Ulster Bank

Opening Statement

Meeting with Joint Oireachtas Committee on Finance
Date: 19th June 2018.

Chairman, members of the Committee, thank you for this opportunity to discuss matters relating to Ulster Bank.

I am Paul Stanley, the Chief Financial Officer and Interim Chief Executive Officer of Ulster Bank Ireland DAC. I am joined today by my colleagues Eddie Cullen, Managing Director, Commercial Banking Division, Ciarán Coyle, Managing Director, Retail Banking.

In my opening statement today I would like to update you on some of the developments in our business since we met last.

Our focus remains on ensuring that Ulster Bank is best positioned to compete and grow for the benefit of our customers, economy and shareholder whilst seeking to regain customer trust by addressing mistakes of the past.

At our full year results in February we showed progress across a number of key areas:

- adjusted operating profit of €109m (operating loss of €151m),
- reduced costs
- increased lending to customers and
- reduced risk weighted assets.

We paid a €1.5bn dividend to our parent and made improvements to our Net Interest Margin (NIM), reflecting our work to build a safer, more efficient and sustainable bank.

We continue to innovate in digital banking, with Apple Pay and Android Pay, and our market leading mobile banking app. We have also been working hard to resolve the mistakes of the past. We recognise that full and timely resolution of these issues is essential for customers and in building trust in Ulster Bank.

Non-Performing Loan Strategy

Consistent with the industry-wide regulatory requirement to reduce Non-Performing Loans [NPLs] we included an impairment provision in our 2017 results to allow for potential sales of loan portfolios that are in long-term arrears.

This difficult decision comes a decade after the financial crisis began and the continued extension of forbearance cannot be maintained. Not all mortgages are sustainable and we are obliged to reduce the level of non-performing loans on our balance sheet. For mortgages that are not sustainable, additional forbearance will not bring them back to a performing position.

The portfolio consists of RoI mortgages split approx. 45% By To Let (BTL) and 55% Principal Dwelling Home (PDH) (by value).

The face value of the loans that are being included is currently c €1.6bn. As we will continue to engage with customers, this may change, which is normal in such portfolio sales.

Table1.1 Breakdown of loan portfolio under preparation for sale

	PDH	**BTL**
Accounts	Approx. 3,600	Approx 2,900
Value	c €900m	c €700m
Average Arrears	c €52K	c €31k
Average missed payments	43	15
Average number of forbearance arrangements that a customer has been in	3	3
Average Months in current Arrears	44	45

PDH: 73% first entered arrears between 7 and 9 years ago.

BTL: 75% have been in arrears for more than 12 months during their lifetime.

It is worth noting that the Deputy Governor of the Central Bank made the following comments recently on loan sales: *"On the impact of non-performing loans on the economy, the continued high level of non-performing loans makes banks highly vulnerable to future economic downturns, from both the existing non-performing loans, and potentially new defaults. While all the Irish retail banks are significantly better capitalised than pre-2008, they are more vulnerable than those without this legacy to future economic shocks."*

In this context, the CBI also noted that "*Portfolio sales are a legitimate and necessary approach for banks to use to address non-performing mortgage loans."*

Tracker mortgage examination

Of the 3,490 customers identified in our Phase 2 report, we remediated 2,500 by the end of Quarter 1 2018. We will meet the deadline for remediation for the vast majority of the remaining customers in this group by the end of June with a small number completed in July (as they require manual calculations and therefore additional levels of assurance). There will be an exception for additional customers (circa 100) for whom we have as of yet, not been able to locate (although every effort is being made in this respect).

Following a further file review, we confirmed in April 2018 that up to 2,000 additional customers are impacted by the examination. The exact number is subject to completion of the Bank's internal file review process and then assurance by the external, independent third party, KPMG. The majority of these customers retained their tracker mortgage but for various different administration errors were on the wrong rate. So the remediation payments will be of a significantly smaller magnitude than customer who should have been on a tracker rate but were on another product type.

We are currently working to correct the rates on these newly identified customers and this will be complete by the end of Q3 2018. We expect to substantially progress the redress and compensation payments to these customers by the end of Q3, with all of these customers to be completed in Q4.

While we are working to conclude the remediation phase of the examination by year end, the appeals process will be available to customers beyond that point and for 12 months following receipt of remediation.

We fully acknowledge the time it has taken to put this right for customers and apologise unreservedly for it.

Business Lending Interest Rate Review

We have been conducting a review of business practices, processes and customer journeys with a view to ensuring that any legacy issues are put right for our customers. As part of that review we have identified inconsistencies in documentation relating to 18,000 commercial loan accounts.

