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ISSUER COMMENT
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Credit Suisse Group AG

Q3 2021: Litigation charges and a high tax rate tempered operating improvements

In Q3 2021[1], Credit Suisse Group AG (CS, Baa1 stable[2]), the parent holding company of Credit Suisse AG (A1 stable/A1 stable, baa2[3]) reported[4] pretax profits of CHF1 billion and a net profit of CHF434 million. The reported bottom line result was impacted by CHF564 million litigation charges and a high tax rate. The adjusted[5] net return on tangible equity (ROTE) stood at 10.3% (Q3 2020 adjusted: 8%), while the adjusted annualized return on assets (RoA) and risk-weighted assets (RWAs) stood at 0.51% and 1.47%, respectively (Q3 2020 adjusted: 0.40% and 1.14%, respectively).

On an adjusted basis, excluding significant items and Archegos (CHF 235 million recovery relating to Archegos, CHF 564 million litigation charges related to Mozambique and other legacy matters, and to the Supply Chain Finance Funds (SCFF) matter; CHF 113 million impairment relating to York Capital Management), pre-tax income of CHF 1.4 billion increased 25% and net revenue increased 6% driven by higher revenues in Investment Banking, Asset Management and Swiss Universal Bank, partly offset by lower net revenues in International Wealth Management. CS reported loan loss provisions of CHF44 million (excluding a CHF188 million release of provisions related to Archegos) compared to CHF94 million last year.

Capital ratios strengthened in the quarter. CS reported a CET1 capital ratio of 14.4% (see Exhibit 1), up 70 basis points (bps) sequentially and up 140 bps year-over-year. The increase of the CET1 ratio in the quarter was supported by adjusted pre-tax generation (+23 bps) and RWA reductions (+28 bps) in Investment Bank and Wealth Management-related divisions. CS further improved the CET1 leverage ratio to 4.3% (Q2 2021: 4.2%) and the Tier 1 leverage ratio to 6.1% (Q2 2021: 6%).

Strong liquidity metrics further improved sequentially. CS reported an LCR[6] of 221% in Q3 2021, up from 216% in Q2 2021. Maintaining above-average liquidity and strong capital ratios remains important to CS because of its sizeable global wealth management and capital markets franchises. The deposits and short-term market funding of these businesses are more confidence-sensitive than for traditional banks, potentially exposing CS to liquidity stress in an adverse scenario (e.g., another material reputational event).

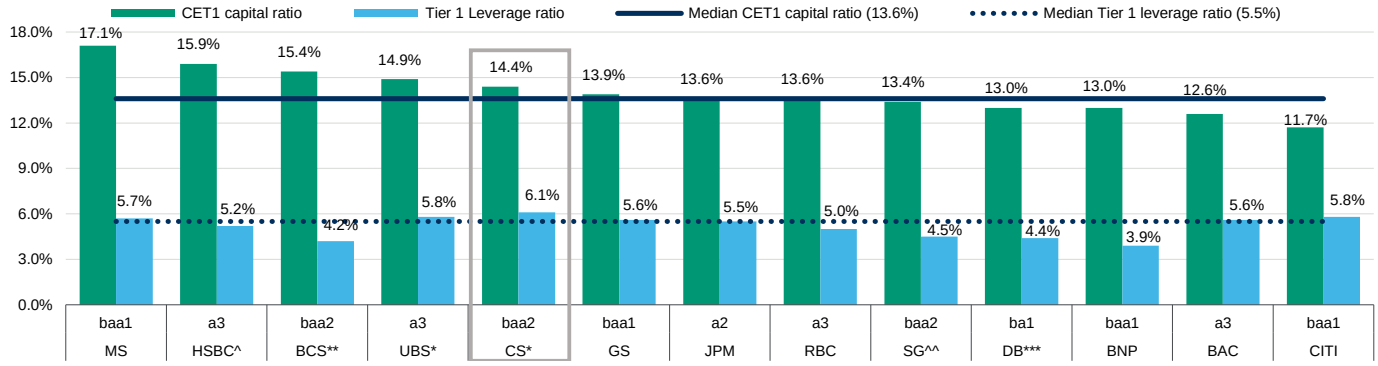
Detailed considerations

Capital restored

Exhibit 1

Common Equity Tier 1 (CET1) ratios and Tier 1 leverage ratios for Global Investment Banks, as of end - September 2021

CS restores its capital position



Tier 1 leverage ratio for US banks is the supplemental leverage ratio (SLR). Basel III fully phased-inadvanced approach for MS, JPM, GS and BAC. Citi's reported CET1 ratio was derived under the Basel III standardized approach as of Q3 2021.

