MOODY'S
INVESTORS SERVICE

Credit Opinion: Credit Suisse Group AG

Global Credit Research - 14 Jan 2016

Zurich, Switzerland

Ratings

Category	Moody's Rating
Outlook	Stable
Senior Unsecured MTN	(P)Baa3
Subordinate Shelf	(P)Baa3
Credit Suisse AG	
Outlook	Stable
Bank Deposits	A1/P-1
Baseline Credit Assessment	baa2
Adjusted Baseline Credit Assessment	baa2
Counterparty Risk Assessment	A1(cr)/P-1(cr)
Issuer Rating	A2
Senior Unsecured	A2
Subordinate -Dom Curr	Baa3
Commercial Paper	P-1
Other Short Term	(P)P-1
Credit Suisse AG (London) Branch	
Outlook	Stable
Bank Deposits	A1/--
Counterparty Risk Assessment	A1(cr)/P-1(cr)
Senior Unsecured	A2
Subordinate	Baa3
Other Short Term -Fgn Curr	(P)P-1
Other Short Term -Dom Curr	P-1

Contacts

Analyst	Phone
David Fanger/New York City	1.212.553.1653
Alessandro Roccati/London	44.20.7772.5454
Robert Young/New York City	1.212.553.1653
Forssen, Daniel/London	44.20.7772.5454

Key Indicators

Credit Suisse Group AG (Consolidated Financials)[1]

	[2]9-15	[2]12-14	[2]12-13	[3]12-12	[3]12-11	Avg.
Total Assets (CHF billion)	850.7	912.9	862.8	916.4	1,032.1	[4]-4.7
Total Assets (EUR billion)	780.0	759.2	704.1	759.4	850.2	[4]-2.1
Total Assets (USD billion)	870.7	918.7	970.2	1,001.1	1,103.7	[4]-5.8
Tangible Common Equity (CHF billion)	43.8	42.5	39.9	26.4	16.7	[4]27.2
Tangible Common Equity (EUR billion)	40.1	35.4	32.6	21.8	13.8	[4]30.7
Tangible Common Equity (USD billion)	44.8	42.8	44.9	28.8	17.9	[4]25.8
Problem Loans / Gross Loans (%)	0.6	0.5	0.6	0.7	0.7	[5]0.6
Tangible Common Equity / Risk Weighted Assets (%)	15.3	14.9	15.0	11.0	6.9	[6]15.1
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	4.0	3.2	3.6	6.3	9.7	[5]5.4
Net Interest Margin (%)	1.4	1.3	1.2	0.9	0.8	[5]1.1

PPI / Average RWA (%)	**1.8**	**0.9**	**1.5**	**1.5**	**0.3**	[6]**1.4**
Net Income / Tangible Assets (%)	**0.4**	**0.3**	**0.4**	**0.4**	**0.0**	[5]**0.3**
Cost / Income Ratio (%)	**79.1**	**89.2**	**82.5**	**84.1**	**96.2**	[5]**86.2**
Market Funds / Tangible Banking Assets (%)	**42.6**	**42.3**	**40.1**	**45.4**	**51.5**	[5]**44.4**
Liquid Banking Assets / Tangible Banking Assets (%)	**47.2**	**49.7**	**50.4**	**52.2**	**56.9**	[5]**51.3**
Gross loans / Due to customers (%)	**89.5**	**86.4**	**83.6**	**85.2**	**84.1**	[5]**85.8**

Source: Moody's

[1] All figures and ratios are adjusted using Moody's standard adjustments [2] Basel III - fully-loaded or transitional phase-in; US GAAP [3] Basel II; US GAAP [4] Compound Annual Growth Rate based on US GAAP reporting periods [5] US GAAP reporting periods have been used for average calculation [6] Basel III - fully-loaded or transitional phase-in & US GAAP reporting periods have been used for average calculation

Opinion

SUMMARY RATING RATIONALE

On 11 January 2016 we downgraded by one notch the long-term ratings of Credit Suisse AG and affiliates. The downgrade was driven by our expectation that Credit Suisse's profitability will remain weak over the next two years, reflecting profit challenges stemming from restructuring charges, costs from the wind-down or exit of businesses no longer considered strategic, and the costs of incremental investments for growth.

