Annual Results 2013

Fixed Income Investor Conference Call

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FORWARD-LOOKING STATEMENTS

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Corporate Participants

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John Cummins
The Royal Bank of Scotland – Group Treasurer

Vandita Pant
The Royal Bank of Scotland – Group Head of Capital Management & Markets

Richard O'Connor
The Royal Bank of Scotland – Head of Investor Relations

Presentation

John Cummins – *The Royal Bank of Scotland – Group Treasurer*
Hi, good afternoon, it's John here just to say welcome everyone. I've also been joined by Vandita Pant, Group Head of Capital Manager and Richard O'Connor, Head of Investor Relations and we are happy to do a short introduction and then take questions. Just to warn people, Nathan will do the first half now and then we'll cover off of the rest.

Nathan Bostock – *The Royal Bank of Scotland – Group Finance Director*

Great, thank you very much, John and welcome to everyone whether you're in the UK or the US time zone. I think yesterday to me was a really sort of big day for us in terms of moving from what I would call the sort of financial restructuring period of the bank and we showed just how dramatically we had brought down the overall balance sheet of the organisation. I think I described it yesterday as the size of sort one Swedbank every year for the last five years and the go forward which is all about us having a clear strategy, sustainable earnings, sustainable business model and basically focusing in on our cost base and reducing that down to also make us a competitive and effective organisation. And I think at the heart of all of that is our focus around customers and ultimately our focus to be a retail and commercial and corporate bank focused on the UK and Europe.

So, I think building on our November announcement around the bad bank, we announced how we planned to return the sort of 95% of the good bank into a company that's great for customers and also attractive to investors. I spent some time on the capital plan, particularly the journey, sort of why are the targets that we've set credible targets in terms of how we'll deliver them. I focused on the reduction of risk in terms of reducing the NPLs, reducing the stress losses, which was another fundamental part of our November 1st strategy of setting up the bad bank. We announced further deleveraging around our Corporate and Institutional bank, so basically bringing down further our Markets and more marginally our International Banking balance sheet, again, all as part of our overall sustainability of returns in the long term. And we focused on the fact that ultimately this generates, albeit slightly lower earnings than previously, a much lower volatility and high return focus organisation.

We also talked about reducing costs and the overall complexity of the organisation. Very much the case that despite the financial engineering and coming down as much as we had in balance sheet, there's a tremendous job that needs to be done as we take breath and sort of look at how we become more efficient for customers and, indeed, it's not surprising given the size of the balance sheet change. We also said that we'd come out at 8.6% on our core equity Tier 1, so slightly above the sort of pre-trading statement 8.1-8.5% guidance and we came out at a total capital on a Basel 2.5 basis at 16.5%. We focused on how stable the core franchise had been and how our underlying impairments in those franchises were actually trending down. We talked about how the Non-Core business had continued to deleverage, in fact had accelerated, had beaten its targets by a pretty decent margin actually in that fourth quarter and how that was positive to the starting point of RCR which starts at circa £29 billion versus the £38 billion that we said, less the £4.5 billion of impairments; so, again, significantly better starting position.

Asset quality overall continues to improve, positive trend now in Ireland both economically, generally from an employment point of view, certainly in house prices more generally and we're seeing positive news in terms of sort of the impairments in our retail side. Further reductions in the outstanding wholesale debt, deposits are stable so, again, very strong ratios around loan to deposits. Liquidity profile remains at least at the gold standard, still possibly almost touching the sort of platinum standard. CRE is down, so down to about £53 billion gross, and our Markets RWAs continue to come down; so, again, I think all in all a general trend towards a lower risk, lower volatility earnings organisation but still a journey to do in terms of building our capital ratios up above the 12% that we've targeted at the end of 2016 and we've given a sort of a clear plan as to how we intend to achieve that. So, John, I don't if you…

