Retail Round Table Seminar
Friday 12 November 2010

Introduction – Richard O'Connor

Good afternoon everyone, thanks very much for coming over on this autumnal day. This is the third of our Divisional Seminars which we will repeat on a rolling basis over the next couple of years on one of our most important businesses, UK Retail. The format will be familiar to many of you, 30-35 slides which we will run through with plenty of time for Q&A at the end. If there are obvious questions as we go through then certainly do ask them, but as I say there will be plenty of opportunities at the end to ask questions. With that I will hand over to Brian who will introduce his Management Team.

Brian Hartzer
CEO, UK Retail, Wealth & Ulster

Thank you Richard, welcome everybody, welcome everyone joining us around the country and overseas via the web. I would like to introduce a few of my Management team who are here with us today, starting on my right, Sarah Deaves who looks after Private Banking and Advice. We then have Chelvi who is responsible for Consumer Distribution Channels. We have Fiona Davis who is the CFO. Les Matheson is Head of Products. I also have Susan Allen who is in charge of our Retail Transformation Programme and Change Agenda. And Helen Page who is Head of Marketing, Customer Charter and other things related to our Customer proposition.

So thank you all for coming, it's terrific to have you here. I have been here 15 months and it is probably very timely for us to have a more detailed session about what we are trying to do in the UK Retail Bank. Over the last year I have spent my time primarily about getting the team right, getting our structure right, getting us all on the same page about what our situation was, what we needed to do from the strategy point of view. Getting our Change Programme up and running and getting a bit of momentum going. So I think we are now in a position where we can talk in a bit more detail about our business and what we are trying to do and how we are going with that.

What I am going to do today is talk a bit about the situation that we found ourselves in, in the Retail Industry generally, and then for RBS in particular. What we are trying to do about that from a strategy point of view, how we are tackling the Programme of Change. And then I am going to ask a number of members of my Management Team to talk in a bit more detail about different aspects of it, starting with our product strategy, what we are trying to do around distribution channels and then we will move into talking about our financial performance, change programme and then I will sum up and then we will have plenty of time for questions to dig into things you want to deal with in a bit more detail.

So let me start by talking a bit about the UK Retail business and where it fits in the context of the RBS Group. And so if you turn to page 4 of the pack that we have given you, what you can see is today the Retail Bank in the UK represents about 20% of Group revenue. So we are a significant business. But more to the point we are a really important part of the core strategy for RBS into the future and the goal is that the Retail and Commercial businesses of RBS, of which UK Retail is an important piece, will end up being about two thirds of the

Group when we finish the restructuring. So clearly for the RBS Group to get back to where we have set a goal to get ourselves to, UK Retail needs to do very, very well.

Let me therefore go into talking a bit about where we find ourselves, where we are today and where we would like to get to. And if you turn to page 5, you will see that summarised along a number of dimensions. I guess the way I would talk about this is where we find ourselves is with a very good franchise with a lot of opportunity, but a business that has been undermanaged for a number of years. Managed very much as a cash cow to support the acquisition activities of the Group in previous years. And therefore the investments haven't been made in some of the key capabilities that we think are important to run a modern Retail Bank.

And so running down the left-hand side in terms of our current state, the way I would characterise it is we have a reasonably strong franchise with a reasonably good brand, but not terribly differentiated. The Balance Sheet is not as strong as we would like it to be from the standpoint of the loan to deposit ratio. The return on equity has been okay, but not stellar. Our customer satisfaction thankfully is the best in the market amongst the high street banks, but nowhere near where it needs to be relative to world class standards. So a long way to go there.

Our products are incredibly complicated and this is an issue which goes I think more broadly across the Retail Banking industry generally, the industry has become very complicated, the pricing structures have been relatively opaque. People have added products and features over the years and that has led to confusion for customers. It has made it harder for our people to talk about our products, it has created lots of cost errors, risk and so forth.

Our sales and service channels, we have a very branch centric approach to do what we do. Our processes are pretty complicated, but we have been reasonably successful in growing our online channels and telephony but as you will hear form Chelvi later, there is a lot more we can do there.

From a people point of view, obviously in recent years, morale has taken a real dent. And that is an important issue because Retail Banking is something that ultimately is delivered by our frontline staff. The experience customers have is a lot about the interaction they have with our people. So if we don't have the culture right. If we don't have the frontline people leadership side of things right, then that makes it very hard to deliver the service quality to which we aspire.

And finally from a just general operating controls environment, we have just had too many mistakes, too many issues, too many complaints, too many regulatory issues that have come up. And that all suggests that we need to do a lot of work around strengthening the control environment and discipline with which we manage our operating processes and so forth.

So in terms of our aspiration, really we want to get back to running a world class Retail Bank. And we think that is about doing a whole bunch of things better than we do it today. But importantly, none of the things we are going to be talking about doing here today are brand new, unproven, super innovative things. It is really about taking best practice or even good practice from around the world and applying it to our franchise. And so there is not a lot that we are doing that is in my view highly risky or difficult to do. It is operationally challenging and we have a lot of things we need to get done. But we are not trying to do anything revolutionary here. We are really just trying to take a great franchise and apply some much better management practices and investment to get us up to world standards and we think that is very doable.

Now let me move now to talking a bit more in detail about the franchise and the opportunity. So if you turn to page 6, we give you a sense of the scale of the Retail business here in the UK and then some of the opportunities. So on the left-hand side we can see, this is a big business. We have got over 15 million customers, over 12 million current accounts and nearly 9 million savings accounts. So a very large business. We have got over 2,000 branches, even after the sale of 318 branches to Santander, we are going to have nearly 1900 branches across the UK, it gives us a tremendous geographical footprint. And you can see the main balance sheet metrics on the lower left.

Now the thing I really want to concentrate on though on this slide was the upper right-hand side which is this measure of share of wallet. And by share of wallet what I mean is what percent of an individual customer's business do they have with us when they bank with us? And there is one thing that really jumps out at you when you look at this chart on the upper right-hand side. And that is the difference between our share of wallet in current accounts and our share of wallet in the other traditional banking products. So customers who bank with us tend to have nearly two-thirds of their current account balances with us, and yet on average they only have 22% of their savings and their mortgages with us.

And so that is quite a disconnect. And why that is important is because traditionally what we find is that if a customer considers you their main bank, then all things being equal they are likely to come to you first when they need something else. And so the fact that at RBS we have such a disconnect between the market share of current accounts and the market share of savings and mortgages, let alone other things like investments and so forth, suggests that if we fix our processes, if we get the culture right, then there should be tremendous growth for us in just doing more business with our existing customers. And we are going to talk a bit more in detail about how we do that, because I am conscious you have all heard the story about cross-selling I'm sure many, many times. We are going to talk to you about why we think that is something that is very achievable for us over the medium term here.

Now, so how do we go after that opportunity? And I want to talk a bit more about that before we go into some more detail. And the starting point for me has really been about the team and so if you turn to page 7, it gives you a flavour of the structure of the team that we have in the Retail Bank. And the point of this is I spent a lot of time making sure we have got the right people in the right roles and that there is clarity in who's doing what around the place because one of the things I have found coming in here was that our structure was frankly pretty convoluted and there wasn't a whole lot of clarity, there was a lot of overlap between who was doing what. And so we made a number of changes in responsibility and we have also brought a couple of new members to the team, notably Chelvi and Les who joined us from outside. And the other guys here who all had their job roles refined or in some cases, Susan who was in the Group, joined in a new role here. So we have got effectively a fresh team with a real sense of clarity about what we are all trying to do.

So that is the team, so what is it we are trying to do? Let me talk a little bit about the strategy for the business and some of you heard me talk about this before. But let me set it up this way, I think that a lot of our challenges are the same challenges faced by all the Retail banks in the UK, because the Retail banking industry in the UK drove itself off a cliff over the last 5-10 years. And it did that because it lost sight of what I believe to be quite a fundamental truth which is that in order to run a sustainable Retail bank, you have to have a balance between the interests of customers, the interests of shareholders, the interests of the people who work in the bank, and the interests of the community. And I think one of the ways to think about what has happened over the last few years is that the crisis didn't cause the issues in Retail, what caused the issues in Retail was the excessive focus on one aspect, one stakeholder group being shareholders. And actually it was really just short-term shareholders, not actually long-term shareholders that people were focusing on. And as a result all four constituencies suffered because by focusing on short-term profit, essentially what we did is we took advantage as an industry of customers. Their satisfaction fell, they became very unhappy with the quality of service, the people in the business became quite disaffected and that was obviously exacerbated by what happened in the crisis. The community lost its sense of trust and faith in the industry, that we actually had their interests at heart and understood the responsibilities that come with having a banking license. And of course the shareholders were pretty much wiped out.

