
Submission to The Oireachtas Joint Committee on Finance and the Public Service
Wednesday, 25th November, 2009

Submission by

Bank of Ireland Group

Bank of Ireland 

Opening

On behalf of Bank of Ireland, I thank the Chairman, Vice Chairman and members of the Joint Committee for the opportunity for Richie Boucher, Des Crowley and myself to meet with you today. I would like to take the opportunity at the outset to update the members of the Committee on the current state of the business at Bank of Ireland and to outline our priorities in the period ahead. In particular I would like to provide some detail on our business activity in support of personal and business customers at this difficult time; a subject that I know is of great interest to public representatives.

Context

Bank of Ireland enjoys very good relations with the vast majority of its customers. This results from building and developing relationships over many years, and supporting our customers appropriately in these difficult times will mean that we can all benefit from the better economic times which will arise in the future.

Bank of Ireland sincerely appreciates the significant support of the Irish Government and taxpayer in stabilising the financial sector in Ireland throughout this turbulent period. We are also acutely aware of the depth of public feeling about the banks at this time. We are working hard to learn the lessons from the past and to rebuild damaged relationships with all of our stakeholders. We know we have much to do to repair these relationships, but we are determined to do so.

Our current business priorities are:

- to support our customers responsibly through these difficult times.
- to fund our balance sheet effectively,
- to strengthen our capital,
- to actively manage our credit risks, and
- to rigorously manage our costs

I believe that by successfully dealing with these priorities we will stabilise the Bank, rebuild customer trust and make a very strong contribution to this economy - the recovery of which and our own future are inextricably bound – and to rebuild value for our shareholders.

In recent months, economic forecasts by, amongst others the Economic and Social Research Institute (ESRI), have given some early indications of a slowdown in the pace of economic decline to some extent in this market. However the outlook remains difficult.

National Asset Management Agency (NAMA)

One of our key current priorities is engagement with the National Asset Management Agency. We are committed to doing this in a constructive manner with a view to achieving the best outcome for all parties concerned.

NAMA will support a functioning banking system and will aid economic recovery in Ireland through:

- Providing increased certainty on asset quality and impairment charges,
- Reducing risk weighted assets
- Improving liquidity
- Underpinning credit availability

Pricing

The Committee has raised a specific query regarding interest pricing pre and post the transfer of assets to NAMA.

In its Interim Statement for the 6 months to 30th September 2009, issued on 4th November 2009, Bank of Ireland advised the market that its net interest margin had fallen by 10 basis points, compared to the prior year period, to 1.61%, and that this net interest margin was likely to decline further by the year end. This primarily reflected intense competition for deposits and the cost of extending the term of the Bank's wholesale funding, notwithstanding a fall in the quantum of this wholesale funding.

In recent months, i.e. since approximately July of this year, easing general international conditions and improved international perceptions of Irish Government risk and of Irish Banks' risk, partially reflecting the market's anticipation of NAMA, has given Bank of Ireland an improved access to International Debt Markets. Bank of Ireland has extended the maturity profile of its funding, including undertaking Issuances which do not rely on the Government Guarantee. This has increased the market's confidence that Bank of Ireland can come off the Government Guarantee, over time.

We anticipate that the liquidity which NAMA will provide to the Irish Banking system as a whole should improve the funding position of Banks and the cost of short term money to Banks, albeit slightly offset in cost / benefit terms for Bank of Ireland by the desire of Bank of Ireland to continue to extend the maturity of its debt and undertake non-Government Guaranteed Issuances.

Despite the difficult liquidity conditions of earlier this year, Bank of Ireland has not restricted the availability of funding to its Irish businesses and has provided very competitively priced products, particularly for Owner Occupier Mortgages and Small and Medium Sized (SME)

customers. This has been made possible by the difficult decisions which Bank of Ireland has made, and implemented, to close for new business and to place into rundown certain International businesses with combined loan assets of €37 billion.

Bank of Ireland has reaffirmed that its strategic bias is to Ireland and that it wishes to retain its existing customers and win new customers. This remains the case going forward. This strategic imperative can only be achieved by our making credit available to our customers, with that credit being competitively priced and supported by efficient good service and a strong supporting infrastructure. We reiterate that Bank of Ireland has made credit available to its Irish customers at very competitive pricing during the difficult liquidity conditions of earlier this year and will continue to do so.

Our Business Priorities

With the support of the Irish Government, our customers, our investors, and staff, we have made significant progress across each of the priorities I set out earlier:

(1) Supporting our customers

Turning to our first priority - to support our customers.

Bank of Ireland has a significant stake in, and dependency on, the Irish economy. Our participation in the market here, particularly in the SME and Mortgage markets, is critical to our future and we remain firmly committed to supporting our current and future customers through these challenging times.

