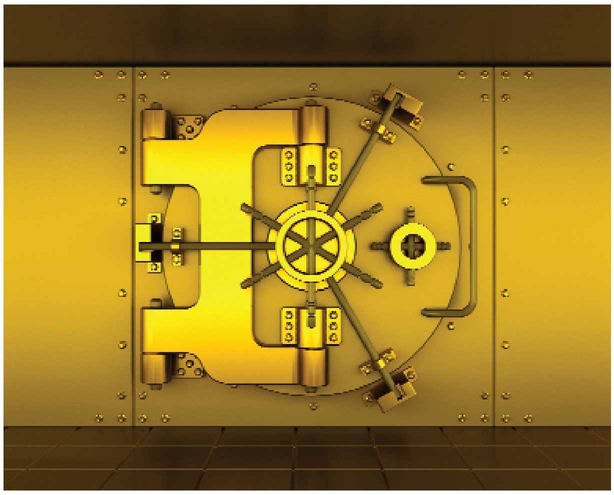
HELVEA

Swiss banking secrecy and taxation

Paradise Lost?



MAY 2009

Peter Thorne
+44 (0)20 7054 7129
pthorne@helvea.com

IMPORTANT DISCLOSURES: PLEASE READ INFORMATION ON THE LAST PAGE OF THIS REPORT

CONTENTS

EXECUTIVE SUMMARY

Governments around the world, especially in Europe and the USA, have stepped up their efforts to reclaim their citizens' money from what they perceive to be 'tax havens' or simply 'uncooperative jurisdictions'. Switzerland is considered to be one of them and will have to accept new OECD model tax rules allowing foreign tax authorities to gain access to information on their clients' bank accounts where they believe that their citizens have placed money in Swiss banks. This is particularly worrisome as regards EU clients as we estimate that undeclared money from them accounts for around 25% of Swiss private-banking assets. The Big Two Swiss banks, Credit Suisse and UBS, have invested heavily in extensive onshore operations as a precaution against the risk of tax rules being modified. The banks in our universe of coverage that look most at risk are Julius Baer, Sarasin and EFG International, but they could alleviate or temper risks by pro-actively developing onshore strategies or by acquiring even more exposed banks that might come under greater pressure. We have trimmed our SOTP valuations and price targets by, on average, 4% for the taxation problems, but have not altered our recommendations. We retain our BUY rating on EFG International (price target: CHF16.9, reduced from CHF17.9) and a NEUTRAL rating on the others.

SWISS OFFSHORE PRIVATE-BANKING INDUSTRY

Switzerland has a much envied reputation as a private-banking centre which has attracted enormous amounts of wealth from around the world – CHF2.2trn of assets under management (AuM) in 2008 according to statistics compiled by the Swiss National Bank (SNB). We estimate that around 50% of these AuM come from European citizens.

Switzerland has benefited from its image of political and economic stability, banking secrecy and low tax. Although this may have attracted money into the Swiss banks, it has also attracted envious thoughts and now action from other countries.

Credit Suisse and UBS together manage around 50% of Swiss private-banking assets, a further 15 banks manage another 30%, with another 33 banks managing just under 20% of the total. The industry is remarkably fragmented outside the dominance of the Top 2.

OFFSHORE TAXATION

In general, Switzerland does not tax non-resident bank accounts with the exception for EU nationals who either pay a withholding tax or declare their earnings to their own tax authorities, but the scope of investment income actually taxed is very restrictive. We estimate that around 80% of EU-sourced money is not declared to local tax authorities. As for US citizens, they are obliged to report their assets held in Switzerland to the US tax authorities.

Current international disputes have resulted in Switzerland having to adopt the OECD standard on administrative assistance in tax matters, which forms part of the OECD's *Model Tax Convention on Income and on Capital*. The standard relates to the exchange of information, and adopting this threatens to increase taxation levied on Swiss bank accounts.

VALUATION IMPLICATIONS FOR SWISS BANKS

We estimate that around 25% of Swiss private-banking assets are undeclared European-sourced money at risk from a modification in the tax regime. In aggregate, this money accounts for around 18% of our SOTP valuations.

Our baseline case envisages a 10% loss of European money for Credit Suisse and UBS, and a 20% loss for the others. This results in a 4% decline on average in our SOTP valuations and price targets for the banks, but not significant enough to prompt any change in our recommendations.

Our sensitivity analysis reveals that Julius Baer, EFG International and Sarasin look to be most exposed to worse outflows than our baseline case. However, they could temper the effects of this exposure by more pro-active onshore activities or even by buying small Swiss banks that might suffer even worse from outflows of European money.

RECOMMENDATIONS

Our recommendations on Swiss banking stocks are unchanged: we maintain our BUY rating on EFG International and our NEUTRAL ratings on the others. In the following table, we have summarised the revisions to our SOTP valuations and price targets, and presented the stocks' sensitivity to worse than expected outcomes as represented by Case I (20% loss of European business for Credit Suisse and UBS; 40% loss for the rest) and Case II (50% loss for Credit Suisse and UBS; 75% loss for the others).

Swiss banks: Changes to SOTP values/price targets and sensitivity analysis

	SOTP value and price target *(CHF)*						
	Previous	**New**	**Revision***	**For Case I**	**Revision***	**For Case II**	**Revision***
Credit Suisse	42.0	**41.2**	–2%	40.4	–4%	38.0	–10%
UBS	16.7	**16.3**	–2%	15.9	–5%	14.6	–13%
Julius Baer	40.8	**38.8**	–5%	36.8	–10%	33.3	–18%
EFG International	17.9	**16.9**	–6%	15.8	–12%	13.9	–22%
Sarasin	29.2	**27.9**	–5%	26.3	–10%	23.7	–19%
Vontobel	27.8	**27.0**	–3%	26.2	–6%	24.8	–11%
BCV	338.0	**335**	–2%	327.9	–3%	319.6	–5%
St.Galler Kantonalbank	362.0	**347**	–4%	331.1	–9%	303.2	–16%
Average			**–4%**		**–7%**		**–14%**

Source: Helvea estimates

** Revision relative to Helvea's previous price target shown in first column*

SWISS OFFSHORE PRIVATE-BANKING INDUSTRY

- Switzerland has a much envied reputation as a centre for private banking attracting enormous amounts of wealth from around the world – CHF2.2trn of assets under management in 2008 according to SNB statistics and we estimate that around 50% of these AuM come from European citizens
- Switzerland has benefited from an image of political and economic stability, banking secrecy and low tax, but, although this may have attracted money into Swiss banks, it has also attracted envious thoughts and now action from other countries
- Credit Suisse and UBS together manage around 50% of Swiss private-banking assets, a further 15 banks manage another 30%, with another 33 banks managing just under 20% of the total – The industry is remarkably fragmented outside the dominance of the Big Two

SWISS OFFSHORE PRIVATE BANKING: SIZE & ORIGINS

CHF2.2trn in offshore accounts at end-2008

The Swiss private-banking industry has an enviable reputation around the world, attracting huge amounts of wealth into the country. The Swiss National Bank (SNB) estimates that, as of the end of 2008, there were around CHF2.2trn invested with Swiss banks in Switzerland by non-residents – so-called 'offshore' accounts – although this figure is down on the CHF3.1trn reported as at end-2007 owing to the collapse in financial markets during the course of 2008. Offshore accounts make up around 60% of the total invested in Swiss banks according to SNB data.

Economic and political stability a major reason for clients to put their money in Switzerland

Swiss economic and political stability in an uncertain and volatile world has been a major attraction for wealthy people, encouraging them to place their money in Swiss banks. This is obviously true for wealthy individuals in places like Latin America and some Asian and European countries today, but it has even been a valuable lure in the past to attract money into Switzerland from clients in other countries of Western Europe, notably France, Germany, Italy, Spain and even the UK.

Banking secrecy and taxation more contentious reasons for the success

More contentious though has been the issue of Swiss banking secrecy and taxation. Since 1934 when the Swiss Federal Law on Banks & Savings Banks was passed, it has been a criminal offence for bank employees to pass on information about bank clients' accounts to third parties, even government tax inspectors from other countries. As Switzerland does not impose tax on bank accounts for non-residents, it is suspected by many that wealthy individuals in high-tax countries wishing to avoid tax have put their money in Swiss banks safe in the knowledge that both the money transferred and investment income earned on it will not be divulged to the local tax authorities.

Origins of Swiss banking secrecy laws

Some – mostly non-Swiss – have claimed that this 1934 Swiss law on banks was a deliberate attempt to protect Swiss banks from foreign intrusions. Previously, as had been the case in most countries, banking secrecy was a matter of best practice, but the 1934 Federal law took it to a higher level of seriousness. Certainly, the 1930s were a period of considerable economic and political upheaval and uncertainty. In particular, European taxes were high after World War I to pay for reconstruction and redemption of war debts, and government agents from both France and Germany attempted to infiltrate Swiss banks to discover what assets their own citizens had placed in Swiss banks. Notable incidents include the 1932 'Paris Affair' when the French authorities acquired the names of 1,000 politically prominent clients of Basler Handelsbank after two of its staff were arrested in Paris as they were trying to help some French citizens to avoid paying coupon tax. This caused a scandal to erupt in France. Another notorious case was in 1931 when a German, Arthur Pfau, tried to persuade UBS employees to give him details about its German clients. He was unsuccessful. It should be noted that this incident pre-dated the Nazis taking power in Germany in 1933, disproving some of the rather high-minded, but deluded comments by some that Swiss banking secrecy was imposed to protect Jewish money from the hands of the Germans. A particularly graphic example of this delusion can be seen from the following extract from Credit Suisse's 1966 Quarterly Report:

"Interesting it was also the intense espionage activity aimed at finding Jewish money that prompted Switzerland in 1934 to protect the persecuted by firming up the rules on banking secrecy, which had previously been a matter of custom rather than law… and to make infringement of banking secrecy a criminal act".

Motives behind banking secrecy legislation largely academic

The key issue is its effects

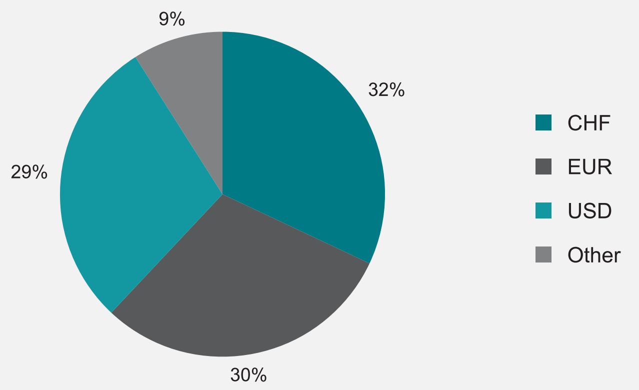
To a large degree, it is only a matter of academic interest whether there was intent in Switzerland's 1934 Federal banking legislation to enshrine banking secrecy in law for the purposes of gathering funds from foreign clients seeking to evade tax and thus boost the Swiss banking industry. The main issues are whether the effects of the law actually did result in foreigners evading tax by putting their money into Swiss banks, and, perhaps even more pertinently for public policy, whether foreign governments do believe this to be the case. In this regard, the role of Switzerland in films and literature has only increased suspicions in revenue-hungry foreign governments about the origins and motives of wealthy foreigners placing their money offshore in Switzerland.

SOURCES OF SWISS OFFSHORE MONEY

SNB data indicate around 40% of non-resident money come from Europe

As regards the origins by country of the non-resident money placed in Swiss banks, SNB statistics are pretty vague, but the SNB has disclosed the currency of the custody accounts (see the chart below). On the basis that all of the assets invested in euro came from Europe and most of the 'Other' category was in pounds, we believe that it is reasonable on this evidence to presume that around 40% of Swiss banks' offshore accounts have their origin in Europe, with this amount equalling CHF1.2trn.

Swiss non-resident custody accounts by currency (end-2007)

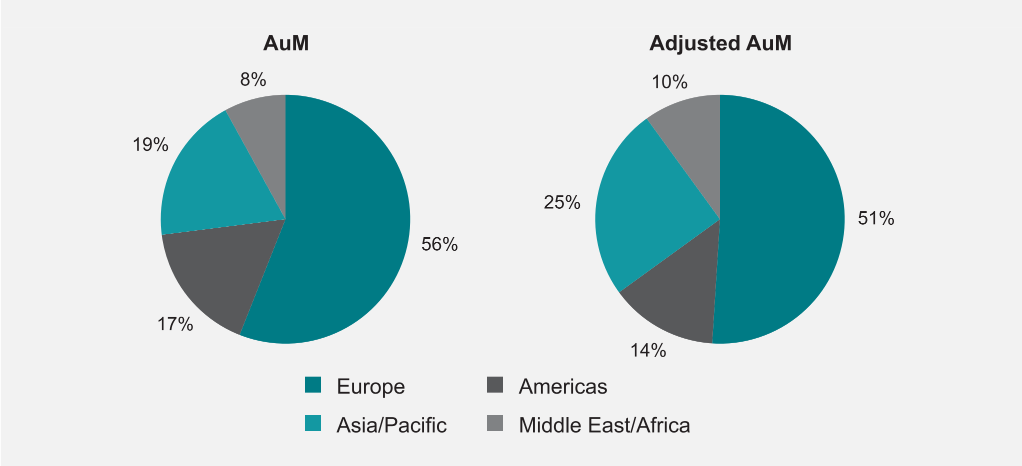


Sources: SNB; Helvea

Ca.50% of UBS's international private-banking AuM from Europe

UBS publishes data on its international Wealth Management operations by domicile of client: the figures indicate that around 56% of the total derives from Europe. This includes around CHF117bn of onshore European money and about CHF44bn of money from the USA, unusual sources of money for a Swiss bank. If we adjust the data for these exceptional sources of money, then around 50% of assets under management at UBS's Wealth Management unit are derived from European sources. The other major sources for offshore money for UBS are Asia/Pacific and the Americas, as represented by Latin America, as the USA, by definition, has been excluded from our adjusted figures. It should be noted though that the USA only accounted for CHF44bn of the unadjusted figure, i.e. just 6% of the total, and UBS, as it has learned to its cost, tried far harder than other Swiss banks to sell offshore Swiss private banking to US citizens.

UBS: Offshore assets under management



Sources: UBS data; Helvea

FRAGMENTATION OF SWISS PRIVATE-BANKING INDUSTRY

Swiss private-banking industry fragmented outside the Big Two

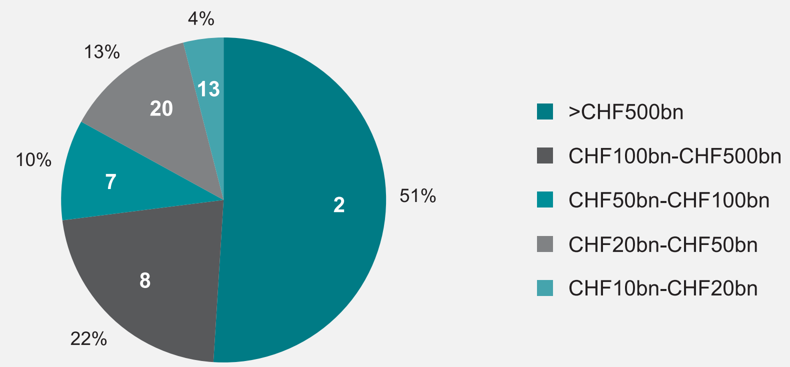
Another feature of Swiss offshore private banking is that, despite the dominance of UBS and Credit Suisse, it is actually remarkably fragmented with many small players. Unfortunately, the SNB does not provide details and the Swiss Bankers Association has only attempted to provide a breakdown of the industry by total assets under management as published by the banks: this total thus includes the banks' institutional asset-management operations which are significant for many of the larger banks, such as UBS and Credit Suisse, but also for banks like Julius Baer, Pictet and LODH.

Credit Suisse and UBS have a 50% market share in Swiss private banking,...

...but there are many small banks

We have thus attempted to analyse the nature of the Swiss private-banking industry by using data for individual banks. With the help of '*Le Premier Top 50*' Swiss banks compiled by *Private Banking* magazine in Geneva (see the Appendix on page 21 for the full table), we have created the following chart showing the size of the operators in the Swiss private-banking industry. In aggregate, we estimate that these 50 banks manage some CHF4.6trn of private-banking assets both offshore and onshore. As we show in the following chart, the two largest, UBS and Credit Suisse, manage just over half of the total whilst the next 15, with more than CHF50bn under management each, manage just over 30% of the total, but the remaining 33 manage just 17% of the total and, on average, each manage around CHF24bn. It should be noted that there were 330 banks in Switzerland at the end of 2007 so, in addition to this Top 50, there are another 280 banks, each managing AuM of less than CHF10bn.

