2010 GBM Investor Round Table

held at the offices of the Company
280 Bishopsgate London EC2
on Friday 19th March 2010.

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 for the year ended 31 December 2009, published on 25 February 2010.

John Hourican
Chief Executive GBM

Welcome everyone. This is the first time that we have had a chance to get up close and personal to some of you. So welcome to this.

Let me start by introducing some of the team. I am John Hourican. I run GBM. We have got Peter Nielson who runs Global Markets, the trading side of GBM. We have got Marco who runs Global Banking and Chris Kyle who is the Finance Director.

So what we plan to do today really was just to start the dialogue with you where we would unveil the strategy of GBM which you already know, so which shouldn't come as much of a surprise and just cover off some of the things we think that are worth opening up for discussion and ensuring you are fully aware of. So the way we thought we might run this is if we just go through the Presentation that is in front of us which is about 25 minutes long, half an hour, and then we will open it up to questions. But if there is a burning question along the way, please feel free and happy to interrupt and we will deal with it.

So turning to the first slide. I think one of the questions that we always get asked is, what is GBM? And I should think this slide before we go into the meat of the discussion really summarises what GBM is. And at the heart of GBM is a financing, engine and capability which is deployed for the benefit of our clients and our investor clients with all the associated hedging and flow you would expect around that.

And the first bullet point really summarises it. So one in eight bonds in the world last year in the capital markets had RBS on an underwriting role in that capability. So really at the heart of what we do is that we are a financing engine in the capital markets with all of the associated hedging and capital liquidity providing that goes along with that. There's a whole pile of other things in there which you can read for yourselves, all the way from governance where we have 26 primary dealerships all the way down through the financial institutions and corporate space across major currencies and countries. And I don't intend to go through any of that, but just to make it a fundamental statement of what GBM is about. It is a fixed income centric house with other capabilities bolted on to it where we feel that is appropriate to the client proposition.

The other thing on this slide is that we are 35% of the Group's income, about the same of the Group's capital deployed. And in a steady state going forward as the consumer businesses recover, about the same in terms of the profit of the Group as well. So that is GBM in an elevator speech. And now we will go through and just walk through some of the things we would like to leave you with.

So turning to page 4. You will see what we are going to try and do today is cover, first of all we have a clear strategy. So I want to leave you with the impression of a deliberate, clear and focused strategy around clients, around products and of course around the all important risk management angles of running the bank.

The second thing I wanted to focus on, so having set that strategy out, is to say where we are with regard to progress in 2009 and what the challenges and focuses for 2010 and beyond are. And those challenges are clear. They are fundamentally around the basics of implementing the strategy from 2009 into 2010. And the key point for us is to stay relevant to our clients and therefore relevant to the markets we are in and as a result relevant to you as investors.

So turning to page 5. Every bank needs to set out more-or-less what it is trying to be. And this sets out that we would like to remain a top five house or wholesale bank in chosen markets. Chosen markets is a key phrase here. We are not trying to be all things to everyone in every market. But we are very good at the things we do. And we expect to be top five in those markets and the ancillary things that go around it. It is about keeping clients at the centre of what we do and making sure that being central to our clients creates relevance in the investor markets and the information dynamics of those markets which makes us a valuable participant in the debt capital markets and in the other risk flows.

It is also about making sure that we as a company have a fundamental focus on risk that perhaps was not there in a former life, where risk and everything around risk forms part of how we think about and run our business. And we will come back to that repeatedly as part of how we think about and run our business. And we will come back to that repeatedly as we go through the coming slides.

And then to do that there is also a tendency for companies not always to invest properly in the efficiency of the platforms they work on. And I would like to come back and focus again a little bit on the fact that we are investing in the technology and the machinery that supports what we need to be as an efficient participant in capital markets. And also to make sure that our business is run from a human capital and an efficient way as well where that capital is deployed. And of course all of that, we will go through again as we go through the slides.

So on to page 6. Going to whiz through these, but again please feel free that if you have a question, just stop us and I will deal with it. So on the client side, we started with and what I have described in the old days, in the combination of ABN Amro and RBS, as a business with 26,000 clients. That is not the case. A lot of those clients were small or irrelevant and really should not have been focused on by the investment bank. We have an incredibly clear strategy and Marco will come on and talk about who those clients are, how we are focusing the power of the bank around those clients. And you will see the client list is a much smaller list than it was in the past. We are also deploying a completely different way of tooling the relationship management and the sales force with regard to how they cover those clients and making sure as well, in covering clients that we distinguish between the types of activities of our clients, whether they are governments or sovereigns, supers or whether they are financial institutions or corporates across the various jurisdictions of the world in which we operate in. So clients, a major focus and being relevant to those clients is a key tenant of the strategy.

Turning to page 7, this is a slide you will have seen before. This slide is effectively and materially the same slide as the one that was published by Stephen Hester in February 2009 when we announced the initial strategy of the Group. And that was about choosing the products with which we would run our business. So making sure we chose products that were relevant to our customers, but also choosing products that we could originate and distribute in a velocity way. And velocity is a word that again we will come back to as we begin to talk about how we are running our business. So some of the non core exit businesses that you will see on this slide are in their own right, perfectly good businesses, but they create a passivity in the balance sheet which is very difficult to make a return on equity over time on or where there is no longer a distribution market in size for them and therefore we have made a choice not to be in them over the planning horizon. Sitting here in 2010, looking back on those choices about which products to be in and which products not to be in, we think we have made the choices that were appropriate so far and we would make the same choices again today.

Page 8 is, and it is very difficult to represent it, but this is an attempt to represent the world we live in, the products we are and where we are marketing positioning against them. And it is a pretty simple representation, but as you can see we were very strong in FX and rates which during 2009 were great businesses to be in. We are good in DCM but we need to invest in flow credit to ensure that we have got the secondary and investor side of the capital markets capability we have on the primary side. And of course our equities business is an area which gets much questioned, and Peter is going to make some specific reference to what is in that business and why that business is a good business for us to be in as we face into 2010 and beyond. So we are going to come back and specifically touch on equities and why our strategy in equities is an appropriate strategy for the client strategy we have laid out in the start.

Again you will have seen some of this slide in the past and I think it is important to come back to it. The combined footprint of RBS and ABN Amro, when the two banks came together, was a 51 country footprint. What we did was dramatically tighten the way in which we deploy our resource, our capital and our risk management around those countries. We chose 16 primary countries and are fundamentally running the business out of those 16 primary locations. And hubbed the 23 satellite offices into those 16 countries, but exited 12 further countries. So the business is now run much more tightly around 16 places where we have taken managed risk and we have exited countries which we believe are not appropriate to the client footprint we operate in. Again we will be happy to take questions on that if you have got any questions.

The next couple of slides really revolve around capital and risk. The historic GBM was less focused on balance sheet than perhaps it should have been and it is a religion that is now in the business about focusing on balance sheet and what we do. We have a rigorous approach to deploying balance sheet to our countries, to our products, to our clients. And we have a whole pile of frameworks which are deployed around the business regarding capital and balance sheet size. Funding, tenor and liquidity of those assets and of course the incentives for our traders or our bankers to deploy balance sheet to the clients we operate in. And these metrics are actually more about the DNA of the firm we are trying to build as much as they are about absolutely controlling the risk.

So turning to the next page. The risk management metrics that are around our business are all about the basics of running a bank and they are about doing it very well. And about trying to get the way in which we run risk in GBM to be best in class. And Peter will come on and talk a little bit more about risk around the trading business in particular when he talks to us shortly. But we have front office supervisory policies in place which did not exist in the way they did in the past. We have got counterparty exposure management metrics which we believe are now best in class. We have got a real management focus on the way we run and discuss risk through the routines of running the business. We have got sector and country frameworks that are more robust than they have been in the past. We have got VAR methodologies and the discussion of the stress around VAR that perhaps wasn't as tight as it was in the past. But at the same time we also have an eye to what is going on in the future, which is the shifting of regulation and the focus of that regulation, whether it be international or national. And that is something which occupies our mind and clearly operates the way in which we are thinking about the shape of the business as we face out into 2010, 2011 and beyond and Chris will talk a little bit more about that.

