Credit Opinion: Credit Suisse Group

Credit Suisse Group

Zurich, Switzerland

Ratings

Category	**Moody's Rating**
Outlook	Stable
Senior Unsecured -Dom Curr	Aa2
Subordinate -Dom Curr	Aa3
Jr Subordinate MTN	Aa3
Other Short Term	P-1
Clariden Leu AG	
Outlook	Stable(m)
Bank Deposits	Aa2/P-1
Bank Financial Strength	B-
Credit Suisse Group Capital (DE) LLC II	
Outlook	Stable
Bkd Preferred Shelf	(P)A1
Credit Suisse Group Capital (DE) LLC III	
Outlook	Stable
Bkd Preferred Shelf	(P)A1
Credit Suisse Group Capital (DE) Trust II	
Outlook	Stable
Bkd Preferred Shelf	(P)A1

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Key Indicators

Credit Suisse Group

	[1]**2007**	**2006**	**2005**	**2004**	**2003**	**Avg.**
Total assets (CHF billion)	**1415.17**	**1255.96**	**1339.05**	**1089.48**	**1004.31**	[2]**4.20**
Total assets (EUR billion)	**854.97**	**780.25**	**861.35**	**704.89**	**643.80**	**--**
Total capital (CHF billion)	**79.58**	**70.52**	**67.53**	**62.29**	**56.03**	[2]**3.35**
Return on average assets	**1.22**	**1.15**	**0.65**	**0.65**	**0.09**	**0.44**
Recurring earnings power [3]	**1.48**	**1.18**	**0.83**	**0.80**	**0.39**	**0.67**
Net interest margin	**0.77**	**0.63**	**0.98**	**1.10**	**1.04**	**0.97**
Cost/income ratio (%)	**57.72**	**62.00**	**71.20**	**72.87**	**85.17**	**77.08**
Problem loans % gross loans	**0.00**	**1.02**	**1.72**	**2.71**	**4.34**	**2.83**
Tier 1 ratio (%)	**--**	**13.90**	**11.30**	**12.30**	**11.70**	**11.64**

[1] As of June 30. [2] Compound annual growth rate. [3] Preprovision income % average assets

Opinion

SUMMARY RATING RATIONALE

Moody's assigns a senior unsecured debt rating of Aa2 to Credit Suisse Group, the listed parent company of Credit Suisse (the bank, rated Aa1/P-1/B, stable).

The senior unsecured debt rating of Credit Suisse Group incorporates three main elements: (1) the BFSR of B for Credit Suisse (the bank); (2) Moody's assessment of a very high probability of support from the Swiss authorities (a component of joint default analysis, referred to as JDA) for the bank; and (3) the structurally subordinated nature of the senior debt of Credit Suisse Group vis-à-vis senior debt of Credit Suisse, the main operating bank.

Credit Suisse's BFSR of B reflects the bank's top-tier positions in private banking, domestic retail and commercial banking, and in a number of global product lines in investment banking. It also reflects the strengthening of its risk management in recent years, its robust liquidity management, solid capital adequacy, and good asset quality.

Moody's believes that the probability of government support for Credit Suisse, the operating bank subsidiary, is very high, which results in a two-notch lift in the bank's deposit ratings to Aa1/Prime-1 from the Aa3 baseline risk assessment for the bank.

Credit Suisse's BFSR was upgraded on 20 April 2007 to B from B- as a result of the implementation of Moody's refined BFSR methodology. On the same date, Credit Suisse's long term debt and deposit ratings were upgraded from Aa3 to Aa1 as a result of the implementation of Moody's JDA for banks. Again on the same date, Moody's established a one notch difference between the parent holding company, Credit Suisse Group, and its main banking subsidiary, Credit Suisse. In assigning a senior unsecured debt rating of Aa2 for the parent, one notch below the deposit and debt ratings of the bank, Moody's recognised the structural subordination that exists and is brought more firmly into focus by the support imputed to deposit and debt holders at the bank level.

Credit Strengths

These relate mainly to Credit Suisse, the main operating bank unit:

- Strong client franchises with top-tier positions in private banking, domestic retail and commercial banking, and in a number of global product lines in investment banking

- Well-diversified earnings mix in geographic and asset-class terms

- Improved profitability and efficiency ratios following streamlining of structure in 2005

- Strong risk management capabilities

- Robust economic and regulatory capital positions.

Additionally it should be noted that as at the end of 2006, the Group had a double leverage ratio of less than 100%, with its tangible common equity capital exceeding the amounts invested in operating subsidiaries by a significant amount.

