

**RBS**  
**Moderator: Sir Fred Goodwin**  
**Thursday, 18<sup>th</sup> August 2005**  
**09:00 BST**

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

Sir Fred Goodwin: Thanks. Good morning, everyone. Thanks for taking the time to call in. As you'll have seen from the announcement, we have today announced a partnership, our exclusive strategic partnership, with the Bank of China. The features of it are set out in the press release. I think their company announcement issued to you, is fairly straightforward. It's an exclusive partnership across a range of business activities: credit cards, wealth management, corporate banking and personal lines insurance, spring to mind. Obviously for our part, there will be a number of areas that we will be providing support to Bank of China in risk management, HR, IT, corporate governance and so on.

Our participation in this, we'll be leading an investment of 10% in Bank of China: for which the consideration will be around US\$3.1 billion. RBS's own investment will be about \$1.6 billion, and we will be funding that effectively from the sale of our SCH shareholdings, so from our point of view it's capital neutral. It's about a 0.1 increase in our Tier 1 capital as a result of the transaction.

There are obviously a number of warranties and protections which we've received as an integral and important part of this transaction, and the transaction itself is subject to regulatory approvals. We'd expect it to complete by the fourth quarter of 2005. We are obviously pleased to be announcing this partnership today, because of the opportunity it opens up for us; quite a number of strategic options come from this. And it's, in no sense does it expand the risk envelope within

which we're operating, nor does it expand the amount which we have invested in strategic investment.

So on that note, if I turn it over to questions now and happy to try and answer any that you have. I've got Fred Watt with me as well, who will also help.

Operator: Thank you, Sir Fred. Ladies and gentlemen, if you would like to ask a question, please press the \* key, followed by the digit 1 on your telephone keypad. We will pause for just a moment, to allow everyone an opportunity to signal for questions.

Ladies and gentlemen, our first question today comes from David Raye of CSFB. Please go ahead.

David Raye: Good morning. I was just wondering how long the agreement will run for? What's the duration?

Sir Fred Goodwin: An agreement, there's no end date on the agreement. It is open ended.

David Raye: No, I mean on the co-operation side.

Sir Fred Goodwin: Co-operation, yes. There is a three year lock-in in relation to the equity investment.

David Raye: Ok, and then you have to give notice if either of you wants to pull out of the co-operation agreement or something?

Sir Fred Goodwin: Yes. I mean there are the usual sort of contractual means for parties to get out of that if those circumstances were to arise. But it is undated then otherwise.

David Raye: Thank you.

Operator: Our next question comes from Simon Samuels of Citigroup. Our next question comes from Simon Samuels of Citigroup. Please go ahead.

Simon Samuels: Hello. It's Simon Samuels here, Fred. Hi, morning. I've actually got four questions. One is whether you could just talk about the JV itself in terms of, you'd obviously list, I think, four different product areas: which ones of those, you're kind of most optimistic on, kind of near term? So that's the first question.

Sir Fred Goodwin: Why don't I do the questions one at a time.

Simon Samuels: Fine, yes, no problem. Yes.

Sir Fred Goodwin: Yes, as you say, we've listed four areas. They are by means prescriptive or restrictive, but they're the ones which most obviously come to mind. Credit cards: something we've been talking about for a while and we see that as being a real and near term opportunity; similarly wealth management. It's not to say we're going to rush off tomorrow and get started into either of these, but they do seem like real and present opportunities. Corporate banking, a number of different areas there: shipping, finance, aviation, infrastructure, project finance being obvious ones; trade finance opportunities, because obviously Bank of China has historically been a sort of external facing bank. So as well as being the eponymous bank in China, it's been the one with most external contacts and has got a bigger business built with those Chinese companies who export. So there is some significant opportunities for us there. Those would be the ones that come to mind just now, Simon. But the arrangement covers all activity.

