



RBS Investor Seminar on UK Retail 2013

Monday 18 March 2013

Ross McEwan, CEO, UK Retail

Good afternoon everybody. Thanks very much for joining us this afternoon. This is my first Retail Investor Round Table so looking forward to this. The structure for this afternoon is we're going to do a presentation, I'll do a quick intro of my team who are here today, it'll take about 45 minutes. And then we're going to head into I think is probably the most important part of the afternoon where you get to ask all the questions which we've allocated about an hour and a half.

And for those of you, I'm sure there are no wilting violets here, who are too frightened to ask the questions, we're going to have a cup of tea and coffee afterwards and you can ask all the questions you didn't want to ask publicly. So that's the structure for this afternoon.

First off, Les Matheson, Les looks after all our products and marketing. Les do you want to quickly stand up so they can see you from there; great to have Les with us here today.

Fiona; Fiona is our Chief Financial Officer you've probably seen a fair bit of Fiona in many presentations; been around a long time which is great for me. We'll come back to that later.

Chelvi; Chelvi who you would have seen in his distribution role just recently I pulled him out of running Distribution and running what we'll call future bank and I'll talk to you a little bit about what that looks like going forward. I'm delighted to have him in that role. I think it was the role he came over here for and all of a sudden found himself diverted into a whole raft of other things including Distribution.

And we've got in the front row Stuart Haire who's the Chief Risk Officer for the Retail bank. Stuart's not going to be giving a presentation but is here to answer any of those tricky questions that I'm sure you'll have.

Now the most important slide of the day, if we take the next hour and a half you can read that, we'll just move on from that one now that we've done it.

What we're going to cover off today is basically I'm going to give you a background of our new strategy. We're going to cover off key initiatives from that strategy, look at the service proposition and also products, financial performance and outlook and then we're going to do a quick summary.

I will do up to the Strategy itself and including the Strategy; then we're going to run on to Service and Chelvi will pick it up for a section there; Les Matheson will run the Products piece and then Fiona will come up and do financial performance, and I'll come back and do a quick summary at the end and then we're going to open it up for questions.

Okay, so that's the structure of today.

I thought I'd just make some initial observations about the business that I've picked up. I've been here now six months, it feels a lot longer actually, but it's about six months. And I thought I'd just make some comments on the business itself. I think it actually made really good progress for the three years under Brian Hartzler and the team, and many of the team, well all of the team here were actually here under Brian. And I think the fundamental building blocks of this business have been put in place and the results that you've seen, and we'll show you again today, have been very good. Without those building blocks I don't think we'd be in a position to actually move off the platform that has been developed. And when I talk about that it's around loan impairment being well down. Really good credit skills inside the business. People that are really engaged in this organisation despite what's been happening particularly to the RBS brand; and also a very good platform around a customer database that's been put in place over the three years that we'll use going forward.

So there's a great opportunity here for our business to build off what has been built. We've got great people assets and, interestingly enough, after all of the pounding that this team and the team at the front line have taken they're up for the challenge and that's something I think has been so very pleasing for me. We're very focused on serving our customers well and as you'll see throughout this presentation you'll see a very strong focus on efficiency through simplification. And if you don't get that message as we go through we've failed in our job today.

I believe our strategy will show continued sustainable returns for shareholders. And I'm going to take you through the past and then I think you can extrapolate out what you think as you will do on whether we can hold on to the returns we're getting out of this business - I believe we can.

Let's just quickly recap on the scale and reach of this business: it employs close on, including all the back office, operational, IT staff, pretty close to 40,000 people. We've got a total customer base of 15.4m a big opportunity within that customer base because only about just over a third to 40% are actually what you'd call main bank customers. And I think that's probably typical of the traditional retail banking business in the UK.

We have over five million customers who are active online and as part of our strategy of self-serving that becomes really important for us. In the mobile space the team have moved into over the last 15 months has had a very quick uptake of over two million customers now regularly using the mobile app, which has been great.

Loans to deposit ratio at the height of this business that was loan deposit of 122% has now gone down and retailed to 103%. And to be quite honest, for me, somewhere between 103% and 110% I think signifies a very safe business, and today it's running at 103%.

The area that I think we've got the biggest improvement on is working with our customers. If you look at the Net Promoter Score which is what I'm pushing throughout our business for our people to focus on, and I think the key feature for me is for us to focus on is around Net Promoter Score; both by channels and by product and by overall. And you'll see the difference between the RBS Net Promoter Score which is well and truly negative of about 15%. The market average though interestingly in Scotland is also negative because we dragged most of it down. NatWest is positive and slightly ahead of the market but interestingly the market leader is actually well and truly above; so there's a space between what I'd call the five big banks and those smaller banks that our customers are being attracted to and are happy dealing with which creates the opportunity but also the threat for us.

Just moving through then into the progress that the team have made over the last three years and I'll just pick out a couple here. If you look at operating profit back in 2009 you could say well that was at the depths of despair of the industry was 200 million. The highest I think this business got to was close to a billion pounds. If you extract that out for 2012, without all the one-offs, it's close to an underlying business of about 1.9 billion, so it's a good underlying profitable business.

Net margin has stayed pretty flat, but pretty good at 3.6%. Our cost to income ratio has come down from the height of 60% down to 51% and I think plenty of room to move on that. Return on equity is sitting up at around 24%. If you look at the long run average of this business it would be sub-20, probably 16%/18%, but as I say, without the one-offs it's sitting at around 24%.

Loan impairment which I talked about from the height of the time was at 1.6% now down to 0.5%; it's a very good result and shows a lot of hard work that's gone into this business at the back end of it over the last three years. And again if I take you right down to the bottom Net Promoter Score, it's not good for RBS, and it is improving under NatWest which just shows two different brands having different things going on in people's minds. Don't ask do we keep RBS as a brand. About 80% of our business is done under the NatWest brand. It's Scotland that has the Royal Bank of Scotland name.

Over the last few years the team have done a very good job of simplifying the product range, reducing products on sale by 45% down to 56; I still think a lot of work to be done there. We've also got a lot of work to be done around the back book coming to the front book to simplify even further. A lot of technology has gone out to the network in particular and that will certainly continue and Chelvi will take us through that. And also the charter which became a bit part of the team putting themselves out for public scrutiny, 92% of all the promises made under the charter have been met and we're looking at revising that charter now. I think overall a pretty good result for the last three years given the hammering this brand has taken and a very good business.

Looking forward the market we don't expect and haven't factored into our figures a lot of market growth. We think it's going to be somewhat quiet could say amoebic but I'd say a quiet growth in this market place so in our figures, what we've been working on, is it's going to be slow to see growth again from an economic perspective and the market will remain competitive.

We do not believe our competition are sitting on their hands. They will also be looking to change their businesses dramatically and also focus on the customer so, at the end of the day, I think it's going to be around the ability to execute in this market place as much as what you say you're going to do.

Our strategy is very much having the customer at the heart of everything we do. And we talk about delivering fair and transparent outcomes, so our alignment with the regulator is actually completely aligned because I have a view that their thinking is exactly the same; and we'll be looking at focusing on customers' needs and efficiency will be a key driver for us in doing so.

We aim to make our processes, products and our interactions simple and easy. Today our business is incredibly complex in the way we deal with things, the way we use our systems and processes and our technology and our job is to simplify it on behalf of customers. And that's something I've been somewhat shocked about having come out of the New Zealand and Australian market place to see how little use of technology and how complex the

processes are that our customers and our staff have to use. So I have a slightly different lens on that to probably many others.

The team: you will have met Chelvi who, as I said, has recently come out to look after what we call Future Bank and Strategy for our business. And we'll take you through the seven major initiatives that Chelvi's going to drive on behalf of our business.

Les Matheson: been with us now three years and been spearheading the simplification of our product range and our marketing.

Jane Howard: about to join us in what we call the Customer Experience role; we'll make sure that what we do right across the business focuses on the customer.

You'll see some other changes here; I've flattened out the distribution of our organisation so that we get a lot closer to our customer and hear the voice of the customer a lot more so we're putting in place a head of direct distribution which will look after online, mobile and our contact centres.

Fiona Davis who you have met, great to have such an experienced finance person in our team; Fiona knows this business and the wealth business back to front which is great for us as we look to change this business.

Stuart Haire: you've met in the Chief Risk Officer role, that doesn't change. The same with Louise Haggerty has been with us for quite some time in the HR role.

Two dotted boxes there: John Ellington, Director of Operations for the Retail Bank; and Mike Errington, the Chief Information Officer did not use to sit at our Retail ExCo, they both do now and, to be quite honest, the conversations have changed quite dramatically since those two have been sitting at the table. And we can make this business move a lot faster having them there and hearing the conversations and understanding our needs.

Mike Bamber: who looks after our Branch and Private at the moment, he's going to look after England and Wales. I'm going to put somebody to look after MD of London; and also somebody to look after MD of Scotland. The reason behind this London is the growth engine, let's focus on it; England and Wales have the biggest number of branches, I suspect limited growth so we need to manage that quite differently to London. And Scotland is basically going to be after we've solved the Rainbow branches is going to be the Royal Bank of Scotland and that brand needs lifting and so do the customer base up there to do better things with us.

Ian McLaughlin: looking after Speciality Banking which is investments, mortgage and our protection business; very clearly the focus is on advice and Ian will sit at our table and make sure that that voice is getting a good hearing. So, quite a large executive team but very focused on the conversations we will have about the customer.

I just want to now cover off what the key parts of our Strategy will be. And it is my view that we can build the UK's best retail bank under both the NatWest and the RBS brands. Having come into this market six months ago I've been quite surprised at how bad this industry is from a retail banking perspective. That upsets many, many of my people when I say that but you just need to have a look at the stats, both for ourselves and for the industry, around industry complaints and you realise that there is not a great retail bank up here in the UK. I would even go to say that there's not a good retail bank in the UK and our job is to create that.

You look at the things that have happened in the past around PPI and I'm sure there'll be some others that come out of the work from the past; one has to say there is a real opportunity in this market to create the UK's best retail bank and that will be a very, very good bank. And I just see the opportunity is there for us to take.

