Royal Bank of Scotland
Presenters: Sir Fred Goodwin, Guy Whittaker, Larry Fish, Johnny Cameron, Gordon Pell, Mark Fisher
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SIR FRED GOODWIN (Chief Executive, Royal Bank of Scotland): Good afternoon and thanks everyone for taking the trouble to call in. I hope you will have had, I'm sure you will have had, the opportunity to at least glance at the press release and I know some of you may have had the opportunity to be at our presentation this morning or to have seen it on the webcast.

Whatever the case, we are very happy now to try and answer any questions that you might have. I am conscious in some respects there was quite a lot to absorb and in some respects maybe not quite so much. But, in any event, we are happy to answer questions today, or indeed over the coming days and weeks as I don't think this is about to end suddenly, so there will be plenty of opportunity to ask questions.

I thought it would be useful, we all thought to would be useful, today just towards the end of the day to try and pick up anything which might be on your mind or you wanted to air or get further information on.

I have got all of my immediately involved colleagues with me and so I know they will be happy to try and provide any further granularity on any areas you would like. So, without further ado, I'll throw it open for questions!

MR. MARK THOMAS (Keefe, Bruyette & Woods): Good afternoon everybody. I've managed to get first in the morning and in the afternoon!

SIR FRED GOODWIN: Absolutely!

MR. THOMAS: I am afraid it is actually the same question, because the more that we have dug around and the more we've thought about it I really think it would be helpful to have a more detailed review of the wholesale synergies?

Obviously in relation to where Barclays sits, but also in relation to the timing because when we look at where the Royal Bank synergies and the timing of the Royal Bank synergies, given that not a lot comes from the wholesale which one might have anticipated to be rapid, the Group earnings enhancement seems to be back-end weighted.

So can you give us any more in terms of where those synergies are, why we should have confidence you'll deliver so much more than any competitor - I suppose just putting Barclays – and can you put some hard numbers to back up the synergies please?

SIR FRED GOODWIN: Okay, well let's try. I am glad you've asked that, Mark, because I didn't think we acquitted ourselves as well as we might have this morning on that either, and I know that Johnny didn't think so either. I will hand the floor straight over to Johnny because there is a very good story here and it needs to get out.

MR. JOHNNY CAMERON: I want to be sure, first of all, that we are comparing like-with-like. The number for the GBM business is 1.1, there is another 200 in that section but that basically comes out of the mid-market businesses which are not in the equivalent BarCap analysis, so it is 1.1 plays 850 and gives the right comparison.

What we have got is 58 separate initiatives – I have got the list in front of me and I have got the details in front of me – which were done bottom up. We have got a lot of knowledge in the organisation. Quite a few people have been through ABN Amro, for example, and joined us or know ABN Amro well. It is remarkable how much you can gain from external analysis around the world, because of being the Hong Kong bars or what it might be!

So we did bottom up work to get to 58 separate initiatives that adds up to that. We then – I will come back to it in a minute – had the one meeting in the Netherlands when I, and some colleagues, met with Pierre Overmars and had some conversations with him about his business. I have to say the one reaction I came away with, and I did say this to Fred at the time, was if anything our bottom up looks like an under-estimate.

I came away from that due diligence session with a great deal more confidence that the big number, 1.1, is achievable. There are an awful lot of things that we can and will do in that organisation to improve its efficiency and to de-duplicate, and so if I could just expand on those two points really.

The one about de-duplication, the obvious part of de-duplication is the back office where we proved in NatWest how quickly we can move things on to one IT system, one operation, put the finance function together, these things. Those are straightforward, we know how to do it, we know what we can save and it is the obvious thing to do.

We will put all of the markets businesses on to one IT platform. On the other hand, we will use their IT platform almost certainly for international cash management, trade finance and the rest. There will be quick and easy de-duplication there in terms of the IT systems and the operations and systems that support the two IT systems.

The front office: there will be de-duplication although actually there I think there is an interesting sort of sub-story which is, I am well aware that ABN Amro's staff are much more looking forward to us being their new colleagues than BarCap.

I think that while there are de-duplication opportunities in the front office actually there is also a great deal of complementarity, so in terms of the staff impact in the front office we are probably a little bit more friendly than they are, although obviously I haven't access to how BarCap split their savings into front and back office.

And then thirdly, coming on to efficiency again, the point that Fred quite rightly made this morning and needs a lot more emphasis, is that we have a cost:income ratio in GBM of sub-40 per cent and this is seriously industry-leading. We are at the top, top end of the right quartile here in terms of cost efficiency and we have sustained that through a period of 5 or 6 years of growth post-NatWest.

