Joint Committee of Inquiry into the Banking Crisis

Richie Boucher, Group Chief Executive, Bank of Ireland

I joined Bank of Ireland Group as Deputy Chief Executive, Corporate Banking in December 2003. Following the retirement of the incumbent I was appointed Chief Executive Corporate Banking in March 2004.

Following certain retirements and a re-organisation I was appointed Chief Executive Retail Financial Services Ireland in January 2006 and joined the Group Executive Committee at that time. I was appointed to the Court (the main Board of Bank of Ireland Group) in October 2006.

Following the resignation of the incumbent and with the approval of the Minister for Finance and of the Central Bank of Ireland I was appointed Group Chief Executive of Bank of Ireland Group in February 2009.

I have stood for re-election as a Director and as Group Chief Executive of Bank of Ireland Group at Annual General Meetings of shareholders in 2009, 2010, 2011, 2012, 2013 and 2014. The vote in favour of my re-election has been in excess of 95% on each such occasion. The State as shareholder has voted for my re-election on each occasion when it was a shareholder.

Between December 2011 and June 2013 an independent 3rd Party conducted a review of my Fitness & Probity to be Chief Executive of Bank of Ireland Group under the Fitness & Probity requirements of the Central Bank of Ireland, (please see Exhibit A1 particularly Clause 3.2c of page 7) in relation to the Fitness & Probity requirements (in the public domain)) and Exhibit A2 in relation to the outcome of the Fitness & Probity review of myself (not in the public domain).

Please also see Exhibit A3 with respect to Category 3 - Summary of Corrective Actions submitted to the Joint Committee of Inquiry in February 2015 (not in the public domain).

The Joint Committee has directed me to provide written statements (and as is appropriate to provide documentation – which I have done as referred to herein) in relation to certain specified matters (as set out below) in my capacity as Chief Executive Corporate Banking (March 2004 – December 2005) and Chief Executive Retail Financial Services Ireland (January 2006 – February 2009) and Group Chief Executive (February 2009 – to date), I do so as follows:

B1. c, B2. a,b,c, Quality of the business model setting process, Appropriateness of property related lending strategies and risk appetite. Appropriateness of credit policies, delegated authorities and exception management, Analysis of risk concentration in the base and adverse economic scenario and the impact on the capital structure.

With regard to these matters I refer to the following documents which I have provided to the Joint Committee.

Exhibit

B 1) Bank of Ireland - Group Strategy 2003 – 2008 - October 2003 - Not in Public domain

B 2) Bank of Ireland - Group Strategy 2007 – 2012 - July 2006 - Not in Public domain

RBO01B02

RBO00023-001

B 3) Bank of Ireland Group - Financial Market Developments and Scenarios - Strategic Implications – September 2008 – Not in Public domain

B 4) Bank of Ireland Group – Chapter 3 –Analysis of the Reasons why the Institution ran into difficulty – Approved EU Restructuring Plan – 2010 – Not in Public domain

B 5) Oliver Wyman - Review of Risk Governance – May 2009 – Not in Public domain

B 6) Bank of Ireland Group – Circular to shareholders April 2010 – Pages 10,11,13,15,17,22,33,38,39-41 - In Public domain

B 7) Bank of Ireland Group – Slide Presentation to Existing and Potential Investors – Slides 9,10,11,12,13,14,15,17,21,22 - April 2010 – In Public domain

B 8) Boston Consulting Group – Bank of Ireland Governance & Risk Management Review – November 2010 – Not in Public domain

B 9) Bank of Ireland Group –Circular to shareholders – July 2011 Pages 30 – 33 and 102 – 106 – In Public domain

B10) Bank of Ireland Group – Slide Presentation to Existing and Potential Investors – Slides 11-17, 19, 20-24, 34 – 36 – July 2011 – In Public domain

B11) Promontory Financial Group – Review of Bank of Ireland's Risk Governance – April 2012 – Not in Public domain

B12) Bank of Ireland Group – Detailed response to Promontory Recommendation – April 2013 – Not in Public domain

B13) Bank of Ireland - Group Internal Audit Report – Corporate Governance Controls –February 2013 – Not in Public domain

B14 Bank of Ireland Group - Internal Capital Adequacy Assessment Process (ICAAP) Report 2013 (in effect the Group's Business & Financial Plan 2013 – 2017 for the Group and assessment by Regulators) – June 2013 – Not in Public domain