Top 50 Swiss private banks: Breakdown by size



Sources: Private Banking Magazine; company data; Helvea estimates *NB: Figures in segments are the number of banks*

OFFSHORE TAXATION

- In general, Switzerland does not tax non-residents' bank accounts, with the exception of EU citizens, whilst US citizens are obliged to declare their assets held in Switzerland to the US tax authorities
- EU citizens either pay a withholding tax or declare their earnings to their own tax authorities, but the scope of investment income actually taxed is very restrictive – We estimate that around 80% of EU-sourced money is not declared to the local tax authorities
- Current international disputes have resulted in Switzerland adopting rules for the exchange of information under the OECD's *Model Tax Convention*, which threatens to increase taxation of Swiss bank accounts

Swiss bank accounts held by non-residents are generally not taxed, with the exception of EU citizens

In general, Swiss bank accounts held by non-residents are not taxed although EU citizens do have a withholding tax imposed on them by the EU Savings Tax Directive (unless they opt to inform their own tax authorities about their Swiss investments) whilst US citizens are obliged to notify their tax authorities about their Swiss assets. EU citizens are the most important sources of offshore money for Swiss banks, contributing around 50% of their offshore money, far higher than the USA which, judging by recent UBS disclosures, barely contributes 5% of the total. We will thus concentrate our attention on the EU rather than the USA, but it should be noted that it has been the recent wrangle between UBS and the USA that has sparked the current international dispute about taxation of Swiss offshore bank accounts.

EU SAVINGS TAX DIRECTIVE

10 years of wrangling to produce the EU Savings Tax Directive

After some 10 years of negotiation, the EU finally produced the EU Savings Tax Directive in 2003 which came into force as from 1 July 2005. The key features of the Directive are outlined below:

- Most EU countries agreed to automatic exchange of information about their banks' clients' bank accounts.
- Luxembourg, Belgium and Austria agreed to charge a withholding tax rather than exchange information to protect their banking secrecy for a transitional period.
- Although not part of the EU, Switzerland also agreed to levy a withholding tax on earnings from assets held for EU-resident clients as it is such an important banking destination for European clients. Other notable offshore centres to do the same are Jersey, Guernsey, Cayman Islands, Andorra, Turks & Caicos, British Virgin Islands, and Monaco. Notable absences from this list are Singapore, Hong Kong, Bermuda and Barbados.
- When the transitional arrangements for Austria, Belgium and Luxembourg end, they will be obliged to apply automatic exchange of information when Switzerland, Andorra, Liechtenstein, Monaco, San Marino and the USA adopt automatic exchange of information.
- Clients in countries charging a withholding tax have the option to declare their assets to their own tax authorities.
- The rate of withholding taxes are:
  – from 1 July 2005: 15%
  – from 1 July 2008: 20%
  – from 1 July 2011: 35%

- The withholding tax only applies to interest income – dividend income, capital gains, income from life-insurance policies, pension funds, derivatives, grandfathered bonds issued before March 2001 are exempt from the withholding tax.
- The withholding tax only applies to individuals, not corporations.
- 75% of the tax raised is to be passed to the EU country and 25% retained by Switzerland.
- The workings of the EU Savings Tax Directive are to be reviewed every 3 years.

Permitted breaches of bank secrecy

It should be noted that, whilst the EU Savings Tax Directive has allowed Switzerland to claim that it still adheres to its banking secrecy rules, Swiss banks are required to disclose details of clients' bank accounts in certain situations: these include suspicions of terrorism, money laundering and tax fraud. The latter basically relates to the use of false or falsified documents, and must be a criminal offence in both Switzerland and the country of the person being investigated; it must also be punishable by imprisonment. Evidence has to be produced to support the claim for assistance to be given and banking secrecy will then be broken. The Swiss Federal Department of Finance defines **tax fraud** as follows:

Tax fraud

> *"A person commits tax fraud who, for the purpose of tax evasion and misleading the tax authorities, uses false or falsified documents or documents with untrue content such as account books, balance sheets, profit and loss statements, or wage statements and other certifications by third parties."*

In contrast, **tax evasion** is considered to be an 'administrative' offence in Switzerland and is punishable by a fine and, according to the same authority, applies when:

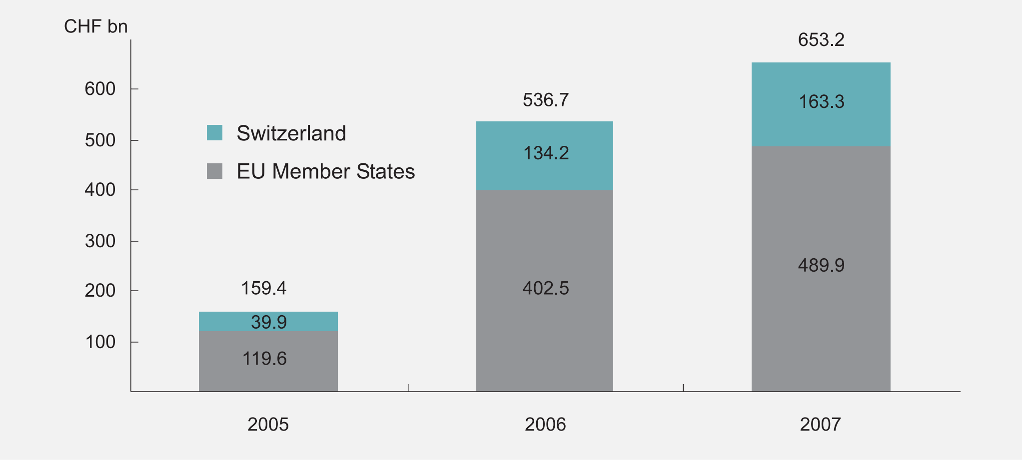
> *"A taxpayer wilfully or negligently acting in such a way that an assessment is improperly omitted or a final assessment is incomplete."*

Providing assistance in the case of suspected tax fraud has nothing to do with the EU Savings Tax Directive and depends instead on bilateral double-taxation treaties between Switzerland and other countries; these exist for EU Member States and the USA among other countries.

Modest sums raised from the withholding tax

There are so many ways in which Swiss banks' foreign clients can arrange their assets so that they do not suffer from the withholding tax that is no surprise that the actual tax take has been low (see the chart below; it should be noted that the tax was only levied for part of 2005, which explains the big y-o-y increase in 2006).

Withholding tax levied on EU savings



Source: Swiss Confederation

In the table below, we have shown withholding tax collected on behalf of each of the EU Member States for 2006 and 2007. Interestingly, Germany and Italy each account for around 26% of total tax collected, with France about half that level. We have also attempted to estimate the size of assets on which this collected tax was earned. This is a very rough-and-ready approach, but we believe that it at least gives us an order of magnitude for the assets concerned. The first step is to gross the receipts up by 100/75 to reflect the fact that these receipts are just those received by the EU Member States and do not include the 25% retained by Switzerland. The next step involves calculating the interest on which the withholding tax was levied by dividing that figure by 15%, the rate of withholding tax. It is then necessary to calculate the size of the asset base on which the interest was earned by dividing the figure for interest income earned by the rate of interest earned – we have assumed 3%. Finally, we need to estimate what proportion of the clients' total assets these interest-earning and taxable assets represent. Although bonds and cash usually account for 50%-60% of many clients' portfolios, we believe that these assets account for a lot less than that considering the limited scope of assets on which the withholding tax is assessed. In our analysis, we have assumed 20%, but we concede that this is the most subjective element in our calculations. Our methodology suggests that assets of EUR726bn are held by EU citizens in Swiss banks on which withholding tax was levied in 2007.

EU withholding tax collected

	EU tax collected *(CHF m)*		*As % of total*	**Estimated assets** *(CHF bn)*	
	2006	**2007**	***in 2007***	**2006**	**2007**
Germany	103.4	130.5	*27%*	153.1	193.4
Italy	103.0	125.0	*26%*	152.5	185.2
France	49.9	61.9	*13%*	74.0	91.7
UK	31.9	40.2	*8%*	47.2	59.6
Spain	30.2	33.7	*7%*	44.8	49.9
Belgium	20.8	21.6	*4%*	30.8	32.1
Greece	15.4	16.2	*3%*	22.9	24.0
Netherlands	12.6	12.6	*3%*	18.7	18.7
Austria	9.7	12.3	*3%*	14.4	18.2
Others	25.6	35.8	*7%*	38.0	53.0
Total	**402.5**	**489.9**	***100%***	**596.3**	**725.7**

Sources: Swiss Federal Department of Finance; Helvea estimates

Most tax declarations are made by Germans and remarkably few by Italians

Swiss banks' EU clients also have the option of declaring their interest earnings to their own tax authorities: some 64,516 declarations were made in 2007, up from 55,314 in 2006 and 35,376 in 2005. The amount of interest declared totalled CHF822m in 2007, slightly down from CHF863m in 2006, but considerably higher than the CHF109m in 2005. Almost 90% of these declarations were made by Germans (see the table below) whilst the Italians, despite being the second largest group for withholding tax collected, do not even feature in the Top 5 for declarations.

EU savings tax: Client declarations to tax authorities

	2006	**2007**	**As % of total in 2007**
Germany	48,900	56,566	88%
UK	1,854	2,258	3%
France	1,100	1,301	2%
Netherlands	1,040	1,200	2%
Belgium	464	608	1%
Austria	285	546	1%
Other	1,671	2,037	3%
Total	**55,314**	**64,516**	**100%**

Source: Swiss Federal Department of Finance

If declared interest had been subject to withholding tax, the sum collected would have equalled 20% of the actual withholding tax collected

The Swiss authorities actually give details of the interest income that is declared. In 2007, it totalled CHF822.8m and, if the 15% withholding tax had been imposed, the tax deducted would have been CHF123m, i.e. just under 20% of the amounted collected from the withholding tax. Interestingly, although Germans account for 88% of the declarations, the actual interest income that they declare only amounts to 64% of the total, as can be seen from the following table, suggesting that they have smaller asset portfolios at Swiss banks than other Europeans.

Interest income stated on EU savings declarations

(In CHF m)	**2006**	**2007**	***As % of total in 2007***
Germany	656.3	523.4	*64%*
UK	110.4	147.3	*18%*
Netherlands	29.5	36.7	*4%*
Belgium	17.2	29.9	*4%*
France	11.2	17.1	*2%*
Austria	6.6	13.8	*2%*
Other	32.4	54.7	*7%*
Total	**863.7**	**822.8**	***100%***

Source: Swiss Federal Department of Finance

Assuming that the rate of interest earned was 3% on balances and that the assets account for 20% of clients' total portfolios, as we assumed for our calculations of withholding tax, it is possible to estimate assets placed with Swiss banks by EU citizens in a similar manner as for withholding tax (see the table below).

Estimated portfolios of assets declared for EU tax

	2006 *(CHF bn)*	**2007** *(CHF bn)*	**Average portfolio size in 2007** *(CHF m)*
Germany	109.4	87.2	1.5
UK	18.4	24.5	10.9
Netherlands	4.9	6.1	5.1
Belgium	2.9	5.0	8.2
France	1.9	2.8	2.2
Austria	1.1	2.3	4.2
Italy	1.7	1.9	4.1
Other	3.7	7.5	2.4
Total	**144.0**	**137.1**	**2.1**

Source: Helvea

Only earnings from 16% of EU assets declared

The total of declared portfolios, according to our analysis, of CHF137.1bn, when added to our estimate of CHF725.8bn for the portfolio totals derived from withholding tax calculations, gives us a grand total of CHF862.9bn (see the following table). The information throws up some interesting national differences: the Germans, Dutch and British declare more of their income than the Italians, French, Spanish and Greek. In aggregate, according to our calculations, only 16% of earnings from EU citizens' assets are declared to their own tax authorities.

EU assets in Swiss banks

(In CHF bn)	**Not declared**	**Declared**	**Total**	***Declared as % of total***
Germany	193.4	87.2	280.6	*31%*
Italy	185.2	1.9	187.1	*1%*
France	91.7	2.8	94.6	*3%*
UK	59.6	24.5	84.1	*29%*
Spain	49.9	1.4	51.3	*3%*
Belgium	32.1	5.0	37.0	*13%*
Greece	24.0	0.2	24.2	*1%*
Netherlands	18.7	6.1	24.8	*25%*
Austria	18.2	2.3	20.4	*11%*
Other	53.0	5.6	58.6	*10%*
Total	**725.8**	**137.1**	**862.9**	***16%***

Source: Helvea

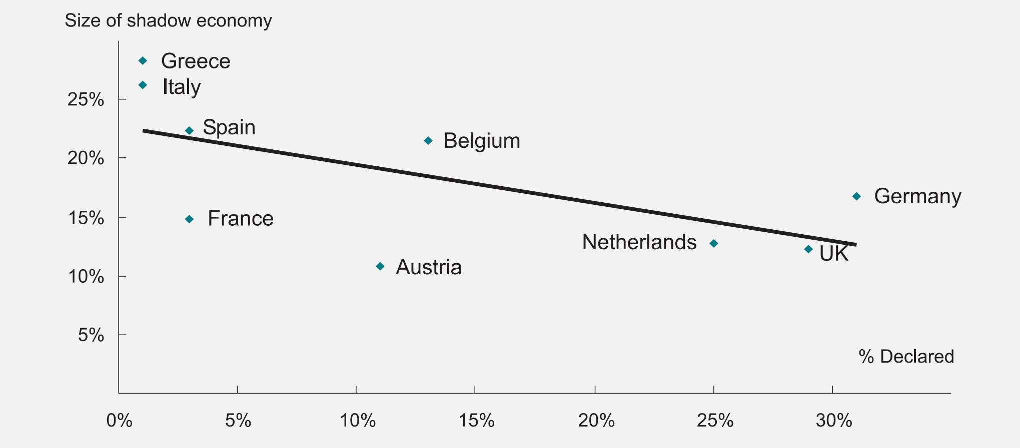
Estimated EU offshore assets in Switzerland from withholding tax data of a similar order of magnitude to our estimates from SNB data

Interestingly, the grand total of CHF862.9bn is of the same order of magnitude as figures published by the SNB for non-residents' holdings of securities in Swiss banks' custody accounts. At end-2007, the SNB revealed that there were CHF3.1trn invested in offshore accounts, with around 40% or CHF1.2trn from Europe according to our estimates. The CHF862.9bn that we derive from the EU statistics is less than the CHF1.2trn for European-sourced assets that we have estimated from SNB statistics, suggesting that our estimate using statistics for withholding tax may be conservative although, of course, new 'wealthy' countries like Russia and Ukraine are not members of the EU and must account for some of the difference.

Countries with larger 'shadow economies' less inclined to declare their Swiss assets

Another interesting observation is that the proportion of assets declared by EU citizens to local tax authorities is inversely proportional to the size of the 'shadow economy'. One interpretation of this observation is that the citizens of Germany, the UK and the Netherlands are more inclined to pay tax domestically and on their Swiss assets compared with citizens of Greece, Italy and Spain. We suspect that a mixture of cultural differences and faith in the integrity of local tax regimes is the reason for these differences.

Size of 'shadow economy' and propensity to declare Swiss assets



Sources: Swiss Federal Department of Finance; Institute for the Study of Labor – Friedrich Schneider; Helvea

ADOPTION OF OECD STANDARDS

UBS's attempts to build a US cross-border business have resulted in a sizeable fine and the handing-over of 250-300 names to US authorities

In 2009, Switzerland has come under intense pressure from the US authorities to relax its rules on banking secrecy after UBS attempted to build up an offshore business for US clients transferring their assets to Switzerland. The business suffered from various failures and was seen by many observers as nothing more than a crude attempt by UBS to build up a US cross-border business by offering US clients the ability to reduce their tax bills by moving their assets to Switzerland and not declaring them to US authorities. UBS settled the case brought against it by the US Department of Justice and the SEC by paying a USD780m fine and handing over the names of 250-300 clients to the US tax authorities where there was some evidence that they had committed tax fraud. The release of the names came as a shock in Switzerland as it was regarded as being tantamount to treachery and a breach of Swiss law although, of course, in reality, disclosing names for tax fraud is, in fact, permitted under the legislation. However, there was also a US IRS summons, the so-called 'John Doe summons', for UBS to release the details of 52,000 accounts which US citizens have with UBS in Switzerland. There is no specific information behind this request for details and certainly no evidence to support the claim of tax fraud so UBS has not released the details and is claiming that Swiss banking law prevents it from doing so.

