

## **FITCH DOWNGRADES FRIESLAND BANK TO 'BBB+'**

Fitch Ratings-London/Paris-12 April 2010: Fitch Ratings has today downgraded Friesland Bank N.V.'s (FB) Long-term Issuer Default Rating (IDR) to 'BBB+' from 'A-' and the bank's Individual rating to 'C' from 'B/C'. The Short-term IDR has been affirmed at 'F2'. FB's Support rating of '3' and the Support Rating Floor of 'BB+' have also been affirmed. The Outlook for the Long-term IDR is Stable. A list of the rating actions is available at the end of this commentary.

FB is expected to report a small positive net income for 2009 and pressure on profitability should, in Fitch's view, continue over the medium term in a sluggish, albeit recovering, economy. This expected protracted strain on profitability in an uncertain operating environment has resulted in today's downgrade of FB's Long-term IDR and Individual rating.

However, FB's IDRs and Individual rating continue to reflect its good capitalisation and franchise. They also take into account the fact that the bank's franchise is essentially regional and its profitability is low. FB has implemented cost reduction initiatives to address the historically poor efficiency of its retail and corporate banking operations, and this should start to pay off from 2010. Nevertheless, Fitch expects the weak economic environment to continue weighing on impairment charges and earnings.

Downside risk to FB's Long-term IDR and Individual rating could arise if the bank were to experience substantial deterioration in its asset quality or equity investments causing a material decrease in capital ratios, although this is not expected. Upside potential in FB's Long-term IDR and Individual rating is limited given its business model reliant on volatile earning streams and the challenging operating environment.

Based in the north of the Netherlands, FB offers a full range of banking services to retail and corporate customers through 23 branches in Friesland and the surrounding provinces. Private equity is the second core activity of the bank. FB also holds stakes in Dutch financial institutions, the most significant being a 25% stake in F. Van Lanschot Bankiers N.V. (rated 'A-', Outlook Stable).

The notching of the Tier 1 perpetual securities down from the bank's Long-term IDR is line with Fitch's revised hybrid notching criteria.

The following ratings actions have been taken today:

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

Short-term IDR affirmed at 'F2'

Individual rating downgraded to 'C' from 'B/C'

Senior unsecured Long-term debt downgraded to 'BBB+' from 'A-'

Senior unsecured Short-term debt affirmed 'F2'

Subordinated debt downgraded to 'BBB' from 'BBB+'

Tier 1 perpetual securities downgraded to 'BBB-' from 'BBB+'

Support rating affirmed at '3'

Support rating floor affirmed at 'BB+'

In Fitch's rating criteria, a bank's standalone risk is reflected in Fitch's Individual ratings and the prospect of external support is reflected in Fitch's Support ratings. Collectively these ratings drive Fitch's Long- and Short-term IDRs.

Applicable criteria, 'Global Financial Institutions Rating Criteria', 'Rating Hybrid Securities', and 'Equity Credit for Hybrids & Other Capital Securities' all dated 29 December 2009, are available on [www.fitchratings.com](http://www.fitchratings.com).

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

Related Research:

Global Financial Institutions Rating Criteria

[http://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=493146](http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=493146)

Rating Hybrid Securities

[http://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=493086](http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=493086)

Equity Credit for Hybrids & Other Capital Securities - Amended

[http://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=493112](http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=493112)

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