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Presenters

- Sir Fred Goodwin
- Guy Whittaker
- Sir Tom McKillop

Sir Tom McKillop: Good morning ladies and gentlemen.

This has been a tricky time for banks and we all have much to learn from the events over the last few months. As you would have seen from this morning's company announcement, the Board is taking decisive action to rebase the capital position of the company, and the key elements of this are a fully underwritten rights issue to raise £12 billion. Estimated write downs for 2008 in credit market exposures of £4.3 billion after tax, £5.9 billion before tax, and possible asset disposals which could generate £4 billion to capital. This has not been an easy decision but it is the right one. It represents a fundamental shift in RBS's position which has previously placed more emphasis, more importance on an efficient balance sheet.

You may also be wondering how our position has changed in such a seemingly short time period. So I would like to take you through the key events.

You are all aware of the problems in the US sub-prime market and how they have led to deterioration in credit markets, particularly from the second half of 2007. The Board has been fully engaged in monitoring the impact of this deterioration on our own business and has met frequently to discuss our plans and to develop contingencies. Following the acquisition of ABN Amro it was our declared intention to rebuild our capital ratios through organic growth and some modest divestments. At the time of the December trading statement we set out our net exposures and markdowns for both RBS and ABN Amro. These write downs were based on the best and latest data available and they used realistic mark-to-market or mark-to-model basis.

At that time the Board also tested the resilience of our plan to rebuild ratios, and we concluded that this was still doable and it remained the preferred route. Recognising that the markets could however deteriorate further I arranged a series of meetings in late January and early February with many of our major institutional shareholders. The main objectives of these meetings was to listen to any concerns of shareholders and importantly to ascertain from shareholders their preferences on capital raising if market conditions did indeed deteriorate further; and the views I received were relayed to the Board and they informed the Board's judgments and decisions, as events unfolded.

Now, as it happened, the overall business performance in January and February was satisfactory. And again, after thorough review we announced our 2007 results remaining in the belief that organic rebuild was still achievable; absent from a significant decline in markets. March, however, took on a very different shape with further severe deterioration in credit markets and a worsening outlook for the wider economy. As soon as this became clear to the Board we immediately initiated actions to explore the possible sale of RBS insurance and then as markets deteriorated further to prepare for a rights issue.

These decisions were not only based on markets in March but also on our judgment of the steadily, worsening economic outlook and the increasingly clear expectation of investors and many others that banks should strengthen their capital base. The Board were convinced that significantly stronger capital ratios were now required in what had become a very different world.

That then is the background to today's announcement. We have taken decisive action to what we are convinced is in the best interest of shareholders. And now I am going to hand over to Fred and Guy to take you through the detail and provide colour around our actions.

Sir Fred Goodwin: Thanks Chairman and good morning everyone. I am very conscious that I stood here not so long ago and yet it feels like a lifetime ago, and a very painful lifetime at that. But as the Chairman has outlined the world has changed and what we are announcing today is our response to that world, and to that changed world.

Now I will just give some more insight into that. You will be familiar with the previous plan, and there is little point in going through the detail now, but I think the important points are that we were aiming, we were on a track which would see us getting back towards 5% in 2010 and when we announced our full year results we were still performing consistently with that plan. As we stand here today and reflecting on the changed world, that just does not feel enough or soon enough for the needs of the Group and that is why we have changed onto another tack.

The market developments the Chairman has referred to, they actually look quite innocuous when you put them up on the slide there, but it certainly did not feel innocuous at the time, they don't feel innocuous now. And I think it is no one of them individually but I think it is collectively coupled with the outlook and I think it is one thing to be impacted by a number of economic events, or market events when there is a positive outlook but while all this was going on there continues to be a deterioration in the overall outlook, and the balance of probability shifted from a preferred strategy on to the one which we were pursuing now, and a fundamental rebasing of the Group's capital ratios.

We are looking to revise it really, it is self evident and you will have seen from the numbers already that we are planning to rebase the Group's capital to raise the proceeds of the rights issue go to lift our core Tier 1 and our total Tier 1, and lead our total capital ratios up materially from where they are today. In arriving at that conclusion the Chairman mentioned we have been speaking to shareholders even in the course of our ordinary investor relations meetings, that capital came to dominate the agenda completely and perfectly reasonably. And so, and looking to make this smooth it was very much within our minds the views of shareholders that they would like to see an increased capital base sooner rather than later in the RBS Group.

The revised capital plan, again built around targeting of Tier 1 and core Tier 1, shifting our range for Tier 1 up to something between 7.5 and 8.5% setting a target for core Tier 1 to be in excess of 6%. Clearly very materially different from where we are traditionally run.   For present purposes we are talking about this on a proportional consolidated basis, that is to say to look through In the fullness of time as we migrate simply to be our capital target, but for as long as we have some of other people's assets on our balance sheets we are targeting the underlying look through basis. And how you express targets of this type; getting to them in 2010 is no use, we want to move decisively towards being in these capital ranges without delay.

The actions that are announced today you have seen these already, I will not dwell on this but the £12 billion flows pretty much straight through into an uplift in the capital ratios; and it gets us to a place where at the end of 2008 on the forecast we have been using; and Guy will talk a little bit more at some of the main ingredients of those forecasts, the big moving parts underlying it, it gets us to a place where our Tier 1 ratio will exceed 8% at the end of the year and our core Tier 1 ratio, again all on a look through basis, exceeds 6% by the end of the year.

Buried within the announcement today and well overshadowed by the main pieces of news is the trading update for the first quarter, it is the first time we have published one like this. The message in there is clear, I think that overall operating performance has remained satisfactory, marks taken to one side, particularly parts of GBM have been affected by credit market conditions; some, in fact, very favourably. Rates and currencies for instance have enjoyed good trading conditions in the main; whereas other parts of the business most obviously credit markets and equities have been considerably subdued during the first part of the year.

