Tithe an Oireachtais
Houses of the Oireachtas

Joint Committee of Inquiry into the Banking Crisis

Witness Statement of

David Dilger

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[1] *See s.37 of the Houses of the Oireachtas (Inquiries, Privileges and Procedures) Act 2013*

DAVID DILGER
RESPONSE TO QUESTIONS SET OUT IN THE NOTICE DATED 18 JUNE 2015

Introduction

All of my answers to the questions of the Joint Committee are provided to the best of my knowledge, information and belief. However, my answers are provided almost wholly on the basis of my recollections of the period between July 2003 and July 2009 as all of my papers, notes, minutes etc in connection with my time as a Director of Bank of Ireland have been shredded.

For brevity, all references in my answers to the Board refer to the Court of Governors of Bank of Ireland.

B1A - COMPOSITION, SKILLS AND EXPERIENCE OF BOARD AND BOARD SUBCOMMITTEES

Director Fitness

Could you please briefly outline the Banking skill set and Financial Services qualifications you hold?

I am a Chartered Accountant (ACA and FCA) and hold a Law Degree from Trinity College Dublin.

I worked in General Practice - Accounting, Auditing and Corporate Finance with KPMG for seven years.

I have taught accounting and auditing to Chartered Accountancy students and examined at Final Exam stage for the Institute of Chartered Accountants in Ireland.

I was Group Finance Director of Woodchester Investments (subsequently Woodchester Bank) between 1984 and 1988. In that role I was responsible for all Group Finance functions including finance, treasury, funding, capital, internal control, mergers and acquisitions etc.

I was CEO of two Irish publicly quoted companies between 1988 and 2008.

I have been a non-executive Director of various Irish State and International publicly quoted companies including Forbairt, Enterprise Ireland, Bank of Ireland, James Hardie and served as a member of the International Advisory Board of RaboBank UK.

I served as Chairman of the Dublin Airport Authority and I am a Director of a number of Irish private companies. I was nominated as a "financial expert" by the Boards of Bank of Ireland and James Hardie in periods where such an "expert" was required to be nominated.

Director Fitness

What experience and qualifications did you bring to the Board as a director?

My experience and qualifications are as set out above.

Director Training

As an Independent Non-executive Director (INED), did you think that you received sufficient induction and on-going development training to enable you to fulfil your role and responsibilities as a Director?

I was completely satisfied with the induction process and director development programmes made available to me in Bank of Ireland.

In hindsight, it is clear that non-executive Directors generally ought to have been exposed to more education/training on Risk and Risk Management.

B1B - INTEGRITY OF FINANCIAL REPORTING

Management Information (MIS)

Were you satisfied that you were getting all the relevant information you needed to understand the risks and exposures incurred by your institution?

Management information in Bank of Ireland was comprehensive but not at the standard which would have been required to create competitive advantage for the organisation.

In particular, as a result of the multiplicity of systems and technologies throughout the Group as well as the multiple lines of business carried out by the Group in different geographies, all Group wide reporting had to be subjected to very considerable consolidation and manual processes rendering it difficult for management to assess or report on Group wide issues on a day to day basis. Assessing Group level risks and exposures was, therefore, rendered more difficult for management and non-executive directors.

Management Information (MIS)

Were you satisfied you were able to discern the full financial position of the Group at all times?

I was satisfied that, despite the shortcoming referred to in the immediately preceding answer above, the Board was at all times able to discern the financial position of Bank of Ireland. Of course, this did not enable the Board or management to discern the values of all of the Bank's assets at some uncertain future date or in some uncertain future economic or financial circumstances.

Management Information (MIS)

As an Independent Non-Executive Director, did you think that the information (both financial information and other information) provided to the board was of sufficient quality to enable you to effectively challenge Management on their stewardship of the business?

If not, did you ever voice your concerns to the Chairman or other Directors and what action, if any, was taken?

At no stage did I have a difficulty in challenging Bank of Ireland management on their stewardship and strategic direction. However, more condensed, user friendly, cohesive, timely and relevant management information would undoubtedly have facilitated that process.

B1C - QUALITY OF BUSINESS MODEL SETTING PROCESS

Strategy

How much time was allocated in the agenda of the Board to discussing, monitoring and reviewing strategy and the development of the Bank's business model?

