STATEMENT IN WRITING PROVIDED TO THE JOINT COMMITTEE OF INQUIRY INTO THE BANKING CRISIS

RICHARD BURROWS

1. I was invited to join the Board of directors of Bank of Ireland in early 2000 and I was elected as Governor (Chairman) in 2005 succeeding Laurence Crowley who retired at the Annual General Meeting. I retired from the Board as Chairman in 2009. During the period 2000 to 2005 I participated in the audit and remuneration committees being, in due course, Chairman of both of those committees. I was also Deputy Chairman of the Bank for the period 2003 to 2005.

2. The purpose of this statement is to address issues specified in the Direction issued by the Joint Committee on 16 March 2015 and I will now address those issues below.

EFFECTIVENESS OF BANKS' BOARD GOVERNANCE, CLIENT RELATIONSHIPS AND BUSINESS MODELS

B1(a) Composition, Skills and Experience of the Board and Board Sub-Committees

3. I believe that during my period as a director and Chairman of Bank of Ireland, the Board and the Board Sub-Committees had a strong and balanced composition with the necessary mix of executive and non-executive members with some non-executive directors having banking experience.

4. During my time as Chairman, the Board included, from time to time, directors who had held, or were still holding, senior positions in general financial services, banking, including investment banking, major insurance companies, general industrial companies, including major retail companies, chartered accountancy firms and government departments. The Board comprised not only people from Ireland but senior business people from the UK.

5. When a non-executive director was appointed, they received briefing documents to help them familiarise themselves with the Group's operations, management and governance structures which covered the functioning of the Board and the role of the key Board Committees. Also, new directors were given an induction programme which included visits to Group businesses and briefings with senior management as appropriate. Special training/briefing sessions appropriate to the business of the Group were provided to all non-executive directors on an ongoing basis.

6. A review of the effectiveness of the Board was carried out each year with each director being assessed across a wide range of criteria.

B1(c) Quality of the Business Model Setting Process

7. I assume what is meant by this category is the quality and setting of the strategic plans that were considered and implemented by Bank of Ireland during the relevant period.

8. A key function of the Board of directors of Bank of Ireland was to determine strategy and to ensure that management then implemented the strategy as agreed. In these circumstances, the Board of Directors was fully involved in setting the strategy of the Group.

9. The Board of directors ordinarily had a strategy meeting in October each year (which was carried out off site) and at this meeting, the Board would receive and consider presentations from senior management and conclude on the Group strategic plan for the relevant period. In

some years, this involved a review and testing of the existing plan and in other years the process involved the putting in place of a new plan.

10. My recollection is that on each occasion the process involved:-

- A consideration of the relevant papers in advance of the offsite Board meeting;
- Various presentations being made including from the Chief Executive and from other Executives or third party consultants where appropriate and necessary;
- A robust discussion between the Board members including the Executive members of the Board in order to test the appropriateness of the strategic objectives and the ability of management to achieve those objectives;
- Agreement on the proposed strategy (with any necessary modifications as identified during the review process).

11. **Strategy 2001/2006** was presented by the then Chief Executive, Mr Maurice Keane, to a meeting of the Board of directors of Bank of Ireland held in October 2001. In presenting the plan, he made it clear that the Group's long term strategic direction was clear but there were some considerable performance pressures in the short term and that attaining targeted revenue growth and demonstrating superior cost performance would be key.

12. **Strategy 2002/2007** was presented to a meeting of the Board of directors of Bank of Ireland by the new Chief Executive, Mr Michael Soden, at the Board meeting held in October 2002. This plan envisaged growing the Group's existing market capitalisation from €12 billion to €30 billion over the next five years and whilst this was a challenging objective, management stated that they were working towards a higher ambition of €40 billion market capitalisation by 2007. The Strategy was to be delivered through a combination of organic growth both in Ireland and the UK, selective acquisitions particularly in the Life and Pensions market, a series of cost efficiency programmes and capital management, including share buy-back programmes.

13. **Strategy 2003/2008** was presented by Mr Soden to the Board at a meeting in October 2003. This plan was essentially a review and update, although it recognised that the aspiration of a €40 billion market capitalisation was unlikely to be achieved in the near term and the focus should be on achieving an increased market capitalisation to €30 billion. Management were asked by the Board to develop and propose the range of management information which the Board could review on a regular basis in order to assess progress in implementing the strategic plan.

14. Mr Brian Goggin replaced Mr Soden as Chief Executive in the summer of 2004 and Mr Goggin presented **Strategy 2004/2009** to the Board at a meeting held in October 2004. This strategy was presented shortly after Mr Goggin's appointment. It was acknowledged that it was not a *"root and branch"* review. Instead, emphasis was placed on reviewing the fundamental assumptions about the Bank's operating environment which had formed the basis for the existing Group strategy.

15. I then became Chairman in July 2005. After discussions with Brian Goggin, we decided that rather than a strategy document being developed by management and presented to the Board for review and comments, there would be a more interactive approach between the Board and senior management in developing the strategy that would ultimately be put to the Board for approval. This process started at the end of the summer of 2005 and was not concluded until July 2006. External advisers and consultants were brought in to give views on this strategy (such as McKinsey, Boston Consulting Group, Goldman Sachs and Mercer Oliver Wyman) and Strategy 2006/2012 was developed from this more considered approach.

16. It was decided that the 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 were also expanding markets.

17. This process resulted in **Strategy 2006/2012** which was presented to a specially convened Board meeting in July 2006. I encouraged open and robust discussion with a view to arriving at an agreed position which would enable management to move to early execution of the plan in the knowledge that they had the full support of the Board. The plan was considered and debated during the meeting and after a very thorough analysis the strategy was adopted.

18. Engagement on this strategic plan continued over the next twelve months. In November 2007, we decided that given the recent turmoil in the financial markets and a change in the growth prospects in our key markets, there should be a review of the assumptions underlying the strategy.

19. This process was undertaken and the issue was further addressed at a meeting of the Board in March 2008. By this time, the environment had changed significantly. On 22 February, Northern Rock, a significant UK retail bank, which had required liquidity support from the bank of England in September 2007, was nationalised by the British Government. There was continuing uncertainty and slower growth prospects in the economy and issues had arisen in respect of the availability of and cost of funding from the financial markets. What was proposed was that Bank of Ireland would focus more on customer deposits and extending out our wholesale funding terms and generally try and strengthen our capital ratios given the unfavourable position of the financial and capital markets. The Board discussed these significant changes in market activity and circumstances and strongly questioned whether the current strategy was appropriate in light of market conditions. The Board concluded that the key priority of Bank of Ireland was to continue to manage the difficulties arising from current market turmoil and reconsider the strategic direction of Bank of Ireland at the July Board meeting.

20. When the Board considered the strategic plan in July 2008, market conditions had deteriorated further and the Board decided to suspend the interim dividend payment to shareholders which reflected the Board's concern as to the worsening liquidity position of the Group. A significant downside risk to Bank of Ireland was the state of property and mortgage markets in our core areas of operation namely Ireland and the UK where we had substantial residential and commercial property exposures. I recall that there were differing views as to the extent of the downturn in the property market that was occurring and the decision in terms of strategy was to try and make Bank of Ireland more efficient in the short term and to strengthen the Group's capital position, to dispose of non-core businesses and focus on deposits and other sources of funding.

21. 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 censensus 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 businesses 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.

22. 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.

B1(d) Adequacy of Board Oversight over Internal Controls to ensure risk is property identified, managed and monitored

23. The Board had overall responsibility for the Group's systems of internal controls and for reviewing their effectiveness. In my experience as Chairman, the Board was committed to high standards of governance in compliance with the applicable legal and regulatory requirements and with best governance practice.

24. Importantly, as noted in the corporate governance statement in the Bank's 2008 Annual Report, the systems were designed to control, rather than eliminate, the risk of failure to achieve business objectives and could provide reasonable, but not absolute assurance against material misstatement or loss.

25. Bank of Ireland operated a centralised risk committee structure which evolved over the period 2001 – 2008. In the period up to 2002, the Board had delegated defined responsibilities in respect of the Group's risk management authority, to three management sub-committees.

26. In 2002, the structure was amended to ensure a greater degree of integration and rationalisation in the management of different forms of risk within the Group. This was viewed as consistent with practice in other institutions of the Bank's size and complexity and was anticipated to enhance the focus on risk management at top management level. This approach was also intended to place the Group in a better position to prepare for the Basel II changes which were due to be implemented from 2005. As part of this approach, management proposed the establishment of a new management committee called the Group Risk Policy Committee ("GRPC") to have responsibility for recommending changes in all high-level risk policy/ strategy and risk appetite limit-setting to the Board for approval and was intended to assist the Board with its risk oversight and governance responsibilities.

