

# DÁIL ÉIREANN

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## AN COMHCHOISTE UM AIRGEADAS, CAITEACHAS POIBLÍ AGUS ATHCHÓIRIÚ, AGUS AN TAOISEACH

### JOINT COMMITTEE ON FINANCE, PUBLIC EXPENDITURE AND REFORM, AND TAOISEACH

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*Dé Máirt, 10 Iúil 2018*

*Tuesday, 10 July 2018*

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Tháinig an Comhchoiste le chéile ag 2 p.m.

The Joint Committee met at 2 p.m.

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Comhaltaí a bhí i láthair/Members present:

Teachtaí Dála/Deputies	Seanadóirí/Senators
Pearse Doherty,	Paddy Burke,
Michael McGrath,	Rose Conway-Walsh,
Paul Murphy.	Gerry Horkan,
	Kieran O'Donnell.

I láthair/In attendance: Senator Gerard P. Craughwell.

Teachta/Deputy John McGuinness sa Chathaoir/in the Chair.

## **Business of Joint Committee**

*The joint committee went into private session at 2.04 p.m. and resumed in public session at 2.20 p.m.*

### **Scrutiny of EU Legislative Proposals**

*Senator Gerry Horkan took the Chair.*

**Vice Chairman:** I wish to set out a decision on the scrutiny of EU proposals for the public record. I wish to record the decision taken by the committee on EU legislative proposals earlier today. The committee has agreed that EU proposals COM (2018) 331, COM 2018 (369) and COM (2018) 371 do not warrant further scrutiny. The proposals COM 2018 (386) and COM 2018 (442) warrant further scrutiny. Full details will be published on the committee website.

### **Matters Relating to the Banking Sector: KBC Bank**

**Vice Chairman:** Mr. Wim Verbraeken is chief executive officer of KBC Bank - I hope I pronounced that reasonably well. He is joined by Dara Deering and Brendan Mahon. You are all welcome.

I wish to inform the witnesses about the position on privilege. I wish to advise them that by virtue of section 17(2)(l) of the Defamation Act 2009, they are protected by absolute privilege in respect of their evidence to the committee. However, if they are directed by the committee to cease giving evidence on a particular matter and they continue to so do, they are entitled thereafter only to a qualified privilege in respect of their evidence. They are directed that only evidence connected with the subject matter of these proceedings is to be given and they are asked to respect the parliamentary practice to the effect that, where possible, they should not criticise or make charges against any person, persons or entity by name or in such a way as to make him, her or it identifiable.

Members are reminded of the long-standing parliamentary practice to the effect that they should not comment on, criticise or make charges against a person outside the House or an official either by name or in such a way as to make him or her identifiable.

I invite Mr. Verbraeken to make his opening remarks.

**Mr. Wim Verbraeken:** I thank the Chairman and the members of the committee for the invitation and opportunity to represent KBC Bank Ireland. I would like to introduce our delegation. I am accompanied by two members of the bank's senior management team, namely, Ms Dara Deering, executive director of retail banking, and Mr. Brendan Mahon, director of recovery.

The committee has received our written responses to the questionnaire. With the agreement of the committee, I will read my opening statement following which we will respond to any questions committee members would like to ask. I am keen to focus on the following: an update on the bank's progress under the tracker mortgage examination, the bank's recent perfor-

mance and customer offering and how the bank is dealing with non-performing loans.

In our appearance before this committee in February we provided an extensive overview of our position on the tracker mortgage examination. I will 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 in recent months. The total number of mortgage accounts identified as impacted at KBC is 2,754 relating to 2,335 customers. Since we appeared before the committee, detailed testing and review of individual files has continued and this has led to the numbers presented today. Final quality checks and further sampling to validate our methodology will continue. 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 confirm that full redress and compensation payments to all impacted customers have been processed, with circa 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, including two cases in which the bank's decision was upheld and one case in which 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 framework.

The bank's parent, KBC Group, has taken this review seriously and has closely followed the process of resolution. The bank is engaging within the industry through Banking and Payments Federation Ireland, BPFIL, and playing an active role in the establishment of the new independent body on banking culture and standards. This initiative, together with the recent review by the Central Bank on culture and behaviour, will support the work that needs to be completed throughout the sector to achieve a strong customer-focused culture and to rebuild consumer trust in the banks.

In addition to the process involved with 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 the process.

I will set out the recent performance of KBC Bank Ireland. It is nearly one and a half years since the 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. Consumers are responding positively to this approach as we see digital banking activity rise year on year. Underpinning the pace of digital development in KBC is the bank's deepening collaboration with financial technology companies and consumer technology brands led by its innovation hub in Ireland and supported by KBC Group's €1.5 billion investment budget earmarked to transform the group's digital capabilities Europe-wide. Importantly, in the past month KBC has also launched its new banking proposition for microenterprises. In a spirit of co-designing its proposition with customers, KBC has worked with microenterprises such as dental, general practitioner, 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 approximately 273,000 currently to 425,000 by the end of 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 quarter 1 of 2018 was €198 million, 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, two-year, three-year and five-year fixed rates by between five and 20 basis points. 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 quarter 1 of 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 in the recent 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 continually innovate to ensure 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 in Ireland to meet our ambitions for this market, providing consumers with a real alternative in banking.

With regard to the 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 expeditiously 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 European Central Bank and Central Bank of Ireland on NPLs has been constructive, with ongoing interac-

tion on strategy, performance and the evolution of loan books.

NPL levels have reduced by almost half, from €8 billion in December 2014 to €4.5 billion at the end quarter 1 of 2018. However, despite this progress, as the bank did not transfer loans to the National Asset Management Agency, NAMA, and to date has not undertaken any sales of corporate and SME loans, owner-occupied or buy-to-let mortgages to third parties, its NPL levels remain high by comparison with other financial institutions. As such, 37% of the bank's mortgage portfolio is classified as non-performing and this will need to reduce substantially over the coming years. To date, the bank has successfully focused 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.

Regarding our assistance to customers experiencing financial difficulties, I reiterate we have strong empathy for the many customers who have experienced difficulties in making their mortgage payments in recent 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 nine out of ten 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. This 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 last resort, as KBC works consistently to minimise the need for such repossession. We will continue to work with customers in difficulty now and in the future.

I 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 deliver on that ambition.

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

**Deputy Pearse Doherty:** Cuirim fáilte roimh an t-Uasal Verbraeken agus an beirt eile atá linn fosta. Tá cúpla ceist agam. I have a number of questions. I will start with the lending to the mortgage market. What increase have we seen in the lending to the mortgage market year-on-year from KBC?

**Mr. Wim Verbraeken:** It is 61% in quarter 1 year-on-year. In general we have maintained our market share or slightly increased it. We have slightly outgrown the market volumes year-on-year.

**Deputy Pearse Doherty:** It is 61% and 21% of new business cases were classified as switchers. If we were to strip away the switchers, would the increase be 40%?

**Mr. Wim Verbraeken:** Last year we also had switchers, so we would have to strip switchers on both sides of the equation. Generally we have grown in all categories and specifically in first-time buyers we have seen the biggest increase year-on-year.

**Deputy Pearse Doherty:** In terms of new lending, without switchers what was the year-on-year increase?

**Ms Dara Deering:** I will have to clarify the exact figure but it is probably around 45%. Switching is new lending because it is switching from another bank to KBC as opposed to switching within the bank.

**Deputy Pearse Doherty:** I understand from the bank's point of view but in terms of additional money-----

**Ms Dara Deering:** In terms of net lending in the marketplace, it is probably 45% if we strip out switching.

**Deputy Pearse Doherty:** It could be seen as interbank lending. It is not additional credit going into-----

**Ms Dara Deering:** It is a consumer moving from one bank to the other. The Deputy is correct.

**Deputy Pearse Doherty:** It is not additional money. When we are looking at these new lending figures, we need to strip out all of the switchers to get an accurate feel in terms of the increase.

**Ms Dara Deering:** We can provide the Deputy with that level of detail.

**Deputy Pearse Doherty:** The bank's interest rates are quite high, with 27% of mortgages on the highest rate offered, namely, its 4.25% standard variable rate. Is it correct that €11 billion of loans are at that rate?

**Ms Dara Deering:** The total mortgage portfolio is €11 billion. Of this, €3.1 billion is on the standard variable rate, which equates to 36,674 accounts.

**Deputy Pearse Doherty:** One in four is at the highest possible rate.

**Ms Dara Deering:** That is correct.

**Deputy Pearse Doherty:** For those one in four customers of KBC mortgages, what are the options outside of taking out a deposit account which would give them a reduction of 20 basis points? No, it does not actually give them a reduction.

**Ms Dara Deering:** That is correct.

**Mr. Wim Verbraeken:** It does.

**Ms Dara Deering:** They could open a current account. The Deputy is absolutely right.

**Deputy Pearse Doherty:** What are their options? This option would bring their mortgage rate down to 4.05% and I note that only 654 customers have availed of it.

**Ms Dara Deering:** That is correct.

**Deputy Pearse Doherty:** Do these customers have options to fix at this point in time?

**Ms Dara Deering:** They can do a range of things. They can take any of the variable products we have. All our new business pricing, whether variable or fixed, is available to new cus-

tomers and also to existing customers. Therefore, all those customers have the option to take either a variable or a fixed rate, depending on their loan-to-value ratios.

**Deputy Pearse Doherty:** If I am a KBC customer and one of the one in four who are on a standard variable rate of 4.25%, and if my loan-to-value ratio is less than 90%, can I automatically go onto the 3.5% rate with the bank?

**Ms Dara Deering:** The Deputy would have to get an updated valuation. As soon as that valuation is provided to us, the customer can avail of the lower rate.

