Annual Results 2014

Analysts Presentation

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FORWARD-LOOKING STATEMENTS

Philip Hampton: Good morning, everybody, and welcome to our full year results for 2014.

I think it's been a good year overall for operating profits, helped by benign credit conditions and some fairly noticeable write-backs. But also, another year of significant special charges, both for conduct issues, obviously an industry feature at the moment, and the costs of changing this business on a fairly radical basis.

The biggest of these is £4 billion charge to write down the value of Citizens in the United States, close to the level at which we did the partial IPO last September. This is, effectively, goodwill and a genuine legacy issue, sometimes that word is used a bit casually, but I think this is a genuine legacy issue, given the business was acquired many years ago, largely in the 1990s and the 2000s, certainly pre-crisis.

It follows a £4.4 billion charge for Citizens' goodwill in the year to December 2008. So altogether £8.5 billion of Citizens' goodwill; it's a perfectly good bank but we obviously paid too much for it.

But 2014 has been a really important year for change, and a huge amount has been achieved by Ross and his team in the year. The business has been significantly reshaped into three main divisions, and the reshaping, I think, has worked really well.

We've had much more drive and focus gone into reducing our costs and improving our efficiency. We launched the Citizens IPO, the largest bank IPO ever in the US, last September. And our capital strength has materially improved through the accelerated rundown of our higher risk assets through the RCR division.

Now the eventual full disposal of Citizens, and the RCR runoff, will give the Bank the capital strength to deal decisively with the long-term poor returns in our wholesale business. When I say long term, we've lost really money all century in our wholesale activities on a net basis. We believe these poor returns are structural and also exacerbated by the UK's ring-fencing legislation which is very restrictive.

Getting the returns in our wholesale business to where they need to be, and getting the main litigation and conduct issues behind us, appear now to be the final pieces that will put the business into a shape when the government can start to sell its shares, which I think will be a very good thing for the Bank and, I firmly believe, for shareholders generally.

Now Ross and Ewen are a new, or newish, team here; they've both got stuck in really well really early. It's our new All Black team, if I can put it like that. We'll start with the big forwards and then move onto the pacey backs later (laughter).

So, Ross, over to you.

Ross McEwan: Thank you, Philip, and thanks for joining us. It's probably appropriate to talk about the All Blacks with the Rugby World Cup coming up this year.

Today, I'm delighted to have you here; I'm really encouraged by the progress that we've made in 2014 on behalf of our investors. We delivered against every commitment we made at the start of last year. And, as you'll see, it's actually given us really good confidence but, more importantly, the financial strengths to push on and to go further and to go faster than we anticipated last year.

So the twin themes for me today will be around good progress in 2014, and the second one is around the determination to push on with the strategy.

I think it's important that we think that there is a clear net capital benefit to our investors, if we accelerate the strategy, and that we'll arrive much more quickly at our destination of a business that will produce the 12-plus- percent return on equity from a lower franchise risk. And that is, most importantly, trusted by our customers.

You may recall that, this time last year, I outlined our long-term ambition for this Bank, and that was to be the number one for customer service for trust and for advocacy, and set out our initial steps that we would take.

Today, you'll see the progress we've made. You'll also hear why the progress means we can go further and faster, and on several fronts.

We're going to do a radical reshape of our CIB business. We're going to have a higher core Tier 1 capital target. We are going to accelerate the divestment of Citizens and RCR. We're going to take out further costs and an ongoing effort to create a much, much simpler Bank.

We think that these actions will bring significant capital benefits which we intend to distribute above a core Tier 1 ratio of 13 percent. The emerging RBS you will hear about today will be capable of delivering strong returns from a lower risk model.

The opportunity to go further and faster is built on the work that we've put in over 2014. Over the last 12 months, our ability to execute has been clear. I'd like to thank my executive team, who are pretty much all here today, for the amazing job that they've done in delivering our results in 2014.

For each of the targets we announced, we've done what we said we'd do, and in some cases we've gone further.

On capital, we've exceeded our 11 percent target that we set for the end of this year, 2015, we hit it at the end of 2014.

On costs, we said we'd take out £1 billion, we've taken out £1.1 billion. We've got at every part of our business to examine where the costs are. We've still got a lot of work to do, but just to give you an example, in our property portfolio in London, 15 percent down already after one year.

Elsewhere, the number of change programs that we're running in this business is down by one-half. We're spending the money, but we're spending it on less, so that we get a better result out of it. And the big thing is that we're focusing on what makes a big difference to our customers.

We're offering our customers a more resilient and reliable service. Our mirror bank, which is one key improvement introduced this year, now ensures that customers can still access the vital services they need, even if we are experiencing difficulties with our systems. There aren't too many banks that can do that. And we are getting much, much simpler.

Take manual processing of payments last year; in the year of 2013 we did 8 million manual payments. Last year we were down below 3 million. We're making it much easier using technology to actually make this a simpler Bank. And our product sets are getting simpler, too. Our savings products, for example, just as one example's gone from 35 products now down to five.

These are just a few of the examples that we've supported the delivery of our targets, and today, we add the final piece of the jigsaw with our plan for the next stage of our strategy.

But before I turn to that, I think it's worthwhile just acknowledging some of the milestones we've passed this year. Let's have a look at some of these.

Supported by improving conditions in the marketplace, RCR has exceeded our expectations, running down risk-weighted assets by over 50 percent. An amazing job by a great team.

We achieved the largest bank IPO in US history with Citizens, with the partial deconsolidation targeted in 2015, now both vital for our capital rebuild.

We successfully exited our US asset-backed product business. Our Ulster review has been completed, along with the decisive action on Coutts International. When businesses don't perform, and we don't see a path for them in the medium term, there's no place for those businesses in RBS.

And we've reached agreement on the retirement of the DAS and paid the first installment of £320 million out of this year accounts. I think this adds up to a pretty major achievement from this organisation this year.

Ewen's going to go through the financials details in detail, but the overall picture of 2014 is, I think, a one of the good underlying progress in our core businesses, although this is masked by our attributable loss of £3.5 billion.

That can be put down to a number of big charges, as Philip said, including restructuring, conduct and litigation, and sizeable writedowns following the IPO of Citizens. But at the operating level, you can see that the costs have fallen faster than the income has fallen.

Impairments have seen a big turnaround, and these have been a big swing in our operating profit to £3.5 billion this year. I think that's the best since 2010.

Nonetheless, we will not be satisfied until we see positive operating performance being reflected on our bottom line, and we are actively working through the items that remain in the way of achieving that.

At the bottom of the slide, you'll also see that the balance sheet is cleaner and getting far more robust. Risk-weighted assets down, produccore Tier 1 capital ratio well and truly up, and our leverage ratio better as well.

Expanding now on what lies behind that underlying improvement, it's worth just taking a closer look at two of the big franchises which sit at the heart of this business, so which will play a much bigger part, going forward, for RBS.

In both personal and business banking, and in commercial franchises, you'll see that the positive jaws over 2014 were 7 percent and 4 percent respectively. It's encouraging, but in reality we're just getting going with these businesses, and putting them into the shape that we think they're capable of delivering even more.

These are the early fruits of some of the changes we're making to simplify this Bank and improve our customers' offers. Both of these we intend to go a lot further on in 2015 and 2016; we have just started.

We need to improve this business for customers. It can be easy to overlook the extent that we're actually doing to improve the customer service in this organisation. And this slide I think depicts the journey we're on, as we move away from what are a really important, which is branches, but moving towards what we call points of presence, where customers touch us, or we can touch them, in so many, many more ways.

As well as a burgeoning digital platform, we have added over 1,500 self-service points by the end of 2015. And a huge expansion of the access across the Post Office network, that we didn't have just 12 months ago, this is an example of the investment we're putting into this Bank, just to make it easier for customers to deal with us. We've got great positions in this marketplace, and we need to be using them much more than we have in the past.