B15) Bank of Ireland Group - Slide Presentation to Existing & Potential Investors - Annual Results 2013 – In Public domain

Bank of Ireland's Business Model setting process, its property lending strategies and risk appetite, its credit policies and its analysis of risk concentration, in the base and the adverse economic scenarios and the impact on Capital structure were not as robust as they might have been in the period up to September 2008 (please see Exhibits B1 and B2 as compared to ICAAP 2013 – Exhibit 14). Where these fell short were, to a significant degree, set out in an Oliver Wyman report of April 2009 (please see Exhibit B5) which was commissioned by the Board and myself with a number of recommendations arising therefrom which I as Group Chief Executive was required to have implemented, reporting to the Board. These shortcomings were comprehensively identified in the Group's EU Restructuring Plan of 2010 and amended in 2011 - 2013 (please see Exhibit B4). An EU Restructuring Plan and amendments thereto is sponsored and endorsed by a State Aid recipient's

Government. It requires a relevant Institution which has received State Aid, to identify the reasons why the Institution required State Aid, requires the Institution to put in place a Plan to restore the Institution to viability, requires the Institution to have a plan to reimburse the State Aid as quickly as possible and requires the Institution to identify how it will ensure that its receipt of and repayment of State Aid will not distort competition in relevant markets. Bank of Ireland's EU Restructuring Plan of 2010 (as amended) was approved by the European Commission. As Group Chief Executive I have been responsible, reporting to the Board, for the preparation, negotiation and implementation of the EU Restructuring Plan. Bank of Ireland completed the reimbursement of the State Aid in December 2013 through the equity financed redemption and the on sale of €1.8bn remaining State owned 2009 Preference Shares to the private sector, bringing to in excess of €6bn as the amount of cash payments made by Bank of Ireland to the State / taxpayers for their support and investment since 2008 with the State / taxpayers still holding a valuable discretionary 14% shareholding in Bank of Ireland.

I was, from January – December 2006, a member of Bank of Ireland's senior management team, the Group Executive Committee, which consisted of the Group Chief Executive Officer, the Group Chief Financial Officer, the Chief Risk Officer, the Head of Human Resources, the Chief Executive Retail Financial Services Ireland, the Chief Executive Retail Financial Services UK, the Chief Executive Wholesale Financial Services and the Director of Group Manufacturing. Together with the Board we made strategic mistakes and errors of judgment and I bear collective responsibility for these and my contribution to them. These mistakes and errors of judgment were similar in some or all respects to those made by virtually all banks operating in Ireland in the period 2000 – 2008 and by a very large number of banks internationally. While these mistakes and errors of judgment were not (for Bank of Ireland) as catastrophic as for a number of Irish based and international banks, their shareholders and in a number of instances, the taxpayers of their home countries, nevertheless the mistakes and errors of judgment made by Bank of Ireland must be and have been acknowledged, including by myself. They were serious, negatively affected Bank of Ireland's investors and the Bank received State Aid from the tax payers (which has since been repaid).

From my appointment as Group Chief Executive in February 2009, I have accepted and made it clear that I am both responsible and accountable for recommendations to the Board on the overall strategy of the Group, for gaining stakeholder support for those strategies and for implementing the approved strategies for the Group. The processes for developing and assessing strategies and the governance for overseeing their implementation and the impact of their outcomes has been significantly influenced by the requirement for Bank of Ireland to recognise that mistakes and errors of judgment were made prior to September 2008. This has been necessary to avoid their recurrence.

A review of the Strategic Plans of October 2003 (Exhibit B1) and July 2006 (Exhibit B2) along with the Oliver Wyman Report of April 2009 (Exhibit B5) and Chapter 3 of the Approved EU Restructuring Plan of 2010 (Exhibit B4), identifies that prior to September 2008 Bank of Ireland had insufficient Capital to ensure it could independently cope with a very serious economic recession in its main markets and serious systemic issues for banking systems in Ireland and internationally. Bank of Ireland had an over-reliance on wholesale funding to finance its balance sheet and too much of that wholesale funding was short term in nature. While property lending as a proportion of the Group's balance sheet was not considered disproportionate, the actual quantum of property lending was too large even where it was considered to be diversified between Ireland and the UK. While the Group subjected individual customer relationships and transactions (property related and other lending) to a significant degree of scrutiny and put in controls of individual customer exposures etc. which were more conservative than competitors, the Group mistakenly (see Exhibit B3) did not give sufficient consideration to the fact that a less conservative approach adopted by competitors would and was

RBO01B02

RBO00023-003

contributing to a systemic bubble and potential problems with multi-banked individual customers such that the Bank of Ireland's own plans for how it could mitigate risk were undermined. In addition the Bank of Ireland did not have sufficiently comprehensive, clear and robust processes for monitoring, reporting and managing risk exposures across the Group. Furthermore the Bank of Ireland had grown a cost base to facilitate a far larger Group.

