ANDREW MARR:
The Royal Bank of Scotland - 83 per cent owned by me, and by you and by all the other taxpayers - has been in the spotlight again following the announcement of its annual results with losses of £2 billion. In RBS terms, that's actually quite a small figure. Its balance sheet was once much bigger than the entire UK economy, so its crash was spectacular and only a huge injection of public money saved it from becoming one of the biggest corporate failures in history. The RBS Chief Executive Stephen Hester’s become one of the public faces of banking in this country, and when we met we talked about the challenges facing an industry which many people now revile. But first, we discussed his five year plan to clean up RBS.

STEPHEN HESTER:
Effectively we’ve got two different jobs at RBS wrapped up into one. The first job is to run a huge but normal bank competing against Barclays and HSBC serving 30 million customers - you know a pretty big job in and of itself, but that’s only one of our two jobs. The other is to take what I’ve described as the biggest time bomb ever put on a bank balance sheet and dismantle it safely, and to do that whilst removing the danger to the British economy and to RBS itself.
ANDREW MARR:
And in terms of removing the stuff you don’t want - the gelignite from the time bomb - you’ve taken out a little bit more of it at this stage than you thought you might have done?

STEPHEN HESTER:
That’s right. So actually across both jobs - the good bank where the government has got £45 billion and the bad bank where we’re trying to defuse the time bomb - we’re ahead of where we thought we’d be at the end of three years. I’m afraid that also says that we started in a very deep hole that we’re digging out of because the job is clearly not finished; and there’s a kind of Alice in Wonderland feel to this that ironically the faster we go, the bigger the losses are but you are avoiding losses in the future which would have come if you hadn’t dismantled it.

ANDREW MARR:
What kind of bank would you like RBS to be at the end of this process? I think you think it may take a little bit longer than five years to get there now, but would you want it to be what most people watching would see as an ordinary bank whose job was to give mortgages to ordinary people and small businesses and to lend money to businesses and help them to make money for other people?

STEPHEN HESTER:
I want it to be a really good ordinary bank.

ANDREW MARR:
Yeah.

STEPHEN HESTER:
So it’s got to start with doing a great job for our customers. All businesses have to do that and all businesses say that. We have to make sure we really do do it. And then we have to be valuable because £45 billion is a lot of shares that we have to persuade other investors to want to buy from the government, so we have to make good profits as well.
ANDREW MARR:
Now in terms of my 45 billion that I’ve put into your bank, what do you think my chances are of getting all of that back?

STEPHEN HESTER:
I believe that RBS will recover, we’re well on that route, and that there will in time be good opportunities for the government to sell its shares and get the money back.

ANDREW MARR:
Because it has been argued very recently by Lord Myners and others that it would be better for the government to accept a loss on that 45 billion and start to move the shares off into the market rather than carry on an endless process of great sort of political focus on this particular bank.

STEPHEN HESTER:
Well I certainly think that the sale of the government shares will take quite a few years and have to happen in several different bites because the amount is simply too much to do in one go. And so it’s natural that the first price at which you sell will be lower than the last price. Over time, each time you sell hopefully you’ll sell at higher prices and what obviously matters is the average across a whole exercise rather than where you start.

ANDREW MARR:
So the first lot may go at a loss to start with?

STEPHEN HESTER:
It’s the government’s job to decide at what price they sell. It’s my job to try and create an investable proposition out of RBS, that there are people who actually might want to buy these shares. I do think that the first sale by the government will increase the value of the rest of the holding because investors when they see that the government is actually selling, when they see that RBS …

ANDREW MARR:
(over) More confidence.
STEPHEN HESTER:
… is again a private sector company being run in a way that investors would want it to be run, I think that will give them confidence and help the whole thing, and help RBS.

ANDREW MARR:
What do you think now about Fred Goodwin? He created the time bomb that you are defusing.

STEPHEN HESTER:
Well and he must take his share of accountability. But I also think that there is often over-demonisation in British public life in general and I think that we have to understand that the recession of 2008 was global, it was caused by many mistakes in many sectors of the economy - in fact by economic mismanagement as well as by banking mismanagement - and so there were many cooks in that particular kitchen and Fred is not the only one.

ANDREW MARR:
And yet there was this mood of swagger and hubris at the time in the banking. There was a sort of madness in the system, wasn’t there?

STEPHEN HESTER:
Well actually we could say the British economy had some of that because we thought that we were expanding and we’d abolished boom and bust and so on and so forth, and it turned out not to be the case. So the same for banking and that’s why there are a series of cultural changes that need to be made in banks as well as of course important financial reforms.

