Q1 2012 Results

NEWS WIRES CONFERENCE

Held at the offices of the Company

280 Bishopsgate London EC2

on Friday 4th May 2012

FORWARD-LOOKING STATEMENTS

This transcript includes certain statements regarding our assumptions, projections, expectations, intentions or beliefs about future events. These statements constitute "forward-looking statements" for purposes of the Private Securities Litigation Reform Act of 1995. We caution that these statements may and often do vary materially from actual results. Accordingly, we cannot assure you that actual results will not differ materially from those expressed or implied by the forward-looking statements. You should read the section entitled "Forward-Looking Statements" in our Annual Results announcement published on 23rd February 2012.

Presenters

- **Stephen Hester (Group Chief Executive)**
- **Bruce Van Saun (Group Finance Director)**

Presentation

Operator

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

Stephen Hester *–Group Chief Executive, RBS*

Good morning, everyone, and thank you for joining us this morning. A format completely as usual, I'll make a few opening remarks and then our Finance Director, Bruce Van Saun, will take you through the headlines of the numbers that we've put out today and then obviously we'll try to answer any questions that you may have.

I guess starting off the review of the first quarter that we have announced this morning; I would say that I am pleased with the results that we are presenting. Why do I say that? Obviously, as you know, simply at the headline levels our ongoing bank has produced nearly £1.7 billion of profit in the quarter and a return on equity of around 11%. We can do better than that but still a pretty solid result. Even after clean-up costs in the quarter, after the results of the Non-Core bank, we have group operating profit of £1.2 billion and of course we wouldn't be a bank nowadays if we didn't have some interesting accounting items below the line and so we have a very large charge for fair value of own debt, as most other banks do, which take us into notional loss, the irony being that that's investors saying they think that we're safer than we were before.

But in terms of the jobs that you know we're doing, I have said on a number of occasions before we need to look at RBS's performance across the two jobs that we're trying to do and I think in both areas we can show good progress in our results today. As you know, one of the most crucial endeavours for RBS has been diffusing the issues from the past that weakened us so badly in 2008 and, again, I think we're reporting a terrific quarter of achievement in that risk reduction and you can see it right across the piece, whether that be the reduction of our Non-Core assets which continues, whether it be our liquidity which gets stronger and stronger all the time and compares very favourably with pretty much any other international bank now that you can think of.

We also have a couple of really important milestones that we're able to announce today in RBS's recovery from the past, the first is that within the next week we'll have completed the process of paying back government and Central Bank liquidity support which we were big users of in the crisis, as you know well over £100 billion when you add all the things up, and the last bit of the UK government support is paid off next week. By the way, the UK government just on the guaranteed lending scheme alone will have made well over £1 billion profit from that support of RBS. Along with the milestone of paying back the liquidity support that we received, we're also announcing today that we're recommencing the servicing... the payment of dividends on our preference shares and hybrid capital, which is another step of rehabilitation towards the capital markets.

I think these are both important recovery milestones and you're also aware of our announcement about a proposed share consolidation which is, of course, not a matter of substance but a matter of symbolism in terms of presenting a new face to the capital markets.

Now, our second job, equally, probably more important than cleaning up the mistakes of the past, is to make sure that we run the new RBS, the ongoing RBS, well and better for our customers, for everyone who relies on its safety and soundness and, of course, importantly, for our shareholders, including the taxpayer. And so here we continue to do extensive work, I think report progress, but here is also where the slowness of the world economy and of the UK economy can most easily be seen and it's something I've said many times before, it's an important thing for everyone to understand and for banks to reconnect with, banks are as healthy as their customers and their futures are linked to their customers. When our customers do well, we will, and vice versa. At the moment our customers are holding their fire. They're worried about the future and so they're basically not doing much more and so we're not doing much more with them.

On the other hand, we're working very hard to improve what it is that we do with them. And so you'll see in our results during the first quarter, basically from a profitability standpoint our retail and commercial businesses are pretty steady, producing with the exception of Ulster all of them good profitability. In fact, the one area where we needed to do better was in the United States. It's continuing to improve its results on an underlying basis. Bruce will explain that in his piece.

