Annual Results & Strategic Review 2013

ANALYSTS PRESENTATION

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FORWARD-LOOKING STATEMENTS

This transcript includes certain statements regarding our assumptions, projections, expectations, intentions or beliefs about future events. These statements constitute "forward-looking statements" for purposes of the Private Securities Litigation Reform Act of 1995. We caution that these statements may and often do vary materially from actual results. Accordingly, we cannot assure you that actual results will not differ materially from those expressed or implied by the forward-looking statements. You should read the section entitled "Forward-Looking Statements" in our Annual Results announcement published on 27th February 2014.

Corporate Participants

Philip Hampton
Royal Bank of Scotland – Chairman

Ross McEwan
Royal Bank of Scotland - CEO

Simon McNamara
Royal Bank of Scotland – Chief Administration Officer

Nathan Bostock
Royal Bank of Scotland - CFO

Bruce Van Saun
RBS - CECHA

Presentation

Philip Hampton – *Royal Bank of Scotland – Chairman*

So we're not going to go through the regular tramp through the figures. This is basically a strategy presentation on some of the key issues that we face going forward. So we've obviously got a new leadership team here for the first time for annual results in terms of Ross and Nathan.

We've come to the end effectively of five-year programme and I would say that that has been overwhelmingly focused on corporate financial issues to reflect the fantastic collapse of the bank in 2008 or early 2009. I would say overall we're probably 80% through that corporate financial turnaround. It's largely done but not wholly done. We still have an important transaction in the sense of a Citizen's IPO to do and the rundown of the new bad bank, the RCR business, which will also be hugely important. But essentially the emphasis of the bank is going to change from the last five years of big financial reconstruction to operational effectiveness. And of course, over the long term, operational effectiveness, costs, investment, revenue generation, efficiency of IT spend are all going to be the absolute foundations of building and sustaining long-term shareholder value. So, that's what essentially we're about today.

We'll also go through elements of essential things like the capital build. And the aspiration, of course, is really quite simple. It's just to build a long-term great bank and the subtext for that will be a bank that is capable of writing a prospectus saying this is now the deal, this is now a bank that's been simplified, can be understood in a prospectus, and enabling the government to exit their shares. I personally believe that eventually we will get into a virtuous circle in that context, that the more the government gets ready to sell, and when they do start selling, the better it will be for markets obviously. The bigger the overhang the more shareholders are concerned about shares coming on to the market. And there's also a general perception, rightly or wrongly, that government ownership doesn't help businesses to perform to their best. We all have probably slightly different views on that. I've got very firm views on it.

I'll just make one request, which is if anybody's got a Blackberry or stuff like that that might interfere with the presentations, please switch them off. Thanks a lot.

Ross McEwan – *Royal Bank of Scotland - CEO*

Good afternoon, everybody. Thanks for joining us this afternoon. This bank has great market positions and customer relationships but it has not generated positive organic cash flow for many years and it has not been able to pay an ordinary dividend since 2007. Today I'll take you through the strategy that I believe addresses each of these issues in turn.

It starts with being a much more effective bank for our customers, winning more of their business. It starts with tackling a crippling cost to income ratio. It starts with a credible plan for capital strength.

It's the kind of bank I'm used to and that's the kind of bank I want RBS to be: a bank that earns the trust of customers, that earns the trust of investors, and that earns the trust of regulators because it is performing well for customers every day.

The change will be hard but what you'll see this afternoon is a leadership team determined to build a bank that generates an attractive return for investors. During our session today, I'll provide an outline of our updated strategy before handing over to Simon McNamara who's our Chief Administration Officer, and he'll take you through a plan for implementation and just some of the key issues that he'll be addressing, and then he'll hand over to Nathan Bostock to take you through the numbers.

It's clearly our vision to build a bank that earns your trust because it's clear in this industry that there's no trust left in banking and we're certainly at the bottom of that pile from a sector perspective. And there's a simple logic to our vision. We need to be a reliable, consistent, and easy bank to deal with, and my experience to date has been we're some way off that. A bank that'll earn customers' trust and, in doing so, will win more of their business because they like doing business with us, which in turn will lead to greater value for shareholders. Our ambition, as you see here, is to be number one for customer service, trust and advocacy in each of the business areas that we operate in by 2020.

We've certainly got a lot of work to actually deliver on that ambition, but today we have market-leading franchises – and shortly I'm going to take you through those – but we can't rest on that as they are vulnerable and the opposition are moving and we need to move faster. We've completed a huge turnaround job derisking the bank. It's just been an outstanding job that's happened in the last five years, but now we need to address the cost base of this business and the operating model because. They haven't shrunk in line with that reduction in our balance sheet. We've refocused parts of our business, but some areas still generate poor returns.

If you look at our customer base and the leading franchises we have, it's hard to believe, having put out an £8.2 billion loss, that we've got such great franchises that underpin this business. Number two in retail customer accounts, number one in UK small business, number one in UK wealth management, number one in UK mid-corporates, number one in UK large corporates and four in Europe, number one in UK cash management and 4 in Europe, best trade finance bank in UK and Western Europe, focused international platform including the US and Asian distribution networks, strong capabilities in FX DCM rates, top three in the UK and top ten in EMEA, number one in Northern Ireland and number three in the Republic of Ireland. These are outstanding franchises for a business and this is RBS. But we can't afford to be complacent because our customers' expectations are changing constantly. We're too complicated to actually deal with in many cases, our technology is not as stable as it should be or must be, and our reputation is damaged and in places our market shares are flat and, in some cases, they're declining.

The shape of the bank has changed massively over the last five years in terms of downsizing, assets down 54%. Our loan deposit ratio, our short-term funding and liquidity measures are all very strong, very strong. And this is amazing progress in anyone's measures. While our cost to income ratio is down just 18%, we're still carrying the cost base of a bank that we were, not the one that we'll become. We're still siloed, we duplicate functions across our businesses with no real consistency, we've too many technology platforms that Simon will take you through later, and our processes, in many parts of our businesses, are very fragmented. In short, we have layers of cost and complexity that need to come out of this business.

As we've downsized, we've refocused where we have a competitive advantage, and you saw those business franchises. But you can see the wide range of businesses that we've also exited out of, all for very good reasons, but many of our businesses today are still generating returns below the cost of capital. From our retail business that's running at 26%, you drop down to Ulster at -12%, and you've got other businesses that are sitting around the 5%, 6%, and 7%. We need to do better.

To meet the challenges I've outlined, we've identified some very key priorities for this business. Firstly, we need to organise the businesses around the customer groups that we want to do well at. Secondly, as I've mentioned, we need to do a fundamental overhaul of our cost base. Thirdly, on technology, we need to first imbed stability, and then move to a more intelligent deployment of our technology and the use of our broader resources across the business. Fourthly, we'll need to make sure we have an unquestionable capital base position and all the changes we've made are reliant with the capital plans we set out in November, and I know that Nathan will take you through the capital walk again this afternoon. And finally, we need to empower our people and let them get on with doing what they do best, which is serving customers, and that's what they are great at and our customers tell us that.

I want to be quite clear. Our future is as a UK-focused retail and commercial bank with markets and international capabilities, particularly around Western Europe where we are so strong. The UK market is one of the most attractive globally. In the next three to five years, we'll shift to a steady state with the majority of our business and assets being held in the UK. We'll also continue to shift in emphasis away from wholesale towards retail and commercial, reducing our risk profile at the same time. And that's a path that the business has been on now for a few years.

We'll reorganise our businesses in line with our customers' needs, moving from seven divisions to three customer businesses as well as our capital resolution business. We'll also rebalance the proportion of staff who are customer-facing. Today, only 30% of our staff interact with customers on a daily basis and that's out of line with the type of business we want to be in the future. Once established, the three businesses will look like this: personal and business banking, looking after our retail and smaller business customers. We'll also have closer links with Ulster Bank. The business will account for 35% of the bank's RWAs within a return on equity targeted at 15% or greater. The second business is our commercial and private banking, concentrating on the customer segments where we are big but, I must say, not yet the best. We also want to house our private banking service, better connecting our wealth managers with customers who have created wealth for themselves. We target a return on equity again 15% plus on 30% of the bank's RWAs. And finally, the corporate and institutional banking – we want to end the divisional split we currently have in terms of dealing with UK and international large corporates, and utilise our markets business as a core product set we can offer and connect across these clients. Our longer term target for this business is return on equity of circa 10%.

Going forward, RBS will be one bank and no longer a group of separate businesses. This will result in some streamlining of our leadership team as we create these new customer businesses. The businesses – and I'll ask some people to stand up – first off, our personal and small business led by Les Matheson – thanks Les; Alison Rose looking after our commercial and private bank; and Donald Workman looking after our corporate and institutional bank. These individuals, as you will have noted, are internal appointments with a wealth of experience within these businesses giving them a strong starting point to deliver a bank that earns your trust. It's great to have the strength in this organisation to be able to call on at a time when you're changing the business.

Les Matheson, currently our CEO for UK Retail, has many years of experience in this area and is well-placed to capitalise on the improvements seen in UK Retail as he takes in our smaller business customers. Both Alison and Donald have had long careers in our Markets and International Banking business building the kind of excellent relationships with our clients that we're renowned for. And they've shown great skill in managing change that we need to use to implement as we take the bank to the next stage.

