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ISSUER COMMENT
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Credit Suisse Group AG

Q1 2022: Weak results highlight the burden from provisions on legacy litigations and pressures on markets revenue

Figures displayed in this report are on a CS reported basis and refer to Q1 2022; comparisons are made versus Q1 2021, unless otherwise indicated.

In 1Q 2022[1], Credit Suisse Group AG (CS, Baa1 stable[2]) reported a net loss of CHF273 million. The result included CHF653 million litigation provisions, CHF353 million losses related to Allfunds and CHF206 million Russia-related losses, only partially offset by CHF164 million real estate gains. The adjusted[3] net return on tangible equity (ROTE) stood at 3.4% (Q1 2021 adjusted: -2.8%), while the adjusted annualized return on assets (RoA) and risk-weighted assets (RWAs) stood at 0.19% and 0.51%, respectively (Q1 2021 adjusted: -0.13% and -0.36%, respectively).

Poor capital markets and Wealth management revenue. Adjusted group revenue decreased 38%, reflecting i) reduced client activity and issuances as well as a reduction in risk appetite in capital markets activities; ii) heightened volatility and client risk aversion in Wealth management; iii) Russia-related losses of CHF206 million across multiple divisions; and iv) the negative impact of hedging volatility due to flattening yield curve in the Corporate Center results. Adjusted operating costs increased 9%, due to increased cash accruals for compensation, leading to a high cost to income ratio of 92%. CS reported adjusted CHF45 million credit provisions in the quarter.

2022 results to be weak. 2022 will be a transitional year: revenue will reflect the negative impact from the exit from the prime brokerage business, a lower capital markets revenue pool, and pressures on wealth management revenue due to heightened volatility and client risk aversion in response to higher geopolitical risk and central banks' monetary tightening. Operating costs will be adversely affected by the restructuring and higher compensation compared to 2021, following increased cash accruals for compensation due to normalized deferral levels. Further provisions on legacy issues could also materialise: CS warned of a range of possible losses not covered by existing provisions of up to CHF1.4 billion.

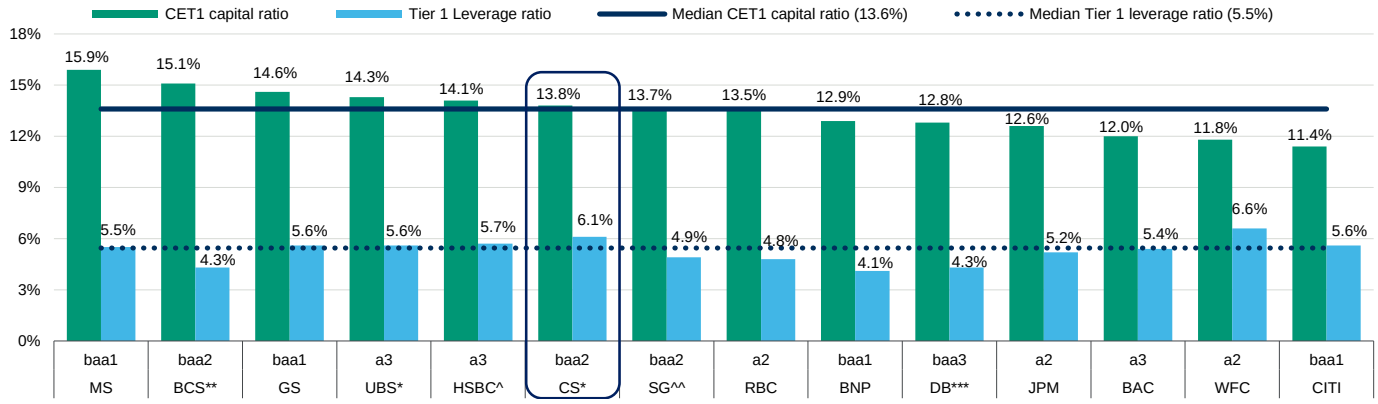
2023 results to show some improvements. **2024 profitability targets challenging**. 2023 should benefit from the strategic capital reallocation towards Wealth Management and structurally lower cost from the announced reorganization measures. Management targets a return on tangible equity (ROTE) of 10% in 2024; we calculate this equals to around CHF4 billion net income. Achieving 2024 targets will largely stem from the restructuring plan, which aims to release more than $3 billion capital allocated to the Investment Bank, to shift into core businesses and to deliver around CHF1.0-1.5 billion structural cost savings per annum by 2024.

