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Research

Industry Report Card:

European Banks Face Higher Credit Losses As The Downturn Enters Its Second Phase

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In 2009, European banks must navigate a deep regional recession that comes on the heels of unprecedented losses at several of the sector's largest banking groups in 2008. The huge losses and vanishing prospects for a quick rebound have triggered multiple emergency support actions from national governments and the European Central Bank (ECB). While these have calmed traumatized financial markets, in Standard & Poor's Ratings Services' opinion most European banks remain vulnerable to the depressed environment. Significantly higher credit losses will characterize the second phase of the downturn of the European, and global, banking industry.

Our outlooks are negative on the credit ratings of more than half of the largest banking groups in Europe, due to our assessment that they have poor earnings prospects and that industry fundamentals have weakened. While positive recent news from equity and credit markets and flush first quarter 2009 trading results of some banking groups provide encouragement, we believe that the multiyear costly process of cleaning damaged loan books will dominate bank results over the medium term. Weakened revenue flow from other business lines in the recessionary environment will make the cleanup task harder still.

The ratings on many European banks would be lower if not for the highly supportive stance governments have taken. The future credit standing of the European banking industry largely depends on the impact of current and future sovereign government policy actions that cover several fronts. Ratings on bank hybrid capital securities are under particular pressure. In our view, the poor financial performance of the banking sector increases the potential that certain institutions will suspend payments on their hybrid securities to preserve much needed capital.

In the longer term, sector restructuring, balance sheet deleveraging, and a tougher regulatory environment may ultimately lead to improved banking industry creditworthiness. Nonetheless, the path from the troubled present to a potentially more stable future will be rocky. In our opinion, not all European financial groups will survive the journey intact.

Sharp Recession In Europe Will Weaken Borrowers

Standard & Poor's projects that real GDP in the Eurozone will contract by more than 4% for full year 2009 (see table 1). The contraction of Eurozone GDP for the six-month period from October 2008 through March 2009 already is sharper than any since the first half of the last century. At the same time, the U.S. is mired in recession and most of the regions and countries neighboring Western Europe--Central and Eastern Europe, the Balkans, Russia, Ukraine, and Kazakhstan--are in economic decline, some of them to an alarming extent. The problems in emerging Europe particularly affect Western European banking groups that have built up their networks in these regions over the past decade. While we see some signs that the first quarter of 2009 may prove to be the bottom of the economic downturn, we believe that rising unemployment and the fall in personal wealth will limit any material European economic recovery for quarters to come (see "**European Economic Outlook: The Long, Slow Climb From Recession Begins**," published May 27, 2009, on RatingsDirect).

Table 1

Main European Economic Indicators

	Germany	France	Italy	Spain	U.K.	Ireland	Eurozone
Real GDP (% change)							
2008e	1.3	0.7	(0.9)	1.1	0.7	(2.0)	0.7
2009f	(5.0)	(2.9)	(4.0)	(3.2)	(3.3)	(7.7)	(4.2)
2010f	0.6	0.5	0.4	(0.6)	0.5	(1.5)	0.5
CPI inflation (%)							
2008e	2.8	2.8	3.3	4.1	3.4	3.1	3.3
2009f	0.4	0.5	0.9	0.9	1.2	(1.4)	0.4
2010f	1.0	1.1	1.5	1.4	1.5	(0.2)	1.1
Unemployment rate (%)							
2008e	7.8	7.8	6.8	11.3	5.7	6.5	7.4
2009f	9.0	9.0	8.0	19.0	8.9	13.0	9.1
2010f	10.0	10.0	8.5	21.0	9.5	14.0	10.7

f--Forecast. e--Estimate. CPI--Consumer price index.

We believe that the recession will cause significant operating losses at several European financial institutions in 2009 and beyond, due to a steep rise in credit loss provisions on corporate and household loans and weakness in revenues in most business lines. The financial problems of businesses and households will take time to emerge and affect bank loan portfolios. The lag between the trough in an economic cycle and the peak in corporate defaults is typically about one year. If the first quarter of 2009 indeed turned out to be the trough of the current recession, then corporate and personal defaults would rise for the remainder of 2009 and peak in the first half of 2010. This is our base case scenario for Europe. We believe the real estate construction and shipping industries, as well as the leveraged loan segment, are particularly vulnerable in the current recession. Banks with concentrations in these sectors--for example, Irish banks and Spanish regional savings banks, which have high exposure to the construction industry--will suffer a higher rate of loan loss than the industry average.

Corporate default rates are already rising. The European 12-month rolling speculative-grade default rate jumped to 4.6% in April 2009 from 2.5% in December 2008 (see table 2). Standard & Poor's expects the European corporate default rate to continue to rise significantly in the second half of 2009 and into 2010. We also expect defaults to rise sharply in the U.S. and in emerging markets in 2009 and 2010.

Table 2

Global Default Rates

(%)	Global	U.S.*	Europe¶	Emerging markets
12-month rolling§				
Investment grade	0.46	0.78	0.21	0.21
Speculative grade	6.18	6.75	4.62	4.89
All rated	2.86	3.79	0.97	2.82
2008				
Investment grade	0.41	0.72	0.11	0.22
Speculative grade	3.47	4.03	2.53	2.12
All rated	1.71	2.41	0.53	1.3
2007				
Investment grade	0	0	0	0
Speculative grade	0.87	0.98	0.99	0.18

All rated	0.36	0.49	0.18	0.11
2006				
Investment grade	0	0	0	0
Speculative grade	1.1	1.27	1.82	0.39
All rated	0.45	0.61	0.37	0.23
2005				
Investment grade	0.03	0.06	0	0
Speculative grade	1.42	1.98	0.48	0.22
All rated	0.57	0.93	0.09	0.13

*U.S. default rate includes issuers incorporated in U.S. tax havens, for example, the Cayman Islands. ¶Europe refers to Austria, Belgium, Bulgaria, Channel Islands, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Norway, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, and the U.K. §Data through April 30, 2009. Subject to revision. Source: Standard & Poor's CreditPro®.

Credit Loss Provisions Double

European banks' credit loss provisions more than doubled in 2008 compared with 2007. The annual total for the 50 largest European banks was €128 billion, with a progressive increase in the third and fourth quarters of the year. If the rate of provision for credit losses in second half 2008 simply were to continue throughout 2009, the total for the 50 largest European banks would increase a further €50 billion. We expect provisions to rise faster still in 2009. In many European countries, the rates of domestic loan losses in 2009 will be double that for 2008.

Fixed-income securities linked to corporate creditworthiness--corporate bonds, credit default swaps, and securities backed by corporate loans and commercial mortgages--may further lose value as the recession runs its course and corporate defaults rise. Nonetheless, in our opinion, potential write-downs of corporate credit-linked securities represent a much smaller threat than the devastating losses already borne by the financial industry from write-downs of U.S residential mortgage-backed securities (RMBS) and collateralized debt obligations (CDOs) that invested in U.S. RMBS.

The Success Of Government Policies Is Key To Future Bank Creditworthiness

The future credit standing of the European banking industry largely depends on the impact of current and future sovereign government policy actions that cover several fronts. Some actions aid specific troubled institutions: for example, Germany's extensive support for the **Hypo Real Estate Bank AG** group, which includes **DEPFA BANK PLC**. Others apply to groups of banks or to the entire national banking sector. Still others are focused on certain nonfinancial enterprises or the economy as a whole. European government policies that directly and indirectly affect banks include the following:

- Recapitalization of troubled banks with public funds,
- Government guarantees of bank debt,
- Government insurance plans that cover damaged securities and bad loans,
- Expanded central bank loans to private sector banks,
- Accommodating monetary policy that lowers the debt service burden on borrowers, and
- Fiscal policies to stimulate the economy.

The **U.K.** is a leading example of the wide scope of actions governments have taken to shore up the banking sector. The downturn has been and will be particularly painful in the U.K., due to the high degree of leverage of domestic households and companies, the banking sector's relatively high dependence on wholesale and asset-backed funding, and the significant write-downs by certain large U.K. financial groups of U.S. mortgage-backed securities and other damaged assets. In response, the U.K. government has:

- Nationalized two midsize banks (**Northern Rock PLC** and **Bradford & Bingley PLC**);
- Directly recapitalized two of the world's largest financial groups, **The Royal Bank of Scotland Group PLC** (RBSG) and **Lloyds Banking Group PLC** (LBG), the latter of which acquired troubled **HBOS PLC** at the beginning of 2009;
- Increased Bank of England collateralized lending to banks;
- Devised an Asset Protection Scheme (APS) that will eventually insure a total of £585 billion of RBSG's and LBG's problematic assets;
- Set up the Credit Guarantee Scheme (CGS), which offers up to £250 billion in guarantees to cover qualifying banks' unsecured debt issuance; and
- Reduced the Bank of England base rate (the rate for repurchase agreements, or repo rate) to 0.5%.

Other European governments have implemented bank support programs, although most are not as wide ranging as that of the U.K. We believe the measures implemented by the U.K. and other European governments underpin bank creditworthiness, in particular because they restore market confidence and stabilize funding. This comes at a cost, however, and contributes to pressure on government finances. We recently revised to negative the outlook on the 'AAA' long-term rating on the U.K. due to our view that, even assuming additional fiscal tightening, the net general government debt burden could approach 100% of GDP and remain near that level in the medium term. Our projections for the U.K. incorporate (among other factors) estimates of the cumulative potential gross fiscal cost of government support for banks in the range of £100 billion-£145 billion, or 7%-10% of estimated 2009 GDP.

Ireland is another example of a country that has taken extensive and costly actions to support its banks. Our recent downgrade of the **Republic of Ireland** to 'AA' from 'AA+' in March and 'AAA' in January reflected in part the significant fiscal costs of supporting the troubled Irish banking system. Under the government's plans, Irish banks will sell up to €90 billion of performing and impaired property-related exposures and associated commercial lending to the National Asset Management Agency (NAMA), a government entity to be established later in 2009. The Irish government will finance NAMA's purchases of bank assets by issuing government bonds.

In our opinion, government support lifts the creditworthiness of several large European financial institutions in the U.K., Germany, Ireland, Sweden, France, and Switzerland, among other countries. Nonetheless, while European governments are keenly focused on maintaining confidence in banks, their resources to support banks are not unlimited and they are subject to national and EU political pressures regarding their aid to banks. We consequently do not equalize the ratings on supported banks with those on their governments. The comprehensive credit risk profiles of major European banks, all of which we view as having high systemic importance, are a balance of the stand-alone credit profiles of the institutions and the benefits of current and potential future government support. The amount of uplift ranges from one to six notches above the stand-alone credit profiles of the supported banking groups (see table 3).

