



2006 Investor Day - Divisional Conference

“Drivers of Growth”

P R O C E E D I N G S

at an ANALYSTS CONFERENCE

of the Company held at 280 Bishopsgate

London EC2 on Thursday 9th November

2006.

Top table:

SIR FRED GOODWIN (Group Chief Executive)

MR. GORDON PELL(Chief Executive, Retail Markets)

MR. MARK FISHER (Chairman, RBS Insurance)

MR. CORMAC McCARTHY (Chief Executive, Ulster Bank)

MR. LARRY FISH (Chief Executive, Citizens)

MR. JOHNNY CAMERON (Chief Executive, Corporate Markets)

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SIR FRED GOODWIN (Group Chief Executive): Good afternoon, ladies and gentlemen, a very warm welcome along here today. I thought we would try jackets off today, but just to put everyone at ease I actually don't have a lot of slides today, but it usually gets very warm in here with numbers like this. That's the only reason the jacket is off, there is not a slide marathon in front of you today!

We have found these opportunities very useful in the past, we have done this for quite a number of years now away from the cut-and-thrust of the reporting season, to take the opportunity to take some time and focus in on particular aspects of our business. In recent years we have taken something of a vertical approach. We have looked through individual Divisions and dug into what makes them tick and I think that was useful.

I think the feedback we got from last year's presentation on Corporate Markets was particularly good, but in thinking about what we might cover this year I think we felt certainly that we had probably come to an end, at least for the time-being, of the usefulness of drilling into the Divisions and that we would start to pick up some themes which go horizontally, if you like, across the whole Group.

Quite a number of themes sprang to mind but the one which we very quickly alighted on because I think it is very much front-of-mind for us, and I am sure it is very much front-of-mind for you, is growth and more particularly driving growth, where we go with growth into the future.

It is not an easy subject. Anytime you are talking about the future inevitably it brings a degree of uncertainty with it, there are a huge number of metrics around growth, and indeed in the course of the afternoon you will hear a number of ways of looking at growth and thinking about growth from my colleagues across the front-facing and operating Divisions of the Group.

But I find when I am thinking about growth, and I always like to ground my thinking on growth with a ratio, with a metric, you'll know when I am thinking about efficiency I never stray too far away from the cost:income ratio. When we are thinking about growth we never stray too far away from looking at earnings per share growth. Many things come along by way of projects, ideas, themes, which look like growth and have got many of the ingredients of growth but sometimes when you unpick them you get to a point where you don't actually like what they do to the earnings per share and at that point they usually get discarded.

So I find that in looking at earnings per share - it is not the only ratio you would want to look at about growth, there never is just one single "silver bullet" ratio - but earnings per share is an important one for us around growth and it is the one I would like to begin with today.

The theme of the conference or the presentation today is about driving growth. Using earnings per share as a metric, here's what has been happening. IFRS doesn't make it all that easy but that is sort of indexing back of our earnings per share growth in recent years, a compound annual growth rate of 10 per cent.

We could spend a long time putting up all sorts of facts, figures and interesting bits of information about that historic growth. We will refer back to it in places today but actually what we are here to talk about is what's happening forwards, what happens from 2005 through to 2008? We are not going to go back and have a history lesson about growth that has already been achieved, albeit it is not a guarantee of future growth, but it can in many instances be a precursor of that future growth.

So we are looking at the period from now through to 2008 or so, and when we do that as a business you have got to work at growth especially when you are thinking about driving growth. If we want to drive growth into that box we need to do something about it. We can sit back and hope that we will grow, we can sit back and cross our fingers, we can sit back and hope that the economy will do the heavy lifting for us, but experience suggests we have actually got to go out and drive

growth and certainly in how we have built the Group and how we have built our operating model that is very much what we have been doing.

I would like to pick up just a few of the themes very briefly - these will all be covered by the Divisions and by Guy in the course of the afternoon - but one of the key elements which enables us to drive growth is having diversified sources of income. You have heard me talk about this before, and I don't want to labour the point just now, but I think people more easily understand the benefits of diversified income in the context of defensive responses.

But actually we see it much more in the context of enabling us to take part in growth in the economy. Economies rarely grow in a straight line or everything grows in the same way at the same time, different parts of the economy are always growing at different rates at different times. If we want to take part in that growth, if we want to take part in that and benefit from it we need to have businesses which touch on and interact with those parts of growth. Diversification of income therefore is an important strategic element for us.

It is no use though having a nice and diversified business if all of your income streams are too small to make a difference or too small to count and don't give you any competitive advantage, so scale is important as is distribution, scale in distribution, and we show you business by business today where we rank in all those areas and we demonstrate I think quite clearly that we have scale and we have effective distribution to back-up our strategy of having diversified income streams.

We have also got to be able to grow market share. There are many people out there who have big businesses or get to a point where you have got a big business, you have got a big market share and then you get a bit stuck, and I will show you quite clearly this afternoon that is not the case with our businesses be it large or small - winning market share is something that we can do and are doing.

At the same time nothing stays the same. We do have to be able to launch new products, we have to innovate within our existing product range, we have to move into new markets, and again the Divisions will all tell you what they have been doing in that respect.

Growing income is fantastic, we are doing wonderfully well in all of these areas and then the benefit does not reach the profit and loss account, it does not reach the Shareholder because it gets dribbled away by inefficiency and cost, by deterioration in profitability, by credit costs, by other hazards along the way, bumps along the way. I think in our model for growth we place great store and great emphasis on operational excellence, and Guy will take you through some of the metrics there and give you a sense for where we are heading.

Risk management: you cannot be a financial institution, you cannot be in financial services without having a view about risk, having an appetite for risk and, more importantly than anything else, having systems and processes which make sure that what happens matches up to your appetite for risk, and Guy will demonstrate that this afternoon.

And, of course, all of the above can only happen from a position of financial strength and we will touch on that a little bit later too. So quite a lot of ground to cover. As ever, we will have the opportunity for questions at the end, but the businesses will zip through these slides at quite a pace.

A recurring theme and a message I hope which comes across quite clearly to you is that we are confident about our prospects for future growth. So if I could set the ball rolling by being absolutely crystal clear about that here and now, we are very confident about our prospects to generate superior sustainable growth going forward and I hope we will leave here with no doubt about that.

Agenda for the afternoon: fairly predictable in many respects. I will just pick up one point in relation to RBS Insurance. You will have seen the announcement yesterday that Annette will be leaving us. Annette is

with us today. Annette, we are sorry to see you go and you go with our affection and good wishes. Chris Sullivan who is taking over from Annette is here today also but I think in the circumstances it would not be fair to ask either Annette or Chris to lead the presentation.

Mark Fisher, who you all know has a day job in Manufacturing, is running the Manufacturing Division. Mark has been on the RBS Insurance Board for sometime, indeed, is the Chairman of RBS Insurance, so Mark will go through the presentation today and I am sure will be able to cover off any questions which you have. As I mentioned earlier, we will have the opportunity for questions and answers at the end.

So, to set the ball rolling, Gordon, would you like to take us through Retail Markets! Thank you very much.

MR. GORDON PELL (Chief Executive, Retail Markets): Well, good afternoon, ladies and gentlemen. Retail Markets: 15 months into creation. A quick canter, first of all, through some slides showing size, shape and scale and then I will get down into the important business of actual attraction and edge, which is about where it is all going rather than where we have come from.

A very diversified business, £4.2 billion of income, 46 per cent of it a reliance on net interest margin, the rest of it fees in one sort or another. The net interest margin itself, half comes from one side of the balance sheet, half comes from the other, very diversified. A balance sheet of £110 billion plus, actually self-funding now almost in total but actually definitely self-funding at the margin, obviously with very positive effects on the net interest margin, very cash generative and obviously under Basel II even more so.

Scale: just a reminder about market share position. There is a perception, of course, actually that big is bad because the effects of gravity are almost inevitable. While I actually agree that once the snowball starts going downhill it is extremely difficult to push it uphill I don't accept that gravity is inevitable, and that is something I am going to be harking on during the day.

In these businesses our number one positionings remain boringly constant and in savings, bancassurance and mortgages we have plenty to go for and, contrary to sceptics, as you will see later with both personal current accounts and cards we are right at the top of the hill, we are still showing that there is plenty of traction.

One of the themes, however, that struck me a year ago when I came back to retail is that while we were good, if not world-class, at managing our traditional core businesses I thought we actually had lost some of the historic edge we had developed in developing insurgency businesses.

Insurgency is a difficult discipline. At one extreme it can actually amount to throwing Shareholders' money at a wall and seeing if some of it sticks and at the other extreme it can become extremely expensive because you spend a lot of money, net interest income or whatever, recruiting customers and then see them marching out the door when the proposition itself doesn't deliver or does actually poor service.

The ability to manage both core businesses and insurgency within the same Group and within the same brand structure is an historical competence of ours. It is one we need to reinvest in, it is one I've been deliberately looking at when I have been putting together the new management team to find people who can actually inject more edge into the business, and that is something I am going to pick up later as we go through the exercise.

Now obviously you don't get that sort of scale without huge distribution. This is the largest financial services distribution business in the country, it is the largest branch network, there are nearly 10,000 sellers registered under one form of authority or the other. A new number you might have not seen before is over 14,000 ATMs; the number historically you have seen is about 6,500. That's our core network of the big machines you recognise in branches.

We have also got a network of almost the same size of unique merchant fill ATMs which we use in both the charging markets, but again on that theme of insurgency over the last few months we have actually moved and now putting in on a free basis, and that is something I will be very happy to talk to over questions. That again is creating a totally new market using technology, but that is 25 per cent of the ATMs and 25 per cent of the branches.

However, that is all about scale, that is about where we have come from. Let's begin to look at traction and traction is the graphs on the right-hand side. Sorry to disappoint the sceptics but our market share of personal current accounts remains remarkably strong. The current base is still growing and from being number two the last time I talked to you

we've now moved up to be first equal, and I will touch on that later when we come to current accounts.

In cards, our share of new card business was a focus that we have now put into growing the organic business, particularly over the last year, as some of the direct brands have obviously looked a bit more fragile in the current market conditions. We are now running at a level which is nearly double that of the next major player in the market. In terms of negative traction, over the last few years we have actually lost a few percentage points of market share in the business banking channel and I am going to touch on that again later.

A brief summary of growth opportunities. A single tick is my view of areas where we can certainly grow in line with the market, the market being dependent very much on what's being thrown at us at the time. A double tick is where we either have or have the potential and where the risk reward is right to actually grow faster than the market. And three ticks are areas where we have unique capability and have actually proven that we can grow in double-digits even in current market conditions and something that I can see us continuing into the future.

So that's really the agenda and what I am going to do now is go through those boxes, and just to remind you there will be a little tick in the right-hand corner of each slide.

Let's go to current accounts. That is our fundamental core business and there are really two stories out there, one is about interest paying and the other is about service. We have been grindingly consistent since I first stood up in front of you with Fred in early 2000, that the aim of the game was not closing branches, concentrating on service.

We remain grindingly consistent - you will see some of our ads later. The same themes are there. We have been investing in people, we have been investing money. It is not a cheap proposition, it is difficult to do. All the service quality scores continue to show us coming out

number one and now number two with increasing amounts of “blue water” between us and the next biggest banks.

We have actually moved up now to first equal. We have seen that for a while in some of the smaller surveys and I am now pleased to say that NOP has now confirmed it. So that means in the last five years I have been here I have find managed to catch my own tail, and that is for 5 basis points and actually market share that has changed during that time. Accounts do move, this is not an inert market.

Let’s just touch on switchers because we are also number one for that. In the interest of total transparency, our shares of accounts gained by switching have been remarkably constant over the last few years and are now running at about 18 per cent, which is not too different from our natural market share. The next best of the “Big Six” are actually in a range between 10 and 14 per cent.

Now all of that sounds interesting because on switching on a market basis this is actually a zero sum gain because at the end of the day the customers are all going round in circles and it is all ending back somewhere, so let’s look at switching on a net basis, i.e., that there are the switchers in and the switchers out you get every year.

Everything else being equal, by the time you get down to a net level switching for us is probably 2 or 3 per cent, 1 per cent in one year and 2 per cent in another in terms of net gain. However, when you then go down into the “Big Six” what you actually get are figures between minus 1 and minus 8, therefore, the ones who are growing are some of the very small net interest players. What you find there is they tend to grow quite rapidly and then they actually do start getting attrition effect as well, so then they tend to come back more into line.

However, on another dimension, because that’s the other big pool of potential customers out there, just under half the people at university today bank with me compared to my natural market share of 20 per cent. If you look at the earnings profile of the UK, the people who will be sitting

in this room in 10 years from now, those are the people, who everything else being equal, are going to bank with me. Now whether I will be able to sell them product in addition to just banking with me is the challenge, and that's where I will bring you to our new private banking initiative later as we run through this proposition.

Now interest paying, however, is not the only game in town, you can move accounts through switching. We have been running in Scotland as a trial during this year an exercise focusing on only one proposition: number one for service, backed up by good advertising, and with an account incentive that pays off within about 15 months. We have managed to increase the switchers from a mix of other banks, and totally predictable banks as well - the ones you thought you gain from you gained and the ones you didn't you didn't! - so it actually drove exactly the right behaviours. We increased the number of switchers by 300 per cent pretty consistently over a 6 month period.

We are going to be rolling that campaign out in Scotland as we speak at the moment, again because we are continuing the trial, but we will actually be looking to take it in England and Wales next year on a selective basis. We have 310 RBS branches in England and Wales. On average they are in superb premises, they are in all the core markets, they have roughly half the customers per branch of NatWest, they have exceptionally good service quality and a very skilled staff.

The brand researches very well on the service ethic and on the AB market and because NatWest are very well positioned on service, and while clearly I will effectively cannibalise from NatWest business I expect it to be well below what you would naturally expect. So to put it into perspective, next year core management in NatWest, insurgency in RBS in England and Wales, and I will show you an ad. at the end which will help launch that.

Let's move on to savings. Clearing banks don't do savings - well, that was the story anyway! We have actually managed to integrate our savings proposition with our current account opening package on the

new computer system we launched. We are now growing numbers of savings accounts at nearly 30 per cent larger than our natural share and, more importantly, we are growing it at the same sort of margins that we have historically built up our business over the last 300 years.

We do have some rate-leading accounts but overall we have managed to grow - the net figure is about £8 billion of balances - at pretty much the sort of margins that we have seen consistently over time. We are also looking, with Johnny, to increasingly move into the more sophisticated end of the savings market with a target for new product, which we are delivering, of something like three times the volumes that we used to deliver a year ago. So we are attacking on both fronts.

Let's put those together. That is the growth in balances across both savings and current accounts, where we are running reasonably ahead of market. And those numbers are not modest! I mean, if that was a mountain it would actually be £90 billion and therefore the growth we are talking about is £8 billion - it is actually a small bank emerging each year!

Unsecured lending: I spent a lot of time on that at the Interims so I am not going to dwell on it now. I am still reasonably bearish, I still think there is dangerous stuff out there in the water, so I don't particularly want to put my toe in. We have closed down the direct brands and put them effectively into slow motion a year ago. That's proved to be pretty successful, they are doing reasonable volumes at good high credit scores.