As well as transforming how and where our customers can bank with us, we've also begun to challenge some of the things which they just find so frustrating about this Bank. That includes shorter account opening times; ending teaser rates on credit cards, where you trap them in debt; quicker lending decisions; simpler product ranges; and getting our fees and charges on to one single page of an A4, rather than 120-page terms and conditions that no-one ever reads.

I know what can be achieved through delivering operational and customer excellence. Over time, we will serve customers better, and we will do it more cheaply. And in doing that, those results then fall to the bottom line, which means a much better result for our shareholders.

Just focusing on the growth in our UK franchises; there's a number of areas in our core business where our progress is starting to show through. You can see the growth this year on our mortgage book. Liz and the team have done an amazing job of retraining 500 now mortgage operators. Along with developing and improving our product set, it's allowed us to target further growth in the coming years.

And in our UK commercial franchise, which for the first time has seen income growth in five years, we're already in those market-leading positions. With the investment we're making in parts of this Bank, we will see improvements in our service; we've had good credit provision; and we've got growing profitable lending into the real economy, which is what this Bank should all be about.

The capital and risk appetite is in place to support this balanced growth across the different customer segments, and we also know where the opportunities are. Our job is to sharpen up and get on with it.

The way we crystallize that is through setting our ambition of becoming number one for customer. As you can see, we have a long way to go, but that part, we've started on it. The conduct issues of last year had an effect on how our personal customers rate us, especially under the Royal Bank of Scotland brand. But you're starting to see the lifts as customers recognize that we are doing a better job for them and they're enjoying it.

Our business banking is seeing some lift and, in commercial, we have the leading positions here. And what we need to do is improve our service on lending to get them even better. But we do see momentum being built in our net promoter scores and we are getting to grips with what frustrates our customers the most.

In reality, I don't think any UK bank does a really good job for customers. And I think our willingness to openly publish the stats that we have in our accounts this year just show how serious we are to this commitment.

Moving on to our wholesale bank now. Like all banks, we know that the market has been waiting for answers on this part of our business and today, we're setting out our plan.

There are two aspects of this. Firstly, we need to tackle CIB's historic cost base and resize it to suit the business it is to become. At the moment, CIB carries the cost of a past ambition to be a global investment bank, with much of that cost fixed and embedded in our systems and structures which were created years and years ago.

Moreover, the regulatory and capital cost to the Bank of doing business in this part of the industry has risen in parallel to these costs also being increased. The result is a business that has no hope of holding its head above water until we remove the cost burden that sits on this business. And this requires us to re-platform large parts of this business.

Secondly, we have to reconfigure the front office to align with our strategy. In the past six months, we have been reviewing every product, every market and every business line.

We did not go into this review of how we could make this a less bad part of our Bank. We set out with the sight to find the right mix of business that would actually deliver value for customers and for you as shareholders and aligns to our strategic intent. But more importantly, make this a great business for our people that they can, again, be proud of it.

The result of this plan is to refocus CIB, substantially reducing it in size, but also in its risk profile. We intend to reduce the risk-weighted assets in the business by another two-thirds by 2019 and by £25 billion this year.

We intend to further reduce third-party assets by around 70 percent by 2019, and our country footprint, as we sell off operations in about 25 countries. That's a big shift from 51 countries we were in, in 2009, down to about 13 or 14 countries over the next few years.

Under a new management team led by Rory Cullinan, the approach for CIB, going forward, will be to manage for value and build on the many strengths we do have.

Just like at this stage to thank Donald Workman for the work he's done. I think he regretted the call I made to him 12 months ago saying, could you help me out? But the work that he's done on the strategy of this business over the 12 months, that's actually given us the opportunity to step forward as we are doing now.

So we've been decisive on what's not sustainable, but the challenge is not to throw the baby out with the proverbial bath water. We know that, in the UK and Western Europe, we have some of the greatest franchise and market positions that there are in corporate institutional banking.

We're well placed to excel at risk management, debt financing, transaction services in these markets, supported by a more focused international capability in trading desks in the UK and US and in Asia.

As an example of our expertise and support in the UK's largest businesses, take the work we've been doing with Manchester Airport Group. Our longstanding relationship with MAG saw us supporting over £1.5 billion acquisition of Stansted in 2013, as well as two bond issuances which raised a total of £810 million, so that they could refinance the acquisition debt and invest in new facilities at airports.

Our expertise, our people, and the quality of our relationships with some of these very large businesses, that is what this business is built on and will continue to be built on.

With any business of the scale of CIB, there are questions that still need to be answered, but nothing that will change the course and the direction we've set for this business over the next few years. The end result will be a business with RWAs between £35 billion and £40 billion; strong market positions in areas where we are capable of creating value.

This slide is actually in effect a straightforward distillation of our plan. It shows two planks; the work we will do between now and 2019, which can be summarized first as reducing our risk profile, which is at the top, and improving customer experience. We're very clear these are not separate task, with separate ends; they are two sides of the same coin.

You can see that the milestones on there, the overall risk-weighted asset total we're taking below £300 billion by the end of 2015. On Williams & Glyn the exit by 2017.

Williams & Glyn remains a clear priority for us. I've made the point that we are creating a full scale retail and commercial bank, with its own IT platform, capable of going into the market as a very effective competitor with good prospects of growth and no dependency on us thereafter.

At the same time, across the bottom, you'll see the parallel steps to simplify this Bank and sharpen our customer offer. Take current account opening, for example; account opening remains far too difficult, much more difficult than it should be.

We've got great market positions; we've got great distribution. If we let it down with the service delivery on things that should be just sharper, a lot of the improvements you'll see along the bottom here are about simplifying this

Bank, so we can improve it for customers and their experience and make it more efficient. Therefore, I think we'll get much better returns out of it.

Come 2019, we intend to be a smaller Bank with lower costs and a more effective customer delivery. In short, good service in core markets that deliver sustainable returns, minus the distractions that currently either weaken our performance or destabilize our risk profile, or both.

We think it is the right franchise profile; it's the right risk profile for this Bank. Importantly, I think it should also set out a model that will also be ring-fence ready.

So how will we look come 2019? Right across our franchises, we now have clear sight of the future that will set us apart from other UK banks. As I said last year, we will be substantially UK focused, and by far the biggest part of our business, around 85 percent of our risk-weighted assets, will be in our retail and commercial operations.

As I've explained today, we already have extremely strong positions in both these areas, which have endured through the years since the crisis. We now need to justify them by bringing operational and customer experience and excellence to bear.

In corporate and institutional bank, we'll build on our strengths. It will be a smaller part of RBS, with clear parameters, but one we think that can be made attractive for customers, staff and for our shareholders. Overall, it is a model that sets up to deliver sustainable returns, again, as I say, with lower risk profile.

So that's the longer term view, but we'll get there in steps, just as we did in 2014. Which is a) setting out what we need to achieve in 2015, to keep us on track and also to give you the opportunity to see are they doing as they said they would.

So first one is reducing our risk-weighted assets below £300 billion. Taking out the excessive complexity in our business and further cuts to our cost base are there, £800 million. And again, this won't be any fudging, no foreign exchange advantages. You saw that; we didn't take those this year. We'll also be focusing on growing our lending in line with GDP.

On customers, it will be a long road for steady improvement, and we're targeting a rise in net promoter score in every UK customer franchise.

It would be fair to say that RBS has also been a bruising place to work at times. That doesn't sit well with me, and so we'll also be working really hard this year to make sure that our people know that they can make a contribution to this great organisation. And that they can get satisfaction out of working in this place, because they deserve it after six or seven years of hard work. This needs to be a much better place for our people.

As I hand over to Ewen, let me just summarise what we've been through this morning.

