Tithe an Oireachtais
Houses of the Oireachtas

Joint Committee of Inquiry into the Banking Crisis

Witness Statement of

Helen Nolan

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

Response to the Direction issued by the Joint Committee of Inquiry into the Banking Crisis dated 8 July 2015

I held the post of Group Chief Internal Auditor between May 2003 and July 2009. I have been Group Secretary from July 2009 to date.

Line of Inquiry			Questions and Responses
1	B1D	Adequacy of board oversight over internal controls to ensure risk is properly identified, managed and monitored	**Concentration Risk** **Did you have concerns over the increasing concentration of the 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?** A number of years before my appointment as Group Chief Internal Auditor, responsibility for the function of assessing the quality, control and safety of lending was transferred from Group Internal Audit to Group Credit Control. Minutes of the Group Audit Committee in 1992 record the change. While Group Internal Audit (reporting to the Group Audit Committee) had responsibility for reviewing Group Credit Control's processes and controls and reviewed all other aspects of risk, it did not have an audit function in relation to lending or credit policies. Instead, lending portfolios were reviewed by Group Credit Review, who reported as the third line of defense to the Board through Group Risk Policy Committee (GRPC), a sub committee of the Board. Concentration risk was monitored by the Portfolio Review Committee, which also reported to the Board through GRPC. Given this allocation of responsibilities, I am not in a position to respond to this question, as these matters were outside my remit as Group Chief Internal Auditor.
2	B2b	Appropriateness of credit policies, delegated authorities and exception management	**Loans Outside Lending Policy** **a) Were you aware of the extent to which your bank issued loans that were outside the stated lending policy?** **b) Did you have any concerns about the volume of loans that were issued outside the stated underwriting policy?** **c) 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 who?** **a) If reports were issued or concerns raised, how were they received by management and what action was taken?** **b) Did you feel that you were kept fully informed about these issues, the actions taken to address them and the final conclusion?** See response to question 1.
3	B2b		**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.**

			Yes, the Group Credit Committee (GCC) was the most senior credit approval authority in the Group for individual transactions. The GCC comprised senior executive management of the Group with relevant experience. A minimum of three members was required for a valid quorum. Chairmanship of GCC rested with an independent (i.e. not a head of lending business) member. The independent review of the Bank's Risk Governance by Oliver Wyman in 2009 considered the operation of GCC and stated that it found no evidence that the Group Credit Committee did not perform as required; it also recommended that the composition of GCC should not be changed. **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?** A listing of Group Credit Committee decisions (which included decisions on the Group's largest borrowing customers) outlining the Total Group Exposure, change in exposure, grade and, where relevant, associated policy exceptions, was submitted to GRPC, which was a sub-committee of the Board (and to the Board pre the establishment of GRPC in 2002) on a monthly basis. ***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.** As Group Chief Internal Auditor, I did not have a role in relation to the policies for taking of security (see response to question 1). My understanding is that where equity in another project or property was taken as collateral in support of a loan, it was taken by way of a charge or equitable deposit over the tangible asset in which the equity was held. The asset was valued on a present value rather than future value basis, thus ensuring value was tangible.
4	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?** Internal Audit reviewed the Internal Capital Adequacy Assessment Process (ICAAP) (introduced in June 2007), which included stress testing and assumptions. Internal Audit also performed related audits of the following functions: > Measurement Strategy Team > Independent Control Unit > Model Management Functions Together, these functions performed the functions of the Credit Risk Control Unit as outlined in the Capital Requirements Directive. In relation to formulas used, the audits of the Independent Control Unit specifically reviewed credit risk model validations. I brought external expertise into Internal Audit for this purpose, due to the highly technical skills required.
5	B2c		**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 am not aware of any such review. As mentioned in my reply to question 4,* Internal Audit used external experts to review the credit risk model validation process. b. **Did you feel that you were adequately informed about the results of the stress Tests and their significance?** *Yes - Internal Audit had access to all ICAAP documentation.*
6	B2c		<u>Concentration Risk</u> 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.)?** Group Internal Audit's function in respect of reviewing reporting arrangements in relation to lending risk was focussed on the processes and controls used to generate reports rather than the adequacy of reporting to the Board generally. A review by Oliver Wyman of the Bank's Risk Governance was commissioned by the Group in 2009. This review found that "*[r]eporting to the Court [Board] is weighted towards value adding commentary and contains minimal regular reporting of charts, thus limiting the Court's [Board's] ability for independent conclusions and challenge. In addition, current reporting does not allow easy drill-down*". The review also found that the structure of risk management committees was not geared towards understanding the aggregate risk profile. Individual committees assessed specific risks, at times in great detail, but in the set-up at that time, it was difficult for the GRPC (a sub-committee of the Board) to take a timely, top-down view on the risk profile. Specific recommendations were made and implemented as a result of this review. The Oliver Wyman Report (which is not in the public domain) has been provided to the Joint Committee. b. **Did the Board receive adequate reports on the concentration levels of Sectorial and Customer exposures?** 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?** d. ***Were the various risks associated with these concentration*** **levels adequately reported and discussed by the Board?** During my time as Group Chief Internal Auditor, Group Internal Audit did not have a role in relation to the review of concentration risk. This risk was reviewed as set out in my response to question 1. Please see also the response to question 6a above in relation to the adequacy of reporting. In 2005, the GRPC established a **Portfolio Review Committee (PRC)** which was responsible for: • periodic review of the composition of the Group's lending portfolios,

