RBS **22nd April 2008**

Booking Reference: 44690853

Presenters

- Sir Tom McKillop
- Sir Fred Goodwin
- Guy Whittaker

Operator: Good afternoon ladies and gentlemen. Today's conference will be hosted by Sir Tom McKillop, Group Chairman, Sir Fred Goodwin, Group Chief Executive and Guy Whittaker, Group Finance Director. I will now hand over to Sir Tom.

Sir Tom McKillop: Good afternoon ladies and gentlemen, or at least afternoon in the UK, morning to you in the United States. I hope you've had an opportunity to read the company announcement which RBS made today. The board has taken decisive action to rebase our capital ratios. This reflects deterioration in markets in March and also our views on the economic outlook going forward for the rest of the year. The rebasing will increase our core, tier 1, and our tier 1 to levels much more appropriate to the market we believe we are in today. We believe that by year end we will have - assuming the implementation of the capital plan laid out - we will have by year end a tier 1 in excess of 8% and a core tier 1 in excess of 6% by the end of '08. The key elements of the announcement are £12 billion rights issue; that will be 11 new shares for every 18 existing shares at 200 pence per share.

In addition to the rights issue there is the prospect of disposals which could contribute £4 billion to capital. In addition, for capital planning purposes, we have assumed that we may take write downs, in the course of 2008, equivalent to £5.9 billion before tax; net of tax £4.3 billion. These are the key elements together with our views on business going forward which the board has factored into this rebasing of our capital. I think we want to get on quickly to our Q&A but before doing that I would like to hand over to Sir Fred Goodwin to give you an update on how we're seeing business.

Sir Fred Goodwin: Thanks Chairman. Within today's announcement there is also a trading update for the first quarter of 2008. I hope you've had a chance to read through that. In short, the promise of the group and can be reviewed in two parts - there's GBM and all of the businesses apart from GBM. GBM has been affected by markdowns in relation to its credit market exposures and these are set out in detail within the document. In terms of the exposures themselves, they are the same exposures as we had marked at the end of 2007, but you will see that in the context of our capital planning around the rights issue we have put in some very stringent mark downs in relation to the individual asset categories and we are happy to take any questions on that later, but I hope you would agree in looking at them that they are stringent marks and represent - certainly based on contemporary knowledge - a conservative stance in relation to those exposures.

Apart from the markdowns, global banking and markets is affected in the conduct of its ordinary business by what's going on in capital markets, both positively and negatively. Positively in rates and currencies where business activity has been strong in the first three months of the year contrasted with credit markets and equities, for instance, where they have been quite subdued during the first part of the period. There is a lot going on in GBM so it is by no means a downcast outlook but it is impacted by some business activities that are somewhat subdued at this time.

As we turn to the rest of the group, the other business divisions are performing satisfactorily. If you look at the trends which were evident in 2007 you would find these, pretty much all, reflected again in the business performance of the divisions for the first quarter. Credit metrics remain strong at group level. There are one or two small upticks and one or two small downticks in terms of credit costs but at group level the overall credit metrics are stable. The ABN Amro integration plan is on track, the synergies are on track slightly ahead on cost synergies, slightly behind in revenue but both in single digits numbers of numbers of millions.

The operating outlook, notwithstanding challenging market conditions, we are seeing a risk premium return and we're seeing a number of more aggressive competitors stepping back from the market. So we've got a number of good business opportunities in front of us, both in our home market here in the UK but also in other parts of the franchise, most notably in Asia where post the ABN Amro acquisition there are considerable new opportunities. I'm very happy to take any more questions on that as part of the general Q&A but I should probably stop now and open things up for the general Q&A.

Operator: Thank you sir. Ladies and gentlemen if you would like to ask a question, please press the * key followed by the digit 1 on your telephone key pad. We will pause for a moment to give everyone an opportunity to signal for questions. We will take our first question from Robert Webb of Ontario Teachers. Please go ahead.

Robert Webb: …speak about potential opportunities or lack there of for declines in risk-weighted assets as part of this increase in tier 1 and core tier 1. Thank you.

Sir Fred Goodwin: At the heart of what we're talking about today, Robert, is a rebasing of the capital ratios, so the new capital goes in almost entirely to increase the capital ratio. So obviously if we were to start gearing up dramatically with more risk-weighted assets that would bring the capital ratios down again, so that is not the intention of what we're doing. In relation to risk-weighted assets generally there are a number of different moving parts and the business is continuing to grow. At the same time post the ABN Amro take over there are some activities to reduce both nominal and risk-weighted assets in our balance sheet. Clearly market conditions make that more difficult in some areas rather than others, but we have embarked on a programme of reducing nominal assets on the balance sheet and reducing risk-weighted assets. Net, I think we would expect to see a progressive and small rise in risk-weighted assets during the course of the year consistent with underlying business growth. So there is no worry – we are not raising this capital to go out and blast it on risk-weighted assets.

Robert Webb: Yes, perhaps I mis-spoke, I guess what I was looking for was a sense of what potential decline you were looking for in risk-weighted assets, if any, and it sounds like you are looking for a small rise in risk-weighted assets instead.

