RBS Conference Call
Moderator: Sir Fred Goodwin
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09:00 BST

Operator: Good morning, ladies and gentlemen, and welcome to today's RBS conference call. Our speaker today is Sir Fred Goodwin, Group Chief Executive, who is accompanied by Guy Whittaker, Group Finance Director. Please go ahead, Sir Fred.

Sir Fred Goodwin: Thanks and good morning, everyone, and thanks for taking the trouble to dial in this morning. As you know we put out our pre-close trading update today and I'm sure you all have had a chance to read it. It's almost a fairly challenging process this, in trying to describe in words without any figures what we expect interim results to be, but I hope that you would see from the release a pretty clear message, which is that 2006 is progressing well. The metrics across the Group are all looking pretty satisfactory and we expect to be able to deliver results which are fully in line with expectations. There are no hidden surprises or secrets, or I think we think confused messages here. It's a very straightforward set of messages, a very good performance against our metrics and 2006 progressing well. So probably the simplest thing I can do now, is turn over to you to try and answer your questions, and Guy and I will do our best to do that and if there's anything that we need to follow up, then we'll do that later in the day. So on that note, if we can go to the first question please.

Operator: Thank you, Sir Fred. Ladies and gentlemen, if you would like to ask a question, please press the star key followed by the digit 1 on your telephone keypad. We will pause for just a moment to give everyone an opportunity to signal for questions. Today's first question comes from Simon Samuels of Citigroup. Please go ahead.

Simon Samuels: Hi, good morning, it's Simon here at Citigroup, a couple of questions if I can. First of all, I was wondering if you could just elaborate a bit further on the comments about the revenue trends being strong within the Corporate Markets division, and particularly calibrating it against the 22% revenue growth that division enjoyed last year. So what I'm particularly interested in is how this year is panning out relative to the growth rate last year, and particularly within some of the things like other operating income, there were some very big lumpy items last year and the repeatability of those. And then there's a separate unrelated question.

Sir Fred Goodwin: I guess that one of the dangers today, Simon, is being sucked too far into the sort of detailed, you know predicting percentages arena, but I think the message we're giving is that there is good growth and particularly in the Global Banking and Markets part of Corporate Markets. And I don't want to say anything to detract from that observation. There were some lumpy items last year but in the nature of that business, there tend quite often to be lumpy items. One of the features that you know about that business is that we don't really get involved in proprietary trading to speak of and so the results of the business tend to reflect the business that we do for our customers. I think our income is less volatile than many, and it's less likely to be as spiky as some. So I think when you see the numbers you'll be quite happy, but I don't want to get drawn into "is it more or less than any given percentage".

Simon Samuels: Ok, right thank you. And the second question is on the Citizens division, again just looking at the comments about the business activities, seeing good growth, but constrained by the flat yield curve, which is obviously a continuation of the trends we've seen before. I was wondering if you could just give us some sense of, if you like, the respective sizes of those revenues pots; so does one directly offset the other, is the flattening yield curve kind of the bigger item or the less important item. And then particularly, assuming the yield curve just stays where it is now, so having had a flattening process, what's the incremental P&L damage still to come?

Sir Fred Goodwin: Well I think, depending on what the yield curve does, will depend how the market responds to it, so I don't think it follows that a flat yield curve is the end of the world as we know it, in terms of our ability to generate growth and revenue. We've got essentially a flat yield curve in the UK and we do very nicely, thank you, here. So the flattening yield curve I'm not sure we'd be signalling any dramatically greater impact in Citizens, other than fact of flow through into a full year effect from a part year effect, last year. I'm looking at Guy, nodding at me we don't think, other than that.

Guy Whittaker: No. Yes, I think the message in there is that the business is expected to continue to grow. But what we're seeing is volume growth in terms of new business and in terms of expanded numbers of customer relationships and the initiatives that we've got there in SME banking and improving the Charter One branch productivity. All of those are feeding through into growth but the profitability of that growth given the competitive environment is, or the growth in profitability, is slightly lower than the growth in volumes at this point in time. So I think we're trying to say the underlying business is continuing to progress well. The franchise is continuing to work effectively, but the competitive pressures in the US are such that income growth will be slightly lower than that in business and volume growth.