'John Doe summons' against UBS still outstanding...

...and political pressure from Europeans and the USA mounting against tax havens

Pressure from the USA was further cranked up by politicians in the EU who have joined in on the side of the USA. Together, they are now attacking all tax havens and 'uncooperative jurisdictions'. Switzerland is not, in fact, technically classified as a tax haven according to OECD criteria established in 1998. The following selection of quotations from top-level politicians highlight the ferocity of the belligerence against Switzerland and other tax havens:

> "*Closing loopholes and hunting tax evaders are especially important at a time when the economy is deteriorating. Allowing companies and individuals to escape paying their share isn't fair, particularly given the scale of the fiscal challenges we inherited."*
> *Timothy Geithner, US Treasury Secretary*

> *"…I believe that the old tax havens and the regulatory havens have no place in this new world."* *Gordon Brown, UK Prime Minister*

> *"We want to act with determination against uncooperative places on matters of taxation, financial security and money laundering.*"
> *Christine Lagarde, French Finance Minister*

> "*Switzerland offers conditions that invite the German taxpayer to evade taxes."*
> *Peer Steinbrück, German Finance Minister*

Capitulation by the Swiss and adoption of Article 26 of the OECD code

On 13 March 2009, the Swiss Federal Council announced that Switzerland intends to adopt the OECD standard on administrative assistance in tax matters and will permit the exchange of information with other countries in individual cases where a specific and justified request has been made. In this regard, the most important concession is adoption of Article 26 as stipulated in the *Model Tax Convention on Income and on Capital.* The OECD Website defines Article 26 '*Exchange of Information*' as follows:

Definition of Article 26

> *"Article 26 creates an obligation to exchange information that is foreseeably relevant to the correct application of a tax convention as well as for purposes of the administration and enforcement of domestic tax laws of the contracting states. Countries are not at liberty to engage in 'fishing expeditions' or to request information that is unlikely to be relevant to the tax affairs of a given taxpayer. In formulating their requests, the requested state should demonstrate the foreseeable relevance of the requested information. In addition, the requesting state should also have pursued all domestic means to access the requested information except those that would give rise to disproportionate difficulties."*

Source: OECD Website, April 2009

Adoption of the OECD standard on administrative assistance was a surprise capitulation and demonstrates just how fierce the political pressure had become. The OECD standard requires the exchange of information in individual tax cases where there is some evidence, and it makes no distinction between tax evasion and tax fraud. The so-called 'fishing trips' involving lengthy lists of names without any evidence supporting them will not produce details of assets held at Swiss banks nor will adoption of this standard apply to bank clients resident in Switzerland. Fortunately for Switzerland, other notable tax havens of Austria, Belgium Luxembourg, Guernsey, Liechtenstein, Singapore and Hong Kong have also offered to adopt the OECD rules so at least Switzerland will not be disadvantaged with them as regards adoption of these rules.

Switzerland has imposed conditions on accepting the OECD rules

Moreover, Switzerland has imposed some conditions on its offer of adopting the OECD rules:

- non-retroactive;
- acceptable transition terms to allow clients to 'regularise' their tax affairs under the new regime via tax amnesties or similar measures;
- Switzerland to have improved access to markets for international financial services.

Adoption of OECD rules just the start of the process

Banking secrecy and taxation will probably remain in the headlines for the next few years

The Swiss Finance Minister (also President of the Federal Council for 2009), Hans-Rudolf Merz, has stated that it will take years for the new OECD rules to become law as the process will involve renegotiating the country's 70 double-taxation treaties, each of which will have to be approved individually by the country's parliament and may require referendums. The EU savings tax agreement as it applies to Switzerland will also have to be adjusted. Germany's Finance Minister, Peer Steinbrück, has warned that any final judgment had "*to await action, not words*", and his ministry called for international pressure to be "*kept high*" on Switzerland. Indeed, rather than Swiss adoption of OECD rules on administrative assistance being the end of the matter, we believe that this signals very much the start of the debate as all the treaties are renegotiated. We suspect that some EU countries are likely to offer tax amnesties to their citizens abroad to coincide with this. This will also be a significant development that will be closely monitored by the markets as the most recent ones in Italy and Germany were.

G20 keeping up pressure

The G20 meeting in London on 1-2 April 2009 maintained the pressure on tax havens. Point 15 of the Leaders' Statement declared that they agree, among other measures:

> *"to take action against non-cooperative jurisdictions, including tax havens. We stand ready to deploy sanctions to protect our public finances and financial systems. The era of banking secrecy is over. We note that the OECD has today published a list of countries assessed by the Global Forum against the international standard for exchange of tax information."*

The OECD's list

The OECD's list classifies countries into three groups:

- those that had substantially implemented the internationally agreed tax standard;
- those that had committed to it, but have not actually substantially implemented it;
- those that have not committed to it.

We have reproduced the list as it appeared on 2 April on the following page. It should be noted that the four countries on the blacklist of not having committed to the standard have subsequently agreed to implement the standards.

OECD list of countries' adoption of OECD tax standard

Jurisdictions that have substantially implemented the internationally agreed tax standard			
Argentina	Germany	Korea	Seychelles
Australia	Greece	Malta	Slovak Republic
Barbados	Guernsey	Mauritius	South Africa
Canada	Hungary	Mexico	Spain
China	Iceland	Netherlands	Sweden
Cyprus	Ireland	New Zealand	Turkey
Czech Republic	Isle of Man	Norway	United Arab Emirates
Denmark	Italy	Poland	United Kingdom
Finland	Japan	Portugal	United States
France	Jersey	Russian Federation	US Virgin Islands

Jurisdictions that have committed to the internationally agreed tax standard, but have not yet substantially implemented

Jurisdiction	Year of Commitment	Number of Agreements	Jurisdiction	Year of Commitment	Number of Agreements
Tax Havens					
Andorra	2009	(0)	Marshall Islands	2007	(1)
Anguilla	2002	(0)	Monaco	2009	(1)
Antigua and Barbuda	2002	(7)	Montserrat	2002	(0)
Aruba	2002	(4)	Nauru	2003	(0)
Bahamas	2002	(1)	Neth. Antilles	2000	(7)
Bahrain	2001	(6)	Niue	2002	(0)
Belize	2002	(0)	Panama	2002	(0)
Bermuda	2000	(3)	St Kitts and Nevis	2002	(0)
British Virgin Islands	2002	(3)	St Lucia	2002	(0)
Cayman Islands	2000	(8)	St Vincent & Grenadines	2002	(0)
Cook Islands	2002	(0)	Samoa	2002	(0)
Dominica	2002	(1)	San Marino	2000	(0)
Gibraltar	2002	(1)	Turks and Caicos Islands	2002	(0)
Grenada	2002	(1)	Vanuatu	2003	(0)
Liberia	2007	(0)			
Liechtenstein	2009	(1)			
Other Financial Centres					
Austria	2009	(0)	Guatemala	2009	(0)
Belgium	2009	(1)	Luxembourg	2009	(0)
Brunei	2009	(5)	Singapore	2009	(0)
Chile	2009	(0)	Switzerland	2009	(0)

Jurisdictions that have not committed to the internationally agreed tax standard

Jurisdiction	Number of Agreements	Jurisdiction	Number of Agreements
Costa Rica	(0)	Philippines	(0)
Malaysia (Labuan)	(0)	Uruguay	(0)

Source: OECD

Switzerland is classified in the second category, the so-called 'grey list'. Switzerland's current President and Finance Minister, Hans-Rudolf Merz, is clearly unhappy with Switzerland being placed in this category, notably stating that Switzerland will "*swiftly*" enter into negotiations on revising double-taxation agreements, presumably with the intention of moving onto the first list.

TAX AMNESTIES IN ITALY AND GERMANY

Recent amnesties in Italy and Germany met with mixed success

We estimate that just over half of the EU assets invested in Switzerland were sourced from Italy (22%) and German (33%). Both these countries have recently had tax amnesties which encountered mixed success. Estimates of the amount of money that Italians and Germans held abroad before the amnesties varied widely, ranging from EUR250bn to EUR500bn for Italians and from EUR300bn to EUR900bn for Germans.

Scudo Fiscale

The more successful of the two was the Italian tax amnesty, the so-called '*Scudo Fiscale*' (lit. 'tax shield') introduced in 2001 and extended to 2003. The Italian tax amnesty allowed Italian individuals to do one of two options:

1. repatriate offshore assets to Italy;
2. 'regularise' the assets, but continue to 'hold' them abroad.

Generous Italian amnesty was a success

Irrespective of whether Option 1 or 2 was chosen, the individual had to make a payment of 2.5% of the investment either in cash or through subscription to special State bonds paying less than market rates of interest. The amnesty protected individuals against special tax and social-security audits, meaning that individuals did not have to pay a penalty fine which could be as much as 25% of the assets. It was hoped to raise EUR50bn from the amnesties, but the total amount raised was EUR77.8bn, of which EUR46bn was repatriated and EUR31.8bn 'regularised'. Around 60% of the funds were found to have come from Switzerland.

German scheme far less successful and raised only 20% of its target

In contrast, the German amnesty of 2004 was far less successful. Its architects were not blessed with the same attitude of pragmatism as the Italians, and there was a reluctance to be too lenient on those who had evaded tax. The payment was set at 25% on 60% of the undeclared taxable income (i.e. effectively 15%) for the period from 1993 to 2002. So, if the rate of interest earned over that 10-year period was 5% a year, the individuals would have earned some 50% on their original investment and, on this, they would be required to pay tax of 15%, which would equate to paying 5% on the closing balance of their investment, i.e. double the Italian rate. The amnesty scheme raised just EUR1bn in additional tax revenues compared with the target of EUR5bn.

UBS claims its onshore private bank captured half of its outflows to the Italian tax amnesty

UBS claimed, in Q1 2002, that it lost some CHF8.4bn of assets under management to the Italian tax amnesty, but recouped 50% of this sum thanks to its onshore private-banking operations. Banco Gottardo, which specialised in providing offshore private banking to Italian clients, reported a similar experience. This has given some reassurance that banks like UBS and Credit Suisse who can afford to run onshore operations can continue to manage any money after repatriation. As we show in the chart below, UBS and Credit Suisse have devoted considerable efforts to promoting an European onshore strategy to hedge against precisely the eventuality that now seems to be materialising.

UBS and Credit Suisse have both developed an onshore presence as a precaution against adverse tax developments

Swiss banks' European onshore operations

Bank	**Comments**
Credit Suisse	Not normally disclosed, but, in 2005, the group did disclose the following: AuM of CHF42bn; 631 client advisors; locations in the UK (1), Germany (13), France (3), Spain (3) and Italy (2 plus 30 '*promotori finanziari*' locations)
UBS	European Wealth Management Initiative disclosed up to 2007. AuM of CHF167bn (Italy CHF18bn; Germany CHF28bn; France CHF10bn; UK CHF35bn; Spain CHF9bn); 9 locations in France, 13 in Germany, 14 in Italy, 7 in Spain, 8 in the UK and 5 in Austria, Belgium and Portugal
Julius Baer	No onshore strategy as such, but 2 offices in UK (London and Guernsey), 2 in France (Paris and Monaco), 1 in Italy (Milan), 4 in Germany and 1 in Austria; booking centres in Guernsey and Frankfurt
EFG International	Onshore model
Sarasin	New bank opened in Frankfurt and office in Munich
Vontobel	German subsidiary to be opened in May 2009 with EUR50m capital and 50 employees
St.Galler Kantonalbank	Opened bank in Munich with 13 employees
BCV	None

Sources: Company data; Helvea

VALUATION IMPLICATIONS FOR SWISS BANKS

- We estimate that some 25% of Swiss private-banking assets are undeclared European-sourced money at risk from a change in the tax regime – In aggregate, this money accounts for around 18% of our SOTP valuation
- Our baseline case is for a 10% loss of European money for Credit Suisse and UBS, and a 20% loss for the others, which results in a 4% decline, on average, in our SOTP values and price targets, not significant enough to warrant altering our recommendations
- Our sensitivity analysis reveals that Julius Baer, EFG International and Sarasin look most exposed to worse outflows than our baseline case, but they could mitigate the effects of this exposure by more pro-active onshore activities or even the purchase of small Swiss banks which might suffer even more from outflows of European money
- Our recommendations remain unchanged: we maintain NEUTRAL ratings on all Swiss banking stocks covered in our universe, except for our BUY rating on EFG International

Swiss banks worried about implications of the change in the tax regime

The Swiss banks are putting a brave face on the possible adverse implications of a significant change in the tax regime for offshore clients, particularly Europeans. It is undoubtedly true that political and economic stability combined are attractive attributes for many clients, prompting them to place their money offshore in Switzerland, especially for clients from developing countries, but Europe remains an important part of the total. We believe that taxation forms a large part of the reason why many Europeans have placed their money offshore in Switzerland. Non-resident money makes up around 60% of Swiss private-banking assets under management and, of this figure, we estimate that around 40% to 50% comes from Europe, making 30% of the overall total. Our analysis of EU withholding tax returns suggests that some 84% of the money is undeclared to local tax authorities, equivalent to around 25% of total private-banking assets under management. This is a sizeable figure – not terminal to the industry by any means, but significant.

UBS incurred costs of over CHF2bn in building up a European offshore business in case the tax rules changed

A measure of how seriously Swiss banks have viewed the possible damaging consequences of adverse tax changes can be seen with UBS: it incurred costs of over CHF2bn in building a significant onshore European wealth-management business with 1,000 advisors and over CHF100bn in AuM in case the rules were changed. It wanted to be ready to serve clients in the event of the money being repatriated. Credit Suisse did much the same, but has not disclosed the cost. Other Swiss banks have far smaller onshore presences in Europe, usually just a token office or two.

Both UBS and Credit Suisse have not only made more extensive preparations to guard against a change in tax rules, but Europe for them is a small part of their private-banking business thanks to their extensive operations in Latin America, the Middle East and Asia. Moreover, their investment banking, asset management and, in UBS's case, onshore US wealth-management businesses mean that European private-banking business accounts for a far smaller slice of their total business than is the case for smaller private banks such as Baer, Sarasin or EFG International. In the following table, we have sought to highlight the importance of European offshore private banking to Swiss banks covered in our universe (the figures shown are mostly our estimates).

Importance of European offshore business to Swiss banks

	Private Banking AuM (CHF bn)	Europe offshore (as % of Private Banking AuM)	Private banking (as % of SOTP value)	Europe offshore (as % of SOTP value)
Credit Suisse	667	*45%*	*41%*	*19%*
UBS	810	*45%*	*55%*	*25%*
Julius Baer	128	*45%*	*49%*	*22%*
EFG International	75	*30%*	*100%*	*30%*
Sarasin	39	*45%*	*55%*	*25%*
Vontobel	23	*45%*	*30%*	*14%*
BCV	64	*15%*	*70%*	*10%*
SGKB	24	*30%*	*72%*	*22%*
Total	**1,830**	***43%***	***51%***	***22%***

Sources: Company data; Helvea estimates

In aggregate, 22% of our SOTP valuation of Swiss banks derives from European offshore business, with 80% of it undeclared, this gives us 18%

Our baseline case has resulted in a 2%-6% decline in our SOTP valuations and price targets

It will be several years before the new tax rules become effective, probably beyond the end-point of our current forecasting horizon which only stretches as far as 2011. However, our price targets are set on the basis of 20-year cash flow models which clearly need to take account of the likelihood of tax-induced outflows of money from Swiss banks to domestic European banks in various European countries. Our baseline case is to value the private-banking business in the belief that Credit Suisse and UBS will lose 10% of their European money whilst the smaller banks without the extensive onshore operations will lose more like 20%. These are clearly subjective estimates. Based on these baseline assumptions, our SOTP values and price targets for banking stocks have been come down by between 2% and 6%. We have also conducted a sensitivity analysis, assuming two worse cases:

- Case 1 involves a 20% loss of European business for Credit Suisse and UBS, and 40% for the other banks;
- Case 2 is predicated on a 50% loss of business for Credit Suisse and UBS, and a 75% loss for the other banks.

Applying these assumptions, Case 1 increases the reduction in SOTP valuations and price targets to a range of –3% to –12% whilst Case 2 increases the range of reduction from –5% to –22%.

