

HOUSES OF THE OIREACHTAS

Volume 2

No. 9

Morning

No. 10

Afternoon

AN COMHCHOISTE FIOSRÚCHÁIN I DTAOBH NA GÉARCHÉIME BAINCÉI- REACHTA

JOINT COMMITTEE OF INQUIRY INTO THE BANKING CRISIS

Dé Céadaoin, 6 Bealtaine 2015

Wednesday, 6 May 2015

The Committee met at 9.30 a.m.

MEMBERS PRESENT:

Deputy Pearse Doherty,	Senator Sean D. Barrett,
Deputy Joe Higgins,	Senator Michael D'Arcy,
Deputy Michael McGrath,	Senator Marc MacSharry,
Deputy Eoghan Murphy,	Senator Susan O'Keeffe.
Deputy Kieran O'Donnell,	
Deputy John Paul Phelan,	

DEPUTY CIARÁN LYNCH IN THE CHAIR.

Nexus Phase

Bank of Ireland - Mr. Richie Boucher

Chairman: I propose that we go into public session, is that agreed? Agreed. As we have a quorum, the Joint Committee of Inquiry into the Banking Crisis is now in public session. Can I remind members and those in public Gallery to ensure that their mobile devices are switched off?

Today's session 1 is a public hearing discussion with Mr. Richie Boucher, group chief executive of Bank of Ireland. In doing so, I would like to welcome everyone to the 23rd public hearing of the Joint Committee of Inquiry into the Banking Crisis. Today we continue our hearings with senior bank executives who had roles during and after the crisis. This morning we will hear from Mr. Richie Boucher, group chief executive, Bank of Ireland. Mr. Boucher joined Bank of Ireland as chief executive of corporate banking from the Royal Bank of Scotland in December 2003. He was appointed chief executive of retail financial services Ireland in January 2005. He has been the group chief executive officer since February 2009. He is the past president of the Institute of Banking in Ireland and of the Irish Banking Federation. Mr. Boucher you are welcome before the inquiry this morning.

Before I hear from the witness, I wish to advise the witness 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 this committee. If you are directed by the Chairman to cease giving evidence in relation to a particular matter and you continue to do so, you are entitled thereafter only to a qualified privilege in respect of your evidence. You are directed that only evidence connected with the subject matter of these proceedings is to be given. I would remind members and those present that there are currently criminal proceedings ongoing and further criminal proceedings are scheduled during the lifetime of the inquiry, which overlap with the subject matter of the inquiry. The utmost caution should therefore be taken not to prejudice those proceedings. Members of the public are reminded that photography is prohibited in the committee room. To assist the smooth running of the inquiry, we will display certain documents on the screens here in the committee room. For those sitting in the Gallery, those documents will be displayed on the screens to your left and right. Members of the public and journalists are reminded that these documents are confidential and should not publish any of the documents so displayed.

The witness has been directed to attend this meeting of the Joint Committee of Inquiry into the Banking Crisis and you have been furnished with booklets of core documents. These are before the committee and will be relied upon in questioning and form part of the evidence of the inquiry. So with that said, if I can now ask the clerk to administer the oath to Mr. Boucher.

The following witness was sworn in by the Clerk to the Committee:

Mr. Richie Boucher, Group Chief Executive, Bank of Ireland.

Chairman: Okay, with that said, I now invite Mr. Boucher to make his opening remarks.

Mr. Boucher.

Mr. Richie Boucher: Chairman, members of the joint committee my name is Richie Boucher. I'm currently the group chief executive officer of Bank of Ireland Group, a position I've held since February 2009. From January 2006 to February 2009 I was chief executive of Bank of Ireland's retail financial services Ireland division. From March 2004 to December 2005, I was chief executive of Bank of Ireland's corporate banking business. The inquiry directed me to attend the committee and be available to it with respect to certain themes in the context of the three roles I hold, or held, with the group for the relevant dates. I was also required to provide a written statement in relation to those themes. The Chairman's opening remarks to the inquiry in December 2014 identified that the purpose of the inquiry was to identify mistakes which were made, to learn from these and to avoid their recurrence. I've provided the inquiry with a comprehensive written statement and have provided documents within, and not within, the public domain relating to my written submission.

Chairman, may I suggest that if yourself and the committee feel that it would be the most productive use of your time, rather than me continuing on a prepared a statement I could move straight to questions and answers.

Chairman: Okay, Mr. Boucher, and just to inform you as well, the committee will be publishing your statement in full so we can take that as being read this morning, with your agreement.

Mr. Richie Boucher: Yes, Chairman.

Chairman: Okay. Thank you. Deputy Murphy, you have 25 minutes.

Deputy Eoghan Murphy: Thank you, Chairman, and thank you, Mr. Boucher, you're very welcome. I'd like to begin, if I may, with the BOI group liquidity committee minutes from 29 September 2008. Your reference is BOI - C3b, pages 19 to 21. Do you have that document?

Mr. Richie Boucher: I am familiar with the document.

Deputy Eoghan Murphy: Familiar with the document. Okay, great. That meeting was the day of the 29th. Can you remember when it was convened and how long it lasted?

Mr. Richie Boucher: I can't remember exactly when it was convened but I believe it was the late afternoon, I think somewhere between about 4 p.m. and 5.30 p.m. I think it went on for about 25 to 30 minutes. My memory of that was influenced by the fact that I had discussions straight afterwards with colleagues of mine in our retail division ... so it was late evening, late afternoon Deputy.

Deputy Eoghan Murphy: Okay, thank you. And it lasted for about 25 or 30 minutes?

Mr. Richie Boucher: I think so, yes.

Deputy Eoghan Murphy: And you were informed by Mr. Goggin that a meeting had been arranged in Government Buildings later that evening on the possibility of a guarantee being provided for all borrowings by Irish institutions, and that's noted in the minute. Did you know Bank of Ireland's position at that time in relation to customers' deposits, interbank borrowings or debt securities issued?

Mr. Richie Boucher: I think the focus was primarily on the ... what was happening in the

... interbank markets and with the funding. I think the minutes of the meeting and previous minutes of previous meetings ... if I could just say these were quite informal meetings ... it was really updates ... would have shown that we were funding reasonably well, we were rolling over in the interbank markets but the rolling over was becoming much more short dated as it was happening. We had some pressure on corporate deposits but the retail deposits were reasonable and the UK deposit base was relatively strong.

Deputy Eoghan Murphy: The minutes indicate that Mr. Goggin was aware that the guarantee might include Bank of Ireland so was anyone asked to pull together the relevant information as to what would be covered under such a guarantee?

Mr. Richie Boucher: No, not to my recollection and ... no.

Deputy Eoghan Murphy: Okay. The minutes also state that a draft guarantee was prepared by the committee ... according to the note of the meeting it says that. But Mr. Goggin has told us in evidence that this is incorrect, that there was no draft of such a guarantee, or listed institutions that it should cover, prepared for Mr. Goggin for use at a meeting in Government Buildings. Is this correct?

Mr. Richie Boucher: That is my recollection as well, Deputy.

Deputy Eoghan Murphy: And was there any discussion at this meeting at all using a piece of paper or a note or something around which your discussions were based?

Mr. Richie Boucher: I think if I can just give a context. Mr. Goggin came in I think towards the end of the meeting. He said that he was ... himself and some senior bankers ... were attending a meeting in Government Buildings. He said that one of the items which would be ... discussion was some form of a guarantee. But the meeting, to my recollection, kind of broke up ... as I said earlier these were quite informal, we were just gathering together, updating each other on what was happening. It wasn't a decision-making forum. But I have no recollection of a guarantee. I think that's subsequently corroborated by the fact that one of the businesses for which I was responsible, licensed subsidiary ICS, had been omitted from the list of guaranteed institutions and that was causing some problems for customers in ICS and we had to engage with the authorities in the following week to try and get ICS included.

Deputy Eoghan Murphy: Just tell me a bit, if you could, how minutes are drafted. Was someone in the room to take minutes?

Mr. Richie Boucher: There was kind of ... again, it was a ... it wasn't a committee which required a quorum or that, but there was generally someone who was taking it if there was action points-----

Deputy Eoghan Murphy: Okay.

Mr. Richie Boucher: -----but we were taking, also, our own notes of our own action points.

Deputy Eoghan Murphy: And before minutes like these would be circulated, would someone sign off on them? Would someone check them?

Mr. Richie Boucher: Would the ... from what ... first of all, I should say, Deputy, I had not seen that particular document until the inquiry. It is a ... it's headed "A draft", so I've no recollection of it being circulated to me as a draft and certainly we ... my understanding is my colleagues could not find a non-draft version.

Deputy Eoghan Murphy: Also in the minutes from that meeting it says that you stated that the group should make the point, wherever possible, that it did not request the guarantee and did not require it. Can you just elaborate on that point? What do you mean? And make the point to whom? And was this point about fact or about presentation?

Mr. Richie Boucher: Deputy, if I could point out, I think there may be some confusion. I think there's been a copying of a minute from 30 September. The back page of that minute is attached to one of 29 September. I can provide to the committee the actual minutes of the 29th and the 30th, both in draft form. So the comment I made was on 30 September. I recall that comment. It was the day after the guarantee. And there were particular issues which were emerging that certain banks, we were aware, were starting to say that it was Bank of Ireland had asked for the guarantee for themselves. I was at a meeting of the Irish Bankers Federation that morning and the meeting had been requested to be ... in particular, to focus on things that ... like we were not permitted to market the guarantee and there was a request from the Irish Bankers Federation. One or two of the people from a couple of other banks had mentioned that, "We heard you guys went in and asked for a guarantee for yourselves." And we were hearing from some of our dealers that that rumour was going around in the market. I was annoyed and also I felt it was appropriate and necessary that we made it clear in the market that Bank of Ireland hadn't gone in and asked for a guarantee for itself.

Chairman: Sorry, can I just invite you to come a bit closer to the microphone?

Mr. Richie Boucher: I beg your pardon, Chairman. I'm sorry.

Chairman: Yes, yes, just closer to the microphone. Thank you.

Mr. Richie Boucher: I'm sorry. Chairman, would you like me to repeat anything I said?

Chairman: No, no, you're fine, you're fine.

Deputy Eoghan Murphy: Just to clarify that, Mr. Boucher ... and if we accept that that minute is from a meeting of the 30th, did the bank need a guarantee on the night of the 29th?

Mr. Richie Boucher: We didn't feel that we needed a guarantee in terms of the pressures we were facing on the markets. I think one of the things that we felt, and subsequently proved to have been correct, is that we had very significant collateral ourselves. So we had about 50% of our assets were in mortgages, Irish and UK mortgages. So we had quite a lot of eligible collateral but I can't ... I can't say in three-four weeks' time, if the markets had continued to be very tough ... you know, if events continued ... in the absence of a guarantee, would we have needed one, I can't say that. On the night of the ... on the afternoon of the 29th, night of the 29th, Bank of Ireland didn't feel that it needed a guarantee in its own right. I think that's also corroborated by the minutes of other meetings that we provided. We didn't identify a guarantee.

Deputy Eoghan Murphy: Okay.

Mr. Richie Boucher: Our focus and engagement, in particular, in that period of time ... I wasn't involved directly in the engagement but there was engagement with the Central Bank and others to try to ensure that the ECB and other authorities would be widening collateral criteria, and that was our focus.

Deputy Eoghan Murphy: Thank you. Can we just turn to your statement briefly then on pages 8 and 9, if I may? Because in that you recount some details then from later on on that

evening when Mr. Goggin goes to Government Buildings. You were asked to remain in Bank of Ireland. Is that correct?

Mr. Richie Boucher: No, I decided to ... I think there was a number of us decided to stay. We have to remember it was the night of the 29th. There was an awful lot going on. Amongst other things, one of my jobs was to ensure, for example, that our branches were properly staffed. We were not putting through any IT changes. We were making sure our ATMs were heavily loaded, because if there had been an incident which would have perceived that we had a lack of cash, that could have been very difficult. I was organising that staff would ... who were on part time would come into branches, etc. So I was there because it was necessary for my role as head of retail Ireland, but also, obviously, there was a lot going on. The TARP was going through Congress and obviously we were looking at our exposures to US banks and our exposures in investment markets. We gathered together ... myself, head of strategy, the chief financial officer, chief risk officer, the head of wholesale markets and some other colleagues gathered in a meeting room we have in the executive floor and we were awaiting communication from Mr. Goggin as to what was happening.

Deputy Eoghan Murphy: And he phoned you three times. Is that correct?

Mr. Richie Boucher: Directly into the conference room, that is my memory. Three times.

Deputy Eoghan Murphy: Did you receive any personal calls or direct calls?

Mr. Richie Boucher: From Mr. Goggin, not directly. I know that Mr. Goggin was also in communication with some of our colleagues at a more middle management level on certain technical and other issues.

Deputy Eoghan Murphy: Okay. The second phone call, I think, according to your statement advised of a systemic guarantee. Can you recall at what point in the evening this was?

Mr. Richie Boucher: We were asked ... we were asked about ...to provide ... if we could provide support to Anglo Irish. From memory that was about 11 p.m., 11.30 p.m. We had a credit committee to decide the basis that we would be willing to provide that. Mr. Goggin participated in that. It was a formal credit committee because, obviously, it was a large exposure. Then Mr. Goggin came back, from memory Deputy, I would say around about 45 minutes, maybe an hour later. So slightly after midnight, I cannot remember exactly, but around about that time, to advise us that the Government had decided there was a guarantee for all of the banks. And at that stage then, you know, there were questions about were subsidiaries included, etc., what was included, what was not. And a couple of our colleagues, including our chief law officer, were asked to just confirm the licensed subsidiaries we had, i.e. licensed depositors and all that for inclusion in the discussions that Mr. Goggin was having.

Deputy Eoghan Murphy: Just my final question at this point-----

Mr. Richie Boucher: If I could just say, my clear understanding is that there was a systemic guarantee.

Deputy Eoghan Murphy: My final question then is: was Mr. Goggin aware of the bank's total exposure to this point when you were informed of a systemic guarantee that would cover your bank? Did he know the full position of the bank in that meeting?

Mr. Richie Boucher: I must presume he did, yes. We had been looking at on an ongoing

basis, a daily basis, we had been looking at our liabilities in different markets, etc. I presume as the chief executive he would have been aware of that.

Deputy Eoghan Murphy: Including the subordinated liabilities.

Mr. Richie Boucher: I suspect so. I think we were all probably slightly more focused on those liabilities which were potentially leaving the bank but I presume he was, yes.

Deputy Eoghan Murphy: I will move on if I may, Mr. Boucher?

Mr. Richie Boucher: Yes, sorry, Deputy.

Deputy Eoghan Murphy: I want to go back to 2003 when you joined the bank. You moved into corporate banking. Is that correct?

Mr. Richie Boucher: That's correct.

Deputy Eoghan Murphy: The bank was traditionally viewed as a conservative bank, as Mr. Goggin stated himself. Would you have agreed that the bank was a more conservative bank than other lenders in the Irish market at the time?

Mr. Richie Boucher: Yes. I mean, I had ... when I joined the bank I felt there were certain gaps in where the bank was. It had been yes, the Bank of Ireland had an image of being a relatively conservative bank, yes.

Deputy Eoghan Murphy: Did the culture of the bank change during your time there?

Mr. Richie Boucher: I am not conscious of they had like some kind of step change, but I think over a period it did evolve over a five to six year period, yes.

Deputy Eoghan Murphy: Did you ever feel that the bank was under pressure to change its model or its business, given the apparently rapid success of banks like Anglo Irish Bank?

Mr. Richie Boucher: No. I think there was ... For our businesses, you know, Anglo wasn't ... I mean Anglo was a competitor, but it wasn't a competitor across the range of businesses we had. What I was conscious of, even though I wasn't directly interacting with the markets and investors, albeit I met them, was a perception of Anglo ... so like, not a direct competitor, well, it was a competitor but not across all of our businesses. Certainly, there was a market perception that Anglo, their price earnings multiple, i.e. what the market was prepared to pay for their stock as a multiple of their shares, was higher than the bank's. We were hearing that they had a much cleaner business model, that the management were very focused, that they had a great visibility on things like their pipeline of deals, etc. So it was ... the Anglo thing was more about a market perception rather than, I think, interactions and individual parts of our business, with the exception of our property lending activities, at the higher end.

Deputy Eoghan Murphy: I'll come to that then because in July 2001, that was before you were in the bank, the group risk committee set up a trial initiative for specialised property financing unit within business banking and the purpose was to provide higher risk higher return property transactions. Now in January 2003 when you were there - and sorry the reference for this is BOI - B1, page 55 - in 2003, in January, it was recommend to the committee that the initiative be established on a permanent basis with a confirmed limit of €100 million, the objective of it being to allow business banking compete more effectively in particular with Anglo Irish Bank. Is this an example of Bank of Ireland changing its business practice to compete with

Anglo?

Mr. Richie Boucher: If I could just point out to the Deputy that I didn't join the bank until December 2003.

Deputy Eoghan Murphy: I beg your pardon.

Mr. Richie Boucher: But if I could expand, when I joined their corporate bank there was confusion in the bank about property lending. I found that the corporate bank there were certain structures. There was a lack of focus on, say, family owned, large mid-corporate businesses. There was confusion about responsibilities for different sectors and I recommended to the group that we establish within corporate and we bring into corporate a lot more of the higher volume and certain types of more risky lending that was going on in retail Ireland to bring it into corporate, where we thought there was a greater focus and skill set. So that unit that you referred to was brought into corporate.

Deputy Eoghan Murphy: This happened in November 2004, the dedicated property unit. Is that your recollection?

Mr. Richie Boucher: It would have been yes, like I think the second half. I made recommendations to changes of the structure in the first half.

Deputy Eoghan Murphy: We have a minute on this and it's in BOI - B2, page 23, and it is from a meeting from the 9 November 2004 and it talks about this establishment of a dedicated property unit. The rationale it gives in that minute is that, "In the past five years we have under performed in this top end market, which has been dominated by Banks with specialist property units, most notably Anglo Irish Bank". So is this an example of Bank of Ireland changing its business practice to compete with Anglo?

Mr. Richie Boucher: I think it would be an example of us bringing more focus, probably more marketing to it, whether it was Anglo or Bank of Scotland, yes. I think I'd probably just mention again, Deputy, you know, we restructured the corporate bank at that time. We had a lack of focus on family owned, large businesses. I brought in people from Ulster Bank to specialise that and I with the ... I recommended a restructure of the group and that's what we did but, certainly, we did compete with Anglo at the higher end ... corporate property market.

Deputy Eoghan Murphy: And this was your initiative this new unit?

