CYNGOR SIR *POWYS* COUNTY COUNCIL.

MODERNISATION & IMPROVEMENT
10th November 2011

CABINET
15th November 2011

AUDIT COMMITTEE
21st November 2011

REPORT AUTHOR: **County Councillor Tony Thomas**
Portfolio Holder for Finance & Infrastructure

SUBJECT: **Treasury Management Quarterly Report**

REPORT FOR: **Information**

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1. Summary

1.1 The Treasury Management Scrutiny Review recommended that quarterly reports to Board should be adopted. CIPFA also issued a Treasury Management Bulletin in March 2009 highlighting interim advice to local authorities on treasury management practices in the light of the Icelandic Banks collapse and the continuing "credit crunch". The document suggested:

"In order to enshrine best practice it is suggested that authorities report formally on treasury management activities at least twice a year and preferably quarterly."

The Revised CIPFA Code of Practice on Treasury Management 2009 emphasised a number of key areas including the following:-

xi. Treasury management performance and policy setting should be subject to scrutiny prior to implementation.

1.2 This report, therefore, is providing information on the activities for the quarter ending 30th September 2011.

2. Economic Background and Forecasts

2.1 The economic background is attached at Appendix A.

2.2 The most recent forecast of interest rates by the Authority's advisor is as follows:

	Now	**Dec 11**	**Mar 12**	**Jun 12**	**Sep 12**	**Dec 12**	**Mar 13**	**Jun 13**
Bank rate	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%
5yr PWLB	2.30%	2.30%	2.30%	2.30%	2.30%	2.40%	2.50%	2.60%
10yr PWLB	3.30%	3.30%	3.30%	3.30%	3.40%	3.40%	3.50%	3.60%
25yr PWLB	4.20%	4.20%	4.20%	4.20%	4.30%	4.30%	4.40%	4.50%
50yr PWLB	4.30%	4.30%	4.30%	4.30%	4.40%	4.40%	4.50%	4.60%

The overall balance of risks is weighted to the downside:

- the advisors expect low and modest growth in the UK to continue with a low Bank Rate continuing for at least 12 months, coupled with probable extension of quantitative easing. This will keep investment returns depressed. **Further to this the Bank of England announced £75bn of QE on 6th October.**
- the expected longer run trend for PWLB borrowing rates is for them to rise, primarily due to the need for a high volume of gilt issuance in the UK and the high volume of debt issuance in other major western countries. However, the current safe haven status of the UK may continue for some time, postponing any increases until 2012.

3. Treasury Management Strategy

3.1 Full Council on 2nd March 2011 approved the Investment Strategy for 2011/12 as follows:

Long Term Ratings:

Permitted Fitch Ratings	Permitted Moodys Ratings	Permitted S&P Ratings
AAA	Aaa	AAA
AA+	Aa1	AA+
AA	Aa2	AA
AA-	Aa3	AA-

Short Term Ratings:

Permitted Fitch Ratings	Permitted Moodys Ratings	Permitted S&P Ratings
F1+	N/A	A-1+
F1	P-1	A-1

“Nationalised banks in the UK have credit ratings which do not conform to the credit criteria usually used by local authorities to identify banks which are of high creditworthiness. In particular, as they no longer are separate institutions in their own right, it is impossible for Fitch to assign them an individual rating for their stand alone financial strength. Accordingly, Fitch have assigned an F rating which means that at a historical point of time, this bank failed and is now owned by the Government. However, these institutions are now recipients of an F1+ short term rating as they effectively take on the creditworthiness of the Government itself i.e. deposits made with them are effectively being made to the Government. They also have a support rating of 1; in other words, on both counts, they have the highest ratings possible.

The other situation which could arise is where the Bank has not been fully nationalised but receives substantial support (greater than 50% ownership) from the UK Government. In this case the individual rating is E i.e. the Fitch definition is “A bank which requires external support”.

In light of this Sector introduced another colour, Blue, for UK nationalised or part nationalised institutions.”