To reduce the complexity, I've already mentioned our control and support functions, technology and service platforms will also be working right across the bank instead of being duplicated in numerous siloes. This will bring greater simplicity, more consistency and it will reduce costs. Across the bank, the most relevant areas will own our products and services. These areas will be responsible for delivering across the whole bank, for example, C&IB will look after all foreign exchange and they will deliver it on behalf of the bank and all the businesses with inside the bank. Again, less duplication, less costs; we'll do it once in one place and serve the whole bank. That's our philosophy and what we're building.

So let's take a look at a bit more detail in these businesses and where we see the opportunities. In personal and business banking, we have lots of capacity to meet more of our existing customers' needs. For example, we have an 18% share of retail current accounts but only 8% in the mortgage market, one of the most profitable parts of the business segment. In terms of brand, a net promoter score scores above a very low industry average for NatWest, mixed for Ulster, and very poor for RBS. We certainly have an opportunity to do much better with our customers here.

And how are we going to do this? First off, by offering differentiated service, a simpler product range, transparent pricing and best in class digital services. We can serve our small business customers better with more business bankers back in the branches, and this is a customer group that shares far more similarities with our retail customers than with our large corporates.

We have the UK's leading SME franchise and we will invest even further into this franchise. We can support businesses through all different phases of their growth, from smaller businesses who want to deal with us in a branch right through to the bigger companies who need dedicated relationship management and more sophisticated products. We need to do more to support SMEs and are implementing the recommendations that came out of the Sir Andrew Large report. We want to expand lending to SMEs and certainly speed up the processes we operate with. We just need to make it easier for people to bank with us in SME land and right across this bank. I am encouraged by the early signs of improving loan approval and gross lending data we're now seeing coming through this part of the business.

Ulster Bank. You all know that Ulster Bank has been problematic for RBS. In fact, we've injected over £15 billion of capital to stabilise the business over the years. Ulster Bank is being transformed with transferring assets to RCR, it's scaled down the business and we're evaluating how we address the uneconomic products such as the tracker mortgages. Still work in progress for us. Going forward, we will drive efficiencies by connecting Ulster Bank Northern Ireland with our personal and business banking in the UK. They operate off the same systems, they should have the same products, they have the same currency; we just need these businesses to share a lot more. In the Republic, we will reconfigure to become the challenger bank for that market and stop trying to be a first and second level player. But we will not be deserting our customers in Ireland.

When it comes to commercial and private banking, again we can see some really good opportunities, like using our number one position for mid-corps to deepen relationships with FX and with trade. There is more business out there for our people to capture with our existing customers. Over time we can also do much more connection between our wealth managers and the people who are creating wealth who are running these businesses or owning them. We're well-placed to realise these opportunities, offering dedicated relationship management, a full set of products: lending, transaction banking, risk management, and wealth management, all under very, very strong brands.

And bringing together the International Bank, Markets and UK large corporates, there are sizeable opportunities. One example, we have a number of great positions for UK large corporate lead relationships but sit at a number four internationally as those customers move offshore. If we can give customers great service in the UK, which we can, we can do it across our international network for those customers as well. We have the UK's preeminent corporate bank – with a strong international network we can leverage much better than we do today. This business will be a leader in European currencies, sterling, DCM and rates, with a strong cash management and trade finance propositions. We'll have a strong international network across Europe, which we are very strong, Asia and the US, delivering products to UK corporates trading globally and international companies with strong links to the UK. Bringing the business together will reduce duplication and costs as well as stop the frustration this complexity causes for our large corporates.

This slide, although hard to read, gives me confidence that we can deliver on these opportunities. You can see we have excellent corporate franchises in both UK and Europe based on great relationships with our customers. We can do more with this.

Our next chapter will be a multi-year transformation, but we have to start taking some vital action this year. So this year we're going to implement the new structure. We're actually going to stop some things that don't add value to the customers, we're going to embed our system's resilience so that we never let our customers down, we're going to simplify our products and processes with transparent pricing, we're going to increase our digital penetration, and we do have to cut our costs by £1 billion by the end of the year. Our longer term goals will build on this: future proofing our technology, redesigning our processes, investing in the front line, and implementing ICB. This is how we will build a bank that's number one for customer service, for trust, and advocacy by 2020.

It's all very well to put the words but how will we define success? The customers will be based on those fundamental elements of service and trust, and success will rely on our people – and we have fantastic people. When I talk to customers, they keep going on about the great people from RBS. We want to give them a great place to work with certainty about what the business looks like and how we're going to operate. This will all be underpinned how we perform for investors, with a return on equity of greater than 12%, a cost to income ratio around the 50% mark, and our safety and soundness demonstrated by a core tier one ratio above 12%.

I'd now like to hand over the Simon McNamara who joined us recently to talk to you about implementation but also some of the challenges and opportunities we have in our systems and technology operations. Thank you.

Simon McNamara – *Royal Bank of Scotland – Chief Administration Officer*

Thank you, Ross, and good afternoon everybody. I'm delighted to be here and particularly excited by the opportunity that I'll get the chance to talk to now. I will go on to explain our transformation plans, but I just thought I'd start with a few personal observations.

I joined the bank just under six months ago and the timing was pretty good. Ross was just coming into the role and we were about to embark upon a strategic review. In that six months, I've had a chance to talk to quite a number of our customers, a considerable number of our employees, and I've had a chance to actually see first-hand a lot of our systems and processes in action. There are some good things as it relates to our platforms and systems, the fact that, on the whole, they operate at a significant scale on a day-in-day-out basis – about 30% of UK payments go through them, for example – and the breadth of product ultimately that we support with them.

But there are some real challenges. They are extremely complex. They are a reflection of how our organisation has grown through acquisition in particular. They're also a reflection of how our industry's grown. They are not as resilient as our customers or we would like them to be. We're inefficient and there are far too many handoffs in the way that we actually process and go about our business. And last but not least, actually, the data that we have to support our business is incomplete – it's not of the quality that it should be and, to be honest, we don't use it to maximum effect. So, not surprisingly, actually, when you talk to our customers and you ask them what they would like, they say they'd like the systems to be always on – to be honest, so would we. They'd like us to be quick and easy to do business with. They'd also like to see new and innovative services that understand and address their needs. In summary, they'd like us to be resilient, they'd like us to be simpler, they'd like us to be efficient, and they'd like us to be innovative. So, we've designed a plan and a programme that will do just that.

Now, before I get into the detail of the programme, I thought I'd talk to something that we have done already. When I arrived and looked at the portfolio of projects we had for our organisation, we were running a portfolio of in excess of 500 projects. That's a significant number and, in fact, was really a reflection of the way that we went about our business. The divisional structure did lead to us trying to solve the same problem multiple times. It had also allowed individual parts of our business to progress projects that you probably could put in the nice-to-have category, but if you actually look at what just stood out in terms of our objectives, we didn't have a programme of work aligned to that. And so what we've done over the last three or four months is actually take that portfolio of 505 projects and actually focused it around those objectives and we're now running with a portfolio of less than half that, 250 projects. That's probably still bigger than we'd like and, in fact, we have an objective of reducing that number further going into next year. The reason it's still as high as it is, is that there are some projects that are near to completion. It makes more sense to finish them than it does to stop them. But 150 is what we think is probably about the right size of portfolio to get this job done.

So, in the process we've stripped out duplication. By the way, it's actually worth pointing out that this doesn't represent a reduction in investment. What this actually represents is a focusing investment. It's exactly the same investment figure going into this year as we had last year but now around fewer moving parts. And in the process that allows us not only to simplify, but it does allow us to focus our best resources on this programme to release them from 550 moving parts to a smaller number. And in the process, also increase the probability of success.

Now I'd like to talk a little bit more about what we're going to do. You can pick any number you like on this slide, but they all have one thing in common and that's that they're all too large. There's a pretty clear opportunity here, and that's to make each of these numbers smaller. So, that's what we're going to do. Some people have said actually 109 credit card propositions is 108 too many. It's not one or two too many. And you'd also struggle to work out how, to be honest, you could have 1,200 websites to represent our business just as access points into our organisation. So there's clearly some opportunity here. And by the way, for every number that's on this screen, there are many others that are equally larger than they should be.

I might now just turn to our technology estate. A lot's been said about it, but one thing that's very clear is that there's an opportunity to dramatically simplify it. We currently have in excess of 2,000 applications to support our business. So we've got a plan here that will reduce that over the next five years by 50%. We've already started down that path but, clearly, it's going to take some time. The previous slide showed our five mortgage systems. We have an objective to reduce that down, and here are the opportunities really in the areas of both payment systems and core banking systems, where, again, we have an opportunity to reduce the portfolio.

The real benefit, not only the less moving parts but actually we end up with an environment that is less complex to support, cheaper to run, and easier and quicker to respond to any emerging market and customer needs. Imagine at the moment if we get something new in the mortgage area, we have to go to five mortgage systems to effect that. Be a lot easier to go to one.

Another area of opportunity in simplification is our property portfolio. We currently have excess capacity here in London. It's a particularly challenging portfolio in that it's a reflection of our history again, through acquisition. But we have lease terms that are longer than we would like. We have rents that are higher than the market is paying. But we now have a plan here in London to reduce that property portfolio from 11 buildings this year to 7, and then plans to reduce that further over coming years.

To support this, we're making a significant investment in workforce tools. We don’t actually have the tools today that allow us to work as flexibly as we would like, and one of the planks of our transformation programme is in workforce enablement. And as you can see on the left-hand side of this graph, there's an opportunity equally around the bank-wide properties to see a better utilisation of the space and a reduction in the footprint.