It is and has been our policy to channel the majority of the Group's available lending capacity to our Irish consumer, SME and Corporate Banking franchises. During the first nine months of 2009, over €3.6bn in new SME and mortgage lending was drawn down by Bank of Ireland customers.

Commitment to SMEs

We continue to promote the availability of both advice and credit through a broad range of SME promotional activity, re-inforcing to customers and potential customers the message that we remain 'open for business' and committed to supporting business recovery. These campaigns, with a strong emphasis on lending availability, are supported by our branch network, internal communications / training and participation in SME events nationwide.

This year we have run a number of nationwide campaigns to show our support for the SME sector including a National Enterprise Week in May and a "Show your Business

Week" in October. These have attracted a widespread involvement from the SME sector and have received very positive feedback from the participating companies. Indeed I am sure many members of the Dail and Seanad will be aware of these events taking place in their local constituencies. We are running a further "Show your Business" week in December where businesses will have an opportunity to promote their activities in our local branches. I will ensure that details are provided to public representatives and we would welcome you to come along and see for yourself the many vibrant businesses that we are supporting and the many products and services that we have available as practical supports.

SMEs continue to face significant trading difficulties, nonetheless. The third quarterly trends survey for the year undertaken by the Irish Small and Medium Enterprises Association (ISME) suggests that the business environment remains challenging, resulting in continued job losses, weak sales and persistent pressure on profits and revenue. The most significant issue faced by businesses in the current climate revolves around having sufficient cash flow to sustain the business.

Despite this, there has been some evidence of improvement in business conditions in the third quarter of the year. The survey showed an increase in business optimism, with 25% of companies expecting sales to rise over the coming 12 months, while there was a decrease in the percentage of companies that were pessimistic about their future from 56% to 37%.

Bank of Ireland's commitment to the SME sector remains strong. Our focus is on continued support for customers through new lending, overdraft sanctions / renewals and a strong emphasis on promotional and related activity associated with our SME business.

Through our 800 specialised business bankers in 248 full-time branches and 29 other locations, we are supporting well managed and viable businesses:

- We have advanced €2.1bn in branch lending to SMEs in the first nine months of the year.
- Our working capital facilities and limits to SMEs, at almost €2bn, are up 18% since last year, with 53% of overdrafts extended in use.
- We review circa 6,000 loan applications each month for SMEs, of which almost 80% are approved.
- We have financed over 1,000 start-up / early stage businesses this year.
- Over 15,000 new business current accounts have been opened.
- We launched a number of specific Business and Environmental funds in the past year (value €550m), and monies from these funds remains available for drawdown by SMEs.
- We have arranged a €100m European Investment bank (EIB) facility to on-lend to SMEs for specified investment purposes. To date we have approved over €37m for

customers under this facility and are actively promoting its availability through our business managers.

- We have put comprehensive structures in place to support customers experiencing significantly more challenging times. These include dedicated and experienced relationship managers in our branch network, a financial advice centre on our website, seminars focused on support and mentoring.
- We have increased financial support to our Corporate customers (to whom many Irish SMEs are key suppliers) by 40%.
- A €26m Venture Capital fund was recently announced in conjunction with Enterprise Ireland and the University of Limerick.
- We have been working with Enterprise Ireland on a number of other initiatives, including secondments of Enterprise Ireland staff to Bank of Ireland and vice versa.

We have a range of other activities underway with Enterprise Ireland to ensure that the approach to Irish businesses being adopted by our two organisations is even more closely aligned.

We continue to invest substantially in customer communications, staff training, new product development and credit management processes to deliver greater support and flexibility to our SME customers.

Bank of Ireland continues to firmly believe that a vibrant and sustainable SME sector is vital to the Irish economy. This market is critical to the Bank's future, and we are firmly committed to supporting our current and potential customers through these challenging times.

Commitment to Mortgage Customers

Though overall market demand remains muted, the past few months have seen some positive signs of uplift, for example we have seen an improvement in overall applications and drawdown trends, compared to previous periods:

- Through mortgage focused advisers, advertising and local activity in our branches, we are promoting mortgage availability, in particular for first time buyers, and supporting customers.
- We have lent over €1.5bn in new mortgages in the first nine months of 2009, with €475m of this going to first time buyers.
- We are currently approving over 350 mortgages per week.
- €750m of our €1bn First Time Buyers (FTB) fund has been approved for customers, and we expect to announce an additional FTB fund of a further €1bn shortly.
- We have recently launched a campaign aimed at the Trader-Up Buyer segment.

- Given current market uncertainties and their impact on customer decisions, actual draw-downs do not yet match the above level of application / approval activity. However we have seen a more positive drawdown trend in recent months.

