



Annual Results 2015
Fixed Income Investor Conference Call
Held at the offices of the Company
280 Bishopsgate London EC2N 4RB
on Thursday 26th February 2016

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 26th February 2016.

Operator: Good afternoon, ladies and gentlemen. This afternoon's conference call will be hosted by Ewen Stevenson, Chief Financial officer.

Please go ahead, Ewen.

Ewen Stevenson: Thanks, Jodi. Good morning or good afternoon, depending on where you are in the world. Thanks for joining the call today.

With me are John Cummins, who you all know, our Treasurer; Robert Begbie, our Deputy Treasurer; and Richard O'Connor, our Head of Investor Relations. In terms of format for the call, we plan to speak for about 15 minutes, and then leave plenty of time for your questions at the end.

We have provided a set of fixed income slides on our Investor Relations website that we'll refer to as we go through our presentation. I'll cover off the full year 2015 results together with a quick update on strategy, and then John will give you an update from a Treasury perspective.

So turning to the first slide in the pack, in summary nothing has changed with our long-term plan. We continue to build towards what we think is a great core bank, number one for customer service, trust, and advocacy, with a lower risk profile, a 12 percent plus return on equity, a cost income ratio below 50 percent, and attractive capital distributions. We think, in 2015, we delivered against this.

We already have a very strong, sustainably profitable core bank. We've taken out costs, our legacy assets are declining rapidly, and our balance sheet is now much more resilient.

We are impatient though. We want to begin to stabilize revenues in 2016 in our core franchises, and then return to income growth in 2017. We do need to continue to cut costs, we need to finish the job on our legacy assets, and we need to continue to address our various conduct issues. Particularly US RMBS related exposures.

On Slide 2, for full year 2015, we made an attributable loss of GBP2 billion. If you back out a number of one-offs, our adjusted operating profit was some

GBP4.4 billion. Income was GBP12.9 billion, down GBP2.2 billion or 15 percent on 2014. GBP1.3 billion of this reduction was due to the run-off of capital resolution (our bad) bank.

On costs, ex-restructuring and conduct costs, operating costs were down to GBP9.4 billion. That's down 10 percent on 2014. This exceeded our 2015 target for operating cost reduction. We're planning to reduce operating cost by a further GBP800 million pounds this year. That would be a further 9 percent reduction, and we continue to make firm progress towards our 50 percent cost income target.

We do expect to incur further significant restructuring charges in the next two to three quarters as we continue to move faster with our restructuring, and as we continue to caution, we expect substantial conduct costs to come.

On impairments, we had another year of material releases, a net GBP727 million pounds, with RCR and Ulster Bank ROI again the key contributors to these write-backs. Away from these businesses, we expect impairments in the core loan books to continue to remain at low levels into 2016. However, we do recognize that larger single-name event risk has increased, given the more uncertain macro environment.

Our adjusted ROE was just above 11 percent, demonstrating the strength of our core underlying franchises, and that represents an adjusted operating profit of some GBP4.1 billion pounds across our six core franchises.

One of the things I've been very focused on since I arrived is increasing the percentage of our capital investors and businesses that are earning at or above the cost of equity. When I started, there was only around 25 percent of our capital meeting the simple hurdle.

We've made good progress, but we're up to around GBP105 billion of RWAs, or 43 percent of our capital, now achieving this goal, and that 43 percent is doing well. UK PBB, RBS International, and commercial banking businesses are all top one or top two franchises, with sustainable returns above the cost of equity.

Turning to our other businesses, we've got around a quarter of our capital invested across CIB, Ulster Bank ROI, and private banking. These each need to achieve much better returns, and we're determined to deliver these.

On Slide 3, as our balance sheet shrinks, our balance sheet resilience is improving materially. I think we've delivered impressive absolute and relative progress over the last two years. Our core Tier 1 ratio over that period is up 690 basis points to 15.5 percent. On AT1, we raised GBP2 billion pounds last August, and once markets stabilize, we planned to raise another GBP2 billion pounds during the current year.

