2011 Annual Results

ANALYSTS PRESENTATION

Held at the offices of the Company

280 Bishopsgate London EC2N 4RB

on Thursday 23rd February 2012

FORWARD-LOOKING STATEMENTS

This transcript includes certain statements regarding our assumptions, projections, expectations, intentions or beliefs about future events. These statements constitute "forward-looking statements" for purposes of the Private Securities Litigation Reform Act of 1995. We caution that these statements may and often do vary materially from actual results. Accordingly, we cannot assure you that actual results will not differ materially from those expressed or implied by the forward-looking statements. You should read the section entitled "Forward-Looking Statements" in our Annual Results announcement published on 23rd February 2012.

Presenters

- **Philip Hampton (Chairman)**
- **Stephen Hester (Group Chief Executive)**
- **Bruce Van Saun (Group Finance Director)**

Presentation

Operator

Good morning ladies and gentlemen. Today's conference call will be hosted by Philip Hampton, Chairman of RBS. Please go ahead.

Philip Hampton

Good morning, ladies and gentlemen. Welcome to our full year results. I think the results overall show good progress, with our core businesses making around six billion profits, but of course we're still dealing with the big challenges from the financial excesses of a few years ago that come up in our Non-Core division. And this year we've got some very big charges for Greece, PPI and others, which are largely, though not universally, legacy-type problems. Step by step, I think it's clear that this bank, this business is being fixed.

I'll say one more thing and then I'll hand over to Stephen to explain how it's being fixed. The other thing I'd like to say, or really, rather, re-emphasize, is that, of course, we are a very odd business in ownership terms. At once listed on the stock market, but majority owned by the UK Government, and of course their representatives at UKFI with their commercial arms-length relationship. The question is sometimes raised as to how long those arms are, and the answer is that we do engage in discussions with all of our shareholders, on performance, strategy, governance, remuneration and so on, and these discussions are inevitably fuller and more frequent with an 82% shareholder whose opinions have a proper place made in the judgements made by the Board and the Management.

But at the end of the day, all decisions in the company have to be taken by the Board and the Management, and by law those decisions have to take into account the interests of all of our shareholders. It's not, of course, just a company law issue. The clarity of decision making and accountability is fundamental to the prudential management of all businesses, and, of course, particularly financial institutions. So whilst we do engage with shareholders, especially UKFI, we have to take our decisions on behalf of all shareholders and we have to be wholly accountable for the decisions that we take. Solely and wholly accountable.

So it'll be obvious, I'm sure, to everybody here, that this is a very challenging set of circumstances for all parties, it's certainly very unusual. But I think so far we have been able to deal with those challenges and find acceptable solutions. I hope, and I expect, that we will be able to continue to do so. The board firmly believes that running the business commercially is the only realistic way to secure the eventual exit of our majority shareholder, because clearly investors would have a very limited appetite to invest in an uncommercial bank.

So let me now hand over to Stephen who will describe the progress we're making.

Stephen Hester

Thank you Philip, good morning everyone. Normal format, this morning, obviously. I'm going to go over a few matters and then hand over to Bruce to take you through the results, and obviously deal with as many of your questions afterwards as we can do. And I'm dividing my remarks, this morning, really, into three categories. One, just briefly the headlines of what we've announced for the year. I think perhaps more importantly, although you could argue it's retrospective, for the first time today, since it does mark the end of our first three years in this five-year turnaround plan that we've set out in 2009, we've actually presented for you what the real numbers that we really thought we could achieve were three years ago, that we haven't presented before, and how we've done against them in an environment which, as you know, has turned our rather more difficult than we expected.

And then I move, in my final section, into talking about the adjustments that we announced in January to our strategic plan that we're implement, what they were, why they were, and what we think we'll accomplish by them.

And so, just briefly on the headlines of the results, which most of you will have seen. As you know, fundamentally, RBS is doing the job, in some ways two different jobs. We are, as I have said in the media, in the process of diffusing the biggest time bomb ever put in a bank's balance sheet, and that progress is going extremely well, and at the same time we're running a very big global complicated bank competing against lots of other people, serving our customers, and we believe that we've made progress and can be compared, reasonably, for that effort as well.

And you'll see I'm not going to read every line, that in 2011 we made progress right across the board in strengthening our balance sheet, strengthening the way it's funded, running down well ahead of schedule our Non-Core division and its assets, in the Core bank making good profits and good progress, albeit, in the case of GBM in particular, only in line with the industry, which was down. And so we can see, just on these few numbers in this second slide, that we have operating profit in the bit of our bank that you can compare to Barclays, or Lloyds, or whoever you else you want to compare it to. £6.1 billion of profits, and a return on equity of 10.5%, and a stable net interest margin, and so on as you, as you read down it. And that bank is funded entirely, at least to its loan book, by deposits, with a 94% loan to deposit ratio.

And during the year, as Bruce will explain in more detail, fundamentally our retail and commercial businesses increased their profits, and earned a high ROE of 16%; our Insurance business built the really good foundations for what we hope will be a successful IPO year, with a £700 million profit turnaround. And our Investment Banking business halved its profits, which was broadly in line with the industry. We wish they hadn't halved, but it was broadly in line with the industry, and still produced £1.6 billion of profits, and an 8% ROE.

And then when we look at the Group metric, as I've mentioned, Group operating profits were up 11%, although clearly there's all sorts of other things below that which lead the group to a bottom line loss, and we will go through those. I think we are showing, in our capital ratio, one of the clues to the way we're going about this, and I'll return to this in a slide in a few minutes, and that is to say our Core Tier One ratio was broadly stable at 10.6%, and really what that's another way of doing, is saying we're having to self-fund the clean-up. And so we were re-capitalised by the government at a level to keep the bank stable, and then we have to earn profits and can take our risk down roughly at the pace that we earn profits.

Now, we're taking it down a bit faster than that, but that, in a sense, is the balance that we're doing it. And so we've been able to take risk down very substantially, we've been able to absorb significant regulatory changes in increasing risk-weighted assets, and keep the capital ratio stable, and that's the balancing act that we've been carrying off so far and that we will keep doing.

So turning to the retrospective report card, which I'll breeze through relatively quickly, but you'll forgive us if we give you that perspective, because I think it is often important to stand back and, a little bit, look at what we've achieved. And the first is, if you like, the words. You know, we set out a strategy, in that chaos of end 2008 and early 2009. We believed that the three jobs of the bank were to serve customers well, to restore the bank in risk terms to a sustainable and conservative risk profile, and then to rebuild value for shareholders, those are the exact same three jobs we believe we still have today, and will have tomorrow.

And we believed that we could do it by pulling out from the rubble a selection of really strong internationally competitive businesses, we believed that we could make them even stronger, allow them to perform well, and, in parallel with that, largely through the device of Non-Core, but permeating the entire bank, remove and take away, as I said, the rubble from the past. Those principles have served us in good stead over the last three years, as you can now see from the numbers.

So starting with the balance sheet, and these slides are similar, so we give where we started, in the blue colour on the left, what our internal plan was in 2009 of where we would be by the end of 2011, in the dotted clear bar in the middle, and where we actually ended up at the end of that three year period in the hard blue on the right. And you'll see, whether you look at Group assets, whether you look at risk-weighted assets, whether you look at Non-Core assets, or whether you look at the way we fund those and how much liquidity we have relative to our short term wholesale funding, on every single measure, not only are we better, but we beat the targets that we thought we might be able to achieve three years ago, despite an environment which I regard as having been more difficult than we expected.

And when we move that over to the P&L account, you'll see the same things. We thought that we could make operating profit over three years of £18 billion in Core, we made £22 billion. We thought that achieving the run down to this stage of Non-Core, we thought it would cost us £28 billion, so far it's cost us £24 billion, and we're ahead of where we thought we'd be. We thought that we'd make losses in our retail bank, we've made good profits. That's probably the single biggest contributor to our overall profit outperformance. And similarly, in our UK Corporate business, we've done a better, I think, than others, and better than we thought.