*UBS and CS leverage ratio reflect Common Equity Tier plus low-trigger Additional Tier 1 and highrigger Additional Tier 1 securities.

**BCS leverage is the CRR leverage ratio excluding the IFRS9 transitional arrangements.

****DB's Q3 2021 leverage exposure includes certain central bank balances ("Euro-based exposures facing Eurosystem central banks") that could normally be excluded following the European Central Bank's decision. Excluding these items, DB's leverage ratio would have been 4.8%.

^HSBC's Q3 2021 leverage exposures are calculated using the end point definition of capital and the IFRS 9 regulatory transitional arrangements.

Source: Companies' results presentations and financials, Moody's Investors Service

Asset quality stable

At end-September 2021, and excluding CHF4.3 billion of specific provisions in relation to the US hedge fund matters, CS held a CHF1.6 billion allowance for credit losses on its balance sheet, equivalent to a lower coverage ratio of 55bps of gross loans (Q3 2020: 67bps). These reserve levels are broadly in-line with peers reporting under US-GAAP, yet below levels seen at CS's European peers. We believe these reserve levels to be adequate in light of the bank's above-average collateralization levels on its lending book and very low expected lifetime losses on its Swiss lending portfolio.

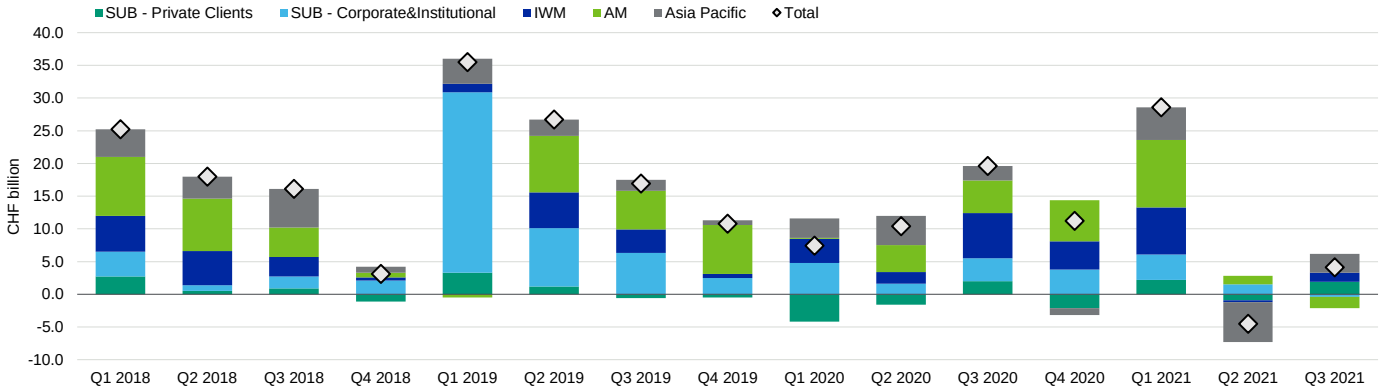
Smaller outflows follow de-risking measures and first-quarter events

During the third quarter, CS's wealth and asset management businesses combined recorded inflows of CHF5.6 billion compared with the outflows of CHF4.7 billion in Q2 2021. The inflows were recorded in the Swiss Universal Bank Private clients division, International Wealth Management and Asia Pacific. The Asset Management division recorded an outflow of CHF1.7 billion in the quarter. Assets under management slightly declined to CHF 1,623 billion in the quarter. New money flows and the higher asset base should support recurrent revenue generation in the bank's wealth and asset management businesses.

Exhibit 2

Net new money inflow, following challenging months

Net New Assets (NNA) by region, CHF billion



Excluding former Strategic Resolution Unit and not adjusted for assets managed across businesses (double counting). SUB: Swiss Universal Bank; WM: Wealth Management; AM: Asset Management.

