Dermot Gleeson Statement

26th March 2015

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[The Introduction apart, this statement seeks to address the eight topics upon which the Committee has invited a statement]

INTRODUCTION

1. I am a self employed Barrister. I hold a Primary Degree in Economics and a Masters Degree in Law. I was called to the Bar in 1970 and have practised as a Barrister for 45 years. I taught economics, and then law as a tutor in UCD between 1968 and 1971. I worked as a part time statutory lecturer in Law in University College Cork from 1974 to 1978. I was Attorney General from 1994 to 1997.

2. I have chaired a number of public bodies (Review Body on Higher Remuneration in the Public Service in the 1980s, The Irish Council for Bioethics from 2003 to 2009, The Governing Body of University College Cork from 2006 to 2011). I have served on the Boards of BZWBK (a Polish Bank), Independent News and Media, the National Museum, the Gate Theatre and as Chairman of Travelport, a company based in the US and involved principally in airline ticketing services. I was an ordinary Director of AIB before I was asked to take on the Deputy Chairmanship (in October 2002) and then the Chairmanship (in October 2003). I resigned in June 2009.

B1.a (Relates to; Bank Governance).

Composition Skills and Experience of the Board and Board Sub Committees

3. I understand that the profiles of all of the non-executive Directors during the relevant period have been furnished to the Committee.

4. Ensuring that there is a good board, a balance of relevant talents, with people of established reputations and competence, is one of the principal duties of the Chairman. The Board's responsibility is oversight and governance; the executives (four of whom sat on the Board) are responsible for the day to day running of the Bank.

5. The following is some information concerning the Non-Executive Board Members and their experience during the time that I was Chair.

6. In terms of experience of large scale international businesses, Don Godson had been CEO of Cement Roadstone and Sean O'Driscoll was CEO of Glen Dimplex.

7. Kieran Crowley was a Chartered Accountant who ran a medium sized business in Dublin and was a recent former Chairman of the Small Firms Association.

8. Anne Maher was the former Chief Executive of the Pensions Board, a Governor of the Pensions Policy Institute in the United Kingdom and a member of the Professional Oversight Board of the United Kingdom Financial Reporting Council.

9. Adrian Burke (Chairman of the Audit Committee) was a former Managing Partner in Arthur Andersen in Ireland, an experienced auditor who had been Chairman of the Joint Ethics Board of the Institutes of Chartered Accountants for Ireland, England, Scotland and Wales.

10. Bernard Somers was a Chartered Accountant and corporate restructuring expert, who had been a Director of a number of public companies and was a former Director of the Central Bank.

11. John McGuckian was a leading businessman from Northern Ireland with a wide range of business interests including the Chairmanship of UTV.

He was a former Pro-Chancellor of Queen's University and Chairman of the Industrial Development Board for Northern Ireland.

12. Stephen Kingon was the managing partner of PwC in Belfast and Chairman of Invest Northern Ireland.

13. Jim O'Leary was a former Chief Economist at Davys and taught at NUI Maynooth.

14. Jennifer Winter, had served as CEO of Smith Kline Beecham in Ireland, before becoming the Chief Executive of Barretstown Camp.

15. Michael Sullivan was a lawyer, a former Governor of Wyoming and a former U.S. Ambassador to Ireland.

16. The most difficult category to fill was bankers. It was unrealistic (and poor governance) to engage former Bank Executives either from AIB or its main competitors. During my time on the board the following bankers were members of the board;-

17. Derek Higgs, a lifetime investment banker from London, former Chairman of SG Warburg, Chairman of British Land and Chairman of the AIB Remuneration Committee. During his time at AIB he wrote the ***"Review of the Role and Effectiveness of Non-Executive Directors"*** for the British government (**The Higgs Report**) a leading text on corporate governance.

18. David Pritchard was a highly experienced UK Banker. Originally an Aeronautical Engineer, he rose to Deputy Chairman of Lloyds Bank and was seconded by Lloyds to the Financial Services Authority for the purpose of the setting up of that authority. He was also the Non-Executive Chairman of Songbird Estates Limited one of the largest property companies in the UK, and the owner of Canary Wharf.