Strong liquidity maintained. CS reported an LCR of 196% in Q1 2022, almost unchanged from Q4 2021. Maintaining above-average liquidity and strong capital ratios is 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).

Capital metrics deteriorated. Leverage metrics were stable. CS reported a CET1 capital ratio of 13.8% (see Exhibit 1), down 60 bps from the previous quarter. The decline in CET1 ratio was driven by an increase in risk-weighted assets of CHF2 billion from operational risk and CHF2 billion from FX) as well as lower CET1 capital. The CET1 leverage ratio of 4.3% (Q3 2021: 4.3%) and Tier 1 leverage ratio of 6.1% were unchanged, when compared with Q4 2021. Leverage exposure was down to CHF878 billion supported by the Prime Services exit.

Exhibit 1

Common Equity Tier 1 (CET1) ratios and Tier 1 leverage ratios for Global Investment Banks, as of end - March 2022



As of Q4 2021 for Barclays, BNP Paribas, HSBC Holdings, Société Générale and UBS; Q1 2022 for all others; Tier 1 leverage ratio for US banks is the supplemental leverage ratio (SLR); Basel III fully phased-in advanced approach for MS, JPM, GS and BAC. Citi reported advanced RWA but its binding criteria for reported CET1 capital ratio is under standardized approach. *UBS and CS leverage ratio reflect Common Equity Tier plus low-trigger Additional Tier 1 and high-trigger Additional Tier 1 securities. **BCS leverage is the CRR leverage ratio excluding the IFRS9 transitional arrangements. ***DB's Q1 2022 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 4.6%.^HSBC's leverage exposures are calculated using the end point definition of capital and the IFRS 9 regulatory transitional arrangements.^^For SG the reported CET1 ratio was 13.6% at the end of December on a fully-loaded basis

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

Management changes: CS also announced a number of top management changes. With the latest announcement, most of the top management has been replaced.

» **CFO:** David Mathers, CFO since 2010 and as CEO of Credit Suisse International (CSI) since 2016 will step down. A search for his successor is currently under place.

» **CEO of the EMEA region**: Francesca McDonagh will take over by October 1, 2022, as CEO of the EMEA region. She was previously Group CEO at the Bank of Ireland since 2017. Prior to that she served in several senior management roles at HSBC Group. Francesco De Ferrari, CEO of the Wealth Management division, had held this position on an ad interim basis since January 2022

» **CEO of the APAC region**: Edwin Low, will step-in. He is currently Co-Head of IB APAC based in Singapore. He is also CEO for Southeast Asia. Helman Sitohang will step down from his role on June 1, 2022 and will become senior advisor to the Group CEO.

