MOODY'S
INVESTORS SERVICE

Rating Action: Moody's Affirms Credit Suisse (Senior at A1), Changes Outlook to Negative

Global Credit Research - 20 May 2014

New York, May 20, 2014 -- Moody's Investors Service, ("Moody's") has today affirmed the ratings of Credit Suisse AG (deposits and senior debt at A1/Prime-1) and affiliates, including parent company Credit Suisse Group AG (senior debt at (P)A2), and has changed the ratings outlook to negative from stable.

RATINGS RATIONALE

The rating action follows the bank's settlement of charges of tax evasion with the US Department of Justice. As a part of the settlement, the bank is paying a total of $2.8 billion (CHF 2.5 billion) in fines, penalties and tax restitution to various US government agencies and has pled guilty to a criminal charge. The rating agency said the negative outlook reflects the risks to the bank's creditors stemming from the negative impact of the settlement on the bank's capital position as well as the potential for client defections and lost revenues resulting from the criminal plea.

The settlement will require the bank to take a CHF 1.6 billion after-tax charge during the current quarter. On a pro forma basis this will cause the bank's 31 March 2014 fully applied Swiss Basel III Common Equity Tier 1 (CET1) ratio to decline to 9.3% from 9.9%. The bank's fully applied Basel III Tier 1 leverage ratio will also decline, to an estimated 3.0% on a pro forma basis from 3.2%. As a result, the bank will be at the low end of its peer group of large global investment banks on both of these capital measures.

The bank has announced plans to lower its risk-weighted assets and enhance its capital through asset sales in order to increase its CET1 ratio to at least 10% by year-end 2014 before the inclusion of any retained earnings. However, this still could leave the bank's capital ratios weaker than at most of its peers, especially since the bank still intends to return approximately half of its annual earnings to shareholders.

Moody's had previously noted that a deterioration in the trajectory of the bank's capital position would put downward pressure on the ratings. The settlement delays the timing of any further improvement in the bank's capital ratios. A persistent gap to peers on its capital ratios would be credit negative for Credit Suisse since both the bank's baseline credit assessment of baa1 and its supported ratings are at the high end of its peer group, notwithstanding the fact that the bank relies more heavily on capital markets activities, which are characteristically volatile, compared to many of its peers.

The settlement also includes an agreement by Credit Suisse to plead guilty to conspiracy to aid and assist US taxpayers in filing false income tax returns, a criminal felony. The bank is not expected to lose any licenses or charters as a result of the criminal plea, and it has already exited the business which is the subject of the settlement. However, Moody's believes the plea could still have negative implications for the bank's franchise and future earnings, stemming mainly from the potential loss of clients. In response to the guilty plea, some clients could cease doing business with the bank, either voluntarily or because of internal policies or legal prohibitions which prevent them from doing business with a firm that has pled guilty to a criminal felony. A permanent loss of a material amount of client business would reduce the bank's profitability and its ability to generate capital internally -- weakening its shock absorbers that are a key pillar of its current rating and thus posing greater risk for the bank's bondholders.

The loss of institutional client business could also limit the bank's access to funding, especially its short-term wholesale funding. However, Credit Suisse has a strong liquidity position and a sizeable liquidity pool, the rating agency noted. As a result, Moody's believes the bank is unlikely to face challenges in meeting its funding or liquidity needs. Nonetheless, any reduction in funding flexibility would also be credit negative.

WHAT COULD MOVE THE RATINGS UP/DOWN

The ratings could decline if the rating agency were to conclude that Credit Suisse was likely to suffer significant customer defections as a result of the guilty plea, leading to a loss of revenues or franchise value, or if the bank was unlikely to be able to restore its capital ratios to a level that meets or exceeds those of its peers. The ratings could also decline if Moody's were to lower its assumption regarding the likelihood of support for the bank's senior

creditors from the Swiss government in the event support was required to prevent a default.

Given the negative ratings outlook, there is currently no upward pressure on the bank's ratings. However, upward pressure could arise if Credit Suisse were to significantly reduce its earnings reliance on capital markets activities, while at the same time maintaining capital, liquidity, and risk management that were all unambiguously stronger than most peers.

The principal methodology used in these ratings was Global Banks published in May 2013. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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