

**Stephen Hester, Chief Executive Officer, RBS Group**

**Presentation to the BOAML Conference**

**Stephen Hester (CEO):** Thank you very much. I am sorry the last question didn't get put to the vote, because I was hoping I would learn something about our privatisation prospects for next year, but I guess we will have to wait for that as well.

What I wanted to do in the first part of talking to you today was simply to go back and remind you of what we are trying to do at RBS and how we have done so far. Not because that is particularly new news, but in the marketplace around us we can see, not just in our own securities, but in all securities, that people, to some extent, are trying to find a structure, shape and foundation to the things that they invest in. This is a good reminder of the place from which we now face some more challenges and some more uncertainties.

As you know our restructuring plan that we embarked on two and a half years ago or so essentially is built around three enduring priorities: the safety and security of the bank, making sure that we serve our customers well and preferably better and restoring value to our shareholders. You also know that the ways that we have been going about this are relatively conventional for a restructuring of the scale that we undertook - to separate out our Core bank from the Non-Core with the things we needed to get rid of, wind down, make safer. That has allowed us to have considerable focus in what we were doing to make sure we are and were applying our energies appropriately. You will see, as we go through, and have seen in the last few years, that this strategy and this structure has been working well. Even in the core bank though, of course, we did have and still have lots of work to do, because the challenges of the external environment and the changes in the world economy and in our markets from the pre-crisis period are requiring businesses to face somewhat differently off towards their customers and their markets. That strategy and the structure behind us is standing the test of time and is what we are proceeding with.

In essence, when we look across our business on a different dimension we start with a UK anchor for RBS. Everything that the company has built on and is doing starts with the attractiveness of our market positions across the UK, with the merits of the UK that I know Bob was eulogising just a few minutes ago and a belief, which is already being borne out, that we can get stable and attractive financial returns – not necessarily fast growth, but stable and attractive financial returns from that UK anchor.

We then are bolting onto that, or adding onto that, two kinds of global opportunities: those areas where we can mine a deep local franchise, which of course in our case is most

significantly in our super regional bank in the United States, and those other business opportunities where we can take advantage of long-term globalisation trends, subject to the criteria of being able to credibly compete, being complementary to the rest of the Group and providing us synergies.

Our business make-up, at least as of the most recent first half reporting period, you can see is just under 70% of our revenues from our Retail and Commercial businesses in the UK and elsewhere and just over 30% from our Investment Banking business, including Insurance: 64% or so of our revenue is coming from the UK, a bit under 60% excluding. We have put at the bottom of this chart a few comparisons with what you might think of as our peer group, the top dozen or so global banks, which you can see in very small print at the bottom, basically showing that at least relative to the average of the big cap banking universe, although of course averages show a few differences when you do it at that macro level, we probably have a slightly higher weighting in domestic retail and commercial banking, slightly lower in wholesale or investment banking and lower in Asset Management than the global averages.

We have been clear from the start, and this is equally clear today on what was important to RBS and how we aimed to deliver it. We set out two and a half years ago a series of high level financial targets which were complemented by a lot of strategic work and some lower level financial targets and a key set of these was all around capital, liquidity and funding. That was a big issue in 2008/9 and has come back to be a big issue again for our industry, so I feel that we were absolutely on the right track to focus on these things to make the huge progress that we have made. As you can see in the top half of this chart, across the balance sheet and risk ratios that we have put out, we are either at or more or less at our 2013 targets already in terms of balance sheet structure, capital, funding, liquidity; I am sure we will come back to talk some more about that.

On the returns front, again we were equally clear that the world had changed, did change post-2007 and much more focus needed to be on the balance of input versus output. In our case, as in all banks, the two inputs are capital and expense dollars, and people. Our efficiency measures across those two things were absolutely core to what we had to do, we made good progress. We are going to have to revise those targets, about which more later, even though I do not think we need to revise our balance sheet targets.

Around the quantitative targets there were key strategic observations, these are valid for the future, about only trying to compete where we have top tier businesses in large, customer driven markets. We talked about the anchor from the UK and from retail and commercial, the importance of risk management and of good risk basis and then the way in

which we orientate ourselves to the outside world; transparency, discipline, focus on execution.

In terms of progress to date under the three categories that I laid out at the beginning; in terms of safety and security, focussing on our customers and restoring shareholder value, I believe there's very strong progress, which provides a good foundation to face new challenges. All of you are familiar with our Non-Core progress; that has been going very well. We are something like two thirds of the way through, we are on course to hit our year-end targets of below £100 billion of Non-Core assets and, although there is still plenty of work ahead in the next two or three years, after that we do believe we have broken the back of the task in Non-Core.

