

**Houses of the Oireachtas**

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

**10<sup>th</sup> July 2018**

**Opening Comments  
Chief Executive Officer for KBC Bank Ireland**

**Pre-circulated to the Central Bank of Ireland**

I thank the Chairman and the members of the Committee for the invitation and opportunity to represent KBC Bank Ireland (“KBC” or “the Bank”) here today and I would like to introduce our delegation. I am accompanied by two members of the Bank’s senior management team: Ms. Dara Deering, Executive Director Retail Banking, and Mr. Brendan Mahon, Director of Recovery.

The Committee will have received our written responses to the questionnaire. With the agreement of the Committee, I will now proceed to read my opening statement, following which we will respond to any specific questions you would like to ask.

In my statement, I would like to focus on the following:

- An update on the Bank’s progress under the Tracker Mortgage Examination;
- The Bank’s recent performance and customer offering; and
- How the Bank is dealing with Non-Performing Loans.

### **Tracker Mortgage Examination**

In our appearance before this Committee on February 6th of this year we provided you with an extensive overview of our position in relation to the Tracker Mortgage Examination. I would like to update the committee today on our position at the end of June, the analytical detail of which has been included in our completed questionnaire.

The Tracker Mortgage Examination and the payment of redress and compensation to customer accounts previously identified as impacted have continued to receive the highest attention at KBC over the past number of months.

The total number of mortgage accounts identified as impacted at KBC is 2,754 relating to 2,335 customers. Since we last appeared before the Committee, detailed testing and review

of individual files has continued, which has led to the numbers presented today. Final quality checks and further sampling to validate our methodology will continue to take place. However, we expect that any changes to the numbers will be minimal at this stage.

The Bank has contacted all affected customers and mortgage rates have been rectified on all impacted tracker mortgage accounts. This rate rectification process concluded at the end of February and all impacted customers are now on the correct rate.

We can also now confirm that full redress and compensation payments to all impacted customers have been processed, with c. 2% pending as we continue to trace such customers. This is in accordance with our prior commitment to complete this process by the end of June.

We wish to reiterate the Bank's offer of apology to all impacted customers for the harm and distress caused by the Bank's errors or failure. Mistakes were made and we are sorry for the damage caused.

In line with the Tracker Mortgage Examination framework, the Bank has established an independent appeals panel for customers who are not satisfied with the level of redress and compensation offered and paid by the Bank. To date the total number of appeals made through the appeals mechanism is 65. Three appeals have been concluded upon, two cases whereby the Bank's decision was upheld and one case whereby the appeal was upheld in favour of the customer. Therefore, 62 appeals have yet to be concluded through this process.

In 2016 and 2017, the Bank made a financial provision of €120.3 million to account for redress and compensation payable to impacted accounts identified since the start of this examination. The Bank has strengthened processes and procedures that are supported by a stronger and more robust regulatory environment. The Bank's parent, KBC Group, has taken this review very seriously and has closely followed the process of resolution. The Bank is engaging within the industry through the BPFi and playing an active role in the establishment of the new independent body on banking culture and standards. This

initiative, along with the recent review by the Central Bank on culture and behaviour, will support the work that needs to be completed across the sector to achieve a strong customer-focused culture and to rebuild consumer trust in the banks.

In addition to the process involving impacted customers, KBC is progressing an extensive effort towards responding to questions asked by the Central Bank under an Administrative Sanctions Procedure related to the Tracker Mortgage Examination. Given its status we are however not yet in a position to comment further on this process.

### **Recent performance of KBC Bank Ireland – 12 months as a core entity of KBC Group**

It is nearly a year and a half since KBC Group confirmed its commitment to Ireland with an intention to provide choice and competition for Irish consumers. The Bank has had a strong start to 2018, with almost 20,000 new customer accounts opened in the first three months of the year and new mortgage production significantly ahead of last year's level. This achievement builds further on the sustainable growth in market relevance achieved throughout 2017 as a newly appointed core entity of KBC Group.

We are seeing growth in all areas of our Irish business with customers increasingly banking with KBC for multiple products at a time, especially Current Accounts and Mortgages, or Current Accounts and Deposits. The Bank has launched a number of digital, customer-facing innovations to the market and consumers are responding positively to this approach as we see digital banking activity rise year on year. Underpinning the pace of development in digital at KBC, is the Bank's deepening collaboration with fintechs and consumer tech brands led by its Innovation Hub in Dublin and supported by KBC Group's €1.5 billion investment budget earmarked to transform the Group's digital capabilities European-wide.

