



2005 Conference on Corporate Banking & Financial Markets

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 Monday 3rd October
2005.

Top table:

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SIR FRED GOODWIN (Group Chief Executive): Good morning, everyone. A very warm welcome along to this morning's presentation on Corporate Banking and Financial Markets. I think when we look at Corporate Banking and Financial Markets on this sort of slide it always seems quite innocuous: it sort of sits there, there have not been any additions to the box over the last four or five years, it has not featured in any acquisitions and we have not talked very much about it, so quite innocuous.

It is only when you come on to this kind of slide that we start to see the reality of CBFM, a major part of the Group and part of the Group which has been growing very significantly during the last number of years. Our objective this morning is to provide you with quite a bit of analysis and information to give you a better understanding of what the Division is, what has been causing it to grow and what will cause it to continue to grow going forward.

Inevitably I can see most of you are already flicking your way through the slides to see what is there, but even from a quick flick you will hopefully appreciate that there is quite a lot of ground to cover this morning and so I don't want to mess around too much just now. The agenda is full. I think it is slightly ambitious to think that we will get coffee done in 1 hour and 15 minutes but we will do our best!

We are not rushing off at the end. We will have an opportunity for questions and answers, be they about Corporate Banking and Financial Markets or about the Group more generally. As I say, we will not be rushing out but I will be around outside, as will colleagues from not just Corporate Banking but from most of the Divisions of the Group if you want to talk to us.

I am conscious that some of you have other engagements this afternoon and so we will not hold you back too much, but it is an ambitious agenda and we have got a lot of ground to cover. So in that vein, Johnny, would you like to come and get the show on the road!

MR. JOHNNY CAMERON (Chief Executive, CBFM): Thank you, Fred. Well, good morning from me everybody. I think this in some ways has been quite a long-awaited presentation from CBFM; it is not since November 2000 that we last presented to you.

We are going to try and show you a great deal. I think there is going to be a lot of information this morning and, of course, the single most important impression I want to leave you with is that this is a great business - CBFM is a great business and going well.

Let me start with an overview. What is CBFM? CBFM is all about relationship banking, probably one of the more over-used words in the industry but I hope we will be able to demonstrate that we truly do believe in relationship-led banking. We have got a rather different culture to many of our peer group. We talk about it a lot, that's what runs through our veins.

We work with a broad range of customers from large corporates and financial institutions through mid-corporates down to commercial customers. Below that, of course, you have got small businesses which are dealt with in Retail Markets.

We are about 15,000 people. Another key point we want to leave you with this morning is that we have a truly leading capability in our chosen markets and our chosen products, and I use the word leading advisedly! We really are a global leader in our businesses.

In a geographic sense we, of course, as you all know, have a very strong position in the UK but we also have a tremendous platform in the United States of America; we now have a platform in Europe as well where we have grown very strongly in the last few years, and we have probably something rather bigger than you imagine in Asia on which we can build and are building.

You know the figure on this slide: in 2004 our income was over £7 billion sterling and our contribution, as I think Fred just showed you, over £4.4 billion sterling.

Since we were last here in November 2000 - and I would be interested to know how many of you were here then? - one of the interesting features of CBFM is that a lot of the leadership group, most of the leadership group of CBFM, was here in November 2000. Brian Crowe and myself both presented to you at that time.

But since 2000 a lot of things have not changed at all. I am going to repeat again, relationship-led. It is at the core of our culture. There is something genuinely different about the way we do things in CBFM compared to many other international corporate banks. The culture is almost unique. We do not have a star culture. We have lots of stars but we do not have a star culture. We think about the customers.

The management of CBFM is very hands-on. We do spend a lot of time managing: day in, day out, myself and my colleagues are thinking about how to manage the business, how to look after our customers, how to manage transactions. Customers: we are very close to customers. That is part of being hands-on. The executive team meets the customers, talks about the customers and in particular thinks about the customers in credit committees.

Credit committees are absolutely key to us. They are key obviously to managing risk first and foremost but they are also very important to us in managing the return on the capital we invest in each of our customers. I often think in some ways the credit committee system for us is a sort of collection of arteries through which our blood flows. That is how messages get passed around in CBFM - a credit committee is absolutely a crucial part of our culture,

And last but not least, one thing that has not changed since 2000, is that we are growth-oriented. That is what we are about. We still think we have a lot of

growth left in us, we have demonstrated growth over the years and we think that will continue.

Having said that, a number of things have changed since the year 2000. We are going to demonstrate to you this morning that we have built a truly international business. We have expanded our distribution capability very significantly and we have particularly established ourselves in major markets and indeed in major products.

We have a platform. Through the last few years we have invested, without damaging our cost:income ratio, to build these platforms. We are now quite clearly a top ten player in our chosen markets and our chosen products. It is a key take-away from this morning - we are top ten player, we are at the races!

We have recruited many more high calibre people. We have always had high calibre people but we have recruited many in the last four or five years. All in all we are now competing against a very different peer group - a very different peer group!

That is what I want to say by way of introduction and context. I am now going to go on to numbers. I am very conscious that in the next section I am going to sound a bit more like a Finance Director than a Chief Executive but I do know how much you love your models and how you do want these numbers, and I hope you will feel at the end of it that you know a great deal more about CBFM and therefore will have that comfort about the direction in which we are travelling.

I would like to start at the beginning with a slide which should be familiar and look at the result under UK GAAP for 2004 compared to 2001. It is more logical perhaps to go back to 2000 but for many of the detailed slides I want to show for 2000 the data is not sufficiently robust, so we have chosen 2001 as our start date for everything. I can assure you that at the global level the trends are just the same if you went back to 2000.

These numbers we are going to use are very close to the numbers you are totally familiar with, but there are three minor amendments that we have made throughout that I want to explain now.

The first one is, from the 1st January this year the Channel Islands Corporate Banking business has been included within CBFM rather than RBSI, rather than in Wealth Management. So we have taken the Channel Islands Corporate Banking business and incorporated the numbers all the way back to 2001.

The second change is that we have taken operating lease depreciation out of income and costs in all the numbers. Nothing unusual there, we do it all the time, but for simplicity we have done it every single slide.

And the third thing we have done is we have taken the Dixons car business, which we had put into a joint venture in September and therefore it becomes de-consolidated, we have de-consolidated it all the way back to 2001. It is a rounding error in terms of the P&L number for CBFM but it makes some difference on headcount and one or two other things.

I am not going to say that again, if you will, so please bear those three things in mind and that is why the numbers are marginally different to things you may have seen before.

The growth record since 2001, a key point on the slide, is strong growth at 11 per cent matched by expenses growing only at the same pace at a time, to repeat, that we had been investing to build a very significant platform.

If I could just remind you now of the first half results as reported in August, a very strong set of results in the first half, and this is IFRS to IFRS; income up 18 per cent, expenses up 17 per cent and so on. So, we have very strong momentum just at the moment.

How does this look? If you go back to 2001 not only is the growth strong, 11 per cent or so, but it is consistent. Equally so is contribution. Because we have kept costs under control we have managed to grow contribution at almost exactly the same pace as we have grown income, a stable cost:income ratio over that long period at a time of strong growth.

The reason for that, or one of the reasons for that, is the diversity of CBFM. We are a diverse business across three dimensions at least: we are diverse by business, we are diverse by geography and we are diverse by customer. I am now going to dive into that and describe CBFM across those three dimensions

Let me start 'unpeeling the onion', if you will, by looking at diversity by business first. There are three businesses in CBFM: Core Banking, Structured Finance and Financial Markets. Possibly the one that needs explanation is Structured Finance and you will get a detailed explanation later, but it is a business that many other banks don't group their businesses under Structured Finance in the way we do. It has actually been a strong engine for growth for CBFM, an important differentiating factor, if you will, and part of our culture again.

You can see on the right-hand side of this slide the percentage each business represents as a proportion of CBFM as a whole. Again, we are going to repeat these in many slides to remind you of the diversity of CBFM, so you will see as we come across each business what it is as a percentage of CBFM.

The other thing I should perhaps say here is that we are going to use throughout the first half figures, so when you are thinking of size you should mentally double, although that is not precisely right, but double the numbers to get to a sort of full year type of feeling.

Core Banking is what you would expect. Core Banking is the lending, payments and deposits businesses. Financial Markets is, as you would expect, all the Financial Markets businesses. Brian and Alan respectively will explain all of these things in more detail as we go through.

Let me look at it by geography. Not surprisingly the UK dominates at 72 per cent. Of course, the interesting fact is that if I went back five years the UK would have been over 85 per cent; we have diversified considerably in the intervening period by growing our international businesses.

America is a large business, based on the Greenwich platform, and a strong business.

Europe I think is interesting. It is almost from a standing start. We are making income of over £300 million in a half year and it worth noting in passing, because I know it interests you, that the cost:income ratio of our business in Europe is below the average for CBFM as whole. This income is reflected in profits, ladies and gentlemen.

And lastly, Asia Pacific. As I said earlier, I think that is a number that might be a little higher than you would expect. To earn revenue of nearly £80 million in a half year, I think there are many non-Asian banks who would be very happy with that number and, again, the cost:income ratio is absolutely fine.

So well spread geographically and quite a change over five years and some strong numbers outside the UK.

If I pull those two things together you can now see the numbers by business and by geography. As you would expect in the US, as I have already implied, Greenwich does dominate the US numbers and the key point there is about the platform that gives us. There are very few other non-American banks that have a platform like we do in American - a platform for growth!

Okay, I am now going to turn to customer. Who are our customers? Well, they are the large corporates and large financial institutions right across the world. As you already know I think, in the UK we cover the mid-corporate market and the commercial market. The interesting place on this slide perhaps is the 'ticks/Citizens' remark under Mid-Corporates in America. Again we are going to

come back to it, but that is a very interesting opportunity for us, working with Citizens to tackle that market. But for today, just to emphasise I am going to be talking about the CBFM businesses that cover these customers.

How do you divide these customers into segments? Segmentation is important and we look at it like this: there is the UK commercials and mid-corporates on the one hand and then the ocean-going companies, the large corporates and financial institutions who tend to be larger and in particular tend to be more sophisticated; they need a different sort of service.

We have christened those two customer segments, not very surprisingly I guess, Mid-corporate and Commercial and Global Banking and Markets. I want you to keep that in mind please as we go on because we are going to use that a great deal to help you in giving you financial metrics about those two customer segments which I think you will find a great deal easier to compare and contrast with our competition.

What is different about these two segments? Well, Alan and Brian are going to talk about this a bit more, but let me at least summarise at the moment. If you look at the mid-corporate and commercial market in the UK by far and away the most important requirement of a mid-corporate and commercial customer is its relationship with a relationship manager, and I mean relationship manager as an individual.

The fact that we have a very high level of staff retention, staff continuity, is very important here. The customers love that; they absolutely love it. They get to know someone, he stays in the organisation and they can go on dealing with him, and through him they can get access to a full suite of products. They like it. If they have the same guy dealing with them who can deliver all that they need they will take it - and we certainly have a full suite of products to deliver to the UK mid-market.

It has to be effectively co-ordinated by the relationship manager, has to be supported by a responsive credit process importantly, and an absolutely crucial hygiene factor is it has to have a very high quality of service support. These are things that Alan Dickinson will be talking to you about in more detail later.

Global Banking and Markets is a little different in terms of what they are looking for from their banks. They want a relationship, they absolutely want a relationship, a relationship is important, but the relationship tends to be more institutional. The individual is slightly less important but it matters and obviously I want the best possible guys dealing with customers, but it is an institutional relationship because it is much more multi-faceted often.

Perhaps a more important distinction in the Global Banking and Markets arena is the need for product excellence and access to markets. You have to be absolutely first rate at foreign exchange, at derivatives, at capital markets, at private placements, whatever it might be. You really need quality product to deal with these large sophisticated customers.

And you need to be bright. You need to have serious intellectual capital, both in terms of the relationship manager understanding the sector in which the company operates and in terms of the quants who are dividing the latest derivative to suit the customer's requirements.