Along with that has come good progress on reducing concentration risks. You can see in the top right of this slide one third down if we measured back to 2008 it is closer to 60/65% down and we will be 75% down within the period of our strategic plan.

Crucially, and I mentioned this before, has been the progress we have made on our balance sheet where I said we believe we have more or less done what we set out to do in five years in half that time. As it turns out, with the markets as they are, that is just as well. You can see in the bottom charts that we have taken a huge amount out of our reliance on wholesale, unsecured funding; our short-term wholesale unsecured funding is now below our liquidity reserves. That is a function of that coming down, our liquidity reserves coming up and you will see, when we report our third quarter, that position will have strengthened still further.

Along with that, the foundation and the fabric of our funding position is moving RBS to exploit our permanent advantage position with a series of very strong deposit pools and therefore to move to a position where our bank is funded largely by stable deposits, where our loan to deposit ratio is already under one-to-one in all our Core businesses and heading fast for one-to-one overall. That, I believe, is going to be a crucial feature of successful models going forward, even more so in the light of what is going on in the markets today and what I expect to be the long-term consequence of that, as it was when we devised our plan.

We have also, we believe, made good progress in proving that we selected the right businesses to be at our Core and that we would be doing the right things to them. Across our Core businesses that are laid out here we do have top tier positions, we have kept them stable, a majority of them have improved in one way or another and that is true both in terms of our market positions and, as I mentioned already, the deposit funding that that is giving to us. These are, by and large, enduring franchises that in tough times and in easier times provide an important foundation for our business.

I have selected on this chart a few qualitative indicators of how, in a variety of our businesses, our Retail and Commercial businesses in particular, we have been making – of course these are mature markets so they are baby steps, but nevertheless, baby steps forward. Despite the restructuring that RBS has gone through, these franchises are in good health. Our customers are reporting good satisfaction with us relative to our competitors and in a number of important areas we are making small gains and penetration. Again, I am not going to advertise massive growth prospects, but I do think solidity; the prospect of high quality cash flows in the future is very much what our Core businesses represent.

Clearly in some ways one of our greatest challenges has been to restore shareholder value creation and indeed our share price will tell you we have done a lousy job of that, although in perhaps good company. Beyond our share price we have been making some important steps forward. If we look at our Retail and Commercial businesses we have managed to, despite hostile conditions in terms of growth, in terms of interest rates, improve the net interest margin. I will be talking in a minute or two about the outlook for this, but to improve the net interest margin, we have been managing down the cost base, impairments have been coming down with the exception of Ireland where, hopefully, if the Irish economy continues its decoupling efforts, we can see that reverse. Of course those three things have resulted in a strengthening and a recovery of our Retail and Commercial profits.

Along with those profits, you will see on this chart, the recovery in our return on equity in Retail and Commercial; this is using 9% Core Tier One, so that will be one of the things that we will no doubt need to revisit. The other part of our business, GBM, has in the last two and half years, despite being halved in size post 2008, produced £10.5 billion of profit that shareholders would otherwise not have got if we hadn't managed that business successfully in its smaller size. Of course the market environment here is looking significantly more hostile, at least in the near term.

In Non-Core, we talked about the assets coming down, the losses from Non-Core have been coming down. Although clearly, as we have signalled, hopefully the impairment bit of those losses continues to come down, but as we get to the stickier rump of Non-Core, the losses on disposals are likely to rise somewhat.

Then, the last slide on the underlying components of shareholder value creation we have, as we have been doing the different measures on profit and balance sheet that I mentioned to you, have been able to strengthen our capital ratios and been able to keep stability in our book value per share – around 50p per share, despite the major clean-up work that we have needed to do through Non-Core and through other items from the past-

exceptional charges and so on. Sadly, not all over, not all behind us, but we are getting through them at a good pace.

We, I believe, have through that process; through the process of separating out our Core businesses, demonstrating or beginning to demonstrate what we can do with them and giving you a transparency around our plans and our businesses, shown the route map for medium term improvement in return on equity, which is the key thing beyond safety and security, that will lie behind value creation in due course. You will see that the strong majority of our businesses are already operating at return on equity in excess of our cost of capital.

