MOODY'S
INVESTORS SERVICE

ISSUER COMMENT
29 July 2021

Rate this Research

Contacts

Michael Rohr +49.69.70730.901
Senior Vice President
michael.rohr@moodys.com

Yana Ruvinskaya +33.1.53.30.33.93
Associate Analyst
yana.ruvinskaya@moodys.com

David Fanger +1.212.553.4342
Senior Vice President
david.fanger@moodys.com

Laurie Mayers +44.20.7772.5582
Associate Managing Director
laurie.mayers@moodys.com

Ana Arsov +1.212.553.3763
MD-Financial Institutions
ana.arsov@moodys.com

Credit Suisse Group AG

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

In Q2 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 CHF813 million and a net profit of CHF253 million. The adjusted[5] net return on tangible equity (ROTE) stood at 5.6% (Q2 2020 adjusted[6]: 10.7%), while the adjusted annualized return on assets (RoA) and risk-weighted assets (RWAs) stood at 0.27% and 0.76%, respectively (Q2 2020 adjusted: 0.54% and 1.48%, respectively).

Leaving aside CHF594 million of additional losses, provisions and costs associated with Archegos, CS displayed a resilient underlying performance in Q2, overcoming the credit-negative events of the first quarter. It has restored capital, meaningfully reduced prime brokerage and prime finance risk exposures in the Investment Bank (IB) and has taken further actions to improve risk controls and culture. Containing revenue attrition and sustaining its underlying franchise in coming quarters while maintaining its capitalisation and liquidity will be important factors for sustaining its current credit profile and ratings. However, there also remains significant uncertainty regarding the final financial, regulatory, legal and reputational implications pertaining to the most recent events[7].

Capital ratios restored as IB de-risked and capital measures have been executed. CS reported a CET1 capital ratio of 13.7% in the quarter (see Exhibit 1 below), up 150 basis points (bps) sequentially and up 120bps year-over-year. CS successfully concluded on its announced capital raise through mandatory convertible notes, adding 55bps to its CET1 capital ratio in Q2. CS also substantially reduced capital and leverage usage in its IB, largely driven by a significant resizing of its prime services business, adding another 67bps to its CET1 capital ratio. The remaining Archegos-related losses were offset by the removal of the related temporary regulatory add-on, while the gain on the IPO of Allfunds Group (in which CS held a 14% stake[8]) added another 28bps. CS further restored its CET1 leverage ratio to 4.2% as of the end of June, up 40bps sequentially, representing a meaningfully improved buffer of approximately 50bps over the bank's minimum CET1 leverage ratio requirement.

Strong liquidity metrics further improved sequentially. CS also reported a strong LCR[9] of 216% in Q2 2021, up from 205% in Q1 2021, once again reflective of its sound liquidity profile that will help mitigate potential strain resulting from the aforementioned issues. 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).