Sir Fred Goodwin: Similarly, what you'll see will be much different from what you're seeing from the other US regionals, Simon, and the fact that the volume, the underlying volume performance is very good, particularly in Charter One.

Simon Samuels: Ok, great and I know I said there's only two, but just a sneaky third one, just very quickly, on the margin commentary talking about the trends being in line with what you said in the results presentation in February, just kind of checking back on the transcript, I think Guy at the time of the results was talking about, what the actual transcript says, ‘lowish double digit basis point decline in the full year margin for '06, I just want to confirm just for the record that is the number that you are saying you're in line with.

Sir Fred Goodwin: Who better to confirm it than Guy?

Guy Whittaker: Yes, I think we had a couple of questions on that one, it probably would have been more clearly written: ‘net interest margin is in line with the guidance given at the results presentation in February.’ That happened to be slightly lower by those low double digit basis points you referred to and we still stand by that.

Simon Samuels: Ok, thanks very much.

Sir Fred Goodwin: Ok.

Operator: Today's next question comes from Tom Rayner of Citigroup. Please go ahead.

Tom Rayner: Good morning, Fred.

Sir Fred Goodwin: Hi Tom.

Tom Rayner: Hogging the questions as always.

Sir Fred Goodwin: I know he's so predictable isn't he?

Tom Rayner: Could I just ask you for a bit more clarity on the commentary on the credit situation, just so I understand on the impairment growth against the loan growth. I'm assuming this is period end balances we're talking about, could I just check as well, whether that's including or excluding repos, because the '05 growth rates were quite different, whether or not you included or excluded the repos.

Sir Fred Goodwin: Yes, well maybe if I give you a sense of what's happening comment: it remains really a story of three parts. Everything to do with corporate credit remains at a very good level, in a very – I think the word benign gets used from time to time. Consumer credit outside of the UK, credit quality remains very strong. No new news there. Consumer credit quality in the UK, I think we're seeing a rise in credit costs at the moment which correlates very well to growth in the book, you know 18 months to two years ago, so again its what you would expect to see in the ordinary course, and no more or less than that. So that to us feels like a pretty satisfactory outcome. I see your question about whether you should include or exclude repos, you would exclude repos.

Tom Rayner: Ok. And just on the second part, the Retail Markets, I mean you're talking about volume growth in personal unsecured loans as being the driver, but could you say anything about SMEs and also on the mortgage credit quality, because that's an important part of the retail story as well. And when you say seasoning of these portfolios, I guess that does mean the basis points charge for this year is rising, is that a fair interpretation?

Sir Fred Goodwin: No. Let me go back to the first point, I mean the growth, the retail performance has been dominated more, I would say by the growth in savings and investments rather than unsecured lending, if anything, the move has been, continues to be away from that. A transition we saw beginning in the first half of last year has continued. Credit quality in SMEs is fine; no new news there. And mortgages are still very good, I mean I know there are some metrics going about, about number of repossessions and so on, but they are still microscopic. I'm not even sure of the number of repossessions could get into three figures, across, you know such a tiny number, and the sad reality is that the property market is still sufficiently buoyant that you know sometimes when these happen the bank gets out. The average LTV of the book is still below 50%, so you know the credit quality and the credit problems in mortgages are a non-issue.

Tom Rayner: Ok, thanks a lot.

Sir Fred Goodwin: Probably the point, the observation we're making about credit quality at Group level has been an improvement, all improvement in the overall metrics.

Tom Rayner: Yes. Ok, thanks a lot.

Operator: Our next question today comes from Stephen Andrews of UBS. Please go ahead.

Alastair Ryan: Thanks, it's Alastair, actually I'm dialling in on Steve's line. Can I just ask you a little bit of clarity on revenue momentum in UK retail, I mean the bank and Retail Direct together? Because its really a story of two halves last year quite slow in the first half and a meaningful pickup in the second half, I think 4% and 6%, and just for us to understand where your guidance is relative; are we running more or less in line with where we were at the full year of the first half last year or have the cost cuts that that you had put through in the second half last year, stalled the income growth at all in those businesses.