As I said, I talked to you about the fact that despite that we are still managing to put on new card accounts at levels well above anyone else and interestingly enough, because we are now running our co-operation with Bank of China, we are now issuing the same number of cards there, in say the last 9 months, that actually we would issue in our whole organic business in the UK - with 300 years history behind us! So there is plenty of credit out there we can do and cards we can do.

Now as at the half year I said our credit metrics were stable. I am pleased to be able to say that 4 months later I see no reason whatsoever to move away from that statement. However, I am still on the bearish side of going after new volume. I think this is a market where, in the nicest possible way, we need to let some air out of the tyres before we start pumping them back up again and I think there is still some time to go on that.

Mortgages: never having bought a building society I was surprised to see today we actually have a mortgage business nearly the same size as Barclays. Well, you could say anyone would ... (Laughter) ... but it is an interesting statistic, we built that up basically organically, organically through our branches and organically through our sales force operating in the intermediary channel.

We are very much more organically based than most of the other banks. I am still doing over half of my business through the branches and my ambition, for the first time ever we have actually constituted this as a separate business. Again it is interesting, we have never actually done that in the past. We have brought intermediaries, we have brought the branches all into one place under one management team and the aim there is edge. This is a business we can be bigger in as long as we get the right level of risk and return.

In the first half of the year I took a view that I was actually a bit unimpressed with the sort of returns that were out there and we fell back on our organic channel. In the second half of the year there have been more opportunities to grow share and I am pleased to say for the year it looks like we will be running pretty much in line with our historic average at the right sort of levels of return.

Business banking: NatWest in business banking have always been synonymous like NatWest in cricket for most of my banking career. One of the things I found when I came back was I think it would be fair to say while it was 20 per cent of our income it definitely occupied far too little of our brain space and at the end of the day retail skills and business

banking skills don't naturally go together. We also found, and certainly in my view, we have not been learning enough from the excellent work that has been done in Johnny's business over the last few years, particularly in the mid-market business.

It is no surprise to you, therefore, that in terms of our management structure one of the first things we did was bring Steve Pateman, who had run our middle market business under Johnny, to run our business banking business, and that took place a month or so ago. Steve is bringing in new technology, new people, new skills - you will hear him on video later.

This is actually a business that you would say is core and it has only got one way to go; I would say it is a business that with relatively limited investment and management we have actually managed to maintain our market share and if we put some 'welly' into it I can't see there is any limit to our ambitions. Also we are seeing no signs of contagion from the credit problems from the personal market coming across into small business.

Bancassurance: a number of false dawns as far as this group is concerned but the recipe itself is quite simple - simple products, the right size and compliant sales force and huge engagement with the retail network, and it is that last bit of the formula that I think is the one that probably we haven't quite got right. In the last year to 18 months all those three metrics have begun to move in the right direction and we are clearly the faster growing bancassurer in the country.

We have grown our sales forces significantly, but more importantly we have grown its productivity totally out of proportion. We have got another 50 per cent sales force growth in the pipeline as we speak, we have got new management in place and I see this again as an area where with 50 per cent more sales people on the way this seems to be an area where again it really rates three ticks as far as we are concerned.

Now we are number five at the moment; numbers three and four are in the laser gun-sights and it's pretty close running at the moment already, but actually our ambitions are number one and two. Interestingly enough, they are not that far ahead. The model itself works. The model is no different in those other two banks, there is nothing very technical or scientific about this, and the customer bases are actually pretty much the same size.

And we have got a couple of years now where I think consumer credit will be relatively on the quiet side so the networks quite frankly can concentrate on this, and we are the ones with the potential to be growing significantly faster than anyone else. Having dealt with Lloyds TSB's number one on market share and current accounts, obviously it would be quite nice to deal with the bancassurance issue as well.

Which brings us neatly to the story I have really come up with, 20 per cent market share of the current account market in the UK, 25 per cent market share, however, of everyone earning over £50,000, and by the time I get over £100,000 that market share is 40 per cent and climbing. This is a unique customer base, half the students in the country today bank with me and will be arriving on my doorstep over the course of the next couple of years.

This is a business, however, which in my view you don't develop by actually taking retail skills and trying to engineer them upwards. You take the skills we developed in our unique private banking brands, take them and modify them and try to use them in the retail bank. So in the last couple of months we have re-launched a new service proposition for the top half-a-million customers in the two banks under the heading of Private Banking.

None of this is sort of premier stuff or in the middle, we have gone straight effectively for the 'Full Monty': new cheque books, new livery, new service proposition, new management, new call centre dedicated specifically to them, new payments centre - under Mark's guidance - to

make sure they get the service standards they deserve, just quite frankly as they get at 440 The Strand at the moment!

This customer base' existing income with me is twice the size of the Coutts income and quite frankly it has had retail skills deployed on it for the last five years. This is a huge opportunity for us. Just take a simple example. I was reading *The Standard* today: "the excellent work Coutts has been doing with women", for example, but also actually philanthropy is totally transferable to this market with really very little effort. The only question is scale and addressing it on a regional perspective, and that I think is part of the story.

If we jump however to our UK private banking businesses, where I think we have a unique position in the UK, three years ago we were in transition. We were moving away from the old private banking model - you remember the Stock Exchange was actually in turmoil, tanks were rolling in the streets, we were down at 3,200 - it was a moment of some choice. Other people were pulling out of private banking, some of our friends were going back home again; we decided to reinvest.

We have increased the number of private bankers by nearly 40 per cent during that period and that was very back-end loaded; that was two years ago. We took private banking out of Chelsea and we took it into Birmingham and Manchester and in the nicest possible way we had two years to ourselves. The bad news, of course, is imitation is the sincerest form of flattery and everyone else is now moving into these cities - the bad news I give them is that I am now moving into Milton Keynes, Chelmsford and Reading! (Laughter)

So, trying to stay one step ahead because that is where the wealth now is. Most Coutts clients these days are 40-year old entrepreneurs and they are now living in their country houses wondering about how to make their next £10 million. This is a fantastic business and we have got a huge amount to go for.

The one thing we have done again though is having built that by international standard, quite frankly, mass-affluent base we have now actually been recruiting specifically to move into the ultra-high net worth space, the £100 million plus. We have recruited people from American banks, they have been with us for two years now. As they put it nicely, 'I used to have to do business with a brand that no-one knew who I was talking about; give me the Coutts brand and I can give you unlimited business', and they've delivered on that promise. That is working really well and again we are drawing off the skills set and the products that actually come from Johnny's dealing rooms to make that happen.

Three years ago again our international private banking business was quite frankly in a state of transition. There were serious questions about scale, we were very much at the bottom end of the operation in Switzerland, Asia interestingly enough for those people who think you could actually have that was only marginally profitable and there were some serious decisions we had to make.

We decided to buy Bank von Ernst at a price that was probably 30 per cent/40 per cent lower that we would have to pay today. We consolidated that within 18 months, we got huge scale economies in our traditional European business which is obviously not a growth area, in the meantime we have continued growing in Asia. Our UK profit growth over the last three years, the CAGR I think from the previous slide was something like 25 per cent. By the way, that is all banking, that is not bond flogging. That UK business is the grown up end of our retail bank when you look at its profitability, its mortgage, its assets, its deposits.

When you look at our international business it is a little bit more investment orientated but we have still been growing that at over 20 per cent plus, Asia at over 30 per cent plus. I was in Asia last week, with Fred, with nine UK journalists going round our teams in Hong Kong and Singapore. We have now got over 300 people and we were visiting our new colleagues in Bank of China looking at the new offices that we will be opening jointly in Beijing and Shanghai.

Which brings me to the summary. A strong franchise: I would have said probably the best business in the UK overall, at the top end of the market. Stable credit metrics, stable interest margins. Consumer growth is going to be flattish over the next couple of years, I don't think there is going to be any doubt about that. You hope as always. Bankers get too pessimistic but I prefer to stay on that end of the scale and put my energy into activities where I can actually make money without credit risk for the next couple of years.

Plenty to go for in business banking: we have managed what we have got at the moment quite frankly on third gear and we are now going to go into fifth gear. This is a very capital-generative business and against a background of difficult market conditions I remain very confident that we have got plenty to go for. The opportunity is there then; I believe we have put the conditions in place to enable this business to grow.

Now you have heard it from me, so why don't you hear it from them. You are going to get a couple of my colleagues talking about their new business challenges and the emphasis for all of them has been pace, momentum and edge. We need to develop our core businesses, we also need increasingly to move into insurgent country and there is quite a lot more coming down the pipe as we speak.

It starts off with a NatWest ad., which quite frankly could have been made four years ago but isn't, it was made quite recently. We are very consistent. It ends with an ad. which researches right out-of-the-box in terms of customer reaction and will be rolling out to help develop the RBS strategy in England and Wales next year. Thank you very much.

(Video then shown)

MR. MARK FISHER (Chairman, RBS Insurance): Good afternoon. It is interesting to be able to play an 'away match'!

Following the same format that Gordon has used, I guess the key message of this slide is frankly RBS Insurance is not as diversified as the other businesses you'll see. Well over 60 per cent is focused on that motor market, that is the origin of the business, so roughly two-thirds are UK motor, international motor and even, for example, the rescue product is very strongly correlated. The rest of it made up with home insurance and particularly the broker channel into commercial.

Taking a slightly different slant on diversification we do distribute product through many different brands and channels. Our own brands which is this first 55 per cent on the chart, again motor, home and rescue; a strong partnership there, around a third of our income coming from the partnerships, and then a strong broker performance as well. So a lot of diversity there of how we actually get to market.

Where we stand in the market is clearly the number one in car insurance - that is taking our own brands together - number two there would be Aviva; number three would actually be Tesco Personal Finance. That is a remarkable story. We started doing car insurance with Tesco in 1999, by 2002 it had reached 1.3 million policies, 2005 2.6 million policies, so from a standing start now they are number three; a close number four behind there would be Admiral.

In the personal market standing at number two, our own brands not quite as strong there, Direct Line being our strongest home brand; the first in that market would be Aviva and RSA; TPF not really strong yet in the home market; quite strong partnerships there particularly Nationwide and Prudential.

And the commercial SME market, quite fragmented. We are a relatively small player but we see good opportunity there.

Distribution: very strong. In this business, of course, the first part of distribution is the right to contact and renew with your customers, so the fact we have got over 20 million policies is the first strong point of our distribution. We are the number one direct distributor, 16,000 calls a day for quotes, 5,000 agents dealing with that and over 50,000 quotes over the Net. Interestingly as they convert into business our business is roughly half telephone and half Net, so it just shows the propensity there, there is much more quoting on the Net that doesn't quite convert into business but clearly it is pretty cheap to deal with.

We do lead the partnership market measured by income and, as I say, our broker channel deals with well over 3,500 brokers, nearly 2 million policies in there. And a range of great brands that you will recognise: obviously Direct Line and Churchill; Privilege very much our sweeper brand that we can assign to particular tasks at particular times; the Green Flag network which is the number three recovery organisation, a completely different model to RAC and AA, it is a network model using independent third parties, better service quality, very cost effective; Tracker, a nice add-on into that insurance market; and NIG is our broker based brand, and you can see the consistency there, the "snowflake NIG" in very fetching purple this time!

In terms of absolute market shares, we actually write one in three cars on the UK fleet - we are the car insurer for one in every three cars on the road - and in our own brands 22 per cent market share which, as I say, is leading market share. At an individual brand level we have three of the top five individuals brands in the market. We are number one, as I say; Aviva number two would be around 17 per cent, so quite a gap there; TPF 7 per cent, Admiral running around just behind that, probably 6.5 per cent.

In personal, still a strong market share and Aviva would be up there with probably 22 per cent, RSA slightly ahead of us at 8 point-something - that may well switch round this year - our external

partners, as I say, coming through quite strongly with the Prudential book.

5 per cent only market share in commercial SME but we are still number eight and that's why we see some good opportunity, and you can see the upward arrows there!

Having said we have got a strong concentration on the motor market you really cannot go much further sensibly in this conversation with talking about motor market pricing and what it has been doing. Frankly, it has been a difficult few years. This chart would show that premiums have been pretty much flat, I think there is roughly 1 per cent compound growth in premiums over that period; meanwhile claims have risen by roughly compound 5.5 per cent. For a typical motor insurer particularly claims is around 70 per cent of your income, so this is a huge drain on the business and on the market the fact that claims are rising.

Now claims are rising for a range of features: changes in the law in terms of how insurers must cover their liabilities for long term injury; obviously changes in propensity to litigate; changes in medical practices which get better and better but don't get any cheaper, so a difficult market background against which we have delivered pretty strong growth.

Now I must stress this is a pro forma chart where Churchill is pro forma-ed into the 2002 number, so this is not the effect of acquiring Churchill, this is our organic growth. The bluey-green bars are profit, growing from just under £600 million to just over £900 million reported; in force policies as a sort of rough measure of volume again growing, as you see there.

So we are pleased to have delivered that very strong profit growth. We have taken good benefits from the Churchill integration. We took Churchill's profit from £86 million in 2003 to well over £200 million in 2005. Our return on capital has been around 30 per cent. There are many ways of calculating return on capital but around 30 per cent post

tax, fully absorbing all manufacturing costs. So a highly profitable business despite the very difficult market which reflects the underlying efficiency of RBS Insurance.

And we have achieved that through a pretty emphatic focus on developing a single platform. Great underwriting skills, and underwriting is driven by data and we have got data on one in every three cars in the fleet, driving volume to get real benefit from procurement - bear in mind that claims costs are 70 per cent of your income - and again taking the opportunities that came to us with Churchill in 2003.

Then, of course trying to grow everything else that wasn't quite in that same space: the partnership business growing to account for £1.9 billion of income in 2005; the rescue business much smaller but £200 million of income there; the commercial business growing to nearly £400 million, and the international businesses growing to nearly £400 million of income. So that is how we have delivered strong performance in that difficult backdrop.

Following Gordon's lead, so the ticks here are a single tick to grow with the market, two ticks slightly ahead and three ticks, which we haven't got fully in here, would be way ahead of the market in the 12-24 months outlook.

Just to keep going on motor pricing of course, the outlook for the motor market, what do we think is happening? I am pleased to say there are some real signs of sustainable price movements there, sustainable in the sense that we are putting price increases through. We are seeing retention rates, conversion rates and attraction rates hold up despite those price movements. That's very promising but equally we should not forget that claims inflation is continuing to rise, probably at around 5 per cent a year, so the current levels of price increase are really just offsetting the claims inflation.

Rashly in the market, the market is currently marginally unprofitable with a whole bunch of players losing a lot of money and

some players like ourselves making good money. Current consensus would have market profitability deteriorating over the next two years by another 3 per cent a year, so economically it will be highly rational that prices would move further and faster than they are currently forecast to.

But I cannot forecast that, it is possible that they would, that's why we have got a tick and a tick in a bracket. Current consensus would leave us at a single tick but I think it is possible and indeed maybe likely - we hope it is likely, we'd certainly support it - that prices would move further; if they did we think that would move into a two tick environment for growth.

