Financial Institutions Ratings
Credit Suisse Group AG – High-trigger AT1s

Scope Ratings

Security ratings

Outlook	Stable
9.5% USD 1.725bn Tier 1 Buffer Capital Notes, with 7% trigger	BB+
7.125% USD 1.5bn Perpetual Tier 1 Contingent Convertible Capital Notes, with 7% trigger	BB+
3.875% CHF 200m Perpetual Tier 1 Contingent Write-down Capital Notes, with 7% trigger	BB+

The ratings have not been solicited by the issuer; the analysis is based solely on public information.

Rating rationale

Scope Ratings assigns a rating of BB+ with Stable outlook to the above referenced high-trigger AT1 securities. The 9.5% USD 1.725bn Notes have been issued by Credit Suisse Group (Guernsey) II Limited but are irrevocably guaranteed on a subordinated basis by Credit Suisse Group AG (CSG). The other two securities were issued by CSG directly. The ratings are based on the following considerations:

- Senior unsecured debt rating (eligible for TLAC): A, Stable Outlook
- Minimum notches down from senior unsecured debt rating: 4
- Additional notches: 1

In accordance with our rating methodology, the starting point for notching down when rating capital instruments is the senior unsecured debt rating. The minimum four notches reflect the deeply subordinated status of AT1 capital instruments in the priority of claims, their going concern loss absorbing features and investors' exposure to coupon-cancellation risks. Please refer to Scope's *Bank Capital Instruments Rating Methodology* published in May 2018 for more details.

The additional notch reflects the positioning of the Notes in the group's capital structure. They are meant to be first in line to absorb losses, before all of Credit Suisse's other regulatory capital instruments. The trigger is relatively high at 7% and is based on the group's CET1 ratio. Meanwhile, the group's other regulatory capital instruments have lower triggers of 5.125% or 5% and as well are measured against the sum of CSG's CET1 and Higher-Trigger capital ratios.

The release of this rating report does not constitute a rating action. Last rating action was assigned on 15 June 2017. For further information on the last rating action and regulatory information please click here.

Lead Analyst

Pauline Lambert
p.lambert@scoperatings.com

Associate Analyst

Alvaro Dominguez Alcalde
a.dominguez@scoperatings.com

Team Leader

Sam Theodore
s.theodore@scoperatings.com

Scope Ratings GmbH

Suite 301
2 Angel Square
London EC1V 1NY

Phone +44 20 3457 0452

Headquarters

Lennéstraße 5
10785 Berlin

Phone +49 30 27891 0
Fax +49 30 27891 100

info@scoperatings.com
www.scoperatings.com

Bloomberg: SCOP

Issuer credit profile

The Issuer Rating of A+ for Credit Suisse is driven by the group's robust and resilient wealth management franchise as well as its position as a leading universal bank in Switzerland. Credit Suisse has defined its ambition to be a leading wealth manager with strong investment banking capabilities. Management believes strong investment banking capabilities are needed to successfully serve its target wealth management clients.

Scope views positively the material progress that has been made two years into the group's three-year restructuring plan. The business has been refocused, with more resources being allocated towards wealth management while the exposure to markets-related businesses has been reduced and de-risked, although still significant.

Further, the group's solvency position has been materially strengthened via capital increases, retained earnings and asset reductions. Management remains committed to generating profitable growth to build capital organically. There continues to be execution risks associated with the restructuring. If done well, the group will improve the quality and resilience of earnings and be better positioned for an evolving competitive landscape.

Summary terms

Issuer	Credit Suisse Group (Guernsey) II Limited
Guarantor	Irrevocably guaranteed on a subordinated basis by Credit Suisse Group AG
Issue Date	31 July 2012
Amount	USD 1.725bn
Coupon	• 9.5% fixed until first interest payment date after the first call date; payable annually in arrear • From first interest payment date after the first call date at a rate equal to the 6-month USD LIBOR rate plus 6.64%; payable semi-annually in arrear
Format	Perpetual Tier 1 contingent convertible securities, callable 23 October 2018 and every six months thereafter
ISIN	XS0810846617

Issue Date	26 January 2017
Amount	USD 1.5bn
Coupon	• 7.125% fixed until first call date; reset every 5 years thereafter • From first call date at a rate equal to the Mid Market Swap rate plus 5.108% • Payable semi-annually in arrear
Format	Perpetual Tier 1 contingent convertible securities, callable 29 July 2022 and every five years thereafter
ISIN	CH0352765157

