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ISSUER COMMENT
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Credit Suisse Group AG

Q1 2023: negative revenue trend and deposit outflow persist, ahead of acquisition by UBS

Figures displayed in this report are on a CS reported basis and refer to Q1 2023; comparisons are made versus Q1 2022, unless otherwise indicated.

In Q1 2023[1]**, Credit Suisse Group AG (CS, Baa2 ratings under review up**[2]**) reported a net income of CHF12.4 billion** primarily reflecting the write-down of CHF15 billion of AT1s, as well as CHF0.7 billion gain from the sale of a significant part of the Securitized Products Group, offsetting CHF1.3 billion goodwill impairment mostly recognized in Wealth Management division. The adjusted[3] net loss was CHF 1.3 billion; we calculate a net return on tangible equity (ROTE) of -7.6%, an adjusted annualized return on assets (RoA) and risk-weighted assets (RWAs) of -0.73% and -1.63%, respectively (Q1 2022 adjusted: 0.19% and 0.51%, respectively).

CS acquisition by UBS. On 19 March, UBS Group AG (UBS; A3 negative) agreed to acquire CS in an all-stock transaction valued at approximately CHF3 billion. UBS obtained pre-agreement from the Swiss Financial and Markets Authority (FINMA), Swiss National Bank (SNB), Swiss Federal Department of Finance and has subsequently received approval from its main US and UK regulators. The transaction is not subject to UBS's shareholder approval. We believe that CS's creditors are likely to benefit from the stronger fundamental credit profile of the combined UBS-CS group, if and when the merger is completed.

Underlying revenue continued to weaken across most divisions. Underlying group revenue decreased 40%, driven by a 37% decline in Investment Bank (IB) revenue in USD terms; a 33% decline in Wealth Management (WM) revenue, a 45% reduction in Asset Management (AM) revenue, and an 8% decrease in Swiss Bank (SB) revenue. Statutory revenue benefited from positive treasury results due to the AT1 write-down in the CC division, gains on the Apollo transaction in the Capital Resolution Unit (CRU) division, and gains on the buyback of structured notes in the IB division. Underlying operating costs of CHF 4.0 billion decreased 6%.

Significant assets and deposits outflows in the quarter. During the quarter, particularly in the second half of March, CS recorded outflows of CHF61.2 billion or 5% of assets under management (AuM). Net asset outflows represented 9% of WM's end-2022 AuMs, 1% of SB's end-2022 AuMs and 3% of AM's end-2022 AuMs. Customer deposits declined a further CHF67 billion in Q1 2023, as the group experienced significant withdrawals of cash deposits as well as non-renewal of maturing time deposits in the second half of March 2023, in particular in the days immediately preceding and following the announcement of the merger; these outflows have not yet reversed.

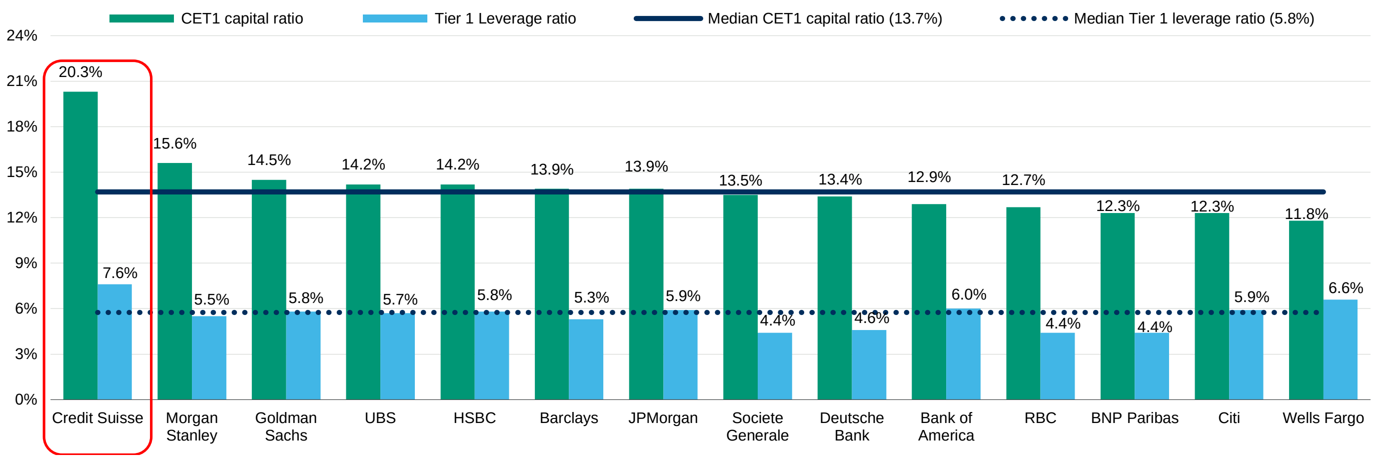
Liquidity improved benefiting from SNB's facilities. The average group level LCR ratio improved to 178% from lower levels in the quarter due to drawings under liquidity facilities from the SNB. Prior to the significantly increased outflows, on March 14, 2023, the quarter-to-date daily average LCR was around 153%, and improved from the three-month average daily LCR of 144% at end-2022.