So everybody suffered and I think it is because we lost sight of the fact that actually as a single business it has to look after all of them. So the way we see our challenge is to essentially restore that balance across all four of those stakeholder groups.

So how do we do that? Well if you turn to page 9, we have a summary of our strategy and what we are trying to do. And we are very transparent about this. I mean some would say you shouldn't share your strategy externally, but actually our view is that a lot of the secret comes down to how well we execute it and we feel that our ability to be successful is very much within our gift. So we don't mind talking about what we are trying to do, because we don't think it is terribly affected by what our competitors do.

What we have done is set an overall objective of being the UK's most helpful and sustainable bank. Now that is an internal objective. Externally we talk about helpful banking. But internally it is these two words, helpful and sustainable. Helpful is a code word that means get it right for customers first. Start our whole approach to the business with understanding what matters to customers and getting that right. Sustainable internally is code for don't be afraid to make a profit, but make it in a way that we are not ashamed of how we go about it. We are transparent and it's sustainable. It's not a profit that is based on cross subsidies or hidden fees or taking risks and not being rewarded for those risks. It is about going about our business in a way that allows us to sustain a reasonable level of profit and an ability to reinvest in the business so that we can keep the thing going over the long-term.

Now those are nice words, how do we actually do that? We have worked together on this plan and decided there are four key things that we have to do and they are laid out in these four boxes that you see here. The number one thing we have to do is re-engage with our customers. So we need to start by understanding what matters to customers, understanding what their issues and concerns are and rebuilding our business from the front end backwards essentially and that is where the Customer Charter comes in which I will talk about in a minute in more detail.

The second thing that is really important is, we call it restoring the pride of our people. And that is just essentially a summary of the whole people agenda because banking, Retail banking for most people is an emotional business, it is very much about the level of trust they have with their local branch or the people they speak to on the phone. And so we have to get the culture right and it is about the kind of people we hire, the way we train them, what targets we set for them, how we help them develop their careers, how we reward them, all those sorts of things are a really important part of getting it right.

The third thing here we call radically simplify the business and that essentially is a recognition. We have chosen the word radical quite carefully because we think that one of the things that went wrong for the industry is it just got too complicated. And with complexity comes a number of problems. One is that customers stop understanding what it is you are trying to offer them, therefore they are less willing to buy it. Second thing is our people get confused so they are less able to sell whatever it is we are trying to sell. The third thing is that the processes to deliver a really complicated set of products and services become very costly. They also tend to require lots of manual intervention. Manual intervention means that mistakes get made. Mistakes mean that you have losses and risks which mean regulators get upset. So we think there is actually quite an important win, win, win here by really focusing on simplifying every aspect of what we do. We think we can generate more revenue at lower cost and with better risk controls. So there is a huge agenda around simplification.

And then the final thing is about growing quality revenue. And this is a recognition that in the end successful long-term business is a business that can grow revenue, but we want to do that in a sustainable way. And by that we mean we need to use the information we have about customers to figure out how we build out that share of wallets. It is not about coming up with some tricky new fee or clever new marketing campaign. It is really about gradually but inexorably serving our customers better and expanding our relationship with them. It is about understanding the pricing and risk dynamics that sit within our products or within particular customer segments. And it is also about improving the strength of our Balance Sheet, improving the loan to deposit ratio and so forth. So that whatever happens in the economy, we never put ourselves in a position again as we found ourselves over the last couple of years.

So fairly straightforward set of objectives. Underneath each of these things though is a very detailed programme of change. There are 65 different projects that sit within what we call the Retail Transformation Programme which Susan here oversees. And every single one of those projects is very carefully defined. It has an owner, it has milestones, it has a business case and so forth. So this is more than just a vague set of aspirations, this is actually a very well co-ordinated programme of activity and will talk a bit about that in more detail in a minute.

Let me spend a minute now talking a bit more about customers and lots of banks I am sure you have heard talking about wanting to become customer centric. We want to talk about what that means for us. And so if you turn to page 10, you get a sense of what it is we are really trying to do on the customer agenda. And it starts with a basically simple thing, asking our customers two questions. The first, what annoys you about your bank? And the second is, what would appeal to you about a bank if you were going to switch? And so what you see here on page 10 is the result of 30,000 interviews that we have done with customers over the last 12 months to understand their views on those two questions. And the interesting thing is what has come out of those interviews loud and clear is that people just want us to do the basics well.

And by that they mean be accessible, so be open, shorten the queues, find ways to save people time. It means about managing people's money as if it was their money rather than the bank's money. So that is having respect for the way that we bring security to their money, to the way we are being transparent in the way we charge for things. Being open about the decisions that we made and being consistent and so forth. And the final thing is about bringing that personal touch back to banking. Now this isn't about going back to the way banking was 30 years ago. But it is about recognising that banking is an emotional business. That people's money is a very emotional topic for them. And therefore people don't want to be treated like a number, they want to be respected as human beings. They want to be treated in ways that respect the relationship that they have. And therefore the personal touch, the culture and the experience they have in dealing with our people, the way we make decisions, is incredibly important as well.

So none of that is rocket science, but if you think about the quality of service that the banking industry in general in the UK has delivered over the last 5-10 years, I think you would agree there is actually a fair way to go on delivering this consistently.

And so the challenge for us was to think about how can we, given all the public issues that we have had as an industry and as RBS in particular, how can we begin to address some of this stuff? And in thinking about that, that led us to this idea of a Customer Charter which you see us describing on page 11. Now the Customer Charter, I know lots of businesses customer charters and if this is the first time you've heard about it, if you haven't seen the advertising we've done, you might think, okay this is just another superficial marketing gimmick. But in our case what we have tried to do is make this something that really has teeth. And the way that we've done that is our Customer Charter is 14 very specific promises about service quality that we are going to aspire to deliver over the next sort of while. And most of those service promises have very specific measurable numbers against them, targets against them.

And what we have promised we will do is every six months we will come and report on how we are going against those goals. And in fact we have hired our Auditors to review our progress against each of those. So it will be an audited set of results against each of those challenges. And so in February I will be fronting our initial set of results against these things. And I fully expect that we won't have achieved every single one of these goals, but actually that is part of the point. Because it allows us to demonstrate that we are genuinely committed to rebuilding trust and being open and honest about the fact that we are not perfect and that we need to improve.

And I am please to say that so far the response to the Charter has been very good. Hopefully you will have seen some of the advertising we have done around it. It has also had a tremendous galvanising effect internally because a lot of what we are talking about in the charter, and that is reflected on the right-hand side on page 11, is actually about getting our people, giving our people the permission to do what they actually want to do which is look after customers. And over the years because like a lot of banks, we kind of got caught up in this thing about banking equals retailing, which in my view it doesn't. And that has led us to an approach which is very product centric, very sales oriented. And it has meant that staff have been measured very heavily on what we sometimes refer to as product flogging in the industry, which really is the kind of thing that makes customers disaffected, but also makes our staff disaffected.

So this whole idea here, it is kind of a shift in philosophy which is saying 'Guys we actually want you to do what you want to do which is look after customers and we are going to try and organise ourselves so we can support you in that effort of looking after customers. And as a result of that we want you to have better quality conversations with customers and we think that will result in deeper relationships and more sales'. But it is an outcome rather than pushing people really hard about achieving specific sales targets, which I think was at the root of a lot of the problems that the industry got itself into.

Okay, so that's the philosophy, I just wanted to spend a minute on this notion of how we are going to make this happen. And on page 12 what you see is a summary of the investments we are making in support of the Retail Transformation Programme. Essentially we are committing around £800 million over the next five years to the 65 projects that I referred to. You can see the split in the pie chart on the left-hand side as to where we are investing that money. Roughly a third of it in the branches and another third in our direct channels and then spread across other aspects of our business and you can see the profile of how we are planning to spend that money over time. I am pleased to say there is good momentum around these projects. 45 of them are underway already, some of them are phased to start next year and so forth, because obviously there is a limit to how much you can do at once. And we have also had some very good results. We announced about a year ago, that we were planning to take 3,500 roles out of the branch network as a result of applying our lean as we call it, lean engineering approach to eliminating waste in processes and so forth. We have achieved that. So we have got very good momentum against the benefits case that we have developed on these investments. So that is going very, very well.

Now, that gives you a bit of a high level of what we are trying to do and how we are going about it. I would like to now hand over to Les Matheson to talk in a bit more detail about products and then we will talk about channels and round up with what all that means for our numbers. So Les.

Les Matheson
MD, Retail Products

Thank you. Alright so let me dive into the product agenda. Coming relatively fresh to this, one of the, I think, clear perspectives looking back over the last few years is that one of the issues that the industry has had, not just RBS, is the way in which we have structured our products and our pricing. And that is something that we clearly need to address.

Now in looking at that I want to highlight three areas. One is how we can simplify things, another is how we can better manage customer value and another is how we need to and can deepen customer relationships.