And of course, controversially, at least in the public eye, the Investment Bank. The investment bank, we thought we would make £9 billion of profit out of, we actually made nearly £11 billion, an average return on equity of 18%. And while we now have to face forward into some different issues and challenges, without that 18% ROE, without those £11 billion of profits, the taxpayer would have had to come up with £11 billion more, or else we would not have been around. And we need to remember that, and despite that accomplishment, that the Investment Bank, unlike any elsewhere in the world, also reduced its share of our balance sheet from £900 billion to under £400 billion.

There are challenges afresh in this area. We saw those particularly for ourselves and for the industry in 2011. We are taking action on those challenges, and I will come back to that. But the Investment Bank was not the only place that, towards the end of the period, delivered us some challenges, and our outperformance of our plans over the last three years was despite some areas that did not go to plan.

And Insurance was one example. We did not plan to turn that from a profit maker into a loss maker, even though that did happen. We've recovered our footing. I think we've recovered it very well. There will be other occasions this year when you'll hear a much more lucid explanation of that as we try and sell you, or your clients, shares in the new proposition, but that is a job, I think, a setback that we have recovered from, and recovered from well.

Similarly, Ulster Bank, not yet recovered from well, but clearly a setback, a gravity of loan losses higher than we expected. Nevertheless, the trends do appear to have stabilised. We are hopeful that we can start reducing the losses in Ulster Bank this year, clearly it's economic path dependent, and much work is going on inside the operation to reduce costs, improve underlying profitability, and improve the balance sheet. And the US, finally, again, a loss maker, moving very nicely through the gears, still not yet at the return on equity that we need, but I think giving us confidence that that's a valuable business, and a path that we can continue to improve.

Along the way, again, I won't spend a lot of time on these. Of course, we've had to be good at cost discipline, better than other banks, given the gravity of what was happening to our income and impairment line, and we have over-delivered on the cost plans that we set out three years ago. And there's a different perspective that one can see this, and it feeds back into this, the two jobs, making profits here, cleaning up a mess there, and when the mess is gone, that the profits become available to shareholders. And this top chart gives you one way of thinking about it.

In the last three years, as I said, £33 billion of pre-impairment profit from the Core businesses, some of that, of course, was spent in impairments in those Core businesses, most of which were elevated due to the recession, so £24 billion of operating profit, and we then spent that in Non-Core and Ulster clean up, in other legacy items such as Greece and PPI, and so on, that lie littered below the line giving the totals that you can see, and allowing us to stabilise our net asset value per share as we did that clean up, and to have very strong capital ratios rebuilt from their nadir and then kept stable in the face of that risk reduction.

This chart, again, I won't go over the detail, but it shows a whole bunch of other measures where risk is also coming down, whether that be our real estate exposure, whether that be our single name credit exposures, whether that be our market risk exposure, whether that be our exposure to more fickle wholesale funders. Across every metric we will get better than we are today, but we're already, I would submit to you, in the pack of internationally recognised banks of strength.

Underlying all of this is an abiding focus that needs to be our focus yesterday, today, and for decades into the future, and that is we live, survive, breathe duty to our customers. And if we do that well, all else will follow. We are incredibly focused on this. Every single one of our ongoing businesses has been spending huge amounts of time and energy and money taking cost out of their businesses, re-investing that cost in improved customer service, and improved capabilities, which in the short run have broadly sustained our market shares in the face of the restructuring chaos and other pressures on us, and will be the key to our future cash flow as well as to the job that we have to do for society.

And for those interested in some of the political metrics, we confirm here today that we beat the Merlin targets last year, more significantly, that we account for 48 pence in every pound lent to small businesses in the UK compared to something like a 29% customer market share. I hope we get all that money back, we're going to try to.

Now, I mentioned that not everything had gone right, and what's clear is that the market environment has been disappointing, economic growth has been disappointing, and then that feeds through to the pattern of interest rates, and of course all the Eurozone stuff that we saw last year drifting into this year. And all banks suffer from that. We, in a weakened state, have suffered as well, and we've needed to be very clear which bits of this is just a timing issue, where you sort of tighten your belt and move on, and which, which bits of what has happened should give rise to some sort of strategic adjustment so that we can be confident that RBS in the future can meet the aspirations that we have set out for it.

And we list, briefly, here in three categories, the kinds of changes that there've been, slower economic growth, lower interest rates, market disruption impacting both revenues but importantly funding patterns, and massive regulatory changes going well beyond what was originally expected, and particularly well beyond what was originally expected here in the UK. And all of these have impacts on banks, impacts on us, some of them ones which speak to strategy.

And so we basically have absorbed those, and decided there's no point taking action in three years and four years, we should take action now. What are the corrections that we needed to do. And I guess at its simplest, they fall into two categories. And the first is a further adjustment to our business mix, and that is our shareholders are telling us they value investment banking earnings less. The rating agencies are telling us they value investment banking earnings less, not just ours but anyone. And in a climate where the regulators are really shifting the balance in terms of the capital and other things that have to behind investment banking earnings, that we need to focus on the quality of those, and also the base of solidity of the group as a whole within which those earnings enhance what we do.

And so in the restructuring of our wholesale businesses, which I will continue to talk about, you'll see that it has an impact on our business mix that should be to shareholders' and funders' advantage whilst leaving us, nevertheless, with markets activities that contribute, in their own right, and strongly also, to the rest of the bank.

A different dimension around this, which wasn't specifically around the wholesale businesses, but was for the Group as a whole, nevertheless it finds its expression in the wholesale businesses, is that banks are going to need to be even more conservative in their capital and funding structure than we all thought in the immediate aftermath of the crisis, and that can be seen through in capital ratio requirements, it can be seen through in liquidity requirements, it can be seen through in the actions of the rating agencies, and what they think is good enough. All of these we're having to, and all other banks, I think, will have to take another look at on what basis can you be in safe waters.

Of course, we can't perfectly know the future, but it's clear to us that a step beyond our initial plans is required in conservatism of balance sheet structure, and you'll see here a new set of targets for wholesale funding going further than we would otherwise have done, which is a Group overlay to the specific actions that we're taking in our wholesale businesses.

Specifically then in GBM, to recap, what is the problem that we're trying to solve? The problems that we're trying to solve are inflation in equity consumption through regulatory change, pressure on cost and availability of the way that portion of the balance sheet can be financed, and declines in the global revenue pool, or in the growth of the global revenue pool, if indeed it returns to growth relative to what was expected. That's what we're trying to solve for, and our actions are designed to reduce both asset and capital usage, thereby improving group balance sheet strength and funding profile and ROE.

We are cutting out loss makers that have become a luxury we can't afford, and focusing on our strongest businesses. We are seeking cost synergies through a re-organisation of our business, also to improve ROE, and we will enhance, through doing all of that, the way in which our businesses work together, which does the same. So the point of this is a more conservative balance sheet, a better return on equity, and better value for shareholders through businesses that are strong and operate well. We have to deliver that, and so it will be a two or three year adjustment period to get onto that path, with lots of uncertainty still in the wholesale markets, but we're clear that's what we're trying to accomplish.

I won't go over this detail, it's available in the slides for you to read afterwards, but as those of you who followed it since January know, we had two wholesale businesses, what we used to call GBM and GTS, our transaction bank. They probably were organised initially more to get a higher PE by showing GTS differently. I'm not sure that that actually succeeded in the light of other events, and so we're now trying to organise them in what I would regard as industrial logic. I probably should have got round to it three years ago and I didn't, but anyway.

And so we are saying, okay, our wholesale businesses will now be our Markets business, with all the dynamics and concentration on how you run a Markets business, and then we will have an International Banking business, which, frankly, is very similar in concept, other than having a few more languages and borders than our UK Corporate business or our US Corporate business, it funds itself entirely with deposits, it gives the same sort of products that we would offer our customers in the UK and the US and so on. We think that in doing that, the International Banking business can be recognised for what it is, its funding can be clear, and its mission can be clear, and we'll get synergies out of putting together some businesses that we were otherwise operating apart. And exactly the same things go for markets, where in addition to the close down, and principally of our cash equities business, there are substantial reductions in selected parts of the business in terms of balance sheet and capital hungry businesses which will, of course, reduce the overall revenues, but we believe, make the path to 12% return on equity more credible with a size of wallet that we can afford within a business mix, that we want to be as valuable for shareholders as possible.

