Independent Asset Management

June 2021

Credit Suisse

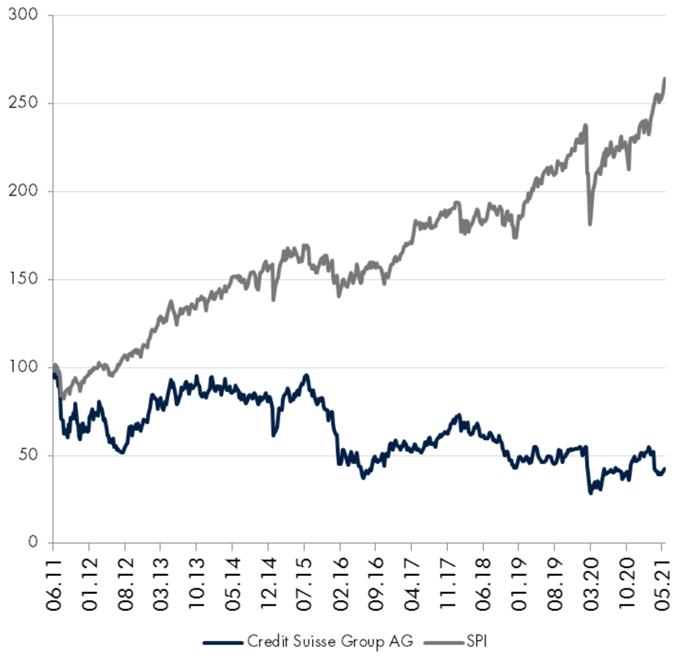
Market profile

Country	Switzerland
Sector	Bank
Market cap (CHF million)	25'288
52-week high / low (CHF)	13.43 / 8.40
Price per share (CHF)	9.54

Key metrics (CHF)

	2020	2021e	2022e
EPS	1.71	1.52	1.69
PE	6.67	8.91	6.26
P/Book	0.51	0.52	0.50
Dividend yield	2.60%	1.92%	2.60%

Evolution of stock price with respect to benchmark (rebased)
Source: IAM



Executive summary

Founded in 1856, Credit Suisse has today a global reach with operations in about 50 countries and over 48'000 employees from 150 different nations. The bank is organized in three regionally focused divisions: Swiss Universal Bank, International Wealth Management and Asia Pacific. These regional businesses are supported by the Investment Bank division.

Credit Suisse had a particularly rough first quarter 2021 as it was impacted by two major issues: the Greensill and Archegos cases.

As a result of these events, Credit Suisse's share price plummeted 20% from 26th to 31st March's 2021, wiping out over CHF 6 billion of market value in a few days.

Investment case

The bank was able to raise fresh capital through the issuance of a CHF 1.7 billion mandatory convertible note. Although this will help shore up capital, it will not put an end to the bank's troubles. The Greensill and Archegos cases cast serious doubts on Credit Suisse risk control frameworks, its corporate culture as well as governance. We find it disturbing that the CEO, Mr. Gottstein, considers the group's current strategy as "sound". However, the new chairman, Mr. Horta-Osorio, will conduct a comprehensive strategic review and we expect more clarity on the role of the investment bank and the asset management divisions. In the meantime, the reputation loss, the negative news-flow from the FINMA proceedings and former clients' class actions, will bring more uncertainties and may negatively impact the bank's earnings power.

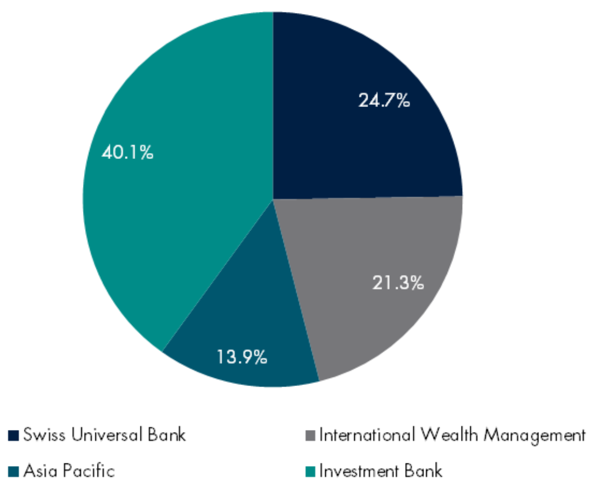
Credit Suisse

Olivier Aeschlimann, Senior Financial Analyst **June 2021**

Company description and history

Founded in 1856, Credit Suisse has today a global reach with operations in about 50 countries and over 48'000 employees from 150 different nations. The bank is organized in three regionally focused divisions: Swiss Universal Bank, International Wealth Management and Asia Pacific. These regional businesses are supported by the Investment Bank division.

