Joint Committee of Inquiry into the Banking Crisis

Witness Statement of

Peter Fitzgerald

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Witness Statement

To: The Joint Committee of Inquiry into the Banking Crisis

From: Peter Fitzgerald

Date: 05 August 2015

[1.0] Introduction

I held a number of roles within Anglo Irish Bank and latterly IBRC in the period during which I was employed by the Bank from 1998 to 2013. From May 1998 to January 2001, I was a Corporate Deposit Manager in Group Treasury. From in or around January 2001 to in or around June 2006 I was appointed Head of the Retail Deposit Business. In or around June 2006 I was appointed to the Senior Executive Board ("SEB"), a management level below the main Board of the Bank, and was appointed Director of Corporate and Retail Treasury. I ceased to be on the SEB in or around August/September 2007 and in July/August 2008 reverted to being Head of the Retail Deposit Business only. In December 2009, I was appointed Head of Retail Funding as part of the new leadership team of the Bank post nationalisation which was a change in name only of the Head of Retail Treasury role I held at that time. In March 2011 I was appointed Head of Corporate Affairs, a role I held until my departure from IBRC in February 2013. At various times during my employment I was a member of a number of management committees. I did not, however, serve as an executive director or member of the Board of Anglo Irish Bank or on any subcommittees of the Board at any time during my career in the Bank.

Anglo Irish Bank Organisation Chart | 2008

*Fitzgerald role of Director of Corporate & Retail Treasury and subsequently Head of Retail Banking

Note: There were approximately 50 Divisional Directors in the Bank at this time
*Peter Fitzgerald role as Head of Corporate Affairs

I welcome the opportunity to share my knowledge and experience of these roles with the members of the Joint Committee of Inquiry into the Banking Crisis ("Joint Committee").

From correspondence I have received from the Joint Committee in relation to the Direction for me to provide this statement, it appears to me that it is the desire of the Joint Committee that my evidence focuses on the periods leading up to and in the aftermath of the Guarantee. For that reason, I have narrowed the focus of this statement to deal with these periods as comprehensively as possible within the parameters provided. However, I am more than willing to answer, as best as I can and to the extent possible, questions the Joint Committee have for me in relation to my employment at the Bank both pre and post nationalisation.

At the time of writing this statement, I do not hold any documents or other memoranda (such as minutes of meetings) from my time in the Bank. I therefore have no contemporaneous documents to which reference can be made for the purposes of preparing this written statement.

[2.0] Context, professional background and positions held in Anglo Irish Bank

From joining Anglo Irish Bank in May 1998, up to managing the sale of the Bank’s deposits and NAMA bonds to Allied Irish Banks Plc by way of a direction of the High Court in February 2011 (under the Credit Institutions (Stabilisation) Act 2010) and appointment as Head of Corporate Affairs, my substantive role was to raise customer deposits. I performed that role as a Corporate Deposit Manger up to 2001, as
Head of Retail Banking from 2001 to 2006, as Director of Corporate & Retail Treasury from 2006 to 2008 and as Head of Retail Banking again from 2008 to 2011. During this time I reported into the Head of Corporate Deposits, Head of Treasury, Director of Treasury, the Managing Director of Ireland and the Head of Operations in the Bank respectively and had up to 300 staff reporting into me at various times during this period. I was appointed to the Senior Executive Board (“SEB”) for a period from in or around the middle of 2006 to 2007 and was specifically approved by the Financial Regulator for that position. Following my removal from the SEB by the then CEO, David Drumm, I requested to be removed as an ‘Approved Person’, and this request was fulfilled by the Financial Regulator in or around November 2007.

The performance of these roles did not extend to lending to customers or involvement in the credit, risk and compliance operations in the Bank. Equally, I was not a party to discussions conducted by the executive management of Anglo with the Financial Regulator, Central Bank or other banking counterparties in relation to the funding position of Anglo in 2008.

[3.0] My Role & Responsibilities | Customer Deposits in Anglo Irish Bank

As Head of Retail Banking and Director of Corporate and Retail Treasury in Anglo Irish Bank, my substantive role was to source customer deposits from two distinct customer segments namely Retail Deposit Customers and Corporate Deposit Customers. The Corporate Deposit Customer profile ranged from SMEs to large corporate and institutional clients across practically every business sector. Retail Customers were predominately older savers with lump sums to invest.