Many parts of the business, particularly those away from the UK, have performed smoothly through the period, taking the US and the UK together. We have seen good growth in deposits; personal and corporate. The Group interest margin has come down a little bit; in single digit numbers of basis points but the front book, particularly asset pricing is moving strongly through at the moment, and the environment, the risk premium has returned and there are good increment to be made now on our margin as we go forward. But it will take just a little while to flow through into the overall Group margin.

Overall credit metrics have remained strong, there are some modest uptakes and there are some modest down takes in credit, but overall the metrics have remained strong; and ABN AMRO synergies remain broadly on plan. I think cost is slightly ahead, revenue is slightly behind but we are talking single digit numbers, a million, so really not a material amount.

The outlook, notwithstanding all that has been said about the environment there are business opportunities out there and there are opportunities to be doing business at good risk-adjusted returns and it is also fair to say that any pain that we are feeling is not unique to RBS, a number of competitors out there are severely handicapped by current market conditions and it is making our operating environment somewhat more straightforward. I would cite as an example and it is referred to in the Trading Statement, the UK mortgage market, where a number of players are simply not lending any more. Our volume has picked up materially, our business at very conservative LTVs and very attractive margins, and there are other examples.

The priorities for the Group I think are fairly obvious and fairly consistent with what we were saying for some time; delivering ABN Amro integration and transaction benefits from it. Yes, some of the businesses we've acquired have run into challenging market conditions but there is still a business there and there are still people there, and there are still markets there and indeed the parts of the business, the further away from the UK or the US you get the more opportunity there is in the ABN Amro businesses for us at this moment.

Disciplined management of GBM through a difficult period is an important priority; it is important here and we have no intention of throwing the baby out with the bathwater, but at the same time we are right-sizing the business; business levels are going to be subdued for a period of time which we think they are in some areas, then we will right-size our business, in addition to integrating ABN Amro along with it, segregating some of the difficult assets and for separate management within the division is another activity for us. So this, reducing the balance sheet, bringing down the risk-weighted assets was on the to-do list anyway and market conditions don't make that any easier but there is still an opportunity there and we are moving to reduce the risk-weighted assets on the GBM balance sheets. So, a focus on tight and disciplined management within GBM consistent with the current market context.

The other businesses, I think the name of the game is to maintain the momentum that is there; they are really moving quite well at the moment. We want to, if anything, accelerate that where we can. We also want to leverage the presence we have in the higher growth economies. We have got a range of options for growth at this time, and one of the other upside opportunities from the stronger capital base is that we are able to be out there developing these opportunities without having to look over our shoulder in relation to capital. And obviously as you have heard me talk about before, and exploiting the enhanced global platform, the customer franchise and product capabilities which we have, do give us some real opportunities in an environment where there is less competition around.

So, a challenging period for us without doubt, but still business opportunity out there; a very challenging period for GBM but the business is still moving along.

To give more detail of the moving parts, to the capital ratios I talked about which I think is the key subject for today; I will invite Guy now to come up and to take you through some slides.

Guy Whittaker: Thank you very much Fred, and good morning ladies and gentlemen.

Today marks I think a fundamental rebasing of the Group's capital targets and the Group's capital ratios. In determining these targets and the ratios, there's really five main building blocks that have gone into the capital plan. There is our base case, in terms of what are the assumptions for our business as usual. There is the estimated impact of credit markets and what that will do to our capital ratios. There are a number of gains that we anticipate on disposal, or partial disposal of a variety of assets. There is the outlook for the 2008 dividend and beyond and of course there is the rights issue. Each of these elements has gone in to formulating the plans which Fred and the Chairman have referred to.

The first of those was part of a regular capital planning exercise of re-forecasting the business performance based on current trading period and the outlook for the remainder of the year; in this case it was the 3 plus 9 forecast reflecting the first quarter and our estimates for the remainder of the year. It is an opportunity to reflect on the budget that was put together at the end of 2007 to update and refresh those assumptions for the prevailing economic conditions that exist in the market place; to incorporate known or anticipated risks into that and to allow for them in our financial forecasts. To update the outlook for the business based on levels of activity and margins and spreads, and use that really to reforecast for the Group its income, its profits and importantly its balance sheet. And this is the basis of the plan under a business as usual environment. Of course we know this is not a business as usual environment and the first onto this exercise we have had to overlay the estimated impact of credit market exposures and write downs on those exposures across a number of different areas.

I would like to now just go through some of the elements of our credit market exposure with you.

The first set of assets really relate to those assets which were impacted or are impacted by the US sub-prime market and other real estate related exposures. The combination of estimated write downs in these assets is a cumulative £3.3 billion and incorporating that we have taken a very cautious view of the mark. We have reviewed these internally, we have reviewed these also as part of the underwriters' due diligence and in doing so we have come to the conclusion that our high grade CDOs would come down from $0.84 to $0.52 in the Dollar and the mezzanine down from 70 to 20; you can see the impact on a pre-tax basis on the right hand side.

Other inventory, of residential mortgage backed securities often with more observable and in some cases, dealable prices; you will notice there have been some reduction in volume since the year end as a number of these assets, albeit in relatively small parcels have started to move off the balance sheet. You can see the marks materially lower that are put against those assets. And additionally, we have taken a further mark in our US commercial mortgage backed exposure; so a cumulative impact of these adding to £3.3 billion.

