

## JP Morgan Cuts Ratings on UK Banks

September 22, 2008

J.P. Morgan Securities downgraded Lloyds TSB Group Plc, Barclays Plc and Royal Bank of Scotland Group Plc to "underweight" from "neutral" citing capital concerns.

J.P. Morgan said the Lloyds' transaction with HBOS Plc was not in the best interests of shareholders.

Last week, Lloyds rescued Britain's biggest mortgage lender HBOS in a \$22 billion takeover as the government swept aside competition rules to ease the deal through.

"Whilst the combined entity should have significant pricing power when the deal completes, based on our calculations we see the company severely capital constrained," the brokerage said.

RBS is also capital constrained, the brokerage said, and added that the bank suffers from a poor earnings mix and that synergies from the ABN takeover do not appear feasible.

J.P. Morgan retained its "underweight" rating on Bradford & Bingley Plc, saying the British mortgage bank was not a viable standalone entity.

Shares of the company rose 9 percent in morning trade, supported by press reports that the Financial Services Authority is sounding out potential bidders for the group.

By 1010 GMT, shares of Lloyds were up 0.61 percent at 287.5 pence, while those of Barclays were up 2.7 percent at 399.5 pence.

HBOS shares were down 1.24 percent at 219.75 pence.

The following table lists the price target changes made by the brokerage:

| Company    | Price target |
|------------|--------------|
| Lloyds TSB | 180p 480p    |
| RBS        | 120p 320p    |
| Barclays   | 210p 570p    |
| HBOS       | 180p 450p    |

**Source: Reuters**