In summary:

- In March 2012, the Bank advised customers (via letter) and in national media, that it was changing the definition of "Cost of Funds", a variable component of the interest rate charged on their accounts.
- The documentation we believed at the time to apply to every account allowed for this change. However in conducting our review we have since identified that the facility documentation of

these customers' accounts did not allow for this change in definition, and they were therefore overcharged.

- The overcharge is on average less than 0.3% per annum over the lifetime of the overcharge.
- The average refund due is less than €2,000.
- The amount of overcharge will vary depending on the length of time a loan has been outstanding and the amount of the loan.
- The calculation of the overcharged interest is a complex exercise, but we expect to be complete remediation for the majority of customers by the end of 2018 with the most complex cases completed by Q1 2019.
- Customers are not required to take any action, we will write to all impacted customers and provide remediation in due course.
- Should customers have any queries, we have a dedicated customer helpline and team in place to respond to queries from customers which is available on our website

GRG

With regards to GRG, we have provided the Committee with detail on this issue previously.

What I would like to emphasise is that there are a number of avenues open to customers who believe that they were treated unfairly in any way. This involves the normal complaints process of the bank and a separate independent process. We would encourage any customers with concerns about their treatment in GRG during the relevant period, including any matters relating to Republic of Ireland banking regulations at the time, to get in touch with our helpdesk team, details of which can be found on our website.

Following a review of customer files to establish whether they were charged complex fees whilst in GRG, Ulster Bank identified 17 customers eligible for a refund of the complex fees they paid to us.

We have also received 63 complaints and these are being assessed through our complaints process.

Customer transaction issue

On the 24th April customers reported that debit and credit transactions (with a date of Monday 23rd April) were no longer showing in their account. These transactions had been previously been visible from 6pm on 20th April onwards. This issue occurred as a result of human error and was not related to an IT systems' failure.

The affected accounts were impacted for 24 hours.
While working to resolve the matter as quickly as possible, we put in place support for our customers such as making emergency cash available in our branches or via telephone. The next priority for us was to ensure that all impacted customers were remediated as quickly as possible.

To ensure no customer was left out of pocket, we refunded all fees and charges applied on all customer accounts for the day the issue occurred.

Retail transformation programme

Over the last few years we have seen huge change in the way our customers are choosing to do their banking. We are seeing more and more customers using online and mobile applications for day to day banking as opposed to the more traditional branch based transactions. All of this behaviour is driven by the desire for quick and convenient access, when and where customers want it. Importantly, we expect this type of change to continue.

That's not to say branches and counter service don't have a role to play – they remain an important part of our customer service offering and approach. That's why we're taking the opportunity to invest in an improved look and feel in our network. While we are not closing branches in 2018, this remains under constant review.

Mortgage Products

We launched our 'First Five' Mortgage campaign with a range of benefits tailored to meet the specific and practical needs of first time buyers. It offers five key benefits including:

- €25,000 life insurance cover at no cost to the customer;
- 50% off home insurance so that customers have the right level of cover to protect their home and family;
- Low fixed rates from 2.85%;
- €1,500 towards legal fees;
- Free valuations.

We've also reduced the rates on a number of our fixed rate mortgage products (offering the lowest rate in the market of 2.5%), simplified our mortgage loyalty offering and increased the interest rate on our one year fixed term deposit account.

Closing comments

We remain committed to our ambition to serve our customers and attract new ones by becoming number one in customer service, trust and advocacy. Reflecting the ongoing RBS commitment to Ulster Bank and the work we have done to strengthen our business, Standard and Poor's upgraded their long term credit rating for Ulster Bank to BBB+/Positive outlook. This follows the recent affirmation by the other credit ratings agencies. (Fitch's credit rating at BBB with the outlook revised to positive on May 18th and Moody's upgrade to Baa1/Stable outlook on May 1st).

All three major credit ratings agencies have taken positive action, reflecting the progress we are making on our strategic priorities particularly strength and sustainability, simplifying the bank and supporting growth.

We also reached an important milestone in building a more sustainable bank, raising €1 billion from a recent sale of mortgage-backed bonds which will provide more funding to lend in to the Irish economy.

Our focus remains on ensuring that Ulster Bank is best positioned to compete and grow for the benefit of our customers and shareholders whilst seeking to regain customer trust by addressing and learning from the mistakes we made in the past.

My colleagues and I look forward to your questions.