



Duration: 01:23:48

## Annual Results 2007

P R O C E E D I N G S at an ANALYSTS CONFERENCE

of the Company held at 280 Bishopsgate

London EC2 on Thursday 28th February 2008.

### Presenters

- **Sir Tom McKillop (Chairman)**
- **Sir Fred Goodwin (Group Chief Executive)**
- **Guy Whittaker (Group Finance Director)**
- **Johnny Cameron**

**Sir Tom McKillop:** Good morning ladies and gentlemen and welcome to our annual results presentation. 2007 was quite a year in banking, but it has been a very good year for RBS. Our businesses are performing very well and delivered a record group operating profit of £10.3 billion up 9%. Adjusted earnings per share were up 18% to 78.7 and the Board increased the dividend by 10% to 33.2p for the full year. So very good operating performance.

In addition to that, we acquired ABN Amro together with our friends in Fortis and Santander. Now you'll hear a good deal more about that and what it means for the group going forward from Fred and Johnny Cameron. But firstly I'd like to hand over to Guy to take you through the results in more detail.

**Guy Whittaker:** Thank you very much Tom and good morning ladies and gentlemen. 2007 was a very strong year for the group. Operating profit at £10,282 million was up 9%; profit attributable to shareholders rose by 18% to just over £7.3 billion; adjusted earnings per share rose by a similar amount; our return on equity increased to 19.9% and Tier 1 capital ratio at the end of the year was 7.3%. These results incorporate many strong performances across many of our businesses. They also incorporate the 76 days that we acquired ABN and they incorporate a number of moving parts; and what I would like to do is run through the results on RBS excluding ABN on a business as usual basis. Look at some of the unusual items which occurred throughout 2007; talk a little bit about the ABN business that we acquired and then hand over to Fred who will talk about the enlarged group; the revised organisational structure and the outlook.

Group income grew by 3% in 2007 principally driven by a 7% rise in net interest income as margins across the group stabilised or in some cases even widened. Our costs were brought down by one percentage point and our cost income ratio fell to I think a record low of 40.7% down 1.4 points. We saw a stable corporate credit environment; we saw declining UK impairments; we saw a slight uptick in impairments in the United States, but overall our risk elements in lending fell from 1.57 to 1.49% and credit costs declined 1% to £1.86 billion. As a result our profits rose by £884 million or 9% to just under £10.3 billion.

Once again, I think these results demonstrated the strength, the flexibility and the diversity of the business model that we operate. There were good performances within all of our divisions and there were some particularly strong collective performances in UK corporate banking, in the retail division, in wealth management and in Ulster; and I'll now walk through each of those divisions.

In many areas of our global banking and markets division had a very good year indeed. We saw a 33% uplift in fees on origination and distribution of loans and bonds. We saw a 67% growth in our combined rates and currencies business. We saw almost doubling of income and profits in Asia; a 39% year-over-year improvement in Europe, building on a long succession of growth in these markets.

We also took advantage of very favourable market conditions to realise a number of gains and dispose of a variety of assets throughout the year. However, as you can see from the headline numbers, these results were held back by the second half write downs in the credit markets, absent the extraordinary effect of the gains and the write downs, the underlying business in global banking grew 10%.

As we highlighted at the trading statement, we took a number of marks related to credit markets principally in the second half of the year. We remain comfortable with the markets marks that we took at the trading statement and we remain so. However, in the light of the weaker credit profile of some of the mono line financial guarantors that we had exposure to, we announced this morning an additional £450 million write down to our exposures to these counterparties. So if you take the £950 million number that we talked about at the trading statement, you add about £150 million or so for the first half write downs that were incorporated in the results that we shared with you back in August; and the £456 million as of today, you see total write downs to the credit markets netted out at £1.6 billion. You take the costs associated with these deals out of the profit line, it impacted our profits by about £1.1 billion.

On the positive side, the gain on Southern Water, the sale and leaseback and the sale of our small equity holdings in both the London Stock Exchange and Mastercard realised gains of around £1.4 billion and again stripping out the costs and also allowing for some goodwill payments that we made out of the group centre over the course of the year, have added about £1.1 billion to our profit, the net effect of these gains and write downs impacted the group operating profit by a positive £24 million.

The slide behind illustrates now the combined exposure that we had as at the end of the year to these instruments, and so they were marked at the time of the trading statement and we remain comfortable with the RBS marks that were applied to that portfolio.

In the year end review, we looked at the ABN high grade super senior CDO and we took an additional ten percentage points write down to that, marking it down from 90 to 80 and that's incorporated in the weighted average price that you see in the top right hand corner of this page. Let's just say the aggregate ABN combined year and exposure to both our CDO

exposures, all sub prime inventory and the residual securitisation activity and our leveraged finance book.

Just heading back into the divisions. UK Corporate Banking had a great year; profits grew 11% to almost £2 billion; it is the leading corporate and commercial bank in the UK. It is relationship driven, top rated for customer service by its clients and gaining market share. We grew income by 8% or just over £3¾ billion. We are continuing to invest in the future. You can see impairment costs declined to very careful management of the risk profile and a business which once again has delivered the results.

We saw a very good performance in our UK Retail banking division, again leading customer satisfaction scores almost one million new accounts added in 2007. The leading position in UK current accounts. The cautious approach to lending which Gordon has talked to you about over the last year or two, has led to a 9% decline in impairments on a year-over-year basis. On the other hand we've seen a very strong growth in savings and investments with income there up 14%; our bancassurance annualised premium equivalents grew 28%; our deposit base grew by 11% again exceeding growth in loans in this particular area. We kept a tight reign on costs and saw improving margins coming through in the second half, momentum in this business feels strong into 2008.

Wealth Management saw income rise by 16% to just over £1 billion and profits rise by 30% to just over £400 million, led by growth in our UK Private Banking and in Asia. A very good mix of business here around 70% of our income derived from banking activities and about 30% comes from investment activities. Assets under management grew 24% over the year; we continue to invest in physical distribution here in the UK and abroad and we continue to be recruiting private bankers with a growth rate of 12% on a year-over-year basis.

It's a similar and quite familiar story now of growth and investment in Ulster Bank; income up 15% to £1.3 billion; profits up 22% to over £500 million; good growth on both sides of the balance sheet, deposits up 17%, mortgage lending up 17% and we're starting to see real momentum coming through on the corporate side of the business there with good growth in capital markets in conjunction with GBM colleagues in Europe and around the world and good growth in business lending which saw

29% year-over-year increase in volume; credit metrics as evidenced by flat credit costs remain very strong.

The Citizens group, I think you would describe it as a resilient performance against a weaker economic backdrop. After a number of years of declines, net interest margins started to widen in 2007, this led to net interest income growing by about three percentage points on fairly modest balance sheet growth. We saw good progress in our corporate and commercial expansion, with lending up 13%; we kept a very tight reign on costs and profits before impairment lines were up over five percentage points. However, I think it's the stand out number on the page from historic lows of around 30 basis points, we started to see some rise in impairment costs in 2007. In part these were due to planned growth in the corporate lending book, in part of course related to the weaker housing market and also in the fourth quarter, in some considerable part to build our reserves in that business. Overall the portfolio remains very high quality, our retail customer FICO scores on average are above 700.

RBS insurance, it was actually a very good result overshadowed by the floods and very good underlying improvements to the business performance really built around three areas. Firstly, much tighter control on costs and improving productivity. Secondly, a sharper differentiation between our own brand distribution channel being managed for growth and our partnership distribution channels being managed for profitability and over the course of the year we have exited some of these partner distribution channels. And the third element is built around improved risk selection, moving away from volumes at any price in what is a very competitive market, to looking at segments of the market which offer more attractive risk and return characteristics; this will be evidenced although distorted by the floods, our net claims exceeding the floods actually fell by seven percentage points and I think that and dare I make the pun 'weather permitting' the outlook for 2008 seems somewhat brighter for this business.

