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ISSUER COMMENT
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Credit Suisse Group AG

Q2 2022: Weak revenues and litigation charges lead to large loss

Figures displayed in this report are on a CS reported basis and refer to Q2 2022; comparisons are made versus Q2 2021, unless otherwise indicated.

In Q2 2022[1], Credit Suisse Group AG (CS, Baa1 negative[2]) reported a net loss of CHF1.6 billion. The result included CHF434 million litigation provisions, $245 million leveraged finance market to market losses and CHF168 million losses related to Allfunds. The adjusted[3] net return on tangible equity (ROTE) stood at -3.2% (Q2 2021 adjusted: 5.6%), while the adjusted annualized return on assets (RoA) and risk-weighted assets (RWAs) stood at -0.19% and -0.50%, respectively (Q2 2021 adjusted: 0.27% and 0.76%, respectively).

Poor revenues across most business lines. Adjusted group revenue decreased 27%, reflecting a i) decline in revenues of the Investment Bank (-55%) impacted by week revenues in Capital Markets (-96%) and FICC (-32%) as well as USD245 million leveraged finance market to market losses and (ii) lower revenues in the Wealth Management (-7%) and Asset Management (-25%) divisions. Adjusted operating costs were up 5%, due to higher compliance, risk and technology investments.

Management changes and new strategic review. CS announced the appointment of a new group CEO Ulrich Körner from 1 August 2022 and launched another comprehensive strategic review. The goals of the strategic review will be: (i) to strengthen CS's global wealth management franchise aiming to strengthen positions in Switzerland, EMEA, Americas and APAC (ii) transform the Investment Bank into a capital-light and advisory-led business with more focused Markets businesses that will support the growth of Wealth Management and the Swiss Bank (iii) evaluate strategic options for the IB's Securitized Products business and (iv) reduce the group's cost base to below CHF15.5 billion in the medium term period.

CS's results are credit negativeand highlight the imperative as well as the challenge of successfully executing on its organizational and cultural remediation efforts in the more difficult macroeconomic and market environment. We believe the new strategic review is a clear acknowledgement of this challenge. CS will provide further details on the progress of the strategic review, including specific performance goals, with its Q3 2022 results.

Strong liquidity maintained. CS reported an LCR of 191% in Q2 2022, slightly down from Q1 2022 (196%). 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).

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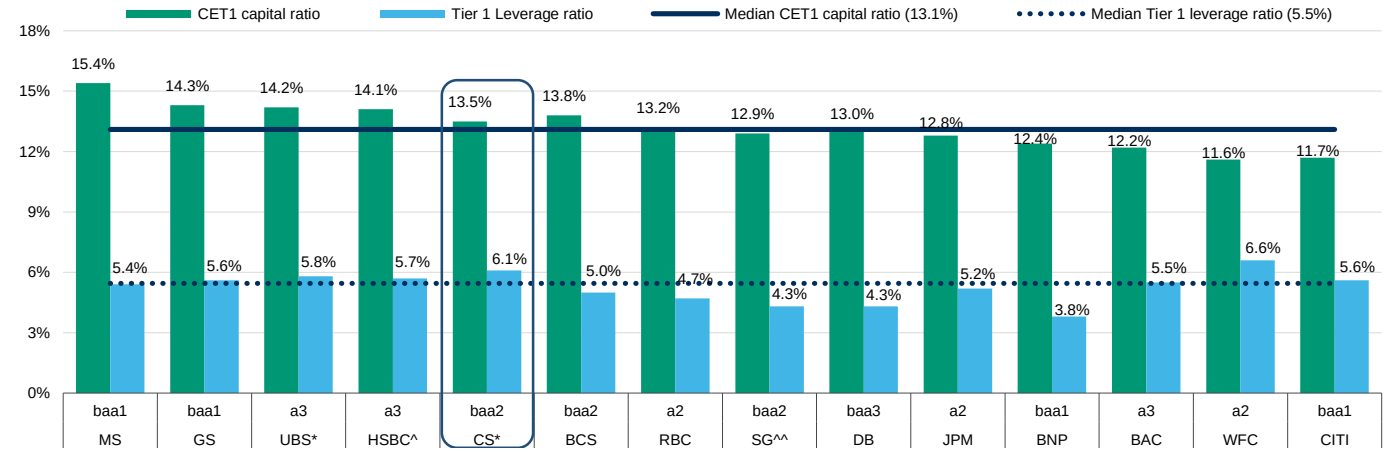
Capital metrics deteriorated. Leverage metrics were stable. CS reported a CET1 capital ratio of 13.5% (see Exhibit 1), down 30 bps from the previous quarter. The decline in CET1 ratio was mainly driven by net losses. The CET1 leverage ratio of 4.3% and Tier 1 leverage ratio of 6.1% were unchanged, when compared with Q1 2022. Leverage exposure was down to CHF863 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 - June 2022