Table 3

Ratings On Major European Banking Groups

	Issuer credit rating on bank operating company	Notches of uplift due to government support
Cooperatieve Centrale Raiffeisen-Boerenleenbank B.A. (Rabobank Nederland)	AAA/Stable/A-1+	0
Banco Bilbao Vizcaya Argentaria, S.A.	AA/Negative/A-1+	0
Banco Santander S.A.	AA/Negative/A-1+	0
BNP Paribas	AA/Negative/A-1+	0
HSBC Bank PLC	AA/Negative/A-1+	0
Credit Agricole S.A.	AA-/Stable/A-1+	0
Nordea Bank AB	AA-/Stable/A-1+	0

Svenska Handelsbanken	AA-/Stable/A-1+	0
Barclays Bank PLC	AA-/Negative/A-1+	0
Caja de Ahorros y Pensiones de Barcelona	AA-/Negative/A-1+	0
DnB NOR Bank ASA	AA-/Negative/A-1+	0
Fortis Bank SA/NV	AA-/Negative/A-1+	0
ING Bank N.V.	AA-/Negative/A-1+	0
Intesa Sanpaolo SpA	AA-/Negative/A-1+	0
Banque Federale des Banques Populaires	A+/Stable/A-1	1
Caisse Centrale du Credit Mutuel	A+/Stable/A-1	0
Caisse Nationale des Caisses d'Epargne et de Prevoyance	A+/Stable/A-1	1
Credit Suisse	A+/Stable/A-1	0
Deutsche Bank AG	A+/Stable/A-1	0
DZ BANK AG Deutsche Zentral-Genossenschaftsbank	A+/Stable/A-1	0
Lloyds TSB Bank PLC	A+/Stable/A-1	2*
Nykredit Realkredit A/S	A+/Stable/A-1	0
Royal Bank of Scotland PLC (The)	A+/Stable/A-1	4
Societe Generale	A+/Stable/A-1	0
UBS AG	A+/Stable/A-1	2
Banco Popular Espanol, S.A.	A+/Negative/A-1	0
Danske Bank A/S	A+/Negative/A-1	0
Nationwide Building Society	A+/Negative/A-1	0
Standard Chartered Bank	A+/Negative/A-1	0
Dexia Credit Local	A/Stable/A-1	3
KBC Bank N.V.	A/Stable/A-1	2
UniCredit SpA	A/Stable/A-1	0
Unione di Banche Italiane Scpa	A/Stable/A-1	0
Banca Monte dei Paschi di Siena SpA	A/Negative/A-1	0
Caja de Ahorros y Monte de Piedad de Madrid	A/Negative/A-1	0
Commerzbank AG	A/Negative/A-1	4
Erste Group Bank AG	A/Negative/A-1	2
Raiffeisen Zentralbank Oesterreich	A/Negative/A-1	1
Skandinaviska Enskilda Banken AB	A/Negative/A-1	2
Swedbank AB	A/Negative/A-1	2
Bank of Ireland	A/Watch Neg/A-1	2
Deutsche Postbank AG	A-/Positive/A-2	0
Landesbank Baden-Wuerttemberg	A-/Negative/A-2	3
Norddeutsche Landesbank Girozentrale	A-/Negative/A-2	3
Anglo Irish Bank Corp. Ltd.	BBB+/Negative/A-2	6
Bayerische Landesbank	BBB+/Negative/A-2	4
HSH Nordbank AG	BBB+/Negative/A-2	4
WestLB AG	BBB+/Negative/A-2	5
Hypo Real Estate Bank AG	BBB/Watch Pos/A-2	3

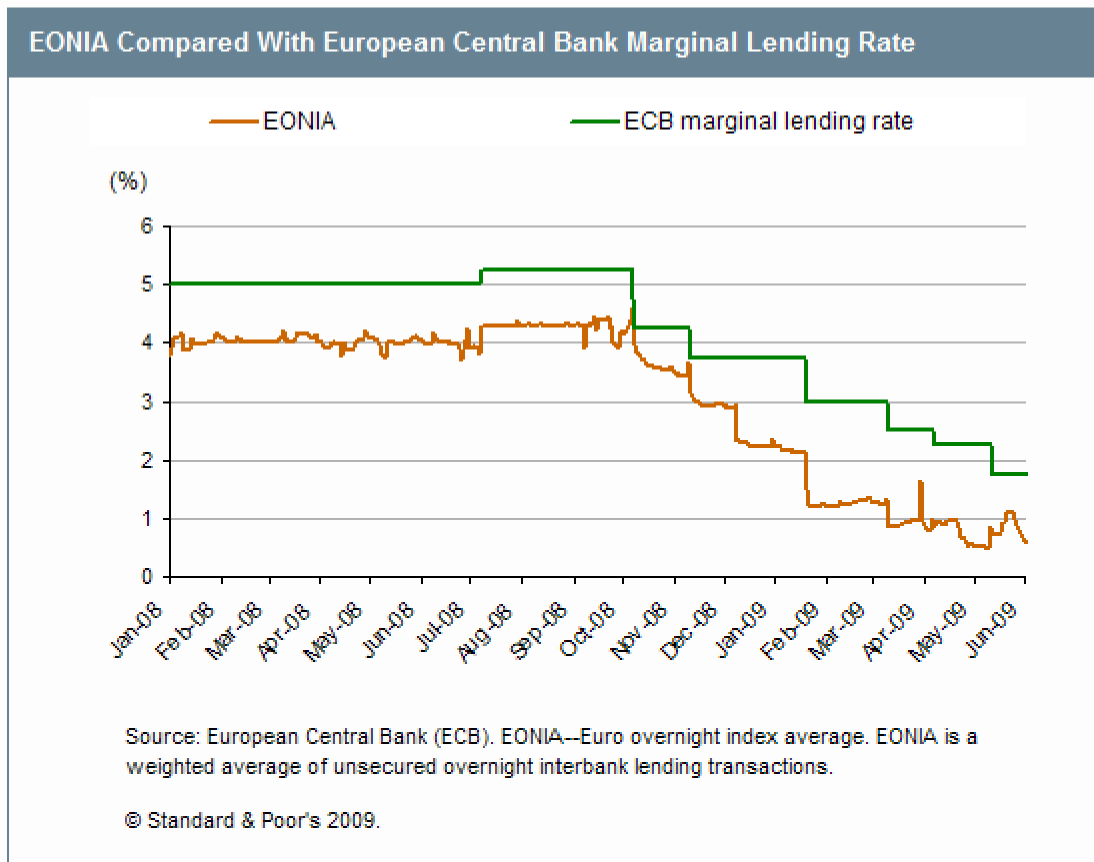
Ratings as of June 16, 2009. *Notching uplift from government support under review.

Monetary Policies Offer A Reprieve

European central banks, much like the U.S. Federal Reserve Bank, have lowered their base rates and provided increased funding to the banking sector through expanded collateralized discount window lending. A beneficial near-term effect of the lower interest rates is a reduction in debt service for some corporate and household borrowers. This may buffer the impact of the recession on banks' loan books and provide borrowers and their banks with a temporary reprieve from the difficult economic conditions.

The successive drops in the ECB base rate (the marginal lending rate) helped push down the EONIA (euro overnight index average) interbank borrowing rate to less than 1% in the second quarter of 2009 (see chart 1). U.S. and U.K. base rates have followed a similar trend. This has steepened the upward slope of the yield curve (see chart 2), allowing banks a positive spread as they fund longer-term positions with shorter-term borrowings (it also provided a one-time boost to trading results during the shift). We view this as a temporary reprieve for banks, though, and in our opinion it increases the systemwide exposure to a hike in short-term rates. Low interest rates may also squeeze yields on loans and other assets that reprice and roll over, and reduce the yield on interest-free and low-cost deposits. We believe that the overall positive effect of dropping interest rates on bank net lending margins will be limited.

Chart 1



Source: European Central Bank (ECB). EONIA--Euro overnight index average. EONIA is a weighted average of unsecured overnight interbank lending transactions.

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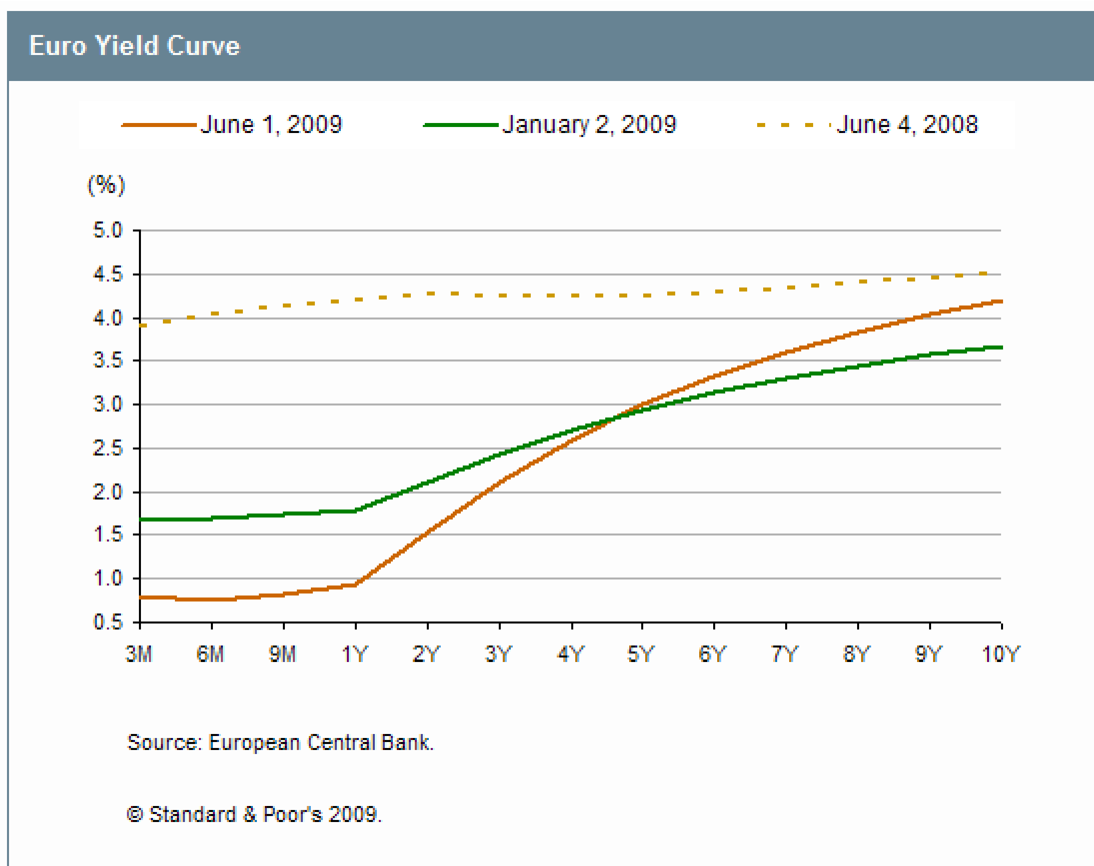
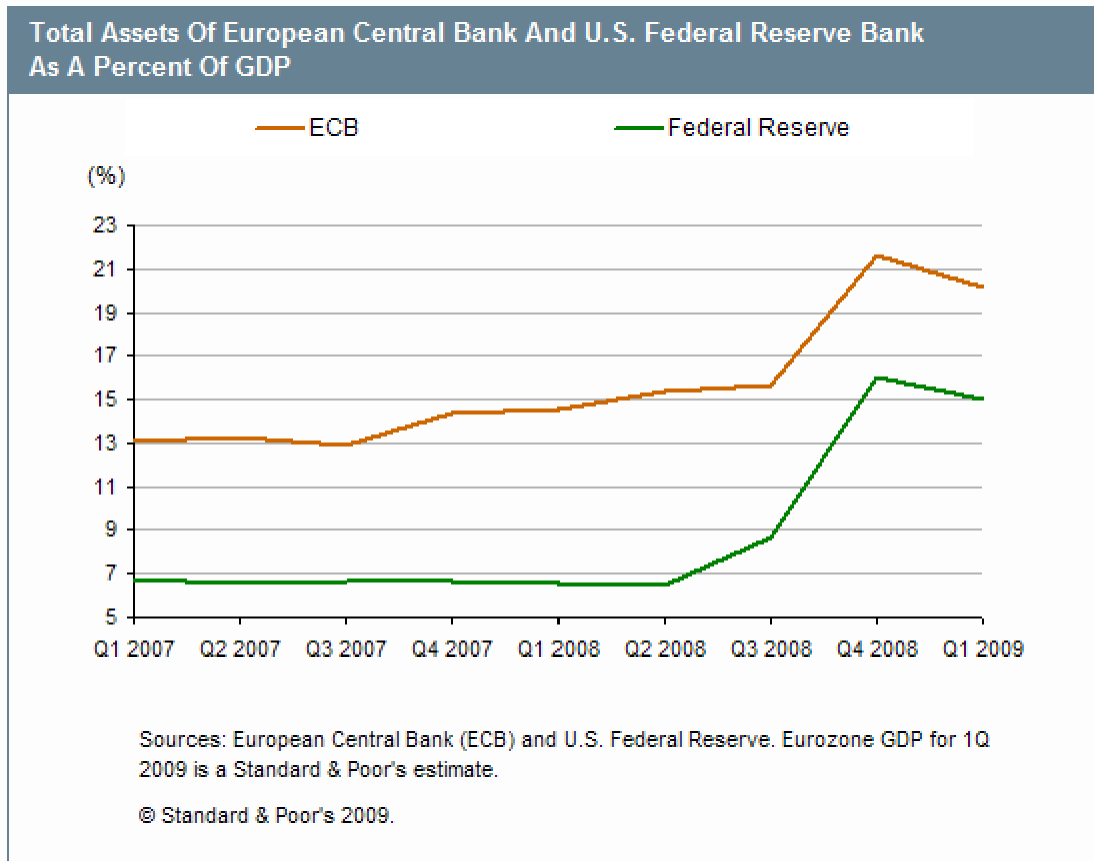
Chart 2