Firstly, this business is in much better shape than it was a year ago. Our ambition to be number one for customer remains at the forefront of everything we do, and everything I've set out in this is aligned to that goal.

The proven ability to execute in 2014 means we can now accelerate our strategy by building on our strengths in core markets, while taking decisive action on the areas where returns are not going to be sustainable. We've set new targets to keep us on track in 2015 and, for shareholders, we've announced our intention to redistribute capital.

Finally, let me repeat our destination. We are confident that the plans we have outlined for this Bank that it will deliver a 12 percent or better return and from a lower risk profile for the franchises than the one we have today.

I'm now delighted to hand over to Ewen Stevenson for his first annual results. It's a delight to work with Ewen; he's turning into be an exceptional CFO after only nine months. We're now in your very capable hands, Ewen.

Ewen Stevenson: So with that big build up, thanks, Ross. So nine months in, this probably is the last time that I can stand up here and give you my initial impressions. In summary, as I say to people, the good bits are actually much better than I expected, and the bad bits, they're a bit worse.

But in many ways, that makes my job, makes Ross's job much, much easier. We really do know how quickly where to spend our time and where to add value to the Bank.

As we execute against our plan over the next few years, you'll see us progress towards a much leaner, much stronger Bank. We should be able to generate very attractive returns over the longer term, with much lower earnings volatility and the potential for very high capital distributions back to shareholders.

At the center of that business, we've got a fantastic UK and Irish banking group, with some really great customer franchises. But as a counterweight to those clear strengths, as we said today, other parts of our business are not performing to our satisfaction. You can readily see that through our 2014 results, and it underpins today's set of strategic announcements.

So on 2014, we're very pleased with the progress we've made this year. That's despite reporting a £3.5 billion attributable loss. As Ross said, that included a £4 billion fair value adjustment for Citizens, and the first £320 million payment for the dividend access share.

While income fell by 6 percent, we made very good progress on improving our net interest margin, up 22 basis points during the year. And as we promised to do, we've materially reduced our cost base, down £1.1 billion, or 9 percent during the year. As a result, our cost income ratio fell to 87 percent, from 95 percent in 2013.

We were helped by some pretty exceptional levels of loan loss recoveries, from both RCR and Ulster Bank, with overall net recoveries of some £1.2 billion.

And our results were also impacted by a number of one-offs; I've highlighted the Citizen's fair value adjustment. As a result of this charge, we've now written down Citizen's value to 0.95 times tangible book value. That's a realization value we view as conservative. The stock is currently trading at 1.1 times tangible.

On litigation and conduct charges, these remain at both an elevated and frankly unacceptable level, with a further £1.2 billion of charges in the fourth quarter. These include a further £320 million or $500 million of reserves for ongoing FX investigations by various US authorities; a £400 million additional PPI provision.

We saw higher claims experience in the fourth quarter than we had anticipated. We took an incremental £85 million net provision for interest rate hedging products.

We also wrote off £850 million of UK related tax loss carry forwards last quarter. This reflects the combined impact of ICB and the shrinkage of CIB. And we also recognized a reduction in tax loss carry forwards of £699 million in relation to our US broker dealer.

Turning to our balance sheet, our core balance sheet metrics strengthened substantially during last year. Tangible net asset value per share, at the end of the year, was 387p. While down 1p on the quarter, it was up 24p or 6.6 percent during the year.

Our core Tier 1 capital increased by a further 40 basis points during the fourth quarter to 11.2 percent, an increase of 260 basis points during 2014. Having started the year feeling weakly capitalized at 8.6 percent, we now feel comfortably on track to achieve our new core equity Tier 1 target of 13 percent during next year.

Underpinning this was an actively managed sharp fall in RWAs, primarily in RCR and CIB, with overall RWAs down some £73 billion, or 17 percent during the year.

Our leverage ratio improved by 30 basis points during the quarter to 4.2 percent, and it's up 80 basis points during the year.

On UK, first of all in business banking, they had a very, very strong year financially. Operating profits were up to £1.45 billion, which is up 77 percent on 2013. Income was up 4 percent, operating costs down 3 percent, so the business had extremely strong operating jaws.

NIM improved by a further 12 basis points, with further deposit re-pricing. And impairments at 21 basis points remained well below pre-crisis levels.

UK PBBs ROE for 2014 improved materially to 19.4 percent.

From a balance sheet perspective, new lending growth was up sharply, with new mortgage volumes up 37 percent year on year. Our mortgage flow share at 10 percent remains comfortably ahead of our stock share at 8 percent.

On Ulster Bank, it saw a return to operating profit, the first time since 2008, which supports our decision to retain the business.

On revenues, a 39 basis points improvement in net interest margin was offset primarily by the non-repeat of significant hedging gains on the mortgage book that we saw the previous year.

ROE of 16.1 percent was heavily flattered by the strong recovery in the Irish house price index during last year, which, together with an improved collection process, drove net impairment write-backs of some £365 million.

And on the balance sheet, RWAs fell sharply by 16 percent, reflecting improved credit metrics, and a reduction in the loan book.

Commercial banking returned to growth in 2014 and made very good progress, again, in improving its core returns, operating profits rising by more than £750 million last year.

Revenue growth at 2 percent, operating costs were down 2 percent, again good jaws, with the cost income ratio falling from 63 percent to 57 percent.

Impairments remained at very low levels, with few sizeable single name write-offs during the year. On the back of this, ROE improved from 4.9 percent in 2013 to 12.6 percent in 2014.

On the balance sheet, gross lending increased for the first time by 1 percent for a while. An active program to manage the uncertain parts of our portfolio masked much stronger growth in our go-forward loan portfolios.

Private banking saw a sharp turnaround from an operating loss of £61 million, in 2013, to an operating profit of £150 million in 2014.

Private banking's ROE was 7.8 percent for the year. We've provided some financials in the Company announcement on the international private banking business. In 2014, you'll see that on £230 million of revenues, the international private bank make an operating loss of £27 million. If you back that out of the rest of Coutts, the illustrative ROE for the remaining business was 18 percent.

On our corporate and institutional bank, it was another weak quarter, with operating losses of some £643 million. This resulted in an annual loss of £892 million last year.

Income in the fourth quarter was down 34 percent on the same quarter in 2013. This was driven by both the weak quarter for our rates franchise, and moreover, the impact of a £40 billion reduction, or 27 percent reduction, in RWAs from the end of 2013.

£15 billion of this RWA reduction was as a result of us running down our US asset backed franchise. That rundown is now largely complete.

CIB also achieved a material reduction in operating expenses over the last year. Operating expenses were down 22 percent and FTEs were down 20 percent year on year. But despite the strong reduction in RWAs and operating expenses, returns in the franchise are unacceptable, and have underpinned the urgency for today's announcement.

RCR made extremely strong progress in running down its various portfolios during 2014. Funded assets were down 48 percent, RWA equivalents down 58 percent, which was well ahead of our initial expectations. And the prices achieved from asset realizations were comfortably ahead of plan.

As a result, we made an operating profit for the year of £988 million in RCR. And based on this very strong progress we've achieved, we now expect to reach the 85 percent reduction in funded assets by the end of 2015, a year earlier than we had planned.

So looking forward to this year; relative to the very strong financial performance we had last year, we do expect 2015 to be a more challenging year for us financially. And this is despite ongoing further good progress in improving the efficiency and productivity of our core UK and Irish franchises.

In UK PBB and CPB, we expect to continue to see the impact on our NIM of the progressive rolling off of our five-year hedge program, without the offsetting benefit that we saw last year of an improvement in our liability spreads. And, given today's announcement for CIB, we expect CIB's revenues to decline faster this year than the reduction in operating costs.

However, overall, we are committing to achieving a further £800 million operating cost reduction in our underlying expense base. We don't expect to see the same significant impairment recoveries that we experienced in 2014 in Ulster Bank and RCR.

