

HOUSES OF THE OIREACHTAS

Volume 2

No. 15

Morning

No. 16

Afternoon

AN COMHCHOISTE FIOSRÚCHÁIN I DTAOBH NA GÉARCHÉIME BAINCÉI- REACHTA

JOINT COMMITTEE OF INQUIRY INTO THE BANKING CRISIS

Déardaoin, 14 Bealtaine 2015

Thursday, 14 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 - Dr. Laurence Crowley and Mr. Richard Burrows

Chairman: I now call the meeting into public session. Is that agreed? And as we've a quorum, the Committee of Inquiry into the Banking Crisis is now in public session, and can I remind members, and those in the public gallery, to ensure that their mobile devices are switched off? We begin today with session one, public hearing, discussion with Mr. Laurence Crowley, former governor, Bank of Ireland, and Mr. Richard Burrows, former governor, Bank of Ireland.

I would like to welcome everyone to the 26th 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 before the crisis. This morning we will hear from witnesses from Bank of Ireland, both governor ... both former governor, Mr. Laurence Crowley, and Mr. Richard Burrows. Dr. Laurence Crowley was governor, i.e. chairman, of the Bank of Ireland from 2002 to 2005, having previously been deputy governor from 1995 to 1997, and a non-executive director from 1990 to 2000. Previously he was a partner in KPMG Stokes Kennedy Crowley, chartered accountants, where he specialised in corporate structuring and insolvency. Richard Burrows was governor of Bank of Ireland from 2006 to 2009 and a non-executive director from 2000 to 2005. He has held senior positions within the drinks industry, including chief ... or co-chief executive of Pernod Ricard and CEO of Irish Distillers Group. Mr. Burrows is currently the chairman of British American Tobacco, a role he has held since 2009. Dr. Crowley, Mr. Burrows, you're very welcome before the inquiry this morning.

Before I engage with the witnesses, I wish to advise the witnesses 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're directed by the Chairman to cease giving evidence in relation to a particular matter and you continue to do so, you're 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 be taken not to prejudice those proceedings. Members of the public are reminded that photography is prohibited in the committee room. To assist a smooth running of the inquiry, we will display certain documents on the screens here in the committee room. For those sitting in the gallery, these documents will be displayed on the screen 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 witnesses have been directed to attend these meetings of the Joint Committee of Inquiry into the Banking Crisis, you have been furnished with booklets of core documents. These are before the committee, will be relied in the questioning and will form part of the evidence of the inquiry. I will now ask the clerk to administer the oath.

The following witnesses were sworn in by the Clerk to the Committee:

JOINT COMMITTEE OF INQUIRY INTO THE BANKING CRISIS

Dr. Laurence Crowley, former Governor, Bank of Ireland.

Mr. Richard Burrows, former Governor, Bank of Ireland.

Chairman: Thank you again, Mr. Burrows and Mr. Crowley, and if I can invite, in whichever order you choose, the first of you to speak. Thank you, Mr. Crowley.

Dr. Laurence Crowley: Where do I stand?

Chairman: We'll take it from the chair, you can sit down.

Dr. Laurence Crowley: Okay, thank you. Mr. Chairman, I have provided a written statement to the inquiry on the topics you raised with me and I would like this morning to make a few general points.

The first, and to me the most important point, I would ask the inquiry to bear in mind that my role as non-executive governor or chairman of Bank of Ireland ended in July 2005, just under ten years ago and I have absolutely no involvement with the bank in the intervening decade. Whilst I am anxious to assist the inquiry as much as I can and do not wish to appear in any way unhelpful, the truth is my recollection of events, of meetings and correspondence is significantly impaired by the passage of time. It happens to all of us and I trust the inquiry will understand and accept this. I note that a lot of the documents you have sent me relate to periods after I left the bank and I hope you will appreciate that I am not in a position to comment in any way on these documents.

The second point I would like to make concerns the standards of governance and oversight in the bank during my time there. Most of the board, including myself, were non-executive and therefore part-time. It is not the job of non-executives to run the bank nor are they or can they be expected to know everything that is going on in the bank. Their role is an oversight one, to approve strategy and general direction and to be satisfied that there are proper governance structures in place. In looking at historical practices, whether in banking or anywhere else, I believe that these practices should be judged against the standards of best practice which existed at that time. There is no doubt that corporate governance has evolved significantly over the last decade, both generally for public companies and specifically for financial institutions in the light of the financial crisis but in my view, a fair assessment of practice in the past requires them to be judged in the context of standards of best practice at the time concerned.

I believe that the structure which was in place in Bank of Ireland during my time there reflected best practice and I have summarised the main control processes which existed in my written statement. I had no cause for concern about the adequacy or appropriateness of the reporting and the accountability structures which we benchmarked against practice at the time, with the help in particular of our internal auditors and our external auditors.

In relation to the strategy of the bank approved by the board in 2002, it is clear that this was an ambitious growth strategy. It must be viewed, however, in the context of the economy at the time which was growing rapidly and with all indications pointing to a long period of sustained growth. What is also important to note is that the strategy was not reliant on property lending. My recall is that the growth in the balance sheet was to be achieved through a combination of acquisitions, particularly in life and pensions businesses, and through managing the capital of the bank through share buy-backs and other mechanisms. We were particularly focused on growing the business outside Ireland and that was largely why we recruited a CEO who had been working abroad. My understanding from reading the materials you have sent to me is that,

in fact, property lending did not grow in a disproportionate fashion compared to other lending in Bank of Ireland and this would be what I would have expected from my experience there.

In my written statement in relation to the subject of property lending, I say that I do not recall any issue of imprudent lending being brought to the board. I understand that this statement by me has been put to one of the other witnesses. I was not intending to suggest that executives were aware at the time of imprudent property lending and chose not to bring it to the board. I'm completely satisfied that this is not the case. There was always open dialogue between the board and the executives and I have no doubt that if there was a material issue relating to property lending, the board would have been informed. Of course, the board were aware that the bank, like all banks, had bad debts and I recall that the bank was conservative in making provisions for bad debts. While some of the bad debts may well have related to property lending, I have no reason to believe that this was a result of imprudent or reckless lending.

Finally, in relation to property lending, I've seen references to the establishment of a specialist property group in the bank in late 2004, the implication being that this is evidence of a decision to place a particular emphasis on property lending. I don't believe that the reason for the decision was to significantly increase the level of property lending. It was part of a move towards specialisation, where individual lenders would focus on particular areas, rather than have someone who might be lending to a property developer in the morning and a grocer in the afternoon and I believe that this was a sensible approach.

Can I conclude by coming back to what is the role of a director? For as long as I've been involved in business, it has always been the case that the primary duty of a director is to act in good faith in what he or she honestly believes is in the best interests of the company involved. I understand that this principle has now been enshrined in legislation in the new Companies Act, recently passed by you and your colleagues in the Oireachtas. I genuinely believe that everything I and other directors of Bank of Ireland did during my time was done in good faith in what we believed was the bank's best interests. I believe we discharged our responsibilities to the best of our ability. When, as I was leaving ... when I was leaving the bank in 2005, it was operating in a very strong economic environment and there were no signs that the bank would do anything but go from strength to strength. If, with the benefit of hindsight, decisions taken during my time later contributed to the problems facing the bank, then this is clearly something I regret. Thank you.

Chairman: Thank you very much, Mr. Crowley. Mr. Burrows?

Mr. Richard Burrows: Mr. Chairman and members of the joint committee, I welcome this opportunity to meet with you and to assist you with your inquiry into the banking crisis. As requested by you, I submitted a written statement on a number of specific topics identified by you. I do not propose today to repeat all of the points made in my written statement, but I do want to highlight a number of points which I believe are of particular relevance to the business of the inquiry. Looking at events from a number of years ago, it's important to try and recall and to understand the context in which actions were taken or decisions were made. This is particularly so in circumstances where the banking world has changed so dramatically in the intervening period. Before touching on some of the points made in my written statement, let me make a few brief words about the backdrop against which Bank of Ireland and other banks operated during my time on the board.

Peter Nyberg's evidence to the inquiry described that the global consensus back in the noughties was that financial markets were stable and efficient, a view to which Irish private and

public sector decision makers adhered. A number of previous witnesses before the inquiry have referred to the general economic backdrop to the early 2000s, including the strong growth in employment, the extraordinary growth in the Irish population and the consequent huge increase in demand for new housing.

The report by Regling and Watson, which forms part of the evidence presented to the inquiry, notes that Ireland's strong and extended expansion during the previous decade fostered expectations of a continued rise in living standards and in asset values. Regling and Watson also note that in this macroeconomic setting, bank governance and financial supervision faced major challenges and, looking back, I would agree with this observation. They described banks operating in a setting of greatly increased wholesale funding opportunities following the adoption of the euro and banks from abroad beginning to compete strongly in retail mortgage lending. Another factor highlighted by Regling and Watson was that when modern Ireland ... was that modern Ireland had never experienced a property crash. As the chief economist of Bank of Ireland set out in his written statement to the inquiry, the fall in house prices in the first half of 2008 was modest and the full effect of the unprecedented collapse of the global credit markets which followed the Lehman bankruptcy in September 2008 was not felt until 2009. So the 2008 crisis was not primarily caused by the property devaluation but by other factors, later exacerbated by the collapse of property values.

I was asked to discuss the quality of the business model setting process in Bank of Ireland, which I took to mean the quality and setting of the strategic plans. In my view, a key point to bear in mind when making judgments on a strategy setting process is the backdrop against which the strategy is developed. Bank of Ireland's strategy was informed by the consensus view on likely economic developments in the countries in which the bank was most exposed to credit risk. While I believe that the process for setting the bank's strategy was extensive and robust, in hindsight the bank's strategy, in common with other financial institutions in Ireland and internationally, which assumed continued economic growth in the bank's main markets, reflecting the consensus view, led the bank to expand in a manner which, as I said at the extraordinary general meeting of the bank in March 2009, was regrettable. The bank's funding of that growth assumed the continued normal functioning of wholesale interbank markets, which did not happen, and the risk of this funding not being available was not, in light of our perception of future events at that time, fully appreciated.

While prudent strategic decisions were made to focus on the bank's core business, and not to enter into certain business segments, which meant that Bank of Ireland's position, when compared against many of its peer companies, was less severe overall, this was of little consolation to the bank's shareholders, who suffered a very serious decline in the value of their shares and through the cancellation of dividends. At the extraordinary general meeting in March 2009, I also acknowledged that the bank's change of strategy, to a much more defensive position, was not commenced early enough in the cycle of the economic decline. Reports commissioned by the bank in the period following the crisis have noted that while the bank could not have escaped the unusually severe economic downturn, the effects could have been mitigated if corrective action had been taken earlier.

As I said at the time and at the AGM in July 2009, I accept responsibility and accountability as governor for the situation in which Bank of Ireland found itself in 2008. I also placed clearly on the record then, my appreciation of the Government actions in 2008 and 2009, which ensured the survival of Bank of Ireland.

I'm referring to the guarantee, which stabilised the situation in September of 2008, the capi-

tal infusion into Bank of Ireland, since, thankfully, fully repaid and the creation of NAMA and its acquisition of the banks property loans, which allowed Bank of Ireland to become an investable institution and thus allowed new, third-party shareholders to come aboard. This package of support was comprehensive and determined the continued viability of the bank. I have outlined in my written statement, the structures which were in place in Bank of Ireland in relation to risk monitoring. A key issue in my view, is that despite these structures, we the board and management did not fully appreciate nor factor in the risk inherent in the rate of growth of the bank's core businesses and in particular, while property lending grew broadly in line with other lending, the risks arising from the absolute amount of property lending and from the group's reliance on wholesale funding.

In hindsight, risk should have been a more fundamental driver of the setting of strategy. This would have resulted in a set of constraints around strategy development reflecting the risk appetite being set down by the board. I do not believe that the appetite for property lending in Bank of Ireland was any greater than for lending into other sectors. In particular, Bank of Ireland had a relatively lower appetite for, and by extension, lower relative exposure to, landbank lending than other banks in the Irish market. So, while the growth in property lending was not disproportionate, the amount of the bank's property and construction book was significant and thus the bank was heavily exposed to the significant downturn in the Irish and UK property markets.

I have seen from the previous evidence sought by the inquiry that the members have a strong interest in analysing the decision to introduce the bank guarantee on the night of 29 September 2008. You have asked for my opinion on the appropriateness of that guarantee and in response, I would say that there is no doubt that the Government at the time found itself in an extraordinarily difficult situation, particularly on that night of 29 September, when it became clear that a liquidity default risk facing Anglo Irish Bank could have serious implications for the entire banking system. I am not aware of the range of options considered by the Government at the end of September 2008 and I am not, therefore, in a position to comment on the appropriateness of the guarantee as against those other options. I would say that in my view, the immediate funding requirements of Anglo Irish Bank could have been addressed by guaranteed financial support, which Bank of Ireland and AIB were prepared to make available in the short term to Anglo Irish Bank. Such a decision may have given the Government more time to consider its options. However, the Government chose to go further and to guarantee all financial institutions, which certainly avoided the collapse of Anglo Irish Bank that week.

Let me conclude these remarks by repeating that it was a source of great regret to the board of Bank of Ireland, which had served its stakeholders so well for over two centuries, that we required substantial support from the Irish taxpayer and from the State. As I've said earlier, that support was comprehensive and ensured the continuing viability of the bank, and for that I remain very grateful. I'll do my best to answer any questions which you may wish to raise, Chairman.

Chairman: Thank you very much, Mr. Burrows, and thank you very much for your earlier comments, Mr. Crowley. Our speakers will commence this morning with Senator Sean Barrett. Senator, you have 25 minutes.

Senator Sean D. Barrett: Thank you very much, Chairman, and I echo your welcome to our two ex-governors this morning. Mr. Burrows, let me start with you. Mr. Crowley in his statement 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." Did that

happen in your term as governor or would you make the same statement as your colleague?

Mr. Richard Burrows: Yes I would make broadly the same statement. I'd add to it by saying that within Bank of Ireland we had a pretty robust system of control in place which meant that in relation to any lending we relied on the three lines of defence which I think you've heard about before. And those three lines of defence were of course the very front office - the person engaged in the lending contact - the credit committee to whom that was referred and then an oversight by the internal audit as to the appropriateness of whether the procedures were being followed properly or not. So, therefore ... and that was monitored carefully by the court. So there was a robust system in place, of course there were always debates, I think, but at the same time there wasn't a situation where a particular case was brought to the attention of the court in my time.

Senator Sean D. Barrett: And then the difficulties, if I may refer to ... BOI - B1, page 17.

Chairman: I'll put it up there, Senator.

Senator Sean D. Barrett: Thank you, Chairman. It should come up on the screen in time. Yes, at paragraph 126 there.

Mr. Richard Burrows: Paragraph 126, yes.

Senator Sean D. Barrett: You have the advantage, mine hasn't appeared yet, never mind. "BOI's issues have revolved around:-

[1] the absolute quantum of property lending on its balance sheet;

[2] the greater dependence on wholesale markets rather than deposit gathering;

[3] the structural defects in financing of mortgage markets leading to greater reliance on securitisation;

[4] ... [is] ... entering ... some business lines [where it didn't have expertise];

[and then the fifth one] increased dependence on funds based income.

Did you see, in your terms as governor, these problems developing which the bank is now trying to correct?

Mr. Richard Burrows: I think in my opening statement, Senator, I specifically referred to the problems ... the absolute quantum of property lending and the reason for it, the greater dependence on wholesale markets. And, as we look back, that undoubtedly was one of the major issues. And I think the other points I would certainly concur with, but I have no further comment on them.

Senator Sean D. Barrett: But were there not alarm bells in the bank that ... as you said in the introduction, that a bank which had been around since 1783 got into these difficulties against all its traditions of ... of conservative banking?

Mr. Richard Burrows: Well there were alarm bells of course and those alarm bells started to go off really in 2008. In the process of strategy formulation, when I became governor in 2005, one of the things which we set about as a court with management was to review strategy very considerably, and that was done through 2005-06 by bringing in quite a number of external advisers to talk us through these issues. And it's certainly fair to say that some of these matters

were brought to our attention. At the time, we were still working within the assumption that I mentioned in my opening statement as, I think, in common with most commentators, that whilst there could well be a slowdown, that we were not looking into the kind of catastrophic decline in values which subsequently emerged.

Senator Sean D. Barrett: Was the strategy a cause of the subsequent problems? And I have in mind what was perceived as the undermining of the local bank manager who knew his customers, who knew the society, and who had a strong record of solvency, being replaced by the next generation, which brought the bank to Government Buildings and needing a rescue, as you said.

Mr. Richard Burrows: I don't believe so, Senator. I think ... I can't speak for the earlier period that you're referring to but ... because all the time that I was there the structure on credit control and on lending approval was as I've stated it - a very robust structure within the bank with very clear limits being set at each level of authority, and any question of any of those limits being exceeded then meant that that particular matter had to be referred to a higher level of credit committee for resolution. So I think there was a very robust system in place.

Senator Sean D. Barrett: And, you know, did that perceived change lead to the problems later?

Mr. Richard Burrows: I don't believe so. I think the problems later were for the reasons that I identified in my opening statement.

Senator Sean D. Barrett: Thank you. I might put one question to Mr. Crowley. And this is core document B2, pages 37-47, Mr. Crowley, and they'll come up in a while. This was a board decision to allow ... to move the earnings multiplier allowing customers to borrow up to 4.5 times their annual income and also to increase the loan-to-value threshold and was made in 2002. Why did the board do that, Mr. Crowley?

Dr. Laurence Crowley: Well, I can only think ... I don't recall this, but I can only think that it was doing it in the light of the very healthy economy. And as a result of that they felt ... we felt able to increase those ratios and multiples.

Senator Sean D. Barrett: Then the next one, if I may, the same volume, pages 63-67, where it states that residential investment property, RIP, lending doubled within Bank of Ireland over 15 months from 2003 to September 2004, and over the next few years there was a relaxation of terms and conditions. Was the risk in doing that understood by the board at the time, given what we said about ... that the first reason there, the point to Mr. Burrows, was that the absolute quantum of property lending was the major issue, the first one listed as why Bank of Ireland subsequently got into trouble?

Dr. Laurence Crowley: Sorry, I missed that last point.

Senator Sean D. Barrett: You ... residential investment property lending doubled in a 15-month period and property is, in the previous quotation, the first reason why Bank of Ireland got into trouble. So did the board understand the risk when it doubled residential investment property lending in such a short period?

Dr. Laurence Crowley: Yes. While the board are not expert bankers, they do have the capacity to understand risk, because that's a fundamental matter in relation to a bank.

Senator Sean D. Barrett: Would there be nervousness ... as some of the expert witnesses have said here, if anything grows really quickly in banking by huge percentages - 100% in this case - in a short period, there should be alarm bells? It's a bad sign for a bank if it makes these explosive decisions.

Dr. Laurence Crowley: Again, I have lost the point-----

Senator Sean D. Barrett: Were you ever worried if an item grew by 100% in 15 months?

Dr. Laurence Crowley: Oh yes, we would have been concerned as to why and as to whether or not it was safe and secure. That wouldn't necessarily ... it would be a concern, which we would have expressed to management and they would take that into account and ... but the board were not bankers.

Senator Sean D. Barrett: Was there an option of a lower rate of increase than 100%, considering at that time-----

Dr. Laurence Crowley: I'm sure there was; I don't recall.

Senator Sean D. Barrett: Are the ... this is to both, are you aware of any loans or terms offered to borrowers which might be considered outside the normal commercial terms made during your tenure and-----

Dr. Laurence Crowley: Any loans made outside of the normal terms?

Senator Sean D. Barrett: Outside normal commercial terms.

Dr. Laurence Crowley: No, I'm not. There was a rate for staff, I know, which was slightly outside the normal commercial terms, but that's part of the banking industry.

Senator Sean D. Barrett: And Mr. Burrows?

Mr. Richard Burrows: No, I'm not aware of any.

Senator Sean D. Barrett: Okay then. Now the ... Vol. 2, page 12, on page ... Vol. 2, sorry, page 67. In this one, when it appears, the regulator wrote drawing attention to the high level of exceptions to standard criteria, 24% exceptions in loans. How was that happening, and were there concerns about that?

Dr. Laurence Crowley: Which letter are ... it's coming up.

