Royal Bank of Scotland
Moderators: Sir Fred Goodwin, Guy Whittaker
Wednesday, 6th December 2006
09h00 GMT

Operator: Good morning ladies and gentlemen and welcome to today's Royal Bank of Scotland Conference Call. Our speaker today is Sir Fred Goodwin, Group Chief Executive accompanied by Guy Whittaker, Group Finance Director. Please go ahead Sir Fred.

Sir Fred Goodwin: Good morning everyone, thanks for taking the trouble to dial-in. We're here obviously to talk about our pre-close trading update which I'm sure you'll all have the opportunity to read. I guess in the usual style it's pretty short and to the point, there are no hidden messages that we're trying to communicate, I think we tend to keep it nice and simple. The message I think is very clear that the Group is performing well and we would anticipate that our 2006 results will be slightly ahead of the market's consensus forecast notwithstanding the dollar rate fluctuations we've seen recently. The statement sets out I think the main features of that performance, a performance well spread throughout the Group. I don't think there's any new news in any of the paragraphs, it's just a continuation of trends which we've talked about before certainly at the interim results and the Investor Day but as ever Guy and I will be happy to try and pick up any particular questions or any issues you'd like to discuss, so probably the best bet is just to hand over to you now and we'll take your questions.

Operator: Thank you Sir Fred. Ladies and gentlemen, if you'd like to ask a question please press the * key followed by the digit 1 on your telephone keypad. We'll pause for just a moment to give everyone an opportunity to signal for questions. We'll take our first question from **Michael Helsby from Fox Pitt Kelton**. Please go ahead.

Michael Helsby: Thank you very much and good morning gents. Just a couple of questions on the corporate markets business. I was just wondering if you could just give us a comment given the investment what the pace of cost growth you're seeing at the moment versus income growth in those businesses and whether you've seen any of your traditional seasonal weakness in Q3 versus the first half of the year and if you could just give us a little bit more flavour, I think you described in the statement that it feels quite broad based in terms of the income generation but if any particular areas stand out there in terms of strength. Just in the Retail Bank you talk about you're doing a lot better in the mortgages area in the second half of the year, if you could give us a bit of a flavour for what type of market share you're doing in Q3, that would be kind. Thank you.

Sir Fred Goodwin: Yes, I think we can pick up those areas. Cost growth in corporate markets, nothing drastic, it's higher than it would otherwise be because we are investing in growth in the business but it's very comparable to the level of income growth so we're not trying to condition anyone for any unpleasant surprises there but we are investing so cost growth is keeping pace with income growth pretty much. It would be the sort of steer I would point out and again you've seen that trend in the first half in the business as well so there's no surprises there.

Relative areas of strength, we are strong pretty much across the waterfront in our corporate markets businesses. Again trends very similar to what we saw in the first half. Third quarter weakness wasn't an expression that was on the tip of anyone's lips, I'm looking at Guy, I don't think he's feeling inclined to make a comment that the third quarter was weak.

Michael Helsby: Maybe not weak but you normally step back. I'm just trying to get a gauge for the balance of the profits second half. Second half profits in corporate markets is normally lower than first half. I'm just trying to gauge, is it around about the same, that has happened every now and again.

Sir Fred Goodwin: Maybe if we were getting caught up, we don't normally do third quarterly anything so that's…for the second half I'm looking at Guy, I don't think there's anything.

Guy Whittaker: The second half feels pretty good and whilst income from trading activities will remain sort of very much the same proportions that it has been over time, the mood from the GBM folks are that the trading businesses have held up pretty well through the second half of the year.

Sir Fred Goodwin: Retail and mortgage market share, I think the last numbers I saw were around about 8% share of flow which is pretty close to our share of stock. Share of flow had dropped below share of stock in the first half.

Michael Helsby: Ok, thanks very much.

Operator: Thank you. Our next question is coming from **Jonathan Pierce from Credit Suisse.**

Jonathan Pierce: Good morning guys. Just one quick question actually on the extent to which some of the more fluffy items in the first half have continued into the second half, I'm specifically pointing to property disposal gains which were about £102 million in H1 and some of these investment gains in GBM which is slightly north of £400 million which in total was about 11p of the first half earnings. I'm wondering the extent to which they are holding up in the second half or if there's anything in particular to note in the second half numbers on those two items.

