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ISSUER IN-DEPTH
12 September 2022

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RATINGS

Credit Suisse Group AG

Domicile	Zurich, Switzerland
Long Term CRR	Not Assigned
Long Term Debt	Baa2
Type	Senior Unsecured - Fgn Curr
Outlook	Negative
Long Term Deposit	Not Assigned

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Credit Suisse Group AG

Immediate risks outweigh prospective benefits of still unfolding strategic shift

The ongoing and not fully defined restructuring of Credit Suisse Group (CS, Baa2 negative[1]) aims to put the bank on firmer credit footing, but the prospective benefits of this strategic reset are outweighed by the bank's recent large financial losses, the likelihood of further losses in coming quarters, as well as governance deficiencies and top management turnover. The bank's presently solid capitalisation and strong liquidity and funding provide some leeway to chart a more sustainable course for its business, but capitalisation is likely to deteriorate unless CS reduces risk-weighted assets, raises capital or delays the restructuring. We covered some of these topics in a recent podcast.

The Investment Bank restructuring heightens uncertainty and execution risk. The work already underway has been complicated by worsened macroeconomic and market conditions. The division has lost market share and franchise strength following the deleveraging of capital-intensive businesses and exit from prime brokerage. New execution risk will arise from a further review of the business mix – the results of which will be announced in October – covering securitized products, related financing businesses and possibly more. The aim is to achieve a more stable, capital-light and better aligned investment banking business, but these moves will take years to fully execute and will entail material and unquantified upfront costs before bearing sustained credit-positive results.

Financial performance is deteriorating. Large losses not only strained the bank's finances but will possibly delay technology investments to transform the business. After CHF1.6 billion of losses in 2021, CS reported CHF1.9 billion of losses in H1 2022 because of high litigation charges and weak revenue, which decreased 36% year-on-year, driven by a large decline in investment bank revenue as well as lower wealth and asset management results. We expect large losses for full-year 2022 and weak profitability in 2023.

Stabilising the group and embedding a more risk aware and responsive culture will take time. Complicating this effort is substantial turnover in board and executive leadership of the group: Since the Archegos and Greensill events of early 2021, CS has appointed a new Chairman, CEO, CFO, COO, CRO and CCO. Many business and regional heads are also new. CS will need to retain key employees and mitigate staff turnover to maintain consistent execution on its prolonged strategic repositioning. Further, the group's lengthy and resource-consuming risk, compliance and cultural remediation efforts will require significantly more time, under stable leadership, to fully enact and embed.

Capitalization and liquidity will help mitigate restructuring risk. Both are key bondholder protections as CS navigates the substantial risks ahead.

Investment Bank restructuring heightens uncertainty and execution risk

Deficiencies in risk awareness and management in the Investment Bank division, as well as gaps in audit and compliance controls, highlighted unhealthy risk appetite and inappropriate risk management that ultimately resulted in CHF 4.3 billion of charges in 2021. The foremost examples were the failure of Archegos, a US hedge fund client, and the subsequent unwinding of CS's concentrated leveraged equity and derivatives exposures, and the aggregate risk the group took in relation to Greensill's founder and his companies, which culminated in the wind-down of CS's supply chain finance funds.

