

HOUSES OF THE OIREACHTAS

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AN COMHCHOISTE FIOSRÚCHÁIN I DTAOBH NA GÉARCHÉIME BAINCÉI- REACHTA

JOINT COMMITTEE OF INQUIRY INTO THE BANKING CRISIS

Déardaoin, 23 Aibreán 2015

Thursday, 23 April 2015

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.

Nexus Phase

AIB - Mr. Dermot Gleeson

Chairman: I now propose that, as we have a quorum, the Joint Committee of Inquiry into the Banking Crisis will now go into public session. Is that agreed? Agreed.

We commence this morning's proceedings, session 1, public hearing, and a discussion with Mr. Dermot Gleeson, former chairman of Allied Irish Banks. In doing so, I would like to welcome everyone to the 20th public hearing of the Joint Committee of Inquiry into the Banking Crisis and this morning we will hear from Mr. Dermot Gleeson, former chairman of Allied Irish Banks. Mr. Gleeson was a leading barrister and senior counsel in Ireland in the 1980s and 1990s before he became a senior Government adviser and then a businessman. He served as Attorney General of Ireland in the Government of Taoiseach John Bruton. In 2003, Mr. Gleeson was appointed chairman of Allied Irish Banks. Mr. Gleeson, you are very welcome before the inquiry this morning.

Mr. Dermot Gleeson: 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 would 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 and to assist the smooth running of the inquiry, we will display certain documents in the screens here in the committee room. For those sitting in the Gallery, these documents will be displayed on a screen to your left and members of the public and journalists are reminded that these documents are confidential and not for publication, but will be displayed to assist the proceedings as they take place over the coming weeks.

The witness has been directed to attend this meeting of the Joint Committee of Inquiry into the Banking Crisis. You have been furnished with booklets of core documents, these are part of ... these are before the committee which will be relied upon in questioning and form part of the evidence of the inquiry. So if I can now, before we commence proceedings, ask the clerk to administer the oath of affirmation to Mr. Gleeson?

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

Mr. Dermot Gleeson, former Chairman, AIB.

Chairman: Thank you Mr. Gleeson, so if I can ask you to make your opening remarks to the committee please.

Mr. Dermot Gleeson: Thank you Chairman.

JOINT COMMITTEE OF INQUIRY INTO THE BANKING CRISIS

Mr. Chairman and members of the committee, I have furnished a written statement to the committee in accordance with its request to me. It may be of assistance to the committee if I say at the outset that so far as the macro story is concerned, without agreeing with every conclusion or every detail, in general I accept the broad thrust of the official reports prepared by Messrs Honohan, Regling and Watson and Nyberg, as well as the views ... most of the views anyway put forward by Dr. Donal Donovan and Professor Anton Murphy.

Irish banks, by and large, avoided the mistakes that wrought havoc in the balance sheets of American, continental European and British banks where credit derivatives and CDOs did the damage. Unfortunately, Irish banks made mistakes of their own, principally by excessive lending for residential and commercial development and these mistakes became exposed at the same time as international money markets shut up shop in September 2008.

AIB lent too much to individual developers, put too much faith in cross-collateralisation, too much faith in the large net worth of individual developers. We didn't do enough syndication or selling down of loans and, in addition, we relied excessively on risk models that proved inadequate to the cataclysmic events of '09 ... '08 and '09.

On 5 March last, the Minister for Finance and the current CEO of AIB, Mr. Duffy, made the very welcome announcement that AIB is on course to repay the total investment made by the State in the bank.

The great recession of 2008, the worst the world had seen for 80 years, didn't start in Ireland or in the Irish banks, but there's no doubt that there were decisions made in AIB which made things worse than they need have been for citizens, for employees and for shareholders. I wish to express my sincere regret for my part in those events, and to renew the apology which I made at the AIB AGM in 2009.

In analysing what went wrong at AIB, I should point out that I resigned from the board in June 2009 and my perspective is, therefore, largely limited to information that became available before my departure - I haven't worked there for the last six years - and may to that extent, be incomplete.

A country's banking system has been described as the nervous system of the economy, and in that sense the largest indigenous bank was never going to separate itself from the dominant economic activity of the society in which it functioned. In the years leading up to 2008, a principal engine of economic growth in Ireland was property and construction. It created a lot of jobs in connected trades and professions, paid lots of taxes, was encouraged by the State and the banks were fully involved in it. Quite apart from the tax incentives that I know the Committee has heard a lot about in relation to property, local-----

Senator Marc MacSharry: Can I interrupt, Chairman? Have we got this statement?

Chairman: Yes.

Senator Marc MacSharry: Where is it? Is this the statement that you have provided?

Mr. Dermot Gleeson: No, this is my oral statement, the statement I have provided-----

Senator Marc MacSharry: And have we a copy, no?

Chairman: Are you drawing from the opening statement?

Mr. Dermot Gleeson: I am drawing from the opening statement. You asked me to shorten it and I did. I am surprised ... it is not my intention to do anything other than-----

Senator Marc MacSharry: No problem.

Chairman: Please continue Mr. Gleeson.

Mr. Dermot Gleeson: Apart from the tax incentives in property and construction that you have heard a good bit about I know already in the committee. Local authorities collected over €3 billion through development contributions imposed as part of planning permissions between '99 and 2008. It's perfectly clear in retrospect that the appetite for risk was excessive and the lending strategy of AIB in respect of property was too expansive. That's not actually how it appeared at the time. In 2007, for instance, there was a strong national consensus widely confirmed by international commentators that Ireland was on a track of rapid sustainable expansion and development, and a good example is provided by the statements made at the launch of the national development plan in 2007. Just one detail from it: it was planned to spend €70 million a day every day for seven years on infrastructure with full employment, net inward migration, low debt-to-GDP ratio, budget surplus and buoyant tax revenue, and lots of civil servants were about to move out of Dublin. Martin Wolf, who has been described as the most respected financial columnist, expressed the view in June 2007 that the possibility of huge calamities being generated by financial markets looked remote. The IMF, in its financial stability report in 2006, expressed the view that risk dispersion as now organised in banks was less - made banking failures less likely. And of course, the reverse turned out to be the case.

In viewings with the benefit of hindsight, looking back now, it seems to me that a great deal of the issue in Ireland comes back to the question of whether at a certain stage a correction that was coming was going to arrive in the form of a so-called soft or hard landing. I think that's central to the errors. The OECD, the EU, the IMF, the ECB, the Central Bank, the Department of Finance, the ESRI, the great majority of published economists in Ireland and abroad, although not all, the risk section of AIB and the board of AIB all favoured the consensus of the soft landing and the consensus, of course, was entirely wrong.

There's a striking example or expression, I suppose, of this consensus comes from the OECD report published on Irish banks in April 2008. And I think the date is important because most of the loans ... nearly all the loans would have been made by then. And the OECD said, having looked at the Irish banks, the Irish banks were profitable and well-capitalised and provide a buffer against a future downturn. It's easy and certainly tempting to dismiss everything that went on in 2007 as irrational exuberance, but I actually think that there were - although this is not a popular thing to say - some policies, some justifications for the policy at the time, some rational justifications, and I want to briefly mention three of them. The first was the calculated demand for housing in Ireland, the second was the reassuring effect of Basel II, as it's called, and the third was reliance on risk modelling in banks.

There was hard statistical information which indicated that Ireland needed more housing. One of the things AIB did was get independent economists to come and talk to the board every year or so, and a distinguished independent economist in the middle of 2007 brought a paper to the board, which pointed out that of a selected group of European countries, Poland was below us, but Ireland was next lowest on the list in terms of dwellings per 1,000 citizens. Poland was 330 about, and we were about 370. And then Estonia, Holland, UK, were all well above us, and Denmark, France, Germany, Portugal and Spain were all over 100 dwellings per 1,000 citizens ahead of us. They were all over 470; we were at 370.

The second feature is Ireland has, as you're undoubtedly aware, a very unusual demographic history in the last century. The peak birth rate in most western European countries was in the '60s; people stopped having large families. The peak year in Ireland is 1980, so there were large groups of children born in the late 70s and early 80s and the 1980 crop will be 35 this year. So there's the feeling that there was this group of citizens coming into the ... what I would call the house purchasing age, and we took that on board. Those are the two things I want to say about housing demand, and I suppose the fact that there is now emerging something of a housing shortage in Dublin, certainly in some urban areas, suggests that this wasn't entirely irrational.

I don't want to say much about Basel II; it was promoted with banks by the Bank for International Settlements in Zurich, reinforced by the CRD, the Capital Requirements Directive. Its purpose was to ensure that banks had adequate capital. We bought into it heavily and expensively, €200 million between engaging experts and consultants and installing the systems in AIB. It went live at the start of 2008 and frankly it wasn't much good to us when the trouble came. Part of Basel, a large part of Basel is to do with mathematical risk modelling, I remember we had to hire maths PhDs and so on to help us with this. There was a fraud in the American operation of AIB in 2002, a man called Rusnak stole a lot of money, and immediately after that, every regulator from Washington to Warsaw crawled over AIB and, we got the services in conjunction with the Irish regulator, of a man called Gene Ludwig, who had been a bank supervisor in the States and he investigated us up and down. One of his recommendations was that we needed to set up a world-class risk management system and that we needed a world-class player to head it up and we duly engaged undoubtedly distinguished and experienced risk specialists from JP Morgan in New York at a very high salary. I think ultimately 200 people came into the risk section. At the same time, on foot of the same recommendations, we got a group internal auditor from outside Irish banking, the individual in question had been director of audit for risk and finance in Barclays Bank, then gone to work for the Italian regulator for a short while and then was engaged by AIB. A third initiative at the time that I was involved in, was setting up a whistleblowing system. There's a not-for-profit in the United Kingdom called Public Concern at Work, and it will act as a facilitator, and this was published to staff; they could ring up there and their messages would come only to my office and they could preserve their anonymity if they wanted to.

Stress testing was done, installed, and in April '07 we had a stress test that looked at what would happen if things went wrong. There were two stresses: a plausible stress and an extreme shock test. The extreme shock test wrote down, for instance, unzoned land by about 60%, wrote down residential by 30% and I have the various figures if you need them ... but it went for a one in 25 year downturn and of course that wasn't enough. The stress test just didn't avail when we got a one in 100 year event. We didn't pay sufficient attention to the fact that the stress machinery didn't cater for that event and there was what I'd call an intellectual failure, for which I have to take my part of the blame, to envisage that if there was a serious property downturn in Ireland, a really serious one, and if at the same time there was a worldwide contraction of demand so that Irish businesses started doing badly, you started having unemployment and redundancy ... and at the same time as those two things, that the wholesale money markets closed up that we'd have a very serious crisis on our hands. When Lehman's failed on 15 September 2008, that in effect is what happened.

I want to say something briefly Chairman, if I can, about 2009 and what it was like. Now it's painful, it's not long ago but it's possible, in the collapsing of the historical perspective, to forget just how bad things got say from the December of 2008. In the autumn of 2008, the

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Department of Finance had estimated tax revenue for 2009 at €43 billion and the outturn was €33 billion. They'd also estimated the contraction in GDP in Ireland at 1%, a 1% drop in GDP, and the outturn was 11.3% for 2009, ten times worse than the prediction. In December 2008, a range of international banks were, this was unheard of before, downgraded. That included Deutsche Bank, Barclays, Credit Suisse, Citigroup, JP Morgan, Morgan Stanley. Anglo was nationalised in January 2009 and just as an indicator of how the general population felt, how public confidence had just gone at that stage, new car registrations in January '09 were 65% down on the previous year. Irish banks were downgraded in February by Fitch and then in the spring, AIB and Bank of Ireland had to get help from the Government on capitalisation.

Now you can ask the question why did everyone get it so wrong? I think it's very hard to get it right, that economic forecasting is less reliable and more complicated than people think. Credit has to be given to Professor Morgan Kelly, he detected the bubble but even he said he thought the downswing in prices in real terms would take eight or nine years. He also expressed the view that the Irish banks were well capitalised.

I'd like to say something briefly about the accounting standards that applied at the time. After the dotcom bubble, where accounting standards had given rise to alleged opacity in the accounts of public companies, IAS 39 was introduced. It prevented banks, in very simple terms, doing what was called cross-cyclical provisioning: putting something away in the good years to save you the trouble in the bad years. It also had another effect. It insisted that certain parts of a bank book had to be marked to market, and I don't think the people who designed it ever envisioned there'd be a day when there wouldn't be a market. So you were now marking to market when there was no market and getting extraordinarily low values for assets. And there's ... the best description of this - which I think is a key dynamic of the crisis - the best description of this that I've found is in the so-called EU high level group chaired by Jacques de Larosière ... Mr. Nyberg was a member, Sir Callum McCarthy and the great and good of European financial regulation. It's a bit turgid but starting at paragraph 33, if I can read you into the record what they said. It is about five or six sentences, Chairman, if you'll indulge me:

Financial institutions understandably tried to dispose of assets once they realised that they had overstretched their leverage, thus lowering market prices for these assets. Regulatory requirements (accounting rules and capital requirements) helped trigger a negative feed-back loop amplified by major impacts in the credit markets ... Financial institutions, required to value their trading book according to mark-to-market principles, (which pushed up profits and reserves during the bull-run) were required to write down the assets in their balance sheet as markets deleveraged. Already excessively leveraged, they were required to either sell further assets to maintain capital levels, or to reduce their loan volume. "Fire sales" made by one financial institution in turn forced all ... financial institutions holding similar assets to mark the value of [those] assets down "to market" ... What was initially a liquidity problem rapidly, for a number of institutions, turned into a solvency problem.

I would like, Chairman, to say something now about the milieu in which Irish banks functioned before the crisis. Analysts and large shareholders, pension funds and stockbrokers were always interested in earnings per share and particularly where your earnings per share was going up as much as your peers. If you were going up as much as your peers that was fine but if you weren't, then your share price would drop and that meant your capacity to raise money would drop, your capacity to expand would drop, vulnerability to takeover would increase. Governor Honohan in his report in 2011 adverted to that dynamic. The other issue was Anglo being held up to us as an exemplar and you'll all be aware of that. Commentators in Ireland and

abroad repeatedly said, “Anglo is the best bank. Why can’t you be more like Anglo?” It was determined by one international consultancy to be the best bank of its size in the world. It was the darling not just of the Irish but of European stock exchanges generally. And I had customers saying, “Why can’t you be like Anglo? Why are you always asking for more? Yourself and Bank of Ireland give slow responses and you ask for paperwork”, and things like that. I think we tried in some way not to be drawn into the wake but inevitably we were, I think, in some respects. Professor Honohan described the effect of this sort of competition in a memorable statement before he was the Governor. He spoke to an economic conference in Dubrovnik in June 2009. This is what he said, “Competitive pressure on the leading banks to protect market share came especially from reckless expansion [from] one bank, Anglo-Irish whose market share among Irish controlled retail banks jumped from 3 per cent to 18 per cent in a decade”.

Can I say something briefly then about the regulator? We had a perfectly professional relationship, mostly between executives and the Central Bank and the regulator. I would meet the head once or twice a year maybe. We invited the CEO and chairman of the regulator to come to an AIB board meeting and they accepted that invitation. I know there has been a lot of criticism of the regulator and that is not my business. I am wary of sporting analogies in a serious matter such as this but I did look at ... one of the witnesses I did get a chance to look at was Professor Alan Ahearne and he was in this room on 4 March. And he was asked by one of the members here what was needed at that time and he said what was needed was a more intrusive regulator - someone who behaved like a referee in a football match. And it strikes me, having reflected on it since, that that’s apposite, that it’s instructive ... that if you’ve a referee in a football match which is highly competitive - and Irish banking was enormously competitive at the time - and the referee does not blow the whistle much, then the more aggressive team tends to prosper and other people can get injured.

Just to say one more thing about the bubble. No bank could stop a bubble. If, through some amazing piece of insight or wisdom which we certainly didn’t have, AIB had decided on some day during this period to close up for loans and say, “No more loans. We’re not lending anymore”, it would have damaged the bank at the time but not as much as the crash did. But, all of our customers who were claimants for loans would have been met within the following week by our competitors with glee, the competition was so fierce. So, the point I make is that no bank could stop a bubble inflating; only authorities can do that.

I will now turn to the night of the bank guarantee decision on 29 or 30 September 2008. The committee are in possession of three separate near contemporary records which I made of the events of that night. The main one is, of course, a seven page note, not perfect I’m afraid, but which I dictated a few days after the events of that night and which I’ve given to the committee. There is also much shorter paragraphs in a memo that I sent to the CA two days later just as a couple of paragraphs that recites my recollection of what went on at the night and also a letter of complaint to another chairman of another bank which has a couple of paragraphs again about my recollection of the night.

On Sunday, 28 September 2008 - this was a Sunday evening - AIB directors heard from the CEO at a board meeting at 6 o’clock that the word from the authorities was that two financial institutions in Ireland were likely to fail, the timescale was unknown and that a limited guarantee would be put in place for the remainder of the banks. I furnished you in my supplemental statement a quote from the AIB minute:

The purpose of the meeting of the 29th September which the representatives of AIB and Bank of Ireland requested with the Government was to discuss the dramatically dete-

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riorating international situation, the apparently dire staits in which Anglo found itself and the possible repercussions of Anglo's imminent collapse for Bank of Ireland and AIB. We learned that Anglo could not open the next morning and had run out of liquidity. The banks expressed the view that Anglo and Irish Nationwide needed to be decisively dealt with in some way by the State and then [and I emphasise the "then"] for a guarantee to be provided for the remaining banks to protect the surviving banks against the turmoil which would inevitably follow from an Irish bank being either liquidated or nationalised.

The Governor of the Central Bank stated during the meeting, in the presence of the Government representatives, that it would be disorderly, or ... and I remember this expression, "or there could be a fumble if Anglo were dealt with mid-week", so what was needed, the Governor said, was for AIB and Bank of Ireland to try and provide €5 billion each in liquidity to support Anglo until the coming weekend.

Most of the evening was spent in efforts by Bank of Ireland and AIB to assemble enough liquidity to keep Anglo going until the weekend. That effort was successful and, by morning, €10 billion in liquidity, in excess of our own liquidity, half provided by Bank of Ireland and half by ourselves, had been assembled with its repayment within seven days guaranteed by the Government. I want to emphasise that AIB's representatives were not involved in discussing or the making of the decision that was ultimately made. The so-called "blanket guarantee" to include six banks, including Nationwide and Anglo, was not sought by or discussed with AIB. I make no complaint about that. I simply record the fact. The representatives of AIB and Bank of Ireland were not present in the room where the decision makers were for most of the evening, perfectly proper as well. I first learned that Anglo and Irish Nationwide had been guaranteed along with the other four banks from the media early the next morning. I acknowledge that the Government was faced with very difficult decisions on 29 September, which had to be made very urgently and I am not privy to the information or advice which was available to the Government on that evening. Two days after the guarantee, I sent a note to the CEO of AIB which included the following, and this perhaps is the most encapsulated confirmation of what I think went on:

Our name and reputation has been damaged by our perceived role in asking for the guarantee. We have maintained silence on the fact that what we asked for was that Anglo and Nationwide, what brought us all down, be taken out of the market and then for a guarantee to be put in place. What we did not ask for, and I underlined that in the original, was that Anglo and Nationwide should be boosted and baked into the system going forward.

The significance of the getting to the weekend, referred to by the Governor, is that at the weekend, the worldwide stock markets are closed for about two days, I think 51 hours, whereas during the week, worldwide stock markets are only closed at night for about three hours, between Japan ... between US closing and Japan opening. Just ... finally, Chairman, to say about other options, very briefly, during that week other options, Fortis was rescued by the governments of Luxembourg, Belgium and the Netherlands using ELA and I think that option was discussed briefly by Senator MacSharry with Professor Lane at this inquiry on 21 January.

Later that week, or maybe at the start of the following week, the Bank of England made a secret loan of Stg£63 billion to solve the allegedly critical liquidity issues at Halifax Bank of Scotland and RBS and that wasn't announced publicly until Mervyn King, the Governor of the Bank of England, said it to a Treasury select committee in November the following year. Since then, like many other countries, Ireland has enacted special legislation to deal with bank resolution, the Credit Institutions (Stabilisation) Act 2010 and the Central Bank and Credit In-

stitutions (Resolution) Act 2011, and they obviously provide much more options for the sort of events that occurred on the that night. Those are my opening remarks, Chairman.

Chairman: Thank you very much, Mr. Gleeson, and just to say your full statement will be published as part of the proceedings and that should be online some time this morning, and thank you very much for condensing that because that facilitates us in our proceedings this morning and I will be asking both members and yourself to be concise in the engagements today.

Mr. Gleeson, can you explain to the committee how AIB, which is a bank which has a history going back, I think to 1825, long before the foundation of the Irish State, a bank that was considered for ... over that period as a traditional conserving banking model, ended up during your period as chairperson being guaranteed by the Irish State and, ultimately, 99.8% owned by the Irish public?

Mr. Dermot Gleeson: Well, Chairman, I have tried to do something of that explanation in my opening remarks and I won't repeat what I said there but the bank was divided into five divisions. We had an operation in the United States, in Poland and in the UK and then in Ireland it was divided into what is called capital markets and then Republic of Ireland, which is what people would know as the traditional bank that you've described.

Four of those divisions, by and large, came through reasonably intact through the crisis. Republic of Ireland, unfortunately, became embroiled in property lending which in retrospect ran out of control, was too expansive, was not controlled by the risk models. I suppose it's fair to say that we had, and this is not an excuse, but it is an explanation ... some of the things that I am saying today may sound like excuses, I'm not making any excuses. I am trying to assist the committee by explaining how it seemed at the time. We had installed this enormously expensive ... the best personnel system of controlling risk and I think that directors thought that - and it was advertised - as a means of measuring, monitoring and managing risk and we just had excessive faith in it. Allied to that, we went too far with individual developers. The AIB philosophy at the time, and for years before, was "stick with your customer". Try and make sure they don't go anywhere else, because we had, as you said, plenty of customers and you have to remember that big developers were often customers that we'd had for maybe 25 or 30 years; people who had often started modestly as perhaps small builders and had been successful, accumulating large personnel wealth, always repaying their loans, always coming back for more and always repaying them again. And I'm afraid we took too much comfort in that history and we weren't...our credit processes were not strict and savage enough. We looked at affordability and I think we have to take the blame for having processes that just did not match the cataclysm that came. As I say, the competition was fierce. I refer again to Professor Honohan's analysis of the competition but that's another explanation, not an excuse.

Chairman: And other members I'm sure will open up this debate as we proceed.

Mr. Dermot Gleeson: Certainly, Chairman.

Chairman: Can you just clarify as well because this will assist us as we go into other questioning. Do you believe that AIB required a guarantee on the night of the guarantee? Should it have been guaranteed?