A caveat there, there is lag effect here in insurance. Don't forget insurance is a daily renewal of an annual policy. So if you put your price increases on day 1 it takes until day 365 before you actually apply your price increase to the last renewing policy of your tranche, and then it takes another 365 days before that last policy to renew has fully paid its price increase. It takes you 12 months to get the price increase into a run rate and another 12 months to fully capture the income benefit of the price increase, so no matter how prices move in the market there will be the delay effect of them coming through into the income statement.

But against that we think we are very well positioned. Our historical performance in a rising price market has been very strong and to gather market share. That is down to our very strong brands, very high quality of customer service, 9 out of 10 people would recommend us as preferred insurer. A fantastic pricing capability and, as I say, it is all down to data and we have lots of data.

We are the number one web insurer. We have established Direct Line, Churchill and Privilege and TPF as real points of destination on the web in their own right. We lead with retention rates. Direct Line particularly has industry-leading retention rates and, of course, it is cheaper to retain business than it is to acquire new business. And because we are running a portfolio of brands, a single platform and we have an overview of pricing across all of those brands we have a range

of options about how we deal with the market in terms of how we take profit, profitability and market share.

In the home market, quite a different market, not really subject to the trends or pricing that the motor market is but it tends to obviously get hit by weather based events. A more profitable market, a fundamentally profitable market, the issue in home is it has been very tightly linked to mortgage lending and to the providers. That is starting to break and the proportion of the market that is now going direct is increasing by about 8 per cent a year. We are positioned very well to take that both because we are strong on the web and Direct Line itself stands as the number one front-of-mind brand for home insurance in terms of that switching market.

And, of course, we are not being passive in terms of just sat there waiting for the market to move, continuing product innovation - what we call NICI - new improved car insurance, you will have seen that advertised, so the no claims discount for named drivers, cover for the second car. The performance of that is very good and attracting volumes at good acquisition prices and our expectation and hope for that is that will improve retention because it is a more complex product, it is harder to replicate as you come to renew.

And applying a very similar strategy into our home products and bundling travel into home insurance, and again early experience of that is that is working well.

Partnerships: only a single tick here. We are number one in the market with partnership income of £1.7 billion in 2005. We have over 30 partners but 4 of them would account for 80 per cent of the income. The biggest of those, TPF, clearly a good growth story, particularly in motor, and we would think good growth in home to come.

Lloyds TSB is another one of our partners and Nationwide is another one of our partners; both of those acquired a flat profile, not a lot of marketing effort going into it, that's our partners responsibility and, of

course, in a partnership business you can only really do as well as your partners. So, they are quite flat.

Then we have the Prudential and really it is quite a different kettle of fish, it is almost a booking run off, so the Prudential are not pushing that brand in the home and motor market but there is a portfolio there. This a very little marketing, highly loyal, quite price insensitive and declining portfolio. In the Prudential portfolio the number of policies fell by 8 per cent last year but the profit only fell by 2 per cent. In terms of an NPV investment a very attractive business for us; in terms of building a good increase in P&L profile it is going in the wrong way but that is part of the complexity of the partnership business.

Generally we do the partnerships because they contribute to our overheads. They give us scale, operational and both data and purchasing, which are absolutely crucial and they really allow us to get to customers we might not otherwise get to. In every year/18 months you might typically get one major opportunity to bid for and, of course, the ones that you have would typically re-tender somewhere between three and six years, so generally you get the chance to take one a year and one that you have got gets tendered each year.

The rule we apply to that is that we do target to make our hurdle rate of return on capital and the discipline of that, the illustration, is that the Pearl book which is currently in the numbers for 2006 finishes at the end of 2006 because in the re-tender process we concluded we could not hit the target return on capital. So there is £50 million of income and about £15 million of profit that finishes in 2006 on that book, but had we taken it again the income would have continued but the profit they would have contributed would have been low single millions of pounds there.

So partnerships, its mixed prospects, doing as well as the partners but we will certainly push very hard, particularly with TPF.

Moving into the faster growing parts of the business but with the caveat they are the smaller parts of the business, total income here in

the order of £400 million, we certainly see good growth prospects. In the broker business we have seen good volume, compound growth there of a number of policies 11 per cent per annum over the last couple of years.

Really well invested technology here through the NIG business, excellent desktop technology with the broker, very easy to use, automated underwriting, bundling, point of sale, fulfilment of documentation and we get top satisfaction scores - bear in mind the customer here is the broker rather than the actual purchaser of the insurance. But again in this market margins have been tightening over the last couple of years, our sense is they are stabilising now and that should allow the volume increases to start flowing through into income.

The own brand businesses cross-selling into that RBS/NatWest business environment - we've talked about that in the past - I am pleased to say from quite modest beginnings some traction now being gained as part of Gordon's initiatives, 31 per cent up they have created in the first half of the year, but again emphasising that is from quite a small base.

In our international business, we debated whether this was three ticks. In its own right the international business is three ticks but at scale it is not really going to register on the Group scale, so we have sort of compromised on two ticks.

Spain is clearly the success story, an export of the Direct Line model, so Spain very much in the traditional broker/intermediary model that the UK was in, in the '80s, exported that model there and now really starting to mature. We are the number one direct insurer and we have got 52 per cent market share of all the direct policies. The direct part of the market is only 10 per cent but is growing rapidly and we are at critical mass and into profit.

Italy, less mature. We started in Italy in 2002. We are number three in the market and 22 per cent of the direct market is our share. The direct market is only 4 per cent but growing quite rapidly. We are optimistic in Italy because there is quite a following wind coming from the

Regulator in terms of wanting to encourage switching and price sensitivity and mobility amongst customers. So that is feeling very optimistic.

And Germany is at the bottom of the slide really for a reason, in the sense that there is probably a bit of a headwind in Germany, so the penetration is lower, the direct market is smaller, it is growing less rapidly and it is a very conservative consumer behaviour in Germany.

It is rather curious but 80 per cent plus of all German motor policies renew in December and January, and it is quite common that if you buy a new car, say in September, you insure it to the year end and then you'll start again in January. As well as creating some interesting operational challenges as to how you actually answer the telephone it just demonstrates a very conservative approach from the German consumer. So we think that one is a little bit more of a hard slog but obviously we will have to judge that as we go along.

In summary, we have delivered a very strong performance in a difficult market and we expect the market to be improving as prices are starting to move. The key unanswerable question is, how far will they move and how fast? There is logic that they should move a considerable distance but the extent to which they do move we are very well positioned to take advantage of that and our strong brands play a key part of it. We do see good opportunities in commercial and international but just a caveat, that they are not a huge proportion of our business. And, of course, in the core business we continue to be very single-minded in our focus of efficiency and driving innovation into our products.

So to finish on our common chart: not really claiming to have a hugely diversified income stream; we have excellent scale in all of our businesses; we have excellent distribution capability; our market share will go with the market certainly and after that market starts to move in motor we would think there could be some upside potential there, and

certainly in our growth markets of commercial and international we see some good growth potential there.

Thank you for that. There's no video I am afraid, but I will hand over to Cormac!

MR. CORMAC McCATHY (Chief Executive, Ulster Bank): Thanks Mark. The Ulster Bank story is small but perfectly formed ... (Laughter) ... that's how I like to call it! We think we have a really good opportunity in Ulster Bank for our future, very strong growth for the Group and hopefully I will get that message across today.

Just to look at the diversity of our income, it is very important to note we are a very diversified bank. We are not a niche play in the island of Ireland, we are a universal bank, and when you look at that chart you can see that is across the piece both in retail markets and also in corporate markets.

Perhaps most interestingly and not too many people would have focused on this with our business, is that over 54 per cent of our income is now coming from our corporate markets business and growing very, very strongly and we are very confident that is a business that will continue to deliver very strong growth. It is not as open to the same competitive margin pressures as you would see in retail banking and we think it gives us plenty of gas in the tank, so to speak.

So a very well diversified income base and continuing to diversify that income base particularly around the fee line which we see more opportunity for.

Just to look at the income split, again this is something that sometimes surprises people but I suppose it really shouldn't. Since we acquired First Active in late 2003/early 2004, and with the investment we have been making in the Republic of Ireland, more and more of our income growth and our income is coming from the Republic of Ireland, 70 per cent for the first half of 2006 and that will continue to grow. But that is not to say we're not growing in Northern Ireland. We are continuing to grow very, very strongly in Northern Ireland where we have significant positions in all markets there.

Just a word on the economic side of things, I know the Irish economic story has been kind of well talked about, particularly more recently, but just to reiterate our view, that the Irish economic story is very, very good both North and South. In the South the demographic effect, interest rates, the State finances, low tax rates continue to provide a very confident outlook for the next three to four years as far as anyone out there can see.

And in Northern Ireland we are still getting huge value from the 'Peace Dividend' and that will continue to accrue as that progresses. More and more investment is going to be made in Northern Ireland and we will be positioned to take advantage of that. Also in Northern Ireland they are very conscious of the fact that they have a very competitive economy just across a land border and that does increase the economic and competitive impetus. So, in both geographies very strong growth but more of it is obviously going to come from the larger economy in the Republic of Ireland.

In scale, we have significant scale. It is very important to remember we are a full service bank, we are not a niche player. We are in every market providing service for every customer and we have strong positions in all of those markets.

In Northern Ireland, we are virtually one or two in all of the markets we are in. The reason that mortgages and savings are slightly different perhaps to Gordon's slide earlier on is the fact that the British building societies and former building societies have the lion share of that market. But we are attacking that well and you will see an ad. later on that we have been running in Northern Ireland very successfully recently, that is to the point of us getting more of our natural share of mortgages, and it is working for us.

In the Republic of Ireland, plenty to go for. A very strong position in lots of markets but we still believe that we have the capability to be number one in more and more of those. But they are very strong positions and we have proven through buying First Active and building

the Ulster Bank mortgage franchise that we can actually get to a one or two position in this market place. Our business in corporate banking is growing very, very strongly and we think we have seen from most recent statistics that our SME share of market is growing very strongly in the Republic of Ireland. So very strong scale and market shares but plenty more to go for, particularly in ROI.

This year was very much about a year of integration for us notwithstanding the fact that despite the distractions of integration we have had a really good strong first half to the year and business continues strongly. Integration was about bringing the technology and operating platforms in Ulster Bank and First Active over on to the Group operating model and the Group technology.

We finished this in October of this year very successfully, on time, on plan; the business is working away at the moment on the new platform and continuing on successfully. It was a complex thing for us to do, multiple currencies, multiple jurisdictions, multiple brands, lots of learnings for the group but very successful for our business.

And why is this important? Because it does actually provide us in Ireland with something very unique. We have access to scale and a platform that nobody else in Ireland that we are really going after and competing with can actually get at. We are seeing value, working with Mark, already in productivity and load-balancing between his centres in Britain and our centres in Ireland.

So we are very confident that this is going to work very well for us and it gives us access to product which we are already putting into the market place, and we will see an ad. for something on that later on. It is all about have a USP and we believe this gives us a very significant USP in our market place.

We have a big business. I know 1.5 million personal customers when you compare to some businesses isn't a lot but in an Irish context it is very, very significant. The population is 5 to 6 million people. We

have half-a-million personal customers in Northern Ireland, 1 million in the Republic of Ireland and growing extremely well, a growing business and corporate customer base and very strong physical infrastructure; 272 branches and 32 business centres, which itself is a unique operating model for the business banking community in Ireland.

And 1,000 ATMs, the second largest ATM footprint in Ireland. We acquired in the same way the Group acquired Hanco, an in-store provider of ATMs in Ireland three years ago called EasyCash, and that has been rolled out extremely well for us and is providing us with very good service for customers and again something we can bring to the market that nobody else can. Our business centres are growing and very successful and we have over 850 relationship managers on the ground in our corporate markets business, so we have significant scale in people on the ground in the business.

Working with Johnny's and Brian's people in corporate markets, we have very a strong financial markets proposition which we just don't have in the centre of Dublin; we have it out in our regional centres and in the cities and towns where we have business centres, bringing something very competitive and very different to the market place that our core competitors in this space are just not providing. So, we have scale and distribution.

And to that point the map of Ireland shows you that we are ubiquitous. We are everywhere in the island, be it in business centres, branches, Northern Ireland, the Republic of Ireland, and we are not far off being very close in infrastructural terms to the two main players, AIB and Bank of Ireland. We are continuing to invest in physical distribution because that's the way it works for our customers in Ireland.

More particularly, if you draw a line across the centre of Ireland from Dublin to Galway, for those of you who know it, and go south, the further south you go the less our market share is, and that tallies with our physical distribution. So we will be building out our physical distribution into the southern part of Ireland and growing our share on that basis.

But it is interesting to note there is a lot of noise about new players coming into the Irish market place and a lot of talk about the competitive dynamic they are bringing. That's fine, but none of them can touch a candle or hold a candle to the physical infrastructure and distribution and position we have in really challenging the market place, and hopefully that gives you some sense of that.

In market share terms, Northern Ireland, the great thing for us about Northern Ireland are all the trends are moving in the right direction. In personal current accounts we re-launched just 12 months ago a fee-free proposition, very simple, very clear. It has done great work for retention because unlike our competition we offered it to all our existing customers. It has been going extremely well for us and you will see, as I said, some advertising around that later on. It is edgy advertising. We are holding out our competitors to book and we are not afraid to do that.

Personal loans are a bit harder but we are starting to see some differences in that. And credit cards very strong. We use the Royal Bank of Scotland credit card platform which is a very powerful enabler for our business in Northern Ireland. Mortgages, we don't believe we have enough of our natural share and we are working particularly hard at that side of things given our distribution compared to the British building societies and former building societies.

And the savings market, again we think we have something to offer and we are not going to pay stupid prices as some competitors are for savings. In business and corporate banking the recent stats show that despite the fact that we have over 30 per cent of the market place we have actually grown that share.

In the Republic of Ireland, we are moving in the right direction in most of our businesses and again the good thing for us about this is they are relatively low shares compared to our size and ambition. We have re-vamped our current account proposition, which our major competitors can't compete with. It has done really good things for retention and we

are starting to build more share and flow on that. In personal loans and credit cards we are punching well below our weight on that.

Mortgages very strong, with both brands driving lots of good business and moving the right way, and savings particularly in the corporate side of things are generating very good flows for us. But again we can do much more in that given the ubiquity we have and the proposition we have. Business and corporate banking in the Republic of Ireland stats aren't as good as they are in Britain in particular, but any stats we've seen more recently show that our SME share is growing above the market, and that's the one we think offers the best long term value for our business as more entrepreneurial businesses come through in Ireland.

Opportunities for growth - they are almost limitless in terms of the businesses we are in. The reason we have only two ticks on money transmission and personal savings is simply around premium price for retail savings that don't stack up and also inertia, inertia in personal banking in the Republic of Ireland is much higher than it is in other markets and that's only starting to change. But two ticks over time still gets us to a hell of a better place than we are in at the moment and we are still in a good place. But almost all of the businesses we are in have really outstanding opportunities to grow our business both North and South.

Taking each one in turn, how are we going to do this? Current accounts and mortgages is very much around our distribution. We can enhance and expand our branch network very straightforwardly in the market. We've opened three new branches in Ulster Bank in the last 18 months. We haven't opened any this year because we were going through our conversion programme but we have identified 27 potential locations, particularly around Dublin and further south in Ireland where we can open branches relatively quicker and get our story out there.

