

JOINT COMMITTEE OF INQUIRY INTO THE BANKING CRISIS

Statement of Laurence Crowley

I have been asked by the Joint Committee to provide a written statement on particular topics and to attend a hearing of the Joint Committee as a member of a panel.

By way of background, I hold a Bachelor of Commerce degree from University College Dublin and am a Fellow of the Institute of Chartered Accountants in Ireland. I was a partner for many years in KMPG Stokes Kennedy Crowley where I specialised in corporate restructuring and insolvency. I have, over the last 25 years, served as a non-executive director and chairman on a number of boards in both the commercial and voluntary sectors. I also served as Executive Chairman of the Business School at UCD.

In my ability to address the matters which I have been asked to address in this statement and to deal with the questions you intend to raise at the hearing, I would like to point out that my term of office as Governor (Chairman) of Bank of Ireland and as a director ceased in July 2005 which is almost 10 years ago. Since then I have had no involvement whatsoever in the affairs of Bank of Ireland. Clearly my recall of events which took place 10 years and longer ago is seriously impacted by the passage of such a length of time. My principal source of information for the purpose of preparing this statement has been the annual report and accounts, which are public documents which have been approved by each member of the Board of Directors and the shareholders. Quotations from these reports are included below marked in italics.

B.1(a) Composition of the Board

It is important to understand that the majority of the Directors of Bank of Ireland, including myself, were non-executive. The Report and Accounts for the year ended 31 March 2005 (the “**2005 Annual Report**”) states that the Board (described as the “**Court**”) consisted of 17 Directors, 15 of whom including the Chairman were non-executive Directors. It further states that:

“there is a clear distinction between the responsibilities of the Governor, who is the Chairman of the Court, and the Group Chief Executive. These responsibilities have been set out in writing and agreed by the Court.

The Governor oversees the operation and effectiveness of the Court of Directors. He also ensures that there is effective communication with stockholders and promotes compliance with the highest standards of corporate governance.

The Group Executive is responsible for implementing agreed strategy and has delegated authority from the Court for all operational matters.”

The Executive Directors were responsible to the Group Chief Executive (“**CEO**”) and were full time employees responsible for implementing the agreed strategy and operational matters.

The non-Executive Directors functioned through their membership of the Board of Directors and various committees of the Board. As with the non-executive directors of all companies, they were part time and had responsibility for governance and oversight, but not for the day to day running of the Bank.

Great care was taken to ensure the quality and skill relevance of the members of the Board. The process started with a review of the differing skills which would be valuable to have on the Board. This was then compared with the skills which were currently possessed by existing members of the Board. Other matters taken into account included directors located in the various countries in which significant parts of the businesses of the Bank operated. During my time as Chairman, we had directors from business, accounting and legal backgrounds, among others.

Bank of Ireland provided appropriate training and support to non-executive directors to ensure that they were able to fulfil their duties as directors of the Bank. As set out in the 2005 Annual Report:

“On appointment, all non-executive Directors receive comprehensive briefing documents designed to familiarise them with the Group’s operations, management and governance structures; these cover the functioning of the Court and the role of the key Court Committees. In addition, new Directors undertake an induction programme, including visits to Group businesses and briefings with senior management as appropriate and the Group will facilitate any major stockholder who wishes to meet with any new non-executive Director. On an ongoing basis special training/briefing sessions appropriate to the business of the Group are provided to all non-executive Directors.

The Directors have access to the advice and services of the Group Secretary, who is responsible for advising the Court on all governance issues and for ensuring that the Directors are provided with relevant information on a timely basis to enable them consider issues for decision and to discharge their oversight responsibilities. The Directors also have access to independent professional advice, at the Group’s expense, if and when required. Committees of the Court have similar access and are provided with sufficient resources to undertake their duties.”

