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Research

Current Facts About Credit Suisse

PPCmetrics AG

Dr Stephan Skaanes, CFA, Partner

Oliver Kunkel, MSc, Partner

Zurich, 16 March 2023

Initial Situation (1)

- In the recent past, the **major bank Credit Suisse (“CS”)** has been confronted with **legal proceedings and negative media coverage** (the Iqbal Khan shadowing scandal, the liquidation of Greensill funds, the scandal in connection with the hedge fund Archegos, etc.).
- These events and the subsequent increasing doubts of investors with regards to CS’s profitability led to a **sharp drop in the share price**.
- In **March 2023**, the following developments also led to a **further significant decline in the share price**:
 - CS was forced by the **U.S. Securities and Exchange Commission (SEC)** to **delay the publication of its annual report by several days** because the SEC wanted clarity on **internal control weaknesses** identified by CS’s auditor.
 - The **closure of two banks in the U.S.** (Silicon Valley Bank and Signature Bank) led to the market **questioning the stability of all financial institutions**. This resulted in significant price losses for all financial stocks, including CS.
 - The Chairman of the Board of **Saudi National Bank** made it clear in a recent interview that the **bank was not prepared** to provide CS with **more capital** if needed. Saudi National Bank holds just under 10% of CS shares.

Source: Bloomberg

Initial Situation (2)

- The CS **share price** has fallen by around 79.8% since the beginning of 2022 (as of 15.03.2023). For comparison: **UBS** shows a return of **+1.95%** over the same period.
 - The decline in the market value of CS is also reflected in the **price-to-book ratio**, which was approximately **0.15** as of 15 March 2023 (UBS: **0.97**).
 - Part of the decline in the share price can be explained by the **measures taken** by CS to strengthen its equity base (capital increase).
 - In a **media release** on 15 March 2023, the Swiss National Bank **SNB** and the Swiss Financial Market Supervisory Authority **FINMA** commented on uncertainties in the market.
- ▶ **In this presentation, we summarize the current facts regarding Credit Suisse.**

Current Credit Ratings

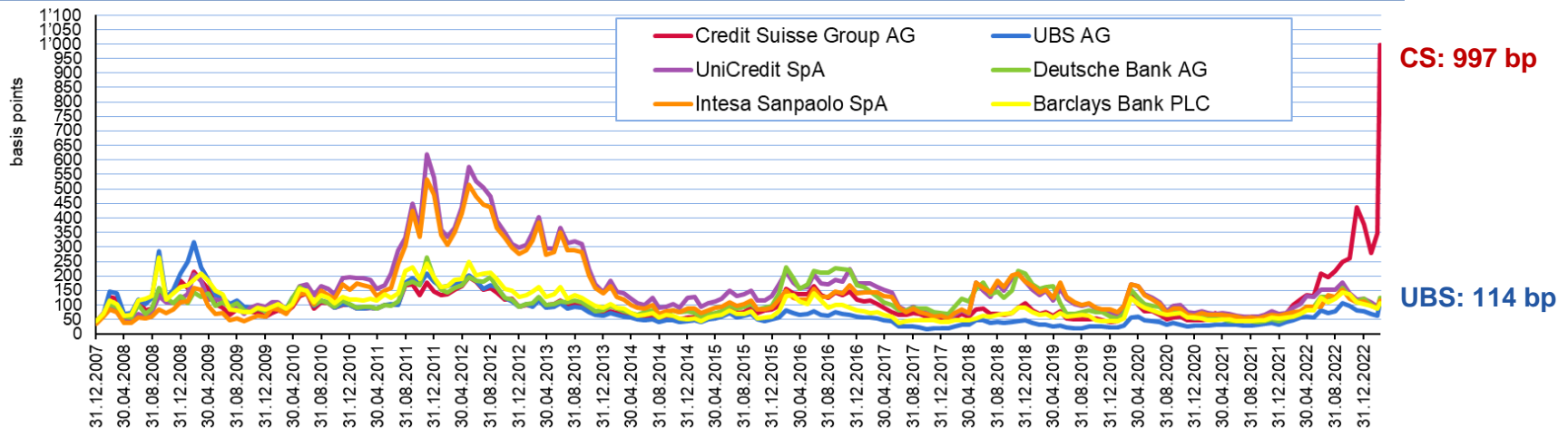
	Fitch	Moody's	S&P
Date of rating report	04.08.2022	01.11.2022	01.11.2022
Credit Suisse Group			
Long-term rating	From "BBB+" to "BBB"	"Baa2" confirmed	From "BBB" to "BBB-"
Outlook	"negative" confirmed	"negative" confirmed	"stable"
Credit Suisse AG			
Long-term rating	From "A-" to "BBB+"	From "A2" to "A3"	From "A" to "A-"
Outlook	"negative" confirmed	"negative"	"stable"
Credit Suisse (Switzerland) AG			
Long-term rating	From "A" to "A-"	No rating	From "A" to "A-"
Outlook	"negative" confirmed	No rating	"stable"

