RBS
Moderators: George Mathewson, Sir Fred Goodwin, Fred Watt
Thursday, 4th August 2005
09:30 BST

George Mathewson: Good morning, ladies and gentlemen, nice to have you all here again, and welcome to this presentation of our Interim Results for 2005. And I must say in looking out here the rumours of demise of the analysts' profession seem much exaggerated. You will already have seen the main points of our interim results in our company announcement. These results demonstrate our ability to achieve sustained growth, thanks in large measure to the increasing diversity of our income streams and the growing contribution of recent acquisitions.

In the first half of 2005 we increased our income by 15% to £12,465 million, and our Group operating profit was up 18% to £4,011 million, and our profit before tax was up by 14% to £3,688 million. Our basic earnings per ordinary share were up by 4% to 79.8 pence per share and our adjusted earnings per ordinary share were up by 8% to 86.7 pence per share. And in line with the policy which we have followed over recent years, we have announced an interim dividend equivalent to one-third of last year's total dividend. So our interim dividend will be 19.4 pence per share, and this represents an increase of 15% over last year's interim dividend.

Today our agenda will follow the usual pattern. Fred Watt will comment on our Group results and the results on each of our divisions and then after that we'll hear from Fred Goodwin and from some of his executive team. Thank you. Fred.

Fred Watt: Thanks George. Good morning all. Nice to see you all again, as ever. Thank you, George for the introductory remarks. The point of my first part of the presentation is, as ever, to try and walk you through the overall Group results and give you a flavour of some of the divisional results also.

And also I usually like to stand up at this point and say how easy our results are to compare year on year, because there are relatively few restatements year on year and the results you see are the results you get. This year obviously has been a bit more of challenge for us with IFRS coming into play for the first time. Nonetheless I think we've presented it here and I'll go through with you the basis of the presentation. We've put a lot of effort into trying to get the results as comparable as possible so that you understand the underlying trends in our businesses. But the results that you're going to see today are presented on a pro forma basis.

If you remember back in June, we gave you a high level impact of the introduction of IFRS on our overall results. We've gone beyond that today and we've actually presented all of the key numbers as if all of the IFRS statements we're now incorporating going forward were also embedded into our results for last year 2004. So whether you call it full on full, whether you call it apples with apples, or whether you call it like with like, the trends that you are going to see here are on a like for like basis and the underlying trends in the business are what you are going to see here as a result.

So the small print on the bottom left of the screen is quite an important one. The '04 numbers are on a full pro forma basis. We believe that that's a much more helpful way of presenting the information to you and it will give you the underlying trends in our businesses.

Moving on then, George did say that operating profit for us is up to £4,011 million, an increase of 18% on prior year. Below operating profit and in between that in profit before tax we clearly have integration costs and amortisation of intangibles now. Integration costs: just worth pausing there for a second. Under IFRS half of that integration cost today relates to integration costs that we previously wrote off in the past under UK GAAP. So just as a reminder, about £140 million of that charge we're taking this year, relates to the amortisation of integration costs that we wrote off previously under UK GAAP coming through under IFRS. This is the last year that that should happen in relation to NatWest, but nonetheless there's a little bit of a distortion in these numbers this year. Beyond that, amortisation of intangibles is again a new thing under IFRS. The profit before tax, after that up 14%, to just under £3.7 billion.

Looking behind the 4,011 number and how it's come about. Clearly at the overall Group level, income up strongly at 15%; costs up 16%, but as we'll see in a second that's more to do with acquisitions than underlying; overall profit on this basis up 18%. Obviously that includes the effect of acquisitions and also includes a small negative impact from foreign currency. Acquisitions, we'll see in a second, have added about £200 million after funding costs for the half year.

Moving to the more comparable underlying results: excluding acquisitions and excluding foreign currency, we see income up by over £1 billion. We see income up 10% versus last year and operating expenses up by 9%. Claims at this line now include bancassurance maturities, up 10% over last year, and overall profit up by 12%, and that's in line with the guidance that we gave in June, when we said that at this level profit would be running at about the same rate of growth year on year as we reported this time last year. So 12% profit growth excluding acquisitions and excluding currency.

Looking behind that income growth number of 15%, how does that come about? Again, well spread across divisions. Very good growth in CBFM, another strong period for CBFM and we'll touch on that later. The Retail Markets, which combines our Retail banking business, our Retail Direct and Wealth Management, up 6% in total and within that Retail up 3%, Retail Direct up 13% and Wealth up 8%. Citizens reporting a 67% growth in income – clearly that includes acquisitions. As we will see later underlying Citizens growth again continued pretty well and pretty good performance also from Insurance and Ulster.

Turning to net interest margin. Reported margin under IFRS, just as a reminder, is down about 10 basis points year on year compared to UK GAAP. Remember that for us preference dividends that were previously charged that are below the line as dividends are now in our interest charge and therefore the cost-income with the net interest margin has come down about 10 basis points just for that reason alone. The component parts of the movement on a like for like basis, we show in the next slide, and the movement down from 283 to 260. As we saw last year, a large part of that movement, in fact almost half of that movement, comes from two items alone, the growth in funding for rental assets and the organic mortgage growth that we've been seeing. These account for 11 basis points on their own of the downward movement in net interest margin.

On top of that, we've seen also stronger growth in savings accounts in this first half and in current accounts, and that clearly gives an overall mix effect on deposit income. And also we're seeing, as you'd expect from your knowledge of the US marketplace, margin compression in the US as a result of the relative movement in the long end versus the short end in rates. And lastly – and Gordon Pell will cover this later – the UK consumer book has been repositioned with margin down there a bit on previous year, and now a greater percentage of that book than before at sort of current pricing. Overall, the movement in net interest margin explained and the roadmap on that slide for you.

On expenses, again we'll [talk] obviously on this in more detail by division, but overall expense growth of 16%, as I said earlier, excluding acquisitions, that's about 9% expense growth; and noting that in all divisions we can see income growth at least ahead of expense growth. In fact all divisions income growth ahead of expense growth. Clearly that translates, if income underlying is growing at 10% and costs at 9%, you do see an improvement, albeit a small improvement in cost-income ratio. Again, restated under IFRS, but moving year on year down from 41.8 to 41.7. IFRS increases the baseline for our cost-income ratio by about 1.2% to 1.5%, both years having been restated by that amount, but underlying cost-income ratio improved slightly. The efficiency programme we've mentioned before remains completely on track, and obviously the acquisition effect, Charter One in particular coming in with a higher cost-income ratio, increases the reported overall cost-income ratio of the Group.

Turning to provisions, overall provision charge has grown by less than the growth in the book, overall. Growth in provisions of 8%, 5% excluding acquisitions, so annual charge down from last year’s first half of 55 basis points to just under 50. And again, as you look at the provision charge by division, you can see a number of different stories emerging. Here we can see CBFM with a lower provision charge than in the first half of last year and that's a continuation of the themes of the last probably 18 months to 2 years of improved conditions in corporate banking. In Citizens you could also see a lower charge, this slide shows they're up because of the acquisition effect, but underlying Citizens also seeing a continued improving economic condition and an improving trend on their provisions line. Going the other way, we see an increase in provisions in Retail, and Retail Markets’ overall provision is up by just over £100 million. Retail Banking more in line with the book causing that increase; and Retail Direct, as we said earlier this year, we saw trends increasing last year in arrears. That's carried on through the first part of this year.

Turning to overall asset quality, obviously with the book growing ahead of the provision charge and moving to an REL downwards, we have seen an improving trend in our overall credit metrics for the Group, with the risk elements actually down from the end of last year and the percentage of the book down again. Provision coverage relatively stable at around 70%, 71% in this first half.

That's a quick recap then of the overall Group results with, as I said, operating profit up 18% or again, 12% excluding acquisitions and currency movements.

So turning to the divisions, first of all Corporate Banking and Financial Markets. As I said, another strong performance from Corporate Banking with good growth in all areas and a pickup in large corporate activity. We said that it was coming and it has come in this first half. Trading revenues also growing at a pace in line with the division as a whole, so the percentage growth in trading revenues at about the same as the division as a whole.

Expenses back below the low income growth, albeit we're still investing in the business. If you remember last year in particular, late in the first half but mainly second half, we increased investment in our US Debt Capital Market business. That is being reflected in these expense growth numbers, but nonetheless expense growth lower than income growth and you may recall a chart we put up last year. This is a pretty powerful profit engine here, where we can see income growing by almost £600 million and the profit from that income growing by over £400 million, before provisions. So it's a very powerful conversion of income growth into profit growth, and overall contribution up by 23%.

Turning to Retail Markets, we announced earlier this year that we'll bring these three areas of Retail, Retail Direct and Wealth Management closer together under Gordon Pell, and that's really to coordinate products and customer propositions in these markets. We'll talk about this in more detail later – Gordon will. But the component parts added together had income growth of 6% in that first half period and profit before provisions up 5%. But not to lose sight of individual parts, I'll turn to firstly the individual components.

Firstly, Retail Banking itself. We see Retail income up overall 3% in that first half, and within that we've seen some good underlying business growth albeit with slowing unsecured lending, as you'd expect. We've got different products growing at different relative rates in this first half which, together with the price repositioning I mentioned in unsecured, results in a slightly lower net interest income, although overall income up pretty strongly, and non-interest income up by 11%.

Expense growth at 2%, again two stories in here: we are continuing to invest in the customer-facing part of this business and in customer service initiatives, and that's being offset by continued improvements and efficiency elsewhere. So profit in Retail up by 1% before provisions, and provisions, as I said earlier, up about 18%; contribution down 2% overall.

Retail Direct – a strong income story here in Retail Direct, and remember, Retail Direct is much, much more than just cards lending. In Retail Direct we have seen a slowdown in unsecured lending, but equally we're seeing continued success in mortgage growth, we've seen strong mortgage growth with the One Account; and now with the launch of First Active in the UK, also strong mortgage growth there. We're also seeing continued success with Tesco Personal Finance, and with our merchant acquiring business. So the broad range of activities in Retail Direct have produced a very strong income growth number, up 13%.

Expenses up 9%, that includes some new investment spend in launching the First Active UK brand. So overall expense growth less than income, even with that additional investment cost. And contribution before bad debts up 16%. Provisions, I touched on earlier. As I said we did see an uptick in the second half of last year in credit arrears in cards – that has carried on into the first part of the first half. Some recent signs of stability in that book. You'll have seen presumably from your accessed industry data that there are some signs of stability here, but nonetheless, in the first half, provisions up by that 34%, but even after that, profit from this division, given the strong underlying growth, up 4%.