**Deputy Pearse Doherty:** Does the bank support individuals in getting the valuation?

**Ms Dara Deering:** The bank adopts the same policy for new and existing customers in that the customer pays for the valuation, be it a new mortgage or an existing mortgage. An existing mortgage customer can decide over time, because the price of his or her house has gone up, to get a valuation and continually avail of it if his or her loan-to-value rate improves. It is exactly the same strategy for new and existing customers.

**Deputy Pearse Doherty:** Therefore, for a few hundred euro a customer can get the valuation. I imagine, given the increase in house prices, that a large proportion of these would fall within that category, and indeed could fall below it. For example, an 80% loan-to-value ratio would be one full basis point reduction.

**Ms Dara Deering:** Exactly, or they can go for the range of fixed-rate offers if they want to do so.

**Deputy Pearse Doherty:** How many of KBC's customers of that-----

**Ms Dara Deering:** On the higher rate?

**Deputy Pearse Doherty:** Of those one in four on the standard variable rate, the highest interest rate, is there any movement for them onto a variable rate?

**Ms Dara Deering:** Yes. This time last year, that number was higher as we launched our pricing in order that our existing customers could avail of the new rates. Just over 4,000 customers have availed of a lower rate, so that 36,000 was previously more than 40,000. We write to those customers regularly and provide options to them if they want to avail of any of those variable or fixed-rate products.

**Deputy Pearse Doherty:** Therefore, an individual with a €200,000 mortgage and an 80% loan-to-value ratio, which would be average enough, given house prices at this point, would save €4,000 by getting that valuation, which would probably cost him or her less than €400.

**Ms Dara Deering:** Yes, the Deputy is right. It would probably cost only around €200.

**Deputy Pearse Doherty:** Ms Deering said KBC has written to them. What effort has KBC made to inform people? Thousands of the bank's customers could save €4,000 this year for €250 and the cost of a stamp.

**Ms Dara Deering:** To clarify the amounts, the Deputy will find that people on standard variable rates tend to have much smaller mortgages. I think we have spoken before about inertia. Their mortgages are of approximately €120,000, whereas people who take out new mortgages have mortgages of approximately twice that. Therefore, the savings are actually not

as significant as perhaps some of the headlines often make them out to be. Nevertheless, the Deputy is right that people can save money. What do we do? We do a number of things. We write to customers, which we have already done twice in the past six months, to ensure they are aware of all the options available to them. We also have a dedicated section on our website for such customers. We try to make it as easy as possible for them to put in their loan amounts and values so they can see what they can save. There will be further changes to the consumer protection code, which we welcome, and which will provide even greater transparency, so someone coming off a fixed rate sees what else is available to him or her.

**Deputy Pearse Doherty:** Will KBC have all these measures in place by 1 January-----

**Ms Dara Deering:** Yes.

**Deputy Pearse Doherty:** -----or does it intend to introduce them prior to 1 January?

**Ms Dara Deering:** Some of them we already have in place in that we already provide options to customers relating to the rates available to them, but there are other measures relating to turnaround times, timeframes and additional information for customers switching. We will have them in place for January.

**Deputy Pearse Doherty:** Was it 21% of new business that was classified as switchers?

**Ms Dara Deering:** Yes.

**Deputy Pearse Doherty:** How many left the bank?

**Ms Dara Deering:** Very few. Rates of early redemption, whereby people move from KBC to another institution, are very low. They are less than 5%.

**Deputy Pearse Doherty:** If I were a KBC customer with a mortgage and I decided to fix for two years with Ulster Bank, whose fixed-rate offer is currently the best - and I hope KBC would match it, if not beat it - what hurdles would KBC make me jump?

**Ms Dara Deering:** The process would be that the customer's solicitor, who typically carries out the process for the customer, will request redemption figures from the bank, and then the customer's loan is effectively redeemed and moved to another provider. It can happen very quickly. We see by virtue of the business switching to KBC that, provided the customer has all his or her documentation in order, the process can happen very easily. The bank does not put any hurdles in the way of a customer who wants to switch to another provider.

**Deputy Pearse Doherty:** There are no penalties or anything like that for someone on a variable rate.

**Ms Dara Deering:** That is correct.

**Deputy Pearse Doherty:** Are there penalties for those on fixed rates?

**Ms Dara Deering:** A formula is prescribed in the mortgage credit directive that just takes into account the cost to the bank of breaking out of the fixed rate, but there are no other charges or penalties for consumers.

**Deputy Pearse Doherty:** I think the message from the committee is to switch, revalue one's property and even look at other offerings. Significant savings can be made by KBC's customers, even within the bank itself.



**Ms Dara Deering:** I think that is the case for every product. In our marketplace we have seen very low levels of switching. We welcome any measures to increase that.

**Deputy Pearse Doherty:** Does Ms Deering see further movement in interest rates, given what some of KBC's competitors have done? I mentioned Ulster Bank.

**Ms Dara Deering:** We keep our offering under ongoing review. Our strategy has been very consistent for the past two years. We do not just have a fixed-rate offering; we ensure we are competitive across variable and fixed. Based on feedback from customers, we did not introduce cashback offerings because customers said they wanted to see long-term value, hence the ten-year rate we introduced last year. We believe KBC's basket of offerings represents very good value for people on the shorter-term or indeed longer-term fixed rates. Thirty per cent of our customers choose a ten-year fixed-rate product, given the competitiveness of that product offering.

**Deputy Pearse Doherty:** Looking at KBC's figures, what surprises me is that there is quite a low take-up of the discount of 20 basis points on opening up a current account.

**Ms Dara Deering:** From existing customers.

**Mr. Wim Verbraeken:** Those figures relate to existing customers, who historically had mortgages with us before KBC started offering current accounts. These customers are approached under normal commercial activity and offered the opportunity to open a current account and avail of the discount of 20 basis points.

**Deputy Pearse Doherty:** KBC's process is not simple. Has it got feedback on the process of opening current accounts?

**Ms Dara Deering:** We have made significant enhancements to our process. It can be done in five steps, five minutes, on a mobile app since July of last year. To clarify the point, more than 80% of new customers who join the bank, who take out a mortgage, avail of the discount of 20 basis points. They open a current account at the time of taking out a mortgage. The numbers to which the Deputy refers relate to existing customers.

**Deputy Pearse Doherty:** However, people may have brought in loans with IIB Homeloans, for example.

**Ms Dara Deering:** Sure.

**Deputy Pearse Doherty:** That is where-----

**Ms Dara Deering:** That is the lower number, but those customers can now download our mobile app, take a photograph of their documentation and have an account open within five minutes. We have made massive improvements in the past while, recognising feedback from consumers that opening accounts, given the paperwork required, can often be very challenging.

**Deputy Pearse Doherty:** Then there must be a certain amount of activity through the account for the customer to be able to avail of the reduction of 20 basis points. Is that correct?

**Ms Dara Deering:** All the customer needs to do is pay his or her mortgage from the KBC current account to avail of the reduction of 20 basis points.

**Deputy Pearse Doherty:** I will go on to the app later.

**Vice Chairman:** I remind the Deputy that he has about two minutes remaining.

**Deputy Pearse Doherty:** Regarding the issue of the tracker mortgages, do the witnesses believe all the cohorts have been identified? Mr. Padraic Kissane presented before the committee previously - I am sure the witnesses have read the transcripts - and identified two particular cohorts which emanated from the flyers that were being issued to the brokers at that time regarding the commitment made by IIB Homeloans. They were not at that time being dealt with by the bank. They were not deemed impacted. Has that issue now been resolved? Have these cohorts been recognised as impacted? What is the current position?

**Mr. Wim Verbraeken:** As we clarified in our appearance before the committee in February of this year, we closed off all discussions with the Central Bank on cohorts, on groupings, of customers who went through a similar customer journey. Since February, there has not been any change in that position. We believe that all major cohorts of customers that had been impacted as a group have been identified. As I said in my statement, we continue to work on quality assurance and to do a level of sampling to validate our methodology. We also have the appeals process and a complaints process. There are cases that could emanate from that process.

**Deputy Pearse Doherty:** KBC estimated that this would cost the bank in the region of €4 million in 2016. In 2018 the provision is €120 million. Perhaps Mr. Verbraeken might tell us how the bank got it so wrong and how many people have been held to account within it for taking so much money from customers to date.

**Mr. Wim Verbraeken:** We made provision for a figure of circa €4 million in 2016. It was related to fewer than 100 cases which had been considered to be impacted on in our report to the Central Bank by the end of September 2016, the phase 2 report, as we clarified here in February. We then engaged in a process in which the Central Bank challenged KBC on a number of assumptions. Ultimately, we landed on a figure of circa 3,000 cases which had been impacted on. The figure of €120 million, most of which was provided for in 2017, was related to the specific increase. The increase was proportionate to the progress of work throughout the examination. By 2016 we did not have any feedback from the Central Bank on what we had submitted in September. As I said in my opening statement, we are still going through a process of responding to the Central Bank on a number of questions related to the administrative sanctions procedure, with the questions related to what happened and how and why it happened. As this process has not yet concluded, it would be premature for me to make any statement on it.

**Deputy Pearse Doherty:** As CEO, Mr. Verbraeken obviously knows that he does not have to wait for the Central Bank to challenge the bank. KBC could have identified the 3,000 accounts and should have given the account holders back the money at an earlier stage. Mr. Verbraeken could also hold to account people within the bank without having to wait for administrative sanctions, a very high bar laid down in statute. Does KBC have no intention of carrying out its own examination and holding bankers to account or will no one be held to account, just like in the other banks?

**Mr. Wim Verbraeken:** As the administrative sanctions procedure is actually a voluntary process, it is KBC that is conducting the examination of its records. It includes the retrieval of hundreds of thousands, if not millions, of documents from ten years ago. They are being reviewed for relevance and their value to the process. As I said, it is very premature to draw any conclusion from it.

