FitchRatings

NON-RATING ACTION COMMENTARY

Credit Suisse's Negative Outlook Reflects Challenges; CET1 Ratio Is a Key Rating Driver

Fri 09 Dec, 2022 - 7:54 AM ET

Fitch Ratings-Paris/London-09 December 2022: Credit Suisse faces high execution risks to complete its restructuring plan following today's CHF4 billion capital increase, reflected in the Negative Outlook on its ratings, Fitch Rating says. Although the success of the rights issue represents a milestone, the bank must overcome weakened confidence as seen by recent deposit and net asset outflows.

The capital raised has increased Credit Suisse's pro-forma end-3Q22 CET1 ratio to about 14%, but we expect pressure on this ratio from announced additional losses likely to be reported in 4Q22. Nonetheless, the bank is committed to maintaining a CET1 ratio of at least 13% throughout its restructuring period, and reaching 13.5% by end-2025 (pre-Basel III end-game). An inability to maintain the ratio above 13% is a clear downgrade trigger on Credit Suisse Group AG's 'BBB' Long-Term Issuer Default Rating (IDR).

Large deposit and net asset outflows in October following market rumours about the health of the bank led to Credit Suisse falling below certain entity-level regulatory liquidity requirements, but the group has remained compliant with core requirements. The average daily liquidity coverage ratio (LCR) declined to 140% in 4Q22 (to 11 November) from 192% in 3Q22 and the group had to raise additional liquidity at significantly wider spreads.

Liquidity appears to have marginally improved as Credit Suisse announced that its average daily LCR had increased (to above 140% in 4Q22 to 7 December) and its spot LCR had improved as at that date, which should provide some market reassurance. We expect the bank to strengthen its LCR substantially in coming quarters, helped by the announced sale of its Securitized Products business, which the bank expects to close in 1H23, and efforts to increase its deposit base. Failure to strengthen its LCR, renewed signs of liquidity stress, or evidence of reduced intra-group liquidity fungibility would place downward pressure on ratings.

The Negative Outlook on the rating reflects the material execution risks the bank faces over the next two to three years in its plans to complete its restructuring. Credit Suisse expects to generate a sizeable loss of up to about CHF1.5 billion in 4Q22, due to a challenging operating environment, the effect of outflows, and the impact of restructuring initiatives. The group has budgeted for CHF2.9 billion of restructuring charges and expects cost savings of CHF2.5 billion by 2025, although revenues will be considerably lower (albeit less volatile) with a smaller business footprint. Credit Suisse's ratings would also come under pressure if the group's Wealth Management franchise suffers lasting damage, or if management is unable to demonstrate tangible progress towards the implementation of the plan while maintaining reasonable financial performance in a challenging environment.

The restructuring plan has resulted in material impairments of the book value of Credit Suisse AG's (the parent bank) investments in subsidiaries, which has resulted in a 170bp qoq decline in the parent bank's Swiss CET1 ratio to 9.7% at end-3Q22. The capital increase will result in a 130bp-140bp increase in the ratio, but the parent bank is currently using capital buffers, which it is likely to continue to do until 2025.

Lower valuations of investments in subsidiaries will also have affected Credit Suisse's Fitch-calculated holding company double leverage, which we expect to have exceeded 120% (end-2021: 117%). Under our Bank Rating Criteria, we can notch the holding company's Viability Rating and Long-Term IDR if double leverage exceeds 120% unless this is mitigated by measures that reduce the risk of cash flow mismatches affecting holding company creditors, such as access to liquidity from the operating company. We believe that the group will aim to reduce holding company double leverage and that potential cash flow mismatches at Credit Suisse Group are manageable as we expect the holding company to continue to have access to liquidity from the operating companies as needed. We therefore do not notch the holding company below its main operating subsidiary, Credit Suisse AG.

Contact:

Roderic Finn
Director
+44 203 530 1139
Fitch Ratings Limited
30 North Colonnade
London, E14 5GN

Patrick Rioual
Senior Director
+33 1 44 29 91 21

Media Relations: Peter Fitzpatrick, London, Tel: +44 20 3530 1103, Email: peter.fitzpatrick@thefitchgroup.com

Additional information is available on www.fitchratings.com

Banks Europe Switzerland