1) As of Q2 2022 for BAC, Citi, GS, JPM, MS, RBC,WFC, UBS, CS, DB and Q1 2022 for all others; 2) Tier 1 leverage ratio for US banks is the supplemental leverage ratio (SLR); 3) Basel III fully phased-in advanced approach for MS, JPM, GS, Citi and BAC. *UBS and CS leverage ratio reflect Common Equity Tier plus low-trigger Additional Tier 1 and high-trigger Additional Tier 1 securities. ^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 12.8% at the end of March 2022 on a fully-loaded basis.

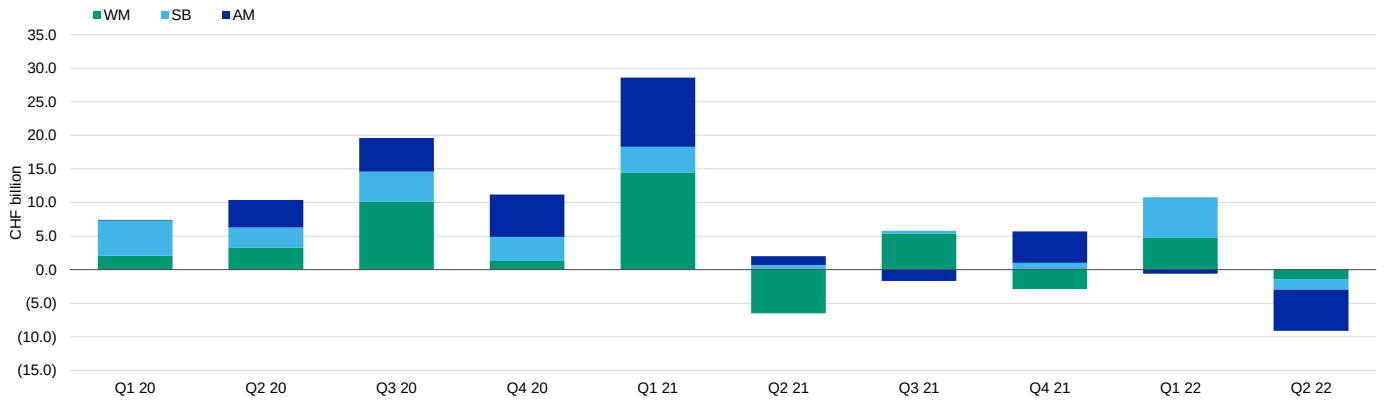
Source: Company reports

Net outflows pose additional challenges. During the quarter, CS's wealth and asset management businesses combined recorded outflows of CHF7.7 billion compared with inflows of CHF7.9 billion in Q1 2022. The largest outflows were recorded in the Asset Management division (CHF6.1 billion). The Wealth Management and Swiss Bank divisions recorded outflows of CHF1.4 billion and CHF1.6 billion, respectively. Firmwide assets under management decreased by 6% in the quarter to CHF1.45 trillion, driven by lower market values and net outflows.

Exhibit 2

New new assets turned negative in the quarter

Net New Assets (NNA) by divisions, CHF billion



Source: Company financials, Moody's Investors Service

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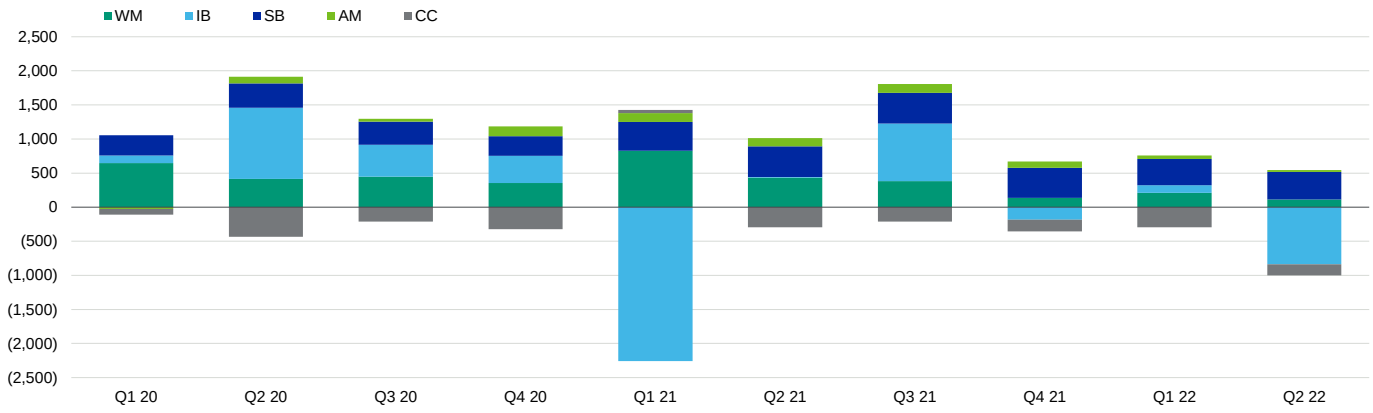
Segment results commentary