Importantly, in the past month, KBC has also launched its new banking proposition for micro-SMEs. In a spirit of co-designing its proposition with customers, KBC has worked with micro-SMEs such as dental, GP, architect and accountancy practices to understand their business banking needs and to build the platform and products that will facilitate their operation and growth.

As the Bank's stated ambition is to grow its customer numbers in Ireland from c. 273,000 currently to 425,000 by 2020, KBC continues to compete across a full retail product offering, which includes Current Accounts, Mortgages, Personal Loans, Insurance, Savings and Investments and ultimately a corresponding offering for micro-SMEs.

New mortgage lending by the Bank in Q1 2018 was €198.3m, up 61% from 2017, as first-time buyers, movers and switchers responded to the Bank's 'no gimmicks' approach to mortgage pricing, featuring rates that lead to lower monthly repayments and better long-term value. Further changes to KBC's mortgage rates have cemented its competitive position as this year KBC reduced mortgage rates on variable, 2-, 3- and 5-year fixed rates by between 5bps and 20bps. This offers new and existing customers some of the most competitive rates in the market. More than 81% of all KBC customers drawing down a mortgage in Q1 2018 opted for certainty in repayments through a fixed rate, which is an increase of 29% on this time last year.

We have also seen further activity growth in savings and investments over the last period, as the market exit of other deposit-taking banks has created opportunities for KBC. We have competed for this business and by doing so provided further choice for consumers in terms of saving and investment options in the Irish market.

The pace of change in technology and consumer expectations implies that KBC sees the need to continuously innovate, to ensure that the Bank remains ahead of its competition within the Irish market and is attractive to switchers. Listening to consumers on an ongoing basis and meeting their evolving needs will help KBC to create greater value, better service, more choice and ultimately competition. As part of KBC Group, we remain committed to growing sustainably here in Ireland to meet our ambitions for this market, providing consumers with a real alternative in banking.

## **Resolution of Non-Performing Loans (NPLs)**

We understand the desire of regulators at both an Irish and European level for lenders to deal effectively and expediently with non-performing loans, for the protection and stability of the banking system and the support of economic activity. KBC's engagement with the Joint Supervisory Team at the ECB and CBI in relation to NPLs has been constructive with ongoing interaction in relation to strategy, performance and evolution of loan books.

NPL levels have reduced by almost half, from €8bn in December 2014 to €4.5bn at the end Q1 2018. However, despite this progress, as the Bank did not transfer loans to NAMA and to date has not undertaken any sales of Corporate & SME loans, Owner-occupied or Buy-to-let mortgages to third parties, its NPL levels remain high by comparison to other financial institutions. As such 37% of the Bank's mortgage portfolio is classified as non-performing and this would need to reduce substantially over the coming years.

To date the Bank has successfully focussed on working with its Corporate and Retail customers on a case-by-case basis to resolve distressed loans and arrears, and ultimately reduce NPLs. However, we will continue to assess all options available to the Bank to materially reduce NPL levels.

## **Assistance for customers experiencing financial difficulties**

We have strong empathy for the many customers that have experienced difficulties to make their mortgage payments over the last number of years. Progress has been made in the resolution of such cases and the number of mortgages in arrears at KBC is down 58% since its peak in December 2013, with 9 out of 10 customers in difficulty having been offered a proposal from a range of resolutions.

It has been our experience that customers who engaged with the Bank fully have achieved better outcomes and we actively encourage any customer in financial distress who has not already engaged with us to contact our arrears support unit. KBC has worked consistently with customers in financial difficulty to avoid the need for a loss of ownership and the Bank has implemented a range of forbearance and restructuring options with customers who are

experiencing difficulty, which has led to a reduction in the number of customers in difficulty or awaiting a resolution. However, for genuinely unsustainable cases, such loss of ownership may be unavoidable.

There have been repossessions this year as a result of a legal process. Repossessing a home or property is always the very last resort, as KBC works consistently to minimise the need for a repossession. We will continue to work with customers in difficulty now and into the future.

In conclusion, I would like to reiterate that our ambition at KBC is to be the alternative, challenger bank for Irish consumers. We want to be a source of competition in the Irish marketplace and we have the access to support and innovations from within the KBC Group to delivery on this ambition.

Ms. Deering, Mr. Mahon and I will now respond to any questions you may have.

Thank you for your attention.

Wim Verbraeken

Chief Executive