

ASX Announcement*Tuesday, 28 July 2009***Standard & Poor's report regarding Clydesdale Bank PLC**

Attached is a ratings report from Standard & Poor's in relation to Clydesdale Bank PLC (a wholly owned subsidiary of National Australia Bank). This report has no impact on the ratings assigned to National Australia Bank, which were re-affirmed by Standard & Poor's on 17 July this year.

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July 27, 2009

Research Update:

Clydesdale Bank Ratings Lowered To 'A+/A-1' On Deterioration Of Stand-Alone Credit Profile; Outlook Negative

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Table Of Contents

Overview

Rating Action

Rationale

Outlook

Related Research

Ratings List

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Overview

- The U.K. economic environment remains weak, which we expect to lead to rising loan losses at Clydesdale.
- We have reviewed the ratings on Clydesdale in light of this and our newly published criteria on credit loss assumptions for U.K. banking assets.
- We are lowering our counterparty credit ratings on Clydesdale to 'A+/A-1'.
- The negative outlook reflects our view that the environment will remain unresponsive to Clydesdale and could deteriorate further.

Rating Action

On July 27, 2009, Standard & Poor's Ratings Services lowered its long- and short-term counterparty credit ratings on Clydesdale Bank PLC (Clydesdale) to 'A+/A-1' from 'AA-/A-1+'. The outlook is negative. The ratings on bonds issued by Clydesdale that carry a guarantee from the U.K. Government remain unchanged at 'AAA'.

Rationale

The rating action reflects our view that Clydesdale's stand-alone credit profile has deteriorated, and that it could demonstrate weaker-than-anticipated resilience if the bank's operating environment deteriorates beyond our current expectations. The ratings on Clydesdale continue to reflect our view of its strategically important position within its wholly owned parent group, National Australia Bank Ltd. (NAB; AA/Stable/A-1+). The ratings on Clydesdale benefit from a three-notch uplift under Standard & Poor's group rating methodology. We consider Clydesdale to be of moderate systemic importance to the U.K. banking system, but factor no governmental support into the ratings on the bank.

In our opinion, Clydesdale faces significant challenges from the increasingly difficult economic and market environment in the U.K., which we expect will pressurize earnings over the coming two years. The low interest-rate environment, higher holdings of liquid assets, and elevated wholesale funding costs appear likely to continue to pressurize interest income in the near term. Clydesdale reported a loan loss charge of £168 million for the six months to March 31, 2009, or about 70% of pre-loan loss earnings. We expect these loan losses to continue to rise into the 2010 calendar year. In our view, this could lead the bank to report negative earnings for the year to Sept. 30, 2009.

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Outlook Negative*

These expectations are underpinned by our newly published criteria on credit loss assumptions for U.K. banking assets (for more information, see "Assumptions For Credit Stress Testing U.K. Banks," published today on RatingsDirect). Our application of the criteria reflects our expectation that Clydesdale's mortgage book will continue to perform better than peers', but that the commercial loan portfolio performance will be more in line with sector averages. This portfolio includes notable exposures to the property and construction sector and a small acquisition finance portfolio.

Clydesdale reported a Tier 1 ratio of 7.4% at Sept. 30, 2008. This has since been bolstered by an injection of new capital from NAB, which increased the ratio to a reported 8.3% at March 31, 2009. Despite this, however, we consider that the bank's stand-alone credit profile could demonstrate less resilience under our downside case scenario than we would expect for its previous rating level.

In our view, Clydesdale's funding strategy remains a relative strength to its ratings. We consider that the bank maintains a healthy deposit franchise, satisfactory loan-to-deposit ratio, and that its wholesale funding remains reasonably well spread by source and tenor despite the still-difficult funding conditions.

Outlook

The negative outlook reflects our view of Clydesdale's very difficult operating environment that will, we believe, increasingly challenge profitability in the near-to-medium term. However, we expect that a stable market position, good capitalization, and balanced rates of loan and deposit growth will support the bank's overall creditworthiness.

The ratings could be lowered if Clydesdale's profitability appears likely to weaken faster or further than we currently expect in our base case. It could also stem from a weakening in our view of Clydesdale's status in the NAB group. Important rating factors here include our view of the bank's strategic importance to NAB, the strength of parental support, and whether operating performance will be consistent with both NAB and similarly rated peers. An outlook revision back to stable is unlikely in the near term, but could follow from resilient financial performance combined with an improvement in the operating environment.

Related Research

- Assumptions For Credit Stress Testing U.K. Banks, July 27, 2009
- Standard & Poor's Determines Credit Loss Assumptions For The U.K. Domestic Loan Book, July 27, 2009
- Review Of U.K. Banks Following Implementation Of Credit Loss Assumptions Leads To Various Rating Actions, July 27, 2009
- Credit Stress Testing For Financial Institutions, April 29, 2009

Ratings List

Downgraded

	To	From
Clydesdale Bank PLC		
Counterparty Credit Rating	A+/Negative/A-1	AA-/Negative/A-1+
Senior Unsecured	A+	AA-
Subordinated	A	A+
Commercial Paper	A-1	A-1+

N.B.--This list does not include all ratings affected.

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