Page 12 is a picture of us in case you needed to have one. You will see that most of the management on this slide are new to their jobs. There is a degree of experience here which I think you should take some comfort from and this cascades then down into the business. The one thing about GBM as we sit here today is that there is a reasonable bench of talent in the business and when we come on and talk about people, that is something which I would like to re-emphasise. Some of the recent changes that we had by people leaving from our business have been easily absorbed by a quality of bench in the trading businesses that meant we didn't miss a heart beat. And again Peter will touch on that as we go forward.

Turning to page 13 before I hand over to a number of other voices for you to hear. The progress to date which we are going to focus on now is really about taking strategy and talking about the reality of 2009 and what we did. Making sure that you understand that for us 2009 was about implementing what we set out to do and that 2010 will be again about implementing a continuation of everything we started to and will continue to do from 2009. And the key messages for us that I would like to leave with you, where it has been a good start to a strategic plan. There is a lot of headwinds for the industry as a whole and some that are specific to RBS but we are on or ahead of track in delivering all aspects of the plan we set out to achieve and it is just a lot of hard work for 2009 which hopefully will sow the seeds for a good 2010.

Handing over to Chris to take us through some of the numbers.

Chris Kyle
Chief Financial Officer, GBM

So just to orientate yourselves through the numbers. Left hand column is effectively old GBM, ABN and RBS put together and how we finished 2007. The middle column is clearly the characterisation of new core GBM with the businesses John talked about moving to non core. And then the 2009 performance of those businesses. I think in terms of interest it is worth just bearing in mind that as we have moved from old GBM to core GBM, you see the impact in the capital intensity of the businesses that we have moved. So representing about half of the profit, but equally a substantial part of the balance sheet and a substantial part of the WRA's were moved from the combined GBM to non core.

I will point out two numbers on this page which I want you to bear in mind as I move to other pages. The £874 billion of balance sheet start point. This is the on balance sheet footprint of old GBM. And the £412 billion equivalent of the core GBM at the end of the year. Those two numbers I will take into deeper numbers.

Equally you will see on the 2009 performance, very strong income performance. I will talk you through those in terms of quarter by quarter and the product lines. Costs, feeling the benefit of the integration activities that have taken place since the beginning of 2007, equally reflecting some of the changes that Bruce talked about at the Group level, being both FX and changes in mix of cost base. So FX moving against us at sterling has depreciated.

Profit, very strong as you take a smaller cost number off of a larger revenue number, it feeds through to the bottom line unsurprisingly. And then the difference between those two numbers and the profit number being the provision number. The provision number really being one specific name that we saw in 2009. And unsurprisingly the provision number for 2009 should be low. We had the chance when we were deciding what was core and non core, to decide what clients we wanted in core. So the underlying provision number was very low in 2009. And as I said, very much characterised by a single name event during 2009.

Balance sheet. Tremendous progress being made to bring that number down, just to put into overall orientation. We had a strategic plan to bring that number down to around about 450. We over achieved that. We had an alignment of a number of events which were very positive to us and I will take you through those in a minute. And then in terms of WRA's, we had a strategic target that we wanted to get to a number in an around the £150 billion number. We over achieved that and I will take you through that story as well.

In terms of people, we made tremendous progress in terms of integrating the front offices of the combined business. That number has come down as we have brought those businesses together and made choices about deployment. There is still further to that to go as we integrate further the back offices and the support areas of the two banks. And as I think John has already talked about, in terms of the country and the customer profile which will be picked up by Marco.

Turning to page 15, you see in reasonably stark relief just how exceptional Q1 was. An alignment of a whole host of events going on there. Short term interest rates continuing a rapid decline we had seen in the previous year. So money markets benefiting very strongly in Q4 '08 and into Q1 '09. The volatility in Q1 was absolutely captured by our rates and our currency businesses to high levels of volatility, high levels of activity, wide bid offers and our flow businesses absolutely captured that in terms of Q1 and then a more normalised set of outcomes in terms of Q2, Q3 and Q4.

In terms of the overall businesses, you can see that we had some very strong performances in terms of our businesses. Flow rates had an extraordinary strong year because of that volatility and because of those bid offers. Currencies benefited, but had a previously strong year in ’08. Equities had a record year and Peter is going to talk about that later on. A strong rebound from weak equity markets in ’08, but also a very, very strong performance in equity capital markets. And credit markets coming out of the credit crunch that had started in 2007 had been a major feature in 2008. And very much our US business and our global credit businesses recovering strongly in 2009.

If I turn you to the next page, you will see why I wanted to anchor you on those two numbers. So you will see at the start of the page, the total balance sheet we had in 2007, the £874 billion number, that is the on balance sheet number. As we have moved on a like-for-like basis.

Question
The 874, that is the old ABN Amro business and the old RBS business just added together. Because you never had it in a way, it was never one entity?

Answer
It is not a single entity but that was how the business would have been characterised by putting those two together.

John Hourican
That was the owned wholesale bank in ABN Amro plus GBM, that is one quarter into the deal.

Chris Kyle
On a like-for-like basis, that has moved from 874 down to a number of 544. So that is a like-for-like comparison, out of which £412 billion is the core GBM business. On a constant currency basis you will see that has gone from 874 to 480 billion. So almost £400 billion of assets being taken out. What I would point you to is the light green bars. You will see that in ’08 the momentum of our lending book and the momentum of our liquidity facilities continued into the first half of 2008 as corporates were drawing down on the liquidity. That meant that our corporate lending continued to grow during the credit crisis and before management action could drive that number down we saw some growth in the beginning of ’08 and then as we took further actions in terms of defining our customer base, that has continued to show rapid decline. Equally accelerated in ’09 by the return of the debt capital markets and our ability to move our clients in our debt capital markets capability. You will also see where we could take action in terms of shrinking the size of the balance sheet in terms of our debt securities and our reverse repos, we actually took advantage of that opportunity.

Those high level numbers actually hide a number of things which actually underpin a much stronger performance than the one I just talked about. You will see that in terms of liquidity and the liquidity of our balance sheet has grown materially during that period. So in terms of where we were at the end of Q4 ’08 we had £20 billion of liquid assets. By the time we finished Q4 ’09 we had £74 billion of liquid assets. GBM is the repository of the Group when it comes to very short term liquidity. So as the Group takes on more cash or seeks to become more liquid, those liquid assets if they are of a short term nature find a home in GBM as an asset so as we increase our ability to raise term liquidity, but we don’t have a place to put that cash that finds itself in GBM. So overall by the end of 2009 we had become 80% liquid, the balance sheet had become 80% liquid in terms of the overall nature of the balance sheet and with £74 billion in very liquid assets, namely cash and T Bills.

Looking right at the bottom of the page you will see also that in terms of our lending footprint, it is slightly misleading, the £128 billion of lending is shown as £128 billion of lending. The true lending portfolio is £82 billion, collateral, as we become more efficient in drawing collateral in on our derivative business, actually that derivative collateral is shown as customer lending. It is just the accounting for that nature. So actually we have got our lending portfolio into a very tight form and pretty much where we want it to be.

I am going to hand over to Marco to take you through the customer aspects of that.

Marco Mazzucchelli
Deputy CEO
Head of EMEA

Thank you Chris and in fact there is reference to the lending portfolio and the pattern in changing behaviours that we have adopted shows to you the fact that our client business is not completely different. So we have decided that truly we need to be much more plan centric. So instead of being product or transaction oriented, we need to cover the client in a holistic basis of offering the full integrated platform of our services.

In order to do that it was very important for us to make choices on the clients we wanted to cover and clearly we could not possibly cover 26,000. But even within the 6,000 that we have retained as clients of GBM, the reality is that around 1,800 are really the truly relevant clients, the ones that we call Platinum, Gold and Silver. The vast majority of our business comes from those clients. Those are the clients we want to become even more relevant, more meaningful. We want to be relentless in the way we cover them. This 1,800 clients are roughly 1,500 corporates for the [?] financial institutions.

We have used a very rigorous approach in selecting them. So using the wallet, the evidence of the historical wallet and the perspective wallet. Our own share of wallet, how this could evolve, if we were aligned in terms of ability to service them on products and search on sector knowledge on credit appetite. And this has led as I said, to identification of this 1,800. Within that the Platinum clients are around 270 and those are the ones who are more relevant. Just to give you an idea, for instance, in EMEA the average revenue per platinum client is around £60 million on financial institution and around £30 million on corporate names.

