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THE CREDIT SUISSE CRISIS: TOO BIG TO FAIL, TOO BIG TO BE SAVED !!!

AN INSPECTION OF THE BANK'S PAST, PRESENT AND FUTURE

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1.ABSTRACT:

Credit Suisse Group AG, founded and headquartered in Switzerland, is one of the world's most prestigious investment banks. It was established in 1856 to fund Switzerland's rail system. This bank was one of the least affected by the global financial crisis but later began to shrink its investment through layoffs and cutting costs.The goal of this financial report is to analyze the factors that contributed to the current Credit Suisse crisis.After facing many crises and struggling financially,Swiss investment bank UBS recently bought the bank (March 19).The bank suffered its most significant annual loss of 7.29 billion in FY22 since the 2008 crisis. We will use the Financial statement Analysis tool - Trend analysis to evaluate the company's overall performance over time. Through this analysis, we will determine how this occurred and what the future holds for it.

Keywords: *FY(Financial Year), global financial crisis, Trend analysis*

2.INTRODUCTION:

Credit Suisse is a multinational investment bank. In its annual report released on March 17, Credit Suisse stated that it had found "material weaknesses" in its financial reporting. In response, the bank stated that it was working to address the problems, which could necessitate "expending significant resources." It received a lifeline of $53.7 billion in liquidity from the Swiss central bank. The Saudi National Bank, which owns a 10% stake in Credit Suisse and has even declined to provide the bank with additional funding, is the bank's largest shareholder. Swiss investment bank UBS Group AG agreed to acquire Credit Suisse on March 19, 2023, for CHF 3 billion (US$3.2 billion), in an all-stock transaction mediated by the Swiss Financial Market Supervisory Authority and the Swiss government.According to a variety of information, the bank's demise was caused by its involvement in numerous scandals, which damaged its reputation and caused a loss of customers.

3.LITERATURE REVIEW:

Some of the previous researchers conducted on the company:

1. Author : Fernandez-Vidal, Jorge, González-Ramírez, Reyes, Gascó, José L. ,Llopis, Juan
Year of publication: 2022
Title : "Corporate Portfolio Management in practice: the case of Credit Suisse's turnaround"

Corporate Portfolio Management tools are widely used by corporations since the 1970s but have received limited academic attention in the last few decades. This paper aims to add to the existing literature on the topic and illustrate how Corporate Portfolio Management tools can be effectively used in practice to rebalance a corporate portfolio and turn a business around, through the analysis of Credit Suisse's successful corporate transformation in the period 2015-2019.

2. Author: S. Murer and C. Hagen
Year of publication: 2014
Title: "Fifteen Years of Service-Oriented Architecture at Credit Suisse,"

Credit Suisse has been an adopter of service oriented architecture (SOA) principles and patterns since the beginnings of this architectural style, even before the term appeared. The authors reflect on the financial institution's journey from using tightly integrated mainframe programs to open SOA services, emphasizing the importance of interface contracts and service governance in corporate IT.

3. Author : Shelanski, H. A.
Year of publication: 2011
Title: "THE CASE FOR REBALANCING ANTITRUST AND REGULATION"

This Article analyzes the reasoning and potential consequences of Trinko and Credit Suisse. It provides a critique of the Supreme Court's redrawing of the relationship between antitrust and regulation and explains how Trinko and Credit-Suisse could saddle regulators with a choice between inefficiently strong and overly weak regulation as economic conditions change in regulated industries. The Article concludes that consumers and industry would benefit from a rebalancing of antitrust and regulation and discusses several possible means to that end.

Further research is carried out using all of the previous reviews as a foundation.

4.PROBLEM STATEMENT:

One of the primary reasons for its current state is an unprecedented outflow of customers. The company has recently been embroiled in several scandals, including money laundering,Mozambique tuna bonds(2021), spying executive(2020), and the leak of client data to the media(2022).Credit Suisse recorded a $5.5 B loss due to its risky exposure to the US hedge fund Archegos Capital Management, which collapsed in early 2021. Credit Suisse was forced to suspend $10 billion of investor funds after the collapse of the supply-chain lender Greensill Capital(2021).All of these scandals resulted in client loss and a drop in share value. Our aim is to investigate changes in the balance sheet before the scandals and after the scandals.

NULL HYPOTHESIS

Credit Suisse's current demise is the result of poor investments and getting involved in many scandals.

5.OBJECTIVES:

1. To comprehend the obvious and hidden factors that contributed to the bank's failure.
2. To analyze the position of the company before and after scandals and customer outflow.
3. To determine how the bank was impacted by the company's unsuccessful investment decisions

6.METHODOLOGY:

- This research is a descriptive one, to describe the reasons behind the current situation of the bank.
- Annual report of the company is downloaded from the company's website and ratios are calculated manually.

