MOODY'S
INVESTORS SERVICE

ISSUER COMMENT
12 December 2019

Rate this Research

Contacts

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

Mark C Jenkinson +44.20.7772.5432
Associate Analyst
mark.jenkinson@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

Lower break-even point and sustained execution are likely to support rising returns into 2020

On 11 December, Credit Suisse Group AG (CS, Baa2 positive[1]), the parent holding company of Credit Suisse AG (A1/A1 positive, baa2[2]), hosted its annual investor day where it announced that it will achieve a net return on tangible equity (ROTE) of more than 8% for 2019, up from 5.4% in 2018. Although the 2019 performance will be below its original 10% target[3], we continue to view the bank as being on track to achieving its proposed target return levels over the next 12-18 months. Earlier this month, we changed our outlook on the bank's long-term ratings to positive, incorporating our expectation of a continued stronger, more stable profitability and proactive management of risk positions, aided by solid capital as well as strong liquidity metrics.

10% return target shifted to 2020. Mainly owing to underperformance within its investment bank (IB&CM[4]) segment, as well as larger-than-anticipated structured notes volatility negatively affecting the bank's treasury results, CS will not meet its original 10% ROTE target for 2019. During 2020, however, CS aims to improve its ROTE by around 175 basis points year over year. Achieving this target largely builds on known actions, including lower corporate center costs, continued productivity and cost-efficiency gains, and additional funding cost savings. Furthermore, the target does not rely on revenue growth. We anticipate that the group's profitability will continue to benefit from the structurally lower cost base post restructuring, offering a lower break-even point to CS that will help withstand persistent market strain.

Superior liquidity and funding profile will support CS's credit profile. We expect CS to maintain a peer-leading liquidity profile, reflecting a conservative liquidity management that will lead to a Liquidity Coverage Ratio (LCR) of around 190% in 2020 and potentially beyond. Moreover, the group's improved total loss-absorbing capacity (TLAC) – and the resulting longer tenure of its debt issuances – have lowered its refinancing risk. If maintained, CS's improved ability to manage funding and liquidity needs across the group will increase its resilience to periods of high volatility or funding market dislocation.

The bank will maintain solid capitalization as a tighter Swiss regulatory framework takes effect. We estimate CS will be able to maintain a Common Equity Tier (CET1) ratio of above 12% during the 2020-22 period (it was 12.4% as of 30 September 2019). This includes the anticipated effects on CS's risk-weighted assets from the earlier Swiss implementation of the Basel III reforms in 2020[5]. In addition, CS kept unchanged its conservative distribution strategy, which we estimate should help it retain about CHF4 billion of core capital over the next two years, despite paying out at least half of its net profits and buying back shares worth at least CHF1 billion next year.

Moody's related publications

Credit Opinion

» Credit Suisse Group AG, December 2019

Issuer and Sector In-Depth

» Credit Suisse AG - Restructured businesses will be more sustainably profitable and have an improved funding profile, December 2019

» GIBs heighten readiness against constant cyber threat, October 2019

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

» Outlook for Global Investment Banks revised to stable as global economic slowdown adds to profit pressures, August 2019

» Global Investment Banks - Europe: Q2 2019 Update: Flat revenue and higher costs reduced profitability and efficiency, August 2019

» Global Investment Banks - GIBs generally prepared for stress in leveraged lending; degree of impact varies, May 2019

» Global Investment Banks - Readying for Brexit, deal or no deal, January 2019

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

» UBS Group AG and Credit Suisse Group AG: Review of UBS's ratings for upgrade reflects its lower capital markets risk and more predictable earnings, April 2018

» Credit Suisse and UBS: Swiss TLAC Regulation Drives Issuance of Loss-Absorbing Debt, Increasing Protection for Senior Creditors, December 2016

Rating Action

» Moody's affirms Credit Suisse AG's A1 senior unsecured debt and deposit ratings; outlook changed to positive, December 2019

Rating Methodology

» Banks methodology, November 2019

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

2 The ratings shown are Credit Suisse AG's long-term deposit and senior unsecured debt ratings and corresponding outlook(s), as well as its Baseline Credit Assessment.

3 The original ROTE target was based on flat revenue, while adjusted revenue excluding extraordinary items declined 1% year over year during the first nine months of 2019.

4 IBCM = Investment Banking and Capital Markets, the group's global primary market business outside Asia Pacific.

5 Switzerland will implement regulation on the measurement of counterparty credit risk, the so-called SA-CCR, in advance of all other jurisdictions globally already next year. As a result, CS expects risk-weighted assets to increase by CHF8-CHF9 billion during 2020.

REPORT NUMBER 1207174

MOODY'S
INVESTORS SERVICE