			• identification of emerging risk concentrations or unused risk appetite and growth opportunities, • use of credit protection to manage exposures where appropriate, and • tracking emerging practice in relation to these issues. The minutes of the PRC were submitted to the GRPC which reported to the Board as a sub-committee of the Board. GRPC received ad hoc reports on specific concentration issues. In addition, a listing of Group Credit Committee decisions (which included decisions on the Group's largest customers) outlining the Total Group Exposure, change in exposure, grade and, where relevant, associated policy exceptions, was submitted to GRPC (and to the Board pre the establishment in 2002 of GRPC) on a monthly basis. In relation to the discussion of concentration risk at Board level, I attended Board meetings as Group Secretary from 31 July 2009 onwards and I can confirm that, during that time, risks associated with concentration levels have been adequately discussed.
7	B3b	Analysis of liquidity risks under adverse scenarios	**Liquidity** **In evidence to this committee a number of witnesses have stated that the Guarantee was needed due to Liquidity issues faced by a number of institutions. What is your view on this and what stress testing had been put in place at your Institution to ensure such an event would not happen?** At the time the Bank Guarantee was issued in September 2008, Bank of Ireland had adequate liquidity capacity and so it did not require a guarantee due to its own liquidity position. The requirement for the Bank Guarantee was, in my view, driven by systemic issues in the financial sector. In response to Central Bank requirements, Bank of Ireland introduced liquidity stress testing in June 2007 to identify the impact of a range of stress scenarios on the Group's ability to fund its outflows. The tests were conducted quarterly at two levels (1) a change in the liquidity position of individual elements of the balance sheet and (2) combining these elements into scenarios. The results of the tests were reported to Group Asset and Liability Committee (ALCO), GRPC and the Board. Internal Audit reviewed these stress tests and the Group's compliance with the Central Bank's liquidity requirements.
8			**Liquidity & Crisis Planning** **What crisis plans did you have in place and what emphasis was placed on Liquidity?** Bank of Ireland had a Contingency Liquidity Plan, which was approved by the GRPC with a summary of the plan, included in the *High Level Policy Governing Liquidity and Funding*, approved by the Board in 2007 and 2008. The different stages of a liquidity crisis were identified in the plan and, for each stage, the plan set out the required actions, roles and responsibilities. The Contingency Liquidity Plan was activated by the Group during the financial crisis.
9			**Wholesale Funding**

