

## **AIB Opening Statement: Committee on Finance, Public Expenditure and Reform, and Taoiseach Response**

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Good Afternoon Chairman and members of the Joint Committee on Finance, Public Expenditure and Reform, and Taoiseach and thank you for inviting AIB to this meeting today.

I am joined by my colleagues:

- Paula Duffy; Head of Financial Solutions Group
- Rachel Naughton, Head of Portfolio Management and;
- Tom Kinsella, Head of Homes

Today we will discuss the matter of AIB's policy with regards to resolution of customer debt and the bank's processes for determining the nature of its resolution outcomes, including debt write-down in certain instances. We will also address your question about the number of cases outside of bankruptcy and insolvency arrangements, where the write off exceeded 90% of the loan.

We welcome this opportunity but must emphasise that the bank is not permitted under law with respect to customer confidentiality to reveal or discuss details of any particular account or customer transaction.

Notwithstanding this constraint, we believe we can provide sufficient information and general detail to give the Committee and the wider public the level of assurance required with respect to the bank's robust, fair, and consistent approach to supporting customers in difficulty.

### **Forbearance Solutions**

We would like firstly to highlight the fact that when AIB enters a lending relationship with a customer, it hopes never to have to manage a situation where that customer is challenged to meet the agreed repayment terms of their loan.

In the event this does happen, AIB has a dedicated, experienced, and well-resourced unit within the bank which supports customers in difficulty and the resolution of non-performing exposures (NPEs) in line with regulatory guidelines and expectations.

AIB established the Financial Solutions Group (FSG) to deal with the fallout of the global financial crisis and the financial difficulty this created for some borrowers including the sharp discounting in assets values.

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FSG has developed over the intervening years against the backdrop of a slowly recovering macro-economic environment and an evolving regulatory framework.

Since inception, more than ten years ago, FSG has been a well-resourced support unit with 1,500 people at its peak.

The comprehensive list of initiatives and supports offered by AIB for customers in difficulty include:

- A comprehensive programme following the issuance of the Keane report (MARS) which served as the foundation for all solutions and procedures for mortgage customers in difficulty
- Expansion of the range of solutions to include Positive Equity Sustainable Solution (PESS) and Low Fixed Rate Solution (LFR)
- Enhanced Mortgage to Rent solutions
- A dedicated programme to ensure customers with Private Dwelling Home (PDH) loans were afforded every opportunity to engage with the bank and that such loans were the last to be included in any sale of non-performing exposures (NPEs)
- Ongoing engagement with the Housing Agency to review and consider for purchase vacant properties, with circa 400 properties already sold via this relationship
- An approach to loan sales that enabled impacted SMEs to operate to the maximum of their overdraft limits to ensure minimal impact on cash flow
- The opportunity for customers to engage right up to the signing stage on loan sales
- The ability for FSG to adapt and provide support to our customers during COVID and the implementation of close to circa 90,000 loan payment breaks during that period

Throughout this programme, AIB has worked closely with and partnered with agencies such as the Irish Mortgages Holders Organisation, iCare, MABS and the Housing Agency, and the bank engages fully with resolution mechanisms that arose from legislative action in this area such as Personal Insolvency Arrangements.

## **Control Framework**

Given the scale of these undertakings and the period of time over which they have been put into practice, it is important that we reassure the Committee about the framework of controls that has been put in place to ensure our actions are consistent, fair, and robust. This framework includes:

- Board approval of our strategy for supporting customers in difficulty, subject to annual review
- All decisions being subject to review and challenge by our second line Credit Risk Function and subject to specific themed reviews by Group Internal Audit, a third level of assurance
- External regulatory case reviews from a prudential and consumer perspective, including a number of on-site reviews by the Joint Supervisory Teams (JST), and annual case reviews by the external auditor

- An extensive Strategy and Operational non-performing-exposure plan as required annually by the ECB.

This framework of controls and range of policies and solutions have enabled us to balance our prudential requirements to reduce our non-performing loan exposures whilst at the same time treating customers fairly and consistently.

This governance structure and solutions-based approach has enabled FSG to support circa 150,000 customers in returning to a sustainable financial position and also enabled those customers proceed with their personal, family and business lives. FSG has also played a key role in reducing the bank's legacy non-performing loan exposure position from €30bn at its peak post the financial crisis, to its current position of circa €300m.

I will outline how this Framework and these processes are applied in more detail in just a moment but in essence, they are based on a customer's ability to repay, taking account of their assets and their sustainable income levels and prospects.

Our policies are directed by clear rules and principles that are applied consistently with respect to the identification, assessment, granting, management, monitoring and reporting of forbearance processes and decisions, in line with regulatory requirements.

Our primary objective is to engage with the customer and to make every effort to come to an agreed arrangement to adapt to their changed financial circumstances.