The Boston Consulting Report of November 2010 (please see Exhibit B8), the Promontory Report of April 2012 (please see Exhibits B11 and B12) and the Group Internal Audit Report of February 2013 (please see Exhibit B13) identify the progress the Bank of Ireland has made in the management of, reporting of and governance in relation to risk. The communication to shareholders and potential investors in 2010 and 2011 (please see Exhibits B6, B7, B9 and B10) identify the changes to the Bank of Ireland's business model, risk appetite, capital, funding, risk management and cost strategies. The communication to shareholders and potential investors for the financial year to 31 December 2013 (please see Exhibit B15) was the most recent update on progress the Group made against its strategic plans for the period under review by the Joint Committee. As Group Chief Executive, supported by our Board, I have felt that it is very important to identify for existing or potential investors Bank of Ireland's, business model, risk appetite, financial structure and the geographies and sectors in which the Group will operate. This transparency is essential because it lays before investors what the Bank's investment proposition is, and importantly what it is not. It ensures that the expectations presented to investors are seen to be realistic and that if investors have a desire for a different business model and risk profile, perhaps they should invest elsewhere.

Having reflected carefully on factors which might reinforce business model and risk appetite disciplines as growth returns, it is my opinion that the clarity and required disciplines around "setting out one's stall" to investors with regard to risk appetite and business model ensures that investors' expectations are managed, helps ensure that management / the Board cannot feel pressurised to take on risks/follow business models with which they are not comfortable and conversely management / Board cannot stray into risks or inappropriate business models because they cannot deliver within stated strategy or to try to achieve temporary but unsustainable outperformance vis a vis peers.

I would like to refer to Bank of Ireland's ICAAP 2013 (please see Exhibit B14), which was the Group's most recent 5 year plan for the period under review by the Joint Committee. It demonstrates the thought, process and governance which now goes into Bank of Ireland's business and financial planning with a very significant emphasis on risk appetite, funding and capital. It very explicitly identifies potential downside risks and stress scenarios to assist in decisioning on whether Bank of Ireland's risk appetite, business model, capital, funding, cost base and capabilities are sufficient to generate acceptable returns for investors in a base case and are resilient in downside and stress scenarios. Bank of Ireland's ICAAP 2013 has been accepted by the Central Bank of Ireland, the ECB, the Bank of England (Prudential Regulatory Authority) and the Federal Reserve Bank.

B 5 Adequacy of the Incentive and Remuneration arrangements to promote sound Risk Governance

In the period during which I was Chief Executive, Corporate Banking (March 2004 to December 2005) and Chief Executive, Retail Financial Services Ireland (January 2006 – February 2009) I did not have significant input into the design and governance of remuneration and incentivisation strategies for the Group, (or for the Corporate Banking business or for the Retail Financial Services Ireland Division) which under the Group's governance structures were (and remain) the remit of the Group Remuneration Committee - on advice from the Group Chief Executive and the Head of Group Human Resources. I did implement the Group's incentivisation and remuneration policies in

Corporate Banking and Retail Financial Services Ireland during the relevant periods and did receive remuneration and incentivisation in line with Group policies in those roles.

While it is difficult to look back even with the benefit of hindsight into what may or may not have influenced motivation and behaviours some seven or more years ago and in a different environment, I personally do not believe that incentivisation / remuneration was amongst the most significant contributory factor to the mistakes and errors of judgment which Bank of Ireland, its Board and its management team made. While incentivisation and remuneration in Bank of Ireland was relatively generous compared to other industries, Bank of Ireland was not at the forefront of incentivisation and remuneration in Financial Services and arguably people who would have had financial reward as a key defining motivation would have or did go to work for other Institutions and some did. My recollection is that for myself and other Executives in the period when I was on the Group Executive Committee (i.e. 2006 – 2008) – cash bonus payments were very linked to delivery on a cost programme while Long Term Incentive Plan (LTIP) and share options which were more linked to growth, to absolute performance and to performance vis a vis peers and had vesting periods and requirements such that they ultimately did not crystalise as the Group's financial performance post 2008 did not enable vesting and pay-out. It is my opinion with the benefit of hindsight, that whilst risk management was a component of performance management in Bank of Ireland on which qualification for incentivisation was based, it was not sufficiently explicit and comprehensive across the Group prior to 2009.