Sir Fred Goodwin: Fluff is not something we're normally associated with Jonathan, I wasn't conscious of there being fluff in the first half results. In any half set of results there are items, we sell things and there are gains and so forth. I don't think there was anything about the first half that we thought was abnormal and there's nothing in the second half that we would view as being fluffy or unrepresentative of underlying business anything other than sort of a sustainable flow of…

Guy Whittaker: I would add to that Fred in the divisional comment on corporate markets I think we talk about building a strong and sustainable position. The sustainable word was there for a reason, we think the level of activity is something which has durability to it.

Jonathan Pierce: Ok, thank you.

Sir Fred Goodwin: I've never been called fluffy before so I'm just reflecting on that.

Jonathan Pierce: Sorry, fluffy's the wrong word – more volatile should we say.

Operator: Thank you. Our next question is coming from **Peter Toeman from HSBC**.

Peter Toeman: Good morning. Fred, I think in the interim results presentation you talked about an underlying rate of revenue growth for the Group at 10% and an underlying rate of growth of costs of about 8%. I'm assuming that there's no sea change in those sort of organic growth rates and this pre-close statement and we can assume that what we saw in the first half…what we see in the second half is the same as the first half and there's no real difference in the performances of individual divisions.

Sir Fred Goodwin: You know my enthusiasm for steering towards particular numbers like that Peter but I think if I echo my opening comments that what you're reading about today or what we're pointing towards is something which looks like a general continuation of the first half and there are bits, divisional nuances in it which we've tried to point to in the statement but I don't think we're pointing to anything…you've seen the first half results, you've seen consensus forecasts and we're telling you we're coming in ahead of that.

Peter Toeman: I'm just trying to work out where you might have outperformed analysts' expectations.

Sir Fred Goodwin: It depends on which analyst you're comparing it to but it isn't a single point, that's a clue. As we look at it there are a number of places, so that's helpful.

Operator: Thank you. Our next question is coming from **Simon Maughan from Blue Oak Capital**.

Simon Maughan: Good morning. I just wondered if you could give us an indication whether you thought some of the strong growth you're seeing in non-interest income was a substitute for the squeeze in margin you've been seeing or whether you felt as interest rates and yield curves move back in your favour over the next 12 months hopefully maybe 24 you think all the non-interest income increases that you've had will stick?

Sir Fred Goodwin: Good question Simon. I'm not trying to avoid it but it does vary from business to business and product to product. It's undoubtedly the case that some of the businesses that we're moving into in global banking markets are more of a fee type of business rather than a margin type of business so that growth in non-interest income feels of a permanent nature. I also think that some of the areas, some of the product lines where traditionally you've had margined income and the margin has gone down and the fees have gone up, I suspect regardless of what happens to yield spreads going forward you will still see that shift in emphasis from margined income to fee income sticking but I'd equally accept, I think the thrust of your question that there are businesses in there where as yield comes back we'll see the yield coming back into our earnings and perhaps some coming out of non-interest income but it's difficult to give you a pinpoint answer to the question because all of the permutations I think are represented there. Again to avoid doubt I think yield improving would be something that we would view positively as a development in the market and something we think that is likely to happen.

Simon Maughan: Ok, thanks.

Operator: Thank you. Our next question is coming from **Antony Broadbent from Bernstein**.

Antony Broadbent: Good morning. In their Q3 update yesterday HSBC were talking about corporate loan margin pressure from competitive pricing as a result of extremely benign credit conditions as well as high global liquidity and they also referred to missing covenants in most loan documents being pretty concerning for the industry and we're speculating as to whether or not some of the business that is being written at the moment will be acceptable to the market placement. RBS has a reputation for more aggressive deals in the corporate space. I was wondering if you'd care to comment on what HSBC said and perhaps provide some reassurance about what's happening in your lending book.

