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ISSUER COMMENT
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ANALYST CONTACTS

David Fanger 212-553-4342
Senior Vice President
david.fanger@moodys.com

Riccardo M Rinaldini 4420-7772-1689
Associate Analyst
riccardom.rinaldini@moodys.com

Credit Suisse Group AG

Earnings Commentary - First Quarter 2015

Credit Suisse Group AG (bank deposits A1, review for upgrade; bank senior unsecured A1, review for downgrade; BCA baa1) reported net income attributable to shareholders of CHF1,054 million for the first quarter of 2015, with pre-tax profits from continuing operations of CHF1,538 million (excluding discontinued operations and revenues and expenses related to certain consolidated fund vehicles which are passed through to investors).

On a Moody's adjusted basis Credit Suisse would have reported pre-tax net income from continuing operations of CHF1,471 million, excluding CHF67 million in fair value gains on Credit Suisse's own debt, compared with CHF1,462 million in the first quarter of 2014 (excluding gains on own debt and gains on property sales). Adjusted return on average common equity from continuing operations for the quarter was 9.2%, return on average risk-weighted assets (Basel III) was 1.4%, and return on average tangible assets was 0.45%, all down modestly from a year ago although up substantially from last quarter.

We view these results to be supportive of the current ratings. While results in the strategic business units were down slightly from a year ago, this was largely offset by reduced losses in the bank's nonstrategic units. In addition, the bank managed to mitigate some of the negative impact coming from the Swiss National Bank's decision to abandon its peg of the Swiss Franc to the Euro, and also achieved a CHF47 billion reduction in the group leverage exposure. However, share buy-backs and the impact of foreign exchange movements limited capital accretion and risk-weighted assets was largely unchanged from the prior quarter.

Despite the traditionally strong first quarter, we view that profitability will continue to remain subdued and far from management's target of >15% return on equity because of the drag of the non-strategic divisions and the pressure on efficiency given increasing compliance and regulatory costs. The reported cost-income ratio for the quarter was 77%, higher than 74% a year ago and still above the <70% strategic target. Whilst the bank successfully achieved CHF3.6 billion of its target cost savings at end of the quarter (savings relative to the bank's annualized 1H 2011 expense run rate excluding business realignment and other significant non-operating expenses and variable compensation expenses) and plans to realize an additional CHF400-650 million by the end of the year, management also anticipates headwinds from higher compliance and regulatory costs. Finally, litigation risk remains elevated: at end-March 2015 Credit Suisse disclosed a range of possible losses related to litigation and not yet covered by provisions of zero to CHF 1.8 billion.

Credit Suisse's Basel III common equity tier 1 (CET1) ratio on a look-through basis was 9.9% based on the Swiss capital rules at the end of the quarter (10.0% on a BIS basis), 10 basis

point lower than at end-2014 and lower than its peers. Management hasn't provided a new capital target but, during the earnings call, guided towards a ratio between 10% and 11% for end-2015. Capital ratios are more in line with or even above peers with the inclusion of the considerable amount of high-trigger contingent capital instruments the bank has issued. Including the high-trigger instruments the bank reported a look-through Swiss buffer capital ratio (CET1 plus high-trigger instruments) of 13.0%.

Credit Suisse made more progress in addressing the leverage constraint. The bank reported a Swiss total capital leverage ratio of 4.2% for the quarter on a look-through basis, up 10 bps from last quarter. The Swiss leverage ratio includes both dated and undated contingent capital instruments in addition to CET1; the bank's look-through Swiss CET1 leverage ratio was 2.5% for the quarter and its Tier 1 leverage ratio (including CET1 plus additional Tier 1 securities) was 3.6%, both at low-end of peers. By end-2015, management targets to achieve 3.0% CET1 leverage ratio and 4.0% Tier 1 leverage ratio and a look-through Swiss leverage ratio of 4.5%, which, if successful, will help to close the gap with peers. To reach these targets, management plans to achieve an end-2015 leverage exposure of CHF 960-990 billion based on end-March 2015 FX rates from CHF1,103 billion reported at end-March 2015. We believe achieving this target may pose execution risk for the bank; additionally, most of the reduction is planned to come from client and business optimization within the investment banking division, which could hurt profitability if not managed prudently. Positively, the impact of reductions made in the first quarter appears to have been relatively modest thus far.

Within the business segment, key financial and operating trends were as follows –

Private Banking and Wealth Management (PB&WM) reported pre-tax profits of CHF938 million within the strategic business unit, in line with first quarter 2014. Revenues and operating expenses were stable despite the Swiss Franc appreciation during the quarter. The reported cost-income ratio was 68%, slightly above the 65% divisional target.

Wealth Management Clients pre-tax profits were CHF636, 10% higher than first quarter 2014, due to higher revenues (+2%) and stable operating expenses.

Net margin marginally improved to 30 bps from 29 bps, positively impacted by higher transaction and performance based revenues (driven by higher FX client transaction revenues) and higher net interest income (driven by loan growth and mitigating actions taken following the SNB's January actions) more than offsetting lower recurring and commission fees. Net new assets for the quarter were CHF7 billion, mostly coming from the Asia-Pacific region.

Corporate and Institutional Clients pre-tax income was CHF230, a 7% decrease from first quarter 2014, due to lower deposit margins reflecting a more pronounced impact of lower interest rates in this business.

The Asset Management business reported pre-tax profits of CHF72 million compared with CHF141 one year earlier due to lower private equity gains and a significant decrease in asset management fees following a change in the management of certain funds in Brazil in the fourth quarter of 2014. Earnings from the new Brazil venture will only be recognized in the fourth quarter of the year as opposed to throughout the year under the previous structure.

Investment Banking (IB) reported CHF1,115 million pre-tax profit in its strategic business, broadly in line with first quarter 2014, due to higher revenues and operating expenses. Higher market volatility and increased client activity following the actions of the Swiss National Bank and the European Central Bank resulted in higher revenues in fixed income sales and trading (+9% YoY) and equity sales and trading (+11%), more than offsetting a slow quarter in underwriting and advisory (-25%). The latter was driven primarily by slowdowns in leverage finance and financial sponsor-driven business and in IPO activity. Operating expenses were 4% higher than in first quarter 2014, driven in large part by the weakening of the Swiss franc against the US dollar, but remained under control, as the division reported a 69% cost-income ratio within the 70% target.

On a combined basis, pre-tax losses in the non-strategic units (PB&WM, IB and Corporate Center) were CHF284 million, a smaller loss compared with CHF544 in the first quarter 2014, due to valuation gains in the legacy fixed income portfolio, lower funding costs, and lower litigation and restructuring costs.

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