We also changed the composition of the corporate FI split. Here you have got the snapshot for 2009 which is roughly 50-50 historically. GBM was much more a corporate oriented type of investment bank. So it was probably more in the region of 60-40. There was a very dominant component of corporate business including extensive lending as we have seen before. We think that as we enter into the full implementation of our stage plan, the importance of financial institutions on the sales side and origination side is going to increase much more. That is where the majority of the wallet is and it will have a target for 2013 of around 60-40 the other way, so in favour of financial institutions.

We have implemented what I believe are state of the art tools on our client management. So we have an SERM system called Connect. Everyone is on Connect, so all the relevant touch points that we have with a client have all contributed to this database that is shared internally compatibly with the public and private divide of course. We have very disciplined approach to client opportunity plans, to the planning that we do at the beginning of the year, deriving attribution systems so we not only have client P&L but we have also banker and sales person P&L attributing all the revenues. The real time, work in progress, so the deal pipeline and how it shapes us in times. The relevant transaction targets and also the attribution of clients to everyone. So including ourselves, we are actually directly involved in covering clients. So we have attributed clients to each one of the management team including a member of the executive committee at Group level. John has around 15 clients himself. Peter has got 10. I have got 15 myself and we are directly accountable. We are on the line because we are the senior executives responsible for those clients. So we have to deliver and lead the coverage efforts on those clients. This is the only way we can do it, we need to be relentless, we need to be paranoid, we need to be extremely disciplined and almost military in the way we implement this client coverage effort.

Results are starting to come out quite nicely. You have some data here. It says the share of wallet for clients from '08-'09 of the 3-5% in corporates and 2-3 on FI's. I am not so sure this also includes wide universe of clients. For instance the Greenwich Associate ranking here which is only done on a subset of our client basis, this covers only 600 of the 1,800 clients I was talking to you about, shows what we believe are fairly convincing results. And delivered the message that we are truly relevant for these clients, we are focused, we are steady, we are balanced and that is the only way we can do it in terms of really having dominant share of mind of clients that are relevant for our business.

This is translated in a number of achievements, if you look at page 19, there are some of the awards that we won. Peter will comment on the market side where there are some significant achievements. But on the banking side, apart from the one out of the 8 bonds being led by us, I would say that we led 6 of the 10 largest debt capital market transaction. We were in leading position in the 5 largest equity raising transactions. And we have a very significant prominent presence in the league table. The league table we don't pursue per say, but we believe that over a cycle having a significant position in the key league table is a [?] of market share and hence our profitability. So we want to remain relevant in terms of this share of market that we cover. The number 7 global old debt league table we indicated here because it is the same definition that is used by the EU in defining the super constrain they impose on it, that we cannot go beyond or below number 5. So we can't go to 4. The definition we agreed however with the EU is such that it includes all debts. So includes all loans, all bonds, including domestic in every single market. So it is acting on an extremely broad definition which allows us entire room for manoeuvre in terms of competitiveness. So this doesn't bite as a constraint in our ability to service our clients. In order to go to number 4, we would have to lead, for instance last year, singlehandedly more than $180 billion of bonds. In that case we would have been number 4. I think this is physically impossible. So that is something that absolutely does not constrain our ability to service our clients.

Finally on the lending side. We talked about the fact that the lending book has gone down significantly. That reflects the fact that we do not do relationship lending per say any more. So the lending business which we do, which is now priced in an extremely rigorous way with market based price in shortfall mechanism, is always linked with the fact that we put it in the context of ancillary business that we want to win. So the attitude of the origination bankers has completely changed. We are not using that actually per say, but we are trying to increase the velocity in a very significant way and I think we saw some more data on that respect.

Peter, you want to comment about the market's achievement?

Peter Nielson
Global Head of Markets

Sure. Marco thank you. I will jog through the next couple of slides here because I know that you will want to get to some questions. And these are identified on the left hand side. Just a snapshot of the number of awards that we won.

I would highlight a couple of them. Our number one ranked currency options business. We think we have got the best currency options business in risk management software in the world, certainly in the Globe's top three and also the best structured product. Both of those businesses depend on having the best people and we think we have a number of very highly qualified, highly ranked, highly thought of individuals running those business. But in addition to that, those businesses are based on technology, proprietary technology that is resident within the firm that allows us to deliver best in class products to our clients. We think that obviously brings out the best for our clients, but also means that those franchises have an element of enduring ability that often is not recognised.

I have chosen equities to just have a minute to talk about it and we can certainly talk about any product you would like to rate, FX or mortgages or what have you. Focused on equities. Equities is one of the businesses that comes to us courtesy of the ABN transaction. So our equities business is one like our emerging markets business that kind of has been lifted up in total and deposited into our RBS, GBM house. And this is one of the businesses we have taken down to the studs, taken down to the bear studs and re-architected and rebuilt in several major respects. It is a business, and we have gone back to first principles and we have linked this business. The old ABN business is one that primarily focused on sub FTSE 250 and even 350 at middle markets in Netherlands and various aspects of that particular sweet spot that had been previously identified by ABN. That is not the business where we are. The business that is being rebuilt is one that is focused on the clients that Marco has already identified. This is a business that is focused on being able to deliver equity capability to our platinum, gold and silver clients. And there is a great deal of work that has gone into align research and coverage along with it, the bankers to ensure that this product is capable of being delivered in a seamless fashion. It is not just a cash research and sales and trading business, we have an equity derivative business and the main outlet for that equity derivative business at the moment is into our structured retail product business. And we believe that at least in Europe that is a bone fide top 5 business.

I was remarking earlier today on a strap line that is on the latest piece of research that is sitting here in front of us. It talks about the top ten participants in the equity business and what their aspirations are and identifies that all of those ten have as their aspiration to be top three in the global equities business. We don't. That is not in our, that is not what we are about here. We have a regionally specific business that it designed to be able to deliver value, but along the lines of the product in global financing, needs that John specified early in the piece.

Very quickly 21, the risk John has identified and alluded to already, the kind of drains up that has performed on the business sense. It does since he took over and it is well and truly an upgrading. Not just in the market risk and credit risk functions, but in the front office, the way that we run the businesses. The guys in the front actually own the business. There is no finger pointing, there is no you know 'somebody didn't tell me what my position was'. These positions are all owned individually by dealers, by their managers, John referred to the front office operations policies that every single individual, all 3,860 front office people have signed. These guys own the risk. There is reference there to move our VaR model to 99 one day. Which we have. And a number of the competitors actually have begun to move the other way. You will see people move from 99 back to 95. We don't think that is appropriate. So we are at 99 and we measure our risk. And that is just a number. Everything, the risks not in VaR, and a number of the other challenges that have come out of the additional heightened focus on risk management.

Internationally we believe that we are at or ahead of best practice and we have got all of our Greeks, all of our Volavol[?] all of our Signifa, all of our interest rate options are in our VaR measure and that is not the case for some other market participants. We are the only, there are only two individuals, only two firms that are at 99 VaR over a 500a window or two year horizon. The other participants are still at 99 or shorter horizons. So we believe that this along with every, you know the other ways that we are running the business have got us in the right place.

There is reference there to our counterparty exposure management business which we have completely overhauled. I think this is best in class now. So if you look at derivatives funding, if there are collateral funding or run-way risk or the correlated risk that can arise in a Repo business or any of our emerging markets businesses, all of that is actually captured and we believe is accurately priced and the transactions as we go forward.

There is a representation, there is a histogram at the bottom there ladies and gentleman, a kind of daily P&L and you see there the kind of variability that was witnessed in 2008. That is history. When you see the outsize days in 2009, return to a little bit more normalised level. And in the 3rd and 4th quarters of last year. We spent an awful lot of time on this, we analysed the business the way that many of your firms do. So we have sharps and serial correlation on individual dealers, on their actual desks, on their businesses and risk and positions and tools of the trade are taken away with a fair degree of alacrity and rapidity when people are on the wrong side of the market. So we are very comfortable with the way that that infrastructure is corralling the business. John?

