



Full Year Results for the year ended 31st December 2006

1st March 2007

Interview with Gordon Pell, Retail Markets

I am really pleased as to how broadly based they are. They are strong both by customer, by geography and also by product. We turned in sensible income growth in a very difficult market, excellent cost control, and the bad debt situation in the unsecured parts of the personal market which has been such an issue for the last few years continues to moderate quarter on quarter. We have just seen the last of the other major banks, of HBOS coming in today, and with a profit growth of 5 per cent that really does put us in the best class.

But, of course, we have got a huge distribution capability. We have got the largest branch network in the country, the largest mobile branch network in the country, and recently of course we have opened in Cornwall and Devon, which has attracted some quite good publicity.

We have got the largest ATM network in the country. That gives us a huge reach that we ought to be able to maximise. We are investing heavily in the branches as we go although of course it is a bit like painting the Forth rail bridge, isn't it? You never finish however hard you try!

We are investing in new technology and I think the new structure that we put in place just before Christmas will allow our four Chief Executives to really focus down on what specific investment we need for consumer banking, business banking, and we should therefore get a more focused approach to our investment in the future than perhaps we have had in the past.

We are investing hugely both in Retail and in Wealth. In Wealth, obviously our major investment has been in the UK, particularly in private bankers. Notably 3 years ago when everyone else was pulling out, but even now, just to keep the numbers of private bankers we have got at the moment in an incredibly tight market we are having to improve quite strongly. In Asia, our private bankers are up nearly 20 per cent and that has been the key driver of the business.

Within Retail it is a difficult market. We have got to be very selective. We have got to look to some extent at taking resource out of some areas where we can't get returns and investing in those areas, like more sellers, more bancassurance sellers, more business banking, relationship managers on the street, and we can actually make money. We cut back on our lending, we actually managed our collection

processes very well but we also benefit quite frankly from being in the right geographies.

We launched the new Polish proposition about a month ago now and that I think is way ahead of all the other propositions in the country. Not only is it resourced with Polish speaking staff, with Polish material, but also unusually it has got a dual card facilities that allows you to give a card, for example, to your mother or your wife back in Poland and allow her to draw money out of your account - within strict controls of course - without effectively having to send money all the time through the rather expensive money transmission system.

I don't want to depress all our staff but more and more of our customers are beginning to look a bit like me, i.e., they are over 50! They have probably been through that part of their life where they are having to finance children, finance mortgages. They are moving into that part of their life where they are increasingly savings driven and they are thinking about their futures, and that gives us a huge potential for savings and investments.

Well, clearly this is a mature market. This is a difficult market. This is probably not the easiest of the wickets on which to bat from the RBS Group around the world, but we have got tiny market shares in many of our key areas and we have got a superb franchise. We have only got about 10 per cent of the savings market, for example, and we have got 20 per cent of current account market.

Our business banking market, although we have got a lot of their current accounts with number one market share in the country at 27 per cent, we have got a disproportionately low share of their business quite frankly. There are areas where we can grow.

At the half year we pointed out that we were weak on bancassurance, and that's been growing like a train. We have not put much investment in the affluent sector and from that point of view and from my point of view, therefore, we are only into the first year of that. Quite frankly, we have under-invested in business banking and we need to put that right.

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