B.1(c) Quality of the Business Model Setting Process

This theme, as I understand it, refers to the quality of the process for setting the Bank’s strategic plans. I believe that there was a robust process for setting the Bank’s strategy during my time with the Bank, involving extensive interaction between the management team and the Board. My recollection of the process is that senior management made presentations to the Board on the strategic goals for the relevant periods, usually during dedicated two-day Board meetings, and the Board would debate the strategy by challenging those goals and how they would be achieved. While the Board had responsibility for determining the strategy, management were responsible for the implementation of that strategy.

B.1(d) Internal Controls

During my time with the Bank, I was conscious of the strong focus which was given to the implementation of the highest standards in Corporate Governance which was at that time, and continues to be, subject to continuous development. This focus was given the highest priority by the Board and the Senior Executives.

As set out in the 2005 Annual Report the Group’s overall control systems included:-

- *a clearly defined organisation structure with defined authority*

limits and reporting mechanisms to higher levels of management and to the Court which support the maintenance of a strong control environment;

- *appropriate terms of reference for Court committees and sub-committees with responsibility for core policy areas;*
- *a comprehensive set of policies and procedures relating to financial controls, asset and liability management (including interest, currency and liquidity risk), operational risk and credit risk management[.....];*
- *monthly reporting by business units which enables progress against business objectives to be monitored, trends to be evaluated and variances to be acted upon.”*

The Board's oversight of internal controls during my time in the Bank is reflected in the following statements extracted from the 2005 Annual Report:

“These controls, which are embedded within the operations of the Group, are reviewed systematically by Group Internal Audit, which has a Group-wide role. In these reviews, emphasis is focused on areas of greater risk as identified by risk analysis.

The Directors confirm that the Court, through its committees, has reviewed, in accordance with the Combined Code, the effectiveness of the Group's systems of internal control for the year ended 31 March 2005. This review involved consideration of the work and the reports of internal audit and the risk management functions such as operational risk, regulatory risk and compliance, and anti-money laundering and establishing that appropriate action is being taken by management to address issues highlighted. In addition, the reports of the external auditors, which would contain details of any material control issues identified arising from their work as auditors, are reviewed by the Group Audit Committee. After each meeting of the Group Audit Committee, its Chairman reports to the Court on all significant issues considered at the meeting, and the minutes of the meeting are circulated to all members of the Court. Semi-annually, all Group businesses carry out a detailed operational risk assessment and report to Divisional Management on the effectiveness of their risk management systems, including controls. Heads of business units are required to certify the accuracy of the self-assessment and the results arising from this process are noted by the Group Risk Policy Committee.

Following the end of the financial year, the Court reviewed the Group Audit Committee's conclusions in relation to the Group's systems of internal control and also examined the full range of risks affecting the Group and the appropriateness of the internal control structures in place to manage and monitor them. This process involved a confirmation that an appropriate system of internal control was in place throughout the financial year and up to the date of the signing of these accounts. It also involved an assessment of the on-going process for the identification, evaluation and management of individual risks and of the role of the various committees and group risk management functions and the extent to which various significant challenges facing the Group are understood and are being addressed. The

Group has a project underway to ensure it will be in compliance, by the applicable date, with the requirements of Section 404 of the Sarbanes-Oxley Act 2002, which requires, among other things, certification by management regarding the effectiveness of internal controls over financial reporting.

Audit Committee and Auditors

The Group Audit Committee, which comprises independent non-executive Directors only, monitors the integrity of the financial statements, oversees all relevant matters pertaining to the external auditors and reviews the Group's internal controls, including financial controls, and the effectiveness of the internal audit function. The Committee reviews the internal and external audit plans and subsequent findings, the selection of accounting policies, the auditors' report, the effectiveness of the services provided by the external auditors and other related matters.

The Group Chief Risk Officer was a member of the Executive Team reporting to the Group CEO and he acted as Chairman of the Group Risk Policy Committee whose other members included the CEO, the Chief Financial Officer, both of whom were members of the Board and other members of Senior Management. This Committee was responsible for recommending high level risk policy and risk strategy to the Board for approval and for overseeing management of risk within approved policy parameters. In addition, individual credits were approved by appropriate credit committees and experienced lending officers who were independent of the applicant for the credit and of the Bank employee with whom the applicant was dealing.

