

# 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, 9 Aibreán 2019*

*Tuesday, 9 April 2019*

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The Joint Committee met at 2 p.m.

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#### MEMBERS PRESENT:

Deputy Peter Burke,	Senator Rose Conway-Walsh,
Deputy Pearse Doherty,	Senator Gerry Horkan.
Deputy Michael McGrath,	
Deputy Paul Murphy,	

DEPUTY JOHN MCGUINNESS IN THE CHAIR.

## **Business of Joint Committee**

### **Matters Relating to the Banking Sector: Permanent TSB**

**Chairman:** I welcome Mr. Masding and his colleagues to the meeting. We have received his opening statement.

I draw the attention of witnesses to the fact that by virtue of section 17(2)(l) of the Defamation Act 2009, witnesses 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 do so, 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. Masding to make his opening statement.

**Mr. Jeremy Masding:** I am joined this morning by my colleagues Shane O’Sullivan, director of group operations; Breege Timoney, product assurance director; and Declan Dolan, group treasurer. Unfortunately, Eamonn Crowley, the chief financial officer, is unable to attend due to personal circumstances.

At our various engagements with the committee over the course of 2018, there have been a number of recurring topics, so perhaps I may begin by providing a quick update on where we are in respect of these matters. I will start with the ongoing tracker mortgage examination. There has been no material change in respect of this issue at Permanent TSB over the past 15 months. In December 2017, we confirmed to the Central Bank of Ireland that we had identified a total of 1,979 accounts which were eligible for redress and compensation. That figure rose by four accounts to 1,983 in the following months as we completed the programme of work. To date, we have completed redress and compensation for a total of 1,951 accounts, or 99% of the total. A total of 14 customers have chosen not to accept payments at this point. The remaining 19 accounts relate to individuals who we believe have left the jurisdiction. Despite the use of international search agents, we have been unable to locate or contact these customers. In these cases we have lodged the relevant amounts to the mortgage accounts pending contact. Should there be contact in due course, the funds will be transferred to the customers.

The work in this area has been very thorough and objective. We built a strong governance framework around this project that, in turn, shaped both the response of the Central Bank and the industry. The work established a rigorous approach to how we analysed the customer population, identified affected customer accounts, redressed and compensated the holders of those accounts and offered the right of appeal to these individuals through the relevant channels, including appeals panels and the Office of the Ombudsman. All key decisions along the way were subject to check, challenge, review and independent oversight. We are not aware of any cohort of customer accounts, outside those identified by us, which the Central Bank of Ireland

believes should be included in our impacted population.

We have been asked frequently at this committee whether we have identified any individuals who bear responsibility for this issue. Let us remind ourselves that the key issue which has been identified was that the bank failed to disclose fully to customers that their request to break early from fixed-rate products would result in the loss of a right to return to the tracker-rate mortgages which they enjoyed so long as they completed the fixed-rate term. During the bank's work and in responding to the Central Bank's tracker mortgage examination, we found no evidence that the failure to provide this disclosure was planned or deliberate. Of course, the bank's work on the tracker mortgage examination is, as with all of the main players across the industry, subject to an enforcement investigation by the Central Bank. We continue to co-operate fully with this exercise and this will restrict our ability to answer questions on this issue today.

A second issue which has taken up a significant amount of time here is the subject of non-performing loans, NPLs. As the committee is aware, Permanent TSB has undertaken a series of actions to reduce the percentage of NPLs on its balance sheet with the aim of both reducing the underlying exposure to an economic shock and enabling management to focus on providing ongoing competition in the Irish retail and SME banking market. Last year we discussed two significant transactions in great detail with the committee, namely, Project Glas and Project Glenbeigh. In respect of Project Glas, the migration of the loan accounts to their new owners has now completed. In the context of Project Glenbeigh, we are well advanced in completing the migration of the accounts to their new servicer, Pepper Finance Corporation (Ireland). In completing this project the bank sought accounting advice from KPMG and transaction advice from Citibank. In addition, we had significant ongoing interaction with PwC, as the bank's auditors and with the Central Bank of Ireland and the European Central Bank as regulators, as the transaction was complex and involved the reconciliation of a myriad of interconnected factors to achieve NPL derecognition. Based on stakeholder interactions, we came to the conclusion that ceasing the servicing of the loans within a reasonable timeframe after their sale to Glenbeigh Securities would be necessary to give us the certainty we required that both the loans would be derecognised and the NPL ratio reduced which was, of course, the purpose of the exercise. In doing so, we provided clarity to our customers about their ongoing mortgage servicing arrangements.

The execution of NPL sales or securitisations - which involve thousands of properties - is very complicated as a result of: contractual commitments in respect of cut-off dates, including agreeing a final decision date on which accounts are included or excluded from a transaction; contractual commitments in respect of the management of relevant accounts after contracts are signed but prior to migration; and technical challenges around how and when accounts are onboarded to the new owner's IT platform. At all times, we undertake these activities in good faith, doing our very best to deliver fair and certain customer outcomes as we fully appreciate the sensitive nature of NPL sales. As a result of the two transactions, the proportion of NPLs on the bank's balance sheet has been reduced from 26% to 10%. This is good news for the taxpayer as minimising NPL ratios reduces, in the words of the Governor of the Central Bank, national risk. However, the bank's residual NPL ratio of 10% remains about three times the European average and we will continue to work to reduce the proportion of NPLs on our balance sheet over the coming months.

In this regard, I am conscious of the proposed No Consent, No Sale Bill 2019. Thus far we have avoided public comment on this legislation however, given the forum we are in today, I will say that I share the concern recently expressed to this Committee by the Governor of the

Central Bank of Ireland about the legislation. Our concern is that this legislation will make it more difficult for banks to repair and strengthen their balance sheets, to deepen funding sources such as securitisation, to attract sufficient capital, to increase competition, or to reduce interest rates in the market.

The issue of mortgage interest rates has come up at various committee meetings. Over the past year, we have completed a comprehensive overhaul of our fixed rates for new business customers. This has allowed us to reduce fixed rates for three-year and five-year terms and to introduce a very competitive seven-year fixed rate. This the longest fixed-term product we have been able to introduce in eight years, which is testament to the fundamental restructuring and repairing of the balance sheet since 2012. The bank's next priority is to review the pricing and product strategy for existing customers and we hope to be able to make announcements on this front during the course of this year and beyond.

Another issue which has attracted some attention in recent months relates to the changes we have made to the pricing model for legacy current accounts. I will make a couple of points in this regard. The bank's objective is to maximise the sustainable value it generates for its shareholders, including the Irish taxpayer, while delivering value to its customer base. That requires us to review constantly the pricing models in different product areas to ensure we are not leaking taxpayer value. In current accounts, we have a very competitive, award-winning product which we launched three years ago. This product rewards customers in various ways and makes payments based on card usage. It is now the default current account offering for the bank's customers. However, we do have legacy products which are not economically viable and which are out of kilter with the wider market. The changes we made to the aforementioned current accounts address this issue.

In this context, the evolving and ongoing changes to the bank's customer offering is reflective of the fact that the banking world is changing. In particular, both customers' and regulators' needs are changing, and we have to change with them. That is going to require constant and dynamic changes to all dimensions of the bank's proposition, for example, to both our product and digital offering. In respect of digital, we are already investing in improving service for customers, having made some significant progress over the last 12 months, and there is much more to come now that we are largely free of the anchors of the past.

In its invitation to us to attend this meeting, the committee indicated its interest in our views on Brexit and the emerging banker accountability framework. In respect of Brexit, Permanent TSB is focused exclusively on the Irish retail and SME banking market. Some years ago, we disposed of loan books in the UK. We have no ongoing business interests in that jurisdiction. Therefore, our concern about Brexit is the general economic impact, in particular on our SME customers who may have exposure to the UK market. We have no evidence to date that would justify any significant concern in this regard. As the committee would expect, we are monitoring the situation carefully and engaging with the SBCI in respect of its future growth loan scheme. We support the banker accountability framework.

The bank recently announced its results for 2018. As the results demonstrate, we made substantial progress in the bank's transformation last year. We reduced our NPL ratio and generated operating and bottom line profit. Our position in lending, particularly new mortgage lending, grew significantly. Most important, we successfully exited the EU restructuring plan into which we were placed after the crisis. With the support of the Irish taxpayer and stakeholders across the system, including this committee, the regulator, the Department of Finance and our customers, we have worked long and hard to rebuild Permanent TSB after the financial

crash. The progress we have made has come at some really significant cost to the taxpayer, our staff and, most important, our customers. However, the taxpayer has been saved billions of additional funding and capital costs that would have been incurred if the bank had been allowed to fail. PTSB, which has a customer base of over 1.1 million, has been saved as an important competitive force in a market that is not exactly overburdened with competitors. Now we will be part of the debate about how the market is shaped in the future. We have an even better opportunity to return more of the investment which the taxpayer made in us. This always remains the key objective for me and the board. I thank the committee for its attention.

**Deputy Michael McGrath:** I welcome Mr. Masding and his colleagues. I thank them for the opening statement and the questionnaire, which we got in advance. I will start by raising the issue of NPLs. In his opening statement, Mr. Masding gave an overview of the two major portfolio sales or securitisations, Glas and Glenbeigh. When Glenbeigh is fully executed, the bank's headline NPL rate will reduce from 26% to 10%. Can Mr. Masding tell the committee where the bank needs to get to, in percentage terms, to satisfy the European authorities in relation to NPLs and how the bank intends to get there?

**Mr. Jeremy Masding:** Yes, of course. We understand that the European average today is closer to 3.5% than to 5%. We still have some distance to travel. As the Deputy mentioned, our NPL ratio reduced from 26% to 10% in 2018. We have completed the vast majority of our reduction. By definition, any further activity in 2019 will not be of the same scale as the 2018 activity. We now have the second or third lowest NPL ratio of the five retail banks in Ireland. Therefore, to answer the Deputy's question, we are continuing to look at all options for further NPL reduction. Nothing, including loan sales, is ruled out. We expect other measures, such as increased mortgage-to-rent activity, to have an effect. A significant number of natural cures will also account for a substantial proportion. We still have a long way to go. I would not rule anything in or out this afternoon. I think there is a different mix on its way. There will not be the same scale of transactions this year.

**Deputy Michael McGrath:** Mr. Masding stated that Permanent TSB has a long way to go. To where does it need to get? Does it need to get to approximately 3.5%? By when does it need to reach that target? Is it the case that, as reported in the media, it and the other banks are expected to approach the European average? Has that been conveyed to him by the regulators?

**Mr. Jeremy Masding:** We have a very open and constructive relationship with our regulators. Each year, we are obliged to provide a credible but aggressive non-performing loan, NPL, reduction plan. It is well understood that to expect a bank such as ours to go from 10% to the European average in a 12-month period is unreasonable. I would argue that "credible but aggressive" means it taking a 24 to 36 month period to get to the European average. If we can reach it more quickly and find opportunities in that regard, of course, we will so do. However, the key activity took place last year when we needed to break the back of it because, as members are aware, the risk to the balance sheet was significant and, therefore, so was the risk to Ireland. Indeed, our relationship with the regulator was quite tense.

**Deputy Michael McGrath:** Mr. Masding regards a time horizon of two to three years as reasonable. The regulator may take a different view but we do not know the full extent of the contact between Mr. Masding and the regulator.

**Mr. Jeremy Masding:** I consider two to three years reasonable unless opportunities arise for us to decrease the proportion of NPLs more quickly. All of the indications are that we are nearer the end than the beginning of a positive economic cycle. I do not wish to be in a situation

whereby the bank balance sheet is stressed and exposed to economic shocks. I agree with the Deputy's summary, but add the caveat that, as opportunities arise, we will attempt to manage it that way.

**Deputy Michael McGrath:** In the past year, Permanent TSB sold mortgages relating to approximately 20,000 properties. Almost 13,000 of them were owner-occupier mortgages. That raises many concerns for those directly affected because many so-called vulture funds do not offer the full suite of mortgage restructuring solutions. For example, although Mr. Masding will argue that the protections follow and that borrowers are fully protected, can he give any reassurance to existing owner-occupier mortgage holders within Permanent TSB that there will be no further loan portfolio sales to these funds?

**Mr. Jeremy Masding:** I cannot give that assurance. The ratio of 10% includes a mix of assets. As we have always tried to do, we will look at the options open to us. We will try to execute whichever option we choose in the best possible manner. For example, if we have to pursue a further loan sale, we will go through the right diligence to find the right buyer and then go through the right diligence to find the right servicer. It is important that the servicer is regulated and that the protections travel with the loan.

**Deputy Michael McGrath:** I welcome that Mr. Masding outlined in his opening statement that his focus in terms of mortgage pricing will be on the bank's existing mortgage customers. This issue has been discussed on several occasions by the committee. Permanent TSB is still treating its existing mortgage holders less favourably than its new mortgage customers. There is a difference of 0.5%, or 50 basis points, in its managed variable rate offerings. In simple interest terms, on a mortgage of €200,000 an existing customer would pay €1,000 more annually than a new customer. Why does Permanent TSB continue to punish its existing loyal customers and favour new customers?

**Mr. Jeremy Masding:** As the Deputy and I have previously discussed, we are aligned in our common desire to have a compelling front and back book mortgage strategy for Permanent TSB. As I mentioned previously, I must balance that in terms of the value we provide to our customers while also ensuring that the bank remains competitive and sustainable. We referenced some of the examples of back book initiatives before, but I would like to put them on the record again. Any of our customers who has the standard variable rate, SVR, can avail of the managed variable rate, MVR, with a valuation that we pay for and, therefore, can get access to loan-to-value, LTV-based products. We also have some compelling back book fixed-rate products. If the Deputy asks whether we are where I want us to be yet, perhaps I can leave it as saying that I am aligned with him but that we are not there yet and there is still work to do.