Our leverage ratio is up 220 basis points to 5.6 percent since the end of 2013. Our risk elements in lending over the same period are down by GBP27 billion to GBP12.2 billion, and as a percentage of gross loans, risk elements and lending are now down to 3.9 percent, compared to 9.4 percent at the end of 2013.

On Slide 4, we've also taken advantage of more benign market conditions to significantly de-risk high-risk exposures last year. For example, we reduced our Oil & Gas exposure by some 65 percent during 2015, and we reduced our emerging market exposure by 61 percent over the same period.

Turning to Slide 5. Our legacy RWAs are also shrinking rapidly. Overall for the bank, we reduced RWAs by GBP113 billion during 2015, and our identified legacy RWAs were down by GBP110 billion. As part of this, with citizens from a 70 percent ownership position of the start of the year, we fully exited the stake by way of three further sell downs.

We shrunk RCR to less than 15 percent of initial funded assets, completing the task a year early, and we'll now be reporting RCR on a combined basis with CIB capital resolution. Together with the CIB legacy assets, capital resolution in total reduced RWAs by GBP46 billion.

And for 2016, we're targeting to further reduce the remaining capital resolution exposures to around GBP30 billion by this year-end. And we also

completed the first closing of Private Banking International, and we expect to finalize the sale in the next couple of months.

Turning to the next slide, on our US RMBS exposures, we recognize the providing certainty around this is critical to our investment case for both equity and fixed income investors. In Q4, we took an additional \$2.2 billion of litigation provisions, bringing our total US RMBS litigation provisions to \$5.6 billion.

To repeat, we have no provisions for potential fines from ongoing regulatory investigations by either the US DOJ or various US State Attorneys General, and we continue to repeat that additional settlement costs in relation to the overall US RMBS exposures, on top of our new higher existing provisions, could be substantial.

As of today, we are not in any substantive discussions with any of the major counterparties involved, and we caution that we do not control the timeline for resolution of the major litigation claims and regulatory investigations.

With that, I'll now hand you over to John to give you an update from a Treasury perspective.

John Cummins: Thank you, and welcome to all. So on Slide 7, a few simple messages I'd like to leave with you today.

We maintained our strong funding liquidity metrics, and we made excellent progress on our core equity Tier 1 ratio build. MREL will be the primary driver of issuance, but we think the amounts we require are manageable, so you can expect us to target, obviously markets permitting, around GBP2 billion pounds of AT1, and GBP3 billion to GBP5 billion of senior HoldCo issuance this year.

So let's start off an update on our funding liquidity position on Slide 8. Here, I'm pleased to say we continue to operate comfortably within our targets during 2015. Our loan to deposit ratio improved over the year, closing at 89 percent, and we maintained significant liquidity reserves.

As I've highlighted in previous calls, this position means we do not have a current issuancy from a funding perspective, so as a consequence, our issuance activity will be primarily focused on solving to future capital requirements.

Before we get into future issuance, let's turn and look at the core capital position on Slide 9. Slide 9 illustrates the headroom we have to our fully phased MDA threshold. This is based on regulatory requirements, as we know them today, on our 13 percent common equity Tier 1 ratio target. On this basis, our headroom to MDA remains over 2 percent.

However, that said, we have seen a number of regulatory changes and clarifications which expect to impact our requirements going forward. So for example, the FSB announced our G-SIB buffer will reduce to 1 percent in 2017 from 1.5 percent today. The eagle-eyed amongst you, and I know there are many, you will have spotted our pillar 2A requirement, as a percentage of RWA, has increased over the course of the year.

Needless to say, this will remain subject to regulation discretion. However we anticipate a reduction in RBS's future core capital requirements following the planned pension scheme contributions.

Over and above this account, Cyclical buffer is subject to implementation, and we do have guidance in the UK regulates that they expect a combination of capital buffers, albeit not necessarily the quantum of capital, to evolve going forward. All that considered, we continue to believe 13 percent is the appropriate core equity Tier 1 ratio level, as we continue our restructuring.

