



[Click Here for Printer-Friendly Version](#)

## **Fitch Puts Clydesdale Bank plc's Covered Bonds on Rating Watch Negative** Ratings Endorsement Policy

12 May 2015 10:23 AM (EDT)

Fitch Ratings-London-12 May 2015: Fitch Ratings has placed Clydesdale Bank plc's (Clydesdale; A/RWN/bbb+) GBP1.1bn mortgage covered bonds 'AAA' rating on Rating Watch Negative (RWN).

### KEY RATING DRIVERS

The rating action follows the RWN placed on Clydesdale's Long-term Issuer Default Rating (IDR) of 'A', Short-term IDR of 'F1', and Support Rating of '1' and affirmation of the Viability Rating (VR) at 'bbb+' (see 'Fitch Puts Clydesdale Bank's IDRs on RWN; Affirms VR at 'bbb+' dated 11 May 2015 at [www.fitchratings.com](http://www.fitchratings.com)). The RWN on the covered bond programme will be resolved upon the resolution of the RWN on the bank's IDR.

The 'AAA' rating of the covered bonds is based on Clydesdale's IDR of 'A', an unchanged IDR uplift of 0, an unchanged Discontinuity Cap (D-Cap) of 4 (moderate risk) and an asset percentage (AP) of 79.5% disclosed in the programme's investor reports, which Fitch relies upon. This level of AP is adequate to achieve recoveries of at least 91% should the covered bonds default, allowing a two-notch uplift to 'AAA' from the 'AA' tested rating on a PD basis. The breakeven AP for the 'AAA' rating is 83.0%, published in December 2014.

Clydesdale's covered bond programme has a one-notch rating cushion against potential downgrade of the issuer's IDR. However, should Clydesdale's IDR be downgraded to the level of its VR ('bbb+') the one-notch cushion will not be sufficient to maintain the covered bonds' rating at 'AAA'.

### RATING SENSITIVITIES

The 'AAA' rating would be vulnerable to downgrade if any of the following occurs: (i) Clydesdale's IDR is downgraded by two or more notches to 'BBB+' or below; or (ii) the number of notches represented by the IDR uplift and the D-Cap is reduced to two or lower.

The Fitch breakeven AP for the covered bond rating will be affected, amongst others, by the profile of the cover assets relative to outstanding covered bonds, which can change over time, even in the absence of new issuance. Therefore the breakeven AP to maintain the covered bond rating cannot be assumed to remain stable over time.

### Contact:

Primary Analyst  
Justina Niu  
Analyst  
+44 20 3530 1589  
Fitch Ratings Limited  
30 North Colonnade  
London E14 5GN

### Secondary Analyst

Kate Lin  
Director  
+44 20 3530 1706

### Committee Chairperson

Suzanne Albers  
Senior Director  
+44 20 3530 1165

Media Relations: Christian Giesen, Frankfurt am Main, Tel: +49 69 768076 232, Email: [christian.giesen@fitchratings.com](mailto:christian.giesen@fitchratings.com).

Additional information is available on [www.fitchratings.com](http://www.fitchratings.com)

Applicable criteria 'Covered Bonds Rating Criteria', dated 8 August 2014; 'Counterparty Criteria for Structured Finance and Covered Bonds' and 'Counterparty Criteria for Structured Finance and Covered Bonds: Derivative Addendum', both dated 14 May 2014; 'EMEA Residential Mortgage Loss Criteria', dated 31 March 2015; 'Criteria Addendum - UK Mortgage Loss and Cash Flow Assumptions', dated 30 May 2014, 'EMEA RMBS Master Rating Criteria', dated 31 March 2015; 'Covered Bonds Rating Criteria - Mortgage Liquidity and Refinancing Stress Addendum', dated 16 February 2015 and 'Criteria for Interest Rate Stresses in Structured Finance Transactions and Covered Bonds', dated 19 December 2014, are available at [www.fitchratings.com](http://www.fitchratings.com).

### Applicable Criteria and Related Research:

Covered Bonds Rating Criteria  
Counterparty Criteria for Structured Finance and Covered Bonds  
EMEA Residential Mortgage Loss Criteria  
Criteria Addendum: UK - Residential Mortgage Loss and Cash Flow Assumptions  
EMEA RMBS Master Rating Criteria  
Covered Bonds Rating Criteria – Mortgage Liquidity and Refinancing Stress Addendum  
Criteria for Interest Rate Stresses in Structured Finance Transactions and Covered Bonds  
Counterparty Criteria for Structured Finance and Covered Bonds: Derivative Addendum

## Additional Disclosure

## Solicitation Status

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTP://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](http://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEBSITE '[WWW.FITCHRATINGS.COM](http://WWW.FITCHRATINGS.COM)'. PUBLISHED RATINGS, CRITERIA AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE 'CODE OF CONDUCT' SECTION OF THIS SITE. FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.

Copyright © 2015 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries.