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AN COMHCHOISTE FIOSRÚCHÁIN I DTAOBH NA GÉARCHÉIME BAINCÉIREACHTA

JOINT COMMITTEE OF INQUIRY INTO THE BANKING CRISIS

Dé Céadaoin, 15 Iúil 2015

Wednesday, 15 July 2015

The Committee met at 9.30 a.m.

MEMBERS PRESENT:

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

DEPUTY CIARÁN LYNCH IN THE CHAIR.

Nexus Phase

National Treasury Management Agency - Mr. John Corrigan

Chairman: 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? I would like to welcome everyone to the public hearings of the Joint Committee of Inquiry into the Banking Crisis. At our first session this morning, we will focus again on the role of the National Treasury Management Agency during the crisis and we will hear from Mr. John Corrigan, former CEO, NTMA. Mr. John Corrigan joined the NTMA in June 1991 as a director in the funding and debt management unit. In 2001 he was assigned responsibility in the NTMA for the National Pensions Reserve Fund. He was appointed NTMA CEO in December 2009 and retired in January 2015. Mr. Corrigan, you are very welcome.

Mr. John Corrigan: Thank you, Chairman.

Chairman: Before hearing from the witness, I wish to advise the witness that by virtue of section 17(2)(*l*) of the Defamation Act 2009, witnesses are protected by absolute privilege in respect of their evidence to this committee. If you are directed by the Chairman to cease giving evidence in relation to a particular matter and you continue to 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. Therefore, the utmost caution should be taken not to prejudice those proceedings. Members of the public are reminded that photography is prohibited in the committee room. To assist the smooth running of the inquiry, we will display certain documents on the screens here in the committee room. For those sitting in the Gallery, these documents will be displayed on the screens to your left and right. Members of the public and journalists are reminded that these are documents and that they are confidential and should not publish any of the documents so displayed.

The witness has been directed to attend this meeting of the Joint Committee of Inquiry into the Banking Crisis. You have been furnished with booklets of core documents. These are before the committee, will be relied upon in questioning and form part of the evidence of the inquiry. So with that said, if I can now ask the clerk to administer the oath to Mr. Corrigan please.

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

Mr. John Corrigan, former Chief Executive Officer, National Treasury Management Agency.

Chairman: If I can invite the witness to make his opening statement please.

Mr. John Corrigan: Thank you, Chairman. In the interests of brevity - I understand I have about ten minutes - my opening statement will be an abbreviated version of the written statement I made to the inquiry.

So, by way of background, the NTMA has a number of diverse functions, all of which are clearly defined in legislation. A common theme running through all of its functions, with the exception of its State Claims Agency, is its engagement with capital markets. Its original mission was to fund the Exchequer borrowing requirement and manage the national debt in a cost effective manner. This mission has been added to by various Governments over the years. The additional function most relevant to the banking crisis was the NTMA's role as manager of the National Pensions Reserve Fund, NPRF, and I was the director responsible for the fund up to December 2009. The NPRF was controlled by the National Pensions Reserve Fund Commission, a body corporate which was independent in how it made its investment decisions. When I was appointed CEO of the NTMA in December 2009, I became an *ex officio* member of the commission. The legislation governing the fund was amended in 2009 in the context of the banking crisis to enable the Minister for Finance to direct the commission to make investments in Bank of Ireland and AIB. In reporting on the fund's investment performance, the commission clearly delineated between the performance of those investments which it had made under its own discretionary powers and the so-called discretionary investments in Bank of Ireland and ... or directed investments in Bank of Ireland and AIB. The NTMA had no role in relation to the oversight of the banking system and no responsibility in relation to the provision of liquidity to the system. We believed that the role of lender of last resort fell to the Central Bank and ECB.

2007-2008: The function of the interbank money markets became increasingly problematic through 2007, culminating in the UK in September 2007 in the collapse of Northern Rock, a financial institution which heavily relied on non-retail funding in a way not dissimilar to Anglo Irish. There were sharp falls in 2008 in the share prices of Irish banks with, for example, the share price in Anglo Irish falling by 18% in one day. These falls reflected concerns about the impact of the continuing fall in Irish property prices on the banks' earnings and also the wider international background of non-functioning money markets. In September 2008, the NTMA was invited to attend, with the Department of Finance, meetings of the domestic standing group and, depending on my availability, I attended meetings of that group. The deteriorating liquidity position of the Irish banks, in particular Anglo Irish and INBS, was the group's biggest concern and, on foot of those concerns, the Department of Finance put in hand, as a contingency measure, the drafting of legislation providing for a scheme for bank and building society nationalisation.

On 14 September 2008, Lehman Brothers filed for bankruptcy. Around that time, the Minister for Finance asked the NTMA to retain corporate finance advisers in the area of bank resolution. I was involved in procuring the services of Merrill Lynch in that context. Merrill Lynch subsequently provided advice which formed an input to the deliberations culminating in the Government decision to guarantee the deposits and debt liabilities of six domestic financial institutions, the covered institutions. As the committee is aware from evidence given by my colleague, Brendan McDonagh, the NTMA was not involved in the deliberations of 29 and 30 September.

While the guarantee helped the covered institutions, in particular Anglo Irish, to attract funding through the interbank market and retail deposits, at least in the near time ... term, the share prices of the quoted banks continued to perform poorly, signalling continuing market concerns about their profitability and possible requirements for fresh capital. In a statement issued on 30 November, the Minister for Finance said that, in certain circumstances, it would be appropriate for the State, through the National Pensions Reserve Fund or otherwise, to consider supplementing privately sourced additional capital for the covered institutions. On Saturday 13 December 2008, with my colleague Brendan McDonagh, I attended a day-long meeting in the Department of Finance, where the question of bank recapitalisation was considered. We pressed strongly at that meeting for the nationalisation of Anglo Irish, which was also the approach recommended by Merrill Lynch. In the event, the view that Anglo should be recapitalised, rather than nationalised, prevailed. A Government announcement on 21 December 2008 on recapitalisation said that there would be an initial State investment of €1.5 billion in Anglo and that agreement had been reached with Bank of Ireland and AIB that each would issue €2 billion of preference shares to the State. At the request of the Minister for Finance, I was heavily involved in the discussions with Bank of Ireland and AIB, leading up to that announcement. At the outset of those discussions, the banks resisted the suggestion that they needed fresh capital and, in particular, the provision of capital by the State.

2009: The proposed recapitalisation of Anglo was abandoned with a statement by the Minister for Finance on 15 January 2009 that it would be taken into public ownership citing "a weakening in its funding position and unacceptable practices". In the meantime, there were ongoing discussions with Bank of Ireland and AIB on how their €2 billion capital injections could be achieved. Against an international backdrop of banks generally increasing their core tier 1 capital, it was agreed in discussions, which I chaired, that the State would provide €3.5 billion core tier 1 capital for each bank through preference shares. It was the view of the NTMA that, given its bigger balance sheet, AIB was likely to require more capital than Bank of Ireland but AIB stuck to its view that its problem was no bigger than Bank of Ireland and that it would only recommend to its shareholders a deal based on its quantum of additional capital being the same as Bank of Ireland's. The Minister for Finance decided that the €7 billion of capital was to be provided by the NPRF. The NTMA engaged PwC and Arthur Cox to undertake due diligence on the two banks. To help us oversee this exercise we retained Sir Andrew Large, a former deputy governor of the Bank of England, as a "trusted adviser". In response to a request from the Minister, the due diligence exercise was tasked with forming a judgment with respect to the probability of each bank's core tier 1 capital being above the regulatory minimum at end-2011 and with identifying matters or issues which might reasonably be considered of a "red flag" nature.

The National Pensions Reserve Fund Commission reported in March 2009 to the Minister on Bank of Ireland. The due diligence results indicated that there was a reasonable prospect that, allowing for the proposed capital injection of €3.5 billion by way of preference shares, the bank's core tier 1 capital would be above the then current regulatory minimum 4% at end-2011. The National Pensions Reserve Fund Commission reported the Minister on AIB in May 2009. The results painted a doubtful picture about whether the bank would be above its regulatory capital minimum of 4% at end-2011. The Minister directed that both capital injections be proceeded with and the NTMA, on behalf of the NPRF, executed on them.

As CEO of the NTMA, I was an *ex officio* member of the NAMA board from its inception in 2009 and, in its early days, was heavily involved with Brendan McDonagh in recruiting its senior management team. I believe that the decision to set up NAMA was the correct one and, based on the NTMA's engagements with institutional investors and the credit rating agencies. I am strongly of the view that its success played a huge role in Ireland later regaining access to the debt capital markets.

In June 2009, the Minister for Finance invested €3 billion in share capital of Anglo Irish. The Minister invested a further €1 billion later that year. These investments were made in cash drawn from the Exchequer and the NTMA was not involved in their execution. As the committee will be aware, subsequent capital injections were made in the form of promissory notes. The use of the promissory notes had the advantage that their redemption by the Exchequer was spread out over a 20-year period, thereby easing the pressure on the NTMA to access capital markets. At end-2009 Ireland remained relatively highly rated by the major credit rating agencies, notwithstanding downgrades over the previous 18 months in response to the deterioration of the public finances and the very evident stress in the banking system. Ireland was broadly rated AA or equivalent, but generally with a negative outlook. The NTMA raised €35.4 billion in long-term funding in 2009.

