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Research Update:

Bank Sarasin Rated 'A/A-1', Outlook Neg; Banque Safra-Luxembourg Upgraded To 'A/A-1'; J. Safra Holding Ratings Withdrawn

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Overview

- Following consolidation of Bank Sarasin under J. Safra Holding AG, we have completed our ratings analysis of the holding company's enlarged group of private banks.
- We are assigning 'A/A-1' ratings to Bank Sarasin as a core member of the enlarged J. Safra Group.
- We are upgrading J. Safra Holding AG to 'A-/A-2' and Banque Safra-Luxembourg to 'A/A-1', and removing the ratings from CreditWatch positive. We are withdrawing the ratings on J. Safra Holding AG at the holding's request.
- The negative outlook on the companies (including the holding company at the time of withdrawal) reflects pressure on the Swiss banking industry from the recent rise in domestic real estate prices, and to a lower extent the potential strategic or execution risks of integrating Bank Sarasin.

Rating Action

On Dec. 17, 2012, Standard & Poor's Ratings Services assigned its 'A/A-1' long- and short-term counterparty credit ratings on Switzerland-based Bank Sarasin & Co. Ltd. (Bank Sarasin). At the same time, it raised the long-term rating on J. Safra Holding AG, the Swiss parent company of the J. Safra Group of private banks (J. Safra) to 'A-/A-2' from 'BBB+/ A-2', and the long- and short-term ratings on subsidiary Banque Safra-Luxembourg to 'A/A-1' from 'A-/A-2', and removed the ratings on the two entities from CreditWatch with positive implications, where they were placed on Aug. 1, 2012. The outlook is negative on the three entities. The ratings on J. Safra Holding AG were subsequently removed at the holding's request.

Rationale

Standard & Poor's bases its ratings on J. Safra Holding AG on its analysis of J. Safra Group of private banks (J. Safra). The ratings reflect our 'a' anchor and our view of its "moderate" business position, "very strong" capital and earnings, "moderate" risk position, "average" funding, and "adequate" liquidity, as our criteria define these terms. We consider Bank Sarasin as a core member of J. Safra with a good level of integration. The ratings on J. Safra Holding AG stand one notch below those on Banque Safra-Luxembourg and

Bank Sarasin, according to our group methodology, because of the holding company's structural subordination to J. Safra's private-banking operations.

Our bank criteria use the economic risk and industry risk scores from our Banking Industry Country Risk Assessment (BICRA) to determine a bank's anchor, the starting point in assigning an issuer credit rating. The anchor for a bank operating mainly in Switzerland is 'a'.

We assess the enlarged J. Safra's business position as "moderate," even though the group recently significantly strengthened its franchise through an increasingly diversified international presence and a rebalancing of its business model through tax-compliant AUM.

Formed in 2010, J. Safra is an integrated private-banking group comprising wealth management businesses throughout Europe, Asia, the Middle East, and Central America. With the recent consolidation of Bank Sarasin, J. Safra strengthened its franchise, with total assets of Swiss franc (CHF) 30.8 billion and CHF130 billion in AUM on Sept. 30, 2012, pro forma for the acquisition, and benefited from additional distribution channels for its products and access to new growth markets, especially in Asia and the Middle East. The enlarged J. Safra is now mainly focused on onshore assets, which we view as an improvement of its business profile in light of ongoing concerns about banking secrecy and offshore asset management.

Although the private-banking subsidiaries operate fairly independently on a day-to-day basis, J. Safra Holding AG exercises firm control over risk and business management across the group. We expect J. Safra's management to continue to follow a generally cautious and focused strategy with limited appetite for risk.

We revised our view of J. Safra's capital and earnings to "very strong" from "strong," reflecting our expectation that its capitalization, based on our projected RAC ratio before adjustments, will remain above 15% in the next 18 months, compared with 15.1% on June 30, 2012, pro forma for the acquisition, supported by improving earnings capacity and full earnings retention.

Operating profitability should benefit from the newly formed group's potential for franchise development, increasing productivity resulting from synergies, and efficient cost control compared with some peers. These factors should offset the cost of organic growth, structural margin compression in international private banking, and the costs of a potential change in the regulatory environment.