What is the issue with each of those areas? First, in terms of simplification, and if you have gone to a branch or jumped on the internet you probably have seen products typically are too complex. There was a proliferation of them. There were frankly just too many. That leads to systems complexity and it also leads to complexity for our sales people. It also leads frankly to operational risk which we have seen. The second area in terms of managing customer value, because we have relatively incomplete data and it has been on separate systems, it has been very hard for us to really get a total view of our customers and therefore as you jump into the third area in terms of managing that value, in terms of understanding our customers and what it is they really want and need, we haven't had the data and we haven't been able to present that in a way we wanted to.

So let me just give you one example of what I mean by that. If you turn to the next page. Now here we are just looking at our mortgage business. Here is just a simple example. If you look on the left-hand side at the number of brands we have, the number of platforms, the product types and the product variance, we have basically been able to move from having about 600 or so in the past to having around about 100 today. We are talking about having 50 in the future and somebody was asking me in the last session, well why not 20. Well we will get to that, but so far getting from 600 to 100 seems to be a pretty good start. It just gives you an interesting feel for actually the scale of what we are talking about in terms of the move away from complexity that will help us to be more efficient and accurate and more compliant in terms of our processes. Having fewer products frankly will help in terms of transparency we think. All in all it will make it easier for people to buy and easier for our staff to sell.

So that is one example. That's in terms of simplicity. Let's look at value now. And if you jump to the next page which is 16. Now you have probably seen these a number of times, but this is actually RBS data we are looking at. And it is RBS data in the middle of 2009 through to about the middle of 2010 and it is just looking at customer value which is revenue minus income, minus cost, minus losses, minus cost of capital. And it is looking at it in terms of deciles. And not a big surprise, but good to know, most of the value is created in the first two deciles on the left and actually in the bottom two deciles we end up losing a certain amount of money. Now you know that is partly because we have savings accounts there with very little spread. It is partly because at this stage in the cycle we have unsecured losses that are larger than average. And also our current account would fit into that category right now.

So we are starting to understand our customer data. Now let's look a little bit more at that and other ways in which we are looking at it on the next page which is page 17. And here when we look at the depth of customer relationships. So you have, we are looking at value, on the left-hand side. And the number of products an individual has with RBS. Not surprisingly, the more products you have the greater value is created for the bank. In other words there is a significant upside for the bank as we move from left to right.

In the bottom part of the chart, what you can see is again, perhaps no big surprise but the more products people have, the less likely they are to go and use a different financial institution.

So just a little bit in terms of understanding the data. But what actually we have had is, we have had the data on different platforms and it has been pretty hard to combine it all and actually get one customer view which is what we are trying to do. The good news is that as of the second half of this year, we now have that. So we have a system which has all of our customer data on it so we can look at any individual to understand better what their needs are in the first place and then what value they are creating and therefore how to appropriately price and deliver value to them.

How does that work? Alright, if you look at the next page, page 18, what you see is two examples of this in action. So on the left hand side you have something called a personal annual statement. So this is something we have started to send out again from around July/August of this year. We are going to send out about a million of these by the end of the year. But it basically just looks at your whole portfolio from current account to savings, to investments, to a mortgage. And it allows a customer to see and understand both at a transactional level as well as behavioural level what they are actually doing with their account and therefore how they can handle it and manage it better. And it enables our sales people and our branch staff when they are talking to customers and our staff on the phone to be able to understand better what customers are doing and how they can genuinely help them. The left-hand side actually talks to this on paper and the right hand side we are actually also doing this now on the internet. So when you jump onto the net, as I guess most of you do, as you are moving your funds around, as you are looking at what savings or investments to make, as we have underneath this in our system, algorithms that will suggest to us what it is that you may actually be interested in purchasing next and what is going to be most appropriate for you and we will send you a message that talks to that.

Theses have been going down very well, so 95% of customers liked the personal annual statement and want to receive it again. Over 10,000 follow-up conversations are currently being held per month. Over 2,000 customers booked in for customer reviews per month. And on the internet prompts, we have had about 14,000 sales to date as of the end of October.

So it is just to show you that as we start to get the data, as we start to understand the true value of our customers, we can actually translate that into something that is useful for customers as well as the bank.

Picking up on a point Brian made earlier in his presentation, I think one of the very positive stories about RBS is that we have the customers that we need, it is not that we don't want any more, we are perfectly happy. But we have got plenty of customers who currently are doing business with some of our competitors and we think if we can do a better job, they will bring their business to us. So if you look on the next page, you will see on the left, savings, and on the right, mortgages. So on the left in the bottom you can see in these little Venn diagrams is our current customers who don't have savings anywhere else of about £20 billion of savings with us. In the central piece, customers who have savings both with us and with some of our competitors. There is about £100 billion there, £40 billion with us, £40 billion with competition. And then on the right hand side about £100 billion that is sitting with our competitors, which means those customers have no savings products with us at all.

So that is a £160 billion in savings that our current customers actually have, which is two and a half times the amount of savings that we have. So the opportunity for us as we start to understand our customers better and start to deliver better value to them is that they will bring these products to us and their business to us at an appropriate time. The chart on the right shows a similar sort of thing. So with mortgages, if you look at our total customer base, we have about 900,000 mortgage accounts, but we have other customers who have 1.7 million mortgage accounts with our competitors. Again it is a pretty big opportunity for us.

And on the next page, a similar sort of story in another category, this is investments and pensions. So 200,000 customers with investments only with RBS, 100,000 with both RBS and competition and then 1.2 million where people have investments only with competition. So really whichever part of the product set that you look at, there is a very big opportunity if we can understand better, we can make our products simpler and we can meet the need at the appropriate time, then we think there is a very big opportunity for us here.

And with that I think I will hand over.

Brian Hartzer

Thanks Les, I should have explained, Les joined us less than a year ago from St George in Australia and before that he ran Citibank in Australia but he is originally a Scotsman. We managed to drag him home and it is great to have someone with his background to tackle this important issue.

I would like to now hand it over to Chelvi who looks after consumer distribution and then he will hand it onto Sarah. And Chelvi and Sarah are going to talk a bit about the front end piece of this. So that is the structure of what we are trying to do. Chelvi and Sarah can talk us a bit about from a channels point of view, how we go about activating that opportunity. Chelvi

Satyendra Chelvendra
MD, Direct Channels, Retail

Thanks Brian. Thank you. So Les spoke about developing products and designing it as fit for purpose for customers and our goal within distribution is dramatically improving the quality of interactions along the lines of what Brian was talking about earlier in delivering helpful banking. And in doing that we did a fair amount of research in trying to understand what customers want in terms of their channels.

And customers have told us that they are looking at channels of choice, not just one channel of choice but channels of choice they use for different types of activity. So if you look at the chart on page 22, the chart talks about the way we look at service and sales and what the customer sees as relatively important. And I will just take three channels as examples and just talk it through.

The first one is branches. Today at RBS we are very branch centric. A lot of our sales and service transactions happen through the branch. And as we move forward we see this shifting towards far more of a sales focused environment and away from service. Most of the service actually shifting into the internet which we see as a key channel, but also into mobile, which is growing both in terms of a service channel as well as to do payments as we move into the future.

As we start to think about this, the key initiatives that we have set up, the work has already begun and the early results of that you see in page number 23. Really there are a few things

I want to mention there. There are four important shifts that we have made. One is lean, which Brian mentioned. And lean really has been around taking wastage out of the branch network, creating space for customers to provide service at the front end and sales at the front end rather than being stuck in the back office.

The second piece of this is migrating customers across to our other channels like CDM's, cash deposit machines, ATM's, telephone centres, internet and the like. And the third one is reconfiguring the branch network so that it is actually, we are situated and also working in a way that allows customer service and interaction easier. And then moving onto a little bit more detail on the branch.

As far as the branch we have really started to work in earnest in reshaping our branch network, reconfiguring it so that we are focused on three batches. First one is what we call in flagship branches which are our very, very big branches across the country. And the second one is what we are calling full service branches where we will provide this in towns and suburbs and then moving onto the third batch which is the smaller co-branches where our proposition will be smaller and tailored to a smaller group of customers. We have not invested in the branch network for several years so this is a major undertaking that we will commence. That we have already commenced but we will accelerate it throughout the next 2-3 years.

In addition to that, looking through to some of the other channels, telephony, page number 25. An infrastructure that has not been invested in again for several years and our focus within this is around three things. First one is to increase the automation of the services that we provide. And the second one is to integrate and provide a simple front end desktop to our customer service operators so they can actually respond to calls, having information at their fingertips, handle sales calls, knowing very well what the customer actually requires.