John Hourican

Okay, so I know you are desperate I am sure to get into the questions and use your vocal chords. So I will keep going with speed.

On slide 22, I mentioned that we needed to look at the infrastructure in the business and invest in it. It is an often talked about thing that people say, we are going to have a better infrastructure, but it is not always tackled. What we have set out to do over the two years of mid 2009 to 2011, is to tackle the wiring and front to back organisation of the system and processes across the business to ensure a number of things. The first to ensure that we have an integrated business after the combination of ABN Amro and RBS, but also to improve the management of the business from a risk and finance and collateral and information, and just real time nature of how we run our business across geographies and asset classes. This is a very specific initiative. It has been very well planned in my view and it is under way. It is designed to ensure that we bedrock the efficiency in the business as we look into a competitive environment beyond this year, which is not yet sort of unveiled itself, given all the headwinds of pressure around regulation and liquidity and competitive pressure and all of the economic uncertainty as well. So we are trying to set ourselves up not just from a running our business through our front office, but also ensuring that our back office is properly wired and ready to compete. And that the machine through which we will run our client interface is both into the investor side and the client side is as best as we can make it facing into what is a somewhat uncertain in parts environment. And that is so far so good. It is a £550 million programme over and above the run the bank programmes. So it is a significant investment in the redeployment of people into process and machines make less mistakes than people. So unfortunately I am a machine fan in this regard.

Turning to the next page, people. I am sure that is something that you can talk about more than I can represent. But people has been an area of challenge for us during the course of the year. The morale in the business has been something we have not been able to take for granted, but rather an area where we have had to manage and be incredibly aware of. 2009 was a year when we drew on every sinew of loyalty from the history of the firm to ensure that people stayed focused on running the business. As we head into 2010, we have landed the compensation round in a place where we believe we are in a competitive range. We think the number of happy people versus unhappy people is in about the right ratio you would normally expect at this time of the year. And we do recognise that perhaps on the fixed and variable components we need to sort out a bit of the fixed over and above where we probably do lag the market at this point. But we will do this in a programmed way during the course of this year.

So I think we are sitting here today with a population of talent which we believe is appropriate to run the business. We know we have to make sure that we retain that talent. We have a lot more people invested in the equity of the firm today than we ever had in the past and I think that will pay us great dividend and certainly the stock at its price today versus the price we gave it to our staff three weeks ago is helpful in making people feel positive about the firm. And I am sure we will get into that discussion.

The one point I would make is that the veto that was available to the UK Government during the course of 2009 for our compensation is something which is very specifically a thing which does not concern the staff for 2010 because it was a one year thing and it was not exercised. It was also important for the investors to know that it was the Board's decision on compensation. It was a discussion which was had between the division and the Chief Executive, the Chief Executive and the Board. And then the Board recommended that to our shareholder and no veto was exercised and I think that is an important point, that we have crystallised in our staff and it is an important point for you as investors to know.

On page 24, this is a slide that was put out by Stephen at the Results. I don't intend to run through it other than to say in paraphrase it says that 2009 was a good year, it was a good start to a strategic plan that was well set out. We are incredibly clear on the issues that we are trying to address. We are extremely clear on the clients we are trying to serve and how we are organising ourselves to serve them. There is a recognition and I think an important recognition that there is a lot of competition and pressures that are specific to this industry and specific to this company that we are not taking lightly or taking for granted. We are executing on that plan and we think that 2010 which I will go onto on page 25 and onwards to talk about, we think we are well set to tackle the agenda ahead of us for 2010 and beyond.

So on page 26, again a slide that you will have seen before, and again I don't intend to focus on other than to say it is an important reminder, is that GBM is setting out to be an important part of the Group. It is setting out to not be a dominant part of the Group in the long term, but rather to be a balanced part of the Group and to serve the Group in a connected way. Stephen has set out guidance over the long term that GBM should be a third of the Group's capital and a third of the Group's revenues. That is where we and our strategic plan is planning to be. 2009 was an outsized year because of all the reasons that we were able to monetise a buoyant market and clearly if there is a buoyant market, we will try and monetise it again, but we are not planning to do so. We are planning to run the business more in the shape that we have discussed with you.

Turning to page 27. Page 27 merely sets out the targets and the signposts that Stephen has been keen to reiterate at the Results. What I would say to you is that GBM is setting out to achieve a return on equity of 15% plus of the capital requirements that we have allocated to us within the strategic plan and that we are not proposing to change that, albeit we are conscious that as we run our business tactically, we need to be focused on ensuring that the changes that are ahead of us on regulation, the changes ahead of us on economics need to be born into account as we focus on that. But as we sit here today and look at the various scenarios whether they be base case or downside or upside, we believe it is not inappropriate for us to be aiming at those returns, given the business that we are running in face of the economic environment we are facing into.

Turning to page 28, and I am going to ask Chris to walk through some of this, but fundamentally I wanted to return to the regulatory developments, both international and national that are ahead of us. I wanted to reiterate that these pressures are clearly in place and they are things that we as a business both at a micro and macro level are taking very seriously and we believe we are set up to compete into that environment and much of what we are doing both in the technology space and the risk management space, in the creation of velocity in the contemplation of liquidity and liquidity velocity are all about making sure that this business is ready to compete in that new world.

And Chris if you could take us through slide 29.

Chris Kyle

Slide 29 should be familiar, the guidance that Bruce gave at the year end. I clearly can't provide further guidance, but I can provide hopefully a bit of colour as to how this slide affects and how we are working within the agenda set out by this slide.

In terms of the top left hand bubble. Bruce talked about the fact that overall that has a mitigated impact of about £60 billion of RWA's at the group level. In terms of how that splits between core and non core, that is somewhere between a 50-50, 60-40 split between the two divisions, core, non core. The non core part of that agenda is very much the correlation trading book. This is the old structured credit trading business that was put into non core as part of the divisional split and the other actions we are working through in terms of both the VaR, the incremental risk charge. But the major feature of those changes is very much the securitisation changes under CRD3. Clearly the timing of the implementation of those is still up for discussion, but this is worked on an expectation of implementation on the 1 Jan 2011, although that is still subject for discussion.

In terms of the business that that impacts, that is very much focused on the US mortgage business. There are some very clear areas where that impacts in terms of some of the older and more aged inventory. And we are working today to mitigate those impacts. And we are reasonably confident that within that range we have captured the risk and the things that we need to do to mitigate that risk.

In terms of the right hand side bubble, very much a group led set of issues, not necessarily very specific to GBM. Clearly characterised by the fact that they are ideas and thoughts forming in the various regulatory frameworks and bodies. We are very active in the lobbying at Group level and at the divisional level and feeding into industry wide bodies to ensure that we reflect the concerns and the issues around the formulation of some of those issues, but very much a Group led type of challenge.

There is a little bullet point at the bottom left hand side, which is actually reasonably key. We are, and what I would link you back to are the things we talked about earlier, the best defence against some of the changes here is good market practice. There are three areas where this comes into play. The first area is about the capitalisation of the customer valuation adjustment, ie, the amount of valuation adjustment you put on your derivative portfolio. We believe we have very, very good CEM practices. Therefore we are managing our counterparty exposure very tightly. We also believe that we are in a very good space in terms of our CVA reserves in relation to our derivatives book. So the best defence in that respect is having appropriate risk management and appropriate reserving. However this is still a material risk that we are working through and we are also lobbying on.

The second area is about the potential for having a risk charge in terms of clearing houses. Currently clearing houses are zero weighted. They are seen as a risk mitigant in the derivatives business. I think that is appropriate. There has never been an instance of a major clearing house failing. I think it is a good way of the market industry mitigating risk by having active clearing. However there is the risk that the regulator will seek to have a capital charge on activity with clearing houses. Again, very, very nascent rules. We are actively engaged in the discussions around that.

And the third wave of impact is very much around unrated and uncollateralised corporates. Clearly that would have an impact on our UK corporate activity. Again we are lobbying hard as the unintended consequence of such a change would be to deny unrated and unsophisticated corporates the access to risk management activities. So that is clearly a risk both from a revenue and a capital perspective and one which we think we have a reasonably strong lobbying stance in terms of how to manage that.