19. Robert Wilmers was the Executive Chairman and CEO of M&T Bank in the United States in which AIB held a stake and which had taken over a number of retail banks in the north east of the United States. He had a distinguished career in American banking and was voted Banker of the Year by the Banker Magazine. He was a former board member of the New York Federal Reserve.

20. Dan O'Connor, was a Banker, who had been CEO of General Electric Finance for all of Europe (twenty-seven separate businesses) and a Vice President of General Electric Company. He succeeded me as Chairman of AIB.

21. There were five Chartered Accountants on the Board (O'Driscoll, Somers, Burke, Crowley and Kingon).

22. I understand that details of the membership of the various Board committees of AIB have been furnished to the Committee.

23. When I was appointed Deputy Chairman I embarked upon a course of up-skilling which included the following;-

    a. Attending short courses on governance for non-executive directors at UCD, The London Stock Exchange, Harvard and Stanford.
    b. Attending a special course for non-executive chairmen confined to six students (two from Europe and four from the United States) at Harvard Business School.
    c. Obtaining one to one instruction on bank accounting from a Senior Chartered Accountant within AIB (Mr. Declan McSweeney).
    d. Obtaining one to one instruction on economics and bank finance from an Economist who had retired from a Senior Executive position in an international bank and returned to Ireland.
    e. Attending at the INSEAD Business School (France) on three occasions for one to one instruction on bank finance, from a Canadian specialist in that area.

24. I continued to attend relevant seminars and conferences and read relevant literature after I became Chairman. I attended most of the educational events run by the International Institute of Finance, and the International Monetary Conference and attended a number of study days in relation to Basel II. On a number of occasions the Board arranged for outside experts to address the board.

25. As is customary in Public Companies, the AIB Board Minutes tend to concentrate on recording decisions, rather than seeking to capture the full flavour of exchanges and debate. None of the Non-Executive Directors, in my view lacked the skill, capacity or readiness to raise awkward questions with Executives, and they did so regularly at the Board, as they did in their professional lives outside the bank.

B1.c (Relates to; Effectiveness of Governance Relating to the Business Model)

Quality of the Business Model Setting Process

26. The overall structure and framework of the Bank's operations is established over time and is, in that sense, inherited. AIB had five divisions, comprising Republic of Ireland, Capital Markets, Poland, The United Kingdom and the United States.

27. Typically, in accordance with good corporate governance, the Executive would propose changes or adjustments to the business model (for example the introduction of more internet banking, the extension of the business in Poland, investment in further risk resources or the reallocation of some businesses between the divisions). The matter would be considered by the board sometimes with the assistance of an outside consultancy, and then decided upon. Lower level changes in the model would not be sent to the board. In my view the process was appropriate.

28. Four of the five business divisions, came through the crisis relatively intact. The exception was the largest division namely Republic of Ireland.

29. The Five Year Business plan 2005-2010 set targets and the business model for that period. Its targets were revised slightly (downwards) in January 2006 on the advice of the new incoming Chief executive Eugene Sheehy.

30. The Management of Risk, and the competitive context in which the Bank functioned, both of which are relevant to the Quality of the Business Model Setting Process, are dealt with in the next section of this Statement.

B1.d (Relates to; Banks Board Governance)

Adequacy of board oversight over internal controls to ensure risk is properly identified, managed and monitored.

31. In 2002 a rogue trader named John Rusnak was discovered to have occasioned significant losses in AIB's US operation. In the wake of what came to be known as the Rusnak affair, AIB obtained a report from Promontory, a leading United States based financial consultancy headed by Gene Ludwig, a former Controller of the Currency in the United States, and an experienced banker.

