

# Twelve Major U.S. And European Financial Institutions Have Ratings Lowered, Outlooks Revised

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NEW YORK (Standard & Poor's) Dec. 19, 2008--Standard & Poor's Ratings Services today announced downgrades and outlook changes to the ratings of 12 major U.S. and European financial institutions. We lowered our ratings on 11 institutions by one notch or two notches (see list below).

The downgrades and revised outlooks reflect our view of the significant pressure on large complex financial institutions' future performance due to increasing bank industry risk and the deepening global economic slowdown. We believe significant government intervention intended to stabilize the sector and restore public confidence (see "How the Credit-Market Crisis is Changing the World of Banking," published Nov. 25, 2008, on RatingsDirect) may balance these pressures to a large extent. In an accompanying criteria article ("Franchise Stability, Confidence Sensitivity, And The Treatment Of Hybrid Securities In A Downturn," published Dec. 1, 2008), we also highlighted the following new assumptions in our analysis:

-- We are raising our overall assessment of bank industry risk and believe there will be more volatility in funding markets. In fact, we have lowered our Bank Industry Country Risk Assessment (BICRA) on the financial

systems of the U.S. (AAA/Stable/A-1+) and the U.K. (AAA/Stable/A-1+) to Group 2 from Group 1. Our BICRA rankings integrate our view of the strengths and weaknesses of a country's banking system compared with those of other countries on a scale ranging from Group 1 (strongest) to Group 10 (weakest). The BICRA downgrades primarily reflect our opinion of the banking systems' ongoing credit deterioration, the need for banks to rebalance their funding profiles, and macroeconomic weakness, among other factors. (See "U.K. BICRA Revised To Group 2 From Group 1 On Deteriorating Credit Conditions" and "U.S. BICRA Revised to Group 2 from Group 1 on Increased Credit Deterioration," both published Dec. 17, 2008, on RatingsDirect).

-- We are incorporating more sensitivity into our rating analysis for reliance on short-term wholesale funding and for relative confidence sensitivity of financial institutions' business models.

-- We expect higher levels of stress than those experienced during a typical business-cycle trough.

-- We are placing more emphasis on risk-adjusted capital (RAC) measures. We are developing a proprietary framework for assessing RAC that is more risk-sensitive than Basel I and more conservative in most cases than Basel II as it currently stands, particularly with regard to market risk and private equity risk.

There are two types of government support factored into our ratings of banks: "ongoing system support" and "extraordinary support". We view ongoing system support from government authorities as an essential part of bank creditworthiness in good times and bad (see "External Support Key In Rating Private Sector Banks Worldwide," published Feb. 27, 2007, on RatingsDirect). This system support principally comes through prudential regulation and access to central bank liquidity, which can mitigate the high leverage and funding mismatches inherent in bank business models. Without these benefits, we believe bank balance sheets would be very different. Our stand-alone assessments also integrate these system-wide measures introduced to address near-term liquidity and funding concerns.

The prospect of future specific government intervention for financial institutions under stress has, in the past, not been a part of our stand-alone credit analysis in the U.S. Recently, many governments have intervened directly as a result of or in anticipation of deeper solvency pressures at specific institutions. Therefore, for the first time, we are recognizing this extraordinary support for certain banks in the U.S.

Accordingly, for each U.S. and European institution that, in our opinion, may be viewed as highly systemically important, we are publishing the Issuer Credit Rating (ICR) and the number of notches of support we attributed to the likely availability of future extraordinary support. In particular, this means that our ICRs on several important U.S. and European financial institutions include one or more notches of support over the stand-alone credit profile.

The practical result of this approach is that none of these highly systemically important financial institutions at the group or operating company level is likely to have an ICR lower than 'A+' based on our expectation that government support will likely be provided if needed. At the same time, none would be assigned an ICR higher than 'A+' on the basis of extraordinary government support.

Nevertheless, we believe that all of these highly systemically important

banks would receive support in the future if they were to require it; but we view some of them as more likely to need it than others. To illustrate, if we view an institution's stand-alone profile as 'A+' or higher, we have not raised its ICR due to the likelihood of future government support. If in our view the stand-alone profile is 'A' or lower, we have raised the ICR to 'A+' based on our expectation that government support is more likely to be needed in the future and will be provided. Therefore, the amount we have increased a particular ICR now varies from zero to three notches, depending on our view of stand-alone creditworthiness. We note that if our stand-alone assessment weakens within the period that the government has clearly signaled that support would be forthcoming, the ICR could still be maintained at the 'A+' level, implying more notches of support.

