

Booking Reference: 37461696

Duration: 00:50:47

Presenters

- Stephen Hester
- Bruce Van Saun

Operator: Good morning ladies and gentlemen. Today's conference call will be hosted by Stephen Hester, Chief Executive of RBS; please go ahead.

Stephen Hester: Good morning everyone, thank you for joining us. I'm here with Bruce Van Saun, our new Finance Director, and what we plan to do is relatively briefly take you through the results that we have announced today and then obviously spend most of the time hopefully on Q&A. You will see clogging up your inbox is a massive tome in terms of something like a 120 pages disclosure. We are at the forefront of banks in providing huge transparency and detail about our businesses; this is our way of welcoming in the outside world; we don't want people to feel we've anything to hide; we know that we have to re-build confidence and transparency is an essential pre-requisite to doing that. There are also on our website some slides that try and give you an easier to digest view through the key aspects of the results of today. Before asking Bruce to just cover some of the numerical highlights, albeit briefly, let me make a few points about the business and the environment.

I think the first point, and the last point, is that we are completely conscious of the heavy burden of responsibility that we bear as stewards, not just of the fortunes of 160,000 staff, not just of our service to 40 million customers, but all our shareholders and in particular the taxpayer of the United Kingdom that has entrusted us with a lot of money and it's our job to bring RBS back to safety, to serve customers well and to re-build a vibrant, profitable bank which will allow our share price to give profitable exit opportunity to the taxpayer whose money we are now guardian's of. That's our job; we're very focused on it; all our efforts are to get that done and I believe that today's results show encouraging signals of why we

believe it can be done and how our actions are beginning to take traction. What do I mean by that? The bedrock on which RBS depends, rests and from which we thrive is our service to customers and despite all of the pressures, our own internal changes, the external pressures, the excoriation of RBS in the media; despite all of that our customer base is strong and solid; every one of our business is either maintaining customer numbers or growing them and customer satisfaction data is in the same place. Our business is also becoming more predictable; we're becoming more confident that when we pull a lever we know what's going to happen and that again in the face of change open to us is a crucial qualitative aspect.

There are some important straws in the wind, both from improving economy then from our own actions that we are highlighting today, which the profitability of our core businesses which is there on display today, underpins. We believe we have seen now a plateauing of bad debts, in fact bad debt charges are down versus the prior Quarter but at the moment we're saying we see them as plateauing, i.e. not getting worse. We think it may be a little while before they get better and there will be Quarterly volatility, but nonetheless an important move forward on the step to recovery.

Similarly, the decline in our interest margins, which has obviously been going the opposite to what needed to rebuild the bank, repay the tax payer and get our capital ratios safer. We have arrested that decline earlier than we expected and at a higher level than we expected and that's another piece of good news in today's results; and thirdly the progress being made to return off to balance sheet safety is going well. Our liquidity has risen sharply; our wholesale funding is normalising and our deposits are rising ahead of the market. We're gaining market share which means our crucial loan-to-deposit ratio is coming down in the way that we said it would.

These are all positive signals behind our results. At the same time we've been clear that it will take some years for our core profitability to reach the levels we aspire to. Partly it takes time for our actions to take hold, partly we need an improved economy as well, and during that period we have a big legacy from the past of bad debt. We need to work through that; there will be losses as we work through that, we see ourselves as being in loss overall both this year and next, but we are working through it and so this is a marathon and not a sprint, I've said that many times. It's still true, there

are encouraging signs of progress in the economy and in our own operations and as a result I'm upbeat though realistic. We do have a tough job but we're making good progress and I think that we will see that gathering momentum in Quarters to come. It's been a momentous week, also as we know with the Asset Protection Scheme announcement, the Government making good on the commitment it made last February and entrusting us, supporting the existing investment with more support which we need to repay and associated with that the penalties from the European Union; although of course as you all know that was not a good outcome for shareholders in the narrow, it is an important step forward for RBS. We've got those things behind us; we have the tools to do the job; we believe we can do the job; we believe we are unlikely to draw down on the insurance policy in the contingent capital associated with APS, but it is there as an umbrella against rainstorms in the next couple of years. We hope soon thereafter we will no longer need that umbrella; that we'll be strong on our own two feet and that's what we're working towards.