Mr. Richie Boucher: The restructuring of corporate was my recommendation, which was a total restructuring of corporate to focus on different areas.

Deputy Eoghan Murphy: And did you continue to have a role once you moved into head of retail?

Mr. Richie Boucher: In that, no, I didn't, the corporate was responsible for corporate lending and that type of activity.

Deputy Eoghan Murphy: But in terms of the dedicated property unit were you still involved?

Mr. Richie Boucher: Allow me to give ... No, I didn't have a direct role. I was a member of credit committees where large transactions came to the credit committee so I had a role in either the declining or authorising large transactions that had been recommended by business units.

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Deputy Eoghan Murphy: Did you personally manage relationships then with clients who had exposures over €30 million?

Mr. Richie Boucher: No.

Deputy Eoghan Murphy: You didn't manage any relationships with any developers?

Mr. Richie Boucher: I would have relationships with customers across the group so I would have been involved in marketing or meetings with customers as the head of ... more in corporate really. In retail, I wouldn't have. So, in corporate, yes, I would have met customers.

Deputy Eoghan Murphy: So you would have managed relationships with -----

Mr. Richie Boucher: I didn't, I wouldn't ... so the structure, Deputy, was that ... you know, we had relationship managers who would report into sectoral or unit heads and for our large customers, I would have been involved in meetings with those customers from a marketing or to give ... or if it was felt it was necessary to give the customer certain feedback on things that we couldn't give.

Deputy Eoghan Murphy: Would you ever have helped large customers in other transactions, ones that were perhaps not with your bank or outside of banking?

Mr. Richie Boucher: From time to time customers would ring me and look for advice.

Deputy Eoghan Murphy: Okay. For example, would you have ever written in support of a planning application for a large customer?

Mr. Richie Boucher: As a matter of record I did, but that was not in support of a transaction we were involved in.

Deputy Eoghan Murphy: No. Do you think that's appropriate?

Mr. Richie Boucher: No.

Deputy Eoghan Murphy: You don't think it's appropriate?

Mr. Richie Boucher: No, it was a mistake.

Deputy Eoghan Murphy: Okay. On your appointment as group CEO in 2009, a significant shareholder of the bank said that you must have been responsible for fatal errors of judgment, including advancing loans to developers on the strength of over stated land values and insufficient security. Were you?

Mr. Richie Boucher: I was member of a ... I was a member of a management team that was involved in making mistakes, including to property.

Deputy Eoghan Murphy: On the point that was made at the time in 2009, do you accept that there was an impression that you were too close to certain clients in the bank?

Mr. Richie Boucher: I don't accept that.

Deputy Eoghan Murphy: Okay.

Mr. Richie Boucher: People write all sorts of letters. Ultimately, if I do have a recollection, when I was appointed as chief executive, I went before the shareholders of the bank and 99%

of the shareholders of the bank voted for me. Certain shareholders didn't.

Deputy Eoghan Murphy: Okay. In correlation with the new unit, which was targeted at the main players, as it was described in the minute, in the property sector, in mortgage lending, growth moved from €27.6 billion to €60.8 billion between 2001 and 2008, and if we go to reference document BOI - B2, page 10, we'll see that policy changes ... there was a number of policy changes for mortgage lending at the time. Income multiples changed, loan-to-value policies changed, 1st Start mortgages were introduced, and more flexibility was allowed to seasoned multi-property borrowers. Do you think these changes were appropriate, and is this an example of you changing your business practices to chase the competition?

Mr. Richie Boucher: Yes, again, I would point out that a lot of data that you referred to was prior to my joining the Bank of Ireland, but with ... as we look now, in hindsight, that visioning of some of our criteria ultimately proved to be costly for ... for us, for our customers, and for our other stakeholders.

Deputy Eoghan Murphy: In July 2005, you introduced 100% mortgages. And the reason that's stated in BOI - B2, page 17, was "...in response to moves by key competitors, First Active, Ulster Bank, and PTSB...". Again, is this an example of you chasing ... changing your business practices to chase the competition?

Mr. Richie Boucher: Again, that was before I joined the retail division, but I would then add that I joined the retail division in 2006 so I could have stopped it.

Deputy Eoghan Murphy: Were you on the credit committee in July 2005?

Mr. Richie Boucher: I wasn't on the group risk policy committee in ... I joined the group risk policy committee in February 2006 as a member of the group executive.

Deputy Eoghan Murphy: Okay.

Mr. Richie Boucher: But I would ... the 100% mortgages was wrong.

Deputy Eoghan Murphy: 100% mortgages was wrong. Thank you. Concerns were expressed by the Financial Regulator in ... as early as July 2003, before you were at the bank, and the reference is BOI - B1, page 67. They did an examination and the examination raises questions about the maintenance of lending standards in your institution and about your ongoing monitoring, management and control of risk in relation to residential mortgage credit. Can you explain to me how the Financial Regulator can express a concern like that following an examination and then, in 2004 and 2005, the bank might continue to actually relax its policies and standards in relation to mortgage lending?

Mr. Richie Boucher: Again, it was prior to my involvement, but there was interaction ... we've also disclosed to the committee other documents which would have been our ... the bank at that time's answers to that. But, ultimately, like I've said, Deputy, whereas I think we probably followed the market too much in relaxing our standards, yes, I would concur with that. Whether or not it was taken prior to my arrival or after my arrival, the decisions we took were wrong.

Deputy Eoghan Murphy: But in making those decisions, or at least being aware of the decisions, and being in the bank then subsequently, were you aware that the Financial Regulator had been expressing concerns, or what ... whether there was concerns?

Mr. Richie Boucher: I wasn't aware ... I wasn't aware of the specific concerns there. I was aware that ... when the 100% mortgages were coming, there was interaction between several of my colleagues and the regulator at that time. The bank was uncomfortable with this market practice. The bank sought engagement as to whether or not the regulator felt that they could do something about it, but again I would note that, and I was part of that team, if we had felt so very, very strongly, we could have not participated in that part of the market.

Deputy Eoghan Murphy: Okay. You came onto the board in 2006. Do you think there was an appropriate level of reporting to the board on the concentration risk being faced by Bank of Ireland?

Mr. Richie Boucher: No, there was not.

Deputy Eoghan Murphy: There was not?

Mr. Richie Boucher: No.

Deputy Eoghan Murphy: And what role did the group credit committee and other committees like that have in terms of taking over control, if you like, of the bank?

Mr. Richie Boucher: Well, the board had decided to delegate to the group risk policy committee and the group credit committee certain decision-making powers. If I look now at the level of reporting, understanding the board has, of credit risk develop, concentration risks, a wide range of risks, the decision-making process that's involved in our risk assessment, if I compare our ICAAP document of 2013, which I provided to committee, to what was provided in the past in the board, there was ... the board didn't seek, and the board was not provided with, a sufficient level of information to make informed decisions on the risks that were being taken.

Deputy Eoghan Murphy: Why wasn't the board provided with this information?

Mr. Richie Boucher: I don't think it was sought ... I mean, I don't know if there was a conscious decision not to seek it but there were gaps ... I don't think that our information was so lax but if I compare what it is now to ... compared to it, it was light and day ... oh, sorry, night and day.

Deputy Eoghan Murphy: So was it insufficient oversight then on the part of the board, is that how you'd describe it?

Mr. Richie Boucher: Yes I think so.

Deputy Eoghan Murphy: Okay. So when we then look-----

Mr. Richie Boucher: And I was a member of that board.

Deputy Eoghan Murphy: Yes. But as a member of the board and also then, you know, a senior manager, how did you reconcile that position of information not being sought or information not being provided?

Mr. Richie Boucher: I think it was ... I mean, practices have changed, policies have changed, the world has changed very substantially as to what it is now and what it was then. I think that people genuinely felt that they were getting sufficient information. As it transpired, they weren't. So I don't think there was a conscious decision not to seek information. I think that there was less ... there was less focus on the understanding of risk. I think that was abso-

lutely clear.

Deputy Eoghan Murphy: And the time you were on the board, you were also on the group risk credit committee-----

Chairman: Last question now, Deputy.

Deputy Eoghan Murphy: -----group risk committee?

Mr. Richie Boucher: Yes. In terms of sequence, Deputy, I was on the ... I joined the group risk policy ... I joined the group credit committee in December or January 2004, as head of corporate banking. I joined the ... that is a committee of about 24 people which would look at transactions - on a weekly basis - over certain limits and levels. I joined the group risk policy committee which was a policy committee when I became a member of the group executive, and that was in February 2006 and I joined the board of the bank in October 2006.

Deputy Eoghan Murphy: You were involved with the group risk policy committee from 2006 and then on the board as well, subsequently, in 2006?

Mr. Richie Boucher: You know, from-----

Chairman: Deputy, you're out of time.

Mr. Richie Boucher: In ... In the-----

Chairman: I'll bring you back in, you're out of time.

Mr. Richie Boucher: Within the same year, yes.

Deputy Eoghan Murphy: Okay. Thank you. Thank you, Chairman.

Chairman: Just to clear up on that issue there before I bring in Deputy McGrath. On the board, are you on record this morning, Mr. Boucher, saying that the board were not seeking that type of information?

Mr. Richie Boucher: No, I don't think it ... I don't think that they were ... that level of information was either provided or sought as sufficiently as it should be.

Chairman: Which brings me to the other question. Would it not have been the case that it would have been a responsibility, or not, of senior experienced staff to actually bring that information to the board?

Mr. Richie Boucher: I think if I look back on where we are now and where we were, I think people believed they were providing sufficient information. I don't ... and I believe the board thought they were getting sufficient information. As it transpired, they clearly weren't.

Chairman: Okay, thank you. Deputy McGrath.

Deputy Michael McGrath: Thank you, Chair. You're very welcome, Mr. Boucher. Thank you for your attendance. Can I just start by asking you, during your three years as CEO of retail financial services Ireland within the bank, what involvement would you have had during those three years in the lending to the land and property development sector?

Mr. Richie Boucher: It wouldn't have been a very large part of my job. We were lending to land and property, it was done within ... it was a component of the lending ... too high a com-

ponent of the lending in business banking. So I had six or seven business units which reported in to me, so it was done ... the-----

Deputy Michael McGrath: Okay.

Mr. Richie Boucher: It was done ... I had a sanctioning authority. So deals of a certain size which were recommended by a credit function ... I had a sanctioning authority, so I could approve of or-----

Deputy Michael McGrath: Okay.

Mr. Richie Boucher: -----or decline. And-----

Deputy Michael McGrath: But the big loans-----

Mr. Richie Boucher: But then ... and then I was a member of the group credit committee where larger transactions would've come from different business units.

Deputy Michael McGrath: Sure.

Mr. Richie Boucher: Typically corporate-----

Deputy Michael McGrath: They were the direct responsibility of corporate that had been ... that had been moved to the new unit within corporate, in terms of land and property-----

Mr. Richie Boucher: But just to confirm, Deputy, like, there was smaller property lending done within business banking, but the larger transactions were-----

Deputy Michael McGrath: Okay. Was it up to a certain value, was there a threshold with which it moved across to corporate?

Mr. Richie Boucher: Roughly about ten ... about between €10 million and €15 million, however, if there were certain connections where it made much more sense for it to be in retail, it would be done.

Deputy Michael McGrath: Okay.

Mr. Richie Boucher: It was part of a wider customer connection.

Deputy Michael McGrath: Okay. Can I ask, Mr. Boucher, how does the bank monitor the performance and increased risk of loans involved by allowing interest roll-up facilities?

Mr. Richie Boucher: Primarily done through the committee structures. So on a transaction-by-transaction basis.

Deputy Michael McGrath: Okay. Can I take you to the group risk policy committee meeting of 17 April 2008? So it's at BOI - B2, Vol. 1, page 99. So, at this meeting, Mr. Boucher, there was a proposal made that the limit would be increased by €100 million in respect of lending to the landbank book within business banking, ROI, and that was opposed by the head of group credit at the time, who declined to support the proposal, but it was voted through by majority decision at that meeting, and you were to be given the power of overseeing the distribution of that €100 million. Can you recall that meeting?

Mr. Richie Boucher: I can recall basic points of it. I can't recall it all but I can recall basic issues if you-----

Deputy Michael McGrath: And can you understand what the rationale was for overruling the head of group credit?

Mr. Richie Boucher: Yes. What I recall is that there was a discussion, it was quite a long discussion. It was noted that whereas the original proposition to lend it for a certain purpose, it then evolved during the meeting. So during the course of the meeting, it was then discussed that one of our issues was going to be finishing out sites or overseeing where ... if we were looking for, to get out of certain positions, and then it was ... it then evolved that the limit would be used where it was to mitigate or reduce risk and I can't remember whether I volunteered or I was requested to ensure that the spirit of that was done, that it was to reduce and mitigate risk. The head of group credit still felt that, notwithstanding that that was a different proposal, as a matter of principle he didn't want limits on property lending increased.

Deputy Michael McGrath: Yes. And just to read an extract from that meeting - the business banking ROI, "highlighted that customers are seeing significant opportunities to acquire land at relatively good prices and the Group needs to be positioned to support the better clients". So this was in April 2008, well beyond the peak at this stage, and the bank was, apparently, speculating on the value of land at the time and effectively overruled the head of group credit to extend additional loans to land speculation.

Mr. Richie Boucher: As I've outlined in my answer to the question that you put to me earlier, Deputy, what happened in that committee meeting was an evolution of the purpose, which was to mitigate risk. It was decided that we would not take on new customers, and I was asked to ... I was asked or I volunteered to ensure the spirit of it was ... it would mitigate risk. And that would include finishing out sites, or having sites bought by other people but it was our own ... but we had our own land bank and to finish it out. And I either volunteered, or I was asked to oversee that, which would be unusual, and to reflect the debate that had taken place in the committee, where it wouldn't be provided to new customers.

Deputy Michael McGrath: And was it the correct decision to extend additional lending to land speculation in April 2008?

Mr. Richie Boucher: As it transpired, the limit was used for the purpose, which was ... which was to mitigate risk and existing exposures, including, like I said-----

Deputy Michael McGrath: Okay.

Mr. Richie Boucher: -----putting infrastructure into sites and that to enhance their value, because we saw a downturn coming, we didn't see the extent of the downturn. As has been demonstrated as we transferred loans to NAMA, the haircuts we had were different, partly because we had less unfinished property.

Deputy Michael McGrath: And would it have been a common occurrence for the head of group credit to be overruled by the risk committee?

Mr. Richie Boucher: Not often, no. I mean, not often, I think, but there was debate and challenge but not often.

Deputy Michael McGrath: At that point the lending limit in business banking was €2 billion in respect of landbank, the landbank limit was €2 billion, and at that stage it was at €1.95 billion. And it's noted in the minutes that without any new deals, that book is generating an additional €50 million in exposure every six months as interest roll-up facilities accumulate

into principal balances. So without even extending any new loans, the limit would have been breached by virtue of interest just continuing to roll up on existing credit facilities.

Mr. Richie Boucher: Yes. And that was one of the points that was noted and discussed, that notwithstanding a limit, there was going to be a problem in monitoring in general, so that was one of the things that was noted.

Deputy Michael McGrath: Sure.

Mr. Richie Boucher: And it was ... I think correctly brought out in the minutes.

Deputy Michael McGrath: Sure.

As you know Mr. Boucher, we have had sight of Project Atlas, or certain extracts from it at least in BOI, Vol. 2, pages 27-31, and we've gone through the figures recently with Mr. Goggin. Do you believe now, in hindsight, that there was an over-dependence on lending on one particular sector? And an over concentration of risk by the bank in land, property development and construction?

Mr. Richie Boucher: Absolutely.

Deputy Michael McGrath: To what extent?

Mr. Richie Boucher: It's hard to be...kind of ... with mathematical precision about it Deputy, but we certainly were over-exposed. We believed that as a proportion of our group balance sheet, that was manageable. We believed that it was diversified so there was a bigger ... a bigger proportion outside Ireland. We didn't take sufficient recognition of the potential correlation between property markets in Ireland and the UK and the rest of the world. And in our submission to the European Commission as to one of the mistakes that Bank of Ireland made, we said that we had too heavy of an exposure. I think we took too much comfort from proportion rather than absolute hard limits and now we have hard limits.

Deputy Michael McGrath: So are you of the view that the issue was the quantum of lending rather than the proportion? It was the actual nominal figures involved.

Mr. Richie Boucher: Yes, I think you can be very ... ratios and percentages can become ... you can have an over-dependence on mathematical formulas in relation to dependence. Absolute amount of money is what gets you into trouble, notwithstanding that it could be a big proportion or a small proportion. You could have a small proportion of a sector that goes really bad and you get ... you take big hits.

Deputy Michael McGrath: And can you put your finger on the single most important reason why, such a mistake was made in lending too much money to one risky sector?

Mr. Richie Boucher: I don't think there was one singular decision that even got us into that position. I think it was an evolution over ten to 15 years of very strong economic conditions, a sector that was seen to perform. So I can't say, and I have obviously thought about this carefully and I think about it in my current role ...in like the six years in my current role. Is there one particular time or point in time when... you know, one makes a deliberate decision to change gear or change a direction? No, I don't, I think it was more evolved over a long period of time, Deputy.

Deputy Michael McGrath: What is an appropriate loan-to-deposit ratio for a bank of your

size?

Mr. Richie Boucher: I think if we look at for us... we look at a wide range of ratios, Deputy. Loan to deposit, but we also look very much at liquidity-coverage ratio, which means your coverage if, you know, you are locked out of the markets for 90 days, 180 days, 30 days. So we have scenarios. But I would feel that about 110% to 115%. But I think again, if we come to ratios, again there can be confusion. I look at it in very simple terms from our perspective and that is the way that I express it and then the ratios follow. For our business model, our capital, all our shareholders' capital plus customer deposits, should equate to customer loans. And then, because you take customer deposits you have liquid assets, which are Government bonds or very highly rated assets. And they should be financed in the wholesale markets and in the wholesale markets, they should be financed by different programmes, so a variety of programmes that ... so, I think it reflects both your business model. So we are a retail commercial bank, our businesses... our model now is our businesses must be self-sufficient in funding or have a very high margin and a very high quality of liquid assets-----

Deputy Michael McGrath: Yes.

Mr. Richie Boucher: ----- so that they can be funded on the wholesale markets.

Deputy Michael McGrath: And what was the rationale in allowing that ratio, loan to deposit, going as high as 176%?