2010: In February 2010, the Minister for Finance announced his intention to delegate certain functions in the banking area to the NTMA. This announcement stated "All of these functions will be carried out on behalf of the Minister, and in close consultation with the Minister and relevant officials in his Department and building on the existing very close co-operation between the two organisations." The initiative to delegate the function was the Minister's own and was not in response to representations by the NTMA. From a policy setting point of view, very little changed in reality with the Department maintaining a tight grip on policy issues, albeit with input from the NTMA, among others. However, the delegation order brought all of the covered institutions operationally within the remit of the NTMA. Following the making of the delegation order, the NTMA built up a banking unit staffed by experts in banking, bank analysis and corporate finance. In March 2010 the Central Bank announced that banks would be required by year-end to meet a base capital ... core tier 1 capital ratio of 8%. The Central Bank also announced the results of a prudential capital adequacy review, PCAR, which indicated that both Bank of Ireland and AIB had additional capital requirements. The AIB requirement was further increased in September 2010 based on experience of the actual discount rate or haircut applied by NAMA. The NTMA banking unit was involved in executing, on behalf of the NPRF, the necessary transactions, which, in the case of Bank of Ireland involved private sector capital, to address the capital shortfalls. The Central Bank also identified significant additional capital requirements for Anglo, INBS and EBS. The extent of the additional capital requirements and, in particular, the huge loss announced by Anglo during this period were major factors in Ireland subsequently having to withdraw from the bond markets.

The NTMA's funding and debt management unit raised €19.9 billion in long-term funding in 2010. We concentrated a significant portion of our long-term borrowing programme in the earlier part of the year in order to maximise the advantage to the Exchequer of the good terms for Irish sovereign debt which existed at the start of the year. As a result, the NTMA had achieved its borrowing target for 2010 before conditions deteriorated markedly during the final quarter of the year and we had to cancel auctions which were scheduled for October and November. At end 2010, not least because of Ireland's entry into the EU-IMF programme, Ireland's credit rating was barely investment grade and, indeed, one rating agency subsequently marked it down to sub-investment grade. The tone of eurozone sovereign bond markets was severely damaged in October 2010 when, at an EU summit in Deauville, Chancellor Merkel and President Sarkozy said that holders of eurozone sovereign debt should be forced to take losses or haircuts as part of any debt restructuring.

I was a member of the team of Irish officials who were directed by the Minister for Finance to hold discussions with the EU Commission, ECB and IMF in mid-November 2010. At the time, there were ongoing substantial losses of corporate and retail deposits by the Irish banks. In response to a request from the Minister for my views on whether Ireland should apply for an EU-IMF programme, citing the severe liquidity strains on the banking system and the risk of a collapse of the system, I wrote to him on 21 November 2010 recommending that an application be made. I said I envisaged that such assistance would provide for a capital strengthening of the banking system and, although likely to be expensive, would also provide sizable funding to the State. I stressed that appropriate liquidity support from the ECB would be a necessary complement to a decision to apply. Unfortunately, such liquidity support was, in my view, only grudgingly provided by the ECB to the extent that their public utterances could have been much more supportive.

On Saturday 27 November 2010, I wrote again to the Minister, at his request, furnishing comments on the proposed programme of financial assistance with particular reference to its implications for debt sustainability. I said that the €35 billion earmarked in the proposed programme for proposed ... for potential capital injections in the banking system would, if implemented, substantially increase the risk of sustainability of the national debt. I recommended that, with a view to mitigating the extra burden on the Exchequer represented by such additional borrowing, the question of a formal bail-in should be considered through aggressive liability management or a resolution regime with respect to the subordinated debt and senior unguaranteed debt on the banks' balance sheets. Together with the Secretary General, Department of Finance, and the Central Bank Governor, I attended part of the Government meeting held that night where consideration was being given on whether to accept the proposed terms of the programme to be told by the Minister that the question of a formal bail-in, which he himself apparently had favoured, had been flatly rejected at a meeting earlier that day of the G20 in Korea, a fact of which I was not made aware until then.

2011-2012: As part of the conditions of the EU-IMF programme, the Central Bank undertook in early 2011, under the supervision of the ECB, a further PCAR exercise. In the context of mitigating the cost to the State of providing further capital support to the banking sector which was expected to arise for that ... from that exercise, and for which, as I mentioned already, €35 billion had been earmarked, the NTMA commissioned a study to look at a bail-in-burden-sharing scheme involving senior as well as subordinated debt holders in the covered institutions. The scheme identified substantial potential savings, depending on the level of discount or haircut applied. For the scheme to proceed, the support of the troika was critical but once again such support was not forthcoming. Nevertheless, liability management exercises were pursued through 2011, which helped mitigate the cost to the State of the Central Bank's 2011 PCAR, the results of which were announced on 31 March and which identified an additional capital requirement of €24 billion. During the first quarter of 2011 the NTMA banking unit conducted the sale by auction of the deposit books of both Anglo Irish and INBS.

Following the entry into the EU-IMF programme and an announcement in February 2011 by the Minister for Finance to second the NTMA banking unit to the Department of Finance, the strategic focus of the NTMA shifted back to what we regarded as one of our core roles - funding and debt management - and the challenge of regaining access to the capital markets so that Ireland would have sufficient funding visibility at end 2013 to exit the programme. That challenge was made all the more difficult because, in addition to demonstrating that we had enough cash to meet day-to-day Exchequer needs after the end of the programme period, there was an Irish Government bond falling due for repayment in mid-January 2014 in an amount of some €12 billion, which we would have to demonstrate to the market was "money good". Irish sovereign euro denominated bond yields hit record highs in July 2011 with the yield on the two-year bond reaching 22% and that of the benchmark bond hitting 14%, implying huge falls in the market values of those bonds. The spiking of Irish bond yields well into double-digit figures, more or less coincided with Moody's downgrading Ireland to sub-investment grade, which meant that part of Ireland's long-standing investor base was no longer open to us. We therefore embarked in mid-2011 on a vigorous programme of engagement with over 200 existing and potential institutional investors in Ireland, the UK, the rest of Europe, the US and the Far East. The investor relations programme yielded relatively early results when, in 2012, we raised €5.2 billion on the market in long-term debt, regained regular access to the short-term markets and succeeded in reducing the outstandings on the January 2014 bond to €7.6 billion. A hugely supportive development in 2012 was the statement by the President of the ECB that the ECB was prepared to do whatever it takes to save the euro.

2013: there were two further supportive developments in 2013. These were the commitment by the EFSF and the EFSM to extend the maturities on their programme loans and the replacement, on the liquidation of IBRC, of the promissory notes provided to IBRC with long-dated floating rate sovereign bonds carrying maturities of up to 40 years. The combined effects of these two initiatives was to reduce by €40 billion the amount that otherwise would have to be refinanced over the next ten years and to extend the average maturity on Ireland's public debt from seven and a half to 12 and a half years. The NTMA raised €7.5 billion in long-term debt in 2013 and reduced the outstandings on the mid-January 2014 bond to €2.7 billion. The Exchequer ended 2013 with sufficient cash and other short-term investments to cover 12 to 15 months' financing needs, facilitating the exit from the programme.

Conclusion: I believe that the NTMA responded positively to the expectation of the Minister of Finance that we work closely with him and his Department in seeking a resolution of the banking crisis. Our involvements brought us into areas which were well outside what were our core functions. The crisis was domestically generated but the complexity of its resolution was added to by the global banking crisis, which had seen the collapse or rescue of household names and the major dislocation of international bank markets. The apparent absence of crisis management skills in the ECB - in contrast with the IMF - was, I believe, also a complicating factor. Ultimately, in Ireland's case the crisis resulted in, among other things, capital markets being closed to us. Forming judgments and making decisions to try to come to grips with the crisis was obviously complicated by a lack of reliable information in a hugely volatile environment. Decision making in such circumstances can seem like trying to catch a falling knife. So, for example, it was only on the third attempt and with the benefit of knowing what the NAMA discounts or haircuts were likely to be that the banks were adequately capitalised. I trust, Chairman, that the committee will find my statement helpful. Thank you.

Chairman: Excellent. Thank you very much, Mr. Corrigan, and I now move on to invite questioners. The first questioner this morning is Senator Susan O'Keeffe. Senator, you have 25 minutes.

Senator Susan O'Keeffe: Thank you, Chair. Mr. Corrigan, on page 9 of your own statement you say that this crisis was domestically generated. What leads you to say that?

Mr. John Corrigan: Well, there was a bubble in the property market which caused the problem and, in my humble opinion, inadequate regulation of the financial sector. So to that extent, I would be of the view that it was domestically generated.

Senator Susan O'Keeffe: When the NTMA adopted the safe harbouring policy that Mr. McDonagh told us about in August 2007, in other words not putting deposits in Irish banks, what signal do you believe that could or should have sent out to the Central Bank, to the Department of Finance, to anybody?

Mr. John Corrigan: Well, it obviously should have sent out a signal that those people, i.e. the National Treasury Management Agency, who had a strong market-facing role, had very fundamental concerns about the stability of the financial system. I mean, that was the obvious message that it should have sent.

Senator Susan O'Keeffe: And at the time that you made that decision did anybody approach you to discuss your decision to do that? Was there any concern shown by any parties to your policy or did business just carry on as normal?

Mr. John Corrigan: Well, Brendan McDonagh would have been the man who would have been the appropriate point of contact because as head of risk, among other things, he would have been responsible for setting the counterparty limits. So, to the extent that there was contact it probably would have been with Brendan. But just to, maybe if I could, just step back from it for a minute, I mean, the NTMA's role is ... in that space is to fund the Exchequer and to make sure that the Exchequer has sufficient cash to meet its day-to-day requirements. We had a very conservative approach to risk. I don't think anybody would thank us if the money which had been garnered through borrowing or through tax receipts had been lost through some sort of placement with, with, dodgy counterparts. However, you know, the Minister who ultimately gave us a direction to place deposits with the, with the banks, he, again in my opinion, would have had a much wider public policy take on the issue and would have taken into account, presumably, considerations that were outside the narrow remit of the NTMA. But I mean the signal was very clear and, and left ... could not have left anybody in any doubt.

Senator Susan O'Keeffe: Was it the first time that the NTMA had made that kind of decision in relation to putting deposits in the Irish banks?

Mr. John Corrigan: To the best of my knowledge, yes.

Senator Susan O'Keeffe: So it was ... it would have been ... was it a decision that was arrived at lightly or with serious consideration?