			Was the level of Wholesale Funding in your institution a concern for you and did you feel the possible risks attached to such funding were clearly understood at both Senior Management and Director level? Funding risk was addressed in a range of internal audits during my time as Group Chief Internal Auditor. Wholesale funding was an important element of the Group's overall funding strategy at the time and was therefore subject to significant Senior Management oversight. This was supported by significant investment by the Group in its liability management infrastructure and contingency arrangements, a comprehensive governance process, along with regular management information updates to senior committee and Board level on the wholesale funding strategy and metrics. The Group also communicated regularly on this topic with external debt and equity investors and the rating agencies. The Group recognised and managed the risks in the use of wholesale funding by a range of specific actions: - a suite of funding and liquidity policies was established to oversee the activity and these were reviewed on a regular basis at GRPC level, and in the case of the High Level Policy, at Board level; The policy framework was supported by a programme of regular liquidity stress testing; - the establishment of dedicated funding specialist resources in Group ALM (Asset and Liability Management) and Global Markets to execute the strategy; - an annual review of the wholesale funding mandate was presented at ALCO; papers were frequently tabled at ALCO in relation to wholesale funding items and periodic peer review was undertaken to validate funding strategy; - significant effort was invested in diversifying and lengthening the funding mix in the period 2003-2007, with greater than one year maturity wholesale funding increased substantially up to 2007; - as markets became more difficult through 2008, the Group developed internal securitisation vehicles that were eligible at the major central bank liquidity facility windows.
10	B3c	Interest rate risk appetite setting and monitoring	<u>Interest Rate Risks Appetite</u> **What was the Interest Rate Risk appetite of your institution, how was it managed and who monitored the resulting net position?** The management of interest rate risk was the subject of a number of audits over the period that I was in Group Internal Audit. *Bank of Ireland's appetite for interest rate risk was low.* All interest rate risk arising in the Group's customer books was centralised in BoI Global Markets, which was the only Group business permitted to run discretionary risk, subject to policy and limits approved by the Board. It could do so by leaving naturally arising risk open or by proactively assuming risk in its trading book. Limits were set in terms of Value at Risk (VaR) by the Board and by the Group Asset and Liability Committee (ALCO) and these represented the Group's appetite for interest rate risk. Monitoring of interest rate risk was independent of the business and reports were issued to ALCO on a monthly basis.

11			**<u>Interest Rate Risks Appetite</u>** **The Banking Inquiry has heard evidence and obtained documentation examining the risks that products such as tracker mortgages posed for the credit Institutions. Did the senior management and the directors of the bank fully understand these risks and levels of exposure?** Trackers as a product relied on the assumption that the relationship between the Central Bank policy rate and a bank's blended cost of funds (wholesale and retail) would remain stable. This was consistent with experience over the period since the creation of the Euro. The tracker loan product was well established in the UK before its introduction to Ireland and continues to be offered in that market. The unforeseen risk in the case of a tracker book is that the cost of funding the book increases and the lender cannot recover this increased cost through an increase in loan rates. From 2007 and particularly from Q4 2008, all of the key links that connected the Group's cost of funds to the ECB Refinance Rate in a previously-predictable way broke down. This was because of a combination of severe global systemic stress, the credit problems of Irish banks and, from 2012, the failure of Irish retail deposit rates to track money market rates because of competition for deposits from banks reducing their reliance on wholesale funding. When these unforeseen events occurred, this risk in the tracker book became apparent and was reported to senior management and the Board.
12	B4a	Adequacy of valuation policies and assumptions to accurately assess loan security	**<u>Valuation Of Assets</u>** **a. What reports did the Board or the (Credit) Risk Committee receive that detailed assets which were:** **- Were taken as security and were valued over €1m?** **- Taken with registration outstanding for more than 90 days?** **b. What details were presented on these reports?** **c. How often were these reports received and in what format?** **d. Did the board ever discuss or comment on assets with a value of over €1m, taken as security for loans underwritten?** These matters were managed through the Group Credit Committee, rather than the Board. I understand that the Group Credit Committee, in approving and reviewing individual cases, received information on the security being taken / held, together with comment on estimated valuation. This commentary was typically contained in both the business unit application and an accompanying credit opinion prepared by the independent credit unit.
13	B4b	Independence of professional advisors in valuing property assets	**<u>Independence of Valuers</u>** **a. Where the bank received a valuation on assets presented as security for a loan, did the bank have a policy of:** **- Obtaining a second valuation?** **- Reviewing the valuation of the assets on a regular basis?** Group Internal Audit did not review the policies for the taking of security in connection with lending (as explained above in response to question 1), but I