**Deputy Pearse Doherty:** I understand KBC is the only retail bank in Ireland that is not

unionised. Will Mr. Verbraeken clarify if that is also his understanding? KBC is unionised in Belgium and I understand it has a good relationship with the unions. Does it recognise the right of its staff in Ireland to join and be involved in a trade union? If staff request to meet their union, does it respect their choice?

**Mr. Wim Verbraeken:** I am not familiar in detail with the position in other major lenders in Ireland, but the Deputy is probably correct that KBC is the only major bank in Ireland that is not unionised. That is for historical reasons. As the Deputy knows, KBC was a merchant corporate bank up to seven or eight years ago. We absolutely recognise the right of any of our employees and staff members to join a union. We pride ourselves on developing very strong fora for interaction with our employees. The level of communication throughout the bank is very strong. As we have a very flat management structure, we take every opportunity to inform our employees or seek their input on questions of relevance.

**Deputy Pearse Doherty:** Therefore, KBC recognises the right of staff to join a union and allows them to be represented by their union, if they so wish, in dealing with the bank?

**Mr. Wim Verbraeken:** We have not recognised any union within the bank.

**Deputy Pearse Doherty:** Therefore, if I worked for KBC, had an issue with work practices, was a member of a trade union and asked it to meet management, would the bank refuse me access to my union representative?

**Mr. Wim Verbraeken:** As far as I understand, every employee who has an issue at a personal level can be accompanied by a counsellor who can be a union representative. Therefore, I have no issue with it.

**Deputy Pearse Doherty:** There can be a union representative.

**Mr. Wim Verbraeken:** Yes.

**Deputy Pearse Doherty:** I appreciate that Mr. Verbraeken talked about the evolution of the bank which extends to current accounts. Does it have any intention of following its parent company which does recognise unions, given the position of KBC? It is welcome that KBC is committed to Ireland. We need banks like it, but we also need a far better culture within it. We need competition within the economy. Does the bank intend to recognise trade unions in the same way as its parent company does in Belgium? Is that something that is under consideration or the bank is willing to consider?

**Mr. Wim Verbraeken:** Recognition of unions with the bank is not under consideration. We had a visit by the Belgian representatives of the trade union within the group. They have had discussions with management and employees, but from that discussion, we have not seen any specific need to follow that path. Obviously, I welcome the Deputy's comments on the need for KBC to be present in Ireland and bring necessary competition. We will work to that end in every facet.

**Deputy Pearse Doherty:** With a different culture.

**Mr. Wim Verbraeken:** A strong culture.

**Senator Rose Conway-Walsh:** I thank Mr. Verbraeken for his presentation. I want to discuss vulture funds and the bank's decision to sell off some of the non-performing loans. What does it classify as a non-performing loan?

**Mr. Wim Verbraeken:** I would like to specify that we have not engaged in any transaction that involves the sale of a portfolio of mortgages. As we stipulated in the questionnaire, we sold a small portfolio of residual balances. They were mortgages for which the collateral had been realised. The remaining unsecured claims for a total nominal amount of €140 million were sold to a specialist firm earlier in 2017. We have not sold any portfolio or any loan to NAMA, which is part of the reason our non-performing loan ratios at this stage are still quite high.

On the recognition of defaults, we follow the strictest interpretation of European-wide European Banking Federation rules which, essentially, set best practice and guidelines for how financial institutions should recognise defaults. We apply the strictest definition. In addition, we apply very strict definitions and interpretations of cure criteria. In practice, this means that a loan qualifies quite quickly as a default or non-performing, but it takes a lot of time for it to be cured back to performing. It needs to meet a significant number of conditions before it can be considered to be performing. This is to avoid inflows and outflows on a regular basis of the same loan. Clearly, it is something that is applied by KBC on a group-wide basis and one of the reasons the level of our non-performing loans is relatively high in Ireland.

**Senator Rose Conway-Walsh:** Would a split mortgage be considered to be a non-performing loan?

**Mr. Wim Verbraeken:** Initially, the performing part of the split mortgage is non-performing, but it has the chance to cure, whereas the warehouse portion will remain non-performing for the lifetime of the loan because the provision is 100%.

**Senator Rose Conway-Walsh:** How does the bank include it with reference to the figure of 37%? Would it then be classed as one unit of a non-performing-----

**Mr. Wim Verbraeken:** It is too early for any of the performing portions of a split mortgage to have been cured, but once they cure, they will no longer be counted as non-performing.

**Senator Rose Conway-Walsh:** While they are split mortgages, they are non-performing within the-----

**Mr. Wim Verbraeken:** The performing part may be non-performing because it is early days, but it can cure over time if it continues to perform under the conditions set.

**Senator Rose Conway-Walsh:** I know what Mr. Verbraeken is saying. I am just trying to get at the figure of 37%. That figure seems very high and needs to be addressed.

**Mr. Wim Verbraeken:** Split mortgages are a portion of that but not a very significant portion.

**Senator Rose Conway-Walsh:** Are interest rate-only mortgages classed as non-performing?

**Mr. Wim Verbraeken:** For a mortgage to fulfil the conditions to be considered as performing it would have to pay interest plus a significant portion of capital, typically more than 50% of the original capital repayment. An interest-only mortgage which perfectly meets the terms and conditions of the restructuring will be considered non-performing by KBC, which is not the case for every institution.

**Senator Rose Conway-Walsh:** If the interest rate-only and the split mortgages were taken out of the 37%, what percentage would be left?

**Mr. Wim Verbraeken:** We have approximately €2 billion in restructured loans that are paying under their restructuring option. If I followed the Senator's logic, which is not the logic we apply internally, our non-performing ratio would probably drop to below 20%.

**Senator Rose Conway-Walsh:** Is there a danger that the loans of those who hold interest-only or split mortgages will be sold off if the bank is considering selling off some of the non-performing loans to vulture funds?

**Mr. Wim Verbraeken:** I cannot comment on what could or would be included. As I said in my opening statement, we are considering a variety of options, any option that is available to the bank to materially reduce non-performing loans over time. We will work towards a medium to long-term horizon on this.

**Senator Rose Conway-Walsh:** My definition of a non-performing loan is somebody who has not engaged with the bank. Could those on an interest-only rate or split mortgage and those who are engaging with the bank and trying to get back on their feet find their mortgage being sold off in the next few months?

**Mr. Wim Verbraeken:** I would not be able to comment on that. All I can say is that-----

**Senator Rose Conway-Walsh:** However, Mr. Verbraeken could not rule it out.

**Mr. Wim Verbraeken:** I cannot rule it in or out. They are considered to be non-performing loans.

**Senator Rose Conway-Walsh:** That would be worrying for people who are making their best effort to repay their mortgage and to get back on track. I would like Mr. Verbraeken to further examine what the bank calls non-performing. The sale of mortgages to vulture funds which are not regulated and do not engage with customers in the way that they should would be of great concern to me and this committee. What part of the 37% are private dwelling house, PDH, accounts?

**Mr. Brendan Mahon:** The 37% ratio is split between corporate and retail customers. Just under €900 million is corporate and €3.7 billion is retail, and of that €2 billion is PDH and €1 billion buy-to-let with some residual balance where properties have been sold thereafter.

**Senator Rose Conway-Walsh:** When does the bank expect non-performing loans to be sold off?

**Mr. Wim Verbraeken:** I would not be able to comment on the choice of that type of transaction or the timing. We note the committee's concern. It is not the first time this concern has been voiced and we will definitely take the Senator's point under advisement. I would like to say, however, and it has been repeated by other parties and by the Minister for Finance, that the financial investors that purchase such portfolios – KBC has never sold to them – have not been seen as treating customers worse than the banks would have done. I am not saying it is a myth but the evidence to date has not shown that this was detrimental to such customers. However, I take the Senator's point.

**Senator Rose Conway-Walsh:** I beg to differ because we deal with these cases all the time and the refusal of many vulture funds to engage with customers is not acceptable, as is their refusal to come before the Oireachtas Joint Committee on Finance, Public Expenditure and Reform and Taoiseach. If they have nothing to hide, why will they not appear before a commit-

tee like this? That is why we have great fears that people's homes will be sold off, particularly when we are in the middle of a housing crisis. I note in its questionnaire KBC Bank states that it would escalate the housing crisis by selling off non-performing loans, particularly those with split mortgages and people paying interest rate only. I ask KBC, as a bank with a corporate responsibility, to reconsider that.

KBC is supervised by the ECB because of its parent and sister banks. What percentage of KBC's assets are in KBC Ireland?

**Mr. Wim Verbraeken:** It would be less than 10%. If we take risk-rated assets, the benchmark against which the geographic allocation of risk can be assessed, we would represent less than 10% of the risk-rated assets of the group.

**Senator Rose Conway-Walsh:** Other banks that have come before the committee have said the ECB is making them sell off non-performing loans. Will Mr. Verbraeken clarify whether the ECB is concerned about the global NPL figure for KBC or does it demand a reduction in the component parts of KBC Ireland?

**Mr. Wim Verbraeken:** KBC Group is a very large European bank insurance group and is not a high NPL group *per se*, taken as a whole. That is why the discussions between the ECB team and the KBC Group about lending reductions are not at the same intensity in terms of pressure applied as would be the case for other groups in Ireland or elsewhere that would have very high NPLs at group level. The ECB and the Central Bank of Ireland, CBI, express an interest in any separate entity reducing their NPL levels to more moderate levels, towards the market average over time. The ECB and the CBI have a very keen interest in our strategy on this and the progress we have been making. Historically, since the crisis broke, KBC has worked through all of its problems with corporate, SME and retail customers, whether they are PDH or buy-to-let, on a case-by-case basis and we will continue to do that.