And we have looked at our exposures to financial guarantors or monolines; and we have at this stage a gross exposure of £6.2 billion, that represents the difference between the notional £25 billion worth of exposure and the underlying fair value of those assets estimated at £18.8 billion. We have taken cumulative write downs on those, adding to £2.7 billion of which £900 million was recognised in the 2007 year end accounts leaving us with a net exposure of £3.2 billion. Importantly, of this residual exposure, £2.7 billion relates to Triple A and Double A rated collateral. A further £200 million to Single A and Triple B, still investment grade collateral and less than 10% or £300 million to non-investment grade collateral. There is some more detail by type with underlying collateral on page 12 of the press release; about £6.1 billion of the £25 billion relates to retail- mortgage backed securities and the rest is to other kinds of assets.

In leveraged finance, I think a welcome development, we have seen a little more activity in recent days. At the year end we said we had £8.7 billion funded exposure, we had around £5.8 billion of unfunded exposure; the average mark across those two was $0.96 in the Dollar. For purposes of capital planning we have marked these down to $0.88 on the Dollar and we remain at £8.3 billion in the funded under writing pipeline of £4.8 billion in the unfunded pipeline. Marks on these offset by about £700 million in hedges. Impact cumulatively for this year estimated at £1.3 billion.

So the detail of credit market exposures, those which we disclosed at the end of last year, having a net of around £500 million of gains on hedges against these exposures adds to £5.9 billion on a pre-tax basis or £4.3 billion on an after tax basis which we have used for capital planning purposes.

Any other credit market related exposures and outlook and marks for those have been taken care in the base case and the business as usual re-forecasting exercise. Offsetting the write downs in credit markets are a roughly similar package of expected gains on disposals. This is part of a regular programme of reviewing the portfolio of businesses and assets that we have, reviewing them with the Board and our existing plans have been referred to, incorporated a number of these actions taking place and in fact in some places we are already in quite advanced negotiations with potential acquirers. In the context of this exercise we have recalibrated the scale of those plans and incorporated a whole or partial disposal of

RBS Insurance adding up to the £4 billion overall. There are a number of different ways which this total could be achieved, there are a number of different combinations of assets out there and it is important for all of us that we achieve a full and fair value for anything that is sold.

In terms of the dividend outlook, the intention of the Board is to pay the interim dividend in shares; our current policy is to pay one third of the prior year total dividend and this has been calibrated for the purpose of planning in pence in absolute terms, not in pence per share, given the impact of the rights issue. The current thinking is that a pay out ratio in the mid-40's is sustainable over the medium term although the final decision will be taken in the light of the full year results, but at this stage our thinking in calibrating that is that we would exclude the impact of the extraordinary items relating to credit markets non-recurring items such as gains or integration cost in making the comparison to 2007. There will of course be an EPS and DPS impact based upon the rights issue; it is the Board's intention at this juncture to pay the final dividend in cash.

And finally to the rights issue itself. This is an opportunity to re-base the capital ratios of the Group to move to a new target level of capital which Fred outlined earlier the core Tier 1 look through basis above 6% and Tier 1 in the middle of 7.5 to 8.5% range. We are expecting £12 billion net proceeds from this issue . . . . It's calibrated at 11 new shares for every 18 existing shares at £2 per share and a 34.9% discount to a theoretical ex-rights price as of close of business yesterday. This of course is subject to approval by our shareholders at an extraordinary general meeting which will be scheduled for the middle of May, with proceeds to follow about a month later. The overall impact of this capital plan looking forward will be to lift our proportionate Tier 1, the proportionate core Tier 1 capital ratios to above 5% by the middle of the year, 7.5% Tier 1 and above 6% core Tier 1, 8% Tier 1 at year end and on a fully consolidated basis we expect to be above those targets throughout. For a few closing remarks I'll hand you back to the Chairman. Thank you.

Sir Tom McKillop: Thank you very much Guy. This has as you may imagine, been a challenging time for everyone concerned. Many financial institutions are being adversely affected by the events in the credit markets and face difficult times going forward. Undoubtedly there are lessons to be learned from what has happened and I can assure you we in RBS are anxious to learn those lessons, so that we are even better prepared in the future. It's often in adversity that competitive advantage is won. The Board has acted decisively to re-position the bank for the future. We have outstanding franchises, considerably enhanced following the acquisition of ABN AMRO, whether it's in a geographic spread, client base, or the product range, our priorities are clear and we're all focussed on delivering the full potential of the many opportunities we see ahead of us. The Board recognises that these sums involved on the rights issue, potential mark downs and the disposals are very large and that we're asking a lot of shareholders, but we are absolutely convinced that in the current environment this is the right plan in the interests of shareholders. And now I would invite my Executive Director colleagues to join me on the platform, and we'll take your questions. And if I could remind you to give your name and affiliation for the record before we answer your question. Okay the first hand is here.

Tom Rayner: Good morning it's Tom Rayner from Citigroup here. Can I just ask with reference to slide 6 where you set out the background, what changed to sort of lead you to maybe change your view over your capital position. I look at the market developments, the deterioration in credit markets, I guess we now know the write downs, but you could say that the impacts have been pretty much offset or will be by the gains on the business disposals. The likelihood that markets remain difficult I guess is an indication that the ongoing profitability of maybe GBM is going to be compromised and the reduced forecast for economic growth I guess raises the spectre of maybe downgrading other parts of the business particularly maybe in the UK, so I was wondering if you could comment on the relative importance of those three things you've set out on slide 6, but also maybe add whether there is anything else, such as the regulators role in all of this is there in any sense the regulator pushed you or demanded that such action was taken or any other concerns that aren't mentioned on slide six, if you could comment on that, that will be very helpful thanks.

Sir Tom McKillop: Ok let me say at the outset, this is purely the Board of RBS decision we were not asked to raise capital by anyone so we have to be very, very clear about that. However, as I mentioned in my introductory comment it was increasingly evident that all authorities, all influences if you wish including very importantly our shareholders were recommending to banks that they strengthen their capital base, so I mean it all hangs together, but there was no explicit request from anyone to strengthen our base, but Fred do you have anything to add to that?