7.TOOLS USED FOR ANALYSIS:

- Trend analysis
- Various ratio analysis tools applied to access the following:

a) Solvency ratio
b) Profitability ratio

8.ANALYSIS:

8.1 TREND ANALYSIS

	Dec 31, 2020 (in $)	Dec 31, 2021 (in $)	Dec 31, 2022 (in $)	Dec 31, 2021 (in %)	Dec 31, 2022 (in %)
Total Current Assets	-	726,178	504,258	-	-
Total Assets	805,822	755,833	531,358	94	66
Cash & Due from Banks	139,112	164,818	68,478	119	50
Other Earning Assets, Total	337,627	302,494	282,838	90	84
Net Loans	291,908	291,686	-	100	-
Property/Plant/Equipment, Total -	7,376	7,305	6,929	100	94
Property/Plant/Equipment, Total -	15,003	15,434	15,646	103	105
Accumulated Depreciation, Total	-7,627	-8,129	-8,717	107	115
Goodwill, Net	4,426	2,917	2,903	66	66
Intangibles, Net	237	276	458	117	194
Long Term Investments	1,251	6,315	5,988	505	479
Other Long Term Assets, Total	13,718	9,135	10,517	67	77
Other Assets, Total	10,167	-65,371	-141,137	-643	-1389
Total Current Liabilities	-	311,147	342,613	-	-
Total Liabilities	763,145	711,603	486,027	94	64
Accounts Payable	25,950	13,060	11,442	51	45
Accrued Expenses	2,759	3,969	3,839	144	140
Total Deposits	390,921	392,819	-	101	-
Total Short Term Borrowings	95,492	49,598	40,843	52	43
Current Port. of LT Debt/Capital Leases		374	28,813	-	-
Other Current liabilities, Total	555	244,146	257,676	43991	46429
Total Long Term Debt	161,087	182,579	129,744	114	81
Long Term Debt	161,087	182,579	129,744	114	81
Deferred Income Tax	530	754	1,378	143	260
Minority Interest	264	276	202	105	77
Other Liabilities, Total	85,587	167,249	-28,753	196	-34
Total Equity	42,677	44,230	45,331	104	107
Common Stock, Total	98	106	160	109	164
Additional Paid-In Capital	33,323	34,938	38,615	105	116
Retained Earnings (Accumulated	32,834	31,064	23,632	95	72
Treasury Stock - Common	-428	-828	-428	194	100
Unrealized Gain (Loss)	13	13	-	100	-
Other Equity, Total	-23,163	-21,050	-16,648	91	72
Total Liabilities & Shareholders	805,822	755,833	531,358	94	66
Total Common Shares Outstand	2,406.14	2,569.68	3,941.25	107	164

Interpretation:

- The total asset has decreased over the years due to a decline in goodwill and intangible assets. However, the company is seen to have bought few fixed assets(plant, property,equipement) over the years.
- The company has had an incremental long term investments which helped from overreacting to market conditions and offered them with positive returns
- The long term assets have declined drastically(negative) which held them to the obligation to reduce the share capital,but however the total liabilities has also increased exponentially.
- We can see that the equity has also reduced continuously over the years.The decrease in retained earnings is due to the company facing losses.
- We can see that the company's assets have decreased from 94% to 66% , on the other hand other current liabilities increased by 43991%.from this we can see there are some failed investments they made which led to increase in liability and decrease in assets.

- But on a positive note ,the company's overall equity increased a bit , which is the result of additional stock investments.

8.2 PROFITABILITY RATIO

8.2.1 GROSS PROFIT RATIO

year	2022	2021	2020
Gross profit	$15.636B	$24.832B	$23.88B
Gross profit ratio	68.36%	85.86%	73.74%

We can see that the gross profit increased slightly in 2021 compared to 2020. In 2020, their stock dropped by 25.5% in value. In 2022, Because of the scandals, it fell dramatically compared to previous years, and it has continued to fall to the point where it is sold.

8.2.2 NET PROFIT

year	2022	2021	2020
Net profit	-$7.64B	-$1.81B	$2.85B
Net profit ratio	-33.41%	-6.22%	8.80%

The bank had a positive net profit until 2020, when it suffered a net loss of 1.81 billion, which increased further in 2022, when it suffered a -7.64 billion loss. We can deduce that the loss increased after covid and as a result of becoming entangled in all of those scandals. As of today, the company has a net loss of $7.64 billion.

8.2.3 OPERATING RATIO:

year	2022	2021	2020
Revenue	$22.886B	$29.04	$32.38B
Operating income	-$2.83B	$1.23B	$3.87B
Operating ratio	-12.38%	4.24%	11.94%

Operation ratio has decreased over the year , reaching a negative ratio of -12.38% in 2022. We can see that the decrease in ratio is because of decreased revenue which is because of customer outflow and also negative operating income indicating the poor investments made by the bank.