Country Limits:

Country	Maximum Investment per Country	Credit Rating/Other Assessment of Risk
AAA rated – countries (excluding the UK)	£2M	As per rating list
AAA rated – UK	No Maximum Investment	As per rating list

Group/Institutions - Counterparty Criteria/Limits:

Specified Investments:

Institution	Maximum Investment per Group/ Institution £M	Maximum Length	Credit Rating/Other Assessment of Risk
UK Banks	15	Up to 364 days	As per Sector's matrices and the Authority's definition of a high credit rating
Foreign Banks	2	Up to 364 days	As per Sector's matrices and the Authority's definition of a high credit rating
Other Local Authorities	25	Up to 364 days	N/A

Non-Specified Investments:

Institution	Maximum Investment per Group/Institution £M	Maximum Length	Credit Rating/Other Assessment of Risk
UK Banks	10 (£3m limit with any one institution)	Up to 2 years	As per Sector's matrices and the Authority's definition of a high credit rating
Foreign Banks	2	Up to 2 years	As per Sector's matrices and the Authority's definition of a high credit rating
Money Market Funds (max. of 3)	15	N/A	All are AAA rated

Other Local Authorities	10	Up to 2 years	N/A
European Investment Bank Bonds	3	2-3 years	N/A
Note: Limits for Specified and Non-Specified are combined limits. The maximum limit will also apply to a banking group as a whole e.g. Lloyds TSB and BOS will have an overall limit of £15M.			

3.2 The Authority's investment priorities within the Strategy are: -

(a) the security of capital and

(b) the liquidity of its investments.

3.3 The Authority aims to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. The risk appetite has been low in order to give priority to security of investments.

4. Current Investments

4.1 The current investment market is difficult in respect of earning the level of interest rates commonly seen in previous years as rates are very low and in line with the 0.5% Bank Rate. The continuing Euro zone debt crisis and its potential impact on banks prompts a low risk and short term strategy which means investment returns are likely to remain low.
However, the Authority's budgeted return on investments for the current year is expected to come in above target. This is due to interest rates for Money Market Funds being slightly higher than expected and the Authority continuing to benefit from good deposit account rates that it had thought would be withdrawn.

4.2 The Authority's investment position as at 30th September 2011 is as shown below:-

Invested with:	**Principal £000's**	**Interest Rate**	**Start Date**	**Maturity Date**
Barclays	5,000	1.25%	07.01.11	07.10.11
Barclays	5,000	1.03%	12.04.11	12.10.11
Barclays	5,000	1.00%	16.05.11	16.11.11
Lloyds TSB	4,000	1.45%	09.06.11	09.12.11
Lloyds TSB	3,000	1.80%	09.06.11	09.03.12
Lloyds TSB	3,000	2.10%	04.08.11	03.08.12
Ulster Bank (RBS)	5,000	1.05%	05.09.11	05.01.12
Lloyds TSB	5,000	1.50%	12.09.11	12.03.12
RBS	10,000	0.86%	N/A	Deposit A/c
HSBC	80	0.25%	N/A	Deposit A/c
Deutsche	1,215	Varies daily	N/A	MMF
Total	**46,295**	**1.22%**		

The £10M in the RBS deposit a/c was withdrawn on 7th October – please see para 6.2 below.

4.3 The table above excludes investments still held in Iceland. The Icelandic court granted preferential creditor status for these investments in April 2011. This decision was appealed by the other side and Supreme Court hearings took place in September. Costs to date in respect of the legal representation amount to £29,606.64. **An announcement regarding the Supreme Court's confirmation of preferential creditor status was made in the last week of October with 100% Glitnir and 98% Landsbanki monies due back.**

4.4 Redemption Penalties:
The fixed investments listed in the table above are not available for early redemption.

4.5 Investment returns in future years:
Our advisors' current suggested earning rates for investments for budgeting purposes are as follows:-

