# FITCH AFFIRMS CREDIT SUISSE AT 'A'; OUTLOOK STABLE

Fitch Ratings-London-13 December 2016: 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 Credit Suisse Group AG (CSGAG), the group's holding company, at 'A-' Long-Term IDR and 'a-' VR. The ratings on Credit Suisse's domestic subsidiary, Credit Suisse (Schweiz) AG (CS Schweiz), have also been affirmed at 'A' Long-Term IDR and 'a' VR.

The Outlooks on Credit Suisse's, CSGAG's and CS Schweiz's Long-Term IDRs are Stable.

In addition, Fitch has assigned Derivative Counterparty Ratings (DCRs) to Credit Suisse AG, Credit Suisse (Schweiz) AG and Credit Suisse International as part of its roll-out of DCRs to significant derivative counterparties in western Europe and the US. DCRs are issuer ratings and express Fitch's view of banks' relative vulnerability to default under derivative contracts with third-party, non-government counterparties.

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 comprise 12 large and globally active banking groups.

KEY RATING DRIVERS
VR, IDRs, DCRs AND SENIOR DEBT
Credit Suisse:
Credit Suisse's VR reflects the bank's strong franchise in wealth management, domestic corporate and retail banking and selected strengths in investment banking, in addition to sound capitalisation, and a diversified funding profile. It also takes into account our expectation that continued strong execution of the group's plan, which envisages CHF4.2bn net cost savings by end-2018 and a reallocation of resources towards capital-light activities, should improve the earnings profile of the bank in the medium term.

The bank's company profile is of high importance for the ratings and balances the earnings generation of a sound, predominantly fee-based global franchise in private banking with the downside of the securities business. The latter's earnings are inherently more volatile than traditional commercial banking, and account for a material portion of the group's risk profile, which limits upside to Credit Suisse's VR. Sales, trading, underwriting and advisory accounted for 45% of group revenues in 9M16. The group's strategy to redeploy resources towards wealth management activities should in the long-term improve Credit Suisse's company profile, but we expect the securities business to remain a material earnings contributor.

Credit Suisse has made good progress towards its strategic targets, as it expects to have achieved CHF1.6bn net cost savings in 2016 compared to the 2015 cost base (constant currency). The bank announced a cost reduction target in December 2016 of CHF1bn by end-2018 further to the previously announced CHF3bn. The bank also exited businesses and activities, which it no longer deemed to be strategic, contributing to a reduction of 26% in the risk-weighted assets (RWA) of its Strategic Resolution Unit (SRU), to CHF53bn. While CHF846m restructuring expenses had been incurred since the group announced its strategy in October 2015, the bank guided for a further CHF0.6bn restructuring expenses in 2017, and we expect performance in the medium-term to remain burdened by restructuring and, to a lesser extent, by non-core asset exit costs.

Performance in 2016 has been weak and suffered from particularly challenging markets in 1Q16 and from the group's repositioning of the investment bank. Fitch will look for a demonstrated longer track record showing that the resized sales and trading business can generate sustainable revenue above its natural cost base, following the exits in 2Q16 from distressed debt trading and European securitised finance, which were material revenue contributors to Global Markets (GM). The group's wealth management divisions generated around CHF31bn net new money in 9M16 and were generally resilient despite erosion in net margins on assets under management (AuM).

Credit Suisse's consolidated capitalisation is in line with peers', as the bank reached the upper end of its targeted 11% - 12% CET1 ratio range for 2016, but notable double leverage at the level of Credit Suisse AG puts its capitalisation behind peers. The 60bp year-to-date improvement in the group's CET1 ratio was largely due to deleveraging of non-strategic activities. As with global trading and universal bank peers, we view operational and conduct risk as one of the most relevant. We believe a potential settlement on US RMBS, together with the annual review of defined-benefit pension plan actuarial assumptions in 4Q16, could put pressure on currently sound capital ratios.

In complying with too-big-to-fail regulatory capital requirements in Switzerland, the bank will have to meet going concern 5% leverage ratios (of which 3.5% in CET1) and 14.3% (of which 10% in CET1) RWA-based capital ratios, with equivalent amounts in gone concern capital. Consistent with its single-point-of-entry preferred resolution strategy, we expect the bank to continue issuing holding company senior debt to meet the shortfall of gone concern capital requirements of a currently estimated CHF15bn by 2020. Further issuance of high-trigger additional Tier 1 capital, which qualifies for inclusion in going-concern buffers, will also be required.

