

Microfinance Capacity Building Initiative

WHITE PAPER

Credit Suisse Microfinance Capacity Building Initiative in collaboration with the Microfinance Communications Council

Taking Stock of Microfinance: Perception Survey Among Wealth Holders and Their Advisers in the US, Europe and Asia

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Dorothy Makupe of Mulanje, Malawi, took out her first microloan of USD 33 from Opportunity International to purchase maize flour for resale in the market. As a single mother of three, Dorothy uses her profits to buy food and clothing, and to set aside money in her Opportunity savings account for business opportunities or emergencies.

Credit Suisse has been at the forefront of microfinance over the last decade: from the 2003 co-founding of responsAbility Social Investments AG to the 2008 launch of the Microfinance Capacity Building Initiative, a philanthropically-funded initiative to support the development of the human and institutional capacity of the sector, Credit Suisse has continually demonstrated its commitment to developing innovative solutions that link the top with the base of the income pyramid and promote financial inclusion.

Today, Credit Suisse has an industry-leading microfinance franchise across all divisions of the bank. Private Banking advises clients and channels investments to the microfinance industry and provides dedicated sector research. Investment Banking provides microfinance institutions (MFIs) with advisory services and access to capital markets; and Asset Management acts as a fund administrator and custodian bank for microfinance investment vehicles (MIVs). Just recently, Credit Suisse has passed the USD 1 billion mark in assets under management.

This paper is part of the broader work of the Microfinance Capacity Building Initiative, whose mission is to enable MFIs to develop the people, processes and products they need in order to meet their social and financial goals. To learn more, see page 11.

Executive summary

- A survey among wealth holders and their advisers in the United States, Europe and Asia suggests that the perception of microfinance remains positive, with many viewing microfinance as an effective tool to alleviate poverty and to support entrepreneurship.
- Most of the respondents felt that microfinance nevertheless needed to address some important issues, including risk of client over-indebtedness and rapid industry growth.
- Both investments and donations were seen as necessary and complementary, not mutually exclusive.
- More comprehensive reporting, both qualitative and quantitative, was perceived as important in helping increase investments and donations in microfinance.
- Better education of, and awareness-raising among, wealth holders, particularly in Asia, was also seen as essential to increasing involvement of wealth holders.
- With respect to the effectiveness of communication, the majority of participants did not feel that the microfinance industry speaks with “one voice.” In addition, participants felt that communication needs to be improved regarding topics such as how microfinance works, social and financial impact and risks. More proactive response to criticism was also seen as important.



Li Xiaoyan and her husband, Han Dongdong, first opened their barbecue restaurant in 2009 in Inner Mongolia. With a microloan from ACCION Microfinance China, Li and Han have been working to grow the business and meet market demands for delicious, home cooked meals.

Methodology

The purpose of the survey was to gauge the perception of microfinance in general and the communication of the microfinance industry in particular, among wealth holders and their advisers¹ based in the United States, Europe and Asia.

Independent consultant, Dr. Julia Balandina Jaquier (see page 13), conducted the research assisted by Dr. Ivo Knoepfel of onValues Ltd. A total of 41 in-depth interviews were completed between December 2010 and March 2011, based on a detailed questionnaire. Almost half of these interviews took place in-person with the remainder conducted via telephone.

All of the data presented in the paper, including all of the figures, is based upon the abovementioned survey.

¹ Advisers refers to private wealth managers and multi-family offices. Given their influence over the investments and philanthropic decisions of wealth holders and the fact that each adviser reaches multiple wealth holders, the purpose of including them in the research was to gauge the perception of this important stakeholder group.

Introduction

After weathering the financial crisis relatively well, the microfinance industry came under scrutiny in 2010 when a series of events drew negative attention to the industry, including the crisis in the Indian state of Andhra Pradesh², which had been attributed to client over-indebtedness and the fast-paced growth of microfinance in the region. Not long after, microfinance pioneer and Nobel Peace Prize laureate Professor Muhammad Yunus was removed from his post as Managing Director of Grameen Bank, which he had founded in Bangladesh more than three decades earlier. Media coverage also focused on the disparate views in the sector regarding the growth of commercial microfinance, particularly in light of the increased interest in microfinance as a profitable investment opportunity, such as the IPO of SKS Microfinance in India. Within a short time, the established perception of microfinance as an effective and just tool for poverty alleviation transformed into a debate about whether microfinance does more harm than good.

The Microfinance Communications Council, a group of communications professionals from some of the leading microfinance organizations (see page 12 to learn more) has been focused on identifying and addressing the foremost communications issues of the industry since 2009. In light of recent developments, the Council felt that an effort to take stock of the current perception of microfinance would be both timely and relevant. A particular focus was on taking the pulse of some of the industry's most important benefactors: high-net-worth and ultra-high-net-worth individuals³ (jointly referred to as wealth holders going forward) who act as investors and donors for microfinance. At this notably opportune moment in the industry's history, how do these investors and donors perceive the microfinance industry? What do they see as the issues and challenges facing the sector? And how can microfinance organizations better reach and communicate with this double bottom line-driven segment?

