2006 Merrill Lynch Conference

"Risk, Return and Growth
Getting the Balance Right"

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SIR FRED GOODWIN (Group Chief Executive, the Royal Bank of Scotland Group plc): Thanks, JP. Good morning everyone. I always enjoy coming to this conference; I am not always sure why! I used to think it was because of JP's emotional and touching introduction which today follows a consistent pattern.

As I was preparing for the conference, as I always do – I will skip through the "health warning" (slide); anyone can come back and read it later! – I always find myself going back over the previous conferences. I found it particularly depressing to do so this year, not least because this will be my eighth conference – we could not remember the title from 1999 – but it has been eight years now that I have come along to these conferences.

Each year we have tried very hard to address the theme as presented and this year will be no exception. For most of those years we have had great difficulty in doing so and it always at this stage fell to me to make some disparaging remarks about the theme and its relevance.

Last year was a bit of a turn-up for the books in that I actually thought the theme was quite relevant last year and even more surprisingly I thought the theme this year was highly relevant. So, that's two years in a row, JP, so there's a lot of pressure on you for next year, because I think risk, return and growth and getting the balance right is highly relevant and highly topical and so, as ever, I am going to try and address my presentation to the specifics of the theme as set out.

As the thought process along that line began, something, a diagram along these lines, as shown on the slide, quickly came to mind that I should somehow try and take the Group and go through and place it; on either side I have placed the various elements of the Group, either side of the balance, and build the conversation around that.

But actually that started to pull up dry very quickly because in truth what we have been trying to do with the Group is that the Group in the round, in the whole, is too big to start positioning too far down any one of those axis of the balance. We have got bits of business down each of the axis of the balance but in truth the Group itself sits pretty square in the middle where we aim to generate good returns at acceptable risk and to generate sustainable growth.

Turning now then to what we can actually do and what we are focusing on and what it is we are trying to grow, it is probably worth just at the outset being clear about that. We are trying to generate return on equity, that's one of the metrics of growth and performance; we are trying to grow our earnings per share; and we are trying to do it all in a way which is sustainable and will deliver sustainable growth over time.

Now there are all sorts of other measures of growth and as we talked earlier or as I talked to the leaders of their individual businesses they have all sorts of metrics for the growth of their business in terms of profit, income and market share. These are important metrics and I will come on to those in a minute, but at the core of what we are doing and how we try to strike the balance are those three principal objectives.

Return on equity: Well, we do generate return on equity – this slide is ancient history now but that is a trajectory of it over the last five years or so, IFRS slightly distorting the trend in later years. The first half 2006 figures are an improvement on the 2005 figures in terms of return on equity.

Growth in earnings per share over the last five years: similarly generating good growth in our earnings per share in comparison with some of the other significant financial institutions in the world.

There are also just as importantly, and we don't want to get too hung up on all of the individual lines here on this slide, it is more the shape of the line I would draw attention to, the fact that we have built our earnings per share in a smooth and progressive way, a way that we would consider to be sustainable.

In looking to that element of sustainability I guess we come to quite an important point, well, at least to us strikes us as quite an important philosophical point, to be able to deliver sustainable growth there are some pretty basic ingredients that are required. First of all, we do need to have businesses which can grow their income, do it profitably and do so at acceptable risk. It's not rocket science! In simple terms we need operational effectiveness in the businesses we own.

We also though need sufficient businesses. We need a sufficient range of businesses, a sufficient range of income streams, to enable us to take advantage of market conditions and economic conditions as they present themselves, be they in upturn or in downturn.

It is quite hard to participate in a market upturn if you don't have any businesses that are connected with it. Equally, it is quite difficult to avoid a market downturn if all of your businesses are hard-wired into it. So, of profound importance we believe to our ability to generate sustainable growth going forward is diversification in the businesses that we own.

Looking very quickly at operational effectiveness, we have talked about this a lot before and we have got a limited amount of time today so I don't propose to flog through all of the operational metrics of the business, but in simple terms it is just worth reminding ourselves that we have been able to generate strong income growth over the last five years, including acquisitions. But also, and I think in many respects more importantly excluding acquisitions, a strong and consistent income growth over that five year period, income growth reflecting different stories and different impacts in different Divisions of the Group.