Mr. Richie Boucher: I think there was a belief in the markets at that time. We were not an outlier, is that securitisation markets were an ability to grow assets outside your natural home territories ... we didn't have a natural deposit base. Securitisation was seen to be a very appropriate and good model. I think we grew ... my personal belief Deputy and there would be a number... my personal belief is the single biggest mistake we made as a bank was to grow our UK mortgage business without a natural deposit base. To grow it in securitisations and there is a particular feature. Sterling is a natural short currency, so it is not a currency that there is ... big volumes. So, as it transpired and as it became apparent, the sterling securitisation was really being financed by the dollar markets, in particular by US mutual funds. So, when you had the crisis developing, the US mutual funds started to pull back very quickly and the sterling securitisation markets locked down very quickly and we were badly exposed. So that reliance on securitisation, notwithstanding that a lot of people were doing it ... it seemed to be a new business model. It strayed too far away from traditional banking where you must finance your asset base by natural customer deposits, so it was a bad mistake.

Deputy Michael McGrath: On page 8 of your opening statement you make reference to a meeting on the weekend of 6-7 September 2008, where, at the request of the Central Bank, a colleague and yourself attended a series of meetings in the Central Bank to discuss potential liquidity support from BOI and AIB for INBS. And you say, "I recall being shocked and shaken by the lack of information available to the executives of INBS and the Central Bank of Ireland on the liquidity position of INBS". "Shocked and shaken" - why Mr. Boucher?

Mr. Richie Boucher: I would say that weekend was a weekend when, on a personal basis, I realised the extent of the issues in the system were very, very serious. I was ... I believe ... I can't remember exactly ... our chief executive got a phone call from the Central Bank asking if we could provide ... if we could have people available to the meeting ... to a series of meetings to discuss support for Irish Nation ... sorry ... a building society and the chief executive asked myself and ... obviously because I was at retail in Ireland and had experience ... and also a col-

league of mine who was head of our wholesale division and would've had a good understanding of treasury markets, etc. Prior to the meeting, I asked my chief executive whether we were provided with any information to help us analyse the problem before we went to the meeting. I went to the meeting ... it was primarily ... the meetings primarily took place on the Sunday of the 7th.

Deputy Michael McGrath: Can you advise who was at the meeting? From memory?

Mr. Richie Boucher: There were various officials from the Financial Regulator, including Mr. Neary, there was the company secretary and what was described as the group treasurer of the building society. The chief executive wasn't available.

Deputy Michael McGrath: And was a specific request made of Bank of Ireland at that meeting to provide support for INBS at that stage?

Mr. Richie Boucher: I remember a series of meetings where we in particular asked what was the problem, you know, what was the roll-down, what was the cash flows, what was their market position - things that we would've in the back of our head with the bank. There were pieces of paper being flown ... thrown around the place. There was no coherent position ... of the problem we were being asked to solve at that moment or the extent of the problem going forward. I have to admit at some stage I said to my colleague, "We should leave this meeting". We said, "We can't carry on this discussion". So, I was extremely surprised and shocked to be honest about it. I'm not saying that we were perfect but the lack of understanding of the problem ... during the course of the afternoon it was more and more teased out as to, you know, what may or may not be the potential liquidity requirement. Eventually, we were asked to look at, from memory, I think a quantum of around about €4 billion and we fed back to the regulator that we weren't comfortable, that wasn't an accurate picture of what was needed, but even if it was, that we wouldn't be in a position to provide that - we were very uncomfortable taking on an exposure to that entity.

Deputy Michael McGrath: And these meeting were over two successive days?

Mr. Richie Boucher: My memory, Deputy, is, they were ... primarily took place on the Sunday. There may have been a preliminary meeting but my memory is more on the Sunday which was the 7th.

Deputy Michael McGrath: And what conclusion did you draw from that meeting?

Mr. Richie Boucher: That-----

Deputy Michael McGrath: Was the gravity of the situation-----

Mr. Richie Boucher: -----the system-----

Deputy Michael McGrath: -----facing INBS becoming clear to you at that stage?

Mr. Richie Boucher: -----the system was in much bigger trouble than I had envisaged. There was a lack of understanding or information of the liquidity position of individual businesses by the businesses themselves and the regulator. That was the clear ... and I remember being extremely shaken by that.

Deputy Michael McGrath: Was Anglo mentioned at that meeting?

Mr. Richie Boucher: There was no discussion about ... there was no discussion ... albeit I did ask why they weren't at the meeting and why Irish Permanent weren't at the meeting, why was it was just us.

Deputy Michael McGrath: And was AIB present?

Mr. Richie Boucher: Yes, AIB were present at virtually all the meetings that took place later.

Deputy Michael McGrath: Okay.

Mr. Richie Boucher: And then AIB and ourselves asked for time out to discuss various issues as to what we were being requested.

Deputy Michael McGrath: Okay. And this was still three weeks or so away from the bank guarantee. Were you involved in any further discussions with the authorities concerning INBS in the intervening period?

Mr. Richie Boucher: Personally I wasn't, no.

Deputy Michael McGrath: Okay. Can I ask you, Mr. Boucher, about the issue of subordinated debt being included in the bank guarantee at the end of September, because you make reference to that issue in your opening statement again, towards the bottom of page 8, and you give the clear impression that you were opposed to the inclusion of subordinated debt. Can you elaborate on that and distinguish between dated and undated subordinated debt? You expressed surprise at the inclusion of certain subordinated debt in the guarantee.

Mr. Richie Boucher: Yes, I mean again what I was trying to do is to give my impression of the matters that I was involved in to the committee-----

Deputy Michael McGrath: Yes.

Mr. Richie Boucher: -----which I felt was the responsibility I had. So, we were in the ... you know, in this room we were getting calls. We first of all got a call that it was a blanket guarantee and then obviously there was questions to the chief executive - "What does a blanket guarantee mean?", "Were subsidiaries included?" etc., etc., - because each of us obviously was mentally thinking, "Okay, what's our communication tomorrow?" You know, "What's our action plan---

Deputy Michael McGrath: Yes.

Mr. Richie Boucher: -----must we make?" I think about an hour, I can't remember exactly, but there was a third phone call where we were told subordinated debt was being included. I remember being a little bit surprised about that and talking to a couple of my other colleagues, who would have had quite a lot of strategic experience in the markets. We recognised, as a bank, certain of us and I think the bank as a whole was recognising that we would need to generate capital. I had been involved in parts of my career as a ... in specialist work-out teams and we saw that liability management can often generate capital. So, if we're owed ... if we owe a bondholder €100, the bond starts trading in the market at, say, €50-----

Deputy Michael McGrath: Yes.

Mr. Richie Boucher: -----and we buy back that bond at €60. So, the person has bought the

bond at €50, we offer €60, they make a profit and we have generated capital of the difference between what we ostensibly owed and now what we bought the bond back in, or swapped it for equity.

Deputy Michael McGrath: Yes.

Mr. Richie Boucher: So, it was a well-trusted mechanism of generating capital and you were dealing with, shall we say, consenting adults. You're dealing with bondholders on a voluntary basis. I was surprised that this decision had been taken to incorporate it and I did have a discussion with a couple of colleagues and I said, "I don't know if this actually suits us as a bank."

Deputy Michael McGrath: So, just to clarify, you were surprised that the guarantee included dated subordinated debt?

Mr. Richie Boucher: I was surprised it went beyond senior debt, to be honest.

Deputy Michael McGrath: But are you surprised then that your CEO, Mr. Goggin, lobbied to have dated subordinated debt included in the guarantee that night?

Mr. Richie Boucher: I was surprised to hear his testimony that it was him. It wasn't discussed with the group. There was no strategic decision taken as to whether or not it was a good or a bad idea. In fairness though, Deputy, even in my testimony what I was trying to convey was that, you know, there was a lot of phone calls happening, there was a lot happening, people were in quite a stressed situation and Mr. Goggin has explained to you a distressed situation. There were technical calls. What my feeling is inside, it's not for me to say what happened to people who were on the pitch at the time - I was more in the dugout in that - but I was thinking more about implementation, rather than technical details.

Deputy Michael McGrath: But, Mr. Boucher-----

Mr. Richie Boucher: But I would ... Deputy, I would have been very conscious in my own mind of the hierarchy of debt.

Deputy Michael McGrath: Yes. But just to be clear, Mr. Goggin and Mr. Burrows were in Government Buildings. You were back at HQ with others and there was contact over the course of the evening by teleconference call. He was in Government Buildings, requesting that dated subordinated debt be included in the guarantee. You were in HQ and you were opposed to the inclusion of dated subordinated debt. Was this issue not teased out and discussed during the course of the evening?

Mr. Richie Boucher: No, like I said, it was a surprise but, you know-----

Deputy Michael McGrath: Was it a mistake, in hindsight? Could the bank have achieved greater burden sharing and improved its capital position further by imposing losses-----

Mr. Richie Boucher: No, I-----

Deputy Michael McGrath: -----on subordinated bondholders?

Mr. Richie Boucher: I think again I think that's an interesting question. I don't think, in the end-----

Deputy Michael McGrath: Which could potentially have saved the taxpayers' money.

Mr. Richie Boucher: I don't think it made a big difference for us in Bank of Ireland, Deputy. We generated, we've generated, as has been publicly disclosed, we've generated, from the subordinated debt that was in issue at September 2008-----

Deputy Michael McGrath: Okay.

Mr. Richie Boucher: -----or were subsequently issued, we generated €5 billion of capital-----

Deputy Michael McGrath: Sure, yes.

Mr. Richie Boucher: -----from liability management exercises of which, from memory, €2 billion came from debt that had been included in the period up to September 2010 and about €2 billion came from the ... that that had been excluded. Whether or not we would have been able to move more quickly on the liability management of the debt that had been covered-----

Deputy Michael McGrath: Yes.

Mr. Richie Boucher: -----prior to September 2010, remembering I think that about €750 million, so we could have dealt with that €750 million-----

Deputy Michael McGrath: Yes.

Mr. Richie Boucher: -----more quickly, I don't know. It might have altered our strategy, but I would say that the maximum amount ... we reached the maximum amount of our capital we could raise from liability as about €5 billion. I can't comment on what would have happened to other institutions.

Deputy Michael McGrath: But, just to clarify, there was no decision made at corporate level by Bank of Ireland, going into those crisis meetings, that the bank was in favour of including subordinated debt?

Mr. Richie Boucher: There was no corporate decision taken to do that.

Deputy Michael McGrath: Just-----

Mr. Richie Boucher: And I beg your pardon, just to ... there wasn't a discussion about that.

Deputy Michael McGrath: Okay. Just to clarify, Mr. Goggin's rationale when he was asked about this was:

The reason that we suggested that junior dated should be included was that we were concerned about the crossover between junior dated [...] and senior bondholders, senior creditors. We were also concerned that that very same population, it was a crossover to the sovereign.

That was his logic.

Mr. Richie Boucher: I think there was a ... there was a ... there was a ... this was a ... there is a logic to that. There's a logic to ... in business, and a lot of things in life, I'm not sure whether there's ever an absolute black-and-white answer.

Deputy Michael McGrath: But was there greater logic, from the bank's point of view, not to have them included?

Mr. Richie Boucher: That was my personal view, Deputy, but there would be colleagues could have had different views and, you know, like I said, it's very rare that there's a decision that is, you know, absolutely right or absolutely wrong.

Deputy Michael McGrath: Okay.

Mr. Richie Boucher: That was a personal view. It was based on my personal experience of work-outs.

Deputy Michael McGrath: Mr. Boucher, you're the most senior bank executive in Ireland to have survived the banking crisis. What makes you different from all the rest?

Mr. Richie Boucher: I don't really know, Deputy. I mean, what I go through is the process as to why I'm in my job is I stood before the shareholders every year, the shareholders voted in 2009, '10, '11, '12, '13, '14 and '15, every year as to whether I stay in my job. I've been under very significant regulatory scrutiny. I'm one of the few people that has had a ... I had a six-month investigation of my role in the crisis and my doing my job, that was done by an independent third party on behalf of the regulator. The regulator wrote to me afterwards, as I've disclosed to the committee, thanking me for my sense of responsibility and my engagement with the Central Bank, notwithstanding that I was going through this third-party process.

I focus on my job, to do my job to the best of my ability. I've had a huge focus on repaying the taxpayers. We in Bank of Ireland should never have got our position where we needed taxpayer support. It was wrong and a huge driving factor by me has been a recognition I was a member of a management team that made mistakes, made bad judgments that cost people money and I've had a huge focus on trying to rectify that.

I believe that we have made a lot of progress in doing that. But I don't know whether it's my personality, or my experience, or whatever. What I've tried to describe is the process as to why I moved from my role to where I am today and the scrutiny I've been under. I've also had huge scrutiny from the investors and the private sector investors that I persuaded to believe in Ireland and to believe in the recovery of the bank, the capital we've raised on that and a very, very significant question from the investors who were putting up new cash was an understanding of my role in the mistakes we'd made and what I was going to do to fix them and how I'd make money in so doing.

Deputy Michael McGrath: Thank you.

Chairman: Thank you very much, Deputy McGrath. If I could maybe just return to one matter, Mr. Boucher, and that's to do with the NAMA discounts and in relation to loans acquired by the bank from ... when NAMA actually took over your loan book. The discount overall amounted to something like 43% to Bank of Ireland.

Mr. Richie Boucher: Yes.

Chairman: Not the highest; some banks went up to 63%. Could you offer possible explanations for such a high figure and why it was not reflective of the bank's provisioning policy up to the time of NAMA acquiring the loans? Quite simply, you had these loans valued at one figure and when NAMA got sight of them, it came out completely different.

Mr. Richie Boucher: Well, first of all, I'm not an accountant, and in fact some members of the committee are accountants, but under the accounting rules you can have models for

mortgage businesses and other businesses. You are not allowed to make loss estimates. It's an incurred model. So your provisioning is an incurred model.

Chairman: Yes.

Mr. Richie Boucher: As to what you would do in that basis, so the provisioning is very different from what you might get on a mark-to-market basis.

Chairman: Yes.

Mr. Richie Boucher: Balance sheets can't be mark-to-market, because they change the whole time. When you're selling assets you're obviously selling on a mark-to-market and you recognise that. So in our disclosures to the market, Chairman, we had a very significant responsibility, in particular because people were buying and selling the shares, that we were still a public company, but also we were raising capital, so we had to make our best estimate of what we thought the cost of NAMA would be. So we showed in our accounts on a provisioning policy and then we disclosed to the market. We had to get permission from our shareholders, where we said we thought, based on our understanding of the models, so I was chief executive at the time, I pulled in people from all parts of our group, in particular people who understood securitisations, like, you know, we had quite a lot of experience, unfortunately too much experience in doing too much securitisation, but we had kept those skills. So we were able to tell the shareholders, when they were voting for NAMA, when they were trading our shares, and when they decided to invest in the company, what we thought was the best estimate of the absolute loss the bank would face by participation in NAMA. We gave a range, we gave a range between €4.2 billion and €4.8 billion. We said it depended on the absolute quantum of the loans transferred. But we had a pretty good understanding of the mark-to-market model that NAMA was operating, and-----

Chairman: Do you think the NAMA valuations were inaccurate or an accurate reading of what the valuations were when they got sight of those?

Mr. Richie Boucher: We have to understand the methodology that was used.

Chairman: I know that you've expressed the flaw with the methodology-----

Mr. Richie Boucher: There was also a different thing in the mark-to-market as well, which is the discount factor. So the discount rate was a big issue. The bank took a ... the bank's shareholders had to take a decision as to whether or not to participate in NAMA. I don't think we would have had a real choice and we recommended to the shareholders they didn't have a real choice.

Chairman: Yes.

Mr. Richie Boucher: You know, they had a vote to make, but we strongly recommended that we didn't feel we had an alternative choice.

Chairman: And was there any relationship between the valuation placed upon NAMA and the level of concentration that Bank of Ireland actually had in the sector?

Mr. Richie Boucher: I think the valuations became a function of the concentration across the entire sector and the fact that the property market had crashed. So we had valuers who had given us a valuation of, you know, I remember looking at cases where they would have given us a valuation of a property 18 months previously at €75 million, and then they were valuing it for

NAMA at €7.5 million or €10 million. So there was a huge concentration of property lending in the US, in the UK, in Ireland, and therefore that volume of property lending was a factor. I expressed an opinion at the time that NAMA would make money from the loans that Bank of Ireland transferred, and I said, "Good luck to them." And we did a deal, we knew what we were getting into, we gave our best estimate as possible to the shareholders of what implications it involved, and our best estimate, very early in the process, turned out to be accurate.

Chairman: Okay. Besides you talk about maybe fundamental difficulties with the accountancy processes and so forth, as to how the valuation of it would be done, but in Mr. Daly's testimony to the inquiry a number of weeks ago from NAMA, Mr. Boucher, he put out, I can go through it in depth, but I can maybe just summarise it for you, where he was saying that the equity growth in the purchase of one development was being used as the security for another purchase and this was having a compound effect. Was that a practice that was reflective of how Bank of Ireland were engaging with the sector?

Mr. Richie Boucher: We did. We didn't, like a lot of things, we didn't do it to the extent of other people, but we did. That was a mistake and that's a ... in our new approach that's not permitted.

Chairman: And at that time, was the bank looking at, if a particular developer was acquiring a substantial loan from Bank of Ireland, were you looking at other liabilities that they may have had with financial institutions or issues across securitisation or situations where maybe a personal guarantee was being used in a multiple of circumstances?

Mr. Richie Boucher: We did, but I don't think we understood it to the extent we should have.

Chairman: How do you understand it now?

Mr. Richie Boucher: Well, I think what we often looked at was that our particular deal was ring-fenced. So we looked at a particular transaction, we said, you know, okay, this is how it should work out, and in a downside this is what we would do. What we didn't take enough of a recognition of was the systemic issues. I feel that in the bank in the past, we lacked some peripheral vision of what was happening in the market. I think it can happen in a big bank in a small economy. One of my executives subsequently described it as that we spent a lot of time having meetings with our backs to the windows instead of looking out more. So I don't think we had a proper appreciation of correlation risk and the extent that, notwithstanding you go into a deal you think this is how it'll work out for us, if the rest of the building is on fire the room you're in could ... is going to catch fire as well.

Chairman: Final question on that before I bring in Deputy O'Donnell. In the context of Bank of Ireland, do you believe that NAMA was required?

Mr. Richie Boucher: In the context of, yes, I believed it was. We made an informed decision. And so I was the chief executive, with the chairman I recommended to our board we participated. I felt that, going back to the issue, and again it was partially influenced by my previous experience in work-outs, is basically unless all the keys are put in the middle of the table, you really find it very hard to work out your part of a deal. It all has to be brought together. It all has to be dealt with in a certain way. I thought ... I said at the time, when I was asked by shareholders and investors, I felt it was a good solution. It provided liquidity. It brought everything into the middle. It enabled people with expertise to look at the ... to forget about an

individual bank's situation, how it would work out generally. So I felt that ... I recommended to our shareholders that NAMA ... we participate in NAMA. I said at the time that I thought NAMA could make money out of what it ... but, you know, we sell assets, we accept a price for it. If other people make money that's business. I'm happy. A good deal is a deal where both sides walk away happy.

