THE END OF CREDIT SUISSE

Banking - Case Study Presentation - Group 8

AGENDA

1. THE CAUSES OF CREDIT SUISSE’S DEMISE
2. RESTRUCTURING PLANS
3. ALTERNATIVE STRATEGIES FOR CREDIT SUISSE’S SURVIVAL
4. AT1 BONDS
5. THE FUTURE OF SWISS BANKING

1. WHAT CAUSES CREDIT SUISSE'S DEMISE?

SCANDALS

- 2014: **tax evasion** by US clients → USD 2.6 billion penalty
- 2019: **corporate espionage scandal**
- 2021: **Mozambique Tuna Bonds** → USD 475 million penalty
- 2022: **money laundering** case → USD 2 million fee
- 2022: affiliate's fiduciary failures to a Bermuda court → 500M $

EXCESSIVE RISK TAKING

- **Greensill** case → 4 funds closed and USD 10 billion frozen
- **Archegos** case → USD 5.5 billion in losses

EXTERNAL ECONOMIC PRESSURES

- Inflation policy changes
- COVID 19
- **Ukraine war** → CHF1.6 billion in losses

GOVERNANCE ISSUES

- Frequent **executive changes**
- Inconsistent **restructuring plans**

1. THE FINAL COLLAPSE IN 2023

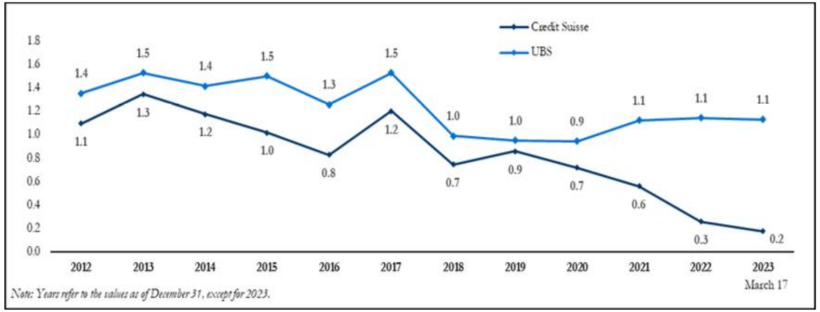
- Banking Crisis
- SVP collapse
- Saudi National Bank refused to provide additional capital

Stock plunged 24% + 69 Billion withdrawn

UBS acquisition for CHF 3 billion →CHF 0.76 per share
with key measures from the Swiss government

The End of Credit Suisse

Ratio: Price-to-Tangible Book Value (Credit Suisse and UBS)



Data source: Bloomberg.

2. RESTRUCTURING PLANS

WHY? Highly leveraged deals and risky trading strategies from the Investment Banking division in order to remain competitive with Wall Street.

GOAL Shifting CS's focus from IB toward wealth management (less volatile and more predictable business model).

3 **RESTRUCTURING PLANS:**

- **Tidjane Thiam (2015-2020)**
  - Tuna Bond scandal: misappropriation of $1.3 billion funds that were arranged in loans to fund state-owned fishing companies in Mozambique.
- **Thomas Gottstein (2020-2022)**
  - Collapse of Archegos Capital (a hedge fund that used borrowed money from CS ($5 billion loss).
  - Downfall of Greensill Capital (a company that issued debt that was bought by CS investment funds ($10 billion loss).
- **Ulrich Korner (2022)**
  - More aggressive restructuring plan.
  - It was too late to change the situation.

SNOWBALL EFFECT

Highly risky IB activity

+

Loss of customer trust

3. ALTERNATIVE STRATEGIES FOR CREDIT SUISSE'S SURVIVAL

A multi-pronged strategy to restore stability, rebuild trust, and ensure long-term competitiveness.

Earlier & Stronger Capital Reinforcement

- Secure **large-scale investments from sovereign wealth funds & private equity (GIC, Blackstone).**
- Issue **convertible bonds instead of diluting equity.**
- **Sell non-core assets** (wealth management, retail banking) for liquidity.

Aggressive Risk Management Reforms

- **Exit Greensill earlier** (2019), avoiding supply chain finance exposure.
- Enforce **stricter counterparty risk on Archegos** to prevent losses.
- Expand **hedging & de-risk trading activities.**

Alternative Swiss Government Intervention

- **Nationalization model** (like UK's RBS in 2008) to stabilize operations.
- **Structured bailout** (CHF 60B fund) rather than an emergency sale.
- **Joint rescue fund by Swiss banks** to distribute risk across institutions.