We have put these slides together from a number of sources but we do believe we have research to demonstrate that lack of conflicts of interest to many customers, not to all, but to many customers is a really important thing. They love it when we come along and say, 'We don't do M&As, we don't do equities, we just want to talk about your debt requirements'.

Particularly on the Continent strangely enough, the Continent of Europe, that is a very attractive feature of our model and we find people come to us because of that. So lack of conflicts is an important part of our model and is an important

requirement of many customers. It goes, by the way, strongly with our culture - the lack of M&A and equities is a very important part of our culture.

Now looking at the numbers by customer segment, having I hope explained clearly what the customer segments are. You see here, on the slide, about a third of our income comes from the UK mid-market, about two-thirds from the Global Banking and Markets segment. I will talk about it more but it is important to note that the Financial Markets number although not enormous in the mid-market is an important number and a strongly growing number and one of the reasons why CBFM is CBFM, having these sorts of linkages.

By now having described it by business geography and customer, pull all of that together and you can see here on the slide the numbers cut, so to speak, every which way. You see that Global Banking and Markets splits up UK, US, Europe and Asia Pacific. I would just mentioned in passing - Brian will cover it more - that what we have called the UK under Global Banking and Markets includes a number of activities that are London based but are not necessarily driven by UK corporate activity. London is an enormous financial centre, as you all know, and there is a lot of stuff in UK that comes from that fact.

I am going to take a mental break there. Those are all of the numbers split by business, by geography and by customer. I am now going to look at our financial performance across a number of important financial metrics. I am going to look at the results, look at income and income growth, efficiency, efficiency trends, risk, trends in risk, return on capital and return on market risk.

Here on this slide are the first half results in detail split by customer segment. I will just let you dwell on that for a second! I have mentioned already that it is about one-third/two-thirds and I am now going to take you through each line of that, so to speak, and explain what is in it and where it is trending.

Starting with income. The income is split slightly differently in the two market segments, probably not a surprise but worth underlining. In the mid-market 65 per

cent of our income is net interest income, only 35 per cent non-interest income. It is worth noting that within the net interest income about one-third of that is deposit income, two-thirds of it is asset income.

Global Banking and Markets, on the other hand, 76-24. Global Banking and Markets is a particularly fee driven business. Interest is important, lending is important but it has, as I am sure you are not surprised to see, a different dynamic. The key point that I want to emphasise is what matters to us is total income - total income! - and we will be talking later about total income as a proportion of risk-weighted assets.

We are managing to maximise total income per customer, total income per capital invested in each customer. If we are managing that, obviously the question is, are we managing it well? The answer is that in both segments we have around a 4 per cent return on risk-weighted assets - income over risk-weighted assets in both market segments is around 4 per cent, 3.9 and 4.3 per cent. I think you will find when you look around the world at our peer group that those are very satisfactory numbers indeed.

But no doubt the trend is more interesting. Here on the slide is the trend over 4½ years. This is, if you like, the first layer of the cake. Just to tell you where I am going, I am going to show you income over risk-weighted assets, then income less costs over direct risk-weighted assets, then income less costs, less provisions over risk-weighted assets to get to return on capital.

If you look at the trends here, I think the first thing to say is that since 2002 it has been remarkably stable - our return on risk-weighted assets has been remarkably stable. A couple of points just worth picking off before you get to questions perhaps. The fall in Mid-Corporate from 2002 to 2003 reflects the effects of the Competition Commission Inquiry on SME in the large part.

The fall in first half 2005 to first half 2004 partly reflects the impact of IFRS on a growing business. If you are forced to defer more fees that penalises a

business that is growing. It also reflects the fact that assets are growing slightly faster than deposits and especially faster than non-interest bearing deposits. Product margins have held up well. Again, I think this is a very good result that will stand comparison with anyone in the world.

So if we have got a good return on assets, good income over risk-weighted assets, how are we performing on income growth? The answer is well. 13 per cent for CBFM as a whole, 18 per cent in the last half. Again probably a couple of words are necessary on Mid-Corporate and Commercial. My ambition for Mid-Corporate and Commercial, and I say this often within CBFM talking to my colleagues, is to get high single digit growth in the UK mid-market and something much faster in the Global Banking and Markets arena.

7 per cent actually is a little unfair on Mid-Corporate and Commercial as a record over the 4½ years. If you took the Competition Commission effect out that would probably add another per cent, or would add another per cent to the growth. And if you took out the effect of switching from GAAP to IFRS, because unfortunately in all these long run trends I have to take GAAP up to the end of 2004, IFRS for the first half of 2005, that again takes nearly a per cent off the growth number. The underlying trend in Mid-Corporate and Commercial for the last two years at least has been 10 per cent and, as you can see, 11 per cent in the last half.

I guess the other take-away from this slide, which I think addresses questions I have had in the past from people in this room, is that the business we are growing fastest - at the moment at least! - and for most of the last three years has had a higher return on capital. We are growing Global Banking and Markets faster than we are growing mid-market, not surprising, but important to note that is in fact a higher return on risk-weighted assets business.

Okay, that is income. The next question is, are we efficient? I think this is a particularly important slide and a particularly important metric for CBFM. Our

cost:income ratio in Mid-Corporate and Commercial is 25 per cent, in Global Banking and Markets it is 33 per cent. I think you will all agree these are incredible numbers, ladies and gentlemen! Our direct costs in these two market segments are 25 per cent of income and 33 per cent of income. This I think is better than anybody you care to name.

This is an additional important driver of our superior return on capital. Obviously we are somewhat limited in how far we can push income over risk-weighted assets by market trends; at the end of the day we are in a market, margins are set by the market. We think we do very well, I think we have demonstrated that, but the thing we can manage is the cost:income ratio, and that is a great deal better than the competition. So, we are very efficient.

If you look at that in terms of the trend, we have been very efficient over the whole period. We have a very stable cost:income ratio in both businesses. Again the only number that may be worth explanation is the move in Mid-Corporate from 2001 to 2002, from 22 per cent to 25 per cent, and that fundamentally was by bringing NatWest staff on to RBS standards in terms of the total employment contract.

So, a very stable cost:income ratio. This has been a particularly remarkable achievement in the last four years because, as Brian in particular will demonstrate, we have built this fabulous platform at the same time, so we have been investing but we have been doing it in a peculiarly Scottish way - we have managed to grow income faster than cost even while investing and that is a key thing that we try to do.

Another way of looking at this is to look at income and costs per head which I know others have done, other banks have done, and I thought you would be interested in. Again these numbers are really pretty remarkable. Global Banking and Markets income per head £732,000, costs £243,000 per head of which almost exactly 50 per cent are variable costs. The mid-market business, also very

impressive numbers for a business in that market segment, about £350,000 per head income.

These numbers and the cost:income ratio overall, again at the risk of repetition, comes back to our culture, our style. We are quite 'techy' I always think in style - technocratic! Our customers when they come to us they get a very good technical service and very good execution, but we are a low cost business. We cut our cloth, if you will, to suit our income potential. It is one of the things we try to do. We know what our income potential is, it is right across the debt spectrum, and we cut our costs to suit that income potential.

If I then translate that and take direct expenses off income and show income less expenses as a percentage of risk-weighted assets you get across the piece 2.9 per cent give-or-take, again I think superior to almost anyone else in the business.

Again the trends are perhaps more interesting for this but as the cost:income ratio has been stable it will not surprise that I again use the word stable - I am going to use the word stable quite a lot on these trend graphs I am afraid but it is the only word to use! - a very stable record of income less expenses over risk-weighted assets.

Okay, the next line on the P&L is risk, provisions. Provisions of £181 million in the first half of this year split £100 million and £81 million, 0.29 per cent and 0.13 per cent of risk-weighted assets. I think in this case, absolutely definitely, the trend is more interesting than the point in time and so let us look at the trend by market segment of provisions.

What you see here, on this slide, is a pretty stable performance in mid-market, rather as you would expect. Our mid-market business has been reasonably predictable over the recent period, knocking along at 0.4 per cent of risk-weighted assets. You see a slightly more variable record in Global Banking and Markets, again as you would expect. There seems to be more of a credit cycle in the large corporate sector than in the mid-market sector in the last five years.

I know the next question will be, so to speak, what is coming next? Well, I cannot make a forecast any more than you can. What I can say is there is no sign at the moment of any uptick in provisions. We are very comfortable with our provision position and there is no change in the underlying flows into our special lending services business which is where we look after troubled credit; there is no change in the flows into that business.

Then take that and add that to the financial metrics and get to the next line and look at contribution over risk-weighted assets, 2.7 per cent, a very good number. As usual the trend is more interesting and as usual I have to ponder with the word stable, slightly improving perhaps but the improvement probably coming because to a very slight extent, and I would not want to over labour this point, movement in provisions slightly offsets movement in margins with a slight lag - if margins are declining you are likely find provisions are declining and so there is a slight offset there. That, I would argue, is an extraordinarily enviable record for any bank.

Very simply now you can move from contribution over risk-weighted assets to contribution as a percentage of capital. Now with capital we are getting into more difficult territory here, ladies and gentlemen. We have taken for this slide capital to be Tier 1 capital of let us call it 7 per cent of risk-weighted assets. From here on it is just maths and you can do your own maths, but our contribution as a percentage of capital measured at 7 per cent of risk-weighted assets is 38 per cent, again I would argue an extraordinarily good number.

You can, of course, look at other forms of capital. You can look at Basel capital, regulatory capital, you can look at Basel II capital, you can look at economic capital - certainly if you took the last two you would get a higher return. Our Basel II capital would be lower than our Basel I capital - we have just done an exercise to demonstrate that to ourselves and to the regulators, subject to their views on Pillar II - but certainly under Pillar I we would have less capital required, and economic capital would be lower as well.

We have used these numbers as being mathematical incontrovertible. Of course, we look at all of these things. We look at economic capital, we look at Basel II. My view on all of these things is it is absolutely crucial, that one is aware of all the latest theories in life and then take a Scottish pragmatic approach to applying them.

One last question on return on capital, which I know is in your minds, is what about allocation of costs? Well, we don't do that, as you know. We do not allocate Manufacturing costs. We don't think it is possible and we don't think it is meaningful. How do you divide it up? I have some strong views. I think some among you have tried to divide it up by risk-weighted assets which I think is quite wrong. I cannot see any justification for allocating Manufacturing costs by risk-weighted assets.

Some have tried by headcount. I can see that a bit. But at the end of the day it is your view. We don't do it, we don't believe in it. I have done a ready-reckoner for you here on this slide. It is clearly not nothing, we have to share some of the Manufacturing costs. It is clearly not all of them, roughly the annual cost of Manufacturing is around £2.6 billion, so it is somewhere in the middle. We are narrowing it down.

I have put three numbers on the slide here. I have seen at least one analyst use the number 700. I think the key point is 500, 700, 34, 33, we are arguing about 1 percentage point. Let's not get excited. I haven't actually discussed this with Fred, because we don't, but if I were you will not be surprised to know that I would argue for 500 or less, but we are in the range. That is all I want to say about return on capital.

Let me just look at market risk which is the other key requirement we have at Group, what market risk do we take? The value at risk in CBFM again has been stable and modest over the last 4½ years at or around £15 million. It is modest if you compare to anybody I think in our equivalent position in the market. What we

have done is try to estimate how well we are doing by using that allocation of market risk.

This slide is an analysis which I have seen others do; this is our own analysis. We have taken reported numbers from the banks on the screen, reporting dealing profit numbers that is. We have taken reported value at risk numbers, we have had to make some calculations to convert them to equivalents - some people use 95 per cent VaR, some people use 99 per cent VaR, some use 98 per cent VaR, some do ten days, some do one day.

A number of amendments have to be made and, therefore, I do say some caution about the precise numbers on this page, but I am very confident that directionally it gives you a really good indication of how good we are trading off of our modest VaR - and the answer is very good indeed! I think that underlines the point that we have said many times in presentations to you before, that we are customer-led in our trading activities. We are customer-led! So that's it for the numbers.

I am just going to go back and summarise what we actually do as a management team. We focus on a number of things. We focus on managing the return on capital we invest in our relationships. We do that day in, day out through credit committees. All of my executive team and I spend a great deal of time at credit committee, that is how we send messages, that is how we receive messages, how we know what is going on in the market place and how we influence what is going on in the market place. We spend a lot of time on that. We are hands-on close to the business.