Turning to the subject of servicing AT1 coupons, disutable-reserves to the solo holding company entity set at GBP16.3 billion for the full year 2015. This was lower versus GBP17.5 billion a year ago, as negative investment revaluations and capital distributions exceeded the solo entities underlying profitability. Going forward, the level of disutable-reserves will be sensitive to, amongst other things, capital distributions, the underlying solo-entity profitability, and the value of the investments in subsidiaries.

So moving on to Slide 10. The Fourth Quarter of 2015 has brought increased regulatory clarity over our future loss absorbing capital requirements. We've laid out here our requirements, as we see them today. That said, this year will continue to evolve, giving the moving areas of regulation I noted alongside the previous side.

As we outline on slide -- issuance to meet these requirements appear manageable, obviously always subject to market conditions of course.

So to help illustrate our position today, we provide an estimation of our current loss absorbing capital on the next slide, Slide 11. Now there are a lot of numbers on this slide, so I'll leave you to digest.

The key messages I'd aim to leave you with are -- we will continue to manage our legacy securities for value, and we will refinance the OpCo senior overtime to issue from the HoldCo. We've also provided the roll-off profile of our wholesale funding in the annual report to assist you with scaling this modest refinancing need.

On Slide 12, a common question off the back of MREL issuing plans is around issuance structure. We've laid out how we see the end stage structure looking for UK Holding Company on this slide.

Along with our base expectation on how we will downstream loss absorbing capital when we come to it. However, there is still further regulatory clarity required, and we do not anticipate commencing this program until our legal entity restructuring for ring-fencing is complete during 2018.

So where are we on this process? On the ring-fencing slides, there will be no fundamental changes to our plans, which we shared with you alongside the 2014 results. We continue to plan for a broad ring-fenced structure, with two small non-ring-fence banks, and continue to target the ICB compliant during 2018, ahead of the 2019 go-live date.

We are conscious that investors have questions around RBS PLC securities with maturity beyond that ring-fence implementation date. It is worth highlighting that, following our recent LME, the outstanding RBS PLC senior

has been reduced by GBP2.4 billion. The most I could say at this stage is that we are cognizant of our responsibilities and reputation as an insurer.

So, going to Q&A. In summary, again, we maintained our strong funding liquidity metrics, while delivering good progress in restructuring on our core equity Tier 1 ratio build, albeit with more work to do. MREL will be the primary driver of issuance in 2016. However, we think all requirements are manageable and modest.

And so with that, we'll now hand it back over to the Operator and open up for your questions.

Operator: Thank you. Ladies and gentlemen, if you'd like to ask a question, please press the star key followed by the digit one on your telephone keypad. We will now pause for a moment to give everyone an opportunity to signal for questions.

Your first question comes from the line of Lee Street from Citigroup.

Lee Street: Hello, good afternoon, and thank you for taking my questions. Three for me, please. In your slides, you talk about target issuance of additional Tier 1 for GBP2 billion in 2016. Is that a target, or do you actually have to issue that, per what came out in the stress test last December?

And secondly, just on Slide 11, thank you for that detail. I think that includes all of your foreign-role bonds in a row. Do you have an indication of what your loss absorbing capacity would be, if you strip those out?

And thirdly, obviously, lots of folks on Brexit. I'm just -- would love to get your thoughts on what actually might be the practical implications of Brexit to your business, and what type of remedial actions would you need to take for that access to you know different central banks or changes in regulations-- any color on that would be most helpful, thank you.

Robert Begbie: Hi Lee, its Robert Begbie, here. I'll probably take the first two, and then I'll maybe leave John to talk about Brexit or Ewen to talk about Brexit.

In terms of the AT1, you'll have seen in our stress test results that the Bank of England didn't require us to take any further capital actions. The plans for this year, the GBP2 billion, was in our capital plan, is in our capital plan. And, we're cognizant of the AT1 market at the moment.