John Cummins – *The Royal Bank of Scotland – Group Treasurer*

Sure, I just like to say we've got a little ask of the wholesale markets. We believe it to be positive technical to our spreads. We've reduced our previous issuance guidance. It was about £5 billion of sub debt issuance over two years from full year 2012 result. We're now targeting £4 billion of sub debt with one year left to achieve. We've issued £2 billion year-to-date, so we've got £2 billion left to do and we think that's quite a modest and achievable number. We don't see any funding requirements for our main operating entity. We may have a small requirement for holding company senior unsecured debt for cash flow purposes. We expect further Tier 2 issuance of this £2 billion left to do. We're still weighing up additional Tier 1 but are not in any rush to do any this year. I'm now very happy then to open up the line to questions. We do have one pre-submitted question which we'll do at the end. I suggest that if people have got questions on strategy or the overall financials, they start with Nathan first and then we can cover more the bond questions in the second half of the call, depending on how we get on. Operator, can you open up to questions, please?

Questions and Answers

Operator

Thank you, John. Ladies and gentlemen, if you would like to ask a question, please press the * key followed by the digit 1 on your telephone keypad. We will pause for just a moment to give everyone an opportunity to signal for questions. We will take our first question from Lee Street from Morgan Stanley. Please go ahead.

Lee Street – *Morgan Stanley*

Hello, thank you and good afternoon. A couple from me, two strategy and one sort of more bondy question. On the strategy, you mentioned the idea of a broad ring-fence approach yesterday. I was just wondering what degree of comfort you have that the non-ringed-fenced entity can get a sufficient rating to make it a credible counterparty given that I guess there'd be a fair amount of derivatives in the entity and whether that entity will be basically simply funded from downstream funding from the holding company. That would be question number one.

Question number two was just on system. Yesterday you reiterated the start of the IPO in 4Q. I was just I was just wondering could that actually be brought forward at all or is there just a certain amount of form-filling and administration that has to be gotten through and that's likely the earliest possible date?

And the final one, a bit more on the bondy side. What is your expected policy to meet the PLAC requirements? Are you intending to do all of it with a CET1 and additional Tier 1 and Tier 2? Is that how you think about it, or you've got a different approach? That's my three. Thank you.

Nathan Bostock – *The Royal Bank of Scotland – Group Finance Director*

So, yes, sort of good questions, Lee. The broad ring-fence, in terms of our strategy, we've concluded that that is the right place for us to be heading towards and there was some explanation I gave yesterday as to why the alternative of having a sort of broad non-ring fenced or a large non-ring fenced bank was not the correct one in our view for us going forward. So, I think from that point of view, the decision is a sound one and is one that is also robust in the longer term. So, it's not one that we would feel that we need to alter.

The precise details of how ratings will work for that non-ring fenced bank, I think, remains open. We still think there are a number of questions, and we said that we think this is sort of future proof to sort of 75- 80% because we need to get some interpretations from the PRA. We need to see the secondary legislation. Generally, I think there is a mix, some people are quite optimistic, generally, about the ratings that might be achievable. I tend to be a pragmatist in this particular one. It will need to work and it will have to work for UK Inc to be able to work, given that, obviously, the likes of Lloyds and ourselves sit in that space. And I suspect that the constructs, ultimately, that need to be put in place will reflect that and that, ultimately, it may be that the holding company has to form some form of the, you know, the key component in all of this. But my belief is it will be solved, I just don't quite know exactly how at this precise moment. And, again, we still have a 3-4 year period for that journey and for that resolution.

In terms of Citizens, really don't see the date moving forward from the ones that we've talked about. I'll call it end of Q3, into Q4. The reality is there is a lot to do, and there's a lot to do in terms of just general preparation for these types of things. There are certainly forms, there are certainly things you need to do, but there's also discussions you have to have with regulators, all sorts of preparation that needs to be there. And so, that's what we're working on. It's what Bruce is leading and he is also leading, of course, actually the growth in income that we're expecting to see there as he's making good progress on both the loan side and the mortgage side and we're also expecting to see, as well, some benefit from on the cost side. John?