The last component of Retail Markets, Wealth Management. There's not much to say here other than a continued good performance in Private Banking, much improved from what we found with the markets two or three years ago and that, coupled with an improving position in Offshore, really has brought again another period of good momentum to the Wealth Management business, with profits up 16%.

Manufacturing: here again we have a cost story that is impacted by IFRS in both years, but more so in '05. The reported number of 9% is 6% excluding the new rules about software amortisation, and under IFRS we have to capitalise software. Previously we wrote off as incurred, and that will cause variations year on year. And in this year, excluding that amortisation cost, we would have been up 6%. The underlying cost growth of 6% really represents probably three different parts. We've seen obviously, as you can see in the numbers, good, strong underlying volume growth across our businesses which Manufacturing supports. We've also invested in our facilities for our customers, our facilities for our people right across the organisation, and that has incurred investment cost in the property section of this business. Offsetting both of these items, we continue to see operating efficiency improvements in manufacturing holding that cost growth down to that underlying 6%, in spite of, as I say, investing in the business and supporting very strong volume growth.

Citizens: obviously the total result for Citizens includes Charter One. It also is stated here in sterling, and there has been a small impact, negative impact, for us in the first half of currency translation. So the first thing I would do is translate the Citizens numbers into dollars for you. So the next slide, Citizens up by 79% in dollars and contribution. Clearly a big impact from Charter One in here, so stripping that out, going to the results here: excluding Charter One, we can see again income growing strongly. Again, despite some margin compression I referred earlier to long-term rates not moving in line with short-term rates, so margin has compressed at Citizens, underlying income still pretty strong.

The expense growth ahead of income growth here is more to do with the new credit card business in the United States and the new merchant acquiring business in the United States now under Citizens. The underlying, or old, Citizens business has seen again improvements in cost-income ratio with its own income ahead of its own expense growth. So overall, excluding Charter One, Citizens improved its dollar contribution by 13%. And within that, as I said earlier, an improved credit position in the US, resulting in a slightly lower charge for provisions.

Turning to Charter One, we in these numbers have for the first time in the first half the contribution from Charter One. You'll recall we acquired Charter One 1st September last year, so we're not a year on in the acquisition phase, and indeed this is the first full first half that we've got. So within the numbers that I've just reported, $516 million contribution from Charter One. As you expect, a very small element of that being securities gains given the balance sheet repositioning we undertook last year. So, on a like for like basis with the performance we reported to you of Charter One in its first half last year, Charter One reported income contribution here of 500 million against 420 in its first half last year. So already very good performance year on year and good progress of Charter One, and Larry will talk about this more, but integration absolutely fully on track.

RBS Insurance – Insurance saw some growth in volume and profit in a tough market, a continued tough market. Last year was also pretty tough. There are some signs that some sense may be coming back into the UK motor market, but nonetheless, we've moved on with Insurance and grown its profitability, even in that environment. And the integration of Churchill going extremely well.

Probably just worth reminding ourselves what Churchill has contributed to the Group since we acquired it, and this next slide just lays out for you what we've achieved from Churchill in the first half by way of contribution. So in the first half the Group has achieved and received a contribution from Churchill of £103 million. Now you may recall, those of you who remember the acquisition not quite two years ago, so it was September '03, so almost two years ago when we announced Churchill we said that we could see ways of doubling the Churchill profit in three years. Clearly we've actually achieved more in the first half year than the whole of the Churchill performance for the full year less than two years ago. So it's gone extremely well; the integration of Churchill is, as I said, in an extremely good place.

Ulster Bank, a bit like Wealth Management, I mean in short is doing very well, it's produced very good growth in good market conditions, and overall contribution up 18%. The integration of First Active is also completely on track and it gives us a new position to develop this business from in Ireland. A reminder of First Active, we acquired that just over a year ago, beginning of last year we acquired First Active. In this first half, we've achieved for the group £31 million profit from First Active, and that compares with its own profit back in the first half of '03 of 23. That improvement probably is even better than that, given that we've moved to IFRS now; but on any basis, First Active is actually doing extremely well.

So to sum up at the group level again, operating profit up by almost 600 million to 4,011, 12% as I've said, excluding acquisitions and currency movement. That underlying profit growth translates into EPS growth of 8% in the first half. That's after a currency impact of about 1%. It's also after, as I signalled, an increase in the tax charge, more to do with the mix of overseas earnings now in our overall profit, as I said earlier in the year, so 8% is after both of these items. Dividend per share up, as George said, 15% year on year, and as a result dividend cover down a bit from last year.

Capital ratios: broadly neutral in the first half, and some of you may have seen risk-rated assets grow strongly in the first half, and part of that is to do with currency, so mustn't forget that a big proportion of our risk-rated assets are now in particular in dollars, and that would have increased probably about 10 billion of risk-rated assets in the first half just from currency movements. But nonetheless, broadly neutral in capital ratios from December. Remember that under IFRS, capital ratios have come down, as with all banks, and there has been a genuine impact here on our capital ratios by IFRS, so just to show you what they would have been, here we're reporting IFRS numbers in our capital ratio Tier 1 in the first half of 6.6; 6.7 at January. The transition adjustments are the same as we said they were back in June, so transition adjustments have taken 0.7% off the capital. Not forgetting the dividend add-back under IFRS, you know, you don't deduct dividends until they're paid. But of course, in half year and full year terms, the dividends add-back is more at full year than half year, so I've just shown you here to explain the movements. The add-back in the first half is about 0.2; at the year end it's about 0.4. In old money under UK GAAP, Tier 1 capital would have been 7.1, as against what we reported in December, 7%.

A couple of final slides on IFRS. It is a difficult journey to get from old money to new. It is a new language. Here we're trying to lay out in summary what the impact has been, firstly on operating profit. We reported last year a first half operating profit of £3851million. The first thing that happens that you should think about under IFRS is that there are two elements that don't change the reporting of earnings, but they do change the reporting of that operating profit line: preference share payments – I mentioned earlier that debt interest margin now reflects dividends above the line rather than below; and also the proportionate consolidation of TPS – we used to fully consolidate it and take it out as a minority, now it's proportionately consolidated within operating profit. So both of these items actually reduce reported operating profit, but have nothing to do with reported earnings. It's just the presentation within the P&L.

The third item on this slide is really the phasing point under IFRS. So IFRS does push certain items forward in phasing and the timing of recognition of income costs does move operating profit down by about 5% on its own. That's the 5% we alluded to in June in terms of underlying impact on earnings from IFRS, and here it is through in the first half. And just to reiterate that, on earnings per share, obviously the presentational impacts don't appear in earnings per share, the ones that do are the ones that affect the timing of recognition, and here we can see that last year reported earnings per share was at 84.4p on a statutory basis which is the kind of halfway house under IFRS it comes down a bit. And in a full on full, like for like basis IAS takes last year's reported earnings per share down by 5% to 80.6p.

On that note, I'll hand you over now to Fred.

Sir Fred Goodwin: Thanks, Fred. Good morning, everyone. In keeping with, I guess, tradition of this part of the presentation, before moving on to look at the options for future growth and the outlook more generally, I thought I might just pick out one particular aspect of the Group's activities and we just take a different view of it.

The aspect that I've picked today is that of diversity. Now it's not a new subject for us, and it's one I've talked to you about before, but I think it's a good moment to just revisit diversity. Diversity is a very important concept for us, it's something which is central to our development and articulation of strategy, and what we choose to do is influenced a lot by diversity, not for its own sake, but based on a realisation or a belief on our part that diversity helps us to deliver sustainable and relatively stable results going forward. It is impossible to iron out many of the volatilities and uncertainties in the world, but as you become more diverse, things tend to start to work not all moving in any one direction at any particular moment in time. I think the results for the first half of 2005 in fact are an example of diversity in action. So again that was a reason why I thought it would be timely to visit the subject.

Are we making headway in terms of diversity? Well, I don't want to dwell on this slide, you've seen some of this before, but I would say yes. From where I sit, and from our point of view, the pie chart on the right hand side there is kind of easier to derive sustainable earnings from than the one on the left. You'll be familiar with the various moves that have taken place over the years that have brought the pie chart from the one on the left over to the one on the right, so I'm not going to rehearse all of those again.

You'll also be familiar with this, we've had a drive away from dependence on, if you like, the traditional banking activities that generate margin towards non-interest income, also at the same time retaining a fairly reasonable balance between the interest we generate from lending versus the interest we garner on deposits. So I quite like the balance between the two. I also quite like the fact that net interest income is shrinking as a proportion of our total business.

Geography important also. Again, the pie chart on the right feels like one that gives us a better chance to cope with volatility going forward than the one on the left. And it's been a struggle for some of these segments to grow against the backdrop of continued very strong growth in all of our UK businesses, but as you can see, significant progress has been made in diversifying geographically.

I think, just to put the chart up, you know, so has it worked. From that chart I think it's easy to conclude it probably has worked. But it perhaps makes it seem all too simple that you know, if Division A isn't doing well, you just call up Division B and get them to perform, but clearly it's not quite as simple as that. But you'll see from that chart our income growth over the period covered by the pie chart, compound growth in income about 15% throughout that period. I think it does start to give a picture, and if you think of the world and what was going on in it during that time, there've been a share fair of bumps along the way and setbacks in various of the economies and business lines in which we operate. But we've been able to generate pretty consistent and steady income growth through that period.

I'm always sort of left with a sense when we talk about diversity that it's a sort of dry subject and rather a sterile one, and it's all very interesting and academic but it doesn't leave you with a sense of what diversity in action is really like. So what I would like to do now is to call on three of my colleagues to give you a presentation in relation to their business and just to give you a sense of what diversity actually means on the ground. The three businesses in question haven't been chosen as a form of punishment, rather that I think they give you the best sense of the extremities of the axis.

I'm going to ask Johnny to take us through CBFM, Gordon to take us through Retail Markets, and Larry to take us through Citizens. And I think you'll get a sense from what they're saying of how their worldview is different from one another, and yet they're all worldviews that are rich in opportunity for our shareholders. I could just as easily have chosen to go through Manufacturing division, to go through Insurance, or to go through Ulster, but I guess in the time available, I think we should keep it to the three that I've chosen. And I think, you know, what you're about to hear would be entirely typical of those other divisions as well.

So, on that note, Johnny, would you like to lead off?

Johnny Cameron: Thank you, Fred, and good morning, everyone. Let me start by just repeating the slide that Fred showed you, Fred Watt showed you, the overall results of CBFM, and I have to say the results of which I and my colleagues are extremely proud. I think we've had another very good half. If I was going to highlight one number on this particular chart, I would look at the growth in non-interest income, a growth of 20% in non-interest income, and this reflects the variety and, if you like, the diversity of income that we can generate from our customers. I would emphasise that most of this non-interest income comes from our customers, from working with our customers, and I'll go into that in a bit more detail in a moment. And it does, the success of CBFM does overall reflect diversity. We are a big division. We in ourselves are extremely diverse, somewhat like the Group. But let me look firstly therefore at that diversity in more detail, and look at it by product.