Sir Fred Goodwin: I completely agree with that, no request to increase the capital base, but turning to the other part of your question Tom, the market developments, I find it hard to put a percentage on each of these, there is a cumulative effect of them all as we've been moving through if you like the margin for error on our preferred strategy was getting smaller and smaller. The mark downs in March, of themselves, if that had been all, but if these projected mark downs had been all and you could guarantee that these were all, you might end up as you looked out the window there was blue skies and sunshine on all fronts you could say ok, let's just carry on, carrying on, but I think the very fact that we've got into these market conditions suggests that it could happen again, I'm not sure that anyone is making it clear or predicting it's going to end quickly; and so from our point of view both on the risk side, but also on the opportunity side the capital base which we had was simply not appropriate for the world that we now find ourselves in. It's easy and natural to talk about it in terms of the protection which it affords the Group against adversity and that is important, but there is also the aspect of the opportunities which it unlocks for us, there is a danger that banks withdraw from the market and then in the economic outlook that you previously had factored in, gets much worse much more quickly; and we have a good franchise in this country in particular and a opportunity for us to maintain that and develop that advantageously, but to do that we need a capital base which is strong and I think one should depart from the original model, I think going up to a capital target of 5 or 5.5% really would be completely nonsensical, so we wanted to make a quantum leap from where we were before, there is no enormous science around 6 other than the fact that if it is above 6. It is very different from where we were before and it creates much better resilience both in the downside and in the upside.

Sir Tom McKillop: Just before I take the next question, remember that our views on the economic outlook are factored into our forecast the re-forecasting of the 3 plus 9 and that is what forms the basis of the capital plan and the targets and the indications we've given you today.

Tom Rayner: I get a sense on the write downs you've shown in lots of detail and I look at the percentage write down there, they do look quite significant. How much relevance is there….of a sort of kitchen sink in terms of what we might have expected to continue coming through into 2009 and beyond has somehow been pulled forward so that 2008 in terms of the credit related write downs is really pretty much all in; I mean at the full year results I know there were discussions about the £32 billion of assets where there was no observable market pricing, I don't recall seeing any specific mention of that today, but could you just comment on that and then that's it for me.

Sir Tom McKillop: As Fred indicated in his presentation and Guy too; I mean we take…the Board takes enormous re-assurance for the fact that we have three underwriters independently look at their models, look at access to the full data, they have come up with their view on the marks and they are extremely consistent with our own marks and the models we use and so on. The models may be different I don't know the models used by the others, but they all end up in broadly the same territory, that gives the Board enormous re-assurance. Guy is there any point of detail…

Guy Whittaker: No, just on the level 3 comment there is little change; there is maybe £1 to £2 billion more in level 3 assets at this point largely related to some syndicated lending.

Sir Tom McKillop: Yes we'll just go along the row then.

Simon Samuels: Morning, it is Simon Samuels also from Citigroup. I just had a couple of questions actually; the first is just a point of detail, just so we can start from the right position. When we were in this room 6 weeks ago I remember asking Guy what the group's equity Tier 1 ratio actually was, so could I just ask on that proportional basis not the combined basis, the proportional basis, let's say the end March equity Tier 1 ratio is the starting position that we should be doing our calculations from pre-mark downs, pre obviously any asset disposals.

Sir Tom McKillop: The easiest point Simon of 2007 year end which was on a look through basis core Tier 1, 4% and Tier 1 of 7%.

Simon Samuels: Did that move much in the first quarter of the year again pre-write downs?

Guy Whittaker: Pre-write downs - typically we expected a little dip down in the first quarter which will be continued through with the payment of the dividend in April and then rebuild through to the mid year and normal rhythm to see that accelerate in the second half of the year.

Simon Samuels: But the more substantive question was just on GBM's earnings power and I just wanted to kind of bring together various comments that I think I picked up; GBM I think at the end of last year had £580 billion Sterling of total assets, about £150 billion of risk related assets. First of all did I understand correctly that those balance sheet footings within GBM are now shrinking, is that the case?

Sir Tom McKillop: Who wants to take that?

Guy Whittaker: The GBM balance sheet plans for 2008 actually forecast some growth I think as part of this exercise it's in two areas; the risk weighted asset growth has got to be managed very carefully, managed for performance and returns and we spent most of this morning so far talking about risk weighted gearing targets for the Group, but in parallel with this there was also some revisions made to nominal leverage reflecting again some of the feedback that we've had and we are undertaking a programme to bring some of the nominal gearing metrics back down and more into line with sort of more European norms.

Sir Tom McKillop: Johnny...

Johnny Cameron: Of course what is going on is we are integrating ABN this year, and there will be, as there always was on the plan the intention to reduce the combined risk rate assets as we build the two businesses together, so that's in progress.

Simon Samuels: I'm sorry; it's all connected, connected to GBM then. Can you give us a sense of what you think the earnings power of GBM will be in the new world, I mean this is a division that's contributing sort of 40% or slightly more of your Group earnings, it's clearly a division where there seems to have been a significant change in strategy in the last six weeks even. You know, we're talking about balance sheets sort of flat to shrinkage, fairly shrinkage in nominal terms; it sounds like a change in expectations and that business is actually influenced the financial capital raising. So can you actually give us a sense…?

Johnny Cameron: I'll make a couple of points, but I wouldn't say there's been a complete change of strategy in GBM. We remain very focussed on exploiting our customer franchise and working with our customers to grow the business, it's a long term growth strategy. In the markets we find ourselves in today, they are in some parts dull, to put it mildly and credit markets in particular, and we have to adjust to the very precise moment we find ourselves in. The core business though has got earnings growth potential in the medium to longer term. I believe I'm constrained I cannot precisely tell you the first quarter results, which would be the most helpful thing I can do, but I believe I'm not able to say that.

