Stephen Hester, Chief Executive Officer, RBS Group

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Stephen Hester - ***The Royal Bank of Scotland Group plc - Group CEO***

Good morning, everyone. So what I wanted to do this morning is to look at what we're up to at RBS, obviously against the topic of the conference, and think of this in perhaps three tasks. The first two tasks we've been carrying on in parallel over the last 3.5 years or so, and that is, of course, recovering the bank from a position of being pretty much bust, but in parallel with the recovery assets, trying to make sure that the recovered bank can be a good bank. If we do those two things properly, it will give us the platform from which to build further into our long-term vision, and we'll talk a little bit about that.

This I hope will be familiar to all of those of you who have followed us since we've been quite diligent in trying to be consistent in what we're doing and why we're doing it. So throughout the period and throughout as far as I can see into the future, our priorities will be first, serving customers well, preferably better; second, the safety and soundness agenda; and third, of course, our shareholder agenda which has the added importance of the taxpayer shareholders who are part of our register.

And our strategy, again, continues to be very much focusing on customer-driven businesses where we have strength and competence; improving them, making sure they work well together and represent a good balance and taking away all of the things about RBS that detracts from that.

And so when we think of phase one of the recovery phase, which as I will talk about we are coming toward the end of, I think that we feel we have done everything we said we would do, and indeed, probably more than we said we would do in the sense that the standards of what constitutes a recovered bank have probably moved more conservatively during the period. And you can see some of this data that relates to the balance sheet in particular, and we've taken some GBP700 billion off the balance sheet, the largest amount I think any bank has done, any country has ever done even.

We have comprehensively changed the funding structure of our balance sheet so our wholesale funding under a year is now a fraction of our liquidity reserves having been the inverse previously. In fact, we have an embarrassment of liquidity now. We're trying to figure out what to do with it. I wish we could lend more of it, and we're very much hoping for more loan demand. And in relation to that, you can see we have more or less reached what I described as the gold standard of funding our loans with deposits, with the loan-to-deposit ratio more or less at our 1-to-1 target.

And in capital terms, again, I think that the new world is going to require 10%-plus capital ratios. We have got to 10%-plus. We're just over 10% if you'd take APS out. We have to of course, absorb Basel III uplifts, and so our remaining capital generation of non-core rundown and the other things that we do we target to neutralize those in order to keep us at the 10% or 10%-plus level.

So I said we are nearing the end of the recovery phase of the RBS story. And I'm hoping that around about the end of next year, plus or minus, we will be able to say that we have completed in the five years we always said it would take us, that recovery.

There is, however, some heavy lifting left to do in the next 15, 18 months, and we set out here if you like, the things that loom high in our agenda -- of course, sustaining what we've done in our businesses so far. And then specifically I'll talk more about some of these later, the investment banking area continues to need work and the restructuring that we've announce completed. We need to see impairments normalizing in Ireland. We need to see continuing progress in the United States, and we have some more work to do in the last stages of our Non-Core rundown.

We also have two of the four EU divestments that we were forced to do to complete, Direct Line Group, where most of you know we have announced the intention to IPO. And the branch sale to Santander which seems to take longer every time I ask a technologist about it. So I've stopped asking, but anyway, it will happen one of these days.

Capital, as I said, we have got to the 10%-ish number but we need to get out of APS, hopefully that is imminent, and we need to make sure that we can absorb the CRD IV uplifts next year. So there's some more work to do on capital between now and the end of next year and we hope that if we do that, if we can emerge at the end of next year ex-APS with CRD IV in, with capital ratios of 10%-plus, that that will provide the platform that we can then start articulating a dividend policy going forward. And of course, that will also bring into sharp focus the requirement to hold the dividend access share, which is a feature left from the government recapitalization.

Along the way of these, if you like, financial and business milestones is another set of milestones which of course, is all consuming for banks in general, especially UK banks, and that is on the regulatory and reputational front where we, along with all other banks, continue to have a huge amount of work to do to make sure that we are aligned with new regulatory standards. The new regulatory standards are clarifying as we speak. And of course, that we make some forward strides in what has so far being going backwards, which is of course, the reputation amongst the general public of our industry, including my firm of course.