John Cummins – *The Royal Bank of Scotland – Group Treasurer*

On the PLAC side, obviously, we've given guidance we're going to get to 12% Core Tier 1 ratio and a 5% hybrid, so that's 17%. So, we think that's a very strong position for any PLAC. Obviously, the regulators do retain the ability to ask for a further above the 17% in terms of having robust resolution plans. We fully intend to have robust plans as well, so that we do believe that we'll meet the requirements. Obviously, if things change then we will change our plans accordingly, but a 12% Core Tier 1 ratio is very significant. And I think Ross mentioned yesterday a few or some of the other UK banks may end up with us as well in the future, we'll see.

Lee Street – *Morgan Stanley*

Okay. Very clear answers. Thank you very much there, gentlemen. Thank you.

Nathan Bostock – *The Royal Bank of Scotland – Group Finance Director*

You're welcome.

Operator

Thank you. Our next question comes from Ron Perrotta from Goldman Sachs. Please go ahead.

Ron Perrotta – *Goldman Sachs*

Hi, thank you very much guys for your taking the question. First on, you guys have some Tier 1s that were not called previously but I think there are step-ups that are callable on March 31; just want to get your thoughts around that. We haven't seen a redemption notice on those yet, but I believe they do not qualify yet at all for capital purposes. And that's my first question.

Secondly, if you guys can maybe address a little bit on the recent rules out from the Federal Reserve on the FBO proposals and just in light of the Markets restructuring that you guys talked about yesterday. How do those rules impact the business and how you think about the restructuring of Markets going forward?

Nathan Bostock – *The Royal Bank of Scotland – Group Finance Director*

Sure. Okay, well, Vandita, do you want to do the first one?

Vandita Pant – *The Royal Bank of Scotland – Group Head of Capital Management & Markets*

Sure. On the first one, in terms of calls, just to be clear, we have said that our call policy is an economic one, which will include some stipulations which get into the mix, including the capital recognition or not, any funding benefit in the entity that we want to get out of to see whether there is any consideration on economics of calling certain securities and given that there are regulations around PLAC, MREL, etc, still to land fully, to take those into account as well for any cap call decisions. So, I think, of course, we can't give any guidance on call decisions, but fair to say that our policy remains of assessing calls on an economic basis.

Nathan Bostock – *The Royal Bank of Scotland – Group Finance Director*

So, I'll pick up at least some of it and John might sort of add to this. In terms of the broader strategic picture, we were very conscious of IHC. In fact, we've looked at a number of different things that we felt could be deterministic in terms of ultimate strategy but also, if you have a strategy, how these things might influence it. So, we've looked at it from both directions. IHC: clearly, we have two elements to the extent, obviously, we have Citizens and Citizens, as you know, is going to be effectively moving out of that arena from our perspective.

So, there is an element of timing in that that one needs to be able to discuss and agree with the regulators but, again, we see that as perfectly reasonable and perfectly acceptable from both parties. And then there is the second part which is, if you look at our overall strategy here, we are bringing down our Markets business over the medium to long term. Our target is for the overall business, on a global basis, to be circa £45 billion of RWAs. So, it is our view that we will actually fall under the IHC rules with the footprint that we will ultimately have in the US servicing our clients. John, is there anything you...

John Cummins – *The Royal Bank of Scotland – Group Treasurer*

I think that covers it quite well. So, I think that's where we'd end up on those places and obviously we will then continue to meet all of our regulatory requirements as and when they change. Anything else that you want to follow up, Ron?

Ron Perrotta – *Goldman Sachs*

No, that's helpful. So, just on the first one – that's very helpful, thank you – on the first one, about the calls, so then should we assume that these securities are not going to be called then on the March 31 date or not?

Vandita Pant – *The Royal Bank of Scotland – Group Head of Capital Management & Markets*

As I mentioned, I will not be able to guide you on that right now but, just to reiterate, all the call decisions will be on an economic basis.

John Cummins – *The Royal Bank of Scotland – Group Treasurer*

On a case-by-case basis.