Sir Tom McKillop: Don't be pushed to give any forecasts at this point. Yes, if we could move along.

Sir Fred Goodwin: Just to emphasise that point…we're not throwing in the towel on GBM here, but I think there are some particular business lines which are constrained, you can work out what they are, but there hasn't been a change of strategy as such, but you trim your sails according to where the wind's blowing and that's what we're doing.

Johnny Cameron: Perhaps my final comment is to reiterate what Fred said and what was in the announcement. Yes, some parts of the business have had a very good year so far this year, and I could mention for example that we're number one in the league table for syndicated loans in Europe; we're number five in the league table for investment growing corporate bonds in America, which is a huge step forward for our American franchise. So the franchise and the building of that franchise continues.

Robert Law: Robert Law at Lehman Brothers; I'd like to explore a couple of areas and one question in detail if I may. Firstly, on the disposals, you've given out an indication of the capital gain, can you give us an indication of the cash proceeds you're expecting to generate that gain, and what the businesses that would give that cash proceeds contributed in profits last year; and comment as to why you think it's in shareholders' interest to make these disposals at this stage?

Sir Tom McKillop: Well, I don't think we would want to hand over negotiating power to those on the other side of the table, but Fred would you like to…

Sir Fred Goodwin: I think that's right Chairman. I mean the most obvious one is RBS Insurance and Robert you can probably speculate as to what you think the market value of that business would be, going by the sort of monthly calls we get from people, not to mention the number of calls we've had since this was rumoured last week, we would have expected to receive an attractive price for RBS Insurance and certainly a higher price than is implicit in our own share price. We like that business and we would not countenance its disposal in whole, we may even sell a minority stake in it, so in a partial disposal we wouldn't encourage any of that unless we felt that it was a very attractive price and the indications are that we could get that price.

Other bits and pieces floating around is Angel Trains is a very small part in terms of gain and it's in the market. To the Chairman's point I'm not sure I want to expose the others at this point but there is nothing that…we are talking a few hundreds of millions of contributions in terms of operating profits rather than anything more drastic, and in a couple of instances again, it's a partial disposal rather than a complete disposal so, in trying to give a bit more of a steer, were we to sell all of them we would realise a gain of more than £4 billion. Were we not to achieve gains of £4 billion we would still expect to be in excess of 6% at the end of the year, so there's a safety valve in there and the watch…well we're trying to solve the equation there for not selling anything at an undervalue.

Sir Tom McKillop: I think that's a very important message this morning. I mean all the actions we're taking are designed to be firmly in the interest of shareholders, and we're not going to divest very good businesses at prices that are not good for shareholders. That's the central platform of the whole Board's thinking.

Robert Law: Did you not consider doing a bigger capital raising rather than selling these assets?

Sir Tom McKillop: Well we evaluated a whole range of options and we, I think the solving the equation for a particular mix, I think that's a good model. We've alighted where we feel, where the Board feels is exactly the right point in solving that equation, after a considerable amount of discussion.

Guy Whittaker: I think [if you] invest that capital in other areas for which I think we would see and expect in looking at the various mix amongst the disposals while there will be some recalibration downwards in income and profits with the sale it will allow us to re: a higher growth trajectory over the medium term.

Robert Law: I think the second area was in terms of the write downs you've taken, there's only one question about what's changed. Perhaps I could ask it a different way. There's obviously been a change in the market; there's been change in inputs you would make. Have you made any more conservative assumptions at this point versus where you were when you announced your full year figures rather than in changes in market observables that have gone into these write downs. As a follow up, can you comment how much of these write downs have to do with ABN AMRO assets, and how much have to do with pre-existing RBS assets?

Guy Whittaker: I think, I'm sure you would expect in the context of a capital raising exercise and all the various estimates that go into that, one of the absolutely clear messages that we received is that we must make sure that we raise sufficient capital to meet and be able to operate above those targets, so we have, I think it's fair to say taken a very prudent view in coming up with these estimates, both in terms of the underlying assumptions, where there are not market observable prices, in the case of there being observable but wide prices, a very prudent view of bid levels and the attendant liquidity. As far as the underlying distribution of those assets are concerned to the second part of your question, about one third of the mark down is related to assets which were on the ABN balance sheet at the time of acquisition, around two thirds on the RBS balance sheet.

Robert Law: One more then I'll shut up. You have the Tier 1 ratio on a core basis; can you give that on an ordinary equity basis, excluding minority interests?

Guy Whittaker: No, but I'll get it to you.

Sir Tom McKillop: Okay, next question. Yes, another one. This seems to be the favourite row today.

Peter Toeman: Peter Toeman from HSBC. Does the Board recognise, and I know a lot of things have happened this year, in the last few months, does the Board actually recognise that some of the culpability for this situation rests with them, I mean thinking particularly about the ABN situation, failure to try to renegotiate the price for ABN, which, given that the setbacks in the capital markets were becoming evident just as that acquisition was being sealed?

Sir Tom McKillop: The Board of course accepts responsibility, it supervises the bank, it supervises the management and so on and equally management accept their responsibility for events that were within our control, many of them are externally driven, but yes, of course we accept full responsibility for the position we're in, and we recognise the importance of taking the actions and moving forward from here. So there's no attempt to kind of pretend nothing happened.

Hindsight of course is 20/20 and foresight is a bit more difficult to achieve that score line. So, looking back, we purchased ABN at a point when bank valuations were way higher than they are today. That is very unfortunate, you could call it mis judgment, but that is a matter of judgment. Who would have known what was going to happen and quite the extent of it or speed at which it happened. You can also say that we increased our exposure to wholesale markets, at an unfortunate time, that is true. So we accept those points, but as I indicated in my introductory comments, ABN AMRO combined with the RBS businesses, is going to deliver excellent synergies, synergies that are substantially higher than the original case, and are broadly on track to deliver that. It also is opening up many options for us, many parts of the ABN businesses are performing very well, and are very robust for the economic environment we are in today. They also give us much increased presence in areas of the world where the economic outlook is nothing like so gloomy, and the Board is convinced that going forward, it may take somewhat longer, because of the events that have happened, but going forward we are absolutely convinced that in the long term this will prove to add value for shareholders who hold for the long term. So, yes of course we take responsibility, but there are many positives and we've got to get on and deliver them.

