BSI BANK OF SWITZERLAND: VICTIM OF GROWTH OR PERPETRATOR OF A CRIME?

Research Associate Ivy Buche prepared this case under the supervision of Professor Salvatore Cantale as a basis for class discussion rather than to illustrate either effective or ineffective handling of a business situation.

> BSI Bank is the worst case of control lapses and gross misconduct that we have seen in the Singapore financial sector. It is a stark reminder to all financial institutions to take their anti-money laundering responsibilities seriously.[1]
>
> Ravi Menon, Managing Director, Monetary Authority of Singapore

On 24 May 2016, the Monetary Authority of Singapore (MAS) withdrew the merchant banking license of the Singapore branch of Swiss private bank BSI Bank Ltd. The BSI group was one of the oldest banks in Switzerland and the sixth largest in the country. It specialized in private wealth management. MAS gave the following reasons for shutting down the Singapore subsidiary: (1) widespread control failures, resulting in numerous breaches of anti-money laundering regulations; (2) poor and ineffective oversight by senior management; (3) an unacceptable risk culture, with blatant disregard for compliance and control requirements as well as MAS's regulations; and (4) numerous acts of gross misconduct by certain staff. MAS referred the names of six BSI Singapore employees to the public prosecutor to evaluate whether they had committed criminal offences. It also imposed financial penalties, amounting to S$13.3 million (US$9.5 million), on the company for 41 regulatory breaches.

On the same day, the Swiss Financial Market Supervisory Authority (FINMA) started criminal proceedings against the BSI group for failing to prevent suspected money laundering and bribery in its dealings with the Malaysian state investment fund – 1 Malaysia Development Berhad (1MDB). 1MDB, led by the Malaysian Prime Minister, Najib Razak, had been embroiled in a corruption scandal for over a year. 1MDB was BSI Singapore's largest and most profitable client group.

FINMA ordered the BSI group to pay the Swiss government a financial penalty of CHF 95 million (US$96 million), being the amount the bank had generated in illegal profits. Following these announcements, BSI's group CEO, Stefano Coduri, stepped down with immediate effect. FINMA further approved the takeover of BSI by Zurich-based EFG International, a listed global private banking group, on condition that the BSI group would be dissolved within the next 12 months.

[1] "MAS directs BSI Bank to shut down in Singapore." Press release, 24 May 2016, www.mas.gov.sg

BSI Bank Limited: An Overview

The 143-year-old banking group had come a long way since it was founded as Banca della Svizzera Italiana in 1873 with its headquarters in Lugano, capital of the southeastern Italian-speaking canton of Ticino in Switzerland. In the final decades of the 19th century, the bank was active in both Italy and Switzerland. It was part of the consortium of Swiss banks authorized to issue banknotes and it supported initiatives to develop the regional transport and hotel sectors in the country. Having survived the banking crisis of 1914, it continued to grow its presence in Switzerland by setting up branches across the country. In 1969 BSI embarked on an internationalization strategy and made its first overseas foray into Nassau, the Bahamas. Over the next two decades total assets under management (AUM) increased from CHF 1 billion in 1970 to CHF 9.2 billion in 1990. In 1991 Swiss Bank Corporation, a large integrated financial services company in Basel, became the majority shareholder of the bank. Through the early 1990s, the bank restructured its business and organization, specializing in the wealth management of high net worth individuals and ultra high net worth individuals (HNWI and UHNWI) in Switzerland and overseas. In 1998 the bank was purchased by Italian insurer Assicurazioni Generali (Generali) and the name was changed to BSI Ltd.[2] By 1999 the bank had CHF 39 billion in client AUM.[3]

During the 2000s, BSI continued to expand actively, particularly in the high-growth markets of Asia, Eastern Europe, the Middle East and Latin America. Its value proposition was based on a combination of specialist expertise in asset management, a consolidated service model for private wealth management and the deployment of skilled professionals capable of interpreting clients' needs and the different cultural connotations.

BSI Bank Ltd, Singapore

Early Beginnings

The BSI group identified Singapore as an important strategic site that would be an alternative financial center for its private and institutional clients. BSI Bank Ltd, Singapore (BSI Singapore) was established in 2005 to capitalize on private wealth management opportunities in the region. Asia was the fastest-growing private banking market in the world; the region was creating more new millionaires than the rest of the world combined. At that time BSI was relatively unknown in Asia and was considered to be one of the smaller private banks compared to Swiss giants like UBS and Credit Suisse. Under BSI Singapore's license, clients had to have at least US$1 million to invest, i.e. be in the HNWI category. According to the bank, the ideal amount was US$5 million.

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[2] In 1998 Swiss Bank Corporation merged with Union Bank of Switzerland to form UBS, the largest bank in Europe and the second largest bank in the world.

[3] "Swiss BSI Bank Has 26 Pct Higher Net Profit." *Reuters News*, 14 February 2000.

Impact of the 2008 Financial Crisis

The 2008 collapse of Lehman Brothers, the fourth largest investment bank in the US, nearly brought down the global financial system. Private banking was not spared and clients suffered from a sharp downturn in the financial markets. According to market watchers, about US$11 trillion in global wealth were wiped out, including an estimated 30% to 40% of the US$700 billion in AUM (as at end 2008) in Singapore and Hong Kong. Clients shifted their assets away from the large banks to smaller private or regional banks and changed their asset mix in favor of low-margin products, eroding the profit margins of the private banking industry. In 2008/09, the large banks responded by reducing their wealth management staff. UBS and Deutsche Bank respectively announced the retrenchment of 240 people (including private banking staff) and 60 wealth management staff in Singapore and Hong Kong. Citigroup Private Bank trimmed 150 people from its Asian wealth management operations, and HSBC cut 100 private banking positions in Hong Kong.