And the third one is improved telephone infrastructure that allows us to treat our various centres around 11 or 12 of them we have around the country, as one virtual centre and allowing to be accessed without concern about which group were are operating under. And in this chart on page 25, this is an example of some of the simplification that we will be taking on that truly in the front end of what we do. In terms of simplifying the number of screens. This particular example is about a direct debit. But simplifying screens from something like 34 to 8. We have several examples of these types of activities that have been sitting around for a while.

Moving onto digital on page 36. Really the digital story is again years of under investment, but we have been quite selective about where we are placing our energy. The first one is creating a new sales engine to allow our customers to be able to open accounts in minutes rather than days, which is what the current process is. So there is a lot of work that is going on there. But secondly, what we create for the internet to replicate it for the branch and for the telephone rather than reinventing that again. So there is a lot that has gone into thinking through the infrastructure that allows us to recreate this in the other two channels.

And thirdly, taking a serious look at multichannel lead generation as opposed to one dimensional lead generation. For example, e-prompts that Les spoke about before which is using data to pipe things, information or requests to the customer directly. Secondly, webchat where a customer can actually be contacted directly from the internet into call centre. So we actually go from internet to call centre. Thirdly, click to call, where a customer can actually get onto a screen, ask somebody to call. It goes into a call centre and the call centre sets up the appointment in a branch. So all three channels have played in that particular example.

So the objective is really making the digital channel as the core to developing some of our products and applications that we can then spread across to the other channels and not having to replicate this in different places.

Now most of what we do create out of these channels have a direct impact on the private bank as well. And all of the changes that we make actually goes through all of our segments so they are not restricted to one segment.

I would like to ask Sarah to now talk to the advice proposition.

Sarah Deaves
Private Banking and Advice

Thanks Chelvi. So just to give you a bit of context about Private Banking and Advice, in the private banking side of it, we are talking about our most valuable customers, about 700,000 of those. And they start from people with investable assets of about £50,000 and upwards with salaries around £75,000-100,000.

For that kind of segment we treat them to NatWest or RBS Private Banking. So it is separately branded and we have about 2,000 staff helping to manage. The main thing that customers have told us is that they want a known point of contact who can help them navigate and get value from us as a bank.

In the advice side of our business, we have a business that covers all of the retail customers, whether they are private, whether they are mass market or whichever channel they are in. And also our Business and Commercial customers. And we have about 1,200 advisers covering that market through both our tied joint venture with Aviva in the bank assurance sense as well as IFA's and people who advise on discretionary management. That is just to give you a context there.

For the Banking side of things, the key thing that we are doing is leveraging all of the changes that both Les and Chelvi have talked about in terms of the platform and the products, delivering it through a person in a personal kind of way. So we are really leveraging the scale of Retail and bringing it to the customer in a very personal way.

I just also wanted to touch on our advice proposition, because very important that as the regulations start to change in two years time, that you are clear on how we are facing up to that challenge.

There are some things that are going on in our customer base which are all about how they do business with us and the trends that Chelvi has talked about in Banking, are also true in terms of our advice proposition. So people historically have always taken advice, this is long-term savings, pensions and investments and protection, face to face through an adviser. Increasingly with the sophistication of channels, with the confidence of people, they are wanting to do this over the phone, enabled quite often by the net or self directive. So a lot of our transformation is about making that open up to more people.

The way the regulatory structure is moving is also about making sure that we have a very full conversation with people, and moving away from probably the product focused activities of the past, this is also important as the charging for advice separates the advice fee from the manufacture of the product fee. So we are moving from a product focus to much more of a needs and gold based solutions.

And lastly, to try and get the economics to work and also the service proposition to work well, we are employing more technology and better processes to make the whole thing much slicker and more effective across the piece. And ultimately that will mean that we have a more simpler process to deal with. We will have RDR compliant processes and our teams at the moment, our advisers are going through the RDR relearning journey, where they have to get re-qualified. Everybody has to be re-qualified by the end of 2012 in order to be able to practice advice and we are well progressing along those lines.

So that is kind of in a nutshell what is happening for those kinds of customers.

So back to Brian

Brian Hartzer

Thank you Sarah and Chelvi. What I would like to do now is turn it over to Fiona to talk to you about the numbers. I think you will see obviously lots of people talk about strategy and quite reasonably one would want to see evidence that strategy actually works and that delivery is happening. And I think Fiona has a good story to tell about our momentum from that standpoint too. Fiona over to you.

Fiona Davis
FD, UK Retail, Wealth & Ulster

Thanks. Just on the first slide, we have given you something of an economic backdrop and in a nutshell what we are expecting is a fairly slow recovery. So pretty much the same as we have seen over the last year or two. We are not predicting any shocks. We are not expecting shocks in terms of either house price inflation or interest rates or unemployment. We are expecting the demand for lending to remain pretty muted as it has been latterly. And with the slow recovery in GDP, we are also expecting the savings deposit market to remain pretty stagnant and muted as well.

Over on the next slide on 30, what we have tried to do here is to recreate at some pain I must say, given the number of restructures we have been through in RBS over this period of 7 years. We have tried to create a view of the business for you that gives you something of a flavour of what it looks like through the cycle. So I would draw out a few points from this. Firstly to state the obvious, we have remained in profit throughout, despite the combination of a very low interest rate environment. And as you can see from the numbers, something like a doubling of our impairment charge.

Second point I would make is that our net interest margin has been relatively stable through the whole period. You can see a range here, it is between 3.6 to 4.2. We have a reasonably well balanced naturally hedged book. What you will also see though in 2010 is an uptick in the net interest margin up to 3.9. What that reflects is obviously the widening that we have been doing on the asset side through ’08 and ’09, the different dynamic in 2010 is obviously that the downward pressure that we have had on liabilities, that was offsetting that in 2009, is now lessening in 2010 and therefore you are getting a widening of the net interest margin.

The other thing I’d point to is the return on equity on the bottom line there. If you do the arithmetic you will get to something that works out at something like 15% through the cycle. What I would say is do bear in mind that for the period from ’04 to ’07, we were not particularly managing for return. We were managing for short term P&L and arguably income on the basis that we didn’t have cost allocations in place to have visibility of that. And we had a pretty benign economic environment. Since 2007 the focus has been very much on managing for return. You can see from the numbers, the heavy emphasis we have got on the secured book, that has picked up. If you look at ’07 we were at £65 billion and we are now £89 billion of secured lending.

Returns as you know have been rising materially on the mortgage book over the last couple of years and that flows obviously through to our return on equity. Lower impairment charges, albeit that from a net interest margin perspective, the mix of that on our book will have a downward impact.

Second thing, heavy emphasis on pricing for risk. We have been very busy repricing the backbook. The point I would make is that we are able to be quite nimble in our back book repricing. We do not have, unlike some of the competition, significant exposure to either long-term fixed tracker books or quasi kind of fixed on standard variable rate where commitments have been made in terms of margin. So we can be relatively nimble there in respect of interest rate moves.

We have raised front book margins quite significantly and where appropriate using risk based pricing. We have as you can see from the numbers, quite significantly reduced our unsecured exposure. And we have across the board tightened our risk appetite.

And the other feature I would draw out from this page is the heavy emphasis on getting to the point of being self-funding, as we published in our targets. And very much outpacing the market in terms of our liability growth, which I will come onto in a bit more detail in a slide or two.

So over the page, what we have given you is the sort of more recent history if I can say, in terms of the last seven quarters. And as you will see strong momentum across all of the key metrics all moving in the right direction and quite significantly. Market share you can see moving positively in those parts of the market that we want to grow and declining in those where we are seeking to shrink.

Cost-income ratio, you can see going from 69% at the beginning of ’09 now to 53% in the numbers that we have just published. So 16% over 7 quarters. That is a function of income growing at 16% in that period, costs being down in absolute terms, 10% in that period. So jaws of 26% over 7 quarters and a pre-impairment profit growth of 75. So not simply a story of improvement in impairments.

Our net interest margin has been widening as you can see quite nicely from 3.5 to 4. I would say that since 2008 we have probably lost something like 10 basis points per annum as a function of the mix and the book we have been writing. And our focus on managing for return rather than just for net interest margin. That said, you can see the back book repricing has enabled us to grow the absolute NIM quite substantially.

Mortgages and savings you can see in both, quite strong and quite consistent balance sheet growth. Steady reduction in the impairment as a percentage of assets since the second quarter of 2009. Yes some of that is purely down to economic improvement, but there are also within there, significant benefits from the investment we have put into our collections and recoveries. The tightening of appetite and as I referred to earlier, managing for return and shaping the mix of the book away from unsecured towards secured.

You will see the improvement in terms of RWA’s as a percentage of assets so improvement in capital efficiency, combination of quality and mix. And last but not least, our return on equity rising to 23% in the results that we have just published.

So on the next slide, what I have chosen to do here is give you a flavour of some of the dynamics behind our income growth and a hint of the outlook going forward. You have got a breakdown of the year to date income by product. Just taking it by column.