Derek Chambers: Derek Chambers from Standard & Poor's Equity Research. On the mark downs, could you give any indication of to what extent these are relating to the banking book, and if they do relate to the banking book, have you moved from an incurred basis to a mark to market basis on some of those exposures, and more generally on credit impairment, I think you're indicating that the underlying credit impairment charge for the Group level is pretty much unchanged, but you are indicating some problems in part of the Citizens' book. I'm not quite clear from reading it, whether that implies that the overall credit impairment charge is still down ex-Citizens or including Citizens?

Guy Whittaker: The credit market write downs that I indicated refer to assets which are held in the trading book. There is a negligible exposure, small exposure through a conduit vehicle which came back on balance sheet in January for which there's about a provision of roughly £200 held against that in the banking book in the impairment line and that is in the capital plan, absent that, all these assets are held within trading accounts and recognised in those numbers. On the overall impairment metrics of the Group, we continue to see I think a good story coming out of the UK retail sector, overall stability in the corporate book and as you say, actually overall stability across the Citizen's portfolio with the exception of one portfolio broker originated home equity loans which have proved to be of materially worse quality than their Citizen's direct channel originated home equity loans and they were the principal driver of the up tick impairments in the second half of 2007, and that book of business continues to perform poorly, again those estimates and provision for those are fully allowed for in the capital planning under business as usual.

Sir Tom McKillop: Yes, a couple of questions over here, so we'll take the one at the back whose hand went up first. Yes?

Simon Willis: Thank you, Simon Willis from NCB. I've got three questions, if I could. The first one is regarding the comments on the outlook for the economic environment; does the capital planning take account of the possibility of a UK recession or is it based on slow down?

Sir Fred Goodwin: We're basing this plan on a slow down Simon and we don't see a UK recession coming up. The other feature that has been carried over from the previous capital planning regime however, is in the business that is expected to generate capital going forward so whatever capital issue we land up at the end of this year we would continue to generate capital forward from this; so were the UK to turn into a recession and I emphasise again that is not what we think will happen, there is headroom there, depending of course on how bad a recession you would get into, that would keep you above the 6%.

Simon Willis: And just, can I just refer to credit metrics on the corporate side being stable, does that take account of a bigger cushion than you, a material larger cushion than you were running with prior to today's announcement or the end of last year on deterioration in corporate credit metrics?

Guy Whittaker: I think that our original plans envisaged, some increase in impairment over the course of the year, and the revised plans incorporate a slightly higher anticipation of that, but in fact the metrics that we're seeing on the current basis would indicate a continuing stable outlook and we can all anticipate where things have got but that has not yet started to manifest itself.

Simon Willis: The second question is back to GBM and the statement refers to steps to cut costs a greater way than was anticipated at the time of the ABN deal and given the fall in revenues in some parts of that business. How confident can you be that you can cut your cloth this year and can you cut costs to offset falls in revenue in certain parts of GBM?

Johnny Cameron: The way the maths work if you cut costs for GBM clearly mainly about people taking people out tends to cost more or less the same in the year you do it than costs. So we're already talking about an impact in 2009 and having said that the main impact on our head count are the integration savings that we have planned all along for this year, where the cost will fall into integration costs and the savings will appear in business as usual, so that's in plan and will occur.

Simon Willis: And just for the sake of clarity can we be clear in what is included in adjusted earnings per share when it comes to calculating the dividend with regards to the cost of head count cuts in GBM and integration costs and benefit?

Guy Whittaker: With absolute clarity we will see how that plays out, but there has been some acceleration of plans as part of the integration and brought forward some of those costs as the…I think in calibrating the final pay out the Board is planning to look at the performance of the business excluding the one time effect of gains on disposals, the impact of credit markets and the integration charge so you think about a more normalised and sustainable run rate of earnings growth and progressive dividends in 2009 and beyond.

Simon Willis: And the third question just relates to sustainable returns and the outlook for the dividend and the comment on the dividends seems to say fairly clearly that the return on the new capital raise would be less than on existing capital and that is I guess self evident given the write offs and in terms of that outlook when I first read the statement this morning….that you were guiding earnings numbers down from the tone of the comments that you have made now including what you are saying on GBM it seems that that is not the case, could you comment on that?

Guy Whittaker: There is an operating profit consensus that is out there amongst the analyst community and if we felt that that was materially out of line with our expectations we would have indicated so this morning and we would have chosen not to.

Simon Willis: Could you say what you think that consensus was at the end of last week.

Guy Whittaker: Richard is the keeper of the consensus.

Simon Willis: Thank you.

Guy Whittaker: It's around 64 to 65p per share.

Sir Tom McKillop: Just so that you are clear of the Board thinking on this, I mean the Board for a long time has believed in a progressive dividend policy and I would encourage you to think about this as a kind of discontinuity or on whatever curve you are factoring in here. We will try to make this year's numbers as normalised as possible to take off one-off funnies if you want or add in one-off funnies, so that we give a genuine underlying earnings base for the dividend calculation; of course there is dilution from the issue of the new equity on a dividend per share basis. But decisions around dividend going forward will of course be reserved by the Board for the circumstances of the day, but the belief of the Board for a long time has been on a progressive dividend policy; so see this as a discontinuity and I do not know that we can add much more now on that side.