	Suggested Rate now	Suggested Rate previous
2012/13	0.70%	1.10%
2013/14	1.00%	2.20%
2014/15	1.60%	3.30%
2015/16	3.30%	3.90%

5. Market rates

5.1 Current market rates available for fixed term deposits are attached at Appendix B for information.

6. Credit Rating Changes

6.1 The credit rating list for end of September is attached as a separate file to this report.

6.2 *Further to this, on 7th October Moody's downgraded the ratings of 12 UK financial institutions and confirmed the ratings of 1 institution and, on 10th October, downgraded a further 1 institution. Details are attached at Appendix C.*
Based on the information available the action had no impact on our advisors' suggested investments or durations. The short-term ratings of the three institutions with whom this Authority places investments for up to a maximum of 364 days (based on the creditworthiness durations information at the time of placing such investments) have not changed. However, following Moody's decision, an internal decision was made to withdraw the money in the RBS deposit account and not to place further investments with the RBS group at present.
On 13th October Fitch downgraded the rating of several UK financial institutions. Details are attached at Appendix D.

7. Borrowing / Re-scheduling

7.1 Effective management of the Authority's debt is essential to ensure that the impact of interest payable is minimised against our revenue accounts whilst maintaining prudent borrowing policies.

7.2 The Authority's Capital Position:

	As at 31.03.11	2011/12 Estimate	2012/13 Estimate
	£M	£M	£M
Capital Finance Requirement	192,908	200,691	225,269

The Capital Financing Requirement (CFR) denotes the Authority's underlying need to borrow for capital purposes. Net external borrowing (borrowings less investments) should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for the current year and next two financial years. This allows some flexibility for limited early borrowing for future years.

7.3 The Authority currently has outstanding external debt of £145.8M. In relation to the CFR as at 31st March 2011, this means the Authority is under borrowed by £47M. In relation to the current year's estimated CFR and, based on no new borrowing taking place, the Authority is under borrowed by £54.8M.

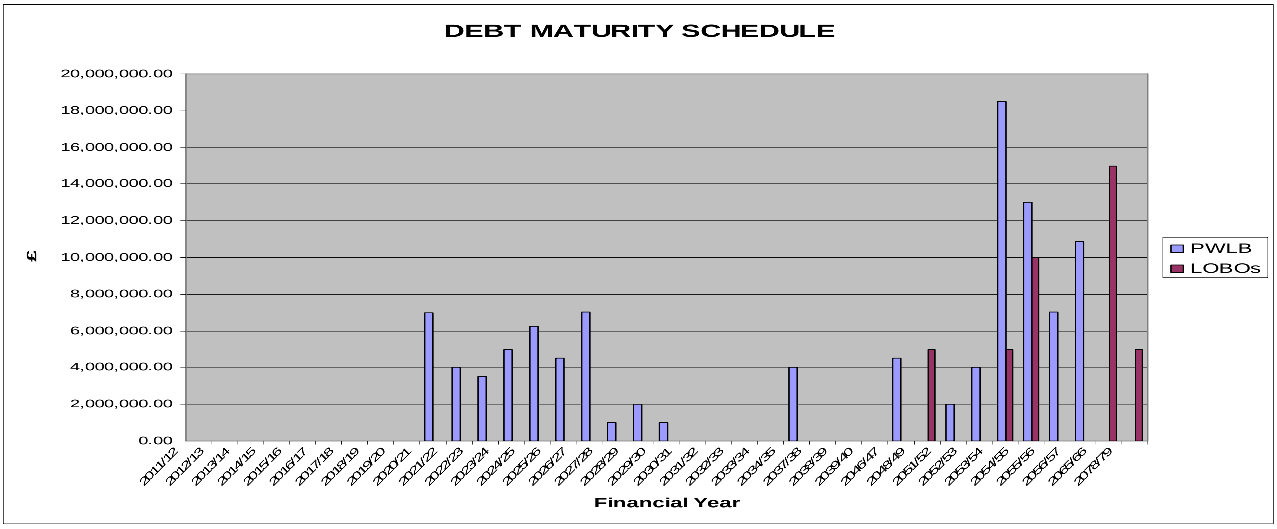
7.4 Capital Budget/Spend:

2011/12 Original Budget £M	2011/12 Revised Budget £M	2011/12 Actual at 30th Sept £m
51,751	66,491	10,788

The original financing of the capital budget included £13M of Prudential borrowing. This was revised to circa £1.3M by July and £300k by August.

