



Northern Ireland  
Assembly

Committee for Enterprise, Trade and  
Investment

# OFFICIAL REPORT (Hansard)

The Future of Ulster Bank: Ulster Bank

10 April 2014

# NORTHERN IRELAND ASSEMBLY

## Committee for Enterprise, Trade and Investment

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**Members present for all or part of the proceedings:**

Mr Patsy McGlone (Chairperson)  
Mr Phil Flanagan (Deputy Chairperson)  
Mr Steven Agnew  
Mr Sydney Anderson  
Mr Sammy Douglas  
Mr Gordon Dunne  
Mr Paul Frew  
Mr Fearghal McKinney  
Mr Mitchel McLaughlin  
Mrs Sandra Overend

**Witnesses:**

Mr Jim Brown	Ulster Bank
Ms Ellvena Graham	Ulster Bank

**Also in attendance:**

Mr Daithí McKay MLA (Chairperson of the Committee for Finance and Personnel, Northern Ireland Assembly)

**The Chairperson:** Briefing the Committee is Mr Jim Brown, chief executive of Ulster Bank, and Ellvena Graham, head of Ulster Bank Northern Ireland. You are very welcome. Thank you for agreeing to attend the meeting. A written statement has been presented to us, and members can peruse it before we move into our formal session. The procedure is normally that we allow you up to 10 minutes to make a presentation, and we then have a Q-and-A session.

**Mr Jim Brown (Ulster Bank):** Thank you for inviting us today. I am joined by Ellvena Graham, who is head of Ulster Bank for Northern Ireland. Ellvena is also the managing director for our business bank across the island. As you know, Ulster Bank is at the heart of economic life in Northern Ireland. We are the number one bank in personal and business banking. We serve more than 700,000 customers and employ more than 2,500 people, and we support the Northern Ireland economy and communities in many ways.

When Ellvena appeared before the Committee last July, she outlined our business strategy from 2012 to 2016, which, in essence, is about addressing our legacy issues while building a really good bank for our customers. In that session, there was a good deal of discussion about what that would mean for the scale and size of the business. Our strategy is no different from the one that we discussed in July. Since then, however, we have made progress on a number of fronts.

In November, a Treasury review into RBS reaffirmed the importance of Ulster Bank to the Northern Ireland and Republic of Ireland economies. It also set RBS and Ulster Bank the challenge of how to best address our legacy non-performing loans over a three-year period through the creation of the RBS capital resolution business. In February, an RBS review concluded that, to continue to best serve our customers, Ulster Bank in Northern Ireland would become more closely aligned with RBS and NatWest. In the Republic of Ireland, we are looking at options to consolidate our position as the challenger bank to the two pillar banks there.

There is no doubt that Ulster Bank is on the path to recovery, and that is why I am pleased to confirm that we will return to profitability this year. However, as we said in July, we must also recognise that the Ulster Bank of the future will be a more agile, efficient and customer-focused bank. That will require changes for everyone, and we understand that change inevitably brings uncertainty. Throughout this period, we have been continuously talking to all stakeholders, including politicians, industry stakeholders and our customers. Internally, I personally hosted 60 town hall meetings with more than 3,500 staff members last year, and I am about to embark on the same activity over the coming weeks. That is in addition to the communications that my executives and senior team undertake, all of which is designed to create two-way communications and ensure that people are informed of our progress in developing our strategy and of developments as they become clear.

I want to reassure the Committee that we are committed, as always, to open and constructive dialogue with all stakeholders through the most appropriate channels to ensure progress on our strategy and to ensure that the resulting necessary change is brought about in a considered and appropriate manner.

We are open for new business and are actively lending in the market. We have been very visible already this year, particularly with mortgage and small and medium-sized enterprise (SME) lending campaigns. Our annual results for 2013 show that our strategy is working, but we still have much to do. We look forward to your support in the time ahead in delivering on the strategy as Ulster Bank builds a really good bank for our customers and continues to play an important part in supporting the communities that we serve and in growing the Northern Ireland economy. I am happy to take any questions, Chairman.

**The Chairperson:** Thanks very much for that intro, Mr Brown. There was an article in 'The Irish Times' about you on Thursday 13 March 2014. Can I ask about your projections at that stage? The article says that the bank employs about 5,600 staff on the entire island and has 214 branches. You were asked about the likely numbers in two to three years' time. You said that staff numbers will be about 4,000 to 4,500 across the island and that the branch network will be about 175. That potentially means that 1,100 to 1,600 people will no longer be employed by the bank, which is a significant concern for us, as politicians. The service provided if 39 branches are to go is another concern. Could you confirm this: does the bank still have the same aim?

**Mr J Brown:** It has. I have been consistent in communicating the strategy that we put in place about two and a half years ago. That strategy revolves around two key areas that I touched on in my opening statement. The first is that Ulster Bank is dealing with significant legacy issues in two key areas: one is the legacy real estate issues; the second is the significant mortgage arrears problem in the Republic. That is one part of the strategy, and we need to deal with that. The second part is to build a really good bank for our customers. We have 1,000 people today across the bank involved in dealing with legacy issues. We have about 350 or 400 people involved specifically in the legacy real estate issues and another 650 or so involved in either mortgage or SME arrears. We expect that, as we work through the legacy issues, we will require fewer people than we have today, and I have been very clear in the communication that I expect that, as we get through the process, the numbers will, as we have said, be between 4,000 and 4,500.

You asked about branches. We are seeing a significant change in how customers deal with the bank. There is an increasing move towards digital technology, with people using mobile phones and the Internet. In fact, the percentage of transactions going through our branches is down to about 16%, whereas it was double that four or five years ago. We will continue to evolve our network in response to customers' requirements. We have made some recent investments in digital technology. Our call centre is now available 24 hours a day, seven days a week, and our network has been expanded through the recent arrangements that we have entered into with the Post Office. No doubt that will involve some rationalisation of the branch network, and we feel that the numbers that we outlined earlier to the Committee will hold true. It will be about 175 branches.

**The Chairperson:** How many redundancies do you expect?

**Mr J Brown:** We expect that most of the reduction in the headcount, full-time equivalent or staff numbers will come in two areas. The first is normal turnover, which is about 5% per annum: about 280 people leave the bank every year. We also employ a significant number of contractors and part-time contractors — about 600 or 700. As the business changes, we expect a significant reduction of staff numbers to come from that area. However, I would not rule out some redundancies at some stage.

**The Chairperson:** OK. When will we hear the detail of the review that we have heard about?

**Mr J Brown:** The review has been completed. RBS was clear that it is committed to Ulster Bank and to Northern Ireland. The changes are an evolution in the business. Therefore, as we deal with legacy matters, such as the real estate and mortgage arrears issues in the South, we expect staff numbers to come down. However, they will come down over time. Any changes to the branch network will be directly in response to changes in customer behaviour. It will continue to evolve.

**The Chairperson:** This is important, particularly to those of us who represent rural areas. If the review has been carried out, when will we be made aware of the details of branch closures?

**Mr J Brown:** Branches are continually under review. Ellvena might want to talk about the process, but the branch network will continually be under review, and we will continue to respond to changes in customer behaviour. We will continue to invest in arrangements such as those entered into with the Post Office, mobile banking and so on. We are also looking at developing kiosks, mini-branches and so on. That is in response to customer behaviour. We are not looking to announce one day with a big bang that this is the number of branches that will get us to 175.

**Ms Ellvena Graham (Ulster Bank):** Patsy, when I was here last July, we talked about that very issue. Since then, we have closed seven branches in Northern Ireland and four sub-offices. We have a way of doing that. First, we look at the footfall through branches — the number of people who use them, the number of transactions and at demographics. We also look at where the nearest branch is if we decide to close a branch.

There is about a 12-week process between deciding to close a branch and closing it. During that time, we write to each of the customers and engage with local trade bodies, such as chambers of commerce or whoever is in the towns. We write to them, talk to older people about where the nearest branch is and, if it is someone else, we show them how to use online technology, for example. There is a process that we go through.