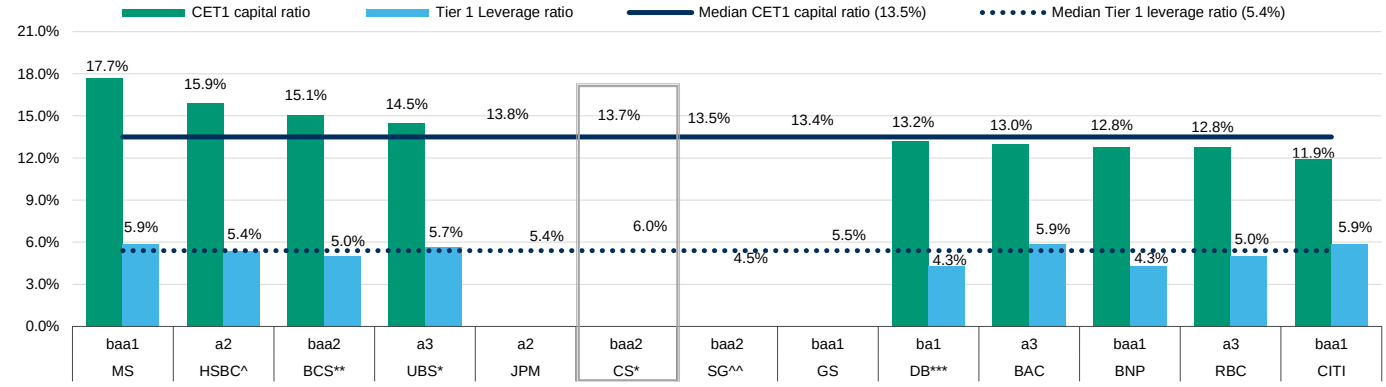
Detailed considerations

Capital restored

Exhibit 1

Common Equity Tier 1 (CET1) ratios and Tier 1 leverage ratios for Global Investment Banks, as of 30 June 2021

CS moves back to peer group median



As of Q1 2021 for BNP Paribas, HSBC, and Société Générale; Q2 2021 for the rest; Basel III fully phased in advanced approach for all US banks; Tier 1 leverage ratio for US banks is the supplemental leverage ratio (SLR).

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

**Barclays (BCS) leverage is reflective of the spot UK leverage ratio.

***DB Q2 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 Q1 2021 leverage exposure already excludes the aforementioned items since the bank did not provide sufficient disclosures to perform a similar adjustment.

^^For SG the reported CET1 ratio was 13.2% at the end of March on a fully-loaded basis.

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

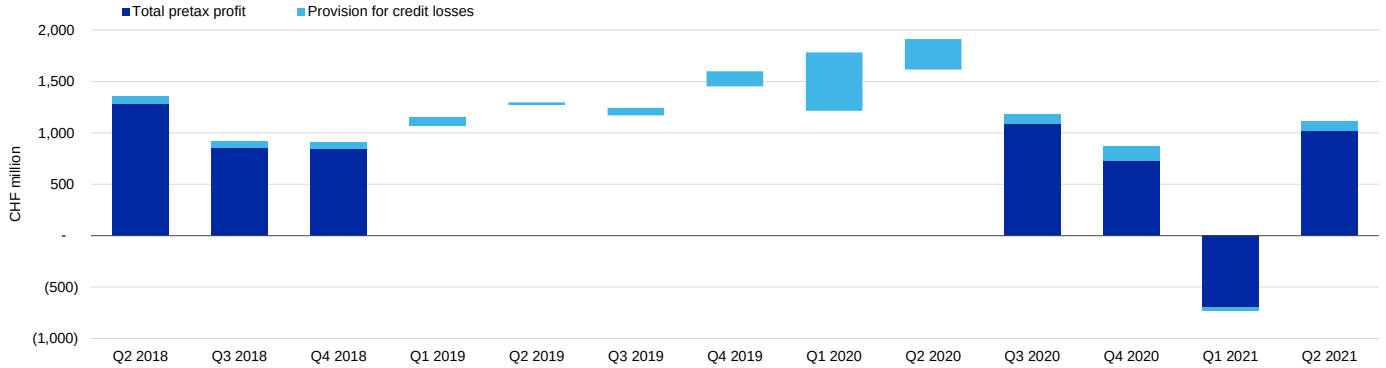
CECL write-backs support pretax income

In Q2 2021, a further strengthening macroeconomic outlook led to a release of CHF168 million of CECL-related reserves (Q2 2020: CECL-related charges of CHF130 million; see light blue bars in Exhibit 2). As a result of the reserve releases, negative credit provisions again provided a small boost to reported pretax profits in the quarter.

Exhibit 2

CECL-related reserve releases continue supporting pretax income

Adjusted pretax profits and loan loss provisions, CHF million



Q2 2020 pretax profits include a CHF134 million gain from the revaluation of CS's stake in Pfandbriefbank. We have similarly adjusted for the Allfunds Group-related gains of CHF298 million in Q2 2021.

Sources: Company financials, Moody's Investors Service

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moodys.com for the most updated credit rating action information and rating history.

