UK Corporate Investor Roundtable
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Chris Sullivan
CEO, UK Corporate Banking
& UK Corporate Executive Committee

So welcome everybody. I'm Chris Sullivan. I'm the CEO of UK Corporate Banking. In fact I am the CEO of the Corporate Banking Division so I also look after GTS in the Group. We are not going to talk about GTS today, but GTS is our transaction banking and cash management business, which sits in 38 countries. That is for another day. Today we are going to focus on our UK Corporate and Commercial franchise.

It is worth me introducing my colleagues here who are going to help me with the Presentation. So I've got David Thomas on my far right, Chief Risk Officer, Mark Catton who looks after the Corporate and Institutional franchise, Ian Cowie who looks after the Small Business and medium size market in Business and Commercial. And Nigel Bretton, our CFO who will talk us through the numbers.

We don't often talk to you about this business. It is a business that doesn't get an awful lot of focus from the Group on an external basis. So it is the first time we have talked. It is a great business and hopefully we will show you the power of it over the next half an hour, forty minutes or so. It is a business that has been under invested in though and I guess that's not a new message to some of you around parts of the RBS Group.

We are looking forward to telling you more about it. We want to tell you in particular what it is, what its strategy is going forward, some early results of the turnaround and putting that strategy in place. We want to talk to you about the opportunities we have got from the platform we have built and in particular, we want to talk to you about why we think it is so important as part of the core franchise for RBS going forward.

We envisage the Presentation taking sort of 45 minutes or so and if you can leave the questions to the end that would be great. If you have got a burning question obviously we will take it, but it might help it be a bit smoother and help us to get the messages out if we leave it that way.

So I intend to give you a quick overview of the Division as a whole and then I am going to hand over to Nigel to do the financials. David is going to do the risk management. Ian and then Mark are going to talk about the customer franchises that we have got.

If I can take you to slide 4 in your pack. This should be a slide that you are familiar with anyway, it is a Group slide. It shows where UK Corporate fits within the Group. In particular it illustrates the significance of UK Corporate to the Group. On the right hand side you have got the core revenues by Division. And you will see UK Corporate 16% of the Group's core revenues. That is on a standalone basis as you report it. Obviously it drives more than that on a franchise basis as it interacts with other parts of the Group. You will also see GTS in there at 10%, that is one of the core partners of this but I will show you connectivity a bit later on.

It is a pillar of the RBS Group Strategy. Stephen talks a lot about the shape of the Group as we build it out from a core perspective. Obviously it sits with the Retail Businesses to form that whole Retail and Commercial piece, which ultimately we envisage being about two-thirds of the Group with our Investment Bank being a third of the Group. And this particular business is anchored truly in the UK.

I will take you to slide 5. This sort of sets out what the Division is, so basically all businesses that bank with RBS in the UK bank with this Division, with the exception of a very small number of multinationals that deals with GBM. So it is FTSE top 250 right the way down through to the local store on a complete geographic basis in the UK. We segment the business into two at this level by size. We use turnover as a proxy for complexity. And when you get to see the numbers for the Divisions or the Sub-Divisions, the Sub-Sectors split out, you will see actually at a top line level they are roughly equivalent, in fact they are remarkably equivalent. But that is about where the similarities end. After that the characters are very different indeed. And the models therefore that we use to address the market are also very different.

One thing though that is fundamental to us is that we tend to learn the lessons from the big companies and we try and feed them down through to the small elements. So there are a number of key areas where we will lead the Divisional activity in Mark's business and that will set the scene for the whole. A good example of that would be in liquidity and deposit raising, where the thought leadership occurs in CIB, the strategic direction begins there and we deploy vertically throughout the whole business. Exactly the same for real estate. If you go back a couple of years ago, real estate was a bit of a free-for-all if you will in the business and commercial area. Today a very limited number of people are allowed to originate real estate transactions for us and against an appetite which is set in the CIB business and deployed in B&C.

Other things on this particular slide that are important include its strong profit contribution in 2010 of £1.5 billion. It is a very resilient business. So if you look through the cycle and at 2009 in particular, we think that this is the peak year for impairments and the Division reported £1.1 billion of profit. Now I know you are all going to look at me and say, yeah that is because you have split out the Non Core stuff. But actually if you put the Non Core stuff back in, it only just drops back into loss. So UK Corporate dropped back into lose marginally in 2009 and then came firing back out again in 2010 against a pretty difficult economic background.

As a proportion of the Group, we talked before about it being 16% of the revenues, but the Division represents 21% of the profits. The division is hugely important in the Group. It is the biggest liquidity contributor that we have got and it is a bigger deposit raiser than our retail franchise. Collectively UK C and GTS, the two businesses I look after together, raise £180 billion of deposits. In just the UK C franchise, there is £124 billion of liquidity and significant improvements have been made over the last couple of years or so.

If I push you onto slide 6. I am not going to keep you long on this. You can tell airbrush technology has improved a lot over recent years. This is my team. I have been in this particular role a couple of years. I have been with the RBS Group now for just over 36. It is a strong team that we have put together here. Very diverse skills and despite the youthful looks on the pages, every single one of us has got more than 20 years experience in the Corporate Banking arena. Some from within RBS, some people have been recruited from outside of the RBS sphere. In our appendices there are detailed profiles of us all.

If I can move you onto slide 7, this talks a little bit to the franchise and the strength of the franchise. So on the left hand side you see leading market shares in all of the key segments of the market in the UK. Customer satisfaction scores which show a pretty decent customer

perception, market leading in most, but there is not much differentiation in the market. That is a key point. On the right hand side you can see quite a lot of effort going into improving the service over recent years.

Having said all of that and whilst it is a strong franchise and it does compare well against the peer group, you can never say this was world class in service perspective. You know, if you have got scores in the 60s and 70s in terms of very satisfied, that does not compare well with lots of other industries. It might be okay for banking, but it certainly isn't okay for the customers as they go forward. There is increasing pressure now in demand from customers for a much, much more value added contribution from their banks and very much of our strategy is embedded in that going forward, and we will talk a lot more about that.

Competitive market. It is worth noting that obviously these market shares are going to change when we dispose of some business to Santander. I think that has been well trailed. We will lose about 5% market share on average across the segments when we complete that disposal to Santander. Firmly committed to the rest of the franchise and building on the strength of it, in particular through customer experience, will be covered by Ian and Mark in more depth later.

Moving onto slide 8. What I have tried to show you here is a demonstration of the connectivity of the Division within the rest of the Group. I would suggest this is probably the most deeply embedded and connected Division with the Group as a whole. We have given you some numbers around the interactions within each of the other elements of the Group that are major partners. I guess it is a prime example of the value of our universal banking model and how it works for us and in particular we believe it works for our customers. Again, we will give you more detail later as we get into the individual franchises.

Building on that through to slide 9, I think this particular slide illustrates the value that is created by connecting this UK franchise to other parts of the Group. So you are talking about an extra billion in revenue, an extra £500 million in operating profit. A franchise that is comfortably self funded, in fact it is a net contributor to the Group with a net surplus of around £12 billion currently. On a franchise level, we are already above the 15% ROE hurdle we have set and on a stand alone basis, just over 12%.

So I think it is a good base from which to work on but there are significant other opportunities which my colleagues will address a little bit later, in particular, further synergies around making ourselves much more relevant to the customers.
The final slide I am going to deal with in this particular, the start of this Presentation, is just our strategy and how are we going to do this. So we intend to be a world class business. I guess you have heard that lots of times from lots of people. But what does it mean? Well I think it is an important aspect. If I was choosing to benchmark us I wouldn't choose British Banks to benchmark us against. I think it is fair to say, as I said early on, there is nothing particularly world class about what we do for our customers in the SME sector right now. However there are good examples around the world of good things that are going on. I spent a significant amount of time last year in other countries. I was in Brazil, Australia and America. I was in India and was generally talking with our partners from GTS, our correspondent banking partners. They did open their doors to me to look at what they do in the Corporate and the Commercial world and there are some brilliant examples of absolute top quality practice in Brazil, in Australia in particular and in India to a degree. Nobody's model works here in totality, but bits of them work very well here and are very applicable. What we have tried to do is take the best that we have seen in the world and import it into our model and our strategy going forward.

