RBS Investor Round Table on Ulster Bank

Tuesday 2nd July 2013

Richard O'Connor

Good afternoon everyone, and thanks for coming along to the next one of a series of seminars we've held at RBS. This one is on Ulster Bank. I'll very quickly hand over to Jim Brown, the Chief Executive of Ulster Bank to introduce his team. Just normal rules apply. The team will run through in 40/45 minutes a slide deck which you have in front of you. There will be plenty of time for questions at the end. So if there is anything obvious or anything which you need clarification as you go through then please do put your hand up, but there will be plenty of time at the end.

And the second point is that the presentation is primarily on the core part of Ulster Bank, i.e., the ongoing part of Ulster Bank and the strategy as to how we develop that business over the next three to five years. Jim and his team also have oversight and governance of the non-core along with our non-core colleagues, so we are happy to answer questions on the non-core portfolio and the totality of Ulster Bank Group as well; but just bear in mind the presentation is primarily on the go forward strategy of Ulster Bank core.

With that I will hand over to Jim.

Jim Brown, Chief Executive Officer, Ulster Bank Group

Thanks Richard. Good afternoon and welcome everybody. Just to complete the introductions first of all. I'm the CEO for Ulster Bank. I've been in this position for the past two years. Prior to that, I was heading up the Retail and Commercial businesses for RBS; and prior to that ABN Amro for Asia and the Middle East; and with Citibank for 14 years prior to that.

Richard Harding, Chief Financial Officer (Acting)

Good afternoon everyone. My name's Richard Harding. I'm the Treasurer and Acting CFO for Ulster Bank. I've been with Ulster Bank for a little over a year; RBS for 14 years; and prior to joining Ulster Bank I was the Treasurer for the RBS businesses in Asia.

Stephen Bell, Chief Risk Officer

Stephen Bell, Chief Risk Officer I'm also responsible for retail collections and recoveries. I've been with Ulster Bank and RBS for a year. Prior to which I spent some time with one of the other Irish banks; prior to which I helped set up the restructuring practice for Barclays in Western Europe.

Simon Barry, Chief Economist Republic of Ireland

Simon Barry Chief Economist Republic of Ireland. I've been in post for four years and with RBS for six years. Prior to joining the Group I was with Bank of Ireland.

Jim Brown

So just in terms of the rest of the management team if you'd just like to turn to page 4, I don't intend going through each of the team members here but I think it is important to note that over the last two or three years we've actually replaced 70% of the team; they're new to their positions. We have a combination of both Ulster Bank, RBS as well as external experience. And experience in both the UK/Ireland market as well as international experience in the team as well.

Just in terms of the agenda for this afternoon. A few points I would like to go through. First of all I would like to just go through and introduce to you a little bit about Ulster Bank and also talk about the strategy that we have employed and the progress to date on that. I'll hand over to Simon who will talk more about the economy. Richard will touch on financial performance; and Stephen on the asset quality.

Just to kick off first of all; just to introduce Ulster Bank to you all. First of all, a couple of key important points: the Bank has a long history operating on both sides of the border, we've been in business for 177 years. And whilst we are branded Ulster Bank on the outside there are a lot of synergies and integration with RBS in terms of systems, platforms and so on at the back end.

We are number one in terms of market share in Northern Ireland; and number three in the Republic. We operate in both Retail and Commercial banking across both sides of the border. We serve around two million customers through quite a wide distribution network of over 200 branches and also supported by over 1,000 ATMs.

We have one significant, unique competitive advantage in my view and that is that we are the only systemic bank that operates on both sides of the border, that also has an international parent with the capabilities that that brings to us as well.

In terms of the key points that I would like to highlight this afternoon as we go through the presentation, starting at the macro first of all, we see signs of stabilisation coming through in the economy both in Northern Ireland and in the Republic. We see the capital markets starting to improve as well with corporates and the banks accessing that. And we are also seeing good investor flows into Ireland as well, particularly seeing that ourselves coming through some of the property sales that we have done in the non-core portfolio.

The restructuring of the banking sector domestically has commenced with most of the competitors announcing branch closures and/or FTE or staff reductions. So that is starting to get underway. But we are also seeing some return to a normalisation in the market as well particularly around deposit pricing. Over the last couple of years deposits have been priced quite high and we've seen those rates come down significantly over the last 12 months. And there doesn't seem to be any impact coming through from the removal of the guarantee scheme either.

In terms of Ulster we have a specific strategy that we put in place some 18 months ago: on one hand, looking to deleverage the impaired portfolio or the legacy portfolio; whilst at the same time developing a Really Good Bank for the future. We are making good progress on that, we are actually holding our revenue, we've been improving margins, we've had costs coming down and we're starting to see provisions improve in the portfolio as well.

Significantly we have also strengthened the balance sheet by increasing our focus on the loan to deposit ratio and we have seen that improve over the last couple of years as well.

Net-net my take on it is that we are well on the way to delivering a good profitable bank but clearly it will be smaller than what it was at the peak of the boom.

Just to touch on our strategy, as I said two key components of that: on the one hand we're looking to reduce our legacy loans. This is primarily the real estate development loans, and we've got a plan in place to reduce that in a way that preserves capital. Whilst we've been doing that we've also been building out our capabilities to manage that book, both the real estate development loans but also supporting the mortgage arrears issues in the Republic.

In terms of building a Really Good Bank four key areas of focus for us: firstly, leveraging the competitive advantage that we get from being part of the RBS Group. Secondly, we have been focusing on reshaping our distribution, primarily in response to changes in customer behaviour. We are also driving for deposits, again making good progress on reducing our loan to deposit ratio but we need to go further. And lastly, focusing on improving our margins, net interest margins and fee income as well.

If we just turn to Retail for a moment, just to focus on that just to go into that a little deeper. Essentially we are focusing on Mass Retail across both sides of the border, North and South. We see an opportunity for us to further increase share particularly in the Mass Affluent part of the business. We are under-represented there and see that as an opportunity. Our focus in terms of geography is across the board in Northern Ireland but in the Republic primarily an urban focus in that business as well.

We see a significant opportunity to further grow the business primarily through deepening the relationships with customers that we already have. Today we only have on average two products per customer. And we think there is a real opportunity there to better serve our customers through deepening those relationships and obviously that has an impact on income for the business as well.

The third area that we are focusing on is having an even greater alignment to RBS and we are getting well connected with RBS Retail in the UK, working on leveraging a lot of the investments that they are making in the go-forward business, aligning platforms, products and customer propositions as well.

