

January 13, 2012

Research Update:

Luxembourg's 'AAA/A-1+' Ratings Affirmed; Off Watch Neg, Outlook Negative

Primary Credit Analysts:

Frank Gill, London (44) 20-7176-7129; frank_gill@standardandpoors.com

Moritz Kraemer, Frankfurt (49) 69-33-99-9249; moritz_kraemer@standardandpoors.com

Table Of Contents

Overview

Rating Action

Rationale

Outlook

Related Criteria And Research

Ratings List

Teleconference Information

Research Update:

Luxembourg's 'AAA/A-1+' Ratings Affirmed; Off Watch Neg, Outlook Negative

Overview

- We are affirming the 'AAA' long-term and 'A-1+' short-term sovereign credit ratings on Luxembourg.
- The outlook on the long-term rating is negative.

Rating Action

On Jan. 13, 2012, Standard & Poor's Ratings Services affirmed its 'AAA' long-term and 'A-1+' short-term sovereign credit ratings on the Grand Duchy of Luxembourg. At the same time, we removed the long-term rating on Luxembourg from CreditWatch with negative implications, where it was placed on Dec. 5, 2011. The outlook on the long-term rating is negative.

Our transfer and convertibility (T&C) assessment for Luxembourg, as for all European Economic and Monetary Union (eurozone) members, is 'AAA', reflecting our view that the likelihood of the European Central Bank restricting nonsovereign access to foreign currency needed for debt service is extremely low. This reflects the full and open access to foreign currency that holders of euro currently enjoy and which we expect to remain the case in the foreseeable future.

Rationale

The outcomes from the EU summit on Dec. 9, 2011, and subsequent statements from policymakers lead us to believe that the agreement reached has not produced a breakthrough of sufficient size and scope to fully address the eurozone's financial problems. In our opinion, the political agreement does not supply sufficient additional resources or operational flexibility to bolster European rescue operations, or extend enough support for those eurozone sovereigns subjected to heightened market pressures.

We also believe that the agreement is predicated on only a partial recognition of the source of the crisis: that the current financial turmoil stems primarily from fiscal profligacy at the periphery of the eurozone. In our view, however, the financial problems facing the eurozone are as much a consequence of rising external imbalances and divergences in competitiveness between the eurozone's core and the so-called "periphery." As such, we believe that a reform process based on a pillar of fiscal austerity alone risks becoming self-defeating, as domestic demand falls in line with consumers' rising concerns about job security and disposable incomes, eroding national tax revenues.

Accordingly, in line with our published sovereign criteria, we have adjusted downward the political score we assign to the Grand Duchy of Luxembourg (see "Sovereign Government Rating Methodology And Assumptions," published on June 30, 2011). This is a reflection of our view that the effectiveness, stability, and predictability of European policymaking and political institutions (with which Luxembourg is closely integrated) have not been as strong as we believe are called for by the severity of a broadening and deepening financial crisis in the eurozone.

In our baseline scenario, we expect much lower GDP growth of 0.2% in 2012 and, given the Luxembourg economy's dependence on the large financial sector, we believe that growth prospects for the longer term will also be subdued. We anticipate that this could put further pressure on public finances.

However, the affirmation reflects our opinion that Luxembourg's underlying strengths--its stable political environment, demonstrated control over public finances, and very strong government balance sheet (net general government assets are estimated is nearly 20% of GDP in 2012)--will be sufficient to absorb external stress emanating from the current eurozone crisis at the current rating level. In our opinion, Luxembourg has the fiscal capacity and political backing to implement measures that would help mitigate the impact of external shocks.

Outlook

The negative outlook indicates that we believe that there is at least a one-in-three chance that we will lower the rating in 2012 or 2013.

We may lower the rating if we consider that Luxembourg financial-services-based business model could be exposed to higher risks, and a significant deterioration in overall operating volumes in a more-difficult capital market environment, which would reduce longer-term growth prospects.

We believe that the authorities will support systemically important institutions, including foreign-owned ones when they have domestic activities, as they have done in the past. Any need to inject capital into the financial sector could reduce the stock of government assets and lead us to lower the fiscal score. The financial health of other foreign-owned financial institutions is also important to Luxembourg's business model and longer-term growth potential, even though we believe that they would be supported by their parents in case of stress.

We could revise our outlook to stable if we see the risks to Luxembourg's business model abate. In our opinion, these risks include changing legal conditions around advantageous tax regimes or deterioration in the profitability, performance, or activity level of the financial services sector.