3.1 CORPORATE CUSTOMER DEPOSITS STRATEGY & GROWTH

Anglo Irish Bank aggressively funded its loan growth with deposits from corporate customers throughout its history. These deposits were the life blood of the Bank during the early period when it was too small to be rated by external credit rating agencies and therefore had limited access to funds from large corporate entities or to longer dated capital markets counterparties. The deposit proposition was interest rate and customer service driven and the marginal returns offered for surplus cash on deposit made it worthwhile for customers to switch banking relationships for this aspect of their business alone. Funding from Corporate Customers in Anglo grew year on year to in or around €32 billion in 2008 and accounted for 36% of the total funding position of the Bank. The growth in the number of Corporate Customers however, which totalled in or around 11,000 with an average balance of circa €3.5 million at the end of that period, was disproportionately lower to the fast growth in actual deposits. While the majority of these customers were SME in nature with sub €1 million in deposits with the Bank, the size of deposits taken from individual customers however grew significantly from 2005 onwards whereby some ‘institutional’ clients had over €1 billion placed on overnight deposit with the Bank. This concentration level meant the deposits in the Bank became increasingly more volatile and, while every effort was made by the treasury teams to attract deposits from a wider range of smaller customers, the growth in deposits and other funding sources required to fund the huge volume of lending growth during the period from 2005 onwards made that task almost impossible. This was to lead to significant problems for the Bank in 2008.
3.2 RETAIL DEPOSITS STRATEGY & GROWTH

The strategic intent to broaden its funding base to include deposits from retail customers was established by the senior executive of the Bank in 2001 in line with the introduction of the SSIA savings incentive scheme in Ireland. The move into retail was driven by four main factors: (1) the anticipated future lending growth; (2) the need to be rated by international credit rating agencies which placed a high value on diversified funding sources; (3) the quality of funding from retail sources in terms of its granularity and low volatility; and (4) the ability of the Bank to pay a high rate of interest to attract savers given its high net interest margin on property lending and its low cost income ratio.

Once established, the retail savings function in Ireland became successful very quickly and attracted significant positive media coverage and commentary due to the perceived lack of competitive offerings for savers in Ireland at that time. Following this success, a decision was then taken in 2004 to launch a retail savings proposition in the UK. While the UK savings market was at the time one of the most competitive in Europe, it was agreed to proceed based on the fact that

1. The Bank had acquired the skills and operational capabilities to gather retail savings from customers in Ireland;

2. The Bank had a long established lending business in the UK with full branch status for the purpose of the required regulatory approval to launch this savings business; and

3. The UK savings market stood at close to a trillion pounds in value at the time so that any success there would be very material for the Bank.

Following a ‘test and learn’ period until early 2005, the Bank began to enjoy considerable success with UK savers and growth was driven using high interest rates advertised in ‘best buy’ tables in online and offline media and other comparator and aggregator sites such as Money Supermarket.com. Equally, as in Ireland, the Bank engaged in media relations and some press and online advertising to build awareness in the UK marketplace.

The remaining retail funding site of the Bank was in the Isle of Man which had been in operation for many years and attracted a limited but consistent level of savings from onshore and offshore high net worth savers. While successful in among its local peers in this space, the Isle of Man operation would always remain the smallest retail savings centre operated by the Bank up to nationalisation.

In or around late 2007 or early 2008, I was asked by the then CEO, Mr. David Drumm, to plan the launch of a new retail savings site for the Bank in addition to the three locations described above. Once researched, it was agreed that Germany would be the next jurisdiction to launch Anglo Irish Bank’s retail savings proposition. The reasons for this further expansion were:

1. To diversify the retail funding source into another large European savings jurisdiction and thereby reduce the dependence on the now rapidly growing UK source;

2. To seek to raise an additional €3 billion in granular funding;
3. To access a possibly cheaper funding source to existing markets as the German market was deemed less competitive than the UK at that time;
4. The Bank had an established branch in Dusseldorf for the purpose of raising corporate deposits and was BAFIN regulated for this purpose; and
5. It would be a positive development in the funding of the Bank’s balance sheet to communicate to investors, rating agencies and other stakeholders at the financial year end in 2008.

