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Retrieve info on M&A revival and link to improved capital basis

Strategy

2206 - Banking | 2025S2 | Session 4 | Carla Rebelo

Credit Suisse
Questions & Group distribution

The end of Credit Suisse	1, What caused CS's demise?	**Groups 8 &13**
	2. What were the multiple efforts at restructuring by CS Leaders aiming at? What problem were they trying to solve? Why?	**Group 8**
	3. Could anything have saved CS? If so, what kinds of actions would you have proposed? Were there any other options for Swiss regulators but tointervene and force the merger with UBS?	**Groups 8 & 13**
	4. What could be the consequences of the Swiss regulators writing off USD17bn of the Additional Tier 1 (AT1) bonds? Why? 5. What might be the long-term impact on Switzerland from CS's demise?	**Group 13**

Menti Time ☺

The traditional bank

One-stop shop

Multi-product

- Intermediation products (deposits, loans)
- Desintermediation products (funds, brokerage)
- Payment products (checks, cards, e-payment)
- Insurance products
- Advisory services (private banking, investment)
- Custody

Multi-customer

- all segments

Multi-channel

- Branch
- Call centre
- ATM
- Internet
- mobile, flash shop

Plus

- **Economies of Scope**
- **Conglomeration**

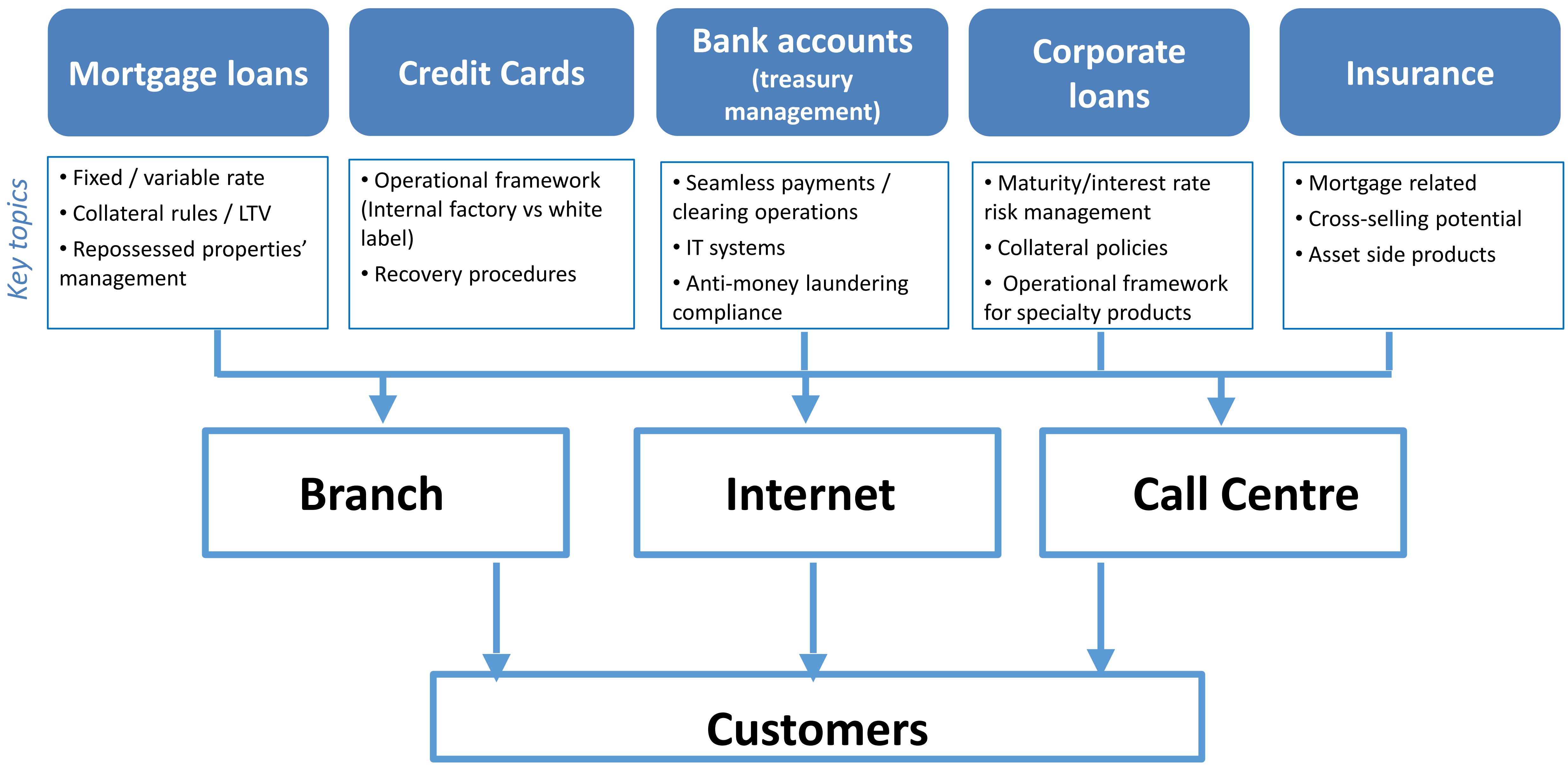
=> Market power

Minus

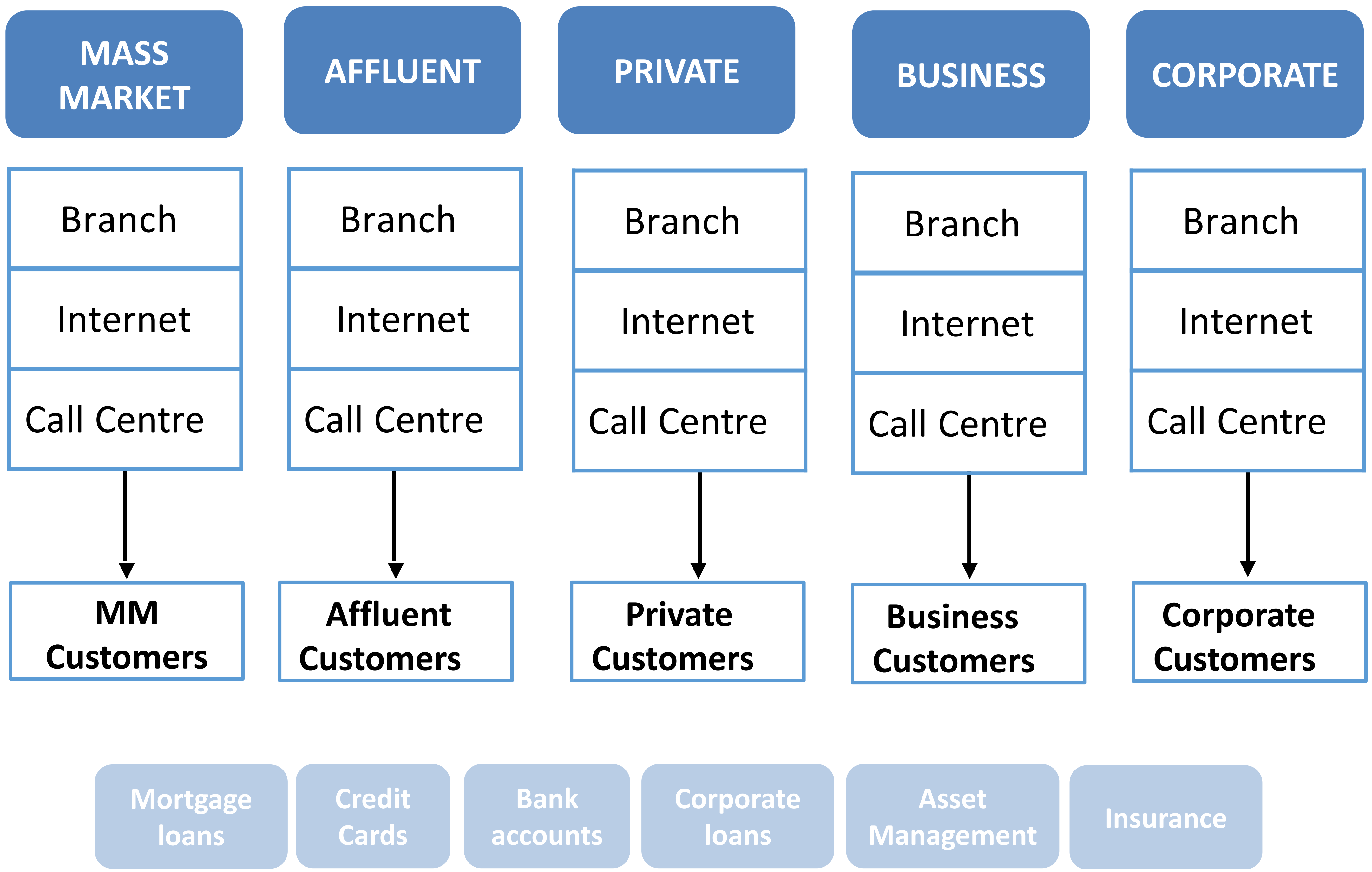
- **Contamination**
- **Conflicts of Interest**
- **Complexification**

=> Too big to manage

From product oriented models…



To a client oriented one.



A client oriented bank

Segmentation criteria

Type

- Individuals
- Companies

Asset type / volume

- Mass
- Affluent
- Private
- Business
- Corporates

Monthly Income criteria

Business volume criteria

Behaviour

- Large / small savers
- Large / small debtors
- High / low transaction

Life cycle

- Student
- Young professional
- Family professional
- Retired
- Startup
- Growth business
- Mature business