Clearly we have a recovery to do in Ireland; we have a recovery to complete in the US and we debate and talk about the timing of those, then we have some storm clouds around the Investment Bank. Nevertheless, as one looks across our businesses, you can see the route map of what we have to do in order to make sure that, as a whole, we are exceeding our cost of capital.

Moving onto the current and the future and the challenges out there and I don't think they need much listing for you. Of course there are a series that come under the category of economics and markets. It does seem likely, although it is very hard for us to mention today, that the economic recovery, especially in the mature markets of the world, will be slower and more painful than we had hoped. It is likely along with that that interest rates will be lower for longer than had been hoped and clearly, both of those things will negatively impact Retail and Commercial businesses, both in their ability to grow revenues and in putting renewed pressures on the net interest margin from liabilities, which in a time of slow, or even negative demand for credit, will make re-pricing on the asset side also difficult in the near-term and that, in turn, will drive us to look at the cost base. I will come back to that. Clearly one would have to be cautious in the economic environment that we are looking at about retail and commercial profitability growth, which is likely to see some set-backs across the board. Retail and commercial banks in the end are indexed to the economies that they serve; ours, of course, being mostly the UK and somewhat the US.

We also know that the market turmoil is in the near term bad for investment banking activity levels and therefore profitability. In the medium term, clearly things will, to some extent, normalise, although there are a series of other structural and regulatory challenges that have to be overcome in that part of our businesses.

We all know that accompanying these issues are really extreme developments in funding markets, at least in the near term, which have cost, availability and other implications. One can look beyond those into the medium term more positively, but

nevertheless it does seem to me that we should conclude that there will need to be a further leg of strategic development in bank funding models in the light of the combination of what is going on in markets and regulation. Again a movement still further to deposit funding for the banks or secured financing from banks and away from unsecured wholesale, which clearly has different implications for different banks according to how much they rely on it and which businesses rely on it.

The regulatory challenges, even if they are in a large part going in the right direction in terms of the safety and security of the banking system, present very important challenges to the return on equity and to costs for banks. As we go through the different ones, from RBS's standpoint, while acknowledging the cost and the ROE implications, we are generally comfortable with the direction of Basel III, we are generally comfortable with the liquidity implications for Basel III and indeed would have been there ourselves without regulator encouragement. You will see in respect of our US business and in respect of all US retail and commercial banks a bit of a struggle going on to replace some of the pressure on retail revenues through Dodd Frank with other sources of fee income, which is having some success at this point.

In terms of RBS's response to some of these challenges, one is to keep looking hard at the cost line. Our near-death experience in 2008 allowed us to get ahead of the game here and therefore we have been one of those banks that has, throughout the last three years, seen reducing costs. Indeed the cost of getting those reducing costs, as can be shown on this chart, we have been able to forecast down. We are clearly going to have to revisit this and increase our cost saving. We are in the middle of a budget process for next year, which will produce some more cost savings on top of these amounts – not transformational, but nevertheless, if revenues are slower, so must our costs be.

Clearly the balance sheet will remain absolutely crucial and central for banks and, as I mentioned, we have made the progress that we needed to make by and large on this. We need to sustain the position; we need to sustain a position of the strong, Core Tier One capital that we and other banks now enjoy and leverage ratios that are very strong relative to the rest of the world's major banks. We talked about the loan to deposit ratios which are the same, and the balance of liquidity in short-term funding. We are in a good place today. We need to make sure we stay there and as I say that will be more and more important, not just in the weeks ahead, but in the longer term.

More specifically the focus that we have had on making sure our liquidity exceeded our requirement for short-term wholesale funding has also been complemented by the run-down of Non-Core, which is substantially reducing our need for new wholesale funding with

new term funding and should allow us to ride out the closure, or near closure of the unsecured markets with much greater equanimity than would have been the case without that Non-Core strategy.

Clearly a lot of focus on Eurozone. We don't know what we don't know, but nevertheless in RBS's case we have a reasonable picture in terms of direct exposures. In many respects it is the indirect ones; it is the confidence ones that are causing most concern. In direct exposure terms you can see on our sovereign exposure virtually nothing across the periphery of Europe and, in terms of our lending exposure, our only significant position and it is a large position, is the bank we own in Ireland. I note here on this chart that some three quarters of these loans are supported by domestic deposits, which of course is important if one worries about the Eurozone, although I would also say that in the case of Ireland and unlike some of the periphery economies, Ireland's problem is not competitiveness at today's exchange rate. The Eurozone provides a positive to Ireland in terms of their ability to compete and to export the positive export surplus that they have and so it seems to me that competitiveness is not the issue, the issue is for Ireland working through the substantial hangover of the domestic property bubble, funded now largely by domestic deposits.