It hasn't all been 'beer and skittles' over the last five years in any of our Divisions and you can see from this slide some of the Divisions there, as JP touched on, Citizens for instance and indeed RBS Insurance, feeling particular pressures in their markets just now, but nevertheless the Group overall delivering strong organic growth.

We have been able to deliver that growth with improving efficiency and we have been able to deliver it at a cost, particularly in terms of credit which is very well controlled and really quite modest in the overall scheme of things. We have also been able to deliver it in a way, well, taking a level of risk which is again extremely modest I would suggest for a Group of our size.

Now I would be the first to acknowledge that VaR is a crude measure, a relatively crude measure, but it gives you a sense of the type of risk we are running. P&L provisioning is also a very crude measure but again it gives you a sense of the nature of the business.

Risk, going through how we manage risk and all the ins-and-outs of that, is again a very big subject and not one that I propose to go through today. Obviously I will be happy to pick up any questions that there may be about that at the end or in the break-out group. But to give you a sense then of operational effectiveness I think the Group is in pretty good shape in terms of operational effectiveness.

But do we have a sufficient range of businesses to enable us to participate in upturns and to avoid being hard-wired into downturns in the economy, in other words, are we sufficiently diversified?

You have heard me on this theme before and I have put various pie-charts up before. This one you can work out for yourselves, it is simply the income, or the first half of 2006 income, spread across the different Divisions as we report them. It doesn't add a lot to the sum of human knowledge!

You have seen this one before. I have plotted over the years the trend away from the situation in 2000 when we had 85 per cent of our business coming from the UK, where we have systematically plugged away and continue to plug away at increasing the non-UK component of our earnings.

What I thought I would like to do today though is to start to bring some more granularity to the composition of our income streams because the real story of diversity and the real quality of our earnings lies a couple of layers below the simple pie-charts which I have shown you before. So what I would like to do for the rest of the presentation is just walk you through some of these segments and pick out some of the themes. What I will be doing is giving you a series of income streams as a proportion of the Group's total income.

Now I do this to inform a discussion or a debate around the level of granularity, not to spawn a whole new layer of spreadsheet activity although even as the words pass my lips I sense what will happen, but with that caveat let me take you through some of these. I am going to work my way around the pie and just give you a sense of what's in each of these segments to give you a sense of the level of diversification which we have within the RBS Group.

A nice gentle start, if we start with deposits. Generally viewed as the core of banking, perhaps not the most exciting income stream of all but a pretty good income stream, split between those deposits which we garner from individuals and the deposits which we garner from business. These splits depart from the Divisional splits, so Personal doesn't equal Retail and Business doesn't equal Corporate Markets; we are adding in

Ulster, Citizens and we are taking SME out of Retail and adding it into the Business figures.

This is an abstract cut across the Divisional analysis that you are familiar with and giving you a sense of where it arises geographically. Asia-Pacific you will see throughout this slide is such a small proportion of our total income that it doesn't registered on the Richter Scale in this context. I have put 'ticks' in, however, to indicate where we are in the business and you will see in later slides there are some instances where we are not in that particular business in Asia-Pacific.

But the deposit franchise pretty well spread between Personal and Business and just over 15 per cent of our income in the first half came from taking deposits.

Lending to individuals, 12 per cent of our income or just under 12 per cent of our income. I am not going to go through every single figure here on the slide but just to pick out a couple of observations and pick out a couple of particular numbers. Firstly, the first overall observation, we don't do sub-prime credit. We have no sub-prime credits in our book.

To pick out figures of note out of there I guess are the US income from mortgages in the US, about 0.3 per cent in total of our income. Home equity loans, a different type of business altogether in the US, 1.1 per cent - a typical LTV of home equity would be about 55 per cent, so quite a low risk business. You see unsecured lending in the UK is about 3.6 per cent of our income. So some quite modest figures in here again, quite a well dispersed range of activity both geographically and in terms of product across the Personal lending spectrum.

Business lending: I suppose the first point to make of interest is that we make about as much from lending to businesses as we make from lending to individuals. It was 11.6 per cent for individuals and 11.4 per cent for business, again quite widely dispersed. Also interesting I think we make more money from lending money to companies you have never heard of, as in small businesses and mid-corporate and commercial, up at the top of the slide there, than we do from lending to large corporates, again perhaps not as you might have imagined.