Mr. Dermot Gleeson: Yes, but you do understand that a fundamental part of my recollection of the event was that what we asked for was a four bank guarantee-----

Chairman: And I'll come to that in a moment but the-----

Mr. Dermot Gleeson: But yes, I think if ... well let me back up and this is fairly important so I'll try and get it precisely. What we thought we were talking about was a guarantee for AIB, Bank of Ireland and two other banks----

Chairman: And-----

Mr. Dermot Gleeson: In a context where Anglo and Nationwide were about to be taken down.

Chairman: And other members will get into that. And at what point do you believe that AIB's destiny was on the road to what was ultimately nationalisation, be ninety-nine point ... was that at the period of the ... was it already on that journey at the night of the guarantee or was that afterwards?

Mr. Dermot Gleeson: Absolutely not, Chairman, I don't believe so. Can I answer that because, again, it's an important question? I believe AIB was solvent then but you'll ask the question, "When did AIB become insolvent?" and I don't know the answer to that. Again, we tend to collapse ... or I can make the mistake of collapsing this fairly short period. The fall in house prices has been 40% to 50% higher in some places. At 30 September 2008, the night of the guarantee, the fall in house prices was 7.7% nationally, 8% if you included apartments. The real trouble was 2009, and I don't know when in 2009-10 AIB became insolvent, because you could mark-to-market six days in a row and get different answers and if you mark-to-market and your assets were down, then you needed more capital, then you had to sell more ... nobody will ever know, I think, because of the interaction of capital requirement rules, the Capital Requirements Directive, and the accountancy rules, when the moment came.

Chairman: I just want to clear up one other matter before we go into the questions, Mr. Gleeson. In notes taken, I think by yourself, of events occurring on Monday and Tuesday, 29 and 30 September 2008, this is from the committee's document, which is Vol. 1, 30 March 2015-----

Mr. Dermot Gleeson: It's the note that I made, I take it?

Chairman: Yes C3b, page 6. I think it's coming up on the monitor now. In that evidence book, there is a line from yourself which says "The final point I made related to the form of the guarantee-----"

Mr. Dermot Gleeson: I'm having slight trouble hearing you Chairman. Sorry, excuse me.

Chairman: Yes. In ... by your report, or by your notes, you say "The final point I made related to the form of the guarantee; an initial draft had been furnished" and then in brackets "I think by Bank of Ireland" and "was in a form which we thought was too bare; I mentioned that a guarantee had to be read correctly to technical eyes in Foreign Central Banks" and in closed brackets again "I mentioned Peru, Libia (sic), and Russia" and in closing brackets, "We ..." and in AIB's context you're saying "We furnished a more extensive formula", in brackets again, "which we brought with us". So you're proposing, or you're explaining that you came to the meeting that night with a document yourself. Closing brackets again, "as to the sort of instruments and deposits that should be covered" and then in brackets again, "This formula was eventually adopted later in the night pretty well word for word".

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Now I'll come back to that in a moment, and maybe Deputy Doherty, who's coming in lead will take that. I just want to establish for the moment ... because when the committee chased up this line of inquiry, a letter came in from AIB on 21 April 2015, addressed to me, on behalf of the committee, stating from ... responding to the direction that we issued for them to get this document, saying that "AIB does not have in its possession any documents containing the formula referred to in 1 above, or the draft guarantee referred to in 2 above". They then ... AIB then go on to say, this is from Derek Hegarty, banking unit inquiry ... or banking inquiry unit ... he goes on to say "In response I confirm that, notwithstanding the extensive document review exercise we conducted in response to the direction which resulted in over 47,000 pages of documentation being disclosed to the inquiry on behalf of AIB, we have not located any such documents and I can see no evidence that any such documents were generated using AIB's electronic system". Now can you just explain to the inquiry-----

Mr. Dermot Gleeson: I can and I'm glad-----

Chairman: First of all, just ... I ... the questions in terms of content can be dealt with later. There was a document.

Mr. Dermot Gleeson: There was a document but I'm afraid my ... my memorandum dictated is woefully imprecise about what actually happened, and I apologise for that. But I need to answer your question Deputy-----

Chairman: I just want to establish there was a document on the night.

Mr. Dermot Gleeson: There was, I think, a slip of paper, a one page piece of paper, maybe torn out of a notebook, which had a number of words on it, and my recollection, and this is not in the my recollection is that before we left AIB in the afternoon ... remember this was put together in the afternoon. Richard Burrows rang me in the afternoon, and we rang the treasury people who are the people who look after liquidity, and we said that we may be asked about a guarantee. And my recollection is that there was a form of words written on a single sheet of paper in handwriting by either Eugene or me, I don't know, and it would have said, you know, something like "deposits", "bonds", and something else. But that was what was handed over.

Chairman: I'll get into the detail of where the document had a significance that night of ... but just for right now, Mr. Gleeson, before I bring in Deputy Doherty, I just want to establish there was a document in existence, even though AIB can't find it now, there was a document in existence that night that was brought ... or a formula of words, that was brought to the meeting that night.

Mr. Dermot Gleeson: Yes.

Chairman: -----before I bring in Deputy Doherty, I just want to establish ... there was a document in existence.

Mr. Dermot Gleeson: There ... I-----

Chairman: Even though AIB can't find it now, there was a document in existence that night that was brought ... or a formula of words that was brought to the meeting that night.

Mr. Dermot Gleeson: There was a form of words relating only, I think - and I don't have it, I have to say - only, I think, to the scope of the guarantee. And I do remember that was discussed on the night, and it might have, but I don't know, talked about-----

NEXUS PHASE

Chairman: All right.

Mr. Dermot Gleeson: Can I answer your question?

Chairman: Mr. Gleeson, please. I'll get into the discussion-----

Mr. Dermot Gleeson: No, but I want to answer your question.

Chairman: I'll get into the discussion later.

Mr. Dermot Gleeson: I think one of the few rights-----

Chairman: No, please, Mr. ... no, Mr. Gleeson, please. Please.

Mr. Dermot Gleeson: -----of a section 7 witness is to answer the question.

Chairman: No, look, please. Yes. I just need to ... I need to get the question established ... and we can get into later in the evening, and other members will talk about the evening. What I want to get established right now ... did AIB arrive that evening ... whether it was a document or a formula of words as to how you would see a guarantee being constructed?

Mr. Dermot Gleeson: If I can just say again, Chairman, because I fear I haven't made myself clear. There was a small number of words on a slip of paper which, in my recollection, described the range that ... a guarantee that would look right from foreign central banks. That's just this bit. The bank guarantee is a 12-page legal document. In the hour before we ... there was no question of drafting a guarantee, and my note is misleading to that extent. It was this critical formula, and I know bonds were asked for. And let me say just in relation to bonds because I know that's controversial, AIB had no bonds that matured in the two-year period ... it wasn't for ourselves. We had no bonds - relevant bonds - that matured in the two-year time. But that's all I can remember. And when I say farther down the same page that you were quoting, about six lines from the end, we furnished our draft guarantee - again, it was this formula - to the Government at the very early session, I believe that slip of paper was handed over.

Chairman: Deputy Doherty. Deputy, you've 25 minutes.

Deputy Pearse Doherty: Go raibh maith agat agus fáilte ag an coiste. So, the document contains a number of words.

Mr. Dermot Gleeson: Yes. A form of words, Deputy-----

Deputy Pearse Doherty: A form of words.

Mr. Dermot Gleeson: -----designed-----

Deputy Pearse Doherty: Yes.

Mr. Dermot Gleeson: -----to be the key bit-----

Deputy Pearse Doherty: No, I understand. Sorry. Sorry.

Mr. Dermot Gleeson: -----of what the coverage would be.

Deputy Pearse Doherty: In most documents-----

Mr. Dermot Gleeson: That's my recollection.

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Deputy Pearse Doherty: Most documents contain a number of words. Would that be correct?

Mr. Dermot Gleeson: Undoubtedly.

Deputy Pearse Doherty: Okay. So, in relation to the number of words that were on this document-----

Mr. Dermot Gleeson: Yes.

Deputy Pearse Doherty: -----that were adopted word for word by the Government-----

Mr. Dermot Gleeson: Yes.

Deputy Pearse Doherty: -----how many words, from your recollection, were on this document?

Mr. Dermot Gleeson: I don't recollect, Deputy. If you're asking me to guess-----

Deputy Pearse Doherty: Okay. Well, what-----

Mr. Dermot Gleeson: -----I'd say less than 20, but I don't recollect.

Deputy Pearse Doherty: Okay. So, you mentioned that the form ... the number of words contained "bonds". What else was-----

Mr. Dermot Gleeson: "Deposits" and "bonds" were there.

Deputy Pearse Doherty: "Deposits". And how could they be adopted word for word by the Government, given that the guarantee didn't include any detail in relation to those statistics?

Mr. Dermot Gleeson: I don't remember that either, except that there seemed to be agreement around the range of the guarantee later in the night.

Deputy Pearse Doherty: Okay. So, do you have any idea ... because you took notes with the-----

Mr. Dermot Gleeson: I didn't take-----

Deputy Pearse Doherty: Notes.

Mr. Dermot Gleeson: I made notes a few days later.

Deputy Pearse Doherty: Yes, that's my point. You took notes within a week of the events.

Mr. Dermot Gleeson: Yes.

Deputy Pearse Doherty: And I appreciate that we're seven years after the event and we're relying on your notes at that time between the 3rd and the 5th and obviously your evidence here today.

Mr. Dermot Gleeson: Yes.

Deputy Pearse Doherty: In relation to the words that were adopted, as you said, within a week-----

Mr. Dermot Gleeson: Yes.

Deputy Pearse Doherty: -----of that event, the words that were adopted by the Government word for word-----

Mr. Dermot Gleeson: Yes.

Deputy Pearse Doherty: -----what could they ... those words have been?

Mr. Dermot Gleeson: I ... they were about ... all I can tell you is that they were about the scope of the guarantee, and I'm afraid I ... I'm sorry, but I can't-----

Deputy Pearse Doherty: Okay.

Mr. Dermot Gleeson: -----I can't-----

Deputy Pearse Doherty: Well, the scope of the guarantee ... let's ... what was the scope of the guarantee that was on that document that you passed to the Government?

Mr. Dermot Gleeson: It dealt with the sort of guarantee that you would need to reassure depositors, both personal depositors and people like foreign central banks with deposits.

Deputy Pearse Doherty: And what was that type of guarantee that you're suggesting?

Mr. Dermot Gleeson: I don't remember anything more than that.

Deputy Pearse Doherty: So, Mr. Gleeson-----

Mr. Dermot Gleeson: That the Government ... the Irish State would stand behind the obligations of the Irish banks in relation to X, Y and Z.

Deputy Pearse Doherty: What is X, Y and Z?

Mr. Dermot Gleeson: I don't remember-----

Deputy Pearse Doherty: Okay.

Mr. Dermot Gleeson: -----except that it certainly included deposits and bonds.

Deputy Pearse Doherty: So, Mr. Gleeson, you presented a document to the Government at the time which contained a formula-----

Mr. Dermot Gleeson: Yes.

Deputy Pearse Doherty: -----which contained words that were adopted word for word by the Government-----

Mr. Dermot Gleeson: I believe so.

Deputy Pearse Doherty: -----and you have no recollection as to what was in that formula, the X, Y and Z issues you-----

Mr. Dermot Gleeson: Other than "deposits" and "bonds". And I don't remember, it might've had the two-year duration.

Deputy Pearse Doherty: And in relation to Bank of Ireland's draft guarantee that you

mention-----

Mr. Dermot Gleeson: Yes.

Deputy Pearse Doherty: -----what was contained in their draft guarantee?

Mr. Dermot Gleeson: I don't remember it. Again, it ... Deputy, it was something similar, a formula I think.

Deputy Pearse Doherty: And your guarantee, you suggest in your notes - again taken within a week of the event - suggest that it was more comprehensive; that Bank of Ireland's notes were ... formula was bare?

Mr. Dermot Gleeson: Yes, that's what I say in the note, but I'm unable to throw light on why I thought our formula was better, I'm sorry, but I don't believe that slip of paper came back with it. I think it was probably handed over in the meeting.

Deputy Pearse Doherty: Okay. So, you saw Bank of Ireland's draft guarantee?

Mr. Dermot Gleeson: I don't remember doing so, but I may have.

Deputy Pearse Doherty: Okay. You make a point in your notes ... the notes from AIB contain a reference that Bank of Ireland's draft guarantee was bare.

Mr. Dermot Gleeson: That's what my notes say.

Deputy Pearse Doherty: Are they your notes?

Mr. Dermot Gleeson: They are certainly my notes.

Deputy Pearse Doherty: They're your notes. So, you take a note to say that the Bank of Ireland's draft guarantee was bare-----

Mr. Dermot Gleeson: Yes.

Deputy Pearse Doherty: -----but you do not know whether-----

Mr. Dermot Gleeson: But less extensive than ours.

Deputy Pearse Doherty: Sorry, just ... but you do not know whether you saw the Bank of Ireland's draft guarantee?

Mr. Dermot Gleeson: I think it's ... like, I certainly either saw it or heard it. It might have been just read out is the point I'm making.

Deputy Pearse Doherty: Did the formula of words that were adopted by the Government word-for-word contain subordinated debts?

Mr. Dermot Gleeson: I don't remember. It's six years ago, Deputy. Mr. Nyberg, Mr. Regling, Mr. Watson didn't ask me about this. You're the first person to ask me after six years.

Deputy Pearse Doherty: Would that not be, like ... I would imagine that this is an incidental issue. As chairperson of AIB, the idea of the Government and of the bank requesting the guarantee of subordinated debt isn't an incidental matter; would you agree with that?

NEXUS PHASE

Mr. Dermot Gleeson: I said to you AIB didn't have relevant subordinated debt, so ... and I wasn't catering for Anglo, because we didn't think Anglo were going to be guaranteed.

Deputy Pearse Doherty: Okay. I'll come back to the night of the guarantee later on, but just before I leave this point in terms of the draft guarantees, the slip of paper or whatever-----

Mr. Dermot Gleeson: Yes.

Deputy Pearse Doherty: -----you may call it, the draft guarantees that's referenced in the notes from both Bank of Ireland and AIB, were you aware of any pricing mechanism being undertaken by either your own institution or Bank of Ireland in relation to the cost of the guarantee?

Mr. Dermot Gleeson: No. There was some discussion afterwards about pricing and that it should be related to the relative strength of banks, but I don't remember any ... there was ... let me ... I think there may have been some discussion between Mr. Sheehy and some officials, but I was not involved in any pricing discussion that I can recall.

Deputy Pearse Doherty: Did Bank of Ireland discuss with you in relation to seeking Goldman Sachs to develop a possible charging mechanism?

Mr. Dermot Gleeson: Can you ... let me just reflect on that. Firstly, I don't remember ... absolutely not. I had no reference to Goldman Sachs. Goldman Sachs, as you probably know, recommended Anglo shares the next morning as a good buy, but I don't remember anything on the night.

Deputy Pearse Doherty: Yes, but Bank of Ireland-----

Mr. Dermot Gleeson: No, that rings no bell.

Deputy Pearse Doherty: You're not aware of the Bank of Ireland-----

Mr. Dermot Gleeson: I don't believe that happened.

Deputy Pearse Doherty: Okay. I want to go to some of the other areas, just in relation to your evidence and some events in relation to your bank. Why did the board decide to pay an increased interim dividend, amounting to €270 million, on 26 September 2008-----

Mr. Dermot Gleeson: Well-----

Deputy Pearse Doherty: -----in light of the market circumstances at the time? This is three days before-----

Mr. Dermot Gleeson: Sure, sure.

Deputy Pearse Doherty: -----you presented your draft guarantee to the Government.

Mr. Dermot Gleeson: Well, that decision, as you probably know, was made in June but it was undoubtedly a mistake. We shouldn't have done that. I think the way it was-----

Deputy Pearse Doherty: Did you approve it?

Mr. Dermot Gleeson: I approved it at the time, but it was a mistake. There was some dissent from a couple of members where they raised the question, saying, "Is this wise?" And I think the recollection was ... the reason for it, and it wasn't a good enough reason, was reassur-

ing the markets. “We are still on track, we’re okay.” It was ... you probably know that earlier in 2008, there’d been Northern Rock, Countrywide in the States, and people were beginning just to peep at banks and this was a statement that all is well at AIB, but it was a mistake. Let me absolutely-----

Deputy Pearse Doherty: Did you personally benefit from that mistake?

Mr. Dermot Gleeson: Well, I did and I didn’t, in the sense that I’m sure I got the dividends, but I need to tell you about my personal benefit and AIB-----

Deputy Pearse Doherty: No, I’m just asking, in relation to the mistake that you approved-----

Mr. Dermot Gleeson: Okay, okay, okay.

Deputy Pearse Doherty: -----in terms of paying out €270 million of dividends three days before you-----

Mr. Dermot Gleeson: If you let me explain-----

Deputy Pearse Doherty: -----if you let me ask the question, present the draft guarantee, did you personally benefit from that mistake that you approved?

Mr. Dermot Gleeson: Well, if you let me answer the question, the answer is that while I was a director of AIB and chairman of AIB, I observed the good corporate governance precept of always reinvesting everything I had in the bank. I paid the tax and bought the shares with everything I earned in AIB. To that extent, I did.

Deputy Pearse Doherty: You did. Okay.

Mr. Dermot Gleeson: I got a dividend and I bought the shares.

Deputy Pearse Doherty: That’s all I’m looking for. That’s all I’m looking for. You were the chairperson of AIB. Were you also involved in property development, or property speculation?

Mr. Dermot Gleeson: Absolutely not.

Deputy Pearse Doherty: You weren’t involved in any joint ventures with any property developer?

Mr. Dermot Gleeson: Absolutely not. I had ... my accountant put me into one or two property deals in which I was a minority player, but I had no involvement with them of any kind; it was on advice and-----

Deputy Pearse Doherty: Sorry, so you would benefit from property development?

Mr. Dermot Gleeson: I suppose I would if they had worked out, yes. It was part of my pension plan, I guess.

Deputy Pearse Doherty: Okay, I appreciate that. Can I take you to the question in relation to how the bank reconciled the level of lending on the property and construction sectors while being in breach of regulatory prudential lending limits for the sector? This is from July 2006 onwards; the reference to this is in the minutes of the board meeting on 27 July, AIB B2, Vol. 1,

page 6, where it's clear that you had breached prudential lending limits at that stage in relation to concentration of the property and construction sectors.

Mr. Dermot Gleeson: The answer to this will take me a little time but I'd like to give it to you if I can. It was reported, as you say, at 27 July board and in the following terms: Mr X - I'm not going to use the words of the officials if that's okay - reported that in respect of broad property, building and construction sector AIB was in breach of the limit contained in the Central Bank's licensing and supervision requirements and standards. And he said that we had ... the limit was 250% of our own funds and we had gone to 260%. He indicated that the matter had been discussed with IFSRA, who did not regard it as a significant issue. IFSRA were informed that the breach was likely to continue. He suggested that other banks were also in breach. He then advised that the concept of sectoral concentration was under discussion at the committee of European banking supervisors as well as between the Irish Bankers Federation and the Central Bank of Ireland. The board requested this issue be pursued with IFSRA-----

Deputy Pearse Doherty: Sorry, we're well aware of the minutes and, because of time, we're not going to read the minutes into the record. Just, your bank was in breach of regulatory minutes ... or regulatory limits in terms of concentration to property lending in 2006. How do you reconcile that?

Mr. Dermot Gleeson: Well, can I just Deputy, if you ask me the question I have to get a chance to answer it.

Chairman: I'll give you space. Proceed.

Mr. Dermot Gleeson: Regulatory limits are described ... there are 1995 standards is what they're known as, and they're described by the regulator in the following terms in the 1995 standards: "As many of the provisions are of a discretionary nature, the bank has set down requirements and standards which it uses to guide it in the supervision of the business carried out by credit institutions." So, it was used as guide in supervision. Now, let me say this to you: we would have been very well off not to have exceeded that sectoral limit. It's a great shame that we didn't. But if I can describe to you what was going on at the time, it was Basel II, and we were written to by the regulator in February 2007, shortly after that, and I'm going to read the first sentence ... the first two sentences. This is the regulator to our manager:

In the light of the requirements of the Capital Requirements Directive, and in particular Pillar 2 requirements on concentration risk, the Financial Regulator is currently reviewing its sectoral concentration framework. As part of this review I am contacting credit institutions that have experienced difficulties with the current sector limit.

We replied; I won't read out the reply because it's long and you've asked me to be short, but the reply did say, "We are now dealing with this under Basel." That reply was from Mr. Bhattacharya, the chief group risk officer, on 2 May, and there's two other pieces of information that I need to give you. In June of 2007 we put in our Basel II application to the regulator, a document that I'd say ran to 1,000 pages, with all sorts of mathematical formulae. The board, in June 2007, had to approve a sort of summary of it, and that summary included - and you have these papers - that summary included a section on credit concentration risk. The document is called the Basel Programme Governance Workstream. It had to be signed off and approved by the board, and that described the risk model that we were using for concentration risk, Moody's KMV portfolio manager, the one used by the Basel committee itself. And the conclusion, having applied that model to our concentration issue, was that based on the analysis conducted

- I'm skipping a lot here - "AIB does not require additional capital requirement for credit concentration risk". We sent that application in and it was approved by the regulator.

Now, as I say, let me go back to basis. We'd have been much better off at the old limit.

Deputy Pearse Doherty: I appreciate that, and you've made that point. Time is ticking on; I'm sure my colleagues will take up some of these issues. Can I take you to 7 September 2008, Mr. Gleeson, and this is AIB C3b, Vol. 2, page 41-----

Mr. Dermot Gleeson: Say that again ...C-----

Deputy Pearse Doherty: C3b, Vol. 2-----

Mr. Dermot Gleeson: Yes, I've had a lot of difficulty, given the names you give your books-----

Chairman: We have a problem with them ourselves, Mr. Gleeson, so you're okay.

Deputy Pearse Doherty: It's in page 41 to 43. It's the minutes of the board meeting of 7 September 2008. In this section ... in the minutes, when the minutes record Irish financial market, Mr. Sheehy talks about an Irish financial institution called "the institution" in the board minutes. To which institution is he referring?

Mr. Dermot Gleeson: I'm just trying to find it in my own copy. Is this 7 September?

Deputy Pearse Doherty: It is.

Mr. Dermot Gleeson: And it's in ... it's in 3b, Vol. 1?

Deputy Pearse Doherty: Vol. 2.

Mr. Dermot Gleeson: Vol. 2, I'm sorry.

Deputy Pearse Doherty: It's on the screen there now for your convenience. So, in relation to these minutes, in relation to the Irish -----

Mr. Dermot Gleeson: They were being contacted about an institution -----

Deputy Pearse Doherty: Yes, what is it?

Mr. Dermot Gleeson: Do you want me to identify it?

Deputy Pearse Doherty: Yes.

Mr. Dermot Gleeson: It was Nationwide.

