

# HOUSES OF THE OIREACHTAS

Volume 2

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Morning  
No. 4  
Afternoon

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## AN COMHCHOISTE FIOSRÚCHÁIN I DTAOBH NA GÉARCHÉIME BAINCÉI- REACHTA

### JOINT COMMITTEE OF INQUIRY INTO THE BANKING CRISIS

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*Déardaoin, 23 Aibreán 2015*

*Thursday, 23 April 2015*

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The Committee met at 9.30 a.m.

#### MEMBERS PRESENT:

Deputy Pearse Doherty,	Senator Sean D. Barrett,
Deputy Joe Higgins,	Senator Michael D'Arcy,
Deputy Michael McGrath,	Senator Marc MacSharry,
Deputy Eoghan Murphy,	Senator Susan O'Keeffe.
Deputy Kieran O'Donnell,	
Deputy John Paul Phelan,	

DEPUTY CIARÁN LYNCH IN THE CHAIR.

**Mr. Dermot Gleeson:** Yes, I mean I think the history that is now seen in AIB, and I obviously haven't seen it because I wasn't there, but if you look at some of the reports that were done afterwards. There's one in 2009 by a Mr. Treble, for instance, it analyses that the credits ... the credit assessments systems weren't as strong as they should have been have.

**Chairman:** And there was a question I put to, I think, Mr. Daly yesterday, and he said it maybe be better placed to the banks. So-----

**Mr. Dermot Gleeson:** Sorry, I missed that, Chairman.

**Chairman:** I put a question to Mr. Daly, I think yesterday, and he said ... in his response he said maybe the banks can answer that better. And it comes back to my earlier question which was about the banking behaviour, the banking behaviours with regard to cross-collateralisations, cross-exposures, letters of guarantee and all the rest. So I asked Mr. Daly did the banks, to his view, behave in a deferential manner to major developers and lenders.

**Mr. Dermot Gleeson:** In my case, absolutely not, I think I only know ... knew two developers ever, and one of them didn't bank with AIB; he was the one I knew best. And the other one I knew him only slightly as a neighbour, and I never discussed financial matters with him. So I never deferred to anybody.

**Chairman:** Okay. Thank you very much Mr. Gleeson. To wrap things up, is there anything further you'd like to add or comment on?

**Mr. Dermot Gleeson:** No, but I'm sure when I leave I will think of things I should have said, but thank you very much-----

**Chairman:** We all suffer from that fault, Mr Gleeson. Thank you very much.

**Mr. Dermot Gleeson:** It's called the principle of delayed eloquence.

**Chairman:** Okay. So with that said I'd like to thank Mr. Gleeson for his participation and for his positive engagement with the inquiry. The witness is now excused, and I propose that we suspend until 2.30 p.m., at which time we will resume with Mr. Donal Forde. Is that agreed? Agreed.

*Sitting suspended at 1.10 p.m. and resumed at 2.30 p.m.*

### **AIB - Mr. Donal Forde**

**Chairman:** As we have a quorum I propose that the committee now goes back into public session for this afternoon's hearings. Is that agreed? Agreed.

We'll commence with session two, public hearing with Mr. Donal Forde, former managing director AIB in the Republic of Ireland. The Committee of Inquiry into the Banking Crisis is now resuming in public session and can I ask members and those in the Public Gallery to ensure that their mobile phone devices are switched off? We will now hear from Mr. Donal Forde. Mr. Forde served as the managing director of AIB bank, Republic of Ireland, from 2002 to 1 May 2009 and was responsible for AIB's retail banking operations in the Republic of Ireland. Mr. Forde joined AIB in 1978. During a long career with AIB, he held a variety of senior executive roles within their capital markets and retail businesses. Mr. Forde you're very welcome before

the committee this afternoon.

**Mr. Donal Forde:** Thank you Chairman.

**Chairman:** Before I hear from the witness, I just wish to advise the witness that by virtue of section 17(2)(l) of the Defamation Act 2009, witnesses are protected by absolute privilege in respect of their evidence to this committee. If you are directed by the Chairman to cease giving evidence in relation to a particular matter and you continue to do so, you are entitled thereafter only to a qualified privilege in respect of your evidence. You are directed that only evidence connected with the subject matter of these proceedings is to be given. I will remind members and those present that there are currently criminal proceedings ongoing and further criminal proceedings are scheduled during the lifetime of the inquiry, which overlap with the subject matter of the inquiry. Therefore, the utmost caution should be taken not to prejudice those proceedings. Members of the public are reminded that photography is prohibited in the committee room. To assist the smooth running of the inquiry, we will display certain documents on the screens here in the committee room. For those sitting in the Gallery, these documents will be displayed on the screen to your left. Members of the public and journalists are reminded that these documents are confidential and they should not publish any documents as displayed. They are there to assist proceedings when evidence is being given.

The witness has been directed to attend this meeting of the inquiry into the banking crisis and you have been furnished with booklets of core documents. These are before the committee and will be relied upon at times when questioning, and form part of the evidence of the inquiry. With that said, could I now ask the clerk to administer the oath of affirmation to Mr. Forde.

*The following witness was sworn in by the Clerk to the Committee:*

Mr. Donal Forde, former Managing Director, AIB.

**Chairman:** Thank you. Mr. Forde, if I can invite you to make your opening address to the committee please.

**Mr. Donal Forde:** Thank you, Chairman, and thank you for the invitation to appear before the committee. In that invitation I was asked to give evidence relating to a number of lines of inquiry in the context of three positions which I held in my employment with the AIB Group, specifically in the years from 1999 to 2009. Those three roles were general manager of the strategic development unit in the bank, managing director of AIB Bank, Republic of Ireland, and as director of group strategy at AIB plc. I just want to take the three of these in turn for a while if I might.

I was general manager of the bank's strategic development unit from September 1999 to April 2002. That was a strategic marketing role. In that position I had no responsibility for credit management or credit strategy. I was appointed as managing director of AIB Bank in April 2002, and I held that position until February 2009, you may have mentioned May 2009 earlier. I believe it is principally in the context of this role that I can be of assistance to the inquiry. AIB Bank was the domestic retail banking division of AIB Group. As its managing director I was responsible for all aspects of the division's activity in accordance with AIB Group policies and governance. Specifically in the context of credit strategies, credit approval or credit risk management, activities were all conducted within policies that were set out by the central group risk management function, endorsed by the group executive committee and approved by the board of directors.

## JOINT COMMITTEE OF INQUIRY INTO THE BANKING CRISIS

Thereafter, these activities were supervised by the group risk management function with support from the internal audit function. As managing director of AIB Bank, I did not have any credit discretion. My responsibility was to manage the business to the highest possible level of performance in all respects, and to do so within the credit risk policies and credit risk management frameworks that were set and ordained at group level. Let me make it clear that, in outlining the corporate governance structure within which the AIB Bank division operated, I am doing that for the purpose of clarity. I am not in any way suggesting that I am without a share of the responsibility for the failure of the bank. I was part of the group executive management committee through this period and I became a member of the AIB Group board in 2007. My voice would have been an influential one if I had questioned or challenged our credit strategy and credit positioning at these fora, but I did not do so. While I had expected a faltering of economic activity and a pull back in the property market, I simply did not foresee the scale of the collapse that was to follow. It is clear now that AIB credit policies were inappropriate at that advanced stage of the economic cycle. At the time, I believe that the economy was on a more resilient and sustainable footing than subsequently proved to be the case.

With the wisdom of hindsight, this was a serious misjudgment on my part and on the part of many others within the bank and outside. My own failing in this respect is a matter of deep personal regret and I am very conscious of the implications of that misjudgment for very many people. In late January and February of 2009, I was informed by the AIB Group chief executive that I was being moved from my post as managing director of AIB Bank to a newly created position as director of group strategy. However, that position never materialised in the way that was indicated to me at the outset. I found myself from that point completely removed from discussions at executive management and board level, and without objectives or direction in terms of a work agenda. That situation persisted until I decided to leave the bank nine months later in November 2009. Throughout my time in this role, I had no involvement in the management of the bank and very little knowledge of developments from a credit risk perspective.

Turning to the specific lines of inquiry that I was asked to address, I have addressed each of these in my written statement. In the interest of time, I will not read through the detail of the views and perspectives that I have to offer, but I am happy to elaborate on my submission in any way that the committee considers helpful. I have summarised that submission, Chairman, with my personal conclusion that the failure of the bank was primarily attributed to the failure of our credit risk management policy. Our stress testing of customers' repayment capacity was not sufficiently challenging, and our loan to value constraint on security was inadequate. The impact of these principle factors was exacerbated by an excessive weighting of property exposure in our portfolio, an undue level of exposure to individual counter parties, and there were external factors that contributed to the difficulty. There were inappropriate accounting protocols in my view for loan loss provisioning, there was unanticipated and increased funding costs, there was an external requirement for increased capital and all of these added to the strain.

I hope my statement is helpful to the committee. I have relied primarily on my recollection of events in preparing material for the inquiry and this may mean that some points of detail have escaped me. With that caveat, I am happy to address any more detailed questions that may arise. Thank you, Chairman.

**Chairman:** Thank you very much, Mr. Forde. Our first questioner today is Senator Marc MacSharry. Senator you have 25 minutes.

**Senator Marc MacSharry:** Thank you very much. Welcome, Mr. Forde. Can I ask what processes and actions were taken to monitor and remediate the regular approval of exceptions

to the group-large exposure policy limits?

**Mr. Donal Forde:** I do not think there was much action taken to remediate them. That is the truth of the situation. I think it became far too routine that exceptions were created to the large exposure policy. I think that is the case. There was not a question of remediating them. They were referred to the board, all of these, they were approved. I think we began to accept it as something routine that that policy was honoured more, I have to say, in the breach than in the observance.

**Senator Marc MacSharry:** Is it fair to say or not that the correct checks and balances did not exist?

**Mr. Donal Forde:** I would not have put it like that, in the sense that every one of these cases was scrutinised. All the documentation and the circumstance of the case would be reviewed three times - by the division, the division then referred them to the group credit committee and they would be reviewed again and then they would go to the board for final approval. So it was not that there was an absence of scrutiny on them. I think we had come to accept that large exposures to individuals who were long-established in the property and construction business were acceptable. I would put it in those terms.

**Senator Marc MacSharry:** What would constitute a large exposure, typically?

**Mr. Donal Forde:** I think the policy dictated - from memory - I think it is anything in excess of €75 million. I may be wrong in that but of that order had to be referred to the group, essentially. Given that it was at odds with our policy, it had to go to the board for approval and sign off.

**Senator Marc MacSharry:** In your experience, both outside the board and in the board, was the board rubber stamping or did it scrutinise the work already done by the various committees? Or did they just rubber stamp and accept recommendations?

**Mr. Donal Forde:** It felt like an intense process of scrutiny. I cannot speak for how the members of the board saw it but certainly from my point of view and certainly from the perspective of those at divisional level who were going to those, they certainly felt they were being scrutinised fairly rigorously.

**Senator Marc MacSharry:** Was there ever an instance where one was rejected by the board?

**Mr. Donal Forde:** There was. I couldn't ... I cannot say that they were all approved. There was some. There would be, in some sense, amended or some recommendations would actually follow that piece of work to say security was to be amended or some such, or-----

**Senator Marc MacSharry:** But no decline. There was no decline, was there? Just that we asked before, the previous witness, just to-----

**Mr. Donal Forde:** I don't know that I could answer that absolutely. I don't know. I don't ... I can't recall one, truthfully. I imagine it would be less of a decline than some amelioration of the case or something, but-----

**Senator Marc MacSharry:** So you would have recommended adjustments, but-----

**Mr. Donal Forde:** Yes-----

**Senator Marc MacSharry:** -----but you don't recall saying, "No, we're not doing that."

**Mr. Donal Forde:** I don't recall an outright decline where adjustments would be reasonably frequent. I ... remember, I wouldn't actually attend at those because I would be considered to be someone in conflict. So I ... it would be very infrequent that I would actually sit at those chairman's sub-committees.

**Senator Marc MacSharry:** Except when you were at the board itself?

**Mr. Donal Forde:** No. No, because it would be regarded as a conflict. I think I sat at one, I remember, where somebody had withdrawn or something but, it was always regarded as a conflict on my part given that I was coming from the division if I was to be sitting in judgment on something that those working for me were bringing forward.

**Senator Marc MacSharry:** In your time on the board, post '07, the chairman's committee, it seemed, routinely considered these issues. Did the board rubber-stamp the recommendations of the chairman's committee typically or did they scrutinise or change or adapt or adjust or-----

**Mr. Donal Forde:** I think the minutes of those committees were then circulated with the board and they would be read and read into the minutes and-----

**Senator Marc MacSharry:** And do you recall at any stage, any dissenting voices to a decision of the chairman's committee?

**Mr. Donal Forde:** I vaguely recall a discussion and I'm ... and I'm now in the left last ... the later months of '08 and '09 when things were beginning to get problematic. I do remember one or two cases though, they were the subject of board discussions.

**Senator Marc MacSharry:** Would you like to elaborate on those?

**Mr. Donal Forde:** I ... I don't think it would be appropriate for me to mention names. I'm not sure that I should, but-----

**Senator Marc MacSharry:** What size of the deal? I mean, developer A was borrowing ...

**Mr. Donal Forde:** I can't remember the name. I ... forgive me, it's six or seven years ago, I wouldn't remember the detail of the case, but it was a substantial case, and I remember there was ... there was discussion as to what the right stance was to adopt in that case at least. I do recall-----

**Senator Marc MacSharry:** And did that end up in a ... in a refusal or-----

**Mr. Donal Forde:** I think it would've ended up in a fairly significant amendment-----

**Senator Marc MacSharry:** Adjustment.

**Mr. Donal Forde:** Adjustment.

**Senator Marc MacSharry:** Okay.

**Mr. Donal Forde:** I remember that one specifically.

**Senator Marc MacSharry:** Okay, was there ever staff members or ...senior or junior of AIB, who would've been termed high exposure?

NEXUS PHASE

**Mr. Donal Forde:** Staff members? Oh ... well sorry, in the sense of the large exposures policy? Or do you mean it in a less formal-----

**Senator Marc MacSharry:** Well let's say I'm ... Let's say I was an employee of AIB. Was there any people that owed €75 million who were on staff?

**Mr. Donal Forde:** No. No. Nobody on that scale.

**Senator Marc MacSharry:** Okay.

**Mr. Donal Forde:** There was one or two individuals who had property exposure but nothing of that ... of that order.

**Senator Marc MacSharry:** Okay. Were they in senior positions?

**Mr. Donal Forde:** One of them certainly was, yes.

**Senator Marc MacSharry:** What kind of a role would that have been?

**Mr. Donal Forde:** He would've been involved ... he would've been in charge of the unit that ran our property and construction business.

**Senator Marc MacSharry:** And how deep was that person exposed?

**Mr. Donal Forde:** Deep in the sense of?

**Senator Marc MacSharry:** I mean ... How much did that person borrow from the bank to facilitate their property investments?

**Mr. Donal Forde:** Very small amount from our own bank but he had facilities from another bank, in my knowledge, in party with other individuals.

**Senator Marc MacSharry:** Would there have been many staff, say, that borrowed or were involved in syndication for multi-million, say, in excess of €5 million?

**Mr. Donal Forde:** I can only speak of what I knew. Very few.

**Senator Marc MacSharry:** And were there rules that governed these issues?

**Mr. Donal Forde:** There were rules in the ... there was a rule that we had a very rigorous conflict of interest policy. So I guess the judgment to be applied in that case was whether somebody, through activities like that, was conflicted in terms of what they were doing for AIB. And that conflict could arise in one of two ways: that they had an interest in one of the cases, and I was never aware of any such instance, or alternatively that they were active in some fashion in the market place in a manner that might've compromised one of the cases. There wasn't ... Never was there any evidence that that had happened. I do know there was some discomfort when one or two individuals, as I've said that I've acknowledged, but ... but, and that was the topic of some discussion, but I think we were always satisfied that they were not doing anything that conflicted in any way with the business of the bank. And, I guess there was a view that the knowledge and intimacy, I suppose, that they had with the market place, was actually of quite a benefit to us in the sense of knowing the nuances of the market, having credibility in standing in the market, so ...

**Senator Marc MacSharry:** Are you aware of any loans or terms offered to borrowers

which would be considered outside the normal commercial terms available at your institution made during the period of your tenure and if so, can you clarify the reasons why this would've happened?

**Mr. Donal Forde:** That's a very sweeping question. I suppose maybe I ... maybe before I answer that, if I explain ... I wouldn't have involvement in individual cases of any description. I had no credit discretion of my own. Credit decisions, there was a ... there was a framework within which they were made. We had a chief credit officer. He sat with the committee, he adjudicated on those cases. I didn't get involved in those cases and I took the view that to do so created some danger that my opinion of a case would sway unduly members of the committee. So I didn't get involved in those. Now, I ... we're dealing with many thousands of customers and can I say that there was a case ... that there weren't cases where something exceptional might've been done? There may well have been but there would be very very few. I mean, those credit committees operated to pretty stringent guidelines from the group credit committee. The product ... their ... the output of their work and the decisions they made on the cases were frequently reviewed by the group risk management ... risk management function. So, you'll see audit reports on the documentation there. The number of exceptions that would arise to policy would be very few.

**Senator Marc MacSharry:** And would ever any large lending decision come to you for approval? Never?

**Mr. Donal Forde:** No.

**Senator Marc MacSharry:** Not once?

**Mr. Donal Forde:** Never. Never once. I had no credit discretion.

**Senator Marc MacSharry:** Okay. So the credit committee would recommend and you would say "Okay".

**Mr. Donal Forde:** No, it wouldn't even come ... it wouldn't even be referred to me. The credit committee essentially, I think I make reference to it in my statement, in the pre-2005 period, the credit committee ... our divisional credit committee had discretion up to €40 million, I think it was, so they would've approved cases up to €40 million. Approved meant approved, and that was the at the decision of the chief credit officer. If it exceeded that amount, it then had to be passed to the group credit committee, and the group credit committee would then review that case and it would pass a decision on it and if it passed a certain threshold there, it had to go to the chief executive of the board. So, I wasn't ... never had a sight of individual credit cases.

**Senator Marc MacSharry:** Had you a role in setting targets for managers in the country?

**Mr. Donal Forde:** From a lending point of view?

**Senator Marc MacSharry:** Sales, lending, yes.

**Mr. Donal Forde:** Yes. I had ... certainly that was at the heart of what I did. In the way that I described here, my job was to drive the performance of the division within the policies that were set down. So yes, at the start of the year, there would be targets agreed for pretty much every aspect of the business.

**Senator Marc MacSharry:** So in with regard to lending, how would that manifest itself?



**Mr. Donal Forde:** It would manifest itself in an expectation that loan growth would be, say, 10%.

**Senator Marc MacSharry:** Okay. We heard earlier from former chairman, Mr. Gleeson, and he seemed to be of the case, though I did ask him to reflect and he said he may have been incorrect, that targets were only ever linked to profitability, rather than, say, volumes. So I was querying that. So are you saying that when you would be setting targets for branches or performers in ... that it would be linked to growth in lending, rather than profitability?

**Mr. Donal Forde:** Well, let me ... let me explain, I suppose, the way that the process would work. We would have a divisional profit target for the year that would break down into a whole variety of different lines of business. There'd be an advance as growth target and then that would break down between an expectation of growth in margins or growth in commercial loans, each elements of the portfolio, and there would be a margin attributed to that growth. So, example, the loan book in totality was to grow by 10%. The expected margin on that was, let's say, 1.5%. So the expected profitability outcome through the course of the year would be whatever the ... whatever the rate dictates. What would go on through the course of years, obviously each of those lines would vary, so you would be endeavouring to improve the margins on lines, and as you improve the margins, then clearly there wasn't the same pressure for volume growth. But I was accountable for the totality of that, and ... the totality being the profitability that fell out of it by the ... by year-end.

**Senator Marc MacSharry:** Let us say, on lending, who ... who would ... who reports to you, say-----

**Mr. Donal Forde:** On lending?

**Senator Marc MacSharry:** From a lending point of view?

**Mr. Donal Forde:** The divisional chief credit officer had a line of report to me and a line of report also to the group risk management function.