Finally, on the Independent Commission on Banking, as most of you know when we segmented this by and large, although it is costly, RBS has been supportive of the issues around capital and the resolution that the ICB has reinforced in terms of where Basel was going anyway. The proposals on competition seem to us also to be workable and manageable. We are critical of the ring-fence and we think that the ring fence means that the ICB proposals, taken as a whole, have indeed come out at the tough end of where the range might have been. Although there is a reasonable amount of time for us all to get the mechanics right and to adjust to the new structures, it would be wrong not to be clear that these proposals and in particular the ring fence will be significantly negative to all those banks affected in terms of funding cost, in terms of capital held, especially outside the ring fence I believe – some impeding of synergies and therefore a significant impact and drag on ROE. We have to get on with it and we are all capable of getting on with it and, as I mentioned to you, our business is anchored in the UK, anchored in retail and commercial, anchored on deposit funding and should be one that can prosper, although at a lower profitability than would otherwise be the case in the new regime.

Implications and conclusions: broadly we see RBS's balance sheet targets as remaining appropriate. I do believe that as we work through the medium term implications, both of current markets and of regulation, ICB and otherwise, that even we will seek to take a further leg down in our usage of unsecured wholesale funding, with some implications for

the scale of the business lines that use it in RBS. We have a continued commitment to de-risking the balance sheet through the Non-Core strategy and I don't see any substantive changes to the path that we have laid out for that.

We are going to have to keep focussing intensely on costs. I think we have got a reasonable track record now in this area and as I mentioned, we will need to extend that further than we had originally planned and I do believe, unfortunately, that we will need to revise two of the targets that we have set out. I am not presenting revised figures today, but it is clear that the Core Tier One ratio, that in 2009 we thought we needed, will now need to be higher. Fortunately it already is and I think it is equally clear that the 15% return on equity is going to be more of an aspiration than a reality.

I stick by what I have said for some time; that wherever that ends up we need to exceed our cost of capital and we can't stop working and restructuring our businesses until we indeed do exceed our cost of capital, even if not the 15.

You will have seen from the earlier slide that many of our businesses, individually though, may exceed the higher number.

Our strategy or at least the essentials of our strategy I think are intact and will remain so going forward – safety and soundness, serving our customers well and moving towards a position when we will be able to report positive economic profit.

We have gone through the progress to date that has been good across balance sheet funding liquidity, across Non-Core, across strengthening our Core businesses and making sure that our customer-facing franchises are in good health.

The external challenges are going to make our life harder. They are going to make RBS's recovery slower and more difficult and less impressive in the next couple of years I think there is little we can do about that beyond working through the foundation efforts that we have talked about, and so we will reinforce our existing strategic plan, we will revise it in those areas needed, in particular, as I mentioned, thinking about the funding model and the bits of our business that are using unsecured funding and we will continue to execute as decisively and meticulously as we can.

Thank you very much.

### **Questions & Answers**

**Facilitator:** There is no break-out session for RBS after this meeting, so we have about 15 minutes to ask some questions.

Maybe I could get the ball rolling. Since 2009 when you took over, Stephen, you have been very, very clear, as you again laid out today, about how the business model needed to change and there is clearly more to do, but you have done a hell of a lot.

I guess the question from me would be, have you been surprised in the last six months that your securities, your bank and your debt haven't reacted more positively to the actions that you have already taken?

**Stephen Hester:** I guess I have been disappointed and I am disappointed that the external environment is prospectively looking more difficult than we, and I think most people, had hoped, but when I go through the different things I think in terms of our equity price it seems to me on a relative basis it is hard to feel that we are being treated unfairly in the round and it does seem to me reasonable that investors understand that for all banks, our leverage plays on the outside world, and if you are very uncertain about the outside world you back off banks. I am not going to have an argument about that.

I do think that all of the major banks will justify higher share prices in due course, but it is not unreasonable to worry about the macro today and not the micro.

In terms of the debt securities, on the one hand I believe that the fact is we can present them have taken RBS to a much stronger position than is being recognised in the debt securities.

On the other hand, the rating agencies have yet to uniformly recognise that and they of course are a lagging indicator, so I expect that will take time and we do have headwinds. We do have external headwinds and we do have our own headwinds in terms of getting rid of the remaining risk concentrations in our Non-Core and so again I think the real picture is better than that that is shown, but we need to demonstrate that and the path to demonstrating it probably is a bit slower and we just have to deal with that.