Sir Fred Goodwin: It seems to me an odd thing to be saying at this point in the cycle because it's what we were saying in the early part of this year. I think if you look back at what we said ahead of the announcement of our interim results we made precisely those observations and certainly we've been in discussions with investors, we've been talking about it. If anything though I would suggest that both instances both in terms of pricing pressure and covenant pressure there has indeed been some moderation in the last six months or so. I'm surprised that it would be brought up as an issue perhaps at this juncture, it certainly has been an issue. There's nothing new about high levels of liquidity, you've said that about the corporate market for the last two years. Margin pressure has been around for the last two years and margins have come down as a result of that pressure. We now seem to have reached a point where there's a degree of greater stability. As for our own position you'll have heard me at the Investor Day and you'll have heard me at the interim results highlighting that we have no enthusiasm for taking unacceptable credit risk and I think you mentioned RBS's reputation. If you look back at RBS's reputation for credit and I'm touching wood as I make the comment it's a very good reputation, it would certainty stand comparison with others so we are careful about credit. Net net I actually feel that conditions for corporate lending at the moment are perhaps more stable than they've been for a little while in the sense that the pressure's still there but it's not getting any greater. Does that cover it Antony, is there anything…?

Antony Broadbent: No, that's covered it. Thank you.

Operator: Thank you. Our next question is coming from **Mamoun Tazi from Mann Securities**.

Mamoun Tazi: Yes, good morning gentlemen. Three questions if I may. Just a quick clarification about what you mean by slightly ahead of consensus. Are we beginning to have more than 5% or less than 5%? The second question is about the US, about Citizens. Have you seen any impact from the slowing housing market on the volume growth at Citizens? The third question is related to the buybacks. You've mentioned that you'll be done with the buyback by year end but I wondered if it was possible to mention anything going forward, will you have the intention of renewing it? Maybe this is a forward-looking statement before you comment on that.

Sir Fred Goodwin: I'll make a comment about 'slightly' and give Guy a go, if he wants to add to it then we'll pick up the others, but slightly means slightly. If it was over 5% as a purely technical matter we would have had to made some comment before now so it's rather less than 5%. I think the emphasis is on the 'slightly' word. Guy, I don't know if there's anything you want to add?

Guy Whittaker: No, I think that's us dutifully without any hard numbers put to it.

Sir Fred Goodwin: The US housing market impact on Citizens, well, clearly it has an impact albeit a slightly indirect impact. Citizens is not a big player in the first mortgage market in the US but the slowdown in the housing market, there's a reason for it slowing down and it has knock-on effects onto other businesses as well as banks and of course because we have a business banking business of some scale.

Mamoun Tazi: What I was trying to get at is if there's an indebtedness of consumers in the US, that could probably impact their propensity to borrow more and therefore that could influence your volumes even at the prime level.

Sir Fred Goodwin: I think that's what I was driving at was it not. I think the reasons for the housing market slowing down are not because people have gone off houses, it's pointed to a more general slowing down but a big part of our business in the United States remember isn't leveraged off of spending, it's actually leveraged off of savings. So we do cover the waterfront reasonable well but it's undoubtedly the case that a slowdown in housing in the US is something which is not great for the US economy and as a bank we participate in the economy so it's not great and that's embodied in the comments we've made about Citizens. On the buyback going forward you're quite right, we wouldn't at this stage be making any comment about what might happen in the future but I think what we are saying in the statement is that we continue to be capital generative beyond the needs of the business and therefore we would anticipate presenting the board with a full range of options for their determination in due course.

Mamoun Tazi: Great, thank you very much for your answers.

Operator: Thank you. Our next question is coming from **Ian Smillie from ABN Amro.**

Ian Smillie: Good morning gents, two questions please. The first one on Retail Markets, firstly when you describe the income growth there as good I was wondering whether you could give us a little bit more colour as to what's going on there and whether the end result is a continuation of the 6% top line that we saw in the first half or whether we should be thinking more about an acceleration there? The second question on Retail Markets is if you can give us some sense as to how much further potential there is for cost income ratio improvement?

Sir Fred Goodwin: I think as I was reflecting earlier we're not getting drawn into percentages at this point Ian, it's probably a little bit premature but we gave I think a pretty clear steer at the interims and even more so at the Investor Day recently. You'd have heard Gordon talking about the business and the indications of the strength we're seeing in Wealth Management as a separate part of the division, the strength we're seeing in savings and bancassurance, the strength we're seeing in business banking all of which are in Retail Markets as well as Retail. So I think we feel that Retail Markets has been considerably rehabilitated following the impact of the slow down in unsecured lending growth which took place late '04/early '05. I think what you saw in our first half results were a performance that was considerably superior to most of the other UK retail banks and we'd be quietly optimistic about how retail will scrub up in the second half. I'd be loathed at this point to get sucked into what percentage of the top line growth it's going to be. Suffice to say I think that really going on to the second part of your question, I think the shape of the Retail banking results will be good. There's not so much scope for cutting costs but we've got a platform there, we've made a lot of investment over recent years in terms of improving the efficiency of that platform so our ability to layer more income on top of what we have without increasing our costs by the same amount is quite noticeable and so it's particularly visible in Retail Markets, so it's not that we're not a cost cutting campaign, rather it's by investing and creating greater efficiency and greater capacity we're able to put business on without a proportionate increase in costs and I think you'll be able to see that quite clearly going forwards.