Ron Perrotta – *Goldman Sachs*

Great. Thank you very much. Appreciate it.

Nathan Bostock – *The Royal Bank of Scotland – Group Finance Director*

Thanks, Ron.

Operator

Our next question comes from Tom Jenkins from Jefferies. Please go ahead.

Tom Jenkins – *Jefferies*

Thank you. Good afternoon gents and ladies. Apologies in advance for the nerdiness of this question, but when thinking of your dollar capital securities, you've got outstanding the old fashioned Tier 1s and some trust preffereds. Can you just run through your thinking in terms of whether they need to be single point of entry securities going forward or under EU law? And also, forgive my ignorance, can these be eligible for capital to as it were back the dollar assets when we think of the new Fed rules that have been sort of brought in place?

Nathan Bostock – *The Royal Bank of Scotland – Group Finance Director*

Well, again, on the Fed rules, we gave the answer before. Really, it will be driven by the size of the operations we have left in the States when Citizens goes. Coming back to the trust preferreds and the dollars, it is very much on… it's got to be under English law going forward or have a clause understanding point of non-viability. And, secondly, whatever instruments we do have outstanding in different currencies going forward, as and when we look at things maturing and amortising, we'll have to be very clear on which entities issue. And for capital, it's likely to be single point venture, which is holding company. And, again, we have to look at whichever is most efficient market for issuing, whether it's dollars, euros or sterling or any other currency for that matter.

Tom Jenkins – *Jefferies*

Sure. Okay, cool. All right.

Vandita Pant – *The Royal Bank of Scotland – Group Head of Capital Management & Markets*

Just to be clear, the trust preferreds are a group of securities, so they do not interact in any which way with the FBO or IHC requirements as they make a comment. And, as Nathan just mentioned, IHC is likely not to be a constraint for us given the size of operations going forward in the US. In terms of whether they will or will not fully be eligible for MREL, PLAC or any other version of SP-related requirements, as you know, the details are yet to fully land on that. So we have that as one of the considerations, but not all the answers yet.

Tom Jenkins – *Jefferies*

Sure. Thanks very much, indeed. Appreciate it.

John Cummins – *The Royal Bank of Scotland – Group Treasurer*

I hope that was chirpy enough for you.

Tom Jenkins – *Jefferies*

Dear me, you're hearing everything these days.

John Cummins – *The Royal Bank of Scotland – Group Treasurer*

I just read everything.

Tom Jenkins – *Jefferies*

Yes, have a good afternoon.

Operator

Our next question comes from Robert Smalley from UBS. Please go ahead.

Robert Smalley – *UBS Securities*

Hi, thanks very much, a couple of things. First, just to clarify on the amount of Tier 2 left to do, that's £2 billion for the rest of this year?

Vandita Pant – *The Royal Bank of Scotland – Group Head of Capital Management & Markets*

Yes. Let's say, £2 billion over a 12 month period.

Robert Smalley – *UBS Securities*

Over 12 months, okay. Thank you. Secondly, in the strategic presentation that you had yesterday, you laid out a number of goals, particularly on capital, that are going forward. The medium-term goals are for 2016-17. Could you talk a little bit about how we get there? I'm assuming we're not straight lining 8.6% to 12%, that's kind of back loaded. And what kind of discussions with the regulators have you had about this and the trajectory there?

Nathan Bostock – *The Royal Bank of Scotland – Group Finance Director*

Sure. So, we've had incredibly full and comprehensive discussions with our regulator. I would say joined at the hip is probably a fair description. Vandita will know that from the sort of the ongoing nature of our interaction but also very helpful ones in my opinion. So, I think we've both been sort of very transparent about both our aims and the journey. The medium term quotation of 2016 and 2017, we generally use for the presentation, but in terms of capital, we're sort of still much crisper in terms of actually the circa 11% by the end of 2015 and greater than 12% by the end of 2016.