I have a general observation that LTIPs or Share Option Schemes which have a strong co-relation to relative performance against a peer group could be problematic unless the peer group has a similar business model and risk appetite. In my view such incentivisation should be most directly linked to the absolute performance of the Institution itself whereby the risk appetite and business model are boundaries to rather than adjuncts to strategy.

With regard to incentivisation and remuneration strategies and my inherent responsibilities and accountabilities for same as Group Chief Executive since February 2009, I refer to the enclosed documents:

C 1 Bank of Ireland Group Paper on Performance Management in Bank of Ireland – January 2013 – Not in Public Domain

C 2 Bank of Ireland Group Extract from Remuneration Report and Risk Management Report from Bank of Ireland's Group Annual Report 2013 – In the Public Domain

These documents and others made available demonstrate that Performance Management and Goal Setting are very linked to a balanced business card approach with the management of risk being a required core component of goal setting. They also show very explicit involvement of the Group Risk Functions in reporting to relevant committees of the Court on the influence of Risk Control requirements in Goal Setting and Performance Management.

C 2c <u>"The liquidity versus the solvency debate"</u>

As Group Chief Executive of Bank of Ireland Group since February 2009 this is a matter to which I have given and give a lot of consideration. I do not believe that there is a "versus". I think that they are inextricably interlinked and this was forcefully brought home to many people, including myself, during and post 2008. If the markets / debt investors/depositors, ("markets") believe a Bank has a liquidity problem, the level of capital held might offer only limited protection to a Bank's viability and survival. The concerns of the markets could be (a) systemic in three separate or connected categories i.e.: international as in September 2008; regional as in the Eurozone in September 2008, in H2 2010 (particularly after the Merkel / Sarkozy Deauville Accord) and in H1 2012 (with the second Greek / peripherals crisis); national as in Ireland in September 2008 and H2 2010 and/or (b) institution specific as with Anglo Irish Bank and INBS in September 2008.

That having been said, capital provides a protection against concerns arising. For example if capital might be seen as sufficient to absorb Institution specific concerns (e.g. a rogue trader, a large corporate customer's collapse, a large regulatory issue and fine) or a system wide issue (e.g. an economic downturn) markets may have less concerns about the viability of a bank. Markets would also look to a bank's business model and identify sources of funding and liquidity and the quantum of same which is / is perceived to be short term in nature. Markets will also look at the quantum of liquidity and funding obtained outside core franchises and/or from wholesale markets. Markets would also focus on the maturity profile of a bank's funding and the sources of same. Markets would also look within the bank's asset base to identify the extent to which the bank has collateral which could be eligible to raise funding from the markets and or Central Banks and to what extent that potential eligible collateral is encumbered. The attitude and approach of Monetary Authorities to the provision of support and Monetary Authorities' definitions of collateral eligible for Monetary Authority support are also important considerations for markets forming views on solvency / liquidity.

Since March 2009 Bank of Ireland has significantly changed its business model regarding capital, funding and liquidity. A core tenet for Bank of Ireland is that capital should be robust and capable of supporting Bank of Ireland's business strategy and objectives and capital should be sufficiently resilient to withstand idiosyncratic and/or systemic downside stress scenarios. This is done through the ICAAP process (see Exhibit B14). It is important to bear in mind that very significant efforts and focus is placed in Bank of Ireland on ensuring that all Board Directors have a comprehensive induction programme and on-going education sessions to understand and therefore be able to contribute to and challenge business model, capital, funding and risk strategies. Such education programmes incorporate strategic, tactical and technical issues and evolution / changes in markets/ regulations.

The capital requirements of the Bank of Ireland must be linked to a business model which must be sustainable and when linked with the capital requirement such a business model must be capable of generating sustainable returns for investors so as to attract investors' capital for a reasonable base case scenario. The business model and capital requirements must also be sufficiently resilient to survive a downside case and particularly a systemic downside / stress scenario which might expose less resilient business models of competitors.