Our Manufacturing, I think is testament to our operating model and almost flat costs, at least support costs were flat on a year-over-year basis; we continue to invest in technology and in property, that led to a 1% overall rise, but I think very much underpinned the growth that we saw right across the group and a major factor contributing to the 1.4% decline in our cost income ratio that I mentioned earlier.

At the group centre net of goodwill payments, we were the beneficiary of roughly £500 million worth of the previously announced gains, the sale and leaseback of some properties, the London Stock Exchange and Mastercard and the fair value adjustments to the carrying value of our own debt. The group centre also benefited from the receipt of about a £60 million dividend from the Bank of China and some slightly reduced pension funding costs as our pension fund moved into surplus.

For the ABN Amro businesses that we acquired; an operating profit of around €640 million for the year off income of just under €7 billion; kind of in line with where we thought they would be and probably is slightly ahead of the equivalent number last year, we saw some year-on-year improvements in equities, in rates and currencies in some of the local markets activities. We saw a 7% rise in transaction banking; our international retail customer base grew by about 12 percentage points, but as you've seen from the very earlier slides an 86% cost income ratio is something with which we are not familiar at RBS and not surprisingly in the time of ownership we have identified some additional synergies which Fred will talk about later.

We ended the year with a balance sheet of £609 billion worth of risk weighted assets; a core Tier 1 ratio of 4.5%, with Tier 1 as I mentioned earlier of 7.3% and total capital of 11.2%, consistent with previous guidance that we had given; our return on equity rose to 19.9%.

And in summary, before handing over, I think 2007 I would categorise as a year of strong organic growth for the group, improved operating leverage, declining credit costs, increased returns and enhanced opportunities and to talk to you about some of those opportunities I will hand over to Fred. Thank you.

**Sir Fred Goodwin:** Thanks Guy. Good morning everyone. A lot of moving parts, a lot to absorb, and places something of an accounting fest and in my section this morning, I am trying to strike a balance between bringing some context to those and to what's been going on in the group and to give a sense of how we see the future; but also to leave plenty of time for questions at the end, because I know that you've all got a lot of things you want to ask. So, I am erring in favour of the latter, so I'm going to try and move through the gears here pretty quickly. I'm happy to go back over

any of this or pick up any questions at the end. But a few things I think would be helpful.

But starting off with a housekeeping point about the group structure. I know that many of you don't like it when we change the group structure, it doesn't make like easier for your models and the ability to predict what we're doing, it honestly doesn't make our life very much easier either, which is why we've stuck pretty much with the group structure for the last 7 or 8 years now, it's served us well, but there have along the way been one or two minor amendments to it, but we've tried to stick pretty much with this.

The world's moved on though; our business is very different now from where it was then and obviously the acquisition of ABN Amro does make a big difference. So, with a little reluctance we have moved from our historic model to a new model which causes the numbers to change. The new model and I'm not going to go through it in any great detail, simply reflecting the fact that we have some genuinely global businesses now, we recognised that a couple of years ago, we set up GBM – global banking and markets – simplistically is the business that deals with ocean going companies regardless of financial institutions, regardless of where geographically they are based. We now have a very significant global transaction services business which Johnny will talk a little bit about in a minute. Regional Markets are all of our other businesses where the focus on managing them will continue to be regional. RBS Insurance comes through this unscathed; and we continue with the very successful manufacturing model which will cover our global operations.

We're not going to go through this slide at all, this is a wiring diagram or knitting pattern which you will need to begin to make sense of the numbers that we published at the back of the company announcement today, its restating all of our comparatives along the new lines for 2006 and 2007. We will be working with you, Richard O'Connor and his team will be happy to work with you there, help walk you or talk you through this and we will do some investor days later in the piece to walk you through. I think altogether more importantly the actual businesses which sit beneath these divisions. So that's all I'm going to say on that for now.

I want to just give you a quick sense of what these sorts of metrics and dynamics in these business units, some very big business units, moving at

some pace as you will see from the slide. Mostly the global transaction services are payments business, our merchant acquiring business, will be one of the top three, four in the world in that business, punched in just over £1.6 billion profit during 2007. I think a business we've always been in but it's been kind of hidden and obscured in the numbers, ABN were one of the top global participants in that particular activity.

The acquisition of ABN Amro. Again, in the interests of time I'm not going to go through all of the clocks and dials about how every single thing is going; I'm very happy to answer questions as I know Mark will be and others. But I think the main news is that with our view of all of the businesses, the positive view we have of the ABN businesses has been confirmed; and we have a very good engagement with the Regulator in the Netherlands and indeed elsewhere and with the staff councils, the works councils, a very good and important relationships in both cases. And as we've gone around you'll see bits of this over time, as we've looked at the mechanics of separating out some parts of the business, some of them just, the practicalities and the economics of separating some of the businesses in some of the countries just don't make sense. You will have seen announced, just before the year end, we sold Global Clients Brazil to Santander, a transfer to them for about €750 million. There will be one or two other little things as we go forward but nothing drastic. And of course one of the key activities has been validating our business plans, transition plans and of course the synergies.

And looking at ABN Amro, just reminding ourselves, everyone, is the €71/72 billion figure has been much syndicated and socialised. But, it's worth coming back to how we see this in the RBS perspective, because we, although we bought 38% of the business, actually the part of what we bought was cash, the LaSalle proceeds, net of the net assets. So, our share of the considerations was just over €16 billion. Our share price came down from the point at which the offer was struck through to when the deal was completed, we made the sale of Brazil. So it brings us round to an acquisition price of about £10 billion which was made up of about 25% equity and the rest in cash. Probably just worth having those numbers in your mind because I think it's stopping someone in the street would have probably guessed a rather higher number there for what our acquisition cost of ABN Amro actually was.



The cost synergies, probably the easiest piece to imagine and get your mind around. We have gone in and we validated the estimates and remember these estimates were prepared from outside the business, they were prepared and then we published them, they're actually lower than the equivalent numbers that were mentioned by Barclays. There haven't been any Eureka moments here, there haven't been you know gosh we've discovered a whole new thing. I think actually that's probably quite good news. In fact what we've seen are developments of the themes which were identified initially and an ability to put much more precise figures on them. But part of the joy from our point of view is they're all really rather mundane, even in the purchasing arena. I cannot think of anything more mundane purchasing synergy than in stationery, where we were able to procure stationery at 20% less than ABN Amro and so it reads across IT, not all 20% in every case, but in hardware, software and a variety of other areas. So, nothing in here that's a silver bullet, Eureka type additional synergy, just routine mundane run of the mill synergies which I think, as I say I find deeply reassuring.

Also I think deeply reassuring and in sharp contrast to the equivalent situation in Natwest, there isn't a single huge synergy in here. You will remember the many happy hours we spent debating the IT issues around Natwest, and so much hung around our ability to make the IT integration work. Here you can pretty much take the synergies and divide them into the total and come away with a sense that there are lots and lots of small things, so they all have to go well and it's unlikely that they'd all go well. We're confident enough in that number to increase the target today based on all the work that we've performed.