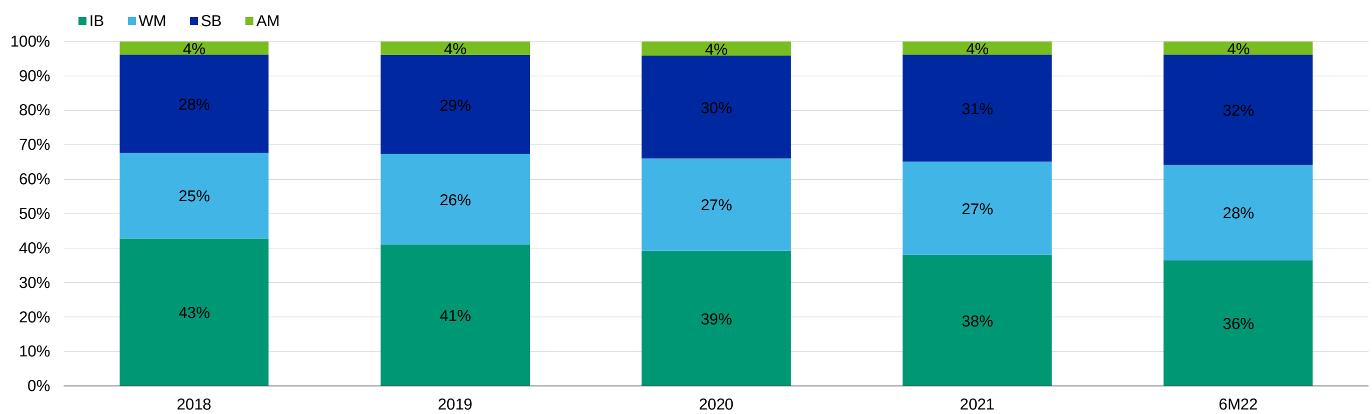
Following a review of the business, CS announced in November 2021 a new strategy to reduce capital allocated to Investment Banking and simplify its structure by exiting the prime brokerage business and around ten non-core global trading solutions (GTS) markets as well as redeploying capital to Wealth Management and investing for growth (Exhibit 1). CS also reorganized into four divisions – Wealth Management, Investment Bank, Swiss Bank and Asset Management – and eliminated the Asia Pacific division.

CS will redeploy around CHF3 billion of capital to the Wealth Management division by 2024 (+25%), which will cause capital allocated to Wealth Management, the Swiss Bank and Asset Management to increase to two thirds of the operating divisions' total (from around 60%) and capital allocated to the Investment Bank division to decrease to around one third of the operating divisions' total (from around 40%). Nonetheless, CS will remain one of the global banks most exposed to capital markets activities, which pose substantial risks for creditors because of volatile revenue, inherent risk-management and governance challenges, significant market, counterparty and operational risks and the confidence-sensitivity of the customer and funding franchises.

Exhibit 1

Exit from prime brokerage is almost completed and will help reduce exposure to capital markets activities

Capital allocated by division, as a percentage of operating divisions' capital



IB = Investment Bank; WM = Wealth Management; SB = Swiss Bank; AM = Asset Management; CC = Corporate Center.

Source: Moody's on CS data

The scaling down of the Investment Bank, together with significant franchise erosion in a less benign macroeconomic and markets environment, resulted in a significant drop in revenue (see next section). In response, CS announced a further strategic review of the Investment Bank this July, which will consider further reductions or exits of select businesses beyond what has already been decided. CS will provide further details from this review along with revised performance goals when it announces Q3 2022 results on 27 October.

The objective of the strategic review is to create a capital-light, advisory-led banking business and a more focused markets business that complements the Wealth Management and Swiss Bank franchises, creating a more competitive business mix that produces less volatile, more predictable earnings. In particular, CS will evaluate strategic options for the profitable Securitized Products and other related financing businesses (c.$20 billion of RWA and c.$75 billion of Leverage), with the aim of attracting third-party capital for this business. Management made no announcement in relation to other large businesses, such as Leveraged Finance, in which CS is one of the largest global players and which has, until recently, been a large driver of the Investment Bank profitability. Exposure to leveraged finance and high-yield debt markets presents tail risk, despite a strong track record and robust underwriting standards.

The potential downsizing or exit from highly capital intensive and higher-risk business, if successfully executed, would be credit positive for bondholders. However, these processes are typically both costly and time-consuming, taking three to five years to complete, and entail very high execution risk that may result in further staff departures and franchise erosion.

