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The end of **Credit Suisse**

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What caused **Credit Suisse's demise?**

Credit Suisse's **origins (1/2)**

SWISS UNIVERSAL BANK

- A balance sheet primarily composed of customer deposits, which funded loans to individuals, SMEs, and corporations, generating interest income
- Revenue streams from net interest margin, transaction fees, and advisory services, while costs stemmed from regulatory capital requirements and operational expenses
- Established in 1856, originally to finance Switzerland's railway expansion before evolving into a full-service banking division

ASSET MANAGEMENT

- Investment products across equities, fixed income, and alternatives, managing institutional and retail funds with limited balance sheet exposure
- Revenue from management fees, performance fees, and fund structuring, with costs tied to regulatory compliance, technology, and distribution
- Established in 1910s-1920s to serve institutional investors and pension funds, later expanding into global asset management

Credit Suisse's **origins (2/2)**

THE FIRST BOSTON CORPORATION

WEALTH MANAGEMENT

- Client portfolios in equities, fixed income, alternative investments, and structured products, focusing on tailored financial solutions
- Revenue from advisory services, portfolio management, and performance-based fees, with costs from client servicing and compliance
- Developed in 1940s-1950s to expand private banking and serve high-net-worth individuals and family offices

INVESTMENT BANKING

- A capital-intensive business with trading positions, underwriting commitments, and leveraged financing, exposing the bank to market and credit risk
- Revenue sources from M&A advisory fees, underwriting commissions, and trading gains, offset by regulatory capital costs and potential trading losses
- Expanded significantly in 1988 with the acquisition of First Boston, establishing Credit Suisse as a global investment banking powerhouse

Early scandals **and Governance Failures**

TUNA BONDS SCANDAL

- $2 billion in undisclosed loans to Mozambique, disguised as maritime development projects.
- Funds were embezzled, leading to government defaults and a national financial crisis.
- Credit Suisse faced heavy fines and legal action for failing to prevent corruption

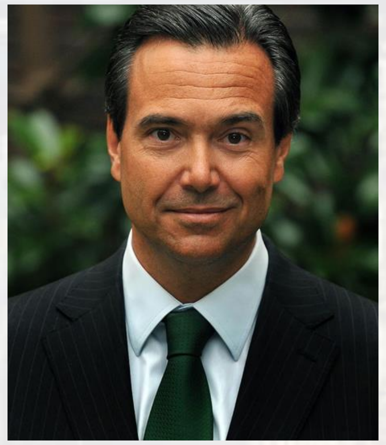
US TAX EVASION INVESTIGATION

- Offshore accounts were used by wealthy US clients to hide assets and avoid taxes
- Billions in fines were imposed, forcing the bank to cooperate with US authorities
- Reputation and client trust in the wealth management division were severely damaged

SPY SCANDAL

- Credit Suisse executives ordered surveillance on former employees
- Internal power struggles and poor governance were exposed
- Public scandal led to leadership resignations and regulatory scrutiny

Leadership Crisis **and Liquidity Issues**



HORTA-OSÓRIO SCANDAL

- Appointed as Credit Suisse chairman to restore stability after previous scandals
- Resigned after breaking COVID-19 quarantine rules, damaging the bank's credibility
- Failed to implement key governance reforms before his abrupt departure

BULGARIAN CARTEL MONEY LAUNDERING

- Credit Suisse was convicted for helping a Bulgarian drug cartel launder millions
- Employees allegedly enabled illicit transactions despite compliance warnings
- One of the first corporate criminal convictions in Swiss banking history, further tarnishing the bank's reputation

LIQUIDITY CRISIS

- In Q4 2022, clients withdrew over CHF 110 billion, particularly in wealth management, after trust in the bank collapsed
- Market panic caused Credit Suisse's shares to hit record lows, further worsening confidence
- Attempts to stabilize the bank with a new strategy were overshadowed by continuous outflows and doubts about its future

Financial Collapses **and Final Blow**

GREENSILL CAPITAL COLLAPSE

- Credit Suisse had $10 billion in funds linked to Greensill, which collapsed in 2021
- Investors faced huge losses as Greensill's supply chain finance model unraveled
- Led to lawsuits and regulatory scrutiny over risk management failures

