



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

All Fitch Ratings (Fitch) credit ratings are subject to certain limitations and disclaimers. Please read these limitations and disclaimers by following this link: <https://www.fitchratings.com/understandingcreditratings>. In addition, the following <https://www.fitchratings.com/rating-definitions-document> details Fitch's rating definitions for each rating scale and rating categories, including definitions relating to default. Published ratings, criteria, and methodologies are available from this site at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance, and other relevant policies and procedures are also available from the Code of Conduct section of this site. Directors and shareholders' relevant interests are available at <https://www.fitchratings.com/site/regulatory>. Fitch may have provided another permissible or ancillary service to the rated entity or its related third parties. Details of permissible or ancillary service(s) for which the lead analyst is based in an ESMA- or FCA-registered Fitch Ratings company (or branch of such a company) can be found on the entity summary page for this issuer on the Fitch Ratings website.

In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided 'as is' without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers. For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001. Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the 'NRSRO'). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see <https://www.fitchratings.com/site/regulatory>), other credit rating subsidiaries are not listed on Form NRSRO (the 'non-NRSROs') and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

Copyright © 2022 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved.

Banks Europe Switzerland