ANDREW MARR:
Do you ever speak to Fred Goodwin? Do you talk to him about this?

STEPHEN HESTER:
I haven’t, but I don’t have … You know I think it’s … I don’t have anything against
Fred.

**ANDREW MARR:**
Everybody else does.

**STEPHEN HESTER:**
My job is to look forward.

**ANDREW MARR:**
The investment side of your business. Bonuses went down by roughly speaking a quarter or total remuneration went down by roughly speaking a quarter, but their losses doubled. What is a bonus?

**STEPHEN HESTER:**
Well actually profits went down.

**ANDREW MARR:**
(over) Yes.

**STEPHEN HESTER:**
So they were still 1.6 billion. They went down. And so of course if profits go down, bonuses should go down, and they did.

**ANDREW MARR:**
But should there be any bonuses if profits go down because you know in most people's world a bonus is something you get for extraordinary achievement - you know you have done something very special - and it seems to an awful lot of people out there that bonuses in the world of banking is something at a certain level you get simply for turning up?

**STEPHEN HESTER:**
Throughout society, not just in banking - the amounts of money I accept are higher in banking - people are paid incentives. If you sell encyclopaedias, you might be paid more if you sell more encyclopaedias. And so there are pay structures built up to have
good people who will do the two jobs we’ve got and then to pay them if you like the rate for the job. I need to make sure that there is a good linkage between success and pay and I’m determined to do that.

**ANDREW MARR:**
You don’t fear an anti-business, anti-banking mood in the country being picked up by politicians hitting highly paid people heavily enough so that they don’t come to this city and they go and live and work in Geneva or New York or wherever instead?

**STEPHEN HESTER:**
Well, look, I do fear that. You know I think that - and we’ve seen it in some of the controversies around RBS - I think there is a real risk that this country forget that job number one is to get the economy growing, and only when we’ve done that should we be squabbling over how to divide up the proceeds of that growth.

**ANDREW MARR:**
What about, returning to politics, the Vickers Commission’s proposals to break up banks. Are you concerned about that because that’s going to have a radical effect on the shape of banking in this country?

**STEPHEN HESTER:**
Well I would say two things about this. It was very clear back in 2008 - and of course sitting on top of the biggest if you like exploding bank, I see this particularly clearly - that banks needed fundamental reform, and the most important thing is to make banks not too big to fail, to stop the too big to fail worry and argument. The Vickers Commission in a whole range of its proposals contributes to that positive direction. There are some things in the Vickers Commission, I don’t agree with, I think don’t contribute to the argument and will make banks less valuable without increasing safety …

**ANDREW MARR:**
*(over)* Such as?

**STEPHEN HESTER:**
… but the topic as a whole, the topic as a whole of making banks safer, even if it costs banks money, is in society’s interest and we should do it.

ANDREW MARR:
Robert Peston who knows a thing or two about these things, I understand, says that … on his blog he said that in the end the verdict on RBS at the moment is they’re not going to bankrupt us again - you know that’s good news - but we probably won’t get back the full value of the 45 billion that the taxpayer has put in.

STEPHEN HESTER:
Well Robert’s very wise and I will disagree with him as to only 50 per cent. I do think that the taxpayer can get its money back. It will be longer and harder than I had hoped - that’s a function of the economy being more difficult and new taxes and new regulation and so on - but that’s what we’re focused on and I think it’s really important for this country we succeed.

ANDREW MARR:
You’re obviously a tough fellow. Do you regret taking on this job given the huge public exposure it’s put you under?

STEPHEN HESTER:
I hate the public exposure - I wish I wasn’t sitting here talking to you (Marr laughs) or feeling that I needed to. But in the end, I got where I did get in the business world as you say by being determined, and I’m very clear there’s a prize out here. It’s a prize for the country, but it’s also for me - recovering RBS.

ANDREW MARR:
And at any point did you really think about throwing in the towel?

STEPHEN HESTER:
Sure, lots of times. But in the end …

ANDREW MARR:
(over) You go home and you think I just can’t take much more of this?
STEPHEN HESTER:
Yeah, but you know lots of people have disappointments in life and difficult … I don’t set myself apart in some way. I have mine, other people have their own. I have decided, at least as it relates to this latest episode, the most constructive thing is to prove the critics wrong, help RBS to recover, and I think that’s to everyone’s gain.

ANDREW MARR:
You didn’t throw in the towel. You have your towel still. Are you going to see this through?

STEPHEN HESTER:
I hope so.

ANDREW MARR:
Stephen Hester, thank you very much indeed.

STEPHEN HESTER:
Thank you.

INTERVIEW ENDS