Credit Suisse's risk controls are, in our view, sound despite CHF1bn mark-to-market losses incurred in 4Q15 and 1Q16, and underpin the bank's conservative underwriting standards. Although rising, unreserved impaired loans were still a low 4% of Fitch Core Capital at end-3Q16, largely driven by deteriorating credit quality in International Wealth Management and Asia Pacific. Nonetheless, we expect its asset quality to remain strong, despite the bank's foreign expansion strategy in wealth management, due to prudent underwriting standards.

Credit Suisse's Long-Term IDR is rated one notch above the bank's VR, reflecting our view that substantial buffers of qualifying junior debt (QJD) and bail-in holding company senior debt provide material protection to the bank's senior creditors. This means the risk of the bank defaulting on senior obligations, as measured by its Long-Term IDR, is lower than that of the bank failing, as captured by its VR.

We would expect resolution action being taken on Credit Suisse when it comes close to breaching minimum capital requirements, which we assume would be when the group's consolidated CET1 ratio is 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 above 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-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 together suggests a junior debt buffer above 9% of RWAs could be required to restore viability without affecting senior creditors. At end-3Q16, the bank's QJD and bail-in holding company senior debt buffer stood at 16% of RWAs. In our view, capital requirements applicable to the group provide strong incentives for the permanence of such buffers, which underpins the uplift to Credit Suisse's Long-Term IDR.

The DCR is at the same level as Credit Suisse's Long-Term IDR because derivative counterparties have no definitive preferential status over other senior obligations in a resolution scenario.

CSGAG:
The VR of CSGAG is equalised with that of Credit Suisse, which accounts for 98% of the former's consolidated assets, reflecting its almost exclusive role as Credit Suisse's holding company. Double leverage at CSGAG (106% at end-2015 according to our calculation) is below the maximum 120% threshold, where we would usually notch the holding company's VR down.

CSGAG's Long-Term IDR and senior debt rating are one notch below Credit Suisse's, because the quantum of qualifying junior debt available as a buffer for holding company senior creditors is insufficient to warrant a one-notch uplift, and we do not expect it to become sufficiently large given the single-point-of-entry resolution strategy focussed on building up total loss-absorbing capacity (TLAC) in the form of senior holding company debt.

CSGAG's Short-Term IDR of 'F2' is at the lower of two options mapping to a Long-Term IDR of 'A-' because group liquidity is managed and retained at Credit Suisse level rather than at CSGAG.

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

CS Schweiz:
CS Schweiz is Credit Suisse's wholly-owned domestic subsidiary, whose Long-Term IDR is driven by its VR and reflects its low risk domestic loan book, moderate volumes of trading assets, sound capitalisation and a strong deposit franchise. The ratings also reflect a strong risk correlation with its parent bank as a result of Credit Suisse performing a central treasury role, which caps CS Schweiz's VR at the level of Credit Suisse's Long-Term IDR.

The rating actions today are in line with the final ratings published on 21 November (see 'Fitch Rates Credit Suisse (Schweiz) AG Final 'A" published and available on www.fitchratings.com) and the rating drivers are identical to those outlined in the previous rating action commentary on CS Schweiz.

The DCR is at the same level as CS Schweiz's Long-Term IDR because derivative counterparties have no definitive preferential status over other senior obligations in a resolution scenario.

SUPPORT RATINGS AND SUPPORT RATING FLOORS
Credit Suisse and CSGAG:
CSGAG's and Credit Suisse's Support Ratings (SR) and Support Rating Floors (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 big Swiss banks.

CS Schweiz:
CS Schweiz's Support Rating of '1' reflects primarily our view that the entity is an integral part of Credit Suisse, and whose default would constitute significant reputational risk to its parent, thus increasing Credit Suisse's propensity to provide extraordinary support, if required.

While CS Schweiz makes up a significant part of the group's total assets and equity, we believe it would be unlikely that the Swiss regulator would impose significant restrictions on recapitalising CS Schweiz using resources from the rest of the group, or upstreaming capital from other Credit Suisse subsidiaries where available. CS Schweiz's significant relative size is further mitigated by

our view that the subsidiary's need for support is unlikely to arise simultaneously with that of other foreign subsidiaries.