Another area of opportunity is that in suppliers. 100,000 is a considerable number, and we've obviously made significant progress against that initial number. We are now at about a quarter of the suppliers we had at the outset. We think there's opportunity to reduce that number further. But that's not the only opportunity. It might surprise you, it might not, but actually 50% of what we spend with third-party suppliers is actually spent just for the top 20. So what we plan to do, in fact, what we've started to do is to pull those relationships together and appoint a senior executive, in fact, a member of the Exec team here to manage each one of those relationships. The opportunity there, I think, is pretty clear. To manage them holistically, manage them more strategically, extract greater value from them, and actually, ultimately, reduce the price we pay.

So if that's a number of areas of opportunity just from a simplicity and efficiency, I thought I'd just move on to an area of investment. We want to be known for the best mobile offering in this marketplace. The good thing is actually we start from a decent starting point. There are 1.4 billion logins is not just curiosity. It's actually our customers valuing the service. They like to be able to do their banking when they want, they like to do it where they want, and they like to do it for themselves. So we need to invest, and we want to invest, and we think there's considerably more potential within the mobile space.

The other opportunity actually, in the distribution area, is that most of our historical investment has been channel by channel. And so another level of area of investment in distribution is actually connecting up these channels. So rather than investment in branches independently of contact centres, independently of mobile, independently of the internet, single investment connecting that up, so that if you start a particular transaction in one channel, you complete it in another, and that we know that. So a big opportunity to connect that up and not just within our businesses, but across them.

I mentioned earlier data, and the fact that the quality wasn't what we would like it to be. And that we weren't using it to maximum effect. So another area of investment and a plank of our programme is around data. So what are we going to do with it? Well, firstly we're going to clean it up and then we're going to connect it up. We're going to connect it up not just within the organisation, but actually connect it up with information from outside the organisation. There's huge power in this information ultimately to do things that our customers like.

I particularly like, actually, the last example here, which is during the recent floods here in England, we had the opportunity to present a free insurance helpline texted through to all our customers who are in high flood risk postcodes. Obviously our customers like that. It was directed at those who needed that. It was something they appreciated, and we think there's a lot more potential with those sort of services.

Now having talked about innovation, having talked about efficiency, simplicity, I want to come back to what that's all underpinned by, and that's actually the resilience, the stability of our platforms. We probably know more about this topic than our competitor banks. So we're mobilised, actually we're investing a significant amount of money, actually £750 million over three years into the resilience of our platforms. This is a programme that is underway, and I want to just touch on three areas in which we're looking to improve performance.

The first is in what we call the shadow bank, and that's an ability to stand up ATM, POS, and payment capabilities, even when our back-end mainframe isn't available. That's to make that transparent to our customer, and that's a service that we'll be delivering this year. Another area of investment is in our overnight processes. We've had some challenges with those in the past, and they have been extremely complex. They're an amalgamation of acquisition again, but we're simplifying and streamlining. We're taking out redundant jobs, and we've put in place an overnight process that now allows us to much more effectively manage that. But not only that, to actually run and inject a lot of that capability during the working day.

And last but not least in terms of investment, we are investing in monitoring tools, and tools that allow us actually to see incidents before our customers do, and in some cases now, fix them before they have any customer impact.   And further investment there. So £750 million in three years is not an insignificant investment. And we're making strides there.

Look, in summary, I'd just like to leave you with a few thoughts. This is a big deal. Not only are we investing £750 million in resilience, we're investing in excess of £1 billion a year into our platforms each year over the next five years. It will take some time. I mean, this is not as much as we'd like it to be, you know, the instantaneous turnaround. This is a programme of some substance over five years, as I said. But we will deliver significant benefits through it for the customer, and therefore for the bank.

I sort of opened by saying how excited I was by the opportunity to transform the bank. And I have, I believe that what I've just shown you is a plan that will do just that. So I'll probably say no more for now other than I look forward to standing up here in 12 months' time and actually talking about some of the things we have done, as opposed to about to do. Okay, so with all that, I look forward to any questions later, and I'll hand over to Nathan who will take you through some of the numbers. Thank you very much.

Nathan Bostock - *RBS - CFO*

Thank you very much, Simon. Good afternoon, everyone. So I'd like to start, first of all, by talking about the high level financial targets. A number of these you would have seen already in the slides that have been presented, but I wanted to pull them together just on this one slide for you. First of all, two comments around medium-term and long-term. Medium-term relates to 2016/2017 when I'm speaking about that, and long-term means up to 2020.

In terms of return on equity, we are talking about a medium -term target of between 9-11% and a long-term target of greater than 12%. In terms of costs, we're talking about moving from £13.3 billion to circa £8 billion. That will be a 2017 number. And the reason for that is there will still be a reasonably significant restructuring charge in 2016, which you'll see later.

In terms of cost income ratio, we're talking about a starting number of 73%. That's slightly different to the number that you will have seen in the accounts. The reason for that is this is the first start of putting all of our numbers above the line. So this includes restructuring costs to date, it includes the bank levy, etc. So it's a fully-loaded cost income target. And the 55% is equally fully-loaded. Our long-term target is circa 50% and that's why we haven't put an absolute number for costs, because clearly there's a relationship there as well, ultimately, to income and ultimately to income growth.

Our CT1 ratio finished the year end at 8.6%, just slightly ahead of the range that I gave in the pre-trading statement. Our medium term target again to 2016 is to be above 12% and continuing that into the longer term. Our leverage ratio at the year end was 3.5%. We're targeting a 3.5-4% ratio in the medium-term and greater than 4% in the long term.

I'd like to start, first of all, just by a sort of little backward looking, but to put everything into context. Both Ross and Simon have talked about how over-complicated we are as a bank, the things that we need to do to simplify ourselves, our structure, etc. This, I think, sort of shows that because in reality we're talking about around about £750 billion of balance sheet reduction to date. Said quickly, it sounds like a number. It's very easy to say it. That's roughly like taking one Swedbank out every year for five years. And we have another one to go over the remaining period, so another £150 billion to come through to the medium term. And I raise that because you can realise now how important it is to actually step back and to resize, rescale yourselves and actually to get a grip with the overall cost profile.

Of course, also that de-leveraging comes with a reduction in overall revenues. I've put those on the bottom of the slide, so £30 billion of revenues at its highest point, £19.4 for 2013 moving down by around another between £5-6 billion for the further rationalisations and moving up by around about £1 billion for go-forward growth.

Okay. So now where are we going? Well, it's really important that we start looking at driving sustainable returns. If you look at the left-hand side of this chart, you'll see where we are today. Basically an underlying return on equity of circa 2.5% with a medium-term target, as we've said, of between 9-11%. What are the three crucial components that sort of get us to that point? Well, firstly, on the left-hand side you can see Non-Core and RCR rundown generates around about 3%. You'll know the record that we have in this space - we sort of do what it says on the tin, have done it consistently and have consistently out-performed. In terms of the middle part, it's cost reduction and there will be more of that in a minute. That's relevant for around about 4%. And then on the right-hand side, there's lower impairments, and this is really more to do with the normalisation of the remaining part of the bank as we move through this economic cycle and move on out of it. You will notice that I haven't put anything on there for revenue. That's because in this period I would expect there to be some pluses and minuses that would balance that out. However, further on past the medium term, I would expect that, again, to be a key component.

So looking at cost, I mean, this is really the gig we sort of faced. If you look at 2012 to 2013, so effectively our revenues have come down faster than our cost. Our cost income ratio has continued to move up.

So what is it we're going to do about that? Well, fundamentally there are two key elements that will drive down our overall cost, take us from the £13.3 billion to the circa £8 billion over this period. Firstly there's about £3.1 billion which comes from disposals, and basically reductions in overall size. There's about £2.2 billion which we've called targeted cost savings, but think of them as the sort of more traditional cost saving type programmes. And then we've got some elements that will increase our overall cost, such things as the EU resolution fund, bank levy. As I said, this is a fully-loaded cost income ratio.

In the medium term we're round about the 55%. To get to the 50%, well, I think as we move through this period, one of the benefits of simplification is it becomes easier to see the other things that you can do to continue your assault on costs: improve efficiency and improve effectiveness for our customers.

So let's look a little bit more at the detail around these cost numbers. On the left-hand side of this slide is a sort of vertical waterfall. It takes you from the £13.3 billion to the £8 billion that I showed you on the previous slide. It shows you the £3.1 billion that you saw previously, so that's made up of three elements. It's made up of the CSG IPO, it's made up of Williams and Glynn, and it's made up of the reduction in the overall size of Markets and IB over the period.

Above that, I've broken out the various cost elements into three different areas. So the businesses, round about £300 million, IT and Ops, about £1.1 billion of savings, and functions around about £800 million of savings coming back to the £2.2 that you saw previously. Simon has talked about a number of the opportunities that lie in those individual lines, so I'm not going to repeat those. And Ross talked about the overall one bank and the way that we were going to operate our functions.

In the middle, I've put the estimated cost of delivery of these numbers. That's around about £5.2 billion, so £5.3 billion of overall running savings in the long run, £5.2 billion to actually achieve them. Within the £5.2 billion there's around about £1.3 billion that relates to property and there are also other items such as software write-offs, those types of things.