In October 2015 Credit Suisse announced a new strategic plan intended to boost the bank's profitability over the longer term. The bank's earnings have been under pressure for several years stemming from the combined effect of the low interest rate environment, restructuring charges, litigation and regulatory charges, losses in non-strategic units, and low levels of client activity. Although the bank has realized significant cost savings from efficiency initiatives, increased compliance and regulatory costs have offset much of those savings. While we had expected the bank's profitability to improve over the near term, we believe the costs associated with implementing the new strategic plan make any near-term improvements in profitability unlikely.

If the strategic plan's 2018 earnings targets are achieved on a sustainable basis, the improved profitability would be positive for creditors and could support a higher rating. Nonetheless, environmental factors beyond management's control, including additional litigation charges, could still derail or delay success. In addition, the strategic plan establishes substantial growth ambitions for its Asia Pacific and International Wealth Management businesses; rapidly growing and expanding businesses can pose particular challenges for risk management and will require additional resources to prudently manage. Credit Suisse's ratings reflect our view that the weaker profitability levels over the next two years and the execution risk associated with the implementation of the plan pose risks for creditors.

As a partial offset to these risks, the new strategic plan also resulted in the issuance of CHF 6 billion in new common equity in December 2015, significantly boosting the bank's leverage ratio and capital position. The stronger capital position is expected to be sustained in light of higher regulatory capital requirements recently announced by the Swiss government, and may be further bolstered by other capital actions over the next two years. Moody's sees the stronger capital buffers as an important protection for creditors during the implementation of the new strategic plan.

Credit Suisse's ratings are supported by the stable earnings and lower risk profile of the bank's large global wealth management franchise and well-positioned domestic Swiss banking franchise, the bank's pro-active approach to risk management, its sound liquidity management and strengthened capital position. These strengths help offset the risks posed to creditors by the bank's significant exposure to capital market activities, relatively weak, profitability, and the execution risk associated with implementing its new strategic plan.

Following the January 2016 downgrade, Credit Suisse's baseline credit assessment of baa2 is equal to the baa2 median of its global investment bank peer group.

Rating Drivers

- Weak profitability is unlikely to improve significantly over the next two years

- Strong capital position, aided by a significant component of high-trigger contingent capital instruments as well as

the recent issuance of additional common shares

- Large global capital markets intermediary with a more volatile earnings profile and a confidence-sensitive customer base.

- Large global wealth management franchise and well positioned domestic banking franchise are a significant source of more stable earnings

- Good risk management, with a highly proactive approach to risk taking, risk limits and controls.

- Sound liquidity position and conservative liquidity management, although reliance on wholesale funding is still significant

Rating Outlook

The outlook for Credit Suisse's ratings is stable, reflecting the bank's strong capital position, good risk management, and improving liquidity position, as well as the rating agency's expectation that the implementation of the new strategic plan will be well-controlled and executed, and will not pose significant additional risks for creditors.

What Could Change the Rating - Up

Upward pressure on the bank's ratings could arise if the bank were to successfully achieve a substantial and sustainable improvement in profitability. In addition, a significant and permanent increase in the amount of holding company long-term debt outstanding, providing a significant buffer to absorb losses in resolution and reducing the loss-given-failure for both holding company and bank-level senior creditors, could put upward pressure on the senior debt ratings.

What Could Change the Rating - Down

The rating could face downward pressure if the bank were to suffer from a significant control or risk management failure or a significant decline in the Swiss economy, if it were to increase its risk appetite, if there was a deterioration in the bank's capital or liquidity profile or if the bank failed to successfully execute the changes to its business model.

DETAILED RATING CONSIDERATIONS

The financial data in the following sections are sourced from Credit Suisse Group's financial statements unless otherwise stated.