32. One of his numerous recommendations was the engagement of a new Chief Risk Officer from outside the bank. We engaged international head hunters who identified and recommended Mr. Shom Bhattacharya. Mr. Bhattacharya was a skilled and experienced risk specialist and came to us highly recommended from JP Morgan in New York. A Rhodes Scholar from India, he studied at Oxford, attended Wharton Business School in the United States and had spent most of his life in US banking. The salary required to recruit and retain a person of Mr. Bhattacharya's experience and stature, meant that he was among the highest paid executives in AIB. He was given a free hand in staffing the Risk Section that he headed up, and immediately joined the Group Executive Committee, the highest management group in the bank. I do not believe he was ever refused resources. The risk function eventually expanded to employ something between one hundred and fifty and two hundred people. I can recall on one occasion there was a request to engage I think four or five maths PhDs at a time when these people were at a premium. Eventually our colleagues in Poland were able to recruit a number of people with doctorates in mathematics to come and work on secondment in the Risk Department.

33. Implementation of the Promontory proposals was overseen by the Financial Regulator and in that connection, at the request of the Financial Regulator, we engaged another U.S. consultant to report on our compliance with those proposals, namely, Mr. John Heimann a distinguished former Bank Supervisor from the U.S.A.

34. In 2006, Promontory conducted a further in-depth examination and produced a report entitled ***Review of Risk Governance at AIB*** (May

2006), whose conclusions were encouraging and positive. I understand that this document has been furnished to the Inquiry.

35. Typically, as part of Risk Reporting, the top ten risks were presented to the board, as part of what became known as the risk dashboard. The Group Chief Risk Officer also reported on a six monthly basis to the Audit Committee and these reports were then forwarded to the full board.

36. Quite apart and separate from the Group Chief Risk Officer was the Group Internal Auditor. With the assistance of an International specialist recruitment firm, Mr. Alessio Miranda was recruited from the Bank of Italy (the Italian Bank Regulator), having previously worked as the Audit Director for Finance and Risk at Barclays Bank.

37. It is important to record that in this period both the Group Chief Risk Officer and the Group Internal Auditor came from outside Irish banking. Between the years 2002 and 2009, all of the Group Internal Auditors appointed in AIB were from outside the Irish banking system.

38. Both the Chief Risk Officer and the Group Internal Auditor had access to the Chairman of the Board directly, as and when they felt it was necessary, and apart from occasional contacts, and their regular appearances before the board, I held regular formal meetings with them, on a one to one basis. The board also conducted what were called non-executive sessions, in which no executive was present and the board would simply consider matters on its own.

39. The board also met with the Group Internal Auditor, at least once a year without any executive being present. The Group Internal Auditor's direct reporting line was to the Chairman of the Audit Committee, that is to say he did not report to any Executive in the Bank, including the CEO.

40. The Audit Committee was the sub-committee with the biggest agenda and workload. It had regular reporting cycles, including reporting to the board. The reporting format used in the Audit Committee, kept every issue raised alive until finally and satisfactorily addressed and concluded, and that record of 'open' issues was regularly furnished to the Board.

41. Finally, the external Statutory Auditors reported to the board in accordance with their statutory mandate.

42. I set up a facility using the UK registered charity Public Concern at Work, which allowed employees to communicate confidential concerns through the system operated by that charity directly to my office without their identity being disclosed to me. The senior manager in my personal office was the only other person in the Bank who saw those reports, apart from myself. Where appropriate, matters of concern were passed on to relevant members of management, preserving the anonymity of the person who had made contact.

B2.a (Relates to; Effectiveness of Banks Credit Strategies and Risk Management)

Appropriateness of Property Related Lending Strategies and Risk Appetite

43. It is perfectly clear, in retrospect, that the appetite for risk was excessive and the lending strategy was in some respects too expansive (too much property) and in other respects arguably too narrow, (not enough non property lending).

44. That is not however how it appeared at the time. There was a strong national consensus, widely confirmed by international commentators, that Ireland was on a track of rapid, sustainable expansion and development (see for example the launch of the National Development Plan and the scale of its planned spending, in January 2007). The Chief Credit Officer of AIB was a highly experienced Chartered Accountant whose independence and technical competence were beyond doubt. There were regular, detailed reports on credit risk to the board.