Importantly, we announced in January of this year a further restructuring in our Wholesale, our investment banking activities, to respond to the obvious pressures in that area of the industry and although, after one quarter I don't think we can draw particular conclusions, what I am pleased to say is after one quarter where obviously things are a bit disrupted and people were busy doing that restructuring, we nevertheless had a restructuring that's going well. We've managed to take the balance sheet of the Investment Bank down 20% year-on-year, from a year ago quarter to now, and despite that reduction of resources, the profits have rebound very substantially from a loss in the fourth quarter and we're producing a return on equity from our Markets business in the first quarter of 21%. So, I think that was an encouraging feature of our ongoing business in the first quarter.

As I said, we're conscious that the external environment is tough out there and we're conscious that it's an environment which unexpected things can go wrong and one has to be prepared for that. I'm very pleased that the strength and resilience that we're managing to rebuild at RBS should position us to ride unforeseen events if they come along, I hope they don't, and, just as importantly, the intensive work that we're doing throughout this company to improve our ability to serve customers and to improve our ability to bring the results of that through to shareholders, I think that is increasingly positioning us to take advantage of more activity, as and when our customers are ready to provide that.

So, that would be my introduction. I'd ask Bruce now to take you through a little more clearly the key numbers from the first quarter.

Bruce Van Saun – *Group Finance Director, RBS*

Okay, thank you, Stephen. The first quarter clearly saw the Group take further steps on its path to recovery. Our capital funding and liquidity risk metrics continue to strengthen and Non-Core saw excellent progress in asset reduction.

Quickly running through the financial headlines, the Group's first quarter operating profit of £1.2 billion was substantially improved from a fourth quarter loss of £144 million and it was up slightly year-on-year. Our core operating profit was £1.7 billion and the core RoE came in at 11%. At the bottom line the Group showed an attributable loss of £1.5 billion, largely due to the sizeable own credit adjustment Stephen mentioned of £2.5 billion as our credit spreads dramatically improved during the quarter. Looking at our capital position, our Core Tier One ratio improved to 10.8%, given the underlying profit and further RWA reduction, and our tangible net asset value per share was slightly down at 49 pence due to the own credit adjustment.

Turning to the results of our major divisions, UK Retail had another solid quarter, delivered an RoE of 24%. Our operating profit was up 4% relative to the fourth quarter. We maintained good cost control and impairment trends continue to be favourable. UK Retail continues to grow deposits, which were up £8 billion on the year and £2 billion on the quarter. UK Retail also remains firmly committed to providing helpful banking to its customers. The recently-published 2011 Customer Charter Results demonstrate this progress with 23 out of the 25 goals having been met.

UK Corporate saw a 21% increase in operating profit, income improved 2% on Q4 and costs were kept in check. Impairments was the story here – they were down versus Q4 on fewer single name impairments. RoE reached 16% for the quarter. The UK Corporate Group continues to work to support the UK economy and its customers through a wide array of initiatives, including the Ahead for Business promise. Q1 saw £14 billion of gross new loans extended to UK business.

Citizen is driving its Back to Basics strategy forward by developing the customer franchise, managing expenditure and enhancing credit quality. In the last quarter profit was up 7%, excluding a litigation settlement tied to legacy overdraft practices. Underlying costs were broadly flat and impairments improved further. On an underlying basis RoE was 8.4%.

Ulster Bank continues to operate in a difficult economic environment, resulting in persistently high impairments. Core Ulster impairments were up 20% relative to Q4 to £394 million as the residential mortgage portfolio demonstrated a continued increase in delinquencies and asset values continued to fall. We had been hopeful of seeing a turn in this book but at this point we remain cautious.

Direct Line Group is delivering its transformation programme to rebuild its competitive position while also taking important steps in separation from the Group. Note Direct Line has been assigned an A credit rating with a stable outlook. We successfully issued £500 million in term debt in April which will free capital for capital to the Group. Operating profit there is up 25% relative to a year ago but down quarter-on-quarter due to a normal seasonal increase in bad weather claims along with accelerated marketing costs.

Next, our Markets franchise rebounded with a strong quarter, capturing the increase in market flows and investor confidence while managing down to a smaller balance sheet. Revenues are up sharply from the second half of last year, reflecting strong performances in the rates, credit and asset-backed businesses. Expenses were tightly controlled, producing a first quarter RoE of 21%. The restructuring plan is progressing well with a number of sales of exited businesses having been announced. We remain comfortable with our restructuring cost guidance of £550 million. We are on track with respect to headcount reduction.