So that is the story, as I said I can't give you guidance on whether there are further impacts there, because actually the work is formative, but in terms of the top bar, we are hoping that has given you some very clear guidance as to where we are on the things that are reasonably clear at this point in time.

John Hourican

Okay, so I am going to skip to the final slide, slide 31. Slide 30 you can read for yourself and I will allude to some of the themes in it in the wrap. But I will conclude by saying 2009 was a very good year for us as a starting point for our strategic plan. Everything we set out to achieve, we have achieved and we are on track to deliver our promises to the Group as part of that strategic plan. The strategy is very clear and I believe very simple. But I have been living with it for a long time, so please ask me for any clarifications on my lack of simplicity.

We have real focus on the balance sheet which we did not have historically as an institution in the same way as we have now. We have risk practices around that balance sheet and around the sort of development of P&L. And P&L being the movement between two balance sheets. So we are very, very clear on the risk and the DNA in the company around risk management, which is new. We are focused on liquidity, we are focused on churn, and we are focused on velocity which are important components to making this business a success as part of RBS Group's sort of balance. And we are driving efficiency through investment in both the technology and the process of re-engineering of the business itself. That of course needs to be contemplated in the context of fragile and uncertain economic conditions in places in the world we operate in. And the regulatory landscape which we have talked about in a number of dimensions.

We have got to keep our people in place. We recognise the need to ensure that they get excited and regain the pride in the institution that I think has a strategy now capable of delivering. And that is a challenge for the Management. But we feel one quarter or heading to the end of the first quarter into the second year of the strategic plan that we have a good wind behind us in ensuring that the most talented people in our organisation are with us on this journey. And with that I will open it to questions you may have.

Question and Answer Session

Question 1 : Female

Based on what you were saying about risk and how aggressive you are being on your risk management. So should we take it that success for you would be much lower volatility in profitability than other investment banks? Would you expect to see that, well there would be lower volatility and perhaps actually a lower peak profitability?

Answer : John Hourican

I think that is a reasonable presumption in our we are parenthesising the way we are running our business. During the course of 2009, it would have been possible to have made more money by taking more risk. And Peter, I will leave it to you to comment further on this. But our fundamental position during the course of the year just gone out was to ensure that we delivered a set of results which were believable and demonstrated that the DNA of the firm was about risk management. That is the way we are running the firm now and that is the way we will continue to run the firm.

Further answer : Peter Nielson

John I think that is entirely appropriate. I don't think we could have made a lot more money in 2009. I think 2009 was pretty good, but your question, not to deny the seriousness of your question, which is peaks and troughs and amplitude and all the rest of it, I think that there is a, it's nirvana, but there is a happy area, quadrant on the sheet where you do both and when the stars align and when there is discontinuous price changes or imbalances of supply and demand, that is essentially what the business is capable of taking advantage of. And we haven't seen the imbalances of supply and demand the way we saw at the end of 2008 and the first quarter of 2009 And I think that we are appropriately sized and managing all of the businesses to deal with a little bit more benign is the wrong word, but balances global macro environment on those products.

Further Answer: John

I think that just in addition to that, we have been focused on liquidity of our positions. So the ability to get in and get out of risk is a very important part of managing the business going forward and minimising any impact negatively to capital. So it really is being about much more dynamic in the management of the risk we are taking.

Further answer : Peter Nielson

But it isn't that we are dramatically re-architecting the firm to become a brokerage company. So I am taking an 8^{th} on every trade and going home square every night. That is not happening either.

<u>Question 2 : Male</u>

Can I ask a question on capital and on funding. You mentioned that the group being third or GBM being a third of risk weighted assets. I mean is it similar, on the capital side is a similar portion of capital and you know, given some of the things you have talked about, for example having potentially capital charge against clearing houses or clearing exchanges for instance. Is it possible that the capital required by your business will swell disproportionately to the rest of the Group? And kind of related, I mean you have a fantastic diagram at the back of the pack showing how GBM fits with the broadening Group, nevertheless it is not intuitively obvious how that is the case. And I guess how does the funding work? Is there funding that comes from retail and corporate deposits to fund this balance sheet we are using or does it always have to be wholesale funded?

Answer : John Hourican

Shall I take that last question first and see if we can actually get to the other point. So GBM is absolutely at the centre with Group Treasury in terms of the flows of deposits that come into the Group. In terms of what you have seen in the dynamic of our balance sheet is as the Group has taken more and more liquidity, that liquidity has found its home in GBM and then we have had to place it back out as a deposit or into T bills or into balances at banks. So we are absolutely in that space where we draw liquidity in from the rest of the Group because we have the market access function within GBM in terms of how to deploy or raise wholesale funding. At the overall Group level, as the balance sheet has shrunk and as the Group has gone out and raised more equity and more liquidity both term and short term, that the overall position and the Group has improved and the liquidity of the position of the Group has improved. That surplus liquidity at the Group level is finding its home in GBM at the moment because actually we were still in the process of deploying that liquidity into term liquidity assets as we are required to under the liquidity regime in the go forward state.

Further Answer : Chris Kyle

Capital at the moment, GBM is £120 billion of RWA's, 10% of that is about £12 billion, that is about 25% of the Group's core tier one, so it is actually less than that, but you are right, it will trend up over time as things like increased market risk charge comes in and as I say, the balance sheet was quite low at the end of the year as well. So it will trend up, but it is not a disproportionate use of capital versus the other parts of the Group. At the moment quite the reverse actually.

Answer : John Hourican

The level of capital that we have deployed is below where we thought it would be given the level of profitability that we were generating through the year. So strategic plan was to have £150 billion of risk weighted assets on a balance sheet of about £450-500 billion. We have been operating £50 billion below that range and balance sheet size. We have been operating 10-15% below that in capital level. And some of that is to do with the fact that we did not proceed with market opportunity to deploy risk and some of it is the natural consequence of good risk management exercise or whatever. So the envelope of deployment is not being fully extended at this point in time and we need to create room such that we can afford some of the changes that have been coming down the pipe.

Question 3 : Female

Could I ask you some questions about the shape of the balance sheet in light of the figures you gave on page 27, just to kind of understand that. You are talking about 100% 2013, 100% loan to deposit ratio. You are quite a way from that strictly in GBM right now. As far as I understand you are kind of at, well I had my numbers at sort of £47 billion of deposits and £128 billion of loans. So how, is it shrinking loan book progressively, but you have already given up stuff you don't want non core?

Answer : John Hourican

I am going to be very cautious in my remarks here because I think the important page to go back to is page 17. I think one of the difficulties of having a loan to deposit ratio as applied to an investment bank is it doesn't take into account the nature of the assets that are deployed in an investment bank. Plus the nature of the deposit raising that we do in an investment bank. So one of the things that we are working with Group Treasury and Bruce on is an adjusted LDR ratio to be a more appropriate measure. I mean one of the things you can see here is that gross number of £128 billion of customer lending is actually £82 billion of customer lending and £46 billion of collateral management activity.

Further question

So it is more like getting that 46, getting that to match the 82, more of a realistic deal?

Answer : John Hourican

I think 82 is the correct number to be deployed as the top line number. The other thing on the deposit side is what you see in the Stat account is equally a statutory view of deposit raising. As we raise deposits with corporates and with wholesale players outside of the banks, both in terms of CDs and structured retail deposits, that is not structured in the LDR ratio either. So actually we are much closer to that 100% ratio in terms of the nature..

Further question

So you are saying underlying?

Answer :

In the underlying, yes.

Further question

And then just to understand, sorry I am not really an expert on this, the banking. But you know from going back to page 27, talking about, so wholesale funding including bank deposits. You are talking about quite a, if you are talking about growing the bank deposits whenever you get them, it is quite a big reduction in wholesale funding, which to me implies quite a lot of term issuance. And can you really make the kinds of returns?

Answer :
So the key case to look at again is page 16. So if you look at the balance sheet, the 412, but look to the right hand side, you have £132 billion of non core assets which are overwhelmingly supported by wholesale reliance, because there is an unnatural customer base supplying liabilities to match that.

Further question
So those numbers are referring to the joint core and non core?