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 Credit Suisse's and CSGAG's 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 due to 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 higher-than-average loss severity, and two further notches for non-performance risk due to partly discretionary coupon omission.

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 due to fully discretionary coupon omission.

SUBSIDIARIES AND AFFILIATED COMPANIES

CSI is a UK-based wholly-owned subsidiary of Credit Suisse, and CSUSA is a US holding company directly held by Credit Suisse Holdings (USA), Inc., the group's US intermediate holding company (IHC). We view these entities as integral to the group's business and core to Credit Suisse's strategy and their Long-Term IDRs are aligned with Credit Suisse's VR and unlike Credit Suisse's Long-Term IDR, they do not benefit from a one-notch uplift.

We would apply the one-notch uplift to a foreign subsidiary's Long-Term IDR and DCR if sufficient qualifying junior debt, including internal TLAC, is allocated to ensure its recapitalisation in a resolution event. The amount of qualifying junior debt to be down-streamed to Credit Suisse's foreign subsidiaries is unclear at this stage. The Positive Outlook on CSUSA's Long-Term IDR reflects our view that the US authorities will require a sizeable amount of internal TLAC to be down-streamed to the IHC and we expect clarity on this within the next two years.

CSI is incorporated as an unlimited liability company, which underpins Fitch's view of an extremely high probability of support from its parent, if needed. However, we have not applied the one-notch uplift because it is not clear what impact unlimited liability status would have in protecting senior creditors in a resolution event.

CSI's DCR is at the same level as the entity's Long-Term IDR because derivative counterparties have no definitive preferential status over other senior obligations in a resolution scenario.

CSI's and CSUSA's Short-Term IDRs of 'F1', the higher of two Short-Term IDRS mapping to an 'A-' Long-Term IDR, reflect the benefits for the subsidiaries of the group's central treasury approach and strong funding and liquidity at Credit Suisse level.

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 alignment of IDRs reflects our view that senior creditors of the branch would be treated identically to other senior creditors of Credit Suisse.

RATING SENSITIVITIES
VR, IDRs, DCRs AND SENIOR DEBT
Credit Suisse:
Should litigation and conduct costs significantly dent Credit Suisse's capitalisation without a plan to restore it swiftly and credibly on a path towards meeting the bank's targeted 13% CET1 ratio by end-2018, this would put pressure on the VR and IDRs. Material slippage in realising the bank's targeted CHF4.2bn net cost savings by 2018, or higher-than-expected exit costs for legacy positions in the Strategic Resolution Unit would also be negative for the ratings.

Should operating performance in the securities business-focused Global Markets and Investment Banking and Capital Markets divisions not improve as cost savings are realised and the franchise is stabilised, this would likely lead to negative rating action.

Upside to the ratings is limited in the short-term given execution risks in the group's strategy and consequently our expectation of subdued earnings in the short- to medium-term. However, the ratings may be upgraded on materially stronger profitability in the securities business, and resilient performance in wealth management without compromising the bank's currently sound capitalisation or risk appetite.

DCRs are primarily sensitive to changes in the respective issuers' Long-Term IDRs. In addition, they could be upgraded to one notch above the IDR if a change in legislation (for example as recently proposed in the EU) creates legal preference for derivatives over certain other senior obligations, and in Fitch's view, the volume of all legally subordinated obligations provides a substantial enough buffer to protect derivative counterparties from default in a resolution scenario.

CSGAG:
CSGAG's Long-Term IDR is primarily sensitive to a change in the VR. Rating sensitivities that apply to Credit Suisse are also applicable to CSGAG. The Stable Outlook reflects our view that the group will continue to successfully execute its strategy and that qualifying junior debt buffers at the CSGAG level are unlikely to be sufficient to allow us to notch up to Long-Term IDR from the VR, given Switzerland's single-point-of-entry approach to bank resolution.

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.

CS Schweiz:
A longer track record of strong and stable earnings and capitalisation could provide upside to CS Schweiz's VR, provided it is no longer constrained at the same level by large unsecured exposures to Credit Suisse. Conversely, weaker capitalisation or asset quality or reduced earnings stability than we currently expect, or a downgrade of CS's Long-Term IDR, would put pressure on CS Schweiz's VR.