**Senator Rose Conway-Walsh:** Has KBC given the ECB and CBI a timeline or commitment by which it will reduce the 37%?

**Mr. Wim Verbraeken:** We have given them a projection under normal assumptions of going concern and continued strategy for the measures in place and that would see a further gradual reduction year on year.

**Senator Rose Conway-Walsh:** Can Mr. Verbraeken give us an idea of the projection?

**Mr. Wim Verbraeken:** I cannot be specific about the levels we would reach under the current strategy. As I said earlier, we see a general improvement in conditions and a greater ability for customers to perform under resolution options. We also see very positive signals from customers in respect of roll-off restructuring options such as interest only or interest and part capital. A good number of them can step towards payments that will ultimately allow them to clear. Part of the progress we plan and project is coming from that as well.

**Senator Rose Conway-Walsh:** Has the Central Bank agreed with those projections?

**Mr. Wim Verbraeken:** It has taken note of these projections. It is incumbent on KBC to realise them but the Central Bank is interested in our delivering them.

**Senator Rose Conway-Walsh:** Perhaps we will get them from the Central Bank. What is the percentage of non-performing loans, NPLs, in KBC in Belgium?

**Mr. Wim Verbraeken:** I do not know what the number is in Belgium. I believe it is 2%, but at a group level it is somewhere between 5% and 6%.

**Senator Rose Conway-Walsh:** How much has KBC paid in dividends to the Belgium headquarters in each of the past three years?

**Mr. Wim Verbraeken:** We resumed dividend payments in June of last year based on the profit realised by the bank in 2016. That was to the tune of circa €220 million and we made another payment in June this year, but that has not been made public in terms of market.

**Senator Rose Conway-Walsh:** The bank has paid €220 million to date. Did it pay anything in 2015?

**Mr. Wim Verbraeken:** We did not make any payments in 2015 or 2016. I would point out that KBC Group has injected more than €1.5 billion in additional capital since the crisis. The €220 million we paid in 2017 is a small return on the financial support we received from the group.

**Senator Rose Conway-Walsh:** How much of that money was used to repay the Belgian people who would have bailed out KBC?

**Mr. Wim Verbraeken:** KBC Group received state aid during the crisis through loans from the state both at federal level and regional level, and those loans were repaid with interest and prepayment penalties, I believe, three or four years ago in the last tranche. None of the money we paid to Belgium was related to the dividends we paid in Ireland.

**Senator Rose Conway-Walsh:** How much pressure is the bank under from its parent company to return the maximum dividend from its Irish operation?

**Mr. Wim Verbraeken:** KBC Group has been very generous if one compares it with other international groups, all of which have essentially shut down or sold their business in Ireland following the crisis. KBC Group has been the only foreign financial group to continue to stand by its Irish business, and not only has it injected €1.5 billion in capital to help sustain the credit losses following on from the crisis but it has provided a very significant investment budget to build out the retail businesses we are discussing which did not exist pre-2013. Therefore, I do not believe it is appropriate to talk about our being under pressure to return capital. It is very clear from our financial statements that KBC Group has been very supportive. We have very adequate capital ratios at any time so there is no undue pressure to return any shareholder funds.

**Senator Rose Conway-Walsh:** How much notice would the bank give of a proposed sell-off to a vulture fund? If a person has a KBC mortgage, how much notice would they be given if their mortgage was to be sold off to a vulture fund as part of a bundle?

**Mr. Wim Verbraeken:** We are talking purely hypothetically because there is not such a live case at this stage, but the notice period is-----

**Ms Dara Deering:** It is 60 days. We know from the unsecured portfolio Mr. Verbraeken spoke about, the €140 million, that, under the consumer regulation, people must be given 60 days' notice, but any comments relating to that are purely speculative because we do not have a portfolio on sale. In the event that we did have one, we would have to give people 60 days' notice as part of the process.

**Senator Rose Conway-Walsh:** The projections the bank has provided do not include any

provision for that for 2018.

**Ms Dara Deering:** They are organic. They are on the basis that we are dealing with cases on a case-by-case basis. That is the scenario in which we are working.

**Senator Rose Conway-Walsh:** We will no doubt return to that again at some point. The bank in its responses to the questionnaire addressed some of the major threats to the banking sector in Ireland, and it referred to Brexit and the need for clarity and consistency. Did the happenings in Britain yesterday concern Mr. Verbraeken in terms of Brexit and the deadlines we keep missing?

**Mr. Wim Verbraeken:** Absolutely. If there is one thing financial institutions and markets do not like and with which they have a difficulty, it is an uncertainty of outcome. If there are a range of potential outcomes, banks typically have to prepare for the worst. I am not talking in generic terms or about KBC, but my opinion is that the uncertainty as to whether it will be a hard or a soft Brexit or whether there will be any deal is not good. It does not augur well for the future. The sooner clarity can be brought around that, the better.

**Senator Rose Conway-Walsh:** What might be the impact of it on the banking sector in terms of increased interest rates and so on?

**Mr. Wim Verbraeken:** Until the operational parameters of Brexit, if it happens and when it happens, are clear, it is very difficult to judge. There will be direct and indirect impacts - I am not talking about Ireland - and it is very difficult to judge whether there would be a deepening impact on certain industrial sectors and whether that would trigger a more significant dampening of the quite favourable economic growth there has been in this country in recent years, and a psychological effect from that. Clearly, there are people who are focused purely on the potential benefits of Brexit, of financial services business moving to Dublin. I can understand why Dublin would be a place of choice. It is one of the reasons KBC Group made a choice to make this country one of its core markets. Overall, I believe Brexit, on aggregate, will have a negative impact on the Irish economy.

**Senator Rose Conway-Walsh:** I agree.

**Vice Chairman:** I call Senator Paddy Burke.

**Senator Paddy Burke:** I welcome Mr. Verbraeken and his staff. Regarding the overdraft facilities the bank gives to its customers, including small and medium enterprises, SMEs, have many of those cases been referred to the credit review committee? I refer to people with SMEs who have applied for business loans.

**Ms Dara Deering:** As Mr. Verbraeken said in his opening statement, we have literally only started in recent weeks to offer a proposition to micro SMEs. As yet, no cases have been appealed or referred to the credit review committee, but that is because we have very low numbers. We will be happy to give the committee an update on the status of that on the next occasion we appear before it.

**Senator Paddy Burke:** For an SME to qualify for a business loan, is the applicant required to complete the application online?

**Ms Dara Deering:** No. Our model is twofold. We have a digital offering if people want that, but we also have a team of business bankers who are very familiar with the sectors we are



considering at present and they will go out to people's offices and help them through the paperwork, if that is required.

**Senator Paddy Burke:** The bank does not have a big presence or a big footprint throughout the country.

**Ms Dara Deering:** That is correct. People can contact us, talk to us over the phone or online, they can come in to see us in those places where we have a physical location, or we will go to their place of work or home.

**Senator Paddy Burke:** For instance, in west Connacht, the bank has a presence in Galway. Has it any other facilities in the region other than in Galway city?

**Ms Dara Deering:** No, that would be the main area at this time.

**Senator Paddy Burke:** That is the model that the bank has.

**Ms Dara Deering:** Yes. We have 16 hubs in the main population areas where we see the most demand for our products. Other than that, we have a flexible workforce that will travel within reasonable distances of those physical locations.

**Senator Paddy Burke:** A person who wants to apply for a loan would telephone the bank and-----

**Ms Dara Deering:** Or they can apply online if they are not living close to one of our hubs.

**Senator Paddy Burke:** Or the bank's staff will go out and meet them in whichever town they come from.

**Ms Dara Deering:** Exactly.

**Senator Paddy Burke:** The Central Bank recently raised the level of capital reserves required. Will that have an impact on the bank?

**Mr. Wim Verbraeken:** The Deputy is talking about the increase in countercyclical capital-----

**Senator Paddy Burke:** Yes.

**Mr. Wim Verbraeken:** -----which currently is at zero. As the Deputy will know, typically that type of capital is somewhere between zero and 2.5%. The Central Bank announced on 5 July that as of next year - there is a 12-month notice period - that capital will be increased to 1% of risk-weighted assets. This is a normal feature of prudent regulation. It is essentially to mitigate the risk of economic shocks. The Central Bank believes we are closer to the next downturn than to the previous downturn, so it is understandable to start preparing for that eventuality.

**Senator Paddy Burke:** Will it have an impact on the amount of money the bank can lend? The bank will have to provide for a certain amount every year. Will some mortgage applicants not get one because of the extra pressures being put on by the Central Bank?

**Mr. Wim Verbraeken:** The extra capital will be included in the requirements and it will have an impact on the amount of capital we need to hold for every euro we lend. I do not see that there will be an impact on the business or strategy of KBC because we comfortably meet the current capital requirements. The Central Bank believes that to be the case for every bank

and lender in Ireland. I believe the decision was made in the expectation that there will be no practical effect on the appetite to lend.

**Senator Paddy Burke:** A lot of work now is contract work, for five years or whatever. How does the bank view a person who has a contract for five years if they apply for a mortgage? They may be out of work in five years. Is that taken into account when the bank assesses a person's suitability for a mortgage?

**Ms Dara Deering:** It is a very hard question. The nature of work is changing considerably so we look at what profession the person is in. We ask if it is typically a contract profession and what the likelihood is of getting a job after five years. We ask if they have worked before the current contract and we look at the whole picture, but people on contract can certainly take a mortgage. They are not excluded, but we have to make sure that, when the contract is finished, their likelihood of getting a job with a similar salary level, so that they can afford the mortgage, is high.