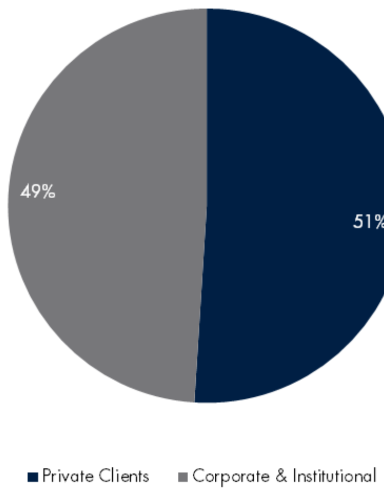
Fig.1: Net revenues 2020 by divisions
Source: Credit Suisse



Swiss Universal Bank

This division offers comprehensive advices and a broad range of financial solutions to private, corporate and institutional clients primarily domiciled in Switzerland. Switzerland is the bank home market and is expected to remain a key market for the Group and is core to the overall strategy. Within Swiss Universal Bank, Credit Suisse combines all the strengths and critical mass of the retail, wealth management, corporate, institutional and investment banking activities.

Fig.2: SUB's Pre-Tax Income 2020 by segments
Source: Credit Suisse



International Wealth Management

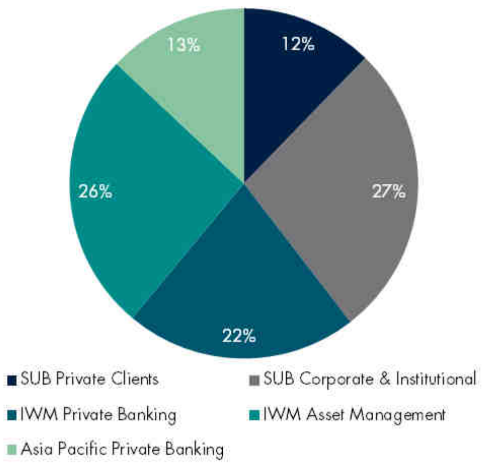
This division is an integrated wealth manager catering to the needs of the private, corporate and institutional clients of the bank by offering expert advice and a broad range of financial solutions. It is divided in two parts:

Private banking: this segment offers comprehensive advisory services and tailored investment and financing solutions to wealthy private clients and external asset managers in Europe, the Middle East, Africa and Latin America.

The Asset Management business offers investment solutions and services globally to a broad range of clients, including pension funds, governments, foundations and endowments, corporations and individuals.

Credit Suisse's capabilities span across a diversified range of asset classes, with a focus on select traditional and alternative strategies.

Fig.3: Asset under management by divisions 2020
Source: Credit Suisse



Asia Pacific

The Asia Pacific division delivers an integrated wealth management offering, spanning private banking, financing, underwriting and advisory to ultra-high net worth individuals, entrepreneurs and corporate clients. The comprehensive suite of wealth management capabilities includes investment funds, discretionary mandates, wealth planning services such as family office and philanthropy advisory, lending solutions, debt and equity underwriting of public offerings and private placements, and advisory related to M&A. A close collaboration with the other divisions of the bank globally support and enables Credit Suisse's wealth management activities in the region by providing global connectivity, innovative products and holistic solutions to Asia Pacific clients.

Investment Bank

The Investment Bank offers a broad range of financial products and services focused on client-driven businesses and also support Credit Suisse's global wealth management business and their clients. The suite of products and services includes global securities sales, trading and execution, prime brokerage and capital raising and advisory services. The client base includes financial institutions, corporations, governments, sovereigns, ultra-high net worth and institutional investors, such as pension funds and hedge funds, financial sponsors and private individuals around the world.