Lastly we turn to our Non-Core division. The first quarter saw good progress in asset reduction with funded assets falling by £11 billion to £83 billion. Non-Core's operating loss declined by £800 million due to the non-repeat of Q4 commutation costs, improving credit trends and the better market environment.

Let me turn briefly to the balance sheet. We have had another good quarter of progress across all our funding, liquidity and capital metrics. The Group loan to deposit ratio is now 106%, core is at 93% and customer deposits now represent 65% of our funding base. Our short-term wholesale funding position declined by £23 billion to £80 billion or 8% of our funded balance sheet. This is comfortably below our medium-term target of less than 10%. The liquidity portfolio is prudently set at £153 billion or 1.9 times our short-term wholesale funding. We compare favourably to our peers across each of these liquidity and funding metrics. With the Group capital position remaining strong, we hit 10.8% which reflects the quarter's profit and our RWA reduction.

So, to sum up, the first quarter was another quarter of good progress and further strengthening the Group's balance sheet and we delivered a solid performance from our core franchises in spite of a continued challenging environment. We're particularly pleased with our progress on the restructuring of GBM and with Non-Core's steady execution. The balance of 2012 continues to hold important milestones for the Group. We're very focussed on execution and we expect continued progress. With that let me turn it back to you, Stephen.

Stephen Hester *–Group Chief Executive, RBS*

Thank you very much, Bruce, and let's go straight to questions.

Questions and Answers

Operator

Thank you, Stephen. Ladies and gentlemen, if you would like to ask a question, please press the * key followed by the digit 1 on your telephone keypad. We have a pause for a moment to give everyone an opportunity to signal for questions. Your first question comes from the line of Howard Mustoe from Bloomberg News. Please go ahead.

Howard Mustoe – *Bloomberg News*

Good morning, everyone, Howard Mustoe from Bloomberg News here. I just want to ask, first of all, if you can give us any indication as to how or whether talks are progressing with UKFI about an exit of the government's stake.

Stephen Hester – *Group Chief Executive, RBS*

Our job overwhelmingly, as I've said many times, is to make sure that RBS is in good shape so that other investors want to buy our shares and it's down entirely to the government, through UKFI obviously, to decide whether and when they want to sell. As far as I am aware, there is no desire to sell at current share prices. I find that rather understandable and so while I think everyone is focussed on that being the desired end game, I'm not aware of anything that's imminent on that front.

Howard Mustoe – *Bloomberg News*

Okay. And I just want to ask you a bit about the road to dividend payment as well. Speaking to Lloyds earlier, they mentioned that after second half results they'd be looking to sort of give an indication as to what their plan might be going forward to pay dividends. So, I wondered, you know, for ordinary shareholders outside of government, can you give us an indication as to when they might see dividend payments?

Stephen Hester – *Group Chief Executive, RBS*

Well, what I would say is we are very, very clear that one of the manifestations of the end state of RBS is that we should be a strong dividend payer and the issue is, of course, how we get there and I think that there are two key things that I would point to here. The first is that the FSA has got to be happy with us, as with any other bank, in paying dividends. You can see from the United States that the regulators have been pretty cautious in allowing recommencement of dividends for various banks and so I would think the FSA hurdle is the first one to jump.

My suspicion is that they will want to see Basel 3 in next year and capital ratios of a good level before they agree that. That's a suspicion. They haven't said it but that's my suspicion. And then, secondly, we have the dividend access share which would be a block to ordinary dividends out there which is something that would need to be resolved between the government and the European Union but, again, I don't think that's on today's agenda since we're not through, if you like, the initial gating conditions. But, nevertheless, you know, as I say, we're very focussed on getting the Bank to the point where financially we can and want to pay dividends and then we need to jump those other two hurdles.

Howard Mustoe – *Bloomberg News*

Okay. So, it's going to be at least a year then until you can really start thinking about this sort of thing.

Stephen Hester – *Group Chief Executive, RBS*
Yes.

Howard Mustoe – *Bloomberg News*

Okay. And just finally I just wonder could you put a pound figure on how much government aid you have now repaid in total?

Stephen Hester – *Group Chief Executive, RBS*

I'm not allowed to because there was a convention from all of the central banks around the world that some elements of their support to the banking system not just us were to be kept private, particularly because then other banks who are still on different forms of support don't get embarrassed when banks like us announce that we're not. So, unfortunately I can't give you the full figures. You might have seen Robert Peston last night having a crack at some of them but I can't really go further than that but, as I said, well in excess of £100 billion has been paid back.