- The table above shows the **latest communicated credit rating adjustment** for the different legal entities of Credit Suisse.
- **Swiss clients** who do not receive investment banking services generally have direct contracts with **Credit Suisse (Switzerland) AG**, which currently has a credit rating of **“A-”**.

Source: Bloomberg

Current CDS Spreads in Comparison

CDS spreads, 5 years, 31.12.2007 - 15.03.2023



- The CDS spread is paid as compensation for assuming the default risk of a credit debt. The higher the **CDS spread**, the greater the **probability of a credit event** as assessed by the market.
- Credit Suisse's CDS spread** has risen sharply since the end of October 2022 and, at 997 bp (as of 15 March 2023), is significantly **higher** than the CDS spreads of **comparable banks**.

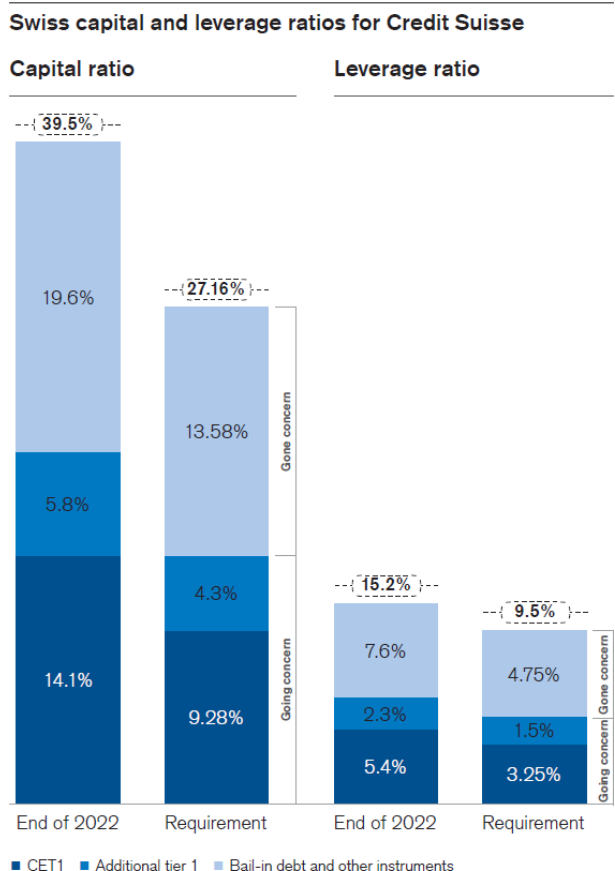
Source: Bloomberg

Media Release FINMA and SNB

- In a media release on 15 March 2023, the Swiss National Bank **SNB** and the Swiss Financial Market Supervisory Authority **FINMA** commented on uncertainties in the market and on Credit Suisse:
 - According to the SNB and FINMA, there are **no indications of a direct risk of contagion for Swiss institutions** due to the current turmoil in the US banking market.
 - FINMA is in **close contact with Credit Suisse** and has access to all information relevant for regulatory purposes. FINMA confirms that **Credit Suisse meets the special capital and liquidity requirements** for systemically important banks.
 - In addition, the SNB will provide **liquidity** to the **globally active bank if** needed.
- ▶ **We consider the clear statement by FINMA and the SNB as well as the provision of liquidity to be an explicit confidence-building measure.**

<https://www.finma.ch/en/news/2023/03/20230315-mm-statement/>
https://www.snb.ch/en/mmr/reference/pre_20230315/source/pre_20230315.en.pdf

Capitalization of Credit Suisse



Rounding differences may occur. Does not include the FINMA Pillar 2 capital add-on relating to the supply chain finance funds matter, the effects of the countercyclical buffers and any rebates for resolvability.

Source: Credit Suisse Annual Report 2022

- The SNB imposes **increased capital and liquidity requirements** on CS as a “systemically relevant bank”.
 - According to the Annual Report 2022, these were complied with by Credit Suisse.
 - **FINMA confirmed on 15 March 2023 that Credit Suisse meets the special capital and liquidity requirements for systemically relevant banks.**
- Explanations of the graphic:
 - The two columns on the left are calculated as a **percentage of risk-weighted assets** (“capital ratio”) and the columns on the right as a **percentage of total exposure** (“leverage ratio”).
 - **CET1** refers to CS’s **core capital**, **Additional tier 1** to the **CoCo bonds**, and **Bail-in debt and other instruments** to other **long-term bonds** that could be converted into equity in an emergency.