On margins you can see we have significantly benefited from asset widening. Offsetting that to some degree has been the flooring on the liability side so quite material downward arrows in terms of current accounts and savings.

As far as the future goes, there are clearly some ups and downs in there. I would expect without interest rates rising, that our SVR book would continue to grow, so standard variable rate book will continue to increase and that has been one of the drivers of our margin widening. We still have a bit to go on our repricing of the mortgage book, probably about 85% through repricing on the mortgage book. There will still be some flow through on margins on personal loans as well through just churning that book. I would expect some pressure on current accounts as hedge rates continue, we are on a kind of 5 year rolling hedge. I would expect on savings though, probably kind of stable-ish from where we are now.

In terms of volume, clearly significant growth in mortgages and de-emphasising unsecured. Reasonable growth in current accounts and strong growth in savings.

In terms out outlook, mortgages maybe slightly more muted. Current accounts again I would see continuing their trajectory and also savings continue to be strong. And Sarah will also be helping on the investment side with growth coming there. Function of some of the investment we are making in that Retail Transformation Programme.

On fees, you can see very strong downward trajectory in terms of the numbers that have come through in '09 and '10. A function of PPI and repricing on overdrafts which is now abating to our numbers and you will see no impact of that next year. And I would see as a result of some of the initiatives that we have just been talking about, the opportunity for that fee trajectory to start to improve as we go into 2011.

So I guess in summary, whilst I have seen in the Q3 results some kind of flattening of Retail income growth across the market, I am still optimistic of top line growth in this particular part of the Retail world.

Over on the next slide, what I am trying to explain here. You can see from the top two slides, left-hand mortgage stock, right-hand savings. We have an engine that already works very well. We have achieved best in class in terms of mortgage growth and we have achieved best in class in terms of savings growth. And that is against a market as I said at the beginning that has been pretty stagnant. At the same time we have established a track record in driving efficiency. Whether you look at the cost-income ratio, whether you look at headcount trends, whether you look at the cost trend.

And I can clearly see potential for upside in that efficiency from all things that Les has been talking about and Chelvi and Sarah. So be it in terms of taking costs out, migration to cheaper channels, automation, further application of lean or be it in terms of income upside, so better management of the backbook and customer value management, making it easy to do business with us, improving our onboarding, improving our retention. So courtesy of those I do see a good opportunity for improved efficiency in this business.

Last but not least, risk. So on slide 34, you can see on the left hand side, the picture of our impairments, significant reduction between '09 and '10. And actually you will have noticed a fairly chunkier reduction quarter on quarter as we have gone through 2010. The thing that stands for me from this chart is the predominance there of the unsecured charge in terms of our P&L. Over 80%, I think about 84% of the charge coming from the unsecured book and the secured book being a very small component of our impairment charge.

Over on the right-hand side you can see the recent trend in arrears and the declining trajectory there. In unsecured, and also in secured. What I would point to on mortgages is that obviously the denominator there is the book and we have been growing our book quite aggressively over the last two years. So it is very slightly flattening there. And we would expect secured to lag unsecured in terms of impairments. That said, it is a small number in relation to our P&L. And our actual book is a high quality book. So yes we are probably slightly higher in terms of LTV. But the customers that are in there are kind of predominantly your Joe Public, RBS, NatWest, organic customers. We haven't been in the self cert. We haven't been in sub-prime. We haven't been in the riskier buy-to-let. We have a lower percentage of intermediary origination than the competition and the market as a whole. So I would argue that that is a high quality mortgage book.

We have also done quite a lot to improve the quality of the unsecured book and also improve our collections performance. So the first thing we have obviously is shrink the unsecured book. We have tightened our risk appetite and we have invested in our collections and recoveries function be it bums on seats or be it in terms of managing that more effectively with better data.

So in terms of outlook, well you have seen the trajectory so far this year and I would argue from here on in, there is some road to go in terms of improvement, but much more gentle than you have seen in the first three quarters.

And the last slide here just to give you some flavour of the things that we have been doing since 2008 when our focus obviously increased in terms of risk appetite and controls. Some flavour of the things that we have been doing to be absolutely explicit of our risk appetite and make sure the controls are embedded in our business to deliver on that appetite. Brian.

Brian Hartzer

Thanks Fiona. Well I would like to start to wrap up the formal part of the presentations so we can get to the questions. And I want to do that by just talking about two things in summary. The first being our priorities, what are we actually focused on and on page 37, I have given you a list of specific things. But it really boils down to three things.

The number one focus is getting it right for customers. We really think that is the way out of the morass for RBS and actually for the banking industry generally. The second thing that we are focused on is getting the basics right. So we have got this big programme of change which is all about bringing us up to world class capabilities across a number of the aspects that I think a modern Retail bank ought to have.

And the third thing that we are focusing on from a priority point of view is really strengthening our Balance Sheet and getting back to managing the business from a long term prospective and focusing on risk reward trade-offs and managing relationships and revenue and cost and all that good stuff, which should give us sustainable returns.

And then just to summarise and finish off the formal presentation, I would like to put to you if you like, what is the Retail investment case for RBS? Or another way of saying it is why are we excited as a management team about this business? And we are excited about this business. And the reason we are excited is that we think we have got a terrific customer franchise here to build on. We have got great opportunities for growth, as we have talked about from a share of wallet point of view.

We have a big programme of change here, obviously 65 projects is a lot to run. But there is nothing we are doing here that is revolutionary. This is just about good, focused management across a whole bunch of projects that are the kinds of things that are well proven in other banks around the world.

I think we can take comfort in the fact that we have got good financial momentum. So we are not talking about changing the direction of all our numbers. Our numbers are moving in the right direction across pretty much every measure. And that includes both the customer side as well as the financial side. So that gives us some confidence that what we are doing is actually moving in the right way.

We are not talking about taking more risk. Quite the opposite. We are talking about strengthening our risk profile, improving our controls and the way that we manage our business, so we don't have as many issues cropping up all the time that we have to deal with. And there are some legacy stuff we still need to clean out. But a simpler business, more focused, tighter disciplines, simpler across so many different dimensions we think will actually allow us to keep the risks down whilst generating more revenue and lower cost.

I am very pleased with the Management Team we have been able to build here. I think we have got real clarity. I think we have got terrific capability and experience. We have seen an example of that here today.

And I guess the final thing is that, this is a group of people, and we as a bank generally, but I think certainly within the Retail business, we have learned the lessons of what has happens over the last 5-10 years in the Retail banking industry. We are not interested in a quick turnaround. We are interested in rebuilding this business to be able to deliver value over a sustainable long-term. So it is not about reducing the ROE in the short-term. It is about making the investments that we need to make so that this business can be around and successful and growing for a long time to come.

So that is all we wanted to say from a formal point of view and with that we would be happy to open it up to questions on any of the things we have talked about, or anything that we have missed.

Question & Answer Session

Question 1
Male
I have four quick ones if that's alright. First of all could you just comment on the Independent Banking Commission to the extent that it may provide opportunities or threats purely in a Retail perspective, ignoring the Cable "Break up the Banks debate"?

Secondly, to the extent that the Group may struggle to hit an ROE of 15% by 2013 in a low interest environment, the attention inevitably switches to costs. To what extent do you have scope and appetite to take further costs out of your business without jeopardising your investment objectives?

Thirdly, can you just flesh out a little bit more on the comment you made in terms of outlook for revenue growth, where you see your trajectory being ahead of the market going forward from here?

And then fourthly on credit card impairments, I appreciate we saw improving numbers across the market in Q3, could you just provide a little bit of comment on the scale of improvement we saw in your numbers there?

Answer – Brian Hartzer

How about I'll handle the first two and Fiona can I ask you to deal with the second two and Les you might want to comment on the card one as well.

In terms of the Bank Commission, obviously the main focus of the Commission is well twofold, it is on competition issues and structure issues. From a competition point of view, I guess I would make a couple of basic observations. First of all we are going to be participating actively and we have made submissions and we will continue to engage in the thing. We think it is healthy to have an assertion, albeit we observe that there have been 10 or 12 different reviews of Retail banking over the last 10 years. So we are not you know, we will see, but we are actively engaged in that.

The next thing I would say is that from a market concentration point of view and from an RBS specific point of view, we don't think there is any issue around RBS' market share. We have disposed of the business to Santander as a result of the EC investigation which is a similar thing around concentration. And you know our market share in aggregate is well below, plenty of other examples around the world. So we don't think anything around concentration is likely to have an impact for us. I mean we have talked about our market share as an individual product, obviously there is our current account market share, but you know with savings and mortgages market share running in at around 7%, 8-9%, we can't see how that would potentially be at risk if you like.