Sir Fred Goodwin: Yes, I mean I think the first half of last year is something you would probably put in a box, Alastair, and sort of hermetically sealed as a transitional effect of the full aspect of the transitional effect. For this first half, you should be looking more to the second half of last year for your guidance at that point, than the first half.

Alastair Ryan: Thank you.

Operator: Today's next question comes from Jonathan Pierce from Credit Suisse. Please go ahead.

Jonathan Pierce: Good morning.

Sir Fred Goodwin: Hi Jonathan.

Jonathan Pierce: I just wanted actually to get some clarity on your comments on expectations. You say there that the interim numbers are anticipated to be in line with expectations. Can you perhaps tell us what those expectations are, I was surprised there were actually any interim forecasts out there at the moment and perhaps if you could expand a bit more on whether you're comfortable with full year expectations, where I think earnings is about 189.9p?

Sir Fred Goodwin: Would you like me just to tell you the numbers, Jonathan? That would save a lot of trouble.

Jonathan Pierce: It was more just trying – I mean just trying literally to understand what your comments are in reference to.

Sir Fred Goodwin: I think our comments are in reference to what we understand the consensus out there to be. The full year consensus seems to be floating around 8.9, excluding some amortisations and so on; the full year's level somewhere between 188 and 189p.

Jonathan Pierce: Ok, that's great. It was really just to clarify that it was the full year number. Ok, and then secondly just briefly on Citizens, I'm not sure whether you can give us any more information on top of the answer you gave to Simon, but in sterling terms, I was wondering whether we'll see any income growth in Citizens at all this year? I mean, understanding the comments you've made in dollar terms, I was wondering whether you were signalling anything in sterling terms.

Sir Fred Goodwin: Well funnily enough, the first half is helped by the [dollar], because although the dollar's weaker now it was stronger during the first part of the period so, the first half numbers are not disadvantaged in that respect; the second half, if you can tell me what he dollar's going to do, I'll tell you what it will do to Citizens' results.

Jonathan Pierce: All right, thank you.

Operator: We now move to Peter Toeman of HSBC. Please go ahead.

Peter Toeman: Morning, Fred. I know you said at the beginning of the call that you word the statements very carefully, but I noted that last year you talked about the overall income growth as being strong, this year you talk about, I think, overall group income growth being good. I'm sure those adjectives have been chosen very carefully and I'm concluding from that that the pace of revenue momentum in the Group overall might be slower than the double digits you achieved in 2005. Am I right?

Sir Fred Goodwin: That would be for you to assume or surmise, Peter, and for me not to comment on. And I wouldn't – I think I said at the start actually that we find this a very frustrating process. I wouldn't read into quite that degree of drama. The other thing worth remembering is that of course last year included an acquisition effect of the Charter One business. We only had one third of the year in, in 2004, with the full amount in last year. In fact the first half last year we didn't have any Charter One – we had no Charter One in the year before, in a full first half, in the numbers you're talking about. So I wouldn't really have come to the conclusion you've reached in comparing the underlying organic last year with the numbers we were talking about just now.

Peter Toeman: So you're saying that the underlying organic 10% that we saw last year might actually be a similar outcome for the first half.

Sir Fred Goodwin: I'm not getting into – you know my enthusiasm for discussing actual figures at this point. But just to take you to a place, that said last year – you were highlighting a contrast between the word 'strong' and the word 'good'. The 'strong' word last year applied to income growth which included, effectively, a full effect of a Charter One acquisition versus nothing the year before. So that would, to my mind, reconcile the difference between any differences between those two words. I think the statement we are showing you here today, is trying to point you towards underlying organic – it's not underlying, it's straightforward organic growth here, which you'll find to be, I think, very satisfactory and fully in line with expectations.

Peter Toeman: All right, thanks.

Sir Fred Goodwin: We think it's good.

Peter Toeman: All right.

Operator: Our next question today comes from David Williams of Morgan Stanley. Please go ahead.