Howard Mustoe – *Bloomberg News*

All right. Thank you very much. Cheers.

Stephen Hester – *Group Chief Executive, RBS*

Thank you.

Operator

Thank you. Your next question comes from the line of Matthew Scuffham from Thomson Reuters. Please go ahead.

Matthew Scuffham – *Thomson Reuters*

Good morning. You mentioned earlier that it's early to draw conclusions in terms of the Investment Bank restructuring but can you just give an assessment of the progress you feel has been made so far and how well positioned you think that part of the business is now in its current shape in terms of being a key driver for growth going forward.

Stephen Hester – *Group Chief Executive, RBS*

Well, I'm not sure I can say much more than I did already. I mean, I think the positive thing is that the management are engaged, the new structures are in place, the new management teams and the different pieces are in place, all of the programmes to take out costs have been designed and are in flight, although they're not all executed. That'll take a year and a half or so. The reduction of balance sheet consumption is demonstrably going well and despite all of that, you know, we're doing normal amounts of business with all of our key client bases and have obviously been able to convert that in what was to be a good quarter for the industry as well to a very attractive return on equity. So, all of those are the good things but, you know, I've learnt for a long time in this industry that investment banking revenues are pretty volatile, the first quarter's normally the best, and so I see no point in declaring victory when we're still in the first quarter of the game.

Matthew Scuffham – *Thomson Reuters*

Yes, sure. Given the progress made in the past to recovery and normalisation in the two important steps you've announced today, do you think it's become an imperative for the government to speed up the process of taking you out of nationalisation?

Stephen Hester – *Group Chief Executive, RBS*

Well, here's what I would say. You know, RBS is making progress in our current shareholding manifestation and we recognise that that's our duty, both to our shareholders and to our customers and to everyone who relies on us from a credit standpoint. So, we're getting on with that. I think it is very clear that philosophically there are better things to do with £45 billion if you're a UK taxpayer than keep it tied up with us.

It's very clear that governments are not good long-term owners of complicated national businesses and so I think the incentives are all there for both parties to move toward the exit and, indeed, as we've demonstrated with funding support, that can be something that's a positive for the people who supported us as we pay back that support. But, nevertheless, you know, we must be the first to recognise that there are still uncertainties in the outside world, that's reflected in the share price of all banks, and we still have some heavy lifting to do in our recovery period. So, as I say, we're focussed on what we have to be focussed on. We're very clear what the end goal should be and I think that the government, as far as I'm aware, is willing us on.

Matthew Scuffham – *Thomson Reuters*

Okay. And just following on from one of your earlier answers, did you say it'll be at least a year until there'll be any such sale of parts of the government stake?

Stephen Hester – *Group Chief Executive, RBS*

I have no ability to know when the government will decide to sell their shares and I also have no ability to know what our share price will be at any one moment. So, I don't regard it as an imminent thing as a result of that but, as I say, we're very focussed on getting the business to a shape where lots of people want to buy the shares from the government.

Matthew Scuffham – *Thomson Reuters*

Okay. And in terms of completing the necessary capital restructuring that you'd need before such a stake sale is realistic, would that be a time period of at least a year?

Stephen Hester – *Group Chief Executive, RBS*

Again, I think all of that lies very much with UKFI and how they want to decide to play it. So, you know, obviously we discuss these things but I don't see anything as imminent.

Matthew Scuffham – *Thomson Reuters*

Okay. Just finally, can you give an assessment of the UK macro environment, given the recent descent into double dip recession?

Stephen Hester – *Group Chief Executive, RBS*

Yes. Well, you know, dangerous territory because we can always be wrong but I have to say what we see in the UK is broadly consistent with an economy slightly to the positive side of neutral. I know that's not technically what the GDP figures suggested but, you know, we did see a first quarter that was better than the fourth quarter last year in terms of customer sentiment and so, you know, personally I think that the real situation is a bit better than those GDP numbers showed but it's still pretty flat and, you know, obviously people, whether individuals or businesses, are lacking in the confidence to expanding and are not seeing their order books expand in aggregate, although of course there are some sectors that are still doing pretty well and businesses in general, I think, are in, if you like, a pretty solid position.

The most hopeful signs out there really come from the US where the economic conditions have been stronger over the last quarter. If that follows through – and of course it's an if, not a certainty – you know, tradition would tell you that the UK and then Europe in turn will get a boost from a US expansion and that might make the second half a stronger second half but, you know, right now I would say flat with perhaps positive overtones would be the way that we'd see it.

