

ISSUER COMMENT

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Credit Suisse Group AG

Q3 2022: DTA impairments and poor Investment Bank revenue lead to large losses

Figures displayed in this report are on a CS reported basis and refer to Q3 2022; comparisons are made versus Q3 2021, unless otherwise indicated.

In Q3 2022¹, Credit Suisse Group AG (CS, Baa2 negative²) reported a net loss of CHF4.0 billion. The result included CHF3.7 billion impairment of deferred tax assets (DTAs) related to CS strategic review, and CHF178 million of litigation provisions. The adjusted³ net return on tangible equity (ROTE) stood at -0.8%, while the adjusted annualized return on assets (RoA) and risk-weighted assets (RWAs) stood at -0.04% and -0.11%, respectively (Q3 2021 adjusted: 0.59% and 1.72%, respectively). CS's results are credit negative and highlight the current strategic and financial challenges the firm is facing.

Poor revenue across most business lines. Adjusted group revenue decreased 30%, driven by poor Investment Bank revenue (down 58%) due to substantially lower Leveraged Finance and ECM activity, \$120 million mark-to-market losses, and lower Advisory, Fixed Income and Equity revenue, as well as lower Wealth Management revenue (down 14%) due to subdued client activity. Adjusted operating costs decreased 6%, due to lower compensation and benefits expenses, partly offset by a CHF145 million IT-related impairment in Wealth Management and included CHF178 million of major litigation provisions.

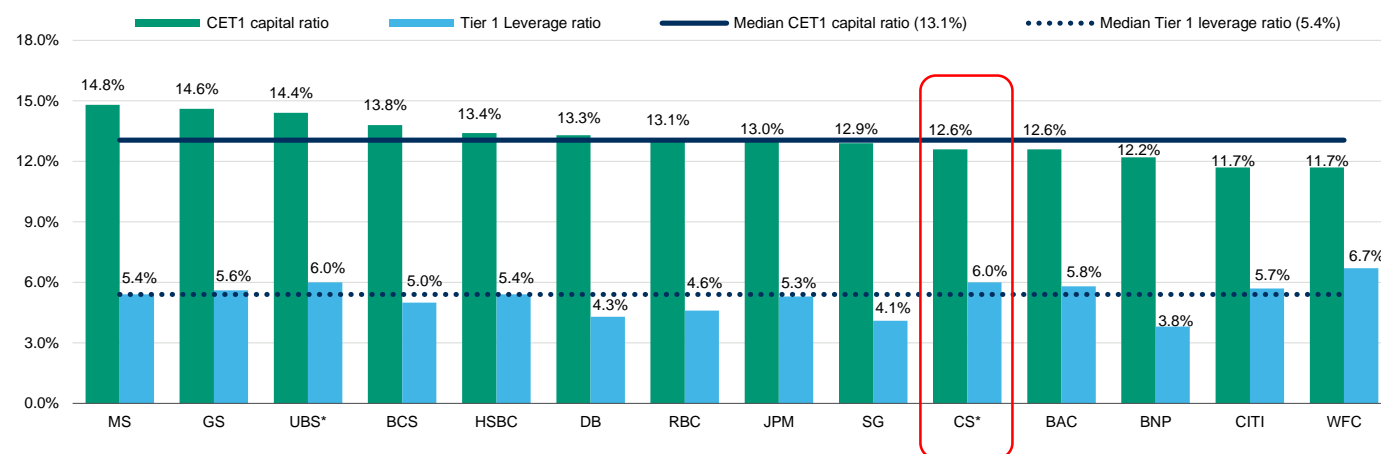
The announced strategic plan entails execution risk due to its breadth and complexity. Although the plan could be positive in the long run and lead to a substantially de-risked, more efficient and simplified bank, with materially lower leverage and dependence on the more volatile capital markets and investment banking earnings, the associated complexity will require a lengthy timeline and lead to high talent and client attrition risk. We expect the plan will entail large financial losses in 2022, losses in 2023, due to elevated restructuring and remediation costs and reduced revenue streams, and a return to modest profitability in 2025. In addition, executing this plan in a deteriorating markets and macroeconomic environment add challenges. The strategic plan includes: (1) finalizing and executing the transfer of the majority of the assets of the securitized products group to investment vehicles managed by affiliates of Apollo and PIMCO, (2) setting-up a non-core unit holding mostly Investment Bank assets, (3) carving out and attracting new external capital for a simplified independent investment bank, headquartered in New York, under the brand CS First Boston, and (4) aligning and streamlining the bank's remaining businesses which will focus primarily on banking in its domestic Swiss market, global Wealth and Asset Management, while retaining a much smaller ancillary markets footprint.