Individuals

Corporates

Channels

The birth of the omnichannel

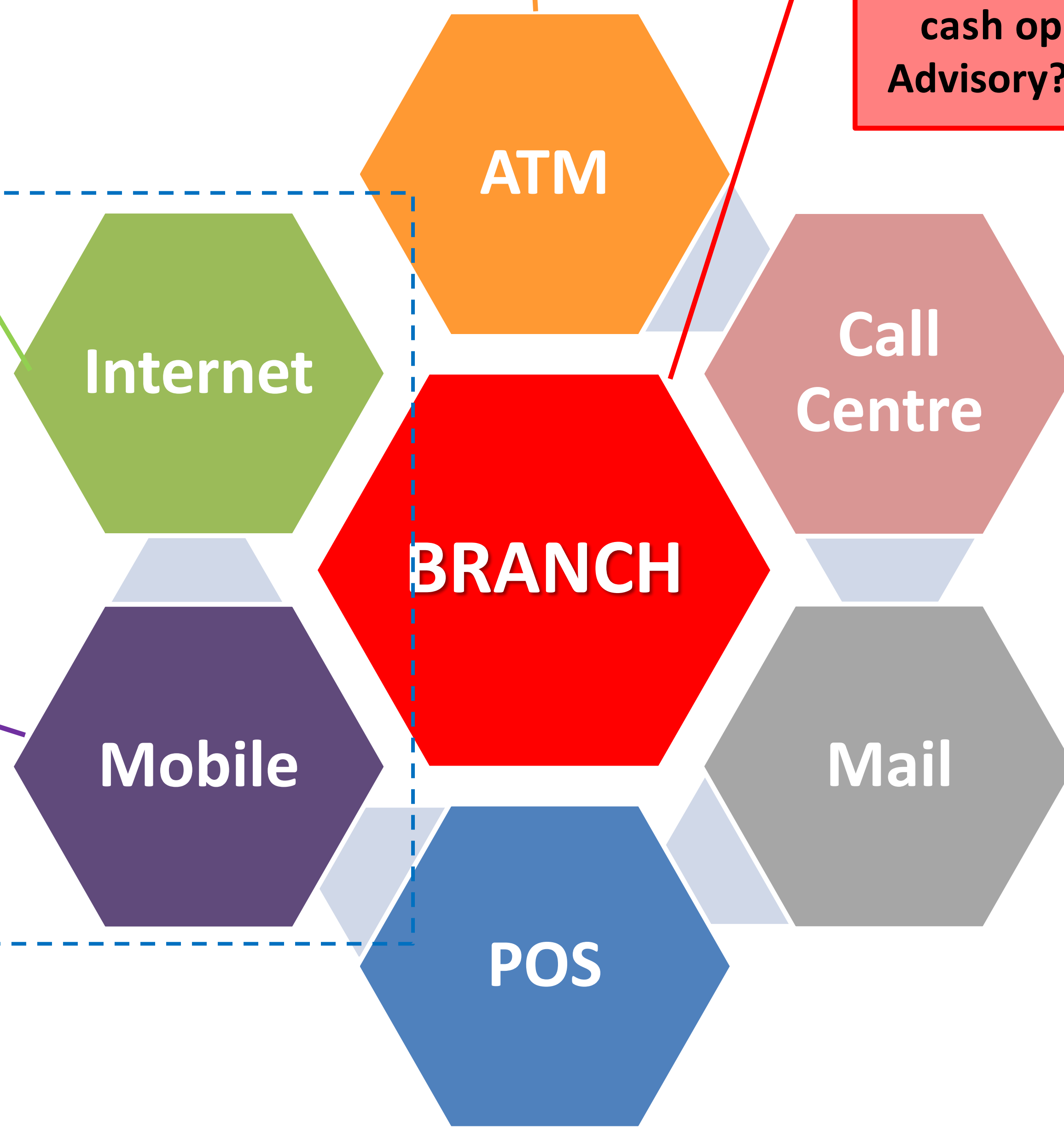
Info, cash operations, transactions

Transactional? Just for individuals? No cash operations? Advisory? To whom?

Informational and transactional;
Very limited in-bound sales;
Outbound potential?

≠

Informational and transactional;
Very limited in-bound sales;
Outbound potential?



Inbound: Transactional, informational, claims
Outbound: CRM

Informational

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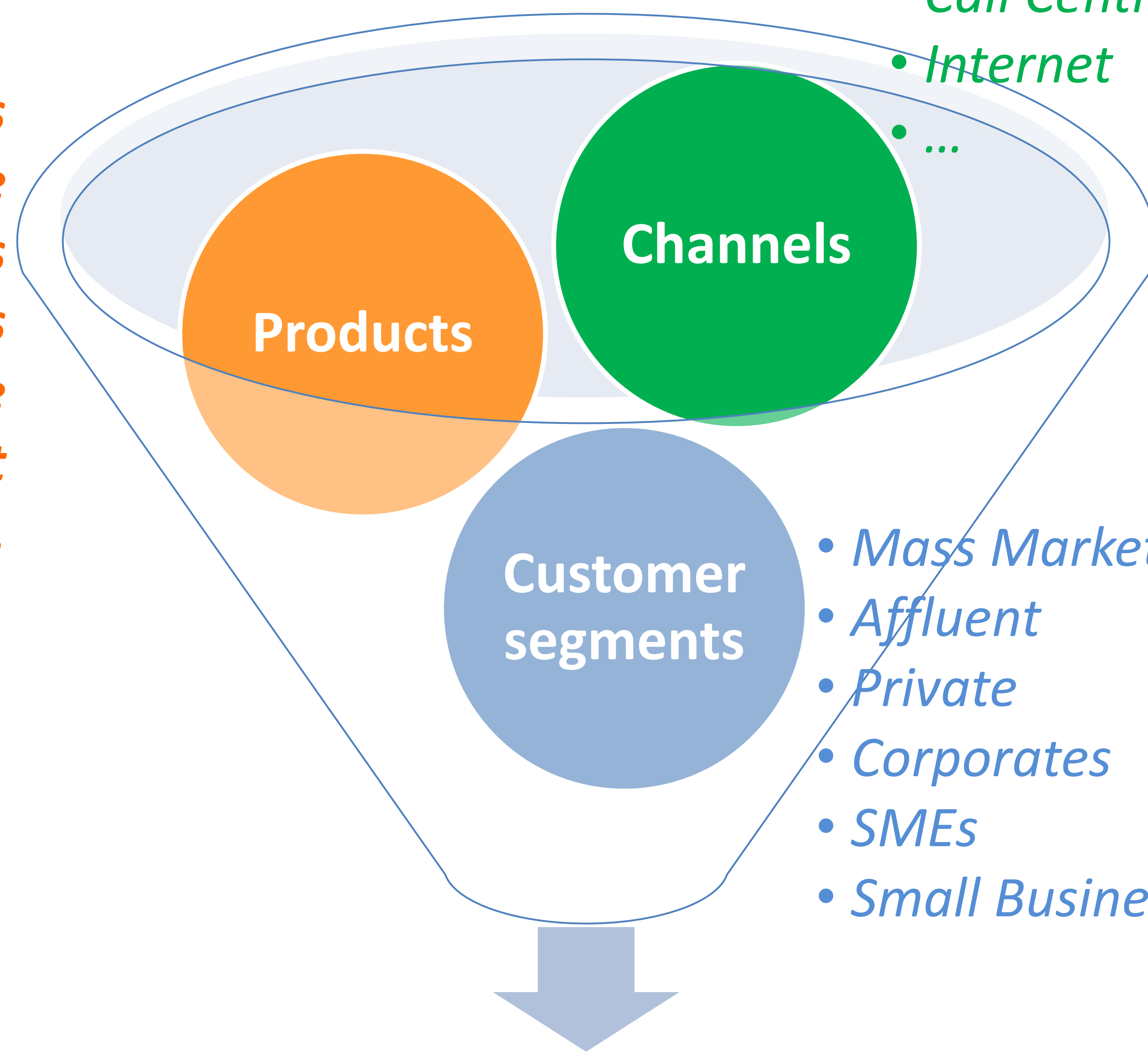
Strateging Marketing