**Senator Paddy Burke:** Has the bank considered the typical mortgage period? Is it between 20 and 30 years?

**Ms Dara Deering:** We do up to 35 years for first-time buyers, which generally applies to younger people. We are mindful of retirement and people's ability to afford a mortgage.

**Senator Paddy Burke:** Has the bank looked at 40-year or 50-year mortgages? Houses are getting so expensive that it should be a family's responsibility to pay back a loan rather than one person's. At current prices, it should be a couple of generations which pay back a mortgage.

**Ms Dara Deering:** I have looked at intergenerational mortgages but we have to take some lessons from the crisis in Ireland. People will have to retire at some stage or their circumstances will change. We believe that 35 years is the right level for first-time buyers. They borrow a little bit later now because of the challenges with housing supply, so we believe it is about right from a customer perspective. For people borrowing for the second or third time as they move property, the terms tend to move closer to 25 years.

**Senator Paddy Burke:** If a person is in his or her 40s, he or she will only get a 20-year mortgage.

**Ms Dara Deering:** It will go up to the normal retirement age, which is going up a little bit. We are mindful not to burden people with debt when they reach retirement.

**Vice Chairman:** Mr. Verbraeken's opening statement was based on trackers, the bank and NPLs. He said 2% of trackers were still out there. Are they the uncontactables?

**Mr. Wim Verbraeken:** Yes. They fall into two categories. One is where we have an address on file but our mail is being returned unopened. We are trying to get in touch with these customers.

**Vice Chairman:** They are no longer customers. The accounts are no longer current.

**Mr. Wim Verbraeken:** Yes, indeed. We also have customers who are no longer with the bank and for whom we have no address on file. We have been sending out tracers and we have halved the number of unaddressed customers. The process is ongoing.

**Vice Chairman:** There are maybe 50 or 60 individual accounts.

**Mr. Wim Verbraeken:** There are 70 in total over both categories. We expect it to reduce gradually. The cheque has been attached to the letter, to be sent or handed to the customer as soon as we know where they live.

**Vice Chairman:** What size are the cheques? What is the average payout?

**Mr. Wim Verbraeken:** It will be in line with the average amount, which is €40,000.

**Vice Chairman:** These are significant amounts of money which are due to people.

**Mr. Wim Verbraeken:** The total is €2.5 million. It is not the intention of the bank to get any benefit from this.

**Vice Chairman:** I am not suggesting that for a second.

**Mr. Wim Verbraeken:** The money has been set aside, the cheque has been written, and as soon as we can find the customer, we will give it to him or her.

**Vice Chairman:** Approximately 70 people are due an average of €40,000 each.

**Mr. Wim Verbraeken:** Yes.

**Vice Chairman:** Mr. Verbraeken said that, of the 65 appeals, two were rejected and one was upheld on the customer's behalf. How long do people have to make an appeal? Could the number increase significantly? There must be a cut-off at some point.

**Mr. Wim Verbraeken:** It could increase. Our process is slightly different from that of other banks. We calculate the redress and compensation based on the information we have on file and we pay the customer. The customer then has one year to lodge an appeal.

**Vice Chairman:** The last payouts went out in June.

**Mr. Wim Verbraeken:** Yes, in June. They have 12 months from then.

**Ms Dara Deering:** That is prescribed under the framework.

**Vice Chairman:** Were all the payouts made in June?

**Ms Dara Deering:** No. They went out from before Christmas and we had a commitment that everybody would be paid by June, bar the 70 we cannot find. We sent some cheques out which came back to us, and for others we do not have an address on file.

**Vice Chairman:** This time next year, the witnesses will be able to tell us how many appeals there were, including the 70 referred to.

**Ms Dara Deering:** Exactly.

**Mr. Wim Verbraeken:** The number is 65 as of now but we expect the number to increase because a good number of payments have been processed in the past couple of weeks.

**Vice Chairman:** Was all the provision of €120 million used in the end?

**Mr. Wim Verbraeken:** We have not completed the process but it is still our best estimate for the cost to the bank of redressing and compensation. This does not include the costs of the process.

**Vice Chairman:** That was to be my next question.

**Mr. Wim Verbraeken:** It does not include a provision for any sanction.

**Vice Chairman:** The €120 million is the cost of the cheques.

**Mr. Wim Verbraeken:** Indeed.

**Vice Chairman:** There is a cost to the bank but it is money being given back to people which the bank should never have had in the first place. The compensation is an additional charge because the bank took that money from people. What is the breakdown of the €120 million as between redress and compensation?

**Mr. Wim Verbraeken:** It is about 80:20, with 80% for redress and 20% for compensation.

**Vice Chairman:** That makes €96 million which is people's own money and was not really a cost to the bank, despite the fact that it could have kept it if the banks had not been found out. The other €24 million is compensation.

**Mr. Wim Verbraeken:** Yes.

**Vice Chairman:** Senator Burke mentioned the bank's business model and discussed the bank's hubs and its network. Banks do not like being called cashless but KBC is happy enough to admit that.

**Mr. Wim Verbraeken:** It is not about admitting it. We have made a choice.

**Vice Chairman:** Others tell us they are not cashless as the cash is all in the machines. Perhaps some of KBC's hubs have ATMs.

**Ms Dara Deering:** No, they do not. We made a deliberate decision back in 2013 to try to challenge how banking is provided. We recognised that consumer behaviour was changing, with people moving towards digital services, and that is where we put our investment. We are also leading innovation within the group following the decision it made in February last year to make KBC Ireland a core market.

**Vice Chairman:** Ms Deering spoke about the bank's digital offering and other innovations in FinTech and consumer tech. She spoke of the app improving, but what will people see as a result of this? I will relocate myself. Hopefully, the Chairman will allow me to continue asking questions.

*Deputy John McGuinness resumed the Chair.*

**Mr. Wim Verbraeken:** There is obviously a great deal of talk about FinTech, neobanks and new entrants in the banking market. What we were referring to in our opening statement was our ability to integrate the contribution of the specific expertise of specialist FinTech firms into our offering. I refer, for example, to the app that we launched recently, with which a customer can open a current account online in five minutes and five steps, as my colleague indicated. Part of that process is proof of identity, and we use the services of a FinTech firm to compare a selfie with this kind of photo ID. This is not something that we have developed in-house. We use the best-in-class technology available in the market and we integrate it into our app. This is just one example of the multiple possibilities. A lot of these new firms are really experts in sometimes narrow areas of our business, and we believe that there is a degree of complementarity between

what we do and what they do.

**Senator Gerry Horkan:** Reference was made to €1.5 billion in investment. I presume that much of this money is at a group level. Is a particular amount of money being spent in Ireland? Bank of Ireland's representatives were talking to us last week about spending €900 million. KBC Bank Ireland is not as big as Bank of Ireland in terms of physical presence. Its legacy systems may be different as well. What kind of money is being spent on technology in Ireland?

**Mr. Wim Verbraeken:** The €1.5 billion refers to investment at group level. Most of it is not spent in Ireland, unfortunately. As indicated, we benefit to a large extent from the investment and development in KBC's other core markets in the sense that we can copy concepts or even computer code into our work. In Ireland, we have already invested more than €100 million - a number that has been cited in press statements before - and we have more plans for the coming years. Our work in Ireland is of that order of magnitude.

**Senator Gerry Horkan:** KBC Bank Ireland has very ambitious growth targets and has had very strong growth in the past several years. Would it be fair to say that it is the fastest-growing bank here at present, admittedly from a lower base?

**Mr. Wim Verbraeken:** On a relative basis, that is true. Obviously, there is still some distance between ourselves and the four major banks. However, we are quite ambitious and we believe that, with our approach, product and service offering, we can really be an alternative to these four players.

**Senator Gerry Horkan:** I wish to raise KBC Bank Ireland's competitiveness on interest rates. Ulster Bank has undertaken an initiative to which Deputy Pearse Doherty has referred. How does Mr. Verbraeken see KBC Bank Ireland's competitiveness relative to the other banks? Deputy Michael McGrath has an aversion to gimmicks and is conscious of how much can be hidden away by the attractiveness of a cashback offer. I applaud KBC Bank Ireland on its approach of being straightforward about what it is offering. I can see that in the increasing number of people who are opting for fixed rates on foot of the stability they provide. Where does the bank want to position itself in terms of interest rates? Does it want to be the most competitive? Is KBC Bank Ireland wary of being the most attractive to the market? What is its position in that regard?

**Ms Dara Deering:** We undertook a deliberate strategy on pricing in early 2016. We decided not to offer solely fixed or variable rates but to give choice across the board. We wanted to ensure that if people wanted competitive variable products, those products existed and that if they wanted a competitive fixed rate, it would exist. At the time, we did a lot of research with customers and they stated that they did not want gimmicks. They wanted us to be clear and transparent about the choices they made so, notwithstanding the competitive nature of the marketplace, we took that approach. We also borrowed and learned from other entities or from other countries where KBC operated and where fixed rates were more long-term in nature. We brought a ten-year product to the market in October of last year. Actually, 31% of our lending this year is accounted for by that longer-term product. We want to give choice and we want to give value in a way that represents long-term value to consumers. We are not going to make short-term decisions just to give a headline rate. It is about having a proposition that is clear to customers and sustainable over the long term. It is why we say to our existing customers that they can benefit from new business rates as their loan-to-value ratio changes. We have had a very clear and consistent strategy over the past several years from a pricing perspective.

**Senator Gerry Horkan:** The witnesses stated that KBC Ireland had very few people switching out. What is the volume of people switching in?

**Ms Dara Deering:** We account for about one in five mortgage switches happening in the marketplace, which is higher than our share of total mortgages. We do better in switching because we are seen to be very competitive across the range of options available to customers.