The time devoted by the Board to Strategy varied but, in general, increased materially between 2003 and 2009. A significant number of meetings were devoted either exclusively or mostly to either Strategy formulation or Strategy implementation. In particular, the time committed by the Board to the formulation of the 2006 Strategy was extensive.

Peer Group Pressure

Can you give your views on the extent to which the business model of the bank was influenced by the activities of competitors and how important this was as a factor compared to other factors such as the quality of lending?

In my opinion, the Business model of the Bank was most influenced by the Board's assessment of the key competences and experience of Bank of Ireland and, in particular, those product areas and markets where the Bank was likely to be able to achieve a key and sustainable competitive advantage.

Competitor activity and the perceived level of success or otherwise of competitors is, of course, always a factor in these assessments. Competitor activity may have had an impact on the behaviours and judgements of management teams in individual business units. These were the teams who were most exposed to the impacts of competitor behaviours and strategies. However, in my opinion, competitor activity did not represent an undue influence on the process of Strategy Formulation at Bank of Ireland.

The Committee has not asked me about a different but similar driving force - that of equity markets. Public company shareholders expect and demand performance - each year every year. Management failure to deliver on the expectations of such shareholders carries significant consequences - either for the managers or, over time, for the Bank itself and such expectations are influenced by the perceived success, results and prospects of competitors in similar markets. In the equity market environment which pertained between 2003 and 2008, financial institutions which were perceived to be underperforming were heavily penalised in terms of share price performance and, hence, in terms of increasing cost of capital. It was a very difficult period for contrarian management teams.

In these circumstances, it is unquestionable that the apparently sustained and outstanding financial performance from some of Bank of Ireland's competitors over this timeframe represented an influence on the expectations of Bank of Ireland shareholders, Board and management alike.

Board Interaction

In the documentation obtained by the Banking Inquiry there is limited evidence of comments from the Directors. Can you please outline your experience of challenging business models or proposals during board meetings?

Minutes of Bank of Ireland Board meetings set out to record the decisions made at such meetings. They do not record individual director comments, criticisms or challenges.

As with all Boards, some Directors were quite challenging quite often while others may have been somewhat slower to engage in challenge in the context of a formal Board Meeting but preferred to exercise influence outside of the confines of the Boardroom. As a generalisation, I believe I would be deemed by my Board colleagues to have fallen into the former category.

External Advisors

Did the Board and the Executive Management take external advice on the business model for the bank, from whom and did you feel that their input was considered fully?

The Board had extensive external advice on Strategy - most particularly when Strategy was being reviewed or changed. External contributors included Banking Experts, independent Economic advisors, Strategy Consultants, Management Consultants, Specialist Corporate Finance and Equity Market analysts. The names of these contributors have already been provided to the Committee by other witnesses and their inputs were fully considered.

Growth targets

The levels of Earnings per Share and Profit before Tax (PBT) targets at 15%+ per annum seen, across the banks, might appear ambitious in a relatively mature market. What was your view on this?

A 15% level of growth in activity levels across the Bank would indeed have been ambitious.

However, having regard to the fact that :-

A) A substantial amount of Bank of Ireland's cost base was fixed

B) There was a strategic imperative and commitment to reduce that cost base

C) Significant opportunity existed to grow the Bank's exposure to profitable UK Retail markets

my opinion is that the Operational Leverage at Bank of Ireland where modest market share growth based on skills, competences, enhanced customer service and competitiveness in many of the Bank's core markets and activities, when taken together, reasonably grounded the 15% EPS Growth aspiration.

Culture

Prior to and within the period of time examined by the Banking inquiry there were a number of prominent episodes suggesting problems with the internal culture of individual credit institutions in Ireland (DIRT, rogue trader, Forex and other issues). Please discuss your own views on why such events happened and whether the internal culture of the institutions played a role?

Can you comment on the culture in your organisation during this time:

- **were ethics and values defined?**
- **were written policies in place?**
- **where they were in place were these polices practiced by the MD, Directors and senior management?**
- **were they included in personal objectives for all personnel to adhere to?**

I have no personal experience of any of the issues referred to by the Committee so my views on these specific issues identified by the Committee are merely those of an interested observer.

Of course, corporate culture and values played a significant part in these "episodes".