7.5 *Debt Maturity Profile as at 30.09.11:*

(please click on the graph below and increase the percentage in the toolbar above for an enhanced view)



7.6 As illustrated in the graph above, the Authority may borrow from the Public Works Loans Board or the market (external borrowing). It may also borrow from internal balances on a temporary basis (internal borrowing). The figures in 8.3 above illustrate that the Authority is currently internally borrowed. This is a prudent and cost effective approach in the current economic climate. However, internal borrowing is only a temporary situation and, based on current capital estimates, the Authority will need to borrow in the foreseeable future. The Authority needs to be mindful therefore that it may be prudent to borrow whilst interest rates are at their low levels and carry the cost of this borrowing as opposed to borrowing at a future date at increased rates.

7.7 Target rates:

Our advisors' target rates and current PWLB rates are set out below:

Period	Current borrowing rate 06.10.11	Target borrowing rate now	Target borrowing rate previous
5 year	2.26%	2.30%	2.50%
10 year	3.27%	3.30%	3.80%
25 year	4.19%	4.20%	5.00%
50year	4.34%	4.3%	5.00%

7.8 Rescheduling:
The Public Works Loans Board released a circular regarding rates on 20th October 2010. As a result of this, rates immediately increased by 0.87-0.88 basis points across the board. The overall impact of this circular was that:-

- it is far more difficult for authorities to reschedule debt
- the PWLB will no longer necessarily be the first option for local authority borrowing as more favourable rates are likely to be available via the commercial sector.

7.9 Members are aware that officers continue to look for interest savings on a daily basis by monitoring rates that may mean the Authority can re-schedule some of its debt or prematurely repay debt if applicable. PWLB interest rates have not been conducive towards rescheduling. However, as mentioned previously, the Authority is currently borrowed well below its CFR at present.

8. Prudential Indicators

8.1 All Prudential Indicators were complied with in the quarter ending 30th September 2011.

Proposal

It is proposed that the Treasury Management Quarterly Report is received.

Statutory Officers

Chief Finance Officer's comment:

"The CFO supports the recommendation of the report".

Future Status of the Report

Not applicable

Recommendation:		**Reason for Recommendation:**	
That the Treasury Management Quarterly Report be received			
Relevant Policy (ies):		Treasury Management Policy	
Within Policy:	**Y**	**Within Budget:**	**N/A**
Person(s) To Implement Decision:		**N/A**	
Date By When Decision To Be Implemented:		**N/A**	

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Background Papers used to prepare Report:

CIPFA Code of Practice on Treasury Management and Cross Sectoral Guidance Notes
Treasury Management Policy Statement
Advisors' Information
WAG Guidance on Local Government Investments 2010
PWLB circular

Appendix A:

Economic Background

Global Economy:

The Euro zone sovereign debt crisis continued with Spain and, particularly Italy, being the focus of renewed market concerns that they may soon join with Greece, Ireland and Portugal in needing assistance. This uncertainty and the lack of a co-ordinated or credible Euro zone response left commentators concerned over the potential impact of sovereign default and resulting effect on the Euro zone banking sector. The approval by various countries of the £440bn bail out fund in September has brought temporary relief to financial markets but this does not provide a credible remedy to the scale of the Greek debt problem or the sheer magnitude of the potential needs of other countries for support

This, coupled with political difficulties in the US over their plans to address the budget deficit, the size and control over the US sovereign debt and the subsequent loss of the AAA credit rating from Standard and Poors, has led to a much more difficult and uncertain outlook for the world economy. Growth prospects in the US, UK and the Euro zone have been lower than expected, with future prospects similarly cut. Whilst not a central view, concerns of a double dip recession in some Western countries have increased. World stock markets fell in the second quarter of 2011/12 as a consequence.