**Senator Gerry Horkan:** I wish to address NPLs, which constituted a significant component of the opening statement. I presume the figures are fairly depressing from the bank's point of view. They are quite shocking. Some 37% of its overall loan portfolio is non-performing. A significant element of that comprises of PDHs. Is it €2 billion out of €4.5 billion?

**Ms Dara Deering:** It is €2 billion.

**Mr. Wim Verbraeken:** Yes.

**Senator Gerry Horkan:** It is almost half of the bank's entire portfolio. It has not transferred any properties to vulture funds yet. It did transfer some residual balances after properties were disposed of. I know that a suite of options is available. Is KBC Bank Ireland considering looking at NPLs on a case-by-case basis? In instances where it is contemplating selling to vulture funds at a discount of 30%, 40%, 60% or 80%, would the bank make those offers to individuals or try to engage with them? Would it offer write-downs on these loans? All banks want to get as much money back as they can. However, you cannot get blood out of a stone. Is the bank looking at write-downs, restructuring and so on? The questionnaire contains a lot of detailed responses, although not all of the figures tie in with one another. What are the next steps, particularly for that €2 billion in non-performing PDH debt?

**Mr. Wim Verbraeken:** I would like to say that we are not depressed. The number the Senator refers to was much higher a few years ago. We are on a downward path and a positive trajectory.

**Senator Gerry Horkan:** Everything is relative.

**Mr. Wim Verbraeken:** Everything is relative. While the level at a certain point is important, the direction of travel is also important. We are travelling in the right direction. I referred earlier to the fact that a good number of loans that were currently classified as NPLs were actually paying. They are either paying interest or interest and some capital. Some have even returned to annuity, but they have to perform under that arrangement for one year before they can actually be cured and return to performing status. This is slowing the outflow and the curing of non-performing loans. We are quite happy with the results of all the hard work that Mr. Mahon and his team have put into putting all of these cases back on solid footing. As I indicated earlier, there are unfortunately a number of cases where no sustainable resolution can be identified. Then we typically engage with the customer if they are willing to do so, to hand the property to the bank or to sell the property. That is the outcome in most cases in that category. We are really putting a lot of effort and resources into that work. We are happy with that.

We are not hung up on the ratio of 37% *per se*. I do not think I have mentioned it before, but I would like to say that all of these loans are adequately provided for. There is adequate provision of capital against them. We are quite confident that whatever the outcome and, however long it takes, we can live with it. Obviously, 37% is still high by any measure. It is not the kind of ratio with which we would like to enter a new downturn or an economic recession. That would not be good foresight. That is why we are looking at a variety of options, continu-

ing to work on the cases, restructuring them and potentially exiting them. We also look at true hardship cases where we take a very humane approach on a case by case basis and, in some instances, that involves debt forgiveness or a debt write-off because it is absolutely justified. We progress these cases. We have not engaged in individual discussions with customers purely because we believe that the cases are non-performing.

**Senator Gerry Horkan:** On page 1 of the questionnaire, there was a reference to the total number of mortgages or private dwelling home, PDH, mortgages that were reported as in arrears of more than 90 days as 3,385.

**Mr. Wim Verbraeken:** Yes.

**Senator Gerry Horkan:** Page 3 states that various voluntary and legal surrenders total 1,555, 11% of the total distressed portfolio. What is that 11% of? It is not 11% of 3,385.

**Mr. Brendan Mahon:** The 3,385 just refers to accounts that are greater than 90 days in arrears. Within our non-performing loan definition, we have accounts that are not in arrears but are on resolution options where they are deemed to be non-performing loans. The tables of the different resolution options are proposed and concluded resolution options as we have offered them. They represent the total distressed portfolio.

**Senator Gerry Horkan:** The 3,385 excludes the Central Bank definition of non-performing loans, NPL. KBC Bank has a different definition for those 3,385.

**Mr. Brendan Mahon:** Question 1 just asked us the number of accounts that are greater than 90 days in arrears. Our definition of non-performing loans or a distressed portfolio includes cases that are not in arrears but are on a resolution option. They can be making payments that meet the terms of that resolution option, but they are still badged as distressed portfolios.

**Senator Gerry Horkan:** KBC Bank is using the Central Bank's definition of NPL for the 11% but not the 3,385?

**Mr. Brendan Mahon:** Yes.

**Mr. Wim Verbraeken:** Correct.

**Senator Gerry Horkan:** I was losing track of the numbers a little. With regard to the legal proceeding proposal on page 3, does "921" refer to 921 houses or dwellings that KBC Bank has permission to take back?

**Mr. Brendan Mahon:** Those are cases where we are going through the legal process. We have issued a final demand and they are at various stages of going through the court process.

**Senator Gerry Horkan:** The witnesses are looking for repossession of 921. Is that correct?

**Mr. Brendan Mahon:** Correct.

**Senator Gerry Horkan:** That is of PDHs and buy-to-lets.

**Mr. Brendan Mahon:** There are a further 122 buy-to-lets.

**Senator Gerry Horkan:** There are potentially 921 properties-----

**Mr. Wim Verbraeken:** Approximately 1,000.

**Senator Gerry Horkan:** Approximately 1,000. Are they situations where as far KBC Bank is concerned, it is at the end of the road?

**Mr. Brendan Mahon:** It tends to be where borrowers have not engaged and we are left with no option but to go down the legal route. We are still open to that engagement. This year, we managed to get borrower re-engagement in 30% of cases that were in the court process and we have looked to take them out of the court process to see what we can do with them.

**Senator Gerry Horkan:** How many came out of the court process?

**Mr. Brendan Mahon:** Some 30%.

**Senator Gerry Horkan:** So another 70% are still refusing to engage? When Mr. Mahon says they are not engaging, are they just not responding to anything?

**Mr. Brendan Mahon:** They are not responding to anything and not paying anything.

**Senator Gerry Horkan:** Does KBC Bank send people into the field to look at houses to see if they are still occupied or half-derelict?

**Mr. Brendan Mahon:** We do. We primarily try to engage with the borrower. The initial question is if we can get engagement with the borrower. We have a field team who will go out to try to have that face-to-face engagement with the borrower. Separately from that, we can understand that some borrowers are not comfortable dealing with the bank but there are other avenues that they can go through. There is the Money Advice & Budgeting Service, MABS, Abhaile, the Irish Mortgage Holders Organisation and iCare. There are other avenues and if borrowers do not feel comfortable talking to us, we encourage them to go through those avenues. We do not see something as being finished because it is in the legal process. If the borrower re-engages, we will look to see if we can get a different outcome for the borrower.

**Senator Gerry Horkan:** The 30% Mr. Mahon is speaking about are the 30% of the original 1,000 we are referring to here.

**Mr. Brendan Mahon:** They are the cases that were before the court or in the court process this year that we managed. As we were going into courts, the borrowers have re-engaged and we have taken them out of the court process to see if we can do something.

**Senator Gerry Horkan:** These are the March 2018 figures. Are the 30% in that figure or is that the figure after the 30% have been removed?

**Mr. Brendan Mahon:** They would have been labelled as being in the legal process so the 30% would be included there.

**Senator Gerry Horkan:** There are still approximately 700 dwellings about which KBC Bank cannot get any engagement.

**Mr. Brendan Mahon:** We cannot get engagement.

**Senator Gerry Horkan:** That is despite the fact that the bank knocks on their doors. They are not complying at all. What ultimately happens to those people?

**Mr. Brendan Mahon:** We ultimately follow the enforcement path and look for a repossession.



sion order. There is usually a stay on those. Once we have the possession order, we proceed to repossess.

**Senator Gerry Horkan:** How long does that generally take?

**Mr. Brendan Mahon:** The court process takes about three years from start to finish, from issuing final demands, all the way through to getting the possession order. Once we get the property back into our possession, it tends to take a further year to complete.

**Senator Gerry Horkan:** Would it be fair to say that KBC Bank wants the message to go out from here that those 700 should try to engage with it at some point? Mr. Verbraeken has outlined that the bank may look at genuine hardship cases and at debt write-down if it is totally unsustainable, and people should not keep burying their heads in the sand.

**Mr. Brendan Mahon:** Absolutely.

**Senator Gerry Horkan:** I thank the witnesses for their co-operation and opening statement. I wish their bank well in the future. Hopefully they can resolve many of these cases and leave people in their homes where possible.

**Senator Rose Conway-Walsh:** My question is specifically about residual debt after the properties were sold. Did the bank force the selling of properties?

**Mr. Wim Verbraeken:** When we talk about the portfolio that we sold through Cabot, as we indicated in our-----

**Senator Rose Conway-Walsh:** To whom?

**Mr. Wim Verbraeken:** Cabot. It is a specialised firm for collection of-----

**Senator Rose Conway-Walsh:** What is the difference between a specialised firm and a vulture fund?

**Mr. Wim Verbraeken:** It is recognised and regulated. It abides by rules within the industry and Irish law for that kind of work. Referring to that transaction, there is a nominal €140 million in residual balances. These were all residual balances at the outcome of a legal process. These were not cases where the customer voluntarily surrendered or sold his or her property and handed back the keys. In such cases, we would arrive at an agreement with the customer on the repayment of any residual debt based on affordability. Such cases would not have been included in that portfolio.

**Senator Rose Conway-Walsh:** The bank goes through the legal process, the house is repossessed and then the difference between what is owed and what the bank got for the property in its sale is the component of the €114 million.

**Mr. Wim Verbraeken:** Correct.

**Senator Rose Conway-Walsh:** To collect each of those debts in the €114 million separately, the bank basically sells it to a debt collector.