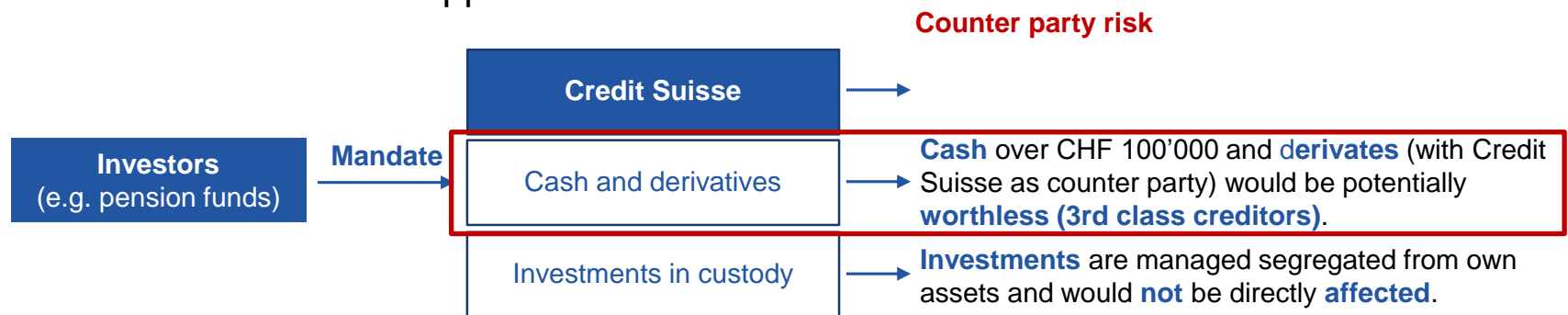
Counterparty Risks

- **Counterparty risks** vis-à-vis CS exist in particular at the following levels:
 - ① Counterparty risk on **account deposits**
 - ② Counterparty risk when investing in **CS bonds** and **CS shares**
 - ③ Counterparty risk in **securities lending** with CS
 - ④ Counterparty risk as a result of investing in CS **collective investment schemes**

Counterparty Risk Analysis

① Account deposits

- In the event of the insolvency of a FINMA-approved custodian bank, the deposit guarantee protects **account deposits up to a maximum of CHF 100,000 per investor and bank**. This also applies to CS.



- ▶ In the case of account balances, there is therefore a direct counterparty risk vis-à-vis CS to the extent of the liquidity portfolio in excess of CHF 100,000.
- ▶ However, it should be noted that CS is a **systemically relevant bank**. This means that CS must **meet increased capital and liquidity requirements** and have contingency planning in place, making a loss of client deposits less likely compared to the situation before the financial crisis or too-big-to-fail regulation.

Counterparty Risk Analysis

② Investment in CS bonds and CS shares

- The **counterparty risk** vis-à-vis CS when investing in **CS bonds** and **CS shares** basically relates to the current **market value** of the investments in the portfolio.
- In a **passive implementation** of the **Swiss bond** and **equity market**, the assets invested in **CS bonds** and **CS shares** are estimated by means of index weighting (as of 13.03.2023, the **CS** share in the **SBI AAA-BBB** is **0.53%** and in the **SPI 0.55%**).

		«SPI» share in portfolio									
		5%	10%	15%	20%	25%	30%	35%	40%	45%	50%
«SBI AAA-BBB» share in portfolio	5%	0.0539%	0.0814%	0.1089%	0.1364%	0.1639%	0.1914%	0.2189%	0.2464%	0.2739%	0.3014%
	10%	0.0803%	0.1078%	0.1353%	0.1628%	0.1903%	0.2178%	0.2453%	0.2728%	0.3003%	0.3278%
	15%	0.1067%	0.1342%	0.1617%	0.1892%	0.2167%	0.2442%	0.2717%	0.2992%	0.3267%	0.3542%
	20%	0.1330%	0.1605%	0.1880%	0.2155%	0.2430%	0.2705%	0.2980%	0.3255%	0.3530%	0.3805%
	25%	0.1594%	0.1869%	0.2144%	0.2419%	0.2694%	0.2969%	0.3244%	0.3519%	0.3794%	0.4069%
	30%	0.1858%	0.2133%	0.2408%	0.2683%	0.2958%	0.3233%	0.3508%	0.3783%	0.4058%	0.4333%
	35%	0.2122%	0.2397%	0.2672%	0.2947%	0.3222%	0.3497%	0.3772%	0.4047%	0.4322%	0.4597%
	40%	0.2386%	0.2661%	0.2936%	0.3211%	0.3486%	0.3761%	0.4036%	0.4311%	0.4586%	0.4861%
	45%	0.2650%	0.2925%	0.3200%	0.3475%	0.3750%	0.4025%	0.4300%	0.4575%	0.4850%	0.5125%
	50%	0.2914%	0.3189%	0.3464%	0.3739%	0.4014%	0.4289%	0.4564%	0.4839%	0.5114%	0.5389%

