Tithe an Oireachtais
Houses of the Oireachtas

Joint Committee of Inquiry into the Banking Crisis

Witness Statement of

Tom Hayes

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> "(a) with the prior consent in writing of the committee,
>
> (b) to the extent necessary for the purposes of an application to the Court, or in any proceedings of the Part 2 inquiry, or
>
> (c) to his or her legal practitioner."[1]

Serious sanctions apply for breach of this section. In particular, your attention is drawn to section 41(4) of the Act, which makes breach of section 37(1) a criminal offence.

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

Statement to the Joint Committee of Inquiry into the Banking Crisis

I joined the Bank of Ireland Group in 1979 and gained experience across the Retail Division before joining Corporate Banking in 1989. I performed a number of roles across the domestic and international businesses within Corporate Banking until my appointment as Chief Executive, Corporate Banking in January 2006.

The Joint Committee has directed me to provide a statement in writing in relation to certain questions outlined in Document 1 of its letter to me of 8th July 2015.

Theme B1e Appropriateness, management and control of Client Relationship activities

1. ***Corporate Entertainment***

Given that your bank was actively involved in the sponsorship of major sporting events, please detail:

(a) Any instances that you are aware of where your bank entertained property developers or bank customers who had large loan exposures (i.e. greater than €10m)?

A key part of our strategy to build closer client relationships and develop a better understanding of our customer was a measured approach to client entertainment across our business. In Corporate Banking this involved entertainment of corporate clients including property developers at a range of events. This entertainment generally consisted of but was not limited to invitations to events at which the Bank had a sponsorship role, including, amongst others, GAA, rugby and soccer matches, golf events and film & concert events. All entertainment offered was subject to compliance with the relevant policy on Gifts, Sponsorship and Entertainment in place at the time.

(b) Any instances that staff in your bank were entertained by property developers or bank customers (who had large loan exposures)?

Entertainment provided by customers was generally less frequent than entertainment provided by the Bank, and typically related to golf or other sporting events in Ireland. Any such entertainment received was subject to compliance with the relevant policy on Gifts, Sponsorship and Entertainment in place at the time.

(c) What do you feel is an appropriate allowable entertainment value receivable by staff before it must be declared

Our current policy in relation to gifts and entertainment offered to staff requires that all entertainment/gifts with a value in excess of €100 must be reported. I believe the limit is set at an appropriate level.

2. ***Are you satisfied that your Bank's Corporate Hospitality / Entertainment / Marketing expenditure relating to clients, contacts in the property sector and/or organisations, to include politicians, was appropriate and in line with your Group policies on gifts, sponsorship, invitations and inducements?***

I am satisfied that all hospitality/entertainment/ marketing expenditure provided to clients in the property sector was appropriate, was in line with the relevant policies on gifts, sponsorships, invitations and inducements in place during the period and was not disproportionate to the entertainment provided to other Corporate Banking clients. I am not aware of any entertainment having been provided to politicians.

Theme B2b Appropriateness of credit policies, delegated authorities and exception management

3. Loans Outside Lending Policy

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

In my role as Chief Executive, Corporate Banking, I was aware of the extent to which loans were issued by Corporate Banking as exceptions to lending policy. Also, as a member of the Group Credit Committee, I was aware of the exceptions approved by the Group Credit Committee in respect of the loans submitted for approval by that committee in accordance with the Bank's lending policy.

The basis for the approval of exceptions to lending policy was contained in the Group Credit Policy, which stated that "*Allowance has been made for exceptions to Credit Policy. Any such exceptions must be reasonably justified and their extent monitored and controlled. Exceptions can only be approved in accordance with the procedures set out*". The Group Credit Policy is discussed in more detail below under the response to question 3(b).

In situations where a transaction was considered acceptable but where it represented an exception to Group, Corporate or sector policy, it was a requirement to refer the credit proposal to, at least, the next higher level of credit authority for decision with the rationale for recommending the exception clearly outlined. The level of policy exceptions within Corporate Banking was the subject of ongoing review and monitoring.

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

No, in light of the rigorous and comprehensive analysis that such loans were subjected to, the enhanced risk measures in place and the focus on identifying clearly the risk mitigants I believe the level of exceptions was acceptable. It is important to note that Corporate Banking maintained a granular policy, thus ensuring that there was appropriate focus and attention on the mitigants to any policy exceptions.