Deputy Pearse Doherty: In the recorded minutes ... the minutes record that Colm Doherty and Eamonn Hackett of AIB had a meeting with the Financial Regulator on Saturday, 6 September 2008. Also in attendance were senior representatives of Bank of Ireland, as well as the company secretary and treasurer of what we now know was Irish Nationwide Building Society.

Mr. Dermot Gleeson: Yes.

Deputy Pearse Doherty: Do you recall these events or discuss -----

Mr. Dermot Gleeson: I do, yes. I was in England at the time but I was kept on -----

Deputy Pearse Doherty: The minutes of 7 September report Mr. Doherty as saying: “The funding profile of the institution [which is Nationwide we now know] was weak, and it was unlikely to be able to refinance funding that was maturing periodically over the ensuing year, commencing in December 2008.” It goes on to say, “The quality of loans was suspect and could require write-downs ranging from a benign 13% estimated by the FR [Financial Regulator], to 30%/50% estimated by Bank of Ireland, which had previously conducted a due diligence review on the institution.” End of quote. Can I ask you, Mr. Gleeson, what was the request made of AIB by the Financial Regulator in relation to Nationwide in these minutes?

Mr. Dermot Gleeson: Well, Mr. Sheehy dealt with them, he will give you a better account but as I recall it was that we would, if you like, step in and try and rescue Nationwide or support it with ... I think there was a request that we would put €2 billion into it, I think.

Deputy Pearse Doherty: Okay, and the minutes report that Mr. Sheehy told a representative of the Financial Regulator that, “...it was his [Mr. Sheehy’s] understanding that the institution’s loan portfolio would required (sic) to be written-down substantially, and, accordingly, that if AIB acceded to the FR’s request, AIB would, in due course, probably have to incur a write-downs (sic) of €1bn on the funding line provided.” Why did AIB believe that of the €2 billion that is was asked to put into Nationwide three weeks before the guarantee, that €1 billion of it would be lost?

Mr. Dermot Gleeson: Because the suggestion was that, on my understanding of it, Mr. Doherty took the view that the write-downs would be 50% so that you’d lose half of what you ... that’s the simple maths, as I understand, but I may be missing something here.

Deputy Pearse Doherty: Okay, and Mr. Gleeson if a bank had to write down its loans of 50%, which, based on what you’re saying, is AIB concurred with this situation, would that not make that bank insolvent?

Mr. Dermot Gleeson: I think you’re right.

Deputy Pearse Doherty: So, three weeks before the guarantee would I be correct in saying that AIB had a view that Irish Nationwide was insolvent?

Mr. Dermot Gleeson: Well ... I don’t ... I thought ... I am not a chartered accountant, and solvency is one of the deep mysteries of chartered accountancy but we thought Nationwide was irretrievably broke.

Deputy Pearse Doherty: Okay, okay. And your view in relation to Anglo Irish Bank?

Mr. Dermot Gleeson: We didn’t have the insight here. You see we had the advantage in this conversation, Deputy Doherty, that Bank of Ireland had done a more intrusive look at this sometime in the past so there was better information there. We never got to look ... we were never asked to look inside Anglo. I just didn’t know what the ... when we were told, when we got to Government Buildings, that they had no liquidity for the next day. The share price had dropped 50% that day, so the view was that there was very serious dire trouble, but I didn’t get to see their books that night.

Deputy Pearse Doherty: I will move on to something ... again going back to the night of the guarantee. Mr. Gleeson, your colleague, Eugene Sheehy, in notes of events occurring on the 29 and 30 September 2008 ... and it is again in book of evidence AIB C3b, Vol. 2, page 38. I will quote the section for your attention ... said that, in relation to the original Government draft

announcement on 30 September ... and this is the quote:

There were also issues in the Government's draft which we were uneasy about relating to the attestations by the FR that the system was solvent and that all banks were solvent. We felt there was clearly a risk in this statement if market participants purchased shares in companies once the guarantee was issued and it subsequently transpired that these companies were not as strong as contended.

Are you familiar with this discussion?

Mr. Dermot Gleeson: I am familiar with the bit from Eugene's statement, I just saw it recently. We didn't co-operate on our statements.

Deputy Pearse Doherty: On that night, did you see ... did AIB see a draft announcement that the Government intended to issue, that included that line ... that included that statement?

Mr. Dermot Gleeson: We obviously saw something that said all Irish ... I think the Financial Regulator wanted to include a statement in some sort of press release, Deputy, that "All Irish financial institutions are solvent", or something like that, and we advised against it. But that is all I can recollect. This was not the next day, this is on the day.

Deputy Pearse Doherty: And you advised against saying that the individual institutions were solvent ... for the reasons ... why ... what were the reasons?

Mr. Dermot Gleeson: Well I suppose we didn't think some of them were solvent.

Deputy Pearse Doherty: You didn't think they were solvent. And the Government acceded to your request to remove that statement from their announcement?

Mr. Dermot Gleeson: Well, it didn't appear in the announcement ... whether they acceded to our request. And I don't think it was a request, I don't think that's a fair way to put it. A suggestion, I guess.

Deputy Pearse Doherty: Mr. Sheehy's ... Mr. Sheehy's note says that there were also issues in the Government draft. So, I take it from that there that was a draft-----

Mr. Dermot Gleeson: It sounds like it to me.

Deputy Pearse Doherty: -----and the final announcement did not include a statement saying that the system was insolvent ... solvent and the institutions were insolvent?

Mr. Dermot Gleeson: I believe that's the case. I haven't seen that announcement since.

Deputy Pearse Doherty: And AIB requested them to take that reference or-----

Mr. Dermot Gleeson: I think we said, on the night ... there was a lot of toing and froing ... that any statement from the Financial Regulator ... and I thought it was the Financial Regulator ... or was it a statement that the Government were going to say "The Financial Regulator has informed us"?

Deputy Pearse Doherty: It's attestations by the Financial Regulator, that was what was to be in the statement.

Mr. Dermot Gleeson: That may have been it ...that we thought that was just dangerous.

Deputy Pearse Doherty: Mr. Gleeson, are you familiar with-----

Mr. Dermot Gleeson: Sorry, can I just clarify that? I won't go on long. We thought that we were going to take Anglo to the weekend. Anglo was going to be dismantled at the weekend ... and to put a statement out on Monday night saying "All Irish financial institutions are solvent" ... and then people investing in Anglo the next day and finding it dismantled at the weekend, that could cause trouble. That was the point we were making.

Deputy Pearse Doherty: Mr. Gleeson, are you familiar with a project called Project Omega?

Mr. Dermot Gleeson: Project Omega? It's not ringing a bell Deputy but we used all sorts of Greek names for projects. You'd have to tell me what it was about.

Deputy Pearse Doherty: At any consideration ... did AIB consider taking over Anglo Irish Bank?

Mr. Dermot Gleeson: No. I think you're talking about something else, and maybe I'll identify it. There was another institution contemplated at the time, but never a thought for a moment of taking over Anglo.

Deputy Pearse Doherty: That wasn't ... you weren't requested-----

Mr. Dermot Gleeson: I got a sort of request that afternoon that might have implied an invite to do so from the chairman, but I wasn't having it.

Deputy Pearse Doherty: From the chairperson?

Mr. Dermot Gleeson: The chairperson of Anglo that afternoon rang me and said could he talk to me. Maybe that was the start of such a conversation but I-----

Deputy Pearse Doherty: It was never considered.

Mr. Dermot Gleeson: It didn't go any further than that.

Deputy Pearse Doherty: It was never considered.

Mr. Dermot Gleeson: I think Project Omega - I am going to have to check it - was a quite different institution.

Deputy Pearse Doherty: I am familiar with that, but the AIB didn't have a similar project?

Mr. Dermot Gleeson: No, we never had any designs or contemplated for a second-----

Deputy Pearse Doherty: That's fine.

Mr. Dermot Gleeson: Sorry, to be absolutely complete, there might have been some discussion later with Minister Lenihan about reorganising the banks and the ones that were still surviving, taking over some of the sicker ones, but that's a different matter I guess.

Deputy Pearse Doherty: In relation to the night of the guarantee itself, you were not informed, at the time of leaving Government Buildings, that Nationwide or Anglo were going to be also be-----

Mr. Dermot Gleeson: No, at no stage. The slightest hint I had of it, it wasn't that at all.

When I was leaving ... I can remember being in the corridor, in the Taoiseach's corridor. We'd had this discussion about the four-bank guarantee and I do remember the Attorney General, who is a professional colleague of mine - both members of the same circuit in Munster - saying to me that I shouldn't assume that the Government had decided anything in relation to any particular institution.

Deputy Pearse Doherty: We heard evidence yesterday that the Government made their decision around 1 o'clock-----

Mr. Dermot Gleeson: I was slightly surprised at the timing ... just ... of Mr. McDonagh's evidence. I thought it was a bit later, but I don't know.

Deputy Pearse Doherty: Yes. And can I ask you just in relation to the conversations that you presented and, indeed, Bank of Ireland presented that-----

Mr. Dermot Gleeson: Yes.

Deputy Pearse Doherty: -----are provided in evidence about the nationalisation of those two institutions-----

Mr. Dermot Gleeson: Yes.

Deputy Pearse Doherty: -----to take them down: what were the views of the participants in the room, the Taoiseach, the Minister for Finance, in relation to those issues?

Mr. Dermot Gleeson: We didn't get views, Deputy. I mean, when we were -- when we arrived at Government Buildings, I've told you, we were ... Richard Burrows, the governor of the Bank of Ireland rang me, he said, "I think we should talk to the Government," because of Anglo's share price falling, international chaos, and so on. We went there. We were put in a waiting room. We were asked to go in and the invitation to the group that I've delineated in my written statement was to say what we thought should be done and we presented this proposal for the four-bank guarantee. You'll see that it had arisen, however, the previous day, because the AIB meeting of the previous night had learnt ... Eugene Sheehy had learnt that this solution was in prospect or being discussed.

Deputy Pearse Doherty: The final question I have here for you is: the board's response to Dr. Alan Ahearne's May 2007 view that property prices were overvalued by 30%-----

Mr. Dermot Gleeson: Yes, yes. Well, I remember the day ... I told you earlier that we would get independent economists and alleged experts - and I don't mean that in respect of Professor Ahearne; he is undoubtedly an expert. I have very great regard for him. But some of the other experts we had on other occasions weren't all that expert in the end. On that day, we had two economists come and talk to us. One was Professor Alan Ahearne, and he expressed the view that residential property in Ireland could be as much as 30% overvalued. On the same day we had another economist - I don't think it's any harm to name Professor John FitzGerald - and he thought that the overvalue could be 15%, and that's in the slides, and I have them here if you need to see them. Take the middle of those and it's 22%. We stress tested for 30%, and we could have borne 30% if all the rest of the things hadn't happened, but we could have borne ... our extreme stress test about the same time stressed for a drop in residential of 30%, but, of course, lots of other things went very wrong as well.

Chairman: Thank you very much, Deputy Doherty, I'll be bringing you back in later. Can

NEXUS PHASE

I just have that for a moment? I just wanted ... there's just one issue that's a bit overhanging there that I want to deal with. It relates to core document AIB B1, page 31.

Mr. Dermot Gleeson: Can you give me the reference again, Chairman?

Chairman: It's AIB B1, page 31. It will come back up on the screen again there.

Mr. Dermot Gleeson: Okay.

Chairman: It's to do about the bank's decision to pay an increased interim dividend, as Deputy Doherty related.

Mr. Dermot Gleeson: Yes.

Chairman: You said at the time that you were the person that signed off on it, on the dividend was paid.

Mr. Dermot Gleeson: Yes.

Chairman: Was there any reservation at any board level or at any level within the bank in regard to that dividend being paid out?

Mr. Dermot Gleeson: There was, but-----

Chairman: And where was that coming from?

Mr. Dermot Gleeson: At least one director ... I thought it was only one director. The minute says a number of directors questioned it, but I remember one in particular, and it was a valuable director, and he said, "I'm not so sure," and we discussed it and we went ahead with it.

Chairman: It was overruled, or that objection was-----

Mr. Dermot Gleeson: Well, I mean, overruled is a bit unfair. I mean, we have the discussions and we reach a consensus.

Chairman: Okay, thank you very much. Deputy John Paul-----

Mr. Dermot Gleeson: And it was a mistaken decision.

Chairman: Thank you very much, Mr. Gleeson. Deputy Phelan.

Deputy John Paul Phelan: Thank you, Chair. Good morning, Mr. Gleeson.

Mr. Dermot Gleeson: Good morning, Deputy Phelan.

Deputy John Paul Phelan: I want to refer, at the start, to 2004, and to core document, AIB B1, Vol. 1, page 16. It's a minute, again, of a board meeting from 13 January 2004, where Jim O'Leary, who was then-----

Mr. Dermot Gleeson: Just bear with me a moment. My papers are, I guess, perhaps not as yes, I have it now.

Deputy John Paul Phelan: It's the only item on that page that isn't redacted.

Mr. Dermot Gleeson: I see it now.

Deputy John Paul Phelan: Jim O'Leary, then a board member of AIB, suggested to the board at that meeting that a review of lending practices into the construction sector needed to take place, and I noticed earlier on in your opening statement that you were-----

Mr. Dermot Gleeson: Yes.

Deputy John Paul Phelan: -----vehement, or strongly, at least, pointed out that minutes tended to reflect decisions, and I just wanted you to outline perhaps firstly why you believe Mr. O'Leary brought that issue up on 13 January 2004.

Mr. Dermot Gleeson: I mean, I'm sorry, Deputy, I'm here to try and help you but, you know, it was that long ago. Board meetings, there's a lot of minutes, and to say what was in Jim O'Leary's head that day is ... I'm not so sure that I have those details.

Deputy John Paul Phelan: Can I ask you then in light of the fact that minutes were made to reflect decisions, as you said, when did the review take place?

Mr. Dermot Gleeson: No, I'm sure it did take place, but I don't know. I mean, I haven't gone through all the minutes. You appreciate that I don't work in AIB any more. I haven't gone through all the minutes but I'm sure ... I would try and get that information to you, if I can, but I don't have it.

Deputy John Paul Phelan: Okay. Can you recall, at that particular time, and I suppose I'm trying to get to the point-----

Mr. Dermot Gleeson: Yes, in '04, yes.

Deputy John Paul Phelan: -----in '04, were there concerns raised by others on the board. Did you have concerns yourself about concentration of lending in particular sectors or, indeed, by senior management of AIB?

Mr. Dermot Gleeson: I don't recall them is what I have to say. I mean, I have tried to go through the 1,400 pages of documents that you see on your right that you sent me in the last 16 days, but I haven't mastered them. It's just not possible to do it. Most of them came last Friday.

Deputy John Paul Phelan: Okay.

Mr. Dermot Gleeson: So I haven't been through all the minutes that follow on from this and the right thing, if this is important, would be to try and trace through the minutes, but when you ask me the simple question do I recall concerns about property in January '04, the answer is I don't recall.

Deputy John Paul Phelan: Okay. I want to move on to 2006, again to a board meeting and minutes referenced earlier on by Deputy Doherty, AIB B2, Vol. 1, page 6, that particular ... B2, Vol. 1, page 6.

Mr. Dermot Gleeson: Just bear with me.

Deputy John Paul Phelan: It was a question that Deputy Doherty had raised earlier.

Mr. Dermot Gleeson: B2(b) or (a) or (c)?

Deputy John Paul Phelan: B2, Vol. 1, page 6. It concerns comments from Mr. Kevin Garvey who was the then head group-----

Mr. Dermot Gleeson: Yes.

Deputy John Paul Phelan: -----of credit review in AIB.

Mr. Dermot Gleeson: Yes, I remember the one.

Deputy John Paul Phelan: That particular ... You read out actually that part of the-----

Mr. Dermot Gleeson: Yes, I did, yes.

Deputy John Paul Phelan: -----minute earlier.

Mr. Dermot Gleeson: Kevin Garvey reporting his interaction with IFSRA.

Deputy John Paul Phelan: Exactly.

Mr. Dermot Gleeson: Yes.

Deputy John Paul Phelan: And I don't wish to go through the quote again, but I want to ask you, did it surprise you that the Financial Regulator did not regard a breach of its own standards as a significant issue?

Mr. Dermot Gleeson: Well, when I heard it first I thought this is ... "Is this serious?" And then we were reassured that it wasn't and when I looked and, to be honest with you, I tried to look at this recently, when I looked at the way it was couched in their own terms and then, if you follow, the issue, as you know, was sectoral concentration, and the reason that they were relaxed, the reason that we were relaxed, frankly, about it was this: this was a standard which lumped a whole lot of non-homogenous properties together. You know, ten acres with no zoning outside a provincial town was treated the same as an office block in the centre of Warsaw or Dublin leased to the Government. So it was a crude, if you like, I say ... we would have been blessed if we had kept to it, or it would have helped us, but that was the case, and if you look at the Financial Regulator's reports in 2010, 2011 and 2012, they said this is a very complex issue.

Deputy John Paul Phelan: So you were not concerned, really, yourself by-----

Mr. Dermot Gleeson: I was reassured by ... and then came to understand why it wasn't regarded as significant by the regulator.

Deputy John Paul Phelan: Can I ask, further on I think on that page as well, page 6, IFSRA were informed, and this is a direct quote from Mr. Garvey as well. IFSRA were-----

Mr. Dermot Gleeson: It's on the screen now or are we waiting to get it up?

Deputy John Paul Phelan: IFSRA were informed by Mr. ... had been informed that a breach was likely to continue.

Mr. Dermot Gleeson: Yes.

Deputy John Paul Phelan: And had not requested that AIB changed any of its existing practices.

Mr. Dermot Gleeson: Yes.

Deputy John Paul Phelan: Again, did that raise any alarm bells at-----

Mr. Dermot Gleeson: Well, I mean, no, I thought ... you know, I ... if the regulator said it, it must be right. I mean, I would take a different view now, but I -----

Deputy John Paul Phelan: Would a man of your background and training you know, standards are standards-----

Mr. Dermot Gleeson: Yes, but, Deputy, I did point out to your colleague, Deputy Doherty, that I looked at ... this was not a regulatory standard. It wasn't a statutory instrument or a rule; it was a guide to assist us in supervision of the banks. And we were all translating over to Basel at the time and kept ... Mr. Garvey was a highly reliable and responsible individual. I believed he truthfully and faithfully responded ... reported the response, I should say. They did not regard it as significant.

Deputy John Paul Phelan: I appreciate what you're saying. The initial quote, which you read yourself in response to Deputy Doherty's original question, it gives the title of what this is, "AIB was in breach of the limit"-----

Mr. Dermot Gleeson: Absolutely.

Deputy John Paul Phelan: -----"contained in the Central Bank's Licensing and Supervision Requirements and Standards for Credit Institutions."

Mr. Dermot Gleeson: And as read out from the standards.

Deputy John Paul Phelan: Yes, I know, but you were not ... you were not-----

Mr. Dermot Gleeson: No, in the light of-----

Deputy John Paul Phelan: You were reassured by-----

Mr. Dermot Gleeson: I was reassured by two things: by Kevin Garvey saying:

IFSRA are looking into it. They're thinking of changing the standard. They do not regard it as significant.

And I was also reassured by something that ultimately didn't prove enough reassurance, that we used to be told, and it was true as a fact, that this included, as I say, office blocks, property in Poland, property in the United Kingdom, and it also included zoned and unzoned land, built houses, unbuilt houses, and so on, and that this made it ... well, I've said what I need to say.

Deputy John Paul Phelan: Okay, now I want to refer to AIB, to the core document AIB B2, Vol. 1, page 13.

Mr. Dermot Gleeson: B2?

Deputy John Paul Phelan: Vol. 1, page 13.

Mr. Dermot Gleeson: Page 13, yes.

Deputy John Paul Phelan: Stamped by the AIB board on the 9 November 2006. And I want to put a direct quote-----

Mr. Dermot Gleeson: I have got the wrong document, I will have to wait for it to come up on the screen.

I'm sorry. This is B2.

Deputy John Paul Phelan: B2, Vol. 1, page 13. The lower part there is a sub-heading "Credit Posture" it's called. B2, Vol. 1, page 13.

Mr. Dermot Gleeson: Okay. Is this "looking ahead"? No?

Deputy John Paul Phelan: Yes.

Mr. Dermot Gleeson: Yes.

Deputy John Paul Phelan: "Snapshot at end 2006" is the original heading on the document and it's-----

Mr. Dermot Gleeson: Let me see-----

Deputy John Paul Phelan: Page 13.

Mr. Dermot Gleeson: Yes I have it, I have ... I do have it now-----

Deputy John Paul Phelan: Under "Credit Posture."

Mr. Dermot Gleeson: Yes I do have it now.

Deputy John Paul Phelan: It says, "We are at a point" and this is a direct quote, "We are at a point when we need to manage our loan book tightly-----

Mr. Dermot Gleeson: Yes.

Deputy John Paul Phelan: "-----and we are rightly concerned [about the concentration] of exposure to Property and Construction." I just want to know what did you and the board ... what action did you do or take following on from that particular point?

Mr. Dermot Gleeson: Well I mean ... I can't remember what precise steps I took on a day in, the date again, June 2006. That is nine years ago. But, here I think it was being drawn to our attention and the "we" of course speaks for the whole organisation. We got regular updates. The group internal audit would review the property book. The chief risk officer ... remember the way we managed risk in AIB was this. There were three principles to do with risk management, just three. One, the risk is owned by the business. If you are the credit card person you own those business risks. Two, the risk function set-up under the man from JP Morgan, is an independent function to scrutinise the observance of risk management on behalf of the board. And that is what we depended on. I know that sounds like an excuse but that ... you couldn't ... I couldn't go around and check it. That was the system that we operated and the risk section was never refused resources. Whatever it needed to do their part of it, the second part. To look at the business end of it and to manage the risk on their ... to monitor the risk on their behalf.

Deputy John Paul Phelan: The reason I ask is that the bank's exposure, subsequent to that document from 9 November 2006, to construction and property increased.

Mr. Dermot Gleeson: There is no doubt at all about that-----

Deputy John Paul Phelan: If you turn to page 17. Well, I just want to know ... I have highlighted concerns that were raised in 2000 ... as far back as 2004, this is another internal AIB document in November 2006 that says we need to look tightly at our loan book and our

exposure to property-----

Mr. Dermot Gleeson: And ... and looking back on it, it wasn't-----

Deputy John Paul Phelan: Why was no action taken? That is-----

Mr. Dermot Gleeson: That is not true, Deputy.

Deputy John Paul Phelan: The exposure increased.

Mr. Dermot Gleeson: Yes but hold on a second. "Manage it tightly" does not mean do not extend the exposure, with all due respect. "Tightly" means that you apply the proper credit standards and you know ... this was part of the bank obviously, the Republic of Ireland property book. But the property book in the Republic of Ireland never contributed more than 15% to the overall profits of the bank. It brought the bank down.

Deputy John Paul Phelan: Okay.

Mr. Dermot Gleeson: But it was part of many businesses, most of them successful that we had. But it sometimes, I think, is informative to think ... people think, you know, all you did was give out loans to developers. I say it never ... about 10% to 13% in the relevant years is the profit contribution from Republic of Ireland property. So it wasn't the only thing on the screen as it were.