I lay it on the strategic imperatives on this slide on the left hand side. If I was to articulate it in one sentence, what we are really trying to do is differentiate us to make relationship banking

really work for customers. My contention is for a lot of customers in the UK, it doesn't really work well enough yet.

There are five elements to it on the left hand side. I have tried to suggest where we were at the end of 2008. I have detailed some progress in 2009 and 2010 and I have also shown you the aspiration we have got at the end of our strategic framework timescale which is c. 2013.

Just a couple of things I would pick up in terms of progress, which I think shows that we are on the way. We have launched an SME Charter in November 2009. It isn't the Charter you will see all round the UK in terms of the TV and things like that. I haven't quite got a Retail Budget to do this. So we did it by the newspapers and online. But basically what we have done in Phase 1 is to take away the things which we think our customers have been telling us are irritating them most. So we took that away, we dealt with some things around certainty and transparency, so our overdrafts are no longer on demand for our SME customers. They are in place for 12 months and guaranteed. We have guaranteed on renewal and the renewal will occur either at the same rate or a lower rate if credit metrics have not materially adversely changed. We have guaranteed that in one year, lending fees will not exceed 1.5%. These are all bones of huge contention within the SME market.

So the Charter set out to give our customers the base level that they want. That is not enough for us in the future and we will talk to you a bit more about how we want to take that and add value to customers. I think we can add value in three ways. We can help their businesses take risk out. We can help businesses take cost out and we can help businesses grow. Those are the three things that are fundamentally important to them. Those are the three things that banks can do a lot about and we seem to somehow get ourselves embedded in the only thing we should do is lend money to SME's. That is crazy. We are underplaying our capability here.

Other things I think are important. You know, just by putting some focus in, we increased our deposits by 14%. Our connectivity and internal behaviour. A 13% increase in income in that period of time. So significant improvements so far, but a lot of potential to go forward. So I guess you could ask me one question, one key question in all of this, is none of this is rocket science, why haven't you done it before? I think the answer to that is really, if you look at RBS in the last 4-5 years, there was talk about doing some of these things in 2006 and then we acquired ABN and the business became hugely internally focused. Just about all of the future improvements were cut as budgets were cut and so all work that was going on in systems etc was around integration. And then of course you had the economic crisis and everybody began to fire fight, we became very inwardly focused as a whole.

So we began our new journey really in 2009. I think you will find in this pack we have been quite self critical and I think I need to just put that in context, okay. Nobody does this well in the UK. I think we do it better than most, but the model is old in some respects and needs to be improved, and that is what we really want to talk to you about as we go forward.

So I will hand over to Nigel now to talk about the numbers.

Thank you.

Nigel Bretton
CFO, UK Corporate Banking

Thanks Chris and good afternoon everyone. If I can take you to slide 12. As Chris said, we are pleased with our progress in the past two years. UK Corporate delivered a 30% operating profit growth in 2010, whilst increasing our funding by £12 billion through the deposit growth of 14%. At the same time we used fewer RWA's, they were down 10% as you can see on the slide there.

If you look at income, it is up above 2008 levels and the 9% growth was in our assessment, pretty favourable compared to our peers. The income growth was driven by asset margins, deposit volumes with the deposit margins being down. If you look towards the bottom of the page, you can see the NIM grew strongly in 2010 by 29 basis points, driven by that asset margin.

If you look at costs, from 2008 to 2010, they are broadly flat once you take out a one off item in 2010. There is a bit of a story behind that, which is worth expanding on. In early 2009 we took cost cutting action that involved something like 1300 FTE's leaving the business, about 10%. And since then we have been carefully investing in particular in our risk control and regulatory environments, very important. And further, and something new which Chris has alluded to, we started to invest in the front end of the business quite substantially. And there is a bit of growth that occurs through some of the revenue related items like operating lease accounting that grosses up the costs a bit.

The cost/income ratio at 43% is a bit favourable to the 2011 target that we set a short while ago. If you look at impairments, they were down 18% in 2010 and we will comment on those trends and the book dynamics in more detail later, particularly when David our Chief Risk Officer talks.

You can see that customer loans and advances were flat. There is quite a bit of texture behind that and I will come onto that in a moment. As Chris noted, deposit growth has been very strong. Across the two years we think we have outperformed the market with 22% growth, £18 billion added. And the loan to deposit ratio at the bottom of the page, 110% is substantially favourable to the 2013 published target actually of 130% or less. There is obviously a lending and a deposit angle to that.

If we now move onto slide 13. We just dig into cover the items a little more, or illustrate them a little more. So first of all, on the top left you see the dynamics of the NIM and you see how that it has been driven by strong asset margin performance, that is through front book pricing as well as repricing the loan book which we estimate to be about 70% complete now. And it has allowed the building of prevailing funding rates into our pricing and rebalancing pricing for risk. The low interest rate environment as you will be very aware has suppressed our deposit margins, have needed to compete on price and so on to bring in the volumes.

If you go to the top right chart, this just digs in a bit onto the 2009/10 cost movement. It is 9% headline, 5% when you remove the one off items and the driver of the 5% growth is that investment in risk control, regulatory infrastructure and so on and also the new investments at the front end of the business that we are building in.

If you go to the bottom left chart, this is an important picture. What this shows is that we have delivered so far in our strategy to do the right thing in our lending portfolio for our customers and our shareholders. So we have grown corporate and commercial lending, excluding commercial property by 4% in 2010 whilst taking commercial property lending down by 9% in line with our strategy and that is how you get to this flat year-on-year position. And then you see the last block on bottom left of 13. You see the RWA improvement of £9 billion or 10% and actually that was after absorbing a £3 billion model enhancement, model change that we put through.

Finally on the bottom right, you see the trend in the growth in deposits, very consistent focus there and the loan/deposit ratio, the line coming down as we talked about earlier.

On slide 14, we start to now give you some information that is not been available in our published reporting. This is splitting UK Corporate between Corporate Institutional Banking and Business and Commercial. And the financials here reflect the quite different customer franchises that we have here and also their position in the economic cycle. If we start with CIB in the left hand column and I am going to focus on the sort of metrics at the bottom more than anything. CIB has enjoyed actually two years of strong return on equity, 17 plus percent. It is above the Group's long-term minimum target of 15% for its businesses. And that is from its strong portfolio pricing discipline. It has also benefited from the ability to early identify the problems in the portfolio and put them into Non Core back in 2009, so some beneficial aspects coming from that. The low cost income ratio, which we think is strong relative to peers, reflects a strong income performance and also a lower operational cost to serve in this part of the market with, as Chris said, the intellectual capital driving the business more than large-scale operations technology capabilities and resources.

The CIB NIM has grown strongly from the asset pricing. The rate of growth of asset margin started to slow in line with the market we believe. Deposit margins pretty fine as you can see at 0.34% in 2010.

If we now look at the Business and Commercial, the ROE there is 9.6% whilst that is up on the previous year, it is obviously below hurdle. That is partly due to the fact that in this business with its very large customer base, we couldn't identify all the problems at the outset of Non Core so you see a portfolio here that is more broadly reflective of the wider economy. Secondly this business took a bit more of an income dent in 2009 and so it is recovering from that.

If you look at the cost/income ratio, this reflects the cost of service dynamics for a 1.2 million customer base, as well as somewhat the income dent that I referred to. If you look at that interest margin, it has grown strongly on the back of the asset margin growth. That is still improving. We are not seeing a slowdown in that particularly. The deposit margins have suffered, but not to the same extent as they had at the larger end of the market.

