

Opening statement: Gerry Mallon, Chief Executive, Ulster Bank Ireland DAC

Joint Committee on Finance, Public Expenditure and Reform, and Taoiseach

1st December 2016

Thank you Mr. Chairman,

As this is my first attendance before an Oireachtas Committee it is an opportune time to introduce myself. As the Chairman has indicated I am Gerry Mallon and the CEO of Ulster Bank Ireland, since starting in role on 1 June this year.

Before I joined Ulster Bank, I was CEO at Danske Bank in Northern Ireland having previously held other senior positions in Danske Bank as well as Bank of Ireland and McKinsey and Company Management Consultants.

I'm joined this morning by my colleagues, Paul Stanley, Chief Finance Officer and Andrew Blair, Head of Problem Debt Management, both of Ulster Bank Ireland DAC. We want to thank members of the Committee for the invitation to attend today.

As you are aware, Ulster Bank is a subsidiary of RBS and accordingly is subject to the normal disclosure constraints of a publicly quoted company – though I don't believe that will unduly constrain our responses to the committee this morning. With your agreement I'd like to go through our opening statement relatively quickly, and then respond to any specific issues that the committee wants to address.

The following are the themes I would like to convey to the Committee today are:

1. Ulster Bank is a strong franchise with an established market position and loyal customer base providing important and much-needed services to Irish customers, both personal and business, and competition in the Irish banking market.
2. While the post-crisis recovery continues, there are market headwinds to consider including a low interest rate environment, impact of Brexit and a challenging regulatory cost environment.
3. We continue to work hard to address our legacy issues and while we have made significant progress, we fully appreciate there is more to do.
4. We are looking with determination and confidence to the future, running the business as efficiently as possible, leveraging the strength of RBS and key market opportunities that exist.

I'd like to expand on each of these points.

1. Strong franchise with an established market position and a loyal customer base

Ulster Bank has been providing banking services in Ireland for the past 180 years. We are unique as the only systemic bank that operates in the Republic of Ireland that is owned by a parent with international reach. RBS has confirmed that Ulster Bank remains an integral part of its plan to build a leading retail and commercial bank, substantially focused in the UK and Ireland.

We employ over 3,000 people, have a network of 110 branches and serve almost 1.1million personal and business customers. We have net lending in excess of €22.6bn billion in the Irish economy, and hold circa €17.5 billion in customer deposits.

Despite operating in a low interest rate environment, we continue to make good progress in the strengthening of our business. 2016 to date has been a strong, customer-focused period for Ulster Bank. We reported an adjusted profit of €236m to the end of September 2016. We are demonstrating steady progress through increasing income and reducing our operating costs. Following our announcement last week to pay a €1.5bn dividend to our parent, we maintain a strong capital position and our results reinforce our progress in building a strong and sustainable business as RBS in Ireland.

We have a shared ambition across RBS to become the number one bank for customer service, trust and advocacy and by advocacy we mean word of mouth recommendations that generate new business and relationships based not on what we say but on what we do and how we treat our customers. We believe we are making progress on this ambition. We are growing market share in terms of flow of new business, particularly in the mortgage market, and our customer net promoter scores continue to rise, reflecting the level of service we provide to our customers. We continue to invest in our customers, our people and in reinforcing our brand presence.

2. While the post-crisis recovery continues, there are market headwinds which need to be considered in our outlook.

There is no doubt, indicated as recently as last week's data from the CSO, that the post crisis recovery continues, however whilst the macro economic outlook remains favourable, it is not as favourable or certain as prior to the either the UK referendum or the US election results.

We are also operating in a low interest rate environment which is impacting all banks deposit margins and our returns on deposit funds remain at historically negative lows. The recent UK vote to leave the

EU is also likely to have a negative impact on the Irish economy in our view predominately affecting exports and investment.

In addition, we continue to pay increasing Government and Regulatory levies which already represent circa 9% of our total cost base and which adversely impacts our cost income ratio by approximately seven percent.

On a more positive note however, the decision of the UK to exit the European Union has strengthened and reinforced the strategic importance of Ulster Bank to RBS. As a bank regulated in Ireland, in a post Brexit scenario, Ulster Bank has a unique position within RBS.

3. Addressing our Legacy issues

As part of our progress to build a sustainable business, there are a number of legacy issues which we continue to manage and which impact on our customers and our recovery. This includes our work under the direction of the Central Bank of Ireland to address issues identified in our Tracker Mortgage portfolio of customers. We are focused on completing this very complex piece of work and ensuring that we do the right thing for our customers, sorting these legacy issues out so that our focus can be on building a strong business, rebuilding the trust of customers, the pride of our people and support of our stakeholders.