ARCHEGOS CAPITAL MELTDOWN

- Credit Suisse lost $5.5 billion due to excessive exposure to Archegos
- Poor risk controls allowed the hedge fund to overleverage with swap agreements
- Forced leadership changes and a complete overhaul of risk management policies

SILICON VALLEY BANK CONTAGION EFFECT

- SVB's collapse in March 2023 sparked panic across the banking sector, worsening Credit Suisse's existing troubles
- Investor confidence plummeted, leading to a sharp stock price drop and soaring credit default swaps
- Swiss regulators arranged an emergency UBS takeover to prevent systemic fallout

Merger **with UBS**

UBS

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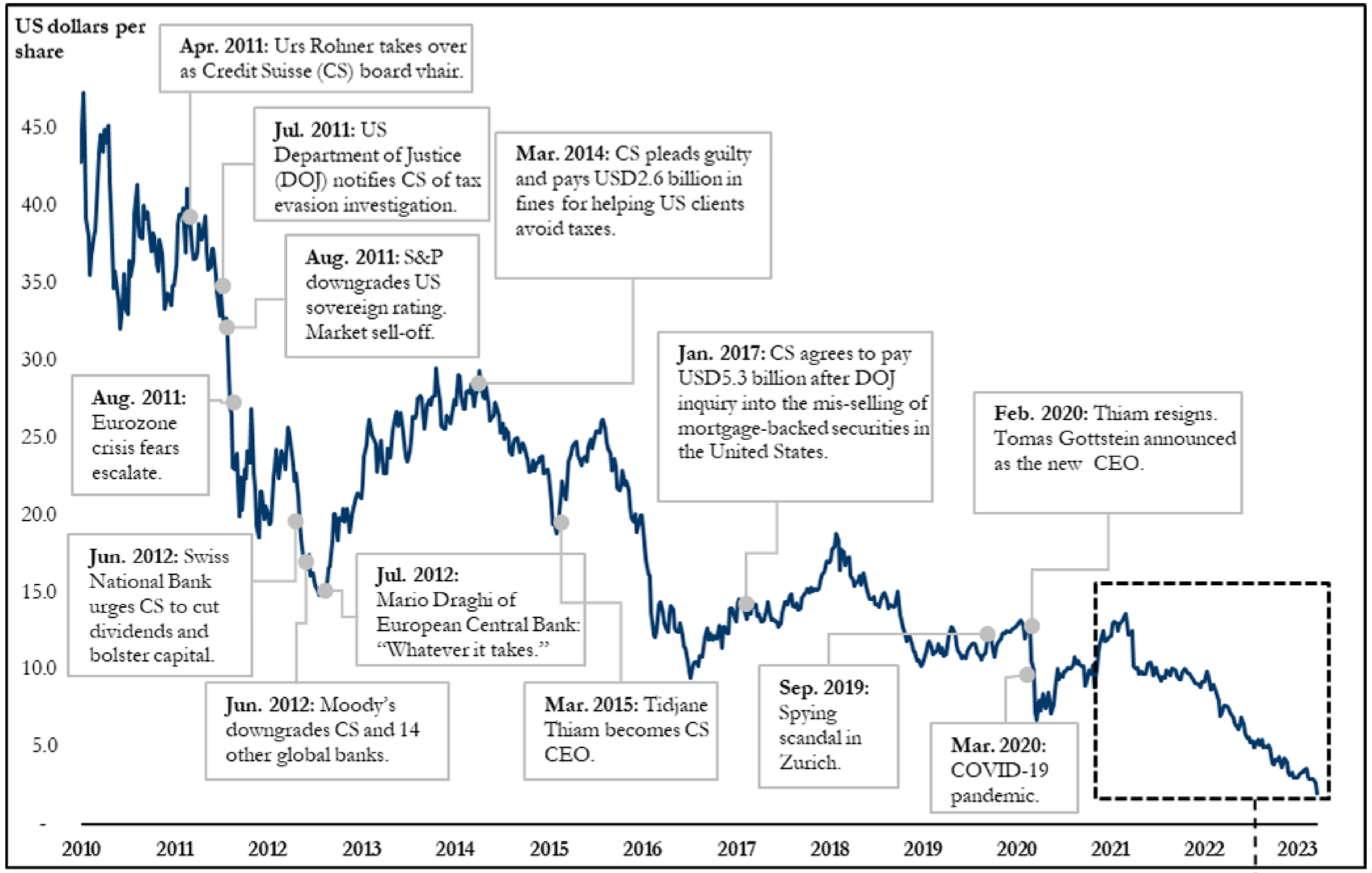
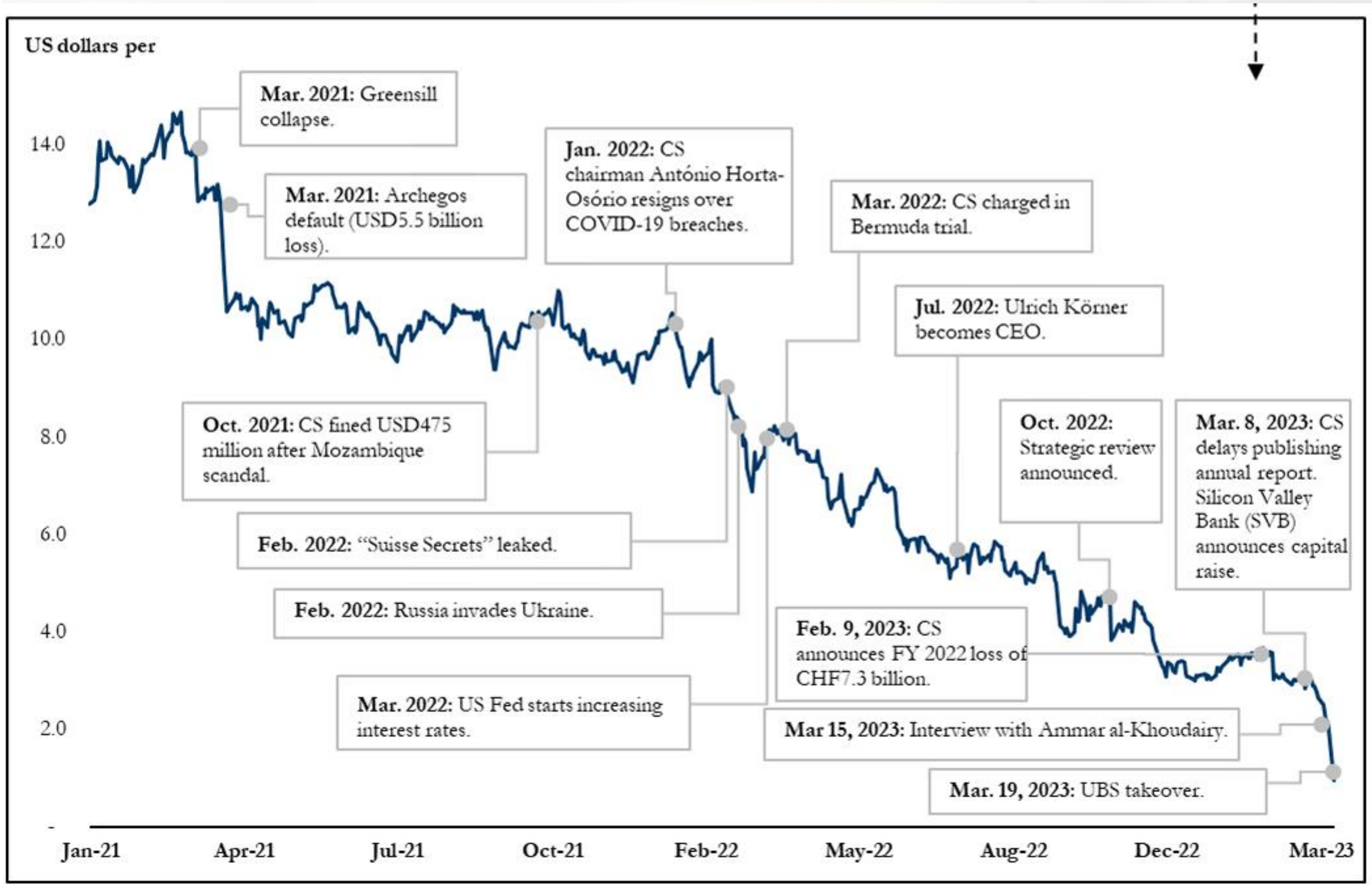
Credit Suisse Annotated Stock Price Performance





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Restructuring

Goals
Challenges
Strategic efforts

What **Problems** were Credit Suisse **Trying to Solve**?

