

Opening Remarks to Joint Committee on Finance, Public Expenditure and Reform by Joe Walsh, Non Executive Director, Bank of Ireland

20 December 2012

Thank you for the invitation and the opportunity to make a short statement.

At the request of the then Minister for Finance, I agreed to have my name included in a list of people who would be available to be appointed as public interest Directors. I was appointed to the Board of Bank of Ireland in January 2009.

I have been a member of the **Nomination and Governance Committee** since 2009. This committee oversaw the complete renewal of the board's non-executive directors, none of whose tenure pre dates 2009. As a member of this Committee, I contributed to the successful implementation of compliance with very substantial new governance codes, including:

1. The Central Bank of Ireland's Corporate Governance Code for Credit Institutions and Insurance Undertakings, which became **effective from 1 January 2011**
2. The revised version of the UK Corporate Governance Code
3. The Irish Corporate Governance Annex to the Listing Rules of the Irish Stock Exchange
4. The Central Bank of Ireland's Fitness and Probity requirements.

Over 5200 people in Bank of Ireland have been put through the required due diligence and assessment in accordance with these stringent Fitness & Probity requirements. As a Public Interest Director, I see it as my function to ensure continued monitoring of compliance with these standards.

The Committee has presided over very significant change in the top echelons of the Bank. Of the 61 people on the Board, Group Executive, and direct reports to the Group Executive, at 30 September 2008, 62% have left or will have left the Group over the next couple of months and 28% are in new roles. All of the non executive Directors have left the Group over that period as have 5 of the 8 Group Executive Team. We have a new experienced Board.

The Central Bank mandated a review of Corporate Governance at Bank of Ireland by a major international firm in December 2010 concluded that – *“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.”*

The external review of Board Effectiveness in Q4 2011 concluded - that *“Board performance exceeded benchmarks on 45 dimensions out of 50 including critical areas such as knowledge, challenge and dissent”*.

In addition, Bank of Ireland's Restructuring Plan has been agreed with the European Commission.

Group Remuneration Committee

I have been a member of the Group Remuneration Committee from January 2009 to date and became Chairman of the Remuneration Committee in January 2012.

Over that period, this Committee oversaw a major change in remuneration levels and employment structures in Bank of Ireland. Taking into consideration the changes in remuneration and reductions through voluntary redundancy in staff numbers, wage costs to the Bank have reduced by circa 24% over the past 4 years. There have been major changes to pay structures in terms of absolute salaries, variable pay and pension benefits. Over 4500 less people are working with the Group than were in January 2009.

The GRC has ensured compliance with the very significant provisions set out by the Minister of Finance, under the Subscription Agreement in 2009 and his letter of July 2011 which was disclosed as part of the documentation in connection with the Bank's successful recapitalisation, primarily from the private sector, in 2011.

The GRC led the revision of remuneration structures to ensure adequate reflection of risk in remuneration. Specifically, it ensured the necessary changes were made to ensure compliance with the European Banking Authority requirements, in so far as possible in circumstances where bonus variable pay is not permitted in Bank of Ireland. This has included:

- the identification of staff with particular influence on the risk profile of the Group;
- the implementation of mandatory risk goals for all executives and managers;
- updating of the Group Remuneration Policy to reflect the focus on risk.

The GRC ensured appropriate public disclosures on remuneration in the Annual Report and Accounts and Pillar 3.

The Central Bank of Ireland reviewed the Group's compliance versus the EBA Guidelines in 2011. In addition the Financial Services Authority reviewed the UK Subsidiary's Remuneration Policy Statement for 2011.

The GRC made significant revisions to Group Remuneration Policy and required management to conduct significant upgrading of the Group's database of information on employees' remuneration.

As a Board member and public interest director whose career has spanned both the business and political spheres, I take a keen interest in how Bank of Ireland has been meeting its stated strategy of supporting and benefitting from economic recovery in Ireland.

Lending

In relation to lending:-

Mortgages

With an existing share of circa 20% of the Mortgage market, the Bank has provided circa 40% of the new mortgages in the market in the year to date. The Mortgage market is up 7% in Q3 of 2012 compared to the same period in 2011. This was the first positive year on year growth since 2006 and the third quarter in a row to show an increase. According to the Irish Mortgage Council, approvals in Q3 of 2012 are up 14% year on year supporting the Bank's expectation that this improving trend will continue.

Bank of Ireland continues to demonstrate its commitment to mortgage market recovery. A €1.5bn mortgage fund was launched in December 2011 to support first time buyers and movers purchasing a home during 2012. Due to oversubscription of applications to this fund, a new €2bn mortgage fund was launched in October 2012 to cover the remainder of 2012 and 2013. Other initiatives include the Bank's Negative Equity Mortgages for both those trading up and those trading down which was launched in April 2012, participation in the NAMA Deferred Payment Initiative and hosting Bank of Ireland Home Buyers Week in October 2012.

Mortgage Arrears Management

Bank of Ireland has mobilised very significantly around the management of mortgage arrears.

There is a very large scale programme well underway in the Bank to support our customers who are facing or are in financial difficulty with their mortgage repayments. In the last year, we have significantly increased the number of staff involved in our MARS programme - we now have over 700 staff across the Group involved in the management of mortgage arrears.

We have made considerable investment in training of our staff and this training has been supported by internationally recognised experts in the field of mortgage arrears management.

We have the largest Bank branch network in the country and we have trained mortgage adviser experts in each Branch. We also have mobile advisers throughout the country who can meet customers in their own home, or alternative location to their own branch.

In terms of restructure options for customers, we are offering restructures to between 400 and 500 customers per week and have added more long term solutions to our products, we have formally restructured over 16,000 mortgages and over 86% of customers whose mortgage have been formally restructured are fully meeting their contracted repayments. We also have a significant number of customers on informal arrangements with us.

SME

Bank of Ireland Business Banking has achieved and will exceed its €3.5bn SME lending target for 2012. This figure represents the Bank's approvals for new and increased credit facilities for businesses and farmers. Credit approved for customers seeking restructured facilities are excluded from these figures as reported by Bank of Ireland.

The €3.5bn represents a 16% increase in approvals year to date when compared with 2011, which is as a result of increased demand from several sectors in the Irish

economy. There have been particular increases in demand from customers in the healthcare, manufacturing and hospitality sectors, while Agri lending has also remained strong. Increased demand for Asset and Commercial loan finance has also been a feature. Of particular importance is the fact that lending to businesses and farmers has increased in all regions throughout Ireland, under-pinning the Bank's confidence in its nationwide branch network. Lending to Dublin businesses was up by 27% compared to last year. With over 40% of businesses located in the capital, the Bank believes that this indicates that confidence is slowly returning, as evidenced by the growth we have been seeing in credit demand from viable businesses in the second half of this year .

Bank of Ireland has just completed its seventh National Enterprise Programme which saw over 5,000 businesses and farmers attend 80 events and networking meetings. 1,500 businesses also took the opportunity to showcase their products and services in Bank of Ireland branches. In 2013, the Bank will be rolling out a series of free SME Lending Clinics which aim to explain the lending application process primarily to start up and micro-sized businesses.

We have a lending target of €4billion in 2013, and are determined to achieve that.