Credit Challenges

These relate mainly to Credit Suisse, the main operating bank unit:

- Business mix with historically high earnings volatility

- Further writedowns possible on structured products and leveraged loan commitments, due to the continuing dislocation of credit markets

- Single counterparty credit concentrations arising from inherent nature of investment banking activities

- Private client and investment banking are businesses prone to high reputation risks

- Mature, competitive domestic banking market, requiring continuous efficiency gains

Creditors of the parent holding company (the Group) are, in general, structurally subordinated to the creditors of the main operating bank within the consolidated "corporate family" given the relative non-proximity of the obligation of the parent holding company to these main assets and cash flows. In general, the main asset of holding companies are their deeply subordinated equity claim on operating subsidiaries, with cash flows being dependent on dividend flows from operating companies which may face restrictions on paying these, possibly due to regulatory or jurisdictional constraints.

Rating Outlook

The stable rating outlook reflects our expectation that the diversity of Credit Suisse's business lines will enable the firm to weather the current uncertainty in market conditions

What Could Change the Rating - Up

An upgrade in the senior unsecured debt ratings of Credit Suisse Group would be a consequence of an upgrade of the debt and deposit ratings of Credit Suisse, the bank.

Upward pressure on BFSR of Credit Suisse would likely arise from (i) an increase in the proportion of earnings arising from non-transaction based private banking, retail banking and asset management activity; (ii) a reduction in the historically measured volatility of consolidated pre-tax margin; (iii) a reduction in single counterparty credit risk concentrations; (iv) a reduction in overall market risk appetite and exposure to event risk in high yield, leverage, private equity and emerging markets;

A one notch upgrade of the BFSR of the bank might not result in an upgrade of the deposit and debt ratings of the bank, while a two notch upgrade of the BFSR would likely result in such an upgrade.

In line with Moody's notching guidelines published in April 2007, the ratings of bank holding companies are typically notched down from the ratings of their main operating subsidiaries. Exceptions to this principle can arise in cases where: (i) a very substantial part of the consolidated recurring earnings of a bank holding group are derived from operations whose earnings are lowly correlated to those of the main operating bank; (ii) such separate operations would not be subject to brand or reputational contagion from major adverse developments affecting the main operating bank; (iii) the financing structure of the holding company has not led to double leverage; and (iv) it can be shown that the bank holding company would, in the event of distress at one operating unit, have timely access to meaningful liquid resources at other parts of the group.

What Could Change the Rating - Down

A downgrade in the senior unsecured debt ratings of Credit Suisse Group would be a likely consequence of a downgrade of the debt and deposit ratings of Credit Suisse, the bank.

Downward pressure on the BFSR of the bank would likely arise from (i) further writedowns as a result of a sustained worsening in the credit markets; (ii) a reduction in the overall proportion of earnings arising from non-transaction based private banking, retail banking and asset management activity; (iii) a marked increase in market or credit risk appetite; and/or (v) a significant deterioration in the profitability, capital adequacy and asset quality ratios.

A one notch downgrade of the BFSR of the bank might not result in a downgrade of the deposit and debt ratings of the bank, while a two notch downgrade of the BFSR would likely result in such a downgrade.

A widening of the notching between the senior debt rating of the Group and Credit Suisse, the bank could arise from (i) a multi-notch downgrade of the debt and deposit ratings of the bank and (ii) substantial double leverage being introduced through the holding company financial structure.

Recent Results

In Q3 2007 Credit Suisse Group reported a yoy 31% drop in net income to CHF 1.3bn due to the impact of writedowns resulting from the dislocation of credit markets.

Investment Banking reported CHF6m pre-tax profit in Q307 (cf. CHF 758m in Q3 06 and a record CHF 2.5bn in Q207) following a CHF1.1bn valuation reduction on leveraged loan commitments, a CHF 1.1bn valuation reduction in structured products and CHF300m losses in equity proprietary trading. Fixed income trading took the worst hit with revenues dropping to CHF 514m (cf. CHF 2.1bn in 3Q06 and CHF3.3bn in 2Q07). The writedowns were not out of line with recent announcements from other large financial institutions. Credit Suisse has been a major player in the leveraged loan market and had outstanding commitments of USD52bn at the end of Q307. It was also active in the securitisation markets - including CMBS, RMBS and CDOs - all areas affected by unprecedented widening of spreads. Credit Suisse has not made public its breakdown of these exposures, but has said that subprime exposure is minimal. However, given the ongoing volatility of market values of structured products, Moody's considers that further writedowns in Q4 are possible. Asset Management was also negatively affected by CHF146m valuation reductions due to the purchase of assets from its US money market funds and pre-tax income was CHF 45m (cf. CHF 158m in 3Q06 and CHF299m in 2Q07).

The group reported more stable profitability in other parts of the business with pre-tax income of CHF900m in Wealth Management (cf. CHF684m in 3Q06 and CHF 1.0bn in 2Q07) and net new assets of CHF9.7bn, and at the Corporate and Retail Bank pre-tax income of CHF389m (cf. CHF338m in Q306 and CHF380m in 2Q07).

