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Liquidity Risk post Credit Suisse fall

CRO Forum, Swiss Risk Association

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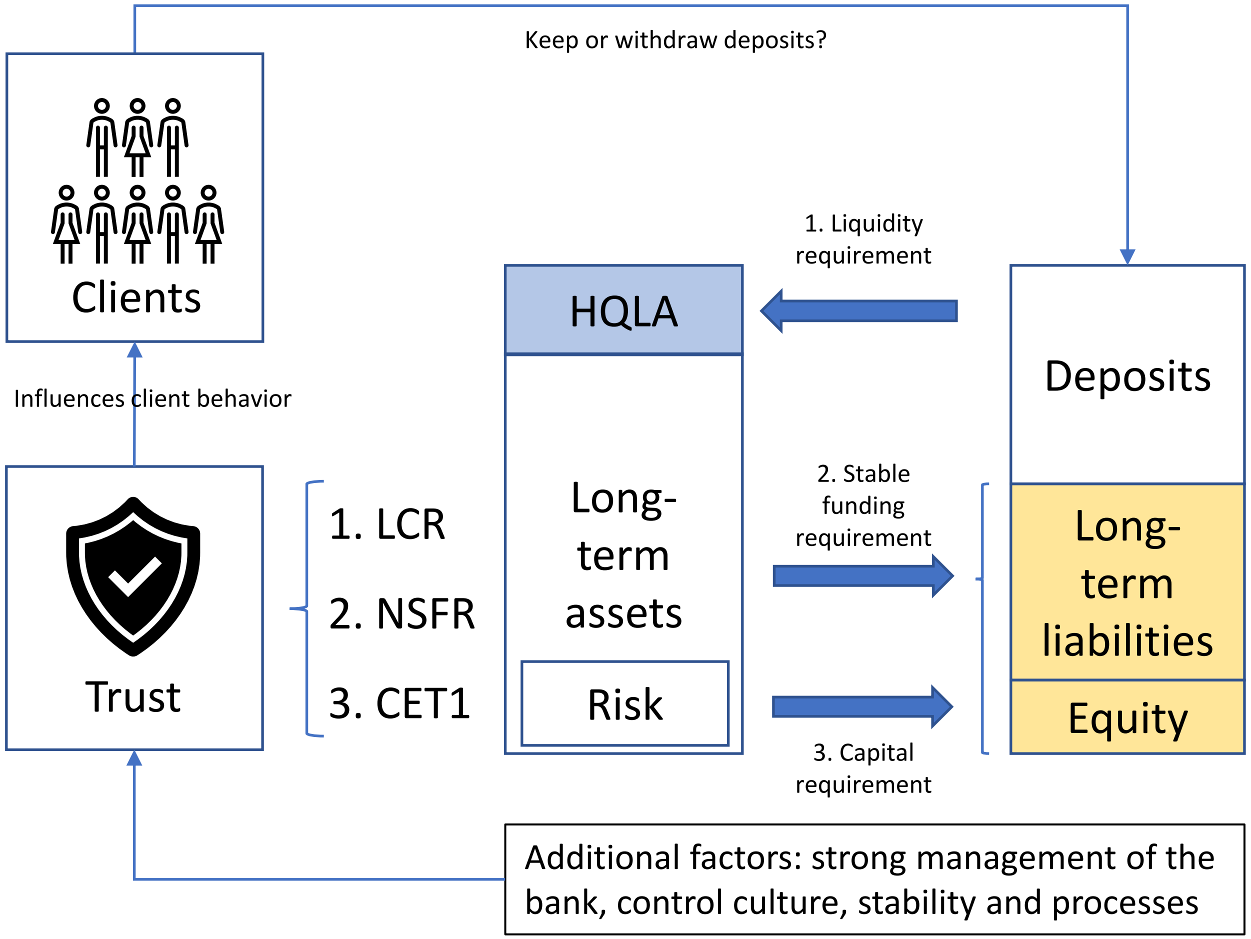
Trust is key for the stability of a bank



Maintaining the trust of clients is key to avoid fear-driven deposit withdrawals.

