

Rating Action: Royal Bank of Scotland plc, Australia Branch

Moody's downgrades RBS (senior to Aa3 from Aa1), negative outlook

London, 20 January 2009 -- Moody's Investors Service today downgraded all long-term ratings of Royal Bank of Scotland plc (RBS) and of the holding company, Royal Bank of Scotland Group plc. The senior unsecured rating of RBS was downgraded to Aa3 from Aa1 with a negative outlook. The Bank Financial Strength Rating ("BFSR") was lowered from B to C- and remains under review for further possible downgrade. The Aa2 senior debt rating of the holding company was downgraded to A1, also with a negative outlook. The short-term P-1 ratings of both entities were affirmed. The government backed ratings assigned to the debt instruments benefiting from UK government guarantee remain Aaa. The bank's hybrid instruments were downgraded by two notches, and some remain on review as detailed below.

The downgrades reflect Moody's expectation of significant future losses beyond those indicated by the bank for 2008. These losses are likely to be driven by a combination of loans to lower-rated corporates as default rates rise, and commercial property exposures in the weakening markets of Ireland and the UK, as well as residential property and other consumer lending exposures in the US. Moody's considers the bank's underlying capital adequacy to be in line with a BFSR in the D range. However, it is maintaining the rating at C-, under review for possible further downgrade, until it becomes clearer how the government's Asset Protection Scheme will affect projected losses. The bank's long-term rating was downgraded to Aa3 as a reflection of the same factors, but also incorporates Moody's view on the long-term credit profile of RBS beyond the current government support-phase as well as the very high probability of on-going support from the Aaa-rated UK government.

DOWNGRADE OF THE BFSR TO C- FROM B, MAINTAINING REVIEW FOR DOWNGRADE

The bank financial strength rating of RBS was lowered from B to C- (mapping to a baseline credit assessment of Baa2) and remains on review for further possible downgrade.

Moody's expects that RBS's profitability and capitalisation will continue to be pressured by the ongoing need to build large loan loss reserves. Moody's considers that there is a high risk of further losses on the bank's lending to lower-rated large corporates, such as the GBP1bn provision for its LyondellBasell Industries exposures. Such exposures have increased significantly due to the acquisition of ABN AMRO. In addition, the bank's commercial property and construction exposures (GBP 91bn globally) are expected to lead to further significant losses. This is particularly the case in the UK and Ireland (total GBP 59bn) given the price corrections taking place in these markets and the likelihood of increasing tenant arrears and defaults. In the US, the main deterioration to date at Citizens has been in the USD 8bn home equity book originated by third parties, but Moody's expects the rest of the consumer portfolio to experience greater weakness in 2009.

Although the bank estimates the group's Tier 1 ratio at 31 December 2008 to be between 9.5 -- 10.0%, Moody's financial strength rating incorporates an analysis of embedded losses in the loan books and considers the bank's underlying capital adequacy to be of a bank with a BFSR in the D range. The government's announced Asset Protection Scheme could, however, cap or reduce such losses. Therefore, the rating agency has lowered the BFSR to C-, but left it under review for further possible downgrade in order to assess the impact of this program. Should the government's plan not have a material impact on limiting the bank's future losses, the BFSR is likely to be downgraded further.

DOWNGRADE OF THE SENIOR UNSECURED RATING TO Aa3

Moody's downgraded to Aa3 from Aa1 the senior long-term debt and deposit ratings of Royal Bank of Scotland plc (RBS) with a negative outlook. The Aa2 senior debt rating of the holding company, Royal Bank of Scotland Group plc, was downgraded to A1, also with a negative outlook.

The downgrade of the long-term ratings is based on the following considerations:

- i) The bank's weak intrinsic financial strength, as indicated by the downgrade of its BFSR to C-, offset by
- ii) The increase in the government's stake in RBS, and
- iii) Moody's view on the long-term credit profile of RBS beyond the current government support-phase.

The announcement that the UK government will underwrite a new share offer open to existing shareholders and has agreed to replace the GBP5 billion preference shares held by HM Treasury into common equity, which is expected to result in the government stake in the bank rising to 70%, provides further evidence of the very high systemic support that Moody's has ascribed to RBS. At the same time, a further increase in the government's shareholding of RBS will not, ceteris paribus, change our assessment of the bank's senior debt ratings.

Moody's believes that over the longer term RBS is likely to remain one of the largest retail and commercial banks in the UK, albeit likely with a reduced international presence. This size and presence would result in a very high probability of on-going support from the Aaa-rated UK government, even beyond the current phase. However, the ongoing systemic importance of the bank is contingent on its long-term strategy and the future shape of its domestic and international activities, which currently entail enough uncertainty as to warrant a continued negative outlook on the ratings.

DOWNGRADE OF THE HYBRIDS

The dated subordinated debt of RBS plc was downgraded from Aa2 to A1 (negative outlook) and the junior subordinated debt was downgraded from Aa2 to A1 and remains on review for further possible downgrade. The preference shares and hybrid instruments were downgraded from Aa3 to A2 and remain on review for further possible downgrade.

The review for further possible downgrade of the hybrids, including junior subordinated debt, indicates the likely widening of the notching between the senior debt and hybrids should the BFSR go down further.

The final ratings of the bank's non-cumulative preference shares (A2 on review for further possible downgrade) will also need to incorporate an assessment whether they have the legal form of equity or debt. The equity instruments (which gain voting rights in certain circumstances) are likely to drop to non-investment grade, reflecting the greater risk of loss on these instruments should the issuer be nationalised.

The backed-Aaa ratings assigned to the debt instruments benefiting from UK government guarantee remain Aaa.