As I mentioned, the fourth area is really focusing around distribution and we have been reshaping the business there. We have been investing significantly in digital capability and we have also made some branch closures, 22 branch closures over the last couple of months, again in response to changing customer behaviour.

Just to move to Corporate: again just to lead on the distribution side. We have made some significant changes in the business there in the last three or four months. We are looking to improve our service through better segmentation of the business and also on how we take the business to the market, and that will also help us lower our costs as well.

Going forward we will still maintain a relationship manager proposition for our upper end mid-market and corporate customers but also building out our direct bank capability for SMEs and smaller mid-market companies as well.

The third area that we are focused on is increasing the amount of resource that we have decked against the arrears portfolios for SMEs; so we have enhanced the number of specialist relationship managers in that particular part of the business to deal with the smaller end arrears cases.

Now to do all that, we have been making significant investments in technology late last year and early this year. We have built out mobile app, internet, telephony capability to our SMEs, and also automated the credit decisioning for SMEs as well.

The third area that we are focusing on for our Corporate business is really increasing our sectorial expertise. We are very strong in certain segments such as agri and food, pharmaceuticals, renewable energy and so on. We do have very good capability but we are looking to build that out even further in certain sectors of the market as well. And, of course, like Retail we are looking to leverage the RBS capabilities particularly for this part of the business around the network that RBS brings but also products and IT capability as well.

So just to give you a bit of a flavour on how the business is doing I refer to some data here on the flow versus market share for our Retail business. You will see across both geographies and across most of our product ranges our share of new business is performing very well, and in most cases is exceeding the natural market share that we have got across both markets.

As I mentioned there is a significant change in customer behaviour that is happening in our business both Retail and SME, I have included Retail here as an example. If you look at the right hand side graph here you will see that in the space of only a couple of years nearly 50% of our transactions are now completed through mobile and internet. Importantly, the mobile apps are up 400% year-on-year in terms of first quarter this year versus last. So a significant change in only a couple of years. And you can also see that there is a reduction in transactions coming through, particularly in the network which is obviously giving us an opportunity to reshape that part of the business. As I said we are seeing similar trends across the SME business as well.

So how are we doing? We have included some of our key performance indicators that we track here. I think we are making pretty good progress. We have still got some way to go but trending in the right direction. If we look at the loan to deposit ratio, for example, we were over 190% in 2009, that's down to 127% as of the end of the first quarter 2013. We had a significant reliance on RBS Group for funding through the Intra Group Line, we have included the gross position here but the net position is that we have actually paid that off completely as well now which is a good sign.

We continue to improve our margins. We have had a focus on costs, as I mentioned, and we have got our costs to income ratio down to the low 60s despite all the challenges that we are dealing with. Importantly, the net promoter score which we track this tells us whether the customers are saying good things about us or not in the market. We've seen a significant rebound on that from where we were during the IT incident in the middle of last year. In fact we are back to close to where we were prior to the incident which is good to see. And of course, importantly, we have a strong focus on staff engagement, and you can see that staff engagement measures are starting to lift as well.

We have also included a slide here, slide 15, on how we see the business evolving over time. This is a directional slide as to how we see things moving, but we are aiming that by 2016 we will have totally transformed the business. The core business should be back to profitability probably sometime in later 2014, we have still got some ups and downs to go as we know through the market and industry issues but that is how we're seeing it at the moment. We also forecast that by 2016 we will see a decrease in our legacy portfolios. We will have also converged a lot more with the UK in terms of products, customer propositions and systems that will allow us then to offer both next generation digital technology; but also whilst the actual number of physical branches may reduce, we actually see the physical points of presence that we will have expand over time but probably in a different form, so looking at kiosks and shopping malls and those such things.

Overall though as I mentioned earlier we do see that by the end of 2016 the business will be smaller than what it was at the peak of the boom but will be profitable and a lot more efficient than what it was.

So on that note I would like to hand over to Simon.

Simon Barry, Chief Economist, Republic of Ireland

Thanks very much Jim and good afternoon everybody. Over the next ten minutes or so I'd just like to share with you some thoughts and observations on how the economies, both Republic and Northern Ireland, are shaping up as things stand and offer some observations on how we see the outlooks evolving in those two economies.

Starting with the Republic of Ireland, I guess the starting point here is just to take stock of the extent of the severity of the downturn. We saw a peak to trough decline in GDP of over 11% over the three year period from 2008. But the economy managed to get back into positive growth territory in 2011, helped of course by a recovering world economy which spurred a strong performance by the Irish export sector which accelerated strongly, and overall growth in that year was just over 2%.

While the economy did again show positive growth last year the pace of growth decelerated markedly and that in turn was linked to a pronounced deterioration in the economic performance of Ireland's main trading partners, especially the Eurozone but also in the UK and to an extent the US, and that has translated into a much weaker export performance with the recent picture compounded by some sectoral difficulties in the pharma sector where some patents have expired recently which has added to the downward pressure. The result has been exports have actually turned negative in the first quarter, GDP numbers as they were published last week, as you may have seen, and there is no getting away from the fact that as a small open economy the deterioration in the international economy is having a notable impact on growth momentum.

However, if we think about the picture more broadly I think it is fair to take some encouragement from recent developments on the domestic economy which has been at the forefront of the downturn. But recently we have certainly seen the easing the pace of decline. In domestic demand the investment slump is finally easing on a range of measures held by buoyancy in foreign direct investment. And perhaps most significantly the labour market is beginning to show signs of tentative improvement, we have seen three consecutive quarterly gains in employment and the annual change in employment is now +1%; which just in passing maybe offers a slightly contrasting perspective on the economy's performance relative to the signal being provided by the latest GDP numbers.

The reason why I think the turn in the labour market is significant is because it does have a read across into other key areas of the economy, so consumer income and spending trends are now on a far different trajectory to that which they were on in the severe part of the recession, especially in 2009. So the turn in the trend in income is supporting less negative dynamics in spending as well. And I don't think it is a coincidence that the bottom in the property market was reached around the middle of last year which coincides also with the low point for employment. So the stable dynamic in the labour market is contributing to I guess more stability across a number of other areas too. And on the house price front we have actually seen some increases in some areas, including in Dublin where the annual rate of increase in prices has been positive for the last five months now.

The story outside Dublin is still weaker. Prices ex Dublin continue to decline and nonetheless however the overall picture if we look at the prices nationally, prices are down a mere 1% in the year over year terms which is the slowest pace of decline since 2008.