On litigation and conduct charges, we can foresee the potential for substantial charges in 2015, principally driven by expected US RMBS settlement costs.

Restructuring charges are expected to be considerably higher in 2015, and this reflects the very heavy change agenda we have going across the Bank, spanning our core bank transformation, our ongoing work for the Williams & Glyn IPO, the CIB restructuring we announced today, and the multiyear program to prepare us for ICB.

Finally, it's our intention to achieve a further material reduction in RWAs to below £300 billion by year-end. This reflects both further rundowns in RCR and CIB, as well as the partial deconsolidation of Citizens.

As I said in my introduction, we're working towards a much leaner, less volatile, higher returning business. The core banking group across PBB, CPB and the core go-forward bits of CIB, represent around half of our RWAs at the end of 2014.

We really like this collection of businesses. We're committed to growing them, where the risk-adjusted returns make sense to do so. Ross set our earlier our UK growth aspirations. We've got a clear goal to grow our overall core loan portfolios at or above nominal GDP.

For the other half of our RWAs, we expect to make further material progress in reducing these during 2015. We're starting today the run-off of parts of CIB that are not core to our future franchise, representing more than £60 billion of RWAs.

You'll have seen today we announced the sale of a large book of US and Canadian loan book and associated commitments. This will release around £5 billion of RWAs out of CIB when completed, around about a 15 basis point improvement to our core Tier 1, and represents about 20 percent of our targeted £25 billion reduction in RWAs out of CIB for 2015.

We expect to take Williams & Glyn public in the second half of 2016, be fully exited by the end of 2017. We're making very good progress in the sales process for the international private banking business. We expect to have announced a sale of that business by the end of second quarter and to have completed a sale by early 2016.

We're also seeking to achieve the partial deconsolidation of Citizens this year. That requires us to sell down about another 35 percent of Citizens, about just over half of our existing shareholding of 70 percent. And then we'll fully exit Citizens by the end of 2016.

We expect to achieve the rundown of RCR to 15 percent of its original funded assets by the end of this year, which represents the effective end of its rundown program. At that point, the residual RCR assets will then be managed for value, alongside the new legacy CIB portfolios.

And we're continuing to focus on exiting other holdings we acquired pre-crisis. Even in what we describe as the core go-forward business, we've material pools of legacy assets that we intend to more actively manage for value.

We believe the end result of this restructuring delivers a very attractive mix of a strong core bank with compelling cash distributions.

I think you've all been very open over recent quarters about your views on the performance of our CIB franchise. Ross and I have not sought to disagree with you, and today's sets of announcements recognizes this.

Similar to what you've seen us do with Ulster Bank and private banking, we've been forensically analyzing CIB since the summer to say, where do we have competitive advantage. Where can we sustainably drive cost of capital plus returns over the longer term? And where we could not satisfy ourselves of this core requirement, we've taken the right decision to exit or wind down these portfolios and businesses.

In the UK, for large corporates, we're number one or two in most product segments. And from these strengths, we've built strong specialist businesses across Western Europe in areas like energy and infrastructure, driven from the expertise we've built up here in the UK.

Similarly, we've got equally strong market positions in sterling in our markets franchise, which anchors our business globally in the US and Asia as well. Simply put, we're going to take CIB back to its core customer and product strengths, where we think we can compete sustainably as a top three market player over the longer term.

So what does that mean in substance? In substance, it means about one-third of our capital today is employed in those businesses that I talked about. So we're going to take our RWAs at the end of 2014, some £107 billion, back to an end state of £35 billion to £40 billion.

Of this, around half of the RWAs will be the markets franchise, and the remainder our large corporate franchise. The majority of those RWAs will be UK-centric. We'll exit around two-thirds of our countries, about 25.

All of APAC, bar our market sales office in Japan, a small distribution and trading hub in Singapore, and our back and middle office operations in India; all of our Central and Eastern Europe, Middle East, and African offices, bar our support functions in Poland; and most of our US franchise, bar our small distribution and trading hub. Our product offering will reduce by over half; our number of desks in our market business will reduce by over half.

We expect the restructuring of CIB will cost an incremental £2.5 billion to £3.5 billion, pretax, covering both restructuring and asset disposal costs.

A year ago, when Ross reset the strategy of the Bank, we could not have stood here and made today's announcement. Our core Tier 1 ratio was at 8.6 percent and we ran an overly stressed Bank. We also did not have the operational or management bandwidth to manage this.

As we sit today, I think, we have justifiable confidence in our ability to now execute this plan, given both a much stronger balance sheet position, coupled with the strategic progress we made last year.

As we've managed down CIB and RCR during 2014, we've continued to build very strong execution skills in managing legacy run-off books.

One thing I've come to appreciate since joining RBS as that, given our legacy, we've got exceptional experience in winding down portfolios across a broad spectrum of asset classes and geographies. And that core expertise, built up since the formation of non-core division in 2009, continues to reside and be further developed in the Bank.

To take one example, our US asset-backed experience, we started reducing that business past our last year results' announcement a year ago. Since then, our CIB team has done a frankly excellent job in reducing the RWAs in the US asset-backed franchise by some 79 percent, with no material portfolio losses.

Earlier, I mentioned the significant pools of various legacy asset pools and investments that continue to sit across various parts of the go-forward Bank. I highlight some of these on the slide.

Many of these pools of investments we consider to be money good. But in most cases the returns are poor, making them unattractive to hold longer term. We do intend to give you more detail and color on these pools in the coming quarters.

But as you think about the long-term sustainable return potential for the Bank we're trying to build, I think it's important to think about the drag that these legacy portfolios will have, both on our reported growth and our returns for a number of years.

As part of our plans to issue AT1 over the coming quarters, we're disclosing today for the first time our Pillar 2A capital buffer. Based on a Pillar 2A charge of 2 percent, a capital conservation buffer of 2.5 percent, a G-SIB buffer of 1.5 percent, our fully phased MDA trigger is 10.5 percent.

Given the size and complexity of our planned CIB restructuring, overlaid with our core Bank transformation, and the need to give AT1 investors material comfort around the size of our buffers, we felt it appropriate and right to run a higher CET1 ratio over the period of our CIB restructuring.

We're, therefore, raising our core Tier 1 target today to 13 percent. Importantly, we're not changing the target date to achieve this. We still expect to achieve this target during 2016. And once through the CIB restructuring, we do expect to revisit this ratio at that point in the context of the then RWA rules and the overall stress portfolio of our business mix at that point.

Alongside a higher core Tier 1 target, we do want to register with you an unambiguous statement of our intent to return surplus common equity Tier 1 capital to shareholders. Once we reach the 13 percent core Tier 1 ratio, our ability to distribute will clearly depend on the support and consent of the PRA at that point. Such consent, I think, is likely to be based on us having achieved a number of important milestones.

For us to be able to point to having confidence in sustainable profitability; a track record of better stress outcomes, relative to the 2014 stress test results; a need to have passed the peak of conduct and litigation costs, particularly the ongoing uncertainty on potential US RMBS settlements; to have started our AT1 issuance program, and as previously stated, we expect to raise at least £2 billion of AT1 during this year; and of course, to have repaid the £1.18 billion payment to remove the dividend access share.

So while uncertainties may continue to exist on when we may be able to distribute surplus capital, Ross and I have no interest on sitting on surplus capital beyond the point where we can return it to shareholders.

So in conclusion, and before I hand back over to Philip to host some Q&A, I wanted to leave you with five core messages.

Firstly, I think we've delivered very well against our 2014 targets. With customers, our overall NPS scores are beginning to show tangible progress towards our 2020 goal of being number one for customer service, trust and advocacy.

