SPECTRUM
Asset Management

Credit Suisse Restructures

Large Loss, Large Capital Raise

October 27, 2022

Credit Suisse, the Swiss-based universal bank, announced today a radical restructuring of its investment bank as part of a broad strategic reset and capital raise designed "to create a simpler, more focused and more stable bank built around client needs." Credit Suisse has struggled for some time with low returns, risk management challenges and strategic drift. **Today's announcement was designed to draw a line under these matters, and put the 166-year-old bank on a firmer, steadier, more profitable course.**

Over the next three years the plan is to restructure the investment bank to significantly reduce risk-weighted assets (and thus capital needs) by:

- Focusing trading activities on those supporting its key wealth management and domestic Swiss banking activities
- Spinning off the capital markets and advisory activities into an independent bank to be called CS First Boston
- Selling the Securitized Products Group to Apollo Global Management
- Running down or selling non-strategic businesses to reduce capital needs, boost capital resources, and support profitability and focus

This strategic restructuring also resulted in a:

- CHF4 billion net loss in 3Q22, over 90% caused by impairment of deferred tax assets
- CHF300 million pretax loss, mostly from higher litigation provisions designed to resolve legacy legal issues. Core wealth management, asset management and Swiss domestic bank units were all profitable.
- 90bp QoQ drop in CET1 capital to 12.6%, rising to 14% pro forma for CHF4 billion common equity raise. Credit Suisse targets a 13% CET1 minimum during this strategic transformation, with a CET1 goal of at least 13.5% by the end of 2025.

In addition, Credit Suisse is expecting CHF2.9 billion in impairment charges from 4Q22-2024, as well as accelerated cost reductions designed to reduce the expense base by 15% by 2025, which will include a headcount reduction of 9000.

Spectrum is encouraged by this strategic reset, and especially by Credit Suisse's large capital raise and commitment to maintain a common dividend and substantial capital resources during this transition. However, this transition will be a complex, multi-year effort, with numerous aspects still unclear. Our focus is on the speed and success of plan execution, core earnings strength, and maintenance of a solid capital base. **Spectrum remains cautious on the name.**

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