Mr. John Corrigan: No it was ... it was arrived at after very serious consideration. It was a decision again that to the best of my knowledge the senior management team would have been involved in, so it wasn't a decision that was taken lightly.

Senator Susan O'Keeffe: When Mr. McDonagh was here last week, and I'm moving forward a whole year, to the time of the guarantee, and he talked about the view that the NTMA had about nationalisation versus the guarantee, and he said there was a strong view on the part of the NTMA. So obviously, you're here with us today so perhaps if you could tell us what your view was about the approach of nationalisation and on what analysis did you base the view? If it is correct that your view was that the bank ... that those, that the two banks be nationalised. Or indeed maybe all of them, I don't know.

Mr. John Corrigan: Well, certainly, I shared the view with Brendan McDonagh, and I think the chief executive was of the same view that Anglo should have been nationalised. But what informed that view would have been the business model which clearly was different from the mainstream banks, if I could use that term. So I referred in my opening statement to the collapse of Northern Rock. I mean, that had a business model, in a way not dissimilar, it wasn't entirely the same but not dissimilar to Anglo Irish, to the extent that it relied for its funding on non-retail deposits, and it seemed to us that for the foreseeable future, the interbank market was hopelessly broken, not just in Ireland but globally and so it, it also .... I think the information to the extent that we were involved, from September 2008 .... we were, we were directed by the Minister for Finance to assist in, in looking at the problems which were arising, that there was a lack of visibility, really, around Anglo and its funding and we felt that the earlier you got your hands around the throat, so to speak of Anglo, the better. Whether, ultimately, it would have made any difference to where we are today, that's a matter of conjecture, but we felt looking at the business model, looking at the background intuitively it was the way to go. I mean, we didn't have ... we ... it wasn't based on a detailed, sort of, business case, if that's the question you're asking me.

Senator Susan O'Keeffe: Was it not based on a business case because ... because you couldn't or didn't have time or because you didn't bother?

Mr. John Corrigan: Probably because we didn't have time and also at the early stages of all of this, as I think Mr. McDonagh mentioned during his evidence ... the *locus standi* of the NTMA was challenged by the Financial Regulator.

Senator Susan O'Keeffe: And can you elaborate on what that challenge meant, in terms of how you operated then?

Mr. John Corrigan: Well, it became apparent to us when we got involved in the crisis in September 2008 that the information available within the regulator appeared to us to be sadly deficient. And we would have pushed strongly, and I think Brendan McDonagh may have mentioned this in his evidence, for the regulator to get a third party in, which ultimately was PwC to do a deep dive, so to speak, on the books of all the financial institutions. And that was the first time, certainly from our point of view, that it became obvious to us that various connections had exposures to all the financial institutions, and when you aggregated those connections, it was a frightening vista.

Senator Susan O'Keeffe: Before I, I'll come back to that if I may, but I ... I just want to pursue the matter of nationalisation if I may, because in your statement on page 3, you've moved on now to Saturday, 13 December 2008. And you say that you and Mr. McDonagh had a meeting with the Department of Finance on that day. Before I ask you about what happened at the meeting, I'm just wondering why did it take place on a Saturday? Do you know, can you recall?

Mr. John Corrigan: I can't recall.

Senator Susan O'Keeffe: Okay, that's fine. You say that you pressed strongly, with the Department, for nationalisation of Anglo Irish Bank. So, again, what was the analysis ... at this point, at this time ... and why ultimately was your pressure resisted? Why did the Government decide instead to recapitalise?

Mr. John Corrigan: Well, again, my recall of that meeting is that there was ... it was quite a big meeting ... there, the Department was there, the regulator, the Central Bank, legal advisers and others. And it was only ... it was only towards the back end of the meeting that we got a chance to, to, to express our views and indeed I remember at that stage, the chair of the meeting saying to me, who was the then Secretary General of the Department of Finance, when I tried to express a view that, in fact, I didn't have a view because I was the agent for the Minister for Finance. But notwithstanding his ruling, so to speak, I did forcibly express the view ... that the proper course would be to nationalise the bank.

Senator Susan O'Keeffe: So let me be clear, the chair was saying to you, you couldn't express a view because you were the agent of the Minister but you were not deterred by this, you-----

Mr. John Corrigan: No, no but I mean, that's, that's what he said. I couldn't understand where he was coming from but I had a vivid recollection of that.

Senator Susan O'Keeffe: Yes, I'm sure. And so anyway, you put your view forward, which was nationalise; and again here you were two months later, talking about nationalising, again what was your view, what was your reasoning, what was the basis for you at this point, pressing again for nationalisation?

Mr. John Corrigan: Well again the, the discussion revolved around whether the bank, among other things, should be either nationalised or whether it should have ... the State should buy preference shares in the bank in the same manner as was being proposed in AIB and Bank of Ireland. We took the view that buying preference shares, depending upon the conditions of the preference shares, which would have to obviously be discussed, had potential, as I said in the written statement which I've submitted to the inquiry, for letting subordinated debt holders off the hook and that in itself was a compelling argument for nationalisation. And we repeated that view in a subsequent e-mail that we sent to the Department of Finance early the following week. But notwithstanding that view, as I said, the decision was taken. Now, we wouldn't have been party to the detailed discussions in the Department, presumably with the Minister and whoever else, in arriving at the decision to go the recapitalisation route, rather than the nationalisation route but our clear ... our views were very clear and we also, as I said, adduced that argument that it could have the potential to let the subordinated debt holders off the hook.

Senator Susan O'Keeffe: Now you, you recall that that meeting on the Saturday was a large meeting, there were a lot of people there-----

Mr. John Corrigan: Yes.

Senator Susan O'Keeffe: Were you the only people saying nationalise, or were others saying nationalise, or do you remember?

Mr. John Corrigan: I don't remember, certainly ... it was Merrill Lynch's view, to the best of my recall, that the nationalisation route, again, on the basis of the argument that the business model ... in drawing a line between Anglo Irish and the other banks, you could clearly make ... justify the distinction on the basis that they were ... they were essentially different business models. I don't recall whether there was support from the other people present.

Senator Susan O'Keeffe: The official statement that was put out by Government on 21 December, and it's in Vol. 1, page 45, of Mr. Corrigan's own book. It'll come up before you, Mr. Corrigan, and, basically, it said, "The Government will continue to reinforce the position of Anglo Irish Bank and will make further capital available if required so that it remains a sound and viable institution." What was your view of that part of ... it's obviously a longer statement and I've taken that sentence from it. What was your view of that particular sentence?

Mr. John Corrigan: Well, our view was that the business model was fatefully flawed so I clearly wouldn't subscribe to that view.

Senator Susan O'Keeffe: When, Mr. Corrigan, did you yourself come to the view that it was a broken model or a flawed model?

Mr. John Corrigan: It crystalised probably from 2007 onwards, starting with the issue of the placing of deposits which would have been, if you like, where our internal discussions would have kicked off in the context of our brief which was the management of the Exchequer balances. And then, as we got drawn into the controversy or the crisis in September 2008, which was when we attended the very first meeting with the Central Bank, I think it would have been around then that the view crystalised that it was a broken model. As I said, the collapse of

Northern Rock would have been strongly supported. Anecdotal evidence of what can happen in those circumstances.

Senator Susan O'Keeffe: Mr. Corrigan, when you heard about the blanket guarantee for all the banks - I appreciate you were not in the country at the time; you were in the States I believe - what was your response? What went through your head?

Mr. John Corrigan: I was certainly taken aback because I wasn't aware that the system, if you like, was that close to making such a big decision, but I wasn't there on the night and it's easy, or not easy as the case may be, to sit and second-guess. I mean, looking at it, you could take the view that it probably was the least bad solution. I don't know. I ... they could have nationalised Anglo Irish that night, or announced that it would be nationalised but I was a bit taken aback mainly because, as I said, I had been involved in some of the discussions the previous week, but not all of them, and I certainly hadn't got the impression that we were that close to making such a big call.

Senator Susan O'Keeffe: So in the conversations the previous week, I assume that was with officials from Central Bank, the regulator, the Department of Finance, if you like, the usual people that you'd been talking with. Was the conversation at that point centred on all options or had it centred on a particular option, do you remember?

Mr. John Corrigan: I think there was a meeting on the Wednesday of the previous week which the Taoiseach was at and the Minister for Finance and I was certainly at that meeting, and all the options were tabled at that meeting. And we would have indicated, to the best of my recollection, that we would have favoured the nationalisation route. Now, I was out on the Thursday and Friday. Again, I had no sense of ... I ... at the risk of delaying the committee, I was due to travel to Germany to meet my grandchildren on the Wednesday and I postponed my visit because of the meeting with the Taoiseach and I headed off on Thursday and I think I came back on Saturday and I went off to New York for a meeting in connection with the pension fund on Monday. So I had no sense of impending doom, if "doom" is the word that can be, sort of, attached to the, sort of, circumstances at the time.

Senator Susan O'Keeffe: Did you have a view on whether Anglo and INBS were solvent on the night, I mean, solvent at that time? I know you weren't there, but did you have a view on their solvency in those days, I suppose, leading up to that moment, given the conversations you'd had and the knowledge you had?

Mr. John Corrigan: Well, there was a huge debate or debates with the regulator at various meetings I was at from, you know, in September on whether the banks were solvent or not. Now, I'm not an accountant but he assured us that they were solvent. It seemed to me, as a non-accountant, that it was highly debatable as to whether they were solvent or not, on the basis of my understanding of the definition of "solvency" is an institution's ability to meet its obligations as they arise. And if you just take the snapshot of the night of the guarantee, but for the guarantee, presumably, Anglo wouldn't have been able to meet its obligations and, therefore, arguably, could have been regarded as being insolvent.