However, speaking about Bank of Ireland, I found an institution with a very strong and values driven culture. It was conservative, thoughtful, insightful, mindful of its responsibilities to all of its stakeholders. If anything, it was a little slow to change and adapt and could never have been referred to as nimble.

Indeed it was this culture which was attacked by competitors who professed competitive advantage through speed of decision, nimbleness and a so-called can-do attitude to all customer requests and demands - reasonable or not.

The ethical and value systems of Bank of Ireland were strong, healthy and visible throughout the Bank and I believe that they were written, well documented and distributed. More than this, they were "lived".

An aspect of Bank of Ireland's culture was the very high value placed on "teamwork" and "consensus" although this was sometimes misconstrued by managers and directors alike as meaning that contrarian opinion or adverse comment was not highly valued at Bank of Ireland.

One particular manifestation of this culture was that it was extremely rare for Executive Directors to disagree in the forum of a formal Board meeting. In many ways, this is good - no Board wants to continuously referee Management disagreement. However, when Management comes to Board with a consensus position on a majority of issues and often without a minority opinion, the Board is denied the benefit of contrarian views and debate and, in my opinion, may consequently have been denied the opportunity to fully exercise its judgement between competing views.

B1D - ADEQUACY OF BOARD OVERSIGHT OVER INTERNAL CONTROLS TO ENSURE RISK IS PROPERLY IDENTIFIED, MANAGED AND MONITORED

Oversight and Control

Were there active discussions, challenges and remedial actions taken by the Board regarding risk management and internal controls?

Yes, discussions on risk management and internal control occurred at Board and even more so at Audit Committee and sometimes in a very challenging way.

However, with the benefit of hindsight, my opinion is that the almost total delegation of risk management functions to the Group Risk Policy Committee (GRPC) was unwise.

I have no doubt whatsoever that GRPC and its Executive members represented by far the best, most experienced and most capable body to opine on and make individual risk decisions for Bank of Ireland. However, while the Board at all times had oversight of the policy decisions of GRPC, in my opinion, its remove from all discussions and normal decision making - including all credit decisions - meant that Board oversight was somewhat distant and not as well informed as it might have been.

Oversight and Control

Many of the risk related committees were composed largely of Senior Executives without Non-Executive Directors. Would this have affected the board's capacity to maintain an effective awareness of - and carry out appropriate assessment - of risks to the bank?

Please see answer to immediately preceding question.

Management Information (MIS)

The documentation made available to the Banking Inquiry suggests that the Management Information reports and data available to Board Members contained deficiencies. Were the directors aware of this and how did they address such deficiencies?

The concept of Management Information deficiency is subjective in an environment where the process of improving and refining Management Information is a continuous process. This was the case during all of my six years on the Board of Bank of Ireland.

As a generalisation, in the period 2003 to 2008, individual directors expressed the view that Board papers were far too detailed and too numerous much more often than they expressed the alternative point of view.

It was common for me to spend the equivalent of at least two full days reading and understanding the Board, Audit Committee and Remuneration Committee papers in advance of each Board Meeting. There was no shortage of Management Information.

As with all Boards, the Board of Bank of Ireland worked hard over the years to refine Board papers in order to make them more concise and relevant. This was an ongoing theme.

Concentration Risk

Did you have concerns over the increasing concentration of the Loan portfolio in the property and construction sectors and if so, did you discuss those concerns with any member of senior management or any other Directors?

With the benefit of hindsight, as a non-Executive Director, I would like to have known more about the increasing concentration of the Loan Portfolio in certain property and construction sectors. While, of course, being generally aware of our increasing activity levels in these sectors, I do not recollect being aware of the fact that exposures to these sectors had apparently grown to a level of 34% of the non-Mortgage Loan book. The non-standard nature of the Property and Construction Loan Books (with massively varying covenants, equity contributions, levels of security, maturities, other terms etc) rendered it very difficult to analyse or evaluate the collective and cumulative levels of risk associated with these Books.

On the other hand, the Board and Audit Committee were very conscious of the increasing size of the Group's various Mortgage Loan Books and consistently reviewed the risks associated with these Books. As a generalisation, the Board was satisfied that the risks associated with these Mortgage Loan Books were very much more modest than those associated with almost all other Loan Books at Bank of Ireland.