There are still headwinds here and there are still challenges and fragility in the emerging recovery we are seeing in some of these areas so we did see some payback in both retail sales as well as house prices in the first quarter of the year linked to the unwind of some special support factors which were at play in both of those areas. We had the move to digital terrestrial television at the back end of last year which buoyed electrical goods sales. And home prices received a shot in the arm from the expiry of mortgage interest relief at the end of last year which provided people with an incentive to transact late last year rather than defer their plans to early this year.

But I would make one observation just quickly on both fronts, on both retail sales and home prices the very latest numbers covering April/May, which is what we have so far in Q2, prices and sales volumes are edging a little bit higher following the weak Q1.

In thinking about the economy's position more broadly and the headwinds that it continues to face two I think are worth drawing attention to. One is the high level of debt, especially in the household sector where debt to income ratios are over 200% of disposable income, 212% on the latest numbers. Albeit that the process of deleveraging is progressing, the peak debt level in growth terms was at the end of 2008 and since then gross household liabilities have declined by about £30bn which is equivalent to about 20 percentage points of disposable income. So that is not an inconsiderable adjustment it is just that the starting point is so high that that adjustment is prolonged, and it has triggered a change in consumer household behaviour; one consequence of which is a higher savings rate which has represented a drag on consumer spending over the post-crisis period.

The other headwind of course is the fiscal consolidation which is ongoing, albeit that it has now entered its sixth year, the fiscal correction began in the summer of 2008. Two characteristics are worth calling out here I think, one is the adjustment was front-loaded so you can see the fiscal impulse if you like, the planned fiscal consolidation as a percentage of GDP was concentrated in the three year period from 2009. And sequentially, while the adjustments are still large and continue to represent a headwind, the extent of that headwind is easing as the sequential adjustment is just that bit lower year to year.

So finally to wrap up on the Republic of Ireland economy we I guess have a central scenario which envisages some reacceleration in the economy's growth performance, however that acceleration is not likely to come through in 2013 as might previously have been expected and that is linked to the weak start to the year arising from the GDP report which covered the first quarter, but predicated on some level of very gradual and modest improvement in the international environment we think it is a very plausible base case to anticipate that the Irish economy itself can begin to show acceleration over the course of 2013 and into 2014. But that will most likely come through in the average annual growth rates in 2014 rather than in this year. So it is a story of a plausible scenario in which the economy experiences gradual recovery albeit a recovery that continues to be characterised by downside risks. If we track the performance and outlook for Ireland's main trading partners we can see that growth forecasts continue to be nudged lower and that is especially the case in the Eurozone where growth forecasts for this year, for example, have been cut by about 1½ percentage points over the last 18 months or thereabouts.

So the base case, as I said, is one of an expected gradual recovery and we take considerable comfort and encouragement from the signs of some level of rebalancing which seems to be underway, less reliance on external demand, albeit in a weaker environment, but some evidence of a stabilisation in the domestic economy albeit that that outlook is characterised by downside risks.

With that I'll hand over to Richard who's going to cover the financials.

Richard Harding, Treasurer and Acting CFO, Ulster Bank

Thanks Simon good afternoon everybody. I'll take us through the financial analysis and outlook. If we move to Slide 23 and the geographic and divisional analysis, Ulster Bank operates through Ulster Bank Limited in the North and Ulster Bank Ireland Limited in the Republic. If we look at the geographic analysis we will see about a third of our business is conducted in Northern Ireland, about two thirds in the Republic of Ireland. The balance sheet is well balanced in the North with a loans to deposit ratio of 80% whereas in the Republic we are still operating at a loans to deposit ratio of around 150%, and hence our focus on deposits going forward is going to be in the Republic.

Moving to the divisional analysis the business is very balanced between Retail and Corporate, approximately 50% of revenues coming from each. But it is worth noting the impact of the tracker mortgage book on the Retail business which also resides within the Republic of Ireland, it is about £13bn and hence the rather high loan to deposit ratio for the Retail business; and the margin on that business is around 90 basis points so that constitutes a significant drag relative to the Corporate business. It is also a drag that's relatively different to relieve and the mortgage book has a long life and it will take some time to roll off.

Moving to the longer term trajectory and outlook. First a little history, 2008 to 2012 revenue in Ulster Bank was down about 20% and that is broadly in line with the reduction in interest earning assets. However, there is definitely an impact on deposit pricing which has been relatively high and the impact of lower long term interest rates. This has been offset by some asset pricing particularly in the Corporate book.

Expenses have been managed down in line with revenue around £200m however that leaves us with a cost/income ratio of around 60% and there's definitely further work to do to hit our 50% cost/income target.

NIM is stable over the period, that points to the progress that we have made on asset repricing however as noted it is limited in the Retail business due to the predominance of tracker mortgages.

Overall the loans to deposit ratio is down from 180% to 130% which is as a result of reducing assets and a very stable, and in 2013, slightly growing deposit base.

The outlook for revenue is relatively flat. As Simon highlighted there is fairly subdued demand for credit in Ireland at the moment given the current economic forecasts and hence our revenue forecasts are relatively flat. In the outer years we do expect some pick up in revenue primarily as a result of higher interest rates.

As highlighted we expect costs to fall slightly from the current level and I will say a little bit more on that in a little while.

Impairments we expect to fall over time and the outlook is relatively uncertain both from a macroeconomic perspective and a regulation perspective but we see impairments normalising over the course of our planning horizon which is out to 2016, 2017. What that would mean if delivered would be that we would return to breakeven in the second half late 2014 from a core perspective.

Looking a little bit more closely at Q1 2013 versus Q1 2012 they're very similar trends. Income is stable as repricing offsets lower performing assets and lower interest rates. Costs are up slightly. We have made some investments in supporting customers in arrears and restructuring that has fed through in the first quarter, and we've made further progress on our loans to deposit ratio down from 130% at the end of 2012 to 127% at the end of Q1. That is largely as a result of an 8% increase in deposits in the second half of 2012 which was particularly pleasing given the impact of the payments incident from June.

NIM is flat versus quarter one 2013 versus 2012. We expect that to improve as deposit pricing normalisation feeds through. And impairments year-on-year were down 50%. The outlook on impairments is a little bumpy, it will be up and down however we do believe we're on a downward trend and that reflects the stabilising economic outlook and the management action we have taken investing in our collections and recoveries capabilities.

On costs, a little more than £50m cost reduction is required to get us to a cost/income ratio of around 50% and that is something we believe we can achieve towards the end of our planning horizon 2016/2017. We break our cost saving initiatives down into three sections, those relating to existing initiatives, the wind down of legacy issues and the change agenda.