Senator Susan O'Keeffe: Mr. McDonagh talked about the ... when he engaged with meetings at that time, the lack of information or the lack of knowledge. And he then ... he put together this particular e-mail with the 33 questions that he says that he did on, I think he said, his BlackBerry when he went home and he copied ... he sent it to Kevin Cardiff, William Beausang, Oliver Whelan and you. And the questions are fairly straightforward questions, I think, and that's what he said himself, you know; what is the current value of the top 30 loans and so on? It's not really to go through the questions, but rather to ask do you recall getting this document? And again did you have a view? Were you surprised or not to find that these were the level of questions that were being asked at this point by your colleague? Did you expect that information would have been known? He certainly, I think, did.

Mr. John Corrigan: Well, I think that the content of that e-mail underline the point that Brendan McDonagh and I have made, or make, that there was a dearth of knowledge, of detailed knowledge around the institutions and one of the things - if I could just comment on it and I know you don't want to got through the questions individually - but again, as a non-accountant, one of the things that surprised me when I got involved in this controversy was this notion of rolled-up interest which features in the questions that he raised. And the rolled-up interest was part of the loan conditions made to certain debtors. And, by definition, with the interest being rolled up, the loans couldn't be in default because there was no interest payable. But what we found interesting, and again as a non-accountant I found extraordinary, was that the banks were accruing as income the interest in those rolled-up arrangements. So I remember when we did our due diligence on AIB, we asked them about the extent of the rolled-up interest because with the collapse in the property prices, it was obvious to us that rolled-up interest probably would never be collected, and yet for prior years those rolled-up interests had been treated as income and would have been reflected in the profits of the banks who clearly ... which clearly, therefore, with the benefit of hindsight, would presumably have been overstated. So I remember that was one of the issues that we focused on but I think it's the extent of the questions underlines, or punctuates, the lack of detailed knowledge, which is the point that I've already made.

Senator Susan O'Keeffe: And the matter of the rolled-up interest came as a surprise or a shock or not?

Mr. John Corrigan: Well, it came certainly as a surprise ... I would have had no reason because we weren't involved in the regulation of the banks but, you know, when we got involved in September 2008 this jumped out on us fairly quickly as a key issue and, arguably, it's something that the regulatory authorities should been more sensitive to.

Senator Susan O'Keeffe: On page 7 of your own statement, and I'm skipping to 2010, you talk about the meeting on 7 November when you say you discover that the question of burden-sharing had been rejected earlier that day by the G20 but that you hadn't been told about this. And you then wrote the following day ... I'm sorry, it's on page 173, I think, of Mr. Corrigan's book, the letter that he then subsequently wrote to Mr. Lenihan, the Minister for Finance, on 28 November, pointing out that you didn't know about this, and then giving your own concerns. Why ... why were you not told about that, do you know? And then, of course, if you could comment perhaps on the significance of that decision that was made by the G20 that you hadn't known about.

Mr. John Corrigan: I didn't know about it because we weren't told about it by the Department of Finance.

Senator Susan O'Keeffe: And I'm asking you do you know why you weren't told?

Mr. John Corrigan: I don't ... I don't.

Senator Susan O'Keeffe: Should you have been told?

Mr. John Corrigan: Absolutely. I mean, we were asked for our views by the Minister, which we gave in the detailed letter of 27 November. And a central plank to that letter was mitigating the cost to the State and increasing the chances of achieving that sustainability, which was very marginal in ... in our view, through burden-sharing, because this extra €35 billion which the troika insisted on, was a huge potential addition to the debt. So we weren't told about that. You'll have to ask the Department of Finance why they didn't tell us, but anyway we didn't know. I went along to the Government meeting and, as I have explained in my submission, I was told there by Minister Lenihan that the G20 had ruled that out. Why they ruled it out ... I gather it was a line, and I'm into hearsay, I don't know whether I'm ... or speculation, it was a line pressed by the American Treasury Secretary, who was worried about the systemic issues. Mind you, it seemed totally incoherent to us because if you go back to the statement made at Deauville by Chancellor Merkel and President Sarkozy, they were calling for the haircutting of sovereign bonds. And why would you haircut sovereign bonds, why would you not haircut the bonds which were the source ... at the source of the problem, i.e. the bonds issued by the challenged financial institutions? So it seemed to us in making that ... in making that submission, that it was certainly not inconsistent, or if you like, consistent with what ... what ... Merkel and Sarkozy had said at Deauville. And also, if I may, on page 95 of Vol. 2 of my green book there ... and I hadn't seen this 'til it was sent to me by the committee, if you look at the second paragraph there on page 95 of Vol. 2 of my green book, this is the IMF looking back on the experience of the programme, they say, "The second lesson is that it is unfair to impose the burden of supporting banks primarily on the domestic taxpayers while senior unguaranteed bank holders get paid". And then, in the last sentence in that paragraph, it says, "Eurozone partners precluded the Irish from imposing haircuts on senior creditors of insolvent banks."

Chairman: We'll conclude this now and you can move to a new line of questioning when you're wrapping up, Senator.

Senator Susan O'Keeffe: Yes.

Mr. John Corrigan: So, I suppose, sorry, Chair, the point I'm making is that the line that we took against the backdrop of the "Merkozy" ... the Merkel-Sarkozy call for haircutting of sovereign bonds ... and, certainly, looking at this comment, was a perfectly reasonable suggestion to make, I believe.

Chairman: Okay, thank you. Deputy McGrath.

Deputy Michael McGrath: Thank you very much, Chair. You're very welcome, Mr. Corrigan. Can I start by asking about the haircut on the acquisition of loans by NAMA from the participating institutions. It ended up around 57%. Can you comment on the level of discounts which were ultimately arrived at and the reasons why you believe those discounts were so high?

Mr. John Corrigan: Well, I was on the board of NAMA - I was an *ex officio* member - but I wasn't involved operationally in ... in NAMA. But the haircuts ... the haircuts would have arisen, to the best of my recollection now, and I'm struggling a little bit here, on the basis of the fall in the property values - the underlying property values - which would be an obvious consideration, but also the fact that, in a lot of cases, the supporting legal documentation was deficient. So that, in taking over the loans, the ability of NAMA to rely on the underlying collateral, on foot of legal enforcement, was undermined by ... in the absence of those documents.

Deputy Michael McGrath: Sure. I think it's generally accepted that the NAMA process over the course of 2010 took longer than expected, so to what extent were the delays in that process as a result of the, you know, incomplete security documentation, incomplete documentation generally, large collateral or differences in loan valuations? What type of difficulties did NAMA encounter when they went in and did the due diligence on a loan-by-loan basis? And did that feed into the overall delay in transferring the loans across?

Mr. John Corrigan: I'm sure it did feed into the overall delay, Deputy, but, frankly, as I wasn't involved in NAMA operationally, I wouldn't feel competent to comment in detail on your question.

Deputy Michael McGrath: Okay. Overall, you are the supportive of the establishment of NAMA, is that correct?

Mr. John Corrigan: Absolutely. I mean, I mentioned earlier that when we got the initial PwC reports, which were commissioned by the regulator, the extent of the system's ... the banking system's exposure to individual debtors became clear. In other words, that a debtor went along to Bank A and borrowed, went along to Bank B and borrowed, C, D, and E, and the NAMA process brought the resolution of the individual debtors together. Otherwise, if it was left to each individual bank to do it, I think we'd still be struggling.

Deputy Michael McGrath: So do you agree ... disagree with the views expressed by Dr. Somers last week, who seemed to take the view that the banks knew where the bodies were buried, as he put it, and that they were best placed to collect the loans and that while you might have an overarching structure of NAMA, with a small number of people in the NTMA, that the actual workout of the loans would be best left to the banks? You may not be familiar with his evidence but that's the broad thrust of it on NAMA.

Mr. John Corrigan: I don't think that was the solution. I don't think that was the solution and-----

Deputy Michael McGrath: Do you think the loan-by-loan acquisition was the way to go?

Mr. John Corrigan: I think there had to be a centralised approach to each debtor, otherwise each of the banks would be vying with each other to get in ... a piecemeal approach, I don't think, would have worked.

Deputy Michael McGrath: Okay. And then over the course of 2009 and 2010 when there were various rounds of bank recapitalisation, what was the nature of your discussions with Government and your advice to Government in relation to recapitalising the financial institutions?

Mr. John Corrigan: There were ... as I mentioned in my evidence, there were three rounds of recapitalisation. And in the first round, it was very much left up to the NTMA, on foot of a request from the Minister for Finance, to determine some estimate of the likely requirements of the banks for extra capital. And it was on foot of those discussions that the initial capital injections of €3.5 billion in Bank of Ireland and AIB arose. Then things assumed a more orthodox setting, if that's the right word, when, in 2010, the Central Bank did its PCAR. Because, as I said at the outset, the NTMA, in a formal legal sense, had no role in relation to the banking system but we did have substantial assets in the National Pensions Reserve Fund and, through the amendments in the legislation, the Minister took power to be able to direct the fund to invest. And the first investment was ... all three rounds of capitalisation, to the extent that the fund was involved, were done by way of direction from the Minister. But the first round of recapitalisation, the Central Bank really wasn't involved in it and maybe that in itself says something.

Deputy Michael McGrath: Senator O'Keeffe dealt fairly comprehensively with the issue of the view within the NTMA that it would have been better to nationalise Anglo even in September 2008. Was that the corporate view of the NTMA or was it just a view of individuals? Did you collectively arrive at a view which was then the NTMA view?

Mr. John Corrigan: I'm not sure if it was corporately the view in the sense that the management team would have discussed the nationalisation but, certainly, the directors who were directly involved, that's to say, Brendan McDonagh, myself, Oliver Whelan and the chief executive, would have been of the view that was probably the ... that was the best solution.

Deputy Michael McGrath: Okay. And then you said a while ago that it would be a matter of conjecture as to whether or not it would have made any difference to the ultimate outcome but can I ask your view? Would it have saved any money, for example, to nationalise Anglo in September 2008 as opposed to in January 2009, which is what subsequently happened? Would it have made any difference?