Deputy John Paul Phelan: Okay, my time is limited, so I want to move on-----

Mr. Dermot Gleeson: Sure.

Deputy John Paul Phelan: -----to 2007. And AIB core document again, B1 volume 2 at page 27. I'll give you-----

Mr. Dermot Gleeson: Vol. 2.

Deputy John Paul Phelan: B1, Vol. 2, page 27.

Mr. Dermot Gleeson: Yes, I think I have it, but I may not be sure. I'll get it on the screen hopefully.

Deputy John Paul Phelan: It is B1, Vol. 2, page 27. It should be on the screen in a moment, I hope.

Mr. Dermot Gleeson: Is this B1, A B or C can I ask you? Because I have them divided as you sent them to me.

Deputy John Paul Phelan: Well-----

Mr. Dermot Gleeson: You may not know-----

Deputy John Paul Phelan: My reference is AIB B1, Vol. 2, page 27. It refers to senior management conference-----

Mr. Dermot Gleeson: Okay I have it now, I think yes.

Deputy John Paul Phelan: Where a report on AIB-----

Mr. Dermot Gleeson: Sorry Deputy I am struggling with the papers but I have it.

Deputy John Paul Phelan: Okay, I understand.

A report on AIB called “Poised on the Edge of Greatness” was presented by Oliver Wyman on 22 March 2007.

Mr. Dermot Gleeson: Yes.

Deputy John Paul Phelan: And at the bottom of that particular page 27, a direct quote, again, it says “that size equals no obstacles” and that is in ... it is in reference to the elephants in the room at page 23 and the issues that were highlighted as being important for AIB to address and less important. And the bottom of less important was “size equals no obstacles”.

I just want to know, did you share that view at that particular time? Was the size of the loan book of AIB at that juncture a concern for you and particularly exposure to property and construction?

Mr. Dermot Gleeson: Well, this was a document that was presented to our management conference, and I would have seen it. But consultancy reports, as you know are full of sentiments about the future being great. I mean the front page will tell you that. I just can’t remember how I reacted to that.

(Interruptions).

Deputy John Paul Phelan: Even subsequently-----

Mr. Dermot Gleeson: I mean I don’t know if I have a reaction or not Deputy, this is, as I say, a long time ago. But subsequently I certainly had a reaction, there are statements in here about some of our competitors that proved to be unreliable.

Deputy John Paul Phelan: At any stage in 2007, did you express concerns or have concerns-----

Mr. Dermot Gleeson: I think we knew-----

Deputy John Paul Phelan: -----about concentrations-----

Mr. Dermot Gleeson: I think the property book was big and we knew that it was concentrated. We thought it was diversified, as I have explained earlier because it had properties abroad and properties in Ireland. And we derived consolation from that and from the results of the stress tests and we were wrong.

Deputy John Paul Phelan: Okay, and I want to refer now to a different document again. A different core document AIB B2, Vol. 2, page 11.

Again, it is a presentation to the board on credit concentrations.

Mr. Dermot Gleeson: B2, Vol. 2, page 11?

Deputy John Paul Phelan: On page 11.

Mr. Dermot Gleeson: Is this something we looked at a view minutes ago? “Snapshot at

end 06” is it?

Deputy John Paul Phelan: Sorry, slightly different, it is ... it is referred I think briefly to by Deputy Doherty, “Stress Test Results” and you referenced it yourself-----

Mr. Dermot Gleeson: Yes.

Deputy John Paul Phelan: -----in your opening comments. The presentation to the board on 25 April 2007-----

Mr. Dermot Gleeson: Yes.

Deputy John Paul Phelan: It provides that the probability of an extreme property downfall scenario arising was 4%.

Mr. Dermot Gleeson: Yes.

Deputy John Paul Phelan: And that even if it did, additional provisions would be up to €2 billion over three years.

Mr. Dermot Gleeson: Yes.

Deputy John Paul Phelan: I just want to know ... do you have any recollection yourself or other members of the board of probing that particular assessment at that time?

Mr. Dermot Gleeson: Well, I mean ... I think we were very pleased that all this science had been applied to something that, historically had been much more manual, had much more, perhaps, individual judgment in it. And, as I say, this was an expensive exercise. And I am afraid that-----

Deputy John Paul Phelan: A very expensive exercise.

Mr. Dermot Gleeson: Indeed and you are absolutely correct, but the stress test itself I am saying, and the installation for the machinery for it was an expensive exercise, and I think, as I said earlier, that board members genuinely believed, this was after all the Holy Grail in every bank in the world. Basel II was the great answer to everything. It had been endorsed by the EU in its directive. And when we got this stress test done, and as I say, a very expensive process I think we thought this was the way to monitor and measure and manage risk.

Deputy John Paul Phelan: Okay. I want to move on before my time elapses to 2008. And again to the core document I am referencing is AIB B2, Vol. 1, page 17.

This is the document, sorry, about credit concentrations that I mentioned earlier. Do you have it in front of you?

Mr. Dermot Gleeson: Just trying to find it now.

Deputy John Paul Phelan: AIB B2, Vol. 1, page 17.

Mr. Dermot Gleeson: B2, Vol. 1. Page?

Deputy John Paul Phelan: Page 17. Again it, it states that-----

Mr. Dermot Gleeson: I wonder if I can have it on the screen.

NEXUS PHASE

Deputy John Paul Phelan: Yes, yes, that as of-----

Mr. Dermot Gleeson: Your books ... yes, I have it now.

Deputy John Paul Phelan: It's at the ... it's there in front of you now.

Mr. Dermot Gleeson: Yes.

Deputy John Paul Phelan: As of September 2008, AIB continued to be in breach of the sectoral concentration-----

Mr. Dermot Gleeson: That was reported all the time to us.

Deputy John Paul Phelan -----that were mentioned earlier.

Mr. Dermot Gleeson: Yes.

Deputy John Paul Phelan: Where it was 200% ... the figure was 275%-----

Mr. Dermot Gleeson: Yes.

Deputy John Paul Phelan: -----per investment exposure and 390%-----

Mr. Dermot Gleeson: Yes.

Deputy John Paul Phelan: -----when confined with development. Was that a concern for you at the time, or the board, or ... you know, was there a discussion that you can recall?

Mr. Dermot Gleeson: I can't recall the discussions. I mean, I don't know how many hours I spent in that boardroom, but recalling the discussions, I'm afraid my memory just isn't that good, Deputy, and it's no point in my pretending that it was. But we certainly discussed the Irish property book from time to time. We certainly asked questions about it; we had the property people in and asked them. We asked the group internal auditor.

Deputy John Paul Phelan: I don't wish to cut you but my time is brief. The fact that the regulator's guidelines, which we discussed-----

Chairman: We have questions on each to get through as well.

Deputy John Paul Phelan: -----at length earlier, indicated that the concentrations in two related sectors should be 250% maximum.

Mr. Dermot Gleeson: Yes, yes.

Deputy John Paul Phelan: It was 390%-----

Mr. Dermot Gleeson: Yes.

Deputy John Paul Phelan: -----in September 2008.

Mr. Dermot Gleeson: Yes.

Deputy John Paul Phelan: Crucial month, we all know.

Mr. Dermot Gleeson: Yes.

Deputy John Paul Phelan: And you don't recall whether alarm bells rang in your own head, never mind in other members of the board at that particular juncture?

Mr. Dermot Gleeson: I suspect that we were conscious of this problem at that stage and that ... just remind me of the date again?

Deputy John Paul Phelan: It's September 2008.

Mr. Dermot Gleeson: Yes, well at that stage obviously all the loans had been made, you know.

Deputy John Paul Phelan: Okay. Well I wish to move on, and refer again now to a document that Deputy Doherty mentioned also. AIB, C3b, Vol. 2, page 29.

Mr. Dermot Gleeson: C3b, Vol. 2. Yes.

Deputy John Paul Phelan: Page 29. It's the memo from the Department of Finance-----

Mr. Dermot Gleeson: Yes. I've only seen this when I got the book last Friday, obviously.

Deputy John Paul Phelan: -----from the night of the guarantee.

Mr. Dermot Gleeson: Yes, yes. I don't know who wrote it, obviously but-----

Deputy John Paul Phelan: Where you were, you were marked ... yes, you were marked in attendance.

Mr. Dermot Gleeson: Yes.

Deputy John Paul Phelan: And there's a quote, well it's not a quote it's a reference, I suppose more like, at the bottom, close to the bottom of page 29 where Mr. Sheehy, the then chief executive of AIB, is reported to have said, and the quote from this memo is that, "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." What's your view on that?

Mr. Dermot Gleeson: I don't recall those particular words. I can see it here; I am sure this is a note that was said.

Deputy John Paul Phelan: Well was it bankruptcy that was facing the bank on that, on that particular night?

Mr. Dermot Gleeson: I didn't believe so, and I don't, I don't recall that word being used, I have to say.

Deputy John Paul Phelan: So you ... do you dispute what's in the attendance note or not?

Mr. Dermot Gleeson: I ... It's a different thing to say that I don't recall the word, Deputy, that's all I can say. I don't have a full recollection. I did the best I could to make a note a few days later, that's my contribution, I'm afraid, to this. Can I say, as you've asked me about this document Chairman, it's important that I would draw issue with some of it, just two points if I can make, Chairman, generally. You see Mr. Burrows is named, most of that is things I said, not Mr. Burrows. I think maybe the top two lines are Mr. Burrows and the rest is me; I can identify things I said, and the reference at the very end of Mr. Burrows is "heard from [Mr. Blank], Treasury", that's an AIB official. And the second thing that's ... not misleading, potentially mislead-

ing, is that there's a number of references on the next page to Mr. Neary. I met Mr. Neary in a corridor, but he was never in the decision makers' room when I was there.

Deputy John Paul Phelan: Okay. Thank you for those comments. I want to refer you before I finish, again, to the same document, pages 26 and 27.

Mr. Dermot Gleeson: Same booklet?

Deputy John Paul Phelan: Same booklet.

Mr. Dermot Gleeson: Yes.

Deputy John Paul Phelan: It's the letter that you issued to the then chairman of Anglo Irish Bank.

Mr. Dermot Gleeson: Yes, it was-----

Deputy John Paul Phelan: In ... a few days later, 6 October 2008 where you wrote ... and I'm going to quote directly from the bottom of page 26, "It is frankly outrageous for you to indicate that AIB's liquidity was good for "only a matter of days"." I want you to explain the apparent contradiction between what you're saying there on 8 of ... or sorry, 6 October, and what Mr. Sheehy seems to have expressed on the night of the guarantee with regard to bankruptcy.

Mr. Dermot Gleeson: Obviously you will ask Mr. Sheehy, I'm sure about that.

Deputy John Paul Phelan: I will.

Mr. Dermot Gleeson: But I didn't believe we had a solvency problem on that night, let me just say that to you. No one asked us, no one raised it, and if I'd been asked I'd have said we were solvent. I believe it and I believe it still. As I say, house prices had dropped by 7.7% at that stage. The real trouble, the real trouble hadn't really started at that stage, so I believe we were solvent and absolutely believed that. But I was complaining here because a radio interview had been given that said all the banks were the same, last Monday, AIB was in the same trouble as us, and I knew that that wasn't true. I knew that we had liquidity out beyond a month. I didn't know how much; I wasn't into the detail. I knew we had enough liquidity to be able to pull out reserves of liquidity, all this ... this was helping a competitor, to keep Anglo going until the weekend, if Governor Hurley's version had prevailed. But I certainly ... I believed I was telling the truth and I still believe I was telling the truth in the paragraph that you-----

Deputy John Paul Phelan: So the note from the night of the guarantee from the Department of Finance, which referenced Mr. Sheehy as using the phrase "disaster bankruptcy", you've no recollection really of that happening at all?

Mr. Dermot Gleeson: I have a recollection and I have drawn your attention to an inaccuracy in the note-----

Deputy John Paul Phelan: Yes.

Mr. Dermot Gleeson: -----*qua* myself and I don't know that that's accurate for Mr. Sheehy or not, so I'd prefer to leave to leave it at that. I mean I can't speak for what he said-----

Deputy John Paul Phelan: Yes.

Mr. Dermot Gleeson: -----and I certainly don't remember the verbatim words.

Deputy John Paul Phelan: Yes. I was going to ... I was going to reference, Mr. Gleeson, the end of your statement, 23-page statement, on paragraph 96, page 23.

Mr. Dermot Gleeson: My one statement.

Deputy John Paul Phelan: Yes.

Mr. Dermot Gleeson: The written statement?

Deputy John Paul Phelan: Yes, the written statement for today.

Mr. Dermot Gleeson: Let me get it out.

Deputy John Paul Phelan: You said, and I quote, “there were decisions made in AIB which made things worse than they need have been for Irish citizens”. What were those decisions?

Mr. Dermot Gleeson: Well I think the decisions we’ve been discussing, too much, too much property-----

Deputy John Paul Phelan: Do you believe that you bear any responsibility?

Mr. Dermot Gleeson: Of course I do.

Deputy John Paul Phelan: In light of the fact, 2004 Mr. O’Leary was raising concerns, at least, that were referenced in minutes, which have been given and now put to you at this, at this meeting. 2006, there were similar minutes that spoke about concentrations in particular sectors and how the guidelines of the Financial Regulator were being breached, and it went on into 2007. And as late as September 2008, you were at 390% when the guidelines said 250%. You know, what responsibility do you, as the chairman of the board of AIB at the time, bear for that?

Mr. Dermot Gleeson: But, there’s two questions there. Firstly, I would expect good directors like Mr. O’Leary to raise issues all the time; the more questions the better. That makes it a healthy boardroom.

Deputy John Paul Phelan: What-----

Chairman: Please, I give you enough time to ask the question, Deputy, now I need the witness to reply.

Mr. Dermot Gleeson: The second question that you asked me is what responsibility I bear. And I was the chairman of this and I bear the responsibility. This is where the buck stopped. I can tell you, Deputy Phelan, that it’s a salutary thing when you discover for the first time in your life in your 60s that doing your level best in a job is not sufficient to prevent very negative consequences ensuing. I haven’t done many jobs in my life. I was a teacher; I was a barrister, outside Dublin, barrister in Dublin, I worked for the Government for three years. And the outcomes there were adequate, perhaps, no more than that. But I did my level best in this job as well, and the outcome was entirely unsatisfactory and that’s a responsibility that I absolutely accept and I can never get away from it.

Deputy John Paul Phelan: Thank you.

Chairman: Now just before we go to the break there, Mr. Gleeson, I just want to deal with one matter, and it’s the issue of incentives and remunerations. And if I could maybe ask you the salary bonus and pension plans offered to the senior executives at AIB, they would be consid-

ered significant, certainly in today's circumstance-----

Mr. Dermot Gleeson: Sure.

Chairman: -----and maybe back then. Are you, are your reflection of that, do you believe they were justified and appropriate for an Irish financial institution----

Mr. Dermot Gleeson: Well-----

Chairman: -----an island of 4.5 million people paying these big sums?

Mr. Dermot Gleeson: Well I mean, I think the answer is in the question that you've posed, Chairman. Clearly not appropriate by today's standards and looking back, they were paid much too high but that was the market rate at the time. We always got consultants from outside, expensive consultants say what is the rate. And Dr. Nyberg has commented that the salaries of the AIB chief executive was the least relative to size. Our objective was to get what the market rate was and pay a bit less than that. Clearly we paid too much.

Chairman: The core document there relating to is up there on the screen at the moment, so I'm not going to ... it just gives a context as a board meeting, so I'm not going to get tied up into referencing that.

Mr. Dermot Gleeson: I have it.

Chairman: The ... I suppose what I'm getting to here is how performance remuneration influences the factors in the bank's lending behaviour.

Mr. Dermot Gleeson: Yes.

Chairman: Was there at any time consideration relating to risk built into the measurements performance?

Mr. Dermot Gleeson: No, I have seen that written and raised and it's a perfectly correct question to raise, these people were on performance plans which if the EPS went up a certain amount they would get a lot of extra money. The first thing to say is that hardly any of that ever vested, the test was too high. CPI plus 10% is almost impossible to do. Secondly there were components in that test that related to the market as a whole, 50 other European banks, no control over those. And so far as Irish property lending is concerned, you know going back to the statistic that I gave to your colleague, Deputy Phelan, about 15% at most of the bank's profits were provided by Irish property so lending to Irish property was never going to affect the EPS in a way that would get you this money.

Chairman: In layman's or laywoman's terms looking in this morning, the performance bonuses were on increased sales -----

Mr. Dermot Gleeson: They were not on increased sales, they were never on increased sales. Volume was never a parameter, profits yes but never volumes.

Chairman: And were there bonuses for somebody who might say, "I think we need to shrink this area and underperform because it's getting risky"?

Mr. Dermot Gleeson: I don't remember that happening but maybe it did.

Chairman: Okay, but you have no recollection of that?

Mr. Dermot Gleeson: I don't remember that happening but maybe it did.

Chairman: Thank you. I now propose we break, returning at 11.25 a.m. In doing so, to remind the witness that once he begins giving their evidence, he should not confer with any person other than his legal team in relation to the evidence on matters that are being discussed before this committee. With that in mind, I will now suspend this meeting until 11.25 a.m. and remind the witness that he is still under oath until we resume. Thank you very much.

Sitting suspended at 11.11 a.m. and resumed at 11.34 a.m.

Chairman: We will move back into this morning's proceedings and public session. Is that agreed? Agreed. I now propose that Senator Michael D'Arcy take the next line of questioning. Senator, you have ten minutes.

Senator Michael D'Arcy: Thank you, Chairman. Mr. Gleeson, thank you for coming. In your opening statement, the comprehensive document, page 20, section 83 ... Mr. Gleeson?

Mr. Dermot Gleeson: Yes.

Senator Michael D'Arcy: The initial portion of it is where you discuss the conversation that was being held between AIB and Bank and Ireland-----

Mr. Dermot Gleeson: Yes.

Senator Michael D'Arcy: -----and there was that there would be a guarantee for four and, in your own words, that the Anglo and Irish Nationwide there would be a taking down or taking into custody.

Mr. Dermot Gleeson: Yes.

Senator Michael D'Arcy: You subsequently state, "At a meeting on a subsequent occasion, when I was alone with the Minister of Finance he indicated that that was the course which he had favoured on the 29th September, but that other views had prevailed."

Mr. Dermot Gleeson: Yes.

Senator Michael D'Arcy: Could you expand upon that line in terms of the conversation you held with the Minister of Finance?

Mr. Dermot Gleeson: Well, the Minister was a professional colleague of mine and ... I wouldn't have been a close friend but I do regard him as a friend of mine ... At some meeting subsequently, I would think a few months later when we were waiting for someone else to come or maybe when he was saying goodbye to me or if it was just the two of us, I don't remember precisely, but I do remember he said, "You know, on that night, I would've been in favour of taking down those two institutions," or something like that, and there was no more than that. I didn't ask him, he didn't say anymore, and he wasn't complaining, I think he was just affording me an anecdote. I didn't find it surprising that there would've been different views on the night. This was a very difficult decision.

Senator Michael D'Arcy: In previous evidence, Governor Honohan, at a chapter he wrote in a book about in ... about Minister Lenihan, stated that Minister Lenihan told him he was overruled.

Mr. Dermot Gleeson: Well, I was unsure, in my own mind, whether I should put this into

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my evidence at all, because in a sense, he was speaking to me in confidence and I've never told anyone, but it was on foot of Governor Honohan saying that that was a thing. It seemed to me that it would be unfair of me not to record that evidence, it having, as it were, gone public in some degree, and so I've made that decision, but I believe the Minister was speaking to me privately, as it were at the time.

Senator Michael D'Arcy: Thank you. In your, and I'm quoting core documents AIB C3b-----

Mr. Dermot Gleeson: C3b, yes.

Senator Michael D'Arcy: -----page 33, the memorandum of ... C2b sorry.

Mr. Dermot Gleeson: Say that again?

Senator Michael D'Arcy: AIB core documents, C3b, Vol. 2.

Mr. Dermot Gleeson: C3b, Vol. 2, okay. Yes. Page 33.

Senator Michael D'Arcy: Page 33 in a memorandum from yourself to Mr. Eugene Sheehy.

Mr. Dermot Gleeson: Yes.

Senator Michael D'Arcy: Point 1, you state, "Two institutions nearly brought down the system." Point 2, you state, "Their [.....] went unregulated, by a hopeless regulator." You-----

Mr. Dermot Gleeson: That was private talk between me and Eugene, an unkind phrase to use, I think, but I felt that we had been let down by regulation, but we ourselves had got into trouble, so who am I to speak.

Senator Michael D'Arcy: But this was written on 2 October-----

Mr. Dermot Gleeson: Yes-----

Senator Michael D'Arcy: -----and at that stage-----

Mr. Dermot Gleeson: -----but things were pretty fraught, Senator, as you can imagine, you know. And it was preparatory to going to meet the Minister. See, we had left Government Buildings that night thinking that there were four banks going to survive with the guarantee, and ... the phrases from farther down this memo that I read out earlier, I was ... I suppose it had been presented that we had asked for a guarantee, true, but the guarantee that transpired wasn't the one we'd asked for. But we weren't going to come out and say that, obviously, that wasn't in anyone's interest. So there was an element of peevishness here, which perhaps I ... perhaps I should regret. I mean, as I said to you, I remember the next morning, Goldman Sachs came out and advertised or promoted Anglo as a buy. They said there was an upside of 50 something percent of it as a share buy. And we'd been, sort of, asked to rescue it or to assist in its rescue for a couple of days, the day before. So mixed feelings, can I put it that way.

Senator Michael D'Arcy: In the guarantee, going back to again, AIB C3b, Vol. 2, that same document, Mr. Gleeson.

Mr. Dermot Gleeson: Same document, yes, grand.

Senator Michael D'Arcy: Page 41, we've discussed it previously about INBS-----

Mr. Dermot Gleeson: Page 41, yes.

Senator Michael D’Arcy: -----about INBS requiring potentially €2 billion to €4 billion.

Mr. Dermot Gleeson: Mr. Doherty and Mr. Sheehy mostly have this sent.

Senator Michael D’Arcy: You had discussed that before and you had ... was there any other previous discussion formally or informally with the Financial Regulator prior to the night of the bank guarantee that another institution may have required additional liquidity, before the night of the bank guarantee, with AIB senior officials?

Mr. Dermot Gleeson: You mean from a ... another institution other than Nationwide, is it?

Senator Michael D’Arcy: Yes.

Mr. Dermot Gleeson: No. Not that I recall, but I have to say, that’s a question probably more usefully directed to Eugene Sheehy, because the discussions took place through him. I mean, the assessment for us was done by Colm Doherty and he went into Nationwide, looked at it and said “Don’t touch it” in effect. And he’s a smart fellow.

Senator Michael D’Arcy: And it’s clear in that document also that the Bank of Ireland due diligence certainly coloured your view upon INBS. Is that correct?