**Deputy Michael McGrath:** I hear Mr. Masding. He made similar comments before and there has been some progress, but it remains the case that a MVR customer is paying 0.5% more than a new customer. There are also differences for fixed-rate customers. PTSB's three-year fixed interest rate offering to an existing customer is 3.7%. For a new customer, it varies between 2.85% and 3.1%, depending on LTV ratios. That is a difference of up to 0.85%, which is significant.

I will repeat a point I have made in the past. Regarding the MVR, the bank is only allowing customers to submit a valuation and avail of a reduced MVR once. To my knowledge, PTSB is the only bank that continues to restrict the ability of customers to do that to just one occasion. Other banks allow customers to continue updating their LTV ratios and benefit from reduced interest rates. That is unfair. From a consumer protection point of view, it is an issue that the

bank should move on before it is possibly forced to do so by the Central Bank. I do not know whether Mr. Masding wishes to comment on these points before I continue.

**Mr. Jeremy Masding:** I have no further comments to make save to repeat that, at a principle level, we are aligned in terms of the role of PTSB in providing compelling mortgage propositions to front and back book customers. That is our job and we will continue to try to do that within the bounds of what we can afford.

**Deputy Michael McGrath:** I see that 27% of PTSB's mortgage accounts continue to pay a SVR of 4.5%, which is an insane rate for anyone in this day and age, given the market conditions that have prevailed for a number of years. This relates to 34,700 customer accounts. While that number is lower than it was in previous years, it is still over a quarter of the bank's mortgage book. Will Mr. Masding outline to the committee the work that PTSB is doing to bring to the attention of all those customers the fact that every single one of them is entitled to an immediate rate reduction, one that could get customers an MVR of between 3.7% and 4.3%? Compared with the higher rates that customers are charged, many of them could avail of a 0.8% reduction. What is the bank doing to bring this to their attention even though it may not be in its financial interests to do so?

**Mr. Jeremy Masding:** There are two answers to that question. First, we use every public forum, including this one, and our annual results to raise this as an issue. Second, we write to customers with their annual mortgage statements to ensure that they understand that there is value that they can gain through the process.

As to the Deputy's comment on this being driven by our financial interests, the principle of running a financial services business is to try to find a balance between giving value to and getting value from the customers. We do not set out to be out of kilter in either respect. There is a saving of significance that is available to those customers. If the committee does not mind me using this forum as a "public forum", I will encourage all SVR customers to examine the savings that are available to them by using their LTV ratios and having valuations that are paid for by Permanent TSB.

**Deputy Michael McGrath:** It is important that Mr. Masding does that. In simple terms, 35,000 of PTSB's mortgage customers are paying more than they should be. That is not an arguable issue and has nothing to do with European averages and so on. Even within the bank, they should be, and can be, paying less. We all need to send out that message loud and clear. How many vacant properties are in the bank's possession?

**Mr. Jeremy Masding:** I will make some general comments about properties in possession following which Mr. O'Sullivan will comment on the process we are going through. On the numbers, it is important first to set the context if that is okay. As of end December 2018, we had 1,193 residential units in possession, down from 1,793 at the end of December 2017. There were 1,122 properties in possession sold during 2018. I use that statistic because in my appearances in 2016 and 2017 I tried to explain to the committee that in terms of building arrears management capability in PTSB, we started back in 2013 at the front end trying to ensure that we provided as many long-term agreements as we possibly could and to keep people in their homes. Gradually, we invested in resources through the value chain so that eventually we got into properties in possession. The commitment I made was that there would be a significant increase in that activity. I hope the committee can see that we are-----

**Deputy Michael McGrath:** Will Mr. Masding provide a breakdown of the 1,193 units in

possession at the end of 2018, to include how many of them were tenanted and how many were vacant?

**Mr. Jeremy Masding:** In regard to the 1,193 units, our goal is to sell the vast majority of them during the course of this year. I will ask my colleague, Mr. O'Sullivan, to put some more meat on the bones in that regard.

**Mr. Shane O'Sullivan:** We have approximately 500 properties that are vacant and 750 that are tenanted.

**Deputy Michael McGrath:** When Mr. Masding was before us in June of last year the respective figures were 1,100 vacant properties and 900 tenanted properties.

**Mr. Shane O'Sullivan:** That is correct.

**Deputy Michael McGrath:** The 1,100 has decreased to 500 and the 900 has decreased to 750.

**Mr. Shane O'Sullivan:** That is correct.

**Deputy Michael McGrath:** I put it to Mr. Masding that those figures are still extraordinarily high. Bank of Ireland appeared before the committee last week. It is a very large bank in this State. The Bank of Ireland witnesses told us that they currently have 79 vacant properties on their books. Permanent TSB has 500 vacant properties on its books.

**Mr. Jeremy Masding:** I am not sure the Deputy is comparing apples with apples, although he will, of course, argue that he is because it is a bank versus a bank. The difference is that during the course of 2017-----

**Mr. Shane O'Sullivan:** It is 2017-2018.

**Mr. Jeremy Masding:** -----we ran an assisted voluntary sale campaign, which was extremely successful in the buy-to-let area. This spiked the numbers of properties in possession. I think it might be legitimate for me to make the counter argument that what we did was to try to lance the boil of customer circumstances which were not working. I will ask Mr. O'Sullivan to elaborate on what we did.

**Mr. Shane O'Sullivan:** I think what has been said largely explains it. We took possession of approximately 1,500 properties, which were, in the main, buy-to-let properties. The Deputy will recall that we wrote off the shortfall debt. This was, in effect, a win-win for indebted borrowers who did not have a route out of their indebtedness and non-performing loans, NPLs. It was an opportunity for the banks too. We are actively reducing that stock.

**Deputy Michael McGrath:** How quickly can the bank bring those 500 vacant properties to the market and what does the future hold for the tenants and families in the other 750 properties? Is mortgage-to-rent a real option that the bank is pursuing in those cases?

**Mr. Shane O'Sullivan:** Yes, it is. In terms of the stock that we currently have, our intention is that that figure will halve by year end. We will have a stock of approximately 600 properties at year end, and we will continue to reduce that figure. Earlier, the Deputy mentioned a figure of 2,000, which is correct but it is important to remember that it goes up as well as down. It is not just a case of managing it down as new properties come into that stock. Our commitment is to reduce that figure to 600 by year end. Of the properties mentioned, almost 300 are at sale

agreed such that the figure of 1,250 will reduce by 300 fairly quickly. We are actively selling an additional 200 properties.

In regard to mortgage-to-rent, we are a big fan of this scheme. We wish we could do more with it, as do most of the participants in the scheme. At this stage we have approximately 23 properties, which have been successfully through the mortgage-to-rent process. We have an additional 40 properties lined up behind that. That is a good outcome for the borrowers and the bank. In addition, we have another 150 to 200 customers engaged in the process.

**Deputy Michael McGrath:** My final question concerns the mortgage tracker examination. The total figure remains at just under 2,000 mortgage accounts. There has been no change in material terms since the witnesses' last visit and the last update. Regarding the cost to the bank to date, €60 million has been paid out in redress and compensation. Is that correct? Mr. Masding might add in the administrative cost to the bank of running the tracker mortgage unit. It was stated in the questionnaire that has more or less been wound down now. What has been the total cost to the bank? I assume these figures relate only to the current examination and not to the earlier one in 2010 or 2011 when the bank was also involved.

**Mr. Jeremy Masding:** I ask Ms Timoney to answer that question for me please.

**Ms Breege Timoney:** The bank has spent €130 million to date. That covers the mortgage redress programme that commenced in 2015, as well as the tracker mortgage examination under the guidance of the Central Bank since the end of 2016. That €130 million has three key components. Of the €60 million for redress and compensation, €59 million odd has been paid to date. A small element is still to be paid. The programme itself costs about €50 million. That covers the cost of staff, including bringing in contractors to help us do the work and the advisors involved in the work. Another €20 million, approximately, has gone on other expenses associated with the programme.

**Deputy Michael McGrath:** Are there any other outstanding issues as far as the bank is concerned? I refer to dealing with the Central Bank regarding prevailing rate customers and discounted tracker customers. Are there any cohorts or groups where the Central Bank and Permanent TSB have a different view or interpretation? Is it close to finality as far as the bank is concerned and a case of any outstanding issues going through the appeals panel and the FSPO, if required?

**Mr. Jeremy Masding:** That summary is correct. As I said in my earlier remarks, we are not aware of any other cohort of customer accounts, outside of those identified by us, which the Central Bank believes should be included in our impacted population. In summary, the board and management believe the programme has been completed.

**Chairman:** I call Deputy Pearse Doherty.

**Deputy Pearse Doherty:** I will start with those figures. Many figures were presented by Ms Timoney. The €130 million is the total figure regarding the tracker mortgage scandal so far. Is that correct?

**Ms Breege Timoney:** The €130 million is what has been spent at the end of 2018.

**Deputy Pearse Doherty:** That includes the legal fees, administration and the compensation.

**Ms Breege Timoney:** Yes, that is correct.

**Deputy Pearse Doherty:** I am looking through the questionnaire supplied by the witnesses. I am sure that in one of the questions the answer was €165 million.

**Ms Breege Timoney:** It is correct that €165 million has been provided but what has been incurred is €130 million. A sum of €35 million has been set aside to cover any residual matters.

**Deputy Pearse Doherty:** An additional €35 million is being provided.

**Ms Breege Timoney:** No. It has been provided, as at the end of 2018. It is there and was provided for previously.

**Deputy Pearse Doherty:** Is it expected that will be reduced? There are 181 cases before the FSPO relating to customers who are not happy with the processes used, the level of compensation and the determinations made by the bank. Is the bank providing for possible legal challenges?

**Ms Breege Timoney:** We are providing for a number of things. The FSPO has not adjudicated on most of those cases yet, so I do not think it is accurate to state that the ombudsman has found against us in those cases.

**Deputy Pearse Doherty:** I did not say that. I said there were 181 cases before the ombudsman.

**Ms Breege Timoney:** Yes, I am sorry.

**Deputy Pearse Doherty:** Those people are unhappy with the bank's own processes, procedures and customer relations.

**Ms Breege Timoney:** I completely agree and the outcome of those cases is uncertain at the moment. There are three or four residual areas for which provision has been set aside. The Central Bank of Ireland investigation is still to conclude. Appeals are still ongoing, there are FSPO cases and, of course, there may be legal cases as well.

**Deputy Pearse Doherty:** Is it being suggested that the additional €30 million is being provided to cover the fine the Central Bank is going to issue? Is it expected the fine for Permanent TSB will be that low given the torture many customers were put through? I refer to the fact that the bank took from the accounts of customers more than €100 million or had to pay back €130 million in administration costs and the money that should never have been taken from them in the first place. Do the witnesses expect that the fine by the Central Bank will be as low as €30 million?

**Ms Breege Timoney:** The CBI fine will be a matter for the CBI in due course as it concludes its investigation. IAS 37 is the relevant accounting standard and is the basis on which we come up with what management's best estimate of what those residual liabilities might be. That is the way we have to approach the matter and we cannot speculate on what the fine may or may not be.

**Deputy Pearse Doherty:** Is the best estimate of the fine, which is an expected liability, and any other unresolved tracker cases, whether they are before the FSPO or relate to a number of people that the bank has not contacted, a total quantum of €30 million?

**Ms Breege Timoney:** Yes, €35 million. That is our best estimate.

**Mr. Jeremy Masding:** First, it is important that I reinforce what I said at the annual accounts announcement both to the investors and the media. We expect that we will, but, most importantly, should be fined. I just want to align with the Deputy and his description of what happened is something that the bank should be fined for. I would not want him to think in any way, shape or form that we are trying to hide from that. The bank should be fined.

Second, in terms of the scale of that fine, we will engage in a mature conversation with the CBI enforcement division. The fine will be as it should be and we will pay, as it should be. As Ms Timoney said, what we have done so far is our best estimate in terms of what the fine should be. For me, the key point of principle that we should place on the record today is that the bank should be fined.

**Mr. Jeremy Masding:** On the scale of the fine, Mr. Masding has just said that his bank will enter into a mature conversation with the CBI. Surely the CBI will determine what the fine is and that the bank, the guilty party in this case, will just have to accept it? Is Mr. Masding suggesting that there will be a mature conversation between the CBI and the bank as to how heavy the bank should be fined given its conduct over the past number of years?

**Mr. Jeremy Masding:** When I talk about a mature conversation, the Deputy will understand, I hope, that my duty is to ensure all of the facts are put in front of the Central Bank to ensure that the fine is based on the actual facts that are provided. That is the only point I am making. If I gave him the impression in some degree that it is a negotiation, then I apologise. I did not mean to do that. My point was we should be professional in the way that we work with our regulator; we will be. We will put all of the facts in front of them and then the fine is the fine but the point of principle is that we should be fined.

**Deputy Pearse Doherty:** Has the bank conducted an internal report on how so many customers had their money taken wrongly and unlawfully from their accounts? Has the report been commissioned? Has it been completed? Has it been sent to and signed off by the board? Has it been given to the Minister for Finance, as the majority shareholder in the bank, and to the Central Bank? Has the report been shared with the Garda if, indeed, one exists?