Official strategy (as of 31.12.2020)

This section will focus on Credit Suisse's official strategy such as described in the company's Annual Report 2020. Since the publication of this report, Credit Suisse's new chairman has been conducting a comprehensive strategic review of the company, following the Greensill and Archegos scandals. We will elaborate on the bank's strategic options later.

Credit Suisse's official strategy is to be a leading wealth manager with strong global investment banking capabilities. From 2015 to 2018, a restructuring phase, the bank has lowered its break-even point through a significant reduction in its cost base, de-risked its investment banking activities and strengthened its capital base. Since then, a series of structural refinement intended to improve effectiveness have been implemented.

The organizational structure consists of three regionally focused wealth management-related divisions: Swiss Universal Bank, International Wealth Management and Asia Pacific, supported by the global Investment Bank. In addition, a new Sustainability, Research & Investment Solutions (SRI) function at the Executive Board level was created. After this first phase of restructuring, Credit Suisse should have entered its growth phase, from 2020 to 2023. The key areas of focus for growth are: accelerate wealth management, generate sustainable Investment Bank returns, and be a leader in sustainability.

Accelerate Wealth Management

Wealth management is one of the most attractive segments in banking. Global wealth has grown significantly in recent years and is projected to to continue to outgrow GDP over the coming years. Credit Suisse aims to capitalise on both the large pool of wealth within mature markets as well as the significant growth in Asia Pacific and other emerging markets.

The entrepreneurs and ultra-high-net-worth individuals segment is expected to be the fastest growing wealth segment especially in the higher growth emerging markets. Credit Suisse wants to position itself as the Bank for entrepreneurs by leveraging its strength in wealth management and investment banking. This should help differentiate Credit Suisse and provide an edge over competitors.

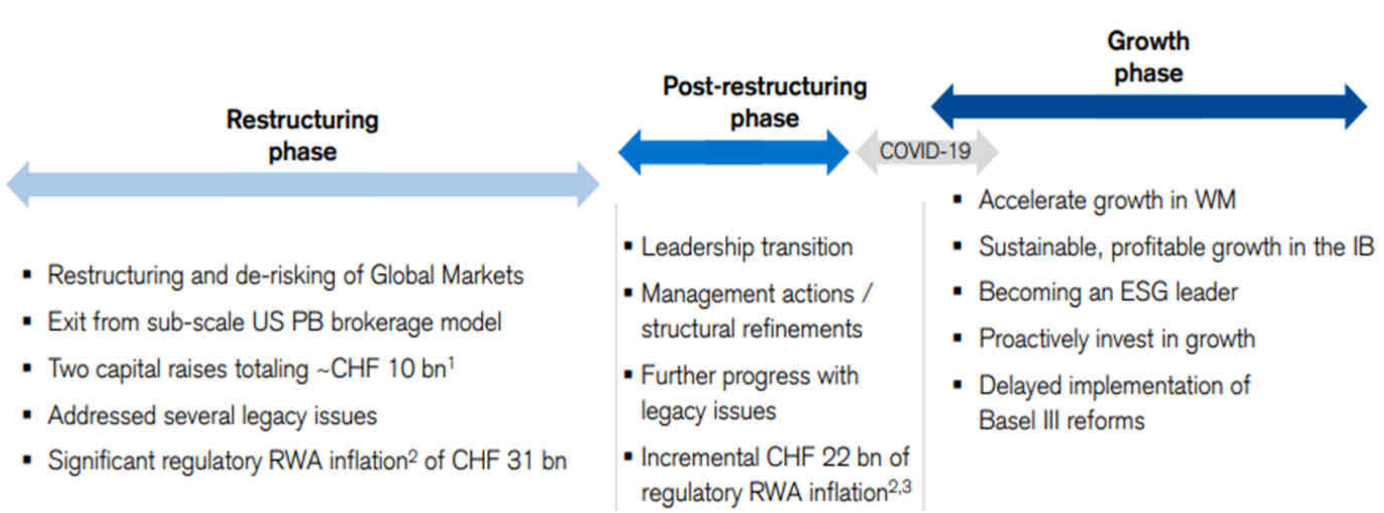
Generate sustainable Investment Bank returns

The Investment Bank business is considered as key to the bank's ability to provide institutional-style solutions as well as capital markets and advisory services to its wealth management clients. A Global Trading Solution (GTS) was created within the Investment Bank through the combination of the International Trading Solution (ITS) and Asia Pacific Solutions. GTS is a joint venture between the Investment Bank and the International Wealth Management, Swiss Universal Bank and Asia Pacific divisions to provide institutional-style solutions to wealth management clients. Credit Suisse intends to continue to strengthen the connectivity to the Wealth Management-related businesses, particularly through the GTS, delivering institutional style solutions to Wealth Management clients.

