

Rating Action: Moody's downgrades Credit Suisse AG's long-term ratings (senior debt to A2), outlook stable

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New York, January 11, 2016 -- Moody's Investors Service has downgraded -- by one notch -- the long-term ratings of Credit Suisse AG and affiliates, including the bank's long-term deposit rating to A1 from Aa3, its senior unsecured debt rating to A2 from A1, its standalone baseline credit assessment (BCA) to baa2 from baa1, its counterparty risk assessment to A1(cr) from Aa3(cr) and the rating on the senior unsecured debt of Credit Suisse Group Funding (Guernsey) Limited guaranteed by the bank's parent holding company, Credit Suisse Group AG, to Baa3 from Baa2. The bank's short term ratings and short term counterparty risk assessment of Prime-1 and Prime-1(cr), respectively, were affirmed.

The rating action concludes a review for downgrade which began on 21 October 2015 following Credit Suisse's announcement of its new strategic plan. The rating outlook is stable.

RATINGS RATIONALE

The rating action reflects Moody's expectation that Credit Suisse's profitability will remain weak over the next two years at a level that is not consistent with its previous ratings. Based on Moody's adjustments, the rating agency expects the bank's return on tangible assets will likely average 0.4% over the next two years, unchanged from the first nine months of 2015. Profit challenges will stem from restructuring charges, costs from the wind-down or exit of businesses no longer considered strategic, and the costs of incremental investments for growth. The rating agency expects that these added costs are likely to be only partially offset over the next two years by the realization of cost savings from the bank's re-engineering initiatives and business exits along with higher revenues from the bank's growth initiatives.

Moody's noted that 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.

Moody's said that if Credit Suisse achieves its strategic plan's 2018 earnings targets 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 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 such charges are difficult to estimate, the rating agency believes they could be sizeable given the bank's significant market share in US RMBS underwriting during that time period.

Moody's also noted that the bank's strategic plan establishes substantial growth ambitions for its Asia Pacific and International Wealth Management businesses, which could pose additional risk for the bank's creditors if not executed prudently. Rapidly growing and expanding businesses can pose particular challenges for risk management and will require additional resources to prudently manage. While Moody's expects the expansion will be subject to the same risk management and controls as the rest of the bank, the rating agency nonetheless believes the expansion strategy has the potential to expose creditors to additional risk.

As part of its new strategic plan, Credit Suisse recently completed the issuance of CHF 6 billion in new common equity, significantly boosting its 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. Nonetheless, the rating agency believes that the weaker profitability levels it expects over the next two years, and the execution risk

associated with the implementation of the new strategy, pose risks for creditors which are inconsistent with a baa1 BCA.

The rating action also considered the potential benefit for senior creditors at both the bank and the holding company of Credit Suisse's planned issuance of additional holding company debt in response to recent regulatory changes. This includes, 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 which will provide a larger buffer to absorb losses in resolution. By providing greater loss protection for senior creditors, an increased loss absorption buffer could potentially offset the negative impact of the lower BCA for senior debt ratings. However, under Moody's Advanced Loss Given Failure (LGF) analysis the rating agency does not expect the buffer to be of sufficient magnitude over the next year to significantly reduce the likely loss-given-failure for bank and holding company senior creditors. As a result, Moody's is not increasing the amount of ratings uplift incorporated into the bank's senior debt ratings to reflect a lower loss-given-failure at this time. Thus all of Credit Suisse's long-term debt ratings were downgraded by one notch, consistent with the one notch downgrade of its BCA.

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/DOWN

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.

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.