We have spent £50 million in the last couple of years upgrading our branch network and that has proven to be very, very valuable in

terms of the response we have had, changing our brand, changing our look and feel both from staff and customers. And we are changing our product set as well. We have leading-edge current account and savings product in the Irish market to compete with the larger players.

The youth market is very, very important. Learning from what has happened in retail markets in Britain, we have gone in the last three years and developed exclusive relationships with three very large universities, displacing our competitors in those and, having gone through the recent fresher campaign that runs very heavily in the last couple of months, we are really pleased with what we are seeing in flow on that. The Irish market is very much a young market and, a bit like what Gordon was saying earlier, we have all the skills and competences to attract much more of that.

Personal lending and direct lending in Ireland isn't as developed as it is in the rest of Britain, and indeed Europe, and having moved on to the Group platform we can access competency and capacity to build a direct business out which we really don't have at the moment. So Mike Bamber, who runs our retail markets business in Ireland, has recruited somebody especially in to do this and we will build this business out over the coming year.

In savings and investments, affluence. There is a lot going on in retail markets in this that we will earn off. The wealth that has been created in the Irish market in the last number of years is untapped by Ulster Bank. It goes without saying that when we look at the potential we have in our market place, if Gordon can open a branch in Milton Keynes there is every chance we can do something in larger and I would daresay wealthier cities in Ireland!

Business and Corporate Banking, it is largely about people. We recruited Robert Gallagher, who is here today, from AIB to run our corporate markets business a year ago and we have been investing heavily in people. We have increased our sales force 15 per cent in the last 18 months. We are recruiting more and more from the competition.

We want to be an employer of choice in the island of Ireland, we are there already in Northern Ireland, but by using the RBS ticket which we use more and more to hire people we are starting to get that magnet effect of people coming to us.

People will make the difference in this business as well as more and more business centres. We have expanded our business centre presence by 15 per cent - it is only three business centres but it is a lot for us - in the last 18 months and we have plans to increase our numbers of business centres and also the size of our existing ones.

Our product suite is really, really important. We do have a USP in our market in both SME business and in corporate business. By working much more closely with Johnny and Brian Crowe in getting product and people in the game in Ireland we have won some business in Ireland against international as well as local competition by having RBS competence on the ground.

So we bring RBS Healthcare in and we win the largest private hospital development in the last 20 years in Ireland. We bring in RBS's PPT team to do infrastructural pitches to the government given that so much infrastructure development is going on Ireland, and we can bring in derivative specialists on the ground to deal with our customers. Nobody else can do that and we are bringing that more and more to bear and we will do so as we go forward.

New products and new markets: well, we are in everything in Ireland but we still have opportunities to do some new things. I've mentioned direct banking. We are very hopeful that we can do something new in the Irish market on that by taking the best of the Group into account. We have recently launched, within two weeks of moving on to the Group platform, a leading market offset flexible mortgage product - which hopefully we will have an ad. for that you can see later on - through the First Active brand. A great response to it and it is great for our people to see that so quickly after integration we can bring product to market.

The affluent proposition is something, as Gordon works through it, that we will piggyback on hopefully and bring that into our business and give a service level that isn't segmented or offered in our market place. Again, global capability in business and corporate banking: you may hear Robert Gallagher talk about that later on, about what we can do in the market place that nobody else can do.

In wealth management, we have never been here in Ulster Bank despite the fact that we have been in a Group that has had the Coutts brand and all the other private banking brands we have had. We have never in Ulster Bank gone after that and we are doing so now. We have put a high net worth team in place, working very closely with people in Coutts and Retail Markets, and we are leveraging our corporate relationships.

We will have an awful lot of access to high net worth individuals in the corporate sector, so we are starting there with Coutts and bringing product and service into the market, again that nobody in the market place can bring. So we are really enthused by the opportunity we have in the wealth side in particular more recently.

In summary, we are very strong in Ireland across-the-board, both corporate markets and retail markets. We are not picking niches. There is no long term competitive advantage in our market to be gained by just going after niches. We are playing across the piece and getting best value from both sets of businesses working closely together.

The economic environment is healthy. We see nothing in our business despite rising interest rates on the European side of things - they are still very low by historic standards - we are seeing nothing in our business that would give any cause for concern. Far from it, we are very, very confident and we have a USP, as I said, by deploying RBS technology and RBS capability into our business that gives us a leading edge to compete with.

We are expanding our distribution network as we speak; we are adding more people, we are adding more products. We have very, very strong growth prospects in our business.

All the drivers of growth are there in abundance in our business and the opportunity is very, very significant having got through this migration programme and still developed very well. We have diversification, we have scale, we have distribution, we are putting more in place, we are growing our share in key areas that we have targeted and we are bringing new products and new markets to bear. We are very, very confident in Ulster Bank of what we can do over the coming years in a very good environment with the unique opportunity we have as being part of the Group.

That leaves it from me. What I will do is leave you with a short video which will show some of our ads. and you will hear some of our people talk about how we feel about the growth capacity in the business.

When the video is finished we are going to have a short break for about 15 minutes for a cup of coffee and we will come back in then and continue on. Thank you.

(Video then shown)

(Break for coffee)

MR. LARRY FISH (Chairman and Chief Executive Officer, Citizens Financial Group): Well hello everybody, I am Larry Fish from Citizens Bank and welcome back. The story that I am going to tell is one of terrific prospects and some current headwinds in the US banking market, so let's get started.

We have today a very diversified stream of income at Citizens, and many of you have known Citizens for quite a few years. Two things are very different today from five years ago when we did the Mellon transaction. The two things that are different are, first of all, that the loans have grown substantially faster than the deposits, we continue to be a company that produces deposit growth, but the loans have grown into the deposits and the deposit/loan ratio is more or less balanced today. Second of all, a third of our business now is business and it is the faster growing part of the company.

We certainly, like my colleagues who were up here earlier, have scale but we don't have ones, twos and threes, we have sevens, eights and nines. We are a very large American bank in a very unconsolidated market. Even after 25 years of massive and accelerated consolidation we still have in the United States over 7,000 banks. A good example of this is the fact that, take deposits, the 10 largest banks in the United States all put together don't have 30 per cent of the deposits.

We also have really excellent distribution. We are not only large but we are broad - I will show you a map in a second - and this distribution is by far the largest of any foreign bank in the United States. We would be roughly with 1,600 branches as big as the next three foreign banks, ABN Amro, HSBC and BNP, put together and we are strategically positioned. The kind of distribution we enjoy gives us lots of options and if - and thank goodness we don't have to do this if - but if we were wanting to build what we have today from today it really could not be done. There just aren't enough things that you could put together that would make that happen.

So this is that distribution, some of you will remember. I am pleased to point out that you don't want to be here (indicating) - that's trees ... (Laughter) ... that is Michigan. You don't want to be where the cherry fields and the apple orchards are. You don't want to be here (indicating), more trees, rivers ... (Laughter) ... we are in metropolitan areas where the population is concentrated.

And you will see this here (indicating), our geography that you just saw puts us in touch with roughly a quarter of the population of the United States and roughly a quarter of the deposits in the United States and our median income is a little bit better than the rest of the country, especial New England, you will see over the past five years. For many years we were a very big fish in a pretty small place, then we did Mellon and then we did Charter One, then we became 25 per cent of the US market.

We have robust even thrilling market shares in New England. The 48 per cent in Rhode Island is the largest market share that any bank has in any State in America. Unfortunately, there are only a million people in Rhode Island, we wished we had that share in Chicago! But these arrows you see are fresh information. The FDIC releases market share information once a year on June 30th, year over year, and in 8 of our 12 markets we grew and in every one of the other 4 we were stable to slightly up.

Of course, in the places where we have small share, like Illinois, Ohio and Michigan the markets are enormous and a very good example of that is Illinois. Illinois is a market of 13 million people, it has the fourth largest deposit market in the United States with \$300 billion of deposits. It has 747 banks in one State and the top three competitors, as you see there, don't have a third of the market. So while we have only 2.7 per cent of the market it is as big a bank in Illinois as we have in New Hampshire where we have 30 per cent share and the opportunity for us to move up from 2.7 to approaching the number three position is a

substantial opportunity both organically and potentially, as I'll get to later with in-fill acquisitions.

So our growth opportunities are listed here, I won't linger on these, we will discuss them in greater detail. Clearly in the current environment the opportunities in business banking are better than the opportunities in retail though retail is a market that we are dedicated to and a market that we are continuing to invest in. So, let's go to that one first.

Our personal checking and savings, this is a big business. This is \$70 billion of deposits; we are the number two SBA - small business lender - in the country; we make 350,000 calls on small businesses every year; we have a very robust sales culture and we have industry-leading service scores.

You have all read in various publications about the inverted yield curve and the rising interest rates in the United States. What does that really mean? The effect on banks of those two phenomenas are principally threefold: first of all, the migration of low cost deposits - which didn't give a damn when rates were 1 or 2 per cent - to higher cost deposits; second of all, the movement out of banks into financial assets; and third, with fewer deposits much more competition for those deposits among banks resulting in higher rates. It's a reality, something we deal with.

Our focus at the moment in this huge retail business that we enjoy is this little card here (indicating) the big growth product in America. All of a sudden because it has been a growth product in the Rest of World for a long time is the debit card. What's happening in the States since 2001 is that check utilisation is going like that (indicating), ATM utilisation is going like that (indicating), credit card utilisation is flat and debit card is exploding.

We were one of the first three banks in the United States to issue PayPass, blink technology, where if you go to Starbucks or you go to MacDonald's or you go to the subway system in New York or to Boots

you simply tap it - you don't swipe it, you don't sign it, you tap it! We are the largest issuer of this card, of MasterCard, in the country and we are convinced that these volumes are going to grow.

In addition, we just in the Fall, just this quarter launched a 'Everyday' reward programme tied to this. In every one of our markets we are the only one with a reward programme or one of only two. And basically it is simple, it is like Airline Miles, the more you use your card the more points you get; the more points you have the more rewards you are eligible for. Over time we will migrate that same reward programme to related products both on the liability side, deposits, and on the consumer asset side.

Then the other thing that I wanted to mention, one good thing that has come out of a more competitive environment around deposits is a few banks, and I think we are one of them, have begun to model more carefully markets and consumer around what you pay for those deposits. Albany is not Chicago, Wilmington, Delaware is not Pittsburgh, not all customers are the same. So we have invested heavily in our modelling and using our database and the information we have about our customers to be more accurate in our pricing of deposits.

On customer satisfaction, you can see we are bringing the Charter One franchise in New York and the Midwest to Citizens' standards which are best in industry. We make 50,000 phone calls every month to customers. We ask them if they are very satisfied or satisfied? We begin by thanking them for their business and then we ask the questions. And if they are not we have categories that help us understand why they are not. A movement like you are seeing here in Charter One is not insignificant, a 4 or 5 per cent movement in satisfaction for customers is an important movement.

So let's go now to consumer lending, that's the next big area. This is also a big business and diversified, mortgages are mortgages, home equities, autos, and Other is student loans, recreational vehicles and boats. I am proud to report to you, as I have for many years, that we are

99 per cent secured and we only do prime lending. A lot of our competitors have been dynamic in the near-prime and sub-prime space; we have 'stuck to our knitting' in that regard.

The market for these businesses is challenged at the moment - you have read about the weakening housing market which has a natural effect on demand for this kind of credit. We aren't moving down in the market quality in order to maintain volumes, we are maintaining our standards and our credit quality continues to be excellent.

And we are also investing deeply in the core product here, the most profitable product, the biggest product, and that's the second mortgage, what we call in the States the equity line. It is the most popular banking product in America. For two reasons, it is easy to access - many people use it like an overdraft - and very different than here, it is tax deductible, the interest is tax deductible. So we're trying to penetrate more deeply into our existing customer base for that product and we are launching a new adaptation of the product which is a quick application process; we are guaranteeing 3 minute approval.

Business banking is the area that is doing particularly well. It is a bigger business than most of you would appreciate having followed Citizens for years. This is the market of companies from \$10 million in sales to \$1.5 billion in sales. It is very big and at Citizens it's getting better; we have strong market share gains here, you can see that we are up 14 per cent year over year.

What is really helping us here is the collaboration with Johnny and Brian on the front of capital markets services and products. We 'white label' the Royal foreign exchange and derivative product suite and you can see how these businesses are growing. These three products - the third, cash management we do ourselves - these three products are almost a half-a-billion dollar business today and derivatives and cash management we really weren't in as recently as five or six years ago.

Our action steps are very straightforward, continue to build up Mid-Atlantic which is a little smaller than New England, build out even more the Midwest which is a big opportunity, continue to leverage RBS and all of their debt capital markets capabilities, not just foreign exchange and derivatives but private placements, syndications, public debt and introduce a new suite which we will be doing next year of cash management products.

Now on to the growth opportunities, to the new businesses where we are investing and which are showing promise. First of all, the mid-corporate banking.

Mid-corporate banking: what we have done with our business banking, and we have taken a lead from RBS here because they are segmented in much the same way, we have taken out of business banking companies from \$250 million in size to \$1.5 billion in size and we have created a specific segment for those companies. Currently in our footprint we have 1,100 of those companies; we do business with only 300 of them. We have an opportunity therefore to go after 800 new relationships and frankly to upsize the relationship with the 300 that we already have. There is plenty to go for.

But as over the next couple of years we realise some of that opportunity there is even more to go for in the United States where there is another 2,900 companies and we won't really need to go to Phoenix to do that, we can begin by doing it with adjacent cities - Chicago to Milwaukee, Philadelphia to Washington and Baltimore, Cleveland to Columbus and Cincinnati - so we see this as a three tick opportunity and it is off and running.

RBS Lynk was purchased by the Group in September 2004; it's the merchant servicing business; we're the 9th largest in the country; we only penetrate 11 per cent of our 400,000 customers; 80 per cent of those 400,000 need a merchant processor. You can see that it is growing dramatically. We have put some additional management resources into the business and we have set high goals and next year we are going to

be going forward with the sale of this product nationally as well as within footprint. Technologically it is a good business and it has capacity - I think our utilisation of the capacity that we have is less than 50 per cent - so there ability to grow the business and absorb the capacity.

The next one is one that you all will be familiar with because we have been talking about it for many years, our supermarket banking. We are the second largest supermarket bank in America. We started this in 1998 and we have grown it to \$8 billion in deposits. Keep in mind this is a full service branch and keep in mind it occupies less, around 200-250 square feet, so don't immediately divide number of offices by deposits. These are very efficient stores and we only go into supermarkets that have at least 20,000 customer visits a week.

Our actions steps from here forward: first of all, with number one best partner, Stop & Shop, the really successful subsidiary in the US of Ahold, to grow with them from New England out on to Long Island.

This is a map of what we will be doing with Stop & Shop over the next two years.

The next business is the credit card business, still pretty small, \$2.5 billion in outstandings, 1.8 million credit cards issued. The two opportunities here are, number one, Kroger. Kroger is a joint venture partner; they are the second largest supermarket chain in America; they are in 32 States; they have 2,500 stores, and we have issued so far a quarter-of-a-million cards. We are just starting!

The other opportunity is distribution through those 1,600 branches we talked about. We currently issue one credit card per branch per week, four a month; Bank of America would be doing roughly 20, so we are just starting and that would be an important opportunity as well and a service to our customers.