Simon Willis: Okay thank you. Clearly RBS has an excellent long term dividend growth record and the debate grew increasingly through the autumn as to whether RBS among other UK banks should be cutting the dividend in a meaningful way than where yields were and the debate for it seemed to a lot of people that there is no point in cutting a dividend by 10 or 20% if it is going to be cut, it should be cut on a third or a half and that's what yields effectively I think have been saying. The saving that you would make by cutting a dividend very materially would I think go some way to offsetting the need for asset disposals which it seems to me may well be earning a return greater than the new capital raised, could you comment on that?

Sir Tom McKillop: You must see the asset disposals too in the context of a business plan going forward the total portfolio of businesses we want to manage the vision of where we might be taking the bank. The disposals are not an issue forced on us; the Board has been discussing which parts of which businesses fit in our vision going forward, and so they should be and they do it on a regular basis so, don't kind of equate the two. I would also make the point of course, but we this morning have indicated our intention to issue the interim as a scrip and then return it to cash, but that again is something the Board can consider when that time comes. I just wanted to share with you the mindset of the Board on dividend. It would seem a bit odd to me we come and ask shareholders for a very, very large sum of money and then we get our capital ratios up to really robust levels and we want to cut the dividend on top of that. I mean I do not think that makes an awful lot of sense to me sitting here at the moment, but of course the Board is going to reserve the right to look at all these things in the round at the right moment. And now maybe we could take the question from just in front of Simon.

Asheefa Sarangi: Thank you, Asheefa Sarangi from Societe Generale. I was just wondering given the inflated price you paid for ABN and the way the world has changed and the challenges facing GBM, what the likelihood is of a material impairment against the goodwill you paid; that you have on your books for ABN.

Sir Tom McKillop: Fred, do you want to comment?

Sir Fred Goodwin: I think you covered it earlier Tom in terms of your view of the business. We were six months into the ownership of ABN AMRO, the depths of a global financial crisis; I don't think that is the point at which to start making too precise judgments about these things. We will see that we believe as the Chairman described the outlook of the business; the underlying business case remains robust. These are good businesses, the businesses that have synergies with our business and give us new opportunities and improve our franchise going forward. But six months in, I would hesitate to say whether we are in the middle or the beginning of the end a serious global financial crisis; there are many things that look less good that it did a little while ago, and look less good than it will look in the forthcoming, in the future.

Sir Tom McKillop: There is a question at the back.

Leigh Goodwin: Thank you, Leigh Goodwin from Fox Pitt Kelton. I just wonder if you could clarify please for me the strategy now in relation to the US business, and Citizens in particular. Are you explicitly ruling out the sale of that business and at what point do you intend, or do you think you will be in a position where you actually start growing the business if you are not selling it?

Sir Fred Goodwin: We are always in the market to grow our business Leigh we can do that in a sensible risk footing. And Citizens, I don't know how closely you have been following the plan but Ellen Alemany sitting here is sort of an embodiment of the change of what we are doing in the United States. We announced back at the time of our full year results I mentioned the formation of a US retail and commercial bank, bringing together some other parts of our operations in the United States to create an organisation which looks a bit more like the rest of the Group with Citizens, and comes in as part of Gordon's regional markets business. The US is integral to what we are doing, in terms of building an international bank which deals with customers down from the largest corporates down to private individuals. The retail and commercial part of that sits in the business in the United States which Ellen runs and it is…Citizens is absorbed in that, so it is core to what we are doing in the United States and very much core to the Group's plans going forward.

Leigh Goodwin: Okay, thank you.

Sir Tom McKillop: Okay, we will come back here.

Tom Rayner: I just wanted to come back on the ABN given the sort of comments that have been made because if I go back to the full year results I think things that people had concerns about were obviously the capital position, which has been addressed, potential write downs and maybe a lack of detail disclosure on some of those exposures, which again, has been addressed but I think the third issue was the lack of disclosure really on ABN and in particular your share, the proportion or consolidated share that you own both in terms of P&L and balance sheet breakdown. I am just wondering now given that you are asking shareholders for such a significant amount of new equity whether we could not have expected maybe more disclosure on what is being acquired on ABN, exactly how progress has been. I know there is commentary in the text, but in terms of hard numbers we still don't have a lot to base our forecast on, even I don't think we have a proper pro forma with which to sort of base our first half year estimates on. So, I was wondering if you could comment on that whole issue and what maybe can be done about that. Thanks.

Sir Fred Goodwin: Certainly and I think the…I don't know if you have caught up with it Tom but at the back of the press release today there is the pro forma balance sheets there with risk-rated assets and so on in the back to December '07 in the new divisional structure. And we are running the Group through the new divisional structure as we explained in February, and there is a wiring diagram included at the back of the pack which shows how we move chunks of the Group around to get to those new divisions. There is also some P&L data there for, comparatives there for those new divisions and certainly there are things relating to those new divisions that will be helpful going forward. We will produce it as soon as we have got it, to hand them. It is something that Guy and his people are working on. But that is how we are running the business. ABN AMRO activities are already co-mingled in a number of areas with our existing activities; some are the GBM activities are already co-mingled so there isn't an ABN to correspond to the business that we bought, as it is already been broken up and co-mingled with those divisions. So, I would fully accept and sign up there trying to help you with your forecast for what is coming out this year, but it will be through the lines of the divisions through which we actually run the business. I don't know Guy if there is anything you want to add to that.

Guy Whittaker: No, I don't think there is anything. It does reflect the increasing integration of the Group across the elements that were ABN and now distributive within Global Banking Markets, within global transactions services, within Europe and Middle East Regional Commercial banking and within Asia Regional Commercial banking. I think internally we pay attention to and manage those businesses under that structure and the legal entity ABN, which of course is also…has Fortis, Santander and some shared elements to it is something that, whilst for governance purposes we look at the whole; we don't use it in terms of indicators for business performance.