Customer Relationship Management

- Branch
- Call Centre
- Internet
- ...

- Mortgages
- Consumer finance
- Corporate loans
- Deposits
- Insurance
- Asset Management
- ...



- Mass Market
- Affluent
- Private
- Corporates
- SMEs
- Small Business

How to define the best value proposition?

Customer RM

How a marketing strategy unfolds

Commercial leads

- Number and priority of offers per client?
- Different offers per channel for the same client?
- Repeated offers in short period of time?
- What to do with rejections?
- Channel capacity?
- How to manage the flow of offers from all marketing departments?
- How to develop an appropriate advertising strategy?

Customer RM

From Transactional to Relational

Unique Transaction
Bank and Customer ignorant about each other

Multiple Transactions
Customer knows the service; bank ignores the customer

Reactive Relationship
Mutual knowledge; bank has specific offer per customer group

Proactive Relationship
Bank knows every customer and anticipates needs; Customer gets true value

Customer Journeys
A practical example (I)

Understanding the market and the customer (!)

Figure 2 - Dan Olsen (2015) Product-Market Fit

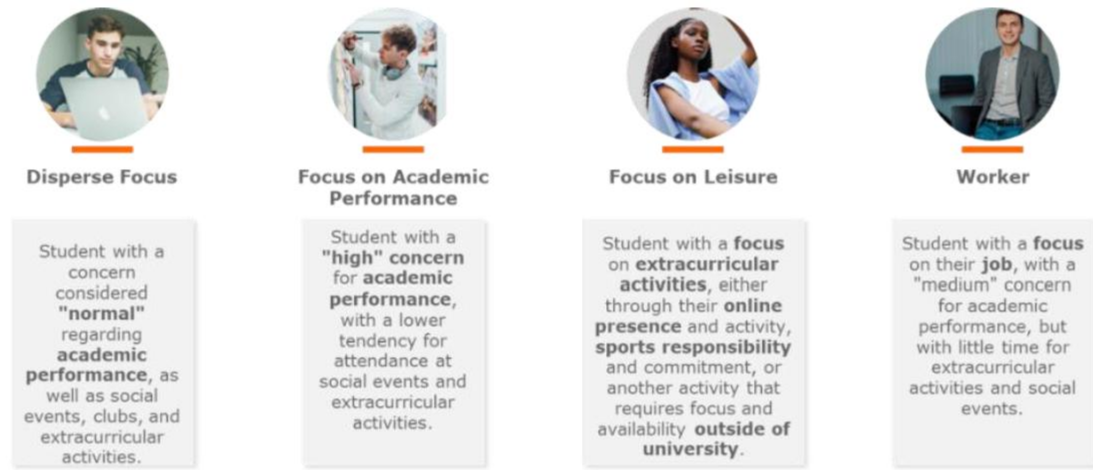


Figure 5 - Personas Mapping

Source: Developing a 'College Student' Customer Journey for BPI , Nova SBE Project Field Lab, December 2023. Group of 5 students, supervised by Prof. Carla Rebelo.

Customer Journeys
A practical example (II)