It is worth picking out a couple of figures here: leverage finance about 0.9 per cent of our income we make from the business of deposits and taking loans there. All the asset finance, project finance and so on down the slide, we are relatively modest, our shares.

I will come back to this at the end, but a point worth making also at this point is that we are very significant market players in each of the markets where we provide these, so whilst these are very small figures in terms of their proportion of our total income in project and infrastructure finance we are number one globally in project and infrastructure finance.

In leverage finance we are certainly number one in Europe; asset finance we are number one in Europe. In small business we are number one in the UK and we are a significant player in the US in small business lending. So although they are small percentages in the context of our total income we are a material player in most of these business activities or lines of business activity.

Working around the pie we are now into the non-interest income arena, net fees and commission 19 per cent. What are the principal components there?

Well, the business of money transmission makes about 7 per cent, so that's about the same as all the lending we do to small and medium sized companies. Lending fees - that's not just arrangement fees, there are a variety of portfolio fees around that - 3.4 per cent. Merchant acquiring, 1.3 per cent. I would pick out. Interchange, quite a small percentage actually. The Cards figure at the top of the slide, the 2.2 per cent, includes the ATMs, foreign exchange, fees which people pay to have a credit card and so forth. So again quite a widely dispersed array of income sources.

Income from trading activities, 11 per cent. Income from trading activities has been around about 11 per cent of our total income, between 9 and 11 per cent since 1999/2000. It is a very consistent proportion of our overall business. Some particular highlights out of there. The Greenwich Capital asset-backed is 2.3 per cent, mortgage-backed is about half of that, so again quite widely dispersed array of income streams across the business.

These slides are all going up on the website incidentally and there will be copies of them available later if anyone is frantically trying to copy them. You have probably given up trying to copy them now as I have been going too quickly, and I apologise, but they will be there for you later.

Insurance net premium income, a big part of it, and again split across the motor and home. As you would expect, motor predominant in there. Bancassurance down at the bottom of the slide gets classed as insurance income and I will come back to bancassurance in a little moment.

I'm sorry, non-interest income we skipped over, operating lease rental income being by far the biggest single part of that slice of the pie.

So I guess in looking at all of that it is probably reasonable to conclude that in the first half the top part of the pie, the net interest income part of the pie, the net interest income is pretty well diversified, interestingly almost exactly balance what we make in lending, from what we lend to individuals compared to what we lend to companies.

Non-interest income is pretty diversified, there aren't so many obvious balanced up elements of that, but there are quite a wide range of income streams that cut across there both geographically and by income stream type. I hope you have a sense, that in there, there were a great many businesses we have which have significant status within their market but also businesses where as well as generating interest we also generate non-interest income.

What I would like to do now is just to give you another slight variation on this theme by bringing together where the material sum of the interest and non-interest income streams, again to give you some reassurance as to the balance and shape of the businesses.

It is quite a busy slide, and I am not going to go through all of the features on here, but this is trying to bring together all banking activity: lending, taking deposits, related fees, commissions and charges. 28 per cent, or just over 28 per cent, of our income therefore comes from banking-type activity with individuals across the geographies, which you see there, and you see a few obviously where we are not involved in that activity in Europe or in Asia-Pacific, or the United States come to that!

But again no great components coming from mortgages, mortgages in the United States the same figures as before. Unsecured lending still a very modest part of the Group, including interest and related fees and charges, a very modest part of the Group's income at 4.5 per cent and 4.6 per cent in total.

Flipping to the business side of the equation, again interestingly you come out with a figure of around about 28 per cent. The activities we are involved with, banking companies and fees and commissions directly related to that activity, accounts for about 28 per cent, or just over 28 per cent, of our total income. Again you can see leveraged finance in its entirety is 1.9 per cent of our income, project finance 0.6 per cent.

Again your big numbers are at the top of the slide. The money we make from banking small businesses is about 5 per cent of our total income, the money we make from mid-corporate and commercial about 4.7 per cent of our total income.

On this slide, slight additional information here on insurance, just giving you a sense that the European business is starting to grow. That business grew by about 17 per cent in the first half, so after many years of ploughing away at that it feels as if that is now starting to come to life. But General Insurance arriving at about 20 of our total income.