2 In September 2010, it was reported that a number of microfinance customers in the Indian state of Andhra Pradesh committed suicide due to their over-indebtedness. The reporting attributed these incidences to the fast-paced and aggressive growth of microfinance in the region which they claimed led to over-indebtedness among borrowers and aggressive collection practices. As a result, authorities implemented restrictions on microfinance activities in the state, which in turn led to negative media coverage about microfinance internationally.

3 High-net-worth individuals (HNWIs) generally refers to individuals with a minimum of USD 2 million of liquid assets. Ultra-high-net-worth individuals (UHNWIs) generally refers to those with at least USD 30 million of liquid assets.



Gaspa Garidad, a member of FINCA Haiti Village Banking group Famn Vayant (Valiant Women), took out her first loan in 2002 to start her bread making business. Today, she pays for her children's school fees, and is saving USD 6 a week for her family's future.

Overview of survey participants

Regional distribution of the participants can be seen in Figure 1. While the proportion of wealth holders and advisers was quite evenly distributed in Europe and Asia, the participant pool consisted of a larger proportion of wealth holders, and thus fewer advisers, in the United States. A breakdown of the participants revealed an approximately 70:30 male-female ratio (Figure 2).

Two-thirds of the participants were involved in microfinance (Figure 3) – almost one quarter as donors and approximately one fifth as investors, with another quarter involved as both investors and donors. The remaining one-third had not been involved with microfinance in any way; this sub-group was included in the survey to better understand why some wealth holders choose not to invest in or donate to microfinance at all.

Maria Lucia Potosi of Ecuador took out her first microloan of USD 200 from FINCA International. This allowed her to purchase wool in bulk, which has helped her triple her business and her income. Today, her family eats more nutritious food and her children are able to stay in school.



Figure 1: Survey participants – regional distribution

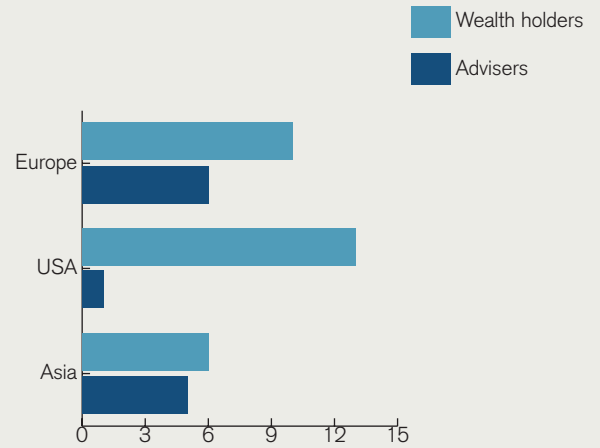


Figure 2: Survey participants – gender distribution

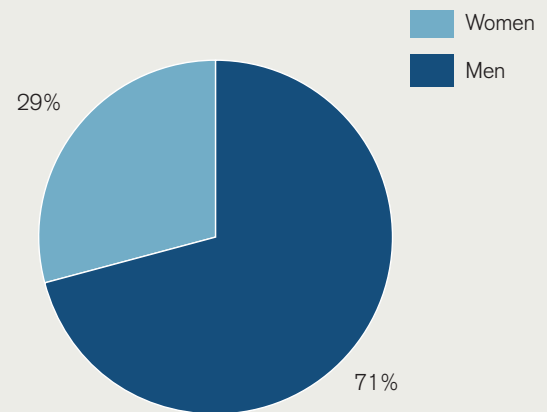
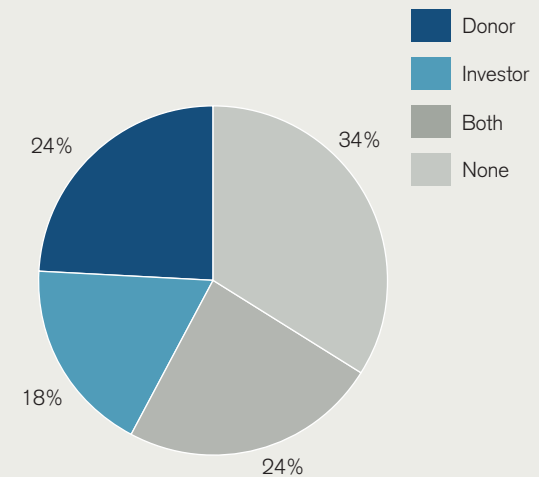


Figure 3: Survey participants – involvement in microfinance



Overview of survey results

Perception of microfinance remains generally positive but challenges recognized

The survey suggested that both investors and donors had a generally positive perception of microfinance, as did the majority of advisers. Among the participants, Europeans and Americans were more positive than Asians, while women were slightly more positive than men. Even the few who expressed a negative perception of the industry still supported the overall concept of microfinance.