UK Economy:

Following zero growth in the final half of 2010/11, the UK economy grew by a weaker than expected 0.2% in the first quarter of 2011/12 providing a knock on effect to future growth prospects. Growth prospects will be governed by UK consumer sentiment which is currently subdued due to falling disposable income. Higher VAT, overhanging debt, high inflation and concerns over employment are likely to weigh heavily on consumers into the future.

Inflation remains stubbornly high although the expectation of future falls, the external nature of the price increases (energy, oil, food, etc.) and the negative impact a rate rise would have on the UK economy is likely to stop the Monetary Policy Committee from raising the Bank Rate for some considerable time to come. An indicator of the worsening position arose from the Monetary Policy Committee minutes recently signalling a greater willingness to expand the quantitative easing programme which they subsequently did in early October with a £75bn package.

International investors continue to view UK government gilts as being a safe haven from the EU sovereign debt crisis. The consequent increase in demand for gilts has helped to add downward pressure on gilt yields and sent PWLB borrowing rates to low levels.

Outlook for the next six months of 2011/12:

There remain huge uncertainties in economic forecasts due to the following major difficulties:-

- the speed of economic recovery in the UK, US and EU
- the likely political gridlock in the US preventing significant government fiscal action to boost growth ahead of the Presidential elections in November 2012
- the potential for a major EU sovereign debt crisis which could have a significant impact on financial markets and the global and UK economy

- the degree to which government austerity programmes will dampen economic growth
- the potential for more quantitative easing and the timing of this in both the UK and US
- the speed of recovery of banks’ profitability and balance sheet imbalances.

Appendix B:

MARKET RATES AVAILABLE

Banks:

Duration	**%**
Overnight	0.70 – 0.55
1 Week	0.80 – 0.55
2 Week	0.80 – 0.57
1 Month	0.85 – 0.70
2 Month	0.95 – 0.80
3 Month	1.05 – 0.95
4 Month	1.10 – 1.00
5 Month	1.15 – 1.05
6 Month	1.25 – 1.20
9 Month	1.55 – 1.45
10 Month	1.60 – 1.50
11 Month	1.65 – 1.55
12 Month	1.75 – 1.65

Appendix C:

07.10.11

Moody's Investors Service has today downgraded the ratings of 12 UK financial institutions and confirmed the ratings of 1 institution. The downgrades do not reflect a deterioration in the financial strength of the banking system or that of the government.

The downgrades have been caused by Moody's reassessment of the support environment in the UK which has resulted in the removal of systemic support for 7 smaller institutions and the reduction of systemic support by one to three notches for 5 larger, more systemically important financial institutions.

Moody's believes that the government is likely to continue to provide some level of support to systemically important financial institutions, which continue to incorporate up to three notches of uplift. However, it is more likely now to allow smaller institutions to fail if they become financially troubled.

The rating actions in respect of institutions that this Authority invests with are as follows:-

UK (Aaa): Lloyds TSB Bank

Moody's Investors Service has downgraded the Long Term rating of Lloyds TSB Bank to 'A1' from 'Aa3'. The Outlook on the Long Term rating has changed to Negative from Under Review for Possible Downgrade.

Moody's Ratings applicable are:

Long Term Rating	Downgraded to 'A1' from 'Aa3', Outlook changed to Negative from Under Review for Possible Downgrade
Short Term Rating	'P-1'
Financial Strength Rating	'C-', Stable Outlook

UK (Aaa): Bank of Scotland Plc

Moody's Investors Service has downgraded the Long Term rating of Bank of Scotland Plc to 'A1' from 'Aa3'. The Outlook on the Long Term rating has changed to Negative from Under Review for Possible Downgrade.