**Mr. Wim Verbraeken:** Correct.

**Senator Rose Conway-Walsh:** When Mr. Verbraeken says a specialist company, he is talking about a debt collector.

**Mr. Wim Verbraeken:** Yes.

**Senator Rose Conway-Walsh:** He is saying that that debt collector is regulated here.

**Ms Dara Deering:** It typically looks after many unsecured portfolios. This is unsecured at this stage because the property has clearly been sold.

**Mr. Wim Verbraeken:** It would be collecting credit card, personal loans or consumer finance debt.

**Senator Rose Conway-Walsh:** Some €114 million is handed over to a debt collector to go after people who could not pay their mortgages in the first instance. That is the situation.

**Mr. Wim Verbraeken:** These are people who ended up in the legal process because they did not engage with the bank.

**Senator Rose Conway-Walsh:** They did not engage. I find it very strange when the witnesses say that people do not engage with the bank. I hear from people that banks refuse to engage with them unless it is within a very narrow parameter. People come and offer to pay a certain amount a month. The witnesses are not talking about people like that. They are talking about there being no engagement whatsoever.

**Mr. Wim Verbraeken:** No engagement means no contact and no response.

**Ms Dara Deering:** For years.

**Senator Rose Conway-Walsh:** There is €114 million there, so the bank then sells it off to a debt collector. It would not dream of selling something off to a debt collector from somebody who had engaged and had, for example, lost a job or otherwise could not afford to continue to pay the mortgage at the rate that the bank wanted. If somebody was on an interest-only rate and the bank wanted to get some of the capital loan paid, it would not sell that off.

**Mr. Wim Verbraeken:** We are coming back to the earlier discussion. We keep all options open relating to non-performing loans and we have not made any decision about the review. All I can talk about is the transaction that we did in 2017.

**Senator Rose Conway-Walsh:** It makes me suspicious when we find out a specialist company is a debt collector because we know how debt collectors operate.

**Mr. Wim Verbraeken:** They also work for the State.

**Senator Rose Conway-Walsh:** That does not make them any different. We have sheriffs and so on.

**Mr. Wim Verbraeken:** The State engages with them.

**Senator Rose Conway-Walsh:** In presenting to the committee, it would be better if KBC Bank Ireland were to say it had given €114 million to debt collectors. Was that given at a reduced rate? What was the original sum?

**Mr. Wim Verbraeken:** The original sum was €140 million. We sold it at a discount, and that is all I can say.

**Senator Rose Conway-Walsh:** Was it discounted to €114 million or did I hear that wrong?

**Ms Dara Deering:** The gross was €140 million.

**Senator Rose Conway-Walsh:** Can KBC say what it was discounted to?

**Mr. Wim Verbraeken:** We have not disclosed that.

**Senator Rose Conway-Walsh:** Would the same discounts be offered to the people who were originally in the homes?

**Ms Dara Deering:** As we said, those customers did not engage with the bank. Had they done so, hopefully the outcome would have been different from a customer perspective because we would have been able to assess their affordability. In the vast majority of cases, we have been able to put customers on a restructuring. These are customers who, year after year, do not engage, despite KBC going out to see them and offering financial assistance to go to a third party, and despite free assistance being available from the State. They continuously do not engage. It is a last resort, where we have to go through a legal process and repossess a property or put in a receiver in the case of a buy-to-let.

**Senator Rose Conway-Walsh:** Are these principal dwelling homes?

**Ms Dara Deering:** The vast majority of them were buy-to-lets. It is a transaction we did in 2017, which we spoke about the last time we appeared before the committee.

**Mr. Wim Verbraeken:** Fortunately, this is a small minority of the total spectrum of what we see. It is a small subset of the entire cohort of distressed debt we have dealt with. Mr. Mahon and his team have restructured loans in the large majority of cases. In cases where there was no sustainable option available, we negotiated a solution with customers who engaged with us which allowed them to move on with their lives. The residual mortgage balance was dealt with in a negotiated way in these cases.

**Senator Rose Conway-Walsh:** Are those properties offered to the State before they are sold?

**Mr. Brendan Mahon:** We sell the properties.

**Ms Dara Deering:** If we have repossessed them.

**Mr. Brendan Mahon:** If we repossess properties, we have an obligation to borrow to get the best value for the property as we sell it because it will have an impact if there is any residual debt thereafter. Various State bodies have approached us. We estimate we have sold approximately 100 cases to the councils around the country in recent years through the normal market process.

**Senator Rose Conway-Walsh:** That is a small number. Will the witnesses give us an assurance that loans the bank classifies as non-performing but for which split mortgages or interest-only mortgages have been agreed will not be sold to vulture funds?

**Mr. Wim Verbraeken:** I can make no such comment. As I indicated, we are in a process of evaluating various options so it would be inappropriate for me to make any statement about that.

**Senator Rose Conway-Walsh:** We can only draw one conclusion from that.

**Chairman:** I am sorry for going back as far as Irish Intercontinental Bank, IIB, but I would

like to get this clear in my head. How many companies operate within KBC? Is it only KBC Bank, with KBC having taken over other entities associated with IIB such as IIB Homeloans and IIB Finance? Where does the legal documentation stand in relation to IIB?

**Mr. Wim Verbraeken:** A bank such as KBC Bank Ireland, previously IIB, would have a number of subsidiaries, sometimes special purpose subsidiaries. When it comes to mortgage lending, the historical mortgage lending before the financial crisis was conducted through an entity called IIB Homeloans, which was then renamed KBC Mortgage Bank, before being absorbed into KBC Bank Ireland plc. All the mortgage lending that is still on the books of the bank is within KBC Bank Ireland plc.

**Chairman:** Are any of IIB's entities still operated by KBC?

**Mr. Wim Verbraeken:** KBC has a number of subsidiaries that carry the name of IIB.

**Chairman:** What are they?

**Mr. Wim Verbraeken:** I do not have the list with me.

**Chairman:** Is it IIB Finance?

**Mr. Wim Verbraeken:** Yes, IIB Finance. We also have a few entities in the UK which carry the name of IIB. I could provide a list of the existing entities.

**Chairman:** Please do so. Are these entities licensed by the Central Bank?

**Mr. Wim Verbraeken:** The only entity that has a banking licence is KBC Bank Ireland.

**Chairman:** How would the others be described if they do not have a licence?

**Mr. Wim Verbraeken:** They are finance companies in some instances.

**Chairman:** Are they unregulated?

**Mr. Wim Verbraeken:** They are unregulated and involved in leasing transactions.

**Ms Dara Deering:** They do not do any mortgage lending today.

**Chairman:** I understand that, but they are active.

**Mr. Wim Verbraeken:** They are not commercial entities.

**Chairman:** In that case, what are they?

**Mr. Wim Verbraeken:** They are vehicles that have been used for specific transactions, of which leasing transactions would be the most important.

**Chairman:** In that case, are they not commercial?

**Ms Dara Deering:** They are legacy entities. They do not transact or deal with new customers today.

**Chairman:** That is the point I was trying to make.

**Mr. Wim Verbraeken:** They do not have any staff or engage in any commercial activity.

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**Chairman:** Are those entities used by KBC for any reason in the context of its accounting or reporting?

**Mr. Wim Verbraeken:** Obviously, they are. They are consolidated in the KBC Ireland Group accounts.

**Chairman:** For customers of IIB and those entities that were legacy-----

**Mr. Wim Verbraeken:** They have all been transferred to KBC Bank.

**Chairman:** Their loans, their titles of property and so on have been transferred to KBC.

**Mr. Wim Verbraeken:** Correct.

**Chairman:** Did customers have any issues with any of those entities or KBC around overcharging of interest rates or that kind of issue?

**Mr. Wim Verbraeken:** As the historical mortgage lending occurred in IIB Homeloans, any errors or failures of the bank in rate administration would have occurred in these entities. The loans now reside with KBC Bank Ireland plc, which is why all these loans are captured in the tracker mortgage examination, for instance.

**Chairman:** I am not referring only to the tracker mortgage issue. In the case of a commercial loan where there was an issue between the customer and IIB, did the issue affecting the customer move from IIB to KBC when the legal documents and loan transferred? In other words, is KBC addressing legacy issues with individual customers from the time of IIB? Is that how it works?

**Mr. Wim Verbraeken:** As far as I understand, yes.

**Ms Dara Deering:** Yes. If any loan transfers, then any obligation transfers with it, if that is the Chairman's specific question. The same happened with tracker mortgages. As Mr. Verbraeken said, many of them originated with IIB and are now being dealt with by KBC Bank Ireland. The same would happen for any other commercial loan provided it is in KBC Bank.

**Chairman:** Are there any commercial loans with that type of legacy issue attached to them? For example, are there cases involving customers alleging they were overcharged interest by IIB and the amount involved has built up over the years? Are there any legacy cases involving such customers trying to deal with KBC?

**Ms Dara Deering:** Not that we are aware of.

**Chairman:** Are there any legacy issues being dealt with in the courts arising from that?

**Mr. Wim Verbraeken:** Not that I am aware of.

**Chairman:** Not that Mr. Verbraeken is aware of. I might return to that.

I refer to IIB and the famous circular that referred to IIB home loans and a new tracker product at a rate of 0.9% issued in 2006. It was described as fantastic news. Mr. Verbraeken is aware of that circular. Originally, there was denial that that circular existed but the bank now accepts that it exists.

**Mr. Wim Verbraeken:** I do not think that we have denied the existence of the broker com-

munication because it was specifically directed towards mortgage brokers for new PDH customers; it was more about what was the influence on the customers' choice to opt for KBC and for certain products and how they were dealt with later. In the tracker examination programme by the end of December 2017, we had recognised more than 500 cases as having been impacted because they made an application while that broker communication was valid.