Liquidity deteriorated in October. CS reported an LCR of 192%, almost unchanged from Q2 2022 (191%). However, liquidity deteriorated in October, following deposit funding pressures: the average LCR for the group in the month of October through October 25 was 154%, still above regulatory requirements. However, the firm disclosed that some material legal entities were in breach of regulatory liquidity requirements. Since 27 October, CS has prepared remediation plans to reverse these outflows, including accessing the public and private markets together with asset disposals. Maintaining solid liquidity 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 funding stress.

Capital and leverage metrics deteriorated. CS reported a CET1 capital ratio of 12.6% (see Exhibit 1), down 90 bps from the previous quarter. The decline in CET1 ratio was driven by DTA impairments (-48 bps), pre-tax loss (-12 bps) and increase in RWAs (-11), including increase in operational risk RWAs (-19 bps) related to litigation provisions taken in Q1 2022. CS announced a CHF4 billion capital increase to be completed in early December, which would increase the pro-forma CET1 ratio to around 14.0%. The CET1 leverage ratio of 4.1% and Tier 1 leverage ratio of 6.0% declined compared with Q2 2022 (4.3% and 6.1%, respectively). Leverage exposure was down to CHF837 billion due to reduced activity.

Exhibit 1

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



1) As of Q3 2022 for BAC, Citi, GS, JPM, MS, RBC, WFC, UBS, CS, DB, BCS, HSBC and Q2 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.

Source: Company reports

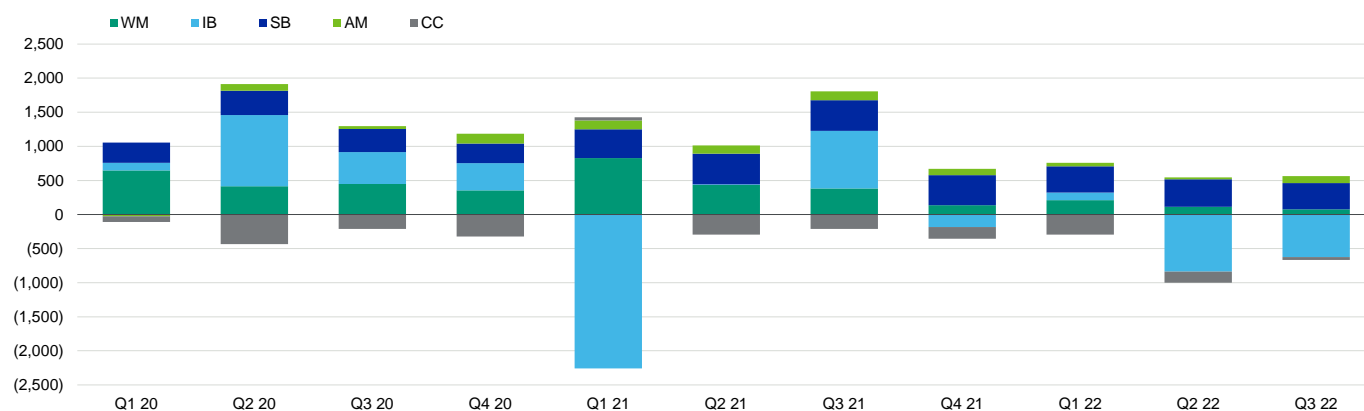
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Segment results commentary

Unless indicated otherwise, figures displayed below are on a CS adjusted basis excluding significant items and comparisons are made versus Q3 2021.

Exhibit 2

Underlying performance further weakened in the quarter



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 CHF78 million, down from CHF384 million, driven by lower adjusted revenues (-14%) and higher adjusted operating expenses (9%). Although net interest income increased on higher interest rates (+20%), the increase was not enough to offset lower recurring commissions and fees (-18%), due to lower assets under management and service-driven fees, as well as lower performance and transaction-based revenues (-40%), mainly in Asia Pacific. Operating expenses increased 9% due to a CHF145 million impairment related to IT assets. WM continued to face net new assets outflow of CHF6.4 billion (Q2 2022: outflow of CHF1.4 billion). Asset under management decreased to CHF635 billion compared to CHF662 billion in Q2 2022, driven primarily by lower market values.

Investment Bank (IB) reported an adjusted pretax loss CHF616 million compared with pretax income of CHF609 million.⁴ Adjusted revenues decreased 58% (in USD terms) reflecting weaker revenues across all business lines. Adjusted FICC revenues declined 32%, reflecting a decline in Securitized Products and Global Credit Products. Adjusted Equity Sales & Trading revenues declined 55% also reflecting the exit from prime services. CS's FICC and Equity revenue trend was significantly worse than at its US peers, driven by both an unfavourable business mix and by franchise impairment. Advisory revenues were down 39% and capital market revenues decreased 90%, reflecting lower ECM and leveraged finance market activity as well as market-to-market losses of USD120 million in Leveraged Finance. Adjusted operating expenses were down 12% due to lower compensation and benefits costs.