Be a leader in sustainability

Credit Suisse's commitment to integrating sustainability across its businesses and operations led to the creation of Sustainability, Research & Investment Solutions at the Executive Board level. The bank aims to deliver industry-leading sustainable insights and solutions across wealth management, investment banking, corporate and institutional clients and provide a single "House View" with a focus on super trends and sustainability. Credit Suisse is also committed to driving its own transition, including a commitment to achieve net zero emissions from its operations, supply chain and financing activities no later than 2050, with intermediate emissions goals for 2030. The bank's ambition is to provide sustainable investment solutions at the core of its offering to wealth management clients. Credit Suisse is extending the breadth and depth of its offering by integrating Environmental, Social and Governance into the investment process through a proprietary Credit Suisse Sustainability framework. A board level Sustainability Advisory Committee has been established to oversee the bank's sustainability strategy and its execution and a Sustainability Leadership Committee with senior representatives from each divisions and control functions has also been established to drive and control the strategy.

Fig.4: Credit Suisse's official strategy 2015—2020
Source: Credit Suisse



Financial ambitions

Credit Suisse has established a set of financial ambitions. They are often expressed in metrics that are non GAAP financial measures and are unaudited. For example, the Return on Tangible Equity is based on tangible shareholders' equity, a non GAAP financial measure also known as tangible book value, which is calculated by deducting goodwill and other intangible assets from total shareholders' equity as presented in the balance sheet.

Credit Suisse's financial ambitions are:

1) To deliver a medium-term group return on tangible equity (RoTE) of 10-12%.

2) Aim to increase Wealth Management related income before taxes to between CHF 5.0-5.5 billion by 2023.

3) ntend to deliver a medium term return on regulatory capital of 10-15% at the group level.

4) Drive positive operating leverage, including with continued innovation in digitalization and automation.

5) Continue to accrue for at least 5% dividend growth per annum.

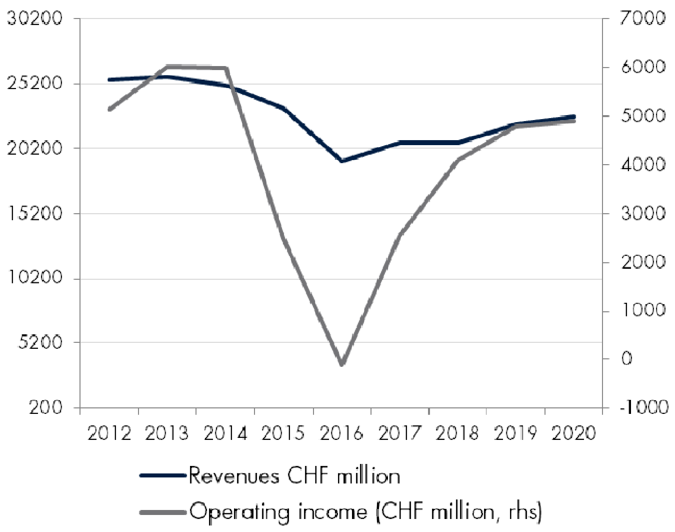
6) Intend to buy back at least CHF 1.0 billion and to maximum of CHF 1.5 billion, subject to market and economic conditions.