So our strategy is pretty clear. It's as much about what we're not going to do as it is as much about what we are going to do. First off, this will be a mass market Retail Bank. I am not going to allow this business to segment off and do all sorts of exciting segments; there is only one segment we're going to be after and that's in Private. We happen to have about 700,000 Private clients that sit outside the Coutts brand, we're going to focus on that and get it right. And right now I don't think it is right in its proposition and we can do some pretty good things there. That's the only segment we will go after other than being really good at mass market Retail.

We will support Chris Sullivan in his efforts in the small to medium size, because those people are in and out of our branches all day and we're having a very good relationship with Chris and his team on how do we support his SME customers so that they don't see the difference between my business and his, and over time we'll make sure that that happens.

We've talked about coverage across all of the UK excluding Ireland which is run separately but we will invest in London. London is where the growth is. We probably haven't put enough resources into this particular market place and focused on it enough and we plan to do so. And we'll have a full product range but a simplified product range and we want to expand our shares in the mortgages and current account markets and in savings. And over the last three years both mortgages and savings have been growing for us and we plan to continue that.

One of the areas that shows our determination particularly in the mortgage market to be really good at this market we had a fair number of our distribution force off the road for the months of December and January as we retrained and retrained them again to be great at what they do. And the feedback from customers now from a Net Promoter Score alone has gone from zero to 46% being prepared to promote to us as a great place to do a mortgage; we used to be zero. So that's the sort of things we're going to have to invest heavily in this business and spend a lot more time with our people.

We will differentiate through service. The key pieces though will be availability and accessibility. We're good on ATMs, we're good on branches by number, we're good at where they are and what they do – we've got a lot of work to do. We want to be the industry leader in self-service, we're good in mobile, we're not as good in online and getting people just to do it for themselves and allowing them to do it when they want to, and Chelvi will take you through some of that. We do not plan to be – this is where we don't plan to be the world leader in product design and development. We will be 'Me too' but we will actually specialise in being great at our distribution in allowing customers to do it for themselves. We'll have fair pricing, we're not going to lead the market, we're not going to lag it, we'll be the fair pricing both as you take the product out and as you hold on to that product. And we're going to have a smaller cost base in doing all of that.

We need to get closer to our customers. You've seen our organisation structure; in some cases we've already taken out two layers and we've got more work to do. And we need to have our staff following very consistent service standards which started under the charter but will continue on under a new charter going forward.

The final one I just wanted to cover off on is simplified processes. We need to reduce the number of processes. An example would be 600 processes that run through our branch network, 600 processes that our people need to know about is just far too many. We're

going to go straight through and we're going to go for paperless. I've just been amazed at this industry and its ability to love paper, process, fax machines that disappeared out of other parts of the world about ten years ago they're all still here in abundance – I don't know what it is about the English, Welsh and the Scots that you love paper so much. But our view is we can do without it, let's go straight through and let's eliminate all this waste that goes on, and we'll simplify this business quite dramatically.

When it comes to the customer these are the three things in the dark blue that the customers need: Expert and Trusted Advice; they want it Easy to Deal with and you can't say that about the banking industry up here; and they want great Customer Service. So it's not that hard if you boil it down to what are the fundamental things you need to develop to deliver for customers. Then take it through to the next level which is one of the things that permeates down into and then the key service components and I'm only going to pick up on a couple here. First, high levels of training and coaching. Differentiate between the training and the coaching. We do lots of very good training but we then don't take it 'on the job' and coach people then to make sure that the behaviours are correct; so we've started doing a lot of work around that already.

If you have a look at the next one on Easy to Deal with – accessible where and how customers want, Chelvi will take you through some of that. We far too often we make customers ring us because our processes and systems aren't simple enough for them to do or we've complicated them so much we don't trust them to deal with their own money, but we don't think we've got enough security at the back of the place to actually save them from losing it. We can change that: we need to simplify the processes, they're just too hard to deal with. And we need to build a culture of service inside this organisation so that every point of contact, no matter where it is or who it's with, is a great piece of contact.

There are seven major initiatives that we're going to drive in this business. When I joined we had 142 projects running in the Retail bank, now, it's a big bank but it's not that big, so we've started to whittle those down, and I suspect by the end of this year we'll have about 40, and by the end of next year we'll have about 20 projects running, but they will all flow under seven initiatives, unless they are mandatory and dictated by the regulator or the government.

And the first one of those is a Single view of the customer. I'm used to having, when you go into a branch, or online you can see all of the interactions with a customer, what they have with you as a bank, right across the spectrum. That's not the case with us. You turn up and do a review, a very good person will do a review, but they'll hand you over to somebody else, and that person today will have to put the data in again, and if they then hand you on to somebody else, that data goes in again. That's what I talk about a Single view of the customer: put it in once, use it once, and everybody inside the bank can use it in the interactions. Again, I'm not used to seeing this in a bank of this size, not having that single view, and it's also a reason why we're getting caught with PPI claims, because we can't extract easily the old file that shows we had a conversation, so it fits very strongly into that single view of the customer.

One and Done. One anecdote: when you actually take out a current account and you move it through and you go through the process that will touch three, possibly four, pairs of hands, if not more, whether it's right or wrong, whether it's correct or not. The future will be the person at the front actually touches it and nobody else touches it. That's what I call One and Done: one person touches it, nobody else. That, I think, will be very new for this industry.

Self-service: Giving the customers the ability to do it when they want it, where they want it, how they want it. It's interesting to note, on the mobile space people are already starting to do that; our biggest use of the mobile is between seven and quarter past eight in the

morning: people are on a train, they're on a tram, they're on a bus, and they're doing stuff themselves when they want to. We need to do that right across our services and make more services available for them to do it.

Points of presence: We constantly think about points of presence as ATMs and branches. We need to stop thinking about that, we need to start thinking about where, as a point of presence, that the customer actually has an interaction with us, do it themselves, or come into a branch, for things like kiosks and the likes, where they can just do it for themselves in a public space, if they want to do it, or they can have access 24/7 online, or through mobile. But the old days of points of presence being a branch I think are well and truly over and done with.

Service and sales heartbeat is: how do you create an organisation that thinks customer first every time? And that's not just the frontline, that's about our support functions as well, so everything we do thinks about the customer, and thinks about their needs, not our needs, and that's a big programme of cultural change we'll run through this organisation. If you pull that together with Single View of the Customer, I think it answers all the regulatory issues of conduct that are floating around the marketplace, but it puts it in terms of really good things for customers.

Simplifying frontline life: Already we've started this one and it's going gangbusters. The front of our branches and the front of our contact centres, our people spend a lot of time doing stuff that we've pushed at them over the last 20 years that is no longer relevant, and we're starting to strip those out well and truly, and giving them time, and that time is going back into coaching them on how to do better things with customers. That will give us a lot of time, and at the first phases we have not stripped any of that time out and taken it as savings, that's what this business has done every time, and left our frontline staff without the skills to face customers. We've already created a lot of time for our people to have better coaching.

And finally, this is one that I didn't want to put in here, which is around our Private Banking. It would have been nice to have left this one out and had six initiatives, but as Chelvi and I went through the areas of concern, we had 12 open forums with 3000 of our leaders, and our Private Bank came up time and time again. It wasn't working the way customers wanted it, it wasn't working the way our staff wanted it, so we've put it on the list to review the strategy and how that operates going forward. I think there's a good place for a really good private banking operation, and I think we can create that here. I wouldn't say we had one today.

So those are the seven priorities, and Chelvi is going to take you through a number of those in detail, but that's the programme that we'll drive, and you'll notice it is initiative-led; we need to build momentum in this business, to create the UK's best retail bank.

The investment in this business over the last three years has been pretty strong, and the returns out of that have also, as you've seen from the numbers, been very strong. We're also now going to take the next level of investment, focused around those seven initiatives, and push this business even harder over the next three years to focus on the customer. I think the return will deliver, again, great returns for this business. We're stress-testing them ourselves, we've pushed them through our board, we're pushing every one of them very, very hard in our business, but we need to do some pretty basic things. Our branch networks, other than about 450 out of our 2100, have been refurbished, and the others don't look at that good at all. We are slow at doing basic things like account opening. Our mortgage processing is slow and archaic, and we need to do a lot more at the front of our business with allowing customers, as I've said, to do their own thing and self-serve themselves. I think

there will be a good payback out of this investment, and I think you'll see it quietly emerge over the next three years, the change in this business.

I'd now like to hand over to Chelvi, just to run through the service components of some of the areas that I've been talking about, and just take you into a little bit more detail on some of these initiatives. Are you ready, sir?

Satyendra Chelvendra, Managing Director, Future Bank Strategy

Good afternoon. What I will do is just run through a few examples, and I'm sure we can pick this up at question time as well if we need more detail, but the priorities that Ross was talking about earlier, the seven priorities, what I'm going to do is take you through three or four examples. They basically work on two principles. The first one is around, for the customer, something that is simple, easy and convenient. We have tried to keep it quite narrowed down because of the fact that it then makes sure that the initiatives deliver what we set out to do. And the second one is focused on people. It's really about people feeling confident and competent, so people are coached, trained, so on and so forth.

Now, let me take a couple of examples. The first one is, and Ross spoke about this, of simplifying frontline life. What we have done is we have commenced this programme, we've gone through all of the channels, so fundamentally the call centre, starting with the branch, then call centre, into complaints, into the Private Bank, and looked at what are what we call our silly processes that we are running that we can actually remove for our staff, creating the time for them to serve customers. So that's the first one, which is really about: What can we actually remove for our staff?

The second thing that we have done is we've gone in and said, "Look, what is it that we can actually automate?" So the account opening process was one of the things that we've looked at, and said, "Look, an account opening process takes several days for us, in terms of delivery," and we've looked at that and said, "Look, can we actually open an account in a much, much shorter time, with actually no paper, except what we store on the computer?" Now, at the moment we have so far saved something like an hour and a half for branch managers, and about 40 minutes for our customer service officers, which we haven't taken out of the network. We have given that back to our staff, given that back to our management team, so that they could train the staff in terms of delivery of service to our customers. Now, this is something that has caused a fair amount of energy in the branch network, energy in the call centres, because of the fact that they can now actually focus on the customer or on the staff.