Chairman: Okay, thank you, Mr. Boucher. Deputy O'Donnell.

Deputy Kieran O'Donnell: Thanks, Chairman. Welcome, Mr. Boucher. Mr. Boucher, in the bank's strategy between '04 and '09 you were looking at an earnings per share growth of 15% per annum. And was that very ambitious in the market that you were operating in?

Mr. Richie Boucher: I think we felt we could get enhanced growth by diversification. We recognised we had large market positions in Ireland. The Irish economy was still growing at 5% to 6%. Certain of our businesses, like our life business and our fund management business, were particularly benefitting from good markets. And then we felt we could diversify in corporate division by getting into different asset classes. As it transpired, that was a right decision for the quality of the assets but we couldn't fund them or provide the capital subsequently. And we felt we could grow our UK business at a quicker pace. That earnings per share growth was kind of middle of the pack, upper quartile as to what we saw other banks were forecasting. It was overly ambitious in terms of the strain it put on our capital and liquidity and our infrastructure.

Deputy Kieran O'Donnell: Can I go back? You took over as CEO of retail banking in Ireland on 1 January 2006, is that correct, Mr. Boucher?

Mr. Richie Boucher: In January. I can't remember the exact date.

Deputy Kieran O'Donnell: And within that position, you would have been in charge of property and construction loans within the bank. Would I be correct that loan-----

Mr. Richie Boucher: No, Deputy.

Deputy Kieran O'Donnell: What area would you have been in charge of?

Mr. Richie Boucher: Property and construction lending done within business banking Ireland. We had three divisions, three ... we had a fourth division, which is the fund management business, but three businesses involved in lending: our UK division, our corporate division, and our retail Ireland division. But property and construction lending below certain customer limits, between €10 million and €15 million, was a component of our business bank.

Deputy Kieran O'Donnell: Okay.

Mr. Richie Boucher: And also, sorry, Deputy, I should just, for the sake of clarity, there was some lending done to customers in our private banking unit, which was a-----

Deputy Kieran O'Donnell: Well, in terms of your interaction with the property and construction loans within your role as CEO of retail banking, what areas of loans would you have had direct involvement with and control of?

Mr. Richie Boucher: I would have ... if there was a loan above a discretion of a ... so the process was that we had relationship managers and business leaders in the different businesses

Deputy Kieran O'Donnell: If a loan was above a certain limit -----

Mr. Richie Boucher: It would come recommended to me or to a credit committee.

Deputy Kieran O'Donnell: Okay.

Mr. Richie Boucher: So if it was recommended, I could approve or decline. If it wasn't ... well, sorry it was unlikely to come to me if it was not recommended. On certain occasions for several loans, the underwriter would come and chat to me and say, 'Listen, you know this is a finely balanced decision?'

Deputy Kieran O'Donnell: So above what limit would it have come to you?

Mr. Richie Boucher: It depended on the credit grade as well.

Deputy Kieran O'Donnell: On average.

Mr. Richie Boucher: Above €15 million to €20 million so there would have been ... I can't remember that exact number where I directly approved ... but for the sake of clarity on property lending, as a member of the group credit committee, I would have been a member of a credit committee where business banking and corporate loans would have come in.

Deputy Kieran O'Donnell: When you took ... you came in ... in the year ... if you look at the property loan book of Bank of Ireland between '05 and we will say '09 ... between ... in the year 2006 when you took over, property and construction lending jumped by 28%. The loan book increased by 28%. Your previous in '05 went up by 13%. Why did it jump to such an extent in 2006? There was an increase of roughly about €5 billion in that year in property and construction loans.

Mr. Richie Boucher: In the group or in the business banking?

Deputy Kieran O'Donnell: It would be Bank of Ireland overall.

Mr. Richie Boucher: In the group.

Deputy Kieran O'Donnell: Yes.

Mr. Richie Boucher: Yes. I think there was the three divisions. There was a combination of three divisions. I think there was probably a higher component being done in our business bank ... in our, sorry, our UK division, as subsequently transpired by the breakdown. So we gave in our disclosure to the committee and including one of the core documents that you have provided to me it, shows the breakdown between our UK division, our corporate division and our Irish division. I can't recall exactly -----

Deputy Kieran O'Donnell: Can I just ... in the limited time that I have, Project Atlas provides a very, very stark statistic that when it was ... they looked at the loan book in '08, Bank of Ireland had €5.4 billion of ... related to land bank ... land bank loans alone. And of that €5.4 billion, €3.2 billion, which is 60% of that loan book had no planning ... of that land. So you had €3.2 billion out for land that had no planning. How did that happen?

Mr. Richie Boucher: From memory 90% of it, of the land of which just if I can recall ... the information that is provided and that you are referring to ... roughly 50%, maybe 55% to 60% of the land ... and land would also include where there are works or infrastructure put in ... roughly 50% of that ... sorry, 55% to 60% was in Ireland and 40% roughly outside Ireland.

From memory 90% of the land either was zoned or had planning permission. There was about 10% unzoned.

Deputy Kieran O'Donnell: In terms of value, right ... what we were told it was €5.4 million there was €13.1 billion relating to land and development ... €5.4 billion to land bank. The land bank can be analysed as follows: €0.4 billion, unzoned lands, €2.8 billion, zoned lands with no planning permission ... so that's taken from Project Altas. The question I suppose I am asking very quickly is: how could you give out €3.2 billion of money ... in at the end ... it was in place at the end of '08, without planning?

Mr. Richie Boucher: Because it was zoned. The lending -----

Deputy Kieran O'Donnell: It was zoned but no planning.

Mr. Richie Boucher: But like, people were buying land which was zoned and then they were looking for planning permission for the particular transaction.

Deputy Kieran O'Donnell: So you were willing to give out money without the land ... because you could have looked for it to be subject to planning permission being granted. Why would you give money without planning permission being granted on land when you could have made it a condition of the providing the loan that it had to be subject to planning?

Mr. Richie Boucher: Well, the position of the finance and the development would have been subject to planning. Like I have -----

Deputy Kieran O'Donnell: But clearly that's not the case here.

Mr. Richie Boucher: Yes, Deputy, absolutely. That was a mistake.

Deputy Kieran O'Donnell: That was a mistake.

Mr. Richie Boucher: And we do not do that now. So we do not finance landbank now.

Deputy Kieran O'Donnell: Can I move on? In terms of the model ... the remuneration scheme that was in place. In 2007-2008 the bonus scheme that was in place for the top executives, 75% of the bonus related to earnings per share. And, Mr. Boucher, in the year in which you took over as ... you became a director ... for 31 March 2007 accounts, you made a bonus of two and a half times your basic salary, which was ... your basic salary was €242,000 and your bonus was €615,000. The following year in '08 you had a basic of €550,000 and you made a bonus of more or less the same amount. So the quick question I have to ask of you ... and thereafter your salary when you became the CEO overall at the ... in 2009, your salary jumped from €580,000 per annum to €690,000 per annum, an increase of 20%, €110,000. The questions I have was, the model that was put in place for bonuses, did it lead to irresponsible lending? Did lending, property lending become a quick fix for earnings per share growth in the bank? And how do you justify taking that level of salary in 2009 of €690,000 when the Irish taxpayer was putting €3.5 billion into your bank at that same time? So if you could deal with those points, Mr. Boucher ... how can you justify that level of salary?

Chairman: You have used a good bit of time now as well, Deputy.

Mr. Richie Boucher: My salary was approved by the Minister for Finance at the time and was voted on by the shareholders who were paying for it and that continues to be the case. Every year I stand before the shareholders to be elected as to whether I stay in my job or not and

the shareholders decide what I'm paid. I don't have anything further to say on that. Going back to the remuneration model ... yes, I mean like, there were bonuses paid. I don't think the percentages you have are right because I think you may be referring to the fact that my salary was disclosed for the period I was director where was the bonus. So it would have been somewhere between 150%, I think, if we do it.

Deputy Kieran O'Donnell: Still a significant amount of money, Mr. Boucher.

Mr. Richie Boucher: Absolutely. My bonus in 2008, from the 2007 period, I bought Bank of Ireland shares. So maybe there was some poetic justice in that.

Chairman: Final question, Deputy.

Deputy Kieran O'Donnell: The question is ... the model that was put in place in terms of the bonus scheme you had ... was property lending a quick fix for earnings per share growth in the bank?

Mr. Richie Boucher: The earnings per share growth ... I don't think the property lending was a component, but what I would say, Deputy, is that there was not sufficient cognisance of risk in remuneration. We don't have bonus schemes in place. If and when they do arise in the future, then there will be significant processes for clawbacks, for deferrals, etc. because we have to recognise that loans we put on today, we won't know for three to four years as to whether or not it was the right decision, strategic decisions we take. So I wouldn't categorise, Deputy, that it was the property lending. The earnings per share was a focus, as Mr. Goggin has disclosed, in 2005 and 2006, it was primarily related to a cost programme. It was more related ... 75% to a earnings per share growth. In 2007 -----

Deputy Kieran O'Donnell: A very quick question Mr. Boucher -----

Mr. Richie Boucher: But that was wrong.

Chairman: Okay, Deputy, sorry, you are way over time. I just want to finish off on the remuneration issue, Mr. Boucher. At the time do you believe the remuneration packages were actually merited and do you believe that there are ... you've outlined some reforms on remuneration in your comments. Do you have further comments on how you believe remuneration should be dealt with going in the future?

Mr. Richie Boucher: We would be a strong subscriber to the fact that there should be greater risk measures. At the moment, while we don't have bonuses and we may or may not have them at some stage in the future, I would say that for our performance appraisals, so for everyone in the group, we have typically four quadrants they have to perform in as to ... for their performance rating, done on a six month or annual basis. There is a risk component and our chief risk officer must appear before the remuneration committee and must attest as to whether, in his view, the performance appraisals and the models and processes used for the year in question have a sufficient weighting towards risk.

Chairman: So final question on that. Under the new remuneration model, the banking operation through the crisis period using the new model, would the bonuses and remuneration packages for that time now be clawed back?

Mr. Richie Boucher: I don't think so under the way that it was constructed at the time. I think -----

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Chairman: It would be a new model now, you can't play them retrospectively but given the circumstances of the past, using the new model, could you claw some of them back -----

Mr. Richie Boucher: The 2008, I think would have been clawed back.

Chairman: Okay.

Mr. Richie Boucher: I think what we will have is ... if we were to have it in the future, you would have deferrals, automatic deferrals, and then you have claw-back.

Chairman: Thank you. What I now propose is that we suspend until 11.20 a.m. It is just coming up to 11 o'clock. The witness is reminded that once he begins giving evidence, he should not confer with any person other than his legal team in relation to their evidence on matters are being discussed before the committee. With that in mind, I now propose that we suspend the meeting until 11.20 a.m. and remind the witness that he is still under oath until we resume. Is that agreed? Agreed.

Sitting suspended at 11.01 a.m. and resumed at 11.27 a.m.

Chairman: I propose that we go back into public session and continue with our engagement with Mr. Boucher this morning. And in doing so I'd invite Deputy John Paul Phelan. Deputy, you have ten minutes.

Deputy John Paul Phelan: Thank you, Chair. Good morning, Mr. Boucher.

I want to at the start refer to exceptions to lending policy. There is a section in core document B2, pages 51 to 60 that deals specifically with it. Could you outline for the committee the level of agreement to exceptions to credit policy between the years 2004 and 2008 and perhaps explain why part of the solution at the time appears to have been there was a change in policy? And do you feel that those exceptions were sufficiently challenged at the time before they were agreed to?

Mr. Richie Boucher: Well, I think they were sufficiently challenged at the time, but the challenge ... or some of the decisions were incorrect. It's absolutely clear that some of the lending we did turned out to not to work out well for the customers or for ourselves. The process of exceptions, as I think has been explained in the document and the volume, is often if there was a minor exception across a multiple transaction, the whole exposure to that customer would be included in an exception. What we... so I would go with the thesis that whether or not the lending was done on an exception or whether it was done within policy, some of the lending was mistaken. What we do now is that... we do still have exceptions. We give greater clarity to our board as to why exceptions will be taking place and part of it is that some of policies are quite tight deliberately. Because under an exception process you can, you can't have... say, for some corporate type transactions in particular, it's very hard to have a model that reflects the complexity of corporate transaction and if a policy exception is triggered, then it goes to a different level of decision-making, so it gets a higher level of scrutiny.

Deputy John Paul Phelan: Previous speakers have referred to transfers from Bank of Ireland to NAMA. I've done a bit of investigation since that question was asked and it turns out that 73% of connections transferred across from Bank of Ireland to NAMA were subject to some sort of exception at the time, there was 191 connections, 139 exceptions, €8.8 billion worth of €9.8 billion transferred across were subject to some sort of exception. Can you explain for the committee maybe the relationship, the strong relationship that appears to exist between

the transfers to NAMA and the fact that those loans were subject to exceptions?

Mr. Richie Boucher: Well I think if we just go back to the NAMA requirement was that an entire asset class which was land and development and then connected invested property loans moved across to NAMA above a limit as the Deputy would be aware. So we didn't have a choice in a factor and it wasn't cherry picking, the entire volume moved up so I don't think there was a correlation between exceptions and NAMA transfers. What I think my ... in an answer to a request for an inquiry from the committee to explain the exceptions, and like I've touched on earlier, Deputy, you could have had €100 million of an exposure there could have been one part maybe a €3 million loan that was an exception, but the entire thing was counted as an exception, the entire €100 million. Like I said at the same time though, Deputy, they were decisions, whether they were made within policy or within exceptions which turned out not to work out.

Deputy John Paul Phelan: Can I turn now to core document B2, page 3 it's a document that's entitled Annual Review of Credit .. or Annual Review of Mortgage Lending Group Credit Perspective. It was produced in December 2004, around the time I think your position changed and you became a member of a credit committee of the bank. There's a quote under the graphs which says, "Mortgage lending has increased from €21.4 bn in 1999 to €38.6 bn in 2004 [a virtual doubling], €19 bn of which has been written in the last 18 months." Can I ask how can you justify now or was there justification at the time for such a massive increase in concentration in lending in that particular sector?

Mr. Richie Boucher: Well I think, as the Deputy will be aware, I was in corporate banking at the time but if I go back I think it should also be noted that a significant growth in the mortgage lending was done in the UK so when we came to the end of September 2008, the mortgage lending was roughly somewhere between €30 billion in Ireland, €30 billion in the UK. There'd been significant growth in The UK. The UK book turned out to be of better quality than the industry average but the mistake in the UK was that it had been grown through an inappropriate securitisation model.

Deputy John Paul Phelan: Can I ask you, for the benefit of those who are operating the screens the following page, page 4, there's a reference that I want to refer to. Mr. Goggin when he was here ... by the way besides, I think it was Deputy McGrath asked you the question about the extent of the guarantee ... did you see the testimony Mr. Goggin gave to the committee and was there any other matters you disagreed with than on extent of what items were covered under or should be covered under the guarantee?

Mr. Richie Boucher: I don't disagree with Mr. Goggin's testimony. Mr. Goggin, I think, gave his best recollections of what happened

Deputy John Paul Phelan: You just said you had a difference -----

Mr. Richie Boucher: There was a ... there was a ... when I heard I didn't necessarily think it was a good idea. And just to be clear, Deputy, that was in the context, I was asked to give a written statement in connection with the decisioning around the guarantee. I wasn't criticising Mr. Goggin I was just pointing out my recollections of issues at that time.

Deputy John Paul Phelan: Mr. Goggin was asked in his testimony was there a contrarian view within the bank and he ... with regard to the policies that were going on, lending policies and he said that there wasn't. I want to refer to the first paragraph on page 4 of B2, it's a docu-

ment that was produced by a man named Ronan M. Murphy, and at the bottom of the first paragraph there's a quote saying, "Going forward, the risk for the Bank is that we may be building up a higher risk portfolio the full extent of which will not emerge for 3-5 years as these loans mature." Now that's the end of 2004 that document was produced, a very prophetic document as things turned out. Do you agree I suppose with the analysis that he produced? Did you express any opinions on it at the time in your capacity as a member of the credit committee of the bank? Was there any actions taken following that fairly stark warning from Mr. Murphy in December 2004?

Mr. Richie Boucher: Just to confirm again, Deputy, I was a member of the GRPC so ... that wasn't a thing ... however in commentary in general terms, I note having read the document that in the end there was a recommendation of continuation, so you, you've quoted one component the entire document was produced by Mr. Murphy. He tried to give a balanced view and he tried to give a recommendation at the end that's his job and that's all of our jobs. But in hindsight, the level of mortgage lending we did was too much. So whether or not I was involved in the original decision making there were times when I could have said, "We need to slow down", and I didn't say that. But I did do and as has been shown in the documents that has been provided in the core documents, is in mortgage lending in the Republic of Ireland in one of the documents you provided shows the level of exception reduced and the volume of lending reduced in 2007 and 2008 when we did take the decision to stand back from certain market sectors but we didn't stand back enough and we didn't do it quickly enough.

Deputy John Paul Phelan: I want to, in my brief time that's left, reference mostly core document B4, pages 21 and 23. There's a continuous theme throughout a lot of the documents provided by Bank of Ireland that there was inadequate credit skills in the bank at precisely the time that credit was expanding rapidly. There's a quote on page 23 that I want to reference, near the bottom of that page, "A review of the Legal Services Unit identified a backlog of files, some with serious issues, which could expose the Bank to significant risk."

And again on page 23 it says that senior business managers and business managers the level of unsatisfactory reports had doubled, and further on, on the bottom of page 21, "A number of control issues were also identified within the Tele Media team within Corporate Banking." Can you remember what the serious legal issues were? Were they dealt with? There's also a reference to disciplinary issues having to be taken. Can you remember those being discussed at the time? The reference I think is in the middle of that page 21.

Chairman: Thank you Deputy.

Mr. Richie Boucher: Deputy ... I have read the documents, my recollection is that the documents .. well they are from early 2006. I'd come into the position of chief executive retail there was certain issues about the volume of work to have done in legal services division which is an internal division in the bank and in particular, not more related to kind of business type loans. I think the documentation also says that I said at the second meeting that I wanted a much higher proportion of that legal work to be done externally because I felt it could be done to a higher standard and where people could be held more accountable because you were paying them to do that. That was done and that is reflected in the fact that, going back to one of the Chairman's and some of earlier questions about NAMA transfers. The level of discounts that we had for documentation were minimal. I think also in a question of ... the managers not tolerating excesses on accounts and that I think also in one of the disclosed documents provided in the core document, I think it's B4 page 25, its noted from 2008 there had been a significant improvement and that I had taken responsibility as chief executive in retail and I brought in skills from other

banks which brought in a higher disciplinary process in terms of managers adhering to exceptions, training, etc. So we did make quite a lot of progress but we should have made more.