As of 30 June 2021, and excluding CHF4.5 billion of specific provisions in relation to the US hedge fund matters, CS held a reduced CHF1.6 billion allowance for credit losses on its balance sheet, equivalent to a lower coverage ratio of 53bps of gross loans (Q1 2021: 62bps). 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.

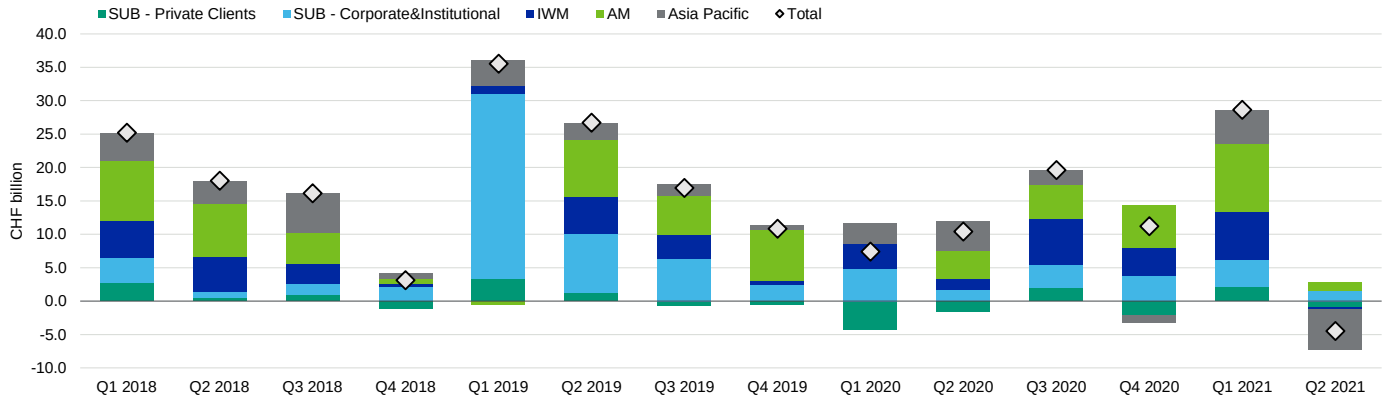
Smaller outflows follow de-risking measures and first-quarter events

During the second quarter, CS's wealth and asset management businesses combined recorded outflows of CHF4.7 billion, following a very strong CHF28.4 billion in Q1 (not adjusted for assets managed across businesses/double counting; see Exhibit 3). The largest outflows were recorded in Asia Pacific, largely related to de-risking measures on a small number of clients and a reduced risk appetite. At the same time, a continued solid capital markets performance lifted assets under management to a new record high of CHF1,632 billion. Despite our anticipation that the following quarters are likely to be more challenging for the bank in regaining net new money flows, the higher asset base should support steady recurring revenue generation in the bank's wealth management-oriented businesses.

Exhibit 3

Outflows reflect reduced risk appetite, but were more than offset by market performance

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.

Sources: 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 Q2 2020. The segment figures have been restated following the creation and subsequent separation of a new Asset Management segment starting with Q2 2021.

Resilient underlying business performance displays usual seasonality and limited resizing effects

Adjusted for one-time items and the Archegos-related provisions and losses, CS reported a 14% decline in revenues year-over-year. Stability in its Swiss Universal Bank and Asset Management as well as in its wealth-management oriented business segments helped offset a 27% decline in IB revenues. Total adjusted operating expenses decreased 6%, reflecting the bank's reaction to first-quarter events that led to a subsequent reduction in variable and deferred compensation elements. Excluding the hedge fund losses and one-off items, pretax profits would have declined 11% year-over-year to CHF1.3 billion. Please see detailed commentary on the segments below.