The second one is on digital, and we have basically two things that I would like to talk about: one side is online and the other one is mobile. And on the online front, where we have really focused a lot of our energy on online banking, and as Ross pointed out, we have not hit the numbers that we've been looking for. What we have also grown, at the same time, in the last three years, is online sales. So, for example, we grew online sales by 25% from year to year. We do a lot of the simple sales through the online space, for example, credit cards and loans, we do a large share of our credit cards and loans through the online platform. Now, a third thing that we have not done much of, which is in our plans in terms of online, is to now do non-financial customer maintenance, online and directly, which we now do in a manual sense, so that's part of the work that we're actually working through.

Now, from a mobile point of view, the shift is slightly different. What we have done is we did simple mobile banking, which you saw, and as a market-leading proposition for the last year and a half, but now we have moved to a slightly different space, which is changing the paradigm on payments. So, really looking at our payments and saying, "Look, how can we

make it easy and convenient for our customers to make their payments?" And there are two things we've done there: we've combined our emergency cash idea, and mobile, and allowed customers to actually get cash from ATMs without having to use their card, so that is one idea that we've pushed through which has been a big hit with our customers. And the second one that is in pilot at the moment is paying anyone through the mobile, by having the contact number, so you don't need the account number, you can actually pay through the actual phone number. So the big, big push in here has been how can we change the way that customers can deal with their payments in an efficient and convenient way? And that's showing in our number of transactions, that's showing in the volume that we are driving in terms of registrations that we see. Now, we've always had the strategy to keep mobile independent of platform, so we have developed it on several platforms, and the recent one being Windows 8, and we will continue to do that because our objective is not to be linking just to one platform but to all those platforms that customers actually use.

Now, what we are doing now is, in terms of mobile and online, is to see whether we could actually converge the two and make sure that the look and feel and what we provide on both channels start to now become common, which is what we are investing in and spending a lot of time on. Slightly different from the digital space is really looking at where we are investing in terms of markets. Now, there are a few things that we're doing here. The first is really looking at our network and asking the question: what should be the optimal points of presence across our organisation, across both brands? And then once we've looked at that, the second question that we've asked ourselves is: what format should we have and how should our customers be served in these formats? So we have come up with formats that are flagship branches, maybe for the top 50 to 75 branches, right down to branches that don't have any staff, they're self-service branches. And the third thing we've looked at is what sort of people should we have in these branches? Because once we start to change the dynamics of the branch, where the conversation is more around self-service and people can actually deal with transactions directly, and there being far more advice-based conversations taking place, the question that we ask ourselves is: okay, what sort of people should be in these branches and what sort of population should be in these branches for the various formats?

Now lastly, in this space, has been really around the Private Bank; so if we were to have Private Bank working as part of this business, then what should be the Private Bank proposition, what should we be focused on there, what should the relationship manager be actually doing, and again, to provide a differentiated service that is cost effective. So, there is a combination of both the physical side of the network, as well as the people side of the business.

So, fundamentally, if I were to summarise, the entire focus in all the work that we are doing is around becoming number one for service across the UK, which is really focused, again, at the point that Ross was making earlier, which is around being really good at the point at which we have a conversation with the customer. So, if we had a distribution point, we will actually be good at that point at which we have the conversation, whether it be that a customer contacts as on the phone, be it self-service on the mobile, ATMs, online, deals with an adviser, it really doesn't matter. The second is they have the choice. So we give the customer the choice to deal with us where they want to deal with us.

Now, this point that I did not actually touch on a lot, and will be quite happy to take it on questions, is that every single transaction that we do, every single automation piece that we are doing in this, as part of this programme, a principle that will govern everything is One and Done. So what that actually means is that you could actually complete a transaction without having several hand-offs and several pieces of paper moving up and down. We have spent a fair amount of time and energy actually thinking about how we'll do that, by keeping

it simple for our customers. Now, this applies to everything: so this applies to mortgage application, this applies to a current account opening, this applies to the way that we make payments, and so on and so forth. And the objective is, from a technology architecture point of view and a business architecture point of view, to have a consistent architecture that allows us to then provide this service consistently, a consistent look and feel, across all points of interface, whether they are self-service or not, which basically means our design of an application, that we have done for mobile over something else, we could use it and reuse it, without having to then have another system on another project to drive that through.

So, that's basically the points I've got to make, and I'm sure we'll come back and have some questions. The simplicity of this is there are only so many initiatives, and it sometimes looks a bit scary in a bank of this size that you have so many initiatives, but the many initiatives are focused on the customer or the frontline that serves the customer, there is nothing else in there, there's no more magic in there than that. So I'll hand over to my colleague, Les. Thank you.

Les Matheson, Managing Director, Products and Marketing

Thank you very much indeed. Okay, good afternoon. What I'm going to do is just talk a bit about products, the product set, what we have been focused on. Let me page down. Talk about what we've had, how that has performed, and the product set that we see going forward. Overall, our strategy is to simplify both the range of products, as well as simplifying the products themselves. Largely, we've got through the first job, which is simplifying the front book, and we have also simplified a certain amount of the back book, but we still have a ways to go to get it quite as simple and easy as we would like. We want to have a range of simple, easy to open, and easy to use products, so it's not massively exciting, but from a customer perspective it's easy: easy to use, easy to open, they don't need to spend a hell of a lot of time with it, they can just get on and get the basic facility and function working well.

If we look by type of product or customer need, the areas that we're going to be focusing on are current accounts, the basic transactional account, on mortgages, a large loan, and we're going to be focused on savings accounts. So those are the three product categories, and within those we'll be looking at, largely for mortgages and for savings products, developing and building those amongst our existing customers, so we have a much larger share of current accounts than we do of mortgages and savings and our intent is to build out both of those second two product ranges amongst our existing current account base.

So I'll take you to each of those in turn. First of all Mortgages and you'll see the same arrangement now for the next three charts which is talking a little on the left about what have we've done and a little bit on the right about what we expect to do in the future. So if you look at mortgages in 2012 our market share of new mortgages has been 11%, which is significantly ahead of our stock share which is 7.9% around 8% or so. You'll see that that's grown quite a lot since 2008 from 6.1% to 7.9%, so almost two percentage points and I think this is just a reflection of where we're coming from. If you think about it NatWest and RBS was largely a mainstream high street bank, what many of our competitors did was they bought up building societies that had a large mortgage book, that isn't something that we did. So we have a significant opportunity to build mortgages amongst our existing Current Account base.

That's been working pretty well. We've had the capability of doing that, some of our competitors don't, some of our large competitors have a Mortgage book that means that their assets are significantly greater than their liabilities and so they're having to be very careful about what assets they actually bring on. With an LDR, Loan Deposit Ratio, of 103 we're in a

place now where we can grow in balance our Mortgages and our Savings Accounts. So we can stay focused on the customer rather than worrying too much about the balance sheet.

Over the past couple of years we've focused particularly on redemptions, minimising redemptions by making sure that we make it easy for customers to switch accounts; so about nine months ago we actually made it possible for you just to go online if you had a mortgage to be able when you came to the end of let's say your two year deal you could switch straight into a new deal. You didn't have to come into the branch, you didn't need to talk to anybody. So we made that process a lot easier and I think that's a good example of what you should expect to continue to see from us across the product range.

So if we take the future we'll be using a lot of the functionality and facilities that Chelvi has been talking about, to make sure that the customer has a better experience. So that means faster mortgage approvals, it means slicker online applications and decision making, and it means a certain amount of self-service. It means things like when you actually begin the process of applying for a mortgage that we'll send you text alerts, let's say, along the way, just to let you know where that process has got to. Or, you can log on online and you can actually see where you're up to in the process. So that's helpful for the customer, it's also good for us in that we get a lot less people calling into our operational centres or into the branch.

We've been doing a lot of training with our Mortgage teams, our Mortgage sales force, towards the end of last year and through the first quarter of this year. That is going to have an impact on our Mortgage and volume, probably less so in the first quarter, maybe a bit more in the second quarter when completions come through but that's really helping us to get ahead of what we expect in terms of MMR; in other words, beginning of 2014 when the Mortgage Market Review actually comes into place with new regulations we expect a lot of the training that we've done now is preparing our salespeople for that new regulation. We are also increasing significantly the number of mortgage advisers we have at a branch level to take account of that volume forecast.

Let me dive into the next product which is Current Accounts. So on Current Accounts here we've held market share, if anything on our front book, we've lost some in certain areas, some of them we are happy about where we've lost a bit of share for example in basic accounts. We are also redefining our Student proposition at the moment to try and make sure that it's sustainable for the longer term. On the positive side our balances have grown 8% in 2012 on Current Accounts which is pretty good and would be better if interest rates were a little higher but that will come one day.

What else have we done? We've done things like increasing functionality and capability, things like Emergency cash which none of our competitors have because we have a patent. We've introduced text alerts more broadly. We have been developing Contactless and we are about to begin the national rollout of that; we've actually rolled it out last year into the London area, we'll begin the national rollout which will just be a replacement rollout starting towards the end of next month.

On packaged accounts we have relaunched all of our three main packaged accounts over the last 12 months - making them simpler - making them easier to use - making them easier for customers to use. So you don't have to sign up for various facilities. Mobile insurance in particular we've literally just last week changed our provider there, and we're now using Carphone Warehouse, which we think will make the capability of getting a replacement phone much easier.

So for the future again it'll be building on some of the things that Chelvi was talking about. We'll also be looking at a number of reward-type programmes - make sure that it's easy to use the functionality of the current account; opening process and usage process, making it easy to transact anytime, anywhere. As Ross was saying at the beginning what we want to make sure is if you look on your phone or if you look on your PC or if you look in a branch that what you see in terms of the screen is going to be the same, and that's going to be helpful both for our customers but also for our staff. So they won't be looking at green screens they'll be looking at whatever it is that our customers can see. And, by the way, if any of you haven't used our mobile phone or somebody else's mobile phone I would strongly suggest you do if you want to know where the Retail banking industry is heading. I have to confess I hadn't used it myself, in anger, up until about nine months ago when Chelvi persuaded me and actually loaded it on the phone for me but now I wonder what I'm going to do without it. So I would highly commend that to you if you haven't already done it.