**Mr. Jeremy Masding:** Sorry, what was the last stakeholder? I am sorry but I did not hear him properly.

**Deputy Pearse Doherty:** The Garda.

**Mr. Jeremy Masding:** There was a report commissioned. As the Deputy and I discussed back in 2016, I think, and based on those facts, we advised the committee, including the Deputy, that as far as we could tell this was not a deliberate action. It was the absence of control within the bank. The control we should have had was to warn customers of the potential consequences. There was no deliberate decision that we have been able to identify. I am afraid that because the bank remains subject to enforcement action, I am constrained on making any further comments. I can look him in the eye and assure him that there was an internal report.

**Deputy Pearse Doherty:** The Bank of Ireland is also subject to the same enforcement investigation. The bank was able to tell the committee that it had commissioned a report and submitted it to the CBI. I am sure that information would not jeopardise the investigation that is ongoing, so has the report been submitted to the Central Bank of Ireland and, as a majority shareholder, did it go to the Minister for Finance?

**Mr. Jeremy Masding:** The report was shared as part of the tracker mortgage examination with the Central Bank of Ireland. To my knowledge, it was not shared with the Department of Finance, which is a shareholder and not a regulator.

**Deputy Pearse Doherty:** I am sure we will come back to this when the Central Bank concludes its investigations. It keeps on telling us not to be surprised if it identifies individual accountability, something we understand none of the banks has identified. To Mr. Masding's knowledge, has anybody been sacked, reprimanded or lost his or her position as a result of the tracker mortgage investigation?

**Mr. Jeremy Masding:** Not to my knowledge. As I did in the past, because it is an important piece of context, I would ask the Deputy and his fellow committee members not to forget that since 2012 the management team, and indeed the whole ecosystem and infrastructure of the bank, has been changed completely. The vast majority of the management team is new to the bank.

**Deputy Pearse Doherty:** We all know that the tracker mortgage scandal was an evolving thing. While damage was done and decisions were taken, Mr. Masding tells us it was a systems error, but it is very hard to believe that all the banks all had a systems error at the same time. While the current management would not have been there at the time, everyone on this committee and the public know that the figures that were being presented continued to grow, to the point where there are now 40,000 individuals who have had their money taken wrongly from their accounts. Permanent TSB was not unique in terms of identifying new customers. To add to that, it has been stated that the margin issue is one that Permanent TSB has still not dealt with. Mr. Padraic Kissane, who has been a shining light in relation to this issue, has made it clear that the big remaining issue within Permanent TSB is that margin, and he believes he is 100% right on this. Is Mr. Masding satisfied that he has dealt with this in a customer-centric way, as opposed to the more legalistic approach, or the approach of trying to save a few bob for the bank?

**Mr. Jeremy Masding:** I have a few observations in response to Deputy Doherty's comment. First of all, on the increase in the number of customers that Permanent TSB had between the time we were initially, and quite rightly, found to be party to a tracker mortgage issue and the time when that itself became an industry issue - Ms Timoney might have the numbers - to my recollection, the delta between those two numbers was not significant. Is that correct?

**Ms Breege Timoney:** Our original mortgage redress programme back in 2015 identified 1,374 customers as impacted and over 2016, 2017 and 2018, we found approximately another 600 customers.

**Mr. Jeremy Masding:** I want to be very careful with how this comes out, because it implies there is no sense of regret from the management team, but let me place on the record that what I am about to say is merely about numbers and we are not trying to escape this in any way. To my knowledge, the percentage of customers who are impacted in Permanent TSB is 5% of the total. Why is that? Let us not forget that over 60% of our book is already in trackers, so I think that is important. In good faith, I do my best to assure the committee that the way we approached the work was in an objective, customer-centric manner. As far as the board of the bank is concerned, in terms of dialogues with the Central Bank of Ireland, there are no further cohorts that are impacted.

**Deputy Pearse Doherty:** The issue that affects me is Mr. Masding's suggestion that there is a new management team, that it is now customer-centric and so on. I do not have a short

memory. I recall a case which occurred only a couple of years ago, when Mr. Masding was in charge. I recall it because I know the person concerned very well as she is a relative of mine. The bank sent her a letter, because she was €320 in arrears for the first time, and told her the only option for her was voluntary surrender. When I sat at her kitchen table and looked at her contract, it told her clearly that she should have been on a tracker rate. She contacted the bank of which Mr. Masding was in charge again and again to tell it that it was in black and white in the conditions, but she was told she was not entitled to it. I have read her impact statement and about the impact it had on her, her family, her children and the missed opportunities. We have had the victims in here. Mr. Masding was in charge of all that, so it is not a case that this management team just owned up to everything, that now everything is fine and that we should forget it because the bank has restored the money. The bank has stolen opportunities from these families. It is not just a financial amount that was taken from their accounts. The banks stole opportunities from the children, the families, the parents and from the wider family circles because of all the other things they missed out on when they could not afford them. In some cases, the bank took the roof over their heads. It was not done by some other management team, but under Mr. Masding's watch.

I refer to this kind of rosy picture that the banks were not dragged kicking and screaming to a situation in which they had to acknowledge that each of them wrongly took money from the accounts of 40,000 of their customers. That money would still be in the banks' accounts but for the fact that the woman to whom I spoke went to the Financial Services and Pensions Ombudsman, FSPO, and she, along with 83 others, took a case against the banks to the court, which opened the gates to where we are today. Mr. Masding was in charge. It was not some other management team. The bank fought this through the court when the FSPO came down on the side of its customers. Forgive me if I do not buy this customer-centric stuff because we have track record to go on. We know these people. Some of them are very close to us and we know the hurt and the pain that this bank and other banks inflicted on them, their lives and their families. Mr. Masding will forgive me if I am suspicious of his bank and its approach to its customers.

In relation to some of the variable rate issues, there are five customers who are on a 9.1% rate. Deputy Michael McGrath spoke about the scandal of the 4.5% interest rate, but this is a 9.1% rate. Would they be penalised if they broke from their ten-year fixed rate contract?

**Mr. Jeremy Masding:** There is a fixed rate redemption fee. That is correct, yes.

**Deputy Pearse Doherty:** Surely to God, in this day and age and at a time when AIB is offering fixed rates of ten years at just over 3% or so, Permanent TSB would say to these individuals that it is going to stop screwing them with a 9.1% interest rate, allow them to come off it and go onto one of the lower fixed rates, which is just 3% or 3.2%. There are five at 9.1%, but presumably there are many others who are at 8%, 8.5%, 7% and rates that are scandalous in this day and age.

**Mr. Jeremy Masding:** How does a fixed rate work? A fixed rate works in that one funds it a point in time and that is the reason it is 9%. The nature of a fixed rate is that a customer buys certainty at that point in time. Since then, the macro-economics have changed. None of us could have predicted quantitative easing. None of us could have predicted such a low for a longer interest rate environment. I am at an age where I can remember mortgage rates much higher than 9%. I hear what the Deputy is saying. However, the rates are there based on the funding at a point in time, and that will continue to be how banks operate.

**Deputy Pearse Doherty:** What is the penalty for breaking that fixed rate? If somebody has a €200,000 mortgage, what would the penalty be for breaking their fixed rate?

**Mr. Jeremy Masding:** I would not be able to calculate it off the top of my head. I will come back to the Deputy on that.

**Deputy Pearse Doherty:** Would it still be more economically beneficial for somebody to break the rate and go onto a lower fixed rate?

**Mr. Declan Dolan:** It is certainly possible. We would need to go into each individual calculation to clarify that, but given the length of time to maturity, it is possible.

**Deputy Pearse Doherty:** I would like to ask about the bank's commission scheme. Can Mr. Masding explain that to the committee?

**Mr. Jeremy Masding:** It is a very narrow scheme for our branch staff, which is based on a historic scheme. The nature of the scheme has been changed through the years, such that it has done much more on a balanced scorecard. Like the Deputy, I am sure, I am very nervous about schemes which are driven by poor-quality lending or poor-quality outcomes for customers. This scheme is historic. We inherited it and since then we have changed the scorecard because I am more interested in fulfilling customer needs than just pushing products. That is the scheme, but it is only for the branch staff in Permanent TSB. It is not for anybody else.

**Deputy Pearse Doherty:** What do staff have to push for the commission?

**Mr. Jeremy Masding:** There are a load of imports in terms of mystery shopping, quality assurance, and other feedback mechanisms. The bar is really high.

**Deputy Pearse Doherty:** If I go into a Permanent TSB branch, should I be aware that the person sitting across the desk from me is trying to push insurance or some other product on me and that he or she will be paid more if he or she makes a sale or is he or she just giving me the best financial advice?

**Mr. Jeremy Masding:** It is the latter.

**Deputy Pearse Doherty:** The person is not getting any commission for pushing products on me.

**Mr. Jeremy Masding:** We need to be really careful of the language used here. Am I in my office telling people that when Deputy Doherty walks into the branch in Letterkenny to push the product on him, regardless of what he wants? No, of course not.

**Deputy Pearse Doherty:** I did not ask that question.

**Mr. Jeremy Masding:** The Deputy said product push. The answer is, of course not. I am saying to the Deputy that the scheme we inherited is based on fulfilling customer needs, and if the right conversations happen, and the right value is given to the customers with fair outcomes, then the scheme kicks in.

**Deputy Pearse Doherty:** Why not just pay the staff more appropriately, instead of telling them that if they push that product on customers they will get a certain amount of commission? There is obviously an incentive there for the staff to sell a product.

**Mr. Jeremy Masding:** That is a different conversation because of the reward constraints

that we are under. I would have sympathy with the Deputy there. It is an inherited scheme and it has been fine-tuned to ensure that it is driven on right customer outcomes, not product push. That is the design of it. I think that is all I can say about it.

**Deputy Pearse Doherty:** Maybe we will look for more information at a later stage in relation to that.

In regard to the sale of Project Glas and Project Glenbeigh, €2.1 billion was the book value for Project Glas while it was €1.3 billion for Project Glenbeigh. What did the bank get for them?

**Mr. Jeremy Masding:** We can only give the Deputy the information that was in the public domain. Mr. Dolan, what was in the public domain?

**Mr. Declan Dolan:** On the €1.3 billion, I cannot remember exactly, so can I confirm that?

**Deputy Pearse Doherty:** Some €900 million was received for that, or slightly below.

What about the €2.1 billion in respect of Project Glas?

**Mr. Declan Dolan:** It was €1.3 billion.

**Deputy Pearse Doherty:** Some €1.3 billion was received for that. That is a €1.2 billion haircut on those two loan books to the vultures. Would that be correct?

**Mr. Declan Dolan:** That is correct.

**Deputy Pearse Doherty:** What would it look like if the bank passed on that to the customer?

**Mr. Jeremy Masding:** It is slightly more subtle than that. With all due respect, this is how the maths is done. We start with the gross amount of loans, which is the number the Deputy stated. We have obviously then got provisions already against those loans which I do not think we disclose publicly. We then get to the net book value of the asset pool. It is actually right to compare the net book value of the asset pool versus the cash consideration. That is the haircut.

**Deputy Pearse Doherty:** Yes, when we are looking at it from the bank's point of view. When we are looking at it from the customers' point of view, they owed the €1.2 billion. Instead of giving the vultures the €1.2 billion of a haircut, if the bank were to pass that on and restructure those accounts in a way that absorbed the €1.2 billion, how non-performing would those mortgage accounts be then? Did the bank even look into that?

**Mr. Jeremy Masding:** We have discussed at this committee before that debt forgiveness or any similar approach would not be in alignment with our duty to the taxpayer because of the reasons we have discussed before. We looked at all the options. As we have discussed before, the Governor of the Central Bank of Ireland said that loan sales are a legitimate option and that is why we went there.

**Deputy Pearse Doherty:** Mr. Masding mentioned my legislation on no consent, no sale. I am glad he has brushed up on it. The Bill comes from the Central Bank's code of practice, introduced in 1991, to which no bank, including Permanent TSB, has ever adhered. It is voluntary. Mr. Masding said he shared the concerns of the European Central Bank in respect of the Bill. I have made it clear on numerous occasions that securitisation and covered bonds are

not to be captured within the legislation and that will be clarified in greater detail on Committee Stage. However, this does capture the likes of Permanent TSB selling on to a vulture fund at a reduction of €1.2 billion or whatever. The amount is immaterial; the bank should get the consent of the borrower. When I put it to the Central Bank that if there was an exemption for securitisation and covered bonds, I was told that would address many of its concerns. Does Mr. Masding also share this opinion? That is the intention of the Bill.

**Mr. Jeremy Masding:** Through that very narrow lens, of course it would help us, because securitisation as through Glenbeigh would be part of the tools we would need to use to get down to a much safer bank in the national interest. In terms of loan sales, I would still have serious concerns.

**Deputy Pearse Doherty:** On the issue of access to the market, it has been quite interesting to see the tsunami of opinion, from bankers to academics to the Minister for Finance writing opinion pieces about this legislation. They continue to raise the issue of securitisation, which is exempt, as will be clarified. If this Bill just prevented clear loan sales to vulture funds, we have heard the Central Bank saying that would address many of its concerns. Given that Permanent TSB has already sold about 12,000 private homes in the past year, what challenges does Mr. Masding believe that would present to the banks? There is another suite of options that should be used instead of handing them over to the vultures to do whatever they want.

It has come to my attention that one particular vulture that bought a book of buy-to-lets from a bank has decided to call in its arrears. People have been told to pay their arrears in 30 days or a receiver will be appointed. How concerned would Mr. Masding's bank be if some of the vultures to which it has sold employ the same type of practice?

