

**FITCH WIRE**

Credit Suisse Restructuring Involves Substantial Execution Risk

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Fitch Ratings-London-28 October 2022: Credit Suisse's planned restructuring to scale back its investment bank and reallocate capital to its global wealth-management business will involve substantial execution risk, Fitch Ratings says. The plan, announced on 27 October, does not have immediate rating implications as it is consistent with our prior expectations. It will lead to further delays in improving profitability, one of the group's main weaknesses. Credit Suisse does not expect to reach its revised target core return on tangible equity of at least 8% before 2025. However, the restructuring, if successful, could lead to reduced earnings volatility.

Credit Suisse has traditionally allocated a greater proportion of capital to investment banking than global peers, which tends to generate volatile earnings. The restructuring should boost capital by reducing risk-weighted assets and leverage assets, but entails substantial execution risks given the scale of the transformation over a three-year period in a deteriorating operating environment. Credit Suisse expects its initiatives to save CHF2.5 billion by 2025, but estimates CHF2.9 billion of restructuring charges.

We expect the restructuring to add to pressure on profitability given the large associated charges, and scaling back the investment bank while asset valuations are depressed could generate significant losses. The group's common equity Tier 1 ratio was just 12.6% at end-3Q22, below its target of at least 13.5% (pre-Basel III reform). To bolster the ratio to at

least 13% through the restructuring, the bank intends to raise CHF4 billion of equity, which should raise the ratio to 14%.

Fitch reinstated its [Negative Outlook after downgrading Credit Suisse to 'BBB'](#) in August 2022, reflecting repeated quarterly losses and an unstable business model. The wealth-management business was also under pressure from declining asset values and weakened transactional income due to investors' risk aversion. Large deposit outflows in October following negative press commentary led to a breach of certain entity level regulatory requirements, but Credit Suisse has remained compliant with core requirements at the group level (liquidity coverage ratio stable at 192% for 3Q22; 154% for the month to 25 October 2022).

The group's ratings could face added pressure if the restructuring falters, and we are unlikely to stabilise the Outlook in the near term. However, if we see compelling evidence that Credit Suisse is on track to implement its plans successfully, with business model stabilisation and improved earnings generation, we could revise the Outlook to Stable.

Credit Suisse plans to shrink its investment bank by streamlining its markets business to align with its wealth-management franchise, carve out its capital markets and advisory business under the revived First Boston brand, reduce exposure to structured products business, and establish a non-core asset unit. In the longer term, the new strategy should result in a simpler group with more stable earnings, which can be reinvested to support growth.

Credit Suisse aims to reduce the proportion of capital allocated to its investment bank by establishing the First Boston unit as a standalone business with a view to an IPO or sale by 2025, reducing its securitised products business by bringing in a third-party investor, and running down residual prime, emerging market and securitised product positions in the non-core asset unit. The intention is to increase capital allocated to its core wealth-management, Swiss Bank and asset-management businesses to 55% by 2025, from 50% at end-3Q22. The non-core asset unit is forecast to account for 12% of capital by 2025. Once assets in this unit have been wound down, capital consumed by investment banking activities, including the markets business and First Boston, is expected to be less than 20% of group capital.

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