However, the private banking industry started to look up in the second half of 2009. According to industry experts, private banking AUM in Asia were expected to grow 12.8% annually between 2009 and 2013, much faster than the projected 8.1% global growth. With its strong regulatory environment and infrastructure advantage, Singapore started emerging as a strong global private-banking center. The country had long benefited from ethnic Chinese entrepreneurs based in Southeast Asia, who used Singapore as a safe haven for their fortunes. In addition, Singapore held increasing appeal for wealthy mainland Chinese, who preferred it to Hong Kong, which was experiencing changing political and commercial dynamics under the Chinese government. Private banking AUM in the city-state had grown six-fold from US$50 billion in 2000 to over US$300 billion in 2009. Growing wealth in the region – particularly in China, India and Indonesia – and the migration of some European accounts to Singapore as a booking center were the key drivers of growth in the private banking industry (*refer to* ***Exhibit 1*** *for global assets from 2002 to 2009*).

BSI Singapore Holds Its Course

BSI Singapore weathered the crisis period and backed its clients with high-quality tailored solutions. It restructured and revamped its investment products offerings, in particular investment funds and portfolio management to provide clients with greater security while minimizing volatility and maximizing credit quality. In response to Asian clients' specific needs in the field of estate planning and asset protection, a trust company was established in Singapore in 2009. Nicola Battalora, CEO of BSI Singapore (since 2005), decided to expand the bank's local structure by recruiting new personnel. He stated:

> How can you not be in Asia when you look at the growth in wealth here? Of course, we have to find a niche. Our aim is to become a meaningful player in private banking and wealth management in Asia. We try to fit the client and structure the portfolio to suit the needs of the client – whether he or she is looking for income, growth or security. We are a boutique bank and we want to hire people who can fit into our organization.[4]

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[4] Warden, Goola. "Corporate: BSI Singapore Tunes Up for Growth." *The Edge Singapore*, 4 May 2009

Chasing High Growth from 2010 to 2014

Asia-Pacific millionaires outnumbered those in Europe for the first time in 2010.[5] The BSI group launched a growth strategy based on three key pillars:

- Geographical diversification in the more dynamic emerging markets
- Development of specialized service models for specific client segments
- Increased operating efficiency along with strict risk control and capital management.

The BSI group revised its code of conduct in 2010 in order to simplify it so that the group could function more effectively. In particular, the topics of cross-border banking and taxation were explicitly introduced to emphasize unambiguously the commitment and responsibility of the bank and its employees. One year later, BSI initiated an organizational restructuring to embed the bank's strategy and optimize service in specific geographical regions – Switzerland, Europe and Asia. Dedicated regions for Latin America, Middle East and Eastern Mediterranean were subsequently defined and the organizational structure was progressively modified (*refer to **Exhibit 2** for the organizational structure*).

Change in Leadership at BSI Singapore

In 2010 Battalora (48) moved to head BSI Luxembourg, and Hanspeter Brunner (58) took over as CEO of BSI Asia and BSI Singapore, reporting to the group CEO. Prior to that, Brunner worked at RBS Coutts in Asia from 1997 to 2009, his last position being CEO of RBS Wealth International. Following Brunner's exit from RBS Coutts, his former employer lost more than a third of its Singapore staff – 90 to 100 relationship managers. Many went on to join BSI. This defection was reported widely in the media as one of the biggest instances of employee poaching. Resignations from RBS Coutts were allegedly over issues related to compensation and lack of annual bonus prospects.[6]

Soon after taking charge, Brunner announced aggressive plans to triple Asian client assets to CHF 10 billion by 2015.[7] BSI Singapore expanded its local structure by recruiting new personnel. The number of staff increased from 30 in 2009 to 200, including 50 private bankers, by the end of 2010. The Singapore subsidiary thus became BSI's largest, second only to its headquarters in Lugano. Brunner stated:

> We are finishing our hiring plans in Singapore. We have the infrastructure, investment teams and private bankers in place. Now it is up to us to attract the clients. We need to grow fast. Now we can keep the resources stable and run the business up, because for the first three years we were not making any profits. It is very logical. We have got the cost, it's kind of a matter of catching up now.[8]

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[5] According to a survey by Capgemini SA and Bank of America Corp.

[6] In February 2009, RBS announced a revised staff compensation plan that featured deferred bonuses and potential claw backs at a future date. RBS had to be rescued by the British government in 2009.

[7] Powell, Leigh. "Esther Heer Named deputy CEO of BSI Asia." *Asiamoney*, 2 July 2010.

[8] Powell, Leigh. "BSI's Brunner Plans Private Banking Revolution." *Asiamoney*, 2 July 2010.