Impairments, as a percentage of loans advances, you can see the absolute number half way up the page, come down in 2010, still at a meaningful level. That is reflective of the points I mentioned earlier around representative nature of the UK economy. We will come back to impairment outlook.

Finally on this page at the bottom right, we have included a chart of non interest income. We think it reflects the broad product range. It is worth pointing out that a couple of the small segments there, electronic banking, and international trade and actually money transmission as well, most of that is booked in the GTS business for external reporting purposes.

If we now turn to the outlook and on slide 15. What you will see on slide 15 are the economic assumptions that have underpinned our planning. We think they are slightly conservative relative to consensus. And you can see quite clearly in the medium term, it won't surprise you that the assumed economic outlook is somewhat flat, quite challenging and that recovery is gradual. The key dependencies I guess we have are on interest rates to help the net interest income growth and to restore that. And impairments will be impacted by the GDP dynamics unemployment statistics and slow down in insolvencies.

So we move into slide 16. What we have done here is sought to give some indication of how we see our plan unfolding across the near term and the medium term. And it is reflective of the economic assumptions you saw on the previous page. We believe we have good

momentum, hopefully you have seen that in the financials already and will hear more from the Business Heads about that. And therefore we think we can weather the near term outlook with a robust performance. And if you look at income, we see it as being fairly stable in the short term, slightly up going further into the medium term. The costs we are managing to a broadly flat trend, whilst supporting our investment on impairments. We expect them to be actually slightly down in the near term, I know the arrow looks flat there. We think they will be slightly down in 2011, all things being equal, you never can quite tell, but that is our expectation. And the loan to advance percentage impairments potential of that, 0.7% you see on the slide there. We see a normalised percentage about 0.6 or maybe slightly below that and we see the split of that something like 0.4% of the CIB, O.8% in B&C as we go into the medium term.

Looking at the balance sheet, the loans and advances. We see slight growth in net lending volumes with continued client deleveraging in the shorter term whilst we continue to focus on our gross new lendings. As Chris mentioned, we have exceeded our commitments and the targets there last year and so far this year, it is early days, but we are meeting the gross new lending commitment targets that we have been given.

On deposits, as you know, the market is becoming increasingly price sensitive. We continue to focus on the growth there and expect the percentage growth to slow somewhat. We are focused very much on getting the right quality sticky deposits into the balance sheet.

On NIM there is some near term pressure. We expect it to grow just slightly in the near term, which is reflective of the competitive pressures again on the deposit side, but also in the larger end of our book we have seen the asset margin rate of growth decline as I mentioned.

I guess we can sum up because the important point actually arching all of this is that we are focusing very much on economic value and good reflection of that is the ROE, return on equity. The bottom right of slide 16 you see a chart showing the components of ROE into the medium term. We believe we will comfortably exceed the 15% hurdle rate set by Group. And we will do that by strong operating profit performance and we will do that with efficient capital management.

So on that note I am going to hand over to David Thomas to take you through the risk section.

David Thomas
CRO, UK Corporate Banking

Thank you. If you could please turn to page 18. So firstly the objectives from a risk management perspective are pretty clear. It is to deliver risk management capability that can sustain that AA category rating, which is our stated aim. And doing that very much through the stability of earnings. So this afternoon I want to concentrate on credit risk because it is obviously such a significant driver through the impairment line of our numbers right now.

If I could talk about where we were pre-2008. The credit framework was very single transaction focused. It was quite federated and the results of that were that there was, as you will be aware, we built up a number of single name concentration exposures above where we would like to be. We also built up real estate concentrations which you will also be familiar with, but also it was quite difficult for us to get a very consistent asset quality through the origination platform. So what we have done since then to fix that situation and to bring it up to more of a world class standard is to implement a very strong risk appetite framework. We have made significant progress on single name concentrations and we have also made very significant progress on real estate towards a medium term aspiration of getting to round about 20% of the balance sheet.

So if we could turn please to page 19. And that very much talks about the risk appetite framework itself and the real message is that we have significantly strengthened the control of origination and also the portfolio at the back end as well. So you will be familiar with the Group stated objectives in terms of capital adequacy, stable earnings etc. And what we have done at Divisional level to calibrate into those has been to set very strong volatility targets for the portfolio, so to look at the volatility of it over time. And very much then drive through the shape of the portfolio that we are trying to look for so that it is at the target balance sheet.

If you then look at the middle of the page, you will see the bars that say sector appetite, asset class/product, and asset quality. Those are the lenses through which we drive risk appetite. So to give you an example. In real estate we would take a strategic view as to how much we would like through the target balance sheet process. We would then look at the subsectors of real estate and put appetite around those. We would look at types of property. We would look at the regions that we are in again to try and put an envelope around those. But then having done that strategic level view, you then have to drive that through into the business to make sure that the origination platform is actually originating to that appetite and we really do that through the detailed transactional credit policy. And we have been through all of the sectors over the last twelve months to drive that into the business so that we are confident that what gets done at the front end exactly fits with the risk appetite that we are trying to achieve.

So if we maybe have a look at some of the results of that which is page 20. So the top left hand chart is really just a snapshot of the evolution of our balance sheet which over the medium term we are trying to churn so that real estate comes down, the other sectors where there are strong growth potential that we grow those sectors as well. If you look at the charts on the bottom left, you will note that new business origination quality is significantly stronger than the existing portfolio. But the important thing to note is that we have not done that at the expense of volumes. So volumes have continued to be strong as you will note from the note below in terms of £48.2 billion during 2010.

If I now turn to the concentrations and therefore the volatility of the portfolio as well. If we look at single name concentrations which is the top right-hand chart and those have come down through very detailed customer activity over the last 18 months by about 50%, and that drive will continue over the next 12-18 months to get those within the appetite that we have.

On the real estate side you have already heard from Nigel that has come down broadly by 9% in the last year. I think the important thing to take from the chart here is that the makeup of the real estate book that we have here is very significantly skewed towards investment property and in fact from a pure speculative position, we entered the recession with less than half a billion of speculative on the commercial side. So this has been very much a portfolio that has been built looking at the rental income coming in as opposed to the loan to value ratios.

If you look across our portfolio as a whole, the top two tenants would be Government first, financial institutions next. So there are some very strong covenants in that portfolio right now.

If I then turn lastly to impairments which is slide 21. The first thing you should look at is the top left hand and there are two lines on there. The dark blue line represents the numbers that you will be familiar with, i.e. the loss rates for the core Bank over the last 2-3 years which are broadly flat. What you also see on the dotted line is what we would see as the total that has come out historically from this book. So that includes the noncore assets that were previously in the Corporate Bank. And so when you are comparing us with other

institutions, the sort of shape of the impairment line is more the dotted line than it would be the dark blue line because we have put quite a lot of the expected impairment into the Non Core Bank. We do expect, as Nigel suggested, that we will get back to normalised levels of round about 60 basis points on average through the cycle, but we obviously expect that to fluctuate quite a lot around that mean.

If I then look at the bottom left hand chart, that really highlights that property and house building continued to be quite strong in terms of the amount they are contributing to up impairments right now and we don't expect that percentage to change dramatically as the impairment levels come down.

If we then turn to outlook, so the top left hand graph shows the current values of assets we have in watch list right now. So not in the recoveries area, but in the pre-recoveries area. So the ones that have special attention. It is obviously a very positive trend for us that we have been seeing that coming down broadly for the last 9-10 months. There is some differences between the two businesses. So as you would expect at this point in the cycle, the larger accounts are getting better quite quickly and so you see the CIB dark blue getting better, but you will see still a very steady flow in Business and Commercial and underlying that the volumes are going up but the values are staying broadly the same. And what that is telling you is that there are smaller companies struggling a little bit which is exactly what you would expect to see at this point in the cycle.