Swiss banks: Changes to SOTP values/price targets and sensitivity analysis

	SOTP value and price target *(CHF)*						
	Previous	**New**	**Revision***	**For Case I**	**Revision***	**For Case II**	**Revision***
Credit Suisse	42.0	**41.2**	–2%	40.4	–4%	38.0	–10%
UBS	16.7	**16.3**	–2%	15.9	–5%	14.6	–13%
Julius Baer	40.8	**38.8**	–5%	36.8	–10%	33.3	–18%
EFG International	17.9	**16.9**	–6%	15.8	–12%	13.9	–22%
Sarasin	29.2	**27.9**	–5%	26.3	–10%	23.7	–19%
Vontobel	27.8	**27.0**	–3%	26.2	–6%	24.8	–11%
BCV	338.0	**335**	–2%	327.9	–3%	319.6	–5%
St. Galler Kantonalbank	362.0	**347**	–4%	331.1	–9%	303.2	–16%
Average			**–4%**		**–7%**		**–14%**

Source: Helvea estimates

** Revision relative to Helvea's previous price target shown in first column*

Ratings unchanged, BUY on EFG International, NEUTRAL on the rest

Our revised SOTP valuation and price targets have not changed materially or prompted any requirement to modify our existing recommendations. We thus stick with our NEUTRAL recommendations on all the banks, apart from our BUY rating on EFG International (price target lowered from CHF17.9 to CHF16.9). Our recommendation on EFG International is founded on our belief that the market has hugely overestimated the problems affecting the bank in 2008.

Baer, EFG and Sarasin most exposed to adverse developments, but they could take steps to lessen their exposure

Nevertheless, the smaller specialist private banks – Julius Bear, EFG International and Sarasin – are clearly more exposed to the possibility of steeper losses from European clients deserting them. We await their response to this exposure. All three have aggressive and capable management teams, and could take pro-active steps to prevent or at least temper the outflows by, for instance, expanding their onshore operations in those countries most important to them, especially Germany. Another possibility for the trio would be more positive: they could potentially make a move to acquire some of the many small private banks in Switzerland which might well struggle as a result of outflows of money from their European clients. Some of the many small private banks in Switzerland that could be potential targets feature in the list in the Appendix.

APPENDIX – SWISS BANKS' AUM

Swiss Banks: Assets under management

*		Private-banking AuM	*As % of total*	Total AuM	*As % of total*
1	UBS	1,458.0	*32%*	3,189.0	*41%*
2	Credit Suisse	866.4	*19%*	1,554.7	*20%*
5	HSBC Private Bank (Suisse)	186.5	*4%*	186.5	*2%*
8	Clariden Leu (part of CS)	129.0	*3%*	129.0	*2%*
3	Julius Baer	128.0	*3%*	405.0	*5%*
4	Pictet	120.0	*3%*	270.0	*4%*
9	Zürcher Kantonalbank	119.2	*3%*	119.2	*2%*
10	Raiffeisen	117.9	*3%*	117.9	*2%*
11	Ed. De Rothschild	100.3	*2%*	100.3	*1%*
6	LODH	100.0	*2%*	177.0	*2%*
7	UBP	90.0	*2%*	136.4	*2%*
12	EFG International	87.2	*2%*	98.4	*1%*
13	BCV	64.0	*1%*	84.3	*1%*
16	BSI	63.0	*1%*	63.0	*1%*
17	RBS Coutts	61.0	*1%*	61.0	*1%*
18	Deutsche Bank	56.1	*1%*	56.1	*1%*
19	Credit Agricole	56.0	*1%*	56.0	*1%*
20	Basler Kantonalbank	44.8	*1%*	44.8	*1%*
14	Sarasin	43.5	*1%*	83.0	*1%*
21	BNP Paribas	43.0	*1%*	43.0	*1%*
22	St.Galler Kantonalbank (SGKB)	40.6	*1%*	40.6	*1%*
23	Banca del Gottardo	36.0	*1%*	36.0	*0%*
24	Lloyds	33.0	*1%*	33.0	*0%*
25	Syz	30.7	*1%*	30.7	*0%*
26	JP Morgan	30.5	*1%*	30.5	*0%*
27	SG Private Banking	30.3	*1%*	30.3	*0%*
28	Citibank	30.0	*1%*	30.0	*0%*
15	Vontobel	29.0	*1%*	79.5	*1%*
29	HSBC Guyerzeller	29.0	*1%*	29.0	*0%*
30	Luzerner Kantonalbank (LUKB)	28.8	*1%*	28.8	*0%*
31	Mirabaud	25.0	*1%*	25.0	*0%*
32	Merrill Lynch Bank Suisse	24.3	*1%*	24.3	*0%*
33	ABN Amro	23.4	*1%*	23.4	*0%*
34	Les Fils Dreyfus & Cie Banquiers	23.3	*1%*	23.3	*0%*
35	Banque Jacob Safra	22.7	*0%*	22.7	*0%*
36	BEKB/BCBE	20.7	*0%*	20.7	*0%*
37	Wegelin	20.5	*0%*	20.5	*0%*
38	Banco Santander	18.3	*0%*	18.3	*0%*
39	Barclays Bank	17.4	*0%*	17.4	*0%*
40	Banque Coop	16.7	*0%*	16.7	*0%*
41	Fortis	15.5	*0%*	15.5	*0%*
42	Morgan Stanley	15.3	*0%*	15.3	*0%*
43	Banque Cantonale de Genève	14.0	*0%*	14.0	*0%*
44	Schroder	13.8	*0%*	13.8	*0%*
45	Migros Bank	13.4	*0%*	13.4	*0%*
46	Dresdner	12.8	*0%*	12.8	*0%*
47	Goldman Sachs	12.7	*0%*	12.7	*0%*
48	ING	12.6	*0%*	12.6	*0%*
49	BHI	11.3	*0%*	11.3	*0%*
50	Bordier	10.0	*0%*	10.0	*0%*
	TOTAL	**4,595.5**	***100%***	**7,686.7**	***100%***

Sources: Private Banking Magazine; company data; Helvea estimates

** Ranking in terms of total assets under management*

Key points

Credit Suisse Group

Price: CHF43.5
Target: CHF41.2

NEUTRAL
Large Caps

Peter Thorne (pthorne@helvea.com) – Tel. +44 (0)20 7054 7129

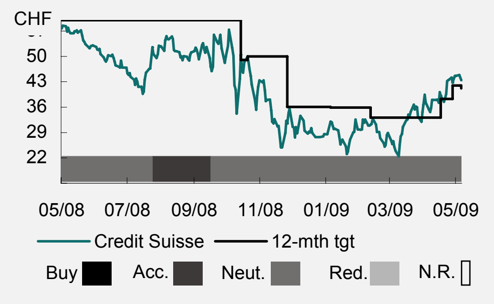
Credit Suisse Group is a global financial-services company, with strong positions in private banking, asset management and investment banking. In the past, it has had a reputation for being 'accident-prone' and suffered financial losses due to excessive risk-taking, but, in the current crisis, it has performed exceptionally, evidence that the restructuring of its investment bank under the new leadership of Brady Dougan has been successful.

CEO: Brady Dougan; CFO: Renato Fassbind; Website: www.credit-suisse.com (FY to end-December)

Company data as of 06 May 2009

Sector/Country	Banks/Switzerland				
Major shareholders					
Shares outstanding *(m)*			1,164	**Cash P/E** *(X)*	
Market cap. *(CHF m)*			50,634	2008	n.m.
Free float			100%	2009E	9.9
Op. profits/CAGR 2008A-2011E			n.m.	2010E	9.7
Share perform.	**3m**	**6m**	**12m**	**Symbols**	
Absolute	34%	15%	-23%	Bloomberg	CSGN VX
Rel. to local	24%	23%	6%	Reuters	CSGN.VX

Share price and ratings



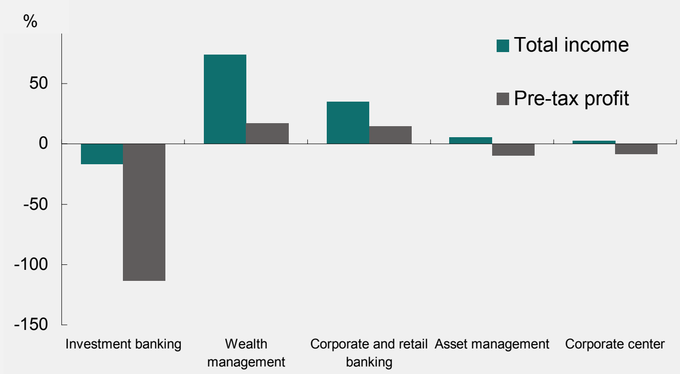
News flow

- October 2008: Credit Suisse reiterated its commitment to its integrated-banking model
- December 2008: profit warning as a result of massive trading losses in investment banking
- December 2008: Credit Suisse announced de-risking and downsizing of its investment bank and a renewed focus on 'flow activities' rather than proprietary trading
- April 2009: Q1 2009 profits exceeded expectations and the new investment bank has been performing well
- Forthcoming event: 23 July 2009 – Q2/H1 2009 results
- Guidance & consensus: no guidance; consensus net profit estimates of CHF4.3bn in 2009 & CHF5.2bn in 2010

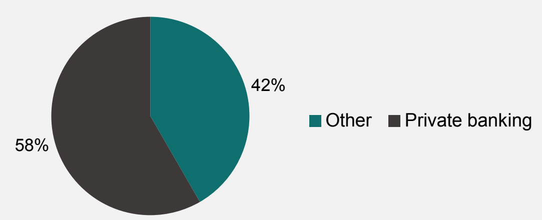
Investment case

Credit Suisse's performance during this financial crisis has surprised many commentators and should see it shed part of its 'accident-prone' label. Early signs from Q1 2009 results point to the group also successfully transforming its investment bank to one based on 'flow' business. With a high 14.1% Tier 1 ratio and low toxic assets to go with its strong management, Credit Suisse looks the safest of the leading Swiss banks and one of the safest in the world. Indeed, it has performed strongly since the start of 2009, with shares up 38%. Further progress hinges on the economic upturn materialising. If it does and we can lower our cost of equity by 5%pts, then the SOTP value climbs from CHF41.2 to CHF70.1, but signs of this happening are not strong. We maintain our NEUTRAL rating.

Divisional breakdown (2008)



Breakdown of AuM (2008)



Value drivers

PROFITS

- 12% lower average AuM in 2009 will cause a decline in wealth- and asset-management fees, but an expected rise of 8% in 2010 should see growth resuming
- Transformation of investment bank to a 'flow'-based business worked exceptionally well in Q1 2009, and, given the bank's high market share and reputation, we expect this process to be successful, although not at the exceptional Q1 2001 level

BALANCE SHEET AND AUM

- Tier 1 ratio of 14.1% at end-Q1 2009 one of the best in the industry without government assistance, and the bank is even now contemplating paying a decent dividend again
- Average AuM to fall by around 12% in 2009 as a result of falling equity markets, but should rebound by 8% in 2010 assuming that equity markets pick up in 2010

SWOT analysis

STRENGTHS

- Leading position in wealth management, with a global platform and solid reputation
- The investment bank has leading positions in Europe and the USA, with particular strengths in leverage lending and commercial real estate, and, increasingly, in 'flow' business
- The bank believes that the integrated-banking model improves the referral of business from one division to another

OPPORTUNITIES

- Capture market share in investment banking as its competitors are in turmoil following the financial crisis and the enforced rescue for some of them
- Flight to quality in wealth management from clients worried about the sub-prime crisis at UBS

WEAKNESSES

- Investment bank is now competing against some giant banks in the USA after the wave of mergers in autumn 2008 so Credit Suisse may be too small to compete in some areas of business
- It has a small position in onshore wealth management in the USA, a potentially giant market
- Integrated banking model failed UBS and may do the same to Credit Suisse

THREATS

- Switzerland may not be able to offer the same guarantee to its banking industry as is likely to be the case in larger countries, and this may dent client confidence in Credit Suisse
- Loss of banking secrecy in Switzerland would remove one of the attractions for clients to use Credit Suisse

Valuation ratios

(X)	2007	2008	2009E	2010E	2011E
Cap/AuM *(%)*	3.5	4.6	4.4	3.9	3.6
SOTP/share *(CHF)*			41.2		
P/SOTP *(%)*			106		
P/E	5.9	n.m.	9.9	9.7	8.2
Cash P/E (ful. diluted)	6.3	n.m.	9.9	9.7	8.2
P/BV	1.0	1.6	1.4	1.4	1.3
Dividend yield *(%)*	5.7	0.2	4.1	4.6	4.6

Balance sheet

(In CHF m)	2007	2008	2009E	2010E	2011E
Total assets *(bn)*	1,360.68	1,170.35	1,053.32	947.98	853.19
Sharehold. equ.	43,199	32,302	35,332	36,209	38,025
Intangibles	11,326	9,753	9,753	9,753	9,753
Tangible equity	31,873	22,549	25,579	26,456	28,272
Tier 1 ratio *(%)*	11.1	13.3	14.9	14.9	15.4
BV/share *(CHF)*	42.3	27.8	30.4	31.1	32.7
Tang. BV/s. *(CHF)*	31.2	19.4	22.0	22.7	24.3

Income statement

(In CHF m)	2007	2008	2009E	2010E	2011E
Revenues	34,539	11,862	28,816	28,399	30,780
Expenses	-25,159	-23,212	-20,710	-20,200	-21,311
LLP	-240	-813	-962	-889	-889
Net profits	7,760	-8,219	5,125	5,205	6,144
Reported EPS *(CHF)*	7.43	-7.78	4.40	4.47	5.28
Cash EPS *(CHF/*f.d.)	6.96	-7.78	4.40	4.47	5.28
DPS *(CHF)*	2.50	0.10	1.80	2.00	2.00

Growth rates & balance-sheet ratios

(In %)	2007	2008	2009E	2010E	2011E
Δ in revenues	-1.1	-65.7	143	-1.4	8.4
Δ in expenses	3.5	-7.7	-10.8	-2.5	5.5
Δ in LLP	n.m.	239	18.3	-7.6	0.0
Δ in net profits	-31.5	n.m.	n.m.	1.5	18.1
Δ in cash EPS	-29.2	n.m.	n.m.	1.5	18.1
Δ in report. EPS	-27.9	n.m.	n.m.	1.5	18.1
Δ in DPS	-7.4	-96.0	1,700	11.1	0.0

Asset under management

(In CHF bn)	2007	2008	2009E	2010E	2011E
AuM					
Total	1,463	1,106	1,158	1,284	1,421
Private banking	839	646	687	756	834
NNM					
Total	43.2	-3.0	52.5	72.0	77.0
Private banking	50.2	42.2	29.0	35.0	40.0
PB NNM growth	6.4%	5.0%	4.5%	5.1%	5.3%

Ratios, margins and returns

(In %)	2007	2008	2009E	2010E	2011E
NII/total revenue	24.0	70.9	29.8	30.8	29.0
Cost/income	72.8	196	71.9	71.1	69.2
Pre-tax margin	26.5	-103	24.8	25.7	27.9
PB gr. marg. *(bp)*	115	116	111	111	111
IB comp. ratio	53.8	-n.m.	46.3	47.0	47.0
ROE	17.9	-21.8	15.2	14.5	16.6
Cash ROE	17.9	-21.8	15.2	14.5	16.6

UBS

Price: CHF16.1
Target: CHF16.3

NEUTRAL
Large Caps

Peter Thorne (pthorne@helvea.com) – Tel. +44 (0)20 7054 7129

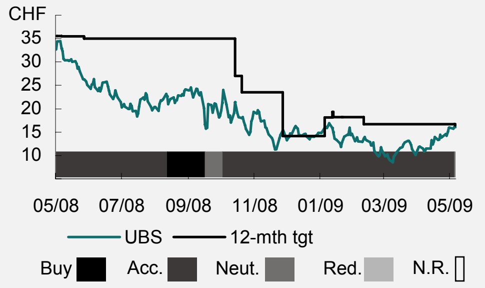
UBS still has the world's largest wealth-management business as well as considerable strength in asset management and investment banking. The bank had claimed to pursue its investment-banking business in a 'risk-averse' way, but its chronic failure to understand truly the nature of US sub-prime debt meant that it became one of the front-line casualties of the sub-prime crisis and needed help from the SNB and Swiss Confederation. Much depends on the ability of the new CEO, Oswald Gruebel, to de-risk the business, cut costs and focus it on its core Wealth Management business.