You're right to think that the journey is not a straight line. It's not a Y = MX + C-type approach. And the reality for that is because when I gave the sort of breakdown of the key components; that these are the key components that drive the journey. Citizens divestment is the largest. That's worth between 200 and 300 basis points in terms of that journey. The reason it varies is not because of a price sort of variance. It's not sort of one is a low price, one is a heroic price. We have not assumed a heroic price at all in this. It's merely to do with the fact that, as I showed in the presentation yesterday, today, we sit at about £429 billion of RWAs and, by the end of 2016, we expect to be at £300 billion RWAs, of course some of them being Citizens themselves, and £1 billion worth of capital sat over those two different denominators gives you quite a different amount of, ultimately, ratio contribution.

The other key components are what we call our RBS Capital Resolution, which is what we were describing as the bad bank previously and it's the rundown of those sort of, let's call them, higher risk assets and extinguishing that and we gave a profile for where we expected those to be over the life. So, we said it would be £23 billion; so £29 billion today as opposed to the £38 billion we mentioned at the November 1; so, £29 billion today, £23 billion by the end of this year, £11 billion to £15 billion by the end of 2015, and circa sort of below £6 billion by the end of 2016; so, there's a contribution from that. There is earnings generation, obviously, during the period. We need to balance that off, obviously, with the overall presentation that I gave and the various things that we will be doing in order to reshape the bank. So, again, it's a contributing factor. But we need to think of it in that light. There's the Williams & Glyn divestment, which is more towards the far end of this particular period – so don't think of it as being a first or second year of that three-year picture – and then there is the further de-risking of our Markets and IB business, which over that period, is a circa sort of £50 billion of RWAs.

So, I'm sorry, there is quite a few moving parts and, yes, they don't add up to a straight line. You're quite right but they're all, shall we say, firmly understood, firmly planned. And I think, again, if people want an element of confidence that we sort of do what it says on the tin, then I think, again, if you look at DLG, the Direct Line Group, and the approach that we took and the last tranche of that, that we got away on Wednesday night, again, that gives you a sort of a real pro forma for how we do things. And certainly, well, funnily enough for me, I can't think in my history anyway of somebody getting something away with zero discount, but we did. So, there we go.

Robert Smalley – *UBS Securities*

That's very helpful, thanks, one more if I would. Yesterday, you were asked on the equity call about paying hybrid coupons by issuing equity and I guess my question is have you received more and more inquiry and concern about that from the equity community? And what is the discussion with the regulators about that going forward? Is that something that you have to revisit with them quarterly or semi-annually and annually or is it something that's taken as a given at this point?

Richard O'Connor – *The Royal Bank of Scotland – Head of Investor Relations*

It's Richard O'Connor here. I'll kick off and maybe John will chip in, as well. Clearly, we've been speaking to the equity markets yesterday and today and we have an active program over the next few weeks to have conversations with our shareholders. We haven't had any direct concern. It's a continuation of previous trends. It's understandable to investors, given that we are still loss-making. As I said on the call yesterday, it's certainly far from ideal, and you have to weigh the costs and benefits very carefully. The conversation with the regulators so far has been an annual conversation with Nathan and Group Treasury and myself. I would expect that to continue for this year. After that, we'll just have to see, I think is the answer. Obviously, the Group pay quarterly dividends, both ordinary dividends and preferred dividends, so maybe we might go to a different time period, but that's too early to tell.

John Cummins – *The Royal Bank of Scotland – Group Treasurer*

Okay. Any other follow-up or can we move on to the next question, please?

Robert Smalley – *UBS Securities*

That's it. Thank you.

Nathan Bostock – *The Royal Bank of Scotland – Group Finance Director*

You're welcome.

Operator

Our next question comes from Cyndi Harlow from Imperial Capital. Please go ahead.

Cindy Harlow – *Imperial Capital*

Thank you. Good afternoon. My question is around how you gauge what's economic as a call for RBS now given that Tier 1 securities no longer serve the purpose they were issued for. I'd love a little bit more colour as to how you gauge it? Is it based on overall average cost of funds for the company/ Do you look at it as senior perpetual? Can you give a little bit of comment, please? Thanks.