I think one thing that is important to note, because there are those who say, well, markets businesses will always be volatile, they'll probably always be thought of as a lower PE business than some others, why stop here? And I think the answer on why stop here is we believe that here, A can produce good returns in its own right, but B that these market activities are essential to do at a level of credibility if we are to be a corporate bank, and we are a corporate bank elsewhere in the world.

And you'll see in this bottom left slide, here, the scale, albeit this is revenues booked on both sides, that the sheer scale of the connectivity of our markets business and what that does for our customers everywhere else in the Group, in addition to what it does in its own right, and what we hope it can do in its own right, for profitability.

We said that we would revisit our Group stated targets in the light of the environmental changes, and so we have done that, and they're out here. And the primary revisitation is actually a straight piece of maths. The world, as we saw it in 2009, required Core Tier One ratios that had been running at four to run above eight. We now think they're going to have to run above ten. And that's self-evident from the UK Independent Banking Commission, if not from other things. Of course, eight and ten aren't even apples to apples, because you've also had Basel 2.5 and III along the way, which makes the ten a lot higher than ten on an apples to apples basis, but nevertheless, on the way that we'll report it, we think we need to target a Core Tier One ratio in excess of ten, post Basel III.

There may be some ups and downs as we get there, through that, but that's what we need to target, and therefore mathematically, we don't see we're going to make any more money for carrying that more capital, and you'll see that the return on equity target which we had at 15 simply mathematically drops to 12, which is, we judge currently, adjacent to our cost of capital, and therefore, it's, I think, a minimum business requirement that you aim to cover your costs of capital. If we can do better, we clearly will.

If will continue to be absolutely at the heart of our mission to get RBS to a safe and sound position, conservative position financially and stay there, and so we retain a whole series of other measures in terms of balance sheet conservatism, leverage ratio, beneath these group targets are other targets on liquidity and so on, so forth. And you can see in the box at the bottom, we retain the philosophical discipline that each of our businesses must get itself to the point where they are attractive in their own right, and then the businesses taken together with the connectivity that they have will be attractive, even more so together. And so every one of our businesses is tasked with covering its costs of equity, it's tasked with self-funding itself. If it's a banking business, it's tasked with a cost contribution to business efficiency and so on as we go through.

So moving close to the end of my remarks, we refresh the vision of RBS, what we're trying to accomplish with our businesses. I won't go down the words. The good news is it's basically unchanged. The strategy we adopted, the businesses we identified as good in 2009, and how to make them better, the importance of what we needed to focus on, has proven the test of time. There are some adjustments, as we've discussed, for a different regulatory environment, for a different wholesale business, that line up.

And similarly, as we come right back to today, and say here we are at the beginning of 2012, facing out, what are our priorities, what are we trying to do. They are unchanged, although they move on in time. So we continue to want to make this bank safe and sound, priority number one.

We continue to want to create value, which in the short run pays for clean up costs, and more and more will then come through to shareholders, and we can only do that if we do a good job for customers, supporting them, and doing it well.

And we believe we've made good progress, to date. We believe that 2012 will see a continued reduction in the risk of RBS. We hope that we can improve the profitability of our Core bank, although I would say that probably is more economic path dependent. There are plenty of other to-do items which Bruce will run through, but we're certainly focused on the job, and we'll do the best we can.

Thank you. Bruce, perhaps you could take up the other items.

Bruce Van Saun

Thank you Stephen, and good morning everyone. I'm going to take you through our financial progress; I'm going to start with our Core results.

So the Core operating profit, adjusted for the sale of GMS, was down 15% year on year, which was driven by a 9% fall in revenue. In looking at the constituent parts of Core, Retail and Commercial saw operating profit up 4% year on year. This bumps up to 10% on an underlying basis, adjusted for the disposal of the GMS business. The R&C performance reflects a rise in income, good cost control, and a decline in impairments. 2011 ROE for R&C was 10.5%, 17% excluding Ulster.

GBM's 2011 operating profit fell by roughly half versus 2010. The second half of the year saw a subdued revenue environment, and we reduce our own risk appetite. While GBM delivered an 8% ROE for the year, and performance was in the pack with peers, we announced the restructuring in January which I will cover in more detail shortly. Insurance has been nicely turned around, with a profit swing of 750 million over the past 12 months. And the core ROE for the year was 11%.

So looking at the Core business in more detail, first off, UK retail had a terrific year. Profit was up 45%, we had a strong return on equity and good progress was made against our customer charter. For the year, mortgage lending was up 5%, our market share of new mortgage lending was 10%, versus our stock position of 8%. Deposits increased by 6 billion, or 6%, year over year, improving the loan to deposit ratio to 106% relative to 110% a year ago. UK Corporate's strong support of new and existing UK businesses continued in 2011. Our financial results were stable across all P&L dimensions. Impairments, though, remained elevated due to the subdued economic environment.

The balance sheet is stronger, with loan to deposit ratio improving to 106% versus 110% from a year ago. Wealth has continued to deliver on the execution of its new strategy. The brand has been refreshed in the UK and internationally, the plans for a go-live of an enhanced IT platform is on track for the end of the first quarter, while key senior appointments have been made. Full year income is up 11%, driven by improved margins, as well has higher volumes. Loans and advances are up 11% year on year, while deposits are up around 3%, year over year. Our fourth quarter ROE improved to 22%.

The GTS business continues to play its part in supporting companies in the UK and abroad. The division continues to invest in new products and services, including a new liquidity solutions portal tool to help UK treasurers manage their global positions.

Headline results for the year reflect the GMS disposal, with a profit dilution of £207 million, and significant credit loss, which is unusual in the business, of around £160 million. Absent these items, underlying income growth was 7%, and profit growth was 2%, driven by growth in both loans as well as deposits.

Economic conditions in Ireland appear to be stabilising, although asset values are still softening. We lost £1 billion in Ulster core in 2011, although second half losses were less than in the first. Our new management team is focused on growing pre-provision profit in 2012, with a rigorous focus on cost reduction. We expect an improving performance on credit as the year progresses. At Citizens, management continues to re-engineer the business, in order to deliver better returns. We are seeing good commercial loan growth, we're improving out consumer cross-sell, and we're managing down the cost base. For 2011, income rose 2% for the full year, driven by both volumes as well as NIM. Commercial loan growth increased 11% year on year, while Citizens NIM expanded by 21 basis points.

Trends in non-performing loans and impairments continue to be favourable. Of note, the fourth quarter ROE was 8%. GBM saw a 25% fall in revenues relative to 2010, as difficult market conditions persisted, especially in the rates and the credit businesses. Revenues excluding the movement in fair value of own derivatives, and counter-party credit, were down 5% in the fourth quarter, relative to the third quarter. Both our revenue performance and our return was in the pack of our peers over the year.

We reduced incentive pay by 58% relative to last year, which is in line with the pre-bonus, pre-tax profit fall of 54%. Full year compensation ratio was 41%. Our focus on risk reduction remained heightened in 2011. This is reflected in a VAR decline of 37%, as well as in the 35 billion in GBM's funded assets. Insurance continues to deliver on its turnaround programme, with a goal of being the leading general insurer in the UK. Recent initiatives include a roll-out of a new claims system across Churchill, Direct Line and Privilege, while new pricing tools have been rolled out across the motor book. Operating performance continued to improve in the second half of 2012, return on tangible equity was 11% in the fourth quarter.

And now, the slide you've all been waiting for. Let me cover the restructuring of our wholesale business in more detail. The Markets business will maintain its focus on fixed income and currencies, using its strong markets position to serve the Group's institutional and corporate clients. International Banking will combine our large corporate banking business with our international GTS business, providing customers with debt financing, risk management, and payment services.

This slide shows how these businesses map together across the balance sheet in the income statement. So TPAs for old GBM were £419 billion at the half year, and for GTS International were £21 billion. Reductions during the second half, and planned exists, net this down to £370 billion. This compares to our medium-term target of £300 billion. RWAs for old GBM at the half year were £152 billion, and for GTS international, were £13 billion. Factoring in CRD3, and reductions during the second half, leaves £175 billion. Note our target here is £150 billion, which we will achieve through a combination of de-leveraging, business exists, and tight RWA management.