The principal methodology used in these ratings was Banks published in January 2016. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

The following ratings were affected by the rating action:

Downgrades:

Credit Suisse AG

....Adjusted Baseline Credit Assessment , Downgraded to baa2 from baa1

....Baseline Credit Assessment, Downgraded to baa2 from baa1

....Long-Term Counterparty Risk Assessment, Downgraded to A1(cr) from Aa3(cr)

....Long-Term Issuer Rating, Downgraded to A2 from A1

....Long-Term Deposit Ratings, Downgraded to A1 from Aa3

....Senior Unsecured Regular Bond/Debenture, Downgraded to A2 from A1

....Subordinate Regular Bond/Debenture, Downgraded to Baa3 from Baa2

....Senior Unsecured MTN Program, Downgraded to (P)A2 from (P)A1

....Senior Unsecured Shelf, Downgraded to (P)A2 from (P)A1

....Long-term Deposit Note/CD Program, Downgraded to (P)A1 from (P)Aa3

....Subordinate MTN Program, Downgraded to (P)Baa3 from (P)Baa2

...Subordinate Shelf, Downgraded to (P)Baa3 from (P)Baa2

Credit Suisse (USA) Inc.

...BACKED Senior Unsecured Shelf, Downgraded to (P)A2 from (P)A1

...BACKED Senior Unsecured Regular Bond/Debenture, Downgraded to A2 from A1

Credit Suisse AG (Guernsey) Branch

...Long-Term Counterparty Risk Assessment, Downgraded to A1(cr) from Aa3(cr)

...Senior Unsecured Regular Bond/Debenture, Downgraded to A2 from A1

...Junior Subordinated Regular Bond/Debenture, Downgraded to Baa3(hyb) from Baa2(hyb)

...Pref. Stock Non-cumulative Preferred Stock, Downgraded to Ba2(hyb) from Ba1(hyb)

...Senior Unsecured MTN Program , Downgraded to (P)A2 from (P)A1

Credit Suisse AG (London) Branch

...Long-Term Counterparty Risk Assessment, Downgraded to A1(cr) from Aa3(cr)

...Long-Term Deposit Rating, Downgraded to A1 from Aa3

...Senior Unsecured Regular Bond/Debenture, Downgraded to A2 from A1

...Subordinate Regular Bond/Debenture, Downgraded to Baa3 from Baa2

...Senior Unsecured MTN Program , Downgraded to (P)A2 from (P)A1

...Subordinate MTN Program, Downgraded to (P)Baa3 from (P)Baa2

Credit Suisse AG (Nassau) Branch

...Long-Term Counterparty Risk Assessment, Downgraded to A1(cr) from Aa3(cr)

...Senior Unsecured Regular Bond/Debenture, Downgraded to A2 from A1

...Senior Unsecured MTN Program , Downgraded to (P)A2 from (P)A1

...Subordinate MTN Program, Downgraded to (P)Baa3 from (P)Baa2

Credit Suisse AG (New York) Branch

...Long-Term Counterparty Risk Assessment, Downgraded to A1(cr) from Aa3(cr)

...Long-Term Deposit Rating, Downgraded to A1 from Aa3

...Long-term Deposit Note/CD Program, Downgraded to A1 from Aa3

...Senior Unsecured Regular Bond/Debenture, Downgraded to A2 from A1

...Subordinate Regular Bond/Debenture, Downgraded to Baa3 from Baa2

...Senior Unsecured MTN Program , Downgraded to (P)A2 from (P)A1

...Senior Unsecured Shelf, Downgraded to (P)A2 from (P)A1

...Subordinate MTN Program, Downgraded to (P)Baa3 from (P)Baa2

Credit Suisse AG (Sydney) Branch

...Long-Term Counterparty Risk Assessment, Downgraded to A1(cr) from Aa3(cr)

...Senior Unsecured Regular Bond/Debenture, Downgraded to A2 from A1

...Senior Unsecured MTN Program , Downgraded to (P)A2 from (P)A1

Credit Suisse AG (Tokyo) Branch

...Long-Term Counterparty Risk Assessment, Downgraded to A1(cr) from Aa3(cr)

...Senior Unsecured Regular Bond/Debenture, Downgraded to A2 from A1

Credit Suisse Group AG

...Senior Unsecured MTN Program, Downgraded to (P)Baa3 from (P)Baa2

...Senior Unsecured Shelf, Downgraded to (P)Baa3 from (P)Baa2

...Subordinate Shelf, Downgraded to (P)Baa3 from (P)Baa2

Credit Suisse Group Finance (Guernsey) Ltd.

