Lloyds Chambers 1 Portsoken Street
London E1 8HZ
Tel: 020 7702 0888 Fax: 020 7702 9452
www.hermes.co.uk

INVESTMENT NOTE **16 April 2014**

Credit Suisse buoyed by wealth arm as trading tumbles

Filippo Alloatti, Senior Research Analyst at Hermes Credit, comments on Credit Suisse Q1 2014 results released today:

Results recap

Overall, Credit Suisse failed to meet market expectations – with net income down 34% year-on-year to CHF859m, missing the headline estimates by about 20%. It is also worth noting consensus expectations were low – given the company's recent habit of missing estimates.

However, it was not all doom and gloom for the Swiss giant, with its wealth management operations posting almost twice the expected level of net inflows at CHF10.6bn. The 5.4% annualised figure is very strong. In Asia Pacific and Switzerland, the lending initiative seems to be bearing the first fruits.

Driving the earnings miss was expected weaker performance in the core investment bank, which has little cost flexibility. Investment bank revenues of CHF3.6bn missed consensus by 4%, while FICC revenues were down circa 20% year-on-year. There were though, some signs of life in primary investment banking revenues, with a good performance from debt underwriting of CHF 468mn. However, some large losses were booked at the corporate centre.

Moving to the balance sheet, capital was flat quarter-on-quarter at 10%, against consensus of 10.6%. This is down to risk-weighted assets (RWA) increasing CHF14bn to CHF280bn, largely due to a methodology change. The look-through Swiss leverage ratio was 3.7% as of end of Q1. Comments late last year from the Swiss finance minister and more recently from the UBS chair have re-opened the debate around the leverage ratios for Swiss banks. An increase to 5% - in line with US bank holding companies - is achievable over time. The capital rebuild (CET1) and de-leveraging (RWA, leverage exposure) are close to the 2019 required ratios.

Business model adjustments

The current strategy of keeping a leaner investment bank together with the wealth management operations has so far been punished by the market, but the jury is still out. RWA reduction in market risk exposures has clearly had a heavy P&L cost, but lower earnings volatility is expected going forward. Credit Suisse's investment bank was ranked 8th globally by total revenues in 2013. It performed well in US high yield, mortgages and IPOs. The IB's cost/income ratio is almost at its target, circa 70%, ex-non-strategic.

The strong wealth management franchise has historically provided the group with a stable source of earnings and a stable customer based. Liquidity is managed centrally, which is important. Even though corporate loans only make up a quarter of the group's balance sheet, the loan-to-deposit ratio is very healthy at about 80%. The stability of wealth management will help mitigate the volatile activities in investment banking. The group, even under the demanding Basel III regime, remains a highly free-cash flow generative business.

Contingent liabilities, litigation and conduct costs have been – like so many global investment banks – the wildcards over the last few years. An additional provision of CHF468m for US tax-related issues was taken in 2013. Credit Suisse is addressing this by repositioning its wealth management franchise in the US. With two major litigation cases either settled (with the FHFA) or closer to a settlement (DoJ -Swiss tax dispute), the 2014 legal cost might be lower than the previous year.

-ENDS-

For further information, please contact:

Hermes Fund Managers

Jeannie Dumas	Melanie Shelley	Katie Sunderland
+44 (0)20 7680 2152	+44 (0) 20 7680 2110	+44 (0)20 7680 2315
j.dumas@hermes.co.uk	m.shelley@hermes.co.uk	k.sunderland@hermes.co.uk

Notes to Editors:

Hermes Fund Managers
Hermes is focused on delivering superior, sustainable, risk adjusted returns for our clients – responsibly.

We believe in **Excellence**, **Responsibility** and **Innovation**

- **Excellence:** We aspire to excellence in everything we do. This manifests itself most visibly in our investment performance. We will only offer products to our clients where we believe there is a strong investment thesis and where we can deliver sustainable alpha.

- **Responsibility:** We believe it is our responsibility to lead discussion and debate about the fiduciary responsibilities of fund managers to our clients, their stakeholders and, ultimately, society at large. We have always sought positive engagement with the firms in which we invest.

- **Innovation**: We have the entrepreneurial culture to identify forward-looking products that meet those needs, along with the resources and speed-to-market mentality to develop them rapidly.

Our structure provides wholesale, institutional and pension fund clients globally the benefit of access to a broad range of specialist, high conviction investment teams operating within an established and robust operating platform.

Hermes' investment solutions include:

- **Fixed Income**: Inflation-Linked, Government Bonds, Investment Grade, High Yield
- **Alternatives**: Commodities, Hedge Fund Solutions, Infrastructure, Private Equity
- **Equities**: Global, Emerging Markets, Small & Mid Cap, Europe, Asia Ex Japan
- **Real Estate**: Segregated, Unitised, Debt, UK, US Residential, European

Hermes manages assets on behalf of more than 200 clients* across these investment areas with £26.3 billion* assets under management. In Hermes Equity Ownership Services, we have one of the largest engagement resources in the industry, advising on more than £98 billion* of assets.

*Please note the total AuM figure includes £3.4bn of assets managed or under an advisory agreement by Hermes GPE LLP ("HGPE"), a joint venture between Hermes Fund Managers ("HFM") and GPE Partner Limited. HGPE is an independent entity and not part of the Hermes group. £0.4bn of total group AuM figure represents HFM mandates under advice. Source: Hermes as at 31 December 2013.