So it's in the capital plan that we've shown to the regulators, and if the markets remain open, we would like to get on with our AT1 issuance this year.

We believe if we could get that further GBP2 billion done, that would pretty much be it for the AT1 bucket, but clearly, given where the market is right now, even if the market reopens, we have to take a call on whether it's the right value for us at that particular point in time.

Given the surplus capital position, we clearly aren't under pressure to issue it from a capital perspective. But if the markets are there, we would like to get on with it.

The second part, the second question, I don't have those numbers to hand. We haven't published them.

Ewen Stevenson: Yes, so on Brexit. It's Ewen. We did come out today with cautionary statements around Brexit, which is really based on, I think, all of the macroeconomic research that we see, all of which point to near-to-medium term negative GDP consequences for the UK, and just generally the uncertainty being bad for business.

We are the biggest commercial lender in the UK, so obviously what's bad for our customers will have some knock-on impact to us, and the immediate aftermath of a Brexit vote to leave, I mean we obviously do all of the sensible contingency planning that we should do.

I don't think there's anything that particularly concerns us. We've got extremely strong liquidity and funding ratios. So I mean we'll continue to monitor it over the coming months, but there's nothing technically, I think, John, that concerns us at this point?

John Cummins: No, we are just going to focus very much on monitoring it, and we have got a very well established contingency planning process given all of the other incidents we've gone through in the past.

Lee Street: Okay, thank you very much.

Operator: Thank you. Our next question comes from the line of Greg Case, from Morgan Stanley.

Greg Case: Afternoon guys. Hi. Just a couple of quick ones for me. And I know Robert mentioned that the excess capital requirement -- you've probably envisaged this question, but I mean thanks the loss absorbing capital slide. That's really, really useful, but what it does highlight is the sheer amount of excess legacy Tier 1 securities you guys have got.

Assuming all of your legacy, plus your AT1, you have got about GBP10.5 billion, looks like you probably need (four to five maybe six), tops, assuming your pillar 2 didn't come down. I was wondering, given you're still issuing equity to pay the coupons this year, do you feel that you should be getting on with dealing with these that are clearly a drag to the P&L?

Robert Begbie: Yes, I mean, I'll touch on the bonds side of it, and Rich can talk about the issuance side on the equity piece. But look, Greg, we are cognizant we've got - - we're looking at the stack on a go forward basis. We understand what the grandfathering cap is. You'll have seen, last year, we culled a number of securities.

That being said, we're managing that across the whole stack in terms of the loss absorbing capital and the consequent build up of MREL. So just because it falls out of AT1, that doesn't necessarily mean we would straightaway look to call it. We could get some tier 2 ROE from that or even MREL, and from a funding perspective, clearly we've got to manage our overall funding position.

We are in a strong place, as you said, in terms of our overall funding and liquidity. But there are some big ticket items that may come along around DAS and obviously conduct charges that would bring some of that liquidity down.

So, Rich, I don't know if there was --

Richard O'Connor: Yes, just on the equity value. Look, obviously, we made another (total lost GBP2 billion pounds, and what our plan would suggest until we move into profitability, the conversations with the PRA would lean towards us still having to do raiser equity. It's obviously not ideal, but we think on balance it's in interest of all stakeholders to do that.

Greg Case: Thanks guys. And then just on -- I guess there's probably -- I'm just guessing, here. It hinges largely on your discussions on your capital plan for this year, and as you noted, potentially getting the pillar 2 down. Could you give us a sense of when that happens, and when we could get future clarity on that?

Ewen Stevenson: Yes, it should be from 1 of January 2017. In terms of -- it's not -- it's difficult to give you guidance, at this point, on what the benefit should or would be. In part because it depends on how the trustee chooses to invest the GBP4.2 billion.

The more that they invest them in equity or higher growth asset mix, the lower the pillar 2a offset benefit will be to us. That's not to say that we wouldn't be supportive of that investment strategy. Far from it. We do want the trustee to seek to achieve decent investment returns to help close the deficit in the fund.