Revenues for GBM were £5.9 billion in 2011. Business exits will drop out about £300 million, while GTS international adds £1.2 billion for a pro-forma balance of £6.8 billion. Expenses for GBM were £4.3 billion in 2011, GTS International will add about £800 million to that, while business exists and associated synergies will save £600 million, giving a pro-forma total of £4.5 billion. The pro-forma cost to income ratios are 66% for both Markets and International Banking, while ROEs are 9% and 11% respectively, indicating that there's more work to do to achieve our medium-term targets.

So how are we going to do that? This next slide shows you the levers to improve ROE back to our 12% target. So while there will be revenue loss from de-levering, we expect this to be largely offset by some net revenue normalisation versus the subdued levels that we saw in 2011. That leaves net RWA reduction and cost efficiencies as the controllable variables that we will drive, over the next two years, to boost ROE. In achieving this improvement, the restructuring costs are expected to be £550 million in 2012, which is £400 million after tax. The right side of the slide shows that this downsizing should be capital accretive. The capital release associated with RWA reduction of £7 billion, comfortably exceeds the post-tax restructuring costs, and any net revenue impacts.

Moving on now to Non-Core. The bottom line loss was £1.3 billion lower than in 2010. The lower pre-provision profit of £800 million, primarily reflects balance sheet shrinkage, de-risking actions and higher funding costs. Impairments continue to trend down, as Irish impairments fell £400 million year over year. The RWA to TPA relationship is back at one to one, relative to 1.1 to one at the start of the year. TPAs were 32% lower over the course of the year, and RWAs were 39% lower.

The rundown in Non-Core's funded assets continues to progress ahead of targets. We finished the year at £94 billion, or less than 10% of the Group's funded assets. This does not include the recently announced disposal of the Aviation Capital business, which will result in a further £4.5 billion reduction on completion, which is expected in the first half. The 44 billion asset reduction in 2011 reflects 22 billion of asset sales, and £22 billion of run-off. In the fourth quarter, funded assets declined by £11 billion, £7 billion of that was disposals, and £4 billion was run-off.

To date, losses on our disposals have brought about 3% of carrying values. We expect that this " friction cost" will increase over 2012 and 2013, where we project about £10-12 billion of disposals per annum. However, with impairments trending lower, we would expect to see the overall Non-Core loss continue to reduce over time. In fact, we expect roughly a comparable percentage decline in 2012 to what we saw in 2011.

Looking at the changes of composition of Non-Core assets to date, you can see that progress has been made across the asset base. Corporate and market assets are now down more than 60% and 80% respectively, and less liquid asset classes, such as Commercial Real Estate, are still down by half.

Looking now at the full year Group financial highlights. Excluding the impact of GMS, note that revenues were down 14%, with R&C revenues up, offset by a reduction in GBM and Non-Core revenues. Expenses were down 6%, as we maintain our focus on cost discipline. Our claims fell 38%, as the Insurance turn around plan gains traction, and impairments fell 20%, reflecting moderating head winds in a number of the divisions. The result is an underlying 11% increase in operating profit to £1.9 billion, after adjusting for the dilution of the mandated GMS disposal.

Now the below the line items charge, excluding fair value of own debt, increased £2 billion year on year to £4.5 billion. So at the attributable line, we report a loss of £2 billion. Our funded balance sheet declined 5% in 2011, with footings below the £1 trillion mark for the first time. The reduction was paced by both GBM and Non-Core. Core Tier One is robust at 10.6% at year end, including 50 basis points of CRD3 impacts, and 30 basis points lower APS benefit than a year ago. Our tangible book value per share is broadly stable over a year ago at just over 50 pence.

So analysing the main drivers of the 11% underlying operating profit growth, R&C was positive versus the prior year, led by UK Retail, partially offset by the higher loss in Ulster Core. GBM's profit was down materially, but this was offset by the turn around in Insurance, and the smaller Non-Core loss. Our risk improvement efforts resulted in material RWA reduction and a stable Core Tier One capital ratio. The full year gross RWAs declined by £63 billion, despite the £21 billion headwind from the CRD3 RWA uplift. The key components were £28 billion related to Non-Core exits, £19 billion of market risk reduction across both GBM and Non-Core, and a further £32 billion reduction of capital intensive trading assets in Non-Core. APS covered assets fell 35% over the year, and the APS Core Tier One benefit, as a result, declined by 30 basis points to 90 basis points. Core Tier One, as I mentioned, broadly stable over the year, continues to compare well with peers across the UK, Europe and the US.

Looking into the details of the P&L, first off, Net Interest Income. That was down 11% related to 2010, driven by higher liquidity and funding costs, which impacted GBM and Non-Core, and lower average assets. The Group's Average Interest Earning Assets were down 4%, driven by declines in Non-Core and GBM. The bright spot here is that Retail and Commercial businesses, which make up 90% of our total NII, rose by 3% over the year. Improved NIM drove the increase, as we pushed out asset spreads a bit to offset the higher cost of funding. Average R&C assets were about flat on the year.

Group non-interest income excluding GMS was down 16% year on year, as GBM trading revenues remained subdued, and Non-Core was impacted by higher second half disposal and de-risking losses. Retail and Commercial saw income down 4% year over year, as UK Retail was impacted by lower investment and other income. Meanwhile though, US R&C and GTS saw non-interest income growth as volumes and transactions levels increased. The insurance decline reflects de-risking of the book, with the income decline more than offset by favourable performance on claims.

Expenses, again, fell by £1 billion, or 6%, excluding GMS, during 2011, as our £3 billion cost programme delivered an additional £600 million of savings in the last 12 months. Staff costs were down sharply, 9% year on year. This reflects reduced GBM staff costs, along with disposals that we made in Non-Core. Note that GBM heads were 1,700 lower, and Non-Core heads were 2,200 lower over the course of the year. The GBM compensation ratio was 41%, as incentive compensation fell by 58%, reflecting the lower revenues and profits in the business.

I think this is out of order with your book, bear with me. The favourable trend on the impairment line continue to cross both Core and Non-Core. Core impairments are down 25% on 2009, the main drivers over the last 24 months have been UK Retail and US R&C, with impairments down by roughly half. Offsetting this has been a more than doubling of Ulster provisions. Non-Core impairments are down by almost 60% since 2009. GBM and UK Corporate related impairments in Non-Core have fallen sharply over the period; while Ulster impairments spiked in 2010, they fell in the second half of 2011 as the CRE book is now well covered. Note that the Group's year over year provisioning coverage increased 200 basis points to 49%.

Next viewing the so-called below the line items. 2011 saw a total charge of £4.5 billion, almost double 2010. The increase is mostly explained by the PPI charge and the £1.1 billion Greek debt impairment. Our Greek Sovereign bond portfolio is now carried at 21% of par. The APS P&L charge was £900 million in 2011. To date we've incurred a cumulative charge of £2.46 billion, versus the minimum fee of £2.5 billion. In the fourth quarter, integration and restructuring costs increased due to both seasonal factors and the expense associated with GBM's head count reduction. Fair value of own debt remains volatile, for the year we saw £1.8 billion credit as spread widens, although they tightened in the fourth quarter, and we had a cost of £400 million. Year to date in 2012, our spreads have moved around a great deal, but we expect a debit in the first quarter, and for the full year.

We continue to make progress across our balance sheet metrics, as Stephen indicated. In addition to the improvements derived through de-leveraging, we've continued to scale back our wholesale funding usage and increased our customer deposits. Customer deposits now account for 63% of funding, versus just 58% a year ago. Total wholesale funding declined 17% to £258 billion, with short term funding down to £102 billion, well ahead of our targets. On the ratios, you can see really excellent progress across the board. Of note, the Group had its loan deposit ratio down to 108% at year end, that's 94% for the Core bank.

The 2013 targets that we set three years ago have largely been met. However, given the changed market for bank funding, we have raised the bar on our medium-term goals, as shown on this slide. Short term wholesale funding is now targeted at less than 10% of the funded balance sheet, and the liquidity buffer will be targeted at 15% of total balance sheet footings. And today, given the progress that we've made, RBS compares well to its UK and EU peers across these key balance sheet metrics. Quite remarkable, considering where we started. We target significant further improvements across all metrics, and we aim for top quartile funding and liquidity position by 2014. In short, we aim to be one of the safest and soundest universal banks.

