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Credit Suisse to Build on Strengths but Profit Improvement Delayed

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Fitch Ratings-London-09 November 2021: Credit Suisse's plans to scale back its investment banking activities and invest more capital in its wealth management business, where it has a strong global franchise, should reduce earnings volatility, Fitch Ratings says. But improvements in profitability, one of the group's main weaknesses, have been delayed again, and Credit Suisse does not expect to reach its target return on tangible equity of 10% or above before 2024.

Credit Suisse has traditionally allocated a greater proportion of capital than global peers to investment banking, which tends to generate volatile earnings. The group's plans to reduce investment banking activities, and to target a higher common equity Tier 1 (CET1) ratio of at least 14% and CET1 leverage ratio of around 4.5%, are credit positive. However, the plans, announced on 4 November, entail execution risks given the need to strengthen risk culture after several risk control failures. Profitability will face near-term pressure from a restructuring charge and the exit from the prime services business.

Fitch maintained the Negative Outlook on Credit Suisse Group's 'A-' rating in September 2021, amid earnings pressure and execution risks as the group aimed to strengthen risk controls and improve governance while expanding its wealth management businesses globally. We could revise the Outlook to Stable if there is a clear path to improving earnings with a reduced risk appetite. However, it could take several quarters for this to become evident, even if there is good progress.

Credit Suisse plans to simplify its organisational structure, reducing its operating divisions to four: a global wealth management unit, a global investment bank, a Swiss universal bank and an asset manager. Wealth management and investment banking activities currently undertaken in the Swiss universal bank and the Asia-Pacific division will be transferred to the global divisions. This should ease the fragmentation in systems due to the creation of a more regional organisation in 2015, with cost savings that can be reinvested to support growth.

The group aims to limit the capital allocated to investment banking division to 50% of the total capital allocated to the other divisions. The investment bank will concentrate on segments where it has a strong franchise, including securitised products, credit and leveraged finance, and will invest in its advisory capabilities and other activities that do not have high capital requirements.

Credit Suisse's investment bank division will still be large even after the reduction in activities. The division generated pre-tax profit of CHF3.6 billion in 9M21 on a pro forma basis adjusted for the Archegos-related losses and other one-offs – as much as the other three new divisions combined. The group considers investment banking important for servicing its wealth management clients. The investment bank will also retain some businesses with limited overlap with wealth management but where the group has a strong franchise, such as leveraged finance.

The main engine for growth will be global wealth management. The group expects to deploy about CHF3 billion of capital freed up from its investment banking division by 2022 to fund growth in wealth management, employing more relationship managers and accelerating its digital capabilities. It also plans to build on its strong ultra-high-net-worth franchise and to expand the upper segment of its high-net-worth client base, particularly in certain Asia-Pacific emerging markets. Credit Suisse also sees good growth opportunities in mainland China and other Asia-Pacific markets, but will exit around 10 non-core markets, including in Sub-Saharan Africa.

Credit Suisse expects to save between CHF1 billion and CHF1.5 billion by 2024 from its planned initiatives. However, annual operating expenses excluding one-offs will remain above the likely 2021 level during 2022-2024 due to increased investment.

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