FITCH: CREDIT SUISSE'S 3Q17 SHOWS GOOD PROGRESS IN STRATEGY

Fitch Ratings-London-03 November 2017: Credit Suisse Group AG's (Credit Suisse) 3Q17 results highlight continued progress in the execution of the bank's restructuring strategy, benefiting from sound revenue in the targeted wealth management-focused divisions and cost improvements, Fitch Ratings says.

The bank reached CHF1 billion net savings in 9M17, ahead of its CHF900 million target for 2017. Nonetheless, revenue was negatively impacted by low market activity in fixed income markets generally, partly related to a seasonally slow third quarter, and in Asia Pacific in particular. Lower revenue in the Strategic Resolution Unit (SRU) led to a 2% fall in group revenue, which was broadly flat excluding the SRU. The negative SRU pre-tax drag is easing as expected.

Credit Suisse generated CHF400 million pre-tax profit in 3Q17 versus a CHF124 million pre-tax loss a year ago (which excludes CHF346 million non-recurring gains on real estate). In 3Q17, the group generated an acceptable (but lower yoy) 9% return on regulatory capital according to its calculations.

Pre-tax profit (excluding non-recurring gains on sale of real estate in 3Q16) in the Swiss Universal Bank (SUB) rose 3% yoy to CHF426 million in 3Q17. Although we expect the SUB to continue to be the largest pre-tax profit contributor in the medium-term, the bank's targeted CHF2.3 billion pre-tax profit for the division by 2018, is ambitious compared with the 9M17 reported pre-tax profit of CHF1.3 billion. In 3Q17, improvements were generated by higher client transactional activity and net interest income on marginally higher net loans in the private clients business. Costs remained well-controlled and net new asset growth was sound at 2%. Net margins on assets under management (AuM) held up well at 43bp (41bp in 3Q16), excluding non-recurring gains, restructuring and litigation costs. Within SUB, the corporate and institutional clients business' reported pre-tax profit fell 5% yoy to CHF220 million, reflecting both lower transactional domestic activity and the bank's selected exits of external asset managers.

The international wealth management (IWM) division showed the strongest yoy absolute pre-tax profit improvement (up 45% yoy to CHF355 million) among operating divisions, resulting in the highest divisional return on regulatory capital for 9M17 (28% according to the bank). We expect the bank's IWM franchise to continue generating sound profitability, supported by net new asset growth. Both private banking and asset management showed improved performance, primarily driven by revenue growth and, to a lesser extent, by cost control, and private banking contributed 78% of divisional pre-tax profit in 9M17. In private banking, net margins on AuM rose 6bp yoy to 31bp, helped by higher net interest income (and 11% higher net loans), as well as fee and transactional income, and despite 14% higher AuM.

Credit Suisse now expects net new money outflows related to client tax regularisation to be around CHF2 billion in 2017, lower than its previous guidance of between CHF3 billion and CHF5 billion. Higher average AuM in asset management led to a 28% increase in management fees, which combined with higher performance fees helped the business's pre-tax profit rise to CHF103 million (CHF49 million in 3Q16).

Pre-tax profit also improved sharply in the APAC division (up 43% yoy to CHF218 million), although with continued divergence in revenue growth between the wealth management-focused and capital markets-oriented businesses. A stark recovery in private banking transactional revenue

sent revenue at the wealth management & connected business 14% higher yoy, also helped by a recovery in underwriting and advisory revenue booked in the division. Private banking fee income also progressed (up 15% yoy) to account for around a quarter of APAC private banking revenue in 3Q17, underpinned by strong annualised net new asset growth of 13% in 3Q17. Sales and trading operations booked in the APAC division reported the first positive pre-tax profit in four quarters, after operating expenses fell more rapidly (22%) than revenue in emerging markets.

The global markets division continued to progress towards its targeted USD6 billion revenue and USD4.8 billion adjusted operating expenses, but posted an overall muted 3% adjusted return on regulatory capital in 3Q17 according to the bank, after reporting an 18% yoy fall in pre-tax profit to CHF71 million. This was primarily due to fixed income trading revenue declines outpacing cost reductions. In line with global trading and universal bank peers, Credit Suisse's global fixed income sales and trading revenue suffered from low levels of volatility compared with 3Q16, posting 14% lower revenue and contributing around half of the group's revenue excluding the SRU. The investment banking & capital markets (IBCM) business, which books most of the group's underwriting and advisory activities, saw a 10% fall in pre-tax profit, as revenue fell marginally yoy, although the bank reported market share gains.

Credit Suisse's fully-loaded Basel III CET1 ratio fell 10bp qoq to a still sound 13.2% at end-3Q17, primarily reflecting the impact of a CHF5 billion increase in operational risk risk-weighted assets (RWAs; around 26bp of group RWAs) booked in the corporate centre to reflect the group's recent legal settlements on legacy RMBS business in the US, which offset a 1% increase in the amount of CET1 capital. The bank guided that it expects operational risk RWAs could fall if the Swiss regulator concludes that the risk reduction in the SRU warrants it.

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