So how might those restructuring costs play out? Another piece of key information for you. Well, here's a breakdown of it over the years, 2014-2017. If you look across the top line, you have the total restructuring costs. Then if you move to 2014, you'll see that there's basically a £1 billion incremental to the numbers you would have had in the forward guidance previously. So previously there were numbers in there for the likes of the Markets Horizon or Williams and Glynn. But we're now adding another £1 billion of incremental restructuring costs for 2014, £2 billion '15, £1 billion '16, going across to an overall £4.2 billion.

Of the £4.2 billion, around about £600 million of that, we estimate, will be in relation to asset realisation costs, to do ultimately with the reduction in size in Markets and IB. That leaves you with £3.6 billion, £2.4 billion of that generates the £2 billion of savings. So again, if you want to look at ratios of cost savings to restructuring costs, that's broken out for you. And £1.2 billion to basically reshape our Markets and IB business. That's for a round about £800 million cost saving in those two.

So one of the other crucial things around the sustaining earnings, etc, is going to be optimising our capital usage. Very important here, because it also reflects in terms of our capital strength. If you look at the top section of this slide, you'll see our £429 billion of RWAs at the end of 2013, and the glide path to £300 billion of RWAs in our future shape. The £50 billion at the top left is from Markets and IB reduction, £45 billion around RCR. Disposals include CFG and Williams and Glynn, and then of course, countering that, we also have growth.

At the bottom, we've talked about now effectively the redistribution of capital across the organisation. Ross showed you those particular businesses. He talked about them individually, but you can see at the bottom how they now redistribute across those. So effectively, for the right-hand side, we've got around about a £50 billion reduction and at the bottom we've put the overall RWAs for both Markets and IB. You can see that that's sat there at £45 billion at the end. And IB sat there at £40 billion, so those are in the right-hand side following a £50 billion overall reduction.

Okay. So building capital strength. Again in November, we talked about our capital targets. We talked about overall the sort of picture that we were facing, and, indeed the Citizens IPO, etc. This chart just really brings the things together for you. I put it on there with the RWA glide path, the £429 to the £300 again, extremely relevant. Relevant because obviously if you look at the left-hand side and you think of it in ratio terms, you've got round about, let's say, a £1 billion capital number which divided by your denominator of £429 billion gives you a certain basis points benefit. If you move to the right-hand side, the same billion of capital clearly gives you a greater benefit in your overall ratio.

At the top left, we talk about the Citizens divestment. Again, to give you a feel for that, that's a sort of 200-300 basis point number across this glide path, and the reason for that is not sort of a particularly differential view of the price from one end to the other. It's to do with actually that transition, as I've talked about in terms of overall risk weighted assets.

Then again, RCR, we've talked about that. Earnings, so we have earnings generation in there. Williams and Glynn, and the overall de-risking and reduction of Markets and IB and again, on the right-hand side I've put potential uses of capital.

Our future profile will be lower risk. We talked about this on the 1st November. Again, just a slight repeat there. Basically we're an outlier today on our non-performing loans. We won't be by the end of 2016. We should be firmly in the pack. On the right-hand side, the same is true on our impairments number. We expect during the period probably to be within the 40-60 basis points on the journey. At some point, we'll get a kicker for a period, probably for a couple of years or something like that, because obviously into our RCR we've put all of our lower-graded larger sort of exposures, so as those are worked off, there's an element where that will run through. But again, one needs to think sort of past that and into the more medium- and longer term where again in that range of 40-60 basis points is the right place to be thinking.

New reporting structure. So obviously there's a mountain of work here to be done, I'm afraid, by both us and yourselves. So by the end of Q2, we will be coming out with all of the information that you need in order to be able to do that. And we will be then reporting on that basis. That will also, of course, include all of the RCR material that we talked about before. So there will be no below the line items. You'll still get full transparency. They will just appear against the relevant areas. So again, full disclosure following on from the tremendous sort of job that's been done on transparency to date in that arena.

What we will do is we will be doing some one to ones to give the deep dives across these three particular customer franchises. Expect towards the end of Q2, we'll be looking at that personal and business banking business franchise. And then in the second half, commercial and private banking, followed by corporate and institutional banking.

So here's just a slide again, please take it, it's indicative. I'm not going to talk through it, but this is a first cut of the numbers on the new business franchise basis. So again, if you just look perhaps at the RWA line, you'll see on the left-hand side, personal and business banking at £77bn. I showed you the future capital usage, so clearly that will be moving up. Commercial and private banking again, clearly that will be moving up from the previous slide, and corporate, institutional banking again, I talked about how that will be coming down. The difference between the two obviously is also this has the corporate banking element in there. Previously I was only giving you the Markets and IB.

So probably one other item of particular interest here is ICB. As people know, ICB is deliberately designed not to leave you sat on the fence. We've carried out our analysis, and our analysis says that we believe we should be heading towards a broad ring-fenced bank. We believe the strategy that we're putting out here fundamentally helps move us in that direction. What it does do though, is it provides us with certain amounts of flexibility, we believe. And the reason for that is because we think that there's probably about 20-25% of the elements to still be determined, so secondary legislation still needs to finalise and obviously the PRA, for instance, well, they need to carry out their view and determine their interpretation of some of the views around electrification, height of the ring fence and even certain elements of positioning. So from that point of view, we think that this is well-positioned and flexible on a go-forward basis.

And then finally, outlook. I'm not going to go through these, but again, it pulls together various pieces of information from within this presentation and also items that will have been covered on the earlier call today. So again, a 2014 view and a longer-term view for you. So with that, I'd like to hand back to Ross.

Ross McEwan - *RBS- CEO*

Thanks very much, Nathan. I just thought I'd pull together the key points from today's presentation, and our investment proposition. First off, we've got market-leading businesses in deep and attractive markets. So buried in this business are great positions that we need to be working on now to maximise. We will deliver attractive returns to our shareholders, and we've outlined our plan for the medium term through into the longer term. We will target sustainable and less volatile earnings in the way we structure ourselves and what businesses we're in. We will maintain a robust capital position, and in a model that is capable of paying attractive dividends. And finally, we will continue to provide you with transparency as Nathan has said, that we've become, I think, famous for so that you can track our progress against what we're saying we will do.

And with that, I'm going to hand over to Philip and we'll start with Q&As.

Questions and Answers

Philip Hampton - *RBS - Chairman*

Thanks, Ross. Obviously we take questions here very easily but magnificently we've also got Bruce back so you know, we have a great depth of people to ask questions to. Welcome back, Bruce. Who's going to go first? Right at the back.

Ian Gordon - Investec - Analyst

I just have two micro-questions, really, picking up on two points you'd made earlier today on UK retail banking. Firstly you've announced your principals based move away from teaser pricing in the savings market. Now that's not how the market currently works. So if I was going to be bearish, I suppose I'd take it as a sector profits warning, though I'm more inclined to take it as a signal that you're deliberately giving away share in near term to manage away some of your surplus liquidity and then saving interest rates will move up rather more slowly than people might expect when interest rates move. Is that fair?

And then secondly, just on the mortgage portfolio, obviously you've drawn out the fact that there should, in theory be a large opportunity here. Yet the performance in 2013 for various reasons has been anaemic. I think it is about 0.2% growth in your stock. How do you explain that, given the significant moves you have made in terms of your pricing position? Just taking the example of help to buy. Why is it that when you're pricing so far inside your primary competitor, most would-be customers are choosing to walk down the street and overpay and take out their mortgage with Lloyds? Thanks.

Ross McEwan - *RBS-CEO*

Good question. Just on the pricing, well, let's start with that. I mean, I have been so surprised at how we have priced in this marketplace, and I think, destroyed customer relationships so badly when you're actually paying somebody new to walk in your door much more than you'll actually pay for your existing 16 million customers of business. And customers, when you research them, just hate it. It forces them to go, because they just don't think your pricing's fair. It was something that was starting to come into the Australian marketplace, so I am aware of it, and we chose to absolutely ignore it for five years and just do fair pricing, particularly around credit cards and zero balance transfers.

The reason I'm confident that we won't actually destroy value and will create value out of this, because in five years I didn't allow a zero balance transfer to be sold through our bank in Australia where everybody else was. And have a look at stats on the value of growth in that marketplace. We actually taught our people how to sell a credit card rather than just the seller rate. And I think that's what this business has got itself caught in. It's a rate mindset. Nobody knows how to sell to needs of the customer. And when you properly sell to needs of a customer you do a much better job and you get more of their business. I just think the practices have no place in RBS going forward on dealing with customers in that way. So a very strong position made today. And across a broad range of products as well.

And it then feeds into our mortgage portfolio. So if you want to get a feel for how we need to operate this bank, because it is about the culture. We took our lenders off the road for two full months, December and January of last year. We had them on half speed for, I think, another four months after that, to make sure that the work they were doing with customers was the right thing to be doing for customers. That has did drop in our revenues. We knew that would happen. I am delighted we've done it, because the actual quality of the business we're putting on, the feedback we're getting from customers, our net promoter score, they like what's going on, has gone from zero to 50 plus % in that period of time. And you're now starting to see our business coming through.

Our problem now is Les doesn't have enough lenders. They've grown the number of lenders from 325 to 420 I think it is. We should have a lot more lenders doing the business out there, and that's our biggest problem. It's not around customers. It's around we don't have enough lenders properly qualified to do it. In April of this year, you've got changes coming into mortgage advice where all mortgages have to be sold on advice. We already have our people trained or about to be trained to that level. So we should go through that without any blip. Be interesting to see how the other banks are going to deal with that, because it took us, as I said, four or five months to get our people up to the level.