Financial performance is deteriorating

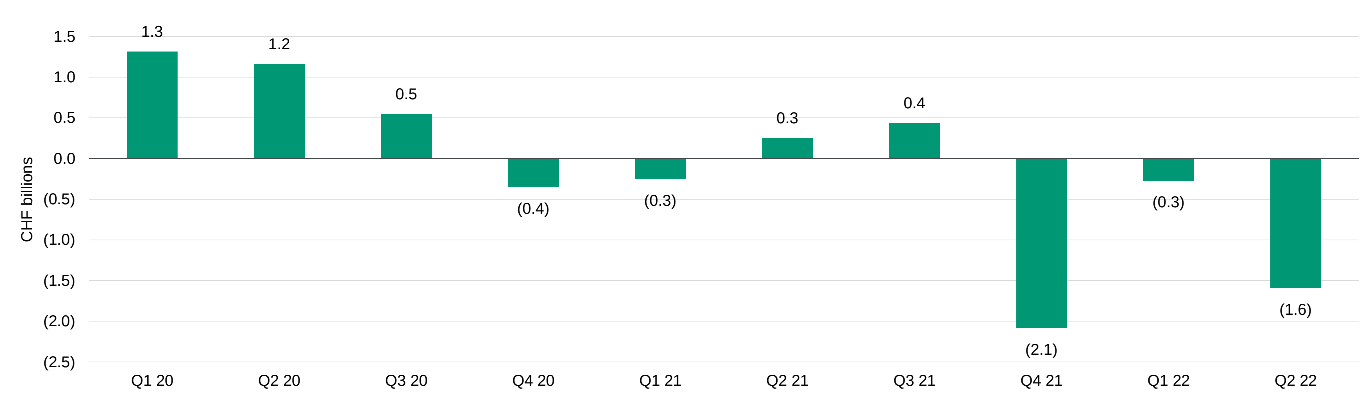
The cumulative financial and reputational damage from the Archegos and Greensill events has been evident in weak, credit negative results for CS in recent periods, highlighting both the imperatives and impediments to successfully executing on its organizational and cultural remediation efforts in the more difficult macroeconomic and market environment. We believe the new strategic review is a clear acknowledgment of the challenges in reversing a string of net losses (Exhibit 2) and in building a sustainably profitable and less volatile business mix.

In 2021, CS reported a net loss of CHF 1.6 billion, which included CHF 1.6 billion of goodwill impairment charges and a CHF 4.3 billion charge due to Archegos' failure to meet its margin commitments, which was reflected in the Investment Bank division. On an adjusted basis, excluding significant items and Archegos, revenue increased 2% as higher revenue in Asset Management, Investment Bank and Swiss Bank partly offset lower net revenue in International Wealth Management. Adjusted operating expenses decreased 4%, reflecting lower variable compensation costs.

In the first half of 2022, CS reported a CHF1.9 billion net loss. The results included CHF1,087 million of litigation provisions and CHF521 million of write-downs on the Allfunds stake. Revenue decreased 36% year-on-year and adjusted operating costs (excluding litigation provisions) increased 7% year-on-year because of higher investments in compliance, risk and infrastructure, leading to a negative cost : revenue jaw.

Exhibit 2

Large reported net losses in recent quarters highlight challenge ahead
Net income/ loss

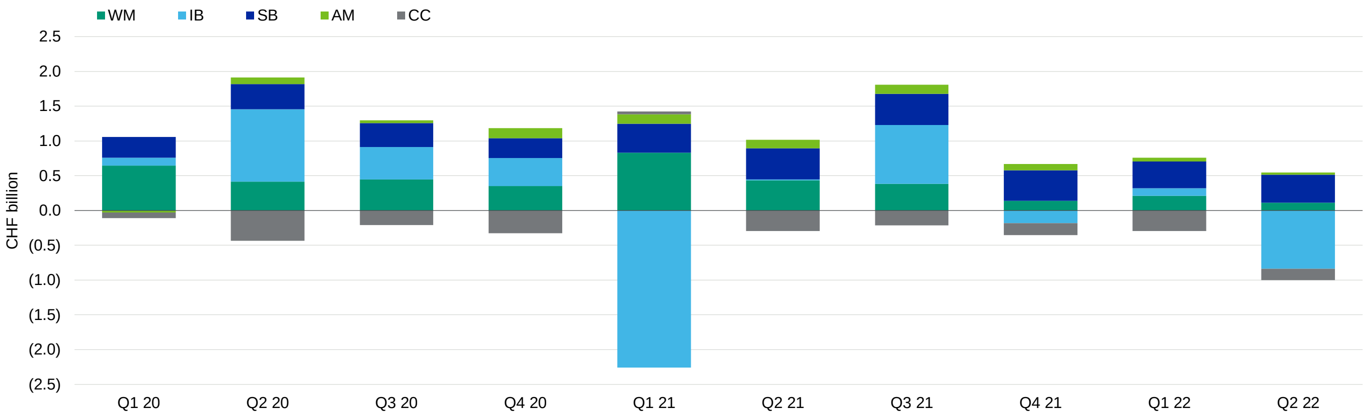


Source: Moody's on CS's data

H1 2022 results showed weak revenue across most divisions (Exhibit 3), driven by a large decline in Investment Bank revenue (-48%) as well as lower revenue from Wealth Management (-39%) and Asset Management (-18%), while Swiss Bank revenue increased 5%. The repositioning of the Investment Bank led to market share erosion and franchise impairment for the division, following deleveraging of its capital-intensive businesses, and exit from prime brokerage. This translated to an adjusted CHF875 million pretax loss for

Investment Bank in the first half of 2022. In contrast, CS reported a CHF787 million adjusted pretax income from Swiss Bank, CHF 326 million from Wealth Management and CHF82 million from Asset Management for the period.