Answer :
Yes, this is Group level, this is a Group slide. It is a repeat of a slide that Stephen and Bruce used and we are just basically saying we recognise that and reiterate it.

Further question
I thought more of these related to GBM, that is why I was confused. I couldn't understand…

Answer :
Let's also be clear we don't actually want to grow short term bank deposits. We have got plenty of those. What Chris was talking about in terms of structure products and that is actually in debt securities at the moment. They are much more deposit like in nature. So we are just looking at how to communicate that appropriate.

Answer : John Hourican
We are encouraging Richard and Bruce and John Cummings to come up with a stable funding ratio rather than a pure loan to deposit ratio and we are contributing to that debate.

<u>Question 4 : Male</u>
Can I ask about capital allocation within GBM. We hear enough about tight balance sheet management, tight capital allocation. But is there any real capital allocation between the different desks the money markets desk, the flow desk, the currency desk, equity. Do you really allocate capital?

Answer : John Hourican
I can't answer that that is absolutely the case.

Further question
Well who does it?

Answer : Peter Nielson

You have a constrained optimisation problem don't you. So you can't, you need to put it in a situation where relatively speaking a Group of the seniors and ultimately overseen by myself and John and Marco, on the market side, and Marco can talk a little bit about that. We have got a very well developed Cap process in the rest of the bank. But you can't, you end up having to have the right thing to do is have an element of capital displayed across, devoted to each one of the businesses that you have identified as being important to you, the portfolio businesses. You have a de-minimus layer of investment that is always there. And then you are taking advantage of opportunities. Opportunities that may exist in the inflation market. So there are 4-5 different utilities that are coming in inflation here at the last part of the quarter. So we will have reduced part of the STMF and Repro balance sheet in order to intermediate those transactions which maybe on the books for a week or ten days. But those are decisions that are getting made by myself and my senior team. And it is reasonably, at this time last year they were not RoE's, returns on capital by business, by desk. And one of the things that we have accomplished over the last year is that actually exists. I am not going to sit here and tell you that it is perfect, I don't know any investment bank that would tell you that there isn't a fair degree of art in that. But it is subject to a lot more rigour and scrutiny than certainly it ever has been.

Answer : John Hourican
There are a number of axis on which we run it. The Asset and Liability Committee which is sitting here actually at the top of the table, review on a monthly basis where we are against targets in terms of the actual funded balance sheet and the capital deployed through a measure of risk weighted assets across the business in both country dimensions and product dimensions. And the hard wiring of the limits occur at the sort of product bunching level. But there is below that very clear what we expect it to be and an understanding of any deviation of where we expected it to be. But what you can't do is belt and brace totally any desk, but what you have got to do is make sure you bound any level of risk you are willing Peter to run or Marco to run in geographies across significant components of asset class. And they are pretty hard wired.

Answer : Marco
Maybe I could talk about what happened on the banking side. Apart from the first cheque, is a selection, conflicts, potential risk, whether you want to do that piece of business. And suppose that on the credit side we have the appetite then there is a capital allocation committee so the transaction goes through this Committee. We analyse the transaction itself, whether it meets all the targets that we have in mind in terms of income and risk weighted assets, whether we are going to impact any of the other constraints that we have, single name concentration, sector, exposure, country and so on. And then we analyse the individual transaction, what are the collateral business ancillary that we win. We compare there is a term liquidated premium that we would take into account. We look at the cost of hedging the position through active credit management. So what is the cost of a CDS, compare. So risk adjusted, pro[?] weighted, present value, all this flows, you compare with the cost of hedging. If there is a shortfall so the transaction is a fail. We can overrule, but in that case it is charge immediately to the business. So the business immediately get charged for the shortfall and then they need to make the money back through the revenues they generate. But in most of the cases it is a pass. On that case we know that we do that particularly piece of business because the collateral ancillary business more than offset any shortfall that we might have. It is a pretty standard practice by the way. There is one in every region and there is a global one.

Further question
Standard markets business, traders being traders, they can obviously gain in that process, constantly looking for where you are not allocating capital and they can do a big trade without having?

Answer : Peter Nielson
And they don't. You are right of course and they will try and do things. We have one of the strictest securities polices. So my mortgage guys tell me that no one else on the street kicks in at 45 days and ratchets up at 90 days. So you will see guys trying to claim, I bought it the day before so it is only 44 days old and all the rest of it. I think the grey hair didn't kind of come from not being an old dog, who has done actually most of those tricks before. And it is not just me. The team underneath have had years and years of experience. So I am comfortable, I am a lot more comfortable than we ever have been.

Further answer
I think the other point though is that in terms of the trading book. The trading book is very much a VaR based capital regime and therefore is a lot more difficult to gain something which is a daily occurrence. The VaR calculation is a daily capital requirement with a daily back desk. So you can't really gain the daily piece to it.

Answer : John Hourican
The other thing culturally which is a very important part of this, is that in the 360 degree reviews that we introduced as part of the conversation performance and as part of the principal 8 employee regime that the FSA has, we have a specific commentary on anyone who is a significant risk taker by risk, which is an independent function which sits alongside the business. And they have the right of comment on people who are not behaving according to what they would expect. Also the case, we have not had very many incidents of this because Peter, might describe himself an old dog, but he is actually just like a headmaster, which is probably a better way to describe it. This is just about day on day management and implementing the front office supervisory policy, which by the way was not here a year and a half ago and is now. It is a very rigorous policy which forces people to adhere to the rules on which we run our business. And we have got a lot of belt and braces around this James which we believe are working.

Further question
Can I just ask another slightly technical question on this. When you have got longer term derivatives being booked, you know that don't generate immediate cash and the trend is, I have got to gain.

Answer
They get charged the funding. On day one. And the credit in term.

Further question
Why couldn't you introduce a cash basis accounting for those derivatives?

Answer :

Well we actually look at it on Libor base as well as overnight interest rate swaps. So and the industry is looking. Everything is all marked and all the client compos are at libor. That is what the swap market runs on, obviously as you know. I think that you will see people start to mark books and we are already doing that. We looked at this last year. So it won't just be funding, so that is the old trick, particularly prevalent in some aspects of the inflation market and long data swaps. But you are also seeing markets begin to segment and differentiate and people attempt to play games. And we think we are pretty good at this, not playing games, but going out and tearing up derivates where you have got collateral one way versus someone else the other way. [?] are actually very good at it as well as you would expect. So I think the next iteration of that is one way CSA's and people doing another collateral as opposed to the funding. People have generally worked that the funding curves out on the derivatives.

Further answer
You are not allowed to accrue for derivatives on a cash basis. I would go to jail if I did that. So you have to do mark to market accounting, that is IFRS. However there is this bit that if you can't see visibility than you don't recognise the up front gain. So until you can see visibility you withhold that. And I think our disclosure is around a level three asset, show that we have far less level three assets than anybody else.

Further question
Level two assets don't have fantastic visibility either. Most derivates are level two assets, they are not level one assets are they because they are not on exchange, they are off exchange?

Answer :
Yes, but overwhelmingly level two assets are things where you can get market prices.

Further question
How can we trust accountants and how can we trust you, your dealers to mark these things correctly? I don't get any real feel, we get lots of numbers as good as they can be. I don't know how we can get confidence that the level two things are being marked correctly, given the accountants are in the game as much as the traders

Answer :
I think if you looked at a straight interest rate swap, clearly calculated and priced by the trader and then independently validated by finance and risk on a daily basis, back to market available information. So in the areas where you don't have market available information then it is a level three.

Further question
When you say market available information, that is not market as an equity person would recognise it, it is over the counter market which are being run, which prices are being created between banks with interdealer brokers. I can't see how I can get confidence on those prices. Why can't you just put it all onto exchange and then we can see the volumes of those instruments and we can judge whether they are real prices or not.

Answer :
And certainly the industry, there are many advocates of the approach that you mention and I am sure a large portion of the vanilla bits of the business are headed to exchange. So I think that is happening. But Chris is right, you know the first line of defence is the dealers, they are responsible for marking their books properly. Believe me I understand. And then second line of defence is the independent price verification office.

Further question
When I add up the positive and negative derivative values of the top 12 banks, everyone has got a bigger positive and negative derivative values. Where are all the negative ones?

