

January 28, 2009

Issue Ratings Lowered On Hybrid Instruments Of Some European Banks On Heightened Deferral Risk

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PARIS (Standard & Poor's) Jan. 28, 2009--Standard & Poor's Ratings Services said today that it has lowered the issue ratings on the hybrid capital securities of several European financial institutions by two or more notches following our review of institutions that have received material government capital support:

- Commerzbank AG (A/Stable/A-1), plus subsidiaries Dresdner Bank AG (A/Stable/A-1) and Eurohypo AG (A/Negative/A-1);
- Entities of the group Dexia S.A.: Dexia Crédit Local, Dexia Banque Internationale à Luxembourg, and Dexia Bank S.A. (all three entities A/Stable/A-1);
- Fortis Bank SA/NV (A/Watch Pos/A-1), and
- Northern Rock PLC (A/Stable/A-1).

Note that several of the issue ratings of the issuing groups remain on CreditWatch with negative or developing implications due to uncertainties regarding restructuring plans and the future nature and extent of state aid.

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Also note that the counterparty credit ratings (CCRs) on the financial institutions whose hybrid securities this action affects remain unchanged. (See the Ratings List below.)

We lowered the issue ratings on the junior subordinated (Tier 1 and Upper Tier 2) instruments of these financial groups because of our view of:

--The current and projected difficult operating environment will result in significant bottom-line losses for most of the issuing financial groups, and

--Their reliance on their respective governments for capital support.

Under Standard & Poor's rating approach for hybrid capital securities (see "Franchise Stability, Confidence Sensitivity, And The Treatment Of Hybrid Securities In A Downturn," published Dec. 1, 2008, and "Hybrid Capital Handbook," published Sept. 15, 2008), we widen the gap between the CCR and the hybrid issue rating of the issuer entity to three or more notches when we consider that the probability of payment deferral has increased.

Hybrid capital instruments are designed to absorb losses and preserve capital on a going-concern basis in times of stress, such as the present and projected difficult economic and industrial environment. We believe that in the short to medium term there is a greater potential that financial institutions may, through their own initiative or under government order, defer coupon or dividend payments to preserve cash and capital.

Governments fully or partly own the four financial groups involved in this rating action.

We believe that governments in mature market economies are not willing to support hybrid capital issues to the same extent as more senior obligations. When a bank incurs material net losses and needs to conserve cash and rebuild capital with help from the government, deferral of payments on hybrid securities may be one way to accomplish this. We recognize the broader negative market implications of a payment deferral on banks' future access to capital markets. However, we believe that governments may be more prone to using the deferral option because their recent support programs for banks are significant and the need to shore up bank capital is great.

We also believe that weak financial performance and poor near-term earnings prospects heighten the risk of payment deferral on hybrid instruments of financial institutions that have not received material direct government investment. Leading indicators of heightened risk of hybrid payment deferral include reduction or elimination of common dividends and potential for a breach of minimum regulatory capital requirements.

EU law regarding state aid may, in our view, contribute to heightened payment deferral of the hybrid capital securities of financial institutions. A capital injection from an EU government into a financial (or other) institution requires an application to the European Commission (EC) under EU State Aid rules. We observe that over the past few months, the EC has granted conditional approval to a number of national support schemes. As part of its assessment of an application, the EC determines whether a bank is distressed or fundamentally sound at the time it receives the support. In one instance involving Germany's Bayerische Landesbank (BayernLB) we note that the EC requested that the bank defer payments on hybrid capital instruments, reflecting BayernLB's financial situation and the scope of the recapitalization measures. We believe that as a policy matter the EC aims to

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ensure that state aid granted to banks in difficulties is preserved and used to strengthen capitalization and not paid out to shareholders or other holders of capital instruments. This potential intervention of the EC in certain cases of state aid to banks is a further consideration in our assessment of payment deferral risk for European financial institutions. However, in our opinion, the EC will not prohibit payments that banks are contractually obliged to make.

Standard & Poor's will continue to monitor the various factors that influence payment deferral risk of hybrid capital securities of financial institutions and will follow the same approach in similar instances.

RATINGS LIST

Downgraded

	To	From
Commerzbank Capital Funding Trust I Commerzbank Capital Funding Trust II Preferred Stock	BB+/Watch Neg	BBB/Watch Neg
Commerzbank Capital Funding Trust III Preference Stock (1)	BB+/Watch Neg	BBB/Watch Neg
Dresdner Capital LLC I Dresdner Capital LLC II Dresdner Capital LLC III Dresdner Capital LLC IV Junior Subordinated	BB+/Watch Neg	BBB/Watch Neg
Dresdner Funding Trust I Dresdner Funding Trust II Dresdner Funding Trust III Dresdner Funding Trust IV Junior Subordinated	BB+/Watch Neg	BBB/Watch Neg
Eurohypo Capital Funding Trust I Eurohypo Capital Funding Trust II Preferred Stock (2)	BB+/Watch Neg	BBB/Watch Neg
HT1 Funding GmbH Junior Subordinated (3)	BB+/Watch Neg	BBB/Watch Neg
UT2 Funding PLC Junior Subordinated	BB+/Watch Neg	BBB/Watch Neg
Dexia Bank S.A. Dexia Credit Local Junior Subordinated	BB/Watch Neg	BBB
Dexia Banque Internationale a Luxembourg Junior Subordinated	BB+/Watch Neg	BBB

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Dexia Fdg Luxembourg S.A. Junior Subordinated (4)	BB/Watch Neg	BBB
Dexia Overseas Ltd. Junior Subordinated (5)	BB/Watch Neg	BBB
Fortis Bank SA/NV Junior Subordinated	BB+/Watch Dev	BBB/Watch Dev
Northern Rock PLC Junior Subordinated	B	BBB-

- (1) Support by Commerzbank AG.
- (2) Guaranteed by Eurohypo AG.
- (3) Support by Allianz SE.
- (4) Guaranteed by Dexia S.A.
- (5) Guaranteed by Dexia Bank S.A.

NB: This list does not include all ratings affected.

Ratings information is available to RatingsDirect subscribers at www.ratingsdirect.com. It can also be found on Standard & Poor's public Web site at www.standardandpoors.com; select your preferred country or region, then Ratings in the left navigation bar, followed by Find a Rating. Alternatively, call one of the following Standard & Poor's numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow (7) 495-783-4017.

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