When evaluating the concentration risks faced by Bank of Ireland, it is important to bear in mind that more than one of Bank of Ireland's competitors had a 100% Loan concentration in this sector. By comparison with many, Bank of Ireland's risks and exposures were widely diversified.

The massive collapse in values across all property sectors in Ireland and the related contagion impacts of the global liquidity squeeze were not envisaged or modelled by Bank of Ireland.

B2B - APPROPRIATENESS OF CREDIT POLICIES, DELEGATED AUTHORITIES AND EXCEPTION MANAGEMENT

Loans Outside Lending Policy

Were you aware of the extent to which your bank issued loans that were outside the stated lending policy?

While I am uncertain as to which loans the Committee refers to here, I believe the simple answer is no. In my opinion, the Board was of the view that all loans complied with Lending Policy and that all exceptions to this were specifically approved by either an appropriate senior underwriter or, where necessary, Credit Committee or GRPC.

The Joint Committee may have misconstrued the purpose of many of Bank of Ireland's credit approval policies. Such policies were created to force exceptions rather than hide or avoid them. Exceptions required a further review and approval from a more senior credit approval authority. This represented a significant part of the Bank's internal control processes related to credit quality.

Did you have any concerns about the volume of loans that were issued outside the stated underwriting policy?

See answer to a) above.

If you had concerns about the loans issued that were outside lending policy, how often were these concerns raised, in what format were they communicated, what details were communicated and to whom?

See answer to a) above.

If reports were issued or concerns raised, how were they received by management and what action was taken?

See answer to a) above.

Did you feel that you were kept fully informed about these issues, the actions taken to address them and the final conclusion?

See answer to a) above.

Loans Outside Lending Policy

In your opinion was there sufficient evaluation of the credit risk and policy monitoring by the Credit Committee independent of the commercial bankers.

Were such evaluations, and issues such as risk register monitoring and exceptions to policy, passed up the line to both the Senior management and the Board?

Equity in the other projects appears to have been used as a form of additional security or collateral for loan portfolios. Were these non-tangible assets in accordance with policy and were they independently valued.

In my opinion at the time, the Bank of Ireland credit process was reliable, thorough, conservative and best in class. There was always a significant and appropriate degree of tension between the credit process and the commercial bankers who, as a generalisation, felt that they were at a competitive disadvantage as a result of the rigorous credit process adopted by Bank of Ireland.

Customer credit decisions which represented exceptions to policy (if they existed) were not communicated to or approved by Board.

I do not have and never had any knowledge of the nature or value of security for any individual loan or portfolio of loans. I would, however, make the point that the fact that such equity in other projects may have been difficult to value does not essentially render the security as either non-tangible or non-valuable.

B2c - Analysis of risk concentrations in base and adverse economic scenarios and impact on capital structure

Internal Audit Reviewing the Stress Tests

Did Internal Audit perform a review on the actual stress test performed and, in particular, did Internal Audit review the formulas and assumptions used?

I am not sure as to which stress test is being referred to here and, therefore, I am unable to answer this question.

However, the Board was responsible for defining the total risk appetite of the Bank and it did so regularly.

Internal Audit Reviewing the Stress Tests

a) **Did the bank employ the services of a suitably qualified, independent expert, to carry out a review on the stress tests that were performed and the reporting of the results?**

I do not know the answer to this question other than the Bank used independent outsiders to help form a view as to the likely levels of general economic performance, unemployment, and other factors all of which were used in the definition of base and adverse economic scenarios used in the stress tests which I remember.

Did you feel that you were adequately informed about the results of the stress Tests and their significance?

I believe that the Board was adequately informed about the results of stress tests and the amount of capital which was judged to be at risk as a result of these tests. The problem for Bank of Ireland (and I believe many other Banks in the developed world) was that the adverse scenarios used for the measurement of capital at risk were depicted as being one in twenty or twenty five year events. In reality, Bank of Ireland and other Banks were eventually confronted with a far worse scenario than the worst scenario envisaged, perhaps a one in one hundred or one hundred and twenty year set of events.

As an aside, if Bank of Ireland or any other Bank managed its capital to cater for one in one hundred year events, in my opinion, the Bank would be unable to compete or do any business.

Concentration Risk

(a) **Was there a review of the adequacy of the reporting to the Board of key risks (e.g. the concentration risk being faced by the bank, LTV 100% loans etc)?**

The Board and management of Bank of Ireland continuously evaluated the level and extent of reporting to the Board in the context of the perceived risks at that time. However, in hindsight, I do not believe that the risk reporting to the Board on concentration and 100% LTV loans was adequate.