Bank of Ireland fully supports and adheres to the arrangements that have been put in place to help and assist customers in financial difficulty:

- Financial Regulator Code of Conduct on mortgage arrears, and
- A joint protocol with the Money, Advice and Budgeting Service, MABS, which covers the whole area of debt management.
- When a mutually acceptable arrangement is entered into with a mortgage customer and it is maintained, subject to ongoing reviews, legal proceedings will not be initiated as long as the agreement is maintained.

Bank of Ireland always encourages customers to contact the Bank at the earliest opportunity and we will work to complete a full financial review and identify and agree options available to individual customers given their particular circumstances.

Commitment to Corporate Customers

Bank of Ireland's Corporate Banking Division is actively involved in supporting and managing almost 400 customer relationships in Ireland, focusing on larger and mid-sized corporate transactions in this market.

Over the last 12-18 months, we have very much continued to adopt an "open for business" approach in support of these customers and their suppliers (many of whom are themselves SMEs).

We increased our financial support to existing customers by over 40% in the year ended March 31, 2009 and customer numbers increased by 10% during this time. This trend has continued since, and during the period to the end of August, we increased support to existing customers by a further €270m, together with an additional €60m for 16 new Irish corporate customers over the period.

The above lending spanned a wide range of sectors and business sizes and involved extended (and typically increased) loan levels to customers, incorporating:

- Owner managed businesses (e.g. acquisitions in the oil distribution and mushroom sectors).
- Large privately owned companies (e.g. increased support to the Agri-CoOp sector, and a substantial private hospital transaction).
- Multinationals (i.e. new and/or increased facilities to multinationals with subsidiaries operating in the Irish market).

- State owned or established entities (where funding requirements have increased or where historical bank funding sources needed to be replaced).
- Public Limited Companies (plcs, which are also typically major employers in Ireland) where we continue to lead refinancing transactions to these entities.
- Several significant Public Private Partnership transactions investing in infrastructure in areas such as Schools, Hospitals and Motorway Services.

We also are receiving an increasing number of approaches from non-Bank of Ireland customers and are supporting these where the business and financial risks are deemed acceptable.

In summary, Bank of Ireland is very much open for business – supporting our customers and aiding economic recovery across consumer, small business and corporate sectors.

(2) Other Strategic Priorities

I have spent some time describing how we are supporting our personal and business customers, which is our key current priority.

Our *second priority* is to strengthen our capital – we are committed to building our capital ratios over the medium term in line with the changing norms for European retail and commercial banks.

Our *third priority* is to rigorously manage our asset quality. We continue to actively manage our credit risk and have re-assigned many of our staff to the intensive management of our more challenged portfolios and related customer support.

Turning to our *fourth priority* – funding conditions have improved and this has enabled us to strengthen our key balance sheet metrics. Our proportion of customer deposits to other funding has improved over the past six months, despite intense competition in the market here.

This together with the lengthening of the maturity profile of our wholesale funding has enabled us to reduce the quantum of our wholesale funding by €13bn over the 6 months and extend its maturity profile – we have large pools of contingent collateral standing at €43bn at 30th September, 2009, and our usage of such contingent collateral to borrow from Monetary Authorities, representing €7bn net at 30th September 2009, is approaching normalised levels.

We continue to manage our costs – *the fifth and final priority* - rigorously and to re-align our Group structure and cost base to an environment of lower levels of new business and

activity. We have reduced remuneration and the number of people we employ across the Group by 1,700 over the last 12 months. By March 2010 we will have reduced Executive positions in the Group by 20% from the number which existed 12 months ago.

Costs across all categories continue to be tightly managed.

EU restructuring plan

The Committee will be aware that under EU competition rules, there is an obligation to file a restructuring plan within six months of receiving State Aid. Bank of Ireland filed its restructuring plan at the end of September. We emphasised initiatives being implemented outside Ireland to reduce our balance sheet by €37bn (increasing our capacity in the Irish market), manage our capital and move to a more normalised funding base.

Over the life of the restructuring plan, we will eliminate our reliance on the Government Deposit Guarantee, repay the Government's €3.5bn preference shares, pay €1.7 billion in preference share coupons and deposit guarantee fees (of which in excess of €400m would be in our current financial year), leaving the State with a significant shareholding in a profitable, fundamentally sound bank supporting the Irish Economy and competing actively in the Irish market.

The processes surrounding the restructuring Plan will take some months to conclude.

Summary and Conclusion:

The last twelve months have been very challenging for the Group – however the support of the Irish Government and taxpayer, and our continuing focus on key priorities has brought greater stability to the Bank. As we look ahead – our focus remains on these priorities and the clear goals that we have set ourselves for continuing to make progress against them.

Bank of Ireland remains committed to supporting our personal and business customers.

Bank of Ireland's future is dependent on a recovering, vibrant Irish economy. Bank of Ireland is determined to play a very strong role in assisting the economy to recovery and future prosperity.

Thank you for your attention.