...BACKED Senior Unsecured Regular Bond/Debenture, Downgraded to Baa3 from Baa2

...BACKED Junior Subordinated Regular Bond/Debenture, Downgraded to Ba1(hyb) from Baa3(hyb)

Credit Suisse Group Finance (US) Inc.

...BACKED Subordinate Regular Bond/Debenture, Downgraded to Baa3 from Baa2

Credit Suisse Group Funding (Guernsey) Ltd

...BACKED Senior Unsecured MTN Program , Downgraded to (P)Baa3 from (P)Baa2

...BACKED Senior Unsecured Regular Bond/Debenture, Downgraded to Baa3 from Baa2

Credit Suisse International

...Long-Term Counterparty Risk Assessment, Downgraded to A1(cr) from Aa3(cr)

...Long-Term Issuer Rating, Downgraded to A2 from A1

...Backed Long-Term Deposit Rating, Downgraded to A1 from Aa3

...Senior Unsecured Regular Bond/Debenture, Downgraded to A2 from A1

...BACKED Senior Unsecured Shelf, Downgraded to (P)A2 from (P)A1

DLJ Cayman Islands LDC

...BACKED Senior Unsecured Regular Bond/Debenture, Downgraded to A2 from A1

Affirmations:

Credit Suisse AG

...Short-Term Counterparty Risk Assessment, Affirmed at P-1(cr)

...Short-Term Deposit Ratings, Affirmed P-1

... Commercial Paper, Affirmed P-1

...Other Short Term, Affirmed (P)P-1

Credit Suisse AG (Guernsey) Branch

...Short-Term Counterparty Risk Assessment, Affirmed at P-1(cr)

....Other Short Term, Affirmed (P)P-1

Credit Suisse AG (London) Branch

....Short-Term Counterparty Risk Assessment, Affirmed at P-1(cr)

....Short-Term Senior Unsecured Regular Bond/Debenture, Affirmed P-1

....Other Short Term, Affirmed (P)P-1

Credit Suisse AG (Nassau) Branch

....Short-Term Counterparty Risk Assessment, Affirmed at P-1(cr)

....Other Short Term, Affirmed (P)P-1

Credit Suisse AG (New York) Branch

....Short-Term Counterparty Risk Assessment, Affirmed at P-1(cr)

....Short-Term Deposit Ratings, Affirmed P-1

.... Commercial Paper, Affirmed P-1

....Other Short Term, Affirmed (P)P-1

Credit Suisse AG (Sydney) Branch

....Short-Term Counterparty Risk Assessment, Affirmed at P-1(cr)

.... Commercial Paper, Affirmed P-1

Credit Suisse AG (Tokyo) Branch

....Short-Term Counterparty Risk Assessment, Affirmed at P-1(cr)

Credit Suisse International

....Short-Term Counterparty Risk Assessment, Affirmed at P-1(cr)

....Backed Short-Term Deposit Rating, Affirmed P-1

Outlook Actions:

Credit Suisse AG

....Outlook, Changed To Stable From Rating Under Review

Credit Suisse (USA) Inc.

....Outlook, Changed To Stable From Rating Under Review

Credit Suisse AG (Guernsey) Branch

....Outlook, Changed To Stable From Rating Under Review

Credit Suisse AG (London) Branch

....Outlook, Changed To Stable From Rating Under Review

Credit Suisse AG (Nassau) Branch

....Outlook, Changed To Stable From Rating Under Review

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...Outlook, Changed To Stable From Rating Under Review

Credit Suisse AG (Sydney) Branch

...Outlook, Changed To Stable From Rating Under Review

Credit Suisse AG (Tokyo) Branch

...Outlook, Changed To Stable From Rating Under Review

Credit Suisse Group AG

...Outlook, Changed To Stable From Rating Under Review

Credit Suisse Group Finance (Guernsey) Ltd.

...Outlook, Changed To Stable From Rating Under Review

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...Outlook, Changed To Stable From Rating Under Review

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