But I think that if we can keep up the pace of what we have done in the last 3.5 years by roundabout the end of 2013, I think it is reasonable for us to target that the recovery stage of what we have to do should be done. RBS should be looking much more like a normal bank again, and of course many other things left to do and improve on, but that we will have that platform from which to be thought about and from which to build further. The ingredients of that as I set out here, fundamental restructuring having been more or less completed, whether that be in terms of balance sheet or business mix. The ongoing businesses having all the characteristics of one that can be strong and successful and performing at least in line with their competitors by then. Our risk profile fundamentally realigned and operating at the more conservative end of international banks of our type.

We have spent a great deal of time trying to reverse the previous underinvestment in our businesses. Of course, that's not something that you do just once; it's something that you permanently do. But investment, an ongoing investment, is an important bit of what we've been doing and we'll keep doing. And being focused very hard on the best type of growth not being chequebook-driven growth, but the best type of growth being where customers one by one come to you and want to give you their business and want to give you more of their business in response to what it is you are offering them.

And so, we're very, very focused on the minutiae, the detail that goes behind doing that. And of course, we've talked about the other goals in terms of the support structures around us. We've already repaid all of the liquidity funds that we took in the crisis. APS will be a big milestone for us, and then we really will just have left, clearly, the government shareholding, which I think will probably be a next phase. If we do all of that, it will of course, be possibly the largest corporate turnaround in history but with lots of other things that we have left to do and that will be easier with some of those complexities finished.

So talking some more now about the parallel task alongside, if you like our recovery efforts, what we've been doing to ensure that the recovered bank is a good bank. And of course, that requires us to try to answer the theme of the conference today, mainly, what is franchise value in an uncertain world.

I have tried to take a stab at this on a number of occasions in recent years in describing what we're doing and why we're doing it. It does seem to me that after the period of unusual expansion that the world and the banking industry went through pre-2008, the banking industry is reverting to what you would expect of a mature, competitive, non-pattern driven industry with a fair amount of consolidation. And those attributes that make franchise value for companies in those kinds of industries are the ones that we must aim for and sustain. They start, of course, in banking with safety and soundness, and that can be measured by capital. It can be measured by the way that you fund yourself and, if you like, the reserves you have against emergencies. So very important to have that conservative base.

I think that the business mix for franchise value in an uncertain world, which, if you like delivers the balance sheet, again, needs to be dominated by customer businesses. It needs to be dominated by customer businesses where you're amongst the leading pack where you clearly have competitive advantages to keep you there; where those businesses are cash generative even in tough times; and of course, in difficult times, focusing very hard on not losing money through poor risk concentrations; focusing very hard both on investment and on cost efficiency at a time when income growth is scarce. These are all ingredients of how you manage these kinds of businesses which we're heavily focused on. And of course, all of that is necessary but not sufficient.

The third element is really -- the first element as well and is the third element -- and that is no business exists; no business can be successful for long periods of time without connecting effectively with customers, and if you are a business on our kind of scale with the community that your customers represent. And again, I think what we're seeing in the UK and the debate around banks at the moment in a strange way is a complement to the progress that UK banks have made in the last 3.5 years because, instead of the debate being about safety and soundness, most people, I think, feel that debate is more or less answered in the positive, that the banking system has moved to safety and soundness. So now the debate has the luxury of moving on to conduct and reputation and customers in a way that, for example, in Spain they don't yet enjoy the luxury of moving away from a safety and soundness debate. And so quite properly the reputation of our industry, the way it serves customers, the intent of the industry to put that as its purpose as opposed to put that as an outcome for making money, these are absolutely crucial things that we need to improve as we go forward.