LARGE GLOBAL INVESTMENT BANKING ACTIVITIES CONSTRAIN CREDITWORTHINESS; GROWTH AMBITIONS COULD POSE ADDITIONAL RISK IF NOT EXECUTED PRUDENTLY

As a part of its new strategic plan, Credit Suisse announced a restructuring of its Investment Bank (IB) operations with several components. These include: (1) the scaling back of several businesses, most notably in Macro and certain portions of Prime Services; (2) the transfer of businesses to be exited/wound-down, including the legacy IB Non-Strategic Unit, to a separate Strategic Resolution Unit; (3) the combination of the Asia Pacific IB business with the bank's Asia Pacific Private Banking & Wealth Management business into a separate regionally focused Asia Pacific business segment; and (4) the division of the remaining global IB businesses into two separate business segments - Global Markets and Investment Banking and Capital Markets.

By exiting activities where returns do not exceed the cost of capital, the new strategic plan is expected to modestly reduce Credit Suisse's reliance on earnings from capital markets activities. However, we expect the bank will remain more reliant on earnings from its capital markets activities than many of its large universal bank peers. We estimate that post-restructuring the two main capital markets business segments will account for more than a third of total risk-weighted assets and over 40% of leverage exposure, plus the capital markets portions of the bank's other business segments. We believe the bank's exposure to global investment banking activities will continue to pose risks for creditors due to the volatile revenue profile, the inherent risk-management and risk-governance challenges, opacity of risk taking, and the confidence-sensitivity of their customer and funding franchises.

In addition, the bank's new growth targets for its other businesses could expose the bank to greater asset risks in those units. Historically the bank has had a low level of asset risk within its wealth management and Swiss

banking businesses, as reflected in the low problem loans ratio reported by the bank.

Credit Suisse's pro-active approach to risk management is a critical strength supporting the bank's ratings, as indicated by our assigned Asset Risk score of baa1, a higher score than that assigned to many of the bank's peers. While we incorporate within our score the low problem loans ratio, the score also reflects market and operational risks intrinsic to the investment banking business.

Moody's considers capital markets activities to be both opaque and potentially volatile, posing significant challenges for the management of such firms. This structural weakness results in a one-notch qualitative adjustment to the BCA in respect of opacity and complexity, an adjustment shared with all large global investment banks.

RISK-BASED CAPITAL A STRENGTH AND LEVERAGE NO LONGER A RATINGS CONSTRAINT

Over the past three years Credit Suisse's Basel III risk-based capital ratios have improved significantly, aided by substantial reductions in total and risk-weighted assets as well as the issuance of a large amount of high-trigger contingent capital instruments. Nonetheless, the bank's Basel III CET1 ratio of 10.1% at end-September 2015 (on a look-through basis based on Swiss capital rules) was at lower-end of its peers, as was the bank's leverage ratio. However, as part of the new strategic plan Credit Suisse issued CHF 6.0 billion in additional common equity at the end of 2015. On a pro forma basis as of end-September 2015 the capital raise (net proceeds of CHF 5.9 billion plus 0.6 billion increase in deferred tax assets eligible for inclusion in regulatory capital) has boosted the bank's CET1 ratio to 12.4%, its CET1 leverage ratio to 3.4%, and its Tier 1 leverage ratio to 4.5%, levels more consistent with its global peers.

On the same day as the new plan was announced, the Swiss Federal Council approved final guidance revising the capital requirements for both Credit Suisse and UBS. The required CET1 risk-based ratio is unchanged at 10.0%, but the required Tier 1 leverage ratio will increase to 5.0% with the portion attributed to CET1 increasing to 3.5% from 2.4%, while the rest will have to be met with high-trigger AT1 instruments. The new requirements will phase in through 2019. The stronger leverage requirement is positive for Credit Suisse's creditors. As a part of its new strategic plan Credit Suisse has outlined a number of steps, including further reductions in leverage, the possible IPO of a minority stake in its Swiss banking subsidiary, and additional capital retention, to further boost its capital ratios in order to exceed these new requirements and to position the bank for further risk-weighted assets inflation due to regulatory and methodology changes.