Financially, we've outperformed strongly on our core Tier 1 capital rebuild with the transformational 260 basis point increase in our core Tier 1 ratio last year. We've delivered on costs. We said we'd take out £1 billion of cost; we've taken out £1.1 billion. And strategically, we've delivered across multiple fronts, from the IPO of Citizens to the effective exit out of our US asset-backed franchise.

Secondly, the strong delivery in 2014 provides us the platform now to accelerate our strategy for 2015 to 2019. We've a clear plan, leaner, stronger, better Bank for customers, employees and shareholders. As part of that journey, we're committing to another firm set of goals for 2015. We're committing to take underlying operating costs down by a further £800 million, and we're committing to reduce RWAs to below £300 billion by the end of this year.

Thirdly, given our much stronger financial position, we're now better placed to weather the litigation and conduct issues that lie ahead.

Fourthly, given the core expertise we've built up across the Bank, we're very confident in our ability to execute this restructuring plan.

And lastly, once our core Tier 1 target of 13 percent is achieved, and once we've achieved the regulatory approval to do so, we will make an unambiguous commitment to return that surplus capital to shareholders.

Thank you, and I'll now hand back over to Philip to host some Q&A.

Philip Hampton: Thanks, Ewen. Thanks, Ross.

Tom Rayner: Tom Rayner, Exane BNP Paribas. Could I start on slide 28, please? Obviously, it's tempting us all to just value the business this way. So the questions I would have, can you give us any idea what the adjusted ROE of 13% on the go-forward businesses would have looked like if you could have stripped out the drag from the legacy which Ewen was just talking about? Just to get a feel for what you think the real underlying, underlying, profitability is.

And then in terms of the right-hand side of the slide, what sort of capital impact do you think it will have getting the exit group down from half the Group's RWAs to zero, over time, please? Thank you.

Ewen Stevenson: As you look at slide 28, I put the slide together so I do think it's a helpful way to think about our business. And even in the go-forward business I think it's important we provide a disclosure elsewhere. We've told you what we think our end stage CIB go-forward RWAs are, £35 billion to £40 billion, so you should assume some of that £46 billion is going to decline.

I think we've given you some indication that both in PBB with the Irish tracker mortgage book, and in CPB, there are portfolios in there that we consider to be legacy and will continue to decline. So effectively, within that Bank, there's a reasonably high growth, high returning bank, and a set of portfolios that are going to continue to decline.

I think, when we've talked about the 12+% return, we do recognize that an element of that is a higher returning franchise dragged down by a lower returning set of legacy portfolios. But I don't think we're going to sit here today and forecast that for you.

In terms of the right-hand side of the page, I view a number of these assets as relatively money good. I think Citizens is a money good asset. It's trading at 1.1x tangible; we have it on our books at 0.95x. I think RCR, in terms of its performance, is increasingly looking like a money good asset. We made £1 billion profit out of that business last year.

International Private Bank, I think we're pretty confident we're going to get out of that at an attractive valuation. I think Williams & Glyn you're all perfectly capable of forming your own views on valuation. The only thing I would say on that is, by the time it comes to market, its operating costs are likely to be higher than what you see here. As a stand-alone bank it will have much higher operating costs.

And CIB legacy, I think that's where you're going to see a drag. You'll see a drag. We set out for you today what we think some of the restructuring costs and asset realisation costs will be - £2.5 billion to £3.5 billion pre-tax. And then, you also need to factor in some operating losses until we get it back to profitability.

But going from £107 billion down to £35 billion to £40 billion end state, we're effectively talking about taking £70 billion of RWAs out what sits in CIB today. At a 13% CET 1 ratio, that's about £9 billion of capital release, less the cost of doing it. So we do think, out of that restructuring, you'll still see material capital release as well.

Tom Rayner: Just to come back on that. Obviously, you wouldn't be doing this if you didn't think it was a value creating strategic thing to do for shareholders. But when you're coming to that conclusion, though, are you factoring in a reduced risk discount into your thinking?

Because obviously, there's quite a lot of earnings are going to go, there's big restructuring charges to get you there. You end up with a cleaner, more profitable business. How much of the risk premium coming down is in your thinking when you conclude that this is in the interest of shareholders overall?

Ewen Stevenson: I think that will be upside on this. I do think what we're going to create is a much lower, better quality earning stream. But in terms of coming to a view as to whether we should do this, we don't need to get to that conclusion for this to make sense.

Last year, we had a business that close to £1 billion. So yes, we could continue to lose money in the business, or even get it back to break even or a lower ROE. But it was clear that we were not going to get that £107 billion of RWAs back to a position where they were earning costs of capital returns.

Philip Hampton: And we have, obviously, looked at the NPV of a range of options over time.

Tom Rayner: Thank you.

Raul Sinha: Raul Sinha, JPMorgan Cazenove. Can I ask a question on capital, please? And I was wondering if you might be able to tell us what your Pillar 2A was last year, where it's moved, effectively.

Philip Hampton: Say that again.

Raul Sinha: So your Pillar 2A, which is now 2%, I was wondering if you might be able to tell us how this has moved, if you can disclose that to us.

And then, the second sub-part to the capital question is, you've obviously taken your minimum stack higher, but at the same time, you're talking about shrinking your balance sheet by 50%. This will take maybe three to four years, at least, but your G-SIB buffer is not going to stay at 1.5% for that projection, in my view, at least in 2019. So why do you think you need 13% CET1? And could you maybe tell us how that 2.5% informs your thinking in terms of the buffer.

Ewen Stevenson: Yes. Look, you'll appreciate, obviously, we can't tell you a lot about Pillar 2A. We've already had to get PRA permission to give you the number that we've got today. So there's probably not a lot of incremental disclosure that I'm going to give you around Pillar 2A.

On the G-SIB buffer, you're right. Look, we'd be very happy if we didn't become a G-SIB at some point; we certainly don't have aspirations to need to be one. But equally, note that the PRA has indicated the D-SIB buffers may be as high as 3%. So we may escape the G-SIB regime to then get hit with the D-SIB regime.

I think the 13%, frankly, if we had stuck at 12%, with a 1.5% management buffer, given all of the restructuring that we're doing, I don't think that would have got capital back to shareholders any sooner. And I think it would have just made our fixed income holders uncomfortable.

We are trying to effect a fairly significant bank transformation here, and running with a slightly larger management buffer during that period, I think, is not inappropriate.

Raul Sinha: I totally agree with the approach, by the way. Thanks so much.

Ross McEwan: Yes. And I just think, as we talked this through, I thought we needed to be putting the capital position up, because we do want to give confidence to the PRA that we can distribute capital. And if we're putting it up to a higher level while we're going through a massive restructuring of CIB, which has many, many risks to it, I think we thought we thought it was a sensible thing to do.

Hopefully, then, when we've gone through it and we've got a much simpler bank, that we can bring those levels down, but that's in time.

Michael Helsby: Michael Helsby, Bank of America Merrill Lynch. Thanks, Ewen, for that slide 28; I think it's very, very helpful. If I can just ask you a couple more questions on it? So on the CIB go-forward, as you highlight in your remarks, clearly, the RWAs are going to be lower, so presumably the revenues will be lower. So I was wondering if you had an idea in your mind of what that might be.

When you're thinking about the costs that you need to get down to, you've mentioned an extra £800 million. Is that where that £800 million's coming from? Is it off that go-to? So a bit more help around that would be helpful.

And also, you've talked third-party assets; what's the loan book in this business? And you've given your bad debt normal -- clearly, there's only £200 million of bad debt which isn't a normal level. What's a normalised bad debt charge for this business?

And I've got a separate question on capital. I can give it to you now, or --?

Ewen Stevenson: The normalised bad debt charge for (multiple speakers).

Michael Helsby: No, for your go-to. Yes, for the whole lot, yes.

Ewen Stevenson: I think it's almost better to work out from the other end of CIB. So we said £35 billion to £40 billion of RWAs. We obviously have a view on what we think the earnings capacity is. If you just start with whatever return metric you think that can make and work up, you'll get to revenue numbers.