The **Swiss Universal Bank (SUB)** reported adjusted pretax profits of CHF592 million, up 13% year-over-year, supported by lower operating expenses and reserve releases in the quarter. Adjusted net revenues excluding significant items decreased 1% year-over-year driven by lower deposit and GTS income, partly offset by higher recurring revenues. Private Clients net interest income was stable while it was down 4% in Corporate and Institutional Clients. Adjusted operating expenses were down 4% reflecting continued cost discipline. Net new assets of CHF0.6 billion benefited from contributions of CHF1.5 billion in Corporate & Institutional Clients that partly offset net new assets outflows of CHF0.9 billion in Private clients.

International Wealth Management (IWM) reported adjusted pretax profits of CHF225 million, broadly flat compared with the same period last year, supported by release of provisions and lower operating expenses. Revenues were down 11% owing to a 14% decline in net interest income, impacted by the continued ultra-low interest-rate environment, and a 33% decline in transaction-based revenues compared with a strong Q2 2020. Fee and commission income grew 16% but was not able to offset a decline in net interest income and transaction based revenues. Operating expenses were down 7% driven by lower variable compensations. IWM saw net new assets outflows of CHF0.3 billion due to outflows in emerging markets.

Asset Management (AM) reported adjusted pretax profits CHF106 million, up 26% year-over-year, supported by a 12% increase in revenues. Revenues growth reflected increase in management fees and performance and placement revenues that were partly offset by lower investment and partnership income. Operating expenses were up 8% driven by expenses related to the departure of an alternative investment fund team, the supply chain finance funds matters and the sale of a private equity investment in a fund as well as commission expenses. Net new assets inflows of CHF1.3 billion were supported by inflows in Index and Credit.

In **Asia Pacific (APAC)**, adjusted pretax profits of CHF164 million declined 16% year-over-year. Adjusted net revenues decreased 13% reflecting mainly a decline in transaction based revenues. Operating expenses were up 1% primarily driven by higher investments in China.

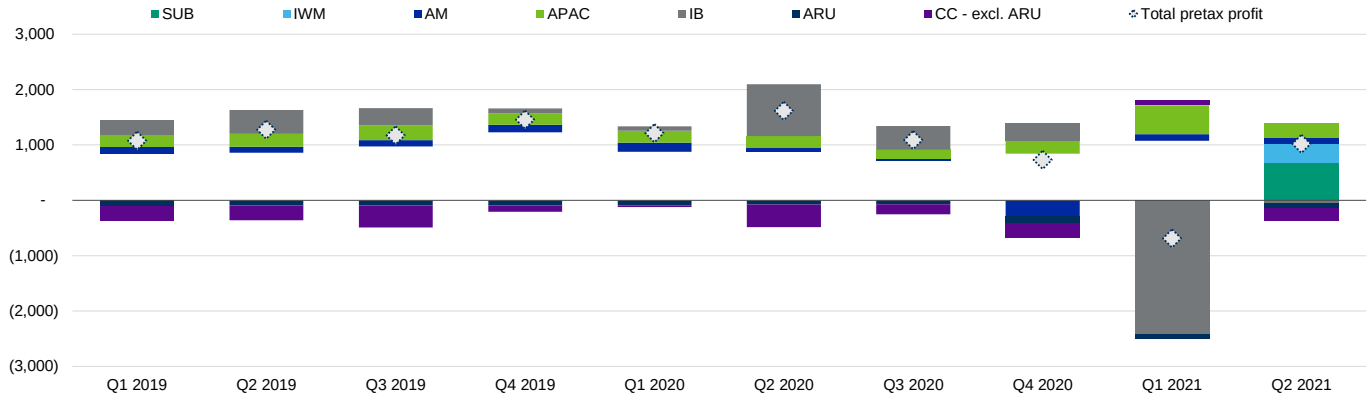
The **Investment Bank (IB)** reported an adjusted pretax loss of CHF47 million, including CHF594 million of losses, provisions and operating expenses related to Archegos. Notwithstanding this issue – which will not reoccur in coming quarters – underlying business performance was resilient, with a slight outperformance in fixed income sales and trading against US peers driven by strong securitized products revenue. Capital markets fees (primary) retreated 6% (in USD terms) largely driven by the absence of leveraged finance mark-to-market gains as recorded in Q2 2020, while Advisory revenues were down owing to a lower number of deal closures. Equity sales and trading declined 17% (also in USD terms), almost solely driven by the significant de-risking in prime services.