**Mr. Jeremy Masding:** The Deputy asked two questions. On the first, where do I start? Ireland would be best served by a fully-functioning banking market. In my conversations with investors, there are some concerns about both the European banking market and the Irish banking market. Ultimately, the investors provide the capital for us to allow our businesses to grow. If that capital becomes more expensive, there is only one constituent who ends up paying for it and that is the customer. The level of capital that we put up against mortgage lending would increase and that has an impact on front book pricing, and I am not sure that is healthy for anybody. I suspect we will not agree on the issue but in my opinion, a fully functioning banking market, both front book, back book and arrears, should involve a secondary trading market, including non-performing loans sales.

With respect to the Deputy's second question, I am not aware of that situation. I am not sure what comment I could make.

**Deputy Pearse Doherty:** The question was how concerned Mr. Masding would be if one of the vulture funds to which his bank has sold a customer account did that. They are entitled to state that the arrears should be paid within 30 days or that they would be left with no option but to appoint a receiver to the account. The loans are sold in the first instance because they are non-performing or restructured, so there are arrears. A vulture fund can state that the customer should pay up within 30 days or a receiver will be appointed. It is clever as they can avoid the courts. How concerned would Mr. Masding be if the fund to which his bank sold its customers' accounts employed the same practice with the thousands of buy-to-let mortgages that have been sold in the past 12 months? Would he have such a concern? Perhaps he has no concerns whatever about that happening?

**Mr. Jeremy Masding:** I cannot answer the specific question. I return to my first comment about a fully-functioning banking market. Of course it needs to provide fair and right customer outcomes, and that market would then work for all. I do not know the particular circumstances of the case. I care about operating in a well-governed and well-managed fully functioning banking market where customers have the opportunity to get fair customer outcomes. In the case of Permanent TSB, that involves thousands of long-term treatments. We had debates last year about non-performing loans and the consequences that led to loan sales. I would not want to comment except to say I am part of this banking system and anything I or we can do to make it function effectively is important. I do not have anything else to add.

**Senator Rose Conway-Walsh:** I thank Mr. Masding for his opening statement. I want to return to question No. 27 in the submitted report regarding who was responsible for the tracker rate scandal in the bank. There is mention of this not being planned and deliberate and of absence of control. Whose job was it to control what happened in the bank?

**Mr. Jeremy Masding:** I am in the middle of an enforcement investigation. I run the risk, in a sense, of perjuring myself. We are still in the middle of the enforcement investigation and I will not go there. We have given all the information to the Central Bank of Ireland and its enforcement team. We will allow that process to happen and we will of course abide by any consequences. I do not have anything further to add.

**Senator Rose Conway-Walsh:** It seems that the bank was completely out of control, and we need to get who is responsible for that. Mr. Masding has spoken all the time about his duty alignment to the taxpayer. A completely out of control banking system is not fulfilling its duty to the taxpayer.

**Mr. Jeremy Masding:** I remind the Senator that I was very transparent back in 2012 that the bank was insolvent and illiquid. I was extremely transparent with the committee, particularly Deputy Pearse Doherty, with whom I had long conversations. In a regulatory system as of today, it is unlikely the bank would have been allowed to be stood up. All I can tell the Senator is that we inherited what we inherited in February 2012. I can only comment on what has happened since that time. The fact that the bank exited the restructuring plan in 2018 would, I hope, give the Senator confidence that the bank is in a much better place, albeit that it still has many kilometres to travel. It is not my position to comment on what happened before 2012. I just know that I was tasked by the Government to try to do something with Permanent TSB and the management team has tried to do that day in and day out. I cannot comment on what happened before that.

**Senator Rose Conway-Walsh:** Was 2012 the year that PwC was appointed as external auditor?

**Mr. Jeremy Masding:** No. The auditor had been KPMG for a long time. I argue that it is right that the board has a regular selection process in order to maintain objectivity.

**Senator Rose Conway-Walsh:** It is indicated in the answer to question No. 105 that PwC took the role of external auditor in 2012.

**Mr. Jeremy Masding:** I hope not. If it is the case, it is a typo for which I apologise.

**Ms Breege Timoney:** I believe it is since 2013.

**Senator Rose Conway-Walsh:** Its first audit opinion was in the 2013 financial statements.

**Mr. Jeremy Masding:** Yes, that is right.

**Senator Rose Conway-Walsh:** It is indicated that the board audit committee would review the engagement in 2019.

**Mr. Jeremy Masding:** Correct.

**Senator Rose Conway-Walsh:** That is six to seven years of the same auditor.

**Mr. Jeremy Masding:** That is normal practice. KPMG had been the auditor for a much longer period.

**Senator Rose Conway-Walsh:** Does the bank engage any other services of PwC?

**Mr. Jeremy Masding:** We do but there is a specific governance process that we go to. The Senator's question is around the potential conflict of interest between an auditor and other services.

**Senator Rose Conway-Walsh:** Yes.

**Mr. Jeremy Masding:** We go through a very robust governance process if we are going to use the bank's auditor for other services. It would be the exception, not the norm.

**Senator Rose Conway-Walsh:** The company is used for other services. Will Mr. Masding give us an idea and quantify the other services?

**Mr. Jeremy Masding:** No, because I am afraid I do not have that information. I assure the Senator that it would be the exception and not the norm.

**Senator Rose Conway-Walsh:** What is Mr. Masding's opinion on the Competition and Markets Authority in the UK with respect to the break-up of the "big four"? Is that prudent so that there would be no shadow of a doubt about a conflict of interest where other services are being engaged by the external auditor?

**Mr. Jeremy Masding:** I would not want to comment on an industry of which I am not a part.

**Senator Rose Conway-Walsh:** I will comment on it in the sense that if a bank is already paying an auditing service for something else, it is beholden to that service. I certainly would welcome the developments in the UK and I know this committee has previously suggested that the Competition and Consumer Protection Commission carry out a proper examination of the big four firms.

If people look at their mortgage statements and see that they have been on tracker and fixed rates, and if they wonder about being included in the review relating to the tracker mortgages issue, what should they do? Can they still be included?

**Ms Breege Timoney:** If customers have queries on their accounts, we would welcome them coming to us and we will deal with the matter as it arises. We would think it unlikely that there is a case where what the Senator describes has arisen and a customer was not included. We would certainly welcome any comments from customers and take them on board in order to look into the specific cases.

**Senator Rose Conway-Walsh:** Have all the accounts that were the subject of a mix of

tracker and fixed rates been examined by the bank?

**Ms Breege Timoney:** Yes.

**Senator Rose Conway-Walsh:** There are 10,728 customers in various long-term solutions. Are they safe from vulture funds?

**Mr. Shane O'Sullivan:** I am happy to take that one. These are customers for whom we have found long-term solutions. Some of them will remain in non-performing loans status for a duration and some will not. The accounts will need to be looked at in time to come as we continue to manage our NPL ratio down from 10%.

**Senator Rose Conway-Walsh:** Does this mean that more of the 13,000 family homes could be sold off to vulture funds?

**Mr. Jeremy Masding:** I have already answered that question. It was asked by Deputies Michael McGrath and Pearse Doherty.

**Senator Rose Conway-Walsh:** Indulge me.

**Mr. Jeremy Masding:** I am happy to do that. We are at 10% but the European average is 3.5%.

**Senator Rose Conway-Walsh:** Is it the bank's aim to get down to 3.5%?

**Mr. Jeremy Masding:** We are at 10%, while the European average is 3.5%.

**Senator Rose Conway-Walsh:** Is it the bank's aim to get down to 3.5%?

**Mr. Jeremy Masding:** Yes, and lower, in time.

**Senator Rose Conway-Walsh:** Lower.

**Mr. Jeremy Masding:** Yes. When banks are unsafe there are enormous consequences, as we all know to our cost. We continue to look at all options to reduce our NPL levels. Nothing is ruled out, and that includes loan sales. Mr. O'Sullivan will talk about the solutions available to customers.

**Mr. Shane O'Sullivan:** As we said on an earlier occasion, some restructures remain in an NPL category for a long time but others less so. We are working with a lot of these customers to encourage them to continue to repay so that they can leave NPL status behind as quickly as possible. Even after we have restructured an account, there is a period when NPL remains.

**Senator Rose Conway-Walsh:** There is no advantage to customers in engaging with the bank and taking out a split mortgage as they will still end up in the same pile of non-performing loans.

**Mr. Shane O'Sullivan:** This is something we have considered in the past. Split mortgages were an advantageous solution for people who were in deep arrears. The rules have changed and there is a lot of difficulty with deep restructures such as split mortgages, meaning they are far less advantageous. This is why fewer splits are being offered than in the past.

**Mr. Jeremy Masding:** As a point of principle, it is always better to engage with one's lender than not. Repossession is a last resort and a lender will try to do anything to avoid it.

**Senator Rose Conway-Walsh:** Has the bank made provision for legal challenges to the prevailing rate?

**Ms Breege Timoney:** No.

**Mr. Jeremy Masding:** No. We undertook the work I described in my opening remarks and that work was subject to external assurance. It was then subject to independent assurance by the Central Bank of Ireland. The programme has finished and the Central Bank has not come back to us with further cohorts of customers. As Ms Timoney discussed with Deputy Pearse Doherty, we have the total provision and we have what we have spent. What is left is the fine and the customers who have been impacted upon may wish to go to the Ombudsman or through the legal process. There is no expectation of further impacted customers on the part of the bank.

**Senator Rose Conway-Walsh:** The bank is protected because the Central Bank has approved it. Do our guests believe that any future legal obligations will fall on the Central Bank, rather than Permanent TSB?

**Mr. Jeremy Masding:** No. The point in principle is that the work was done in a particular way. Any challenges would certainly be to Permanent TSB but, as far as we are concerned, we followed the process in the right way. In fact, we designed the process.

**Senator Rose Conway-Walsh:** Permanent TSB designed the process and the Central Bank signed off on it.

**Mr. Jeremy Masding:** The Senator will remember that we were the original bank to have an issue with tracker mortgages and this morphed into the tracker mortgages examination. We were party to the phrase “Stop the harm” and we were involved in the concepts of redress and compensation and independent panels, all of which went on to become the industry approach.

**Senator Rose Conway-Walsh:** Does it not give Permanent TSB legal protection when the Central Bank approves the methodology it is using?

**Mr. Jeremy Masding:** I do not think it gives us legal protection in any way, shape or form. In a democracy, the law courts are very important and it is important that citizens have the right to avail of that route should they choose to. A set of design principles was applied to the programme and we followed those principles. As far as the board of management is concerned, there are no further impacted customers.

**Senator Rose Conway-Walsh:** Were there to be legal action, it is the board of management that would be liable-----

**Mr. Jeremy Masding:** It is the bank.

**Senator Rose Conway-Walsh:** -----rather than any other body.

**Mr. Jeremy Masding:** Yes. It would be the bank and the capital of taxpayers.

**Senator Rose Conway-Walsh:** Yes. Unfortunately it all ends up with the taxpayers.

**Mr. Jeremy Masding:** Sadly, yes. We were bailed out to the tune of €4 billion and that is the capital in the base.

**Senator Rose Conway-Walsh:** We know. The Explore account has a €4 monthly fee but there is 10 cent in cash back when one uses the debit card. How many customers end up pay-

ing no fee at all? How many receive the maximum €5 cash back? This is a €1 gain after the monthly fee. Are all customers entitled to an Explore account?

**Mr. Jeremy Masding:** I do not have the specific information but when we get the transcript from today's meeting, we will, as we always do, respond. All customers are eligible for Explore accounts as long as they fulfil the eligibility criteria.

**Senator Rose Conway-Walsh:** Recent reports show that property inflation in Dublin is the highest in the world. Does that concern the bank or does it suggest that we are near to overheating and about to go through the same thing all over again?

**Mr. Jeremy Masding:** As I said to Deputy Pearse Doherty earlier, I am a guest in this country. I am an expatriate here but my overriding desire is for Ireland to have a fully functioning banking system, which depends on the right equilibrium between demand and the supply of properties. I want any house price inflation to be legitimate house price inflation. I do worry, as I am sure the Central Bank does, about the imbalance between demand and supply and for this reason, I am an advocate of the macroprudential interventions which the Central Bank make. In the absence of monetary policy and interest rate intervention, macroprudential intervention is the next place to go.

**Senator Rose Conway-Walsh:** Is Mr. Masding concerned that the mortgages the bank has sold off are in danger of being flipped over in the short term, because we are at peak market?

**Mr. Jeremy Masding:** I cannot comment and it is a question for those who acquire the mortgages.

**Senator Rose Conway-Walsh:** Does Mr. Masding care? He talks a lot of the time about his responsibility to the taxpayers, citizens, etc., but his actions suggest otherwise.

**Mr. Jeremy Masding:** No.

**Senator Rose Conway-Walsh:** The bank has sold off many non-performing loans and others are in the pipeline to be sold. There still seems to be a ruthlessness in how the bank deals with the homeowner. I have personal experience of the utter ruthlessness of the nature of the behaviour between the consumer and the bank.

**Mr. Jeremy Masding:** I do care, and I will leave it at that.

**Senator Gerry Horkan:** I thank Mr. Masding and his team for attending and for his opening statement, which had a certain tone to it. He does not overly brag about the bank's performance and there is a level of humility or acknowledgement that there were problems, which the bank is tackling as well as it can. Mr. Masding acknowledged that the bank's staff, customers and everybody else have taken a hit. He stated: "The progress we have made has come at some really significant cost to the taxpayer, our staff and, most important, our customers." He might also acknowledge that there has also been a cost for the bank's original shareholders, who lost virtually everything they had invested in it. They were not all pension funds and large corporate entities. I declare that I was one of those people who received 300 free shares and bought a few more, and at one stage they were great. A residents' association in my area owned €20,000 worth of shares that are now worth approximately €6. Ordinary individuals who had an account with the former building society received a few free shares and bought a few more. They, too, took the hit and perhaps that should also be acknowledged. I accept there is a risk when people buy shares.