As we continue to reduce assets, our market funding requirement continues to decline. Our guidance for 2012 is for about £10 billion, comprised primarily of secure public issuance and private placements. Year to date, we've issued about £3 billion. This includes an inaugural sterling-denominated £1 billion covered bond as well as a 1.2 billion credit card securitisation, in dollars.

Turning now to regulatory impacts, both current and in the future, CRD3 drove a £21 billion up-draft in RWAs at 31st December, which was about what we expected. We currently project CRD4 and model changes to take RWAs up by about £50-65 billion post-remediation. This is £20-25 billion better than our original forecast. However, negating this benefit, we project an RWA increase for the FSA's CRE slotting approach of about £20 billion, which we have factored into our forward planning.

The APS has been an important support to the group during our early stages of recovery. However, since the beginning of the scheme in 2009, the APS covered assets declined by 53% while the Core Tier One benefit has reduced from 1.6% at the beginning to just under 90 basis points today and heading south. Clearly, the future costs of staying in the programme will exceed the benefits once we reach the minimum fee. So our baseline planning assumption therefore is to exit the scene in the fourth quarter of 2012 which, of course, is subject to FSA approval.

With respect to outlook, I'm sure, another anticipated slide, let me offer the following. We think that R&C profits should be stable to improving, driven by lower credit costs in the US, in GTS and hopefully in Ireland. Group NIM should be stable as impacts from the lower yield curve should be offset by paying down high-cost term debt funding as well as from a lower liquidity buffer.

GBM performance is highly market-dependent, although worth noting is that we're off to a good start so far this year. Insurance was favourable and performance is expected to continue. We target Non-Core TPAs of £65-70 billion by the end of the year.

Below the line items should clearly be lower, although restructuring costs tied to GBM will increase. Now, Ulster Bank is harder to call but it should get better. Balance sheet metrics will improve even further. We project short-term wholesale funding target of £65 billion by year end and asset footings of under £900 billion.

So how does 2012 look? It really shapes up to be a big year for us in terms of milestones. We come out of EU band on dividends and calls in May and we will have decisions to take thereafter. We'll pay off our final CGS debt in May. In the second half, we'd like to float Direct Line Group, we'd like to exit APS, as mentioned, and we're hopeful to close the Santander transaction. These are all necessary events in setting our future course and attaining enhanced stand-alone strength.

So to sum up, we feel we've made good progress in 2011. Our Core R&C franchises, ex Ulster, have produced good levels of returns against the backdrop of economic headwinds and are on track to improve further. GBM performed in the pack of peers and has a path to improve returns. The Non-Core run-down has achieved excellent progress, with particular emphasis on market risk reduction.

The group's balance sheet metrics now compare favourably to our peer group, while our capital levels are robust and able to support the business plan, including regulatory changes. So much has been done but, as Stephen said, there's still much to do.

With that, let me turn it back to Philip to handle the Q&A.

Questions and Answers

Philip Hampton

Those were extremely comprehensive presentations so really, you ought not to have any questions but somehow or other, I suspect you will. The usual thing; when you get the mic – there are two roving mics – if you can give your name, rank and serial number. Who's going to go first?

Raul Sinha - *JP Morgan*

Could I have two questions please? Firstly on the GBM ongoing earnings power, I really would appreciate some more colour on this, the impact of the £70 billion of RWA reduction on revenues, so obviously we understand what the equities contribution might have been, but clearly there should be a negative impact on top line from the £70 billion RWA reduction. If you could elaborate on that, that'd be really useful.

The second question is on the CRE slotting. Could you give us some indication of whether that's a fixed number or do you think that could move? What is your average risk weight on your UK CRE book currently and what does it go to on the distorting approach?

Bruce Van Saun

Okay. I guess, first off, on GBM, the thing to note is that some of that risk weight reduction has already occurred, it's happened from the numbers we flashed at the half year. And obviously, what we're trying to do is minimise the revenue reduction so that's an ongoing effort.

We do think that that number roughly, as we manage through it, should be offset by an increase in the normalisation to the 2011 subdued revenue levels. So there's a chance always of some breakage in that but if that's, you know, £400-500 million ballpark, I think you could see the two offsetting each other, right?

In CRE slotting, that number of £20 billion is our best estimate at this point. As you can see, the book is reducing, so we took it down from about £90 billion to £75 billion across Core and Non-Core in terms of the funded assets but it comes down slow. It's a relatively illiquid asset class and so I think I'd still call it at £20 billion at this point. I don't have, off the top of my head, the exact RWA intensity. Perhaps you can follow that up with Richard later.

Raul Sinha - *JP Morgan*

Thanks.

Philip Hampton

Someone a little bit further back now, in the third row there, in the middle.

Manus Costello – *Autonomous*

Thanks. Good morning. You're on review with Moody's for a downgrade to your short-term credit rating from P1. I wonder if you could tell us the amount of wholesale funding and the amount of corporate deposits that you would expect to leave the bank if you get downgraded to P2.

And secondly, more structurally, you show that 39% of the new International Banking division is cash management. How would that business be impacted if you were a P2-rated bank?

Bruce Van Saun

Well, first off, I would say there's a broad cross-section of banks under review and so what happens relatively is always important in those determinations. We clearly will be presenting our facts to Moody's over the next couple of weeks and certainly feel we have a very strong case to make that we deserve to sustain our current stand-alone rating and the short-term rating based on the progress that we've made. Sometimes the rating agencies have a lagging perception of where you were as opposed to where you are and where you're going and that's the case that I think we'll aim to make.

I would say that the short-term commercial paper and CDs that we have out on issue, if you look at one of the slides in the book – I think it's maybe page 137 – shows a reduction from about £50 billion outstanding to slightly over £20 billion from 2010 to the end of 2011. So as part of this balance sheet reduction and reducing short-term wholesale funding, that number is being managed down.

So certainly it still matters to us that we have the, sustain the rating but our exposure to the instruments that are rated has certainly been reduced as we shrink our dependence on wholesale funding.

Second question was on cash management. There, again, I think that's a relative game so corporates will leave deposits. They have relationships with us for many reasons; the quality of service we provide, etc, and if there's multiple banks that are downgraded, I think it's less impactful than if it was more of a bespoke downgrade of us relative to some of our nearest competitors. But anyway, we'll just have to see how that plays out.

Manus Costello – *Autonomous*

Sorry, just to be clear on that, £20 billion, I think you've got some ABCP in there as well. How much of that is rating-sensitive, then?

Bruce Van Saun

The ABCP is the conduit, you're talking about the conduit? I mean, the conduit is a business that we are aiming to reduce over time so that's part of the strategy for GBM and it's only about £10 billion at this point, which is not that significant.

Philip Hampton

Nice to hear that £10 billion's not that significant, not many analyst presentations where that's the case. Why don't we go over there?

Gary Greenwood – *Shore Capital*

Hi. I've got three questions. The first is on the Retail bank, which is currently generating very good return on equity, 26, 27%. I was just wondering if you could comment on the sustainability of that return going forward.

Second question is on the restructuring costs. I think you mentioned restructuring costs for the GBM business of £550 million in 2012 but I wonder if you could give some guidance for overall Group restructuring costs in 2012 and also whether you expect any further costs thereafter.

And then the final question is just on the Asset Protection Scheme, which I think if you strip out the benefit on the Core Tier One ratio, your Core Tier One ratio would be sub-10% at the moment. And the question is whether you would still exit the Asset Protection Scheme in the second half of this year if it meant that your Core Tier One ratio would drop below 10%. Thank you.

Philip Hampton

Stephen, why don't you?

Stephen Hester

Let me take your first and last and ask Bruce to talk about the restructuring costs. On the Retail bank, I think it is realistic to expect that return on equity won't have a lot of up-side from this level and frankly, if you gave me the choice, I would pick growth over higher return on equity in terms of what the right sustainable mix would be.

I'm not sure we're going to get any growth whilst the economy's flat on its back but certainly, what we're asking the Retail bank to do is to continue to reduce costs and to re-invest that cost reduction in solidifying and improving our customer service and being first in e-channels and these sorts of things. And my guess is there'll be a bit of treading water for a while until the economy will allow us to grow but I think it would be wrong to signpost a material up-side on return on equity from what is already a handsome level and one, I think, that looks pretty good compared with competitors'. So we're very happy with that business.