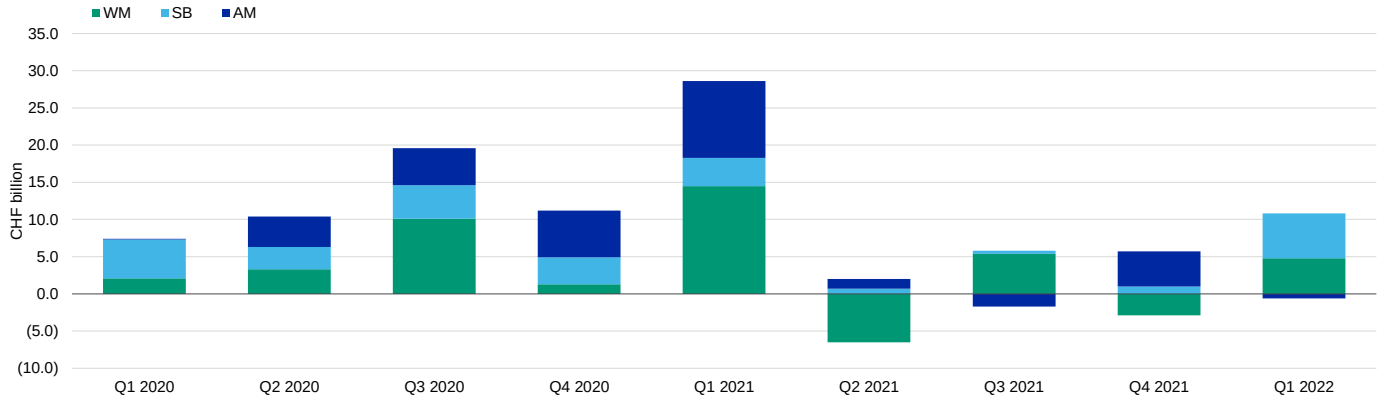
» **Group General Counsel:** Markus Diethelm will join on July 1, 2022. Markus was UBS's General Counsel and member of the Group Executive Board from 2014 to 2021. Romeo Cerutti, will retire after more than 10 years in the position.

Net new assets flow moderately recovered. During the quarter, CS's wealth and asset management businesses combined recorded inflows of CHF7.9 billion compared with inflows of CHF1.6 billion in Q4 2021. The outflows were recorded in the Asset Management division (CHF0.6 billion). The Wealth Management and Swiss Bank divisions recorded inflows of CHF4.8 billion and CHF6 billion, respectively. Assets under management decreased by 4% in the quarter to CHF1.6 trillion.

Exhibit 3

New new asset inflows starting to recover

Net New Assets (NNA) by divisions, CHF billion



Source: Company financials, Moody's Investors Service

Update on Russia. CS's net credit exposure to Russia was CHF373 million at end-March 2022; corporates & individuals exposures are highly collateralized with non-Russia collateral and limited losses. The net asset value of CS's Russian subsidiaries was CHF0.2 billion at the same time. During the quarter, the group recorded CHF206 million in Russia-related losses, including trading and fair value losses of CHF148 million and provisions for credit losses.

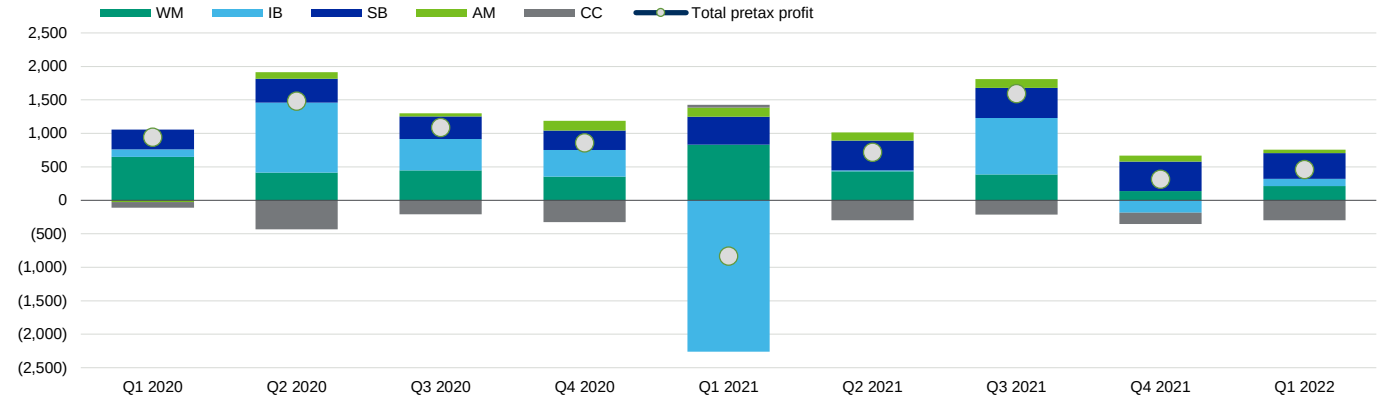
Segmental results commentary

Unless indicated otherwise, figures displayed below are on a CS adjusted basis excluding significant items and comparisons are made versus Q1 2021.