We have grown GBM at 17 per cent per annum for 5 or 6 years but we have kept the costs under very good control and yet managed to grow the revenue aggressively. I think that really is probably the single most important point, that if our objective is to get a cost:income ratio in

2010 of around 50 per cent that will be industry-leading but it is still 10 percentage points above where we are now.

So, I don't think that feels like a particularly ambitious target – Fred has already told me it is not a particular ambitious target! – but we can definitely I think back up what we saying by the experience of what we did in NatWest.

And on that last point I've just make there, it is the same team. If you look at the senior management of GBM, we have been together for 8 years, or 10 years nearly. We did the NatWest integration on time and we achieved cost savings in excess of what we promised then, and I am every bit as confident we can do that again now.

SIR FRED GOODWIN: On the timing point, Mark, I think to be candid, as Johnny described, we've built this up bottom up and if you come up with a bottom up vision of what the end state looks like – an end state in this instance being 2010 – and then you make some assumptions about how quickly you are going to get there, actually one of the better ways to give yourself breathing space is the rate of development rather than of in quantum, so I would much sooner push for more saving but take longer about getting it.

I suppose I am going a long way about saying we are reasonably conservative about the time that the rate at which these savings are achieved in preference for getting to the actual, the better optimum savings.

I don't believe the savings are all that challenging for Johnny and the guys to get, and I have made that view known internally. I think the integration costs we have got are quite high and I think the pay for this year is relatively modest - all of which we believe make these a fairly prudent set of numbers to be airing with you today.

MR. THOMAS: In summary then, would you be saying that you feel there is a duplication in terms of cost and overlap on the costs in the processing areas, but that there is actually an opportunity where you don't overlap in the front office?

I mean, to claim more cost savings around de-duplication but then say, 'we have got revenue opportunities because we are not duplicated' would suggest there is a different bias between front and back office in RBS and ABN and therefore in some areas you can take out the cost but it doesn't actually impact that much on the front line? (A pause) Or have I completed confused everybody?

MR. CAMERON: It is a bit of an over-simplification. There are savings in the front office. I don't want to mislead you, there will be savings in the front office but, broadly speaking, the thrust of what you said is absolutely correct.

We haven't talked about the revenue side and I assume because that is more self-evident. But the fact is that we have achieved global product leadership in things like foreign exchange, in derivatives, in bond underwriting, in loan underwriting on what is a narrower client base than

ABN Amro has already got. They have not achieved that global leadership.

So applying our product skills and in particular our skills at getting the product in front of the customer to that broader customer base should bring very significant revenue benefits. To do that, yes, we will need some people and we will need to continue to have those people.

MR. THOMAS: Okay. Thanks very much.

SIR FRED GOODWIN: Thanks Mark.

MR. GUY WHITTAKER (Group Finance Director): I think it is worth remembering, Mark, that we run I think 20 percentage points more efficient in Global Banking & Markets than BarCap – 24 percentage points or more – so we've been generally applying the hard productivity metrics to the ABN customer base and product streams to deliver a materially better return from Day 1.

MR. THOMAS: Thank you.

SIR FRED GOODWIN: Okay, who is ready for the next question?

MR. FRED RIZZO (F&C): I have got two questions for you. The first one, is it possible to give a little more detail on the numbers side, specifically the risk-weighted assets and the assets associated with the sort of rump of the things that you will be taking over?

And then the second question is with regards to and going back to the wholesale area. Have you made any assumptions for revenue disruption and sort of dis-synergies coming through on the revenue side? If you can discuss how you are going make those large cost cuts with regards to not having any revenue disruptions?

MR. WHITTAKER: Sure! The RWAs, Fred, account for a little less than half of the total. It is about €140 billion of the €280 billion risk-weighted assets in ABN out of the end of 2006. And then you have got to recall they sold a mortgage business in early 2007 which took a further €6 billion out of Business Unit North America, so we would expect to consolidate something like €134 billion plus the growth that has occurred organically so far this year.

The residual assets that we talked about are really down to the two equity stakes in Saudi Hollandi, Capitalia, and Prime Bank, none of which are of any great material size, and then the residual private equity portfolio. I think the core size of that is around €3 billion, something of that order of magnitude, so relative small RWAs that goes with the residual assets.

MR. RIZZO: How about just the underlying assets that you are acquiring, I mean the wholesale bank, presumably if you can spot the difference between the wholesale and LaSalle?