(b) **Did the Board receive adequate reports on the concentration levels of Sectorial and Customer exposures?**

See answer to a) above

(c) **Between the period 2004 and 2008, did you have any concerns about the growth in lending concentrated in property development and focused on a small number of customers?**

All Board members were concerned about property lending in Ireland. I believe that the Board was, however, generally satisfied that Bank of Ireland's credit processes, demonstrated conservatism, its diversified business model and absolute policy to avoid any exposure to particular higher risk property related debtors all combined to mitigate the concentration risk.

(d) **Were the various risks associated with these concentration levels adequately reported and discussed by the Board?**

See answer to a) above

B4C - ADEQUACY OF VALUATION POLICIES AND ASSUMPTIONS TO ACCURATELY ASSESS LOAN SECURITY

Valuation of Assets

NAMA reported that when loans were transferred to them, they had problems with a large amount of assets taken as security. In particular, a large number of assets taken as security, were not registered and that a number of cases, an asset was presented as security for loans with multiple banks;

(a) **Were you aware of these problems?**

(b) **What is your understanding of these issues?**

(c) **Did you raise this as an issue and if so what action was taken?**

I was not a Board member of Bank of Ireland when loans transferred to NAMA and have no knowledge of the issues encountered on such transfer.

Specifically, I had no knowledge of any of the underlying issues identified by the Committee before retiring from the Board in July 2009 but I would be greatly surprised if this reported view from NAMA was applicable in any material way to Bank of Ireland credits.

B5A - ADEQUACY OF INCENTIVE AND REMUNERATION ARRANGEMENTS TO PROMOTE SOUND RISK GOVERNANCE

Remuneration

(a) **Can you outline the criteria for annual targets for senior management (i.e. were annual targets based on sales volumes, or percentage of market share etc.)?**

Senior Group Managers annual targets were based on Earnings per Share performance as well as their individual performance as measured against a Balanced Scorecard of desired outcomes including Leadership behaviours. Annual targets, therefore, were not directly based on sales volumes or market share growth.

There was also a deferral element involved in the payment of Annual Incentives to Senior Management whereby a proportion of Annual Incentive Earnings was deferred until the completion of important strategic goals.

(b) **How much weighting was given to risk modifiers when reviewing annual targets?**

My recollection is that risk modifiers were incorporated into Annual Targets from late 2008. In hindsight, the remuneration strategies of Banks generally contained insufficient recognition of risk.

(c) **Were management offered non cash incentives?**

Senior management participated in Executive Share Option Schemes and/or Long Term Incentive Programmes both of which involved non-cash incentives over the longer term.

(d) **Were non-performing loans considered when reviewing annual targets of the staff who sourced or underwrote them?**

The Remuneration Committee at Bank of Ireland did not determine or review the Annual Targets of sourcing or underwriting staff. The Remuneration Committee did approve the remuneration of the CRO and non-performing loans and provisions were considered in the context of this review.

(e) **Up to 2008, had any staff member ever been removed or demoted as a result of sourcing or underwriting a non performing loan?**

I do not have the information to enable me to answer this question

(f) **Can you comment on the decisions of the banks to offer severance packages to the senior executives after 2008, in light of the very significant losses the banks were booking at this time?**

I am unaware of any such severance package. In early 2009, the then CEO of Bank of Ireland retired early by mutual consent. The resultant compensation was exactly in accord with the termination provisions of his contract.

(g) **Can you outline the range of packages that were offered to senior executives who availed of early retirement or who resigned?**

I had no involvement in any such discussions or arrangements.

(h) **Please detail how many senior executives, to your knowledge, resigned (retired) from the bank without receiving a severance package?**

I have no information to enable me to answer this question. However, in the normal course, voluntary leavers of the Bank and retirees at normal retirement age received no compensation or severance packages from Bank of Ireland.

B6B - EFFECTIVENESS OF OVERSIGHT OF PREVAILING RISK CULTURE

Risk Culture

Was a review of the risk culture and appetite of the Bank ever carried out by either external consultants or internal audit? If yes what was the outcome and any action taken afterwards?