Ian Smillie: That's very clear, thank you.

Guy Whittaker: I would just add I think bringing together the Retail Banking and Direct Channels business has allowed for some sort of functional consolidation and some cost synergies to come out so a tight focus on expenses remains in that particular area.

Ian Smillie: Thanks gents.

Operator: Thank you. Our next question is coming from **Jon Kirk from Redburn**.

Jon Kirk: Good morning everybody, a couple of questions. The first thing, Fred, I think you mentioned that we are sort of rehabilitating following the slow down in unsecured lending. At the moment it looks to me like most of that rehabilitation is coming from mortgages and from the liability side of the business. Could you give an indication as to how sustainable you think those trends are? I've got a follow-up question on RBS insurance.

Sir Fred Goodwin: We feel pretty good Jon. I think it's one of the things that we, it almost stood to reason at the time that consumer borrowing was going to get to a certain place and then once people had bought whatever it was we're going to buy, they'd swing back towards savings felt what was likely to happen and it has been happening. It doesn't feel like a boom or something completely unsustainable but a lot more people are saving money, a lot more are making provisions for longer term saving through some of the products we sell through bancassurance. So it feels fine, again it's picking up from what has been a relatively modest base over recent years so it feels fine. Business banking feels fine as well. The mortgage piece is probably the one that you would split into two parts, our branch mortgage business we continue to build and that's with the highest value-add part of the mortgage business. At headline risk-weighted asset level the amount we put on through the broker channel can catch the headlines from time to time but it adds less value and it's probably more volatile in a sense, depending on how pricing is in the broker market our enthusiasm tends to be complete or non-existent and little in between. So that part is volatile but it doesn't contribute so much to the earnings so I'm not trying to signal any concerns about the momentum in Retail.

Jon Kirk: So is it the mortgage business that's the sort of predominant offset to the unsecured business at the moment rather than the savings?

Sir Fred Goodwin: It's the predominant offset obviously in terms of risk weighted assets and from a balance sheet point of view it's the thing that replaces the growth in unsecured, but in terms of earnings it's liabilities, liabilities and liabilities, followed by money transmission, followed by business banking. The mortgage contribution there is less significant.

Jon Kirk: Ok, thanks. Just another question, on RBS insurance, obviously we are well aware of what's going on in the claims environment at the moment and there's been increasing amount of discussion and a slightly more bullish comment I think from you guys as regards to premium pricing at the moment. Are we at the point where the growth in earned premiums as reported in your divisional disclosures, are we at the point where the growth in earned premiums is actually higher than claims yet or is the claims ratio still increasing effectively?

Sir Fred Goodwin: I think claims would still be higher than the increase. Price increases take a little while to feed through in that business as you know. There's a definite feel of firmness about the market at the moment, I think some of our competitors made some comments, Norwich Union in particular and I think we would echo not so much the specificity of their comment in terms of percentages but certainly the market, the pricing feels as if it's firmer than it's been for a while and moving upwards and we are really supportive of that.

Jon Kirk: Is that something we should expect to be reflected in your P&L next year or will it be later than that?

Sir Fred Goodwin: You would hope it would be coming through by the back end of next year.

Jon Kirk: Right. Ok, thanks.

Operator: Thank you. Our next question is coming from **Tom Rayner from Citigroup.**

Tom Rayner: Yes, good morning, it's Tom Rayner here. Just really a question on the outlook statement. You mentioned that you'll continue to invest and generate surplus capital. I'm just interested on the basis on which you calculate your capital as being surplus in terms of the core equity ratio you feel appropriate and also the uses of that surplus capital – I know you've sort of partly answered this question already but when you recommend to your board I'm quite interested to know whether share buybacks is likely to be higher up on the list than maybe increased dividend payout.