We did not just close rural branches. We closed branches in Shaftesbury Square in Belfast, Carryduff, Knock, Longstone Street in Lisburn and Harryville in Ballymena. Most branch closures were not in rural areas but in towns where there were just too many branches. They were not necessarily in rural communities.

**The Chairperson:** Are you anticipating further closures, say in the next two years?

**Ms Graham:** Yes. Absolutely.

**The Chairperson:** If you have anticipated closures, what numbers are you looking at?

**Mr J Brown:** I cannot give you a specific answer for the next two years, but what we have said is that, over the next two to three years, branch numbers will be about 175 across the network. This is now our busiest branch: 25% of our transactions now go through mobile phones compared to 0% two years ago. You might have seen our ads about the busiest branch being the train from Bangor. That is true, and the switch to mobile has been extremely rapid.

**Ms Graham:** Before we leave that point, it is important to say that some people will not use a mobile phone to do their banking. My parents will never do that, and that is why we have things like the Post Office. That opens up 482 outlets across Northern Ireland where people can cash cheques, lodge money and take out money. They can do their normal banking transactions. That was a very important step for us before we close any more branches.

The other thing — we talked about it before — is that we will bring in a mobile bank van to cover some of the more rural areas if we need to. We already have that running in the west of Ireland, RBS has

them in Scotland and we said that we would do the same thing here. We hope to have that out for the summertime. So, it is not all about just saying that everyone can do their banking on their mobile phones. That is genuinely not how it happens. However, when I was last here — only a few months back, really — 21% of our transactions were done in a branch, and that is now down to 16%. It moves very rapidly, and people are changing their habits very quickly. That is just life.

**The Chairperson:** I want to go back to the investment in digital technology. It is apparent that that was required.

Jim, we sat with you in a different part of this Building coming on two years ago when it was going through the IT debacle. We still have not heard any word as to the source or cause or details. I know that there has been review after review carried out by you. Earlier, we heard from colleagues in the IBOA that it is going to a further review by the FCA. At what point will someone discuss it, or are you hoping that it will just quietly go away?

Do you not think that that would reassure customers or, maybe more importantly, potential customers, about what happened? Every time that you have another computer glitch, it rewinds back to July 2012 and the bedlam that ensued then. At what point in time will the bank come out and say what happened, assure your customers and say, "This is how we have rectified that"?

**Mr Brown:** That is a good point, Chairman. First, to my knowledge, no further review is being done. Two reviews have been completed. One was requested by the bank and the other by the regulators. The regulators are looking to sanction RBS as a result of the IT issues and, because that discussion is going on as we speak, those reports have not been released. However, it is and always has been the intent that, when the process is completed, we will make the key findings known.

That said, I have shared it with the Committee before in various communications that the root cause of the problem was a failure in the software that processes the batch transactions for RBS, Natwest and Ulster Bank. That software has been fixed, and there has been a segregation of how the batches are processed so that Ulster Bank's transactions run independently of the other brands. That has been completed.

The bank is also spending £450 million, over and above its annual £2 billion spend on IT, specifically on improving the resilience of the systems across RBS and Ulster Bank. We expect that most of that work will be completed by the end of this year.

In terms of the system's resilience, I can say that if you add up seven days a week, 24 hours a day last year, the systems should have been available for 8,760 hours. There were five hours where customers were not able to access their accounts. Whilst that is a relatively small number in percentage terms of the total number of hours, from our perspective it is still not acceptable and we need to reduce that even further.

If you look at how banking has changed, the other thing worth noting is that banks — where I came from, at least — used to be open from 9.00 am to 4.00 pm or 10.00 am to 3.00 pm or something like that, five days a week. Nowadays, people expect to do their banking seven days a week, 24 hours a day, so the requirement for banks to improve their technology and resilience is significant, hence the investments that we have been making.

**Mr McKay (The Chairperson of the Committee for Finance and Personnel):** You are very welcome. First, it is important to recognise the improvements in communication between the bank and the Assembly in recent years. That is something that other banks should take note of, especially given the first exchange we had a couple of years ago, Jim, which was hard to forget. Aside from that, I recognise that Ulster Bank and RBS in general are in a tough position at the moment, especially given the challenges that the Treasury in London has set to meet certain targets over the next three years. That being the case, it is a difficult position to be in, but there are still high expectations from us and customers as to how Ulster Bank performs, even within the RBS framework.

I am going to ask you a few questions about the Tomlinson report. I know you have taken issue with some of the Tomlinson findings and there is also, of course, the Clifford Chance review inquiry. The Tomlinson report — and a number of articles coming from Channel 4 — flagged up that there was a whistleblower in GRG, so there were people working for RBS, in GRG, who were involved in Ulster Bank cases. They said that GRG deliberately charged high fees to push businesses to the brink and stripped firms of their assets to make profit for the bank. Although GRG was originally set up to save

businesses, it was told, effectively overnight, that it would be looking to recover all the moneys it had lost as much as possible, and that the fees were introduced to push businesses to the brink. That was all coming from sources in GRG who were, perhaps, in a moral quandary.

Over the next three years the bank will have a lot of tough moral decisions to take. My concern is that some of the Tomlinson findings and some of the noises that came out of GRG will continue and, given the pressure that is coming from the Treasury, that may be likely to happen. Can you outline whether the setting up of RBS capital resolution (RCR) is simply a repackaging of GRG or is it something completely different?

**Mr Brown:** I will cover Tomlinson first — just make some comments on that — and then move to RCR and say a bit more about the strategy. First, we have to acknowledge that when customers are in arrears on their loans, those can be incredibly stressful and difficult situations that can be very personal and emotive as well. Throughout the economic downturn we have seen a considerable number across the island, be it GRG-type customers or mortgage arrears and so on in the Republic, where we are dealing with a lot of very difficult issues. We have increased the number of people who are servicing those customers to help alleviate that problem; that is a huge focus for me personally.

With regard to the Tomlinson report, first of all, Mr Tomlinson has not contacted me. He has neither written to me nor phoned me. He has not sent any evidence around any cases regarding Ulster Bank. His office sent an email to one of our more junior relationship managers enquiring about a case some time back, but that is the only correspondence that we have had. I have not seen any evidence of the nature of the allegations that he has made, which were that we deliberately and systematically mishandled our customers for the gain of the bank. I have not seen any evidence of that at all.

Look at some of the facts: for example, the number of trading SME businesses where a liquidator has been appointed in Northern Ireland, there have been only 27 in Northern Ireland over the past four years despite all the economic stress that has been out there in the market. So I do not accept the allegations. I have seen no evidence of them. That said —

**Mr McKay:** Just on that point, Jim, are you talking about Ulster Bank as opposed to RBS?

**Mr Brown:** Yes. I manage Ulster Bank, so I am talking in that context.

That said, RBS, Ulster Bank and I take those allegations very seriously, because they are serious. We have commissioned Clifford Chance to do a review. We expect that review to be completed in the coming weeks, and we will see what comes out of it.

**Mr McKay:** What are the terms of reference of that review, broadly?

**Mr Brown:** It is looking into the allegations that have been made —

**Mr McKay:** The Tomlinson allegations?

**Mr Brown:** Yes, and how we handle the process.

Separate to that, there is a review under way by the FCA as well — the regulator. I expect that that will take a little longer to complete. So, I have not seen any evidence in the Ulster Bank context. The allegations are serious. We are participating in a review to look at them. That will come out in due course.

Essentially, as part of the HMT review across RBS as a whole, HMT asked us to look at setting up an internal bad bank to manage all the legacy assets. In the Ulster Bank context, we have essentially collected all the primarily residential development-type loans and moved them across to RCR. Essentially, the majority of that was already being managed by GRG because the big legacy issue in Ulster Bank was predominantly real estate loans, and GRG was already managing those. The strategy has been finalised over the past couple of weeks, and it has just been approved by the Ulster Bank board. Essentially we need to wind down the majority of those loans over the next three years; in fact, we need 85% to be gone across all of RBS by the end of the next three years.