In accordance with our published criteria, the assessment of stand-alone creditworthiness for each institution reflects, among other things, our updated estimation of the institution's asset-quality trends, risk appetite, changes in risk-management capabilities, capitalization and funding profiles, and strategy, as well as all forms of government support that the institution has received so far or that have been committed by government entities. However, the assessment of stand-alone creditworthiness is independent of extraordinary government support.

Individual analysis and commentary on each institution is covered in separate articles. As described more fully in those releases, recent events have generally shown that institutions with lower stand-alone assessments have greater levels of problem assets, higher risk appetites, and weaker risk-management capabilities than we had previously believed. We also believe that highly systemically important financial institutions with ICRs that reflect notches of future government support also have a lower risk of default because of that support.

However, we believe that business model-related issues have not yet been sorted out and will take more time to resolve. Therefore, the stand-alone profiles also reflect to varying degrees our view of the long-term fundamental issues that some of these institutions are faced with--including the confidence-sensitive nature of their business--and the likely upcoming regulatory pressures that may require them to further decrease leverage, reassess their risk profiles and risk appetite, and restrict certain business activities in the near term. Finally, these assessments include our expectation that these various measures may result in structurally lower profitability levels and significantly higher loan losses in the medium term. Over time, the risk profile for these institutions may also decrease. Accordingly, the assessments of stand-alone creditworthiness are lower than the ICRs for five of these institutions despite recent capital infusions and other forms of recently provided government support.

We believe that the difficult operating environment will increase payment deferral risk of most regulated financial institutions' hybrid capital securities in the U.S. and Europe, including the large systemically important banks covered in this review. This is because the difficult environment is expected to pressure financial performance.

In cases where our ICR on a financial institution is higher than our stand-alone credit assessment due to expectations of future government intervention, we typically widen the gap between the issue rating on the

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hybrid security and the ICR on the issuer to three or more notches. We apply this approach to the issue ratings on the hybrid capital securities of RBS, Citigroup, UBS, Goldman Sachs, and Morgan Stanley.

During the next several years, we expect the stand-alone assessments and ICRs to converge, reflecting the progressively decreasing expectation of government support as stability returns to the markets and existing funding and capital support programs run off. In addition, we will be tracking the individual degrees of success of each institution in adapting to the new financial landscape and regulatory environment. Specifically, the ICR and stand-alone creditworthiness may converge at the current ICR level, at the stand-alone profile level, or somewhere in between. Please see individual research updates for company-specific discussions.

Standard & Poor's will host a teleconference to discuss these rating actions and the rationale behind them on Friday, December 19th at 10:00AM EST.

The live dial-in-numbers for this teleconference are 1-210-795-1098 (U.S.) and 44-20-7108-6248 (U.K.), and the PassCode for this call is SANDP1.

**RATINGS LIST**

Bank	New Rating	Prior Rating
Bank of America N.A.	AA-/Negative/A-1+	AA/Watch Neg/A-1+
Barclays Bank PLC	AA-/Negative/A-1+	AA/Watch Neg/A-1+
Citibank N.A. New York, NY	A+/Stable/A-1	AA/Watch Neg/A-1+
Credit Suisse	A+/Stable/A-1	AA-/Watch Neg/A-1+
Deutsche Bank AG	A+/Stable/A-1	AA-/Negative/A-1+
Goldman Sachs Group Inc.*	A/Negative/A-1	AA-/Negative/A-1+
HSBC Bank PLC	AA/Negative/A-1+	AA/Stable/A-1+
JPMorgan Chase Bank N.A.	AA-/Negative/A-1+	AA/Negative/A-1+
Morgan Stanley*	A/Negative/A-1	A+/Negative/A-1
Royal Bank of Scotland PLC (The)	A+/Stable/A-1	AA-/Stable/A-1+
UBS AG	A+/Stable/A-1	AA-/Watch Neg/A-1+
Wells Fargo Bank N.A.	AA+/Negative/A-1+	AAA/Watch Neg/A-1+

\*The Goldman Sachs and Morgan Stanley ratings are the holding company ratings. Operating company ratings are typically one notch higher.

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