Mr. John Corrigan: I don't know.

Deputy Michael McGrath: Okay. I suppose the question is nationalise in September '08 and then do what? What would have followed that in your thinking? And your preference was to nationalise Anglo, but what were the next steps then that would have been taken?

Mr. John Corrigan: Well, the next step-----

Deputy Michael McGrath: I mean, the only way that money would be saved is if somebody didn't get paid - senior bondholders, depositors. How could some money have been saved?

Mr. John Corrigan: I don't know whether money would have been saved but it would have, as I said to Senator ... earlier, we would have got our hands around the throat of the problem much sooner and, clearly, there would have been changes at board level and management level, which is what arose in January.

Deputy Michael McGrath: Okay.

Mr. John Corrigan: But, I mean, operating in the dark is never a comfortable position and I think that's the situation in which we found ourselves.

Deputy Michael McGrath: Can I ask how it came about that the pension reserve fund, which had been built up over many years, was to be the source of recapitalisation for AIB and Bank of Ireland?

Mr. John Corrigan: Well, again, I would have chatted to Minister Lenihan about this and in the back of his head, he felt that that in recapitalising those two banks, there was a strong probability that the State would get its money back and while it wasn't a commercial investment which the board of the fund would make of its own accord, there was a strong prospect that we would get the money back and, therefore, he thought it was within the spirit, if you like, of the fund. Whereas in his mind in relation to the other institutions, I think he saw that the prospects-----

Deputy Michael McGrath: No return

Mr. John Corrigan: -----wouldn't come through, you know.

Deputy Michael McGrath: Can I take you to your own witness booklet, Vol. 2 and page ... start with 59, just to show the cover page, and this is the bail-in strategy with holders of senior and subordinated debt, an NTMA paper dated 28 March 2011. So this is when the new Government were preparing the announcement on the banking strategy and the issue of burning senior bondholders as well as junior bondholders resurfaced. So on page 62, if we can take us to page 62 of that. The NTMA is setting out a proposal for burden-sharing and, in total, the proposed burden-sharing is of the order of €15 billion but the proposed burden-sharing for senior bondholders is over €9 billion, €9.1 billion if you add all of those up, and the NTMA actually recommended that the Government would proceed with this burden-sharing. So, can you tell us the background to this, Mr. Corrigan. Were you asked to prepare this paper? You refer in your witness statement to commissioning a study. What assistance did the NTMA get in preparing this paper? And what is the origin of it?

Mr. John Corrigan: Well, I think, during his evidence, the former Secretary General, Cardiff, referred to the so-called "Johnny Logan" group, as he humorously put it, and this was where the domestic standing group was, if you like, decided to do an exercise on brainstorming to see to what extent the €35 billion, for example, by way of extra recapitalisation, which was earmarked in the programme, how we could mitigate some of the provisions in the programme. So, it was on foot of that we revisited the question of burden-sharing and I think it's fair to say that in the paper, we do say the haircuts are indicative only but, I mean, it was a strategy that we recommended, which was consistent with what we recommended back the previous November.

Deputy Michael McGrath: Sure.

Mr. John Corrigan: But that was the background to it. I mean, we were now in a programme. The Department was looking at various ideas of its own, none of which came to pass, but this was something concrete that we had-----

Deputy Michael McGrath: So can you explain how you arrived at a proposed haircut on senior bonds for AIB, EBS and Irish Life and Permanent of 60%; Bank of Ireland senior bonds, 45%; and then Anglo and Nationwide, 63%? How did you arrive at those figures?

Mr. John Corrigan: I can't remember. I mean ... they are for ... it does say in the paper they're for illustration but I parsed the same question myself when I read it but, to be frank with you, Deputy, I can't remember but I mean the figures are illustrative.

Deputy Michael McGrath: Well, it says they're indicative only and are subject to negotiations with creditors-----

Mr. John Corrigan: Yes.

Deputy Michael McGrath: -----but then at the end, there is a clear recommendation from the NTMA to proceed. Well, the recommendation is: "... subject to a view being taken by Government [on page 64 at the bottom] on the potential implications of an adverse reaction from the external authorities and the implementation of an appropriate legal framework, immediate steps should be taken following the announcement of the PCAR/PLAR results to enable burden sharing with both senior and subordinated debt." So you're not saying there that the Government should only do this if the external authorities endorse it; you're saying that the Government should take account of potential implications from an adverse reaction from the external authorities. So I suppose what I'm asking, Mr. Corrigan, was it the NTMA view, at the end of March 2011, that the Government should proceed with burning senior and junior bondholders?

Mr. John Corrigan: Yes.

Deputy Michael McGrath: Yes. And do you believe that the indicative figures there of burden-sharing to the tune of €9 billion with senior bondholders was a realistic proposition and that that could potentially have been achieved?

Mr. John Corrigan: It was very much, I suppose, an opening gambit because, presumably, if the Government decided to proceed with this, they would have opened discussions with the troika and, from a negotiating point of view, it would make more sense to pitch the figure high, if you could get them in to conceding the principle of burning of the bondholders but, as we all know, they wouldn't even concede on the principle, so the thing went no further.

Deputy Michael McGrath: And did the NTMA bring in some external assistance to help in the preparation of this? Can you recall who that was?

Mr. John Corrigan: Yes, we did, yes. We engaged Lazards.

Deputy Michael McGrath: Okay.

Mr. John Corrigan: Yes.

Deputy Michael McGrath: Okay. And the figures that are there for the haircut on junior bondholders, the total is about €5.7 billion. That largely subsequently did happen. I know the previous Government imposed about €10 billion of losses on junior bondholders, the current Government about €5 billion, so that would be out of the pool which is identified there, I would imagine. Is that correct?

Mr. John Corrigan: No, you're absolutely right and I did acknowledge in my submission that the liability management exercises did impose substantial losses on the junior bondholders and you're right that the €5 billion or so here was, in fact, realised subsequently. I mean, the key issue was around the senior bondholders and whether they should have been haircutted.

Deputy Michael McGrath: So what is your understanding as to the reason why the proposed imposition of losses of over €9 billion on senior bondholders did not happen at that time?

Mr. John Corrigan: Well, because the troika ... my understanding is the troika wouldn't countenance it. Again, I wasn't involved directly in the discussions but Minister Noonan would have been and it was a flat rejection by the troika.

Deputy Michael McGrath: And was it your view that because we were in the relatively early days of a three-year programme and the NTMA would not be borrowing on the sovereign bond markets that the impact of imposing losses, even on senior bondholders, while it might have an adverse effect on bond yields, didn't really matter because we weren't in the markets? Was that your view?

Mr. John Corrigan: Well, again, our anecdotal evidence was that a lot of the bonds, both junior and senior, had moved into the hands of hedge funds. And, you know, they're fairly tough nosed individuals and they are not the type of institutions that over the long term we would have relied on for funding. So upsetting hedge funds wasn't something that particularly worried us.

The other thing I should mention was that in internal simulations which we did within the NTMA around the debt sustainability it all ... it hinged to a ... there are three moving parts within that issue of whether the debt is sustainable. First, there is the nominal GDP growth rate, second, there is the average cost of funding the stock of that and, thirdly, there is the primary surplus that you have to run in order to sustain the debt. The growth rate ... there was a lot of uncertainty attaching to the growth rate if you back to 2011. We had come through the horrors and if, for example, you took the growth rate projected for Ireland by the ECB, you were looking at debt to GDP ratio rising to 160% according to our internal simulations. So the situation was far from clear and, indeed, one of the issues which I didn't mention in my submission was that the reduction in the interest rates by the external authorities was an important factor in actually bringing about the sustainability of the debt. That, coupled with the extension of the maturities. So, if you like, what appeared like a very challenging situation back in 2011; there were certain measures which eased the challenges.

Deputy Michael McGrath: But the NTMA view at that time in March '11 was that savings of in the order of €9 billion were possible in terms of senior bondholders across the different banking institutions?

Mr. John Corrigan: Well, certainly savings were possible-----

Deputy Michael McGrath: Okay.

Mr. John Corrigan: As of the €9 billion ... is illustrative. But, I mean, if you just take half of that, €4.5 billion, it is still an awful lot of money.

Deputy Michael McGrath: It's not insignificant.

Mr. John Corrigan: Yes.

Deputy Michael McGrath: Okay. Can I take you to again, your own booklet, Vol. 1, page 63, and this relates to an approach by the Libyan Investment Authority, no less, to the NTMA in November 2010 and they were proposing to make an investment in Bank of Ireland - proposing to take a 24% stake in terms of ordinary shares from the pension reserve fund and to invest €1 billion of the pension reserve fund shares in preference shares. Can you explain the background to this? What was the nature of this approach?

Mr. John Corrigan: Well, again, this was an approach made by the Libyan Investment Authority. The approach, as I recall it, was made in the first instance to Bank of Ireland who then approached us. And, around this time, there were a lot of approaches around different institutions. For example, there was a Malabraca Consortium, which was interested in Bank of Ireland and was also interested in EBS. This was at the early ... relatively early stages of the entry into the programme but before the entrance into the programme. We felt this was an issue worth pursuing.

Deputy Michael McGrath: Had the NTMA done business with Libya prior to this? Were you in business with them in terms of any investments or-----

Mr. John Corrigan: No, but the Libyan ... I know we can all look at this with the benefit of hindsight what's happened in Libya. But certainly, the Libyan Investment Authority were a very highly-regarded sovereign investment fund and had a very substantial diversified portfolio of investments globally. So again, to the best of my recollection, we would have checked with the Department of Foreign Affairs as to the appropriateness and ... of ... from a political point of view, if I can use that term, of engaging with the Libyans and they were comfortable for us to do so. In the event, the Libyans didn't ... they didn't pursue the negotiations and the reason they didn't pursue the negotiations is because they couldn't be comfortable around a third round of recapitalisation which might arise and they weren't prepared to write a blank cheque-----

Deputy Michael McGrath: Sure-----

Mr. John Corrigan: -----in terms of executing on a transaction in November 2010 in the ... based on the fact that they might have to come up with more money in 2011, which would have been case. So, from their point of view, it probably was a clever decision not to proceed with it.