Source: Company financials, Moody's Investors Service

Segmental results commentary

Unless indicated otherwise, figures displayed below are on a CS adjusted basis excluding significant items and comparisons are made versus Q3 2020. The segment figures have been restated following the creation and subsequent separation of a new Asset Management segment starting with Q2 2021.

The **Swiss Universal Bank (SUB)** reported adjusted pretax profits of CHF586 million, up 24%, supported by stronger revenues and stable operating expenses. Adjusted net revenues excluding significant items increased 5%, driven by increases across all major revenue categories with an 11% increase of recurring commissions and fees supported by higher AuM levels and revenues from improved performance in investment in Swisscard. Transaction-based revenues as well as net interest income increased 4% and 3%, respectively. Adjusted operating expenses were stable as ongoing investments in digital offering and sustainability campaigns offset cost saving measures. Net new assets of CHF1.5 billion benefited from contributions of CHF1.9 billion in Private clients that partly offset net new assets outflows of CHF0.4 billion in Corporate & Institutional Clients.

International Wealth Management (IWM) reported adjusted pretax profits of CHF176 million, down 25%, driven by lower revenues and higher operating expenses. Revenues declined 3% owing to lower net interest income (-13%), reflecting lower deposit margins on higher average deposit volumes and lower treasury revenues, as well as lower transaction and performance-based revenues (-7%) due to lower client activity. The decline in the revenue lines offset a 13% increase in commission and fees. Operating expenses were up 5% due to higher investments in IT and sustainability initiatives. IWM saw net new assets inflows of CHF1.4 billion supported by strong inflows in Western Europe.

Asset Management (AM) reported adjusted pretax profits CHF115 million compared with CHF32 million last year. Adjusted revenues increased 28% reflecting higher investment and partnership income as well as growth in management fees and performance and placement revenues. Operating expenses increased 2% driven by higher expenses related to the supply chain finance funds matters. Net new assets outflows of CHF1.7 billion were driven by outflows in Index, Credit, Insurance-linked Strategies and Fixed Income.

In **Asia Pacific (APAC)**, adjusted pretax profits of CHF206 million increased 5%,supported by lower loan loss provisions. Adjusted revenues were stable as lower net interest income was offset by higher recurring commissions and fees and transaction-based revenues. Adjusted operating expenses increased 5% primarily driven by higher investments in China and risk controls and sustainability initiatives.

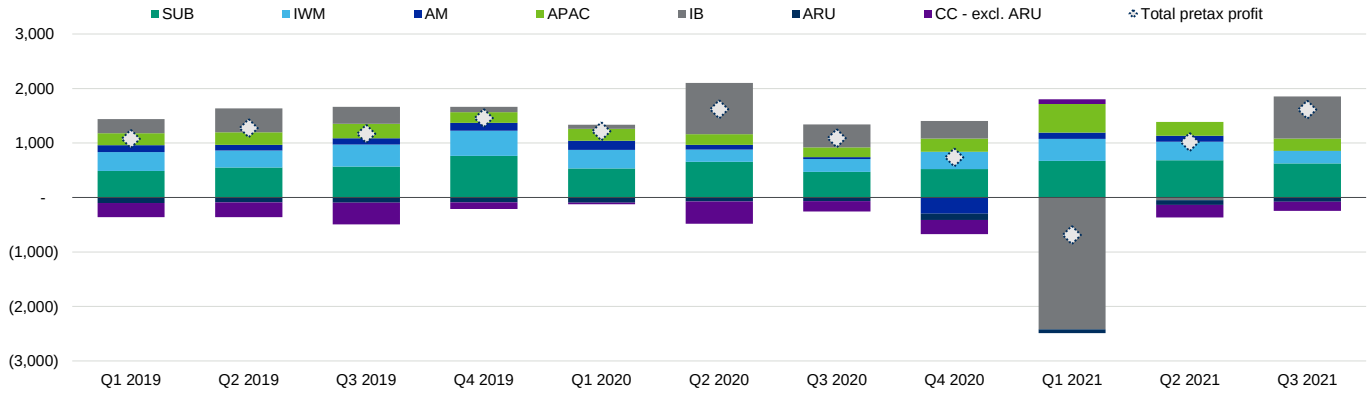
The **Investment Bank (IB)** reported an adjusted pretax income excluding Archegos of CHF538 million compared with CHF424 million last year. Adjusted revenues increased 9% (in USD terms) supported by 38% revenue growth in Capital Markets and Advisory (in line with its US peers) driven by higher activity in M&A, good ECM performance and rebound in Leveraged finance. FICC revenues decreased 13% year-on-year, slightly outperforming its US peers, as good performance in securitized product revenues was offset by