CEO: Oswald Gruebel; CFO: John Cryan; Website: www.ubs.com (FY to end-December)

Company data as of 06 May 2009

Sector/Country	Banks/Switzerland				
Major shareholders					
Shares outstanding *(m)*			3,473	**Cash P/E** *(X)*	
Market cap. *(CHF m)*			55,881	2008	n.m.
Free float			100%	2009E	n.m.
Op. profits/CAGR 2008A-2011E			n.m.	2010E	11.4
Share perform.	**3m**	**6m**	**12m**	**Symbols**	
Absolute	24%	-11%	-51%	Bloomberg	UBSN VX
Rel. to local	15%	-5%	-32%	Reuters	UBSN.VX

Share price and ratings



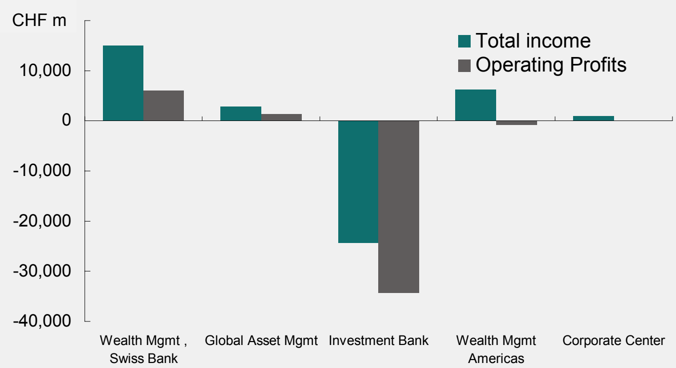
News flow

- February 2009: UBS settles US cross-border case with USD780m fine, but US tax authorities press ahead with their 'John Doe' summons, a 'fishing trip' looking for 50,000 names, but UBS refuses to release the details
- February 2009: former Credit Suisse CEO Oswald Gruebel replaces Marcel Rohner as CEO; he restates the strategy of running an 'integrated bank', but with the investment bank serving the Wealth Management units
- April 2009: AGM speech confirmed loss for Q1 and more outflows in Wealth Management
- Forthcoming event: 4 August 2009 – Q2/H1 2009 results
- Guidance & consensus: no guidance; consensus net profit estimates of CHF2.4bn in 2009 & CHF5.4bn in 2010

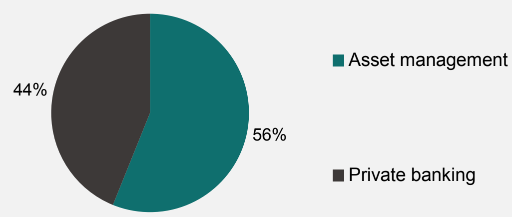
Investment case

UBS shares have risen 88% from early year-lows and are now trading in line with our price target and SOTP valuation, so we recently downgraded the stock from ACCUMULATE to NEUTRAL. Further progress from here depends crucially on a sustained economic recovery, which would allow us to reduce our cost-of-capital assumption from 14% to a more normal 9%, a resumption of growth in NNM and transformation of the investment bank to one earning an ROE of 15% on a sustained basis. The new CEO will probably fix the latter two, which would lift our valuation from CHF16.3 to CHF22.2 whilst a 5%-point fall in the cost of capital would increase it further to CHF36. At the moment though, visibility on all three is poor so we stick with our NEUTRAL rating.

Divisional breakdown (2008)



Breakdown of AuM (2008)



Value drivers

PROFITS

- 22% fall in average AuM from outflows and performance will dent Wealth Management profits, but we expect the fall to level off in 2010
- More write-offs on legacy assets hit Q1 2009 results; UBS's desire to shrink balance sheet further and warnings about loan losses give us cause for concern, but the worst is behind UBS

BALANCE SHEET AND AUM

- Tier 1 ratio of 11% at end-Q1 2009 after the Pactual deal is adequate, but we expect UBS to do its utmost to improve this figure – we expect a more than satisfactory 14.7% by 2011
- Money outflows in Wealth and Asset Management, together with weak equity markets, to lead to a 22% drop in average AuM in 2009, but 2010 should see return to modest growth of ca.3%

SWOT analysis

STRENGTHS

- Well established global platform in wealth management and largest market share in world
- Leading 25% market share in Swiss retail banking
- Investment bank has leading positions in equities and in advisory & underwriting businesses

OPPORTUNITIES

- Continue to gain market share in wealth management through organic growth and selected acquisitions
- Transform the investment bank to one based on 'flow' activities in its strong businesses such as cash equities and foreign exchange
- Sell US Wealth Management business to generate capital

WEAKNESSES

- Sub-prime crisis has damaged UBS's reputation for competence and prudence
- Fixed-income franchise in investment bank is weak compared to competitors and is being downsized
- Asset-management business is efficient and profitable, but lacks the growth of its more successful rivals
- US Wealth Management arm is sub-scale and less efficient than its rivals

THREATS

- Switzerland may not be able to offer the same guarantee to its banking industry as is likely to be the case in larger countries, and this may dent client confidence in UBS
- Loss of banking secrecy in Switzerland would remove one of the attractions for clients to use UBS
- The strong equities franchise may suffer from downsizing in its fixed-income business
- UBS may be unable to win back confidence of clients after the sub-prime crisis

Valuation ratios

(X)	2007	2008	2009E	2010E	2011E
Cap/AuM *(%)*	1.7	2.6	2.6	2.4	2.3
SOTP/share *(CHF)*			16.3		
P/SOTP *(%)*			98.8		
P/E	n.m.	n.m.	n.m.	11.8	8.6
Cash P/E (ful. diluted)	n.m.	n.m.	n.m.	11.4	8.3
P/BV	0.9	1.7	1.7	1.6	1.4
Dividend yield *(%)*	0.0	0.0	0.0	3.1	3.1

Balance sheet

(In CHF m)	2007	2008	2009E	2010E	2011E
Total assets *(bn)*	2,272.77	1,922.77	1,722.77	1,622.77	1,522.77
Sharehold. equ.	36,875	32,531	32,915	35,912	40,699
Intangibles	14,538	12,935	12,935	13,000	13,000
Tangible equity	22,337	19,596	19,980	22,912	27,699
Tier 1 ratio *(%)*	9.1	11.0	11.3	12.6	14.7
BV/share *(CHF)*	17.1	9.4	9.5	10.3	11.7
Tang. BV/s. *(CHF)*	10.4	5.6	5.8	6.6	8.0

Income statement

(In CHF m)	2007	2008	2009E	2010E	2011E
Revenues	31,959	3,793	28,152	32,628	35,907
Expenses	-35,463	-28,555	-23,449	-23,863	-25,205
LLP	-238	-2,997	-3,729	-2,200	-1,900
Net profits	-5,650	-21,442	-348	4,732	6,522
Reported EPS *(CHF)*	-2.63	-7.74	-0.10	1.36	1.88
Cash EPS *(CHF/*f.d.)	-2.50	-7.54	0.13	1.41	1.93
DPS *(CHF)*	0.00	0.00	0.00	0.50	0.50

Growth rates & balance-sheet ratios

(In %)	2007	2008	2009E	2010E	2011E
Δ in revenues	-32.5	-88.1	642	15.9	10.0
Δ in expenses	6.3	-19.5	-17.9	1.8	5.6
Δ in LLP	n.m.	1,159	24.4	-41.0	-13.6
Δ in net profits	n.m.	n.m.	n.m.	n.m.	37.8
Δ in cash EPS	n.m.	n.m.	n.m.	970	36.5
Δ in report. EPS	n.m.	n.m.	n.m.	n.m.	37.8
Δ in DPS	n.m.	n.a.	n.a.	n.m.	0.0

Asset under management

(In CHF bn)	2007	2008	2009E	2010E	2011E
AuM					
Total	3,353	2,174	2,163	2,306	2,472
Private banking	1,392	955	913	967	1,038
NNM					
Total	140.6	-226.1	-41.9	28.0	43.0
Private banking	120.4	-107.1	-51.4	8.0	23.0
PB NNM growth	10.6%	-7.7%	-5.4%	0.9%	2.4%

Ratios, margins and returns

(In %)	2007	2008	2009E	2010E	2011E
NII/total revenue	16.7	158	23.8	21.6	20.6
Cost/income	111	753	83.3	73.1	70.2
Pre-tax margin	-11.7	-732	3.5	20.1	24.5
PB gr. marg. *(bp)*	103	128	127	95.0	95.0
IB comp. ratio	-n.m.	-n.m.	53.9	48.0	48.0
ROE	-13.1	-61.8	-1.1	13.8	17.0
Cash ROE	-12.4	-60.2	1.4	14.3	17.5

Julius Baer

Price: CHF40.2 | NEUTRAL
Target: CHF38.8 | **Large Caps**

Peter Thorne (pthorne@helvea.com) – Tel. +44 (0)20 7054 7129

Julius Baer underwent a complete transformation thanks to its acquisition of three small private banks, together with the hedge-fund manager GAM, from UBS. This deal brought new, dynamic management to the bank, together with new hedge-fund products and a fresh strategy to expand into emerging markets internationally and to make acquisitions in Switzerland.

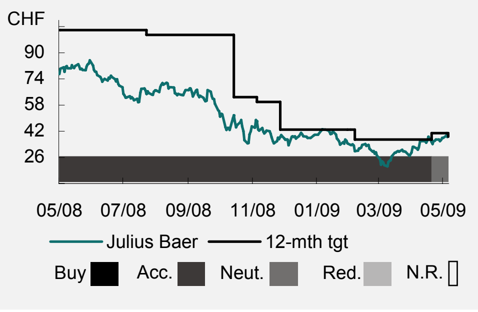
CEO: Boris Collardi; CFO: Dieter Enkelmann; Website: www.juliusbaer.com (FY to end-December)

Company data as of 06 May 2009

Sector/Country Banks/Switzerland
Major shareholders Davis Advisers 9.0%, Wellington 6.4%, AXA 3.7%, Massachusetts Mutual 3.3%, Fidelity 3.0%

Shares outstanding *(m)*			211	**Cash P/E** *(X)*	
Market cap. *(CHF m)*			8,482	2008	10.0
Free float			100%	2009E	14.1
Op. profits/CAGR 2008A-2011E			-2.3%	2010E	12.1
Share perform.	**3m**	**6m**	**12m**	**Symbols**	
Absolute	34%	-7%	-49%	Bloomberg	BAER VX
Rel. to local	25%	0%	-29%	Reuters	BAER.VX

Share price and ratings



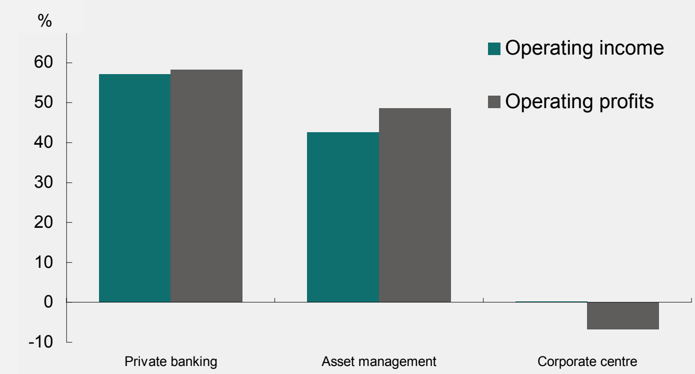
News flow

- February 2009: 2008 profits slightly below consensus expectations, but AuM 16% below consensus; there were record inflows into private banking of CHF17bn, but outflows of CHF27bn in Asset Management, particularly at GAM where AuM shrank from CHF86bn at end-2007 to CHF42bn by end-2008
- March 2009: COO Boris Collardi to replace Hans de Gier as new CEO of Bank Julius Baer from 1 May 2009; although only 35, he has extensive experience and worked closely with the former CEO Alex Widmer
- Forthcoming event: 12 May 2009 – interim management statement
- Guidance & consensus: no guidance; consensus net profit estimates of CHF447m in 2009 & CHF536m in 2010

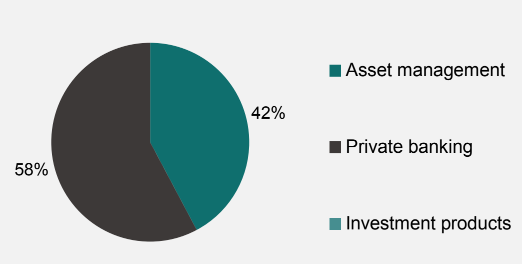
Investment case

Reporting AuM some 16% below consensus expectations for end-2008 triggered a round of profit downgrades – we cut our forecasts by around 25% for 2009 and 2010. Worries about the demise of fund of hedge funds and further outflows at GAM, 15% of AuM, continue to preoccupy investors and lower AuM as a result of weak equity market since the year-end could lead to further lowering of profit forecasts. The potential erosion of Swiss bank secrecy is also negatively affecting sentiment. The only positive item is the ongoing expansion of the private-banking network and recruitment of private bankers. The valuation case is strong at Julius Baer, but, short-term, a change in sentiment and direction on equity markets will be needed for the shares to achieve a sustained rally.

Divisional breakdown (2008)



Breakdown of AuM (2008)



Value drivers

PROFITS

- Lower average AuM will inevitably lead to lower fees in 2009 based on AuM whilst difficult financial markets will result in lower transaction activity and performance fees at GAM
- The bank is aiming to cut costs in 2009 and 2010, but it does not want to sacrifice long-term potential for short-term profits, so we would expect a higher cost/income ratio in 2009 as cost-cutting does not keep pace with declining revenues

BALANCE SHEET AND AUM

- AuM to suffer from lower average AuM in 2009 of around 22% due to poor equity market performance and outflows at GAM
- The target Tier 1 ratio of 12% was exceeded at end-December 2008 when bank boasted a Tier 1 ratio of 13.6%
- The bank has a CHF2bn buy-back programme from 2008 to 2010, which, it declares, will continue, but we expect a delay given the increased capital requirements in the industry

SWOT analysis

STRENGTHS

- Strong franchises in Germany and Switzerland, and increasing presence in Asia
- Experienced management team
- Leading fund-of-hedge-fund manager in GAM
- Artio, the US business, has developed well
- No distractions from investment banking

OPPORTUNITIES

- Win market share from larger banks like UBS suffering from adverse reputational issues in the harsh market conditions
- Consolidation opportunities in Switzerland to allow cost-cutting
- Appetite for fund of hedge funds from institutions, which has not been as adversely affected as that from private clients, may continue

WEAKNESSES

- GAM distribution restricted mostly to Julius Baer and UBS
- No investment bank for referrals or bespoke products
- Artio's success hinging on continued strong performance from a few key individuals

THREATS

- Loss of UBS-introduced GAM business due to UBS either taking business in-house or losing clients owing to its financial problems
- Collapse in private-banking business worldwide as a result of declining confidence in banks and financial markets
- Erosion of Swiss banking secrecy
- Continued poor performance of hedge funds could cause permanent collapse of GAM business

Valuation ratios

(X)	2007	2008	2009E	2010E	2011E
Cap/AuM *(%)*	1.9	3.1	3.1	2.8	2.5
SOTP/share *(CHF)*			38.8		
P/SOTP *(%)*			104		
P/E	9.2	12.6	20.2	16.2	14.0
Cash P/E (ful. diluted)	7.8	10.1	14.1	12.1	10.8
P/BV	1.3	1.3	1.3	1.4	1.5
Dividend yield *(%)*	1.2	1.2	1.2	1.2	1.2

Balance sheet

(In CHF m)	2007	2008	2009E	2010E	2011E
Total assets *(bn)*	46.918	46.240	45.315	46.675	48.075
Sharehold. equ.	6,419	6,571	6,180	5,890	5,681
Intangibles	4,704	4,579	4,404	4,229	4,054
Tangible equity	1,715	1,992	1,776	1,661	1,627
Tier 1 ratio *(%)*	12.9	13.6	12.3	11.5	11.3
BV/share *(CHF)*	30.4	31.8	29.9	28.5	27.5
Tang. BV/s. *(CHF)*	8.1	9.6	8.6	8.0	7.9

Income statement

(In CHF m)	2007	2008	2009E	2010E	2011E
Revenues	3,449	2,939	2,270	2,516	2,790
Expenses	-1,978	-1,827	-1,508	-1,622	-1,791
LLP	-22.0	-42.2	0.0	0.0	0.0
Net profits	940	648	412	514	594
Reported EPS *(CHF)*	4.36	3.19	1.99	2.49	2.88
Cash EPS *(CHF/*f.d.)	5.17	3.98	2.84	3.33	3.72
DPS *(CHF)*	0.50	0.50	0.50	0.50	0.50

Growth rates & balance-sheet ratios

(In %)	2007	2008	2009E	2010E	2011E
Δ in revenues	22.2	-14.8	-22.8	10.8	10.9
Δ in expenses	17.9	-7.6	-17.5	7.6	10.4
Δ in LLP	50.7	91.8	n.m.	n.a.	n.a.
Δ in net profits	39.8	-31.0	-36.4	24.6	15.7
Δ in cash EPS	35.1	-23.2	-28.5	17.3	11.7
Δ in report. EPS	43.4	-26.8	-37.5	24.6	15.7
Δ in DPS	0.0	0.0	0.0	0.0	0.0

Asset under management

(In CHF bn)	2007	2008	2009E	2010E	2011E
AuM					
Total	446	275	275	306	340
Private banking	156	159	169	189	211
NNM					
Total	35.2	-5.4	n.a.	18.0	18.0
Private banking	12.1	21.8	10.0	12.0	12.0
PB NNM growth	8.7%	13.9%	6.3%	7.1%	6.3%

Ratios, margins and returns

(In %)	2007	2008	2009E	2010E	2011E
NII/total revenue	9.4	16.3	15.4	15.1	13.6
Cost/income	57.4	62.2	66.4	64.5	64.2
Pre-tax margin	42.0	36.4	33.6	35.5	35.8
PB gr. marg. *(bp)*	101	n.m.	n.m.	n.m.	n.m.
IB comp. ratio	n.m.	n.m.	n.m.	n.a.	n.a.
ROE	14.1	10.0	6.5	8.5	10.3
Cash ROE	16.8	12.7	9.2	11.4	13.3

EFG International

Price: CHF13.6 | BUY
Target: CHF16.9 | **M&S**

Peter Thorne (pthorne@helvea.com) – Tel. +44 (0)20 7054 7129

EFG International is a new Swiss-based private bank created in 1994 by experienced, but disaffected, private bankers from Coutts and, before that, Citibank. The bank's distinguishing feature is that it places its private bankers – or Client Relationship Officers (CROs) as it calls them – at the centre of its organisation and offers them contractually agreed bonuses based on their contribution as well as a base salary. This has proved very attractive to investors and CROs, and the bank is growing very quickly.