The survey demonstrated that the two primary reasons for supporting microfinance (Figure 4), whether through investments or through donations, were that microfinance was viewed as an effective tool to alleviate poverty and to support entrepreneurship. Female participants showed a preference for the former while men demonstrated a preference for the latter. Desire to support financial inclusion and empower women also were important reasons for being involved in microfinance.

Wealth holder, microfinance investor and donor (USA)

"For me, microfinance means aligning business values with my values. Microfinance should be sustainable."

Most wealth holders from the US and Europe were well informed and felt knowledgeable about microfinance. Awareness was generally lower among Asian participants. However, they were particularly aware of the recent situation involving Professor Muhammad Yunus in Bangladesh which gave them reason for concern. While most European and American participants stated that the recent criticism of micro-

finance had not changed their perception, they had reacted by becoming more careful in selecting the organizations and institutions they support.

Having stated their ongoing support for microfinance, most of the respondents remain convinced that microfinance needs to address some important issues (Figure 5). Wealth holders and advisers expressed concern about the rapid growth of the industry over the past three decades – from a few devoted pioneers to more than 1,000 institutions with various motivations and approaches. Respondents alluded to the fact that the growth has led to worrisome consequences including uneven capital flow, with capital "draught" in certain areas yet market saturation in others. Respondents also perceived an ethical split in the industry between non-profit and for-profit institutions, which they felt were competing rather than collaborating with each other. Participants expressed the need for improved definition of industry players to allow for better evaluation of the effectiveness of individual organizations.

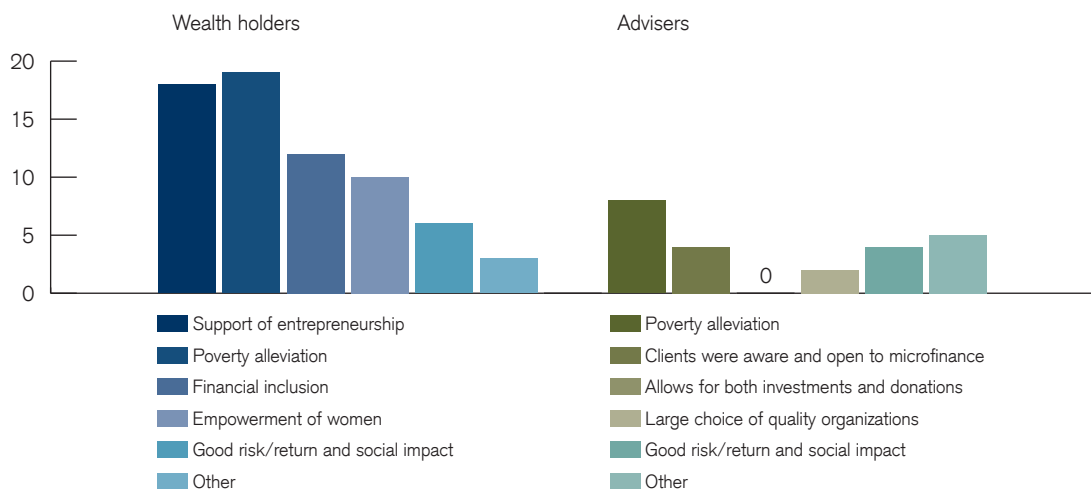
While some participants viewed the criticism targeted at microfinance as "typical for a maturing industry," others felt that without addressing some of the aforementioned issues "the industry will not develop." According to most respondents, microfinance needs to focus on professionalization and efficiency, which they perceived would help drive down both costs

Wealth holder, not currently involved in microfinance (Asia)

"It is very difficult to navigate and understand who the good guys are and who are not, so it seems a matter of luck. Communication is key. Five years ago there was a clear perception, now it is muddled, criticized and people are confused. General awareness is lacking."

Figure 4: Support of microfinance

What is it that makes you support microfinance in general and choose it versus other types of donations or investments?





After losing her home and livelihood when the 2004 tsunami hit Indonesia, Andian took out a USD 100 microloan from Grameen Foundation partner Mitra Dhuafa to restart her traditional Indonesian cookie-making business, which now adds USD 3 a day to her family's income.

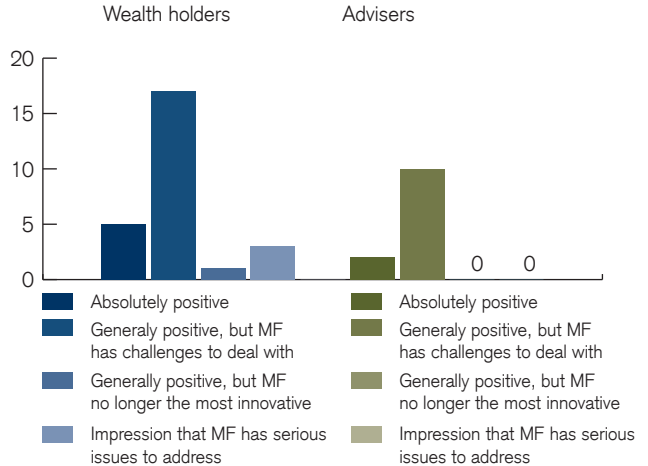
and interest rates charged to end-users. Industry-wide ethical standards and best practices, as well as improved transparency and disclosure on social and financial impacts, were also considered indispensable.

