
Opening Statement

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

**Thursday October 5th 2017.
Committee Room 2.
Leinster House.**

Introduction

Good morning. Thank you for inviting us to meet with you to discuss *Matters relating to the banking sector*.

First let me introduce myself and my colleagues. I am Gerry Mallon, Chief Executive Officer of Ulster Bank DAC Ireland. With me today are Paul Stanley, Chief Finance Officer, Eddie Cullen, Managing Director, Commercial Banking Division and Andrew Blair, Head of Customer Debt Solutions, at Ulster Bank Ireland DAC.

In my opening statement I would like to:

- Update you on the progress we have made since we last met you;
- Describe some developments we have implemented across a range of services and products to improve what we do for our customers;
- Provide an update on the tracker mortgage examination and the progress we are making towards resolving that issue;
- Provide an update on Brexit preparations.

Ulster Bank is a strong bank with a long history in the Irish market and a loyal customer base. We have provided banking services in Ireland for 180 years so far. We are the third largest player in the Irish market and we want to grow our market share. We are the only systemic bank operating in the Republic which has an overseas parent. Together with our parent RBS we are developing and investing in a long term strategy for the future of Ulster Bank in Ireland.

Our Half Year results published recently, show that we are making good in progress in building a more sustainable, safer and stronger future. Comparing H1 2016 to H1 2017, we have increased our operating profit and reduced our operating expenses.

- New lending has increased by 11% (€1.3bn in H1 2017)
- Risk weighted assets have reduced by 17.7%
- Customer deposit balances have risen by 10.3% compared to H1 2016 supporting a reduction in the loan to deposit ratio

Our conduct and litigation charges were €39m in H1 2017. The charge reflects a provision for remediation and project costs associated with legacy business issues where we believe errors may have occurred.

In the year to June of this year, we saw an 11% increase in lending to personal and business customers. We continue to see year on year growth in new mortgage lending and are targeting to lend approximately €1bn to mortgage customers in 2017. I will provide you with more details on our mortgage services shortly.

For business customers we saw strong performance in new lending, reflecting a positive response to initiatives such as our export finance roadshow with the Irish Exporters Association, the expansion of our partnership with the SBCI on agri-business and the revamp of our Business Achievers portal and networking hub. Business Achievers (www.business-achievers.com) is a new free digital business hub powered by Ulster Bank that displays our continued support for business customers in the Irish market.

The ways in which our customers bank with us are changing radically and in the first half of 2017 we introduced a number of changes to reflect this.

Customer Service Channels

In light of the rapid migration from branch transactions towards digital methods, we introduced the two new customer payment systems, Apple Pay and Android Pay in the first half of this year. These services, as Committee members probably know, allow customers pay for goods and services simply by waving their mobile phone over a contactless payment terminal, with security provided by a fingerprint or a code.

We want to provide banking services where and how our customers want them. It is not simply the case that a new generation of young urban customers want to bank exclusively on-line while older rural based customers want to be able to call into a local branch every day of the week. Customers want and need a combination of both. They want fast, convenient, secure services for their day to day banking; but they need a very different service for those significant milestones in their lives that they reach with the assistance of their bank.

Of course our branch network remains an important channel for customer engagement. We announced in March that we would close 22 of our 110 branches in 2017. Closing any branch is a difficult decision which we do not take lightly but it does not ending our local presence in these areas.

We are:

- Improving our retail network - spending €6 million on upgrading and refurbishing branches;
- Extending services available through An Post for our personal and business customers and introducing other improvements such as fast business cash lodgements, bulk coin deposits and cash/cheque deposit machines.
- Adding two extra 'Banks on Wheels' serving rural locations in addition to our three existing mobile banks;
- Appointing six new Community Bankers to support vulnerable customers and help customers to move towards online and mobile banking channels.

The future of financial services ; FinTech and Open Banking

In the past two years Ulster Bank has strengthened our links with the fintech start-up community through our association with Dogpatch Labs in CHQ with mentorship programmes for technology start-ups and hackathon events.

In the last month Ulster Bank has announced Ireland's first banking open API (Application Programme Interface), in a move that will help take Open Banking in Ireland from concept to reality. Put simply, this is the concept whereby your bank account can be linked with other services. It is similar to the sharing of information that has allowed services such as Hailo and now MyTaxi to transform how we use taxis. It is revolutionary, it is happening globally and it will be happening here.

The API has been developed using market-leading technology from Ulster Bank's parent company RBS, and will give approved third parties limited access to customer's account balance and transaction history, if the customer requests it.

Keeping our Customers safe

RBS and Ulster Bank invest heavily in fraud prevention and detection systems to keep our customers' accounts and information safe and secure. Training on fraud prevention and detection is mandatory for all our employees, not only those serving our customers. We have recently appointed a new Community Protection Advisor to support our customers and frontline teams on a range of issues including frauds and scams. We also continue to benefit from RBS investment in fraud surveillance and partnerships such as with UK based National Trading Standards Team on *Friends Against Scams*. This offers up to the minute training for customer-facing teams and helps us spread the scam protection message to more of our customers, their families and friends.

Mortgage Services

Helping customers to buy their own home is one of the most important services we provide.