Deputy John Paul Phelan: What were the disciplinary issues, specifically there were referred to on page 21 -----

Chairman: Last question, Deputy.

Mr. Richie Boucher: There could have been a range of disciplinaries I don't think it was egregious issues but people not adhering to policies and standards, so that might have been to have money ... not have the documentation fully completed before recommending the loan is drawn down. Not adhering to policies and standards in that place, and we brought in a process to ensure that, that was better done. I brought in people to assist in that process.

Chairman: Thank you, Deputy Phelan. Senator Sean Barrett. Senator, ten minutes.

Senator Sean D. Barrett: Thank you, Chairman, and welcome to Mr. Boucher. When you were answering my colleague, Deputy Phelan, on the exceptions for owner-occupier mortgages, 24,000 of them ... on page 55 of B2 ... you said that there were within the bank ... contesting and debate on these issues. But the then governor for most of that period, Mr. Crowley, said, "In particular, I do not recall any issues of imprudent lending being brought to a board by the executives of the bank, the internal auditors or the external auditors." Was it a very compliant kind of culture?

Mr. Richie Boucher: I think we believed it was. That is a belief statement rather than a factual statement. We believed it was but if I look at what we do now and what we did then, as I gave in my answer to Deputy Phelan, there is a much higher level of embedded reporting on exceptions, reporting on the reasons for exceptions, gathering those together across the group. So it is a much more embedded, much more forensic process now than it was then.

Senator Sean D. Barrett: Are there other major changes that you've introduced to change the bank from the one you inherited, because the committee has to come up with recommendations for the future conduct of banking in Ireland?

Mr. Richie Boucher: I think, you know, I've had advice from people. I've had recommendations and I've ... my job is to make decisions and to implement the decisions or recommend them. The business model, I think, is the biggest change we've made. The business model and that we must fund ourselves ... must fund ourselves in the markets. It must only be in areas where we have a perceived market advantage. The level of capital, the level of liquidity that we have, very significant changes in the reporting and management information on risk ... on concentration and risk. I think I provided to you a contrast. And this is, you know, I was a member of the team so I must obviously must take responsibility for that, as well as what happened subsequently. The contrast, in particular, between the kind of strategic papers we would've produced and the focus in those strategic papers, which was earnings per share, etc., which would have been an eight or nine-page document, in particular the stress test document provided to Mr. Baron, deputy governor of the Central Bank in 2006, and the document we now provide, which is 175 pages, has a huge focus on stress testing, on liquidity testing, on capital under different scenarios and testing ourselves in different scenarios. So that's that. I think it's not confined to Bank of Ireland. I think those processes and policies, procedures, etc., are taking place in banks across the world. But, you know, we've put a much bigger focus ... but I think the biggest focus is on ... business model.

Senator Sean D. Barrett: And you mentioned the €6 billion that you've repaid. What's the loss of shareholder value from peak to trough for holders of Bank of Ireland shares?

Mr. Richie Boucher: I think it's always hard to do that. As I said you've to look at ... the share price absolutely peaked at €19 but how many people bought their shares or sold their shares at that? There's been a massive loss in shareholder value. I can't say what it was or wasn't. Our market capitalisation peaked at around about €13 billion. It is around about €11.5 billion now but obviously we've generated new capital. One of the things that I would note is a lot of the ... some of the capital we generated and raised was to do with losses but also there's a significant increase in capital ratios. So capital ratios have moved from about 7% to 14%. So some of that capital is about strengthening rather than filling holes.

Senator Sean D. Barrett: How much did shareholders lose?

Mr. Richie Boucher: It's an impossible question for me to answer, Senator, because I don't know what ... the position of individual shareholders. Shareholders made money and shareholders have lost. Some shareholders bought their shares at ten cents, some of them bought them at €19, some of them bought at €2, some of them sold at €3. It's an impossible question to ask.

Senator Sean D. Barrett: But wouldn't people who have your shares as pensions or, indeed, pension funds have an idea of what this has cost the wider society?

Mr. Richie Boucher: I think one would have to ask an individual shareholder what price they bought the shares at and whether or not they hold them or lost them. Also, I think one of the questions in particular ... we've had two rights issues. So one of the things that we've focused on is the dilution impact in raising capital. We always gave an opportunity ... and shareholders can follow their money and if they follow their money they can ... if the capitalisation of the bank increases ... if they decide not to follow their money, they lose capital. I think, to go to your question, I would be very cognisant of the fact that institutions have a greater ability to follow their money in rights issues than individuals do. And that ... so I would say that the individual shareholder ... personal shareholder didn't have the ability or financial resources to follow the progress the bank has made and to participate in rights issues under which they've made money. So a shareholder that would've bought ... would've held shares ... would've bought shares maybe in 2007, if they had followed their rights, I'd say they'd probably break even at the moment. Shareholders who bought their shares in 2008 have made a lot of money. Shareholders who bought in 2011, including the State, have tripled their money. But I'd also ... you don't actually make your money until you cash out. You know, your share price, your bond price can go up, down. Ultimately, it's when you buy and when you sell.

Senator Sean D. Barrett: You mention ... in our papers ... B2, at pages 18 and 19, that the 100% mortgage was introduced in July 2005. And it's recorded that by November there was no formal response from the regulator. Now, we've heard from Mr. Goggin that there was misgivings within the bank and that he recommended 90% in discussions with the regulator. Did the regulator ever express an opinion after July 2005 when 100% mortgages were introduced?

Mr. Richie Boucher: I'm not conscious that they did, but I also ... you know, I didn't have ... I had surprisingly little interaction with the regulator despite my roles over four years in the jobs I was in, which is very different now. As recently as last week, I'd a three-hour meeting with the regulators. But I would say that ... I'm conscious that colleagues did seek engagement with the regulator saying that this is a dangerous market practice. But like I've also said, if we

absolutely, absolutely felt it was so bad, we could have decided not to.

Senator Sean D. Barrett: Yes. Would you have expected him to come back at least by November when this practice started in July?

Mr. Richie Boucher: They would be back to us today in a nanosecond. I don't think that timescale was evident in that period.

Senator Sean D. Barrett: Residential investment property ... that's also ... it's 63, 67, in book B2. The residential investment property, RIP [I think there's irony in that] doubled within Bank of Ireland over 15 months from 2003 to September 2004. Was the risk associated with that appreciated?

Mr. Richie Boucher: Again, like I've said ... like I wasn't ... that was outside of the roles I was in at that time but clearly, as hindsight has shown, it wasn't. I think there was a desire - and that was reflected in subsequent minutes - to, in particular, recognise there were risks ... or what we would have described as amateur investors. There was controls put on lending to people who had certain income levels, etc. And ... so there was a desire to limit the exposure to certain income brackets. That was a ... it was an enlightened self-interest rather than a social good issue, to be honest because we felt that the ... people mightn't have the ability to support the property if the rental didn't transpire.

Senator Sean D. Barrett: Because, by 22 November 2004, the risk policy committee minutes says, "the book is relatively unseasoned and untested" ... "50% of [that] book is less than 12 months old". So that was a speculative era in property to a dangerous degree, I suppose, compared to what the bank had to correct later on.

Mr. Richie Boucher: It was ... it's an absolutely true statement that the lending hadn't been seasoned, that there hadn't been sufficient experience of what would happen in a downturn. The models were tested for interest rates. So when we did a lending, we did a test for an interest rate assumption for ... income assumption. The buy-to-let book, which is what we now call it ... I think, as I've disclosed, is performing slightly better. But, in fact, I think the decision to move to more professional landlords who were connected, in particular, with the construction industry was the biggest exposure we had in that buy-to-let book and I've said that to the market.

Senator Sean D. Barrett: Thank you very much, Mr. Boucher. Thank you, Chairman.

Chairman: Deputy Pearse Doherty. Ten minutes, Deputy.

Deputy Pearse Doherty: Go raibh maith agat, a Chathaoirligh, agus fáilte roimh an t-Uasal Boucher chuig an coiste. Mr. Boucher, your institution showed an increased reliance on wholesale funding from 2005 on, to finance growth in the loan portfolio, and I'm referencing here core documents, BOI - B3, page 15, which shows that wholesale funding in March 2004 was 30% of the balance sheet and was forecasted to increase two years later to 44%. Given those quite dramatic increases over a short period of time, were you aware of the issues at that time and did you regard this as a fundamental risk to the bank?

Mr. Richie Boucher: I don't think we recognised it as the risk it was, Deputy. I think we believed that what other banks were doing, what the markets were doing, what advisers were doing, that securitisation was safe. It was a good way to do it. There's not a problem with securitisation, there's an over-reliance. I've given in earlier testimony, if I look back, I think that was the biggest single mistake and I think there was a fundamental flow in the sterling securi-

tisation markets of sterling being a natural short currency and it had actually been financed in reality, in dollar markets. A number of other banks that had financed UK mortgages found out a similar issue. So I would say the biggest ... we made a lot of mistakes, Deputy, but our biggest mistake was a liquidity mistake. As it transpired, when the authorities were able to provide liquidity against collateral, our ability to ride through the liquidity crisis was better because we had that collateral, but the business model was flawed.

Deputy Pearse Doherty: Okay.

Mr. Richie Boucher: It was a flawed business model to lend money when you're not gathering customer deposits on the other side.

Deputy Pearse Doherty: Okay. Mr. Boucher, I'd like to refer to book of evidence, BOI, Vol. 2, page 17, and the reference is BOI02042001. This is an extract from the minutes of the court of directors meeting on 21 October 2008 and it deals with a meeting between the Bank of Ireland executives and the Financial Regulator, at which the issue of recapitalisation was raised. The minutes say "Messrs. Goggin, O'Donovan and Donovan took the opportunity to outline the case for early recapitalisation by Government as set out in ... paper which has been circulated to the Court and the desirability of early consolidation." Can I ask you, Mr. Boucher, does the paper on recapitalisation by Government exist?

Mr. Richie Boucher: I think we would've disclosed that ... if it did ... like I said, Deputy, I, for very obvious reasons, I haven't been involved in the disclosure process in our own bank, but there has been a high level of governance. If there was a paper, it would've been presented to the committee.

Deputy Pearse Doherty: Why did Bank of Ireland make a case for recapitalisations, what I understand is three days before you signed up to the Government guarantee on 24 October?

Mr. Richie Boucher: I think we recognised what we would ... recognise at that time, in the United States, in Belgium, in Holland, in France, and in particular in the UK which is the most contiguous market to us and where the capital markets look most closely, there had been a significant change in the market's perception of the level of capital needed in the bank. That, you know, banks just needed more capital, whether there was an absolute ratio but there was an absolute recognition you need more capital.

Deputy Pearse Doherty: And when did you come to this conclusion?

Mr. Richie Boucher: I think over a period of probably from ... I would say from the summer, Deputy, there was an increasing recognition within the bank, that we were ... whereas we were adequately capitalised, we weren't sufficiently capitalised for a storm that could come and-or to pursue the business model.

Deputy Pearse Doherty: But when did you come to the conclusion that you needed Government recapitalisation?

Mr. Richie Boucher: I think that there, what was a ... our desire was to explore what was happening elsewhere. Naturally, the markets at that time ... so what we were looking at, do we have a private sector solution? And what the markets were looking in particular, was Government intervention and Government-related solutions, so what my colleagues were trying to explore is, what was the approach, we were trying to get some feedback from the regulators because we were hearing from our investment bankers and our contacts that in the Bank of

England, for example, was giving very, very clear guidance to the banks it regulated as to what capital levels it expected. There was no point in us starting a capital-raising exercise unless we were at a level of degree and be able to tell investors, "This is what we think the ratios are going to be required, this is a buffer and this is ... the Government is or isn't going to be involved."

Deputy Pearse Doherty: Okay. The minutes also record, and this is on page 18 of the same book that:

The Governor then reported that he had called his counterpart in AIB for a general discussion on the market and learned that AIB [did] not propose to approach the Government for capital but would be receptive to preference capital if available. However, DG expressed a distinct lack of enthusiasm for the idea that the Government might recapitalise all banks because, like the [Government] guarantee ..., it would sustain some which do not deserve to survive in his view.

For the record, was Bank of Ireland at the time arguing for the recapitalisation of all banks that were guaranteed?

Mr. Richie Boucher: No, I don't ... I have no recollection of that, I mean, we were probably selfishly focused on ourself, but that was our job. It's a matter of public comment, public note and statements made. Bank of Ireland took a different view of their requirement to recapitalise than our biggest competitor. I have no recollection and I would be surprised if Bank of Ireland was advocating-----

Deputy Pearse Doherty: For all-----

Mr. Richie Boucher: -----either directly or indirectly for other banks to be capitalised.

Deputy Pearse Doherty: Okay. Did Bank of Ireland share the view of AIB that, and DG which I assume is Dermot Gleeson, that not all banks deserve to survive?

Mr. Richie Boucher: I don't think we had a ... I have no recollection of us having as direct a view on that. I think we felt it was inevitable that some wouldn't and there needed to be plans for those. But we weren't as focused on ... I've read Mr. Gleeson's testimony. His testimony said on 28 September, they had information that we didn't have, that two banks were going to be dealt with and four banks were going to be guaranteed. We didn't have that information. I don't recall us being as, I don't want to use the word pejoratively, as fixated on what ... we just ... you know, as to whether or not two other banks should survive, as AIB have testified. But at the same time, I would also be ... I don't have a personal recollection of AIB as being vehement, as has been reflected in the commentary to the committee.

Deputy Pearse Doherty: Okay. Maybe just ... on the night of the guarantee, did you believe that Anglo or Nationwide were solvent or insolvent?

Mr. Richie Boucher: I didn't ... I felt that it was a matter of record, Deputy, that I felt that Irish Nationwide had much bigger problems than the market and people realised. I got ... as I said, I was very shocked. I had been involved in an exercise back in 2006, late, I can't remember the exact date, where at that time, options were being considered for Irish Nationwide. One of the investment banks had approached us and said, "Would we be interested in looking at it?" Mr. Goggin asked me to, because obviously I was chief executive of retail. I had probably an afternoon of meetings by myself with the then chief executive of Irish Nationwide and his company secretary to discuss their business model to get an outline of the type of lending

they did, in particular to understand the franchise value in their mortgage markets with small business lending markets. I got an understanding of what I felt the business model was. I went back to the chief executive and said I didn't feel that there was an opportunity for us and I didn't recommend we pursue it. I recognised as we were coming back up to the night that weekend, I recognised the liquidity problems were not as big. There was a discussion between ourselves and AIB, there was some commentary from the regulator that they felt, well, the haircut on Irish Nationwide's books would be, I don't know, a mid-teens per cent. Whether I had a justification to say it, but I do recollect I said, "Well, whatever they say, it's two or three times that."

Deputy Pearse Doherty: So the AIB minutes that we've discussed with AIB reflect the meeting that you had, suggested that Bank of Ireland believed that the write-down would be 30% to 50%?

Mr. Richie Boucher: Yes, but ... look, it was a ... there was no kind of, mathematical ... I said, "Whatever that is, it is going to be two or three times that."

Deputy Pearse Doherty: And that was informed to the regulator at that time, three weeks before the guarantee?

Mr. Richie Boucher: Whether or not that was directly said, we ... I just said, I mean, my ... I felt we couldn't support it. I didn't want to get in a position where we were having a discussion. I felt we ... to be honest, I felt we should get out of the building. I said, "We can't support these people. You don't have enough information to enable us." I didn't want us to get sucked into a discussion-----

Deputy Pearse Doherty: Okay. My final-----

Mr. Richie Boucher: And that's being very honest.

Deputy Pearse Doherty: Okay, I appreciate that. My final question, Mr. Boucher, in relation to Bank of Ireland and your entry to NAMA, the board considered a paper in relation to a proposed application for Bank of Ireland to become a participant institution of NAMA. In that paper I've seen, my apologies it is not in the book of evidence, but if you can recall it, it will be helpful.

Mr. Richie Boucher: Yes, I can.

Deputy Pearse Doherty: It mentions that if the bank is unable to participate in NAMA the bank may ultimately face nationalisation. How ... was this, was this a major concern, a minor concern for the bank that if you didn't go into NAMA that you could be nationalised? And maybe if you could tell us about that-----

Mr. Richie Boucher: Well, I mean I'm, I'm not sure, like it was a potential consequence were a concern. I recommended to the board ... that was my responsibility, you know, so once you become chief executive you take accountability and responsibility for everything you must recommend. Like I had tried to identify in an earlier question, I had had experience of work-outs. I said we are not going to be able to work out our property ourselves, we'll have a view on this. We're not going to be able to do it. I said we have to raise capital. The markets won't believe what our marks are on the property. We need to get these assets off our books. We might have a view that it'll work out okay - we might believe it, the markets won't. And if we don't raise capital, the only source of capital ... if we don't raise capital from the private markets, then the only other source of capital is from the Government. I think I used the phrases to the board

“We’re going to have to suck this up, we’re going to have to participate in NAMA, we’re going to have to persuade the shareholders it’s a good idea because I don’t think we can work it out if the whole system is in NAMA and we’re not, the market won’t believe that we’ll be able to work it out.” We could have believed it, and we could have been right, but I don’t think it would have happened, and that’s why I recommended to the shareholders ... I recommended to the board to recommend to the shareholders we had to participate in NAMA, because if we didn’t, my view is the markets would just not have participated in the recapitalisation we had in 2010.

Deputy Pearse Doherty: So NAMA, in your view, and correct me if I’m wrong, saved you from being nationalised?

Mr. Richie Boucher: I think NAMA was a process to enable us to deal with an issue and to raise private sector capital. I think the nationalisation was a consequence. I might have used it for dramatic effect with the board to say like you know, I doubt we have a choice. I said I don’t think we can raise the ... if I was a market participant - because I was looking at it from the people I’d have to go and try to sell the bank to in terms of raising capital. I said if I’m spending nine tenths of the meeting explaining a property and construction book, and not talking about what the other aspects of the business, I said I’m losing; I’m losing before we start the discussion with these investors.

Chairman: Thank you. May I just clear up one matter as well, just the ... in regard to Bank of Ireland on the entry into the guarantee, just to clarify Mr. Boucher, do you believe that Bank of Ireland was solvent at that time, or not?

Mr. Richie Boucher: Yes. I had a view that the bank was solvent and it subsequently transpired we were.

