HOUSES OF THE OIREACHTAS

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AN COMHCHOISTE FIOSRÚCHÁIN I DTAOBH NA GÉARCHÉIME BAINCÉIREACHTA

JOINT COMMITTEE OF INQUIRY INTO THE BANKING CRISIS

Déardaoin, 7 Bealtaine 2015

Thursday, 7 May 2015

The Committee met at 10.30 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

Ulster Bank - Mr. Michael Torpey and Mr. Robert Gallagher

Chairman: I call the committee into public session. Is that agreed? Agreed. As we have a quorum, the committee of inquiry into the banking crisis is now in public session. Can I ask members and those in the public gallery to ensure that their mobile devices are switched off? We begin today's session 1 public hearing discussion with Mr. Michael Torpey, former group finance director at Ulster Bank Group, and Mr. Robert Gallagher, former chief executive, corporate markets division at Ulster Bank. In doing so, I would like to welcome everyone to the 24th public hearing of the Joint Committee of Inquiry into the Banking Crisis, and today we continue our hearings with senior bank executives who had roles during and after the crisis.

This morning we will hear from witnesses from Ulster Bank, Mr. Michael Torpey, former group finance director, Ulster Bank Group and Mr. Robert Gallagher, former chief executive, corporate markets division of Ulster Bank. Mr. Michael Torpey was group finance director, Ulster Bank Group, from 2004 to 2007, having previously been financial director at First Active. Since leaving Ulster Bank, Mr. Torpey has been a group treasurer at Irish Life and Permanent, head of banking at NTMA and, since 2013, has been chief executive, corporate and treasury division at Bank of Ireland.

Mr. Robert Gallagher was chief executive, corporate markets division, Ulster Bank, from 2015 to 2011. Between 1991 and 2005, Mr. Gallagher had numerous positions in AIB and before that he worked with Citigroup in Australia. Since 2014, Mr. Gallagher has been director credit at KKR, a US investment firm.

Mr. Torpey and Mr. Gallagher, you are both welcome before the committee this morning and before I commence proceedings, I wish to advise the witnesses 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 so do, 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. The utmost caution should be taken not to prejudice those proceedings. Members of the public are reminded that photography is prohibited in the committee room. To assist the smooth running of the inquiry, we will display certain documents on the screens here in the committee room. For those sitting in the gallery, those documents will be displayed on the screens to your left and right. Members of the public and journalists are reminded that these documents are confidential and they should not publish any of the documents so displayed.

So, in that regard the witnesses have been directed to attend the meeting of the Joint Committee of Inquiry into the Banking Crisis. You have been furnished with booklets of core documents. These are before the committee and will be relied upon in questioning and form part of the evidence of the inquiry. So before we begin the proceedings, so if I can ask the clerk to administer the oath to both Mr. Torpey and Mr. Gallagher, please.

The following witnesses were sworn in by the Clerk to the Committee:

Mr. Michael Torpey, former Group Finance Director, Ulster Bank Group.

Mr. Robert Gallagher, former Chief Executive, corporate markets division, Ulster Bank.

Chairman: Okay, so if I can maybe commence by inviting Mr. Torpey to speak and then followed by Mr. Gallagher. Mr. Torpey.

Mr. Michael Torpey: Thank you, Mr. Chairman. I welcome the opportunity to assist the inquiry and I will be pleased to address any questions the committee may wish to ask pertaining to your remit. My background is that I have spent my career to date working in financial services in Ireland with a particular focus on capital markets and treasury activities. Immediately prior to my role as finance director at Ulster Bank Group, I spent three years as director with responsibility for finance and treasury at First Active plc, the former First National Building Society, which had converted to plc and floated on the Stock Exchange in 1998. I was appointed finance director of the Ulster Bank Group in January 2004, following the acquisition of First Active plc by the Ulster Bank Group on behalf of Royal Bank of Scotland. I remained in this position until December 2007. And this move to Ulster Bank represented a move from the position of finance director of a publicly quoted company to a reporting line internally in the RBS group, to the group finance director in what was a very much larger multinational organisation.

My specific responsibilities in my capacity as finance director of Ulster Bank included the integration of the First Active and Ulster Bank Group financial accounting systems onto the RBS Group accounting platform; decision support to all of the business areas of the Ulster Bank Group in matters of finance; review of group accounting policies and practices; and assessing and ensuring compliance with regulatory requirements. I was chairman of the Ulster Bank Group tax policy and controls committee, the group assets and liabilities committee, the group reconciliations committee and the finance supervisory committee.

My brief included responsibility for statutory and regulatory reporting as well as financial controls and reconciliations for so long as the financial accounting systems resided in Ulster Bank Group. A major element of my role while in the Ulster Bank Group was delivery of a hugely complex integration of the financial accounting systems of both First Active and Ulster Bank onto the RBS group financial accounting systems. With differing regulatory, legal, taxation and even currency regimes, this was an extraordinarily complex project, which had to be delivered while maintaining continuity of accounting reporting and, indeed, controls in Ulster Bank Group throughout the period.

Following completion of the migration project, production of statutory and regulatory accounts, along with the principal accounting services for the Ulster Bank Group, moved to the RBS Group accounting function in Scotland. As a wholly owned subsidiary of RBS, the role of finance director, as indicated, was much more specialised than might have been encountered in a stand-alone company or, indeed, than I had experienced at First Active plc. It was, effectively, a divisional management position within the RBS finance function with additional responsibility, including in relation to statutory accounts and regulatory reporting. Following completion of the integration project and the move of the principal accounting services to Scotland, the role was further narrowed, becoming a role heavily focused on the hugely important business support and financial controls, as well as reporting to, and very close engagement with, RBS Group finance. In practical terms, the role can be represented as a specialised accounting role at that stage.

I reported to the CEO of Ulster Bank Group and, in parallel, to the RBS Group finance director. And this latter relationship reflected that, in large part, my responsibilities were carried out under RBS Group strategy, policies, and often under direct influence and control. I had little involvement in operational matters in the business which did not directly involve delivery by the finance function. The Ulster Bank finance function had no involvement, for example, in credit policy and strategy and was not represented on the group risk credit policy and strategy committee, which was responsible for maintaining asset quality, determining policy, and ensuring adequate controls within the parameters of the RBS policy framework.

Central to this operating structure is the functional nature of the RBS Group organisational structure. RBS Group operates as an integrated group requiring that control, policy and process and so forth are driven and controlled from the centre. A particularly significant instance of this was that, from the outset, RBS Group treasury assumed responsibility for, among other things, treasury and balance sheet management functions and undertook to meet the capital and funding needs of Ulster Bank Group directly. I had proposed the retention of baseline treasury capability in Ulster Bank Group from the outset but this was not in keeping with RBS policy and was not accepted. From Ulster Bank's perspective then, capital funding requirements and balance sheet metrics were viewed in the context of the overall RBS Group situation rather than from a stand-alone perspective. Ulster Bank was a small part of the RBS Group and in Ulster Bank we had limited influence on, or control responsibility for, the RBS Group balance sheet management. This approach by RBS Group certainly had cost and scale benefits and had the effect for the group of enabling divisions to focus on business delivery while the RBS Group centre delivered the structural supports, such as the funding capital and balance sheet management. These structural requirements would, of course be ... form an integral part of management in a stand-alone entity.

I mention these matters, Chairman, to clarify my role and reporting relationships, as they operated within the RBS policy framework, and to provide the committee with some insight into my role within a wholly owned subsidiary. That said, I clearly recognise and accept that, as a member of the boards of Ulster Bank Group and as a member of the RBS finance board - that being a committee of the finance directors of RBS divisions and senior finance personnel from RBS Group centre, which was chaired by the RBS Group finance director - I have responsibility for my part in developments within Ulster Bank Group between 2004 and 2007 and any impacts that these developments had on the banking sector generally. I very much regret that, like so many others, I did not foresee, during my time in Ulster Bank Group, the extent of the difficulties arising within the RBS Group, the extent or duration of the turbulence in wholesale funding markets, the collapse of the property market in Ireland and, indeed, the resulting difficulties for Ulster Bank Group and the impacts on people and the population as a whole. I dearly wish that we could have known that even ... then even a small part of what we now know so that we might have been able to pursue a different course. I'm happy, Chairman, to address any questions the committee wish to ask within the context of the inquiry.

Chairman: Thank you very much, Mr. Torpey. Mr. Gallagher.

Mr. Robert Gallagher: Thank you, Mr. Chairman. I welcome the opportunity to appear before this inquiry and I shall be as helpful as I can in assisting you in your work. My opening remarks this morning are supplementary to the written statement, which I submitted to the inquiry on 9 April.

My professional background is in international banking. Prior to joining Ulster Bank I was head of corporate banking international for AIB, with responsibility for businesses in London, Frankfurt and Paris. I joined as chief executive, corporate markets, at Ulster Bank Group in late

2005 and worked at the bank until I resigned in September 2011. I joined the bank well into its growth phase, and in the six years I spent working there, I oversaw a two year period of growth followed by four years of intensive portfolio management and remediation of the corporate markets divisions of the bank.

The reputation and strength of RBS Group was a key factor in influencing my decision to join Ulster Bank. RBS was then a very successful bank. It was held in high regard globally, and I believe the significant presence they had in Europe, the US and Asia could be leveraged to the benefit of Irish companies seeking to expand in those markets. Looking back, I was excited about the opportunity to develop and grow a corporate business here to compete with AIB and Bank of Ireland.

As chief executive of the corporate markets, my responsibilities included corporate banking, business and commercial banking, property finance, capital markets in the Republic of Ireland and in Northern Ireland. Corporate markets had approximately 1,700 people working in Dublin, Belfast and 32 business centres around the island.

On my arrival into the business, Ulster Bank already had a well developed and long-standing property division. The commercial property loan book was then approximately 60% of the corporate loan book. On joining, a key objective of mine was to diversify the portfolio. I sought to do this by bringing the RBS global capacity and products to the corporate and business customers in Ireland. In order to facilitate this objective, I oversaw a significant expansion of the business centre network, the enhancement of the corporate systems capability and initiated substantial training and investment in our people, particularly on financial and cash flow analysis.

The bank's strategy was to become a third force in the Irish universal banking market, to challenge the dominance of the big two. As a wholly owned subsidiary bank, treasury, capital funding and balance sheet management were provided to us by RBS. Our focus in corporate markets was on growth and diversification of income streams.

The bank's strategy and business agenda were underpinned by a control and reporting framework, which was aligned with the wider RBS Group. We were plugged directly into the RBS credit approval framework. The risk, credit, finance operations, internal audit, HR and treasury functions all reported into RBS on a matrix basis. The concept of first and second line of defence was deeply imbedded in the RBS approach to the control environment. The risk management division of Ulster Bank, which was independent of the corporate markets, was structured, resourced and managed in a manner consistent with other RBS divisional risk management functions. We were obliged to operate within the parameters of a comprehensive and detailed policy rules and guidelines, which prescribed how risks were to be managed. These policies covered lending limits and approval structures, LTV limits, stress testing and evaluation processes.

In my view, the governance structures and policies at Ulster Bank were adequate. Did everything work according to plan? No, I can't say everything did. However, in the vast majority of situations, the rigour and consistency of the bank's approach worked well. The critical mistake was to base our ambitious growth strategy on economic assumptions which we firmly believed to be well founded, but which proved in time to be seriously flawed. When I joined the bank in 2005, the internal economic analysis and pretty much all of the external economic analysis forecasted continued GDP growth into the medium term. Ireland had experienced a property boom which had lasted then over ten years, driven in main by the fundamental factors such as low interest rate regime, increasing population, strong growth in employment and rising household incomes. Corporate activity was particularly strong from the late 1990s onwards through a combination of buoyant indigenous enterprise and foreign direct investment.

Come 2007 when the signals of the slow down became apparent, most economic analysis, including our own, predicted the notorious soft landing. The consequence of the reliance on flawed assumptions allied to the failure to critically analysis and challenge the pace and extent of the property construction lending has been clear to everyone. As a former director of Ulster Bank, I deeply regret this. I spent the period from 2008 onwards remediating the business. During this period and as a member of the executive of Ulster Bank, we sought and received RBS approval for an action plan to protect the Ulster Bank franchise in Ireland. In corporate markets, this plan included the allocation of over 300 people to a new division to manage the deteriorating portfolio; the reduction of the intergroup lending limit, which had grown substantially following the introduction of the bank guarantee scheme in the Republic of Ireland, of which Ulster Bank was not part; and the reduction of the cost base of the organisation and the re-shape and re-size of the business to reflect the new economic reality. Through this very difficult period we continue to have the support and faith of the new RBS management team which has brought in to manage business. Thank you for listening to my opening remarks and I am happy to address the questions from the members of the inquiry.

Chairman: Thank you, Mr. Gallagher, and thank you earlier, Mr. Torpey. Deputy John Paul Phelan, you have 25 minutes.

Deputy John Paul Phelan: Thank you, Chair, and good morning, gentlemen. A few questions for you following on from your statements. First of all actually I want to ask you both, Mr. McCarthy when he was here yesterday indicated to the committee that he had had some contact with Ulster Bank in preparing his opening statement. I'd just like to ask you maybe both to clarify the extent of any help from Ulster Bank in terms of preparing your presentation to the committee both this morning and the previous written statement.

Mr. Michael Torpey: I'll take that first if that's okay. I left Ulster Bank at the end of 2007 so when I received the direction to attend the committee, I sought from Ulster Bank some briefing so as to assist me in my recall and accurate evidence to the committee and I received briefing documents in relation to the areas of inquiry which the committee has signalled to me.

Mr. Robert Gallagher: I equally got extensive factual briefing from Ulster Bank on the matters which were relevant to the inquiry.

Deputy John Paul Phelan: I want to turn then to, in fact either of you can answer this particular question, it relates to events surrounding the guarantee. On the night of the 29th, we know now that there was extensive conversations involving officials at the Department of Finance on 29 September 2008, Minister for Finance, Taoiseach and representatives of AIB and Bank of Ireland. Were either or both of you aware at the time that these conversations were happening and did Ulster Bank, in or about that time, make any representations as to the nature of those discussions? And I also furthermore ask you both your opinion as to the nature of the guarantee which emerged? Do you have any particular views as to the items that were covered by the guarantee and the full extent of it and what is your current opinion on the blanket guarantee that emerged subsequently?

Mr. Michael Torpey: Perhaps I'll address that first, Chairman. I think in terms of events on the night of the guarantee Deputy, I've no knowledge whatever. I left Ulster Bank at the end of

2007 and in fact I was not working in the financial services industry and for very much of 2008 not even in the country. So that I have no knowledge, frankly, as to the events leading up to, surrounding or immediately following the night of the guarantee so regrettably, I can't offer any assistance on that front. Equally I am entirely uninformed as to the detail of the circumstances that gave rise to the guarantee and as such, any opinion that I would have would be at risk of being worse than unhelpful but misleading simply because of the lack of information I have. Thank you Chairman.

Deputy John Paul Phelan: Fair enough.

Chairman: Mr. Gallagher?

Mr. Robert Gallagher: So, I had no knowledge of the guarantee or the conversations of the guarantee prior to the public announcement of the guarantee on the 29th or 30th. I did, along with Mr. McCarthy, meet the Minister for Finance on the 30th in the morning, where he was attending a business launch which we were having in George's Quay in Dublin and at that meeting, we indicated our concern about the impact of the guarantee to Ulster Bank and the outflow of deposits. And post that date and for broadly speaking a month afterwards, we saw a material outflow of deposits.

Deputy John Paul Phelan: You did not make any, or did you make any representation as to the nature of the guarantee? Following the announcement, the legislation took a few days to pass, was there -----

Mr. Robert Gallagher: No, we did not.

Deputy John Paul Phelan: Okay. Can I ask then, Mr. Gallagher I suppose is the most relevant person to ask, in relation to the guarantee itself, Mr. McCarthy yesterday in evidence spoke about the predatory behaviour of certain institutions in or around the time of the guarantee and I want to quote him directly.

He said:

> ...pretty quickly after the guarantee was announced there was predatory behaviour on the part of certain institutions. People in certain institutions contacting customers to the effect that, you know, "Bring your money in here, there is a State guarantee, it is much safer."

That's a direct quote. Can you inform the committee which institutions were engaged in that particular activity or do you have any further information to add to what Mr. McCarthy said in that regard yesterday?

Mr. Robert Gallagher: No, Deputy. So, as a fact, we had a material outflow of moneys, which went to other institutions and that fact is reflected in the increase in the intergroup limit in Ulster Bank. The moneys provided by RBS, I think in the month of October, went up by approximately €4 billion. So we had an outflow of approximately that amount of money that went to other institutions who were guaranteed. There is no question in my mind that other institutions, or front-line staff of other institutions, were proactive with our customer base in their desire to build their deposit base. And, anecdotal evidence would suggest that, in doing so, they reinforced their ... their communication around the strength of the guarantee and our lack of a guarantee.

Deputy John Paul Phelan: All of the other institutions or-----

Mr. Robert Gallagher: I don't know, Deputy.

Deputy John Paul Phelan: Okay. He also said on the same point yesterday ,about consolidation in the banking sector ... and I want to quote him directly again, he said "There was some conversation subsequent to the guarantee about institutions merging and doing, you know, transactions. I think there's been some evidence to the committee about that and there were some conversations held with us as to whether we, as a group, would be interested in participating in consolidation of the Irish banking sector." Just want to know, Mr. Gallagher, can you provide any additional information as to the nature of those conversations and, really, who was asking Ulster Bank to participate in consolidation of the banking sector and what consideration was given by Ulster Bank to those conversations?

Mr. Robert Gallagher: So, Deputy, I wasn't party to any of the conversations which I can ... I can assume happened at chief executive and chairman level. So, other than what has been covered in the public media about coming together ... or whether third forces ... I don't have actually a perspective or knowledge of that.

Deputy John Paul Phelan: Mr. Torpey, are you aware of any loans or terms offered to borrowers which would be considered outside the normal commercial terms available at your institution in Ulster Bank Ireland made during the period of your tenure and if you could maybe clarify for the committee any of the ... or some of the reasons why those terms were granted?