Senator Sean D. Barrett: It's a letter of 31 July, 2013 and I think it's on page 67 of that volume. Mine hasn't appeared so I can't be of help to you. Sorry about that, Mr. Crowley.

Dr. Laurence Crowley: No, mine hasn't appeared either.

Chairman: Did you say 71, is it? Is this to do with the response of the Financial Regulator on review of sectoral concentration framework, yes?

Mr. Richard Burrows: What book is that in?

Senator Sean D. Barrett: It is the highlighting of exceptions to standard criteria at 24%. Did that concern you or the other governors or why ... how did it happen?

Dr. Laurence Crowley: I have a letter here from Ms Burke.

NEXUS PHASE

Chairman: He's probably looking at the wrong page number.

Dr. Laurence Crowley: Honestly, I can't recall reacting, you know, with the circumstances that you indicate, nor have I ever noticed that letter to Ms Burke.

Senator Sean D. Barrett: Was the board concerned about exceptions, or would 24% be considered normal?

Dr. Laurence Crowley: I'm sure the board were concerned about exceptions, but, clearly, no major alarm bell had rung.

Senator Sean D. Barrett: And on your watch, Mr. Burrows? Was there a high level of exceptions?

Mr. Richard Burrows: I can't actually tell you the level of exceptions, but I do know that there would have been quite a lot of exceptions. And the reason for that is that when you establish policies in relation to credit and lending, you're going to draw the terms of those policies very tightly. And so, therefore, in complex lending situations, it is quite likely that you will find in any particular transaction an exception. An exception doesn't mean that the policy is being infringed, it just means that it has to be referred to a higher level of credit committee within the bank, within the institution in order to resolve whether it is a genuine exception, as in a deal breaker, or whether it is something that arises because of the tightness of the way that the policy has been drawn.

Senator Sean D. Barrett: Can I bring you to the concentration ratios. Were they discussed in either of your terms of office?

Mr. Richard Burrows: Concentration ratios were ... were considered, yes.

Senator Sean D. Barrett: And was there concern about them?

Mr. Richard Burrows: There wasn't ... there wasn't major concern within Bank of Ireland at that time.

Senator Sean D. Barrett: Because there's a letter on, from the Financial Regulator it's in B2, page 71.

Mr. Richard Burrows: Which book are we in now?

Senator Sean D. Barrett: Book 2, page 71.

Mr. Richard Burrows: Book 2?

Chairman: BOI - B2, pages 71 to 86 and the reference there is BOI101640.

Senator Sean D. Barrett: If the regulator writes that she is concerned that you don't risk assets to more than 200% of own funds and the reply says, "Bank of Ireland remains comfortable with the exposure", to the outsider that's a strange attitude to the regulator, you know, if the referee draws my attention to fouling somebody and I say, "well I'm quite comfortable with that". Yes well, the referee's job was to tell you and you say you're quite comfortable with breaching the 200% in one sector.

Mr. Richard Burrows: I think that is the case.

Chairman: Would you care to comment on that Mr. Burrows and elaborate?

Mr. Richard Burrows: I don't think I can elaborate any further, this was a letter from management.

Chairman: And in terms of the appropriate level of reporting to the board on concentration risks and other risks, would this have been on your radar?

Mr. Richard Burrows: This particular point?

Chairman: Yes, and the broader issue related to it.

Mr. Richard Burrows: Which is?

Chairman: Which is that the regulator had been expressing concerns with regard to a particular behaviour by the bank.

Mr. Richard Burrows: I think at the board we were, we were not aware of regulator's concerns of such a nature as to cause board intervention in the way management was progressing these things.

Chairman: And I'll return to the question again, does this reflect an appropriate level of reporting to the board or not?

Mr. Richard Burrows: In my belief at that time it did, yes.

Chairman: Okay, thank you. Senator Barrett.

Senator Sean D. Barrett: Thank you Chairman. The loan-to-deposit ratio rising very rapidly, now you said in your presentation in 2009 you attempted to get back a higher rate of deposits. But when it rose very rapidly, 159% instead of the recommended 120% in September 2008, were there alarm bells at that time about the high level of reliance on wholesale funding?

Mr. Richard Burrows: Senator, as I mentioned in my opening remarks, our reliance on wholesale funding was something that with hindsight was substantially overdone. From much earlier than 2009, we ought to have been making sure that we had a far better loan-to-deposit ratio than we had.

Senator Sean D. Barrett: And going your relationship with the regulator in other aspects. He wrote to the Bank of Ireland on 31 July 2013 about the maintenance of lending standards, ongoing monitoring, the management and control of risk in relation to residential mortgages and that correspondence was still in operation the following December. Was there a very slow rate of response and interaction between the regulator and the bank?

Mr. Richard Burrows: Senator, I retired in July of 2009. That falls outside the period when I was there; I can't comment.

Senator Sean D. Barrett: In your time, what would you expect to have been the appropriate time to respond to concerns expressed by the regulator?

Mr. Richard Burrows: I would say, very rapidly. If we got a letter from the regulator, in your own words, that's a word from the referee, you have to respond as quickly as you can.

Senator Sean D. Barrett: Because again, he reports no evidence of where the balance of

funding source was, the purchase price, stress testing not carried out, loan files not containing sufficient information to demonstrate the rationale for the lending decision, valuations of property not completed. And we had a affidavit yesterday, a document submitted from the Construction Industry Federation, requiring NAMA to honour verbal agreements with banks on business that was transferred. So was banking professional enough in its lending practices in the run-up to this crisis?

Mr. Richard Burrows: I believe Bank of Ireland was professional in its lending practices, and I think that the evidence for that is that in the transfer of loans which occurred to NAMA in 2009, the number of instances where insufficient or incorrect documentation arose was actually a very, very small percentage of the total, which implied that the vast bulk of all loans were properly documented and properly proceeded with within the bank.

Senator Sean D. Barrett: But there was still a 43% discount on what was transferred to NAMA.

Mr. Richard Burrows: Senator, I can't comment on that. That didn't happen on my watch and that wasn't a negotiation I was part of; I can't comment on that.

Senator Sean D. Barrett: The 100% mortgages in 2005, July 2005... Were there any concerns at board about the launch of that product?

Mr. Richard Burrows: There was discussion at board about the 100% mortgage, which was a response to competitive market activity by other banks in the market. I think the fact is, with the benefit of hindsight, one would not do 100% mortgages today but I'd make two points about that. Firstly, the collapse in property values that occurred in 2008, 2009 and 2010 was of the order of 50% so whether it was a 100% mortgage or a 90% mortgage or an 80% mortgage, it wouldn't have made any difference. The second thing is that 100% mortgages within Bank of Ireland, even at their peak, were a very low percentage of the total mortgage book, less than 5% of the total mortgage book so I don't think it was a major factor.

Senator Sean D. Barrett: But the Governor has brought that back to 80% maximum mortgage now as part of a macroprudential measure so I think, in retrospect, isn't it quite plausible that 100% mortgages did cause a lot of the subsequent problems?

Mr. Richard Burrows: I really can't comment on what's happening today, Senator. The situation is that 100% mortgages at that time were a competitive product in the marketplace, and Bank of Ireland engaged in that, but at a very low level.

Senator Sean D. Barrett: Did banks have an approach to where people had borrowed from multiple banks? Did you know the extent of that practice taking place?

Mr. Richard Burrows: Are we talking property or what are we talking about?

Senator Sean D. Barrett: Yes

Mr. Richard Burrows: I'm really not qualified to answer that question, but I would suggest that it was covered within the policies which we had in terms of the vetting of any lending.

Senator Sean D. Barrett: Was risk regarded as almost mathematical modelling by the banks, rather than looking in what was actually happening in markets, particularly in property?

Mr. Richard Burrows: Well, if I talk about the period that I was there, Senator, I think one

of the features of the staff of Bank of Ireland was that there was a very strong level of practical common-sense applied to lending. It wasn't just doing it by the numbers; it was, in fact, assessing the risk in a more holistic manner and I would stand over that.

Senator Sean D. Barrett: Did the auditors, internal or external, draw your attention to any of the problems which were on their way?

Mr. Richard Burrows: Not in the period prior to 2008, no.

Senator Sean D. Barrett: Did the bank discuss the Morgan Kelly articles when they were published?

Mr. Richard Burrows: Yes, we did.

Senator Sean D. Barrett: And what was the reaction?

Mr. Richard Burrows: The reaction was that Professor Kelly had a very interesting angle on what might happen, but the weight of opinion was strongly in a different direction, and that was what we listened to.

Senator Sean D. Barrett: In the reforms of the bank that have taken place in the recent past, what are the ... could you tell us the items that have been changed compared to the period when the bank got into trouble?

Mr. Richard Burrows: I can't really, Senator. I can't comment.

Senator Sean D. Barrett: Thank you.

Chairman: Both yourself, Mr. Burrows and Mr. Crowley, if I could invite you a bit closer to the microphone, Mr. Crowley, as I have a little bit of difficulty hearing you myself, both of you were, served on the board and, in that role, both of you would actually have served as directors with the responsibility of directors. Am I correct?

Mr. Richard Burrows: Correct.

Chairman: Could you explain to me what the responsibility of a director is?

Dr. Laurence Crowley: I personally referred to that in my statement ... now where has it gone ... there it is ... in my statement at the beginning of the meeting ... I can't find it now.

Chairman: Bring maybe your notes. Mr. Burrows, you served as director as well. Maybe you can shed some light to the inquiry as to what the responsibility of a director is?

Mr. Richard Burrows: Well the responsibility of a director is very clearly laid out in law. In addition to that, I would say that a director has collective and individual responsibility with the other directors for the oversight of the business and for making sure that everything is done always in the best interest of the stakeholders of the business. Directors have a responsibility to set strategy, to appoint management, to do a list of prescribed things which have to be done by directors, subject always to the control of shareholders to whom directors report annually.

Chairman: Is it a part-time or full-time position?

Mr. Richard Burrows: It's a part-time position.

Chairman: What's the remuneration for it?

NEXUS PHASE

Mr. Richard Burrows: That depends on the institution and depends on the time-----

Chairman: Okay, for Bank of Ireland, what was the remuneration for a director?

Mr. Richard Burrows: I can't remember exactly but I think it was of the order of €80,000 or €90,000 a year.

Chairman: Okay.

Mr. Richard Burrows: For a non-executive director.

Chairman: For a non-executive and both of you served as non-executive directors. I would've imagined and or maybe not, that there would be significant time commitments to the bank per annum with that job, even if it were part time.

Mr. Richard Burrows: Correct.

Chairman: Okay. And part of that role is that you get an information flow from management, yes?

Mr. Richard Burrows: Correct.

Chairman: Okay. Were you satisfied with the information that was flowing from management to you?

Mr. Richard Burrows: Was I personally satisfied-----

Chairman: Yes.

Mr. Richard Burrows: -----during my time that I was there?

Chairman: Yes.

Mr. Richard Burrows: Yes. Yes, I was satisfied with the amount of information I got.

Chairman: Okay, right through on ... and to the inevitable point where we had a guarantee and we needed to see significant capitalisation going into Bank of Ireland. Going back right through your time with Bank of Ireland, right back to your time as a non-executive director, you were quite happy with the information flow that was coming through to you?

Mr. Richard Burrows: Yes, I think, Chairman, it's a two-way street. Non-executive directors have the right to receive the information from management as you described. But they also have the responsibility to look for information from management, either individually or collectively, and that happens at board meetings where non-executive directors have a responsibility to challenge management. This happens particularly in the area of strategy or, indeed, tactics from time to time, but also can require management to produce specific reports on situations which arise or to cause external advisers to be brought in if that's necessary. So it's a two-way street.

Chairman: Okay. And Mr. Crowley, would you concur with Mr. Burrows's analysis of the role of a director and how it functioned in Bank of Ireland at that time? And would you have been surprised at the information, or would you have been satisfied with the information you would have been receiving as a non-executive director?

Dr. Laurence Crowley: Yes, I am satisfied with the information that was given. One of the

JOINT COMMITTEE OF INQUIRY INTO THE BANKING CRISIS

problems at boards is that you can suffer an overload of information that the executives can, in a sense, drown you in information and give you hundreds of pages to read and that is not effective. That does not contribute to efficiency in operating as a director.

In my opening remarks, I said two things. I re-say that about the role of a director, for as long as I've been involved in business, there's always been the case that the primary duty of a director is to act in good faith in what he or she honestly believes is the best interest of the company involved. I stated:

It is not the job of non-executives to run the bank nor are they or can they be expected to know everything that is going on in the bank. Their role is an oversight one, to approve strategy and general direction and to be satisfied that there are proper governance structures in place.

Chairman: Okay. Right thank you, just one final question before I move on to Deputy Murphy in that regards, so, is: the loans that went to NAMA were put in place during your tenure, Mr. Burrows. Were you not surprised at the level of discount that came afterwards?

Mr. Richard Burrows: As I said earlier, Chairman, I wasn't involved in the negotiation of that transfer to NAMA.

Chairman: I'm aware of that, Mr. Burrows, but the loans initially were put in place during your tenure - the result of those loans was what happened in NAMA, but the establishment and genesis of those loans was during your period.

Mr. Richard Burrows: I also said in my opening remarks, Chairman, that I felt the creation of NAMA by the Government was a very important element in the package of measures designed to make sure that the banking system survived. It was inevitable that there was going to be a discount on the loans to be transferred and frankly, I think the power of negotiation lay more with NAMA than with the banks from which the loans were transferred.

Chairman: And I'll repeat the question again, were you surprised or not surprised by the level of the discount, Mr. Burrows?

Mr. Richard Burrows: I really can't give you a comment on that-----

Chairman: Why not?

Mr. Richard Burrows: I beg pardon?

Chairman: Why can't you give us a comment?

Mr. Richard Burrows: Because I wasn't directly involved in the negotiation.

Chairman: Yes, but I'm asking, you were there at the establishment of the loans, there was quite a significant discount at the end of it. Do you have a view, were they overly discounted, were they not discounted enough, were you surprised by the level of discount?

Mr. Richard Burrows: I think, Chairman, we're going to have to wait until we see how NAMA plays out in relation to the on-sale of these loans, or the redemption of the loans, before we can make that judgment.

Chairman: So are you saying or not this morning, that the transference of the cost of these loans to NAMA is not really an issue, we need to look a couple of years down the road and see

how this pans out?

Mr. Richard Burrows: What I'm saying this morning is that the creation of NAMA was a very important element in the package of measures. It was necessary for Bank of Ireland to get property loans, which had a questionable value, off its balance sheet to NAMA, if it was to become an investable proposition in order to gain third-party capital and so that was done. In terms of how the value of the loans was measured at the time, as I say, that can only be I think reviewed when those loans are either paid back or sold on to somebody else.

Chairman: Okay. Deputy Murphy.

Deputy Eoghan Murphy: Thank you, Chairman, and thank you both, you're very welcome. Mr. Burrows, I'd like to, before we talk about your time on the board, and Mr. Crowley, I'd like to just go quickly to the night of the guarantee, to get a few things on the record, if I may. Mr. FitzPatrick and Mr. Drumm came to see you on the afternoon of 29 September 2008, looking for help for Anglo Irish Bank, is that correct?

Mr. Richard Burrows: That is correct.

Deputy Eoghan Murphy: How long did that meeting last?

Mr. Richard Burrows: Not very long, I would say that ... maybe 30 minutes, 45 minutes.

Deputy Eoghan Murphy: In refusing to give assistance to Anglo, did you or Mr. Goggin say that the Bank of Ireland had its own problems and that the bank might also run out of money if things continued as they were?

Mr. Richard Burrows: No, we didn't. We listened to the case that the executives from Anglo had to make, their plea for help. They asked us if we would consider taking over Anglo, if we would consider buying any part of Anglo, they were looking for any kind of assistance at all that we could offer in a situation which was clearly of the utmost severity in terms of that default which they were likely to have the following morning.

Deputy Eoghan Murphy: So you didn't give them any information as to your views of your own bank's own position at the time?

Mr. Richard Burrows: The discussion was all about Anglo.

Deputy Eoghan Murphy: Okay, thank you; and then you initiated the meeting with the Government, is that correct?

Mr. Richard Burrows: That's correct.

Deputy Eoghan Murphy: And did you do that at Anglo Irish Bank's request?

Mr. Richard Burrows: Absolutely not.

Deputy Eoghan Murphy: Okay. How did you initiate that meeting?

Mr. Richard Burrows: Well, if I take you through the subsequent events, we met with Anglo, I had a pre-scheduled meeting with the Governor of the Central Bank to talk about other matters which had to do primarily with wholesale funding and collateral for funding and I took that opportunity, that afternoon, of explaining to Mr. Hurley the visit that I'd had from Anglo and explaining my concern at the very difficult situation which could result from this default

the following morning and I asked if there was any plan in place in the Central Bank to deal with this situation. I was somewhat surprised to find out that there was not and it was Mr. Hurley's guidance to me that if I wanted to take matters further, that I should make an approach to Government.

Deputy Eoghan Murphy: Okay. And did you make that approach then through him to Government-----

Mr. Richard Burrows: No.

Deputy Eoghan Murphy: -----or did you make that approach separately?

Mr. Richard Burrows: No, I didn't. I went back to Bank of Ireland, I discussed the situation with my chief executive, and we resolved that the right thing to do was to make sure that Government was fully aware of the severity of the situation facing Anglo. We also felt, and there had been a lot of discussion over prior weeks and weekends in the Central Bank, involving both Allied Irish Banks' executives and our own executives, in relation to other issues in the marketplace and we felt that it could well be that AIB would feel similarly about the severity of the situation and that it therefore might be better if we made a joint approach, rather than an approach on our own. And so I rang Dermot Gleeson, chairman of AIB, and explained the situation as I saw it, explained that we were going to contact Government and invited him to join us in that approach, which he readily agreed to.

Deputy Eoghan Murphy: Okay. And then you went about setting up the meeting-----

Mr. Richard Burrows: Correct.

Deputy Eoghan Murphy: And was that by making a phone call to the Minister, to the Taoiseach, to the Secretary General?

Mr. Richard Burrows: A phone call was made out of our office in Bank of Ireland to the Taoiseach's Department and as a result of that, the meeting was set up.

Deputy Eoghan Murphy: Okay. You say in your written opening statement that the immediate funding problems of Anglo could have been dealt with at the time with a guarantee from the Government of the €10 billion in financial support that both you and AIB were willing to give. That was your view at the time.

Mr. Richard Burrows: That's right. If I just go back to the sequence of events that evening, the four of us went to Government Buildings and we were eventually shown in to meet with the Taoiseach, the Minister for Finance and quite a number of other people were there, I can't remember all the names. And I led on behalf of the four of us, to explain to the Taoiseach and the other members who were present, the reason for seeking the meeting, which was to make sure that they were fully aware of the severity of the situation that could unfold the following morning, and the impact that that could have on the banking situation at large. And then my other colleagues on that visit made their own interventions with Government, at which point we were then invited to go into an ante-room, whilst the Taoiseach and Minister and the others present conferred, and eventually we were brought back in to meet with the Taoiseach, and at that point Mr. Hurley, who was present, asked if Anglo Irish's default could be covered by Bank of Ireland and AIB providing liquidity in the form of €10 million, €10 billion, the following morning. Our response to that, and I think it was Brian Goggin who articulated this, was to say that we would be prepared to go away and consider that, but that, given the severity of

the situation, given the difficulties which we were all facing, we would need to be guaranteed by Government on that particular loan - not just guaranteed about the loan, but guaranteed that we would actually get the cash back too, after a specific period of time.

Deputy Eoghan Murphy: Okay. At this point in time, then, was the discussion around a possible four-bank guarantee?

Mr. Richard Burrows: No, it was nothing to do with four banks, or any number of banks-----

Deputy Eoghan Murphy: We hadn't reached that yet-----

Mr. Richard Burrows: -----it just had to do with Anglo, and resolving the situation with Anglo, and so after that discussion we went back to the ante-room, Brian Goggin contacted his colleagues in Bank of Ireland, I imagine Eugene did the same thing. It's a complex matter to raise that kind of liquidity in the middle of the night but nonetheless, after some time, they managed to do it and at that point we were called back in to the meeting with Government and we said that, subject to that condition about the loan being guaranteed, we could in fact - and I'm talking for Bank of Ireland - come up with €5 billion, not the following morning but the morning after, is the best of my recollection. At that point and AIB confirmed their participation to the same extent ... at that point we were informed by the Taoiseach that the Government had decided to introduce a guarantee of all deposits for all the Irish banks, and there wasn't any question about six or four or anything else, it was for all the Irish banks, and at that point we left.