Mr. Dermot Gleeson: Yes, I think Colm would have relayed that, you know, that they had done a deeper look at some earlier stage, I don’t remember when, and I don’t know the context even in which they were looking at it.

Senator Michael D’Arcy: And on the night of the bank guarantee, was that view expressed to the senior officials, to the people who were present on that night, that potentially there was a solvency issue with INBS?

Mr. Dermot Gleeson: Well, the meeting proceeded on the assumption that both those institutions were finished, that they were down the drain. I mean ... I ... my statement of the night records the fact that INBS bonds were trading at 20 cent in the euro and their credit default swaps were 27% over Libor. That means the market thinks that’s over.

Senator Michael D’Arcy: But I’m asking you was that information directly delivered from AIB, Bank of Ireland, to the officials on that occasion in relation to-----

Mr. Dermot Gleeson: Well I said to them, part of the little introductory chat I had, was that Nationwide had got under the radar because it didn’t have a share price but that its bonds were trading at 20% of their value and their credit default swaps suggested that their credit was not worth anything. And so, I mean, it was said in those terms. I don’t think there was anyone in the room who didn’t realise that was an institution that was in terminal trouble but what language precisely was used, other than what I said myself, I can’t remember.

Senator Michael D’Arcy: Mr. Gleeson, you understood that a four bank guarantee was what you were requesting, is that correct?

Mr. Dermot Gleeson: Yes, I mean it had ... the proposal didn’t originate with us because you’ll see the memo of the minute we had on the Sunday evening of the meeting, where Eugene reported that the authorities said “two financial institutions likely to fail” and a limited guarantee for the rest. Very succinct.

Senator Michael D’Arcy: It’s seven years later, Mr. Gleeson, a lot of water under the bridge - in your view if the four bank guarantee had occurred as you hoped and perhaps had expected along with in your own words “the taking into custody” of the other two-----

Mr. Dermot Gleeson: Yes.

Senator Michael D’Arcy: -----could AIB have survived as a going concern without Government aid?

Mr. Dermot Gleeson: That’s a question I don’t feel I am equipped to answer honestly. I don’t know the answer. If I was guessing I certainly wouldn’t say it definitely would. That’s all I can say but perhaps it would. I just don’t know but you are asking me a question that’s outside my information stock and competence. I understand but perhaps closed my mind down a bit on these matters from the middle of 2009.

Senator Michael D’Arcy: But you’re probably better placed than most people to make-----

Mr. Dermot Gleeson: I’m not so sure because this is sort of a central banking issue. You know, we went in there that night and asked for this and in a sense the decision that had to be made by the policy makers, the Government, the Governor of the Central Bank, that involved expertise that I didn’t claim to have. So I think, Senator, I’d be pretending if I attempted an answer.

Senator Michael D’Arcy: Okay. You made a statement that one bank cannot stop a bubble.

Mr. Dermot Gleeson: Yes.

Senator Michael D’Arcy: Can one bank cause a bubble?

Mr. Dermot Gleeson: I rather doubt that. I mean ... I suppose one bank in a small country where there is only one bank, you know, maybe that could happen but I don’t think one bank could cause a bubble. I mean one bank can lead a bubble. I suppose I go back to the inference of Anglo in Governor Honohan’s statement at the Dubrovnik conference that reckless lending by one bank put competitive pressure, as it did. We used to think, well we’re not going to copy Anglo but you know managers in country towns who see their good customers walking across the street, inevitably there’s an effect.

Chairman: Senator you’re out of time. I just ... whilst the Senator concentrated a lot on the guarantee, I want to return to a governance issue.

Mr. Dermot Gleeson: Yes.

Chairman: That relates to a number of control issues arose in AIB over the years such as Rusnak and I think you referred to some of these in your opening statements this morning - foreign exchange rate settings, incorrect interest rate charges, offshore accounts, etc.

Mr. Dermot Gleeson: Yes.

Chairman: In your judgment as chairperson of AIB, Mr. Gleeson, how do you reconcile these with the governance standards outlined in each of AIB’s annual reports?

Mr. Dermot Gleeson: Well, I mean, AIB had 26,000 employees. I don’t know I suppose that’s the working population of Waterford or Limerick, I don’t know. They’re not all going to be perfect but I think we made a serious effort and that I made a serious effort to try and

inculcate ethical standards. There had been this disgraceful business in the 90s with foreign exchange, now this is the first foreign exchange issue and you sent me some papers on that and we sent that report to the guards.

We instituted staff training on ethical issues and did surveys about how effective it was and there was ... every year ... and I haven't been able to go back through the minutes, the AIB code of business ethics was sent to every employee and it was approved by the board every single year while I was there. Usually in the spring - I can remember this time of the year.

There was a separate initiative for senior managers who would be taking the more serious decisions and I think the only time I ever addressed a group of managers, managers were run by the CEO. That's the way it works. I run the board and he runs the bank. But I did address a group of senior managers to launch a thing called "Leadership by example" and it was about probity and obeying the law. And in July 2007 Eugene Sheehy and myself launched that so we did make those efforts. We also got an assessment done by an English organisation called the Institute for Business Ethics and they said we were above par for the financial services industry. So there was an attempt to inculcate lawfulness - can I put it that way and I believe that the vast majority of AIB employees were entirely correct in their behaviour.

Chairman: A general question before I invite the next questioner, Mr. Gleeson, is that the bank has governance standards, these are outlined every year in the annual report but there are a series of ... these are not small events ... they're quite significant events, the exchange rates and all the rest. At any stage was there, this is the question, that we really need to review our governance standards and by means of a process then developing, if the governance standards, were they of a particular nature that matters then relating to the guarantee were inevitably going to happen, in terms of credit concentration levels and all of the rest of it?

Mr. Dermot Gleeson: No, I think that analysis is flawed, Chairman, I am sorry to say it but I don't think that's the way things happened. I mean I think the guarantee arose from all sorts of complex features including contribution by AIB mistakes but I honestly don't think that the historical issues, and they were real, lead to the guarantee. I honestly don't think that's what happened.

Chairman: Okay but can I put the question to you that there seems to have been an ethos or a culture or a repetition of error after error after error? As chairperson of AIB, did you think you changed, that you succeeded or failed in dealing with that ethos?

Mr. Dermot Gleeson: Well, I think we need to be careful about this. I don't think there was repetition of error after error after error. There were historical events in the 90s and before I was chairman and while I was chairman this FX overcharging issue came to thing which I don't think was an offensive dishonesty or anything. Bad administration maybe but there was no-one benefitted from it and we repaid fully and we ... all our reports were always supervised by someone from the outside. We got usually a former Governor of the Central Bank come and look over our shoulder while we did those investigations.

Chairman: Mr. Gleeson, just to remind members whilst that we are concentrating on the guarantee at one level, there are years of events that came before the guarantee and we would need to be balancing our questionings on both areas. Next questioner, Senator Michael D'Arcy. Sorry, my apologies. Senator Marc MacSharry.

Mr. Dermot Gleeson: I know who you are, Senator.

Senator Marc MacSharry: And it's Michael D'Arcy.....Thanks very much, Mr. Gleeson, for being here. How did the establishment of the chairman's committee in 2004 impact on the authority of the board and what was the rationale behind the restructuring in that regard?

Mr. Dermot Gleeson: Well, the rationale of the chairman's committee was that there were sometimes things that came up, you couldn't assemble a board, the board was international. As you probably know we had two Americans at one stage, one American always, three from the United Kingdom and then two from Belfast, people around the country. So, if there was something urgent - let's say a large plc. came and said "We are going to buy a ... do an acquisition and we need €1 billion" and the capital markets fellas looked into it and said "This is fine." You couldn't get a board together and it was over the limits, so you did it for that. You also did it for things like sometimes you might need a board resolution for appointing a receiver, sort of housekeeping stuff really. And then exceptions to the large exposure policy were sent to the chairman's committee as well.

Senator Marc MacSharry: The point I want to get to in particular-----

Mr. Dermot Gleeson: Yes.

Senator Marc MacSharry: So, when exposures were being increased or there were a decision maybe between one particular borrower, did that come to this committee or did it go to the board?

Mr. Dermot Gleeson: It could come to the board or it came to this committee. I mean if the board was going to sit tomorrow you'd bring it to the board.

Senator Marc MacSharry: But typically-----

Mr. Dermot Gleeson: Typically it came to the committee.

Senator Marc MacSharry: Okay, so, how many times would you think that you would have made exceptions at that committee?

Mr. Dermot Gleeson: Well I thought that was of interest of me and it's of interest to you obviously. All I got was the minutes for the three years, 2006, 2007 and 2008, so I can't say how frequent they were before that, but-----

Senator Marc MacSharry: Well say in those years, I mean, how many-----

Mr. Dermot Gleeson: In those years I can tell you how often it was.

Senator Marc MacSharry: Roughly, yeah.

Mr. Dermot Gleeson: I ... now ... this is me, without assistance, going through the minutes and trying to check. They're heavily redacted as you know so I may well have missed some, but on my account, if you include both UK property and Irish property, I'm not talking about property lending decisions, not decisions to buy out a public company or to sponsor a share, you know, other ones, but property in the UK and Ireland, I think there were 17 in those three years. About one every three months.

Senator Marc MacSharry: And would that be typically ... without mentioning names, give me one example, say, of, developer A-----

Mr. Dermot Gleeson: Well you have an example in your papers, yes. Developer A wants ...

he's got a new project, or he has run into trouble in the financing of the old one. I remember one which was really quite extraordinary. There might be ... say a development was going through phases and the planning authority required the sequential phases to come back for planning. There was going to be a DART station that had to be paid for by the developer on ... or maybe a Luas station, I can't remember, and that was extra money. So you would get top-up requests, and also I'm afraid, you would occasionally get top-up requests that suggested that a developer might be getting into trouble. You know you'd loaned him €100 million and he now needed another €10 million to finish the thing out and the decision was, do you give him the extra €10 million or do you leave it unfinished? So, there were sometimes troublesome decisions.

Senator Marc MacSharry: So when you took these decisions, were they routinely second-guessed then by the broader board or-----

Mr. Dermot Gleeson: No, they were not routinely second-guessed. They were all presented and explained to the board, but, the way it worked, you see, if ... a credit like that for a developer looking for extra money would typically go, first, the lenders in Republic of Ireland division would do it, the senior lenders would look at it. Then they'd have to go to the Republic of Ireland credit committee. That's to say the credit people, who are completely independent, have nothing to do with lending and are supposed to be, if you like, scrutinising it in a sceptical way. If it got through that, and some of them didn't, it would come to the, if it was big enough, the group credit committee. Now the group credit committee had the group chief credit officer, the chief risk officer, these serious players on it, and it was then ... only then would it be promoted to the chairman's committee.

Senator Marc MacSharry: Okay, so, did the board ever have to take the decision to lend somebody money or not?

Mr. Dermot Gleeson: Yes, occasionally they would have approved.

Senator Marc MacSharry: And how big ... what level, that'll end up in the board-----

Mr. Dermot Gleeson: I think there's one on the books there of adding €200 million to a developer who already was up at €700 million or €800 million.

Senator Marc MacSharry: Is there any instance where the board decided "No, we're not going to do that"?

Mr. Dermot Gleeson: No I don't think so, and I mean that's a very obvious question and creates the impression that it was rubber-stamping, and it wasn't actually. I mean, when you think of it, the idea was that these credits, like the one I've just mentioned for instance, you don't have in your small papers, but I have in my long papers, because you have them as well, but ... the mark-up for that particular credit, and I have it here, 48 pages of analysis and analysis of who the independent valuers are and what they say about everything, the loan to value of every component, the track record of this customer, what their personal net worth is, their personal net worth statement, all their own assets, running to €2 billion in this case, their repayment history, so, the mark-up on a document like that would be very substantial and would give you all the history and then there would be an industry appraisal. Some of this was for office development in Dublin, "What does the office development market look like at the moment?", so it was quite a stringent process.

Senator Marc MacSharry: Yesterday we had an example from the CEO of NAMA where he spoke anecdotally of a senior lender in an institution that was nameless, lending €200 mil-

lion to somebody on the basis of a statement of affairs that was handwritten and put back into his pocket in a matter of months.

Mr. Dermot Gleeson: I saw that on some website overnight, yes.

Senator Marc MacSharry: Were there ever-----

Mr. Dermot Gleeson: I hope not and certainly I never heard of it.

Senator Marc MacSharry: -----any such practices?

Mr. Dermot Gleeson: I doubt that with all due respect. I mean I ... he didn't, I think, Senator, if I'm not mistaken, I don't think he identified particular banks, but I don't believe that's the way the business-----

Senator Marc MacSharry: You said earlier on, to do with targets, that it was never sales-related, that it-----

Mr. Dermot Gleeson: No, it was profit-related sometimes.

Senator Marc MacSharry: It was profit-related.

Mr. Dermot Gleeson: Well not profit-targeted, but sometimes-----

Senator Marc MacSharry: But how do you reconcile that then with individual branch managers having lending targets? Surely that's volume-related.

Mr. Dermot Gleeson: No, they didn't have lending targets, they had lending limits.

Senator Marc MacSharry: No, again, can I just ask you to be very specific here? Is it not the practice that branch manager, or business manager A in region B, is told "your target for quarter one or two or three or the year, is so many millions, in lending"?

Mr. Dermot Gleeson: I ... he may well be told that but not connected to his pay. That's where we're ... have a difference. Yes.

Senator Marc MacSharry: So well surely if he lent that money, would that not be an indication that he performed to target and therefore might-----

Mr. Dermot Gleeson: I'm afraid now you're getting into a detail in terms of managers' systems that I'm not the best person to ask. I am sorry for that.

Senator Marc MacSharry: Okay, so in terms of remuneration ... so ... you might-----

Mr. Dermot Gleeson: I'm aware ... more aware of what higher managers were-----

Senator Marc MacSharry: I understand. So what you're saying, just so that we're clear for the record, what you said earlier maybe isn't entirely correct then.

Mr. Dermot Gleeson: It may not be, no. I don't think I can speak with sufficient authority.

Senator Marc MacSharry: No problem, we can ask ... we can ask some of the others from the bank.

Mr. Dermot Gleeson: I think you're having Mr. Sheehy-----

Senator Marc MacSharry: Yes, we'll speak to him about that. You mentioned in your statement that the ECB had tools at its disposal to enforce policies that could mitigate against the negative impacts of interest rates being too low. I think you stated that they ought to have been between 6% and 12%.

Mr. Dermot Gleeson: Well there's the economists, and I'm ... while I have an economics degree I'm not in any sense of the word an economist.

Senator Marc MacSharry: No I know that but you did say the ECB had these tools at their disposal if I'm understanding you correctly.

Mr. Dermot Gleeson: Well they've a legal instrument.

Senator Marc MacSharry: Yes, and what is that legal instrument? Could you explain just for people-----

Mr. Dermot Gleeson: It's a statute ... I don't have it with me ... but it's the statute of the European Central Bank or something, and I'll certainly be able to find the reference, and what it says is, I think, is that national central banks must operate, and then there's this key phrase, "in accordance with the instructions of the ECB". All I was drawing the attention of the committee to was that it looked to me, and I might be wrong about this, is that they had power to say "Portugal has gone off the tracks, we want to tell the Portuguese Central Bank to do X, Y or Z".

Senator Marc MacSharry: Is this something that you realised with the benefit of hindsight or at the time do you remember thinking-----

Mr. Dermot Gleeson: Oh no, it's something I picked up with hindsight, yes.

Senator Marc MacSharry: In hindsight.

Mr. Dermot Gleeson: I was ... I absolutely was not conscious of-----

Senator Marc MacSharry: Okay, so in any event, nothing happened in Irish hands-----

Mr. Dermot Gleeson: Well as far as I know. I'm not an expert on this area but I'm just conscious that it says that, and I read that somewhere, and I thought it might be of interest.

Senator Marc MacSharry: Okay, just last question then. You spoke earlier, and indeed in your statement, of how, in a private conversation with Brian Lenihan, the late Brian Lenihan, that he had said that his preferred option was to deal in a different way with Irish Nationwide and ... and Anglo.

Mr. Dermot Gleeson: Yes.

Senator Marc MacSharry: Would there be any other pieces of information that the Minister may have shared with you in private that may be relevant to us here?

Mr. Dermot Gleeson: No. I don't think I'm keeping anything ... no ... no I ... I mean ... I don't honestly think so. I don't honestly think so. I mean the reason I've worried about that was obviously the late Mr. Lenihan can't give his version, and then, could there be an unfairness in this, but when Governor Honohan came out, I felt that the right thing to do was to tell you.

Senator Marc MacSharry: Okay, I have five seconds. In the room for the guarantee, on the particular night in question, was Mr. Lenihan present at all times when you were present?

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Mr. Dermot Gleeson: No, because ... there was the Taoiseach's anteroom, as I know it, because I used to work in that building myself, was where the decision makers were. The rest of us were distributed in other rooms. Now, Mr. Lenihan, when I went into that room, was present all the time. In other words when we were asked back into the decision makers, we met the same personnel, the Taoiseach, the Minister for Finance, the Attorney General, the Governor of the Central Bank until very late when he was replaced by Mr. Grimes, and departmental secretaries, Mr. Doyle, Mr. Cardiff his assistant, and ... I've listed them in the list. And when we went back in to that room, Mr. Lenihan was always there, as far as I remember.

Chairman: Thank you very much Senator MacSharry. Senator O'Keeffe.

Senator Susan O'Keeffe: Many thanks Chair. Mr. Gleeson, you said at the start in response to Deputy Doherty that you had had some property yourself as part of your pension plan.

Mr. Dermot Gleeson: I used a "pension plan" in a loose term, it wasn't ... in terms of my savings for retirement I suppose.

Senator Susan O'Keeffe: Did any of the other members of the board of AIB have any involvement in property deals, apart, of course, from owning their own house, perhaps?

Mr. Dermot Gleeson: I can't answer that question Senator O'Keeffe. It's certainly possible and the answer is that I don't know. I mean, I think it improbable that the American and UK directors would have, but I just don't know.

Senator Susan O'Keeffe: And it was never something you might've thought was relevant, you know, that involvement by-----

Mr. Dermot Gleeson: I don't think so.

Senator Susan O'Keeffe: -----by board members in the property market.

Mr. Dermot Gleeson: I mean,-----

Senator Susan O'Keeffe: You didn't ask them.

Mr. Dermot Gleeson: -----we were not a public body.

Senator Susan O'Keeffe: You didn't ask them.

Mr. Dermot Gleeson: No, I didn't ask them, "Are you invested in property in Ireland?" I didn't.

Senator Susan O'Keeffe: But you were.

Mr. Dermot Gleeson: I was to a ... I think, to be fair, to a pretty small degree, I'd have to say. I mean, nothing like you're talking about the numbers here. A small amount of my savings were put into something.

Senator Susan O'Keeffe: When you referred earlier to the OECD and the report that it-----

Mr. Dermot Gleeson: Yes.

Senator Susan O'Keeffe: -----gave and said how well-----

Mr. Dermot Gleeson: Yes.

Senator Susan O’Keeffe: -----things were going, can I ... it’s just a very simple answer I’m looking for. If it looked at the banks, did it look at the banks given information by the banks? Was that how they did-----

Mr. Dermot Gleeson: Yes.

Senator Susan O’Keeffe: You know, did the banks supply the information to the OECD?

Mr. Dermot Gleeson: Senator-----

Senator Susan O’Keeffe: And then it made its report based on that.

Mr. Dermot Gleeson: I’m afraid, Senator, I can’t help you. I don’t know the answer to the question. I’m sure that’s a question that’s easily answered-----

Senator Susan O’Keeffe: Okay.

Mr. Dermot Gleeson: -----and, if you want, I will try and find the answer afterwards and-----

Senator Susan O’Keeffe: Thank you.

Mr. Dermot Gleeson: -----communicate with you.

Senator Susan O’Keeffe: If I could bring you back again to a document you’ve already looked at in relation to the regulator ... it’s document C3 ... book C3b, Vol. 2, 15 April.

Mr. Dermot Gleeson: C3b, Vol. 2. I have it, yes.

Senator Susan O’Keeffe: Yes. It’s the one in which somebody else has remarked about ... you know, the “hopeless regulator” remark.

Chairman: Page number? Page number?

Senator Susan O’Keeffe: Page 33.

Mr. Dermot Gleeson: Yes.

Chairman: Page 33.

Mr. Dermot Gleeson: Yes.

Chairman: Thank you.

Senator Susan O’Keeffe: You ... so, you said a “hopeless regulator”. At the end of that document, you also said, “Either the new era of regulation starts with the price list to be published on Monday, or we despair of any proper regulation ever starting and act accordingly.”

Mr. Dermot Gleeson: Yes.

Senator Susan O’Keeffe: When you came in this morning, Mr. Gleeson, you said you had a perfectly professional relationship with the regulator. I want to know which of these should we stand by in relation to your evidence. Did you have a perfectly professional relationship or was it a hopeless regulator and you despaired of any proper regulation?

Mr. Dermot Gleeson: Well, I think you can have a perfectly professional relationship, Sen-

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ator. It's behaving politely, doing what you're asked, not having vast rows and ... professional, I mean, in the sense of they interacted with us at all sorts of levels. I meant it in the sense that it was respectful of them.

Senator Susan O'Keeffe: Okay.

Mr. Dermot Gleeson: That's all I would say. I mean, this was an internal memorandum and I was ... I suppose, I'd not had much sleep. And it's an angry memo. That's what I'd say about that.

Senator Susan O'Keeffe: Okay. On page ... AIB B2, Vol. 1, page 13 ... and again you've looked at-----

Mr. Dermot Gleeson: B2 or A2?

Senator Susan O'Keeffe: B2.

Mr. Dermot Gleeson: Vol. 1.

Senator Susan O'Keeffe: Vol. 1, page 13. Again, it's a document you've already looked at. It's called-----

Mr. Dermot Gleeson: If you'd just bear with me for a moment, now.

Senator Susan O'Keeffe: -----"Looking Ahead". I think-----

Mr. Dermot Gleeson: B2, Vol. 1.

Senator Susan O'Keeffe: I think Deputy Phelan already drew your attention to it.

Mr. Dermot Gleeson: Okay.

Senator Susan O'Keeffe: The "Credit Posture" ... I just want to know one simple question - whether the handwriting on that-----

Mr. Dermot Gleeson: I'd have to find the page.

Senator Susan O'Keeffe: Yes.

Mr. Dermot Gleeson: You'll have to help me.

Senator Susan O'Keeffe: Page 13. Take your time.

Mr. Dermot Gleeson: B2A.

Senator Susan O'Keeffe: B2.

Mr. Dermot Gleeson: Is it A, B or C?

Senator Susan O'Keeffe: Vol. 1, page 13.

Mr. Dermot Gleeson: Thirteen. I might be able to get it from that. Page 13, "Looking Ahead".

Senator Susan O'Keeffe: Yes.