The Group Credit Policy states that the Group Credit Policy, together with the Credit Policy statement of individual business units, such as Corporate Banking, was expected to accommodate the great majority of lending proposals considered by the Group. However, it was acknowledged that there may be occasions where there could be exceptions to one or more of the policy criteria, but where appropriate mitigants could support approval of the transaction. Individual policies, such as those that applied in Corporate Banking, could be more granular in nature.

For commercial property investment lending, for example, the policy parameters included, amongst others, criteria relating to advance rates (Loan to Value), interest cover, residual risk, maximum term and maximum interest only interest period. An exception to any one of these guideline criteria required consideration of mitigants to support approval. It is important to note that irrespective of the mitigant the transaction was recorded as a policy exception.

(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 whom?

See above.

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

See above.

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

I am satisfied that I was kept fully informed about the level of exceptions in Corporate Banking, and, through my membership of the Group Credit Committee, in respect of the exceptions approved by that committee, and I am satisfied that the process for approval of those exceptions was robust.

4. *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?

Yes, all proposals submitted to Credit Committee to which I was a party were in my view the subject of detailed, comprehensive and rigorous assessment. All proposals were accompanied by an independent assessment by the relevant Credit Unit within Group Risk. There was a particular focus by Credit Committee members on the extent to which any proposal was outside of the relevant, Group, business or sector policy and such proposals were only considered where there were adequate risk mitigants. A listing of transactions approved by the Group Credit Committee and associated exceptions was provided to GRPC.

Equity in 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 situations where additional collateral was sought or offered to support a particular property transaction the additional collateral was valued in accordance with policy.

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

5. ***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 responsibilities of my role as Chief Executive, Corporate Banking did not include the function of reviewing the adequacy of reporting to the Board. I did not have access to the papers prepared for the Board in relation to these matters.

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

I had no direct involvement in the preparation of reports for the Board on these matters, but I am aware that GRPC received regular reviews of key lending portfolios and these reports would have contained concentration analysis. The minutes reflecting GRPC's consideration of these portfolios were submitted to the Court for consideration.

(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?

Property development lending represented a relatively small proportion of the overall Corporate Banking loan book and was well spread across a range of customers and projects with a primary focus on major urban locations in Ireland and the UK. Speculative property lending was generally avoided.

While property lending in Bank of Ireland did not become disproportionately large, it has been acknowledged by the Bank that the absolute quantum of this type of lending left the Bank exposed to the significant correction in the property markets.

Recognising the significant growth in lending that had taken place during the period up to 2008, there was an increasing focus in Corporate Banking on managing individual borrower concentrations during the period. There was also a clearly defined strategy during the latter part of this period to diversify our property exposure outside of Ireland.

With hindsight we took too much comfort from the fact that our exposure to certain borrowers was lower in quantum and higher in quality than the other Banks (Irish and non-Irish) operating in the Irish market.

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

The quantum and quality of our property development exposures was the subject of regular and ongoing review by the business and by the independent risk and monitoring functions. In relation to reporting specifically, please see the response to (b) above.

Theme B3a Appropriateness of funding sources, mix, maturity profile and cost

6. ***Loans to Deposits Ratio (LDR)***

Loan/Deposit Ratio (LDR) is now targeting 120% - 100% and lower. Why was this not a target during the 2004-2008 period when it reached highs of over 170% across a number of the Irish Banks? Do you think the level of LDR in your institution was appropriate?

During the period 2004-2008 the Bank's wholesale funding ratio was broadly in line with its international peers. The level was influenced by ready access to wholesale markets which had functioned effectively for a considerable period of time, with demonstrated liquidity in the inter-bank market and a sophisticated and stable securitisation market. The dislocation to wholesale funding markets from 2007 onwards was unforeseen and unprecedented and impacted not only Bank of Ireland but almost every other bank in the market.

While I believed the level of wholesale funding was appropriate at the time, it is clear with hindsight that the level of reliance on wholesale funding was too high. The Bank has taken significant steps in the intervening period to address this issue and the Corporate Banking division has made a significant contribution by supporting deleveraging through the sale/wind-down of non-core businesses and growth in deposits from core franchise to support a more appropriate LDR.

TOM HAYES

23 JULY 2015