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Ratings

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Research Update:

Credit Suisse AG 'A/A-1' Ratings Affirmed On Continued Strong Capital Buffers; Outlook Stable

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Table Of Contents

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Overview

- We believe the difficult operating environment continues to challenge Credit Suisse's profitability as it implements its strategic repositioning.
- However, we believe that the group will preserve strong capital, as it reallocates capital resources within the group, and will continue to benefit from several stable lines of business with low risk profiles.
- We are affirming our 'A/A-1' issuer credit ratings on Credit Suisse AG and our 'BBB+' rating on Credit Suisse Group AG.
- The stable outlook reflects our expectation that the group will maintain strong capital levels and its sound market position as it proceeds with implementing its business restructuring.

Rating Action

On July 20, 2016, S&P Global Ratings affirmed its 'A/A-1' long- and short-term issuer credit ratings (ICR) on Credit Suisse AG (Credit Suisse). We also affirmed our 'BBB+' long-term rating on its non-operating holding company, Credit Suisse Group AG. The outlook on both entities remains stable.

Additionally, we affirmed our issue credit ratings on the hybrid capital instruments issued by Credit Suisse as well as the ICRs on the group's core subsidiaries.

Rationale

The affirmation follows our regular surveillance review of Credit Suisse and reflects our view that the group will be able to preserve strong capitalization and a sound franchise of stable businesses despite unfavorable operating conditions. Ultra-low interest rates and generally subdued client trading activity may persist for the foreseeable future, although market conditions may recover somewhat from the weak first quarter of 2016. These pressures add to the challenges and implementation costs of Credit Suisse's business restructuring, which was first announced Oct. 21, 2015, and updated on March 23, 2016.

However, we continue to consider capitalization to be one of Credit Suisse's strengths. We project that its risk-adjusted capital (RAC) ratio will remain within 11.5%-12.0% over the next 18-24 months, with 2016 being the most critical phase of its restructuring. The ratio stood at 12% at year-end 2015,

which is less than the 12.5%-13.0% we projected previously, but still materially above the 10% threshold for us to considering capitalization strong. This is markedly higher than that of most large universal banking peers in Europe. It provides a buffer to absorb additional unexpected charges, such as higher litigation costs or expense related to the wind-down of noncore operations. Further, we believe that Credit Suisse would have the capacity to preserve its strong capital position by adjusting its dividend policy, as appropriate, or conduct additional asset sales.

In addition, we note that Credit Suisse's core equity Tier 1 (CET1) ratio and its Tier 1 capital ratio are already close to meeting future regulatory requirements under Swiss too-big-to-fail regulations. For example, by 2020, Credit Suisse's CET1 will need to amount to at least 10% of risk-weighted assets (RWA) or 3.5% of leverage exposure (excluding a potential add-on for the countercyclical buffer). As of March 31, 2016, these ratios were at 11.4% and 3.3%, respectively, on a look-through basis. We note that additional capital constraints might occur in 2019-2020 when the Basel Committee's RWA reforms are due to be implemented. Credit Suisse's 2018 target CET1 ratio of 13% reflects these potential additional requirements, which it aims to achieve as its restructuring measures take effect. The scope and timing of the RWA reforms remain highly uncertain and an easing of the ultimate requirements would benefit Credit Suisse's transition process.

We also continue to believe that the revised strategy could improve Credit Suisse's overall creditworthiness over time, even if running down some illiquid portfolios in a weak market environment could pressure earnings in the short term. Moreover, we believe that Credit Suisse's sound global franchise in wealth management and its strong position in corporate and retail banking in Switzerland are stabilizing factors in our assessment of the group's business position. Although the profitability of these businesses also suffers from low interest rates, they provide a source of fairly reliable and low-risk revenues. The revised strategy aims to strengthen these businesses in addition to the group's presence in Asia-Pacific at the expense of riskier trading activities. We believe the extent of business model adjustments are manageable and Credit Suisse's capital strength (both in terms of core equity and bail-inable instruments) could help the bank, in our view, to navigate weak market conditions.

The U.K.'s recent vote to leave the EU (Brexit) does not materially affect our assessment of Credit Suisse's profitability prospects. If the U.K. were to lose access to the EU financial services passporting arrangement, Credit Suisse may need to relocate some activities from its London-based subsidiaries to other bank subsidiaries within the EU. However, we see a bigger impact from the event potentially prolonging the current period of ultra-low global interest rates and depressed business volumes.

In our long-term ratings on Credit Suisse AG and its core subsidiaries, we continue to add one notch of uplift for additional loss-absorbing capacity (ALAC), reflecting the sizeable buffers of bail-inable gone-concern capital instruments. At the latest year-end 2015 disclosure date of regulatory Pillar

3 information, ALAC eligible instruments were 8.3% of S&P Global Ratings RWAs. For Credit Suisse, we apply 5.25% and 8.5% thresholds for one or two notches uplift, respectively. The ALAC uplift does not benefit Credit Suisse Group AG. This is because we anticipate that bail-inable senior unsecured obligations issued or guaranteed by Credit Suisse Group AG will make up the majority of the group's gone-concern capital that might be written down or converted into equity in a resolution scenario.