Mr. Dermot Gleeson: Yes. I have it.

Senator Susan O’Keeffe: Is the handwriting ... is that your handwriting?

Mr. Dermot Gleeson: No, it’s not.

Senator Susan O’Keeffe: Okay. That’s fine, thank you. In relation to going to the bank ... to the night of the guarantee, can you just explain to us exactly how you got to be in Government Buildings? Who made-----

Mr. Dermot Gleeson: How I got to be in Government Buildings, yes.

Senator Susan O’Keeffe: Who made the phone calls-----

Mr. Dermot Gleeson: Yes, surely. Yes.

Senator Susan O’Keeffe: -----and who was spoken to?

Mr. Dermot Gleeson: Yes. Well, I think this is set out in the note that I dictated, it appears.

Senator Susan O’Keeffe: Well, just tell us, if you would, please,-----

Mr. Dermot Gleeson: Surely.

Senator Susan O’Keeffe: -----because it’s not entirely clear from the note.

Mr. Dermot Gleeson: In the afternoon of 29th ... sorry, the story starts the previous evening when we heard from Eugene Sheehy that the authorities had indicated to him that two institutions likely to fail and a guarantee for the others.

Senator Susan O’Keeffe: Who authority ... in authority informed him?

Mr. Dermot Gleeson: I don’t know.

Senator Susan O’Keeffe: Okay. We’ll ask him.

Mr. Dermot Gleeson: And then on the ... two things happened on the afternoon of the Monday, 29th. I had a phone call from Sean FitzPatrick asking for a meeting, which I declined, and he also asked if I’d go with him to the Central Bank, I think, or to the Government. I’m not sure. Anyway, that meeting didn’t happen. I later had a phone call from the governor of the Bank of Ireland and he said he thought it was ... that things were so fraught in the markets ... and this was a very fraught day. Anglo’s share price had dropped by 50%. The American Congress was meeting on what’s called the Paulson rescue plan. So, there was a lot of nervousness. People were, you know, very fraught. We were talking to the fellas - the officials - down in treasury department, which is the part of the bank that collects our funds. And the thing was quite fraught. Richard Burrows said, “I think we should go and see the Government.” I said, “I agree.” We had a quick phone call and we arrived at Government Buildings at 9.30 p.m.

Senator Susan O’Keeffe: So, who did you ring and who rang who?

Mr. Dermot Gleeson: I didn’t ring anyone. I’m sure-----

Senator Susan O’Keeffe: Okay. Somebody else did.

Mr. Dermot Gleeson: I would think that someone in the chief executive’s office or perhaps

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in Bank of Ireland's office rang someone in the Taoiseach's Department. "I don't know" is the answer.

Senator Susan O'Keeffe: Why did you have to wait until 9.30 p.m.?

Mr. Dermot Gleeson: That was the time we were told to come.

Senator Susan O'Keeffe: Okay.

Mr. Dermot Gleeson: Yes.

Senator Susan O'Keeffe: So, off you went, the two of you, you and Mr. Sheehy.

Mr. Dermot Gleeson: Yes.

Senator Susan O'Keeffe: And that was it.

Mr. Dermot Gleeson: Yes.

Senator Susan O'Keeffe: Now, Mr. Sheehy says in his evidence-----

Mr. Dermot Gleeson: Yes.

Senator Susan O'Keeffe: -----that the guarantee that the AIB piece of paper that you described to Deputy Doherty this morning-----

Mr. Dermot Gleeson: Yes.

Senator Susan O'Keeffe: He says, "We had drawn up an alternative form which included language which was more specific and also included a definite timeline".

Mr. Dermot Gleeson: Right.

Senator Susan O'Keeffe: So, again, he seems to be also-----

Mr. Dermot Gleeson: He has more-----

Senator Susan O'Keeffe: He has more-----

Mr. Dermot Gleeson: I did, I think, say to one of your colleagues earlier, Senator, that I thought there might've been something about the duration in it.

Senator Susan O'Keeffe: Yes. So, again, who ... when he says "we" ... I mean, who would've drawn that up? Did you sit-----

Mr. Dermot Gleeson: I-----

Senator Susan O'Keeffe: -----in your office?

Mr. Dermot Gleeson: No. No.

Senator Susan O'Keeffe: Who did?

Mr. Dermot Gleeson: I think what happened was that, it was in the conversation with the treasury people,-----

Senator Susan O'Keeffe: Yes.

Mr. Dermot Gleeson: -----that they proffered a form of words which would reassure the people that they interacted with on a daily basis, people like foreign central banks. That's what I think happened. That's where I think the formula came. I wouldn't ... it wouldn't have been within my skill set to draw up such a formula.

Senator Susan O'Keeffe: You say in your statement, I think, that you and Mr. Burrows - Bank of Ireland in other words - you guys had agreed going in the door that something had to be done about the other two.

Mr. Dermot Gleeson: No, it wasn't going in the door. We had a phone call-----

Senator Susan O'Keeffe: Sorry. I meant ... I beg your pardon. That's not what I ... that you had agreed this. How had you arrived at that agreement? The two banks.

Mr. Dermot Gleeson: Well, remember that the system had proffered to us the day before - to Mr. Sheehy, should I say - that two were likely to fail. We knew who they were. We knew that Anglo ... we knew who they were. It was Anglo and Nationwide. As to what was being done with them, the system had also proffered the solution that they would be "dealt with", in inverted commas. I didn't give much ... maybe ... I didn't give much reflection to how they would be dealt with. I thought nationalisation was the most likely, but maybe immediate liquidation was possible. But I had so many worries that designing the Government's solution to dismantling these ... I felt that was for the Central Bank and the Attorney General and ... you know, it wasn't one of my headaches, of which there were ample supply.

So, we went in, we were asked by the Taoiseach - very politely - to say what we thought should be done and we said that we thought they should be dealt with and then a guarantee put in place because there would be a turmoil, it would be the front page of all the financial press the next day - "Irish bank taken down" or "nationalised" or whatever it would read - and people in South Korea and Peru would be saying, "I wonder whether I want to give my money to AIB for the next two months." It was against that contingency-----

Chairman: You've come to the last question, Senator.

Senator Susan O'Keeffe: And you were asked to assemble, weren't you, liquidity? You and Bank of Ireland.

Mr. Dermot Gleeson: Yes.

Senator Susan O'Keeffe: And you went to considerable difficulty ... considerable effort to make that happen.

Mr. Dermot Gleeson: Yeah. Well, not me personally,-----

Senator Susan O'Keeffe: Who?

Mr. Dermot Gleeson: -----but the people in-----

Senator Susan O'Keeffe: The bank.

Mr. Dermot Gleeson: That, yes.

Senator Susan O'Keeffe: Both banks.

Mr. Dermot Gleeson: Yes. They stayed up all night, I think.

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Senator Susan O’Keeffe: All night. Why would the Government be doing that when then they were actually going to guarantee all the banks, do you think? What-----

Mr. Dermot Gleeson: That’s a good question.

Senator Susan O’Keeffe: What happened there?

Mr. Dermot Gleeson: I mean, I’m obviously only guessing at the answer.

Senator Susan O’Keeffe: Well, guess away.

Mr. Dermot Gleeson: Well, the guess is that there were options still floating and that the version that I had come in with was still alive.

Senator Susan O’Keeffe: But as you were leaving-----

Mr. Dermot Gleeson: Yes.

Senator Susan O’Keeffe: -----Government Buildings at whatever hour it was,-----

Mr. Dermot Gleeson: Yes.

Senator Susan O’Keeffe: -----what was in your head? Did you think, “Okay, they’ve done that; it’s going to be four and two-----

Mr. Dermot Gleeson: Well, except that-----

Senator Susan O’Keeffe: -----somehow or other”?

Mr. Dermot Gleeson: I said ... the Attorney General who, as I say, is someone I know very well, did say to me on the way out, “You shouldn’t assume that the Government is committed to take any particular action in respect of any particular institution.” Now,-----

Senator Susan O’Keeffe: At what time of the night do you think ... never mind what someone else has said?

Mr. Dermot Gleeson: You know when you stay up late-----

Senator Susan O’Keeffe: I know.

Mr. Dermot Gleeson: I mean, we left about 3.30 a.m., I think, so I don’t ... certainly after midnight. I ... my recollection is that I thought it was towards when we were gathering our traps to go home.

Senator Susan O’Keeffe: Were you surprised to discover that the NTMA was in the building and never was asked for its advice?

Mr. Dermot Gleeson: I saw that yesterday or, sorry, on the paper this morning.

Senator Susan O’Keeffe: Yes, but were you surprised?

Mr. Dermot Gleeson: I suppose nothing would surprise me at this stage.

Chairman: Senator, you’re about to run out of time.

Senator Susan O’Keeffe: But were you surprised?

Mr. Dermot Gleeson: I was surprised, yes. I didn't know it, can I put it that way?

Senator Susan O'Keeffe: Yes. Okay. And was there anybody else that you had a conversation with in that ... you know, that night-----

Mr. Dermot Gleeson: Well----

Senator Susan O'Keeffe: -----that you may have not remembered?

Mr. Dermot Gleeson: I ... well, sorry. My memory is not any better now, Senator, than it was when I wrote the note. And I think I recorded all the names. I did mention that I met another partner from Arthur Cox's in the corridor. I met Mr. Neary in the corridor and had a private, like, personal chat with him. Nothing about the issues. But Mr. Neary was never in the room when the-----

Senator Susan O'Keeffe: Why nothing about the issues? There you are with the-----

Chairman: Senator, you're out of time.

Senator Susan O'Keeffe: -----Financial Regulator.

Chairman: You're out of time.

Senator Susan O'Keeffe: Well,-----

Mr. Dermot Gleeson: I might've said something, "We're all up here very late"-----

Chairman: Bring it on.

Mr. Dermot Gleeson: -----or ... I don't know what I said. A pleasantry.

Chairman: There is a question that I believe now needs to be asked because we can ... while there is a lot of information on the guarantee, there is a period leading up to the guarantee that has to be dealt with. And I want to discuss the business model that AIB were operating.

Mr. Dermot Gleeson: Yes.

Chairman: And would I be right in asking you, Mr. Gleeson, that the development of the bank's business strategy is one of the main responsibilities of the board?

Mr. Dermot Gleeson: Yes, in a sort of overview sense. It's proposed, usually by the executive.

Chairman: So, it would take up a substantial part of the board's activity?

Mr. Dermot Gleeson: I'm not so sure I'd subscribe precisely to that. It's an important thing-----

Chairman: Okay.

Mr. Dermot Gleeson: -----but, I mean, you have to remember this, as you pointed out, is a bank that was at this stage 180 years old. You know, you inherit a lot of the bank's universal bank strategy. You're not going to say, "We're going to close all the branches" or anything.

Chairman: Okay. Well, in my opening question this morning, a bank that was in existence

going back before the establishment of the State, and I think before the Act of Union, or in around that time ... there was a business model in place.

Mr. Dermot Gleeson: Yes.

Chairman: Did the business model change radically in the period before the guarantee, the grow-fast model as maybe Bill Black, a witness here before the inquiry-----

Mr. Dermot Gleeson: Well, I mean clearly the ... it changed in the sense that we all see now that property lending in Ireland-----

Chairman: Yes.

Mr. Dermot Gleeson: -----overwhelmed the whole bank.

Chairman: Right.

Mr. Dermot Gleeson: That happened-----

Chairman: Okay.

Mr. Dermot Gleeson: -----but that wasn't a designed change in the business model. As I said to you, it's important to recognise that, you know, the profit contribution from Irish property was less than 15%.

Chairman: Well, was there any time, let's say between 2002 onwards ... NAMA's testimony yesterday said that AIB's book doubled in a very short period of time.

Mr. Dermot Gleeson: Yes.

Chairman: Other banks' trebled or quadrupled. Was there any view at that time, at board level, that somebody was eating your lunch and that you were going to go after it?

Mr. Dermot Gleeson: Well, I've had that expression used and certainly a very senior businessman said to me once that, you know, "You should be careful." This was meant in a kindly way.

Chairman: Yes.

Mr. Dermot Gleeson: "You should be careful because there must have been a time in the past when Aer Lingus didn't take Ryanair seriously and you'd want to be careful that you don't treat Anglo the same way." Things like that were said to me.

Chairman: But the question, and I'm going to move on after this, did AIB, to your interpretation-----

Mr. Dermot Gleeson: Yes.

Chairman: -----radically change the type of business model that it was historically using in the 2002 period-----

Mr. Dermot Gleeson: Not in any conscious or deliberate way.

Chairman: Okay, and so-----

Mr. Dermot Gleeson: I think our policy was to hold on to our own customers.

Chairman: So, how did the bank double, if it didn't change its model?

Mr. Dermot Gleeson: Because we were holding on to our own customers who were multiplying their businesses by much more than double.

Chairman: Okay. So, were you mirroring their practice?

Mr. Dermot Gleeson: Well, I mean I don't think we were mirroring their practice, but we were staying with them longer than we should have.

Chairman: All right, thank you. Deputy Kieran O'Donnell.

Deputy Kieran O'Donnell: Thanks, Chairman. I just want to touch on one or two things in the guarantee-----

Mr. Dermot Gleeson: Sure.

Deputy Kieran O'Donnell: -----and then I want to deal with earnings per share. On the night of the guarantee, the proposal that you put, your formula of words-----

Mr. Dermot Gleeson: Yes.

Deputy Kieran O'Donnell: -----what did the guarantee cover?

Mr. Dermot Gleeson: I told your colleague that I thought it was deposits and bonds, but there may have been more technical language than that.

Deputy Kieran O'Donnell: Did it cover senior bondholders?

Mr. Dermot Gleeson: I think it probably did.

Deputy Kieran O'Donnell: So, it covered all deposits and it covered all-----

Mr. Dermot Gleeson: All deposits certainly.

Deputy Kieran O'Donnell: And all senior bondholders?

Mr. Dermot Gleeson: I would think so.

Deputy Kieran O'Donnell: So, with due respect, Mr. Gleeson, that's akin to effectively a blanket guarantee.

Mr. Dermot Gleeson: Well, the word-----

Deputy Kieran O'Donnell: Well, for instance, you're saying you'd no subordinated debt maturing?

Mr. Dermot Gleeson: Yes, yes.

Deputy Kieran O'Donnell: So, it's akin to a blanket guarantee; would you agree?

Mr. Dermot Gleeson: Well, I'm happy to have it called that.

Deputy Kieran O'Donnell: Okay.

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Mr. Dermot Gleeson: I think the word “blanket” - just so that I don’t get mixed up - is sometimes used as to whether the six or the four banks at ... it’s not in that sense-----

Deputy Kieran O’Donnell: The question is, when the banks were going in-----

Mr. Dermot Gleeson: Yes.

Deputy Kieran O’Donnell: -----were they looking for all deposits-----

Mr. Dermot Gleeson: Yes.

Deputy Kieran O’Donnell: -----and all senior bondholders to be covered?

Mr. Dermot Gleeson: Yes. It was ... as I said, the purpose was to assure people who lend money worldwide that it was sound.

Deputy Kieran O’Donnell: Well then, in substance, the guarantee that arose from the Government, in substance, did it basically ... outside the fact that it included the other two institutions, Anglo and Irish Nationwide, in substance, was it the proposal you put forward?

Mr. Dermot Gleeson: Well, you say outside of the fact that it was not to include Anglo and Irish Nationwide.

Deputy Kieran O’Donnell: No-----

Mr. Dermot Gleeson: I wouldn’t regard that as a footnote, Deputy.

Deputy Kieran O’Donnell: I didn’t say it was a footnote, Mr. Gleeson. What I am saying is, the structure of the guarantee, outside ... apart from the participants-----

Mr. Dermot Gleeson: Well, as I said-----

Deputy Kieran O’Donnell: In principal, was it ... sorry, in substance, was it what you proposed?

Mr. Dermot Gleeson: The guarantee, when it came out, and I looked at it a couple of months ago, is 12 pages of intense legal documents.

Deputy Kieran O’Donnell: Yes, within-----

Mr. Dermot Gleeson: And I didn’t read it.

Deputy Kieran O’Donnell: But for the ordinary man, the layman-----

Mr. Dermot Gleeson: For the formula of-----

Deputy Kieran O’Donnell: -----it covered all deposits of the banks, all senior bondholders and lower, tier 2 subordinated debt, not all subordinated debt.

Mr. Dermot Gleeson: My recollection-----

Chairman: He needs some space to answer the question.

Deputy Kieran O’Donnell: Okay, sorry.

Chairman: Mr. Gleeson?

Mr. Dermot Gleeson: -----is that the formula for coverage, what was going to be covered by the guarantee, to pose the question in sort of public house language, was the one that we had asked for.

Deputy Kieran O'Donnell: Okay. Secondly, I'm referring back to AIB, B1, Vol. 2 ... CBC ... C3b.

Mr. Dermot Gleeson: C3b?

Deputy Kieran O'Donnell: C3b, yes.

Mr. Dermot Gleeson: Yes, that's the one that your colleague was-----

Deputy Kieran O'Donnell: And it's page ... page 31. It's a memo from the Department of Finance-----

Mr. Dermot Gleeson: Yes.

Deputy Kieran O'Donnell: -----for the meeting-----

Mr. Dermot Gleeson: This is the one where I've already registered-----

Deputy Kieran O'Donnell: Correct.

Mr. Dermot Gleeson: -----that's it not in all respects according to my recollection.

Deputy Kieran O'Donnell: Now, there's a meeting that took place at 41 minutes past 12, so it's-----

Mr. Dermot Gleeson: Can you just show me ... I don't know this very-----

Deputy Kieran O'Donnell: It's 00.41 on the top-----

Mr. Dermot Gleeson: Oh yes, I see that, yes.

Deputy Kieran O'Donnell: Okay.

Mr. Dermot Gleeson: Yes.

Deputy Kieran O'Donnell: Was that the last meeting that you had with Government on the night of the guarantee?

Mr. Dermot Gleeson: I couldn't honestly say because I didn't keep a note, and maybe I should have, of the times we went in and out. All I know, that we arrived at half 9 and left at half 3.

Deputy Kieran O'Donnell: And when you left, were you under the distinct impression at that time that the guarantee that was going to be put in place would involve the four institutions, in terms of the type of guarantee that came out, and both Anglo and Irish Nationwide, as you say, would be taken out or would be dismantled?

Mr. Dermot Gleeson: Well, that was the way the conversation with me had proceeded, but I did ... it was made perfectly clear to us that the Government were listening to what we had to say and would make their own decision. That was said in one of the meeting, "The Government are listening to what you have to say and will make their own decisions." But then we were off,

trying to find this liquidity, as I explained to Senator O’Keeffe.

Deputy Kieran O’Donnell: Were you ever informed that that liquidity would not be called upon by Government?

Mr. Dermot Gleeson: We were, because I can remember someone complaining the day after, or ... we were informed the following day, I think, because I do remember, and I think it was someone from Bank of Ireland, saying “We expended some money in the effort and we won’t get that back”. Not very large money.

Deputy Kieran O’Donnell: And on the issue of liquidity-----

Mr. Dermot Gleeson: Yes.

Deputy Kieran O’Donnell: -----and I am referring to the same-----

Mr. Dermot Gleeson: Book.

Deputy Kieran O’Donnell: -----book, and referring to basically what Mr. Sheehy has said-----

Mr. Dermot Gleeson: Yes.

Deputy Kieran O’Donnell: -----did you have discussions in AIB on liquidity matters?

Mr. Dermot Gleeson: Oh yes.

Deputy Kieran O’Donnell: Okay, and what-----

Mr. Dermot Gleeson: And liquidity was reported, as you know, on a daily basis to the regulator.

Deputy Kieran O’Donnell: What was your view in terms of your exposure to liquidity?

Mr. Dermot Gleeson: Exposure to liquidity? You mean in the sense of-----

Deputy Kieran O’Donnell: Problems.

Mr. Dermot Gleeson: -----problems of not having liquidity?

Deputy Kieran O’Donnell: Correct.

Mr. Dermot Gleeson: Well, that things were getting tighter. You know, Fannie and Freddie, the American public institutions, had themselves been put into public custody a few months before.

Deputy Kieran O’Donnell: When did you anticipate you’d come under real pressure on liquidity?

Mr. Dermot Gleeson: Well, who’s to say, you know? If house prices-----

Deputy Kieran O’Donnell: Well, Mr. Sheehy says that you were going to be ... you could have difficulty ... “Within one month, we will be funding banks overnight.”

Mr. Dermot Gleeson: Yes, well I don’t recall that; you’d have to ask him that. I thought we were okay, I have to say. We certainly ... can I say this to you, Deputy O’Donnell: for all

the time that I was chairman of AIB, down to June 2009, when I left, there was never a month when we failed to meet the regulator's liquidity requirements. Never.

Deputy Kieran O'Donnell: And on the final thing in the guarantee - and it's coming from your own memo of AIB, B1, Vol. 1, C3b - if Mr Burrows had not rang you on Monday of 29 September-----

Mr. Dermot Gleeson: Yes.

Deputy Kieran O'Donnell: -----what would you have done? What would AIB have done?

Mr. Dermot Gleeson: I don't know, it may well ... I mean, that's a counterfactual that I really just don't know. It seems to me that we would have had conversations with the Government. It's hard to think that they wouldn't have .. the Government, or the Governor of the Central Bank wouldn't have summoned us to a crisis meeting.

Deputy Kieran O'Donnell: But, yes, Bank of Ireland said that they were going ... they'd go on it solo if you didn't go with them?

Mr. Dermot Gleeson: Yes, and I thought we should go. I mean, that's all I can say. I honestly couldn't tell you, but, I mean, when the Paulson plan collapsed, I remember watching it on television out in AIB when it got the thumbs down or whatever happened, we thought, you know, this is, this is-----

Deputy Kieran O'Donnell: Well, did you feel any compulsion to go to Government on that night, like on that basis?

Mr. Dermot Gleeson: Well, I mean, we had decided at that stage to go to Government so-----

Deputy Kieran O'Donnell: Yes, but the Bank of Ireland had rang you to go?

Mr. Dermot Gleeson: Yes, but ... would I have decided to go by myself? I'd have thought that there would have been contact, as there was daily contact between the chief executive and the people in the Department of Finance and the people in the Central Bank.

Deputy Kieran O'Donnell: Can I move on to risk? And when you did your restructuring plan, you said your decision to expand into property was "misguided, and that its risk management and internal government systems were not as effective as they should have been in controlling this risk". Now, I'd a quick look through a couple of things and it's within AIB, B1, Vol. 2 and Vol-----

Mr. Dermot Gleeson: Vol. 2 doesn't tell me now. Is it B?

Deputy Kieran O'Donnell: AIB, B1, Vol. 2.

Mr. Dermot Gleeson: B1.

Deputy Kieran O'Donnell: At page 11.

Mr. Dermot Gleeson: B1, Vol.-----

Deputy Kieran O'Donnell: And it's a report that AIB commissioned with Mercer Oliver Wyman.