Our assessment of J. Safra's risk position as "moderate" primarily reflects the operational and reputational risks of private-banking activities, partly balanced by the excellent quality of its enlarged loan portfolio. We consider that J. Safra's good track record to date and the increased focus on onshore assets, following the acquisition of Bank Sarasin, somewhat mitigate these risks.

Credit exposure is concentrated in the pro forma CHF7.8 billion securities portfolio on Sept. 30, 2012. However, mitigating part of the risk, the securities are well-diversified and highly rated, and the recent enlargement of the portfolio further increased its diversification. We expect J. Safra's management to continue to follow a generally cautious investment strategy, leading to an increasingly diversified portfolio, and carry out good supervision at the holding level.

J. Safra has an "adequate" liquidity profile, reflecting our opinion that it is not a differentiating factor in the asset-gathering industry. J. Safra secures its funding base through large and stable client cash balances--almost a pro forma CHF22 billion on Sept. 30, 2012--and capital, both of which account for almost all refinancing sources. The current liquidity surplus above the regulatory requirement was a comfortable CHF2.7 billion on Sept. 30, 2012.

The long-term rating is in line with the stand-alone credit profile (SACP), reflecting our assessment of J. Safra's "low" systemic importance in Switzerland, which we view as "supportive" to its banking industry. This is based on J. Safra's market share of the overall Swiss banking system and its focus, to a large extent, on its private-banking and wealth management activities.

Outlook

The negative outlook on the companies (and for the holding company at the time of withdrawal) reflects pressure on the Swiss banking industry from rising domestic real estate prices (see "Outlook On Nine Swiss Banks To Negative On Exposure To Rising Property Prices; Ratings On All Swiss Banks Affirmed," published on July 3, 2012), and to a lower extent, the potential strategic or execution risks of integrating Bank Sarasin.

We may revise the outlook to stable if both strategic and execution risks do not materialize and if J. Safra's risk profile improves with the integration of Bank Sarasin.

Alternatively, we could consider a downgrade if we see worsening economic imbalances in Switzerland and if any strategic or execution missteps threaten to increase risks for the J. Safra Group, all other rating factors being equal.

Ratings Score Snapshot

Issuer Credit Rating	A/Negative/A-1
Bank Holding Company Rating	A-/Negative/A-2
SACP	a

Anchor	a
Business Position	Moderate (-1)
Capital and Earnings	Very Strong (+2)
Risk Position	Moderate (-1)
Funding and Liquidity	Average and Adequate (0)
Support	0
GRE Support	0
Group Support	0
Sovereign Support	0
Additional Factors	0

Related Criteria And Research

- How The Swiss Bank Resolution Regime Affects Government Support For Its Banks, Nov. 29, 2012
- J. Safra Holding AG 'BBB+/A-2' Ratings Placed On CreditWatch Positive Following Closing Of Bank Sarasin Acquisition, August 1, 2012
- J. Safra Holding AG 'BBB+' Ratings Affirmed Despite Concerns About Swiss Housing Market; Outlook Stable, July 3, 2012
- Outlook On Nine Swiss Banks To Negative On Loan Exposure To Rising Property Prices; Ratings On All Swiss Banks Affirmed, July 3, 2012
- Switzerland-Based J. Safra Holding AG And Operating Subsidiary Ratings Lowered On Bank Criteria Change; Outlook Stable, Dec. 5, 2011
- J. Safra Holding AG Assigned 'A-/A-2' Ratings And Subsidiary Banque Safra-Luxembourg Rated 'A/A-1'; Outlooks Negative, June 9, 2011
- Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Group Rating Methodology And Assumptions, Nov. 9, 2011
- Use Of CreditWatch And Outlooks, Sept. 14, 2009

Ratings List

Upgraded; CreditWatch/Outlook Action; Ratings Affirmed; Withdrawn

	Final	To	From
J. Safra Holding AG			
Counterparty Credit Rating	NR	A-/Negative/A-2	BBB+/Watch Pos/A-2
Banque Safra - Luxembourg			
Counterparty Credit Rating		A/Negative/A-1	A-/Watch Pos/A-2

New Rating

Bank Sarasin & Co. Ltd.		
Counterparty Credit Rating		A/Negative/A-1

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