David Williams: Good morning, gentlemen. A question on expenses please; you say in the statement that while you're making investments to support future growth, the Group continues to benefit from its scalable operating platform and the resulting productivity gains. Last year, I think, on income and costs you had sort of underlying plus 10, plus 10. Does this statement of the results in productivity gains suggest you will be benefiting from positive operating leverage with perhaps cost growth now being a little bit less than that income growth, please?

Sir Fred Goodwin: I think that that seems like a reasonable conclusion for me.

David Williams: Thank you.

Operator: And now we move to Mark Thomas of KBW. Please go ahead.

Mark Thomas: Good morning. I just want to check a little bit on the unsecured; I mean the growth that we had in UK non-mortgages was 15%, 2003 to 2004's 10% and 2005 was zero. I mean from your comments that would sort of suggest sort of low teens increase in the nominal charge in the unsecured would not be unreasonable, that's sort of the first question. The second question is, I mean if 2005 was basically no growth, should we expect stabilisation in 2007, everything else being equal?

Sir Fred Goodwin: To the first question, Mark, the numbers in my mind would be slightly higher than that but still at teens rather than anything beginning with a 2. I think I'm with you – all other things being equal, as the growth in the book tails off then the growth in this would tail off. All other things being equal, is still something I say when touching wood and crossing fingers and all the rest of it.

Mark Thomas: Great, thank you.

Sir Fred Goodwin: Looking forward the issue is whether all other things will be equal but it would, we would be mildly, or cautiously optimistic on that.

Operator: Robert Law of Lehman Brothers has our next question.

Robert Law: Good morning, gentlemen. Could I ask a couple of questions? Firstly, on risk asset growth, obviously there was a game of two halves last year, could you comment on where you think risk asset growth is at the moment, before obviously the securitisations you're currently doing. And secondly, if I go back to Jonathan's question, you commented on the full year consensus, what do you think the first half consensus is?

Sir Fred Goodwin: Ok, I'll get Guy to do the risk asset growth for you.

Guy Whittaker: Yes. I think still very much in line with the same order of magnitude that we saw or indicated at the annual results, which was the sort of low-ish double digit areas. I wouldn't actually look at them necessarily excluding securitisations, because I think that's a very important tool in managing overall growth in the balance sheet and maintaining capital ratios in the mid-7's as we have also indicated. I think going forward you would expect to see along with the undoubted strength in origination that we increasingly have the distribution side of our balance sheet being an integral part of the planning process. So to me it's where the total balance sheet ends up.

Robert Law: Can I just clarify that – you're seeing low double digit after the securitisations, is that the implication behind that?

Guy Whittaker: Correct. Our business is built around origination, underwriting, structuring and distribution, so each of those has its part to play and obviously it's the sum of all of those which we manage in terms of capital ratios.

Sir Fred Goodwin: In terms of the estimates, Robert, we were positioning our comments based on those full year expectations and what that would represent at the half year. I guess you can work out for yourself what you think the half year is going to be. But I think there's a limited range of actual half year estimates out there.

Robert Law: Thank you.

Operator: We move to Ian Smillie of ABN Amro. Please go ahead.

Ian Smillie: Morning, gents. It's Ian Smillie from ABN. Two quick questions please; the first one, could you quantify for us what the releases and recoveries benefit inside the Corporate Bank was last year, and then bringing that forward for this year, give us an idea as to whether there's further releases and recoveries to support the P&L, or whether your comments are purely based around the new creation or the new formation of bad debt there.

Sir Fred Goodwin: Very much the latter, Ian. You'll see – I don't have in my head offhand the corporate releases last year but the accounts show the total releases and it wasn't a big number. So the bad debt story is not about big releases in corporate or anywhere else. I can't think of any particularly big releases, I can't think of any particular releases during the first half of this year, so the story we're presenting is very much as you describe about formation rather than recovery.

Ian Smillie: Thank you. And the second question is on the 10 billion of non-equity tier one capital which you reported at the end of the year, could you give us some idea as to what that number will look like at the half year, and therefore what benefit or not, that is having within the tier one guidance which you give us?

Sir Fred Goodwin: Well all the equity will be having a benefit within the tier one guidance, I guess.

Ian Smillie: Sorry, my question is: how much will that 10 billion have gone up in terms of the non-equity component, and therefore, how much of the tier one is being driven by non-equity rather than necessarily by equity?