Robert Begbie: And I think just two other points to that, Greg, and then obviously it's just one component part of the overall pillar 2a. And we go through the ICAP process and submit that as part of the assessment of that. I think the other point, which is over on top of the pension pieces, is clearly the intent of the Bank of England PRA to move more stuff out of pillar 2a over a period of time, as well.

Greg Case: Thanks, guys. That's all for me.

Operator: Thank you. Our next question comes from the line of Corinne Cunningham from Autonomous.

Corrine Cunningham: Hello, there. Similar questions, I'm afraid. On the slide 11, I'm wondering if you can just take us through maybe one of the lines, just so that we can try and work out what's the difference between the loss absorbing capacity value, the regulatory value, and -- there's not much difference between that and the par value.

But for example, if we look at the Tier 1, of which holding company you've got GBP4.6 billion of loss absorbing capacity, and yet GBP5.9 billion of regulatory value.

Is the difference between those two, is that simply the amount that is foreign law debt, or what else would explain the difference between those two numbers? Just as an example, because obviously you've got quite a lot of differences between these two columns.

(Crosstalk)

Robert Begbie: ... there's foreign law debt, and the trust deferred securities is the main reason for the difference in the values.

Corrine Cunningham: Okay, thank you. And then a question on capital requirements. How should we think about -- so the D-SIB buffer for the ring fenced entity is probably going to be higher than 1 percent, plus as a capital conservation buffer, sorry, not capital, account cyclical buffer likely to be applied quite soon.

Are you expecting a direct sort of one for one replacement? So as those are introduced, your pillar 2a goes down? I'm just trying to understand how you're so confident that the final 13 percent is the right number.

Robert Begbie: Yes, I mean the PRA, whilst talking about the pillar 2a going down, I've not been -- flushing out until the buffers haven't been absolutely clear on how that's going to work. I think from the D-SIB perspective, our best guess at the moment is 1.5 percent.

We will wait for the clarity on that. But, if you look at the phasing in of that, those additional buffers plus what we would expect to see on pillar 2a over

time, we still feel that we've got sufficient head room above our MDA at 13 percent, certainly through that period and at the end point. I think the other point to think about is that the end point, if you think about it, 2019, we will be through our restructuring, we will have a smaller investment bank. We should have lower stress deltas on stress tests and so on. So, a lot of those things that are currently in a different place should be significantly different then, I think.

Does anyone want to add ...

Richard O'Connor: And by that time, the 2a charge will have moved substantially to RWA, so obviously that comes down naturally as things like op-risk move into RWAs.

John Cummins: Yes, we're not anticipating, at all, that our 13 percent ratio needs to go up at this point. And we've got no indications that there's any regulatory discomfort from our target ratios.

Corrine Cunningham: Okay, and final one. I think I know what you're going to say, but I always ask you this one. But, are you actually going to make a profit this year?

Ewen Stevenson: Well look, I mean, I think we've been pretty clear that we've got a good core operating business that made over GBP4 billion pounds of adjusted operating profits last year. And then we continue to have to absorb significant conduct, restructuring, and disposal losses. I think we've been up front.

We've provided a lot of clarity on what those are, and so partly profitability will depend on timing of that. We've just announced today that we're intending to pay back the final GBP1.18 billion payment we have to make to extinguish the dividend Access Share this year.

That will flow through the P&L statement in the next couple of quarters, depending on when it's paid. So, but we're not going to give you a forecast as to profitability for this year, and you'll have to look at sell-side research and form your own view.

Corrine Cunningham: Thank you.

Operator: Thank you. Our next question comes from the line of Robert Smalley from UBS.

Robert Begbie: Hi, Robert.

Robert Smalley: Hi, how are you? Thanks for doing the call. Three questions. The first one on - it goes to slides you had earlier this morning, so I apologize if you covered it on that call. It goes to the net interest margin. Most of the major businesses still have contracting net interest margins. What's the outlook for 2016 with that?