45. Viewed with the benefit of hindsight, the whole issue tends to loop back to the question of whether at a certain stage, the correction which was coming, was going to arrive in the form of a so called soft or hard landing.

46. The OECD, the EU, the IMF, the ECB, the Central Bank, the Department of Finance, the ESRI, the great majority of published economists (not all) both in Ireland and abroad, all of the major Irish political parties (if you take their positions in the 2007 election), the Risk Section and Board of AIB all favoured the consensus of the soft landing.

47. The consensus was wrong.

48. One striking example of an authoritative assessment is afforded by the OECD report on Ireland published in April 2008 (by which time all of the significant loans had been made) which contains the following statement;

"The Irish Banks are profitable and well capitalised and provide a buffer against a future downturn"

49.Why was everyone so wrong? I have had good cause to reflect on that question. In simple terms the answer seems to be that it is very hard to get it right. Economic forecasting is a much more complicated, difficult and less reliable discipline than some of its practitioners are prepared to admit. Some people did predict parts of it, and there is no doubt credit has to be given to Professor Morgan Kelly for detecting the property bubble, which Professor Alan Ahearne pointed out is a difficult thing to detect. In the article which he published in mid 2007, Professor Kelly, speaking in the context of his prediction that there was a harsh correction due to take place in the Irish property market, which he thought would take place over 8 to 9 years, expressed the view that the Irish banks were well capitalised.

50.It is perhaps worth observing that no one bank can stop a bubble; if one bank had stopped lending, the competition was such that the demand for loans by its customers would have been readily met by competitors. Only State authorities have the capacity to stop a bubble inflating.

Number of Houses Being Built

51.There was hard statistical information which indicated that Ireland needed more housing. For instance a paper presented to the board in 2007 by Professor John Fitzgerald pointed out that Poland apart, we had the lowest number of dwellings per thousand citizens of a selected group of European countries in 2001. Poland had 327, Ireland 372, Holland 418, UK 430, and Estonia 448, but Denmark, France, Germany Portugal, and Spain were all over 470 per thousand.

52.The peak year for Irish births was 1980 so that in 2010 those children would be 30. That peak in the demography, meant that that the large group of children born in the late seventies and early eighties would not have yet bought their houses in 2008/2009 but would be buying them soon.

Competition and the demands of the market

53.I think it is necessary also to understand the milieu in which bank executives at the very top and, to a lesser extent, the bank's board worked. Analysts and large shareholders were always interested in earnings per share growth. That was the standard by which banks were judged and if earnings per share dropped or did not advance in line with those of your peers, the share price, the capacity to expand, and the capacity to raise new capital, would all drop, while vulnerability to take over would increase. This phenomenon is adverted to by Professor Honohan, in his report in 2011.

54. Analysts or the representatives of large institutional investors often raised the question of Anglo. I can recall the board engaging an independent international risk consultancy, Mercer Oliver Wyman to come and talk to us generally about the bank and what we should be doing better in 2007, and we spent a day hearing presentations from them. One of the key messages was that we should try to be more like Anglo. Anglo was the darling not just of the Irish Stock Exchange but of European stock exchanges generally. Anglo was listed as the most successful bank in the world amongst banks of its size. I think the board made a conscious effort not to be drawn too much into Anglo's wake, but it was inevitable that we were. I can recall one well informed businessman, saying to me in a friendly way – "*You know there must have been a time when Aer Lingus looked at Ryanair and did not take them seriously and now Ryanair are eating their lunch; you would need to be careful it doesn't happen to you*". I can recall various anecdotes being relayed to me about how laborious, document-intensive and slow, loan applications were to AIB or Bank of Ireland, requiring valuations, certificates from Chartered Accountants etc, whereas Anglo simply confirmed advances within a couple of hours, with no 'unnecessary paper work'.