Sir Fred Goodwin: I'll give it to Guy just so you hear the same message but from a different voice.

Guy Whittaker: Good morning Tom. There has and I think we've discussed in the past, the Tier 1 in the mid sevens. Our equity component of that has risen from the low 4s to 4.9 at the end of last year, it was 5.1 expected at the end of this year and next year we'll I think expect to see a further few basis points increase as the preference share component comes down to something in the 30% or slightly below area towards the end of next year and that's very much consistent with the 25-30% operating range that we've talked about for the medium term as an appropriate level of gearing and we've not done anything to change our thinking on that at this point. Then to wrap up in terms of the choices for next year that's a discussion that we will be having with the board in January and presenting all the options to them at that time in the context of both the '06 results and the '07 budget.

Tom Rayner: Ok, thanks very much.

Sir Fred Goodwin: I guess Tom to try and be helpful in terms of where things would appear in the list, it's not going to be a long list, is it? There's do nothing, dividends, buybacks – that's it. So you wouldn't really worry about being down that list and you're not going to miss consideration.

Operator: Thank you. Our next question is coming from **Simon Samuels from Citigroup.**

Simon Samuels: Thanks very much, it's Simon Samuels here at Citigroup, good morning. Two questions actually, first of all I just wanted to go back to that question on the Retail Market performance and the reason for asking it is because I think this could be quite a…well, it's obviously a big part of the Group and I'm trying to reconcile what's a lot of very positive language in the trading statement today with what I'm guessing most people are looking at in their numbers because the second half of last year, the second half of '05 saw a nice uplift in revenues in the Retail Markets division. Cost growth didn't go up, cost:income didn't go up very much and bad debts didn't go up very much. My point very simply is the year on year comps in Retail Markets get harder and harder as this year develops yet notwithstanding that you're talking about good revenue growth, costs under control, growth to bad debts is slowing so when we look at the half year stage, 5% growth in profits and Retail Markets, is it realistic to expect an acceleration from that for the full year? I know you don't want to get drawn too much on numbers but it's such a big swing factor and the second half of last year particularly was strong. Maybe you can just confirm that you are indeed building on that second half of '05 number?

Sir Fred Goodwin: I don't know if Guy wants to open the batting and I'll add anything if needed.

Guy Whittaker: I think just looking at H2 '06-H2 '05 numbers, I think some slightly lower rate of increase they've posted off the very strong numbers in the second half of '05 last year. I think it would be natural to expect full year results to come in very much in line with the first half which would then point to a slightly slower growth rate in the second half of this year and good momentum going into '07.

Simon Samuels: Ok, thank you. The second question I had was to do with the performance in the second half of the year. Now I'm going to put numbers into your mouth which I'm sure you're not going to want to publicly confirm but I mean when a company says they're slightly ahead of consensus, everybody knows that means that's more than a percent and clearly less than a material number, so less than 5. So if for argument's sake it was a couple of percent, it's all obviously happened in the second half of the year which would mean your second half number could be running 4-5% higher than consensus second half numbers, so it feels like this actually is a more meaningful divergence against consensus and my question really is: is that just because back in August we were all too bearish and you secretly knew the number would be coming through a bit stronger or has the second half developed in a slightly different way from what you were thinking back in August such that it might be the second half numbers are going to be somewhere between 4-5%, maybe higher than is currently forecast by the market.

Sir Fred Goodwin: I hope you're not suggesting we would keep secrets Simon, that's a terrible thought. I wouldn't exactly as you invited me not to do at the start, I wouldn't want to get sucked into confirming or denying whether we are, something has or hasn't happened. I think if you just take the statement in its simplest form we are saying we'll be slightly ahead of consensus. As you say as I pointed out in the answer to a question earlier on this morning, if it was 5% we'd had to have done something before now as opposed to just blurting it out and you would have to think that at 1% it's hardly worth mentioning and you can work it out from there. But as to how consensus has evolved to where it is today from where it was at the half year you would need to ask your colleagues as much as you need to ask me, but certainly our view of the business tends not to change dramatically over time. We have our forecasts, our budgets and all the rest of it and from the interim results which we thought were pretty good to now there has not been a drastic sea change in how we've seen the business. As ever though when you're looking six months ahead in the world we live in, it's not hard to think lists of things that could go differently. Clearly as the year has unfolded our degree of confidence about this year's results has grown but that's applied to every single year's results. I don't think it was the case at the half year things have turned out differently from how they looked to us at the half year but I think events have unfolded pretty satisfactorily in the second half of the year, I think that would be fair to say and we think the outlook's pretty satisfactory too. It's not all beer and skittles either as I hope the comments today in the trading statement highlighted. Some divisions have been facing headwinds during all of this but the Group principally by virtue of the diversification we have across the Group continues to deliver good results and I don't think there's anyone internally who's greatly surprised by where the numbers have turned out relative to what they thought at the half year.

