



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

Thursday, November 24th, 2016

Opening Statement by Allied Irish Banks, p.l.c. Chief Executive Officer Bernard Byrne

Good morning Chairman and Members of the Committee. We are very pleased to have this opportunity to give the Oireachtas and the Irish public as comprehensive a picture as possible of AIB's progress - from recovery to the current position of sustainable profitability, to what I believe can be a period of continuing growth for the bank and the country. The crucial task for all of us is to ensure that Ireland is clearly seen as an attractive location for business to invest capital and resources. This challenge has grown considerably in recent times.

This is my first opportunity since I became the bank's Chief Executive in May 2015 to meet with the Committee and I look forward to hearing your views on how we move forward together as an economy, facing up to these challenges and availing of many opportunities.

You have received our written responses to your Questionnaire, and we will return to these later, but I would also like to give you an overview of how I see AIB contributing positively to the growth of the Irish economy and assure you that the bank now has a sustainable business model and is in a position to continue to facilitate the return of capital to the State when the government decides.

Firstly, let me introduce the members of my management team with me today:

- Mark Bourke – Chief Financial Officer
- Robert Mulhall – Managing Director of Retail, Corporate and Business Banking
- Jim O'Keeffe – Head of Financial Solutions Group

AIB is a critical part of Ireland's economic infrastructure. The banking system and the supporting infrastructure were rescued from collapse, at great expense to the taxpayer, because of the crucial economic role that banks have. The financial crisis and the role that banks played in its creation led, understandably, to a reputational battering of the banking sector. This will take much time to heal and will never be forgotten. Fortunately the reality



now is that the banking sector in Ireland is in far better shape and is delivering, on a daily basis, the economic support that it is designed to deliver.

Overall, while GDP growth is expected to lessen slightly next year, the Irish economy is forecast to continue to perform well over the next three years, prompting demand for new loans and banking products and reducing pressure on problem loans. AIB's role now is to be a strong net contributor to Ireland's prosperity, to demonstrate why it was an organisation that was well worth saving. We can do this by providing reliable financial support for every aspect of our economy, including business, farming, families, individuals and communities.

As evidence of its progress, the bank is recording a strong underlying profit, has made substantial repayments to the State and is ready for sale at a time of the Government's choosing. In summary, after a period of enormous transformation, AIB's financial performance has improved with:

- Sustainable underlying profit of c. €1bn (excluding write backs and one off benefits).
- Reduction in cost base of €450m over three years to 2015
- An €18bn reduction in impaired loan balances to €11bn at June 2016 from €29bn in 2013
- New lending approvals of €14bn in 2015 and €6.1bn in H1 2016
- A total of 37,000 forbearance solutions provided to mortgage customers in difficulty
- Owner-occupier arrears > 90 days past due at 5.8%, significantly below the industry average of 8%
- Significant capital generation and strong capital ratios
- Repayments of capital in the last 12 months of €3.5bn to the State bringing total payments to €6.5bn including fees, coupons, dividends and levies.

AIB received €20.8bn investment from the State and our objective is to facilitate the repayment of this amount in full. The timing, nature and structure of a return to the public markets is a matter for the Minister. From my perspective, the aspect within my control is the management and performance of the bank and ensuring that international investors have a clear understanding of our strategy, progress and future trajectory.



You will have recently seen that the Department of Finance has begun the process of appointing investment banks as 'Global Coordinators' as part of a banking syndicate to assist in a potential future Initial Public Offering (IPO) of AIB. The selected investment banks will assist the State with the initial stages of preparations for an IPO and the Department has confirmed that the Global Coordinators selected will be appointed for an 18 month period, with an option to extend.

If proof were needed of the importance of a strong banking sector, it has rarely been more starkly illustrated than in very recent times. Economic uncertainty has been introduced in unprecedented measure by the Brexit vote and by possible policy changes under a new US Presidency. I strongly caveat my remarks by stressing how premature it is at this stage to accurately foretell what lies ahead in either the EU or US scenarios.

However, as a small open economy particularly influenced by developments such as we have just seen with two of our most significant trading partners, we must give serious thought to the risks and benefits that might yet result for the country.

In the short-term, a weakening Sterling is affecting some of our indigenous exporters and we are working hand in glove with our impacted customers to address these effects and to plan with them for alternative and diversified markets.

I believe that in the longer-term, Ireland can present itself as a bridge between two major economic regions on either side of the Atlantic. We must be the most attractive location to invest capital and resources in. This must be true for local entrepreneurs, domestically headquartered businesses and the multinational sector. This goes well beyond headline tax rates. If we have a truly supportive and agile approach to attracting all investment we can maintain the healthy job creation that has been a feature of the past number of years. There is no reason why we cannot benefit from additional foreign direct investment inflows and possibly the relocation of financial firms from the UK. But, in order to attract business, we must have the required supporting infrastructures such as commercial office space, housing and transport – and efficient access to finance.