Operationalizing a High Growth Strategy

The private banking industry in Asia was crowded and intensively competitive. Most players dealt with a similar group of customers and there was very little platform differentiation. To overcome these challenges, Brunner moved to build the capabilities and services in Singapore – on both the trust and credit structuring sides – to equal those of its Swiss headquarters. For investment and corporate banking services, BSI Singapore built alliances with smaller corporate investment organizations; for structured products (leverage products, participation products, yield enhancement products and capital protection products), it subscribed to an open architecture, using a wide range of third-party products. These efforts allowed BSI Singapore to compete for clients with larger entities such as RBS Coutts and UBS which had publicly announced they were rebuilding their business in Asia. Esther Heer, deputy CEO of BSI Asia, stated:

> You can actually get things done much faster when you go outside of your organization, because if you create a new product, there are procedures you have to follow. If you have the knowhow to go outside and to charge the providers, that is very powerful.[9]

BSI Singapore provided HNWIs, independent asset managers and family-owned companies with a comprehensive range of products and services, from classic to alternative and innovative solutions. In addition to courting wealthy individuals, BSI Singapore served several state-owned wealth funds, including 1MDB, which had around 100 accounts at the bank. Sovereign wealth funds were reported to be the bank's largest client group, with accounts booked in both Singapore and Switzerland. Its client-centric approach ensured that the recommended products and services were tailored to meet every client's personal requirements – be it for investment advice, trust and wealth planning or finding solutions to complex issues (*refer to **Exhibit 3** for the range of offerings*). Brunner realized that the diversity of Asian cultures required banks to offer unique strategic responses to client needs. He explained:

> The last thing we need in Asia is a portfolio of transactional relationships; the qualitative bespoke client relationship is the only sustainable model. Most successful individuals in Asia have accumulated their wealth by taking a creative, entrepreneurial approach to doing business. So it makes no sense to expect these people to respect and respond to the polar opposite − off-the-shelf solutions with the bank's incentive built into the recommendations, trades and transactions and the risk largely carried by the client.[10]

A key milestone in the BSI group's expansion in Asia was achieved in December 2011 when it was granted a banking license by the Hong Kong Monetary Authority (HKMA) to become a full-fledged private bank, enabling it to take advantage of growth opportunities in North Asia. The Hong Kong bank became fully operational in 2012. A North Asia team was also established in Singapore, offering North Asia-based clients an additional portfolio management option.

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[9] Q&A: Hanspeter Brunner and Esther Heer, CEO and deputy CEO, BSI Asia. Asian Investor. 9 February 2011.

[10] Brunner, Hanspeter. "Tailored Private Banking for Asia's Best." *Financial Times*, 27 February 2011.

Role of the Client Relationship Officer (CRO)

In 2015 the BSI group had a total of 1,850 staff including 677 front-office employees, of whom 398 were CROs (*refer to **Exhibit 4** for details*).[11] Brunner strove to raise the bank's profile in Asia to enhance its ability to attract new CROs. BSI Asia employed 68 CROs, mostly located in Singapore. The AUM per CRO was CHF 220 million, 17% higher than the CHF 188 million in 2010. In private banking, a client's central point of contact was the relationship manager (also known as CRO), who functioned as an intermediary between the client and the bank. The CRO was supported by a team of financial advisors. He or she managed the relationship on behalf of the bank and earned a commission based on a percentage of the assets that he or she brought in. Experienced relationship managers carried over many of their clients (including the assets) when they moved job from one bank to another. Global demand for relationship managers was expected to rise 13% in 2012, while growth in the Asia-Pacific region would be double that. This pushed top salaries in Singapore to almost twice the level of those in Switzerland. Senior private bankers in Singapore earned between US$160,000 and US$410,000 a year, while the comparative range in Switzerland was US$152,000 to US$210,000, according to London-based recruitment firm EMA Partners International.[12]

The BSI group launched an *operational excellence program* in 2014 aimed at increasing profitability and competitiveness in the long term. In addition to focusing its strategy on the markets and segments, it also took measures to reduce operating and personnel costs. BSI embarked on workforce reduction with the aim of eliminating 160 positions globally by 2016. Not surprisingly, there was intense pressure on the relationship manager to garner assets. They were increasingly expected to be able to handle complex requests with the technical competence to call upon the correct specialists across various disciplines to best serve the client and be versatile with digital tools. BSI Singapore's website indicated:

> Each of our clients can depend on their private banker, together with the support and advice of our investment and wealth solutions specialists, to create a personal investment strategy that reflects our holistic and truly open-architecture approach to helping you to manage your wealth.[13]

Financial Results

BSI Singapore achieved an operating profit for the first time in 2013 and went on to double its net profit in 2014. Brunner was encouraged as Asia continued to contribute significantly to the group's growth in terms of both AUM and revenues. AUM from Asia made up about 20% of the group total in 2014 compared to 8% in 2011. No region accounted for more than 20% of the total AUM, which indicated that the BSI group had succeeded in attaining geographical

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[11] Frontline staff also included 77 investment specialists and 189 private banking assistants.

[12] Vallikappen, Sanat and Stephanie Tong. "Millionaires Help Asia Private Bankers Earn more than Bosses." *Bloomberg*, 7 September 2011.

[13] BSI Bank (Singapore) Ltd. Accessed 8 June 2016, at https://www.bsibank.com/en/Group-sites/Singapore.html#tab-01

diversification. As at 31 December 2014, the BSI group had AUM of CHF 92.3 billion and loans of CHF 11.7 billion, with more than 83% being held by HNWIs and UHNWIs (*refer to* ***Exhibit 5*** *for BSI's revenue-generating AUM*[14] *growth and* ***Exhibit 6*** *for AUM breakdown by clients and asset class*).

BSI Singapore's growth trajectory had coincided with the accelerated growth of Singapore and Hong Kong as new private banking hubs for the world's wealthy, driven by a crackdown on Switzerland as a tax haven (*refer to* ***Exhibit*** *7 for Singapore's growth as a global wealth management center*). Switzerland had come under enormous pressure to stop allowing foreigners to use its bank secrecy laws to evade taxes in their home countries. UBS, the nation's biggest lender by assets, admitted wrongdoing in helping Americans to hide money from tax authorities and agreed to hand over the names of more than 4,500 US account holders. UBS paid a $780 million fine, ending decades of Swiss banking secrecy.[15] To defer or avoid criminal prosecution, several Swiss banks also agreed to provide account information and pay penalties.[16] Following a proactive and productive dialogue, the BSI group reached a Non-Prosecution Agreement with the US Department of Justice and resolved its liability arising from its legacy private banking cross-border business by paying US$211 million. Consequently, net profits amounted to barely CHF 2.2 million in 2014. However, the group rebounded with a net profit of CHF 112.5 million in 2015 (*refer to* ***Exhibit 8*** *for financial highlights*).