With those opening remarks, let me ask Bruce now to just highlight some of the key figures and then we'll move on to Q&A.

Bruce Van Saun: Thanks Stephen and good morning. The Group had an operating loss of 1.5 billion in Q3 compared to 3.5 billion in Q2. Lower impairments were the big driver of the 2 billion improvement. On a pre-provision basis after adjusting for movements in own debt, the Group turned in a profit of 2.2 billion in the Third Quarter of '09. That's up from 2.1 billion in the Second Quarter, down slightly from 2.3 billion from the year ago Quarter. The good news is that our businesses have had solid footing through a difficult environment. Our staff remains engaged and we are continuing to serve our customers well.

Looking across the Divisions, positives in the Quarter include improved performances from the UK Retail and the UK Corporate Divisions compared to Q2, primarily as a result of lower impairments, along with stable net interest margins. GBM also performed according to our expectations. Negatives in the Quarter include widening losses at Ulster Bank and Citizens reflecting growing credit impairments. On a consolidated basis, our Q3 net interest margin of 1.75% was broadly flat compared to the two previous Quarters and slightly better than previous guidance. The good news here is that we've made progress in improving underlying asset margins in all Divisions.

In UK retail our mortgage performance has been very strong and in UK corporate we've seen improved pricing on new originations. Deposit margins in sequential Quarters are stabilising, but they're still bound year-on-year due to the impact of benchmark interest rate cuts in the first Quarter. Offsetting the asset margin improvements, however, are increased costs relating to higher liquidity buffers and greater term funding which we expect will continue over the next few Quarters. Overall we're guiding to broadly flat margins over the next couple of Quarters with improving trends thereafter.

Expenses were well controlled; we are well into the implementation phase of our 2.5 billion cost saving programme with 1.5 billion of benefits in our current run rate. The cost-to-income ratio improved in the Quarter from 66% to 59%. Impairment losses were lower in the Quarter at 3.3 billion; as a reminder our Q2 had some large "tall tree impairments" in the 4.7 billion charge, with many of those impairments in the non-core division. We expect that the impairments outlook over the next few Quarters may continue to include some lumpy items although overall we're seeing signs of stabilisation, as Stephen mentioned.

With respect to the balance sheet, our total footings were roughly flat on a constant currency basis and we saw some good trends across our funding and liquidity metrics. Deposits grew sequentially by 8 billion against the backdrop of highly competitive market conditions. Our tangible equity per share increased by 1.4 pence to 59.4 pence as positive movement in the value of AFS securities and other comprehensive income more than offset our attributable loss for the period. Our risk weighted assets increased by 47 billion sequentially with monoline downgrades and the resulting impact of procyclicality accounting for about 30 billion of the increase. The good news is that about 60% of the overall increase is picked up in APS. Our capital Core Tier 1 ratio declined to 5.5% at Quarter end, evidencing the need for the HMT capital injection and the new APS cover. Our pro forma estimated Core Tier 1 ratio of 11.1% at the Quarter end gives us the ability to withstand elevated legacy impairment losses over the next 12 months, maintaining robust ratios in 2010.

Let me conclude by saying that we remain highly focused on making progress against our planned metrics and we view 2010 as the year of execution. We have a big challenge ahead, but we are committed and up for it.

Stephen Hester: Bruce, thank you very much and we'd be now happy to take your questions.

Operator: Ladies and gentlemen, if you would like to ask a question, please press the star key followed by the digit 1 on your telephone keypad. We will pause for a moment to give everyone an opportunity to signal for questions. Your question comes from Jill Treanor from The Guardian; please go ahead.

Jill Treanor: I was hoping to ask three questions if I may, but I'll ask them quickly. On bonuses, can you talk a little bit more about the impact that this has been having on morale in your investment bank this week since we've learnt more about the Government's requests. Second question is about lending; you make a statement in your statement about the fact that you believe that increased borrowing is not the route to sustainable recovery and I'm wondering whether or not you disagree with the Government's policy on setting your lending targets. My third question is on tax; you make some point about the tax losses that you're now able to use; when do you think RBS will actually start paying tax to the Exchequer?