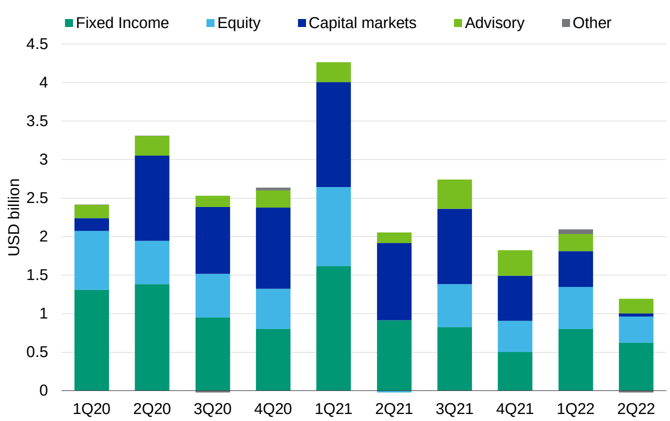
Exhibit 3
Divisions' pretax income/ losses



Source: Moody's on CS's data

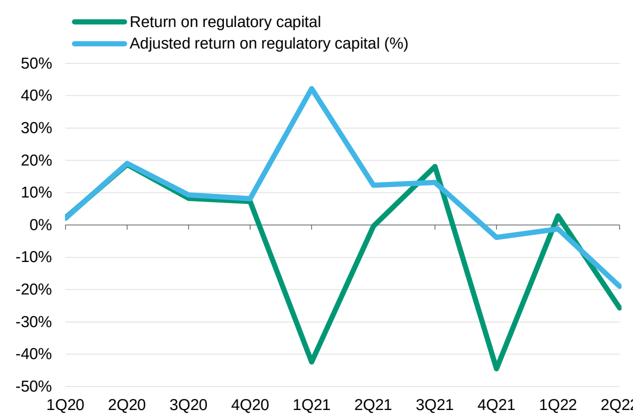
The Investment Bank's revenue has steadily decreased since the Greensill and Archegos events (Exhibit 4), and recent performance has been impaired by an unfavourable markets environment and an undiversified business mix, which combined have resulted in highly volatile returns (Exhibit 5). CS's capital markets activities are concentrated in credit and in equity capital markets and debt capital markets activities, all of which reported weak market performance in H1 2022. CS's activities in Equities and Macro, which benefited from strong market performance in H1 2022, are more modest and were hindered by the exit from the prime brokerage business.

Exhibit 4
Investment Bank division's revenue has steadily decreased since Greensill and Archegos events in Q1 2021 and resulted in highly volatile earnings
IB division revenue by segment



Source: Moody's on CS's data

Exhibit 5
Investment Bank division's revenue steadily has decreased since Greensill and Archegos events in Q1 2021 and resulted in highly volatile earnings
IB division return on regulatory capital



Source: Moody's on CS's data

We estimate a CHF3 billion loss for CS in 2022. We expect revenue to remain subdued in the Investment Bank division and to be broadly stable in the Wealth Management and Swiss Bank divisions. We estimate operating costs of around CHF17 billion, in line with management guidance. We also incorporate an additional CHF900 million provision on outstanding litigations and on Greensill.

Based on the current business mix, before any adjustment to reflect the upcoming strategic review, we estimate a modest profit of CHF0.2 billion in 2023. Revenue should increase moderately from a low base, and we estimate operating costs of CHF16.5

billion. However, our estimates do not include the one-off costs associated with the new medium-term ambition to reduce the underlying cost base by around CHF1.5 billion to below CHF 15.5 billion.

CS's results over the next eighteen months will be subdued by high one-off charges, which we summarize in Exhibit 6 below.