**Senator Marc MacSharry:** So, when you'd sit down and do targets for the year and you'd say, "Right, we're going to grow lending by X per cent", that's based on volume. So by the time that gets to Joe Bloggs, the branch manager or the regional manager over three or four branches, would it say "You are to grow your lending by X on commercial and Y on residential"?

**Mr. Donal Forde:** I would break the overall target down and I would then turn, for example, I would turn to the general manager who was in charge of property and construction and I would say, "Look, our expectation is that loans will grow by X, our expectation, our expectation is that we will earn margins of Y, the group is expecting profitability of Z from us, okay". And thereafter, what we would endeavour to do is to manage the margin up. We would endeavour to grow the volume but we had to grow that volume within the credit guidelines that were set out for us.

**Senator Marc MacSharry:** Who would set the target .... you would set the margins at maybe your level? And above?

**Mr. Donal Forde:** I would have a target passed down to me from the group for the division and I would then pass that target out to-----

**Senator Marc MacSharry:** So, the target that would come to you would be based on prof-

itability, would it?

**Mr. Donal Forde:** It would be ... well, it would be based on profitability but remember as part of the bank's budgeting for capital and other things, that would have a particular loan growth expectation attachment to it.

**Senator Marc MacSharry:** What I'm asking really is, when targets are determined or for you, as managing director, do you then have to localise that then for the branch network to say "Here's what you need to do"?-----

**Mr. Donal Forde:** Yes-----

**Senator Marc MacSharry:** And would ... is it fair to say that that manifests itself then in sales targets in terms of mortgage products or lending products?

**Mr. Donal Forde:** Yes, that's fair.

**Senator Marc MacSharry:** Alright and then if that's the case, if I'm a manager or a loan officer or whatever I am in whatever branch, am I-----

**Mr. Donal Forde:** No, lest I give the wrong impression, just in parallel with those would be those guidelines that I have talked about which said "Your mortgages have to fall within these parameters, they have to generate this return at an individual level, your loans have to fall within these parameters. They have to be ... they have fall within this risk framework." So I had no licence to operate outside of the framework that the group had dictated to be appropriate from a risk perspective.

**Senator Marc MacSharry:** Of course, yes, so and how were the people remunerated then in direct sales?

**Mr. Donal Forde:** People were remunerated-----

**Senator Marc MacSharry:** The front line.

**Mr. Donal Forde:** Well, ultimately people were remunerated on profitability.

**Senator Marc MacSharry:** On profitability?

**Mr. Donal Forde:** On profitability of the business.

**Senator Marc MacSharry:** But if ... would people have targets and on-target earnings?

**Mr. Donal Forde:** They'd have, you see I'm hesitant to use the words "absolute target" in the sense that at the end of the year, if somebody fell short of the expectation from a volume point of view by 10% but had improved their margin by 12%, you would be very content with them and they had done a very good job. Does that make sense?

**Senator Marc MacSharry:** Yes but, individual branch managers didn't have discretion on things like rates, for example?

**Mr. Donal Forde:** No, no.

**Senator Marc MacSharry:** Well then sure --- they're the ones selling the loans, aren't they?

NEXUS PHASE

**Mr. Donal Forde:** Well, I am talking about my allocation of targets to the general manager, who in turn would allocate them down but they wouldn't be specific at their level.

**Senator Marc MacSharry:** What was the percentage growth in lending in your tenure as managing director on property and construction?

**Mr. Donal Forde:** I don't have the overall number. It would have been a very strong number.

**Senator Marc MacSharry:** And what was the contribution-----

**Mr. Donal Forde:** The numbers are there in-----

**Senator Marc MacSharry:** And what was the contribution of your division in terms of profitability to-----

**Mr. Donal Forde:** It was in excess of a billion by 2009.

**Senator Marc MacSharry:** So what was that percentage in terms of the bank?

**Mr. Donal Forde:** The overall group ... oh ... forgive me now I'm ... I'm guessing would have been around 50% but I don't have the number to hand.

**Senator Marc MacSharry:** About 50%?

**Mr. Donal Forde:** Yes, I'm guessing it would have been of that order.

**Senator Marc MacSharry:** The chairman, the then chairman, Mr. Gleeson, told ----

**Mr. Donal Forde:** I may be corrected on that-----

**Senator Marc MacSharry:** -----told us earlier that property and construction contributed maybe 10% to 13%, I think, if I am quoting him correctly, this morning-----

**Mr. Donal Forde:** Of the overall group?

**Senator Marc MacSharry:** Of the profit.

**Mr. Donal Forde:** I don't have the number to hand, that strikes me as a little on the low side but I don't have the overall number to hand.

**Senator Marc MacSharry:** Okay. When targets were being determined, it was being driven purely by profitability, at your level. But that manifested itself in the branch network then.

**Mr. Donal Forde:** Forgive me, I am just careful to say that within the constraints from a risk perspective that had been ordained. So it wasn't as if we could go out and create any number of loans on terms that weren't consistent with the risk guidelines that were given to us. So my objectives formally would be to manage loan growth within the credit risk guidelines that had been laid out for me and then to endeavour to reach the targets that had been set for me. I think that's fair to describe it in those terms.

**Senator Marc MacSharry:** Yes. In terms of an earlier question there, in terms of anybody getting special deals or situations that it would be outside the norm, I mean the individual discretion of branch managers, how high would that go?

**Mr. Donal Forde:** They wouldn't have one.

**Senator Marc MacSharry:** They wouldn't have one.

**Mr. Donal Forde:** They wouldn't have one, you know, we did become very centralised, I mean I think I describe it in my statement. The divisional chief credit officer had a discretion of €40 million. Below that we had senior lending and sorry, forgive me, the divisional chief credit committee had a discretion of €40 million. The chief credit officer, I think, had €20 million, from memory and then we had a number of senior lending executives who had the order of €8 million to €10 million and pretty much after that, you know, they within their teams might pass that down one level more but we were dealing with a pretty centralised system where the local branch manager would have no discretion.

**Senator Marc MacSharry:** None?

**Mr. Donal Forde:** None. The fact-----

**Senator Marc MacSharry:** Was there ... would it have been possible for a manager in pursuit of a target to procure a purchaser for land that they were aware was on the market and approve a loan for that amount of money?

**Mr. Donal Forde:** Sorry, when you say manager, you mean a branch manager?

**Senator Marc MacSharry:** Well, a lending manager.

**Mr. Donal Forde:** No. The way the system worked was I described the sector that dealt with the relationships in property and construction. Their job was to originate the loan, okay, on terms that were consistent with our guidelines and that would then be brought either to the senior lending executive or to the divisional credit committee for approval. So, you couldn't originate and approve as one individual.

**Senator Marc MacSharry:** Were independent valuations always sought?

**Mr. Donal Forde:** No, not in the early days. That, well, they weren't sought at all times until about 2006, I think it was, when the audit committee dictated that there should be formal independent valuations then for security greater than €5 million, I think it was, at that stage.

**Senator Marc MacSharry:** But up to then, up to 2006-----

**Mr. Donal Forde:** Up to then, it would be done in some cases, not in others.

**Senator Marc MacSharry:** And after 2006, if it was anything under €4 million it wouldn't be. As a matter of routine.

**Mr. Donal Forde:** No, I wouldn't say it wasn't done but it wasn't prescribed.

**Senator Marc MacSharry:** It wasn't prescribed so it was possible then for a person to go in and say "You know me, I'm a good builder I want to borrow €4 million, that's the property, there's the brochure" and theoretically, your credit committee could say "No problem here's the money".

**Mr. Donal Forde:** Yes, but the credit committee's job was to evaluate that asset and-----

**Senator Marc MacSharry:** They wouldn't be valuers, would they?

**Mr. Donal Forde:** They wouldn't but I-----

**Senator Marc MacSharry:** Okay, so they were guessing or were they? I mean, what did they do? I mean, how did they evaluate without a valuation?

**Mr. Donal Forde:** Well, I think, the way a loan officer does this is they look at this from first principles. So if there is a piece of property, you look to see what's the potential productivity of that piece of property, so is it to be used for residential development, how many houses can be built on it, what's the price of those houses, what's the cost of building those houses, what will the density be, how long will it take for the money to be realised. They're meant to work it out from first principles and then stress test that and that determines the value of the property. I think I made the point in my statement that perhaps there was less of that and too much of the reliance on "the auctioneer up the road says this is worth €4 million" because I'm not sure what value attached to that in some respects. But the loan officer's job and he would be coming with 20 years' experience to this, would be to look at that asset and establish what seemed like a fair value for that asset and in many respects, the getting or the seeking of an independent valuation would be confirmatory more than anything else. I mean, more value would attach to that senior lending officer's valuation of that asset frequently than would to the external-----

**Senator Marc MacSharry:** Valuer?

**Mr. Donal Forde:** Yes.

**Senator Marc MacSharry:** Do you think that was wise?

**Mr. Donal Forde:** In hindsight, I actually think that the focus we started putting on external valuations was part of our undoing. Because it was something of a house of cards, I mean, one auctioneer says it worth four, one says five and then a certain solidity begins to attach to that from a lending point of view when prior to that, I think there'd be a lot more rigour about saying "Actually well, we need to work out ourselves what this piece of land is worth" and I think more effort and more scrutiny and more challenge maybe went into it in the earlier stages when you didn't have the comfort of an external valuer saying this is worth X.

**Senator Marc MacSharry:** So external valuation was poor practice?

**Mr. Donal Forde:** No, no, I think that-----

**Senator Marc MacSharry:** Or not, or not?

**Mr. Donal Forde:** I think that's being a little ... I think what I'm saying is that both are proper, both are important inputs into a lending decision. I think we began, perhaps, to sway a little and to put too much weight on the externals and maybe less weight on the internals. Both done properly should give you the best result, clearly.

**Senator Marc MacSharry:** Okay. I'm nearly there. Just moving to the guarantee for a second. In your view was the guarantee the best solution, in your opinion, and did you believe in advance ... did you anticipate that it was going to be a blanket guarantee?

**Mr. Donal Forde:** I suppose the first thing to say is I'm - and I use the word guardedly - but I'm something of an onlooker on the process in the sense that my division wasn't in the line of fire from a liquidity point of view at that stage. The leakage of deposits from the bank was primarily from our capital markets division and from our UK division because it was the external players, particularly, who were losing confidence in the system. So I wasn't witnessing, in my

particular area of responsibility ... I wasn't witnessing extensive leakage of deposits.

**Senator Marc MacSharry:** But what did you ... just ... I have only a minute left ... what's your opinion?

**Mr. Donal Forde:** I was surprised by how "sweeping", I think was the phrase I used. I ... my expectation, I had been led to expect, from the internal discussions, was that two institutions might necessarily be taken out of the market and then the guarantee would be restricted to the remaining institutions, and perhaps a more restrictive guarantee. So it was a surprise to me when it was-----

**Senator Marc MacSharry:** On the morning of the guarantee ... of it being announced ... it was a surprise. And looking back, what's your current view of the appropriateness of the guarantee?

**Mr. Donal Forde:** I don't know that I want to volunteer. I wasn't there, I wasn't privy to all the information-----

**Senator Marc MacSharry:** No, no, but you're a professional with a lot of experience so it's just your view of the appropriateness - given that experience - that may be of value to the committee.

**Mr. Donal Forde:** It's easy to judge these things in hindsight. I can understand the view that a more sweeping and radical response often has the impact of giving the market confidence and, sort of, dealing with the issue decisively there and then. So, overkill sometimes is good to deal with market negativity. Perhaps that was the mindset. So I would be slow to criticise, I wasn't there, and-----

**Chairman:** Thank you very much, Senator. Deputy Eoghan Murphy - 25 minutes.

**Deputy Eoghan Murphy:** Thank you, Chairman. Thank you, Mr. Forde. You're very welcome. Just to clarify, Mr. Forde, if I may, you were managing director of AIB in the Republic of Ireland from 2002 to February 2009. Did you have an opportunity to hear Mr. Gleeson's evidence this morning?

**Mr. Donal Forde:** No, I didn't.

**Deputy Eoghan Murphy:** In the written statement he provided to us he said that - under the heading "Quality of the Business Model Setting Process" - "Four of the five business divisions, came through the crisis relatively intact. The exception was the largest division namely Republic of Ireland." And then in his oral presentation he said "ROI brought the bank down". Would you like to comment on that?

**Mr. Donal Forde:** I think that's substantially true. I mean ... the weight of the loans that ultimately caused problems - property and construction loans - did originate in our division so I have no quarrel with that.

**Deputy Eoghan Murphy:** Coming to your opening statement ... just to get some clarification ... you said that in January-February '09, you were completely removed from discussions at executive management level and board level, and without objectives or direction in terms of a work agenda, and nine months later you left the bank. Could you please clarify what happened here and why you think it happened?

**Mr. Donal Forde:** In what respect, Deputy?

**Deputy Eoghan Murphy:** In terms of that move being made, at that time.

**Mr. Donal Forde:** Well, my understanding, when it happened, was that the chief executive, I think, thought that fresh eyes and fresh perspective on the division would be a helpful thing at that point in time - that, I expected was his mindset - and I didn't have a quarrel with that. You know, I was disappointed clearly to be stepping aside when business that I had been intimately involved with for seven years before that, but I understood his rationale. The position that I understood I was taking up, I thought, given, in a way, the difficulties in which the bank found itself at that stage, that it's ... a perspective on strategy would be an interesting ... and a role in which I could make a contribution, and in some sense help with the situation that I was part of creating. The role simply never materialised. I think the bank got into crisis, ever more intensively, from that point onwards. Whatever ambitions he had for that role to develop just never materialised and-----

**Deputy Eoghan Murphy:** And do you think that move, that you made, do you think it was a result of a particular action on your part, or connected to the performance of the bank in the Republic of Ireland, under your tenure?

**Mr. Donal Forde:** It wasn't offered to me in those terms but I can't speak for the chief executive. I think that's a question for him. It wasn't put to me in those terms.

**Deputy Eoghan Murphy:** Okay. Thank you.

I'd like to move to just a few months prior to that, when you appeared in front of an Oireachtas finance committee in December 2008. And you said:

With regard to the recapitalisation of banks, part of the difficulty in the debate is that banks are banded together as if we are all the same. We are not. AIB has made it clear it does not believe it needs capital and that additional capital will not do anything for the business for which I am responsible.

Then in February, two months later ... February 2009, there was a capital injection into the bank from the Government. Can you please explain the difference between your statement and the actual subsequent action?

**Mr. Donal Forde:** I can. I think you'll see in the documentation that we were given, there's a stress test that was done there on the property and construction portfolio in '07, and that was done by the risk management function in the bank ... by the most qualified people we had in the risk management discipline. And you'll see in that, that their downside scenario, their extreme case scenario, was a loss of €2 million of the bank's capital. Well actually not of the bank's capital ... a loss of €2 million which would substantially erode the profitability of the bank, and might ... might require, I suppose, it's capital adequacy to be boosted. But this was the extreme view, so, when I was asked in '08, I was still leaning on that understanding of our portfolio. That was my view of the risk that attached to the business that I was responsible for. And I answered the question, and anything I would have said would have been informed by that perspective, which I now accept was wrong, but that's what guided those answers at the time.

**Deputy Eoghan Murphy:** You weren't ... sorry, were you instructed to make that statement, at the finance committee, about AIB not requiring capital?

**Mr. Donal Forde:** Well I wouldn't say I was instructed, I mean, I think ... there would have been discussion going on at the executive management team and the issue of capital would have been under discussion because at that time there was an expectation in the market, essentially, that we needed capital. And I think ... like ... and I remember seeing some of the minutes here in the documents. I think the view of the finance team was that there were some steps we could take to improve our capital position, but not going so far as a capital issuance. So I was persuaded by that view, and I ... that's what informed ... so ... so I wouldn't say I was instructed, I would say I accepted the view of the finance team at that stage.

**Deputy Eoghan Murphy:** But was there a discussion at management level as to how to present the bank's position to the Oireachtas at the time?

**Mr. Donal Forde:** No I ... no I can't say that, no, no.

**Deputy Eoghan Murphy:** And then moving just two months later from you making that very express statement in a finance committee, two months after the guarantee, the bank does not need capital, it then requires a €3.5 billion injection from the Government, in a two-month window.

**Mr. Donal Forde:** Yes. I think ... I make the point I think, in my statement, that in my last act, if I can express it in those terms, of the MD of the division, was that the chief executive has asked me to do a very rigorous assessment of what the scale of loan losses could be. This was in late January, early February of '09. And I did that at the time and I did it ... that was ... that was done in close collaboration with the chief credit officer and the risk executives. And the product of that was, at that time, to suggest that the loan losses could be of the order of €2 billion to €3 billion. That was my last picture of the division before I, in a sense, stepped aside. Now that would have not led to that order of capital requirement that subsequently came. Now things deteriorated so quickly and so sharply after that, that from one month to another the situation changed, so I can understand how ... I mean, at that stage ... I recall when that was being done, the worry and the concern from a credit point of view was that houses weren't selling, sales of completed office developments had stopped. The worry was not so much about the fall in value as it was about the suspension of economic activity. At that stage values were back ... house values were back 25%. Clearly from then, to a period 12 months later, things changed very dramatically. So, if you'll forgive me, I think asking me whether something, an evaluation of the loan portfolio, was done in February or done in April is very material given what was happening. And the last one I saw was what was done in late January and February and that was the product of it.

**Deputy Eoghan Murphy:** And that work you did talked about a, at maximum, €3 billion loss on the loan book in the Republic of Ireland division, and you said that would've changed dramatically again two months subsequent to that.

**Mr. Donal Forde:** Well, I stepped out from there, but I'm saying I can understand how, month to month thereafter, given the pace at which things deteriorated ... the point at which you looked at that portfolio, you would get a different and more adverse result every second month, I think, if you looked at it.

**Deputy Eoghan Murphy:** Just to clarify, then - your statement to the Oireachtas committee in December 2008, as far as you're concerned, was true at the time.

**Mr. Donal Forde:** Yes. Yes.



**Deputy Eoghan Murphy:** Okay.

**Mr. Donal Forde:** Yes. Unequivocally yes.

**Deputy Eoghan Murphy:** Okay.

**Mr. Donal Forde:** And the evaluation that I did in late January and February was, in my opinion, a proper, fair and honest evaluation at that stage.

**Deputy Eoghan Murphy:** Okay. Thank you. I want to take you back, then, to your management of the increase in property lending in the Republic of Ireland prior to the 2008. The rate of increase in property lending in the AIB Group was magnified in the Republic of Ireland division, and on exposure to property, property lending grew in the Republic of Ireland from €10.1 billion in 2004 to €33.3 billion in 2008. Can you explain this imbalance with other divisions in the AIB Group? Why was it magnified? Why was it so much greater in ROI?

**Mr. Donal Forde:** Because the heart of our franchise ... we were Ireland's biggest ... well, we still are Ireland's biggest business bank. The core of AIB's franchise in the Irish market was with business customers and the greater part of economic activity that was afoot at these times was in property and construction. So, I think an added statistic for that period, Deputy, was that our market share wouldn't have changed during that period. So, what happened was, we kept pace with the level of activity in the market. We continued to service and support those customers through that time. Mistakenly, I now accept, but we didn't feel we were stepping more intensively into the market. We felt we were keeping pace with the requirements of our customers.

**Deputy Eoghan Murphy:** You had two different CEOs during that period 2004 to 2008. Did either of them express concerns with that magnification in property lending?

**Mr. Donal Forde:** There was a number of discussions, not ... I don't recall specific ... well, I don't recall specific discussions with the CEOs, but I recall discussions at our group executive forum and I recall a number of discussions at the board where there would be considerable discussion about the weight of our property-construction lending, and I suppose particularly a fact that it was - again, I saw reference in the documents - it was in breach of some of the guidelines from the regulator. And there was a number of board discussions to specifically address that point - were we comfortable with what we were doing in property-construction? I actually recall ... I think when that stress test in 2007 was presented to the board, that was in response, I think, to a specific request from the regulator that the board would validate and confirm its comfort with AIB's property and construction exposure. And I ... the board's response to that was to ask the risk function to do that evaluation that you've seen there and that stress test. And the output of that - mistaken, I now accept - I think left them with a false sense of security and a false sense of comfort. So, yes. I've answered that in a long-winded way. There was discussion. I wouldn't say there was concern, but the scale of our property and construction exposure featured frequently, but each time the board got to a point of comfort with it and we continued.