If we go then lastly for me to the bottom right, that shows the stock that we have in recoveries right now. Bear in mind that recoveries, things can stay in there 0-3 years so what we would expect to see towards the tail end of a recession would be reductions in watch list and we are seeing that. But we would also start and expect to see a flattening of the recoveries which would last quite a few months and then a slow decline in those as well. And so if you look at these two graphs together you can see that that is the trend that we believe we are seeing right now which does lead us to think of 2011 impairments being slightly down on 2010, again normalising to that 60 basis points.

So if I can now hand over please to Ian Cowie, Chief Executive, Business and Commercial.

Ian Cowie
CEO, Business & Commercial Banking

Thanks David. Good afternoon everybody. So B&C faces off to the SME business, SME market. In the last couple of years we have brought all of the SME businesses that serve the SME markets, under one roof. That is not the norm. If you look at other businesses across the UK, other banks across the UK, then quite often you will find the micro market, the scale end of that business sitting within a Retail Division of a Bank. So we are the only UK Bank to do that. We have done that because it puts us in a unique position we believe. It allows us to see the end to end journey for the customer right through from start-up to maturity. So an important part in supporting customers which is where our focus has been.

So top left will give you a snapshot of the business. Four core businesses that sit within it. The Business Banking faces off to the Businesses turning over between £0-2 million in revenue streams. Commercial Banking £2-25 million and then Invoice Finance and Lombard Asset Finance both of those businesses contain corporate franchise that supports Mark's business in CIB as well.

Bottom left, characteristics of the SME market. Pretty well made I think and set out. Clearly this is a sector that will play a key role in the economic recovery within the UK. And we believe that we are very well positioned to take advantage of that as growth comes through.

Especially if you look on the right hand side, the broad reach and capability that we have got across the franchise. So very well positioned is how we see ourselves.

So move from 23 to slide 24. Very strong franchise as I have said based on a deep understanding of the customers and the markets that they operate in. Top left you have heard from Nigel on the franchise view. The numbers that we report on the standalone basis, there are revenue streams of about £500 million that are not as easily visible and they report in different parts of the Group but clearly are hugely important.

If you look across to the right hand side, top right, a good example would be the current account balances that we report from the Commercial Bank through to GTS. So if we added those back in you can see that from a franchise view, the business would be self-funding. And that immediately below has a corresponding knock on effect. So today we see on a standalone basis, the ROE at 10%. So 10% on a franchise view is much closer to the Group hurdle position.

If I move you to slide 25. We spent quite a lot of time fixing the business as you have heard and this slide really just sets out some of the key metrics that we have and the progress we have made in those key metrics. So deposits up by £7 billion, continued to reprice the asset book, both the front book and the back book, probably through about 70% of the back book. But as you have heard from David, improving the impairment profile as a consequence of the better risk disciplines put into the business and the continued focus on the reduction of our real estate concentrations.

So important slide, bottom right. It has been really important for us to keep our people fully engaged as we go through this process. We have invested and continue to invest in the leadership capability. And we are seeing those results come through. In the latest survey that we have undertaken on engagement, those numbers are now up to 66. So good progression continuing.

If I can move you through to slide 26. Top left, so this is where we believe we can unlock some value across the franchise. So we are pretty much on a par with the market. But if you look at the slide below you can see we are still some way off best in class. So still plenty of value to go after and that means the product capability that we have got is very strong, but we don't deliver it as well as we could do to the customer and that is where the focus are and will continue to be. So things like making better use of the data that we have to support the RMs, continuing to upskill the RMs across the business and beginning to join up the propositions is the piece that we think will add further value and give us quite a leap across the franchise through that scale.

Comment - Chris Sullivan

So Ian talked about upskilling the relationship managers, just to put some colour around that. I have made a policy statement around here that all the bankers that we have got are Relationship Managers in future need to be qualified. So that hasn't been the case or anywhere near the case over the last 10 or 15 years. And you get a very big push back from our smaller customers that you know 'Can I have my old Bank Manager back?' And so in effect that is what we are going to do. So every single one of our managers is now going to be qualified. If they are not qualified already, they are going back to school in effect. There is a curriculum, it is a very clear curriculum across understanding credit, understanding cash flow, understanding how businesses work, understanding the products available across the whole of this bank, not just in narrow focus. And the ability then to be able to apply one to the other. So a further factor being that they are all going to have to spend at least two days a year working in businesses, helping the businesses and understanding how it feels to be a

businessman, in order to have the empathy to be able to actually use the skills that we are going to give them more effectively in the market.

Now I am now saying that none of guys do this, a lot of our guys can do this already, especially the ones who were trained and have been with us a long time. But certainly over the last ten years or so, you have seen a situation where we have migrated much towards selling product rather than really understanding customers and business models and being able to apply bespoke solutions to them and add real value. And this is where we see a significant advantage going forward.

Ian Cowie

And the customers have welcomed that approach.

So moving onto slide 27, keeping a relentless focus on the customer has been critical for us. I am certainly of the firm view that how we have treated our customers going into, during and coming out of recession is how they will treat us when they have options and certainly in today's market. So the priority is beginning to re-build that trust and confidence and as Chris said earlier, by taking away some of the things that they don't like and you can see on the left hand side there, Chris mentioned the SME Charter. So we were first, very early out of the blocks in putting some of these support mechanisms in place for our customer. We focused on the areas that we believe to be absolutely critical: the working capital cycle and cash within the business. That is why we concentrated on putting the price promise in place and showing the true level of transparency that we have in the pricing.

We are the only Bank to have put in place an appeals mechanism through a business hotline not only for our own customers, but for customers of other banks, which has been very well received and included a continued focus on access to credit for customers. We have put in place a manufacturing fund at discounted prices, including a franchise fund more recently and we punch well above our weight in respect of the Governments Enterprise Finance Guaranteed scheme.

Comment – Chris Sullivan

I talked about that Customer Charter earlier on and I talked about it being real. Just to put it in perspective, it has been in place for 18 months now. Those promises have been in play with over 350,000 of our customers taking advantage and have taken advantage from them. That is 94% of the customer base that uses lending and overdrafts. It is real, they are feeling it and the feedback that is coming back is they like what they see so far. I think that is not enough, it just gives us the license to take it to the next level to really add value to those customers.

Ian Cowie

So we are very clear that we have done more than anybody else in this space to support the SME customer, which is hugely important for us. But at the same time we have obviously been shaping the plans on how we position ourselves for the future. And the way in which we shall be doing that is talking and listening to the customers and they have been very clear about what they want. They want people that do really understand the business, as Chris' talked about earlier. They have been saying to us 'whatever you do can you make it simple. Help me to reduce my costs. Help me grow by sharing my ambition for the business. And give me access to business expertise. Help me manage the risks within my business, make me more efficient'.

If I move you to slide 28, having talked and listened to the customer, it is appropriate that we act and we have done that. We are investing significantly across this business to transform that customer experience. On the left hand side there, top left, it gives you a feel for the areas of focus. We will and are reconfiguring relationship model. We are building out the distribution capability across the channels which are built on deep customer insight. We continue to deploy better risk disciplines into the business, which will enable us to serve our customers much better. It will enable us to continue to de-risk the business and importantly, drive sustainable value for the future. Over the next few years we will invest upwards of £300 million to improve not only the channels, but also the way in which we support those channels and support the RM's and support the RM's to support the customers. This is a really important point.

And slide 29, I just want to try and bring that to life a little bit. On the left hand side, where we are today, and on the right hand side, how we will change that customer and move that customer experience into a future state. As Chris said earlier, we are kind of okay at what we do today, in fact we are probably better than most, but we are still much too internally focused. If you look on the left hand side there. Historically it was a very much a one size fits all model, traditionally segmented on size only. If you go down the overview of the current model, our online capability in that scale end of a business is pretty average. Our telephony capability is dated and our use of data in that space is poor.