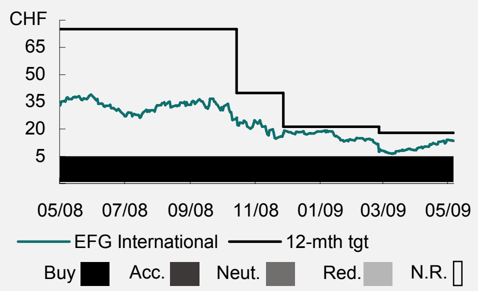
CEO: Lawrence Howell; CFO: Rudy van den Steen; Website: www.efginternatinoal.com (FY to end-December)

Company data as of 06 May 2009

Sector/Country	Banks/Switzerland
Major shareholders	EFG Group 48.7%, Lawrence Howell 5.7%, Jean Pierre Cuoni 4.9%, Employees 13.6%

Shares outstanding *(m)*			147	**Cash P/E** *(X)*	
Market cap. *(CHF m)*			1,995	2008	8.0
Free float			27%	2009E	9.4
Op. profits/CAGR 2008A-2011E			29.2%	2010E	6.1
Share perform.	**3m**	**6m**	**12m**	**Symbols**	
Absolute	-9%	-41%	-61%	Bloomberg	EFGN SW
Rel. to local	-13%	-34%	-45%	Reuters	EFGN.S

Share price and ratings



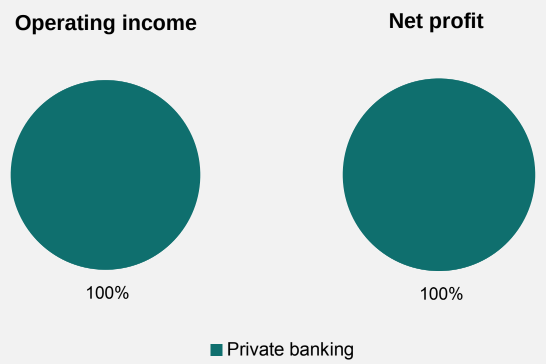
News flow

- February 2009: publication of full-year 2008 results in a very nervous market setting triggered a dramatic slump in the share price – profits disappointed because of some one-off losses related to life settlement contracts, but the market was also worried about the balance sheet and the bank's core Tier 1 ratio; management said that, in future, it would only consider large transformational deals, not small bolt-on acquisitions, to conserve capital
- Forthcoming event: 28 July 2009 – H1 2009 results
- Guidance & consensus: no profit guidance from the company; consensus net profit estimates: CHF146m for 2009 and CHF218m for 2010

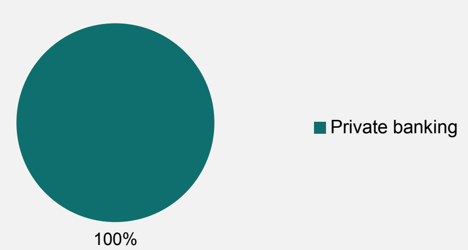
Investment case

EFG International's business model has produced extraordinary growth and the bank has ambitious plans for more growth to come. However, the shares have suffered from a number of issues, such as life settlement contracts, the importance of hedge funds (39% of profits in 2008), and the components of its Tier 1 capital that have worried investors and detonated a huge sell-off early in the year in a very nervous market. We believe that these fears have been grossly exaggerated and obscure the bank's long-term potential to expand successfully in a very fragmented industry. We maintain our BUY rating despite the doubling of the share price since it fell to its low point earlier in the year.

Divisional breakdown (2008)



Breakdown of AuM (2008)



Value drivers

PROFITS

- We forecast a 13% fall in revenue in 2009, driven by a 10% drop in average AuM and a 2% drop in the gross margin from lower transaction activities and hedge fund fees; a rebound in average AuM in 2010 should produce a 35% jump in revenue
- The bank is adjusting its cost base to the new environment, and we expect costs to decline broadly in line with revenues in 2009 and a 10%-point lower increase than revenues in 2010

BALANCE SHEET AND AUM

- Negative momentum from declining markets should see a 10% fall in average AuM in 2009, but we expect recruitment and positive equity markets to lead to a 23% rebound in 2010
- Tier 1 ratio at end-December was 13.2%, which is a good figure, but the market has been concerned that 76% of the Tier 1 capital is in the form of participation certificates which some, wrongly, do not consider as 'core' equity – the regulator does though

SWOT analysis

STRENGTHS

- CRO-focused operation offering contractually guaranteed bonuses to experienced and performing CROs, which contrasts with the discretionary bonuses of most of its rivals
- Experienced top-management team
- Specialist private bank with no distracting investment-banking or retail-banking operations
- Winning reputation as the refuge of choice for CROs

OPPORTUNITIES

- Highly fragmented market offering opportunities for acquisitions as well as for client and CRO recruitment
- Experienced CROs unhappy at global banks whose reputations are suffering from the financial crisis, as well as the bonus pool available to private-banking operations
- Distressed sellers of significant private banks (AuM CHF20bn) may throw up the opportunity to clinch a transformational deal

WEAKNESSES

- New bank in a market where an image of solidity and continuity is important
- Senior management stretched from rapid expansion
- Fears that rapid growth could lead to recruitment of inappropriate clients and CROs

THREATS

- Competitors copy CRO-focused operation
- Rapid expansion leads to loss of management scrutiny of clients and CROs, leading to damage to bank's and CROs' reputations
- Poaching of successful staff by competitors

Valuation ratios

(X)	2007	2008	2009E	2010E	2011E
Cap/AuM *(%)*	2.3	2.6	2.3	1.7	1.4
SOTP/share *(CHF)*			16.9		
P/SOTP *(%)*			80.7		
P/E	6.6	10.2	13.0	7.3	4.6
Cash P/E (ful. diluted)	6.2	8.1	9.4	6.1	4.0
P/BV	1.1	1.2	1.1	1.0	0.8
Dividend yield *(%)*	2.6	1.8	1.8	1.8	1.8

Balance sheet

(In CHF m)	2007	2008	2009E	2010E	2011E
Total assets *(bn)*	18.037	18.877	19.821	20.812	21.852
Sharehold. equ.	1,844	1,662	1,779	2,014	2,415
Intangibles	1,192	1,763	1,693	1,613	1,533
Tangible equity	652	-101	86.3	401	882
Tier 1 ratio *(%)*	23.7	13.2	15.6	20.4	26.3
BV/share *(CHF)*	12.6	11.3	12.1	13.7	16.5
Tang. BV/s. *(CHF)*	4.4	-0.7	0.6	2.7	6.0

Income statement

(In CHF m)	2007	2008	2009E	2010E	2011E
Revenues	914	946	829	1,116	1,472
Expenses	-521	-658	-561	-715	-882
LLP	-1.0	-15.4	0.0	0.0	0.0
Net profits	302	192	154	272	438
Reported EPS *(CHF)*	2.06	1.33	1.05	1.85	2.99
Cash EPS *(CHF/f.d.)*	2.20	1.68	1.45	2.25	3.38
DPS *(CHF)*	0.35	0.25	0.25	0.25	0.25

Growth rates & balance-sheet ratios

(In %)	2007	2008	2009E	2010E	2011E
Δ in revenues	44.0	3.6	-12.4	34.6	31.9
Δ in expenses	43.4	26.3	-14.7	27.4	23.4
Δ in LLP	n.m.	1,440	n.m.	n.a.	n.a.
Δ in net profits	48.2	-36.6	-19.6	76.3	61.3
Δ in cash EPS	50.4	-23.7	-14.1	55.4	50.5
Δ in report. EPS	48.2	-35.3	-21.3	76.3	61.3
Δ in DPS	16.7	-28.6	0.0	0.0	0.0

Asset under management

(In CHF bn)	2007	2008	2009E	2010E	2011E
AuM					
Total	87.2	77.2	87.0	114	145
Private banking	87.2	77.2	87.0	114	145
NNM					
Total	13.3	13.2	9.8	23.2	25.4
Private banking	13.3	13.2	9.8	23.2	25.4
PB NNM growth	19.1%	15.1%	12.7%	26.6%	22.2%

Ratios, margins and returns

(In %)	2007	2008	2009E	2010E	2011E
NII/total revenue	26.7	30.3	39.2	31.8	25.8
Cost/income	57.0	69.5	67.7	64.1	59.9
Pre-tax margin	42.9	28.9	32.3	35.9	40.1
PB gr. marg. *(bp)*	119	106	103	113	115
IB comp. ratio	n.a.	n.a.	n.a.	n.a.	n.a.
ROE	17.0	10.9	9.0	14.3	19.8
Cash ROE	18.2	13.9	12.3	17.4	22.4

Sarasin

Price: CHF27.0
Target: CHF27.9

NEUTRAL
M&S

Peter Thorne (pthorne@helvea.com) – Tel. +44 (0)20 7054 7129

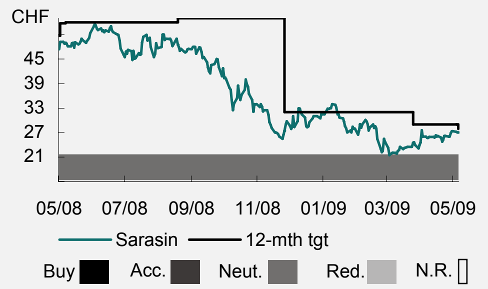
Sarasin is mainly active in private banking, institutional asset management and investment funds. In March 2002, Rabobank took a 28% stake in Sarasin (with the option of acquiring the majority over the next 7 years) and, in exchange, contributed its private-banking activities. At the end of 2006, Rabobank exercised its call option and now owns 46.06% of Sarasin's equity capital and 68.63% of the voting rights, but it intends to keep a listing for Sarasin to preserve the distinctive Swiss nature of the bank.

CEO: Joachim Strahle; CFO: Matthias Hassels; Website: www.sarasin.ch (FY to end-December)

Company data as of 06 May 2009

Sector/Country	Banks/Switzerland					
Major shareholders	Rabobank 46.0%					
Shares outstanding *(m)*			61.19	**Cash P/E** *(X)*		
Market cap. *(CHF m)*			1,655	2008	14.6	
Free float			54%	2009E	22.9	
Op. profits/CAGR 2008A-2011E			24.3%	2010E	11.7	
Share perform.	**3m**	**6m**	**12m**	**Symbols**		
Absolute	-7%	-16%	-45%	Bloomberg	BSAN SW	
Rel. to local	-13%	-10%	-23%	Reuters	BSAN.S	

Share price and ratings



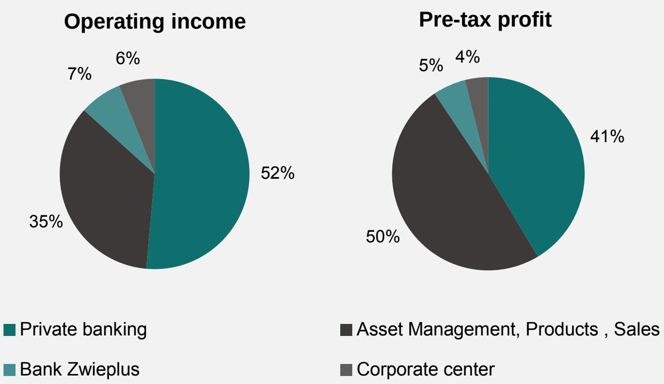
News flow

- February 2009: net profits for 2008 20% short of expectations, but net new money good; the bank stated that it would continue its growth strategy, but that earnings prospects are difficult to predict in the current environment
- April 2009: CEO Strahle declared that he expects 2009 operating profits to be "*on a par*" with 2008's and that there would be a headcount freeze in 2009
- Forthcoming event: 30 July 2009 – H1 2009 results
- Guidance & consensus: 2009 guidance is for net profits to be "*on a par*" with 2008's; consensus estimates of CHF82m in 2009 and CHF132m in 2010

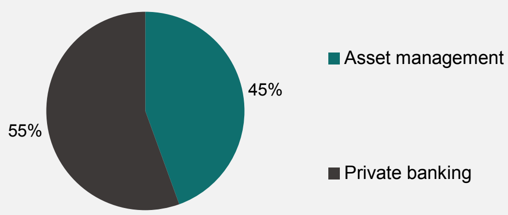
Investment case

Sarasin has been rejuvenated under the leadership of its new CEO, Joachim Strahle, and the excellent net new money (NNM) results offer proof that his expansionist plans are working. Its new dynamic strategy is appreciated by investors whilst the fact that it is supported by the AAA-rated Rabobank, its major shareholder, has also found support among risk-averse investors and, indeed, clients. However, its growth strategy means that its cost build-up is happening just as revenue growth is subdued. We are concerned about a possible earnings setback in 2009. We maintain our NEUTRAL rating on the shares.