Matthew Scuffham – *Thomson Reuters*

Okay. Are you fully supportive of the government's austerity measures in terms of bringing us to the point of recovery?

Stephen Hester – *Group Chief Executive, RBS*

Well, you know, I tried, no doubt unsuccessfully, not to get into political commentary but, you know, what I have always said is that, as we can see from Europe, it is... however the UK economy is managed, it is absolutely essential that it's managed in a way that the outside world does not lose confidence in our ability to service our debts and we can see the huge benefits to this economy of not having interest rate panics, of not having funding panics. We're still running a big deficit which requires other people to fund us and so I think, you know, the strong stewardship of the economy from the point of view of the confidence of people who might invest in it is an absolutely necessary precondition to get anywhere.

Matthew Scuffham – *Thomson Reuters*

Okay. Thanks very much.

Operator

Thank you. Your next question comes from the line of Max Colchester from Dow Jones. Please go ahead.

Max Colchester – *Dow Jones*

Hi there. I had a quick question about the funding environment. I was wondering how you guys were seeing that in Europe at the moment and also what you'd done with the LTRO that you had accessed, whether it was just sitting in the ECB still.

Bruce Van Saun – *Group Finance Director, RBS*

It's Bruce.

Max Colchester – *Dow Jones*

Hi, Bruce.

Bruce Van Saun – *Group Finance Director, RBS*

I think the funding environment is still improved from where it was in the second half of last year, although I think it's getting a little jittery, given the situation we're seeing in Europe. Fortunately for us, we've done significant balance sheet deleveraging and we're actually looking to reduce our debt as opposed to take new debt. So, we issued about £2.3 billion in the first quarter and that completes our requirement for the year in terms of our term debt.

With respect to the LTRO, we did take some money under the programme, largely to fund our operations in the Netherlands and in Ulster Bank. That money's been sitting in liquidity and eventually pays off other wholesale funding as it matures. So, it really was an opportunistic play by us to take on some relatively cheap term funding which I think that was the situation with the UK banks, they didn't really need the money but when it was there for the taking, you might as well take it.

Max Colchester – *Dow Jones*

Interesting. I mean, are you guys keeping that large liquidity pool safe in case the environment worsens in the coming months? Is there a feeling that there's sort of clouds on the horizon?

Bruce Van Saun – *Group Finance Director, RBS*

I think it's certainly... In the geopolitical situation we face, it pays to be prudent. So, there's a cost to keeping these high levels of liquidity but we think it's a cost worth incurring at this point.

Max Colchester – *Dow Jones*

Okay. Thanks.

Operator

Thank you. Your next question comes from the line of Adam Jones from the Financial Times. Please go ahead.

Adam Jones – *Financial Times*

Good morning. I just wondered whether you could talk a little bit about Direct Line and this informal expression of interest from Tungsten, please.

Stephen Hester – *Group Chief Executive, RBS*

Well, what I think we can be very clear about is that our intention and the only thing that we're doing is pursuing the IPO. Now, obviously we will always act in the interests of our shareholders and we've always said if someone should come along, you know, with some really attractive alternative, we'd look at it, but as at the moment we're not holding conversations on anything other than the IPO.

Adam Jones – *Financial Times*

Yes. And back in February you were talking about the risks about being turned into the British Leyland of finance. How do you see your kind of car industry parallels right now? More or less like the British Leyland than you were in February?

Stephen Hester – *Group Chief Executive, RBS*

Well, I think that one of the things that I welcomed, although there were many things that were criticised about the budget, was, you know, a strong pro business set of signals and the acknowledgement – and I think this is an acknowledgement that is across all political parties – that Britain will not recover without economic growth and economic growth will not happen without businesses being able to expand and a climate that allows that.

So, I think this is common political territory. We're a huge business in the UK, not just through supporting the UK through our lending but through the 100,000 people that we employ in the UK and the sorts of financial scale we have that we've reported today and so we care a lot about a pro business environment and we will be able to do things like repay the debt that we've just done, improve our share price and all these things that help the UK economy pay taxes, employ people if the business environment in which we operate is conducive to private sector success.

Adam Jones – *Financial Times*

And do you think that the pressure to follow political considerations rather than business considerations has maybe eased a little bit since you made that analogy?