So 3.5 years ago when we set out, if you like, our aspirations for making the ongoing bank good, we set out five strategic tests which we would be applying to ourselves and guiding our efforts in making the bank better, to give it franchise value in the uncertain world. They were to do with how we're doing with customers; how those businesses are producing returns for shareholders, understanding that in a capital-intensive industry and our industry obviously got a lot more capital intensive, ROE was going to be a more important measure than EPS growth, which was the historic measure. Making sure we understand how that money has been made, from what resources and is that proportionate and getting the balance and interconnection and synergies in the group working well.

And so against those tests, let's just, if you like, review how RBS has been doing in terms of our market positions indeed for ongoing bank, every one of our significant pieces is operating in the top group in its segment. Different positions, obviously, in that top group and we feel that we have made enough progress to feel that we by and large cemented that position through a period where we could have weakened very considerably given the reputational and physical and restructuring problems that we had. We haven't done that, and in some cases we've strengthened. Our ambition is, of course, to go further.

And when we look at the second test of our businesses, how are we doing in building them towards the good position. And you can see here as of the most recent period, that really the only business that is materially away from earning its cost of capital is still Ireland, which is a function, as we all know, of the hangover of past loans. But that aside, we're there or thereabouts everywhere else. Clearly, some improvements needed and a lot of work then needed to keep up this picture.

We have focused equally on understanding where that profitability comes from and with what risks and with what imbalances. And you'll see a bit more data on this slide as well. One of the things that has been, I think, very important both for financial balance and for shareholder value in RBS -- I think this will be true of many banks -- is thinking through the resources used in our markets and investment banking activities versus those in retail and commercial banking. And the first, we know, has got probably the biggest challenges post-crisis from regulation, financial markets challenges to shareholder value. And so one of the things that was very important to us was to achieve a re-balancing of those activities such that they could shrink to a scale that is defensible that can make adequate returns that can protect or other franchises but can with a period of uncertainty still ahead of them not leak too much shareholder value and not leave the Group to be unbalanced in shareholder value terms.

And so as you can see, using, let's say, the capital figure, these are all sort of Basel III equivalent, what used to be more than 60% of the Group in terms of our investment banking activity is now heading toward the 20%-ish, an 80/20 kind of balance, which is where I think we would feel comfortable. And away from the investment bank in the middle, other risk concentrations that were in our core businesses in addition to the ones that we are restructuring out have all been coming down nicely. And all of our ongoing core business have also been delivering the goods in terms of a stable funding structure, or put a different way, in terms of being as appealing to people with money as they are to people who need money. The one exception I think now on loan to deposit ratio, again being Ulster Bank, which is to do with the structural shortage of deposits relative to loans of that economy, which is part of what they need to correct in the next phase.

Now of course, growth has been hard to come by in the last 3.5 years and most banks net-net have not grown, and indeed we obviously deliberately shrank very considerably. But our strategy was always to shrink the things that we thought we weren't going to be good at going forward and protect, and have the potential to grow, the things that represented our core business. And despite the considerable economic headwinds, we actually have achieved some measure of growth in our ongoing core businesses. Of course, of very great political debate here in the UK, our UK lending performance despite a balance sheet down some GBP700 billion overall, our UK retail and corporate businesses have increased their lending since the crisis by some 4%. I wish it were more. All our efforts are to making that more provided it is, of course, prudent along the way.

And in terms of being more effective for our customers but also making sure that the bank is more effective in the way it's constituted, we spent a lot of time on, if you like, the synergies within our businesses. And that's something as the restructuring phase ends that we'll be able to spend even more time on. We put on this chart just one of the -- there are, of course, a spaghetti of connections between our different businesses of every different kind. But we put one kind of illustration here which shows the point that I made earlier on when I say that our market activities we're scaling both to try to make them valuable in their own right, but also to protect our other businesses and you can see on the bottom right of this slide the ROE addition that the market synergies bring to a range of our other businesses, which is obviously, well worth having and reflects the importance that our customers place, especially corporate customers on, capital markets and what they can do as opposed to just bank balance sheets.

We had a series of strategies beneath the five goals that I've been through in retooling the business. We're well advanced in deploying those strategies, but we're nowhere near finished.