Chairman: Okay. Thank you.

Mr. Richie Boucher: But, sorry, Chairman, I forgot to say, on the night of the guarantee we believed that we could see ourselves through the liquidity issues. I can’t do a counter-factual-----

Chairman: Yes.

Mr. Richie Boucher: -----as to what would have happened six weeks if the TARP hadn’t happened, other things. We could have run out of money. It would have taken us much longer than other banks, but we could have run out of money. So the guarantee ... we made a decision to go into guarantee. I was a member of the committee that recommended we had made a decision. I didn’t think we had a choice, and I think we would have been isolated.

Chairman: When you say you don’t think you had choice, do you-----

Mr. Richie Boucher: Like if the rest of the system had been guaranteed and we hadn’t.

Chairman: Yes.

Mr. Richie Boucher: Again, we would have been spending our whole time explaining. You know, if you were talking to investors and you’re explaining rather than pitching - you’re losing. I think we could have guaranteed, and I think that is evidenced by an area of my personal responsibility, when inadvertently due to the scrambling on the night, a subsidiary of ours, a licensed subsidiary, ICS, was left out of the guarantee. And I think it was an accident whatever happened. And the records we’ve disclosed to the committee would show that I, I urged other

colleagues who had engagement with Central Bank and with the Government, saying we need to get ICS in. So that could evidence that, you know, even a small subsidiary under the blanket of Bank of Ireland, which was specifically guaranteed, that I felt that, you know, we could have a problem in ICS if all the other Irish banks were guaranteed and our subsidiary wasn't. So, I advocated. Once the guarantee became available, once it became a guarantee that we couldn't ... we couldn't operate systemically.

Our other competitors, Ulster Bank, the main competitor, had been, effectively, nationalised by the British Government, so the depositors had an implicit guarantee. Rabobank was a very strong retail banker, so I thought we would be dealing in an isolated capacity, but that was ... once the decision had been taken to systemically guarantee. And I think, at a little bit to go to Deputy Doherty's question, once the decision had been taken to have NAMA it's very hard to take out a systemic decision. Just as you're going into a spiral, you can make your choices, you can decide I'm not going to be do this, I'm going to do ... it is harder, and you can get sucked into a systemic issue as well.

Chairman: Thank you, Mr. Boucher. Deputy Higgins, ten minutes.

Deputy Joe Higgins: Mr. Boucher, at a group risk policy committee in January 2007, the minute states that within retail six senior business manager portfolios and 21 business manager portfolios were rated unsatisfactory - a doubling since March 2005, and the report emphasises a need for a structured credit training programme. Can you explain that, please?

Mr. Richie Boucher: Well, there was credit reviews done. We would have had, in business banking - I'd just come into the role, as the Deputy's aware - we would have had somewhere between 250 and 300 managers that were rated on an ongoing basis, and we had a credit review who go and rated them, to credit stance, credit policies, the number had increased. That number, and the credit skills, were still lacking. During the course of 2006 we had had rapid growth, as of our testimony and is recorded in the documents of, I think it's B4, page 25. In 2008, it was noted there had been a significant improvement, and I bought in from Ulster Bank people I knew had skills to help.

Deputy Joe Higgins: Okay. So these senior business managers and business managers, their unsatisfactory rating, did that relate to property loans?

Mr. Richie Boucher: I don't know if it related to property loans. It related to lending standards across their books. So it could have been to hairdressers, pubs and widget manufacturers could have ... there was not a, a delineation. Business bankers in retail, we didn't have a specialised property unit, so they could have been doing some property lending, but it could have been other lending.

Deputy Joe Higgins: Considering that property lending was beginning to take, or continuing to take such a high profile, should that not have been done at that meeting, to have a profile on exactly where the credit problems were with these people?

Mr. Richie Boucher: Well, it was their adherence to credit standards, so it was their adherence to documentation issues and equity release, seeing preconditions, I believe, and I still believe now. So if I saw that information now today that it ... would I have said is it because ... is it specifically related to their lending to hairdressers, property, - no. I would just say like they're not adhering to credit standards, credit policies. We need to help them with their credit skills, and we need to put in more rigid processes.

Deputy Joe Higgins: So-----

Mr. Richie Boucher: So one of the things that, as part of the rectification of those issues, I required that in business bank they put a higher part of a performance rating in adherence to credit standards.

Deputy Joe Higgins: Was the board made aware of this level of unsatisfactory reports regarding credit control?

Mr. Richie Boucher: I'm not aware of that. But the GRPC, the group risk policy committee, minutes were provided to the board, whether it was specifically drawn to the board's attention in January 2006, I don't know, I wasn't on the board.

Deputy Joe Higgins: The minute also states, Mr. Boucher, "A review of the Legal Services Unit identified a backlog of files, some with serious issues, which could expose the Bank to significant risks." Can you explain that?

Mr. Richie Boucher: I think it's self-evident. There were ... the legal services unit was finding it difficult to deal with the volumes. It was also-----

Deputy Joe Higgins: Which volumes? Property loans?

Mr. Richie Boucher: Lending volumes in total. I don't ... I wouldn't characterise it as to do with property loans. As the minutes record or at a subsequent meeting, having come into the role, I said I wasn't comfortable and that I wanted much more. And in particular, what was happening was that some of the more complex business related loans - and some of them may be in property, some of them may be to export companies, etc., were taking up an inordinate amount of time in a legal services unit, which had been dealt with for more, say, bread and butter loans, and they were subsequently moved to external firms where there was a greater accountability, responsibility - we were paying them.

Going back to your point on property loans, as I've testified and as is evident, our haircuts we received on transfers to NAMA for documentation issues were extremely small. I think in the total context of €9.9 billion of transfers, our haircuts were about €20 million relating to documentation issues.

Deputy Joe Higgins: Okay. Yes, but the NAMA chairman in his evidence to this committee spoke about... I quote him:

The model did not appear to require a stringent approach by borrowers to analysing project feasibility. The safety zone of borrower equity usually existed only on paper. The result is that the borrower was typically not the first to lose.

Do you recognise the Bank of Ireland in here?

Mr. Richie Boucher: I recognise components of the Bank of Ireland.

Deputy Joe Higgins: Components, yes. Can I move on rapidly, Mr. Boucher, perhaps? In relation to state aid, you've spoken that ... you said here today that NAMA would make a profit from loans to the Bank of Ireland. Do you mean that the €5.6 billion that was paid by NAMA, that they will get more back than that, is that what you mean?

Mr. Richie Boucher: Yes.

Deputy Joe Higgins: But are you aware that NAMA, in testimony, said to this committee that it overpaid the banks by €10 billion, €32 billion in total, to all the concerned banks, rather than €22 billion if they had been left exposed in the capitalist marketplace?

Mr. Richie Boucher: Well on a mark-to-market basis that would have happened, potentially. We don't know. I mean, no one ... I don't know how anyone can actually extrapolate the figure of something that didn't happen, but on a mark-to-market basis-----

Deputy Joe Higgins: Well they gave quite a rationale in-----

Mr. Richie Boucher: But ... I would say in a general term I don't ... I can't quality the figure. If all the property loans of all the banks ... that was recognised by the British Government, it was recognised by the TARP, it was recognised by support schemes, if all the banks balance sheets had been marked to market. But if you mark-to-market a bank's balance sheet today, you could have a problem. So like let's be clear about this.

Deputy Joe Higgins: Mr. Boucher, you say as well that you repaid the recapitalisation. That's been repaid to the State.

Mr. Richie Boucher: We repaid the state aid.

Deputy Joe Higgins: Yes.

Mr. Richie Boucher: And that's, Deputy ... that's been ... the arbiter on state aid is the European Commissioner.

Deputy Joe Higgins: Yes. Would you accept, or not, Mr. Boucher, that that repayment is far ... far from makes up the collateral damage to the economy, in general, that was caused by the bubble, and the role of the banks in creating a crash in the crisis, for example, damage to public services, to Exchequer funding, austerity on citizens, that there was a much wider collateral damage caused by what happened in the banks? Is that true or not?

Mr. Richie Boucher: Well my testimony is my job in Bank of Ireland. I can't speak for the banks as a whole. I recognise that I said it at the time when I came into the role. Taxpayers shouldn't have had to support Bank of Ireland, that taxpayer support that went to Bank of Ireland at that time. Notwithstanding, Deputy, as I should point out, that we also held Irish Government bonds, and when we got the NAMA money, we bought Irish Government bonds. We partially bought them as a hedge. So it was at least cash flow neutral to the State. But, Deputy, I am extremely conscious that at that time that the capitalisation was provided to Bank of Ireland, that that was taxpayers' money that could have been used for other things.

Deputy Joe Higgins: Yes. In relation to that, Mr. Boucher, then can I ask you, going into the future, where in the annual report 2014 Bank of Ireland you refer to €1.2 billion deferred tax asset and that you hoped that that would be recognised in full, does that mean that you can against the profits into the next several years, you can write off your losses by not paying corporation tax to the State?

Mr. Richie Boucher: That's the accounting rules, yes.

Deputy Joe Higgins: Yes, so how much profit would you make then to ... before you have to start paying?

Mr. Richie Boucher: Well, the corporation tax is 12.5%.

Deputy Joe Higgins: Yes.

Mr. Richie Boucher: But it's also a mix of UK and Ireland, so it's about one third UK, two thirds Ireland. In testimony to committee last week I pointed out that, outside of corporation tax, in 2014, Bank of Ireland would have paid directly to the State approximately €175 million in taxes through PRSI etc. and we would have collected seven hundred and-----

Deputy Joe Higgins: I know, but in relation to tax and profits, Mr. Boucher, would it be true to say that, roughly, the next €9 billion in profits ... you won't have to pay any tax because of the deferred tax asset of €1.2 billion?

Mr. Richie Boucher: To ... in terms of our deferred tax assets in Ireland and the UK, if you've incurred a loss under the tax rules and the accounting rules, then you can ... you get an alleviation for that loss. That's the system.

Deputy Joe Higgins: Yes. Do you think ... would you understand if the taxpayers found it extremely galling that after a bank had been bailed out it has now a further €1.2 billion write-off of corporation tax that might help to make up some of the damage that many people felt was done by the collapse?

Mr. Richie Boucher: Well the taxpayers have got significantly more back from Bank of Ireland than they invested.

Deputy Joe Higgins: Okay. Last question so, Mr. ... or, Chairperson, is this. Mr. Boucher, in ... sorry, in 2007 you wrote a letter to Dublin City Council in relation to the Jury's Berkeley Court site ... it was being attempted to be developed by Mr. Dunne, and you said, I quote, "Dear Sir, I refer to the above and write to confirm my strong support for this landmark proposal which I believe will significantly benefit the city of Dublin and its citizens through helping enhance the concept of a living city and providing buildings of significant architectural merit befitting Ireland of the 21st century." And you signed it, "Richie Boucher, chief executive, Retail Financial Services Ireland". Is it usual for banks to involve themselves in the planning process on behalf of developers?

Mr. Richie Boucher: No, that letter was a mistake. It was one of the many stupid things I've done.

Deputy Joe Higgins: Were other representations made by Bank of Ireland for ... in relation to developers?

Mr. Richie Boucher: No. Not that I ... not that I can recall.

Deputy Joe Higgins: Why was it made in this case?

Mr. Richie Boucher: I don't have the same immunity as-----

Deputy Joe Higgins: I'm sorry, Mr. Boucher?

Mr. Richie Boucher: I don't have the same immunity as the committee does.

Chairman: Okay, that's answered. Senator Michael D'Arcy, ten minutes.

Senator Michael D'Arcy: Thank you Chairman. Mr. Boucher, you're very welcome. NAMA has highlighted the issues in relation to valuations and the veracity of security and titles. Can you comment on why your internal controls never highlighted these issues as a problem

during your tenure? And the document, the core documents I'm using-----

Mr. Richie Boucher: I ... Deputy, I'm sorry I ... would it be possible for you to repeat the question? I couldn't hear you, I'm sorry.

Senator Michael D'Arcy: Sure. NAMA have highlighted the issues in relation to valuations and the security and titles involved that were transferred from NAMA ... from yourselves to NAMA. Can you comment on why your internal controls did not highlight those concerns?

Mr. Richie Boucher: Well, I-----

Senator Michael D'Arcy: The documents that I'm using are BOI - B4, pages 27 to 31.

Mr. Richie Boucher: Well, I think if I go back to my testimony on NAMA, and the verifications by NAMA is the level of discounts that we suffered and incurred on documentary issues in terms of transferring €9.9 billion loans, were very low. So, like, in that context, we suffered about €20 million. I think roughly half of that was in relation to specific transaction. We had a considerable dispute with NAMA as to whether or not we agreed with that. They made the rule and took that. So as a factual matter, as a matter of fact, from Bank of Ireland's perspective, the level of discounts we suffered in transferring loans to NAMA, or that NAMA imposed on us, was extremely low.

Senator Michael D'Arcy: 43%?

Mr. Richie Boucher: That was the discount on the transfer, it wasn't to do with documentation.

Senator Michael D'Arcy: And the documentation ... why ... the question I'm asking you is, why did your internal controls not raise that issue directly with you?

Mr. Richie Boucher: But, sorry, Deputy, I've actually, hopefully, answered that question on documentation. It's a different ... so of the 43% discount ... of the 43%, I would say the discount, and I'm just doing the sums in my head, is about 0.0013%, 0.0014%.

Senator Michael D'Arcy: Okay. Mr. Boucher, in terms of ... you said the biggest mistake you made was in relation to the funding of the mortgage book in the UK. Is that correct?

Mr. Richie Boucher: I said if I looked ... I mean we made a number of mistakes, but if I say it was the biggest liquidity mistake and was the biggest issue that we had to focus on, because it required an entire change in our business model, yes.

Senator Michael D'Arcy: Yes, and document BOI - Vol. 1, B1, page 23, Funding and Liquidity, this should be up on your screen. This document-----

Mr. Richie Boucher: I beg your ... it's not quite up yet, Deputy.

Senator Michael D'Arcy: Okay, sorry.

Mr. Richie Boucher: I prefer it on the screen rather than transcribing it, if that's okay?

Senator Michael D'Arcy: That's fine.

Mr. Richie Boucher: But perhaps if you can continue the question and if I need to refer to the screen I will do so-----

Senator Michael D’Arcy: Funding and Liquidity, 3.1, “The single biggest strategic mistake the Bank made, in common with a large number of banks throughout the world, was to become over-reliant on wholesale funding to grow its loan assets particularly outside its core franchises”. That document is contrary to what you’re saying was the biggest mistake. Could you ... if you see it there, Funding and Liquidity, 3.1.

Mr. Richie Boucher: I think it’s exactly what we said. I’ve said I thought that was the biggest mistake and I think that’s ... if I read out the testimony I gave, I think, to Deputy McGrath, I said I thought it was the biggest single mistake, this is a document I signed, it had to be approved by the Government before it went to the Commission and it says “The single biggest strategic mistake the Bank made, in common with a large number of banks throughout the world, was to become over-reliant on wholesale funding to grow its loan assets particularly outside its core franchises”. And that was my assessment as a member of a team who made the mistake, I ... when ... I came into my role I had to ensure that we, as a bank, recognise we made mistakes. That I recognised and all of my colleagues recognise we had made mistakes. I personally felt that was a very important part of the recovery and recuperation process, so I believe that. That is a belief statement that is not an absolute factual matter that I could ever verify, that was my personal belief.

Senator Michael D’Arcy: On that same page, Mr. Boucher, it says that the amount of the reduction in wholesale funding is €69 billion that the bank were using. Was it a €69 billion mistake?

Mr. Richie Boucher: Well it didn’t cost us €69 billion, but the level was too big. I mean, you can’t draw a comparison between a number and a number. What we have done is, we changed our business model, we’ve grown deposits in our core franchises, we’ve ... I’ve described what our new business model is without going into ratios or absolute numbers. €69 billion was too much and we’ve brought it down by €69 billion.

Senator Michael D’Arcy: Okay, can I just move on page 35 in the same document and it’s a line that I use with Mr. Goggin, in all the Bank of Ireland documents a term cropped up continually and that was to protect the franchise. Are you aware of the term that was used?

Mr. Richie Boucher: It’s a well-known business term, yes.

Senator Michael D’Arcy: And on page 35, where there is an assessment of your competitors and the fourth paragraph on that page, we are discussing the 100% mortgages that we discussed earlier and other products, we’re discussing “hero” products. Was Bank of Ireland’s 100% mortgage a hero product? Fourth paragraph, page 35-----

Mr. Richie Boucher: Like I said, that document was before I came into my role.

Senator Michael D’Arcy: You-----

Mr. Richie Boucher: But the concept of a hero ... actually I don’t know whether it was chosen. The concept of a hero product is products you market strongly. My reading of the documentation provided ... other document provided to the committee has pointed out that the vast focus was on a lower LTV mortgage but that the 100% was part of it. In terms of the question of franchise, banks and any company will always try and protect its franchise. I am on the record, in my role as chief executive of the bank, is that we will not follow some business models. They might prove to be correct but we will not follow some pricing and other business models. We have competitors who give away product for free, I don’t believe that’s a sustainable busi-

ness model. We might lose market share, we might lose customers over those decisions. Those decisions might be right or might be wrong but I don't believe that a franchise argument should override a sustainability or viability argument.

Senator Michael D'Arcy: Did it?

Mr. Richie Boucher: Decisions were taken to protect a franchise. I don't think they were taken to override it but now, our new structure is, is that risk, and it was pointed out in the Oliver Wyman document, pointed out in other documents, is we set a risk appetite statement so risk that constructed the group, the business model, is the boundary under which strategy is done.

Senator Michael D'Arcy: Can I----

Mr. Richie Boucher: It was ... I've jumped and I was a member of the team that made that mistake, so I'm very conscious of it.

Senator Michael D'Arcy: But did protecting the franchise overrule the risk?

Mr. Richie Boucher: I don't believe it overruled it but I think now we have much greater clarity that the franchise argument must be done within the risk appetite, that the risk appetite doesn't sit beside it, the franchise sits within it.

Senator Michael D'Arcy: Mr. Boucher, you've presented before the finance committee previously and the question of moral hazard has been raised with you and in terms of debt forbearance, has your position in Bank of Ireland altered at all in terms of debt forbearance?

Mr. Richie Boucher: I gave testimony to the committee, the finance committee last week and that's on the public record. I don't really have anything further to say. I'm here to discuss to a period up to 2013, Senator. But my presentation and documentation, the transcript of my presentation last week to the finance committee is available to anyone.