Mr. Michael Torpey: I'm not aware of any terms outside the normal commercial terms and conditions, other than the standard and publicly known staff mortgage schemes for instance, that will have been available to banking staff generally. I am not aware of any special arrangements in relation to anybody that stepped outside normal commercial terms.

Deputy John Paul Phelan: Can I ask you specifically, and I know we can't ... we had a discussion about this yesterday in relation to the Dublin 4 hotels site and we are not going to get into the personal information or details of those who were involved. But, yesterday Mr. Boucher, under questioning from Deputy Higgins, said that a letter which he wrote in support of that particular project - a planning letter - in Ballsbridge was one of the most stupid things he had ever done and that's a direct quote. And yet it was Ulster Bank who had famously mostly funded the particular project in question. I'd just like to ask you how you would characterise the decision of Ulster Bank at the time to fund that particular project. It was during your time, I think.

Mr. Michael Torpey: It would have been during my time, Deputy. The decision in relation to the ... any particular credit, and I am not going to talk about anyone in particular, was a matter which occurred as between the competent functions in the Ulster Bank Group. So when a credit application came to the appropriate part of the business, that credit application was considered and developed in whatever way they do it, and went to the appropriate credit decisioning authority to make a decision. And where credits were of a certain size that fell within discretion within Ulster Bank; where they were of a larger size they went to credit committees at RBS Group. I think I mentioned in my opening statement the integrated nature of the group and such that there was a very high level of control by RBS Group in such matters.

As the finance director in Ulster Bank, I had no part to play in these matters. I would have no knowledge of the customers, of the particular credit applications or the credit decisions and, you know, to the extent that it's a follow-on from your earlier question, I would have no reason to believe that any such decisions in relation to any customers of the bank were taken on anything other than commercial ... a commercial basis.

Deputy John Paul Phelan: Mr. Gallagher, you were present at the time when you were chief executive of the corporate division. Did you have any involvement in that particular decision to fund that particular project?

Mr. Robert Gallagher: Well, first thing I'd say, Deputy, is the ... I think in the public ... in the public domain, that sale and purchase of that asset, I think, occurred in June, July '05. I wasn't in the organisation but I echo Mr. Torpey's comments with regard to specific customer information, I couldn't comment, even if I had been.

Deputy John Paul Phelan: I'm going to change to the matter of 100% mortgages, and we've had a lot of evidence from previous witnesses as to the introduction of that particular product. And I want to put you particularly a quote from Mr. Brian Goggin, former chief executive of Bank of Ireland, who gave testimony to the inquiry last week on the product, and he said, and I quote:

> The pioneers of 100% mortgages was Ulster Bank through First Active. And we actually ... when the concept of providing 100% mortgages was first raised at a group risk policy committee, my recollection is it was declined and by the time we came to providing 100% mortgages, we were very much a reluctant follower.

I want to ask you both: do you believe that Ulster Bank effectively then drove other banks in the Republic of Ireland into the 100% mortgage market and ultimately into making decisions which, up to that point, they wouldn't have made?

Mr. Michael Torpey: I think, Deputy, the question of 100% mortgages is something that was grounded in the circumstances of the time. I have no doubt ... in fact I'm entirely satisfied that 100% mortgages were available on a let's call it case-by-case basis from a number of institutions prior to the more public availability of a product labelled in those terms. I think, again I would be ... I'm entirely satisfied that we were in an extremely competitive market situation at the time and indeed First Active, being the subsidiary within Ulster Bank which was the first within Ulster Bank to introduce the 100% mortgages, was in fact losing market share materially in the context of the competition in the marketplace. They were the conditions that gave rise to the introduction of a product with limited availability and fairly tight controls. Having said all of that, you know, as the way the market has evolved over time, events that subsequently happened, I think with the benefit of hindsight, it would've better if that product had not been introduced.

Deputy John Paul Phelan: Do you have any views, Mr. Gallagher?

Mr. Robert Gallagher: The mortgage part of the business wasn't part of the business that reported to me, but my own view, Deputy, is that a 100% product is not a product that really, as we look at the world now, should exist, so it was of its time. As a board member of the bank, it was a constrained-in-size and well monitored product. That's all I really have to say, yes.

Deputy John Paul Phelan: Okay. Can I ask, Mr. Torpey, how ... like, what is your own feeling? We've heard evidence from a number of witnesses that Ulster Bank were the instigators of marketing the 100% mortgage product for the first time, and perhaps it was available to certain categories of individuals in other institutions. But others from other institutions have come in here and firmly pointed the finger at Ulster Bank as being the instigators of this particular product. And yesterday, Mr. McCarthy gave evidence to the committee that 100% mortgages formed about 1% of their mortgage loan book, I think, in Ulster Bank, prior to the direct marketing of this product, and then it went up to about 4%, I think, was the figure that he used yesterday. Do you have any feelings about being characterised as the instigators of this product and, you know, what is your own, I suppose, opinion now, if you could elaborate on that a bit more, as to the effect that the 100% mortgage and the direct marketing of that as a product into the Irish market ultimately had on mortgage lending across the board in all the banks?

Mr. Michael Torpey: I think, Deputy, the 100% mortgages is one of a number of elements of an extraordinarily competitive market that existed in the period to which you're referring. There was extensive marketing of incentives of one sort or another to encourage or support people in the purchase of houses and the financing of them through mortgage borrowing. I think the intensity of the competition across the piece did contribute to the overheating of the market through that period. To the specific question of the 100% mortgage, it was one element in that wide range of competitive factors that were put into play. I think the ... with the benefit of hindsight, it had a more pronounced effect in optical terms in terms of the perceptions that it will have created in the marketplace than it had in terms of an actual impact. As you rightly say, the proportion of Ulster Bank's portfolio that ended up in 100% mortgages built up over a number of years was still in low single digits. So it didn't, in terms of the quantity of financing it put into the market, move the dial in any dramatic fashion, but I would accept, Deputy, that it may have had a greater announcement effect as I have said, and, with that perspective, I would acknowledge that it was not a good move to make with the benefit of that hindsight.

Deputy John Paul Phelan: Was there any ... Mr Gallagher, you expressed the view that ... you were a member of the board at the time, and you expressed some regret about the 100% mortgage ... was there any discussion at board level or any opposition, any alternative views offered when the prospect of offering 100% mortgages was first discussed and a decision was made. Did anybody raise any concerns as to the suitability of the product for the Irish market?

Mr. Robert Gallagher: Deputy, this is not to avoid the answer. Again, the decision on 100% mortgages was prior to my joining, to do it was prior to my joining the organisation.

Deputy John Paul Phelan: Was there any subsequent discussion?

Mr. Robert Gallagher: There was a regular discussion, Deputy, around, as the minutes indicate, around our mortgage business. There was a regular discussion around, as the papers reflect, around the exceptions within it, and there was regular challenge by the board and the non-executives about the mortgage business regularly.

Deputy John Paul Phelan: That's grand, yes. I want to move to core document, gentlemen, UBI - B2, at page 16. It's a memorandum to the board for a meeting in August of 2007, authored by Mr. Torpey. It's particularly a reference to sectoral limits, and there's a quote in it that I ... under the heading "Background", and was referenced yesterday in discussions with Mr McCarthy: "In recent weeks, the Irish Financial Regulator (IFR) has increased Ulster Bank [Ireland's] property sectoral limit from 250% to 500% of its regulatory capital base and may, following a diversification review scheduled for July 2007, be prepared to increase the limit further."

I would like to ask you, I suppose, firstly, Mr Torpey, in your opinion, did the fact that Ulster Bank Ireland could easily transfer the risk on its property portfolio in excess of 250% of its limit to its parent, enable the bank to lend more aggressively into the property sector in Ireland than would otherwise have been the case? And actually, I have a group of further subsequent questions, but if you could answer that one first, maybe?

Mr. Michael Torpey: The purpose, or the background, Deputy, to the use of risk transfers was, in relation to the capital management of Ulster Bank Group, Ulster Bank Group was run as a group, capital was maintained in different subsidiaries, depending on where it had arisen in the past, and the choice open to the group in capital management terms will have been to move the capital to where the business was being written or do the risk transfers to where the capital was residing. So the effect of the 250% cap and the risk transfer structure was to cause certain actions to take place in order to efficiently manage capital. The reality is that had the risk transfers not been possible, the capital would have simply been moved to the ... the other subsidiaries, such ... because the capital was available in the ... in the Ulster Bank Group to meet the appetite. So, the short answer to your question, Deputy, is the risk transfer ... the sectoral limits requirements did not act as a constraint on the level of property lending by Ulster Bank Group because the capital was available in the group.

Deputy John Paul Phelan: So, effectively, because of the nature of your parent organisation, Ulster Bank was ... second part of my question, Ulster Bank was in a position to lend more aggressively into the property sector in Ireland than maybe some of its competitors because of the capital position of its ... of its parent?

Mr. Michael Torpey: The Ulster Bank Group, without, indeed, as it happens, without recourse to RBS Group ... Ulster Bank Group had sufficient capital to meet the level of lending that it overtook in the group, so that capital was not a binding constraint on the pace of growth in lending generally or in any specific sector in Ulster Bank through that period.

Deputy John Paul Phelan: Okay. Specifically on the matter of sectoral limits, yesterday Mr. McCarthy, in his earlier evidence, said ... stated, and I quote, that: “There was a sense that the sectoral limit was honoured more in the breach than in the observance”. Subsequently when I asked him specifically about the matter, he said that Ulster Bank had never breached the 250% limit as it previously existed, and we’ve had evidence from Mr. Gleeson, in particular, former chairman of AIB, where he referred ... referenced the sectoral limits, and he said directly: “We would have been very well off not to have exceeded the sectoral limit. It’s a great shame that we didn’t”. And he’s viewed the sectoral limit as a guideline more than an actual firm limit. So I want to ask you, in relation to Mr. McCarthy’s evidence yesterday, firstly, he said it was observed more in the breach than in the observance, and, secondly, he said that Ulster Bank had never breached it,. Did Ulster Bank breach the sectoral limit, did it come anywhere near breaching the sectoral limit? If it didn’t, why was there ... why was the limit increased to 500%, and why was that sought by Ulster Bank? And, furthermore, what was your own attitude, and the attitude of the bank to the limits in question? Did you see them, as Mr. Gleeson saw them, as guidelines, or did you see them, as Mr. McCarthy referenced them yesterday, as firm restrictions on lending into particular sectors?

Mr. Michael Torpey: The limit we regarded as a rule, Deputy, and within the RBS Group there was a very strong culture of compliance with regulatory rules, so RBS Group, and Ulster Bank Group, as a subsidiary of RBS, would not have been tolerant of a breach of the limits. We did not breach the limits at any stage. When we were approaching the limit within a subsidiary within the Ulster Bank Group, specifically the subsidiaries UBIL, Ulster Bank Ireland Limited or First Active, we engaged in risk transfers with the full knowledge of the regulator so as to locate the risk where there was sufficient capital to accommodate that lending, and as such we observed, entirely, the rules in a full and open way with full and open transparency to the regulator. So I’m entirely satisfied with the compliance of Ulster Bank to that, and indeed to regulatory rules, generally. To your question in relation to others, we would have wondered, given the pace of growth in lending in some quarters, how it was others managed to comply with the rules, and, indeed, recent evidence as you pointed out suggests that some people who didn't necessarily comply with those rules, as we understood them.

Deputy John Paul Phelan: Did you, and this is a final follow-up, Chairman ... did you see the evidence, first of all, that Mr. Gleeson gave? And, specifically within Ulster Bank Ireland now, did you view those sectoral limits as being an actual limit or did you view them as he stated to the committee that he viewed them more in the context of being a guideline?

Mr. Michael Torpey: Deputy, I did not see the evidence of Mr. Gleeson. However, I can say that within Ulster Bank we saw this as a rule, not a guideline.

Deputy John Paul Phelan: Okay. Thank you very much.

Chairman: Okay, thank you. I just want to deal with just one other matter before we move on to Deputy Higgins, and that's in regard to just the property ... general property-related lending strategies and the risk appetite in Ulster Bank, and this question is specifically to Mr. Gallagher. Mr. Gallagher, I want to talk to you about the staffing and appropriate lending skill sets as they would have pertained in Ulster Bank at the time, particularly in around the mid-2000s. Was there any concerns or difficulties with regard to the skill sets of staff members, particularly in regard to when market conditions would deteriorate and loan impairments started to increase? And did you consider that Ulster Bank had sufficiently-trained staff with the appropriate skill sets to deal with the arrear collections and the managing of problem loans? It's like moving, in sporting parlance from offence to defence, did you actually have the skill sets at that time?

Mr. Robert Gallagher: Chairman, the time you refer to is which particular time, sorry?

Chairman: The mid-2000s onwards.

Mr. Robert Gallagher: Yes, okay. So, Chairman, the first thing is I'd say is in 2006, we made a very material investment in enhancing the capability of our people and launched what was called an academy, which was a very comprehensive programme, which pretty much all staff had the option to go on or opportunity to go on, which was anchored in increasing their skills around cash flow analysis, their skills around understanding of balance sheets, cash flows, P and Ls, to reinforce across the business the need to focus on repayment capacity being sourced from cash flow and to continuously encourage our people to realise that security is a second way out not a first way out. That was a very material programme for which we spent a material amount of money.

To the question that then moves how adequately resourced or talented were people to manage the deterioration in the period late '07 onwards, it has to be recognised, I think, that banking generally and banking in Ireland went through a very, very prolonged period of no or very little bad debts and in a period where that occurs, the skill sets and knowledge around managing tough situations diminishes. So, there was a lot of specific training and there was a lot of need to enhance skills and people learned on the job and they learned by training and they learned, by some degree, by the occasional bringing-in of people from RBS who had worked in deteriorating case situations.

Chairman: Was it a case that you were prepared and or was it a case of a lot of crisis catch-up?

Mr. Robert Gallagher: Chairman, it was ... well ... we were never prepared for the scale of what happened ... so it was a combination of trying to be prepared and catching up.

Chairman: Deputy Higgins, 25 minutes.

Deputy Joe Higgins: Yes, thanks. Mr. Torpey, if I could address my first question to yourself, please, and I'd like to refer to core document, Vol. 2, page 5, and it relates to the inspection by the regulator of Ulster Bank in February of 2006 and in the subsequent report that you received from the regulator under the heading "Reporting of Credit Risk", the following is said:

> The inspectors are concerned that there [are not ... there] does not appear to be any evidence of credit risk reporting to [the bank of ...] the board of [Ulster Bank Ireland] on a periodic basis. Credit Risk reporting would include, inter alia, an overview of the quality of the loan book, the level of provisions and a summary of the level of exceptions which have been approved.

And in relation to those exceptions, Mr. Torpey, the regulator says:

> The inspectors noted a high level of exceptions to policy on the [residential mortgage lending] portfolio - 27% of approvals in 2005 were exceptions. In addition, while a list of Debt Service Ratio ... and Loan To Value ... exceptions was provided to the inspectors, there was no evidence that these exceptions to policy (together with a rationale for permitting them) are being reported to the board.

Mr. Torpey, was there a free-for-all in the lending in Ulster Bank at this stage, perhaps arising - I suggest you confirm or deny - from pressure to extend the business of the bank in relation to the type of targets that had been set for the bank, in terms of growth, profits etc.?

Mr. Michael Torpey: Deputy, your question is rooted in the report from ... or the letter and schedule from the Financial Regulator to Ulster Bank in 2006. It would be a matter of, I suppose, concern that the nature of the engagement by the Financial Regulator with the institution was one where the regulator will, as in this case, have conducted an inspection, will have chosen not to engage with queries as to detail on the ground in the inspection and will have written their observations. An effect of that, Deputy, is that the regulator will not necessarily have been fully appraised of the position, will not have got the simple answers to questions, until such time as he wrote and got the response.

To the specific content of your inquiry, was there reporting of lending, was there reporting of exceptions and was there challenge to exceptions by the board of Ulster Bank Ireland Limited, yes, there was and there was on a continuing basis through my period working with Ulster Bank. So I am entirely satisfied that we were operating in a highly controlled environment, that there was appropriate challenge, there were policies in place, in particular in relation to the residential lending, which is the point of your reference here; that where there were exceptions and, policies being as they are, there was a tolerance for a level of exceptions just as there is now under the regulatory guidelines, or regulatory rules on mortgage lending, that there was a challenge to those exceptions, that exceptions were addressed by management to establish that the lending was of a character and quality that fell within the risk appetite of the group. So, I am fully satisfied that the controls were in place.

Deputy Joe Higgins: Mr. Torpey, this raises an extraordinary situation, if I may say so, which I want to tease out with you, because the regulator was in your offices, or conducting an inspection, between 9 and 17 February 2006 and then makes the two assessments that I quoted to you and you point-blank contradict the points the regulator made. How does that square? How did ... in your view, did the regulator get it completely wrong and, if you believe that, how so?

Chairman: Mr. Torpey?

Mr. Michael Torpey: Deputy, the bank will have responded to the regulator, clarifying the queries that the regulator raised. The regulator, on his inspection, will, I'm absolutely satisfied in good faith, have made certain observations and will not have found, during that relatively short period of inspection, the evidence of these matters. Personally, I would've preferred if there had been a closer engagement by the regulator with senior management, when many of these queries could have been answered immediately, because it is a matter of fact that there was a reporting of these matters and of exceptions to the board on a continuing basis.

Deputy Joe Higgins: But, Mr. Torpey, being more specific, under the report, "Structure of Credit Files", and I quote, "The inspectors-----"

Chairman: Which page, Deputy?

Deputy Joe Higgins: Page 5, same page.

Chairman: Same page, okay.

Deputy Joe Higgins: "The inspectors reviewed 61 files during the inspection, 46 different issues were noted during the review and details of these are outlined". But some of the main issues are:

> The inspectors noted that a number of files had insufficient documentation, were difficult to follow and it was not always evident that all required documentations had been received and filed ... There was no confirmation of the amount of rental income ... used in the calculation of DSR in a number of cases

And there's other related matters ... the use of the term "nixers" in a branch assessment and the use of income arising from nixers in assessing a mortgage application.