27. A summary of the key elements of the Group's overall control systems for the relevant period (which is based on the information reported in the 2008 Annual Report) is set out below:

- A clearly defined organisation structure with defined authority limits and reporting mechanisms to high levels of management and to the Board;
- Establishment of committees with responsibilities for core policy areas;
- A comprehensive set of policies and procedures relating to financial controls, asset and liability management (including interest, currency and liquidity risks), operational risk and credit risk management;
- A code of conduct setting out the standards of behaviour expected of all directors, officers and employees;
- Monthly reporting by business units to enable progress against business objectives to be monitored, trends to be evaluated and variances to be acted upon;

- A semi-annual detailed operational risk assessment by all group businesses with reports to divisional management on the effectiveness of their risk management system. Heads of business units were required to certify the accuracy of the self-assessment and the results arising from this process were noted by the Group Risk Policy Committee;

- The above controls, which were embedded within the operations of the Group were reviewed by Group Internal Audit. In these reviews, emphasis was focussed on areas of greater risk as identified by risk analysis;

- In addition, the reports of the external auditors, which contain details of any material control issues identified arising from their work, were reviewed by the Group Audit Committee. After each meeting of the Group Audit Committee, its Chairman reported to the Board on all significant issues considered by the committee and the minutes of meetings were circulated to all members of the Board;

- Following the end of the financial year, the Board reviewed the Group Audit Committee's conclusions in relation to the Group's systems of internal control and the appropriateness of the structures in place to manage and monitor them. This process involved a confirmation that a system of internal control according with the Financial Reporting Council Revised Guidance on Internal Control was in place throughout the financial year and up to the date of the signing of the financial statements. It also involved an assessment of the ongoing process for the identification, evaluation and management of individual risks and of the role of the various Committees and Group risk management and the extent to which the various significant challenges facing the Group were understood and were being addressed.

28. The Group operated a "three lines of defence" approach to risk. As an example, this three lines of defence approach applied in respect of credit risk specifically, as follows:

    - First Line of Defence: Each member of staff involved in developing banking relationships, and/or in assessing or managing credit was required under the Group Credit Policy to be conversant with both Group and Business Unit Credit Policies and had a responsibility to ensure compliance with these policies.

    - Second Line of Defence: The role of Group Chief Risk Officer was established in 2003, reporting to the Group Chief Executive. The Group's main central risk functions of Credit, Market, Operational and Regulatory risk management reported to this role, and comprised the second line of defence in relation to Credit.

    - Third Line of Defence: The Group had an independent Group Credit Review (GCR) function, part of the central Group Credit function, which was responsible for reviewing the quality of risk assets across the Group. The independence of GCR within the Group Credit function was endorsed by the Board approved Group Credit Policy stating that the Head of GCR had access to the Group Chief Executive Office at all times and attended GCC (and latterly GRPC) when the quarterly GCR Asset Quality Reports were discussed.

29. The statement of Group Credit Policy outlined that Group Internal Audit, a separate independent appraisal function reporting to the Group CFO and with a direct line to the Chairman of the Group Audit Committee, would, at unspecified times, examine and evaluate the activities of the central Group Credit function, including GCR and report on a formal basis to Group Audit Committee, specifying the review findings, commenting on the overall activities and making recommendations.

30. The overall statement of Group credit policy was approved by the Board and this policy was implemented throughout the Group through business units which put in place their own Credit Policies. Key policies were approved by the GRPC, which was the most senior risk committee and which was a sub-committee of the Board. Other policies were approved by the Independent Credit Policy Unit within Group Credit function and the relevant policies would have included policies in relation to property lending.

31. I believe that during my period as Director and Chairman there was adequate and appropriate board oversight over internal controls. A separate issue is that we, the Board and Management, did not fully appreciate 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 quantum of property lending and from the Group's reliance on wholesale funding.

32. 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.

EFFECTIVENESS OF BANKS' CREDIT STRATEGIES AND RISK MANAGEMENT

B2(a) Appropriateness of Property Related Lending Strategies and Risk Appetite

33. In line with the strategy outlined above in section B1(c), the overall loan book of Bank of Ireland grew very considerably, although unlike with certain other banks, property related lending did not grow in a disproportionate fashion. I do not believe that the risk 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 risk appetite for, and by extension lower relative exposure to, landbank lending than other banks in the Irish market.

34. Notwithstanding that the growth was not disproportionate, the quantum of the Bank's property and construction book was significant and so the Bank was heavily exposed to the significant downturn in the Irish and UK property markets.

35. Notwithstanding the lending strategies and risk governance structures that were in place, it is now clear that the Board and management did not fully appreciate the risk inherent in the rate of growth of the Bank's core businesses and in particular, the risks arising from the overall level of property lending.