Bank of Ireland's business model vis a vis funding is to have the Group's capital plus the quantum of customer generated deposits (from within sustainable franchises) broadly matching the quantum of loans to customers. Liquid assets (which are deemed necessary for regulatory reasons to meet a

potential exceptional level of deposit withdrawals or non-rollover), must be funded by wholesale borrowing from diversified non-monetary authority sources with the diversification being in terms of both funding instruments and the investor bases. This wholesale funding must also have a maturity ladder appropriate to meet conservative Bank of Ireland targets for Net Stable Funding and Liquidity Coverage ratios. This approach has been described to investors in terms of the business model and certain target key financial ratios (please see Exhibits B6, B7, B9, B10 and B15). Under the Bank of Ireland business model, business units must be self-funded from their own customer base e.g. Great Britain primarily from retail deposits through the Post Office, Business Banking in Ireland from business customer deposits, our Northern Ireland business from deposits generated in Northern Ireland and/or Bank of Ireland's business units must have assets which provide significant eligible collateral (e.g. our Mortgage businesses in Ireland and Britain) and/or have relatively high margins and proven liquidity i.e. the assets could be sold to willing buyers without material discounts (e.g. our International Acquisition Finance business). All deposit funding is deemed to be available to the Group and the businesses are subject to an internal cost of liquidity charge for funding of their customer loans which charge is dependent on the above features.

Two of Bank of Ireland's biggest strategic challenges it faced from March 2009 were the need to shrink the Group's balance sheet (having identified core franchises to be retained) without causing major capital issues as portfolios were sold or placed into rundown and secondly to move from wholesale funding of its UK Mortgage business to have the Great Britain business funded with Sterling £ deposits from a resilient customer franchise.

In reducing its balance sheet to its core businesses Bank of Ireland had to put into rundown or sell a large number of non-core loan assets plus transfers of circa €9.9bn gross loans to NAMA in a way which would give funding and equity markets confidence that Capital would be protected. To do so Bank of Ireland had to have a plan to reduce risk assets by circa €50bn (including €9.9bn of gross loans transferring to NAMA) and give funding and equity markets guidance as to how and when this would be done and at what costs (see Exhibits B6, B7, B9, B10). Through a comprehensive plan this has been achieved (Exhibit B15). Noteworthy in this regard was Bank of Ireland's demonstrated understanding of its own property and development portfolios, its confidence in its underlying documentation and its understanding of the NAMA process such that Bank of Ireland's original estimate of the cost of participation in NAMA as set out to existing and potential investors proved to have been broadly accurate. It is my perception that a contributory factor to the markets' loss of confidence in the Irish system and Ireland in H2 2010 was influenced by a realisation of the scale of losses which were being / would be incurred by AIB and Anglo Irish Bank from their participation in NAMA. Bank of Ireland predicted that ultimately NAMA would make a profit from loans purchased from Bank of Ireland and this appears to be happening.

In relation to self-funding for our UK business, the Group voluntarily incorporated our UK core businesses into a wholly owned but separately regulated and capitalised entity. We set out and have implemented a business model whereby deposits of a retail nature were generated from our partnership with the Post Office and these along with other sources of customer deposits (e.g. in Northern Ireland to fund Northern Ireland business) are such that the Bank of Ireland's retained UK businesses are now funded entirely by customer deposits. This business model is acceptable to the Bank of England, the UK Government and the Post Office as evidenced by the Bank of England's permission for the Group to subsidiaries its UK business in 2010 and by the UK Government / Post Office agreeing, in 2012, to further extend the main Post Office/Bank of Ireland partnership contract to at least 2023. This successful funding strategy enabled Bank of Ireland's UK business to be released from the blanket CIFS/ELG guarantee in early 2012 and together with the non-core asset disposal/rundown programme enabled Monetary Authority funding from the ECB to be very materially reduced whereby it is now at normalised levels.

C3b Appropriateness of the Bank Guarantee decision

As Chief Executive Retail Financial Services I was not involved in any interactions with the State or with the Central Bank of Ireland where a Bank Guarantee was discussed prior to 29 September 2008.

Indeed I was only involved in one interaction of materiality on liquidity with the Central Bank of Ireland in 2008 prior to 29 September 2008. This was on the weekend of 6-7 September 2008 where, at the request of the Central Bank of Ireland, a colleague and I attended a series of meetings in the Central Bank of Ireland to discuss potential liquidity support from Bank of Ireland and AIB for Irish Nationwide Building Society (INBS) which we did not feel we were able to provide. I recall being shocked and shaken by the lack of information available to the executives of INBS and the Central Bank of Ireland on the liquidity position of INBS.