Capital metrics improved. The CET1 capital ratio increased to 20.3% (see Exhibit 1), from 14.1% in the previous quarter, supported by the write-down of AT1s ordered by FINMA; the CET1 capital ratio excluding the impact of the AT1 write-down was 14.3%. The CET1 leverage ratio of 7.6% improved from 5.4% at end-2022 while Tier 1 leverage ratio of 7.6% slightly declined from 7.7%. The leverage exposure stood at CHF653 billion, broadly unchanged.

Exhibit 1

The regulatory capital position improved due to the write-down of AT1s

Common Equity Tier 1 (CET1) ratios and Tier 1 leverage ratios for Global Investment Banks, as of end - March 2023



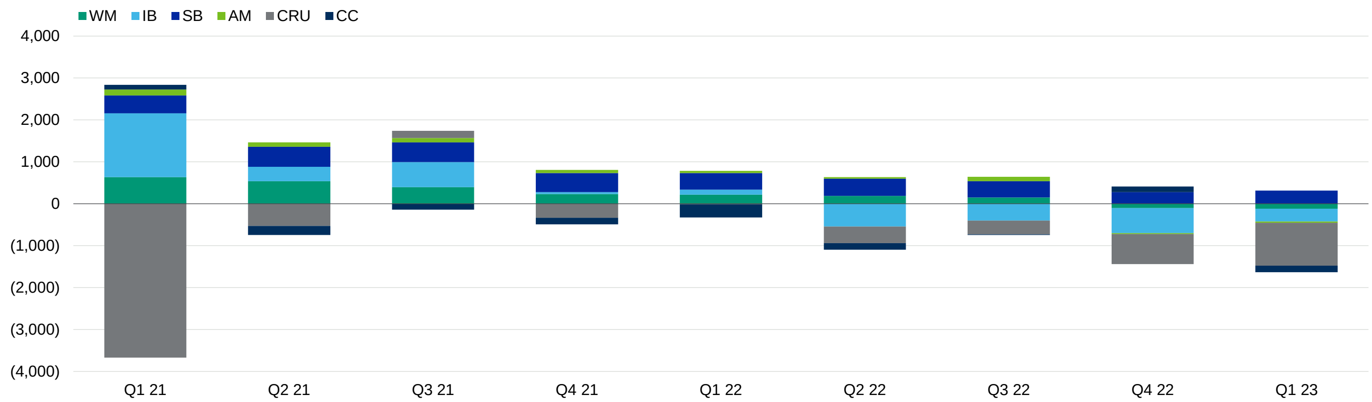
As of Q1 2023 for BAC, Citi, GS, JPM, MS, RBC, WFC, CS and Q4 2022 for all others; 2) The Tier 1 leverage ratios of UK and European banks are calculated as per the Capital Requirement Regulations, and they exclude certain central bank balances as temporarily allowed; for US banks we show the supplemental leverage ratio (SLR). 3) The CET1 ratio for US banks is calculated under the advanced approach.

Source: Company reports

Segment results commentary

Unless indicated otherwise, figures displayed below are on a CS adjusted basis excluding significant items and comparisons are made versus Q1 2022.

Exhibit 2
Underlying performance further weakened in the quarter
Division pre-tax profits, CHF million



Adjusted pre-tax income including Archegos impact.
Source: Company results presentations and financials, Moody's Investors Service

Wealth Management (WM) reported adjusted pretax loss of CHF115 million (Q1 2022: CHF219 million income), driven by lower adjusted revenue (-33%). Net interest income decreased 37% reflecting lower deposit and loan volumes and higher funding costs that were only partly offset by higher deposit margins. Fee and commission income decreased 17% due to lower assets under management. Transaction-based revenue declined 43% due to lower client activity. Adjusted operating expenses decreased 8% due to lower professional services fees and allocated corporate function costs. WM faced net new assets outflow of CHF47.1 billion (Q4 2022: outflow of CHF92.7 billion). Asset under management decreased to CHF502 billion compared to CHF541 billion in Q4 2022.