On your last question on APS, of course, all of these things, as Bruce said in a different context, are relative in terms of Core Tier One and where we should be and obviously, everyone will be focusing not just on Core Tier One this year, for us and all other banks, but on Core Tier One and pro-forma for the Basel effects and clearly the restructuring of our wholesale businesses will be eating into the Basel uplift as we get nearer to the date and as we go beyond that.

So I think we would be comfortable if, in the context of the Basel increase or an APS exit, we temporarily dipped below 10%. But we're very clear that above 10% post Basel III is where we will aim for.

Bruce Van Saun

Yes, and I would add to that that the APS cover benefit, which is reducing as we run off those assets, is likely to be maybe 60 basis points by the fourth quarter, so certainly less than it is today.

On the second question, the restructuring cost has run about £1 billion for each of the last two years. We have quite a bit of chunky programmes within that so things like moving our business out of the NV into the UK RBS plc is a very sizable activity. We have our retail transformation programme, our business services transformation programme, the separation for the Santander transaction. So there's quite a big thing in there that, I think, largely is a base for one more year, that we will have to sustain something in that ballpark.

And then on top of that, you'd have to add the £500 or so million related to the GBM restructure. So I think this'll be another sizable year of restructuring costs. The good news is that all those other below the line items like APS almost all gone; shouldn't see any more PPIs, shouldn't see another Sovereign impairment. So some of the things that have dragged below the line are cleaning but restructuring is actually going to go up, probably by half a bill.

Gary Greenwood – *Shore Capital*

And beyond 2012?

Bruce Van Saun

Then we'll start to see that number come down pretty sharply.

Gary Greenwood – *Shore Capital*

Thank you.

Philip Hampton

Any more? Let's stay in the central phalanx.

Andrew Coombs - *Citigroup*

Morning. I'd three questions on the Core bank balance sheet, please, if possible. Just firstly, in terms of loan growth, looking Q4 versus Q3, I mean, there's a £10 billion decline in Non-Core, a slightly larger decline in the growth, just backing it out. It looks like about a £5 billion in Core loans so just a thought on perhaps when you'll return to growth in terms of the Core bank's loan growth.

Secondly, looking at the risk-weighted assets – and I know there's a number of moving parts here – but adjusting for the Basel 2.5 RWA inflation and also for the £18 billion decline in the APS relief, it still looks like your Core RWAs are broadly flat versus a decline in the loan book, as I mentioned. So just in terms of trying to reconcile that.

And then finally on the deposits, at face value, it looks like a 5% decline, Q on Q but I noticed on your footnotes on slide 38, you talk about reallocation of deposits to disposal groups. So perhaps you could just clarify that, please?

Bruce Van Saun

Sorry, could you say that last one again?

Andrew Coombs - *Citigroup*

Yes, on slide 38, you flag in the footnotes a reallocation to disposal groups for the deposits, which would explain the decline Q on Q. Just a bit more clarity, please?

Bruce Van Saun

Sure. I guess, the loan growth is going to be dependent on more vibrancy in the economy so it's hard to call when we start to see that picking up again. The one place that we are seeing some loan growth is in the US and I think we're seeing a little bit of mortgage growth in the UK but the corporate book is tracking the deleveraging that's occurring generally as companies try and improve their balance sheets. So that kind of would cover your first one.

The second one, I'm not exactly sure, I haven't done the math the way you've looked at it, but we can follow up with you afterwards. Richard can go through that one.

Slide 38.

Stephen Hester

What it is, it's the Santander branch sale, so all the deposits associated with the Santander branch sale have moved into disposal groups. So deposits went up quarter on quarter on a like for like basis.

Bruce Van Saun

Yes, okay?

Philip Hampton

Okay, let's go bang in the middle.

Tom Raynor – *Exane BNP Paribas*

Good morning. Can I just push you a bit more on the deleveraging costs versus the normalisation of revenue? Because it's quite a big statement, I think. I mean, the nominal balance sheet for the old GBM is going to be falling by 25%, 30% in nominal terms. I mean, that's going to have a fairly material impact and I'd just like to get a better feel for what is going to be normalising from here.

I see you say that the year's off to a good start. Maybe you could elaborate on what that means, Q1 versus similar period last year. But I'm just trying to understand a little bit better, if you fill in the gaps, if you like, on slide 25, what you really think the different revenues might be and then what you can do on cost to get you back to the 12% ROE.

Bruce Van Saun

Do you want to take that?

Philip Hampton

Stephen's going to have a go.

Stephen Hester

Well, I'm going to have a go but I'm going to probably have a go at not being helpful to you. As you know from having listened to me before, I consider it a mug's game to forecast very precisely markets' revenue streams and that's been proven right in both directions over the last three years for us and for everyone else. And so, you know, I think the most responsible thing for us, really, is to say, we're going to keep working at these businesses until they cover their cost of capital.

And we'll use every level that's open to us, whether it's the amount of capital they use or the expense base or the revenue base and, frankly, that's the way I look at it and I really pay relatively little attention to guesses as to what the market's going to deliver us in any one quarter.

All of that said, there are two categories of places that we are trying to take out resources in the balance sheet. There are places that use a lot of resources for very little return, so our expectation would be that they would have a much smaller – let me give you one example; our

JGB rates activities – incredibly low profitability – will be de-emphasised relative to our US dollar and euro rates activities but they use a lot of balance sheet.

There are a whole series of things that are incredibly expensive in the new regulatory capital regime. Let me give you an example; long-dated corporate derivatives or long-dated derivatives of any kind. And so there will be a massive amount of restructuring work in the derivatives world to take out capital-intensity, which hopefully doesn't take out a lot of revenue but is largely about the restructuring of past trades that have become very, very penal.

So in those ways, our attempt is to take resources away from things that, for one reason or another, are not going to take a lot of revenue away.

On the other side of things, I guess the area that was particularly below par for everyone last year was the credit area and so our expectation would be that the credit area doesn't have a loss but has a profit in a normal year and that produces some revenues back. The others will, you know, bounce around, up and down with markets. So that's kind of the best that I can do but we're really not very excited about getting sort of tied down into precision which, I think, would give you false comfort.

Bruce Van Saun

Yes, it would be credit and also counterparty hedging had tough impacts in 2011. And clearly, we've gone through, business by business, desk by desk and tried to optimise for RWAs and also look at where we think sustainable revenue performance is and how to reduce the costs of support for each of those activities.

But as Stephen said, it's, you've got a little bit of guesstimate in that and looking at where we were historically and where we think markets are going, but it has been done on an excruciatingly detailed and rigorous basis.

Tom Raynor – *Exane BNP Paribas*

Can I just have a quick sort of follow-up? Because some of your competitors are pointing to some of the legacy 2006/7 structured credit positions, which will be maturing, some of them, in the next few years. And under Basel III that will be a particularly onerous asset to hold and therefore the capital benefit of those assets just being run off is very attractive and helping the whole story.

I mean, I'm suspecting for you, a lot of those things are sitting in the Non-Core, not sitting in GBM.

Stephen Hester

They're all in Non-Core and part of the accomplishment of last year in Non-Core was actually spending a significant amount of money that we were planning for later early, which achieved some benefits last year but achieved bigger benefits on a pro-forma for Basel III. So those benefits will overwhelmingly be in Non-Core from the removal of those assets or the removal of the uplift that would otherwise have occurred.

Tom Raynor – *Exane BNP Paribas*

Thank you.

Rohith Chandra-Rajan - *BarCap*

Thanks, morning. If I could just stay on slide 25, actually, just wondering if you could give us any indication of your expected phasing of the asset reduction, but also any guidance on… I mean, you mentioned a couple of business areas but any more specifics on the particular business areas.

And also whether, what we should expect in terms of the phasing also of cost reductions; so phasing of asset reduction, cost reduction and particular areas of asset reduction in GBM.

Bruce Van Saun

Yes. I think, broadly, it's going to take us two years to get down to these targets or substantially close to those targets so that's what you should be thinking.

Rohith Chandra-Rajan – *BarCap*

And the cost reduction, phasing, similar to…?

Bruce Van Saun

Yes.

Rohith Chandra-Rajan - *BarCap*

I mean, any difference in balance between the two years, on either assets or costs?

