

June 17, 2009

Research Update:

Associated Banc Corp. Downgraded To 'BBB/A-2'; Outlook Negative

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Table Of Contents

Overview

Rating Action

Rationale

Outlook

Related Research

Ratings List

Research Update:

Associated Banc Corp. Downgraded To 'BBB/A-2'; Outlook Negative

Overview

- We believe mounting credit losses will likely weaken Associated Banc Corp.'s earnings and capital.
- We lowered our ratings on Associated to 'BBB/A-2'.
- Credit losses may exceed our current expectations.

Rating Action

On June 17, 2009, Standard & Poor's Ratings Services lowered its counterparty credit rating on Associated Banc Corp. to 'BBB/A-2' from 'BBB+/A-2'. We also lowered the counterparty credit ratings on Associated Bank N.A. to 'BBB+/A-2' from 'A-/A-2'. The outlook is negative.

Rationale

The downgrade reflects our expectation that mounting credit losses during the next two years will weaken Associated's earnings and capital. Based on the published base-case assumptions of our stress tests and Associated's exposure to commercial real estate (CRE) and construction loans, we believe that the company's credit losses should increase during the next two years. As a result, Associated's financial performance should be pressured more than peers'. In our view, this trend of credit loss deterioration would accelerate if economic conditions were to deteriorate further, as underscored by our stress testing.

CRE and construction lending together account for a high 36% of total loans, a relatively high proportion for our regional banks. As part of a long-term strategy to reduce the company's overall risk, management appears to be shifting away from CRE and construction lending and into commercial and industrial and high-quality residential lending. Given the weak economic environment, we expect further deterioration beyond the annualized net charge-off rate of 1.44% recorded at the end of first-quarter 2009, compared to 0.41% in the same quarter of 2008. Nonperforming assets (NPAs) increased to 3.24% of gross loans plus other real estate owned at first-quarter 2009, from 1.60% during the same time last year. The majority of NPAs consist of CRE and construction loans.

We expect continued migration of loans to the problem categories, along with elevated nonperforming loans and charge-off rates, given the current economic conditions and its impact on borrowers. Capitalization levels through the end of 2010 should likewise be constrained given the high level of credit losses we now expect.

Associated's good franchise in the Midwest, our positive view of management's conservative underwriting, and good liquidity and funding

continue to support the ratings. Although Associated's profitability remains satisfactory, we expect it to weaken relative to peers'.

Outlook

The outlook is negative. We believe there is potential for credit losses to outstrip our current expectations, in which case we could lower the ratings. Conversely, if management can stabilize credit quality and maintain profitability, we could revise the outlook to stable. We see a ratings upgrade as less likely at this time.

Related Research

- "Credit Stress Testing For Financial Institutions," published April 29, 2009
- "Stress Testing U.S. Financial Institutions," published April 29, 2009
- "What Stress Tests Reveal about U.S. Banks' Capital Needs," published May 1, 2009

Ratings List

Downgraded; CreditWatch Action

	To	From
Associated Bank Illinois N.A.		
Associated Bank N.A.		
Associated Bank Minnesota N.A.		
Certificate Of Deposit		
Local Currency	BBB+/A-2	A-/Watch Neg/A-2
Associated Banc Corp.		
Subordinated	BBB-	BBB/Watch Neg
ASBC Capital I		
Preferred Stock	BB	BBB-/Watch Neg

Downgraded; CreditWatch/Outlook Action

	To	From
Associated Banc Corp.		
Counterparty Credit Rating	BBB/Negative/A-2	BBB+/Watch Neg/A-2
Associated Bank Illinois N.A.		
Associated Bank N.A.		
Associated Bank Minnesota N.A.		
Counterparty Credit Rating	BBB+/Negative/A-2	A-/Watch Neg/A-2

Ratings Affirmed; CreditWatch/Outlook Action

	To	From
Associated Banc Corp.		
Commercial Paper	A-2	A-2/Watch Neg

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