So in relation to existing issues a number of things to highlight. One would be the branch footprint and the streamlining of the branch footprint that Jim highlighted earlier. Another initiative to highlight would be the corporate business moving to a more direct model of service and finally in relation to the back office and middle office driving of greater operational efficiencies around our processes is a significant contributor.

From a wind down perspective, as the problematics in Ulster Bank will reduce we are going to realise savings in relation to the management of those assets and there is a significant pool of resource currently dedicated to these assets, and as I say, as the assets roll off those resources will move onto other projects and we can realise cost savings. From a change agenda perspective, there are a number of major investments underway at the moment, particularly in relation to regulatory requirements, and as those are delivered and the regulatory requirements stabilise, we expect cost savings of £5-10m, and that should bring us broadly in-line with a 50% cost income ratio.

Moving to the balance sheet. I would first highlight the stable and growing deposit base. The good news on deposit growth is it is across the board, it is Retail, it is Corporate, it is current accounts and savings, so there is no single area where that deposit growth is coming from, which I think gives testament to the stability of those deposits. As a result, partly of the growing deposit base, and the reliance on group funding has reduced sharply over the last 12 months, and in fact having borrowed over £7bn in March 2012, on a net basis Ulster Bank was a depositor with the RBS Group in Q1 2013.

Top right, I would just highlight the very limited requirement on ECB funding at Ulster Bank, and we have a couple of billion that we draw from the ECB, and that is tactical, and we would hope to repay that at the end of the LTRO. And finally, capital remains very strong, both Ulster Bank Limited and Ulster Bank Ireland Limited, and where we expect to maintain Core Tier 1 ratios well in excess or moderately in excess of regulatory minima.

I hesitate to do any peer analysis, I know you will do your own, but a couple of things stand out for me when I look at the Ulster Bank performance. Firstly, in relation to net interest margin, that is materially better than peers in Ireland. I think that is the result of the action we have taken on asset pricing, and also the fact that we have not chased the most expensive funding over the last four years. And also cost income ratio, at 62% we are pretty well positioned, and 50% is a very achievable goal, and I believe that reflects the strong revenue streams that we have and the progress on costs made to date.

Finally, a slide on provisions and coverage. The first thing to highlight is that the provisioning process at Ulster Bank is bottom-up and coverage is an outcome not a starting point. However, if we look at our position versus peers in the Irish market, I would highlight the improving REIL's performance and also the coverage which starts in the pack from 2010, but moves to a more conservative position by 2012.

I will now hand over to Stephen who will take us through asset quality.

Stephen Bell, Chief Risk Officer, Ulster Bank Group

Thank you. As we go through our next four slides there are probably a few points I would like to emphasise. One, that we take regular steps to ensure that the provision coverage we have is reflective of the strategies either at the individual asset or the portfolio level, and the resulting provisions are pretty well in-line with, if not a little stronger, than we see in our peer Irish banking groups.

Secondly, that retail mortgages in the Republic of Ireland remain challenging, but we see them largely coming from a 2004-2008 closed pool of originations, and we are starting to see the benefit of the significant investments that both Jim and Richard have mentioned in their presentations.

Wholesale assets are comparably provided against the Irish banking peer group, and from our point-of-view they reflect two things: 1) our ongoing broadly neutral assessment of the economic backdrop, with some green shoots and some headwinds sort of roughly speaking leaving us in a broadly stable position; but also strategies that are specifically there to broadly reflect our view of managing for shareholder value through the medium to long-term, rather than an accelerated deleverage plan.

Moving to slide 31. 93% of our Retail portfolio is in the form of mortgages, and that is heavily biased. Over 80% of that is in the Republic of Ireland, which means obviously the issues we face in Retail are very much the issues that we face in retail Republic of Ireland mortgages. Specifically on unsecured credit, we have a relatively small book, about £330m in the North, about €530m in the Republic. We have no particular plans to aggressively grow our unsecured lending share at this stage; we think we need to see the resolution of the current credit cycle more firmly established before we do that.

So looking at the retail mortgage portfolio, as I say there are two pressures really coming to bear on the Republic of Ireland mortgage portfolio. One is the yield compression that Richard has touched on, with 65% of our mortgages being on lifetime trackers. That is very much consistent with the Irish banking sector in general. But we also then have a fairly high level of 90+ non-earning assets that hold back our yields as well.

Just in terms of the 90+, an observation that I often make is, whilst the Republic of Ireland and Northern Ireland have suffered similar if not exactly the same levels of economic shock, the 90+ delinquency level in the Republic is four times the level it is in Northern Ireland, where it is only 4.4% at the last month end.

On the wholesale side, we have around £2.5bn of blue chip sort of top end corporate exposure, names like Kerry Group, Smurfit Kappa and Dublin Airports Authority. These are loans that have survived well through the last five years of economic turbulence and remain very strong performers on our book. The rest of the portfolio on the wholesale side is SME and mid-corporate. We are not unique in seeing stresses and strains in the SME portfolio, probably about half of the SME book has some level of stress within it, which is why you will see, unsurprisingly, the levels of coverage are relatively strong on that portfolio.

Moving to slide 32. In terms of new business, in Northern Ireland we continue to provide our natural share of new mortgage originations, but in the Republic we have largely put the brakes on. Gross advances from January 2009 to date, some €690m, against a book of €20bn, so that is clearly not significant levels of growth. That reflects both our appetite being somewhat tighter, and it also reflects relatively soft demand, which is a result really of the tracker portfolio and also the high levels of personal debt that Simon referred to in his presentation.

Provision coverage ratios are relatively high, certainly compared to other members of the industry. Our provisions are calculated on a bottom-up basis, and I think for the Republic of Ireland it is fair to say that our provision coverage assumes a relatively long time to eventually foreclose, which is consistent with current experience. It assumes therefore a higher level of dilapidations that you would normally assume in calculations of this nature, and it also is a reflection of a relatively low cure rate, which has obviously been our experience to date. So all those things together would suggest that although provision coverage is relatively high, it is conservative in terms of our assessment.

I mentioned earlier about the closed pool element to this. I think the chart at the bottom left-hand corner of slide 32 conveys that reasonably well. 85% of assets and 95% of delinquency really come from that period of time, 2004 to 2008. Within that buy-to-let, Ulster Bank's portfolio has about 11% buy-to-let within it. That is something less than the peer group would have. We think that is a positive. What is a hidden positive in there is the majority of our buy-to-let mortgages tend to be single unit or two units. We know it has often been the case for other Irish institutions that they may have mini portfolios under their buy-to-let banner, we do not tend to suffer from that problem.