Now, Mr. Torpey, this observation here by the regulator ties in with evidence that was given to the inquiry by the chairman and chief executive of NAMA, who found that there was insufficient documentation, insufficient checking of creditworthiness of individuals and projects etc., which created huge problems for many of the banks later. But you say there was no problem in Ulster Bank?

Mr. Michael Torpey: Deputy, I would be far from claiming that Ulster Bank was perfect in every respect. There is no doubt that files, which are bulky and complex affairs, and indeed back ten years ago tended to be even far more manually compiled than they are nowadays, it will have been challenging for the inspection, in the space of a few days in the building, to trace through all of the documentation on a file. You know, I note from your quote that they found that the files had insufficient documentation or there was no evidence. So I think ... I know that the bank will have addressed these queries very specifically and resolved these queries in an extensive fashion. To your comparison with NAMA, frankly it's impossible to comment upon that. NAMA did not have any engagement with Ulster Bank, so NAMA's experience has ... bears no relation to the position in Ulster Bank and NAMA furthermore was in commercial property.

Chairman: I will allow that, what you call it, that Ulster Bank didn't go into NAMA and so forth, and I was conscious when Deputy Higgins was making that question, but what Mr. Daly, I think, was indicating at that time was a broad culture across the banking sector to examine and stress test the creditworthiness of loans that were being issued and the subsequent liabilities that were then being incurred by the institution, so in that regard I think it was in a broad context Mr. Higgins ... or Deputy Higgins was making that response.

Mr. Michael Torpey: In that respect-----

Chairman: In terms of the general culture or the suggested general culture within financial institutions were checking the creditworthiness of borrowers and the subsequent liabilities then that were actually being incurred and created by the banks and the losses that were incurred by institutions because of the possible or not possible examination of people's creditworthiness.

Mr. Michael Torpey: While, Chairman and Deputy, I, you know, would respect the comments made, obviously, by Mr. Daly, I was operating within a bank, a subsidiary of RBS Group, which applied their controls, standards and processes, which were the controls of a very large international bank, on all of the activities conducted within Ulster Bank. I believe that the standards applied were of the best international standards. It's not to say that there weren't lapses or errors or weaknesses, as in any process driven by human effort, but as to whether there was a systemic laxity in the controls and processes operated by Ulster Bank, I have no reason to believe that there was any such laxity.

Deputy Joe Higgins: Mr. Torpey, how did the Ulster Bank Ireland ... we couldn't get precise figures yesterday from Mr. McCarthy because of the ... your relationship with Bank of Scotland, etc., but how did you finish up losing €13 billion or €14 billion if everything was so perfect, as you seem to suggest to me, in Ulster Bank with regard to lending? And just in relation to that, do you say or not that you ... the type of ... Mr. McCarthy told us yesterday, in essence, that Ulster Bank came in here as a much vaunted third force, which had been spoken about. Very ambitious targets of growth for profit, lending, etc. Would you agree or disagree that that would have put a lot of pressure on your lenders within the bank to grow the business much quicker than was perhaps prudent or not?

Mr. Michael Torpey: I think, Deputy, if you don't mind, just to mention at the outset that we were part of Royal Bank of Scotland, not Bank of Scotland, which was an entirely different operation-----

Deputy Joe Higgins: Yes.

Mr. Michael Torpey: -----with operations in the country, just to clarify that, if I may. Your question really is: if we did have, as I understand it, a well-controlled process, how did we ... how did we come to lose money? And I think the core of it lies in the fact that the RBS Group was a group which, as you rightly suggest, was targeted on growing its business in Ireland. In particular having invested very heavily in both the purchase of the banks in Ireland and the systems costs that were applied, they sought to grow to be a competitor with, an equal with, or indeed to match the incumbent full service banks, being AIB and Bank of Ireland. The strategy, therefore, was one of growth. The growth was predicated on an environment where there was a near universal view that the growth prospects for the Irish market continued to be strong and that Ireland was on a good path, shall we say. Any ambitions to grow the business were subject to the constraints of the risk appetite of the group, subject to the controls, procedures and policies of the RBS Group, as transmitted to Ulster Bank. So while we had an objective to grow the business, a clear desire and ambition to grow the business, the RBS Group was not tolerant of relaxing standards and controls in pursuit of that growth.

Deputy Joe Higgins: The Central Bank Governor, nevertheless, I quoted yesterday to McCarthy, said that, you know, growth of 20% or greater should send out warning signals of the balance sheet, that you could quickly come into dangerous territory. Did that occur to you? Mr. Black, if you may be familiar with Mr. Black, William Black, gave evidence along the same lines here. He's a veteran regulator from the United States. Were you aware of a danger that ... overextending?

Mr. Michael Torpey: I have no doubt that if the business is growing rapidly one has to be extra-careful and I would fully accept that contention. I would distinguish, Deputy, between the position of a small challenger seeking to grow market share within a market and overall growth in a marketplace. Ulster Bank was coming from a position of being very much smaller than the dominant banks in the Irish marketplace. It is entirely acceptable from a business perspective, in my view, that a small challenger can seek to grow significantly more rapidly than the general marketplace and significantly more rapidly than a competitor's, in the interest of bringing competition to the marketplace and growing its position relative to the incumbents.

Deputy Joe Higgins: Okay. Could I explore now with both of you, maybe starting with yourself, Mr. Gallagher, please, the salary, bonus and pension plans offered to senior executives of Ulster Bank Ireland and whether they were appropriate and so forth? So, Mr. Gallagher, maybe you'd confirm that in the Vol. I, core document, you were employee 17?

Mr. Robert Gallagher: What page, Deputy?

Deputy Joe Higgins: Page 11. Well, it's pages 10, 11.

Chairman: The cover on it, volume?

Deputy Joe Higgins: Vol. I, UBI - B5.

Chairman: Okay.

Mr. Robert Gallagher: And sorry, Deputy, page 11, is it, or-----?

Deputy Joe Higgins: Pages 10 and 11, yes. But 11, as far as you're concerned.

Mr. Robert Gallagher: Yes, Deputy, I believe that's correct.

Deputy Joe Higgins: Okay. Mr. Gallagher, could you tell us just in a word, because the information isn't given here, what your basic salary, not bonuses, would have been in 2005 and 2006?

Mr. Robert Gallagher: My basic salary, Deputy, in 2005, to the best of my recollection was €370,000 approximately. And it increased thereafter in the period of my tenure in the organisation by ... to approximately €470,000.

Deputy Joe Higgins: Okay. And then, Mr. Gallagher, in 2005, or for the year 2005 you were recorded having received a bonus of €99,000. In 2006 it went up to €427,000; 2007, €440,000; 2008, €580,000. What did you do ... would you agree that these are massive sums of money by ordinary people's standards or not? And what did you do for ... to achieve such significant amounts?

Mr. Robert Gallagher: Well, just for clarification, first of all, Deputy, in the year 2005 that you referred to, I was working three months in the organisation. But to the pure core question, the remuneration which I received was determined by the RBS Group. It was determined independent of me ... and like all executives within the RBS Group, it was determined across a matrix of objectives about topics like people leadership, topics like running the business, topics like customer engagement, topics like performance. So it was a ...a balanced scorecard assessment. But ultimately it was discretionary ... discretionary in the bonus element by the RBS Group ... of which I was a recipient. To your question about the ... the levels, I think your observation is fair. I think the levels look excessive.

Deputy Joe Higgins: And Mr. Gallagher, it appears, does it or not ...that the performance is measured largely against growth in revenue ... and, therefore, that these bonuses relate to the growth of the bank ... and which was achieved through very, very rapid lending which in all banks as we know ... finished up in tears? Is that fair to say?

Mr. Robert Gallagher: Deputy, as I said to you the basis on which the remuneration and recognition occurred within the RBS Group was across a number of matrices ... being customer engagement, staff leadership, performance. So I don't agree with your assertion that it is entirely on growth.

Deputy Joe Higgins: It was a question ... it was a question, Mr. Gallagher.

Mr. Robert Gallagher: Apologies ... apologies, Deputy. I would equally highlight that in the remediation period the RBS Group continued to recognise performance ... at much, much lesser levels ... but continued to recognise performance which clearly were not about growth.

Deputy Joe Higgins: But ... were risk adjustments built into the bonus schemes or not? For example, your largest bonus was €580,000 in 2008, the very year that many banks, including RBS, tanked. Would there not have been a clawback from the bonus in relation to that very detrimental happening for the bank?

Mr. Robert Gallagher: Deputy, I think if you look at the progression of how banks and the banking industry have improved the addressing of those matters in terms of deferral of recognition, or indeed, clawback ... that became a much, much more significant item in the banking industry post-2008 and features of that became the norm in my remuneration in the periods 2010 and 2011 in the RBS Group. So I have seen how that has impacted the way the evolution of those types of rewards occur. Were they sufficient in ... across the industry generally? Were they sufficient in the years up to 2008? I think they ... I would echo what the general sentiment is and say, "No they weren't."

Deputy Joe Higgins: I have to move on ... really ... but Mr. Torpey would you generally have the same opinion or not as Mr. Gallagher in relation to these issues?

Mr. Michael Torpey: Yes, Deputy. I would think ... you know ... pay levels in the banking business at the time, were undoubtedly very high. I believe that the incentives were driven on a balanced scorecard basis reflecting the variety of objectives which constituted the make-up of the overall banking situation. And I think in terms of the lessons learned ... I think the approach to remuneration in banking internationally, particularly the EBA approach to guidelines for remuneration in banking, have taken on board lessons learned, not just in Ireland, indeed, internationally from the weaknesses of remuneration structures that may have existed, or did indeed, exist in the past.

Deputy Joe Higgins: Okay, Mr. Gallagher could I move on rapidly to ... you ... the strategy that was called ''Journey to One'' ... update ... and it's in the core documents Vol. 1 page 13. And this was presented in April of 2007.

Mr. Robert Gallagher: Apologies, Deputy ... could I just check the ... one -----

Deputy Joe Higgins: It's Vol. 1, UBI - B2, page 13.

Chairman: ''Journey to One'' strategic business initiative update, Mr. Gallagher.

Deputy Joe Higgins: Yes ... we are on the same page. This sets goals and customer strategies ... or purports to set them for the period 2007 to 2012. And it is envisaged that operating profit will go from €600 million to €1.3 billion ... new mortgage lending from €5 billion to €15 billion ... corporate market Republic of Ireland share from 15% to 30%. What was management thinking here, Mr. Gallagher? These would, by many, be considered to be extraordinarily ambitious targets. What was your rationale and how did you think you were going to achieve them?

Mr. Robert Gallagher: So, Deputy ...a couple of comments, if I may. The first is ''Journey to One'' was predominantly a staff engagement programme. So we utilised a process emanating from the States called ... a teaching programme where people engaged about leadership and how they shared and worked together. And a part of it was this page and the outputs from this page, but a lot of the programme was around staff engagement ... around post ... some very, very tough integration matters we had ... how would we encourage and motivate and lift people's spirits? That was the context. I will answer your specific question but that was the context to it.

The other thing I will say, Deputy ... in ... on this topic is there is no question that Ulster Bank, until the ownership of RBS, had a real desire to compete with AIB and Bank of Ireland in a much more substantial way. And it was one of the reasons I joined the organisation. And if you think about what Ulster Bank is on the Republic of Ireland ... in ... for instance, in Donegal, Ulster Bank's market share might be 20%, whereas in Cork and Kerry it might be 2%. So the belief that Ulster Bank could increase its market share, particularly in the southern part of the country, was real and meaningful and was evidenced by the investment which Ulster Bank was making around the country.

So, if you look at the business centres and branches which were opened by Ulster Bank in that period in places like Carrigaline, in Killarney, in Tralee, in Limerick ... there was a material expansion of the physical premises on the island of Ireland by Ulster Bank. If you compound that with the material investment in technology ... just to provide services to retail customers and business customers ... and you add to that the material expansion of the ATM network of Ulster Bank ... some of which was reflected in these pages. There was a very substantial increase in the capability of Ulster Bank to provide services to customers around the island which never existed before in its 175 years on the island and in the Republic of Ireland.

Deputy Joe Higgins: Some of -----

Mr. Robert Gallagher: There is no question when looked at however, Deputy, that the financial ... from to on this page ... look now unrealistic ... and look ... exhibit a very strong growth. But they were about communicating to our people an ambition to take on AIB and Bank of Ireland.

Deputy Joe Higgins: Just a last question so, Mr. Gallagher, because of time. Ulster Bank maintained a panel of perhaps around 100 approved mortgage valuers and obviously in terms of assessing risk it is in banking, I believe, vitally important that an independent valuation be requested and property may be taken as security. How was the business distributed among these valuers? And were there any groups within that, that got disproportionate share of the business or were specially favoured or how did it work?

Mr. Robert Gallagher: So, Deputy ... the mortgage business I had no management responsibility for. So I don't know the answer to that question.

Deputy Joe Higgins: Mr. Torpey, could you give any-----

Mr. Michael Torpey: To be honest, Deputy, much though I would like to help, having had no role in the risk process ... the risk evaluation process ... frankly, I don't know the answer to your question.

Deputy Joe Higgins: Okay.

Chairman: Before I move on, and to just round up one issue that Mr. Torpey and Mr. Gallagher were responding to from questions from Deputy Higgins around remuneration and bonus packages. What was your bonus package in 2008, Mr. Gallagher? Did you refer to that in evidence, or was it discussed at ... and what was your bonus package?

Deputy Joe Higgins: I can ... just quickly, Chairman-----

Chairman: I can put up the evidence ... it's a document there, but rather than going back to it, I just ... something I just want to tease out on that. It was something like-----

Deputy Joe Higgins: If it saves time, Chairman-----

Chairman: If you have it there, please yes.

Deputy Joe Higgins: In 2008, Mr. Gallagher is down as €580,500, a bonus ... 2007, €440,000.

Chairman: That's at 274 ... Okay. You said that rules subsequently changed after 2008, Mr. Gallagher, that remuneration packages now get examined with regard to performance. Under the new rules, would that ... 2007 the €172,000 have been paid to you?

Mr. Robert Gallagher: So ... the governance within RBS, and indeed other banks, has more deferral of reward and more clawback. I don't know the answer to that question, Chairman, it's ... the bonus in 2008 relates to the year 2007.

Chairman: Yes.

Mr. Robert Gallagher: So, my belief is no.

Chairman: That you wouldn't have received that bonus under the new rules?

Mr. Robert Gallagher: Yes, but I don't know, I haven't been -----

Chairman: Okay, and I -----

Mr. Robert Gallagher: It wouldn't be my decision, it would be the decision of the variable pay committee.

Chairman: And, on reflection of that, do you believe that that payment or remuneration was then merited?

Mr. Robert Gallagher: Sorry, Chairman, I didn't hear your question.

Chairman: On that basis, and reflecting on that, do you have a view as to whether that payment, from your activities in 2007, paid in 2008, was actually merited?

Mr. Robert Gallagher: Well ... Chairman, my role in the bank, as I articulated was ... in my opening statement, was to enhance the capability of the organisation to service Irish business customers, it was to enhance the capability of the team within the business and it was to diversify income. It's for others to assess whether ... it's for others to assess whether that was ... it's for others who determine this to assess whether that was reasonable or reasonably achieved or not. I have said to Deputy Higgins that remuneration in the banking sector is excessive.

Chairman: Okay, and do you have a view on the new remuneration rules? Do you think they're an improvement or not on the previous rules?

Mr. Robert Gallagher: I think they're an improvement, Chairman.

Chairman: Okay, thank you. Deputy Eoghan Murphy.

Deputy Eoghan Murphy: Thank you to both the witnesses. Mr. Torpey, is it possible that loans or terms were offered to borrowers during your tenure that were outside the normal terms available at Ulster Bank?

Mr. Michael Torpey: Deputy I ... as far as I'm aware, there were no offers of loans to customers outside of normal terms and conditions. I did mention earlier that there would've been a staff scheme, which will have been a staff mortgages scheme, which is the only situation that I am aware of that will have had in any form of preferential terms offered to any individuals or group of individuals.

Deputy Eoghan Murphy: Can we turn then to the group internal audit, and that's at the Dublin Mortgage Centre from December 2006 and the reference is UBI, Vol. 2, page 74. So, on the top of page 74, if you have it in front of you, "Control Issue No. 2 ... Mortgages are processed to completion without sufficient consideration being given to whether all terms and conditions, and documentation requirements, have been satisfied." Classification is "Significant". And if we go down to the third paragraph then underneath that, "The current process does not require (or result in) full copies of a Mortgage Offer Letter ... being held on file, either in paper form or electronically. For switcher mortgages (remortgages) the current process does not require the centre to have sight of the signed [offer letter] at all." Can you comment on that? That's coming from the internal ... group internal audit in the Dublin Mortgage Centre.

Mr. Michael Torpey: Deputy, the Dublin Mortgage Centre was established as a result of integration of mortgage systems in ... in 2006, the middle of 2006 I think is when it was established. It's not strictly in my remit but I'll answer as best I can from my general knowledge of the situation. Following the establishment of that mortgage centre, weaknesses emerged ... there was an internal audit requested, I believe by the chief executive, although I'm open to correction on that, and it did turn up very significant issues which led to an immediate escalation of the concerns and did lead to an immediate bringing in of resource from RBS Group who, as I've stressed earlier, take these things very seriously, to remediate the issues as quickly as possible, because ... I would, you know, that ... an audit report like ... such as this does not make good reading. I don't offer it as an excuse, that it had just been newly set up. I think the only good thing that can be said about an audit report like this was that it was undertaken quickly after the establishment of the Dublin Mortgage Centre to establish the weaknesses and ... so that they could be escalated, addressed and put to rights.

Deputy Eoghan Murphy: Am I correct in understanding that what this says is that people were giving out mortgages ... and it's possible that these did not meet the proper terms of the bank, and it's possible that you did not know they did not meet the proper terms of the bank?