Tom Rayner: The reason I ask is, you're still confident to reiterate the sort of increased revenue and cost synergies you expected. So you're still expecting €2.3 billion versus a division of €1.7billion and the original sort of profit target from those businesses, however they are spread, was also around €1.7, €1.8 billion. And I wonder if you have the confidence to sort of reiterate that, the magnitude of the acquired earning given what's happening out there in the markets; and whether the ROI on the ABN, your part of ABN is ever going to reach what you hope to, when you obviously made the decision to go ahead.

Guy Whittaker: I prefer to come back into this sort of 2010 to see what the cumulative ROI is. I think it would be fair to say the base case ABN earnings, which did of course reflect the then anticipated outlook, particularly around capital markets, credit markets, is certainly lower than was originally envisaged. The markets go down, the markets come back up again, and over the time period I think the deal will certainly leave us much better positioned in our corporate and institutional banking platform.

As far as the synergies are concerned, and like the gentleman who's tracking them, who's in the audience today, every single one of those projects on both the cost synergy side the revenue synergy side is tracked and booked and reported on, on a monthly basis, so we will absolutely be able to give you chapter and verse on our delivery against the original plan.

Eric Halet: Thank you, Eric Halet from Algebras. I have two questions. The first one is for the sake of clarification, in the future when RBS considers making acquisitions is there a commitment from management and from the board that you will not go below the 6% core equity tier 1 ratio? The second question is, in light of what has happened in the last five years in terms of shareholders' returns, has there been a discussion at board level with respect to changing the compensation scheme applied to management, and in particular to introduce something that would tie the growth in net asset value per share to the performance awarded to management.

Sir Tom McKillop: Let me say at the outset we have lots of opportunities right now, lots of options and we are not planning any M&A activity apart from the potential disposals. So let's just put that down firmly. And since that is the case I think it's very hypothetical to talk about whether we'll go below 6% right now on a future acquisition. So I'm just going to park that.

On the compensation front, I'm sure you're all well aware that there is an enormous level of discussion going on in the banking world about the so-called asymmetry in compensation in many areas of, particularly, investment banking. The regulators are talking about whether they should intervene in this, or impose guidance or so on. So this is a very live subject in the outside world with us as a participant of course. It is also a subject that I would think every board in the country talks about regularly, and indeed we go round our shareholders regularly asking for what kind of structures of compensation do you really want.

The big problem for remuneration committees and boards is that the shareholders are frankly all over the place. They have passionate views about how you should structure a plan, and they're not all the same. And to get really coherent guidance on what shareholders want in terms of compensation structure is exceedingly difficult, and I can assure you that RBS remuneration committee and the full group of non-executive directors discussed this matter upside down, and it's a very difficult thing to do, to design compensation schemes that please even the majority of people, so diverse are the views on this. So it's a really tricky problem, and it's one we will continue to work on.

Sir Fred Goodwin: On the 6% thing Eric, just leaving aside what the Chairman said is right of the M&A; we're talking here about a re-basing of our capital ratios so it's not a transient; it's not that we get to that number at the year end and hey ho we'll see what happens afterwards, we're setting that as a target and now for the tier 1 core.

Sir Tom McKillop: Yes, and again we'll come back here.

Simon Samuels: A couple of questions if I can, some follow-ons. I fully appreciate obviously your lead regulator the FSA, it's not explicitly asked you to raise capital, we can all see the comments that Mervyn King in particular has made at the Bank of England, who I know is not your regulator, regarding banks' capital. Could you just, say what the role of the regulator has been in terms of encouraging or cajoling or being sympathetic to the idea of rebuilding capital.

Sir Tom McKillop: Well you know that we have all engaged in close and continuous interactions with the regulators, but Fred, you should take this.

Sir Fred Goodwin: Absolutely, I mean, close and continuous, we discussed with our regulators our capital plans on going forward so it's fair to say the FSA are happy to see us raising capital and encourage us in our plans to do so, but they didn't request us to do it.

Simon Samuels: And has there been a notable change in your dealings with the FSA and I guess to some extent the Bank of England in the last couple of months or so.

Sir Tom McKillop: There's been a lot of running around in meetings as you probably seen on television, but at industry level really Simon more than anything else, in so far as I've had contact with the regulators that's principally around industry issues over that period. You know what they are, the scheme that was announced yesterday has been much in discussion with the banks, as has the general financial situation. And there have been some bilateral meetings around it of course with the Bank of England and the FSA and the principal meetings have actually been with the usual suspects, I would say, from the other major banks who we got together to discuss what can we do collectively and what can we look to the regulator, whether it be the FSA or the Bank of England, to do to help. I think the scheme that Mervyn announced yesterday was very helpful in that regard.

Simon Samuels: And then the second unrelated question follow-on is, I think Guy suggested that you are sort of looking at maybe a leverage ratio test as well, a sort of nominal balance sheet ratio targeting, I think you suggested towards the European system average. Could you just tell us actually, do you actually have a specific leverage ratio target now?

Guy Whittaker: We've not explicitly articulated a target. I think a number of you sort of rightly estimated ratios of around sort of 1.5, 1.4 towards the end of last year. I think this gives us a material opportunity to sort of double that at least as the next step in terms of deleverages and getting up towards 2.5, 2.5 to 3**.**

Simon Samuels: And are you looking at that because the shareholders say you should or because your regulators also looking at that?

Guy Whittaker: It's really driven, I think this is more investor feedback and general concerns, there's not one single capital metric which defines good and sound leverage and I think there is a room for nominal measures as well as risk adjusted measures.

Sir Tom McKillop: Well I've been looking around to see if any of you wants to catch my eye, it seems as though there are no more questions. That being the case, can I thank you all very much for coming in this morning.

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