During the challenging times in September 2008 I was on a number of working groups within Bank of Ireland trying to deal with the unfolding liquidity crisis internationally and in Ireland and how Bank of Ireland could mitigate same (e.g. please see Exhibit B3, provided to the Bank of Ireland Board in the second week of September 2008).

I recall that on the late afternoon of 29 September 2008 the Bank of Ireland Group CEO advised me and certain other colleagues that a meeting was to take place that night involving AIB and Bank of Ireland with the Government and the Central Bank of Ireland at which, amongst other things the possibility of a guarantee would be discussed. On the night of 29 September 2008 myself and several other relevant colleagues were in our Group Headquarters awaiting information and feedback from the meetings which were taking place in Government buildings at which the Bank of Ireland Group CEO and Governor (Chairman of the Bank) were representing Bank of Ireland. I recall that the Group CEO initially rang in to a conference call advising that the Government had requested liquidity support from AIB and Bank of Ireland to the extent of €5bn each for Anglo Irish Bank. The Group CEO advised that AIB had readily agreed. I recall that Bank of Ireland considered that it was necessary to convene a Credit Committee (the Group CEO in BOI did not then and does not now have the authority, outside a Credit Committee, to formally commit the Bank to a credit risk). A quorum of members of Group Credit Committee was available from those present (including myself) and the Group Credit Committee approved a short term loan of €5bn to Anglo Irish Bank subject to the commitment of the Government to provide a standard form guarantee the next day to Bank of Ireland for €5bn. I recall there was some discussion about how the Government could evidence consideration for the provision of such a guarantee and it was agreed that this issue should be suggested to the Government's advisers to deal with. I recall that one of my relevant colleagues then commenced contacting Group executives in our Treasury and Markets Division to come into work and commence a plan for repositioning our own liquidity and assets so that we could produce €5bn during the course of 30 September.

I recall that the Group CEO contacted us later by phone conference call to advise that the Government had decided to provide a systemic Guarantee for all deposits and liabilities. I recall that there was some discussion on whether the Guarantee would cover subsidiaries and what the definition of liabilities was. I cannot fully recall whether it was during that call or in a further later call from the Group CEO which advised that certain subordinated liabilities were also to be covered by the Guarantee. I recall that there was some surprise at this and the feeling was that this might not necessarily suit Bank of Ireland as there was a view that Bank of Ireland needed to strengthen its capital. From my experience in previous employments where I had spent part of my career on work-outs / insolvency situations, liability management exercises (where subordinated debt was bought back by the issuer at a discount for cash or shares) were a recognised mechanism for strengthening

viability and capital. I recall it being noted that this avenue would be limited in a scenario where certain subordinated liabilities were now to be guaranteed by the Government. Nonetheless, it is a matter of public record that in the period June 2009 – December 2011 Bank of Ireland generated capital of circa €5bn from the private sector (from a total of circa €11bn of capital raised / generated from the private sector) through a series of voluntary liability management exercise where subordinated Bank of Ireland bonds where bought back from holders at a discount in exchange for cash or Bank of Ireland shares. In a large number of cases the participants in these Bank of Ireland liability management exercises had themselves purchased the subordinated bonds in the market at a discount from the original holders of the bonds (most bonds trade on a reasonably regular basis in the markets at prices which reflect different market participants' perceptions of the credit worthiness of the issuer and the future direction of monetary policy).

I recall that during the day of 30 September 2008 colleagues advised me that notwithstanding that we had repositioned our portfolios to be able to lend €5bn to Anglo Irish Bank, this money was no longer required.

I further recall that during the course of 30 September 2008 it became apparent that Bank of Ireland would have to apply to join the guarantee. I recall that the guarantee having been already publically announced it was concluded without material debate that Bank of Ireland did not appear to have any real choice in the matter.

The above reflects my recollections of the matters surrounding the appropriateness of the CIFS Guarantee decision for Bank of Ireland.

3b Nature and appropriateness of the relationship between Central Bank of Ireland including the Financial Regulator / Department of Finance and the Banking institutions.

I have had very limited exposure to the above as Chief Executive, Corporate Banking (March 2004 – December 2005) and as Chief Executive Retail Financial Service Ireland (January 2006 – February 2009) and therefore cannot meaningfully comment from those periods.