Guy Whittaker: I'm not thinking that number has gone up, if anything, I don't think it's gone up at all.

Ian Smillie: So the guidance you gave is built around the core equity component of the tier one ratio?

Guy Whittaker: Principally in terms – if your questions are a sort of veiled one, in terms of what's happened to the core equity component, I think, as we've said, in earlier conversations that number, the press share component was sort of sub-36 at the end of last year and we expected it to continue downwards. So it would be sub-30 sometime during the course of '07 and we just sort of continue on that path and would expect each reporting period to show some small progress along the way.

Ian Smillie: That's great thank you, and just as point of clarification, could you just tell us exactly how the accounting of the Bank of China mark to market gain will work its way through both regulatory and accounting capital?

Guy Whittaker: Well, it will be a revaluation going to reserves, which will be added to total but deducted from tier one, so it has no impact on our tier one regulatory capital capacity at this point in time.

Sir Fred Goodwin: Sorry, none of the comments we're making today have been flavoured by that gain.

Ian Smillie: Great. That's just what I wanted to clarify, thank you.

Operator: Our next question comes from John Kirk with Redburn. Please go ahead.

John Kirk: Hi, good morning, actually a lot of my questions have been asked already but there was just one quick one. On RBS Insurance, you talked a little bit about the increase in income in that business in the first half, can you talk about the claims experience?

Sir Fred Goodwin: The claims experience is, no new news there, John. I mean the claims experience remains at pretty moderate levels. So they – the theme over the years, over the last couple of years has been more about claims cost going up; claims incidents or experiences, you can describe it, has remained pretty steady and quite low and we've not seen any great departure in terms of claims experience. It's been claims cost that has been the theme. As it happens, where we're getting to now is getting more towards equilibrium, I mean for the last couple of years the growth in claims overall cost has been greater than the increase in premiums. As we sit here today, it's much closer to the line ball in other words, premiums are going up by about the same amount as the claims.

John Kirk: Right, thank you.

Operator: We move to Michael Helsby of Fox-Pitt. Please go ahead.

Michael Helsby: Hi, it's Michael Helsby from Fox-Pitt. Hi, I'm just asking about the performance of Charter One. I think feedback from out of the US market is suggesting that it might not be going maybe as well as you first thought. I think that you've seen a slowdown in equity release mortgages, in terms of volumes and certainly some of the other banks in that market are saying that you're laying off staff in areas that you wouldn't have expected. I was just wondering if you – how you'd come back on that?

Sir Fred Goodwin: Yes, I think we've always got to pretty wary, Michael, about helpful comments from competitors, they've never been a source of very reliable information in the past, whether it be in America or anywhere else. I think we can be very clear about Charter One, that it is going, I think, rather well, as I was saying earlier in response – I think it was to Simon's comments at the start – that the underlying volume growth has been good. The impact has been, the headwind if you like, has come from the pressures on Charter One. So, and that's not a phenomenon that's unique to us, that's affecting regional bank results around the US and you might – if we're having so much difficulty in Charter One – you might ask some of these other guys, who have been telling you, what their excuse is for the results. So I think when you see the numbers you'll be very happy with the relative performances but to the question, is it going as well as it would have been going had the yield curve not flattened and that is, it's not going as well as it would have gone had the yield curve not flattened.

We have been laying off some people but actually they were principally in New England and they were principally as a result of completion of the integration activities. In terms of staff in Charter One branches, I mean there's three hundred and something bankers we've added to Charter One, because you remember one of the big opportunities for us is growing the SME business and the mid corporate business and that was something which had hardly started in Charter One when we bought it, and we've been recruiting strongly to do that. So I'm very happy with the Charter One numbers, albeit that I'd prefer the yield curve to be a different shape. By the same token, Charter One now is quite extensively integrated and co-mingled with Citizens. The underlying front line metrics are good.

Michael Helsby: Ok. Fair enough, thank you.

Operator: Our next question comes from James Hamilton of WestLB. Please go ahead.

James Hamilton: Thank you, good morning. Just a couple of quick questions if I may; firstly the final components on the RBS Insurance business, you've given us a guidance on income and claims, can you talk about the cost efficiency in that business? And I have a second question.