Stephen Hester: On your last point we pay a massive amount of payroll taxes as we speak. As to when we will pay corporation tax that depends on how fast our recovery is, which is partly down to us and partly down to the outside world, so I think it's hard to make that prediction. With respect to lending, sorry to deal with these in reverse order, but my mind is just working in reverse at the moment I'm afraid. I am very supportive; we are very supportive of the lending targets because we understand that in a recession people are more than usually anxious about money and finance and one of the important roles we have to do is to reassure customers and to make money available to them where sensible; and over and above the targets we have done unprecedented amounts of advertising this year in that regard; we've got initiatives like our business hotline and a whole series of other things.

However, the lending commitments were only ever to make money available at fair prices to people who can pay us back and we are doing that and you are right, as I have pointed out today, the United States is out of recession faster than us, despite businesses paying back money and saving more, faster than us. I do not believe that the route to economic

recovery is about borrowing more; I think it's about making the economy safer. But we are there, we are lending a lot of money to people; we are open for business; we hope the people with good propositions will come to us for loans and I want to be unambiguous about that. In terms of your first question on morale of staff, I'd like to widen that out; it is very easy for people at RBS to feel that they have a miserable job, the uncertainty associated with the Bank, the public and media pressure and excoriation and the feelings of being discriminated against rather than doing the same job elsewhere are all really wearing factors. I think it is fantastic that our staff have dealt with those pressures and allowed us to serve customers well all year; that the impact of that is visible not just from a customer angle, but on the matters that I talked about earlier in the call in terms of our recovery techniques in the face of an unprecedented amount of change. So far our losses of people have been damaging, but not destructive and I think our people deserve enormous credit for the way they've responded to those pressures. If the pressures get worse, our job is made harder and the taxpayers' risk is greater, but we're working hard to manage the situation as well as we can and for people to understand that part of RBS' recovery is that it should be a place where good people want to work and do a tough job.

Operator: Your next question comes from Patrick Jenkins from The Financial Times; please go ahead.

Patrick Jenkins: I have also three questions and I'll rattle through them as well. Firstly on the insurance business, I wondered if you could say a little bit about why profitability has shrunk to virtually nothing there and what that means a) for the global outlook of profitability in the Group, and b) for the viability of selling that, albeit you have no immediate plans to do that, but it is one of the businesses that you've committed to sell in the deal with Brussels. Secondly, I notice you've taken a provision on the sale of the Asian business of 150 million which I think is a new figure, but I wondered if you could explain that and finally Bruce mentioned the point on liquidity, larger liquidity buffers having led to increased costs. I haven't had a chance to go through the details of the figures, but I'm sure you've disclosed numbers on that, maybe you could say a little bit about that.

Stephen Hester: I'll answer your first one and ask Bruce to answer your next two questions. On the insurance business we had what I hope is a one-off blip for a big rise in bodily injury claims in our motor business. Part of this

is driven by a recession, part of it is driven by lawyers stirring up people to make big claims when they've been in car crashes which is a feature of American Society that is being imported over here; so we took a big hit, partly strengthening past reserves and current business and I think we'll have a similar hit in the Fourth Quarter. However, we are rapidly and aggressively responding with different claims procedures and increased pricing in those areas where we're seeing these claims and I am hopeful that the business will be back on track by next year.

Patrick Jenkins: Is that mainly in the direct loan business, or... ?

Stephen Hester: Well it's across the motor book; it's not really a brand issue it's just motor accidents in general. By the way, I think there's probably an extent to which our eye was off the ball with all the other things going on as well, so it's not just a market thing, I think we did not do a good job. However, I believe that it is fixable and fixable pretty quickly and will have no impact whatsoever on the prospect for sale on this business which I continue to believe will be in the out years of the four years that we've got to do it and I [don't] believe that flotations are most likely. I'll ask Bruce to just pick up your point on the Asian provision and liquidity.

Bruce Van Saun: The Asia business; when we look at gain or loss on sale on that, we look at also the indemnities that we offer around credit loss protection and so that number of the 150 million factors in those estimated contingent liability on the indemnities. On the liquidity buffers there is clearly a cost from carrying more liquid assets; we've been building the portfolio; a key part of that is the Government bond portfolio which is now up to about 16 billion in terms of size, heading to 20 billion by the end of this year, targeting 25-30 by the end of next year and pretty much glide path then up to about 50-60 billion by 2013. We'll make a negative spread on carrying that liquidity, which is just going to service as somewhat of a drag to the growth that we're experiencing in margins.