Bruce Van Saun

We'll work as quickly as we can. We'd obviously like to bring the cost side in as fast as we can but I still think it's going to take us the better part of two years to make that happen.

Rohith Chandra-Rajan - *BarCap*

Okay. And the £550 million restructuring costs, am I right in understanding that that's just an expense cost, it's not a disposal cost? Is that what you were saying?

Bruce Van Saun

That's right. It's expenses and about half of that is people costs, people-related redundancy costs and the other half is space and other operating costs and write-offs of software and equipment.

Rohith Chandra-Rajan - *BarCap*

And then in terms of the asset reduction, what is your anticipation in terms of how much is run-off and how much is disposal?

Bruce Van Saun

Very little is disposal so we're not looking for friction on this run-down, we're looking just to gradually trade out of positions and reduce positions.

Rohith Chandra-Rajan - *BarCap*

A separate question, so question number two, on Non-Core. I think you've been guiding to sort of £25-30 billion reduction in Non-Core assets this year, if I understand your comments correctly, broadly evenly split between disposals and run-off. there wasn't much commentary on disposal costs in the fourth quarter for Non-Core. I was just wondering what we should anticipate in that respect this year.

Bruce Van Saun

I thought I covered that a bit. I had a slide that said £65-70 billion is the TPA target for next year, which is roughly £25 billion and the recognition that roughly half of that is disposals and half of that is run-off. So call that £12.5 billion of disposals for 2012, of which £4.5 billion is in the bank with the aircraft leasing signed transaction which will close in the first half.

We're probably active on north of 80 transactions but we're down to small transactions. They're assets or clusters of assets which is how a lot of this run-down to now has taken place. There's few kind of large-signature assets like aircraft leasing to move the needle. So it's going to be lots of people working on lots of deals that we have a good pipeline, we know how to do this and so we have a reasonably high degree of confidence in that future trajectory.

Rohith Chandra-Rajan - *BarCap*

Cost of doing it?

Bruce Van Saun

The cost of doing it, I think, in the contours of… We said that the total loss from Non-Core should reduce by about the amount it reduced, on a percentage basis, from last year. I think consensus has it roughly around 3 billion, which, kind of guess, you can do the math and you can get to that/

Embedded in that, you have impairments coming down because you won't have the same drag from Ireland, given that the Commercial Real Estate book is now pretty heavily provided. But you will have an up-tick in disposals and you can, you have to do something, you can go do the math on that, but anyway.

Philip Hampton

Do you have a third or a tenth question?

Rohith Chandra-Rajan - *BarCap*

No, thanks very much.

Mike Trippitt – *Oriel Securities*

Just two questions on the recast RoE targets, I wonder if you could just sort of give us a bit of guidance on what you're thinking about the Banking Commission impact, given that you've got a sort of wholly, 100% funded Core bank. Do we assume all of that in your thinking, sits within, in the ring-fence or would 12% actually potentially take another hit from the Banking Commission recommendations?

Stephen Hester

What I hope happens is that 12% takes a hit down from the final bits of the Banking Commission but takes a boost up from renewed economic growth and interest rates that start recovering as we get towards that period. And so our goal will be to return at least what our cost of equity is. Who knows what that will be then? But let's, you know… and from those opposite effects.

With the restructuring of our wholesale business and the further sharp declines in our usage of wholesale funding, we believe we are getting ahead of the game in a way that not everyone is, in being able to make that final transition to a ring-fenced world less painfully than would have otherwise have been the case, though, of course, it's always going to be painful.

So we're directionally going that way but I do think that we're going to need some economic growth and higher interest rates if we're to maybe our cost of capital in a ring-fenced world.

Mike Trippitt – *Oriel Securities*

Sorry, there was a second question. You've obviously highlighted the dividend block has come off this year. I wondered if you could just sort of give a thought as to what you're thinking about, would there be capital emerging from the GBM deleveraging Non-Core and maybe the IPO of the Insurance business that puts you in a position to buy back the B shares?

Or secondly, would there be an option to – given 65p seems like now a long way off, is there any scope to renegotiate the trigger on the dividend access share?

Stephen Hester

As you can see, the direction from regulators is unashamedly to ask for more and more capital, whether it's through Banking Commission, whether it's through Commercial Real Estate slotting, whether it's through Basel III. And so I think you would have to be an extremely bold person to forecast near-term capital surpluses for us and I think that's just the reality. I've said that for some years and I think that sadly, it's proven true.

That said, obviously, we are nevertheless proceeding fast to a cash-generative business in the short run and that cash generation is taking clean-up costs and reducing risks. But as and when that cash becomes available for other purposes, I think one of the things that we would like to think is that we will be very shareholder-driven and we won't squirrel away cash that has a better use elsewhere once we have the right levels of conservatism in our balance sheet.

Philip Hampton

Okay. I think they're starting to thin out a bit.

Robert Law - *Nomura*

Thanks. Can I ask two brief questions, please? Firstly, just one more on GBM; can you comment as to whether the restructuring costs you've given indications of this year would complete all the restructuring you had planned for the period to bring your costs into line with the targets that you've set?

And secondly, away from GBM, could you comment on the prospects for Net Interest Income at the Group level? You've given some margin indications for the current year, which I think is a modest attrition, year on year. With the balance sheet falling, obviously, that gives us indications for this year. If rates stay where they are for a two or three-year period, as indicated by money markets, would you expect those trends to continue for that period?

Bruce Van Saun

On the GBM restructuring costs, I would expect those to be taken this year and get us to the cost position that we need to get, although the full run-rate savings will phase in over two years, as to the earlier question. So I don't think there'll be additional restructuring costs associated with that in 2013. I think we'll take all of those in 2012.

Your second question; was that about group NIM or was it on GBM NIM? I'm…

Robert Law - *Nomura*

Group NIM but specifically Group Net Interest Income.

Bruce Van Saun

Yes. Well, Net Interest Income should continue to decline based on the run-down in Non-Core so at a headline level, I think, you'll have the same forces at work of smaller balance sheet reduces average earning assets. But NIM, we're calling out to be stable with where it was in the second half of the year and then will pick up, I think, an upward bias, clearly, as rates move up, as we pay off higher-cost funding, as we reduce the liquidity buffer, kind of looking out farther, I think we're looking back to resuming an upward bias.

Robert Law - *Nomura*

And in the meantime, do you see Core Net Interest Income also shrinking? I mean, the comments you made about margins starting to have an upward bias; does it take rates to rise for that to happen?

Bruce Van Saun

Yes. I think, in Core R&C, which is really what drives the Net Interest Income, to actually see that NIM start to improve, you'd have to see rates move. What we're doing now is we're trying to re-price assets as aggressively as we can to offset that impact from the flat yield curve and low rates. So as the hedges are rolling off, that's a drag. How do you offset that? You offset that by some level of asset pricing. So that kind of keeps you in a tread-water position until you see higher rates.

Philip Hampton

Okay, right at the back there.

Ed Firth – *Macquarie*

Thank you. Just a couple of quick questions on risk-weighted assets, if I may; you mentioned there was a £32 billion saving in the Non-Core just from the monoline restructuring. So could you tell me how much of that came through in Q4? So that was one question.

The other one was, you also mentioned that some of the £70 billion benefit of the restructuring of GBM is already in the numbers now at the full year. Could you tell us how much of that £70 is already in?

And then just finally, I guess, the Basel III impact, the change. Are we saying, then, is that basically a £50 benefit from the GBM restructuring offset by the £20 billion of slotting? Am I broadly right there? I think that's my understanding.

Bruce Van Saun

I might have to come back to you on those. I don't think I copied them down fast enough. The first one was RWAs, the reduction in Non-Core? I think a sizable element of that saving was in the fourth quarter because that's where we did commute a major monoline exposure. Earlier in the year, as Stephen had indicated, we also sold off our structured correlation trading book and that was in the second quarter, we got some benefit from that. So it's the combination of those two things, kind of a fourth-quarter and a second-quarter impact.

Second question was around GBM's…?

Ed Firth – *Macquarie*

Yes, about £70 billion. In the answer to the first question, I think you said, some of that was already in the numbers in the second half. Could you give us an idea of roughly how much that would be?