Note:

The addition of equity and bond exposures is merely illustrative. The risks of loss of the two investments are not directly comparable.

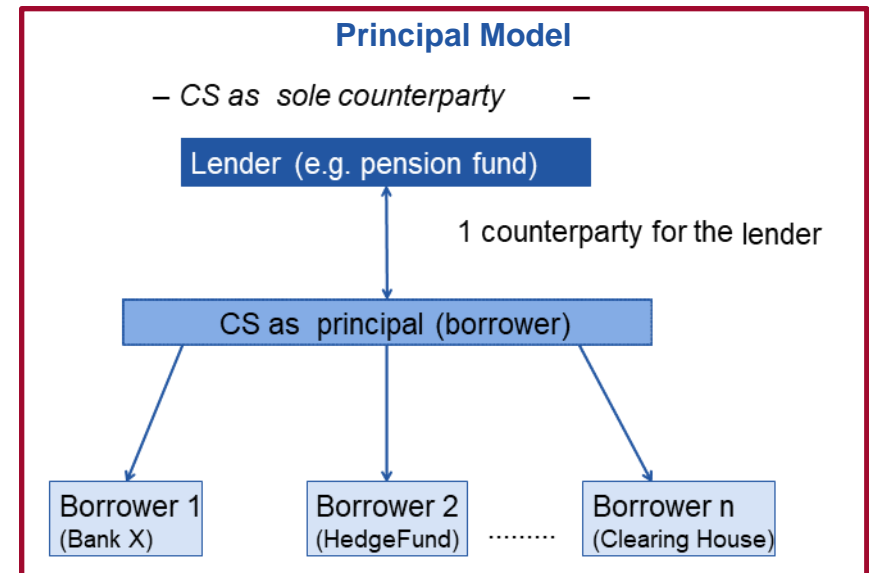
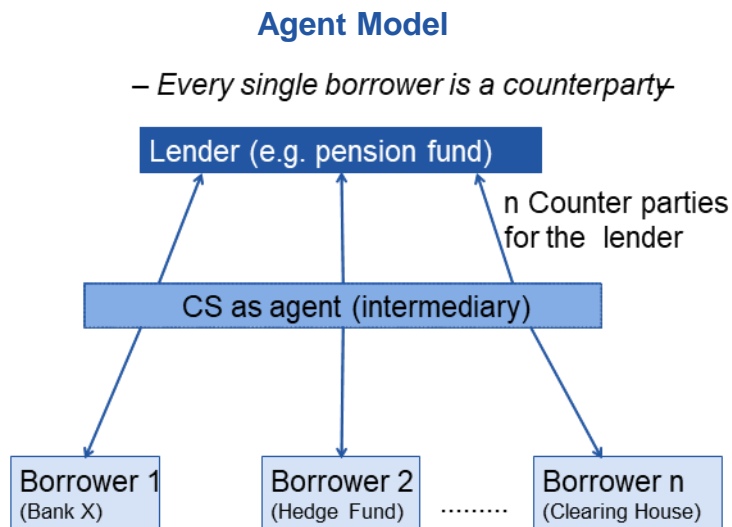
- ▶ For a portfolio that passively replicates the SPI and the SBI AAA-BBB and invests **25%** in each of these categories, the exposure to CS is around **0.27%**. With a volume of **CHF 1 million**, this corresponds to around **CHF 2,700**.

Sources: Bloomberg, SIX

Counterparty Risk Analysis

③ Securities lending with CS

- **Securities lending** means the **lending of securities** for a defined or indefinite period against payment of a **commission**.
- In the **agent model**, there are several counterparties (**diversification of counterparty risks**), with CS acting as an intermediary. In the **principal model**, CS acts as the sole counterparty (**cluster risks**).

