Financial Institutions Ratings
Credit Suisse AG – Tier 2 rating report

Security ratings

Outlook	Stable
6.5% USD 2.5bn Tier 2 Capital Notes due 2023, with 5% trigger	BBB+
5.75% EUR 1.25bn Tier 2 Capital Notes due 2025, with 5% trigger	BBB+

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

Rating rationale

We have assigned a rating of BBB+ to the above noted *low-trigger* Tier 2 Capital Notes issued by Credit Suisse AG. The rating is based on the following considerations:

- Senior unsecured debt rating (eligible for TLAC): A, Stable Outlook
- Minimum notches down from senior unsecured debt rating: 2
- Additional notches: 0

In accordance with our recently updated rating methodology, the starting point for notching down when rating capital instruments is the senior unsecured debt rating and no longer the issuer credit-strength rating (ICSR). The minimum two notches reflect the subordinated status of Tier 2 capital instruments in the priority of claims and their loss absorbing features. Please refer to Scope's *Bank Capital Instruments Rating Methodology* published in May 2016 for more details. At this time, we have not identified any additional factors which would warrant further notching from the senior unsecured debt rating other than the minimum two.

Issuer credit profile

The ICSR of A+ for Credit Suisse is driven by the group's strong and resilient wealth management franchise as well as its position as a leading universal bank in Switzerland. In light of the challenging operating environment and the material weight of investment banking in the group's business mix, we view positively management's latest strategic plans.

Credit Suisse has defined its ambition to be a leading private bank and wealth manager with strong investment banking capabilities. The group recently raised external capital of CHF 6bn and is implementing measures to improve its ability to generate capital internally. These actions include further right-sizing of the investment banking business, disciplined capital allocation, cutting fixed costs and reducing non-core assets. While execution risks are material, if successfully completed, the group will improve the quality and resilience of earnings and position itself well to meet increasing solvency requirements.

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Summary terms

Issuer	Credit Suisse AG
Issue Date	8 August 2013
Amount	USD 2.5bn
Coupon	• 6.5% per annum • payable semi-annually in arrears on 8 February and 8 August each year
Format	Tier 2 Capital Notes due 2023
ISIN	XS0957135212 / US22546DAA46

Issue Date	18 September 2013
Amount	EUR 1.25bn
Coupon	• 5.75% fixed until first call date, and thereafter at a rate equal to the Mid-Swap rate plus 4% • payable annually in arrears on 18 September each year
Format	Tier 2 Capital Notes due 2025, callable on 18 September 2020
ISIN	XS0972523947

Capital Treatment	Tier 2 grandfathered (see below)
Principal Loss Absorption	• While the issuer of the Notes is Credit Suisse AG, the trigger is based on the capital metrics of Credit Suisse Group AG (CSG). • Following the occurrence of a Contingency Event or a Viability Event, a write-down will occur and the full principal amount of the Notes will automatically and permanently be written down to zero. • A Contingency Event refers to the sum of CSG's CET1 ratio and Higher Trigger Capital Ratio falling below 5%. • A Viability Event refers to (1) the regulator notifying CSG that conversion or write-off of all Basel 3-compliant 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. • In the event of changes in national regulations on capital, the Contingency and Viability Events provisions may no longer apply to the Notes.
Trigger for Principal Loss Absorption	• Sum of CSG's CET1 + Higher-Trigger capital ratio <5%, transitional basis

Source: Prospectuses, Scope Ratings

Key risk: principal loss absorption

The Notes are subject to permanent write-down if the sum of Credit Suisse Group AG's (CSG) CET1 and Higher-Trigger capital ratio falls below 5%. There is a possibility that a write-down will not occur if FINMA agrees that as a result of actions taken by CSG, or due to circumstances or events, the CET1 Ratio has been or will be restored above 5%.