We worry about income obviously, how do we push income on? We worry about costs obviously, tight control on costs. We worry about risk, credit risk and market risk. Obviously there are innumerable safeguards in that regard. I haven't mentioned them when I was talking about market risk but obviously we have stress

tests, we have trader limits, we have desk limits, and so on and so forth. We have a very good collection of controls in that area and we worry about it.

One of the things that has changed in the last five years is that quite a lot of the functions within CBFM have a new management. I think we have moved on a long way in that period.

We worry about new business opportunities - perhaps worry is the wrong word! - we think about new business opportunities a lot. We think about new business opportunities in the sense of deals, transactions we can get involved in and we can respond quickly to, and we think about new business opportunities in the sense of opening up in a new market place.

Europe, for example, over the last three years has taken a lot of our time, finding the right people and encouraging the right people in Europe. Everyone of our offices in Europe has generated a positive contribution in its first year of operation.

We just hired a year or two ago a securitisation team in Japan. It has been profitable from the beginning. As you know, we have started up a debt capital markets business in America which is going extremely well, and so on. Those are the sort of things we think about.

People: in many ways I would like to talk about people more, it is incredibly important to me personally. We have wonderful people. The key is to help them make sure we have the right person in the right place at the right time. To keep our people continuity of our staff is important; we have terrific staff satisfaction levels.

On top of that, we are not afraid to make changes. There have been changes in the last five years, important changes in the management team and how we manage certain businesses. We are active managers in that sense too.

The last thing I wanted to mention here was team working. I think the Executive thinks one of its most important tasks is to manage that complicated matrix across business, across geography and across customer of trying to get our people to act as a team. We think we succeed very well at that, we think our people like it, but it is an important discipline to make sure we have the right teams working on the right problems. As I say, I could talk for hours on this topic but let me conclude.

CBFM over the last period since we met you, almost exactly five years, has shown strong and consistent income growth, very strong and consistent returns on capital notwithstanding the fact that we have been investing in building platforms. In many ways CBFM is greater than the sum of its parts. It is a great business.

We are now going to talk in more detail about our two customer segments, and talk about Mid-Corporate and Commercial and then we are going to talk about Global Banking and Markets. I am going to hand-over to Alan Dickinson first to talk about Mid-Corporate and Commercial!

MR. ALAN DICKINSON (Managing Director and Head of Corporate Banking): Thank you, Johnny, and good morning everybody. As Johnny says, CBFM essentially serves two distinct customer groups. I am going to talk about the business we have in the UK mid-market with our Mid-Corporate and our Commercial customers. It is very much UK and we are serving a very large part of the UK economy.

It is not really a complicated business but it is very valuable. It is strong, it is solid, it is reliable and it is profitable and the challenge is to consistently outperform the rest of the market. That is exactly what we have been doing, that is what we intend to go on doing. Let me take you through the different businesses we have, our approach to the market, how we have been doing and what we have done now to extend that outperformance.

Let's start in time-honoured fashion with some numbers, and you may recall that Johnny put this slide up earlier. What this does is give you an idea of the scale of our business in the Mid-Corporate and Commercial market. These customers are a very important part of CBFM, generating in the first half of this year almost one-third of the total CBFM income. So if we think about it, generating decent growth from this market is not an option, it is an imperative, it just has to happen and that is exactly what we have been doing.

These customers are very largely serviced from within the Core Banking business which is the relationship part of CBFM, as Johnny explained. You will also see that whilst the vast majority of Financial Markets income is coming from our Global Banking and Markets clients it is also very important to our Mid-Corporate and Commercial business. Financial Markets generated £84 million in the first half alone from products we are very happy to increasingly offer to these customers. That is a growing income stream that frankly we are delighted to earn.

We have five key businesses servicing these customers. Four are grouped closely together within the Core Banking business. Corporate Banking and Commercial Banking, and I will explain the difference shortly, are responsible for managing the relationships that you have with these customers.

Relationships is an important word for RBS, and Johnny talked about this earlier. We are a long term relationship bank. We clearly differentiate ourselves through this strength of those relationships with our customers and I think that adds enormous value to our business, for example, through customer retention and then also through stronger cross-selling. In Commercial Banking, for example, the average customer has been with us - the average customer! - for 18 years.

Asset Finance, Invoice Finance and Financial Markets are the three specialist product businesses. They work very closely indeed with the relationship managers in Corporate Banking and in Commercial Banking and I will tell you

shortly how we join these together as well as giving you some details of the five businesses.

But, first of all, let me explain why we have Corporate Banking and Commercial Banking and why they are two separate businesses. The answer is quite simply, to best meet the customer needs. The needs and, if you like, the buying patterns of corporate customers and commercial customers are very different, so we have different teams with different skills to meet those different needs.

As you see there, on the slide, we look after 32 per cent of the corporate customers in the UK, and that is over 8,000 relationship customers, typically turning over between £10 million a year and up to £1 billion. But the corporate customer will not have a sophisticated corporate treasury but will have a full-time finance director. It will typically be private but some will be quoted. It may well operate internationally but it will not be multinational.

We have got over 300 corporate managers operating from 18 UK offices in the major towns and cities of the country and what they have got is the banking and the sector skills and product knowledge to best understand the needs of the corporate customer.

On key products I am delighted to say that lending money, taking deposits and making payments are not going out of fashion, quite the reverse, and actually the lack of such basic capabilities makes it difficult, very difficult, for any new competitors to match the services we can offer to our clients in this market.

By contrast, Commercial is a networked business. The Commercial relationship manager needs to have banking product, sector skills just like his corporate colleague but, just as importantly, he needs to be local, serving the managed business typically turning over £1 million to £10 million. With that customer the banking and the funding decisions are invariably taken by the owner, so we have more than 1,000 dedicated relationship managers working from over

150 offices across the country. That is more people in more communities serving more customers in this market than any other bank and when these customers want to use a branch we have more branches than any other bank.

We have a lot of business development managers who are dedicated to winning new business, that is what they are doing all the time, and that is to take customers from our competitors. We may have a market share of 34 per cent in Commercial but we simply cannot afford ever to be complacent. I would actually use quite a strong word - aggression is critical!

Before the takeover of NatWest, RBS used the word insurgent to describe its approach to the market. Now what we do we constantly use the phrase “the insurgent incumbent” to describe to all our people the attitude we want to the market place. That attitude is critical if we are to consistently outperform.

Asset Finance: the Lombard name will be familiar to most of you I am sure. It is the country’s leading provider of asset finance products, hire purchase, contract hire, operating finance leasing and fleet management. Unlike Commercial Banking it is networked sales driven business. It has got a great customer list, over 94,000 customers served by more than 300 sales staff operating from 42 regional centres up and down the country.

These customers do build relationships with their Lombard reps. and go back time and again for their next asset purchase. Lombard is a relatively mature business and one we are reinvigorating by a streamlining process and then also aligning it closely with the customer-facing Core Banking businesses.

RBSCS, our Invoice Finance business, may be probably less familiar to you as a name but it also, just like Lombard, leads its market. It has got fewer customers, some 6,600, served by over 100 field-based specialist sales staff and they operate from about 11 offices.

In the early 1970s factoring, as it was then described, was a tiny business struggling really to gain acceptance in the UK and most of our corporate and commercial customers then would not have dreamt of using factoring or invoice discounting. But the world has moved on, our customers have moved on. Invoice finance today is one of the most rapidly growing areas of our business and not just growing rapidly but growing consistently year after year after year in good times and in bad. I expect it to accelerate further and we have got the scale and the systems and the people to capture that growth.

I can say much the same about Financial Markets. The growth in Financial Markets business in this mid-market and commercial segment has been outstanding, driven in part by a greater awareness on the part of our customers but more particularly an ever more proactive delivery by our relationship managers and six specialist regionally-based teams. They are in the major centres of the country and they offer face to face advice on Financial Markets products.

Putting those teams in Bristol, in Birmingham, in Leeds for example, has made a real difference to the services for our customers and to the income we have earned as a result. That income was up 20 per cent year on year in the first half of this year. Regional Financial Markets teams are a feature of our approach that clearly differentiates us from our competitors.

What I have done is to describe the businesses we have. Let me now break up the numbers a little bit more. How much do we make from the Core Banking businesses and the Core Banking products and how much from the specialist products we offer?

You can see from this chart the significant majority of our income comes fairly evenly from Corporate Banking and from Commercial Banking and in particular from the traditional banking products. You will see a similar pattern with Asset Finance. But I am sure you will also see the bias towards the commercial customer in the RBSCS Invoice Finance business. This is, to be fair, reducing as

we do bigger and bigger deals such as in Acquisition Finance where the RBSCS product helps to structure deals that are sensible for the customer and for the bank; it lowers the risk.

In Financial Markets the education processes equally work in the other way, we rapidly help our Commercial customers to recognise the benefits of those products to them. We do have other customers that we serve from each of these businesses and probably the best example I can give of that is that 40 per cent of Lombard's Asset Finance customers don't bank with us - yet! And that seriously is a very real opportunity.

Let's look at total income over time. I think what this slide shows very strongly is the very strong annuity nature of the Mid-Corporate and Commercial businesses - consistent solid growth across the customer base, compound annual growth averaging 7 per cent a year. As Johnny said earlier, even that number is a little bit unfair because it is weighed down by a couple of significant one-offs. Firstly, the negative impact of implementing the recommendations of the Competition Commission which took effect from 1st January 2003, and then this year we are seeing the impact of IFRS.

Fees in particular are amortised over the life of a loan which you can regard as positive if your business was contracting but negative when you are growing as rapidly as we are. Even then income in the first half year on year is still up 11 per cent and that is very much the same level, as Johnny has described earlier, as a 10 per cent per annum we have grown income since the 1st January 2003. So what this adds up to is consistent strong growth outperforming the market - consistent strong growth!

We have seen this slide before as well. Up to now I have given you the picture of the businesses and our growth since 2000. What I am going to talk about now is our approach to the market and how we are organised and why.

Essentially in RBS we start with a customer and we work from there. What does the customer want from his corporate or commercial bank? This slide, on the left, shows what customers in this market consistently tell us that they want. Number one, and always number one, is the relationship manager. A relationship manager is there when he or she is needed. They want someone who is not bogged down on paper or internal bureaucracy, who visits and doesn't wait to be visited, who is local and knows his business and the customer's business too.

Customers also want a full suite of products, from a structured loan in this market to the night safe, and they don't want to have to join the bank for themselves. They want single, competent, helpful points of contact. Lending is pretty important. What is required is quick, sensible, preferably positive decisions. And finally efficient reliable service. These are the needs, it does not sound too complicated and this is how we have built out approach.

As I have said, the cornerstone is the relationship manager. Our managers have a wealth of experience, on average 20 years in commercial banking. They are respected by their customers and day in, day out deliver for them and for the bank. For me, as Johnny suggested, retention of quality relationship managers is absolutely critical - critical for the retention of customers and to growing the business.

Several years' ago we built a degree course in corporate banking with the Institute of Financial Services and jointly with the University of Manchester, and that has proved hugely popular with our people. It was introduced in 2002 and it is still the only such training in corporate banking offered in the UK.

We don't just segment into corporate and commercial, we segment of course by geography with local teams and by sector with relationship managers dedicated to healthcare companies, professional firms, leisure companies, media companies and many more. Those relationship managers receive bespoke training on the particular sector to give them an understanding of the sector's needs. One

example, in the professional sector where we do a lot of such training we bank 80 per cent - 80! - of the upper and mid-tier firms in the UK.

We also segment by opportunity and customer need. For instance, rapidly growing companies exist in any geography, in any segment and in any sector and they need special RMs with lower case loads and therefore more time to spend, and that is what we give them.

Which brings me on to the next customer need, a full suite of products. We are very clearly the number one bank for payments. We process more CHAPS payments, more BACS payments and more cheques than any other UK Clearing Bank. Through Streamline we are the largest card payment processor in the UK handling around half of all credit and debit card transactions.