I would agree that we would expect the revenues, end state revenues with a smaller RWA base to be less than the number that's on this page. I think we've also told you 12+% returns. So again, I think you can do the math and work out what the overall cost takeout.

That £800 million I talked about doesn't include Citizens, doesn't include Williams & Glyn on this page, and it's part of a multiyear cost takeout programme. So once we take out £800 million this year, I think we'll be standing up here in a year's time committing to a cost reduction target in 2016.

Ross McEwan: Can I just pick up on the cost one? We said, last year, that even under the old structure, it would be about a £2.2 billion takeout, excluding all of the businesses that were leaving the Bank. This means that there will be significantly more. So the £800 million this year will be followed by another programme next year. So you're just seeing it in stages.

Michael Helsby: I thought you said this morning there was an additional £800 million as part of the restructuring. I just misread that.

Ross McEwan: No, it's higher than we had planned for this year, but there will be another takeout next year, and the year after, to get to those targets.

Ewen Stevenson: We've said that we expect -- we're, effectively, now saying that our cost income target is below 50% for the business, right. So if you just took the £12 billion that's on that slide for the go-forward business, you triangulate down to a lower cost structure than we were previously signaling in terms of the £8 billion we were targeting last year.

Your question on impairments, we were previously giving you guidance, when I joined, of 40 to 60 basis points. I think that was premised on what our very, very long run average had been pre-crisis. I think, as we sit today in this interest rate environment for the foreseeable future, and even if we look at the forward yield curves, we really don't see impairments getting back to that sort of level. So we think we are in a period of sustainably lower impairments than we've previously guided to.

Michael Helsby: Thank you.

Philip Hampton: You had a question on capital as well.

Michael Helsby: Yes. On capital, you mentioned that you'd hit your 13% CET1 next year. Given the RWA reduction starting point, you might have thought that that might have been this year. So I'm just wondering what big ticket items, if you like, are you expecting in 2015.

And attached to that, given that you've linked the capital return to that 13% CET1, clearly, it feels like you need to hit that and then the PRA will start judging your profitability and the peak and all that type of stuff. So is that a 2017/2018 event? Thank you.

Ewen Stevenson: Well, our capital's both things that add to capital and things that subtract from capital, so one of the things that's likely to subtract from capital is US RMBS settlements. So that's why we're saying 2016 rather than 2015.

I think when you look through how and when we think we could return capital, we will have got 13% CET1 sometime next year. We will have raised the £2 billion of AT1; the DAS repayment we can make. We think we'll be through the litigation and conduct costs, so it's really down to our interpretation, the PRA's interpretation of profitability. Yes, a couple of quarters of profitability probably doesn't make a swan in their eyes.

Michael Helsby: Fair enough. Thank you.

Mike Trippitt: Mike Trippitt, Numis. Another slide 28 question. Just looking at the CIB comparing go-forward and exit, I wonder if you could just talk a little bit more still about what was driving the exit, the considerations in those assets being in the exit bucket. The go-forward and the exit are similar levels of income, similar levels of op cost, but clearly, slightly more capital intensive in the exit group. So I'm just trying to understand more around what's driving that decision.

And secondly, on the go-forward, when we go from £46 billion down to £35 billion, can you give any help around income attached to those final risk assets? I'm just trying to get an idea of the income effect on those risk assets.

Ewen Stevenson: Yes. I would say on what drove legacy as opposed to go-forward was nothing to do with the underlying assets. It was to do with the business decision of where do we think we have core competitive advantage and what are the assets associated with those areas where we've got core competitive advantage. That was the driver and it breaks out from that.

So you can assume that, for example, the corporate loan book that we sold in the US today would have sat within that CIB legacy book. When we said we're going to exit out of our international GTS platform, which we've announced today, a lot of the assets associated with that will be in that legacy.

But equally, our core corporate UK loan book will be part of go-forward. So it really wasn't driven by the specific asset classes that we want to exit; it was driven by what businesses we like and where can we get return on them.

And in terms of forecasting, look, I'm not doing your job for you in terms of forecasting future revenues. But as I say, we've told you the RWAs; you can figure out that we need to get to cost to capital returns and work your way back up from there, I think.

Rohith Chandra-Rajan: Rohith Chandra-Rajan, Barclays. Just wondering about the ultimate scale of the business. Taking the size of the CIB and the 15% of the Group suggests about £250 billion of RWAs is sort of the steady state or the start point, if you like, which seems to imply a 40+% growth in your go-forward non-CIB businesses. So I wondered if that's the correct maths and where you expect that to come from. That was the first question.

The second one, hopefully relatively straightforward, is just on the additional £2.5 billion to £3 billion restructuring costs. Just in terms of the phasing of those, you've given some indication of the reduction in the CIB assets and is that how we should think about the phasing of those additional restructuring costs?

Ross McEwan: Do you want to pick up the costs piece first, Ewen?

Ewen Stevenson: Well, the simple answer on the restructuring and asset wind-down costs would be as quickly as possible, as quickly as we can restructure the business, as quickly as we can run it down. We'd be delighted to take those restructuring and wind-down costs sooner rather than later.

But if you look at realistically what is it going to take us to wind this business down, it will be a very heavy project over the next three years. We've told you we think we're going to take out at least £25 billion of RWAs out this year, which is 35% of what we need to do. We've already started today with £5 billion of that. So I would think if you assume, over the next three years, we'll be through most of it, down to those figures that you see here in terms of go-forward.

Ross McEwan: Yes, I think the heavy costs will be the first year and that's what we're planning for. But as Ewen said, it does depend when we dispose of some of these assets, either sale or rundown.

On the growth part, we do expect good growth out of our Personal and Business Banking. We are expecting to see, and planning for, good growth in our mortgage business. We do expect the RWA level to go up on that business at some point in time as well.

And also, I think you start seeing in the second half of this year growth in our Commercial business as well, which we haven't seen for some time, but it's stabilised now very nicely. Whilst we've got some assets coming off, we do want to grow in that business and we're structuring up to do so. So our core two franchises are where you will see the growth.

Rohith Chandra-Rajan: OK. And that 10% annual pace of growth, is that the right sort of level, but I guess what you're saying, you're looking for a combination of business growth and some RWA inflation?

Ross McEwan: We've said we want to grow GDP plus, so you can use those numbers.

Philip Hampton: I think we probably need to think about the arithmetic of your challenge a bit more carefully, but anyway, we will do that.

Andrew Coombs: Andrew Coombs, Citi. I'll stay on slide 28 as well. I just wanted to try and --

Ross McEwan: That's a popular slide, Ewen (laughter)

Andrew Coombs: Right. I'll give you another slide as well in that case, 39. So you've provided returns as well in slide 39 on a slightly different basis. It's on a RWA-equivalent basis and also, applying the 13% CET1 ratio rather than 12%.

If we were to take that methodology and apply it to slide 28, is it fair to assume that that 13% return on the go-to businesses, as it were, would drop by 1- 2% broadly speaking, so you'd be talking presumably 11 – 12%? Is that fair?

Ewen Stevenson: Yes. I think it will drop by -- it's probably better to assume a couple of percent I think, rather than 1 percent.

Andrew Coombs: So the 11% on the same basis. And then just thinking about that, your guidance was that you should run with a loan loss ratio of actually below your previous 40 to 60 bps guidance, based on what you're seeing at the moment. That's less than £1.5 billion extra on the impairments. You're still talking about a 50% cost income ratio, so at least £1.5 billion off the costs there, broadly speaking.

And back to Rohith's point, it looks like you're going to see some revenue growth in the non-CIB businesses. So I guess, given that you're saying a couple of percent off that 13%, 11%, your overall ratio target's still 12%. Admittedly, there will still be a rump left from the run-off businesses, but why are you not targeting something higher?