Also in 2014, Generali sold BSI to Brazilian financial group BTG Pactual for CHF 1.33 billion. Generali had been looking for a buyer since 2013, having decided to dispose of BSI as part of its divestment strategy of non-core assets.

2015: BSI Singapore under Scrutiny

In 2015 the BSI group operated in Switzerland and abroad through a network of nine branches (Bellinzona, Chiasso, Geneva, Locarno, Lausanne, Zurich, Bahrain, Hong Kong and Nassau), one agency (Crans Montana), three representative offices (Istanbul, Montevideo and Panama), five banks (Luxembourg, Monte Carlo, Nassau, Panama and Singapore) and affiliates. However, storm clouds were gathering on the horizon, and BSI Singapore was in the eye of the storm. It had become embroiled in regulatory investigations as the result of a financial scandal involving one of its key clients – 1 Malaysia Development Berhad (*refer to fact sheet*).

[14] Revenue-generating AUM = Assets under management plus loans, excluding assets under custody.

[15] According to information released by the US Internal Revenue Service in 2012, more than 38,000 US taxpayers entered the agency's limited amnesty for undeclared offshore accounts. They paid more than $5.5 billion to resolve issues, with an estimated $5 billion yet to be paid as at 2016.

[16] Sanders, Laura. "More U.S. Taxpayers Admit to Secret Swiss Accounts." *Wall Street Journal*, 1 November 2013.

FACTSHEET: 1 MALAYSIA DEVELOPMENT BERHAD (1MDB)

1MDB was a strategic development company wholly owned by Malaysia's Ministry of Finance. Its purpose was to spur Malaysia's economic development. It raised its own capital and was not directly government funded, aside from an early equity funding. It invested in two areas:

LAND

- Tun Razak Exchange: 70-acre site in Kuala Lumpur to be developed into a financial center.
- Bandar Malaysia: 486-acre urban city to be developed on an air force base site.

ENERGY

- $2.5 billion joint-venture investment fund with Saudi Arabia for oil and gas projects → later dismantled.
- Edra Energy: 1MDB purchased 13 power plants in five countries from two Malaysian companies.

TIMELINE

2009

1MDB was founded by Najib Razak, Malaysia's **Prime Minister,** who was also the country's **Finance Minister** and **Chairman of 1MDB**'s advisory board.

2014

London-based online investigative news agency broke the 1MDB scandal:

1MDB had amassed net debt of US$11 billion

Goldman Sachs helped 1MDB raise more than half the debt via bond deals.

- It underwrote and arranged three bond sales totaling $6.5 billion in 2012 and 2013.
- It made about US$593 million in fees – 9.1% of the money raised – dwarfing what banks typically made from government deals.
- It defended its fees as commensurate with the risk it took by buying the bonds from 1MDB before selling them to other investors.
- Goldman Sachs was under FBI investigation in the US.

2015

Allegations of financial fraud

- Money raised by 1MDB had been siphoned off
- $681 million was transferred to Najib's personal account

2016

After two years of allegations, counter-claims and investigations, there were no arrest warrants for anyone related to 1MDB in Malaysia. But six countries around the world continued to investigate the misappropriation of funds in 2016.

January: The Attorney General cleared Najib of any criminal offenses or corruption, declaring that the $681 million was a gift from Saudi Arabia's royal family, and that most of it had been returned.

March: Auditor General of Malaysia's investigative report on 1MDB was classified under Malaysia's Official Secrets Act and shielded from public release.

April: A 106-page report and transcripts of a parliamentary **Public Accounts Committee** hearing into 1MDB identified at least US$4.2 billion of unauthorized or unverified transactions related to overseas transactions.

May: Bank Negara Malaysia concluded its investigations into financial irregularities involving 1MDB. 1MDB was fined an undisclosed amount for failing to repatriate USD$1.83 billion that it claimed to have invested overseas.

Regulatory Investigations by the Monetary Authority of Singapore (MAS)

BSI Singapore was regulated by the MAS. MAS required banks to abide by three layers of anti-money laundering defense. The first included client-facing functions, the second related to compliance and the third to internal audit. Above all, good governance required an institution's board and senior management to bear ultimate responsibility. In 2011, for the first time, MAS inspected BSI Singapore and found policy/process lapses at the front office and weak enforcement by control functions. The lapses were subsequently rectified. The second inspection by MAS in 2014 uncovered serious shortcomings in BSI Singapore's due diligence checks on assets underlying the investment funds structured for customers. Given repeated findings of weaknesses in the bank's control regime, MAS instructed management to increase scrutiny of the bank's risk management processes and internal controls.

In 2015 an intensive on-site inspection of BSI Singapore revealed multiple breaches of anti-money laundering regulations and a pervasive pattern of non-compliance. This final inspection proved to be the death knell for BSI. MAS's decision to revoke BSIs merchant banking license in Singapore was the first time such an action had been taken against a bank since 1984. Brunner was one of six people whose names were given to the public prosecutor by MAS (*refer to* ***Exhibit 9*** *for details of BSI employees under prosecution*).