Ewen Stevenson: Okay, so we'll look on net interest margin. I think you'll see in the Company announcement we put out this morning that we're guiding to flattish income for across our personal business bank and our commercial and private bank.

I think what you should take away from that, without us giving specific NIM guidance, is we expect to see continuing volume growth, and in fact, we talked about as one of our targets, at least 4 percent net lending growth across those two businesses. And that will be offset by some net interest margin contraction, and there's certain non-interest income streams, like interchange fees, that continue to decline, which have been well flagged before.

I think it's also important to note that a lot of the net interest margin decline, for example, in our retail business, is coming as much from a change in mix as it is from genuine margin pressure. There, for example, in our biggest assets are product mortgages.

We're continuing to see a switch out of standard variable rate into fixed rate mortgage product, which is having an impact on margin and isn't coming from price competition.

Robert Smalley: Thanks. That's very helpful. Second one, and we go back to Slide 9 again. You list distributable reserves. Is there a further break down of that, in terms of any sub-reserve accounts, and how could that change significantly over the course of 2016?

For example, you have a pretty large litigation and regulatory calendar to resolve in front of you. Is there any impact on that? What other things could change that, positive or negative, through the year?

Robert Begbie: So I think John touched on -- I mean, we don't provide sub-guidance on it. John touched on some of the key things that impact it. Clearly, we have the profitability of franchise businesses.

We have, as you say, the time and scale of conduct litigation charges, but we've also -- there is, as we look at the restructuring those businesses, closing business down, as well as Ulster Bank, there is capital around the group, which we will be looking to repatriate back into the Holding Company.

John Cummins: It's more than just Ulster. There are other subsidiaries. So you've got to look at it in the round, in terms of -- the annual report gives further information in terms of some of these reserves, as well as the trapped capital in some of the subsidiaries for example.

Richard O'Connor: And parent company financial statements are beginning on page 359 of the reporting account, so obviously there's a bit more detail in there for you.

Robert Smalley: Okay great. Thanks. Last question, you talked about reentering the market, certainly for AT1s, when the market is open, and then you'll have to take a look and see what the levels are. What kind of metrics will you be using to judge that?

Are you going to be looking at it versus your cost of capital? Just how can we, on the sidelines, look and say -- okay, the market is open but this is good or not a good time for RBS to come back to the AT1 market?

Ewen Stevenson: I suspect, Robert, that a rational investor view is probably not dissimilar to our own view. Look at the moment, clearly, we think the markets are not effectively open and sensible to issue into. The next available window, therefore, presumably is after our Q1 results.

I suspect at that point, unless there's a very decisive view, which there doesn't appear to be likely around Brexit, that would push you back until after the

Brexit vote in late June. So it feels to us very much like it's, for us and the other UK banks, the AT1 market is going to be a second half of the year opportunity for us.

Robert Begbie: And I think just looking at it in the context of what was a very successful bill last year, whether the overall market gets back to those sorts of levels. But from our own individual perspective, we've got higher capital levels now.

We still realize we've got some headwinds in the pipeline, but we still view ourselves as an improving credit story, and therefore certainly looking at the levels that have been recently-- well, if they don't seem to make a lot of sense, we would wait and see more sensible levels coming back into the market.

John Cummins: And the overall quantum we need both for senior and for H1 is, as I said, is quite modest. That, we also compared to some other institutions, who are having to look to both senior and AT1. These are quite modest numbers, compared to some of the issuance we've had to do in the past, for example.

Robert Smalley: That's great. Thanks very much. Appreciate it.

Ewen Stevenson: Thank you.

Operator: Thank you. As a reminder, if you would like to ask a question, please press the star key followed by the digit one on your telephone keypad.

Your next question comes from the line of Tom Jenkins from Jefferies.

Ewen Stevenson: Hi, Tom.

Tom Jenkins: Hello, chaps. Just a quick one. I might have missed it, I was a bit late to the call. So apologies, but the -- just if you've got any update for us on what's going on with the NV?