Deputy Eoghan Murphy: Can I just clarify on that point then, Mr. Burrows, there was never any discussion of a four-bank guarantee, with Anglo and Nationwide being taken down, to use Mr. Gleeson's phrase? That was never considered while you were there on the night?

Mr. Richard Burrows: There was discussion at the meeting with Government about whether the appropriate thing would be to nationalise Anglo, and that was clearly ruled out by Government in the discussion which we had.

Deputy Eoghan Murphy: Okay. Can I take you, if I may, just to one of the evidence documents, it's BOI - C3b, pages 9 to 11, and it is a note from that night of the meeting? At the beginning of that note is a list of attendance, and then there's bullet points, comments attributed to you, Mr. Burrows. I don't know if you have this note in front of you?

Mr. Richard Burrows: I've seen the note in the papers, yes.

Deputy Eoghan Murphy: You've seen the note. There are ten bulleted points attributed to you, but Mr. Gleeson, when he was before us, said that he believed that only the top two lines were comments that you made, and the other eight were his comments. Can you confirm if that's the case?

Mr. Richard Burrows: I can certainly confirm that I talked about the first point, the second point and I talked about Anglo. I'm really not sure about the other points, and I am pretty certain, in fact I'm absolutely certain, that I didn't, myself, get into any discussion about INBS or any question about any guarantee.

Deputy Eoghan Murphy: So that bullet point 7 where it says "Reminded action: 2 elements (a) guarantee for surviving (b) troubled patients to be taken out", you think that was Mr. Gleeson?

Mr. Richard Burrows: I can tell you it certainly wasn't me.

Deputy Eoghan Murphy: It's wasn't you. Okay. But at that point in the conversation, from your recollection, we were still talking about only a guarantee of the €10 billion that AIB and BOI would provide?

Mr. Richard Burrows: Well, I really am not sure who made that note, or at what point. If I go back to the sequence of events as I described it to you, in the first meeting which we had we described the general situation, the international and domestic situation, we described the particular threat resulting from Anglo's precarious position, and there wasn't any discussion, at that point, about the remedial action to be taken. That happened at a second intervention.

Deputy Eoghan Murphy: And can you recall any draft document or piece of paper in the possession of Mr. Goggin, with a possible draft of a guarantee, or a list of institutions that a guarantee might cover, in the meeting?

Mr. Richard Burrows: No, I can't. We didn't go in with a solution to propose to Government. We went in to make Government aware of the concerns which we had, and it wasn't for us to propose anything. It was for us to make Government aware of the seriousness of the situation and then try and respond as best we could.

Deputy Eoghan Murphy: Do you recall AIB having any such document or piece of paper?

Mr. Richard Burrows: I don't.

Deputy Eoghan Murphy: Okay. And did you know that a guarantee of your institution might be on the cards, prior to your arrival at Government Buildings that night?

Mr. Richard Burrows: I did not.

Deputy Eoghan Murphy: Okay. Did you know that a system-wide guarantee might be on the cards?

Mr. Richard Burrows: I did not.

Deputy Eoghan Murphy: Okay. Well, if we could just go to page 20 of the same document. There was a meeting earlier that day in the bank at which Mr. Goggin informed a small committee, of which Mr. Boucher was a member, about the possibility of a Government guarantee being provided for all borrowings by Irish institutions. So Mr. Goggin, according to these minutes, would appear to have been aware that it was a possibility that the Bank of Ireland could become part of a guarantee before he went to Government Buildings. Did he discuss this with you?

Mr. Richard Burrows: I saw this paper in the documents that you provided, and I made my own inquiries, and I ... first of all, to your question, I was not aware ... not made aware by Brian Goggin, that there was any pre-discussion about a guarantee and subsequently, when I saw this memo, or minute, I inquired, and I've established, to my own satisfaction, that that is an incorrect minute, it did not happen.

Deputy Eoghan Murphy: The minute is incorrect in its entirety, or-----?

Mr. Richard Burrows: The question of any preparation of any guarantee at that point was not discussed.

Deputy Eoghan Murphy: Okay. But the knowledge as to the possibility of a Government

guarantee being provided for all borrowings by Irish institutions, that ... was that discussed in that meeting? I know you weren't present, but-----

Mr. Richard Burrows: I can't tell you, I-----

Deputy Eoghan Murphy: But Mr. Goggin never said anything to you along those lines?

Mr. Richard Burrows: No, he didn't. No.

Deputy Eoghan Murphy: Okay. Thank you. When you were in Government Buildings that night did you know the bank's borrowings at this point in time, customer deposits, inter-bank borrowings or debt securities issued, did you have an idea of the exposures?

Mr. Richard Burrows: Of Bank of Ireland?

Deputy Eoghan Murphy: Yes.

Mr. Richard Burrows: Yes, I did.

Deputy Eoghan Murphy: You did. And Mr. Goggin?

Mr. Richard Burrows: Of course.

Deputy Eoghan Murphy: And just to clarify then, when did you become aware of this systemic guarantee? It was a second meeting, or a-----?

Mr. Richard Burrows: My recollection is that it ... when we came back to report to the meeting that we had with AIB, being successful in putting together the €10 billion to resolve the situation with Anglo, it was at that point that we were informed that a guarantee was going to be put in place. I think the Government made reference to the fact that they were going to have to call some kind of a Cabinet meeting in the middle of the night to authorise this, but that it was planned that the creation of the guarantee would be announced first thing the following morning.

Deputy Eoghan Murphy: And the guarantee for all the six institutions, as it happened?

Mr. Richard Burrows: Yes. Yes.

Deputy Eoghan Murphy: Okay. My last question, in relation to this area, Mr. Burrows, if you could turn to page 5 of that same document, BOI - C3b, and it's board minutes from 3 October 2008, and it's where the events of that night are recounted to the board.

Mr. Richard Burrows: Yes.

Deputy Eoghan Murphy: And it says, "When the decision was conveyed that AIB and BoI were prepared to provide €10bn collectively, the mood of the meeting lifted considerably and the Government side began to focus on the draft Press Release to announce the blanket guarantee with immediate effect." By "blanket" in that instance, you understand a guarantee of the six institutions?

Mr. Richard Burrows: Yes.

Deputy Eoghan Murphy: Because in the following paragraph it says, "In the event, market developments triggered the Guarantee earlier than expected. In these circumstances, the political judgement was that it had to apply to all banks." So, is there a change there, between

what was agreed, or what you understand to be agreed when you said you could provide the €10 billion, and a blanket guarantee? Could that blanket guarantee refer to the four banks? That's my question.

Mr. Richard Burrows: I don't think so, no. I think it always referred to all banks, in my mind.

Deputy Eoghan Murphy: But, the following paragraph then, "In the event, market developments triggered the guarantee earlier than expected. In these circumstances [which would seem to indicate different circumstances] the political judgement was that it had to apply to all banks." There seems to be an inference there that there was a change in the scope of the guarantee.

Mr. Richard Burrows: I honestly can't get into the actual writing of that minute as to ... but I do know that we had the board and we, Brian Goggin and I, reported very carefully on what had transpired. I guess the fact of the announcement of the guarantee on the morning, which is a matter of record, means that the guarantee was triggered that night. It was not something which we had asked for. This was a Government decision.

Deputy Eoghan Murphy: Okay and just finally then, can you recall any conversation around the inclusion of subordinated liabilities as part of the guarantee?

Mr. Richard Burrows: On that night?

Deputy Eoghan Murphy: Yes.

Mr. Richard Burrows: Absolutely not.

Deputy Eoghan Murphy: You cannot?

Mr. Richard Burrows: I'm saying I ... it's not that I can't recall, I can recall that there was no discussion.

Deputy Eoghan Murphy: No discussion. Okay. Thank you.

I might return then, if I may, to board oversight of risk policies? Mr. Crowley, the group risk policy committee was set up to assist the board with its risk oversight and governance responsibilities. Did this committee assist with, or assume, the risk oversight and governance responsibilities?

Dr. Laurence Crowley: Sorry, I missed the opening.

Deputy Eoghan Murphy: Did it assist with, or assume, the group risk-----?

Dr. Laurence Crowley: Did which? I missed the opening bit.

Deputy Eoghan Murphy: Sorry, the group risk policy committee.

Dr. Laurence Crowley: Yes.

Deputy Eoghan Murphy: Which was set up to assist the board with its risk oversight and governance responsibilities, did it assist with, or assume, these responsibilities?

Dr. Laurence Crowley: Did it assist with-----

NEXUS PHASE

Deputy Eoghan Murphy: Or assume, these responsibilities?

Dr. Laurence Crowley: Oh. It was given these responsibilities.

Deputy Eoghan Murphy: Okay. So it was a ... these responsibilities were delegated to the committee?

Dr. Laurence Crowley: Well, yes as an added piece of the jigsaw protecting the bank and its credit.

Deputy Eoghan Murphy: Okay. When Mr. Boucher was before us he was asked if there was insufficient oversight on the part of the board in relation to this committee, and he replied, "Yes I think so." Can you-----

Dr. Laurence Crowley: In relation to?

Deputy Eoghan Murphy: This committee - oversight of the group risk policy committee.

Dr. Laurence Crowley: Yes. The risk committee, as I recall, regularly reported to the board at every meeting.

Deputy Eoghan Murphy: So, you wouldn't agree that there was insufficient oversight of this committee, by the board?

Dr. Laurence Crowley: No.

Deputy Eoghan Murphy: Mr. Burrows?

Mr. Richard Burrows: Hindsight is a great thing in this situation and I would say with hindsight, as I have acknowledged, we would certainly do things differently. At the time, my belief is that there was probably the correct amount of oversight, the correct amount of control, the correct amount of reporting but, certainly in the circumstances that unfolded, a far more rigorous approach would have been justified.

Deputy Eoghan Murphy: Mr. Burrows, do you think you placed too much trust in senior executives on the board, who were also on these credit and risk committees?

Mr. Richard Burrows: No, I don't think so. I think it's ... it's a fact that to run any business, a bank included, a board has to delegate its responsibilities to management. That's the way the business gets done and so, therefore, I don't think that there was any question of any overestimation of the capabilities of the management.

Deputy Eoghan Murphy: Okay. In July 2003, the Financial Regulator said that "*The examination raises questions about the maintenance of lending standards in your institution and about your on-going monitoring management and control of risk in relation to residential mortgage credit.*" That's in BOI - B1, page 67. Do you recall that criticism from the Financial Regulator at the time in relation-----

Mr. Richard Burrows: I don't.

Deputy Eoghan Murphy: You don't. Mr. Crowley, do you?

Dr. Laurence Crowley: No.

Deputy Eoghan Murphy: Okay. Can we bring that up, please? Do you recall concerns

being expressed actually by the group risk policy committee itself in 2004? Thank you. It's there at the bottom, if you like, on your screen, this is from the Financial Regulator, and the quoted paragraph at the bottom "*The examination raises questions about the maintenance of lending standards in your institution and about your on-going monitoring management and control of risk in relation to residential mortgage credit.*" You don't recall this letter from your time on the board?

Dr. Laurence Crowley: There is a reply to that letter which went on 12 February 2004. Is that a reply to this?

Mr. Richard Burrows: That's that one.

Dr. Laurence Crowley: Yes, which is not in the core documents but there is a reply from me to Dr. Liam O'Reilly.

Deputy Eoghan Murphy: There is a reply, addressing that concern.

Dr. Laurence Crowley: Sorry?

Deputy Eoghan Murphy: Addressing that particular concern that's expressed. In your reply, you address that concern.

Dr. Laurence Crowley: I addressed, yes, that letter, yes.

Deputy Eoghan Murphy: Okay. Do you remember the actual discussions around this letter at the time on the board?

Dr. Laurence Crowley: No, I don't remember.

Deputy Eoghan Murphy: Okay. Thank you. I'll move on then, if I may. Mr. Crowley, did you ever feel like the bank was under pressure to change its model or its business, given the apparently rapid success of other banks like Anglo Irish Bank?

Dr. Laurence Crowley: I don't think that by 2005 there was pressure to change the model. 2005 was the fifth year of continuous profit growth and everything looked extremely good. It also was the year in which I ... I retired as governor. So I think we believed we were in very good shape at that point.

Deputy Eoghan Murphy: And then after you retired, do you believe that the culture in the bank or the activities of the bank changed?

Dr. Laurence Crowley: No. I think they were changing for a number of years, nothing dramatic but we were changing particularly with the chief executive we had brought in from the external world rather from the bank itself and that was a big contributor to the changing of the culture in the bank.

Deputy Eoghan Murphy: Mr. Burrows, did you see ... in relation to property lending in the bank, did you see your chairmanship as continuing the practices that were already at the bank and at board level or did you break with the past in some way?

Mr. Richard Burrows: No, I didn't break with the past. Bear in mind, I had been part of the board up to that point - it wasn't as if that I arrived new on the scene in 2005. But I think, as I said earlier, in looking at the strategy of the bank with Brian Goggin, who was then a new CEO in position, we did question very thoroughly the strategy which had been put in place by

his predecessor and, in doing that, we brought in quite a number of different external advisers to examine all aspects of the bank's business to make sure that our strategy was robust going forward. So there was ... there was a period of intense questioning during this period of growth of the business of the bank.

Deputy Eoghan Murphy: Okay. Was there confusion in the bank in 2004 about property lending, as Mr. Boucher stated in his appearance before us?

Mr. Richard Burrows: I'm not aware of any confusion, I don't know what that word implies.

Deputy Eoghan Murphy: So, if we could talk about this ... this specialised property financing unit that was set up in 2001, the purpose was to write high risk, higher return property transactions and it also had the following objective - to allow business banking to 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. Burrows?

Mr. Richard Burrows: I think the answer to that has been given by my colleague, Laurence Crowley, in that it was necessary, in a more competitive environment, to bring the skills and capabilities of management on property lending in particular into one place rather than have generalists dealing with all forms of lending. So the creation of that was a response to that. It was also in the context, bear in mind, of ... of the strong growth that I referred to in my own opening remarks in the economy generally and particularly in the housing and property sector.

Deputy Eoghan Murphy: But do you think there was, you know, a particular focus on Anglo Irish Bank and its activities?

Mr. Richard Burrows: No, I don't think there was a particular focus on Anglo Irish Bank but we were and are a publicly quoted company and so, therefore, we have to have regard to what our institutional shareholders and personal shareholders are saying about us and the fact of the matter was that in a very fast growing market, Bank of Ireland was underperforming the other Irish institutions in terms of growth, and so that always led to a discussion of whether or not we were taking the right measures in the promotion of the business of the bank.

Deputy Eoghan Murphy: Did you increase your risk appetite then for property lending because of what your competitors were doing?

Mr. Richard Burrows: No, I don't believe we did. I think, if anything, we probably tightened ... and I referred to specifically our attitude with respect to landbank.

Deputy Eoghan Murphy: Even though the rationale for setting up the specialised property finance unit was to facilitate in writing higher risk, higher return property transactions?

Mr. Richard Burrows: Well, that was back in, as you said, in 2002-----

Deputy Eoghan Murphy: 2001.

Mr. Richard Burrows: 2001?

Deputy Eoghan Murphy: And then in 2004 it led to the creation of a dedicated property unit-----

Mr. Richard Burrows: Yes

Deputy Eoghan Murphy: -----and that was set up ... responsible for managing relationships with a total group exposure in excess of €30 million and the rationale for that was that, “In the past 5 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 the move to a dedicated property unit in 2004, is this an example of-----

Chairman: Deputy, one moment.

Deputy Eoghan Murphy: -----of Bank of Ireland changing its business practice to compete with Anglo?

Mr. Richard Burrows: I think to compete in the marketplace rather than specifically with Anglo, Anglo were certainly the bank that was the most high profile in that area, so it's natural to make reference to that but it wasn't just Anglo, there were lots of other banks competing for the same business as well.

Deputy Eoghan Murphy: Yes, and yet you cite Anglo twice in your minutes over that period of time specifically and ... this is in relation to the restructuring of the bank and the establishment of a dedicated property unit ... that you do cite Anglo.

Mr. Richard Burrows: That may be the way the minutes are written. The fact of the matter is that the bank had to set up a specialist unit with the skills and capabilities which would allow it to do that kind of business in a more efficient way.

Deputy Eoghan Murphy: Thank you. Thank you, Chair.

Chairman: Deputy Murphy, I'll bring you back again as we conclude proceedings today. Mr. Burrows, if you maybe could just clarify up one matter or maybe just add a bit of detail before we go for a break in around 11 a.m. Earlier when you were speaking to Deputy Murphy in regard to the guarantee, you were talking ... you mentioned the requirement of a consideration for short-term funding for Anglo and that Bank of Ireland were discussing this arrangement with Government. Am I correct in saying that?

Mr. Richard Burrows: I'm not sure just what the context of your question is.

Chairman: You were saying that in around the period of the guarantee, there was a consideration for short-term funding for Anglo that would ... as being the immediate requirement-----

Mr. Richard Burrows: That was the discussion that took place the night of the guarantee in Government Buildings.

Chairman: Yes.

Mr. Richard Burrows: Yes, and your question is?

Chairman: Was that short-term funding, by your understanding or by your interpretation, to put Anglo indefinitely into the future and look at it again or was it to get it to the weekend and at the weekend either nationalise it or wind it down? What was the purpose of that short-term funding?

Mr. Richard Burrows: The request from Mr. Hurley, which we both considered that night, was for short-term funding that would get the problem off the table for the following morning to the next weekend.

NEXUS PHASE

Chairman: And, at that weekend, was there any indication as to what would be the future of Anglo when it got to the weekend?

Mr. Richard Burrows: No, there wasn't. We sought, as I explained earlier ... the fact that if we were to come up with this finance, that it would be guaranteed by the Government, not just the loan guarantee but that we'd also get a guarantee that we'd get the cash back.

Chairman: Okay, and was there any indication to you that Anglo would be wound down, or would be nationalised, or liquidated, or anything else by the weekend?

Mr. Richard Burrows: No, there wasn't.

Chairman: Okay, thank you very much. So, with that said, I now propose that we take a break until 11.15 a. m. The witnesses are reminded that, once they begin giving evidence, they should not confer with any person other than their legal team in relation to their evidence or matters that are being discussed before the committee. With that in mind, I now suspend that the meeting ... will be suspended until 11.15 a.m. and remind the witnesses that they are still under oath when we resume. Thank you.

Sitting suspended at 11.01 a.m. and resumed at 11.22 a.m.

Chairman: We're all back and present and all mobile devices are in appropriate mode, I assume. So with that said, I now bring the committee back into public session and in doing so I'll be inviting Deputy Doherty. Deputy Doherty you have ten minutes.

Deputy Pearse Doherty: Okay. Go raibh maith agat, a Chathaoirligh, agus fáilte roimh an bheirt agaibh chuig an coiste.

Just ... you've mentioned to the Chairperson that you were satisfied with all of the relevant information that you were getting from ... in relation to risks and exposures. So that being the case, how would you explain the issues highlighted in the report ... in the Boston Consulting Group report and it's available in BOI 102-106 and its on ... there's an exhibit on page 10 ... Exhibit 8 on page 10, which gives a summation of the concerns that were raised in relation to some of the risks that the bank were taking. It's BOI - B1, page 10. Page 9 also ... if you're waiting it to come up ... also talks about ... "There were four areas where there were gaps between BOI credit risk capabilities and peer [practice review]" and they identified risk appetite framework, court risk committee, risk function organisation structure and credit MI.

Mr. Richard Burrows: Deputy, this report came after my time. So I had no opportunity of discussing it whilst I was governor. It ... it was I think, subsequent.

Deputy Pearse Doherty: But did it review the period that you were ... as governor of the bank?

Mr. Richard Burrows: Oh, I'm sure it did, yes.

Deputy Pearse Doherty: So you were familiar with all of the risks that ... that you were taking. So how do you stand over the fact that a report identified that there were these areas, these gaps?

Mr. Richard Burrows: But in my opening remarks I ... I identified the areas where I felt we had made mistakes. And in one of them was the ... the amount of lending which we engaged in. The ... the absolute amount of lending in relation to property was one of our weaknesses, there

is no doubt ... when ... when the property crash occurred. That was ... that was a fact.