Bruce Van Saun

Yes, sure. So we have business movement in the second half of the year that is around £15 billion so I don't know, percentage-wise; a little over 20% is in the numbers.

And then your third one was…?

Ed Firth – *Macquarie*

So, yes, on the Basel III guidance that you've, the revised guidance, do I get to that broadly by, is that the GBM restructuring offset by the slotting?

Bruce Van Saun

No. I think the way we were saying there's an offset in there is if you looked at where we thought we were a year ago in terms of the CRD 4 and model impacts, that number was around £20 billion. It was £15-25 billion higher than it actually looks like it's turning out to be, based on some of our mitigation. And so that seems like it's good news but then you have CRE slotting, which is £20 billion going the other way. So that initial view is largely flat now because of something else, which is the CRE slotting, which we didn't know at the time.

Michael Helsby – *Merrill Lynch*

Thank you, I've just got two questions. Firstly, I was wondering if you could just drill down a little bit more on your impairment outlook. I'm just particularly interested in what your forward-looking indicators look like in the UK. And I note that in Ireland, NPLs were pretty static, actually, Q4 on Q3 so if you could comment on that, that would be appreciated.

And also, I was just wondering if you'd give us an idea of how you think about the LTRO and the up and coming LTRO. I'm very aware that you've got quite a large CGS maturity still to come through. I wonder whether you'd consider refinancing that with LTRO and just spread out the pain for a little bit longer. I think that'd be sensible.

Bruce Van Saun

Okay. Two questions, first on impairments; I guess what we called out in Core is that we think we'll still see a positive trend across R&C, led in three areas. One is the US, where we've had good trends so far through 2011 and we see that continuing into 2012. The economy's improving, asset values are stabilising and so that should be positive.

The second one was GTS. In GTS, we had this large, one-time – you know, I won't say one-time but it's very unusual to lose the kind of money we did in GTS last year. It's like a one-in-25-year event so I don't expect that to repeat in 2012.

And then the last area was Ireland and Ireland's been a tough one to call. You kind of have to bifurcate within Core. There's two major books. There's the corporate book which has some elements of real estate-linked lending in it and then there's resi [residential] loans. On the resi side, the positive note is that the economy appears to be stabilising so they had growth last year and expect to have growth again this year.

But unemployment has stayed stubbornly high so the export sector's growing but the Government and banks – including ourselves – are reducing employment and so that's actually not changing the dynamic around the individuals, which translates over to still softening values in the resi asset market.

So I think you'll start to see that improve, provided the Irish economy continues on its path that it's on and we don't have any Eurozone explosions and that should translate into better numbers, I'd say, by the second half of the year, on the resi side. The corporate side, I think we are pretty heavily provisioned at this point and we should start to see those numbers come down on a year over year basis.

In the UK, I'd say, again, we've seen huge improvement already in UK retail and so the metrics around the impairments to L&A in both the mortgage book and in the unsecured book have travelled quite far and so there might be a little more to squeeze out. But we're not really seeing any signs that things are reversing at this point.

On the corporate side, as I indicated, we've been stubbornly high for the better part of a three-year recovery plan and so I don't necessarily see that changing. I don't see things getting appreciably worse but I don't see them getting appreciably better either.

On the LTRO, again, we don't comment publicly about whether we do or whether we don't. I would just make a personal observation that I think it's attractive money, it's term money and it's relatively cheap. And there's very little stigma around it, as long as it's done in moderation. So there's certain countries where the banks have taken a lot of it and that's not seen as a good thing, but I think in small doses, it's fine.

Stephen Hester

Sorry, Bruce, could I just add one thing to that? I want to be very clear; if we were to take any LTRO, it is for the funding of our European bank, the NV or Ulster Bank, no LTRO would be for the funding of our UK bank, which is where we're paying back CGS. So we expect to meet the CGS paybacks comfortably from our existing excess liquidity resources and there will be absolutely no relationship of one to the other.

Michael Helsby – *Merrill Lynch*

Yes, clear.

Philip Hampton

Okay, one or two more?

Claire Kane – *Royal Bank of Canada*

Hi, I just wanted to come back to the guidance on GBM, just to check I'm clear. So of the £1.6 billion restructuring for 2012, we expect £600 for GBM and that's kind of one for one with the expected cost savings you see in that business going forward. And then if we're looking for a 60% cost income from the 66% and you've then said your income expectations are for cyclical recovery to offset the RWA mitigation loss, where are we seeing the cost income trend moving down?

Bruce Van Saun

Well, the restructuring costs go below the line so the actual expenses reduce, which improves the cost-to-income ratio.

Philip Hampton

Okay, right at the back.

Bruce Packard - *Seymour Pierce*

Yes, just a quick one on, the deposit trends in the Retail bank and the Commercial bank seem quite different. They've got flat deposits in the Commercial bank and 6% growth in the Retail bank. I just wondered, is there anything particularly that's driving that?

Bruce Van Saun

No, I just think that we have probably not been as aggressive in pursuing deposits on the retail network and so we've had a drive on to move that loan-to-deposit ratio back to 100%. And so either through programmes that incent our branch people to get a better share of wallet or sometimes specials that are bond deals or other things that attract deposits, I think we've been a bit more aggressive on the retail side than we have on the corporate side.

Partly, we're getting to a 100% loan-to-deposit ratio a little bit on the corporate side. As we said earlier, there's some deleveraging taking place and so the loan demand is coming down so the need to fight and build up deposits is less intense on that side.

Philip Hampton

This must be a very aggressive question if it's delivered from so far back so we can't miss out on it.

Arturo De Frias – *Santander*

Hi, yes. No, I don't plan to be aggressive at all. Two quick ones, if I may; first of all, again on GBM. I fully understand that you don't want to give us any guidance on revenues so let's look at costs, then. And my question is very simple; trying to put together what the costs will do and what the RWAs will do, which I think is the essence, given the RoE target, what's your impression in terms of future costs on RWA ratio? Is that coming down, is that improving or is that staying stable from where we are now?

And then the second question on Core Tier One; it is useful to have a new, above 10% target. Thank you very much. But I think the uncertainty is not whether it's above 10% or if it's going to be substantially above 10%. So can I ask you to be more useful or more helpful and tell us whether you expect slightly more than 10% or substantially more than 10%? Thank you.

Stephen Hester

You're quite right to observe that I'm not very useful but that lets me off answering your question as well, doesn't it? Look I think that probably, ex the closing of the businesses, we'll bring costs down slower than the RWA growth. But, you know, the one reason I don't want to get tied into this is, you know, I regard us as having a target and that is to get this business to the point where it returns its cost of equity.

And anyone who can tell you they know what the investment banking market is going to be like over the next three years is lying to you. And so we're just going to have to keep pulling whichever of these levers works to get to the right place. And I really would be giving you false guidance to build a model that's going to work. I don't know what it is but I do think that we have enough levers to give ourselves a sporting chance that, over the medium-term, I think, I would give it, I would say three years rather than Bruce's two but that's a bid-offer spread for between us, that we should get there.

On the capital ratio, ex the special situation in the UK of super-equivalence from the Banking Commission, I think we would be aiming to stabilise at a small amount above 10% in terms of Core Tier One ratios for the group as a whole, post-Basel III. The extent to which we have to be more than a small amount above will depend on exactly how the ring-fence pans out and where the credit rating agencies require capital ratios for the non-ring-fenced bank to be.

Of course, our non-ring-fenced will be rather smaller than it once would have been because of what we're doing in terms of RWAs in the wholesale businesses but that's the calculation which – even today, I think it's at least two years before we have legislation that tells us how this thing comes together in technical terms. And I think it's at least two years before we know how rating agencies rate banks again because they're working through that rather publicly.

And so that's why I regard us as making absolutely the right steps to make this a transition that happens smoothly rather than with a big jerk. But I do think that we're likely to need some benefit from economic recovery and higher interest rates to offset some extra capital consumption. And how that will precisely pan out, we really don't know.

Philip Hampton

Bruce, anything to add or are you done?

Bruce Van Saun

No, that's good.

Philip Hampton

Okay. Any more questions? Fantastic. Well, thank you all for attending. That's the end of results day. The rest of the day, I think, is remuneration day so thanks for giving this time.