I noticed in Rob's last question you mentioned, obliquely, trapped capital at subsidiaries. Just wondering if there is any update with going on with NV in terms of the securities there? The business, the banking license, and if there's anything else we can take away from that?

Ewen Stevenson: Look, we continue to rundown the NV. There isn't anything particularly new there of note. It continues to be on a trajectory of getting smaller over time. There's still a number of assets, including the stake in Saudi Hollandi Bank that we still need to monetize out of the bank.

So it's a multi-year journey to progressively wind that down. We're obviously keen to get on and do it as quickly as we can. We're in constant dialogue with the ECB and the Dutch central bank around it.

Tom Jenkins: Okay, cool. Thanks very much indeed.

Operator: Thank you. Our next question comes from the line of Gildas Surry, from Axiom.

Gildas Surry: Thank you very much for holding the call. Just a quick one on your recent non call decision on the capital (inaudible) from January. So the ex 4.243 percent step-up bond with trust structure so it won't have any regulatory value and a reset at 169 over Euribor is still expensive. So can you give us more context towards your decision not to call this one please?

Ewen Stevenson: As John touched on, we look at all of the legacy securities for kind of value. That particular bond, whilst it's unlikely to offer us any MREL value, given as you said the trust structure, it did offer us some regulatory value over the turn of the year prior to the step up.

We are also mindful of our total positions from a rating agency perspective, and we acknowledge it's probably simpler to call the security after that regulatory value has passed.

So we are mindful of that bond. We know what the position of it is. There is a process to go through when you have to call these securities from a regulatory perspective, so we'll keep you informed.

Gildas Surry: Thank you.

Operator: Thank you. Your last question comes from the line of Lee Street from Citigroup.

Ewen Stevenson: Hi Lee.

Lee Street: Sorry, just a couple more for me. Just back on slide 11. If I look at this tier 2 capital and the endpoint CRR compliant, I have got a LAC value of 5.5 versus a regulatory value of 3.8 percent. I was trying to work out how that worked that way round -- why you had less reg value than LAC value?

Secondly, not that I'm asking for a profit forecast, but based on your GBP30 billion RWA reduction for capital resolution, do you think the chance the -- and then based on where your Core Equity Tier 1, where you want to keep that. Do you have the chance the sterling value of your Core Equity Tier 1 could fall below GBP30 billion pounds? There are my two, please?

Ewen Stevenson: I'm not quite sure I got the second one. We haven't said that capital resolution will fall by GBP30 billion. We said that at year-end target RWAs is GBP30 billion, which is about a GBP19 billion reduction from where it finished 2015.

Lee Street: Okay, that's fine I understand.

John Cummins: And just on that particular line on that slide, the LAC value is basically based on a one year assessment, with the reg value we're taken at kind of amortization over five years.

Lee Street: Okay, great. Fair enough. Thank you very much.

Operator: Thank you Ewen, and I'll now hand the call back to you for any closing comments.

Ewen Stevenson: Okay. Well, thanks all for joining the call. Look, in summary overall 2015 was another year of progress. Legacy is getting cleaned up. Our core capital and leverage ratios are now strong. For example, our core Tier 1 ratio was up by a further 430 basis points last year to 15.5 percent. Our liquidity and funding ratios have remained strong.

The core business continues to perform well. Over GBP4 billion of adjusted operating profit last year and a 11 percent ROE, but we recognize we've still got more to do in 2016. We need to stabilize revenues in the core business,

which is a core aspiration of ours for PBB and CPB. We've got more cost to come out.

We talked today about taking out another 9 percent of our cost structure or GBP800 million this year. We've got ongoing legacy restructuring, conduct, and disposal losses to absorb, but underlying all of this, we think a strong core bank is now emerging and believe our credit continues to improve as we progress towards this.

So, thanks all for joining the call on Friday afternoon or morning, depending on where you are, and enjoy your weekend.

John Cummins: Thank you.

Robert Begbie: Thanks.

Operator: Ladies and gentlemen, that will conclude this afternoon's call.

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