			understand that the Bank did not have a policy of obtaining a second valuation. The practice in larger property loans was to obtain a valuation, addressed to the Bank, pre-drawdown. b. **Did you feel that the professional valuation firms may have had a conflict of interest when requested to value an asset?** As I did not have any involvement with the instruction of professional valuation firms, I cannot comment on this matter.
14	B4c	Adequacy of valuation policies and assumptions to accurately assess loan security	<u>Valuation of Assets</u> **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 in 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?** My understanding is that such issues were not material in the case of Bank of Ireland for the following reasons: > Of a total of 1,916 separate properties (taken as security) transferred from BOI to NAMA, only nine adjustments were applied by NAMA to BOI pursuant to Section 93 of the NAMA Act. These cases involved issues which were unknown (or had not occurred) prior to transfer. The aggregate adjustment value across these nine cases was €9.5 million, which represents 0.09% of the total nominal loan portfolio balances of €9.9 billion transferred by the Bank to NAMA. > No instances of assets presented as security for loans with multiple banks have been raised by NAMA in respect of assets transferred from BOI to NAMA. c. **Did you raise this as an issue and if so what action was taken?** This outcome for Bank of Ireland as described above is consistent with the findings of the internal audit of Bank of Ireland's Business Banking Shared Service Centre (BSSC) reported on 14 August 2008, which included the audit of Securities Services. The opinion on that audit was as follows: *"Overall, good standards of controls are operated in the unit......* *BBSSC management has also overseen the legacy files project in collaboration with Group Credit and Group Legal Services. No losses have been incurred to date from these cases and the number of high risk cases, currently 29, is gradually decreasing. However, provision has been made for one high risk legacy case where security documentation relating to ten properties was not registered with the Land Registry. An external solicitor has been employed by the Bank to rectify this situation."*
15	B6a	Effectiveness of internal audit oversight and communication of issues related to governance,	<u>Effectiveness of Internal Audit</u> a. **Please detail the criteria used in order to measure the effectiveness of your Key Performance indicators (KPIs) or annual targets, upon which your salary and/or bonus was determined?**

		property-related lending strategies and risks and funding and liquidity risks	The key criteria were measured across four quadrants which were updated during the relevant period, as follows: *The 2003/04, 2004/05 and 2005/06:* > Customers > Financial Performance > People Management > Transformation and Change For 2006/07: > Customer > Financial and Risk > Competitiveness and Growth > Leadership (Leadership standards and employee engagement) For 2007/08: > Customers > Financial and Risk > Strategic Transformation Programme > Leadership (Leadership Behaviour Review and Employee Engagement) For the years 2004/05 to 2007/08 inclusive, the rating on Leadership Standards was an overriding criterion, in that I could not achieve a satisfactory rating overall unless I had achieved a satisfactory rating on Leadership Standards and a minimum of "exceeds expectations" on Leadership Standards was required to achieve an "exceptional" rating overall. The Leadership Standards were: > Creates Synergy > Generates Movement > Challenges the Status Quo > Harnesses Talent > Behaves Authentically For 2008/09, 2010, 2011, 2012 and 2013 the key criteria were: > Financial, Revenue, Cost and Efficiency > Customer > Leadership and People Development > Risk b. **Was there any risk or area which Internal Audit felt should have been reviewed but was not included in the Internal Audit annual plan?** Internal Audit proposed a programme of work, based on an assessment of risk, to the Group Audit Committee (GAC) each year. This was updated on a regular basis during the year and revisions proposed to the GAC, based on revised assessments of risk. No risk or area that Internal Audit felt should have been reviewed, based on these risk assessments, was omitted from the Internal Audit annual plan. c. **During the period 2004 to 2008 (inclusive), did Internal Audit have staff with sufficient skills and experience to enable them to perform reviews on all risks relating to commercial lending (both customer and sectorial concentration levels) and funding risks?**