55. The 2007 stress test was presented to the board on the 25th of April 2007. It was contained in a document entitled ***'Property Portfolio Management Framework'.*** It set out plausible and extreme shock conditions, the latter described as a one in 25 year event, involving provisions of €1.96billion, approximately equivalent to one year's operating profit.

Diversion by Basel II

56. The conversion to Basel II capital calculations was a very complicated process that used up substantial intellectual resources within the bank over a period of a year and a half with, in my view limited return. It also may have contributed to a false belief in the robustness of our systems.

The estimated cost of converting to Basel II was in the region of €200million and some of the brightest and the best people in the bank (including the maths PhDs), were diverted to that project at a time when frankly, and in retrospect there were much more important things to do. This diversion of resources, within both the bank (and also within the Regulator) is noted on page 8, footnote 4 of Patrick Honohan's report.

Risk versus Reward

57. In banking as in other matters there is a balancing of what is commercial and what is reasonable in terms of confining your risk. If you decided to take no risks, you would never loan any money at all. The hard part is getting the balance right. Clearly viewed from this vantage point, Irish Banks including AIB failed to get that balance right.

58. AIB engaged seriously with the management of risk and the models used were capable of dealing with a 1 in 25 year risk. One way of looking at the problem was that not enough risk was injected into those risk models. A one in 50 or one in a 100 year event was not properly catered for. In that sense, the risk models proved to be inadequate.

Bank Competition in Ireland and Regulatory Oversight

59. Where the Regulator was taking a relatively hands off approach, on prudential and competition matters, (but not on consumer issues; see below), the most aggressive lenders were going to prosper at least in the short term. Just how aggressive they were is something that we did not know, but it is something that the Regulator was able to see. We were not able to see the internal processes within Anglo or Irish Nationwide. It is absolutely beyond doubt that business of AIB (and probably of Bank of Ireland also) was lost to Anglo and Irish Nationwide.

60. Here is how Professor Honohan described this issue in a speech to an economic conference in Dubrovnik in June 2009.

"Competitive pressure on the leading banks to protect market share came especially from reckless expansion from one bank, Anglo Irish whose market share amongst Irish controlled retail banks jumped from 3% to 18% in a decade, as it grew it's total portfolio (by an average of 36% real)".

61. There was also competition of course from banks from outside the jurisdiction.

62. Bank of Scotland Ireland, arguably the most aggressive in the mortgage market, cut rates by 2% in 1999. (Its Chief Executive came to an Oireachtas Committee and indicated how it would in effect be attacking the business of AIB and Bank of Ireland. It made efforts in that direction but damaged itself in so doing).

63. Ulster Bank (part of RBS) in 2005/2006 said that its aim was to become the largest bank in Ireland. It was one of the banks that introduced 100% mortgages to the Irish market. AIB would sometimes grant 100% mortgage in the face perhaps of a threat to take a range of business elsewhere, but it never advertised 100% mortgages and never made them part of its marketing.

The Risk Model

64. Ultimately we paid insufficient attention to the fact that an event with a 1% probability of occurring, does not mean that it never happens, but that it happens once in 100 years. There was also an intellectual failure to recognise that if wholesale liquidity somehow dried up, at a time of sustained, synchronised worldwide contraction and a significant drop in Irish property values, those developments would feed off each other, and cause a very serious crisis. That is what in fact occurred. Risk models which modelled one in 25 year events as the ‘pessimistic scenario’ were inadequate to a one in a 100 year event.

B5.b (Relates to; Impact of the Remuneration Arrangements on Bank's Risk Management)

Impact of Shareholder or Lending Relationships in Promoting Independent Challenge by the Board and/or Executives

65. I am not sure that I have fully grasped what is intended in this question, but I take it to be an enquiry as to whether remuneration affected decision making within the bank. It clearly did not affect board decisions in the sense that board members were paid a standard fee. Executives were on bonuses but most of the senior executives had significant holdings in AIB shares so that their financial interests were aligned with the long term sustainable performance of the Bank.