Trust is maintained by sound ratios:

1. **Liquidity Coverage Ratio (LCR)**
2. **Net Stable Funding Ratio (NSFR)**
3. **Common Equity Tier 1 Ratio (CET1)**

in combination with

Strong management, control culture, stability and processes

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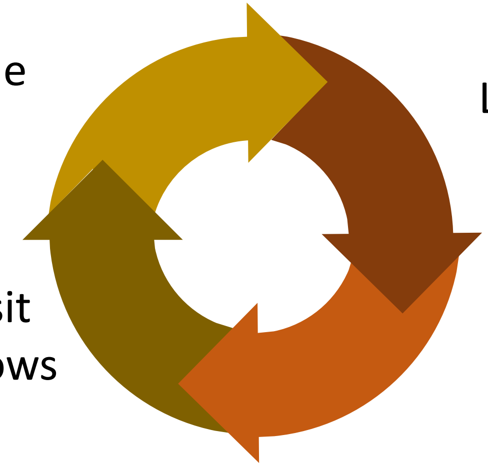
We experienced a liquidity crisis in 2023

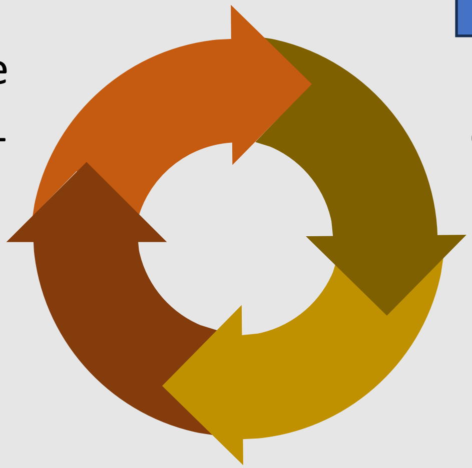
Solvency crisis



Required Action:
Raise capital to improve trust and avoid further outflows

2008/2009: US subprime crisis

Liquidity crisis

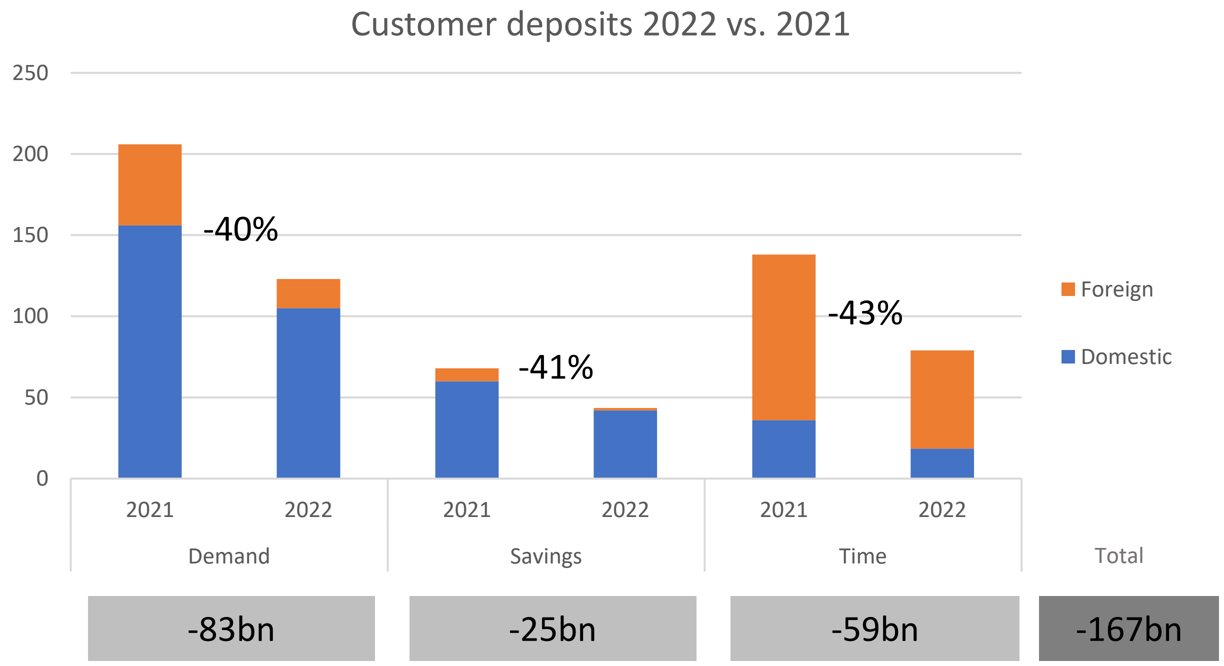


Required Action:
Raise liquidity to avoid losses from asset liquidations

2023: Credit Suisse, US regional banks

Large deposit withdrawals in autumn 2022

The Liquidity Coverage Ratio (LCR) dropped from 192% to 144% in 4Q22



Source: Credit Suisse, annual report and subsidiary disclosures

o/w Credit Suisse (Schweiz) AG: -52bn
o/w Credit Suisse AG: -96bn

Largest outflows:

- Demand deposits from domestic clients
- Expiring time deposits from foreign clients
- Savings accounts from domestic clients

138bn CHF client deposit outflows in 4Q22.