Restructuring 1.0:

- Three-year plan intended to reduce costs, increase assets under management, and return the bank to profitability
- Failed due to scandals, legal issues, and risk management failuresl

Restructuring 2.0:

- Envisioned a capital-light advisory model for the investment bank and strengthening of the wealth-management unit
- Failed due to global instability and market declines

Remaining Problems:

- Loss of investor confidence and reputational damage
- Fragmented business model
- High-cost operating model
- Struggling investment banking division

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What was **Credit Suisse's strategy** for **Restructuring 3.0?**

RESTRUCTURING THE INVESTMENT BANK

- Shift towards a capital-light, advisory-focused model
- Made in negotiations Progress to sell the Securitized Products Group and advanced the carve-out of CS First Boston

STRENGTHENING AND REALLOCATING CAPITAL

- Raised CHF 4 billion in new equity
- Completed debt issuances of around CHF 10 billion

ACCELERATING COST TRANSFORMATION

- Initiated 80% of its planned CHF 1.2 billion in cost reductions for 2023
- Reduced RWAs by USD 5 billion
- Lowered leverage exposure by USD 15 billion

Exploring alternatives **& Regulatory Options**

Was it possible to **save the bank?**

ADAPT A MORE CONSERVATIVE BUSINESS MODEL

- By pivoting to Wealth Management
- By reducing the leverage ratio,
- Better risk management

GREATER INVESTOR CONFIDENCE

- Avoiding the repeated scandls could have helped maintaining the investor confidence
- By reducing strategic uncertainty

WISER CRISIS COMUNICATION

- The impacts of the SNB CEO interview trigerred a sell-off of shares
- The announced delay in presenting the results, worsened the situation

Swiss Regulators **Options**

ALLOW THE BANK TO FAIL

- Could trigger a Global Financial Crisis
- It could jeopardize the long-term reputation of the Swiss Financial System