Simon Samuels: Great, thank you very much.

Operator: Thank you. Our next question is coming from **Mike Trippitt from Oriel Securities**.

Mike Trippitt: Good morning, it was a question on capital actually. I think at the half year stage or certainly at the trading update, half year stage I think you talked about securitising of short £5 billion of mortgages and £3.5 billion of corporate. I just wondered if you could update us on where we are now or what the assumptions are on securitisation that's in your capital forecast for the year and really just your thoughts on how that market is shaping up and what your appetite is for securitisation in '07?

Guy Whittaker: I think full year we expect across the Group to have securitised close to £20 billion worth of assets comprising of principally mortgages and credit cards, most recently with actually a deal in Ireland, the Celtic 11 which was priced earlier this week at €3.85 billion. I think that's very much part of our toolkit now for overall balance sheet and capital management and consistent with keeping Tier 1 ratios in the mid-sevens and making sure that balance sheet growth is appropriately profitable. I would expect that securitisation will be very much part of the framework for 2007.

Sir Fred Goodwin: I think it goes back to one of the earlier questions about spreads. If credit spreads started to increase then you may well see that market started to dry up. The relative attractiveness of holding some assets might improve, but at the moment it looks more likely that we're set to continue on this path. There's plenty of demand for the sorts of assets we can originate.

Mike Trippitt: Ok, that's great. Can I just actually follow-up on that? You've talked about the Group's increasing distribution capabilities. Are you seeing that as sort of more syndication above and beyond securitisation or is that all part of the same comment really?

Sir Fred Goodwin: It's all part of the same thing really Mike. We don't have any particular preferences; it's purely a matter of economic mechanism of other people's price of capital.

Mike Trippitt: Ok, great. Thank you.

Operator: Thank you. Our next question is coming from **Robin Down from HSBC**.

Robin Down: Hi, I just wanted to get a bit more colour on your commentary on the savings side within the Retail division. I think you're the second bank in this pre-closed trading season that's mentioned retail savings and I was just wondering whether you felt it was more volume driven or whether you're starting to see margins improving in that business? Perhaps if it's the latter whether you think that's just purely a function of interest rates or whether you think there's some more structural drivers perhaps that will lead savings margins higher over the next 12-18 months.

Sir Fred Goodwin: I think it's more volume Robin. I think the margin movements in that market took place mainly in the second half of '05, I remember saying at the time I announced the full year results that we had seen some quite sensible pricing moves in the market and those in the main stuck. It's still pretty competitive but it's rationally competitive at this juncture. So our comments today are aimed more at volume than anything to do with margin. Margins have been fairly steady and one of the issues that it does bring for us is in a mix effect. A lot of the margins in these savings products are less. The more we do it reduces our margin because of a mix variance. The actual inherent product margins have looked pretty stable.

Robin Down: Good, thank you.

Operator: Thank you. Our next question is coming from **Robert Law from Lehman Brothers.**

Robert Law: Good morning gentlemen, I had a couple of questions on personal credit. Just briefly, I know you don't do sub-prime but could you comment on what you think the credit outlook in the US is; and secondly in the UK after HSBC's comments yesterday about IVAs etc, you've been more positive certainly in tone about the trend in credit losses continuing to moderate. What does it take for credit losses to stabilise and even come down and when do you think that might be?