**Deputy Eoghan Murphy:** You were in breach of the limits by ... the limits were 250%, the limits you mentioned. And in 2006, you were at 260%, but by September 2008 you were at 390%. I mean, that's-----

**Mr. Donal Forde:** I can't ... I'll take it that you're right on the numbers.

**Deputy Eoghan Murphy:** I could give you a reference for that if you'd like. It's-----

**Mr. Donal Forde:** Yeah. I'll take-----

**Deputy Eoghan Murphy:** -----AIB B2.

**Mr. Donal Forde:** We were in breach of them. I acknowledge that anyway.

**Deputy Eoghan Murphy:** But it was a significant breach.

**Mr. Donal Forde:** Yes.

**Deputy Eoghan Murphy:** Would you not agree? 250% to-----

**Mr. Donal Forde:** Yes, I would.

**Deputy Eoghan Murphy:** -----390%. But you drew comfort from the fact that the board was happy with this.

**Mr. Donal Forde:** Well, I don't ... sorry. I, too, drew comfort and ... let me-----

**Deputy Eoghan Murphy:** Because you were the managing director-----

**Mr. Donal Forde:** Yeah.

**Deputy Eoghan Murphy:** -----in Republic of Ireland.

**Mr. Donal Forde:** I, too, drew comfort. And I think, when you'll see that, if I can just lay my hands on it ... when you see the presentation that was made to the board ... this was a time when there was a lot of discussion going on about Basel II and the manner in which loan portfolios should be measured and evaluated from the perspective of what capital was required to support them. And you'll see reference in this that ... certainly, what was communicated to me, or was communicated to us, was that the regulator themselves recognised that this singular, homogenous limit was no longer appropriate and what was now required - and that was consistent with Basel II - was a segmentation of that portfolio and analysis of the different elements of it from a risk point of view. And that's the exercise, essentially, that the risk function presented. And that ... you will see a reference there that the regulator was interested in that methodology themselves.

**Deputy Eoghan Murphy:** Just to confirm, from your point of view, the regulator was also considering changing-----

**Mr. Donal Forde:** Yes. That's what I understood.

**Deputy Eoghan Murphy:** -----the methodology of calculation.

**Mr. Donal Forde:** That's what I understood.

**Deputy Eoghan Murphy:** And you were in agreement that the methodology should be-----

**Mr. Donal Forde:** Yeah. In principle, it's right to say that one homogenous limit for all property is perhaps not the best way forward, so I understood the logic of that. Perhaps the alternative that we were working with didn't prove itself too well but, in principle, I could see where they were going with that.

**Deputy Eoghan Murphy:** If I could move now to the reliance by the bank on interbank lending, securities, short-term commercial lending and wholesale funding, were you aware of

the extent of the tracker mortgage interest rate risk in AIB that you were taking on over that period and was it ever discussed with the board?

**Mr. Donal Forde:** No. I don't think we ever looked at it as an interest rate risk. By that, you might mean the basis risk?

**Deputy Eoghan Murphy:** Yes.

**Mr. Donal Forde:** Okay. Yes, we were conscious of it but, at the time, the view was that mortgages were going to be so preferentially treated under the new Basel II regulations that, actually, those margins could contract further because these ... as an asset, they were particularly favourably treated, essentially under Basel II, in a manner that perhaps in hindsight wasn't justified. And for that reason, again, the view was that those margins would continue to contract. So, as with other elements, we didn't see the risk in that.

**Deputy Eoghan Murphy:** I mean, that was just an accounting tool, though. I mean, more than 50% of your residential loan book was tracker mortgages.

**Mr. Donal Forde:** Yeah.

**Deputy Eoghan Murphy:** I mean, in terms of the practice of having to borrow ... to lend at one rate and borrow at a higher rate and the risks inherent in that.

**Mr. Donal Forde:** Well, you had that risk anyway. I mean, you know, even a conventional mortgage has the same risk attaching to it.

**Deputy Eoghan Murphy:** But do you think the bank understood those risks or the scale of those risks?

**Mr. Donal Forde:** No, no. No, I don't think we did. No, I don't think we anticipated ... sorry - we did not anticipate the level of structural change that came about in the interbank funding markets. We had never anticipated a scenario where, essentially, you would have to borrow money at such premium in the marketplace. No, we had not anticipated that properly.

**Deputy Eoghan Murphy:** Okay. Why did the bank ... why was there a significant increase in the issuance of short-term commercial paper funding, given the short tenure and volatility of such instruments, you know, when it comes to a credit crisis? I mean, if you look at ... just to give you the figures ... in the end of the financial year 2004, AIB increased-----

**Chairman:** You've strayed into liquidity, Deputy, yes?

**Deputy Eoghan Murphy:** That's correct.

**Chairman:** Okay.

**Deputy Eoghan Murphy:** Increased its commercial paper by €6.2 billion, a 300% increase year on year, to assist in funding balance sheet growth.

**Mr. Donal Forde:** I'm not sure ... are you right in describing-----

**Deputy Eoghan Murphy:** I'm sorry. There was-----

**Chairman:** If you want, I can bring up a bit of evidence on this.

**Deputy Eoghan Murphy:** Yeah. Well, sorry. I-----

**Mr. Donal Forde:** It's okay, Chairman. My-----

**Deputy Eoghan Murphy:** Mr. Forde, there was a significant increase in the issuance of short-term commercial paper funding in AIB when you were managing director, a 300% increase year on year. It's a risky thing to do for the reason that we've just been discussing. In a credit crisis, when people then call in these issuances where there's no lending on the interbank market, you then run into trouble in terms of your funding and liquidity if it's called upon. Were those risks appreciated by AIB at the time?

**Mr. Donal Forde:** Well, in answer to your question more broadly, I'm not sure we understood the degree of funding risk, but I wouldn't attribute that to commercial paper. The issuance of commercial paper is a well recognised means of improving your liquidity profile.

**Deputy Eoghan Murphy:** Why did you ... why did it increase? Why did it expand?

**Mr. Donal Forde:** Because it was one of those measures by which we were trying to improve, essentially, the construct of the balance sheet. By being able to issue commercial paper, you improve your liabilities and you will ... that enhances your liquidity position. So, that was a positive step. But, if I take it in the context of the broader question you're asking, I'm not sure we fully understood. In fact, I am sure we didn't fully understand ... we did not anticipate the scale of dysfunctionality that came later in the interbank markets. I accept that point and I acknowledge it. Commercial paper would've actually been a positive feature of the work that was done to try and improve our position, or the issuance of it.

**Deputy Eoghan Murphy:** Okay. And, to your knowledge, was there a practice of restructuring criticised loans, agreeing to moratoriums, interest only, interest roll-up, extending terms and conditions in the period 2006 to 2008?

**Mr. Donal Forde:** Sorry, Deputy, was there?

**Chairman:** This is related to solvency with the bank.

**Deputy Eoghan Murphy:** Yes, sorry, we're moving into the solvency issue debate ... restructuring criticised loans.

**Mr. Donal Forde:** In the period?

**Deputy Eoghan Murphy:** 2006 to 2008.

**Mr. Donal Forde:** I think there's always a practice of restructuring criticised loans. I mean, one of the means by which you try and remedy a loan that is not functioning is to try to restructure it, so, yes, always, not just in that period, there's a practice of trying to restructure criticised loans. But the volume of criticised loans in the period of '06 to '08 would have been very few, so I'm not sure where your question is going, but it wouldn't have been material.

**Deputy Eoghan Murphy:** Well, it began to increase quite quickly then, the criticised loans?

**Mr. Donal Forde:** In '08, it would have.

**Deputy Eoghan Murphy:** Yes, yes.

**Mr. Donal Forde:** Yes, in '08. Late '08, it would have.

**Deputy Eoghan Murphy:** And then what does that tell you then about the quality of the loans that were being given out then in the period-----

**Mr. Donal Forde:** It tells you the obvious, which is that your loan quality is deteriorating, which was obvious from the early part of 2008 when, as the economy began to slow, it was obvious that loan quality was deteriorating and that was just one of the symptoms of it.

**Deputy Eoghan Murphy:** I want to take you back, if I might, just to your opening statement, just to clarify something then, because you said in your opening statement, which I know you didn't get to read out in full, "The first point of failure came with the collapse of economic activity and the manner in which it undermined repayment capacity." Just elaborate on that point for me, please. When did the problems in AIB actually begin?

**Mr. Donal Forde:** Okay. Well, the market began to deteriorate in early '08. Now, what I mean by deteriorate is that essentially ... well, forgive me, I'll just step back one step further. If you're managing a property and construction portfolio, you lend for a significant period of time. You've to lend through a period in which land is purchased, in which houses are built and the costs are incurred before ... the revenue only comes at the end when houses begin to sell, or the office, the commercial development that has been developed begins to sell. The loan and the cash flows are predicated on that sale happening at a particular time and, from early '08, it was obvious that activity in the market was beginning to slow; houses were not selling in the way that had been expected and what that begins to do then is it pushes out the revenues on which those loan cases are based, so, from early '08, it was obvious that there were some developers who were going ... would not meet the cash flow expectations that we had and I would describe the deterioration in the loan book through the course of '08 as that dynamic. That's what was going on and it wasn't until '09 actually that the concern of inadequate security values began to really manifest itself. It's only then that it became obvious that asset values were falling to a point that our security was going to be compromised.

**Deputy Eoghan Murphy:** In terms of-----

**Mr. Donal Forde:** Does that help?

**Deputy Eoghan Murphy:** Well, in terms of AIB failing, its failures as an institution, as a bank-----

**Mr. Donal Forde:** Okay.

**Deputy Eoghan Murphy:** -----were prior to that, though. AIB's failures weren't just because of a collapse in economic activity in the country?

**Mr. Donal Forde:** No, no, forgive me, I was trying to describe why it is that the loan book was deteriorating. I've acknowledged that our failure goes back to the scale of property and construction lending that we had. I make no bones about that.

**Deputy Eoghan Murphy:** That's unclear from that point in your opening statement.

**Mr. Donal Forde:** Sorry.

**Deputy Eoghan Murphy:** And then, in relation to the change in management, the change in CEOs while you were MD, would you like to comment? Was there a change in style or a change in direction for the bank between 2005 and 2006?

**Mr. Donal Forde:** No, I can't say that there was. I can't say that there was. I think the level of growth in the market intensified in '05 and '06, so it seemed like the pace of activity was more frantic, if I can describe it in those terms, through '05 and '06. I didn't ... I can't say that there was a change in the culture of the bank, no. I probably ... sorry, let me just amend that a small bit.

**Deputy Eoghan Murphy:** Yes.

**Mr. Donal Forde:** I think there was a little more pressure from outside the bank for performance because I think, at that point, other banks were going through a stellar performance period and certainly I was more conscious of the pressures from analysts and shareholders to meet their expectation, so I would say it was different in that regard, but I can't say the internal culture changed.

**Deputy Eoghan Murphy:** Well, then other tactical changes: bank exposures needing group credit committee approval went from €40 million to €75 million, end of 2005, beginning of 2006.

**Mr. Donal Forde:** Yes.

**Deputy Eoghan Murphy:** Was that from a change at CEO level?

**Mr. Donal Forde:** No, it simply came about because of, I suppose, two things: the growth in the portfolio and the growth in the number of cases that exceeded the threshold that applied at the divisional credit committee.

**Deputy Eoghan Murphy:** Okay. I want to just come back, just finally, to Mr. Gleeson's evidence earlier today. We were talking about the roll-up of interest in the RoI division and when he was asked about ... the board went looking to find out exactly how much interest had been rolled up and he said there was a bad piece of missing architecture because management weren't able to produce it, they had to go and look for it manually, and he said that this was an indefensible gap.

**Mr. Donal Forde:** Yes, I think that's fair, an indefensible gap at the level of portfolio management and understanding. In each of the individual cases, that would be well-documented on the file, so yes, that was a gap in the inability to be able to pull that together as a complete picture. I accept that.

**Deputy Eoghan Murphy:** Did you understand that that gap was there? Did you understand that people underneath you-----

**Mr. Donal Forde:** I guess-----

**Deputy Eoghan Murphy:** -----in terms of managing their portfolios weren't monitoring this?

**Mr. Donal Forde:** No, that's not what I've said. People were monitoring it, at a case-by-case basis. The gap was that, from an overall portfolio management, we weren't readily able to present that picture and I guess that only became ... that only came into such ... our focus in late '08 and then it became obvious that that was a piece of information that we needed and needed a lot more ... needed to be able to access a lot more readily than we were able to do.

**Deputy Eoghan Murphy:** As it occurred, was it being reported to you?

**Mr. Donal Forde:** No, I think it's ... can I just step back here for a second? If you take an individual property case, as I've said, if I lend money to somebody for the purchase of land, or if I lend money to somebody to develop residential housing, there's always going to be interest roll-up. There's no way of paying the interest. There's no way, until the houses begin to sell or ... so, there's interest roll-up endemic in every property loan.

**Deputy Eoghan Murphy:** That's one reason for interest roll-up.

**Mr. Donal Forde:** Yes.

**Deputy Eoghan Murphy:** But there are other reasons, where someone's not able to meet their repayments.

**Mr. Donal Forde:** Sorry, that would be fair. That would be fair. Later on, that became a feature, I think, I would say through '09; and, late '08, there were some who were beginning, as I explained earlier on when you asked me to explain the deterioration in the portfolio, it was for that reason, that we were beginning to encounter some cases where they simply couldn't pay their interest because those sales weren't materialising. Yes, that's the case, but I would distinguish those from the concept of interest roll-up more generally.

**Deputy Eoghan Murphy:** Did AIB distinguish-----

**Chairman:** I'll be bringing you back in at the end, Deputy. You'll have time; okay?

**Mr. Donal Forde:** Did we ... we distinguished on a case-by-case basis. I have acknowledged that what we didn't have is an overall MIS that was able to present that to the board in the way that they would have wished.

**Deputy Eoghan Murphy:** Thank you.

**Chairman:** Thank you very much. That concludes the leads, but there is just one issue, maybe if we can just get a bit of further clarity on the appropriateness of property-related lending strategies and risk appetite in AIB. This relates to core document AIB PB2, page 6, item 4, or 4.2. Very simply, Mr. Forde, the Central Bank have a licensing and supervision requirements and standards for credit institutions and the standards provided that the credit institutions should not have risk assets amounting to more than 200% of shareholder funds; that's the own funds inside in the bank. And, in any one sector of business, or economic activity, or were considered to apply to two or more separate sectors, the limit was 250% of own funds. Now, in July 2006, the banks' exposures to the broad property, building and construction sector, amounted to 206% ... or, sorry, 260% of own funds, which was already now going over the limit and while the limit was 250% and then the bank continued to breach these limits and such lending reached the level of 390% at September 2008. Now, you were the head of AIB's Republic of Ireland's business. How do you reconcile the level of lending to the property and construction sectors while you were, at this case now, clearly in breach of regulatory prudential lending limits for the sector from 2006 onwards?

**Mr. Donal Forde:** Okay, I think the first point to make is that the numbers you're quoting are for the group, not for the division, and would include our property exposures in the UK and in capital markets, okay? So, I wouldn't be able to relate to this statistic as a divisional one, it's a group-----

**Chairman:** Okay.

**Mr. Donal Forde:** -----so just to make that point, firstly. I mean, my ... I suppose what I have to offer about this is all set out in that slide that you see in that stress review-----

**Chairman:** Yes?

**Mr. Donal Forde:** ----where we were ... certainly we knew we were in breach of that limit, but that limit had ... that limit had come into question and, certainly my understanding is, as much by the regulator as by anybody else. And that that limit was a historic one that had a homogenous kind of a constraint on all aspects of ... sorry, had a constraint on all aspects of property, as if they were all homogenous.

**Chairman:** I have heard the expression kind of used sometimes, maybe on the roads of west Cork, that people would say the rules of the road are a suggestion. In this case the rules of the road are actually the law. Were these rules that were regulated, steadfast rules, or were they interpretive rules?

**Mr. Donal Forde:** My understanding is that they were guidelines. I understood them as guidelines from the regulator. But, sorry, I think it's ... strong guidelines from the regulator, but my understanding, and I would have had no direct engagement with them, but my understanding was that the regulator themselves, by reason of the manner in which portfolio analysis and measurement was developing under Basel II, had questions about that limit also.

**Chairman:** I want to try to establish then, on foot of that, Mr. Forde, is, obviously whether it's a guideline or a rule, I would imagine there would be a mechanism - correct me if I'm wrong - that in AIB somebody would say, "Hang on a second, we need to be looking at this," and it gets fed up the line. How far up the line-----

**Mr. Donal Forde:** Yes. No, not fed up the line, fed down.

**Chairman:** Fed down the line?

**Mr. Donal Forde:** Fed down the line, because the engagement with the regulator's office would happen at a group level, it wouldn't happen at individual level.

**Chairman:** So the board would have been aware of this?

**Mr. Donal Forde:** Yes.

**Chairman:** Okay. So, the ... so, at board level in authority then would feed this down the line. Okay, so what was the remedial action, because the outcome seemed to have been that you now went up to 390% by September 2008? One would imagine that the action was to break this down or to slow it down and to calm the jets, but in fact it went the other way. So, what was the action, because if the action was to slow things down, that's certainly not reflected by the figures?

**Mr. Donal Forde:** Chairman, I think the best ... the best illumination of this is in that stress test that was presented to the board in ... it's in '07, isn't it? I think it is in early '07, in April of '07. That acknowledges to the board that we are in breach of the Financial Regulator's limits.

**Chairman:** That's not the ... but that's not the question I'm asking you, with respect, Mr. Forde.

**Mr. Donal Forde:** Okay.



**Chairman:** We know that you were in an area that you were breaching, whether these were guidelines or rules and, correct me if I'm wrong, one would assume that the then desired action would be to get more congruent and in line with what the rules are, but the outcome over the two year period was to go further beyond the limits. So, was there a direction to calm things down or was there any direction at all?

**Mr. Donal Forde:** Just bear with me, I suppose. The reason I was drawing attention to that was what that presentation sets out is the fact that we're in breach of the limit, then goes on to explain, however, if I can use that phraseology, that when the portfolio is analysed in the manner that Basel II required of it, break it into logical portfolios, the result was that the risk attaching to it came within levels that were comfortable for the bank. And that was fed back to the regulator, and it was that that led the board to the conclusion that the level of exposure that we had at that stage built up was acceptable to them. So, no, you're right in saying that there was no direction to stop. What there was, was, I guess, a reassessment, a re-evaluation of it under that new methodology to say, yes, it is within levels that are comfortable and prudent for the bank.

**Chairman:** I'm not going to labour over the point, but it was 260%, above 250%, which is marginally above it, but it was then 390%, which would seem to have been quite a distance. I raised this with Mr. Gleeson this morning and I'm just wondering if these figures are related to the point I was making. There was a suggestion that other banks may have been eating AIB's lunch, and particularly in the property and construction sectors. Was there a strategy during 2006 and 2008 to expand rapidly into the property and construction sectors by AIB to win back market share?

**Mr. Donal Forde:** No. No, I wouldn't describe ... in fact, if there was any ... if there was any concern, it was that we were losing market share. And, I guess, as MD, if I had a concern, it was that we should be trying to remain relevant to our customers, and that meant largely trying to maintain it, but there was no ... there was no ambition to grow it, no. I think there was a recognition that to retain the position we had was as ambitious as we could be.

**Chairman:** Okay, thank you. Deputy Kieran O'Donnell. Deputy, ten minutes.

**Deputy Kieran O'Donnell:** Thanks, Chairman. I want to welcome Mr. Forde. Mr. Forde, can I ... is it fair comment to say that the division over which you were managing director, which was the Irish division, was the division that caused €20 billion of taxpayers' money to be invested in AIB?

**Mr. Donal Forde:** I would say substantially that is true, yes.

**Deputy Kieran O'Donnell:** You'd accept that responsibility?

**Mr. Donal Forde:** I accept ... the number, it's not in totality, but the substantial part of that did arise from the loan portfolio in that division, in my division. I accept that.

**Deputy Kieran O'Donnell:** And you spoke about risk, and I just want to go through the area of risk. On page 3 of your statement you have provided. Am I correct in saying that, below the level of €40 million, that there was ten executives around Ireland in AIB that could effectively both take the application and agree the loan?