Mr. Michael Torpey: The implication of ... of what ... of what is in here, is that some of the conditions attaching to the ... to the ... issuing of a mortgage may or may not have been met prior to draw down. I think, Deputy, that's somewhat different to ... any implication that they would be offered ... that there would've been mortgages going out on preferential terms. I think, as I read it here, Deputy, and again I'm talking from a general knowledge rather than a detailed knowledge of the Dublin Mortgage Centre, it seems to me that we're looking here at ... at ... at a serious deficiency in process where the various items that had to be delivered prior to draw down weren't necessarily ... or at least there wasn't evidence that they had been delivered prior to drawdown. That is a weakness, not an acceptable weakness, and management will have taken that very seriously and I have sufficient recollection to know that, as I have said, that ... that a senior resource from the RBS Group was brought in to quickly and thoroughly remediate these weaknesses.

Deputy Eoghan Murphy: You see that as a weakness in process?

Mr. Michael Torpey: That is very much my reading of that, Deputy.

Deputy Eoghan Murphy: If I could turn then to UBI - B1, Vol. 1, page 22. And this is about the corporate hospitality and gifts to staff at the bank from clients. You didn't maintain a register of any corporate hospitality or entertainment, or any gifts received by staff in excess of €250, and it wasn't policy to do so either. Why not?

Mr. Michael Torpey: The practice at the time, Deputy, was to rely on a code of conduct which required people to act in ... in a certain way. In that context, but I believe the situation has changed since - I am no longer with Ulster Bank - but the practice at the time would have been to rely on codes of conduct where people understood ... and were held accountable for their behaviour, in accordance with the code of conduct, including matters of hospitality.

Deputy Eoghan Murphy: Could there have been a relationship between this lack of a policy and lack of a register and what group internal audit found in the Dublin Mortgage Centre?

Mr. Michael Torpey: Again, Deputy, I think ... I think it's ... I would ... I believe, from my reading of the documents and from my recollection of events, I believe we're looking, in the Dublin Mortgage Centre, entirely at a process failure, process weakness and, as such, I don't see any connection between these two items.

Deputy Eoghan Murphy: Okay, thank you. If we could turn then to B2, Vol. 1, page 28. This is a letter from the Financial Regulator from March 2008. On page 28 ... at the bottom of page 28 they highlight that, "inspectors noted from the minutes of the RBS Group Credit Committee held on 14 May 2007 that in relation to a €90m facility being discussed for [and it's redacted] "*The relationship team said that they did not know exactly what the €70m equity release would be used for*", but they were aware that [and it's redacted] had tendered for two significant projects." Is that an example of staff at a bank lending out €70 million to a customer and not knowing what it's for?

Mr. Michael Torpey: Deputy, I don't believe so. I believe what we see here is that a credit committee challenged, appropriately, to gain an understanding and will have referred that ... referred that back for sanctioning and any credit. Again, I won't have been part of the credit process but I think I'm making a reasonable inference from the information in that document.

Chairman: Three minutes now, Deputy.

Deputy Eoghan Murphy: Thank you, Chairman, this is my final question on this area. The group risk credit policy and strategy committee ... you didn't serve on that committee?

Mr. Michael Torpey: I did not serve on that committee, Deputy.

Deputy Eoghan Murphy: As finance director, should you not have served on that committee?

Mr. Michael Torpey: I think this goes, Deputy, to the core of the organisational structure, which I sought to bring out in my opening statement, where RBS Group operated very much on functional lines in its organisation. It was an integrated group under the UK prudential sourcebook rules, the UK regulatory rules, such that the control was from the centre of RBS, and that caused people like me to be in a functional line, very much in the accounting line, with a credit process driven through the credit process lines in RBS Group. So I think, in the context of the international group that RBS was and of which Ulster Bank was a subsidiary, it was not unusual that I would not have been part of that process.

Deputy Eoghan Murphy: Okay, thank you. I've to move on now just to another question while I still have time. And the book is UBI - B2, page 21. So you have some tables in front of you. By mid-2006, the level of new mortgage lending in Ulster Bank outside of policy reached 40%, and policy changed later that year and the level dropped to 20%. So can you just clarify for me, lending outside of policy, is that what you would refer to as exceptional lending?

Mr. Michael Torpey: Yes, Deputy, the exception as to policy is lending outside policy, as you read it there.

Deputy Eoghan Murphy: And would 40% be considered high?

Mr. Michael Torpey: It certainly would, Deputy, and would prompt a very close inspection as to what was driving these matters. The approach to policy in residential mortgages was ... and, as would be good practice today, indeed, that you had policies which then had a tolerance around them because prescriptive policies of their nature lead to a need for a certain level of exception. And, to be entirely frank, Deputy, once you're moving beyond low-teens, mid-teens exceptions, you have to raise a question as to the appropriateness of policy. The exceptions to policy were the subject of challenge by the board of UBIL throughout. And to the specific item of debt service ratio policy exceptions within ... within UBIL ... and you will note on the page to which you've referred me, the difference between the First Active and the UBIL experience; that arose largely because the exceptions were very highly concentrated on people with higher incomes such that the appropriate debt service requirement will not have been captured by policy and, indeed, the revision to policy will have captured that. So if we find that ... and I believe it to be the case when I was there, that the majority of debt service policy breaches were for high income earners, that is a mitigant which is acceptable and would have been reflected in the policy revision subsequently. And I believe also that a very high proportion of those exceptions will have been minor exceptions - as in, very marginally above the policy limits. It doesn't take from the fact - and it's very, very important, Deputy, I would agree - that where you do have exceptions arising, that they are challenged by the board and satisfactory explanations along the lines I've given or such other as they may be are arrived at to ensure that credit risk appetite is being adhered to.

Deputy Eoghan Murphy: Thank you. That was December-----

Chairman: Final question.

Deputy Eoghan Murphy: -----or that was the end of 2006 the policy changed, but in September 2007, the chairman is still expressing disquiet over the continued high exception rate for lending approved outside of the debt service ratio limit.

Mr. Michael Torpey: The chairman very rightly ... and I think ... I think it, in some ways, describes some of the strengths that Ulster Bank Group will have had, notwithstanding events that subsequently happened, that while we had a credit policy driven by and controlled by RBS Group, we had an independent board who saw fit to challenge these things and will have required that they receive detailed explanations as to the level of exceptions continuing. So I believe and I'm satisfied that the board did get satisfactory explanations to give them the assurance that while specific policy lines may have been breached, the credit appetite or, in other words, the credit risks being assumed on this lending were within acceptable boundaries but I would absolutely agree that it's appropriate that such exceptions be challenged on a continuing basis.

Chairman: Thank you very much. Just before we go to the break, if I can just go into an area with either Mr. Torpey or Mr. Gallagher. You might express me which one of you is probably more relative to it. In the engagement with mortgage brokers, which was something that Ulster Bank done, alone with other banks, during the period, was there a part of the growth strategy that was outlined by Deputy Higgins, a thought given to developing partnerships or in developing relationships with independent mortgage brokers as a means of increasing your growth into the mortgage market?

Mr. Michael Torpey: Deputy, I'm not well-informed in the space you're asking in. Certainly, the mortgage-broking side of the mortgage market grew in importance through the period and, indeed, the First Active brand didn't deal through mortgage brokers, and you will have seen in the documents that-----

Chairman: Ulster Bank did.

Mr. Michael Torpey: Ulster Bank did engage with mortgage brokers and, as far as I'm aware - and I've to caution in those terms - the nature of the engagement with mortgage brokers was by way of commission payments to mortgage brokers for business originated. I'm not aware of any engagement or proposal to engage in a more substantive or different business model but I'm open to correction on that.

Chairman: And was there a risk management process in place for mortgage processed by brokers that would be coming into Ulster Bank?

Mr. Michael Torpey: The mortgage applications coming through mortgage brokers were subject to the same policy requirements as mortgages originated through the branch network so the debt service limits, the ... multiples of income and the supporting documentation that will have been required or-----

Chairman: So you ... so you would have run a second sight on broker proposals that would have come in so ... and they would have more or less ... if I'm hearing you correctly there, Mr. Torpey, it would have been like the application was being made from scratch in terms of examining the supporting information. It wouldn't be taken that the broker's package was not to be looked at, that everything was sound inside in the box.

Mr. Michael Torpey: As I understand it, and I've no reason to doubt my understanding, Deputy, the level of verification of applications coming through the broker network will have been similar to that coming through the branch network.

Chairman: Just a final question on that and then we'll go for a break. Can you account for the percentage of your distressed mortgage book that relates to mortgage broker business?

Mr. Michael Torpey: I don't have that information to hand.

Chairman: Have you looked at that as an issue?

Mr. Michael Torpey: I am certainly ... in terms of my review of the information that I had in connection with the inquiry, I haven't looked at that. I can ... I can, if you wish, Deputy, request of Ulster Bank that they look at that and make the information available.

Chairman: That would be assistful if you could, Mr. Torpey. We'd appreciate that.

Mr. Michael Torpey: I'll make that request to Ulster Bank.

Chairman: Okay, I'm proposing that we now take a break and that we will break until 11 ... or, sorry, 12.25 p.m., if that's agreeable to members. In the meantime, I would like to just let the witnesses know and to remind them that, once they begin giving evidence, they should not confer with any person other than their legal team in relation to their evidence on matters that are being discussed before the committee. With that in mind, I now suspend the meeting until 12.25 p.m. and remind the witnesses that they're still under oath when we resume. Is that agreed? Agreed.

Sitting suspended at 12.07 p.m. and resumed at 12.32 p.m.

Chairman: Before we go back into public session, just to remind members if they have been using their mobile devices and other pieces of equipment during the short suspension, to make sure to put them back onto safe mode. Mr. Torpey, Mr. Gallagher, you're okay, yes? So I now propose that we go back into public session. Is that agreed? Our next questioner is Senator Sean Barrett. Senator, you have ten minutes.

Senator Sean D. Barrett: Thank you, Chairman, and welcome back to our visitors this morning. Could I refer to core document UBI-B2C, Vol. 2, pages 19 to 30, and, in particular, page 27 stress testing. The worst case scenario... You tell me when you're ready. Do you need the referencing again?

Mr. Robert Gallagher: Yes, reference please.

Senator Sean D. Barrett: Certainly. UBI-B2C, Vol. 2, pages 19 to 30, and, in particular, page 27. Chairman, there was a worst case scenario in stress testing. Residential property prices were forecast to fall by 30% between 2008 to 2009, and commercial property prices were forecast to fall by 40%. That would result in a total impairment charge of €540 million. The actual impairment charge for UBIL was €1.7 billion. Can you explain why the actual impairment charge was so much higher than that forecast in the stress tests? Were there any more severe stress test scenarios considered by the bank or discussed at the board? Were the in-house economists involved and were the stress tests different for residential, commercial development, speculative land banks? The question is directed to both gentlemen, in whatever order.

Mr. Robert Gallagher: I am just reading the information for a moment, if I may, Senator?

Senator Sean D. Barrett: Indeed.

Mr. Michael Torpey: Perhaps I can start with an initial comment. I am a little bit light on this one because it was subsequent to my departure from Ulster Bank but, in general terms, the parameters of the stress tests that would have applied during my time with the bank were perimeters that were determined or dictated by the Financial Regulator, and as such the stress tests will have been conducted on the basis of those parameters that were indicated. I think it is fair to say that stress tests failed to capture the outcomes that were to transpire over time, perhaps if for no other reason, that the scale of events was entirely unprecedented and off the scale of any past experience or expectation that might have been captured in an analysis conducted at that time, of even severe but implausible future events. So that is a general comment on the approach to stress tests. The financials that drove the stress test outcomes subsequent to my departure, it is not something I am up to speed on.

Chairman: What the Senator is asking you is that there is a 300% miscalculation here when the whole thing is flattened out. This was the result of behaviour. Can you explain to us the behaviour that actually resulted in the 300% miscalculation?

Mr. Michael Torpey: I think, Deputy, I would characterise the difference as being driven by the difference in assumptions underlying the models. The assumed outcomes from the levels of changes in property prices were driven through whatever financial modelling tool was used in that exercise. I think what appears to explain to some extent the difference between what was seen in the stress tests that were conducted and the actual outcomes, is the severity of events and the pervasive nature of those events as they transpired over time. While stress tests will have looked at percentage changes in values that are here, and while the actual fallen values was materially greater than this, that will have had its own set of impacts. But I suggest also that the stress tests proved insufficient to capture the wider range of impacts, starting with the international crisis that happened at the same time, extending into the wider fiscal impacts of the downturn in activity in the economy. Such that it is fair to say that the stress tests, however diligently done, however honestly they were appraising the potential for a downturn in the economy, it is fair to say that the actual outcomes proved to be dramatically more severe than those stress tests.

Senator Sean D. Barrett: I will address Mr. Gallagher, if I may? On the core documents, B2, pages 24 to 29, a letter from the Financial Regulator to UBIL, dated 12 March. He was ... the Financial Regulator was concerned regarding the effectiveness of UBIL's credit review process as it related to commercial property lending. Do our visitors think that UBIL had a sufficiently robust and effective credit approval and review process for its commercial property portfolio?

Mr. Robert Gallagher: Senator, the review process within Ulster Bank was covered by the credit policy framework documents and required all cases to be reviewed annually, and to the extent that some cases did not get achieved annually, then that was escalated to management and to boards. So every case was reviewed annually, and it was reviewed by relationship team writing a comprehensive paper, by that paper being supported or not by a separate document on risk, the combined papers going to Ulster Bank credit committee where challenge and update would have existed. That continuing if the cases were in deal size of approximately in excess of €35 million, it would have gone to an RBS committee which this letter reflects, again where challenge would have existed. So there was a defined, communicated and comprehensive review process within Ulster Bank.

Senator Sean D. Barrett: I just want to, Mr Torpey, arising from his presentation today, Chairman. On page 6, you say that the treasury was transferred to Royal Bank of Scotland. On page 7, accounting functions, accounts production, regulatory reporting and accounts payable were transferred. Yesterday Mr. McCarthy said on his page 7 that Ulster Bank branches had no lending authority and everything was referred to Credit, with a capital "C". It is obviously in the section. Was the Ulster Bank just being hollowed out by the Royal Bank of Scotland?

Mr. Michael Torpey: The Royal Bank of Scotland was the single shareholder ... the sole shareholder in the Ulster Bank Group and the position of the Royal Bank of Scotland was that they operated as an integrated group, a technical expression in terms of the prudential sourcebook in the UK. The integrated group rules required that RBS Group exercise a very close degree of control. The control ... the management of control processes, policies and so forth were required under the UK prudential rules to be driven from the centre.

Senator Sean D. Barrett: Now you referred earlier, I think it's in response to Deputy Phelan, about the compliance culture of the Royal Bank of Scotland. I have many constituents, the nature of my constituency in the United Kingdom, and I think I'd have to say that compliance and the Royal Bank of Scotland don't actually go well in the same sentence. Record fines for anti-competitive practices on 20/1/ 2011. In fact, one of the executives was deprived of his knighthood by Her Majesty, so, I mean, it was not a compliant corporate culture. I think I will just have to ... unless there are people from the United Kingdom looking into today, I know they have other things to do, but Royal Bank of Scotland did not have a compliant culture. I'd have to put that proposition to you.

Mr. Michael Torpey: While one most acknowledge the failings in Royal Bank of Scotland and beyond that, it wouldn't be fair to comment on them. I believe, and my experience was, that the approach of RBS Group was one of very strong rigour in terms of compliance with the policies, procedures, prudential requirements and so forth. I instanced, Deputy, the view taken by Ulster Bank Group and by RBS Group that the rules around sector exposures were seen as rules which we were not prepared to breach. And that is symptomatic of the approach that I experienced in my engagement with, and management by, RBS Group that rules were there to be conformed with consistently and rigorously.

Senator Sean D. Barrett: And the Treasury Select Committee of the House of Commons found on 10 February 2009 that a senior executive had no technical bank training and no formal qualifications. Was that a problem?

Mr. Michael Torpey: Again, I can speak only of my experience working within Ulster Bank Group and my engagement with the RBS Group. And all of the people that I had the occasion to engage with in the RBS Group were, in my experience, people who were well experienced in their area. We were dealing with a bank which was one of the largest banks globally, and I can only speak for the experience of Ulster Bank in dealing with RBS where I found that I was dealing with a business which was, and I repeat myself, very strongly control oriented.

Senator Sean D. Barrett: Thank you very much. Thank you, Chairman.

Chairman: Just to pick up on one point from Senator Barrett's question there with regard to the stress testing of impairment charges. At any time, did the board consult with your in-house economists in the assumptions used in the stress test?

Mr. Michael Torpey: The board will have used the in-house economists to inform ... to inform particularly the shorter term macroeconomic forecasts and will have relied, to a significant extent, on the external inputs in relation to medium-term forecasts with particular reference to the ESRI indeed.

Chairman: Okay, thank you. Senator MacSharry, ten minutes.

Senator Marc MacSharry: Thank you very much, and thanks gentlemen for being here today. Yesterday when we had Cormac McCarthy and I asked why was there the need for 27 registered companies between Ulster Bank here in the Republic and, I think, eight more in ... that were registered in Belfast but were called things like Ulster Bank, Dublin Treasury and so on. Why is it necessary to have 27 entities? Because he, in his testimony, mentioned that there were three legal entities in the Ulster Bank Group and they each had a board of directors but yet, it seems, within that, there were 27 registered companies. Can you explain for the committee, and people watching at home, why would that be necessary?

Mr. Michael Torpey: The organisational structure, Deputy, of Ulster Bank Group, was that Ulster Bank Limited was the parent within that group. It was a bank in its own right and then ... in the United Kingdom. And the two principal subsidiaries then were First Active and Ulster Bank Ireland Limited, each of them banks as well. So the three principal legal entities were those three, which were licensed banks. As will be quite normal in a complex corporate entity, there were a significant number of, what I'll call, minor subsidiaries, owned by any or all of the three aforementioned which will be in place for specific purposes. So there, you know, you will have subsidiaries, for instance, related to property ... property ownership on behalf of the group, if there is a particular reason to do that or subsidiaries to accommodate various complex structures that may have been put in place. They are all, and I think the important point to note, is that they are all wholly owned subsidiaries. Each have their own boards in their own right, but they're single purpose companies, which are consolidated into the headline companies, the UBIL or First Active or UBL, for reporting purposes. So the existence of those companies, while it is to facilitate individual activities or transactions within the group, all of those activities are captured in full at the consolidated company levels.