A separate press release will follow on the ratings of the Ulster Bank Group and RBS' rated US subsidiaries.

The last rating action was on December 22, 2008 when the ratings were put on review for possible downgrade.

The principal methodologies used in rating this issuer were "Bank Financial Strength Ratings: Global Methodology" (February 2007) and "Incorporation of Joint-Default Analysis into Moody's Bank Ratings: A Refined Methodology" (March 2007), which can be found at www.moody.com in the Credit Policy & Methodologies directory, in the Ratings Methodologies subdirectory. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Credit Policy & Methodologies directory.

Based in Edinburgh, RBS reported total proforma assets of GBP 1,731 billion as of 30 June 2008.

The following ratings have been affected

Downgrades:

..Issuer: National Westminster Bank PLC

....Issuer Rating, Downgraded to Aa3 from Aa1

....Junior Subordinated Conv./Exch. Bond/Debenture, Downgraded to A1 from Aa2

....Junior Subordinated Regular Bond/Debenture, Downgraded to A1 from Aa2

....Multiple Seniority Shelf, Downgraded to a range of (P)A2 to (P)Aa3 from a range of (P)Aa3 to (P)Aa1

....Preference Stock Preference Stock, Downgraded to A2 from Aa3

....Subordinate Regular Bond/Debenture, Downgraded to A1 from Aa2

....Senior Unsecured Regular Bond/Debenture, Downgraded to Aa3 from Aa1

...Senior Unsecured Deposit Rating, Downgraded to Aa3 from Aa1

..Issuer: RBS Capital Trust A

...Junior Subordinated Regular Bond/Debenture, Downgraded to A3 from A1

..Issuer: RBS Capital Trust B

...Preferred Stock Preferred Stock, Downgraded to A3 from A1

..Issuer: RBS Capital Trust C

...Preferred Stock Preferred Stock, Downgraded to A3 from A1

..Issuer: RBS Capital Trust D

...Preferred Stock Preferred Stock, Downgraded to A3 from A1

..Issuer: RBS Capital Trust I

...Preferred Stock Preferred Stock, Downgraded to A3 from A1

..Issuer: RBS Capital Trust II

...Preferred Stock Preferred Stock, Downgraded to A3 from A1

..Issuer: RBS Capital Trust III

...Preferred Stock Preferred Stock, Downgraded to A3 from A1

..Issuer: RBS Capital Trust IV

...Preferred Stock Preferred Stock, Downgraded to A3 from A1

..Issuer: Royal Bank of Scotland Group plc

...Junior Subordinated Regular Bond/Debenture, Downgraded to a range of A3 to A1 from a range of A1 to Aa3

...Multiple Seniority Medium-Term Note Program, Downgraded to a range of A2 to A1 from a range of Aa3 to Aa2

...Multiple Seniority Shelf, Downgraded to a range of (P)A3 to (P)A2 from a range of (P)A1 to (P)Aa3

...Preference Stock Preference Stock, Downgraded to A3 from A1

...Preferred Stock Preferred Stock, Downgraded to A3 from A1

...Subordinate Regular Bond/Debenture, Downgraded to A2 from Aa3

...Senior Subordinated Regular Bond/Debenture, Downgraded to A2 from Aa3

...Senior Unsecured Regular Bond/Debenture, Downgraded to A1 from Aa2

..Issuer: Royal Bank of Scotland plc

...Bank Financial Strength Rating, Downgraded to C- from B

...Junior Subordinated Regular Bond/Debenture, Downgraded to A1 from Aa2

...Multiple Seniority Medium-Term Note Program, Downgraded to a range of A1 to Aa3 from a range of Aa2 to Aa1

...Subordinate Regular Bond/Debenture, Downgraded to A1 from Aa2

...Senior Unsecured Medium-Term Note Program, Downgraded to Aa3 from Aa1

...Senior Unsecured Regular Bond/Debenture, Downgraded to Aa3 from Aa1

...Senior Unsecured Deposit Rating, Downgraded to Aa3 from Aa1

..Issuer: Royal Bank of Scotland plc, Australia Branch

...Multiple Seniority Medium-Term Note Program, Downgraded to a range of A1 to Aa3 from a range of Aa2 to Aa1

...Senior Unsecured Regular Bond/Debenture, Downgraded to Aa3 from Aa1

..Issuer: Royal Bank of Scotland plc, New York Branch

...Senior Unsecured Deposit Rating, Downgraded to Aa3 from Aa1

Outlook Actions:

..Issuer: RBS Capital Trust B

...Outlook, Changed To Negative From Rating Under Review

..Issuer: RBS Capital Trust C

...Outlook, Changed To Negative From Rating Under Review

..Issuer: RBS Capital Trust D

...Outlook, Changed To Negative From Rating Under Review

..Issuer: RBS Capital Trust I

...Outlook, Changed To Negative From Rating Under Review

..Issuer: RBS Capital Trust II

...Outlook, Changed To Negative From Rating Under Review

..Issuer: RBS Capital Trust III

...Outlook, Changed To Negative From Rating Under Review

..Issuer: RBS Capital Trust IV

...Outlook, Changed To Negative From Rating Under Review

..Issuer: Royal Bank of Scotland Group plc

...Outlook, Changed To Negative From Rating Under Review

..Issuer: Royal Bank of Scotland plc

...Outlook, Changed To Negative From Rating Under Review

..Issuer: Royal Bank of Scotland plc, Australia Branch

...Outlook, Changed To Negative From Rating Under Review

..Issuer: Royal Bank of Scotland plc, New York Branch

...Outlook, Changed To Negative From Rating Under Review

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