We'll also continue to make sure that current accounts are simple, easy to use, and make sure that the fees and charges are also simple and obvious and fair. So again over the last couple of years one of the reasons that you've seen our fee income come off is that we have been simplifying the fees that we have, making them simpler but also making them less, frankly, and making it easier for people to manage their way around the current account. So that will continue to be a focus.

And the last one is Savings. Here we, over the last three years, have been at the front of the pack, I think the same last year, we grew our Savings 6% which I think was the best of our peers. So you'll see we've managed to grow our, and this is just Savings balances it doesn't include our Current Accounts, if you take Savings and Current Accounts you get to the £108 or so billion, but that focus has enabled us to now better balance obviously our assets and liabilities, but over the three years we have been able to grow ahead of the market. Again we've simplified the product range down from 21 to ten on the front book in the last two years. Again we will continue to simplify that going forward.

The other things we have been doing over the last couple of years is again just making it easy to use. So things like an online e-ISA, making it easy to get an instant access account online. For the future you're going to see the same sort of things - fewer products - easy to use, very well linked in with online, very well linked in with mobile, a lot of functionality for customers. Again if you go onto our Savings website, let's say, and just look at some of the functionality there in terms of being able to put in a goal, let's say, track yourself against the goal. We can actually go in and see what our customers are saving for and I can tell you there are some interesting things, but again that's one for afterwards. But it's something, more seriously that people get engaged with and this functionality enables them to get engaged with the product and therefore to use it more.

So that's it from me. The focus is Current Accounts, Mortgages and Savings. Simplify the range, make sure that the product's easy to open and then easy and simple to use. And with that I will hand over to Fiona to talk through the financials

Fiona Davis, Chief Financial Officer

Good afternoon to you all. Before I get into the financial performance of the business I just thought it was worthwhile if you'll indulge me for one slide of pictures before I get to some numbers. A quick reminder of the economic backdrop that we've been battling against in this business, not to tell you anything that I think you don't already know but actually to illustrate the fundamental resilience of this retail business. So top left hand side you can see that customers have, as you know, been significantly deleveraging over the last few years leading to pretty much flat in terms of the Mortgage market and an unsecured market that's

actually been shrinking by about 7% per annum since 2009. So clearly in that kind of environment growing the balance sheet is pretty challenging.

And then top right you've got the household savings ratio. Again the rise in this ratio reflecting reduced household consumption. So that once more creates some challenges for us as a business, this time on our fee line as it clearly drives a significant element of the transaction volumes that go through the economy and hence our fees.

So that follows with the absence of any GDP growth and the deleveraging that we saw at the beginning there leading to pretty flat balances in terms of the deposit side as well. Again challenging when we're all competing to close our funding gaps.

So, and I guess my point is, that had I been sitting in Retail in 2007, and I think there's a fair chance that I actually was, and someone had given me this as a stress scenario and said, "Plug it into your model, Fiona," and possibly if they'd said to you plug it into your models, as well, I doubt that I would have come up with a five year forecast which was actually an increase in profit five years hence; and, as Ross alluded to earlier, it's actually a doubling of profit over those five years. So my point being this is a resilient, strong business.

So here's some numbers that you've already seen for 2012 as part of our published results. The first point I would make is that this business has remained in profit throughout the cycle. Our lowest point was actually in 2009 as Ross referred to when we made a profit of £230 million and since then obviously those profits have recovered strongly. Our returns rose to about 18% in 2010 and then in '11 and '12 have been in excess of 20%. If you look through the cycle and assume something like a 10% RWA weighting then our through the cycle returns are probably something in excess of 13%.

The increase in profitability has been achieved through a number of factors. I'll go through four. Number one, costs have been sustainably reduced from £3 billion down to £2.5 billion over the period since 2009. That alone adds about 10% to our return on equity. Secondly, franchise growth, as you have seen, has been very strong. We've taken share in Mortgages and we've taken share in Savings in each of the last three/four years, as Les has already referred to. Thirdly, we've kept our net interest margin pretty stable over that period. Even with the margin effect that reducing our unsecured book has, and even with the length of a low interest rate environment that we are now into, our net interest margin is actually where it was in 2009 at 3.6%. And fourth but not least in improving our profitability we have also been reducing our impairments. Part of that is economic and part of that is management action through our tightening of our risk appetite and also improving our collections performance.

So at the same time as growing the profitability of the business we have obviously been tightening up on our risk profile. Firstly, in terms of culture, which I'll come on to a bit later. Secondly, in terms of credit and you see that in the mix of the book so we've actually shrunk our unsecured book from about £22 billion at its peak to £14.5 billion at the end of 2012. Thirdly, in terms of liquidity, which you've also heard about already in this presentation, improving from over 120% loan to deposit ratio to 103%.

And the fourth area that I would point to is actually one where we have also improved the quality of our earnings. So if I looked at the composition of our income back in 2009 you would see it was about 60% net interest and 40% fees. And if you look at that now it's about 80% net interest and 20% fees. Our net interest income has grown nicely, stable margins, it's grown nicely in line with the growth in the franchise but we have actually taken our fee income down and probably taken about £4/£500 million of lower quality fee income out of the P&L as we've gone through the last three years.

So Outlook you'll be interested to hear about. Just before I cover 2013 I guess in terms of our income in 2010 and 2011 we had pretty strong income growth off the back of a combination of the growth that we had in a franchise and some widening spreads over that period. And in 2012 you saw our income decline; it fell by 10% which was about 7% on net interest and 19% on fees. The net interest income reduction was a reflection of the margin pressures on our Current Account book, on the hedges there, coupled with some impacts on other hedging and also some one-off transfer pricing issues as well. So I think those latter two components were fully embedded in the 2012 numbers so I don't expect them to cause a similar delta in 2013.

The drop in fees was a result of three things. There was some transactional fee pressure, some of that is economic, as I referred to, lack of growth does have an impact on the level of transactions going through. Some of it was also effectively induced by us and some of the helpful things we've been doing for customers through, for example, text alerts reducing our overdraft fee income. Q4 was impacted by our preparations for RDR and also I guess there were some smallish one-offs in our fee income last year as well.

So where does that leave us for 2013? Well I would say broadly stable in terms of income and also in terms of RoE. If I start with the negatives because that's what I'm famed for in my team I think; market rates would imply that Current Account hedges will continue to decline over 2013 and into '14. As we've already said we don't at the moment see interest rates rising in 2013 or the economy growing. And I think the other thing is whilst we will seek to increase the amount of front book, unsecured sales I would still expect the unsecured book to continue shrinking slightly in 2013.

So the offsetting things in my mind are: one, I think we will continue to achieve balance sheet growth that is in excess of the market, particularly on assets, although I would remind you of Stephen's comments at the year-end results presentation when he did say, "Don't expect too much from our asset growth early on this year due to retraining of our sales force." As Les referred to we are now in a sort of equilibrium as far as a funding gap is concerned and if anything we might be happy to take it slightly higher so we've got much more flexibility in where we choose to grow.

I would expect asset margins to be pretty stable in 2013. There is obviously as you know some front book pressure on mortgages at the moment but I don't think that will feed through to have a significant impact on the book in 2013. Our unsecured book is slowly re-pricing upwards as well, and I see no reason why our SVR book would not continue to grow as well. So, I think on balance asset margins pretty stable.

On liabilities, as I say, we have the current account hedges having a downward pressure. But again I would say in aggregate we would hope to keep our deposit margins stable.

Clearly on the front book our savings pricing and the market savings pricing has come down over the last few months; and there may be potentially opportunities for us to look at re-pricing some of the back book as well, which will mitigate against that current account hedge.

Fees I would say stabilising, but I guess none of us know at this stage where RDR is actually going to play out. So, that's my one question mark in there.

Costs, I guess we're part way through that journey. We had a strong track record over the last few years in reducing cost, and as Ross has said, we already have plans to do more. Our costs are down from 3 billion in 2009 to 2.5 billion last year, net of absorbing the investment in the Retail Transformation programme. A huge number of areas that we see

opportunity, and most of them have been talked about already. To recap: automation, transaction migration to online, to digital, which will save time, Ross' beloved paper and maybe even the postage of sending the paper out as well. Efficiency savings through moving to much more of a one-touch approach, less hand-offs. Simplification, whether that's in our head office or whether that's in our product range. And also complaints, that Ross also referred to, clearly have a cost to them; the extent that we can eliminate those and fix the root cause, again that should drive a cost saving for us.

So, I would say the underlying trajectory will continue to be downwards in 2013. One mitigant against that, which I can do not a lot about, is the fact that our FSCS levies will go up in 2013, so the net effect may be, whilst the underlying will definitely be going down, there may be some mitigant that makes it more flat than downward in terms of the headline number.

On the impairment front we've seen, as you know, material reduction since the peak in 2009. As you can see from this slide, the lion's share of our charge stems from the unsecured book, and its decline reflects the fact that historically we tightened our risk appetite, 2007, 2008, 2009 increasingly. We have seen, as you can see in 2009, the flush through of some of the weaker cohorts. The overall book has been shrinking. We continue to invest in our collections and recoveries guys. And I suppose equally, whilst economic conditions are not stunning, they are at least relatively stable.

On the right-hand side you can see the graph that shows impairment as a percentage of the balance sheet. Consistent drop in the unsecured charge: our coverage there is about 90%. The mortgage graph shows an increase in '10 and '11 and then dropping back down again in '12, which reflects the increase that we made to our coverage on the mortgage book, which is now in excess of 20%.