MR. WHITTAKER: In terms of nominal assets?

MR. RIZZO: Yes.

MR. WHITTAKER: Or just the RWAs?

MR. RIZZO: Nominal assets.

MR. WHITTAKER: I should have brought the Accounts with me. The nominal assets for LaSalle, Larry, is 125?

MR. LARRY FISH (Citizens): 125, less the synergies.

MR. WHITTAKER: About $100 billion worth on the LaSalle side. What was the nominal number? I can't remember the size of the financing book. (A pause) Let me get back to you on that, Fred.

SIR FRED GOODWIN: Can we get back to you on that, Fred?

MR. WHITTAKER: Fred, let me come back to you on that. We have got it but I just don't have the number in my head, the nominal asset piece on that.

SIR FRED GOODWIN: Dis-synergies, Johnny!

MR. CAMERON: Yes, the dis-synergies. We have looked at that pretty carefully. You implied two sorts of dis-synergies; one is effectively client overlap. There is certainly a bit of client overlap in the UK where, frankly, we have every client worth having and they don't bring a lot in terms of clients, so there is a certainly amount of overlap there but that's pretty small in terms of the value amount.

Elsewhere in the world I am pretty happy that the client overlap is really very limited and we've put something into overlap and dis-synergies as a consequence of overlap but it is not a huge number outside the UK, and even there it is not a big number.

The UK is obviously balanced by the fact that – it is something we have not mentioned and it gives me the opportunity to mention it – their international cash management/trade finance product will be sold to our existing UK customer base and that will bring us some additional revenue that will be very helpful as part of our revenue synergies.

MR. WHITTAKER: Just coming back on the total asset piece, Fred, it would account for a little over €700 billion of the almost €1 trillion assets on the consolidated ABN which represents about 74 per cent of the nominal assets and a little less than 50 per cent of the risk-weighted assets.

MR. RIZZO: Thank you. And the revenue assumptions, so in the near term you've cutting the back office, the process to extrapolate the synergies over the next few years. You don't anticipate even in initial Year 1 revenue disruption or lost revenues?

MR. CAMERON: Keeping our clients happy is absolutely first and foremost in our mind, as we said, and we will not be doing anything that upsets clients and that will mean we will not be doing things that disrupt the revenues. I remember vividly in NatWest, this was the dog that didn't bark. It will be fine!

SIR FRED GOODWIN: It is not worth disturbing the customers to get a revenue synergy, so it is better to do it at the right pace, and they were the comments I was making this morning, around just stabilising the ship before we start making the changes is very important.

MR. CAMERON: We won't take costs out if it cost us in revenue. That clearly doesn't make sense!

MR. RIZZO: Okay. Thank you.

MS. TANIA GOLD (Dresdner Bank): Just a very quick question and apologies if I missed this somewhere in the presentation earlier. But I was just wondering, of your €27.2 billion consideration how that was split between each of the Divisions you are buying, please?

SIR FRED GOODWIN: No, you didn't miss it, Tania, because we did disclose it and we wouldn't be disclosing that at this point.

MS. GOLD: Okay.

SIR FRED GOODWIN: If you think about the sensitivities at stake around LaSalle, for instance, we wouldn't be doing that at this point.

MS. GOLD: So you won't say whether the €24 billion that was mentioned previously is what you are looking at for LaSalle then?

SIR FRED GOODWIN: A good guide to the estimation for you. The €24 billion was in a very specific context of "go-shop" and that was conditional on, that price would only ever have paid in the context of us having successfully acquired the rest of the ABN Amro, so we would have been paying it to ourselves. That was not actually considered, if you like, in open market context.

MS. GOLD: Thank you.

MR. BRIAN AMBROSIA (Southern Brook): Good afternoon. It is a question on how you guys came up with €1 to withhold? And it seems now that the €2 billion would be a pretty substantial number!

SIR FRED GOODWIN: Exactly, and it's not overly scientifically, Brian, I would freely acknowledge!

We are going to pay €38.40 – the consortium will pay €38.40 in all circumstances – and it is just a question of who it pays it too? We wanted to pick a number from which it would be pretty clear to our own Shareholders that we don't plan importing any litigation issues into our Shareholder base, so it was a number which we felt gave comfort, or would give reasonable comfort, that we could stand and defend the situation with the Bank of America – if necessary, if that was an outcome we'd reached.