Central bank collateralized lending has increased to high levels over the past two years, as the problems of the financial sector worsened. In 2008, the ECB loosened borrowing restrictions on individual banks and widened the types of collateral it accepted to back loans. When the mortgage-backed and covered bond markets in Europe seized up in the second half of 2008, certain European banks placed new issues directly with the ECB, which effectively replaced the private sector investors that had fled the structured and covered bond markets. By the end of 2008, the ECB balance sheet had ballooned to €2.0 trillion, or more than 21% of GDP, from €1.4 trillion in June 2008 (see chart 3). We note that a material amount--approximately €300 billion as of January 2009--of the increase in ECB lending to the financial sector made its way back to the ECB balance sheet via deposits placed by the banks that borrowed from the ECB. Since early 2009, these deposits (which currently pay only 0.25%) have run off as banks have redirected them towards higher-yielding placements.

ECB lending to banks eased moderately in the first five months of 2009, due to the stabilization of the interbank market and the impact of various other government support actions, in particular the direct government debt guarantees. The government and central bank actions encouraged investors to return to the financial sector, a positive development from an industrywide perspective, but one that depends on the perception and reality of continued governmental backing of bank debts. At this point in the downturn, it is unclear when and how governments plan to wean the banking sector off central bank funding and government guarantees.

Chart 3



Write-Downs Of Securities Dominated 2008 Results

The combination of massive securities write-downs--mainly of U.S. mortgage-backed securities and CDOs--and a significant jump in second-half credit loss provisions devastated the industry's collective earnings in 2008. Indeed, the 50 largest European banks suffered, in aggregate, a net loss of €45 billion last year. This compares with an aggregate net gain for the same group of €138 billion in 2007--a staggering year-to-year swing of €185 billion.

Large losses at several large financial groups fueled the negative systemwide results. The combined loss for RSBG, **Fortis Bank SA/NV**, and **UBS AG** in 2008 was €62 billion, and the net losses of the 15 largest loss-making European banking groups totaled €134 billion in 2008. In itself the fact that one in three of the largest European banking groups suffered a net loss in 2008 reflects the heavy pressure the sector is under. The other 35 groups made a combined €60 billion, with **Banco Santander S.A.** at the head of the group with €9 billion in net income for the year.

Virtually all the large European banking groups earned less in 2008 than in 2007. The three exceptions are:

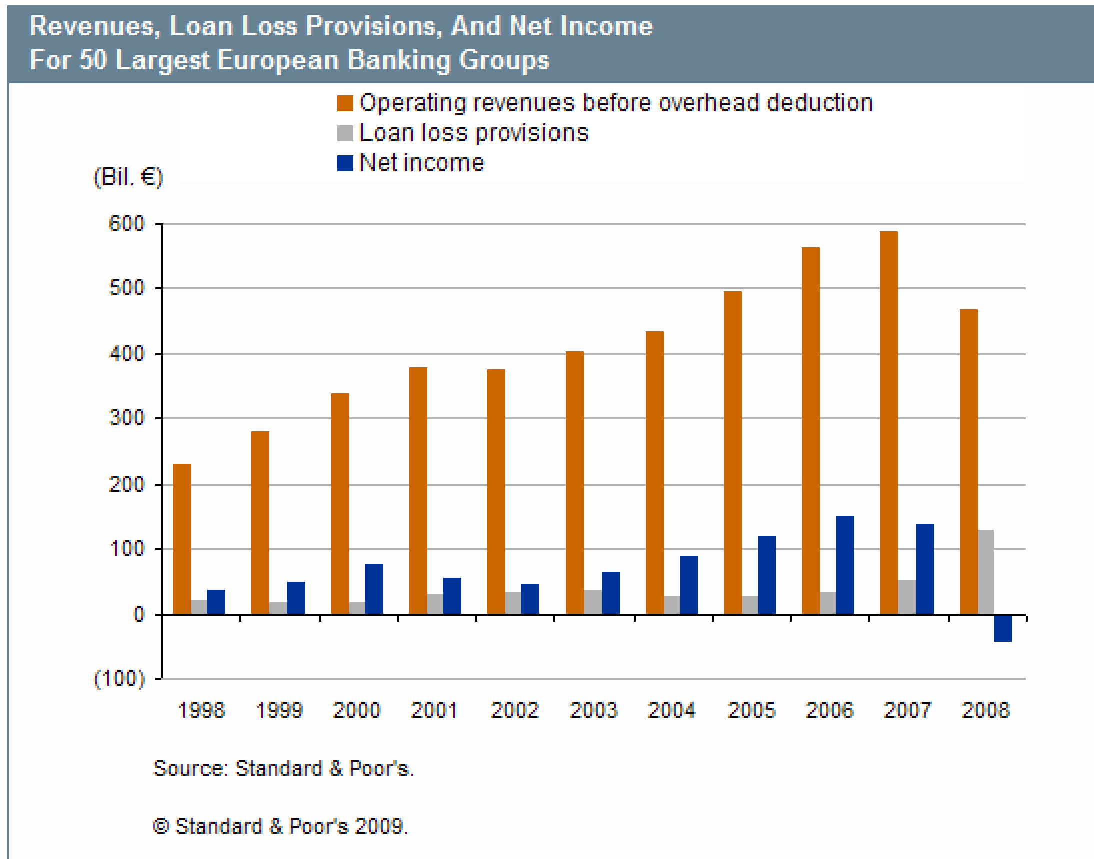
- **Société Générale**, due to its €5 billion trading loss discovered in early 2008 and attributed to 2007 accounts (adjusting for the trading loss, the bank's 2008 earnings are lower than those for 2007),
- **WestLB AG**, due to its large loss in 2007, followed by a breakeven year in 2008 when results were aided by support from its state owner, and
- **Standard Chartered Bank**, which did well and whose business is largely outside of Europe and the U.S.

Losses from trading and write-downs of investment securities lowered aggregate operating revenues (before overhead expenses) of the 50 largest European banking groups to €468 billion in 2008 from €586 billion in 2007, a €118 billion year-to-year drop (see chart 4). Several large banking groups suffered revenue drops of 50% or more in 2008 compared with 2007, due mainly to the magnitude of trading losses and write-downs of illiquid securities. This fall in revenues

(before the deduction of overhead expenses) was larger than the year-on-year increase of approximately €76 billion in credit loss provisions for the group of 50. (Collective credit loss provisions increased to €128 billion in 2008 from €52 billion in 2007.)

Notable were the huge losses linked to the ill-timed acquisition of parts of **ABN AMRO Bank N.V.** by RBSG and Fortis Bank. These alone totaled €25 billion and were large enough to materially influence the aggregate results of the banking industry in Europe.

Chart 4



European Banks Post Starkly Different Performance In 2008

European banks' 2008 financial performance differed greatly from one institution to another. Certain groups posted continued buoyant earnings, but the majority had significantly diminished returns in 2008 compared with the prior year. Ranked by the simple measure of the ratio of pretax income to assets, the top 10 groups (the 1st quintile) averaged a 0.97% pretax return on assets, while the bottom 10 (the 5th quintile) averaged a 1.4% loss on assets (see tables 4 and 5). The European banking groups with the best returns in 2008 were generally smaller institutions-–many from Scandinavia and Spain--within the group of 50. The worst earners were large banking groups with significant structured finance holdings, and German regional and specialized institutions. Securities write-downs were a factor for all of the worst earners.

The banking markets in Spain and Germany present contrasting credit profiles and illustrate the importance of factors other than credit losses. We believe that the creditworthiness of banking groups in both countries will come under pressure over the medium term, but for different reasons. In our opinion, Spanish banks will need to build reserves significantly in 2009 and 2010 to cover potential losses on domestic loans, due in large part to their exposure to the troubled real estate construction and development sector. In contrast, we believe that the domestic loan loss rate in

Germany in 2009 and 2010 will be lower than that of Spain. Germany stands out for its lack of a boom in residential real estate and household credit in the current decade. Nonetheless, the preprovision earnings capacity of Spanish banks is superior to that of the German sector, and Spanish banks built up countercyclical loan loss reserves earlier in the decade. Thus the Spanish banking industry has superior (to the German industry) earnings and reserves capacity to absorb an expected greater increase in credit losses. Many German banking groups invested earlier in the decade in structured assets and other higher yielding securities--mainly from outside Germany--to compensate for relatively narrow margins on domestic lending, in particular residential mortgage lending. Write-downs of some of these positions have hit German banks hard, precisely due to their narrow margins.