As I have stated in my answer above, external consultants informed the scenarios which Bank of Ireland chose for its stress tests. I do not recall whether, in my time as a Director, the brief of such external consultants extended to reviewing the overall risk appetite and the calculations which underpinned it. I suspect not - as I believe I would remember such a review if it had been presented to the Board.

I do not believe that the culture of Bank of Ireland was reviewed by external consultants during my time on the Board.

B7A - IMPACT OF PREVAILING ACCOUNTING STANDARDS IN RECOGNISING RISKS

IAS39

a) **Was the adoption of the IAS 39 standard discussed at Board meetings?**

The adoption of IAS39 was deeply considered by the Audit Committee and the Board.

b) **Did the Board fully understand the implications that the adoption of this standard had on the financial statements of the Bank?**

I believe the Board fully understood the purpose of IAS 39 and the implications of that Standard

c) **Did the board seek an accounting specialist to advise on the implications of this standard and explain how this measurement of the Bad Debt Provision differs from the amounts calculated under the previous accounting methodology?**

The Board had access to its own and external accounting specialists and was fully conversant with the implications of the Standard. However, nobody could know or forecast how Bad Debt Provisions would have moved in the future in the event that the previous accounting methodology had continued to be used.

d) **If you, or any of the board members, had concerns with the adoption of IAS 39 were these concerns raised with the Regulator / Central Bank?**

I believe that most Board members had concerns about IAS39. I cannot speak for other Directors, but, for myself, I would have seen absolutely no merit or purpose in raising concerns with the Regulator about the adoption of a globally adopted, compulsory and accepted accounting standard. Such concerns were raised and debated at length in the Board room with Management and External Auditors.

e) **Did you feel that the amount thereafter provided for the "Provision for Bad Debts" was adequate and in hindsight do you feel that the amount provided should have been different?**

It is patently obvious that, with hindsight, the Provision for Bad Debts turned out to be inadequate to reflect all of the effects of the subsequent market crash. Any provisioning system which does not recognise that that there are latent credit risks associated with all loans (even when such loans are fully performing and compliant) will inevitably cause the cost of risk to be recognised later rather than earlier in the business cycle.

During my tenure as a Director, I was at all times satisfied that the Bank of Ireland had appropriately assessed its provision for Bad Debts in compliance with its stated Accounting Policies and with all relevant Accounting Standards. That being said, all Board members were aware that between 2004 and 2008 at least, the annual charge for Bad Debt reflected in the Group P&L Account was at a level well underneath what we assessed as the long run likely average charge for Bad Debt for a Bank with our mix of Loan Books and risks. This fact was clearly and continuously communicated to equity markets by Bank of Ireland management.

C2c - Liquidity v Solvency Debate

__Liquidity and Solvency__

On the night of the Guarantee what was your view on the solvency of your institution?

Bank of Ireland was entirely solvent on 29 September 2008 and at all times before that date.

Restructured Facilities

Can you discuss how the facilities made available to large clients between 2006 and 2008 were restructured and, in particular, the use of interest roll-up as a feature? In your view, could potential insolvencies have been recognised at an earlier point in the cycle and could appropriate preventive actions have been taken at that time?

I have no knowledge of any individual facilities or credits, restructured or otherwise.

As a generalisation, because security values and economic conditions in Ireland have so significantly improved since 2010, in my opinion, thoughtful and well-judged forbearance by Irish Banks during this period has had the effect of containing and minimising losses for Banks and their shareholders.

C3B - APPROPRIATENESS OF THE BANK GUARANTEE DECISION

Guarantee

a) **Were you aware of, or did you participate in, any correspondence between AIB and BOI in relation to the Government Guarantee Scheme?**

   No

b) **If so, what was agreed or discussed by the two banks?**

   Not applicable

c) **Were you aware of or did you participate in any correspondence or meetings that your bank had with either the Central Bank or Department Of Finance during the day and night of the bank Guarantee? If so please detail.**

   No.