Moody's includes high-trigger capital instruments in our calculation of tangible common equity (TCE) but excludes all other hybrid instruments. This reflects our view that high-trigger instruments are available to absorb losses on a going concern basis, while low-trigger instruments and other hybrids are likely to be available to absorb losses only in a bank resolution, i.e. at the point of non-viability. On a pro forma basis with the capital raise, Credit Suisse's TCE / risk-weighted assets (RWA) ratio as of September 2015 increases to 17.6% from 15.3%, and its TCE / tangible banking assets ratio rises to 6.0% from 5.2%%.

We expect the bank's stronger capital position is likely to be sustained or increased in light of the higher capital requirements recently announced by the Swiss government, and may be further bolstered by other capital actions over 2016 to 2017. We see the stronger capital buffers as an important protection for creditors during the implementation of the group's new strategic plan.

Our assigned Capital score of aa2 reflects the strengthened capital position and leverage ratio and our expectation that a more conservative approach to capital management will help to sustain this strength, reducing risks for the bank's creditors.

WE EXPECT PROFITABILITY TO REMAIN WEAK DURING 2016 AND 2017

Credit Suisse's earnings have been under pressure for several years stemming from the combined effect of the low interest rate environment, restructuring charges, litigation and regulatory charges, losses in non-strategic units, and low levels of client activity. Although the bank has realized significant cost savings from the efficiency initiatives undertaken following the financial crisis, increased compliance and regulatory costs have at least temporarily offset much of the benefit of those savings.

Moody's had expected the bank's profitability to improve over the near term as restructuring costs subsided and cost savings were realized, and had previously noted that absent further improvements in profitability the bank's BCA could be downgraded. While the new strategic plan is intended to boost the bank's profitability over the longer term, the plan's costs make any near-term improvements less likely. We expects that Credit Suisse's profitability

will remain weak over the next two years, stemming from restructuring charges and other "costs to achieve," costs from the wind-down or exit of businesses no longer considered strategic, and the costs of incremental investments for growth. Based on Moody's standard adjustments, we expect the bank's return on tangible assets will likely average 0.4% during 2016 and 2017, unchanged from the first nine months of 2015

If Credit Suisse achieves its strategic plan's 2018 earnings targets on a sustainable basis, the improved profitability would be positive for creditors. Nonetheless, environmental factors beyond management's control could still derail or delay success. One such consideration is the risk of additional litigation charges, most notably related to the bank's US residential mortgage-backed securities (RMBS) activities prior to the financial crisis. While difficult to estimate, we believe such charges could be sizeable given the bank's significant market share in US RMBS underwriting during that period. At end-2014 the bank had reserved CHF 1.0 billion for future litigation expense, and it added CHF 0.5 billion of net litigation provisions during the first nine months of 2015. However, at September 2015 the bank estimated a range of zero to CHF 1.9 billion for possible future litigation expense not yet accrued.

Our assigned Profitability score of ba1 reflects our expectation of continued weakness in profitability over 2016 to 2017.

LIQUIDITY POSITION IS SOUND, ALTHOUGH WHOLESALE FUNDING RELIANCE REMAINS SIGNIFICANT

Credit Suisse maintains a sound liquidity position and has recently taken steps to strengthen it further by terming out more of its short-term funding in response to heightened regulatory requirements. This is reflected in the bank's Basel III liquidity coverage ratio (LCR) which has strengthened considerably over the course of 2015. The bank reported an LCR of 139.1% for the three months ending September 2015, up from 124.8% the previous quarter and 103.2% in the first quarter of 2015. The bank does not disclose its estimated Basel III net stable funding ratio (NSFR).

Liquid banking assets at September 2015 were 47% of tangible banking assets, down slightly from 50% at end 2014, however, over the same time period the bank's liquidity pool of highly liquid assets net of stress level haircuts increased to CHF188 billion at end-September 2015 from CHF 163 billion at end-2014. We assign a Liquid Resources score of aa3 to reflect these factors.