**Mr. Jeremy Masding:** I fully agree with that statement. Although my language was loose, when I referred to the taxpayer, I meant to include the shareholders. On the retail shareholders, since 2012, I have attended seven AGMs, at which one can feel the pain. We have a responsibility to do all we can to bring the value of the bank to somewhere at least meaningful, recognising that, sadly, the level of value destruction for those retail shareholders was enormous.

**Senator Gerry Horkan:** What was the percentage drop from what their shares were worth at their peak to what they are worth now? Was it more than 99.5%? The value effectively disappeared.

**Mr. Jeremy Masding:** That is correct.

**Senator Gerry Horkan:** It was effectively a wipeout. I do not mean to criticise Mr. Masding or any of his team, but irrespective of what they ever do, they will never restore the value to those people's shares.

**Mr. Jeremy Masding:** I agree, but my point is that giving up is not a management tactic. If at least we do all we can to restore it as much as we can, that seems to be the right mindset as against the wrong mindset.

**Senator Gerry Horkan:** It is Mr. Masding's right to keep going. At this stage, he is the longest-serving chief executive of the five major banks. He is the only one who was *in situ* at the start of this committee's reign and who remains. Long may that continue but my point was about how the comment was worded. The taxpayer is the taxpayer, but everybody is a taxpayer. When we speak about the taxpayer, we mean the public finances and the money that is invested in the public system. One hopes that the sum of €1.2 billion or whatever it is will be returned to the taxpayer, but the important point that many ordinary individuals took a significant hit had not been made. It happened in the case of Anglo Irish Bank shares and other shares. Customers may have sold a large property, downsized and invested all the money in what were always called "safe bank shares" when I was growing up. They were not necessarily wealthy people. Although they might have been by some people's standards, they were not captains of industry or on a large salary. While, admittedly, Mr. Masding's bank has the lowest percentage of staff earning more than €100,000, there remain more than 100 people on more than €100,000 and the remuneration of the top 66 is a healthy average of nearly €200,000. There are people with much less money than that.

**Mr. Jeremy Masding:** The Senator's point was well made. It was an omission from my opening remarks and I am totally aligned with him in this regard.

**Senator Gerry Horkan:** I do not think anyone else mentioned that the bank's share value for the current shareholders has fallen by approximately 45% in the past six months and 34% in the past year. The statement included a helpful table that shows the drop in the value of Bank of Ireland's and AIB's shares. Will Mr. Masding give some context to explain why the share value has fallen so significantly? The poor unfortunates who bought shares and invested in the bank six months ago will have lost nearly half the value.

**Mr. Jeremy Masding:** It is really disappointing and the Senator will probably understand that I am not happy either.

**Senator Gerry Horkan:** Mr. Masding probably has a few share options.

**Mr. Jeremy Masding:** I do not, but I am accountable for the performance of the bank to

the board and, ultimately, the shareholders of the organisation. I speak to investors all the time, whether they be the Department of Finance or the external shareholders. At its simplest, the conversation splits into those matters we can control and those we cannot control. Unfortunately, the matters we cannot control currently place a heavy burden on the share price.

On what we cannot control, investor sentiment about the European banking market is probably as low as I have ever known it. Low-for-longer interest rates hurt European banks more than American banks. Within the European banking market, to my knowledge, Permanent TSB has one of the highest, if not the highest, exposures to tracker mortgages. Low-for-longer interest rates, therefore, are a profitability issue for us. There is dampened eurozone growth, with Brexit looming large. The return on equity, ROE, is a market measure at a point in time which assesses the return a bank makes against the minimal capital it is required to hold or that it believes it should be required to hold. European bank ROEs are as low as they have ever been, probably due primarily to interest rates, along with a lack of confidence about where eurozone economies are going.

The conversation moves from Europe to Ireland and we can apply similar factors to Ireland. The sentiment about the Irish banking landscape is relatively downbeat. Unfortunately, capital intensity is based on a rearview mirror and we still keep a disproportionate amount of capital because of the financial crisis. Obviously, the more capital that is kept, the more returns are depressed.

**Senator Gerry Horkan:** Does Mr. Masding advocate for the level of capital requirements to change?

**Mr. Jeremy Masding:** Yes, because it is probably disproportionately penal for the Irish banks versus the European banks. I am sure that the Senator will have read the Department of Finance and Goodbody reports on mortgage pricing. It is penal and, therefore, the ROEs in Irish banking are depressed, which contributes to there being more sellers than buyers.

The third reason that ROEs are low is the lack of liquidity in the Permanent TSB stock. There is only 25% free flow and the spread between buyers and sellers has become wide, causing the sale of some shares to have a disproportionate effect. The Senator might say I would be expected to say this, and he will probably smile, but we made enormous progress at the end of 2018. On the day of the results, there was not a lot of trading but the share price fell by 5% due to one factor only, namely, the lack of liquidity.

As for what I can control, I can control the business performance of Permanent TSB. We delivered on our promises in 2018 and will continue to do so. When considered as a whole, in respect of one's core beliefs about the market in which one operates, my core belief is that if decisions are taken to maximise the intrinsic value of the bank over time, the market value will follow eventually. While it is taking much longer than I had hoped, I still believe in the organisation and that its intrinsic value is strong. I still believe that this management team will continue to deliver. The story will get stronger, which can be seen in the numbers. I believe - rather, I have to believe - that the market value will eventually catch up.

**Senator Gerry Horkan:** I thank Mr. Masding. What is PTSB's market share of new mortgage business?

**Mr. Jeremy Masding:** Probably between 14.5% and 15.5% in any given month. It was 1.5% in 2012. It is important that I acknowledge the fantastic contribution of the people who

work in PTSB to rebuilding the business. They have done a good job.

**Senator Gerry Horkan:** We get surveys of who is ahead in the supermarket wars where it is claimed that Dunnes Stores has this and Aldi has that. I am not comparing apples with apples, but where is PTSB positioned among the five main banks in terms of its size? The five main banks probably comprise 100% of the retail market. What percentage of space does PTSB occupy? PTSB is larger in some areas than others. Can this question be answered?

**Mr. Jeremy Masding:** It is difficult to answer. When the market structure essentially has two significant players holding 75% to 80% of it, for the good of the customer it is important that specialist banks such as ours - I am never quite sure what the term “challenger” means, so I will use “specialist bank”, given that specialist banks such as ours are focused on particular market segments - be seen to participate actively and keep the market leaders honest with the way we price, market and design propositions. In my time here, my people have been the first group to design a tracker mortgage product, put in place LTV-based pricing on a variable rate and operated rewards-based current accounts. We cannot compete with the big players in all segments, but in those where we choose to compete, I hope that consumers see that we are important and that we are trying to develop the right customer propositions.

**Senator Gerry Horkan:** What are PTSB’s specialisms? Of the areas in which it specialises, what does Mr. Masding regard as the bank’s key strengths?

**Mr. Jeremy Masding:** We are a full service retail and SME bank. On the liability side, we have an excellent current account plus a full range of deposit services and outsourced investment management with our partners. On the asset side of the balance sheet, we have mortgages at fixed and variable rates, particularly based on LTVs; in terms of unsecured loans, we now have an app via which someone can go from application to payout in less than 15 minutes, and this business is picking up; and credit card overdrafts.

In SME banking, PTSB’s heritage is in the communities of Ireland. I have only been here since 2012, but the organisation has been here for hundreds of years. It is deeply imbedded in the towns of Ireland. We are underperforming relative to what we can achieve in the SME market, particularly at its smaller end. The team is doing a nice job and we are beginning to pick up business and deals. Most important, we are beginning to be heard in those communities. For example, I might stop into a local chamber of commerce meeting as I am driving around. I will sit at the back. Invariably, someone from AIB or Bank of Ireland is speaking about its SME offer. I have been to a few such meetings on SMEs.

We are doing okay. Of course, hubris is a dangerous drug. Our return on equity, ROE, is 3% and our non-performing ratio, NPR, is 10%.

**Senator Gerry Horkan:** Is that NPL?

**Mr. Jeremy Masding:** Yes. Our NPL ratio is 10%. I am just not built to be overconfident. It is important to point out that, while we are making progress, there is still a great deal of fixing to do in PTSB. Forgive me for a long answer, but I hope I am coming across as balanced. There are things that we are doing well, but overconfidence would be dangerous and, therefore-----

**Senator Gerry Horkan:** To be fair, I do not believe that Mr. Masding has been overconfident. His approach is more welcome than coming in brashly would be. It is better to be straight up with us.

I will pick up on one of his comments to Deputy McGrath. He stated that we were closer to the end of the positive cycle than to the start. While 2008 was 11 years ago, it is probably alive and strong in many people's memories. Will Mr. Masding elaborate on his statement? Six months ago, the chief executive of KBC told the committee something similar, namely, that we were "closer to the next downturn than to the previous downturn". Where are we going? Will it be a proper recession or just a slowdown? There was great talk in 2006 and 2007 about plateauing, not growing at the same rate, soft landings and other such phrases. Mr. Masding might not have been in Ireland, but I am sure he has heard people mentioning them. What is his prediction for where we are heading?

**Mr. Jeremy Masding:** I would not make a prediction.

**Senator Gerry Horkan:** Mr. Masding kind of did in his statement.

**Mr. Jeremy Masding:** I am sorry. I would not make a prediction about the nature of the landing. The prediction I would make is that history tells us that the economic cycle in a time sense is nearer its end than its start. I will make a couple of points that will serve as useful inputs into that comment. Let us not forget that the Fed was guiding that it would continue raising interest rates. Obviously, it has pulled back on that because there are some degrees of stress, however one defines that, in the US economy. I will repeat what I am hearing from investors about their nervousness concerning banking stocks, which are a barometer for the European economy. I tell my team that we must continue to maintain our standards. In banking, that relates to credit standards in particular. We must not chase market share or volume. We must maintain our underwriting standards so as to ensure that we are predominantly lending to people through the affordability lens.

**Senator Gerry Horkan:** I will touch on a couple of points that have not been addressed yet. Mr. Masding might discuss pay reviews, the cap on salaries and so on. The committee has asked all banks to address Brexit, banking culture and reviews, but Mr. Masding only had one sentence in his opening statement - "We support the banker accountability framework" - and did not elaborate much on what we asked him to address as one of several main points for today. I accept that these quarterly or half yearly engagements cover everything. How will PTSB implement the change in culture that the Central Bank is seeking across the sector? Where has it come from in terms of the banking culture? Given that I am conscious of our time, Mr. Masding might tie into that the issue of pay reviews, pay caps and so on. Regarding the Central Bank, he might also touch on the exception cases. He referred to managing the expectations of everyone who anticipated getting an exception. How many exceptions does PTSB expect to give out, how many does it give out and so on?

**Mr. Jeremy Masding:** Just to play that back to the Senator, he would like me to comment on pay, culture, the accountability framework and exceptions. Is that correct?

**Senator Gerry Horkan:** Ideally.

**Mr. Jeremy Masding:** Regarding pay, we are all running an operational risk because of the Brexit firms that are coming to Ireland. We are under pressure in retaining labour. That is a risk to the value of the bank. However, what happened in the past cannot be replicated. There is a balance between the two. For me, it has to do with three elements, the first of which is control. The boards of the banks and the frameworks in which they work within the EBA have probably put in place much more effective controls against reward getting away from itself and moving to greed, which none of us wants. Second, in order to attract and retain talent one

has to have reward tools in one's toolkit. As long as they are controlled properly, I hope we can move towards that over time. Third, those controls and schemes have to be transparent so that no games are played. I would like things to move on because I believe we are running an operational risk. However, I think the controls and transparency that go with them are a critical part of the picture.

In terms of the accountability regime, there was a single sentence because I think we are still waiting to see exactly what it means. If it is similar to the senior managers' regime in the UK, which I know about, it is something that seems to be good practice. Having a role profile which identifies what one is accountable for, having organisational charts which have real clarity and having measures to demonstrate whether one is delivering value to the customer and getting value from the customer in the right measure all seem to me to be good banking practice. I can see no reason Permanent TSB and its board would not endorse that regime.

We have had to have different approaches to culture through different phases of the organisation's development over the past few years. The culture in the early days was trying to make sure we survived and focused on those things. Survival meant, for example, whether we could find solutions for customers who were about to lose their homes. The culture of survival was one I advocated at that time as the right mindset because there were fires everywhere. We then had to have the cultural fix and that goes back to Senator Conway-Walsh's comment about the control environment of banks. We all understand that we are the agents of depositors' funds and shareholder funds. I sometimes find that the conversations go to the lending side of the balance sheet. A bank cannot lend unless it has good funding and capital.

The second element was trying to put in place the better controls. We still have some way to go on that but I hope the bank is better managed than it was, albeit I do not want to sound overconfident as we still have areas to deal with. The third one is running the bank as a normalised banking institution. In my experience, a normalised banking institution needs to deliver what I call the customer value equation. We need to make sure we give value to the customers and that means understanding their needs and fulfilling them, not necessarily their wants because what they want and what we can give might be two different things. It means understanding their needs and delivering them in the sectors we choose. At the same time, within the boundaries of competition we have to make sure we get the right price for that because, as per the Senator's previous question, the value of the bank does not represent what it should for a minimum return.

The culture is around what we call delivering the bank of choice for our shareholders, customers and colleagues in the community we work in and, underpinning that, ensuring that we maintain our banking licence. It moves from survival to fixing to normalisation and growth. That is the corporate journey we are going on.