So I think you've got to say what sort of business do you want to do with what customers? We've got 16 million retail customers and let's just treat them better and stop putting rates in there that annoy them and send them off. Les also put in simplification of product and savings product. I think there were something like seven or eight different savings product with all sorts of different prices online and whatever. We've now got a book of savings on one product of £10 billion from scratch. So you treat customers well, you treat them fairly, they'll do business with you. And unfortunately, this industry, I don't care what other banks do, it's time we just started treating customers, to rebuild the trust. So I'm not too concerned about it. I think we will do a lot better job.

Raul Sinha - JP Morgan - Analyst

If I can have two questions, please. Starting on slide 36, if I may, which shows the breakdown of your new divisional capital allocation going forward. And I'd say the problem I have with this slide is that roughly 35% of your capital is still allocated to a business corporate institutional banking, which will only make a 10% ROE in 2020, which I would say is below its cost of equity. So my question is why are you not more aggressive in shrinking this business in the current plan, especially in the context of the group? And secondly, Nathan, obviously you mentioned in the past when the group has tried to shrink businesses, the revenue has come down faster than the costs have. Should we expect the same thing to happen given you obviously have a very aggressive reduction in your RWAs in the Markets division, and also in International Banking. You've got £5 billon of costs coming out, maybe £2.2 billion of underlying costs. Shall we start to expect the revenue to come down faster in 2014?

Nathan Bostock - *RBS - CFO*

I thought I'd answer the second one first. Yes, so in terms of that glide path, yes, I mean you're absolutely right. I mean, again, it's unfortunate but it is indeed the way it is likely to work. So that's what I would be doing if I was you. I think perhaps if I start on the next one and then Ross, you can.

I think one of the things that's crucial here is what is ultimately the cost of equity of the group in the longer term. I think it should be reflective of the business that we're creating, and we're creating a business that is far more balanced in its overall retail and commercial basis compared to the whole. And I think that the corporate institutional banking part is a vital part of supplying the overall product and services across this bank as a whole. So again, I think if we get too focused on the individual ROEs of individual items, there's a danger that we lose sight of the benefit of the whole, and that's true across all different businesses. If you start taking them apart, you can often look and see different levels of return and you could make some very different decisions. This has been very much designed to fit our clients, to fit what we want to do in terms of delivering for those clients, and we believe that that's the mix that's required in order to be able to do it.

Ross McEwan - *RBS - CEO*

The other thing I would just add to that is I think it's time to we just put some stability into this business, because of what it's had to go through in the last five years. Most of these businesses have been in flux for some time, out of sheer necessity for change and putting it back into shape. What we're doing here is putting in a structure… a strategy then a structure that allows these businesses to shape themselves, and get into a normal pattern of operating. And whilst I'm not going to predict it, I just think we'll see some different numbers come out of these businesses when we let them have some time to have some certainty about how they look and feel going forward, because every part, particularly the Markets business, has been turned upside down I don't know how many times. Every time somebody says something about risk weighted assets, you know, take more out, take more out, we end up with a difficulty.

So I think it's time we let our businesses have… our people are calling out for give us the strategy, give us the structure and then let us get on with the job. And I think we'll be pleasantly surprised. But we're putting realistic numbers in here. And as Nathan said, some of these businesses, like, say, our Markets business will feed right across all of our businesses and I wouldn't be without a lot of those services going forward. If some businesses give us 10% and I'm getting 15% out of others, it's a pretty good return over the time.

Jason Napier - Deutsche Bank - Analyst

Just two if I may. The first potentially, I guess, for Ross, given your experience in CBA and Simon as it's going to be his day job. The IT investment programme, clearly we're talking very significant sort of numbers over the next five years, and I take what you've disclosed today in terms of IT and Ops cost of nearly £5 billion a year. I'm just wondering whether there's nothing cheaper than a fully depreciated IT system. Is the outlook for savings in that bucket really driven by more expensive IT run rate costs and savings on the sort of only a third of your people being customer facing. So first question is are you going to write off all of the IT in the restructuring burdens? Are we looking at a higher fixed cost base on the IT side.

And then secondly, if I may, just to press you a little bit on Markets, I absolutely agree with what you're saying on giving markets, you know, a strategy and a capital pool to go and exploit. Can I press you just a little bit in terms of what you think the medium term revenue number will look like for the division? It's far away enough that I thought you'd have in your mind a number to the nearest billion just within the context of saying that the go-forward bank might only produce another billion of revenues in sort of three or four years' time. Thank you.

Ross McEwan - *RBS - CEO*

I'll just pick up the IT one because I think it is relevant, and Simon's here, so we might flip to him. One of the things that we've found as we've gone through all of the portfolio in the IT area and pulled all of the bank's IT pieces together, which Simon has now done. We thought about should we move ourselves onto a completely new platform. And one other thing we found is we've got so much technology, so many applications that it would be nearly impossible to go through and replace out what we've got, even though a lot of it is depreciated out to next to nothing, that we're better off to go through and simplify what we've currently got and get it working for our customers. And that's been the approach we've taken. So the most of the cost we're putting in is stripping back from the numbers Simon showed you from applications down from 50% of the now and bringing some of these platforms down, because some of these platforms are still very good platforms - they're just so cluttered. I'm not aware of any write-down per se, but Simon, do you want to pick that up? I'm not aware that we've put anything in here for…

Simon McNamara - *RBS - CAO*

The investment levels are actually staying consistent so we're running at the same level this year as last year. What we're doing is concentrating where that investment is. And in terms of destination, we should be at a lower running cost, because we're going to have fewer moving parts to support five mortgage systems at the moment, to be honest costs more than supporting a single mortgage system. So that's the destination. And then it's the smoothing it out through its life. So yes, we've got some historical investments. We have looked at some of them to see if there was some pieces that we had no sort of residual value around, but to be honest, a lot of stuff is written down. But yes, there are some pieces there, but not in the material space, I believe. Does that make sense, Nathan, or…?

Nathan Bostock - *RBS - CFO*

Yes, so again, in terms of the mix of things that we've got in our numbers going forward, there's elements where systems need to effectively be written off, and in fact, we took a charge in the last quarter in relation to that type of thing. But the majority of items are the ones that Simon described where effectively we're making changes, reducing the number of applications, but we don't necessarily need to take write-offs in order to do that. But we do need to spend money in order to be able to re-engineer them.

In terms of Markets overall, I've actually put a number in the presentation on page 36, along with the RWAs, of £45 billion, I've given an indication of the sort of medium-term Markets income. I've done the same on the IB. If you look at it from where we are today in combination, and I think it's better for us to be thinking of these businesses as in combination, because they fit firmly together, then you're talking about in total, round about £1.5-1.8 billion reduction in income, round about £800 million combined reduction in costs.

Andrew Coombs - Citi - Analyst

Just coming back to slide 36, I just wanted to discuss your £300 billion RWA target. If you combine that with the 12% core tier one that you're targeting implies core tier one capital of about £36 billion. Your end-2013 core tier capital on a Basel 3 basis was £36.8 billion. So essentially, just from a statutory earnings perspective, are you assuming that your retained earnings will effectively be offset by ongoing restructuring charge, disposal losses, conduct charges and so forth, or is there a dividend embedded into that assumption as well. That would be my first question.

Second question, you mentioned about revenue attrition and the time frame for that. And a lot of it being front-loaded. Perhaps you could just give us a feel for some of the cost savings as well. Obviously those with divestments are one for one with the time frame in terms of the revenues dropping out there, but perhaps the cost saves of the remaining £2.2 billion when they're going to come through, broadly speaking?

Nathan Bostock - *RBS - CFO*

Okay, well in terms of the capital scenario, again, I think clearly you're calculating the RWAs off the base of capital ratio, so that I leave to you. In terms of the overall sort of perhaps turning it round in TNAV, I would see TNAV being relatively neutral in let's call it in perhaps the next sort of couple of years, and then increasing after that. Clearly, in our original capital progression, we talked about the fact that we would be above 12%, and again, within that we said that we would want to effectively be above it such that we created a capital and we basically put both safety and soundness to one side, but also you put away the concept of being able to ultimately then pass any requirement from a PRA in order to be able to pay a dividend. So clearly, as you move out over the period, we would be expecting ultimately to be generating capital.

The cost walk, the way I'd probably look at it is of the £3.1 billion I guess just giving you the overall numbers, because I just gave you the last two for markets and IB, Citizens would be round around £3 billion of income, about £2 billion of costs. Williams and Glynn would be round about £700 million of income, round about £300 million of cost. And then the numbers I gave you on the other. Those are the ones that relate to that. In terms of the profile for the actual cost savings, no, we haven't given that out.

Chris Wheeler - Mediobanca - Analyst

Three questions. Just the first one, Nathan, this morning I asked you about the Markets RWA. I think you said they were £100 billion. So I'm just trying to sort of bottom that out with the fact that you're taking £50bn off that at international business, but you appear to be going down to £45bn for Markets, which sounds like more like £60bn, and then I think if I looked at the very detailed numbers, I think you had £45 billion or so in international before any CDR4 uplift. So there's a little bit of a gap there. There's something between sort of £10-15 billion. I wondered if you could just help me on that.