Vandita Pant – *The Royal Bank of Scotland – Group Head of Capital Management & Markets*

Yes. Again, I will not get drawn into the answer that you may be looking for, unfortunately. However, in terms of considerations, yes, as I've said, capital recognition or not of the security, funding profile of that entity from which the security is issued, the average cost of funding of that security. As you know, some of these securities have… we have hedges on it and whether we have the P&L position on that or not also means that a crystallisation of that can have another economic consideration that we need to take into account. So, I would say, in totality, all those issues will get into the mix, along with the regulatory uncertainty that might mean that a particular security may be useless under one yardstick but may still be useful from some other yardstick. And if we don't know, we may not want to front run that process.

John Cummins – *The Royal Bank of Scotland – Group Treasurer*

You've got to look at the interaction between legal entities, local regulation and other types of regulation. So, it's too complex an issue to pin down to one or two variables. It's a multi-variable problem. I'm sorry I can't give you more guidance than that.

Cindy Harlow – *Imperial Capital*

That's fair. Thank you.

Vandita Pant – *The Royal Bank of Scotland – Group Head of Capital Management & Markets*

Thank you.

John Cummins – *The Royal Bank of Scotland – Group Treasurer*

Next one, please.

Operator

Next question comes from Christy Hajiloizou from Barclays. Please go ahead.

Christy Hajiloizou – *Barclays*

Good afternoon everyone and thanks for taking my question. I had a question on the Dividend Access Share. Could you just give us an update – and I apologise if this is something that was covered in one of yesterday's presentations – just an update on your negotiations here with the Government on removing this? And I guess a follow-up to that, depending on the answer is, given that the company is loss making, would this have, you know, changed the thinking around the access scheme at the moment?

Nathan Bostock – *The Royal Bank of Scotland – Group Finance Director*

Well, in terms of negotiation, we are in advanced negotiation. I think it's fair to say that this is really now with the – it's not us actually, of course, it's the Government that interacts on this – but this is with Europe and it's our hope that we'll be in a position to actually cover this off by the time of our AGM. And the sort of approach that we've taken to it is that we think that this is a sensible and logical time to actually put all of this type of thing to bed. Clearly, we also though want to, within this, recognise the fact that it would be most sensible for the timing of any sort of payment or anything in relation to it to be much more correlated to its usage. So, that's the sort of logic and that's where we are on the situation at the moment. I don't know, Richard, if you want to..?

Richard O'Connor – *The Royal Bank of Scotland – Head of Investor Relations*

Yes. I'd just say, clearly, to get an agreement will be good in principle, but very much the policy would be to make the payment as close to our first ordinary dividend as possible.

John Cummins – *The Royal Bank of Scotland – Group Treasurer*

Okay, that's the last we're going to get from Nathan, so can you please carry on with the question direct to the support team.

Nathan Bostock – *The Royal Bank of Scotland – Group Finance Director*

Yes. Can I just say, look, thank you, all, very much and I apologise for having to leave partway through but, unfortunately, I have a prior commitment that I have to get to. So, thank you for your time, it's appreciated.

John Cummins – *The Royal Bank of Scotland – Group Treasurer*

Operator.

Operator

Thank you. Our next question comes from Tom Jenkins from Jefferies. Please go ahead.

Tom Jenkins – *Jefferies*

Hello again. I don't know, this might have been one for Nathan, so it's a shame he's nipped out, but you might be able to help me anyway. Just thinking in terms of the 200 to 300 basis points of capital uplift you're looking to get from the sale of Citizens, I think it was mentioned yesterday. And you said, obviously, that there's quite a broad range but it depends on RWAs at the time of whenever the transaction goes through. Now, we can have a stab of what those RWAs are, but that's sort of denominator of the equation but when looking at the numerator of that equation, what kind of range of multiples to book value are you using and, indeed, what size of sort of quantum of book value are you using? Can you give us any colour on that, as well?