Table 4

2008 Pretax Earnings Of 50* Major European Banking Groups¶

(Bil. €)	1st quintile	2nd quintile	3rd quintile	4th quintile	5th quintile
Total pretax earnings	35	26	18	(15)	(106)
Total assets	3,588	6,337	9,555	5,682	7,578
Average pretax earnings	3.5	2.6	1.8	(1.5)	(10.6)
Weighted average pretax earnings/assets (%)	0.97	0.41	0.19	(0.26)	(1.40)

*Peer group includes HBOS PLC in 2008. ¶Divided into quintiles by ratio of 2008 pretax earnings to assets (see table 5 for list of banks in each quintile).

Table 5

50 Largest European Banking Groups Ranked In Quintiles By Ratio Of Pretax Earnings To Assets

1st quintile	2nd quintile
DnB NOR Bank ASA	Unione di Banche Italiane Scpa
Caja de Ahorros y Monte de Piedad de Madrid	Intesa Sanpaolo SpA
Nordea Bank Group	Societe Generale
Svenska Handelsbanken	HSBC Holdings PLC
Swedbank AB	Raiffeisen Zentralbank Oesterreich
Caja de Ahorros y Pensiones de Barcelona	Rabobank Nederland
Banco Santander S.A.	UniCredit SpA
Standard Chartered Bank	Skandinaviska Enskilda Banken AB
Banco Bilbao Vizcaya Argentaria, S.A.	Allied Irish Banks PLC
Banco Popular Espanol, S.A.	Erste Group Bank AG
3rd quintile	**4th quintile**
Banca Monte dei Paschi di Siena SpA	Landesbank Baden-Wuerttemberg
WestLB AG	Caisse Nationale des Caisses d'Epargne et de Prevoyance
ING Bank N.V.	Deutsche Postbank AG
Danske Bank A/S	DZ BANK AG Deutsche Zentral-Genossenschaftsbank
Caisse Centrale du Credit Mutuel	Deutsche Bank AG
Nationwide Building Society	Nykredit Realkredit A/S
Lloyds TSB Bank PLC	Banque Federale des Banques Populaires
BNP Paribas	Commerzbank AG
Credit Agricole S.A.	Norddeutsche Landesbank Girozentrale
Barclays Bank PLC	Bank of Ireland
5th quintile	
Bayerische Landesbank	
Credit Suisse Group (US GAAP accounts)	
Dexia Credit Local	

Fortis Bank SA/NV

HBOS PLC

HSH Nordbank AG

Hypo Real Estate Bank AG

KBC Group N.V.

Royal Bank of Scotland Group PLC

UBS AG

Downturn Shines Spotlight On Hybrid Securities

Banking industry upheaval has shaken the hybrid capital securities market. A handful of issuing banks have suspended payments on some hybrid capital instruments in recent months, and we expect this trend will continue during the course of the industry's downturn. Certain European banking groups have repurchased their hybrid securities at a significant discount to par to take advantage of uncertainty and depressed secondary market prices. To reflect our opinion that the possibility of hybrid payment deferrals has increased, we have downgraded the hybrid securities of most European banking groups over the past year.

We believe that European sovereign governments are more willing than in the past to encourage or force banks to suspend payments on hybrid securities to preserve cash and build capital. European Commission policy on state aid could be an additional factor that influences EU banks to suspend payments on hybrid securities. We think that hybrid capital securities of European (and U.S.) banking groups whose creditworthiness is supported by already-received and potential future government aid are relatively more vulnerable to payment deferral than the hybrid securities of banking groups with ratings more closely aligned with their stand-alone credit profiles. Nonetheless, we believe the difficult operating environment also increases the vulnerability to hybrid payment deferral of banks in Europe that have not received state aid, due to the pressure the recession puts on retained earnings and capital.

The use of hybrid securities to absorb losses and preserve cash may reinforce bank creditworthiness, particularly at the current stage of the business cycle when banks need to shore up capital in the face of rising credit losses. Indeed, many European governments have purchased banks' newly issued hybrid instruments to help the issuing banking groups build capital. The U.S. government has also used hybrid instruments to recapitalize troubled banks, such as Citigroup Inc. and Bank of America Corp.

Majority Of Outlooks Are Negative

Our credit outlook for the European banking sector is negative. More than half of the 50 largest major European banks had negative outlooks and three were on CreditWatch with negative implications as of June 12, 2009 (see chart 6). This is the highest proportion of negative outlooks for European banks since the early 1990s when we started assigning outlooks to long-term issuer credit ratings. This comes after a year during which we downgraded the majority of the 50 largest European banking groups (see chart 5).

Many of the stable outlooks reflect cases where government aid--often in the form of new capital--stabilized the entity, and where we believe it is highly likely the government will provide further support if needed. The success of the wide-ranging government policy initiatives will largely determine the ultimate impact of the recession on the European banking industry. In our opinion, government support will become a critical factor for a growing group of financial institutions in the next one to two years.

We believe that certain European banking groups have commercial and financial profiles sufficiently strong to shield them from the downturn. These groups are notable for what they lack: They have no large exposures to structured securities and do not have extensive networks in emerging Europe. They also operate in domestic markets in continental Europe that will, in our opinion, experience a lower rate of credit loss in the downturn, such as France, the Netherlands

and Scandinavia. Examples are **Crédit Agricole S.A.**, **Nordea Bank AB**, **Cooperatieve Centrale Raiffeisen-Boerenleenbank B.A.** (commonly known as Rabobank Nederland), and **Svenska Handelsbanken**.

Until this point in the downturn, the major source of losses has been the massive write-downs of damaged mortgage-backed securities. Marking illiquid securities down to lower market values comes earlier in the cycle than recognizing losses on bad loans, though, so looking forward to full year 2009 and into 2010, we expect that loss provisions for bad loans and pressure on preprovision revenues will be the primary forces dragging down earnings. We expect some further losses on securities write-downs, but we anticipate the pain will shift from RMBS to securities and positions linked to corporate credit (including commercial real estate). Most of the pain from write-downs of damaged U.S. RMBS, including CDOs, is behind the European banking sector as of June 2009, in our opinion.

The Choice In 2009: Build Capital Or Reduce Risk

We believe the creditworthiness of most European banks will remain vulnerable to the downturn in the second half of 2009 and into 2010. Most banks would suffer if the global recession turned out to be deeper and more protracted than economists now expect. The results so far in 2009, particularly in securities trading, are better than those for the fourth quarter of 2008 for several European banking groups that reported first quarter results. Trading profits were boosted by the rebound in equity and debt markets and the one-time benefit from the drop in short-term interest rates. On the other hand, a few of the largest European banking groups posted losses in the first quarter of 2009. The large loss for **KBC Group N.V.** is an example. We believe that banks will not be able to replicate the good first-quarter trading results for the full year and expect that the provisions they will need to take to cover credit losses and falling securities values will overshadow profits from trading and other investment banking business lines. We also expect 2009 revenues in most business lines will be restrained due to the reduced business flows caused by the recession.

The difficult market conditions and a more conservative regulatory approach will push most European banking groups to readjust their capital in relation to their risks, in our opinion. In particular for banks with negative outlooks, future policy in this area will be a determining factor for their creditworthiness. Over the medium term, banks may increase capital, decrease risk assets, or both. Clearly, the weaker revenue flows and higher credit losses wrought by the recession limit the possibility of building capital through retained earnings. The tug of war between building capital and deleveraging and reducing risk will be the key dynamic of the industry over the next two years. The announcement by **Barclays Bank PLC** in June 2009 to sell its Barclays Global Investor unit to the BlackRock group is a prominent example of a transaction driven by the need to build capital.

Over the longer term, tougher bank regulation and the elimination or absorption of weaker banking groups may lead to better European banking industry creditworthiness. But, before that happens, banks must first survive a severe recession and heavy blows to their asset quality. Governments also have to extricate themselves from the extensive support programs now in place. The nature and success of those exits will influence future bank creditworthiness as well.

Chart 5

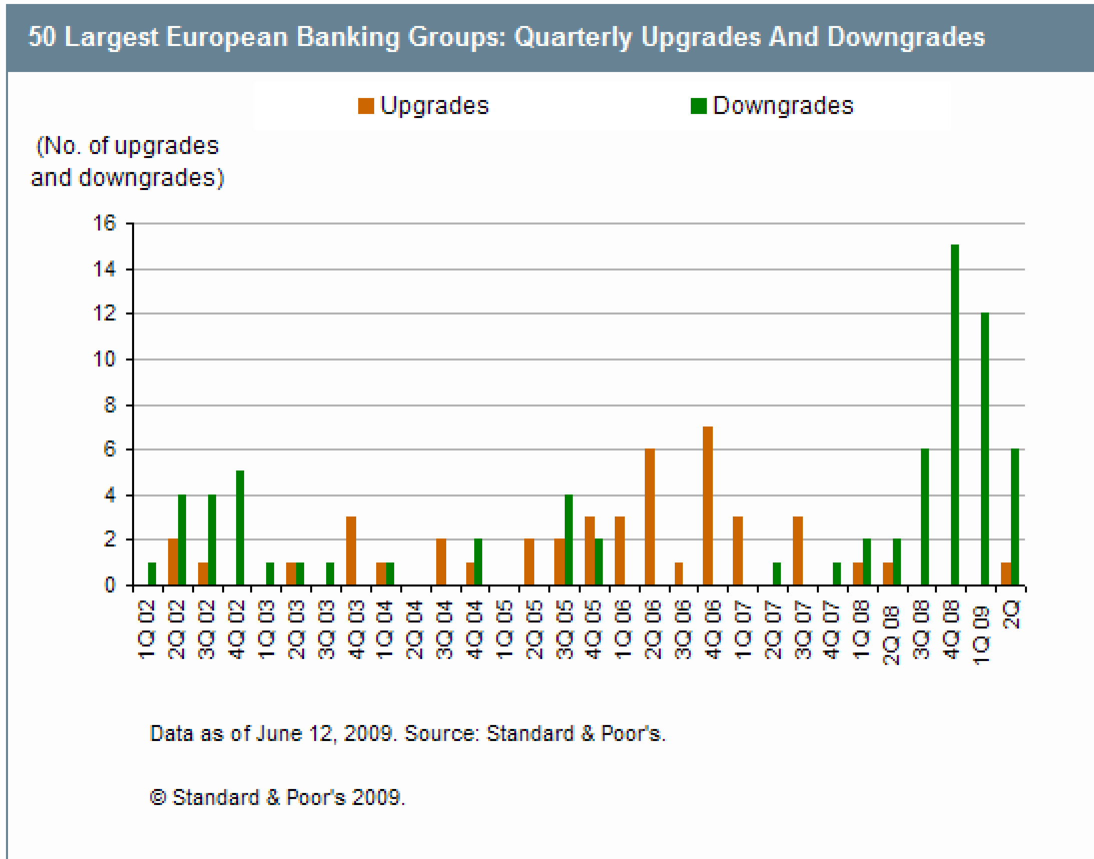
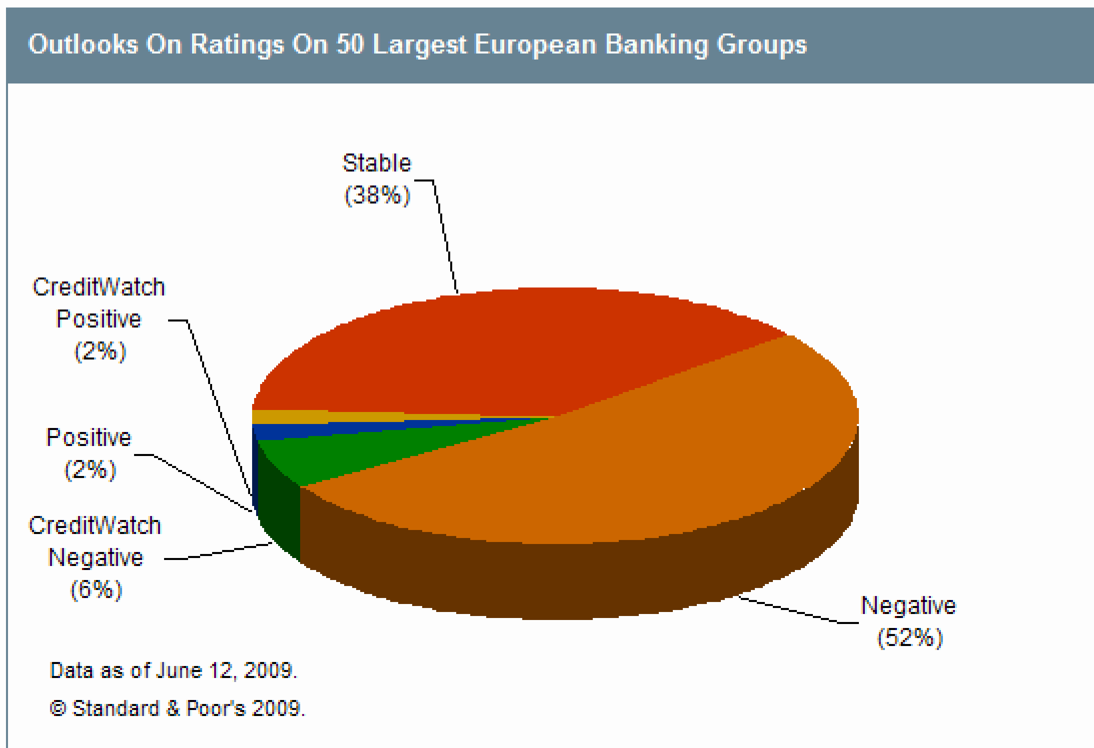