lower normalized revenues in Emerging Markets, Macro and Global Credit Products. Equity Sales & Trading revenues declined 9% due to continued de-risking in Prime Services. Operating expenses increased 2% due to higher general and administrative expenses. Reported decrease in loan loss provisions was driven by a release of USD202 provision related to Archegos matter.

Exhibit 3

Underlying performance improved in the quarter

Credit Suisse Group's adjusted profit before tax by segment, CHF million



SUB: Swiss Universal Bank; IWM: International Wealth Management; AM: Asset Management (new reporting segment from Q2 2021, prior quarters have been restated); APAC: Asia Pacific; IB: Investment Bank; ARU: Asset Resolution Unit (pre-2019: SRU or Strategic Resolution Unit); CC: Corporate Center.

Source: Company results presentations and financials, Moody's Investors Service

The **Corporate Center**, excluding the **Asset Resolution Unit (ARU)**[7], reported a pretax loss of CHF164 million (Q3 2020: CHF181 million), the year-over-year improvement largely driven by improved adjusted operating expenses.

Ratings Considerations

We assign Baa1 senior unsecured debt ratings to Credit Suisse Group AG and A1/P-1 senior unsecured debt and deposit ratings to its principal bank subsidiary, Credit Suisse AG. CS's ratings reflect (1) the bank's baa2 Baseline Credit Assessment (BCA) and Adjusted BCA; (2) the result of our Advanced Loss Given Failure (LGF) analysis, providing three notches of uplift to the bank's senior unsecured debt and deposit ratings; and (3) one additional notch of rating uplift stemming from our expectation of a moderate level of government support.

Moody's related publications

Credit Opinion

» Credit Suisse Group AG, October 2021

Issuer Comments and In-Depth Reports

» Global Investment Banks – US: Benign credit conditions, diversification, and investment banking support profits, October 2021

» Q2 2021: Resilient underlying business performance and restored capital support credit profile, July 2021

» Risk management and governance issues may undermine franchise and earnings stability, July 2021

» Moody's - Global Investment Banks' 2021 Outlook is stable – diversification, strong capital and liquidity counter pandemic effects, December 2020

» IBOR phaseout 15 months away, but hurdles could stretch beyond finish line, September 2020

» Biggest banks are better set to withstand COVID-19 stress than banks as a whole, September 2020

» Stable wealth-management arms of largest Swiss and US banks are a credit positive offset to COVID-19 disruption, September 2020

» Global investment banks' strong liquidity helps insulate creditors, May 2020

» Global Investment Banks: Estimated profit hit in coronavirus shock scenario should not take toll on capital, April 2020

» Fintech - Global Investment Banks: GIBs can keep pace with fintechs, but retail banking is most at risk of a digital divide, February 2020

Rating Action

» Moody's downgrades Credit Suisse AG's senior unsecured debt and deposit ratings to A1; outlook stable, July 2021

Rating Methodology

» Banks Methodology, July 2021

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

Endnotes

1 All figures in this report relate to Q3 2021 and comparisons are made to Q3 2020, unless otherwise indicated.

2 The rating shown is Credit Suisse Group AG's long-term senior unsecured debt rating and outlook.

3 The ratings shown are Credit Suisse AG's long-term deposit rating and outlook, its long-term senior unsecured debt rating and outlook and its Baseline Credit Assessment (BCA).

4 Unless indicated otherwise, figures displayed in this report are on a Credit Suisse Group AG adjusted basis.

5 We take Adjusted income/(loss) before taxes excluding significant items and Archegos and assume a normalized 25% tax rate.

6 Liquidity coverage ratio

7 Beginning in 2019, the Strategic Resolution Unit has ceased to exist as a separate division of the Group. The residual portfolio is now managed in an Asset Resolution Unit and is separately disclosed within the Corporate Center.

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