The big innovation next year with Kroger will be the 'Instant Accept', where when you are checking out the receipt will pop up and

authorise you for a credit card based on your fiscal score and the data that we have about Kroger's customers. There is I think great potential on that Kroger opportunity simply because a lot of people want to diversify away from 'Miles' and there is instant satisfaction of points in a grocery store towards groceries.

The next business is one we are particularly proud of. We started national home equity lending in January of 2005. What this is, is it's the distribution of home equity loans on the Internet and we differentiate ourselves by our customer satisfaction and our speed to complete the transaction. We are the number one provider of equity financing to LendingTree.com, the largest loan aggregator in America, we are the number one to MyBills.com, the number three aggregator in America.

You see the growth rates here: October was our first month where we did \$100 million of value and we are optimistic that this business with support - it is headquartered in Cincinnati - will continue to grow. We are expanding the staff and we are looking at possibly using the platform to distribute deposit products as well.

Then finally a business that needs no introduction to this Group: we announced a couple of weeks ago the acquisition of GreatBanc; it is £1 billion in deposits; it is 10 branches; it makes us the fourth largest bank in Illinois; it is all expense driven, the model doesn't depend on revenue growth for its results, and it is our first step for a couple of years having digested Charter One to begin this bolt-on, in-fill acquisition that we have done for many, many years.

We will only do it in markets where we have a keen interest and we will only do it at the right prices, but with 747 banks in Illinois we should be able to find a few more GreatBancs: we should be able to find a few in Philadelphia, we should be able to find a few in Connecticut, just to name three markets that we work on regularly.

I wanted to just be sure that you understand this phenomena that we spoke about earlier of the yield curve and the challenge that it is

presenting for US banks. I don't want to dwell on it; I don't drag myself to work in the morning. It is a phenomena, it is affecting everybody and anybody who tells you it isn't affecting them is wrong, but the good news here is we are growing our business - the green boxes is growth.

The net interest income is flat because of what's happening at the margin. Now it is possible that we are beginning to see some early evidence of stabilisation of the margin but we are certainly not projecting that to be an improvement anytime in the near or short term future.

In summary, we have a great consumer loan business. Consumer loan demand as a result of a weak housing market is soft at the moment. We continue to have slow deposit growth nationally, roughly zero to 1 per cent - we expect to beat that but it is very low national deposit growth - and margin is not, as I just said, likely to improve in the short term.

The outlook for our business banking products and businesses is favourable. We are continuing as you can see to invest in high growth businesses, supermarkets, national home equity, Kroger and in-fill acquisitions. And we remain, as you need to in this environment, disciplined around costs and disciplined around credit.

The ticks are: we have got the diversified income, we've certainly got the scale, we've got the distribution - debatable that might have been three ticks! - but we certainly have the distribution, we are growing our market shares and we have new businesses to invest in that show promise.

So I will look forward to your questions later and thank you for your attention.

Now we have a short video. One of the themes you saw through all of this was the emerging co-operation to both the benefit of Corporate Banking and Financial Markets in the United States and Citizens. I think it is an emerging theme and it is a promising theme prospectively. We

have a video with some of the people who work for Johnny and some of people who work for me about that very subject.

(Video then shown)

MR. JOHNNY CAMERON (Chief Executive, Corporate Markets): I like that ad. a lot, it is a good one to come on to. Good afternoon everyone. I am very fortunate that every time I have stood before you in this room, going back five or six years, I have had a very good story to tell and today is no exception. We have a good story to tell in terms of what's happening at the moment and equally I remain extremely excited by what's in front of us - there is an awful lot left to do notwithstanding that we have had a lot of success so far.

In fact, my biggest problem always is that I speak for too long. I am always told by my colleagues on GEMC that I take too long. They have got their own back today because I am last of the Divisional Chief Executives, because if I go first they all complain that they get cut short! But I will do my best to give you a sense of what's in front of us but some of what I say will be a little bit illustrative, I cannot cover every product in every market in every part of the globe.

Just to remind you, Corporate Markets was divided on 1st January this year into two distinct businesses, UK Corporate Banking and Global Banking & Markets. The common denominator is both are relationship businesses and they have a very common culture; they obviously come from CBFM. I work very hard and my team works very hard at retaining that culture across both businesses.

If I had to pick one word out of our culture that will come up again and again during this short talk it would be "execution". The thing that we are good at is execution, we get the job done and I think we have a growing reputation amongst our client base across the world for getting the job done.

One of the nice things about "Make It Happen" and advertisements like we have just seen is the advertisements for the Group, which are partly directed at our Shareholder base, absolutely chime with what Corporate Markets is trying to do with our clients, so there is a very common theme there about what the Royal Bank of Scotland as a whole

is about and Corporate Markets itself. But execution, execution, execution - it has been key to our success so far and I know it is going to be key to our success going forward.

I am not going to dwell on this slide, you have seen it before, but just to emphasise again, two relationship-driven businesses although the word relationship means slightly different things in each business.

In terms of the income split, it is roughly two-third Global Banking & Markets and one-third UK Corporate Banking. I am going to use figures throughout, by the way, just for those of you who have modelling to do, I will use underlying income throughout - that is net of operating lease depreciation.

So turning to the first of these businesses, UK Corporate Banking.

It is diversified business - a slide you have seen before from others - and Corporate Banking is diversified across a range of things. I guess if I had to pick out one thing I would remind you, which I have reminded you before, that less than half the income is from lending. It is a strong deposit business, deposits in fact are growing particularly fast recently, and also a very strong suite of additional products that is of keen interest to our corporate client base.

This slide I am happy to say is the same slide I would have put up if I had done this at any point in the last six years since the takeover of NatWest. We have an incredible market position in the UK, we have scale that is way ahead of any of our competitors. We are number one in every single one of the relevant markets and often by considerable distance. This is a position that, as I say, hasn't changed for six years and I see no sign of it changing looking forward.

Scale obviously translates into distribution in the sense that we have many, many customers - we have a lot of customers. Again you have seen this before - but we have nigh on 90,000 corporate and commercial customers. 100,000 in Lombard, who are not by the way the

same, there is overlap which gives opportunities from both senses: Lombard customers can become Banking customers and Banking customers can become Lombard customers. 2,500 customer-facing staff talking to customers about their needs and I will go on to say later how we are adding to the numbers of customer-facing staff talking to customers about their needs.

Market shares, pretty static in Britain over recent years. There has been a bit of noise in sort of 1 or 2 per cent this way or 1 or 2 per cent that way, but if I am honest with you I would say that in the main markets we are in they have been pretty static. The big exception is Scotland, which isn't shown on this slide but I have shown you in the past, in Scotland we moved our market share a long way. We've moved it from the low 30s to into the 40s in terms of market share and what we are at, at the moment, is trying to take the lessons of how we did that and apply it in England and Wales.

I really do have hopes that if I come to you in a year or two's time, maybe three years time, we will be able to show you some things about share that shows real movement on this graph. As it shows here, we have actually grown deposits very strongly this year, commercial banking is up a couple of percentage points, maybe 1 percentage point at the moment, so there is some good news in there but the honest truth is we need to make a bigger effort to move the numbers.

What do you do when you are trying to grow share? Well, you talk about two things I think, one is customer penetration, otherwise known as cross-selling - not a very attractive word! - and the other thing you do is acquire customers. What are we doing to improve our penetration of our customers? Well, we are doing in a sense the obvious things and this is a hard story to get across and why I want to emphasise execution.

This is a business that benefits from continuous improvement, there is no great magic but we have to continue to look at what we are doing, to look at the research, look at customer satisfaction scores and to think about how can we make our business a better business? How can

we make our service better? How can we make our products better? What can we do to increase the face time that RMs have with customers?

These are the things we have to think about and Alan and I, and his team, that is what we are doing, we are continuously improving our business. So we do increase the staff training, we do change our incentives to encourage people to sell other products. We have recently begun to streamline our credit process; traditionally Lombard credit has been very distinct from the commercial banking credit, we are bringing that together to get one view of credit for our customers.

We are improving the technology. RM Platform has been around for a little while but it is a fantastically useful tool for credit processing, freeing up the RMs to do other things. The RM can do credit processing relatively quickly with the RM Platform which is a unique propriety platform, which is by the way now being rolled out in business banking, Steve Pateman is taking that with him into business banking. It is a very good help to us.

RM desktop is more mundane perhaps but it is simply allowing the RM to sit at his desktop and access quickly all the data sources he needs both internal to the bank and external to the bank to do his job.

Co-location I have talked about before. We are huge fans of that and every bit of evidence shows us that every time we co-locate our teams, that's the commercial team, the corporate banking team, the Lombard team, the invoice finance team and so on, the GBM products teams, we are there, every time we put them together it makes a huge difference to our sales. So we are investing where we are able, it is a question of what is available in a given time, where we are able to bring them together.

All of this comes together to say that in the first half of this year our cross-sales have improved pretty sharply, around 20 per cent for invoice finance and Lombard and GBM products - that's the selling of FX and

derivatives into the UKCB client base - is up very sharply indeed, which is a particular satisfaction to me as obviously that was one slight worry about splitting the two businesses - would that co-operation in any sense be dented? Absolutely not, it has flourished under that.

Customer acquisition; the thing there is about front line staff. We have already added 200 or are in the process of adding nearly 200 RMs in 2006 and we are planning to add more next year. We have changed the operating model to free up the RMs to talk to customers, by reassigning administrative roles, streamlining documentation which will be not only good for RMs but it will be an absolute delight for our customers - we have too much documentation at the moment. Alan once came to a meeting with me with a pile of typical a documents pack for a customer. It was about that thick (indicating)! There is a real opportunity to make the experience a lot more pleasant for all involved.

And allowing RMs out on the road with portable IT equipment and so on.

We have already added nearly 4,000 customers this year. It's working. We really do believe that we can start to shift that market share and increase our income at the bottom line.

The last thing, and I just want to highlight this, which is Bankline. Frankly our electronic banking offering has been below par for a year or two now, a few years perhaps. We have not been the market leader by any sense in our electronic banking offering. We have been spending quite a bit of money over the last two years to bring it up-to-date, put it on to the Internet and we have just begun to roll it out. We did the first phase in about September, the second phase which is the big phase when the real functionality will arrive will be rolled out early next year.

We already have 13,000 customers on it, it is working fine, and I am very excited about this. This will make us the market leader. The nature of these things is we are going to leap-frog everyone else and we

are going to have the best electronic banking platform on offer in Great Britain. It's going to be good.

I talk about continuous improvement, what evidence have I that we have been doing that and it is working? Well, the answer is we can look at some history. I showed you this, this time last year, and I said then that the growth in UKCB was around 7 per cent. For the last three halves we have been closer to 10 per cent, certainly 9 per cent, and that means the average for that period has gone up to 8, so not only have we got consistent income growth but actually it is accelerating income growth in UK Corporate Banking. Over the last three halves it has accelerated.

So in terms of drivers of, using the same tick chart that the others have used, we have a diversified income base, we've clearly got scale and space, we've clearly got distribution, we have every opportunity to grow our market share. We are perhaps a little bit light on new products. We do bring in new products - I would mention supply finance as this month's new product - but that's not where our growth is going to come from. We are going to continue to continuously improve our business and therefore we are going to grow our market share.

Thank you very much. I am going to go on to Global Banking & Markets but just take a glass of water!

So, Global Banking & Markets!

Another diversified business, in fact, probably of all the businesses you have seen today this is the most diversified. Not only are there a lot of colours on the chart but compared to some other businesses they are relatively uncorrelated. Quite a lot of these things do not go in the same direction at the same time and this is one feature of Global Banking & Markets that perhaps we have not talked about enough in the past. The diversification of income in GBM has been quite an important reason for the consistency of the income growth in GBM which I will talk about in a moment. So it is a diversified and somewhat uncorrelated collection of businesses; obviously there is correlation as well.

It is also diversified by geography. You have heard the story before I think but I am just bringing you up to date, if you like, to the end of the first half of 2006. You can see here that the growth in the UK - it doesn't say the number - but actually that is 9 per cent growth, compound annual growth, from first half of 2002 to the first half of 2006; 28 per cent in America, this is all in local currency by the way; 40 per cent in Europe and 21 per cent in Asia.

This has meant that we now have a business that is only just slightly more than half the UK business, very nearly half of our business is non-UK and we clearly expect that trend to continue. In GBM we do expect to continue to grow considerably faster outside the UK than inside the UK.

Perhaps the growth in Europe is particularly notable and that is one that is truly organic. We started with very little there - Brian very much had particular charge of that back in 2002/2003 - I think you have heard from me before we have got some fantastic people on the Continent of Europe and it has been a real success story for us the way that business has grown organically at 40 per cent per annum.

Scale: I think this is a story we still haven't quite got across. It seems to me surprising that after a relatively short time I can stand up here and say to you with complete and utter confidence that we have scale in the global markets. I emphasise the word global, we are competing in a global market against the best banks in the world and there is no doubt whatsoever that we have scale in these markets. I said a year ago that we are top 10 in our chosen markets across the world, we still are, and by and large we are further up into the top 10 than we were a year ago. We have momentum and we have continued that momentum over the last year.

I met an American guest earlier today and he was asking about America and was surprised when I pointed out that we are number four in terms of market share in US treasury bonds. In the voting in the Greenwich survey we were actually number one in terms of clients, the

major clients, who deal in US treasuries. We are the number one bank still in US treasury bonds. We have scale in what is a very, very global business and a very competitive business.

I can't go through every one of these but I am going to talk particularly in a moment or two about the All Debt League Table which is the All Bonds, All Loans, All Currencies, which seems to me the most representative all round league table. It is worth pointing out that we are at the moment the number one securitisation house in the world, quite a special thing to be.

I would also mention electronic trading, we don't talk about that very much. It is a very important development in the financial markets both in foreign exchange and in derivatives. We are making very good progress in that area. We have, this is from EBS, a particular platform but we are number five in the world in electronic trading on FX on a particular platform. This is important. I just want to emphasise it is not something that we talk about as much as some others but, here again, we are making extraordinarily good progress.

We are number one in project finance in the world. I could go on, but I hope it is clear we have scale.

Origination, which is our word, it is rather awkwardly our word for distribution. In Global Banking & Markets we have two important client bases: we have the client bases on the buy-side where we are originating bonds and loans and we have our clients on the sell-side who we are selling bonds and loans too. So we call what has been described by my colleagues as distribution, we call that origination.

In terms of origination, in terms of the buy-side client base, we have obviously total penetration in the UK but we now have very good penetration in America and in Europe. The integration of Global Banking & Markets in America, as Jay was mentioning on the video you have just seen, has made a huge difference to the progress in America.

Perhaps it has not been noticed as much as it should, that we have grown very well in America in the last year at a time when the mortgage backed market has been very quiet, and what that means is the other businesses have come forward while that mortgage backed business has been marking time a little. I need to emphasise just how well that is going against the background, as I say, of a slightly duller mortgage backed market.

Continental Europe continues to grow extremely fast. We are I think in many ways “the” - we are certainly “a” - bank of choice for any large company looking at something difficult or interesting. We have an unrivalled reputation, as I said earlier for execution, for quiet execution, for confidential execution, for quick execution. It has been an extraordinarily good year for us in terms of getting the call from the Chairman or the Chief Executive of a company who is thinking about doing something difficult, wants to keep it quiet but needs to get a good bank onside to advise him on his financing. We are very much a bank of choice in that arena now.