The assessment and resolution of non-performing exposures takes place against the bank's broader requirement to operate prudently and commercially. As a regulated entity we must ensure we generate sufficient returns on capital to act as a key driver of economic growth, maintain appropriate reserves and retain investor confidence, including on the part of the State as our largest shareholder.

## **Consensual**

Our work in the area of forbearance and support of our customers in difficulty falls into two broad categories; outcomes that are achieved on a consensual basis with customers; and those, a minority, that need to be pursued on a non-consensual basis.

In consensual engagements, each customer's circumstances are assessed on a case-by-case basis and each customer is offered a clearly defined means of engagement and assessment determined by the nature and terms of their loan.

A broad suite of solutions is applicable and may include, in the short term for instance, agreed stabilisation periods to allow a customer's previous income levels to resume.

Our longer-term solutions include amongst others, split mortgages which enable an element of debt compromise and customers to retain their homes: and, where there is no affordability capacity, mortgage to rent arrangements, that can involve a substantial level of debt write-off while enabling a borrower to remain in his or her home.

All forbearance solutions are reviewed regularly to ensure they are appropriate to customers' evolving circumstances and the bank's fiduciary and regulatory obligations. This has required us to adapt some solutions which otherwise might have involved the accounts concerned being classified as non-performing under evolving domestic and European regulatory parameters.

### **Non-consensual**

In the event a customer does not engage or cooperate to seek an agreed forbearance arrangement, the bank, having followed all reasonable steps in the appropriate regulatory framework, may seek to recover the debt through the legal process.

The objective of such a course of action would be to prevent any further weakening of the bank's position and to allow for the disposal of secured assets either via a court order or through the appointment of a receiver.

The bank may also seek to obtain a court judgement in respect of any unresolved element of debt following an asset disposal process.

Legal action generally only arises where customers have not engaged with the bank about their non-performing debt. They are still afforded the opportunity to engage or re-engage to settle any outstanding liability at any stage in the process including post disposal of the assets involved.

If they do, this may lead to a situation where a final settlement or compromise is agreed that may include a partial or full write-off of debt. Any such agreement is, as always, based on affordability and sustainability criteria.

Throughout either the consensual or non-consensual routes, borrowers have the option of pursuing Personal Insolvency Arrangements (PIA), or in the case of business customers, the recently established, Small Company Administration Rescue or SCARP process.

AIB has a proven track record in relation to its participation in this legislative process. The bank has consistently led the way in agreeing to outcomes under PIA with strong approval rates of circa 4,300 arrangements over a number of years, while accepting these agreements invariably result in a lower level of debt recovery overall.

AIB's Debt Resolution Framework allows for and enables agreement on the bank's part to a final settlement with borrowers that may include the write-down of outstanding debt in certain circumstances.

These circumstances will vary from borrower to borrower but the overriding principles governing resolution of the position for both the customer and the bank are applied consistently on every occasion.

## **Final debt settlement**

I will now set out the key criteria required for any final debt settlement, including possible debt-write off in certain cases.

- The bank evaluates proposals for debt settlement based on a borrower's individual circumstances. All such proposals must be supported by full and transparent disclosure of a customer's financial affairs. This disclosure will cover amongst other matters: assets owned, income earned or anticipated, and any other relevant information required by the bank. These disclosures are subject to independent validation at the bank's discretion
- The customer must demonstrate a willingness to meet their contractual obligations while maintaining a reasonable and benchmarked lifestyle and in the case of a business, its viability.
- Proposals must address all of the borrower's obligations with the bank and take into account any third-party debt.
- The level of sustainable and unsustainable debt will be determined by the bank based on an assessment of the borrower's affordability
- Proposals will include a requirement on the part of the borrower to make available to the bank any windfall income that may accrue within a set period following a settlement.

In the context of these robust criteria, the number of borrowers, other than those who went through a bankruptcy or insolvency process, who have received a reduction of over 90% of their loan amounted to circa 1,900.

Compared to the circa 150,000 customer resolutions already referenced, this represents a ratio of just over 1%.

## **Conclusion**

We have been aware, obviously, of recent commentary about our approach to supporting customers in difficulty and the policies underpinning same.

Unfortunately, many aspects of this commentary have been incomplete and have not presented the full picture.

We have maintained our position that we are not enabled or entitled to discuss the details of any particular account regardless of the historic or current relationship with the customer involved.

However, we have also reaffirmed that the bank has a proven track record in supporting customers in difficulty and, as a regulated entity, has a robust governance and policy framework in place that deals in a consistent and equitable manner with customers whose accounts become challenged. That framework prioritises restoring customers to a sustainable relationship with the bank on a consensual basis.

In the minority of cases where customers decline to engage with us or via third party resolution mechanisms, the same governance and policy framework directs how the bank seeks to recover its interests in the most appropriate manner.

We would like to thank the Committee again for the opportunity to address these issues and we are happy to answer any questions you might have.

**Ends**