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Fitch Ratings: Pressure on Credit Suisse Continues Despite Capital Increase

Fitch Ratings-London-23 April 2021: The fall-out from Credit Suisse Group's exposure to a failed US hedge fund and supply-chain financing funds continue to weigh on the bank's financial and strategic outlook after 1Q21 results, Fitch Ratings says. The Negative Outlook on the group's 'A-' Long-Term Issuer Default Rating (IDR) primarily reflects longer-term risks to the bank, despite the expected boost to its capitalisation from the issuance of mandatorily convertible notes and higher capitalisation targets (of about 13% CET1 ratio and over 4% CET1 leverage ratio).

The bank announced a reduction of its prime-finance and prime-brokerage businesses in 2021. Credit Suisse also indicated that a broader review of the investment bank's strategy is likely over the coming quarters, particularly as the new chairman joins the bank's board. Uncertainty over the nature and extent of risk-control failings and over their longer-term impact on the bank's strategy and franchise increases the risk of weaker earnings prospects, particularly when the investment bank's environment-driven revenue boost wears off. However, a thorough review of the bank's business model and the appropriateness of its risk culture and controls should in time support Credit Suisse's ability to generate more stable risk-adjusted profitability.

Revenue and client business volume generation in the group's wealth and asset management divisions were not noticeably affected by the negative news-flow, which however started towards the end of the quarter. While the risk of reputational spill-overs remains, the capital raise, part-cancellation of shareholder returns, adoption of higher capital targets for 2021 as well as continued willingness to allocate resources to these higher-return businesses, should alleviate the risk of meaningful profitability setbacks. Management also confirmed the strategic importance of the asset-management business and has no current plans for disposal, although its strategy and governance remain under review.

The expected CET1 uplift from the capital increase of about 55bp-60bp, along with add-ons to regulatory requirements, mean that the bank is well-capitalised ahead of potential additional losses from the hedge fund position unwind and from litigation risk. Regulatory add-ons include a

pillar 2 add-on of about 60bp to the CET1 requirement related to the supply-chain finance funds and a temporary CHF6 billion risk-weighted asset (RWA) add-on directly linked to the remaining hedge-fund related positions at end-1Q21. The unwinding of the hedge-fund positions is expected to lead to further CHF600 million losses in 2Q21.

Excluding the hedge fund-related credit provisions, the bank reported very strong underlying profitability in 1Q21, benefiting in particular from buoyant revenue in the investment bank and APAC divisions. The investment bank reported revenue growth across products and, particularly, from capital markets, boosted by equity issuance, including from SPACs, and a rebound of the leveraged-finance business. APAC saw higher transaction-based revenue and higher loans and client business volumes, while credit risk losses shrank sharply from a year ago. The Swiss universal bank division's stable profitability was underpinned by cost reductions and limited credit loss provisions, reflecting the Swiss economy's resilience to the pandemic.

Credit-risk provisions for the group were dominated by the CHF4.4 billion hedge-fund related loss and also included a small CHF59 million release related to performing exposures. The bank also wrote down CHF30 million of the outstanding loan to Greensill Capital.

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