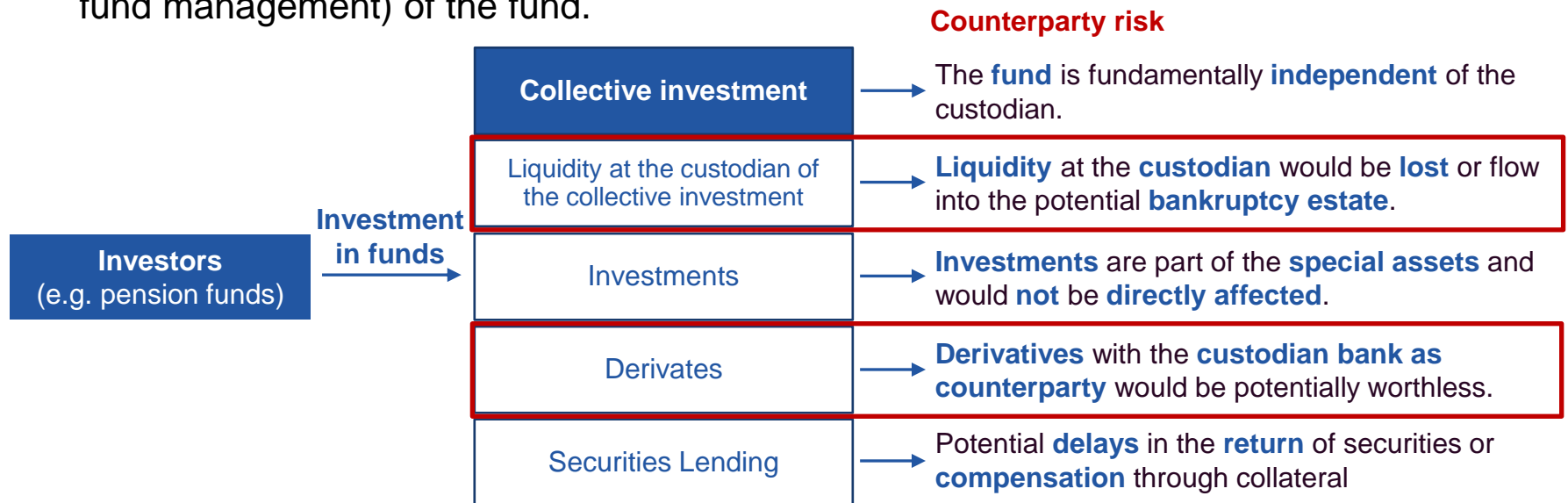


- ▶ In the event of a CS counterparty default, there are liquidity risks (time delay until the lender is compensated or recovers the securities) and strategy risks (cost of restoring the intended security structure).

Counterparty Risk Analysis

④ Collective investment schemes of CS

- In the case of collective investments, **two types of counterparty risk** can be distinguished: bankruptcy of the custodian bank and bankruptcy of the asset manager (or fund management) of the fund.



- ▶ In the case of collective investments, there are generally only minor direct counterparty risks (liquidity and derivatives) vis-à-vis the custodian bank and the asset manager of the fund.
- ▶ However, in the event of bankruptcy of the custodian or asset manager, there is a risk of operational delays.

Conclusion and Recommendation

- CS's stability is particularly at risk if it **enters a negative spiral** and faces a **significant outflow of client funds**.
- FINMA confirmed on 15 March 2023 that Credit Suisse meets the special capital and liquidity requirements for systemically relevant banks.
- The SNB has informed that it would provide liquidity to CS if needed, according to CS up to CHF 50 billion.
- ▶ **We consider the statements of FINMA and the SNB as well as the support of CS by the SNB as an explicit confidence-building measure.**
- ▶ **Nevertheless, it is hardly possible to predict the further course of the crisis (also at other banks).**
- ▶ **We therefore continue to recommend monitoring counterparty risks with banks and the stability of the responsible teams in asset management.**

Contact



Investment & Actuarial Consulting,
Controlling and Research

PPCmetrics AG
Badenerstrasse 6
Postfach
CH-8021 Zürich

Phone +41 44 204 31 11
E-Mail zurich@ppcmetrics.ch

PPCmetrics SA
23, route de St-Cergue
CH-1260 Nyon

Phone +41 22 704 03 11
E-Mail nyon@ppcmetrics.ch

Website www.ppcmmetrics.ch
Social Media   

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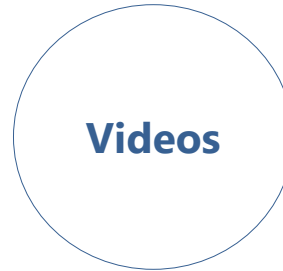
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