Our strategy in Ulster Bank focuses on four key areas. The first is that we are going to bring, and already are bringing, a number of high-ticket, high-value loans to the market. A sale process is under way at the moment. It is called Project Button; it has been reported in the media. It will bring around

£700 million to the market. I expect that, post that, we will bring another tranche. That is the very high-ticket loans. In a separate part of the strategy, we are looking at various asset sectors, such as shopping centres, hotels, residential investment and so on. We are looking to bring various portfolios of those types of assets to the market. We are also looking at how we deal with the smaller-ticket loans out there — not the large ones, not the sector ones — and how we wind those down over the next three years. I expect that a sale process of some sort is the most likely way we will deal with that. There will also be a range of middle-tier loans that we will continue to manage loan by loan and asset by asset. The aim through all those four key areas is that 85% of it will be gone, from an RBS perspective, by the end of the next three years, and that we will be left with a healthy Ulster Bank that can get on and do good business with our customers.

**Mr McKay:** Is there a particular target for the North?

**Mr Brown:** The target is specifically for RBS. HMT agreed to 85% across all of RBS. Ulster Bank, off the top of my head, makes up about 20% of the total of those assets. Of that, it is 25% for Northern Ireland and the rest for the Republic. There is not an Ulster Bank Northern Ireland-specific target. We are looking to make sure that we wind down the assets, but the key for us is doing it in an orderly way.

**Mr McKay:** I suppose Members have concerns similar to those about NAMA because Ulster Bank is such a big player up here — much bigger than even in the South. So, how you handle those assets over the next three years will be critical. Do you have any concerns about how tight a timescale you have to do this in?

**Mr Brown:** As we speak, I am quite comfortable with the time frame. The demand in the market is very high, and that picked up from the middle of last year. That is evidenced through the recent NAMA sale as well. I am quite confident, but, whatever we do, we will do it in an orderly way. It is not in our interests to dump property on the market and disrupt the market. That is not good for us, the customers or the market. As we do wind this down, it will be done in an orderly way.

**Mr McKay:** I have one final question.

**The Chairperson:** One brief question, Daithí.

**Mr McKay:** A lot of businesses are concerned about being in RCR. In coming to a resolution on their assets, is it likely that it will be towards the end of the three-year period, given that the market is starting to move?

**Mr Brown:** Can you clarify that a little further?

**Mr McKay:** In terms of resolving the cases.

**Mr Brown:** We will continue to deal with customers while they are still on our balance sheet. We have 350 or 400 people in RCR. We have another 150 people dealing specifically with SMEs. That will not change. We will continue to deal with those customers today and through to the end of that process.

**The Chairperson:** You mentioned there that you will continue to deal with customers while they are still on your books. Is there any possibility that the bank is going to offload them to some other financial institute?

**Mr Brown:** As I mentioned, at the moment, we are looking to —

**The Chairperson:** I will maybe paint you a wee bit of background there, Jim. Some members feel — I have been asked to reflect this — that the Ulster Bank is increasing the squeeze on people, even people who are paying up. That is the perception, and I am reflecting it to you. Even people who have not defaulted on their payments, particularly those who have property, are beginning to get squeezed by the bank to get rid of some other assets that they might have to make payments — in other words, to speed up their payments. You mentioned there that you will deal with them as long as they are on your books. That raised the spectre for me of the bank offloading stuff somewhere else and that potentially another hard-nosed hammer will come along to crack a nut.

**Mr Brown:** No, definitely not. To clarify, we are open for business and have money to lend. In Northern Ireland, I have more deposits than loans. I wish it was round the other way. Hence why we have had the mortgages, the mortgage campaign and SME campaigns, and we can share with you a bit about what we are doing on that. The key, though, is the RCR portfolio, and that needs to be gone within three years. Some of that will involve loan sales such as the one that we have under way at the moment. We need to make sure that we sell those loans to a reasonable, respected buyer. We will do that; it is part of our process anyway. As we wind down that portfolio, there will be some loan sales, but it is not our intention to sell any loans on the good bank or the go-forward bank. It is the complete opposite. We need to do more business.

**Ms Graham:** We absolutely do. In the first two months of the year, we have been running our Ahead for Business campaign. We had one in Cookstown and one in Derry, and we were in other places such as Belfast and Lisburn. Over 2,000 people came — actually, 1,000 came in Northern Ireland — including intermediaries, customers and potential customers. The whole purpose was to get the message out that we are open for business and have money to lend, and we have told everyone we have £1 billion to lend. We are growing in things like the agri sector. We have now grown our overall market share in the business bank to 31%. So, it is very much an open-for-business message. We want to do business with customers. It is not about getting them off our books. That is not the agenda.

**Mr Douglas:** Thank you for your presentation. I have to declare an interest as an Ulster Bank customer for 30-odd years. Some of my constituents have approached me, and they are very concerned about the potential loss of jobs, particularly the outsourcing and offshoring of some services. Ulster Bank recently announced its intention to outsource 110 jobs in the area of mortgage arrears to Scotland. Will you tell us the rationale for that? Are there any other plans to outsource jobs to any other parts of the United Kingdom and beyond?

**Ms Graham:** I will take that. Those jobs are actually being outsourced from the Republic of Ireland. So, those jobs are about managing arrears in the South. Of those 110 jobs, two in Northern Ireland were affected. Work is done for the Ulster Bank in many far-flung places, whether it be India, Poland or parts of the UK. As I have told the Committee before, we do work in Northern Ireland for the Republic. So, it is not all outward traffic by any means. While only a third of our business is in Northern Ireland, over 40% of our staff are here, and that is because things like our call centre in Danesfort support all of Ireland. The account management is all done in Northern Ireland. That is how the RBS group works; there are centres of excellence in various different pockets in the world, and we avail ourselves of services from a number of places. I am not aware of any other plans to move anything, but the jobs you referred to were in the Republic for mortgage arrears.

**Mr Douglas:** I appreciate that, Ellvena. Thanks very much.

This is my final question. Jim, you mentioned in your statement that:

*"There is no doubt that Ulster Bank is on the path to recovery, and that is why I am pleased to confirm that we will return to profitability this year."*

That is good news for us all. May I ask two questions? First of all, I assume that RBS shares the same confidence; is that the case? And then, you also said:

*"Our annual results for 2013 show that our strategy is working".*

I saw the ads recently, and I am very impressed with them. We have all heard about Ulster saying no; Ulster now says yes, which is great news. It was a very impressive advertisement, and I think it is now three yeses, as such. Regarding the strategy and the confidence, you said that you would look to us for support. How can we help you with that confidence and support?

**Mr Brown:** I will talk about the earlier part of your comments, and Ellvena can talk about the support.

First, we have always been open for business, but the perception was that we were not. Getting out the "yes" campaign was a very important part in changing perceptions. With regard to the SME lending, it was about getting out there with Ahead for Business, and I went to several of those events. It was important to let the market know. It was very critical.



Regarding RBS support and confidence, that is very clear. The review was completed following the HMT review. RBS is fully behind Ulster Bank, and has been so all through the crisis. RBS made significant capital investments to support Ulster Bank. That has been undoubted, and it continues.

The financial results were significantly better year on year, although we still had a significant loss. I see business improving on the back of the economy improving, and so on, and I expect that we will be in profit in 2014.

**Ms Graham:** The signs are good. So, why are we confident? Look at the lending volumes: they are three times bigger in the first quarter this year than they were this time last year. That is on the SME banking side, and it is a good, positive trajectory. For mortgages, we are up 53% more than we were this time last year. You are absolutely right: the campaign says that we are saying yes to nine out of 10 mortgages. We are saying yes to 93%, so we are well within that.