66. Mr. Nyberg reported that notwithstanding AIB having one of the largest property exposures, its CEO was paid the least, proportionate to its size, of the banks covered by the guarantee. Anglo and INBS had the highest salaries of all. It was AIB policy never to award the CEO the highest salary in the banking sector.

67. Of the high earners in AIB the great majority were not in ROI division but were in capital markets, Goodbody Stockbrokers, Risk, etc.

68. We relied on external advice from independent remuneration consultants to inform us about market rates, when setting salaries.

69. We paid well, but some other market participants paid more. It was our policy not to pay the top rate and on foot of that we lost a not insignificant number of good people over the years.

C2.c (Relates to; Role and Effectiveness of the Policy Appraisal Regime before and during the Crisis).

The Liquidity versus Solvency Debate

70. I am not so sure that I would call it a debate although I have seen that term used. Liquidity is having money to pay next week's bills, solvency is whether when all the sums are done at the end you have more assets that liabilities. Of course liquidity problems can develop into solvency problems.

71. The original liquidity problems were caused when banks and other financial institutions became frightened after the fall of Lehmans and started to hoard their liquidity. Governments receive tax receipts, central banks receive government tax revenues, insurance companies receive premium income cheques; they all want to place these funds short term, before they either spend or invest for the long term. The trouble was that when the world started to come apart at the seams everyone decided to keep the cash, because they did not know which bank would be the next to follow Lehmans. And then asset prices started to drop, liquidity became scarcer and you get into a sort of downward spiral that led from a liquidity crisis eventually into a crisis of solvency.

72. I believe that it has already been explained to the Committee that even the most solvent bank in the world would become insolvent, if it remains illiquid for long enough. The accounting standard IAS39 (which came into force on the 1st of January 2005) had the effect of no longer allowing what was called cross cyclical provisioning, the effect of which meant that in good years you could put something aside for bad years. Now you were not allowed to make provisions as they are called unless you had an actual impairment, unless an event of default had actually occurred.

73. A car manufacturer knows that if he makes a million cars a tiny percentage will turn out to be defective. A bank knows that it makes a thousand loans, even in stable times a small number will not be repaid (across the cycle this tended to be three to four loans per thousand). Historically banks provisioned or made allowance for those losses but IAS39 forbade that and you were only allowed make provisions as and

when a loan went bad,(i.e. when an event of default occurred) not before I understand that the Spanish Bank Regulator directed the Spanish banks to ignore IAS39 and to do cross cyclical provisioning, notwithstanding the accounting standard.

74. Accounting standards had other effects. Accounting standards required the banking book to be 'marked to market'. One of the big problems was how do you mark to market on a day when there is no market. When the panic struck no one would buy assets. Did that mean that all the assets were worth zero? If I put my house on the market and have received no bid after two months, does marking it to market mean that you have to write it down to zero? This pro-cyclical, downward-driving effect of accounting standards has been commented on by other commentators and my thoughts on it are not original. (See for example the de Larosiere Report February 2009 paragraphs 32 -37). Some of these standards were originally introduced to address problems which had arisen during the dot-com crisis in the year 2000, but their unintended consequence was to intensify the 2008 crisis.

75. Mr. Nyberg has explained that with the introduction of the euro, borrowing abroad now had no foreign exchange risk, and a flood of money became available at very low interest rates. European interest rates were too low for Ireland. If you took local inflation into account interest rates in Ireland were negative and it has been reported since that the appropriate interest rates calculated for Ireland (in accordance with the so called Taylor Rule) should have been between 6% and 12% during the boom years.

76. It is perhaps worth observing that the ECB had at all times the legal power to direct the Central Bank, (for example on steps to counter the effects of unsustainably low interests rates or any other relevant matters).