Senator Michael D'Arcy: Okay and that was up to 2013, from 2013 to date-----

Chairman: No, from 2013 to date is outside the scope-----

Mr. Richie Boucher: But to help the Senator-----

Senator Michael D'Arcy: The question I'm asking-----

Mr. Richie Boucher: -----that was the position up to 2013. The position ... our current position was in accordance with the testimony I've given.

Senator Michael D'Arcy: Okay, can I ask, Mr. Boucher, in terms of debt forbearance for corporate write-down including in our terms of reference which is to end of 2013-----

Chairman: Within our terms of reference, yes.

Senator Michael D'Arcy: Did Bank of Ireland provide corporate write-down debt forbearance for corporate entities within the terms of reference of today's hearing, which is to the end of 2013?

Mr. Richie Boucher: Well, as I disclosed at the finance committee yesterday, as a matter of public record we've done debt-for-equity swaps.

Senator Michael D'Arcy: Have you done debt forbearance?

Mr. Richie Boucher: Debt-for-equity swaps.

Senator Michael D’Arcy: Has there been any write-down with Bank of Ireland for corporate entities?

Mr. Richie Boucher: If the corporate entity is gone, then the debt is written off. So, a corporate entity, as a limited liability company, if you have-----

Chairman: Senator-----

Mr. Richie Boucher: If a corporate entity is gone, you write it off. But an accounting write-off is different from a continued desire to recover the money, so if an entity is gone you write it off.

Senator Michael D’Arcy: And can I ask you, Mr. Boucher, how you reconcile the moral hazard that you use in terms of the mortgage-----

Chairman: Final question, Senator.

Senator Michael D’Arcy: Final question - that in terms of the mortgage, no debt forbearance versus what you have done for corporate debt forbearance-----

Mr. Richie Boucher: Which is a debt-for-equity swap but we have participation in the upside.

Senator Michael D’Arcy: Okay.

Chairman: Thank you very much. If I could just return to just something that Senator D’Arcy dealt with you there, it’s in core document B1, page 23. I don’t want to go into the commentary with regard to the mistake and just look for you to repeat that, there is a certain “stucktiveness”, I could probably use the word, to go into the night the banking guarantee with inquiry members and there is a full picture of that, that’s actually required but there ... a fundamental part of this inquiry, Mr. Boucher, is to find out what actually went wrong. On item 3.1, there is admission that a very large or a single strategic mistake was made by the bank. Maybe if you could explain to us how the mistake was actually made, so we can draw some learning going into the future in that regard.

Mr. Richie Boucher: The thought process and why that strategy was implemented, Chairman? Yes, I think and these are strategies that went back to 2001, 2002, I obviously joined the bank, I implemented strategy, I ... subsequent to 2006 I was part of that strategy but there was a belief that we should diversify outside of Ireland, that ... I believe that you obviously have to fund yourself, we didn’t have natural customer deposits, long-standing customer relationships, branch networks etc. and as a belief how we could do that it. So it is a belief that you could get your loans, you could bundle them and you could sell them on - I would not sell them on. You could use them as collateral, so you’d get a group of mortgages etc., use them as collateral and you’d raise funding from the market for that. That was a model that was being done for ... and is still done. It was a belief, you know, so there was an investigation of the depth of those markets, what were other people doing, you know, what was the advice, the best advice. It was considered at that time an appropriate model to grow your business.

As it transpired, when the markets freeze or when, like I said, you had particular technical issues in certain markets and that, the money is not available. Core customer deposits, franchise deposits, where people provide you with money because it’s part of their day-to-day banking

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activities, etc., is a much better model. So, if I go to the UK, so this was our mistake, I think it was our biggest mistake with the UK, what we have done since is we've incorporated in the UK, we gather our deposits, primarily, in our Northern Ireland business, it's self-funded so that the customer franchise in Northern Ireland funds the personal lending business and corporate lending in Northern Ireland. In Great Britain, so that's England and Wales really for us, we gather deposits through our partnership with the post office in a separately incorporated subsidiary and we grow assets within that. We didn't do that, we didn't have those core customer deposits, it was a massive mistake.

Chairman: So all the behaviour that you are talking about now which is currently in place is obviously based on a more prudential approach and a reduction of exposure and risk. Why wasn't that awareness there at the time?

Mr. Richie Boucher: I think there was a ... it's hard to actually go back, but I think there was an element of a recognition diversification was good, a, "How do we deal ... how do we do that?" I think that's a reasonable thought process. "How are other people doing it?" You know, "What's the market practice?" You know, "What does this look like?" So, that belief that, you know, this was a good thing to do. I mean, I would say that our model now is a model of 100 years ago.

Chairman: Yes, okay.

Mr. Richie Boucher: And I believe that in the period up to ... from the late '90s, even if I go back to my own career, too much of a belief in ratios, in models, computer-driven processes and less of a challenge on, like, "Does this actually make sense?"

Chairman: Okay. And was there any influence with regard to remuneration or bonuses or anything else?

Mr. Richie Boucher: The growth of the company influenced remuneration, yes, of course.

Chairman: Okay. So, that was a cultural influence, or would you reckon it was a cultural influence?

Mr. Richie Boucher: It's hard to say, like. Personally, personally-----

Chairman: Yes, yes.

Mr. Richie Boucher: -----you know, I'm not sure that remuneration is the reason that you do certain things. You do it because you believe in your business, you believe it the right thing to do. Remuneration is a component of incentivisation, but I ... it wasn't my experience that people did things just because they were going to get paid more or less, but nevertheless you can't also say that remuneration wasn't an aspect of why people had ambition to grow their business, but I think it was a component but I don't think it was a driver.

Chairman: Thank you. Senator?

Mr. Richie Boucher: Or it may have been one of the drivers, but I don't think it was the single one.

Chairman: Okay.

Mr. Richie Boucher: That's my personal opinion. I can't speak for other people.

Chairman: Thank you, Mr. Boucher. Senator O’Keeffe?

Senator Susan O’Keeffe: Thank you, Chair. Mr. Boucher, you acknowledged to Deputy Higgins that the letter that he referred to was a mistake. Did you write any other letters of that kind about any other developers or consortia or anything of that kind?

Mr. Richie Boucher: No.

Senator Susan O’Keeffe: That was a one-off?

Mr. Richie Boucher: Yes.

Senator Susan O’Keeffe: Did any of your colleagues at the bank write any letters of that kind?

Mr. Richie Boucher: Not that I’m aware of.

Senator Susan O’Keeffe: Not that you’re aware of?

Mr. Richie Boucher: Yes.

Senator Susan O’Keeffe: Okay. In 2014, last year, you were at an IBEC conference and RTE reported you as having said, when you were asked about the bank’s property lending during the boom, you said, “Obviously everyone did things to different degrees, but when there is a wild party, even good girls get into trouble.” What were you referring to there?

Mr. Richie Boucher: It was an unfortunate analogy which I was trying to ... I’ve been-----

Chairman: I’ll give you an opportunity to clarify it this morning, Mr. Boucher.

Mr. Richie Boucher: I’ve been advised that, in the past, that I used too much jargon and corporate speak. I may have gone too far in trying to go the other way. I am learning in life to try and get a different balance between what I say ... I tried to do it, it was ... some people took offence, I didn’t mean to give offence to it. I was trying to give an analogy. It was an unfortunate use of moving away from my corporate speak.

Senator Susan O’Keeffe: But is it not-----

Mr. Richie Boucher: But if I got ... what I was really trying to say is that we might have thought we were ... we might have thought that our practice, our policies, were better. We knew there was a large lot of lending going on. We went along. Could we have left before midnight? Could we have left at 11 o’clock? Could we have left before the bar really opened? Yes, we could have. You do get caught up in things. That was the ... it was a ... I don’t know what the word is, a mis-chosen analogy.

Senator Susan O’Keeffe: But was there a truth to the word “wildness” in the analogy?

Mr. Richie Boucher: There was a lot of ... there was a ... the markets, not just in Ireland, were very exuberant. Like, the subsequent crash has proved that. It’s-----

Senator Susan O’Keeffe: Is “exuberant”-----

Mr. Richie Boucher: I don’t think I’ve given a huge insight.

Senator Susan O’Keeffe: Is “exuberant” a posh word for wild?

Mr. Richie Boucher: It's ... yes. So, I just have to be careful. It was mad, you know. It was ... there was ... I mean, the chairman of the Federal Reserve said there's irrational exuberance in the markets.

Senator Susan O'Keeffe: You didn't-----

Mr. Richie Boucher: I mean, we have dangers of exuberance in bond markets at the moment. You know, quantitative easing is creating issues in the bond markets. Whether that will happen today, tomorrow, next year, there is a bubble developing in bond markets.

Senator Susan O'Keeffe: Mr. Boucher, you've acknowledged errors and mistakes, you've talked about not recognising risk, you've said yourself you accept your share of responsibility. Would you like to apologise either to the shareholders or to the people of Ireland for what you did within the bank and your role in that?

Mr. Richie Boucher: I have done that. I continue to do that. One of my ways of dealing with that is putting action behind words. The actions over the past six-and-a-half years are a recognition of the mistakes I made and my responsibility and a huge drive I have to restructure the bank, to make it a sustainable, viable institution. I've been particularly personally conscious of the history of the bank. I joined the bank ten years ago, it's a 230-year history. I never wanted to be the person that saw that bank demise. I recognised that we had a huge responsibility to taxpayers and I haven't gone around talking in pious terms about, like, what I see other people, you know, "Maybe the taxpayers maybe get their money back at some indefinite date in the future, you know, when the curlew cries three times at Newgrange." I have said we must put in a definitive plan. It's in our commercial interest to repay.

Senator Susan O'Keeffe: No, forgive me, because I didn't see the words "sorry" in your statement and I just wanted to make that clear.

Mr. Richie Boucher: I've made my personal apology but I actually believe that you must back words with action. I hope I've demonstrated, in the past six-and-a-half years, I've put action behind words.

Senator Susan O'Keeffe: Just one thing ... Mr. Goggin ... I raised with him the assurance that he had given to your board - that's book 1, Vol. 1, page 13 and 14 - that he said that there was a contingency plan that had been put in place by the Financial Regulator. When I asked him about it during his testimony, he said he had never actually seen one, so I'm just wondering whether you ever saw a contingency plan by the Financial Regulator?

Mr. Richie Boucher: I've given in testimony earlier, Senator, that I was shocked on a weekend when there was meant to be a contingency plan for a particular ... I'm sorry, there was meant to be a contingency plan for a particular institution. I was shocked at the lack of ... we were asked to attend a meeting, we were asked to come up with a plan and there was no ... not even an identification of the problem, so it was ... my personal view is there wasn't a contingency plan, based on what I saw, but there might have been but it wasn't evident. By the testimony of what I saw, as, like I said, I wasn't ... I'm sorry, I have to go back to analogies, I wasn't on the pitch but I was in the dugout on the night of the 29th.

Senator Susan O'Keeffe: Okay.

Mr. Richie Boucher: I didn't see evidence that there was a thought-through plan. I mean, if a decision was made to cover subordinated debt by a loose comment an executive of one bank

may or may not have made when he was in a very stressed scenario, that wouldn't have identified for me a thought-through process.

Senator Susan O'Keeffe: Were you present at the Anglo Irish Bank meeting with Bank of Ireland that took place on the day of the guarantee?

Mr. Richie Boucher: No, I actually didn't know about that meeting until about 9 o'clock that night.

Senator Susan O'Keeffe: Were you present at the Central Bank meeting earlier that day?

Mr. Richie Boucher: That was a one-to-one between our chairman and the chairman of the Central Bank which ... I'm sorry, not the chairman, the-----

Senator Susan O'Keeffe: Chief executive?

Mr. Richie Boucher: Mr. Hurley, yes.

Senator Susan O'Keeffe: What was your ... why do you believe the Bank of Ireland asked to see the Taoiseach and the Government that night, because we're just still not quite clear what the request was?

Mr. Richie Boucher: I ... to be honest, I'm not sure whether there was a ... I think there was a, I think there was a belief that, like, the Government wasn't aware of the extent of the issues. There was a belief that the ... like, it wasn't explained to me. It was just said, "We're going". I mean, if I've learned, over my period of time, if you're going to meet a politician, you should have a pretty good idea in your mind what you're asking for, but, in fairness, like, we'd had the experience of Nationwide, what we'd seen at first hand, there were talks that morning about, you know, would we ... I understand, I wasn't at that meeting, would we consider Irish Permanent. Anglo had come in to us that afternoon to say, "We're going to default", that's effectively what they said, and my belief is, and my absolute belief is, that our chief executive and our chairman felt that they had to tell the Government something was going. If I read the testimony now, if I see that Mr. Gleeson has said that AIB had information that I don't think we had that day, I think our chairman decided they should ring up AIB and say, "Listen, we think we need to go to the Government. We think you should come." They agreed to go. But I don't think ... I wasn't conscious, as a member of ... a senior member of a committee-----

Chairman: This is speculation on your behalf now, Mr. Boucher.

Mr. Richie Boucher: Yes, I'm giving a belief statement.

Chairman: Okay, a belief statement, okay.

Mr. Richie Boucher: And I hope it's not pejorative or anything like that.

Chairman: Yes, yes.

Mr. Richie Boucher: If it is, I would apologise.

Chairman: No, no, no, continue.

Mr. Richie Boucher: But I've been asked my general impression.

Chairman: Yes.

Mr. Richie Boucher: But if the Chairman would prefer me to stop?

Chairman: No, no, no, continue.

Mr. Richie Boucher: My genuine ... my genuine impression was that the desire of our chairman and chief executive was to point out, like, were they really aware that a significant bank, perhaps not systemic, I don't know, but a very significant bank was going to default the next day.

Senator Susan O'Keeffe: Can I ask you about Exhibit B3? This is a document you gave us yourself in your own statement. It seems to me to be a very serious document, in which it ... it shows the immediate actions that your own bank was taking at the time. You were sell ... you were continuing to run down books, various books and portfolios, you were looking at, sort of, how to ... basically how to save yourselves. You also have a big long list of immediate ... of actions ... management actions that might be taken, some of which are quite serious and involve selling off various businesses and so on. But in that document you ... there's a very long reference to the whole idea of a bank which you believe is about to fail, and I'm assuming it's Anglo Irish Bank, on page 13 of Exhibit B3. You say: "We assume that the institution concerned is ... Headquartered and supervised in Ireland ... Not our major indigenous [customer] ... [and is] A publicly quoted company". So is it Anglo Irish that you're referring to?

Mr. Richie Boucher: What we did was we put up for ... our belief is ... rather than identifying a bank, we said, like ... what's the concept, a straw ... straw person, straw man. We said, "If this was the scenario."

Senator Susan O'Keeffe: Right?

Mr. Richie Boucher: So we said ... so what we tried to do for ourselves on the board ... we'll do it to a much more sophisticated level and we said, "Let us presume that this was to happen or could happen; what would be necessary for us to do?" I'm not sure did we identify that ... let us presume it's a bank. I think the management, because I was involved in that presentation, decided, "Let's not get into a debate as to who it might be, let us just make a presumption that not ourselves, not AIB, but one of the large Irish banks goes bust and [you know] what would be the actions we need to contemplate."

Senator Susan O'Keeffe: But, Mr. Boucher, obviously this document, the Financial Market Developments And Scenarios - Strategic Implications, written in September 2008, quite clearly shows the Bank of Ireland under a lot of pressure, struggling with its own liquidity, looking around at the various implications of other banks, becoming insolvent, a hard crash, and so on. What was going on in Bank of Ireland in the ... I mean, I don't know, it doesn't say what date this was written, but obviously it's clear from this-----

Mr. Richie Boucher: I think that-----

Senator Susan O'Keeffe: -----that it was a very serious-----

Mr. Richie Boucher: I think that that paper, to help you, Senator, I don't have the exact date, but from memory it would have been the first or second week in September.

Senator Susan O'Keeffe: Okay.

Mr. Richie Boucher: I can't remember exactly, but it would have been around about ... it was certainly after the weekend of the Irish Nationwide.

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Senator Susan O’Keeffe: But, is it fair to say that it’s quite revealing of the seriousness within the bank at very specific levels?

Mr. Richie Boucher: We were deeply concerned. We were deeply concerned at what was going on. We were obviously concerned at our own position. And to help put it into a context of what would we have to do ... and like we do today, so we run ... I’ve provided a 175-page document of the scenarios we run today, in that we said, “Okay, if this happens.” So rather than to have the debate of who it is, we said let’s just focus on the actions which would potentially have to be considered if a large bank went bust. So ... but we felt that banks could be going bust around us so, I beg your pardon, to answer your question: did we think it was a possibility that one of our competitors, an Irish-quoted competitor could go bust? Yes, we did.

Senator Susan O’Keeffe: Did the Government know about-----

Chairman: I need to ask you to wrap up-----

Senator Susan O’Keeffe: Final question.

Chairman: -----answer a final question.

Senator Susan O’Keeffe: Did the Government know, obviously when you went in, did the Government ... was the Government made aware of the sorts of things Bank of Ireland was doing itself that are outlined in this document to keep itself going? Was that made clear to Government, to the Department of Finance, to the Central Bank? Or was this a private document that you kept to yourself?

Mr. Richie Boucher: I’m not sure. I’m not conscious that document and those scenarios were shared with the Government or the regulator.

Chairman: Okay, that-----

Senator Susan O’Keeffe: To be clear, sorry, a Chathaoirligh... it’s actually not the scenarios that I’m talking about here, it’s actually what you were doing yourselves-----

Mr. Richie Boucher: We wouldn’t I, I-----

Senator Susan O’Keeffe: -----that you’d talk about your own immediate actions on a page-----

Mr. Richie Boucher: I don’t believe we would have articulated to the Government or the regulator what ... the potential actions we were taking or what we were actually taking.

Senator Susan O’Keeffe: So the seriousness of those actions were not shared?

Mr. Richie Boucher: In September?

Senator Susan O’Keeffe: In, yes, in September?

Mr. Richie Boucher: Yes, yes, I mean, and I think as we’ve given in subsequent documents, in subsequent interactions with the Government, the regulator, we pointed out the business plan that we would be proposing to implement.

Chairman: All right, thank you.

Mr. Richie Boucher: But sorry, Senator, in September ... I’m not conscious ... at that par-

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ticular date, whether it was the first or second week in September, we went to the Government and said “We’re gonna do this”. I would be surprised if we did.

Senator Susan O’Keeffe: Okay. A Chathaoirligh, it might be worth asking Mr. Boucher if that can ever be clarified?

Chairman: Okay.

Senator Susan O’Keeffe: Because it is quite serious, I think, whether or not-----

Chairman: Can I just summarise what’s happened?

Senator Susan O’Keeffe: -----you might have?

Mr. Richie Boucher: I will ask a colleague and I will come back.