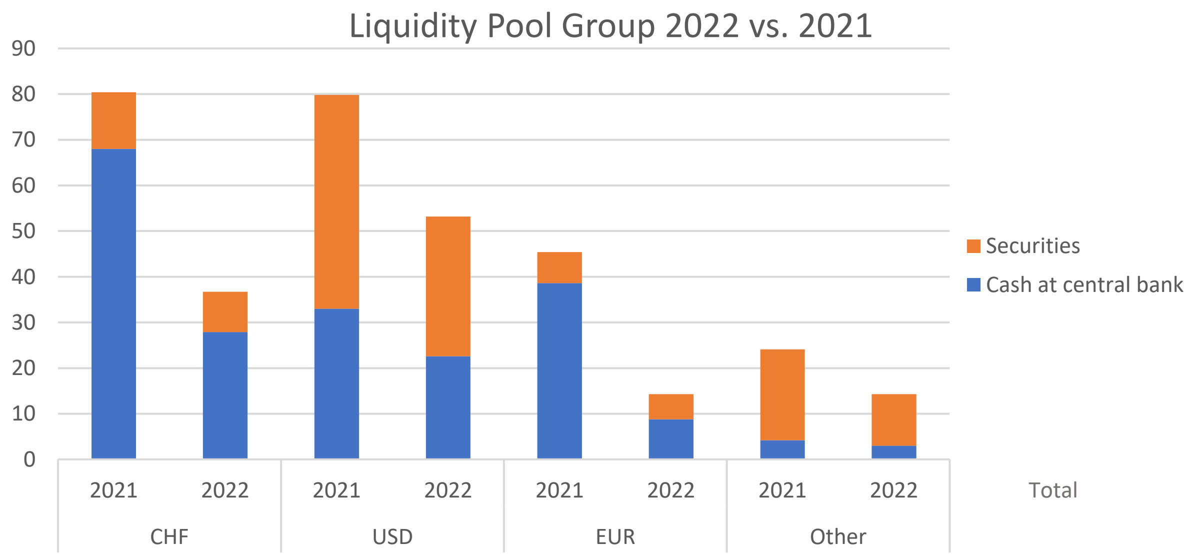
The Liquidity Coverage Ratio (LCR) assumes deposit outflows of ~100bn CHF over a 30-day stress period.

LCR can only provide a limited level of safety in crisis.

In Switzerland, systemically relevant banks are since 2022 subject to an extended 90-day stress period.

The first run in autumn was handled well

Credit Suisse had a liquidity pool of 230bn in different currencies



-44bn	-27bn	-31bn	-10bn	-112bn

Source: Credit Suisse, annual report and subsidiary disclosures

Credit Suisse (Schweiz) AG:	-34bn
Credit Suisse AG:	-57bn
Credit Suisse International	-10bn
Credit Suisse Holdings (USA)	-14bn

Global banks hold liquidity reserves in the currencies and legal entities where the deposits are booked.

Credit Suisse held 2021 a liquidity pool of 230bn CHF, mainly consisting of cash at central banks and government securities in CHF, USD and EUR.

The buffer and a 50bn reduction of the repo book allowed Credit Suisse to withstand the first bank run.

Credit Suisse fell below certain legal-entity regulatory requirements in 4Q22.