**Question:** Quite a lot of emphasis has been put on loan-to-deposit ratio, the 100% target. I am a little surprised by that. Wouldn't it be more consistent to have some kind of long duration assets versus long duration liabilities as a target to manage the concept rather than the loan to deposit strictly?

**Stephen Hester:** Of course when you get into the guts of our GALCO, our own funding management, we do focus a great deal on that, but I think that the lessons of the past and the lessons of the current are that stable deposit franchises can be assessed as long duration, not necessarily in terms of how the interest rates move, but in terms of the availability of funding and wholesale markets, especially unsecured wholesale markets.

They may offer you duration when they are open but you can't rely on them being open, and we have seen a number of business models suffer spectacularly from that.

If you are strategically saying where is, if you like, high quality foundation coming from, high quality foundation comes from anchoring your business on both the asset and the liability side in enduring customer-driven foundations and the era when banks could just worry about anchoring the asset side of their business with their customers is not a recipe for success in the future.

So in that sense I continue to believe that the lessons of recent years support deposit funding. Not internet, fast buck, deposit funding, but support deep customer franchises that produce liabilities as well as assets and we can see with the world around us that to some extent some geographic matching of that is pretty valuable as well, and that is likely to be even more the case in a world going forward where even if other countries are more enlightened than the UK and are not seeking to ring-fence their domestic area, all countries will have an extent to which regulation and markets is encouraging one in a greater amount of asset liability matching in terms of it sourcing its customer base.

**Question:** In terms of the use of covered bonds, RBOS has had a lighter hand than most but I am still wondering, have the UK authorities expressed any anxiety or any sensitivity to you about the degree of implicit subordination posed by covered bonds for the deposit base?

**Stephen Hester:** I would say that the extent to which the major UK banks have so far used secured financing or covered bonds or MBS, has not got to the point where, to my knowledge, the regulators feel that it is dangerous in terms of encumbrance ratios and so on.

But any responsible bank as well as regulators must keep an eye on encumbrance ratios and must worry about that conclusion. Therefore, again I think that a business model that were to just rely on secured financing would be a dangerous one for long periods of time, even if clearly the availability of security for secured financing is rather helpful in difficult markets such as the ones that we have at the moment.

I think that clearly there is for UK banks in particular, a more medium term challenge. One of the many negatives out of the ICB report is exactly, in a sense, how secured financing fits with the ring-fence and where you put your assets and liabilities and that will need a lot of thinking through, but it is not today's problem.

**Question:** Could you update us please on your relations with UKFI and also what you expect from the Bank of England in terms of additional quantitative easing?

**Stephen Hester:** Our relations with UKFI are extremely good but rather less active than I was hoping if we had been sailing into a near-term privatisation. UKFI is doing its stewardship job well and ensuring that the Government in its capacity as shareholder, behaving like a normal institutional shareholder, and it continues to be the case that RBS's strategy and our operational decisions are ones that are driven by the private sector disciplines that we have put out for you and articulate repeatedly.

I am sorry - I forgot the second half of your question.

**Question:** What do you expect from the Bank of England in terms of additional quantitative easing?

**Stephen Hester:** You can read the newspapers as well as I can. I don't have any greater insight than that. It does seem to me that quantitative easing is increasingly likely in several countries around the world. As to its efficiency, that is very hard to know, but it does seem to me that is likely the direction we are going.

**Question:** What is your game plan with respect to subordinated securities on which you currently don't pay coupons? The European Commission asked you to suspend for two years, so next year technically you will be allowed to start paying them again, so under which circumstances will you start paying coupons on those upper Tier 2 and Tier 1 securities, and under which circumstances will you decide that you will not pay coupons for a longer period of time?

**Stephen Hester:** As you say, the European Union restrictions run off at various points during 2012, so I think we are free of all of them by 2013 and we then move back to what I will call normal private sector decision-making. When we have decisions to make on calls or any other decisions about those securities, we will make them in the way any normal bank would which is to look at the balance of merits both in economic and bank safety terms and in market-friendliness terms and reach our decisions one by one as we go through.

Clearly it is our goal to rehabilitate RBS in every respect over the course of our stewardship of it. Clearly I am not going to make announcements today, but that is the way we will approach it.

**Question:** I was just wondering if you could give some indication on how you will deal with the ring-fencing; so what type of businesses you will put in the ring-fence and will keep out.