Other issues faced by the microfinance industry, according to the wealth holders, are client over-indebtedness linked to low financial literacy and the perceived growing proportion of consumer credit increasingly substituting productive working capital loans (which used to be the core of the original microfinance business model). Several respondents considered consumer financing as microfinance “getting away from its roots,” which one participant emphasized could prove “disastrous.”

There was a greater diversity among responses from Asian participants. As one respondent explained, “every country in Asia has its nuances” and perceptions about microfinance are influenced by cultural background. For example, in Japan there is an alleged bias against non-profit organizations, while in Hong Kong respondents suggested that people prefer to invest in or donate to China, but are often hindered by regulations. The concept of adapting microfinance to cater

to local interests and values was raised by Asian participants. Several respondents also highlighted their interest in having a direct impact on recipients.

Figure 5: Perception of microfinance
What is your current perception of microfinance?

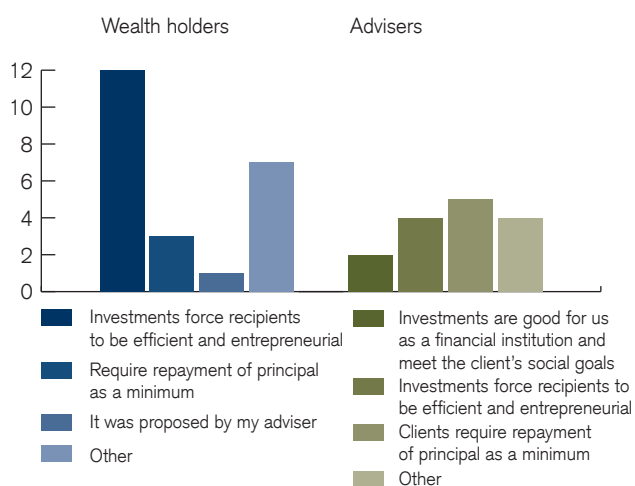


Both investments and donations seen as necessary and complementary, not mutually exclusive

When it comes to preferring investments to donations (Figure 6), survey participants had a balanced view of a need for both. Among wealth holders with a stated preference for investments, the leading reason given was they felt that investments forced recipients to be efficient and entrepreneurial. One respondent stated that making an investment is “constructive capital – using wealth to help create wealth.” Furthermore, several participants expressed the notion that the industry cannot only rely on donations if it wants to further expand and reach an ever greater number of clients.

Figure 6: Preference for investments

What has led you to prefer investments over donations in microfinance?



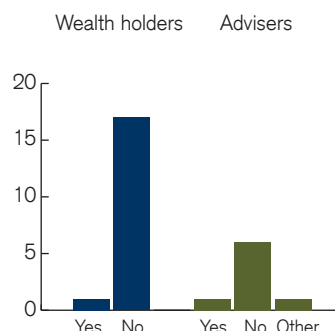
Most of the participants who invested in microfinance did a certain amount of due diligence before deciding to invest in a specific microfinance organization or fund. Advisers tended to be more critical and thorough in their analysis. Other criteria used by wealth holders for selecting a specific MFI included guidance from financial advisers or peers, as well as being directly approached by an institution. Those participants who were closest to the topic mentioned that personal meetings with management and trips to the field made a difference in their decision-making.

Wealth holder, microfinance donor (Europe)

“If you only provide donations, the market for microfinance will be very finite. So there needs to be commercial capital, but it needs to have a responsible nature.”

Figure 7: Cannibalization of donations by investments

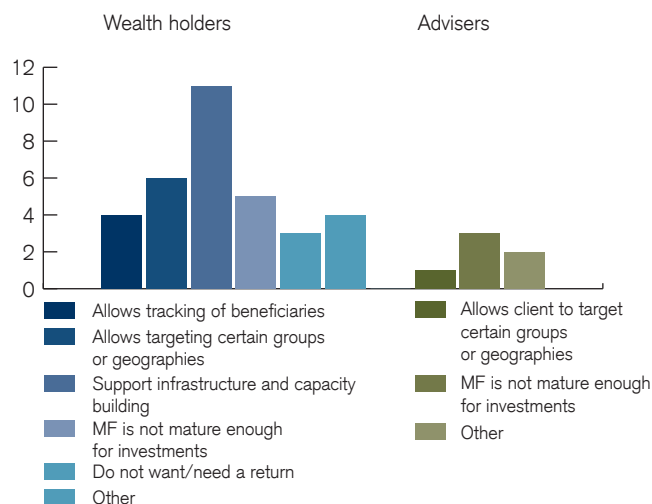
Do you think that the availability of investment opportunities in microfinance reduced your (or your clients’) appetite to donate to microfinance?