Sir Fred Goodwin: Cost efficiency, James, remains pretty steady. As you know, our combined ratio, which obviously includes claims as well, and it's the best in the industry; underlying efficiencies are still very strong. Not moving very much but we've got a huge leverage downwards after the Churchill integration and it continues to be good.

James Hamilton: Thank you. And the second question is a broad question on the UK retail businesses; how do you feel your market share performance is in the key areas, clearly you've been picking up from the mortgage market through 2005. I was just wondering, you had clearly a sort of slowdown in unsecured consumer credit retail and market share, how do you feel?

Sir Fred Goodwin: No, we feel fine. I think one of the luxuries or the relative luxuries we feel, is that because our retail business is well equipped across the spectrum of products, we know it's not all a story – if unsecured isn't working then we've got a problem, the fact is that we've benefited from the transition across into deposits. We've got a good strong deposit franchise and are seeing very strong growth. 2005 was a record year for bancassurance and you know that continues very strongly into the first half of this year. Wealth Management is having a particularly strong period as well. In a funny way it's kind of emphasising the benefit of the strategy which we employ: to have diversity of income streams rather than to be depending on any one thing. Mortgages continues to move along well, but because mortgages aren't the be all or end all we're able to step in or out of the market based on how rational the pricing is, and obviously when we step back from the market, we still have our branch channels through which to sell. The mortgage business has been going well. One of the areas we're making particular progress have been in money transmission accounts, current accounts where we have big net switching to the RBS Group, which you know is a very attractive product for us also. So retail is a good story and good because it's growing in a number of different product areas; unsecured with the story of the last two years, but its actually now sliding back into the pack of products.

James Hamilton: Thank you.

Operator: We move to Mamoun Tazi of MAN Group. Please go ahead.

Mamoun Tazi: Yes, good morning. Two questions, if I may, a follow-up question. The first one is on asset quality. You said that impairment charges on the retail side were growing in line with lending, could we imply from that that the non-secured lending, the impairment charges are growing faster than lending. And the second question is about capital, now that you've reached a tier one ratio of between 7.5-8% as you mentioned, would that prompt you to increase the buybacks? I mean, I believe that the 1 billion is small compared to the size of the company, it's about 2%; would you consider increasing that to something that's more meaningful? Thank you.

Sir Fred Goodwin: Ok, well to your observation, yes is the answer, that the growth in credit costs for unsecured is greater than the current growth in the unsecured book but that points to the fact that unsecured would tend to be seen as it seasons, as it is euphemistically known, eighteen months to two years afterwards to be put onto the books. I would just draw your attention to the guidance I gave in response to Mark Thomas's question a little bit earlier on, as to the capital position; well we'll cross that bridge when we come to it. Today's announcement is about what our interim results might say and we'll see the interim results and we'll let you draw your conclusions from the interim results. The first thing to do, from where I'm sitting, is to go out and make the profit and generate the capital and then work out what to do with it. But you're right to highlight that you know we're not, we don't expect – we're not planning to increase our tier one ratios for the sake of it.

So all other things being equal, the capital being generated in the business would need to go somewhere, but we'll work that somewhere out when we get a little bit further down the line. I think we've been pretty clear in our guidance about, how much capital we want to retain in the business and what we think the parameters are for returning capital to shareholders, whether it be in the form of buybacks or dividends or whatever.

Mamoun Tazi: Ok, great thank you.

Operator: Our next question comes from Simon Willis of NCB Stockbrokers. Please go ahead.

Simon Willis: Good morning. I have a couple of questions on volume growth and margin trends in these retail markets has largely been answered, but just to round-off on that really, I think last autumn you raised charges in the SME area across quite a range of areas, can you say whether you feel that's had any impact on volume growth in that business. And then secondly, on mortgages, can you say whether you feel that pricing has become significantly more competitive in the last three to six months?