The last question was about exceptions. We try to manage those exceptions through the whole 12-month period. We have done a pretty good job in previous years. We have not run out too early, if that makes sense, and we will continue to try achieve that.

**Senator Gerry Horkan:** How many exceptions can the bank give or what percentage of exceptions is allowed? I am not overly familiar with the exception regime. If any of the witnesses is able to explain it to those who might be looking in trying to understand it, that would help.

**Mr. Jeremy Masding:** It is actually quite complex. If the Senator allows me, I will write to him with a very simple explanation of it because it takes a bit of time.

**Senator Gerry Horkan:** I am conscious of time and the Chairman has indulged me.

**Mr. Jeremy Masding:** I will make it a priority to write to the Senator and explain how the whole exceptions thing works.

**Chairman:** I want to clarify some comments from Mr. Masding's opening statement. The last time he was here we discussed the make up of Glenbeigh. Without complicating it too much, will Mr. Masding run through that with me again? PTSB sold the mortgages to Glenbeigh. Is that correct? Mr. Masding gave us a diagram at the time but I am struggling to understand this.

**Mr. Jeremy Masding:** In very simple terms, one takes the mortgages and one has a capital market vehicle, which is known as a special purpose vehicle, a stand-alone vehicle.

**Chairman:** Is that Glenbeigh?

**Mr. Jeremy Masding:** That is correct. The mortgages go into the special purpose vehicle and that is funded by the capital markets which use that funding then to repay us for those mortgages essentially.

**Chairman:** What were the other layers after Glenbeigh? The diagram that Mr. Masding supplied shows PTSB, Glenbeigh and one or two other entities before getting to the market. What were they?

**Mr. Declan Dolan:** I have the diagram here. Typically they are servicers or account bank providers or auxiliary service providers.

**Chairman:** Will Mr. Dolan explain what they are?

**Mr. Declan Dolan:** For example, one would be a trustee. The role of the trustee is to ensure that the securitisation lives and breathes in the way that it should, for example, that all the people appointed to manage the securitisation do what they were supposed to do.

**Chairman:** Who are the directors of Glenbeigh? Mr. Dolan need not name them but who are they? Are there just two? Are they from the bank or outside it?

**Mr. Declan Dolan:** They are independent of the bank. There is an independent trustee.

**Chairman:** They are independent of the bank in terms of Glenbeigh and the trustee comes in then. Is that right?

**Mr. Declan Dolan:** The trustee is essentially an arbitrator so the trustee says-----

**Chairman:** The trustee comes on top of Glenbeigh.

**Mr. Declan Dolan:** The trustee is appointed by Glenbeigh. The trustee works for Glenbeigh.

**Chairman:** Is that trustee independent of the bank too?

**Mr. Declan Dolan:** Yes.

**Mr. Jeremy Masding:** Independence is a key factor if we are going to get derecognition. We have to be independent through all the different parts.

**Chairman:** What happens after the trustee? The notes are sold on the money market.

**Mr. Declan Dolan:** Yes. They are sold into the capital markets.

**Chairman:** Who sells those? Is it Glenbeigh or the trustee, who is the referee?

**Mr. Declan Dolan:** The trustee is the referee and is not involved in the selling of the notes. In this case, the person who sells the notes is Citibank, an investment bank which arranges the transaction.

**Chairman:** All of the paper from PTSB, which makes up the numbers in terms of the value of the mortgages, goes on to Citibank, which then sells it on the money market.

**Mr. Declan Dolan:** It sells the notes to investors. That is correct.

**Chairman:** At any one time, there could be any number of people owning these notes.

**Mr. Declan Dolan:** They are exactly like a share. They are a tradeable instrument and can move around.

**Chairman:** From what entity is the payment made to PTSB? Is it made from Glenbeigh to PTSB directly?

**Mr. Declan Dolan:** It is from Glenbeigh. The money flow is from the note owners back to Glenbeigh, which then pays PTSB for it.

**Chairman:** It goes back to PTSB.

**Mr. Declan Dolan:** Yes.

**Chairman:** After the paper is transferred from PTSB to Glenbeigh-----

**Mr. Declan Dolan:** To make a small point, we transfer the mortgages from PTSB to Glenbeigh.

**Chairman:** Yes.

**Mr. Declan Dolan:** Glenbeigh turns them into notes or paper and that paper is then sold to investors.

**Chairman:** PTSB does not get paid until the notes arrive on the money market and the flow then goes back to PTSB. Is it a single payment?

**Mr. Declan Dolan:** That is correct, but it happens-----

**Chairman:** Glenbeigh ends up with a payment from the money market.

**Mr. Declan Dolan:** Yes.

**Chairman:** Glenbeigh then pays Permanent TSB.

**Mr. Declan Dolan:** It repatriates the money. It all happens instantaneously; there is no delay.

**Chairman:** There is no delay. Is there any future benefit to Permanent TSB from any of this? Once the deal is done, instantaneously as Mr. Dolan stated, that is it.

**Mr. Declan Dolan:** The only future benefit to the bank is that it must retain 5% of the notes.

**Chairman:** The bank must do so.

**Mr. Declan Dolan:** The bank must retain 5% of the notes to satisfy regulatory obligations and it is, therefore, essentially an investor in Glenbeigh Securities.

**Chairman:** There is, therefore, a financial future benefit for Glenbeigh. The bank holds 5%.

**Mr. Declan Dolan:** We receive interest income equal to 5%.

**Chairman:** Deputy Pearse Doherty raised this issue. What was the value of the Glenbeigh-----

**Mr. Declan Dolan:** It was €1.3 billion in mortgaged-----

**Chairman:** Is that €1.3 billion the net book value?

**Mr. Declan Dolan:** No. It is the gross value of the loans.

**Chairman:** What is the net book value?

**Mr. Declan Dolan:** Approximately €900 million.

**Chairman:** Some €900 million.

**Mr. Declan Dolan:** That is the price at which the mortgages were sold.

**Chairman:** How much did Project Glas account for?

**Mr. Declan Dolan:** It was €2.1 billion in notional terms and €1.3 billion in cash terms.

**Chairman:** In his statement, Mr. Masding states that Permanent TSB will further reduce the proportion of NPLs on its balance sheet over the coming months. Does that mean there will be further sales?

**Mr. Jeremy Masding:** I will repeat what I stated to the other members: I do not know whether there will be further sales. I will not rule anything out.

**Chairman:** Mr. Masding stated “However, the bank’s residual NPL ratio of 10% remains about three times the European average and we will continue to work to reduce the proportion of NPLs on our balance sheet over the coming months.” Does that mean there will be further sales?

**Mr. Jeremy Masding:** I will not rule anything in or out at this moment in time. We are-----

**Chairman:** There is a possibility of future sales in order to address the issue of NPLs.

**Mr. Jeremy Masding:** There is a likelihood of a further sale.

**Chairman:** Will the bank use a different method of sale or will it go the Glenbeigh route? Is that now the favoured route of banks?

**Mr. Jeremy Masding:** It is far too early to comment in regard to-----

**Chairman:** How the bank may dispose of it.

**Mr. Jeremy Masding:** -----how we may dispose of it.

**Chairman:** Permanent TSB was the first bank to use that structure.

**Mr. Jeremy Masding:** That is correct.

**Chairman:** I presume that other banks have looked at that structure and note that it worked out well.

**Mr. Jeremy Masding:** The Chair may recall that when we discussed this matter last year, we started at the principal level, which was the nature of the underlying assets. Glenbeigh worked because the assets were generating attractive levels of cash, which is always attractive for a securitisation. Project Glas was probably less attractive due to the nature of the underlying assets. Mr. Dolan may be able to confirm that.

**Mr. Declan Dolan:** That is correct. A securitisation requires consistent cashflow in order to work. The assets in Glenbeigh produced a consistent cashflow and could, therefore, be securitised. The cash flow of the assets in Glas was quite inconsistent.

**Mr. Jeremy Masding:** Does that answer the Chairman's question?

**Chairman:** Yes. Mr. Masding went on to refer in his statement to the No Consent, No Sale Bill 2019 brought forward by Deputy Pearse Doherty. At the most recent meeting of the committee, which was an engagement with the Central Bank or Bank of Ireland, I commented that I have never seen so much publicity generated very quickly and that was determined to undermine the Bill. There is support for the Bill in the House. How it is developed by Deputy Pearse Doherty is a matter for him. I wish to make the witnesses aware that there is a desire within the political membership of the Dáil to find a solution that prevents the continued growth of activity of vulture funds in the market. Mr. Masding may have a different view, but there is a growing body of opinion that something is needed to curb the sale of properties such as these to vulture funds. I make that observation by way of comment. Mr. Masding has expressed his view in that regard.

On the profitability of Permanent TSB, it generated operating and bottom-line profit. What was the level of profit in 2018 and 2017?

**Mr. Jeremy Masding:** Broadly speaking, in 2018 the bottom-line profit was approximately €5 million. The operating profit was approximately €100 million.

**Chairman:** The bottom-line profit was €5 million and the operating profit was €100 million.

**Mr. Jeremy Masding:** No, the bottom-line profit was €3 million but I rounded it up to €5 million. The difference between it and the operating profit is accounted for by the exceptional charges we take, predominantly due to the loan sales. The operating profit was €94 million. In 2017, the profit before exceptional items and tax, which is my definition of operating profit in this particular case, was €65 million. Some €65 million compared with €94 million indicates an increase in profits of 45%. The profit before tax in 2017 was €52 million, but the exceptional items were far lower than was the case in 2018.

**Chairman:** Mr. Masding was asked about taxes paid. No tax was paid.

**Mr. Jeremy Masding:** We are subject to a deferred tax asset regime.

**Chairman:** For how many years will that be in operation? Bank of Ireland will have such a regime in place until 2030.

**Mr. Jeremy Masding:** Our total deferred tax asset is approximately €350 million at year-end. In our accounts, we estimated that it will take approximately 18 years for it to be utilised.

**Chairman:** It will be 18 years before Permanent TSB pays tax. On Glenbeigh and tax, no tax was paid in that regard.

**Mr. Jeremy Masding:** I cannot comment on the tax treatment of any of the buyers of the loans.

**Chairman:** Further down the chain, no tax was paid in regard to Glenbeigh.

**Mr. Jeremy Masding:** I am not aware whether that is the case. Perhaps Mr. Dolan is aware.

**Mr. Declan Dolan:** The special purpose vehicle did not pay tax, but we will pay tax on any-----

**Chairman:** Is that because it is a section 110 company?

**Mr. Declan Dolan:** Yes. We will pay tax on any income received from our investment.

**Chairman:** That is 5%.

**Mr. Declan Dolan:** That is correct.

**Chairman:** However, Glenbeigh will not pay tax. There is a difference here. If Glenbeigh pays Permanent TSB a dividend or whatever on the 5%, Permanent TSB will pay tax on that, but Glenbeigh will not pay tax.

**Mr. Declan Dolan:** I cannot comment on the tax affairs of another organisation. We pay tax on what we receive.

**Chairman:** Permanent TSB created Glenbeigh.

**Mr. Declan Dolan:** We were part of the creation of Glenbeigh but our only ongoing interest in it is our 5%. We will pay tax on the interest received.

**Chairman:** However, as a section 110 company, Glenbeigh is not obliged to pay tax.

**Mr. Jeremy Masding:** This issue was discussed on the previous occasion we appeared before the committee.

**Chairman:** I ask Mr. Masding to revisit it because I am unsure what are the exact arrangements.

**Mr. Jeremy Masding:** I wish to state for the record that the transaction was not driven by tax considerations. The securitisation was designed to try to reduce our NPL ratio. As we discussed at the previous meeting, Permanent TSB operates within the tax and regulatory framework set by the Oireachtas. We kept the 5% because it was part of the derecognition. I cannot say anything more on the issue.

**Chairman:** Glenbeigh is structured as it is in order to suit a particular tax exemption.

**Mr. Jeremy Masding:** We did not-----

**Chairman:** I acknowledge that but, by sheer coincidence, there is no tax paid on it. Permanent TSB did not consider that, but that is the outcome. It is not Mr. Masding's fault and I am just trying to understand the situation. Glenbeigh is a section 110 company and it does not pay tax.

**Mr. Jeremy Masding:** That is correct. I would not know the actual specific tax minutiae of Glenbeigh. I am sorry.

**Chairman:** It does not pay tax. That is the answer. Can Ms Timoney clarify the number of tracker clients who did not accept the outcome of the bank's consideration of their case and went to the ombudsman?

**Ms Breege Timoney:** Of the 181 cases, approximately 170 are customers whom we deemed not impacted under the examination.

**Chairman:** Is Ms Timoney saying that the balance, the difference between 170 and 181, is the number who did not accept the bank's offer?

**Ms Breege Timoney:** Out of the 181, 11 are customers who were impacted and, predominantly, who are appealing their compensation. There are also 170 whom we assessed as not impacted. They have gone to the ombudsman and are within their rights to do so. The ombudsman is considering those cases and will opine on them.

**Chairman:** The vast bulk of Permanent TSB customers who were impacted and identified as such by the bank have accepted the offers the bank has made and have gone on with their business. Is that right?

**Ms Breege Timoney:** Yes.

**Chairman:** There are just 11 who went to the ombudsman.

**Ms Breege Timoney:** There are 11 currently at the ombudsman. More may go there but there are 11 at the moment.

**Chairman:** Deputy Pearse Doherty raised the fixed rate issue. When the borrower accepted the fixed rate, the bank, with the market, took a fixed rate. If the bank were to reduce it for the borrower, it would be at a loss, not just a book loss but an actual loss. Is that right?