So we need to change these things for the customer and we are in the process of changing these things. We will segment not only on size, but on complexity value and potential. But most importantly of all, the customer needs to have the choice as to how they interact with us and choose how they bank with us. And that is where if you look across to the right hand side, that multi channel operating model. There are three blocks, three really important blocks for us: relationship management, the branch and online and telephony.

In the Relationship Management channel we will match those highest values, most sophisticated customers in this space with our most experienced Relationship Managers and importantly give them time and reduce the spans of control, but also the portfolio sizes to work with those customers. And again, as David referred to earlier, we have put in place some disciplines around some professional focus, Relationship Managers, particularly in the real estate space.

Branches for the SME customers are still really important. What we need to be able to do is to put those more experienced Relationship Managers into the branch as Business Managers into the branches, who are better trained, who are better equipped with better tools, to support the customer.

And then finally, a combination of online, telephony and data analytics. We need to build a world class online and telephony capability which we will underpin with a world class CRM system. We have just appointed Microsoft Dynamics to work with us on that which will allow us to support the RM's to support the customer and deploy that level of technology and expertise going forward.

Comment – Chris Sullivan

Let me put that a little bit more in perspective. What we are doing here is a fundamental shift in the way that SME's bank. This will change the way that SME's are banked, change the face of it forever. The model that is currently in place across the UK is dated. The customers don't like it. It doesn't work for them anymore. Just dealing with branches and people in branches, branch opening hours doesn't work for an SME in today's world. 400,000 of our customers are telling us all they want is online. Now I don't believe that is actually true, but what they are saying is the vast majority of things they interact with us, they can do online or

should be able to do online and they want to do outside of normal working hours. We are currently not giving them the capability to do that. We have got to give them an online experience which is identical in effect to them as the face to face experience that they would get. And it is there, it can be done. It is done by other countries already. So we need to do that. But my view is that we will never ever say to a client, you can only have one channel. You are not going to segment them that way. You build all your channels to be outstandingly good and then they move across them, but they get added value in each one when they want to.

Our clients don't want to be going into branches that are Retail Branches and having to hang around whilst they should be seeing their own customers all the time. When they do go into branches they want real added value, so we need to make sure that the people are in there are good people. We also need to segment this population better. So as Ian said, we have done it as a 'one size fits all'. And you know some of the things we have just talked about, the fact that we put the bottom end, the SME's, the very small elements of SME's into this, we have spotted that there are businesses in there with exactly the same characteristics as those in our middle. They have grown and they have literally outgrown the channel they were in and they are being significantly underserved. Just by putting them into the right segment they get a much better service and we as a bank get a much better client relationship. There are new segments we are now starting to do, completely different segments.

Women in Business is a good one. We started really focusing on businesses run by women that have different characteristics. Now not all businesses run by women have different characteristics but actually we have been talking to a lot of the women that run them and found that they have different and unique characteristics. We set up initially 12, now 200 female RM's. Women in Business Ambassadors who look after these. 109,000 women run businesses have joined us in the last two and a half years. Massively, massively higher growth rate than we have got in the rest of the population as a whole. The really interesting thing. The characteristics, the dynamics and the financial metrics that are coming out of those businesses significantly exceed the existing book. So that is just one example. Young Entrepreneurs would be another and there are various others that will come along. And that is a testimony to the potential that can be unlocked within this franchise.

Ian Cowie

Finally for me, on slide 30. This really pulls together the value equation. Clearly we have articulated that we do have a number of challenges and we believe those challenges are manageable and on the right hand side of the slide there we have talked around, I have talked around some, but key will be, how we deploy our people and how we deploy technology across this business as Chris has just said.

So on that note, I will pass over to Mark.

Mark Catton
CEO, Corporate Investment Banking

Thank you Ian. I am conscious we are pushing time. So I will canter through the remaining slides without losing some of the key messages. So if I can turn you to slide 32 please. This just helps with the sort of orientation around the CIB franchise. And what you see here is the largest corporate franchise in the UK for geographic and sector reach. Essentially a relationship led coverage model delivering what we believe to be market leading product into more than 30% of the UK corporate market. My appointment into leading this business in Quarter 3 of '08 was a catalyst to change a number of things and not least to change to the organisational design and operating model of the franchise. Essentially moving from a sort

of local, regional led model into a very clear sector and asset class led model, essentially under four customer owning groups, so with large corporate coverage. Corporate coverage which is essentially the classic UK mid market institutional coverage as well as real estate finance, all underpinned by a relatively heavy weight structured finance model.

Frankly, that enables us to sort of lead and manage the business very differently from how we set strategy, how we set risk appetite. How we allocate capital, how we attract and retain talent, how we perform as manager franchises. It enables us to do very different things in the way that we lead the franchise. We also built from scratch you will see from the diagram on the left a Portfolio Management Model, essentially built from scratch in '08 which I will touch upon later. Also built from scratch and still building a dedicated product sales and marketing capability, again will touch upon later. We have done all of this on a cost flat and head count flat basis. And therefore we have been relatively aggressive in the way that we have sort of churned the people and the resources to allow us to do this. Some of this design is still being embedded but fundamentally the our view is that we have come through a huge amount of client stress, a huge amount of market stress as well as institutional stress, with the franchise strong and intact.

This leads us onto slide 33. You can see the franchise strength playing through to a relatively attractive financial position. On top of slide 33 on the right you can see a contribution net, fully loaded contribution of more than £900 million. Revenue '10 or '09 performance was essentially dragged by two key lines. One an increase in funding costs in excess of £50 million and secondly a one off expense item which Nigel touched upon to the tune of about £30 million. You can see bottom left a healthy NIM growth underpinned by asset margin and bottom right, a relatively efficient franchise cost income sort of mid 20's and equity returns in the high teens.

Slide 34, essentially I locked down this business Half 2 of '08 and pretty much into '09. In fact pretty much all the way through '09 in setting about transforming the risk and governance framework at the same time as investing a huge amount of time in supporting and managing a lot of client stress right the way across the sectors. And you will see from the top left of the chart, a portfolio management function which we built from scratch, essentially 300 people with a responsibility for a number of things, including a first line of defence essentially for all matters, credit risk and capital, setting and managing the risk appetite of the business as well as asset management or credit stewardship for everything on the Balance Sheet. Also working in conjunction with David's area to build an ACP, an interactive credit portfolio function akin to what you would see in a classic investment bank, giving us much more agility around how we deploy and manage the Balance Sheet.

Some of those actions you see manifesting into the financials. So top right there is evidence of disciplined capital allocation. Bottom left, a material reduction in key concentrations, which is single named as well as real estate and serves to fundamentally reduce the risk and earnings volatility in the franchise. Bottom right you see a strengthened Balance Sheet with LDR down from about 150% to 110% over two years.

Moving onto slide 35, it is sort of part of the journey that we are making to sort of shift this business from a relatively heavy regulatory capital balance sheet led approach to origination and to short term revenue growth, into a much richer intellectual capital approach to long-term sustainable values. So we are investing in a raft of tools. Here are just three examples. RAPM, Risk Adjusted Performance Measure: essentially client level, sector level, a segment level sort of RM level profitability sort of fully loaded. MI portal: a whole raft of new MI, a suite of MI tools available to the bankers at the front end of the business. Also as Ian touched upon earlier, an integrated CRM as an enabler for much richer client planning. That is planning across the Group rather than just within CIB or UK Corporate. We are

developing much stronger client and industry intelligence as well as improved sales collateral, all with a view to increasing the share of the client's mind.

You can see at the bottom of the slide 35, and again Ian touched upon this earlier, investing into much richer client analytics to enable us to drive stronger product penetration, much better and richer proposition development for clients, and much deeper client advocacy.