Identifying the needs, above all…

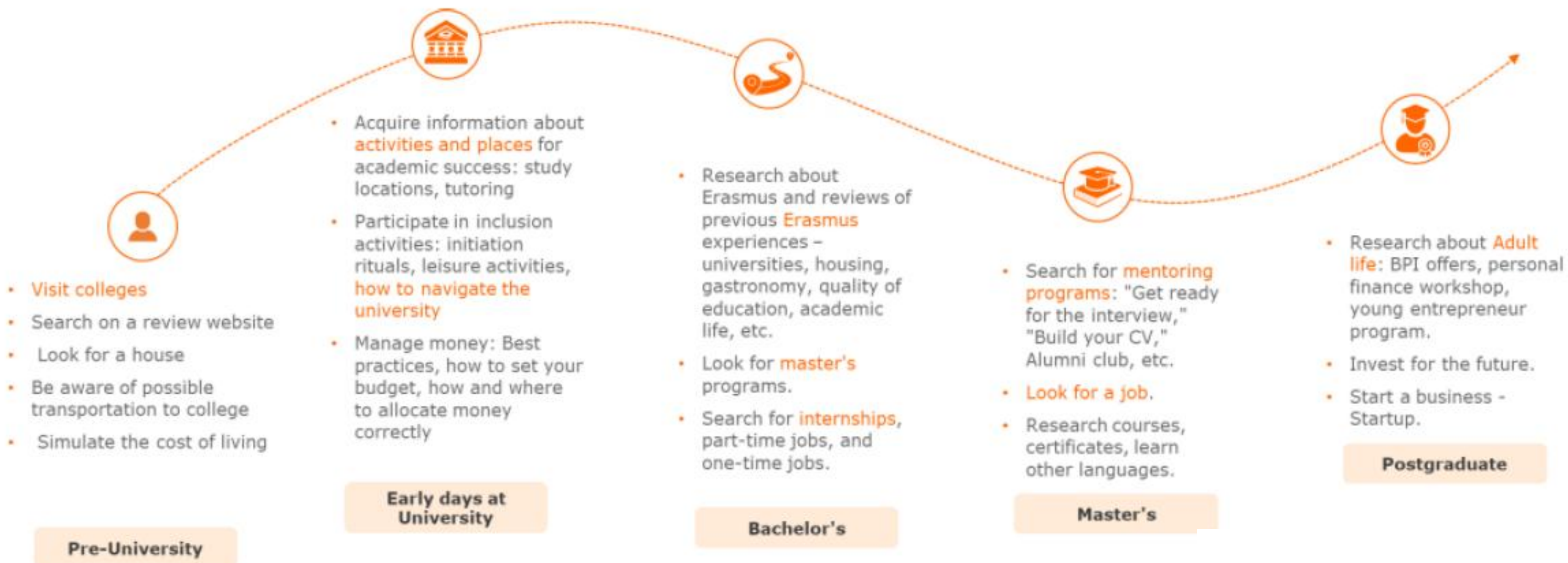


Figure 3 - National Students' Customer Journey

…with a focus on the 'pain points'!

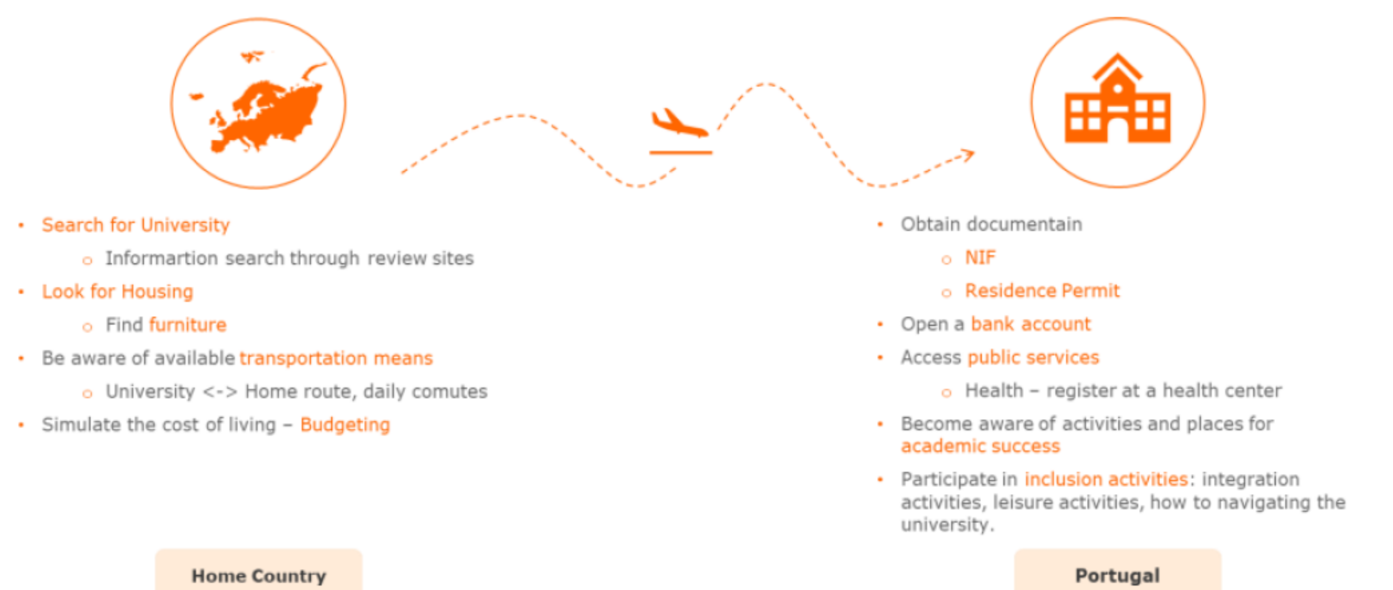


Figure 4 - International Students' Customer Journey

Source: Developing a 'College Student' Customer Journey for BPI , Nova SBE Project Field Lab, December 2023. Group of 5 students, supervised by Prof. Carla Rebelo.