This is the chart, and I think you've seen it before or something similar to it. It lists the principal products as disclosed in our accounts, and in some senses it understates our diversity. If you look at the lending number for example, that includes the mid-market income in the UK, the lending in Europe, the lending in America; there's a lot of geographic diversity within the lending number. Within debt securities, there's Greenwich, there's the operation in London. You could go on and on about where these bits and pieces are coming from. But at this headline level, this in itself I think gives you a good sense that there are a range of products within CBFM, all of which contribute to our income.

I'd make one very small caveat just for the numbers people amongst you, that the net income from rental assets probably overstates the – well, it does definitely overstate the importance of rental assets. That's in gross of depreciation, and the real impact on our bottom line is somewhat less than the 11% that this would indicate. But apart from that, it gives you a good sense of the all-round strength of CBFM and the variety of products that we earn our money from.

Now if I look at that in a simpler way, and repeating a slide that Fred used for the group, you'll see that CBFM non-interest income adds up to 61%, and I think that's just the balance we're looking for. We lend, we're in the business of taking deposits obviously, but we are looking to get that ancillary income to ensure that our return on capital in CBFM is as good as we'd like it to be. So this is a balance that I think we're very happy with, and it's one we've had for some while.

Again, following the same theme as Fred: why is diversity important? Well, it is about consistency, and if you look at CBFM, similarly over a long period going back to 2001, you'll see that our contribution, our income, whichever line you look at in CBFM, I've chosen income, has grown very steadily over the period. We have had an extraordinarily consistent growth story.

The story that I'm particularly proud of, I use it a lot with my colleagues and staff, because I think it's very motivating to staff to be in a business that isn't stop/go but is showing a very steady progression of income. And as I say it's a steady progression of income and a steady progression of contribution pre bad debt and contribution post bad debts.

What is distinctive about CBFM, I think, in the market in which we operate and when you look at some others in our business, is that we haven't gone for a dash for growth, we haven't piled on costs and hope for the best that the income will follow. We have, if you like, followed a somewhat Scottish strategy. We try to make sure that income grows faster than costs and I think Europe would be the best example of that and I'll talk about that in a bit more detail in a moment. We've made some specific investments occasionally where we need to do it, Debt Capital Markets in America is one where we did lay down some costs and again I'll tell you a bit about the success of that in a moment. But in the few, narrow controlled areas we do invest specifically, but by in large the focus is to continue to grow our income faster than our costs in our individual businesses.

Sometimes mix takes us away from that when a higher cost business grows faster than a lower cost business. I'm not saying we will achieve it every year but as a principle, as a principle, we are looking for steady growth. The only thing I don't like about the word ‘steady’ is it sort of sometimes implies slow and I don't think the combined annual growth here of around 11% or 12% income or contribution could be described as slow growth. That is very good growth, I think, over this period and I say there's been a remarkably little volatility around it.

One thing I know you're all interested in, and I just thought I'd add in to this chart, is to look at what is now I think known as trading income as opposed to dealing profits – but sticking to the old words for a second, dealing so-called profits, obviously it's dealing revenue. Again, very consistent growth and also consistent within CBFM as a whole. Trading income has roughly been 25% of our income in any given period. It tends to be a bit higher in the first half and a bit lower in the second half. I think you will all know, of all people, that the traders tend to have a slow second half, too much holiday in July and December, I suppose. We tend to see that in our results, second half slightly lower than the first half. But broadly speaking, very consistently, plus or minus 25% of our income.

And it's also worth noting in that context that there's been really very limited growth in our value at risk. If you look at our value at risk and our dealing profits as a percentage of value at risk, those are numbers that one can be extremely proud of and stand up against anybody in the street.

Taking a different tack and looking at another aspect of diversity, I wanted to talk about geography. Again, somewhat similar to the Group story, a few years ago UK business used to be about 75% of CBFM, sorry used to be about 85% and is now 75%. Just taking you through this slide, if I may a little slower, the UK plus 15%, I think that demonstrates that we continue to capitalize on our fabulous position in the UK. We do have this extraordinary, strong market position. We're number one in large corporates, number one in mid corporates, number one in asset finance, number one in invoice finance; we absolutely dominate the UK corporate market. And this growth figure, this half, demonstrates that we can still improve on that and improve the money we make out of that fantastic position.

Having said that, the objective is to grow the non-UK faster than the UK. That seems to be what we ought to be able to achieve and has been what we have achieved over the last few years. And within that, I guess Europe is probably the most obvious success story. We started in Europe really almost from nothing three or four years ago. And we've grown it, 40% is not an unusual growth for us, I think we showed you a similar figure last year. That is the sort of pace we're growing at in Europe. This is income, but I can assure you that costs are growing considerably slower than that.

We are making increasingly important amounts of money in Europe, making serious inroads into our principal markets which are France, Germany, Italy, Spain and, more recently, the Scandinavian region. We really are becoming, in the continent of Europe, a bank that large companies know they have to talk to. They know they have to talk to the Royal Bank of Scotland if they're looking at something serious, and because of that they want to have a relationship with us. And when we have a relationship we are working very hard at making sure we get all of the income that can come from a good, strong relationship with a good, strong company.

In the US we've got this wonderful business, Greenwich Capital, who continues to do very well. They had a fabulous first half in 2004 and did very well to do a little bit better than it, than that first half, in the half we've just finished; with income up 5% in a market, the mortgage market has definitely slowed and got more competitive compared to the glory days of the first half of '04.

But I'd highlight here the non-Greenwich businesses, which I don't think we've showed you before. The rest of CBFM is doing very well in America. At the back end of last year I asked Jay Levine who's the Co-Chief Executive of Greenwich to take on the role of running CBFM North America as a whole. We invested, as you know, starting about this time last year in a strong Debt Capital Markets team. We reorganized our interest rate, derivatives and foreign exchange teams and relocated them. And the results are coming through, as you can see here, in a very impressive fashion. We're very pleased with what's going on in North America.

And part of that story is also the work we're doing with Citizens. Larry and I see a great deal of each other these days and we have done a lot to pool together the Citizens teams and CBFM teams and the synergies there are working to both of our advantages, of both Citizens advantage and CBFM's advantage. That's a very good story.

And the rest of the world, although much smaller, is also going along nicely. In Asia-Pacific we basically have an investor-led business although nowadays in Japan and Australia we have some small but very successful niche operations.

So it's a good story right across the world and one – I just want to choose one statistic, there are always in these things a mass of statistics I could throw at you. But just taking one important market, the syndicated lending market. Syndicated lending is important as you all know because that's how we distribute our risk; that is what we're in the business of doing, we look to underwrite major transactions and sell them down aggressively so that we are left with a position that we're happy with and can earn the fees on underwriting the larger transaction.

And if you look on this slide, just broken out the syndicated loan market as per the Thomson Financial Data: interestingly in the UK you can see that our market share, even in the UK, as a lead book runner, we've moved from 11% to 18%. And that's not so much that we've improved our list of customers or our penetration of customers, it's a recognition of our improved capabilities in that business and the recognition of those improved capabilities. We clearly are seen, not just in the UK but across the world, as a serious bank who can operate at the highest level in these markets.

So a good progression in the UK. Continental Europe, as you could expect, more rapidly. We've gone from a market share of 2.5% odd to over 7%. This is tremendous progress, and if I had to pick one transaction I'd mention a Spanish transaction, Metrovacesa, which is a Spanish property company choosing to buy a French property company. Together they become the largest property company in the continent of Europe. The amount of money involved was around €7 billion and they came to us first to underwrite that transaction. I think if you said three years ago that a Spanish company buying a French company for $7 billion would come to the Royal Bank of Scotland you'd have been surprised, shall we say. We really are known now on the continent as a bank that people want to do business with.

Putting those two numbers together gives you the Europe, Middle East and Africa number; we're now number three book runner in syndicated lending in Europe, Middle East and Africa.

And even in America where we're starting from much more modest beginnings we're already seeing the impact of what we, of the changes we've made, some recruiting we've made. And we've moved, we thought we might just make top ten in the first half of the year, we're actually number eleven book runner of syndicated lending in America. Good progress is being made there. And I think America will be a place where I'm expecting to see that continue to move at that sort of pace. There are lots of opportunities for us in America where there are now only three serious corporate banks and a country the size of America certainly needs more than three.

So if I could just summarize and give you a sense of the outlook. Again you will all be very aware, the markets are competitive, margins are under pressure, fees are under pressure, but we have got – I hope you would agree – terrific momentum across our activities both in a sense of geography and in the sense of businesses. We've got great momentum, plenty of organic growth opportunities, my team is absolutely up for it, we're excited by what we're doing, pleased with what we've achieved so far, very conscious that there's plenty more to do. It won't surprise you to hear that given this momentum we have no plans to change our strategy; our relationship-led strategy is working very well for us. That is what will maintain.

And I know you're all dying to know more and I therefore look forward to seeing you on the 3rd October when more will be revealed. Until then, thanks very much.

Gordon Pell: Good morning, ladies and gentlemen. Thank you for joining. I've just thought of my Christmas present list actually: please can I have the opportunity of following Johnny at every presentation this year.

Right, after Johnny's world tour, back to Retail Markets, back to the UK and back to something rather different. We've brought together Retail Markets a couple of months ago. We have three major retail businesses in the UK, all with common characteristics, a long history of success. Clearly we face different economic conditions over the next twelve months, next two years probably as we faced over the last two years. A greater degree of coordination, looking for synergies, looking for mutual opportunities inevitably is called for.

You've never really seen these numbers before in this way so let's just have a quick look. Income growth 6%; pressure on the net interest income, which I'm going to talk about later, I think common to many of our competitors. Direct expenses up 4%, but in practice we've spent 20 million this year launching First Active in the UK which I'm going to talk about in a minute. So really that's sort of 20 million that should have gone straight through to the bottom line that we've decided to invest in tomorrow's world rather than cash today. Contribution before provisions of 5%, and then a provisioning line which really tracks what was happening last year in the economic situation we faced. And again I'm going to concentrate on those two issues, the net interest income and the provisions as we move through.

But a big business, a successful business and a highly diversified business, a many-legged stool. It's not just consumer lending, it draws an awful lot of its income from liabilities; it draws a large amount of its business from the small business sector, where we are still by quite a long way the number one business bank in the UK. Significant credit card business. But if you look at the bit that I suppose we're all perhaps overly preoccupied at the moment, personal lending 34% of the total income. Obviously you have to halve that and then some again before you look at the effect that actually has at Group level. But even with our own business somewhat only a sensible proportion and 7% penetration and 10% in investment products: both of those major opportunities for us, particularly at a time when some of the other areas are going to be more difficult to make income. And surprise, surprise, we get all our circles to divide neatly around the middle: very well balanced between net interest income and fee income.

