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**From:** Richard Kahn <[REDACTED]>  
**Sent:** Monday, November 9, 2015 9:26 PM  
**To:** jeffrey E.  
**Subject:** Fwd: Royal Bank of Scotland 7.64% Fixed-to-Float Pfd  
**Attachments:** RBS.Bonds.2.24.15.pdf; Untitled attachment 00459.htm

thought this was interesting as it would yield foreign interest income please advise thank you

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Begin forwarded message:

From: =/b>"Atlas, Andrew S" <[REDACTED]>  
Subject: =/b>Royal Bank of Scotland 7.64% Fixed-to-Float Pfd  
Date: =/b>November 9, 2015 at 4:03:19 PM =ST  
To: =/b>"Richard Kahn ([REDACTED])" <[REDACTED]>

Rich,

Here's an attractive Yield to Call opportunity that I wanted to show Southern Trust Company. I've attached a till relevant Morgan Stanley note from earlier this year.

Details:

Royal Bank of Scotland 7.64% Fixed-to-Float Preferred =shares

RBS=7.64% Perpetual

Issuer: Royal Bk Scotland Grp Plc

Par=Value: =1,000

Security Type: Preferred Stock

QDI/DRD =ligible Yes = Yes

Cumulative: =on-Cumulative

Rating: B1 / B+

Coupon =Details): =.64% to 9/30/2017; Then US 3M Libor +232bp, resets Quarterly

&nb=p; =nbsp; &n=sp;

Next Call Date: 9/30/2017, Quarterly thereafter

Maturity: =nbsp; &n=sp; Perpetual

Net==rice: &n=sp; &nbs=; 105.25

Current =ield: &n=sp; 7.2589%

Yield to Next =all: =.6871%

Some of Morgan Stanley's highlights:

1. They fundamentally like the credit and this is one of the =ost liquid and highest yielding legacy securities (old-style AT1s)

2. They expect the bond to get called at first call because:

&nb=p; = &nbsp; &nb=p; = i. =/span>RBS=has excess Tier 1 capital and RBS is issuing AT1 which is further =ncreasing this excess

&nb=p; = &nbsp; &nb=p; = ii. =/span>The=7.64s are expensive. RBS does not get a tax benefit so the coupon =s 1.2x higher for the issuer than the headline coupon\*.

&nb=p; = &nbsp; &nb=p; iii. =/span>The=7.64s are only callable every 10 years so missing the opportunity in =017 reduces all flexibility for the issuer when it loses all capital value from end-2021.

3. They think that the 7.64s could get tendered for or exchanged =t favorable terms, but are happy with the carry they offer even if they =re not.

\* =ote the back end of 3ml+232 grossed up for tax is closer to 3ml+300 for =he issuer.

&nb=p; = &nbsp; &nb=p; =

Please treat all price levels as subject to market =vailability. Let me know if you have any questions.

Speak soon,

Andrew

Andrew S. Atlas

Financial =visor

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