Mr. Dermot Gleeson: Yes.

Deputy Kieran O'Donnell: And that's dated 22 March 2007, and it says, "Poised on the edge of greatness", from AIB. And then if I go to page 22 of that document, the case study targeting risk taking. Now, this is just over a year before the guarantee, the crash-----

Mr. Dermot Gleeson: This is page 22 in the book?

Deputy Kieran O'Donnell: In this, yes.

Mr. Dermot Gleeson: This?

Deputy Kieran O'Donnell: Yes. Page ... sorry, it's page 22, so go to page 11 of Mercer Oliver Wyman and then go to page 33.

Mr. Dermot Gleeson: Page 33 of this book?

Deputy Kieran O'Donnell: Yes, 22 of the document. And you speak about targeting risk-taking.

Mr. Dermot Gleeson: Sorry, they speak of it.

Deputy Kieran O'Donnell: Yes, but they obviously presented to the board.

Mr. Dermot Gleeson: Yes, but we didn't commission ... I mean, we asked them to do a presentation. It wasn't to the board, it was to the management.

Deputy Kieran O'Donnell: Okay, so did ye commission them to do this?

Mr. Dermot Gleeson: Oh, absolutely, yes. I mean, one of the things you do-----

Deputy Kieran O'Donnell: Well, in the amount of time ... did ye commission it as a board? Ye did.

Mr. Dermot Gleeson: No, the management did.

Deputy Kieran O'Donnell: The management did.

Mr. Dermot Gleeson: This was the management-----

Deputy Kieran O'Donnell: The case study they put forward is Anglo Irish Bank.

Mr. Dermot Gleeson: Yes.

Deputy Kieran O'Donnell: "Once poor performing subscale bank lacking strategy. Targeted higher risk ... Caught the wave of Irish property ... #1 performer." They were putting that forward as a case study.

Mr. Dermot Gleeson: They were.

Deputy Kieran O'Donnell: And then the second thing I want to go to is AIB B5, Vol. 1, which is basically-----

Mr. Dermot Gleeson: Sorry, can you give me the reference again?

Deputy Kieran O'Donnell: AIB B5, Vol. 1.

Mr. Dermot Gleeson: B5, Vol. 1.

Deputy Kieran O'Donnell: Yes, page 3. And that speaks about the remuneration committee and the structure ye put in play in March 2005, where you basically linked the shareholder ... the bonus for top management to the earnings per share.

Mr. Dermot Gleeson: Yes. That's customary, as you know, in most public companies.

Deputy Kieran O'Donnell: But 50% of the share was if they ... the earnings per share, so the point is, were ye chasing the dragon? Were ye basically, with the earnings per share, looking for property? So, was your structure completely not factoring proper risk into account?

Mr. Dermot Gleeson: I don't understand your question.

Deputy Kieran O'Donnell: My question really is, is that, in all the documents, ye are saying in one breath that ye are, in this proposal, your structuring plan, that you were misguided, and yet I find the remuneration committee report here saying that you put a structure in place where the bonuses were placed around the earnings per share-----

Mr. Dermot Gleeson: Which were never met.

Deputy Kieran O'Donnell: -----which were driven by property-----

Mr. Dermot Gleeson: They didn't vest ... the hurdles were too high.

Deputy Kieran O'Donnell: Did they make it prior to ... we'll say prior to 2008?

Mr. Dermot Gleeson: There was some vesting occasionally, but in most of the years none of these payments were made. There was a lot of complaint that our performance pay hurdles were too high; people didn't get them. And, as I say, these were all externally validated by remuneration consultants.

Deputy Kieran O'Donnell: And finally, what view did you take on the report from ... on this report you commissioned, Mercer Oliver and Wyman?

Mr. Dermot Gleeson: Well, I mean, in retrospect, here they were praising a competitor of ours, I mean, like that, I'd say there was a scepticism about it, but when you ask a risk consultancy to come in and address you, you don't control what they tell you, but I suppose-----

Deputy Kieran O'Donnell: Well, what weight ... in terms of the board, what should ye have done, in hindsight, on risk, that ye didn't do on property?

Mr. Dermot Gleeson: Well, in hindsight, I think we should not have stuck with our customers that long; we should have had more syndication and selling down of loans. We should have not depended on cross-collateralisation. The net worth of some of these borrowers was enormous sums of money, and we should have been more sceptical about them.

Chairman: Mr. Gleeson, I want to return to a particular line of inquiry that the committee signalled to you prior to you coming in today, and that's the adequacy of the board oversight over the internal controls to ensure that risk is properly identified, managed and monitored.

Mr. Dermot Gleeson: Yes.

Chairman: Now, that's in particular regard to, under EEC ... EC Treaty, these rules, the

bank was obliged ... the reference will come up there as I'm talking, so don't worry too much about that. Under the EC state aid rules the bank was obliged to submit a structuring plan to the EU Commission, and this was finalised in April 2010. I think it was then updated again in July 2011 and further revised in 2012. Now, in its revised plan - this is the 2012 EU restructuring plan - and it'll come up there as paragraph 3.9. It's in core documents AIB B17 at page 79-80, but I think it's going to be on your screen now as we're talking.

Mr. Dermot Gleeson: Yes, I have it on the screen. Thank you.

Chairman: Yes, and it is on the monitor above. The AIB acknowledges - and it's in brackets - "its decision to expand into property was misguided, and that its risk management and internal governance systems were not as effective as they should have been in controlling their risk." Could I ask you to comment on it?

Mr. Dermot Gleeson: Well, I mean, that's a conclusion reached long after I left, obviously, and it's clear that our-----

Chairman: But with respect of your period.

Mr. Dermot Gleeson: I mean, it's perfectly clear that our systems over ... I think our governance systems were good. I think the credit systems weren't strict or tough enough. I think the loan-to-value criteria should have been tougher, and I think we should not have gone as big as we did with individual developers, notwithstanding that we had 30 years' experience of them always paying back and simply getting more successful as they went along. But, I'm afraid I haven't ... this is, I say, a document that comes from after my time.

Chairman: Okay, but do you think that the admission in it that the bank was misguided and that its risk management and internal governance systems were not as effective as they should be; now, are you in agreement or disagreement with that-----

Mr. Dermot Gleeson: Well, firstly, the decision-----

Chairman: -----because it's a judgment on your period as chairperson-----

Mr. Dermot Gleeson: Yes. In so far as it suggests that there was a decision to move into property, I don't think that was a decision, it was just the way things developed. As to risk management, it clearly failed us and wasn't adequate. There can be no doubt about that; the proof of the pudding is in the history. It was not adequate. And I think it comes back to two things again: too much faith in the mathematical models and believing the soft landing consensus.

Chairman: Okay, thank you. Deputy Michael McGrath. Deputy, ten minutes.

Deputy Michael McGrath: Thank you very much, Chair. You're very welcome, Mr. Gleeson. Twenty billion euro, Mr. Gleeson, €20 billion is the amount of money that the Irish State had to put forward to rescue AIB. In your six years as chairman of AIB, did you ever envisage that day coming?

Mr. Dermot Gleeson: No, I didn't, no. I did not. Indeed I didn't.

Deputy Michael McGrath: And what's your reaction at a personal, at a human level, of the scale of that investment?

Mr. Dermot Gleeson: I mean, I've said to you that it's been clearly a daunting experience.

I mean, I did my level best, as I said. I prepared for this job, I worked hard at it, worked full time at it, as you would have to; became a seven day a week job. And I am extremely regretful, and that's a sentiment that's never going to leave me. I know that doesn't sound adequate to the extent of the problem. I'm greatly gratified that the new management have got to a position where they can tell you and me that they hope to pay it all back, but it doesn't take away from the terrible event and I feel it keenly, if you're asking me that.

Deputy Michael McGrath: Yes.

Mr. Dermot Gleeson: I don't want, perhaps, to say much more than that.

Deputy Michael McGrath: And I'm sure you know, for example, €20 billion is more than twice what we spend every year as a country on our entire education system, for example?

Mr. Dermot Gleeson: I accept that, Deputy. I mean, I have had a commitment in the past to education in various ways and I think it's the answer to most of the problems of the world, but I think there is, given that you're focusing on it, I think there is a tendency, not in this room but outside, to think that the banks brought down the country and that there was nothing else involved. And that was referred to this day one fortnight ago, just 14 days ago, by Governor Honohan in a speech that he made in Paris about facts and myths of the Irish banking crisis, and myth number two was, "It is chiefly the bank guarantee that brought about the nature of fiscal austerity and generally crippled the Irish economy." That's a myth, he says. He says €60 billion into the banks, €20 billion will be paid back, but the deficit that was occasioned by the mis-matching Government revenue and expenditure is €30 billion a year, something between 100 and two ... now, let's be clear: I had nothing to do with that. I am responsible-----

Deputy Michael McGrath: Yes.

Mr. Dermot Gleeson: -----in my role in terms of the banking collapse, and I'm not trying to get away from that-----

Deputy Michael McGrath: Yes, and that's why you're here today.

Mr. Dermot Gleeson: -----but I think it's not unimportant to say that there are other factors at play of which you're completely conscious.

Deputy Michael McGrath: Sure. Just can I take you to page 22 of your opening statement, paragraph 90, you say:

It seems clear now that the regulation and supervision of the Irish Banking system and of Anglo and Irish Nationwide in particular, was inadequate and that the operations of those two banks, as the most aggressive lenders in the market undoubtedly affected the way other market participants conducted their business.

Mr. Dermot Gleeson: Yes.

Deputy Michael McGrath: Why do you feel the need to draw a distinction there between the manner in which Anglo and Nationwide were regulated and supervised and the manner in which AIB was regulated and supervised?

Mr. Dermot Gleeson: Well-----

Deputy Michael McGrath: Do you think that the regulation of your bank was any less

inadequate than the regulation of those banks, if that's-----

Mr. Dermot Gleeson: No, I suppose my view is that the difficulties that arose were much more marked in the other two institutions. I mean, the extent of the loan losses was more significant in some ways. I think that in September AIB was in better condition and if you look at the outturn Deputy, look at it simply as that. Of the €64 billion that the State has had to put out to rescue the banking system, AIB and Bank of Ireland are well ahead in paying it off. AIB will repay hopefully what it owes, but the €35 billion that went into Nationwide and Anglo, only a very small proportion of that, I understand, will be recovered. That's why there is a difference between them, that's all I say.

Deputy Michael McGrath: And your reference there to both of those institutions -----

Mr. Dermot Gleeson: My reference may be a bit unfair to the regulation that way, it's -----

Deputy Michael McGrath: Well it seems to draw a distinction.

Mr. Dermot Gleeson: Well no, I think that's unfair and you are right to draw it to my attention. It's more in terms of outcomes the distinction should be and I accept your correction on that.

Deputy Michael McGrath: And your reference to both of those institutions as the most aggressive lenders in the market, undoubtedly affecting the way other market participants conducted their business, and you've told a number of anecdotes around the Anglo story and the how it, perhaps inadvertently, impacted on the way AIB conducted its business. But for ... I suppose for many people watching the proceedings, they might regard that as the "he made me do it" excuse. That Anglo "made us do it".

Mr. Dermot Gleeson: It certainly shouldn't be, there is no excuse. I am trying to explain, I mean ... I think, you know, what am I trying to do with the committee here today? What I have thought myself is try and assist you by giving an eye witness account of what it seemed at the time. There are 300 books written worldwide about the cause of the 2008 crisis. I have nothing to add to that. All I can do is come here and try and tell you, as honestly and frankly as I can, what it seemed like at the time, from a participant. That is all I'm trying to do. I am certainly not trying to excuse what went on Deputy, and I want that to be clear.

Deputy Michael McGrath: Sure. Can I ask you Mr. Gleeson, when you state that it was your view then, and remains your view now, that AIB was solvent at the end of September 2008. What is your definition of solvency?

Mr. Dermot Gleeson: Solvency is that ... I am not going to go into accountancy definitions but broadly the thing is that you could pay off your debts and you'd be able to -----

Deputy Michael McGrath: And if your assets exceed the value of your liabilities -----

Mr. Dermot Gleeson: Exactly. And I draw attention to some of your colleagues, to the fact that property prices hadn't fallen by then. We all think they did but in truth that was a terrible event that really had hardly kicked off at that stage, and that's the main reason I say it.

Deputy Michael McGrath: You said earlier on that the real trouble was in 2009 in terms of the collapse in property values, but can I put it to you and your assertion that AIB was solvent at the end of September 2008, that less than three months later on 21 December 2008, the Government made an announcement that there would be a capital injection of €2 billion into AIB.

Mr. Dermot Gleeson: Yes.

Deputy Michael McGrath: Less than three months later.

Mr. Dermot Gleeson: That is so. More capital was needed.

Deputy Michael McGrath: But why was that necessary if the bank was fully solvent?

Mr. Dermot Gleeson: I may be wrong Deputy, I mean someone asked me did I think it was solvent. I think it became insolvent later, that is all I can say to you. But nobody, neither you nor I, can work out when all the assets of AIB - if you valued them on a sort of liquidation basis - what they would have come to. It is impossible to say because of the dynamic that de Larosière described, de Larosière and Nyberg I should say.

Deputy Michael McGrath: Sure. You describe in detail how the risk function worked within the bank and you cite for example that the risk function had between 150 and 200 people at its peak perhaps -----

Mr. Dermot Gleeson: Eventually.

Deputy Michael McGrath: ----- and you had a chief risk officer and so forth.

Mr. Dermot Gleeson: Yes.

Deputy Michael McGrath: And the audit committee had a very important role, and the top ten risks were presented to the board.

Mr. Dermot Gleeson: Yes.

Deputy Michael McGrath: Was the risk of excessive exposure to the property and development sector -----

Mr. Dermot Gleeson: Well the credit risk -----

Deputy Michael McGrath: ----- regularly featuring in that regard?

Mr. Dermot Gleeson: Yes. Again you have been sent, although you can't have read everything, but you'll see the board dashboard. That was something that I came up with, with the chief risk officer, that every month every member of the board would get the risk dashboard. It was against the contingency that some board member would say "We were never told about this". It had the ten biggest risks. Back in 2006-07 it was "Will we be able to complete the Basel transformation?" Earlier than that, perhaps at my behest it was regulatory conformance, "Are we obeying the law in everything we do?" That was something that I was very keen on. Then subsequently it became credit risk.

Deputy Michael McGrath: Can I ask you, Mr. Gleeson, about the issue of interest being rolled up and that practice? Because I think some light was shed on that yesterday by NAMA that, for example, of the €74 billion of par value of loans they acquired, €9 billion of that was actually just interest being rolled up and that €9 billion more or less related to the €40 billion in the land and development book. It emerged at one of your own board meetings on 8 October 2008 when questions were being asked about interest being rolled up that the bank didn't have access to that information readily.

Mr. Dermot Gleeson: Absolutely, that was a very bad piece of missing architecture that the

management information system wasn't able to produce the information on that key indicator. I agree with you, it should have been able to find that. I think what they said, I haven't got it in front of me now, but it had to be done manually I think.

Deputy Michael McGrath: Yes. To be fair to you it says that the information was not available from the bank's accounting system and that a manual exercise would be required to obtain that information.

Mr. Dermot Gleeson: That's an indefensible gap, I agree.

Deputy Michael McGrath: Many of those loans, as we now know, were being recorded as being fully performing, even though not a cent was being repaid on them?

Mr. Dermot Gleeson: I just don't know that. I have heard that said.

Deputy Michael McGrath: Across the system.

Mr. Dermot Gleeson: Across the system, I don't know how bad AIB was in that respect, I just don't know enough to tell you. I think Mr. McDonagh's and Mr. Daly's evidence was across the whole banking system. I would like to think that we weren't as bad as the worst, but I just don't know is the answer.

Deputy Michael McGrath: Very briefly Chairman. On the night in question, 29 September, you cite a number of examples whereby you had the clear impression that a different solution would be found for Anglo and INBS, that they would be either taken out or nationalised.

Mr. Dermot Gleeson: That was what was being discussed is what I would say.

Deputy Michael McGrath: Who gave you that clear impression?

Mr. Dermot Gleeson: Well it was just ... I suppose that that was what was discussed. I mean when Governor Hurley says "Can you get €5 billion to keep Anglo going to the weekend?" it wouldn't make any sense if you were going to guarantee six banks the next morning for us to be providing liquidity to the weekend. It was inconsistent with that. And that was an effort that was ongoing, not me, but Eugene Sheehy talking to officials during the night - we are doing this or we might bid at an ECB auction tomorrow. So that idea of Bank of Ireland and ourselves saving Anglo until the big event could take place at the weekend - and public companies often go till the weekend when they have a crisis because you get 48 hours when the stock markets aren't on top of you - would be inconsistent with the six-bank guarantee, so that's why I believe that solution was in the ether late into the night.

Deputy Joe Higgins: Mr. Gleeson, you tell us in your extended opening statement that after October 2002, when you became deputy chairman of Allied Irish Banks, you went on a series of upskilling, educational programmes.

Mr. Dermot Gleeson: Yes.

Deputy Joe Higgins: You attended banking courses at University College Dublin, the London Stock Exchange, Harvard Business School, Stanford University and INSEAD Paris, which describes itself as the business school for the world. You attended educational events at the International Institute of Finance and the International Monetary Conference. No doubt in some circles these would be seen as very prestigious institutions. Can I ask you Mr. Gleeson, did the instruction include the fact that within capitalist banking internationally, systemic crises

erupted with great regularity all over the world, and that these sprang from very definite causes which were therefore avoidable?

Mr. Dermot Gleeson: Just to correct the preamble to your question. Some of the courses I did were about banking, but most of the courses were about corporate governance, running a board. In so far as I did instruction on banking, some in Dublin and some with INSEAD, I don't believe that issue was covered.

Deputy Joe Higgins: Mr. Gleeson, arguably the first speculative bubble and crash was what became known as tulip mania in Holland in 1637. Jan Brueghel the Younger has a fascinating painting about it. The impression is being given that what happened in Ireland in the crash was, you said a 100 year event. But in 1999, three years before you became deputy governor, Oxford University Press published a paper by a man called Peter Englund, Stockholm School of Economics. He wrote about a study that was done by a colleague of his, published the year before, a study of 30 major bank crises, not from 100 years ago, but from the 1980s, including three of the most advanced industrial countries in the world, namely, Norway, Finland and Sweden. The common patterns that he outlines are in paragraph 2: deregulation, overly rapid credit expansion, sustained increase in asset prices, a bubble, the bubble bursting, collapse of asset prices accompanied by non-performing loans, acute banking crises, credit crunch, government salvage banks. Will you agree with me that that would be, or not, an uncanny synopsis of the bubble and crash in Ireland? But this was from 1999, which-----

Chairman: Can I just make one brief interjection, Deputy Higgins. I'm not too sure if Mr. Gleeson has read that paper before but I think you're generally ... because Bill Black, when he was in before us kind of gave a similar type of modelling.

Mr. Dermot Gleeson: No, I haven't read the paper, but-----

Deputy Joe Higgins: To be clear, I'm not asking Mr. Gleeson if he was aware of this-----

Chairman: Yes, but due process-----

Deputy Joe Higgins: -----but aware-----

Mr. Dermot Gleeson: Yes, I mean, I've seen this issue, and it is an important issue that you raise, Deputy, that to what extent do we learn from history and I've seen it written that ... by a historian within the last six months, that the only lesson we learn from history is that we never learn the lessons of history.

Deputy Joe Higgins: Why not?

Chairman: I have to let him respond now as well, Deputy Higgins, please.

Deputy Joe Higgins: Yes, but I want to ... Why not?

Mr. Dermot Gleeson: I think that's a sort of deep-seated question that would be better asked of academics. I've seen John Lanchester, writing about two months ago - the well-known economic and financial journalist - say that ... he gives the following explanation for it: he says that-----

Deputy Joe Higgins: I really don't have time for this.

Chairman: I have to allow the Deputy ... I'll give you a bit of time but I have to allow the

witness to respond. If ... I tried to make-----

Deputy Joe Higgins: Yes, but Mr. Gleeson's proposed question earlier-----

Chairman: Keep your questions short if you want a longer response.

Deputy Joe Higgins: Why did everyone get it so wrong? They didn't, Mr. Gleeson ...this is the point I would put to you. For example, were the critiques, very perceptive of David McWilliams, an economist, ever discussed on the board of Allied Irish Banks when he was predicting that the credit expansion was just going crazy and that it would finish in tears?

Chairman: There's three different questions there, Deputy. I need to allow Mr. Gleeson to respond to the three of them now.

Mr. Dermot Gleeson: I'm going to respond, Deputy, because I think ... Chairman, because I think it's one of my few rights is that when a question is asked I'm probably entitled to-----

Chairman: Indeed, and-----

Mr. Dermot Gleeson: -----some opportunity to answer-----

Chairman: -----I'll facilitate you with that right there now.

Mr. Dermot Gleeson: -----however inadequately.

Chairman: Yes.

Mr. Dermot Gleeson: So I'm going back to your previous question, Deputy Higgins, to answer it as best I can. I was about to tell you, and you probably know this, that John Lanchester, who is a respected commentator says that economists ... that economics ... one of the reasons that economics is so bad at predicting the future is because economic history has been downgraded in economics departments in universities and that ... when I was learning my economics a long, long time ago, economic history was compulsory, but now the feeling, among some economists at least, is that it's all in the formulae, it's all in the mathematical formulae. The mathematical formulae capture the history, therefore you don't need to learn the history, and that if there was more attention to history ... so I agree with your point that attending to the history ... on the other hand, Deputy ... let me just finish. On the other hand-----

Deputy Joe Higgins: The witness is talking down the clock, Mr. Chairman.

Chairman: Excuse me now, Deputy, please. I'm going to make an interjection here. And I monitor the period of time that Deputies take to ask a question. I try to moderate that by facilitating the witness with the exact amount of time, if possible, and if the witness is short in his response, fair enough, but there is a due process. If there is a very extensive question being answered, or questioned and then to be answered, I will give a bit of overtime at the end of the process, but there was three questions there, Deputy. I have to allow the witness to respond to the three of them.

Mr. Dermot Gleeson: If the Deputy could give them to me one by one now, because I was answering the previous question and I can't-----

Deputy Joe Higgins: Mr. Gleeson, were the warnings of economists like David McWilliams ever discussed or taken seriously on the board or by yourself?

Mr. Dermot Gleeson: Absolutely. I mean, we would have economic ... addresses from economic experts. For example, I said John FitzGerald and Alan Ahearne, two excellent people, whom I both admire ... we would bring them in and they would talk about what the economics profession felt at the time. But can I just say this: you will be aware, as well as everyone else in this room, that economists frequently disagree. I mean, you only have to open up any American journal at the moment and you'll see "Krugman versus X", and so on. There's always two schools and we did the best we could with the schools. That's all I can say.

Deputy Joe Higgins: But you had historic precedents from Sweden only a few years before you became chairman. But I need to move on because of time. You put a lot of emphasis, and may I put it to you, Mr. Gleeson, you blame Anglo for a lot of things-----

Mr. Dermot Gleeson: I don't blame. It's an explanation, not blaming.