My final comment on this particular slide would be, that when we put together the Impairment Plan for 2013 it was based on two significant factors: one is a continued expectation of net flow into 90 day arrears running at a reasonable level; and secondly was expectations of a further 5% reduction in house prices. As Simon mentioned in his, the actual figure on house prices has been around a movement down of 1% rather than 5%. But more pleasingly when you reflect on the investments made, the net flows into arrears are about half the level we had assumed when we put the plan together last year, and those two factors together underpin what has been a reasonably positive performance against plan for impairment charge in retail mortgages.

Moving on to slide 33. You have probably heard talk of strategic default, that situation where a customer who can pay chooses not to pay because they think they will get a better outcome through some external factors. We would tend to say that has been a feature within the Republic of Ireland mortgage market. The chart at the top right-hand corner plots formation of 90+ arrears against unemployment. We have seen a historical and an ongoing correlation of around 80% between 90+ arrears formation on unemployment in the North of Ireland. We had that same correlation in the Republic until early 2011, at which point that relationship substantially broke down.

We think there are a number of contributory factors to that. One would be the Code of Conduct for Mortgage Arrears being introduced, which effectively precluded mortgage lenders from contacting their customers more than three times in a month. It also gave a degree of statutory protection to the customer regardless of whether they were cooperating or were responding to attempts to be contacted.

We then had the Justice Dunne ruling in July 2011, which effectively meant foreclosure was not possible on any loan originated before 2009, and as I mentioned on the earlier slide, the vast majority of this portfolio is pre-2009. Then we saw in the media reasonably broad coverage of the debt forgiveness agenda, where I think it was assumed that the Personal Insolvency Act would come in and wave a magic wand and make all this nasty stuff go away. And those things combined with, I think it is fair to say a relative lack of skills in mortgage collections in Ireland, to create a set of circumstances where the portfolio certainly was not being managed as we would like it to be.

Effectively the CCMA, Dunne, and all the coverage in the media, created a situation where there is no consequence for not treating the home loan as a priority debt, and it was no coincidence that if I roll the clock back about a year, about 60% of our 90+ portfolio was paying nothing at all. The comparable statistic at the present time is 35%, so we have made significant progress in getting contact with customers and driving a level of facing into the issues. That has in turn allowed us to see over two of the last three months our net reduction in the 90+ portfolio for Ulster Bank in the Republic of Ireland, which we think is a positive sign of at least plateauing of the level of the arrears, if not an outright reduction at this stage.

Of those 35% of customers who are still not paying, they are all either in the legal system or being prepared for the legal system, and once the Dunne ruling is clarified, which we are expect it to be before the summer parliamentary recess, we will then be in a position to take positive assertive action to do something about it.

Even at that stage, our intention is always to get engagement with the customer. We do not particular want to repossess houses, we want to engage with the customers and find sustainable arrangements. These problems should be capable of being solved. The average mortgage balance is €173,000. The interest rates vary from 1.5% currently if you are on a Tracker, up to the heady heights of 4% if you are not, and given the majority of these loans were originated on 35 year terms, sometimes even 40 year terms five to nine years ago, the combination of the significant remaining term, the relatively low balance, and the relatively low interest rates, would mean the indicative capital and interest repayment on our loans will be somewhere between €600-850 a month.

We think that is an important figure to bear in mind, because if you are to look at the Daft.ie websites, you will see that any kind of property for rent would be somewhere in the €1,000-1,200 a month. So part of the conversation we have with the customer is to think of this as a cost of accommodation, not purely the cost of a debt, because at the end of the day if this relationship does break down and we have to go down the foreclosure route, they will have to live somewhere, and we think that the majority of people paying €600 a month for accommodation doesn’t constitute to a particularly unbearable burden.

Moving onto the target regime. Back in March the Central Bank indicated that they will be seeking that all banks hit a gradually increasing level of targets for their 90+ cases to be on sustainable arrangements that seems perfectly sensible and in fact we agreed is perfectly sensible, as long as you agree what sustainable is and as long as you agree what the underlying cause of the problem is. It is not our view that every case that’s in arrears, even 90+ arrears, needs to be fundamentally restructured to be made viable, a lot of it can be resolved by de-prioritisation of unsecured lending, and minor adjustments to household expenditure.

So we would be strongly advocating that interest only, done in a sensible way over a reasonable period could be just as effective a sustainable solution as a mortgage to rent or a split mortgage facility, which frankly is not the right solution for many of these people who have simply had a temporary mismatch of income and expenditure. And we do very much believe that as a consequence of the target regime, particularly given the financial consequences of not hitting the targets, it is going to be likely, given it will take some time for consumer behaviour to return to what we would see as normal, that many of the banks will have to look at legal actions being the means by which they hit the targets, which isn't necessarily right for the banks, it's probably not right for the customers, but it certainly means you'll hit the target.

Our view in terms of personal insolvency, it should be very much a last resort, again, given low balances, low interest rates, longish terms, we think anybody who is cooperating, anybody that is prepared to talk to the bank on a sensible basis, we should be able to find a sustainable solution. It is particularly helped out by the fact that the Irish Banking Federation have sponsored an agreement of something called a debt waterfall agreement whereby all of the banks have agreed to de-prioritise their own unsecured lending if it helps the resolution of the overall debt problem for the customer and maintains the priority of the mortgage loan, which we all agree as an industry, is a critical part of preserving a credit market for the future going forward.

Just to touch on when we say we have done something about it, what does that mean, if I roll the clock back to 2008 we had 12 people working in mortgage arrears in Ulster Bank in the Republic of Ireland, it's now almost 40 times that number and that does not include the support we get from the branch staff and the substantial third party arrangement we have with debt collection agents, external solicitors and also telephony diallers that we are using in the UK.

We also responded to the skill shortage in the Republic of Ireland by making the decision to set up an additional collection centre in Edinburgh which we did last year, we now have over 140 people based in Edinburgh handing the majority of outbound calls to the Republic of Ireland mortgage portfolio, and the performance that we're getting from that team is extremely strong.

Finally then, looking at the wholesale credit risk, the chart at the top right hand corner I think demonstrates that from a residential development point of view those portfolios are heavily provided for, 60% of gross assets covered in the form of impairment. And that will be a slow unwind portfolio, there is no obvious silver bullets to deal with that, but in the case of the tertiary land the provisions are as high as 90% of gross asset, so we feel that is reasonably well covered.