Senator Marc MacSharry: Were these single entity companies, as you've described them, used to convenient ... for the convenience of distributing loan concentration to various entities as opposed to exposing one entity to beyond the rules?

Mr. Michael Torpey: No, Deputy, they were not. The consolidation of exposures was done at the banking levels. The banks ... the three banks I have named, First Active, Ulster Bank Ireland Limited and Ulster Bank Limited, were the lending companies which did the lending. All of the lending was done through those and recognised appropriately.

Senator Marc MacSharry: The bank's loan-to-deposit ratio increased significantly in the 2000s peaking at around 209% in 2007. Would you have any comment to make on the appropriateness of that loan-to-deposit ratio?

Mr. Michael Torpey: I believe ... I believe that Mr. McCarthy clarified numbers in relation to loan-to-deposit ratio yesterday, that the true loan-to-deposit ratio was lower than that, but, leaving that aside, Deputy, I think the key to understanding the financing of the Ulster Bank balance sheet is the position that RBS Group adopted, where it would provide the funding and capital, the treasury needs of Ulster Bank as it went forward. In treasury terms, loan-to-deposit ratio is a useful metric but has very great weaknesses, as has been seen in many instances, nationally and internationally. The key ...the key issue in managing the balance sheet is stability of funding and for so long as RBS Group was ... gave the assurance and delivered upon that assurance, that it would meet the funding and capital needs of Ulster Bank Group, the stability of funding was assured and, indeed, you know, long after I left, when it was tested in the crisis, it's reassuring to see that RBS Group, indeed, did stand over those assurances.

Senator Marc MacSharry: Did ... with reporting, and you described it yourself that you reported to the CEO and, in parallel, you reported to the director of the treasury side of the business in RBS, in parallel, so ... and Mr. McCarthy yesterday gave us quite a complicated outline of how reporting was carried out as well and it certainly involved RBS from what his evidence had said. Were RBS making all of the balls?

Mr. Michael Torpey: RBS exercised a very significant degree of control over Ulster Bank. There can be no doubt about that. The reporting line ... I did, as you say, report to the CEO locally and to the finance director of the RBS Group, and that's very consistent with the pattern that you will typically see in a multinational organisation. The conduct of the finance function, which was my brief, was driven very strongly through the RBS Group where we had to apply the standards, the controls, the processes, even the reporting timelines, that fit within the RBS Group requirements, so it is absolutely true to say there was a very strong degree of RBS Group control. The advantage that you have, I suppose, in the licensed bank situation that Ulster Bank was ... within Ireland, is in addition to that control exercised by RBS Group, you had an independent board of Ulster Bank and Ulster Bank Ireland Limited here, which had duty of oversight to ensure that the bank complied with statutory reporting and governance and was fit for the local conditions, so it conveyed the advantage of the strength of the control environment of a multinational group together with the oversight of a local independent board to act as a check and balance on the behaviours ... within the Irish context.

Senator Marc MacSharry: Were you in a position, as the person responsible for funding Ulster Bank in your role, could you fund it independently of RBS or did it have to go through RBS? Did you access the wholesale markets for funding without consulting or-----

Mr. Michael Torpey: When RBS acquired First Active and set about integrating them, the position RBS adopted was that treasury services would be supplied in full ... through the RBS Group. In practice, what that meant was deposit-taking was the business, the normal banking business of Ulster Bank in Ireland, there was limited money markets activity in terms of local type activity, and any other treasury activity, and any surplus funding or funding shortage would be addressed by RBS Group treasury, so the control of that was exercised entirely ... as time went on, Deputy, and as the markets evolved, RBS elected to permit Ulster Bank to raise specific fundings ... on Ulster Bank's account and that's to do with relatively complex intragroup lending limits applied by the UK regulator. So you will see specific instances through the documents where Ulster Bank did go into the markets under the direction and guidance of RBS Group treasury. The method by which that direction and guidance was applied was that the assets liabilities committee in Ulster Bank had the attendance as a member by personnel from RBS Group treasury and such decisions to go into the market, even on specific transactions such as the issuance of a floating rate note, such decisions had to be signed off or approved at the RBS Group assets and liabilities committee before they could proceed.

Senator Marc MacSharry: Did the impact of the introduction of the euro have, and while I know this goes back perhaps before your time in Ulster Bank, but in terms of your experience, did it have a positive or negative impact on the funding of financial institutions that you were in?

Mr. Michael Torpey: That's a very pertinent question to the overall issue, Deputy. The entry into the euro changed the availability of liquidity to financial institutions generally ... in this country. We were now part of the euro, and it meant that our home currency was now a currency which was one of the larger currencies globally. Liquidity in that currency was greatly enhanced and all financial institutions operating in the Irish market found themselves with the far greater facility in terms of accessing funding on the global markets through the years that followed.

Senator Marc MacSharry: Yes ... in line, and I don't mind ... it's not that I'm excluding you, Mr. Gallagher, you are free to come in at any stage and this is my final question, so with the onset of the euro and the access to facilities that you speak of, did, as a result of the very competitive environment which existed with all banks and you were trying to be the third banking force and so on, did this have ... an unintended consequence of driving the quality of underwriting down or not?

Mr. Michael Torpey: In relation to Ulster Bank, I would say it did not drive the quality of underwriting down, because the credit stream within Ulster Bank and extending into RBS Group, was entirely independent of the business and entirely independent of the funding of the balance sheet. I think the availability of liquidity, the relatively easy availability of liquidity, did undoubtedly influence the banking system and while any individual bank, and particularly a challenger bank, can seek to grow its market share, there is a reasonable question to be asked as to what is the impact if all banks have that access to liquidity and it drives up the scale of borrowing by all banks across the system.

Senator Marc MacSharry: Did it loosen the acceptable standards, as opposed to drive down the quality? Did it loosen the considerations of underwriting?

Mr. Michael Torpey: From the perspective of Ulster Bank, and that's the only place in which I worked through this, the two were unconnected. Underwriting standards were independent. I can't honestly comment on whether it was a driver of any changes across banks, across the system as a whole.

Chairman: Just to bring in Mr. Gallagher there, before I bring in Senator O'Keeffe, on some of the questions that was put to yourself, Mr. Torpey, a number of the difficulties, it would appear or you can correct if it didn't appear, such as the banks' loans-deposit ratios, the difficulties associating this stress testing and so forth, may have been associated or not with Ulster Bank's growth strategy. Given your own international experience, Mr. Gallagher, of banking, what is your view of Ulster Bank's growth strategy as compared with strategies that would have been seen or been involved with elsewhere during your international career? Ultimately Ulster Bank was going to compete with two big huge, with two big players in the Irish market, your ambition was to get on to a level kind of pegging position with them. And was it overly ambitious, in view of the size of the market and the dominance of the two banks ... was that a very ambitious and ultimately flawed approach or not by Ulster Bank to get into that space?

Mr. Robert Gallagher: Chairman, just to pick up on your questions and to link to Mr. Torpey's comments, there is no question that both the business and commercial bank and the residential part of the bank in Ulster Bank, sought to win domestic deposits. And if you think about the challenge for a challenger bank, versus the incumbent two banks, is that the challenger bank tends to have less deposit base than the two incumbent banks and the attraction of winning lots of small depositors is you have a stickiness about your deposit base, which helps your loan-to-deposit ratio. So there was an active strategy both in the retail bank and the commercial business bank to win the completeness of a customer proposition and that is, deposits, clearing accounts and lending and that was the strategy as evidenced by the branch openings around the country. So our growth strategy was about winning more customers in the completeness of our relationship with those customers, not about winning more and more property-lending business.

Chairman: But are you saying in that regard, so, that Ulster Bank were not narrowly based on growth in one specific sector and that sector being property?

Mr. Robert Gallagher: No, Chairman, I'm ... well, I'm saying that every bank, Chairman, in this economy reflected the activities of the time in the economy, which were skewed to property. One of the challenges for all banks in this economy, which continues, Chairman, is that a lot of the industries which one would like to deploy capital to, don't require bank capital. So, for example, Chairman, foreign direct investment companies, broadly speaking, don't require bank capital from the domestic banks; broadly speaking, indigenous software companies or technology companies don't require capital; and, broadly speaking, heavy industry in the OECD world has migrated to the developing economies. So if you think in Ireland, in Britain, in any other OECD economy, the asset activity that consumes loan capital tends to be skewed to property. It's a challenge for the banking industry, Chairman.

Chairman: Yes, but, going back to earlier testimony, to use your manufacturing concept ... a plastic bucket has a point to market when it arrives there, it has a positioning on it, it would have a price point and so forth. Property is very subjective and notional and far more taken to sentiment and other factors, as would be a plastic bucket. Therefore, it comes with entirely different type of risks. And, so if you are funding a plastic bucket factory, you are asking them how much is the manufacturing base, how much does it cost to get it retailed and on to the shelf of the shop and what's it doing competing with and is at a reasonable price. Property doesn't operate in that way, property has a capacity, as you would know better than I would, to absorb capital and the more it absorbs, the more it would further absorb because it's a notional cost. So, because you weren't in the type of other areas that you were talking about, were you not aware that your growth was in one specific area, that area was property, and that that came with a type of risk that was very specific and contained within that sector?

Mr. Robert Gallagher: So, Chairman, I hope I indicate in my opening statement that I agree with you that undoubtedly Ulster Bank was too concentrated in property, as were all the banks in this island, Chairman.

Chairman: All right, thank you. Senator O'Keeffe.

Senator Susan O'Keeffe: Thank you, Chair. Mr. Torpey, in September 2007, 45% of Ulster Bank's group funding was provided by wholesale markets. By September 2008 60% of its funding was maturing within 1 year. I appreciate you may not have been at the bank at that ... in 2008, but you certainly are a banker so I'd be grateful for your view as to whether that kind of funding strategy was appropriate, and how would you evaluate the level of risk attached to that strategy, if there is a risk?

Mr. Michael Torpey: Senator, the funding strategy of Ulster Bank Group was influenced fundamentally by the fact that there was an assurance on the provision of funding from its parent, RBS Group. In that context the key consideration for me will have been the stability of the funding, the level of assurance that I had that funding would be replaced upon maturity. The objective in running Ulster Bank was to grow the business in Ireland, including the retail deposit base, to the extent that we could, certainly to put us into a proper, full scale, competitive position against the major banks, and the residual funding requirement, which was always going to be quite substantial for a challenger bank in a growth phase ... the critical thing was to ensure that that was stable funding, and the combination of term debt that was approved by RBS, and the provision of funding and the assurance of the continuing provision of such funding by RBS Group, were sufficient to give that assurance of stable funding. The ... it's ... as you point out, as events progressed through 2008 and the international liquidity crisis and the developing domestic situation happened, the shape of that funding moved towards shorter term maturities, but even though I wasn't there I think it's reassuring to see that the RBS Group ultimately stood by those assurances upon which I had relied while I was there.

Senator Susan O'Keeffe: Okay, thank you. In relation to the 100% mortgages, yesterday, Mr. McCarthy, on page 79 of his testimony says: "We were losing share of the first time buyer market". This morning, Mr. Torpey, you said: "We were grounded in the circumstances at the time", and Mr. Gallagher, you said it was "Of its time", the decision to grant them. I'm just really trying to get to the nub of this. You were bankers, you were sensible, you'd ... it wasn't a business that you'd been in before, it wasn't a traditional thing, and yet, now, because of, it appears, market share, the need ... because of the competition, you guys just said, do you know what, we have to do this, we need to be in this market. Is that correct? Have I understood correctly? You threw caution to the winds?

Mr. Michael Torpey: Deputy, we ... we were in a very competitive position. We will have evaluated all of the product alternatives available to us, so ... to achieve our desires, and any product that we wished to launch will have gone through a rigorous process of risk evaluation-----

Senator Susan O'Keeffe: Well I know you say that, Mr. Torpey, and in fact we discussed that yesterday, but, I suppose what's puzzling is that now you are saying yourself it would have been better if we hadn't done it, and Mr. McCarthy said I accept we made a mistake. So if now you shouldn't have done it and now we've made a mistake, how is it that it was alright then to do it when in fairness that particular brand of idea, of selling 100% ... just simply wasn't a thing, maybe up until two years before?

Mr. Michael Torpey: I think it's-----

Senator Susan O'Keeffe: Was it just pursuit of market share?

Mr. Michael Torpey: With the benefit of hindsight, Deputy, it was ... it would have been better had we not done it.

Senator Susan O'Keeffe: Why?

Mr. Michael Torpey: With the benefit of hindsight we ... it was one of a number of factors which contributed to noise, I'll call it, in the market around overheating. The reality is that 100% mortgages, of themselves, did not fundamentally alter the amount of mortgage finance that was put in the marketplace. You know, the amount, over a number of years, of 100% loan-to-value mortgages that were issued was in low single digit percentages-----

Senator Susan O'Keeffe: So in fact we're raising a red herring here, we shouldn't be worried about it, it didn't really make any difference anyway?

Mr. Michael Torpey: I think ... I think, Deputy, what we've got to recognise is that there were quite a number of factors driving the market.

Senator Susan O'Keeffe: We know that, we've heard of-----

Mr. Michael Torpey: And this was ... this was a factor driving the market and I would acknowledge that the announcement effect of a product called a 100% mortgage will have had an announcement effect probably disproportionate to its value effect, and looking back on things that you, with the benefit of hindsight, would prefer you hadn't done ... I would prefer we had not released that mortgage because it was one of those factors which arguably did contribute to the ... the heated state of the market.

Senator Susan O'Keeffe: Mr. Gallagher, I know that you've said that you were not involved in the night of the bank guarantee and we accept that. However, Mr. Boucher, from Bank of Ireland, told us yesterday that, you know, he'd met with the Financial Regulator at the beginning of September to discuss INBS, and that it was very serious, and that, from memory, he'd been asked for a quantum of about €4 billion, this is on page ... I'm sorry, anyway ... page 17 of his testimony: "A quantum of about €4 billion, and we fed back to the regulator that we weren't comfortable, that that wasn't an accurate picture of what was needed". So it was clear that in the market people understood that INBS was in a perilous state, perhaps insolvent at that time, that Anglo was in a perilous state also, and yet, at Ulster Bank the impression we're ... we've been given is that it was all calm and quiet, there was nothing happening, apart from your boss ringing up the Financial Regulator to say everything's okay. I'm very puzzled that there was this sense of calm at Ulster Bank, or am I wrong?

Mr. Robert Gallagher: Well, a sense of calm ... so, Senator, I had no interaction with the regulator in the run up to the bank guarantee, so as a statement of fact, I-----

Senator Susan O'Keeffe: No, I'm not just looking for a statement of fact, Mr. Gallagher, what I'm trying to get at is what was going on inside the bank, were people talking and discussing it?

Mr. Robert Gallagher: Okay, so ... so the question of calmness. Clearly in 2008, throughout 2008, as the papers evidence ... funding challenges were increasing. We, as a firm-----

Senator Susan O'Keeffe: I'm sorry, Mr. Gallagher, I'm going to interrupt you because of the time constraint, I'm not talking about the year, I'm talking about that month. I'm talking about the fact that it was now clear ... people must have been out there talking, the dogs on the street, to use that expression, knew that INBS, knew that Anglo, were in perilous state. I want to find out whether, in Ulster Bank, you were talking to each other, and to fellow bankers, about how perilous it now was, in Ireland, in your own doorstep, on your back doorstep.

Mr. Robert Gallagher: Well, to pick up, Senator, on ... so yes, we were aware of the material stresses in the marketplace, from reading the media, and not from any interaction with the regulator on the topic. We did, at the time, have, to the funding question, the support of the RBS Group behind us, both from a capital and liquidity perspective, so ... so the ... the concerns that emanated in the market were ... were underpinned by our support from RBS.

Senator Susan O'Keeffe: So you felt safer.

Mr. Robert Gallagher: Well-----

Senator Susan O'Keeffe: I'm sorry, well, it's a question. Did you feel safer or not, because of the support of RBS?

Mr. Robert Gallagher: Well, the support of RBS was immaterial, as the size of its balance sheet at the time, the size of the organisation, the size of its funding lines, undoubtedly supported, if needed, a wholly owned subsidiary of it, yes.

Senator Susan O'Keeffe: Okay. I want then, if I may ... I asked Mr. McCarthy yesterday about the fact that some of his statement looked like some of yours and he explained that he'd been briefed, and you acknowledged this morning that you were briefed also, by Ulster Bank, and given that you both left the bank ... all of you left the bank. I have to say though I am very puzzled by the response that you've made in relation to the Financial Regulator, that ... we have letters from 2004 ... 2003, 2006, 2008, all raising very serious queries about what was going on in the bank, and yet, yesterday, Mr. McCarthy talked about the methodology that the regulator chose to use, to come and review what was going on, and again, Mr. Torpey, this morning you talked about the nature of engagement - they weren't on the ground, they wrote their observations, it ... they weren't fully appraised of the condition or the position, they were bulky and complex affairs, files to trace through. I'm very puzzled, I have to confess, that your testimony about these very serious issues is so very similar to Mr. McCarthy's, that you're both concerned about the process of the Financial Regulator. I would argue that you've effectively thrown the Financial Regulator under the proverbial bus, that it was his methodology, or his offices methodology that you're questioning, rather than telling us exactly what was going on at the ... in your own bank.

Mr. Michael Torpey: Is that question to me?

Senator Susan O'Keeffe: Yes, Mr. Torpey, it is.

Mr. Michael Torpey: I certainly would not wish to throw the Financial Regulator or anybody else under the bus, because I think, you know, trying to blame anybody else is not part of what I would seek to do. I will observe, though, that the regulator had a certain approach to things, which was a very formal approach, and the regulator, in the way the regulator operated at that time, had a system whereby he made his observations, communicated in writing and, therefore, raised issues which might have been more rapidly and more easily defused had there been a different model of engagement directly with the business-----

Senator Susan O'Keeffe: But, Mr. Torpey, that's not to answer the... you mean you-----

Chairman: Leave space to respond ther. I see the line of questioning ... I'll give Mr. Torpey some time and then bring yourself in again, Senator.

