

Bulletin:

## Credit Suisse's High 2022 Loss Is In Line With Expectations As Restructuring Kicks Off

February 9, 2023

FRANKFURT (S&P Global Ratings) Feb. 9, 2023--S&P Global Ratings said today that, although Credit Suisse AG (A-/Stable/A-2) reported a high loss for 2022, these results are broadly in line with its expectations and support credit metrics that are commensurate with the current ratings and outlook on the group. We consider that actions taken by management in recent months have helped Credit Suisse to maintain robust capital, funding, and liquidity, mitigating risks inherent in the implementation of the group's new strategy.

Credit Suisse's reported a Swiss franc (CHF) 7.3 billion net loss in 2022, including a CHF3.7 billion deferred tax asset impairment linked to the group's restructuring, CHF1.3 billion in litigation provisions, and restructuring expenses of CHF533 million. Besides the one-offs, there was also a material decrease in operating performance in all segments, reflecting strong pressure on the revenue-generating asset base from recent sizable net outflows and weak markets, depressed customer activity, a material increase in funding costs, and an ongoing sector-wide reduction in asset values and client activity, notably in Asia-Pacific. Putting aside the global headwinds, segment results indicate broad-based impairment of the Credit Suisse franchise over 2022, which we already anticipated in November 2022 and reflected in our recent downgrade ("Credit Suisse AG Downgraded To 'A-/A-2' On Execution And Franchise Risks Under Restructuring Plan; Outlook Stable," Nov. 1, 2022, RatingsDirect).

The main reason for the deterioration of revenue was the net asset outflows of CHF123 billion over 2022, most of which occurred in October and November. At the group level, as of year-end 2022, assets under management reduced by a very material 20%; approximately half of this decrease was from net asset outflow, with the remainder being other factors like market and foreign exchange effects. In January, the group reported deposit inflows at the group level in wealth management and in Asia-Pacific, as well as net new asset in Asia-Pacific and Swiss Bank. In our view, this indicates that management's actions are reducing market uncertainty, which is paramount to the business' ultimate turnaround. While the liquidity coverage ratio improved during the last months of 2022, at 144% it was materially lower than pre-fourth-quarter levels, highlighting the importance of further decisive steps by management.

As a positive, the group reported a 14.1% Common Equity Tier 1 (pre-Basel III) ratio as of Dec. 31, 2022. Credit Suisse expects to maintain the ratio above 13% as it executes the transformation plan through to 2025, targeting 13.5% by end-2025. This trajectory should maintain our risk-adjusted capital ratio comfortably above 10%, despite the poor earnings outlook.

The management remains in the early stages of the restructuring and focused on stabilizing the

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bank and laying the foundation for progress in 2023-2025. In fourth-quarter 2022, management further reduced non-core business and progressed on the announced sale of a significant part of securitized products to entities and funds managed by affiliates of Apollo Global Management and advanced the carveout of CS First Boston, with the acquisition of the investment banking business of M. Klein & Co. Strides were also made in cost cutting, which management expects will represent about 80% of the roughly CHF1.2 billion in cost-base reduction targeted in 2023.

For 2023, we expect a loss of about CHF1.5 billion, reflecting lower revenue on reduced assets, a higher cost of funding for the upcoming CHF17 billion issues, and restructuring costs of CHF1.6 billion. At the same time, we expect Credit Suisse will reverse to net asset generation and strengthen and further stabilize its funding and liquidity metrics. We see additional risks to our revenue and risk-cost projections from adverse global economic development. Tail risks also remain outstanding litigation cases and regulatory investigations. This may challenge our expectation that the group will return to marginal profitability in 2024, while still lagging global peers. For more details, see "Credit Suisse Group AG and Credit Suisse AG," published Dec. 15, 2022.

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