Of course, serving customers well, as I said, I regard this as the single most important thing that we have to do as our purpose, as our raison d'etre. And all I can say today is we're doing a decent job relative to others. That is not a good enough job relative to the standards I think we must and should aspire to, but it is at least decent relative to others in here across some of our major businesses you can see the survey evidence to show that.

Again, probably we pat ourselves on the back a little bit for this whilst recognizing the absolute level isn't as good as we would like simply because there would have been lots of reasons for RBS to have sunk in the customer satisfaction charts during our restructuring phase, and we avoided that.

But we also know that in a world of struggling for growth, and therefore revenue growth, the costs are incredibly important. This is something we obviously, we're forced to leap on in 2009, and we continue to work very hard and I hope successfully to take out costs. In turn, you'll see that we're investing them, but to take out costs and be as efficient as we can. I think it is simply the fact that until economies normalize and until some revenue growth returns, neither we or any other bank will achieve the cost/income ratios that we aspire because we are all likely to keep cost structures that are built for a normalized economy. But nevertheless, it's a very important area. You'll see we've taken out some GBP3.5 billion annualized so far from our cost base.

But we have and we must in all of these businesses require investment for the future. And you'll see the way that we have ramped up what we're investing in our business here as we've progressed through the restructuring period. Obviously, a lot of it is around technology and things relating to that. And this summer illustrated in terms of our own technology failing earlier in the summer exactly how you can use some of that investment productively, which we missed in that corner of our technology.

I talked about business mix. Of course, this is an important thing to keep reviewing as we go forward. And broadly, what we have been trying to do is increase retail and commercial; reduce investment banking to a competitively attractive, if you like, standing point and also whilst valuing the business mixes across our group, if you like, by product and customer type to also ensure that we have some geographic spread in there which has some value beyond being trapped only in one country, although of course we are dominant in terms of the UK.

I mentioned earlier on that in retooling our bank and making sure that it is a good bank, there are three particular focus areas. Everywhere is a focus area in the sense that we don't want to slip back, but we do need to keep going in Mmarkets where there still is, if you like, graze, I think, around the environment and the competitive structures and the returns that that will produce for everyone. Ulster Bank is the other and a bit more work on Non-Core is the third.

And of course, regulation continues to occupy a scarily large part of all management teams' time. The prudential regulation hopefully is becoming more and more clear in its stopping points, although there are some important details still on the ring fencing to come out here. There are obviously timing issues around Basel III implementation and then the FSA here in the UK is pushing on other levers to intensify RWAs as part of your business mix. But nevertheless, I think those are now increasingly a well understood landscape. I guess bail-ins is possibly the other important element that I don't mention here.

And on the conduct side, while we know the list of issues that are out there today, but fundamentally, as I said, I think we have to accept that the pendulum has swung, that the society has a different attitude to and determination to make sure that banks behave in a different way and improve their reputation. We have to all, A, deal with the issues from the past; and B, try and reduce the chance of them recurring, and that will take a lot of time, and sadly, a lot of money as well in terms of past restitution, I suspect.

On the capital side, this simply, if you like, sets out some of the bits of the journey we have got left to go to get to our 10% post-Basel III numbers. And you can see both the headwinds and the things that we're doing to create adequate capital to offset those headwinds.

And so standing back the RBS investment proposition, I guess I would say to you that RBS is nearing the point of becoming a recovered bank and well on the way to being a good bank. I hope that by the end of 2013 we can say that the restructuring phase should be largely complete. I hope that our ongoing businesses should be largely retooled and performing at least in line with competitors with robust, enduring and valuable franchises at that point.

Of course, this will be despite headwinds from slow economies and uncertain regulatory impacts. And in many respects, I do think we're still in a phase -- most banks like us where in revenue terms, we're treading water, running hard to stand still. So we will be in a phase where those there is little forward visibility, I think, in our businesses, ex the restructuring. But there are important execution challenges to get to this recovered bank status still remaining, and I've been through them.