77. Article 14.3 of the Statute of the ECB provides;

'*National Central Banks…. shall act* ***in accordance with the …instructions*** *of the ECB.'* (emphasis added)

C3.b (Relates to; Appropriateness and Effectiveness of Department of Finance Action during the Crisis)

Appropriateness of the Bank Guarantee Decision

78. The events of the night of the 29th/30th September have sometimes been misrepresented. The following salient points, as I recall them, are perhaps worth stating.

(a) The first thing to say is that the decision actually made to give the so called "blanket guarantee" to six banks, was not discussed or raised with, or by, the representatives of AIB (or, as far as I know, Bank of Ireland) on the 29th of September.

(b) The purpose of the meeting which the representatives of AIB and BOI requested with the government, was to discuss the dramatically deteriorating international situation, the apparently dire straits in which Anglo found itself, and the possible repercussions of that fact for BOI and AIB.

(c) The Banks expressed the view that Anglo and Irish Nationwide needed to be decisively dealt with by the State in some way, and in that context (of those two banks being taken down or decommissioned in some way) that a guarantee then be provided for the remaining banks (other than Anglo and Irish Nationwide) to protect the surviving banks against the turmoil which would inevitably follow from an Irish bank being either liquidated or nationalised.

(d) We learnt that Anglo could not open the next morning and had run out of liquidity. The Governor of the Central Bank, stated during the meeting that it could be 'disorderly' or 'there could be a fumble' if Anglo were dealt with midweek, so what was needed was for AIB and BOI to try and provide €5bn each in liquidity to support Anglo until the coming weekend.

(e) Most of the evening was spent in efforts by BOI and AIB to assemble enough liquidity to keep Anglo going until the weekend. That effort was successful and by morning, €10bn in liquidity had been assembled, with its repayment 7 days later to be underwritten by the Government.

(f) The Bank Representatives were not involved in discussing or the making of the decision that was ultimately made. A blanket guarantee (to include both Nationwide and Anglo) was not sought by or discussed with AIB. I make no complaint about that and simply record the fact.

(g) The Bank Representatives were not present in the room with the decision makers for most of the evening, and were not present when the decisions were made.

79. I refer to three near-contemporary documents each of which sets out my account of what occurred, all of them written within seven days of the 29th of September, all of which I am assured have been furnished to the Committee[1];-

a. 7 pages of notes made of the events of the night, which were dictated during the following weekend.
b. A Memorandum to the AIB CEO which I dictated on the 2nd October for a possible conversation with the Minister for Finance (especially paragraphs 1,2,7, and 8).
c. A letter of complaint which I wrote on the 6th of October 2008 to the Chairman of Anglo. Its significance is simply that it records again when it was fresh in my mind, something of my recollection of what transpired on the night.

80. Were it not for the word limit which applies to this statement I would have here included in full the notes I made of that night as well as key paragraphs from the other two documents.

81. One thing that was not mentioned in the notes was the fact that in the discussion of the guarantee, the government indicated that it would be preferable if the banks asked for the guarantee; it would be easier for the government to provide it in response to a request. We had no difficulty with that, but I note again that our request was for a four bank guarantee not a six bank guarantee.

[1] Fourth disclosure of material by AIB to this Inquiry (20th February 2015) entries number 145, 149, 146.

82. I acknowledge that the Government was faced with very difficult decisions on the 29th September 2008, which had to be made very urgently. I am not privy to the information or advice available to the Government on that evening.

83. It is necessary to remember, once again, that on the night of the guarantee what was being discussed with AIB and BOI was a guarantee for the banks **other than** Anglo and Irish Nationwide to, in effect, protect the surviving banks from the turmoil which would follow from the taking down or taking into custody of Anglo and Irish Nationwide. At a meeting on a subsequent occasion, when I was alone with the Minister for Finance he indicated that that was the course which he had favoured on the 29th September, but that other views had prevailed.