We lend more money, we take more deposits than any other bank and these core products give us a solid platform to generate the ancillary business through cross-sales. Lombard and RBS Commercial Services have leading market positions in asset finance and invoice finance and we are also number one in foreign exchange and instrument hedging. So that is a very full suite, number one, to meet all of our customers' needs.

I said before that our customers want us to deliver the bank to them, and I agree, very sensible! In 2004, Lombard joined Core Banking, completing a process of putting the key product areas together with the relationship teams to break down any business silos and put the bank together for the customer. We have ensured that relationship managers are ambivalent as to what products should be sold. The answer should be and is what is right for the customer. Relationship managers are incentivised on the full product suite.

Product sales teams have been directly aligned to relationship teams and based locally near the customers. Service teams are now dedicated to corporate and commercial customers and to the relationship managers handling them. Everyone knows who is looking after whom and they build a strong relationship with

them. And to align ever more, we are rolling out a programme of physically putting people together, what we call co-location.

In March 2003 we took many different teams spread across offices in Birmingham, for example. We co-located them in purpose built offices in the centre of the city, and so in one and the same building we now have relationship teams dealing with both Corporate and Commercial customers and specialist sales teams from Lombard, RBSCS and Financial Markets.

What happens every day if people see each other as they walk around those offices? They talk to each other! They talk to each other about customers, about deals, about problems, about opportunities, and because they talk to each other they do more deals, they solve more problems, they realise more opportunities and they help more customers, and so it has proved. It is not rocket science, just simple common sense.

Lending: our customers above all want a credit process that is responsive. The vast majority of our credit decisions in this market are taken with the aid of a PC based system we call RM Platform. It is not a package bought off a shelf like some of our competitors do, it is proprietary, it has assembled module by module over the last ten years. It was built in RBS before the NatWest acquisition and then rolled-out over the enlarged bank in 2001. It replaced there an endless stream of paper, which was to me quite incredible to behold; it speeded up decisions and substantially enhanced the decision making process.

It also enabled RMs not only to build up a superior knowledge of their customer's business and their needs but also to be seen to be giving local decisions without losing the ultimate strong central control that banks have to have today. It is actually hugely popular with our relationship managers across-the-board, giving them more time to deal with customers and less time pushing paper. At the same time it provides a tremendous risk management tool and a mile of information for reporting and portfolio management.

I said earlier that this business isn't complicated, it isn't, but it is very important to do the simple things well. If we get the service wrong our chances of growing market share, of outperforming the market therefore, are very limited. Service frankly is the bedrock of a growth business in this market.

What we have done is to develop a unique service model over the last two years. It has been implemented in stages but it has required huge change, which our customers have welcomed despite the initial disruption. I am confident it would take two to three years for any of our competitors to replicate what we now have.

But we have chosen not to deliver the whole service through branches, as some of our competitors do, because it simply is not economic. What we have done is to establish four corporate service centres in the UK, not offshore, dedicated to meeting the needs of the large corporate or the mid-corporate or the commercial customer, but only those customers.

Our people in these centres specialise in looking after those customers. They understand their needs, whether it is CHAPS payments for solicitors, card acquiring for retailers, whatever it might be, and these people are aligned to relationship managers and to customers. So the customers get a real person with a name and a telephone number and get the very best service as a result. Service teams visit customers proactively and coupled with automated workflow systems this gives us a fundamental competitive advantage.

I said that we introduced this service model over the last two years. We did have service centres before organised primarily by task rather than by customer and as a result a year ago our Corporate and Commercial customers rated us out of four, fourth, for the service provided by these centres. What a difference a year makes - we have shot up to number one!

This slide shows what the customers themselves are telling us. It absolutely endorses the direction we have taken - customer focused and operationally efficient. It gives us real competitive advantage in the one critical area for growing

market share and growing market share is critical for us: more customers every month and every year.

I have told you how we deliver what the customer wants: quality of relationship managers, a full suite of products, effective co-ordination of product delivery, a responsive credit process and a superior quality of service support. It is something frankly we are very proud of, but please don't just my word for it, let's listen to what our customers say about us and our appetite for their business.

(Video then shown)

You have heard how we deliver the bank to our customers. Has this actually enhanced our market share yet? And depending on your point of view you can look at this graph as the most boring or the most reassuring chart in the world. It does suggest that the gap between ourselves and Barclays has grown slowly over time and that Lloyds has also declined over time, and that we have more of the market than HSBC and Lloyds put together. But I think we can and are already doing better than this.

Having the right approach to the market of which the service model is a critical part is one very good reason, and it has got to be the most important. You might ask, Alan, given that unexciting chart showing little change in market shares in England and Wales why do you think you are now breaking the mould and making the chart really exciting for the very first time? Can it really be done even if you do have the competitive advantage that you have described? The answer, in one word, yes. We have done it.

In Scotland, our service was already number one back in 2000. In 2001, with that solid base, we resolved to implement a more aggressive approach and that

was based on targeting pre-screened prospect customers and warm lead generation, focused direct mail and sophisticated telemarketing, all allied of course to the local relationship managers and business development managers whose role was to give the prospective customers the comfort that they were making the right decision in moving to us.

This is our marketing approach which is part of what we call our customer acquisition machine, and this is what happened. Over the three years from 2001 to 2004 our market share in Scotland grew not 1 per cent a year but over three years by 7 per cent! Our target is to add another 3 per cent there this year and I would hazard a guess that we will at least do that. This is the approach we will be rolling out in England and Wales from this year.

Finally, let me turn to share of wallet. We brought the key product areas for these customers closer together with the relationship teams two years' ago. Has it worked? Are we selling more of these products to our customers?

Let's look at the evidence. We have indexed to 100 for the first half of 2003, as shown on this slide, both for the conventional banking income and the specialist product income and the difference is stark. Yes, we have got good growth in the banking products but by contrast the specialist product income is growing much more strongly, a trend that has accelerated this year.

Do I expect this to change, to go back the way? No, I expect this trend to carry on. And having the number one businesses in these specialist markets is absolutely critical along with the close alignment with the relationship managers.

Let's put all of this together. Our business in this market is the strongest franchise there is. People come to us because we have a proactive and hugely capable reputation as a highly competent market leader. If they don't come to us, we go to them! We have the broadest product range to meet all the needs of all of those customers - products where again people trust us to be highly competent. And we have built a superior service model. Why? Because service is critical to

growing market share and it gives us an advantage which simply cannot be readily imitated, not for two to three years.

All of this is coming together to enable us to continue to outperform the competitors in this particular part of the market, through our natural advantages and through those we have grafted on. But at the end of the day that means growth, it means continued growth and continued growth for CBFM.

That brings me to the point where I say, let's all have coffee! After which Brian Crowe will talk about our other customer group, Global Banking and Markets. Thank you.

(Coffee Break)

MR. CAMERON: If everyone is more or less sitting comfortably - we are running almost precisely to time amazingly - next up is Brian Crowe who is going to talk about Global Banking and Markets. Thank you, Brian.

MR. BRIAN CROWE (Deputy Chief Executive, CBFM): Thank you, Johnny. Good morning, ladies and gentlemen, and welcome back.

We have heard from Johnny on the overall CBFM business and the financial metrics in particular. We have heard from Alan in some depth about how we serve our Mid-Corporate and Commercial customers, that client segment in the UK. For the rest of the morning we will be turning our attention to the Global Banking and Markets customer segment. Later on you will be hearing from Jay Levine who runs our business in the US but let's start, as always I guess, with the overall numbers.

This is a slide that Johnny showed earlier. As a reminder, the financials for the first half of 2005. You will see that Global Banking and Markets, that customer

segment, contributes about two-thirds of the total income. Roughly 20 per cent of that comes from Core Banking, roughly 30 per cent from Structured Finance and roughly half from Financial Markets.

As you heard from Johnny, the customer base of Global Banking and Markets comprises the largest corporates and financial institutions around the world. We have relationships with a vast majority of the largest corporates in the UK, in Europe, in the USA and the largest and most influential financial institutions. These include the biggest investors in the debt markets. They range from banks, Central Banks included amongst them, insurance companies, money managers and hedge funds. We have offices in 20 countries and about 7,300 people in this activity around the world.

We have spent a long time, particularly in Alan's presentation, around the customer needs and how we approach those customer needs in the Mid-Corporate and Commercial client segment. Customers and their needs is at the heart of everything we do as well in the Global Banking and Markets customer segment. The needs though are somewhat different for this customer category but relationship remains at the centre.

We believe fundamentally that what clients want is a long term relationship that enables both parties to be successful. This relationship involves us in providing access to markets whether to raise finance, to invest in fixed income assets or to manage risks. We are expected too to bring intellectual capital to that relationship, to that customer, so we know their specific needs.

We in particular believe that clients appreciate dealing with an institution that avoids many potential conflicts of interest - Johnny mentioned this earlier - consequently we are not involved in providing M&A advice, nor are we involved in the cash equities business. However, the relationship that we have with this client segment fundamentally requires us to have true product excellence; without that we

cannot meet their needs. We must time after time deliver what we promise and execute well.

Turning to that relationship management model, because we believe so fundamentally in the importance of relationship we place enormous importance on relationship management. This has been developed from the traditional bank model that Alan has described. The relationship manager, just as in Mid-Corporate and Commercial, is at the heart of the interface with the customer but we have evolved the model further to be appropriate to this particular customer segment.

The relationship manager is expected to bring true industry expertise so that they can more easily understand the client's business and therefore identify the various financial needs they may have. The relationship manager furthermore works hand-in-glove with product specialists and industry specialists based elsewhere within the Global Banking and Markets segment, within the product areas, particularly Structured Finance and Financial Markets, ensuring the solutions that are developed are actually appropriate to that particular client each time.

The other added complexity of relationship management with this customer segment is that frequently there are very many points of contact between the client on the one hand and RBS on the other, so managing that complexity of client contact is essential. The result of that, the objective of this relationship management model, is that we enjoy a mutually rewarding relationship with all our clients.

I have shown you the income in the first half of 2005, this slide shows you the growth we have achieved in that income level since the first half of 2001. You will note that IFRS actually made a difference to that growth trend a little bit within Corporate and Commercial; within the Global Banking and Markets customer segment actually there is not much effect of IFRS on those numbers.

That income growth has been achieved while maintaining a broadly stable cost:income ratio. While we have continued to invest in the business we have done

this in a sustainable way, continuing to ensure that the income growth actually gets delivered into contribution growth.

Going back to the numbers, we are going to focus first of all on each of the businesses: Core Banking, Structured Finance and Financial Markets, and starting off with Core Banking.

What is in this activity is the core lending, deposits and payments activity. The deposit income and payments income arise from the fact that we are a core bank in the UK; outside the UK almost all the income is actually from lending. In the UK, not only do we have our core UK clients but also our correspondent banking business sits in the UK serving banks around the world, particularly in the sterling clearing business.

In the UK we clearly have a leading position with this customer base as a core UK clearing bank. Our market presence is so significant that on any measure we are the leader in this market. So that is the core banking and there is not much more to be said about the product that sits within that segment.

What does need further examination is both Structured Finance and Financial Markets, so let's look at Structured Finance first of all.

If you look at the composition of Structured Finance there are four real key specialist areas, that you can see here on this slide. Acquisition finance refers to the raising of finance for private equity sponsors to support their acquisition of companies. Property finance involves working with customers to drive appropriate debt structures to enable the purchase of either individual or portfolios of property assets.

Project and infrastructure includes both international project finance, principally in the oil and gas and utilities industries, and infrastructure assets, mainly road, bridges and the PFI activity that we are involved in. And finally asset finance

includes both debt finance and operating leasing especially of transport assets, trains, ships, aircraft and so on.

As Johnny pointed out, we are somewhat unusual in having a business called Structured Finance that collects all these particular activities together; not every bank does this. I just thought I would give a few hints as to why we have chosen to do that.

First of all, they require the individuals to have long experience of relatively complex credits. For example, in acquisition finance the companies are more highly leveraged, as we know, than most corporates so the experience of stressing outcomes for future potential economic environments is essential.

Secondly, in many cases, a strong specialist sector knowledge is essential.