In addition, the Notes are subject to write-down upon the occurrence of a Viability Event. if FINMA determines that a write-down of the Notes as well as other similar capital instruments is essential in order to prevent CSG from becoming insolvent, bankrupt, unable to pay a material part of its debts or unable to carry on its business; or CSG has received an irrevocable commitment of direct or indirect extraordinary support from the public sector in order to prevent CSG from becoming insolvent, bankrupt, unable to pay a material part of its debts or unable to carry on its business.

We highlight that under the Swiss Capital Adequacy Ordinance 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.

In the event of changes in national regulations on capital, the Contingency and Viability Event provisions may no longer apply to the Notes. As the latest Swiss TBTF regulations which become effective 1 July 2016 contain grandfathering rules for both high and low trigger Tier 2 securities (including the Notes), we believe the Contingency and Viability Event provisions will continue to be applicable. Tier 2 securities will qualify as going concern capital until the earliest of end-2019, maturity or the first call date. Thereafter, they may be used to meet gone concern requirements.

Distance to trigger

In our opinion, the write-down risk for these Notes is quite low outside of a resolution scenario. First, this is because of the way the trigger metric is determined (sum of CET1 capital and Higher-Trigger capital ratio) as well as the low level of the threshold at 5%. As of end-March 2016, CSG had a phase-in CET1 ratio of 16.4%. In addition, the group had another CHF 13.3bn in higher-trigger loss absorbing capital outstanding (equivalent to 4.7% of RWAs).

Investors in the Notes benefit from the lower ranking of the group's other regulatory capital instruments – in particular, the above mentioned CHF 13.3bn in higher-trigger loss absorbing capital securities (CHF 5.7bn AT1 with 7% trigger, CHF 5bn AT1 with 5.125% trigger and CHF 2.6bn Tier 2 with 7% trigger).

Considering the undemanding trigger of the Notes, we expect CSG's CET1 and High-Trigger capital ratios to remain well above the 5% trigger level. The group targets a CET1 ratio of around 13% on a look-through basis by end-2018.

Table 1: Distance to trigger – Credit Suisse Group AG

	2015	1Q 2016	2017	2018	2019
Trigger level	5%	5%	5%	5%	5%
Sum of CET1 + High-Trigger capital ratio	17.3%	18.2%	~13% look-through CET1 target		
Gap (%)	12.3%	13.2%			
Gap (CHF bn)	36.4	37.6			

Note: 2015 and 1Q 2016 capital ratios are on a phase-in basis.
Source: Company data, Scope Ratings

Regulatory Disclosures

Information pursuant to Regulation (EC) No 1060/2009 on credit rating agencies, as amended by Regulations (EU) No. 513/2011 and (EU) No. 462/2013

Responsibility

The party responsible for the dissemination of the financial analysis is Scope Ratings AG, Berlin, District Court for Berlin (Charlottenburg) HRB 161306 B, Executive Board: Torsten Hinrichs (CEO), Dr. Stefan Bund and Dr. Sven Janssen.

The rating analysis has been prepared by Pauline Lambert, Executive Director

Responsible for approving the rating: Sam Theodore, Managing Director

The rating outlook indicates the most likely direction of the rating if the rating were to change within the next 12 to 18 months. A rating change is, however, not automatically ensured.

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Prior to publication, the rated entity was given the opportunity to examine the rating and the rating drivers, including the principal grounds on which the credit rating or rating outlook is based. The rated entity was subsequently provided with at least one full working day, to point out any factual errors, or to appeal the rating decision and deliver additional material information. Following that examination, the rating was not modified.

Methodology

The methodologies applicable for this rating “Bank Rating Methodology” (May 2016) & “Bank Capital Instruments Rating Methodology” (May 2016) are available on www.scoperatings.com. The historical default rates of Scope Ratings can be viewed on the central platform (CEREP) of the European Securities and Markets Authority (ESMA): http://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml. A comprehensive clarification of Scope's credit rating, definitions of rating symbols and further information on the analysis components of a rating can be found in the documents on methodologies on the rating agency's website.

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