

RESEARCH

Summary:

Credit Suisse

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Credit Rating: AA-/Stable/A-1+

Rationale

The ratings on Credit Suisse (CS) and related entities (Credit Suisse (USA) Inc.; AA-/Stable/A-1+, and Credit Suisse (International) Holding AG; AA-/Stable/A-1+) reflect the core position of these entities with Credit Suisse Group (CSG; A+/Stable/A-1). In turn, the ratings on CSG are based on the combination of strong franchises in group activities including private banking, investment banking, asset management, and Swiss domestic banking; strong profitability; good capitalization; and sound asset quality. The ratings also reflect Standard & Poor's Ratings Services' expectation of tougher capital markets in the coming quarters (for more information, please see "Outlooks Revised On Various European Banks Due To Continued Capital Market Weakness," published on RatingsDirect on Jan. 30, 2008). Although CSG has shown relatively resilient performance thus far, Standard & Poor's considers that pressures may intensify in the short and medium term due to its revenue exposure to the leveraged finance, CMBS, and broader fixed-income markets, as well as a less profitable environment for private equity.

CS is the primary operating bank within CSG, one of the world's largest financial groups, with total assets of Swiss franc (CHF) 1,376 billion (\$1,176 billion) and assets under management of CHF1,571 billion (\$1,343 billion) at Sept. 30, 2007. It has diverse operations spanning all major geographic areas and financial products. Its key strengths are its wealth management business, which generates high returns with a low risk profile; its domestic Swiss retail and corporate banking business, which provides a good profit anchor; and its investment bank, which is one of the world's largest.

Group capitalization is strong, with an adjusted total equity (ATE)-to-risk-weighted assets ratio of 11.3% at Sept. 30, 2007, and benefits from the very good cash flows delivered by the private bank. Core return on ATE was a high 27% at Sept. 30, 2007. Loan asset quality remains generally very robust, in line with the industry, but Credit Suisse's large book of leveraged loans and commitments (CHF60 billion at Sept. 30, 2007) could be sensitive to an economic downturn.

In common with other banks' capital market operations, CSG suffered a weak third quarter 2007, reflecting markdowns on structured assets in the investment bank and asset manager. CSG also has a relatively large leveraged loan portfolio, which also resulted in some losses. Despite this, the investment bank's pretax margin reached a high 28% at Sept. 30, 2007, suggesting that management has made progress in implementing efficiency measures and has avoided large risk concentrations. Nonetheless, the group has benefited from strong cyclical factors such as the boom in leveraged finance and fixed income more generally. Furthermore, most of CSG's income is exposed to the level of, and activity in, the capital markets across its investment bank, private bank, asset management, and private equity conditions, many of which may be affected by continued challenging credit conditions.

Outlook

The stable outlook on CS mirrors that on CSG, which in turn reflects our expectation that the group will remain solidly profitable and continue to navigate difficult capital market conditions relatively well. The outlook also reflects our expectation that profitability in the investment bank and asset manager are likely to be lower in a more difficult economic and credit environment, as revenue opportunities in fixed-income capital markets and asset management activities such as private equity and real estate wane, and corporate credit quality deteriorates. This reduction in absolute returns makes an upgrade over the rating horizon unlikely, even if performance is better than average. The rating could be raised if CSG demonstrated further efficiency gains in the investment bank through a downturn, together with a stable risk profile, continued strong performance in the private bank, and improvements in the asset manager. A lower rating could result from unexpectedly large market losses, litigation charges, or evidence of a breakdown in risk controls.

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