In terms of the investment property it is a mixed story, we're seeing some evidence of returns to satisfactory and loans returning to the performing book which is a significant contributor to the future balance sheet, but we are still seeing those cases where individual case strategy requires a top up of the existing provision, either because the strategy's changed or there is opportunistically the potential to take advantage of liquidity in the market to effect a disposal.

New into default numbers for quarter one 2013 are lower than they were third quarter one 2012, in the case of the core portfolio they're down by about 40%, in the case of the non-core portfolio, down by only 8%, so we can call it stable, we call it mildly improving but certainly not significantly deteriorating, and the chart at the bottom right hand corner is effectively the feeder pipe for future distressed assets, that watchlist has been broadly stable now for a reasonably long period, so our sense is that we're shifting and Richard used the phrase lumpy, we're shifting away from a regular flow of cases coming in to distress and requiring provisions, to more of a balance towards individual cases requiring some kind of top up to reflect a change in strategy. And I think so far this year something in excess of 80% of the provisions on the commercial side have been legacy top up as opposed to new into default.

Legacy top ups do not indicate a broad based change of strategy, we still think that an accelerated deleveraging strategy would be needlessly capital destructive, so we still maintain the view that to get the best value for the shareholder over the medium to long term what we are doing today is the right thing to do.

And one last comment from me on SME, we have about £1.2 billion of assets that have gone beyond the customer being involved stage, we are in active discussions with a number of third parties who can provide us with support in actively managing those portfolios, one of them has done a preliminary due diligence and their findings suggest that at the very least we should be able to draw a firm line under the provision coverage for those cases, but if thing go in a reasonably positive manner we could see some better than planned performance.

Over to you, Jim.

Jim Brown

Thank you Stephen. So just in closing, in summary a few key points that I'd like to highlight, first of all as we mentioned earlier we are seeing signs of stabilisation in the economy and improvements coming through in the banking sector, albeit that while there are green shoots there, there are still some headwinds that we need to be conscious of at Ulster.

We have a clear strategy really focusing around deleveraging the legacy portfolio over time, but whilst we are doing that, building a really good bank for the future. We are making good progress, we have improved margins, we are taking out costs, the arrears have stabilised and we have seen provisions come down as well and importantly the funding position for Ulster is in pretty good shape compared to where it was.

If we look at it from a customer perspective we have seen a rebound in our net promoter scores following the IT incident back to close to where they were pre-incident, which is reassuring, and importantly we are gaining share across most of our product categories across the business.

Having said all that, there are still some opportunities for us, we think that there is a real opportunity for us to converge further with RBS, particularly on platforms, so future investments that the group are making that we can piggyback off, also around processes, products and customer propositions as well, so that's a focus for us. And importantly as we said, we are relatively underpenetrated in terms of products per customer into our base as well, so we see a big opportunity to deepen the relationships with our customers as well.

So, net-net I think while we've still got some way to go we are definitely going in the fight direction. So we're happy to take any questions.

Question and Answer Session

Question 1

JP Crutchley – UBS

Can I just ask a question in two parts if I can? From comments from the RBS' main dominant UK shareholder, they appear less than enamoured with the Irish business and strategy, so I guess the first question is, if for whatever reason, pay grades way above us they decided to disconnect the two have you got sufficient scale and the critical mass to be a standalone bank in your market? And in regard to that, how do you see the market moving forward, because clearly Ireland has gone from having a number of banks to essentially having one private sector bank, yourselves which obviously you've got one main shareholder and another nationalised bank, how do you see that competitive landscape playing out?

Answer: Jim Brown

So in terms of the politics of what is going on with regard to the announcements made over the last couple of weeks, maybe I can hand over to Richard on that to comment but from my perspective we've got a strategy that we're executing and delivering on and to your question on do we believe it will deliver a sustainable bank, yes we do think that will be the case. We have got some legacy issues that we've got to deal with, no doubt about that, and we are dealing with those, but we do think there is a really good proposition there for the business going forward. Do you want to comment on the other bit?

Answer: Richard O'Connor

Yes, the good bank, bad bank has clearly been dealt with at Group level, it's one of the early stages where it cooperates and looks for it very thoroughly over the next couple of months as you'd expect with the government and its advisers. I suppose from the article point of view clearly there's already the non-core part which is all managed by GRG which is a separate unit and even within the core bank the recovery process is also managed by GRG, so that management is separate to the ongoing development of the core bank and the going forward strategy. So certainly I would say that that ongoing core does have scale and critical mass with very good market positions would be our sense of it.

Answer: Stephen Bell

The Republic of Ireland where we are third in terms of market share actually presents the opportunity because the Bank of Ireland and AIB are round about the 75%, 77% market share, we're a sort of the next one up at about 15%. And I think where we see opportunity is in that SME mid corporate sector where there is very much a desire for there to be a third force in Irish banking and that's been said by many different audiences, whether it's the Department of Finance, the government, the central bank, it's not in anybody's real interest long term for there to be two banks one of which is wholly owned by the state. So I think we are seeing opportunity on the SME mid corporate side and there's certainly room for us to go at.

Question 2

David Lock – Deutsche Bank

I just wondered, I mean you have given some very helpful disclosure on the split between Northern Ireland and the Republic of Ireland, I just wondered if you could within the Republic of Ireland, give a bit of colour on the differences you are seeing between Dublin and particularly some of the more stressed rural areas and your exposure to those, because clearly in Donegal one in three houses or something like that is vacant, whereas in Dublin it is far, far better than that. So I just wondered if you could give any colour on that.

Answer: Jim Brown

Yes, so there is definitely a diversity in terms of performance, but if you look at our portfolio, about 40% of our business, particularly on the retail where the mortgage, I presume it's a mortgage issue you're talking about, but 40% of our portfolio is in Dublin and the majority of the rest is around the major urban centres, but there are clearly some rural parts of that portfolio as well. But generally speaking, the majority of the portfolio is performing in line with unemployment, so the economic stress that some of those areas may be experiencing is probably the biggest differentiating factory, clearly overdevelopment and vacancy rate is a factor as well, but in terms of the performance of the loans it is primarily around employment. Stephen, do you want to touch on some of the geographical differences?

Answer: Stephen Bell

Yes, I mean we have started to look more and more at the county level arrears and unemployment statistics, not to look for any particular correlations or statistical relationships, it is more to see whether we can change the resourcing model. So for example where we see we have a particular area of the country which has got a higher than expected level of arrears in it, we are then looking at whether we can beef up our field force to get more people out there to talk directly to customers.