			The skills and experience to perform reviews on all risks relating to commercial lending were within Group Credit Control, rather than Internal Audit, as explained above (in response to question 1). Group Internal Audit actively recruited people with the skills and experience to perform reviews of funding risks. Examples include: > A treasury specialist recruited from PWC in 2003/2004 to the Capital Markets team and who was promoted to Audit Partner level on the Finance and Risk team in Group Internal Audit. > A treasury specialist was recruited from Deutsche Bank in London to Senior Audit Relationship Manager on the Capital Markets team in Group Internal Audit in 2006/2007. > A manager with 22 years experience in Bank of Ireland's Global Markets business was appointed to the Capital Markets team in Group Internal Audit in 2006/2007. > An Audit Manager from the Finance and Risk team was seconded to the Basel II Programme for 3/4 years and returned to that Internal Audit team with significantly enhanced skills. > The Audit Partner on the Capital Markets team in Group Internal Audit had over 25 years experience in Internal Audit, including considerable experience of treasury audits. **d. Were these risks reviewed by Internal Audit and if not why not?** In relation to commercial lending, see response to question 1. Various aspects of funding risks were reviewed by Group Internal Audit in a number of audits. These included, for example: > Management of liquidity and funding (audits of Global Markets Funding Desk/Global Markets Liquidity Desk/ Global Markets USD, GBP and Global Money Market Desks). > Intra-Group funding and reflection of the cost of funding in product pricing decisions (audits of the Group Transfer Pricing system). > The accuracy of the information supplied to the Group's ALCO on which funding decisions were based (audits of Group Performance Reporting and Regulatory Capital Analysis and Reporting). > *Management of securitisation deals (audit of Securitisation).* > The Group's internal liquidity management (in normal and stressed conditions) and reporting practices and compliance with the Financial Regulator's requirements for the management of liquidity risk which went live in July 2007 (audit of Compliance with Liquidity Requirements).
16	B6a	Effectiveness of internal audit oversight and communication of issues related to governance, property-related	<u>Effectiveness of Internal Audit</u> **Were there material issues identified during an audit which were reported as outstanding at the end of the year and were not addressed the following year (i.e. were any issues carried forward as outstanding for a number of years)?**

		lending strategies and risks and funding and liquidity risks	**If yes, how frequently did this occur?** On my appointment as Group Chief Internal Auditor (GCIA), in 2003, I introduced a new process for reporting outstanding audit issues. In particular, any issue raised as a "major" issue and any "significant" issue, which was more than 60 days past its resolution date, was classified as "red" and reported to the Group Audit Committee (GAC). This was extremely effective in ensuring the resolution of longer-term outstanding issues at that time. Over the period while I was GCIA, the GAC received reports half-yearly showing the details of "red" outstanding issues and progress in resolving them. Some issues were outstanding for longer than one year. The number of issues outstanding since the previous year ranged from, in March 2004, 26 (representing approximately 10% of the total number of audit issues raised) to, in March 2009, 6 (representing approximately 3% of the total number of audit issues raised). The vast majority of these were issues relating to IT/payments/disaster recovery, where significant work, including IT systems enhancements, was required to resolve the issues. The Half Yearly Reports ensured that the GAC was aware of and focussed on the resolution of such issues. Where the GAC was not satisfied with progress, they took action such as requiring the relevant senior management to attend the GAC meeting to explain the position. For example, the Head of Group Manufacturing attended the GAC on 10 November 2008 to discuss four outstanding IT and payments audit issues.
17			<u>Effectiveness of Internal Audit</u> **It was noted in the minutes of the Group Audit Committee meeting for 10 November 2008,"*that GIA is currently operating with 14 fewer staff than its establishment of 96, the vacancies being in the middle and lower level of the team............Following probing by the Committee with regard to the adequacy of resources, including the ability to respond to emerging issues, Ms. Nolan confirmed that if there was a risk of schedule slippage, management would be alerted and had been responsive in providing the required resources when asked.*"** **Did the shortage of 14 audit staff effect:** **a) the scheduling of audits on high risk areas,** **b) the quality of the audits that were undertaken?** Internal Audit reassessed, on a quarterly basis, the risks facing the business and adapted the Audit Plan to ensure it remained focussed on the key risks. Internal Audit conducted a very extensive review between July and September 2008, as a result of which it presented a detailed paper to the Group Audit Committee, setting out its revised risk assessment and recommended changes to the audit plan. In response to your questions on: a) the scheduling of audits on high risk areas? – no, the purpose of the review was to ensure that audits were scheduled dynamically to focus on areas of highest risk. b) the quality of the audits that were undertaken? – no, audits continued to