The final slide. I am conscious I am bombarding you with a lot of numbers here and that's really just to give you a sense rather than to have a debate about each individual figure. If we group together all of our income streams and determined by how they relate, whether they be to individuals or to businesses, you come out with numbers of that sort of range, that sort of zone. About 52 per cent of our income comes from doing business with individuals; 45 per cent comes from doing business with Business, ranging from SMEs through to the largest corporates and the largest financial institutions.

So I hope in giving you that information and giving you that sense of granularity, obviously just the first half of 2006, with these numbers some of them change from half to half and inevitably their relativities change depending on what's happening in the various markets and the various economies in which we operate. But the sense of it doesn't change - there aren't any of these income streams that go from being zero to enormous or from enormous to zero over short periods of time

So diversification is alive and well in the Group and I hope that the slice or the sense of diversification we have given you today adds something to your understanding of it.

A few remarks about diversification just to conclude. I think being diversified is good provided that you have scale. If you end up in a business which has a lot of individual very, very small sources of income you don't have any critical mass, you don't have any scale. As I mentioned before and I will mention again, we hold a top 5 position in the market in all of the markets in which we operate, for the vast majority of the items that appeared in that slide. And for the ones where we don't hold a top 5 position, it is quite unusual for us not to hold a top 10 position. So we do have scale and the benefits of diversification are greatly enhanced when you have that scale.

The benefits are also enhanced by relationships. You have heard me before and I hope you will hear me again on the subject of relationship banking and building our business around the relationship model. It is easier to sell things to customers who you have a relationship with rather than just people you're trying to transact business down individual streams, and it is easier to sell to people when they want to buy, so the relationship model helps us in the context of the diversification which we have in the business.

The benefits of diversification are also enhanced when we have synergies. Although they are a diverse range of income streams they are related, they are in similar spaces. It is not as if we are in dressmaking, shipbuilding and running an airline. These activities are all within the financial services sphere, they are related to one another, they enable us to share infrastructure, to share resources, to share people, to share our platform, and that's very important in enhancing the benefits which we enjoy from that diversification.

Finally, and I think arguably crucially, the benefits only really start to come through when you have sufficient management flexibility to allow you to realise the benefits. If we were to set our budgets for each of those individual boxes in there and hard-wire it in then we would not be able to enjoy the management behaviour that allow us to emphasise or de-emphasise a particular income stream based on market conditions or economic conditions.

It is only by setting targets for our business at a relatively high level that we enable or we empower our managers and give them sufficient flexibility to be able to conduct our business to take best advantage of market and economic conditions. Without that flexibility the diversification that we have would be considerably less beneficial.

So to conclude, it seems to me that balancing risk, return and growth will remain a key priority for the business – the conference theme! I think it always has been a key priority for any business, to manage risk, return and growth, but certainly it is one of our key – it is our key priority and one that will remain so.

It is a task which is made all the more straightforward by having operational effectiveness and having the benefits of diversification, which I hope I have illustrated albeit briefly this morning. As a consequence, I do believe we are well placed to take advantage of whatever the economy, whatever the world, whatever the market has to throw at us as we go forward and to enable us to generate sustainable growth now and into the future.

That was all I was proposing to say in the presentation. As I indicated at the start, I would be very happy to try and answer any questions anyone has got about that or about anything else you would like to raise, and obviously we have the break-out session afterwards for further questions.

QUESTION: As the microphone has come out, maybe I can kick-off with the first question! You mentioned the word “bancassurance” in the presentation there, Fred, and I guess that one of the things that has come out in recent months/years is the need for more saving and the need for increased liability-led growth amongst the UK banks. Could you just talk a bit about how you see Royal Bank’s position in that space because it obviously doesn’t tend to get thought of as a natural forte for as much of the Group as maybe some other banks?

SIR FRED GOODWIN: I think we are very well placed, in fact, just within the last few months we have moved into the number one slot in the UK for money transmission accounts. Money transmission accounts are still at a bit of a crossroads when it comes to how consumers handle any surplus cash they have, and once you see surplus cash building up it gives you a sort of starting point for a conversation about longer term savings and into the bancassurance space.