Deputy Pearse Doherty: Okay. Can I ask you, Mr. Burrows, how much time was allocated in the agenda of the board ... the board ... the court to the strategy and developing the business model and its ongoing monitoring and reviewing?

Mr. Richard Burrows: I will. If I go back to a kind of normal period, in other words ... years before 2008, I would say that we devoted quite an amount of time, probably of the order of ... of 20% or one fifth of our board time would have been devoted to strategy and strategy matters and reviewing how we were doing against strategy. Of course, in 2008 and after that the agenda changed very much to ... to a survival mode and so, therefore, it wasn't so much about strategy as it was about day-to-day issues.

Deputy Pearse Doherty: Mr. Crowley, in 2002 the court approved the proposal to take over Abbey National. You were quoted in *The Irish Times* on 26 October 2002 saying that it was, "A once in a lifetime deal". Why was Bank of Ireland interested in taking over Abbey National at the time?

Dr. Laurence Crowley: Well, because it seemed to the bank as a very good fit. It was in a market that we understood and had a large presence in already. It was part of our expansion plan to grow and to grow sensibly and safely in an environment in which ... we understood and already were doing a huge amount of business. So it ticked all these boxes.

Deputy Pearse Doherty: Okay. And, Mr. Burrows, in 2005, in your opening statement you say when ... on your appointment as chairperson in 2005 ... the bank developed a new strategy and you go on to say that its "correct geographical footprint for Bank of Ireland was Ireland and the UK and these should be the areas of focus for growth and we also recognised that Bank of Ireland did not have a rating that would allow us to undertake mergers or acquisitions and therefore, we would have to rely on organic growth in existing markets which [we were also] ... were also expanding markets." What does that mean for the bank in 2005 ... that it didn't have the rating to undertake mergers and acquisitions?

Mr. Richard Burrows: What it meant was that by ... by virtue of the slower rate of growth which Bank of Ireland was experiencing and reporting compared to other banks, our price earnings ratio was at a lower level than the other banks. And that meant that our firepower in terms of ... of being able to make realistic approaches to any overseas bank that might have been attractive to us from an acquisition point of view, just wasn't there. And so, therefore, we had to rely on ... on organic growth. In other words, growing the business which we were already in.

Deputy Pearse Doherty: Yes, and that was, as you say, in 2005. Was commercial property, landbank and residential property seen as, or not seen as, a way of compensating in terms of growth for the lack of opportunities in mergers and acquisitions?

Mr. Richard Burrows: Well ... I ... the statement stands on its own, I think, and that is we ... we looked to organic growth in all of the businesses which we were in as a means of ... of growing the business of the bank overall. And ... and, therefore, we had to ... we had to rely on organic growth being realistic about the lack of opportunity that there would be for us to grow by acquisition. That would have included property.

Deputy Pearse Doherty: Property. Mr. Burrows, were you concerned at the time of the guarantee at the end of September 2008, of the issue of bad debts, future bad debts and the issue of capital within your bank?

Mr. Richard Burrows: Not at that point.

Deputy Pearse Doherty: Okay. Can I ask you ... and I'm just going to refer to Bank of Ireland C3b and it's on page 30 and it goes on for a number of pages. And this is a telephone conversation that was recorded in the trading room of Bank of Ireland and a transcript of it has been provided to the committee. It's between a Mr. Tilson and a "Mick" and it was on the morning of 30 September 2008 at quarter past nine. Can you inform the committee who Mr. Tilson is ... in ... in Bank of Ireland?

Mr. Richard Burrows: I can't, I'm afraid. I ... I'm familiar with the document. I saw it there. He was unknown to me. That doesn't mean he wasn't a very important person in Bank of Ireland but I can't tell you what his role was.

Deputy Pearse Doherty: The head of global markets at the time would have been?

Mr. Richard Burrows: Could have been-----

Deputy Pearse Doherty: But ... sorry, who was the head of global markets at the time?

Mr. Richard Burrows: I don't know. I can't tell you now.

Deputy Pearse Doherty: Right. Okay. Okay, can I just say ...say to you ... so this is the response ... this is the conversation that taking place within the bank at the time between Mr. Tilson and Mick and it says:

MR. TILSON: Good morning Mick.

MICK [replies]: Well it's all over.

MR. TILSON: Absolutely.

MICK: Its all sorted.

Mr. TILSON: All done. Magic wand.

MICK: I mean, Jesus I would nearly feel like issuing a bit of capital myself. Everybody bar the equity holder has been sorted [out].

Is that your view at the time of-----

Mr. Richard Burrows: Most certainly not. That morning all that had happened was the announcement of the guarantee, which certainly had the desired effect of stabilising things - albeit on a short-term basis. And in my opening remarks I ... I made the point and I ... I just reinforce it, that the guarantee on its own was not a magic wand. Given the severity of the situation which was unfolding, it was necessary for recapitalisation and NAMA as component parts.

Deputy Pearse Doherty: Okay, I'll ask you now just because ... this was immediately, as I said, on the morning of the guarantee.

Mr. Tilson goes on to say:

Never mind anything with a Government guarantee.

MICK: Yes, but [even if you were to] ... even if you get the -- let us say you get out and you take billions.

MR. TILSON: Yes.

MICK: Right, and it's ... it is Government guaranteed etc., etc., like all that is doing is essentially shoring up an overly geared balance sheet.

MR. TILSON: Absolutely.

MICK: So it is giving you money, wholesale money for two and three years, issuing capital, whatever?

MR. TILSON: Yes.

[MICK]: But you are still left with a balancesheet and we know with bad debts.

MR. TILSON: Right.

MICK: That are going to come against us.

MR. TILSON: Yes, absolutely.

MICK: Like, that is kind of almost like a zombie bank.

MR. TILSON: Yes, no absolutely.

MICK: And it is not dealing with the real issue, as he said, which is capital and bad debts.

MR. TILSON: Yes.

MICK: [And they are both ...] And they are both inextricably linked?

MR. TILSON: They are.

How come that senior people in Bank of Ireland, on the morning of the guarantee, were talking about the issue that this wasn't dealing with the real issue, which is capital and bad debts within the bank, but you as governor, as you mentioned earlier on, were not concerned about those two areas at that time?

Mr. Richard Burrows: If I've given you the impression that we weren't concerned about those issues, then I have, I have misled you. I refer to the fact that in July of that year, for example, the board took the decision that we should pass on our interim dividend and that was a very tangible expression of the fact that we were concerned about capital, we were concerned about worsening bad debts, but not at that point, to anything like the degree that subsequently transpired.

Deputy Pearse Doherty: Finally Mr. Burrows, on the night of the guarantee it has been suggested in the evidence here, through a note that Mr. Sheehy, I believe, dictated, but it's been suggested in evidence here that there was a draft statement prepared by Government which had an attestation from the Financial Regulator that all the financial institutions were solvent and the system was solvent, and that was deleted as a result of an intervention by AIB at that point in time. Were you familiar with that conversation? Can you recount to the committee your knowledge of issues around a statement in a draft guarantee of the financial institutions being solvent, and how it was led to be deleted?

Mr. Richard Burrows: Are you referring to a statement that was produced on the night of the guarantee?

Deputy Pearse Doherty: Yes. A draft statement that was going to contain a formula of words attesting to the solvency of the financial system and the financial institutions which was ... which AIB had raised concerns about.

Mr. Richard Burrows: Well, I can't comment on the particular draft press release because I don't have a recollection of it. And I can only speak from the point of view of Bank of Ireland. On the night of the guarantee, as far as we were concerned, we were an entirely solvent institution. Now we would admit that we had great concerns about liquidity for the reasons that I mentioned to you - the closing of the wholesale funding markets. But on the night of the guarantee, we had some 60 days at least of visibility in relation to our funding position, but at no time at that point were we concerned about solvency.

Deputy Pearse Doherty: Sorry, that was ... I appreciate that but that wasn't the question. The question I have for you is: were you party to any discussions in relation to a statement that Government were suggesting that would include a statement saying that the financial ... all the financial institutions were solvent and that AIB raised issues with this, and the statement was deleted?

Mr. Richard Burrows: I can't say that I was party to it but I'm quite sure that discussions would have come up about our view of solvency and I would have given the same answer as I have just given you in respect of Bank of Ireland, but we weren't part of a discussion about it.

Deputy Pearse Doherty: And did you only give ... did you only give a view in relation to the solvency of Bank of Ireland or did you offer a view in relation to the solvency of other financial institutions on that night?

Mr. Richard Burrows: The meeting was called because of the liquidity concerns that we had with respect to Anglo, and, as far I was concerned, that was the particular issue that triggered that meeting. It wasn't a question about the solvency of Anglo, although we may well have had our concerns about that, but that wasn't on the agenda nor was the question of solvency in relation to any other institution on our agenda that night.

Deputy Pearse Doherty: Is that a "No"? Just can I clarify if that was a "No"?

Chairman: Sure.

Deputy Pearse Doherty: So, is that a "No" to the question I asked, that you did not offer an opinion on the solvency of any other financial institution on the night?

Mr. Richard Burrows: To the best of my recollection ... recollection, that is the case.

Deputy Pearse Doherty: Thank you.

Chairman: Thank you very much, Deputy. Just on a related matter before I bring in Senator D'Arcy, Mr. Burrows. Earlier you stated that you were aware of the bank's position going into the meeting with the Government, i.e. Bank of Ireland's position, and you kind of made reference to it as well in your discussions there with Deputy Doherty. Could you please clarify this, as Mr. Goggin informed the committee that he was not aware of maturing borrowings, etc., within the bank in his earlier testimony to us? And ... we would hope that in your role as part-time chair, you're now indicating that you knew the position of the bank. How would the CEO maybe not have known about it? How do you reconcile that?

Mr. Richard Burrows: I can't reconcile it, Mr. Chairman, because the information that I

had would have come directly from the CEO. This was something on which I was briefed by the CEO on a very regular basis as you can imagine in the circumstances that pertained in those days. So, therefore, I was .. I was very well aware, as was he, of the maturity of wholesale funding, of our difficulty in terms of rolling over of wholesale funding, of the runway, as I referred to it earlier, that we had at any particular time so it was something which was absolutely necessary to know and I am mystified by his evidence. I can't explain it.

Chairman: And the call on subordinated debt and other matters. So you would have ... would there have been ... let's ... to kind of add a bit of imagery to it ... would there have been a desk or a table in Bank of Ireland that night where all these figures would have been there, or would there have been somebody in front of a computer running all these figures that would have had you informed going over to Government Buildings that night, as to what the extent of liability, exposure and so forth, that Bank of Ireland would be cognisant of in their engagement with Government that night?

Mr. Richard Burrows: I think, Mr. Chairman, that's overstating it to suggest there was somebody sort of having a kind of a war room and a plotter, but we were well aware on a daily basis of just what was happening in respect of each of those items.

Chairman: And just to be on the record, are you saying there is an incongruence between what you are saying today and what Mr. Goggin said to us?

Mr. Richard Burrows: I'm saying that I'm mystified at his remark and I can't explain it.

Chairman: Thank you very much. Senator D'Arcy.

Senator Michael D'Arcy: Thank you, Chairman. Mr. Crowley, in the opening statement from Mr. Burrows, on page 2, strategy '01 to '06, strategy '02 to '07, strategy '03 to '08 - were they taken in your time as chairman of the board of directors?

Dr. Laurence Crowley: I haven't got-----

Mr. Richard Burrows: We've got them up here.

Senator Michael D'Arcy: Page 2 of the opening statement.

Dr. Laurence Crowley: Page 2 of the opening statement. I certainly should be able to find that. Is that the one I read out?

Senator Michael D'Arcy: No, it's Mr. Burrows opening statement. That is your opening statement.

Dr. Laurence Crowley: Yes, I have that now.

Mr. Richard Burrows: The opening statement as in the one I -----

Senator Michael D'Arcy: The full written copy.

Mr. Richard Burrows: The one which was supplied to the inquiry? Here we go.

Senator Michael D'Arcy: Strategy '01 to '06 presented by Maurice Keane in October '01, strategy '0-----

Dr. Laurence Crowley: What page-----

NEXUS PHASE

Senator Michael D’Arcy: Strategy ‘02 to ‘07, as presented by Michael Soden, October ‘02. And then ‘03 to ‘08 strategy presented October ‘03. Were you chairman of Bank of Ireland or governor of the board at that stage?

Dr. Laurence Crowley: What was the date?

Senator Michael D’Arcy: October ‘01, October ‘02 and October ‘03.

Dr. Laurence Crowley: I was governor until July ‘03 ... ‘05, I’m sorry, ‘05.

Senator Michael D’Arcy: So is it the case that you were the governor during these periods when these strategies were formalised?

Dr. Laurence Crowley: That these challenges ... where are the challenges?

Senator Michael D’Arcy: These strategies.

Dr. Laurence Crowley: Strategy ... strategy. I’m not clear.

Senator Michael D’Arcy: Yes, there was the CEOs made a presentation to the board in October ‘01, October ‘02-----

Dr. Laurence Crowley: And where’s ‘01? That’s the strategy 2001-2006 presented by Maurice Keane. And the question you’re asking me is?

Senator Michael D’Arcy: Yes. Were you the governor of the board?

Dr. Laurence Crowley: Yes is the answer to that.

Senator Michael D’Arcy: During those three strategies.

Dr. Laurence Crowley: I was.

Senator Michael D’Arcy: You were. And does the board take ownership of those strategies?

Dr. Laurence Crowley: I would assume so, yes.

Senator Michael D’Arcy: And Mr. Burrows, you were deputy governor?

Mr. Richard Burrows: Yes, for part of that period.

Senator Michael D’Arcy: And does the board take ownership of those strategies?

Mr. Richard Burrows: Of course.

Senator Michael D’Arcy: And the growth, the level of growth from ‘01 to ‘08 was, for Bank of Ireland, 30% of the balance sheet. Do you take ownership of those ... of that also?

Mr. Richard Burrows: Well, I’m taking ... it’s your figure, but, yes ... I mean, obviously.

Senator Michael D’Arcy: The rate of growth - did that rate of growth ultimately lead to the downfall of Bank of Ireland?

Mr. Richard Burrows: You’re asking the question to me. I don’t believe so. I think the rate of growth was occasioned by the very fast economic growth in the markets in which we

were participating, namely, in Ireland and in the UK. Where we got it wrong, of course, was that we were fuelling the growth of the balance sheet by over-reliance on wholesale funding and that was something that I referred to in my opening remarks.

Senator Michael D’Arcy: Yes. Did your strategy not move away from a previous strategy in terms of deposit ratios versus lending, which were much more stable than the wholesale ... the dependence on the wholesale markets? And that was the strategy of the board?

Mr. Richard Burrows: Yes, it did. The strategy changed. As we referred to it earlier, the strategy presented by Mr. Soden when ... after he had been recruited, was for much more ambitious growth than had been the case before and so therefore there was a step change, and that was in response to a feeling that Bank of Ireland was underperforming in terms of the expectations of our shareholders and that’s why that strategy was developed and pursued.

Senator Michael D’Arcy: Have you read Simon Carswell’s book, *Anglo Republic*?

Mr. Richard Burrows: No, I haven’t.

Senator Michael D’Arcy: You haven’t. Mr. Carswell was here previously. He gave evidence. And part of that evidence that I put to him was a quotation attributed to Mr. Soden that ... it was page 55, that if a liquidity crisis occurs, that Anglo were gone. So Mr. Soden certainly must have known something about liquidity. And could you comment on the fact that Mr. Soden commented upon liquidity for Anglo and you continued down the path of wholesale equip ... or wholesale bank lending?

Chairman: Could you just give us an indication of the timeline you’re referring to there?

Senator Michael D’Arcy: Well, Mr. Soden left Bank of Ireland in May 2004, so it was during Mr. Crowley’s period as governor and yourself, Mr. Burrows, as deputy governor. Did Mr. Soden ever mention anything about liquidity to the board, Mr. Burrows, during your time on the board, that liquidity could be ... potentially become a problem if there was a liquidity crisis?

Mr. Richard Burrows: My recollection is that he did not draw our specific attention to a risk on liquidity. Of course, liquidity was something which he would, as chief executive, have been continuously reporting on to the board. So it would have been a natural topic at probably every board meeting, which we would have discussed but I can’t recall any warning in the way that you’re phrasing it.

Senator Michael D’Arcy: And in terms of the ‘01 to ‘05 period ... and the reason I’m questioning you in relation to this period is because Mr. Buckley, CEO of AIB, when he gave evidence, also was satisfied ... and I’m going to read the quotation to you, Mr. Burrows, that ... I questioned Mr. Sheehy and I said to him, “Mr. Sheehy, you made the point that the bank took too much risk [in that ‘01 to ‘05 period.]” And Mr. Sheehy said, “I did yes.” I put the same question to Mr. Buckley: “Did the bank take too much risk in your time [the ‘01 to ‘05 period]?” And Mr. Buckley’s answer was, “No. In my view.” Can I ask you, Mr. Burrows, did the bank take too much risk in the ‘01 to ‘05 period?

Mr. Richard Burrows: The fact of the matter is that Bank of Ireland found itself, in 2008, in a very difficult situation and as I explained earlier in relation to the-----

Senator Michael D’Arcy: I’m asking about the ‘01 to ‘05 period.

Mr. Richard Burrows: Yes, I’m going to get to that in a moment. In relation to the prop-

erty lending, that was the big factor that caused us enormous difficulty within Bank of Ireland, which required the Government intervention that we did get. The fact is that that lending, not all of it would have been put in place in 2008 or anything like that. It would have been something that would have been built up over the period of time, probably from 2001, because the nature of this lending is that it's going to be there for some time. So there would have been a build-up of lending through the period that you're referring to and the progression would have continued beyond 2005. So I don't know whether that answers your question or not but-----

Senator Michael D'Arcy: Not really. Senator Barrett made the point about a substantial increase in residential investment property risk doubling ... or investment doubling over a 15-month period. Mr. Burrows, you said that risk should have been the fundamental driver of strategy, this morning.

Mr. Richard Burrows: Yes.

Senator Michael D'Arcy: At what stage did you ... at what stage did you realise that that should have been in place prior to your leaving the bank, or did you?

Mr. Richard Burrows: I think I had a growing realisation about that through 2008.

Senator Michael D'Arcy: Can I ask Mr. Burrows also-----

Chairman: Ask the question now, Senator.

Senator Michael D'Arcy: Well ... can I ask Mr. Burrows, in terms of the ... there's seems to be a conflict of evidence between yourself and Mr. Goggin. Mr. Goggin also stated to the committee that it was ... he met with the Central Bank on the morning, the Monday morning, the 29th, and he was asked would he consider ... would Bank of Ireland consider taking over IL&P. Were you aware of that request by the Central Bank on that morning, during that day?

Mr. Richard Burrows: Yes, he made me aware of that.

Senator Michael D'Arcy: You were. Okay. In terms of your conversation subsequently with Governor Hurley ... and the term that Mr. Goggin used was "virtually certain" that Anglo would default the next day.

Mr. Richard Burrows: What was the term used?

Senator Michael D'Arcy: "Virtually certain".

Mr. Richard Burrows: That was Mr. Goggin's term.

Senator Michael D'Arcy: That was the term that he used, yes.

Chairman: In his testimony before this inquiry.

Senator Michael D'Arcy: Yes. Yes.

Mr. Richard Burrows: At what point?

Senator Michael D'Arcy: On the day of Monday, the 29th.

Mr. Richard Burrows: Yes.

Senator Michael D'Arcy: That the next morning ... the next day it was virtually certain

that Anglo Irish Bank would default.

Mr. Richard Burrows: Correct.

Senator Michael D’Arcy: Were you aware that Anglo Irish Bank were also virtually certain to default or was that term used with you by Mr. Goggin?

Mr. Richard Burrows: I was completely aware, because I refer to the fact that we had a visit from the chairman and chief executive of Anglo, who had their hands in the air - they were in serious trouble. And it was perfectly obvious from what they were saying that they were in imminent danger of collapse the following morning.

Senator Michael D’Arcy: And my final question to you, Mr. Burrows: there was a meeting between AIB and Bank of Ireland organised - who instigated that meeting?

Mr. Richard Burrows: We did.

Senator Michael D’Arcy: You did.