Exhibit 6

Large one-off costs will dampen profit: Moody's estimates

Item	Estimates (CHF billion)	Max charge (CHF billion)	Comment
Legacy litigation charges	-0.9	-1.6	CS reported CHF1.1 billion litigation charges in H1 2022. The group estimates a range of possible losses not covered by existing provisions of up to CHF1.6 billion at end-June 2022
Greensill burden sharing	-0.4		The recovery rates on the $2.4 billion outstanding Greensill funds are unclear: CS recently said that the expected recovery rate on the $330 million non-focused notes is c.90%. Assuming recovery rates of 60%-80% on the residual CHF2.1 billion funds; the expected loss for clients is CHF0.5-1.2 billion; Assuming CS will share 50% of the costs, we estimate losses of CHF300-500 million for CS
Greensill operating costs	-0.3		CS reported that the cost of recovering Greensill money will be $291 million till 2026. The costs include legal and restructuring advisory, insolvency fees and money paid to prop up Greensill and pay its skeleton staff.
Cost of funding	-0.4		CS's cost of funding is higher than peers: We estimate the additional cost of funding for CS is around CHF400 million based on CHF41 billion of long-term senior funding and c.CHF8.5 billion of AT1 callable by YE2024. CS's spreads are currently c.50 bps (senior) and c.200 bps (AT1) wider than peers
Allfunds stake	-	-0.7	CS recorded CHF 1.2 billion in revaluations on the Allfunds stake in the 2019–21 period. CS reported CHF521 million write-downs in H1 2022. Hence, residual gains are currently around CHF700 million.
Restructuring costs	-0.4 ("old" plan)	-2 ("new" plan)	In July, CS announced a plan to reduce operating costs by CHF1.5 billion to CHF15.5 billion. We estimate restructuring costs of around CHF 2.0 billion to be spread over the next two years (around CHF 1 billion/ year). We assume restructuring costs typically amount to around 130% of targeted costs synergy.
Total	-2.4	nm	

Source: Moody's estimates on CS's data

Stabilising the group and embedding a more risk aware and responsive culture will take time

The recent string of credit-negative and financially harmful events at CS indicate deficiencies in cross-divisional governance and risk control or awareness. As part of its enhancement of governance and risk management practices, CS is implementing the recommendations of internal and external investigations. But it will take time and consume significant resources and managerial focus to remediate the group's significant corporate governance, risk, audit or compliance control shortcomings, as well as to foster a highly effective risk control and governance framework across segments, with strict limit-setting and strong oversight of aggregate risks.

In light of these challenges, top management has been fully replaced in an attempt to embed a more focused and risk aware culture top-down across the group (Exhibit 7). And the board chair and all committee chairs have been replaced, which will help revitalize oversight. While the board and executive management changes are positive for the group, it will take years under steady, unified leadership to fundamentally change the culture and stabilize an organization rocked by financial and reputational issues.

Exhibit 7

Leadership overhaul: almost all top management has been replaced

Position	Name	Date of appointment	Comment
CEO	Ulrich Körner	Aug-22	Joined Credit Suisse in April 2021, as CEO Asset Management, from UBS, where he served as head of the AM division and previously as Chief Operating Officer. He additionally headed the EMEA region for UBS from 2011. Before joining UBS, he held various previous roles at CS, including CFO and COO of Credit Suisse Financial Services and CEO Switzerland.
CFO	Dixit Joshi	Oct-22	Group Treasurer at Deutsche Bank for past five years, after joining in 2011, and has long experience helping oversee complex business transformations. Previous roles at Deutsche Bank included heading the Fixed-Income Institutional Client Group, Listed Derivatives and Markets Clearing, Global Prime Finance and APAC Equities. Also held senior positions at Barclays Capital from 1995 - 2003, after earlier stints at CS and Standard Bank of South Africa, where he began his career in 2003.
COO	Francesca McDonagh	Sep-22	Was previously announced as CEO of EMEA region. Will now support CEO in leadership and strategic development of CS, including operational and cost transformation, with a focus on organizational structure and bank-wide efficiencies. Was previously CEO of the Bank of Ireland, after holding several senior positions at HSBC Group.
CRO	David Wildermuth	Jan-22	Joined Credit Suisse from Goldman Sachs, where he was Deputy Chief Risk Officer (2015-22) and Global Chief Credit Officer & Global Head Credit Risk Management and Advisory (2012-18)
CCO	Rafael Lopez Lorenzo	Oct-21	Former JPMorgan banker and Credit Suisse's global head of audit; was appointed to replace Lara Warner.
Group General Counsel	Markus Diethelm	Jul-22	Was UBS's General Counsel and member of the Group Executive Board in 2014-21.
CEOs IB	David Miller and Michael Ebert	Aug-22	Mr. Miller will oversee Banking and Mr. Ebert will oversee Markets. Christian Meissner, CEO of the Investment Bank, will focus on the ongoing strategic transformation of the business in the interim but will not permanently remain with the group, despite joining less than a year ago.
CEO WM	Francesco De Ferrari	Jan-22	Previously CEO & Managing Director of AMP Capital (2020-21) and AMP Limited (2018-21). He grew professionally at CS (2002-18), with various positions, mostly in Private Banking
CEO AM	Michael J. Rongetti	Aug-22	Ad-interim head of Asset management. Will continue as Head of Asset Management Americas and Global Head of Investments and Partnerships. Was previously CFO of Asset Management in 2012-21) of Private Banking Wealth Management Products in 2013-15.
CEO SB	André Helfenstein	Jan-22	Joined CS in 2007 and held various positions at CS's Swiss Universal Bank divisions. He was previously CEO of Swiss Universal Bank (2020–21)