I think the overarching comment here is that we see this as an affordability issue and as long as we can talk to the customer about affordability then there is no reason for another property to become vacant, because somebody has to live somewhere. And if we were to look at a temporary interest only solution for somebody on our average mortgage size they could be paying as little as €300 euros a month to live in a place and there isn't anywhere I've ever seen on any of the websites where you could even rent somewhere for €300 euros a month. So I think our focus is get to the customers early, tailor our approach based on geography and work very hard to address the affordability issues so we can keep people in their homes.

Further question

Just as a follow up, I mean I think the government early this year, or at the end of last year, said that they did a survey of all the ghost estates in Ireland, they said there are about nearly 2,000 of those, do you have any exposures to those that you'd be able to pick out?

Answer: Stephen Bell

Yes, we will have exposure, both in terms of the development side, but as I mentioned on the residential and the commercial development we have taken a very heavy hand with the pen to carrying values. In terms of residential we would typically not be providing lots of mortgages for people to go and live in one house when there are 90 vacant ones around them, but it depends on people's tastes.

<u>Question 3</u>

Manus Costello – Autonomous Research

Following on from JP's question, if someone were to come and offer to take a large chunk of the mortgage book or any of the book away from you, particularly say the 2004 to 2008 vintage of the mortgage book you were talking about, is it physically possible for you to transfer those assets? Would you be able to do that to a third party to a bad bank?

And then secondly if that then brought down the core loan to deposit ratio to, I don't know, you might get down to 70% or 80% in the Republic of Ireland, would that change your attitude to lending or do you think the market is still so skewed by tracker mortgages at your competitors you are never going to be able to grab big market share, even if you got a better loan to deposit ratio, because trackers are out there?

Answer: Jim Brown

So, on the first question, yes it would be technical, because we actually securitise a lot of the mortgages already. So technically I don't see that's a problem, the question would be how you would effect that transfer.

The second question is really around demand. And at the moment demand for mortgages is low, as Stephen was mentioning. There are two aspects of that: one is that there is an incentive for people not to move because they have a tracker, and people don't want to give those trackers up; but secondly a sizeable percentage of the population who took out mortgages between 2004 and 2008 are also in negative equity, so that's a factor as well. But we do see an uptick in terms of number of properties being sold in the market. We are seeing that through the numbers of sales that we have been doing through our GRG portfolio, the number of individual property sales. But it is coming off a very low base. So, I think it's going to take some time for confidence to return; but also the issue around negative equity and the trackers to work through.

Answer: Richard O'Connor

Also I'm not sure your maths works because the LDR and Republic is 152% so it's higher.

Further question

Depends what you take out really.

Answer: Richard O'Connor

Sure, but there's still a funding gap which is quite big.

Answer: Jim Brown

I think the other key thing on the funding is we are making good progress on increasing our deposits right across the board, be it a retail SME or corporate. And that is on both markets, both in Northern Ireland as well as in the Republic. As I mentioned in my introduction we were at 190% in 2009. We're already at 127% three or four years later and don't see any reason why that trend shouldn't continue.

Question 4

Ian Gordon – Investec

Can I have a couple please? Firstly on NIM, can I just check, Richard you talked to the 215bps target; I think you mentioned something about attribute pricing, but would I be right to assume that the main driver will be liability rates normalising or collapsing, whichever way you like to phrase it?

And then also on NIM when you made your quick interbank comparison via exit ELG cost, I assume the main difference is the structural wholesale funding cost of your peers? Is there any other strategic differential I should be aware of?

Answer: Richard Harding

You're absolutely right, deposits is the main driver and in terms of the short-term improvement to NIM. One thing we use as the bell weather for the cost of deposits is the one-year TD in the retail space. A year ago that was 4%; it's now down to 230 for Ulster Bank, so a significant improvement. And a significant portion of our funding base comes from the SME market, which has access to retail and corporate products, so as the pricing for retail comes down that will have a knock-on effect on corporate pricing. So that's the short-term outlook.

In the longer term rising long-term interest rates will also have a positive driver for NIM. Without detailed analysis of peers in Ireland, yes Ulster Bank has been less active in the wholesale markets over the last couple of years I think compared to Irish peers, so that would be a significant contributor.

Further question

Could I have a separate question on the political environment in Northern Ireland and the Republic, firstly in Northern Ireland? The criticism you mainly received from the DUP to me sounds very similar to the criticism you hear across the party spectrum in the UK about an alleged unwillingness to lend. Is there any difference in the rhetoric that I should be aware of?

Answer: Jim Brown

I won't comment on the politics; but the bottom line is that we are actively lending across both markets, and that is also in retail as well as in the SME area. But the reality is that demand is muted across both markets. The only thing I would say specifically about the North is that if you look at the slide that Richard presented in terms of the loan to deposit ratio we have surplus funds to lend; we would like to do more lending. So I think demand does have a significant part to play in it too.

Further question

Sorry, a final one. Just within the Republic of Ireland, and this is from a customer behaviour perspective, you referenced that the proportion of no-pays within the 90+ arrears has fallen from I think it's 60% to 35%. How do you think about the political risks? You have Sinn Fein IRA with over 20% of electoral support now; some of the independent parties seem to have a more aggressive no-pay stance. How do you see that political risk developing in terms of behaviour?

Answer: Jim Brown

My view on it is that at the end of the day the Republic needs the mortgage market to return to some sort of normality. And the point that Stephen was making is that it's important to get customers back into the habit of paying their loan. Part of that issue has been banks have generated their capacity in terms of their handling customer arrears, the number of arrears that are there. But as we have seen, through having the right number of collectors taking the right actions we have seen a significant level of engagement in those that are not paying, we have seen that come down.

We are seeing though that there is a percentage of the portfolio who can pay who won't pay. And we think it's our responsibility to make sure that we do get into the situation where those loans are paying. And we will see an increase in legal activity, foreclosure prices and so on, rent receivers etc, to encourage that behaviour. But at the end of the day we don't want to repossess properties we want people actually to pay their loans.

The key point that Stephen touched on is that it is really an affordability issue. If the average mortgage that's in arrears on a normal payment basis would be €600 to €700 a month, you can't rent anything in Dublin for anywhere near that. So part of our collections process is to actually make customers aware of that. And that is also contributing to the positive impact that we are having on the performance of that book.