Plenty of good stuff is happening. You asked a question, and I have been a bit hot on it, about what support we would like from the Committee. I guess that every time there is negativity out there, it affects staff and customers. You said that you have been with the bank for 30 years, and a lot of our customers have been with us for an awfully long time. However, it has been a continually negative story — a lot of it of our own making. I am not for one minute saying that it came from anywhere else, but we do need to change that narrative now because a lot of good stuff is happening. We are open for business. We hope to be, and we will be, back in profit this year.

In many ways, I would prefer that we come up and see you when we want to talk to you about our strategy, rather than it being a reactive thing when something has happened. We have been up a number of times discussing IT or branch closures, and it would be great to do that on a more positive footing where we could discuss our strategy with you, you could give us your views on it and we could move forward. That is the type of thing that I think of when you ask how you can support us. We do need a more positive message out there, because it has been a negative narrative for too long.

**Mr Brown:** Whilst we expect to be profitable this year, we will not be significantly profitable. I should point that out. I think that it will probably still be 2016 or 2017 before we are delivering the sorts of returns that I expect or the shareholders should expect. We are definitely going in the right direction, but we still have some way to go.

**Mr Douglas:** Earlier, Larry Broderick gave an excellent presentation. He encouraged us to put pressure on RBS. I am not quite sure what he meant. Maybe I should have asked him that question. Is there something that we can do with RBS such as write to say that you have come here today and have certainly given us a lot of confidence, and that we hope that it continues to support what is happening here?

**Mr Brown:** I do not think that there is any doubt about the commitment from RBS. In the deepest, darkest hours of the crisis, RBS put £15 billion into Ulster Bank. I do not think that you can ask for much more support than that. That support and commitment is ongoing following the review that was just announced, as well.

**The Chairperson:** You will probably accept that, every time that Mr McEwan has shown up in either Dublin or Belfast over this last wee while, given all of the uncertainties and particularly in light of the potential for job losses, that reflects back on staff. It is a very uncertain situation for staff, and we are reflecting those concerns back to you and asking you for your help and advice and to ensure that a proper consultation method is gone through. The one point that I forgot to make earlier was that we heard that there had not been any meaningful dialogue with the IBOA on this review. So, at what point do you consider that you will engage in dialogue with the IBOA representatives?

**Mr Brown:** The review was requested by HMT, and it was done from the position of RBS's shareholders in Ulster Bank. On consultation with the union, we have a very regular dialogue. I meet Larry Broderick every three months. I have met him twice this year. My executives meet and engage with the union every week. So, when we get into the changes that we will be talking about, we will engage in a proper consultation process on any further changes that happen in the business.

**The Chairperson:** Just one further thing, Ellvena. You mentioned that your lending to SMEs was three times larger, and I did not quite get your figures on mortgages.

**Ms Graham:** It is 53%.

**The Chairperson:** Can we quantify that? That could be 53% of 100,000. I am trying to get an actual monetary figure on this, because that would be more important in explaining to me the level of investment, the level of SME investment and if it is up three times with the SMEs and up 53% with mortgages. Perhaps you do not have it off the top of your head immediately today. I would like it, but maybe it would be wrong of me to expect it.

**Ms Graham:** I could give you last year's numbers. We lent over £500 million last year, and we have set ourselves —

**The Chairperson:** Sorry, £500 million to —

**Ms Graham:** That was in Northern Ireland last year. I would have to come back to you and split that up for you the way you have just asked for, Patsy. I can absolutely do that. We have said that we have £1 billion to lend across the island this year for businesses. I can come back to you and give you those numbers if you would like them.

**The Chairperson:** Please do.

**Mr Dunne:** Thanks very much for coming in today. It has been useful. Is it true to say that the senior management will be moved out of Northern Ireland and that no senior decision-makers will be left here after restructuring?

**Mr Brown:** No, it is not. We have Ellvena here, who is head of Northern Ireland. Over the past couple of years since I have been here, we have actually increased the number of senior managers in Northern Ireland. When I arrived here, there were two, and there are now four people based here in Northern Ireland.

**Mr Dunne:** Will there be any change to that as a result of the downsizing?

**Mr Brown:** I do not see any change, no.

**Ms Graham:** I have just relocated back North. I lived in the Republic for 20 years and moved back up about 18 months ago.

**Mr Dunne:** So, does that mean that the senior decision-makers will remain?

**Mr Brown:** That is correct, and that will hopefully be the case for the business.

**Ms Graham:** I am here running SME banking. Richard Donnan, who runs our retail bank, is based here in Northern Ireland. Those are the two biggest parts of the bank.

**Mr Brown:** The chief operating officer is also based here.

**Ms Graham:** The two biggest parts of the bank are here in Northern Ireland.

**Mr Dunne:** You make quite a bit of play of saying yes, and you are saying yes to some customers. However, is that not going to be seen as saying no to many others and saying goodbye to many, given that you propose to close branches?

**Mr Brown:** That is not the situation with closing branches, but I hope that we say no to some loans, because we do not want to end up in the situation that we were in before. If you look at the campaign that is under way, you will see that we have said yes to 93% of the customers and said no to 7%. I think that it is right that we should decline applications that we do not think are creditworthy.

**Mr Dunne:** When are we likely to know about these proposed closures?

**Mr Brown:** As I mentioned, we are continually reviewing the branch network, but it is based on customer behaviour. As we said, there has been a significant reduction, in absolute terms as well as

in percentage terms, in the number of transactions that are going through the branches. As we outlined in our strategy, it is reasonable to expect that the numbers will come down over time. I expect that we will have further announcements over the next year or two. There will be an ongoing programme of reviewing the network and how our customers want to bank with us.

**Mr Dunne:** So, do we not know when the announcements will be?

**Mr Brown:** It depends on customer behaviour. However, we continually review our —

**Mr Dunne:** Will it be this year or next year?

**Mr Brown:** I expect that there would be some announcements over this year, yes.

**Mr Dunne:** So, you are not concerned about the loss of customers. Is that correct?

**Mr Brown:** We are always concerned about the loss of customers. In fact, we want more customers. That is why we are investing in other types of networks, including, for example, electronic branches. However, that is in response to the way that customers want to bank with us. If we do not respond to our customers' needs, customers will not bank with us at all — they will go elsewhere. Therefore, we need to have a wide range of networks, whether they are post offices, mobile phone, branches and so on. We need to cover all areas.

**Mr Dunne:** Is it important to interface with customers on a personal basis in the bank? Years ago, if you went for a loan, you had to go in and make an appointment and go through quite a laborious system, and the bank wanted some sort of assurance. Is that no longer the case?

**Mr Brown:** We actually think that that is very important, so we are about to make some changes in that area.

**Ms Graham:** I was just going to say that I think that it is important. You asked about people leaving when we close branches. Funnily enough, people certainly want to meet us for face-to-face transactions; there is no doubt about that. So, if you are there for something like a mortgage, very often you want to talk to someone. Other people want to do it online, and they will do it that way. However, for life-changing decisions — let us call a mortgage one of those things — quite a lot of people want to come and meet us. It is very possible to do that, and that is exactly how we want it to be. We want people to be able to come and talk to us for those types of things, and, if it suits them, they can do their transactional stuff online, on the telephone or on a mobile phone or whatever way they choose. Interestingly enough, we have been in towns where other banks have closed branches, and you do not typically see customers leaving their bank because that branch has closed. Very often, they will just move to the closest branch. We have 79 branches in Northern Ireland, and our closest competition now has only 53, so we have quite a lot more branches. You do not see a mass movement or anything like that of people moving when other banks close branches.

**Mr Dunne:** So, it is not a worry.

**Ms Graham:** I would not say that it is not a worry. We have worked very hard, and I know that there has been a bit of talk about the IT incident, but during that time, we talked to our customers an awful lot. We actually grew the customer numbers that year. Behaviours are not always as you think they may be.