In the course of our discussion today, we can touch on any of these issues you want to discuss, however one of the areas you have already indicated you want to talk to us about is mortgage arrears. From the outset it is important to restate that our objective has been and remains to keep customers in their homes. As we have previously indicated to the committee, there is a cost to living in a home. Where customers engage meaningfully with us we can and have, in the vast majority of cases, provided a solution to keep them in their home. We have made significant progress addressing and resolving outstanding arrears issues, and to date, we have supported over 22,000 customers who are experiencing difficulties to stay in their home.

In terms of loan sales, I'd like to remind the committee that Ulster Bank was not part of Nama and therefore never benefitted from having impaired assets removed from our balance sheet unlike the other domestic banks in this market. As a result, we have undertaken a number of loan sales as part of our recovery, with the full knowledge of our regulators both the CBI and the ECB who have encouraged these processes to address what is a key issue for Irish banks in bringing the volume of non performing loans in line with acceptable market norms.

These types of sales are an essential part of our recovery and enable not just Ulster Bank, but all other financial institutions to strengthen our balance sheets, reduce our risk profile and enable us to facilitate lending and growth back into the economy for both personal and commercial customers.

4. Looking to the future

We are firmly of the view that the future of Ulster Bank must be built on customer trust and integrity to ensure we are a powerful and competitive presence in this market. Having been in recovery mode, we are now moving into a new phase of our business where we are focused on our customers and transforming our business – unlocking the potential that we know exists, investing in the future and running the bank efficiently. Our clear purpose and ambition is to be the number one bank for customer service, trust and advocacy. Running our business in a responsible, sustainable and efficient way is at the core of that ambition.

To the end of September 2016, our lending activity increased by 26% year on year, with €970 million of new lending facilities to business customers and a further €810 million in personal lending.

Our new mortgage lending is up 49% compared to Quarter 3 of 2015, with our market share of new mortgage lending also increased by 4% on last year which is very positive in a competitive market. Our new service-led improvements to customer experience, such as mobile mortgage managers and secure Video chat have increased Ulster Bank's market share to 19% in quarter 3 2016. Our broad range of fixed and variable rates that are available to both new and existing customers are both comprehensive and competitive.

We are also gaining market share in Agri-business with a range of propositions and services to support and grow our customer base in this important sector. 34 of our agri specialists will graduate this week from our unique tailored agriculture programme designed to provide the best support to our agri customers. We have been out on the road all of this year talking and listening to business customers and providing support on everything from exporting to new markets, expanding organic SME businesses, impact of Brexit and innovation in farming. We have also started to offer finance under the Strategic Banking Corporation of Ireland.

We are working in an operating environment that is changing fast. International and global events such as Brexit or various EU or international trade issues, lower for longer interest rates, regardless of the outcomes, impact on the economic environment and in turn our customers. We are focused on transforming our organisation to ensure it is fully prepared to meet these challenges in the short and long term.

As part of this transformation, we need to factor-in the issues of strong competition and innovation from both banks and other non-traditional competitors. Technical innovation, shifting consumer trends, changing demographics and increased regulatory requirements highlight the need to continuously adapt our way of working to ensure a customer focused sustainable response and strong financial performance. It is clear from the on-going developments in technology and the

customer response that products, services and distribution channels need to be reviewed and updated on an on-going basis to ensure that we meet and are responsive to customer needs.

This next era in banking is defined not just by the financial products or services delivered, but more by who delivers them, how they reach customers and meet their needs. Central to this is the application of rapidly developing technology at both the retail and wholesale levels.

These latest developments, led in the main by FinTech start-ups, pose challenges for market participants and regulators alike, particularly in balancing the potential benefits of innovation with the possible risks of new approaches. It is clear, however, that the evolving banking and payments landscape requires collaboration between tradition financial service providers, regulators, policy makers and FinTech companies to help foster the evolution of this area. Ulster Bank, supported by our international parent RBS, is central to this collaboration.

Conclusion

In conclusion let me reiterate our ambition in Ulster Bank is to become the number one bank for customer service in Ireland

1. We have a strong franchise with an established market position and loyal customer base.
2. While the post-crisis recovery continues, there are market headwinds which need to be considered in our outlook.
3. We continue to work hard to address our legacy issues and while we have made significant progress, we fully appreciate there is more to do.
4. We are looking with both determination and confidence to the future, running the business as efficiently as possible, leveraging the strength of RBS and key market opportunities that exist.

We look forward to continuing our progress in 2017 and beyond.

Andrew, Paul and I are happy to take any questions.

Thank you.