Thirdly, particularly when we are looking at operating leasing the valuation cycle of different assets is quite different, but it is of fundamental importance when you own the asset and lease them rather than just lend against the security of the assets that we understand fully how those valuations work and how that business operates over a long term period.

These three areas of expertise need to be coupled with sufficient attention to detail that execution is perfect every time. As we have developed the skills to be good at this business our reputation has grown as well and that is important because as the business has grown we have moved increasingly to a distribution-led activity within Structured Finance. That is important not just because we have been growing but it enables us to manage the risk of the institution, our own risk.

The best way of looking at this perhaps is to look at the league table we have for Structured Finance for the first half of 2005. This includes all the activities above, the amount of debt underwritten and distributed to the market place in the first half of 2005. Not only does it show us at the head of that table, the number one position, but almost twice as strong as the number two position, BNP Paribas.

This excellence in structured more value-added distribution-driven products, which generate higher fees, is a feature of the business across CBFM as a whole.

When you look at our market positions, you see that we are the number one leveraged finance house in Europe, number one project finance bank globally, number one trainer operating lessor in Europe, and number three commercial aircraft financier globally. We have true product excellence in Structured Finance and that enables us to serve the customer segment in Global Banking and Markets to an excellent degree, and they keep coming back to RBS time after time as a result of that.

Now let's move on to Financial Markets. Let's examine the strength of our claims to product excellence in this business. First of all, what is it that comprises Financial Markets? We have the currencies activity, our foreign exchange business; we have interest rates, money markets, Government bonds, interest rate derivatives activities; and then debt capital markets.

Product excellence in this business requires both scale and sophistication. In 'flow' products we are talking about the most liquid markets in the world: US Treasury, spot foreign exchange, interest rates swaps and so on. They are highly commoditised markets, increasingly accessed by clients through electronic dealing systems. You need real scale to leverage a platform, global reach, and consistently great execution ability around the world whenever the customer want to transact.

But flow products alone no longer provide acceptable returns to the Shareholder, nor are they sufficient to bring clients into a deeper relationship. We also need to be at the forefront of the new developments in the market, driving new ideas and solutions and implementing new products meeting the new identified needs of the customers.

Five years' ago our Financial Markets business really had two major components: first of all, on the one hand a strong sterling business in the UK and,

secondly, excellence in Greenwich Capital in the US. Over the period since then we have developed in both scale and sophistication.

Scale has been created by investment in the most liquid markets. Sales coverage for these customers requires bringing relative value ideas, market information, and then delivering with great execution. For the high volume, lower value business electronic dealing is essential and we invested across all the asset classes. In addition, we have entered more markets that are relevant to being a global player rather than a UK/US player, such as European government bonds in both France and Germany.

Sophistication, on the other hand, involves having highly skilled sales people who span sales and structuring to interpret customer needs. We have invested in the quantitative research skills, those used to developed pricing and risk models. We need the best risk management disciplines to ensure we are building those products safety. Then combining these factors allows us to develop new products such as, for example, inflation-linked products.

That is the model we have been investing in. Where are we today therefore in product excellence in each of these areas?

Turning first to currencies. The currency business includes I think what you would expect: spot foreign exchange, vanilla FX options and exotic FX options. I have split these between flow products and value products, in fact, it is really a continuum between the spot foreign exchange market - clearly one of the most liquid markets in the world - and the exotic FX options where they are less liquid and there is more value that can be created and extracted.

When you turn to our performance across these various activities we rank number six in the first half of 2005, up from number eleven in 2001. We have clearly made great progress in spot foreign exchange over the last four years. In particular, we have developed our electronic capabilities so that, for example, on one of the major platforms we have a number two market share position. In foreign

exchange options we had a good business in 2001. We have improved it further, again particularly in the high value end, in the exotic FX options.

If you look at the league table for FX options that were quoted in those rankings just now you can see not only where are positions are but who our competitors are in the market. Johnny mentioned earlier that we are now competing in a different space with different competitors - this helps to just highlight that fact! This is clearly not a niche expertise but on any measure across the whole range of products within the currencies business we would be ranked clearly in the top ten globally today.

Turning on to interest rates, I have listed the core products here on this slide, again between flow and value. I will point out we are involved in these markets across all currencies, so when you look at what we have achieved in terms of product excellence, in UK gilts and US treasuries, two of the most liquid markets, we have improved our market share. The market share is the official ranking from the Debt Management Office about how business we conduct every day.

In interest rates swaps our market shares improved similarly. In interest rates options our position has moved up. And in inflation products too from number five, in what was at that point back in 2001 a relatively small market to a much more significant market, to number three position this year.

Perhaps the most notable inflation-linked transaction recently was the UK Government's £1¼ billion 50 year index-linked gilt just a couple of weeks' ago. We were joint bookrunner on that and acted as hedge manager for the Debt Management Office on that transaction, clearly a position I think you would not have thought that RBS would have been doing five years' ago. As for currencies, in interest rates, we are undoubtedly a top ten player globally.

Moving on now to debt capital markets, the credit business. The main products included in this category are shown on the slide here. This is, of course, an origination syndicate trading and sales business and so we are dealing with

clients both on the financing side as well as with investors, fixed income investors. The segregation between flow and value is a little bit more difficult in this area but again, as you will see later, we tend to have a bias towards value.

But looking first at the overall market, looking at all debt, loans and bonds, this is international loans and bonds and US domestic loans and bonds. By 2001 we had a reasonable starting position in sterling but you can see particularly on the chart both how we have consolidated that sterling position and how we have grown from very limited positions back five years' ago to the position we have today.

Much of the US dollar growth reflects the progress in asset-backed securities in RBS Greenwich Capital, but you will be hearing more from Jay Levine later about that. But we can see here from this slide how we have grown from 1.3 per cent to 3.6 per cent market share across all debt, all currencies, in this period.

It is interesting, you can accept that progress for itself, to see how that compares with some of our competitors. To give the league table in 2001 we have had to extend the league table from number 10 down to number 16 to find RBS with the 1.3 per cent market share. We have been investing in this business over the last few years, incidentally while maintaining, as Johnny pointed out, a stable cost:income ratio, and that has led to today a number 8 position with a 3.6 per cent market share across the whole of the debt markets. So clearly in the debt capital markets business as well we are now a top ten player globally.

But we also have that bias towards value. If you look at the securitisation market, which is one of the more valuable markets within debt capital markets, we perform even more strongly. This league table for securitisation in the first half of 2005 shows us in third place behind Lehman Brothers and Bear Stearns, and while RBS Greenwich Capital makes the largest volume contribution to this we actually have full global reach.

For example, we were voted "Securitisation Bank of the Year in Europe" in 2004. We have a strong business in Asia Pacific where in 2004 we won the award

for best cross-border securitisation deal of the year. So this is a full global product capability that we are able to bring to our clients, both our corporates clients and our investor clients, within the Global Banking and Markets customer segment. That is enough about product excellence.

I have outlined our relationship approach to customers, demonstrated the product excellence that we believe we have across each of our three core businesses. Now I would like to take you through the business from a geographic perspective, and again commencing with the numbers.

Turning to the UK, this slide shows a breakdown geographically for the UK segment that Johnny showed earlier. It will be no surprise to you to see I think that this represent just under 60 per cent of the income and it is comprised of three relatively equal businesses in terms of income. 80 per cent of the Core Banking income is in the UK because that is where we are a Clearing Bank and that is also where we have our correspondent banking business housed. That is banking, deposits and payments.

UK Structured Finance also includes some of the London-based global businesses, for example, Project Finance or Aviation Finance - it is recognised in London irrespectively actually of where the projects or asset in the case of aircraft belongs.

The income from these UK businesses serving Global Banking and Markets customers has grown strongly over the period with a growth rate of 12 per cent. This has been principally driven by increasing our product excellence in both Structured Finance and Financial Markets and deepening the penetration with our large corporates and financial institutions. It has been those two things together that has enable us to achieve the strong growth in the UK over the last four or five years.

If you turn to our outlook, clearly we have a coverage and product capability that is second-to-none but we do still have further opportunities to deepen our

customer penetration, in particular with the largest corporates and with the largest financial institutions where our product excellence has only been, if you like, most recently achieved.

The multinational nature of our clients and the global product businesses also mean that growth in this segment isn't really about the UK economy, it is about the growth of the clients that we happen to do business with in this global banking market segment. So, that is our outlook for the UK.

We are going to turn next to the US, and I am going invite Jay Levine to come up here and give you a bit more background on the growth and the opportunities in the US.

MR. JAY LEVINE (Head of CBFM North America): Thank you, Brian. I would like to spend a few moments to talk about the recent business changes we have made in the US, the opportunity before us and why I believe we are well positioned for success in the largest banking market in the world. But let me start with a little bit of background on CBFM in the US.

Who are we trying to serve? Our target client is the Fortune 1000 and 300 largest institutional investors. Again, as Brian mentioned, that comprises banks, insurance companies, the largest money managers, those with the largest pool of assets that make the biggest difference in the US markets.

We are operating from two main locations, in New York and in Greenwich, with a number of satellite offices to be close to the customer; whether it is origination businesses or distribution again we feel it is important to be near the customer, so in financial hubs like Boston, Chicago and San Francisco we have a significant presence. Again, we say, if you are not with the customer somebody else is. If you start in Greenwich to get to San Francisco for lunch it is certainly not easy and so I much rather start there! (Laughter)

There are 1,300 people in the States and historically this has been an FM driven revenue. Coming off the strength of the RBS Greenwich platform a lot of the historical growth and the revenues and income came from there although we are quickly evolving to a diversified full service corporate bank.

Given the size of the numbers in the US within the Financial Markets business, I thought I would spend again a minute to jump into that. Quickly, in currencies, a small number but probably understates the importance of the business given that, as Brian alluded to, currency is a global business where the currency book travels around the world.

Interest rates: interest rates is the long-standing business, the RBS Greenwich Capital business, of US Treasuries, the debt of the GSEs, the “Fanny and Freddie” which was an important sector in the fixed income market, as well as the rapidly growing derivatives business. And lastly the debt capital markets business is comprised of the corporate bond business, our CDO business and the quite diversified securitisation business. Not only are these numbers substantial today they really come about from a history of quite strong growth.

If you look at the numbers on this slide, the first year, if you look at 2001 the full year 2001 was about \$1.1 billion of income; if you take a look across this slide to the first half of 2005 that number had grown to £1.3 billion in the first half. That growth compounded turned into 28 per cent compounded growth, quite substantial, and even more important when you think about the fact that we came off a pretty strong base.

Now with the full suite of products available, with the investments we have done in the States, we think a huge opportunity exists - additionally when you put down the fact that within many of our markets and new business we still have rather small market share.

We have talked and mentioned a fair amount about RBS Greenwich Capital. For those that don't know, let me give you a very brief history. The firm was

founded 25 years' ago as a relative value Treasury House, and what relative value meant was we were trying to help our clients make money. At that point the Treasury Market was a rather inefficient market, believe it or not, and you actually could find ways to make money that were about taking one security against another.

As time went on, we looked at other markets where relative value existed and we could help our clients make money. The key theme for the firm has always, again, been about the clients and it has been about hiring industry veterans who have long-standing customer relationships and retaining those people. As Alan alluded to and Brian alluded to, it is relationships that we think drive a huge chunk of the business.

In addition, I will say - even from all the way over in Greenwich - I suspect we were a bit Scottish a well. We just didn't know until 2000, the time of the takeover! (Laughter) But we were never focused on trying to be everything to everybody, what we were focused on is making all the investments we made pay, so needless to say the culture of RBS and the culture of Greenwich have quickly come together.

Besides strong income I want to spend time and show you why I think RBS Greenwich makes a great foundation to grow the North American business upon. What you see here on the slide is a poll from Orion Associates. Orion Associates is a survey firm that gives direct feedback back to the largest broker/dealers about how they are doing with their clients.

Again, why is that important? We have talked about relationship over and over but in particular it is not about what we are doing right, not what we are doing wrong - those are important - but how are our sales people doing? This is the average rating of our sales force. Again we have long-standing sales forces, specialised sales forces, in the two biggest parts of the fixed income market. These two markets represent about 75 per cent of the global fixed income or the US dollar

Fixed Income Index, a \$22 trillion market. It is important that we pay a lot of attention to the presence of our people and how we are doing with our customers.