The next phase though, assuming we get where we hope to get by the end of next year is, as I've put it, building our long-term vision. Of course, that will be founded on the actions to date and will be resting absolutely on the progress that we can make with our customers and the way they want to do business with us. But I hope that that next phase will allow from a shareholder perspective our group profits to rise to our cost of capital. Many of our businesses are there, but our group certainly isn't there yet, and that, of course, involves removing Non-Core losses, other below-the-line items and the turnaround being completed at a couple of our remaining businesses not making their cost of capital.

We've talked about a dividend resumption is a key shareholder job. There will be bits and pieces the restructuring left. We believe we will need economic recovery to be normalized in terms of our long-term vision. And of course, those will give the platform for all banks, I think, to see as people see economic recovery coming in, whenever that may be, a period of significant outperformance, I think, as people will ride banks as a prophecy for economic recovery. And I hope that that will indeed provide a platform for privatisation to commence in due course.

And so, along that route, as far as we're concerned, the customer-centric approach and all of the ingredients of that is where our efforts will be most deployed. But beneath that, we need to make sure that tight cost management with the appropriate investment is a permanent feature of, if you like, franchise value in a difficult world; good risk management of course, and making sure that the business mix is right. We do have a world where there are tectonic plates still shifting. We can't say that the business mix will definitely, in all circumstances, be the right one for the future. And we will stay pragmatic about that as we have been. But we do need the outside world to help us not to recover, not to be a good bank; but to help us to be the great bank that we would like to be.

And we set this out 3.5 years ago. I haven't changed my mind. I do think in our kind of industry with the dynamics around us, this is what good will look like in a significant bank. And this is very much what we are aiming to get to as fast as we can.

So thank you for listening. I think the conclusion is that we have made very good progress against our plans. We're very close to achieving the recovered bank that we needed to do with our various balance sheet reductions and Non-Core running ahead of plan. We've done a lot of work and made a lot of progress in making the recovered bank a good one, more still to do. Focus on the customer is paramount and on serving the customer well. And of course, still some hoops to jump in the next 15 months which I don't want to underestimate. Obviously, there is always the chance of banana skins coming from them.

But in the new world of banking, customers, risk, shareholders being rewarded properly in line with the cost of capital, investing in your businesses, sustaining your market shares, this is what a successful, mature industry like financial services would look like, and that is what I hope RBS will look like.

Thank you very much.

QUESTION AND ANSWER

Michael Helsby, BoAML

Thank you, very comprehensive. So while the mic is going around, maybe I can just get the floor moving. You made reference to the very comfortable liquidity position that you've got. So I think if we add that to the Non-Core runoff that is clearly going very well, you've got strong deposit growth, it puts you in a very strong cash flow position.

How should we think about that from a returns perspective and what you're doing to manage that?

Stephen Hester - *The Royal Bank of Scotland Group plc - Group CEO*

Well, I think that my greatest preference is to find some people who want to take our money so that we can use the deposits fruitfully in serving customers on the other side of our balance sheet.

But that aside, although there will be opportunities for, let's call it liability management; we recently did a bond buyback and it wouldn't surprise me if there aren't more needed as we go through time, since I can't see our need to access markets for a long time in terms of normal senior debt; I do think that we will err on the side of conservatism in liquidity. I don't want to be the bank that nearly went bust and then forgot the lesson very quickly. And of course, the world has some uncertainties out there. So I think you should expect us to err on the conservative side, even if that's comes at some P&L costs.

Michael Helsby, BoAML

Okay, great.

Unidentified Audience Participant

So the UK -- do you think the UK is a good environment for a bank to deleverage compared to say, Germany and France? And I'm interested to look at that and hear your views in two different aspects. One is in respect to the regulatory framework in the UK compared to the rest of Europe, and especially in capital markets. And I'd be interested in what does a higher bail-in risk here in the UK do to these kinds of environments. And also the fact that the QE in the UK has already happened a lot more than the continental Europe. All of these conditions, how do they position or allow a bank to deleverage successfully from a shareholder's point of view?