Or alternatively we could do a deal with Bank of America and if there were incremental costs, I am just trying to think, tax or something like that, that it could come out of that figure. But there is no science to it. It was a number in the context of talking about a round number to supply that comfort to our Shareholders. We do not wish to import a litigation issue into RBS or any other consortium member.

MR. AMBROSIA: Okay. Thank you.

MR. NIGEL MYER (Dresdner Kleinwort): Thanks gentlemen. In the press release, both in April and the more recent one, there is some interesting phraseology in terms of Merrill and others undertaking to underwrite and I just wonder if there are any circumstances in which Merrill can walk away from this undertaking or whether they really are 'on the hook'?

MR. WHITTAKER: No. They are 'on the hook'. All of the equity issuance is fully underwritten and I think we made perfectly clear in a number of the statements today there is plenty of sub-underwriting capacity interested in supporting them, with a wide range of institutions involved. So, it's a 'tall gun'.

MR. MYER: If equity markets globally fall by 25 per cent they still have to cough up the same amount of cash as they do today – is that correct?

MR. WHITTAKER: Thinking through, if you listened to the presentation earlier, the equity issuance from Fortis was a €15 billion Rights Issue, which is obviously going to their own Shareholders; it is a smaller single digit number, I think around €5 billion or €6 billion, in Santander. For ourselves, we are exchanging 0.844 of an RBS share to every ABN Amro Shareholder – there is no underwriting required for that …

MR. MYER: Absolutely!

MR. WHITTAKER: … and the Tier 1 issuance is the €6.2 billion of preference shares which have been underwritten by Merrill Lynch and others.

MR. MYER: Okay. Thank you. And may I ask one further question? In this morning's presentation you suggested in response to one question that the obligations, the dead obligations, of ABN would be transferred or would be assumed by RFS and I just want a bit more clarity on that?

Because the vast majority of ABN's dead obligations are issued by the ABN Amro Bank, does that mean any kind of guarantee from RFS or were just talking about sort of subordinated debt and Tier 1 debt? Perhaps you could comment on that please?

MR. WHITTAKER: I think just looking at the ratings, obviously the three consortium banks are rated AAA, AA1 and AA2, respectively for ourselves, Santander and Fortis; ABN itself is AA2.

I think it is not finalised yet as to whether we are specifically going to guarantee those obligation given that eventually some of those liabilities will flow to the intended recipients of each part of the ABN businesses as they move with the assets they are funding.

But inasmuch as each of the three consortium members is at or higher rated than the existing bondholders we are certainly not expecting any concerns or push-backs from the debt market.

MR. MYER: No. It was really just because the obligations are legally from ABN Amro Bank, where the legal entity of the bank was going to end up or where you expected it to end up, and therefore who was responsible and whether you would then start expo-shuffling those obligations around?

MR. WHITTAKER: Again, I think it is the sort of thing on Day 1, as Fred said, we will come in, run the bank, the liabilities of the bank, and we will be supported by the equity and assets of ABN Bank, and then once we have secured control we will go for an orderly redistribution of both the assets and liabilities ensuring there is no dislocation along the way.

SIR FRED GOODWIN: It doesn't feel like a Day 1 issue, Nigel, and it doesn't feel like an issue – full stop! – given the credit quality of the buyers.

MR. MYER: I've not doubted the credit quality at all, no, it was just that I was intrigued by your comment that the RFS would assume those obligations.

SIR FRED GOODWIN: It *de facto* owns all of ABN Amro Bank, the Holdings Bank, the whole lot!

MR. MYER: Absolutely! But it was just the choice of words that intrigued me, that's all. Thank you.

SIR FRED GOODWIN: I wasn't trying to be clever - self-evidently! (Laughter)

MR. MYER: Thank you.

MR. DREW FRIEDEL (Teiderman): I wanted to ask you, just so that I understand, under what circumstances would the $1 not be paid out in particular?

SIR FRED GOODWIN: There are no circumstances under which it won't be paid out! If this offer stand it will always be paid out, so it either goes to ABN Amro Shareholders or to Bank of America. I think that is the long and the short of it.

Any balance between, one might say, for instance, for the sake of argument, settle with the Bank of America hypothetically, the difference between a settlement and a dollar would then be paid to – the euro rather! – would be paid to ABN Amro Shareholders. So the consortium will always pay €38.40 either to ABN Amro Shareholders or to I think basically Bank of America.

MR. FRIEDEL: Just so that I understand that. So if you agree to settle with Bank of America and you come back and say we've settled but we feel like we lost a billion dollars of value, one, how would you determine that and, two, if you came to that conclusion would you then take out that value from that essentially $2.5 billion pool of money?