We also will continue to point out as a broader question, that the issue of the number of competitors is not equivalent to the issue of effective competition. We would argue there is very effective competition. There are plenty of alternatives in the marketplace if people choose them. There is plenty of variation in pricing, in service quality, in different types of offers that are around. So we think that the UK market is a very competitive place and we think competition is quite a good thing. We also think that our strategy which is really around being service led and being close to our customers with a more simpler, transparent model is the kind of thing that any sort of commission is going to wanting banks to do anyway. And so we are not, there is nothing particular that is being considered that we are concerned about. We think the broad issues that people are talking about are very consistent with what we are trying to do as a bank anyway. So we will see.

In terms of ROE and cost, certainly a sustained lower rate environment is a challenge, particularly because of the drag it puts on the value of deposits. We have a number of ways to address that. Revenue is one way as well as cost. On the revenue side we still have a number of levers. We think there is some way to go on asset pricing. We think there is clearly some way to go just on our sales effectiveness and as we have been talking about, our penetration of our existing customers business, both in the banking and investment side which we think can give us reasonable growth. We think that the industry is likely to think a bit differently about fees in the future, moving to a more transparent approach to how things have been priced. So we think in the medium term there is likely to be some positive moves around pricing for us on the fee side. So that helps with this issue of how we sustain income growth.

On the cost side, as Fiona said, we still think there is quite a lot of opportunity for us and the nice thing is that we have touched, we have mentioned lean a couple of times here. The exciting thing for us about the lean approach is it is about eliminating waste in the system. And waste is stuff which generally customers don't value and the bank doesn't value either. And so we think a lot of the things that we can do on cost are things that will actually probably improve the customer experience rather than hurt it. And we are also, one thing we haven't mentioned which is worth just pointing out is that we are a tremendous beneficiary as a business of the work that is being done in business services under Ron Teerlink on consolidating back offices and platforms and improving efficiency there. We are one of the main, if not the largest, payer for those services. And so as we make progress there, that will flow through to benefit us as well.

And one thing people may not understand because historically RBS was known for this manufacturing model of getting scale economies. Well the reality is as it relates to the Retail and probably Commercial banks as well, that consolidation never really happened. And so we are still running with literally dozens of operations and call centres around the UK and so there is real opportunity to just get better scale efficiency around there. We get a lot of old platforms that can be upgraded and consolidated and get more straight through processing going on. So there is quite a lot of opportunity to take costs out through that sort of work which doesn't affect customer service to the extent it does it for the positive. So we think it is quite a lot of scope there still on the cost side.

In terms of revenue, growth, outlook and card impairments, Fiona can I ask you to comment on those?

Answer –Fiona Davis
Yeah, I guess in terms of revenue growth, you have covered a number of the factors already in what you have just said. As I said before, we do see an opportunity on the asset side from the perspective that as interest rates remain low, the SVR book will continue to grow at good margin and we have some repricing still to do to flow through the book. I would see some of the pressure on savings, not abating, but remaining stable, offsetting slightly that we have current account hedges. But in addition to that I would see fee trajectory having been steeply downwards, starting to turn the corner. So if you take in aggregate all of the things that we have been talking about in the Retail Transformation Programme and you make an assumption about a market being fairly flat, we should be able to achieve it bringing into that market.

In terms of cards, our book has remained pretty stable over the last 7 quarters actually and you can see the trend there in terms of debt flows of percentage of that book. So you can derive therefore what is happening in terms of card debt flow probably from that graph but steadily down is what is happening there.

Question 2
Male
If I could I follow up a bit on costs and just make a general point and that is you haven't given us any targets today. Maybe that is deliberate but I wonder. You must have some because let's take cost-income ratio as an example. I mean you have done quite well. But I think Ian's question was driving at this really. You know granted your largest competitor has just appointed the best cost cutter in UK Retail Banking as the Chief Executive. So they are probably going to be at cost-income ratio at low 30%, mid 30% maybe in 3 years. And your 56% now, 53% last quarter. There is a bit of a mixed difference but you know we can probably only account for a few percentage points for that. So how do you view that threat? And what targets are you setting yourself over the medium term to where you really think you are going to need to be in this environment?

Answer – Brian Hartzer
Well I think a couple of things on that. I mean first of all, you are absolutely right, you do need to adjust for a mix of business. And I think when you have a massive mortgage book you need to take that into account. And you can do the math and work that out. And we've done that as well. I guess broadly speaking, we anticipate the cost-income ratio is certainly going to continue to come down. And in the long run we need to be in a position where we can price competitively. And that would be our intention. I think we are large enough that we have got the scale to be competitive. You know I mean there are definitely scale economies in retail banking. I think we are of a scale at this point that we don't have to be too worried

about our ability. If we can get to modern technology and straight through processing those sort of things, I'm not terribly worried about being too far out of the market in terms of competition on the cost-income ratio side.

But what I would say that is important is that there are a variety of different ways you can do Retail banking. One way is you can have really low cost and really simple products and if you like have a sort of lower end model to how you sell things. There is another way that you can do it successfully which is more of a customer intimate, higher quality service approach which costs a bit more which can generate ideally more revenue and more sustainable wider margins. I think we are probably tending more towards the latter. That isn't to say that we are not interested in cost-income ratio. We absolutely are. But I know from my previous experience at another bank overseas, that it is possible if you get a strong brand, service oriented proposition going, you can generate very high growth in revenue at very healthy margins and offset the fact that you might have a slightly higher cost-income ratio in the long-term.

So there are some different approaches you can take to the business. It is not in my view simply about a race to the bottom on cost. But nevertheless it is a serious issue. You know there are competitors out there that are ahead of us on the cost side and we are certainly going to be doing what we can to become a lot more efficient over the next couple of years and as we talked about, I think there is plenty of scope for us to do that.

Question 3
Male
Can I ask a question about managing the customer relationship because banks ad infinitum have always talked about wanting more customer wallet. And you have got some interesting slides there on what you did for the personal statement etc. But what's in it for the customer I guess? Do you actually engage in relationship pricing so if they broaden their relationship, they obtain better pricing? That has never really happened in terms of the cross-selling to make it worthwhile for the customer. How do you intend to make that work for you?

And secondly, I am interested by, we have seen slides like this before, the customer value one, where clearly you look at the value deciles etc. And they implicit assumption is you are to lose the low value add customers and have more of the high value add customers. But I guess if you think about retail bank, it is obviously a very high fixed income business, so you can have customers which aren't necessarily value enhancing, but if your marginal revenues which is kind of presumed to be overall fixed cost of the business. So how do you think about that in terms of overall contribution in terms of managing?

Answer – Brian Hartzer
Well starting with the first one. The way I think about it is and I touched on this a little bit in talking about how we are trying to motivate our people. What we are trying to do is change the way our frontline people have conversations with customers. So it is less about, 'hey do you want to talk to somebody about a special we have going on personal loans this week?' And more about, a customer walks in and says, 'I want to open an account'. And what we say is 'That's interesting, let's sit down and talk about what brought you to us today and what is going on in your life and let's get a picture of where you are financially, and then we can worry about what makes sense for you down the road'. And my experience, I did this at my last bank that I worked at, that actually getting people trained up and supported with the right sales tools and technology to have that kind of a conversation, can result in tremendously successful sales and relationship building without necessarily having to be the sharpest price or to be you know doing that sort of thing.

So relationship pricing is a really interesting one that people talked about for a long time. I would argue that relationship pricing is a discounting strategy because it basically says buy five, get one free. And our strategy is not to be bringing people in based on price. Now we will be competitive on price and we don't want people to feel that they can't get a good deal from us. But we don't want to attract people just based on price. We want people to come here because they feel that they get more convenience, a better relationship with their bank and so forth. So it may be over time and certainly for customers that bring more and more business to us, there may be incentives along the line to do that, because obviously there are fixed costs versus variable costs.

So we will take some of that into affect and will from time to time offer promotions to help people overcome the barriers to switch and so forth, but primarily our focus is about getting our people skilled up to have a quality conversation about people's financial situations and then making it very easy and giving them reasons. I mean the first line of statement in my mind is a lot about convenience, which is, hey if I get this one thing that tells me everything I have got, why do I want to be getting all these bits of paper in the post every month. And the kind of customers we are going after will value that convenience. So I think that is partly in answer to your first one.

On the value management thing, the way I would think about that is as follows. We would like to ideally get to, philosophically, a situation where we never lose money on a customer. Because it doesn't seem sensible to me that we should intentionally go into business. What business intentionally goes into a situation where you lose money on a customer. Now there's a variety of ways we can achieve that. The starting point is let's get our costs down. So let's make it more efficient to serve people that we are losing money on. And that's things like fixing our processes and lowering our fixed costs. It's things like getting people to use more efficient channels so that the incremental cost of serving them is you know lower and so forth. It can be, ultimately it can be things like pricing, it can be things like expanding the relationship to cover the costs better. A lot of it, when you dig into the detail, a lot of it is wavers that customers have been given that they no longer deserve, and these sorts of things. It can be poor risk based pricing which is, a lot of what you saw on the chart is the result of unsecured loans that were mispriced and so they are under water now that the credit cycle has turned. So you know there are a lot of different levers in there that we need to manage to try to reduce that loss.