Guarantee

a) **In the period leading up to the night of 29th September 2008, was your bank in discussion with any other credit institution in relation to it's own liquidity or the liquidity of other credit institutions, the nationalisation of any credit institution or the proposed Guarantee and if so provide details?**

   The Joint Committee has already been appraised by the former Governor, former CEO and current CEO of Bank of Ireland of the contacts between Bank of Ireland and Anglo Irish Bank on 29th September 2008. In addition, the Joint Committee has been appraised of the discussions which occurred on the subject of INBS earlier in September 2008. I can add nothing further to that evidence.

b) **On the night of the Guarantee, please detail any knowledge you have of who remained at Head Office and in contact with your CEO between the hours of 9.30pm and 3am?**

To the best of my recollection, I had no communication with either the Governor or the Management team of Bank of Ireland after about 5.30 on 29th September 2008. Prior to that time, I was aware that the meeting with Anglo Irish Bank had occurred and that the Governor and CEO were planning to meet with Government that evening. I cannot remember who may have called me or who I might have called regarding this information. I believe I received a call at about 6.30am on 30 September 2008 from the then Company Secretary of Bank of Ireland to let me know that the Government had decided to issue a "blanket" guarantee in respect of all Irish Credit Institutions.

c) **In your opinion, was the Guarantee necessary for your bank and if not why not?**

I am clear that in all normal circumstances, Bank of Ireland did not need a Guarantee. However, the likely contagion impact of either one or two Irish Banks potentially failing or being nationalised, could foreseeably have had catastrophic consequences for the entire Banking system in the absence of a systemic solution such as an appropriate Guarantee or an immediate recapitalisation of all remaining Banks.

d) **Did you feel that you were adequately informed about the above issue, did you have an opinion on this issue and were you listened to?**

I am not entirely sure as to which particular issue the Joint Committee refers to here.

At all relevant times, I felt fully informed about the liquidity issues which had been building in Ireland and across the world. I felt fully informed as to the pressures which certain competitors were likely to face in the short term and the consequent likely challenges for the entire Banking system and, more particularly, Bank of Ireland. Neither I nor, I believe, any Bank of Ireland colleague had any informed view as to any action the Irish Government might take in order to protect the Banking system.

Guarantee

In your view should Anglo and INBS have been Guaranteed or nationalised at the end of Sept 2008? Please describe any discussion of this issue between your financial institution and other financial institutions?

I am not in a position to second guess the Government decision of 29 September 2008. However, with the benefit of hindsight, it seems clear that, given time, less onerous solutions could have been considered. I do not know whether it was possible on that evening to create sufficient time to explore those options. I am unaware of any discussions on this issue with other financial institutions and my belief is that there were no such discussions.

Did your institution seek to communicate its position on the Guarantee to the Government? Can you describe any such representations made by your institution to the Government?

All Bank of Ireland communications to the Central Bank and the Government on this issue have been described in the evidence of the then Governor, the then CEO and the current CEO of Bank of Ireland. I am unaware of any other communications or representations and I do not believe there were any.

Can you describe any discussions between your financial institution and others on the cost of the Guarantee? Can you give your own views on how the costs of the Guarantee were quantified?

Subsequent to 29 September 2008, I am aware that various communications took place between Bank of Ireland and the Department of Finance on the subject of the likely cost of the Guarantee. I have no recollection and I do not believe that I ever knew of the details of these communications. From a competitive perspective, it was important to Bank of Ireland to ensure that the cost of the Guarantee for Bank of Ireland fairly reflected the significantly lower level of relative risk for the Guarantor associated with guaranteeing the liabilities of Bank of Ireland.

Can you give your own views on the transfer of risk from the credit institutions to the sovereign entailed by the Guarantee?

In my opinion, as far as Bank of Ireland is concerned, the Deposit and Liability guarantee issued by the Government did not actually have the effect of transferring risk from the Bank to the Sovereign because Bank of Ireland was at all times entirely solvent. In the event and albeit having had the benefit of a subsequent re-capitalisation to bring its capital position into line with most of its re-capitalised EU competitors, Bank of Ireland has repaid or settled all of its senior and junior debt and redeemed all of its maturing deposit base without accessing any capital under the terms of the Guarantee. The State profited significantly from its guarantee of the liabilities and deposits of Bank of Ireland.

Were representations made by your institution to European parties on how to resolve the crisis? Can you describe such representations?

I am unaware of any representations by Bank of Ireland to "European Parties" other than the Bank's communications with the Central Bank in order to influence the ECB's determination of "Eligible Collateral". Such communications have been described to the Joint Committee in the evidence of the then CEO of Bank of Ireland.

DAVID DILGER