Mr. Richard Burrows: Are you talking about on the 29th?

Senator Michael D’Arcy: Yes.

Mr. Richard Burrows: Yes.

Senator Michael D’Arcy: When you went to Government Buildings.

Mr. Richard Burrows: Correct.

Senator Michael D’Arcy: And you understood, from what you’ve given evidence this morning, that there would be a six-bank guarantee. Did you speak with AIB officials? There was only four of you between both sides. Did you speak with them? Did you discuss the matter of the six-bank guarantee or the four-bank guarantee, because also, in previous evidence, AIB officials told us they understood it was a four-bank guarantee?

Mr. Richard Burrows: I think I’m going to repeat what I’ve already said, but going into that meeting, which-----

Senator Michael D’Arcy: Subsequent to the meeting, after your being informed that it would be a six-bank guarantee, did you have a conversation with AIB after you were informed by Government officials that it was a six-bank guarantee?

Mr. Richard Burrows: We were all informed at the same time in the same meeting.

Senator Michael D’Arcy: Yes. But I’m asking did you discuss that with AIB afterwards?

Chairman: You’re over time now, Senator.

Mr. Richard Burrows: No, we went home. We-----

Senator Michael D’Arcy: You didn’t discuss it at all?

Mr. Richard Burrows: It was the middle of the night. We didn’t discuss anything further. Once the position had been outlined to us as to what was going to happen-----

NEXUS PHASE

Senator Michael D’Arcy: And finally-----

Mr. Richard Burrows: -----we went home.

Senator Michael D’Arcy: Okay. And finally, can you understand how people who were at the same meeting as you took a different view? I think it’s a fair question, Chairman.

Mr. Richard Burrows: Look, I can only remember what I can remember, and I’m pretty clear about it. If other people have a different recollection then you should ask them.

Chairman: Can you just clarify now the situation, Mr. Burrows - over the course of the whole evening in Government Buildings, were AIB and yourselves in the same room or in separate rooms?

Mr. Richard Burrows: In the same room.

Chairman: You were in the same room all evening?

Mr. Richard Burrows: Yes.

Chairman: And ... with the Government joining you at different stages during the evening?

Mr. Richard Burrows: Well, the other way around. With us going-----

Chairman: Yes, I-----

Mr. Richard Burrows: -----called into Government.

Chairman: Okay so you were collectively together and then you left at the end of that?

Mr. Richard Burrows: Correct.

Chairman: Okay, thank you. Deputy Joe Higgins. Ten minutes.

Deputy Joe Higgins: Yes, thank you. Mr. Burrows it is long considered that a prudent loan-to-deposit ratio for banks should be of the order of 120% or lower. Why was this target so severely breached in the ... up to 2008, when it reached 176%?

Mr. Richard Burrows: My answer to that is that it was the availability of wholesale funding which largely replaced the reliance on deposits which had been there before. And this was not a situation which was peculiar to Bank of Ireland, this was something which was happening, not just in Ireland but right across the euro-land as banks were availing of wholesale funding in order to engage in their business of lending.

Deputy Joe Higgins: Mr. Burrows, witnesses from Bank of Ireland have fairly consistently, some people might feel, have tried to diminish the extent of the losses or the mistakes by reference to competitors who fared much worse in the crash. Is that what you have just done now again?

Mr. Richard Burrows: I don’t think I made any reference to competitors, I simply said that wholesale funding was something which banks were generally availing of, as we were.

Deputy Joe Higgins: And was that a factor generally that led to so much crisis around the world?

Mr. Richard Burrows: Undoubtedly. As I said in my opening statement, one of the big factors was the drying up of wholesale markets in light of the collapse of Lehman Brothers, but there were many other financial institutions which came down in that period. And that led to a closing of the wholesale markets which meant that that liquidity which had been available, was no longer available. And that was what happened to us and I guess by extension it happened to quite a lot of others too.

Deputy Joe Higgins: But does that beg the question Mr. Burrows whether ... was it appropriate to have reached that huge level of 176%? Was that appropriate?

Mr. Richard Burrows: With the benefit of hindsight, it was not.

Deputy Joe Higgins: But the bank ... can you explain why the bank and, apparently from the documentation we have, your advisers at the time didn't see the danger that was looming here? Can you explain why that was the case?

Mr. Richard Burrows: No, I can't explain. I'm not sure which advisers you are referring to, but I can't explain why somebody didn't see the problem. We didn't see the problem, I take my share of responsibility for that. We had over-reliance on wholesale funding, as evidenced by the numbers which we have been quoting and we make no bones about that.

Deputy Joe Higgins: The Governor of the Central Bank, Patrick Honohan, said in an article, summer 2009, in *The Economic and Social Review*:

A very simple warning sign used by most regulators to identify a bank exposed to increased risk is rapid balance sheet growth. An annual real growth rate of 20% is often taken as the trigger.

And that growth rate and greater would have been appropriate or what Bank of Ireland recorded 2004, 2005, 2006. Were you not aware of the danger of growth levels of that magnitude?

Mr. Richard Burrows: We weren't. We weren't paying attention to the risk that attached to those growth levels, and bear in mind, what I said in my opening remarks which was that we were operating in an economy which was itself growing very quickly. We were operating in a situation of rising employment, rising population and a huge demand for housing. That was what was occasioning the opportunity to grow the size of the balance sheet.

Deputy Joe Higgins: Yes, but the economy wasn't growing by anything like 20%, Mr. Burrows.

Mr. Richard Burrows: No, of course not. But when you bring it back down to the precise instruments, the lending instruments that we were engaged in, that is what produced the growth rate.

Deputy Joe Higgins: A former US regulator, Bill Black, gave evidence to the inquiry, are you familiar with Mr. Black?

Mr. Richard Burrows: I'm not.

Deputy Joe Higgins: Okay. Mr. Black, who was a regulator and has a huge amount of experience in regulation and in dealing with bank crashes from the late 1980s and 1990s on, but he said a number of ingredients could be guaranteed in a banking system to cause catastrophic losses. Among those is grow like crazy, make terrible quality loans and employ extreme leverage.

He said that these ingredients would inevitably lead to record profits. He further said, “Under modern executive compensation the senior leadership [of the banks, that is] will promptly be made wealthy”, and then it will result in catastrophic losses. Do you recognise Bank of Ireland in that scenario which Mr. Black outlines?

Mr. Richard Burrows: I think he’s saying, in more colourful language, what I said in my opening remarks.

Deputy Joe Higgins: But Mr. Black and others would have been warning about this for even decades previous to what happened in Ireland. How come, Bank of Ireland, with the huge resources, research capacity, etc., wouldn’t be aware of the dangers of this excessive drive for growth?

Mr. Richard Burrows: Well, I can only go back Deputy to the process we engaged in in 2005-06 where in questioning the sense of our own strategy we brought in quite a number of different advisers to talk to us about these very things. And, I have to tell you, and I haven’t got the full list of people that we brought in, but we had a very eminent range of advisers coming to talk to us and they did not point to the particular point that you are now talking about, and we didn’t have Mr. Black either.

Deputy Joe Higgins: Mr. Burrows, Mr. Black’s implication is that a drive, a greed for profit has led many banks to perdition and also huge remuneration for bank leadership like chairpeople and CEOs. Was greed for profit a factor in the huge drive for growth and in the downfall then of Bank of Ireland?

Mr. Richard Burrows: If I go back to the strategy which we talked about earlier, identified by Mr. Soden, that was, as we have described it, an aggressive strategy to grow the business of Bank of Ireland. That was something which our shareholders were expecting us to do. In fact, as I mentioned to you earlier, the rate of growth within Bank of Ireland was causing us to be rated less by the market than our peer group, which was cutting off certain options from us. So there was built into what we were doing, a need for us to grow the business. And by growing the business that meant, in banking terms of course, growing the balance sheet and thereby growing the profit and loss account.

Deputy Joe Higgins: Yes but-----

Mr. Richard Burrows: Those were things which were fundamental to the strategy.

Deputy Joe Higgins: The peer group that you were trying to emulate, Mr. Burrows-----

Chairman: Time.

Deputy Joe Higgins: -----as we know, finished in disaster many of them. Therefore, is it a defence of any kind by Bank of Ireland to say, “We had to emulate these in a rush for profit”?

Mr. Richard Burrows: Deputy, I’m not offering any of these remarks as a defence, I think I have been as open as I can be about the mistakes which we made and the pitfalls which we overcame. So I am not offering it as a defence, I am simply offering it as, to the best of my recollection, the explanation of what happened.

Deputy Joe Higgins: A witness to the inquiry Mr. Burrows, David McWilliams, in a “Prime Time” interview in October 2003 said the following-----

Chairman: Final question now, Deputy.

Deputy Joe Higgins: -----said the following:

The Irish housing market is a scam. It is an enormous financial swindle that could potentially confine an entire generation of young Irish workers to years of bad debt. Far from being a reflection of economic vitality and fundamental demand the housing bubble is, in the main, a vacuous financial confidence trick that has been foisted on us by an alliance of banks and landowners.

Today, in Ireland, the price of the average house is close to ten times the average wage. This represents an economic failure on the monumental scale. Behind this nonsense is excessive and irresponsible lending from our financial institutions. The situation would be laughable if it were not so serious.

In 2003, a full four or five years before the bubble finally burst, did Mr. McWilliams get it absolutely right, and should Bank of Ireland and other banks not have seen the same factors?

Chairman: Final question now, that's it, Deputy, thank you. Mr. Burrows.

Mr. Richard Burrows: I can only reiterate what I've said which was that we took the best advice that we could find when fashioning our strategy and we acted on that.

Deputy Joe Higgins: Just the very last question. It's noted in the core documents BOI - B1 - you don't need to go there, Mr. Burrows - page 73 to 93, just a general observation that the quality of management information reports and data available to board members may not have been as strong as they should have been. Do you think the directors were aware of this and do they accept deficiencies in management information systems?

Mr. Richard Burrows: I think with the benefit of hindsight again, it is pretty obvious that in the run-up to 2008 there could have been better reporting to the board. However, I have to tell you that, as a board, we were entirely satisfied with what we were getting. At times there were calls from the board to management for additional information, for reports on various things, but there was not a level of dissatisfaction at all at that time. Now subsequently, of course ... the reporting has been moderated or modified. I haven't been involved since 2009 so I can't comment on it today. But that's what I would expect, that after the horse has bolted you slam the stable door and ... and you improve the processes that you have. But at the time, as far as the board was concerned, I felt that we were getting the information that we required.

Chairman: Thank you very much, Deputy Higgins. Mr. Crowley, if I can just return to yourself for a moment and ask if it was Mr. Michael Soden who was the external CEO you referred to earlier as moving the bank away from what had been considered the traditional banking model.

Dr. Laurence Crowley: I referred to that?

Chairman: Yes. Can I just get clarity on that? Was that what you indicated and said to the inquiry earlier?

Dr. Laurence Crowley: I'm not clear what the question was.

Chairman: Okay. Can I ask you ... and maybe put the question so to you to get clarity ...

can I confirm that Michael Soden was an external CEO to the bank?

Dr. Laurence Crowley: He joined us from another bank, National Australia, I think.

Chairman: Okay. And, as has been mentioned a couple of times this morning, Bank of Ireland is a bank that has been in existence for almost two centuries. Did you imply to the inquiry or give evidence to the inquiry that ... you are saying that Mr. Soden reshaped the banking model that was being used by Bank of Ireland and moved it away from the traditional approach that it had?

Dr. Laurence Crowley: I don't think, Chairman, that anybody in the 260 odd years has reshaped the model of the Bank of Ireland. It is what it is. It's ... of course changes are brought in, moving with the times in corporate governance and other areas, but the model ... and of course the market and technology bring in changes. But, otherwise, nobody has made fundamental changes.

Chairman: That would then bring me onto my next question, Mr. Crowley. As ... between 2001 and 2005 it would appear that the business model of the bank moved towards a more sales-orientated approach to its historical model. Would I be correct or incorrect in assuming that?

Dr. Laurence Crowley: Moved towards a?

Chairman: A more sales-orientated approach.

Dr. Laurence Crowley: Yes, that's not a change in culture-----

Chairman: Is it a change in practice?

Dr. Laurence Crowley: It's a change in emphasis.

Chairman: What's the difference?

Dr. Laurence Crowley: It-----

Chairman: What's the difference?

Dr. Laurence Crowley: Between culture and emphasis?

Chairman: On the balance sheet, what's the difference?

Dr. Laurence Crowley: There's no difference on the balance sheet. The culture isn't on the balance sheet.

Chairman: Okay, but does the culture not ... is the balance sheet not influencing the culture?

Dr. Laurence Crowley: Is the balance sheet?

Chairman: Not influencing the culture of the bank?

Dr. Laurence Crowley: I don't think so. I think the culture may be influencing the balance sheet.

Chairman: Well, let me give you one example of that so Mr. Crowley.

Dr. Laurence Crowley: Yes.

Chairman: Whether you felt it was ambitious ... or whether you felt the ambitious profit before tax and earnings per share growth levels targeted by Bank of Ireland in this period ... do you consider that was a mistake or not and did you feel it would continue to go well into the future and that there was no such risk in such a strategy?

Dr. Laurence Crowley: Well, a lot of opinion from the experts in the field of economics had predicted ... at the time predicted that this was a new phase in Ireland in terms of economic growth and they could see no particular end time to that.

Chairman: Okay. I don't ... I have you in the inquiry this morning, Mr. Crowley ... we can talk about experts and we've had plenty of them in before us. I'm asking you, did you see a risk in such a strategy?

Dr. Laurence Crowley: No, but it needed to be kept under control.

Chairman: You did not see such a risk in such a strategy?

Dr. Laurence Crowley: Not happening imminently.

Chairman: Okay. Thank you. Deputy Kieran O'Donnell.

Deputy Kieran O'Donnell: Thank you, Chairman. Mr. Burrows and Mr. Crowley, welcome. Can I go to document Bank of Ireland - Vol. 1, B2, and the page I'm looking at is page 89. It's effectively to do with stress testing. It's dated 3 April 2006, addressed to Mr. Liam Barron, who was with the Central Bank. And the question I suppose I want to ask is that your sensitivity analysis appears to have very much revolved around mortgages versus non-mortgages. Did ye look at different type of stress testing ... the correlation between property being ... the type of property, whether it was commercial development land, speculative landbanks, and how it was being financed? And when you're dealing with that, Mr. Burrows, could you also address that on page 90 you speak about the projected ... when you're looking at the general ... that your sensitivity analysis ... the projections assume capital raising in the years '06-'07, '07-'08 and '08-'09 of the order of about €4.3 billion. And you said ... if the funding was not raised with "Shock 1 Scenario" that you basically would just be meeting your minimum regulatory capital requirements. Did ye raise any of that money by way of capital? And, just the sensitivity analysis ... it doesn't appear to have gone into any great depth. And what type of reduction in falling property values did ye factor into your sensitivity analysis, in worst case scenario?

Mr. Richard Burrows: First of all, during that period we were heavily engaged in the implementation of the Basel II regulations, which were the new regulations that required us to have a different approach to assessing the amount of capital required to be appropriately capitalised for the business which we were doing. And in that ... in that calculation, the mortgage loans were actually the least risky under the Basel II methodology, whereas other loans carried various rates. So that would have been the background to a lot of the work which was being done in assessing the comparative risk of different elements of the balance sheet.

If I ... if I go to the second part of your question, we didn't raise fresh capital during the period but of course we were generating capital through the ordinary profit and loss of the ... of the business. That's the way businesses generally do generate capital where your ... you're earning profits after tax, you're paying part of that as dividend to your shareholders and the remainder you're adding to your capital base within the business. So when the profitability of the bank

improves, so also does your flow of fresh capital.

Deputy Kieran O'Donnell: I suppose reading the document, Mr. Burrows, the document speaks about fresh raising of capital and not about-----

Mr. Richard Burrows: We didn't engage in that.

Deputy Kieran O'Donnell: Okay, ye didn't. Why not?

Mr. Richard Burrows: We didn't deem it necessary.

Deputy Kieran O'Donnell: Okay. And what ... in the worst case scenarios, what level of ... of, we'll say, deterioration in the price of property would ye have looked at?

Mr. Richard Burrows: In stress testing, the ... I can't recall the exact assumptions that would have been made. But I can tell you in hindsight that they were clearly insufficient.

Deputy Kieran O'Donnell: Okay. And do you feel you stressed up across a number of ... broad range of the type of loans and also factoring in how you were financing it through increasingly wholesale funding?

Mr. Richard Burrows: Yes, I think that would have been very much part of the stress testing.

Deputy Kieran O'Donnell: Can I just go back on the area around the guarantee and I want to just go to Vol. 1, BOI ...1 ... CB ... C3b ... and, more particularly ... which is new evidence today, which is that you had a meeting with the former Governor of Central Bank, John Hurley, on the day before the guarantee. When did that meeting actually take place, Mr. Burrows?

Mr. Richard Burrows: It took place on the afternoon of that ... of that day.

Deputy Kieran O'Donnell: That was pre-arranged to look at-----

Mr. Richard Burrows: That had been pre-arranged.

Deputy Kieran O'Donnell: On the basis, you made reference in the documentation that it was about collateral from the ECB, the type of collateral. Did you have concerns around liquidity, was that the reason for the meeting?

Mr. Richard Burrows: No. This was part of a continuing discussion which we were having with the Central Bank in relation to the very point that I was talking about before and the need for us to be able to collateralise our balance sheet, and therefore avail of funding from the ECB. What we were concerned about was that we would have the support of the Central Bank in making sure that that was going to continue to be available to us.

Deputy Kieran O'Donnell: Mr. Hurley, in his note to you, page 4 of this document, says that he had done all he could to achieve a change in the ECB rules. The question is had you problems with liquidity, was that the specific reason for that particular meeting with Mr. Hurley?

Mr. Richard Burrows: It was not the reason for that particular meeting but at that time, as I have already said, we were having difficulties with liquidity.

Deputy Kieran O'Donnell: When you broached the issue of Anglo with Mr. Hurley, can you just give me what his response was and how did you view his response?

Mr. Richard Burrows: I cannot give you in precise terms, but I know that my impression was that he was surprised at the information that I gave him that we'd had this call and this visit by the chairman and chief executive of Anglo and the state of desperation which they had reached on that morning.

Deputy Kieran O'Donnell: Had he any knowledge of the Anglo situation?

Mr. Richard Burrows: I cannot tell you whether he had or not, he did not tell me whether he had or not.

Deputy Kieran O'Donnell: What exactly did he tell you, Mr. Burrows?

Mr. Richard Burrows: What he told me was, when I asked what was he going to do about it, he said there was nothing that he could do and that we should take the matter to Government.

Deputy Kieran O'Donnell: When he said there was nothing he could do, why did he say there was nothing he could do?

Mr. Richard Burrows: I presume because that's what his situation was, I can't get into his head.

Deputy Kieran O'Donnell: So were you surprised with the response, Mr. Burrows?

Mr. Richard Burrows: I was surprised, yes.

Deputy Kieran O'Donnell: Do you think that, in your view, what else could have been discussed with Mr. Hurley that Mr. Hurley could have ... what approach would you have expected Mr. Hurley to proceed with?

Mr. Richard Burrows: Well, we were looking at a situation which I felt was extremely serious, not just for Bank of Ireland but for the Irish banking establishment as a whole. Therefore, I felt that remedial action of some kind was going to be necessary. I was not sure what to expect frankly. But when I got the response that I got, and the recommendation from Mr. Hurley that we should talk to Government, that's what we determined we should do.

Deputy Kieran O'Donnell: That's what triggered your approach to Government?

Mr. Richard Burrows: Correct.

Deputy Kieran O'Donnell: And your approach to AIB?

Mr. Richard Burrows: Correct.

Deputy Kieran O'Donnell: Can I just go to the minutes of 29 September, page 19. These minutes were prepared by an L. Clooney. Can you just clarify one thing for me, would these minutes have been circulated Mr. Burrows?

Mr. Richard Burrows: Let me just get out the document.

Deputy Kieran O'Donnell: Page 19. What I am more interested in Mr. Burrows, is paragraph 3 - Government Guarantee and AOB, any other business. So the question is would these minutes have been circulated?

NEXUS PHASE

Mr. Richard Burrows: I am sure they would have been circulated to the people who were at the meeting. They certainly were not circulated to me.