**Mr. Donal Forde:** I don't think I mentioned ten, did I?

**Deputy Kieran O'Donnell:** Yes, well, you mentioned ... you said, "...only ten executives had individual lending discretions of more than euro 8 mil and this level of discretion generally only applied to the higher grade credit cases." The question I'm asking is, were there people within AIB that, if someone came in to them in a branch anywhere, one of ten, if someone came in to them with a loan of €39 million, that they could both take the application and approve it?

**Mr. Donal Forde:** No, that's not correct.

**Deputy Kieran O'Donnell:** Well, what was the situation, then?

**Mr. Donal Forde:** These ... the people that I ... the people that I make reference to there were called senior lending executives, okay. They were in the credit function, okay. So, if somebody had a loan proposition, essentially, at branch level or coming from some other quarter, that loan proposition would be presented to those people, who then had the discretion to make judgment on it. They were separate from the point of origination.

**Deputy Kieran O'Donnell:** But were they based in the branch?

**Mr. Donal Forde:** No, they were not.

**Deputy Kieran O'Donnell:** Where would they be based?

**Mr. Donal Forde:** Centrally based.

**Deputy Kieran O'Donnell:** Centrally based in-----

**Mr. Donal Forde:** In the Bankcentre, and there was ... there was ... the ones with the greater discretion were based in Bankcentre. There would have been ... there would have been ones with a lesser discretion based in three centres: Galway, Cork and maybe Limerick-----

**Deputy Kieran O'Donnell:** But you had people that were based ... that would have discretion up to €40 million of a loan?

**Mr. Donal Forde:** No. No, no, no, no. There was only one person ... there was a divisional credit committee who had discretion at that level. There was a number of people ... I'm searching for the ... if I said ten, I'm sure that's it. There was a number of people, senior lending executives, who had discretion of the order of €8 million to €10 million. All of those, I think, maybe bar one, were based in Dublin, in the Bankcentre, in the lending units. I think one of them might have been based in Cork.

**Deputy Kieran O'Donnell:** Can you explain how that your loan book in your period ... you were CEO of the Irish division from 2002 to 2009, correct? Your loan book went up from about €76 billion, from 18% in terms of property of the overall loan book, to 37%; it more than doubled and ... which was €49 billion at the time. And, of that, €22 billion of that was land and development and €17 billion of the €22 billion was based in the Republic of Ireland. So, it meant 77% of land and development of €22 billion was based in Ireland. Why did the alarm bells not go off, and tell me how did you have a credit risk system within the bank that allowed that situation to develop?

**Mr. Donal Forde:** Well, I guess an added statistic to that is that ... through that time, AIB's share of business in the market didn't grow, okay. So, the first difficulty is that through that time, the business that our customers were doing, which they required us to support, was, unfortunately, very much in the arena of property and construction.

NEXUS PHASE

**Deputy Kieran O'Donnell:** And is it fair to say, Mr. Forde, that ye became salesmen rather than prudential bankers?

**Chairman:** That is leading ... can you ask would they be ... which-----

**Deputy Kieran O'Donnell:** In the way ... in the approach that how you, we'll say, operated, were ye more concentrated ... the formula ... were you very much driven by sales growth in terms of the loan portfolio, and that the prudential, old style lending wasn't ... didn't form part ... as large a component as it would have previously. Could you comment on that?

**Mr. Donal Forde:** Yes. I think I've somewhat addressed it in my comments to Senator McSharry earlier on. At an overall divisional level, I've explained the way the targets worked. And the reason I was so careful to say that while there was targets, at the same time there was a very regimental, rigorous risk management function.

**Deputy Kieran O'Donnell:** What was the bonus system in operation with your staff, in terms of sales of ... we'll say in terms of loans? Was there a bonus system in place?

**Mr. Donal Forde:** There was a bonus system.

**Deputy Kieran O'Donnell:** Can you explain what that bonus system was?

**Mr. Donal Forde:** It would be based on profitability.

**Deputy Kieran O'Donnell:** When you say profitability, how do you define profitability?

**Mr. Donal Forde:** I define the return ... the net return to their particular business unit at the end of the period.

**Deputy Kieran O'Donnell:** So that would be ... so, clearly, would it be fair to say, that the more loans they had out-----

**Mr. Donal Forde:** It would be fair to say that the more of anything that they did ... if they did more fee business, it would improve it ... if they did more loans and they remained good it would improve it. If they gathered more resources-----

**Deputy Kieran O'Donnell:** And what was the structure of that bonus? Was it based on a percentage? How did it ... what way did it work?

**Mr. Donal Forde:** It was based on a percentage of their salary. So, essentially, if targets were met ... if targets were met, they were assigned a bonus that would relate to a percentage of salary.

**Deputy Kieran O'Donnell:** And what was ... typically, what would it have been ... in terms of the structure, what would have been the maximum percentage of salary for a bonus?

**Mr. Donal Forde:** I honestly ... I mean, at general manager level it would have been significant. It would have been 50% of salary, if not more on occasions. But as you move down, it would be much less than that.

**Deputy Kieran O'Donnell:** So at manager level, they would-----

**Mr. Donal Forde:** I said general manager level.

**Deputy Kieran O'Donnell:** At general manager level-----

**Mr. Donal Forde:** Of which there would have been seven or eight of them.

**Deputy Kieran O'Donnell:** Countrywide. They could get a 50% bonus based on-----

**Mr. Donal Forde:** Yes, it would have been of that order.

**Deputy Kieran O'Donnell:** -----50% of their salary by way of a bonus.

**Mr. Donal Forde:** I may be corrected, but of that order yes, yes.

**Deputy Kieran O'Donnell:** And typically what would a general manager be on salary wise?

**Mr. Donal Forde:** They would have been on ... more junior ones in the order of maybe €170,000 ... €180,000 and the more senior ones would be at €210,000 ... €220,000.

**Deputy Kieran O'Donnell:** So if they were €210,000 ... let's assume they're on an average of €200,000. That means they could be getting €100,000 of an annual bonus.

**Mr. Donal Forde:** This, this ... that would be true of seven or eight senior people in the division.

**Deputy Kieran O'Donnell:** So there was a great incentive in terms of-----

**Chairman:** Was there?

**Deputy Kieran O'Donnell:** -----sorry ... was there a great incentive ... I will have to get you to preface my questions, Chairman.

**Chairman:** I'm available.

**Deputy Kieran O'Donnell:** Was there a great incentive then in terms of a general manager encouraging his staff to promote new loans?

**Mr. Donal Forde:** I think the implication of your question is that would be the only means of doing that. There was ... there certainly was an incentive. Well, firstly I should say, of the eight general managers I've talked about, only four of them would be managing front-line activities. Others would be managing call centres, they'd be managing areas like electronic banking. So, there were many and different ways by which profitability could be grown, but they all had an incentive to grow profitability, yes. Of which growing loans, good loans was part of it.

**Deputy Kieran O'Donnell:** And the bonus system, how did that filter down to staff ... we'll say, down the line? What bonus system was there for them?

**Mr. Donal Forde:** There was cash bonuses to a certain point and then there was also share option schemes ... excuse me ... there was a share grant scheme where staff were granted a profit share.

**Deputy Kieran O'Donnell:** So everyone basically ... if their own portfolio was going up, everyone gained a share of the pie.

**Mr. Donal Forde:** If the loan portfolio was growing profitably, everyone gained a share of the pie.

**Deputy Kieran O'Donnell:** And clearly up to 2007 and 2008 that was the case.

**Mr. Donal Forde:** It was the case to then.

**Deputy Kieran O'Donnell:** Can I just ... the final question I want ... you were a member of the group board from what period?

**Mr. Donal Forde:** Early 2007.

**Deputy Kieran O'Donnell:** Was risk ever discussed at the board level?

**Mr. Donal Forde:** Risk was discussed at every meeting of the board. It was a routine matter that the chief risk officer would come in with what was called the risk dashboard and present the top ten risks, and they would be discussed.

**Deputy Kieran O'Donnell:** And was it discussed in terms of the exposure to property?

**Mr. Donal Forde:** Frequently, as I-----

**Deputy Kieran O'Donnell:** Did you make your views known on it?

**Mr. Donal Forde:** I've acknowledged in my statement that I, mistakenly and ill-judged, felt comfortable with our position on property.

**Deputy Kieran O'Donnell:** How ... for the ordinary person looking in, Mr. Forde, how can you justify that statement?

**Mr. Donal Forde:** I am not sure what you mean by the ordinary person-----

**Deputy Kieran O'Donnell:** Well, with due respect, right, it's very easy to say that "I'm sorry and it shouldn't have happened". The bottom line here is that the Irish taxpayer ended up putting €20 billion into AIB. I believe that-----

**Chairman:** Sorry, Deputy, you are moving into lecturing-----

**Deputy Kieran O'Donnell:** No, no, I am making a point.

**Chairman:** Just ask a question please because you're running out of time.

**Deputy Kieran O'Donnell:** I want to know why you didn't raise this issue. How can you justify not raising an issue when the loan portfolio-----

**Chairman:** Deputy, I am going to make an interjection here. You are running out of time and your questioning is running out of line. Can you put a question?

**Deputy Kieran O'Donnell:** Can you go through between the period of '02 and, we'll say, '09 ... or '08?

**Chairman:** You're out of time. Question please.

**Deputy Kieran O'Donnell:** The question is, when the loan portfolio went up so dramatically, are you saying to me that during that entire period you never ... it never arose ... discussed ... raised the issue of the exposure on risk with the loan portfolio under your direction?

**Chairman:** I'll take a very short answer on this because I've other matters that I need to be dealing with before we go to the break that maybe should be dealt with during this session.

**Mr. Donal Forde:** Through that time, Deputy, I worked in an environment where the OECD, the IMF, the ESRI, the Department of Finance, the Central Bank, the majority of the domestic commentators all expected ... the worst expected was a soft landing for the Irish economy. I worked through a time when all analysis was that there was a shortage of housing stock, okay? That there was a demographic that meant the demand for houses was going to increase. So, I think I would have been wiser than most if I had seen what was coming, but I didn't see it. And it's, as I have said, a matter of great regret but I can say I acted in good conscience, in good faith. I, at no time, ever had a premonition of what was going to happen. If I did I would have acted differently, but I didn't.

**Chairman:** Taking matters a little bit back on track with you before we go back on the break there Mr. Forde, I am just delving into kind of ... just certain operations in the bank with regard to risk. And in ... the reference document for this is going to come on screen in a moment. It's AIB, Vol. 2, pages 13 and then 21. They are appropriate to staffing and training and so forth. But, in a group internal audit, a GIA report dated April 2006, concern was then being expressed that the experience levels of staff in the Republic of Ireland division - the division you headed up - would not be sufficient to manage cases through the cycle and this could lead to the bank missing significant credit events on accounts. Now, this is as things are really heating up ... it's two years out from the guarantee but we can see that the loans into different sectors are happening in particular ways. What I want to deal with you here is how ... or did management understand the importance of maintaining a balance between staff with good credit experience and more junior, more sales orientated personnel? In particular, I suppose what I am dealing with is that staffing and appropriate lending skills ... set ... these sets ... or the skillsets ... seem ... appear to have been an issue across the Irish banking industry, particularly in the mid 2000s. Were you, or how aware were you, of this problem?

**Mr. Donal Forde:** I think the piece that you have put up on screen ... I think that's my report to the board. So that's mine. I was aware.

**Chairman:** Maybe you might like to comment upon that.

**Mr. Donal Forde:** So I was aware. Through this time, the amount of ... the degree of movement of staff - senior lending staff - from one institution to another was quite intense on occasions. So, senior lending people were highly prized assets, if I can describe it in those terms, and from time to time we in AIB lost a number ... and the loss of one or two of these was a serious blow when it happened. So, I guess I was very conscious of it and I had two concerns - one, that our remuneration was somewhere on a par with our competitors in a way that wouldn't give people a monetary incentive to move down the road, in the first instance, but that secondly that we were trying to train young people, essentially, who would be able to reinforce and step up, essentially, if that happened. It was an ongoing challenge because you don't learn credit experience overnight and one of the difficulties was that most of the people in ... many of the people, I wouldn't say most ... many of the people involved in credit management in AIB had never seen bad times. That was an anxiety.

**Chairman:** And that kind of brings me on to what will be my final question before we go for the break. As the market conditions were then deteriorating and the loan impairments began to increase, Mr. Forde, did you consider, or was there consideration in AIB at that time, that you had sufficient trained staff with the appropriate skillset to deal with the arrears collections and manage prominent loans? It's like playing offensive football and defensive football. This was ... you were moving from very open banking now to a far more difficult type of banking.

## NEXUS PHASE

**Mr. Donal Forde:** I think we ... we didn't so much have to make that decision, if I can describe it in those terms, because from early '08, the offensive activity had stopped and, essentially, people were being put in the back line from that point forward. And you'll never have adequate resources when something of the scale of what was beginning to develop at that stage, you know, began to gather momentum. That's the truth of it. But all offensive activity stopped from early '08. From there forward, all resources were, essentially, in the back line.

**Chairman:** And that required a different type of banking, I would imagine, and that that banking would come with a skillset. How do you think AIB were coped for the skillset that that new type of banking required?

**Mr. Donal Forde:** I'm not sure we had an adequate number ... you know, when ... when ... when things get that difficult you never have enough resources. So I think we tried to mitigate that as best as possible by a more centralised approach by relying more heavily on some of the senior lending people who were working, through the late 2008, 24 hours a day, so, yes, there were strains that you wouldn't consider to be appropriate at that point.

**Chairman:** Thank you very much. Okay, I now propose that we take a break and we take a break until 4.15. Just to remind the witness that once he begins giving evidence he should not confer with any persons other than his legal team. If I can just ask Members to remain in their seats please until I actually ... thank you.

**Mr. Donal Forde:** Chairman, do I leave for a while?

**Chairman:** I just need to give you some advice, Mr. Forde, just before you do, okay. The witness is reminded that once he begins giving his evidence he should not confer with any persons other than his legal team in relation to his evidence on matters that are being discussed before this committee. With that in mind, I now suspend the meeting until 4.15 p.m. and remind the witness that he's still under oath until we resume. Okay, so we're now suspended until then.

*Sitting suspended at 4.02 p.m. The joint committee resumed in private session at 4.18 p.m. and went into public session at 4.21 p.m.*

**Chairman:** We are now back in public session. The next questioner is Deputy Michael McGrath who has ten minutes.

**Deputy Michael McGrath:** You are very welcome Mr. Forde. You were no longer MD of AIB ROI in late January or February 2009 but you remained with the bank until November 2009. What was your position during those nine months?

**Mr. Donal Forde:** Formally, my title was director of strategy plc but I really wasn't involved. I can't put it any more clearly than that.

**Deputy Michael McGrath:** What was your day-to-day work? Did you have any responsibilities?

**Mr. Donal Forde:** Nothing substantial.

**Deputy Michael McGrath:** Was your departure from the bank entirely voluntary?

**Mr. Donal Forde:** Yes.

**Deputy Michael McGrath:** Can I ask about the system of regulation? Will you character-

ise how regulation applies, in your view, to AIB? On the system of regulation, what are your observations on how it worked? Do you believe it was adequate or inadequate?

**Mr. Donal Forde:** From an external viewpoint or internal governance?

**Deputy Michael McGrath:** External; the Financial Regulator. The regulation of the bank from a statutory perspective.

**Mr. Donal Forde:** The first thing to say is I would have been a little bit removed from that. Most of these things were handled at a group level but I would have had experience of it through my executive role. There was a number of events through that time from 2002 to 2009 that would shape my answer to your question. I came to the division as MD at the time of the Ruznak crisis which prompted a fairly radical governance review and overhaul within the bank and the regulator seemed to be intensively involved in that at the time, certainly. Then subsequently, in 2004 there was an FX charging issue. I was at the centre of that; it was in my division and I would regard the manner in which the regulator intervened, supervised and directed the bank as a consequence of that to be quite heavy-handed. It was very interventionist, very demanding. This, now, is in the context of consumer regulation, though, but it was quite ---

**Deputy Michael McGrath:** Yes, on that specific issue ---

**Mr. Donal Forde:** On that specific issue it was by no means light touch and generally I would say thereafter, as relates to matters of consumer regulation, that sort of continued. It really followed as a consequence of that but there was a great deal of pressure, intervention, review and demand, if I can use that word, from the regulator relating to fees and charges reviews and remedy of things that had gone wrong. So, it would be very wrong to characterise that as light touch, all in the context, now, of consumer regulation.

**Deputy Michael McGrath:** In terms of prudential supervision at the time ---

**Mr. Donal Forde:** Prudential supervision seemed, if only by comparison, quite light touch. That would be fair. Certainly ---

**Deputy Michael McGrath:** They weren't breathing down your neck.

**Mr. Donal Forde:** No. The only thing that immediately comes to mind is their focus on property and construction. My memory of that is an April 2007 review and I recall at the time that the regulator asked that the board "confirm its comfort" with the bank's position in property and construction. That just struck me at the time as a slightly odd phraseology for a regulator, by contrast with the terminology which would frequently be used in matters of consumer regulation.

**Deputy Michael McGrath:** You are drawing a clear distinction there.

**Mr. Donal Forde:** A very clear distinction.

**Deputy Michael McGrath:** The regulation was more intrusive on consumer issues than on the supervisory side.

**Mr. Donal Forde:** It was much more intrusive. I have seen the term "light touch" used much too frequently. It was by no means light touch in the area of consumer regulation but I don't think that would be an unfair characterisation of it from a prudential viewpoint.



**Deputy Michael McGrath:** Were there ongoing tensions between the bank and the regulator?

**Mr. Donal Forde:** Yes. Most or all relating to that consumer ---

**Deputy Michael McGrath:** Not on the prudential supervision side?

**Mr. Donal Forde:** No, or none that came to my attention.

**Deputy Michael McGrath:** Was there any fear within the bank of the regulator on the supervision side?

**Mr. Donal Forde:** Yes. I think there was a fear. I think there was a general feeling that we were excessively industrious, if I can use that phrase, around all matters of charges, fee reviews and so on. Historically there was a great amount of resources tied up in it. There was no satisfying the regulator on some of those points. It seemed pretty intense all the time and demanding.

**Deputy Michael McGrath:** Can I ask you about the issue of losing deposits? You said in your statement that the liquidity concerns really weren't relevant to ROI. It was more capital markets and the UK ---

**Mr. Donal Forde:** I wouldn't say they weren't relevant but they were predominantly in the other two divisions.

**Deputy Michael McGrath:** In the fraught environment of September 2008, for example, you will recall the "Liveline" show covering the safety of peoples' deposits in banks on Thursday, 18 September. It was reported at the time that €50 million was placed in An Post State-guaranteed savings accounts in a 24-hour period. On 20 September Minister Lenihan increased the deposit guarantee from €20,000 to €100,000. Were you losing deposits at that time?

**Mr. Donal Forde:** Yes.

**Deputy Michael McGrath:** At what kind of rate were you losing deposits?

**Mr. Donal Forde:** Forgive me, I don't have the detail on it but not at a rate that was of major concern. I recall a number of large depositors with whom I would have had a personal engagement in an effort to reassure them about the standing of the bank. I can recall a few large deposits and yes, at a sort of low level, there was a constant movement of deposits but not of a scale and volume that was threatening.

**Deputy Michael McGrath:** Corporate?

**Mr. Donal Forde:** Not that much. Remember the corporate deposits were in the capital markets division more substantially.

**Deputy Michael McGrath:** Of course, yes.

**Mr. Donal Forde:** I don't want to suggest it wasn't a concern but not with the intensity that I know preoccupied the other two divisions.

**Deputy Michael McGrath:** During your time at the bank was there ever any evidence that dissenting voices were suppressed or that anybody who raised serious concerns about the sustainability of the model didn't have a proper airing of those concerns?

**Mr. Donal Forde:** No, I have only one recollection. I remember one of our board members asking that we look at the question of our property and construction positioning in more detail and asking for a presentation on it. I do remember that. It was frequently under discussion. There is no other way to describe it. We regularly revisited the logic of where we were positioned in property and construction but never in a manner that changed that position.

**Deputy Michael McGrath:** You acknowledged earlier a number of failings, particularly on the issue of lending and the dependence on one sector. To what extent was AIB really chasing Anglo and chasing the spectacular growth in profits, in turnover, in dividend and in share price that Anglo was enjoying? To what extent were you trying to keep up with that?