**Mr. Jeremy Masding:** The principle is that we price our assets at a point in time. That is the principle.

**Chairman:** If the bank were to do what Deputy Pearse Doherty was really suggesting, which was to give them a reasonable rate for this point in time in view of the length of time they have been on the fixed rate, would that be an enormous cost to the bank?

**Mr. Jeremy Masding:** It would set a precedent that I would not be prepared to set.

**Chairman:** It is the precedent that worries Mr. Masding, not the amount. I am just trying to understand the issues.

**Mr. Jeremy Masding:** Yes, I think that is probably a fair summary.

**Chairman:** Does Deputy Pearse Doherty wish to add anything further?

**Deputy Pearse Doherty:** Yes. Going back to the securitisation issue, the Chair asked about Project Glenbeigh and the structure that was entered into there. It is a sale through a securitisation vehicle. Who came up with the concept of that vehicle? Was it Permanent TSB or other investors? Who developed it?

**Mr. Jeremy Masding:** It was a small group of us who have capital market experience of securitisation. As Mr. Dolan said, we started with the principle that the assets had regular cash flows, even though they were labelled as non-performing loans, NPLs. Based on that principle, we felt we could replicate what we have done in the past. How many securitisation packages has Mr. Dolan done in his time?

**Mr. Declan Dolan:** I have done 14.

**Mr. Jeremy Masding:** There is deep experience of securitisation based on assets that pay cash.

**Deputy Pearse Doherty:** Of those 14, how many were in respect of residents?

**Mr. Declan Dolan:** All of them.

**Deputy Pearse Doherty:** All of them.

**Mr. Jeremy Masding:** Yes, but not NPLs.

**Deputy Pearse Doherty:** This is just to clarify the different types of structures that the banks are using. Would all of the securitisations in which Mr. Dolan was involved before have resulted in loss of ownership and transfer of title?

**Mr. Declan Dolan:** No. The securitisations we had done prior to Glenbeigh were about generating funding only.

**Deputy Pearse Doherty:** So they would have been synthetic securitisations.

**Mr. Declan Dolan:** No. There are differences. They are actual securitisations but they are only about funding. We retain servicing, we retain the equity positions and we simply sell the senior notes into the market, which generates more cash, which we can then lend in mortgages.

**Deputy Pearse Doherty:** There would be no transfer of title. This was a departure, which is what I am interested in. Why was this model taken as opposed to the other 13 models which allowed for the risk to be transferred but did not involve a new servicing agent or the sale of the loans to a third party, namely the vulture?

**Mr. Declan Dolan:** It was designed to achieve a different outcome. The previous securitisations were about funding. Glenbeigh was about de-recognising the assets off the back of balance sheets to reduce the NPL ratio.

**Deputy Pearse Doherty:** We are trying to figure out how different banks are dealing with these issues using different structures. Bank of Ireland was in with us last Thursday. It has gone through a securitisation process and is reducing its NPLs by a fraction of 1%. It is not a huge sale in terms of numbers and is nowhere near the value of Glenbeigh. It reduces the bank's NPL

level but does not do what Glenbeigh did, namely, transfer the title or involve the appointment of a new agent. The title remains with Bank of Ireland and the servicer is Bank of Ireland. I assume that is identical to the other 13 securitisations that Mr. Dolan has overseen.

**Mr. Declan Dolan:** It is not.

**Deputy Pearse Doherty:** Can Mr. Dolan explain that to me? Why did Permanent TSB not look at that structure?

**Mr. Declan Dolan:** Does Mr. Masding want to take this question?

**Mr. Jeremy Masding:** I propose to come back in later. Mr. Dolan can lead up to it in terms of the design because he helped me design it.

**Mr. Declan Dolan:** Generally, securitisations are very complex financial instruments. While they share lots of common factors, no two are exactly the same. In the case of Glenbeigh it was particularly complex because the underlying assets, while producing consistent cash flow, were classified as NPLs. Specifically in respect of Glenbeigh and in order to achieve balance sheet de-recognition, which was the aim, we took advice and guidance from a number of third parties and stakeholders around myriad connected factors, which included accounting, policy, risk, pricing and, ultimately, servicing. The advice was clear that in order to best achieve de-recognition, the bank could not maintain its position as the servicer on a long-term basis. The advice we received specific to our securitisation was that in order to best achieve de-recognition, we could not be the servicer over a long period.

**Deputy Pearse Doherty:** The recognition is that the NPL risk is now no longer with the bank.

**Mr. Declan Dolan:** Correct. That is de-recognition.

**Mr. Jeremy Masding:** In terms of Bank of Ireland, it would be really unprofessional of me to comment on a competitor's securitisation contract. As Mr. Dolan says, no two designs are the same. We have no other line of sight to the real intricacies of the asset which underpin it or the relevant third party advice that Bank of Ireland took. The complexity of NPL securitisations is reinforced by recent press speculation, which I presume the Deputy has also read, that outsourced servicing might actually be required for that transaction in due course. There is a clause in the prospectus, having just looked at it myself very superficially, which states that there are mechanisms for such arrangements. It would be unwise of me to make a definitive comment on the existing or future potential construct of the transaction. The only comment I can make with definitive assurance to the Deputy in his position is that the advice we took was that, in order to achieve de-recognition and therefore reduce the NPL ratio, we could not retain servicing.

**Deputy Pearse Doherty:** The advice Permanent TSB got was that it could not retain servicing of the mortgage, which would mean that the bank could not service them and would have to employ an agent like Pepper or whatever. Was Permanent TSB advised that it could not retain ownership of the mortgages? That is one of the core issues.

**Mr. Declan Dolan:** Given that the mortgages were going to transfer within in six months it would be an odd circumstance where the bank was paying-----

**Deputy Pearse Doherty:** Sorry, can Mr. Dolan say that again?

**Mr. Declan Dolan:** Given that the mortgages were going to transfer to Pepper in a short period, the bank would be in a position then where it had legal title over assets that it had no control over. That would make no sense.

**Deputy Pearse Doherty:** Can Mr. Dolan explain that to me? This would be instead of securitisation and instead of transferring in six months. This would be the vehicle. Why was such a vehicle not possible?

**Mr. Declan Dolan:** The assets or mortgages transferred to Glenbeigh Securities and the servicing will transfer to Pepper, at which point the bank has no control over those assets.

**Deputy Pearse Doherty:** I understand the current position.

**Mr. Declan Dolan:** We would then have legal title or ownership of assets over which we have no control.

**Deputy Pearse Doherty:** Rather than the structure Permanent TSB entered into, which involved handing over legal title of properties and having a different servicing agent to deal with them, why did the bank not look at a securitisation arrangement that would retain legal title but had another servicing agent? That would have made more sense if the advice the bank received was to the effect that it should have an external servicing agent to service those loans. Why was that not looked at as a possibility? It would have meant, in effect, that the bank would not have sold the loans to the vultures. The issue seems to be only to reduce non-performing loans. Permanent TSB is saying that the only reason it could not do what Bank of Ireland has done, which involves retaining legal title, is that the bank would need to have another servicing agent over the medium to long term. If so, then why did Permanent TSB not look at retaining legal title, not selling to a vulture and have an external servicing provider to service the mortgages? Why was that not possible?

**Mr. Declan Dolan:** Specifically in the case of Glenbeigh it was impossible to retain servicing long term and retain legal title and get de-recognition.

**Deputy Pearse Doherty:** It is not only a question of servicing. Disposing of legal title was required to get de-recognition. Is that correct?

**Mr. Jeremy Masding:** There are myriad factors - it may be better to use the word tests - that we have to apply. The tests are interconnected.

**Mr. Declan Dolan:** It is not specifically about servicing or legal title. It is also about call options and rate setting. Essentially, it is about the retention of risk and control.

**Deputy Pearse Doherty:** That is the key thing. It is the issue around risk. If a bank is setting up a special purpose vehicle, then basically the economic interests of the pool of portfolios is in place. Whoever the note-holders are, then the risk is with them. The economic benefit goes to them but the risk is also with them. Therefore, the number of non-performing loans should reduce.

I understand that no two securitisation vehicles are the same, but the situation is that the other banks are telling us their split mortgages are performing and are not dealt with as non-performing loans. Permanent TSB is the only bank telling us this is not the case. The other banks are telling us that they have arranged for securitisation that keeps title and servicing and also reduces their numbers of non-performing loans according to the same regulator.

**Mr. Jeremy Masding:** Three things arise. First, I will repeat that in this particular securitisation design the combination of the interconnected factors meant that it was the design required in order for us to get de-recognition. Those are the facts. Second, in terms of split mortgages I wish to repeat what I said last year to the Deputy. Rightly, Deputy Doherty challenged me last time by saying that if AIB can achieve a certain goal then why could Permanent TSB not do the same. Deputy Doherty said that it was a function of us not thinking enough about where we were at. Forgive me for reminding the committee - I am conscious that committee time is precious - we had to offer more splits than any other bank in Ireland because of the nature of the weakness of the balance sheet. For example, in the 2017 split mortgages accounts made up 6% of loans in AIB. They made up 24% of loans for us. For that 24% we warehoused up to 80% of the debt in some cases. We set out to try to keep as many people as possible in their homes. This meant many of the warehouses were rather deep. Then, the depth of the warehouses related to the constructs of the split, because the non-performing loan guidance from the Single Supervisory Mechanism states that 20% is a level above which the warehoused portion and the main mortgage are deemed to be connected. As soon as we pass the connection test, they stay as non-performing loans.

**Deputy Pearse Doherty:** I want to clarify the point because I have followed everything Mr. Masding has said up to now. If the warehoused portion is more than 20%, then it is deemed as a non-performing loan. Is that correct?

**Mr. Jeremy Masding:** Yes, they are connected. I am afraid we did not have the capital to split the split. What was the third point from Deputy Doherty?

**Deputy Pearse Doherty:** The other banks set up two separate contracts. My understanding was a contract was in place for the split and the non-split portion. There was a relationship between them. Was that not the way the other banks got around the fact that the portion of split warehoused loans was above 20%?

**Mr. Jeremy Masding:** Even with two contracts the bank might fall foul of the connected test because of the 20%. That is my understanding. We simply could not achieve that. At the end of the day, I have been here on many occasions and we have always tried our best, I hope, to answer the questions from the committee. The bottom line was the weakness of the PTSB balance sheet.

**Deputy Pearse Doherty:** I know that. I know how vulnerable the bank was and continues to be.

**Mr. Jeremy Masding:** It meant we had to make certain choices.

**Deputy Pearse Doherty:** Some of the choices earlier on in respect of how those mortgages were split deemed them to be non-performing at a later stage. That is not the same scenario for the other banks.

**Mr. Jeremy Masding:** I do not accept that because the number of splits they had was a function of stronger balance sheets. The size of the warehousing they gave was far smaller than ours. Again, that was a function of the balance sheet. Both these factors mean that-----

**Deputy Pearse Doherty:** I appreciate the information Mr. Masding has put on the record. I remind him - I imagine he is reminded - that what he has said is contrary to what he said previously when we quizzed the matter. I do not have the transcripts before me but from memory the suggestion from Permanent TSB was that until borrowers reverted to the original contract, the

loan would be deemed non-performing. That was the assertion Permanent TSB made.

**Mr. Jeremy Masding:** At a macro level the point I am making here is that-----

**Deputy Pearse Doherty:** Now, borrowers do not have to go back to the original contract as long as the splits are-----

**Mr. Jeremy Masding:** The comment about going back to the original contract was a generic comment about an account curing into a performing status. The specific comments I am making about the splits are reflected in the points I have made. I do not have anything else to add. I am sorry.

**Deputy Pearse Doherty:** Will Mr. Masding take me through the non-performing loans? A total of 10% of loans are non-performing. How many properties are at issue? There are 2,409 principal dwelling houses in arrears of 90 days or more and 526 buy-to-let properties. Obviously, far more are deemed to be non-performing loans. Will Mr. Masding give me an understanding of the categories? What falls into a non-performing loan?

**Mr. Jeremy Masding:** Does the question relate to what is left?

**Deputy Pearse Doherty:** Yes. What makes up the 10%? Where do they fall? I presume all of those in arrears of 90 days or more are deemed non-performing loans. The number is approximately 3,000.

**Mr. Jeremy Masding:** We have approximately €1.7 billion of non-performing loans left. The figure of 10% equals €1.7 billion which equals circa 9,000 accounts.

**Deputy Pearse Doherty:** A total of 3,000 are 90 days or more in arrears. Where are the remainder?

**Mr. Shane O'Sullivan:** We have accounts that are between one and 90 days in arrears. Some of them may be non-performing loans but not all of them. Approximately 2,500 are in that category. We then have long-term treatments that are performing to the restructure, but they are still classified as non-performing loans. I will explain the final category. It is possible to have a loan that is performing from origination but which is connected with another loan that is not. Essentially, at a simple level, they are the three ways for a loan to become non-performing: a borrower can be in arrears; a borrower can be restructured and be performing to the restructured arrangement, but the loan is still a non-performing loan; or the loan is performing from the outset but it is connected to another loan.

**Deputy Pearse Doherty:** Let us go over that further breakdown. We have arrears of between one and 90 days and then arrears of more than 90 days. That makes up 5,500. What about the 4,500 other loans? How many of those 4,500 fall into the category of those whose loans are restructured and who are meeting the terms of their restructuring?

**Mr. Shane O'Sullivan:** I can give the Deputy that figure after the meeting as I do not have it to hand.

**Deputy Pearse Doherty:** I assume it would be the vast majority.

**Mr. Shane O'Sullivan:** The Deputy should not assume it is all those who are in the one to 90 days in arrears category. They are not all in it.