Sir Fred Goodwin: Ok, I mean as to SME prices, I couldn't have told you offhand that I wasn't aware of any quantum leap of conceptual change to be honest. But certainly looking at the SME numbers there's no discontinuity around the second half of last year, so the trends that were there, were there before, the business moves along very well. We're market leaders in SME banking in the UK and that's a position we intend to retain. So you know always in looking in all of our businesses, I know it seems fairly self-evident, but in looking in all of our businesses and choosing to make any changes to the pricing, we're always mindful of retaining our ability to grow the business. There's no point in jacking your prices up if you kill off the business, but as I say, I'm not conscious of any material changes to prices in SME banking last year, to be candid. As far as the mortgage market is concerned. There have been a couple of campaigns during the early part of the year from some of the bigger players and where we don't like the economics we stand back. It's not a – mortgages are not in fact – we try to be in a position where none of the activities are must be activities, even where it's not economically attractive. So we've, there have been some activities in the mortgage market in the first half that we would consider to be uneconomic and that we've not chosen to follow.

Simon Willis: Thank you.

Operator: We move to Mike Trippitt of Oriel Securities. Please go ahead.

Mike Trippitt: Oh sorry, good morning.

Sir Fred Goodwin: Hi Mike.

Mike Trippitt: Two questions actually; one on credit cards. The differentiating factor on credit cards seems to be in the UK at the moment, is to whether you use the card as a method of customer acquisition or whether it's a product you sell to existing customers, it seems to have differentiated whether banks have had a problem with card lending or not, in terms of bad debt. So I just wondered if that is a disctinction that you recognise and whether you've had a disproportionate problem on the MINT card, which has been an aggressive market share sort of growth card relative to the – if you like the existing card business within Royal Bank. I've got a second question as well.

Sir Fred Goodwin: Yes, I mean I suppose the first observation to make, Mike, is that we're not ignoring any disproportionate in anything as far as increased credit costs are concerned across the whole of the Retail Markets business and that would obviously include Retail Direct which obviously includes cards. So we're not signalling today anything of like any increase in credit costs out of line – any increase in credit costs out of line with growth in the book historically. To MINT, MINT was an aggressive growth strategy but remember, it was based around the price rather than credit quality. I mean you're giving people 0% APR's for an introductory period, the economics never support taking on bad credit risk and the MINT book hasn't been – it's unremarkable in terms of credit quality.

Mike Trippitt: Ok.

Sir Fred Goodwin: But the underlying point that you touched on was that credit quality of the cards we sell to our existing branch customers tend to better and that is right, and that has been a theme of the growth in the book over the last nine months or so, where we're pretty much focusing on picking up cards through our branch channels more than through the direct channels.

Mike Trippitt: Ok, thanks. The second question just comes back to this US yield curve issue, which I appreciate, where it's going to go, nobody knows, but you've talked about the profitability of some of the smaller regionals and certainly the FDIC has put out from time to time some rather alarming messages about the impact on profitability of some of the smaller regional banks. Do you – I hate to sort of raise the phrase used several years ago, the sort of mercy killing phrase – but do you actually, could you actually see consolidation opportunities in North America, if this continues, will there be some irresistible opportunities for you?

Sir Fred Goodwin: Well they're going to have to get a lot cheaper to be irresistible, Mike. There were some deals announced this morning that someone had bought – BBVA bought and I haven't studied them closely, but I don't want to get into a position of commenting unduly on them but they do seem awfully expensive from where I'm sitting. So for anything to be in the so-called category you've mentioned, but because I'm on my best behaviour, the words won't pass my lips again, I think it's going to be a long time before we get to that place. I think that your comments about the FDIC, I think also some of them have their origin in the fact that a lot of these guys actively played the yield curve and traded in the yield curve, so the profitability you were seeing was sort of partly from their banking activities and partly from sort of trading activities. We've never really done that, so the impact on our profitability is noticeable but it's not life threatening.

Mike Trippitt: Ok, thanks very much.

Operator: As a final reminder, please press *1 if you would like to ask a question. We move to Gary Greenwood of CIS.

Gary Greenwood: Oh hi guys. I've just got a couple of questions on the insurance business. First of all, just on your earlier comments on premium inflation versus claims inflation, does that apply to the motor market as well as to the group overall, or are you seeing different trends in motor and household?