Moody's Ratings applicable are:

Long Term Rating	Downgraded to 'A1' from 'Aa3', Outlook changed to Negative from Under Review for Possible Downgrade
Short Term Rating	'P-1'
Financial Strength Rating	'D+', Stable Outlook

UK (Aaa): Royal Bank of Scotland

Moody's Investors Service has downgraded the Long Term rating the Royal Bank of Scotland Plc to ‘A2’ from ‘Aa3’. The Outlook on the Long Term rating has changed to Negative from Under Review for Possible Downgrade.

Moody’s Ratings applicable are:

Long Term Rating	Downgraded to ‘A2’ from ‘Aa3’, Outlook changed to Negative from Under Review for Possible Downgrade
Short Term Rating	‘P-1’
Financial Strength Rating	‘C-‘, Stable Outlook

Note:

RBS suffered slightly more than Lloyds TSB/BOS in the downgrading action as a result of the recent health testing of banks whereby, among the British banks, RBS is most vulnerable to being forced to raise new capital because its stressed capital ratio emerged relatively low at 6.3% (compared with 7.3% for Barclays, 7.7% for Lloyds and 8.5% for HSBC).

Ratings position:

The rating downgrades place the ratings of UK financial institutions into three groups:

i) Banks with a very high likelihood of support: two to three notches of systemic uplift:
This group includes the four large clearing banks which have large market shares of loans and deposits, a significant share of the clearing system and also (in the case of RBS, Barclays and HSBC) have complex large cross-border trading and derivative books . The notches of support uplift have been reduced (i) to three from four for Lloyds; and (ii) to three from five for RBS. There is no change to the ratings of Barclays and HSBC which maintain the existing levels of three and two notches of rating uplift respectively.

ii) Banks with a moderate or high likelihood of support: one notch of systemic uplift:
This group consists of Nationwide, Santander UK, Co-operative Bank and Clydesdale Bank. These institutions have nationwide networks and a smaller, but still important, role in the payments system. Nationwide and Santander have large market shares of nationwide deposits and loans, which places them in the category of "high" likelihood of support. However, the simpler business model of all these institutions means they are relatively "more straightforward" to resolve and therefore support is limited to one notch.

iii) Institutions with a low or no likelihood of support: no systemic uplift:
This group consists of the smaller rated building societies. Those affected by today's rating action are Newcastle, Norwich & Peterborough, Nottingham, Principality, Skipton, West Bromwich and Yorkshire. Moody's considers that there is insufficient certainty surrounding the likelihood and extent of support available over the medium-term to the senior creditors of rated building societies smaller than Nationwide, which all have very small nationwide market shares. Therefore, there is no rating uplift incorporated for systemic support from their respective standalone credit strength ratings.

The downgrades do not reflect a deterioration in the financial strength of the banking system or that of the government. In fact, the standalone ratings of 5 institutions have been upgraded in separate announcements made today (Co-Operative Bank) and over the past few months (Nationwide, Santander UK, Yorkshire, and Principality). These institutions are primarily those that have seen some improvement in their credit profile in the past 12 months and where we have also concluded that the institution is unlikely to be directly affected by any further material deterioration in the European financial markets. Primarily, these are smaller, domestically-focused institutions with limited reliance on wholesale funding. However, these improvements in standalone financial strength have not been sufficient to offset all of the downward rating pressure from lower systemic support.

REGULATORY ASPECTS:

The UK Tripartite authorities (the Bank of England, the Financial Services Authority and the Treasury) have provided ongoing guidance that banks that fail in the future should not expect capital injections from the public purse.
Moody's still incorporates some rating uplift into the ratings of large and medium-sized institutions due to the greater challenges the authorities would face in enabling the smooth resolution of these entities. However, Moody's considers that the likelihood of small financial institutions receiving capital injections in case of need is sufficiently uncertain to lead us to remove any systemic uplift from the ratings of these institutions.
Recent steps towards enabling the resolution of failed banks, without access to the public purse, include the FSA's publication in August of a consultation paper on Recovery and Resolution Plans (RRPs), together with a discussion paper on resolution. In addition, even though the September proposals of the Independent Commission on Banking (ICB) do not have an immediate rating impact on UK banks, they are credit-negative for bondholders longer-term as they indicate that new structures, such as ring-fencing, could be introduced to aid resolution and allow senior bondholders to share the burden of bank failure.
Nevertheless, Moody’s recognise that the authorities do not yet have all the necessary tools to effect the orderly resolution particularly of the largest, most complex banks, and many ofthe measures being considered (RRPs, ring-fencing) could take years to implement.
Consequently, we still incorporate a very high level of support in the ratings of the largest banks and moderate level of support in the ratings of medium-sized banks.

WHAT COULD CHANGE THE RATINGS:

Those ratings that continue to benefit from systemic support remain sensitive to any further changes in Moody's support assumptions or the credit quality of the UK government (rated Aaa with a Stable Outlook). All of the ratings are subject to changes of these banks standalone financial strength ratings.

10.10.11

UK (Aaa): Ulster Bank Ltd

Moody's Investors Service has downgraded the ratings of Ulster Bank Limited to Baa1/P-2 from A2/P-1. The Outlook on Ulster's Long Term Rating has changed to Negative from Under Review for Possible Downgrade.

Moody's Ratings applicable are:

Long Term Rating	Downgraded to 'Baa1' from 'A2', Outlook changed to Negative from Under Review for Possible Downgrade
Short Term Rating	Downgraded to P-2 from P-1
Financial Strength Rating	'D-', Negative Outlook

Following the conclusion of the process to review systemic and parental support assumptions, Moody's continue to incorporate a very high level of parental support into the ratings of Ulster Bank Limited. This is based on Moody's assessment that Ulster Bank Group is a core subsidiary of Royal Bank of Scotland Group and is likely to remain so in the future. Moody's expect high commitment to remain in place and therefore Moody's has maintained a high level of parental support. However, the reduction of UK systemic support in the parent has led to a 2-notch downgrade of UBL's ratings to Baa1 / P-2 from A2 / P-1. The Outlook on these ratings is Negative in line with the outlook on RBS and on the standalone ratings of UBL.
Improvements in the standalone ratings of UBL would come from strong and sustainable improvement in its financial fundamentals, including an increase in the level of deposit funding, an improvement in its asset quality and capital levels while maintaining its substantial market shares. Downgrades would come from a loss of market share in the bank's key products, a material deterioration in the bank's financial performance, or a further significant decline in asset quality. Since the debt and deposit ratings benefit from parental support uplift, they remain sensitive to any further changes in the ratings of RBS.

Appendix D:

13.10.11

Fitch Ratings has lowered its Support Rating Floors for systemically important UK banks to 'A' from 'AA-' and 'A+'. As a result, Lloyds Banking Group plc's and Royal Bank of Scotland Group plc's Long Term Ratings have been downgraded to 'A' from 'AA-'. Separately, Fitch has also placed Barclays plc's Long Term and Viability Rating on Negative Watch.

The rating actions in respect of institutions that this Authority invests with are as follows:-

UK (AAA): Royal Bank of Scotland

Fitch Ratings has downgraded the Long Term and Short Term ratings of Royal Bank of Scotland plc. At the same time the Individual and Viability ratings are unaffected with Support Rating affirmed.

Fitch's Ratings applicable are:

Long Term Rating	Downgraded to 'A' from 'AA-', Stable Outlook
Short Term Rating	Downgraded to 'F1' from 'F1+'
Individual Rating	'C'
Viability Rating	'bbb'
Support Rating	Affirmed at '1'

UK (AAA): Ulster Bank Ltd

Fitch Ratings has downgraded the Long Term and Short Term ratings of Ulster Bank Ltd. At the same time the Individual and Viability ratings are unaffected with Support Rating affirmed.