Before I start some comments on where we are in the risk space there are three points I'd like to make here. One, we have strengthened the culture: we now have a much clearer articulation of our risk appetite and much better monitoring thereof. Secondly, our investment in Future Bank will serve to enhance our risk management much further, particularly in the conduct space – this will be driven by consistent review of customer needs and outcomes, a simplification of the process, and a consistent application of that process, and as Chelvi alluded to, investment in our people and training. And the third point is just to say that our aim is to be proactive in identifying and fixing operational and conduct risk issues, and being proactive in our dealings with the regulators on those issues.

So, if I sum up with a medium-term outlook. The economy doesn't look likely, as far as we can see, to show significant improvement in the medium term. So, we're preparing at least on the basis that whilst there will be income growth it will probably be fairly subdued. If I'm wrong, great.

We'll continue to target franchise growth in excess of the market; but I think we can, as I said before, be more flexible about where we target that growth, given that our loan to deposit ratio doesn't need to improve further.

I think margins should be reasonably stable as the current account pressure starts to moderate.

We will continue to target cost reductions. But if the economic circumstances do improve and we can see opportunities that we can use that freed up capacity to generate further top line growth then my logic is that we'll be in a good position to actually capitalise on those opportunities.

On impairments I would say there's probably not a huge amount of road left to go; it can only go so low. So, I would probably see them stabilising around the 50 bps that you saw in 2012. And on that basis I would expect that the return on equity should continue to be attractive in the medium term.

Risks: conduct risk is obviously at the forefront of my mind, particularly when I try and estimate the PPI number. There are a number of regulatory question marks out there in terms of future capital requirements, liquidity requirements under Basle III and deposit insurance schemes etc. And clearly there is economic risk there.

Upside: rise in rates, economic growth wouldn't do us any harm. I think if we can really get the culture of simplification part of everyone's DNA in the organisation there will be more to go for than we have currently allowed for in our estimates. And as I said, the Future Bank investment case has been largely predicated upon cost savings. And I think if we can truly differentiate ourselves on customer service and satisfaction then clearly there would be a gearing factor on the top line.

So, that is what I was going to cover on the numbers. I will hand back to Ross to sum up. Thank you.

Ross McEwan

Thanks very much, Fiona. I just thought I'd give a quick summary now on our aspiration of creating the UK's best Retail Bank.

First off I think there's a big space there for it. I don't think there's anybody I've met that says that there's great retail banking in the UK; and I think we can achieve that. But it is going to become through superior execution of a strategy as opposed to the strategy. Because I'm pretty sure you will have been speaking to all the other Retail Banks and they will have all been talking about customer and technology and the whole raft of things as well. So, it's going to come down to execution.

The things that we'll be focusing on will be our customer. We will measure ourselves strongly against the aspiration of getting to number one Net Promoter Score – at which point we start right at the bottom in many, many classes. So, it is a big aspiration; but one that I've found our own teams are very keen to get to grips with and work out what we need to do to move that score. Also quite hard when you've got a brand that's getting trashed, particularly the RBS brand, that gets knocked around on a daily basis. But as I said, 80% of our business is done under NatWest.

And we're going to differentiate through our distribution, our points of presence and our capability and capacity out in the network – we're going to have to rebuild some of that capacity, particularly around mortgages. That is why we spent over two months retraining a lot of our mortgage writers and starting the process of bringing new people into the industry to actually doing mortgage business.

We're going to go simple and easy and One and Done. Every one of my team is now focusing on what are the processes and procedures we have that are really difficult for our people and our customers and how can we eliminate them. You can imagine an organisation with over 30,000 people all focusing on how to make this easier for customers is a winning strategy for us.

We need to build our people capability. And that's why we're giving them time. This will be the first time in this organisation's history for a long period of time where we've created

capacity at the front of our business and not stripped it out. I know you'll find that difficult to work through why you wouldn't do that; but I think a lot of our issues is that we haven't given our people time to train and develop and coach on the job. If we can do that a lot of the other costs of our business start to dwindle away as well as we handle things two or three times when we just don't get it right at the front.

We need to build momentum, as Fiona said, across a number of financial metrics. Some of those metrics have been incredibly good around loan impairment. And I go agree with her there's probably becoming limited room to move on there at the moment. But there are other measures that we should be looking at, particularly around the cost base of this organisation; as we get it simpler it should be a lot lighter.

If we look at the risk profile and the controls we have over our business now I think are pretty good. They may not have been that way some time ago but I think the business has a good risk profile and a good control environment where the frontline of our business own the risks of the business more and more every day.

We have a strong investment programme that we've given you some detail of today. We have it under I think exceptional leadership with Chelvi, who's driving seven initiatives, not 142, but seven initiatives in our business so that we can focus on the things that make an absolute difference.

I think it will be tough, given the economic environment we're trading in, limited growth if any growth in this marketplace. And as I said, it will come down to the team that we've put together and the execution basically on a day to day basis, dealing with every customer we interact with. And that's what we'll be focused on, dealing with the culture of the organisation.

Enough from us. I think it's a good opportunity now, having heard from myself and some of my Retail team, to open it up for questions. I'm very happy to take those or to pass those around to each of the team.

Question & Answer session

Question 1

Tom Rayner – Exane BNP Paribas

First, just on the normalised 50 basis points charge: does that suggest we've now seen a normalisation in the mix as well, because clearly mortgage is a core product and unsecured is not? I would have thought maybe the mix shift would have continued to argue for a lower normalised impairment charge.

And I have a second question on ring fencing please.

Answer: Fiona Davis

I guess what's in my head is it's a combination of things. One, mix, you would argue that ought to start to see or continue to see improvement. Equally, we're benefiting at the moment from quite a high level of recoveries, and that also in due course will peter out. So, I'm balancing the two things off and saying in the round probably where we are as a charge feels sensible.

Further question

Just on ring fencing, one of your competitors clearly thinks a narrow ring fence is the way to go, which for you guys would pretty much be your entire business and nothing else, I think. And if I'm right RBS doesn't share that view it thinks a broader ring fence. I'm just wondering from your point of view as sort of UK Retail where do you think you're going to end up? And how does it affect the business?

Answer: Ross McEwan

I'm not too sure where it's going to end up, to be quite honest; I think there's still a fair bit of water to go under that bridge. From our perspective the way we're structured if it does end up narrow we are a narrow retail focused business, so what you see is what you're getting today. If it's broader than that, well to be quite honest, we've got to build in very strong relationships across the business between Chris Sullivan and myself which sort of captures the rest of the business if it was broader ring fencing. So, I don't know whether the impact from a day to day operation of this business would be that traumatic from our perspective if you ended up with those together and the others out.

Other than that I think we're just going to have to wait and see what it looks like when the government and the regulators have had their play.

Question 2

Unidentified Analyst

I think this one is for Fiona. Firstly, slide 29, the margins are calculated with reference to what? Is that relative to LIBOR or swaps or your internal rate?

Answer: Fiona Davis

It's against swaps.

Further question

It's against swaps, okay. You talked about front book NIM pressure in mortgages, but you said in 2013 you don't expect it to impact the back book. What are the moving parts there? Why not? And what do you think about 2014?

Answer: Fiona Davis

What we are seeing at the moment is some pressure on the front book on mortgages, and that probably hardly gets to about 10% of total impact on the book margin; which is why I'm saying I think that would remain pretty stable. So, I see a gradual decline in the book number on mortgages. What we try and do is obviously manage the spread between mortgages and savings. Savings are moving down similarly on the front book; but I think savings there are opportunities on the back book as well.

Further question

And looking into 2014? Would you expect more impact on both books?

Answer: Fiona Davis

I think potentially more of the same.

Further question

On the same topic, if I look at the difference between two-year fixed rates and the SVRs in the sector it is almost a historical gap. Does that mean we should have some kind of pressure on SVRs coming down maybe the end of this year or next year?

Answer: Fiona Davis

I think the other interesting thing in SVR is to bear in mind that if you looked at the individual customers on SVR over half of them would actually be paying more if they were paying for a deal rather than an SVR. So, that is one of the mitigants when you start to think about where SVR might go in just thinking about it as well.

So, would there be a market pressure to bring SVR down if actually half the customers on SVR are arguably doing better than they would be on a front book deal?

Answer: Les Matheson

As you probably know, the trend has been the reverse. So, for the last three years probably SVR, for different businesses and different competitors, has actually been increasing. If you look at where we are we're almost sort of dead bang in the middle. So, some people have SVR up at 4.99, 4.79; so we're dead on 4.0 But all of the movement has been upwards.

To your point, when do we see a turn: we've seen no impetus to that. And as Fiona was saying, in terms of the structure of the book, in terms of other aspects of pricing, again it's more, and certainly right now it's more a consideration around increasing rather than decreasing.

Further question

The reason I ask is because in the last three years, as you mentioned, fund book rates have been quite high; it's only in the last six months that changed. And even for the industry stuff, mortgages on SVR actually fell, I would say variable fell in the last few months. So, it's a new trend. I'm just enquiring your thoughts there.

Answer: Les Matheson

I think there's no indication that we would see it coming down.

Answer: Ross McEwan

I think the pressure on that has been up as opposed to down on SVRs, is what we've seen since I've been here since the last six months; which has been surprising.

Further question

And just finally on asset quality. There has been a bit of a disconnect between economic growth and where cost of risk is. That's clearly because we're in a low interest rate environment. How do you see the picture in your clientele in terms of how much they're saving? How much can they bear this inflation before it starts becoming a problem?

Answer: Stuart Haire

Actually it's a lot to do with changing your underwriting position. We actually do, when we underwrite, we stress customers to what would be a more normalised level, in our case upwards of a 7% rate, if you like a base rate of 7%, and make sure the affordability sits there. So, the asset quality on the unsecured book is very strong.

What can kill you would be extremely high spikes of employed people becoming unemployed, as opposed to less people getting on the employment ladder; and a massive deterioration in house price. So, if you're factoring either of those two things in that will have an impact on credit quality. Outside of that this will be a long run of a better credit position through the underwriting and through the investment and collections and recoveries.