And I should also say for the record that we also recognise and take very seriously our responsibilities as a bank and in particularly as a bank that has been bailed out, that we do have some social obligations and that we need to play our part in supporting people who need access to banking and you know we have done things in the Charter like committing to keeping the last branch in town open, you know where we are the last branch showing. Now that is an example where there are some of those branches that we will never make money in them, but you know that is just something we need to do. So within reason, but broadly speaking we are trying to get that back to neutral.

And beyond that there is this idea of just generally trying to lift the tide by expanding the relationships, making sure that we are pricing effectively, using our data to spot opportunities with an existing customer. I mean the wealth of data that we have. We haven't talked too much about our use of data today, but the data that a main high street bank has on its customers in the level of immediacy about what people are doing, where they are shopping. You know, Tesco talks about its use of data. Tesco knows what you buy in the supermarket. We know what you buy everywhere. You know just as an example. So the opportunity, again it is a latent opportunity, but down the road our ability to use data to talk to people in a timely way about things that matter to them I think is very exciting. And over time that should allow us to broaden the relationships out with people. And then obviously there is this thing at the top end which is how do we make sure that we really look after those people who are up there so that they can continue to generate value.

Question 4
Male
Can I ask a few questions? On page 19 you have put the Venn diagram on mortgage and deposit opportunities which looks fantastic. What realistically do you think is your kind of natural market share? Clearly it has always been a lot lower historically than what the NatWest, Royal Bank's current account show, has been. So when we look at that, what should we really think is what you guys have got in mind?

Just following on, on costs, on the £800 million that you talked about for the investment spend, is that, could you break that down into Capex or is that all P&L spend? And how are you actually going to fund that because you clearly are talking about cost-income ratios still coming down. That is relative to a cost base of £3 billion. That is a hell of a big number.

Risk appetite, I think one of the big issues for the economy at the moment is banks and the risk appetite particularly in the mortgage market. I notice that your LTV actually went down in Q3 versus Q2 on new business. So there is lots and lots of juicy margin to be made just a little bit further up the curve, so when do you think, it sounds like your economic backdrop isn't very bearish so when do you feel comfortable moving up that risk curve?

And on page 32, you give the split of the revenue and it has given us a little bit of new disclosure there. How much of that current account revenue is actual net interest margin versus fees?

And then finally, sorry there is quite a few questions, just stepping back a hundred feet, you just posted an ROE of 23% in the third quarter, you come in with a message which is 'My revenue is going up. My efficiency is getting better. My bad debt is getting better'. And you have got a target of 15. Clearly you are already better than that at the moment. So what realistically should we think as well as an ROE target for you guys?

Answer – Brian Hartzer
Okay, I will handle some of those and I will toss the harder ones to Fiona. So in terms of realistic share, I guess I wouldn't be suggesting that we could achieve our current account share across the range. Because many, for example, many of the people who have current accounts with us don't have mortgages, don't have savings accounts. Now obviously at one level that shouldn't matter, but it might say something about the mix of our business and so forth. I think also there is going to be a lot of legacy. I think there are going to be some people who are driven totally by price and we have a basic philosophy which is we don't want to compete on price. We don't want to bring people in based on price. Happy to be competitive, but people who come purely for price, you never make any money on and they eventually leave you for somebody else's price anyway.

So you know, what the number is I guess honestly I don't know. But I guess it would be somewhere between where we are and where our current account should be, but share does move slowly. Even if we do really, really well, that share is not going to be screaming up because of the back book affect. There is only so much money in play in a given year. And our job is to try to capture a disproportionate share of the money that is in motion in a given year. And so far we are going pretty well on that as witnessed by how we did on net mortgage growth last year as an example.

In terms of the £800 million, we haven't given out a split of the Capex versus the Opex, what I can say is that it is spread over 5 years, a very hefty chunk of it is Capex. And we fully factored it into what we talked about in terms of our operating expense line. So in terms of the amortisation or whatever, we are comfortable that we can afford this sort of investment and still deliver the total cost numbers that we have talked about.

In terms of risk appetite, on the mortgage side, it is true that our loan to value ratio has come down in the third quarter. That has been a very conscious strategy. To be honest our view has been that the big question mark about RBS as a Group has been risk. And so we have made a number of strategic choices or perhaps you would call them tactical choices over the last year that reflect the fact that our number one priority is to return RBS to stand alone strength as Stephen talks about it. That mean strengthening the balance sheet, so driving the loan to deposit ratio closer to one. And also making sure that we are not an outlier in any way on the risk in our portfolio.

There is also obviously some issues about our ability to fund the growth you know from this loan to deposit ratio question. So we took the decision that on balance we would prefer to be a bit more conservative on our new business writings. And we accept that that may mean for a period of time that we turn away good ROE business. But our number one priority is to restore the Balance Sheet and strength of the RBS Group. And then within that constraint to maximise returns. So you know these are trade-offs that we are managing on an ongoing basis.

Then what was the next one? I can't read my own writing? Current account mix. Over to you.

Answer - Fiona Davis
Current account mix. What are we saying, 850. I would have said 600-ish would be NII.

Brian Hartzer
Do you want to have a go at ROE?

Answer – Fiona Davis
Yeah I guess we would anticipate as you pointed out, we are starting at 23, we anticipate improvement in efficiency. We are not expecting any significant impact on capital, therefore by definition you would see a gently rising ROE.

Brian Hartzer
We said that the 15% is a through the cycle ROE. We have seen, if you go back in the previous quarters, we were at 1% two years ago. So you know we expect that to move around a bit. Also Fiona was saying, we don't expect any significant change in capital, but having said that, we don't know what the regulatory outcomes are going to be. We might be expected to hold more capital. So you know we shall see.

Question 5
Male
Can I maybe ask another one, sorry. Just to follow-up Mike's actually, but I will only ask one though. I want to ask about cards, because I mean frankly you are like every other bank, you are playing your cards down, well it seems to me you are anyway. But I see two things from your presentation. First of all you are really shooting, well you are pushing below your weight in terms of cross-selling cards. The proportion of your current account customers with your own card I think is extremely low, about 26% or something.

And the other thing is it is the business that has really performed well in the third quarter and mortgages is going well, we all know about that. But when we look at the card performance, the impairment charge is coming down very rapidly, revenues are going up. It strikes me that this is the best opportunity for you actually so long as you do it correctly. So I don't know why you haven't thought a bit more about cards and you are not giving us a bit more of an aggressive push into the card arena frankly.

Answer – Brian Hartzer
Well if it gives you any comfort, I used to run a credit card business and so did Les. So we certainly have people around who understand the business. I guess you know the simple answer is credit cards and personal loans were the main issue that we had within the Retail bank from an impairment point of view. And in a sense the answer is similar to my previous one which is our number one priority is to restore the strength of our Balance Sheet and people's confidence in our ability to manage risk. And as a result of that we have consciously shied away from expanding in credit cards because you know, given the uncertainty about the economy, the uncertainty in the outlook for unemployment and so forth. We took the view that it was prudent to be, have an abundance of caution. Having said that, I think I certainly agree with you that there is another latent opportunity for us there. And it is one that in due course when we are comfortable that we can both make good returns without exposing ourselves. You know the last thing we need is impairments going up again.

Further question
Yeah but there are fantastic returns to be made. You have a 3% charge up rate.

Brian Hartzer
Now.

Further question
Yeah but it strikes me that the banks, because you had the learning from a few years ago when you all got blindsided by the rise in you know involuntary arrangements and so on. But what strikes me is the opportunity is staring you in the face.

Answer – Brian Hartzer
Yeah, well there are a number of opportunities staring us in the face which is, you know just add that to the list of reasons to be excited about this business. But you know when I talk about a broader discussion with customers, about their relationships, obviously one of the things that we would expect to come out of that would be a broader share of peoples credit card business. And so yeah. But are we going to run along and start blanketing the UK with mail box stuffers? No. You know, but is it an opportunity for us to grow? Yeah.

Question 6
Male
How much of your Retail Transformation has been driven by new entrants into the market?

Answer – Brian Hartzer
I want to say, I am debating between none and not much. So I will say not much. You know competition is good in that it keeps people sharp and it leads to innovation and it leads you to find ways to earn better returns. But we are not, I don't want this to sound the wrong way. We are not particularly worried about new competitors. I mean we were happy to have new competitors because we think the industry needs to get itself together. But what is driving us is just a desire to make this business sustainable and we think that this business was not sustainable in the way it was being run in the past, being focused on short-term profit and not focusing enough on what mattered to customers and getting it right. And so we are doing that because we think that is what we need to do.