On the revenue synergy side, always a slightly more nebulous concept, I grant you. Probably the big, the most obvious piece here is that at the time of the takeover, you'll remember we said we didn't make any assumptions about synergies in the retail businesses, we couldn't get our mind very well around the international retail businesses, the big retail businesses which there were in Asia. We can do that now and you'll see a big part of the synergy comes simply from that, including a synergy where there wasn't before. Again, considerable confidence around our ability to deliver these synergies. And again, no big silver individual silver bullet items, no Eureka moments since that, since the bid.

Again, somewhat abstract and theoretical nevertheless, but just had we known those synergies at the time, those are how the model metrics would have looked, particularly what were already very attractive and I think making them more attractive, somewhat abstract I grant you.

Common sense check in all of this, so supposing we did achieve those synergies, does it take us to a ridiculous place, well actually no you could argue, they take us though not all that impressive a place by achieving all of those synergies and sticking them on top of the 2007 numbers, underline 2007 numbers, we only get to 61% cost income ratio, which doesn't feel to me something that we would bragging about. But at least from the point of view validating the synergies, I think it's a good of a test, a cross check as any.

Much more we could talk about in ABN Amro as I say I'm very happy to take questions, but in the interests of time we'll just move through it. The outlook, predicting a future as a topic you know that I often try to avoid, in fact do avoid, but it's quite reasonable and rational that we should all be thinking about the future, arguably more so than ever at this particular juncture. To look at, well historically I've looked at these numbers, I'm not going to spend a lot of time looking at these this morning, other than to point out the obvious perhaps, that things do tend to turn out better than you think. This time last year our view of economic growth, actually the consensus view of economic growth turned out to be understated everywhere except in the United States. So there's the forecast for 2008 as we progressed through 2007 have moved, it's difficult to argue with the fact that other than it moved in one direction. But rather than pull the blankets over our head and go in and say things are slowing down actually, there's no business to be done. I think a much better way to look at it actually is just in terms of where's that growth happening. And in that respect I think we have moved forward quite a lot in the last year.

We now have presence in nine of the ten top contributors to GDP growth and as you see from the top of the slide it has moved on quite a way. We now have the ABN businesses in China, about 1,200 people on our payroll in China, in addition to the relationship and joint venture with the Bank of China. The US you know about, we're adding on business unit in North America there obviously, but we had clearly a critical mass in the US before that. The UK not much to say. But as we run down there was Germany, there's organic growth over the last 7/8 years, ditto France; we

have a meaningful business in Russia; India I'd split those numbers 50/50 between the back office AC function which ABN Amro had and a front facing profit generating, profit making, customer facing franchise in India, which we're very excited about; Italy, Spain and so on.

So, GDP growth can slow down from the rate of growth that we had this year, last year I should say, but there's still lots of growth out there to go after and we're well represented in the economies where a) there is growth and b) where there are significantly sized economies. Another thought is that you know but all the GDP growth that took place last year, we're active in 91%, we have 91% of that available to ourselves by being in the countries where it took place.

But again all pretty abstract stuff; you can have your own views about economic forecast for GDP growth and I wouldn't attach too much significance to them other than the fact that they're there and they still forecast growth in the coming year.

A much better lens for all I think is to start to look at our individual businesses; I'm not going to go through all of these, I think in many respects the prospects for next year are sort of linear for a lot of these businesses but an area where I don't think for a moment that it can be described as linear is in our new global markets division, those are the numbers as restated to follow the organisation structure that I introduced a moment or so ago. And now we're just going to invite Johnny to come forward and talk, just to give you a little bit of sense of the outlook view through the global markets lens.

**Johnny Cameron:** Well, good morning everyone. Like Fred I will try and move at a reasonable pace. People often say markets like this there are lots of opportunities and the thing we have, is that we have our opportunity already, which is ABN. Also very aware that it's good in times like this to have a project and I think I can say with confidence, that my colleagues in GBM are a great deal busier than some of our colleagues in other banks at the moment, we have a lot to do and we're getting on with it.

It's an important opportunity integrating ABN. We've told you before what we're trying to do here, we're trying to exploit the larger customer franchise, the greater geographic reach and our much broader product range. There's a progression of what we were doing in RBS before, but

there's no doubt that the ABN acquisition accelerates that very very significantly. And in particular, something perhaps we haven't highlighted enough yet, is our position now as a real leader in global transaction services, so I'll talk about that a little bit more.

The point I want to leave you with is that we've got much greater diversification in 2008 than we had in 2007 and that leaves us better placed to face the future. Let me just run through these points very briefly. This is a slide that Fred and others used in the acquisition, you've all seen it hundreds of times I think, it just makes the point that ABN and RBS coming together in a global banking and market arena, we're much stronger by product, we're much stronger in geographic terms and we're much stronger in client terms, in terms of the enlarged customer franchise, you've seen it a lot before, I'm just putting it up because I want to remind you that that is the anchor for what we're trying to do in GBM.

Global transaction services, is worth dwelling on a little bit more, this is a slide you haven't seen before. What we're doing in global transaction services, is we're bringing together what RBS had, in particular a leading position in merchant acquiring in the UK and in Continental Europe and to a lesser extent through RBS Lynk in America, taking those merchant acquiring businesses. We're taking domestic money transmission businesses for corporates in Britain and in America and we're adding that to ABN's very strong position in international cash management and trade finance around the world. And this is creating a global leader in a business which has got very high barriers to entry. It is something that people don't go out and build today, you just can't build a network in 53 countries, you can't put in the IT infrastructure. So we're in a position where we're top three or four in the world as Fred said, in this business, in a business that others can't easily get into.

It's a stable business, it's largely deposit income and fee income, it's also very useful as an entry point for GBM products, so it's part of the enlarged customer franchise that we have to work with, we believe that there's far more opportunity than has yet been grasped to sell GBM products into transaction banking clients, transaction services clients across the world. So it is an important new development, it's a new thing for RBS to have a business like this and I've got high hopes of its synergistic benefits within global transaction services, the synergies of bringing together the RBS

bits of it with the ABN bits of it. And there are also important synergies as I said a moment ago with global banking and markets.

Just an update on market position as you bring the two bits of GBM together. In 2007 the figures I showed you first were the original slide so they were 2006 numbers. In 2007 in the all debt league table, the league table I think everyone agrees is the best global table that is all bonds, all loans, all currencies, all countries, where do we rank as an underwriter, putting ABN and RBS together in 2007 we were number three, that's a fantastic position, a fantastic position demonstrating the power of the franchise and of course it's not just the income you earn of underwriting bonds and loans, that is the driver for so much of our other income in derivatives and foreign exchange and so on.

The other three tables on this chart just remind you where we are in terms of customers, again updated for 2007; and the point is that we're in the top five in all the three main regions, I haven't put UK up because obviously we're number one by a distances in the UK. But in Continental Europe we're number one, we're number five in America, number five in Asia excluding Japan. This is why we can claim to be one of the top, maybe the top one or two banks, corporate banks in the world today, again a demonstration of the power of the franchise that we now have to work with.

Just turning to the performance of the business in 2007 and looking at underlying income as we defined it and this is 2007, you can see here and the two key points to bring out immediately; diversity, that we have a diverse range of products and diversity of growth. So you can see as we mentioned already that rates and currencies had a very strong year in 2007 in both banks, particularly in RBS perhaps. Not surprisingly you can see the securitisation of asset backed and CDOs, quite significantly down in terms of income. And then the bottom two rows are worth highlighting, underlying that asset portfolio management global transaction services, which are basically stable businesses, that's where all the net interest income lies in asset portfolio management and global transaction services as I've emphasised is deposit income and fee income, they are very large stable but growing businesses in the case of global transaction services.