CAPITAL INJECTION

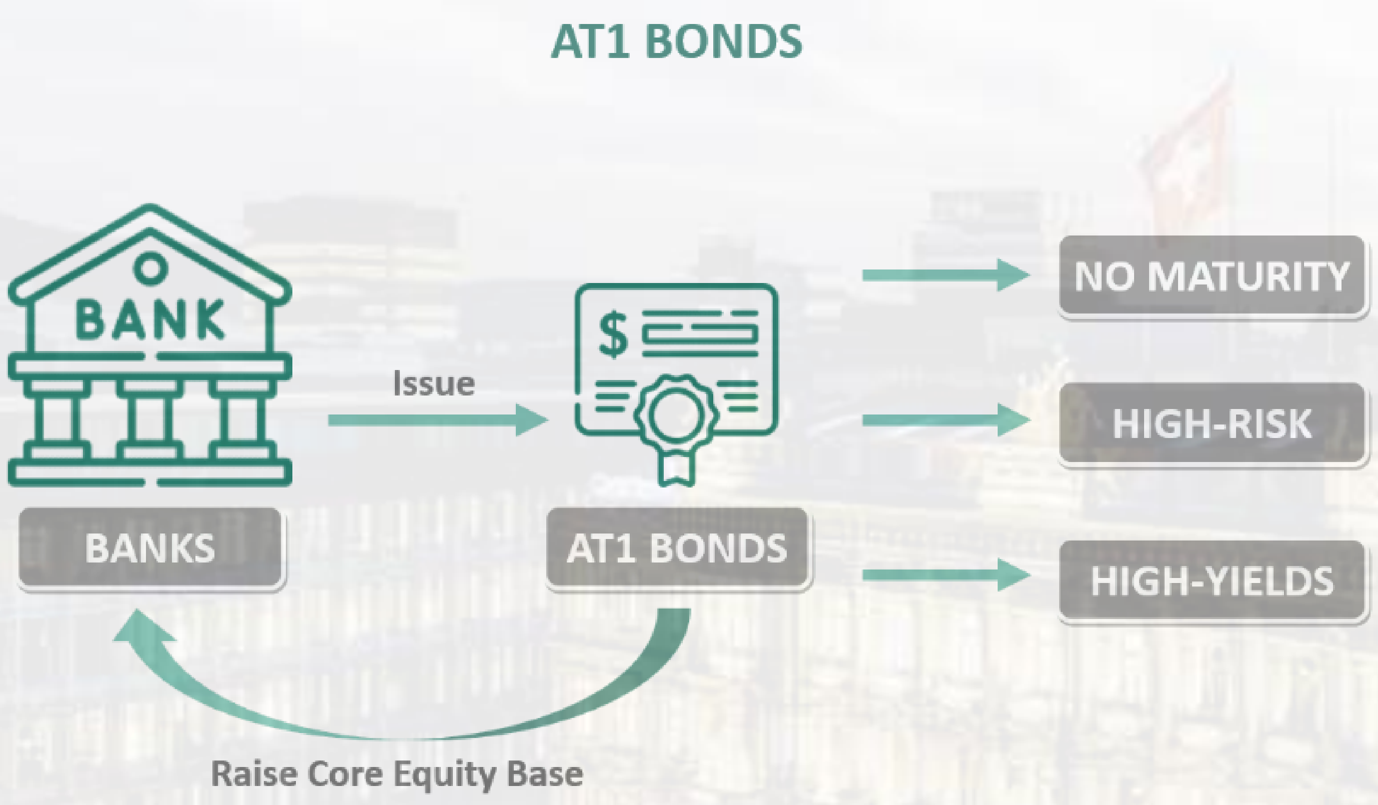
- It would be required to use $110 Billion from tax-payer money
- It was rejected by the Swiss Parlament, as it would be politically controversial and set the precedent

FACILITATE THE MERGE WITH UBS

- Avoiding a Global Financial Crisis, without the use of substancial amount of tax-payer money
- Long-term market concentration impacts remain to be seen