Chart 6



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Issuer Review

Table 6

Company/Counterparty credit rating*/Comments	Country	Analyst
Allied Irish Banks PLC (A/Watch Neg/A-1) The CreditWatch placement of the long-term ratings on AIB reflects our opinion that the National Asset Management Agency (NAMA) proposal will proceed, but also uncertainty about AIB's medium-term business and financial profile following its capital raising and the execution of the NAMA plan. While we expect that the Irish government would continue to support AIB, the level of support provided, particularly regarding capitalization, may not be at a level consistent with the current 'A' rating. The financial strength of AIB will not be clear until execution of NAMA, expected in the coming months. The continuing CreditWatch placement also reflects the very weak outlook for the Irish economy, the still dislocated wholesale funding market, and the related challenges faced by AIB in terms of managing asset quality and profitability. Continuing sharp deterioration of the Irish economy on the bank's asset quality may prompt a negative rating action prior to the transfer of assets to NAMA. We do not currently expect the ratings on AIB to be lowered by more than one notch, and they may be affirmed.	Ireland	Claire Curtin
Anglo Irish Bank Corp. Ltd. (BBB+/Negative/A-2) The negative outlook reflects our view of continuing uncertainties regarding Anglo's future capital needs, possible EU state aid implications, and business plan execution risk. It also reflects the continuing difficult operating environment, which is expected to continue to suppress earnings into the midterm. Rating pressures are mitigated, however, by government ownership and the potential for continued extraordinary support.	Ireland	Claire Curtin

Banca Monte dei Paschi di Siena SpA (A/Negative/A-1) The negative outlook on MPS reflects the possibility of a downgrade if the group cannot restore capital as planned, or if it further increases leverage under Basel II. We would also consider a downgrade if we have any concern about earnings prospects and the achievement of acquisition synergies. Current ratings incorporate some deterioration in asset quality metrics in 2009, given the high probability of a domestic recession. However, an increase in cost of credit risk significantly above 70 basis points would put pressure on the ratings. Conversely, the outlook could revert to stable if MPS successfully restores capital and if the group keeps its commitment to prudent capital targets under Basel II. Clear prospects for the achievement of synergies and the revitalization of Antonveneta's performance would also reduce the negative rating pressure.	Italy	Taos Fudji
Banco Bilbao Vizcaya Argentaria, S.A. (AA/Negative/A-1+) We believe BBVA has weathered the crisis relatively well so far. However, the negative outlook reflects our opinion on the possibility of a more significant impact on the bank's financial performance if there is significant further deterioration of credit conditions in a number of BBVA's core markets: Spain, Latin America (particularly Mexico), and the U.S. We could downgrade BBVA if we anticipate a significant reduction in operating profitability in the next couple of years. We expect that profitability pressures will come from lower business volumes, higher funding costs, increasing provisioning charges, and depreciating foreign currencies. We could revise the outlook back to stable if, all other things being equal, we see that BBVA is able to maintain its resilient asset quality and strong earnings throughout the economic slowdown.	Spain	Ángela Cruz
Banco Popular Espanol, S.A. (A+/Negative/A-1) The negative outlook reflects the possibility that we could downgrade Popular if its accumulation of new problem assets continues to accelerate, or we believe that the environment in 2010 will be more negative than currently expected and/or that adverse conditions will extend into 2011. This scenario will lead to increases in problem assets, and consequently credit costs. An unexpected significant drop in revenues that could impair Popular's ability to cover expected loan losses might also lead to a negative rating action. We might revise the outlook to stable, all else being equal, if the weakening trend in Popular's loan book abates. We could also change the outlook to stable if, despite accumulating a meaningful amount of problem assets, Popular's generation of recurring revenues enables it to cope with meaningful credit losses with a minimal impact on bottom-line performance.	Spain	Angela Cruz
Banco Santander S.A. (AA/Negative /A-1+) The negative outlook reflects the possibility that we could downgrade	Spain	Elena

Santander if we perceive that deteriorating credit conditions in its main markets will result in a significant impact on the bank's financial performance. We believe that Santander has weathered the crisis relatively well so far. However, we observe an increasing credit deterioration in most economies in which Santander is present. We could lower the ratings on Santander, in particular, if we anticipate a significant reduction in operating profitability in the next couple of years. Profitability pressures will come, we believe, from increasing provisioning charges, negative repercussions from exchange rate fluctuations, lower business volumes, and higher funding costs. Any meaningful acquisition could also carry negative implications for the ratings. We could revise the outlook to stable, all other things being equal, if we see that Santander is able to maintain its resilient asset quality and strong earnings throughout the economic slowdown.		Iparraguire
Bank of Ireland (A/Watch Neg/A-1) The CreditWatch placement of the long-term rating on BOI reflects our expectation that the National Asset Management Agency (NAMA) proposal will proceed, but also uncertainty about the financial profile of BOI following the execution of the NAMA plan. While we expect that the Irish government would continue to support BOI, the level of support provided, particularly regarding capitalization, may not be consistent with the current 'A' rating. The CreditWatch placement with negative implications also reflects the very weak outlook for the Irish economy, the still dislocated wholesale funding market, and the related challenges faced by BOI in terms of managing asset quality and profitability. We expect to resolve the CreditWatch placement when we have more details on the NAMA plan, but continuing deterioration of the Irish economy could prompt a negative rating action prior to this. We do not currently expect the ratings on BOI to be lowered by more than one notch, and they may be affirmed. An affirmation could result if we consider that, following the execution of the NAMA plan, the bank's financial profile will be comfortably positioned to weather the economic downturn. The CreditWatch placement of BOI's undated capital instruments reflects our view that, while BOI may continue to be willing to service the coupons on these instruments, uncertainty persists about whether the authorities, particularly the European Commission, will continue to allow the bank to do this. We will resolve the CreditWatch placement of these instruments when the authorities' position becomes clearer. Should there be no impediment to BOI servicing its hybrid obligations, the ratings on these instruments may be affirmed. Should the instruments be downgraded as a result of our view of increased deferral risk arising from potential intervention by authorities, they are likely to be lowered to the 'B' rating level or lower.	Ireland	Giles Edwards
Banque Federale des Banques Populaires (A+/Stable/A-1) The stable outlook reflects our anticipation of forthcoming government support, given the high systemic importance of Groupe Caisse d'Epargne (GCE) and Groupe Banque Populaire (GBP), which would	France	Sylvie Dalmaz

help offset the negative impact of substantial losses for the ratings. We assume in our central scenario that the combined GBP and GCE will post losses in 2009 and 2010. In the coming quarters, we also expect the enlarged banking group to pursue the transformation of Natixis and related crisis adaptation measures, while containing its risk profile in other business lines. Finally, we do not rule out that the combined group could divest noncore assets to free up capital. However, negative rating implications might arise if the unfavorable financial and economic conditions hurt the group's profitability, without being offset by government support or measures to ensure that the combined group maintains a conservative level of capitalization. Although a remote scenario in the short term, a recovery in Natixis' performance, combined with resilience in retail banking, would be positive for ratings. Potential medium-term benefits for the ratings of the alliance between GCE and GBP exist. However, in the short term they are more than counterbalanced by our concerns about the combined group's immediate negative earnings prospects and execution risks related to the merger.		
Barclays Bank PLC (AA-/Negative/A-1+) The negative outlook reflects our view of the potential for further downside risk to earnings and capitalization. Such a risk would likely arise from what we view as Barclays' substantial credit exposures in some of the most leveraged economies, notably the U.K., Spain, South Africa, and the U.S., as well as its considerable exposure to credit market assets and capital markets generally--all of which could come under renewed pressure in 2009 and 2010 and could drive a downgrade. Reductions in interest rates could, we believe, further pressure liability spreads and preprovision earnings. The outlook could be revised to stable if credit losses rise less than we expect, and capital and liquidity remain stable.	U.K.	Nick Hill
Bayerische Landesbank (BBB+/Negative/A-2) The negative outlook reflects our view of the short- to medium-term challenges BayernLB is likely to face in coping with the financial market crisis; the impact of the recession on its loan book; and the restructuring process needed to reduce nonstrategic business, capital leverage, funding needs, and cost base. It also reflects our view of the uncertainties about support measures, in particular, their approval by the EC and the conditions attached to them. Also, government support might be finite, and if BayernLB proved unable to develop a viable business model or required massive amounts of additional support, we would still regard an orderly wind-down as a possible scenario. The ratings could be lowered if we believe that state support might be insufficient to restore BayernLB's stand-alone credit profile to the 'BB' category; if the EC were not to grant approval; or if the EC were to impose unfavorable conditions to its approval, including changes to BayernLB's ownership structure. If this were to happen, it remains uncertain whether BayernLB would find a strong new majority owner	Germany	Harm Semder