So I hope you find that a helpful description of the business we have going into 2008. And of course in 2008, there's the same slide but you can see

at the bottom there, commodities. We still expect to close on acquiring our share of Sempra Commodities on 1<sup>st</sup> April, we expect to get the final approvals very shortly indeed; that will add another very significant string to our bow in terms of product diversity. We will then have I think everything you can possibly think of and need to be the best corporate bank in the world.

I look at the outlook like Fred, I am extremely nervous of forecasting precisely how we will do and I would emphasise really rather than focus on which is the one tick, which is two ticks so to speak; I'm sure I got one or two of those wrong, but there will be a mixture and that's what gives me confidence that because of the diversity, we're going to have as good a 2008 as you could expect and indeed better than anyone else. Thank you. Back to you Fred.

**Sir Fred Goodwin:** Thanks Johnny. If I pick up the theme and as I say I'm not going to go through every single line, I'm not going to go through UK retail and commercial banking divisions and you can see a very substantial, the biggest part of the business, but I think if I leave you with the thought there's a linear progression there in the UK corporate bank and in the retail division; linear and good and very much in the right direction. Touch on the US momentarily; and again I'll do the same as Johnny and break out product by product and give you a sense of what's been going on in the retail and commercial franchise.

The underlying story is that Citizens has continued to diversify away from just being a retail deposit taker who lent all the money on to the US government. We've made considerable progress over the last few years and that's reflected in actually some of the income growth that was achieved during 2007, where in commercial lending and deposits have been something that we've been building up strongly, moved ahead in double digits in terms of income growth. Our credit and debit card business moved ahead; and sales of investment products are along the lines that we do within our UK branch network has moved ahead again in double digit terms.

Deposit margins have stabilised and indeed margins in Citizens have gone up from I think about 2.7 to 2.8 and if we kick out that one-off last year, the actual income growth in Citizens was about 4% this year, so quite a good and positive metric and a change of direction from where

we've been heading in the last couple of years. Similar to Johnny's chart, there we are spread across 2006/2007, spread across a range of products and in the interests of time I'm not going to go through all of them but not very many of them, but just to echo the points I made a moment ago about commercial lending, commercial deposit taking down at the bottom there, seeing good strong progress, continue to move forward in credit and debit cards, but obviously and personal lending coming back and as we've refined our risk appetite.

Outlook for next year. A bit like Johnny, we could argue about individual tick or two, or a cross or two, but there are ticks and there are crosses. I think it will remain a mixed picture in the United States going forward, there's no point in chasing risky business or unprofitable business and we've got no intention of doing so. But there's enough there in the chart we feel, for us to be going on with, particularly in the commercial lending arena where as a result of the acquisition of business unit North America, they take a significant notching up in terms of numbers of customers in that segment; that's something we do a lot of in the UK and as a segment we feel very comfortable in, it comprises as you'll see from the chart lending and deposit taking, not to mention the opportunity to sell money transmission and to sell the other products in Johnny's business, one of the big outstanding successes in Citizens has been the growth and selling white labelled simple derivative products to do interest rate protection and foreign currency protection to US and mid corporate and commercial customers; and indeed even down into the SME customer base.

Asia. A few moments on Asia. Quite interesting in Asia, just to remind ourselves that what the business we're talking about here is the retail and commercial piece, but within Johnny's businesses is another chunk which takes us to a place where you know if our growth rates in Asia slow down by 50% next year, we'll still pass through the billion pounds in profits generated in Asia, which is quite a move forward from where RBS was a little while ago and I wouldn't encourage you to think that we think our growth rates are going to slow down in Asia next year, I think the reverse.

What's in that business? Quite an assortment. I think to be kind to it, a variety of branches and a variety of countries; but you'll see and remind yourselves of the slide about GDP growth around the world, there's no shortage of GDP growth in the countries we're looking at.

One of the challenges for us in this business though is ABN have a vast and complex and rich infrastructure; on the one hand it's nice to be able to provide all of these products and have all of these capabilities in all of these countries; and in truth I think it's a little unrealistic to think that we can achieve scale in all of these countries in all of these products. So I think as we go forward and notwithstanding our commitment and desire to grow in Asia we'll be pruning back some of the product capabilities, very expensive to maintain and deploy on the ground and I doubt whether it's the best use of our time and effort trying to get critical mass in all of these markets and all of these products. But the takeaway I would encourage you towards is that we have got the delivery mechanisms we need in the economies where we need it, to deliver substantial growth in retail and commercial banking in Asia.

Still on this subject of outlook, well how do I draw all of that together. What I would ask you to, you'll have different views about the prospects for individual of these business lines I'm sure you'll have different views about individual countries and so on. But in thinking about it all, I think there's a high level takeaway from all of this. There are a number of ingredients to the RBS outlook for 2008 and beyond. The first ingredient I think, and by far in a way the most important, we have existing organic momentum in our businesses. We don't have to start growing organically, we are growing organically and I think as you look at our divisional results you will see that very clearly.

We have a lot of "new" customers this year, that is to say a lot of ABN Amro customers are not new to the enlarged entity but they're new to the RBS product range, they're new to the RBS business model and it feels very new to us and it contributes a lot to some of the excitement that Johnny was talking about and some of the ambitions we have for the business next year. There are a lot of people out there that we're very confident about selling to because we have existing relationships with them. And also a lot of new products within the group, not just the RBS products to be sold to ABN Amro customers but the money transmission business, the global transaction services businesses are new to the RBS customer base and open up a number of opportunities for us to develop deeper and more productive relationships. And we are clearly operating a number of markets which are new to the group.



Leaving aside the generalities of all of the above, we've got some very specific and substantial synergy plans, specific synergy plans and things that we are going to be doing to deliver that growth next year, it's not worth thinking about the growth, we're actually actively engaged in delivering it. Which will take me to a place unequivocally and clearly a theme next year for RBS will be revenue growth. We have very clear and very RBS specific revenue opportunities next year, regardless of what you think may happen to various parts of the market. On the other side of the house, we have a global manufacturing model, it's existed in RBS for some time, ABN Amro also had the manufacturing philosophy, but perhaps hadn't deployed a model with quite the same rigour as it had been deployed within RBS, so moving to the global manufacturing model is a real opportunity for us. It's helped by the fact, and indeed the prospects for the business going forward are helped by the fact that our platforms largely overlap, there's significant platform overlaps, which are very conducive to cost reduction and very conducive to the manufacturing model. Of course, again, there's not just a theory of all of this: we have distilled it into specific action plans which are being implemented and acted upon as we speak.

Which brings me at least to the place of saying a theme for us next year, 2008 and beyond - is improving efficiency! So, in terms of the outlook for the group, we can argue the toss about growth rates, GDP growth this, GDP growth that, whether it should be one tick this, two ticks that, a cross the other, you come back to this. I think that it gets you a much better picture of the outlook for the group, which will be about revenue growth and improving efficiency.

Finally, finally, and take away from it all, our businesses are strong and we have good organic momentum. We've secured a very attractive range of additional options for ourselves that will serve us very well in 2008 and beyond. And I feel certain we're very well positioned indeed to face a broad range of market scenarios going forward. So, thank you very much for listening, I think I'd invite my colleagues to come up and join in the talk table, and try and answer any questions that you might have.

**Sir Tom McKillop:** So, there you have the presentation ladies and gentlemen. We'll take your questions now and can I remind you to state your name and affiliation before doing so. The first question was up at the back, far left.