Second one, related to the C&IB business, any thoughts on where you'd like the cost income ratio perhaps to sit there, because obviously that's been a big issue for you, perhaps in those two businesses, or certainly the Markets and international.

And then finally, obviously these are some really big targets you set yourself. You must have sat down and worked out what are the big obstacles that might derail you. And obviously, you know, things like the Scottish vote, things like the opposition's plans to perhaps spin off some of the branches. What are the biggest things that you think… or the most likely things that are going to get in your way of this quite ambitious plan?

Nathan Bostock - *RBS - CFO*

Off the top of my head I can't think what the reconciliation difference is but we'll come back to you. As I say, I just can't think of what it is off the top of my head. C&IB we haven't set ourselves a specific cost income rato at this point in time. As we go through and Donald and the team, and various people get a chance to actually work on this, then I'm sure we will be focusing in on that, and ultimately we will be setting that as a specific cost income ratio.

Ross McEwan - *RBS - CEO*

You take an overall on medium term of 55%, you're going to be running a retail bank obviously lower than that. You're going to run a commercial and private probably slightly lower than that, given the influence of the private bank would have a higher cost to income ratio. So you're going to be running a corporate and institutional probably between up around the 60%, I suspect, on a ratio there. And longer term, we need to get all of those businesses down, particularly the retail bank and personal bank.

Big things that are going to stand in our way? We need to mobilise ourselves. We need to actually get ourselves some internal stability, and that's why the first year of the plan of 2014 was to get the overall organisation structure tidied up, start taking out some of the just basic quick wins that make no difference to customers to be… Simon talked about taking some of the projects out. Just so that it takes the clutter away from us at the moment, so that we can get a clear focus on this business and see what we've got. Got our senior leadership team in. They're now going to be working over the next two months to actually get their senior teams mobilised. As an executive team, we're working well to get these functional support structures organised and agreed and then move on so that we'll get the basics done in 2014. And really it's clutter.

And the other thing I think this business does need more than anything else, it just needs a level of stability now to get back into its business operating units and get some rhythm. If we keep losing that through intervention and people wanting to push and prod us into all sorts of things. That is probably the biggest danger that we have, that we just don't get a clear runway.

Nathan Bostock - *RBS - CFO*

And I'll just close that other one off while we're at it. Yes, that top chart actually runs to 2016, and the number I've given you for the £45bn is circa 2018. That's the difference.

Philip Hampton - *RBS - Chairman*

And some of the biggest unknown unknowns, if you like, that have happened in recent years are in relation to conduct and litigation and all those sorts of things. I was saying earlier today that if you go back to 2009 we had zero in our financial planning for PPI and LIBOR fines, RBS litigation and all those sorts of things. And I think we're now at £8 billion or so. So those sorts of things are a feature of this industry.

Chintan Joshi - Namura - Analyst

Three questions from me. First one, for steady state RBS, how should we think about what the total capital requirement is? Obviously you've given us the 12% target on the £300 billion, but I'm thinking about how much buffer do you need to run about 12%? What kind of Basel 3 deduction would you have by 2018, that needs to be added on top? And also what kind of regulatory creep you might get that we need to take into account. Have you taken that into account in the £300 billion already? Should I take it one by one?

The second is… now I've forgotten the second. On slide number 36, if I look at the RoE numbers you've given by each division, the weighted average of that is around 14%. And you've given an RoE target of 12% plus. I mean, presumably one thing missing there is preference dividends, but even that wouldn't get me to 12% plus. So what is the building block between the weighted average of that and 12%.

Ross McEwan - *RBS - CEO*

I think you're right. 14% is bigger than 12% plus so that's how we've sort of built that. And we have left that… we've put ourselves out there at 12%, so we just thought we'd put a plus behind it, to be quite honest. These businesses here, given the right run, should get at least these returns over this business, so that's the flex between what you're talking about at 14% on the average as you've weighed these up. This is what we're talking about here. Our aspiration is a

12 plus % return on equity business in total. So you've done your maths on those, you're right, and we've just put in 12% plus.

Nathan Bostock - *RBS - CFO*

I'm looking at it that we would need to be above 12% on an ongoing basis. I'm not expecting sort of regulatory creep that I'm aware of at the moment. When we did our analysis back for November, we think we were suitably forward looking in terms of the overall numbers, and that that 12%, however you want to think of it as a number plus a buffer or a number that if we're above that 12%, then we think that's the right place to be.

Ross McEwan *- RBS - CEO*

And the other thing that's guided us on our conversations with the PRA and from an industry perspective with the PRA, we've got the very distinct impression from them that they want all the regulatory changes from their end with the major ones through or known to the businesses in 2014. So that this… now that's not saying that there won't be other changes, but we are working on the basis that there won't be a lot of change after all the regulatory changes that are happening in this year, so that's why we're reasonably comfortable there. And originally we were thinking about in terms of probably 11 plus percent, and pushed ourselves to 12, so it just comes without the question.

Manus Costello - Autonomous - Analyst

Ross, I just wanted to come back to this point you were making about stability returning to the business, because if I look at your cost-cutting targets, you're talking about taking more than 20% of the cost base out of the business, ex the Markets run-off, which is a pretty extraordinary number to be targeting. And I wondered if you could give us an indication of where that £2.2bn comes from by division on the current divisional structure if you like, and let us know why you have confidence that you can take 20% plus out of that cost base, but you're still talking about growing revenues at 6-7% from that underlying base, which is an extraordinary draws if you can achieve it.

Ross McEwan - *RBS - CEO*

One of the things that, as you wander around this business and look at the way we structured ourselves, you do see that we have a lot more than duplication, triplication or in some cases if we're running seven businesses, we have seven of everything. And when you look around at the processes that we operate within this business, having come out of both Simon out of a different bank, and myself out of a different bank, you see the opportunity for actually reducing cost by delivering much better processes in this business. And having run a reasonably efficient business, I look at how we run this one here from even the retail bank perspective, and you do see the opportunities to take costs out.

You know, running a retail bank currently at 53% cost to income ratio when you know, a reasonable bank would run at 45%, a really good bank would run at 40% and superior banks run at sub 40%, I think we just have to think of what could this business do? And the numbers don't show that we can do that. It's not without its challenges. And it does mean that we do need to go very hard on the cost base, leave the pieces that are really important for our staff to deal with customers.

If you look at our technology platforms, you know, 2,000 plus applications, businesses like this shouldn't be running anywhere near that sort of application level. If you look at the way we actually process things, we really don't think about them end to end. This massive change that needs to happen, but I think it's got to be in that sort of area to get a reasonable business running. And we've seen these businesses. We know what they look like. Look, it's hard, but we have to steel ourselves for it. When you walk around our business and see some of the slides we're doing, more than seven AMLs in this business. When you see that every business unit's got a finance operation, a risk operation, an HR operation, you know, everything, you say well how are we going to end up with three of them? There's a lot of change.

And also if we do things once and have those pushed right across the business only once. We've got three different ways we operate a mortgage operation at the moment. It is not just the systems, we've got five of those. But we've got three different ways we write mortgages, through Ulster Bank, through Coutts, through our retail operation and NatWest and RBS. So it means we've got three different risk policies, we've got three different everything. We just add those up, there's a lot of change that needs to happen. A lot of, I'd say, cost that can come out.

Simon McNamara - *RBS - CAO*

I think again, if you just go back to slide 30 and you think of the absolute size of the reduction, the task that everybody has had in order to make that reduction happen in terms of the assets, etc. then it's slightly different starting from this point than in a normal environment because we haven't had that opportunity to step back and actually do some of that right sizing. So again, I think that's relevant to the size of the task.

Ross McEwan - *RBS - CEO*

It's just the phase we're in. You know, the organisation has had to be very focused on financial works of this business and bringing down a balance sheet. Now we have to focus on getting this a much more efficient organisation, and make it simple and making it simpler actually makes it a lot cheaper than it is today.

Magnus Costello - Autonomous - Analyst

So is it possible to split that £2.2bn at all between I guess it's retail, corporate, Coutts and Ulster?

Ross McEwan - *RBS - CEO*

No, we haven't gone to that level. We'll try as ever to work on the ground work from an IT and operational perspective, and looked at it and back tested and said, is this reasonable. We know that we've got £4.9 billion sitting in an IT and Ops across the business. £1.2 billion of it sits in the businesses. £3.7 billion sits with Simon. We will have to bring all that together and start going after those costs as well. It's spread well and truly across the organisation. It's really quite… you know, because we just haven't had the team and to be fair, haven't had the time to sit down and run a normal business for a long time. And that's what we're now pushing out there. We're changing the complete strategy of the business to focus on the business itself. And that's no criticism of what's happened, and it's amazing it's reached the structuring for a financial perspective. Now we need to do that amazing restructuring from a business perspective.

Nathan Bostock - *RBS - CFO*

That's another reason why we need to be careful to give ourselves enough time to come out with also the new information so that you can actually understand the picture across the bank as a whole on a go-forward basis, and precisely these types of things. Because, again, at the moment in the model or whatever, you're going to have seven different divisions, you'll have all of these different bits. And what we need to do is be able to re-cut it so that you can actually see where the savings and all the rest of it will ultimately apply. But, you know, they're much more commutative at the moment in terms of how you save it. And, you know, it doesn't necessarily align it to a specific business once you put the things together.