Ewen Stevenson: Well, we're still some ways away from getting to 12%, I guess is the quick answer. But in terms of all that maths, I'm actually not trying to do a loan loss impairment forecast. All I'm telling you is I don't think the previous forecast is appropriate. We do think it will be lower than that without forecasting it.

We're clearly going to have some growth because we said that we're going to grow our core loan books by -- our target is to grow them by nominal GDP.

So you can form your own view as to whether that's the number or some number higher than nominal GDP and do the maths from there. But as I said previously over here, it's 12+%, we do think that that's a mix of a higher returning go-forward bank and the continuing drag from some very long tail legacy portfolios.

You've got other benchmarks out in the UK of what other banks are returning. You know what our business mix is, relative to those other banks; you should be able to come up to your own views, I think.

Andrew Coombs: And just one technical point, and maybe I'm reading too much into this, but on slide 14 you list the DAS repayment as being split over 2016 to 2017; is this more tail end to 2017 there?

You talk about being at 13% CET1 ratio during 2016. In terms of timeframe for restarting dividends, should we be thinking 2016 or should we be thinking post the end of that DAS repayment in 2017?

Ewen Stevenson: Well, the dividend, just technically, cannot happen until we've repaid the DAS payment, so that wasn't your real question. We're likely to have a healthy debate; obviously we're incented to pay dividends as quickly as we can. I think our core shareholder would like us to return capital, and most of our other shareholders would like us to return capital as soon as we can.

Engaging in a debate with the PRA about it today is a relatively short and unproductive debate. But they've certainly seen all of the disclosure that's in this document, so we're not saying anything that they haven't seen and thought about.

Andrew Coombs: Thank you.

Arturo De Frias: Arturo De Frias, Santander. Two questions, please. I'm sorry for being predictable, but one will be on slide 28 also.

When I look at the go-forward business I see extremely profitable retail bank with high 20% ROE, a very good commercial banking franchise with 15% ROE, and then a CIB unit that is not making much. Together, they have a 13% or they generate a 13% ROE which is more or less what you target for the long term, this 12+%?

So my question would be, is this a fair description of the future unit ROEs that you envisage when you talk about 12+% ROEs, or are we going to see some rebalancing between the ROEs of the units, perhaps retail coming down a little bit with higher risk weightings on mortgages, perhaps commercial doing a bit better and, hopefully, also CIB doing much better?

So this 12+% is all the units doing, let's say, around 15% plus a small corporate centre, or we are still going to see an imbalance in favour of retail?

And then the other question would be on TLAC. You have mentioned a few times in the presentation that you plan to issue £2 billion of AT1 this year. I know it must be frustrating because this is still very unclear, and the final rules are still not there and we are in the middle of the quantitative impact study and all these things.

But could you update us on your TLAC use, what is going to be AT1, what is going to be Tier 2, what is going to be senior? If it's going to be holdco, if it's going to be opco, etc. Thank you.

Ross McEwan: Ewen's just debating whether I do the second one and he does the first one, but I've said I'll take the first one. And then he can go back to slide 28.

First off, the balancing of these businesses, let's understand the CIB going forward is essential for other parts of this business. It does provide services, and will provide services, into our commercial bank and into also our retail bank, so there's some real importance of these positions. We also want to hold on to the great position we have in the corporate bank in the UK and in Europe which -- we're number one player in many parts of this business and we believe we can get it profitable.

It's not going to be that easy a task because we do have to do a lot of re-platforming. But we do believe that it will cover its cost of capital, it will contribute to other parts of the bank, but we're not going to be subsidising businesses either. And the cost that they have to bear have to be fully loaded onto the businesses, as do the services they get provided with.

Our view is we can get this business up, with a lot of hard work over the next three years, to getting us that 8 – 10% return that will be contributory. But it also feeds into, particularly our commercial bank, and that's why we've held on to these very strong positions that we've got in Europe.

We've held on to the position we're taking in the US because a lot of our corporate customers want to do US denominations, and Europe, and the Indonesian hub as well.

So I'm less worried about the overall -- we've given you an indicator it'll be 12+%. I think if you got us to a 12+% return on equity you'd be absolutely delighted, just like I would be. But it will be two or three years' pretty tough work getting the CIB platform up; we believe we can do it.

Ewen Stevenson: Yes, so on the TLAC we did put a slide in the back on 38 rather than 28. We are targeting single point of entry in terms of -- and we do set out on that slide what we think the relative percentages are between AT1, Tier 2 and senior bail-in.

I'm probably more conservative than others in my team. I think in the 16 – 20% TLAC, inevitably the UK will aim for super equivalent and we'll be close to the top end of that range. So for planning purposes, we're assuming we'll be at the higher end of that 16 – 20% range, without any particular insight as to whether we are or we're not.

I think one of the other consequences that you'll see is, because we're going have to go out and raise a lot of senior bail-in debt, we're going to have to think about adjusting our loan to deposit ratio. Rather than targeting 100%, we'll probably shift that to something like 105 – 110% because of this surplus senior funding that we're going to have in the Group.

Arturo De Frias: A quick follow-on. My ROE question had two bits. One was CIB hopefully improving; the other one was a question about retail ROEs perhaps coming down because of higher risk weightings. Is that something that you could see?

Ross McEwan: I think there will be higher risk-weighted assets loaded onto that business; I think you are quite right on both of those. So we do see some pulling back of the returns.

But on the other hand, we've also got a business there that is still too expensive. It's running at a cost to income ratio of 52%. That needs to be much lower. That needs to be in the mid-40% for it to really be performing as a retail bank, just setting Les's expectations in his performance reviews now.

But that's what a good retail bank, and we've got a really good retail bank. It still suffers from operational issues that need to be fixed and Simon and Les are working through those to get it a much more efficient bank. So we do see both cost down in that business and you'll also see it carrying more capital, going forward.

Philip Hampton: I think the other part of the dynamic there is the market competition authorities look into this aspect and we'll see what they conclude when they publish.

James Invine: James Invine, Soc Gen. I just wanted to follow on from your loan to deposit target because you're currently at 95%. I guess that goes lower as RCR disappears; it goes lower as CIB shrinks; it goes lower as Citizens comes down of the numbers.

You're talking about 105 – 110%. Clearly, you're talking about asset growth of, I guess, 4 – 5% or so, but it still suggests that you're not looking to grow deposit balances in the ongoing business at all. Is that a fair summary?

Ross McEwan: I'm very sorry what was the final part of your point?

Philip Hampton: Are we looking to grow deposit balances.

Ross McEwan: Only in line, I expect, with the growth in the actual assets in that business we'd expect to grow, but not really beyond that.

Ewen Stevenson: We're certainly giving ourselves the potential to grow our asset base faster than our liability growth, but that's certainly based into our thinking in terms of what the capacity of the balance sheet is, as we go forward .

James Invine: So this is more just an aspiration rather than something that you really think you'll hit in 2018 or 2019?

Ross McEwan: From a loan to deposit ratio you're talking about?

James Invine: Yes.

Ross McEwan: No. I don't think it is aspirational; it's what we're going to be targeting.

James Invine: OK. And then just can I just ask as well about the packaged current accounts. You've taken £250 million in Q4 on that. Can you just talk a little bit more about it, is that something that we should expect to run and run?

Ewen Stevenson: The reason we've put this into the accounts this year, we have seen quite an uplift in the complaints coming through around packaged accounts, so we have taken that into account and been quite open about that. We have taken some quite strong mitigating moves in there as well that we hope will stem off some of these complaints. But that's the trend we're seeing, therefore we should reflect that through into the accounts.

James Invine: Thanks.

Philip Hampton: OK, we've got a question from the web, from Robin Down of HSBC. What do you think the impact of the fundamental review of the trading book will be on the go-forward CIB RWAs?