Sir Fred Goodwin: There are slightly different trends, Gary, between motor and household. The problem has always been at its most acute, I would say, in motor and motor always seems to be by far the most competitive aspect of that business, but even in motor we're starting to see some movement in premiums. The claims costs move on; it's a very constant trend. The story has been that there have been some signs of price increases coming through in some parts of the motor book.

Gary Greenwood: It seems the consensus view is that the cycle will probably turn sort of 2007, 2008 in motors, is that something you'd share?

Sir Fred Goodwin: Well I'd like to think it could turn before then. We might be seeing signs of it turning – one of the interesting things about the market is that we've now reached a place where pretty much everyone, a) there are a relatively small number of significant competitors and, b) they're all operating now off a similar business model. So in the past when you've talked about cycles there have been some people who were on broker based models, you know there was a much bigger number of competitors and a much wider range of business models. I think because people are now by and large on the same model, the cycle's not going to be as deep as it was be before and it might, I would hope that it could turn before then. We'll see. Predicting the future is never a terribly satisfactory activity.

Gary Greenwood: Are you benefiting from reserve releases at the moment in motor, like the rest of the market seems to be doing, because that seems to be influencing pricing as well?

Sir Fred Goodwin: A little bit. I mean we certainly always had conservative reserving policies so we tend to make releases rather than increases to reserves, but I wouldn't say it's a driver of the business.

Gary Greenwood: Ok. And just the last question in terms of the growth of internet aggregators, how do you see internet aggregators impacting on the market going forward, and I understand you're not on the panel of the main internet aggregators at the moment and how do you see your position going forward there?

Sir Fred Goodwin: Yes, I think that's a commercially sensitive area to drift into, Gary, so if I make some sort of general observations. We see the aggregators, we don't believe that the aggregators themselves have any particular value-add in all of this and it's not a difficult model to replicate. So if the aggregators do start to get some traction, we'll respond appropriately but it seems to us, when you're in a position such as ours, where you've got major brands which have customer attention rather than paying fees to aggregators to acquire business, it might be better to invest, if you're going to make that investment you might want to invest it in just acquiring customers for yourself.

Gary Greenwood: Ok, that's great. Thanks very much.

Sir Fred Goodwin: Also being sort of multi-branded gives us the opportunity; we can play the aggregator game selectively.

Gary Greenwood: Ok, thank you.

Sir Fred Goodwin: So really I'm conscious of being – this is going to be our final question.

Operator: Today's final question comes from Edward Firth of Société Générale. Please go ahead.

Edward Firth: Yes, good morning.

Sir Fred Goodwin: Hi, Ed.

Edward Firth: Hi. Just a quick question back on weighted risk assets; just two points; firstly could you just confirm the net weighted risk asset benefit, if you like, from the securitisation programmes in the first half. And I guess, second question, under Basel II what would be the treatment of these, I guess these loan books under Basel II, will they remain off balance sheet or will they come back on?

Sir Fred Goodwin: I'll answer the second part and if Guy knows that, I don't have a figure in my mind for the first part, I don't know if he does. Clearly what's going on at the moment is being in done in full anticipation of Basel II, Ed, so there's no point in having something go off the balance sheet only to bring it back on again.

Edward Firth: Sure.

Guy Whittaker: The first part of your question, Ed: we have securitised £4.7 billion worth of mortgages, which are at 50% risk weighted asset and then £3.5 billion of corporate lending book through a synthetic securitisation CLO.

Edward Firth: Great. Ok, thanks very much.

Operator: As there are no further questions, I will turn the call back to Sir Fred for closing remarks, thank you.

Sir Fred Goodwin: Ok, well thanks everyone for calling in. I think we covered a pretty good range of topics there. If any of you have got any other queries as the day unfolds or as the rest of the week unfolds, feel free to contact us and we'll try and answer them. It is, I know, it's a slightly inherently unsatisfactory process to be putting out a small series of words and trying to extrapolate from that, as to what the Group's performance is but the messages are very clear, strong, we're performing well during the early parts of 2006, all the metrics are fine and we expect to meet expectations, so there's no hidden messages, surprises or secrets in here. So thanks again for calling in.

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