Related to that our wholesale funding; our spreads have come in but we're also lengthening, trying to lengthen the maturity of that wholesale funding. There's a cost to that as you go out the maturity ladder so that's also serving as somewhat of a drag. Those would be the things that are offsetting what we're seeing as a natural growth in the margin coming from a widening asset margin, so as we're pricing new business in retail and we're pricing new business in UK corporate, for example, we're putting

that new business on pretty attractive terms, so you kind of expect that to continue.

Patrick Jenkins: Just one follow up on that; what was the Government bond investment total at the end of the Second Quarter, and also what has that increase up to 16 billion, and I guess all the other liquidity buffer movement that you've seen over the Quarter, actually cost you concretely in terms of the cost...?

Bruce Van Saun: I think it was about two basis points to the overall margin; I don't have the exact, I think it went up about 2 billion in the Quarter, the Government portfolio.

Operator: The next question comes from Ian King from The Times; please go ahead.

Ian King: I wondered whether you could ... you mentioned in your opening remarks there that you were putting on business; I wonder whether you could tell us what proportion of loan applications from SMEs are currently being rejected and how that has changed at all during the Quarter from prior Quarters.

Stephen Hester: We're accepting 85%, plus or minus a percent, and it's pretty much unchanged and in mortgages were accepting 90% of applications and that is pretty much unchanged. Another point that I should have brought out, and let me use this opportunity to do it, is that actually we have £27 billion of lines of credit that we have granted UK small and mid businesses that they have not drawn down. If there was credit stress out there among those of our customers with those lines, they would be drawing down on their overdrafts; they're not doing it, they're repairing their balance sheet. If that £27 billion were to be drawn down and it's available to be, then we would have exceeded our lending targets by a margin of 100%.

Ian King: So you can't give it away.

Stephen Hester: We should all be happy about that; the way out of recovery is not another borrowing binge ... sorry, the way into recovery, the way out of recession is not another borrowing binge.

Ian King: The figures from GBM appear to have disappointed the market this morning somewhat. Do you think your ability to do business, your ability to hire is going to be impeded by the restrictions that are being placed on you compared with some of your rivals?

Stephen Hester: Well if the 5% rise in our share price is a disappointment, I'll take it everyday. I was very clear in August as to what was going to happen in GBM, just not everyone listened and GBM, I believe, did well in the Quarter, but is experiencing more normal business conditions than prevailed for our mix of businesses in the first half of the year. Nevertheless, if we did not have GBM firing on all cylinders this bank would be in a much, much worse state with much, much bigger losses given the £5 billion or so of profits so far this year kicked in by GBM. The business is going well; of course like all the rest of RBS it has its pressures, but overwhelmingly we have recast this business to serve our customers and clearly we continue to work hard at that.

Ian King: On the point of recruitment to GBM, to what extent are you going to be impeded by some of these strictures on payment of bonuses and so on?

Stephen Hester: It has been a significant impediment this year and I expect it will be next year. I'm not complaining about that; I understand completely – we get it. We understand absolutely there are issues and we have no problem leading the world on the subject of bonus form, but it is a tightrope and we have to balance reform with having good people who can get the taxpayer value for money.

Ian King: Do you have any observations on the comments raised by the Governor recently? He is still banging away on this Glass-Steagall theme I just wonder where you sit in this debate.

Stephen Hester: I have great respect for the Governor of the Bank of England, so I make no comment in relation to his comments and indeed I probably haven't read them as closely as I should with all the other things going on; but what I am very clear about is that this crisis was not a crisis of the shape of banks or even the size of banks. In fact, by far in a way the largest number of bank failures has been of narrow banks, whether narrow investment banks or narrow mortgage banks or narrow consumer finance banks so the evidence is in support of broad based banks, not

narrow banks. However, I think that there are very important public policy issues around the whole “too big to fail” debate. I am totally supportive of regulatory progress in this area and in that regard I think that the Governor is absolutely right to focus on the issues as indeed does, I think, in a rather erudite way the recent Turner publication on the FSA.

Operator: Your next question comes from Steve Hawkes from The Sun; please go ahead.