Market funding reliance has declined over the past several years, from 51% at end 2011 to 43% at end-September 2015, as the bank has worked to de-lever its balance sheet, and we expect this trend to continue in light of management's leverage targets. Nonetheless, the bank's overall volume of secured and unsecured wholesale funding is substantial, which results in an unadjusted Funding Structure score of b1. Our assigned Funding Structure score of ba2 incorporates our expectation of further declines in market funding reliance over the near to medium term.

CREDIT SUISSE'S BCA IS SUPPORTED BY ITS STRONG+ MACRO PROFILE

Whilst nearly three-quarters of Credit Suisse's revenues are derived from activities in Switzerland and North America, operating environments to which we assigned Very Strong- macro profiles, this is partly offset by the bank's sizeable operations in other European countries (Strong) and in the Asia Pacific region (Strong-), which have weaker macro profiles. This results in a Strong+ weighted macro profile for Credit Suisse. Although Credit Suisse's new strategic plan will likely result in some reduction in the contribution from North America and the rest of Europe, and an increase in the contribution from Switzerland and Asia Pacific, we do not expect these changes to be of such a magnitude so as to change to the weighted macro profile.

Notching Considerations

LOSS GIVEN FAILURE AND ADDITIONAL NOTCHING

Credit Suisse and Credit Suisse Group AG are subject to the Swiss bank resolution framework , which we consider to be an Operational Resolution Regime. Under our revised bank rating methodology we apply Advanced LGF analysis to the liability structures of banks subject to operational resolution regimes.

Under the Swiss resolution regime, junior deposits are preferred to senior unsecured debt. As a result of our LGF analysis, we believe that Credit Suisse AG's junior deposits are likely to face extremely low loss-given-failure due to the loss absorption provided by senior unsecured and subordinated debt at the bank and holding company level, as well as the substantial volume of junior deposits themselves. As a result, the bank's A1 long-term deposit ratings receive 3 notches of uplift from the bank's baa2 BCA, plus one additional notch due to a moderate likelihood of government support (see Government Support section below).

Credit Suisse AG's senior unsecured debt is rated at A2, reflecting two notches of uplift from the BCA due to a very low loss-given-failure and one notch due to moderate government support. Although less well protected than bank depositors, we believe the significant amount of bank-level senior unsecured debt outstanding nonetheless would allow for losses in resolution to be spread across a larger volume of creditors, lowering the severity of loss for individual senior bank creditors.

The Baa3 rating for senior unsecured debt guaranteed by Credit Suisse Group AG is rated one notch below the baa1 BCA, reflecting our view that such obligations are likely to face a high loss-given-failure due to the relatively modest amount of senior holding company debt outstanding, as well as the limited protection from subordinated instruments. As noted below, in a Swiss bank resolution we expect the probability of government support for holding company obligations is low.

In response to recent regulatory changes, including most notably, the Swiss "gone concern" Too Big To Fail (TBTF) capital requirements and the Financial Stability Board's Total Loss Absorbing Capital (TLAC) rules, Credit Suisse has already begun to, and is expected to continue to issue a significant volume of long-term holding company debt over the next several years which will provide a larger buffer to absorb losses in resolution. However, we expect it will take more than a year before this buffer is of sufficient magnitude to significantly further reduce the likely loss-given-failure for bank and holding company senior creditors. We therefore have not increased the amount of ratings uplift incorporated into the bank's senior debt ratings to reflect a lower loss-given-failure due to future issuance, although additional uplift may be possible in the future once issuance approaches the required levels.

For junior securities issued or guaranteed by Credit Suisse AG or Credit Suisse Group AG, our LGF analysis indicates a high loss-given-failure, given the small volume of debt and limited protection from more subordinated instruments and residual equity. We incorporate additional notching for junior subordinated and preference share instruments reflecting the risk of coupon suspension and distressed exchange prior to a potential resolution.

GOVERNMENT SUPPORT

Swiss authorities have made significant progress in implementing a credible and flexible bank resolution framework that includes provisions for burden-sharing with senior creditors. This progress, including the ongoing efforts towards making the largest Swiss banks, including Credit Suisse, resolvable by establishing holding company structures and creating a Swiss banking subsidiary, are important steps in overcoming the main obstacles to their resolvability; namely their global reach and high interconnection with other parts of the financial system. With most of the legal framework now in place, we believe there is a low likelihood of government support for parent holding company debt issued (or guaranteed) by Credit Suisse Group AG. This reflects the resolution objectives of Swiss authorities, who have espoused single point of entry (SPE) resolution as their preferred strategy, exposing holding company creditors to loss in order to shield the bank's own senior creditors and depositors.