Sir Fred Goodwin: To that latter point Robert that may be happening, it would be a throwaway observation. In terms of working backwards through the questions because I started at the end, the IVAs, the numbers are not so huge, it's 25,000, 26,000, 27,000 in the last quarter. Four times that still doesn't seem like a national emergency. I think the important thing to recognise is that following a period of record levels of unsecured lending, everything and anything to do with unsecured lending will be at a record just now apart from new business. Repayments are at a record level just now if you're interested in knowing, it just doesn't have the same traction of the IVAs. The IVAs, you can only avail yourself of an IVA if you're insolvent and if you're insolvent the best thing you can do is actually get the situation dealt with as quickly as possible. So I don't see IVAs as a major driver of where we are or a major detriment to the outlook for our book. As I say I think the comments we've made maybe give you a clue as to where we think we are in the cycle.

Robert Law: Can I just amplify that in what you've just described as a throwaway – you said that may be happening. Could you just expand on that a bit?

Sir Fred Goodwin: I think we've said in the trading announcement itself, growth in unsecured and permanent losses continues to moderate. It won't continue to moderate for very long before it starts to come down. The actual levels of new business are slowing so you've seen that in the numbers as well, so the book itself is shrinking. I'm not trying to be clever but if you join the dots together…

Robert Law: Do you see a realistic prospect of personal credit losses being lower next year for example?

Sir Fred Goodwin: Well, the rate of growth is moderating. We were looking at in the first half a rate of growth of 17-18%...

Guy Whittaker: 19% in the first half and I think consensus numbers if I recall are about 14 for the full year, so I guess if you can do maths and average out you can get a sense of what moderating means in terms of the trajectory of growth and impairment losses and obviously the first step along the way from moderating growth is to flat and I think that happens before anything starts to improve, so...

Robert Law: I haven't done this but is the second half pretty flat compared to the first yet or not?

Guy Whittaker: I'm not sure I understand the question exactly as you've phrased it so I don't want to give a misleading answer. What are you trying to say?

Robert Law: What I'm saying is: is the credit loss charge in Retail in the second half pretty flat compared with the first?

Guy Whittaker: I think what we're saying is the growth in impairment losses is moderating so that would imply that it's still growing but the rate of increase is less.

Robert Law: Ok, and in the US?

Sir Fred Goodwin: As we sit here today Robert the metrics are still good, the metrics are stable and I think we've picked that up in the statement as well. As ever the question in the US is where does the economy go from here, but as we sit here today the underlying credit metrics remain stable. Bear in mind, not that you were kind enough to highlight the fact we don't do [sub] prime in the US. We don't do unsecured personal either in the US of any magnitude – a very small bit in the credit card portfolio.

Robert Law: Ok, thank you.

Operator: Thank you. Our next question is coming from **Michael Helsby from Fox Pitt Kelton.**

Michael Helsby: Thanks, hello again. Just a couple more, I know the guidance that you're giving includes the dollar impact for this year. I know historically I think you've said after the preference coupon you've said every ten cents on the average dollar rate roughly knocks about 1.5% off Group earnings. Is that still the case and just another one on the margin, clearly we've had interest rates going up in the UK. Within your margin guidance for the year could you just tell us how much of a benefit you've had from the change in rates both on your free funds and just on the whole management process please?

Sir Fred Goodwin: To the latter point no, it's never quite as simple as that Michael so rate movements have an impact but I wouldn't have a number that you could put across the whole business and say that was the benefit or this benefit of a rate increase. I'm looking at Guy and Richard, I don't remember dishing out a comment on the impact on earnings and percentage movement in exchange rates to be honest.

Guy Whittaker: We have said in the past and you mentioned it was a $0.10 move [Michael], actually that's only a 5% move, it's a 10% move, so that would be a $0.20 move, obviously $2 to the pound. So a $0.20 move is about a 1.5% after tax impact as we've got about $20 billion worth of preference shares and noted debt in the capital structure which helps offset some of the weakness in the dollar income stream that we have from various businesses.

Michael Helsby: Ok, thank you.

Operator: As there are no further questions I will turn the call back to Sir Fred for closing remarks.

Sir Fred Goodwin: Thanks very much everyone for listening in and for all of your questions. I'm sure there'll be more questions as the day unfolds so we'd be very happy to try and answer them if you want to give us a call. If I could just echo again my opening remarks that the statement is meant to be positive, I think there's no new news in a sense, it's continuation of themes but it's certainly the case that the consequences of that take us to a place where we would anticipate our results are going to be slightly ahead of market consensus. So I hope that's been useful and we look forward to talking to you later. Thank you, bye for now.