Steve Hawkes: Following an answer you gave to Jill, do you think RBS is being discriminated against?

Stephen Hester: I think that RBS is in a difficult position, it was one of the predecessor’s making, if you like, and what we are all trying to recover from and inevitably with that legacy come a series of political and other pressures on us which make our job more difficult but in exchange for those pressures we have a phenomenal amount of financial support that is making our job doable so I’m not going to complain and whinge. We’re getting on with the job; we’re very clear that we believe the job can be successful, but I do want people to understand that it is only through RBS being successful that the taxpayer will get his and her money back.

Steve Hawkes: How do you mirror the fact that you are seeing a plateauing or a bottoming out in impairments that we have got insolvency numbers today that show another rise in the number of Brits and people declaring themselves insolvent. How do those two things chime do you think? Do you think the impairment picture will improve?

Stephen Hester: I think that things will go at different paces for different businesses; so clearly if unemployment continues to rise for a while as it probably will, those areas that are most impacted by unemployment may see bad debts continue to rise for a while. There are other areas where the opposite is happening; so for example stronger stock markets and bond markets are allowing big companies to repair their balance sheets, in some cases quite speedily, which means that some of the bigger company bad debts are beginning to be put behind us. In a sense the pluses and the minuses at the moment are balancing out. I think it might take as much as a year or even more from now for there to be significant movement downwards which is why we are talking about a plateau at this

junction, but of course the detailed picture is different in different parts of the globe and the different kinds of people.

Steve Hawkes: You talk about what you said I think winning market share in the retail sector, where is that business coming from? Are saying that savers are more confident in putting our money with you because of the huge amount of money that you have had from the Government?

Stephen Hester: No I think what it is - and this is really why we are confident of recovery and why we are worth saving - RBS' base businesses are enormously strong because we really do a good job with clients. We give customers things they want and need and generally do it well. Of course there are exceptions and we certainly try and improve on it when those exceptions happen and as we manage our core businesses better, as we intend to do, that in turn allows customers to want to do more with us.

Steve Hawkes: Can you give any idea of the increase in market share in retail that you have had?

Stephen Hester: Well I would say we have given it in our release, the increase in customer numbers so our UK retail business added 139,000 new current account customers in the last Quarter and 25,000 new mortgage customers.

Steve Hawkes: One last thing, you talk in the global bank GBM release that there was a large individual failure that contributed to the impairments of 272; there is no chance that you could say what that was, or who it was?

Stephen Hester: I can't, but I can say it was not in the UK.

Operator: The next question comes from Lucy Farndon from the Daily Mail, please go ahead.

Lucy Farndon: I just wondered if you could give us a bit of insight into the conversations you have already with the UKFI and the FSA about the scale of the bonuses that you could award this year. I know you haven't made any firm decisions, but obviously in the staff costs you have got this £2.8 billion pencilled in for the Quarter; it puts the annual costs on track to be higher for the full year than it was last year. I don't know if we can do

any read through that the bonus pool might be bigger than last year's £1 billion, I think it was last year.

Stephen Hester: The concentration of all of our discussions with the FSA and UKFI have been around the form and methodology around bonuses, making sure that the structure is right, making sure the people are not rewarded for inappropriate risk taking and really leading the world in these areas and that has been the content of the discussion so far. Everyone knows that bonus decisions are not made until a year is complete and until one can see first of all how we have done and what the merit of individual business areas and people is and demerit and how that compares to the outside world in the competitive markets in which we are. So I think that would be the first thing that I would say to you.

The second thing that I would say to you is that in trying to prudently manage the financials of our business, we do have regard for how we are doing; we do have regard for how other people are accruing things and on the current financial metrics the profitability to pay ratio of RBS as an investment bank is better than the vast majority of its competitors. In other words people would be getting value for money if those ratios were [audio]. However, that is the tight rope we have to walk, but no decisions have been made and you have to understand that RBS employs 170,000 people; our investment bank employs 20,000 people of that and the accruals that you are remarking on have obviously clearly large amounts of salary and national insurance and all sorts of other things in it.

Lucy Farndon: Yes, but nevertheless it is a larger part than last year so can we read across from that the bonus pool will be larger?

Stephen Hester: You can infer what ever you like to infer, Lucy.

