

Royal Bank of Scotland Conference Call
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Chaired by Fred Goodwin

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Fred Goodwin

Good morning everyone thanks for dialling in.

I guess you've all had a chance to have a look at the pre-close trading update. I've not got an awful lot to say about it, there shouldn't be anything in here which would come as a surprise to you, there's no new news or I think any hidden meaning, the business is very much on track, we are continuing to see strong income growth. Cost income ratio continues to improve, credit quality's stable, margins stable and the acquisitions are all on track as we indicated to you quite recently when we spoke about the Charter One acquisition and indeed when we spoke at the AGM, so very much a continuation of the trend that you've seen for some time now. I don't think there's anything else I really want to add at this point but happy to take any questions that you might have. So shall we open the floor open to you?

Simon Samuels – Citigroup

I just wanted to see if I could encourage you to just talk a little bit more about the marginal outlook for the second half of 2004. I understand your commentary is very literally up to the end of the first half and in particular sort of just to touch on two areas, one is the sort of higher levels of interest rates, as your hedge tends to fade away, gives the impact you know the full year, the full half year impact of rising rates, so that's one aspect, I was hoping you could expand on?

And then secondly your commentary today talking about margins being impacted by mix you said, I think we all kind of understand the first act of acquisition, that's straight forward, but you cite specifically strong growth in mortgages, which, clearly are a thinner margin asset class than other consumer areas but at the same time the trading statement you talk about, you know subdued growth in large corporate lending which you know I would have thought would be a positive for margins because that's a thin margin product. So I wonder if you could talk a little bit going forward in terms of the mix effects as well within the asset classes?

Yes, dealing with the last point first, we were not seeing any shrinkage in large corporate so it continues to grow, it is just subdued, I guess where some of us might have thought it would've been. What I've seen, the positive I think you know lean to from any reduction in that business. The outlook for margins going forward is pretty stable Simon as ever you know, that are swings and roundabouts, ups and downs but they principally are from mix rather than any sort of competitive pressure in the margin. Some of the structural pressure, which we have been experiencing for some time as we talked about before with the result of lower interest rates is obviously starting to ease a bit as rates go back up. So outlook we think you know relatively stable. We are in the small number of basis points rather than anything drastic. The positioning of the book in going forward in relation to rising rates, I think it's pretty favourably, marginally favourably as opposed to being hit by rising rates.

Anything to add Fred?

No, not really Fred the rental asset point I hope you take as a sort of technical line in the accounts point. It's just that the funding of the investment property in rental won by an entire book, clearly the cost of that goes around rather than on the income from that on interest income, so again that's not an income issue, it's just a presentational issue. No, I've nothing else to add really.

Sorry, if I can just come back on that, your comments about positioning of the book is you know disposed to rising rates, I mean has the benefit of that been seen in the first half of this year, or is that a benefit that's still to come because of the you know the fading of hedging etc, etc?

I think it's more to come than in the first half, I mean clearly we've only had a couple of rate rises recently and very recently as you know we do hedge our interest free funds on a longer term basis and that hedge is probably neutral now for the first time and will be positioned thereafter to benefit from any further rising values going forward.

Thank you.

Thanks Simon.

Paul Measday – Execution

Just a couple of quick questions. First of all in terms of the comment on dealing profits, I wonder if you might expand on that a little bit, as I'm taking your comment to refer to half 1 04 against half 1 03. I wonder if you could comment specifically on Q2 against Q1 and whether you would still say underlying momentum continues to be positive? And the second question is, just leading on from Simon's point about the margin. Could you comment upon any credit card pricing changes you put through in light of base rate changes in the UK? Thanks.

Again, we'll be dealing with the last point first. I don't think we've put through any credit card price increases at this stage in relation to rising rates or anything of particular note on the credit card front. Dealing profits, I think we're wanting to paint a picture at this point of steady progress. I mean our dealing profits as we've highlighted before relates to business that we do for customers, so they've had a greater inherent stability in that than if we were to do more proprietary trading, the trend line...we put a slide up at the full year results showing our half by half dealing profits. Were you to see an equivalent slide for the first half, I don't think you would be particularly surprised that the trends you were seeing.

Okay, great thanks.

Richard State – Societe Generale

Hi Richard.

Hi, just on your comments on a reduction in the cost income ratio and improving efficiency, I would have thought that the simple mix change from bringing in

Churchill into this first half would be enough to actually reduce the cost income ratio by a reasonably significant amount. If we were to strip that out are you seeing a reduction in the cost income ratio in your other businesses?

Yes.

Right, okay, thank you.

No, I mean we are, no I'm not trying to be funny but we are, there's an underlying improvement as well as the Churchill effect.

Right, thank you.