In summary I would make the following points:

- We have put a considerable amount of work into improving our mortgage services for customers by simplifying the process and reducing the average time spent on an application.
- We have introduced a new mobile mortgage manager service, which offers customers the choice of meeting a mortgage adviser in their own home at a time that suits them.
- We offer free valuations on new mortgages
- We provide a €1,500 legal fee contribution to provide real help for the costs of moving home
- We have steered away from the large cashback offers, and instead focused on consistently offering competitive headline rates.
- We offer some of the most competitive rates in the market. We have a fixed rate as low as 2.6%; We have 13 different variable rates starting as low as 3%. We also offer a 3.7% discounted rate on our SVR of 4.3% for customers with an income mandated current account.
- We don't offer a deal to a new customer, that we aren't prepared to offer an existing customer.
- We also have a good proposition which helps existing customers on a tracker or in negative equity to move home.

We are always working to improve our customer proposition, leveraging the wider capabilities from RBS to do this. For example we recently amended the overpayment allowance on fixed rate products to 10% per annum, allowing customers to avail of the certainty of a fixed rate while also having more flexibility to pay down the mortgage quicker.

As one of Ireland's leading commercial banks, we continue to play an important role in supporting the recovery of the housing market in Ireland. This includes the provision of financing for new housing developments and accommodation sectors such as the purpose-built student accommodation market to help meet current and future housing demands.

Over the last two years, we have committed financing on schemes that will deliver in excess of 1,200 new houses, as well as financing student accommodation to deliver over 1,000 new student living units.

Tracker Mortgage Examination

I would now like to report briefly on progress in the tracker mortgage examination.

The Central Bank of Ireland (CBI) is carrying out an industry-wide review of tracker mortgage-related issues across all Irish banks. As part of this review, lenders including Ulster Bank, were required to review their entire tracker loan books to identify customers in relation to whom we failed to honour their contractual entitlements, or where we did not live up to the standards that we and the regulator would like to have seen in terms of full disclosure and transparency.

We are required to work through four phases:

- Phase 1: Development and Submission of Detailed Plan – *Complete*
- Phase 2: Information Gathering/Review/Report Submission – *Submitted in line with agreed CBI deadlines of March 2017.*

Phase 3 and 4 run concurrently

- Phase 3: Calculation of Redress and Compensation – *On-going*
- Phase 4: Implementation of Redress Programme – *On-going*

Our Phase 2 report was submitted to the Central Bank in line with the agreed timeline of March 2017. This report is currently being reviewed by the CBI and until such time as the review is concluded, Phase 2 is considered on going and numbers in relation to impacted customers may be subject to change. Last December, when the Phase 2 process was underway, we told the Committee we had at that point identified 2,000 impacted customers, The completed Phase 2 report has identified a total of just under 3,500 impacted customers.

In line with the process defined by the CBI to 'stop further harm', Ulster Bank has contacted and returned existing customers to their tracker mortgage. However for a small number of existing customers this has not been done because the original tracker rate would result in a net increase in their monthly payments.

Ulster Bank has begun Phase 3 *Redress and Compensation* and Phase 4: *Implementation of Redress Programme*.

The number of customers remediated so far is small. We are starting the process very slowly in order to test all of the calculations for each customer. We are building up a process to have a much more intensive model for calculation, contact and remediation. Nevertheless the process will take a number of months and will run well into 2018 before all cases are addressed. Customers then have a further 12 months to appeal if they are unhappy with any aspect of our redress and compensation payment.

We have not concluded the process of establishing the number of customers for who the actions of the bank caused the loss of their homes. We have identified a small number of customers for whom this is the case and we have made contact with them already to begin the process of redress and compensation. The numbers are currently low but that could change as we work through the process so I can not confirm final numbers until we are through Phase 3.

In line with CBI guidelines we have put in place an independent process to support customers who wish to appeal.

Two independent appeals panels have been established. Each panel has a qualified barrister or solicitor as Chair, an accountant/actuary and customer voice representative. The panel's role is to assess customer appeals in a timely way and determine whether additional redress is required. For efficiency, one panel is dedicated to complex appeals. An Independent Secretariat to support administration & customer communication has also been established.

Ulster Bank continues to support our customers during the period of negotiations between the UK and the European Union. As part of RBS, a UK and Ireland focused business with a good presence in Europe, we are working through the various exit scenarios and have contingencies in place to ensure we continue to provide our customers with the full range of services they require as expected of any prudent business. The fundamentals of our strategic plan remain constant and Ulster Bank, as a bank regulated in Ireland and the EU, continues to be a core part of RBS.

We have seen limited impact on retail customers mainly because none of the changes associated with the UK leaving the EU have crystallised yet. For our SME and business customers, there has been a mixed response with some sectors affected more than others. Ulster Bank is helping businesses prepare for the transition through the Brexit process following the triggering of Article 50 of the Treaty on European Union by the UK earlier this year.

Some of our customers are looking at expansion opportunities in the UK as a result of Brexit, and we will be seeking to help finance and support such expansion plans. We supported a series of nationwide seminars in association with the Irish Exporters Association, which offered businesses the opportunity to meet and network, while hearing from industry and business leaders at a number of regional locations on a range of topics from Brexit to innovation to how to grow your business. Ulster Bank has regular engagement with the IDA and our colleagues in RBS to help identify businesses from the UK that are considering setting up operations in Ireland, with a view to providing banking products and services to them in the Republic of Ireland.

Mr Chairman there are lots of other topics that I would like to address but I will conclude there as I am sure I will get an opportunity to cover them in the discussion.

Thank you.