**Ian Gordon:** Good Morning, it's Ian Gordon, from Exane. In the lead up to today's results, obviously there's been a lot of focus on capital and you've delivered numbers which, clearly, you're confident with and within your anticipated ranges. Could I ask two questions on this issue: firstly, many people in the market have been trying to take us back to ratios such as equity to assets, is your view that equity to assets has anything to contribute to a Basel II sophisticated method of capital allocation or do you regard it as a relic from the past and something that should be consigned to the dark ages? And, the second question, can you provide any colour on the modern day attitude being taken by the Regulator and the rating agencies, with regard to these issues, do you believe they are still going to be as focussed on diversity of income and other forms of profit and loss protection, or again, do you sense there's a risk of them following a route down towards these arcane balance sheet measures. Thanks.

**Sir Tom McKillop:** I'll turn to Fred and then, maybe Guy will want to comment as well. Just to say, though, obviously in the market conditions we have at the moment everyone is very conscious of the need to ensure we have good capital position. The Board is fully engaged in that and we will continue to be so, but Fred do you want to pick that up?

**Sir Fred Goodwin:** You're probably inviting the answer your about to get on the equity asset thing. I think that ratios are helpful and also all ratios are helpful but no ratio is perfect. And I think looking at capital adequacy, a lot of time and energy has gone into Basel II. I think Basel II is not perfect, I should add I'm not completely sold on all aspects of Basel II but I think it does move the game forward and it's a better fit for the sort of sophistication we now see in financial markets generally. And whether I like it, or you like it, or we like it, it is the prevailing capital adequacy regime and so we'll probably do well just to get on with it. There are other ratios that people might want to use: I don't think equity to assets is particularly meaningful or useful in the context of our business so I'd be, you'd find me of – I think – similar mind to yourself in that. But, I don't want to fall out with anyone over it. If other people like that ratio, it's up to them but I do think we need to move on a bit and use the adequacy ratios that are there and hanging your hat on any single ratio anyway, it never strikes me as terribly smart. As to what the Regulator and the rating agencies are going to do, I guess is up to the Regulators and the rating agencies they're clearly each well focussed on the stresses and strains facing the industry at the moment. But they've always, to my mind, shown a very good

understanding of the realities of where businesses operate, the different business models there are extant amongst the different banks, and different financial institutions that they both regulate and rate. And, certainly our relationship has always been one that, I felt that the Regulators and the ratings agencies understand the business and we have a good dialogue about it. So, I think that attitude has, if anything developed over the years rather than diminished and I would be surprised to see it change at this point and there would be no basis for thinking it is about to.

**Sir Tom McKillop:** Do you want to comment Guy?

**Guy Whittaker:** Just to pick up some of those things: I think there are a number of different metrics which are relevant to assess suitability of a bank balance sheet and it's certainly some of the, nominal measures which Regulators in the U.S. are very keen on have served them at a banking level quite well. I think it, sort of depends on the nature and the structure of the balance sheet as to exactly which of those which ought to be the bounding measure. We look at a variety of metrics, not just the nominal metrics but also the risk sensitivity of those assets, not just under a regulatory regime but also under our own risk assessments. You know under Basel II we've moved to a, sort of, internal assessment of these things as well as prescribed external assessments and I think all of those metrics would say that we are comfortable with the capital ratios that we have. I would also say that these are where we expected them to be when we went back to the July offer document and the sort of gearing we anticipated around the ABN transaction. We are sort of where we thought we would be, there is a planned programme to get the elements and the capital base back to our medium term operating levels and the more attractive financial returns that Fred put up, I think will help accelerate that process.

**Sir Tom McKillop:** Yes, and a question, just in from there.

**James Eden:** Yes, Good Morning, it's James Eden from Exane. I've always believed that your acquisition of ABN would destroy less value than Charter One and I guess today you are inviting us to dream that it might not destroy any value at all, it might even create value. And your foray into Bank of China looks like genius – you've quadrupled your money. Now shareholders opposed both the investment in the Bank of China and the acquisition of ABN, do you think this proves that

shareholders often don't know what's good for them, and validates your decision to sometimes do some very unpopular things.

**Sir Fred Goodwin:** I think you're trying to be helpful James as ever, but it sounds a bit like a hospital pass. I think we are happy with, our shareholders supported us in the ABN Amro transaction and as they supported us in the Charter One transaction and we're happy with that and we're determined to deliver value to them, through these transactions. Bank of China, we've delivered value with Bank of China. There are no – you infer some sort of difficulty or angst between us and shareholders – it's not felt from this perspective. I think its right to have a dialogue with shareholders and to be challenged on these decisions, these are big important decisions for the organisation. And, I think, it would be a pretty poor show if shareholders didn't have a dialogue or express views about this. We have a very broad base of shareholders and reasonable men can differ about quite a wide range of subjects. So, thank you for being helpful, but I'm not taking the hospital pass.

**Sir Tom McKillop:** One comment I would add to that: I mean a Board has a fiduciary duty to, and under the new Companies Act, has a broader duty than previously, but a Board has to think on a time scale that may not be exactly the same time scale as all shareholders. Shareholders have the option to buy and sell, that's absolutely their choice, a Board of Directors really has to do what it believes is right for the long term, enduring health of the company. There is a very different element of thinking that you have to keep in mind when you look at that.

**Tom Rayner:** Yes, thank you very much, it's Tom Rayner from Citigroup. Just at the risk of keeping the arcane debate on the capital going – could I just focus on the consolidated balance sheet on page 40? I wanted to ask you about all your ratios, your regulatory Tier 1, your core Tier 1 and your tangible equity to assets; on a statutory basis you don't appear to have any tangible equity, so clearly this is not perhaps the most useful breakdown. I'm quite interested, on the proportional consolidation, what your ratios would look like on all three measures and also if you could give us a feel for what they would look like under Basel II as well as Basel I methodology? Thank you.

**Guy Whittaker:** Okay, let me answer the following way: the separation plans for ABN will leave this consolidated balance sheet in place for a

period of one, two, three years, depending on the time and the separation. The calibration of our capital ratios and the planning that we have done through that separation time line will leave us with capital ratios at a core Tier 1 and a Tier 1 level that are at around, or slightly higher, than today's levels throughout that transition period and by the time we do come to the eventual separation of ourselves and Santander parts and the Fortis parts, we'll be at or above the levels that we have published today.

**Tom Rayner:** Thank you, am I allowed a quick second on a different subject?

**Sir Tom McKillop:** If you insist.

**Tom Rayner:** Thank you, again it's quite...

**Guy Whittaker:** Sorry, you did mention Basel....

**Tom Rayner:** Oh yes sorry...

**Guy Whittaker:** We said we expect a sort of transition from Basel 1 to Basel II obviously this is a balance sheet you've had for 76 days to try and incorporate the whole of the ABN and we think, the best way to guess it and certainly the way we are doing at the moment is it will be about a Basel 1 sort of line ball switch to Basel II.

**Tom Rayner:** Okay thanks a lot. The second question, very deep in the release as well on page 59, could you just talk a little bit about the, sort of, 33 billion of assets and there is an off setting liability as well, which is smaller, of assets where there is no observable inputs, I guess, for valuation and there's been no losses taken against those to date if I'm right, and what your thoughts are about potential losses, where we can't actually see a market valuation?

**Guy Whittaker:** Should I take that one? There's some narrative underneath, we've tried to describe them, and I would, there have been some losses taken against it because included in those are the high grades and mezzanine CDO exposures that I had outlined earlier. As well as some of the other inventory that is in there you can see there is certain structured debt securities, certain over the counter derivatives, certain syndicated loans that have been part of that group. In total terms it represents around 3%, slightly less than 3% of assets. And you can

imagine, these are subject to scrutiny and review from all interested parties.