With respect to the potential cannibalization of donations by investments, the vast majority of the respondents did not think that the availability of investment opportunities reduced their appetite to donate to microfinance (Figure 7). Wealth holders in particular exhibited a sound understanding of the fact that donations were necessary to build infrastructure and capacity. Among the participants who preferred donations, the primary reason stated was their desire to support the capacity building considered critical though not commercially lucrative (Figure 8).

Figure 8: Preference for donations

What has led you to prefer donations over investments in microfinance?



However, several also noted donations should be utilized as a transitory solution until an MFI reached self-sufficiency. In addition, women showed an interest in targeting certain recipient groups such as female entrepreneurs or specific geographies. Several wealth holders and advisers did not consider microfinance to be sufficiently mature for investments at this time and therefore preferred donations.

Ways to increase investments and donations in the industry include broader range of products and improved reporting

The primary barrier preventing wealth holders from further expanding their microfinance investments or donations (Figure 9) was competition from other philanthropic areas, in particular education, health, and for Asian respondents, disaster relief and religion. The perceived lack of track record in social and financial performance also emerged as a barrier for both wealth holders and advisers.

When asked what would be necessary to increase financial support in the future, the response from wealth holders was similar for both investments and donations: more comprehensive reporting, both qualitative and quantitative (Figure 10 and Figure 11). Several respondents stated that the effectiveness of microfinance needs to be proven, for example, through “rigorous assessment of the impact the organization achieved.” This would increase transparency, shed light on social and financial impact, and support due diligence procedures.

In line with what was mentioned in other responses, several participants highlighted their interest in a broader range of microfinance products, including the ability to donate to or invest in specific focus areas such as women in rural areas, microenterprises, education, health and “microfinance plus.”⁴ A number of participants also expressed a desire to support and participate in microfinance locally, even in developed countries. Advisers emphasized the lack of awareness among their clients about microfinance, particularly in Asia, and suggested that enhanced outreach and education measures would help remove this obstacle.

More transparent, effective and coordinated communication seen as necessary

Both wealth holders and advisers cited the general media as their primary source of information in guiding decisions about microfinance investments and donations. Some admitted that this heavy reliance on the general media could be a risk for the industry – a risk that seemed to materialize in late 2010 as the Andhra Pradesh situation came to light. Several participants had the impression that the ensuing debate and dialogue was not proactively managed by the industry and was rather left in the hands of newspaper columnists and bloggers.

The second most mentioned source of information was reports from MFIs. Some respondents also cited the use of specialist media, such as reports from the MIX (Microfinance Information Exchange) or the policy and research center CGAP (Consultative Group to Assist the Poor). Several of the respon-

4 “Microfinance plus” refers to the provision of value-adding services in addition to a traditional microfinance loan; for example, preventative healthcare and education, business consulting services, etc.

Figure 9: Barriers to increasing investments and donations
What were initially or still are the main barriers to expanding further your financial involvement in microfinance? For advisers: What barriers impede you from more proactively recommending microfinance investments or donations to your clients?

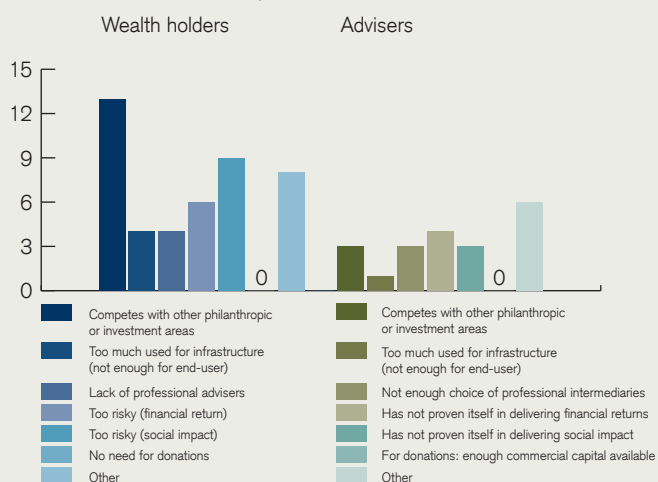


Figure 10: What will increase investments
What will convince you (or your clients) to increase investment levels in the future?