A full launch plan was developed for this purpose with the assistance of a local consulting firm based in Frankfurt and this was presented to Donal O’Connor following the departure of the CEO in 2008. The plan was never implemented.

From early 2001 to its peak in 2008, the volume of retail savings from the three markets outlined above grew to circa €19 billion in funds entrusted from close to 240,000 customers with an average balance of €77,000. Close to 50% of these funds were from the UK market with the balance from Ireland and the Isle of Man and total deposits from retail customers in 2008 accounted for 22% of the overall funding position of the Bank. The fast growing concentration of UK sourced retail funding was very relevant to the increase in the Irish deposit protection scheme and the subsequent introduction of the Government Guarantee.

[4.0] Crisis Period 2007 - 2008

The collapse of Northern Rock was the first event that weakened customer confidence in the security of their savings with Anglo Irish Bank. The Bank took thousands of calls per day from concerned customers who either wanted to withdraw funds or seek assurances that their deposits were safe. While the UK retail centre of the Bank was the main focus of calls from UK customers, Irish savers became equally nervous when queues formed outside the Northern Rock office in Dublin. Although I was not involved, I am aware the Bank remained in constant contact with the Financial Regulator in Ireland, the Financial Services Authority (FSA) in the UK (as it was then named) and the Financial Services Commission in the Isle of Man through its risk and compliance function during that crisis period.

The collapse of the Anglo Irish Bank share price on 17 March 2008 was the second event that materially weakened customer confidence in the security of their savings in Anglo Irish Bank. The seriousness of this event was greatly inflated by the fact that the Anglo share price alone among the Irish banks was being targeted by sellers and fell by circa 15% on that day. The outflows were significant and the Bank ran a very real risk of not being able to handle the volume of inbound calls from concerned customers. It also introduced the first real risk of the Banks branches in Dublin, Waterford, Cork, Limerick and Galway not being able to deal with the volume of customers calling to close accounts. Staff were drafted from other divisions of the Bank to bring customers into meeting rooms off the street and avoid queues forming. Again, although I was not involved, I am aware of significant efforts being made by the Bank to get the Financial Regulator to intervene and, once it announced an investigation into ‘short selling’ of bank stocks later that week, the share price immediately rose and the crisis abated. Withdrawals slowed over the following days.
The collapse of Leman Brothers on 15 September 2008 was the third and final event that materially weakened customer confidence in the safety of their savings in Anglo Irish Bank. It is my view that the Bank experienced a full blown 'run' on customer deposits from that period up to 29 September 2008. As the primary channel for both corporate and retail customers dealing with the Bank however was via the telephone, this 'run' never fully manifested itself in the public domain. In Ireland in particular however, the word on the street was that Anglo was in serious trouble. It was an incredibly stressful time for Retail Deposit Customers in particular, many of whom still had all of their savings with the Bank. While having survived two material events of this nature, the events of September brought a new level of uncertainty for the staff and management of the Bank and with the share price now below 30c, I believe most of the senior staff honestly felt the Bank would not recover.

[5.0] Themes and Key Lines of Inquiry | Effectiveness of the Banks Credit Strategy and Risk Management [B2]

[B2:b] Appropriateness of credit policies, delegated authorities and exception management

Group credit policies in Anglo Irish Bank together with associated delegated authorities and exception management processes were established by the Group Risk and Compliance Committee which was a sub-committee of the main Board of Directors of the Bank. These policies were implemented at formal credit committees in Ireland and the UK where lending proposals for UK and US customers were presented, discussed and approved or declined. While my roles in the Bank did not involve membership of or attendance at these committees, I am aware in hindsight from the final Report of the Nyberg Commission of Investigation into the Banking Sector that credit risk management structures in the Bank were, in practice, deficient and there was ineffective overview of Group credit decisions. I am also aware, from the Nyberg Report, that lending policies were treated as guidelines rather than strict rules; exceptions to policy were very common. In addition, the internal sector limits which did exist were not enforced. Loans were not clearly or appropriately classified by commonly used sector lending categories. Outside of these comments, I can add no further insight into this line of Inquiry.