And what is interesting at the moment I think is seeing we're moving a little bit more like the corporate market; with quite a lot of our products what you're actually seeing is, where you're having to look at the overall return on the product rather than net interest income itself. So for example we take a card product with a zero balance, but in practice it actually comes with fees attached now so you're actually having to look at the overall return rather than the net interest income itself.

A graph that doesn't look dissimilar to Johnny's in terms of stability – obviously the early years, capturing the early benefits of moving NatWest up to nearer the RBS model; stabilization thereafter. If you had to find an average in here the answer's about 7%, this year is 6%. And this year obviously we are in, I think, my fourth economic slowdown that I can actually remember and I'll talk about that in due course, recollections of a few other famous battles – which brings us to what's actually going on at the front at the moment.

A lot of very good income growth. But in an interesting market and resulting in perhaps not every, all the benefits flowing immediately through to the income line in the year we're actually capturing the business. We've actually grown very sensibly in the mortgage market over the last couple of years, largely through the branch networks. But we haven't had a specific mortgage brand. We haven't had a specific stand-alone mortgage proposition.

Last year we silently and rather diffidently launched First Active as a stand-alone mortgage brand aimed at the direct and intermediary market – and I positioned them in that order because obviously we are looking to focus as much as we can on direct rather than intermediary. And about 30% of business we're actually getting is coming via direct, either by telephone or by internet direct to our own business. First Active in the last six months has gone like a train and we have nearly 2 billion now on the book. And that's actually resulted in the 18% growth that we've actually seen in mortgage business. First Active is designed to generate economically profitable business, flowing other than through our branches, and leave our branches charging a slight premium for convenience. And that's allowed us to establish a very sensible positioning and build growth. Just to put it in perspective, our net new lending, 4.7 billion gives us a share of about 11% compared to our market share now actually around 6%. Huge opportunity in the mortgage market, and I think actually in the way the market's going at the moment, mortgages is a very sensible time to be actually moving forward.

If you look at personal loans, we've actually been carrying out quite a conscious repositioning of our personal loan book. Historically, our personal loan book came through two sources, the various direct providers which sat in Chris Sullivan's area and the branch business, which I think would be fair to say enjoyed a marginal premium pricing which came through Benny's area.

In this sort of economic situation we're facing now the trouble with premium pricing coming through a branch network, if you're not very careful you'll end up sucking in the borrowers of last resort. And similarly, you have to be very careful with direct provision as well. So what we've done in the last twelve months is we've de-prioritised quite a lot of our direct delivery and we've also brought Benny's pricing more down to what I would call a modest premium for convenience above what you can actually buy in the market. Now that obviously has taken some pain but we're now actually writing new personal loans at a higher margin than the average return on our book. So we've actually crossed that sort of inversion curve. Now whether we can stay there is another matter, because the market obviously has gone down, but I feel a lot better positioned for the economic conditions we're facing over the next 24 months than we would have been 12 months ago.

Credit card side's a bit of a mixed story: the balances are flat, but if you remember we relaunched the old RBS Advanta as Mint last year. It was a major success; we carried nearly 1.5 billion of balances at the peak. We've now stabilised, we've seen the runoff and the transfer onto to take on balances and the actual growth in interest earning balances will actually be nearly 18% during that period. This is slow and it’s ticking on very nicely in line with the historic rate and so are deposits.

There's a story within deposits though in terms of liquidity. Over the last 12 months I think it'd be fair to say we've seen utility bills, fuel bills, taxation under one form or another, all rising in double digits. We've seen average incomes rising probably around 4% with the exception of the City, of course, which always seems to be different. But the net effect on that for most of our customers is those items which are a direct charge on their incomes have obviously mopped up a huge amount of liquidity. And we've seen a significant flattening of the growth curve in current account balances that we've all seen over the last few years, and that has actually impacted. Now we could have balanced that out by actually managing back our savings rates, but we've preferred actually - we've taken a lot of time and effort building our savings position and we prefer to keep that going, and I'll talk about the net effect of that a little bit later under net interest margin.

Which brings us neatly to a repeat of Fred's slide: the bits we've highlighted there are the areas which relate to our retail business. Two of those ones we mentioned at the end of the year. I've touched on the organic mortgage growth, fact of life is as we get bigger in mortgages, it will have an effect on the net interest margin. But it will result in safe, profitable lending, economically attractive and bringing new ancillary business with it.

The consumer loan book I've touched on as well, we have carried out quite a conscious repositioning of our big personal loan book, we are writing business now which is not too far, a modest premium, over what you could get from a direct provider; and volumes this year are still running, obviously less than last year, but are running in double digits. Just over double digits, I suppose, would be the best average I can come up with, and bearing in mind the fact there isn't meant to be much consumer lending out there, that's not a bad position to be. And the credit scores we're actually turning in are well above what we used to write when we probably charged

2% or 3% more. So as I said, a much better positioning for the world we face in the next couple of years.

But the big change has been this issue in terms of the effective flattening of the growth of current account balances while we've carried on growing our savings book at a perfectly acceptable rate. If you look at some Bank of England data, current account balances really for the last four or five years have been growing almost year in, year out at double digits. In the last two years they've run down to 1% to 2% per annum, I see one of our competitors was actually talking about a 1% reduction. And that obviously has quite a major effect both on the overall quantum of net interest income you can earn, but also the mix that you actually get as well and that's what that number really means. Now it's interesting, so is this a long-term reality, is it a secular trend or is it just an effect of the cycle as liquidity runs down, and when liquidity starts coming back in again to the consumer then the current account balances will start building back up again?

I think that really just summarises the three areas I've just talked about. The mortgage growth, the deposit mix and then the consumer lending spreads. One of those issues is I would regard we are now effectively repositioned and the issue really is where the market takes us. Mortgage growth is actually a reality and an opportunity. Deposit mix is actually happening to us, rather than us actually doing anything. It's happening to our competitors as well. It will be interesting to see what changes over the next 24 months as the cycle starts to go the other way.

And then asset quality. As I said, I think is this my fourth slowdown that I can actually remember. I think we've seen the size of the bad debt elephant. It’s certainly a sign, if this is a cycle it's proving to be a relatively short one. I think I described it as a squall rather than a storm. Now the issue at the moment is that it or is there another wave coming? Well let me just tell you what we're actually seeing at the moment. Trend at 24%, mostly heralded last year, but really tracking through the fact that I think the basic economic situation is marginally worse than it was at the end of the year.

Let's look at the main ingredients sitting within that. The mortgage book is still incredibly strong. Our average mortgage book is on the lending LTV of something like 47%. The new mortgages we're doing are still around a very aggressive 60%. I have a sort of major problem with doing self-certified mortgages, so we don't do them. And buy to let I think is sensible, it’s about 10% of our new volume. Quality lending, a sensible margin on a risk-asset weighted basis which we don't tend to talk about in mortgages, obviously actually are very good proposition and likely to become more attractive when Basel comes at us.

Personal loan provisions growing broadly in line with the previous growth in the portfolio. No sign of deterioration, but this is going to be a long slog. This is not going to be a six month event. The interesting thing we could talk about no doubt over the questions is what happens in the economy over the next year rather than anything we particularly do. What we have done though is we've repositioned our credit metrics about a year ago and the new business we are taking on I would say it is definitely showing those signs that are characteristic in the business we took on say three years ago. But we are in the hands of the economy on that one.

Credit card arrears picked up quite steeply and was a subject of discussion at the end of last year. It was an industry phenomena; some of you will have had access to the APAX data, which showed what happened to the industry figures during the second half of last year. Everyone went up in a curve. We tracked that curve somewhere below it, which is where we've normally been positioned. Early days yet, but certainly the second quarter of this year has shown that curve flattening out. Again, whether that is actually a ripple in the pond, and whether that ripple is now going to settle, I don't know, but it has definitely flattened in the last three months at industry level and we are following the industry pattern.

Business loan provisions still tracking in line with the book. And interesting thing with this slowdown is it's very polarised. It appears to be almost totally in the personal sector. Last time around it started the other way. It started in Johnny's business and moved down. This time it seems to have started in the personal sector, been largely trapped there. We've got the odd small housebuilder who obviously is having to wait longer until he sells his houses. We've got the odd small retailer, but really no sign of contagion in small business book and obviously, if anything, Johnny's credit metrics are looking better every day. On the mortgage book, I mean the number of possessions we do is so small we can actually write the names on a sheet of paper. So the core of that book still looks very strong.

So outlook: this is a slowdown. It appears to be quite a shallow one at the moment. We are irretrievably linked to the retail high street. The word “Retail” in our title is not there by accident and it'll be interesting to see how the consumer in the retail high street begins to react over the next 12 months. Now despite that, because of some of our low market shares we have huge opportunities anyway. We have a huge opportunity in Wealth Management. I think it's now the fourth quarter of double-digit growth in that particular business. Coutts UK, I was just looking at some figures, I think we've more or less doubled the profitability now over 24 months and there's still plenty to go in some of these areas. Business banking: we are the number one business bank and there's no sign of anyone, our market share really being under serious attack. Our strength and our stability there is in many ways an adjunct to Johnny's strength in the middle market and that's an area where we continue to grow.

If you were looking at an economic slowdown and you were looking at maybe two years of this, I think if you wanted to be pragmatic then where would you choose to be? Will you choose to be in a group with a brand portfolio which runs through NatWest, Royal Bank, Tesco, First Active, Mint? Would you choose to be run at a profit offering that in some ways I can turn in any direction at 24 hours’ notice? We have merchant acquisition, we have card issuing. We're in Europe, we're in Switzerland, we're in Hong Kong, we're in Singapore, and we have service quality to do hard work of Benny's team in NatWest and Royal Bank, which either rates 1 or 2, or 1 or 3 of virtually every characteristic you can think of. For those of you who can drag you mind back to the happy days of NatWest, it was something like 1 and 7, if I remember rightly. A few of the ones in middle have disappeared in the interim. But I think we're well positioned for growth. It's going to be an interesting couple of years ahead of us, but we look forward to the opportunities in all our business, thank you very much. Larry.

Larry Fish: Good morning, everybody. Nice to see so many familiar faces. My first slide is, let's see, next. Our contribution is up 79%; that's made up of very good progress at Charter One. 2005 first half compared to 2004, there is a 19% go-ahead, and there's strong organic growth in the old Citizens, New England and Mid-Atlantic up 13%.