Divisional breakdown (2008)



Breakdown of AuM (2008)



Value drivers

PROFITS

- We expect flat revenues in 2009 with a fall in average AuM and lower transaction activity; there should be a rebound of 17% revenue growth in 2010 on the basis of better financial markets
- We believe that, despite its efforts, Sarasin will struggle to contain costs as past expansion plans have some momentum, and this will lead to a 21% fall in operating profits in 2009, but 2010 should see a 63% rebound driven by revenue growth

BALANCE SHEET AND AUM

- Average AuM in 2009 should benefit from NNM growth of almost 17% in 2008 and overcome adverse market movements
- We are looking for average AuM to fall by only 3% in 2009, but progress by 15% in 2010, with 2010 benefiting from a more beneficial market climate
- Tier 1 ratio at end-December 2008 was a healthy 14.5%, and the bank enjoys the backing of the AAA-rated Rabobank

SWOT analysis

STRENGTHS

- Strong brand name
- Innovative products, notably in investment funds
- Presence in Asia
- Backing by a strong partner in AAA-rated Rabobank
- Presence in the charities sector in the UK
- No exposure to either investment banking or retail banking

OPPORTUNITIES

- Wealth-management market is growing and Sarasin has a very small market share
- Link-up with Rabobank enables access to clients
- Asian wealth creation and rejuvenated Asian operations to boost opportunities to increase client inflows
- Acquisitions possible with good capital base and Rabobank's backing

WEAKNESSES

- Operational risks on the back of very strong expansion in recent years
- Focus on expansion over short-term profit performance may lead to poor cost control and excessive cost base

THREATS

- Clients prefer big 'safe' banks
- Loss of banking secrecy in Switzerland
- Loss of 'Swiss private bank' status following Rabobank takeover

Valuation ratios

(X)	2007	2008	2009E	2010E	2011E
Cap/AuM *(%)*	2.0	2.4	2.1	1.8	1.6
SOTP/share *(CHF)*			27.9		
P/SOTP *(%)*			97.1		
P/E	10.2	15.9	26.5	12.6	8.6
Cash P/E (ful. diluted)	9.7	14.5	22.8	11.6	8.2
P/BV	1.3	1.4	1.4	1.3	1.2
Dividend yield *(%)*	5.0	2.4	2.4	3.1	3.7

Balance sheet

(In CHF m)	2007	2008	2009E	2010E	2011E
Total assets *(bn)*	11.685	12.706	13.341	14.008	14.709
Sharehold. equ.	1,260	1,193	1,216	1,295	1,427
Intangibles	101	153	103	103	103
Tangible equity	1,159	1,040	1,113	1,192	1,324
Tier 1 ratio *(%)*	17.0	14.5	14.2	14.7	15.8
BV/share *(CHF)*	20.7	19.6	19.9	21.2	23.4
Tang. BV/s. *(CHF)*	19.0	17.1	18.2	19.5	21.7

Income statement

(In CHF m)	2007	2008	2009E	2010E	2011E
Revenues	662	626	627	734	869
Expenses	-429	-479	-511	-537	-599
LLP	-3.5	-7.0	-2.0	0.0	0.0
Net profits	163	104	62.4	132	192
Reported EPS *(CHF)*	2.66	1.71	1.02	2.15	3.15
Cash EPS *(CHF/*f.d.)	2.79	1.86	1.19	2.32	3.32
DPS *(CHF)*	1.35	0.65	0.65	0.85	1.00

Growth rates & balance-sheet ratios

(In %)	2007	2008	2009E	2010E	2011E
Δ in revenues	17.1	-5.4	0.1	17.1	18.4
Δ in expenses	12.0	11.7	6.6	5.1	11.5
Δ in LLP	n.m.	99.0	-71.2	n.m.	n.a.
Δ in net profits	19.8	-35.8	-40.3	111	46.1
Δ in cash EPS	23.2	-33.2	-36.3	95.8	42.8
Δ in report. EPS	19.8	-35.8	-40.3	111	46.1
Δ in DPS	50.0	-51.9	0.0	30.8	17.6

Asset under management

(In CHF bn)	2007	2008	2009E	2010E	2011E
AuM					
Total	83.0	69.7	78.2	91.8	106
Private banking	43.5	38.6	44.1	53.1	62.4
NNM					
Total	11.0	14.5	9.0	10.4	10.4
Private banking	6.5	10.1	6.0	7.4	7.4
PB NNM growth	17.4%	23.1%	15.5%	16.8%	13.9%

Ratios, margins and returns

(In %)	2007	2008	2009E	2010E	2011E
NII/total revenue	15.8	20.5	21.5	19.3	17.1
Cost/income	64.8	76.5	81.5	73.2	68.9
Pre-tax margin	34.7	22.4	18.2	26.8	31.1
PB gr. marg. *(bp)*	n.m.	n.a.	n.a.	n.a.	n.a.
IB comp. ratio	n.m.	n.a.	n.a.	n.a.	n.a.
ROE	14.1	8.5	5.2	10.5	14.1
Cash ROE	14.7	9.3	6.0	11.3	14.9

Vontobel

Price: CHF26.9
Target: CHF27.0

NEUTRAL
M&S

Peter Thorne (pthorne@helvea.com) – Tel. +44 (0)20 7054 7129

Vontobel is a Zurich-based, partly family-owned private bank with significant investment-banking operations based on its Swiss equity warrants business. The bank struck a co-operation deal with the Swiss Raiffeisen banking group in which it will undertake various securities operations for the group in return for being able to distribute Vontobel funds through its branches.

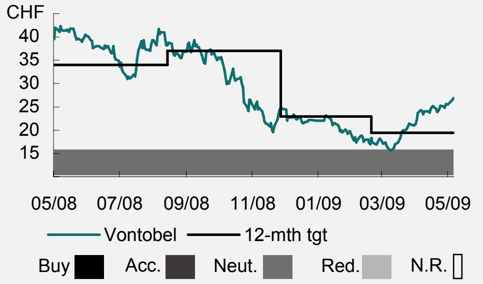
CEO: Herbert Scheidt; CFO: Martin Sieg Castagnola; Website: www.vontobel.com (FY to end-December)

Company data as of 06 May 2009

Sector/Country	Banks/Switzerland
Major shareholders	Shareholder pool 40.0%, Unlocked shares of shareholder pool 14.6%, Raiffeisen Group 12.5%

Shares outstanding *(m)*			59.90	**Cash P/E** *(X)*	
Market cap. *(CHF m)*			1,611	2008	16.0
Free float			33%	2009E	22.8
Op. profits/CAGR 2008A-2011E			15.8%	2010E	13.1
Share perform.	**3m**	**6m**	**12m**	**Symbols**	
Absolute	51%	10%	-35%	Bloomberg	VONN SW
Rel. to local	40%	17%	-10%	Reuters	VONN.S

Share price and ratings



News flow

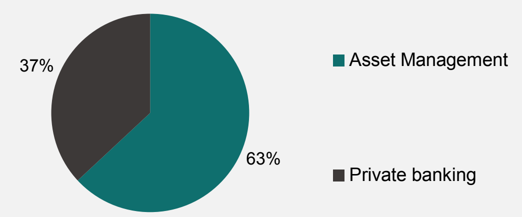
- February 2009: net profits for 2008 of CHF113m well short of consensus expectations (CHF186m); net new money and AuM also below expectations; management stated said that it would seek CHF50m in cost cuts to adjust to the new environment, but it did not specify where these cuts would be made
- April 2009: it is announced that the 100%-owned German subsidiary would open for operations in May 2009 with EUR50m of capital and 50 employees – Vontobel hopes to make Germany a second 'home' market
- Forthcoming event: 12 August 2009 – H1 2009 results
- Guidance & consensus: no guidance; consensus net profit estimates of CHF117m in 2009 & CHF152m in 2010

Investment case

Vontobel has enjoyed great success in its equity derivatives business in Switzerland, and investment banking now accounts for the vast majority of the bank's profits and this business is suffering a slowdown as investors have moved against the complexity and perceived lack of transparency of all structured products. Some competitors such as Deutsche Bank and BCV have actually left this market: whilst this may enable Vontobel to gain market share, it may also mean that they do not believe that the market will ever recover sufficiently. The expansion into Germany could also prove expensive just as the market enters what might be a protracted downturn. We maintain our NEUTRAL rating.

Divisional breakdown (2008)

Breakdown of AuM (2008)



Value drivers

PROFITS

- Lower activity in Swiss equity warrants will be the main driver of lower profit growth in 2009 although this remains a volatile business capable of a sudden reversal of fortunes should market conditions change
- Lower gross margins from declining transaction activity, together with inflexible costs, should see profits drop by 18% in private banking and by 54% in asset management in 2009

BALANCE SHEET AND AUM

- Even with decent NNM, we still expect a 7% fall in average AuM in 2009 as a result of poor market performance, but better equity markets in 2010 should see a recovery of 13% in average AuM
- Tier 1 ratio of 18.4%% at end-December 2009 is strong, but the bank is still small, with just CHF1.4bn in shareholders' equity, so it needs a high Tier 1 ratio

SWOT analysis

STRENGTHS

- Strong franchises in Switzerland
- Very high proportion of discretionary business
- Leading position in Swiss equity warrants
- Small size of investment bank makes it very responsive and flexible to changing investor requirements
- Raiffeisen as a large shareholder is a potential supporter of its balance sheet

OPPORTUNITIES

- Wealth-management market is growing and the bank is being more aggressive about expansion
- Further expand funds via distribution agreements
- Co-operation with Raiffeisen banking group
- Structured products in Germany

WEAKNESSES

- Does not, perhaps, have the requisite critical mass as regards balance-sheet strength if the bank were to run into difficulties
- Highly exposed to Swiss equity warrant business and threat of larger banks competing more aggressively in this market

THREATS

- Permanent, as opposed to cyclical, decline in Swiss equity warrant business
- Increased standardisation and transparency of equity warrants business
- Loss of banking secrecy in Switzerland

Valuation ratios

(X)	2007	2008	2009E	2010E	2011E
Cap/AuM *(%)*	2.0	2.6	2.3	2.0	1.8
SOTP/share *(CHF)*			27.0		
P/SOTP *(%)*			99.5		
P/E	6.6	16.0	22.8	13.1	10.5
Cash P/E (ful. diluted)	6.6	16.0	22.8	13.1	10.5
P/BV	1.2	1.2	1.2	1.2	1.2
Dividend yield *(%)*	7.4	4.5	4.5	5.6	5.6

Balance sheet

(In CHF m)	2007	2008	2009E	2010E	2011E
Total assets *(bn)*	17.992	15.538	16.315	17.131	17.987
Sharehold. equ.	1,421	1,370	1,369	1,404	1,471
Intangibles	123	115	115	115	115
Tangible equity	1,298	1,255	1,254	1,289	1,356
Tier 1 ratio *(%)*	21.8	22.3	23.7	23.2	23.2
BV/share *(CHF)*	22.5	21.7	21.7	22.2	23.3
Tang. BV/s. *(CHF)*	20.5	19.9	19.8	20.4	21.5

Income statement

(In CHF m)	2007	2008	2009E	2010E	2011E
Revenues	991	756	568	715	823
Expenses	-671	-616	-472	-551	-619
LLP	-3.2	-9.2	-2.0	-1.0	-1.0
Net profits	259	107	75.1	130	163
Reported EPS *(CHF)*	4.06	1.68	1.18	2.05	2.56
Cash EPS *(CHF/*f.d.)	4.06	1.68	1.18	2.05	2.56
DPS *(CHF)*	2.00	1.20	1.20	1.50	1.50

Growth rates & balance-sheet ratios

(In %)	2007	2008	2009E	2010E	2011E
Δ in revenues	17.9	-23.7	-24.9	25.9	15.2
Δ in expenses	24.9	-8.3	-23.4	16.7	12.4
Δ in LLP	129	188	-78.3	-50.0	0.0
Δ in net profits	1.0	-58.7	-29.7	73.7	24.9
Δ in cash EPS	1.5	-58.7	-29.7	73.7	24.9
Δ in report. EPS	1.5	-58.7	-29.7	73.7	24.9
Δ in DPS	0.0	-40.0	0.0	25.0	0.0

Asset under management

(In CHF bn)	2007	2008	2009E	2010E	2011E
AuM					
Total	79.5	62.4	69.4	80.0	90.6
Private banking	28.8	23.0	25.0	28.3	31.7
NNM					
Total	5.8	3.9	6.5	7.0	7.0
Private banking	2.4	2.1	2.0	2.0	2.0
PB NNM growth	9.2%	7.3%	8.7%	8.0%	7.1%

Ratios, margins and returns

(In %)	2007	2008	2009E	2010E	2011E
NII/total revenue	5.3	10.1	9.7	8.4	7.3
Cost/income	67.7	81.4	83.1	77.0	75.1
Pre-tax margin	32.0	17.4	16.5	22.8	24.7
PB gr. marg. *(bp)*	96.0	91.1	84.0	90.0	94.0
IB comp. ratio	n.m.	n.m.	n.m.	n.a.	n.a.
ROE	19.1	7.7	5.5	9.4	11.3
Cash ROE	19.1	7.7	5.5	9.4	11.3

BCV

Price: CHF379.-

Target: CHF335.-

NEUTRAL

M&S

Peter Thorne (pthorne@helvea.com) – Tel. +44 (0)20 7054 7129

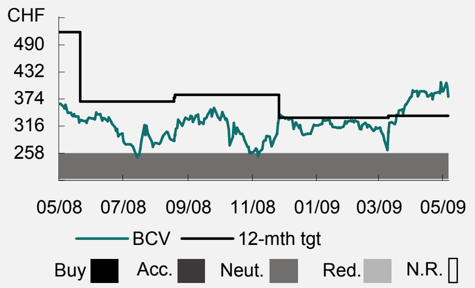
Banque Cantonale Vaudoise (BCV) is the cantonal bank for the Swiss Canton of Vaud which continues to own 68% of the bank's ordinary shares. The bank ran into serious credit quality problems in 2001 and 2002 as a result of bad loan decisions stretching back over many years. After emergency recapitalisation and the appointment of a new and experienced management team, the bank has returned to profit and is now generating surplus capital which it is returning to shareholders.

CEO: Pascal Kiener; CFO: Thomas Paulsen; Website: www.bcv.ch (FY to end-December)

Company data as of 06 May 2009

Sector/Country	Banks/Switzerland				
Major shareholders	Canton of Vaud 67.7%				
Shares outstanding *(m)*			8.57	**Cash P/E** *(X)*	
Market cap. *(CHF m)*			3,248	2008	9.1
Free float			32%	2009E	17.8
Op. profits/CAGR 2008A-2011E			2.0%	2010E	13.8
Share perform.	**3m**	**6m**	**12m**	**Symbols**	
Absolute	16%	50%	7%	Bloomberg	BCVN SW
Rel. to local	8%	60%	48%	Reuters	BCVN.S

Share price and ratings



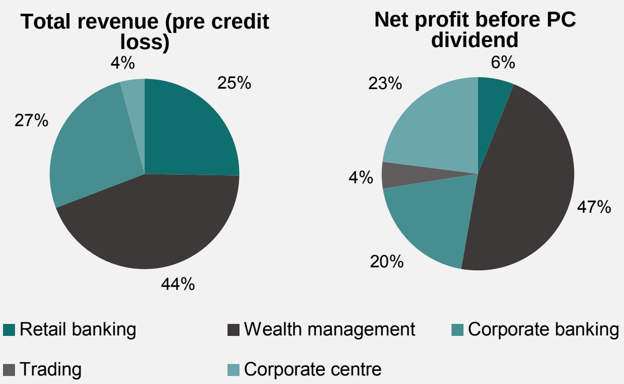
News flow

- March 2009: 2008 net profits better than expected thanks to good trading results; the bank warned that loan-loss and tax write-backs had come to an end, but it did promise to pay a good dividend – CHF30 for 2008 and CHF20-25 per share for the next five to six years – as a way of distributing its surplus capital
- April 2009: Q1 2009 results disappointing after trading activity is stripped out
- Forthcoming event: 20 August 2009 – H1 2009 results
- Guidance & consensus: guidance – no specific guidance; consensus estimates for net profits of CHF186m for 2009 and CHF203m for 2010

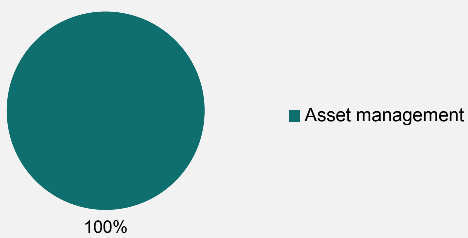
Investment case

BCV offers an extremely attractive yield which is probably as safe as any in the European banking sector, but there are fears that the bank may suffer from a reversal of the massive loan-loss write-backs made over the last few years if the local economy were to deteriorate and the property market weaken. The bank's underlying earnings power is also suffering from its withdrawal from some businesses, such as Swiss equity warrants, and, in the short term, there are adverse cyclical factors such as weak markets. The disappointing underlying growth in Q1 2009 profits after trading activities are deducted highlights the low growth in its core market. NEUTRAL maintained.