Customer Journeys
A practical example (IV)

Converting needs into services &…

Table 9 - Non-Financial Solutions

Non-Financial Areas	Solutions
A. Housing	1. OLX Students-Exclusive
B. Mobility	2. Transport Card Service 3. Stations for Electric Bicycles and Scooters
C. Health	4. Well-Being Services (Discounts, Limited Free Subscriptions 5. Health Insurance (Mental Health Professionals) 6. Sponsor Sports-Related Events
D. My Finances	7. Budgetings Tools 8. Saving Goals 9. Split Bill
E. Leisure	10. Discounts on (Nightlife, Trips/ Travels, Culture, Uber Eats/ Glovo, Gym) 11. Uni Events
F. Employment	12. Part-time jobs Platform

Table 10 - Financial Solutions

Financial Areas	Solutions
G. AGE Account	13. Zero-fees Policy 14. Personal and University Credit 15. Term Deposits
H. Foreigners	16. NIF acquisition service

…Assessing competition & effort

Figure 10 - Selections of the Products for the MVP

Source: Developing a 'College Student' Customer Journey for BPI , Nova SBE Project Field Lab, December 2023. Group of 5 students, supervised by Prof. Carla Rebelo.

Customer Journeys
A practical example (III)

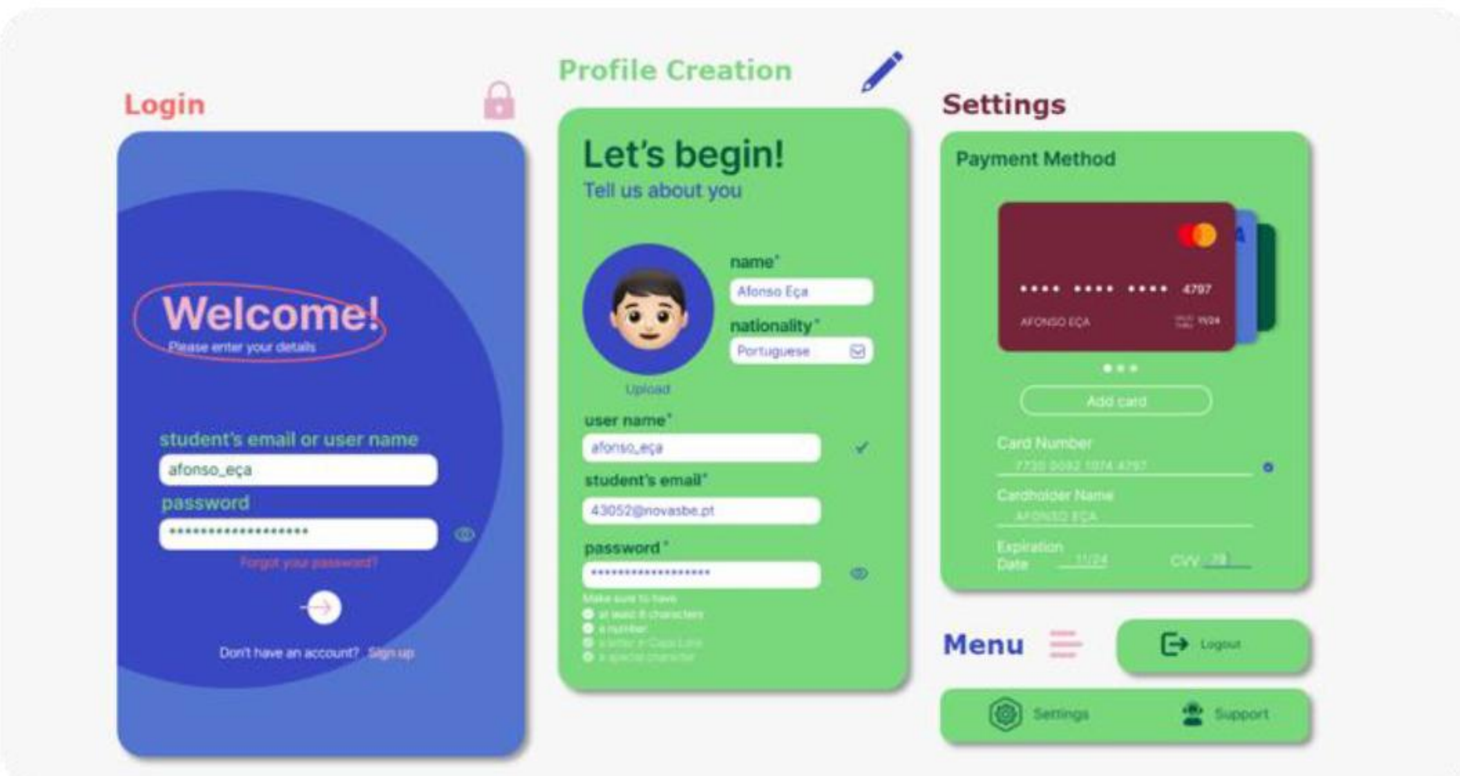


Figure 11 - Login, Profile Creation and settings (Digital Prototype)

Figure 16 - UniGuide as the Mix of Products (Digital Prototype)

Source: Developing a 'College Student' Customer Journey for BPI , Nova SBE Project Field Lab, December 2023. Group of 5 students, supervised by Prof. Carla Rebelo.

How to value a client

Key components

Interest paid on savings accounts	Investment income from deposit balances
Transaction related costs	Fee income
Cost of Risk	Interest charged in loans
Allocated “fixed” costs	

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REMINDER

How to value a client

RAROC (I)

The Group considers the following magnitudes related to the capital concept:

Regulatory capital

- **Capital requirements:** the minimum volume of own funds required by the regulator to ensure the solvency of the entity, depending on its credit, market and operational risks.
- **Eligible capital:** the volume of own funds considered eligible by the regulator to meet capital requirements. The main elements are accounting capital and reserves.

