

**FITCH WIRE**

Credit Suisse May Face Longer-Term Risk from Greensill Exposure

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Fitch Ratings-London-24 March 2021: The fallout from the failed supply-chain finance company Greensill Capital creates longer-term financial, reputational and regulatory risks for Credit Suisse Group, which could make it more difficult for the bank to narrow its profitability and rating gaps with higher-rated peers, Fitch Ratings says. However, the immediate repercussions of Greensill's failure, including Credit Suisse's suspension of USD10 billion of funds exposed to the company and the potential default of a collateralised USD140 million loan, do not materially affect the bank's financial metrics or its 'A-/Stable Long-Term Issuer Default Rating (IDR).

In the longer term, investigations into the governance of the affected funds, litigation by fund investors and potential delays in realising further fund distributions to investors could lead to investor compensation and other charges for Credit Suisse. A total of USD3.1 billion, the majority of the cash available in the funds, has been distributed to investors to date. There is also a risk that investigations result in reputational damage, which could hinder the group's growth ambitions for its wealth management business. We would view such risks in the context of Credit Suisse's solid capitalisation, including its ability to generate capital internally, and its relatively high rating headroom. If investigations identify significant and widespread governance or risk management weaknesses, Fitch would consider negative rating action.

Feedback

We believe that the near-term implications of Credit Suisse's exposure to Greensill are limited. We expect the direct revenue loss associated with the affected funds to be a low single-digit percentage of the asset management unit's revenue. Credit Suisse Asset Management generated CHF1.1 billion of adjusted revenue in 2020, about 5% of the group's total. In addition, the bank may need to provision for some of its remaining USD90 million collateralised lending exposure to Greensill. We view this in the context of Credit Suisse's asset-quality metrics, which are stronger than those of most of its global peers. The group's impaired loans ratio was 1.1% at end-2020 and its loan impairment charges in 2020 were 37bp of average gross loans, including the impact of transition to the current expected credit loss (CECL) accounting standard.

Credit Suisse's Long-Term IDR is on Stable Outlook, in contrast to most Western European banks' IDRs, reflecting relatively high rating headroom to absorb economic disruptions caused by the pandemic. However, the rating is at a lower level than that of most global trading and universal banks due to historically weaker and more volatile reported profitability.

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The above article originally appeared as a post on the Fitch Wire credit market commentary page. The original article can be accessed at www.fitchratings.com. All opinions expressed are those of Fitch Ratings.

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Feedback

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