**Mr Brown:** One of the things that we are looking to do is to move our SME bankers back to the network.

**Ms Graham:** Very often, our business centres are sitting on the outskirts of a town. We are moving the business bankers back to sit upstairs in a branch where they are much closer when customers come in. That will mean that they do not have to go somewhere different to deal with their business versus how they deal with their personal banking. All being well, we will have that done before the end of the year. We are trying to change with the times; that is how I would describe it.

**Mr Dunne:** Earlier, a representative from the union talked about the bank making the commitment that it would be the last bank to leave a town or village. Is it true that you made that commitment?

**Mr Brown:** RBS made a commitment that it would not close a branch if it were the last bank in town. That was an RBS commitment.

**Mr Dunne:** So, will you be the last bank to put the lights out, if it comes to it?

**Mr Brown:** That was an RBS commitment about the RBS network.

**Mr Dunne:** Do you intend to run with that?

**Mr Brown:** Since I have been here at Ulster, the commitment that I have made is to be completely responsive to the way that customers want to deal with us. There are changes in the branch network, but, over that period, we have also invested considerable amounts of money in mobile phone and Internet banking. We have extended the Post Office relationship, so there are now 482 post offices. Our call centre is now available 24 hours, seven days a week. So, we are looking to do business with customers the way that they want to do business with us.

**Mr Dunne:** If and when you go about closures, how will staff be managed? Constituents come to us concerned about their jobs and how they are being treated. What sort of assurance can you give us that they will be treated properly and that their terms and conditions will be met, as well as their desires, such as where they want to work and where they want to go? How will that be managed?

**Ms Graham:** To be truthful, I do not think that you could ever guarantee that everyone's desires will be met. Will we treat them fairly? Absolutely. We will engage with the union through negotiating and working through what the package might look like, if that is what it is speaking about. We have always committed to doing that, and we have always done that in the past. There is absolutely no reason why we will not do that again, and we are fully committed to it. I just would not like to give the impression that we could meet everybody's desires. I do not think that that could be possible.

**The Chairperson:** Just before Phil starts, I will apologise, because I have to leave for a party conference with the agrifood sector, so pardon me if I just leave mid-stream. Phil will be taking over immediately after he asks his question.

However, I have a very brief question to ask before I leave. I know that you have been given advance warning of this, but last week we heard from the Department about the COSME programme, through which lending institutions can draw down moneys if they so wish. I know that there may be logical reasons why that has not been done. Can you give us some sort of an indication about your level of engagement with EU officials or departments on that one?

**Ms Graham:** Interestingly, there has been very little dialogue to date on that. We have certainly looked at it. Up to now, we have participated in any government scheme that has come along, such as the funding for lending scheme (FLS). We now have over £150 million out through the FLS. We certainly participated in the enterprise guarantee scheme; about 70% of the total lending of that in Northern Ireland is through Ulster Bank. We are absolutely committed to looking at it. The details are not yet finalised, Patsy, and we need to see what it will look like before we say absolutely yes or no. We are quite committed to looking at that.

**The Chairperson:** As long as it is across your desk, anyway.

**Ms Graham:** It is absolutely.

**Mr Flanagan:** Patsy, it is very inconsiderate of you to organise a farming conference in the middle of lambing season on a good day. *[Laughter.]* Could you not have done it on a wet evening in the middle of November?

**The Chairperson:** Especially when we had discussed single farm payments and such issues.

**Mr Frew:** You just would not want them to talk about things like that, would you?

**Mr Mitchel McLaughlin:** Nothing to do with an election or anything. *[Laughter.]*

**The Chairperson:** Or farmers.

**Mr Flanagan:** Moving back to the Ulster Bank, you said that you would like us to focus on some of the good news, so I will give you the commitment that, if you ever bring us any, we will certainly focus on it.

**Mr Brown:** There is lots today.

**Mr Flanagan:** Will you talk very briefly about the annual financial performance of the bank without focusing on historical or legacy problems?

**Mr Brown:** Sure. Taking out anything to do with the RCR or the legacy issues, the core, underlying business in the past 12 months lost £500 million. Looking at the key numbers, we can see that revenues were up slightly. However, we had an increase in expenses, which was primarily driven by investments that we had to make to comply with new regulations coming in, such as anti-money laundering, the Single Euro Payments Area (SEPA) and so on, as well as investing in more people to handle the mortgage arrears issues. So, expenses were slightly up, but underlying expenses were better.

The provisions number was down significantly. That happened primarily on the back of a reduction in mortgage arrears. If we look at some of the key ratios, we see that the net interest margin, which is the difference between what we charge on the loans versus our cost to funds, improved slightly. It is still not where it needs to be, but it is going in the right direction. Our loan-to-deposit ratio, which looks at the healthiness of the funding, also improved significantly. So, across most of the indicators, the bank improved year on year, but it still lost £500 million. I have to be careful what I say, because we are in a closed period right now as we are going into the first quarter results, but going into this year, I expect that our revenues will continue to trend slightly upwards, our expenses will come down and our credit losses will improve significantly, which should result in us making a profit this year.

**Mr Flanagan:** When you say that you expect that, can I presume that you already know the performance figures for the first quarter?

**Mr Brown:** I do, but I cannot discuss them, because we are in a closed period, and we have to comply with the stock exchange rules.

**Mr Flanagan:** In allocating a profit or loss in the business, is each branch allocated a financial performance? Do you say that X branch delivered Y profit or that A branch delivered B profit?

**Mr Brown:** We do not have our full profit-loss profitability down to each and every branch, but we do have an indication of how each branch is performing.

**Mr Flanagan:** Is that based on the volume of transactions, the level of financial trading that goes on at each branch or the range of products that is being sold?

**Mr Brown:** It is a combination of all that. For example, if a lot of transactions are processed over the counter, which typically happens in some of our bigger branches, particularly if there is a lot of commercial banking there, for example, we would need a lot more tellers to support our customers. That is on the expense side. Where doing business is concerned, we have mortgage underwriters, and we are moving business bankers back to the network. So, we track a wide range of metrics, but, going back to your question, we do not have the full profit and loss by each branch.

**Mr Flanagan:** Will that matrix of factors be featured in the decision on whether a branch remains open or closes?

**Mr Brown:** No, the decision is really driven by customer usage and factors such as the size of the branch, how much customers use it and, importantly, its proximity to other branches. There are some cases where we have a branch 50 or 100 metres down the road from another branch. In my view, that does not make sense in many cases, so we would look to rationalise it. That is what happened with some of the closures that we recently made. Some of it is about making sure that we have branches located where customers do business and that they are not too close to each other, but the other key piece is about how much customers actually use the branch.

**Mr Flanagan:** Based on that, is it a fair assumption that those decisions are, if not fully made, already well on the road to being made?

**Mr Brown:** As I mentioned, we are always reviewing the branch network, as we are all the other channels, for that matter. We have a continual review process going on. I think Ellvena mentioned, as I did, that the change in customer behaviour is rapid. The transactions actually going through the branches has gone from 21% just a few months ago down to 16%, which is moving faster than we anticipated. We thought that there would still be more going through the branches, hence the reason why we have to continually monitor it. So, there is an ongoing process. It is not that we sit down once a year and say which branches we are going to keep open or to close. We do not do it like that. We just watch the network and all the other channels, based on how our customers are using them.

**Mr Flanagan:** Do you talk with your competitors to compare customer behaviour? Are other banks seeing such a rapid decline in retail banking, or is that something that Ulster Bank is behind the game on?

**Mr Brown:** We do not talk about those things specifically because of anti-competitive practices. However, significant change is going on across the industry. Ellvena, you may wish to touch on that, because you gave a speech on it.

**Ms Graham:** I did recently. We are around the middle of the trend, but we do not meet other banks in town to discuss that type of thing, Phil. That is not how we do it. However, I have stats, and they show that we are absolutely trending the way that other banks —

**Mr Flanagan:** Jim just said that the transactions have gone from 21% to 16%, and I presume that other banks have released figures. So, are you saying that you are in the middle?