Deputy Joe Higgins: Yes, it's an explanation but you said it was inevitable that we were drawn too much into Anglo's wake. Now, is it really credible that, you know, in Irish banking you had a piper called Anglo spinning tunes of excessive credit, profiteering, etc., and that the whole pack-----

Chairman: Be very mindful now, Deputy. Be very mindful, Deputy. Be measured.

Deputy Joe Higgins: -----were in thrall and dutifully followed. Is that credible?

Mr. Dermot Gleeson: No, let me explain it a bit better, because I think I haven't explained it, Deputy, and your question certainly suggests that I have failed absolutely to explain it. If you were the manager, in a good sized country town, a big country town, of AIB, and you've had two big builders as your clients for 25 years and then they go across the street to Anglo, it's inevitable, I think, that you get reaction to that sort of thing. It's-----

Deputy Joe Higgins: Because it affects your profits?

Mr. Dermot Gleeson: Because it affects all sorts of things: your success as a job as a manager, the job that you're paid to do. It's ... I'm talking about human nature in commerce, and I don't think it's disgraceful either.

Deputy Joe Higgins: But mainly, am I correct, it would affect the bank's profits?

Mr. Dermot Gleeson: Well, I don't know if the average manager in a branch in a country town is waking up in the morning saying, "Now I must worry about the bank's profits today." I don't think that's quite the mindset. I think we want to be successful in this branch. We want to keep our customers.

Deputy Joe Higgins: Mr. Gleeson, are banks not there primarily to make profits?

Mr. Dermot Gleeson: Absolutely.

Deputy Joe Higgins: And I haven't time to go through it but I compared your profits to Anglo profits during the bubble and you were massively ahead. How much profit did you need to be satisfied?

Mr. Dermot Gleeson: Well, with respect, now, we were an infinitely bigger institution. We had enormously more employees, enormously more social responsibilities in terms of running ATM machines for free, for instance. Anglo didn't do any of that, Deputy.

NEXUS PHASE

Deputy Joe Higgins: You said, Mr. Gleeson, at an extraordinary general meeting, again if I may say, spreading responsibility, “We drank too [much] from the national cup of confidence.” Would it be more honest to say that you drank too much from the bankers’ cup of greed for profits and that was what drove you?

Mr. Dermot Gleeson: No, I think that would be a dishonest thing to say.

Deputy Joe Higgins: Why?

Mr. Dermot Gleeson: Because it’s not true.

Deputy Joe Higgins: Why were you chasing Anglo then?

Mr. Dermot Gleeson: I wasn’t chasing Anglo. I was trying to ... as I said, my function here is to try and explain how things were at the time and you had ... this bubble grew up. Anglo had a role in it. There was some very good people in Anglo. They took some of our good people. And the price of building land moved on ... became the object of speculation, as you say.

Chairman: Deputy Higgins, I’ll have to ask you to desist from questioning that is laden with an implied value judgment in it. Ask the question but don’t make the value judgment in it please.

Deputy Joe Higgins: Yes, but I’m speaking to an experienced barrister who is well able to stand up and-----

Chairman: And all the more reason-----

Mr. Dermot Gleeson: That’s me asking the questions.

Chairman: I know, but all the more reason to have your question legally framed.

Deputy Joe Higgins: Mr. Gleeson, you spoke about ethical behaviour, and between 1996 and 2006, a PTSB analysis found that each year the price of an average home increased-----

Mr. Dermot Gleeson: Yes.

Deputy Joe Higgins: -----by the equivalent of the average industrial wage.

Mr. Dermot Gleeson: ‘96 to ... give me the dates again.

Deputy Joe Higgins: To 2006.

Mr. Dermot Gleeson: 2006, yes, the decade, yes.

Deputy Joe Higgins: Each year, requiring young working people to have mortgages extended from 20 years’ duration to 40 years, into their retirement, and at unsustainable levels. Now, can I ask you, in your view, is it moral or ethical, do you think, that inordinate profiteering and speculation in building land and in housing by banks, developers and bondholders should enslave a generation of young working people to that extent, with all the suffering and the horror that has ensued after for them? Do you think that is ethical or moral?

Mr. Dermot Gleeson: Well, I’m not in favour of immorality or slavery or suffering. So far as your question relates to the issue of the price of building land, I think that there is a serious political and social issue as to how that should be controlled, and the price of building land, and you probably know that building land becomes the object of speculation, and you probably also

know that 40 years ago, this very issue was addressed after an increase of 500% in the cost of building land in Dublin between 1963 and 1971. This is a social resource, it should have some element of, in my view, State control. You can't increase the number of building land ... amount of building land around Dublin. And that issue - that very issue - was put to an expert committee in 1973 ... 1971, reporting in 1973, under the chairmanship of Mr. Justice Kenny.

Chairman: Wrap up now Mr. Gleeson, very quickly to answer the question.

Mr. Dermot Gleeson: I have been asked the question and I am going to ... and I'll try and finish within 30 seconds.

Chairman: Okay, thank you.

Mr. Dermot Gleeson: Mr. Justice Kenny reported. If you look at that report, it's lain on the shelves for 42 years. He proposed ten solutions. One ... the first was nationalisation of building land.

Deputy Joe Higgins: Yes ... and I'm-----

Mr. Dermot Gleeson: Eventually he proposed-----

Chairman: Not a new question now, Deputy Higgins.

Mr. Dermot Gleeson: I want to finish my ... can I finish my answer? I simply say, the legal intellectual spade work in relation to the price of building land has been done. That's all.

Chairman: Not a new question. Not a new question, you are out of time. You are out of time.

Deputy Joe Higgins: Mr. Gleeson-----

Chairman: If this is a new question, I'm not taking it.

Deputy Joe Higgins: Okay. All right.

Chairman: Thank you very much. Okay, I'm moving towards the wrap up because we do have a timeframe to keep to and we do indicate to witnesses as to what that general timeframe will be. There will be flexibility with witnesses with a degree of overrun, but we are not going to be repeating the whole morning session going into the afternoon. Right, Deputy Doherty and Deputy Phelan, and I am going to be tight here because I have a little bit of a wrap up to do as well. I am allotting five minutes - with a bit of flexibility each - to both of you but I will be very, very-----

Deputy Pearse Doherty: Okay, I'll try and be brief. Mr. Gleeson we are going back to Project Omega.

Mr. Dermot Gleeson: Yes.

Deputy Pearse Doherty: You said Project Omega was quite a different project.

Mr. Dermot Gleeson: I hope I'm right about that, Deputy.

Deputy Pearse Doherty: Okay, so going ... to ask this question, did AIB-----

Mr. Dermot Gleeson: If you could give me a date on it, it might help me.

Deputy Pearse Doherty: Well-----

Mr. Dermot Gleeson: Or roughly, even.

Deputy Pearse Doherty: The question you ... the question I had earlier on, and I have got the evidence book now was, did AIB ever consider taking over Anglo Irish Bank?

Mr. Dermot Gleeson: The answer to that was “No”.

Deputy Pearse Doherty: No? Never. Now I want to refer to AIB, C3b, Vol. 2.

Mr. Dermot Gleeson: C3b, Vol. 2? I have that.

Deputy Pearse Doherty: And page 45 to 47? Which is an extract of Project Omega.

Mr. Dermot Gleeson: Yes.

Deputy Pearse Doherty: It is a 64-page document that was reported to AIB plc on 24 November 2008.

Mr. Dermot Gleeson: Yes.

Deputy Pearse Doherty: And it is to the acquisition or takeover of a financial institution.

Mr. Dermot Gleeson: Yes.

Deputy Pearse Doherty: What is ... who is Omega in this report?

Mr. Dermot Gleeson: Well I ... there are elements of confidentiality with this. I mean I can tell you, but should I tell you is the answer ... I don't know.

Deputy Pearse Doherty: Yes, you should.

Mr. Dermot Gleeson: I think it was Irish Life.

Deputy Pearse Doherty: It was Irish Life, okay. In relation to the business overview, would you have been ... would this have been presented to you as chairperson of the board? This report?

Mr. Dermot Gleeson: It would have come to the board, yes we would have been given it to read a few days before a board meeting.

Deputy Pearse Doherty: Okay, so Irish Life, you believe that is Omega and this was the-----

Mr. Dermot Gleeson: I hope I'm right, but I think that's right.

Deputy Pearse Doherty: Okay, well let's go to page 47. The business overview suggests that ... and we will look at the group structure. It says Omega plc, which you believe is Irish Life, had, in H1-----

Mr. Dermot Gleeson: I am just not certain about this.

Deputy Pearse Doherty: Okay, page 47.

Mr. Dermot Gleeson: I'm now worried that I've-----

Deputy Pearse Doherty: H1, 2008. The total assets were €101 billion, which equates to the total assets of Anglo Irish Bank at that reporting period. Well-----

Mr. Dermot Gleeson: It was Anglo then.

Deputy Pearse Doherty: The loans was €68 billion-----

Mr. Dermot Gleeson: Maybe I was confused. I've ... I've only redacted copies Deputy and I only have two pages. But we never considered, I think, taking over Anglo.

Deputy Pearse Doherty: But you have a 64-page report-----

Mr. Dermot Gleeson: Yes.

Deputy Pearse Doherty: -----commissioned by AIB-----

Mr. Dermot Gleeson: Yes.

Deputy Pearse Doherty: -----reported to the board of AIB eight weeks after the guarantee-----

Mr. Dermot Gleeson: Yes.

Deputy Pearse Doherty: -----which looked at taking over Anglo Irish Bank and advised against it, but suggested that there were benefits in doing so as well.

Chairman: Space to respond. Space to respond.

Mr. Dermot Gleeson: I'm unfortunately uncertain about which institution we are talking about. And I don't think it is Anglo. But I am sorry that I can't make that clearer.

Deputy Pearse Doherty: Okay, let me go back-----

Mr. Dermot Gleeson: But can I just say this to you?

Deputy Pearse Doherty: Okay.

Mr. Dermot Gleeson: We weren't fit to take anything over at this stage. A 64-page document would have been paid ... prepared over months and months. It was brought to the board and we rejected it.

Deputy Pearse Doherty: Okay, the document talks to the guarantee, it says in its executive summary "While the Guarantee provides respite it does not fix the structural funding issue at Omega.", which-----

Mr. Dermot Gleeson: Well then it sounds more like ... what it sounds-----

Deputy Pearse Doherty: Now, can I get clarity on this here? Do you now believe that this is ... Omega is Anglo Irish Bank, or not?

Mr. Dermot Gleeson: I don't know, but I'm going to ... if you want me to go look at the full document, I will get it out and I will get unredacted copies.

Deputy Pearse Doherty: And I'll talk while you are looking for that. H1, Anglo Irish Bank-----

Mr. Dermot Gleeson: I can't look and listen.

Chairman: No, no, no I-----

Deputy Pearse Doherty: Well the half 1 reports of Irish ...Anglo Irish Bank in 31 March 2008 reported assets of €101 billion, loans of €69 billion - in this report the loans are €68 billion - and the deposits in Anglo's reporting period was €54.5 billion ... this is €55 billion.

Mr. Dermot Gleeson: Okay.

Deputy Pearse Doherty: Can we now agree that this is Anglo Irish Bank that we are talking about?

Mr. Dermot Gleeson: I'm believing what you are saying.

Chairman: Okay, can I make one intervention here, because I ... I think this is material evidence and I can ... I will give flexibility to a witness if they can't ask or answer a question right here and now. But could I ask you, Mr. Gleeson, that you would revert back to this committee with your clarity actually on this.

Mr. Dermot Gleeson: Certainly, I mean my practical problem ... it looks as if I am not trying to answer your question, I am. But I was sent, you know, 800 pages last Friday and I haven't been able to read them all, I'm sorry.

Deputy Pearse Doherty: I understand that.

Mr. Dermot Gleeson: And it is rather confusing. I find the denomination of your books a bit difficult as well. I am sure you've the same experience.

Deputy Pearse Doherty: No, I understand that. I understand that, Mr. Gleeson. We have a lot of evidence, as investigators, to go through ourselves. What I'm finding difficult to understand as ... as chairperson of AIB, in a report that was commissioned by AIB to take over a bank which was ... had €101 billion of assets ... that you gave testimony to this committee that you never considered such an event. You say, "I wasn't having it. Project Omega was a different project". You suggested it was another institution.

Mr. Dermot Gleeson: It's clearly that I'm confused, Deputy, but if ... the only circumstance which I think it would have arisen is this, is that there was this discussion about the healthy banks taking ...I mentioned that earlier ... taking over some of the invalided banks, if I can put it that way. And it may be that the Government asked us to look at it at that account. But, I have to say, I can't bring it to mind.

Deputy Pearse Doherty: Mr. Gleeson, you suggested earlier, again ... and I just want to ask you, because obviously, you know, witnesses are under oath here-----

Mr. Dermot Gleeson: I'm here to tell the truth.

Deputy Pearse Doherty: And I have no doubt about that there. But did you not suggest to this committee afterwards that nobody in Government circles suggested that you take over ... look at taking over Anglo Irish Bank?

Mr. Dermot Gleeson: Well, I mean, not at the formal meeting - if that's what you are talking about - on the night of the guarantee. But there were certainly discussions afterwards ... I think about us taking over some of the smaller players.

Deputy Pearse Doherty: Yes. There's another project, which is Project Indigo, which, I expect, refers to Irish Life, which was a takeover-----

Mr. Dermot Gleeson: And I'm confused, I'm afraid, as I said. These code names have confused me, I'm sorry.

Deputy Pearse Doherty: I can understand the code names. But the generality of the ... this is what I'm finding ... if you could explain to the committee ... as chairperson, as somebody of the standing that you have, that you would not recollect a commissioned document reported to the board as chairperson that you would've seen, as you said, a couple of days before hand.

Mr. Dermot Gleeson: I'm afraid it has slipped-----

Deputy Pearse Doherty: That you could not recollect a takeover of Anglo Irish Bank, which was widely in the media at that time. Indeed the report ... the report itself says that Anglo Irish Bank would need in the region of ... what is it ... "Brokers are suggesting €3.0bn - €4.6bn [losses]-----

Mr. Dermot Gleeson: Well, I mean, we couldn't have taken it over. It doesn't seem to me to have been a process with any reality to it, Deputy. That is all I will say.

Chairman: As I have already stated, and following on from Deputy Doherty's-----

Mr. Dermot Gleeson: I will follow up that.

Chairman: Yes, I would request that you would do that, Mr. Gleeson, please. Deputy Phelan.

Deputy John Paul Phelan: Thank you, Chair. Mr. Gleeson, I have two areas that I want to cover so I'll be as brief as I can and I hope you can be too, time is ... the Chairman is strict. What did you see as the main purpose, Mr. Gleeson, of the round table ... the main outcome indeed ... the round table discussions that took place with the Central Bank post the publication of financial stability reports in 2004?

Mr. Dermot Gleeson: Well, I don't recall the round table discussions but we would have interactions with the Central Bank. I suppose we felt we were, feeding into the financial stability reports and getting feedback from it. It was that sort of thing, it was trading information about where they felt the economy and the banking system was and getting information back. But I can't bring the specific discussions to mind, I'm sorry to say, Deputy.

Deputy John Paul Phelan: The other thing ... point that I wanted to make briefly in relation to Deputy Higgins's question - and you've mentioned it several times - about good customers crossing the streets of provincial towns.

Mr. Dermot Gleeson: I use that as a sort of an ... image-----

Deputy John Paul Phelan: I know but Anglo Irish Bank did not have a commercial network in provincial Ireland.

Mr. Dermot Gleeson: Ah well, with respect, Deputy, I didn't mean that it was actually looking at them across the street. I meant that they might go into Limerick or Cork to the Anglo branch-----

Deputy John Paul Phelan: You repeated it a number of times in answer to different-----

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Mr. Dermot Gleeson: Well, can I then correct it ... if you took me literally that it meant crossing the road-----

Chairman: We'll take it as a general analogy.

Mr. Dermot Gleeson: I think it was an analogy. "Crossing the road" is an expression that is often used in businesses. Solicitors use it, certainly.

Chairman: Indeed, as is eating someone else's lunch is ... is an analogy as well.

Mr. Dermot Gleeson: Grabbing your business is suppose what I meant.

Deputy John Paul Phelan: The final area that I wanted to touch on is the issue of directors' compliance statements. I was interested in your comments earlier. You referenced Professor Ahearne's testimony where he spoke about the need for, you know, more firm regulation.

Mr. Dermot Gleeson: Yes.

Deputy John Paul Phelan: You were often quoted in the media, prior to the collapse, as being one of the leading bankers who did not, to say the very least, favour firm regulation. Now I want to put a direct quote-----

Mr. Dermot Gleeson: That's not true.

Deputy John Paul Phelan: -----I want to put a quote to you from *The Irish Times*, 1 August 2005, an article titled "Big banks oppose vetting of financial manners ... managers". On the issue of directors' compliance statements, which the financial regulatory authority had started a consultation process----

Mr. Dermot Gleeson: Yes, I remember.

Deputy John Paul Phelan: ----first, firstly did you take part in the consultation process as chairman of AIB?

Mr. Dermot Gleeson: I might well have.

Chairman: Is the witness familiar with the documentation that Deputy Phelan's----

Mr. Dermot Gleeson: I, I think I know what the Deputy----

Chairman: Okay, sure.

Mr. Dermot Gleeson: I was resistant to aspects of it and I'll tell you what they were.

Deputy John Paul Phelan: Okay. Well I want to put this particular quote in excerpts of what you wrote in opposition to it, you reported in that article that I mentioned, 1 August 2005, *The Irish Times*, as stating that it would have, and I quote, " a chilling or discouraging effect on good tax compliant and law-abiding candidates who would simply prefer to maintain their privacy." I want to know do you stand over that? Do you stand over that comment?

Mr. Dermot Gleeson: Firstly, I had two reservations about the compliance standards. The proposal at one stage was that you'd ask directors for details of their personal finances at a level that wasn't being asked in London by the regulator there, and we were competitors for trying to ... one of the big problems getting bankers to be directors of AIB ... you couldn't use Irish bankers, you couldn't use former AIB people, that wouldn't be good governance. You couldn't

use Bank of Ireland because they would be bringing Bank of Ireland secrets, so you had to look to the UK. And we thought that having to give a much more detailed account of your personal finances in a way that you wouldn't get asked if you were a bank director in London was a bad idea.

The other reservation, which I ... on one occasion saw misrepresented - I'm all in favour of compliance and people being asked to sign up to compliance ... but I remember once, for instance ... and Chairman, this ... I'll conclude on this ... getting a draft compliance statement which said that the directors would confirm that the bank is in compliance with all statutory regulations and rules. Now, if the stairs in the bank in Ballybofey had a safety feature that they were missing - I just want to answer - I couldn't tell whether everyone was in absolute compliance all the time, no one could.

Deputy John Paul Phelan: Good example there, all statutory regulations and rules. The rule that was mentioned early on about the 200% concentration and 250%, you were not in compliance with that, and if, if that requirement-----

Mr. Dermot Gleeson: Deputy, it wasn't a statutory-----

Deputy John Paul Phelan: I know, I understand. But if it came out of this consultation, which you are on the record as having opposed, would that not have been a beneficial development?

Mr. Dermot Gleeson: I think you're mixing up cows and crocodiles here, I'm afraid. I think the regulation as you describe it, the standard as the Central Bank calls it, which they used as an aid to their supervisory duties, is a different thing than having, you know, not obeying the environmental protection Act because the way you're dealing with the rubbish in a branch, or something like that.

Deputy John Paul Phelan: That's not-----

Mr. Dermot Gleeson: I think there are differences.

Deputy John Paul Phelan: There's significant differences, that's the point.

Chairman: Okay. Can I just ... to round off that point and to move towards a wrap-up, Mr. Gleeson, did you ever contact the Financial Regulator re issues arising from supervisory visits either to challenge the regulator on positions in the regulatory office, or to lobby him in regard to maybe taking a lighter touch?

Mr. Dermot Gleeson: Never. I never did either of those two things.

Chairman: Okay. Thank you very much. Right. Can I also, just in regard to the guarantee and just to round that off-----

Mr. Dermot Gleeson: Yes.

Chairman: What's your current view on the appropriateness of the guarantee?

Mr. Dermot Gleeson: I was fearful I might be asked that, Chairman, and I don't think-----

Chairman: I don't want to frighten you, I just want you to answer.

Mr. Dermot Gleeson: No, and you're not frightening me. I don't honestly think that I have

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sufficient qualifications to give a view on that. And I mean that, that's not dodging the question. I mean you've heard views, I know because I looked at them, there's some of the witnesses I did look at - Professor Ahearne, Governor Honohan, and Mr. Nyberg, all of whom are Central Bank experienced people. They're the appropriate people to ask. You've had other comments from people that I wouldn't rate as highly. But I don't think, given that I've been out of this space for six years, that I can usefully add to the stock of information of the committee by giving an opinion on that.

Chairman: Okay, but you used a football analogy yourself earlier with regard to referees. You were toggled out on the pitch the night of the guarantee and-----

Mr. Dermot Gleeson: Can I put it this way-----

Chairman: And every time I put on my television or radio there's former footballers talking about their careers and all the rest of it, and how the team today plays-----

Mr. Dermot Gleeson: Hurlers on the ditch, I think-----

Chairman: In this regard I'd like you to-----

Mr. Dermot Gleeson: No I don't think so, and I mean-----

Chairman: -----with regard to expansiveness or anything else-----

Mr. Dermot Gleeson: I don't think so. To extend the hurling analogy, on a final note, you know, if the hurlers on the ditch are All Stars they're worth listening to, but I'd be more Junior B in this particular circumstance.

Chairman: Okay. Finally, Mr. Gleeson, just we discussed the wider bank ... wider banking sector this morning; we also spoke about the general behaviour of AIB. In regard to yourself, did you personally, in your tenure as chairperson of AIB, do you feel that you got anything wrong during that time?

Mr. Dermot Gleeson: Oh lots of things wrong, very obviously. I mean we've talked about a lot of them this morning. Clearly, I did.

Chairman: Okay. And particularly, is there any one regret that you have about it?

Mr. Dermot Gleeson: Well I mean, not one moment where I could have turned off the tap, miraculously said "We're closing ... close every branch tomorrow, tell them they're ... we're not giving any more loans." I don't have reflections like that. I don't think there was a big turning point in the road but clearly the mistakes were made.

Chairman: Okay. And that brings me to my very final question, because you said about no more loans and in an opening comment earlier today you said no more loans either as being the approach. But could I put it to you, and particularly in light of NAMA's testimony yesterday, it was ... it would be suggested by NAMA's testimony that it wasn't to stop giving loans, but it was to change the methodology by which loans were being given in terms of looking at the cross-securitisation-----

Mr. Dermot Gleeson: Yes.

Chairman: -----where personal guarantees-----

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