Source: Moody's on CS's data

Despite the broad infusion of fresh leadership and risk perspective, CS remains vulnerable to potential franchise and reputational impairment: in recent quarters the group has been unable to avoid significant client attrition and a subsequent loss of business stemming from ongoing uncertainties from the wind-down of its supply chain funds and losses related to its US-based hedge fund. These and the other matters discussed above are incorporated in a one-notch downward adjustment for Corporate Behavior in CS's scorecard. These corporate governance factors are also reflected in our ESG assessment (see box below).

Credit Suisse Group ESG assessment

The Credit Impact Score (CIS) is 5

CS's ESG Credit Impact Score is very highly negative (CIS-5). Its ESG attributes have a very highly negative impact on current ratings. This very highly negative impact is primarily driven by governance factors, in particular, (1) the challenges the group is facing in successfully executing on the previously announced repositioning of its investment bank in the more difficult macroeconomic and market environment, as well as uncertainty as to the business and financial implications of the group's plans to take further steps to achieve a more stable, capital-light and better aligned investment banking business; (2) the crystallisation of large financial losses during H1 2022, resulting in stress on the bank's financial profile and an expectation of continued weak performance in 2022; (3) evidence of market share erosion and franchise impairment in the Investment Bank division, following deleveraging in capital-intensive businesses and exit from the prime brokerage business; (4) the lengthy and resource-consuming risk, compliance and cultural remediation efforts that have progressed but are still underway; and (5) our view that stabilising the group under the leadership of a new board and senior executive team will require time.

The Governance Issuer Profile Score (IPS) is 5

CS faces very highly negative idiosyncratic governance risks. CS's aggressive financial strategy and inadequate risk management, as reflected in the Archegos and Greensill events, resulted in large financial losses and highlighted fundamental weaknesses in management and controls in CS's Investment Bank and, specifically, in its Prime Services business. While these weaknesses are being addressed, improvements in risk and compliance culture and processes will take time to embed. Further, stabilising the group under the leadership of a new board and senior executive team will also require time. In addition, the opacity and complexity of capital markets activities, which we estimate account for around one third of the operating divisions' total revenue, expose the group to tail risks.