I had had significant involvement and exposure to the Central Bank of Ireland and the Department of Finance since my appointment as Group Chief Executive in February 2009. I will focus on my perceptions based on key "set piece" capital related engagements.

I note that in the period February 2009 – April 2010 the NTMA was also heavily involved and were Bank of Ireland's primary route of engagement with Government albeit there were also regular meetings with the Department of Finance.

Negotiations regarding the State's investment of Preference Shares in Bank of Ireland in February and March 2009 were almost entirely with the NTMA and the Department of Finance and there was relatively little interaction with the Central Bank of Ireland other than to seek confirmation of the capital treatment for the Preference shares.

I saw an increasing level of co-ordination and information sharing between the Central Bank of Ireland and the NTMA / Department of Finance from late 2009 as new personnel came into the Central Bank of Ireland.

I saw close engagement with CBI/NTMA/DoF during PCAR 2010 (i.e. Q1 – 2010) where the capital requirements were set for Bank of Ireland following which Bank of Ireland developed and presented its plan to meet those requirements. As per Exhibit B6 and B7 in April 2010 Bank of Ireland had a

successful capital raising from the private capital markets which raised new private sector capital of €1.7bn (net) exceeding the PCAR 2010 capital requirement and incorporated a €500m cash payment to the State in respect of warrants attached to the State owned 2009 Preference Shares.

Bank of Ireland had considerable close engagement with the NTMA/DoF/CBI in H2 2010 as the liquidity and solvency issues across the Eurozone and in Ireland came to the fore once again. It appeared to me that there was very close co-ordination between NTMA/DoF/CBI in this period.

During PCAR 2011 (i.e. H1 – 2011) Bank of Ireland did not witness the same level of close interaction between CBI and DoF (NTMA banking unit had moved to DoF so our involvement with NTMA reduced). However that is not to say that this was not happening as it may have been but was not as visible to us as it had been in 2010. In addition it was clear that the Troika were heavily involved in PCAR 2011. As per Exhibits B9 and B10, under PCAR 2011 Bank of Ireland was required to raise €4.2bn equity capital by December 31 2011. Our primary contact in the development of our capital plan was with the Department of Finance, advising the Central Bank of Ireland of progress. Bank of Ireland raised/generated €4.0bn net in equity capital from the private sector to meet its requirements under PCAR 2011. While there was sufficient private sector demand through the capital raising to raise the entire quantum from the private sector, the Minister for Finance wished to preserve a discretionary shareholding in Bank of Ireland and purchased (net) €0.2bn of shares through the Rights issue at less than 10c per share (current share price >35c). The Troika also required Bank of Ireland to obtain a €1bn Contingent Capital Instrument from the State to supplement PCAR 2011. As stated above whilst we had extensive engagement with the Department of Finance and the Central Bank of Ireland over this period, I had a perception that engagement between DoF and CBI was not as close as in 2010, perhaps influenced by the Troika's involvement albeit the engagement may have been less visible that in 2010.

In Q4 2012 Bank of Ireland separately negotiated with the Department of Finance and with the Central Bank of Ireland regarding Bank of Ireland's plans to reimburse the €1.0bn Contingent Capital instrument held by the State which was successfully done through a Private Market sale in January 2013 at a profit to the State. This was followed by very separate negotiations with the Department of Finance and with the Central Bank of Ireland during 2013 relating to the planned reimbursement of the €1.8bn remaining 2009 Preference Shares owned by the State. This was successfully achieved in December 2013 through a private placing of shares of €0.5bn to private sector shareholders and an onsale of the remaining €1.3bn of 2009 Preference Shares to private sector investors at a profit to the State. The reimbursement required the negotiation of detailed commitments with the Central Bank of Ireland on the capital treatment of the 2009 Preference Shares when in private sector ownership.

Since Q1 2012 there has been a Relationship Framework as required by EU State Aid rules which provides the basis on which the relationship between Bank of Ireland and the Department of Finance is governed.

In my personal opinion since late 2009, the engagement between and with the Department of Finance, the Central Bank of Ireland and Bank of Ireland has been transparent, thorough, comprehensive and appropriate in the overall context and in the context of specific actions and issues over the period.

I confirm that to the best of my knowledge and belief all documentation accompanying this submission are true and correct copies of original documentation.

Richard Boucher
Kitwe
157 Vernon Avenue
Clontarf
Dublin 3

RBO01B02

RBO00023-011