Overall 9mYTD income from continuing operations before taxes was up 22% on the prior year, thanks to the strong performance in the first half of the year. The group's reported Tier 1 ratio was 12% at the end of 3Q07, down from 13% at end of H107, following further share-buybacks. But this is still one of the highest Tier 1 ratios among large financial institutions.

DETAILED RATING CONSIDERATIONS

Detailed considerations relating to the Bank Financial Strength and on the Global Local Currency Deposit Rating (incorporating Joint Default Analysis) of Credit Suisse, the bank, are to be found in a credit opinion on Credit Suisse.

Foreign Currency Debt Rating

The foreign currency debt ratings of Credit Suisse Group are unconstrained given that the country ceiling is Aaa, thus the foreign currency debt rating is, at Aa2, the same as the local currency debt rating.

Notching Considerations

In line with Moody's notching guidelines published in April 2007, Credit Suisse Group's dated and perpetual subordinated debt is rated at Aa3, i.e. one notch below the group's senior debt rating. The group's preferred shares are rated at A1, two notches below the group's senior debt rating.

ABOUT MOODY'S BANK RATINGS

Bank Financial Strength Rating

Moody's Bank Financial Strength Ratings (BFSRs) represent Moody's opinion of a bank's intrinsic safety and soundness and, as such, exclude certain external credit risks and credit support elements that are addressed by Moody's Bank Deposit Ratings. BFSRs do not take into account the probability that the bank will receive such external support, nor do they address risks arising from sovereign actions that may interfere with a bank's ability to honor its domestic or foreign currency obligations. Factors considered in the assignment of BFSRs include bank-specific elements such as financial fundamentals, franchise value, and business and asset diversification. Although BFSRs exclude the external factors specified above, they do take into account other risk factors in the bank's operating environment, including the strength and prospective performance of the economy, as well as the structure and relative fragility of the financial system, and the quality of banking regulation and supervision.

Global Local Currency Deposit Rating (Joint Default Analysis)

A deposit rating, as an opinion of relative credit risk, incorporates the BFSR as well as Moody's opinion of any external support. Specifically, Moody's Bank Deposit Ratings are opinions of a bank's ability to repay punctually its deposit obligations. As such, they are intended to incorporate those aspects of credit risk relevant to the prospective payment performance of rated banks with respect to deposit obligations, which includes: intrinsic financial strength, sovereign transfer risk (in the case of foreign currency deposit ratings), and both implicit and explicit external support elements. Moody's Bank Deposit Ratings do not take into account the benefit of deposit insurance schemes which make payments to depositors, but they do recognize the potential support from schemes that may provide assistance to banks directly.

According to Moody's joint default analysis (JDA) methodology, the global local currency deposit rating of a bank is determined by the incorporation of external elements of support into the bank's Baseline Risk Assessment. In calculating the Global Local Currency Deposit rating for a bank, the JDA methodology also factors in the rating of the support provider, in the form of the local currency deposit ceiling for a country, Moody's assessment of the probability of systemic support for the bank in the event of a stress situation and the degree of dependence between the issuer rating and the Local Currency Deposit Ceiling.

National Scale Rating

National scale ratings are intended primarily for use by domestic investors and are not comparable to Moody's globally applicable ratings; rather they address relative credit risk within a given country. A Aaa rating on Moody's National Scale indicates an issuer or issue with the strongest creditworthiness and the lowest likelihood of credit loss relative to other domestic issuers. National Scale Ratings, therefore, rank domestic issuers relative to each other and not relative to absolute default risks. National ratings isolate systemic risks; they do not address loss expectation associated with systemic events that could affect all issuers, even those that receive the highest ratings on the National Scale.

Foreign Currency Deposit Rating

Moody's ratings on foreign currency bank obligations derive from the bank's local currency rating for the same class of obligation. The implementation of JDA for banks can lead to high local currency ratings for certain banks, which could also produce high foreign currency ratings. Nevertheless, it should be noted that foreign currency deposit ratings are in all cases constrained by the country ceiling for foreign currency bank deposits. This may result in the assignment of a different, and typically lower, rating for the foreign currency deposits relative to the bank's rating for local currency obligations.

Foreign Currency Debt Rating

Foreign currency debt ratings are derived from the bank's local currency debt rating. In a similar way to foreign currency deposit ratings, foreign currency debt ratings may also be constrained by the country ceiling for foreign currency bonds and notes; however, in some cases the ratings on foreign currency debt obligations may be allowed to pierce the foreign currency ceiling. A particular mix of rating factors are taken into consideration in order to assess whether a foreign currency bond rating pierces the country ceiling. They include the issuer's global local currency rating, the foreign currency government bond rating, the country ceiling for bonds and the debt's eligibility to pierce that ceiling.

About Moody's Bank Financial Strength Scorecard

Moody's bank financial strength model (see scorecard below) is a strategic input in the assessment of the financial strength of a bank, used as a key tool by Moody's analysts to ensure consistency of approach across banks and regions. The model output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.