**Tom Rayner:** Thank you.

**Guy Whittaker:** Hence the numbers you see today fully reflect all that we know about them.

**Peter Toeman (HSBC):** I take on board what you say about capital ratios, spot capital ratios, being inappropriate. But, on your own sort of measure, you're looking for a target - Tier 1 of 7%; 30% non-equity gearing; 5% equity Tier 1. At the moment you're on 4.5%, ex the minority interest for the businesses, of ABN businesses that you don't intend to hold, I suspect you'd be at about 4%. So, there's a 1% point gap on £500 billion in risk weighted assets or £5 billion capital shortfall. I mean I wonder how we should think about that, in terms of business future development, in terms of WRA growth, or disposal of assets.

**Guy Whittaker:** Firstly, we'd be unable to split ourselves up today even if we wanted to. So, we are supported by the entirety. The balance sheet is supported by the entirety of the capital base. I refer back to my earlier comments around the separation plans and the time that it would take to do that and the capital generation that will occur in that intervening period and, just in terms of metrics, we've talked about operating within a 7 – 8% range, we've typically been in the middle to upper half of that. I think we'd all sit here saying we'd be quite happy to see ourselves as we come to that sort of basis. That would, in fact, imply a slightly higher core Tier 1 target than the one that you referred to, I think we talked about 5.25% in earlier results announcements and I would encourage you to think more towards that end of the spectrum than the numbers that you put out.

**Robert Law:** Robert Law at Lehman, could I follow on that with some questions on the balance sheet please? In your commentary about at the end of the period when you split off you would expect to be roughly at these kinds of levels. Can you say whether that statement includes any capital raisings or disposals other than the announced split offs?

**Guy Whittaker:** There are no unusual disposals, capital raisings or one timers in that, the plans are principally built around the business performance and the capital generation that we typically demonstrate.

**Robert Law:** What I am checking there is how we read into that whether that's an aspiration or whether you have actually got plans as you currently stand with the group as it is without making additional disposals or raisings other than you have already announced to get to that target, that's why I am asking the question

**Sir Fred Goodwin:** The short answer is we do, we don't intend to throw numbers out unless we have got some idea of how we are going to do them, but anything relating to the future ultimately is an aspiration, but you will see from the results we are delivering today from the incremental synergies we expect from ABN Amro and from our historic track record and generating profit and driving these ratios up the basis for the comments where Guy very accurately described what we planning to do. There are no plans for any inorganic capital raisings or anything of the sort.

**Robert Law:** Secondly can I ask what the attributable goodwill is on the balance sheet to the businesses that you are retaining so that we can actually work out what the tangible book value per share is for yourself?

**Guy Whittaker:** Can we come back to you on that. I will say about £8bn, but I will confirm the exact number to you outside, eight I believe is a pretty good number, but I will confirm that to you.

**Robert Law:** Finally could I ask in addition on the capital markets assets which you keep taking P&L mark downs for, have there been any movements through the balance sheet on those assets as well, I don't think there have it looks like it's basically Bank of China?

**Guy Whittaker:** No they are not; they all carry at fair value through P&L.

**Sir Tom McKillop:** It looks as though it's £8bn including intangibles.

**Simon Samuels:** Morning, Simon Samuels from Citigroup. I am afraid I just want to carry on really both Tom and Peter and Rob's questions on the balance sheet, just first of all I don't think we got an answer to Peter's question, can you tell us Guy what is the core equity Tier 1 ratio on a look through basis, so excluding the pieces of ABN that you don't own. Are you saying it's a number that you know and you don't want to share with us or it's not knowable?

**Guy Whittaker:** It's a number that you can work out, it's not a number that we can ever realise, because we will never get to the point where we can split it up to do that, and it does begin with a four (core tier 1) and it does begin with a seven (tier 1), I think we have said as much as we would like to say at this point.

**Simon Samuels:** I am sorry we can work out or you can work out? Can you just tell us what the number is then?

**Sir Tom McKillop:** You make some assumptions, but it's not a meaningful number in terms of how we operate right now, because the group, there is the group until you have the separation take place and that will perhaps take place in different phases and so on. So it's a pretty theoretical kind of number, but you can calculate it.

**Sir Fred Goodwin:** We have our capital ratio Simon and we talk about the capital ratios as calculated in accordance with Basel and all the rest of it, if you want to calculate other ratios as people have historically. Then feel free, but it's not a ratio that we stand behind.

**Simon Samuels:** Second question if I can just operationally actually is just on the credit trends in the United States, I guess for Ellen, but I am not sure. Second half of the year it looked like Citizens credit costs went from about \$160 million in the first half of the year to over \$500 million charge in the second half. So clearly a huge increase half on half. Clearly there is some reserve building in Q4, the question really is really what should we be expecting for '08, and does the second half of '07 form a good run rate in terms of the likely shape of the credit charges for '08 as the environment deteriorates from here or does the reserve build in Q4 just mean we should ignore the second half '07 as an aberration.

**Ellen Alemany:** In the second half of last year we did increase the impairment at Citizens but you have to realise that was coming from a very, very low base. Part of that impairment was actual charge offs in commercial, real estate and in home equity. The other large part of it was we increased our reserves against the portfolio. All said though our impairment is only about 60 basis points on the entire portfolio which is very low, it reflects the conservative credit policies that Citizens have had in the past, and as I believe Guy and Fred mentioned earlier our FICO



scores average over 700 on the portfolio and 97% of our facilities are secured.

**Simon Samuels:** What would your expectations be for the year ahead?

**Ellen Alemany:** It would just be – there is going to be continued pressure in the housing market, but we feel we are comfortable with our reserve levels at Citizens.

**Jonathan Pierce:** Thank you. Good morning it's Jonathan Pierce from Credit Suisse. I have got first block of question back on capital I am afraid; you are the only bank I think so far that's not given us a detailed Basel II break down in the numbers, I appreciate you have been pretty busy with ABN and the like, will we get that with the report and accounts? And just following on from that it sounds like the answer is no, but will we ever get a proportionally consolidated balance sheet at any point?

**Sir Tom McKillop:** I think we dealt with the second part, I think we dealt with that.

**Guy Whittaker:** Sort of trawling over old ground. I think in terms of the Basel position as you can imagine after 76 days we've not yet managed to do the full integration of all the risk modelling and risk systems to ABN and of course the ABN situation is slightly unique in as much as the eventual home for those assets will be divided amongst the three consortium partners. The sort of precise details of how that regulatory oversight will happen are still a matter of some discussion which is why I can't give a precise answer today and why I didn't give you a precise answer earlier.

**Jonathan Pierce:** Okay thanks the second question is on the investment gains probably one for Johnny, but there's a comment in the release about how the private equity portfolio has been sold into a fund which is now managed by RBS giving more stable returns on that portfolio moving forward. Can you just explain in a bit more detail what has actually happened there and maybe give us some guidance as you have historically on where the other operating income line might come out in 2008?

**Johnny Cameron::** partly actually for reasons relating to Basel II we took a view quite some time ago that the right thing to do was to take our principal Private Equity business and put it into a fund and manage it, retaining an

interest in the fund and so we took the huge bulk of our Private equity assets in the middle of the year and put it into a so called opportunities fund, raised equity from a range of investors, very well supported, we have a stake in the fund as I say, we manage it, so that we have got some equity investments left in various parts of GBM so there will still be other operating income going forward but clearly not, we talked last year about 4 digits we are going to be well back from that going forward, well back.