**Mr. Donal Forde:** I have seen in the last while media commentary that we were chasing Anglo. That isn't fair, I don't think. I certainly wasn't conscious that we were chasing Anglo but we were chasing the pack, if I can describe it in those terms. We were regularly being challenged by the investors, by shareholders and by the analysts as to how we were going to keep pace, not just with Anglo but with other Irish banks and with some very fast-growing UK and continental banks. So, yes, it's true to say there was a lot of pressure for performance. But Anglo ... see I'm careful to say that because, to be fair, it's true that lending was the core of where the growth was coming from but the bank was trying to diversify away from that. Certainly one of my objectives all the time - formally given to me - was to try to diversify the earning stream of the divisions, so more fees and charges income, more from health and life insurance and the like. So there was an objective to diversify but it's true that ... that the substance of our performance was coming from loan growth.

**Deputy Michael McGrath:** Yes. Can I ask, did you have property expertise within the bank? Property experts.

**Mr. Donal Forde:** I consider that we had some really strong people in property. That was my view.

**Deputy Michael McGrath:** In what function? What roles did they have?

**Mr. Donal Forde:** Particularly the people who worked in the property or construction sectoral team, as we called it, who were engaging with the clients. And I regarded that also we had some people of equal standing in the credit functions. So I thought we had some very competent people.

**Deputy Michael McGrath:** Okay. And finally ... when loans were being extended to property development construction, are you satisfied that the bank had adequate oversight of the full exposure across the different banks of the borrowers?

**Mr. Donal Forde:** If you'd asked me the question when I left I would have said yes. I think it's clear from what ... some developments subsequently that we didn't. I'm not sure what weight to attach to that because sometimes if you're lending you're lending into a legal entity and-----

**Deputy Michael McGrath:** Well, it might have meant the borrower was over indebted?

**Mr. Donal Forde:** It was but ... it was, and that stands. But ... but if you're lending into a particular sub-unit in the legal entity, sometimes it's not of huge concern to you what's happening elsewhere with the relationship -----

**Deputy Michael McGrath:** Is it your view now that some lending decisions were made without the full picture being available?

**Mr. Donal Forde:** Yes. I don't know how the full picture might have changed the way ... but you're right ... we didn't have the information we should have.

**Deputy Michael McGrath:** Okay. Thank you, Mr. Forde.

**Chairman:** Maybe just to round that off ... It's just on the issue of valuation. How was the expertise gathered or was ... and applied in AIB with applying valuations? It's one thing to give a loan to somebody's capacity to be able to pay it back, but a valuation has to be put on what's been purchased as well. How, what was the expertise like around the valuations?

**Mr. Donal Forde:** An experienced credit person would be somebody who had been looking .... I mean, the people who were to the fore in that respect in the division and at group level were people who had been active in reviewing property cases for 20 years. Okay? And what they would bring to that consideration is, as I've said, a first-order analysis of essentially the asset that was being purchased. If it was for residential development, you know, how many houses would be built, at what cost ... you know, what was the track record of the developer in delivering these, in what timeframe? And you work it back from first principles. If you're going to sell ten houses with a net profitability on each of whatever €50,000 and you've worked that back, you can just calculate the value of the land and you discount that in some measure for safety. So it's a first principles analysis, if you like, of what the value of the asset is relative to what it's going to produce.

**Chairman:** Was the value not changing the lending model? So let's say, for instance, your ... as often is used as a kind of a barometer ... the guard married to the nurse. They were going to take a mortgage out over 20 years, whoever was the chief earner - whether it was the guard or the nurse - it would be three times their income and then the guard or the nurse's annual income applied. But ... and that would be ... that was a very set ratio. But over a period of time we saw that going into multiples of what the earning capacities were and the mortgage schedules getting longer and longer, going from 20 years nearly out to 40 years. At any stage ... was it ... did somebody say "It's not the valuations of the properties now is the issue, it's the capacity and the affordability to pay?"

**Mr. Donal Forde:** I'm sorry, I'd answered your question originally in the context of commercial lending.

**Chairman:** Yes, yes but-----

**Mr. Donal Forde:** In the context of mortgages, I think you're right to some degree. I think the emphasis shifted from the simplicity of a multiple or one or the other. It shifted to this capacity of the borrower to be able to meet the repayment. The formula was that all mortgages had to be stress tested for interest rates, if I remember, for 2% higher than prevailed to make sure that the borrower was able to meet the repayments. That sort of model did become more prevalent rather than the simple one that you described. So it is true to say, I think, that the model failed a little bit. I am acknowledging that-----

**Chairman:** Did anybody in AIB say at the time "that model, where is this going"? I mean, if one operates on the assumption that all purchasing markets are required upon - if I am selling my car tomorrow morning to buy a new car, somebody has to come in and buy a second hand car. The housing market is very much contingent upon first-time buyers to come in to allow

people to trade up and trade down and all the rest of it, and that affordability for first-time buyers was becoming so difficult that the State had brought in a package of affordable housing, which was supposed to be subsidised housing. In Cork affordable housing was €250,000. This was council housing that was subsidised at €250,000. It is probably worth less than half of that in today's market. So you had this massive compounding snowballing effect. Was anybody in the bank saying that this is a concern?

**Mr. Donal Forde:** If I can just step back a bit for context, I guess we were very conscious that the value of houses had become inflated. I think our difficulty, and I now accept that mistake, but our difficulty was that we did not see that changing dramatically because the view we had was that we were in an environment where there was a shortage of housing stock ... in the capital at least, in the greater Dublin area. Probably still the case today. We had an influx of people coming into the country from eastern Europe and so forth. We had a demographic where the baby boomers of the 80s were coming into house. So you had a scenario and you had - the outlook, it seemed, was one for continued economic expansion. We did not see how it was that there was going to be a significant change in the fact that houses were going to be more expensive and going to demand more of the proportion of disposable income to service them. We sort of accepted that. For that reason then, the shift in the model, I suppose, looking more at the capacity of the borrower to be able to meet the repayments even if interest rates rose became more the issue, rather than a concern about the inflated value of the house. I am not justifying our approach now in hindsight, but I am trying to rationalise the way we were thinking at the time.

**Chairman:** But it was never flagged as a problem? Okay, we can see that the prices are going up but is somebody going to say "Is there a sustainability issue here"?

**Mr. Donal Forde:** I think we focused on trying to make sure that each of the borrowers was in a sustainable position. I think too much so, and with too little thought for the total picture. I think that's fair.

**Chairman:** Senator Barrett.

**Senator Sean D. Barrett:** Thank you Chairman. You are very welcome, Mr. Forde. On page 4, part of the professional valuations were frequently but not always thought by AIB to evaluate property as a security. Could I refer to AIB before Vol. 1 on page 10. You were referring to part 2006 in your statement today, but the board minutes show this problem persisted two and a half years later, 2006, 2007 and half way through 2008. There was a discussion about AIB's practice of not seeking professional property valuations, and whether this will have implications in terms of financial accounts to giving a true and fair view. So, given that the commercial property went up 14 times from €8 billion to €112 billion, and the residential, as you have been saying to us, went up much less, €25 billion to €122 billion, the practice of not doing the valuations was still of concern at board level on 24 July 2008.

**Mr. Donal Forde:** Can I just ask for the reference again, just so that I can

**Senator Sean D. Barrett:** Indeed. Thank you. It is page 10. It may be on your screen now. It is AIB, B4, it was issued to us on 31 March. The paragraph begins at the conclusion. In fact, the other two below it are redacted.

**Mr. Donal Forde:** Yes, I see the piece. And the commitment that was made in the directive in '06 was that valuations over a certain, for security, over €5 million or €4 million, was to be valued. I think that would be a reference to ... that would be a reference to valuations for the ...

for smaller values. So it's not ... I think it may be wrong to suggest that ... that's indicative of any ... that's indicative that the 2006 directive hadn't been covered.

**Senator Sean D. Barrett:** Could I ... AIB B2 on page 6, if we could have that one up please.

**Chairman:** What volume Senator?

**Senator Sean D. Barrett:** Vol. 1, thank you Chairman. As that's being sought, it refers to a board discussion, AIB's exposure to the broad property building construction sector, amounted to 260% of own funds, while the limit was 250%. And let me go on, the board requested that this issue be pursued with the IFSRA, given that the standards clearly required revision. Is that me saying I was speeding but the speed limits were wrong, kind of ... you know or ... it's a pretty strange attitude to the regulator that you assumed that at the board level, the regulator was at fault.

**Mr. Donal Forde:** We sort of mentioned this previously, maybe ... my ... I wouldn't have had any direct engagement with the regulator here but my understanding was this, we were in breach of the limits ... we were in breach of a limit that set out a singular constraint on the totality of all property and construction lending. That had been in place for a long time. What was going on in prudential circles at the time, and there is reference to it here in the paragraph just before that, what was going on at the time, was the introduction of Basel II conventions to analyse, and these were new protocols that were being introduced for the assessment of risk attaching to loans, and the thrust of those was not to look on loans as one homogeneous set, but to break them into what were called logical portfolios and to look at the particular risk attributes that are attached to each of them. My understanding is that the regulator was also of the view that that's where they needed to go and for that reason that the old limit was somewhat ... somewhat redundant and were in conversation with AIB saying, "How are you doing this, and actually how are you getting comfort with the scale of your exposure and is the board comfortable with it?" And then, as part of that presentation, AIB set out how it went about assessing its portfolio in this new way under this new methodology and the board, it seems, took comfort with that and is saying, okay well, let's then make it clear in our engagement with the regulator, let's have this new formula adopted but let's not have this indecision as to what particular standard of measurement is to apply. That is my understanding of what was going on but I was not directly in discussion with them.

**Senator Sean D. Barrett:** Now on B3, Vol. 1, page 17 and it's also Vol. 1 for our colleagues-----

**Chairman:** Okay, volume?

**Senator Sean D. Barrett:** Yes, Vol. 1, Chairman. This deals with a proposal to revise the adjusted loan-deposit ratio. How did it get to the board? Did somebody propose it? Did somebody second it? Because it makes a 162% ratio into a 115% ratio. Was this also because we didn't like the regulator when we went over the limit? I mean, again, it seems to illustrate to me a casual attitude towards regulation. If you don't like the rules you adjust it to make it a different set.

**Mr. Donal Forde:** Okay, I'm ... Let me first say that this wouldn't be my direct area of responsibility but my understand ... I don't believe that's a regulatory constraint. I don't believe there was any regulatory constraint on loan to deposit. I may be wrong on that but that's my belief. What was happening here was that the market was putting a strong focus on the loan-to-

deposit ratio in different institutions, but, again, this changing methodology in the marketplace was an issue and that rather than the simplicity of this customer loans and totality over customer deposits, the market was looking for a more informed ratio, where the value of long-term deposits was recognised or the saleability or liquidity of assets was recognised in the formula and that's what this adjusted loan-to-deposit ratio achieves. So this isn't a regulatory matter, I don't think, Senator. This is a matter of the way in which AIB presents a picture of itself to the marketplace. The marketplace was looking for something that was more nuanced and that's what was proposed.

**Senator Sean D. Barrett:** Because our briefing notes were that it should have been at 120% and I appreciate what you said and thank you for the answer and so that when it went to 157%, we found a way to bring it back to 115% with many commentators suggesting that the ratio in excess of 120% to be less than ideal.

**Mr. Donal Forde:** I think I would answer your question more freely in this respect. I think we were, looking back, we were going through a period right through from 2002 to 2008 when generally banks globally were being driven to more efficiency, more efficiency meaning that you were endeavouring to squeeze, if I can express it in those terms, performance out of every aspect of the business and it is right to say that I think we were being pushed and responding to a marketplace that was constantly pressing us into positions, perhaps, of more risk, of more efficiency, more leverage of assets all the time. I think that is true to say but I am just making the distinction between the previous one which was certainly coming from the regulator, this was coming from the market.

**Senator Sean D. Barrett:** Now the fact that 56% discount had to be applied to AIB, only 5 points off, what does that mean about the conduct of the bank that it ended up as a silver medalist to Anglo in a competition nobody wanted to be in?

**Mr. Donal Forde:** Sorry, this in the context of?

**Senator Sean D. Barrett:** This is the discount that NAMA applied to what was transferred over from AIB, 56% and Anglo was 61% and Bank of Ireland was 43%.

**Mr. Donal Forde:** I find it difficult to answer this, Senator, because that happened a year and a half after I stepped down as divisional managing director so I just don't know too much about the performance of the portfolio in that period of time. It's a disappointment to me and something of a surprise to me but I don't know how the portfolio was managed or how it developed in that period after I left.

**Senator Sean D. Barrett:** I see the conference of management on 22 March 2007, the title was "Poised on the edge of greatness". I mean, was the board in no way anticipating what was just around the corner?

**Mr. Donal Forde:** In fairness I saw that.

**Chairman:** Next question.

**Senator Sean D. Barrett:** That is the last one, Chairman, thank you.

**Mr. Donal Forde:** I saw that, it's not the title of the senior management presentation. I think it's a title of a presentation made by Mercer Oliver Wyman to us. It wasn't the board's view of itself.

**Senator Sean D. Barrett:** Glad to hear that. It is over your logo. Thank you very much. Thanks, Chairman.

**Mr. Donal Forde:** I know.

**Chairman:** Thank you, Mr. Forde. I just need to deal with a matter there in regard to solicitor undertakings. Maybe you could explain to the committee in layman's terms what a solicitor undertaking actually is.

**Mr. Donal Forde:** Okay. It's an undertaking essentially to put the security into effect, whatever that might involve and you leave that in the hands of the solicitor. He undertakes to do that for you and it's as simple as that really. You might be taking possession of deeds or might be taking possession of some documents of title and they would involve frequently work at the registry and so forth and the Land Registry and the solicitor will undertake to do those.

**Chairman:** It means a kind of securitising an asset and so forth.

**Mr. Donal Forde:** Yes.

**Chairman:** Okay alright. So the loan then would be issued on foot of that security being ribboned and bowed legally.

**Mr. Donal Forde:** Issued on foot of the security and then the solicitor would undertake to perfect that security.

**Chairman:** Okay. There was an internal audit in AIB in April 2006 highlighting an issue relating to outstanding solicitor undertakings in the Republic of Ireland division, your division. It's the reference page, it's actually up on the screen there in front of you but just for noting purposes, it's AIB B4, Vol. 1, page 20. And in that audit it would demonstrate that outstanding solicitors' undertakings was No. 1 in the top three outstanding internal audit issues, as late as October 2008. This was a continuous issue that was running through AIB. Was the board aware of this level of difficulty that was there in solicitors' undertakings and them being accepted, relating to property being taken as security, and the lengthy delay in perfecting security in many cases, and was there even situations that when the undertaking wasn't even complete, that the loan was being issued anyway?

**Mr. Donal Forde:** Well, the loan would always be issued subject to the undertaking because you didn't have the facility to perfect the security there and then. I suppose you're ... I think I'll answer it in two ways, Chair. The first is to say that I, and I reference this in my statement, the first thing is, I suppose, to make sure that we see this issue in context. The practice for all the larger exposures was that the security was handed over to be perfected to first and second order legal firms. So they would do it for the bank. So those loan cases with greater exposures were never a problem, they were not an issue. So this issue related to the lower level cases, but yes, it was a constant difficulty, and as you see, the audit ... that audit report would have been given the board so they were aware of it, but it was one of those issues that I was always working on and we were never ... we were never in a comfortable position. But it would be important not to overstate that, as I've said, because all the larger exposures would not be at issue here.

**Chairman:** Okay. Did AIB in all circumstances follow up and ensure that the security had in fact actually been registered?

**Mr. Donal Forde:** Yes well, each loan ... each loan case was reviewed annually at least. So

this was part of the work of the credit committees. A loan case would come up for review and if they had a concern about it they would stipulate that it was to be reviewed in perhaps three or six months' time. Part of that review was to confirm the standing of the security. So-----

**Chairman:** And are you aware that there are issues with NAMA when they actually took over the loan portfolios?

**Mr. Donal Forde:** I am and I-----

**Chairman:** That the registration never actually took place?

**Mr. Donal Forde:** Well, I again ... I'm one and a half years removed from that point but that wouldn't surprise me that there were some issues relating to the lower level orders of exposure, around solicitors' undertakings. I'd be surprised if there's any significant issue with the higher levels because they were always considered to be in good order.

**Chairman:** But there was a roll-over at the review. There was a roll-over of this difficulty on an ongoing basis within ... and it was a significant issue between 2006 and 2008.

**Mr. Donal Forde:** Yes it was, but I ... again, Deputy, I just ... important ... at the ... the lower order cases. I wouldn't think there was a problem with the higher ones.

**Chairman:** Alright, thank you.

**Mr. Donal Forde:** Higher ones being those over €20 million of loan.

**Chairman:** Deputy John Paul Phelan.

**Deputy John Paul Phelan:** Thank you Chair. Mr. Forde, I have a few questions also. I want to refer to the evidence given earlier by Mr. Gleeson. In his testimony he was asked about AIB being caught in the wake of Anglo, and to quote him directly, he said "we tried not to be brought in the wake but in many ways we were." I just want to know, in terms of your role, as managing director of AIB from 2002 to 2009, in the Republic of Ireland, was there any direction from the board, from the chair, as to how not to be brought in the wake of Anglo Irish Bank, can you recollect?

**Mr. Donal Forde:** Let me try and answer it this way, I suppose the first thing to say is I think he's ... I take his reply to mean that he's speaking in the context of the performance of the bank, such things as share price performance, and so forth. In a way that was up there, if I can describe it in those terms. At my level, Anglo was just one of a number of people that were very aggressively targeting our business. I would have gotten no direction to deal with any one competitor more than another. I would have constantly been relaying information about threats or inroads in our business from Anglo, yes, but Bank of Scotland, Ulster Bank, Danske Bank, Bank of Ireland, so I wouldn't have held Anglo in any particular place from my perspective. From his, I suspect that in terms of accounting for the performance of the bank to the investor community, would be a constant thorn in-----

**Deputy John Paul Phelan:** There was no real discussion about Anglo or other specific competitors in terms of the Republic of Ireland business that you were managing director of.

**Mr. Donal Forde:** There was ongoing discussion about them, but not a direction-----

**Deputy John Paul Phelan:** Okay.



**Mr. Donal Forde:** Not in any direction to respond to them in one way or another, no.

**Deputy John Paul Phelan:** In response to Deputy McGrath ... he asked about lending concentrations in particular sectors and you said that they were frequently under discussion. You also said that there wasn't decisions, I suppose, taken as to how to change that. You outlined that one of your roles specifically was to diversify. How successful were you and the Republic of Ireland operation in terms of that attempt to diversify?

**Mr. Donal Forde:** Not very. Well, I made that comment earlier in this respect at diversification between different lines of business, and so there was a very heavy push to try to increase the profitability from deposits, from health insurance, life insurance, from fees and charges, from electronic banking. So, the push was on from that perspective. There was also a focus on trying as best as possible to diversify the loan book. I was more successful with the first of those objectives than I was with the second, and I suppose the reason that I wasn't successful at all with the second was it's rather difficult ... in some respects, you have to respond to the business that your customers want to do. And, unfortunately, property and construction was where it was all happening, so it made it difficult.

**Deputy John Paul Phelan:** Deputy Murphy asked ... was first, I think, to ask the question about sectoral ... the levels of lending into specific sectors, and you said - it was an interesting direct quote again - that the board "wrestled" with this issue about ... can you outline to the inquiry the nature of that wrestling? And, in the sense, is it not ... I don't want to put words in your mouth or be accused of leading you, but "wrestling with one's conscience and winning" is a phrase that might come to mind as to how the board dealt with the matter. Or it might not, just to leave it an open question.

**Mr. Donal Forde:** Well, what I meant by it was that, frequently at annual planning time, there would be discussion, essentially, about the outturn from the previous year, what it had meant in terms of loan growth, and that was the point at which the expectations for the year ahead were signed off at the board. So, I can recall discussions at that time about whether this was appropriate. There certainly was a consciousness that we were intensely involved in property and construction, so I can remember discussions at that time. I can remember this discussion that's here, this stress test prompted by the regulator asking the board to validate that its weight of exposure in property and construction ... that it was comfortable with it. So, I can remember that. Certainly, no surprise in 2008, as the market began to turn down, there was discussion. So, I think it is fair to say the board wrestled with it.