We have been opening new offices as we go through, for example, in Shanghai we have upgraded to a branch. We have opened a rep. office in Seoul, a rep. office in Helsinki, we’ve announced we are looking at one or two others which I will come back to, but we continue to grow our geographic footprint

Just a word on Bank of China which hasn’t come up much before today I don’t think. Bank of China: while we have the joint ventures in wealth and credit cards and so on, for us it has more been about transactions and we have sort of got on with that. We have actually done a billion dollars worth of transactions together with Bank of China this year - we will have done by the end of this year a billion dollars - so significant traction there in terms of working with them on a day-to-day basis.

Of course, we have also benefited hugely in Asia from the profile it has given us. Everybody knows who RBS is in Asia -we’re the bank that

invested in Bank of China, and even in Japan that has been of some assistance to us.

Distribution then, the other side of it, the sell-side, we have still got further to go in terms of our footprint with financial institutions but we have made good strides in it and that's helped us expand our distribution channels.

Just to dwell on that a bit because I don't think it is as well understood sometimes as it could be, what do I mean by distribution? Well, there are a number of sorts of distribution. There is primary distribution, which is what one mostly reads about and sees, that is where we or another bank underwrites loans and bonds and then we sell down immediately in the market to other banks, other financial institutions the same loans and bonds. It happens all the time, we do huge numbers and, as I said, we do as much of it as anybody.

Then there is secondary distribution, where you take your existing balance sheet and work with that and securitise things for people, put CLOs together, synthetic CLOs, CDOs, make other sorts of secondary sales, sometimes on a funded basis, sometimes on an unfunded basis, and we do a lot of that.

The third form of distribution, which is important and is increasing important for us, is working with what we call strategic investors and we have more than one of those, where a large financial institution will come to us and say we want to build a portfolio in such-and-such an asset class, you clearly do a lot in that asset class, will you please select assets and manage assets for us in that asset class? And that's another very important and growingly important form of distribution for us.

That leads on to effectively an asset management role. So as these portfolios grow and we do more and more for strategic investors we can start to put together funds, infrastructure funds would be an obvious one or a real estate fund, and take management fees. At the moment we've really only done it in CDOs but we do have in RBS Asset

Management - which you remember is now within GBM, which manages the assets for Coutts on a fund-to-fund basis - we do have an RBS Asset Management business within GBM which we see scope for adding to selectively in certain asset classes. So that's, if you like, the fourth tier of it.

This has helped us, again Jay put it very well in the video, helped us make our balance sheet a lot more liquid than it has ever been before. As one example and I know it is a topical example, if you look at leveraged finance, the hold levels in leveraged finance have fallen from 27 per cent a year or so ago to 14 per cent in the first half of this year, which is a pretty sharp change and is one of the factors that has helped us keep our underwriting volumes up and to win more in fact; people come to us because they know we are good at distribution. One reason a client will come to a bank is if you know where to place bonds, where to place loans, that's what they want to talk to you about. It is very important that you can demonstrate that you really do know how to distribute and who to distribute to.

Looking at the market share and taking the same list of things I gave you earlier with the rankings on it and looking at percentages, I am not going to dwell on this. I had a bit of a battle with Iain Allen and other colleagues here - I was quite tempted to put up arrows against every one, quite seriously. We are growing our market share almost across-the-board. Leveraged loans perhaps is flat at the moment, we've slipped from one to two in Europe; global loans probably is up, but I don't want to dwell on the chart other than to say there are a lot of up arrows and we have real momentum across-the-board in Global Banking & Markets.

The most important table, as I said earlier, and the one I also want to dwell on is the global all debt league table. Just to repeat, this looks at the bookrunning underwriters of all bonds, all loans in all currencies everywhere in the world. It shows here the progression in our market

share, pretty steady progression up to 4.7 per cent in the first half of this year.

I used this, and just to show that I am not picking the league table that suits, I used exactly the same league table this time last year in the Investor Day presentation when we were 8th in this league table; we were 16th three years ago. We are 5th after the first half and now actually I can say we are 5th after 9 months as well.

It is also worth looking at the competition, the company we are keeping, if you like. You have the three big American banks, Deutsche Bank and then us, and then you can see who comes afterwards. This is very good company to be in, ladies and gentlemen, and it is very good company to be 5th in.

A random example, the sort of thing that I don't think we quite got the message across in, I was told this morning by Achim Kluber that we are currently the number two underwriter of bonds for German companies this year behind Deutsche Bank. That is an example, just today's example, of the sort of penetration we now have in this area.

The other important thing about why do I choose this league table is this is a sort of shop window for the whole capital markets, for the whole fixed income business. This measures how many customers you have and what you are doing for those customers, not just underwriting their bonds and loans but there is a lot of ancillary income that comes from working within that space.

If you are a lead underwriter on a loan or the lead underwriter on a bond you are by far the most likely bank to win the associated swap income if there is associated swap income. You are seeing the Chairman, the Chief Executive, the Finance Director. You are going on the road show with them. You are spending two weeks in Europe talking to investors with them; you get to know them very well. It is an incredibly important lead indicator of the money one can earn from these customers.

So this is a very important league table. I hope we can remain 5th, I certainly expect to remain up with the winners for the foreseeable future.

In terms of growth, this is where I am going to get a bit illustrative. I really can't cover every product, every business and every geography and so I've just tried to sort of hit the headlines. In the debt capital markets, as I have described, the shop window of the business, we want to keep moving, keep the momentum going. We have made terrific strides in the euro currency league tables in the last year, we have got firmly into the top 10 - we were top 15 - we need to keep moving that on to top 5, no reason why we shouldn't, momentum is a very, very attractive attribute in these markets.

In the dollars we are bit behind the euro. As you know, we said we would do sterling first, then the euro, then the dollars. The dollars is coming along nicely, we are firmly in the top 15 there, we need to get into the top 10 and then on to the top 5, sequentially as we follow in euros.

In asset backed, in mortgage backed, as I say we have got to maintain our leading rank. We are number one globally at the moment. I think in terms of market share, in terms of the actual market, I hope to see the US recover a bit in due course but we do see the market growing significantly outside the US.

In leveraged finance we have got a great position in Europe. We have moved the head of leveraged finance from Europe to America - he relocates on Monday having been there a bit recently. He is going to spearhead an effort to try and begin to replicate our very strong position here in America.

In real estate we have a very strong business model, slightly different in the US than in UK, and we are beginning to roll that out; we already have done quite a lot in Europe but also in Asia.

Rates and currencies: I guess the main point there would be that we have added a lot of staff - I will come back to staff in a moment - but particularly in this area we have added significant numbers of staff on the sales side, particularly in Continental Europe and we expect to see the benefits of that flow through to the rates and currencies businesses.

E-commerce, I have mentioned.

Financial institutions, as I have said, we are a little underweight and have traditionally been. We have moved the dial in the last year, there's still further to go in terms of winning market share there.

And on the US, I say what I said the last time a year ago, we absolutely do have an ambition to be a top 5 corporate bank in the large corporate space and a top 5 bank working with Larry right across the piece. We have an ambition to be a top 5 bank and there is nothing that's happened in the last 12 months that makes me think otherwise than I did then, which is we absolutely can achieve that.

A couple of other points on market share growth. I think it is something that again perhaps it is my fault for not talking enough - it is probably not my fault for not talking enough! - but we aren't perhaps getting the message across about how much we have done recently. We have added over 2,000 people in the last two years, that is net new hires, 2,250 people; by the end of this year, in the years 2005 and 2006 we will have added 2,250 people. That is net new hires.

I would add to that. We have very, very low staff attrition, something like 8 or 9 per cent, which is very low by historical standards, and this is very important. So we are adding people at quite a rate, we are doing it quietly, we are very much looking to hire people who fit our culture and the fact that we have got low attrition is very important in a couple of senses. One is, it is helpful in risk management terms, we know our senior managers well, they know their managers well. We have a very, very good and core long-standing team that we are adding

to incrementally but we know each other very well indeed, and that's true as you work your way down through the organisation.

And the other thing that is helpful for us is culture. I believe strongly in our culture and believe that is vital to success and a low attrition rate is (a) a product of that culture but (b) is a factor in enabling us to sustain that culture. So we have added a lot of people and we are seeing the benefits of adding people but there are more benefits to come.

Quite a lot of these are of reasonably recent hiring so we have got more to come from the people we have hired. It is about 50-50, it is about 56 per cent support and 44 per cent front office, and those front office people we really expect to see them continue to add income to the bottom line. And there is more to come, we are looking to hire over 1,000 people next year, quite a lot of it in the back office, as it says here.

It is important that we continue to keep our back office. Volumes are growing, we need to grow our back office to keep pace with it, and we also next to invest in technology, in particular products to ensure we have the technology to deliver the product to our customers. We are spending significant sums of money, increasing sums of money, on technology to support volume growth and to develop new product capabilities.

Quite a lot of these back office people in particular, by the way, will be in Asia Pacific, not just to service Asia Pacific but also as a way to service our global business across the world, so an important development there in terms of the growth of our operation centre in Singapore, for example. And we will continue to invest in geographic distribution. For example, in the Middle East we have started to open offices there now and I am already seeing the benefits of that in business from there.

That's a summary of why the businesses as usual have huge momentum, why I think they will continue to grow.

I am just going to touch now on new businesses, new products, new markets but do it in a slightly different way to my colleagues because if we have a new product or a new market, you know about it, we are advanced, we're going. What I think is more interesting is to think about things we haven't actually really started to drive, and there are a number of markets we are not in, or hardly in, or in in a modest way, which are important markets.

I think it has got a number of things here of how do we assess opportunities in areas which we are not currently in? And all of these points are important. We want to be in a good market, we want a market with momentum, we want one we can get into where importantly we have got relevant expertise, or leveraging existing relevant expertise, where it fits with our customers, that's leveraging our platform and our franchise.

But the most important point on this slide by far is appropriate market entry route, and I strongly believe that the right time to get into a market is when you have the appropriate opportunity, when something happens.

An obvious example I would give you of that is debt capital markets in America. We had always said we would do the US dollar market or attack the US dollar markets after the euro; we ended up actually doing it about a year earlier or so, a year or so earlier than we first thought, because the right team came to us and because it was the right team that was the right moment to do it. We backed them, it has worked very well, and we are very happy with the progress of that business.

So I would emphasise that, that we keep our eyes open but we are not going to rush into a market just because it looks like a good market, we are going to go into markets as and when we see an appropriate entry opportunity.

As an illustrative list, and I emphasise again the word illustrative, of businesses where we are relatively underweight, here are a few. You

can read the slide for yourself but I just thought I would mention a couple of them and they are linked. Equity derivatives and to a degree structured retail products is a sub-set of equity derivatives because many of the structured retail products rely on equity derivatives to manufacture the product.

It is not a tiny business, equity derivatives, £40 million in the first half year and no reason why it shouldn't be £80 million in the full year, but a number of our competitors are significantly bigger. We would like to do more there, we keep our eye on what is the right way to build that up, and one of the ways to build it up actually is through retail products for our own Royal Bank of Scotland Group network.

As Gordon hinted at or actually said I think we have made considerable progress on that, and just to add a sort of anecdote to that, I read this morning that we have in the UK market today twice as many structured retail products in that market than anybody else. We have 22 products launched in October, twice as many as our next nearest competitor. So we are already making strides in building that up, there are lots more to go for and that really is the point of that chart.

The Middle East I have mentioned, just picking a geography as opposed to a product. There is no doubt that by putting a couple of offices on the ground that there is some really important business to go for in the Middle East.

One of the questions around this I think is, is the glass half full or half empty? And I think it is half full in the sense of saying we have great momentum, it is a great business, it is going really well; it is half empty in a sense that we have a whole range of things that we are not doing nearly enough of, or a whole range of places that we are not nearly active in, active as we would like to be, yet. So plenty that has been achieved, plenty on the go but plenty still to do.

Just to underline the plenty that has been achieved - I am doing the same thing I did for UKCB, the same chart that you saw a year ago -

here we are growing 16 per cent per annum. I would mention again the point about stability helped by the diversity of income. I would also highlight that compared to many our income from trading activities is a slightly lower percentage than most of our competitors I think you will find, and I would also highlight that our VaRs - these are end year VaRs - are again slightly lower than the majority of our competitors. So a slightly different profile to many but not one that I think anyone would be ashamed of. It is an incredible record and, as I say, it demonstrates that we have terrific momentum.

So in terms of drivers of growth, yes, we have got diversified income; yes, we have got scale, and I would remind you that is quite a surprising and strong statement in a global market; we have origination and distribution but, yes, there are things we still have to do in terms of building our client base both on the corporate side on the origination side and on the distribution side; yes, we can grow our market share; and, yes, we have plenty of new products and new markets that we can consider if the right opportunity presents itself.

And pulling that all together for Corporate Markets as a whole, and just to remind you what I said about UK Corporate Banking, first we have this wonderful position in the UK, we are reinforcing that, we are continuously improving our model, we demonstrated we can do that over the years and we have absolute confidence that we are going to go on doing it looking forward.

In the Global Banking & Markets business we have achieved a platform. I used the word platform a year ago as a sort of last remark - I have changed the word platform internally, I felt that platform implied a certain stability and not going anywhere -so now internally I talk about a springboard for growth, I think it sounds better for where we are going. We have a springboard for growth, we are a top 10 player everywhere we need to be, every product we need to be, but plenty of more things to do there.

We are investing both in UKCB and GBM, we are investing in people and technology to continue the momentum and to gather the new opportunities. We have lots to do; we are all enjoying it. Thank you very much.

MR. GUY WHITTAKER (Group Finance Director): Thank you all very much and good afternoon. What I would like to do now and over the next few minutes is just to try and pull some of these themes together. You have heard now from all of the Divisions, you have heard about the many opportunities that we have across all of our Divisions and I would like to take a few minutes now just to think about how do these all come together at a Group level.

You have heard about diversification of income, scale and distribution, growing markets, new products. I would also like to spend a few minutes just talking about the foundation for these, the operational excellence which underpins it, the strong risk management culture that we have across the Group and the financial strength of the Company.

I think the general theme that came out for me is that in each of the Divisions the diversification actually provides us with the flexibility and the opportunity to grow. A similar sort of model would apply at the Group level despite seeing headwinds in two of our significant businesses.

We still have the breadth and the balance of activity that allows us to invest in those parts of the Company which have been growing faster or which do present a bigger opportunity, and you can see from the top-line number income at just over £13.6 billion for the first half of the year. Momentum across the business is strong and delivering operating profit which grew 15 per cent to just over £4.6 billion, a very good momentum to take into 2007.

This slide here illustrates the current drivers, as you are all very well aware, and as you heard from Johnny really come from the corporate side of our businesses, corporates whether in Ireland, whether they are global, whether it is UK corporate, or whether it is some of the commercial businesses in Citizens or even in the retail business. The corporate sector has been strong.

