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

Security ratings

Outlook	Stable
6% CHF 0.29bn Tier 1 Capital Notes, with 5.125% trigger	BBB-
7.5% USD 2.25bn Tier 1 Capital Notes, with 5.125% trigger	BBB-
6.25% USD 2.5bn Tier 1 Capital Notes, with 5.125% trigger	BBB-

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 BBB- with Stable Outlook to the above referenced low-trigger Tier 1 Capital Notes issued by Credit Suisse Group AG. The rating is based on the following considerations:

- Senior unsecured debt rating (TLAC eligible): A, Stable Outlook
- Minimum notches down from senior unsecured debt rating: 4
- Additional notches: 0

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. At this time, we have not identified other factors which would warrant additional notching. Please refer to Scope's *Bank Capital Instruments Rating Methodology* published in May 2018 for more details.

We highlight that the securities contain a dividend stopper which is a feature not usually found in CRD IV compliant AT1 securities issued by European banks. The concepts of the combined buffer requirement and the maximum distributable amount also do not apply. Further, the calculation of the capital trigger level is based on CET1 capital as well as Higher-Trigger capital (further details below). Scope considers these features to be beneficial for investors.

The release of this rating report does not constitute a rating action. Last rating action was assigned on 10 April 201510 April 2015. For further information on the last rating action and regulatory information please click here.

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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 AG
Issue Date	**4 September 2013**
Amount	CHF 0.29bn
Coupon	• 6% 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 5.203% • Payable annually in arrear
Format	Perpetual Tier 1 contingent convertible securities, callable 4 September 2018 and every year thereafter
ISIN	CH0221803791

Issue Date	11 December 2013
Amount	USD 2.25bn
Coupon	• 7.5% 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 4.598% • Payable semi-annually in arrear
Format	Perpetual Tier 1 contingent convertible securities, callable 11 December 2023 and every five years thereafter
ISIN	XS0989394589 / US22546DAB29

Issue Date	**18 June 2014**
Amount	USD 2.5bn
Coupon	• 6.25% 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 3.455% • Payable semi-annually in arrear
Format	Perpetual Tier 1 contingent convertible securities, callable 18 December 2024 and every five years thereafter
ISIN	XS1076957700 / US225436AA21

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	• 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 be automatically and permanently written down to zero • A Contingency Event refers to the sum of the CET1 capital ratio and the Higher-Trigger capital ratio of Credit Suisse Group AG (CSG) being below 5.125% • 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	Sum of the CET1 ratio and the Higher-Trigger capital ratio of Credit Suisse Group AG < 5.125%, 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 a 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 losses). 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 well 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

The mechanism for loss absorption is permanent write down

The rated securities have one trigger:

- Sum of the CET1 ratio and the Higher-Trigger capital ratio of Credit Suisse Group AG < 5.125%, transitional basis

We consider the write-down risk for these Notes to be quite low (outside of a resolution scenario) considering the group's minimum solvency requirements under Swiss regulations and the way the trigger metric is determined (sum of CET1 ratio and Higher-Trigger capital ratios). As of 1Q 2018, the group had a phase-in CET1 ratio of 12.9%. In addition, there were another CHF 7.5bn in Higher-Trigger loss absorbing capital instruments outstanding (equivalent to 2.8% of RWAs).

As these Notes have a 5.125% trigger, the above-mentioned CHF 7.5bn in Higher-Trigger loss absorbing capital instruments provide some protection for Notes holders as they would be converted or written down first.

Under the Swiss Capital Adequacy Ordinance, both high-and-low-trigger contingent convertible securities (including the Notes) may be written down or converted before the point of non-viability. Further, FINMA retains a fair degree of discretion in determining the point of non-viability.

Distance to trigger

Considering the undemanding trigger of the Notes, we expect the sum of CSG's CET1 and Higher-Trigger capital ratios to remain largely above the 5.125% trigger level. The group targets a pre-Basel III reforms CET1 capital ratio above 12.5%.

Figure 2: Distance to trigger – Credit Suisse Group AG

	2017	Q1 2018	2019
Trigger level	5.1%	5.1%	5.1%
Sum of CET1 + Higher-Trigger capital ratios, phase-in	16.1%	15.6%	>12.5% target
Gap (%)	**11.0%**	**10.5%**	
Gap (CHF bn)	**30.1**	**28.5**	

Source: Company data, Scope Ratings

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