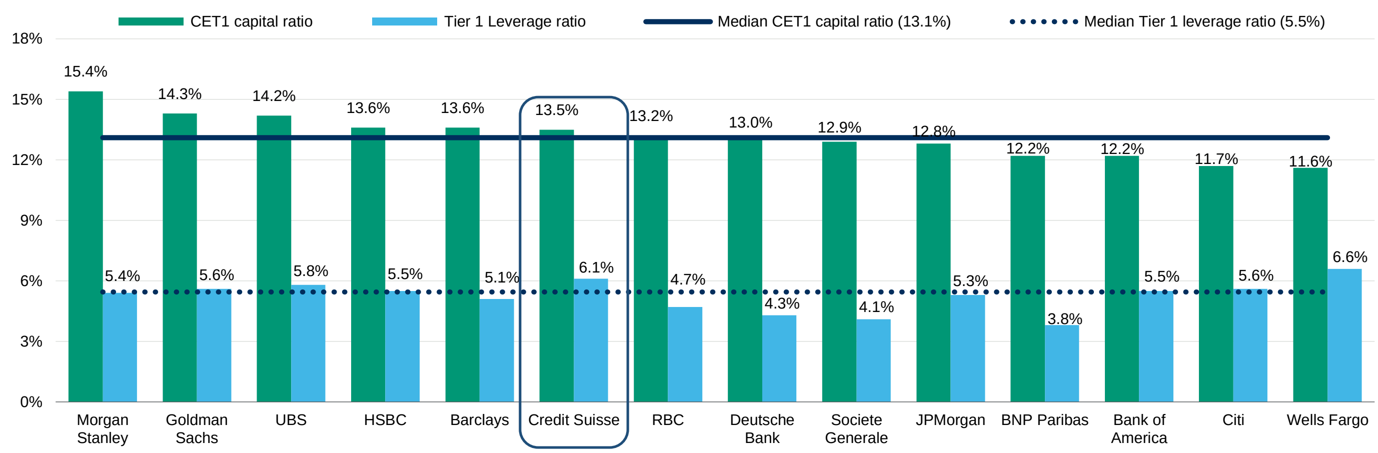
Capitalization and liquidity will help mitigate restructuring risk

CS's capitalisation remains strong, despite weakening because of losses in the last two quarters, and is a substantial mitigant of its restructuring risk. However, further losses are likely to erode capital more materially over the next few quarters unless CS reduces risk-weighted assets, raises capital or delays the restructuring.

Exhibit 8

Presently strong capital is a substantial buffer against restructuring risk

Global investment banks CET1 and leverage ratios as at Q2 2022



Source: Moody's on companies' data

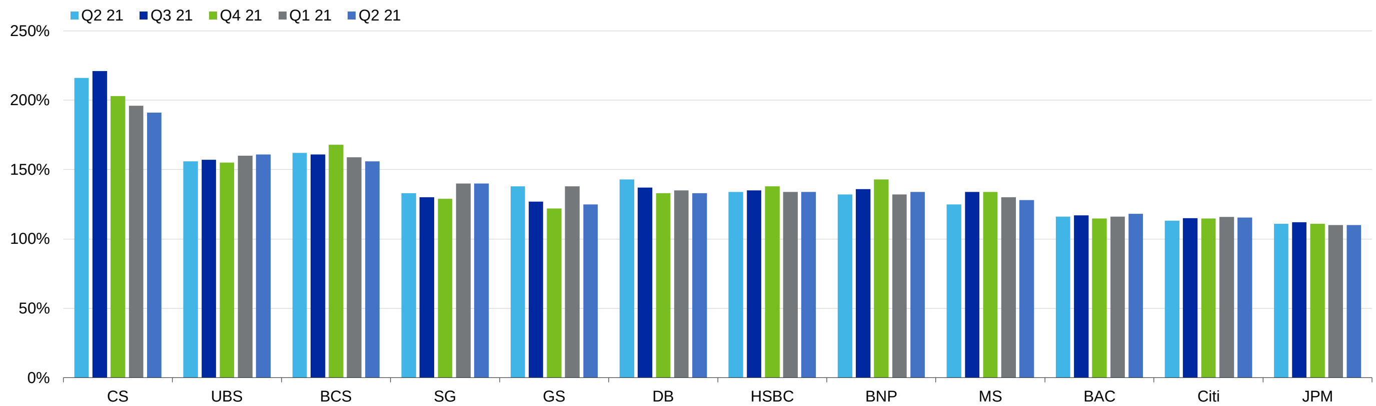
CS reported a Common Equity Tier 1 (CET1) capital ratio of 13.5% at the end of June 2022, a 90-basis-point reduction from 14.4% at year-end 2021 (Exhibit 8) that was mainly driven by losses. The CET1 leverage ratio was 4.3% and the Tier 1 leverage ratio was 6.1% for the same period. CS expects to operate with a CET1 ratio of between 13% and 14% for the balance of 2022 and has a 2024 objective of a CET1 ratio of more than 14% pre Basel III reforms. CS also has a 2024 CET1 leverage aspiration of around 4.5%.