Lucy Farndon: Well I would rather be accurate.

Stephen Hester: Well I don't know what bonuses we will pay; as I say we will decide at the year-end.

Lucy Farndon: Okay and you are not expecting them, the UKFI to put any absolute cap on the level?

Stephen Hester: I think that as Directors we have a legal duty to all shareholders to act in the interests of this bank, which by the way are the interests of the taxpayer who owns 84% of it and that is to get the money back so we will try to tread a tightrope walk between paying as little as we can, consistent with having a successful bank.

Lucy Farndon: Could you just tell us a little bit more about impairments? I don't know if I haven't got around to it in your longer press release, but can you split it up a bit between what is happening on the personal side and consumers compared to corporate debt?

Stephen Hester: Yes that is broken down in our slide pack; it may be easier to see on Group credit quality where you can see that the UK retail impairments jump around Quarter to Quarter but they are what I would call steady. They are slightly down on the last Quarter but they are steady. Corporate had a big lump in the second Quarter and has fallen back nicely in the second Quarter, but within that I would say that the mortgage book is behaving pretty well and the main retail losses lie in credit cards and unsecured loans as is true of other banks.

Lucy Farndon: Is that the area that is likely to continue rising quite sharply, the credit cards and unsecured?

Stephen Hester: Well that is certainly where the bigger losses are and if indeed the housing market has stabilised, as it seems to have done, that obviously clearly helps the mortgage position.

Lucy Farndon: You haven't got any nice stats like for every £1,000 credit card balance there is £x in arrears or something.

Stephen Hester: I am sure I would have if I had a bigger brain, but it has not entered my brain at the moment.

Lucy Farndon: If one of your colleagues has them that would be good.

Stephen Hester: We will try and call you back with some nice stats.

Operator: Your next question comes from Sara Muñoz from the Wall Street Journal, please go ahead.

Sara Muñoz: Stephen, it really struck me in your presentation the way you characterise your participation in the APS, it seems that it is now at this point just catastrophe insurance, it just an umbrella to weather the storms, whereas in August you said that it was essential for the Bank and clearly 8 months ago it was certainly seen as essential for both you and Lloyds. I was just wondering if you can tell me what has changed specifically; is it the outlook on GDP, the actual GDP? Is it the unemployment? Is it something like a loan loss rate you are seeing in your portfolios? You also mentioned that you are unlikely to draw down the APS; does that mean you are actually unlikely to meet the first loss threshold?

Stephen Hester: Yes, I am happy to answer those questions; we were always clear that in a sense APS would be seen in two parts. For the things that we expected to happen we needed new capital which was B-shares. For things that we thought were unlikely to happen we needed insurance and the FSA put in place this year a new regulation which meant that you had to pass their stress tests, as indeed happened in the United States and that is still true and so the reason that we still need APS, why it is essential, is to pass the FSA stress test. However, what has changed is that although our base case outlook has not materially changed, our confidence limit has increased and our belief that further major recession - which is in fact what the stress case assumes - our belief is that that is less likely then it might have been back in February or even in August and so the consequence of that we have worked with the Government successfully to restructure APS as you mentioned into an effect catastrophe insurance. It is less costly, it is less risky for the Government to insure, less costly for us in premium terms and unlikely to be used.

Sara Muñoz: What metrics are you looking at to come to that conclusion, even since August to come to a rosier outlook?

Stephen Hester: It is really all to do with our forward projections of our business, losses in it, the scenarios around that and the probabilities that we ascribe to those scenarios. An example would be the stabilisation in both the US and the UK real estate prices; I am not saying that there is no chance of them going down, I think there are very real chances that there is another leg down I think that the likely path for real estate prices is better now than we might have thought 3 or 6 months ago.

Sara Muñoz: Can you give another example, something that has changed that you are looking at?

Stephen Hester: I think part of it is our own confidence in our own business. Things were pretty chaotic back in February, let me tell you, and every time you turned around the numbers were changing and normally for the worse. We have now gone 6 months in a row with our internal forecasts going to happen pretty stable, thus gaining confidence that we know what is going on.

Sara Muñoz: Like in terms of the loan losses, par telling and so forth, the impairments rather?