The move to shut down BSI Singapore's 11-year-old operations stunned private banking circles in the region and abroad.

Regulatory Investigations by the Swiss Financial Market Supervisory Authority (FINMA)

Following a criminal investigation related to 1MDB, Switzerland's attorney-general found serious indications that at least US$4 billion had been misappropriated from Malaysian state companies. FINMA revealed that BSI's misconduct was particularly serious concerning the statutory due diligence requirements in relation to money laundering and violations of the principles of adequate risk management and appropriate organization. From 2011 to April 2015, there were serious shortcomings in identifying and scrutinizing transactions involving hundreds of millions of dollars linked, in particular, to business relationships with politically exposed persons. Given that 1MDB had about 100 accounts, transactions were executed within the client group and with third parties without the bank adequately clarifying their commercial justification. Some instances revealed by FINMA included:

- A deposit of US$20 million was made for which the bank accepted 1MDB's explanation that the funds involved were a "gift."
- An account was credited with more than US$98 million with no clarification of its commercial background.
- US$20 million were routed through a variety of accounts within the bank on the same day, before eventually being transferred to another bank. This was a clear indication of pass-through transactions typical of money laundering. Nevertheless, the bank failed to properly document or carry out plausibility checks and accepted the explanation that the

beneficial owner of all the accounts was the same person or that the transactions were being executed for "accounting purposes."[17]

Additionally, the fees charged by BSI were above average and out of line with normal market rates. Increased risk was reflected in the substantially higher remuneration paid to the bank employees involved. BSI's senior management did not question why the sovereign wealth fund was using a private bank to provide institutional services and paying excessive out-of-market fees for doing so. The sovereign wealth fund's assets were typically invested through specially created intermediate structures. BSI supported the development of these structures with the aim of achieving a higher level of confidentiality for the investment activities. Ultimately, however, BSI was unable to determine how these assets were invested.

One of the most damning findings was that top management sided with the client advisor (CRO) against the compliance department. In 2012 one employee informed management: "My team is implementing these transactions without really knowing what we are doing and why and I am uncomfortable with this. […] there should be a stronger governance process around all this."[18] In spite of being aware of the situation, BSI management supported the client advisor instead of the compliance department. No corrective action was taken and bonuses were unaffected. The client advisor in question was one of the bank's top earners. FINMA launched enforcement proceedings against two of BSI's former senior managers. FINMA also stated that BSI's subsidiary in Singapore, which was a hub of the bank's business with 1MDB, was not adequately supervised by the bank.

2016: The Aftermath

With the closure of BSI Singapore, group CEO Stephan Coduri, who had been in the role since 2012 and had spent his entire career – since 1989 – at the bank, stepped down in May 2016. He was succeeded by BSI board member Roberto Isolani. The BSI group immediately took steps to strengthen management, appointing a new chief risk officer and a new group legal counsel. Media reports stated that more than a dozen executives who were associated with the 1MDB account or related accounts had left BSI over the previous year.

Under a restructuring plan, BSI would be acquired by a Swiss peer, EFG International, and its ongoing business would be subsumed into EFG. The Singapore subsidiary's assets and liabilities would be transferred to the Singapore branch of EFG or to the parent entity. The financial penalties levied by MAS and FINMA would be paid using BSI's general reserves for banking risks, as BSI remained solvent and had assets in excess of its liabilities and commitments.[19] FINMA also stipulated that none of the bank's top management responsible for the misconduct could take up leadership positions at EFG. Post-merger, the newly created entity would become the fifth largest Swiss private banking group listed on the SIX Swiss Exchange with more than CHF 170 billion in AUM. The BSI group would cease to exist as a banking entity.

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[17] "BSI in Serious Breach of Money Laundering Regulations." FINMA press release. 24 May 2016.

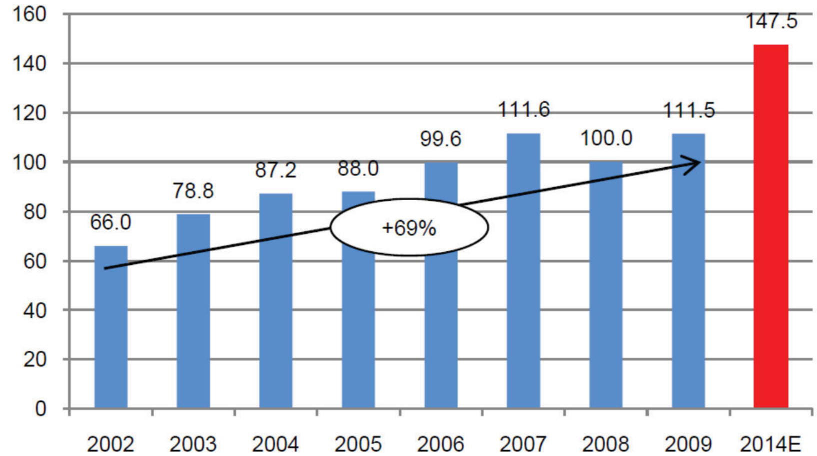
[18] "BSI in Serious Breach of Money Laundering Regulations." FINMA press release. 24 May 2016.

[19] "Clarifications on News about BSI Bank Ltd Singapore: The Bank Continues to Operate Normally." BSI Press Release, 25 May 2016.