Stephen Hester - ***The Royal Bank of Scotland Group plc - Group CEO***

Well, when you look at it, the majority of deleveraging most banks have done is what I'll call their cross-border deleveraging. So in other words, there tended to be two kinds of mistakes that banks made with their balance sheet, other than the -- everyone made a mistake on how to fund your balance sheet, but the two kinds of mistakes were either that you had a domestic property bubble and loaded up on real estate and there was an imbalance there. Or you were trying to expand; there weren't enough assets domestically and you did it cross-border. And so, if you like, the deleveraging is coming overwhelmingly from those two areas. But since real estate markets are still fairly distressed and obviously, in different degrees in different countries and fairly illiquid, the biggest amount of deleveraging is coming from cross-border assets.

We could say that's unhealthy in the long run in a globalized world, but nonetheless, that's where it is coming from. And it is a reversal of what was an over expansion, in any event, of cross-border banking activity.

So in that sense, the specific conditions of any one domestic market are less important for cross-border deleveraging, and that's why I don't think French banks, who have got a lot of cross-border deleveraging to do, are particularly more handicapped than banks of any other country, for example.

The UK I think had, I don't know whether this is an advantage I'm sure that they will believe it is, but the UK probably got the first biggest scare, certainly from among European countries, first in the crisis. It had Northern Rock, then had a bigger share of big problems, RBS and Lloyd's notably. And so the reaction was possibly earliest and most aggressive in the UK, both the banks themselves wanting to get in shape and that the regulatory system wanting to get to the point where banks had to be in shape. And so a combination of those two I think simply in timing terms means that the UK banks are much further advanced in the restructuring agenda. Some of what we see coming in later than others, but nevertheless as a group, more advanced. And that was a function in a sense, of early weakness.

Michael Helsby, BoAML

Any more questions from the floor? Yes, we've got one down in front.

Unidentified Audience Participant

You talked about not accessing senior markets. What about subordinated markets which are actually starting to show signs of life and could be important as well to the PLAC regime?

Stephen Hester - ***The Royal Bank of Scotland Group plc - Group CEO***

Yes, well, I suppose from time to time we have some sub debt or holding company debt to do just to sort of tick over, but I feel, A, it's stupidly expensive so will issue as close to none as we can until it they're less stupidly expensive. And secondly, I do think that there still is some settling down of the landscape needed to understand what form of capital you need to hold against what regime. There are still in clarities to use about how bail-ins will work, which will be important in understanding capital structure. There is obviously some specific in clarities about PLAC, as you say, in the UK. And I think there's also some regulatory in clarity about do COCOs have a role or not. They seem to have, and now that seems to be being backtracked on.

So I think it's probably better to lay fairly low on sub debt, because the risk is if you do something dramatic right now, you might have done something you didn't need to do when some of these uncertainties pan out. But obviously, our industry will have some role for capital instruments going forward, no doubt a big role once markets settle down and regulation settles down.

Michael Helsby, BoAML

Any more questions from the floor? Yes, one just there.

Unidentified Audience Participant

I was just wondering if you could quantify some of those legacy issues that you still need to address. So, for example PPI claims are still coming in. Do you have provisions? What's your latest estimations there? LIBOR affair, the swap scheme, put numbers or what magnitudes?

Stephen Hester - ***The Royal Bank of Scotland Group plc - Group CEO***

Well, I wish I could, I'm afraid the simple answer is, I can't. First of all, obviously, some of these issues are only forming. Secondly, RBS's specific role on how the regulators assess those is to be still to be determined. So that needs to be handed to us.

And then, thirdly, and I think of least visibility is the extent to which the US court systems will make progress in feeding the lawyers across these different issues. And that means frankly very unpredictable. We see that in a different context. There was one stage nearly $100 billion of litigation against RBS in the US around its collapse in 2008, and that litigation is heading in the direction of $0. There was a very important court case that was a pretty comprehensive victory for us two or three weeks ago in that regard, although it's being appealed. And so maybe it will head up from $0 again. So you can have these very, very big numbers that flow around with very poor visibility as to exactly how many years it takes to work them through and how much they will shrink in the meantime, sometimes to nothing; sometimes not.