Now the reason I believe that RBS Greenwich Capital makes a great platform to grow a US business, one, the name is well known in the market. If you talk to any major investor we are largely a household name, so with investors and borrowers you have got a headstart. In addition, as we need to attract talent to build the new businesses again the RBS Greenwich platform is a well known platform and a great place to hire.

In any business we say it is critical to be meaningful. We have talked about the need to be top tier; the top tier in any business generally sees 50-75 per cent of a client's flow. We are dealing with across-the-board, whether it is a corporate or financial institution, the most competitive, the most sophisticated clients. They are generally awarding the bulk of their business they are going to do to that select group of clients, as shown on the slide.

We wanted to make sure we are in that group. If you think about the number of people they deal with, if you are in that top tier - only the crumbs fall to the bottom! - and you have got to make sure you are in the top, to see the lion share of the business. In the US Treasury and in the securitisation, a big part of the debt capital markets businesses, we are firmly there.

Brian has mentioned flow and value. You need to have that relationship to be in a position to balance the right amount of flow with the right amount of value products. Rarely is a start-up in any business given the opportunity to sell many value products. You can just think between investment in people and investment in the other things, you have got to handle the scale of that business before you are given the opportunity to sell the value products, how long it can take without that in place.

We have talked about the first 23-odd years of RBS Greenwich Capital history. Let me tell you how it is coming together now. I was quite excited last year

when Johnny asked me to bring together the various businesses of CBFM in North America and really build upon what we had at that point. After moving all the trading and deepening our corporate relationships and FI relationships we were really poised to operate as a single business. What does operating as a single business mean? It means all those touching the client come together. It means a real sharing of clients, ideas and information and it is really what it takes for success.

Finally, after having for many years electing not to enter the corporate market, the last piece of the fixed income market, finally the time was right to add the final piece of the fixed income market to the RBS Greenwich platform.

And why was that? Great people were available, the clients were in place, we had upscaled our corporate relationships and the borrowers that were going to need that product, the RBS Greenwich platform was scaleable, both investors were ready and willing to buy the product, the infrastructure was in place so limited investment was not necessary and, most importantly, came the side benefit that RBS Greenwich Capital became more important to its client yet again. Even in the Treasury business and the securitisation businesses we found we were able to do more business as a result of being fuller product.

Let's spend a minute and talk about the results of the changes last year. We invested in great people to go out and develop relationships with the largest corporates and I would say, based on the growth of that, we have been highly successful. If you talk about things you really don't want to brag about certainly one would be being 27th in the loan league tables a year ago!

But what that has meant, to put that in a position to what loan syndication is all about, large corporates really only go out and renew their loans every two or three years, even then they rarely change the lead. So to have moved from 27th to 11th in a period of 18 months I believe really reflects strongly on the quality of the relationships we have as well as the quality of the product that we are offering.

Next time I am up here I hope we are talking from 11th to again a higher number. But to have gone from 27th to 11th in a short period of time I think reflects quite strongly on the progress we have made, because it is again not until you really in one of the senior relationships that you are going to wind up getting the corporate bond deal, the corporate securitisation business, the derivatives and the FX that we are trying to achieve out of those clients.

In derivatives, I talked about that we had consolidated two businesses. There had been a derivatives trading business in New York and one in Greenwich. By putting them together finally the flow, it is what the corporates were trying to do from a hedging and risk management standpoint, what the financial institutions and investors were trying to do, we found putting the two of them together made the business definitely more substantial and made the flows that much more important. It significantly added to the profitability.

I think when we talked about corporates bond business, when we set it up, we talked about measuring the success in years, it was going to take time. Businesses take time to show. I can probably say we are now measuring in months. As shown on this slide, these are some of the early successes of deals we have already led this year where clients have entrusted us to bring them to the market.

Let's talk about our goals now. I think all the tools are in place to be a lead bank. I would firmly say two years' ago we were not there but with a strong corporate bond capability, a strong loans market capability and all the other tools that are present in RBS Greenwich, as well as strong relationship, we have what it takes to compete with most anyone in the US market place. It is now our job to ramp-up those relationships, the top tier relationships, where we have the benefit of using the various products that are available in the US.

We also want to make sure with those relationships - most of those are international and multinational companies - we are also making sure that we are co-

ordinating globally and making sure we can deliver to that client whatever they need both in the UK and in Europe. I think it is also fair to say that we can deliver unparalleled access to the US investor market, so whether it is exporting European or UK corporates to the US who want to borrow there or other types of assets that need to be distributed in the US clearly the distribution platform that is available allows the US to become more important.

I have talked a fair amount about what the opportunity is within CBFM as we have pulled together these various things. What I really have not talked about is the real opportunity that comes when you pull together and the benefit of CBFM and Citizens working closely together. If we take Citizens, one of the largest retail and commercial banks in the US, and you put together the assets of Citizens and the North American or the US assets of CBFM one can see exactly where we rank - we are in quite a substantial position, as shown on this slide.

I think even more importantly when you take that list and you look through who really has the product capability in the US, which of those banks can really go to large corporate and commercial customers and offer the suite of products we have talked about today? As Alan has mentioned, bringing together whether it is the small, medium or large corporate, having all those products is what makes you meaningful, makes you important. Again I would argue there are only five or six banks out of those ten that have the full breath of products that we have talked about here.

If you want to narrow the list even further, move on and say who is truly international? Again of that list you really only have two or three. So if you talk about a client's needs and you need the products and you need to go international there is a much smaller set of people that can deliver that to the client. We consider ourselves to be in a highly unique position.

Let me spend a minute and talk about the "win-win" arrangement that exists between CBFM and Citizens. Now that Citizens has Charter One behind it and

certainly its breadth is significantly wider than it had been and its reach, we have come to understand much better the needs of Citizens clients and vice versa. What we have seen of Citizens clients is clients who need access to the loan markets, to private placement capabilities, who need more access to FX and derivatives, and we are working ever closer to meet those needs.

What Citizens has seen in many of the corporates that CBFM deals with is customers who need cash management and payment capabilities. We have clients who have leasing needs. As we bring those products to each other's clients you certainly have the benefit of a much broader array of clients without any additional investment. We see that as a huge opportunity that we are still in the middle of developing and coming closer to, but I can say the early seeds have been planted and the successes have already begun.

In closing, I really want to say CBFM in the US is very well positioned to continue to grow and diversify its already successful business. Thank you.

With that I turn it back to Brian!

MR. CROWE: Thank you very much, Jay.

Now after the US, let's turn to our European business. We have produced revenues, as you can see here on this slide, of just over £300 million in the first half of 2005. If you look at the composition it is a bit different, whereas in the US we had a Financial Markets dominated business, and Jay has just described how we are able now to leverage that platform, in Europe we started from a different position, really from a standing start four years' ago, so generating income from this customer base has been a particularly impressive growth story.

As you can see from this slide, the early years here, 2001, pretty modest income in each of the half years - this is in euros here - rising to just shy of 500 million euros in the first half of this year.

We have built this business from a starting start. Almost the only activity we had at the beginning was an acquisition finance business and property finance business in both France and Germany. We commenced our involvement in this market really by recruiting country heads locally who had strong customer relationships and local experience themselves from their previous institutions, and who knew how to operate though - crucially! - who knew how to operate in a team culture working extensively with London where most of the product resources are based, at least initially.

They each needed to bring their own expertise and experience to RBS to, first of all, identify the areas of greatest market opportunity - and it is not the same in every country - and, secondly, to start building on that and build the infrastructure necessary to achieve success with these customers. That resulted in 2002 in significant recruitment of relationship managers, with Financial Markets sales people, with Structured Finance professionals, in each of the countries to build the business.

In 2003 we made a modest acquisition, which was Nordisk Renting, which is a structured property leasing company in the Nordic region, based in Stockholm. Having started with France, Germany, Italy and Spain, we then bought this business which was adding to our capability in Structured Finance but it also brought with it a valuable customer base, particularly in the public sector with some local authorities, large financial institutions and large corporates who were their customers. The following year we used it as the platform for the CBFM business that we have since been building in the Nordic region, so it now looks rather similar to each of the other European countries.

One of the themes involved in our approach here is that we adopted a controlled sequential build-out of the franchise. It meant, as Johnny pointed out earlier, that we achieved positive contribution in the first full year of operations in each of the countries. Secondly, the timing of our entry proved to be very good because in 2002 many banks in Europe were distracted. They were distracted by

bad debts, they were distracted some of them by mergers and acquisitions, and that enabled us to have a bigger impact on the market I think more quickly than even we had expected.

We applied the proven relationship management model that had been so successful in the UK over the years, ensuring that we always had local staff developing the local customer relationships but working with of course the product specialists in London whenever appropriate. Finally in Structured Finance, we were easily able to extend the required competencies that we had built principally in London to each new geography in turn.

We have been a bit surprised actually by the speed of our progress in Europe. In France in the first half of this year we are up to number four in the syndicated loan bookrunner league table. That is quite good but particularly if you think that the top three are the domestic French banks. In Italy this year we are number three in bonds underwritten for financial institutions, while in Spain in the first half we are the number one MLA for all corporate loans.

You can see some of the deals that have contributed to this on the slide behind, and don't worry I am not going to go through all of them! But I think it is worth just looking at one deal briefly just to give an example of the type of activity we have got involved in: Pernod Ricard's acquisition of Allied Domecq earlier this year.

We had a lending commitment to Pernod Ricard for a year or two before this. Then in February this year we presented an analysis of the debt capacity for Pernod Ricard to try to give them an indication of what sort of acquisition they would be able to finance in the debt markets. That is part of what this relationship means in terms of bringing some intellectual capital to the relationship to help customers in advance of what they think they want to be doing in the future, how much access to the debt markets are they capable of achieving?

Key then to this transaction was our responsiveness. Pernod Ricard approached us at 6 o'clock on a Thursday evening wanting an answer by the next Monday. Because we had done so much preparatory work beforehand, particularly in the debt capacity and so on that I have referred to, we were able to meet that time-table and we ended up as a joint bookrunner on the transaction, also incidentally carrying out a good proportion of the currency and interest rate hedging as well.

It is important to remember that our responsiveness is often key in these acquisition-related transactions. Corporates aren't able or willing to be able to wait around for banks to give, or the slowest bank, to give an answer. We have to be responsive and I think that is part of the success we have in some of those types of transactions.

What is the outlook in Europe? Really it is to leverage the platform we have been building over these last four years. We have established relationships and a reputation for being able to deliver - we can leverage that in future! We have only more recently been building a financial institutions franchise; we need to extend that further and deepen it as well.

We will be continuing to expand Structured Finance activities in the Financial Markets footprint, making sure that we have product excellence in these areas across each of the various countries that we need them. And we need to maintain that momentum of organic growth.

Finally, we turn to Asia Pacific. £78 million in a business of this size seems rather modest, about 3 per cent of the business for this customer segment. But it is actually, as Johnny pointed out, a pretty good business. It is dominated by our Financial Markets activities, it is a fully integrated geographical component of our global markets activity.

Again Core Banking reflects our lending income from those corporate relationships we have in Asia. Structured Finance involves principally project and

infrastructure finance, particularly in Australia which is one of the largest project finance markets in the world. While it is a more modest business today it too has been growing and growing well over the period and we can expect looking forward that this will be a bigger contributor to the global business. It is really a future opportunity.

We have recently been beginning to invest in more people in both Core Banking and Structured Finance businesses and will be further expanding our Financial Markets abilities. Currently we, broadly speaking, distribute US and European product to financial institutions in Asia. In addition now we are building more local product to be able to not only distribute that to local clients in Asia but also to distribute back to the US and Europe.

I think we are been going on long enough, you have heard enough from us today and you can expect to hear more about Asia Pacific at some date in the future.

So, in summary. We have delivered strong income growth, 17 per cent per annum over the period, and we have done that while maintaining a broadly stable cost:income ratio and investing in the business to achieve true product excellence across Core Banking, Structured Finance and Financial Markets. We, of course, had a leading position in the UK and we continue to have that leading position, but now we are established in the US with the footprint that Jay described, we are established in Europe, so we believe we now have many more opportunities for growth.