Michael Lever – CSFB

Good morning, I just wanted to ask a question on credit quality. It seems to me you are just signalling a rise in the absolute level of provisions but a fall in the charge relative to total loan growth, compared to last year with a few basis points. I wonder if you could just say a little bit more particularly on the retail side about what you're experiencing, is this simply just provisions going up in line or in fact slightly less than volume or are you seeing any pressure on the retail books at all?

Nothing drastic Michael, I think, as we highlighted in the year the movement that you'd see is really to do with the growth in the book that there's been over recent years as that matures through into the charge, so I think your summation at the beginning I think is right, that the pound note amount of the charge is going up but as a proportion of the book you are continuing to see the decline that was evident in last year.

Thank you very much.

Peter Toeman – Morgan Stanley

Just two things really, I noted that general insurance premiums seem to be under a degree of pressure from slowing with industry data and yet in the commentary it doesn't seem to have come through to Direct Line, looking at your commentary on general insurance, so I wondered if some of these industry trends are impacting Direct Line. And second I just wondered if you could just give us some confirmation about where you felt market expectations were you know certainly for the half year and for the full year.

Okay, as far as Direct Line is concerned, I mean I think we would agree that there's pressure on premiums in the market but I mean that in itself isn't new. There's always a fair degree of pressure in the market, it's also worth bearing in mind that Direct Line has, there's quite a lot to Direct Line business that isn't just insurance in the UK. We've also got overseas business, or the overseas part of it, which continues to do well. There's a roadside rescue business in there and there's all the partnership business insurance that we provide through other peoples brands. So the income side in Direct Line, it has had as you'll remember extremely strong growth over recent years, so you know Direct Line's growth can moderate without getting to a place

other than still representing very strong income growth. So I would accept the general point but the income growth in Direct Line remains strong. As far as the consensus is concerned, there's hardly anyone that we can see out there for the first half, from what we can see, there isn't much activity at these levels but at 3.7m to 3750 for the full year round about the 7.8m seems to be the kind of number.

Thanks.

Thanks Peter.

Michael Lever

Hello again, just a question really on more strategically in terms of acquisitions. I mean I think you give excellent disclosure on you know your strategy and possible ideas ...

I'm just writing that down Michael, hang on give me a minute.

I wonder if you could say anything about the sort size of acquisitions really that you might contemplate in the next couple of years. There must be a presumption in the market now that while you continue to make sort of bolt on acquisitions in the sort of areas you've indicated to the market that anything on the sort of multi-billion pound or dollar nature should be considered off limits now for a period of time, which might be let's say the next couple of years or so, would that be fair?

Well I never like to create hostages to fortune Michael. Our focus is entirely on getting on with what we've got to get on with and we've got a fairly full agenda of things to do but I think it would be rash to start putting time limits or you know inhibiting our future flexibility but I mean I'm not trying, I'm absolutely not trying to set hares running but I think as a point of principle, I'd avoid ever signing up to statements like that. I think the general thrust of the question is right, that we're really busy with what we've got on our plate and it would have to be something pretty remarkable I think to give us in the near term, whether the near term extends out to 2 years or not, I guess I'll tell you better once we get into Charter One and get on with all the hard work that needs to be done.

Thank you.

John Tyce – Societe General

I wondered if you could give us a bit more sense of a feel about that sort of corporate lending growth or any particular areas that are keeping this thing moving in the SME area?

Well I guess almost by definition John in the SME's it's a pretty broad spectrum of business and smaller corporates, mid size corporates and it's the people you see around industrial estates around the country are still pretty active. When we are talking about large corporates we're very much talking about the kind of FTSE companies and their things are a little bit more, as you know, a little bit more subdued.

And I was wondering whether real estate's still playing a part in the SME type market?

A little, I wouldn't say it's driving things.

Okay.

Mamoun Tazi – Bear Stearns

I wanted a quick update on the Charter One acquisition, you've been looking at it now that you've decided to buy it and I just wanted to know if you've got of any positive or negative surprise from the due diligence that you are doing currently on Charter One.

We did a lot of due diligence beforehand as we made clear at the time of the acquisition and we've obviously since the announcement we've been doing a lot of work with Charter One, recognising the fact that it's still in public ownership, so there are some boundaries still in place but the reaction from clients so far we're very pleased about.

I mean is it growing better than expected or?

I think I said everything we've found we are still very pleased about. We are at the very preliminary stages of going through seeking various regulatory approvals that we need them in the process of seeking shareholder approval, so everything is going exactly as well as could be expected.

Great, thank you.

Closing Comments

Thank you very much everyone for taking the time to call in, as I say I don't think there should be anything in here that is surprising or inconsistent from what we've said before, so I suppose it's one of these no new news stories but in a funny way that's probably not a bad thing, so if you've got any further questions no doubt you will let us know but thanks again for calling just now. Bye bye.