Question 3

Michael Helsby – Merrill Lynch

Just three quick questions. Firstly, on the savings I think you mentioned an opportunity on the back book. I'm a NatWest customer and I know you've been cutting your rates already on the back book. I was wondering if you could quantify what the impact on what you've already done, which as I say has been quite a lot, is for 2013. And if you could just tell us what the contribution to the hedge is in the Retail Bank for 2013?

The second question is on the unsecured, because I think Tom mentioned it about the mix; but your share of unsecured is only, if I blend it, about 7% to 8%. The bad debt charges are very, very low. So, it's just a question why you don't seek more of an opportunity in unsecured to get your share up there?

And the last question, I think again you alluded to it: but is there anything that you think you're doing different than what all the other major banks are doing or is there anything that's different?

Answer: Fiona Davis

I should have written it down. It was the impact of savings reprice? If I were to say in the low 10s of millions. In terms of what we have done and what we are planning to do at the moment. But we'll see what further opportunities present themselves, and if you want to give us a hint with any other accounts that you've got that we might be able to...

Further question

How big is the e-ISA balances that you've got? I would have thought that would have been one of your bigger savings accounts?

Answer: Fiona Davis

It's certainly one area that we're looking at.

Answer: Stuart Haire

The unsecured opportunity; actually we're not trying to manage to a number of shrinkage, what we've done is we've set an appetite with regard to what would be a reasonable probability of default for a customer to take on, and actually it really just comes down to

responsible lending. So we're open for business. And we'll push on and do as much good quality business as comes our way. So it's going to be a lot more to do with the productivity. But what we're not going to do is dive in to daft probabilities of default, things like, you know, one in four customers who are in our view likely to go bad. One it's bad conduct, but it's just daft economics as well. I do, though, see opportunity in the unsecured book, because at some point, you know, it's already started to right itself, and customers do need loans they need to buy cars etc. etc. But I don't want to be taking all the consolidation that no one else is going to touch. Our risk appetite strategy isn't credit-risk led. It's the guys who run those product lines basically deciding what they want to look back on as good decisions. And they've set themselves these sorts of targets for probability of default they don't want to go beyond.

Answer: Les Matheson

But we can say in general that we certainly still have a market share and growth opportunity in terms of cards, particularly amongst our own customers. So it's not that we're ignoring that, it's just that it's not one of the top three things that we're doing.

Answer: Ross McEwan

Just on your final question; I think if we have a look at this bank compared with a number of the other larger retail banks, this team has been incredibly distracted with what's been going on to create a safe bank over the last three to four years, and when you look at the stats shown through here in the Retail Bank and across the rest of the Group, to be quite honest, that focus has been absolutely worthwhile. We are now starting to unleash not just this Group but other people in the organisation to get their eyes and focus on customers which is finding absolute resonance throughout the organisation. There's Stephen Hester, people like myself, Chris Sullivan, actually say, "Right, it's safe. It's okay. Now let's start focussing". And what I've found is a very, very willing group of people who are now being unleashed on customers to do good things and we're focusing very heavily on it. So I think if it comes to execution and we've got a pent up desire to get back to doing good business, rather than just saving the Bank, then they've done a great job on it.

As I said, I pulled together some of my team, 3,000 of our senior leaders and talked to them, got them to talk to me about what the issues that they saw that we needed to grapple with as a business. It was fascinating what came out of that. And our entire seven initiatives were not just built on those, but all their feedback came through there. So when we played it back to them and said these are the things we're going after, we've got a lot of people behind us wanting to push it really hard. So I think execution will be big. The organisation we've got a lot to prove because it has been knocked around. You know, the franchise of the Royal Bank of Scotland's been knocked around pretty badly. But we've got a lot of people wanting to pick it up off the ground and get going with it as well. So I think execution is going to be crucial, and having all of our staff focused on it, and we've got the backers for that.

Question 4

Ian Gordon – Investec

Can I have two, please? Firstly on the London opportunity; are you talking primarily about better penetration, profitability per customer or is it more of a market share growth aspiration?

And then secondly on costs ex-London, I guess you've given us a fairly subdued/realistic assessment of revenue opportunities; looking out into the medium term, just how far might you go in terms of reducing your footprint and/or headcount?

Answer: Ross McEwan

First on the London opportunity, I think it's both our footprint, where we are and we do with it. We have got a very big customer base that is poorly penetrated right across the whole business, but thinking about London in particular, where the growth is still here and the incomes are pretty good. So I see it as both using the customer base that we have to actually do better things with it. And then also see if we can't pick up a little bit more market share without being absolutely aggressive in the marketplace. I'll give you a quick example using mortgages; we're completely underscored on mortgage advisers in the London marketplace, the biggest growth place. I think at the bottom end, that Chelvi mentioned, there were about 63 people that were qualified to do a mortgage. I mean, we should have twice that number in this marketplace. So it's those sort of opportunities, because the opportunities are there for us we just haven't been working hard enough on them and focusing on the growth opportunities in London. You've got to have the right people in the right place, skilled to do the job. Start there.

Our customer base, when you look at the number of products per customer, if you go for the main bank it's about 2.4 products per customer. If you look right across the range, it's 1.4. Now if that's not an opportunity in a retail bank, of just doing better things with existing customers having an account with us, and getting more business with them if we do the right thing, I think that says that there's a real opportunity with existing customers. Forget about new ones across the business. If we just did over the next three to five years one more product per customer, over the customer base, in the next five years, forget about even the next two, we would have done okay. That would have been a good result.

Now there was a second part of the question?

Ian Gordon

That was on the cost side; maybe ex-London if the revenue outlook is anaemic.

Answer: Ross McEwan

Yeah. Now look, we've made it quite clear that we have to keep going at our cost base, given that we don't believe there will be great growth in the marketplace. And each of the moves here will be around reducing that cost base. But it has to come back to focus on the customer, get it really simple and easy. That reduces costs. And we've started that journey. And so we know we can do it. The team have done a great job in the last three years and if you look at the stats of where they've come from and where they are to, the great results show that the business can do it. But we just need to take the next step in the next three years. You can't run a retail bank, well you can run a retail bank with any cost to income ratio, some run at 75% and think they're fantastic; but if you are really going to be a competitive, focused bank, even at 51% that's too high.

Question 5

Andy Coombs – Citi

I have a couple of questions on strategy and then a follow up on margins, please as well.

I'll ask the two strategy questions first; one of these is conduct issues. I know you are having to sit on a radio panel with Mr Wheatley just prior to Christmas, and I'm interested to know what your thoughts are on if there's another shoe to drop, what the next product might be and anything in terms of the FCA coming on board in changes, perhaps their managed accounts, be it interest only mortgages and so forth.

The second strategy question would be, particularly with regards to the IT points that you've made, I think you said the average customer logs on 25 times a month onto their mobile. What proportion of those are simply to check their balance? And the reason I ask is, is this just a cost saving opportunity now and at what point could this become a revenue opportunity?

Answer: Ross McEwan

First off what's the next piece around the conduct risk? It is big, big out there. I mean, you just need to read the article that came out of Martin Wheatley's conversation with, I think, who was it - yeah, the Wealth Management Institute - some very clear signals there that have come out around conduct risk, and just doing good things with customers. And having customers understand what they're getting, as opposed to trying to sell them something they don't know anything about, and that is absolutely the path we're on. Both with what we call sales and service heartbeat, which is focusing on the customer, and giving our people the tools to actually do that. And secondly the focus on one view of the customer, because most of the reasons we have not done well is because we haven't had that one view of the customer. So we haven't clearly articulated what we are doing with customers, and then recorded it. And even worse, been able to actually bring back that file easily and say, "This was the conversation we had". So even if we had a fantastic conversation, our difficulty has been with PPI, for example, to actually pull that file up. And say, "This was the conversation". And that's where we need to be better: (a) have better conversations, record those conversations and retrieve them are the key drivers.

There is nothing in what Martin Wheatley or ourselves are talking about that actually clashes with each other. Nothing there. How we go about it might be quite different, because to be quite honest I can't do anything about the past. I can't do anything about the last 20 years. We have to look forward and say, "How do we build a business going forward?" And the only thing that we've had conversations with the regulator on is around how can you keep looking back this industry needs to start looking forward to do good things. Because every minute of the day we're looking back, we are not building a business for the future we're just trying to fix up what happened in the past. But I think we've got pretty clear alignment, Martin and I sat on that panel, didn't disagree with each other. Maybe in the implementation of it we disagree, and the thrust that pushing back so hard on the past we have some different views on. But the intent on going forward with customers I think we're pretty well aligned.

The next one was just around IT?

Andy Coombs

It was on the mobile payments and cost saving opportunity versus revenue opportunity long term.

Answer: Ross McEwan

Les may have some stats on that, but a fair bit of what goes on on mobile is around balances. That's what people are doing in the morning, that's what they need to do. But remember that what they used to do was ring us. So now they're doing it themselves. So that level of phone call isn't coming in which is a cost saving to us, but also a benefit to them. They can do it anytime they like. And if you've got our mobile app, it's a pretty simple app that pops up with a balance first thing. So it's quite interesting, it's how do you change people's behaviour? Because often they'll find that balance and then they'll ring to see if it's okay, or it's still right. And all they get told is exactly the same number that they see is what we see. We will get there with that. So there is a behavioural change that's going on.

But as Chelvi said, there's a lot of things we want to do on the mobile and online, and at ATMs. These you can just do for yourself. In a lot of cases we've made it too difficult for you to do it, but you're actually very happy to do it. Change your own address. Why do you need to come in and get us to do that for you or ring in and talk to us about it? Go on and change it all yourself, those sorts of things. Make payments that are above a certain limit. If you've got good security, our security is pretty good, why don't you just make those payments yourself, we'll put you into a safe environment, do it yourself. So we're going to create that environment for customers to do it themselves which means they don't ring us.

I mean, one of the fascinating things I've found when I first came here, within a private banking structure, lots of customers were ringing up to make payments. But why would I want them to ring me to make payments they should be making themselves if we made it that easy for them in a safe environment. So once you get that sort of mindset, the customers are quite happy to do it for themselves, if you give them the ability to do it in a safe environment. That's what we're creating for them and then a lot of that admin just disappears.