The Crux of the Matter

The BSI group's aggressive growth in Asia was spurred by three factors: (1) the prospect of a sharp decline in its wealth management business in Switzerland; (2) an economic slowdown in Europe; and (3) growing economies and an increasing number of HNWIs in the region. Despite being a small private bank, BSI Singapore had achieved successful growth by orchestrating a team of specialists – investment planners, relationship managers and financial advisory experts – to provide a level of intelligent, informed strategic coordination unlikely to be available from a retail bank. With its long history in wealth management, BSI was aware that private banking inherently posed higher money laundering risks and it had the expertise in navigating such risks. So, what went wrong? Perhaps corruption and complexity in managing compliance in emerging countries were new challenges for BSI. What were the factors that led to the demise of BSI? Did the lure of lucrative business persuade it to cross the line in terms of ethical behavior and regulatory requirements? What were the failings of senior management? How could BSI have better managed the balance between risk management and its growth strategy?

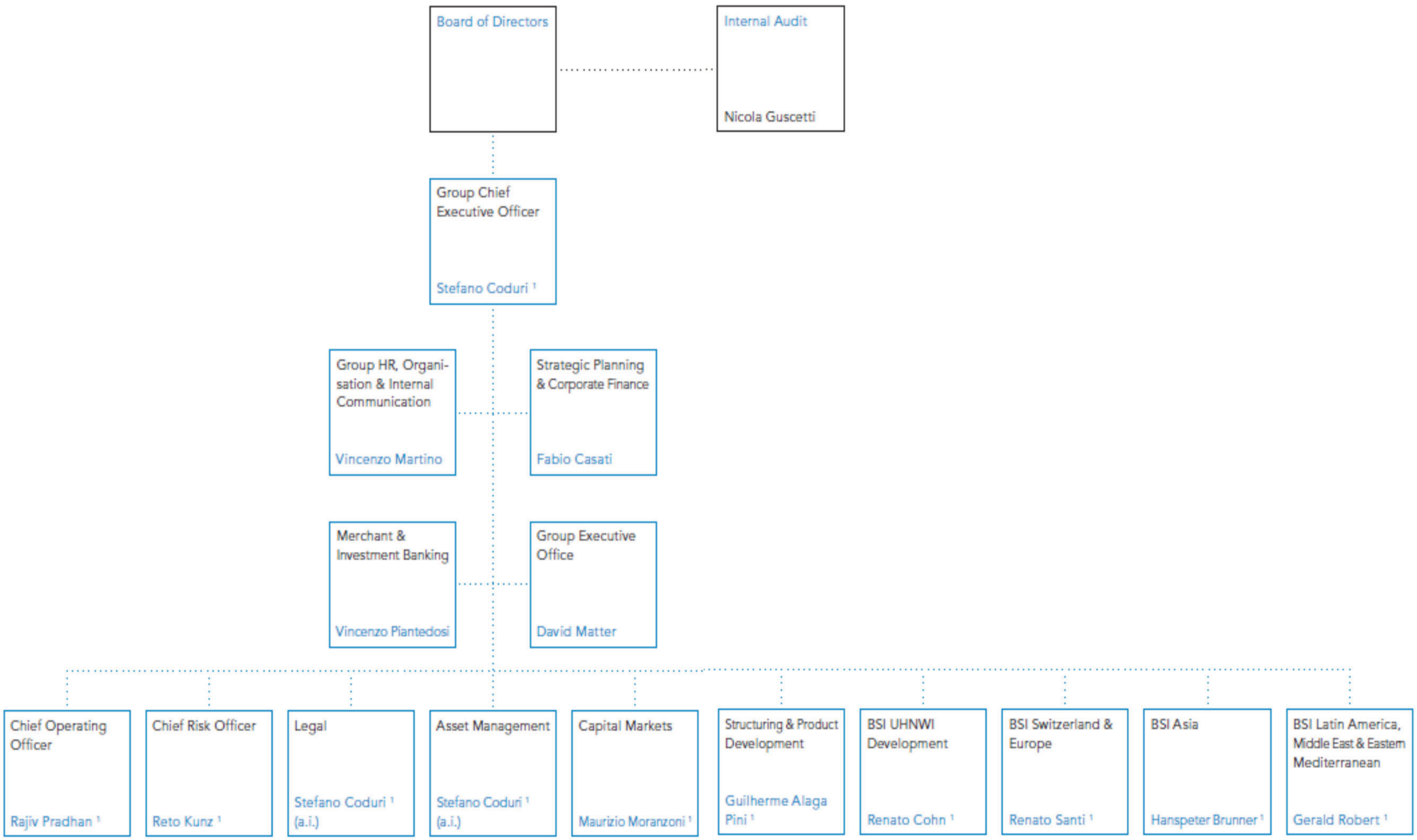
Exhibit 1
Global Assets 2002–2009
US$1,000 billion



Note. Global asset volume comprises assets that could potentially be managed

Source: "Wealth Management in Switzerland: Status Report and Trends." Swiss Bankers Association, February 2011.

Exhibit 2
BSI Bank Organizational Structure (2015)