Senator Susan O'Keeffe: Sorry, Mr. Chairman.

Mr. Michael Torpey: So, what I would say is that the regulator operated the rules of the time as he applied them. There were, I believe, weaknesses in the way he operated. I've expressed my view and it's only a view that it had might have been more effective if there had been more direct engagement rather than waiting for the formal communication of outcomes and I believe a lot of these issues would have been resolved more quickly. That's my belief and I also believe that the change in regulatory approach in recent years has reflected the fact that there were weaknesses in the particular regulatory approach which I am glad to say have been very thoroughly addressed by regulators in the years since.

Senator Susan O'Keeffe: But-----

Chairman: Your final question, Senator.

Senator Susan O'Keeffe: This committee has tried both with Mr. McCarthy and with yourself to try to get to the bottom of what were the challenges being raised, the queries being raised and both of you have opted to explain to us that the Financial Regulator was very formal and that it was very on the ground and he wrote everything down. Quite frankly, it's odd that your answers are both so similar to what has to be serious issues that were raised by the Financial Regulator which actually you haven't properly addressed. You've both talked about letters and you've both talked about files, but I still am at a loss to know was the Financial Regulator right at all with anything that he said ... I mean his office .. and how seriously did you take it because you've not explained at all to us that you took it seriously?

Chairman: I'm sorry. What we're looking for here is that there is the regulator's behaviour with regard to what he or she considered to be problems with regard to an operation inside in Ulster Bank and there is a series of them. You'd have seen the witness books and rather than pulling them up and all the rest yesterday afternoon, but I think what the point the Senator wants to get to, we'll deal with the regulator in further engagements in this inquiry. What we would like to know is why was the regulator finding all these difficulties. We'll ... there's the content matter and there's the process which the content is actually dealt with. That's content ... there was content here, quite significant content. Deputy Higgins referred to nixers this morning and other matters. What is your ... forget about ... we'll deal with the regulator in time, Mr. Torpey, but what is Ulster Bank's assessment that these things would have come on to the regulator's radar?

Mr. Michael Torpey: I think, Chairman, firstly, in Ulster Bank we would recognise that there were weaknesses. I would, frankly, welcome the fact that we had a regulator overseeing what we were doing so as to bring these weaknesses to light, particularly in instances where we mightn't have identified those before then. To your point, I think the manner of engagement could have, in my view, have been different and maybe improved, but once these issues were highlighted, I can absolutely assure the inquiry that Ulster Bank will have taken them with the utmost seriousness. Any and every issue identified by the regulator to Ulster Bank will have been the subject of very close examination and scrutiny to ensure that we either ... that we in the first instance established the nature of the issue, established the facts to see whether the necessarily brief look the regulator had, had captured the picture in its entirety and, thereafter, to make sure that we addressed the issue, corrected the issue as such that the issue was not to recur. You know, we will have responded to the regulator's inquiries and the regulator to the extent that the responses were satisfactory, we'll have left the matter rest as you would expect. And if there were issues that were not satisfactorily addressed, the regulator will have come back on those issues and I am not aware of continuing issues from the regulatory point of view that were not addressed by Ulster Bank.

Chairman: Okay, thank you. Senator Michael D'Arcy. Senator, ten minutes.

Senator Michael D'Arcy: Thank you. Mr.Torpey. You know, we've books of evidence here, but can I just ask you a very simple question? Is there any responsibility ... is there any accountability in the banking sector then and now? Does the buck stop anywhere?

Mr. Michael Torpey: Deputy, the banking sector is fully accountable for its actions. People within the banking sector are fully accountable for their responsibilities and I've no reservation in saying that.

Senator Michael D'Arcy: And in what way are they accountable? Do they lose their job, do they get sacked, are they fired? In what way are they accountable?

Mr. Michael Torpey: The ... all individuals working in any of the banks are accountable to discharge the objectives, the tasks that they are given in a proper and effective way and to the extent that they discharge ... they're subject to appraisal on the basis of how they've performed. If they perform properly, they will continue. If they don't perform, they're subject to the appropriate sanction in terms of the employment arrangements, same as in any other employment, Senator.

Senator Michael D'Arcy: And the appropriate sanction is what?

Mr. Michael Torpey: The appropriate sanction can, and does on occasion, extend to loss of employment at the extreme end-----

Senator Michael D'Arcy: How often are you aware that that has happened?

Mr. Michael Torpey: I am aware over my many years in banking of a ... for gross misconduct, in other words gross dereliction of duty, I'm aware of quite a number of instances where people have lost their employment. As we'll be aware, one has a burden of proof in relation to the treatment of employees and treating them fairly and respectably, which is a very high burden of proof but, nonetheless, I have over my years encountered a significant number of instances where that proof was forthcoming, where people had stepped outside the rules to a level which warranted sanction extending to in the extreme case dismissal.

Senator Michael D'Arcy: And can people be dismissed for incompetence?

Chairman: Okay, you're getting very general now, Senator, but I'll give you a bit of space in this but we'll return to the inquiry lines.

Mr. Michael Torpey: Incompetence in general terms, Senator, incompetence will lead to a requirement to improve one's capability or skills or an assignment to a position for which is one is competent. It would be rare and very difficult to simply dismiss people for incompetence. It would be entirely normal to bring them to a skill level which would equip them with the skills necessary to discharge their function.

Senator Michael D'Arcy: In evidence yesterday, I put it to Mr. McCarthy that the Ulster Bank sector of the RBS was about 3% in the year that you left; '08, 2%; '09, 3%. So it was ranging between 3% and 2% and yet of the €46 billion that were placed into Ulster via RBS, via the UK taxpayer, Ulster Bank took about a third of it. How would you describe the handling of Ulster Bank since you joined from First Active to your leaving Ulster Bank? And it's for Mr. Torpey, please.

Mr. Michael Torpey: The British state put something like €45-€46 billion into RBS at a time prior to the requirement for capital in Ulster, so it is not a like-for-like comparison to compare moneys put in for one purpose to moneys that were subsequently required by Ulster Bank from its shareholder. Notwithstanding that, Senator, the scale of support required by Ulster Bank from RBS was extremely large and there is no denying that. That requirement came as a result of a strategy which was implemented in good faith but proved with the benefit of hindsight to be founded on poor assumption, and, very specifically, the universal or near universal assumption of the continued growth prospects for the Irish market and all of the opportunity that that would offer, that assumption, which was a critical underpinning of the RBS approved strategy for Ulster Bank, proved to be an ill-founded assumption. And the direct outcome of that was the level of provisions that had to be taken by Ulster Bank in relation to loans and while I wasn't there to see what the ... how that played out, I understand from the testimony ... part of the testimony I did hear yesterday, that related to provisioning levels, some of which may or not be clawed back in the future.

Senator Michael D'Arcy: Can I ask, Mr. Torpey - I don't have very much time left - you said that the pay levels at the time were very, very high, that was ... that's your quotation. Are the pay levels at the moment very, very high in the banking sector?

Mr. Michael Torpey: Deputy, the pay levels in the banking sector and the pay structures in the banking sector, at the height, shall we call it, were very high and it would be very, very difficult to argue that they weren't excessive. In response to developments within Ireland and internationally, in general terms, the authorities, the EBA in particular, have introduced guidelines in relation to remuneration to ensure that remuneration structures are appropriate to the nature of the business and I believe that the EBA response is an appropriate response and will lead to pay levels being driven by competitive factors but being appropriate to the nature of the industry.

Senator Michael D'Arcy: And, Mr. Torpey, you're working with Bank of Ireland now?

Mr. Michael Torpey: Senator, yes I am.

Senator Michael D'Arcy: Yes. Would you like to share what your current pay is with Bank of Ireland?

Mr. Michael Torpey: Senator, that's not something which I would be prepared to discuss at this point.

Senator Michael D'Arcy: That's a no?

Mr. Michael Torpey: Correct.

Senator Michael D'Arcy: Okay. Mr. Gallagher, you're now working with a private equity firm; is that correct?

Mr. Robert Gallagher: As an asset manager, yes.

Senator Michael D'Arcy: Yes. Would you like to share what your current pay is?

Mr. Robert Gallagher: No, Senator.

Senator Michael D'Arcy: No.

Chairman: All right Senator ... Deputy ... there's about three minutes and we need to complete a line of questioning here as well.

Senator Michael D'Arcy: Thank you. When you left Ulster Bank, Mr. Torpey, did you receive a golden handshake?

Mr. Michael Torpey: Deputy, I received a termination payment on my departure from Ulster Bank. It was disclosed in ... I guess it must've been the 2008 accounts of Ulster Bank Ireland Limited.

Senator Michael D'Arcy: And how much was that?

Mr. Michael Torpey: The termination payment I received amounted to £1.2 million.

Senator Michael D'Arcy: And, Mr. Gallagher, did you ... when you left Ulster Bank, did you receive a termination payment?

Mr. Robert Gallagher: I received a payment for a notice period.

Senator Michael D'Arcy: And how much was that?

Mr. Robert Gallagher: Some ... I can't remember exactly, Senator. Some portion of ... some portion of my salary, so ... I'm trying to recollect here now. Numbers of hundreds of thousands. I don't recollect.

Senator Michael D'Arcy: Chairman, just some of the ... I mean, there seems to be a ...it was somebody else's fault, it was somebody else's ... it was a system, it was the model, it was the banking accounting rules, it was the crisis management, group risk committee. There just doesn't seem to be any taking possession of responsibility and we have two senior bankers at the moment and-----

Chairman: Senator, I would be mindful that kind of value ... value judgments and assessments is something that the committee will make when we move to the completion of this report. I think we're now in question time-----

Senator Michael D'Arcy: Yes.

Chairman: -----to establish and inform ourselves when we get to that space. So, if I could push you to-----

Senator Michael D'Arcy: Yes.

Chairman: ------play ... some questions, please.

Senator Michael D'Arcy: What I'm saying is we have one person in a bank and one person in a private equity firm. Is the responsibility there today in relation to taking ownership of potential difficulties that may be in the banking sector or, for Mr. Gallagher, in the private equity sector? The private equity sector is less regulated than the existing banking sector. That's a question for both, please.

Mr. Robert Gallagher: So, Senator, I'll answer the question as it pertained to my career in Ulster Bank, which-----

Senator Michael D'Arcy: No, I'm trying to pursue your opinion now that you're in a private equity firm.

Mr. Robert Gallagher: Senator, I'm addressing the topic of the banking inquiry.

Chairman: Maybe we'll take a more focused position on this. I think an earlier testimony, I think it was by Professor Lane, an American academic and significant commenter upon the financial sector ... I think one of the things that Mr. Lane said in his testimony at that time was that the penalties that picked up by the financial services banking sectors, post-crisis, is in around the figure of £150 ... 150 billion euro ... sterling. That's by the banks, globally now that figure is. Quite a significant sum, €150 billion, but that a behaviour in financial institutions will continue to carry the risk into the future if the financial penalty is borne by the bank, as opposed to actually borne by the individual executives. Do you have a view on that?

Mr. Robert Gallagher: So, Senator and Chairman, I have a view that in general the leadership of banks, and I equally say this of Ulster Bank, acted to the best of their ability and with integrity. And I think, as has been addressed earlier and is acknowledged, the assumptions on which we built the business were wrong. There is a difference between that and a jump to an assumption that people acted with lack of integrity, or lack of good faith, or did their best. In my opinion, and I speak for myself and I can't speak for others, but I did my best, I acted with integrity and I executed to the best of my ability.

Chairman: Okay, thank you.

Mr. Michael Torpey: Chairman, I think I'd broadly echo that. I believe that, you know, banks did pay very significant penalties, as you have mentioned, and, indeed, executives did pay material penalties as well. However, there are lessons that have been learnt from the crisis internationally and there has been a very major effort to ensure that interests are aligned, going forward. And I would subscribe to that; I think it's very important that they are. Shareholders in many banks had their shareholding values wiped out, they took a fair share of losses, there's no doubt about that. Banks themselves suffered further penalties and executives in many cases suffered as well. However, the measures that have been taken on the international stage to ensure the alignment of interest, to make sure that both short-term and long-term value is maintained, such that banks continue to act in a way ... or improve their actions in a way that will support the medium and long-term development of economies are very important.

Chairman: Okay, thank you. Deputy Michael McGrath, ten minutes.

Deputy Michael McGrath: Thank you very much, Chair. You're very welcome, Mr. Torpey and Mr. Gallagher. Mr. Gallagher, can I start with you and just tease out the impact of the bank guarantee on Ulster Bank and on your deposit base in the immediate aftermath of the guarantee? You made reference earlier on to the €4 billion. Can you just clarify is that the quantum of deposits which flowed out of the bank in the immediate aftermath of the guarantee?

Mr. Robert Gallagher: So, Deputy, it's ... broadly the answer to that is yes. As measured by the requirement for an increase in our intergroup limit from RBS, which filled a gap which was created by a loss of deposits, yes.

Deputy Michael McGrath: Okay. We heard yesterday from Mr. McCarthy that the deposit base was of the order of €20 billion to €25 billion. Is that your understanding as well, broadly?

Mr. Robert Gallagher: Yes.

Deputy Michael McGrath: And, when you said 4 billion, that's in euros?

Mr. Robert Gallagher: Yes.

Deputy Michael McGrath: Okay. So, somewhere up to 20% of your deposit base potentially flowed out of the bank in the aftermath of the guarantee; is that-----

Mr. Robert Gallagher: Broadly.

Deputy Michael McGrath: -----broadly accurate?

Mr. Robert Gallagher: Broadly, over a four-week period, yes.

Deputy Michael McGrath: Okay. And how serious a situation did that become for Ulster Bank?

Mr. Robert Gallagher: That's a very significant change and if we hadn't been part of a ... the RBS Group ... and the access through the intergroup limit, that would have been very challenging. Very, very challenging. And the support of RBS and the subsequent support that the RBS organisation received from the State meant that that flow diminished-----

Deputy Michael McGrath: Sure.

Mr. Robert Gallagher: -----but if that flow had continued, it would have been significant.

Deputy Michael McGrath: But, in that critical two-week period, your main life support was the intergroup lending?

Mr. Robert Gallagher: Well, pre-29 September, we did have an intergroup limit of-----

Deputy Michael McGrath: Yes.

Mr. Robert Gallagher: -----if my memory serves me right, approximately €6 billion, €7 billion, so it was always important. It became much more important post-29 September.

Deputy Michael McGrath: Okay. Just staying with you, Mr. Gallagher, for a moment. On page 6 of your opening statement, on the issue of valuation policies and assumptions to assess loan security, you make reference to loan-to-value of 70% was required for commercial property. Was that applied in all cases?

Mr. Robert Gallagher: So, Deputy, it was a specific requirement of the security policy document.

Deputy Michael McGrath: Yes.

Mr. Robert Gallagher: It was a guideline, not a policy, to be clear.

Deputy Michael McGrath: A guideline.

Mr. Robert Gallagher: So, a credit committee, in instances, could make an assessment based on other matters in the case that it could be beyond 70%. So it was a guideline and any exception from a guideline had to (a) be separately supported by the independent risk credit function of the organisation and, secondly, be highlighted on a credit paper and, thirdly, be approved at credit committee.

Deputy Michael McGrath: But in the main 70% was the requirement?

Mr. Robert Gallagher: In the main, yes.

Deputy Michael McGrath: And then what was the nature of the 30% equity from the borrower which was acceptable?

Mr. Robert Gallagher: Yes. So, Deputy, it was a combination or alternatives of either cash, cash or other assets, or other assets.

Deputy Michael McGrath: Okay. Could it have been unrealised gains from previous developments which the bank might have bankrolled through lending, unrealised equity gains?

Mr. Robert Gallagher: Deputy, it could have been, and this is a feature of the industry, it could have been the provision of extra capital against other assets which were unencumbered, yes.

Deputy Michael McGrath: Based on market valuations at the time?

Mr. Robert Gallagher: Based on independent valuations carried out by approved panel valuers, yes.

Deputy Michael McGrath: Okay. We know in relation to the loans that NAMA acquired from the other banks that certain issues arose around loan security, about the documentation, cross-collateralisation and so forth. Obviously we don't have the same oversight in the case of Ulster Bank, but when you did have to review your loan book, and tried to work out bad loans, did you encounter difficulties with the quality of the loans and security?

Mr. Robert Gallagher: So, Deputy, in the ... in general, no, insofar as ... but if I can just peel that onion a little bit. In the larger cases, the big property exposures, the big corporate exposures, the documentation was complete, carried out by large law firms, and was comprehensive, and well-archived, and stored.

Deputy Michael McGrath: Yes?

Mr. Robert Gallagher: I did acknowledge in my statement that in the business centre networks, smaller cases around the country-----

Deputy Michael McGrath: Yes.

Mr. Robert Gallagher: -----it wasn't as perfected. I, equally, in my remediation period in the organisation had not ... have not experienced that any incompleteness of that small exposure has resulted in material loss to the organisation. What's happened is that it's been needed to be remediated over a period, so the security documentation and the perfection of it has not been a cause of material loss in the Ulster Bank Group.

Deputy Michael McGrath: Okay. Mr Torpey, what did you see as the main purpose and, indeed, the main outcome of the round table discussions held with the Central Bank post-publication of the financial stability reports from 2004 onwards?

Mr. Michael Torpey: As I understand it, Deputy, the round table discussions that will have occurred between the Central Bank and the market participants were designed to communicate with market participants the evaluation by the Central Bank of financial stability in markets ... or matters in the marketplace.

Deputy Michael McGrath: Okay. And who would have attended on behalf of Ulster Bank during the years when you were in position?

Mr. Michael Torpey: I believe ... I recall attending once myself, and I believe various senior executives will have attended at different times, probably extending to the chief risk officer, as I seem ... I recall attending once myself, and it's entirely possible, but again I'm open to correction, that somebody like the group economist may have attended, given the-----

Deputy Michael McGrath: Okay. And how would you characterise the bank's relationship with the Financial Regulator during the years when you were finance director?