**Deputy John Paul Phelan:** But didn't take any particular ... or did they take particular action?

**Mr. Donal Forde:** No. Well, we didn't change position, so-----

**Deputy John Paul Phelan:** Okay. That's-----

**Mr. Donal Forde:** -----I have to acknowledge that.

**Deputy John Paul Phelan:** No, my time is limited, and-----

**Mr. Donal Forde:** But if I could just add just a small point to that, I think the reason we didn't change position, and the reason I didn't feel uncomfortable personally, was that stress test that I've just shown you there. We had a mistaken view, I think, of the degree of exposure that we were running.

**Deputy John Paul Phelan:** Yes. Okay.

**Mr. Donal Forde:** That's it.

**Deputy John Paul Phelan:** I want to specifically refer to the standards of the Financial Regulator at the time. And I ... Basel II has been mentioned a lot and the transformation that was taking place within AIB and maybe other organisations at the time, but did those rules still stand or not with regard to sectoral lending, the 200% figure and the 250% for related sectors, and the fact that AIB was at least one third over both of those headings in terms of lending into property and development? And I don't ... like, Basel II-----

**Mr. Donal Forde:** I understand, yes. It's a fair ... if you'll forgive me, I don't know - and that may seem an odd question - because I wouldn't have engaged directly with the regulator. What I'm led to believe, essentially, is that the regulator also felt that they had become redundant.

**Deputy John Paul Phelan:** Who led you to believe?

**Mr. Donal Forde:** I think you'll see a reference to it there in the presentations. I think Kevin-----

**Deputy John Paul Phelan:** At the time, though, did ... who was leading you to believe it or was this an issue that you were wrestling with yourself at the time?

**Mr. Donal Forde:** No. If I ... I wasn't wrestling with that, no. I didn't see that as an issue, but I'm trying to make it clear I didn't speak directly with the regulator.

**Deputy John Paul Phelan:** The fact that AIB was so over the thresholds, which are described as standards in AIB's own document-----

**Mr. Donal Forde:** Yes.

**Deputy John Paul Phelan:** -----which I quoted at-----

**Mr. Donal Forde:** I think, from my perspective, I have described the engagements with the regulator in all other matters, if I can describe them like that, relating to the consumer ... which were pretty rigid, pretty uncompromising. In this regard, the fact that every bank, to my knowledge, in the country was over those limits and had an excessive exposure with property and construction and that the regulator hadn't simply said, "This isn't acceptable" suggested to me that they were not applicable.

**Deputy John Paul Phelan:** I know. You were ... I'm asking you specifically as managing director of operations.

**Mr. Donal Forde:** I understood that they were not applicable. I understood that they had fallen to the wayside.

**Deputy John Paul Phelan:** Did you not have any concerns yourself, though, as the popular .. or the possible exposure of your operation, which was under your management in the Republic of Ireland? That's ... I'm asking about your response?

**Mr. Donal Forde:** Okay, that's fair, okay. I frequently had conversations with people within my division and people above me about the scale of property and construction. All I can say to you is, and I acknowledge the error of it, but I at no point, no point, considered that anything

like what has transpired was possible. I simply didn't.

**Deputy John Paul Phelan:** And I understand, and the phrase you used earlier-----

**Mr. Donal Forde:** I simply-----

**Deputy John Paul Phelan:** ----- in response to Deputy O'Donnell was, "At no point had I a premonition." That's fair enough, but I'm asking about your role as ... of oversight.

**Mr. Donal Forde:** Well, okay.

**Deputy John Paul Phelan:** Did you use-----

**Mr. Donal Forde:** Well-----

**Deputy John Paul Phelan:** -----your position with people more senior than yourself in the organisation to raise those concerns?

**Mr. Donal Forde:** No. Well, no is the answer, but let me just put that in context. I saw ... it's not ... my responsibility wasn't a one-dimensional one, if I can describe it in those terms, so the risk in our portfolio was one; the profitability that was expected of the division would be another; our relevance to be able to meet the needs of customers was another. There was a general clamour at that time that the domestic banks, AIB amongst them, was losing position and relevance with customers and that other banks coming in from outside were far more relevant. So, in the balance of those things and with the belief that the risk in the portfolio was of the order that's outlined in the stress test that wouldn't threaten our capital, I didn't consider that we were in an imprudent place.

**Deputy John Paul Phelan:** I've just one last, very brief question. Dr. John FitzGerald, in evidence to the committee, a number of weeks ago, expressed the view that a senior official within AIB had raised with him, at the end of October 2005, concerns with regards to stress tests and exposure to the property sector. That has since been disputed by the said senior official. Were you aware, at that time or subsequently, of that discussion and those meetings that took place?

**Mr. Donal Forde:** No.

**Chairman:** Do you have a comment or a view on that?

**Mr. Donal Forde:** I said no, I wasn't, Chairman, no.

**Chairman:** You ... okay, okay.

**Mr. Donal Forde:** I wasn't aware. That was news to me when I saw it.

**Chairman:** Okay. Deputy Higgins.

**Deputy Joe Higgins:** Mr. Forde, did you see the testimony yesterday of the chief executive and chairman of NAMA?

**Mr. Donal Forde:** No, I didn't, unfortunately. I haven't been able to review it.

**Deputy Joe Higgins:** Okay. Can I put some of that testimony to you from the chairman, Frank Daly? And both made serious reference to the equality of the security that banks had or didn't have, in terms of massive loans. Mr. Daly said, "The safety zone of borrower equity

usually existed only on paper. The result is that the borrower was typically not the first to lose. In the event of a crash, the banks stood to take 100% of the losses and that's what happened." He said, "The model did not appear to require a stringent approach by borrowers to analysing project feasibility." And he said, "Very little, if any, consideration was given to the inherent cyclical nature of the property markets. The attitude appears to have been that the only way was up, that somehow the forces of gravity were suspended as far as the Irish market was concerned and that the long established pattern of property market cycles was no longer relevant." Does any of that apply to Allied Irish Banks?

**Mr. Donal Forde:** I think some of it applies, Deputy. I'd be the first to acknowledge that I think we did lose sight of the cycle; I think that's fair. I think the reason for that was that ... my personal view was that there was some order of economic transformation going on in the country; the number of people in employment was growing dramatically, we'd had a period of expansion, and all of the indications were that ... not at the same pace, but that it was sustainable. So, I certainly was misled into the view that we were not in some bubble but we were in some, as I've said, economic transformation that was in some way more sustainable, so I-----

**Deputy Joe Higgins:** And some would say you were building houses for the people that were coming into ... or to build them, but we'll leave that aside for the moment. In terms of the type of rigour or non-rigour that was brought to projects that came, of a large order, before you, does the charge that the NAMA chairman and chief executive made apply?

**Mr. Donal Forde:** I think it's true in some measure at least, and by that I mean this: I've set out in my paper, like, it's the manner in which we approached loan proposals for property and construction. And it was to ensure that there was security in place, to the order, generally, of 70% of the loan, but, more importantly, to make sure that in the first instance that there was a demonstrable means by which the loan could be repaid. That was done. I think where it fell down was that that challenge, if you will, to the repayment capacity of the loan was not rigorous enough at all. I do accept that.

**Deputy Joe Higgins:** Yes. In that regard-----

**Mr. Donal Forde:** I do accept that.

**Deputy Joe Higgins:** -----we had testimony from Professor Black. Are you familiar with Professor Black?

**Mr. Donal Forde:** No.

**Deputy Joe Higgins:** No. He's a quite well known former regulator, academic and financial prosecutor from the United States. And he came to give us testimony, and he spoke about a similar situation, of banks or financial institutions extending loans. And he said we intervened to stop loans that we called liar loans, and the Chairman, Deputy Lynch, intervened and asked: "In terms of what Professor Black means by "liar loans", are they loans on which people more or less self-assessed themselves?" And Professor Black says: "Yes. It is US business parlance." Would you describe some of the loans that were extended by Allied Irish Bank as liars' loans in the context in which Professor Black-----

**Mr. Donal Forde:** No. No, and I think it's worth me saying this emphatically: I don't think, even now with the benefit of hindsight, there was an absence of rigour, if you will, in terms of the process of looking at loans. Our weakness was in the assumptions by which we tested them and stressed them. They were just not remotely challenging enough. I don't ... there was a lot

of attention, an enormous amount of attention given to loans. I think the processes were pretty rigorously followed, but the assumptions that guided those processes were wrong, they just were not conservative enough-----

**Deputy Joe Higgins:** How much ... what total volume of loans went into NAMA from Allied Irish Banks?

**Mr. Donal Forde:** It was something like €20 million ... €20 billion. Twenty-----

**Deputy Joe Higgins:** Twenty billion?

**Mr. Donal Forde:** Yes, I think ... I may stand corrected; that's-----

**Deputy Joe Higgins:** Well, would that suggest that indeed there was a catastrophic fall down in regard to the collateral and the security that was available?

**Mr. Donal Forde:** Yes, I don't quarrel with that at all. I mean, I ... as I've said, we simply did not anticipate the confluence of things that came about and which left us hugely compromised. I have no argument-----

**Deputy Joe Higgins:** You say to us today Mr. Forde:

AIB lending decisions were based on the belief, now obviously mistaken, that long established, experienced scale-players in the property market represented a better risk than smaller less experienced counterparties. They were seen to have had a track record of performance and built up significant equity.”

A stunning irony struck me in relation to that, I will ask you to comment upon, that at the end of virtually every advertisement for a bank, is “past performance is no indication of future return.” Was that the situation here?

**Mr. Donal Forde:** Let me try and rationalise the thinking that was going on at the time, and it's this. If you can imagine ... earlier on I described I suppose a simple loan project where someone, a developer, has to buy land and go through that long period during which they pay for the land, they develop the housing stock and then they sell it. Through all that time there is no revenue whatsoever to be got. If you are dealing with a larger player that has a number of these projects afoot at one time, they tend to be at different stages of maturity so typically you'll have some projects that are closer to revenue and sales than others. That helps to make the loan a more manageable proposal from the lender's viewpoint. So the principle of working with a more diversified player that has experience and a track record in building houses on time and within budget, that stands. What fell down here was that there was such a collapse of economic activity that every element of these different businesses - whether they were involved in residential development or whether they were involved in commercial development - all of them simply weren't able to produce revenue and that logic became completely unstuck. So I am in a sense defending the principle of working with a diversified player in any industry. But it afforded us no protection here in the way things developed, as we imagined it would.

**Deputy Joe Higgins:** Mr. Forde, the report of the Allied Irish Banks said that in 2004 you took home a salary of €575,000 and a bonus of €600,000 - €1.75 million. Is that an inordinate amount of money, in view particularly of what happened very shortly after that? And secondly, my last question is in relation to the people out there who have been burned badly as a result of the bubble and crash and what the banks and the bondholders did. Do you understand how

bitter they feel towards the bankers like yourself?

**Mr. Donal Forde:** Yes. It seems an inordinate amount of money in hindsight and in the context of what happened. As I tried to indicate in my statement, I spent my professional life with AIB. I suppose it was my life, it was my career - the interests of the bank were what woke me up in the morning and took me to bed at night. So, I'm very conscious of my failure, I'm very conscious of the bank's failure and I'm hugely conscious of the implications of it for everybody concerned. I say that as genuinely as I can and looking back, I do accept that you know, the salaries we were paid now seem silly. They didn't then in the context of what people in the banking sector earned here at home and abroad. I had two job offers during that period, one domestically and one abroad that offered more money. So I had no sense that I was as overpaid as I now seem to have been in hindsight. I do fully understand that bitterness it creates. I fully understand the disappointment that there is with us. I have no quarrel with that, it is justified. I am very conscious of the manner in which we did leave people down. All I can say again is that I acted at all times in what I thought was good faith and best conscience. I never woke up of a morning with any real concern that the bank was in a position of difficulty. I am wrong on that, but I am guilty of a bad judgment, but no more than that.

**Senator Michael D'Arcy:** Mr. Forde, have you watched any of the proceedings of the banking inquiry to date?

**Mr. Donal Forde:** I haven't watched ... I've read the ... up to last week, I think most of them. I've read most of the ... of what's ... but I haven't watched them.

**Senator Michael D'Arcy:** Professor Black that Deputy Higgins quoted, he had a term that he used that was crucial for lending, which was ... it's not a very academic term but it was, "grow like crazy", and when he was asked what was "grow like crazy", in terms of percentage growth, he said 30% was reckless. The expansion of the loan book of AIB for property in construction averaged 29% per annum, and that was in the sector that you were in charge of. Would you have considered your growth in that sector reckless?

**Mr. Donal Forde:** No. I didn't then.

**Senator Michael D'Arcy:** Do you now?

**Mr. Donal Forde:** Yes, in hindsight ... reckless is a strong word.

**Senator Michael D'Arcy:** It is.

**Mr. Donal Forde:** I consider it ill-judged but I did not consider it reckless at the time, you know. And the reason I didn't consider it reckless was for the very reason that you'll see in those stress tests. My understanding was that the level of exposure we were running was not threatening to the bank even in an extreme case. That would be my definition of reckless.

**Senator Michael D'Arcy:** Simon Carswell, in his book, *Anglo Republic*, page 55, stated that there was a win-back team in AIB. I can only assume it's within your sector, to win back-

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**Mr. Donal Forde:** I saw reference to that, yes.

**Senator Michael D'Arcy:** Yes. Was there a win-back team in AIB?

**Mr. Donal Forde:** When I joined the division ... when I took responsibility for the division

... this would have been back in about 2002-2003, I asked three people - so the team was three people - to look at business we were losing from long-established customers and to ask if we should be competing in some way more vigorously to win it back. That's what has later been described as a win-back team or win-back strategy. I think that's far too grand a term for it.

**Senator Michael D'Arcy:** And were those three people ... were they senior executives or mid-ranking?

**Mr. Donal Forde:** No, they would be middle ranking people. I think too much is made of that by Mr. Carswell. I mean, there was ... those three people were in place but it was no more than a standard measure to make sure we were competitive with customers that we valued.

**Senator Michael D'Arcy:** Can I ask you, Mr. Forde, your ... you spoke a lot about the credit risk within the sector, within the institution, and they seem very much at arm's length away from yourself as the senior manager in terms of the retail sector of AIB in the Republic of Ireland. Was there any ... you also said that you did phone people in terms of deposits ... you made some phonecalls.

**Mr. Donal Forde:** We met ... met physically with two and phoned one.

**Senator Michael D'Arcy:** Okay, but was there any occasion ... I suppose what I'm coming at is: it seems very pure, it seems very straight lines in terms of the independence of each sector. Was there ever an occasion that you saw a loan that you thought was-----

**Mr. Donal Forde:** I ... for better or worse, I'm not sure which, I didn't get involved with individual loan cases, no, no, ever. Because my view of that was the chief credit officer had 25 years' experience in lending. He was the one we had mandated to review loans. If I stepped in to a review of a case and offered a view, well, I was going to colour that judgment potentially, and that wasn't adding any value. So I didn't look at individual cases, never had an input into one.

**Senator Michael D'Arcy:** You didn't look at them at all. They were-----

**Mr. Donal Forde:** No, I looked ... sorry, sorry, forgive me. I didn't have an input into them in the sense of offering a view on them.

**Senator Michael D'Arcy:** Were there occasions that you thought-----

**Mr. Donal Forde:** Yes, there were occasions I would look at individual cases.

**Senator Michael D'Arcy:** But, sorry, were some of those cases that you looked at, were there occasions that you thought that this is over-the-top lending, this is very generous, that potentially there may be a problem?

**Mr. Donal Forde:** No, there would have been occasions in which I would have asked to have the rationale of the case explained to me and pretty much always I would understand the perspective that the credit officer had taken when it was explained to me.

**Senator Michael D'Arcy:** Were there occasions that potentially the credit officer would have said, "No," that you would have requested-----

**Mr. Donal Forde:** No.

**Senator Michael D'Arcy:** -----sight of?

**Mr. Donal Forde:** No. I mean, generally, the cases I would have been ... they would have been ... typically would have been questions about the return on the case or some matter where there might have been conflict between one aspect of managing the case and another. My involvement would be more at that level rather than in offering a view on the credit exposure per se.

**Senator Michael D’Arcy:** Jim O’Leary, in 2004, it’s been touched upon earlier, in relation to a director who had concerns about property and construction-----

**Mr. Donal Forde:** Yes.

**Senator Michael D’Arcy:** -----subsequently, 2007, Alan Ahearne had concerns that property in construction was overvalued by 30%. Were you concerned at any stage during your term that with the increase of the balance sheet that there was a significant overexposure within AIB for property and construction?

**Mr. Donal Forde:** I was conscious of the weight of our business that was in property and construction. I was party to discussions above me and below me as to whether or not we were in an appropriate place. The conclusion of all of those discussions ultimately was that we were in an appropriate place and that, you know the rationale for that was the view we had of the risk which I now accept was mistaken. The fact we weren’t growing at any pace that was faster than people in the market and the fact that, notwithstanding that there was one or two people who were critical, the broad mass of those who essentially were offering a view on the market and offering analysis of the market were positive about the outlook.

**Senator Michael D’Arcy:** Your ... and just very quickly as my time is running out, the Mercer Oliver Wyman report in 2007 were ... was that part of your group’s ... your sector’s requesting them to come in and present a seminar to AIB.

**Mr. Donal Forde:** No, my place it would have been the chairman who would have asked them. I don’t know if it was a report so much as they were asked to make a presentation.

**Senator Michael D’Arcy:** A presentation, yes. Can I touch upon the solvency issue, Mr. Forde. PwC were requested by the Financial Regulator to conduct analysis into the banks. The project was called Project Atlas. They took the evaluations from within the banks and presented them to the Financial Regulator. You were there until February 2009, the report was presented to the Minister around that stage. Were you in sight of Project Atlas? You weren’t.

**Mr. Donal Forde:** I was aware of what was going on, but I hadn’t seen those-----

**Senator Michael D’Arcy:** Were you ... were you contacted in relation to the valuations or anything of that nature?

**Mr. Donal Forde:** I don’t think so.

**Senator Michael D’Arcy:** You weren’t.

**Mr. Donal Forde:** But that ... that wouldn’t surprise me, the people to contact would be the credit officers. You know if you were reviewing cases, so no I wasn’t interviewed directly by them, from memory.

**Senator Michael D’Arcy:** At any stage?



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**Mr. Donal Forde:** No, I don't think so. No. I certainly don't recall it.

**Senator Michael D'Arcy:** Can I ask, Mr. Forde, in terms of your sector ... your sector was ... from evidence from Mr. Gleeson this morning, was effectively the sector that brought the bank into insolvency.

**Mr. Donal Forde:** The division.

**Senator Michael D'Arcy:** Your division. Were there people within your division who offered contrarian views and if there were was it ... Mr. Gleeson outlined an avenue in which those concerning views could go directly to him. Did that happen on any occasion within your sector?

**Mr. Donal Forde:** To my knowledge, no.

**Senator Michael D'Arcy:** Never?

**Mr. Donal Forde:** No. Sorry, one of those avenues was confidential so unless somebody used that ... but none that I am aware of, ever.

**Senator Michael D'Arcy:** But ... I would have assumed that-----

**Mr. Donal Forde:** I would have assumed that if there was he would have come to me, he didn't. He never did.

**Senator Michael D'Arcy:** So that avenue was unused?

**Mr. Donal Forde:** Correct.

**Senator Michael D'Arcy:** As far as you are concerned, in your division.

**Mr. Donal Forde:** Correct.

**Senator Michael D'Arcy:** Did anybody come to you directly with a contrarian view?

**Mr. Donal Forde:** No.

**Senator Michael D'Arcy:** From within your division?

**Mr. Donal Forde:** No ... we would have had, just as I have outlined, the wrestling a little bit at the board, our own management team within the division would have frequently had conversations about what was happening in the markets, so in a sense we had the same discussions there.

**Senator Michael D'Arcy:** Okay.

**Mr. Donal Forde:** And yes as part of those discussions people, like this around the table would have offered points of challenge. But, no I can say definitively nobody ever made a point of indicating that they were in disagreement with our positioning fundamentally. No.

**Senator Michael D'Arcy:** Can I just ask you how many-----

**Chairman:** Final question Senator.

**Senator Michael D'Arcy:** Finally can how many within your division that you would have

been within had your conversation with in terms of that?

**Mr. Donal Forde:** My principle conversation would be with the management team that was variously between ten ... eight and ten people. They would be my first order of reference.