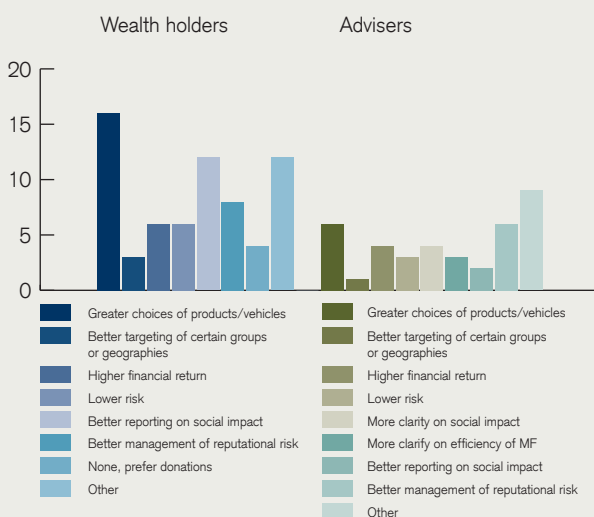
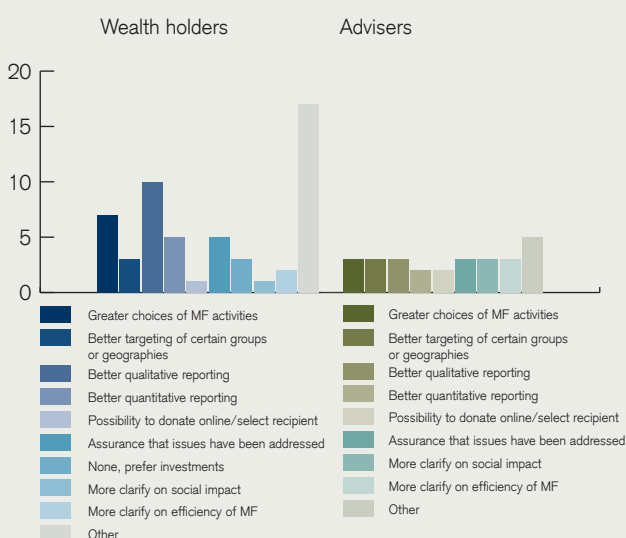


Figure 11: What will increase donations
What will convince you (or your clients) to increase donation levels in the future?



dents alluded to the fact that while specialized sources were useful sources of information, the middle ground between these and the general media was missing.

All of the participants who were involved in microfinance as investors, donors, or both (two-thirds of the survey participants), reported that they continuously educated themselves about industry developments using the same key sources: general media, specialist media and reports from organizations they supported.

With respect to the effectiveness of communication from the microfinance industry (Figure 12), the majority of both wealth holders and advisers did not feel that the industry was speaking with “one voice,” although some conceded that the diversity of the industry and large number of players may make it difficult to do so. Even those who were relatively positive about communication by the microfinance industry felt there was potential for improvement. Female participants tended to be slightly more critical than men, while Asian respondents were more critical than European or American ones.

Wealth holder, not currently involved in microfinance (Asia)

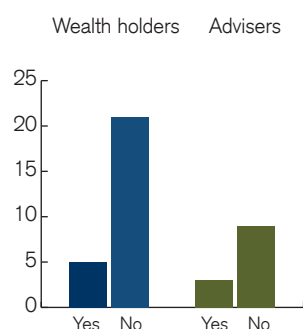
“MFIs should come together, pool the resources, do the articles explaining whether the cases were isolated, what was done to solve the problems... There have been very few and very sporadic responses to the criticism.”

Participants identified a number of issues that required better communication from the microfinance industry. Firstly, many mentioned the need for clear communication on how microfinance works: the fundamentals of microfinance and microenterprise economics, the justification of interest rates charged to end-users, and the alternatives (or lack thereof) available to them. Another important point raised was to be realistic about what microfinance can and cannot achieve. One respondent declared that MFIs need to “proactively communicate” that microfinance was “not a silver bullet,” and emphasized that communication “should be characterized by frankness and explaining the natural limits of microfinance.”

Participants felt that more proactive, authentic and harmonized communication from the industry was essential to effectively respond to criticism. The underlying feeling illustrated in one participant’s remark that communication “is not coordinated” and “unduly defensive” was echoed by other respondents. Participants emphasized that industry responses to criticism should also transparently disclose mistakes and areas of weakness as well as the measures taken to rectify and eliminate these.

Figure 12: Communication of microfinance as an industry

Is the microfinance sector good at making its voice heard? Do you have the impression that the microfinance sector is speaking with “one voice”?



Furthermore, participants pointed out the need for better communication about the various players in the microfinance industry and how they differentiate themselves from each other. They expressed the desire to see more success stories about microfinance from the perspective of both social and financial impact. Regarding investments in microfinance, respondents mentioned better explanation and information on the risks and returns was necessary.

Wealth holder, microfinance investor and donor (Asia)

“The communication has a lot of room for improvement. (The microfinance industry) needs to increase the awareness – and to better communicate about the benefits and also what the potential issues are and how to deal with them.”

Concluding remarks

In summary, despite the turmoil that emerged over the last year, the microfinance industry continues to enjoy support from wealth holders and their advisers, two of its key stakeholder groups. Wealth holders in particular still perceive microfinance as a critical element in alleviating poverty and as an effective tool for supporting entrepreneurship around the world.

But as the industry evolves and encounters challenges, survey participants emphasized the need for more transparent, proactive and coordinated communication, as well as increased communication on specific topics such as how microfinance works. The survey also suggested that better outreach and education of wealth holders in particular, as well as better awareness-raising among the general population and the media specifically, are necessary to increase support of microfinance.