Economic capital

- **Self-imposed capital requirement:** the minimum volume of own funds required by the Group to absorb unexpected losses resulting from current exposure to the risks assumed by the entity at a particular level of probability (this may include other risks in addition to those considered in regulatory capital).
- **Available capital:** the volume of own funds considered eligible by the entity under its management criteria to meet its capital needs.

Cost of capital

The minimum return required by investors (shareholders) as remuneration for the opportunity cost and risk assumed by investing in the entity's capital. The cost of capital represents a "cut-off rate" or "minimum return" to be achieved, enabling analysis of the activity of business units and evaluation of their efficiency.

Leverage ratio

This is a regulatory metric that monitors the soundness and robustness of a financial institution by comparing the size of the entity to its capital. This ratio is calculated dividing Tier 1 capital by the leverage exposure, taking into account the size of the balance sheet with adjustments for derivatives, funding of securities operations and off-balance sheet items.

Return on risk adjusted capital (RoRAC)

This is the return (net of tax) on economic capital required internally. Therefore, an increase in economic capital decreases the RoRAC. For this reason, the Group requires transactions or business involving higher capital consumption to deliver higher returns.

This considers the risk of the investment, and is therefore a risk adjusted measurement of returns.

Using the RoRAC enables the Group to manage its business more effectively, assess the real returns on its business - adjusted for the risk assumed - and to be more efficient in its business decisions.

Return on risk-weighted assets (RoRWA)

This is the return (net of tax) on risk-weighted assets for a particular business.

The Group uses RoRWA to establish regulatory capital allocation strategies, seeking that the maximum return.

Value creation

The profit generated in excess of the cost of economic capital. The Group creates value when risk adjusted returns (measured by RoRAC) exceed its cost of capital, and destroys value when the reverse occurs. This measures risk adjusted returns in absolute terms (monetary units), complementing the RoRAC approach.

Expected loss

This is the loss due to insolvency that the entity will suffer on average over an economic cycle. Expected loss considers insolvencies to be a cost that can be reduced by appropriate selection of loans.

1. Data calculated using the IFRS9 transitional arrangements, unless otherwise indicated. Had the IFRS9 transitional arrangement not been applied, the total impact on the fully loaded CET1 at year end would have been -27 bps.

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How to value a client

RAROC (II)

RAROC

Risk Ajdusted Return on Capital

A. Net interest received	Interest received, calculated based on contracted spread
− **B. Cost of funding**	Funding interest expenses
+ **C. Capital benefit**	Allocated capital remuneration
+ **D. Net fees and commissions**	Client commission income, net of paid commissions
− **E. Operational costs**	Direct costs allocation
− **F. Expected loss**	Exposure at default X probability of default X loss given default
+ **G. Cross-sell**	Quantifiable potential to increase sales of adjacent services to a customer

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I. Allocated capital	Capital allocated to the transaction

Source: McKinsey & Company.

REMINDER

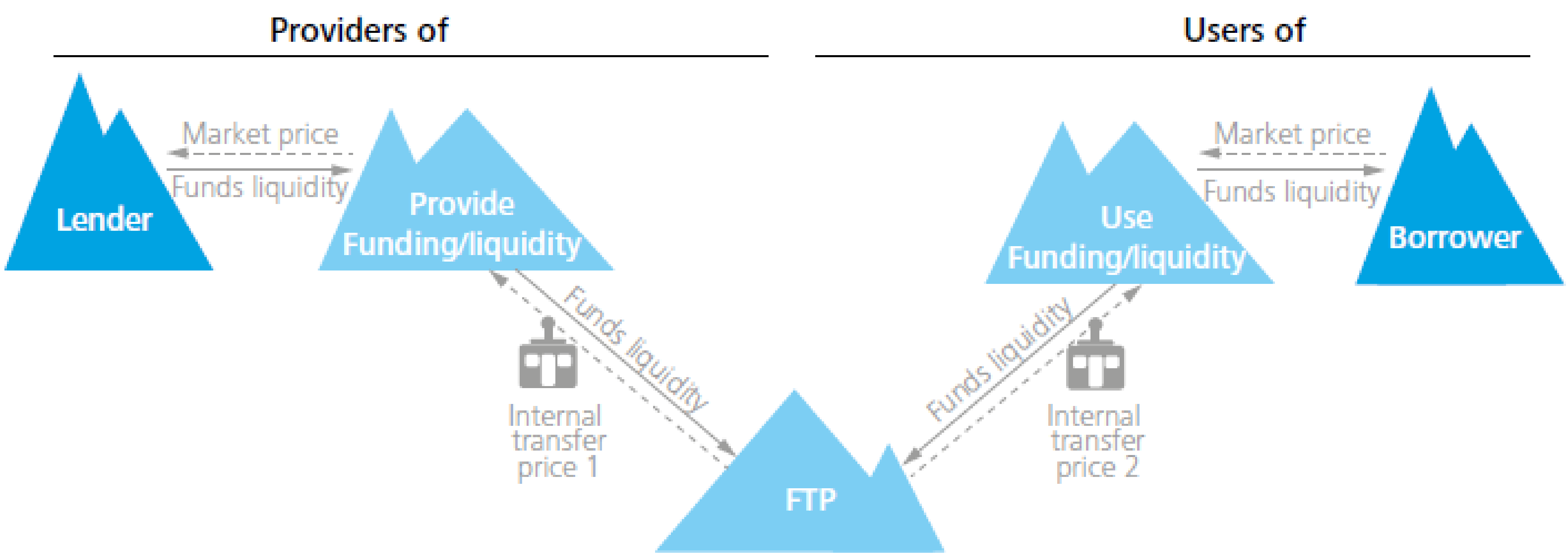
How to value a client

Basics I: FTP concept

FUNDS TRANSFER PRICING

Internal mechanism via which funds are sold or purchased between the Bank's several units / segments at certain pre-determined prices (normally derived from the Bank's funding cost curve)

Most common case relates to retail Segment with Loan-to-Deposit < 100% (= excess deposits) selling liquidity to Corporate segment with Loan-to-Deposits > 100% (= own-generated deposits are insufficient to fund 100% of corporate loan book).