that is able and committed to replace the support factored into the current ratings.Rating implications could be positive if these uncertainties were sufficiently mitigated and if BayernLB were to continue to benefit from implicit ownership support.		
BNP Paribas (AA/Negative/A-1+) The negative outlook reflects the uncertainties regarding the depth and length of the global economic crisis and the size of its impact on BNP Paribas' large lending portfolio. It also factors in the challenges of integrating Fortis Bank and the potential for such a large balance sheet to carry risks. It also reflects our negative industry outlook for capital market activities, where BNP Paribas is a large player. A strong deterioration in the group's risk-adjusted earnings performance compared with 2008's would put downward pressure on the ratings. The current ratings reflect our expectations that 2008 should mark a low point in BNP Paribas' financial performance and that the deterioration of the group's consolidated risk profile should remain more contained than those of most of its large international peers. We also expect the group to maintain its regulatory Tier 1 ratio largely above its traditional 7.5% target in the coming quarters. A revision of the outlook to stable appears unlikely until after the economic environment has clearly stabilized and the bank has demonstrated that the Fortis Bank acquisition is positive for its earning capacity. Such an outlook revision would require clear signs that the worst is over, combined with the continued good resilience of BNP Paribas' financial profile.	France	Elisabeth Grandin
Caisse Centrale du Credit Mutuel (A+/Stable/A-1) The stable outlook incorporates our expectation of a sound capital base, moderate efficiency in retail, and earnings resilience in other activities, together with some deterioration in the group's risk profile, which should nevertheless remain better than the average for European peers. After a weak 2008, bottom-line profitability in 2009 should rebound to some extent because of lower write-downs and the positive impact of the integration of Citibank Deutschland, which should offset a potential further moderate decline in domestic banking earnings. We will monitor the effects of the integration of Citibank Deutschland on the group's business and financial profile. The ratings could come under pressure in the case of unexpected major risk issues either in domestic banking, consumer finance operations, or capital market activities. Conversely, a clear recovery in the performance of domestic banking would be a positive rating factor.	France	Francois Moneger
Caisse Nationale des Caisses d'Epargne et de Prevoyance (A+/Stable/A-1) The stable outlook reflects our anticipation of forthcoming government support, given the high systemic importance of Groupe Caisse d'Epargne (GCE) and Groupe Banque Populaire (GBP), which would help offset the negative impact of substantial losses for the ratings. We	France	Sylvie Dalmaz

assume in our central scenario that the combined GBP and GCE will post losses in 2009 and 2010. In the coming quarters, we also expect the enlarged banking group to pursue the transformation of Natixis and related crisis adaptation measures, while containing its risk profile in other business lines. Finally, we do not rule out that the combined group could divest noncore assets to free up capital. However, negative rating implications might arise if the unfavorable financial and economic conditions hurt the group's profitability, without being offset by government support or measures to ensure that the combined group maintains a conservative level of capitalization. Although a remote scenario in the short term, a recovery in Natixis' performance, combined with resilience in retail banking, would be positive for ratings. Potential medium-term benefits for the ratings of the alliance between GCE and GBP exist. However, in the short term they are more than counterbalanced by our concerns about the combined group's immediate negative earnings prospects and execution risks related to the merger.

Caja de Ahorros y Monte de Piedad de Madrid (A/Negative/A-1) The negative outlook reflects the possibility that we could downgrade Caja Madrid if problem loans reach a level that would in turn meaningfully impair bottom-line results. At the current rating level, we expect Caja Madrid to be able to absorb the burden of mounting problem loans through its existing reserves cushion and the provisioning charges to be recognized in 2009-2010. We also believe the savings bank should be able to report still reasonably positive--although weaker--results. However, if we anticipate significant erosion in profits, we could downgrade Caja Madrid. In particular, signs of a deeper-than-anticipated downturn in 2010 and/or a continuation of the negative environment in 2011 could put pressure on the ratings. If financial stress leads us to consider a further downgrade of Caja Madrid, we would typically assess the potential for the state to provide the savings bank extraordinary support, and the extent to which we would factor the support into the ratings. We anticipate that the incorporation of explicit state support in the ratings on Caja Madrid could partly mitigate the negative impact of any further weakening in the savings bank's stand-alone credit profile. We could revise the outlook to stable if, despite significant asset quality problems and all other things being equal, Caja Madrid's performance throughout 2009 is resilient and we also foresee prospects of a milder-than-expected 2010.	Spain	Elena Iparraguire
Caja de Ahorros y Pensiones de Barcelona (AA-/Negative/A-1+) The negative outlook reflects the possibility that ratings will be lowered if la Caixa experiences significant asset quality deterioration or we believe that the environment in 2010 will be more negative than currently expected and/or that adverse conditions will extend into 2011. The ratings would also come under pressure if a tougher environment weakens meaningfully la Caixa's operating performance or solvency, thus reducing the savings bank's cushions to weather the downturn.	Spain	Angela Cruz

Unexpected material acquisitions could also negatively affect the ratings. We could revise the outlook to stable if we anticipate that asset quality deterioration is likely to remain moderate throughout the downturn, while la Caixa continues to report sound operating returns and maintain stable solvency.		
Commerzbank AG (A/Negative/A-1) The negative outlook reflects our view of the short- to medium-term challenges Commerzbank is likely to face in coping with the financial market crisis; the impact of the recession on its loan book, which could still result in more severe losses than currently factored into our ratings; and the restructuring process needed to reduce its nonstrategic and wholesale-oriented activities, capital leverage, funding needs, and cost base. We could lower the ratings if we believe that the provided state support could be insufficient. Rating implications could be positive if Commerzbank's restructuring process were to progress and if the downside risk to asset quality and earnings were to diminish while the bank continues to benefit from government support.	Germany	Bernd Ackermann
Credit Agricole S.A. (AA-/Stable/A-1+) The ratings on Crédit Agricole S.A. (CASA) and related entities (Calyon, LCL, and the Caisses Regionales de Credit Agricole) reflect Standard & Poor's Ratings Services' view of the creditworthiness of the larger Crédit Agricole cooperative group (Crédit Agricole) as a whole. The stable outlook reflects our expectation that despite the current economic recession, the Crédit Agricole group's financial performance will not deteriorate further in 2009 after a mediocre year in 2008. This reflects expected improvement of consolidated preprovision operating performance that could offset the anticipated cyclical upswing in credit risk cost. We expect Crédit Agricole's strategy in the coming quarters to remain primarily focused on cost control, streamlining initiatives, and integration of acquired subsidiaries. The strategic repositioning of Calyon is expected to result over time in a lower risk profile. Calyon's annual results could potentially recover to moderate levels already in 2009 after having been negative in 2008 for the second year in a row. The failure to deliver on such expectations, in particular through additional significant losses at Calyon in relation to its discontinuing operations or large corporate portfolio, or large cost of risk elsewhere in the group, could put downward pressure on the ratings. A positive rating action is currently a remote scenario, but remains possible in the medium term. It would require better earnings resilience at Calyon in the coming quarters, a further strengthening of the group's risk management culture and practices, as well as a clearer articulation of its growth appetite and capital policy in light of a potentially material amount of regulatory capital relief related to Basel II at the group level.	France	Elisabeth Grandin
Credit Suisse; Credit Suisse Group AG (A+/Stable/A-1; A/Stable/A-1)		

The stable outlook on Credit Suisse reflects our belief that the risk of further material trading-related charges is now well within the group's capacity to absorb losses through operating profitability and sound capitalization. Moreover, we believe that potential government support would mitigate a further material dilution of CS' stand-alone credit profile. The group's Investment Banking division might return to profitability in 2009, but earnings could remain volatile. Balance sheet downsizing should, in our opinion, further benefit capital and liquidity, but might also pressure earnings. A downgrade could occur, notwithstanding our assumption of government support in case of need, if volatile trading results or charges put pressure on capital or customer confidence. A recovery of the group to stronger profitability, with structurally lower risk-taking and strong capitalization, could have positive rating implications, although we consider this to be currently unlikely.	Switzerland	Bernd Ackermann
Danske Bank A/S (A+/Negative/A-1) The negative outlook reflects our opinion that Danske Bank's financial performance is vulnerable to further deterioration in asset quality, notably from its small and midsize enterprise and construction lending portfolios in Denmark, its operations in Ireland, and to a lesser extent its exposures in other Nordic and Baltic countries. We expect 2009 bottom-line profitability to be weak, with credit losses remaining at a high level similar to that reported in 2008. The outlook could be revised to stable if Danske Bank demonstrates significantly stronger resilience in its asset quality and profitability in the coming quarters, and if its capital durably strengthens. A further negative rating action could follow if the bank's revenue generation or its asset quality were to deteriorate further than presently expected thereby lowering our expectations about its future earnings capacity.	Denmark	Miguel Pintado
Deutsche Bank AG (A+/Stable/A-1) The outlook remains stable. We believe that the massive deleveraging in late 2008 is unlikely to be repeated and do not expect further losses on this scale. However, the weaker capital position does, in our opinion, leave Deutsche Bank more vulnerable to further potential adverse shocks, for example, more trading losses and a potentially very sharp increase in impairments as economies contract. We consider that a further decline in capitalization would likely lead to a dilution in Deutsche Bank's stand-alone credit profile, and that this could have repercussions for the confidence-sensitive capital markets business in particular. Nevertheless, given Deutsche Bank's high systemic importance, we believe government support would be forthcoming, limiting the impact on the counterparty credit rating. For this reason, the outlook remains stable--although a downgrade could occur if we perceive that external support may not be forthcoming. A downgrade could also occur, in particular, if material additional charges from trading, credit, or litigation risks affected capital, or if a material and persistent slowdown in operating revenues were to jeopardize Deutsche Bank's medium-term	Germany	Nick Hill

earnings potential. An upgrade is considered highly unlikely in the current environment.		
Dexia Credit Local; Dexia Banque Internationale a Luxembourg; Dexia Bank S.A (A/Stable/A-1) The stable outlook reflects our expectation that Dexia will remain a government-related entity in the medium term. In our view, profitability will be weak in 2009 as the new management team focuses on deleveraging the balance sheet and rebalancing the funding profile. We do not expect the €12.7 billion in negative revaluation reserves on available-for-sale (AFS) securities to result in further large losses on the scale of those recorded in 2008. Negative rating pressure would arise if beyond 2009 Dexia did not recover autonomous access to long-term funding at competitive cost, which covered bonds have historically provided, making it difficult for the group to preserve its historical prime position in lending to local authorities in its core markets. Conversely, development of autonomous long-term funding at a cost compatible with new loan production and preservation of adequate core earnings from Dexia's public finance and retail businesses lines could result in an upgrade.	France/Luxembourg/Belgium	Taos Fudji
DnB NOR Bank ASA (AA-/Negative/A-1+) The negative outlook reflects our opinion that in the current slowdown DnB NOR's future financial performance is vulnerable to a significant deterioration in asset quality, particularly in its commercial real estate operations in Denmark, its Norwegian small and midsize enterprise portfolio, and its shipping lending book. We could revise the outlook to stable if DnB NOR shows resilience through the downturn, if the pressure on its asset quality and profitability remains moderate, and if its capital gradually strengthens. A negative rating action could be triggered by a significant increase in nonperforming loans or in loan loss provisions that would lead to a sharp deterioration of asset quality in the next few quarters thereby reducing the bank's operating earnings capacity. It could also be triggered by more-aggressive-than-expected capital management.	Norway	Miguel Pintado
DZ BANK AG Deutsche Zentral-Genossenschaftsbank (A+/Stable/A-1) The stable outlook on DZ BANK reflects our view of the German cooperative banking sector, which is based on our belief that, despite pressure on asset quality and preprovision earnings, the sector's financial profile with regard to operating performance, capitalization, and liquidity should demonstrate above-average resilience compared with peers. It assumes that the solidarity within the sector to support troubled institutions will remain unchanged. The outlook also reflects that it is highly unlikely that DZ BANK's integration into the sector could loosen. We also expect that DZ BANK will maintain its sound risk profile and that pressure on its profitability and capital from global credit market	Germany	Markus Schmaus