**Ms Graham:** I was looking at data for 2013 when I spoke about that at one of the universities. We see it on a monthly basis, so we are much closer to our own data than those of the industry. The industry data for 2013 show that we were bang on the average. It all depends. Some other banks, for example, do not have mobile apps; therefore, they will not see the same trends that we can. However, we now have the mobile app for business and for personal customers, and its uptake has been quite dramatic. In a very short time, it has gone from 0% to 23%.

**Mr Flanagan:** Does your online banking app allow you to provide a full range of services, apart from cheques? Can you set up and cancel direct debits online, or must you still go into a branch to do that?

**Mr Brown:** Yes, although it depends. On the Internet, you can set up direct debits and so on. On the mobile phone, you can make payments, check your account history going back seven years and so on. So, there is a lot that you can do. Of course, you cannot pay cash in or get cash out, but you can still use your mobile phone to send a message to an ATM so that you can get out cash without using your ATM card if you have lost it and so on. That covers a lot, and, clearly, judged by the magnitude of transactions that are going through within such a short time, customers like it.

However, the reality is that there are customers who still deal in cash. A lot of SME and commercial customers deal in cash and will still go to the branch network to do that, although the arrangements that we have with the Post Office now give them another 480 outlets that they did not have.

*(The Deputy Chairperson [Mr Flanagan] in the Chair)*

**Mr Frew:** Thank you for your presentation and answers to date. I put on record that I have met Jim and Ellvena in various guises when I requested meetings with them. I have always appreciated your coming down to meet me at your level to discuss banking issues. So, I commend you for that.

Where the IT infrastructure and the debacle that you suffered in 2012 is concerned, you talk about computerised banking and say that, in future, banking may not need all these branches. Yet, you seem to have major IT infrastructure issues. The IBOA says that the RBS CEO has conceded that the group's infrastructure has suffered from decades of underinvestment. How do you counter that?

**Mr Brown:** The RBS CEO is on the record as saying that, and I think that it is correct, otherwise we would not have had the issue that we had two years ago. That said, RBS and the Ulster have invested considerable amounts of money — £450 million — to improve the resilience of the systems. That is on top of the £2 billion that is spent every year on IT. So, the investments are considerable, and, as a consequence of those, the resilience of the systems has improved considerably, to the extent that, as I mentioned, systems were up for 8,755 hours out of 8,760 last year. That is still not

good enough, and we still need to lessen that figure. However, the fact is that we are responding to how the industry has changed. As was said, banking has gone from being 9.00 am to 3.00 pm or 10.00am to 5.00 pm or whatever it was when I first started to seven days a week, 24 hours a day. So, we are operating in an environment that is a lot more complex; hence we need to invest more in improving resilience.

**Mr Frew:** Is that complexity the same for every bank?

**Mr Brown:** It is, and IT glitches, as we called them in the past, occur in many banks. From time to time, they happen in the UK, Northern Ireland and the Republic. I think that that is because of the complex nature of banking and the IT that is required to support it. We need to improve the resilience so that the sorts of issues that we had in 2012 do not happen again, and I am committed to doing that.

**Mr Frew:** A number of years ago, you paid off a lot of IT specialists who worked for Ulster Bank and who were home-grown and based in Northern Ireland. You paid them off and centralised the system. The system was all connected and interwebbed. The debacle of the crash happened. Ulster Bank was left last, and we suffered for it. You have now made an investment of £450 million. Can you put that in context? Was does that £450 million look like compared with investment over the past 10 years?

**Mr Brown:** That investment was specifically to improve the resilience of the systems following the IT issue that we had two years ago. The bank spends £2 billion every year on IT. That £450 million was specifically to improve that resilience to prevent the sorts of issues that we had in 2012 happening again.

**Mr Frew:** IBOA claims that no results from that investigation have been published and that no one knows what came out at the end of it, why it happened and what is being done. Nobody seems to be able to give detail on what has taken place. Is that information out there? Do you dispute that? Can you give it to us?

**Mr Brown:** I have been clear about the cause of the issue, which was a software failure on our batch processing system that processes the underlying transactions for RBS, NatWest and Ulster Bank. We have been very open about the cause of that. Separately, we have also been very clear about what we have done to improve the resilience to ensure that that does not happen again. We have done that through the amount of spend and through the fact that we have segregated the batch processing so that Ulster Bank now runs completely independently. Again, that is to improve resilience.

RBS commissioned a review to look at the cause of the systems issues for Ulster Bank and RBS. That report has been completed. The regulator requested a separate report, and that has also been completed. RBS is in discussions with the regulator about potential sanctions. So, the specifics of those reports have not yet been released because of the discussions that are going on with the regulator as we speak. It is up to the regulator what it does with its report, but we have committed to making the key findings of our report public when we can. However, until that sanctions process is completed, we are not able to do that. That said, the detail of the report will still come out. In the meantime, we have been very clear about the root cause of what happened and about the remediation that we have put in place to address it.

**Ms Graham:** Paul, it is worth noting that we had an issue in December. It was well publicised; it happened on Cyber Monday. At that time, Ulster Bank was the first system that was fixed. So, you referred to us being last. Given some of the investment that had gone in, instead of it being in the order of RBS, NatWest and Ulster, we were the first of the three brands that was back up and running. So, we are now seeing some benefits from the investment that is going in. As of about three or four weeks ago, our batch runs completely separately from the other brands. As that money is spent, we are seeing benefits; it is not as though we have to wait until all that money is spent before we can see some benefits.

**Mr Frew:** So, do you have a batch, meaning that we are an independent batch, if you like, as Ulster Bank?

**Ms Graham:** Yes.

**Mr Frew:** Where is that batch based, if there is such a base?

**Ms Graham:** Edinburgh.

**Mr Frew:** So, is it basically in another cabinet?

**Ms Graham:** Whatever you like to call it, yes. It is separate. There is Ulster Bank north, Ulster Bank south, RBS and NatWest.

**Mr Frew:** You cannot be 100% sure, but how can you be sure that that batch on its own will not fail while RBS carries on?

**Mr Brown:** Part of the £450 million spend is to improve the resilience so that there are backups to that.

**Ms Graham:** Ours could fail and theirs could keep going, or theirs could fail and ours could keep going. That is really what this has been all about, because the real problem the last time was that we were all intertwined and once it took so long and we went over 24 hours, we had a problem. Any one of them could fail and the other two could keep going. That is what that was trying to achieve.

**Mr Brown:** There is backup if it fails. There are issues that occur from time to time in overnight batch processing, but where that fails, a backup system kicks in to process.

**Mr Frew:** Are we sure that the IT specialists based in Edinburgh will not just say, "Oh, dear, it is Ulster Bank again, we will not worry about that just at the minute."?

**Mr Brown:** They have a very high level of awareness of the importance of Ulster Bank following the 2012 issues.

**Mr Frew:** OK. I think I heard you saying that it seems to be more the Republic's business that has caused your mortgage arrears and the legacy debt.

**Mr Brown:** That is correct.

**Mr Frew:** What is the percentage of that legacy debt over the whole of the RBS?

**Mr Brown:** I will give you a comparison between mortgage arrears in Northern Ireland and in the Republic. Mortgage arrears of about 90 days past run at about 4.7% for Northern Ireland per annum, and in the Republic, it is round about 14%. There are two or three key factors to explain the difference. First, the downturn in the Republic was deeper and longer than it was in Northern Ireland, and so the economic stress on people as a result of losing their jobs was higher. Unemployment peaked at around 15%. Also, people's incomes were cut, either through wages going down or taxes increasing and so on, so there was a lot more economic stress. Over and above that, though, there were a couple of regulatory issues that arose. One was that the Central Bank put guidelines in place to restrict the number of times that we could contact customers. In our view, when customers are in deep distress, the first thing that we want to do is talk to them, but we could not do so.