Slide 36 also points to some of the investment that we are making to strengthen our deposits capability. I would describe this as investing in some of the core competences around deposit product management and deposit origination. Again this is applicable right the way across the UK Corporate franchise. And essentially you see, bottom left, performance over the last two years within UK CIB deposits up by £11 billion and Nigel touched upon earlier, across UK Corporate, that the number was £18 billion over the two years.

And in many respects I have put that down to three things: one, some of the core competences that we have invested in, two, a much stronger leadership and management focus on that side of the Balance Sheet and three, I think fundamentally it also points to the quality and the depth of the client franchise we have. What it isn't testament to frankly, is the quality of the infrastructure within the UK Corporate business. We know that this is under invested in over a relatively long period of time, but we are investing about £30 million over the next 2-3 years in essentially building a deposit liquidity engine, which we have already started. Essentially something that sits on top of the existing architecture, a product composer which gives us much more agility around proposition development, product management, and much more agility around pricing management as base rates start to rise.

Slide 37, messages in here are that we do a pretty good job of joining up the franchise for the benefit of our clients. Product capabilities that we have around the Group are first class, and certainly rank first or second in most categories. We do a pretty good job we think of joining up the franchise to present a single face to market for the benefit of our clients. Actually, if we take a look at the value or the revenue that is generated from this client franchise across the key product groups, GBM, GTS, Lombard and Invoice Finance, that revenue number in CIB or from CIB clients is about £900 million a year. We are not slouchy at this stuff, but our view is that we have more to shoot for.

Slide 38 points to that, a very small sample size, but the messages in here are the ones that are clear to us anyway, which is fundamentally we have historically been and continue to be a very strong sort of event driven house, very strong in financing and risk management at the event level. But we know that we have more to do around what we describe as the flow business, principally around FX and the GTS product categories.

In summary, on slide 39. Essentially CIB is a franchise holder; strategic intent is to build a world class business. We anchored this business with a number of key drivers two and a half years ago. They are on the bottom left hand side of the page, i.e. relentless focus on clients, continuing to build the bench strength around people, delivering the whole Bank for the benefit of the client franchise. Making very, very smart choices with disciplined execution and staying in control, i.e. managing our balance sheet and risks intelligently. We can see that on a franchise basis, so top left, our net contribution. Again franchise reporting is about £1.3 billion. Franchised LDR top right, is less than 100%. Franchise ROE is in excess of 20%. Bottom right hand side, takes a look at the forward ROE which in our view offers upside from where we are today, but is certainly well insulated against downside risk in our view.

Thanks.

Chris Sullivan

Before I throw it open to questions, just a couple of key finishing messages from me to round it up. Hopefully we have demonstrated to you our belief anyway that we have got a very strong franchise here, but a franchise that suffered from under investment over recent years. I believe we have fundamentally transformed the disciplines and risk frameworks in this business in the last couple of years. You can see some strong progress metrics in that. Concentration risks and Non Core run off.

It is not just a strong franchise, but it is a very powerful franchise as well with the financial characteristics moving from 2009 through to 2010. Strong deposit growth, already good profitability at a franchise level. Good customer metrics already but there is still plenty to play for. There is a lot of potential left in this business. That is what we are investing our time in. We are changing the model to do that as well. The issues for us are organic growth and efficiency and we are absolutely committed to deliver and execute on that particular strategy.

To summarise, of course there are headwinds here. I think we all know what those head winds are. There are always headwinds in the business whatever phase of the cycle you are in but if you look at the results we have proved so far over the last couple of years, the progress we have made and the plans we have got, I am absolutely confident that we have got the team and strategy here to make this work.

Thanks very much.

Questions.

Question & Answer Session

Question 1
Can I ask a question about the cost/income target, because it strikes me that the business has no slouch in that area already, but if you are going to get below 35% you have either got to add 22% to revenues for no costs or take 18% of costs out. In the ROE, what you have provided, it looks like most of it is just sensitivity to higher rates. Is that right? Is that how you get to the ROE target? How do you feel about costs? You mention I think in B&C you want to spend another £300 million in investment, how do you square the circle?

Answer – Chris Sullivan
It is not a cost play in this Division as you rightly say. We are already an efficient Division, although there are significant programmes in place across the Group. So quite a lot of the central recharge that we get has, will be transformed over the next five years or so. I think you will probably have seen my colleague Ron Teelink's Project Sunrise which takes substantial sums out of the cost of running the Group and some of that comes through to us. The vast majority of our situation going forward is based around, really maximising the potential of this particular franchise. Not just within the stand alone numbers that you will see for this Division but across the franchise as a whole.

Further answer – Nigel Bretton
If I could just add a couple of things. First, one of your comments or questions was whether growth in NII rate was the primary driver of the ROE increase? It is the single biggest driver and I should have mentioned in my outlook comments actually that we see NIM sort of growing steadily in the near term and we see over a 3-4 year time frame it will probably hit the 300 basis point level, that is our estimation. So it is the single biggest driver and it comes from particularly unwinding the deposit floors and earning a modest proportion of the growth that comes from the interest rate environment for deposits.

On the cost/income ratio, I guess those targets were set a little while ago. Everyone in the Group is very conscious to do the right thing and that one would be very tight to hit, there is no doubt and I think you spotted it. So we are not going to do anything silly. It is all about driving value at the end of it. We think we are shooting for that rate but that one will be tight whereas for example, the loan/deposit ratio as things stand, we are going to beat that comfortably. So you know they are dynamic, the discussions around them.

Question 2
Can I put some questions around that please. So getting to the 300 basis point margin, did you say?

Answer – Nigel Bretton
That is in a 3-4 year time frame.

Further question
How much of that is increased rates and what level of rates are you putting in when you make that assumption?

Answer – Nigel Bretton
Yes, so slide 15 drives our economic assumption and those drives are planned. So you see the interest rate assumption top left. We get some benefit from deposit floors unwinding just naturally as the rates go up. We have allowed for conservative element of earning similar to what the customer will benefit from as well. We will get some as well. So that is how we have worked it.

Chris Sullivan
So you have got a repricing of the asset margin, you see that moving upwards and then you see it tailing off a bit as competition comes into play and you get an increased contribution from the liability side?

Answer – Nigel Bretton
Yes so a bit more to come from the repricing on the asset side, particularly BIC.

Further question
Because in your Presentation you talked about pressures on the deposit side starting to come through so I am just trying to square those?

Answer – Nigel Bretton
Well we have largely experienced a lot of that which we see that continuing a bit in the short term, but as rates rise that will turn round the other way quite considerably.

Further Answer – Chris Sullivan
We are currently in a situation where we have certain floors in place in terms of deposits and obviously interest rates have dropped below those. So there is a lag impact. There is a head wind in the business as we speak which as the interest rates rise, and they don't have to rise too much, those floors will unwind. So there is an immediate impact at that level. As you start to move then higher in terms of interest rates, you get back to a situation where we would likely to be paying deposit rates that are below the cost of funding, rather than slightly above that now.

Question 3
Can I ask about the drivers of deposit growth across the business. How much does that come to you as part of the franchise and how much are you actively pushing that as the metric that you have been focusing most tightly on? I am slightly unclear, you know it is one

of the things the Group would place an amount of emphasis on, just between the balance of your clients are deleveraging so they have got more cash for you to accrue. And how much is that you going out and taking share?

Answer – Mark Catton
So both. Some of it does come down to management focus or leadership focus. And some of it comes down to capabilities that we have been busy building in the last sort of 18 months, a much richer capability around product development and product management. There is more liquidity out there today than once there was and as Corporates deleverage, I think the outlook for deposit growth is well ahead of GDP. And there is some franchise punching to do. So you can see the value of mobilising the franchise just through some of the, or manifesting itself in the performance in the last two years. Market share stats around deposits aren't all that easy to get a hold of within the CIB business. We think, we believe our market share around deposits is about 20% against a primary market share of say 30%. And that would exclude the RBSI and international sort of business that we have such as Jersey, Guernsey, Isle of Man, which has a lot of liquidity market share data. Around that, it is very difficult given the flow of funds. But we think the franchise offers us quite a significant element of value as well as volume in support of the Group targets.