[6.0] Themes and Key Lines of Inquiry | Impact of the property valuation methodologies on bank’s credit risk management [B4]

[B4:a] Adequacy of the valuation policies and assumptions to accurately access loan security

The scope of any of my roles within the Bank did not extend to property valuation methodologies which I believe was the responsibility of the Board Risk and Compliance Committee, Credit Committee and various lending divisions across the Bank. With no operational responsibility for or experience in this area therefore and with respect to the Members of the Joint Committee, I am afraid that I cannot speak with any authority on or offer and substantive insights into this line of inquiry.

[B4:b] Independence of the professional advisors in valuing property assets

Please see the response to B4:a above.
Adequacy of internal controls over perfection of security and policy exception

Please see the response to B4:a above.

Themes and Key Lines of Inquiry | Impact of bank's internal audit processes in supporting effective risk management [B6]

Effectiveness of the oversight of the prevailing risk culture

In terms of the effectiveness of the oversight of the prevailing risk culture for the Bank's lending, I am aware in hindsight from my reading of the final Report of the Nyberg Commission of Investigation into the Banking Sector that neither the Internal Audit Function nor the Audit Committee in Anglo Irish Bank was in a position to challenge credit decisions per se, where the main problems ultimately arose. I recall that the Internal Audit of the customer funding operations of the Bank, as in the credit risk function, was limited mainly to carrying out inspections on processes such as adherence to terms and conditions of products which it duly did.

Under this particular line of Inquiry I would like to offer the following insight. There were a number of known risks inherent in the customer funding model employed by Anglo Irish Bank and, while these were not by any means unique to the Bank, I believe they were amplified given the requirement to fund the pace of the Bank's lending growth from 2005 onwards. These known risks were as follows:

1. As the Bank achieved higher credit ratings from Moody's, Standard & Poor's and other agencies, it became possible to deal with much larger corporate and institutional customers who placed their surplus funds with rated banks only and in amounts related to the quality of those ratings. The effect of this meant that while the number of corporate customers continued to grow, the amount of deposits entrusted to the Bank by an increasingly smaller number of customers grew by substantially more. This was a characteristic that escalated in particular from the period from 2005 onwards as the Bank was growing rapidly and enjoying the ongoing approval of rating agencies and investors alike.

2. The majority of large Corporate Deposit Customer accounts were managed by a company accountant, financial controller or treasurer. They operated to strict credit criteria and did not hesitate to withdraw funds as a matter of policy if those criteria were not met regardless of the interest rate available from the Bank. This risk was common to all banks at the time and still applies today.

3. Anglo did not provide a full or 'universal' range of banking services for Corporate Deposit Customers in any of its markets in terms of current accounts, overdraft facilities, term working capital lending, leasing, payroll and other business banking services. Outside of the rate of return being offered for their deposits, there was no wider benefit for those to conduct business with the Bank.

4. The Corporate Deposit Customer base was by its nature financially sophisticated and therefore highly attuned to financial broker commentary on the risks affecting the local and global banking environment. As the liquidity crisis developed, I believe Anglo, in light of the points above, became one of the first victims of the 'flight to quality' in terms of the
movement of funds away to those universal banks deemed to have more sustainable business models and therefore move likely to survive.

5. The proposition that Anglo offered Retail Deposit Customers in each jurisdiction was that of an 'alternative savings provider'. It encouraged customers to move their savings away from their main banking relationship who provided them with current accounts, mortgages, insurance and many other financial products. While the mono-line retail proposition from Anglo was reinforced with highly competitive interest rates, efficient processes and strong customer service, in effect it meant that Anglo was always attracting funds that were highly mobile in nature. In hindsight this was a risk that quickly escalated in line with the rapid growth in that business.

6. A certain proportion of these Retail Deposit Customers were solely attracted to the high interest rate proposition and would move instantly to another institution if that interest rate was reduced or a higher interest rate was available elsewhere. This was more prevalent in the highly competitive and at the time more sophisticated UK savings market than in Ireland or the Isle of Man but led to continued price pressure.

7. This above risks were further compounded by the fact that all deposit customers could request a cheque or electronic repayment of their funds in whole or in part, either on demand or at a future date, by way of a simple telephone or faxed instruction. This risk was mitigated somewhat by the fact that at any time close to 50% of funds from Retail Deposit Customers were in one year fixed savings accounts and there was no online withdrawal functionality.