Answer: Stephen Bell

I think just to build on that, the clarification that came out of the Personal Insolvency Act, which made it very clear it would be a reasonably punitive regime rather than a get out of jail card, I think there was a lot of squealing when some of the household expenditure limits were announced in the press. We would obviously rather talk to customers, prioritise their mortgage debt and help them get through the short-term problem. But it is helpful when people do not believe they can walk away from their obligations and leave them on the table for somebody else to sort out, because there isn't really an obvious future for the retail credit market in Ireland if people are allowed to walk away from reasonably large chunks of their debt just because they wish it hadn't happened.

<u>Question 5</u>

Frederik Thomasen – Goldman Sachs

I had two questions, if I could. The first was just whether you believe that any investments I guess are necessary in your IT system after last summer? I notice on slide 26 it doesn't look like in your efficiency improvement grid there is anything specifically pencilled in for IT investment.

And then secondly I just want to follow up on Richard's comment in terms of the restructuring group. I just wanted to check, in terms of the entire Irish loan book how much of it is managed separately in the restructuring group? Is it just non-core or are some of the elements in the core are also managed separately?

Answer: Jim Brown

On the first point there is investment being made right now to further strengthen the IT capabilities and improve resilience as a consequence of the IT incident last year. I and a couple of members of my management team are closely involved in that as part of the steering committee. The investment case is being built at the moment in terms of the investment that needs to be put into that. And no doubt when that is done that will be reflected in our costs. You might want to touch on that Richard as well.

Answer: Richard O'Connor

Across the whole group the effect, if you like, to rectify the IT problems would be in the high tens of millions of pounds. So actually it was, with the benefit of hindsight, it should have been done earlier – obvious statement. But actually the cost of fixing that particular issue is not a huge one in Group terms. And clearly part of that cost which relates to Ulster will flow through the Ulster Bank P&L in due course.

Answer: Jim Brown

Separately in terms of the non-core portfolio and how we manage that book relative to the arrears or customers who have difficulty in the rest of the portfolio, we basically have one team which is the GRG team, and they sit across both of those portfolios. So they manage both the non-core as well as the core legacy portfolio. Now, in Stephen's slide, slide 31 there is actually a breakdown of that.

Answer: Stephen Bell

The 4.2, the 1.2 and the 11.3 gross are managed by the Global Restructuring Group. Obviously on a net basis the numbers are substantially lower than that; but on a gross it's 16.7 that is handled by GRG.

Further question

And then retail performance?

Answer: Richard O'Connor

By the collections department within Ulster.

Answer: Stephen Bell

That's correct.

<u>Question 6</u>

John Gately – Bernstein Research

Can you share a sense of the scale of opportunity you see as a bank operating within a group that has a large UK retail and commercial presence, more a commercial presence, and then your position in the Northern Ireland and Republic of Ireland markets and the various trade relations you have between those countries?

Answer: Jim Brown

So if we look at Retail for example, there is historically, whilst we've shared platforms with RBS, we have tended to customise those significantly for both the North and the Republic. Going forward we have already made the decision that we won't customise for the North; we will take the systems modifications as they come. So whatever the UK are doing we will drop those into Northern Ireland. Now the challenge for us is that we have got a legacy portfolio that we have got to manage in terms of customisation; and also we've got things here that we want to do that are good for the development of the go-forward business as well. So we're working out how do we actually bring the two together at the moment. But we have already consciously made the decision that no further customisation in systems for the North.

In the Republic the key for us there is only to customise for currency and for regulation. Again, we believe that by simplifying the products and aligning ourselves with Group we will be able to bring a lot better technology to the market a lot more quickly, both in the North and in the Republic as well.

So there's an IT convergence piece across both markets; there's also an opportunity on the product side, particularly in the North end products, processes, pricing and so on to more greatly leverage the UK as well.

To talk specifically in the corporate bank with SMEs and so on, because RBS is stronger on transaction banking, we have a global network, to me we are an obvious bank of choice for exporters for example, for businesses that operate in both the North as well as in the Republic, and those that also interact with the UK as well. But also we have got the global network with US and Asia that does give us some advantage although clearly most of the trade is between the UK for the Republic as well as Europe as well. So there's the network. But then there's also the technology capability so cash, trade, FX, leveraging a lot of the products and platforms that the Group have got in that area as well. So there are quite a few.

<u>Question 7</u>

Rohith Chandra-Rajan – Barclays

Can I just ask on your RoE expectations? So, 5% to 10% medium term and then go up to 12% long term. Is it fair to assume, given what you said about the core business returning to profitability late 2014, that the medium-term target is at 15/16%?

Answer: Jim Brown

That is a reasonable assumption.

Further question

And then you talked about your forecasting horizon being up to 16% to 17%, greater than 12% beyond your forecast horizon?

Answer: Jim Brown

I would like to say we will be at 12% on the upper end of that range.

Further question

And then just the drivers to get there – you've obviously given us the cost saving breakdown, and I guess to get then to the cost income ratio, so if there was no underlying cost growth and you just take the 50 million of costs out, you would still need something like 10% to 12% revenue growth to get the cost to income target.

Answer: Jim Brown

That's right.

Further question

Can you just break down where that comes from in terms of the NIM expansion, what you're expecting from volume growth and fees?

Answer: Jim Brown

Okay so on that if you look again at the drivers that we are looking at, we're looking for our NIM to growth from the 180s to 215 over the time horizon that we're planning. So we will get some uplift in revenue as a consequence of that. Plus an increase from fee income. So if we look at our businesses, the share of our income coming from fees relative to the rest of income, compare that to other markets in RBS for example in the UK, there's an opportunity for us to uplift fee income as well.

But the underlying portfolio in terms of assets we expect to remain flat. There are two reasons for that: one is that we have amortisation of the existing loan portfolio that will happen over time; but we will be replacing that with new business, and obviously business margins will re-price to a higher level as well. So a flat balance shift with most of the uplift in revenue coming from increased spreads, but also fee income as well.

Further question

Very roughly going through the numbers of that it looks like a kind of 50/50 split, so half for margin expansion and half from fee income.

Answer: Jim Brown

That is a reasonable expectation, yes.

Answer: Richard O'Connor

But also costs slightly more than 50 million.

Further question

Because there is some underlying growth?

Answer: Richard O'Connor

No, cost savings are above 50 million.

Further question

And the assumption is no underlying growth in that cost base?

Answer: Jim Brown

That is correct.

Answer: Richard Harding

Except a little inflation starts to kick in in some of the exit programmes. So as Richard said, we will have to hit the top end of that range to get to a 50% cost income ratio in terms of the savings that we have on that slide.

Answer: Jim Brown

That will be driven, as you say, more or less 50/50 by revenue as well as on expense.

Thanks very much.