Financial analysis

Revenues

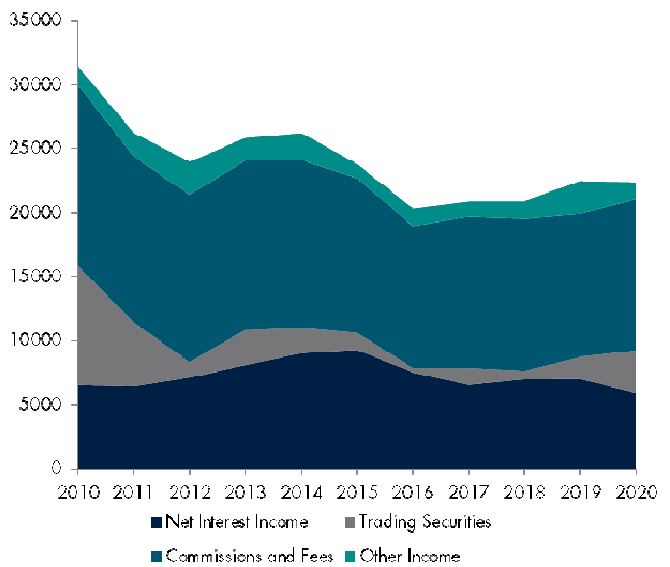
The net revenues and the operating profit of the group have decreased over the last decade. This illustrate the many challenges the banking industry had to face, from more stringent regulation to the entry of new competitors and negative interest rates. However, the worst may now be over and 2020 was, despite the pandemics, a relatively good year, especially for the Investment Banking division.

Fig.5: Credit Suisse's revenues and operating income
Source: Credit Suisse



Over the decade, the business mix has also changed, reflecting the evolution of the macro and regulatory environment. As a result of lower or even negative interest rates, the net interest income has regularly decreased since 2015 and the income for securities trading has been quite volatile.

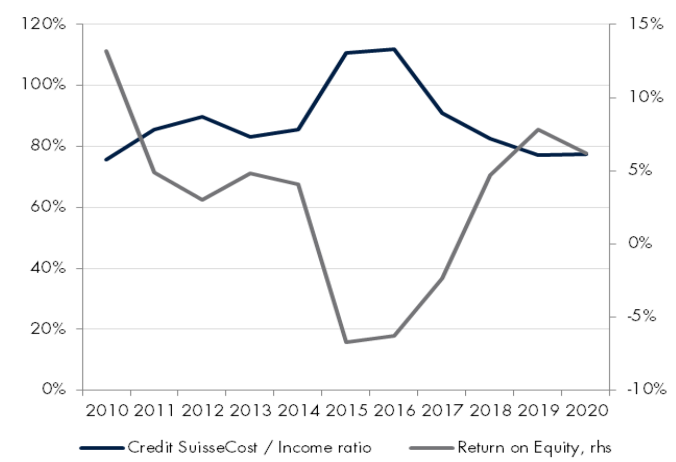
Fig.6: Evolution of the business mix
Source: Credit Suisse



Profitability

The group has achieved good progress in cost efficiency and has achieved a cost/income ratio of 71.9 in 2020%. In terms of return on CET1 Capital however, Credit Suisse is still far from achieving a return of10-15%.

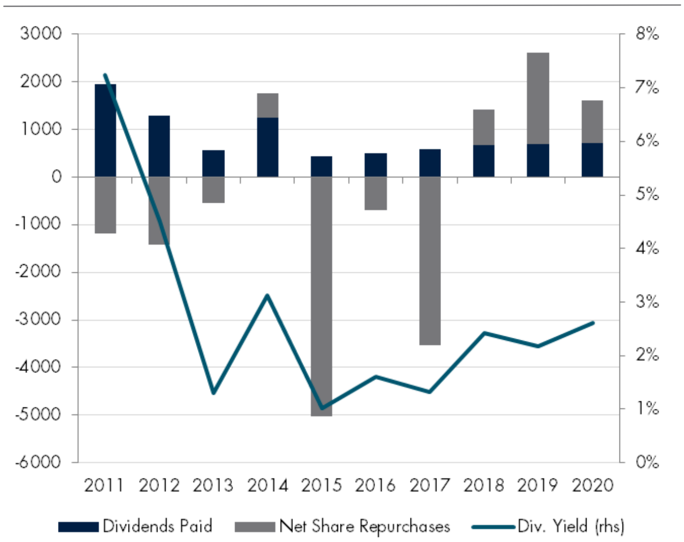
Fig.7: Efficiency ratio and return on equity
Source: Credit Suisse



Capital distribution

Among its priorities, Credit Suisse wants to maintain an attractive capital return profile through dividends and buybacks. In 2020, dividends grew by 2.9% and the bank bought back shares for CHF 1.6 billion. The dividend yield was 2.9% and with the buy backs, the total yield reached 5.9% .