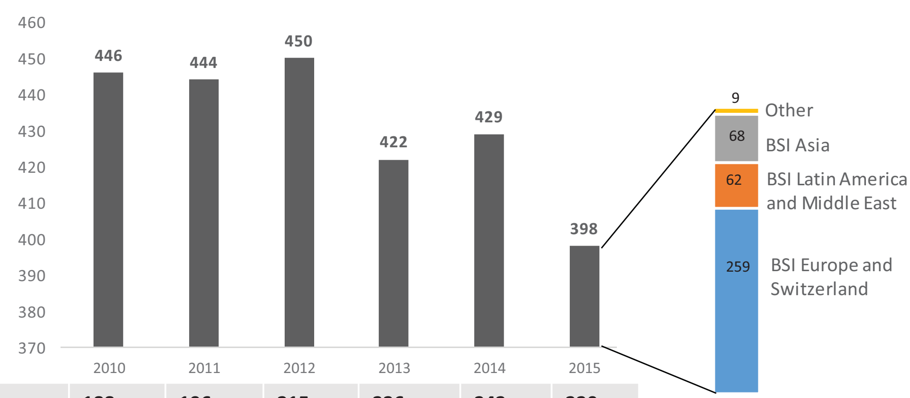
Source: BSI Annual Report 2015

Exhibit 3
BSI Singapore: Service Portfolio

Investment Advisory • Active advisory • Strategic advisory • Discretionary asset management	**Investment Funds** • Long funds • Alternative funds
Trade Execution • Securities trading • Direct access • FX, equities, fixed income options, commodities	**Wealth Planning** • Trust and fiduciary services • Universal life insurance
Structured / Alternative Products • Structured products • Derivatives • Alternative investments	**Other Services** • Basic banking • Concierge • Charge card • Art advisory

Source: BSI Bank Singapore Ltd Website https://www.bsibank.com/en/Group-sites/Singapore.html#tab-01

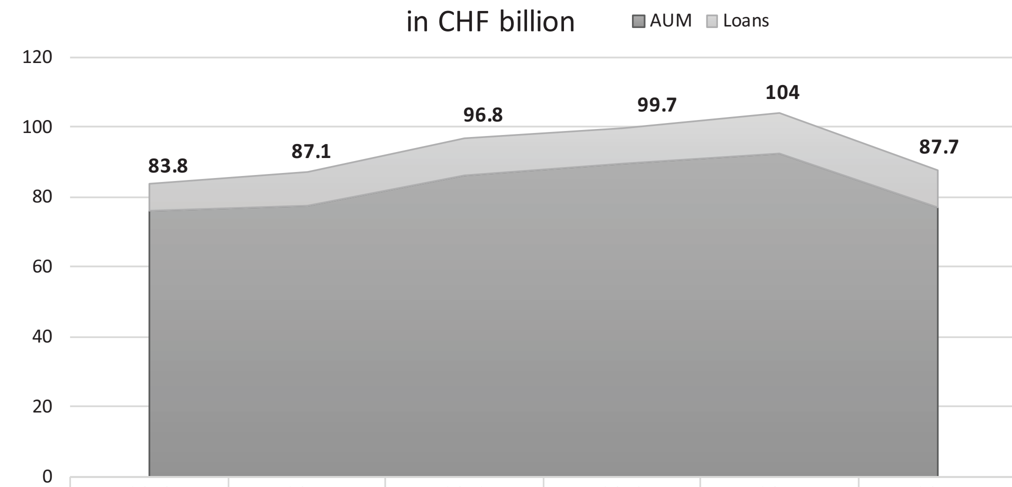
Exhibit 4
BSI Group: Number of CROs and Revenue-generating AUM per CRO



Revenue-generating AUM per CRO (CHF mn)	**188**	**196**	**215**	**236**	**242**	**220**

Source: Based on unaudited IFRS financials, in "EFG International and BSI Joining Forces." Update call presentation, Zurich, 31 March 2016

Exhibit 5
BSI Group: Growth in Revenue-Generating AUM
(Revenue-generating AUM = AUM plus loans, excluding assets under custody)



	2010	2011	2012	2013	2014	2015
Loans	7.6	9.4	10.5	10.3	11.7	10.4
AUM	76.2	77.7	86.3	89.4	92.3	77.2
Total	83.8	87.1	96.8	99.7	104	87.7

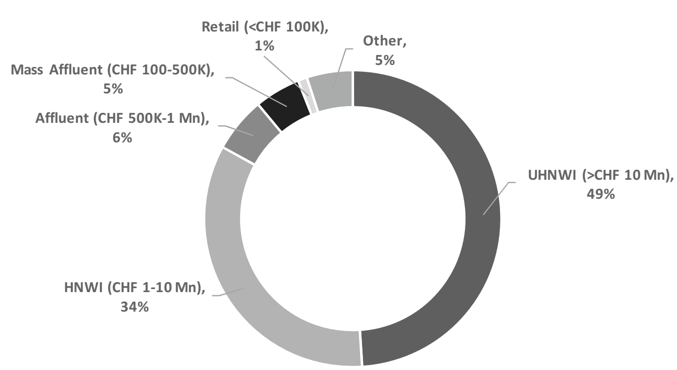
Revenue-generating AUM grew at 6% CAGR from 2010 to 2014

From 2014 to 2015 AUM impacted by
- Exit of businesses in Asia and non-core countries
- Uncertainties created by the sale of BSI by Generali to BCG Pactual

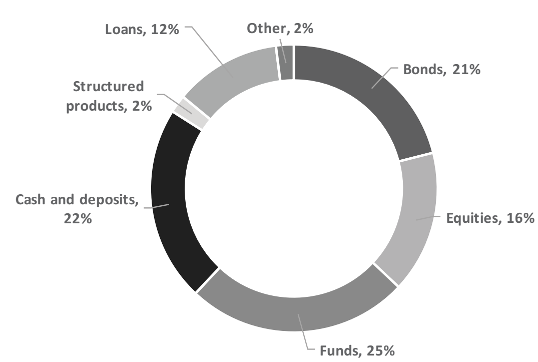
Source: Based on unaudited IFRS financials, in "EFG International and BSI Joining Forces." Update call presentation, Zurich, 31 March 2016

Exhibit 6
BSI Group: Breakdown by Client Profile and Asset Class of Revenue-Generating AUM

Client profile (2015)



Asset class (2015)