Swiss Bank (SB) reported adjusted pretax profits CHF383 million compared with CHF450 million last year. Revenues decreased 9% due to lower net interest income (-11%), fee and commission income (-3%) due to lower AuM and a 17% decline in transaction-based revenues, mainly driven by a gain related to IBOR in Q3 2021 (excluding this gain transaction-based revenues were down 4%). Adjusted operating expenses decreased 7%, supported by lower compensation and benefits expenses. Net new assets outflow was CHF1.5 billion, driven mainly by outflows of private clients.

Asset Management (AM) reported adjusted pretax profits CHF104 million compared with CHF131 million last year. Revenue decreased 15% due to reduced performance, transaction and placement revenues and lower management fees, reflecting a 13% in AuM. Adjusted operating expenses were down 11% driven by lower litigation provisions and compensation and benefits costs. Net new asset outflow was CHF 4.2 billion across traditional and alternative investments. Assets under management were down 13% year on-year and 4% sequentially.

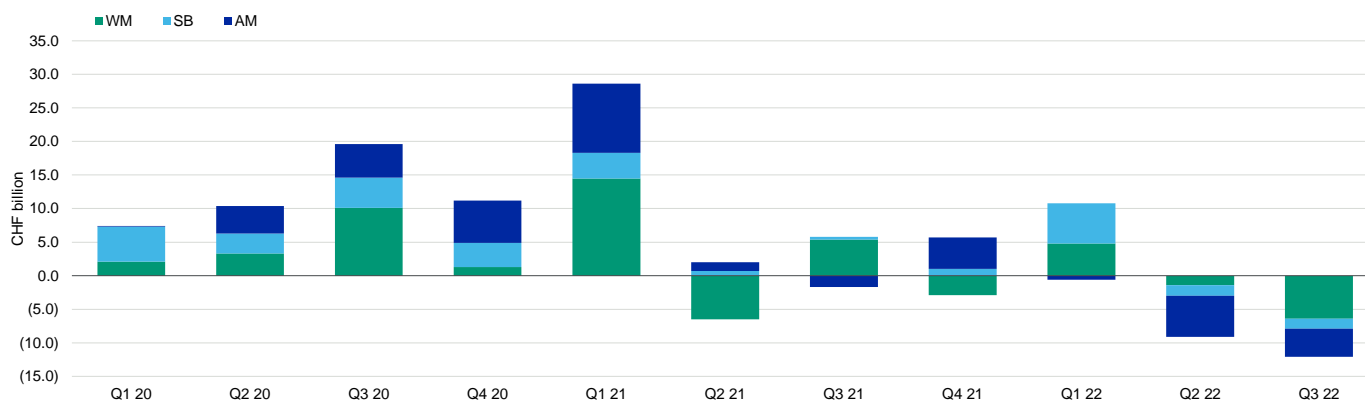
Corporate Center reported an adjusted pre-tax loss of CHF41 million compared to a loss of CHF212 million. Adjusted net revenues stood at CHF35 million. Adjusted operating expenses decreased 62% due to lower general and administrative expenses.

Net outflows continue to pose additional challenges. During the quarter, CS's wealth and asset management businesses combined recorded outflows of CHF12.9 billion compared with outflows of CHF7.7 billion in Q2 2022. The largest outflows were recorded in the Wealth Management division (CHF6.4 billion). The Asset Management and Swiss Bank divisions recorded outflows of CHF4.2 billion and CHF1.5 billion, respectively. Firmwide assets under management decreased by 4% in the quarter to CHF1.4 trillion, driven by lower market values and net outflows. These outflows have reduced since mid-October but have not yet reversed.

Exhibit 3

New new assets continued negative trend in the quarter

Net New Assets (NNA) by divisions, CHF billion



Source: Company financials, Moody's Investors Service

Ratings Considerations

We assign Baa2 senior unsecured debt ratings to Credit Suisse Group AG and A3/P-2 senior unsecured debt and deposit ratings to its principal bank subsidiary, Credit Suisse AG. Credit Suisse Group AG's ratings reflect (1) the bank's ba1 Baseline Credit Assessment (BCA) and Adjusted BCA; (2) the result of our Advanced Loss Given Failure (LGF) analysis, providing two notches of uplift to the bank's senior unsecured debt and deposit ratings; and (3) zero notches of rating uplift stemming from government support. The outlook is negative on the senior ratings.

Moody's related publications

Credit Opinion

- » [Credit Suisse Group AG](#), August 2022

Issuer Comments and In-Depth Reports

- » [Global Investment Banks – US: Rising NIMs and capital, stable asset quality support 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 Group's AG senior unsecured debt at Baa2 and downgrades Credit Suisse AG's senior unsecured debt to A3 and deposits to A3/Prime-2; outlook negative](#), 1 November 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.

Endnotes

- [1](#) All figures in this report relate to Q3 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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