Mr. Michael Torpey: The ... my own experience of engagement with the regulator was very much consistent with the ... I think the external perception of a regulator who conducted himself in a professional manner but in a somewhat, as I've articulated, formal manner in terms of investigation. A high proportion of the engagement with the regulator, in my experience, focussed on consumer matters, such that as the finance director in the organisation, my direct level of contact with the regulator was quite low. I'm happy to say that the areas in which I had responsibility were not the subject of any major difficulties from a regulatory point of view, such that it wasn't something that I was ... found myself engaging in-----

Deputy Michael McGrath: Yes.

Mr. Michael Torpey: -----regularly.

Deputy Michael McGrath: Can I ask you as well about loan impairment provisioning, and you refer to it on page 8 of your opening statement, that it complied with both the RBS Group provision policies, and the accounting standards in place during the periods? Can you give us a sense of how that worked, and whether you were inhibited from making what you might have regarded as adequate provisions for potential losses by virtue of the constraints of the accounting standards that applied?

Mr. Michael Torpey: Yes, Deputy. The accounting standards required that provisioning be made on an incurred loss basis.

Deputy Michael McGrath: Yes?

Mr. Michael Torpey: And, in other words, in order to comply with the rules, there wasn't a matter of choice in this, provisions could be made only where there was objective evidence of impairment, and that-----

Deputy Michael McGrath: Had already occurred?

Mr. Michael Torpey: Precisely.

Deputy Michael McGrath: Loss that had occurred.

Mr. Michael Torpey: Loss, that had occurred. And it has been highlighted on some of the commentaries on the accounting side that anticipated loss, no matter how likely you thought it to occur, we would simply have been failing to comply with mandatory regulations by attempting to provide for that. So it has been highlighted, I know, in quite a number of places, that the effect of those accounting standards, themselves brought in for very good reasons previously-----

Deputy Michael McGrath: Yes.

Mr. Michael Torpey: -----but the effect of those was to in some respects exaggerate the cyclicality of the developments in the market. The mere happening of a good period in the market, such that there is no objective evidence of impairment, causes you not to be able to make an impairment provision, and some will argue that the mere continuation of a benign cycle means that you must be getting closer to some sort of a downturn in the market, and that pro-cyclicality element in accounting standards-----

Deputy Michael McGrath: Yes?

Mr. Michael Torpey: -----will not have been helpful through the period.

Deputy Michael McGrath: Sure?

Mr. Michael Torpey: And it's pleasing to see the accountancy bodies have responded to that, and in the next couple of years-----

Deputy Michael McGrath: Yes?

Mr. Michael Torpey: -----there is a revised accounting standard coming in.

Deputy Michael McGrath: We will be meeting auditors starting from next week. I suppose one question I would have for you is, you know, if you had solid grounds to believe that there would be an issue with asset values in the next, you know, 12 to 18 months, and you could foresee that those values wouldn't stand up to where they are today, but that loss event had not occurred, had you any option open to you to reflect that in the accounts, the financial statements?

Mr. Michael Torpey: No, I believe I had no option in that matter. The rules were entirely prescriptive, and-----

Deputy Michael McGrath: No discretion, no general provisioning?

Mr. Michael Torpey: There was no general provisioning under the IAS 39 rules-----

Deputy Michael McGrath: Yes.

Mr. Michael Torpey: -----which were the standard we had to apply, because of the rules. The accounting rules were highly prescriptive, such that a discretion did not apply.

Deputy Michael McGrath: Thank you.

Chairman: Thank you. Just on that issue, and we do have the accountancy representatives coming in before us in the coming weeks, but in your earlier questioning there to Deputy McGrath, how do you square this with the mandatory accounting regulation for a true and fair view of the bank's books?

Mr. Michael Torpey: Chairman, it ... the requirements are entirely specific, and a true and fair view of the accounts represents, under the accounting rules, as I understand it, a snapshot of the position as it now stands. And the requirements, as I say, they are in the process of changing these rules because of the deficiencies that have been identified, but the rules as they applied were very clear, that only on an incurred loss basis could you make provisions, and that is a weakness. I think we all now recognise that weakness, but it is ... they were hard rules, not discretionary rules.

Chairman: And does that not ... does it or does it not kind of raise a paradox that you can be compliant at one side and be in conflict in terms of what the bank should actually be seeing at another side?

Mr. Michael Torpey: It did present, and will for so long as such rules apply, present a conundrum, that, you know ... accounts have their limitations, and the accounts are a snapshot at a point in time and, as I understand it, because of weaknesses in the previous accounting rules, the rules were made very, very prescriptive in this space, and the flexibility to do other than account on that basis was simply not there. We would have been ... we would have been in breach of the rules and, by extension, in breach of company law, I believe, if we had reported in any other way.

Chairman: Okay, thank you. Deputy Pearse Doherty. Deputy, ten minutes.

Deputy Pearse Doherty: Go raibh maith agat. Tá fáilte roimh an tUasal Torpey agus Gallagher. Mr. Torpey, if I can ask you just in relation to Ulster Bank, UBIL, relied heavily on intergroup funding from RBS Group to fund the growth in its loan book. Did this ability to borrow from its parent company lead you to expand the loan book at a faster rate than you would have or could have if you had to rely solely on third party funding?

Mr. Michael Torpey: Deputy, it's a very reasonable question and I think in ... in some circumstances that well may have been the case ... but as it happens in the circumstances following the entry of ... or the adoption of the euro as our currency ... that becomes very light, if any ... in terms of an influence. The reality of the marketplace through the years that we are discussing was that liquidity was ... pretty much freely available to all of the banks operating in the Irish marketplace because of the willingness of ... of international debt markets to ... to finance the Irish banks. So the access ... the assurance of access to funding from RBS did not single out Ulster Bank from the other banks in the marketplace. What it did do was create certainty of funding or stability of funding so it, to the extent that any financial institution would finance itself, particularly in short-term debt on the international markets, there is a risk that ... that might be repaid. The advantage in relation ... that Ulster Bank had was the RBS assurance meant that that risk wasn't there on the balance sheet.

Deputy Pearse Doherty: Mr. Gallagher, I would like to refer to board minutes of 5 December 2007. The full minutes aren't available in hard copy version of the booklets of the core documents but they have been provided in electronic form. The electronic reference for the screen is UBI 00329-006. The final paragraph and I will quote it anyway on the page states: "The Board noted that the Group's percentage growth in contribution was in excess of its main competitors in the Republic of Ireland, notwithstanding the high level of business investment in support of the Group's ambition to be the Number One Bank in Ireland". Can I ask you Mr. Gallagher, is that an accurate reflection of Ulster Bank to be the No. 1 bank in Ireland?

Mr. Robert Gallagher: So, Deputy, the ambition of Ulster Bank was to ... much, much, much more materially compete with AIB and Bank of Ireland. It was to ... in-fill its physical presence where it didn't exist, to open networks that allowed it to win more customers and as part of, what was then the fifth biggest bank in the world, it was a legitimate aspiration to compete meaningfully with the top two banks.

Deputy Pearse Doherty: Okay. Just the minutes again, I'm just going to ... the minutes reflect in 2007 that you wanted to be the number one bank in Ireland. Is that the case?

Mr. Robert Gallagher: We had ... we had an ambition for that, yes.

Deputy Pearse Doherty: Yes. So it wasn't just to be a third force. You wanted to be the biggest bank in Ireland, the number one.

Mr. Robert Gallagher: We had an ambition to be -----

Deputy Pearse Doherty: Okay. And how would Ulster Bank set out to be the No. 1 bank in Ireland? Was the ambition possible through residential mortgage business alone? And if not, where did you need to enter into?

Mr. Robert Gallagher: So the ... as I said, as I said, Deputy, as a statement of fact, Ulster Bank has and had far fewer branches than the two main banks, has and had far fewer customers than the main banks, has and had far less deposits than the main banks, has and had far less, by any banking product category, far less. So it was a strategy to create a universal bank across the banking needs of an economy ... supported by material investment by its shareholder ... material investment ... I would say reasonably unprecedented in the history of this State in terms of the number of branches and business centres opened across the country. So the actions and the investment and the commitment were about actually building a permanent architecture, as opposed to a property business.

Deputy Pearse Doherty: If I can ask you just relation to Mr. Daly from ... from NAMA, who presented evidence to the committee. He gave an assessment and I'll quote you from ... from his evidence. It said: ''Few, if any, financial institutions wanted to be left out of what was seen as a profitable business due to the larger lender margins and the relatively low operating costs''. He went on to say: "In the Irish market up to 2007, there was far too much bank funding available and, ultimately, it found its way not only to a finite number of development projects which were viable, but also to many other projects which could be viable only on very heroic and often mistaken assumptions''. Did or did not Ulster Bank fund projects that in the words of Frank Daly could only be viable ... could be viable only on very heroic and often mistaken assumptions?

Mr. Robert Gallagher: Yes, myself?

Deputy Pearse Doherty: Yes.

Mr. Robert Gallagher: I said in my opening statement, Deputy, that the outcome of Ulster Bank's requirement for capital and provisions was ... a ... an input of assumptions which turned out to be wrong. So by definition, we incurred impairment because the assumptions were wrong. So I would differentiate between that and heroic assumptions. But ... but the broad thesis I ... hard to disagree with.

Deputy Pearse Doherty: Okay. How much did the ... how much was Ulster Bank bailed out by RBS?

Mr. Robert Gallagher: Over the period ... I think it's approximately £15 billion.

Deputy Pearse Doherty: And in relation to the fact that your bank needed €15 billion of a bailout - and that's sterling - what responsibility do you see, both of you personally, in relation to causing your bank to require that amount of money to be bailed out or do you see yourself as having no responsibility in that regard?

Mr. Robert Gallagher: I mean, I think we, Deputy, address some of this ... so clearly as directors of the bank and clearly as executive management members and our respective responsibilities, you do have a responsibility. So as I said in the opening statement, I regret for the fact that the ... whilst the governance and processes were robust, that the inputs and assumptions we made, as others in the economy made ... proved to be not valid, which resulted in the losses.

Deputy Pearse Doherty: Mr. Torpey?

Mr. Michael Torpey: I would, I would echo that comment, Deputy. You know I was, I was a director of Ulster Bank at the time and, you know, I would have to freely state that I very much regret those decisions which led to the losses and the damage to the economy in general. Decisions were made on the basis of a growth strategy in pursuit of the objectives of the shareholders. They ... there were decisions which were founded on a poor ... assumptions as we now know with the benefit of hindsight. You know, I would wish that those assumptions had not informed that strategy because that would have led to a different set of decisions and a different set of outcomes.

Deputy Pearse Doherty: Mr. Torpey, can you explain to the committee how a person ... like yourself who has accepted collective responsibility in relation to your bank required €15 billion ... or sterling, pounds, bailout, ends up in the NTMA, head of the banking unit in the NTMA and seconded to the Department of Finance managing the State's assets in our banks up until the end of 2012?

Mr. Michael Torpey: I think, Deputy ... you know what I would say of my ... of my time in banking and in Ulster Bank is that I acted in ... in good faith at all times. I acted very professionally and in many respects I was successful, notwithstanding the failures that occurred. The ... the reasons ... and what I brought to subsequent employments are ... are in a space which ... you know is not for me to judge and ... and I ... and Chairman, I wonder is it appropriate that I should ... I should get into comment on that?

Deputy Pearse Doherty: That ... that's ... I think you have answered, that's fair enough. I'm not going to push you on the question. It's just if you wanted to give your opinion on it and I welcome that. Can I ask you, Mr. Torpey, with the benefit of hindsight in relation to 100% mortgages, were you aware criticism of the 100% mortgages when it was introduced by Ulster Bank at the time?

Mr. Michael Torpey: Deputy, I think it's fair to say yes, there were critics of 100% mortgages, we would have been aware of that. There were very real challenges internally in the bank, which had to be addressed. The 100% mortgage question had to be addressed objectively in the context of what it brought, of what the risks were and so forth. And it went through a very, very thorough governance process and the decision, to which I was a party, was that it was an appropriate product to bring in at the time, which, with the benefit of hindsight was not a good decision.

Deputy Pearse Doherty: And let's just look at what, forgetting about hindsight, let's look in at what happened in 2003. Were you aware that Michael Dowling, which was the president of the Independent Mortgage Advisers Federation, said, ''We were a little surprised that the product came on the market at a time when the Central Bank [had] been warning banks about the amount they are lending'', and there was others as well who wrote articles in relation to that time? But you were ... were you aware that that body were critical of your product at that time?

Mr. Michael Torpey: I won't suggest that I can at this stage recall the specific criticisms. But I have no doubt that there were people, for their own reasons who will have criticised the product. But I would stress, Deputy that we ... did put the product through a very ... a very severe ... testing in terms of ... of our analysis. We did engage with the Central Bank in relation to the introduction of the product and as such, we would have addressed, honourably and in an appropriate way, the ... the circumstance leading to the introduction of that product. And I think it is worth recalling that the actual volume of the product which was issued on the market was a small, low single digit percentage of the total mortgage lending that we did over those years.

Chairman: Deputy O'Donnell. Ten minutes.

Deputy Kieran O'Donnell: Mr. Torpey, would you accept that the arrears that have arisen since the ... those 100% mortgages came in, have proven to be far higher than the arrears on mortgages issued prior to that date?

Mr. Michael Torpey: Deputy, given that I in fact left Ulster Bank at the end of '07, I don't have sight of the arrears figures in relation to that product since then.

Deputy Kieran O'Donnell: But in your role in banking within the Department of Finance and the NTMA, you would have had access to that information.

Mr. Michael Torpey: I haven't had occasion to look to the specific product and its arrears pattern, Deputy, so I'm not in a position to confirm the arrears number in relation to that product, either for Ulster Bank or for the market generally.

Deputy Kieran O'Donnell: Mr. Torpey, what's your current view on the appropriateness of the bank guarantee that was put in place on that fateful night in September 2008?

Mr. Michael Torpey: Chairman, may ... may I ask for your help on this situation?

Chairman: Indeed.

Mr. Michael Torpey: You know I .. I ... while I wasn't around for the guarantee - and I appreciate the Deputy's question - I have been involved in a lot of matters connected with the State in the period since and I'm not sure is it appropriate that I should be offering an opinion on the appropriateness-----

Chairman: I won't stop you offering an opinion, Mr. Torpey, if it's within the terms of the reference. I will give you the freedom to offer an opinion on the specific matter with regard to the guarantee. The world and its dog has a view on it, you're more than welcome to give yours here this morning if you wish. The question is, how pertinent and related is it in terms of evidential information that informs this inquiry in doing its work.

Mr. Michael Torpey: I think-----

Chairman: And if you are just offering an opinion, I'd ask you to cite it as that, rather than actually evidentially, empirically-based evidence to this inquiry.

Deputy Kieran O'Donnell: My line of questioning, Chairman, revolves around ... that you were group financial director with Ulster Bank up to the end of '07, which is a relatively short period of time before the guarantee was put in place. So, it's more in terms of your perspective on the state of the banking system, the liquidity in the market, solvency in the market and did ... the actual ... the type of guarantee that was put in place. So I'm running from that perspective. But it is correct that you .. and I suppose I'm asking you in the context ... you weren't there on the night of the guarantee but you certainly were there up to a relatively short time prior to that, Mr. Torpey. So it's in your role in Ulster Bank I'm asking you-----.

Mr. Michael Torpey: I appreciate that, thank you, Deputy. And, indeed, I was in Ulster Bank until the end of 2007 and there were the beginnings of the emergence of liquidity stresses in the marketplace at the end of 2007 but nothing at that point that would point towards a severe liquidity crisis in the marketplace. Given my absence from the financial sector, and indeed from the country, for much of 2008, I don't have a fact pattern as to how things emerged through 2008, so very much in the opinion space I would have to say that to the extent that the liquidity position of the banking system, in aggregate, deteriorated to a level where there was a crisis imminent, I can understand why the authorities would have had to look towards taking very severe action. I'm not competent to opine on the appropriateness of the action taken because I simply don't have the information about the detailed events that led to that action and the action has to be a consequence of the circumstances.

Deputy Kieran O'Donnell: How did the liquidity squeeze manifest itself in terms of the running of Ulster Bank, of which you were group finance director?

Mr. Michael Torpey: While I was in Ulster Bank, the liquidity shortfall internationally led to an inability to do certain planned transactions late in 2007, so that at the time the view was to-----

Deputy Kieran O'Donnell: When you say ... you might elaborate on that. What do you mean by certain planned transactions?

Mr. Michael Torpey: From memory, there were capital markets transactions to raise money on the international side that had been approved by RBS Group for Ulster Bank to undertake specifically a securitisation transaction to raise funding. The appetite of capital markets late in 2007 for such transactions had diminished to a point that the economics of doing such a transaction were not attractive and the view taken in Ulster Bank when I was still there was that the transaction contemplated would be deferred into 2008 rather than do it at the price obtaining at the time. And, Deputy, I think that informs a lot because it describes an expectation internationally, if I use RBS Group as the international benchmark, that we were in a temporary liquidity crisis, not in what was going to lead to a sustained-----

Deputy Kieran O'Donnell: And was it affecting your day to day business in terms of access to liquidity to do your day-to-day business as a bank?

Mr. Michael Torpey: There was no impact on ... that I'm aware of, on the day-to-day liquidity issues because the position of Ulster Bank, with the support from RBS Group, meant that day-to-day liquidity matters were addressed and met by RBS Group through that period, so there was-----

Deputy Kieran O'Donnell: But was there issues for Ulster Bank Ireland itself? Did you ... were there times where you were not able to raise it through the normal interbank market in a normal way ... that you had to -----

Mr. Michael Torpey: No, Deputy, the only ... the only issue that I will alert you to is the fact that we deferred raising some long-term funding-----

Deputy Kieran O'Donnell: Okay. Can I ask you one quick question, Mr. Torpey.? The issue you spoke about ... the accounting standards, if you had wished, could you have put a note to the financial statements as distinct from ... could you ... a provisioning, could you have put a note to the financial statements that you needed to provide a potential contingent liability in terms of reduction in the, we'll say, in terms of provisioning for the loans?