The business in the United States is quite diversified. Many of you who've been at this with me for a long time would know that. Besides being diversified, it is low risk. We don't do any capital market trading activities. The commercial part of this business is small and mid-sized companies. The consumer lending business is all [A-paper]. We don't do sub-prime lending. And finally the mortgage businesses, exclusively for our own customers.

I guess among the many nice things to report to you today, one of the best is the fact that old Citizens, even with the tremendous resource strain to accomplish what needs to be done in the Midwest and upstate New York continues to move ahead very nicely. Loans are up, as you can see here, 17%, deposits are up 9%. We've achieved the number two market share in Philadelphia, the fourth largest market in the United States. We've been voted in the last six months the best place to work in Delaware. It's not a big place, but it's the best place to work is Citizens. The best place to work in New Hampshire and the best place to work in Pittsburgh. We're the number one small business administration lender in the Mid-Atlantic and New England and we're very proud of the fact that we passed Bank of America as the number one share of market in small business lending in New England.

The most important announcement we're making this morning, and it's a happy one, a very happy one, is that we now have successfully completed the conversion of Charter One. I would like you to get a sense of what was involved here. Since 1992, all the way up to the Mellon acquisition, Citizens did roughly 23-24 acquisitions. If you put all of those together, they were about the same size as Mellon. The Charter One conversion is three times, was three times, larger than Mellon.

It involved the conversion of 10,000 Citizens systems in order to accommodate multi-branding, because the name in the Midwest is different than the name in New England and Mid-Atlantic. To accommodate a new time zone, people use a different clock in Chicago than in Boston; and to make sure that this conversion, nobody at Charter One would have their account number changed. It involved 2.5 million customers, 3.3 million accounts, 570,000 online customers, 774 branches and over 100 new products. And it included 1,760 Citizens' “buddies”. So over the course of this 14 month period that the conversions have gone on, we've had people from Concord, New Hampshire and Harrisburg, Pennsylvania and Cranston, Rhode Island, and Wilmington, Delaware going out to places like Syracuse and Toledo and Bloomington, Indiana and Naperville, Illinois, and living and working in the branches out there for periods of 2 to 3 weeks to familiarise their buddies in the Mid-West and upstate New York with how we do business. As a result of this effort, we were able to on the 21st July finish all the conversions. We had anticipated accomplishing that by the end of December and we're delighted to have that behind us.

Now as we were doing these conversions, business obviously had to go on and during this period at Charter One on the retail front we opened 102 new branches, we converted to 850 fig green machines, that's the signature ATM wraparound that we use across the country. We introduced our sales processes and our products, and we re-launched the Charter One brand. Charter One was red, white and blue; Citizens Charter One is green. We had to change the signs, we had to change the logo, we did all of that on Valentine's weekend, Valentine's Day weekend. And in places, major metropolitan areas like Detroit and Chicago and Cleveland, we provided on

Valentine's Day free gasoline for commuters at select stations to kind of call attention to the new brand. We've changed all the advertising and we've set up a new headquarters in Chicago, which I want to remind you is larger- Chicago! - than Boston and Philadelphia combined. This is what it looks like now, this is the new Charter One, green with the daisy wheel logo of the Royal Bank.

There's another implementation. We're doing the first ever test marketing of a combined Starbucks/Charter One Branch in the United States. There are five of these locations in Greater Indianapolis, Indiana and to date four of the five are doing very, very well. Coffee's habitual and you usually drink the same coffee every day. It's not only the coffee it's “the” coffee. And the concept here with Starbucks is that by co-marketing that our consumers can save a stop in their daily life; they can get their coffee and they can do their banking. So the hours are the same. We'll see whether it works or not but that's another implementation of the new Charter One brand.

On the commercial side, we've relocated 40 Citizens colleagues to different locations in the Midwest and upstate New York. We've hired new presidents in all six states. We've hired and trained 170 small business bankers. We will be the number one small business administration lender in the Midwest this year. On the commercial front we've hired 75 experienced relationship managers and have had some success developing relationships with Monroe Muffler, Boeing Aircraft, Albany International, Cleveland Cliffs, the largest mining company in the Midwest, Chemical Automotive and Ryerson Tull Steel, which is the largest steel company in Chicago. We're now offering our derivatives and foreign exchange in these markets, and so progress is being made on the commercial front as well.

Even as we've gone about converting Charter One, hiring and relocating new people and re-branding the company, we've had some growth. I think what's exciting about this is that now, with the conversions behind us, with the teams in place, with the company re-branded, now we'll have a chance to see what the full potential of the franchise is. But we did grow deposits 7% and loans 16% during this very busy period.

There's still plenty to do. We've got to integrate Charter One, we've got to continue to grow the revenues, we've got to improve customer satisfaction and service scores, we've got work to do on RBS link and the credit card, the most important thing we need to do now is move from conversion to integration. Conversion is just a point in time; it's the cost piece of it. Integration is where you get the revenue, where you begin to get people understanding what Citizens is all about, where you capture hearts and minds.

My favourite story about this, one that I wanted to share just to show you different conversion is from integration – integration takes years until people really understand that you believe in the customer, that you want to make it a nice place to work, that you give back to the community. About two years after the Mellon acquisition I was with a group of 14 or so branch managers in Wilksberry, Pennsylvania and one of the branch managers raised her hand, a lady from a little suburb of Wilksberry called Ashley, Pennsylvania, and she'd been in the same branch for 33 years. Two years with Citizens, 31 with Mellon. And she said I think I'm beginning to understand how it works at Citizens, I'm not sure, see if I got this right.

So she told the story of this very elderly lady coming into the branch, quite nervous and hesitant, and she pulled out of her purse a piece of paper about this size with a picture of her cat. Her cat's name was Fluffy and she said, she said, I've lost my cat, could I put this piece of paper up on the wall. And Barbara, the branch manager's name, said, at Mellon anything you put up on the wall was considered a solicitation and had to be approved in Pittsburgh. So, you know, this is time sensitive, right. The cat's lost. Ultimately they didn't find the cat anyway, but you certainly wouldn't have wanted to tell this elderly lady that I'll get right back to you, let me consult Pittsburgh. Barbara understood after a couple of years that it would be ok if she just put that right up on the wall. It's a small illustration of still the work that we have to do on integration so that the 8,000 new Charter One people will do the right thing and help us grow the revenues.

So the outlook is: Charter One's on track. If anything we're even more excited about the market opportunity than when we purchased it. Old Citizens is doing well, credit quality is good, we're still ranked number one of the ten largest banks in America, number one in credit quality. And the economy in the United States looks, looks very good. I expect that the fourth quarter will have something like 3.5% real growth, and inflation remains very low and interest rates are low and the economy looks quite strong.

Nice to be with you, and I'll turn it back to Fred.

Sir Fred Goodwin: Thanks, Larry. I hope that the three presentations were useful to give you really a more three-dimensional view of what diversity looks like and feels like at the money-making end of the spectrum. There are a lot of different aspects and layers to it. On the basis of you learning something new every day, I hadn't quite appreciated that the diversity extended to the missing pet service but I'm sure – I see Gordon scribbling here, I'm sure that's what he's probably making a note of. I'm conscious of time, but there are some important topics I'd like to cover and so I'll just crack straight on into those.

Usually at this point of proceedings I launch into the much loved ticks and crosses charts which we've spent many hours and indeed years discussing and debating, and despite a considerable temptation to do so again I'm not going to do that. I think we've reached the stage now in our relationship where it becomes perhaps counterproductive. I think they've served a very useful purpose in enabling us to telegraph strategic intent, strategic direction and thought to you. And it's certainly our intention as we go forward we should continue to discuss those issues, they're critical that we have a dialogue and can discuss them.

But the ticks and crosses charts I think latterly have started to become of more benefit to the sort of industry of speculation, indeed some of the more lurid speculation seems to find its root in things which appear in these charts. And so I think it's in all of interest to put that to one side. I also think that they've allowed some ambiguity to perhaps creep in into some quite important areas, and I'd like to begin by dispelling some ambiguity which seems to exist around some very important aspects of what we do.

In talking about non-organic growth, I think I picked that out because on the ticks and crosses charts there were always more ticks than were crosses about organic growth than anything else, but we never seem to talk about those so assume that meant that everyone kind of can get their mind around organic growth and what it takes and where it comes from. So I am not going to say, I mean there's much more to be said about that just now, non-organic growth, and basically any time we step out of our way, non-organic growth usually involves spending money and therefore it's a very important topic and it's very important that we all share an understanding of the rules of engagement and so it's particularly important that we have a clear set of rules of engagement.

Before we get the cheque book out, what we're trying to do has to be consistent with our strategic priority. It's not just going and buying something for fun or for a hobby or for something to do. And I'm going to be happy to tell anyone that's in any doubt about any of the acquisitions we've made and how they fit in with our strategy, I'd be happy to go through it with you but I think they are pretty clear and, in fact, the ticks and crosses chart served us quite well in positioning in people's minds why we were doing what we were doing. That remains going forward, we will only seek to do things that are consistent with our strategic priorities. And by strategic priorities I mean things like sustainability, lack of volatility, adding value. I'm not talking about just seeking diversity for diversity's sake. Those are the core strategic priorities that we have to add sustainable value for our shareholders.

Affordability: any thoughts we have about doing it has to be a condition of whether we can afford it. Resorting to shareholders for support is not an everyday occurrence, is not something we would see as an everyday occurrence or something we would do, likely. We have done it twice in the last five years, I think with good cause. I believe passionately we did it with good cause. But it's not an everyday occurrence, so affordability is a key criterion.

Appetite: so supposing there's something out there that fits with our strategic priorities, we've actually got the wherewithal to do it. Do we want to do it? Well, I think as with everything in life there are kind of limits, there are limits as to where you would want to get to in any particular product area. There are limits to where you might want to get to in any particular geography. There are just limits. With strategic investments, for instance, there's a limit. I mean we've not been big fans of strategic investments and I wouldn't see our appetite for strategic investment extending greatly beyond the level that it's at just now.

You have to add value: I mean this is pretty basic stuff here; I don't want to dwell on this. I know we've spent many happy hours talking about it. But there's no point in doing something just to meet some of the above criteria if it can't get through our hurdle rate of 12% IRR post tax, or as accretive for our shareholders. And I think you would see from some of the number that Fred Watt discussed earlier about some of the acquisitions we've made recently that we're well on track. We're either already above or certainly on track to deliver on all of those areas.