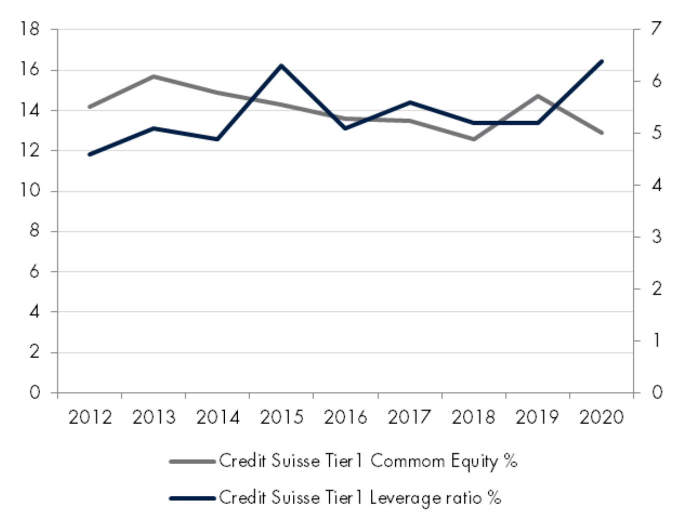
Fig.8: Dividends and buybacks
Source: Credit Suisse



Strong balance sheet

The investment bank is at the core of Credit Suisse's strategy; therefore, a strong balance sheet is a must, as investment banking is a more volatile business. An important indicator of balance sheet strength is the Tier1 leverage ratio. It compares a bank's Tier1 capital (those assets that can be easily liquidated if the bank needs capital in the event of a financial crisis) to its total assets to evaluate how leveraged the bank is. A ratio above 5 is deemed to be an indicator of strong financial footing for a bank. As of the end of 2020, Credit Suisse Tier1 leverage ratio was 6.4.

Fig.9: Tier 1 common equity and leverage ratios
Source: Credit Suisse



Recent events casting doubts on Credit Suisse's strategy

Credit Suisse had a particularly rough first quarter 2021 as it was impacted by two major issues: the Greensill and Archegos cases.

Grennsill

Credit Suisse had lent money (USD 140 million) to Gren-sill Capital, a financial services company based in the UK and Australia, specialized in supply chain financing. In addition, and probably as a result of the synergies between the Investment Bank and the Wealth Management divisions, private clients of Credit Suisse had exposure to Greensill investment products for a total amount of USD 10 billion. In July 2020, a group of insurers led by Tokyo Marine, announced to Greensill that it would stop providing their insurance coverage. Greensill attempted in vain to secure insurance from other firms. Following Tokyo Marine's decision, Credit Suisse froze the USD 10 billion in funds that were invested in Greensill's finanacial products. On 8th March 2021, Greensill filed for insolvency protection, as it found itself unable to repay the USD 140 million due to Credit Suisse. As of 25th March 2021, Credit Suisse estimated that the investors in the Greensill supply-chain funds could face losses of up to USD 3 billion.

Archegos Capital Management

Archegos was the family office of Mr. Hwang. In 2012, Mr. Hwang changed the name of its Hedge Fund, formerly known as Tiger Asia into Archegos after the settlement of a USD 44 million civil lawsuit. Credit Suisse was one of Archegos prime broker. A prime broker helps hedge funds make trades and lend them capital in the form of margin lending. Mr. Whang took large positions in some Chinese equities through swaps. When these equities started to fall, Archegos' brokers started sending margin calls, requiring Archegos to top up its accounts with more cash.

When it failed to meet that demand, the investment banks tried to minimize potential exposure to losses by selling shares and other assets from the Archegos' accounts. But lenders like Credit Suisse have taken a hit after failing to recoup losses through the sell-off. Credit Suisse has been rattled by the collapse of Archegos, having been forced to take a CHF 4.4 billion charge in the first quarter 2021 and warning of a further CHF 600 million hit as it was unwinding the rest of Archegos' positions.

Prime brokerage services to hedge funds like Archegos can be very lucrative. This is probably the reason why Credit Suisse has not been very careful in tis risk control processes, which led the bank to risk nearly half its equity (approximately CHF 20 billion) with a single client (and what a client).