Stephen Hester – *Group Chief Executive, RBS*

Well, I think that we can see everywhere around the world, certainly in those countries that had more difficult, if you like, crises and have had more difficult recoveries, political tensions are high and that's normal and you can see that in lots of other countries and times when political tensions are high you get a gyration that, you know, can ebb and flow around all sorts of issues, including issues to do with business and particularly to do with banks. So, you know, I think we have to be realistic that, you know, some sorts of debate which is not constructive to growth in the economy will nevertheless happen and take place and go in ebbs and flows and we have to, you know, try and ride with that.

Adam Jones – *Financial Times*

Okay. Thanks.

Operator

Thank you. Your next question comes from the line of Jill Treanor from The Guardian. Please go ahead.

Jill Treanor – *The Guardian*

Oh, hi, good morning. Can I just take you back to the very first question you were asked, this point about... you'd said that it would be at least a year until you could take a decision, I think the Reuters correspondent was asking about this as well, was that at least a year before you could make a decision on paying a dividend on your shares. Is that what that answer was, just to be clear?

Stephen Hester – *Group Chief Executive, RBS*

We were talking about dividends on our shares.

Jill Treanor – *The Guardian*

That's right. Cool. I just wanted to make sure I had that correct. Stephen, to ask you another question about your shares, you said not so long ago that investors thought it was dumb to own shares in banks. Has anything happened to improve the investment case for owning shares in banks, particularly RBS?

Stephen Hester – *Group Chief Executive, RBS*

I think that the share prices of banks right across the world but in particular in the UK and Europe and some other economies, you can see that they all trade, or virtually all trade, well below their book value and I think what that is doing, and in some ways surprisingly in the UK, which does have its own problems, and I think that is investors telling us that they are unconfident about the environment that banks currently face into. Now, obviously some of that is about economics, some of that is about politics and regulation and so, you know, all of the above is part of it but, you know, the share prices tell a very clear story and, as I say, surprisingly the UK share prices are among the poorer ones.

Surprisingly in the sense that we don't have the eurozone problems and so I think that tells you, you know, some things about the UK environment as well. So, this is why we make the arguments we do. But, nevertheless, as you can see from our results, we support tougher regulation when it is designed to make banks safer and sounder. We are doing by our actions all the things that will allow us to operate safely and soundly within all the new regulations going forward and we're making terrific progress in those adjustments.

Jill Treanor – *The Guardian*

Sure. And when it comes to lending, could you give a net lending figure to small business?

Stephen Hester – *Group Chief Executive, RBS*

I think that we do give commentary all the time on our loan balances, if that's what you mean by net lending, and, indeed, it's in our reports again. Obviously our loan balances is a combination of people who draw up overdrafts, down up overdrafts, pay off loans, take out loans. So, I don't know if that's what you mean by net lending.

Jill Treanor – *The Guardian*

Well, I just noted you give a gross figure. I just wondered if... I'm trying to work out if you are actually... you know, what volume of loans are being paid back.

Stephen Hester – *Group Chief Executive, RBS*

In our IMS, where we give commentary on all of these things... As I say, I'm not quite sure what you mean by net lending but loan balances are reported in this, which is a version of net lending, although it's not a very controllable number by us because obviously if people decide to pay down their overdrafts or pay down debt, you know, there's nothing we can say about it.

Jill Treanor – *The Guardian*

Okay. Did you not pay...?

Stephen Hester – *Group Chief Executive, RBS*

Well, as an example, I mean, there's different... you can pick out all sorts of different numbers. On page 27 of the release we give the balance sheet of our UK Corporate business which I think might be the area you'd be more interested in, and you'll see our total third party assets were £113 billion down.

Jill Treanor – *The Guardian*

So, it's falling slightly. Okay.

Stephen Hester – *Royal Bank of Scotland – Group Chief Executive Officer*

1%.

Jill Treanor – *The Guardian*

Okay. And just one quick question. Bruce was talking about impairment charges in Ulster and that the hopes of improvement aren't happening there. Can you talk a little bit about what is happening to your Irish loan book?

