

## 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.

Contact:

Claudia Nelson  
Senior Director  
+44 20 3530 1191  
Fitch Ratings Limited  
30 North Colonnade  
London E14 5GN

Luis Garrido, CFA  
Associate Director  
+44 20 3530 1631

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

Additional information is available on [www.fitchratings.com](http://www.fitchratings.com)

ALL 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](https://www.fitchratings.com/understandingcreditratings). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEB SITE AT [WWW.FITCHRATINGS.COM](http://WWW.FITCHRATINGS.COM). 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](https://www.fitchratings.com/site/regulatory). FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.

Copyright © 2017 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. 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