Consequences of these events

As a result of these events, Credit Suisse's share price plummeted 20% from 26th to 31st March's 2021, wiping out over CHF 6 billion of market value in a few days.

To stem the erosion of its equity, Credit Suisse's first action was raise CHF 1.7 billion of fresh capital. Moreover, the dividend was lowered to CHF 0.1 instead of the CHF 0.29 initially planned. In addition, Mr. Gottstein, the recently appointed CEO, fired the Chief Risk Officer and the head of the Investment Banking division. However, these actions seem very superficial in regard of the damages and Credit Suisse's new Chairman; Mr. Horta-Osorio will conduct a comprehensive audit of the bank and propose some strategic options in order to reinstate confidence among the employees, shareholders and clients of the group.

Extent of the damage

The first quarter financial losses (ironically at a time when business fundamentals seemed to be improving) are just the harbinger of more serious problems. We consider the reputational risk as a key issue for Credit Suisse in the mid-term. This could materialise by the loss of key talents, the departure of important clients and the inability to increase asset under management. As former clients are mulling a class action against the bank and the Swiss authorities start to investigate Credit Suisse's governance, the negative news flow will continue to impair the bank's ability to grow its business. In addition, the strategy consisting of creating synergies between the investment bank and wealth management clearly showed its limits through the increased risk of conflicts of interests. Barely a year after the forced departure of its former CEO, Mr. Thiam, following a spy scandal, Credit Suisse is once again embroiled in affairs seriously questioning its governance and corporate culture. Mr Gottstein, the new CEO, said he believes Credit Suisse strategy is sound. This is surprising given the repeated failures of recent years. Moreover, trying to capture market share in such a hypercompetitive environment just incited Credit Suisse to take inconsiderate risk. The bank is now paying the hard price of pursuing this "sound strategy".

Potential remedies

Credit Suisse' new Chairman, Mr. Horta-Osario announced that he wanted to closely examine the three key areas of risk management, strategy and corporate culture. Below are some potential avenues that could be explored.

1) Review of risk management and risk appetite. This is a must as the bank has no longer the capability to assume such a high level of risk and will have to reposition its investment banking activities.

2) Amending the business model. The group may need to decrease the size of its investment bank and redeploy capital towards wealth management activities. Credit Suisse may keep only the investment banking business that is truly in synergy with the private bank. The question should be asked to what extent maintaining a capital intensive rates sales & trading business is very useful for the private bank.

3) It credit Suisse goes into the direction of points 1 and 2, the corollary should be to align the reporting structure with the one of a wealth management bank.

4) Although Mr. Gottstein declared that the asset management was not for sale, this option cannot be ruled out. Actually the division doesn't have the size to compete globally and its barbell strategy (focus on passives and alternatives) has failed to deliver convincing results. However, the value of the division may be hampered by the Greensill case and the potential cost of compensation of the Greensill funds investors.

5) The sale of the asset management division could help finance acquisitions in the wealth management sector.

Investment case

Credit Suisse was able to raise fresh capital through the issuance of a CHF 1.7 billion mandatory convertible note. Although this will help shore up capital, it will not put an end to the bank's troubles. The Greensill and Archegos cases cast serious doubts on Credit Suisse risk control frameworks, its corporate culture as well as governance. We find it disturbing that the CEO, Mr. Gottstein, considers the group's current strategy as "sound". However, the new chairman, Mr. Horta-Osorio, will conduct a comprehensive strategic review and we expect more clarity on the role of the investment bank and the asset management divisions. In the meantime, the reputation loss, the negative news-flow from the FINMA proceedings and former clients' class actions, will bring more uncertainties and may negatively impact the bank's earnings power.

SWOT analysis

Strengths:

The Swiss Universal Bank is profitable and a market leader.

A good wealth management franchise with focus on UHNWIs, entrepreneurs and Asia.

Weaknesses:

Deficient risk management framework and corporate culture.

Governance uncertainties and lack of credible strategy.

Still low profitability.

Opportunities:

Well positioned to capitalize on the growing number of billionaires in Asia.

External growth to expend in Asian markets.

Threats:

Negative news flow from recent scandals and class actions from former clients.

Disruption by new competitors, neo-banks.