Now I guess it is also true that if we didn't do any of those things and new competitors were allowed to just keep going, well then the business would have a problem. But I wouldn't say the new competitors have caused us to do what we are doing. I think I mean I have a good understanding for you know one of the competitors who has come effectively from the US is a bank that we studied quite extensively at my last place, so I know quite a lot about what they are doing. We know quite a lot about what they are doing here. And it's good because if it causes the industry to refocus on improving service standards that is good for everyone. Having a bad reputation for the industry is not good for anyone, it is not good for RBS and so if the whole industry starts to refocus on improving service standards, that is a good thing. And if people start to think that the industry is taking that seriously that is good. But equally I am not particularly concerned because we know from research that our customers, the ones who do bank with us, actually they still feel pretty good about the people that they deal with day-to-day. They would like us to get our act together. And if we can get our act together then nobody can really hurt us.

Question 7
Male
Can we go back to Mike's question, maybe you answered it, maybe you didn't. Which was the portion of the £800 million increase in cost, what was Capex and what was P&L? I don't know if you, maybe I missed that.

Answer – Brian Hartzer
Well what I said is we haven't disclosed the exact split of that, but that we have factored that into our planning around our costs and that we are comfortable that our overall guidance on cost reflects the extent to which that is Opex versus Capex.

Question 8
Male
To come back to the customer relationships which I guess is at the core of what you are doing, Just thinking about the process, I guess first you have to put the tools and the infrastructure in place, then change staff behaviour, then deepen relationships and then finally customer perception and customer activity changes. That feels like quite a long process particularly to build that sort of customer trust and change customer perception. I was just wondering what your timeline is on that and when, is 2013 really a realistic target for when customers will feel differently about the RBS offering?

Answer – Brian Hartzer
Well the first thing I would say is that those things are not sequential, they are simultaneous. Changing, getting the staff excited again can happen at the same time as your marketing things externally. And while you are working on processes, you know some of what we are doing in the branches doesn't require any technology, it is just a function of how managers manage and so forth. And a lot of what we are doing, as I said earlier is tapping into the energy that is already there amongst the people. They want to do this. You know, I get emails all the time from staff saying you know thank goodness, finally we are getting it and it is great to see that we are moving in the right direction. And that can start affecting how people are experiencing us straight away.

So I think we can have quite a significant impact in the next year or two on the experience that our existing customers have with us. I think the marketing can begin to change the attitude people have externally to us. And some of the measures that we are seeing suggest that that is moving in the right direction already. But I would say you know two years to really start to get people to say, 'hey these guys have really progressed a long way'. Yeah I think that is doable, I mean I think two to three years, you know we are not going to have every problem solved in three years time, but you know I would be very disappointed if we weren't perceived to be materially ahead of where we were in two or three years time. And that is consistent with what I saw at the last place I worked.

Question 9
Male
Can I ask, and again it comes back to one of Mike's many questions. And that was the business itself at the moment is extraordinarily profitable. Do you?

Brian Hartzer
Compared to what?

Question continued
Compared to your target, 23% ROE in Q3 is way above where the Group is aiming for you to be. Do you conceive of many changes going forward in the shape of the income streams that you derive from your products? Are there any PPI's or unauthorised overdraft fee changes that the industry is likely to see in the next I don't know, call it 5 years, really big picture stuff that you might be getting ready for that perhaps we don't know about?

Answer – Brian Hartzer
I want to say, I think we have dealt with all the really ugly stuff, so I would be very disappointed if there were anything else that came along that we had to fundamentally change that we hadn't thought about. I think overdraft fees, PPI, you know current account fees, those were the big things about the way business was done in the past that needed to be resolved. I think we probably will see some changes in the way investment products work and the fees associated with that. But I don't see that as an issue of past behaviour, I think that is more about a shift towards fee for service and so forth. I think if interest rates sustain at low rates then the fee structure around current accounts and so forth you know probably has to be looked at.

And then beyond that I think the main dynamic would be the relationship between mortgage and deposit margins. And there I think the thing that is likely to be affected would be if the securitisation markets were to come back then that might make it possible for someone without a balance sheet to begin to compete more on the mortgage side. But the flip side of that would mean that the pressure on the deposit margins would diminish. So you know, our ability to manage the overall margin I am not overly concerned about and I think we are probably moving and going to continue to move back to a more realistic place on margins. I think they were artificially low. Ironically by having extra competition which you know was unsustainable which is why some of these banks have blown up. So I think we are moving back to a more sustainable net margin position. And I am not, I can't really anticipate anything that would fundamentally change our ability to manage that.

Further question
And as a follow on to that then, the FSA has published its ideas on what it thinks PPI refunds are going to cost the industry and so on. They said in one of the earlier drafts of their documents that at least two banks came back and said your estimates are way too low and they are big numbers anyway. Could you share a view on how long it is going to take to resolve what you think it might cost and how it impacts you and your competitors?

Answer – Brian Hartzer
All I can say is that the judicial review is under way and we hope that that will get resolved sometime next year. And then we will just have to see where that comes out. We think there are some pretty important issues of principle around that, about retrospective regulation and so forth. You know, we are certainly doing everything. We stopped selling the product in 2008 and so the open question is around if there needs to be remedies of things before that,

we have been doing quite a lot along the way. You know, so beyond that I am not sure I can give you any better guidance.

Question 10
Male
Can I ask a question about the personal loan product, because your disclosure is very good compared to your peers and obviously we can see what you make in terms of revenues, it is a fairly large part of your impairments ongoing, but we have no feel for obviously whether it is cost allocation, but it feels like, given the revenue stream, given the impairment stream on a fully costed basis, it is probably one of the least attractive products in the set at the moment, is that fair or how do you think about that product longer term?

Answer – Brian Hartzer
Yeah, the way I think about personal loans is that it is a product that you market to non customers at your peril. And that is a pattern that has been repeated around the world on a number of occasions. And however for good existing customers personal loans is a proper product which if well priced is something that you should offer and you should be able to earn a decent return on.

Some of what you see in personal loans today, and we have largely addressed this issue, is that the previous model which was silly was the idea that you sold personal loans at a loss and you know PPI income in many cases seems to have compensated for some of that. Now that again is an example of something that is not sustainable and which the industry is changing. And but I guess our view would be existing bank customers good quality credits then we should be able to offer the product and earn a reasonable return on it within acceptable risk parameters.

Further answer – Fiona Davis
At the moment it does hurdle. It is not the most expensive of products, therefore your cost allocation is proportionately low but it is nothing like mortgages in terms of return, but it does hurdle.

Question 11
Male
Can I just follow up on the, I think Jason was driving at this and you touched on it a couple of times but the concept of free banking we have in the UK. I mean so called free banking if you like for current account holders. I mean such an obvious thing again, I know it is politically sensitive, but the FSA doesn’t like cross subsidisation that’s clear between customers, products and so on. Whereas a current account fee structure you know, charging for ATM withdrawals and so on, doesn’t involve that really or should tick the boxes for you. So when are we going to anticipate to see this coming back to the UK?

Answer – Brian Hartzer
Well I mean you have seen the industry has already made a number of changes, a lot of the industry now is on packaged accounts and so forth and there have been changes in the structure of products from a number of the banks. You know it is a politically sensitive issue, it is a competitive issue.

Further question
HSBC would be following you straight away I am pretty sure. You have got a size that you could lead the market.

Answer – Brian Hartzer
Well we will just have to see how the market evolves I guess.

Question 12
Male
The size of the branch network, have you got it at the moment?

Answer – Brian Hartzer
The way we are thinking about this is and Chelvi alluded to this in his presentation, is that thinking about the network is simply branches, where a branch is a thing, is probably not where we want to end up in the long run. We want to end up with the idea of locations and assembling different capabilities in different locations, rather than just a branch exists. Because there are certain places where today we couldn't necessarily afford to have a full service standalone branch, but it might be over time that we have different combinations of electronics and in person service. So I think there is scope.

And the other thing that happens is of course different retail areas grow and shrink and so forth. So we want to continue to have, we think having a large physical network is really important, but having said that we are going to continue to look at where we move things around. You know we might combine two small branches into one place if there is a new shopping centre and if we think there is an opportunity to do an electronic branch in one place, we might do that. So I don't know exactly what the final number, well there will never be a final number because just like a big retailer evolves its number of outlets, we will continue to evolve as things go on, but it is something we continue to look at.

Closing comments
Good, well thank you all very much. I hope that has been useful and if you have liked what you heard today, you can go online and apply to open an account with Nat West, RBS or Coutts. But for those of you in the room there is an application form for Coutts and NatWest Black at the back which we would encourage you to take and sign up.

Thank you very much.

End of Presentation.