**Deputy Pearse Doherty:** They are not.

**Mr. Shane O’Sullivan:** As I said, there are three categories. In this regard, there is the category of those who are in arrears more than 90 days, some of whom are in arrears in the one to 90 days category. There are technical rules as to when the loans in category are considered non-performing loans, NPLs. We also have the loans in terms of the reform and restructures and also the connected.

**Deputy Pearse Doherty:** With respect to the bank’s buy-to-let portfolio, what is position regarding the right of the bank to call in the arrears on a buy-to-let loan if it is in arrears of €10,000 or €50,000? Does the bank have the right to write to the borrower asking them to clear the arrears on it within 30 days and advising that, if this does not happen, it will either repossess the property or appoint a receiver?

**Mr. Shane O’Sullivan:** I cannot categorically say we have that absolute right but I can say we do not operate on that basis. Our bank does not appoint a fixed asset receiver. It does appoint a rent receiver where it believes there is a tenanted property where the cash from the tenants is not being used to repay the mortgage. In that case we would appoint a rent receiver, which would be good for the tenants, the bank and, ultimately, the borrower. The tactic of calling in a loan within 30 days is not one with which we are familiar.

**Deputy Pearse Doherty:** Will Mr. O’Sullivan explain the difference between appointing a fixed asset receiver and going through the legal process for possession?

**Mr. Shane O’Sullivan:** At a simple level the fixed asset receiver has much less interaction with the courts. The fixed asset receiver can sell quicker than the traditional route that one would take.

**Deputy Pearse Doherty:** It is a way of not going to the court, having the ability to sell the property on the market and redeeming the loan.

**Mr. Shane O’Sullivan:** It is a legitimate entitlement for those who have it in their terms and conditions but that is-----

**Deputy Pearse Doherty:** PTSB does not do that.

**Mr. Shane O’Sullivan:** No.

**Deputy Pearse Doherty:** PTSB would go through the courts in such an instance.

**Mr. Shane O’Sullivan:** Yes or, alternatively, we have gone the voluntary surrender route which avoids the courts.

**Deputy Pearse Doherty:** And the write-off of the residual amount.

**Mr. Shane O’Sullivan:** Yes.

**Deputy Pearse Doherty:** Is that still available for those with buy-to-let mortgages? The bank did a big drive on that last year. Is that still available?

**Mr. Shane O’Sullivan:** Not at the moment. We have done it and we did a big drive but now we are reflecting on our position post Project Glas and Project Glenbeigh.

**Deputy Pearse Doherty:** I wish to touch on the fees charged by the bank. I raised this issue

with Mr. Masding previously. The bank increased its fees in August 2017 by more than 400%, with its fees increasing from €3.18 up to €18 per quarter. It has now taken a decision to restrict that even further because many individuals would be wealthier, or customers would pay their wages into their accounts or customers who had a mortgage were able to avail of free fees. It has significantly restricted that. Is it now a requirement that a customer must have €2,500 in his or her bank account every day to avail of free fees?

**Mr. Jeremy Masding:** That is correct.

**Deputy Pearse Doherty:** What is the justification for that? I also asked the representatives of the Bank of Ireland that question. For quite a number of people who are working and have decent jobs, the requirement to have €2,500 in their accounts every day for a month is quite an achievement given the pressures on people. Why would fees be waived for those people and charged to those who are struggling to get by, who have to check their bank balance at the end of the week, who wonder when their mortgage repayment will go out of their account, the children's allowance will go into it and who have to be mindful when they have to buy a new pair of shoes for their child going to school? Why are they not rewarded in the same way as those who are that little bit more comfortable?

**Mr. Jeremy Masding:** As I explained to Senator Horkan, our return on equity is probably 3% to 3.5%. The market average in terms of our minimum return is 10%. Our profitability, as I indicated in response a question from the Chairman, was €4 million last year. We are trying to balance the value equation between trying to get all the money back to the taxpayer but at the same time giving value to our customers. Unfortunately, much of what we inherited is economically unviable and they are the choices we are having to make. Mr. O'Sullivan might want to add a further comment.

**Mr. Shane O'Sullivan:** I would look at it slightly differently. We talked about the funding earlier. The customers who are keeping €2,500 or more in their accounts are essentially providing funding to the bank and that is often cheaper funding than we might get in the market. That free banking is applying at a threshold is a reflection of the fact that it is funding. That threshold of €2,500 is among the lowest in the market. I believe most other players are in or around that threshold or they have a higher threshold of €3,000.

**Deputy Pearse Doherty:** Is the bank not concerned that new entrants to the market such as Revolut will take over? Many young people, in particular, are using those alternatives. They have caught on to the banks. If all those customers who have less than €2,500 in their accounts per day, whom the bank is charging fees because they are not providing it with enough credit, withdrew their money at 12 o'clock tomorrow, the bank would collapse. It would fold overnight. Those customers are keeping the representatives' bank alive and keeping them in jobs. Increasing numbers of them are considering moving to these different types of companies, which provide free fees, free transactions, no charges for using ATMs and they do not differentiate between whether one customer is wealthier than another. Permanent TSB had a major drive to offer free fees in its model with respect to its newer accounts on the basis of the transaction-based reward scheme but it has screwed over its old existing customers. These are legacy accounts.

It is interesting to consider business and banking because the same practices do not marry with respect to both. An airline offers passengers who fly with it frequent flyer miles. If a person stays in the same hotel, they are offered a discount or a commercial rate. If one is a loyal customer of the local pub, one might get a free drink at Christmas. When it comes to loyalty

to one's bank, existing customers seem to be the ones who are being screwed over. The loyal customers are the ones who are paying higher interest rates in terms of the legacy accounts, they are the ones who are paying higher fees in terms of simply having an account with the bank.

**Mr. Jeremy Masding:** I answered an earlier question where I said all our customers could access the explore account, which I believe was labelled as the best current account in the market by *bonkers.ie*. Interestingly, Permanent TSB won the company award in the Irish loyalty awards a few weeks ago underpinned by our explore account. I hear what the Deputy is saying about the legacy current accounts but I would say the only way we are going to survive against Revolut, Fintech and other such companies that enter the market is by providing compelling propositions. Our explore account is attractive to customers. It is built on the type of examples the Deputy mentioned such as the airline account in that the more a customer uses their debit card the more value they get and we also have access to a series of rewards scheme. The point I am making is that we inherited what we inherited and I would encourage all customers to consider the explore account because it is a compelling proposition.

**Deputy Pearse Doherty:** With the indulgence of the Chairman, I have a final question. I started by raising the issue of provisioning for the fine that will be issued from the Central Bank of Ireland and it is only a matter of time before that happens. The fine can be €10 million prior to 2015 and 10% of turnover from that period on, so we will see what the figure will be. Those in the Central Bank have been talking to us about individual accountability and examining those matters. An individual within PTSB could be fined up to €1 million, if they are found to be subject to it and we have to allow the investigation to proceed. Is the bank underwriting any individual who will be fined by the Central Bank? Will the individual have to personally pay the fine or would it be paid by the bank?

**Mr. Jeremy Masding:** We work on the premise of innocent until proven guilty, as one would expect, and directors' and officers' insurance applies for all members of staff of Permanent TSB. Any member or ex-member of staff of Permanent TSB who is innocent until proven guilty can have access to the directors' and officers' private insurance.

**Deputy Pearse Doherty:** Would someone's guilt have to be proven in a court, as opposed to by the Central Bank?

**Mr. Jeremy Masding:** It would be the latter, to be frank.

**Deputy Pearse Doherty:** The Central Bank has not yet identified somebody from within the bank so I do not want to suggest they have or will.

**Mr. Jeremy Masding:** Yes.

**Deputy Pearse Doherty:** If somebody within the bank is identified as personally culpable in the tracker mortgage scandal, the Central Bank can levy a fine of up to €1 million on that individual. Would that fine, after the Central Bank has deemed that person responsible and levied that fine on them individually, be paid by the bank through that insurance or would the individual have to carry it?

**Mr. Jeremy Masding:** I do not know the answer to that question. I put myself in a difficult position and I will come back to the Deputy about that.

**Deputy Pearse Doherty:** I would appreciate it if Mr. Masding comes back to the committee on that.

**Chairman:** A number of issues need to be clarified. Where does Pepper Finance Corporation and the Glenbeigh portfolio sit into that arrangement?

**Mr. Declan Dolan:** Pepper is employed by Glenbeigh to service the loans. It is the servicer.

**Chairman:** That means that Pepper is collecting the money from the individual customer.

**Mr. Declan Dolan:** Permanent TSB is still collecting the money but eventually, on transfer, that will be the case.

**Chairman:** Permanent TSB is also getting paid by selling on the oranges to the market, so to speak. Am I correct that the customer is continuing to pay Glenbeigh?

**Mr. Declan Dolan:** Correct.

**Chairman:** That is through the arrangement with Pepper.

**Mr. Jeremy Masding:** Correct.

**Chairman:** The money market is then providing the purchase money to Glenbeigh for the mortgages.

**Mr. Jeremy Masding:** Correct.

**Chairman:** Am I right that Permanent TSB benefits from its interest to the tune of 5%?

**Mr. Jeremy Masding:** That is from our holding. That is correct.

**Deputy Pearse Doherty:** Glenbeigh is not regulated.

**Chairman:** Yes. There are three other issues. Permanent TSB is a member of the banking federation.

**Mr. Jeremy Masding:** That is correct.

**Chairman:** How much does it pay for membership?

**Mr. Jeremy Masding:** I do not know, I am sorry.

**Chairman:** Will Mr. Masding come back to the committee with that figure?

**Mr. Jeremy Masding:** Yes.

**Chairman:** When Permanent TSB got the money which came from the ECB via the Central Bank, the bailout money-----

**Mr. Jeremy Masding:** At a high level, we got two types of money. We got share capital from the taxpayer of €4 billion and then we had a funding gap in our balance sheet, our assets were bigger than our liabilities, and we borrowed from the ECB up to approximately 40% of our balance sheet and at the highest level.

**Chairman:** That money was paid to Permanent TSB through the Central Bank.

**Mr. Jeremy Masding:** It was the lender of last resort, yes.

**Chairman:** European money went to the Central Bank and to Permanent TSB.

**Mr. Jeremy Masding:** Yes.

**Chairman:** What collateral did Permanent TSB have to give for that?

**Mr. Jeremy Masding:** There were different advance rates at different times.

**Mr. Declan Dolan:** The collateral we gave was part of the securitisations we talked about earlier in that we securitised assets and kept them on-balance sheet, so exactly the same process as with Glenbeigh but instead of selling notes to market we kept them all ourselves and pledged them as collateral.

**Chairman:** Could Mr. Dolan say that again?

**Mr. Declan Dolan:** Instead of selling the notes to the market at the final stage, we kept them ourselves on balance sheet and pledged those notes to the ECB as collateral in return for the cash.

**Chairman:** Mr. Dolan might give us a note on that.

**Mr. Declan Dolan:** I will.

**Chairman:** We are at the end of a long day and I want to understand exactly what happened. The banks will not pay tax for a long time because of the way things are and they are all members of the banking federation. Did our guests ever discuss with their colleagues, or have such a discussion arranged through the banking federation that, over a certain cap of profit, they might give a substantial figure to a voluntary, charitable fund for, say, social housing? As part of corporate social responsibility, as a way of presenting a new model of banking and to build trust, beyond a certain level of profitability a bank would give a substantial contribution to a central fund that would, in turn, go to such a project as social housing. Would that be something that the banking federation or each of the banks might discuss to show the humanity and compassion of the banks in real terms?

**Mr. Jeremy Masding:** We all have our individual corporate and social responsibility programmes.

**Chairman:** Yes, but above and beyond those.

**Mr. Jeremy Masding:** Second, there are a couple of schemes to which we contribute in the social enterprise area. We give funding to a socio-governmental body that lends onwards. I can only speak for Permanent TSB in considering any step further than that. I am satisfied with the work we are doing in the CSR space.

**Chairman:** What is the CSR space?

**Mr. Jeremy Masding:** CSR refers to corporate social responsibility. I am satisfied, for example, with the volunteering time that my staff give, the moneys we pay to charity, based on where we are on our transformation journey.

**Chairman:** Permanent TSB always did that.

**Mr. Jeremy Masding:** That is based on where we are on our transformation journey.

**Chairman:** Permanent TSB always did that.

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**Mr. Jeremy Masding:** We make €5 million and are nowhere near paying money back to the taxpayer.

**Chairman:** Permanent TSB always gave money to organisations and charities.

**Mr. Jeremy Masding:** We could consider further issues when we have fulfilled our duty of paying back the taxpayer. Our objective for the moment has to be to deliver real value to our customers such that we increase the probability of getting money back to the taxpayer.

**Chairman:** That is a mean sort of an answer.

**Mr. Jeremy Masding:** Pardon?

**Chairman:** That is a mean sort of an answer. Permanent TSB is doing okay, making money, getting into better times and restructuring.

**Mr. Jeremy Masding:** Unfortunately-----

**Chairman:** Would Mr. Masding not take the initiative with the other banks-----

**Mr. Jeremy Masding:** Unfortunately, to address Senator Horkan's point-----

**Chairman:** -----and get them to come clean. The banks are not paying taxes so should agree to a contribution of millions of euro per year for each of the next five years. I ask Mr. Dolan to stop writing. The banks could build up a fund for social housing. I am only asking but I think it is something the banks should do. It might take them a step closer to rebuilding the trust they should have with the people.

**Mr. Jeremy Masding:** I have heard the Chairman's point.

The joint committee adjourned at 4.58 p.m. until 10 a.m. on Thursday, 11 April 2019.