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Issues revealed by second run in March

Challenge 1:
Meeting 67bn CHF of deposit withdrawals from the liquidity pool would likely have brought LCR below 100%

Challenge 2:
High quality securities required as collateral for ELA were already used for refinancing or to meet collateral demands

Challenge 3:
ELA eligible collateral was not available in the legal entities facing the liquidity pressures

Challenge 4:
The PLB - if already implemented – would have required a restructuring not necessary given the capital situation

- To what extent can banks use the liquidity buffers prescribed by LCR if a real crisis occurs?
- Do banks need to be prepared for a crisis after the crisis?
- Why should ELA be secured by collateral of the highest quality?
- Do central banks in their role as lenders of last resort need to liquidate the collateral in a crisis?
- Emergency Liquidity Assistance (ELA) may only be of limited availability to banks if needed.
- The proposed PLB has some shortcomings:
  a) only available to systemically important banks
  b) subject to condition of restructuring

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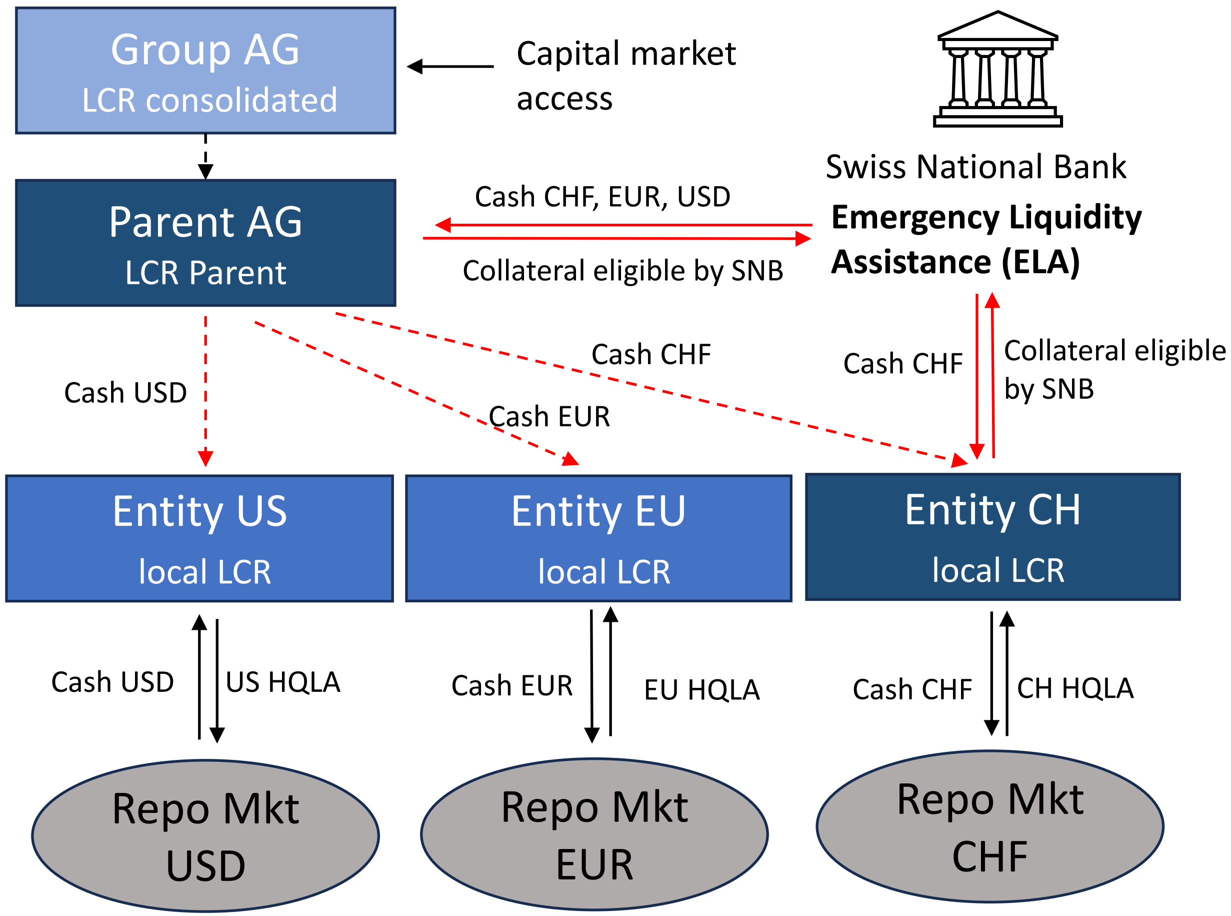
ELA is of limited feasibility in global banks



Large global banks align their liquidity and collateral pools to their funding needs in different currencies.

- Capital instruments issued at top holding level
- Access to funding markets through local subsidiaries
- Need to meet local LCR requirements

ELA is provided to the Swiss banking entities only

- The loan receiving entity has to post the collateral
- Restrictions for upstreaming of cash and collateral

Conflict between HQLA required locally and collateral needed in Parent AG for ELA.