SIR FRED GOODWIN: I think we would need to get to that place first. We are well into the realms of the hypothetical at this juncture. But, say for the sake argument, we were to reach a settlement and, say it was to share a bit of LaSalle, thinking out loud you could have a bit of tax that might have to be paid that we wouldn't otherwise had to have paid had we bought the whole – so I can see that would be an occasion for it.

There is nothing smart intended about it, but it is most obviously there to cover any litigation outcome.

MR. FRIEDEL: What do think, why did this settlement happen? I would have expected you to have been able to agree with Bank of America. Can you shred a little light on why there wasn't a settlement when there probably should have been one?

SIR FRED GOODWIN: Well, I think with all situations it is difficult for one party to conclude why there wasn't a settlement. But looking at the positives, there was a discussion, it was amicable and professional, but ultimately we reached a point where there was a gap and the gap wasn't bridged at that point in time. I don't know and the Bank of America didn't say why they didn't want to bridge the gap.

From our point of view the gap felt too big. Maybe it was because we hadn't bid at that time, I don't know, but now that we have bid maybe that alters things. I really don't know and Bank of America didn't shed any light on it, but the attractions of a negotiated settlement remain every bit as strong, probably stronger now after have we've bid than they did before and if there is a will on both sides then maybe it could come again; if there isn't, there won't be.

MR. FRIEDEL: Can you tell me whether the gap was in terms of value or assets, in other words …

SIR FRED GOODWIN: I don't think it would be proper for me to get into a discussion like that.

MR. FRIEDEL: Do you feel that the gulf or difference between the two of you was very large or would you say …

SIR FRED GOODWIN: I can keep this going all afternoon! (Laughter)

MR. FRIEDEL: Yes. I can try all afternoon too! (Laughter)

SIR FRED GOODWIN: I know you would and I sense that's where we were heading, so let me try and give the best answer I can. The gap was big enough to stop either of us reaching a deal. I think the fact we were talking is a material positive; it would be nice to think we could get back to the table again.

We are certainly willing to get back and carry on talking, but Bank of America might not want to and that is their prerogative. We can only talk when there are two people willing to talk. We will see where we go from there. But it was an amicable discussion, conducted in good faith and professionally. As we've said, there are no ongoing discussions so it is hard to predict what might happen.

MR. FRIEDEL: Is there anything that prevents you structurally or legally from negotiating with them in the next couple of weeks now that the offer and the legal process has taken a couple of steps forward or you couldn't?

SIR FRED GOODWIN: No, we were cleared to speak with them and we remain able to speak with them. That's our understanding, unless they want to do something different, something we are not aware of, but that's our understanding.

MR. FRIEDEL: And just to reiterate, the $1 fee, so if will cost you $100 million to litigate this that comes out of it. What else would come out of that money? How would it work? If you can give me a little better understanding?

SIR FRED GOODWIN: Well, supposing for the sake of argument it cost us 100 million to litigate, supposing we ended up that the Bank of America sued us and we defended and they were awarded 50 million let's say - and certainly all of our legal advice points to it being *de minimus* at best, if they have a claim at all - but supposing we paid 50 million to settle the litigation, that would come out of it.

But we are not trying to be cute with ABN Shareholders. If we wanted to take money off ABN Shareholders we could have just reduce the bid. But we launched a bid at €38.40 for the whole Group and we tried to buy LaSalle through the "go-shop" process and ABN turned our offer of €24.5 billion down.

We are now faced with a situation where we may have to incur further – well, it looks almost certain – that we are going to have to incur further costs to try and get the whole of ABN, and what we are doing with the €1 deferral is highlighting if that eventuality arises that cost must fall to the ABN Amro Shareholders.

We could have cut the bid, and I suppose that will be another way to do it, but this felt fairer: to say, look, we don't know what's going to happen? And if nothing happens, then they get the whole euro. So we are not really trying to alter the deal, we are just trying to reflect the uncertainty and reality of that uncertainty that has been created by the actions of other people – not us!

MR. FRIEDEL: I guess the one thing I don't understand is the Bank of America deal, if it happens, then your offer goes away because your offer is conditional upon that …

SIR FRED GOODWIN: That's correct!

MR. FRIEDEL: … and so it is almost like a double condition. You have the one dollar/euro which says if we settle there are costs, etc., we are sued, so why have both, if you understand the question?