Unless indicated otherwise, figures displayed below are on a CS adjusted basis excluding significant items and comparisons are made versus Q2 2021.

Exhibit 3

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 CHF114 million, down from CHF432 million, driven by lower adjusted revenues (-7%), higher adjusted operating expenses (18%) and non-operating items. Although net interest income increased on higher interest rates (+4%), the increase was not enough to offset lower recurring commissions and fees (-14%), due to lower assets under management, as well as lower performance and transaction-based revenues (-11%). Operating expenses increased due to a CHF38 million impairment related to IT assets, higher investments in compliance, risk and technology initiatives as well as higher investments in business growth, including China. WM saw net new assets outflow of CHF1.4 billion mainly driven by outflows in EMEA and Switzerland that were only partly offset by inflows from Asia Pacific and Americas. Asset under management decreased to CHF662 billion compared to CHF707 billion in Q1 2022, driven primarily by lower market values and to a lesser extent de-risking measures, partially offset by positive foreign exchange movements.

Investment Bank (IB) reported an adjusted pretax loss CHF824 million compared with pretax income of CHF607 million[4]. Adjusted revenues decreased 55% (in USD terms) reflecting weaker revenues across all business lines. Adjusted FICC revenues declined 32%, reflecting lower emerging markets and structured products revenues as well as lower credit trading volumes on reduced primary issuance. Adjusted Equity Sales & Trading revenues declined 33% despite strong revenues from equity derivatives, reflecting the exit from prime services. CS's FICC and Equity revenue trend was significantly worse than at its US peers, driven in part by CS's different business mix including a relatively modest business in FICC macro products. While advisory revenues were up 37%, capital market revenues decreased 96%, reflecting lower ECM and leveraged finance market activity as well as market-to-market losses of USD245 million in Leveraged Finance. Adjusted operating expenses (excluding litigation provisions) were flat as reduced revenues-related costs were offset by higher risk, compliance and technology expenses. The limited ability to lower expenses given the negative revenue environment is a significant challenge for the segment.

Swiss Bank (SB) reported adjusted pretax profits of CHF402 million, down 10% impacted by higher operating expenses and loan loss provisions. Adjusted net revenues increased 3% due to higher net interest income (+3%), commission and fees (+3%) as well as higher transaction-based revenues (+2%). Adjusted operating expenses were up 6%, driven by higher compensation expenses, and investments in technology, risk and compliance. Provision for credit losses were CHF18 million (Q2 2021: write backs of CHF21 million). Net new assets outflow was CHF1.6 billion, driven mainly by outflows of CHF1.2 billion of institutional clients business.

Asset Management (AM) reported adjusted pretax profits CHF31 million compared with CHF122 million last year. Revenues decreased 25% due to reduced performance, transaction and placement revenues (-94%). Adjusted operating expenses were down 5%

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driven by expense provisions releases that were partly offset by higher compensation, risk, technology and compliance expenses. Net new asset outflow was CHF 6.1 billion across traditional and alternative investments. Assets under management were down 9% year-on-year and 8% sequentially.

Corporate Center reported an adjusted pre-tax loss of CHF165 million compared to a loss of CHF296 million. Negative net revenues of CHF91 million were mostly driven by negative treasury results. Adjusted operating expenses decreased 63% 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 negative on the senior ratings.

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Moody's related publications

Credit Opinion

» Credit Suisse Group AG, May 2022

Issuer Comments and In-Depth Reports

» Global Investment Banks – US: Rising NIMs and capital, stable asset qualitysupport credit amid economic uncertainty. July 2022

» Q1 2022: Weak results highlight the burden from provisions on legacy litigations and pressures on markets revenue, 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 affirms Credit Suisse AG's senior unsecured debt and deposit ratings of A1 and changes outlook to negative, May 2022

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.

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Endnotes

1 All figures in this report relate to Q2 2022 and comparisons are made to Q2 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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