Deputy Kieran O'Donnell: They were not circulated to you. Even though you were at the meeting?

Mr. Richard Burrows: Sorry. Maybe I am looking at the wrong meeting then. What meeting are you referring to?

Deputy Kieran O'Donnell: 29th. Sorry, you weren't present at that meeting.

Mr. Richard Burrows: No, I wasn't present at that meeting.

Deputy Kieran O'Donnell: So you wouldn't have been circulated then with that.

Mr. Richard Burrows: No.

Deputy Kieran O'Donnell: Okay. You are of the view there was no guarantee, any form of draft guarantee, provided by Bank of Ireland to, even though in the minutes here they state that, "The committee prepared a draft of such a guarantee and the list of institutions that it should cover for use by BJG [Brian Goggin] in his meeting later than evening."

Mr. Richard Burrows: As I-----

Deputy Kieran O'Donnell: I suppose, in the last minute I have, you believe there was no guarantee, you took no guarantee of any form, any outline guarantee to Government on the night?

Mr. Richard Burrows: No we didn't.

Deputy Kieran O'Donnell: Your recollection is, Mr. Goggin was in before us, he said that Bank of Ireland looked for a guarantee for subordinated debt. Your recollection is that was not the case.

Mr. Richard Burrows: That is my recollection.

Deputy Kieran O'Donnell: No discussion whatsoever on it?

Mr. Richard Burrows: That night. Yes that is my recollection.

Deputy Kieran O'Donnell: Finally, Mr. Goggin informed us that he had no idea of what the exposure was for the bank. You would take issue with that?

Mr. Richard Burrows: As I explained earlier, I thought I had a pretty good picture of what our exposures were and the source of my information was Mr. Goggin.

Deputy Kieran O'Donnell: Finally, my last question, do you believe Mr. Burrows, on the night of the guarantee, was Anglo Irish and Irish Nationwide Building Society, were they solvent or insolvent?

Mr. Richard Burrows: I have no idea.

Chairman: Just in general, Mr. Burrows, in your experience with minutes of meetings, generally accurate at Bank of Ireland?

Mr. Richard Burrows: Yes they were.

Chairman: Okay, thank you. I want to move on to the issue of Project Atlas for a moment there with you, Mr. Burrows. It will just be coming up on the screen there in a moment. This was during your tenure. The Project Atlas report in summary would demonstrate that large exposures and mothballing of developments and landbanks were highlighted in this report. It shows them as issues for Bank of Ireland, showing that the ongoing need for the bank to support such clients in the face of loan to values, interest roll-over and availability of further security. What is your view on PwC's output on this? Would you agree with that?

Mr. Richard Burrows: I think they did a forensic job at the time. It was a matter of opinion, of course, as to what value you could attribute to any particular security, because the market was effectively closed. I think they made a reasonable attempt at it.

Chairman: Would it be fair or not to say that was a two-sided coin? That when you were actually issued-----

Mr. Richard Burrows: I beg your pardon?

Chairman: Would it be fair or not to say that was a two-sided coin? That when the loans were actually being issued in the first instance, it was a very subjective valuation process as well.

Mr. Richard Burrows: Well it always is a subjective process, except when the loans were issued, there was a free market operating. Properties were being bought and sold, landbanks were being bought and sold, there was a determination of what market value was. In the period that we are referring to here, that market had pretty well come to a complete halt. Therefore, it was extremely difficult, I think, to try and assign value in those circumstances.

Chairman: When Mr. Daly was before the inquiry a number of weeks ago, I can pull up his speech and all the rest of it, but just a general summary of what he was making. This is the CEO of NAMA, the biggest real estate agency in the world or asset management agency on the planet. What he was saying is that the model was simply like this, is that a developer or builder would come along, they would get a loan from an institution to develop a project, equity would grow in that project during its lifetime, the builder would go for another loan and because of the equity that was in the existing or the previous loan was providing equity to the new loan, there were 100% loans being more or less given out, because of this notional equity that was inside there. The compound outcome of this practice, of loan upon loan, upon equity growing in the previous loan, upon the previous loan, was this not the inevitable outcome of it?

Mr. Richard Burrows: I think the reason for the property collapse was not due to that. The reason for the property collapse was because the market dried up, because funding was no longer available and transactions could no longer be done. As to the issue of how individual developers established their own equity, that's a subjective manner.

Chairman: Is there not an exposure issue here Mr. Burrows, in that context? The concentration of exposures is an area of concern in PwC in this report, showing 39% of total land and development loans coming from the top 70 of loan and development loans in Bank of Ireland. Did this reflect the board's understanding of such exposures?

Mr. Richard Burrows: I don't think we learned anything new from the PwC report that we hadn't already been told internally.

Chairman: Okay, and what were you told internally?

Mr. Richard Burrows: Well, figures which would've confirmed that, but the difference being the valuation.

Chairman: Okay. And when the figures were told internally, what was the response?

Mr. Richard Burrows: Well at that stage, as I've said to you before, we were very much in survival mode. That was 2008. Things were extremely difficult.

Chairman: Okay. Mr. Boucher was on record here last week as believing that ultimately NAMA was a good idea and indeed, it was something that was a positive construction in regard to getting the property market and all the land sector back into gear. Would you concur or not with that view?

Mr. Richard Burrows: I would, Chairman. And as I said in my opening remarks, I think it was a very important element of the comprehensive approach that Government took to resolving the problem of the Irish banks and it couldn't have worked without NAMA because banks like Bank of Ireland would have been unable to raise fresh capital unless they had been able to transfer the suspect loans in relation to property off their balance sheet. That brought certainty to any new investor and absent that, you wouldn't have people prepared to put money into a bank.

Chairman: Okay, thank you, Mr. Burrows. Senator O'Keeffe, ten minutes.

Senator Susan O'Keeffe: Thank you, Chair. Mr. Crowley, in the remuneration report for the Bank of Ireland in 2001- 2002, it says you were paid €247,000 for your role as governor. Is that correct?

Dr. Laurence Crowley: I don't recall it but I'm sure-----

Senator Susan O'Keeffe: If it's in here ... it's okay. Mr. Burrows, equally, in 2005-06, it says you were paid €336,000. That's correct?

Mr. Richard Burrows: I'm sure it is.

Senator Susan O'Keeffe: Yes. And again in 2009, €503,000 for your role as governor?

Mr. Richard Burrows: I'm sure, yes.

Senator Susan O'Keeffe: Yes. Earlier on, Mr. Burrows, you expressed regret for needing support of taxpayers ... that the bank had required that. Would you go as far as to say that ... is that an apology?

Mr. Richard Burrows: I was very clear at the time, as I recall in my opening remarks, that I had apologised very comprehensively to shareholders, to people within Bank of Ireland and I had ... and also to the Irish taxpayer. And again, I put on record at that time, our appreciation of what Government had done in relation to the elements that I've described earlier.

Senator Susan O'Keeffe: You were asked earlier today about the Morgan Kelly viewpoint at the time and I hope my note is accurate, you said it was "an interesting angle ... but the weight of opinion was ... in [the opposite] direction, and that's what we listened to." And I suppose we've had a lot of football analogies, I wondered if perhaps in a sailing analogy, that if you were on board your yacht and the sun was shining and it was a lovely afternoon and you were

drinking a cup of tea and someone came up and ... one of your crew, and said, "There's a storm brewing, Mr. Burrows. You know, I think there might be trouble. You know, we need to ..." I mean, what would your response be? Because, effectively, Mr. Kelly was doing that ... he was saying, "There's a storm brewing."

Mr. Richard Burrows: My response would be to get on to Met Éireann and check the weather report-----

Senator Susan O'Keeffe: Yes.

Mr. Richard Burrows: -----and see whether that was correct or not.

Senator Susan O'Keeffe: Yes, so, when Mr. Kelly gave his view that was opposite to what the prevailing views were, what was your response?

Mr. Richard Burrows: Just the same. We checked his view against the other views which we were able to access.

Senator Susan O'Keeffe: Although there were plenty of other views, I mean, the IMF, the Central Bank ... there were lots of ... the OECD ... there were lots of other reports where, even though there were some, if you like, comfort in them, there were also lots of people saying, in between, "Look, there are problems. And if certain things happen, there may be trouble." So I'm just wondering why more attention might not have been paid to those remarks? Because if you go back and look, they're there, very readily to be seen.

Mr. Richard Burrows: I think with hindsight, Senator, I would agree with you. We should've paid more attention. The fact is that we took the opinion of a lot of other experts and decided that that was what we should listen to.

Senator Susan O'Keeffe: Okay. On page ... 11, I beg your pardon, of Mr. Boucher's testimony here to this ... he was asked if "there was an appropriate level of reporting to the board on the concentration risk being faced by Bank of Ireland?" And Mr. Boucher said, "No, there was not." And he reiterated that. And then he went on to say:

If I look now at the level of reporting, understanding that the board has, of credit risk development, concentration risks, a wide range of risks ... if I compare our ICAAP document of 2013 ... to what was provided in the past in the board, 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.

What would you say about that observation that Mr. Boucher made?

Mr. Richard Burrows: I would say that I would share that observation and bear in mind that Mr. Boucher, both in 2013 and earlier, was a member of the board.

Senator Susan O'Keeffe: Yes.

Mr. Richard Burrows: So, therefore-----

Senator Susan O'Keeffe: As you were.

Mr. Richard Burrows: As I was, yes, and I'm talking about myself. But the fact of the matter is, as I have said, with hindsight, we would've done things differently. We would've looked for more information and it seems to me to be entirely consistent that Mr. Boucher is

reporting on a situation where, in the aftermath of what happened in 2008-09, the bank has substantially changed its reporting procedures and structures. And I think that's wise. And I'm sure he's right to have done that.

Senator Susan O'Keeffe: There were a lot of senior business people around that table ... in your court. There were a lot of obviously very experienced bankers working for the Bank of Ireland and yet, between all of you, it's only now with hindsight that you can see what was wrong. How could that be? Given the level of experience ... given the level of business acumen at the table, indeed yourself, Mr. Burrows, appointed, I'm assuming, for that reason ... you know, how come everybody didn't see what was going on at the time?

Mr. Richard Burrows: I think, Senator, we did see in 2008, we started to realise, but by then, our opportunity to change course and do something about the situation was a bit late. So it isn't as if this burst upon us completely afresh, it was something as a growing problem of which we were aware in 2007- 2008, which crystallised in 2008-2009.

Senator Susan O'Keeffe: You said earlier, when you were talking about the night of the guarantee, you said, "No [it wasn't about the four or six-bank guarantee, it was all about resolving the Anglo crisis]" Is that correct?

Mr. Richard Burrows: That's what we went to Government-----

Senator Susan O'Keeffe: Correct.

Mr. Richard Burrows: -----about.

Senator Susan O'Keeffe: Now, you had ... in early September there'd been a meeting about INBS and on that ... and on the 29th you'd had a meeting about Irish Life & Permanent. So now there were three, if you like ... there were three institutions that were obviously stressed. Why is it then that on that night, there was only one that came to the fore? What ... where ... I mean, clearly there were three that were struggling.

Mr. Richard Burrows: The issue that we talked about on that night was a liquidity issue which Anglo faced, which the chairman and chief executive made us aware of on that Monday and that's what was different about them.

Senator Susan O'Keeffe: Do you know why Anglo Irish did not go in to see Government?

Mr. Richard Burrows: I've no idea.

Senator Susan O'Keeffe: Did you suggest that they might?

Mr. Richard Burrows: No, I didn't.

Senator Susan O'Keeffe: And they didn't say they were going to go themselves?

Mr. Richard Burrows: No, they didn't.

Senator Susan O'Keeffe: The testimony that Mr. Boucher gave here about the weekend of 7 September, and that was the time when he sat down with a colleague and AIB to look at INBS, you will recall this.

Mr. Richard Burrows: I remember the note, yes.

JOINT COMMITTEE OF INQUIRY INTO THE BANKING CRISIS

Senator Susan O’Keeffe: Yes. Now, there was ... I believe that there was a meeting of the court of directors after that to discuss what had been found. Do you-----

Mr. Richard Burrows: I don’t recall that, but go ahead.

Senator Susan O’Keeffe: Okay, right. So ... I have the minute of it and the reference is BOI 02010. And it says that a liability review of INBS had been carried out, that there was a funding gap of €4 billion and that a summary balance sheet for INBS was provided to illustrate this point.

Mr. Richard Burrows: Mm hm.

Senator Susan O’Keeffe: Now this meeting was attended by yourself, Mr. Goggin, Mr. Boucher, David Dilger, Heather Ann McSharry, Mr. Kennedy, Mr. McCourt ... basically it was a court meeting-----

Mr. Richard Burrows: Yes.

Senator Susan O’Keeffe: It was an emergency meeting because it was a Sunday.

Mr. Richard Burrows: Yes.

Senator Susan O’Keeffe: So you were all very concerned at that point.

Mr. Richard Burrows: Yes.

Senator Susan O’Keeffe: So can you tell us ... that happened on 7 September. Why was it then that there was radio silence between 7 September and thereafter about INBS, given where you ... what you were thinking of at this point?

Mr. Richard Burrows: Well it wasn’t ... it wasn’t a matter of our stewardship and it wasn’t a matter of our management. The problem that you’re referring to was something which was dealt with ... being dealt with, as I understood it, by the Central Bank ... with them. And that’s how we came to come into it. Having been asked to come into it, we decided that there was nothing we could do and that was the end of it, as far as we were concerned.

Senator Susan O’Keeffe: It says at the end the governor and the group chief executive should then assess whether to directly approach the Government to convey the group’s assessment of the situation and explain the reasons why Bank of Ireland couldn’t accede to the Financial Regulator’s request. Did you do that?

Mr. Richard Burrows: No.

Senator Susan O’Keeffe: Did you approach the Government?

Mr. Richard Burrows: I didn’t, no.

Senator Susan O’Keeffe: Why was that?

Mr. Richard Burrows: We didn’t feel it necessary. And I can only assume that that was because of continuing discussions which were taking place.

Senator Susan O’Keeffe: Even though there was funding gap of €4 billion and you’d been asked-----

Mr. Richard Burrows: Even though----

Senator Susan O’Keeffe: -----to rescue it?

Mr. Richard Burrows: ---yes.

Senator Susan O’Keeffe: So, you’d been asked to rescue it, and you didn’t then go back to Government and say, “We’re not going to rescue it”. You didn’t think that was appropriate.

Mr. Richard Burrows: Our position had been made very clear to the Central Bank, which was the intermediary in all of this.

Senator Susan O’Keeffe: Okay. When Mr. Boucher was here, he gave us a document called Financial Market Development and Scenarios, exhibit B3, and, in this document, which was given to the court, and he said himself on page 11 of his own testimony, that this document was written, he wasn’t quite sure, but it was either the first or the second week of September. It was a fairly comprehensive document, in which discussed and laid out available management actions. Are you familiar with this document?

Mr. Richard Burrows: Yes.

Senator Susan O’Keeffe: And one of the available management actions, in the long list, capital raising, to have a rights issue, a one-for-two rights issue at about 40% discount, would raise €1.7 billion post-transaction costs, and add 1.4% to equity tier 1 ratio at March ‘09. Obviously, things ... this is a serious option, was it pursued?

Mr. Richard Burrows: No, it wasn’t.

Senator Susan O’Keeffe: And then, were any of the options, do you recall, that were laid out here, pursued?

Mr. Richard Burrows: I don’t recall specific options. If I go to the capital option that you’re talking about, I often reflect back on that period. By the time that that memo was written, it was clear that capital raising in that form or any other form, was going to be pretty nigh impossible, given what had happened with share price, given the unwillingness, I would say, of the market to invest, given the uncertainty of the situation in Bank of Ireland, but was that something we could have looked at much earlier? Probably yes, but we didn’t do that; by the time we came to look at it, clearly, the window had closed.

Senator Susan O’Keeffe: Do you accept, Mr. Burrows, that this document indicates the very, very serious matters that were going on inside your own bank at that time, and that you were talking about stopping? You were talking about increasing deposits, you were talking about stopping - no, it is the last question - you were talking about stopping lending and so on, that everything that was laid out here would indicate a very serious situation in the bank, and I’m wondering whether then on the night of the conversation with Government, that you brought your own level of seriousness, the immediate actions that you were taking, you were running down all kinds of opportunities, you were running down your loan book and looking to dispose of mortgages and so on. Did you bring that level of concern to the table when you went in, given that you’d had this document pulled together for you?

Mr. Richard Burrows: I believe I did, Senator, as I’ve said to you earlier. We were in survival mode at that point, and looking very seriously at the things that we could do, and that’s one of the reasons why, when Anglo came to us in that early morning, we determined very

quickly that there was nothing that we could do independently, and so yes, I think in reporting to Government that night on the situation that pertained, I didn't spare any blushes in relation to the national-international situation, or our own situation.

Senator Susan O'Keeffe: And could I just follow up and say ... you didn't spare blushes, can you recall, Mr. Burrows, whether AIB similarly didn't spare their blushes, so to speak, and shared their, you know, their own ... their internal matters may have been different to yours, but did they share them in the way that you did?

Mr. Richard Burrows: Well, I've no idea what their situation was.

Senator Susan O'Keeffe: No, but can you remember if there was equally a conversation, of them saying, "Well we have our own concerns".

Mr. Richard Burrows: Of course there was a conversation, yes.

Chairman: ...evidence, Senator.

Senator Susan O'Keeffe: Okay, so you both shared your concerns about your own situation with Government at that time?

Mr. Richard Burrows: That was the purpose of the meeting, to bring the seriousness of the situation to Government.

Senator Susan O'Keeffe: Your own situation, I mean, as well as?

Mr. Richard Burrows: Well, that was part of the context of why an Anglo credit default the following morning would have had such serious repercussions.

Senator Susan O'Keeffe: Thank you. Thank you, Chair.

Chairman: To clarify two matters, and I just want to raise one matter with you as well, Mr. Burrows and Mr. Crowley. In the questioning there with Senator O'Keeffe, the Met Éireann response when you said that you would ring Met Éireann, and obviously when you heard of the Morgan Kelly article you reached out and made some calls. Was Dan McLaughlin one of the people you reached out to?

Mr. Richard Burrows: He would have been, yes.

Chairman: And what was Dan's view?

Mr. Richard Burrows: I beg your pardon?

Chairman: What was Mr. McLaughlin's view?

Mr. Richard Burrows: Mr. McLaughlin's view was that, at that time, whilst the property bubble was, as it were, deflating, we were heading for the soft landing, if I use that term which crept into the lexicon then, rather than into any calamitous decline of property values.

Chairman: And was Mr. McLaughlin at any time expressing concerns that were beyond the soft landing interpretation?

Mr. Richard Burrows: I honestly can't remember, put it back in that timeframe.

Chairman: Sure.

NEXUS PHASE

Mr. Richard Burrows: At that timeframe we were definitely thinking of soft landing, as, by the way, were most of our peer companies.

Chairman: Was there any time, Mr. Crowley, that you felt, or did you speak to Mr. McLaughlin with regard to getting a temperature reading in examination of concerns or potential concerns in the broader financial market?

Dr. Laurence Crowley: We used to have infrequent, but odd - I don't mean odd in that sense - but different meetings, with Mr. McLaughlin present, meetings of the court, and he used give us an overview, generally speaking, on the market, the economy, in Ireland; and he was pessimistic usually. Nothing dramatic, but-----

Chairman: Is this in the pre-2004 period or post-2004?

Dr. Laurence Crowley: Pre.

Chairman: Pre-2004.

Dr. Laurence Crowley: Yes.

Chairman: So, he was pessimistic pre-2004. Okay

Dr. Laurence Crowley: Yes.

Chairman: And would he have been optimistic post-2004?

Dr. Laurence Crowley: No, no, he was never really-----

Chairman: Okay. All right. Okay. I just want to move on to the issue of remuneration before I bring in Deputy McGrath, and just bring a slide upon the screen there, if that's possible, it's the top ten payments and options 2004-2008. And it would appear from this document, Mr. Burrows, that the bonus proposals appear to largely measure performance against growth and earnings per share, EPS, and by comparison with the performance of the bank's peer groups; that's what the bonus programme there would actually indicate. Can you answer the committee today why there was no effective modifier relating to risk built into the measure used for remuneration and bonuses?

