

# S&P Bank Rating Methodology Change

29 November 2011

On 9 November 2011, Standard & Poor's (S&P) announced that it would be **revisiting the ratings of all rated banks globally** following the finalisation of its new rating criteria. This review is part of a broader exercise where S&P intend to **make bank ratings more comparable across geographies and with other sectors, such as corporates and sovereigns**.

As part of this, S&P has reviewed an initial group of 37 of the largest global financial institutions of which 14 have been downgraded including RBS and all major UK peers. This review has resulted in a one notch downgrade bringing the rating of The Royal Bank of Scotland plc ('RBS plc') to A from A+. The short term rating of A-1 was affirmed.

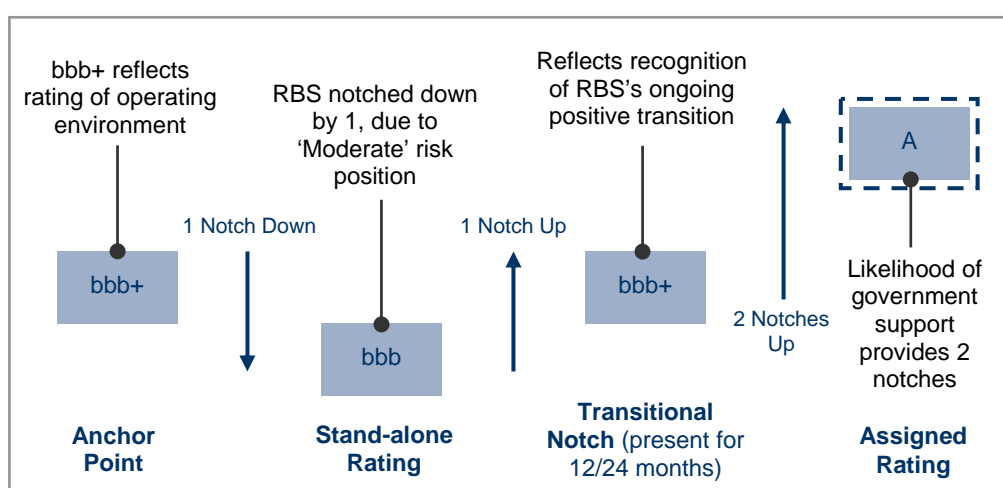
In its assessment of RBS, **S&P makes explicit reference to the tangible results that RBS has delivered to date**, highlighting its "powerful deposit-taking franchises", and taking a "positive view of the quality" of RBS's capital. S&P awarded an additional 'transitional' notch to the Group's rating "in recognition of RBS' ongoing positive transition". S&P assigned a stable outlook to reflect their view that **"RBS has established the foundations to achieve further steady progress"** and "will likely continue to improve its capital position, manage down Non-Core assets, and rebuild its franchise and performance".

RBS has made significant progress in strengthening its credit profile since 2008. As at 30 September 2011 the Group has:

- Improved its loan to deposit ratio from 154% to 112%
- Built liquidity reserves of £170 billion which exceed short-term wholesale funding of £141 billion
- Reduced Non-Core assets by 59% from £258 billion to £105 billion
- Maintained a robust Core Tier 1 capital ratio of 11.3%

## Methodology behind the downgrade

The below illustrates the application of the new methodology. The previous methodology is not directly comparable.



Under the new rating criteria, RBS's stand-alone rating starts from a lower base, reflecting a higher weighting allocated to the environment that the bank operates in, giving an initial **bbb+** rating (the anchor point). Additionally, S&P made a one notch downward adjustment to the stand-alone rating to reflect its view that while Non-Core is reducing, it still has concentration risks and may be subject to a possible slow-down of asset reduction due to market and macro factors.

This bbb rating, when combined with a 'transitional' notch lifts the rating of RBS plc to bbb+. The transitional notch reflects **S&P's recognition of the positive ongoing restructuring at RBS and its expectation of a further stand-alone upgrade in the next two years.** An additional two notches of governmental support are further added to bring the final rating to A.

## Rating actions on RBS Group and key operating subsidiaries

- Commensurate with the one notch downgrade to the long-term rating of RBS, **RBSG has been downgraded to A- from A** and its short-term rating downgraded to A-2 from A-1. In the UK, holding companies are rated one notch below the operating company, and as RBSG is now rated A-, its short-term rating is automatically determined to be A-2. The majority of the Group's short-term money market activity is conducted through RBS plc and RBS N.V., both of which have had their A-1 ratings affirmed.
- Key subsidiaries **Citizens and Ulster Bank have had positive rating action.** Citizens has been upgraded one notch to A / A-1 (stable) (long-term / short-term respectively) from A- / A-2 (stable) due to its 'strong' business position, capital and earnings. Citizens receives no notching uplift for sovereign or group support. Ulster Bank has also had its outlook updated to stable from negative, in line with the Irish sovereign, the BBB+ / A-2 ratings were affirmed.
- Additionally, **NatWest, RBS N.V. and RBS Securities Inc have been downgraded to A / A-1 (stable) from A+ / A-1 (stable)**, in line with RBS plc as it is considered the same credit by rating agencies due to its interconnected business lines and systems.

## S&P ratings of RBS and subsidiaries

	S&P Ratings Now (29 November 2011)			Previous S&P Ratings		
	LT <sup>1</sup>	ST <sup>2</sup>	Outlook	LT <sup>1</sup>	ST <sup>2</sup>	Outlook
<b>RBS Group</b>	A-	A-2	Stable	A	A-1	Stable
<b>RBS plc / NatWest plc<sup>3</sup></b>	A	A-1	Stable	A+	A-1	Stable
<b>RBS N.V.</b>	A	A-1	Stable	A+	A-1	Stable
<b>RBS Citizens NA<sup>4</sup></b>	A	A-1	Stable	A-	A-2	Stable
<b>Ulster Bank<sup>5</sup></b>	BBB+	A-2	Stable	BBB+	A-2	Negative
<b>RBS Securities Inc</b>	A	A-1	Stable	A+	A-1	Stable

<sup>1</sup> Long term rating. <sup>2</sup> Short term rating. <sup>3</sup> The Royal Bank of Scotland plc and National Westminster Bank plc are rated the same due to the integrated nature of the two entities. <sup>4</sup> RBS Citizens NA is the primary operating entity of Citizens Bank in the USA. <sup>5</sup> Ulster Bank includes both Ulster Bank Ltd and Ulster Bank Ireland Ltd, both of which are rated the same due to the integrated nature of the two entities.

### Investors and counterparties should contact RBS Group Investor Relations:

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