Source: Based on unaudited IFRS financials, in "EFG International and BSI Joining Forces." Update call presentation, Zurich, 31 March 2016

Exhibit 7
Growth of Singapore and Hong Kong as Wealth Management Centers

International private client market volume in the leading wealth management centers (in US$ trillion and as percentage market share

WM centre	2008	2009	2010	2011	2012	2013	2014A	Δ 2008-2014
Switzerland	1.79 20%	1.77 19%	1.81 20%	1.74 21%	2.01 23%	2.14 23%	2.04 22%	0.25
United Kingdom	1.45 16%	1.61 18%	1.63 18%	1.52 19%	1.67 19%	1.73 19%	1.65 18%	0.19
United States	1.12 12%	1.03 11%	0.97 11%	1.08 13%	1.21 14%	1.31 14%	1.43 16%	0.31
Panama & Caribbean	1.77 20%	1.68 18%	1.74 19%	1.21 15%	1.03 12%	1.09 12%	0.93 10%	-0.84
Hong Kong	0.26 3%	0.31 3%	0.32 4%	0.34 4%	0.43 5%	0.53 6%	0.64 7%	0.37
Singapore	0.38 4%	0.43 5%	0.42 5%	0.36 5%	0.36 4%	0.42 5%	0.47 5%	0.09
Luxembourg	0.27 3%	0.27 3%	0.22 2%	0.21 3%	0.24 3%	0.30 3%	0.29 3%	0.02
Bahrain & United Arab Emirates	0.07 1%	0.09 1%	0.07 1%	0.06 1%	0.06 1%	0.06 1%	0.06 1%	-0.01
Other	1.88 21%	1.93 21%	1.77 20%	1.63 20%	1.68 19%	1.70 18%	1.67 18%	-0.21
Total	9.01	9.14	8.97	8.21	8.71	9.30	9.20	

Source: Deloitte Wealth Management Database   A Annualised   % Share of total IMV   Winning centres   Losing centres
Other: Austria, Belgium, Channel Islands, Germany, Ireland, Liechtenstein, Monaco

Note: The sequence in this overview corresponds to the ranking of international wealth management centers in 2014 in terms of International Market Value.

Source: The Deloitte Wealth Management Centre Ranking 2015

Exhibit 8
BSI Group Financial Highlights

BSI Group	2015	2014
	CHF 1'000	CHF 1'000
Profit and loss statement		
Net operating result	816'560	868'988
Operating expenses	-609'740	-698'657
Value adjustments on participations and depreciation	-40'588	-42'310
Changes to provisions and other value adjustments, and losses	-13'259	-185'844
Operating result	**152'973**	**-57'823**
Extraordinary income / expenses	8'276	12'947
Changes in reserves for general banking risks	-16'975	60'303
Taxes	-31'753	-13'180
Group profit	**112'521**	**2'247**
Balance sheet		
Total assets	20'993'133	23'974'401
Shareholders' equity, including profit / loss of the Group	1'794'227	1'672'978
	CHF million	**CHF million**
Client assets (including assets under custody)		
Total	84'274	94'022
Headcount (in FTEs)	**Unit**	**Unit**
Total	1'850	1'928
of which:		
in Switzerland	1'202	1'280
abroad	648	648
Capital ratios (Basel III)	**%**	**%**
Total Capital Ratio	22.78	17.08
CET 1 Ratio	21.91	16.29

BSI Ltd.	2015	2014
	CHF 1'000	CHF 1'000
Profit and loss statement		
Net operating result	674'177	689'809
Operating expenses	-455'682	-520'502
Value adjustments on participations and depreciation	-38'631	-41'151
Changes to provisions and other value adjustments, and losses	-12'094	-172'090
Net result for the year	**167'770**	**-43'934**
Profit / Loss of the period	**153'413**	**-21'068**
Balance sheet		
Total assets	18'287'554	20'205'090
Shareholders' equity after appropriation of net result for the year	1'663'425	1'493'495

Source: BSI Annual Report 2015

Exhibit 9
BSI Singapore Employees under Prosecution

Hans Peter Brunner, former CEO: Swiss national, became a Singapore permanent resident in 2005. Joined BSI in 2009 after an unceremonious exit from RBS Coutts, where he was Asia chief; embroiled in lawsuit with RBS Coutts over his bonus. Retired in March 2016.

Raj Sriram, former deputy CEO: Joined BSI in December 2009 as deputy CEO Asia and head of private banking South and Southeast Asia. He worked at RBS Coutts as the head of private banking for North Asia and was among the group of bankers who left RBS Coutts for BSI in 2009. He resigned from BSI in April 2016.

Kevin Michael Swampillai, head of Wealth Management Services: Suspended by the bank after it began investigating its employees amid the ongoing 1MDB probe.

Yak Yew Chee, former senior private banker: One of the 100 or so bankers who left RBS Coutts in late 2009 for BSI. Clients included Malaysian financier Jho Low, who was linked to the 1MDB scandal. He reportedly earned more than S$27 million in salary and bonuses from BSI from 2011 to 2015. Left BSI in February 2016.

Yeo Jiawei, former wealth planner: Was held on remand as at May 2016, facing nine charges, including money laundering, forgery, cheating and obstruction of justice. The prosecution said he was believed to have received secret profits totaling about US$18 million. He was part of the team managed by Kevin Michael Swampillai (named above). On 27 May 2016, the Singapore High Court revoked his bail and moved him to Changi Prison.

Yvonne Seah Yew Foong: former senior private banker.

Source: "Who the Six Are." *Today* (Singapore), 25 May 2016