**Chairman:** In the context of the examination of that and the rate matrix that existed from May 2008 and so on-----

**Mr. Wim Verbraeken:** In May 2008, the broker communication was no longer applicable.

**Ms Dara Deering:** It was applicable from 8 November 2006 to 11 February 2008.

**Chairman:** Yes, I get that. Is 30 May 2008 correct?

**Ms Dara Deering:** No, it finished on 11 February 2008. That was a fixed product rolling to a tracker, which was replaced by a subsequent product communicated to brokers on that particular day.

**Chairman:** When this first arose in the examination of the tracker mortgage issue, and then this committee involved itself with every bank to try to resolve it, one name that came to prominence was Padraic Kissane. He has appeared before the committee and has given evidence.

**Ms Dara Deering:** Yes, we have met him.

**Chairman:** What was the outcome of that meeting?

**Ms Dara Deering:** We met him as part of the examination to get his feedback because he represents many customers of KBC and others. We brought him through where we had concluded in the broker communication because, as Mr. Verbraeken said, we had to determine what role, if any, it played as part of any conversation a broker may have had with a customer. In this case, we decided to determine that it may have had an influence in the period in which it was issued, even if that had not been the intention of the flyer. Hence we determined 547 customers were impacted.

**Chairman:** Was that a detailed engagement with Mr. Kissane?

**Ms Dara Deering:** Yes, it was. It was a meeting before we attended -----

**Chairman:** With whom from the bank?

**Ms Dara Deering:** It was with two colleagues of mine, Fergal O'Riagain and Niamh Richardson.

**Chairman:** What are their responsibilities within the bank?

**Ms Dara Deering:** Fergal O'Riagain was a business lead involved in the tracker mortgage examination and Niamh Richardson looks after our complaints department and has engaged regularly with Padraic Kissane, and others, regarding queries where he was authorised to represent customers.

**Chairman:** I met Padraic Kissane earlier at the coffee dock here. Ms Deering saw me. We were going through the documents and they were quite detailed. I cannot hold Ms Deering here all day and go through all the specifics in the documents. However, suffice to say, Mr. Kissane

would contest some of the evidence given to the committee and how that meeting, in particular, went. Does Ms Deering see any potential for future engagement with him to highlight the issues in the context of the rates, the tracker issue and so on, to learn from what he has learned from his customers?

**Ms Dara Deering:** We remain open to meet anyone, whether that is a customer or a representative of customers, on an ongoing basis. We have concluded our examination on all cohorts, but where there are individual customer complaints, we will continue to deal with them. If Pdraic Kissane represents customers of KBC, we will, of course, continue to engage with him.

**Chairman:** He represents customers of KBC. However, in the overall context of the handling of this issue, to be helpful, I am trying to arrange a meeting at the highest level within the bank to clarify some of the issues because I do not have the time to go through each one. That would be important for clarification between Mr. Kissane and KBC and that would serve the committee well in our learning process regarding what transpires in the bank and how these issues are dealt with. It might also help us to deal with the huge number of emails we receive. Even the recent emails continue to complain about the processes within the banks and the outcomes. I will not go through them all but I have one example from an individual who accuses the bank of ruining her life. It took away the joy and wonder of a mother's first years, destroyed her son's right to be raised in a home and goes on to discuss the possibility of a better family life and so on. It goes through a litany of the ways the tracker issue affected an individual customer of KBC. This customer is still attempting to get redress and closure on all the issues and trying to encourage the bank to reflect in a more generous way on the compensation that should be paid because of the changes that resulted in her life. For instance, her credit rating was affected which has a lot of consequences. The customer wrote to Ms Deering on these matters. I would like to take it up with Ms Deering in the context of the response after the meeting.

I return to the homes and the 921 cases. David Hall has been promoting an initiative that would keep people in their homes. The loan and property transfer to his organisation and he restructures it. How committed is the bank to this new project? How do the officials see it working and do they see any possibility for its expansion to capture more people and prevent their homes being taken from them?

**Mr. Brendan Mahon:** I assume the Chairman is referring to iCare. KBC have agreed to go into a pilot scheme with iCare. We have had ongoing engagement with the IMHO, MABS, and Abhaile over the years. We had good success with the IMHO under David Hall and are now expanding that into a pilot scheme with mortgage-to-rent. David Hall announced that yesterday.

**Chairman:** Is that a narrow scheme or is there room to expand it?

**Mr. Brendan Mahon:** There are two schemes. One is mortgage-to-rent and the other is the potential to purchase vacant properties. We are looking at both of those avenues with iCare.

**Chairman:** I return to Ms Deering and the settlement of some of the loans, which she discussed with Senator Conway-Walsh. The Senator asked her whether KBC had ever marked down a loan as one would do when selling to a vulture fund. Has the bank considered that?

**Mr. Wim Verbraeken:** We have not sold any mortgage loan so that is purely hypothetical. My answer was clear. We believe they need to be paid in full, but we take hardship circumstances into account and look at each loan on a case-by-case basis. Through the pick-up in the

economy, we have seen customers gradually being better able to service their mortgages. Loans in our distressed portfolio have been restructured and customers facilitated through reduced interest, interest-only repayments and term extensions. Up to 30 resolution options are available. There is an option to fit the majority of customers either immediately or once they have sorted out unsecured debt issues. I wish to be clear that the bank has not engaged in loan settlement discussions on an individual basis and it is not our policy to do so.

**Chairman:** What level of cost does the courts process through which banks bring customers who, as the representatives state, have not engaged over many years entail for the bank?

**Mr. Brendan Mahon:** An average of €5,000 to €6,000 per case. It could be higher, depending on the duration of the case.

**Chairman:** Does the bank hand over commercial or tracker issue cases to its legal representatives once the case goes to court and give them full rein to deal with the cases or does it check on their progress? Issues of which the bank was unaware may arise and, if acknowledged, may bring about a different type of solution. Does the bank have oversight of the activities of its legal representatives?

**Mr. Brendan Mahon:** The bank prepares the case before it goes to a legal firm but is represented in court by legal professionals. Our internal teams examine the cases and present the facts to the legal firms.

**Ms Dara Deering:** That is why customers re-engage in 30% of cases, as Mr. Mahon mentioned, which is great. Even at the last hour, we remain open to re-engagement with customers who have not engaged all along if they are willing to talk to us and see if there is any option apart from repossession, which is a last resort.

**Mr. Wim Verbraeken:** I stress that the strategy in a case is fully in the hands of the bank because it is based on a decision of the credit committee. We do not give free rein to legal representatives as the Chairman suggested.

**Chairman:** That was my question.

**Mr. Wim Verbraeken:** We instruct them and they help us and follow the rules of the procedure but the bank is in charge of case strategy.

**Chairman:** I am interested in such cases. In the course of a case in which bank documents may be challenged, new information given or an error in documentation or incomplete documentation discovered, the bank remains open to talking to the customer. It does not refuse to do so once proceedings reach court.

**Mr. Wim Verbraeken:** As Mr. Mahon hinted, the bank remains open to serious engagement with the customer even when proceedings are before a court. If new information is discovered in the course of proceedings, we will take that into account. We do not stubbornly pursue an avenue just because we have set out on it. That is not our strategy.

**Chairman:** Although I do not wish to go into too much detail, I recently read of a court case in which a customer of the bank claimed the bank owed him or her money. If that money had been paid or acknowledged as owing to the customer, it might have resulted in a different outcome to the case. That is why I asked about commercial cases before the courts. I might come back to the representatives in that regard.



**Mr. Wim Verbraeken:** I cannot comment on specific cases.

**Chairman:** Mr. Verbraeken stated that the bank use Cabot.

**Mr. Wim Verbraeken:** Yes.

**Chairman:** Does it use Cabot for debt collection?

**Mr. Wim Verbraeken:** Yes. It is a specialist firm. I do not know much detail of it but it is recognised and regulated. It works for KBC and other financial institutions and, as I stated, also carries out collection on behalf of the State.

**Chairman:** It is a debt collector.

**Mr. Wim Verbraeken:** Yes.

**Chairman:** I misunderstood the question that was asked and was unsure whether it was a vulture fund or a debt collection agency. I thought I got it wrong but it is a debt collection agency as I thought.

**Mr. Wim Verbraeken:** Yes.

**Chairman:** This point may have been clarified in my absence: it was reported that there is a substantial sum of non-performing loans in the bank.

**Mr. Wim Verbraeken:** Yes.

**Chairman:** Are they worth €8 billion?

**Mr. Wim Verbraeken:** It was €8 billion at the time but is now down to €4.5 billion or €4.6 billion.

**Chairman:** Is that a big drag on the performance of the bank?

**Mr. Wim Verbraeken:** No. The interest, at a minimum, is being repaid on at least half of the loans comprising that €4.6 billion.

**Chairman:** Those debtors are paying something.

**Mr. Wim Verbraeken:** They are paying at least the interest on the loan. Sometimes that is the best they can do at this point and we work with that. Not all the customers who cumulatively owe €4.6 billion are zero payers. We work with those customers, as we have with all customers in financial distress since the outbreak of the financial crisis, whether corporate, SME or retail customers. That did not stop us launching the retail bank in 2013-14, rolling out a full suite of retail product features, investing in technology and upgrading our core banking system, launching new apps or recently launching a proposal for micro SMEs. We have devoted significant resources to the issue and Mr. Mahon heads a team of more than 100 people, along with others in the back office, who look after these legacy portfolios, but that has not stopped our ambition to challenge in the banking market in Ireland.

**Chairman:** That reminds me that the business in the commercial case to which I referred was described as a zero payer but claimed that the bank owed it €1 million. I will bring that to Mr. Verbraeken's attention after the meeting. I thank the representatives for their attendance.

The joint committee adjourned at 4.20 p.m. until 9.30 a.m. on Thursday, 12 July 2018.