**Tim Skyes:** Thanks, it's Tim Skyes from Execution, three questions if I can Sir Tom, a very quick one on the tax rate, we saw the tax rate fall from 29.3% to 21.1%. I wondered Guy how we should think about that looking forward into 2008?

**Guy Whittaker:** Reverting to more normal levels I think is the right way to think about it. We have been the beneficiary of the reduction in Corporation tax and the deferred tax liability; some of the gains that I referred to were either low tax or almost no tax, the weaker US performance with a higher tax rate environment and therefore less from that. I think oh yes and there are some prior year settlements as well and I think they probably took around 7-8% off the tax rate in 2007 and I think I would just put them all back on for 2008.

**Tim Skyes:** Thank you a quick question on bad debt, we glossed over the commercial bank and retail bank. There is a strong performance on bad debts within the UK, obviously there is a more challenging environment in the US I just wondered if you could comment on the outlook for bad debts from a more UK perspective please.

**Gordon Pell:** On the retail side, obviously we took a very conservative approach about two years ago; pulling our horns on particularly on our direct lending that is showing through very well. Bad debt, new flows were down 14% this year, and our recoveries process has actually been through a significant £20 million investment program. So, we're almost heading to having a world class recovery system, if it all happens again. Clearly, I mean, we're very nervous on what or might not be coming, but quite frankly, its pretty heavy levels of employment still in this country. They very strongly concentrated in the South East, which is probably still the most dynamic part of the economy. There's nothing, being realistic, I wouldn't like to comment on twelve months ahead but looking three months ahead, I can't see anything that actually puts it on my top three list of priorities quite frankly. At some point it is going to level off, but we have not re-aged our book, we've not changed our methodologies or any other

nice forms of words. Bad debts have been dealt with as they've come in, and therefore I am expecting to see a sort of steady trickle down, at some point it must level off mustn't it. We could probably exchange a fiver on when.

**Sir Tom McKillop:** Ellen would you like to add anything further to your earlier comments?

**Ellen Alemany:** No, except that you really can't predict where the US real estate market is going to bottom out now. So there's still a lot of uncertainty, there's some strong pockets of performance in the US, but in the real estate market it's still very very weak, the whole housing sector.

**Tim Skyes:** Just looking forward into, into integrating the ABN Amro businesses. Obviously, there's a market perception that ABN Amro was very badly run, which presented you with the opportunity. If we look at NatWest, that was an acquisition that had a materially different scale to Royal Bank of Scotland. If we look at ABN Amro, it doesn't necessarily have scale, but it has scope. I think Johnny referred to the increase in opportunities that it brings. Can you just share with us, how you will approach the businesses that are relatively new to you, such as Asian Retail and also certain aspects of the wholesale banks such as, cash equities one thinks of?

**Gordon Pell:** Well obviously on the Asian Retail side, since we didn't have an obvious owner, I've been shadowing during the period of the bid and working obviously, both before hand in terms of initial thinking, but also once we'd got on board with the team there. We announced a new team in Asia, pretty much this team that was there with ABN Amro actually a couple of weeks ago. I'm very impressed with the people we found, I'm very impressed with the franchise, as Fred's point is absolutely right, they almost over invested in many of these countries, in terms of scale. It was slightly bizarre statistic; I think it was actually three staff for every customer, which probably puts us in, almost in a five star hotel league. Obviously a lot of the staff are actually part time, because there are a lot of direct sales agents, but there are some sort of slightly new sorts of figures for me to get my mind round. We're particularly strong in the Indian sub continent; I'll be in India for the second time, visiting the team there, in about a week's time. Then going into Pakistan, where we've acquired a very useful bank that we're actually in the middle of re-branding at the moment. And both those countries have made it very clear to us, we're

very welcome by the regulators. We bring lots of GBM experience, for example in project finance, that they're desperate to get their hands on. So I think it does really open; we were already looking at India, we had a team sort of hidden there under a wealth banner, for about six months, a year ago, looking at how we'd get into India, this has brought us forward five years. I'm particularly pleased that as part of the deal, Fortis has agreed to sell onto us the Indian private client business, which we announced I think a week ago. That gives us 28 private bankers, there will be no problem in doubling the size of that, and obviously the RBS Coutts name plays particularly well in the Indian market. So I think that will be one additional synergy that we hadn't given a moment's thought to, that we're now working up. I think it's very exciting, at the end of the day retail bankers are retail bankers, and it's interesting, they have exactly the same issues we do in the UK, different economies. The issue really is to find something distinctive to do, and not take the local banks on, face on. We've got plenty of distinctive things.

**Sir Tom McKillop:** Thanks Gordon, Johnny?

**Johnny Cameron:** On equities, if you just look at the chart I put out you'll see that equities had a good performance in 2007, Frank McKirgan who runs it, we think is doing a good job, and we just reinforced really what he's doing. That business is going well. What we have done is, exited the Rothschild joint venture in equity capital markets, and combined that with the Hoare Govett. Which I think, everyone at ABN thinks is long over due, so we've got one equity capital markets business globally, so I think that will be a spur to the business. So, happy with what's happening in equities. Transactional services, is a new division that will be headed up, by a Royal Bank of Scotland executive Brian Stevenson has been with us for many years, but was a senior executive in Deutsche Bank's transaction banking business, so brings excellent experience in that area, and so we're very comfortable at how to run that.

**Sir Tom McKillop:** Mark, you know you're over there as chief executive of ABN Amro; perhaps you would like to share any views.

**Mark Fisher:** I think when we did the bid we talked about ABN being a good bank but maybe not such a good business. And that is generally what we're finding, there's good customer franchise, good capability, overly complex,

over staffed at the centre, and poor on execution. And, we're really trying to cut away all those bad bits and exploit the good bits. We have some very good staff who are aligning and very enthusiastic to what we want to do. So, you know we are very pleased with what we found, there's a lot of work to do to get there.

**Sir Fred Goodwin:** As exactly Mark put it, it's not the issue of the people on the ground doing business with the customers it was between there and the top that was where the problem was. So, we've got a lot of good customer facing people, and got a lot of good management as well.

**Leigh Goodwin:** Yes good morning, it's Leigh Goodwin from Fox Pitt Kelton. Just a question please on your, the write downs that you took, in what look liked the final month of the year quite a substantial increase, it seemed to me. And a lot of that obviously related to monoline exposures, and thank you for the disclosure on those as well. I just really wanted to invite you to make a comment on, how we might think about what's happened so far this year, we are two months into the year. You know, we can read the newspapers and see what seems to be happening elsewhere, and I wonder whether you wanted to say something just about what might have happened so far this year.

**Sir Fred Goodwin:** So far this year we have traded very well, we continue to watch those issues carefully. And I think, you read about the monolines daily, don't know if there's much I can add to that conversation. But the mark we took at the end of last year, again as you've described it, is pretty accurate, and it reflects how we saw the situation then. As things continued to move, we take the marks, and I think that's the most important piece here. That you don't start with, what you want the P&L to be, we almost at all times make sure that we all mark our book to where we think its going. That is policy and that is the practice, in the organisation. I think, I don't know I could add any great wisdom to monolines beyond anyone else in the room could. Johnny, I don't know if you feel inclined to.

**Johnny Cameron:** Just to underline though, we had an excellent trading month in January, started the year well. Not withstanding the sort of general market conditions.

**Leigh Goodwin:** Can I add the second question if may? Just on the leveraged finance portfolio really, I'm just interested to, and get a little bit

more idea of where that's going. How well it's shifting at the moment, the backlog and so on.

