



AIB AGM AND NEW DIRECTORS AT BOI

When I worked for AIB there was a profit sharing scheme that allowed employees to become shareholders. I participated in the scheme and over the years built up a reasonable size holding but luckily I sold most of my shares after the rogue trader John Rusnak incurred major trading losses. I held on to some shares primarily because even after Rusnak I still had a significant capital gain and I thought I might be able to keep my tax bill down. (Like so many people I should not have let tax influence my decision and I also have to be honest and admit that I did not see the extent of the decline in property prices and the implications for the banks). I am now in a situation where it would cost me more to sell my shares than I would get for them so I continue to hold on to them.

As a shareholder I am entitled to go along to the AGM so when I realised that I was going to be in Dublin for a lunch on the same day, I decided to attend.

I went along primarily to listen to the new leadership because all the old directors and executives are gone. I was curious to find out if there had been a genuine change in “culture”.

Banking culture is getting an awful lot of attention at the moment. If the sub-prime crisis had not been enough of a warning, the Libor scandal, the JP Morgan trading problems, the HSBC Mexican issues and the Standard Chartered Iranian issues are further evidence of an industry out of control.

At AIB the government had an opportunity to completely change the culture by appointing new leaders with a mandate to break away from the past and go in a totally new direction. The AGM was an opportunity to see if this had been achieved.

The Chairman, David Hodgkinson, did most of the talking so it was on the basis of what he said and the way he said it that I formed my opinion. His answers to a couple of questions made me think that he isn't going to transform the culture of the bank. He was asked by one shareholder a question in relation to whether a letter of apology had been sent to the whistleblowers that had been badly treated by the bank. He said that no letter of apology had been written. The shareholder then went on to say that he thought that at the previous AGM Mr. Hodgkinson had agreed to send letters of apology. Mr. Hodgkinson replied by saying that he had only agreed to look into the idea of sending letters. He then swiftly moved the meeting on to the next question without, in my opinion, giving the question the full response it deserved. I thought Mr. Hodgkinson might say that there are legal issues that need to be considered but legal issues were not mentioned. Naively I had hoped that the new Chief Executive or that other champion of the people Dick Spring (a government appointed director) might have said something to indicate how much they admire what those whistleblowers did but they said absolutely nothing.

A different shareholder asked Mr. Hodgkinson about his benefits in kind (BIK) and the way he replied clearly indicated that the €4,500 per month spent on an apartment

for him (along with payment of the BIK tax) on top of his €500k salary was totally reasonable.

Just out of curiosity I had a look on the MyHome website at what €4500 a month could rent and here is what came up:

001 ★ **The Waterfront, Hanover Quay , Grand Canal Dk, Dublin 2**

2 Bed Apartment To Let €4,200 / month

Amazing duplex penthouse of c. 168 sq m in the upmarket Waterfront development. This former show apartment boasts panoramic views over Grand Canal Dock towards the Dublin Mountains from the 6th & 7th floors. This property is the epitome of luxury and the ultimate in penthouse living with exceptional



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I do not expect the executive chairman during his temporary period working full time for the bank to have to slum it while staying in Dublin but I got the impression that the other shareholders felt that he could easily afford to pay for his accommodation from his salary. In my opinion while answering this question there was no sense of humility. The leaders of the banks have made such a mess of things that I thought they might be a bit more humble but I came away thinking that Mr. Hodgkinson still believes that he has such a rare and scarce talent that his compensation could easily be higher.

I made my feelings known about executive compensation in opinion piece 13 and Irish banks pay their executives a fraction of what American banks pay but I still stick to my belief that the American system is nuts. I just hope the “shareholder spring” manages to bring American executive compensation under control.

While I came away depressed from the AIB AGM, I was pleasantly surprised to hear that Prem Watsa has joined the board of Bank of Ireland (BOI). I have been reading about Prem for a few years because he is sometimes called the Warren Buffett of Canada (and everyone knows what I think about Warren Buffett!).

Prem has invested in BOI through Fairfax Financial and he wrote about BOI in his most recent newsletter to shareholders:

Bank of Ireland is very strongly capitalized, led by an excellent banker, Ritchie Boucher, and its shares were available at a significant discount to book value. We look forward to being long term shareholders of Bank of Ireland and hope to make more investments in that country as it continues under strong leadership diligently remedying its economic problems. Ireland by the way is a leading location of choice for foreign direct investment because of its talent, tax regime and technology capabilities together with its unique pro-business environment. Our nSpire Re subsidiary has been in Dublin since 1990 and was a great help in making our decision to invest in Bank of Ireland.

While I have my doubts about our “strong leadership” I do hope that our “unique pro-business environment” ultimately turns things around and as for BOI I hope this is an indication that the current leaders will be able to create a banking culture that people can be proud of.

Maybe there is some hope after all.....