Mr. Richard Burrows: Why was no modifier built in? Well, that was just the remuneration policy at the time. Frankly, I don't know how you'd actually do such a thing, but it didn't exist at the time.

Chairman: Because the spreadsheet above there would indicate that the top ten executive remuneration list were all sales-orientated or business executive management, so in that regard, why did the board not consider the need to remunerate risk and compliance executives to a similar level? I understand in football teams, to use the football analogies that Senator O'Keeffe mentioned, sometimes centre forwards get paid more than centre halves, but you do pay both, and sometimes there's bonuses to both. Your bank would seem to be paying the centre forwards, and not giving any remuneration to the defenders.

Mr. Richard Burrows: I don't think that's the case; I think staff in Bank of Ireland were quite fairly remunerated in the context of what they were doing.

Chairman: So was there a remuneration model for risk and compliance executives?

Mr. Richard Burrows: I can't give you the detail of that, but they would have been entitled to the same kind of measures as anybody else.

Chairman: I could maybe stand corrected on this, but our examination of Bank of Ireland records would not indicate that there was such a process in place.

Mr. Richard Burrows: Okay, I accept what you say.

Chairman: Okay. All right, so if I can just finish up on that. The bonus and pension plans offered to senior executives of the bank were significant. Would you be in acceptance of the term "significant" that they were?

Mr. Richard Burrows: I would say that they were competitive, in a pretty competitive marketplace.

Chairman: Okay, and, on reflection, do you believe that they were justified and appropriate for an Irish financial institution?

Mr. Richard Burrows: At that time I think they were, because we were competing for talent, and the question of having the right people, and retaining the right people, was a constant issue, and you've already, you know, touched on other institutions that were behaving rather differently in the market. We were always at the risk of losing good people, hence the need, not just to pay, but to retain the very best people, and that meant adherence to market norms.

Chairman: Okay, and given the period of time that those remunerations were issued, and the ultimate position of Bank of Ireland on examination now, and given that the remuneration was tied to a particular growth strategy that had presentable risks to it, do you believe that the remuneration was merited?

Mr. Richard Burrows: I think the remuneration at the time was perfectly fair for the reason that I've said, in that it was competitive and benchmarked against the peer group of financial institutions, not just here, but in the UK as well because that was the common market.

Chairman: We know that, and part of the purpose of this inquiry is looking into the future as much as it is looking into the past, and developing best practice models and so forth. Do you believe that the methodology, and ... by how these remuneration packages were issued, were merited? And should ... should we need a different type of remuneration project going into the future?

Mr. Richard Burrows: Chairman, the one change that I would make if, if I had it to do again, would be that there would be substantial claw-back provisions in respect of any bonusing paid to executives.

Chairman: And how would that model work?

Mr. Richard Burrows: That model would work on the basis that bonuses would be declared and paid or held in reserve for some period of time, vested in other words, but not paid and that, if subsequent events proved that the profit performance of the bank in a particular period was inflated by lending or other events, which subsequently turned out not to be as good as it was thought at the time, there would be the opportunity for claw-back of, of bonuses.

Chairman: And, using such a model, would these bonuses and remunerations be clawed back?

NEXUS PHASE

Mr. Richard Burrows: Using such a model today? Well I-----

Chairman: That you just described to me.

Mr. Richard Burrows: I can't ... I can't-----

Chairman: Would that claw back those bonuses?

Mr. Richard Burrows: Are you referring to the ... to the ten ... the data that I ... I really can't tell you precisely what the terms-----

Chairman: Yes. Well you're quite explicit in the model you're describing.

Mr. Richard Burrows: Yes.

Chairman: If that model was in place back then, would those bonuses have been clawed back?

Mr. Richard Burrows: But I ... I can't put myself in that position. You asked me my opinion about way , a way to improve the situation.

Chairman: But what we're doing is we're testing models. There was a model in place at that time that put out that remuneration in which there wasn't a claw-back. We're now applying ... we hypothetically applied a model that you're now outlining, and put that framework on that period of time. Would there have been a claw-back?

Mr. Richard Burrows: Well, anybody whose bonus related to profit earned as a result of lending, for example, to the property sector and the collapse that happened there, would clearly have ... have incurred a claw-back, yes.

Chairman: And there would have been claw-back in that instance?

Mr. Richard Burrows: It would have been-----

Chairman: There would have been clawed-back in these instances, then, using that model you described, yes?

Mr. Richard Burrows: Oh, yes. That would have been the case.

Chairman: Okay. Thank you. Deputy Michael McGrath.

Deputy Michael McGrath: Thank you, Chair, and I'd like to welcome Mr. Crowley and Mr. Burrows. Good afternoon. Can I ask the secretariat to open up BOI - Vol. 1, B4, page 21. What I'm referring to there, Mr. Burrows, is extracts from a number of meetings to do with the group risk policy committee, essentially dealing with a review of credit quality, and serious issues were raised regarding ... the level of unsatisfactory business manager and senior business manager reviews, doubled, for example, in the year to the end of March 2006. The examples were cited about the management of excesses, drawdown of facilities, reporting of accounts to the business, banking credit etc. Issues are raised about the legal services unit, coding with the bookkeeping system etc. Were these issues brought to the attention of the board over, over the course of those years from 2002 to 2008, these review of credit qualities by that committee and internal audit?

Mr. Richard Burrows: Yes, those are the kinds of things that would have been reported by

the chief credit officer to the board, yes.

Deputy Michael McGrath: Yes. And what remedial action would have been taken then, in the event of ... of these specific issues being identified, where certain business managers would not have met the standards which were set by the bank?

Mr. Richard Burrows: Well, in those cases, of course, the matters are resolved before it ever gets anywhere near the ... the board. That's ... that's the process which was in place at the time, with ... with the step-up where ... where difficulties were incurred ... or encountered at one level of credit committee, the matter was then referred to the next highest level in order for resolution. So, it wasn't a question of waiting until matters got to the board before any remedial action would have been taken. That would have been a matter for management dealing with it as and when it came before them on the agenda.

Deputy Michael McGrath: Okay. Can I ask, Mr. Burrows, as ... as a member of the board, would you have access to all documents that you might seek? Would you be able to seek any document, for example, the minutes of any committee meeting from the ... within the bank?

Mr. Richard Burrows: The protocol on that was, no, that I would not, as chairman of the board, have access, unfettered access to, to any document. For example, any matters to do with clients, anything like that, I would have no access. To minutes of meetings, if I, if I requested the chief executive to give me the minutes of a meeting it would be a very strange thing if he didn't comply with that.

Deputy Michael McGrath: Okay. And would the board regularly be circulated with, with the minutes of all of the, the internal committees?

Mr. Richard Burrows: No. No, there were too many committees. You have to imagine a pyramid structure of, of credit committees. It would have given the board, really, a complete overload of data. But they did get the report from the top committee.

Deputy Michael McGrath: Would, would the board have got reports from the group risk policy committee?

Mr. Richard Burrows: Yes. That's the one.

Deputy Michael McGrath: Regularly?

Mr. Richard Burrows: Yes.

Deputy Michael McGrath: Okay. And when decisions are, are taken by the board, are ... is there collective responsibility?

Mr. Richard Burrows: Yes, there always is.

Deputy Michael McGrath: Okay, so it is ... it would be a collective decision, as such. Can I ask the secretariat to move to BOI - Vol. 1, B1, page 95. So ... that will come up on the screen, Mr. Burrows. That is a group risk policy committee meeting on 13 December 2007 and I suppose, just to put this in context, you ... you have pointed out a number of times today your view that one of the problems was the quantum of lending to the property-related sector, and you don't believe that it grew disproportionately over the years in which you were governor, is ... is that the case?

Mr. Richard Burrows: That's ... yes, that's what I've said.

Deputy Michael McGrath: And you don't believe that property represented an unhealthy proportion of the bank's exposure, in terms of its loan book, is that your position?

Mr. Richard Burrows: An unhealthy proportion-----

Deputy Michael McGrath: Well, too high a proportion.

Mr. Richard Burrows: In hindsight it clearly, and I said this in my opening remarks, in its absolute amount it was too much, and that was one of the main reasons why we got ourselves into trouble.

Deputy Michael McGrath: Yes. But you also said it did not grow in a disproportionate fashion.

Mr. Richard Burrows: Correct. It did not, it did not grow, as a sector, within our portfolio of businesses, in a disproportionate way.

Deputy Michael McGrath: Okay. Can I just put a number of, of points to you, from, from this particular meeting, which was December 2007.

Mr. Richard Burrows: Yes.

Deputy Michael McGrath: It says:

Property now accounts for 44% of all non mortgage lending. [44%] The levels of property exposure ... within our book are increasing at a faster rate than other sectors. Figure 1 below it shows, our exposure has grown from €29.5 [billion] in March 07 to €33.5 [billion] in September 07 and from 23% of the book to 25%.

If you move on to page 97, there's a reference to Moody's, the rating agency, looking at the sectoral concentration methodology:

Under this measure, property and construction is growing in significance more rapidly than other sectors. ... Construction & Property ... accounted for 359% of our Tier 1 Capital at the end of September [']07, up from 345% three months earlier and 275% at March 06.

By any measure, is that not rapid growth?

Mr. Richard Burrows: It is rapid growth. Yes, I agree with you.

Deputy Michael McGrath: But is there not evidence there that the exposure to that sector was growing in a disproportionate fashion?

Mr. Richard Burrows: Well, I think if you go back to one of the figures that you quoted there, the ... the growth in the total loan book of property from 23% to 25%, yes it is growth. Is it disproportionate? I don't believe so, given the circumstances that pertained at the time. But, yes, it ... it is rapid growth. I, I fully acknowledge that the figures that you have read out illustrate that this business was growing very fast.

Deputy Michael McGrath: Sure. And property being 44% of all non-mortgage lending, was that too high?

Mr. Richard Burrows: 44% of all non-mortgage lending?

Deputy Michael McGrath: Of all non-mortgage lending.

Mr. Richard Burrows: Well, it goes back to either percentage of non-mortgage lending or percentage of total book. That, that didn't show any enormous deviation or disproportionate deviation over the period of time that we're referring to. But I have said, and I say again, the absolute amount of property lending, which we had, was one of the reasons we got into trouble, it was too much.

Deputy Michael McGrath: The absolute amount?

Mr. Richard Burrows: Yes.

Deputy Michael McGrath: But not the proportion?

Mr. Richard Burrows: No, it was property ... the property value was, was ... the collapse of property values was one of the big issues which caused the, the whole banking situation. It wasn't, it wasn't a deterioration in lending to other sectors that caused the problem. It was primarily lending to the property sector in the broadest sense.

Deputy Michael McGrath: But why do you feel it so important to, to emphasise the point that property was not too high a percentage of the bank's overall lending? What is the essential difference? If you're saying that we basically lent too much money to the property sector but it didn't account for too high a proportion of our, of our overall lending, what's the significance of that?

Mr. Richard Burrows: The significance is this, the question is whether property lending grew in a disproportionate way.

Deputy Michael McGrath: Yes.

Mr. Richard Burrows: The starting point in terms of percentage of total book wasn't that different from the finishing point but the absolute amount of lending by then was one of the problems which we had.

Deputy Michael McGrath: From 2001 to 2009, lending to property and the construction sector grew by 30% per annum.

Mr. Richard Burrows: Yes.

Deputy Michael McGrath: Is there any other arm of the bank's business that grew to the same extent over that period?

Mr. Richard Burrows: Well, if you look at the way in which the percentage of property lending declined, it declined from about ...or increased rather ... it increased from about 23% to 26% or 27%, I think, it wasn't disproportionate; it did increase as a percentage of our total loan book. But the conclusion that you would draw from that immediately is that the other parts of the loan book were also growing quite fast at that time.

Deputy Michael McGrath: Yes. I mean, page 98 of the same minutes extract is saying, "While the above statements remain valid, the level of concentration within the book is increasing and the committee is asked to consider if the current level is acceptable and a number of options are set out as to how the concentration could be reduced". Is that not an admission that there was an over-concentration in proportionate terms to the property and construction sector

by the bank in its lending portfolio?

Mr. Richard Burrows: Yes, I think it's the recognition of a problem. There's no doubt about that.

Deputy Michael McGrath: But we're not agreeing on what the problem is,

Mr. Richard Burrows: Well, the problem is-----

Deputy Michael McGrath: I put it to you that the thrust of these minutes at the end of 2007 is that there was an over-concentration of lending in property and construction and the options for reducing that are set out.

Mr. Richard Burrows: Yes, and were noted very carefully. And that's why I said to you that as we went through 2007 and into 2008, there was a growing realisation of the difficulties which we were facing and it was a realisation brought about by the very kind of material that you're describing now.

Deputy Michael McGrath: On the issue of the inclusion of subordinated debt in the bank guarantee, just to clarify again your evidence in that regard and I put it to you that your CEO at the time, Mr. Goggin, gave clear evidence to the committee that on the night he requested that dated subordinated debt would be included in the guarantee. Were you present when that request was made?

Mr. Richard Burrows: I've already stated that I do not recall him making such a request.

Deputy Michael McGrath: Were you together at all times during that evening?

Mr. Richard Burrows: Yes, I think we were.

Deputy Michael McGrath: Okay.

Chairman: Are you saying you can't recall or are you saying it didn't happen, Mr. Burrows?

Mr. Richard Burrows: I think I'm already on the record as saying that in my recollection it did not happen.

Chairman: Okay, thank you. Deputy McGrath.

Deputy Michael McGrath: Was there any-----

Mr. Richard Burrows: May I just add to that? If I just go back ... the night of the guarantee, there was the announcement of the guarantee and we all went home to bed and got into work pretty early the following morning for the announcement. And in the aftermath of that, then all sorts of questions about how extensive the guarantee was, how long it was going to be in place for, all of these questions that didn't come up the night before started to surface and I certainly recall in the period of that day or the following day, a discussion about the parameters of the guarantee and as to whether bonds, subordinated debt and so on would have been included. I do remember that, but not on the night and I think the specific question that you're asking is on the night.

Deputy Michael McGrath: Yes, because Mr. Goggin said in response to Deputy O'Donnell:

Actually that night I had no idea of the maturity profile of the bond portfolio in Bank of Ireland but what we did offer into the room, when asked for an opinion on what should be covered, it was very clear having had that dialogue with my colleagues over the course of the evening, the Bank of Ireland position was that senior creditors clearly needed to be covered, junior creditors in so far as they were dated instruments and we didn't feel that undated juniors should be covered...

And he went on to explain the rationale behind that position. That didn't happen on the night is what you're saying.

Mr. Richard Burrows: Not to my recollection.

Deputy Michael McGrath: And was there any contact over the course of that evening with HQ as to the profile of the bank's liabilities? Did you know that the guarantee ended up being €133 billion for Bank of Ireland, that was your share of the guarantee, that €5.2 billion of dated subordinated debt was included in the guarantee in respect of Bank of Ireland? Did you have that detail on the night?

Mr. Richard Burrows: Not on that night but to your question, there was a lot of contact between Brian and the Bank of Ireland head office because the task we'd been set was to raise the finance to prevent the Anglo situation going wrong the following morning and so there was a lot of coming and going. I mean, as I said to you, that was a pretty complex thing to put in place at that hour of the night with that kind of urgency. So, yes, there was a lot of contact but that was the focus of what was going on and it wasn't until after we had satisfied ourselves that we could answer that question to Government along with AIB, that the question of the guarantee ever came on the table as part of the announcement. The response from Government to us that night was that, "Thank you very much, we're going to, in fact, go for a guarantee".

Deputy Michael McGrath: Okay, and you're aware of the evidence of Mr. Boucher that he was surprised at the inclusion of the dated subordinated debt.

Mr. Richard Burrows: I am.

Deputy Michael McGrath: Okay. The final question I want to raise is and I'll take you to BOI - Vol. 1, B2, page 99. I'll give a moment for that to come up. Just to put it in context again, it's an extract from a group risk policy committee meeting of 17 April 2008 and I understand you wouldn't have been at the meeting but I just want to raise the issue with you because the lending limits were clearly set out in respect of the landbank book, for example, which was very, very close to the limit and against the advice of the head of group credit, a decision was taken to increase the lending limit in respect of landbank by €100 million. Now, would that have been brought to the attention of the board, for example?

Mr. Richard Burrows: My recollection is that that was reported upon subsequently to the board, yes. And the reason for it, by the way, was simply that we had loans to the owners of these landbanks. They were in development and it was a question of following our original loan with an additional loan to enable whatever work was in progress to take place. So, it wasn't new lending in that sense.

Deputy Michael McGrath: It was one client-related, is it?

Mr. Richard Burrows: I can't remember how many clients were involved.

Deputy Michael McGrath: Thanks, Chair.

Chairman: Thank you very much. Deputy Phelan.

Deputy John Paul Phelan: Thank you, Chair. Good afternoon, gentlemen. I've only ten minutes so, thank you. I noticed the questioning times had changed a little and I'd ask you to be as brief as you can maybe in response. All of my references are to core document C3b and I want to start on page 40 which is the last page of that where there are several references to Bank ... several references on that page, the end of the third last paragraph, "Bank of Ireland should approach the Government for capital"; the last paragraph, "Consideration was given to an immediate contact with the Government"; but I think that that wasn't followed up on because in the following sentence it said that the budget, the Exchequer budget, was imminent. On page 16 of the same document - the last sentence on that page - it's stated that "Mr. Goggin was going to explore a capital injection by the State". When did Bank of Ireland first explore the idea of a capital injection by the taxpayers? And I might also ask you that at the time, the stated position of the bank publicly, through Mr. Goggin and possibly others, was that no such consideration was happening and that Bank of Ireland did not need taxpayer funding?

Mr. Richard Burrows: Well, if I may deal with the second part of the question first. In any public statement, if you're in a situation looking for capital, the last thing you want to do is to start talking about that publicly because that just engenders a great deal of uncertainty and loss of confidence in an institution. It's like a central banker or Minister for Finance not talking about a devaluation before he does it; he can't because you almost make the situation worse-----

Deputy John Paul Phelan: Mr. Burrows, there's a difference between not talking about it and actually saying publicly that you weren't looking for it ... not talking for it ... or not talking about it is quite a different position.

Mr. Richard Burrows: I don't think in those circumstances it is, frankly, because the question would come up and if you don't answer it, you leave uncertainty, so that would have been the situation. In the first question of capitalisation, I can't recall the exact date but I do remember a meeting with the Minister for Finance at which the topic of capitalisation ... recapitalisation came up.

Deputy John Paul Phelan: Roughly speaking, do you, would you-----

Mr. Richard Burrows: Oh, it would have been in the-----

Deputy John Paul Phelan: Before the end of 2008?

Mr. Richard Burrows: It would, yes. I can't remember the exact date, but it would have been in the autumn, late autumn, of 2008.

Deputy John Paul Phelan: I want to put the following quote to you. Almost a full month after the previous references that I've given, on 19 November 2008, Mr. Cowen, in the Dáil, it's on the Dáil record, stated that he expected covered institutions to explore the potential for meeting these capital needs through "raising private capital and the disposal of appropriate assets". He gave no mention of the taxpayer bailout, which was to come in February. Do you believe ... well, I suppose you have suggested at least, and ... the best of your recollection, that you were having those discussions with him before the end of 2008. Why was he not making reference to it, in light of the fact that that capital injection did come in February? On the record of the Dáil, he said something different.

JOINT COMMITTEE OF INQUIRY INTO THE BANKING CRISIS

Mr. Richard Burrows: Well, in the first instance, Mr. Cowen was stating the fact and certainly, as far as Bank of Ireland, that was the fact. We were looking for external capital and we had looked at a number of different possible providers of that. We'd engaged-----

Deputy John Paul Phelan: Those are all mentioned in those minutes that I've referenced earlier-----

Mr. Richard Burrows: Yes, I'm sure they are.

Deputy John Paul Phelan: -----but also State capital injection is specifically referenced in them too.

Mr. Richard Burrows: Yes, yes, as I'm sure it needed to be because, if I go back to what I was saying earlier, at that early stage, Bank of Ireland would have been a pretty difficult investment case to have made to any external investor absent the later creation of NAMA and the transfer and the certainty to the loan book of what was engaged in in property loans. So that all had to happen before, realistically, you could talk to external investors. Notwithstanding that, there were a number of interested parties moving around who were engaging us in conversations about capital. They came to nothing.