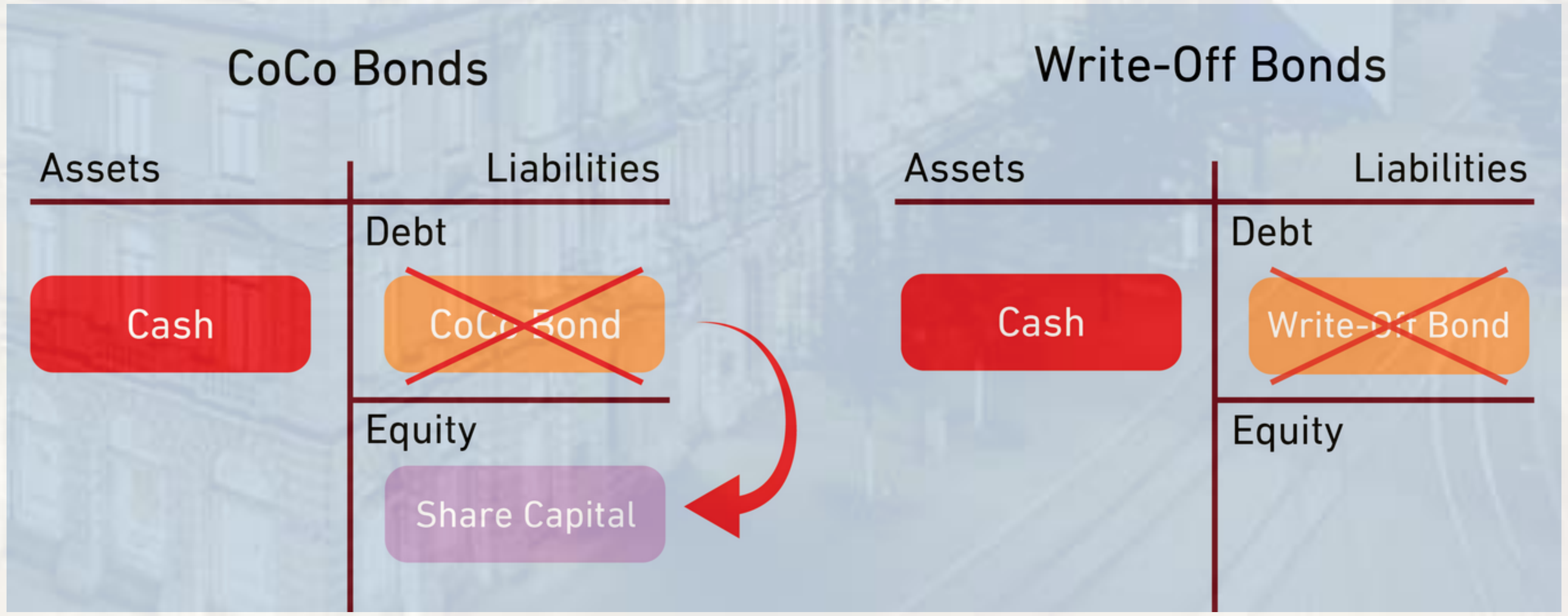
Consequences **of AT1 Bond Write-Off**

Additional Tier 1 **Capital**



- **Definition:** AT1 are bonds also known as contingent convertibles (CoCos)
- **Purpose:** Banks issue AT1 bonds to shore up their capital base and fulfill regulatory criteria
- **How they work?** If a bank's financial situation worsens, it may be removed from debt and converted into equity or written off

- **AT1 bonds** carry more risk for investors as they accept the possibility of principle loss if the bank fails financially
- Different countries may have different laws, therefore investors must understand local regulatory frameworks when considering **AT1 bond risks**



Investor & Market **Reactions**

UNEXPECTED CAPITAL HIERARCHY SHIFT

- Equity investors earned CHF 3 Billion while AT1 bondholders had their money taken out
- Unexpected decision for investors as AT1 bonds were meant to endure losses only if equity is completely eliminated

GLOBAL AT1 MARKET TURMOIL

- The Credit Swisse AT1 wipeout caused sell-offs in the global AT1 bond market worth USD 275 Billion
- Investors anticipated similar regulatory treatment in the future resulting in a huge drop in AT1 bond values

