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Credit Suisse Losses Highlight Challenges to Restructuring

Fri 10 Feb, 2023 - 6:14 AM ET

Fitch Ratings-London/Paris-10 February 2023: Credit Suisse's 4Q22 results highlight its restructuring challenges, with group revenue down 33% yoy and three of the four divisions reporting a loss, Fitch Ratings says. However, the bank has made some progress with its restructuring, including the disposal of non-core assets. Notwithstanding this incremental progress, the Negative Outlook on Credit Suisse's ratings reflect Fitch's view that the bank still faces material execution risk during the restructuring, and maintaining adequate capitalisation throughout will be key for the ratings.

The group's pre-tax loss of CHF1.3 billion for 4Q22 (2022: CHF3.3 billion) included losses in the core wealth management division and the investment bank and asset management units, with profits in the Swiss Bank also down substantially. Some of the revenue deterioration was to be expected given outflows in deposits and assets under management, and given the restructuring initiatives, but the results demonstrate the scale of the challenge to stabilise the business and franchise, and return the group to profitability.

Credit Suisse is now showing some momentum in its restructuring. It has disposed of Securitized Products Group (SPG) assets of CHF35 billion, reduced its non-core assets (with a non-core risk-weighted asset (RWA) reduction of CHF5 billion in 4Q22), progressed in establishing CS First Boston through the acquisition of the Klein Group LLC, and continued its cost reductions, which are critical to returning the group to sustainable profitability by 2025.

The group reported a common equity Tier 1 (CET1) ratio of 14.1% at end-4Q22 (end-3Q22: 12.6%) following the capital raise completed in December 2022 and the reduction in RWAs due to restructuring initiatives and lower business volumes. We expect the CET1 ratio to decrease due to further losses arising from restructuring costs in 2023, and underlying operating profitability will remain weak. However, the bank is committed to maintaining a CET1 ratio of at least 13% throughout its restructuring period to end-2025, and reaching 13.5% by end-2025 (pre-Basel III end-game). The bank also expects a 30bp RWA benefit in 1Q23 from the disposal of the SPG business and a possible reduction in operational risk RWAs as the restructuring progresses.

Credit Suisse experienced very substantial outflows from its wealth management division and the Swiss Bank in 4Q22. Deposits fell by CHF138 billion (-37% from end-3Q22) and net assets by CHF111 billion (-8%), with the drop in deposits accounting for 60% of the decrease in net assets. The bank has indicated that most of the quarterly outflows were in early October with 85% occurring in October and November. Management indicated that the outflows had stabilised by year-end, but not materially reversed. Liquidity has improved, with an average daily liquidity coverage ratio (LCR) of 144% for 4Q22, and we expect the bank to strengthen its LCR substantially in the coming quarters.

The Negative Outlook on the ratings reflects the material execution risks the bank continues to face over the next two to three years in completing its restructuring. The group has budgeted for CHF2.9 billion of restructuring charges and expects annual savings of CHF2.5 billion by 2025, although revenue will be considerably lower (although less volatile) due to a smaller business footprint. Credit Suisse's ratings would also come under pressure if the wealth management franchise suffers lasting damage, for example, if assets under management do not sustainably recover to support the bank's franchise, or if the restructuring plan stalls or financial performance weakens further.

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