And maybe related to that, because you worry about your funding cost, to what extent do you believe your funding cost will rise and can you put a prediction on where you think the spreads will be for your ring-fence and at the end for your non-ring-fence businesses?

**Stephen Hester:** I am sorry to say I have a problem predicting where spreads will be tomorrow morning, still less seven years from now, and I have to confess that I am scratching my head a little bit about how exactly we will line up within the ring-fence because I think that in some ways giving flexibility complicates the decision and means that our decision on what to put inside and outside the ring-fence, where we have a choice, is not made in a vacuum - us deciding what works best for us, but will also be influenced by customer and competitor behaviour.

If all our customers and competitors do it one way, it is going to be correspondingly difficult for us to do it another way and so I do think that there is more uncertainty about how the different banks will use that element of flexibility they have than some are letting on.

But the foundations for me, as I say, remain the same; that the essence of ring-fencing is that it enforces you to keep more capital, it forces up your funding cost, it makes harder unsecured wholesale funding and therefore will cause you to emphasise those bits of your business that have strong deposit bases. In particular, the domestic bit obviously should have some advantage in this regard, and so I think that RBS is strategically positioned in a way that can adapt to this, but I do expect it to be painful to ROE and painful to the scale of some parts of our business where the funding cost, particularly outside the ring-fence, has competitive implications.

**Question:** The term 'unsecured market' is clearly broken at the moment. You have already described this quite a lot in your speech so far.

Can you give us an idea of the positive policy responses that both policy makers and central banks could bring about in order to restore some degree of confidence and reopen that market?

**Stephen Hester:** Well, I can have a go although I am not sure that I have a particularly new recipe. I think it is important for us all to remember that although we must all

live in today, these periods pass and certainly from my point of view planning RBS's long-term future involves thinking through markets beyond the current crisis and not just for today.

But it seems to me that the thing that markets often seem to forget is that when the key driver of markets is what we want politicians to do, the politicians, while they need to care about market sentiment, also need to keep being elected and to bring in a democratic society their populations and their law-makers behind them. Most of the things that markets would like, which is basically a blank cheque from government so that none of us lose money, are things that electorates aren't very keen on since they are the ones that typically pay for that either in terms of austerity in their own country or in terms of hand-outs to other countries.

So it seems to me that we should expect that the resolution of the different worries that we all have about management of sovereign economies – by the way, at the moment the Eurozone is in focus, but we shouldn't forget that the United States has its share of issues as was shown this summer, and I suspect we will see some more unedifying sights as the Super Committee of Congress gets to grip with whether it can actually close the deficit in the way planned in the coming months.

I think that all of these efforts are going to move forward, but move forward at a pace that is a bit stop/start, and presents its share of disappointments for markets because that is the nature of the difficulty in arbitraging for politicians or intermediating for politicians what markets would like and what you can bring people to accept in a democratic society and the pace at which you can do that.

So it seems to me that the different recipes of more sustainable fiscal positions, of working on the competitiveness of economies where that is needed and working on lifeboats of one sort or another where those mechanisms are not well developed; all of these are initiatives that will need to go forward. I just suspect that there is not going to be some magic on/off switch where politicians can suddenly ignore their electorate and do what we would like them to do and we should expect therefore some fits of enthusiasm and depression from markets for some time to come I suspect.

**Question:** A very quick one. Good to see you being so realistic about the ICB, unlike some others.

Is it conceivable, or possible, that the GBM or BarCap or any investment bank inside a big UK universal bank could move outside the group? Is it just beyond comprehension or is it a possibility?

**Stephen Hester:** I don't think one should ever make sweeping statements into the future as to any economic or business building blocks because all managers, and even if managers don't, markets should force a set of rational pieces of analysis, and I think it is a very fair observation. I know you are a long-term lover of investment banking as an investor, but it is a reasonable observation that investors by and large have valued more lowly investment banking revenue streams than some other kinds of banking.

Now of course we shouldn't get stuck in always fighting the last war and there will be other moments when Retail and Commercial banking looks rather slow and boring and difficult and low growth, and where the forces of globalisation which are expressed in global capital flows provide a stable and attractive earning stream from global banking, but nevertheless I do think that not in the midst of the crisis but as we go through the coming years, clearly the Investment Banking size, shape and funding will remain one of the bigger areas of restructuring of global banks as a result of both the regulatory and economic and market challenges.

**Facilitator:** That is it done on time so thank you very much.

- Ends -