84. My most direct record of what was and was not requested on the night is to be found in the Memo I wrote to the CEO, in preparation for a possible meeting with the Minister, on the 2nd Oct (see ref above), two days after the event, paragraphs 7 and 8 of which read as follows (emphasis as in the original);

"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 the [redacted] *who had brought us all down, be taken out of the market and then for a guarantee to be put in place."*

"<u>What we did not ask for</u>, is that the [redacted] *should be boosted, and baked into the system going forward."*

85. 'Getting to the weekend' is a strategy that I had come across before in emergencies of various kinds, typically involving a publicly quoted company. The reason for this is that on a week-night the New York Stock Exchange closes at 9 o'clock Irish time and Japan opens again at midnight Irish time. That gives you three hours. The weekend, between 9 o'clock on Friday and Sunday midnight, gives you 51 hours, and that is often considered a sort of safe haven during which more radical steps can be safely taken, especially when a Bank is involved. That was what I understood the Governor of the Central Bank was referring to when he said on the night (I can recall his words) that 'it could be disorderly to do it mid-week, there could be a fumble'. (See my account of the evening in question).

86. At about the same time Fortis was rescued using ELA (see conversation between Professor Lane and Senator McSharry at this Inquiry, 21 January 2015), and in early October the Bank of England made a secret loan of £62bn to HBOS and RBS to solve their reputedly critical liquidity problems, a decision which was not made public until November 2009, thirteen months later.

87. It appears in retrospect that the choice on the night which the government faced was to nationalise, liquidate or provide support for Anglo. A much wider range of options for dealing with this sort of situation, became available on the enactment of the Credit Institutions (Stabilisation) Act, 2010 and the Central Bank and Credit Institutions (Resolution) Act, 2011. I understand that some sort of bank resolution legislation may have been suggested at some time before the crisis but that such legislation had not been progressed when the crisis arose.

R3.b (Relates to; Clarity and Effectiveness of the Nexus of International Roles and Relationships)

Nature and Appropriateness of the Relationship between the Central Bank (including the Financial Regulator) and the Department of Finance and the Banking Institutions

88. I have no first-hand knowledge of the relationship between the Department of Finance and the Central Bank or the Financial Regulator.

89. So far as the relationship between the Central Bank and the Financial Regulator and the banks is concerned, it was largely conducted at executive level, although I met the Regulator and the Governor perhaps once or twice a year. On one occasion AIB invited the Chairman and CEO of the Financial Regulator to attend one of our board meetings and that invitation was accepted. Contact also took place at various lower levels.

90. 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.

91. While I am generally wary of sporting analogies, Professor Ahearne's remark to the Committee that what was needed at the time was a regulator who behaved like a referee in a football Match (4th March2015) strikes me as apposite.

92. In a highly competitive match if the referee decides not to blow the whistle, the more aggressive team tends to prosper and other players get injured. I think, with the benefit of hindsight, that that is an analogy that holds good to a considerable degree in respect of Irish banking in this period.

93. Leaving aside prudential and competition matters, the Regulator was far from light touch on a foreign exchange issue which arose in 2004. The Financial Regulator had just been given responsibility for consumer affairs and it transpired that AIB had formally notified the Central Bank of charges in relation to foreign exchange, which were different (and smaller) than those that were actually advertised and applied in the

branches (which were the market rates). For that breach a very substantial and extensive investigation was required to be conducted during which AIB had regular and intensive interaction with the Regulator. On that consumer issue at least, the regulation could not have been described as light touch.

94. It was only after the Honohan report was published that I learned that the Consumer Director sat on the board of the Financial Regulator but that the Prudential Director (charged with the safety of the whole banking system) did not.

95. In justice to the Financial Regulator it should be said that the liquidity regime imposed by the Finiancial Regulator in Ireland, was superior to most European countries; in Ireland banks were required to have 31 days liquidity at all times, whereas in the UK I understand that the requirement was just 7 days liquidity.

Conclusion

96. The Great Recession of 2008, the worst the world has known for eighty years, did not start in Ireland, but there were decisions made in AIB which made things worse than they need have been for Irish citizens, for shareholders and employees, and for my part in those events I offer my sincere apologies.

Dermot Gleeson

26/03/2015