volatility will remain manageable. A negative rating action could occur if asset quality and profitability weakened more than expected or if accelerated erosion of the cooperative banking sector's market position caused significantly lower profit margins. A positive rating action could follow if the sector were able to markedly improve its cost efficiency, which is currently not foreseeable, and improves profitability despite a weakening economic environment.		
Erste Group Bank AG (A/Negative/A-1) The negative outlook reflects our view that Erste Bank will face a challenging operating environment in its key markets, which might lead to rising credit losses that could materially weaken its financial profile if the recession turns out to be deeper and longer than we currently anticipate. It also reflects uncertainties about Erste Bank's medium-term prospects of maintaining the current ratings on a stand-alone basis by the time government support, which we consider temporary, is phased out. We would consider a downgrade, in particular, if we considered the government less willing to provide support, or if losses appear likely to erode the bank's capital base or impair its business model, notwithstanding our expectation of the likelihood of further support. In this event, external support may not, in our view, be sufficient to continue to justify the current ratings. We currently consider an upgrade unlikely, due to the weak outlook for the Austrian and Eastern European economies.	Austria	Volker von Kruechten
Fortis Bank SA/NV; BGL SA (AA-/Negative/A-1+) The negative outlook on Fortis Bank reflects the negative outlook on the long-term rating of BNP Paribas. The latter primarily incorporates the challenges represented, in our view, by the acquisition of Fortis Bank and the pressure on BNP Paribas' profitability measures resulting from the transaction, as well as uncertainties regarding the depth and length of the global economic crisis and its resulting impact on the group's cost of credit risk. We expect Fortis Bank and BGL (formerly Fortis Bank Luxembourg) to remain well anchored in BNP Paribas group. They both bring additions to business lines--particularly retail banking and asset gathering--and in geographic areas that are integral to the group's strategy. We could envisage a positive rating action for Fortis Bank when we have evidence that its integration is going as we expect and that BNP Paribas has managed to turn around the Belgian bank's underlying operating profitability.	Belgium	Sylvie Dalmaz
HSBC Bank PLC; HSBC Holdings PLC (AA/Negative/A-1+; AA-/Negative/A-1+) The negative outlook reflects our expectation that HSBC's earnings and balance sheet will be pressured in 2009-2010 by slowing economic growth across all regions. The ratings should remain underpinned by HSBC's robust funding, liquidity, and capital profiles, and by our view that it should remain solidly capital generative. We expect impairment	U.K.	Richard Barnes

losses to remain elevated in the U.S. and to increase materially elsewhere. As a liability-driven group, low interest rates are likely to squeeze margins to a greater extent than at many other banks, although we expect some offset from higher asset spreads and, in the near term, strong balance sheet management revenues.The outlook could return to stable if we observe a normalization of impairment losses and stable capital and funding positions. The ratings could be lowered if asset quality suffers a deeper and more prolonged deterioration than we currently expect.		
HSH Nordbank AG (BBB+/Negative/A-2) The negative outlook reflects our view of the short- to medium-term challenges HSH Nordbank faces in coping with the financial market crisis. It also reflects the impact of the recession on the bank's loan book and the restructuring needed to reduce nonstrategic businesses, capital leverage, funding needs, and its cost base. It also indicates our view of the uncertainties about support measures, their approval by the EC, and the conditions that may be attached to them. What's more, government support might be finite, and if the bank were to be unable to develop a viable business model or required massive amounts of additional support, we would regard an orderly wind-down as a possible scenario. It is also uncertain to what degree investors would be protected in the event of a potential legal separation of the nonstrategic businesses from the core activities. The ratings could be lowered if we believe that state support could turn out to be insufficient; if the EC were not to grant approval; or if the EC were to impose unfavorable conditions to its approval, including changes to HSH Nordbank's ownership structure. Rating implications could be positive if these uncertainties were to be sufficiently mitigated and if HSH Nordbank were to continue to benefit from ongoing implicit ownership support.	Germany	Bernd Ackermann
Hypo Real Estate Bank AG (BBB/Watch Pos/A-2) Absent any other developments requiring investigation, we expect to resolve the CreditWatch possibly in the second quarter. In particular, we will need details about the following to make our assessment: the scope and timing of the recapitalization and the additional funding support that HRE is expected to receive; the government's short- to medium-term commitment to HRE and its potential exit strategies; the impact of the expected support measures on HRE's financial profile; HRE's restructuring and strategic repositioning plans to develop a viable business model; and the potential rating implications of decisions by the European Commission on the state aid provided to HRE and any conditions attached to the approval of state aid. We expect that, absent other relevant factors arising in the interim, when we resolve the CreditWatch action, the ratings might be maintained or raised by up to three notches. This will depend entirely on the availability of the relevant information, our analysis of it, and any other developments.	Germany	Harm Semder
ING Bank N.V. (AA-/Negative/A-1+)		

The negative outlook continues to reflect our view of the downside risks to group performance in 2009 from the tough operating environment including equity market weakness and volatility and heightened impairment risk, combined with low interest rates and elevated credit losses. We believe that this may result in a net loss at the group level. Key areas which we anticipate may be a drag on performance in 2009 are investment fluctuations and impairments in the insurance division and escalating credit losses at the bank. The ratings could be lowered if earnings weakness is indicative of deterioration in ING's underlying performance, or higher-than-expected investment-related losses push the group to a full-year loss in 2009. Failure to manage hybrid and debt leverage ratios within expectations could also lead to a rating downgrade.The outlook could be revised to stable if the group demonstrates a high level of resilience in underlying performance over the coming quarters, in both the banking and insurance operations, as measured by new sales, margins, client balances, and underlying profits. An outlook revision to stable would also be predicated, all other things being equal, on ING maintaining its capital strength, executing on derisking initiatives, and managing down hybrid and debt leverage.	Netherlands	Claire Curtin
Intesa Sanpaolo SpA (AA-/Negative /A-1+)		
The negative outlook reflects the possibility that we could lower the ratings on if asset quality and earnings deteriorate significantly during 2009. Further marked deterioration of the Italian economy, and/or a further acceleration of negative developments in the Central and Eastern European markets, could lead to severe credit losses. High single-name concentration on a few names also adds risks. An unexpectedly strong pressure on revenues might add strain to the bank's financial profile. We could revise the outlook back to stable if the group can weather the currently unfavorable economic environment without materially hampering its financial profile.	Italy	Renato Panichi
KBC Bank N.V.; KBC Group N.V. (A/ Stable/A-1; A-/Stable/A-2)		
The stable outlook reflects our belief that capital and guarantee support measures from the Belgian authorities would likely mitigate further pressure on the KBC group's credit profile. The current ratings factor in the potential for new loan loss provisions to exceed 1% of average outstanding loans in 2009 and for the KBC group to be marginally profitable, excluding the losses related to collateralized debt obligations. Negative pressure on the ratings would arise in the unlikely case that the KBC group's stand-alone financial profile would deteriorate to the point that support from Belgian authorities would not be sufficient to maintain regulatory banking capital ratios and an insurance solvency ratio in line with current pro forma levels. We currently consider an upgrade as remote in coming quarters, due to the asset quality pressure from the negative economic outlook in Central and Eastern Europe and Russia and the challenges facing the KBC group's profitability in this environment.	Belgium	Taos Fudji

Landesbank Baden-Wuerttemberg (A-/Negative/A-2) The negative outlook reflects our view of the short- to medium-term challenges LBBW is likely to face in coping with the financial market crisis; the impact of the recession on its loan book; and the restructuring process needed to reduce nonstrategic businesses, capital leverage, its funding needs, and cost base. It also reflects our view of the uncertainties about support measures, their approval by the EC, and the conditions that may be attached to them. We could lower the ratings if we believe that state support could be insufficient; if the EC were not to grant approval; or if the EC were to impose unfavorable conditions to its approval, including changes to LBBW's ownership structure. Rating implications could be positive if these uncertainties were to be sufficiently mitigated, LBBW's restructuring process were to progress, and LBBW were to continue to benefit from implicit ownership support.	Germany	Stefan Best
Lloyds TSB Bank PLC; Bank of Scotland PLC; Lloyds Banking Group PLC; HBOS PLC (A+/Stable/A-1; A/Stable/A-1) The stable outlook reflects our expectation that the combined group will make a loss in 2009, mainly due to substantial further asset quality issues and some margin pressure. However, we expect government action to support LBG's creditworthiness through further capital injections and downside protection on problematic assets. The ratings could be lowered in particular if we believe that underlying earnings deteriorate to such an extent that a return to profitability in the medium term appears remote. In this event, external support may not, in our view, be sufficient to justify the current ratings. However, our expectation of very substantial government support limits the risk and indeed over time we expect LBG's stand-alone creditworthiness to improve. A positive rating action is currently unlikely given the deepening recession, but is possible in the longer term should we see that LBG returns to significantly improved profitability, realizes substantial synergies, displays strong capital ratios, and successfully runs off the problematic assets.	U.K.	Nigel Greenwood
Nationwide Building Society (A+/Negative/A-1) The negative outlook reflects our expectation that Nationwide's earnings will be challenged by rising credit losses, margin pressure, and its contributions to the U.K. deposit insurance scheme. Our base case view is that Nationwide will remain profitable, but we see downside risk to this forecast depending on the length and depth of the current economic downturn. We expect that Nationwide's residential mortgage arrears and repossessions will remain materially below market averages, partly due to its lower relative exposure to nonprime products.The ratings could be lowered if the difficult economic environment significantly weakens Nationwide's ability to generate capital organically. A takeover of another struggling building society might add to the downward pressure on the ratings, depending on the terms and profile of the transaction. The outlook could be revised back to stable if Nationwide's balance	U.K.	Richard Barnes

