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.

Contacts:

Roderic Finn
Director, Financial Institutions – Banks
+44 20 3530 1139
Fitch Ratings Limited
30 North Colonnade
London E14 5GN

Patrick Rioual
Senior Director, Financial Institutions – Banks
+33 1 44 29 91 21

David Prowse
Senior Director, Fitch Wire
+44 20 3530 1250

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

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.

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 © 2023 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.