Significant positive structural liquidity and comprehensive liquidity management

CS also benefits from a sizable volume of liquid assets, and management retains a strategy to maintain liquidity well above the group entities' unconsolidated requirements. When combined, these requirements are substantially above the group's consolidated regulatory requirements, which will keep its liquidity coverage ratio (LCR) of 191% at end-June 2022 well in excess of the 100% regulatory minimum LCR and well above the 139% average for its global peer group (Exhibit 9).

Exhibit 9

Credit Suisse's conservative liquidity management supports peer-leading liquidity coverage ratio



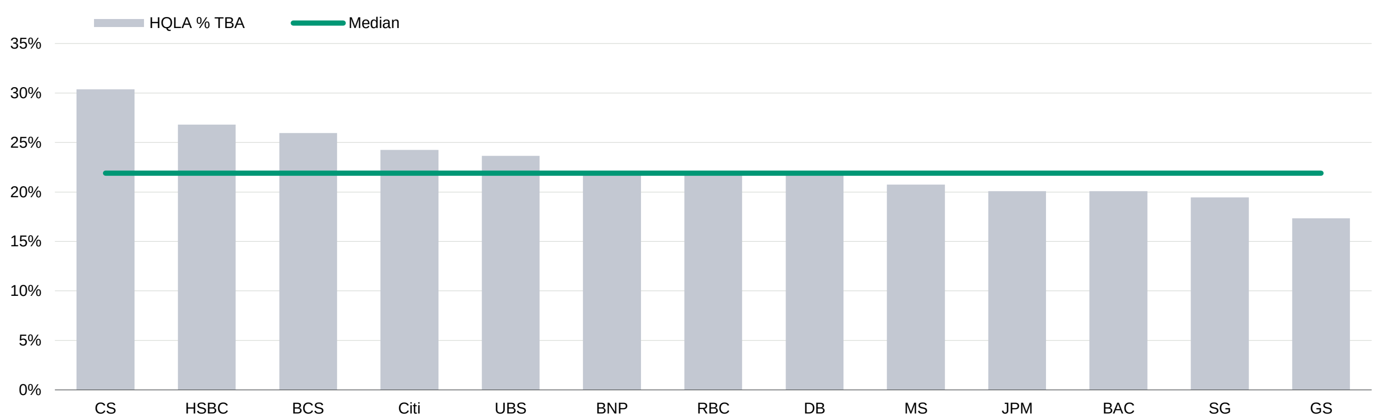
Source: Moody's on CS's data

CS reported liquidity reserves and other unencumbered liquid assets of CHF232 billion at end-June 2022, largely comprising central bank cash and other highly liquid securities. Its high share of cash deposits with central banks, unencumbered government securities, and other highly rated nonsovereign obligations further enhances the quality of its liquid assets.

Moreover, high-quality liquid assets (HQLA) were around 30% of CS's total assets at end-June 2022, a clear credit strength (Exhibit 10). We expect CS to maintain its strong liquidity, further benefiting from having prepositioned additional HQLA with the Swiss National Bank that – in conjunction with its high cash on balance sheet and some contingent liquidity through mortgage loans – will act as an additional buffer in times of stress.

Exhibit 10

High-quality liquid assets support strong balance sheet liquidity
Average weighted HQLA as a % of tangible banking assets (TBA), YE 2021



Source: Company reports, Moody's Investors Service

Maintaining above-average liquidity remains important to CS because of its still sizable capital markets and global wealth management franchises. The deposits and short-term market funding of these businesses may be more confidence-sensitive than for traditional banks, exposing CS to liquidity stress in an adverse scenario (e.g., a material reputational event). CS is also exposed to sizable contingent liquidity obligations related to its capital market activities that are not captured in our liquidity and funding ratios.

Moody's related publications

Credit opinion

» Credit Suisse Group AG, August 2022

Issuer comments and In-Depth Reports

» Q2 2022: Weak revenues and litigation charges lead to large loss

» 2024 plan: reduced risk appetite and greater shift to wealth management will lower risks and earnings volatility, November 2021

» Risk management and governance issues may undermine franchise and earnings stability, July 2021

Rating Action

» Moody's downgrades Credit Suisse Group AG's senior unsecured debt ratings to Baa2; outlook negative, August 2022

Rating Methodology

» Bank Methodology, July 2021

Endnotes

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

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