When identifying the type of financial involvement in microfinance, these supporters indicated that both investments and donations were seen as necessary and complementary. According to respondents, the availability of investment opportunities in the sector did not decrease their appetite for donations, which were perceived as crucial for building infrastructure and capacity.

Improved transparency and reporting about both the social and financial impact of microfinance was seen by the participants as an important condition toward increasing involvement in microfinance. The survey also suggested that the availability of a broader choice of microfinance products and activities for investments or donations, as well as the improved ability to target certain recipient groups or geographies, would also help boost involvement of wealth holders.

Further, continued support and engagement in the sector through either investments, donations or both will be dependent on the proactive action by the microfinance industry to provide assurance that lessons have been learned from past mistakes and necessary measures are being undertaken to prevent similar situations in the future.

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Credit Suisse AG is one of the world's leading financial services providers and is part of the Credit Suisse group of companies (referred to here as 'Credit Suisse'). As an integrated bank, Credit Suisse offers clients its combined expertise in the areas of private banking, investment banking and asset management. Credit Suisse provides advisory services, comprehensive solutions and innovative products to companies, institutional clients and high-net-worth private clients globally, as well as to retail clients in Switzerland. Credit Suisse is headquartered in Zurich and operates in over 50 countries worldwide. The group employs approximately 50,700 people. The registered shares (CSGN) of Credit Suisse's parent company, Credit Suisse Group AG, are listed in Switzerland and, in the form of American Depository Shares (CS), in New York. For further information, please visit: www.credit-suisse.com.

About the Microfinance Capacity Building Initiative

The mission of the Credit Suisse Microfinance Capacity Building Initiative (MCBI) is to enable MFIs to develop the people, processes and products they need in order to meet their social and financial goals. Launched in 2008, the MCBI contributes to the quality training of thousands of staff at MFIs through its best-in-class partners and also fosters research, innovation and constructive dialogue to spread best practices in the industry. It engages Credit Suisse employees in unique programs such as the Global Citizens Program and Virtual Volunteering. For further information, please visit: credit-suisse.com/responsibility.



Since Mukarram Othman Asad of Amman, Jordan joined a solidarity loan group operated by Microfund for Women (MFW), a member of the WWB network, she has taken out seven loans ranging from JD 200 to 600 (USD 280 to USD 860). She can now buy the materials needed to operate and grow her embroidery business, which has enabled her to send her daughter to university.

The Microfinance Communications Council

The Microfinance Communications Council is composed of the communications directors of some of the leading US-based microfinance organizations: ACCION International, FINCA International, Grameen Foundation, Opportunity International and Women's World Banking. Co-founded by Credit Suisse in 2009, the purpose of the Council is to provide a forum for identifying and addressing the key communications issues facing the microfinance industry.

The members of the Council are all non-profit, mission-driven organizations devoted to alleviating poverty by providing microfinance, training and other financial services to the world's poorest so they may create jobs, build assets and live more sustainable and fulfilling lives.



ACCION International

A world pioneer in microfinance, ACCION was founded in 1961 and issued its first microloan in 1973 in Brazil. Over time, ACCION has helped build 62 microfinance institutions in 31 countries on four continents. Those institutions are currently reaching millions of clients. In the United States, the U.S. ACCION Network is the largest microfinance lending network in the country and has served tens of thousands of clients with over USD 300 million in loans since the inception of its pilot program in 1991. For further information, please visit www.accion.org.



FINCA International

FINCA's mission is to provide financial services to the world's lowest-income entrepreneurs so they can create jobs, build assets and improve their standard of living. FINCA delivers its financial services through 21 subsidiaries in Africa, Eurasia, the Greater Middle East and Latin America. FINCA's affiliates collectively provide financial services to more than 815,000 clients worldwide through a loan portfolio in excess of USD 435 million, annual loan disbursements that topped USD 800 million in 2010, and an on-time repayment rate of more than 98 percent. For further information, please visit www.finca.org.



Grameen Foundation

Founded in 1997, Grameen Foundation provides access to financing and management strategies to MFIs around the world, and also develops mobile phone-based solutions that address "information poverty" among the poor by providing tools, information and services in the fields of health, agriculture, financial services and livelihood creation. Microfinance pioneer Professor Muhammad Yunus, founder of Grameen Bank and winner of the 2006 Nobel Peace Prize, is a founding member of its Board of Directors, and now serves as director emeritus. For further information, please visit www.grameenfoundation.org.