And you saw, obviously, over the summer, for example, with Standard Charters and HSBC, surprises spring up. So I'm afraid there is a series of reasons for banks still to trade below book value. One of them is because the economy isn't going yet and so there's no revenue growth. It's not a bad reason. And people aren't making their cost of capital as a consequence. And the other is, I think there are still some uncertainties that will be one-off in nature but can be painful in this area. And so I think we're going to need some time for both of those two uncertainties which, if you like, underpin trading and discounts to book values to clarify.

Michael Helsby, BoAML

Any more questions from the floor?

Unidentified Audience Participant

I think in one of your slides, you show that Basel III CRD IV will be postponed. If you can please elaborate on that?

Stephen Hester - ***The Royal Bank of Scotland Group plc - Group CEO***

Well, I don't know the answer to that, but the timetable for CRD IV was due to be January 1 2013, and it hasn't yet been ratified. And there are many who think it is now technically impossible to meet January 1 even if it was ratified tomorrow morning. And so I think most people are betting that it gets postponed three or six months, I'd say into the middle of next year. But I can't give you any facts; I'm just simply passing on gossip and rumor as it were. But our intent is to be ready to implement it on January 1, but at the moment it doesn't look like the legislatures are going to deliver that.

Unidentified Audience Participant

You talk about a restructured bank by the end of 2013. Does that mean at that point we'll stop discussing the Core and the Non-Core?

Stephen Hester - *The Royal Bank of Scotland Group plc - Group CEO*

Well, at that point, our Non-Core assets will be about GBP40 billion, if we hit our targets. And so that's still enough for us to, I think, want to give transparency around it. But I think that it will also be small enough that we are likely to move from a proactive triggering of losses to reduce portfolio to a more runoff mode for the balance, thereby stepping down the losses that we take and reducing its emphasis. So I don't believe in disappearing things, as it were, but I do think there will be a significant change in emphasis around about that time line.

Michael Helsby, BoAML

Stephen is going to be moving through to the breakout room in a couple of minutes, but I think we've got time for one more.

Unidentified Audience Participant

The RBS US operations were earning below your cost of equity. I'm wondering what your thought process there is. What kind of restructuring needs to be done there? How much more to go? And do you still think it will be core to the RBS franchise?

Stephen Hester - *The Royal Bank of Scotland Group plc - Group CEO*

Yes, well the Citizens business we basically set out the same restructuring as we've been doing everywhere else. And every single year, it's improved its profitability in ROE over the last four years since it was making losses in 2008. And so, our hope and belief is that, even without a lot of help from the US economy that we can get back into double-digit ROEs in the not-too-distant future. But then again, like all of our retail and commercial franchises, we're going to need a little bit of help from normalized growth and interest rates before you can get the sort of top-line performance and cost/income performance that you'd like to have.

But in terms of the business itself, all of the recovery and investment actions and focus actions look similar to the ones we've done across the rest of the group and are moving forward.

The customer set numbers are decent. The market share numbers in the states that we compete are pretty much all top five. So I feel pretty comfortable about progress whilst understanding that that business is not yet in profitability terms as well as other aspects of quality where we need it to be and is still subject to lots of pressure to get there. That's how I think about it.

Now, like any of our businesses, plan A is to run the recovered group in the way we've set out with the rationale we've set out. But if someone comes along with a change in circumstances or a plan that makes more actual sense, we'll always look at it. But plan A is to go forward, as we said.

Michael Helsby, BoAML

Great, a good way to end. So I think Stephen is going to go through to the breakout room. We'll have Lloyd's on the stage in about five minutes.

Stephen Hester - *The Royal Bank of Scotland Group plc - Group CEO*

Thank you very much.

Michael Helsby, BoAML

Thank you.