Simon Samuels: Ok, thank you. Second question, I just wanted...you obviously talk about no plans to increase your investment in Bank of China further. Does that sort of therefore follow that if Bank of China were to raise new, fresh equity that you'd be very happy essentially to see your ownership dilute, because it's not about the ownership, it's about the JV? Is that the correct interpretation of that?

Sir Fred Goodwin: That is – I couldn't have put it better myself, Simon. We plan not to increase our shareholding, and if we get diluted – I mean, we would anticipate being diluted by the IPO, for instance.

Simon Samuels: Exactly, ok. Then just lastly on the area of the Group's capital ratios; just firstly, just to confirm your comments about your Tier 1 capital exceeding 7% at the year end. Can you just confirm that there is no plans for additional preference share issuance between now and then, given that comment?

Fred Watt: Absolutely no comment, Simon. You may see us doing the odd issue to repay some old expensive prefs, but no net new.

Simon Samuels: Ok, great. Thank you. And then lastly, I kind of imagine I know what the answer to this is going to be, but Tier 1 between 7% and 8% for the Group last time in February you described as being in the "maybe" category for share buybacks. Obviously at the results a couple of weeks ago, you said no plans for major acquisitions – and you're signalling today that obviously your Tier 1 ratio will enter the "maybe" range on the 1<sup>st</sup> January '06 basically with no acquisitions being anticipated or planned. So can you add anything to that earlier comment about 7 to 8 as the "maybe" range? Certainly on ours, and I guess other people's numbers, you're going to be comfortably approaching the middle of that range by the end of next year. I mean, are you prepared to say anything further on that topic?

Sir Fred Goodwin: The only further thing I'd say, Simon, is just to reconfirm all the previous things I've said, so I wouldn't be backing away from any of the things we've said previously. So I guess that – I think that answers your question. In other words, your general surmise would appear to be correct.

Simon Samuels: Ok, thank you very much.

Operator: Our next question comes from Mark Thomas of KBW. Please go ahead.

Mark Thomas: Morning, everybody. Mark here.

Sir Fred Goodwin: Hi Mark.

Mark Thomas: Just a couple of quick ones, if I may? In terms of the exclusivity, I mean there's obviously been a lot of press speculation that other banks may be taking stakes, including Merrill Lynch, as one of the partners here. What does the actual exclusivity mean here in terms of the relationship? Will there be no other banks taking strategic stakes or what?

Sir Fred Goodwin: Not as active, but the Merrill Lynch stake is obviously as part of a consortium, if you like, and it's a passive stake. So it doesn't give Merrill Lynch any rights to do anything or develop any business activity.

Mark Thomas: And are you expecting other banks in due course to come in and take stakes as well?

Sir Fred Goodwin: There has been some – I've seen some rumour and speculation to that effect, but not in any of the areas, not in any of the product areas that we are talking about.

Mark Thomas: Ok. The second question really is in relation to the earnings enhancement. I mean, how is this actually going to work through in terms of the P&L compared to what was being reported through Santander? I mean, is Bank of China going to be having a bigger dividend, or how will that actually work through the earnings accretive from 2006?

Fred Watt: Yes, I mean I think you're right on the button there, Mark. We anticipate, obviously, dividend policy yet to be set completely for Bank of China. We will clearly get some insight into what they might be thinking, and our assumption would be that the yield on that would be higher than the yield in Santander.

Mark Thomas: Brilliant, thanks very much.

Sir Fred Goodwin: Thanks, Mark.

Operator: Our next question comes from Simon Maughan.

Simon Maughan: Morning, gentlemen. It's Simon at Dresdner.

Speakers: Hi Simon.

Simon Maughan: Could you just confirm for the details of your co-investors, and then perhaps make a comment on the appropriate application of a Group IRR target to an investment in China.

Sir Fred Goodwin: Well, the other investors in our 10%, the 10% that we lead, are the Li Ka-Shing Foundation and Merrill Lynch.

Simon Maughan: And how much do they have each?