Outlook

The stable outlook on Credit Suisse and Credit Suisse Group AG reflect the ongoing initiatives to preserve capital and allocate resources to less risky business lines. We believe that there is a low likelihood that the group's RAC ratio would fall below 10% for a prolonged period. Furthermore, we believe that the group's franchises in global wealth management and domestic corporate and retail banking should remain resilient to potential negative headlines and staff detraction as the group implements its strategy this year and next.

In addition, for Credit Suisse and its core operating subsidiaries, the stable outlook also reflects the substantial and increasing buffer of bail-inable gone-concern capital. Credit Suisse has continued to issue additional gone-concern capital during the first half of 2016, and we expect they will make further issuances in the second half of 2016, and the following years. This provides stability to the group credit profile (GCP) in case its capital or franchise stability develop more negatively than we anticipate. Conversely, while we could raise the ratings on the Credit Suisse, if the group builds its ALAC ratio sustainably beyond 8.5%, the stable outlook reflects that upside pressure would also depend on a comparison of our ICR on the bank with global peers. It also would depend on confirmation that the new business model is well-funded and well-positioned for the regulatory and economic environment, allowing it to generate strong and stable earnings over the cycle.

We could raise the ratings on Credit Suisse AG, if ALAC buffers were in place and our concerns about the business model and peer comparisons were satisfied.

We could lower the ratings on Credit Suisse, Credit Suisse Group AG, and the hybrid debt instruments issued by group entities, if we revised down the unsupported GCP, for example, if a substantial increase in unexpected losses pushed the RAC ratio below 10% on a prolonged basis. We could also lower the ratings if we see a higher risk that its global diversified franchise erodes sustainably, for example, as a result of material unexpected set-backs in the group's restructuring process. As mentioned before, the potential for a negative rating action is more likely for Credit Suisse Group AG and subordinated debt instruments than for the ICR on Credit Suisse and our issue ratings on its senior unsecured debt, given that these ratings do not benefit from ALAC support.

Related Criteria And Research

Related Criteria

- Guarantee Criteria--Structured Finance - May 07, 2013
- Banks: Methodology For Mapping Short- And Long-Term Issuer Credit Ratings For Banks - May 04, 2010
- Group Rating Methodology - November 19, 2013
- Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity - April 27, 2015
- Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions - January 29, 2015
- Assessing Bank Branch Creditworthiness - October 14, 2013
- Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions - July 17, 2013
- Revised Market Risk Charges For Banks In Our Risk-Adjusted Capital Framework - June 22, 2012
- Banks: Rating Methodology And Assumptions - November 09, 2011
- Banking Industry Country Risk Assessment Methodology And Assumptions - November 09, 2011
- Bank Capital Methodology And Assumptions - December 06, 2010
- Banks: Commercial Paper I: Banks - March 23, 2004
- Principles For Rating Debt Issues Based On Imputed Promises - December 19, 2014
- Use Of CreditWatch And Outlooks - September 14, 2009

Related Research

- Credit Suisse Ratings Unaffected By Reductions In Global Markets Division, Mar. 24, 2016
- Credit Suisse AG 'A/A-1' Ratings Affirmed On Announcement Of New Strategy And Capital Increase; Outlook Stable, Oct. 22, 2015
- Credit Suisse Group AG, Dec. 22, 2015

Ratings List

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Ratings Affirmed

Credit Suisse Group AG
 Counterparty Credit Rating             BBB+/Stable/--

Credit Suisse (USA) Inc.
Credit Suisse Securities (USA) LLC
Credit Suisse Securities (Europe) Ltd.
Credit Suisse International
Credit Suisse AG (New York Branch)
Credit Suisse AG (Cayman Islands Branch)
Credit Suisse AG
 Counterparty Credit Rating             A/Stable/A-1

Credit Suisse Group AG
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Junior Subordinated	BB
Credit Suisse (USA) Inc.	
Senior Unsecured	A
Commercial Paper	A-1
Credit Suisse AG	
Senior Unsecured	A
Senior Unsecured	Ap
Subordinated	BBB
Junior Subordinated	BB+
Commercial Paper	A-1
Credit Suisse AG (New York Branch)	
Senior Unsecured	A
Credit Suisse Group Capital (Guernsey) III Ltd.	
Preferred Stock*	BB
Credit Suisse Group Finance (Guernsey) Ltd.	
Senior Unsecured*	BBB+
Junior Subordinated*	BB+
Credit Suisse Group Finance (U.S.) Inc.	
Subordinated*	BBB-
Credit Suisse Group Funding (Guernsey) Ltd.	
Senior Unsecured*	BBB+
Credit Suisse International	
Senior Unsecured	A
Junior Subordinated	BBB-

*Guaranteed by Credit Suisse Group AG.

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Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at spcapitaliq.com. All ratings affected by this rating action can be found on the S&P Global Ratings public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office

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