sheet and earnings demonstrate relative resilience as the recession.		
Norddeutsche Landesbank Girozentrale (A-/Negative/A-2) The negative outlook indicates the probability that the ratings could be lowered further if NORD/LB's financial profile suffers much more than we expect, and if as a result NORD/LB needs substantial extraordinary government support and restructuring. Any rating action would also take into consideration the ties between NORD/LB and its owners, and their ongoing commitment to support NORD/LB if necessary. Positive rating actions could result if NORD/LB shows relative resilience throughout the negative credit cycle, which could, absent other countervailing factors, mitigate our views about its business model and asset quality. The negative outlooks on subsidiaries NORD/LB LUX and NCFB mirror the outlook on NORD/LB because of their core strategic group status.	Germany	Bernd Ackermann
Nordea Bank AB; Nordea Bank Finland PLC; Nordea Bank Norge ASA; Nordea Bank Danmark A/S (AA-/Stable/A-1+) The stable outlook reflects our expectation that Nordea will maintain its present satisfactory profitability and current moderate low risk profile. We expect progress in revenue growth initiatives and further operational integration to pay off in all business areas, thereby improving the overall efficiency of the group. Moreover, the outlook incorporates our belief that Nordea will keep capitalization levels at least at their current levels. A positive rating action would require Nordea to deliver similar profitability through the business cycle with a more normalized level of loan losses, proving the success of the group's integration and business concept. On the contrary, any unexpected change in the group's prudent expansion strategy in Eastern Europe, a failure to contain operational costs, or a larger than expected deterioration in asset quality in its shipping lending book or in any of the countries where the group has a presence could have negative implications for the ratings.	Sweden	Miguel Pintado
Nykredit Realkredit A/S (A+/Stable/A-1) The stable outlook reflects our expectation that Nykredit's asset quality will remain resilient to Denmark's weak property markets and the ongoing recession. In addition, it reflects our expectation that Nykredit will continue its efforts to diversify into nonmortgage business while maintaining its conservative capitalization strategy. A positive rating action is unlikely at this stage. The ratings could come under pressure if there is a larger-than-expected deterioration in the group's asset quality and earnings. In addition, the ratings could be lowered if there is an unexpected reduction of the group's current capitalization levels following full implementation of Basel II or acquisitions of troubled small Danish banks.	Denmark	Miguel Pintado
Cooperatieve Centrale Raiffeisen-Boerenleenbank B.A. (Rabobank Nederland) (AAA/Stable/A-1+) The stable outlook reflects Standard & Poor's expectation that	Netherlands	Richard

Rabobank will continue to demonstrate a resilient earnings performance, with manageable risk charges. Its main challenge is to find ways to diversify its domestic business and grow selectively internationally while maintaining a low-risk and stable earnings profile. The ratings could come under pressure if the group's earnings quality, capitalization, or risk profile weaken as a result of an acceleration of risk charges in wholesale and international banking activities or a material decline in the Dutch economy. A material merger or acquisition would likely dilute Rabobank's creditworthiness and lead to a downgrade. Reputational damage from increased earnings volatility or a risk management failure would remove key supports from the rating.		Barnes
Raiffeisen Zentralbank Oesterreich (A/Negative/A-1) The negative outlook reflects the challenging environment in RZB's key markets. Although we still regard the domestic operations of RZB and the Raiffeisen sector as showing a higher degree of resilience compared with the CEE activities, increasing loan losses and lower operating performance before risk could weigh on RZB's financial profile. The outlook also reflects uncertainties about the bank's medium-term ability to maintain its current ratings on a stand-alone basis because, ultimately, we consider government support to be temporary. Rating implications could be negative if we consider the government less willing to provide support. They could also follow if the length and depth of the global economic weakness were more severe than expected and losses eroded RZB's capital base or impaired its business model to such an extent that the expected external support proved insufficient. Upward rating action, which we regard as remote under current conditions, would require sustainable economic stabilization, particularly in countries with higher risk profiles, as well as a higher contribution from the Austrian group entities.	Austria	Markus Schmaus
Royal Bank of Scotland PLC (The); National Westminster Bank PLC; Royal Bank of Scotland Group PLC (The) (A+/Stable/A-1; A/Stable/A-1) The stable outlook reflects our expectation that further government support will be available if needed. Given the relatively wide gap between the counterparty credit rating on RBSG and its stand-alone credit profile, the scope for a ratings upgrade is not deemed imminent. The ratings could be lowered if RBSG's business and financial profile weaken materially beyond our current expectations. It should be noted that RBSG's stand-alone credit profile incorporates both the capital injected to date and our expectation of the benefits that will accrue from participating in the U.K. government's Asset Protection Scheme (APS). Our base case expectation is that RBSG will be loss making in 2009, with subpar performance relative to peers possible in 2010. Over time, we would expect to gradually narrow the degree of rating uplift if RBSG is able to demonstrate sound progress with its restructuring. Conversely, the stand-alone credit profile could be impacted if the combination of the APS and the strategic review prove insufficient and	U.K.	Nigel Greenwood

RBSG's weak financial profile lingers.

Skandinaviska Enskilda Banken AB (A/Negative/A-1) The outlook is negative because we believe SEB's asset quality and earnings will probably deteriorate in 2009. Our main expectation is that loan losses and provisions will increase sharply in Lithuania and Latvia and to a lesser extent in Estonia, Sweden, and Germany. That will likely severely squeeze the bank's profitability to the extent that it could report a moderate operating loss. The negative outlook also reflects uncertainties about the timing and scope of potential extraordinary government support if SEB's financial profile deteriorated more than we currently anticipate. A negative rating action could follow if we believed the Swedish government less willing to provide support than presently expected or if losses appeared likely to erode the bank's capital base faster than we expect, notwithstanding the likelihood of support. A positive rating action is unlikely.	Sweden	Miguel Pintado
Societe Generale (A+/Stable/A-1) The stable outlook reflects our expectation of modest (but still positive) core profitability in 2009, given rising loan losses and potential additional impairment charges related to structured assets. In the coming quarters, we expect SocGen to contain its risk profile, particularly in more volatile markets like Russia, and downsize its CIB risk exposure, while being more client-centric. We also expect management to stay focused on implementing trading risk containment as well as cost reduction measures in businesses most affected by the crisis. Negative rating pressure would arise in case of further material deterioration of SocGen's earnings. Nevertheless, given SocGen's high systemic importance, we would expect government support to be forthcoming, limiting or completely offsetting the negative impact on the counterparty credit ratings. Conversely, we could consider upside in the medium term if SocGen demonstrates that its structurally diversified business model and current adaptation measures can again result in a fundamental recovery in consolidated financial performance.	France	Sylvie Dalmaz
Standard Chartered Bank (A+/Negative/A-1) The outlook is negative. Our ratings anticipate a material increase in loan impairments across the group, but not exceeding the 74% rise seen in 2008, leaving SCB comfortably profitable. We also expect SCB to generate lower income as a result of a slowdown in financial markets activity over the course of 2009, and pressure from lower interest rates and weak investment appetite from consumers. We also expect capital ratios to remain around the current level, and that liquidity will remain strong. Our ratings may be lowered in the event that our expectations for credit risk deterioration, particularly in the wholesale portfolio, worsen significantly beyond our base case. An outlook revision back to stable could occur if the economic outlook improves meaningfully and earnings remain robust.	U.K.	Giles Edwards

Svenska Handelsbanken (AA-/Stable/A-1+) The stable outlook reflects Standard & Poor's expectation that Handelsbanken's earnings will remain relatively resilient through the current financial turmoil. We also expect the bank to maintain a conservative capital policy within the range announced by the bank. A downgrade could be triggered by an increase in the bank's risk profile through material expansion into Eastern Europe or an unexpected acquisition, a significant deterioration in asset quality, or a substantial lowering of capitalization. An upgrade is unlikely at this stage, and would require Handelsbanken to further diversify its income and earnings sources and to reduce its concentration risk in its loan portfolio. At the same time, the bank would need to maintain its strong efficiency and continue to deliver on its conservative capital policy.	Sweden	Louise Lundberg
UBS AG (A+/Stable/A-1) The stable outlook reflects our expectation that UBS will restore underlying profitability during 2009, although at a relatively modest level, and will maintain a capital position commensurate with the current rating. We expect that, following the creation of the StabFund, potential trading-related volatility in the investment bank should increasingly be absorbed by the more predictable earnings of the asset-gathering businesses. We anticipate that the investment bank will continue to de-risk, and manage costs tightly. A negative rating action could be triggered, in particular, if we see that UBS is unable to restore underlying profitability and progressively rebuild its reputation with clients and investors. A positive rating action might be taken if we observe a resilient and consistent performance over a sustained period.	Switzerland	Richard Barnes
UniCredit SpA (A/Stable/A-1) The stable outlook reflects our opinion that further negative pressures on UniCredit's financial profile will be mitigated by its potential access, as a highly systemically important bank operating in several countries, to government capital support programs. If availability or access to such programs is not sufficient, in our view, to enable UniCredit to withstand a possible further material deterioration of profitability and/or asset quality in a manner commensurate with the current ratings, we expect we would lower the current ratings further. A positive rating action is currently unlikely given our expectations of deteriorating economic conditions.	Italy	Renato Panichi
Unione di Banche Italiane Scpa (A/Stable/A-1) The stable outlook reflects our belief that UBI's asset quality deterioration will remain moderate and takes into account the possibility that recurring pretax earnings could decline between 20% and 40% in 2009. We expect UBI to continue to focus on extracting synergies from the merger, notably cost savings, and to comfortably comply with its core Tier 1 capital ratio target. We expect capitalization and liquidity to improve somewhat in the short term, following the slowdown in loan	Italy	Taos Fudji

demand and measures put in place by the bank's top management to limit the risk exposure. The ratings could come under downward pressure if the deterioration in UBI's asset quality reduces profitability below adequate levels or if the economic recession reaches well into 2010. A more aggressive capital policy would also be a negative rating factor. A positive rating action is unlikely given our expectations of deteriorating economic conditions.		
WestLB AG (BBB+/Negative/A-2) The negative outlook reflects our view that WestLB will find it difficult in the short to medium term to cope with the impact of the recession on its remaining loan book, the financial market crisis, and the restructuring process needed to reduce nonstrategic businesses, capital leverage, funding needs, and cost base. Uncertainties persist about current and potential additional support measures necessary, their approval by the EC, and conditions attached to them. It is also uncertain to what degree investors would be protected in case of a potential legal separation of the nonstrategic business from the core activities. WestLB's current ownership structure is likely to change and implicit owner support is finite because we expect the owners to reduce their stake to less than 50% to comply with EC requirements. If this were to happen, it remains uncertain whether WestLB would find a strong new majority owner able and committed to replace the support factored into the current ratings. Alternatively, we still regard an orderly wind-down as a possible scenario. Ratings could be lowered if, for example: we believe that currently planned support measures turn out to be insufficient to restore WestLB's stand-alone credit profile to the 'BB' category; the EC were not to grant approval for support measures or were to impose unfavorable conditions to its approval beyond our current expectations; and we believe that ongoing ownership support would lessen, or the position of creditors could be weakened, during the course of the implementation of the restructuring plan or due to a potential change in ownership. Rating implications could be positive if our concerns and uncertainties were sufficiently mitigated, and if implicit ownership support were to be maintained or adequately replaced. The grandfathered debt ratings, which are not affected by this rating action for now, could be lowered if ownership ties between the guarantors and WestLB were to weaken. As the grandfathering guarantee is, strictly speaking, not a timely guarantee, we believe that timeliness of payment hinges on the strong ongoing ownership commitment. We have communicated our concerns since July 2001--when it was announced that guarantees would be abolished--and therefore have always assigned negative outlooks to rated grandfathered debt obligations since then. This signaled the possibility of likely moderate rating changes in case ties between Landesbanks and their guarantors should weaken.	Germany	Harm Semder

***Ratings as of June 16, 2009.**

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Table 7

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