of its strategic plan, notably with regards to cost- saving targets and anticipated revenue improvement.

Key elements of the revised strategic plan are supportive of the bank's VR. These include the capital increase and the relative shift in capital allocation towards its more stable domestic and solid assets and wealth management businesses - at the expense of its investment bank.

However, the VR will remain constrained by the company profile as long as securities businesses continue to represent a substantial proportion of earnings and capital allocation. This is currently planned once the allocation of investment banking to the new Asia-Pacific segment is included. The additional volatility investment banking brings to Credit Suisse's risk profile and earnings base in relation to higher-rated universal banks was evidenced in the bank's 3Q15 results released on 21 October.

Transfers of leverage exposure (CHF106bn or around 10% of end-3Q15 total leverage exposure) and risk-weighted assets (CHF47bn or 16% of total risk-weighted assets) largely from prime services and macro businesses to a newly established strategic resolution unit are substantial but winding down these positions will take time.

Credit Suisse's goal to reduce its annual operating cost base by around CHF2bn (net of CHF1.5bn growth-related investment) by end-2018 will improve the group's financial flexibility in the medium- to long-term. However, restructuring costs (CHF1.3bn in the three years to end-2018) and costs-to-achieve (CHF0.7bn to CHF1.2bn) will weigh on Credit Suisse's profitability in the short- to medium-term.

3Q15 results were below average with a quarterly return on equity of 7% (11% for 9M15) and highlight the reliance of Credit Suisse's investment bank on a fairly limited range of business lines within its fixed income sales and trading division (now global markets). While its equity division performed well in the quarter (revenue up 3% yoy) and the decline in its underwriting and advisory division (down 30% yoy) was broadly in line with global trading and universal bank (GTUB) peers, revenue in its large fixed income sales and trading division were down sharply by 42% yoy. Many fixed-income revenue drivers, notably securitised products, credit and emerging markets, were hit by particularly challenging operating conditions in the quarter.

Revenue in Credit Suisse's private banking and wealth management division was also down (negative 7% qoq; negative 6% yoy) largely due to lower transaction- and performance-based revenue. However, net new money flows in the quarter remained sound (CHF17.3bn of which CHF10.5bn in wealth management) and operating expenses (excluding litigation charges) were well-controlled (flat qoq and yoy).

The pre-tax loss in Credit Suisse's non-core divisions was sizeable in the quarter (CHF106m in its private banking non-core and CHF407m in its investment banking non-core unit) and remained negatively affected by high litigation expenses.

The planned capital increase will bring Credit Suisse's risk-weighted capital and leverage ratios more in line with its GTUB peer group and will strengthen its core capitalisation. Its end-2017 leverage ratio targets include a small buffer above the revised Swiss leverage ratio requirements. (3.5%-4.0% CET1 leverage ratio compared to 3.5% minimum requirement; 5.0%-6.0% Tier 1 leverage ratio compared to a 5% requirement.)

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

IDRs AND SENIOR DEBT

The Positive Outlook on Credit Suisse's Long-term IDR reflects our expectation that following the capital increase, Credit Suisse's common equity capitalisation will be sufficiently strong to support its 'a' VR without explicitly 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.

In addition, the revised Swiss leverage and TLAC requirements provide transparency around regulatory expectations and ensure that subordinated debt and internal TLAC buffers are likely to remain in place.

CSGAG has issued around CHF13bn of senior TLAC in the eight months to end-August 2015. This has been downstreamed on a subordinated basis (including a contractual subordination clause) to Credit Suisse (London branch). As a result, qualifying junior debt, i.e. existing subordinated debt (excluding legacy subordinated debt that is likely to be called) and internal TLAC buffers available to Credit Suisse senior creditors at end-3Q15 amounted to around 11% of fully-loaded risk-weighted assets, according to our calculations.

We believe that these resources could be made available to protect senior obligations from default in case of failure, either under a resolution process or as part of a private sector solution (such as a distressed debt exchange) to avoid a resolution action.

Absent such a private sector solution, we would expect a resolution action being taken on Credit Suisse when it comes close to breaching minimum capital requirements. Currently, we assume this to be at a CET1 ratio of around 6% (after high-trigger capital instruments but before low-trigger capital instruments have been triggered). We then assume that the regulator would require Credit Suisse to be recapitalised to a CET1 ratio of at least 14.3%. This assumes a restoration of its 10% minimum CET1 ratio as well as its 4.3% Tier 1 high-trigger capital buffer (since the bank post a resolution action would not be in a position to issue capital instruments in the market).

Our view of the regulatory intervention point and post-resolution capital needs taken together suggest a junior debt buffer of at least 9% of risk-weighted assets could be required to restore viability without hitting senior creditors.

SUPPORT RATING AND SUPPORT RATING FLOOR

The SR and SRF reflect Fitch's 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. 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.

HOLDING COMPANY

Credit Suisse Group AG's Long-Term IDR is based on its VR and is equalised with Credit Suisse's. This reflects its role as the bank holding company and modest double leverage at holding company level (at end-2014 around 106% according to our calculation, well within our usual notching threshold of 120%).

TLAC-eligible senior unsecured debt issued by an SPV and guaranteed by CSGAG is rated in line with the IDR of the guarantor.

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 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.

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. 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.

The Positive Outlook on Credit Suisse New York branch reflects our view that senior creditors of the branch would be treated identically to senior creditors of the parent bank. 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 are unclear at this stage.

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 CSGAG) 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.

RATING SENSITIVITIES
VR
Key rating sensitivities for Credit Suisse's VR largely relate to the execution of its new strategic plan (including executing on the announced cost measures), the relative weight of investment banking activities within its business mix and overall risk profile and the development of litigation- or conduct-related charges.

We believe Credit Suisse will remain reliant on its securities business franchise, which limits upside potential for its VR. This is despite a likely drop in capital allocated to investment banking activities under the revised plan.

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.
-Any significant slippage in implementing cost savings measures announced as part of its strategic plan as well as insufficient revenue improvements, notably in its relatively 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.
-Any significant slippage in progressing towards 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. In resolving the Positive Outlook on Credit Suisse's (and its New York branch's) Long-Term IDRs, we will, in particular, assess the permanence of qualifying junior debt

buffers available to senior creditors following the capital increase as well as Credit Suisse's general capital planning under the revised Swiss leverage framework.

A failure to execute well on the restructuring that threw capital targets off course or a material reduction in the size of the qualifying junior debt buffer would lead to a revision of the Outlook back 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 the Swiss GTUBs and the development of resolution planning more generally.

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

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 over the outlook time horizon that given Switzerland's single-point-of-entry approach to bank resolution.

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. This is 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).

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.

SUBSIDIARY AND AFFILIATED COMPANIES
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 Revised to Positive from 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 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 Revised to Positive from 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-'

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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