In reaction to the hedge fund losses, CS has reduced its prime brokerage and prime finance businesses with a renewed focus on franchise clients delivering higher and more sustainable returns for the bank. It has, therefore, meaningfully shrunk related businesses and has substantially reduced risk-weighted assets and leverage exposures in its IB by $20 billion and $41 billion sequentially to $78 billion and $329 billion, respectively, above earlier announced guidance.

Exhibit 4

Hedge fund losses are now behind CS and the IB has been resized

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



Notes: 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.
Q2 2020 pretax profits include a CHF134 million gain from the revaluation of CS's stake in Pfandbriefbank. We have similarly adjusted for the Allfunds Group-related gains of CHF298 million spread across the segments in Q2 2021 in the exhibit.
Sources: Company results presentations and financials, Moody's Investors Service

The **Corporate Center**, excluding the **Asset Resolution Unit (ARU)**[10], reported a pretax loss of CHF242 million (Q2 2020: CHF409 million), the year-over-year improvement largely driven by a significantly improved treasury result, in part offset by higher general and administrative expenses.

Moody's related publications

Credit Opinion

» Credit Suisse Group AG, July 2021

Issuer Comments and In-Depth Reports

» Global Investment Banks – US: Q2 2021 Update - Reserve releases and investment banking lift profit despite revenue headwinds 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

» GIBs heighten readiness against constant cyber threat, October 2019

» Sector stratification will relegate some from top flight of capital markets competition, September 2019

» Fintech: Most GIBs have means to meet the digital threat, but need agile strategies to respond, November 2018

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 Q2 2021 and comparisons are made to Q2 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 exclude the CHF298 million gain on the equity investment in Allfunds Group and assume a 25% normalised tax rate but include the Archegos-related losses.

6 Excluding CHF134 million of gains from the revaluation of the bank's stake in Pfandbriefbank and same 25% tax rate.

7 This means the US hedge fund losses as well as the wind-down of CS's supply chain finance funds.

8 Following the IPO, CS now holds a remaining equity interest in Allfunds Group of 9.4%, which has been reclassified to trading assets from other investments.

9 LCR = Liquidity Coverage Ratio.

10 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.

© 2021 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S CREDIT RATINGS AFFILIATES ARE THEIR CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MATERIALS, PRODUCTS, SERVICES AND INFORMATION PUBLISHED BY MOODY'S (COLLECTIVELY, "PUBLICATIONS") MAY INCLUDE SUCH CURRENT OPINIONS. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT OR IMPAIRMENT. SEE APPLICABLE MOODY'S RATING SYMBOLS AND DEFINITIONS PUBLICATION FOR INFORMATION ON THE TYPES OF CONTRACTUAL FINANCIAL OBLIGATIONS ADDRESSED BY MOODY'S CREDIT RATINGS. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS, NON-CREDIT ASSESSMENTS ("ASSESSMENTS"), AND OTHER OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. AND/OR ITS AFFILIATES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS, ASSESSMENTS AND OTHER OPINIONS AND PUBLISHES ITS PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS, AND PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS OR PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing its Publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY CREDIT RATING, ASSESSMENT, OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any credit rating, agreed to pay to Moody's Investors Service, Inc. for credit ratings opinions and services rendered by it fees ranging from $1,000 to approximately $5,000,000. MCO and Moody's Investors Service also maintain policies and procedures to address the independence of Moody's Investors Service credit ratings and credit rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold credit ratings from Moody's Investors Service and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moodys.com under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any credit rating, agreed to pay to MJKK or MSFJ (as applicable) for credit ratings opinions and services rendered by it fees ranging from JPY125,000 to approximately JPY550,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.

REPORT NUMBER 1297350

MOODY'S
INVESTORS SERVICE