**Senator Michael D’Arcy:** And then?

**Mr. Donal Forde:** And then I would have a conversation with some of the lending executives from time to time.

**Senator Michael D’Arcy:** And finally can I ask, Mr. Forde, would that not seem unusual that everybody was on the same page? That surely there would have been somebody with a contrarian view that the loan book ... that the balance sheet was expanding too rapidly, that there was an overexposure to the group, that potentially, I mean I’m surprised that nobody took that opportunity to say it to you, I’m surprised that the avenue that Mr. Gleeson put in place-----

**Chairman:** I...you’re moving into value judgment, now ask the question, please.

**Senator Michael D’Arcy:** Well, the question I’m asking is, were people afraid to offer a countering view?

**Mr. Donal Forde:** I certainly don’t think so. It’s for others to judge, but I don’t think my style was ever intimidating. I made a practice of actually having a lot of personal conversations with people and I’d like to think I was approachable, so no, I don’t think they were afraid at all. I’m, I’m pretty sure of that but others would have to validate that; I would feel confident in saying that. I think ... I don’t want to say that people wouldn’t challenge our position. I mean at our management team there would be discussions. The discussions would more relate to what segments of the property market we should be, in a sense, more positive about, others that we should be more negative about. There was a consciousness about the totality of that exposure, and each time it went back to the debate. As I’ve said, it wasn’t one dimensional about are we in safe place, what’s the risk, what’s the stress test telling us, what are ... where are our competitors, what do we have to do to try and remain relevant to our customers; what do we have to do to meet the expectations of the market place. So, we had each time the debate about the balance of those and wrongly, each time we came down to feel that we were in the right place.

**Chairman:** Senator O’Keeffe.

**Senator Susan O’Keeffe:** Thank you Chair. Mr. Forde, how many years banking experience overall do you have?

**Mr. Donal Forde:** I joined AIB at 17, I left at 48, so 31.

**Senator Susan O’Keeffe:** Okay. On the night of the guarantee were you one of the people involved in assembling the liquidity back in the bank?

**Mr. Donal Forde:** No.

**Senator Susan O’Keeffe:** No. You had nothing to do with it at all?

**Mr. Donal Forde:** I was at an arm’s distance from it. I wasn’t-----

**Senator Susan O’Keeffe:** In document C3b Vol. 2, page 29, Mr. Sheehy, this was a contemporaneous note made of the meeting that Mr. Sheehy was involved with, in which he says “People we’ve been dealing with for decades, pulling back - 1 month we will be funding bank

overnight. Bad if can't even get that, disaster - bankruptcy." So that was on the night of the guarantee, that was your chief executive. How ... what do you make of that observation that he made that was ... the contemporaneous note was made at the time?

**Mr. Donal Forde:** That seems accurate to me. Again, now let me ... I'm ... I have explained that my division wasn't so directly impacted, but I was party to the management meetings at which there was conversations about the two divisions that were more directly impacted, AIB capital markets and the UK, and certainly I could see that they were having difficulty increasingly in sourcing money from the market. The term for which they were sourcing it was shortening. So it's a judgment call as to whether it was going to last for a month or six weeks, but in broad terms I can understand that as being not an unreasonable picture.

**Senator Susan O'Keefe:** See there isn't unreasonable?

**Mr. Donal Forde:** Well, total insolvency, which equals bankruptcy, when it comes to that.

**Senator Susan O'Keefe:** Okay.

**Mr. Donal Forde:** I mean if the bank couldn't fund its obligations then essentially it was bankrupt.

**Senator Susan O'Keefe:** To go back to the salary position and the whole incentive structure, that I know you explained in great detail, in relation to yourself did you then ... were you then eligible and did you get a bonus in each of the years in which you had that position of managing director?

**Mr. Donal Forde:** I didn't get it in the last few years, as you might imagine when things got more difficult, but I got it pretty consistently through the earlier years, and the incentive for me was of two forms. One was a cash bonus but the bank was progressively moving away from that and it was moving more towards the grant of share grants. And those share grants were dependent on ... and the reason it was moving there was that those share grants were dependent on two aspects of the bank's performance. They were dependent on how the earnings per share performed over a three-year period, and they depended on the performance of the share price relative to other banks. And there was another aspect which was that any grants that were given obligated me as a senior person to hold a very substantial share. So when I hear on occasions that the charge that, you know, that structure incentivised me or others to do the wrong thing or behave in a short-term way, I was a significant shareholder in the bank, so it would be illogical for me to behave in any way that wasn't in the bank's medium long-term interest. So I never felt any motivation to do anything other than the right thing in the medium to long term.

**Senator Susan O'Keefe:** Did you ever invest in property yourself?

**Mr. Donal Forde:** Other than in investor dwelling?

**Senator Susan O'Keefe:** Other than investor-----

**Mr. Donal Forde:** But no, not in a meaningful way.

**Senator Susan O'Keefe:** Were you aware at any point during your employment... did the bank invest equity in any of the property transactions for which it had also provided debt finance?

**Mr. Donal Forde:** If it happened it was very... I immediately cannot recall. I am tempted

to say never but there may be one or two odd cases, but they would be in that order, it would be very exceptional.

**Senator Susan O’Keeffe:** Was there anybody working in your division that was not eligible for some kind of bonus?

**Mr. Donal Forde:** No, to be fair. That did not mean everyone got one but they were all eligible.

**Senator Susan O’Keeffe:** They were all eligible. Okay. Did you or any of your colleagues ever partake of any hospitality with developers or with borrowers?

**Mr. Donal Forde:** No. For better or worse, as I have said, I kept my distance from all of the borrowing cases and the clients. I just felt that it was a safer place to be.

**Senator Susan O’Keeffe:** Did colleagues ever talk about being involved with hospitality with borrowers, going to football matches or whatever, there were lots of-----

**Mr. Donal Forde:** Well yes. The people in the property and construction sector, they were obliged to tell me if they were, and they would, frequently someone would say to me that X client has invited me to a football match, or X client has invited me here, and I would approve that. I would usually make sure that they are paying for it, or if it is excessive, that the bank is paying for it, that there was no suggestion of conflict, but you have to do that to a point. It is just a question of judgment that it doesn’t go too far but I had no sense ever that it did. Certainly, by the standards, whether they were all true of what seemed to happen in some other institutions, I think we were a long distance behind.

**Senator Susan O’Keeffe:** Going back again to the guarantee, I think you said earlier in response to one of my colleagues that you were surprised, I think, when you were asked for your opinion, you said you were surprised. You said you had been led to believe from internal discussions that two banks might have been left out of the guarantee. So just maybe talk us through what kind of internal discussions, who was involved, and at what point those discussions began to take place about that kind of dilemma.

**Mr. Donal Forde:** I am operating from memory here, but in that time which was obviously pretty stressful, the management team was meeting, I recall meeting at weekends. I recall meeting very frequently. The conversations would be around liquidity predominantly, what was happening, I suppose a review of some of the developments that were taking place daily in the broader global market and potential implications. So, in all of that, I guess the view within AIB that two institutions domestically were particularly compromised was a dominant theme.

**Senator Susan O’Keeffe:** Compromised to what end?

**Mr. Donal Forde:** Compromised in the sense that the market had taken a very poor view of their sustainability and they were not attracting moneys that were needed for them to be able to ... so that particularly. Now, sometimes the view went beyond that and a question as to their substance overall in terms of the quality of their assets, but generally it was about their access, generally it was about the availability of money for those two institutions.

**Senator Susan O’Keeffe:** So was the conversation that these two banks were going to be the ones to pull it all down or did-----

**Mr. Donal Forde:** Yes. That was very much the theme, that these two would compromise

the system.

**Senator Susan O’Keeffe:** Okay. But what about AIB and where it stood? We have already referred to Eugene Sheehy’s observations. So what were you thinking?

**Mr. Donal Forde:** Well. There were two things. This was my picture of it. There were two things happening. There were specific concerns about two institutions. They were giving rise to a particular focus on the Irish market, but generally, banks even beyond Ireland were having difficulty with funding and liquidity. The conversations were essentially reviewing both of those dimensions, the domestic concerns revolving around those two, and the broader global picture which was deteriorating rapidly. That certainly was what was in mind as the situation then became more acute, when engagement was going on with the Department of Finance and the regulator. The briefings at those sessions would be from the head of capital markets, from the Head of the UK division, an assessment of those by the chief risk officer, the head of finance, the chief executive, so that conversation was going on. The view that a potential remedy for it was to take out the two problematic institutions, and even then, when they were taken out, perhaps to guarantee in some limited way the liabilities of the other.

**Senator Susan O’Keeffe:** At that point, what were AIB saying about themselves? Were you guys talking about your own capacity to be insolvent?

**Mr. Donal Forde:** Yes. We were concerned. No more than is indicated in your piece, we were concerned that if this continued and if something wasn’t done to remedy the stress that was building, that it certainly was going to have very direct and fatal implications for all banks, AIB included.

**Senator Susan O’Keeffe:** Just tell us what kind of time period are we in here, August, September, mid September? Can you try and just-----

**Mr. Donal Forde:** Well, I think we were in the period August and September but I am certainly ... the intensity with which I have now kind of described that process, is in the week, ten days, two weeks, building up to the guarantee.

**Senator Susan O’Keeffe:** So there was a very clear understanding at senior level in AIB that things were getting very serious-----

**Mr. Donal Forde:** Yes.

**Senator Susan O’Keeffe:** -----for everybody including yourselves.

**Mr. Donal Forde:** Yes.

**Senator Susan O’Keeffe:** And that it could be fatal.

**Mr. Donal Forde:** Yes. That’s fair enough to say.

**Senator Susan O’Keeffe:** Okay. Given ... I know that you weren’t directly involved with the bank guarantee, but do you ... obviously that message was taken then. That must’ve been a key message going-----

**Mr. Donal Forde:** I left the management meetings with the understanding that that was the message that was going. I wasn’t there but that’s certainly ... was the view of the bank.

**Senator Susan O’Keeffe:** Obviously for yourself, you have expressed your own regret

and your own concern about what happened in your time. Do you think that you might have resigned given what happened? I mean, I know you left, but I don't think you used the word "resign", even though you acknowledged that your division took the bank down.

**Mr. Donal Forde:** Well, I suppose, I resigned eventually. I agreed to leave early ... By leaving early ... So, we're playing with words a little bit I suppose.

**Senator Susan O'Keefe:** I wasn't meaning to, I just-----

**Mr. Donal Forde:** No, I didn't resign my position in February '09. No, at that point I was asked to move to another ... I think it became clear to me through the course of that subsequent, whatever it is, seven or eight months, that there was a lot of pressure from outside for change in personnel that someone like me who had been central to what had happened was very compromised, so I'd come to my own conclusion that, you know, banking ... time for me to move on.

**Senator Susan O'Keefe:** And obviously you left with your pension and all of that intact.

**Mr. Donal Forde:** No, I did not because I would be unique ... because I left in my 40s. So by reason of my age, I'm a long way away from having built up my pension in the ways others had, so that was very significantly reduced, so ... So it wasn't without consequence but I'm not going there because it's nothing compared with the hardship others had to endure. But I don't want you to think it wasn't without consequences.

**Chairman:** Deputy Doherty?

**Deputy Pearse Doherty:** Go raibh maith agat a Chathaoirligh agus fáilte roimh an tUasal Forde ag an fiosrúcháin. Mr. Forde, your opening statement says that "I was responsible for all aspects of the division's activity in accordance with the group policies". So, would I be right in assuming that in relation to the division in terms of the loans that were ... the policies that allowed loan ... large loans to be paid out to developers, who we know today, can't pay them back, that the buck stopped with you?

**Mr. Donal Forde:** Well, I don't see it that way.

**Deputy Pearse Doherty:** Okay. Who did the buck stop with? Maybe it's the best way ...

**Mr. Donal Forde:** Well, I think there was a collective responsibility. So if I can go back for a moment. We had a risk function-----

**Deputy Pearse Doherty:** I understand that. I just want to ask you this question, it says "I was responsible for all aspects of the division", so will you-----

**Mr. Donal Forde:** I don't ... I think I would go a little further than that.

**Deputy Pearse Doherty:** You do. You explained the risk policy and that's on the record.

**Mr. Donal Forde:** So my formal objectives would have been to manage the loan portfolio within the guidelines that were laid down by the group. That was my formal objective.

**Deputy Pearse Doherty:** Okay. Because-----

**Mr. Donal Forde:** But I'm not trying to shy from this-----

**Deputy Pearse Doherty:** No, no, that's okay. I'm just trying to clarify it because you give

evidence in terms of the risk policy committee and so on ... that you had no part in that which is very clear. But you did have responsibility in relation to overseeing the policies-----

**Mr. Donal Forde:** I did.

**Deputy Pearse Doherty:** -----that were in place.

**Mr. Donal Forde:** If I can Deputy, I just would like to make this clear because I don't want ... hopefully I've been up front about this. I make a distinction between my obligation as the managing director, which was to manage the business of the division within the group policies. So that's one thing. My failing, more so, is that I was part of the group management committee and that was the group that was responsible to review all policies and in that respect, I certainly didn't raise a doubting voice and I fell down there.

**Deputy Pearse Doherty:** Okay.

**Mr. Donal Forde:** My failing personally is more at that level than at the other-----

**Deputy Pearse Doherty:** And in relation to the loan to value policy that AIB had in place around the period of 2007 and 2008, do you agree with the statements from Mr. Frank Daly and Mr. Brendan McDonagh yesterday, that in the ... in most cases ... in many cases, that it was actually 100%?

**Mr. Donal Forde:** No I don't. I don't understand that and because, as I've said in my statement, when these loans were originated, our guidelines were that security should be at ... sorry, the loan value should be at 70% of the security value-----

**Deputy Pearse Doherty:** Would-----

**Mr. Donal Forde:** At the point of origination. It may have well have been that when they transferred ...

**Deputy Pearse Doherty:** The point that he makes is that, rarely if ever was it in the form of cash when they talk about the developers putting equity in place, and that's from Frank Daly's yesterday's testament.

**Mr. Donal Forde:** Well, sorry, cash would be a small proportion of it. I think that is fair to say.

**Deputy Pearse Doherty:** Can I go to AIB B2, Vol. 1, page 35? And this is a request for approval of exception to the group large exposure policy limits. In relation to those policies - it'll come up on screen in a second, but just before I deal with the document - in relation to the policy documents, how extensive would they be? How many pages would they go in? How ... what kind of document are we looking at? You talked about ... there was a robust discussion at many occasions in relation to them. How detailed would-----

**Mr. Donal Forde:** Okay. You're ... I think you've made particular reference here to the large exposure policy?

**Deputy Pearse Doherty:** Yes, I'm saying in relation to the document that would go to the board, how extensive would the documentation be?

**Mr. Donal Forde:** The large exposure ... from memory ... but I ... three to five page document.

**Deputy Pearse Doherty:** Okay.

**Mr. Donal Forde:** It would be of that order.

**Deputy Pearse Doherty:** Okay. Okay. So what we're seeing here ... we have a three-page document here with a note at the bottom of it which says, "only pages 1 to 3 were" ... "only 3" ... "only pages 1 to 3 were circulated to the board".

**Mr. Donal Forde:** If I'm right, I think is that not a reference to an individual particular case, is it?

**Deputy Pearse Doherty:** This is a request for approval of exception to the large group ... large exposure-----

**Mr. Donal Forde:** Yes.

**Deputy Pearse Doherty:** -----policy limits.

**Mr. Donal Forde:** Okay. What that would be, is somebody coming to the board and saying, "We've lent X to a particular borrower. We now are proposing an increase in that." So it's a particular case, as distinct from ... I've answered your first question in the context of general policy documents.

**Deputy Pearse Doherty:** No, no. And in relation to the request?

**Mr. Donal Forde:** A case mark-up, as they were called, could be 20 pages long.

**Deputy Pearse Doherty:** And the board only got the three pages in this case?

**Mr. Donal Forde:** In this case got a summary, yes.

**Deputy Pearse Doherty:** And would that be the normal situation?

**Mr. Donal Forde:** I think so. I ... I-----

**Deputy Pearse Doherty:** Okay.

**Mr. Donal Forde:** I'm-----

**Deputy Pearse Doherty:** Okay. Okay, in relation to this case. Let's just walk through this case in particular-----

**Mr. Donal Forde:** Just ... Deputy, may I answer? The reason I'm hesitant about that is I would be very conscious of the documentation that went about in my own division-----

**Deputy Pearse Doherty:** Yes.

**Mr. Donal Forde:** -----and that passed up to the board, I'm less sure-----

**Deputy Pearse Doherty:** I understand.

**Mr. Donal Forde:** But certainly the full case documentation would be there for them if they requested it.

**Deputy Pearse Doherty:** Okay. In relation to this individual, which is one of your larger exposures ... we can see from Project Atlas in page 19 the different types of exposures you



have, so this individual is definitely in the top five. In September '07, the board had approved that underwrite ... written ... €789 million. A number of weeks later, on the 5 December '07, a request came for €202 million additional to this individual. Now, the document ... if we look at page 36 of the document ... the document goes on to outline the individuals ... the bank's exposures already. They talk about a €202 million exposure. That is the request that was before the board. They talk about €228 million, which was significant pre-lets. They talk about €190 million, which was, interestingly - and there's details of this in the first page - which was €160 million to buy shares in ICG, which the board ... which was suggested represented long-term strategic investment. And I'd maybe ask you to comment ... how did that investment turn out or are you aware of how that investment turned out?

**Mr. Donal Forde:** Not in specific terms, no.

**Deputy Pearse Doherty:** Okay.

**Mr. Donal Forde:** I mean, in the sense of I don't know it, but-----

**Deputy Pearse Doherty:** Would I be right in saying that this was at the peak of the ICG shares in November 2007 or around that period and they started to decline at that stage?

**Mr. Donal Forde:** I'm not now familiar enough with the share price-----

**Deputy Pearse Doherty:** Okay. And €30 million was for planning ... or was for a development where planning permission refused for 737 apartments and 270,000 sq. ft. commercial space rejected by An Bord Pleanála on the basis of infrastructure and so on. Then there is €138 million to be clear in 12 months, designated site, substantially complete, €90 million for sites - and we don't know where they are - €59 million for five distinct sites, with interest being funded, €84 million for something that's 73% self-financing and takes this person's total exposure to AIB of €991 million. But of the request that was before the board that day, it was for a syndicate proposal that was going to be co-funded with NIB and another bank, which I just don't see in front of me here. There was two other banks in ... and the total request was €602 million of which ... €605 million, sorry, of which AIB were asked to put up €201 million. On this documentation, I can't see anywhere where the developer was putting in his own cash.

**Mr. Donal Forde:** Well, I haven't ... I won't recall this in the detail that you'd wish me to but from the documentation that you've presented there, the proposal talks about a gearing level, I think of 50%, doesn't it?

**Deputy Pearse Doherty:** Yes.

**Mr. Donal Forde:** So, what form the equity ... the 50% equity from the developer took, isn't clear from this. But-----

**Deputy Pearse Doherty:** But the point that Brendan McDonagh and Frank Daly were mentioning is the point about the gearing is that most of this person's wealth and you mentioned at the start, it's mentioned at the start his net wealth worth is €3.2 billion. Is it not the case that most of this is a result of lending, by AIB, to the individual and the equity that responded from the first loan went to pay the second loan, the third loan, the fourth loan and so on and we have a domino effect, when one starts to fall, the house of cards comes in on top of the bank and the developer but the developer, as was said yesterday, has no skin in the game.

**Mr. Donal Forde:** No I don't think that's entirely true. I mean, what earlier on I was de-

scribing what would typically be happening with a large-scale developer like this, there would be a whole series of different elements of business going on as is indicated by the different facilities here. Each of those would have a slightly different profile and some of them will represent, in some cases land will be purchased five, six years previously on which there is a very substantial equity today. In some cases, there's housing stock that's under construction for two or three years that's now ready for completion. So, or there may be an office development that's being developed that is now ready for sale, so they are not cash but they're near cash if I can describe some of them in that-----

**Deputy Pearse Doherty:** Many of these cases didn't work out the way that you expected.

**Mr. Donal Forde:** I do accept that completely. So I am partly agreeing with you in saying that the proportion of cash that would be represented in the developer's equity would be small-----

**Deputy Pearse Doherty:** One final question and it's a short one. It's in relation to and again we have a document here, the same booklet AIB B2, Vol.1, page 25. It's another advice to the board re approval of exception of group large exposure policy and this is for €11 million to increase the individual's exposure to the bank to €322 million. This is, I believe, to buy 1.75 acres in some place where he has already bought 6.5 acres at the cost of €70 million. The question I ask is the CEO or the group chief executive approved this on 22 December, just a couple of days before Christmas, because of the timescale that was required and it went to the board then for approval. Now how does that work if the chief executive approves €11 million to increase the exposure of AIB to €322 million in December. What power does the board have at that point and is that a common factor that the CEO ... did the CEO have that power, is that the power that the group chief executive had at the time?