Deputy Michael McGrath: And did the meeting happen in Tripoli in-----

Mr. John Corrigan: It did.

Deputy Michael McGrath: -----in December 2010?

Mr. John Corrigan: Yes.

Deputy Michael McGrath: A number of officials from the NTMA would have travelled out and met with-----

Mr. John Corrigan: Yes, yes.

Deputy Michael McGrath: Okay, and did it go any further beyond that then?

Mr. John Corrigan: No, it didn't. We spent a day with them but the whole discussion concentrated around a possible third round of recapitalisation and, as I said, in the event, it didn't proceed. They pulled out of it.

Deputy Michael McGrath: And the initial proposal seemed to be that they were prepared to make an investment of ... in the order of €1.4 billion. €1 billion in preference shares and to pay the market value of 24% of the ordinary shares in Bank of Ireland which were ... was about €400 million. And so Colonel Gaddafi didn't quite almost own a good share in Bank of Ireland, Mr. Corrigan? Not quite.

Can I take you to the shareholder management unit within the NTMA which was announced in February 2010 and was established by order in March 2010? So this was going to be a new banking unit as such within the NTMA. Can you clarify the role which was fulfilled at that time? And then you make reference to in August 2011 that the banking unit of the NTMA was seconded to the Department of Finance. So for a year and a half it remained within the NTMA building, is that the case?

Mr. John Corrigan: That's the case, yes. When the Minister made this delegation order, we built up a banking team and that banking team obviously dealt with the question of the recapitalisations and so on and so forth. And also, it dealt with certain operational issues which-----

Deputy Michael McGrath: Yes. So to what extent was there day-to-day contact between that team and the financial institutions? I mean, would the shareholder unit have been getting minutes from the banks, for example, on a-----

Mr. John Corrigan: Yes, yes.

Deputy Michael McGrath: And would they also have gone to the Department?

Mr. John Corrigan: I don't believe so. At the early stages, before the establishment of that unit, we ... the NTMA supplied a six-monthly report to the Minister on the banks. When the delegation order was made shortly after the making the delegation order, the ... those formal reports were discontinued. But we would have got the minutes of the various board meetings so-----

Deputy Michael McGrath: Sub-committees?

Mr. John Corrigan: Sub-committees, to the best of my recollection. And to the extent that there were, for want of a better term, red flag issues in those minutes or issues which would be a potential concern, we would have flagged those up to the Department.

Deputy Michael McGrath: Okay, finally, you made reference to the ECB grudgingly providing emergency liquidity assistance to the Irish banks in November 2010. Can you elaborate, what do you mean by that? The ECB was providing record levels of funding to the Irish banks as we know at that time. What was your reaction to the letter from Mr. Trichet of 19 November 2010 which essentially threatened that the ELA may not continue if the Government did not provide ... enter a programme?

Mr. John Corrigan: Well, I ... the ECB, while on the one hand they were clearly generous if that is the right word that you can use in terms of their support for the financial system to the extent of the amount of ELA and other assistance that they provided, it ... we pressed and we pressed at ... whenever we met the ECB and we pressed going into the programme in the pre-programme discussions that if Ireland signed up for this deal, that the ECB would come out with a statement which expressed support for the Irish banking system. My point is, while they signed the cheques, they never actually came out and said that they really stood behind the system. And again the difference between that and when the ... Mr. Draghi made the statement that they would do whatever was necessary, confidence is a huge issue in financial markets. It's not all about writing the cheque. It's about the tone, it's about the confidence and that lack of public support which they ... which they failed to provide-----

Deputy Michael McGrath: Yes?

Mr. John Corrigan: -----over the course of events was an issue.

Deputy Michael McGrath: So do you feel that if the ECB had taken a different approach November 2010 and had made a public statement of support for the Irish banking system, along with providing liquidity, that that would have been very helpful to our situation?

Mr. John Corrigan: Well I believe that in itself it probably would have actually helped them, because it probably would have reduced the amount of ELA that we would have required, because it would have ... it would have imbued a sense of public confidence in the system.

Deputy Michael McGrath: Thank you.

Chairman: Thank you. I propose to just deal with one question with you, Mr. Corrigan, and then we'll take a very, very short comfort break, and return maybe in about three or four minutes. So just one question, if I could maybe begin, and I just want to get ... it's at page 7 of your own witness statement there of this morning, Mr. Corrigan, and it's the first full paragraph actually on the page, where you refer to being "a member of the team of Irish officials who were directed by the Minister for Finance to enter into discussions with the EU Commission, [the] ECB and [the] IMF in mid-November 2010", later to become known as the troika. On the same theme as this, could I put it to you, and ask you, did the NTMA commission a subordinated liability study upon their own authority or was it upon the request of the Minister's instruction?

Mr. John Corrigan: Sorry, Chair, you'll have to-----

Chairman: In regard to the NTMA, the NTMA commissioned a subordinated liability study, and was that upon your own authority, did you ... and your own direction, or was it upon a request of the Minister's instruction?

Mr. John Corrigan: This is the study to which Deputy McGrath referred?

Chairman: Yes, yes.

Mr. John Corrigan: I believe it was on our own initiative that we did that.

Chairman: Okay. And who was appointed and what were the general terms of that appointment?

Mr. John Corrigan: Lazard, the French investment bank, were appointed, and I can't remember precisely what the fee was. I have a figure of €100,000 in my head, but I'd have to check on that.

Chairman: Okay. And was a proposal identifying the key savings to the State made available to the troika as part of that process?

Mr. John Corrigan: Sorry, Chair, what was the-----?

Chairman: I said was a proposal identifying the key savings to the State made available to the troika?

Mr. John Corrigan: No, this was a paper which-----

Chairman: Okay.

Mr. John Corrigan: -----we worked up with the help of Lazard, and we would have presented that to the ... to the incoming Government. I don't believe it was presented to the troika. They, they wouldn't countenance the idea of the senior bondholders being involved in a burden-sharing exercise.

Chairman: Okay.

Mr. John Corrigan: They, they didn't have an issue with the junior bondholders and, as Deputy McGrath pointed out, in fact the subsequent savings were of the order of €5 billion, as envisaged in this paper. But they had an issue of principle, and, as I said already, which issue of principle we couldn't understand, given the Deauville declaration, that, in fact, sovereign bondholders would be subject to burden-sharing.

Chairman: Can you clarify was there subordinated liability management legislation prepared in and around this time, or is there ... as a result of this?

Mr. John Corrigan: It would have been passed in late 2010-----

Chairman: Okay.

Mr. John Corrigan: -----would be my recollection. And it was used, I think, only once, but, again, I could be subject to correction. It was used in the case of AIB. It was .... where there was a subordinated liabilities order made in the courts in relation to certain AIB bonds, which had the effect of reducing the interest rate on those bonds and, again, my recollection is extending the maturities. But the ... the formal SLO process was not invoked in the case of Bank of Ireland, for example.

Chairman: Okay. Was it for AIB or Bank of Ireland in general that this legislation was prepared, or was it prepared in general on the basis that it would be enacted, and it would appear now that it was never going to happen?

Mr. John Corrigan: No, it was, it was prepared as a general measure. The SLO was applied to the junior debt-----

Chairman: Yes.

Mr. John Corrigan: -----in AIB, and so the force of law had to be applied in that case, and that resulted in, I think, an accretion of about €2 billion or so in capital to EIB, which ... to AIB, which otherwise would have to be provided by the State.

Chairman: Just on the general theme of the negotiations that you were involved with the EU Commission, the ECB and the IMF in mid-November 2010, if those discussions had been, let's say, scheduled to take place at a later time, they may not have commenced, let's say, 'til January or February of the following year, would the ... would there have been any significant or measurable change in the overall costs as to what the ultimate package was going to be?

Mr. John Corrigan: I ... I don't think so. The IMF costs are given. They're fairly formulaic and there's no scope to renegotiate. In fact, as the inquiry will be aware, we prepaid those in better times-----

Chairman: Yes.

Mr. John Corrigan: -----by raising money on the markets in ... towards the end of ... or early 2014. As regards the other, the EFSF and the EFSM, they were pricing those off the facilities that they had given to Greece. Initially the discussions were they were looking at giving us very short-term facilities when we engaged with them in November, and we persuaded them in those discussions that if we were to go for a programme, that they ... for any programme to be meaningful, they would have to look at maturities of the order of seven years or beyond. They did, they did go for the extended maturity but the initial interest rates were well over 5% and they were ... they were reduced, I think, during the course of ... in mid-July 2011.

Chairman: Okay, thank you. May I just propose that we take a very short break and try to return in and around 11.30 a.m., if possible? Is that agreed? Agreed.

In doing so, just to remind the witness that once he commences giving evidence to the inquiry he remains under oath, and is free to his own legal team if he wishes to speak to during that period of time. Okay? Thank you. So to resume in three or four minutes. Thank you.

Sitting suspended at 11.27 a.m. and resumed at 11.36 a.m.

Chairman: I now propose that we go back into public session. Is that agreed? Agreed. Our ... continue our engagement with Mr. Corrigan of today. If I can invite Deputy Eoghan Murphy please. Deputy, you have ten minutes.

Deputy Eoghan Murphy: Thank you, Chairman, and thank you, Mr. Corrigan. You're very welcome. I just wanted to pick up on some earlier questioning in relation to this meeting on 27 November at the end of the bailout negotiations and you're told that a formal bail-in will not be happening. Was it your understanding at the time that that would be pursued or could be pursued at a later date?