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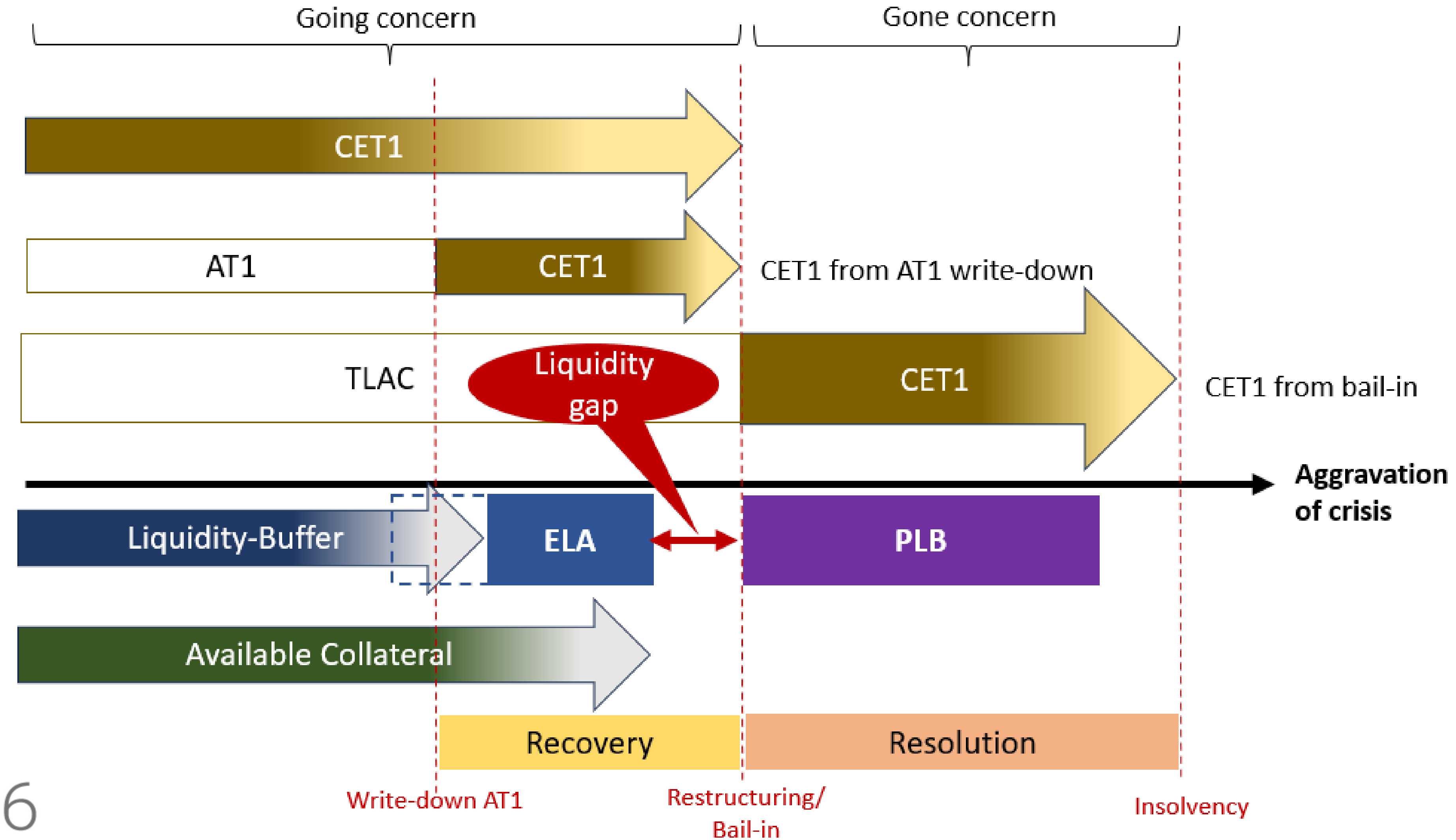
Would ELA and PLB work in a liquidity crisis?



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Main messages

- The Swiss TBTF Framework is mainly focusing on solvency crises
- Revisions of the TBTF framework should incorporate aspects of liquidity and trust driven crises
- More flexible instruments necessary to provide solvent banks access to liquidity

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