**Mr. Donal Forde:** He had, from memory, remember I described about the divisional credit committee operating up to €40 million, we then had to refer the cases to the group. I think their discretion was up to €75 million or €80 million. I think then the chief executive had a discretion over that, before it went to the board, from memory. But that was rarely practised, in fairness and I think this would arise because there was obviously some particular deadline that had to be reached. That was rare. It would be unusual that the chief executive would step in and I think it's because of the particular point in time here, Christmas, but that would be an irregular thing. That would not happen and the board would then be advised of any decisions he had made and would be asked to endorse it.

**Deputy Pearse Doherty:** Thank you.

**Mr. Donal Forde:** I think I haven't answered your earlier question very well and if I may just come back to it for a minute. I think there is something in what you have said and in what the NAMA representatives may have said yesterday. The difficulty if you are funding a client that is involved in a number of different property projects is that it is difficult for cash to be realised. There are always ... property of any description when it's in the development, is cash consuming and as a lender you are always faced with that challenge and it is true that in many cases the equity as we saw it, that a developer would be bringing to the occasion would be completed houses or nearly-completed houses or it might be property or land, excuse me, some of which would have been bought five or six years earlier that now ostensibly was worth very much more. So yes, we did regard that as equity, and you're right, when push came to shove, and things ... there's was such a collapse of economic activity, all of these came unstuck.

**Deputy Pearse Doherty:** But that meant, as was said yesterday, that the only person who would be caught out, in a worse case scenario, is the bank.

**Mr. Donal Forde:** Well, I don't think that's entirely true. I suppose if you have a developer who has essentially absorbed the cost of building an estate of houses that are ready for sale, he has a lot of skin in the game at that point, equally.

**Deputy Pearse Doherty:** But if he hasn't put any money up-front himself, hypothetically speaking then, there's very little skin ... there might be a bit of sweat on the building site but he hasn't put any cash on the table.

**Mr. Donal Forde:** Well I wouldn't say he hasn't put any money up-front. I would say he has been given credit, I would say, for the value of that. But he would have put his own cash in, in some measure.

**Chairman:** We can talk through what Mr. Daly actually said yesterday because I wanted to wrap this up in ... because I had it in my notes. What NAMA, to my knowledge, and I can stand corrected in this, is the biggest national asset management agency in the world, or is a company that holds the biggest portfolio, so Mr. Daly comes with a certain authority, given the job that he has as the biggest of this type on the planet, to my knowledge. So Mr. Daly's testimony yesterday, and I'll get it up on the screen there, it is page 2 and 3 of his opening statement. He says:

While internal bank lending documentation may indicate that loan-to-value ratios were, typically, less than 100% when the loan was drawn, the reality, in many cases, was that a developer's equity contribution was in the form of a rolling-up of unrealised, paper profit from other developments. This was presented as an equity position.

So it would have been presented to your bank and other banks as an equity position.

**Mr. Donal Forde:** Yes, yes.

**Chairman:** He continues:

Rarely, if ever, was it in the form of cash", "Rarely, if ever, was it in the form of cash. On the face of it therefore, developers had some skin in the game, but in reality that amounted to nothing more than unrealised equity positions levered by the developer to secure funding for new transactions.

He then goes on to say, and what this means in summary:

In effect, therefore, the banks were providing all of the real cash funding for both acquisitions and development. It is safe to say that quite often the borrower's paper equity position never paid for an acre of land or concrete or scaffolding or a worker's wage at the end of the week. The safety zone of borrower equity usually existed only on paper. The result is that the borrower was typically not the first to lose. In the event of a crash, the banks stood to take 100% of the losses and that's what happened.

Is that a fair reflection of the type of banking practice that you managed for AIB in your senior role?

**Mr. Donal Forde:** I think if I go back to an individual case and, so, you had a scenario typically, as I say, where a developer came with a piece of land, essentially, that had been purchased at X and was now worth 2X, okay? The bank regarded some proportion of the inherent value

in that as equity, and had a position of security over it. So from a security viewpoint it's true to say that we would have relied on many occasions on non-cash assets. That is true. But in giving the loan, the proposition would be much more about what assets, essentially, were going to be created with that loan, and what they were going to sell for, and the bank would have, essentially, part of the loan agreement would be, that the proceeds of the sale, for example, of each residential development would come to the bank. So it's true to say that when things happened in the way they did, which is that office developments stopped selling, houses stopped selling, then the source of repayment for the banks, cash, that also stopped. Then the difficulty arose because the security that we held, which in many cases was equity, also began to devalue very quickly. So I think it's true to say that in the way things ultimately developed, we were left frequently where it wasn't cash that we had recourse to, but they were assets that were of much less value. But in the normal run, essentially if the assets that were produced off the back of that loan were sold, the bank would have collected the cash on those, all the time.

**Chairman:** I wouldn't purport myself to have the same level of experience and knowledge that Mr. Daly would have, and in that ... I grew up in a council estate, my parents bought their home through a tenant purchase scheme, so I don't come with any big property background, but what I hear him saying here, very simply, is, there is an issue of acceleration and deceleration in the property market, and there's an issue of inflation and deflation in the property market. And what was happening is that inflation was running so quick in the property market and development was at a very accelerated level, so it wasn't the case that a housing development was completed and now sold. It's that there was a notional value on property that was interpreted right all the way through the process. So, a developer could develop something in a part of Cork or a part of Dublin and, even though it's now not completed - and we've seen this with housing developments as well as they were going through phases - new values were given to them. So, even before the development is completed, a valuation would be placed upon it even though it's now not even out in the market - there's no rents coming in or anything else - and that equity - notional equity, albeit - was now being used as leverage against another loan.

**Mr. Donal Forde:** Yeah. I think that is fair. The only comment I'd make on that is that it wouldn't be the full value, that it would be a discounted value of it. So, in the instance that you describe where a development was near completion, a value would attach to that, but not the full value. It would be discounted, but, yes, that would be ... have been considered as equity.

**Chairman:** I'm going to move to the wrap-up. Senator MacSharry, five minutes, and then Deputy-----

**Senator Marc MacSharry:** Thanks very much. Can I just go back to what you were discussing there with Deputy Doherty? You said that the buck ... in terms of where the buck stopped, that there was collective responsibility or there was a kind of ... the buck stopped collectively as opposed to with yourself. Would that be a fair assessment of what you were saying?

**Mr. Donal Forde:** Yes.

**Senator Marc MacSharry:** Okay. So, as a result of the collective responsibility model that you described to Deputy Doherty, I mean, was there a level of trust that each of the people that reported to you within the division were all doing their job correctly, so you didn't have to check? It was a collective thing, so that ... the credit committee did their job well in terms of securities, so you didn't have to check anything and-----

**Mr. Donal Forde:** There was-----

**Senator Marc MacSharry:** -----therefore, it was taken as read.

**Mr. Donal Forde:** I ... trust and validate would've been the model, and that's why there was a group risk function and that's why there was an internal audit function. So, I very frequently received copies of reviews, reports, that they did. Everything was scrutinised and reported on to me and to those ... to the CEO and to the risk function. So-----

**Senator Marc MacSharry:** And given what happened, and what the Chairman was just outlining to you there, and given the nature of the equity being paper, for want of a better expression, do you feel that that was insufficiently robust or do you feel it was robust enough?

**Mr. Donal Forde:** No, it wasn't. I fully acknowledge ... I mean, as I've said, where ... in a way, the model worked so long as developers were able to sell their assets and the produce of the work that they were doing. We didn't require them to sell 100%, but we required them to be able to generate a measure of cashflow from those assets. The wheels came off when that was not possible because all economic activity got suspended some time in 2009, and the wheels came off at that point. I think it goes too far to suggest that we were allowing people just to build paper on paper, but I think we were doing that in some measure, yes.

**Senator Marc MacSharry:** Was there ever an instance that you're aware of in the bank that a lending executive received property by way of a gift from a developer?

**Mr. Donal Forde:** No. No.

**Senator Marc MacSharry:** Okay.

**Mr. Donal Forde:** That would've been completely unacceptable.

**Senator Marc MacSharry:** I can imagine, but there was never-----

**Mr. Donal Forde:** No.

**Senator Marc MacSharry:** -----any instance anyway.

**Mr. Donal Forde:** No.

**Senator Marc MacSharry:** At the board meeting of 24 July 2008, there was a discussion about the Republic of Ireland division's practice of not seeking professional property valuations. Can you expand on this? It's on-----

**Mr. Donal Forde:** I think Deputy-----

**Senator Marc MacSharry:** -----AIB-----

**Mr. Donal Forde:** I think Senator Barrett-----

**Senator Marc MacSharry:** He made reference to that exact-----

**Mr. Donal Forde:** -----pursued me on that earlier, yeah.

**Senator Marc MacSharry:** Okay. That's fine. That's fine.

**Mr. Donal Forde:** And I think ... I may be wrong, but I think that's a reference to the practice of not always getting valuations for the smaller assets as distinct from the other issue, which we talked earlier on, which is the board decreed that all assets of value of greater than €5 mil-

lion had to be properly valued. I think that was being done. I think there was a concern that we should be doing it, perhaps, for the smaller cases also.

**Senator Marc MacSharry:** For all cases.

**Mr. Donal Forde:** For all cases.

**Senator Marc MacSharry:** So that everything should be valued.

**Mr. Donal Forde:** Yeah. I think that's the concern that they were raising, that we should have moved to do that.

**Senator Marc MacSharry:** And-----

**Mr. Donal Forde:** That wasn't the policy.

**Senator Marc MacSharry:** Did that happen then?

**Mr. Donal Forde:** That wasn't the policy. No, I don't believe we moved to doing that. The problem about doing that is that's a fairly costly exercise in its own right. So, that's why the earlier decree was to do it for assets of a certain value and over.

**Senator Marc MacSharry:** Which was €5 million.

**Mr. Donal Forde:** Which was €5 million. The view at the time was that it was uneconomic to do that below. Here you had a view being raised that perhaps the outside world was going to expect that it was being done in all cases and we should reconsider, but this-----

**Senator Marc MacSharry:** And who was it uneconomic for? Did the-----

**Mr. Donal Forde:** Cost-----

**Senator Marc MacSharry:** -----did the borrower not pay?

**Mr. Donal Forde:** Not always, not always. If you were in a competitive position, you know, and you had to have regard for that.

**Senator Marc MacSharry:** So-----

**Mr. Donal Forde:** If AIB was insisting that there was going to have to be a formal evaluation and somebody else wasn't insisting-----

**Senator Marc MacSharry:** Okay, so really it was a competitiveness thing; that if somebody, Customer A or Developer A was going to borrow €50 million-----

**Mr. Donal Forde:** No, we're talking about smaller cases here now, so-----

**Senator Marc MacSharry:** Oh right.

**Mr. Donal Forde:** -----the point being that-----

**Senator Marc MacSharry:** €4,990,000?

**Mr. Donal Forde:** Perhaps, yes.

**Senator Marc MacSharry:** That we were going to say, "Well, look, we don't want to lose

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that €4,990,000, so I'll tell you what, don't worry about the valuation, our underwriter will make the call, end of story." Was that the practice?

**Mr. Donal Forde:** In some ... sorry, this didn't say that in all cases evaluations were not being sought ... but in some cases, where there would be a confidence about the value of the asset, that decision might be made, yes.

**Senator Marc MacSharry:** And just in terms of your underwriting teams, or the credit committees, would they have valuing qualifications, other than their experience?

**Mr. Donal Forde:** Well, we talked about it earlier. Their valuing qualifications would be 25 years looking at loan proposals.

**Senator Marc MacSharry:** Okay, so would it be street sense as opposed to the Institute of Professional Auctioneers and Valuers, or-----

**Mr. Donal Forde:** Street sense and long experience.

**Senator Marc MacSharry:** ---chartered surveyors, or any of those?

**Mr. Donal Forde:** Long experience, yes.

**Senator Marc MacSharry:** Okay. And that's better or worse, do you think?

**Mr. Donal Forde:** No, well, if you'll forgive me, we kind of went there before. I-----

**Senator Marc MacSharry:** I just ... I wasn't clear, so I'm asking it again.

**Mr. Donal Forde:** Yes. It's not one or the other. Ideally a loan proposal would have both: it would have a formal valuation but I think I made the point in my submission-----

**Senator Marc MacSharry:** If competitiveness got in the way, the practice became, "We'll leave the valuation out"; would that be-----

**Mr. Donal Forde:** No, No, that's not what I said.

**Senator Marc MacSharry:** All right, okay.

**Mr. Donal Forde:** I said ideally a loan proposal would have a formal evaluation and would have all the street sense of an experienced credit executive looking at it.

**Chairman:** Okay, thank you very much. Deputy Murphy?

**Deputy Eoghan Murphy:** Thank you, Chairman, and thank you, Mr. Forde. Mr. Forde, you were still on the board in September 2008. On 26 September, the board decided to pay an increased interim dividend amounting to €270 million. Did you agree with that dividend payment?

**Mr. Donal Forde:** Yes.

**Deputy Eoghan Murphy:** Did you benefit from it?

**Mr. Donal Forde:** I was a shareholder, so yes, I would have benefited from it, I guess, yes.

**Deputy Eoghan Murphy:** And did you reinvest in AIB shares?

**Mr. Donal Forde:** At that point? Yes, well the dividend automatically got reinvested, I think, as part of a profit share, yes. Sorry, we would have ... I'm ... the reason I'm hesitant is I would have had an established, big established shareholding and I would have got a dividend on that, some of which would have been invested automatically; I'm not sure if all of it was. I can't say that.

**Deputy Eoghan Murphy:** And do you remember people objecting to the issuance of that dividend?

**Mr. Donal Forde:** Yes, there was quite a bit of discussion at the board about whether that was the right thing to do. I think the ... there was different views. There was a conflicting view, one view held being that it was important at that point to demonstrate a confidence that the management felt that we were in a reasonably secure position from a capital viewpoint. There was another view with the idea that essentially we needed to conserve capital. And the view that went out was the one that we needed to make a strong statement to the market and I was persuaded by that, yes.

**Chairman:** That was optics. In terms of optics ... that you were making a statement to the world market that you were sound.

**Mr. Donal Forde:** Well, you could describe it in that way now, yes, yes.

**Chairman:** Sorry, Deputy Murphy. Okay.

**Deputy Eoghan Murphy:** Thank you, Chair. I just want to ... just a couple of brief questions then. The accounting standard, IAS 39 ... did you understand the flaw in that standard when it was introduced?

**Mr. Donal Forde:** Did I ... I had ... sorry. I had a view that it wasn't an appropriate formula.

**Deputy Eoghan Murphy:** Did you express that view to anyone?

**Mr. Donal Forde:** Frequently enough. I think we had that discussion internally. That view was held by all the senior people in AIB and it would have been a point of discussion with our external auditors, but I understood that they had to operate the system that prevailed.

**Deputy Eoghan Murphy:** Were you aware that the banks in Spain were ignoring the application of that accounting standard?

**Mr. Donal Forde:** I was, yes.

**Deputy Eoghan Murphy:** And was there any discussion that you might follow the lead of the Spanish banks and ignore it yourself?

**Mr. Donal Forde:** I think that was because the regulator had prescribed it in Spain. I don't think the regulator had made any such prescription here in Ireland.

**Deputy Eoghan Murphy:** And did your bank or the auditors discuss bringing this to the regulator's attention?

**Mr. Donal Forde:** I didn't personally. I wouldn't be in ... that would be the finance function that would be involved with the auditors but certainly I was party to discussions, and many of them, amongst the management team where that view was the dominant, prevailing view, and certainly would have been shared with the auditors. I don't know how pressed, in a sense, they



were by the finance function to take it further.

**Deputy Eoghan Murphy:** And was there any discussion then of doing your own internal bookkeeping that wasn't for official accounts that would, you know-----

**Mr. Donal Forde:** Well, you couldn't do that. You have to meet the standards by which you're-----

**Deputy Eoghan Murphy:** No, you'd meet these standards with your official accounts, of course, and with your auditors, but you yourself would take your own look, using a different accounting standard, to be safe?

**Mr. Donal Forde:** But you couldn't do that. I mean, you either could make a provision or you couldn't. What IAS 39 prohibited you from doing was making provisions.

**Deputy Eoghan Murphy:** No, but in terms of understanding what the potential provision might need to be under different standards?

**Mr. Donal Forde:** Oh yes, sorry, I had a strong view, as had the loan officers, that we would wish to have more provisions, but that was ... that was not possible.

**Deputy Eoghan Murphy:** But would you ever attempt to calculate what those, you know, wished for provisions might need to be?

**Mr. Donal Forde:** Yes, yes, absolutely. Each time at year end we would have discussion about, in an ideal scenario, how much more we would wish to put aside. Absolutely so, yes.

**Deputy Eoghan Murphy:** Was documentation kept on that?

**Mr. Donal Forde:** No, I wouldn't have said so, no. In some sense it was a bit of a futile exercise, because the rules were the rules and we had to-----

**Deputy Eoghan Murphy:** Do you remember how significant the discrepancies were between the wished-for provisioning and the provisioning under the accounting standard?

**Mr. Donal Forde:** I think discrepancy suggests that there's-----

**Chairman:** Yes, a discrepancy is ... a judgment-----

**Deputy Eoghan Murphy:** Sorry, the difference, the difference.

**Mr. Donal Forde:** Yes, I think that suggests wrong. What I'm trying to convey here is, when times are good, a banker's instinct is to put money aside. The rules were specifically designed to disallow you from putting money aside, so we always felt that, look, this isn't a clever formula. And, with respect to the specifics, we would have been obviously of a much stronger mind to have a greater quantum aside in late '07, in '08, than would have been the case in '04, '05 and '06.

**Deputy Eoghan Murphy:** But the feeling that you couldn't do that was because the regulator had not permitted you to go outside of that accounting standards?

**Mr. Donal Forde:** Well, the ... no, I-----

**Deputy Eoghan Murphy:** Sorry, you said that's why in Spain that's why they were able to do it.

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**Mr. Donal Forde:** No, I can't say that. We were very clear that the reason we couldn't do it was that the accounting protocols didn't allow us. You are right in that there was an instance where, in Spain, that had been set aside, I think by the regulator, but no such action had been taken domestically.

**Deputy Eoghan Murphy:** Okay, thank you.

**Chairman:** Thank you very much. I am now going to bring proceedings to an end, Mr. Forde. Is there anything further you would like to add by means of comment or suggestion or anything else?

**Mr. Donal Forde:** I mean, perhaps no more than just to repeat what I've said at the outset, Deputy. I made it ... I hope that I've made it clear that, you know, I am party to something that went very horribly wrong, and it's not a pleasant feeling, let me say, and I'm very conscious of the implications of that. But, you know, it is a misjudgment, and it's all of that, but no more than that. I mean, there was at no point, I can say, at any time in my period as MD had I any real concern that the bank was operating in a manner that could be described as reckless. That's poor judgment, but I never had such a concern; I never went to sleep with any anxiety that I was doing the wrong thing for the bank in the medium to long term and, you know, I acknowledge the error of that and I acknowledge the consequences of it, but it's that and it's no more than that, I think, expressed in those terms.

**Chairman:** Thank you. So, with that said, I'd like to thank Mr. Forde for his participation today and for his engagement with the inquiry, and as I'm excusing you ... just before I call an adjournment to the meeting, just to remind members that we're adjourned until 3.30 p.m. next Tuesday. The public hearing on Wednesday morning will commence at 9.30 a.m. On Thursday, to facilitate events in the afternoon the public hearing will commence at 9 a.m., so we'll be moving it a little bit forward to accommodate the break that we need to accommodate for the afternoon. So, with that now said, I propose that the meeting is adjourned until 3.30 p.m. on Tuesday, 28 April 2015. Is that agreed?

The joint committee adjourned at 6.08 p.m. until 9.30 a.m. on Wednesday, 29 April 2015.