Answer :
Sitting outside the banking industry. Sitting on company balance sheets.

Further question
And who looks at those and who can verify that?

Answer :
Well you can’t, you are not expecting us to answer that question!

Further question
Well I am just suggesting banks are marking the books in their favour the whole time.

Answer :
I think we would dispute that, but it would be difficult to do that without a whole pile of evidence in front of us. We believe we mark according to the appropriate practices and information.

Further question
If you were pro-active in leading them onto exchange rather than, the magic 12 derivative players in the world, if they were pro-active in putting this stuff on exchange rather than dragging their feet?

Answer :
Standardised business. And you would also suffer because we would never be able to. I mean the vast majority of the best solutions are tailor made, they don’t want to have this type of standardised solution, they want something specific of their own.

<u>Question 5 : Male</u>
Would it be possible to ask about the non core assets, page 16, you have a number of non core UBM. The example you mentioned was correlation I think earlier. Can you give some idea of where they are going? Is any of this stuff going into the ADS scheme?

Answer :
The one thing I would start by saying is that non core is now run very specifically as a separate division. GBM as we have described to you, is the business we run. We do provide expertise where required and we do provide accounting to Chris’ team where required to help non core. But non core is run by Nathan and I am not sufficiently close to the profile of the business.

Further answer :
We have given extensive disclosure on the assets in non core by asset class including that bucket, how it has run down last year and how we intend to run down all those in the year end disclosures.

Further Question
So it is separate, but it is still here?

Answer :
And also, APS has all been disclosed and is probably outside, not really a question for here, but it is all there if you want to discuss it.

Further answer :
Actually it is an important point that non core is not just a sort of sub set of various divisional books just being run in a sort of, in the abstract. Non core is being run as a separate division. It is being managed down to zero. And we are running GBM the core piece of the bank and we are trying to create value in the core going forward. So in some ways trying to create a positive out of an inability to answer your question.

Further answer :
I think we can follow that up. There is a very clear piece in the disclosures which splits out the core and non core between in APS and not in APS. And you will see overwhelmingly the assets in non core are in APS,

<u>Question 6 : Female</u>
Can you talk us through the velocity of the balance sheet and give us a feel for that?

John Hourican
Chris you dealt with this earlier on, do you want to try it?

Answer : Chris Kyle
Yes and I think I passed it straight over to Peter! I mean there are clearly a number of pieces which I will deal with and then pass over to Peter. But in terms of the loan book, you will see that actually we have always worked on the basis that the loan book as sort of 3-4 year type velocity. Actually what we have seen is actually that can shrink quite dramatically, given the ability to focus and have access to the debt capital market. So if you look at the profile of our balance sheet committed to clients, that has actually been reasonably active and I think you know our strategy is to increasingly make the corporate lending part have more velocity. And then in terms of the trading business, I mean Peter you talked it through. It goes from nano seconds to the most penal ..

Answer Peter Nielson
Depends very much on the product that foreign exchange business is rarely in the books for more than 24 hours, they are aspects of the debt securities that sometime range from. I mean the edge on a business like this, in a market marking business like this, your market edge is somewhere between, and I believe very much in focus where your edge is. Your edge is not being an investor. You are not going to take on any of these other guys. There are people like your own institutions,

lot smarter guys than ourselves. So our edge is somewhere between 48 hours and 120 hours. Somewhere between two days and a week.

Further question
For the non derivative trading asset part of the book?

Answer : Peter Nielson
That is correct. And even the derivatives, the derivative portfolio, it is turned over. You know you look at the actual swap risk, I mean there might be sovereign risk that is carried on for over a two week period, you might set up, 27 premier dealers, 12 of them here in Europe, you can set up shorts for if you are going to participate in a Greek auction or something like that, you are going to set up shorts well in advance of participating in something like that. So it might be on our books for a couple of weeks. It may take you 90 days to work out about a particular long dated inflation swap that we are doing with a UK water company or something like that. And again the turnover, and where banks, where everybody got hung previously was everything that ended up and when no one was looking, in all the super seniors that were judged to be likely risk. But on our mortgage portfolio, you know. And we measure a couple of different ways. We measure the actual turnover of our portfolio, but we also look at the actual volume of what is going on in the external market. We do local markets as well. Because where you get hung on this stuff is something looks liquid, you know extraordinarily liquid and then becomes illiquid and the trader says, next week, next week. And then they are not out and it becomes a roach motel. So as liquidity begins to dry up elsewhere, and we haven't seen this yet, but if it were monitoring the actually turnover in emerging market bonds and we joint led Turkey you know two days ago at monitoring the turnover, a Turkish dollar issue and you end up having to have people that run around and actually get that information out of third party brokers, so that you are able to see turnover begin to dry up of positions that at one point you may have had a 2-3% share and been comfortable with that and then as turnover dries up, you are less comfortable with that. So you monitor not just your own positions, but also the environment with which you can extinguish the risk.

John Hourican
That is a fundamental change in the way we think about that. So it is not just about our own historic experience, it is about our experience in the context of the liquidity of the market. And actually some of the rules we have around, for example, the mortgage businesses as liquidity dries up, the days come down dramatically that you can hold the stock, hold the inventory.

Further answer : Peter Nielson
And then you overlay that with stale charges. You know the problem is you are going to get costs into, you have got to devolve costs into the trading book. And if costs are into the trading book at the dealer level, which actually changes the mark, that is the way you do it, the stuff is marked down, it gets old.

Question 7 : Male
I have a question on slide 14, where you show the core GBM back in 2007 and the core GBM now. Basically you have reduced the size of the balance sheet by a third and you almost doubled the revenues. And I hear what you are saying about the first quarter and the second so forth being

mainly more normal quarters. But even if I was to take that benchmark I would still be significantly above 2007 which was the best year ever for the industry.

Answer : John Hourican

Let me give you one observation on that which I think is an important one. The historic GBM balance sheet became very passive. So a lot of this balance sheet is not about productive revenues and fundamentally about a low return on assets and excessively large inventories sitting on the balance sheet.

Further Question

It was the case for the industry. I guess almost every investment bank could put that chart, 20-30% reduction in assets and revenues being up at least 50% or so?

Answer : Peter Nielson

And that is actually true and John has does have the vision at a wider level. But I will just, if you drop if down to the FICC level which is the majority of our markets business and you actually. And we have done this benchmark because everybody was focused on, you know dropped from first quarter income. And we had a very successful first quarter and other elements of the market did too. But if you go back and benchmark where we ended up, the entirety of ’09 versus the entirety of ’07, you know, there is only one other firm that built an FICC that has a greater percentage increase in both market share as well as revenue and bottom line over FICC over that period of time and that is JP. 65% increase in our actual business ’07 to ’09 which is reflected in one of the, it is not the entire story, you have got ABN’s run in there, you have an equity story now.

Further question

So which business was in FICC did you grow the most?

Answer : Peter Nielson

Everything. Currency business, local markets business, rates business, the US government bond business. Number two ranked US government bond dealer. And that wasn’t the case in ’07.

<u>Question 8 : Female</u>

Given that, Stephen Hester talks about GBM doing kind of £2 billion of revenues a quarter, but if you kind of, even extrapolating on what you do in the second half, that doesn’t seem that challenging of a target, if what you are saying about the rest of your business is.

Answer : Peter Nielson

Okay, so let’s talk about some of the headwinds. I think, you have got people chasing market share. Everybody wants to be a top 3 or top 5 player not just in equities, but in everything. You have seen that spread compression going on in the industry. There is, we have got challenges on the market share front. I am not going to sit here and tell you that I am adding or maintaining market share on every single product because we have got great businesses and people are after us. So I am losing here and gaining there. So I won’t comment. I will let John and Chris talk about that, whether or not that number is challenging. But I think markets from an industry point of view as well as the idiosyncratic risk that we run, that we have got work to do.

Comment
It’s a Cabinet view.

Further answer:
I think one of the points you raised at a different meeting Peter was, you know, we are beginning to see the turn of the cycle in terms of interest rates. That is bound to have some sort of transitional fake in terms of some of the FICC businesses. So maintaining that sort of number requires the credit businesses and the equity businesses to continue to push ahead. It does require Marco’s strategy in terms of ECN and DCN continuing to push on without faltering. So there are some headwinds. That is not a bad starting foundation point to build the strategic step and the only thing I would say is we tend to have a bit of seasonality with a bit more in H1 and a bit less in H2.