Issue Date	**22 March 2017**
Amount	CHF 200m
Coupon	• 3.875% fixed until first call date; reset every five years thereafter • From first call date at a rate equal to the Mid Market Swap rate plus 3.993% • Payable annually in arrear
Format	Perpetual Tier 1 contingent write-down securities, callable 22 September 2023 and every five years thereafter
ISIN	CH0360172719

Main Risks	
Coupon Cancellation	• Fully discretionary • Mandatory if there are insufficient distributable profits; if all applicable minimum Swiss capital requirements are not met; or if the regulator requires the issuer not to make such an interest payment
Principal Loss Absorption	• For the 9.5% USD 1.725bn and 7.125% USD 1.5bn Notes: upon a Contingency Event or a Viability Event, the Notes are mandatorily converted into ordinary shares; • For the 3.875% CHF 200m Notes: upon a Contingency Event or Viability Event, the Notes are automatically and permanently written down to zero; • A Contingency Event refers to the CET1 ratio of CSG being below 7%; • A Viability Event refers to (1) the regulator determining that the conversion or write-down of all other capital instruments is an essential requirement to prevent CSG from becoming insolvent, bankrupt, unable to pay a material part of its debt or ceasing to carry on its business; or (2) CSG has received an irrevocable commitment of extraordinary support from the public sector without which CSG would have become insolvent, bankrupt, unable to pay a material part of its debts as they fall due or unable to carry on its business.
Trigger for Principal Loss Absorption	Consolidated group CET1 < 7%, transitional basis

Source: Prospectuses, Scope Ratings

Key risks

A. Coupon cancellation

Key risk: Coupon cancellation

Coupon payments on the Notes are fully discretionary and non-cumulative.

Coupon payments on the Notes are fully discretionary and non-cumulative. In addition, they are subject to distribution restrictions. Swiss banks, however, are not bound by CRD IV and therefore the concepts of the combined buffer requirement and the maximum distributable amount do not apply.

Further, unlike with AT1 securities issued by other European banks, the Notes contain a dividend stopper – i.e. if Credit Suisse does not pay a coupon, the group shall not recommend to ordinary shareholders any dividend or other distribution in cash or in kind be paid or made on any ordinary shares. Capital returns (such as share buy-backs) are also not permitted.

At the same time, if Credit Suisse elects to pay dividends on ordinary shares corresponding to a period when there is unpaid interest on the Notes, then CSG should pay Notes holders the aggregate amount of all unpaid interest which has arisen during the period.

Conditions under which coupon payments are prohibited

CSG is prohibited from making coupon payments on the Notes in the following circumstances:

- Distributable profits are less than the sum of (i) the aggregate amount of such interest payments and (ii) all other payments (except redemptions) made by CSG since the last financial year on the Notes and any other Tier 1 instruments or shares – excluding any portion of such payment already accounted for in determining distributable profits;
- CSG is not in compliance with all applicable minimum Swiss capital adequacy requirements after paying interest on the Notes;
- FINMA, the Swiss regulator, has required CSG not to make such an interest payment.

We do not consider distributable profits to be constraining factor for the group to pay coupons. As of end-2017, CSG had CHF 15.7bn in distributable profits (CHF 10.5bn in statutory and discretionary reserves plus CHF 5.2bn in retained earnings brought forward and no net loss). Distributable profits are defined as the aggregate of net profits carried forward and freely distributable reserves (other than reserves for own shares).

Applicable requirements

The revised Swiss SRB (systemically relevant bank) framework came into effect in July 2016 and is being phased-in until the end of 2019. Under the framework, the fully applied minimum going concern capital requirement is 14.3% of RWAs, of which at least 10% must be met with CET1 capital and the remainder with high-trigger AT1 securities. In addition, there is a minimum going concern leverage ratio of 5%, of which at least 3.5% must be with CET1 capital and the remainder with high-trigger AT1 instruments.

Gone concern requirements mirror going concern requirements, i.e. 14.3% of RWAs and 5% leverage ratio and can be met with bail-in debt instruments, CET1 capital, AT1 and Tier 2 securities. At its discretion, FINMA, may reduce gone concern requirements if CSG takes additional steps to improve its resolvability. The combination of going concern and gone concern requirements equates to total loss absorbing capacity (TLAC).