Divisional breakdown (2008)



Breakdown of AuM (2008)



Value drivers

PROFITS

- Revenues in 2009 to be hit by economic slowdown and depressed financial markets, but absence of trading losses should offset these factors a little; 2010 should see slightly higher revenue growth assuming that markets recover
- Loan-loss write-backs to end in 2008 and new provisions to rise given the economic climate, leading to 50% drop in net profits in 2009, but lower provisions should see profits rebound in 2010

BALANCE SHEET AND AUM

- Tier 1 ratio of 16.2% at end-December 2008 to be reduced to the target level of 12% by payment of high dividend over the next 5 to 6 years
- We have not factored any success from the strategic split or refocusing on private banking and asset management into our forecasts for low growth in net new money in 2009 and 2010 as the success of this initiative is too uncertain at the moment

SWOT analysis

STRENGTHS

- Leading market share in Vaud
- Concentration on retail banking
- No aspiration to expand internationally, regionally or even in Switzerland in retail banking

OPPORTUNITIES

- Expansion of private-banking business in Vaud
- Expansion of asset-management business throughout Switzerland
- Increased share of wallet of retail banking customers

WEAKNESSES

- Dependence on the Vaud economy
- Potential political interference from main shareholder

THREATS

- Deterioration in local economy and property market
- More competition from other Swiss banks, especially in the mortgage market

Valuation ratios

(X)	2007	2008	2009E	2010E	2011E
Cap/AuM *(%)*	4.0	4.9	4.8	4.5	4.2
SOTP/share *(CHF)*			335		
P/SOTP *(%)*			113		
P/E	7.0	9.1	18.0	13.9	12.5
Cash P/E (ful. diluted)	6.9	9.1	17.8	13.8	12.4
P/BV	1.0	1.0	1.1	1.0	1.0
Dividend yield *(%)*	12.3	7.9	5.3	5.3	6.6

Balance sheet

(In CHF m)	2007	2008	2009E	2010E	2011E
Total assets *(bn)*	35.337	35.239	36.472	37.749	39.070
Sharehold. equ.	3,210	3,161	3,088	3,155	3,247
Intangibles	14.0	12.0	12.0	12.0	12.0
Tangible equity	3,196	3,149	3,076	3,143	3,235
Tier 1 ratio *(%)*	16.3	16.2	15.4	15.3	15.3
BV/share *(CHF)*	375	369	361	368	379
Tang. BV/s. *(CHF)*	373	368	359	367	378

Income statement

(In CHF m)	2007	2008	2009E	2010E	2011E
Revenues	1,088	928	903	963	1,016
Expenses	-642	-579	-575	-594	-613
LLP	-9.6	-16.1	-80.0	-50.0	-50.0
Net profits	466	356	180	234	259
Reported EPS *(CHF)*	54.4	41.6	21.0	27.3	30.3
Cash EPS *(CHF/*f.d.)	54.6	41.8	21.3	27.6	30.5
DPS *(CHF)*	46.5	30.0	20.0	20.0	25.0

Growth rates & balance-sheet ratios

(In %)	2007	2008	2009E	2010E	2011E
Δ in revenues	-1.2	-14.7	-2.7	6.7	5.5
Δ in expenses	-1.9	-9.7	-0.7	3.2	3.3
Δ in LLP	24.7	67.7	397	-37.5	0.0
Δ in net profits	-8.8	-23.5	-49.5	30.0	10.7
Δ in cash EPS	-8.7	-23.4	-49.2	29.7	10.6
Δ in report. EPS	-8.8	-23.5	-49.5	30.0	10.7
Δ in DPS	564	-35.5	-33.3	0.0	25.0

Asset under management

(In CHF bn)	2007	2008	2009E	2010E	2011E
AuM					
Total	80.5	66.8	67.4	72.5	77.9
Private banking	n.a.	n.a.	n.a.	n.a.	n.a.
NNM					
Total	n.a.	n.a.	n.a.	n.a.	n.a.
Private banking	n.a.	n.a.	n.a.	n.a.	n.a.
PB NNM growth	n.a.	n.a.	n.a.	n.a.	n.a.

Ratios, margins and returns

(In %)	2007	2008	2009E	2010E	2011E
NII/total revenue	46.4	54.3	55.3	53.6	52.6
Cost/income	59.0	62.4	63.7	61.6	60.4
Pre-tax margin	40.1	35.8	27.4	33.2	34.7
PB gr. marg. *(bp)*	n.m.	n.m.	n.m.	n.a.	n.a.
IB comp. ratio	n.m.	n.m.	n.m.	n.a.	n.a.
ROE	15.8	11.2	5.8	7.5	8.1
Cash ROE	15.9	11.2	5.8	7.6	8.2

St.Galler Kantonalbank

Price: CHF400.- | **NEUTRAL**

Target: CHF347.- | **M&S**

Peter Thorne (pthorne@helvea.com) – Tel. +44 (0)20 7054 7129

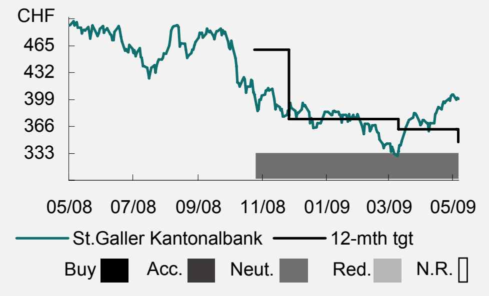
St.Galler Kantonalbank (SGKB) is a cantonal bank based in North-East Switzerland, with a 30% local market share and a sizeable local mortgage book. The loan book is of good quality, but low-growth, so the bank is seeking growth through expanding its private-banking operations both in its region and internationally. A big step in developing the latter was the purchase of Hyposwiss from UBS in 2002. The Canton owns 54.8% currently, but may eventually lower this stake to 33%. The parent bank is a recipient of a State guarantee.

CEO: Roland Ledergerber; CFO: Christian Schmid; Website: www.sgkb.ch (FY to end-December)

Company data as of 06 May 2009

Sector/Country	Banks/Switzerland				
Major shareholders	Canton of St Gallen 54.8%				
Shares outstanding *(m)*			5.57	**Cash P/E** *(X)*	
Market cap. *(CHF m)*			2,229	2008	10.3
Free float			45%	2009E	12.5
Op. profits/CAGR 2008A-2011E			6.0%	2010E	11.1
Share perform.	**3m**	**6m**	**12m**	**Symbols**	
Absolute	8%	-3%	-18%	Bloomberg	SGKN SW
Rel. to local	1%	3%	13%	Reuters	SGKN.S

Share price and ratings



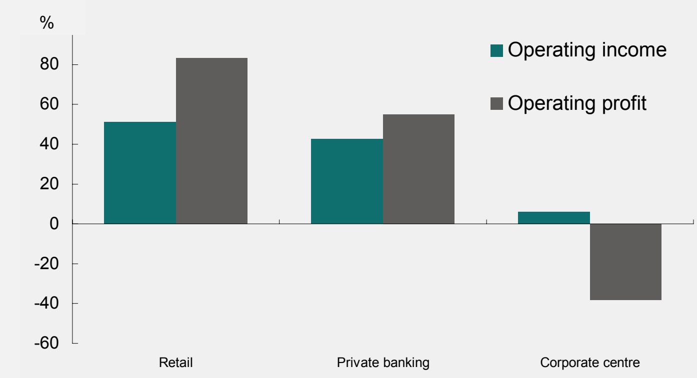
News flow

- February 2009: profits for 2008 were down 25% on the previous year, in line with our forecast, but a bigger decline than had been previously indicated by the bank; net new money also fell short of our expectations, but set a record for the bank – contrary to many commentators' expectations, the inflows were not from disaffected UBS clients, but from international customers
- Forthcoming event: 13 August 2009 – H1 2009 results
- Guidance & consensus: guidance is for 2009 profits to come in at same level as 2008's; consensus estimates for net profits of CHF159m in 2009 and CHF188m in 2010

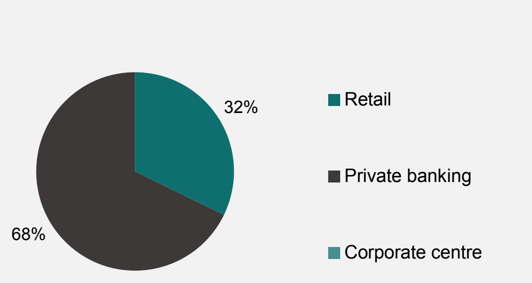
Investment case

St.Galler Kantonalbank is an adequately capitalised, comparatively safe bank, with a decent yield in a hard currency – this is an attraction for many investors and, indeed, in the past, it has been considered as the only reason for investing in retail banks in some countries. The bank has a sensible strategy to increase its growth rate by expanding into private banking, a development that it is undertaking at a steady, rather than spectacular, pace. It plans to expand its private banking into Germany, which, in the short term, could prove expensive. We maintain our NEUTRAL rating.

Divisional breakdown (2008)



Breakdown of AuM (2008)



Value drivers

PROFITS

- Deposit and mortgage margin erosion, combined with weak transaction activity, to lead to flat income in 2009, but a market recovery would boost this to 9% growth in 2010
- We anticipate that business expansion will lead to cost increases in 2009 and 2010, which should result in a fall of 6% in gross profits in 2009, but increased revenues in 2010 should lead to a rise in profits in 2010

BALANCE SHEET AND AUM

- Average AuM to rise by 4% in 2009 thanks to positive momentum from good NNM growth overcoming flat markets; growth to accelerate in 2010 assuming a market performance of 5%
- Tier 1 ratio of 13.7% hitherto considered strong, but banks globally are raising the bar and this ratio does not look all that high today; bank has a target of 15%, but it does have a State guarantee to support it

SWOT analysis

STRENGTHS

- Strong 30% market share in its home canton
- Clear focus of activity on local retail banking and private banking
- State guarantee

OPPORTUNITIES

- Grow private-banking business locally and in target markets of Eastern Europe and Latin America
- Opportunity to win market share from customers concerned about solvency of banks like UBS
- Expansion into Germany

WEAKNESSES

- Competition from other Swiss banks, especially the large ones, can damage banking margins
- *Hyposwiss* brand that is used outside Switzerland probably not that well known
- No investment bank for bespoke products

THREATS

- Large banks with diversified businesses undercutting its margins to squeeze out St.Galler Kantonalbank
- Switzerland as a financial centre and a possible loss of bank secrecy

Valuation ratios

(X)	2007	2008	2009E	2010E	2011E
Cap/AuM *(%)*	5.9	5.9	5.5	5.0	4.6
SOTP/share *(CHF)*			347		
P/SOTP *(%)*			115		
P/E	10.0	13.0	14.5	12.2	11.0
Cash P/E (ful. diluted)	9.0	10.4	12.6	11.2	10.1
P/BV	1.3	1.3	1.2	1.2	1.1
Dividend yield *(%)*	7.8	5.0	5.0	5.0	5.0

Balance sheet

(In CHF m)	2007	2008	2009E	2010E	2011E
Total assets *(bn)*	20.236	22.577	23.706	24.891	26.136
Sharehold. equ.	1,739	1,744	1,786	1,856	1,947
Intangibles	43.0	135	100	70.0	70.0
Tangible equity	1,696	1,609	1,686	1,786	1,877
Tier 1 ratio *(%)*	13.9	13.7	14.0	14.4	14.6
BV/share *(CHF)*	312	313	320	333	349
Tang. BV/s. *(CHF)*	304	289	303	320	337

Income statement

(In CHF m)	2007	2008	2009E	2010E	2011E
Revenues	556	525	523	572	598
Expenses	-283	-287	-302	-321	-321
LLP	-3.9	-10.1	-5.6	-5.6	-5.6
Net profits	222	171	153	181	202
Reported EPS *(CHF)*	40.1	30.8	27.7	32.7	36.4
Cash EPS *(CHF/*f.d.)	44.6	38.5	31.8	35.8	39.6
DPS *(CHF)*	31.0	20.0	20.0	20.0	20.0

Growth rates & balance-sheet ratios

(In %)	2007	2008	2009E	2010E	2011E
Δ in revenues	0.1	-5.5	-0.4	9.3	4.5
Δ in expenses	6.1	1.2	5.2	6.3	0.0
Δ in LLP	-62.4	161	-44.6	0.0	0.0
Δ in net profits	-2.7	-23.1	-10.2	18.2	11.4
Δ in cash EPS	-1.8	-13.6	-17.6	12.9	10.3
Δ in report. EPS	-2.7	-23.1	-10.2	18.2	11.4
Δ in DPS	3.3	-35.5	0.0	0.0	0.0

Asset under management

(In CHF bn)	2007	2008	2009E	2010E	2011E
AuM					
Total	37.9	37.7	40.7	44.4	48.3
Private banking	25.5	25.6	28.1	31.0	34.0
NNM					
Total	-1.8	3.9	3.0	1.7	1.7
Private banking	n.a.	n.a.	n.a.	n.a.	n.a.
PB NNM growth	n.a.	n.a.	n.a.	n.a.	n.a.

(In %)	2007	2008	2009E	2010E	2011E
NII/total revenue	55.0	58.1	60.4	57.4	57.1
Cost/income	51.0	54.6	57.7	56.0	53.6
Pre-tax margin	48.3	43.5	41.3	43.0	45.4
PB gr. marg. *(bp)*	n.a.	n.a.	n.a.	n.a.	n.a.
IB comp. ratio	n.a.	n.a.	n.a.	n.a.	n.a.
ROE	12.9	9.8	8.7	10.0	10.6
Cash ROE	14.5	12.4	10.1	11.0	11.6

IMPORTANT DISCLOSURES

UNITED STATES: Helvea Inc., member of FINRA and SIPC, accepts responsibility under applicable laws for the content of this report when it distributes the report in the United States. Additional information on this report is available upon request.

DISCLOSURES TO BETTER UNDERSTAND SECURITIES ANALYST RECOMMENDATIONS: Either Helvea SA or Helvea Ltd (hereafter collectively referred to as "Helvea") is the issuer of this report. Helvea is not a member of the FINRA. Therefore, Helvea , its employees and the research analyst of Helvea who prepared this report are not subject to FINRA Rule 2711. Rule 2711 applies only to Helvea Inc. (hereafter "HI").

Helvea SA, Helvea Ltd, and Helvea Inc. **did not**, except if it is specifically stated, for any company mentioned in this report:

a) Beneficially own 1% or more of any class of common equity securities as of the end of the month immediately preceding this report.
b) Manage or co-manage a public offering in the past 12 months; receive any compensation for investment banking services in the past 12 months **and do not** expect to receive or intend to seek compensation for investment banking services in the next three months.
c) Act as a market maker for any stock mentioned in this report.

Helvea SA, Helvea Ltd and Helvea Inc. are not aware of any other actual, material conflict of interest at the time of distribution of the research report.

RATING CATEGORIES:
The following is an explanation of the ratings, if any, included in this report.

INTERPRETATION MATRIX PER RISK CLASS FOR EACH RATING – expected return based on 12-month price targets –		
Rating/share class	**Large-cap**	**Mid-cap & Small-cap**
BUY	>20%	>30%
ACCUMULATE	10% to 20%	15% to 30%
NEUTRAL	–10% to 10%	–15% to 15%
REDUCE	<–10%	<–15%

RESEARCH RATINGS KEY:

- **There are four possible ratings: BUY, ACCUMULATE, NEUTRAL OR REDUCE.**
- For each rating there is a different price target appreciation, expressed as a percentage, according to the classification of the company in one of the two investment categories into which the universe of companies covered by Helvea is divided.
- The **Large-Cap** universe comprises the constituents of the Swiss SMI Index together with those non-Swiss companies covered by Helvea.
- The **Mid- and Small-Cap** universe is defined to be all other shares under coverage.

EXAMPLES of certain ratings:

- **BUY/M&S**: a company that belongs to the Mid-cap & Small-cap universe where Helvea expects the stock to appreciate more than 30% over the next 12 months.
- **ACCUMULATE**: a company that is an SMI member or a part of Helvea's non-Swiss coverage universe where Helvea expects the stock price to appreciate by between 10% and 20% over the next 12 months.

DISTRIBUTION OF RESEARCH RATINGS

BUY	ACCUMULATE	NEUTRAL	REDUCE
17.0%	8.9%	71.4%	2.7%

H SSR00427 0509

HELVEA

SWITZERLAND

Helvea SA, Geneva Head Office
Rue de Jargonnant 5
1207 Geneva, Switzerland
Phone +41 (0)22 354 9050
Fax +41 (0)22 354 9151

Helvea SA – Zurich Branch
Talstrasse 9
8001 Zurich, Switzerland
Phone +41 (0)43 388 9200
Fax +41 (0)43 388 9201

UNITED KINGDOM

Helvea Ltd, London
5 Royal Exchange Buildings
London EC3V 3NL, UK
Phone + 44 (0)20 7054 7100
Fax + 44 (0)20 7054 7101

NORTH AMERICA

Helvea Inc., Montreal
1800 McGill College Avenue, Suite 1020
Montreal, Quebec H3A 3J6, Canada
Phone +1 514 288 3556
Toll free +1 800 561 8161
Fax +1 514 284 3270
Trading/Sales Trading – Geneva +1 877 774 2838

Helvea Inc., New York Branch
600 Lexington Avenue, Suite 2501
New York, NY 10022, USA
Phone +1 212 935 5150
Toll free +1 877 662 9021
Fax +1 212 935 5154
Trading/Sales Trading – Geneva +1 877 774 2838