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Research Update:

Credit Suisse AG 'A/A-1' Ratings Affirmed On Restructuring Progress; Outlook Stable

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Overview

- Credit Suisse AG continues to deliver on its restructuring targets and further balance sheet strengthening.
- However, we believe that its profitability will continue to underperform peers' at least this year and next, as it executes its strategic repositioning.
- We are affirming our 'A/A-1' ratings on Credit Suisse and our 'BBB+' rating on Credit Suisse Group AG.
- The stable outlook reflects our assessment that the restructuring program remains on track and that the risk of very material one-off charges has reduced, but visibility of the group's sustainable earnings potential remains limited.

Rating Action

On June 22, 2017, S&P Global Ratings affirmed its 'A/A-1' long- and short-term counterparty credit ratings on Credit Suisse AG (Credit Suisse). We also affirmed our 'BBB+' long-term rating on its non-operating holding company, Credit Suisse Group AG (CSG). The outlook on both entities remains stable.

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

Rationale

The affirmation follows our regular surveillance review of Credit Suisse. It reflects our unchanged assumption that Credit Suisse will progress in executing its restructuring program in 2017 and 2018. We continue to believe that the program has the potential over time to substantially lift profitability from current low levels, reduce the group's risk profile, and enable Credit Suisse to maintain its strong capitalization. However, we also consider that Credit Suisse's profitability will remain low in the near future and that the bank will maintain a stronger focus on investment banking activities than many European peers. Visibility about the group's sustainable earnings potential and the strength of its franchise post restructuring remains limited at this stage. The affirmation is supported by Credit Suisse's track record of delivering on its restructuring targets to date and further balance sheet strengthening in terms of capital and liquidity.

We continue to base our ratings on Credit Suisse on its globally diversified business mix, with a strong exposure footprint and domicile in Switzerland. This leads to an 'a-' anchor, the starting point for our ratings. Stable and diverse earnings streams from its global wealth-management and domestic corporate and retail banking activities further support the ratings. Offsetting factors are the volatility of Credit Suisse's earnings from its capital markets-related activities, even if the restructuring program is set to reduce the downside risk. The company also suffers from low profitability while it executes its costly restructuring program that should be completed by end-2018.

We view Credit Suisse's capital as a strength, reflecting our projection that the group's risk-adjusted capital (RAC) ratio will remain firmly above 10%. Credit Suisse completed a capital increase in June 2017, generating proceeds of Swiss franc (CHF) 4.1 billion ($4.2 billion). Pro forma this rights issue, Credit Suisse's year-end 2016 RAC ratio was 13.9%. We project that it will hover at 12.5%-13.5% in the next 12-18 months. The rights issue also lifts its regulatory look-through common equity tier 1 (CET1) capital ratio to slightly above 13%, which is its 2018 target level. This should position Credit Suisse well to absorb potentially rising regulatory capital requirements from Basel III reforms. These factors are offset by our assessment that Credit Suisse's risk profile remains complex. Market and operational risk remain material risk components. The group retains a high level of capital markets-related activities. Likewise, exposures to illiquid nonstrategic assets remain sizable, despite achieving material exposure reductions.

The group's funding and liquidity is neutral to our ratings. The group's metrics are solid and regulatory ratios are well above the minimum. However, we also consider the high share of nonguaranteed wealth management deposits. They are inherently more confidence sensitive than normal retail deposits.

These factors lead to an 'a-' unsupported group credit profile (UGCP). We add two notches of uplift to reflect that Credit Suisse has and continues to build substantial buffers of bail-in-able debt instruments. We calculate its additional loss-absorbing capacity (ALAC) at 11.7% of S&P Global Ratings' risk-weighted assets at year-end 2016. Additional issuance required under Swiss too-big-to-fail regulation should lead to a further strengthening of the ratio by 2019. Senior unsecured debt issuances by the group's nonoperating holding company, Credit Suisse Group AG, are the main instruments that we consider in our analysis. These instruments could absorb losses in a resolution scenario upon discretion of the Swiss regulator and keep Credit Suisse a going concern. This is partly offset, however, by the negative one-notch adjustment to the rating that we make to reflect that Credit Suisse's earnings are lower than peers'.