As of 1Q 2018, the group had low-trigger AT1 (the Notes) and Tier 2 securities that benefit from grandfathering provisions. Low-trigger AT1 securities qualify as going concern capital until their first call date and thereafter may be used to meet gone concern requirements. The group's two low-trigger Tier 2 securities qualify as going concern capital until end-2019 and thereafter may be used for gone concern requirements.

As of 1Q 2018, the group's look-through total loss absorbing capacity was 30.6% on an RWA basis and 8.9% on a leverage basis. The look-through RWA requirements have already been met and the group is on its way to meeting look-through leverage requirements.

Through 2019, the group intends to continue replacing a portion of maturing operating company debt with TLAC-eligible holding company debt and replacing outstanding callable capital instruments with fully compliant high-trigger AT1 securities.

Figure 1: Total loss-absorbing capacity

	1Q 2018 actual phase-in	2018 requirement	1Q 2018 actual look-through	Jan 2020 requirement
RWAs (CHF bn)	272		272	
Going concern capital	18.8%	13.1%	17.3%	14.5%
of which CET1	*12.9%*	*9.7%*	*12.9%*	*10.2%*
Gone concern loss-absorbing capacity	13.3%	7.7%	13.2%	12.3%
Total loss-absorbing capacity	**32.2%**	**20.7%**	**30.6%**	**26.8%**
Leverage ratio denominator (CHF bn)	932		932	
Going concern capital	5.5%	4.0%	5.1%	5.0%
of which CET1	*3.7%*	*2.9%*	*3.7%*	*3.5%*
Gone concern loss-absorbing capacity	3.9%	2.6%	3.9%	4.3%
Total loss-absorbing capacity	**9.4%**	**6.6%**	**8.9%**	**9.3%**

Notes: Gone concern requirements include the impact of rebates – 2% for RWAs and 0.7% for the leverage ratio denominator – which are being phased-in until January 2020. Going concern RWA requirements include a countercyclical buffer of 0.2%. Gone concern RWA requirements do not incorporate any countercyclical buffers.

Source: Company data, Scope Ratings

B. Principal loss absorption

Key risk: Principal loss absorption

- For the 9.5% USD 1.725bn and 7.125% USD 1.5bn Notes, the mechanism for loss absorption is equity conversion.
- For the 3.875% Notes, the mechanism for loss absorption is permanent write down.

The rated securities have one trigger:

- Consolidated group CET1 < 7%, transitional basis

Within the group's capital structure, these high-trigger Notes are first in line to absorb losses, ahead of Credit Suisse's other regulatory capital instruments. The trigger is relatively high at 7% and is based on CSG's CET1 ratio. Meanwhile, the group's other regulatory capital instruments have lower triggers of 5.125% and 5% and as well are measured against the sum of the group's CET1 and Higher-Trigger capital ratios. For these reasons, there is a one notch rating differential between these Notes and the group's other AT1 securities.

Meanwhile, we note that the 7% trigger is well below the group's minimum capital requirements under Swiss regulations. Under the Swiss Capital Adequacy Ordinance both high and low-trigger contingent convertible securities (including the Notes) may be triggered before the point of non-viability. Further, FINMA retains a fair degree of discretion in determining the point of non-viability.

Distance to trigger

We expect the group's CET1 capital ratio to remain solidly above the 7% trigger level as the group targets a pre-Basel III reforms CET1 ratio above 12.5%.

Figure 2: Distance to trigger – Credit Suisse Group AG

	2017	Q1 2018	2019
Trigger level	7.0%	7.0%	7.0%
CET1 capital ratio, phase-in	13.4%	12.9%	>12.5% target
Gap (%)	**6.4%**	**5.9%**	
Gap (CHF bn)	**17.4**	**15.9**	

Source: Company data, Scope Ratings

Scope Ratings GmbH

Headquarters Berlin
Lennéstraße 5
D-10785 Berlin

Phone +49 30 27891 0

Frankfurt am Main
Neue Mainzer Straße 66-68
D-60311 Frankfurt am Main

Phone +49 69 66 77 389-0

Paris
33 rue La Fayette
F-75009 Paris

Phone +33 1 82885557

London
Suite 301
2 Angel Square
London EC1V 1NY

Phone +44 203-457 0 4444

Madrid
Paseo de la Castellana 95
Edificio Torre Europa
E-28046 Madrid

Phone +34 914 186 973

Milan
Via Paleocapa 7
IT-20121 Milan

Phone +39 02 30315 814

Oslo
Haakon VII's gate 6
N-0161 Oslo

Phone +47 21 62 31 42

info@scoperatings.com
www.scoperatings.com