Exhibit 4

Underlying performance weakened in the quarter

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



Adjusted pre-tax income including Archegos impact.

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

Wealth Management (WM) reported adjusted pretax profits of CHF212 million, down from CHF830 million, driven by lower adjusted revenues (-22%) and higher operating expenses (16%). The decline in adjusted revenues mainly reflected weaker GTS

revenues due to lower transaction activity, CHF59 million Russia-related losses and CHF32 million loss in APAC financing. Operating expenses increased 16% due to higher investments in infrastructure, risk and technology initiatives as well as higher compensation expenses. Loan loss provision increased due to CHF40 million of Russia-related impact. WM saw net new assets inflows of CHF4.8 billion supported by inflows in Swiss ultra-high net worth business and Asia Pacific. Asset under management decreased to CHF707 billion compared to CHF757 billion in Q1 2021 and CHF743 billion in Q4 2021 reflecting de-risking measures related to Russia and unfavorable market conditions.

Investment Bank (IB) reported an adjusted pretax loss CHF51 million compared with pretax income of CHF2170 million[4]. Adjusted revenues decreased 53% (in USD terms) reflecting weaker revenues across all business lines. FICC revenues declined 50% while Equity Sales & Trading revenues declined 49%, reflecting the exit from prime services and lower cash trading volumes. CS's FICC and Equity revenue trend was significantly worse than at its US peers, which -in aggregate- reported broadly flat Equity and FICC revenue growth. Capital market revenues decreased 66%, reflecting significant slowdown in equity capital market issuances. Advisory revenues decreased 14% due to reduced M&A fees. Lower GTS results declined considerably compared to Q1 2021 reflecting Russia-related losses (USD97 billion) and strategy to reduce risk in Emerging Markets. Operating expenses were up 6% driven by higher compensation costs, infrastructure, risk and technology initiatives.

Swiss Bank (SB) reported adjusted pretax profits of CHF385 million, down 8% impacted by higher operating expenses and lower revenues. Adjusted net revenues decreased 1% due to lower net interest rate income and transaction-based revenues, despite a 7% increase of fee and commission income. Adjusted operating expenses increased 5%, driven by higher compensation expenses, and investments in Swiss business and technology. Provision for credit losses were CHF23 million, including CHF14 million related to Russia. Net new assets inflow was CHF6 billion, driven by the institutional clients business.

Asset Management (AM) reported adjusted pretax profits CHF51 million compared with CHF133 million last year. Adjusted revenues decreased 10% mainly due to reduced performance, transaction and placement revenues (-52%). Adjusted operating expenses increased 15% driven by higher compensation costs, costs related to IT, risk and compliance as well as expenses related to the supply chain finance funds matters. Net new asset outflow was CHF 0.6 billion, driven by Fixed Income and Credit outflows.

Corporate Center reported a pre-tax loss of CHF297 million compared to a gain of CHF44 million. Negative net revenues of CHF173 million were mostly driven by negative treasury results. Adjusted operating expenses decreased 11% due to lower general and administrative 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. The outlook is stable on the senior ratings.

Moody's related publications

Credit Opinion

» Credit Suisse Group AG, March 2022

Issuer Comments and In-Depth Reports

» Global Investment Banks – US: Amid uncertain and volatile markets, US GIBs first-quarterinvestment banking fees likely fell as trading revenue rose. April 2022

» Q4 2021: Weak revenue, goodwill impairment and litigation charges led to large loss, February 2021

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

» 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 Q1 2022 and comparisons are made to Q1 2021, unless otherwise indicated.

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

3 We take Adjusted income/(loss) from CS disclosure and include Archegos impact and assume a normalized 25% tax rate.

4 Adjusted pre-tax income as in CS disclosure excluding significant items and Archegos impact

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