Maintaining the risk envelope is an important point. We feel we actually operate within quite a tight risk envelope, and that's not by accident. It's not by accident that the VAR in Johnny's business is £12 million. If we wanted to expand the risk envelope there are heaps of things that Johnny and Brian and the guys could go and do, and some of them may be good. But we have deliberately and actively constrained ourselves to quite a narrow risk envelope. The fact that we're not involved in some geographies and some product areas is not by accident, it's because we want to maintain a tight risk envelope and not spend sleepless nights worrying about the risks we have brought into our business.

And more than anything else this is a disciplined approach; this is not you know adopt this approach when it suits and we'll not adopt it when it doesn't suit. This is the approach. It's non-negotiable internally and do not expect to hear me coming before you to explain exceptions to these rules of engagement.

Turning briefly then to options for growth, on some of the typical – just so that the ticks and crosses don't die off completely I'll keep some of the headings just so you'll get some sense of continuum. Economic is in transition, but you know, basically the U.K. economy feels ok to us. It continues to grow. If someone had offered us the current rate of growth three years ago, I think we'd probably all have happily accepted it. Doesn't feel so fantastic, because it represents a slowdown on last year and slowing down is never a wonderful feeling. And I suspect if as I think we all suspect interest rates are cut today, I think that helps remove some of the past air of gloom that has hung over the economy. But net-net the U.K. economy feels ok, the prospects are satisfactory.

You would have got a sense from what Johnny was saying, what Gordon was saying, that we have diversity that does allow us to move along the waterfront as customer behaviours change. We're not locked into any particular dependency on any particular activities, I think that's important to our prospect for growth going forward. I just want to – this will hardly come as a surprise – but you know, I don't think there really is anything in the UK that we would be allowed to buy or that we're burning up to buy.

Europe: subdued is putting it mildly for Europe, but on the other hand we're not trying to cover the waterfront in Europe. Our activities are relatively niche and are in a relatively niche set of European economies. And economic conditions don't feel in any way, shape or form, a constraint on our business activities at the moment. What Johnny's guys are doing in Europe is that there's plenty of opportunity there. I mean, we're not bumping up against economic sentiment as a barrier at this point. You've got…Johnny covered growth in CBFM. Direct line would also tell you a story of strong growth in Europe albeit absolute levels and numbers are much, much smaller than Johnny is talking about. But we're moving well organically in a number of different European countries and we're not seeking acquisitions. By the way, of this should be new news but just in the interest of [enquiry] we're not seeking any acquisitions in Europe.

The United States: the economic prospects really feel pretty good in the US at the moment. Many of you might be surprised by that, and I think even our own view of the world has picked up since the first half and the prospects for the second half feel better in the US. A whole raft of things going on, and Johnny covered this one; I'll not repeat it here.

CBFM collaboration with Citizens is a subject that you will hear more about. Larry mentioned some of the derivatives and FX sales that have been made in Citizens. Those are all on Johnny's balance sheet. Larry gets a fee for selling those. But that is giving us a real competitive advantage in both of our businesses. Remember the cards businesses which we bought a year or so ago: good prospects there.

Charter One integration is going well. Larry made the key point though that the conversion is done but integration has still got a way to go, from which the last point I don't think will come as any great surprise and again its not new news, but we are thinking and America's conditioned as much as anything else by a sheer capacity to pursue anything other than what we're pursuing. It's great to have conversion behind us, that's always a bit of a high-wire act and it is a great achievement to have had to get that done so smoothly and so quickly but we have already bought a huge range of options of growth in the United States through the Charter One acquisition, and Larry and the guys and Johnny and his people are well engaged in delivering on those.

Asia: economic prospects in Asia seem okay. Our existing businesses over there continue to grow. We have our CBFM business and our Coutts business; both are doing well, organically albeit. You would remember on the slide for the rest of the world that the numbers are still pretty small. There may be potential for joint ventures, we've highlighted that before. The maybe aspects I think arises as much from a desire to get anything to fit the risk envelope as it does about whether there may or may not be business opportunities there. But I state again – I have no plans to return to this audience to talk about anything which does not fit the criteria I've talked about earlier and which does not fit the risk envelope of other criteria which we've set out.

Looking at acquisitions more generally: the ones that have delivered, I think you would have got a sense going through the numbers that Churchill is miles ahead of plan in terms of what we sought to deliver. And I think any qualms there may have been about Churchill as a transaction should be well and truly dispelled by the numbers which have been delivered in the first half. Similarly First Active, both of these are still yet to come up fully up to speed but the numbers are already there which I think support the decisions. And Charter One we're well on track, you saw some of the numbers there and that's before we start really putting the Citizens products out meaningfully through Charter One. And so you will get the overall picture that just by adding up all of the above that we're not actually planning to make any further acquisitions at this point. And guess what that means – we will not be seeking to issue any equity.

Outlook: we feel in quite good shape of our ability to deliver strong income growth. Underlying efficiency continues to improve. The numbers have moved, IFRS kind of moves the numbers around in terms of absolute cost-income ratio, but what's going on in the business is the same and is moving that down. Overall credit quality is good. I think we've talked enough about the retail, Gordon got into that in some detail, but you can see at Group level the metrics are all strong and indeed improving. Economic outlook across all of the spheres in which we're involved with, I think basically positive. And in short, to pick up the diversity theme again, I think the diversity of the Group does continue to give us a considerable range of avenues and options for growth, and more than anything else I think that should enable us to continue to deliver superior income growth, superior efficiency and superior returns going forward.

So thank you very much for listening and we'll now be happy to take any questions.

George Mathewson: We have to now move to questions. And could you all identify yourselves before you ask your question. The hands were up quick this time. I think you were first. Peter, yes.

Questioner: Just to rule out any ambiguity – are you saying that the 12% hurdle rate would apply to any passive investments that the Group makes as opposed to acquisitions?

Sir Fred Goodwin: It would apply any time you get the cheque book out, Peter.

George Mathewson: Back there to the left.

James Eden: Good morning it's James Eden from Dresdner. It seems to me that there's a management discount in the share price, which I don't think is warranted. Do you agree that there's a management discount or can you think of another reason…?

Fred Watt: Oh no, we don't agree with that at all, of course.

James Eden: Do you think there's another reason why the share price is so cheap?

Sir Fred Goodwin: Sorry, can I hear the first part again?

James Eden: Do you agree that there's a management discount, or can you think of another reason why your shares are so cheap?

Sir Fred Goodwin: There seems to be a variety of views out there I think, I can certainly accept there's a discount in the share price. I think there are a number of, a variety, of quite lurid rumours going about, about things that we are thinking about doing or have done or are about to do, I think. I'm keen to close that industry down. I think if you look back to what management actually says and what management actually does, I'm happy to stand by that and be judged by it. As I'm happy to stand and be judged by the results we've delivered to date.

Fred Watt: Could I ask you to define the term management discount?

James Eden: Well, I think there's a perception among some investors that Fred Goodwin is a megalomaniac who pursues size over shareholder value, and that that's the reason why Royal Bank trades on 8 x 2007 earnings, whereas some of your peers trade on earnings multiples much higher than that.

Sir Fred Goodwin: I think I remember reading that even in your own note, James, so it's not the first time I've heard that and I'm sure. I'm sure there are people who think that, if only because you wrote it. So last year it was one person who thinks it. I really don't think it stands a lot of scrutiny in terms of what we've actually done. I think the results you're seeing today demonstrate delivery against a quite clear, coherent strategy, and one which we've executed with, I think, considerable internal discipline.

But I don't enjoy the rumours that go about any more than you do. I don't enjoy our shares having a discount any more than you do, and I'm very anxious to dispel rumours or concerns of that nature and that's why it's always been very important to me to maintain an open dialogue. And I've got the scars on my back from ticks and crosses charts in the past, but I think it was better to try to outline what we're doing and give people a flavour of it than just to spring things on you by surprise. And I think that has borne fruit. But I think we move on now into a different style and different form of dialogue.

George Mathewson: Right in the middle. Tom.

Tom Rayner: Yes, thank you. It's Tom Rayner at Citigroup. It seems a bit boring now to ask about margins, but I'm really interested in how the drop in the net interest margin translates to a movement in the underlying return on risk weighteds. Now, I don't think we've had the pro forma risk weighted, the risk ratings restated to a pro forma. I'm trying to get a sense to how that underlying return would have moved, because if it's mainly about mix, I guess you'll be looking for revenues elsewhere, or maybe lower bad debts, but it should all fall out at the return on this weighteds line at some point?

Fred Watt: Yes, when it's adjusted. You're absolutely right, you'd have to look at all components of the P&L. And if you take mortgages as a good example, I'm not even sure that the risk weighting under R1 properly takes into account the real risk-adjusted position of that type of business. So yes, I mean you could look at it that way, but you'd have to look at the full P&L in terms of bad debt position as well and full income, full net income, against balance sheet usage. We are very comfortable with all the return hurdles that we do on all of our lending in all of our uses of the balance sheet, so if we can help you further, we'll try and do that.

Tom Rayner: Ok. Thank you.

George Mathewson: Simon.

Simon Samuels: Thanks, it's Simon Samuels at Citigroup Smith Barney as well. Another list of boring questions actually. Well, the first one actually is really slide 19 of Fred Watt's presentation, just looking at the bad debt charge for each division. I assume that you have these numbers for the second half of 2005 on a pro forma basis, as indeed I guess you do for most of the other numbers. So can you just tell us what those numbers were, because I'm trying to get a sense of the pace of deterioration under the standard accounting treatment for the different divisions in credit quality?

Fred Watt: Yes, I mean, we obviously, today is a half year presentation, we haven't got into the full year pro forma restatement, but we have given you guidance overall about the full year impact of IFRS and there's nothing in these numbers, if you were to look at the trends here about pro forma adjustment, that you applied yourself to your own model for the full year, that you should be worried about taking this trend and applying to your own spreadsheet.

Simon Samuels: Well, yes, sorry, I'm looking at the provisional numbers. So Retail Banking and Retail Direct bad debts for the first half of this year, how do they compare to the second half of last year on the new accounting basis?

Fred Watt: I haven't got the exact number here, Simon, but those underlying trends we're showing you is not being distorted by IFRS only just in the first half. So if you do the numbers for yourself in the full year, given what we've given you for the first half, you'll get your own underlying trend as being broadly similar.

Simon Samuels: On the same vein then, is exactly the same true on the margins, because the group margins obviously stepped down sharply in the first half of this year against a year ago? We don't know on a new accounting basis what it looked like in the second half of last year. So, I think that you're right to assume that the margin decline that you see in the first half of this year has all happened in the first half of this year, or was it, had it largely happened or partly happened in the second half of last year? And are margins up, down, sideways in the first half of this year from where they were in the second half of last year?

Fred Watt: Things will be broadly similar on a full year basis, Simon. We've given you pretty helpful guidance, I hope, on what the pro forma effect is on IFRS. We're not trying to pretend or suggest anything in the first half is not representative for what we see in the full year. So absolutely, the trends are similar.