Stephen Hester – *Group Chief Executive, RBS*

Well, one probably has to think of the Irish business in a sense in two parts. You know, the ongoing bank is serving customers every day and, you know, they're, you know, doing things on their current accounts and we're supporting their business' export and so on and so forth but we're stuck, as all Irish banks are stuck, with a large back book of stupid loans with a very large property content which is making us lose a lot of money and, you know, the Irish economy is still at the fragile stage of recovery. House prices are still going down, albeit much more gently than they were, and so while we are hopeful that provisions in total this year will be below that of last year, you know, it nevertheless clearly will take a little time for the depth of that property-related decline to be recovered.

Jill Treanor – *The Guardian*

Okay. Thank you.

Operator

Thank you. Your next question comes from the line of Harry Willson from The Daily Telegraph. Please go ahead.

Harry Willson – *The Daily Telegraph*

Just a very quick sort of straightforward question to start with. Are you in profit or loss? I'm always sort of slightly confused with your results but you seem basically... To take an example, if you were a dividend-paying bank, presumably the attributable Group number would be the one that you'd be looking at and therefore it's more correct to say that you're in loss rather than profit.

Stephen Hester – *Group Chief Executive, RBS*

Well, look, to be honest, I don't really care about how you attribute... You can describe it however you like, we try and give it you any way you want to. The fair value of own debt charge, which would be the thing that you would call a loss, does not count against capital ratios and therefore does not impact our ability to pay dividends in terms of, you know, do we weaken our capital or anything like that. So, even the regulators acknowledge that there's a non-cash charge. They don't think of it as something that moves capital up or down. So, I believe that the fair representation is our operating profits but, you know, I'm quite happy for you to use another number if you'd like to.

Harry Willson – *The Daily Telegraph*

Okay. And then I just wanted to get a bit more clarity around PPI. This week Lloyds' have been talking about the increase in bogus claims. Have you been seeing a similar trend?

Stephen Hester – *Group Chief Executive, RBS*

Well, I mean, I didn't read it very closely but from what I could see at the statistics that were being talked about by Lloyds, you know, I think everyone in the industry has got similar kinds of statistics. Actually, we would see versions of this and have talked about it a lot in our insurance business, that, you know, the explosion of dubious claims for bodily injury, which has been much commented on, has meant every single person in the country is paying a much higher insurance premium today for their motor car than they should be and, you know, the government is taking action on that, which I think is a good thing because it hurts everyone's pocket. So, it' s not limited to PPI, this phenomenon of claims companies, but, you know, obviously, as it relates to PPI, we recognise that there was customer detriment aside from fraudulent claims and we focus as hard as we can on making sure that genuine customers get recompense.

Harry Willson – *The Daily Telegraph*

A final question on interest rate hedging products. I was just wondering if you had already made any kind of provisions against potential mis-selling claims and what you regard the potential exposure around this issue.

Stephen Hester – *Group Chief Executive, RBS*

Well, just to give you a couple of numbers, we've got 1.2 million small business customers. Just over 5,000 of them only took out interest rate swaps. The absolute overwhelming majority have completely plain vanilla products. So far I think over the last three years there've been a total of 67 complaints to the ombudsman and in 66 of the 67 cases the ombudsman found in favour of the Bank and so, you know, I think in any... the law of any large number is sometimes there are mistakes.

Sometimes, you know, we correct those mistakes with customers when we should and I'm sure there'll be some cases here where that will be the case but I think you can see from the ombudsman figures, which obviously are not our judgement, it's the ombudsman's judgement that this doesn't look like a major issue in terms of mis-selling. Of course, you know, one naturally feels that if people fix their interest rate and interest rates have gone down, you can understand why they would rather, with hindsight, not have fixed it but I think that's a different issue than whether there was mis-selling.

Bruce Van Saun – *Group Finance Director*

I think it also reflects that we had very stringent compliance procedures in place to make sure that any swaps that went to customers were suitable and they understood the terms. So, we had good processes here. That may not be the case elsewhere in the industry but so far our experience has been reasonably good.

Harry Willson – *The Daily Telegraph*

Thank you.

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. Thank you.

Stephen Hester – *Group Chief Executive, RBS*

Terrific. Well, again, thank you very much for your time. You know, as I mentioned, I do think that we're doing the things that everyone needs us to do, in both our jobs, cleaning up the Bank from the past and serving our customers well and better and producing something for shareholders looking forward. It's going to be a testing year, I suspect, on all sorts of fronts but we're facing into that and I hope we can continue to report progress. Thank you, again, for joining. Bye bye.

Operator

Thank you, ladies and gentlemen, that will conclude today's call. Thank you for your participation. You may now disconnect.