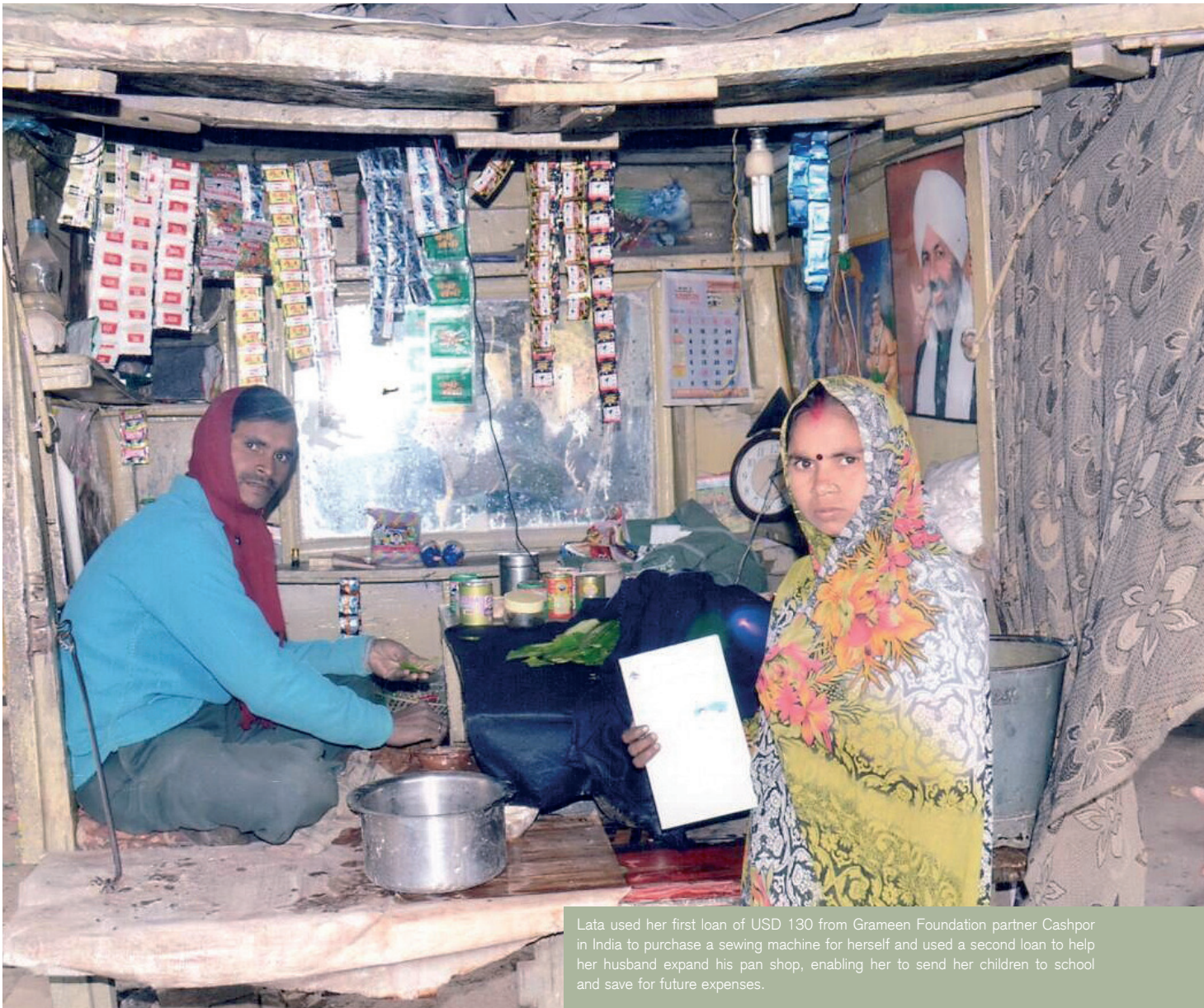
Opportunity International

Since 1971, Opportunity International has been a global leader in providing financial services to people working their way out of poverty. Today, Opportunity's regulated banks provide access to savings accounts, small business loans, insurance and training to 2.5 million people in more than 20 countries in the developing world. Advances in technology such as cell phones and biometric identification, and efficient delivery channels including mobile banks, ATMs and point-of-sale devices, make it possible for clients to access services just minutes from their home or business. For further information, please visit www.opportunity.org.



Women's World Banking

Women's World Banking is a global network comprised of 39 leading microfinance institutions from 27 countries. The network members are united in the firm belief that microfinance must remain committed to women as clients, innovators and leaders. By providing innovative approaches that can be replicated and scaled, WWB helps prove that investing in women directly can be profitable, thereby "proving the business case" and can also generate positive social benefits. By investing in women, WWB produces a multiplier effect on the well-being of their households and communities. For further information, please visit www.swwb.org.



Lata used her first loan of USD 130 from Grameen Foundation partner Cashpor in India to purchase a sewing machine for herself and used a second loan to help her husband expand his pan shop, enabling her to send her children to school and save for future expenses.

Dr. Julia Balandina Jaquier
(Consultant)

Dr. Julia Balandina Jaquier, CFA, is a seasoned investment executive with 18 years of experience focused on sustainable private equity including cleantech, renewable energy, and microfinance. Having successfully led over USD 1 billion of investments in emerging and developed markets, she works with private, institutional and government investors, structuring and deploying capital for impact. Julia is the author of “Guide to Impact Investing for Family Offices and High Net Worth Individuals.”

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