I believe during my time with Bank of Ireland that the internal controls to identify, manage and monitor risk were appropriate having regard to the business of the Bank at that time. Regular reports were made by the Group Chief Risk Officer to the Board on the credit situation of the Bank. I do not recall any such report raising material issues during my time as Chairman and earlier as a member of the Board.

B.2.(a) Appropriateness of property related lending, strategies and risk appetite

In regard to the appropriateness of the Bank's lending strategies and risk appetite, my recollection of events of 10 years and longer ago is that these were prudent based on the information available to the Bank at the time and displayed a low risk appetite, relative to the Bank's peers. I do not believe that there were any particular strategies directed towards, or emphasis placed on, property specific lending.

I do not recall any significant problems in these areas being brought to the attention of the Board. 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.

For a number of years in addition to the normal specific provisions made on a case by case basis for loans and advances which are recognised to be bad or doubtful, a general provision was made to cover latent loan losses known to be present in any loan portfolio but which have yet to be specifically identified. This was referred to as a "non-designated specific provision". This was discontinued after a number of years because the accounting standards changed and no longer allowed for such non-specific provisions. In my view, the practice of having non-specific provisions reflected the low risk and prudent appetite of the Bank.

B.5(b)

Impact of shareholder and lending relationships

In regards to the impact of shareholders or lending relationships in promoting independent challenge by the Board, I am not aware of any particular shareholder or lending relationship impacting on the promotion of independent challenge.

A description of the shareholder (described as “stockholder”) relationship is set out below from the 2005 Annual Report:

“Relations with Stockholders

Communications with stockholders are given high priority. The Directors are kept informed on investor issues through regular reports from Group Investor Relations as well as feedback from stockholders, our brokers and investment bankers. The Group seeks to provide through its Annual Report a balanced, clear assessment of the Group’s performance and prospects. It also uses its internet website, (www.bankofireland.ie) to provide investors with the full text of the Annual and Interim reports, the Form 20-F (which is filed annually with the US Securities and Exchange Commission) and with copies of slide presentations to analysts and investors as they are made, so that information is available to all stockholders. Additionally, the “Investor Information” section on the Group’s website is updated with all Stock Exchange releases as they are made by the Group including full year and half-year results presentations.

The Group has an active and well developed Investor Relations programme which involves regular meetings between the Group Chief Executive, members of his senior executive team, the Head of Investor Relations and the Group’s principal institutional stockholders and with financial analysts and brokers. All such meetings are conducted in such a way so as to ensure that price sensitive information is not divulged. Feedback from these meetings, together with relevant analysts’ reports, are provided to the Court on a regular basis. In addition to these normal channels of communications, the Governor and Deputy Governor gathered the views of institutional stockholders, through the Group’s brokers and advisers, and presented their findings to the Court. All Directors are encouraged and facilitated to hear the views of investors and analysts at first hand through their participation in conference calls following major announcements. The Court concluded that the objective of keeping Directors fully informed of stockholder views was achieved.

The Governor and/or the Senior Independent Director are available to stockholders if they have concerns that cannot be resolved through the normal channels and it is Group policy to facilitate any major stockholder who wishes to discuss any relevant issue with the Governor or the Senior Independent Director.

The Group’s policy is to make constructive use of the Annual General Court and all stockholders are encouraged to participate. Stockholders are given the opportunity to ask questions at the Annual General Court or submit written questions in advance”.

R.3(b)

Relationship with the Central Bank and the Department of Finance

I was never involved in the relationship between the Bank and Central Bank, including the Financial Regulator, or the Department of Finance. They would have of course known of my full availability to meet with them if any issue arose which they felt should be discussed with me. Such discussions never took place. The relationships were conducted by senior full time executives on both sides and my understanding is that the relationships, on both sides, were professional.

Laurence Crowley

16 April 2015