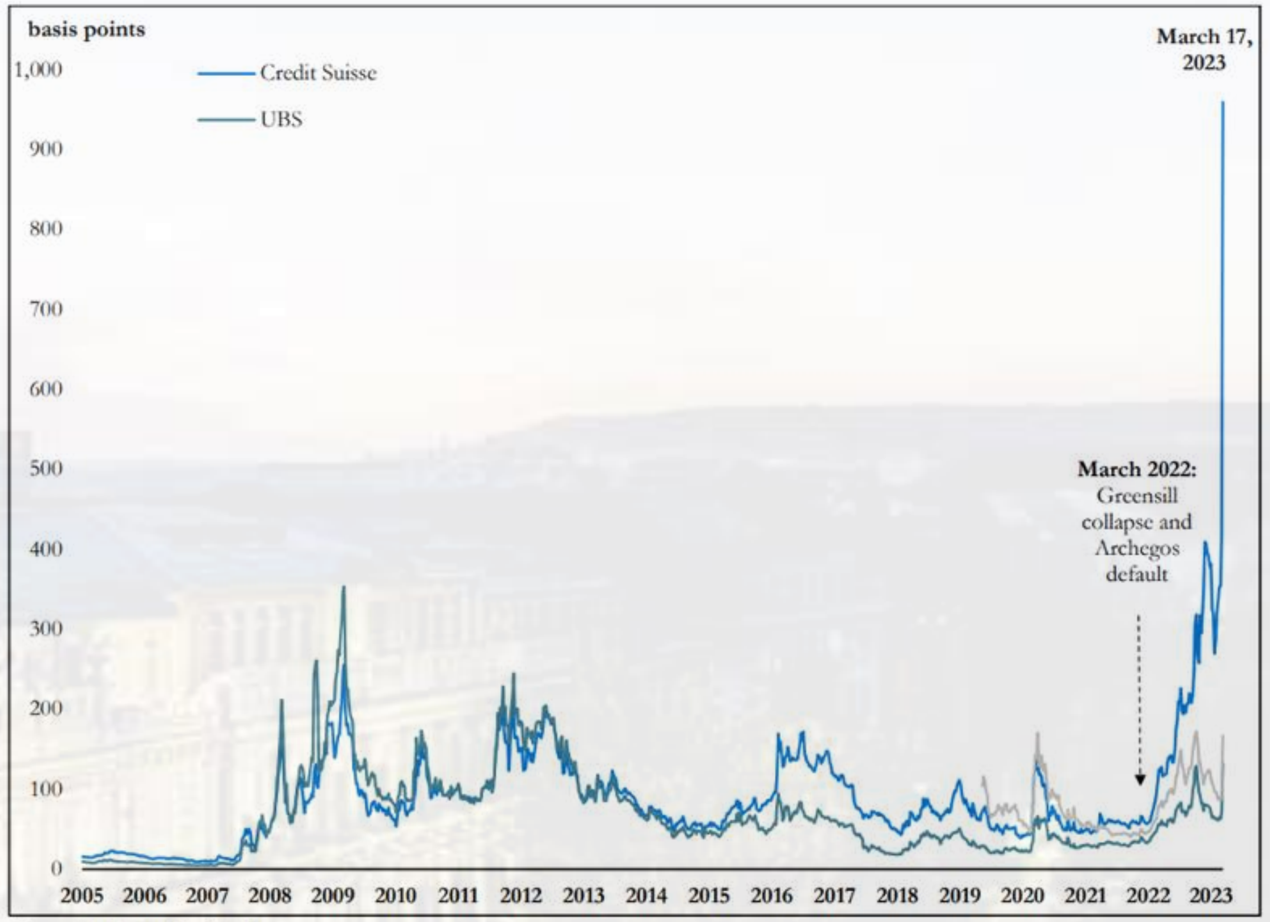
HIGHER RISK PREMIUMS & MARKET VOLATILITY

- Banks that used AT1 bonds to obtain capital faced increased borrowing rates as investors wanted greater compensation for the increase in risk
- Credit Default Swap (CDS) spreads have expanded reflecting rising market concern about similar operations abroad

Exhibit 23

The End of Credit Suisse

Five-Year CDS Comparison: Credit Suisse, UBS, Deutsche Bank



Note: CDS = credit default swaps.
Data source: Bloomberg.

Exhibit 20

The End of Credit Suisse

Stock Price Performance: Credit Suisse and UBS

Data source: Bloomberg.

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Legal & Regulatory **Fallout**

INVESTOR LAWSUITS AGAINST FINMA & CREDIT SUISSE

- Many law firms representing AT1 Bondholders accused Swiss authorities
- AT1 bonds were represented as safer than ordinary stock leaving the write-off legally unsafe

Single Resolution Board

European Banking Authority

REGULATORY RESPONSES TO AT1 BONDS

- Statements were promptly made to emphasize that in EU countries, AT1 bonds rank above equity
- A vital measure for regaining market confidence and prevent the crisis from spreading

LONG TERM IMPACT ON MARKET DISCIPLINE

- Given the uncertainties, banks may struggle to issue AT1 bonds at fair interest rates making it less appealing option for funding
- Regulators may alter AT1 bond arrangements putting financial goals on top

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Switzerland's **Long-Term Impacts**

Impact on the Swiss **Banking Sector**

INCREASED COST OF CAPITAL FOR SWISS BANKS

- With higher risk, investors are demanding greater yields on Swiss bank bonds which raises funding costs
- Credit Suisse's market cap collapsed, wiping millions of investors' value in the process