The second issue was that there was a ruling through the courts system that prevented banks from repossessing houses for a two-year period, until it was fixed. That meant that we could not talk to our customers and we could not repossess, so arrears rose significantly. Banks generally did not have proper capacity in place or could not get experienced collectors, which is why we put the operations in Scotland. Since then, over the past 12 or 18 months, most of those issues have been addressed and we have now seen a significant decrease in our mortgage arrears. They have been declining month on month for the past 12 months, so we are on top of the situation.

As for the legacy debt, Ulster Bank makes up about 20% of the total portfolio. When the RCR was announced late last year, it was based on June 2013 numbers. The numbers for the group as a whole were about £38 billion, and Ulster Bank made up about £8 billion of that total.

**Mr Frew:** So, 20% of bad debt for RBS comes from Ulster Bank business?

**Mr Brown:** Twenty per cent of the legacy bad back debts, rather than their provisions.



**Mr Frew:** I am not sure: what percentage does Ulster Bank have on the balance sheet?

**Mr Brown:** I would have to come back to you with the exact number for the total balance sheet, but that of Ulster Bank against the rest of the group would be around 7% or 8%. However, I can come back to you with that number.

**Mr Frew:** It does not really make business sense, does it?

**Mr Brown:** I agree, totally, I think that that just shows the magnitude of the legacy issues that we have got to deal with.

**Mr Frew:** Are Ulster Bank in Northern Ireland and Ulster Bank in the Republic of Ireland the same unit? Can it be separated?

**Mr Brown:** We run two separate legal entities: there is Ulster Bank Ltd, which is the parent company that has all of Ulster Bank in it, including Northern Ireland and the Republic, and then there is a separate legal entity in the Republic as well, Ulster Bank Ireland Ltd, but we run it as one bank.

**Mr Frew:** It is reported in 'The Scotsman' today that RBS is considering selling the Ulster Bank division to Irish rivals. Can you emphatically deny that?

**Mr Brown:** RBS has been very clear that it is committed to Ulster Bank. Announcements were made by HMT and by the chief executive, both in November 2013 and at the time of the publication of annual results in February. The communication has been very clear.

**Mr Frew:** So you deny that the headline in 'The Scotsman' is accurate?

**Mr Brown:** That is correct. There is no intention to sell Ulster Bank.

**Mrs Overend:** Thank you very much for coming today. My apologies for jumping in and out of today's meeting. I may have missed a question or two. I just want to voice the concerns of people who have come to me. They include businesses that have a property portfolio on the side and totally unrelated to their everyday business which seems to be economically viable. Is that the type of business that you are, perhaps, trying to push to the side or that you do not encourage to continue as Ulster Bank customers? How do you view that type of customer at the minute?

**Mr Brown:** That is one of the more difficult areas: where businesses have property debt. It is definitely not in our interests to force the business to wind up, close down or whatever, because the business is providing the cash flow to keep the company going and to support debt. Essentially, a huge amount of work is being done by 350 to 400 people, who were in GRG and are now in RCR, on working through those sorts of issues.

As I mentioned earlier, we have appointed an insolvency practitioner for only 27 trading companies over the past four years, despite the magnitude of the problems out there, because we are cognisant of the need to keep businesses going. So, if you have any individual cases, we are happy to look at them. We are conscious of the difficulties that people are in. We want customers working and engaging with us to help resolve the issues, not to wind up the company. Invariably, and it may be the case in some of those 27 cases, the trading companies themselves are completely insolvent because of the financial downturn. However, where we can see that the trading company should be supported and kept going, we will do that.

**Mrs Overend:** The businesses do not feel that they are insolvent or that they have difficulties; they just feel that they are being squeezed by the bank.

**Mr Brown:** That is why the insolvency process is not something that is done by the bank. An independent insolvency practitioner is appointed. Our view is that we do not want to get to that situation and we would rather work with businesses. However, the reality is that businesses are generally financially stretched. When you are in that situation, clearly it is very difficult to deal with. It is emotive and so on as well. We spend a lot of time on it; we have a lot of people trying to work through those specific issues with customers.

**Mrs Overend:** The other issue is staff morale. I hear concerns from staff at various levels within the Ulster Bank. Obviously, you are talking about an ongoing review, which really does not help them. Timing is important, so that they know whether their jobs are safe. Can you tell me what you are doing to try to help them?

**Ms Graham:** It has been a really uncertain time. Last June, the HMT said, "We are going to have a review" and that review included Ulster Bank. It seems that that was run by the Treasury. When that was completed, RBS kicked off a subsequent review. That was only completed at the end of February, so there is absolutely no doubt that it has been a very uncertain time. That was at a macro level: where was Ulster bank going to be? We now have certainty about that; but there is still uncertainty because we know that we need to be a smaller bank and we have too many branches. We have said that. Once we make decisions on which branches must close, we will absolutely talk to the staff. Those are the first people that we need to talk to when those decisions are made: the staff and the customers. However, there has been uncertainty for seven or eight months, maybe even longer, going back to last June.

**Mr Brown:** The uncertainty created by the review definitely did not help. However, the strategy is very clear and it has been clear all the way through. Now that the HMT review is over, the commitment from RBS to Ulster Bank is very clear. That does not mean to say that there are not going to be ongoing changes in the business, because there will be. Those will be about dealing with the legacy issues; we still lost £0.5 billion last year so we need to get back to profit. There are also ongoing changes to the way in which customers interact with us. We are going to be in an ongoing and somewhat dynamic environment, but that is not just Ulster Bank; it will affect the industry as a whole.

The Ulster Bank executive and I are very conscious of that. That is why we have placed so much emphasis on getting out and about and talking to staff, showing our strategy and where we expect to end up over the next three or four years. I did 60 roadshows last year and met 3,500 staff through that process. We have another 30 planned, which kick off next month. The executives are out and we have weekly communications and so on. There is a high level of ongoing dialogue, but that is required regardless of whether we are in a changing environment. It is good leadership to be out and about talking to our staff. There is no doubt that uncertainty has been created by the reviews but we are trying to be out and about to share with staff what the strategy is, how we are implementing it and where we are going over the next few months.

**Mrs Overend:** You are telling me that you recognise that you need to reduce the number of branches. It would be good if you said that you were going to make a final decision at the end of June or the end of August and that you would let people know.

**Mr Brown:** I understand that, but the issue with branches is that the reviews will go on for ever because they are in response to changing customer behaviour. We will continue to review how much we invest in mobile phone or Internet technology and we will review how many people we have in the call centre to handle customer queries. The post office expansion is something new and we will look at having other third-party outlets as well. I cannot say to you that, come this date, this is what the branch network is going to look like and it is going to look like that forever. That is not what it is going to be; it is going to be driven purely by how our customers want to deal with the bank.

**Mrs Overend:** OK. Thanks for the answer, but I still think that any business is going to work like that anyway; it is going to review what it is doing on a continual basis. You have said that you are going to reduce the number of branches, so you are going to have to get to that point at some stage and have a continual review.

**Mr Brown:** As I said, I foresee that — we have communicated this — there will be fewer branches over time in response to changing customer behaviour. I expect that, over the next three years, the network will be somewhere around 175 branches. We have been quite transparent on that, but I cannot tell you today exactly which branches we will have and where because that depends on where customers want to bank with us. As soon as we make any decisions we will be talking first and foremost to our staff about that. It will be an ongoing process; it is not going to be a big bang with no more closures for the next 10 years. We may open kiosks and mini-branches as well. We are in a very dynamic environment as a result of changing customer behaviour.

That does not just affect Ulster Bank or the industry, by the way. You can see it on the high street, given the number of retail stores that have closed or have moved online. On the other hand, there are shops and businesses opening on the high street as well. There is a significant change in behaviour

going on as a result of technology. We need to be very responsive to that. Half of our transactions go through the Internet and mobiles today. If we had not invested the money in Internet and mobile the way we did, where would those transactions have gone? They would probably have gone to some other provider with that sort of capability. We just have to make sure that we have all channels open to customers, primarily because of the way they want to bank with us. We need to be responsive to that.