Simon Samuels: Ok, thanks. Could I just ask a question of Sir Fred as well. On the cost-income target, a few years ago you obviously had that 40% costing, or to go below 40%, and you kind of just about got there now when you adjusted for IFRS and the acquisition effects as well. But in your last slide you spoke about an improvement in underlying operational efficiency. Can you just sort of translate into what is your aspiration for the cost-income target? Can you maybe even target another attempt at going below 40%?

Sir Fred Goodwin: I'm sorely tempted to, Simon, to be candid. But, IFRS has moved the bar as you know, and as you understand. If you remember when we articulated the original target, it was that it would take effect in 2006, so there are still benefits to come through from the group efficiency programme that we launched to bring about that, there will it begin with a three promise. But there it will begin with the three promise was in old GAAP money, if you like, and so the bar has now moved up. But the underlying improvements are still coming through in the business. But we are, as you have kind of inferred, getting into the sort of smaller movements now as we've got closer and closer to that rate.

It's very tempting, and in my inner self I probably have, but I thought we might like to get to something that begins with a three some day. But the danger with it, of going after it for the sake of getting to it, is that it could actually harm the business. There comes a point and it's quite a fine judgement sometimes as to when you've just gone too far taking cost out of the business. So we're getting close to the optimal level of cost-income ratio for a group of our size and components. But a shorter version of the answer is, we're not planning to take our foot off the pedal, but whether it will begin with a 4 under IFRS is a moot point.

Fred Watt: You wouldn't not do one particular kind of business on such a good business, just because there's a low cost-income ratio.

Sir Fred Goodwin: We'd never have done that.

Ian Smillie: Thanks, morning. It's Ian Smillie from ABN. Two questions please. The first one, with risk weighted asset growth in the first half I think was 13%, Fred, if we adjust for the FX that you said it comes down to 10. By division, could you give us a guide as to what's driving that number for the three main divisions?

Fred Watt: Well, I'll give you an outline. I mean there's a large part of it, in what Johnny was saying about the pickup in large corporate and in European business. And it's probably unusually high in the first half in that regard in that towards the end, probably through the second quarter, we saw some pick up in activity. So it doesn't translate into the average performance yet, but that's a big part of the movement that risk weighted assets would be in corporate banking, in Citizens and in Charter One as you've seen, in mortgages as you've seen. So, you've got a very good idea just from the comments we've said about underlying growth in business volumes.

Ian Smillie: Thank you. And the second question with that in mind is: could you share with us how you think about the profitability in each division, how you measure that? And do you manage the profitability of the Group given the different levels of profitability across each of the divisions? Really, where I'm going here is, we would guess that CBFM will be materially less profitable than the Retail Markets business now that is growing faster, much as it’s EP positive by division it will have a negative drag effect on the Group. So could you share with us how you think about that dynamic, please?

Fred Watt: Let Johnny open the batting [unclear].

Johnny Cameron: When you say profitability, you're talking about return on capital, aren't you?

Ian Smillie: However you choose to measure it. We would look at return on capital and return on risk-weighted assets. I'm interested to know how you measure it, firstly by division and then secondly how it's managed at Group.

Johnny Cameron: We look at all these things and return on risk-weighted assets and probably the revenue on risk-weighted assets is, I find the most helpful although we look at all of them. And the key is to keep the ancillary income up and the record so far is that our return on risk-weighted assets has been stable.

Fred Watt: And I don't think it matters at Group level either even if you take a view across the division as a whole. But the profitability of the business is influenced ultimately by what we do at the coalface so having the sort of controls and the view that Johnny describes over transactions as they come through is a principal focus.

Ian Smillie: So if the level of average group profitability versus risk-weighted assets comes down because of the changing shift across the different divisions, that's just how it is?

Fred Watt: No, I think, for instance what proportion of assets we choose to hold as opposed to distribute is a metric. So return on capital at group level is an important consideration for us, its on an equity…all the other measures at group level are as important but Johnny's business has a number of choices which can be made about what we hold versus what we distribute. So at Group level and certainly on how the Group balance sheet is looking I don't think we do anything that is particularly remarkable there, but we would look obviously at the level of returns we're generating on the capital that we're absorbing.

Ian Smillie: Thank you.

George Mathewson: Mark.

Mark Thomas: Thank you. So it's Mark Thomas, Keefe Bruyette. Two unrelated questions. Just on the sustainability in the corporate bank, could you break down the other 'other' income as to how much in both halves were private equity and how much was actually the mark-to-market gain?

Johnny Cameron: Relatively little mark-to-market is the answer. We had a good first half in other 'other' as you call it and a rather poor first half in 2004. Second half 2004 was sort of more at the average, if you follow me. And second half this year I expect to be closer to the second half of 2004.

Mark Thomas: Ok and the second question is more a strategic one. Two or three years ago you were talking about "mercy killing" sort of weak UK retail banks, and yet if we take Retail and Retail Direct, the profit growth here is worst than I think than most of us would have identified as the target and that's even before we've put any marks across it. The diversity clearly didn't work in the first half, so going forward why is it going to work and why are you going to get better growth in retail than your peers?

Fred Watt: I think, I wouldn't, you'll not be surprised with that. I mean, particularly at the view that the diversity didn't work, I think Gordon spent ten or fifteen minutes kind of explaining why we think it did. But during the first half we have seen a transition in the business away from being led by a particular type of activity into being led by another. I think Gordon spelt out pretty clearly why we feel positive about the prospects going forward.

I think it's also worth looking you know at the prognosis for businesses should not be determined based on any sort of six month period. If you look at the performance and delivery of Retail Direct and Retail over the last five years, I wouldn't think you'd see much comparison with any of the so-called mercy killing targets that at one stage appeared on the radar screen.

Simon Maughan: Thank you. Simon Maughan at Dresdner. I have three questions, but hopefully they'll have short answers. It's all to do with costs. Firstly, was I right to, or am I right to infer from the presentations that year on year cost growth in CBFM in the second half will be noticeably lower simply because of the reduced level of investment spend in the US? Secondly, should I also, or am I right to assume that the, what you might call exceptional costs going through the P&L in the second half have been, will be markedly lower than the first half because of the early completion of Charter One? And thirdly, is there an ongoing cash spend element of the either restructuring or integration charges simply because a group of your size always has some new efficiency project starting up?

Fred Watt: Let me just try and pick those off, I think in the interests of brevity then: yes, was the answer to the first one, I think that was a one-off last year.

The integration cost you're talking about, there's a kind of lump in there which has been caused by, about 140 million, which is a resurrection under IFRS of some of the old NatWest. Its software cost which we wrote off has been resurrected as a sort of one-off attraction for this, basically for this year which is causing that number to be higher than it would otherwise be. Charter One certainly cost us [dearly] with conversion, our behind is albeit there tends to be decommissioning and so on to come through, so there'll be some costs from that. But as Larry said there are other aspects to the integration program that have costs associated with them going forward. Things like group efficiency program and so on are expensed; they're not out through integration. Integration is just integration of acquisitions, it's not, and I talked about you know, efficiency programmes and so on, we take that on the chin through the P&L.

George Mathewson: Michael.

Michael Lever: Hi good morning, thank you. It's Michael Lever at CSFB. I just want to go back to the subject of margins. For me at least I think the surprise in the result was the rate of decline in the margin, and I think I'm probably right in saying that rate of decline in margin was probably more than the last five years put together and certainly didn't correspond to one of the famous Arrow Charts that were missing from this morning's presentation.

So I think my question is in two parts, really. One is where you see margin trends going forward; and the second is that if I look at the consequences of the rate of balance sheet growth together with the margin, it appears that you are barely financing the growth rate in risk-weighted assets in the first half of the year, because as you've shown the Tier 1 ratio has barely changed but you have raised some preference capital. So I'm interested really on the relationship between margins and balance sheet growth and also your prospects for the rate of decline in margins from here going forward, because it is quite an unusual rate to decline compared to history.

Sir Fred Goodwin: Yes well I think, I'll get Fred to pick up the second part of the question, Michael, but the first part – yes, I mean I think what we have seen was a particular set of circumstances in the first half of the business when the, if you like, mix of our business activity changed quite markedly from where it was. And as Gordon took you through, that has a consequent effect on the margins.

There is sometimes a temptation…the essential business choice we had was do you hold the margin and let the volume go or do you take the volume and take the margin consequence, and I'm clear in my mind that we made the right call to keep the franchise going forward. It would've been, I accept, closer to the famous Arrow Charts to have stood back and said no, we'll just not bother taking the volume, but that didn't feel like the right business decision. I think the important thing always is taking the right business decision as we go, and that is clear with that.

But we have seen, I think Gordon did go through it, I'm sure he would be happy to go through it again. But what took place during the first part of the year, we could argue that we could have prepared for it better by bringing margins down more over the last five years, but actually the right business decision seemed to be to take the margin while it was there, but recognising there was coming a point when it would shift and it shifted quite quickly in the first half of the year, I would accept.

Fred Watt: And the second point, I mean I have said risk-weighted assets were probably unusually high towards the end of the first half. We would see that slowing down the rate of growth in the second half and, as a result, capital generation picking up a bit in the second half. And it's just one of the phenomenons of having cut-off at a particular point in time so we would certainly see net capital generation in the second half.

Michael Lever: Sorry, if I could just briefly come back, boring you on the margin, are you saying that clearly you've had – for business reasons which I understand, you explained clearly – a step down in the margin to a new base. But what I'm still seeking is some sort of guidance of whether you think we're now at a new base, we're back to the rate of sort of historical attrition margin that we've been used to seeing for Royal Bank, or will we come here again in six months time and see another 20 basis points off the margin?

Fred Watt: Well I think, that probably [there's a lot to dig] in to specific figure forecasts at this point but you've seen the bulk of it. But to come back to, you know the business is even, it's not so much that the margin disappeared somewhere it was just that the mix changed, which sort of mechanically, but what we're selling mortgages for and what we're selling loans for wasn't dramatically different from what they were being sold at before, but their significance as a part of our business, which I think Johnny's activity in large corporate. And I think that the margin movement in large corporates isn't dramatically different from where it was before, but as that piece of activity picks up it has an impact on the overall level of margin but the business we're doing it as profitable as it was before. I mean, you understand the mix; I don't need to teach you how to suck eggs, Michael.