Exhibit 16

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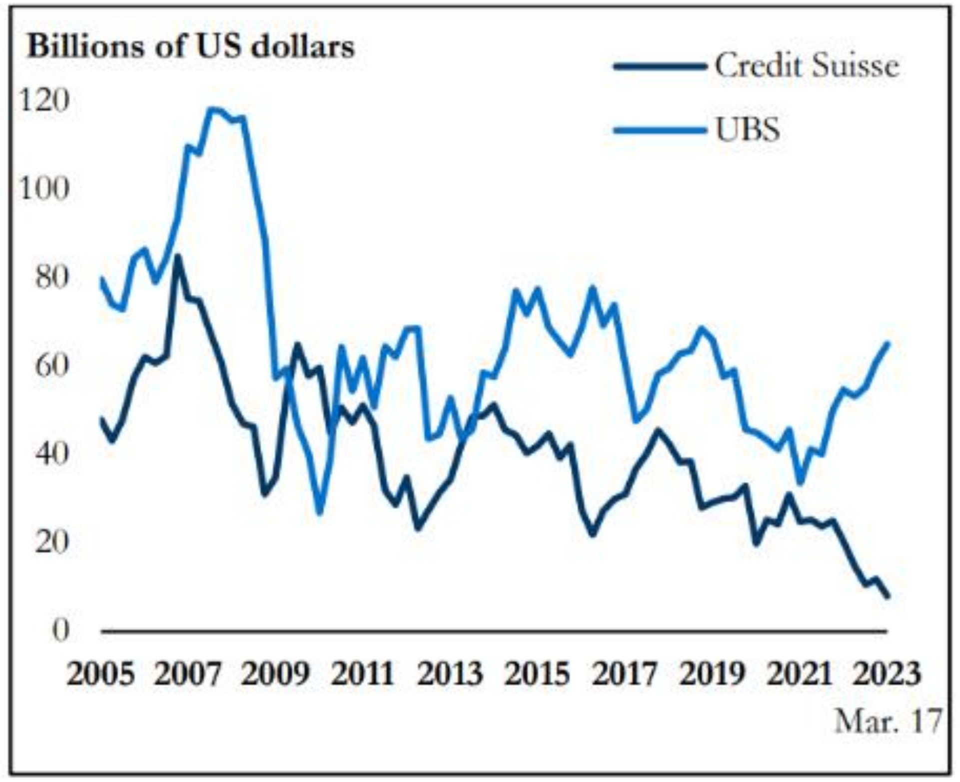
Credit Suisse and UBS Market Capitalization



Data source: Bloomberg.

DAMAGE TO SWITZERLAND'S FINANCIAL REPUTATION

- Once a financial safe haven, Switzerland's credibility was damaged, leading to fund outflows
- Western investors retreat, while lower-quality emerging market investors increase their presence

CHANGING REGULATIONS

- Swiss regulators may impose higher capital reserve requirements and stricter risk management rules
- The AT1 bond wipeout has triggered global regulatory reviews, reducing investor confidence in these instruments

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Public Intervention **Challenges**

MORAL HAZARD & BAILOUT RISKS

The UBS-CS merger sets a precedent for state-backed rescues, encouraging excessive risk-taking by banks. Blurring of private and public financial responsibilities increases the likelihood of future bailouts

STRAINS ON GOVERNMENT FINANCES & REPUTATION

The Swiss state's intervention exposes its finances to risks, impacting its AAA credit rating. Increased scrutiny over Switzerland's financial governance weakens trust in the regulatory framework. Higher debt levels, or compensatory tax burdens expected, if the Swiss Government is required to intervene

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Market Concentration **Risks**

TOO BIG TO FAIL & SYSTEMIC RISK

UBS now controls $1.7 trillion in assets—over double Switzerland's GDP—raising systemic risk concerns. A future crisis at UBS could have catastrophic consequences for the Swiss economy

REDUCED MARKET DISCIPLINE

With Credit Suisse gone, fewer competitors mean higher costs and reduced options for consumers. Smaller Swiss banks may struggle to compete, further consolidating UBS's dominance

NEED FOR REGULATORY ADJUSTMENTS

Policymakers may need to enforce stricter oversight and potential antitrust measures. Encouraging the growth of mid-sized banks could help balance competition and diversify the sector

Thank **You!**