Leadership & Business Model Overhaul

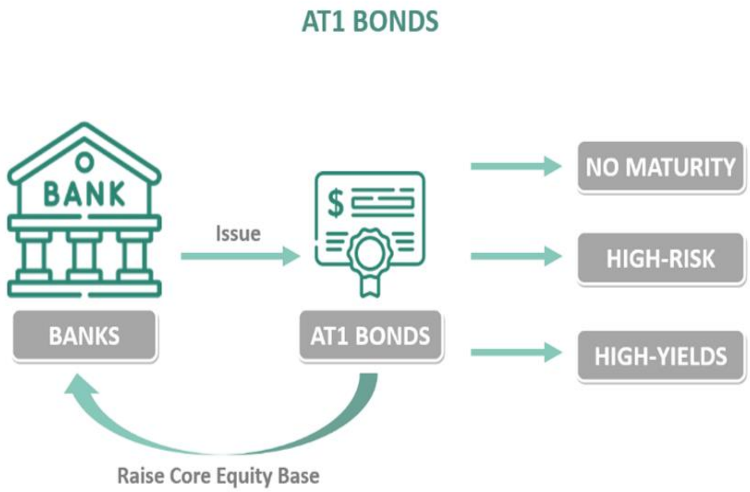
- Maintain **long-term CEO commitment** to prevent instability.
- **Shift focus to wealth management & digital banking** (like UBS).
- **Expand into Asia & Middle East** for high-net-worth client growth.

4. UNDERSTANDING AT1 BONDS

AT1 bonds are hybrid financial instruments used by banks to reinforce their capital and absorb losses in times of distress.

Characteristics:

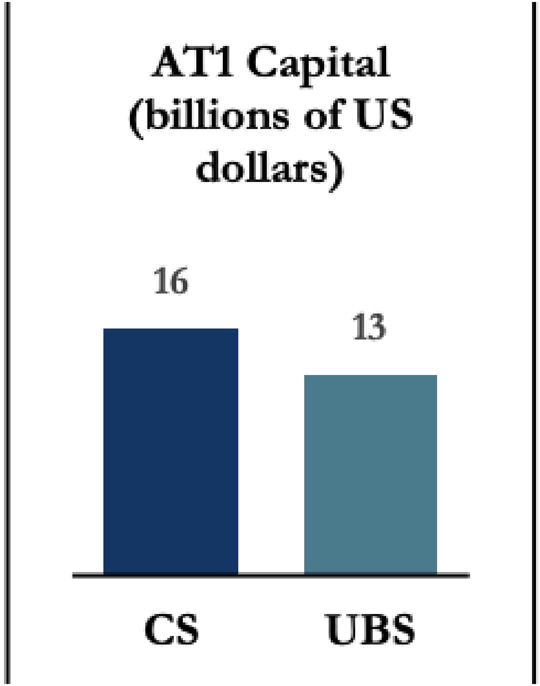
- **Subordinated and perpetual bonds**, but can be converted into shares or written off in case of crisis.
- Act as a **financial buffer**, helping banks absorb losses without relying on public funds.
- **Offer high yields**, but interest payments can be suspended if the bank lacks sufficient capital.
- Play a crucial role in **banking system stability**



4. CONSEQUENCES OF WRITING OFF AT1 BONDS

The Swiss regulators' decision to write off 17 billion in AT1 bonds had major **repercussion on financial markets**, **investor confidence**, and the **banking industry**

- **Disrupted Market Hieracy & Investor Confidence:** The reversal of traditional loss absorption rules (where shareholders usually bear losses first) led to uncertainty and compromised trust in regulatory decisions
- **Market Volatility & Higher Funding Costs:** The wipeout triggered massive sell-offs in AT1 bonds across Europe, increasing risk premiums and making future bank funding more expensive
- **Legal & Reputational Damage:** Investor lawsuits and doubts about fair regulations damaged Switzerland's reputation as a financial center.
- **Increased Systemic Risk:** The Credit Suisse – UBS merger created a larger, systemically important bank, reising fears of greater financial instability if UBS faes future challenges

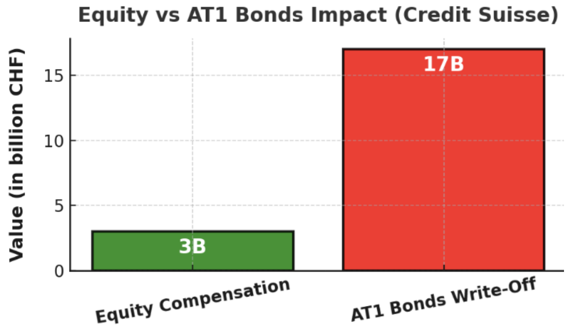


4. WHY WERE AT1 BONDS WIPED OUT INSTEAD OF EQUITY?

To stabilize the crisis and secure the UBS takeover, Swiss regulators decided to write off AT1 bonds.