As a well-capitalised bank with excess liquidity, AIB is strongly placed to help drive and support that strategy.

During the summer, the publication of the ECB Stress Tests attracted negative media attention. The market reaction was more muted. The methodology used is particularly penal to banks, such as the Irish banks, with their relatively high level of NPLs and a recent history of losses from distressed loans. The tests were a snapshot in time and do not fully reflect the current state of the bank and the pace of our recovery. Crucially there are no required capital actions. Earlier this month Moody's outlook on Ireland's banking system was positive in spite of the Brexit vote, saying the uncertainty introduced by the result was manageable and that Irish banks had materially strengthened their solvency ratios owing to a mix of factors including strong internal capital generation and simplification of their capital structures.

After the initial phases of the financial crisis, the level of non-performing loans (NPLs) still on AIBs balance sheet was almost €30bn at the end of 2013. AIB has in the intervening years engaged with customers in difficulty to implement a wide range of forbearance and restructuring solutions. This work meant that by the end of June 2016 these NPLs were 61% lower at €11bn. Despite this progress and the fact we hold almost half of this in bad debt provisions, we recognise it is still a high number when compared to other peer European banks. Elevated NPLs attract both regulatory and market attention and the ECB in particular is very keen to oversee the lowering of NPLs across the entire European financial system. Their stress tests will continue to focus very heavily on this aspect as will other regulatory actions. Therefore, we must continue to address the challenge of non-performing loans as a matter of the utmost strategic importance. We will continue to seek and implement sustainable solutions for those customers who engage with us whilst also recognising that after years of consistently working to restructure the number of loans in long-term arrears, we must keep all options open that reduce the overall level of NPLs.



We are essentially a core Irish bank. With 2.2 million AIB customers and 360,000 EBS customers, the AIB Group is rooted in the country's economic life and communities. A total of 60,000 customers use our 205 AIB branches nationwide every day. A further 7,000 customers visit our 71 EBS locations daily.

Our partnership with An Post, with its 1,100 offices across the country, provides banking services to 15,000 customers each day, with approximately 4 million transactions expected to be recorded by the end of this year alone. These combined banking services amount to a deeply embedded and widespread network across the country. Our network bank staff are drawn from within the community, bringing with them unique local knowledge and understanding of our customers and their needs.

Close engagement between AIB and our customer base is important to the success of our business and underpins our performance. We have recently reorganised our banking model in order to work more closely and connect better with our customers -- retail, business and corporate. Nineteen new "Local Markets" are now in place and headed by an individual senior manager responsible for AIB's overall engagement with customers in that region.

The bank is organising around customers at a local level, eliminating duplication and unnecessary complexities in the system. The new structure aims to provide customers with a convenient one-stop-shop flexible form of service, allowing more local management autonomy when it comes to decision-making, including lending. It is designed to be more tailored to individual customer needs, allowing far greater agility of service and enabling us to move working capital faster and more efficiently.

When I joined AIB in 2010, I could not have predicted the immense changes in customer behaviour that would occur in a relatively short space of time. The systematic move by customers to digital and technological banking means that AIB is more than half way through an €870 million investment programme focusing on improving the customer experience, digital innovation and information technology resilience.

AIB is leading the expansion of digitalisation of services. For example, 76% of all AIB's personal loan applications are now done through digital channels and 95% of customer transactions are automated. This activity is by no means conducted just by a younger generation of customers.



The use of digital channels by older age groups is growing consistently, regardless of geographical location. In line with European norms, banking online and through remote channels has been embraced across the country; almost 50% of customers in rural counties are now using digital banking of one kind or another. More than 40% of the 500,000 banking transactions conducted daily are outside of normal banking hours, and are transacted online or on mobile.

There is a balance to be maintained between providing our customers with personal, one-to-one service and an accessible and robust digital or mobile service. AIB opened three new bank branches last year – in Little Island, Cork, and in Carrickmines and Grand Canal Dock in Dublin. Earlier in 2016 we opened the only in-store banking outlet in the Republic of Ireland market through SuperValu in Lucan. It is an illustration of the increasing number of flexible banking options available to our customers, to be used when and where they choose.

AIB is also increasing its mobile salesforce where trained staff travel to meet customers where and when it suits their needs. In addition to the core retail opening hours, by the end of this year the bank will be operating 20 bank lobbies across the country providing a wide range of services, 7 days a week from 8am to 9pm.

In addition, students now have exclusive on-campus banking services at 13 universities and colleges from Waterford to Sligo, from Dublin to Galway. Where there is a lack of physical bank branches, AIB operates Community Banks – in rural areas of Cork, Kerry, Clare, Limerick, Tipperary, Mayo, Galway and Donegal. We recorded 40,000 over-the-counter transactions at these banks since the start of 2016.