Related Criteria And Research

All articles listed below are available on RatingsDirect on the Global Credit Portal.

Related criteria

- Sovereign Government Rating Methodology And Assumptions, June 30, 2011
- Criteria For Determining Transfer And Convertibility Assessments, May 18, 2009

Related research

- Standard & Poor's Puts Ratings On Eurozone Sovereigns On CreditWatch With Negative Implications, Dec. 5, 2011
- Trade Imbalances In The Eurozone Distort Growth For Both Creditors And Debtors, Says Report, Dec. 1, 2011
- Who Will Solve The Debt Crisis?, Nov. 10, 2011

Ratings List

Luxembourg (Grand Duchy of)

| | To | From |
|-------------------------|-------------------|--------------------|
| Sovereign credit rating | AAA/Negative/A-1+ | AAA/Watch Neg/A-1+ |

Teleconference Information

Standard & Poor's will hold a teleconference on Saturday Jan. 14, 2012 at 3:00 PM UK time. The teleconference can be accessed live or via replay and by phone or audio internet streaming

The call will begin promptly at 3:00 p.m.

TELECONFERENCE DETAILS

Passcode: 2705831

For security reasons, the passcode will be required to join the call.

DIAL IN NUMBERS:

| Country | Toll Numbers | Freephone/Toll Free Number |
|------------|------------------|----------------------------|
| AUSTRIA | 43-1-92-80-003 | 0800-677-861 |
| BELGIUM | 32-1-150-0312 | 0800-4-9471 |
| DENMARK | 45-7014-0239 | 8088-2100 |
| ESTONIA | | 800-011-1121 |
| FINLAND | 106-33-149 | 0800-1-12771 |
| FRANCE | 33-1-70-75-25-35 | 080-563-9909 |
| GERMANY | 49-69-2222-3198 | 0800-101-6627 |
| GREECE | 30-80-1-100-0674 | 00800-12-6609 |
| IRELAND | 353-1-247-5274 | 1800-992-870 |
| ITALY | 39-02-3601-0953 | 800-985-849 |
| LUXEMBOURG | 352-27-000-1351 | 8002-9058 |

Research Update: Luxembourg's 'AAA/A-1+' Ratings Affirmed; Off Watch Neg, Outlook Negative

| | | |
|-----------------|------------------|---------------|
| NETHERLANDS | 31-20-718-8530 | 0800-023-4392 |
| PORTUGAL | | 8008-12439 |
| SLOVAK REPUBLIC | 421-2-322-422-16 | |
| SPAIN | 34-91-414-40-78 | 800-098-194 |
| UNITED KINGDOM | 44-20-7950-6551 | 0800-279-3590 |
| USA | 1-210-795-1143 | 866-297-1588 |

TELECONFERENCE REPLAY INFORMATION:

Call notes: This call is to be recorded for Instant Replay purposes

UK TOLL #: +44-20-7108-6279

UK TOLL FREE #: 0800-376-9027

The instant replay will start at: Jan. 14, 2012 5:30pm UKT

The instant replay will end at: Feb-14-2012 11:59pm UKT

Passcode for replay: 7498

Restrictions may exist when accessing freephone/toll free numbers using a mobile telephone.

AUDIO STREAMING AND AUDIO REPLAY INFORMATION:

To join the event:

URL: <https://e-meetings.verizonbusiness.com>

Conference number: 1297498

Passcode: 2705831

To access the Audio Replay of this call, all parties can:

1. Go to the URL listed above.
2. Choose Audio Streaming under Join Events.
3. Enter the conference number and passcode. (Note that if this is a recurring event, multiple dates may be listed.)

Replays are available for 30 days after the live event.

Additional Contact:

Sovereign Ratings; SovereignLondon@standardandpoors.com

Complete ratings information is available to subscribers of RatingsDirect on the Global Credit Portal at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column. 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) 783-4009.

Copyright © 2012 by Standard & Poors Financial Services LLC (S&P), a subsidiary of The McGraw-Hill Companies, Inc. All rights reserved.

No content (including ratings, credit-related analyses and data, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of S&P. The Content shall not be used for any unlawful or unauthorized purposes. S&P, its affiliates, and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions, regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold, or sell any securities or to make any investment decisions. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P's opinions and analyses do not address the suitability of any security. S&P does not act as a fiduciary or an investment advisor. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain credit-related analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.