CS Schweiz's Long-Term IDR and DCR could be rated above the VR if we believe buffers of qualifying junior debt and internal loss-absorbing capacity pre-placed at the CS Schweiz level are sufficient to result in a significantly lower risk of default on CS Schweiz's senior obligations than the risk of the bank failing. For this to happen we would have to conclude that CS Schweiz could reach a higher Long-Term IDR were the buffers in the form of Fitch Core Capital, which is unlikely given the close risk correlation with its parent. Clear requirements on internal buffers at CS Schweiz ensuring their permanence would also be necessary for its Long-Term IDR to be rated above its VR.

SUPPORT RATINGS AND SUPPORT RATING FLOORS
Credit Suisse and CSGAG:
An upgrade to Credit Suisse's or CSGAG's SRs and an upward revision to the SRFs would be contingent on a positive change in Switzerland's propensity to support its banks. This is highly unlikely in our view, though not impossible.

CS Schweiz:
The Support Rating is sensitive to changes in our assessment of Credit Suisse's ability to provide extraordinary support to CS Schweiz as well as the importance of CS Schweiz to the rest of the group.

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 respective issuers' VRs. This may reflect a change in capital management in the group or an unexpected shift in regulatory buffer requirements, for example.

SUBSIDIARIES AND AFFILIATED COMPANIES
CSI's and CSUSA's Long-Term IDRs are sensitive to changes in the parent bank Credit Suisse's VR. The subsidiaries' Long-Term IDRs could benefit from a one-notch uplift if we believe that sufficient TLAC will be down-streamed from the parent to the subsidiaries to recapitalise them sufficiently in a resolution event.

We expect internal TLAC requirements to become binding for Credit Suisse's US IHC from 1 January 2019. Once regulatory requirements on TLAC pre-positioning in the US IHC are in force and the bank commits to pre-placing these debt buffers, this could result in CSUSA's Long-Term IDR being upgraded by one notch and aligned with Credit Suisse's, if we conclude that the buffers provide sufficient additional protection to CSUSA's senior creditors.

Similarly, further clarity on internal TLAC pre-positioning for CSI or clarity favouring support from its Swiss parent in a resolution scenario due to its unlimited liability status could lead to a one-notch upgrade of its Long-Term IDR.

The subsidiaries' IDRs are sensitive to adverse changes in the parent's propensity to provide support.

The rating actions are as follows:

Credit Suisse:
Long-Term IDR: affirmed at 'A'; Outlook Stable
Short-Term IDR: affirmed at 'F1'
Derivative Counterparty Rating: assigned at 'A(dcr)'
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 'BBB+'
Subordinated notes: affirmed at 'BBB'
Tier 1 notes and preferred securities: affirmed at 'BB+'

Credit Suisse Group AG:
Long-Term IDR: affirmed at 'A-'; Outlook Stable
Short-Term IDR: affirmed at 'F2'
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-'/'F2'
Senior market-linked notes: affirmed at 'A-emr'
Subordinated notes: affirmed at 'BBB+'
Additional Tier 1 notes: affirmed at 'BB'
Preferred stock (ISIN XS0148995888): affirmed at 'BBB-'

Credit Suisse (Schweiz) AG
Long-Term IDR: affirmed at 'A'; Outlook Stable
Short-Term IDR: affirmed at 'F1'
Derivative Counterparty Rating: assigned at 'A(dcr)'
Viability Rating: affirmed at 'a'
Support Rating: affirmed at '1'

Credit Suisse International:
Long-Term IDR: affirmed at 'A-'; Outlook Stable
Short-Term IDR: affirmed at 'F1'
Derivative Counterparty Rating: assigned at 'A-(dcr)'
Support Rating: affirmed at '1'
Senior unsecured debt: affirmed at 'A-'
Commercial paper programme: affirmed at 'F1'

Credit Suisse (USA) Inc.:
Long-Term IDR: affirmed at 'A-', Outlook Positive
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'

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-'/'F2'

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 'BB+'

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Additional information is available on www.fitchratings.com

Applicable Criteria
Global Bank Rating Criteria (pub. 25 Nov 2016)
https://www.fitchratings.com/site/re/891051
Global Non-Bank Financial Institutions Rating Criteria (pub. 15 Jul 2016)
https://www.fitchratings.com/site/re/884128