Further question

Okay. The final question is focused on the margins, and particularly the deposit margins. It got asked earlier, but clearly a lot of your peers are guiding to improving margins there, so I wondered if you could potentially quantify the impact of the rate hedge that's rolling off, how much is left, what the average yield is, the duration and so forth?

Answer: Fiona Davis

So it's hedged on a five year rolling tractor. So I'd rather not quote the absolute number. But certainly the impact in 2013 will be less of a kind of hit to us than the impact was in 2012. Albeit it will still be a negative, and it will carry on being a negative into 2014 I would say. And then it might start to turn a corner, depending on what happens to interest rates.

Question 6

Rohith Chandra-Rajan – Barclays

A couple on costs if I could, please. I guess a lot of what you've talked about this afternoon is about simplification and making the Bank run better and more efficiently. In terms of the sort of 0.7 billion additional investment that you've highlighted and the 142 projects that were previously running, I was just wondering if you could give us some sort of idea of the scale of the potential cost saving that you would expect to come through? And then related to that you sort of indicated quite clearly that we shouldn't look at the UK for decent benchmarks for UK banks, I'm just wondering where in the world you would suggest we look at in terms of costs benchmarking in terms of efficiency?

Ross McEwan

Fiona, do you want to cover off on the first one, but just sort of without giving away the exact numbers on there on sort of indicators about what's built for costs versus what's built for revenue?

Answer: Fiona Davis

So the way we're trying to fund the programme is similar to the way we tried to fund the retail transformation programme. So not to have a divot at the beginning in terms of profit. So I would kind of try and structure it to be self-funding for the first couple of years and then we would anticipate by year 3 net of writing off the investment you'd be in the low hundreds of upside.

Further question

And in terms of the roll through of the investment spend that's happened to date, the 142 projects that were running? Is there anything additional on top of that? Or is that included in what you just suggested?

Answer: Fiona Davis

Yes.

Answer: Ross McEwan

And just on the other one, I suppose I'm a wee bit biased, having come out of the Australian/New Zealand marketplace, and you can pull the stats for yourself and have a look at what's happened to those businesses, they've been blessed with revenue uplifts, which makes it far easier than when you're in the revenue going backwards or revenue standing still. But our aspiration is to have a cost to income certainly lower than 51% in this marketplace. And knowing we're going to have an anaemic growth then it makes it more difficult. But I think you have to, when you consider for every pound you're taking half of it to run yourself, I think you need to be doing better than that on behalf of customers and shareholders, to run a really good bank. And if you have a look up in the Canadian marketplace, the Australian marketplace, some of the Asian banks, I think you start to get an indication of good banks that use really good technology and focus on customers are certainly not a 50/51% cost to income ratio as an indicator. And we use that as one indicator. So we'll be targeting below that.

Question 7

Chris Manners, Morgan Stanley

Two questions if I may; so the first one was just on Slide 23 you were saying that you are targeting significant growth in the mortgage markets, yet you don't expect that much asset margin compression. We saw Lloyds this morning they seem to really want to start taking share in mortgages, starting from around about sort of September time. If you've got a sort of "Me too" product offering, and you're not going to compete on price, how do you capture that significant share opportunity that we're seeing?

The second question was Funding for Lending Scheme. Obviously there are reports that it may be sort of beefed up, what would you like to see to actually spur credit growth in the UK economy from that scheme if it's to be changed? Thanks.

Answer: Ross McEwan

If I take the first one, I'll then hand over to Les on the Funding For Lending. First off, we need to build capability inside this business. We don't have enough. We are just completely underserved with the numbers of people and their skills to do a great job on the mortgage market. My view, and I think it's been proven through Chelvi's work in the distribution area, is that we can generate more business if we just had more people who were trained properly to do the job and do it well we can build it. And so I think for us it's not around have we got enough customers, we've got a lot of customers that we could deal with. Do we have enough people that can deal with them? We have never really specialised in mortgages. And that's why we've had the team off the road for six to eight weeks. Because if you want to build a good mortgage business without blowing yourself up, you need to have really well trained people to do it, and you've got to have great credit skills, which we actually have. And you've got to have great product teams, and if you've met Moray who runs the mortgage business, he's a very, very good mortgage product. We don't have capability and capacity at the front. Not at the back, at the front.

And then we do some pretty good stuff on how do we manage it and put it through the system because that's clunky as well and we're working through that right now. How do we make it smoother for customers, and that's part of One and Done that Chelvi's working on. So the sort of bits fit. Trying to get really good people we need more of them. We need them really well trained in this environment, we don't have enough. And then we need a really good process to put the customer then through. And we'll have good product in the marketplace, but I just don't see you have to be the leading edge on all of these products. That's where I'd go there.

Answer: Les Matheson

I mean, just picking up on the first point that Ross was talking about. The other aspect to it, of course, is just as and when we further build the relationship that we have with customers in our current accounts, they are our existing customers. And if we're doing a great job there, and they're really happy with that, they're far more likely then to take a mortgage with us. So that intrinsic relationship that we already have gives us more opportunity than somebody who, for the sake of argument, has a higher mortgage market share than they do of current accounts.

In terms of FLS, I think we would always be a little wary of any external intervention in the normal running of markets, but I think we certainly have been supportive of the FLS, in particular around first time buyers and in buy to let. So it is a facility that we have been using and we intend to continue to use it to help the general direction of travel that the governments been trying to pursue. Do you want to add?

Answer: Stuart Haire

I'd probably just add one thing on the FLS and again about intervention. What we're trying to do though is you've got to create a careful balance between... The good thing that FLS has done it's sort of filled the void whereby, if you like, securitisation markets and wholesale funding perhaps sat in the past, and the pricing discontinuity. So that's really good but it shouldn't then lead you to challenge your credit quality and your credit standards. If it is a means to get people who can ill afford to pay a mortgage to pay a mortgage it's not a good

long term strategy. So anything that's sort of poked in that direction we would speak strongly out against, because that's not long term.

Question 8

Chirantan Barua – Bernstein

Just a very quick question. Loan to deposit target ratios of 105 to 110, so where does that come from? How do you want to fund that? What's your reliance on covered bonds and how does it all play out inside the ringfence? That would be great.

Ross McEwan

How are you going to cover it, Fiona?

Answer: Fiona Davis

Well, obviously at the moment as it stands we get effectively charged for a basket of funds from the group pot, in terms of how it's transfer priced. We have a significant element of our balance sheet which is either securitised income bonds or available through the discount window already. So from that perspective we will be able to maintain that going through into an ICB type arrangement.

Further question

And this 105%, does it include private banking deposits as well?

Fiona Davis

Yes, it does. Not wealth, but just the top end that we have. Our top end.

Ross McEwan

Our 103 is related to our private banking, not to do with Coutts, otherwise it would be considerably lower again.

Question 9

John-Paul Crutchley – UBS

Two, one back on the conduct issue, and a broader question after that. As an outsider coming into the UK market how much do you perceive the pricing structure of the UK banks, or the economic model of the UK banks being a contributing factor to the legacy cost they're facing today, i.e. having the freedom of credit and trying to extract profit from other products to compensate for that, and do you think it's possible to move away from that kind of legacy cost risk while you've got a business model that is actually built on something which doesn't look to be economic in the long term?

So that's the first question. My second question is post Rainbow, I just wondered if you could comment on whether the branch network in terms of its density, particularly in London, is where you'd want it to be or where you'd actually foresee these branch openings.

Answer: Ross McEwan

First off from the conduct piece, I think we just as an organisation need to adapt our cost structures and our pricing to match into the new environment which is with us today. So one of the points Les raised was how do you bring your back book to front book, and how do you bring that as quickly as you possibly can without straining your business. And that's the task that we have, and we've got I think some good opportunity, Les and the team have done a pretty good job on it. Each fortnight, well actually each week now, we're sitting down as an executive team with a section of Les' product team and working through getting them to tell us what the product will look like going forward in the next 12 to 24 months and what the back book would look like going forward in 12 to 24 months. So pushing the teams to say how do you get from front to back without killing yourself?

Now, it does put, if you're not careful, some strains on your business, and I don't think the regulators are wanting us to strain our business, they just want us to make sure we're looking after customers. So we're forcing ourselves into that position which I think is the right thing to do.

I think we've got some really good opportunities on behalf of customers to get them into that position as well without really hurting our position. But we do have to extract costs out of this business at the same time and I think we're capable of doing that. So if you can make what you lose in revenue equal up in cost or there or thereabouts and get a cleaner and tidier business, because the complexity we've built into this business over the last 20 years is horrendous, you just need to go into the back end of our operational shops and the back end of even our collection shop, as I did on Friday, and just have a look at the complexity we've built into this business over 20 years, that if we extracted out how clean and tidy this business would be, which would be a lot simpler and cheaper to run. But you can't do it overnight and the conversations I've had with the regulator are we cannot do it overnight, but we do need to do it over the next three, four, five years, and we will do so.

So, for example, the piece we're looking at at the moment, we've got a new investment offer for customers that's a pretty tidy offer, so my view, and we've said this to the regulator, that over the next two years we'll go back over the old back book and have a look to see how much is in the end customer's interest to bring onto the front book. Now, what you're left with is a lot more simple operation, which is a lot cheaper to run, and a much safer book going forward, because I think the problem we've had is we've seen this as losing revenue where you're going to get smashed one way or t'other is if it's a bad offer for customers that you still hold onto. So it just comes back at you in one way or t'other.

The second one was just around post Rainbow and the branch network. Look, we've probably got about the right number of branches in England and Wales today without Rainbow. What is the right number when you're coming down from what, 2,150, take out 300, you're down to about 1,800. The number is smaller than that, what that number is we're working through, Chelvi's working through, as part of points of presence, but I don't see a massive drop off in the numbers. I think you've got to be there and be very careful with customers, you need to be there for them and with them as you make that transition. And organisations that go through and slash out 500 or 1,000 branches and say, "Well, we've done a great thing for costs" you have to bring customers with you through that. So we're planning to do that and we're planning to go to what we call points of presence. So it may be in a railway station that you have a lot more point of presence there, that people are coming through and they can do things quickly, either assisted at certain times of the day or for themselves through other times. Those are the sorts of things we're looking at. And saying where else could we be for customers that they go that we could be there for them as well? And I don't think we've really stretched the brains enough on those sorts of issues.

