

ASX ANNOUNCEMENT

Friday, 30 September 2011

Fitch announcement on Clydesdale Bank

Please find attached an announcement made by Fitch Ratings today.

On Wednesday, 28 September, in response to an announcement by Moody's Investors Service, National Australia Bank said that the support provided to its United Kingdom business is unchanged.

The statement made on Wednesday, 28 September is available at www.nabgroup.com.

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Fitch Downgrades Clydesdale Bank to 'A+'; Outlook Stable [Ratings](#)

30 Sep 2011 5:29 AM (EDT)

Fitch Ratings-London-30 September 2011: Fitch Ratings has downgraded Clydesdale Bank plc's (CB) Long-term Issuer Default Rating (IDR) to 'A+' with a Stable Outlook, Short-term IDR to 'F1' and Viability Rating (VR) to 'bbb'. The rating actions have no implications for CB's covered bond ratings of 'AAA'. A full list of rating actions is at the end of this comment.

The downgrade of the IDRs reflects Fitch's belief that the strategic importance of CB to its parent, National Australia Bank Limited (NAB; 'AA'/Stable), may be diminishing slightly. This reflects the more stringent regulation and a less favourable economic environment in the UK, which may indicate that the UK banking sector has become less attractive to foreign banks. CB is wholly-owned by NAB and its IDRs are driven by parental support. Although support from NAB for CB remains extremely likely, the wider notching reflects Fitch's view that support is marginally less strong than was previously the case. Downside for the IDRs could arise from further changes in Fitch's view of CB's strategic importance to NAB.

The downgrade of the VR reflects some moderate pressure arising from the operating environment. CB's loan portfolio includes a significant proportion of commercial property lending, as well as SME lending, which the agency believes are more vulnerable to an anaemic economy, which could weaken.

Pre-impairment operating performance is largely driven by net interest income. Further growth in net interest income is likely to be muted, reflecting limited expected loan growth and low interest rates. Loan impairment charges are mainly driven by corporate lending and commercial property, and Fitch expects charges to remain high relative to earnings.

There has been some deterioration in asset quality during the economic downturn. However, CB's impaired loans ratio remains moderate. Commercial property exposure constitutes around one-fifth of gross loans with a material development finance element. Fitch believes that if commercial property values remain depressed, CB may have to make substantial further loan impairment charges. Future asset quality deterioration is likely to be mitigated by the seasoning of the book, which is being managed down. Fitch believes that SME borrowers remain vulnerable to the UK downturn, particularly in sectors such as hospitality, business services and construction, although it expects losses to remain manageable. The performance of CB's residential mortgage book (32% of end-H111 loans) has been resilient.

The VR continues to be supported by CB's satisfactory liquidity and funding and sufficient capitalisation. Liquidity is conservatively managed with cash and marketable securities covering outstanding unsecured market funding. Customer deposits have increased as a proportion of total funding and CB has reduced its reliance on funding from NAB. Fitch views capitalisation as sufficient in light of NAB's regular capital injections. The Fitch core capital ratio was 8.6% at end-H111.

The rating actions are as follows:

Clydesdale Bank plc:

Long-term IDR downgraded to 'A+' from 'AA-'; Stable Outlook

Short-term IDR downgraded to 'F1' from 'F1+'

Viability Rating downgraded to 'bbb' from 'bbb+'

Individual Rating affirmed at 'C'

Support Rating affirmed at '1'

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Additional information is available on www.fitchratings.com

Applicable criteria, 'Global Financial Institutions Rating Criteria', dated 16 August 2011, and 'Treatment of Hybrids in Bank Capital Analysis', dated 11 July 2011, are available at www.fitchratings.com.

Applicable Criteria and Related Research:

[Global Financial Institutions Rating Criteria](#)

[Treatment of Hybrids in Bank Capital Analysis](#)

[National Australia Bank Limited](#)

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