Mr. John Corrigan: The impression I had, Deputy, and this revelation took place at a full Government meeting, so the impression I had was that it was off the table, period.

Deputy Eoghan Murphy: Off the table, period.

Mr. John Corrigan: Yes.

Deputy Eoghan Murphy: Are you aware that it wasn't referred to in a memorandum of understanding in terms of the agreement, that it was either explicitly allowed or not allowed? Was that discussed?

Mr. John Corrigan: With the troika?

Deputy Eoghan Murphy: No, in the Government meeting where you were informed that the bail-in wouldn't be happening and it was the end of the negotiations

Mr. John Corrigan: Yes.

Deputy Eoghan Murphy: The memorandum of understanding was there for agreement but it didn't refer to bailing in or burden-sharing. It talked about subordinated debt but not senior debt. So was there any discussion about whether that was a possibility given that it wasn't actually in the memorandum that it wasn't explicitly allowed?

Mr. John Corrigan: No. I mean, I was called in and I was asked certain questions. And I mean, the type of questions, which aren't recalled in my submission, was what would be the likely effect on Ireland's standing in the capital markets of going into an arrangement with the IMF and I expressed the view that there was a strong probability that we would end up, for example, in sub-investment grade and that we would struggle to get back into the markets. There were, sort of, discussions of those nature but as to whether the question of burden-sharing with the senior bondholders could be re-entered, that didn't come up. I was just told it was off the table, period.

Deputy Eoghan Murphy: Off the table, period. So was there a point then subsequently that you were told it was back on the table?

Mr. John Corrigan: No, it was back on the table through the memorandum, which we discussed earlier, and the Lazard work because we brought it back on the table. Again, we would have had serious concerns about the sustainability of the debt and, certainly, in their private moments, when the troika on those rare occasions when they would have dropped their guard, they would have shared, to some extent, our concerns at that point in early 2011 around the sustainability of the debt.

Deputy Eoghan Murphy: One side of the troika or the troika? I mean, are we talking about the IMF when we talk about-----

Mr. John Corrigan: The-----

Deputy Eoghan Murphy: -----the dropping of the guard?

Mr. John Corrigan: The IMF, the Commission and, indeed, on one rare occasion, I got the sense from the senior representative from the ECB that he would have had concerns as well.

Deputy Eoghan Murphy: And then, following this, the NTMA put the burden-sharing back on the table by engaging a consultant to do up the report that we spoke about earlier, is that-----

Mr. John Corrigan: Well, again, as I said, we did various simulations internally. It's what you do. That's ... we were responsible for the management of the debt and a question is, is the debt sustainable? And we did a number of simulations based on different growth rates and, as I said earlier, if you took ... if you took the Department of Finance's growth rate, which, to be fair to the Department, their projections over the period of the programme more or less turned out to be the case. But at the most pessimistic end of the scale, was the ECB, which would have envisaged, to the best of my recollection now, a growth rate ... a GDP nominal growth rate of, I think, 2% less ... lower than the Department's. You were looking, in certain circumstances, at a debt-to-GDP ratio of 160%. Now, you've got to go back ... you're looking at this in late 2010, early 2011 and it behoved us ... if that was in the range of possibilities as we saw in our simulations, it behoved us to bring back the question of burden-sharing back onto the table.

Deputy Eoghan Murphy: And so then your fears over debt sustainability were abated then ... because if they weren't abated through burden-sharing, was it through the interest rate reduction? Is that how you then came to the view that this didn't need to be pursued any further?

Mr. John Corrigan: The debt sustainability threat, as we saw it, was eased over the period of the programme by three key concessions. The first one was in July 2011, when the interest rates were reduced by around 2%. The effect of those was to reduce the interest rate on the stock of debt, which is the key metric in terms of debt sustainability ... to reduce the interest rate on the stock of debt by about a half per cent. So that was a big ... a big concession in July 2011. And then, the extension of the maturities of the EFSF and the EFSM from ... and finally, the substitution of the floating rate Government bonds with maturities of out to 40 years for the IBRC promissory notes. So the combination of those, certainly, significantly helped on the debt sustainability question.

Deputy Eoghan Murphy: Okay. Thank you. I just want to go back to the recapitalisation, if I may, for a moment. And in your opening statement, you go through the different recapitalisations but you talk about, in 2009, this ... a further €1 billion in share capital in Anglo and that, "These investments were made in cash drawn from the exchequer and the NTMA was not involved in the execution of the transactions." So why was this one done? Why was it done without your involvement? Why was the cash drawn from the Exchequer and not what had been happening beforehand, which was preference shares or share capital?

Mr. John Corrigan: : Well, I think ... if you get back to my earlier comments, I think the Minister for Finance had it in the back his mind that while the investments in AIB and Bank of Ireland wouldn't be investments which the Pensions Reserve Fund Commission - which is the governing board of the pension fund - would make on commercial grounds. He felt, in the back of his mind, that, ultimately, we would get the money back and, therefore, it was appropriate to take those investments out of the NPRF. And it was through our management responsibility for the NPRF that I became involved in it, as I think I explained in my submission. At that time, I was the director responsible for the NPRF. So it was really through the NPRF - and it was around the investments that were coming out of the NPRF - that the NTMA became involved. Subsequently, that responsibility or, if you like ... responsibility is the wrong word, that involvement widened out. But the initial cash injection for Anglo came out of the Exchequer and that deal would have been closed on by the Department of Finance officials. We would not have been involved in it.

Deputy Eoghan Murphy: Okay. Can I just ask then, I mean, was there resistance to the NTMA's advice in Government circles during the period of the crisis? We've heard about, you know, exchanges you told us about earlier on in December when you were talking about the favouring of the nationalisation of Anglo. We heard it from Brendan McDonagh in terms of his exchanges with the Financial Regulator. The NTMA wasn't in the room on the night of the guarantee. You didn't agree with the press release about the recapitalisations of Anglo at the end of 2010. Was there resistance to the NTMA's advice ... were-----

Mr. John Corrigan: Sorry, just on the press release, Chair----

Deputy Eoghan Murphy: Yes.

Mr. John Corrigan: -----just to be clear on it, I commented on that with the benefit of hindsight. I was not given the opportunity at the time-----

Deputy Eoghan Murphy: Okay-----

Mr. John Corrigan: -----for my ... to contribute my ha'penny's worth.

Deputy Eoghan Murphy: Again, I might give you another example of the NTMA not being listened-----

Mr. John Corrigan: But coming back to your question, I ... we worked well with the Department but I felt, to give you my honest ha'penny's worth that we were unequal partners in the venture. That's probably the best way to put it. So, we were involved but we weren't always involved and, for example, the fact that the G20 statement - which was such an important edict - that that wasn't brought to our attention. Now, it may have been and probably was entirely accidental but I felt the partnership was somewhat unequal.

Deputy Eoghan Murphy: Why? Why was that allowed to develop?

Mr. John Corrigan: Well, I don't know. You'll have to ask the Department of Finance that. I mean, we complained about not being involved in certain meetings and-----

Deputy Eoghan Murphy: At what stage were you making these complaints about not being involved?

Mr. John Corrigan: Well, Rothschilds were brought in after Merrill Lynch. We had a competition for a banking adviser and Rothschild won that competition and there were occasions when the Department met Rothschild without us being present.

Deputy Eoghan Murphy: Okay. Were you aware of the domestic standing group's existence before you were asked to join it?

Mr. John Corrigan: Vaguely.

Deputy Eoghan Murphy: Vaguely.

Mr. John Corrigan: Vaguely.

Deputy Eoghan Murphy: And do you think it was a mistake that you weren't involved in the process regarding the crisis sooner ... earlier?

Mr. John Corrigan: Well, it might have been ... it would have been better if we were but, I mean, that was the Department's call and the Minister certainly expressed an expectation that we work closely with the Department and, certainly, for our part we did work closely and we did whatever was asked of us. But, I felt, somewhere in the back of my mind because of certain absences and omissions which we have identified - whether they were accidental or otherwise, I don't know - but that we were ... maybe the best and the kindest way of describing it is we were maybe not quite equal partners in the venture.

Deputy Eoghan Murphy: Okay. Thank you.

Chairman: Thank you very much, Deputy. Senator Michael D'Arcy.

Senator Michael D'Arcy: Mr. Corrigan, you are welcome. In page 96 of your core documents, Mr. Corrigan, the conclusion says the sale of Anglo and INBS deposit books in January '11 which the NTMA managed and chaired. And it states:

> [T]he deposits ... [sorry] the transfer of the deposits and NAMA bonds should proceed despite the operational risks involved ... The NTMA accepts that this approach is appropriate in the absence of agreement by the Troika to vary the commitment to this effect in the programme ... This is a risk but given the insistence of the Troika we appear to have no other option.

Can you comment upon the operational risks?

Mr. John Corrigan: I ... I have difficulty actually recalling the operational risks. But some of the ... some of the issues involved ... I looked back on papers which were given to me by the agency ... but, for example, and this surprised me when I looked back on it, in the case of the transfer of the deposits to Irish Life and Permanent, there were, for example, TUPE implications involved in that. So the thing was wider than just a simple financial transaction and again, I think, over 200 employees went to Irish Life and Permanent as a result of the transaction. So it was quite ... there were quite a number of strands to the transactions but, in the end, it was successfully executed on. There were ... it was an open tender. I think there were five bidders for one set of books and three bidders for the other. But it wasn't something ... a process, to be frank with you, Deputy, that I was directly involved in. We would have left it to the banking team.

Senator Michael D'Arcy: And what were the ramifications of non-completion with the troika?

Mr. John Corrigan: What were the ramifications of?

Senator Michael D'Arcy: Non-completion with the troika's views.