I would like to leave you with a video giving some views of CBFM from a selection of customers and commentators. Thank you very much.

(Video then shown)

MR. CAMERON: I like the ending very much! Not often that we invite the chairman of one of leading competitors to talk on our behalf but it is also very welcome as well. It has been a long morning and if I could just summarise one or two things for you.

The key messages that we want to leave you with are as follows: we have managed a very important and a very big transition to a distribution-led international business. Back in 2000 we were fundamentally a UK business, we were an important little business called Greenwich in America - an important big business! We have managed that transition. We have managed it without blowing our cost:income ratio.

I was talking at the coffee break with one or two of you. It is interesting to compare us and contrast us with the competition. Broadly speaking, our costs have risen in line with income - a year here and there up 1 or 2 per cent, and I am not promising there won't be a 1 per cent gap from time to time - but, broadly speaking, we manage our income in line with our costs and yet we have managed this incredibly important and incredibly significant transition.

We are now a top ten player in our chosen markets. I hope you all feel that you have the information to agree with that judgment, whether it is syndicated loans, bonds, FX, swaps, private placement, corporate relationships, on any measure you would like to look at we are 100 per cent confident that we have built a platform and we have built a position as a top ten player globally.

We have given you quite a lot of league tables; there are hundreds more if you would like them. I hope you have got in your pack the annual review of Greenwich and a new publication we have just produced which is effectively an annual review of our fixed income business away from Greenwich.

Also I think outside, I hope many of you have picked it up, it just so happens that three days ago that Dealogic, which is the main data source in these markets, produced its 9 month summary of the year to date, "9 months", and it is also available outside. You can take whichever league table suits you from that. We are very comfortable that whichever league table you look to we are going to be a top ten player.

I hope we have made it clear to you that CBFM's income is diversified: it is diversified by business, it is diversified by geography and it is diversified by customer. We are not particularly exposed to any one area. Every time I meet you guys you have always got a worry - I know what your worry is today but I am not going to refer to it! - but you always have a worry and it is always a different worry. The key point I want to leave you with is whatever your worry is it is not likely to be a big part of CBFM; it maybe a part but it is not going to be a big part, we are diversified.

I hope I have left you and my colleagues have left you with a very clear impression of our business model and our employee culture. It is hard to get this across to you all how important it is to our success and how much I and all of my colleagues in the management team, and I believe all of my colleagues throughout CBFM, how much we value this culture, how much nuttier it and nourish it.

Our values are to be entrepreneurial, to be performance-driven, to be team-oriented and, of course, to be customer-focused. These have been our values for a number of years now and I and my management team make a huge effort to "walk the talk". We really do believe in these values and at the end of the day it is these sorts of things, and it is only these sorts of things, that can differentiate us from the opposition.

We use a number of catch-phrases, some of which have come up today, but it maybe worth just repeating to give you a flavour of the sorts of things we do as we go around the place. We talk about being insurgent - Alan mentioned being

insurgent - the insurgent incumbent. We talk about restless success; we may be successful but we are still restless. We talk about “keeping the magic”, it is another phrase. There is something magical, there is some magic about what we have got in CBFM about our culture. We need to retain that even while growing into this international business.

We don't do it just for the sake of it, just to feel good about ourselves, we do it because we think the model has a very strong appeal for customers, and Jacque Esspenais particularly obviously made reference to it (on the video).

We do it for another reason, good staff satisfaction. We do staff surveys regularly in the Royal Bank of Scotland, as you know, and CBFM always scores well in them. We have just finished one this week which we will hear about shortly. But we have good staff satisfaction which leads to low staff turnover which the customers love. Of course another reason for low staff turnover is it is successful. CBFM has been consistently successful now for five years and I can absolutely assure you that the staff love that. There is nothing more fun than being part of a successful business. We all enjoy it.

What we have achieved in all of this, and again I am underlining points that I, Alan, Brian and Jay have made, but I want to be sure they are clear, what we have achieved is a platform for growth. We have managed to build, without blowing our cost:income ratio like many, a really exciting platform for growth, obviously in the UK where we think we have more to come from what is our leading franchise by any measure. I was very struck when Alan was speaking with his slide that we are number one in everything - we are! - we are number one in everything in terms of products in the UK. We have got a renewed service model and we see more to come in the UK.

In the USA: I don't think we can over-emphasise the point about the USA, there is no non-American bank who has the platform we have. Nobody - quite literally nobody! We have a unique platform for growth with the combination of RBS

Greenwich Capital, the existing CBFM businesses in the New York branch and with Citizens. On two dimensions we have a unique platform. The Greenwich platform is something that any European bank would give its eye-teeth for and putting the combination together with Citizens makes us able to take on the Americans in the home market.

I have always been struck by the fact that there are now only three serious corporate banks in America: Citigroup, Chase and Bank of America, and compare that to Europe where there are many serious corporate banks. Three serious corporate banks is not enough for a country the size of America, that is the scale of the opportunity.

In Europe, we have this fabulous reputation, we have a wonderful list of relationships. We are a natural bank to turn to. When a company wants to do something and wants to do it quickly we are a natural bank to come to. Our reputation is important, not just because of our reputation with companies but our reputation with other banks. What Dr. Fischer of WestLB (on the video) said is important! If we are underwriting a transaction we have the credibility with the other banks to have them join us and to sell down our underwriting quickly. They know that and the corporate customers know that. We have real credibility in the underwriting market as a market leader - a thought leader, if you will! - in credit markets.

In Asia, it is still relatively early days but, as I said earlier, we are making a significant sum of money there already. Of course, the Bank of China, which was announced only in August, provides a really exciting further opportunity on top of what we have already got; that will provide further impetus to the existing growth plans.

We have come to the end. I have talked about the culture but another way of saying our culture is to say that CBFM tends to under-promise and over-deliver. I

hope you feel that this morning we have under-promised and over-delivered both in terms of the numbers and the sense of what we are doing.

Just to repeat one more time the four key messages: we have maintained a relationship-led culture which is pretty much unique; we have a very low cost:income ratio that enhances the good returns on capital in both our customer groupings; we have had significant investment to build a significant platform but it is being well managed such that it has not compromised growth and it has not compromised the cost:income ratio; and putting all that together, ladies and gentlemen, CBFM is a very good business with very strong momentum. Thank you very much.

We will go to questions!

SIR FRED GOODWIN: I am conscious we have given you a lot of information to be going on with today. I am sure there will be questions after the meeting this morning, or this afternoon, so please feel free to come back to me or Fred or Richard and we will try and answer those. But now any questions on CBFM or the Group more widely. The first hand I saw was at the back!

Q1: Size and quality

MR. JAMES EDEN (Dresdner Kleinwort Wasserstein): You obviously attach a great deal of importance to size and being top ten globally. Is that because you believe the biggest corporate banks will end up with the highest returns on equity?

SIR FRED GOODWIN: I think we have probably stressed two things this morning, James. One, the reason why it was important to be that size in this market area and also the importance of return on capital and by implication return on equity for us.

But, John, I don't know if you want to add to that?

MR. CAMERON: I think it is more a point of quality. What we were trying to emphasise was that in these key products you have to be a quality player. You have to have scale to be in the scale parts of the business and value added parts of the business, but basically it is about quality.

Q2: Additional disclosure of asset growth in CBFM

SIR FRED GOODWIN: Simon!

MR. SIMON SAMUELS (Citigroup): Just a couple of questions. Firstly thank you for all the extra disclosure. Before we spend the next few hours rebuilding our spreadsheet on CBFM and forecasting it on the new basis, can you give some sense of how much of the extra numbers today the additional disclosure is going to be a feature going forward?

SIR FRED GOODWIN: At the risk of being slightly predictable, Simon, not all of it. But I would like to hear your feedback once you have had a chance to digest the information and let's see what is useful and what is not useful. I think clearly there was a huge amount of information there which I am not sure would be particularly helpful to you on an ongoing basis without the three hours of explanation; by the same token if there is information in there which is really helpful then let's look at it. Richard, I know, will be pooling everybody's feedback from today and we will try and see where we go.

MR. SAMUELS: Okay, thank you. The second question is to do with the pace of asset growth within CBFM. It was certainly by total assets very rapid in the first half of the year. At the time you did not give the risk asset number - I know you have given now an average number - but I have not got with me the half year and full year of last year and so I cannot work out what the growth rate is. The bottom line is, it was very rapid in the first half of the year.

You seem to be indicating through your Tier 1 guidances that it is going to slow down sharply in the second half of the year for the Group - this is risk asset

growth - and one assumes the big driver of those is CBFM, although I know there are some currency moves as well. But can you just talk about the kind of volume momentum within CBFM? Was the first half a freakish number and the second half is more representative and can you give us a better sense of what is going on there?

SIR FRED GOODWIN: I think you have kind of 90 per cent answered your own question, I guess, Simon. But the first half I would not say was freakish but I think was unrepresentative, the 30th June position was unrepresentative of the Group as a whole. I think if you sort of trim off some of first half and look to the underlying trend you will see in the second half that the underlying trend is growth.

There is nothing which I would want to say that would disturb the sense you would have got from Johnny and the team this morning. So freakish may be going too strongly, but certainly there were a number of things in the first half. There were some M&A activity which we were underwriting which push the number up higher than I think would be representative.

You would have heard the Tier 1 guidance that I gave at the time of announcing the Bank of China deal which was that our Tier 1 would exceed 7 per cent by the end of the year, and that guidance remains, so that would give you a sense. I would not want to give anyone a sense that the business is tailing off but rather that the first half was a bit higher than the underlying trend.

Tom!

Q3: Financial markets growth

MR. TOM RAYNER (Citigroup): Can I just ask, I think it is on slide 104, which shows the diversity of income by geography and by Core Banking, Structured Finance and Financial Markets. I am interested in the Financial Markets line, just in each geography what you think the longer term growth potential of each market is, and then what the market share opportunity for RBS might be within each area?

And, finally, whether there is an opportunity to actually enlarge the available market by new products which you may not yet offer?

SIR FRED GOODWIN: Well, you know we have our customary “enthusiasm” for predicting growth rates and so on, Tom, so that would be probably cloud our ability to answer the question in detail! But, Johnny, do you want to comment?

MR. CAMERON: Or perhaps Brian!

SIR FRED GOODWIN: Yes, Brian!

MR. CROWE: Clearly we have focused today on currencies, interest rates and debt capital markets as the Financial Markets products. We have very modest businesses, for example, in equity derivatives or in commodity derivatives, and there are others, plus the fact that there is innovation within each of those other markets, the credit and rates and currencies. We don't see that the pace of innovation in the markets is likely to slow down.

What that means for what we choose to invest in will be largely driven by what our customers' needs are and what the individual market opportunities are, and what that translates into revenues is another question as well. I think it is quite a big jump to say that we can forecast the growth in any of those individual product areas, but we clearly are not across every product that already exists in the market, let alone any that are to come.

MR. RAYNER: Okay, I am not going to push for any more information, but it is just that one of your competitors likes to say how the US is mature but a huge market which you can continue to take share in, whereas Europe is a structurally growth market for debt capital market business, and I just wondered if you shared that overall view?

MR. CROWE: I would agree with those assessments.

MR. RAYNER: Thank you.

SIR FRED GOODWIN: Ian!

Q4: RWA

MR. IAN SMILLIE (ABN Amro): I found the risk-weighted asset margin analysis very interesting. Historically we found it most useful to start at the bottom of the P&L in terms of net income and work our way back up on the basis that somebody has got to pay for tax, for preference share interest, for central costs. I am wondering, could you give us your best stab at what the net income after everything risk-weighted asset margin for the Division is and how that compares to the other Divisions across the Group please?

SIR FRED GOODWIN: I think Johnny kind of covered that off, Ian, in terms of we don't allocate Manufacturing costs out but there are a number of basis on which you could do it. It is possible for reasonable men to differ as to what precise basis, but I think we highlighted across a spread of about £400 million of cost allocation there is a 2 per cent impact on the returns, so that doesn't seem to us like a worthwhile endeavour to spend our time trying to allocate it precisely. What it shows is that on any reasonable basis the business generates very strong returns, as do our other businesses, and that seems sufficient.