Deputy John Paul Phelan: Okay. Can I turn now to your discussions on the 28th with Mr. Hurley in relation to the impending situation with regard to Anglo and you said ... you expressed surprise that he didn't seem to be aware fully of what ... of the €1.5 billion liability that was going to fall due. Did you ... can you elaborate on the discussions that you had with him? Did you express that surprise to him-----

Mr. Richard Burrows: No.

Deputy John Paul Phelan: -----that he should have been aware, or have you any other information for the inquiry?

Mr. Richard Burrows: No, I don't think I expressed surprise. I said that my reaction was one of surprise.

Deputy John Paul Phelan: Why didn't you express surprise to him?

Mr. Richard Burrows: It wasn't a very long conversation because I had explained the nature of my concern. I'd explained the facts of what had happened that day.

Deputy John Paul Phelan: But why didn't you express your surprise to him?

Mr. Richard Burrows: Well, I suppose I was expecting Mr. Hurley maybe to react in some other way. I was expecting him to be aware of the situation-----

Deputy John Paul Phelan: Do you-----

Mr. Richard Burrows: -----and maybe he was aware, I don't know whether he was aware or not. Central bankers operate to a very high level of confidentiality, so it may well be that he wasn't prepared to share that with me. I don't know.

Deputy John Paul Phelan: Okay.

Mr. Richard Burrows: All I do know is that, at the end of the conversation, when I ascertained that he didn't have any plan that he was prepared to share with me for dealing with the

situation, he recommended that I talk to Government.

Deputy John Paul Phelan: Okay. I want to turn to page 5 of the same document now; I'll give it a moment for it to come up on the screen. It's paragraph one, two, three, four, five, the bottom of it, where there is a direct quotation, page 5 of C3b. I'll put the quotation to you anyway. It said that "No indication of Anglo's specific needs was given [this is a court minute again] except that it was due to repay €1.5 [billion] on Tuesday to a German bank and may need a further €4 [billion] later in the week." First of all, do you recall which German bank was ... that liability was due to on the Tuesday? And do you believe it likely, in your experience as a banker, that that particular German bank would have been making the position known to either authorities in Germany or Europe or, dare I say, even potentially Irish authorities, that this potential liability was falling due and might not be met on the Tuesday?

Mr. Richard Burrows: Well, you're asking me ... first of all, I don't know the name of the bank. Secondly, you're asking me to speculate on what they may have been doing and I can't do that.

Deputy John Paul Phelan: Okay.

Mr. Richard Burrows: I just can't do that.

Deputy John Paul Phelan: That's fair enough. I want to refer, Deputy McGrath spoke about the night of the guarantee and Mr. Goggin having proffered the view here ... I think the quote or the phrase that he used when he made the suggestion about subordinated, certain dated subordinated debt, was that there was a potential overlap with senior debt and potentially with sovereign. How was it possible that your chief executive at the time can give evidence to the inquiry to the effect that he made that suggestion on the night on behalf of Bank of Ireland and its shareholders and everyone concerned and that you, as chairman, say that that suggestion didn't happen or you've no recollection of that suggestion?

Mr. Richard Burrows: I'm telling you what I remember.

Deputy John Paul Phelan: Okay, no, I won't go further into that. My final question is again in relation to the evidence given by Mr. Goggin to the inquiry. In answer to a question from me, he said:

You'll recall that when I was describing the events of 29 September, a few days earlier than this, the governor of the Bank of Ireland [yourself] met with the Governor of the Central Bank to assist me in my unsuccessful attempts to have the ECB collateral rules expanded. The Governor of the Central Bank told the governor of the Bank of Ireland at that meeting that there was nothing further he could do.

I want you to talk about those unsuccessful attempts, or any discussions you had with Mr. Hurley, who was the then Governor of the Central Bank, in relation to his attempts either to gain additional funding for the Irish banking sector or to change the collateral rules of the ECB at the time. And do you believe that if those collateral rules had to have been changed, and they were changed two weeks subsequent to the guarantee, that the guarantee may not have been, as constituted, necessary, if the changes had occurred before its announcement?

Mr. Richard Burrows: I think we're mixing up two things here. The guarantee was primarily to stop a deposit run the following day. The wholesale funding or the ECB funding on collateralised security was a different thing entirely. Let me say this: I don't remember the

exact detail of the conversations which we had with Mr. Hurley about that but I can tell you that we always found in Mr. Hurley a very sympathetic ear in terms of taking the issues as we saw them in Ireland to the ECB and so therefore I'm quite sure that he explored every possible avenue to give us what we wanted, but clearly was up against the authority of the ECB and that's what he was reporting to us.

Deputy John Paul Phelan: You don't have any more detail as to what he-----

Mr. Richard Burrows: No, I don't.

Deputy John Paul Phelan: -----what he was saying about the changes or looking for changes to collateral rules?

Mr. Richard Burrows: No, I honestly cannot recall them, no.

Deputy John Paul Phelan: Okay, thank you.

Chairman: Okay, maybe just to finalise on that, do you have a current view as to the appropriateness of the guarantee, Mr. Burrows?

Mr. Richard Burrows: A current view? In my statement, at the beginning ... I mean, this is something you asked me to-----

Chairman: Sure.

Mr. Richard Burrows: -----focus on, I said that I wasn't aware of all of the issues and all of the things that Government was party to on that night; I was just looking at it from Bank of Ireland point of view. And, from my point of view, it seemed that, in the situation where we could come up, with AIB, with the funds necessary to prevent a default by Anglo the following day, that that could have built time into the system to at least allow a few more days of consideration of the implications of all of that. That said, I believe a guarantee was necessary and was an absolutely integral part of the package of measures which Government put into place.

Chairman: Okay. And when you say the guarantee was necessary, was it the explicit guarantee that was put in place or a guarantee of sorts?

Mr. Richard Burrows: A guarantee of?

Chairman: When you say that ... you're categorical in regards to the requirement of a guarantee.

Mr. Richard Burrows: Yes.

Chairman: Was the guarantee, in its ultimate shape, the type of guarantee that you would have seen as the one necessary, or would you have preferred, or have seen an alternative that may have worked better?

Mr. Richard Burrows: Oh no, I think we were perfectly satisfied with the guarantee as it turned out, so the only issue, Chairman, just to be absolutely clear-----

Chairman: Sure.

Mr. Richard Burrows: -----is that I thought that there might have been a matter of timing, just to give a little breathing space for everybody to consider the options.

Chairman: Okay.

Mr. Richard Burrows: That's all.

Chairman: Okay. Just one other matter before that, before we move to the wrap-up to Deputy Murphy and Senator Barrett. Earlier you were saying that, just to clarify this, Irish Life & Permanent was offered to Bank of Ireland on the morning of 29 September 2008. Was that the case, was it?

Mr. Richard Burrows: That's ... I wasn't present at that meeting, but that's what Brian Goggin reported, yes.

Chairman: Okay. So who was in the ... who was making the offer? Was it the Central Bank or the Government?

Mr. Richard Burrows: That was Central Bank.

Chairman: Central Bank, okay. Could you maybe then, if this was on the agenda and certainly there as an item of discussion, can you not, or can you explain why it did not form part of the conversation that night if Irish Nation ... if Irish Life & Permanent was on the space of being pushed into Bank of Ireland, or taking over Bank of Ireland, what happened between the morning and that night that that wasn't a part of the conversation?

Mr. Richard Burrows: Well, because the focus that night was on a single issue, and that was the liquidity crisis which Anglo Irish was facing.

Chairman: Yes.

Mr. Richard Burrows: And that was the sole purpose of the meeting. It wasn't to have a discussion with Government about consolidation within the banking sector or anything like that. It was simply to make sure that Government were aware of our viewpoint in Bank of Ireland about the seriousness of the situation with regard to the liquidity of Anglo.

Chairman: Okay. Would that not have been peculiar, given that it was in explicit discussion that took place that morning, and now you were into a far, far more evolved situation, that Irish Life & Permanent wasn't part of the agenda or the discussion that evening for Bank of Ireland?

Mr. Richard Burrows: Bear in mind that the meeting that took place in the evening was between us and AIB.

Chairman: Yes.

Mr. Richard Burrows: With Government.

Chairman: Sure.

Mr. Richard Burrows: It would have been quite inappropriate, in my view-----

Chairman: Okay.

Mr. Richard Burrows: -----to have any kind of discussion like that with a competitor in the room.

Chairman: Okay. And in regard to INBS, do you have any view as to why no action was

taken in regard to them that evening?

Mr. Richard Burrows: No, I haven't.

Chairman: Okay, thank you. Deputy Murphy. Or, sorry, Senator Barrett, my apologies.

Senator Sean D. Barrett: Thank you, Chairman, and I just want to put some questions to our visitors, Chairman. Just the ... your ... paragraph 12 of your remarks, Mr. Burrows, strategy 2000-2007, to go from €12 billion capitalisation to €30 billion, and then €40 billion; that was a ... by 2007. That was a board decision, was the ... to adopt that? Was it?

Mr. Richard Burrows: That's correct.

Senator Sean D. Barrett: Thank you. Now, could I ask that CIF, page 99, Vol. 1, be put on the screen, please? Now, it's from the presentation of Mr. Simon Carswell, Chairman, on 26 February, and the third paragraph on page 99 reads:

In 2006 the Financial Regulator started to consider the introduction of compliance statements for directors of banks. This would allow the regulator to force the management and the boards of banks to stick by assurances they gave, for example agreeing to reduce their lending into one particular area, and would give the regulator an important tool to exert greater control over the activities of banks. After intensive lobbying by the financial services industry the Department of Finance asked the Financial Regulator to drop the process of consultation, and it was shelved.

Was Bank of Ireland part of that lobby?

Mr. Richard Burrows: I honestly can't tell you; I have no recollection of that.

Senator Sean D. Barrett: Yes. Because, you know, there's part of the earlier matter that we discussed, the letter of 2 April 2007 to the regulator saying the Bank of Ireland was comfortable exceeding the 200% limit. It looks like the regulator tried to do something about it, and the industry lobbied, but not the Bank of Ireland; is that ...?

Mr. Richard Burrows: No, I'm not saying that Bank of Ireland didn't participate; I'm saying I'm unaware of whether we did or not.

Senator Sean D. Barrett: Was there a board discussion of the matter?

Mr. Richard Burrows: No, there wasn't, not to my recollection.

Senator Sean D. Barrett: I see. Could I also say in relation to regulation, if we bring up document R3b? And this was ... it's the minutes, it's page 7, it's the minutes, Chairman, of a meeting of the group risk policy committee where they were asked by the regulator to address failures to adequately verify the income or the source of the borrower deposit. That was the regulator's concern. And the reply is on the following page 8. They say that they would only do so, the Bank of Ireland would only do so in exceptional defined circumstances. And they'd already written to the Central Bank twice in 2001 and 2002 to notify them of that. And then they go on and say, "...we were fully compliant with our stated procedures...". In other words, they didn't want to do the degree of income verification that the regulator had recommended, but they found 21 instances in which there was an insufficient or no evidence of the balance of the funding. So, as well as on the asset issue that we discussed, it seemed like you didn't want to comply with income verification either when requested by the regulator? You were more or

less told, “We told you already two years ago that we don’t do it.” And, you know, this was a situation which led to €64 billion, you know, being required of taxpayers because banks, you know, have this reluctance, I suppose, to comply with the regulator.

Chairman: We should question rather than maybe an implied conclusion, Senator. It would be helpful.

Senator Sean D. Barrett: Yes. Does it not indicate that, to say the least, you were a hard company to regulate in the attitude to the regulator, or do you say you maybe ... perhaps you were an easy company to regulate? But it does seem strange that not verifying the income of the borrowers should become an issue between the regulator and the bank.

Chairman: I think Mr. Crowley would like to comment upon that as well, Mr. Burrows, when you’ve finished.

Mr. Richard Burrows: Well, Chairman, I really don’t have any comment to make. I think the situation is laid out there very clearly, and I’ve nothing to add to it.

Chairman: Mr. Burrows? Or Mr. Crowley?

Dr. Laurence Crowley: Yes, I’m in a similar ... similar position. I don’t even recall this, actually.

Chairman: Okay. Senator Barrett, one final question.

Senator Sean D. Barrett: There’s just one other that there’s ... in volume B4 on page 30

Chairman: Okay, Senator.

Senator Sean D. Barrett: Thank you. There’s a ... this is from the regulator to the bank: “[Bank of Ireland] is to advise the Financial Regulator as to whether it is satisfied that the concerns expressed at the Group Credit Committee meeting on 30 August 2007 have been addressed.” And that communication is dated March 2008, so there appears that something that arose in 2007 had not been satisfactorily replied to, Chairman, by the following March 2008. Again, what ... just to ask our visitors: why does there seem to be such delays in dealing with regulatory issues?

Mr. Richard Burrows: I really can’t comment, Chairman. The facts are as stated there. If there were delays, it’s regrettable, but there must have been some good reason for it. I can’t comment.

Senator Sean D. Barrett: Thank you, gentlemen. Thank you, Chairman.

Chairman: Deputy Murphy.

Deputy Eoghan Murphy: Thank you, Chairman, and thank you to you both. Just two broad areas I want to just briefly touch upon, if I may, and the evidence document is BOI - B2, page 56, for the first area, and it’s regarding exceptions to credit policy on lending. This is a document that we got back from the Bank of Ireland actually, looking at the period 2004 to 2008. The average exception rate for buy-to-let mortgages was 17%, almost one in five. And when we look at what went to NAMA from Bank of Ireland, 191 connections were transferred, and policy exceptions were identified in 73% of those connections. Mr Burrows, would you regard those exception rates as high?

Mr. Richard Burrows: No, I wouldn't, and I think I covered the matter earlier in relation to the way in which credit policy and lending policies were drawn within Bank of Ireland, which was to draw them very tightly, so that that, in any ordinary course of business, would give rise to exceptions. That's the purpose of drawing a very tight perimeter, that exceptions are forced into a situation where there has to be consultation with a higher authority, whether that's a more superior credit committee or a senior executive before being resolved. So I think it's not unusual, in my opinion.

Deputy Eoghan Murphy: So just to clarify then, a high level of exceptions like we see there means that there is greater scrutiny of what's going on with each of those lending decisions?

Mr. Richard Burrows: It means that people are operating the policies to the letter and making sure that anything that is outside of the policy is recorded as an exception and is then dealt with properly.

Deputy Eoghan Murphy: Yes. So there isn't a correlation the between, say 73% of those connections in terms of what was transferred to NAMA and the write-down in NAMA loans?

Mr. Richard Burrows: I don't think there is any connection whatsoever. We are talking about administrative exceptions. We are not talking about exceptions as to whether the loan should have been made or not.

Deputy Eoghan Murphy: Okay, thank you. The other area I want to touch upon is just briefly, going back to the night of the guarantee because it's just something I don't understand myself, if I may? On the night itself, yourself and AIB were together in the room at all times. The two banks and no one else, except for when you were with Government officials, is that correct?

Mr. Richard Burrows: That's correct, yes.

Deputy Eoghan Murphy: So, when Mr. Goggin would have been making phone calls to Mr. Boucher, back in Bank of Ireland, he was doing that in front of you and in front of AIB.

Mr. Richard Burrows: He was making phone calls to lots of people, as was Mr. Sheehy for AIB.

Deputy Eoghan Murphy: And this is in the context of them trying to see if they could secure this €5 billion-----

Mr. Richard Burrows: Correct.

Deputy Eoghan Murphy: -----each in funding. And did you make any phone calls yourself?

Mr. Richard Burrows: No, I didn't .

Deputy Eoghan Murphy: Okay. And did you have any contacts with anyone else in Government Buildings that evening?

Mr. Richard Burrows: Any contacts? I do remember Mr. Doyle met us and showed us in and there was some chit-chat with him. And I think from time to time we met people in the corridor. But there was no substantive discussion or meeting with anybody else.

NEXUS PHASE

Deputy Eoghan Murphy: Okay. And just finally then, to clarify. You go back in to meet with the Government, I take it with the Taoiseach and the Minister for Finance, is that correct?

Mr. Richard Burrows: Yes, and others.

Deputy Eoghan Murphy: And others. And you were saying to them that you can provide the €10 billion that was needed for Anglo Irish Bank?

Mr. Richard Burrows: €10 billion, yes.

Deputy Eoghan Murphy: And they say to you that they are going to provide a guarantee?

Mr. Richard Burrows: Correct.

Deputy Eoghan Murphy: In that same instance.

Mr. Richard Burrows: Yes.

Deputy Eoghan Murphy: And at that point then, is the €10 billion no longer needed for Anglo Irish Bank?

Mr. Richard Burrows: Well, I'm not sure that that was the case because we were left on the basis that the €10 billion could well be required and everything was in place for it to be available the following morning. The subsequent thing that happened was that it was not required. And I am not clear as to how AI ... how Anglo sorted itself out. But it didn't come back to us for the money that had been put in place.

Deputy Eoghan Murphy: So, just to clarify. You left Government Buildings, your understanding was that €10 billion was still required and that a guarantee of the six banks was coming into effect the next morning.

Mr. Richard Burrows: Yes. The guarantee was for a different purpose. The guarantee was to guarantee deposits to stop chaos in the marketplace. The funding was to deal with the specific liquidity problem of Anglo.

Deputy Eoghan Murphy: Thank you. Thank you, Chair.

Chairman: Thank you very much. Just to wrap one thing, just to clarify, Mr. Burrows, can you clarify and inform the inquiry as to the date Bank of Ireland was seeking State capital?

Mr. Richard Burrows: No, I can't give you a date on that.

Chairman: Okay, well a period. Was it-----

Mr. Richard Burrows: It ... the discussions took place over the period leading up to Christmas of that year and into January -----

Chairman: Of 2008 is it?

Mr. Richard Burrows: Of 2008 and into 2009, yes.

Chairman: Okay, so there was a discussion between Bank of Ireland and the State at that time that there would need be a capital provision for Bank of Ireland or were you exploring it?

Mr. Richard Burrows: I think it's fair to say, Chairman, that in that period immediately

after the September guarantee-----

Chairman: Sure.

Mr. Richard Burrows: -----I kept the Minister for Finance pretty well informed as to how we were progressing in relation to trying to find third party funds to supplement our capital base. And so he was well aware and we had quite a number of discussions about how that was progressing. And indeed, I think his officials had with Brian Goggin and with others in the Bank of Ireland. So there was a continuing dialogue about that.

Chairman: So we know the conclusion of that dialogue ended with a capital ... with a State capitalisation into Bank of Ireland. But are you saying to the committee today that in the period after the guarantee in 2008, that Bank of Ireland was discussing the necessity and the requirement for capitalisation from the State?

Mr. Richard Burrows: Yes, up to the point where the capital actually was injected.

Chairman: Thank you very much. I'm going to bring matters to a conclusion. Mr. Crowley and Mr. Burrows, is there anything finally, or further you would like to add before we wrap up?

Mr. Richard Burrows: I don't think so, Chairman. I would just like to thank you and the members of your committee for the courtesy with which you have received us this morning. And if I may just also put on the record my thanks, seeing as I left Bank of Ireland in 2009, I've relied enormously upon the support of former colleagues there in order to prepare for today. So thank you to all of them. And if I may, just one final word. There is a bunch of people in watching all of this in Malahide, Clontarf, London, Miami. Thank you to them.

Chairman: I didn't know you were broadcast that far, Mr. Burrows, thank you very much. Mr. Crowley -----

Dr. Laurence Crowley: Yes, I'm very happy -----

Chairman: -----maybe you could go a bit further geographically.

Dr. Laurence Crowley: I'm very happy to endorse what Richard has just said.

Chairman: A bit of order, please. I'm just getting order, Mr. Crowley.

Dr. Laurence Crowley: I really have nothing to add to that. I wish you well with your important work and we will, of course, continue to offer you our co-operation if and when you require it.

Chairman: With that said, thank you both, Mr. Crowley and Mr. Burrows. I would like to thank the both of you for your participation here today and with your engagement with the inquiry. I now state that the witnesses are excused and that we suspend until 2.45 p.m. at which time we will resume to hear from KPMG. Is that agreed? Agreed.

Sitting suspended at 1.26 p.m. and resumed at 2.45 p.m.

KPMG - Mr. Terence O'Rourke and Mr. Paul Dobey

Chairman: So I now propose that the committee return back into public session. Is that