This balance here of actually just a little less than half of our income coming out of business activities, a little more than half coming out of retail, sees us very well positioned to pick up any change in that balance. And if there is to be a shift out of the corporate sector with the retail activity picking up, we are very well poised to take full advantage of that in this combination of diversity and flexibility which supports the underlying growth of the Group.

We have, as you have seen everywhere, leading scale in all of our activities, leading scale, distribution, we are in growing markets, and in most cases in most of our products we have growing market share.

That counts for nothing unless you can deliver the bottom profit growth that comes from that and underpinning these income-generating activities is a unique manufacturing operating model.

By combining common activities such as information, technology, processing, telephony, claims, collections, property and purchasing - where we were I think marked for the second time in a row, recognised as the leading purchasing company in the world in all of our activities - by combining these common activities which support the whole Group into centres of excellence we can really deliver the benefits of scale, we have a culture of continuous self improvement, and we can use the efficiency gains that this allows - you can see the little green box there dropping below the line - actually seeing a reduction in costs to support our business as usual activities, allows us while maintaining expense discipline to continue to invest in property and in technology and in growth for the future.

The investment we have made in the platform has contributed to a continuous improvement in our cost:income ratio. Those efficiency gains you can see have brought just a little under 4 percentage points off our cost:income ratio over the course of the last five years and as we continue to grow income you will continue to see those productivity gains coming through and that will I think support further improvement in this cost:income ratio as we see profitable growth in the years ahead.

We have a very strong risk management framework, an extremely well diversified portfolio, a very hands-on credit culture, an active early management of any problem credits or problem loans and a strong culture of independent risk management oversight. The combination of these activities has seen really I think industry-leading low volatility in our impairment provisions as a proportion of the size of our loan activities over the last five years through in fact what have been varying both corporate and retail credit cycles.

I think while we remain very circumspect about our approach to the environment, and credits particularly on the corporate side have been extremely positive in recent years, these last four or five years are testimony to the very strong risk management culture and cautious approach that we take.

The same would be true of the trading risks. Johnny highlighted the trading numbers but if you look over a five year period you will see that our income from trading activities doubled over that time period. It doubled, broadly speaking, as in fact our income doubled, so it grew approximately in line with the rest of the business but within that time our value at risk only increased by 20 per cent, highlighting again I think very much the customer rather than the proprietary nature of our sales and trading activities.

And should things get tough we have tremendous financial resources available, not just the capital strength of the Group but also if you take this slide here it illustrates - this is our operating profit - or showing a six-fold cover of impairment charges, and you can see comfortably above any of our UK peers. So tremendous financial resilience and that gives us the ability not only to continue to invest in the good times but also the resilience to keep on growing our businesses when times maybe get a little tougher.

What does all this add up to? It adds up to a company which has strong income generating capabilities, very good businesses with large

and significant market shares, a very efficient company that has been, as you can see there, consistently capital generative.

It has self-funded the organic growth of the Group over the last five years. In that time it has also provided for a consistent rise in the dividend and has generated an additional capital surplus that has been varyingly used: a return to Shareholders through additional value shares, it has funded acquisitions and this year was used for the first time on a buy-back programme. We announced, you will recall at the Interim Results, a billion pound share repurchase programme, and as I stand here this afternoon we are about three-quarters of the way through that.

Looking forward in terms of capital management, we will continue to seek out and invest in areas of profitable growth - that I think is our primary responsibility and use for the capital that we have and the capital we will generate.

We have, as you will have noticed, taken a much more active role over the course of the last 12 months in managing the overall size and shape of our balance sheet. We have securitised about £18.5 billion worth of assets this year and we will continue to use securitisation and other tools in the management of our balance sheet going forward in order to maintain stable capital ratios, which we have talked about, as being a Tier 1 ratio in the mid-7s.

We expect to generate consistently good returns and that I think will allow us to maintain the progressive dividend policy that we have with a pay-out ratio above 40 per cent. And notwithstanding the use of capital to invest in our businesses, notwithstanding the progressive dividend policy, we expect to have an available capital surplus as in fact we have done for the last five years. In the past, like in the future, that capital surplus will be available to be deployed as the Board sees fit and as we discuss how best to use that in the future.

So I think you can see that the financial framework we have there, the business opportunities that you have heard about, sees the Group

very well placed to see superior and sustainable profitable growth going forward.

And with that, I would just like to hand back to Fred for a few closing remarks. Thank you.

SIR FRED GOODWIN: Thanks, Guy. Well, at the beginning of proceedings this afternoon I said that I was very confident in the Group's prospects for growth. It wasn't a fanciful remark, it wasn't a throw-away remark, it wasn't a careless remark. I hope that in the course of the afternoon you have got a sense of some of the basis for that remark and why I feel so confident and able to stand here today and make a remark of that nature, notwithstanding the very clear and very easily identified headwinds which are affecting a couple of important parts of our Group, as Guy mentioned.

A particular reason I think though beyond just what the guys were able to put up on slides this afternoon is the fact that to drive growth, as I said at the start, you need to drive the drivers of growth and we have been doing that for a long time now. That would be my rating of where we stand in all of these drivers.

I am not going to go back through them all, it has been a long enough afternoon without doing that, but I think you would have got a clear sense from the businesses why we feel the way we do about the importance of diversification, our income stream and so on, and we do feel in a particularly good place, and that is what gives me and my colleagues the confidence that we have in the future prospects for the Group.

I cautioned though that in thinking about growth and listening to stories about growth and listening to tales about deeds of daring out in the field and in the real world that we have always got to make sure it is the right kind of growth and growth that actually counts and the growth is growth which puts runs on the board where it counts.

And I invited you to think about the earnings per share ratio, not as the only ratio, not as the only metric but as a very important one and one that, as I say, I always resort to when presented with growth opportunities. I have put this up on the graph to frame that thought and also to emphasise that we were thinking about the box today. We

weren't having a history lesson, we can do that anytime, but this is a forward-looking presentation trying to give you some comfort about the box.

I gather that there was some speculation over coffee as to whether I was going to put a line in this box as my grand finale ... (Laughter) ... but you know me well enough by now to know that wouldn't be something I would do, not because I want to disappoint the audience, not because I want to tease anyone, but clearly there are a whole myriad of factors which will impact our business during that time which it seems a little rash for me to stand here and try and wrap up into a single line at this point.

So that is kind of how we see the world going forward! (Laughter) But I am conscious and it struck me as I was watching the wedding advert earlier on, and there were two guys in the wedding advert, I don't want to be the guy who stands here and goes on about forward-looking statements and warranties and risks and dangers and miss my main chance. We got you all here today to talk about the growth prospects of this Group and it would be a shame if I somehow fumbled it at the very last minute, so I am the other guy in the advert!

I do believe in the growth prospects of this Group. I am confident that we will deliver as we go forward. Whatever the economy, whatever the world throws at us I am very confident that we will deliver growth which when compared to our peers is superior and sustainable, as we have done historically. So, I do believe that and we will I believe make it happen.

Thank you all very much for your patience and for listening. If I could now invite my colleagues who presented today to come up, we will be very happy to try and pick up any questions you might have. (A pause)

QUESTION & ANSWER SESSION

SIR FRED GOODWIN: Right, the usual rules apply. There are microphones floating around but if you would rather shout feel free. Someone in the middle there and then Peter!

MR. SIMON MAUGHAN (Blue Oak Capital Limited): Thank you very much. If I could ask a couple of questions, the first to Johnny. I was wondering, Johnny, if you might be able to re-cast your growth outlook for us and rank for us in terms of staff growth, staff productivity growth and also just the general growth in the markets, be it GDP or the multiple of GDP that Capital Markets are growing? Which of those three factors you think is the most important in driving growth over the next couple of years in your business, so staff numbers, staff productivity or the general health of the environment?

And then the second question was perhaps back to Sir Fred. Given what you have just said and you probably won't go much further, but can you just remind us what is the peer group that you are going to be superior to and can you give us some idea of what you think that peer group is going to be doing that you are going to be superior to?
(Laughter)

SIR FRED GOODWIN: Well, do you want to go first, Johnny?
(Laughter)

MR. JOHNNY CAMERON: Yes, I will. (Laughter) The answer is I can't in the space of a two minute answer give you a scientific answer to what you say. All of those three things are bound to have an impact. Adding staff numbers, those that we add in the front office we absolutely expect to bring income.

We were talking only this morning about our sales force in Asia and Japan. Brian and I were at a meeting there and someone was

talking about the productivity and absolutely he has the ambition for his large sales team, 50 or more people, he was talking about doubling the productivity at least per head over a two or three year time period in Asia, as an example.

And, yes, the environment will make a difference but I am not even sure technically how I could rank them or the influence; if the environment is very bad it will outweigh the first two, if the environment is quite bad it might not, but I don't know how to respond, maybe offline.

MR. MAUGHAN: Well, perhaps I could be more specific then. You said that more staff would bring more revenue, that's hopefully the case. That wasn't my question. My question, perhaps I should put it another way round. Will the revenue per capita rise as your number of staff rises so quickly?

MR. CAMERON: It will. If ever we stop or slow it will start to rise quite rapidly I think, there is clearly a lead and lag effect. I repeat what I said earlier about us being Scottish. One of the things we have done is we have added 2,000 staff and I don't think any of you have noticed, i.e., their productivity has been sustained and our income and our cost:income ratio has been kept in a range, so we will continue to be frugal and try and grow our income faster than our costs. That is what we have always tried to do; at the margin there may be a year here or there where it isn't true.

SIR FRED GOODWIN: Brian, do you want to add anything to that?

MR. BRIAN CROWE: Just as a point of information, our revenue per head is right among the top tier of our competitors, so I would not expect the main driver to be in terms of becoming even stronger than our competitors in terms of revenue per head. But, as Johnny says, there is a lead and lag effect, including while you are investing you are not getting the same productivity as when you are reaping the rewards of that investment.

SIR FRED GOODWIN: As to the question for me, Simon, I guess who the peers are vary from area to area. You heard Gordon talking about his peers. You saw a selection of peer group companies put up as we went through the various presentations. What we'll do to be superior to them? I guess are the things we are doing at the moment to grow our market share because these are the people that we are taking market share off of.

So this afternoon was about I think setting out what we aim to do and by demonstration of our market shares and the progress and growth rates we have been achieving I think we are setting out why we have the belief that we have. We also I think when you start to look at our peer group in the aggregate there would be few who would have the diversity or range of businesses that we have, and that's what gives me the comfort to be able to make the statement that we made.

Peter was next and then Mark!

MR. PETER TOEMAN (HSBC Bank Plc): Another question for Johnny. I noticed in your presentation of league tables Royal Bank always seems to come up number one in terms of leveraged products or leveraged lending and the term leverage seems to be applied to transactions which have above average level of gearing and institutions like the FSA in connection with sort of private equity have warned about the risks in terms of leveraged lending. I am sure you will tell us that most of the debt or an increasing proportion of your outstandings are securitised or moved off balance sheet, but I wonder if the general environment is one which concerns you?

MR. CAMERON: I've just started. I can't say I have read every word of the FSA report, it is about that thick (indicating) but I have read most of it. I think there was nothing new in that report. It is true that leveraged lending multiples have risen over recent years. It actually emphasised that they had in their view stabilised in recent months and had stopped rising; it was one of the points they made that didn't hit the headlines.

There is a lot of money out there, a lot of liquidity. It is our job to put that liquidity in touch with our customers and that's what we do. And you're right, part of the answer is we hold as I demonstrated in that slide a lot less than we used to. It is not often that I boast about coming second in a league table, but it is true that we slipped from one to two in Europe in the last year which may imply that we have been a little more selective and so on. But I am very comfortable with our portfolio. We see no signs of stress in it and I am very comfortable with it.

SIR FRED GOODWIN: If I could just add to that, Peter. I think the fact it comes labelled leveraged finance gives a bit of clue to credit committees and so on ... (Laughter) ...so I think it does get looked at. It is another occasion when the rose-tinted spectacles stay in the draw. Also in terms as a proportion of our business, I think sometimes people think it is a major driver of our business. We are very pleased with the business we have there but it is less than 2 per cent of the Group income that is derived from the entirety of our activity in the leveraged area.

Mark!

MR. MARK THOMAS (Keefe, Bruyette & Woods, Inc): One for Gordon, if I may. It sounded from the tone of your comments that maybe there had been an acceleration in the number of growth initiatives: (a) is that correct in terms of tone and (b) how long would that lag before you might see an acceleration in revenue?

MR. GORDON PELL: I think I used the words there is some air coming out of the tyres isn't there from the consumer credit boom of the last four of five years. We have obviously seen very strong growth in consumer credit balances but also that has been exacerbated by the fact that so much of the income has been historically PPI-related which is quite front-end loaded. So you have got a transition period going on while that has been running down, even from 20 per cent to negative in some cases. And being realistic these things will come back quicker than you think, but I think we are reaching the bottom of that new curve at the moment.

When we set up Retail Markets 15 months ago it was a realisation that trend was with us, we needed to get our hands round the whole of our retail businesses and actually begin to look for new growth opportunities and new areas. So, yes, you're right. Yes, we are working on a wider range of things. Probably I think we are just too busy quite frankly doing business three years ago when you look at the volumes we were handling. We have been looking a little bit more strategically about how we can build a business.

But the other comment is, quite frankly, the retail business has now got to be more cost efficient in terms of what does and spends its money on. So I think you are going to find cost efficiency and credit metrics are as much to do with what the business does over the next couple of years as income, while perhaps three years ago we started off with income and there was so much of that to go around you were really just fighting for that. So I think it is going to be a more complex story which is why we set up Retail Markets because we had to manage that on a strategic basis rather than purely tactical.

SIR FRED GOODWIN: JP and then Simon.

MR. JOHN-PAUL CRUTCHLEY (Merrill Lynch): It is a question for Johnny again actually, maybe following on from Peter's question with a difference nuance. When I look at the areas where you seen obviously a great deal of strength it was areas where you would expect an organisation with a very strong balance sheet and a lot of muscle in that regard to do quite well, in things like lending and obviously structuring and the like.

The areas where you looked at in terms of potential for growth are areas where you might suggest were probably more intellectual capital intensive, structured finance, derivatives etc. Does that signal a shift in terms of what you doing in terms of hiring patterns or shifting the nature of what you are trying to achieve with the business or are you happy you have got the right sort of people to actually build out where you want to?

MR. CAMERON: I think that is a shrewd question. But what I would say is rather than a shift that's been the trend over the last six years and we are on the course of a journey. We are number one in securitisation in the world. I don't think anyone would suggest that didn't require intellectual capital, it requires a lot of intellectual capital. Underwriting bonds of all sorts is not something that's about balance sheet, it is about intellectual capital in terms of skills and in terms of pitching and advising.

So there are plenty of the businesses we are doing well in that require intellectual capital, but as a general point I would tend to agree with you. We are on a journey to bring in some of these more sophisticated products and deliver them to the customer base. We have done really, really well at building our customer base both at the front-end and at the back-end and we have now got this opportunity to add some more products to improve the flows between the two.

MR. CRUTCHLEY: And in terms of recruiting individuals into that space, the brand obviously carries pretty strongly. Could you just comment on how you have been able to recruit people?

MR. CAMERON: It is a tough market for recruiting at the moment whether you are talking front office or back office. I feel very good about our brand which, as you rightly say, is very strong. People want to come and work here but it is a tough market and people are paying silly prices - we are not paying silly prices! I won't say it is easy but we are making good progress.