Rohith Chandra-Rajan - Barclays - Analyst

Back to the Markets business, if I could, please. And back on page 36. Just in terms of the RWA reduction, so the £104 billion, as we stand down to £45bn, could you give us a bit more colour of how the 45 compares to the previous £80 billion target in terms of product or capability? So how is the Markets business as it's now envisaged, look different to the previous expectation. And then, sort of related to that, just the income reduction expected. So £3.2 billion, I think, was the Markets contribution, this year. Talking about something a little under £2 billion on the go-forward bank basis. So a bit more, perhaps, than a third reduction in the income, and a 55% reduction to RWA, so why are you confident that the income reduction is going to be significantly less than the RWAs, thank you.

Nathan Bostock - *RBS - CFO*

In terms of the numbers, I think we've given you the detail in terms of where we are today and where we see that getting to. In terms of, you know, we've given the income and the forward profile and we've given the overall RWA picture. We're not going to specifically give what particular assets that those relate to. They will be in relation to us changing ultimately, you know, the mix and the focus of the business to fit with the strategy that we said, which is client orientated. We've given you the types of products, etc, that we see ourselves being focused on. So that's the sort of general rationale behind it. But we're not giving the specifics on it.

Rohith Chandra-Rajan - Barclays - Analyst

Are there exit costs associated with reducing those RWAs or is it more natural run-off?

Nathan Bostock - *RBS - CFO*

I think again if I go back to slide 35, I've said that round about £600 million for asset realisation for Markets.

Sandy Chen - Cenkos - Analyst

I've just got two questions. It's interesting because it does seem that a lot will hinge on the IT integration and business process optimisation. Will that affect the pace of disposals as well, because obviously Project Rainbow seemed to have been held up because of the IT integration or crossing over process. And actually just following on Roy's question, in Markets, the targeted reductions could seem to fit reasonably well with the reduction of Greenwich. And would that be something that could be contemplated? I can't recall if you commented on that earlier.

Nathan Bostock - *RBS - CFO*

I'll do the first one on Williams and Glynn and Rainbow. There's no impact on that. Fundamentally that's part of the programme that we talk about. It's one of the ones that Simon clearly is incredibly focused on and we have a commitment to actually make that happen over the time scale, so yes, doesn't impact us.

Ross McEwan - *RBS - CEO*

Just on the ABP business, I mean, it's clear that the risk weighted assets will come down in that business. Peter and the team have had that on a dropping off basis and will continue off there. We do want to maintain the capability in securitisation across the organisation. So at this stage, we're just continuing the glide path that that business has been on. It needs to be in our minds, it needs to be in a smaller shape than it is today.

Claire Kane – RBC - Analyst

Hi, can I just get a follow up on the costs on slide 8. I think on there you talk about rebalancing 70% of your people from back office, so that the majority are facing the customer. And clearly the cost savings, most of those are coming from IT and other things. Could you maybe talk about how much of the cost savings are coming from staff costs and FTE reductions in the plan, please.

Ross McEwan - *RBS - CEO*

We haven't done a breakdown on the staffing costs. We've done the breakdown on sort of where Simon sees the IT costs. The staffing costs we're working through at the moment around the structure of this organisation, bringing it into three and now to task the senior teams to actually go off and find out what does the organisation look like there. We've got ourselves some areas that we think we can save them, but wee haven't actually disclosed those yet.

Nathan Bostock - *RBS - CFO*

Yes, I think the other thing I would say is that if you look at the cost savings on 34 that you'll see that again, the actual mix of the savings, the front end, you know, business elements play into that sort of 70%, 30% or whatever. You can see that actually that's only £300 million of the savings. Much of that's coming from things like product simplification, etc. So really sort of maintaining that front end capability. And you can see the other major items in here besides the sort of IT and Ops arena is actually the one bank functions model. So that probably tells you, as you can see, the shift of the overall ratio of let's call it the front end element to the support element.

Claire Kane – RBC - Analyst

Can we confirm that's the IT and Ops cost savings, they do include staff reductions as well as part of that rationalisation?

Ross McEwan - *RBS - CEO*

Looking at Simon and he's sort of trying to remember. We will have to come back to you on that. There will be some, yes.

Simon McNamara - *RBS - CAO*

As I tried to show earlier, there are significant sums of money we're spending with third parties and there's a chunk that comes out of there. We talked to the property piece. But there'll be some, yes.

Tom Rayner – Exane BNP Paribas - Analyst

Could I just ask you on slide 29 on your high level financial targets again. I'm more interested, I guess, in the medium term rather than the long term, which looks a little bit too far out. The 2016 or 2017, there seems to be some quite big differences between those two years, I mean, in terms of restructuring charge, how much sort of impairments on the bad bank is still coming through the number. And I just wondered if you could be a bit more specific on that, for instance, the 9-11% RoE range. Is that just saying 9% in 2016 becomes 11% by 2017. I look at the cost income target. I'm not sure whether that £8 billion is including £1 billion of restructuring or virtually no restructuring. And I guess on the RWA number as well, when I look at that capital ratio target, I'm not clear from some of the other slides whether £300 billion is an RWA target for 2016 or whether that might not be hit until we get all the way out to 2020, potentially. I was wondering if you could just give a bit more colour on some of those numbers, please.

Nathan Bostock - *RBS - CFO*

I mean, we're not breaking out the 9% to 11% between 2016-2017, but you have actually got a variety of the numbers that actually fit into the different years in the picture in here. So the RWA one, for instance, £300 billion is in 2016. You've got in here or certainly this morning you'll have had the glide path in terms of the RCR reductions. We've previously given you the guidance of the impairment of that over the period. You've got the restructuring costs in here by year, etc, so I think there's generally enough there to be able to build the picture.

Tom Rayner – Exane BNP Paribas - Analyst

If I can just quickly come back on that point, then, because if it's £300 billion by the end of 2016, does that mean you're not really factoring in any RWA growth for the following four years?

Nathan Bostock - *RBS - CFO*

There are… at the moment we're just giving you the number for the end of 2016. We haven't given you the specific numbers thereafter.

Tom Rayner – Exane BNP Paribas - Analyst

It's also your steady state number, isn't it, £300 billion? I'm pretty sure on one of the slides it shows it, doesn't it?

Nathan Bostock - *RBS - CFO*

It shows it on there at £300 billion. I think again we haven't gone all the way out and done all of the sort of matching of income growth and mix from thereon out, just as I've said. The cost income ratio target is circa 50%. We haven't given an absolute cost number. You know, as you say, the numbers out from 2016, 2017 are a long way out.

Ross McEwan - *RBS - CEO*

We've also avoided putting great big hockey sticks in for income growth as well as you'll note, so I don't think we've put any growth in for the first three years. I don't think we have. And I think it might be minor the year after. So we've tried to be as realistic as possible, because as you know, in this industry we've all been caught out with the low interest rate environment and we weren't prepared to build that in as the saviour of the organisation.

Chris Manners - Morgan Stanley - Analyst

Just two questions, if I may. First one, I was looking at slide 29 and you're looking to build to a core tier one of greater than 12%, the leverage ratio above 4%. That seems to be quite a lot higher than where peers are guiding to. How do you think that… what do you think that means for your competitiveness if you're going to be carrying a higher capital load than your peer banks in the UK, or do you think simply everyone's going to be running at those ratios, so actually there won't be a competitive disadvantage for RBS on high capital load.

And secondly, I was quite interested in the idea of the broad ring fence. I thought you'd go with a narrow Barclays style one. So how much of the bank do you think will be able to be inside that broad ring fence, and what do you think could be the implications for the funding of the piece that's outside? Thank you.

Nathan Bostock - *RBS - CFO*

In terms of the broad ring-fenced bank, I mean, you know, what we've done is we've looked at the balance between having a narrow ring-fenced bank or having a broad ring-fenced bank and what are the implications of taking either of those routes. Our thought process around this was if we were heading down a large non-ring-fenced bank, that is implying that you are going to compete on the major wholesale arena. In other words, you're going to need to be sort of almost as large as you can be in order to generate the level of returns, get the credit rating, do all those types of things.

Our feeling is that the position we stand in today, if we look at the Markets and we look at the way that things like FICC revenues are being driven towards the top five players, if we look at the credit ratings of the likes of the big US global investment banks, etc. our conclusion was that over the long term that was likely to be less competitive position for us. And that ultimately, therefore, more towards a broad ring-fenced bank was where we should be heading.

The construct of what we have put together means that the majority of what we have built in terms of that strategy should be eligible to sit within the ring fence. Again, that's why I said we've left also some flexibility because we believe that as it stands at the moment, some of those things are not fully decided, and so therefore we want to maintain the ability to use some of those businesses and approaches to business to generate good returns. And only as we progress further will we ultimately know the answer to that.

About the capital of 12%. Our view is that that's where we need to operate. We need to take safety and soundness off the table. We think that that's the right level to operate at. Clearly everyone will form their own judgements.

Chris Manners - Morgan Stanley - Analyst

So you'd be happy to operate with a much higher capital ratio than your peers if they can sort of get away with a lower ratio?

Ross McEwan - *RBS - CEO*

I'd like to see where everybody lands. And especially if they're in a slightly different shape to us. And we have got most of our assets sitting in a retail and commercial environment. Just wait and watch the space, I'd say. I wouldn't want to be running around with 10.5% and 11%.

Peter Toeman - HSBC - Analyst

Nathan, you've given us this £2.4 billion restructuring charge for divestments and rundown which includes the RCR.

Nathan Bostock - *RBS - CFO*

No, it doesn't include RCR.