Sir Fred Goodwin: Net, I think we would be looking to shrink parts of the balance sheet, obviously, at risk-weighted level and we'll be looking for a bigger reduction in nominal level where the balance sheet you saw at the end of December 2007 was basically just banging together ABN Amro's balance sheet and our own. That was always on the to-do list to start to make that balance sheet look more coherent and rational as part of a single financial institution rather than two financial institutions' balance sheets pushed together. Progress through that has been slower than we would have preferred, given market conditions, but we are making headway in that with an attendant RWA consequence.

Robert Webb: Has return on the RWA hurdle changed meaningfully as a result of the need across the industry to hold more capital relative to RWAs?

Sir Fred Goodwin: Yes, I mean it's gone up both to reflect, well it depends on the risk – not all categories of risk-weighted assets need more capital as a result of Basel II but, more important I think the risk premium goes up. Funding costs more and our perception of risk is heightened also so our hurdle rates have gone up to reflect all of those factors.

Robert Webb: I guess what I'm wondering is – if the hurdle has gone up, fairly meaningfully it seems, shouldn't there be a lot of marginal risk-weighted assets that should be reduced over time to therefore increase both the marginal and, therefore, the average return on risk-weighted assets?

Sir Fred Goodwin: I think as things flow through, Robert, what's likely to happen – you know some business may well go away because of the higher hurdles but what we're actually seeing, which I think in its own way is quite encouraging, is customer recognition that they're going to have to pay more for money and they would've paid a year ago. So one of the comments I made in an earlier conference call was that our margin has gone down at group level, very slightly, in the first quarter reflecting increased funding costs but to offset that we are seeing improved pricing on the front book, but it takes a while for that to work its way through. A lot of what's on our balance sheet isn't immediately repriceable but through time it is. The trick will be, as we put our hurdle rates up, to put them up enough to get proper rewards so that we force proper rewards for the risks that we are taking and the funding that we are providing without losing market share and becoming un-competitive, but all of the signs at the moment are that all of the banks are putting their hurdle rates up.

Robert Webb: Okay thank you.

Operator: Once again ladies and gentlemen, if you would like to ask a question please press the * key followed by the digit 1 on your telephone key pad. We will take the next question from Armot McDermott of New York Rights Investments. Please go ahead.

Anne McDermott: Oh good morning. I was wondering if you had any timetable for when the debt associated with ABN AMRO would be distributed to the other consortium members and how that would work out?

Sir Tom McKillop: Guy, do you want to take it?

Guy Whittaker: Yes thanks, and the restructuring plan would call for the debt associated with the Anton Veneto balance sheet to go to Anton Veneto and that is scheduled to be a second quarter event. The debt on the Banco Real balance sheet will go to Santander and that will be scheduled to be a second half event. The distribution of outstanding securities between ourselves and FORTIS for the residual balance sheet is really scheduled for a 2009 event, and at this stage, there will be a distribution of those by issue, by degree of seniority and subordination including both the unsecured and actually some of the secured funding, but I couldn't give you a bond by bond issue of who is getting exactly what, at this point.

Anne McDermott: Well no, that's fine, I was just wondering for the…sort of the timetable. So we can adjust limits and what not.

Guy Whittaker: Probably mid/late 2009 event.

Anne McDermott: Okay, great thank you very much.

Operator: Once again ladies and gentlemen, if you would like to ask a question please press the * key followed by the digit 1 on your telephone key pad. We will take our next question from Brad Davis of Federal Investors. Please go ahead. Thank you, please ask your question Brad Davis of Federal Investors.

Brad Davis: I was just wondering if you could comment on the dividend? With the rights issue I would think that the payout ratio is quite high. Thanks.

Guy Whittaker: I think it’s fair to say that the payout ratio could be higher during 2008. It has a sort of transitionary feel about it, I think. The board have taken action to raise the payout ratio to the mid forties percent over the last couple of years and believe that to be a sustainable rate. The precise payout ratio in 2008 will obviously be a function of, firstly, the business performance, and secondly, the impact of the credit market write downs and, thirdly, the impact of gains on disposals that we announced today. But I think in, sort of, calibrating the payout ratio, particularly for those investors that are looking for as much stability in the income and a progressive dividend policy, we’ll look to the underlying business performance at the year end to calibrate exactly what the final dividend is and we would exclude the impact of those unusual items, so there could be a little bit of volatility upwards, in terms of payout ratio in 2008 with that normalising in 2009. I think for the medium term our estimates are based around a payout ratio in the mid forties.

Brad Davis: Thanks

Guy Whittaker: You’re welcome.

Operator: There are no further questions at this time, thank you. Please continue.

Sir Tom McKillop: Well thank you very much. If there are no further questions at this point we will end the call, but I would invite you to make contact with any of us – our Investor Relations Department, if you have further questions for us. Thank you very much indeed. Thank you.

Operator: Ladies and gentlemen that will conclude today’s presentation. Thank you for your participation. You may now disconnect.