Further answer
I think we can say we are well positioned into the first half. The question for us is maintaining that momentum in the light of the market conditions which remain very competitive.

<u>Question 9 : Male</u>
On equity derivatives, didn’t you say you were big in equity derivatives in the US?

Answer :
No. So we would not be big and the equity derivatives as commonly defined by many of our competitors which would be institutional equity derivative business. That is a business that we are focused on. We have an equity derivative platform. We think we are quite good at it. The equity derivative business, the channel that we think that we are a bona fide top five player in Europe, is distributing a mix of equity derivative into our structures retail product channels. So number 3 in Germany, I am number 1 in Holland and number 2 in the UK. And those are 30,000 securities, on an average month that is 36,000 trades and those are done, cut and diced and risk managed into the other equity derivative platform.

Further question
And then in the US?

Answer :
So we are not going after the big guys in the US market. So in the US, we distribute our international product to global by side firms, the stuff that we originate in both Europe as well as Asia. And we have a very, very modest equity linked business on the convert side, where our banking franchise in North America allows us to actually participate in a modest way in some of that new issue business.

<u>Question 10 : Male</u>
On slide 29, is that, when you on the bottom, right hand yellow circle, is that Basle 3, that we understand as Basle 3 or are you not giving it a name?

Answer :

So the left hand top bubble is effectively what you are calling Basle 3, and there are further changes to the CRD which have this longer phasing which people are beginning to call Basle 4 and Basle 5. But I think the market lexicon of Basle 3 is very much about that top left hand.

Further question :
That's Basle 2 ½ ! And I was reading Christienne Le Garden, French Finance Minister or Economy Minister. She was saying she was going to block Basle 3 because the US banks are not on Basle 2 yet. You have got a transatlantic business with a huge US business. When you are trading against in Stanford when you are trading against Bank of America and Wells Fargo, what playing field are you all playing on? County wise, legal wise, regulatory wise? I don't really understand.

Answer :
Pretty even so far.

Further question
But they are not on Basle 2 and you are pretty much on Basle 2?

Answer :
We are on Basle 2.

Further question
And they are on US GAP, I don't really get it.

Answer :
And that is the reality of where we are at. So Basle 2 is meant to harmonise and as these rules come in, they are to be done in a uniform way. But as you say, I mean some of the introduction of some of these rules has taken more time in some jurisdictions. And as you say, the US rules and for some of the firms are more penal. For some of the broker dealers in the US and some of the accounting regimes is more difficult for them. But we are roughly in the right place in a competitive position today. However it does require the industry to move instep when it comes to these kinds of radical changes.

Further question
Is that swings and roundabouts the same place? You can do stuff they can't do and they can do stuff that you can't do?

Answer :
In the US you operate under US rules.

Further answer :
And we begin to see most of the competitors that we have you know beginning to focus on [?] 3 and [?] 4 changes regardless of the jurisdiction they are under. So everybody is trying to tear up CDS now to reduce outstandings and shorts and mortgage risk etc. So as the gentleman pointed out, there are swings and roundabouts, but it doesn't appear to be too tipped a playing field.

Further answer :
We are not seeing a huge arbitrage market.

Further answer:
Siddons still operates under Basle 1, it is a local US data bank. We have a US broker deal the same as other US banks have US broker dealers in the US, but we need to be careful about these changes that they are you know harmonised on a more level playing field. So that this doesn't happen in future.

Further question:
So they need harmonisation, is that what you are saying?

John Hourican
I am not commenting.

Further question
They are harmonised anyway?

Answer : John Hourican
I think we are saying in the competitive landscape we operate in, in the liquid businesses that we have in the States, our US business is a dealership and a very liquid FICC business. It is not competitively disadvantaged today in competing against all of our competitors whether they be international or specific to the local market.

Further question:
Obviously there is Repo 105 figures in the papers. Had to go through the UK to get the legal. And then in the UK apparently it goes on the balance sheet and in the US it doesn't. It is pretty difficult to understand exactly the regulatory arbitrage that was going on, you know legal arbitrage or country arbitrage that was taking place. But it made it sound like there is quite a lot of it going on?

Answer: John Hourican
It is not a business which we are set up to make money in and doing arbitrage between regimes. That is not what we are doing.

Further question :
They were doing something clearly because they wanted to show a smaller balance sheet in the US?

Answer :
You would have to ask Ian Wye at Lehman's why they were doing what they were doing. I mean US GAP clearly allowed that kind of accounting treatment. We are an IFRS house. IFRS does not allow that kind of treatment. So that is just, there has always been these accounting differences when you have an international accounting standard which is not an international accounting standard.

Further question:
So they can have a Repo business and you can't?

Answer :
Well no, it doesn't change the economics of the Repo business. What it has done is enabled in this particular case, the counterparty not to reflect it as a balance sheet footing. So it is a presentational issue driven by the accounting. I don't think it changes the competitive nature of the Repo activity. I mean you are still going to be pricing at certain prices. You are still having to fund at certain levels. So those are the true economics. But clearly Lehman's took advantage of Repo 105 to not display that as a balance sheet footing for whatever reasons they did it.

John Hourican
Do we have one or two burning questions or are we?

<u>Question 11 : Male</u>
[Difficult to hear].. we can't get these on current capital and risk weighted assets allocation. It is not including the additional £60 billion of risk weighted assets you mentioned?

Answer : Peter Nielson
It is what we expect today in the horizon we are looking at, we still expect to be able to generate a 15% return on equity for the capital deployed in the year in which we will be operating.

Further Answer :
And just for clarity, the £60 billion is a Group level. So roughly 50-50, 60-40 is between core and non core. So that gives you a sense.

Further answer : Peter Nielson
So it includes creating capacity for current regulatory change that we can conceive of.

<u>Question 12 : Male</u>
Just one question on people. Can you just comment on the extent of unwanted attrition you have seen and also the risk of further attrition given that obviously you have a somewhat limited bonus pool and also you have government stakes. How is attrition looking in the business?

Answer : John Hourican
Let me reverse it. First of all, we believe the bonus pool was competitive in the business and it is important when you look at the business mix of our business that you recognise the degree to which we have significant fixed income businesses rather than equity and MNA bias of some of our competitors. So when you look at the [?] revenue ratio of this business versus our other businesses, it is important to make sure that you contemplate that bias. So that gives you a better feeling for whether we have a competitive level of pay by reference to the revenue in the business. And we would argue we are at the conservative end of competitive pay in the year just gone out. So that is a first point. The second point is in terms of, we have certainly lost people we would not like to have lost during the course of 2009. But that is the case every year. It is in the hiring of people in to replace those people that we are certainly deploying a lot more management effort than we would have historically deployed. But we have also been able to attract people into the

organisation and continue to attract. So a lot more effort, certainly more vigilance and certainly a heightened risk around people. But today, I would say to you the level of turnover in the business was higher than we would have liked it to have been, particularly at the more 4's and 5's talent end of the spectrum. But the people we have hired in on average are as good as or better than some of the people we had lost. So we sit today with a bench of talent that we believe is totally fit for purpose for the business we are trying to run, albeit we are totally cognisant as a management team of a heightened risk around people. Not just because of our own circumstances, but because of actually it being a relatively hot market in certain spots for the usual city merry-go-round.

Further question
Do you feel that all investment banks are partly constrained from growing their investment banking businesses because they have got a constraint of the size of the investment bank within the overall? Barclays sets a target, BMP sets a target.

Answer: John Hourican
I think probably yes, but I think there is very little real beatable direction in terms of the environment we are looking out into. There is a lot of uncertainty and fragility around the economy and regulation and the sort of political interventions worldwide and that gives us all a sense of nervousness. That does put a natural constraint on you as a manager. But I am not going to sit here and comment on my competitors actual thoughts.

Further question :
You are all targeting roughly 35% - 40% as a percentage of the Group.

Answer : John Hourican
That just maybe great minds James.

Closing comments
Anyway, I hope you found that useful. Very pleased to have done it. Thank you.

End