For the first time in several years, in fact, a number of years, we saw during the first half and you will have seen it in the results that deposit growth in the retail franchise was ahead of asset growth and I think that gives a sense of the consumers' changed priorities. So as we are seeing somewhat unsecured credit growth diminishing we are seeing strong deposit growth coming through with it. We are also seeing good deposit growth from corporate and business customers as well, but the very striking theme has been the fact that the consumer is back at the table in the savings debate.

Bancassurance: 2005 was a record year for bancassurance, 2006 is well on track to be ahead of that, and again I think it is just symptomatic of the consumer starting to focus on that area. Bancassurance back in 2003 and 2004 was a bit like 'flogging a dead horse'. The customer now wants to buy bancassurance products and it is a busy time for bancassurance.

It is mildly frustrating from time to time how the accounting rules are – I am told we will get a reward before we get to heaven but it feels that we are storing up a lot of benefit there. We would like to see it coming through more quickly in the results, but bancassurance will be up to just under 4 per cent of our total Group income and it is certainly a growing activity for us.

A SPEAKER (JP): Okay, any questions from the floor? One just there!

QUESTION: You had a lot of 'ticks' on the slides for Asia-Pacific. Please could you just elaborate on what your strategy is for that area?

SIR FRED GOODWIN: Sure! I guess our strategy, in maybe three parts or two parts and then I will split one of them. There are the businesses which we have had in Asia-Pacific for quite a long time now: in Singapore, where we have Coutts and Corporate Markets; similarly in Hong Kong, Coutts and Corporate Markets have been there a long time; Tokyo, mainly Corporate Markets, a little bit of Wealth Management, and we have got our own Corporate Markets activities in Beijing and Shanghai, relatively small but stepping up quite a lot.

We will be putting, for instance, about another 1,000 people into Singapore this year, we are more than halfway through that now; stepping up Hong Kong quite a lot; stepping up Tokyo quite a lot, and we have got some project finance in Australia as well.

So, very strong organic growth of our existing business lines, split between Corporate Markets and Wealth Management, both business lines where we have been in that part of the world, or those parts of the world I should say, for some time.

The other part obviously which I did not mention, Tom, on the slide is our relationship with Bank of China, the strategic partnership there, where I mentioned at the time of the Half Year Results that we are off and running with our Credit Card joint venture; we are close on Wealth Management now.

The nature of the deal we have with Bank of China gives us exclusivity across all of our product range in terms of being able to pursue strategic partnerships with them, working particularly on Wealth

Management and Credit Cards, Insurance a little bit further down the line – there are a number of regulatory, not to mention other issues, of getting insurance on to the street – but it is one that both we and the Bank of China are interested in.

Also in Corporate Banking I think I indicated at the time of the Half Year Results we had written about three-quarters of a billion of corporate business that neither we nor Bank of China would have written before - aircraft financing and shipping finance have been particular components of it – so the strategy would revolve around building our own existing businesses organically but at a somewhat faster pace than we would normally be associated with organically and separately building on the Bank of China partnership.

A SPEAKER: There is a question just here!

QUESTION: There might possibly be a trade-off, or I am thinking there might be a trade-off between being so diverse that you become very similar to the global economy, and then you can never really escape global GDP growth and you don't actually grow any faster than global GDP and so your rating just keeps drifting down. You can never grow that fast because you are so diversified, so big. That is not particularly applied to the Royal Bank but to all large banks or large companies.

SIR FRED GOODWIN: I think you would not be alone in thinking that, James, and it is something we do think about. But if you look at the GDP growth in the economies in which we are operating and then compare it to our income growth in those economies there is quite a big disconnect.

The economies we are operating in are the bedrock of our business. There are some very significant economies, they are the sort of top 5 world economies, and it feels for the time-being that those are good places to start to build a business out from. But certainly moving further into Asia-Pacific takes us into faster growing economies. China, on any assessment of what their growth is likely to be, is much faster growing.

But going back to that or the conference theme on that initial slide about the balance, it feels that because of the nature of the business we have at the centre we do now have a capability to step out into some of the higher risk areas which back in 2000 or so I would not have felt as inclined to do.

Given that we all live in the world I suppose we all must be somehow or other related to what the GDP growth of the world actually is, but I am pleased that the businesses we run have mostly been disconnected from GDP growth over the last number of years and we would aim to keep them that way. But, the last thing I would ever be complacent about is our ability to grow and I think having diversity in our business also gives us more opportunity to grow rather than less.