Supporting our customers with speedy and efficient credit decisions remains central to our aims. Overall, the bank is approving approximately €14 billion a year in new lending, to SME, corporate, mortgage and personal customers. The bank is now clearly performing its fundamental role of facilitating our retail and business customers in protecting as well as creating jobs. On the SME and corporate side, the bank sanctioned €4.8 billion in lending last year to existing and new businesses and current momentum is positive.



The bank has 250,000 SME customers and can now provide a decision within 48 hours on a credit application of up to €30,000; since this initiative's launch in September 2014, 28,000 applications have been approved.

The performance of loans in what was a very challenged SME sector has improved significantly, a welcome metric as it directly involves saving jobs and creating employment. Meanwhile, we have been building out bank "sectoral teams", developing specialists to specifically work with key areas of the economy. These teams have gained keen insight into the needs of farmers, retailers, the hospitality, transport, technology, exporting, energy and health sectors. This approach of building sectoral capability has been very effective. It has given the bank a high level of understanding of the specific requirements of businesses and allowed us to shape products and funds suitable to their needs.

For example, our Agri-team now includes 12 specialist advisors with front-line experience of farmers' needs and opportunities and who can respond rapidly and pragmatically to issues such as flooding, price volatility and poor crop yields.

Farming is a major aspect of our business and, following the full drawdown of the first €500 million Agri Loan Fund, at the end of last year we launched a second €500 million Agri Loan Fund to support the sector.

Recently, AIB has been engaging with the Department of Agriculture, Food & the Marine and the Strategic Banking Corporation of Ireland (SBCI) in relation to the Low-Cost AgriCash Flow Support Loan Fund announced in the Budget.

AIB's successful partnership with the SBCI in helping the expansion of small businesses and farming is reflected in the figures to date.

Since the launch of AIB's €400m SBCI Loan fund in 2015 (available at 4.5%, a discount of 2% off our Standard Variable Business Rate) AIB has approved more than €5 million of credit each week to businesses and farmers. Last year the average loan drawdown under this fund was €28,500, but loans ranged in size from €1,000 to €1 million.



AIB is the largest provider of mortgages in the Irish market – we have a 34% share of market by drawdowns – we approved €2 billion to customers last year alone. Conscious of the need to treat customers fairly, as soon as the bank’s underlying performance allowed and in particular our cost of funding, AIB moved to cut its Standard Variable Rate.

You are aware that we implemented four mortgage rate cuts totalling 1% to new and existing customers in the past 24 months. Our SVR rate is now a market-leading 3.4% and LTV variable rates start as low as 3.1%.

It means savings of approximately €1,300 a year on the average mortgage. We also introduced a €2,000 contribution to switching costs.

Case by case restructuring of problem mortgages continues to absorb a high degree of bank resources but, as the figures show, we are making good headway. We have produced a comprehensive range of sustainable solutions including split mortgages, low fixed-rate options, term extensions, arrears capitalisation, reduced repayment and voluntary sale for loss. All of these measures are underpinned by the bank’s determination to keep people in their homes where possible, when customers engage with us and prioritise mortgage debt. Repossession is always a last resort and, in spite of popular misapprehensions, less than 200 repossessions of owner-occupier homes took place last year as a result of enforced security. Our engagement with third party channels such as the Irish Mortgage Holders Organisation and Stepchange has also led to the resolution of thousands of what appeared to be intractable cases.

As everyone is acutely aware, we are of course operating at present in a very constrained housing market. The societal and economic impact of the lack of housing supply makes an early solution to the crisis imperative. AIB recognises the critical role it plays in the housing supply chain and is actively engaged with the Department of Housing, Planning and Local Government, as well as other relevant agencies to ensure we play our role in the establishment of a normalised housing market. The bank is also providing a pipeline of hundreds of empty houses to the Housing Agency to provide homes for families.



In summary, on behalf of AIB, I want to again express thanks to you for inviting us here today. From our perspective, these engagements with the Oireachtas are a valuable means of explaining our position to you and the broader public. It allows space for debate and provides us also with a clear view of your opinions and expectations. Once again, with the bank now profitable, our priorities are to maintain the focus on delivering a strong and sustainable financial performance, ready for IPO when our shareholder decides; continue to reduce impaired loans; strongly support Ireland's economic growth and jobs; keep our customers' needs at the heart of all our policies.

The Irish banking sector is an integral part of the Irish economic infrastructure. In addition to supporting our indigenous industries, we are playing our role to establish Ireland as the European location of choice for international investment.

I assure you that my team and I will continue to build on the advances already secured by AIB and to support our customers in the challenges ahead. It is through the delivery of professional, efficient, reliable and experienced service that we intend to match our strong financial performance with a full redemption of customer trust in the bank.

We welcome your questions.