I don't think that the, I think we'll be getting closer towards a historical trend in the second half, I don't want to get sucked into it will be *x* or *y* percent. For the same reasons as we need to make the right business decision and depending how the [unclear] I think we'll…nobody's passed me a note to say whether anything's happened yet from the MPC. You know, we're about to see possibly a discontinuity in the development of interest rates. How that will affect behaviour I don't know. I think it's important that we keep the decks clear to be able to respond to it in the right business way. Do you want…? Sorry, Johnny…

Johnny Cameron: I just want to add one thing to that. I mean in the large corporate sector, I don't just look at NIM I look at income, because I mean the whole point of dealing with large corporates is you're not expecting a lot of NIM by definition, you're expecting ancillary income. So I think for CBFM, the right metric is to look at income over risk-weighted assets, not net interest income over risk-weighted assets.

Sir Fred Goodwin: Right now maybe that goes partly to Ian's point earlier on that in looking at a relationship with an individual customer then it's not just the decision's not binary based on the actual margin under loan. We do measure the other revenue which we generate off the back of that relationship to come to a conclusion to whether the customer is or is not profit on that. And that certainly leads to regular discussion as to whether relationships are or not profitable, but it can lead to either, it can produce the situation where the margin's going down but actually the profitability of the business is going up.

Michael Lever: Thank you.

Nick Lord: Ok, good morning. It's Nick Lord from Deutsche Bank. If I can just come back actually on Simon's point on the retail bad debt, if you like in the new pro forma accounting as opposed to the old IFRS Lite. I hear what you say about you're not trying to signal anything different in the growth rate going forward. I suppose what I'm interested in knowing is was there a radically different bad debt charge in the Retail Bank in the second half of last year under full IFRS than there would have been under the first? Or can we effectively use the difference between full IFRS and IFRS Lite retail bad debt charge of the first half and run that through to the second half?

Fred Watt: Can't answer [unclear], Nick, I mean I don't have that detail in front of me, but we're not signalling anything that you should be seeing as a dramatic trend difference on your full year IFRS pro forma numbers.

Nick Lord: But we won't get a surprise, if you like, by the size of the second half bad debt charge in the second half [run off]?

Fred Watt: I don't believe so, we're not indicating any trend shift at all here.

George Mathewson: Far right.

Martin Cross: Thanks. Martin Cross, Teather & Greenwood. Could I just for the avoidance of doubt go to the 'Options for additional growth' Asia slide where you say there may be potential for joint ventures. A joint ventures is in my book a new entity where you take a 50% participation – are you here ruling out minority participations in existing institutions in Asia?

Sir Fred Goodwin: I don't think of it as ruling anything out particularly, Martin, but it's highlighting that, you know, appetites for minority investments in anything is extremely limited and conditioned, you know, based, it's not a million miles from our existing… Any appetite we have is not a million miles away from the appetite we've got in the form of our investment [standpoint]. My definition of joint ventures is very similar to your own.

Martin Cross: Thank you.

Jonathan Pierce: Jonathan Pierce from Credit Suisse. Can I come back on [a capsule] actually? Because, and it does look as though the equity Tier 1 ratio has slipped, even if you normalise the big final dividend coming out across the full year. And I accept risk-weighted assets may have been pushed up a little bit by the exchange rate, but there has a been a what looks to be a proportional increase in the FX reserve within equity as well, which I think probably contributes towards the Tier 1. So I'm just wondering, in that context, is it sensible to keep pushing the dividend up at a rate of growth considerable higher than EPS? Will that continue going forwards? And if the equity Tier 1 does continue to slip, at what point do you become uncomfortable with it – I think it's about 4% at the moment?

Sir Fred Goodwin: I think in terms of dividend, we always avoid creating any hostages to fortune. I think when you look at our dividend, there's clearly scope for it to increase. The dividend cover's very strong, but yes, when looking at dividend at any point in time, the Board are mindful of a variety of different considerations, but in paying this level of interim dividend, it's not something that anyone's uncomfortable with.

Fred Watt: So the core equity number is slightly higher than it was at the previous year end on an old money basis. I mean you've got to take account of IFRS adjustments which obviously apply to core equity. So it's slightly improved for the year.

George Mathewson: Are we all done?

Fred Watt: There's Simon… [unclear]

Questioner: Just got two questions. One is on IFRS – I'd like to know the judgement of the management about whether they think IFRS is a better guide to the profitability of the Bank than UK GAAP? It's important, in particularly knowing how you run the Bank, and how we see the Bank, I mean whether IFRS is a better guide to the profitability.

And I also, I'd like to just, I think it looks like Retail Direct has borne the brunt of the IFRS changes, and on my spreadsheets the contribution from Retail Direct last year in the first half was 480. It looks like it's 364, and second half is 560 under UK GAAP, and now we seem to be down to 325 in the first half this year. What's happened to Retail Direct – is it something to do with the accounting or is it some reallocations, or what?

Sir Fred Goodwin: You want to deal with that last point first [unclear]?

Gordon Pell: Yes, I mean it's the, principally it's the provisions charge in our retail group are up under IFRS, so most of the difference from year-on-year in Retail Direct is just that. At that sort of operating profit level, that's one part. PPF, obviously we've got half the share in now in profit than we had last year because of the way you have to account for it in IAS. Same earnings impact, but half the operating profit. These are two big impacts on Retail Direct that come to mind. Nothing to do with underlying profitability.

Fred Watt: Yes, to the first part of the question, James, what the management think about IFRS. I'm not sure now would be the right, opportunity where we can give our most balanced response. I mean clearly it has been a considerable overhead for the guidance plans just to get these numbers out and to produce the pro forma basis has been a considerable piece of work as well. And Bobby, I think it does help you to get, going on to the pro forma basis really helps you get a better understanding of what's happening in the underlying business.

As we go forward, will it give a better picture of the business or not? It wouldn't surprise you to hear me say that it will introduce more volatility into some of the measures, and won't do that any differently for us than it will do for other people. I think it will settle down. I think the basic economics of what we do remain the same under it, but the recognition is different. I think the most important thing with any sort of accounting standards or anything else, is that everyone understands them, so we can establish some commonality of understanding.

At the end of the day, all it's meant to do is be a set of rules that mean when we say something, you guys know exactly what it means and what basis it has been determined on. I think it would be going, it would be saying a lot to suggest we're at that place today, because you know everybody's a bit at sea with IFRS. I think as we go forward it will be fine as everyone becomes accustomed to the new measures. I think the fact that it gives you a greater degree of international compatibility is a good thing.

If you'll let me, I think I would happily have a debate some night over a glass of wine or something but whether you know individual standards and whether they're for the greater good of mankind or not, and you'll probably already know some of my thoughts around that. But I don't think it will make the business hugely more transparent than it was before, but I think it'll become more transparent than it feels today once everyone gets accustomed to IFRS.

Robert Law: Robert Law of Lehman. Could I ask you to comment a bit on the prospects for RBS Insurance, please? Obviously it's grown its profits in what is a pretty tough environment; could you just comment about some of those issues on the sustainability of that?

Sir Fred Goodwin: Yeah. No one better equipped than the person sitting in front of you, Robert. I think I'm going to get Annette to.

Annette Court: Yeah, I mean as Fred Watt said in his presentation, the motor insurance market is extremely competitive at the moment. We're now entering, I think it's the third year running where premium inflation has been less than claims inflation for most reinsurance. What we're currently seeing is claims inflation running at about 6% and motor premiums being pretty flat.

I think it's important to say though that, again as Fred said, is that there's some quite positive signs now of rates certainly not falling any further, and some signs that they may be slightly recovering. And I think this is partially down to SAC, but we are seeing a slightly more disciplined marketplace than we have seen in the past. So really, that's where we stand with regard to motor insurance, and home insurance. You know, essentially we're seeing premium inflation pretty much in line with claims inflation. Ok.

Fred Watt: Thanks Annette.

George Mathewson: Simon.

Questioner: Thanks really, I just thought I'd take advantage of Larry being here actually to just ask a question on Citizens [glove]. Fred's slide but very [unclear] on the US said no capacity for acquisitions in the US and obviously the integration sounds like it's running ahead of schedule, and I guess in time it's going to sort of free up management capacity. I was wondering kind of what you think we should be expecting over the next sort of two to three years in terms of M&A ambitions within the US Charter One footprint and Citizens' footprint in terms of, you know, size, timing, etc.?

Larry Fish: Well, I think I shared last time, I have a view that in one sense the consolidation of the banking industry in the United States is in its first and its important phase over. But consolidation will continue. It's over in the sense that there are going to be six or seven or eight banks in America that dominate the payment system, that control 60 to 70% of all the deposits in the

United States. And we know at least who six of those are. There's Citi, Banc of America, Chase, JP Morgan, BankOne, Wachovia, Wells Fargo and Citizens. There may emerge one or two others. There will still be 8,000 banks. There are 402 banks in Chicago, and some of those little banks will merge with each other and create a little bigger bank, and then they'll get bought by one of these six or seven.

We have a 13 state market now. We have strong positions in three of the five biggest markets in America: Chicago, Philadelphia and Boston. There is plenty to go for. We don't need to go to Atlanta. We don't have to be in Phoenix. Our markets are congruent, and they offer lots of potential. So when we get through taking advantage of the opportunities in those markets that are in front of us with Charter One, if you look out a year or two, will we have opportunities to increase our market share in places like Detroit and Rochester and Chicago and Connecticut, or even further in Philadelphia? I think we will. But it will probably be along the lines of returning to what we know well and have done over so many years, which are two or three kind of smaller sized, in-market, lots of synergy acquisitions in the footprint that we're already in.

George Mathewson: Ok, I think we're getting near the end. The middle here.

James Hamilton: Thank you. Good morning, it's James Hamilton at West LB. I also have a question for Larry. I think you indicated that you saw the economic prospects for North America being, if anything, a touch better in the second half, and clearly there would have been some disruption with the programmes you have put through to convert Charter One well ahead of schedule. Because of this, would it be fair to assume that you would anticipate that the organic performance of both Charter One and Citizens will be better in the second half of the year? And related to that, because you've completed the first phase ahead of schedule that the pull through of the positive synergies from integration will also come through ahead of schedule?

Larry Fish: I think it would be right to say that our prospects are good and that Charter One is on track. And I mean when we took over Charter One they had fewer commercial relationship managers than Citizens had in the state of New Hampshire. We now have 75 full-time, experienced relationship managers throughout the markets and plans to increase that somewhat. We do about five home equity loans in a Charter One branch a month. We do somewhere between 8.5 and 9 in old Citizens. So we still have a lot of work to do, as I explained about integration, but now our focus is very much on growth and revenues, because the economies that we anticipated as a result of the conversions are behind us. So I think the economy is positive, and I'm hopeful that we'll stay very much on track, if not better.

Sir Fred Goodwin: Ok, ladies and gentlemen, I think we have to draw this to a close now. Thank you very much for your attendance and for your questions.