Chairman: Okay, thank you very much, Mr. Boucher.

Senator Susan O’Keeffe: Thank you.

Chairman: Okay. I just want to wrap up. I’ll be inviting Deputy Murphy and Deputy McGrath in for five minutes of supplementaries to finish, but maybe just to ... there was a lot of discussion this morning, Mr. Boucher, between the board and the subsidiary boards and the transference of information and so forth. Maybe if I could put the question to you, and in two different stages: first of all, did you think the board of Bank of Ireland was as good as it should have been in terms of how it operated and how it pulled together the different information streams, decision-making processes that were taking place at subsidiary levels to the main board?

Mr. Richie Boucher: I think they were genuine people who thought they were doing their best. I think that they felt that they were discharging their responsibilities, and I was a member of the board.

Chairman: Sure.

Mr. Richie Boucher: So, you know, I can’t exactly say what everyone else felt, but that was my impression. But, clearly, the level of information, the understanding of risk, the management of information, and not just at board level, let me be straight about this, Chairman, but also within a management team, that we have an understanding of the correlation of risk, the influence of liquidity and capital and that, did we have the understanding then that we have now? No. Do we have a process now to provide that information? Yes.

Chairman: And the board subsequently changed during your period as the chief executive officer as well, yes?

Mr. Richie Boucher: That’s correct.

Chairman: The composition of it? And a part of that change of the composition of the board saw new members coming in, significant investors such as Wilbur Ross and other people. Was that change of personnel and personality ... was that reflected in a change of culture, management style, and do you have any reflection and thoughts on how that actually impacted on the day-to-day operation of Bank of Ireland?

Mr. Richie Boucher: Well, I think that, you know, there was a transition, where people

moved from ... so I would say that the board members in September 2008 embraced very quickly an understanding of the ... of the issues and mistakes the bank had made, and were strong advocates for change. There is a greater diversification on our board in terms of experience levels and international experience. A lot of them have financial services ... we give a lot more ... management take a greater responsibility for what we call the education process. So our board members spend a lot of time understanding and getting presentations - outside of normal board meetings - on liquidity, capital, risk. And I think it's a major responsibility of management to ensure that the board members have sufficient knowledge to challenge and to have an input. We have a lot of financial services expertise on the board; I think that's appropriate. I sometimes wonder ... if you have too much financial service expertise and you don't have someone who's just kind of saying yes, like, that's all ... seems to make sense in your jargon, but doesn't make real sense, so I think you need that balance on a board.

Chairman: Okay, thank you. Deputy Murphy, five minutes, thank you.

Deputy Eoghan Murphy: Thank you, Chairman, and thank you, Mr. Boucher. I just want to come back to what we were discussing earlier about this dedicated property unit that you established in 2004. When you look now at the PwC Project Atlas report, and you look at what happened with NAMA, do you view the setting up of that unit as a mistake for the bank?

Mr. Richie Boucher: Well, just as I explained in my earlier testimony, that was part of a wider restructuring of corporate. It was a consequence rather than a deliberate, "We must do property". It was, like, we needed to restructure what ... corporate. We needed to also restructure risks that were being taken in retail which we felt should be taken in corporate. As it transpired, and if I listened to the testimony, and what I viewed in AIB, AIB were taking much higher property risks within their retail division than we were, and that subsequently turned out ...but, nevertheless, we had an over-focus on property. We focused on lending in a lot of other areas but we ended up having lent too much money to property.

Deputy Eoghan Murphy: Can I ask about the structure of this dedicated unit? Why was private banking included?

Mr. Richie Boucher: Because private banking was involved in lending for property-related purposes.

Deputy Eoghan Murphy: Exclusively at the time?

Mr. Richie Boucher: No, no, the private banking had a range of other activities. It was one of the services provided.

Deputy Eoghan Murphy: And if you could just explain to me what private banking is in terms of what Bank of Ireland offers? Is it a licensed credit institution?

Mr. Richie Boucher: No.

Deputy Eoghan Murphy: It's not?

Mr. Richie Boucher: No, it's a descriptor.

Deputy Eoghan Murphy: Can you elaborate on that please? I don't understand the term.

Mr. Richie Boucher: I mean, we call different businesses under different brand names. It's a brand name.

Deputy Eoghan Murphy: It's a brand name?

Mr. Richie Boucher: Yes.

Deputy Eoghan Murphy: But it's not a licensed credit institution?

Mr. Richie Boucher: No.

Deputy Eoghan Murphy: Is it a separate entity then from the bank?

Mr. Richie Boucher: It's a brand name, Deputy. So, like, you know, we have different ... we operate under different offerings to customers, we call it different things. But it is under the Gulf Co. licence.

Deputy Eoghan Murphy: So it's just a point of presentation for the bank, if you like, to customers?

Mr. Richie Boucher: It's a differentiation in presentation to customers.

Deputy Eoghan Murphy: Okay.

Chairman: Is it the same as a car manufacturer having a series of different cars, or is this a separate company? I suppose this is what Deputy Murphy wants-----

Mr. Richie Boucher: It's not a licensed entity.

Deputy Michael McGrath: Are you asking is it a legal entity?

Deputy Eoghan Murphy: Yes, sorry.

Mr. Richie Boucher: No, I don't think so but certainly it's not a licensed entity.

Deputy Eoghan Murphy: Okay. Would it have the same oversight that the rest of the bank would have in terms of the Central Bank?

Mr. Richie Boucher: There is a certain aspect of the bank, of that bank's activities which is the provision of fund management services, which is covered under what we call EMIR. And I'm sorry, it's an acronym, I can't remember exactly what is ... but it has something to do with securities. And that has a regulatory interface with the Central Bank of Ireland.

Deputy Eoghan Murphy: The Central Bank wouldn't overview the private banking section of Bank of Ireland?

Mr. Richie Boucher: It would overview all of us. What happens today is the Central Bank will have insight into all of our activities. Do they have a specific focus on private banking today? I don't think so.

Deputy Eoghan Murphy: Has there ever been an investigation by an external agency into private banking in Bank of Ireland?

Mr. Richie Boucher: Back in ... in what time period are we talking about?

Deputy Eoghan Murphy: Up until and including 2013.

Mr. Richie Boucher: Like ... what ... I'm sorry-----

Deputy Eoghan Murphy: An external agency having an investigation into private banking, to look at their operations, say, as to what the bank provides.

Mr. Richie Boucher: Where there's been internal audits and that, I am not conscious ... that from time to time we refer specific cases, as we are required to do, if we suspect money laundering or if we suspect there has been a fraud either within the bank or outside the bank. We refer ... we bring our investigation to ... first of all, we ... our practice is if we suspect a fraud or if we suspect money laundering, we are required to advise the authorities, we are required to advise people and from time to time we have provided all of our internal documentation. I am conscious of that.

Deputy Eoghan Murphy: Okay, thank you. I just want to move to some of the evidence NAMA gave us when they were before us in relation to how NAMA debtors and the banks were managed once NAMA was announced. And one of the things that NAMA told us was that the extent to which NAMA, the banks, sorry, were collecting income from things like office blocks or shopping centres where the banks themselves ... that was not being collected in the millions. And NAMA estimated that about 20% of income from investment assets was being mandated to the banks. About 80% of the income was being diverted away. NAMA said that it seems no one was following up on it and NAMA then went after that income. Was it the case in Bank of Ireland that you were not following up on this income?

Mr. Richie Boucher: I think we were and to a greater extent than other people but I'm sure there were cases where we didn't.

Deputy Eoghan Murphy: And in those cases where you didn't, what ... why wouldn't you?

Mr. Richie Boucher: I think it was a ... we didn't have the proper procedures. So now what we have is a core requirement that would have been an implicit requirement, now it's a core requirement that we lend for investment property and there's rent, the rent must come into the rental account.

Deputy Eoghan Murphy: Okay and-----

Mr. Richie Boucher: I think if I ... we ... it's ... I'm on record as well going even to the period 2013 for buy-to-let or RIP properties or whatever were called whatever they are or whatever the acronym is now ... so now buy-to-let properties ... rent diversion was a significant issue and was a cause so it's not investment property-----

Chairman: What do you mean by rent diversion?

Mr. Richie Boucher: Rent diversion. So this is a retail property ... so a house or a flat, the customer was keeping the rent the tenant was paying and we have appointed rent receivers to make sure we get that rent.

Chairman: Deputy, the final question.

Mr. Richie Boucher: So I think there was a, more of a looseness in the buy-to-let area than in the commercial property lending but I'm sure there were aspects of that where it was not followed through.

Deputy Eoghan Murphy: Advances made to debtors once NAMA was announced that eventually went into NAMA. NAMA found that 17% of advances made by Bank of Ireland

were not for commercial purposes and so were not repaid by NAMA, were not eligible under the scheme announced by the Central Bank at the time.

Mr. Richie Boucher: They have subsequently paid us back some of that money. I don't think that they have agreed with that subsequent and we are in a legal discussion with them.

Deputy Eoghan Murphy: I missed the first part of that, Mr. Boucher. Sorry, you think that NAMA has repaid some of that money since ... of the 17%-----

Mr. Richie Boucher: Yes, and we're in legal discussion on the balance.

Deputy Eoghan Murphy: And can I just ask when that legal discussion began because we got this evidence only a few weeks ago----

Mr. Richie Boucher: I'm not sure ... This is a legal issue between ourselves and NAMA. I can't give any further testimony on this.

Chairman: Thank you very much. Deputy McGrath.

Deputy Michael McGrath: Thank you, Chair. Mr. Boucher, just under the heading of counterfactuals, which you mentioned a while ago, if Anglo had been allowed to fail and in the absence of a bank guarantee, would Bank of Ireland have survived?

Mr. Richie Boucher: Senator O'Keeffe has pointed out, we looked at the scenario it wasn't necessary ... I believe, my personal view ...you know it's not ...

Deputy Michael McGrath: Yes.

Mr. Richie Boucher: My personal view is that at that time - we have to also remember the time we were in, where the TARP had failed, there were banks collapsing all over the world. I believe if Anglo had had a disorderly process, it could have had very, very serious implications for the other banks and for the economy as a whole. Whether or not Anglo should have been brought into the guarantee ... if I could just expand a little bit ... I mean, I think there has been some commentary of Anglo being taken out. I have to remember that I noted at the time there was actually no mechanism ... you know in other jurisdictions you had "conservatory" which is the US term, in the UK they had ... there was actually no mechanism available to the State to how it took over a bank. I'm not sure nationalising a bank changed the problem .. you're changing the ownership. I note with Anglo, I mean, the period between the guarantee and Anglo being nationalised was three or four months, I don't think it changed things.

Deputy Michael McGrath: Yes. And if you had of -----

Mr. Richie Boucher: But I believe that the fall of Anglo, or collapse of Anglo in a disorderly fashion would have had serious implications in the market.

Deputy Michael McGrath: Even if the other four banks were guaranteed?

Mr. Richie Boucher: Yes, I think that's an interesting question. I think it probably would have been much more contained, yes.

Deputy Michael McGrath: Okay. Just on the issue of the subordinated debt as you know, Mr. Boucher, ultimately, in the guarantee there were €12.2 billion of dated subordinated debt included, of which Bank of Ireland had just under €5.2 billion. You may not have this detail to hand, but do you know how much of that fell due and was repaid during the two year guarantee

window?

Mr. Richie Boucher: There was ... €750 million was redeemed in February 2010.

Deputy Michael McGrath: Okay.

Mr. Richie Boucher: That was a ... a particular issue.

Deputy Michael McGrath: Redeemed at par?

Mr. Richie Boucher: Oh, I presume so, I don't know.

Deputy Michael McGrath: Full payment.

Mr. Richie Boucher: I'm sorry, I would say ... my presumption is was redeemed at par.

Deputy Michael McGrath: Okay. Okay.

Mr. Richie Boucher: I doubt it wasn't, Deputy. I can absolutely verify that but I would be pretty sure that it was redeemed in par.

Deputy Michael McGrath: And you said in your opening statement that the bank generated capital of around €5 billion from the private sector through liability management exercises. Could that have been higher, perhaps by several hundred million if the date of subordinated debt was not -----

Mr. Richie Boucher: It might have been earlier, Deputy. I'm not sure the quantum had actually been changed because it was voluntary. Different processes, you know ... ultimately you ... because ours was always voluntary, the investor had to take a view that bonds were turning over. We found it easier once the guarantee had been removed because the bonds were trading much more quickly and you are moving it from natural holders to hedge funds and that who were taking a bet. If I could just confirm ... to help to your question ... the tier 1, we had €3 billion nominal converted into a gain of €2.2 billion equity ... and lower tier 2, €4 billion, which is €2.8 billion and the verification of that excludes €750 million of our redemptions.

Deputy Michael McGrath: Sure ... yes. Can I ask you how did the bank ever think it was going to make money from tracker mortgages?

Mr. Richie Boucher: We had a presumption, I think, that we would always be able to borrow at or near ECB rates and-----

Deputy Michael McGrath: How big a mistake was that assumption?

Mr. Richie Boucher: A very big mistake. You must always price your product based on the cost of your raw material, not of what you presume you might buy it. I don't think a farmer would sell milk on the basis of what he thinks it might cost. You know we made a basic mis-assumption of not aligning the pricing of our product to the cost of the raw material. We presumed we could get the raw material and we guaranteed the customer that we always thought we could get the raw material at different price ... it transpired we couldn't.

Deputy Michael McGrath: And it's not just your bank, of course, but did you ever estimate on behalf of Bank of Ireland what the cost to the bank was in engaging in tracker mortgages to the extent that you did?

Mr. Richie Boucher: If I look at the disclosures that we made today so even if-----

Deputy Michael McGrath: Yes.

Mr. Richie Boucher: Our disclosure today is that the ... our average cost of funds right across the group from tier 2 capital down to our current accounts is about 1.03% to 1.04%. The yield, average yield on tracker mortgages is around about that. So at a gross margin basis ... but that doesn't take any recovery of costs, any provision for potential bad debts so tracker mortgages are still costing us money today as we speak, notwithstanding the fact that we have brought our cost of funds down. But it's not the gross margin cost.

Deputy Michael McGrath: But in the history of the bank over the last ten to 15 years, and I'm speaking from the bank's ... I'm asking from the bank's point of view not of course, the customers' point of view ... where does it rank in terms of mistakes that were made - property lending development, the UK liquidity, trackers-----

Mr. Richie Boucher: It would have been a significant but not that decisive an issue for the bank. We had a very large diversification of our income streams from other things, so we could bear it, but clearly it is costly to us, it's costly to our shareholders, but we have a contract with the customer, so we must observe those contracts.

Deputy Michael McGrath: Of course, yes.

Chairman: Just one final question then, then I'm going to move immediately to the wrap-up. Just to ask Mr. Boucher, would the exclusion of subordinated debt have allowed Bank of Ireland to hold onto some of the subsidiaries they had to sell as part of the EU restructuring plan?

Mr. Richie Boucher: No I don't think so ... Chairman ... we were early into a restructuring plan. I think the Commission was taking a very doctrinaire approach at that time. We were required to sell certain businesses and we did negotiate in 2012 to substitute, so these are called punishment measures, moral hazard measures, to go back to your ... moral hazards - you got state aid, people must ... you must suffer. We were required to sell certain businesses. I would have preferred not to, but if we had not had clarity in our potential or existing investors' minds as to what the shape of the group would look like, and we hadn't done the deal with the Commission, I don't think we could have raised the capital to the extent we could. It's counterfactual but I ... in honest answer to your question, and my opinion is ... that ... it didn't influence ultimately because it was the state aid we got from the preference shares which brought the measures.

Chairman: Okay. Thank you.

Deputy Joe Higgins: Chairman, can I ask you to explain, to the people out there listening, to explain the immunity issue? In response to a question I put to Mr. Boucher he says, "I don't have the immunity that members of the committee", but at the beginning you said, "The witness has absolute privilege", I think, so-----

Mr. Richie Boucher: In this jurisdiction.

Deputy Joe Higgins: I think it should just be explained to people who are listening to us.

Chairman: Yes, Mr. Boucher has absolute privilege before this inquiry and this inquiry is taking place in the Irish State. Mr. Boucher does not have privilege outside the Irish State.

That's it in summary.

Mr. Richie Boucher: And that's been pointed out to me.

Deputy Joe Higgins: So, what's the value of saying to people that the witness has absolute privilege if he hasn't?

Chairman: In the Irish State he has absolute privilege.

Deputy Joe Higgins: I know, but any witness can then come and say, "Sorry ----"

Mr. Richie Boucher: Chairman, I answered very openly ... I have given very, witness statements, on broad issues, within my interpretation of this.

Chairman: Okay.

Mr. Richie Boucher: When it comes to a very specific customer issue, whether or not the work of the committee turns on that, I have tried to be as helpful as I can, but I have to point out I do not have that privilege outside this jurisdiction, and it has been pointed out to me. So I could be sued. Being straight about it. If the Chairman says, "You must answer that question because it is vital to the work of this committee", I will answer that question.

Chairman: Okay, alright. I am going to bring matters to a conclusion now Mr. Boucher. The purpose of this inquiry is, as I have said in earlier engagements, is not just about learning the lessons from the past, but also applying some learning into the future. Do you have any final comments you'd like to add in that regard? And then I'll bring matters to a close.

Mr. Richie Boucher: No, I think ... you know ... in Bank of Ireland we made a lot of mistakes, we've worked very hard to repay the taxpayers. We can never fully repay in moral terms. We've tried to do it in financial terms. We've restructured our bank, we have a viable sustainable bank. Some of the lessons we learnt is not to follow a strategy we don't think appropriate. We are a strong bank. We hugely regret the loss a lot of people took on decisions we make, we hope that people can have now much more confidence and faith in how our bank will keep going forward, our contribution to the economy and the value we create for our shareholders, but we can never, never absolutely undo some of the moral issues that were a consequence of some of the decisions. We tried to do that financially. And ... I try to do my job in that context.

Chairman: Okay Mr. Boucher. With that said I thank you for your participation and for your engagement with the inquiry today. I would now like to formally excuse you and in doing so propose that we suspend until 2.30 p.m. Is that agreed? Agreed.

Sitting suspended at 1.05 p.m. and resumed at 2.38 p.m.

Ulster Bank - Mr. Cormac McCarthy

Chairman: Okay, so we're now proposing that we go back into public session. Is that agreed? Agreed.

So the committee of the bank inquiry is now back into public session for session 2 of today's hearings with Mr. Cormac McCarthy, former group chief executive and director of Ulster Bank. The Committee of Inquiry into the Banking Crisis is now resuming in public session and can I remind members and those in the public gallery to ensure that their mobile devices are switched