SIR FRED GOODWIN: I don't think you have understood the conditionality properly. If the court decides to uphold the existing ruling it then goes to a Shareholders' vote, which if the AGM was anything to go by, it is likely that we would win that vote. We then end up the proud owners of LaSalle and we would be very happy at that.

But Bank of America have indicated they have a legal action and they are currently progressing that legal action against ABN. We then as owners of ABN would become the 'proud owners' of that legal action; and we fully intend to defend it but the cost of doing so, if indeed there is a settlement, is not something we feel that our Shareholders in the circumstances should bear.

Now one way would have been just to cut the offer, but that's a bit harsh on the ABN Shareholders if it turns out that the lawyers are right and this is not a substantial action. So this felt like a more elegant mechanism to allow the ABN Amro Shareholders to get whatever part of the €38.40 they can. It will be impacted only by any action by Bank of America; so if Bank of America pursue the action it is against ABN Shareholders, not against ours.

MR. FRIEDEL: Okay. Thank you.

MR. MICHAEL GLEVESON (McIntyre Investments): You addressed the nub of the questions I had, and some of those I didn't have, with regard to the negotiations with Bank of America on LaSalle.

But one of the things you mentioned, and perhaps you could elaborate just a little bit more on it, in light of the fact that you have got a proposal now on the table that might change the dynamic of negotiations with Bank of America? Can you just enlighten us a little bit more on that?

SIR FRED GOODWIN: I honestly don't know, Michael, what might influence Bank of America. I guess when you are negotiating with someone you always try and put yourself in the other person's shoes and if I had been in Ken's shoes it would have certainly gone through my mind, 'I wonder if these guys are really, really going to bid if I don't settle with them?'

I don't know whether that was in Ken's mind or not, but it would have been in my mind if I was in his shoes, so maybe that influenced him but I really don't know. It is a pure surmise. But we have now bid so I guess that removes that uncertainty.

MR. GLEVESON: Do you think the fact that you have bid for the entirety of ABN as opposed to ABN ex-LaSalle changes the dynamic?

SIR FRED GOODWIN: No, it has been completely crystal clear from the outset. The other thing not to lose sight of, was that there is also litigation against the ABN Amro Board and ABN from their own Shareholders because we couldn't bid. So had we not bid for the whole thing it would have crystallised that action – well, it wouldn't have crystallised it – it would have kept that action going. So bidding for the whole thing is what we've said all along.

Bear in mind, we wrote to ABN and indicated our desire to bid for the whole Group and to talk to them of that before they did the deal with Barclays and before they did the deal with Bank of America. They agreed to see us. They invited us to come to Amsterdam to see them about buying the whole Group - and then announced the deal with Bank of America in the interim!

But we've not changed. Our desire to buy the whole of the Group has been there from the outset and has been crystal clear.

MR. GLEVESON: Another point that was just raised is your ability to walk should the Supreme Court not uphold the Enterprise Chamber's decision, and if the EGM doesn't go your way, but the ability to walk is a waiver-able condition. Can you give us any feel for under what conditions you would or won't walk?

SIR FRED GOODWIN: The short answer is "no". But let me try and be more helpful than that. We are trying to be reasonable here and this is a situation which has take a number of twists and turns already and all we have been trying to do is something quite simple.

But, in short, we are bidding for the whole Group and in weighing up the proposition that is available we have produced a bid which we think is very attractive for ABN Shareholders, its employees and customers and for our own Shareholders.

If events are going to conspire in such a way that LaSalle is not there, well, this bid goes away and I think in all candour that is a perfectly reasonable situation. There is a lot of work involved. Although the numbers look very attractive, it will be a lot of work to realise these and without LaSalle it would be less attractive for us. So this bid – this bid! – goes away in that circumstance.

What happens thereafter? Well, let's see what happens. Let's see what the circumstances are. But people can rest assured that this bid goes away if LaSalle is not included in it.

MR. GLEVESON: Sure! There is a price for everything but we'll see how it goes!

SIR FRED GOODWIN: I'm not sure I quite said that! This bid is for the whole Group including LaSalle; if we don't get LaSalle this goes away.

MR. GLEVESON: Understood. Fine!

SIR FRED GOODWIN: There is no commitment or undertaking to do anything else in that situation.

MR. GLEVESON: Okay. Thanks very much.

MR. MIKE TRIPPITT (Oriel Securities): Fred, good afternoon. My first LaSalle question has been 'done to death' and so I am going to move on to the second. It is a slightly more general one but it's I guess to do with the risk.