I think your comment would be just as valid if we had half the income streams, except my ability to respond to it would be considerably less if we had half the income streams.

QUESTION: Your main areas are obviously the UK and the US. You may have better feelings about what we are going to go through, but we are talking about maybe a potential slowdown in the US, and in the UK you have got the perennial highly-indebted consumers as we do in the US. Could you comment on that? Everybody has been waiting a long time for things to fall-off-a-cliff. Maybe you can add some colour? Thank you.

SIR FRED GOODWIN: Thank you. I think you have put it very well, there has been a sort of overhang of people waiting for things to fall out-of-bed and I think it is showing some signs of perhaps not falling out-of-bed at anything like the rate people anticipated.

I think it is interesting that as we look at the UK, where there was a great deal of *angst* at this conference last year about the situation with consumer debt, where there is now I think a palpable sense and a sense which we would share, that we may – touch wood! – be passing the worst. I think if we have now passed the worst and we come back and look at that in-the-round all the unsecured business that was done was good business to do, it was good to make good economic returns, but like many other things it was cyclical and the cycle came to an end.

After we'd reached the peak of unsecured lending, then guess what you get? – the peak of bad debts. But that was always to be anticipated. It doesn't make it a bad thing to have happened. It is just one of these things which happens in economies. Is it going to happen in the United States? I don't know! GDP growth in the US still looks like being a number for next year that will begin with a "3".

We have actually seen some movements in the US economy in recent weeks, not least connected with the energy price, which might give you a slightly more positive frame of mind than negative. But the truth of the matter is none of us know precisely what is going to happen and that's why I take comfort from the fact that our business doesn't derive material parts of its earnings from unsecured lending in the UK or unsecured lending in Europe.

We hardly do any unsecured lending in the US and even the secured lending we do is a very small part of our overall business. So, if it does fall out-of-bed, which I hope it doesn't, but if it does then I think we would be better placed than many.

QUESTION: Specifically at the moment how do you balance out returns and growth for something like UK motor insurance given the current rating cycle?

SIR FRED GOODWIN: Returns on motor insurance are actually – well, it depends on what your combined ratio is I guess, and we have the luxury of being one of the few motor insurers who has a combined ratio of less than 100 per cent and that is on consistent reserving. We haven't had big reserve releases or change of policy around releasing reserves so our results are comparable from period to period. We make money in motor insurance.

I think the challenge with motor insurance in recent years has been the squeeze, where we have not been able to achieve premium increases to match the increasing cost of claims. The impact has been slightly mitigated by claims frequency falling but nevertheless there has been a squeeze there.

Now it certainly seems from the economic backdrop of that pressure having been there for some time and some of the comments made by some of the major competitors - some of them very specific comments! – that we may be into a phase of some of the pressure actually beginning to ease in motor insurance. There is certainly I think a resolve on our part to ensure the economic returns from motor insurance remains satisfactory. They are satisfactory are the moment but they are not as good as they were.

That is a very long way I suppose of saying we would expect to see prices going up now, and I think there have been a couple of signals in the market, but until we actually see them coming through and see them coming through on a sustained basis I don't think we should try and bank them just yet. But the 'mood music' in the backdrop feels to be signalling a turn in that insurance cycle for motor.

A SPEAKER: Any more questions? Over here!

QUESTION: You said you were a major player in the leverage finance space. Could you comment on conditions in that market? Do you see them as frothy or do you still feel that risks are acceptable in that market?

SIR FRED GOODWIN: It is a market I suppose prone to froth. It is also a market where it is difficult to be general, each deal has to be viewed on its own. We have seen I would have said more in the early part of this year some of the conditions or characteristics you might associate with froth, leverage getting to the point beyond the humorous, and you have seen some negotiation away in some quarters in terms of credit and in terms and conditions which is a sure sign that you are into a bad place.

Actually, I think that has eased back a little bit. I think the deals we see around at the moment look of a doable or sensible nature. That is a sweeping generalisation having said that you can't make any generalisations but, as always, there are bad deals out there to do and you can quite easily turn a good deal into a bad deal by over-leveraging it or negotiating away the quality of the covenant.