Further answer – Ian Cowie
So slightly different characteristics, but the SME space, the average SME customer does not move his money around quite as often clearly and that creates you know huge opportunity for us. We have deployed some specialists into the business so that leadership that Mark talks about. We have incentivised the guys, we have put some new product out as well in terms of matching requirements from the customers. Matching fixed rates as well to achieve that. So a real focus and emphasis and those deposits and particularly in that SME space are very sticky. As I say they don't move around as much. So that is where we have been able to attract and importantly, keep hold of fresh deposits.

Further answer – Chris Sullivan
I think there are two other aspects. One the overall focus. So if you were to talk to people in this business 2-3 years ago, absolutely everybody would have talked to you about lending and nobody would have talked to you about deposits. And today it is much more balanced. You would get a... I would fully expect you to get a sort of 50-50. People are as bothered about deposits as they are about lending on the other side. And the other aspect is, if you look at the characteristics of the different cohorts of business, you get down to the smaller end of business. You actually get a net contribution at that level. So more people depositing more money than lending or borrowing money off us. And that, as I said, earlier an under developed segment as far as banks as a whole and us in particular are concerned.

Question 4
What do you think is a strong growth in deposits in the two businesses? I mean what do you think market growth and deposits is? Because you are both 13-14% and you have got market share gains I guess in your sights, but SME you would be huge. Do you think market deposits are up mid teens? I guess because investors now are way more worried about credit risk in SME's than they are for example in retail and I wonder whether this is a sign of health or not?

Answer – Nigel Bretton
It is quite clear. We have had that performance up to now. We are not assuming in our financials that we are going to continue to have that rate of growth. So we have much more conservative numbers in our plan, to drive the plan.

Further answer

So for the reasons you have said we have grown ahead of what we believe the market has and we think we can continue to punch ahead. But you know there will be heated competition in that space and that is where there are some clear uncertainty. But I think the value of the relationship we have with the customers, the franchise view, the way in which we have supported our customers, all of those things are really, really important ingredients when people decide where they put their deposits.

Further answer – Chris Sullivan
If you think about our relationships with customers at the moment and their characteristics. And if you think about what we are investing in and how deep we want those relationships to go, that would give us significant opportunity to develop even further those relationships. There is still substantial value to be got out of the franchise in terms of where they base their deposits.

Further answer:
As part of the system growth, sees modest, but slightly quicker in Mark's small business, we run quite a modest single digit growth for the system, which would be our view.

Question 5
I had a question on loan growth. Obviously in your business plan you are expecting loan growth. I mean how are you seeing demand from your customers? You know, isn't system growth negative for your segment at the moment? And also what are you seeing in terms of competitor action? Are you able to gain share?

Answer – Chris Sullivan
Interestingly, if you looked at the underlying characteristics, and you looked at the medium and long-term, sorry short and medium term indicators we are giving you, you see it is small growth, light growth in the first couple of years and then after that, somewhat higher. That really reflects the headwinds we have got, the deleveraging we are particularly doing in both the single main concentrations and in particular the property sector. But you will see last year we actually grew our non property lending by about 4% in an area where there was still some quite depressed statistics. So our view is, (a), there is some growth and (b), we can take more market share than we currently have been taking. We are not looking at anything heroic in that respect.

Question 6
Can I just ask about the ROE bridges you have on slides 16 and 39 for the two divisions. And one of them I think it looks like risk weighted assets or at least is a contribution. And in the CIB one, risk weighted assets is taken away from ROE or looks like. I just wondered, could you talk more about?

Answer – Nigel Bretton
If you look at slides 30 and 39 I think are the two businesses. If you look at slide 30 first of all, Business Commercial, that is right isn't it, that is the one you were thinking? I think it is important to understand. Obviously the ROE calculation is based on average RWAs and in 2010 the average RWAs in Business and Commercial were quite a bit higher than the spot finishing position you see in the Balance Sheet. So therefore, part of the ROE improvement is because you have got the effect of that drop at the back end of 2010 spot. So some of that is due to the just average versus spot term timing. You have also got a bit more pro-cyclicality and efficiency. We have been working our efficiency, that is part of the reason why the RWA is down in 2010. So there is a bit more efficiency opportunity and then I guess by contrast in CIB, it is driven principally by the loan growth assumption without that average RWA effect, without the same level of, quite the same level of pro-cyclicality and efficiency assumed. That would be right David I think?

David Thomas
Yes

Further question
So we could still if we look at the average RWA's, I suppose we haven't got the average RWA's for the Divisions. But that would give us some idea of where you are expecting those to be in 2013 if we compare them to the year end numbers you have given us here?

Nigel Bretton
Sorry expecting what to be?

Further question
The ROE's?

Nigel Bretton
I guess, do you want to come at the ROE's 2013?

Answer – Chris Sullivan
I think if you looked at these and you extrapolated them you could get some view of the RWA position at 2013? Yes you could.

Question 7
What is the difference in the charts between the volume box and the RWA box?

Answer – Nigel Bretton
Obviously to do the ROE, the volume box is income driven by volume and the RWA box is the capital part of the equation on ROE.

Further question
So just the change in risk weighting then effectively?

Answer
Correct.

Further question.
And in a couple of the charts you include ....

Further comment
So sorry just to relate that, you have got, particularly slide 39 you have got the NII of volume, pretty similar to the RWA change but the other direction as it were. So there must be quite a big pro-cyclicality event or something like that coming out in CIB?

Answer – Nigel Bretton
Yeah they are somewhat stylised, not precisely mathematical blocks, but yes.

Question 8
In a couple of charts you included the Non Core numbers [interrupt].

Further answer
Sorry would that cut concentration risk as well by reducing concentration of property risk, so that element of that going forward.

Question 8 continued

So you included some of the Non Core numbers. How much overlap is there still in the business? So when noncore is gone are you then going to be left with cost base that was being used to run down the noncore bits?

Answer – Chris Sullivan
In terms of the, so we have only put noncore numbers in here to give you an indication. So we have a noncore division that actually manages the majority of that. There is some costs, we are using some shared costs in this division to be able to manage some of those assets. It is not substantial.

Question 9
Can I ask a question on impairments. If I look at your curve forecasts, they seem to be going up and GDP is down to flat. So do you see impairments ticking up in SME's?

Answer – David Thomas
Well we talked about the outlook. To turn to the lag in impairments to GDP, typically GDP ticks up and a year later your impairments tick up and that is kind of the normal flow that you would see. It is somewhat a nuance with us because you need to look at the Core, plus Non Core to see the real affect of the portfolio that we have built up. In the Core Bank we do expect 2011 to be down a little bit on 2010 and we expect that normalisation to 60 on average, but you will get fluctuations across the cycle above and below that. That is probably where we expect it to be.

Further question
New business quality as well?

Answer - David Thomas
Yes I mean the new business quality will make a difference over time. It is quite hard to judge what that will be, but we are expecting that to drive the impairments down over time on average, but it is a little bit difficult to work out today what the PD of new business might be say in three years time. So in terms of our own forecast, we haven't got anything built into it for that improvement in asset quality.

Further question
Okay just to lead on from that, the commercial property investment portfolio, how does that feed into your calculations?

Answer - David Thomas
It is modelled as a separate segment. It is also stress tested as a separate segment because clearly there are different drivers to it in terms of commercial property indices. If you looked at the proportion of the impairments that are coming through relating to that segment, we expect that proportion to stay broadly the same, but just to simply come down with the overall level of impairments. Clearly if you looked at our impairments in ten years time, you would expect the proportion to be significantly less because obviously we are dealing with that overall concentration, but we still have the overhang from where we were two to three years ago.