You have talked about organisational complexity in ABN Amro and the presentation this morning came across as if this is really in terms of delivering cost synergies, it is going to be sort of like a hot knife through butter in terms of delivering the synergies. Yet it just strikes me this is an organisation which is complex and it is going to take longer get those synergies. I just wondered how you would measure that and how – going back to Johnny's comment – you see that comparing with the NatWest transaction?

SIR FRED GOODWIN: I will make a few comment on it, Mike, and then I will pass it over probably to Mark Fisher and Johnny to talk about a little bit. But I don't want to over-labour the NatWest comparison incidentally. NatWest was NatWest and we were all very happy with the way it went and we remain so. But this is a different organisation at a different time with different complexities.

The relevance of the NatWest comparisons are simply that the process we applied of working through, getting the people who were actually going to run the business to work through, ground up analysis and building up synergies, is the same process that we've used, and because it was so successful in NatWest gives us confidence – not that we saying, oh NatWest works so everything else we ever touch has to work!

It is an approach which we have deployed a lot: with Ulster Bank, First Active and Churchill, and all of our acquisitions in the United States, so it is a kind of tried and tested approach and it does give us confidence.

But it is a complex organisation. One of the things, in looking at that complexity, is the fact that we are actually breaking the organisation apart and means you have got three teams working on it, you have got three organisations working on it rather than one.

What's going to happen to Banco Real? It is going to be off-stage left! Santander will go and do that. We are not having to apply any brainpower or horsepower to that. They will be doing it, Fortis will be doing their bit, and we will be doing our bit. There is a bit where we overlap in the Netherlands, and Mark will speak to that in a minute, but that really is a relatively finite part of the whole organisation and so it is not one that I think we should get over-bogged down with.

The other important lesson though that came from NatWest – and having said I wasn't going to hark back on it, here I am harking back on it! – was the regime. NatWest would never have worked if there had been a merger or there had been a friendly deal.

Why? Because some tough decisions had to get taken and quickly and irrevocably and implemented, and if we had been in there with sort of half the management team being from NatWest and half being from RBS, with the best will in the world, and it is not to say the NatWest people would have been – we have two of them sitting round the table with me today – but you just needed 'one singer and one song', and you don't tend to get that where you have got mergers or split management teams.

So the heavy lifting that has to be done in ABN Amro is heavy lifting, and that's why I think the consortium has an advantage, because we have got three skilled and capable organisations breaking the task down, and we are not having to do what Barclays are trying to do which is a merger with the very team that got into this mess and Amsterdam still being the headquarters. Can you picture it?

Two things you learn from NatWest are process, process, process to arrive at your synergies and regime – you need the regime to bring about the change – and I tell you a merger involving the same management team, and there are good guys in the ABN management team by the way, it is just if the regime doesn't get change you don't get regime change.

I'm sorry, I went on rather longer than I was intending. But, Mark, do you want to add anything?

MR. MARK FISHER: Yes. You used a comment 'like a hot knife through butter', but what we are trying to convey is we are confident in the quantum and in the phasing of the benefits we put in, but we are certainly not assuming that this thing can happen with the same speed in what was a relatively simple, large but simple, acquisition like NatWest where you had immediate control.

There were a number of factors we mentioned this morning. Obviously we have got a number of regulatory hurdles to go over. We have got, particularly in Holland, a very strong ethos of workers consultation and workers rights and we have got the relative complexities here, particularly of carving out in Holland the corporate entity which is ABN Bank into its BU Netherlands assets and everything else. So those things put a timing on to this, which is probably a little slower than it would have been on the equivalent NatWest, Churchill or other acquisitions.

Having said, of course, the workers regime in Holland is particularly focused on Holland. There are a lot of other things around LaSalle in America, a lot of the activities of markets in London, which we think will be open to more rapid movement.

So we're very confident in the quantum of costs and very confident that we will get through these procedural steps, but we are trying to put into the plan appropriate time to deal with the procedural steps without having to rush our fences, and that's crucial in terms of making sure that, as we said at the outset, the organisation runs stably from Day 1, focusing on customers and focusing on meeting its regulatory commitments.

SIR FRED GOODWIN: I also think, Mike, while that is going on here, in parallel in the United States Larry and his guys will be running on LaSalle. Larry, I don't know if you want to talk about the process?

MR. FISH: We obviously have done this before and with a strong record over the last 15 years, over 30 different acquisitions.

In the case of LaSalle, Citizens has roughly a 50 per cent cost:income ratio, LaSalle has a 66 per cent cost:income ratio. Their manufacturing costs are $15 million a year more than ours with only 60 per cent of our asset base. They have 15,000 employees; we have 25,000. They employ more people in their human resources department than we do.