Mr. Michael Torpey: I believe, Deputy, that it would have been deemed inappropriate. The form of production of statutory accounts for the bank or, indeed, for any company I guess, at the time was highly prescriptive. Clearly ... clearly any management is free to make a comment in general about his view of the market, but, you know, the view of the market was ... the universal view was that growth prospects were still positive in the Irish marketplace for so long as I was working in Ulster Bank.

Deputy Kieran O'Donnell: And finally, Mr. Torpey, why did you leave Ulster Bank at the end of 2010?

Mr. Michael Torpey: I thought, Deputy -----

Deputy Kieran O'Donnell: Sorry, the end of 2007.

Mr. Michael Torpey: I sought, Deputy, to bring colour to that in my statement. I joined Ulster Bank as part of an acquisition of First Active and I came from a background that was heavily rooted in treasury and capital markets. I presided over an integration of financial systems such that the role ... and putting it as briefly as I can, the role became very much a specialist accounting role. So there was a very different nature to the role post-integration compared with the background expertise and preferences I had in the marketplace. So, it suited RBS that they would get somebody who was a more specialist accountant and it suited me, frankly.

Deputy Kieran O'Donnell: Mr. Gallagher, when you took over ... you joined Ulster Bank in 2005. And you ... the question, I suppose, I want to ask is that your role was ... you were brought in to head up business banking in Ulster Bank. Correct?

Mr. Robert Gallagher: Yes.

Deputy Kieran O'Donnell: Okay, and very much, I suppose, to grow the loan book and it would appear as if there was significant growth in the loan book in '05, particularly around the Ballsbridge site, the Sean Dunne loan, which was well over €300 million. What type of measures would ye have had in place in terms of relationship management with loans of that size where you would have done proper due diligence? How did it arise that you'd a site that had no planning, that was ... a trophy project at the time ... that Ulster Bank gave that level of funding? What would have been the due process that would have arisen? And, obviously, I've no doubt it would've fallen in under your remit because you were heading up business banking.

Mr. Robert Gallagher: Specifically ... I joined in September '05. If I read the media, that transaction was consummated before I joined the organisation, so I have no comment on ... on that. If your general question Deputy is, what is the level of due diligence around opportunities ... it includes-----

Deputy Kieran O'Donnell: Around risk.

Mr. Robert Gallagher: Yes, sorry, risk ... it includes a myriad of things. It includes what is the market opportunity for the business or property situation, what is the assessment of management, what is the location if it's a property, what is the assumption on sales prices, what is the assumption if it's on volume, what are the costs.

Deputy Kieran O'Donnell: Typically, how long would that due diligence take?

Mr. Robert Gallagher: It takes a reasonable period, Deputy. I mean-----

Deputy Kieran O'Donnell: What would you regard as a reasonable period?

Mr. Robert Gallagher: It could ... if I was saying on average, I would say on average two to three weeks.

Deputy Kieran O'Donnell: Two to three weeks to approve.

Mr. Robert Gallagher: So what happens, Deputy, in the process is a relationship manager and his team would assess an opportunity. They collectively would write a comprehensive assessment on a risk reward-----

Deputy Kieran O'Donnell: So, you're saying that by the time you joined Ulster Bank that deal was already approved by the bank.

Mr. Robert Gallagher: Specifically, I'm saying I joined in September '05 and in the media that sale and purchase happened in-----

Deputy Kieran O'Donnell: You were over the loan book, Mr. Gallagher. It was your responsibility. So are you telling us you know absolutely nothing about that €300 billion plus loan by Ulster Bank to the Ballsbridge site, Sean Dunne?

Mr. Robert Gallagher: No, no ... well ... sorry, Deputy, first of all, we can't speak about any customer situation specifically.

Chairman: That scrum ... that scrum has been covered, Deputy, so I'm going to ask you to push on.

Deputy Kieran O'Donnell: No, I suppose, the line, really, I want-----

Chairman: This is your very final question. Final question.

Deputy Kieran O'Donnell: The point, really, I want to get is-----

Chairman: Make the question.

Deputy Kieran O'Donnell: -----there's a danger here, Chairman, that we've had many people in and they were getting the fool's pardon, that people didn't know what was going on. I think people are entitled to know the process. And you're saying ... and this particular loan, Mr. Gallagher, was of such a magnitude. So I'm trying to find out the process, that how do we read in the media that a loan of this magnitude appears to have been approved in a week. You're telling me typically a loan would take two or three weeks.

Chairman: Okay, look, Deputy, I'm not going-----

Deputy Kieran O'Donnell: Yes.

Chairman: -----to be accusing you of showboating, but this is a very simple matter that has been dealt with in yesterday's hearings. Mr. Gallagher and Mr. Torpey, completely within their legal rights, and you know the rules of this inquiry. You were there in putting them together.

Deputy Kieran O'Donnell: No, well, Chairman-----

Chairman: Hear me out.

Deputy Kieran O'Donnell: Yes.

Chairman: And you were there in putting these rules together along with the other ten members, myself inclusive. So the issue of a customer relationship matter specifically cannot be dealt with. However, I would advise you and encourage you, and I'll give you time for this, is if you frame your question on the grounds of how this ... the modelling that this type of loan presented ... was it common practice inside in Ulster Bank and what were the rules of governance and due diligence and examinations were actually in place?

Deputy Kieran O'Donnell: That's-----

Chairman: If you want to go into that space, I'll facilitate it but I can't specifically take the question.

Deputy Kieran O'Donnell: I thought that's what I asked actually, Chairman.

Chairman: Well, no, it wasn't. You were asking specifically around this particular loan.

Deputy Kieran O'Donnell: I'm asking, Chairman, because I think that people are entitled to know. We're getting woolly answers and, I suppose, I'd like to ... if you could give us the process, how you assess risk. Do you provide loans where there's no grant of planning in respect of the loans? Would you look for loans that were subject to planning? In this particular case, what we're reading in the media reports, this loan was given without any planning being granted on this site. What's the process?

Chairman: Deputy, I'll have ... if you start going into that loan specifically, the ... Mr. Gallagher and Mr. Torpey-----

Deputy Kieran O'Donnell: No, no, generally, generally.

Chairman: Well, be general so, because you're not being general, you're being specific.

Deputy Kieran O'Donnell: Generally, can you go through how those parameters would be looked at, Mr. Gallagher?

Mr. Robert Gallagher: I can. And just for the avoidance of doubt, Deputy, the transaction that you refer to, which is covered in the media, I was not in the organisation when that transaction was consummated so-----

Deputy Kieran O'Donnell: Okay.

Mr. Robert Gallagher: -----even if the Deputy ... or the Chairman instructed me, I would be unable to.

Deputy Kieran O'Donnell: Okay.

Mr. Robert Gallagher: So be clear on that.

Deputy Kieran O'Donnell: Okay.

Mr. Robert Gallagher: To ... so your question then is: what is the general basis on which opportunities are considered? With regard to planning first of all, lending to unzoned land was capped by the speculative lending policy of Ulster Bank and speculative lending could not exceed 3% of the commercial loan book. The effect of that is that Ulster Bank had a very, very modest unzoned planning exposure. The bank did lend to zoned land, to planned land, and to land in process.

Deputy Kieran O'Donnell: Yes.

Mr. Robert Gallagher: The assessment of investment property, first of all, and then I'll come on to ... I'll come on to residential development property. The assessment of investment property, two points: one, the bank had an entirely constrained ability to finance the development of office or investment space which had no tenant. So we ... that was captured by the speculative lending policy, the same 3%. So we ... the firm ... the bank was entirely constrained in that and did very little in any of it. To the extent that the bank funded investment property, the bank would look at things like the quality of the tenants, the mix of tenants, the location of the asset, the level of cash coverage generated by the rental income, the term of the lease, and would lend based on that and an assessment of the owner and an assessment of the valuation. And those assets on the investment portfolios tended to be large assets and tended to be in large conurbations, including London and Dublin. And those assets had a repayment capacity through the cash generation from the rental income. On development lending, Deputy, the location was critical; the nature of the number of homes that could be put on the asset; the assumption of a sales price; the cost to construct; a sensitivity that said, "Well, what happens if price drops?"; an assessment of how long the build is to take; a look at the track record of the developer - what has they ... what have they done in other sites? Have they finished on time? Have they had cost overruns? Have they sold? Who does selling for them? - a comprehensive assessment captured on paper over a detailed analysis; a second paper from the credit function of the organisation independent of the guy or individual sponsoring the proposition, either supporting or not; that going to a committee in Ulster, where it's challenged by a group of at least three people, one of whom has to be independent of the business ... or two have to be; then if it exceeds approximately €35 million, it goes to RBS for the same challenge and approval. So there is a first line, a second line, and a third line of defence. So the process was robust.

Deputy Kieran O'Donnell: Where does planning come in?

Chairman: Last question.

Deputy Kieran O'Donnell: That's the last question, really, Chairman. Hypothetically speaking, a site ... buying ... lending a substantial amount of money, of the order of a couple of hundred million, on a site which is for a residential commercial development without planning, would that happen in the normal circumstances within the Ulster Bank that you would have been managing, in terms of the business side?

Mr. Robert Gallagher: I've said, Deputy, that the speculative lending policy constrained, even if anybody wanted to, constrained the ability to do substantial unplanned land to-----

Deputy Kieran O'Donnell: 3%?

Mr. Robert Gallagher: Yes.

Deputy Kieran O'Donnell: Thank you.

Chairman: Whatever supplementary you may have there, Deputy Phelan, I'll just give you a bit of time.

Deputy John Paul Phelan: Yes, I have one for Mr. Torpey, and it follows on from an area that was touched on by Senator MacSharry. Yesterday, following questions from Deputy McGrath on the matter of loan-to-deposit ratios, Mr. McCarthy indicated that there was an error in the 2007 figures, which was subsequently corrected. I just want to ask you, Mr. Torpey, what was the error? How did it occur? How did the figures end up being published as the final figures for Ulster Bank for 2007? You were, at that stage, still, as I understand it, the chief financial director, I think, was the title of your role within the organisation?

Mr. Michael Torpey: Unfortunately, Deputy, I can't answer the question, because I left the bank in December 2007, and the preparation of the financial accounts will have been subsequent to year end. So I had no hand, act, or part in the putting together of the accounts, so I simply don't know what led to that number coming out. I think, to the substance of the point, I think the funding of the balance sheet through 2007 was driven by the stability of funding assured by RBS, and so I think the substantive point is that the balance sheet was managed appropriately and stably through 2007. But, as to the ... as to the ... as to the accounting error that led to the misstatement or whatever it was of the loan-to-deposit ratio in the end-2007 accounts, frankly, I have no information.

Deputy John Paul Phelan: Okay. I was under the impression, and you might correct me if I'm wrong, that you retain ... that you retained the position until your successor was appointed at the end of quarter 1 in 2008, as chief financial director. Is that-----

Mr. Michael Torpey: My-----

Deputy John Paul Phelan: When-----

Mr. Michael Torpey: I ceased working in Ulster Bank in December 2007. Formally, my resignation date was the ... in the first week ... I think it was 5 February 2008 and the financial accounts were completed subsequent to that.

Deputy John Paul Phelan: So you had no role in those figures?

Mr. Michael Torpey: I was actually out of the country through that period, in fact, so I had no contact whatever with Ulster Bank through the period or through the compilation of the year end accounts.

Deputy John Paul Phelan: Okay, thank you.

Chairman: All right, thank you. Deputy Higgins.

Deputy Joe Higgins: Yes. Yesterday and today, the issue of the 100% mortgage has been raised. Can I raise it and ask for your opinion from a different perspective, to comment on a view that the problem was not so much 100% mortgage, but it's 100% mortgage against a background when a home, as a basic human right, becomes the subject for massive speculation and outrageous profiteering by developers and bankers as happens in the capitalist marketplace?

Chairman: You have to be mindful of the language now, Deputy. It might even be ... just in terms of being overly prescriptive or value judgment laden and ideologically promoting as well.

Deputy Joe Higgins: Okay. I'm putting a view-----

Chairman: Yes, I know that, and I-----

Deputy Joe Higgins: -----and an object ... or a-----

Chairman: -----corrected another Deputy earlier for putting a view.

Deputy Joe Higgins: Or ... and against a background when intense competition between bankers to try and match their rivals for profits makes the prices of a home even higher. And, gentlemen, could I ask the two of you ... between 1996 and 2006 our research and PTSB house price surveys, etc., found that the price of a home increases by the ... the equivalent of the average industrial wage of a worker each year ... each year for ten years. And then compelling young working people to unsustainable mortgages, by common consent, Chairman, and perhaps for 30, 35 or even 40 years. Can I ask you, in your career in Ulster Bank, did either of you ever feel this is not good for society, this is immoral, it's unjust, it's bad for people, bad for society and to ... and to go to your board and bring such a concern to your board and have it discussed, and maybe then to go to the general banking situation with ... with these types of concerns. Just a comment on what was happening in house prices for ordinary working people? Mr. Torpey?

Mr. Michael Torpey: I think, Deputy, the ... you know, the ... house prices did increase dramatically through the period, as you rightly say, from 1996 through to the peak of house prices. That happened in the context of a dramatically changing environment in the Irish marketplace. It happened in an environment where the cost of debt service, for example, was falling very substantially. Interest rates fell from the very, very high levels we experienced in previous decades-----

Deputy Joe Higgins: Yes ... but, Mr. Torpey, I'm not asking you the whys ... I'm asking you against the intolerable pressure it put on young working people trying to buy a home. If you understand the difference. Is that... was it moral, just, or not?

Mr. Michael Torpey: We sought ... we sought to offer finance to people who wished to purchase properties. We sought to offer that in as competitive a way as we could so as to maximise the affordability. And, we responded to the market forces in ... in that respect. I think you have instanced the 100% mortgages, for instance, and in certain respects that would have been a help to people because our research at the time showed us that a significant number of people were actually borrowing the balance over the 90% or 92% through a credit card or other borrowings. So our ... our efforts will have assisted affordability in that very tiny segment of the market to which we provided that ... that product. So, I think ... I think, Deputy, it is fair to say that we were in a very competitive marketplace. We competed in that marketplace. We sought to offer the best value product to people who needed to borrow money to buy a house ... houses at the prices they were there at the time.

Deputy Joe Higgins: Mr. Gallagher, did you've any qualms about what was happening and the pressures that young people were being put to as a result of practices inside land and banking practices and speculation banking practices?

Mr. Robert Gallagher: Well, Deputy, I think fast rising home prices is not a good thing for society. And the effect of that is that home ownership becomes more expensive. And the effect of that is that ... that leverage can be created in society. So in an environment which has a sustainable level of home price increase, which facilitates sufficient homes being built as opposed to no homes being built, is probably where we need to get to and it is probably where we should have been. So the effect of high price ... asset price is problematic for all of society. Young people, included, yes.

Chairman: Just to finish on that point, and Deputy Higgins has portrayed that this was a societal impact and the consequences that people are living with today. But just boiling it down to a business model, did at any time, at any level in Ulster Bank, was it considered that a product ... that the mortgage product that you were now issuing was becoming unsustainable given 100% mortgages, given LTV rates of 100% - you didn't have to come up to ten ... with the traditional

10% - income ratios with regard to the price of the house were moved off the map several multiples of ... schedules moving from 20 years out to 40 years and just the affordability factor? I mean ... like the basic business concept of selling cars, is if you want to sell new cars somebody has to buy second hand cars ... and it was becoming increasingly impossible for first-time buyers to come into the market because of affordability. Did anybody ... at anybody ... at any stage in Ulster Bank say this is ... this product is becoming possibly unsustainable?

Mr. Michael Torpey: I think, Deputy, or Chairman, you ... you touch on a very important point. I think the system, as a whole, failed to realise-----

Chairman: Yes, we know that.

Mr. Michael Torpey: -----the pressures and stresses that were there and within Ulster Bank we had a growth strategy which sought to compete in the marketplace. The assumptions we made, unfortunately, were the wrong assumptions and it ... it is unfortunate and in every respect - and it's something that I very much regret - that we didn't in fact challenge sufficiently on the variety of assumptions that underpinned the expectations of continuing growth in the market.

Chairman: Okay, I'm going to bring matters to a conclusion. Is there anything further Mr. Gallagher, Mr. Torpey you'd like to add? Okay, with that said, I'd like to thank Mr. Torpey and Mr. Gallagher for their participation today and for their engagement with the inquiry. The witnesses are now excused and I propose that we suspend up to 3 p.m. Is that agreed? Okay, thank you.

Sitting suspended at 2.15 p.m. and resumed at 3.12 p.m.

Bank Economists - Mr. John Beggs, Mr. Pat McArdle and Dr. Dan McLaughlin

Chairman: I now propose that we go back into private session ... or, sorry, public session for this afternoon's proceedings. Is that agreed?

We now commence this afternoon's session ... session hearing No. 2 with Mr. John Beggs, former chief executive of Allied Irish Banks, Mr. Pat McArdle-----

Mr. John Beggs: Sorry, Chairman, I was the chief economist.

Chairman: Chief economist, sorry. I was probably giving you a promotion there. My apologies for that. Mr. John Beggs, former chief economist, Allied Irish Banks, Mr. Pat McArdle, former group chief economist, Ulster Bank, and Mr. Dan McLaughlin, former chief economist at Bank of Ireland. The committee of inquiry into the banking crisis is now resuming in public session. Can I remind members and those in the public gallery to ensure that their mobile devices are switched off. Today we continue our hearing with senior bank executives who had roles during and after the crisis. This afternoon we will hear from former chief economist from Bank of Ireland, AIB and Ulster Bank, Mr. Pat McArdle, former group chief economist, Ulster Bank, Mr. Dan McLaughlin, former chief economist, Bank of Ireland, and Mr. John Beggs, former chief economist, Allied Irish Banks.

Pat McArdle is the former group chief economist with Ulster Bank, a position he held from 2002 until his retirement in 2009. From 1996 to 2002, he was Ulster Bank's chief economist. Prior to this, he was head of research at NCB. He is chairman of the International Institute of European Affairs economist group and is a member of the economic and monetary affairs com-