Ewen Stevenson: Yes, certainly when we were doing our work around CIB, there were a few future events that we were bearing in mind. One was ICB; one was the fact that we do expect RWA inflation in terms of some of the reviews going on, both in terms of the review of the trading bulk, things like operational risk, etc.

We're not going to sit here today and forecast what that impact may be, but we certainly have views and they were factored into our thinking in coming up with today's announcement.

Philip Hampton: OK, any other questions? We've teed up a lot of work for you to in your models, so I'm sure you want to get back soon.

Martin Leitgeb: Martin Leitgeb, Goldman. Just two questions; first one to come back to your grow ambition and your comments made earlier. Now that you got more capital being released in investment bank, going forward, does that change your grow ambition in the domestic market, in particular in retail? Or is that basically your ambition to grow the mortgage book and to gain market shares that's relatively unchanged to your targets from last year?

And maybe in that regard, how should we think in terms of net interest margin in the domestic retail market, going forward? I was wondering if you could provide some guidance maybe for 2015.

And the second question is mainly a clarification with regards the exit costs and restructuring costs for the additional IB cuts, and if you could provide maybe a split into restructuring costs and asset disposal costs, so is this roughly half/half the way to think about? Thank you.

Ross McEwan: Just on Personal and Business Banking, we have raised our expectation and aspirations particularly around the mortgage business, as the team in there have rebuilt our mortgage capacity at the front of our business. We now have over 500, I think it’s 525 mortgage advisors; we've got 200 mortgage advisors on the phone now. Those numbers are considerably higher than what they were just 12 months ago, now that they're fully trained.

So we have seen good growth this year and we do expect to see capability we've put out there and the work that we're doing on our systems and processes that we should actually continue to grow that book. So that's the aspiration.

I think on the commercial side -- sorry, on the NIM there is pressure on NIM in the mortgage book because a lot of people are rolling out of standard variable and they're going into fixed, and the margin is a lot slimmer there. I don't think we're leading the charge on pulling rates down there, but we do want to be competitive in that marketplace as long as the rates still leave us making money. So I think good growth and we should expect to see that, going forward, for the next couple of years.

On the commercial side, Alison and her team are doing a lot of work on working with our relationship managers to bring their skill levels up and their expertise, and we are starting to see some good work in that mid-market with our customers there. We're, I think, a lot more focused and back on the front foot more than we have been for many, many years.

So again not seeing the book decline. I think the margin shouldn't contract as much as it will in the mortgage book, but there will be some pressure, because it's a reasonably competitive marketplace. So expect some NIM contraction in those businesses, but I don't think it will be extreme.

Ewen Stevenson: Yes, there'd also be some pressure on the liability side too because I think we feel we've done a lot on liabilities for it in 2014 and we don't really see that continuing into 2015. We're going to continue to see the impact of five-year rolling hedges roll off, so we do see some pressure on the liability side too. And that's why, when we talked on slide 27 about some headwinds, it's those sorts of headwinds.

I'd have to say that this interest rate environment is a fantastic interest rate environment to sell portfolios of loans and to sell fixed income securities. So even if our core bank is not benefiting from this interest rate environment, our legacy bank is certainly benefiting.

On exit costs, we'd rather not do this but I'm not sure it makes any difference to the modeling, frankly, because we will have to spend, we think, £2.5 billion to £3.5 billion to exit.

Peter Toeman: Peter Toeman, HSBC. Is interchange -- lots of interchange revenues on cards, is that going to be significant? And the cost of the UK ring-fence, is that encapsulated within the restructuring charge numbers you've given us and if so, could you perhaps give us some sort of intimation of where the costs will lie and the extent to which some are maybe fixed fund costs and others ongoing cost?

Ross McEwan: First off on interchange, yes, they are reasonably significant for a business. I think this year at least £70 million reduction in income out of the interchange and that will flow through the following year with I think an additional, probably about £40 million, so the overall effect will be about £110 million of loss of income.

That does need to be made up in other parts, but that's coming through over this year and the following year.

The other question --

Ewen Stevenson: On ICB costs, I think we told the market in Q3 that we thought it was going to cost us £750m to £1 billion. We thought that cost was included in the previous £5 billion of restructuring charge estimate we had out to 2017.

I think, as we said today, we'd be at the lower end of that range. It's not an insignificant cost, but it's certainly manageable, so the incremental £2.5 billion to £3.5 billion we've talked today is genuinely incremental.

Ross McEwan: The other thing I think I think for this business, because of the experience we've had over the last seven years, we're actually quite good as a core competency of moving parts of the business around, which ICB will need, and moving portfolios, changing company structures around and we've had a lot of experience at it. So I think we've got a core competency there.

Joe Dickerson: Joe Dickerson, Jefferies. Your liquidity book went up to £151 billion in Q4. That was an increase; I presume that that book is going to go up as you restructure the CIB. Could you quantify the drag on income from that book? In other words, what is the negative carry, if any, associated with that book and why, as you grow loans in the UK, won't that benefit the margin as you redeploy part of that excess liquidity?

And then also on the same subject, would you consider things like liability management or what have you with that liquidity book? Thanks.

Ewen Stevenson: Yes, the liquidity book is really two liquidity books. There’s a certain amount of that money is parked with the Bank of England in a discount window facility, and it actually doesn't cost us a lot to have it there. So I don't think you should envisage that liquidity book shifting materially one way or the other.

In terms of your question on net interest margin, as you saw last quarter, net interest margins for PBB and CPB didn't move much, but there was a significant shift in NIM. Again, it's not straightforward, but you just do need to model NIM across that portfolio of businesses and say which businesses are moving in which direction. And, effectively, the overall Bank NIM is some combination of all of that.

Ross McEwan: I think I'll just finish off. First off, this slide 28 has been an absolute hit. Probably, Ewen would have had this whole question and answer session wrapped up about 45 minutes ago without it, so well done (laughter). And it's also meant that the CEO can take a nice quiet part in the session, so we'll reproduce that slide again, going forward, and we'll leave Ewen up here.

Thanks very much for joining us. Last year we set out a strategy for a much stronger, simpler and fairer Bank and a Bank that was very focused on customers and centered in the UK. And I think what you're seeing from these results is the progress that we've made.

Our underlying profit is up, our capital is up and our costs are down. And we've taken some pretty big steps on trying to rebuild the trust that we have lost with our customers over many years on a number of things that we're doing with customers now, and we're actually really pleased with what's happening there.

There are challenges on the horizon; we've talked about some of those today. 2015 will be a big one for us in the sense of restructuring of CIB and working with our colleagues here, getting that back into a vital part of our organisation. We've got, obviously, conduct and litigation issues coming at us that you've seen in our reports this year.

Those haven't gone away and I think those will be big and we'll want to settle, as long as they're fairly settled, as many of those as we can in 2015, because we are into year two of our strategy and I think we showed we can do it last year and I think we'll prove again that we can do it this year.

We're going to accelerate the reduction in our international business and just get our focus back here and in Western Europe and the parts of that international network that we know we've got great positions in. Today, you see a Bank on track and we've delivered against plan, and we're two months into this year and we need to now focus very firmly on 2015.

I'd also like to take the opportunity, this will be I think, Philip, the last pleasure you'll have on an annual basis of doing one of these. We might catch you on a quarterly in the annual results, but it's great having Philip with us and he's been an absolute support to me, going forward, for the last year in the job. I'd just like to thank him as well for being a great Chairman.

Philip Hampton: Thank you very much, Ross, and thank you all for joining. As you say, I think the Bank is in much better shape than it was a few years ago but, more importantly, it's in much better shape than it was one year ago. And that's absolutely down to Ross and I think an increasingly more effective team, so well done. Thank you.

Ewen Stevenson: Thank you.

Ross McEwan: Thanks, Philip.

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