

June 17, 2009

Research Update:

**Citizens Republic Bancorp Inc.
Rating Lowered To 'BB-/B' From
'BBB-/A-3'; Outlook Negative**

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Research Update:

Citizens Republic Bancorp Inc. Rating Lowered To 'BB-/B' From 'BBB-/A-3'; Outlook Negative

Overview

- We believe mounting credit losses may lead to weakened financial performance.
- We downgraded Citizens Republic Bancorp to 'BB-/B'.
- We believe credit deterioration is likely to continue.

Rating Action

On June 17, 2009, Standard & Poor's Ratings Services lowered its counterparty credit rating (CCR) on Citizens Republic Bancorp Inc. to 'BB-/B' from 'BBB-/A-3'. We also lowered the CCR on Citizens Bank and F&M Bank - Iowa to 'BB+/B' from 'BBB/A-2'. The outlooks are negative.

Rationale

The downgrade reflects our expectation for weakening financial performance because of mounting credit losses given the company's outside exposure to commercial real estate.

Based on our published base-case assumptions of our stress tests, we believe that Citizens' credit losses will be high relative to peers during the next two years. In particular, we believe credit losses will continue to rise in coming quarters, pressuring financial performance. In our view, this trend of credit-loss deterioration is likely to accelerate if economic conditions were to deteriorate further, as underscored by our stress testing.

Citizens' credit portfolio has a relatively high concentration in commercial real estate, representing 34% of total loans. There has also been migration of several other loan types into the nonaccrual and delinquency categories due to the weak economic environment. Annualized net charge-offs increased to 1.68% in first-quarter 2009 from 0.74% one year ago. Nonperforming assets (NPAs) increased rapidly to 6.14% of gross loans plus other real estate owned at first-quarter 2009, from 3.35% during the same time last year. At the end of first-quarter 2009, the single largest NPA concentration consisted of loans in the CRE portfolio, at 43%. We expect this trend to continue for the foreseeable future.

Moreover, Citizens profitability to date has been weak compared to that of peers. Under our stress testing, profitability should remain weak at least through 2010.

The bank's good position in its markets and its sound liquidity and funding profiles support the ratings. Indeed, core deposits comprise about 86% of the total deposit base and fund 89% of the total loan portfolio, which are positive rating factors.

Outlook

The outlook is negative. If asset-quality metrics improve toward industry averages we could revise the outlook to stable. Conversely, if credit metrics continue to deteriorate and pressure earnings beyond our expectations, and begin to erode tangible capital, we could lower the ratings further.

Related Research

- "Credit Stress Testing For Financial Institutions," April 29, 2009
- "Methodology And Assumptions: Risk-Adjusted Capital Framework For Financial Institutions," April 21, 2009
- "Stress Testing U.S. Financial Institutions," April 29, 2009

Ratings List

Downgraded; CreditWatch/Outlook Action

	To	From
Citizens Republic Bancorp Inc. Counterparty Credit Rating	BB-/Negative/B	BBB-/Watch Neg/A-3
Citizens Bank F&M Bank - Iowa Counterparty Credit Rating Certificate Of Deposit Local Currency	BB+/Negative/B BB+/B	BBB/Watch Neg/A-2 BBB/Watch Neg/B
Citizens Republic Bancorp Inc. Subordinated Preferred Stock	B+ CCC+	BB+/Watch Neg BB-/Watch Neg
Citizens Cap Trust I Citizens Fdg Trust I Citizens Funding Trust II Preferred Stock	CCC+	BB/Watch Neg

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