8. The Retail Deposit Customer business was highly operationally intensive in terms of call volumes, account opening, account maintenance and payment processing. Scalability was critical as poor processes, insufficient staff training or repeated customer errors could lead to negative and damaging press comment or complaints to the financial ombudsman in any jurisdiction. Anglo invested in these areas however and in general the level of errors and number of upheld complaints was extremely low.

All aspects of this prevailing risk culture were primarily discussed by senior management at regular ALCO (Assets and Liabilities Committee) meetings. They in turn were raised and discussed by the Head or Director of Treasury with the executive management and it was an agenda item at higher level annual presentations to the main Board of Directors of the Bank.

[8.0] Themes and Key Lines of Inquiry | Role and effectiveness of the policy appraisal regime before and during the crisis

[C2c] The liquidity versus solvency debate

The Anglo Irish Bank business model in hindsight was, in my opinion, three mono-line banking divisions in one financial institution namely Lending, Treasury and Wealth Management. While all were successful in rapidly growing and diversifying the markets for their individual activities, they each sold what could be broadly viewed as a single financial product into a highly targeted customer base i.e. loans to borrowers in the real estate sector, deposits to interest rate sensitive corporate and retail customers and predominately real estate investment products (often geared) to high net worth individual clients. The
Bank itself was also highly segregated in this regard in terms of structure and culture and these divisions had very few overlapping customers.

The Bank also had no direct exposure to mortgage lending in any sector including sub-prime where the initial crisis began although it had some limited exposure to credit investments in underlying mortgage lending assets. This belief resulted in the Bank making a specific provision of €224 million and a general provision of €500 million in its 2008 accounts.

The mono-line exposure to a highly mobile customer deposit base in particular however hit Anglo hard and fast as the perceived ‘liquidity’ issue quickly became an actual one for the Bank. While ‘liquidity’ and ‘solvency’ issues affected every bank worldwide to some degree in that period, I believe in hindsight that the underlying structure of the Bank, together with the pace at which it had grown in that structure, compounded the stress of the 2008 crisis in a much higher degree to other banks who had lower concentration lending exposures, more diversified funding sources and fee income from a wider universal offering to a diverse and long established customer base.

[9.0] Themes and Key Lines of Inquiry | Appropriateness and effectiveness of the Department of Finance actions during crisis

[C3b] Appropriateness of the bank guarantee decision

I learned of the introduction of the September 2008 bank guarantee decision from the early morning news on 29 September. The relief felt by management, staff and customers that day was palpable. The announcement of the guarantee led to an inflow of deposits in all of the funding operations of Anglo Irish Bank although this was not immediate as there was a certain amount of clarification required as to whom, what and where the guarantee was applicable. Individual deposit customers had already however seen the Deposit Protection Scheme (DPS) limit increased from €20,000 to €100,000 on 20 September and were therefore protected by the state up to that amount. That increase had a twofold effect on funds flow at the time. It firstly provided comfort to those with less that €100,000 on deposit and secondly led those with more than that amount to withdraw funds in order to spread their risk among multiple institutions. For Anglo Irish Bank’s UK savings operation, the DPS increase meant that the protection being then offered on deposits from Irish banks was significantly higher than the UK equivalent of £35,000. As a significant direct savings player in the UK it put the Bank at an advantage over its UK bank competitors in gathering those retail deposits.

Sovereign risk was still a concern however for UK savers following the nationalisation of Glitnir, the Icelandic Bank on the day following the introduction of the Irish bank guarantee. Anglo Irish Bank began to get requests for up to 2,000 deposit account opening packs per day from new UK retail savers. Clear instructions were given to all Bank staff not to market the Guarantee to win business and I am confident that these instructions were followed. In the weeks that followed, daily inflows of sometimes close to €100 million were recorded by the Bank, most of which were attributable to UK savers. This was at least five times higher than normal daily flows previously recorded. I understand that the UK Government and the Financial Regulatory Authority the FSA was under considerable pressure from the mainstream UK banks to act as they were experiencing considerable outflows as a result of the Irish Bank Guarantee.
Post nationalisation of the Bank in 2009 its retail savings operation in the UK was put into an orderly
wind down by the Financial Regulatory Authority (FSA). This was done by of a ‘direction order’ to the
Bank not to be priced in the 'Top 10' payers of high savings rates in any published 'Best Buy' on-line or
off-line publications. This was effectively negotiated with the Bank’s approved persons in the UK namely
the CEO and Head of Risk & Compliance and, once the Bank was not in a position to win any further
new business, deposit levels fell daily until the UK savings business and all other Anglo deposits and
NAMA were transferred under CISA legislation to Allied Irish Banks Plc in 2011.