- **Ensuring the UBS Deal** → Credit Suisse relied more on AT1 bonds ($16 billion). Their removal reduced financial risks, making the takeover possible. Without this measure, UBS might have backed out.

- **Reducing Systemic Risk** → Credit Suisse's failure could have destabilized the global banking sector. Wiping out AT1 bonds allowed for swift action to prevent a broader financial contagion.



Regulatory Justifications and Market Reactions

Swiss regulators justified the AT1 bond write-off based on contractual terms and financial stability concerns, but the decision sparked significant market reactions. The need to maintain financial stability during a crisis.

- **Regualtory Justification**: FINMA cited the AT1 bond prospectus, which allowed a full write-down in a viability event, arguing that extraordinary government intervention warranted the move

- **Investitros Backlash & legal challenges**: AT1 bondholders opposed the decision, arguing it was unfair because Credit Suisse still had strong regulatory capital. This led to lawsuits against FINMA.

- **Regulatory Damage control**: European regulators, including the ECB, reassured investors that AT1 bonds wuld not be prioritized over equity in future crises, preventing further market collapse

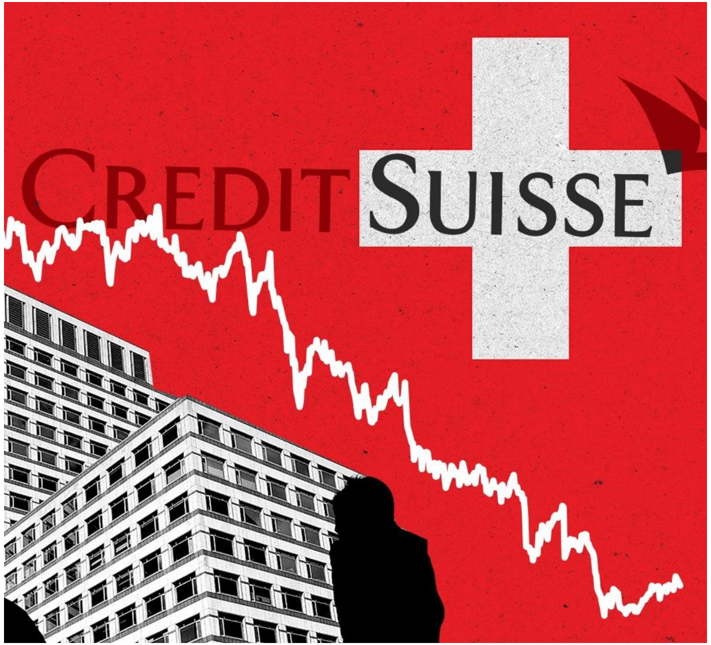
5. THE COLLAPSE OF CREDIT SUISSE: AN ECONOMIC TURNING POINT

Switzerland has always been a **global leader** in banking, known especially for stability, secrecy and strong regulation

The demise of Credit Suisse rises serious doubts about economic stability and investors confidence on the nation

UBS has transformed into a dominant financial institution, reshaping the Swiss banking overview

- **Systematic risks**
- **Regulatory challenges**
- **Economic and job market consequences**
- **Reputational damage**



5. THE COLLAPSE OF CREDIT SUISSE: AN ECONOMIC TURNING POINT

SYSTEMATIC RISK

- UBS holds **$1.7 trillion in assets**, almost twice of the whole Switzerland's GDP.
- Higher fees, reduced services and restrictive lending
- The government is now **forced to intervene** in case of financial trouble, increasing systematic and national risk.

REGULATORY CHALLENGES

- FINMA under pressure for failing to prevent Credit Suisse's collapse.
- AT1 bonds' perception has changed, leading to higher costs for banks.
- Stricter capital requirements and governance rules to restore investor's confidence.

REPUTATIONAL DAMAGE

- Switzerland's status as a financial point of reference has changed drastically
- Foreign investors are losing trust in Swiss banking stability.
- Foreign competitors are trying to attract Swiss clients.

ECONOMIC AND JOB MARKET

- Enormous layoffs from Credit Suisse's, losing approximately 50,000 job positions
- Reduced governmental tax revenues from banking sector.
- UBS' dominance may discourage the creation of new banking firms, reducing competition in the market.

5. THE FUTURE OF SWISS BANKING

- UBS' takeover prevented a crisis but created long-term uncertainty.
- Switzerland must implement stronger regulations
- Failure to adapt to this new situation could lead to a decline in global banking influence.
- The country's position as a trusted financial hub is at serious stake.

THANK YOU!