John Cummins – *The Royal Bank of Scotland – Group Treasurer*

Yes, well, Richard will do this.

Richard O'Connor – *The Royal Bank of Scotland – Head of Investor Relations*

There is no need to make a stab at RWAs. We've given you very clear guidance previously at the end of 2016 and actually, medium term, longer-term thereafter. Why are they flat by the way? It's because we expect a bit more deleveraging in the Markets, and the International Banking business, 2017, 2018, and then growth in the Retail and Commercial businesses. In terms of the Citizens, Citizens currently has £8 billion, there or thereabouts, of equity capital. These financial statements are public each quarter, so you can obviously keep an eye on that number. In terms of how we would look at a multiple now based on current ROE price to book equations, it would be around 1.2x sort of a look across. Obviously, the first tranche, you would expect to pay a discount to that and then as the Citizens get well known in the market and becomes tradable, you would have that discount evaporate over the second and third tranche or get less over the second and third tranche. You saw with Direct Line Group, actually, the last tranche was done at zero discount so clearly you wouldn't expect that for Citizens but, certainly, that will be our policy.

Tom Jenkins – *Jefferies*

All right, okay.

Richard O'Connor – *The Royal Bank of Scotland – Head of Investor Relations*

Anything else?

Tom Jenkins – *Jefferies*

No, that's cool. Thanks very much, indeed.

John Cummins – *The Royal Bank of Scotland – Group Treasurer*

Okay, next one please.

Operator

Our next question comes from Lee Street from Morgan Stanley. Please go ahead.

Lee Street – *Morgan Stanley*

Thank you, again, for taking my second one. Just wondering on Moody's, if you've got any update there, if you've been in discussions with them. And if you were to get a downgrade, as you might, is there anything you could quantify for us as it might pertain to that, and what impact would you expect that to have? That would be my question. Thank you.

John Cummins – *The Royal Bank of Scotland – Group Treasurer*

Okay. On Moody's, they did put out and issue a comment yesterday which is worth a read. The last section, penultimate section of their rating consideration they talk about execution risk.

Obviously, we've got a very good record of execution risk. We have got a good plan on capital and they've mentioned our very sound liquidity and funding position. So, we continue to have dialogue with all three rating agencies. Fitch have just come out affirming our rating at a stable outlook as well, so we will continue to talk and discuss with Moody's and the other rating agencies in terms of impacts and in terms of potential impacts.

I don't want to get into what would happen if Moody's were to downgrade us because we're still hopeful that we can continue to give them enough information and comfort that we can meet these risks and execution and do our plan but that we have a very strong liquidity position and it would not cause us any concern. When we put in the Annual Report and accounts, as well when S&P, were downgraded, we saw minimal outflows. We still have an excess liquidity position and as part of the drive towards improving our liquidity coverage ratio, we will continue to focus on financial institution type deposits, Type A deposits. That incurs security buffers, incurs stresses under individual liquidity guidance, as well as LCR. We're pushing those types of deposits away from us because we don't need that type and that would reduce any outflow risk there is from Moody's. That's a bit of a convoluted answer because I did include the S&P example we had, which we put in our report and accounts, and also the Fitch stable outlook affirmed today. Hope that's helpful.

Lee Street – *Morgan Stanley*

That's good colour. Thank you very much.

John Cummins – *The Royal Bank of Scotland – Group Treasurer*

Okay. Next one please.

Operator

Thank you. There are no further questions at this time. I would now like to hand back to John for closing comments.

John Cummins – *The Royal Bank of Scotland – Group Treasurer*

Okay. Well, on a grey and gloomy afternoon, I hope this cheered everyone up and thank you, all, for dialling in. If you have any further questions, please come through your regular contacts in Debt Investor Relations, and thank you for taking the time to dial in and listen to this. Thanks, again. Goodbye.

Vandita Pant – *The Royal Bank of Scotland – Group Head of Capital Management & Markets*

Thank you.