Stephen Hester: This is how the business is behaving; I don't want to ... you know it would be foreign for me to get carried away here and there are all the appropriate conservatism and caveats that need to be made; we are feeling qualitatively more comfortable with our own business as well as with the external environment.

Sara Muñoz: Can you give me any more detail on what the assets are that are being insured in the APS?

Stephen Hester: There is a vast amount of detail tucked away in Appendix 3 of the release.

Sara Muñoz: I will check that out, I didn't make it quite that far thank you.

Operator: Your next question comes from James Moore from the Independent, please go ahead.

James Moore: Just a couple of questions; first of all you have mentioned about the issue of economic recovery not being credit led; doesn't that contradict Government policy given that they want credit to start flowing again and the Bank wants credit to start flowing again and they see the economic recovery being very much about credit being allowed into the system again? The second question is on the 120-page report and the vast amount of detail, this would seem to be against what the FSA is saying because it is kind of Sir Humphrey's classic isn't it, piling information upon information upon information which obscures the really useful stuff so could you give me some comments on that please?

Stephen Hester: You will forgive me if I don't have much sympathy if people have to wade through a bit more information; it is their choice. We have tried to make your life easier by giving you some slides if you don't want to wade through the detail, and so you can take the slides or take the detail according to who the reader is and for what they want to use it, but I am generally of the view that information is good so long as it is presented in a way that is designed to help and not to obscure. If you think we are obscuring something I would be very grateful for you to let us know so we can try and not do it again.

James Moore: It is certainly the case that the FSA has voiced concerns about these voluminous reports because it's...

Stephen Hester: My guess would be that the FSA would be highly positive about our levels of disclosure; you can ask them yourself. With respect to Government policy, clearly I am not the right person to make statements about Government policy; they should do it for themselves, but certainly my understanding of the position is - and as evidenced by the lending agreement we reached with them - is that the issue was really that the economy should not be artificially dragged down by inappropriate credit rationing and therefore the Government wanted to make sure that credit was available to those who wanted it and could responsibly use it; and that is precisely how the lending commitments are worded and precisely what we have done. That is not in anyway inconsistent with actually the economy in aggregate deciding that it needs to become safer and save more and borrow less. The issue is whether it is voluntary or forced and the voluntary seems to be what is happening, which I think we should all be happy about.

Operator: Your next question comes from Ian McConnell from the Herald, please go ahead.

Ian McConnell: Just a quick one to give some insight into the state of the UK labour market as well in terms of the ... obviously there was 3,700 UK job losses announced this week, but on top which haven't been implemented yet, but in terms of the broadly 10,000 that have already put through in the UK, can you give a figure on what proportion of that has been compulsory rather than voluntary and I suppose a follow up in terms of the 20,000 and the 14,000 in terms of where we are globally and the UK

in terms of what has been announced of how far through the process we may be in terms of numbers?

Stephen Hester: I am pleased to say, if it is not inappropriate to use the word pleased, that only one Quarter of the job losses have had to be through compulsory means and obviously we will continue to strive to keep that percentage as low as it possibly can be. I believe I am right in saying that the total job losses so far have been 16,000 relative to the 10,000 that you mentioned for the UK and therefore that the overseas job losses are disproportionately higher given the spread of our workforce and I said today that I think we are in announcement terms well over half way through what we have to do.

Operator: Your next question comes from Steve Slater from Reuters, please go ahead.

Steve Slater: I recognise that selling down the stake by the Government is in the hands of UKFI, but there were some references to repaying B-shares still; can you say whether a rights issue is still on the table or whether there are other options and if so does the market need to get through the Lloyds rights issue for that to be considered?

Stephen Hester: I suppose I would say that we are clear that we want to reverse the pattern of Government ownership in this bank and that that goal is shared by all taxpayers, but the process obviously needs to be one that is at a satisfactory value to taxpayers. The destruction in the value of the shareholders' stake through the announcement earlier this week put back elements of that, but we will of course look carefully at investor appetite and at market prices and remain open at any time to ways of reducing the Government stake and these are just all of the things that we have to balance.

Operator: Your next question comes from Patricia Kowsmann from Dow Jones, please go ahead.