8.2.4 RETURN ON EQUITY:

year	2022	2021	2020
Net income	-$7.64B	-$1.81B	$2.85B
Shareholder's equity	$47.50B	$48.39B	$45.80B
Return on equity	-16.21%	-3.70%	5.85%

As we can see, net income had a direct impact, resulting in a ROE of 5.85% in 2020, which declined to -3.70% in 2021 and continued to decline to -16.21% in 2022. We can also see that many shareholders withdrew during 2021-2022 due to the steady decline in stock price, which is at a price of $2.0100 as of 20-03-2023.

8.2.5 RETURN ON TOTAL ASSETS

year	2022	2021	2020
Net income	-$7.64B	-$1.81B	$2.85B
Total assets	$556.81B	$826.96B	$859.49B
Return on assets	-1.08%	-0.21%	0.33%

We can see that the ROA is 0.33% in 2020. Later in 2021, the assets did not decline significantly, but it did sustain a net loss, resulting in -0.21%. Because of some poor investments in 2021, such as Archegos and Greenhill, overall assets decreased in 2022, resulting in a ROA of -1.08%.

8.2.6 RETURN ON INVESTMENT

year	2022	2021	2020
Operating profit	-$2.83B	$1.23B	$3.87B
Capital employed	$212.27B	$230.99B	$217.62B
Return on investment	-1.32%	0.52%	1.77%

From the table we can infer that the bank had a positive ROI of 1.77% in 2020 . and slowly decreased to 0.52% in 2021 and later in 2022 it reached a negative ROI of 1.32% indicating loss on investments.

8.2.7 P/E RATIO

year	2022	2021	2020
Stock price	3.04	9.56	12.63
Net EPS	-$2.31	-$0.70	-$1.09
P/E ratio	0.00	0.00	11.58

Based on the data, we can conclude that the bank's net EPS began to decline in 2020 and is now in serious decline. We can also see that the ratio fell from 11.58 in 2020 to 0.00 the following years. The table shows that the stock price fell three times in consecutive years.

8.3 SOLVENCY RATIO

8.3.1 CURRENT RATIO

year	2022	2021	2020
Current assets	$493.74B	$754.45B	$751.67B
Current liabilities	$310.36B	$540.47B	$532.10B
Current ratio	1.59	1.40	1.42

We can see that current assets have decreased over the course of the year. We can conclude that, despite the bank's heavy losses, the current ratio is still good, standing at 1.59 in 2022, up from 1.40 in 2021 and 1.42 in 2020.

8.3.2 DEBT/EQUITY RATIO

year	2022	2021	2020
Long term debt	$509.31B	$778.57B	$813.69B
Shareholder's equity	$47.50B	$48.39B	$45.80B
Debt/equity ratio	10.72	16.09	17.77

A higher debt/equity ratio is a negative indicator. We can see that the bank had a debt of $813.69 billion in 2020, $778.57 billion in 2021, and $509.31 billion in 2022, which is a good thing because debt has decreased. Similarly, the debt/equity ratio in 2020 is 17.77, 16.09 in 2021, and 10.72 in 2022.

9.FINDINGS:

The following are the findings from the research:

1. Despite suffering significant losses, the company reduced the gap between assets and liabilities.
2. Perhaps some of their assets were sold to reduce their overall liability.

3. Since they sold assets, total assets fell, which caused current assets to fall.
4. They were unable to make enough money from stocks as well because of the decline in stock value.
5. They had to sell their assets to pay off their debts as a result of their unsuccessful investments.They suffered this severe blow because they ran out of ways to make money.

10.RECOMMENDATIONS:

Some recommendation from the researcher's side:

1. Instead of selling assets to reveal liabilities, they ought to have concentrated on growing their assets.
2. When they noticed a drop in the price of their stock, they ought to have repurchased or purchased their own stock to increase its value.
3. They should have tried increasing their assets at the expense of increasing their liabilities rather than reducing their liabilities by decreasing assets.
4. When they observed a significant decline in asset value, they ought to have increased their funds from investors.

11.LIMITATIONS OF THE STUDY:

Limitations of the study from researcher's perspective:

1. For this study, only 3 years' worth of data were audited or taken into account.
2. Some information is gathered from financial websites, the accuracy of which is unknown.
3. The entire research was conducted from a learner's perspective.
4. Since the bank has not yet audited their financial information for the year 2023, it is not taken into account.

12.CONCLUSION:

Some of the researcher's conclusions from the following research are stated in findings.Overall, we can conclude that the company's poor investments are the primary cause of its demise.The company was involved in numerous scandals, which resulted in customer outflow, resulting in a decrease in revenue from that side; the decrease in stock value is the reason for the overall asset reduction.Despite the fact that the company was purchased by USB, they must now find ways to rebuild the bank by supplying it with additional funds. As stated in the title, the bank has a long history and has survived through many hard times. But it took a beating in Covid and all those scandals.Thus null hypothesis is true and proved..We can conclude that companies must maintain financial stability while also maintaining their goodwill and focusing on customer information security.Earning the trust of customers is also important for businesses.

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