SIR FRED GOODWIN: Simon and then at the back there!

MR. SIMON SAMUELS (Citigroup Smith Barney): Actually I wanted to follow on from JP's question, also for Johnny. Again picking up some of the sort of new growth markets, they're kind of different cost structures I think to some of your existing markets, things like equity derivatives, commodities etc.

Well, I suppose the question is whether you can give us some sense of whether the P&L metrics of the GBM Division are likely to remain pretty much intact going forward or whether they are going to shift? I am think particularly of the relationship between costs and revenues, the profitability, per pound the RWAs, those kinds of financial metrics that you have shown us in the past that have been very stable. Do they carry on being stable or is there a shift happening here?

MR. CAMERON: There is not going to be a sharp shift, Simon. You saw the cost:income ratio. The "jaws" was mildly negative in the first half of this year, there may be a further period of that, but we are not talking here about moving the scale.

MR. SAMUELS: I'm sorry, just while I have got the microphone. 1,250 people to hire next year, that's obviously a big number and I obviously know you are going to be doing that, and you have told us of the last two years. But 2005 and 2006 and 2007, is that a massive change in the pace of hiring or could you tell us what the long run average is for the number of people, the net additions? Is there something very big and different happening at the moment compared to 18 months ago?

MR. CAMERON: I think it has been a little bit of an acceleration in 2006 and 2007 probably. We have started, as I say, and Singapore is a really important expansion for us in terms of putting an operations centre there as a global back office and we are in mid-stream with that.

Just going back to your previous question, that will help the cost metrics. It is a cheaper place to have an operations centre than Central London, for example. It has been somewhat of an acceleration across this year and next I would say. It is not surprising in a sense because, as I keep saying, we have built this platform, built this springboard, we have got the customers, this is the moment to make sure we take advantage of it.

MR. MICHAEL HELSBY (Fox-Pitt, Kelton Ltd. (UK): I have got a couple of questions, one for Larry and one on the insurance side. I think Larry mentioned the magic “a” word - acquisitions - and I am just wondering in terms of what size of banks you could look at in terms of in-fill acquisitions? Clearly you have set out from a capital point of view that you can fund acquisitions internally, so what size of acquisitions do you think you can fund internally?

And, as I say, I have got a follow on, on insurance.

SIR FRED GOODWIN: I think you actually used the magic “i” word rather than the magic “a” word as in in-fill acquisitions! (Laughter) Just to get this back in its box before it starts running around! (Laughter)

MR. LARRY FISH: Michael, our focus is totally on companies with \$500 million to \$2 billion or \$3 billion in assets. In-fill markets: we are the number one bank in Albany now. There is a very interesting bank in Albany, Troy, Schenectady area; there are dozens of banks in southern New Jersey which are really suburbs of Philadelphia; there are over 40 banks in Chicago that have assets of \$500 million to \$2 billion.

We have an integration and conversion machine. We have a group of people that have been doing this for 15 years now; we have done 30 of these over the years. We feel confident we could do two or three of these a year for many, many years and so the question will be, you never buy a bank, I mean banks aren't for sale, things have to come together and they have to come together at the right price, so that would be the direction.

Anything you would add, Fred?

SIR FRED GOODWIN: Yes, only that nothing either individually or collectively that would deflect us from the guidance we have given about capital ratios generally - GreatBanc is a pretty typical sort of acquisition. You can do two or three of these a year and if we didn't make a

Company Announcement I don't think you would notice that we had done it.

MR. HELSBY: Okay. Thank you.

SIR FRED GOODWIN: You had one on insurance?

MR. HELSBY: Yes, just on the insurance side, just a couple of separate issues. The first is that Gordon mentioned PPI. I saw from the OFT potential review to the Competition Commission that you guys were actually listed as having number one market share for PPI premiums, of about 18 per cent market share I think. Could you just tell us what type or what revenue you get from PPI and what the profitability is from that and where it sits? Does it sit in insurance or whether it is in the retail bank?

And then separately on insurance, on bancassurance, can you just tell us a little bit more of what type of business you are writing, how you are accounting for that business? Where are you getting all these advisers from? Are you just growing them internally? And also can you just remind us on how the profit share works with Aviva and again what the profit impact of bancassurance is for you guys?

SIR FRED GOODWIN: Well, Mark can heave a sigh of relief! You had him worried when you said insurance there! (Laughter)

MR. MARK FISHER: Assurance questions rather than insurance!

MR. PELL: Let's start with the PPI story. Yes, I saw the 18 per cent but to be honest I didn't recognise it as quite that high, I would have said we are sort of second equal. And Chris is shaking his head as well

MR. CHRIS SULLIVAN: About second place.

MR. PELL: Yes, I would say we are in second equal place. I am not going to give you the total number but we are talking in terms of a couple of hundred million and no-one is suggesting that you are obviously going to stop selling PPI, the actual issue is all about the price.

We have had long discussions about the price and at the same time the OFT has always been very clear that it is not in the business of price control.

A very similar situation was their ruling on electrical warranties where they took a view that because the actual warranties tended to be bought at the same place as the product is bought that it is actually all about transparency, and certainly we have got a strong view that is clearly a route they would go down.

I have no problem with transparency whatsoever. We put in place a major project a year ago where we went through PPI “super-nuts”. We went through all the exclusions in the policies and I just took them out quite frankly because in any case they just weren’t worth the time and effort when you looked at the complaints we got. So we have the cleanest PPI product, we have the cleanest claims history, we have fantastic transparency and interestingly enough in the sort of thematic reviews they all did I would have to say we had one probably one of the shortest meetings that you could possibly think of.

So in terms of, if we are into the business here of code of conduct, transparency, I would be interested in the discussion, I would be interested to see the market come to our level of best practice. If they want to get into price control that’s a different matter but quite frankly it is a rounding error in the overall scheme of things. It is not the quantum, it is the fact that when you get very strong growth in, say, volumes a PPI effect, which is front-end loaded, tends to accelerate the volumes and obviously when you get a drop in volumes it actually accelerates the downgrade.

I would be very happy with a low market which moved to more realistic pricing and less PPI because I think it creates a level of instability and unnatural pricing in the market. At a very simple level you can get a personal loan today for 5 per cent - not off me you can’t but you can! ... (Laughter) ... if PPI disappeared really no-one would be pricing below 10 and for the vast majority of my banking career lending to an

individual should be about double base rate, which bizarrely enough takes you back to something like 10.

There is a market dynamic in there which I regard quite frankly as a bit unhealthy and if the OFT was helpful in straightening that out I think it actually would be a useful exercise for the industry and I am very well positioned to benefit from it.

The other one was Aviva. Aviva is a joint venture, essentially we share in the profits and sharing those over the last couple of years probably hasn't taken us too long - I think you probably got that message quite clearly. The business at the moment in IFRS terms is in the business of generating some tens of millions of profit and you basically double that if you get into an EV basis.

But obviously the growth is now geometric not arithmetic and it is clearly a business where you could see, you have got other companies, we have got insurance companies, therefore by definition historically given you more data. You can see that APE growth moving right up clearly into a space which quite frankly moves us up into, say, one of my top three priorities rather than I think, to be fair, in a world where priorities were different it would have probably been right down at the bottom of 10.

In terms of recruiting sellers which I think was another question, I have been in the business of recruiting bancassurance sellers now for so long I can't remember, in fact, I've probably hired/fired the same people about 14 times by now! Interestingly enough, I have been surprised how easy it is to recruit people because historically that has been a real problem and what is really good with us is because we are successful, because we have got the branch business energised we have very low attrition rates. You can easily recruit 100 people in this business and lose 90 of them within 12 months if you are not careful.

What we are finding is we are finding it very easy to recruit. With the power of our distribution system, would you want to work for that?

Well, you tick “yes”. Are you getting support from the branch network? Tick. Are you earning your bonuses? Tick. Are you walking around a place which has got huge penetration and therefore it is very difficult for you to fight for market share of branch time? No. This is no greenfield site for most of them. So tick this is a good place to stay. So I am finding it is easy to recruit and more importantly very easy to retain.

Come back and ask me the same question when I have got - I don't think we put 1,000 sellers up there - a right size for this business would be about 1,500 sellers, properly driven, though this business can generate enough leads for a business of that size. I will leave you to work the geometry on that.

MR. GUY WHITTAKER: Just to add, Michael, we will given the increasing prominence of this be providing some enhanced disclosure with the Year End Results about the embedded value and how that plays through in addition to the IFRS P&L numbers.

MR. HELSBY: Thank you.

SIR FRED GOODWIN: Thomas!

MR. TOM RAYNER (Citigroup Smith Barney): Gordon, I think in your presentation you said there are one or two things still lurking in the water regarding personal credit quality. I mean most things seemed to have already jumped out, so I wonder what else there could be that could now happen which would worsen the situation or were you talking about current things maybe deteriorating before getting better?

MR. PELL: Just put it down to my natural conservative banker's desire for belt-and-braces before I think you go back into the water. If you are telling me I can go out there and start lending again aggressively I would be absolutely delighted but I don't get that feeling. So we are lending perfectly sensible volumes, we've reined in our credit scores quite significantly, I am very happy with the volumes we doing.

Is this the time to go out actively seeking, and more importantly reducing pricing to do so, aggressively unsecured lending volumes? I think I would prefer to just hold my pace for a while. Is this the market to be going in looking for secondary unsecured debt? No. There is still a lot of refinancing walking around the market looking for a safer home. I prefer it not to be with me at the moment.

I am very happy with my credit metrics and I would like to get to a situation where I have got a really strong base before I go back in again which I think sort of to me tells me - all right I think if you go back to June the first time I had the pleasure of talking to you recently about retail I said a two year slog. Well, you have got 6 months to go, give or take, and I will tell you how I still feel at the end of the 6 months.

MR. RAYNER: Okay. Could I just follow up on the sort of secured market because it does seem to be two very separate markets, unsecured and the secured. But we are seeing a number of lenders maybe starting to compete more on looser credit criteria rather than on pricing in the secured space. Could you comment on how you see those trends developing?

MR. PELL: I think it is inevitable. Once you get people under pressure for income they obviously start trying to move outside the envelope, you see spreads fall and you see lending criteria, in fact, you see that whole envelope closes and then of course people get a nasty shock and then suddenly, 'oh deary me', the whole thing bounces open again, doesn't it?

We actually have a affordability criteria for mortgages rather than a blunt interim multiplier and in others you have to go through a debt calculator and then that links into a matrix with the LTV, rather than saying, what's your income? Multiply it by "x". However, we have got caps in there, so you'd really have to be busting some guts to basically borrow more than, say, four times income with us, and if that was the case you would be down into a LTV against the property which would actually be really very safe indeed, i.e., below 75 per cent.

Obviously in all worlds there are exception: thrusting young men in the financial services industry who are going far. There are markets that we have clearly focused on where, quite frankly, you show me a career profile - that's using Coutts language here - you show me a career profile that we want to back it is a different story. But in the general market, particularly where you are dealing in the intermediary market where I think you almost mentally have to inevitably accept you are dealing at slightly second-hand with that interview, I would be very nervous about going up into very high income multiplies at the moment.

MR. RAYNER: Thank you.

MR. SULLIVAN: At the same time - input the affordability criteria - we have substantially increased the amount of free cash that people have to have to take as a hurdle for each of the loans and, in addition to that, our average credit score for our mortgages has increased significantly over the last couple of years.

SIR FRED GOODWIN: Okay, there are a couple up at the back there - Ed and then I can't see who it is on the other side!

MR. EDWARD FIRTH (Societe Generale (UK)): I guess one of the areas you did not cover quite so much was China and your joint venture there and I just wonder whether 12 months in you could perhaps give more colour now on what your aspirations are, what sort of scale you expect to achieve in that, and perhaps what sort of areas and product areas you expect to be the key drivers of that?

SIR FRED GOODWIN: I think there were a few sort of smaller references to it, Ed., rather than a big separate slide. I think Gordon picked it up in the credit card context where the joint venture for cards is up and running. We had a party of visitors there last week to see it. It is not a lot to look at, to be honest, but it is actually selling credit cards.

As Gordon made the observation, we will move this year more cards there than we move in the rest of the Group added together, which

feels like a good place to be, and yet still just scratching the surface. It will be a slow burn. A lot of the credit data or the credit reference data in China is not of the quality that it is here and it will take some years - that is not a Bank of China point, that's a Chinese market point - and that will take a little bit of time to come up.

I think Johnny also mentioned in his presentation the fact that we have already written a billion dollars of business with Bank of China across a number of lines. Gordon also mentioned that we were visiting the premises last week for the pilots in both Beijing and Shanghai for wealth management. So those are all moving ahead.

There is a lot of co-operation going on, on the ground, and Chinese students coming to the UK now can be signed up with RBS product before they leave China. That is not going to move the Group dial but it actually overcomes quite a challenge for foreign students coming to the UK with all the money laundering requirements just now. We are looking to put some of those measures in place between China and the United States and also for business customers.

There are a lot of things going on, a lot in and of themselves quite small things but things which give us a lot of promise. You heard me I think at the time of the transaction indicating that a lot of this was about learning how to do business in China, and not yet a year in, boy, have we learned a lot about doing business in China!

MR. PELL: There is another point that Johnny picked which I would just like to reiterate from the point of view of private banking. Being realistic all meetings starting with wealth management in China have to start off with you showing people the RBS balance sheet before you start discussing private banking but, quite frankly, since we have had the obviously shareholding in Bank of China - who is RBS and who is Coutts? Well, they're the investors in the Bank of China - and the big difference that's made to our ability to recruit and to keep bankers as well has been actually geometric in that 12 month period.

SIR FRED GOODWIN: And that was a completely unforeseen by-product.

MR. PELL: Yes, that was a totally free gift that came with the deal really.

SIR FRED GOODWIN: There was someone else just further in there. I can't see who it is!

MR. ANTONY BROADBENT (Sanford C. Bernstein & Co. LLC): I am intrigued that you have gone through all the expense and the pain in the IT resource dedication of converting the main RBS retail banking platform to a euro system or a euro compatible system for the Irish market which at 4 million people must have been an interesting economic case at best. Should we take that as indications of increased aspirations for other euro area banking and, if so, what nature might that be?

SIR FRED GOODWIN: No, you shouldn't! (Laughter) It is a good question though, Antony. I'll tell you what, Mark, if you have your Manufacturing hat on, can you explain?

MR. MARK FISHER: Yes. The straight answer is switching the euro part on wasn't particularly expensive. It is not a clone of the system, it is a conversion module on the front-end of the system so it was not the key part of the conversion really. It is a side benefit, in the sense that we had to do it for Cormac but nevertheless we do now have fully euro-enabled core system. It is a useful thing to have and it is working for Cormac, but not particularly technically complex. (A pause)

SIR FRED GOODWIN: Okay. Well, I am conscious that it has been quite a long afternoon. There are some refreshments outside and we would be very pleased if you were able to stay and spent some time with us informally outside. But, in any event, thank you all very much for coming along. If there are any subsequent questions, fire them to

Richard or to any of us and we will try and deal with them. But, in the meantime, thank you all very much for coming.

(The proceedings then terminated).