The deposit and senior debt ratings for Credit Suisse AG and its branches benefit from one notch of uplift, reflecting our view that there remains a moderate probability of government support for those ratings classes at the operating company level. For junior securities issued or guaranteed by Credit Suisse AG or Credit Suisse Group AG, the potential for government support is low and the ratings on those securities do not include any related uplift.

COUNTERPARTY RISK ASSESSMENT

CR Assessments are opinions of how counterparty obligations are likely to be treated if a bank fails and are distinct from debt and deposit ratings in that they (1) consider only the risk of default rather than both the likelihood of default and the expected financial loss suffered in the event of default and (2) apply to counterparty obligations and contractual commitments rather than debt or deposit instruments. The CR assessment is an opinion of the counterparty risk related to a bank's covered bonds, contractual performance obligations (servicing), derivatives (e.g., swaps), letters of credit, guarantees and liquidity facilities.

Credit Suisse AG's CR Assessment is A1(cr)/P-1(cr). The CR Assessment, prior to government support, is positioned three notches above the bank's BCA of baa2, based on the substantial cushion against default provided to the senior counterparty obligations by more junior instruments. In a Swiss bank resolution, we expect that operational liabilities will rank above senior unsecured debt, but below junior deposits. Since the CR Assessment captures the probability of default on certain senior operational obligations, rather than expected loss, we focus purely on subordination and take no account of the volume of the instrument class. Credit Suisse AG's CR Assessment also benefits from one notch of government support, in line with our moderate support assumption for

long-term deposits and senior unsecured debt at the bank.

About Moody's Bank Scorecard

Our Scorecard is designed to capture, express and explain in summary form our Rating Committee's judgment. When read in conjunction with our research, a fulsome presentation of our judgment is expressed. As a result, the output of our Scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The Scorecard output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating Factors

Credit Suisse Group AG

Macro Factors	
Weighted Macro Profile	**Strong +**

Financial Profile						
Factor	**Historic Ratio**	**Macro Adjusted Score**	**Credit Trend**	**Assigned Score**	**Key driver #1**	**Key driver #2**
Solvency						
Asset Risk						
Problem Loans / Gross Loans	0.6%	aa2	← →	baa1	Market risk	Operational risk
Capital						
TCE / RWA	15.3%	aa3	↑	aa2	Expected trend	
Profitability						
Net Income / Tangible Assets	0.4%	ba2	↑	ba1	Expected trend	
Combined Solvency Score		a1		a3		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	42.3%	b1	↑	ba2	Expected trend	
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	49.7%	aa3	← →	aa3	Stock of liquid assets	
Combined Liquidity Score		baa3		baa2		

Financial Profile	**baa1**

Qualitative Adjustments	**Adjustment**
Business Diversification	0
Opacity and Complexity	-1
Corporate Behavior	0
Total Qualitative Adjustments	**-1**

Sovereign or Affiliate constraint	Aaa

Scorecard Calculated	**baa1 - baa3**

BCA range	
Assigned BCA	**baa2**
Affiliate Support notching	**0**
Adjusted BCA	**baa2**

Instrument Class	Loss Given Failure notching	Additional notching	Preliminary Rating Assessment	Government Support notching	Local Currency rating	Foreign Currency rating
Deposits	3	0	a2	1	A1	A1
Senior unsecured bank debt	2	0	a3	1	A2	A2
Senior unsecured holding company debt	-1	0	baa3	0		(P)Baa3
Dated subordinated bank debt	-1	0	baa3	0	Baa3	(P)Baa3
Dated subordinated holding company debt	-1	0	baa3	0		(P)Baa3

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on http://www.moodys.com for the most updated credit rating action information and rating history.

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