Fitch's Ratings applicable are:

Long Term Rating	Downgraded to 'A-' from 'A+', Stable Outlook
Short Term Rating	Downgraded to 'F1' from 'F1+'
Individual Rating	'E'
Viability Rating	'ccc'
Support Rating	Affirmed at '1'

UK (AAA): Lloyds TSB Bank Plc

Fitch Ratings has downgraded the Long Term and Short Term ratings of Lloyds TSB Bank Plc. At the same time the Individual and Viability ratings are unaffected with Support Rating affirmed.

Fitch's Ratings applicable are:

Long Term Rating	Downgraded to 'A' from 'AA-', Stable Outlook
Short Term Rating	Downgraded to 'F1' from 'F1+'
Viability Rating	'bbb'
Individual Rating	'C'
Support Rating	Affirmed at '1'

UK (AAA): Bank of Scotland Plc

Fitch Ratings has downgraded the Long Term and Short Term ratings of Bank of Scotland Plc. At the same time, the bank's Support Rating has been affirmed. The bank's Individual Rating remains unaffected.

Fitch's Ratings applicable are:

Long Term Rating	Downgraded to 'A' from 'AA-', Stable Outlook
Short Term Rating	Downgraded to 'F1' from 'F1+'
Individual Rating	'C'
Support Rating	Affirmed at '1'

UK (AAA): Bank of Scotland Plc

Fitch Ratings has placed the Long Term, Short Term and Viability ratings of Barclays Bank plc on Negative Watch. At the same time the Individual rating is unaffected with Support Rating affirmed.

Fitch Ratings applicable are:

Long Term Rating	'AA-', Placed on Negative Watch
Short Term Rating	'F1+' Placed on Negative Watch
Viability Rating	'aa-' Placed on Negative Watch
Individual Rating	'B'
Support Rating	'Affirmed at '1'

The revision of the Support Rating Floors reflects Fitch's view that support dynamics are changing in the UK. The banking system is not only large relative to the UK economy, but there is also more advanced political will to reduce the implicit support for the country's banks, building on The Banking Act 2009 and, more recently the various policy recommendations of the Independent Commission on Banking (ICB). Although Fitch has affirmed the '1' Support Ratings of the largest UK banks, indicating that support for these banks is likely to remain high until elements of the UK banking sector complete their rehabilitation and some of the more practical aspects of bank resolution can be implemented, the lower SRF indicates that the potential for the provision of extraordinary support for senior bank creditors is relatively less certain than before. Most smaller UK banks and building societies already have the lowest Support Ratings of '5', reflecting Fitch's opinion that support for senior creditors cannot be relied upon.

The downgrades of Lloyds Banking Group (LBS) and Royal Bank of Scotland Group (RBSG) reflect the revision of their Support Rating Floors as their current Viability Ratings are below that (both at 'bbb'). Both of these banking groups have shown steady improvement in their risk profiles and prospects over the past two years and, assuming there is no major fallout from the euro zone crisis, for example, ought to be able to achieve higher Viability Ratings over the medium- and long-term. Fitch preserved a one notch difference between RBSG's Long Term rating and its major subsidiaries in the US and Ireland but equalised the Short Term Ratings of these entities with that of the group to reflect its expectation that the support will remain stronger in the short-term.

Barclays ratings reflect the group's strong UK franchise, broad business mix, robust profitability, solid liquidity and sophisticated risk management. They also consider the earnings and risk volatility in its investment banking division, Barclays Capital (BarCap). The Negative Watch on Barclays reflects Fitch's view that global trading and universal banks have business models that are particularly sensitive to market sentiment and confidence, that are complex and exposed to greater volatility. They will be resolved in a reasonably short timeframe.

With the exception of Barclays, where Fitch's rating actions are taken in light of the agency's full criteria, all other rating actions have considered only the parts of the criteria that deal with support.

In Fitch's rating framework, a bank's intrinsic creditworthiness is reflected in its Viability Rating, while the potential for extraordinary sovereign support is reflected in its Support Rating Floor. Its Long Term and Short Term ratings are the higher of the two.