[10.0] Themes and Key Lines of Inquiry | Effectiveness of the regulatory, supervisory and
governmental regime structure

[R1a] Appropriateness of the regulatory regime

While I never had any dealings at a senior level with the office of the Financial Regulator in Ireland, I
believe that, given the amount of detailed information that was sent to it daily by the risk function of
the Bank throughout most of 2008, the office of the Financial Regulator did not seem to have
appreciated the growing funding risks in the Bank until right up to the point of that the guarantee was
warranted.

That said, over the course of 2008, the first unforeseen and therefore unanticipated risk in relation to
Anglo Irish Bank was a failure of customer confidence in the security of their funds entrusted to the
Bank. The second unforeseen and therefore unanticipated risk was the simultaneous failure of each
individual source of funding open to the Bank over that period i.e. interbank, capital markets and
customer funding. These presented genuinely unprecedented conditions of extreme funding dislocation
and balance sheet stress.

[10] Conclusion

Up to the start of the crisis in August 2007, Anglo Irish Bank was lauded in the stock market for its
spectacular balance sheet growth and highly profitable cost / income business model. This analogous
commentary, from a multitude of market analysts and other commentators, led to Anglo being put
forward as an example to its competitors and peers. In terms of the Bank’s chosen credit strategy
therefore as a predominately property based lender in the Irish, UK and North American markets, it was
difficult to foresee that everybody internally and externally could be wrong. The Bank’s loan default
rates had remained very low for the previous decade and there remained a huge appetite for
commercial property projects among investors and developers in the Bank’s chosen markets. Existing
clients of the Bank who had experience and track record in that sector were on hand to meet that
demand and the Bank’s stated credit policy was to back and work with these types of clients where the
property had strong tenants, cash flows could be identified and secured and personal guarantees were
available as additional security.

By the time the crisis hit however, and fuelled by its past success, I believe it is fair to say that Anglo
Irish Bank had, in my opinion, become defensive and readily decried anyone who suggested that its
foundation of growth and core business drivers for the future were flawed. Merrill Lynch, BNP and
Barclays Capital Markets were separately retained in 2007 to conduct a detailed due diligence of the Bank’s balance sheet. The resulting findings highlighted, among other matters, the Bank’s high concentration to property and development lending, the thin nature of its funding base and the possible need to raise more equity as a capital buffer for possible future losses.

Although perhaps too late to effect any material change at that stage given what lay ahead later that year and afterwards, the Bank found it extremely difficult to reduce or stop lending as the crisis worsened. This in part was down to contractual commitments to borrowers and also the risk that, without further lending, some development projects would cease and result in significant immediate loan default. There was also a legitimate fear I believe that if it became known that the Bank had ceased lending then the stock price would be further weakened and precipitate a further worsening of the crisis for the Bank. It was at a time when if you appeared weak then you were weak in the eyes of the market. As a result, as I understand it, a substantial portion of the total new net lending figure of €6.5 billion in 2008 was lent in the first half of 2008 when funding the existing balance sheet was becoming increasingly more difficult.

I trust this statement is beneficial to the Joint Committee in terms of the strategy, growth, risks, oversight and insights into the customer funding model in particular that was adopted by Anglo Irish Bank and the inherent weaknesses in that model that ultimately contributed to the collapse and nationalisation of the Bank in 2009. As Director of Corporate and Retail Treasury and subsequently as Head of Retail Banking during that time, and with the responsibilities that entailed, I fully accept responsibility for my part in that failure and its consequences on the Irish State. It is something that I will always regret.

Signed by: [Signature]

Date: 05/08/2015