Patricia Kowsmann: I am sure it is somewhere there in the papers, but I haven't found yet so I just want to check, can you tell me the level of the NPL ratio accepting [unclear] compared to the June level and also tell us where you are comfortable at when talking about this ratio. Second of all if you can give an update on the sales of assets in Asia, specifically India

and China; it has been widely reported you guys on advanced stocks and I just want to know if there is any time frame at all for an announcement, thanks.

Stephen Hester: Bruce perhaps you could take this.

Bruce Van Saun: Yes the overall REILs and problem loans increased from £31 billion at the end of June to £35 billion; percentage wise that was 5% of the loan going up to about 5.74% of the loan book. The good news here is that the increase in the prior two Quarters averaged about £6 billion a Quarter and this one went up by about £4 billion; so I think it lends credence to the fact that we are starting to see the increase in these problem loans start to slow down as we reach this plateau that Stephen referenced. With respect to the transactions in Asia there have been several separate transactions that have been orchestrated; we are in very serious negotiations trying to get to the finish line on several of the countries and would be hopeful that we could announce something pretty shortly.

Patricia Kowsmann: Is there any way you can give some kind of maxim figure for this ratio that you are comfortable with that you expect at this point, assuming that it is going to start falling a year from now or something?

Bruce Van Saun: No I think what happens is you charge off these loans and that tends to go against it and you may see some new ones coming in, but it is hard to actually project what the peak of that ratio could be at this point.

Operator: Your next question comes from Ros Snowdon from the Yorkshire Post, please go ahead.

Ros Snowdon: You said you are now well over half way through the job losses, does that mean another 10,000 to go in the UK?

Stephen Hester: No, because if it did then I wouldn't have been able to say what I said.

Ros Snowdon: So could you give some kind of idea about how many we might see?

Stephen Hester: No, I am sorry I have been adamant throughout the last year that the first people to hear about job losses are our staff.

Ros Snowden: Can we just get any kind of figure; not saying where they might be, but any figure?

Stephen Hester: No, sorry.

Operator: You have a follow up question from Jill Treanor from the Guardian; please go ahead.

Jill Treanor: I know this is my fourth question and I will be very quick; one of the ways of course to deal with bonus restrictions in your investment bank would be to hike everybody's salaries, is that something you are considering?

Stephen Hester: I think we should be conscious that in difficult times barrier restraint is important and so we make decisions about salaries or about what you might call annual rises to salaries normally in the first Quarter of the year and so we haven't made any of those decisions, but my mood is one of restraint as it relates to our bank.

Operator: I have a follow up question from the line of Lucy Farndon from the Daily Mail; please go ahead.

Lucy Farndon: Just to be clear on jobs; you have done 16,000 losses so far, and you have got the 3,700 you just announced, so that brings us up to nearly 20,000; so you are saying we are well over half way through in terms of that 20,000 number, is that what you are saying?

Stephen Hester: Yes.

Lucy Farndon: Okay and any future cuts would be disproportionately overseas as well would they?

Stephen Hester: I think by far the biggest announcements that we have had to make we have made. [Audio] the details you are after a) I am not going to tell it you, but b) I actually don't even have it in my head. I think the biggest things that we have had to do we have announced but this is a

picture that unfolds over time and I think now is not the responsible moment to mention it more closely.

Lucy Farndon: Obviously you can understand why people are concerned about jobs, but you do seem to be implying that even if you are well over half way through there could easily be another 10,000 – 15,000 global cuts coming.

Stephen Hester: I really don't want to have words put into my mouth on this I am afraid.

Lucy Farndon: Okay.

Operator: Thank you there are no further questions at this time, I would now like to hand the call back to Stephen for any closing comments.

Stephen Hester: Terrific, again thank you for listening I am sure you must be getting RBS fatigue so we will try not to burden you much longer and I simply would close by reiterating as I said I would at the opening comments, we have been entrusted with a really serious and big responsibility, not just by our staff, not just by our customers, but by our shareholders and in particular UK taxpayers. We are serious stewards of these amounts of money; we know we have to rebuild the bank; we know we have to serve customers well; we know profits and our commercial success must dramatically improve in order for that to be paid back, we are focused on the job, we now have the tools to do it and that is what we are getting on and doing. Thank you very much for your attention.

Operator: Ladies and gentlemen that will conclude today's presentation thank you for your participation; you may now all disconnect.