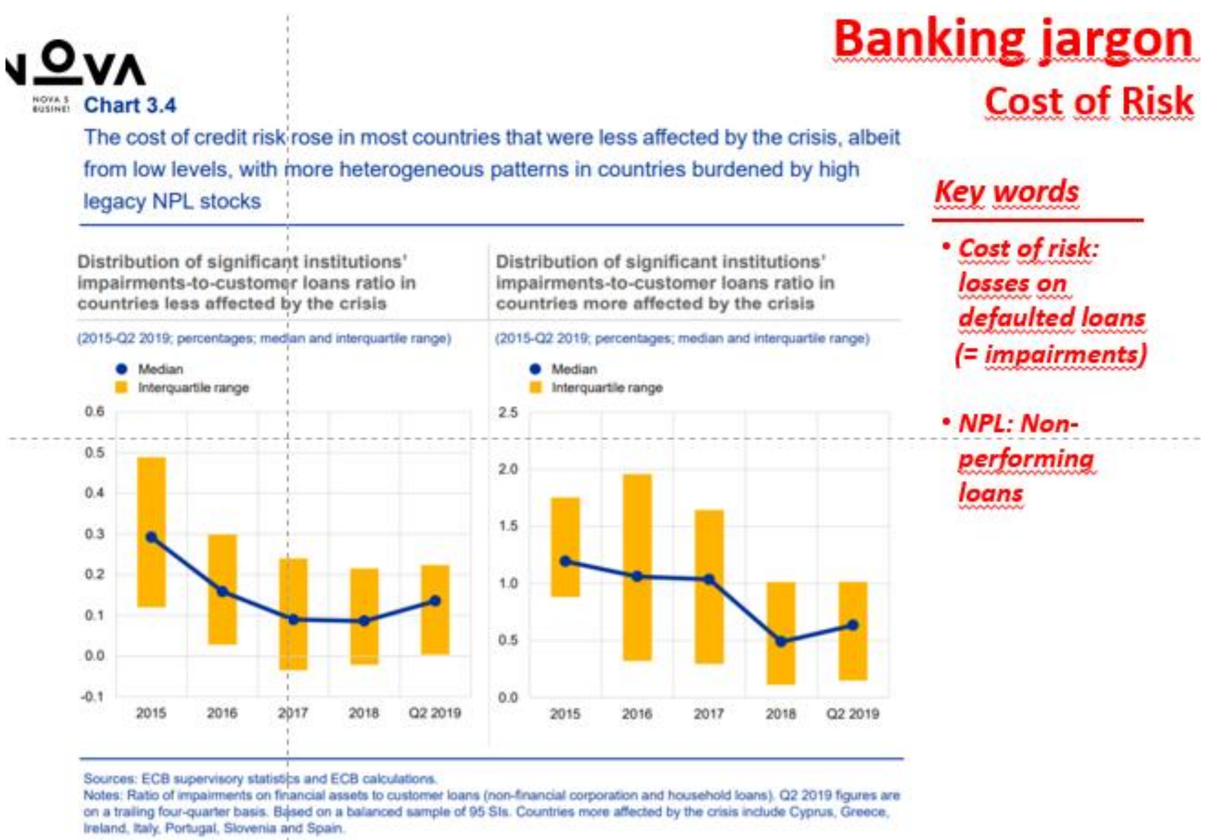


Source: Deloitte, 'Funds Transfer Pricing: a gateway to enhanced business performance', March 2015.

How to value a client

Basics II: Expected loss

REMINDER from Session 1



Cost of Risk
(EL: expected loss)

=

Probability of default (PD)

×

Loss given default (LGD)

Average percentage of obligors that default per rating grade in the course of one year.

Percentage of exposure the bank might lose in case the borrower defaults (as a percentage).

How to value a client

Practical exercise

- STEP 1: Ms. Lagarde has 700 euros in deposits, earning 2%.
- STEP 2: She pays 10 euros/month of fees and commissions.
- STEP 3: She requested a loan of 8000 euros, paying 5% interest rate.
- STEP 4: The bank's credit scoring model suggests clients with profiles like Ms. Lagarde have a 2.5% probability of defaulting their loans, for a LGD of 60%
- STEP 5: The bank has estimated managing a client like Ms. Lagarde costs €85/year.
- STEP 6: Central bank requirements state that:
  i) a 3% cash reserve must be deposited with the CB for every deposit;
  ii) the bank must comply with a minimum 8% equity ratio.
- STEP 7: The Treasury department of the bank quotes liquidity at bid/ask of 3.25% - 3.75%.
- STEP 8: Cost of Capital stands at 7.7%.

How much does the Bank gain with Ms. Lagarde?

This exercise is taken from a lecture of Prof. Gonçalo Rocha.

Strategy