One of the reasons we got to be the size we are in this business is that we like to think we know what we are doing. We adopt a fairly conservative stance. We sell down most of the business that we take on board, so those that are buying the business from us are buying the exposure from us. They also look at it and they also seem to like it. I think there is still business there, there is plenty of business there. It feels if anything slightly less frothy than it felt in the early part of this year and I would take that as a good thing.

QUESTION: I think at the Interim Results the Chairman said the Board had not considered a demerger of the US operations. You mentioned synergy. There is not much synergy between Citizens and the UK or European parts of the Group, and given your valuation remains lower than US regional banking valuations could you just expand on why there has not been consideration?

SIR FRED GOODWIN: Well, I think the Chairman was very clear about it.

I think as to your point about synergies there is actually quite a lot of synergy between Citizens and the rest of the business, as you would see. We talked about it at the Interim Results and we will be talking about it at the Investor Day we are holding in November.

One of the big opportunities for us in the United States is to build-out the mid-corporate and commercial franchise. You would have seen it was an infinitesimally small proportion of our Group income at the moment and yet it is an area where we have all of the ingredients and all of the know-how. We have the balance sheet, we have the corporate banking capability in New York, we have the distribution capability on the ground in Citizens, and it is an activity we have already begun. We are actively growing that and that is a very clear and real synergy between Citizens and the rest of the Group.

There are actually a growing number of synergies between Citizens and the rest of the Group as Citizens rolls out the merchant acquiring platform that we bought a couple of years' ago, the credit card platform we bought a couple of years' ago, so with every day that passes actually there are more synergies in place between the Group and Citizens, so it would not arise, there are very strong connections.

A SPEAKER: Any more questions?

QUESTION: You mentioned forms of relationships and I guess there is some kind of value in keeping those relationships. So could you perhaps give us an indication of which business units or business trees you think relationships are especially important to, that you might actually do business that is not meeting your profitability hurdles to keep the relationships intact and which business through more transactions in a way have stripped profit targets?

SIR FRED GOODWIN: Relationships are important, they are important across all of our business, but in real terms it is difficult to talk perhaps about relationships in the same way when you have a mass market customer as when you are talking about, say, to a large corporate. As a starting point we don't do sub-hurdle lending, for instance, to try and maintain relationships. We would only seek to even consider that territory where there is sufficient belief and actual reason to believe that other business would be forthcoming from the customer to get us over the hurdle rate.

I know we are often accused of driving prices down in Continental Europe, and in Germany in particular, but it seems odd to me since the banks with the low margins are the German banks, that in most cases are the incumbent banks rather than us. We put up last year, when we were doing our Investor Presentation on Corporate Markets, some of the returns on assets that we were achieving both in Continental Europe and in the United Kingdom, and you would actually see very healthy returns there.

So there will be a circumstance for relationship reasons where we will consider for a period of time going below hurdle provided there is the promise of other business. That's a judgment and when it doesn't happen we usually end up exiting the relationship. But if you look at the numbers it would not suggest that there is a lot of that type of activity going on and certainly it is not my sense within the business there is a lot of that activity going on.

A SPEAKER: One question here at the front!

QUESTION: Mr. Goodwin, if you look at your share price what do you think is not in the price? What positive thing does the market not recognise and what should it be?

SIR FRED GOODWIN: There was an observation made earlier on, that James Alexander actually touched on it, but if you look at our share price on a like-for-like basis as with most large banks there is not a lot to call between it and the other large banks. Yes, if you compare us to a US regional bank our multiple is lower; if you compare it to some of the other smaller banks our multiple is lower, but actually our multiple has moved. There has been a degree of re-rating in the multiple and if you start to compare it, as I say like-for-like, with the other large banks they are all in multiples which I would consider to be too low.

I am not sure there is anything that the market doesn't get about RBS – if somebody would like to tell me what it is then I would be happy to try and enlighten them about it! – but I think actually we are moving into a space where we comparable with the other banks. I would like the multiple to be higher but I recognise it is difficult when you are lining up with the other big international banks. (A pause)

A SPEAKER: Are there any more last questions from the floor? (A pause) If not, we are pretty much on time. There will be a break-out session if people want continue the discussion. Can we just thank Sir Fred for his time this morning. Thank you. (Applause)

(The proceedings then terminated).