Outlook

The stable outlook on Credit Suisse and CSG reflects our assessment that it is unlikely that its restructuring program would vastly derail or cause a

materially miss of its targets for cost cutting, risk reduction, and capital strengthening. It also reflects our assessment that the group's franchises in global wealth management and domestic corporate and retail banking will continue to expand, providing favorable stability to group earnings. Finally, it also reflects our assessment that the risk of major one-off charges from litigation risk has diminished and that the group will be able to sustain capitalization near current levels. These factors contribute to our UGCP of 'a-'

We could lower the ratings on Credit Suisse, CSG, and the hybrid debt instruments issued by group entities over the next 12-24 months if Credit Suisse failed to make further progress toward its 2018 restructuring objectives, signaling the need for additional material strategic initiatives. The emergence of substantial unexpected charges or litigation risk would also be negative, in particular if they jeopardized our projection of a RAC ratio comfortably above 10% or if Credit Suisse materially missed its 2018 capital target of a 13% look-through CET1 ratio. These developments would lead us to revise down the UGCP.

We could upgrade Credit Suisse if the group's earnings recovered and became more in line with peers. This would lead us to remove the one-notch negative adjustment from the rating. We believe that we may see signs of such a sustained earnings recovery as we head into 2018, supported by further material reductions in noncore assets and replacement of costly legacy capital instruments, but this may not be confirmed until 2019. An upgrade would also hinge on Credit Suisse maintaining strong levels of bail-in-able capital, demonstrated by our metric of ALAC above 8.5% of S&P Global Ratings' risk-weighted assets.

An upgrade of Credit Suisse and CSG based on a stronger UGCP appears unlikely over the outlook horizon. It might occur if Credit Suisse demonstrated that the new business model was well-funded and well-positioned for the regulatory and economic environment, allowing it to generate strong and stable earnings over the cycle. We believe that a longer track record is required to support this stronger assessment after years of restructuring and the group's recent weak performance.

Ratings Score Snapshot

Counterparty Credit Rating*	A/Stable/A-1
Unsupported GCP	a-
Anchor	a-
Business Position	Adequate (0)
Capital and Earnings	Strong (+1)
Risk Position	Moderate (-1)
Funding and Liquidity	Average and Adequate (0)

Support	(+2)
ALAC Support	(+2)
GRE Support	(0)
Group Support	(0)
Sovereign Support	(0)
Additional Factors	(-1)

*Refers to the rating level of Credit Suisse AG and other core subsidiaries of Credit Suisse.

GCP—Group credit profile. GRE—Government-related entity.

Related Criteria

- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings , April 7, 2017
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- Criteria - Financial Institutions - Banks: Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, April 27, 2015
- Criteria - Financial Institutions - Banks: Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions, Jan. 29, 2015
- General Criteria: Principles For Rating Debt Issues Based On Imputed Promises, Dec. 19, 2014
- Criteria - Financial Institutions - General: Nonbank Financial Institutions Rating Methodology, Dec. 9, 2014
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Financial Institutions - Banks: Assessing Bank Branch Creditworthiness, Oct. 14, 2013
- Criteria - Financial Institutions - Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria - Financial Institutions - Banks: Revised Market Risk Charges For Banks In Our Risk-Adjusted Capital Framework, June 22, 2012
- Criteria - Financial Institutions - Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Criteria - Financial Institutions - Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Criteria - Financial Institutions - Banks: Bank Capital Methodology And Assumptions, Dec. 6, 2010
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010
- Criteria - Financial Institutions - General: Methodology: Hybrid Capital Issue Features: Update On Dividend Stoppers, Look-Backs, And Pushers, Feb. 10, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

- Criteria - Financial Institutions - Banks: Commercial Paper I: Banks, March 23, 2004

Ratings List

Ratings Affirmed

Credit Suisse AG	
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 (USA) Inc.	
Counterparty Credit Rating	A/Stable/A-1
Credit Suisse Group AG	
Counterparty Credit Rating	BBB+/Stable/--
Senior Unsecured	BBB+
Junior Subordinated	BB
Junior Subordinated	BB-
Credit Suisse Securities (Moscow) Ltd.	
Counterparty Credit Rating	BB+/Positive/B
Credit Suisse AG	
Senior Unsecured	A
Senior Unsecured	Ap
Subordinated	BBB
Junior Subordinated	BB+
Short-Term Debt	A-1
Commercial Paper	A-1
Credit Suisse (USA) Inc.	
Senior Unsecured	A
Commercial Paper	A-1
Credit Suisse AG (New York Branch)	
Senior Unsecured	A
Short-Term Debt	A-1
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

*Guaranteed by Credit Suisse Group AG.

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