Sir Fred Goodwin: We probably wouldn't want to disclose that but you could probably...each a significant amount.

Simon Maughan: Right.

Sir Fred Goodwin: You can make a simple assumption.

Simon Maughan: Thank you.

Sir Fred Goodwin: And the application of the Group IRR: I mean here I'm not exactly sure where you're headed with it, but I mean you could make a case for having some other way to look at strategic investments, but coming back again to what I said, we're relatively simple souls so we try and just stick to one hurdle that we apply in these situations. So we've applied that and it meets that hurdle.

Simon Maughan: Yes, apologies. My point wasn't obvious. It was that many would apply a much higher hurdle rate to investments in the unknown, like China.

Sir Fred Goodwin: Yes, I think you've got to take the thing in the round though and just [drawing] attention again to the comment about warranties and protections that we have here. And this investment in no way extends the risk envelope that the Group is exposed to. So there are particular features around investment of this type, as you say, and we've taken those into account in our negotiations and discussions and have sought to obtain appropriate warranties and protections, and we believe that we've done so.

Simon Maughan: Thank you.

Operator: Our next question comes from John-Paul Crutchley of Merrill Lynch.

John-Paul Crutchley: Oh, hi. Good morning.

Sir Fred Goodwin: Hi J.P.

John-Paul Crutchley: Hi. It's just two clarification points really. Firstly, can you just confirm you do get an economic look through to the Bank of China Hong Kong stake as well, because I think the economic look through to that would be something like \$750 million? And secondly, I just wondered, can you comment on maybe if there's any currency hedging in place here, and I'm wondering if you do get further revaluation of the Renminbi whether that would give an uplift in terms of the value of that stake as well.

Sir Fred Goodwin: To the first point, yes, we do get look through to... Bank of China still owns two-thirds of Bank of China Hong Kong. I think there are people who would value it at slightly higher than the figure you've used. I mean from our point of view we're not doing this to get a loop through to Hong Kong *per se*; that's one of the ancillary benefits. As to currency: yes, I think any further revaluation of the Renminbi would work.

John-Paul Crutchley: Thank you.

Sir Fred Goodwin: Thank you.

Operator: Our next question comes from Ian Smillie of ABN Amro.

Ian Smillie: Morning. It's Ian Smillie here. Can I just ask a little bit about the comments on the plan, or the no plans, to increase the investment in Bank of China, and you've been clear on that; but in terms of your plans to increase capital investment in China, I'm guessing that the joint venture is



going to need a degree of capital from yourselves. Could you give us an idea of how much that could be and over what time horizon?

Sir Fred Goodwin: It would depend how it was structured, Ian. I mean, it wouldn't automatically assume capital from us actually, albeit that could be one of the models you would apply. It was direct with any, as a consequence, any sort of capital requirements and those would be driven by actual business being done on the ground. So we would think it would be pretty modest and incremental rather than of a step nature.

Ian Smillie: So we should be thinking along the lines of tens of millions rather than hundreds of millions on after a year timescale.

Fred Watt: You would have to make your assumptions, Ian, as to how quickly and how successful such ventures would be and to what extent they would draw, and to what extent we would have to support them.

Ian Smillie: Ok, but I guess just to clarify that there's no more money going into Bank of China, but there could be more money from the Group going into China or indeed elsewhere in Asia?

Sir Fred Goodwin: To follow a good business, that would be the case. Yes, but as I say it would be incremental and progressive rather than...

Fred Watt: Yes, in support of growth rather than further investments.

Sir Fred Goodwin: Yes.

Ian Smillie: Thank you.

Operator: Our next question comes from Robin Down of HSBC.

Robin Down: Morning, guys.

Sir Fred Goodwin: Hi Robin.

Robin Down: Just a couple of questions really on the – firstly, on the scope of the partnership. Is this limited purely to mainland China, or will you have access to Bank of China's overseas assets as well, and particularly I'm thinking of Hong Kong?