IMPACT OF THE REMUNERATION ARRANGEMENTS ON BANKS' RISK MANAGEMENT

B5(b)Impact of Shareholder or Lending Relationships in Promoting Independent Challenge by the Board and/or Executives

36. Bank of Ireland Group had an active and well developed investor relations programme which involved regular meetings by the Group Chief Executive, members of his senior executive team and the Head of Group Investor Relations with the Group's principal institutional shareholders and with financial analysts and brokers. The Board of directors were kept informed on investor issues through regular reports from Group investor relations on the outcome of those meetings and I also met with major shareholders independently of the executive team. In those meetings, I gathered the views of institutional shareholders and I presented feedback from those meetings to the Board of directors. Given that the principal duty of directors is to act in the best interests of the company to which they are appointed and, by extension, its shareholders, the views of shareholders were, of course, taken into account, but I do not believe that this adversely affected independent challenge by the Board and/or by the executives.

37. I am not aware of lending relationships impacting on independent challenge by the Board and/or executives.

ROLE AND EFFECTIVENESS OF THE POLICY APPRAISAL REGIME BEFORE AND DURING THE CRISIS

C2(c) The Liquidity –v- Solvency Debate

38. I do not recall there being any debate of liquidity –v- solvency during the relevant period. The focus was on liquidity.

39. In the lead up to September 2008, conditions in the international financial markets had become very difficult. Bank of Ireland was concerned by the situation internationally and was concerned with its own liquidity and with ensuring that its asset books were properly collateralised. During this time I had regular but infrequent meetings with the Governor of the Central Bank of Ireland ("CBI"), Mr John Hurley and I recall a very small number of meetings with Brian Patterson of the Irish Financial Services Regulatory Authority (the "Financial Regulator"). The CEO Mr Goggin, was the primary contact with the CBI and with the Irish Financial Regulator and he made the Board aware on a periodical basis of his discussions with CBI and the Financial Regulator which again focussed on the growing liquidity problems facing financial institutions including Bank of Ireland. In essence, there was less funding available on the wholesale money markets and the period of time for which funding was available was contracting sharply.

40. This issue came to a head on 29th September when Anglo Irish Bank revealed its inability to repay or roll over a significant loan due for settlement the following morning.

APPROPRIATENESS AND EFFECTIVENESS OF THE DEPARTMENT OF FINANCE ACTIONS DURING THE CRISIS

C3(b) Appropriateness of the Bank Guarantee Decision

41. While I am not aware of all of the factors which the Government had to consider in reaching its decision to give a system wide guarantee, my understanding is that the principal reason for the guarantee being given on the night of 29 September was the liquidity default risk facing Anglo Irish Bank and the concern that this could have systemic implications.

42. I was aware for a number of weeks, from discussions within Bank of Ireland, of the concerns which the Financial Regulator had in relation to INBS. On the morning of 29 September, Bank of Ireland had been requested by CBI to consider acquiring Irish Life & Permanent. On the afternoon of 29 September, Anglo Irish Bank had asked Bank of Ireland to consider acquiring it. At the meeting at government buildings on the night of 29 September, Bank of Ireland and AIB were each asked to provide €5bn of immediate support to Anglo Irish Bank.

43. As can be seen from the above, it was clear that there were serious concerns in relation to three major Irish financial institutions. There was also the backdrop of the collapse earlier in the month, of Lehman Brothers.

44. I am not aware of the range of options considered by the Government at the end of September 2008 and am therefore not 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 dealt by a guarantee of the financial support which Bank of Ireland and AIB were prepared to make available in the short term to Anglo Irish Bank (subject to that funding being guaranteed by the Government). 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 presumably to address the risk that a more limited form of guarantee could have led to a run on Irish banks.

CLARITY AND EFFECTIVENESS OF THE NEXUS OF INSTITUTIONAL ROLES AND RELATIONSHIPS

R3(b) Nature and Appropriateness of the Relationship between the Central Bank, including the Financial Regulator, Department of Finance and the Banking Institutions

45. As stated above, I had regular but infrequent meetings with John Hurley (the Governor of the Central Bank) and Brian Goggin and his executives would have been in regular contact with the Central Bank and the Financial Regulator. I also met, on a small number of occasions, with Mr. Brian Patterson, the then Chairman of the Financial Regulator.

46. As one might expect, my own meetings (and I believe Brian Goggin's meetings) with the Central Bank and the Financial Regulator became more frequent during 2008 as the financial crisis developed.

47. I had no dealings with the Department of Finance and my understanding is that senior management had no material dealings with the Department of Finance prior to the events of September 2009.

48. The interaction between Bank of Ireland and the Central Bank (including the Financial Regulator) and the Department of Finance, was, to my knowledge, always on a formal and professional basis.

Richard Burrows

16 April 2015