			be conducted in line with current best practice, specifically the Institute of Internal Audit Standards. The minutes also record that I *"confirmed that if there was risk of schedule slippage, management would be alerted"*. In presenting the audit plan for 2009/10, on 23 February 2009, I noted the following: *"The paper outlining proposed revisions to the 2008/09 Rolling Audit Plan, presented to the Group Audit Committee on 10 November 2008, described four 'workstreams' that reviewed the following aspects of GIA's work a) Risk and Efficiency, b) Reporting, c) People and d) Streamlining SOx Testing.* *The overarching objective was to identify ways of reducing the costs of GIA, while maintaining or improving the quality of the work carried out by the team. The objective was met. The main opportunities for cost savings came from streamlining SOx testing, including integrating SOx testing and audit work in some instances. Some efficiencies were also implemented in audit processes such as planning, reporting and scheduling. The main quality improvements are on reporting. Initiatives were also focussed on supporting and motivating the team through good people management practices and training."* **Can you reconcile the last part of this file note "management ... had been responsive in providing the required resources when asked" to the fact that there were 14 vacancies within GIA on 30 September 2008.** In my first report to the Group Audit Committee in July 2003, staff numbers in Internal Audit were 62. At November 2008, staff numbers were 82, an increase of 32%. The budget for Internal Audit for 2004/05 was €7.5m. The budget for 2008/2009 was €11m, an increase of 57% in four years. These figures support the statement that "management had been responsive in providing the required resources when asked".
18			<u>Effectiveness of Internal Audit</u> **Would you still hold the view, as you outlined at the Group Audit Committee meeting on the 10 May 2004 and on 23 April 2008, that in relation to the Corporate Controls, the internal controls "remains sound"?** **If so, why?** The annual Corporate Controls review is a high level review of the Group's governance and control framework which is performed to support the Board in discharging its corporate governance responsibilities. The Corporate Controls Review in 2004 evaluated the Group's corporate controls against the 2003 Combined Code, which was best practice at that time. A comprehensive assessment of the adequacy of the Group's corporate governance arrangements was carried out on behalf of the Central Bank of Ireland by Boston Consulting Group (BCG) in 2010. (This report, which is not in the public domain, was provided to the Joint Committee.) This review examined in depth the areas covered by Group Internal Audit's Corporate Controls Review, which were largely similar to those covered in 2008. The specific scope set out by the Central Bank and assessed by BCG was as follows: *"In its letter of 4th August 2010 to BoI, the CBI outlined six specific dimensions of governance for investigation:*

			a) *The role and responsibilities of the Board and the structure, coverage, roles and responsibilities of its subcommittees.* b) *The composition of the principal Board and its subcommittees, including the skills, experience and independence of Board members and the balance of skills and experience between executive and non-executive directors.* c) *The effectiveness of the Board and its sub-committees in overseeing BoI's activities, deciding on appropriate actions and ensuring those actions are executed and reported.* d) *The effectiveness of individual Board members, including the Chairman, and the effectiveness of interaction between executive and non-executive directors.* e) *The quality of management information submitted to the Board, and the Board's use of that information.* f) *The adequacy of resources available to support non-executive directors.* *Furthermore, CBI provided guidance indicating that any approach should provide comparative analysis of BoI with other international banking groups and note best practices that BoI might adopt to enhance its governance arrangements."* The conclusion of BCG's assessment was: *"BoI is broadly aligned with governance best practices.* *The form of BoI governance complies with best practice guidelines. We have also found no evidence that there are any major weaknesses in terms of how governance is "lived" at BoI. Finally, when comparing BoI with benchmarks, we found its governance to be broadly in line with international banking peers, and Board effectiveness to be better."* Given the Group's compliance with the 2003 Combined Code in 2004 and the later validation of the conclusions of the 2008 Corporate Controls Review by the comprehensive independent review by BCG, I believe the conclusions of those reviews remain valid.
19			**<u>Effectiveness of Internal Audit</u>** **Did Group Internal Audit review the risks associated with customer concentration levels and short term funding to service long term lending?** In relation to customer concentration levels, see answer to question 1 above. In relation to funding, Group Internal Audit reviewed various aspects of funding risk in a number of audits, particularly looking at the Group's liquidity management and reporting practices and oversight by ALCO, GRPC and the Board. Group Internal Audit did not explicitly review the risks associated with short term funding to service long term lending.
20	B6b	Effectiveness of oversight of prevailing risk culture	**<u>Risk Culture</u>** **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?** Elements of risk culture and appetite were reviewed in a range of internal audits, but there was not a review which focussed exclusively on risk culture and

			appetite as a specific topic. Comprehensive reviews were carried out by external consultants Oliver Wyman and BCG, each of which has been provided to the Joint Committee and is not in the public domain: a) Oliver Wyman Review of Risk Governance (2009) b) Boston Consulting Group (BCG) Review Of Governance and Risk Management (2010) A number of improvements were recommended and made as a result of these reviews.

Helen Nolan

23 July 2015