**Mrs Overend:** Are there job opportunities, then, in the IT sector?

**Mr Brown:** There are a number of areas. IT is clearly an ongoing area, alongside data management, risk management and analytics, as the industry moves more and more to that sort of technology. There will be areas where there is demand, for sure.

**Mr Agnew:** I will try to be brief; I appreciate that you have been here a long time. I come to the issue of RBS being, in large part, publicly owned. Does that impact, in any way, on how Ulster Bank operates its business? I am thinking about some of the issues that we have been discussing such as service to vulnerable customers, keeping jobs in place in what we would consider to be local areas in Northern Ireland, and the wider economic priorities. Is it business as usual, to some extent, but just with a different owner?

**Mr Brown:** That is a good question. RBS owns the bank, and the majority of RBS shares are owned by the UK taxpayer. Ulster Bank is 100% owned by the RBS. My job is to set out the strategy and the board's job is to approve the strategy to run the Ulster Bank as a business. The strategy we have in place, which has been approved by the Ulster Bank board and through RBS, deals with two issues; get legacy issues dealt with and behind us and build a really good bank for the customer. The process that we go through is that we put the strategy in place and I update the Ulster Bank and RBS boards annually on the progress we are making. Ultimately, it is left to me, on a day to day basis, to execute their strategy, which has been agreed by all parties.

**Mr Agnew:** Are there any extra responsibilities? We talked about branch closures. Do you feel that as a publicly-owned bank you have an extra social responsibility which is beyond that of a fully private bank?

**Mr Brown:** My view is that we have a responsibility to our customers, and it does not matter whether we are publicly, privately, or state owned. If we want to build a really good bank, we have to do the right thing by our customers, and we are very sensitive to that. We have a wide variety of customers who bank with the Ulster Bank. Some of them are vulnerable, disadvantaged, and so on. We have services that are available to them. We are particularly conscious of that when we do close a branch. On the other hand, many of those people like digital technology because it is difficult to get to branches. However, it is not for me to second-guess what people want; our job is to provide what they are looking for, and that is what we do.

**Mr Agnew:** If, for example, we look at the relocation of jobs; people see, from the outset, that this is a publicly-owned bank. They also see the government trying to do one thing on the one hand while a government-owned body is doing something that runs counter to that with respect to trying to keep jobs in the local economy.

**Mr Brown:** To be honest, the best thing that we can do for the Northern Ireland economy is have a healthy Ulster Bank. We have seen the issues when you have a bad bank, and the legacy issues that we have had to deal with. We are well down the track on returning the bank to being a very good bank for our customers, but we still have some way to go. If you have a healthy bank that is generating a reasonable return then you have money to invest in it to grow the business and support the economy. That is what we are doing. We are out and about doing business. We are open for business, be it mortgages or SMEs. This is the Ulster Bank that we want to be known for; not for all those real estate problems of the past. The sooner we get to that the better.

**Ms Graham:** We are very actively involved in communities. If you look at what we are doing through GAA Force, RugbyForce — at the grass roots — and MoneySense for schools, and at bigger things such as the Balmoral Show and the Belfast Festival at Queen's then you can see that we are heavily involved in the community. It is not as though it is all one thing or the other. I think that, potentially, we are doing both.

**Mr Agnew:** When is Ulster Bank not RBS, or the other way round, if that makes any sense? Mention was made of the commitment by RBS to not close the last branch, or last retail outlet, in town. You did not make that commitment there today.

**Mr Brown:** No, I did not. I will not make that commitment, because my commitment is about providing services to customers the way in which they want to do business with us.

**Mr Agnew:** How do we know whether or not RBS is speaking on behalf of Ulster Bank when it makes a statement? If we do not hear from you, should we discount what RBS is saying?

**Mr Brown:** No. The statement that RBS made was made several years ago and certainly before my time running Ulster Bank. What I have been very clear about is that we will be responsive to customers' needs. I am certainly not going to make a pledge to you that I know that we cannot keep. If more customers want to deal with us through the Post Office, third parties, mobile phones or whatever —

**Mr Agnew:** I accept that. It is just for the Committee's understanding and the wider public's understanding. Ulster Bank speaks for itself then, so we should not take what RBS says as what Ulster Bank is saying.

**Mr Brown:** RBS made a commitment on the specific issue you mentioned. What I am saying is that that was made several years ago and before my time. I have been here nearly three years and very clearly laid out a strategy. That strategy is to build a really good bank for customers, which includes banking in the way that they want to bank with us. I cannot comment on that specific comment made by RBS.

**Mr Agnew:** There is another side issue that has come to the Committee. It may not be for answering today, but I would be interested in a follow-up or perhaps a meeting about it. It is the issue of PV solar applications. As you may be aware, there is an issue with free PV in Northern Ireland with Ulster Bank and other banks due to different regulations in Northern Ireland than exist in GB. Mortgage holders — I include myself in this, although I am not an Ulster Bank customer — are not able to avail themselves of free PV because of the different regulations in Northern Ireland than GB. I am well aware of the problems, but I have not been able to hear from anyone about solutions. Perhaps you could back to me on that if you have any information.

**Mr Brown:** I am not aware of that specific issue, to be honest. However, if you want, I am more than happy to have a dialogue and discuss it.

**Mr Agnew:** I would appreciate that, because it affects both business and domestic customers. There are those who want to avail themselves of the free PV, but there are also many local businesses that are now establishing themselves in PV.

**Mr Brown:** Sure. We will follow it up in the next few days.

**Mr Agnew:** That is fantastic; thank you.

**The Deputy Chairperson:** I want to raise a number of other very small points with you. One that I raised with the IBOA is around how staff in the Ulster Bank are paid and incentivised. One of the historical problems that we have had with the banking sector is the incentivisation of staff to sell products that some customers neither want nor need. What are the terms of employment for current employees? How are they incentivised to sell things like credit cards, loans or insurance that customers may not want or need? Is there a culture in the senior management of Ulster Bank that encourages staff to carry out such behaviour?

**Mr Brown:** I am surprised to hear those comments. The values of the organisation are to do the best thing by our customers. If you like, I can come back to you with the specifics of incentivisation. Any incentives that we have measure a wide range of indications. It is not just product-flogging, so to speak. I can come back to you on that.

**The Deputy Chairperson:** I am also keen to explore whether targets are set for individual employees or branches for the quantity of products that they must sell in any given period for them to be judged to have performed adequately in the eyes of the bank.

**Mr Brown:** We measure branch incentives on a wide range of indications. I do not have the specifics, but I can come back to you with the detail.

**The Deputy Chairperson:** There was a lot of talk about the van that you have in the west of Ireland. I spoke to Dan about it previously. I think that it would be a good idea for us to learn more about that. If you want to bring a van up here some day and park it at the gates, I am sure that MLAs would be keen to see how it will roll out.

**Mr Brown:** Good; I might do that.

**The Deputy Chairperson:** It will only there for one day though. You are not allowed to close a branch in east Belfast and keep a van there. *[Laughter.]* There is an issue with ATMs. An awful lot of ATMs run on Windows XP. I am not sure if this is an issue that you are aware of, but support for Windows XP ran out two days ago. Hackers can send a text message to a bank — I have not figured out how to do it yet — and an ATM will simply spit out money. Is that something that the Ulster Bank is aware of and has resolved?

**Mr Brown:** I am not aware of any specific issues with our ATMs. The security of how our ATMs operate is managed very tightly, but I will take your point away for a follow-up.

We are looking to have a van out here. I have seen a van in operation. I went out to Easky about a year ago, saw how it operated and met some customers who use it. A 95-year-old lady was using it to make a deposit that day. I am convinced that it is the right thing for us to have here in Northern Ireland. We have bought the van, and we will be rolling out aggressively the services on that van over the coming months. The aim is that we will have some services available come summer and further services ongoing as well.

**The Deputy Chairperson:** Thank you very much for your presentation and your openness and willingness to engage with the Committee. Hopefully we will be back here again soon to discuss some positive news.

**Mr Brown:** Thanks very much. More positive news.