Investment Bank (IB) reported an adjusted pretax loss CHF337 million (Q1 2022: CHF 127 million income). Adjusted revenue decreased 37% (in USD terms) reflecting weaker revenue across all business lines. FICC revenue declined 5%, reflecting a reduced revenues in Foreign Exchange Franchise. Equity Sales & Trading revenue declined 36% also reflecting weaker revenues in Equity Derivatives and Cash Equities. Advisory revenue and capital market revenue decreased 51%, reflecting lower global fees across the industry and reduced market share. Adjusted operating expenses were down 9% due to lower compensation and benefits costs.

Swiss Bank (SB) reported adjusted pretax profits CHF313 million (Q1 2022: CHF393 million). Adjusted revenues decreased 8% due to lower net interest income (-11%), fee and commission income (-8%) owing to lower AuM and a 12% decline in transaction-based revenue due to decreased client activity. Adjusted operating expenses were down 3% due to lower compensation expenses and decreased group's operating costs. Net new assets outflow was CHF6.9 billion, driven mainly by outflows of private clients.

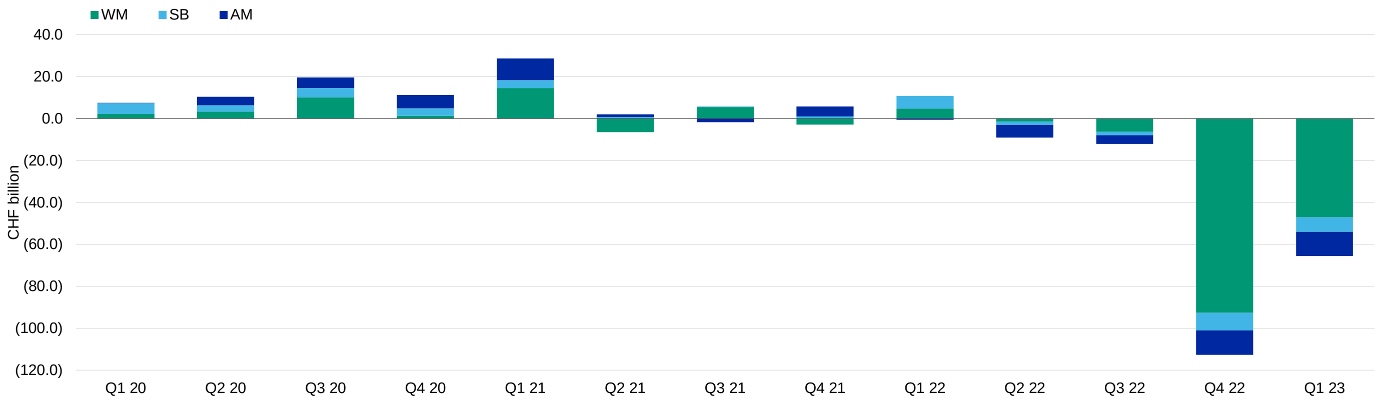
Asset Management (AM) reported adjusted pretax loss CHF27 million (Q1 2022: CHF56 million income). Revenues were down 45% due to decreased investment and partnership income and lower management fees, partially offset by higher performance and transaction revenues. Adjusted operating expenses decreased 24% supported by lower expenses related to the supply chain finance funds matter and reduced commission and compensation expenses. Net new asset outflow was CHF11.6 billion across traditional and alternative investments. Assets under management decreased by 1% sequentially.

Capital Release Unit reported an adjusted pre-tax loss of CHF1019 million compared to a loss of CHF117 million. Loss in revenues was driven by a loss of revenues from businesses transferred from the IB, particularly from SPG as well as losses on the valuation of certain financing arrangements associated with the Apollo transaction. Adjusted operating expenses were down 9%.

Exhibit 3

Net 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 senior unsecured debt rating reflect (1) the bank's ba1 Baseline Credit Assessment (BCA)(2) the result of our Advanced Loss Given Failure (LGF) analysis, providing two notches of uplift and (3) zero notches of rating uplift stemming from government support. The ratings are on review for upgrade, following the announcement of the acquisition by UBS Group.

Moody's related publications

Credit Opinion

- Credit Suisse Group AG, March 2023

Issuer Comments and In-Depth Reports

- CS 2025 plan: breadth and complexity of restructuring entail significant execution risks, November 2022
- 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 places Credit Suisse Group ratings on review for upgrade, March 2023

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 Q1 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.

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