Peter Toeman - HSBC - Analyst

I wondered if there's a duplication of cost, because quite a lot of the RCR when you gave your presentation in November…

Nathan Bostock - *RBS - CFO*

No, there's none. They're completely separate. So it's a good question, but no, the RCR one is separate and the information we gave remains valid that we gave on the 1st November for that. This is related to all of the, let's call it what we've said, the ongoing organisation.

Martin Litget - Goldman Sachs - Analyst

Just to come back to slide 36 and the loan growth of £30 billion in terms of risk weighted assets. You mentioned that the £300 billion target is until 2016, so that would imply quite substantial growth in terms of loans. Where can we attribute that in terms of UK Retail and UK Commercial, because that would imply almost, I think a 20-25% cumulative growth until then.

Nathan Bostock - *RBS - CFO*

Should be about circa 3% growth I think, over each of the years.

Ross McEwan - *RBS - CEO*

Over each of the business units over each of the years.

Martin Litget - Goldman Sachs - Analyst

Maybe the second question with regards to that DTA write-off and goodwill impairment, could you shed a bit of light on which entities and which region or which business will effect that?

Nathan Bostock - *RBS - CFO*

Well, on that DTA one, it's actually again, as you know, the tax is very related to specific legal entities, and the DTA relates to RBS PLC. RBS PLC is the institution where our Markets, wholesale type businesses are held in terms of legal entity, and the number in terms of you know, the forward profile of profits and Markets business etc, and overall has been coming down in revenue terms. We have restructuring costs that we need to take into account and our view was that we should be looking at probably holding DTAs for no more than circa eight years, and it was prudent to do so in that space. And so that's the number that you see written off. So had we not have written it off, obviously for this year's charges, we would have had an uplift in our DTA. We haven't. We think we've done the right thing, and we think it's the right thing to do overall.

In terms of the goodwill. The goodwill actually relates to the International Bank, so it's IB. And there, I think, again, probably to put it into context, about 90% of the goodwill that was generated in the first place came from the ABN acquisition. Clearly there has been very significant change to that business since we had it. Overall, I think last year we put that the headroom on it was marginal, in the accounts, in the notes. And this year we've decided that the forward growth pattern that's included in the calculation, we felt was too high. In adjusting that effectively, it's taken us to a position where we should write it off, and that's what we've done. Again, we think that that's the prudent thing to do.

Chirantan Barua – Bernstein - Analyst

Bruce is here, so it will be great to get an update on Citizens and in terms of the flight path there.

Bruce Van Saun - *RBS - CECHA*

I have to say it's weird to be in the audience but it's certainly more relaxing. I feel a little like a ghost. Anyway, look, Citizens, we are making good progress. Financial performance isn't where we'd like it to be, but we've effected a number of programmes, similar to some of the things that Ross and Nathan are describing. We're adding originators, so we need to grow our balance sheet again. We have some new product launches to add customers again, so we had been attracting customers, we want to grow the customer base. So we start with some very good advantages. We have, I think, a good mix between retail and commercial. We're in an attractive region of the US. We've got a capable team. We've had a good culture that's focused on a credo that's focused on the three Cs: customers, colleagues and community. Again, the shortcoming has been more on the major stakeholder, the shareholder, and so we have to boost those returns.

In addition to growing a balance sheet, we are also working on efficiency initiatives. So we've had a three-month effort where we've gone bottoms up across the company. We started with 5,000 ideas. We've decided that 1,250 of those ideas can be put into programmes and affected. And that will help us to operate both more effectively and more efficiently. About 80% of those ideas are on the cost side. 20% are on the revenue side. But again, so some of that cost save will fund the growth initiatives that I just described. We're adding originators and mortgages and business banking and wealth advisors. We're going to get more out of our branches, etc.

So I think we're on track. Again, you can't change… you can't move on a dime. We won't be the finished article at the time of the IPO, but I do think we'll have a clear vision of what we want to be three years down the road, and I think we'll be able to convey with confidence that we have the ability to execute that. So anyway, I'm optimistic that we'll be in position to go in early fourth quarter, which is what I think the overall objective is.

Mike Trippitt - Numis - Analyst

Just in your TNAV neutral for two years, is there any assumption in there for DAS exits, or should we assume that's being sort of… that now occurs in the medium term of 2016-2017 kind of window?

Nathan Bostock - *RBS - CFO*

I think again we're reasonably well advanced here in terms of the DAS, at the moment, again. I wouldn't really be pencilling it in in any particular year, but certainly forward from here, but not any particular year.

Mike Trippitt - Numis - Analyst

Well, I wasn't going to put it in last year. But if you're advanced, then is it going to be paid or…

Nathan Bostock - *RBS - CFO*

No, we're advanced in the terms of the discussions.

Ross McEwan - *RBS - CEO*

The discussions are advanced. And we'd hope to get something to the AGM if it's ready. But that doesn't mean that the cash is paid at that point in time.

Philip Hamptom - *RBS - Chairman*

There's a process of EU approval that's being gone through at the moment.

Michael Helsby - Bank of America Merrill Lynch - Analyst

I've just got three quickies, actually, just on the C&IB. Firstly, just in terms of the opportunity. The opportunity that I think you presented all seemed to be around the international expansion of that division, which seems to stand at odds with what you're telling us in terms of the shrinking. So I'm just wondering if I'm misunderstanding that, or if that is exactly what you're saying. And if it is what you're saying, how do you think with a balance sheet which is significantly reduced, how do you think you're going to compete in those major rates, FX, you know, those key IB products with big US, big European investment banks who've clearly got a lot more balance sheet now to play around with. And so that would be question one.

Question two would be just on the revenue, you've been very kind giving us that £2 billion revenue number, but the balance sheet's shrinking more than that. Have you embedded in that £2 billion some of those growth opportunities or is that a £2 billion static. I.e. does it go beneath £2 billion before it comes back up.

And then finally just on that billion of revenue growth, is there any one particular place that you think that's going to take a lion's share of that billion? Is it UK retail? That would be kind, thank you.

Ross McEwan - *RBS - CEO*

I'll pick up on one and three. On the international expansion, we don't see great international expansion. What we do see is UK corporates, because we've got them split into quite distinct camps at the moment, some UK corporates sitting in UK Corporate banking division and some of them are sitting in the international division. All operating off different platforms, operating with different executives, operating with just about everything different from risk management and the likes. Going to pull those all together, so you can imagine there'll be some synergies that come out of that, both synergies on the cost basis, but we also see some synergies from a revenue perspective. But that will be more us going out, which as we've looked at our strategy we see that we've been lighter than we think we could have been.

Now it's not huge revenue uplifts but there is some revenue uplifts out of that. And also cost fall out of that as well. So I wouldn't assume in your modelling that there's huge growth in the international markets, but it's how we work with UK corporates, and just to make it a lot simpler for them. Today, if you were a UK corporate wanting to use our transaction services, you have to have three different ways of getting into it, because you end up with three different platforms, which is what Simon's been talking about. How do you actually get that back to one way of getting in with whether you use three or you just use one platform. That's our opportunity.

The revenue, most of our revenue growth we'll see coming out of the UK business, out of our retail business and out of our commercial businesses in the UK. We do see that growth opportunity there. We've got a massive customer base that you can see, as I just showed you a few examples and just a few examples. We can do a lot better.

Housing market, Les has got the team back from the road now, fully trained. We'll put more lenders on, good quality business, low loan impairment and it doesn't use a lot of RWAs but it does generate reasonably good money, and we've got other opportunities in that marketplace. So we'll see it more… the revenue growth will be more in the UK than we'd see offshore.

Nathan Bostock - *RBS - CFO*

In the forward picture I don't particularly see the revenue numbers going down significantly below the £2 billion, but certainly within that there is a focus in terms of optimising how we generate our money from the RWAs that we're putting to use. And again, I have to say that's one of those classic things for markets. It's been in flux constantly, and this is really, you know, again, it's opportunity to be able to focus on exactly how it optimises RWAs rather than constantly focusing on how it's taking them down.

Philip Hampton - RBS - Chairman

Okay. There's time for one more question if anyone's got a really good one.

Chintan Joshi – Nomura - Analyst

Well, I've got really high expectations to live up to now. Nathan, you had mentioned the 2-3% from CFG. If you could just give us what assumptions you are using in getting to the 3% uplift from CFG.

Nathan Bostock - *RBS - CFO*

Basically no major heroic assumptions. Again, I've taken a sort of reasonable assumption on the price to book that one can achieve. Again, it's open to yourselves. You can see very much what the prices are in the marketplace. Haven't assumed, if you see what I mean, anything heroic. It's much more to do with the timing of the capital versus the overall RWA.

Philip Hampton - *RBS - Chairman*

Okay, well thank you all very much for coming. I mean, there's clearly a huge amount done, but a huge amount still to do in RBS. I think that's clear from all of the presentations. I've got a very simple characterisation of it from a Chairman's point of view which is I think Fred Goodwin in his last two years spent all of his time either pursuing ABN AMRO or dealing with the descent into the financial crisis. And Steven Hester and naturally Bruce and Nathan then spent five years cleaning up that mess with a massive corporate financial focus which obviously was the top priority. So basically this business has had seven years without this sort of language about how we get the business to perform effectively and operationally, both for customers and for shareholders, and that's going to be the really big shift of focus in the next five years. And that's the only thing you do long term to build shareholder value. So thank you all very much for coming.