Question 10

Manus Costello – Autonomous

How much do you think being a state owned organisation impacts your relationship with your customers and your staff? And how much of a risk do you think you run the longer you go on being state owned? Do you agree with your chief executive that you risk the British Leylandisation of the institution?

Answer: Ross McEwan

I should give this to one of the others who have been around a bit longer than me. I don't wake up in the morning and see myself as personally being state owned, and nor do 40,000 staff, they get up in the morning and see themselves with RBS or NatWest over the top of them and try and do good stuff. So from a personal perspective I don't think it's really made a massive impact on our people, they still actually see themselves as being NatWest or RBS, would that be fair?

From a customer perspective, you do get some comment from customers about, well we own you type attitude, and I think that'll go as quickly as it came, if and when the government chooses to divest out. I think it will probably have some flurry from customers and then they'll move on as well.

Manus Costello

Unless they hand all the shares to your customers.

Answer: Ross McEwan

Yes, and that's fine, because then they change they become shareholders. They become shareholders, so I'm less worried about that, but that's in the government's hands, not in ours to how they want to get themselves out of being owners of this Bank, should they wish to. So I don't see a lot of difficulties or downside from our perspective, we treat it as though we are a publicly listed business that should be doing good things with customers and giving a decent return to shareholders. Will that change when the government's out I don't think it will. But I think they'll be some customers, I mean I've had it myself, we own you, type attitude. And that's okay. I think our people have become pretty resilient as well, which is an amazing thing.

Question 11

Gary Greenwood – Shore Capital

Hi, it's Gary Greenwood at Shore Capital. I just wanted to come on to the ROE guidance on slide 33 where you talk about targeting a continued attractive ROE, but if I read the various targets it would probably imply an improvement in ROE from what's currently a quite high level of 24%. So I'm just wondering what you think's an acceptable balance for returns between your customers, the regulator's view and your shareholders?

So that's the first question and then I had a second which is just in terms of coming back to this issue of differentiation in terms of the strategy, because a lot of what you talk about seems to be very much internally focused of what you can do better, and obviously what you need to do better not only needs to be done better, but needs to be done even better than what the competitors are doing. And so I was just wondering what sort of external benchmarking you've done that gives you the confidence that you can achieve that.

Answer: Ross McEwan

I'll start at the back and then go to the forward. Our research shows it's a really tough task for us. When you have a look at, for example, Net Promoter Score or any customer satisfaction shows us not to be in the best position, particularly on Net Promoter Scores, so it shows, particularly on the RBS brand, a really big road to home; which in a sense one could get depressed about or see that as the exciting challenge that all our people will take on board and get on with. And interestingly as you put that to them they've said, "Don't shy off it. It's been interesting, no we want to have a go at getting ourselves to being number one on Net Promoter Score" which is interesting psychology for people to say we've been down, now we want to pick this thing up.

The NatWest brand has lesser issues around that, because it actually tracks okay against the Big Five, but our view has been let's not concentrate on the five banks because if you really want to be a winner there's others winning out there at the moment and there's some small banks starting to have a go that customers are quite enjoying. So let's be where customers want to be and not be where the traditional bank, let's get out and have a go with smaller, more nimble people who are playing very strongly in the customer space.

So I think challenging, absolutely challenging, it's aspirational, and I think we will find it really difficult in the first couple of years, but I think if you don't start tackling the real issues for customers you will never create a really good retail bank here. And don't forget, there's a lot of small players coming in and having a good go at that space. So we should be there, otherwise long term we'll lose it anyway.

On the ROE, I think our aspiration is to try and hold that ROE up, there's some things running really strongly against us in this marketplace and that's why we have to deliver very strongly. Slow to no growth, I mean doesn't help us at all. As we get hit with more and more I think continuation of regulatory type issues from the past, there is a cost to that running through your business, the number of mandatory projects that Les and Chelvi are running at the moment it's up to about 20, and some of these are not small projects that you're constantly running through your business and the expenses going through AML, Fat Car, all of these things are huge projects that would bury most businesses if you have to put 40 to 60 million quid into them a year, these are big things that we have to absorb on a daily basis or a yearly basis. So there are some pressures against that, but again our aspiration is to hold that up around the high teens to low 20s, because I think that's going to be a signal of a really good retail bank, a balanced retail bank. We don't say it's going to be easy.

Question 12

Joe Dickerson – Jefferies

I just have a quick question on impairments. Impairments have been improving the leading indicators of impairments have been improving and the mix shift has moved from unsecured to secured, yet your balance sheet provision has remained at about 2.6 billion. I believe you had a smaller release in the fourth quarter, is there any scope to liberate some of those balance sheet reserves to fund investment initiatives?

Answer: Fiona Davis

So, I guess we have seen some reasonable releases, probably last year and the year before. I would expect in my guidance to the previous question those to start to kind of mitigate somewhat as we go forward which is why I was coming to the 50 basis points blended number. So I would say we have seen some reasonable releases over the last

couple of years and whilst there will be some in the year to come for example, I think there'll be less than we have seen in 2012.

Answer: Stuart Haire

The cover ratios of unsecured and secured, I think then links into the provision side and they're very much, yes they are prudent but I think they're pretty much aligned to where the other banks would be. And so we don't see it as either a massive opportunity or a massive threat to us.

Answer: Ross McEwan

We'll take one more question and then we'll wrap it up and you can have a cup of tea with us and ask us all the questions you were wanting to.

Question 13

Chris Wheeler – Mediobanca

A couple of questions. The first one on Private Banking, you wanted to avoid that I think, you made it very clear, mass market's where you want to be. You talked about developing a strategy, what do you think that might be in terms of creating a bridge with Coutts, what are you going to call it, I mean private banking is what Coutts apparently do, how are you going to link those up. That's the first question.

The first one is that I think like most of the banks we've seen in the last few months, cost is I think the battleground as Mr Jenkins told us, and a lot of that's down to IT, better use of IT operations. You perhaps had a bit of a reputation for having large numbers of itinerant workers on your IT floor. Can you talk a little bit about that, because it's something that worries me, I mean Deutsche Bank tell me they've got 30,000 IT consultants and 100,000 staff. Can you talk about the sort of percentage of your senior guys within the Retail Bank, who actually are employees of the Royal Bank, because I just see that as a risk which is growing in terms of if they walk away with some of these projects of yours, very important projects, mid steam, it could be an issue. And by the way, what was it like in Australia? Was it the same?

Answer: Ross McEwan

I'm going to make a couple of comments on Private and then hand to Chelvi who's running the initiative on Private. At the start I said I was not wanting to do Private from an initiative perspective, I'm happy to be there from a customer focus piece, but the issue for me is as I went around the countryside I got more concerns about our offer from the private bankers and their management and the way we supported them and customers that threw it up as we needed to have a good review on what we're doing on Private. So I was okay with it as a segment but I really didn't want it as one of my seven initiatives, I've tried to avoid it. We couldn't avoid it, because the feedback was so strong, both customer wise and from our staff, that's why it appeared on the seven, but Chelvi will give you just a timeline on what we're doing, where we're up to, and where that's at.

Answer: Satyendra Chelvendra

So, on the Private Bank, what we're doing is we're really looking at what the proposition is, and narrowing it down also in terms of the customer groups that we're going to deal with. So that is work in progress at the moment, we will have a proposition work through in the next, say, six to eight weeks which will also determine what relationship managers will be doing and how they will be dealing with customers and what our call centre proposition is for the Private Bank as well.

It's seriously work in progress at the moment, because we have just brought it back to the drawing table and really looking at this proposition and saying what's the best way we can fit this in between the core banking and Coutts. So I'm sorry I don't have a more specific answer to give you here, but that's where we are at this stage.

Ross McEwan

It does fit, interestingly with some of the clients that could quite easily be in Coutts, many of them choose not to be in Coutts, many of them aspire to be in Coutts, it's interesting dynamics. What we've got as a group actually that are more premier banking, that sits underneath the Coutts and above the mass market, but as some could well and truly be in Coutts, will work with Coutts on is that the right place, if the customer wants to be there, and what's the offer we'll make. But it was very clear that the service delivery we were delivering to those private clients wasn't good enough and the proposition wasn't clear enough and the support to both our clients and to our private client advisers was actually not strong enough either, so that's sort of why we ended up.

On the IT front divisions, I've got no idea how many what do you call it, itinerant workers operate there on our shops, most of them I thought were... and we've obviously got a big operation down in India, both IT and operational, so I don't know the numbers there though, that would be working purely on the Retail Bank. But most of those, we run an in-house shop as opposed to an out-house arrangement with our IT operation, so they sit inside the business.

Satyendra Chelvendra

Sorry, can I just make one point on that. All the leadership team that drives these key initiatives, those teams are only in the UK. So the leadership teams, the designers, the guys who think through that, they are all permanents that we work with.

Concluding Comments – Ross McEwan

That's a good comment on that. Well, just closing off, thanks very much for your time this afternoon. This is the first Retail Bank session we've had, we're happy to have them in future in smaller groupings or largish groupings, whatever works for you. This is an exciting business, it's an exciting time to be in this business, there aren't too many people who leave the Australian marketplace where you get bashed by the newspapers but not the regulator on a daily basis. You don't get beaten up on your bonus structure on a daily basis, they might criticise you for being high, so it's an interesting place to be.

To me, we can create what I know is the UK's best Retail Bank here and I think we've got the people to do it and I certainly have seen the people and the determination to get this brand, both brands back up and running, but the RBS one even more so, given the hit it's taken. And I think we've got the people to do it and we've got support from both board and the executive team to have a good go at it as well, so it will come down to execution.

Thanks for your time, I'm happy to take questions afterwards, we've got about another quarter of an hour we can have over a cup of tea. Cheers.