MR. FRED WATT (Group Finance Director): The whole Group number on the same basis is 33.2 per cent I think. It is very close to the lower end of the table that you saw from CBFM there. It is roughly on the same basis, it is same tax, and you can work out for yourself I am sure in terms of average tax rate from there.

MR. SMILLIE: Exactly! I guess the point wasn't just to focus on Manufacturing costs *per se* but it was actually to think about what is coming back to the Shareholder? The net profit divided by risk-weighted assets in terms of the net profitability of the business, and then the lines that you gave us - at revenue, at direct cost - are an interesting way for us to understand how the net profitability is

generated. But I am trying to understand what is the “after everything” or think about it in terms of the spectrum you presented the profitability of this Division, how that has changed and how that compares with the rest of the Group?

SIR FRED GOODWIN: I think the premise that is in the middle of that I guess, Ian, is that risk-weighted assets is a good basis for allocating the costs, and I think that would be the one basis that we would all dismiss as least likely or least connected with reality in this business.

Our income at Group level is, what, 62 per cent of its non-interest income, so again a couple of your points, the risk-weighted assets have not been quite the most reliable means of allocating the cost out. You can see our returns across the business as a whole, be they on equity or on capital, and I guess it is for others to judge whether those are good, bad or indifferent but the figures are there. The allocation of preference shares and taxation and so on across the businesses is not something that we spend any time doing.

MR. SMILLIE: If I were to say that our guess is about 1.1 per cent RWA profitability and that the Group is about 1.5/1.6 per cent, does that sound about right?

SEVERAL SPEAKERS: No.

SIR FRED GOODWIN: It doesn't. Anyway I think we can try and pick up with you afterwards, Ian, where you are getting to with those numbers but they don't ring any bells with us!

Q5: Credit decision as a competitive advantage

MR. SIMON MAUGHAN (Dresdner Kleinwort Wasserstein): I was hoping you might give perhaps an example or a little bit more colour on how you would use the credit decision as a competitive advantage, and particularly I am thinking of Brian and Jay in large and very liquid markets? And if in answering the question

you are able to throw some light on why the General Partner of Rothschild thought you were a particularly tough negotiator, I would be fascinated to know that as well?
(Laughter)

SIR FRED GOODWIN: Johnny, do you want to have a go at that, and then Brian and Jay might want to?

MR. CAMERON: On the second point, I think the fact is that - I don't want to be rude about my competition and let's not talk about that perhaps - but with Continental banks generally there is a certain national pride, shall we say, and we approach things rationally, as he said. It is very important to us that what we underwrite we can sell and therefore we are very conscious when we are negotiating a facility that we negotiate a set of terms that we can stand behind and sell to the market place and distribute the loan. So, I think that is what he is referring to.

I will pass to Brian, although I am not absolutely sure in terms of credit, in terms of bonds and the rest of it, we are not taking a credit decision as such but an underwriting decision.

MR. MAUGHAN: Well, perhaps you can answer it in the context of the first answer you just gave? You are obviously pricing less close to the margin than the French banks are in that market. Is there space for you to be a top three player in France or will you always be excluded by their willingness to take on easier credit?

MR. CAMERON: I'll take the "5th" on that I think!

SIR FRED GOODWIN: If I could maybe make a couple of observations around it which might help and then come on to Brian. Firstly, you don't tend to use credit as a competitive advantage other than in terms of speed of decision making. Moving out along the risk spectrum to try and do business is not a good way to go and it invariably ends in tears before bedtime.

To the point about whether we would move further up the table by pricing more finely, I think it is fair to say we could do a lot more business in Europe if we were prepared to put price considerations to one side. We are not. We very happy with the credit, but on pricing it is very competitive pricing-wise especially at the moment.

MR. CROWE: The only thing I would add is that we are priced into the market at what we can sell it, how we can sell it, so we are not pricing to a whole position, if you like, having a very substantial hold in these large transactions. If there are other banks that wish to price for their own balance sheet return and not be as market price driven then they can; if the customer chooses to rely on that they can choose to do so.

The problem that they have is ultimately that bank isn't usually there later. It might exist, I am not saying it doesn't exist, but I am saying it not available to the markets. What we do is provide access to the markets and that is critical to a long term relationship. Clearly we cannot fund every company around Europe on our own balance sheet and we are not intending to do so.

Q6: M&A and equities business

MR. RICHARD STAITE (Societe Generale): You talked about the advantage you have because you don't have an M&A or equities business. I have two questions on that. First of all, how crucial is that as part of your strategy going forward? Will you still be saying that in five or ten years' time when we come back to the next seminars? Secondly, why do you think it is more important for Continental European companies - will the US companies not also have the same attitude?

SIR FRED GOODWIN: Johnny!

MR. CAMERON: If I am here in five or ten years' time I will be saying it! It is distinguishing feature. When I often talk to customers the way I describe it is there

are a lot of banks in this world who are out in a 100 metres race to be one of the top global investment banks in the world, and no doubt that is a race worth winning. I am not disputing that it is a race worth winning!

We are in a different race, a 400 metres race, to be one of the top, to be the top, corporate banks in the world, and that is a race worth winning as well. When I look around I don't see really almost anybody else in this particular race which makes me feel that much more comfortable of winning.

So I am not arguing that every single customer thinks that no *compos mentis* is the most important thing, what I am arguing is there are many customers that do like it, really like it, and so it is a differentiating feature and I think to be different is terrific in this market. The nuance I mentioned about Europe is just that, a nuance. I am not quite sure why but it is true that on the Continent of Europe they particularly seem to welcome it. But it is a nuance rather than a major point.

MR. STAITE: Thank you.

SIR FRED GOODWIN: Mark!

Q7: Risks

MR. MARK THOMAS (Keefe, Bruyette & Woods, Inc.): I would just like to explore a little bit more on risk, if I may. With the focus on the options, particularly the exotic options for value, value at risk is somewhat weaker as a risk measure. Could you just give us an indication as to (a) what your maximum Group acceptable stress loss would be and (b) how that might have trended over the past few years as well? Thank you.

SIR FRED GOODWIN: Brian!

MR. CROWE: I don't know whether we would want to give what our maximum stress loss would be. We have stress limits - we have both VaR limits at Group level and stress test limits at Group level that are inviolable, if you like, and

as we approach them we bring the business back to make sure that our market risk is contained.

Giving you a number - I'm not sure, is that relevant? - because there are so many different ways you calculate how you come to that particular stress number. But we use both historical scenarios and periods like Russia and the LTCM crises, although we don't come into those very often, and we use our own individual views of what market moves would hurt us and looking at the markets today what do we think might happen? So we use both historical and individual situations to stress test and apply those rigorously across the business every day to see what outcome we get, and if we get to a number that is too high we bring down our risk.

SIR FRED GOODWIN: It is our sense, Mark, that our appetite you would find pretty conservative if you were to define it - not wanting any undue excitement!

Michael!

Q8: Asia presence and leveraged buy-outs

MR. MICHAEL LEVER (Credit Suisse First Boston): I have two questions, if I may. Throughout this morning's presentation you have emphasised the importance of local presence and Johnny has just said you would like to be the top corporate or one of the top corporate banks in the world. I wonder how that fits with a very lightweight presence in Asia and whether you need to have a much significant presence in Asia to be a top corporate bank in the world? And then I have got a second question!

SIR FRED GOODWIN: Before Johnny answers the questions in detail, can I kill off any M&A here that might get running as a result of that, Michael. (Laughter) I was not sure that was the bait I was suppose to take there! (Laughter)

Johnny!

MR. CAMERON: I think we are in most of the places in Asia that I feel we need to be, in fact, I think we are in all the places in Asia that we need to be to be a top ten bank globally. The key point about being a top ten bank globally I was trying to make was in a sense a product point. You have got to be there in global FX, in global bonds, in global debt. There is more to do in Asia but I am not seeing any need for new places.

MR. LEVER: Okay, thank you. My second question: one of the features clearly in this first half of the year was the fact that Royal Bank of Scotland wrote twice as much market share in leverage buy-outs as any other bank and I was wondering really why that was? I am sure it is because you are truly brilliant and much better than the other banks, but I was wondering where you was getting this market share from and who was actually losing it and why?

MR. CAMERON: Just for clarity, the league table we showed, which I assume is what you are referring to, was for all Structured Finance products and so it is not just leverage finance, it is across a range of Structured Finance products. But we have been a leader in leverage finance for four or five years now in Europe, so I am not sure we are taking market share so much as just maintaining our lead position which we have had for a number of years now.

MR. LEVER: But twice as much as the next nearest player? I am not aware you have been doing this consistently year after year.

MR. CAMERON: We have an interesting collection of businesses in Structured Finance which is, as I think Brian said, no other bank has a business or a division called Structured Finance. We have grouped these together for many years now - Iain Robertson put them together mid-nineties - and we have created a real centre of excellence there that means we have this strength across that range of businesses.

SIR FRED GOODWIN: I think we will take one last question and then we will finish. Oh, there are two. We will take Peter and then the other one. - is that Mike?

It is whoever gets the microphone first? We will get Peter in a minute and then that will be us!

MR. SIMON WILLIS (NCB Stockbrokers): It is Simon Willis from NCB!

SIR FRED GOODWIN: Oh, I am sorry, Simon!

Q9: Europe

MR. WILLIS (NCB): I have two questions if I could on Europe. The first one, could you give us an indication in terms of staff numbers an analysis by countries or at least an indication of the main countries there?

Secondly, and related to a degree, there is a slide which I think is slide 24, a matrix of customers by country, by region and also by financial institutions, large corporates and so on. And, Johnny, you boxed off the areas you were aiming to cover today and left a number of crosses in the bottom right-hand corner which included Europe, commercials and small business. It sounds like you are not going to comment on your evolving view in the light of HVB and UniCredito deal, but I wonder if you could give an indication as to what product areas you might see as areas of opportunity looking ahead?

SIR FRED GOODWIN: Brian, do you want to comment?

MR. CROWE: Firstly, on the numbers. There are about 500 people across Europe, slightly more in France and Germany and slightly less in Nordic, Italy and Spain. But it makes up 500 in total.

As far as the opportunity, we think we have got plenty to do in the customer segment called Global Banking and Markets. In terms of filling (a) there are more customers to come within that segment that we don't yet do business with and (b) perhaps more importantly we have established a lot of relationships we need to leverage to make sure that we are getting full value from as we do that. I don't think, certainly not in the near term, we are thinking a lot about either the Mid-

Corporate and Commercial space, nor new products that would be required if you were to go into the Mid-Corporate and Commercial space.

Q10: CDO's

SIR FRED GOODWIN: Okay. And the last question then from Peter!

MR. PETER TOEMAN (HSBC): One of the things that surprised me about the presentation is there is only one reference to credit derivatives and CDOs and, as far as I am aware, these are the faster growing component of debt capital markets. So am I right in thinking that the fact there is only one reference to them suggest you don't see these products as a particularly great revenue driver in the future or is it perhaps you think the risks associated with these products are too great?

SIR FRED GOODWIN: Brian!

MR. CROWE: No, I don't think either of those would be the case. We do CDOs. They were mentioned and we probably led about 20 CDO transactions in the last 18 months, something like that, across the US and Europe. The presentation gets quite long if you go into the structured credit world and try to explain individual products and so we thought it would be better to keep it simple to the debt capital market business sector, what is the core of what our client needs are on both the corporate and financial institutions space.

Clearly within the financial institutions space there is much more product within the structured credit world that we are involved in, I would not say we are a leader in, but we are involved in and doing good transactions with and we do see that as an area of future growth. That whole product area will be an area of future growth within the debt capital markets business over the next two or three years. (A pause)

Close

SIR FRED GOODWIN: Okay. Well, thank you all very much, ladies and gentlemen, for coming. We appreciate it. We will be outside. There is some lunch outside and we will be milling about outside and certainly if any questions occur to you as we progress then please let us know. Thank you.

(The proceedings then terminated).