**Johnny Cameron:** I think a statistic is worth throwing out, and this applies to our entire book of syndicated loans, not just leverage. But, we've sold down £3.6 billion, of loans so far this year. So, people can over estimate the stickiness of the market. We have sold £3.6 billion of loans, as I say this year. As far as leveraged loans are concerned, we've always had a very strong credit culture in RBS, and we're very happy with, the credits that we've underwritten, and we see no sign of deterioration in those credits. We've shown you the actual exposure here. In America, particularly its still is difficulty getting buyers and sellers to agree on a price, but I think the general view of the banks would be that the marked prices are an over reaction. They suggest risk of default that is way off the chart, in terms of anything we've ever seen before. And that's what's causing the, the overhang if you like, because we the banks are saying here we are, we've credit we are happy with, there is no sign of deterioration, the price you're saying you're going to pay us for this credit is ridiculous, and we're sort of stuck there at the moment. But that will change, I can't say; I agree with Fred it's not going to be an overnight sudden change, but it will gradually leak away. But we're in a very comfortable position, and we're certainly comfortable with the marks.

**Sir Tom McKillop:** Yes, we start here, can you try to keep them fairly succinct.

**Sandy Chen (Panmure Gordon):** The first question on the CDO exposures, thanks for the exposure, they're net of a hedging. Can you give an idea of what the overall hedging coverage is on the CDO book etc? and specifically on the CDO squared side, it was zero exposure to CDO squared. Should we take that to mean that there's no exposure to synthetic CDO's?

**Guy Whittaker:** There's no exposure to CDO squared, synthetic CDO's are, there is some exposure to synthetic CDO's. They are included in those totals; they are a notional amount which includes both the funded and unfunded CDO's.

**Johnny Cameron:** Most CDO's in the market are synthetic.

**Sandy Chen:** So, and then the hedge coverage level, of hedge coverage or swap coverage on the CDO book, so that we can get a gross exposure, kind of estimate.

**Johnny Cameron:** Our gross is about 8.3 against a net of 3.8.

**Sir Tom McKillop:** There was a question here.

**Michael Helsby:** Thank you, Michael Helsby from Morgan Stanley. I'm just looking at slide 46, where you break out the revenue in GBM, we can take a view on ABS, CDO and equity finance. I was just wondering if you could help us in terms of the other credit markets, clearly a lot of markets have closed down. Just what proportion of that bar if you like, is inactive at the moment?

**Johnny Cameron:** I'll accept that I can't do it mathematically; I can only speak sort of anecdotally so to speak. The investment grade business or corporate business is moving along reasonably well, and indeed many of our corporate customers are seeing opportunities in, as the private equity community is less active. So you are seeing, pretty substantial deals in that area. Securitisation is extremely quiet, leveraged finance again we're seeing, and are able to execute small to mid sized deals, so we're quite busy in that area. Real estate is patchy depending on what geography you're talking about. What else is in there? Bonds, America is going well, I'm particularly pleased with our performance in bonds. We've, since December we underwrote dollar bonds for Marks & Spencer and British Telecom, which you know for RBS is a sign of just how far we've come in that dollar bond market. And that's probably the most active bond market in the world today, so I'm pleased that we've established ourselves in that and able to take advantage of that activity. So, what proportion, I don't think I can put a x percentage going fine, or a y percentage going bad. But, it's a collection of ticks and crosses within, one bar that is in itself a tick or a cross.

**Michael Helsby:** Do you mind if I have just one quick follow up question, just on a slightly different topic? On the non-observable inputs which Tom was asking about, it's clearly a hell of a lot of assets that must have an active market. I've got a lot of feedback from investors that obviously invest in bonds, and they can't believe at the moment, that the banks can actually find active prices, because a lot of the bond markets have frozen up. So I was just wondering, in the active part, is there any of mark to model, within

that book as well, or is that all genuine mark to market on the rest of the balance sheet?

**Johnny Cameron:** The quick answer is everything in our balance sheet is genuine. It's all audited and if we say its level one its level one, and marked at an observable price. Level two is a grey area and level three is unobservable input, as reported.

**Sir Tom McKillop:** And the centre here.

**Derek Chambers:** Derek Chambers from Standard & Poor's Equity Research. Similar theme some questions about the credit market exposures. I think you've made it plain, that everything is fair value to where you can. And you seem to be making distinctions in your trading book, and the ABS CDO's which are, marked by propriety models and other things. You've noted that the, the overall marks, for most of this is much the same, at end December as at end November. Whereas to the extent that one can observe, things like, some of the indices, there was deterioration in some areas in December. So I'm wondering if, this is because your particular portfolio and detachment points didn't deteriorate in line with the market, or because your methodology means that you didn't experience any movement relative to, November. And then on a slightly different area, or two slightly related questions. One is, I think you've indicated an extra 10% on some of the ABN exposures which looks like about 100 million. Did that go with the consolidated income statement or is part of the fair value adjustments? And then finally on this area, you've disclosed some Alt-A net exposures of £2.2 billion, I'm not sure if that's quite on the same basis as you've discussed on the conference call. Could you just say what your view on the integrity of that is or how it is performing?

**Sir Tom McKillop:** I just remind you that we issued our trading statement based on later data than most other organisations. And, indeed on a very prudent basis, so the background to the trading statement...

**Guy Whittaker:** I think what we said, what we tried to at the trading statement was, clearly take not just the output from our model, but to the extent, the accounting allowed to put some sort of prudent, buffer in place. I think there was actually no movement in the ABX index between November and December. In fact, if anything, it moved slightly higher. You rightly say that these instruments are specific rather than, generic in their characters. We took, characteristics, we took another look at the



ABN portfolio; we felt it prudent to take an additional 10% mark that was around the number that you've indicated. That was reflected as a pre-acquisition adjustment taken as through the balance sheet.

**Derek Chambers:** Of the Alt-A, is that different to what you discussed at the trading statement, and has there been impairment in that?

**Johnny Cameron:** The Alt-A's portfolio, we have taken a few minor marks through the P&L, it's not unusual. So it's not brought out, but are small numbers. The vast bulk of Alt-A is triple A, we've marked the small amount that's non-investment grade down to a very low price.

**Derek Chambers:** The conference call on the trading statement you might have indicated rather different exposure. Was that a gross figure rather than a net figure?

**Johnny Cameron:** There have been some slight movements in the net figures as we've taken hedges off, and things like that. But, there's not been, I mean a hundred it is that sort of number, I'm not sure which number you're referring to, but there have been some very slight movements in the, exposures across the piece. But they reflect just day to day trading, taking hedges off putting hedges on.

**Sir Tom McKillop:** One more, one last one, go on.

**Michael Helsby:** Thanks very much, the assets that you've given out, I was wondering if you've got any, just normal residential mortgage backed securities, either in the US or European? There's no actual, just normal, residential mortgage backed securities that you're disclosing on your balance sheet, I was just wondering, it's just quite strange that there isn't there. I was just wondering how many there is?

**Guy Whittaker:** Yes is the answer, there's the portfolio of some mortgage backed securities, in Citizens. Its long been part of the, if you like, the sort of natural hedging program to the, retail deposit base. Cannot remember the precise number its around the sort of \$20 billion number, principally, agency collateral, agency securities. So there's sort of, bog standard US conforming mortgage stuff. Dotted around European and the UK, not aware of any ...

**Johnny Cameron:** ABN has a significant portfolio of European RMBS.

**Michael Helsby:** Any ideas of value?

**Ellen Alemany:** For the exact number for Citizens is \$27 billion.

**Sir Tom McKillop:** Thank you all very much for your questions, and please follow up with any more detail with Richard O'Connor and the IR team. And join us for some coffee outside, thank you all.