



Chairman and members of the Committee on Finance, Public Expenditure and Reform, and Taoiseach, thank you for inviting AIB here today to discuss how AIB is dealing with Non-Performing Loans. We will answer as many of your questions as possible. However, as we have outlined in our responses to your questionnaire, we have not disclosed any information to the market with regard to potential portfolio sales and are constrained in doing so here today.

Alongside me today are colleagues from AIB’s executive team:

Mark Bourke

Tom Kinsella

Hilary Gormley

Let me begin by emphasising that AIB has been and remains acutely aware of the very difficult circumstances frequently associated with distressed debt and the need for a sensitive approach towards customers when coping with financial difficulty. Responding to the clear debt crisis facing our customers, the bank and the economy we put in place AIB’s Financial Solutions Group in 2012. Today we continue to have a team of over 1,500 people countrywide in place, guided by the key objective of keeping viable businesses operating, supporting jobs and enabling customers to stay in the family home.

We put in place the most extensive range of solutions for customers in the Irish market place and decided at that early stage to commence writing off debt as part of these solutions. Early on we recognised the need to partner with external organisations to support customers in restructuring loans and enabling them to move on with their personal and business lives.

This approach has resulted in:

- Impaired loans reduced from c€28.9billion to €6.3billion at the end of 2017
- 57% reduction on Mortgage arrears since 2014
- 93% of our mortgage customers meeting the terms of the solutions
- 95% of our wider base of customers adhering to the terms of their restructures
- AIB’s solutions are appropriately matched to affordability

Notwithstanding this progress, supporting customers in difficulty remains a key priority for AIB, and whilst we do see loan sales as part of our overall plan, our key priority remains to restructure customers on a case by case basis. We feel it would be important to look at three key areas to give further insight and context as follows:

- Recognising the need for a sustainable banking sector and our commitments to achieving EU norms for NPL levels
- The scale of restructuring completed at AIB and how this can provide confidence for our customers that through meaningful engagement sustainable solutions can be found
- How we achieve our plans whilst continuing to support customers in financial difficulty in reaching solutions with the Bank

Our commitments to achieving EU norms for NPL levels:

In addition to the importance of the consumer protection imperative when dealing with distressed customers, the bank must also have regard to the ECB priority of reducing its stock of NPLs to the EU norm of c5% (€3bn-€4bn in AIB’s case) by the end of 2019 – a fact not exclusive to Irish financial institutions but required of lenders across the Euro zone.

Regulatory guidance and targets in technical terms address all non-performing exposures (NPE) which follow the European Banking Authority definition, a broader concept than impaired loans. This defines non-performing loans based on days past due (i.e. greater than 90 days) or where a loan is unlikely to be repaid without full realisation of collateral, regardless of days past due. Hence AIB's NPE of €10.2bn includes the €6.3bn of impaired loans. The ECB uses the two terms interchangeably.

The key issue is that NPLs carry a very high risk weighting and as a result require the Banks to hold many times more capital for an NPL loan than a performing loan. This capital requirement on an ongoing basis could limit the flow of new lending into the economy, impact the pricing of that credit resulting in much tighter lending restrictions into the future.

As part of the requirement to achieve this normalised level of NPLs AIB has set out its plans in response to the ECB NPL Guidance Framework which required that a defined plan be put in place and implemented in an ambitious timeframe.

The scale of restructuring completed to-date:

With the need for customer-engagement at the core of our approach, solutions were devised and implemented mainly on a case-by-case restructuring basis for personal and business customers in difficulty, and overseen by a robust consumer-protection framework.

In addition, AIB has also engaged with a number of external agencies in an overall approach to help address the problem, including the Irish Mortgage Holders Organisation, MABS, StepChange, iCare, and we are also working with organisations like the Irish Farming Association. Through these advocates, thousands of customers, who were heretofore reluctant to engage with the bank, ultimately achieved a satisfactory resolution of their financial difficulties.

Mortgage Debt: The Bank has a four-step process to deal with distressed mortgages, known as the Mortgage Arrears Resolution Process; this allows bespoke sustainable solutions for each customer in difficulty. The process has been extremely effective, resulting in 93% of sustainable mortgage resolution agreements continuing to meet their terms. It is based on open two-way communication between bank and customer, with the expectation of full disclosure of financial information, assessment to determine the customers' affordability and resolution to implement the most suitable sustainable solution. For its part, the bank is prepared to write-down debt where there is reduced affordability on the customer's part.

Business Debt: The bank's resolution strategy for dealing with business debt begins with an individual assessment of the levels of sustainable and unsustainable debt involved. Solutions allow the customer to enter into a performance based arrangement, typically over a five year period, characterised by the disposal of non-core assets, contribution of unencumbered assets and contribution toward residual debt from available cash flow.

When considering the level of restructuring undertaken to date we must also be very fair to the customers who have come forward and restructured. We have clear examples where customers have restructured and taken on the revised debt and are making the affordable payments while other customers or businesses have not engaged and continue to pay very little or, in some cases, nothing. This inconsistency is clearly unfair in view of the sacrifices made by the thousands of customers who have already restructured.

Our approach to reaching normalised NPL levels and continuing to support customers:

As defined by the ECB our NPEs/NPLs at the end of 2017 were at 10.2bn, representing 16% of AIBs balance sheet and compares to EU norms of c5%. This NPE figure is broadly split into 2 categories: customers that we have resolved subject to a probationary period or completion of property sales before the loans exit from NPE; customers yet to be resolved.

Fortunately, due to the scale and type of restructuring undertaken by AIB we expect that over €3bn will exit NPE status as customers complete this probationary period or conclude property sales. We have a dedicated team working with customers who have restructured to support them in adhering to the terms of their agreements. The adherence rate

is currently running at over 95% and is one of the primary reasons why AIB does not see any necessity to sell treated or restructured customer loans.

For the customers still to be restructured we continue to have a team working on a case by case basis to help resolve their financial difficulties. We continue to encourage customers to engage with us as this is by far the most expeditious and preferred approach to resolving these difficulties.

As part of our requirement to meet EU norms of c5% by end of 2019 we do see a role for loan sales. Our approach has been to focus on the investment loan elements of our portfolio in the first instance, creating time and space for business and family home customers to work with us. With regard to family homes a key development has been the launch of the Enhanced Mortgage To Rent with our partners iCare. This was the result of a significant project over more than 12 months to put in place a potential alternative to a large scale PDH Portfolio Sale with the advancement of this solution we were able to announce at our Financial Results for 2017, a few weeks ago, that our plans to achieve normalised NPL levels does not include the sale of PDH Portfolios.

As previously noted loan sales can be one of a number of strategies used to reduce NPLs. We note the Governor of the Central Bank's recent statements that the Consumer Protection (Regulation of Credit Servicing Firms) Act ensures that relevant borrowers whose loans are sold are afforded the regulatory protections they had prior to the sale. These include protections provided by the Consumer Protection Code, the Code of Conduct on Mortgage Arrears and the SME regulations.

Conclusion :

So in conclusion I reiterate to the Committee AIB's absolute commitment to resolving these challenges. Our continued focus is to work with customers on a case by case basis and find resolutions suitable to their circumstances.

Based on our proven track record to date, we can give confidence to customers to come forward and work with us in a meaningful way to resolve their difficulties.