On the revenue side, there are just opportunities everywhere.

Beginning with corporate banking, we have the opportunity to bring all of the suite of global products of the Royal Group to one of the largest commercial customer bases in the Mid-West, and specifically to the Chicago market which the third largest in the country.

On the retail side, you can go on and on, but they outsource their credit card, their merchant processing; we have those products. Things you outsource generally don't get sold the same as things you own. We originate 8-9 mortgages a month in every one of our branches; that number for them is 4 or 5. We could go on and on. We have 24 revenue initiatives and 32 cost initiatives. They are very detailed and, as in Johnny's case, they were developed bottom.

And we do have pretty good transparency into their numbers because they have to file their regulatory reports and those are public records in the United States. So I think the integration opportunity with LaSalle is a very significant one and we are very excited about the opportunity.

MR. CAMERON: I just wanted to pick up one more thing, and I am going back to Mark's question in a way, which is I talked about comparing 1.1 to 850 being us to BarCap, CBM to BarCap. Another comparison you could do is say it is 1.3, including the other 200 in the commercial mid-market businesses, to the 1.65 plus 850 that Barclays has got in there. They have got 1.65 in the international retail and commercial business which we have got, frankly, just a little 200 against.

So I don't there is any dispute out here in the market place that there are costs to be cut. It is not knife through butter, it will take the sort of effort that Mark has talked about, but I don't think there is any argument about the ability to find costs to cut.

MR. TRIPPITT: That's been very helpful. Could I just ask a follow up if that's possible?

SIR FRED GOODWIN: Indeed!

MR. TRIPPITT: It is clear the way you have laid it out in terms of the bid from the consortium perspective how each of the asset bases divides up, each of the asset bases within ABN divides up amongst the consortium.

The question I have got is just on the other side of the balance sheet really. When you start to look at things like hedging contracts, derivative contracts, cross-border FX contracts – I mean this is more a lesson in how do you divide up a bank? – but how is that handled and what happens in terms of the run-off of some of those contracts that probably would be required to actually finally separate ABN into each of the businesses?

SIR FRED GOODWIN: Well you are in luck, Mike, because we have one of the world’s three greatest living experts in the subject of how to break up these items in ABN’s balance sheet at the table in the form of Guy Whittaker! (Laughter)

This is a topic which has had a lot of attention from the consortium and Guy will outline the sort of protocols we have in place to deal with it, because at this point protocols are all you can have until you get in and see the actual numbers and actual contracts.

MR. WHITTAKER: Yes, I think that’s the operative word. Until you can get in and see the actual numbers and the actual contracts it is fairly difficult. What we outlined this morning was a 45 day plan from taking control to go in and verify and consolidate the assumptions, and within that obviously identify each of the assets and liabilities associated with each of the business units that we have acquired.

So within that I think there will be some very obvious assignments of derivatives which are attached to specific assets, or liabilities for that matter, and the intention would be upon separation that the derivative contracts or the hedging underlying instrument moved together, to the extent that was recognised in the earnings streams of each of those business units.

The second group of derivatives would really be the principal trading books that are there for the various market-related activities in currencies and rates and equity derivatives, and obviously those are businesses which will come in from the wholesale plans activities into our own Global Banking & Markets businesses.

I think they are well tried and tested assignment and innovation techniques that can be used to migrate those portfolios or replace those portfolios with new contracts as they turn over obviously at that point under presumably the RBS name into the market place.

And then the third group of things, really we are back to this whole issue of how do you split up there the liability base, the securitisation programmes, that are in the balance sheet? Again, to the extent they are specifically assigned to one of the business units, then the programme is to migrate those to their eventual owner but as part of an orderly transition process that will take place.

SIR FRED GOODWIN: Thanks Guy.

MR. TRIPPITT: Okay. Thanks very much.

OPERATOR: As we have no further questions, I would like to hand the call back over to Sir Fred for any additional or closing remarks.

SIR FRED GOODWIN: Thank you very much. Well, thanks everyone again for calling in. I hope the answers to those questions were helpful in giving you a sense, or a better sense, of the overall bid.

We will be very happy in the coming days to answer any more questions you might have, and feel free to contact Richard or contact us and we will try and get answer to you. But thank you very much again for taking the time this afternoon. Bye-bye!

OPERATOR: Thank you. Ladies and gentlemen, that will concludes today's conference call. Thank you for participating.

(ends)