Further answer
And the Core real estate business has some decent metrics attached to it. LTV as well as cash co.

Further question
You are talking about modest reductions in the impairments this year in the Core business, can you talk about what you are seeing in terms of companies' experience? Because without having a pretty major fiscal tightening, it is a bit early for it to have bitten yet. But can you talk

about what you are seeing as a result and how you expect it to affect the portfolio and certain parts of the portfolio?

Answer - David Thomas
In terms of the austerity measures you mean? Yes, so we have done a reasonable amount of stress testing around austerity. Really what we are looking at is whether there is going to be another double dip is one part of it, and clearly that is a risk with a fiscal tightening as fast as this is. You have seen on page 15 how we have modelled the portfolio and the economic metrics that we have used. Clearly if we go to double dip then we would have a significantly different outcome in terms of impairment. So we have modelled that part of it. We have also looked at specific accounts, particularly in Mark's CIB business where they had big exposures. One that is obviously in the public domain is Connaught, which is very seriously impacted by that. We have a number of other names which we keep on close watch, but it is very much a GDP play here and there are a number of factors that could actually influence that very positively however, there are a number of downside risks out there and we are vulnerable to those risks, but we are equally vulnerable to the upsides as well. So it could go positive as well.

Further answer
I think the central case that you see on page 15 is a relatively conservative one anyway, but we model many, many different scenarios, economic scenarios to understand the impact and do what we can to mitigate that impact. But in the end this is a GDP business from that perspective.

Question 10
In your opening remarks you talked about the headwinds facing the business. Obviously we have heard lots at the Group level on capital and liquidity, but much less on the operational and division level. So is there any light you can throw on that in terms of how regulation impacts on the business day to day, that would be helpful?

Answer – Chris Sullivan
Yes there is quite a lot of work going on right now just tightening down the disciplines. There is no doubt the regulatory and the compliance bars have been raised quite substantially. It is regularly put in the terms of the position, where they are actually seen to be doing the job that we are supposed to do. And then on the other side you have things in different areas of the world that we work in. So there is quite a lot of money being spent right now in our cost base about doing those things and there is some distraction away from Core business. But you know, that will unwind over a period of time. So I think it is quite a testimony to the strength of the organisation how well actually we have built our risk controls and disciplines over the last couple of years with all the other issues that have been going on at the same time. I am looking forward to a point where that sort of reach is a stability and we can address the customers all the time.

Further question
What about on the pricing side, is that being impacted at all?

Answer – Chris Sullivan
Pricing in terms of?

Further question
If risk weighted assets are higher for anything, can you pass that charge on?

Answer – Chris Sullivan
Absolutely. So you know you would expect that situation to occur. I think the good thing about that is it just affects everybody in the market the same. So ultimately nobody is going

to try and compete that away. If the input prices go up then the output prices will go up and we will work with the market in that respect.

Further answer
Group fully charges its divisions, the funding and liquidity costs appears, but that is borne by the business so will be passed on over time. On Basel III, there is a limited input on capital. Any Basel III increase cost in liquidity will come in overtime and will no doubt get passed on over time.

Chris Sullivan
They pass it on as fast as they can, I can tell you!

Question 11
We will find out on Monday what the Options Paper is, but while we are on regulation, did you get some kind of ring fencing of commercial or traditional activities from the wholesale and how would that affect your business?

Answer – Chris Sullivan
Well I mean who knows what they will come up with at the end of the day. But I guess if what is said about subsidiarisation occurs then there is obviously going to be some kind of capital impact in raising. We go back to the same situation, it is the same for everybody and ultimately the price will get pushed on to the customers, it has to.

Further question
But what about some of the activities that we talked about here that you transact with, particularly the CIB area. Is there stuff that you can replicate within some kind of segregated retail business that is currently carried out by GBM?

Answer - Chris Sullivan
Interesting to see what comes out at that level. I think the bigger issue will be around having to put more capital into certain. It will be around capital efficiency play more than anything else I think. Where the activities take place. We could be a bit tactical about that, but it depends how the rules come out I guess. Whatever happens, we will seek to maximise the efficiency of the Group in terms of its structure, but net/net if there is an overall increase in terms of the capital cost of the business, it has to end up with the customer over time.

Further answer – Mark Catton
The cost of the industry of attempting to build to raise risk management capability, capital markets capability in corporate franchises rather than within the investment Bank so deployed not only for global clients, but also for the benefit of mid-market clients. You know the cost of that, even if it is feasible will be massive.

Chris Sullivan
Are we finished? Any further questions?

Question 12
Could I just have one more? The outlook on the cost line, particularly in the SME business, it does sound like there is a complete transformation of that business going on, including an up-scaling of the capabilities. I can see costs were taken out and it was almost devalued to a certain extent by the Industry and you are now putting all that back in again. So can you give us some feel as to how that is going to affect your overall expense line and how you can manage that within the cost line that you have got?

Answer – Chris Sullivan

So I guess a fundamental difference in what you said to where you think we are. So I think, if you think less people, higher quality and more technology, I think you have probably got where we are. So I think that we can drive much more value out of this franchise with a lower cost model by using technology intelligently and then by using better quality human intervention in the most appropriate fashion.

Further answer
I think the cost line is broadly flat and will oscillate and if we wanted to spend the money then it would be done. So the investment cost is being borne by the business.

Further answer
Depreciation and there are some efficiencies in the programme as Chris said.

Further answer – Ian Cowie
Just one strain would be making use of, better intelligent use of the data that we have today you know will drive key revenue streams and in a way that will support the build that we make, particularly in that online and telephone space. We just don't have that today. So that is where deployment of people, yes, but also as Chris says, deployment of technology absolutely critical.

Further answer – Chris Sullivan
If you think 400 clients who say they don't want a Relationship Manager currently are given a Relationship Manager, not always a brilliant one bur still a pretty expensive one. And actually to take some of that away and give them access only when they need it, and very easily when they need it, I think drives quite a significant cost initiative. And what we are seeking to do is to try and push that through into the Business and then be able to drive more income out of it.

Further answer – Ian Cowie
A lot of the things that we talked about, we are not starting next week. Chris referred to earlier, we have been doing these things and they are beginning to feed through the benefits. So it is a journey, but we are making some good progress on it.

Chris Sullivan
We are not going to start spending this money now. We started spending it a year ago, more than a year ago. So you see some of that, costs in the Business currently and none of the benefits yet.

Further question
One last one. The business that is going to Santander, is that enjoying the benefits of all of these improvements as well or have you kind of cut it off and it is just staying with 2008 technology?

Answer – Chris Sullivan
Of course it is! No realistically, you know we run both franchises and actually what we have got there at the moment is actually contributing to RBS. There is a clear requirement for us legally to make sure that customers are treated identically in that situation to the point of disposal. So yes, as far as the benefit, anything that we put in place in the next year or so will get put across the whole estate and obviously everything after that is entirely for RBS.

Further Question
And so will Santander then get the benefit of all your investments that you, your systems have been designing?

Answer – Chris Sullivan

No, they are longer term investments. Anything that we put in place which affects customers in the next twelve months or so will be deployed across the whole. There will be certain bits which actually Santander wouldn't want us to do anyway because they will have a different way of doing things.

Further answer
Customers will move from our platform to their platform.

Question 13
Where is your share post that?

Answer – Chris Sullivan
About 5% lower than it is now.

Question 14
Can I ask one. On page 20 you have got your portfolio broken down. How does that change after the 318 branches disposal?

Answer – Chris Sullivan
Virtually not at all. What we had to do was take a sliver of the business which actually fundamentally mirrored the characteristics of the whole. So we had to segment by sector, by customer size, by risk metric etc and just build it that way and then sell it as such. We couldn't cherry pick out.

End of Presentation.