Sir Fred Goodwin: Yes, we've looked to work with Hong Kong as well, Robin. It's not confined to mainland China, and that's obviously one of the key areas of focus. But Bank of China actually has very extensive branch operations outside China, not just in Hong Kong. So it would include opportunities to work together there. That's why at its core it's a strategic partnership and so nothing sort of ruled in or ruled out, if you like.

Robin Down: And to the second question, I don't know at this stage how much colour you're prepared to give us, but in terms of the way that the sort of partnership is going to be structured in areas like credit cards and personal lines insurance. Would you envisage those being 50/50 joint ventures?

Sir Fred Goodwin: That would be the principal model for joint venture, but not everything need be pursued by joint venture and obviously there are some current restrictions and types of activity that can be conducted through joint venture in China. So that would be of, clearly would be of importance as well. So there could be other ways of co-operating short of joint ventures with equivalent stakes.

Robin Down: Thank you.

Operator: Our next question comes from Daniel Davies with Panmure Gordon.

Daniel Davies: Morning. Sorry, Robin's just asked my question, but I didn't know how to remove it from the queue.

Sir Fred Goodwin: Ok, that's fair enough. If you get any more come to mind just push the buttons again.

Operator: Thank you. As a brief reminder, to ask a question please press \*1 now. Our next question comes from James Eden of DrKW.

James Eden: Good morning.

Sir Fred Goodwin: Hi James.

James Eden: You said that you expect Tier 1 to exceed 7% by the end of the year. Does that mean you're not expecting a big hit from Enron?

Sir Fred Goodwin: The position in Enron hasn't changed from what was set out at the half year, James, or from what was set out in our full year accounts.

James Eden: Just that you continue to vigorously defend your position?

Sir Fred Goodwin: Yes.

James Eden: Yes, ok. Thank you.

Operator: Our next question comes from Richard Staite of SG.

Richard Staite: Hi. It's Richard Staite.

Sir Fred Goodwin: Hi Richard.

Fred Watt: Hi Richard.

Richard Staite: Could you just give us some more details on the expected timetable for a Bank of China listing, also any timetable in terms of when you would actually set up joint ventures?. I see HSBC recently started their credit card business. Are we looking at a sort of one or two years' time? And the third question, just on the stake in Bank of China Hong Kong, do you know what the expectation is in terms of the level of Bank of China mainland sort of stake there is going to be in the future?

Sir Fred Goodwin: Ok, on the IPO itself, I think you know the principle conduit for questions is obviously got to be directly to Bank of China itself. But you'll have gathered, I think you know, I know you understand the background to IPO's, and this being the eponymous bank, there is some enthusiasm to get on with this. So it's a top agenda item, I think it would be fair to say, for people at Bank of China. So I think as early as can be sensibly managed would be their expectation, and that would be ours. But it's something that has to be managed and has to be managed sensibly.

Timing for joint ventures: we don't propose to let the grass grow under our feet, so there will be a number of activities we can probably get on with relatively quickly, but at relatively modest scale initially. So it's not a sort of crash, bang, wallop approach. There are businesses here to be moved forward and we'll be moving to do that as quickly as we can.

Bank of China's stake in Bank of China Hong Kong is a matter I think you'd have to – you would just have to ask them, I wouldn't comment on that.

Richard Staite: Ok, thanks very much.

Fred Watt: Yes, as you know they own two-thirds of it at the moment.

Richard Staite: Yes.

Operator: As a reminder, to ask a question please press \*1 now. Sir Fred, there appear to be no further questions at this time and I'd like to turn the call back to you for any additional of concluding remarks.

Sir Fred Goodwin: Ok. Well, thank you very much, everyone, for calling in. We've covered quite a bit of it – I think we've covered all of the ground in the questions. But as ever, if there's anything else comes to mind, please feel free to give us a call and we are happy to go through it with you again. So thanks for calling in.

Fred Watt: Thanks all.

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