Mr. John Corrigan: Well, this was one of the ... I mean, one of the main pillars of the troika programme was the downsizing and reorganising of the banking sector, and the Anglo Irish-INBS restructuring plan was a key part of that. So it was one of the key metrics. I mean, we had the Governor of the Central Bank, the Secretary General of the Department of Finance and myself would have had weekly telephone calls with the troika after we entered into the programme, so close was the degree of their monitoring on what we were doing, so this would have been an item that would have been ... would have featured at the time on the ... on the weekly telephone calls. I mean, frankly, we just got on and did it. There were dangerous risks recognised in the ... in the memo for Government. What the consequences would have been, it clearly would have set back the programme somewhat but, what the consequences would have been beyond that, I don't know.

Senator Michael D'Arcy: Can I ask you, Mr. Corrigan, in terms of NAMA, the €42 billion discount, haircut, how much of that will the State get back?

Mr. John Corrigan: I, I-----

Senator Michael D'Arcy: Did you hear NAMA is going to make a profit of a billion? But that's on the 31-point-----

Mr. John Corrigan: Well, that's what NAMA had said, so I've ... I was-----

Senator Michael D'Arcy: Well, if they do that they make a profit on that money. But there was a €42 billion discount. Will they get any of that back?

Mr. John Corrigan: Well, if that's all NAMA recovered the rest must be written off. That's the way I would see it, if my understanding is correctly.

Senator Michael D'Arcy: And that writing off is for the people who received the loans from the institutions, is that correct? Who is it written off on behalf of?

Mr. John Corrigan: Well, I mean, it's a ... it's ... the loans were ... were taken over by NAMA, they were taken over at a discount. That discount gave rise to losses in the banks; those losses in the banks gave rise to a need for recapitalisation; that recapitalisation was made good by the State. So in the case of AIB and Bank of Ireland, I think there is a reasonable expectation, which I would share, that the State will see most, if not all ... and it has, in fact, already in the case of Bank of Ireland and I would expect, with astute timing, it will get its money back in the case of, of AIB. Clearly, in the case of Anglo Irish, the money is lost to the taxpayer.

Senator Michael D'Arcy: Can I ask you, Mr. Corrigan, in your view did the bank guarantee lead to the national bailout?

Mr. John Corrigan: I mean, despite what ... despite what has been said about us being bounced into the bailout, and I actually ... I have no information on ... on that, but I noted it was given here in evidence. I think that we were probably heading for a bailout anyway. I mean, we had a massive property bubble which collapsed, and the consequences of those had to be faced and we'd no access to the capital markets post-September 2010, and the only show in town was the IMF-EU programme.

Senator Michael D'Arcy: In your view was Anglo Irish Bank a systemic bank within the Irish banking sector?

Mr. John Corrigan: The regulator was of the view that it was. I-----

Senator Michael D'Arcy: In your view?

Mr. John Corrigan: I ... again, it's not a particularly informed view but, based on my views around the business model, and so on and so forth, and it being sort of offline, I don't think it was of ... I don't ... I would question whether it was of systemic importance.

Senator Michael D'Arcy: Could Anglo Irish Bank have been excluded from the Government guarantee on the night of the guarantee in question?

Mr. John Corrigan: Well, I don't think you could have just - again, my view - just excluded it, but you would have had to take alternative measures, and the alternative measure, as suggested by Merrill Lynch, I believe, at the time, was to take it into State control. That ... that probably was the only realistic alternative.

Senator Michael D'Arcy: Mr. Cowen, former Taoiseach, stated that his preference was against nationalisation because that guaranteed all the losses in perpetuity for the State, rather than a time-limited guarantee. Can I ask your view about that?

Mr. John Corrigan: Well, I would take the view that just because something is nationalised doesn't necessarily mean the State is on the line for it. I don't think that absolutely follows.

Senator Michael D'Arcy: Was there a possibility that the bank could have been liquidated sooner?

Mr. John Corrigan: It would have been very difficult, I think, to liquidate it. I mean, that was one of the options. I mean, the whole system was very fragile, and I think some sort of precipitated liquidation at that time probably would have had hugely damaging effects for the wider system. So I don't think liquidation was a possibility. But again, I ... I'm giving you my views. I hadn't the benefit of all the discussions that took place that weekend, and on 29 and 30 September.

Senator Michael D'Arcy: You're probably fortunate you didn't have the benefit. There was a deep dive into the banks, that was a term that you used, subsequently to all the financial institutions by PwC. They subsequently reported to the Minister that the banks were solvent. Could I ask your view about that analysis by PwC? That's Project Atlas, where they took most of the valuations from the banks. Was that a worthwhile exercise?

Mr. John Corrigan: Well, it certainly was a worthwhile exercise in that it exposed the extent to which, for example, as I mentioned earlier, various developers were multi-banked, and it exposed the concentration of the system in various developers, which information the regulator didn't seem to have up until that. As to their conclusion that the banks were solvent, they ... this was, you know, as I said, trying to address this issue over the three or four years was like trying to catch a falling knife, which isn't ... which is a very dangerous exercise, so they ... I wouldn't question their judgment that at the point in time when they reported that it was their professional judgment that they were solvent. But clearly the property values continued to fall and the whole funding regime continued to come under more strain, so while they probably were solvent at that point in time, clearly the situation deteriorated rapidly.

Senator Michael D'Arcy: Former Taoiseach Brian Cowen in previous evidence stated that the NTMA position on the night ... on the night of the guarantee was ... was clearly stated. Are you aware that that was the case? And then my final question, were you one of the people who ... it's been - again in previous evidence - it's been stated that representatives from the IMF and the Irish delegations did not believe that the national bailout was sustainable and it would not work. The first question was, the NTMA position clearly stated; are you aware if it was clearly stated? And then the unsustainable ... unsustainability of the national bailout?

Mr. John Corrigan: Well, I can't comment on the first one, Senator, because I ... I wasn't there. I ... if the Taoiseach says the position of the NTMA was represented, well then I take that to be the case, but I can't confirm it to you, which is the question you're asking me. On the second question, we had doubts about the sustainability of the debt under the programme. But, again, the programme was the only show in town. It was ... it was borderline, in our view, but, again, we recommended it on the basis that it was worthwhile going for. But, as I said to Deputy Murphy, then the subsequent concessions made in the form of the interest reductions and so on and so forth copperfastened the sustainability. But absent those, we could be having a different discussion today, I don't know.

Chairman: Thank you very much. Deputy Joe Higgins please. Ten minutes, Deputy.

Deputy Joe Higgins: Thank you, Chair. Mr. Corrigan. Could we put up the Corrigan core document, first one there, please, 002? I've given a note to the ... Mr. Corrigan, this ... just, I want to draw your attention this, its page 118 in the document you have in front of you, Vol. 1, and its up on the screen as well, the last two paragraphs on that page please. If you can scroll her up ... yes. Little bit more please, yes, thank you, that's it. This relates to post-nationalisation of Anglo and the transfer of deposits, etc., to Allied Irish Bank and then from Irish Nationwide Building Society to Irish Life and Permanent. And as you see there to ... that AIB received €8.6 billion in Anglo deposits, purchased senior NAMA bonds with a nominal value of approximately €12.2 billion, and "AIB has also made a cash payment of €3.5 billion". And then, Irish Life and Permanent received INBS deposits of over €3.6 billion, "purchased Senior NAMA bonds and other bonds with a nominal value of €3.7 billion in addition to share ownership of INBS' Isle of Man subsidiary". IL and P also made a cash payment of €2.3 million. In so far as you can, Mr. Corrigan, recall that those procedures which, were carried under the Credit Institutions (Stabilisation) Act, could you just give us a picture of the type of sale process that was involved here, how it was approached, the bids that were received, the evaluation that was carried out and then the completion of the transactions, the deposit transfers, etc.?

Mr. John Corrigan: I believe it was an auction process, Deputy, and in the, the NAMA bonds, the bidders were required, again to the best of my recollection, to bid 98.5% for the NAMA bonds because that was the rate at which they were then being discounted by the European Central Bank as collateral for liquidity. There were five institutions bid in one case, and three institutions bid in the other and the AIB was ... won the competition for the Anglo deposits and IL and P for the INBS. I think in the case of the INBS, I think there were five bidders and I think in the case of Anglo there were three but I'm not entirely sure. But, as I said to ... in response to a previous question, I wasn't intimately involved, but, I mean, there was ... it would have been a tender competition that was run internally and would have been overseen by an internal panel within the NTMA with appropriate external input.

Deputy Joe Higgins: And just in general, I understand what you said, what criteria would have been uppermost in the minds of those making the decision on who to give this ... these contracts to?

Mr. John Corrigan: The terms of the contract of the tender were set out clearly in a document and I suppose the main condition would have been, or the main consideration would have been the unconditionality of the bids. Some bids were submitted, again just looking back on it, which were conditional, which meant that they were sort of tails hanging out of it and it wouldn't have been a clean transfer. So the main thing was to get a tender proposal that conformed with the tender as laid down at the outset of the competition and that was the main criteria.

Deputy Joe Higgins: Mr. Corrigan, can you throw any light on this for me? In the Allied Irish Bank annual report 2011, they give on page 297 of that report - you don't need to have it

- an account of the transfer of business from Anglo Irish Bank Corporation and then at the end of the explanation they say a net capital contribution of €1.5 billion was generated on the date of the transaction. Can you explain what that means?

Mr. John Corrigan: No, I don't-----

Deputy Joe Higgins: Does that mean a €1.5 billion gain for Allied Irish Banks on this transaction?

Mr. John Corrigan: It meant a ... that's apparently what it meant. I don't have the benefit-----

Chairman: Have you had that document, Mr. Corrigan, no?

Mr. John Corrigan: No.

Chairman: Okay.

Deputy Joe Higgins: Okay. You can't throw any light on it. I appreciate you haven't the document-----

Mr. John Corrigan: I'm speculating now. If, for example, AIB had a different basis for valuing the NAMA bonds, for example, the competition required that they be tendered for at 98.5%, if AIB had them in their books, for example, at 100%, and I'm just speculating as to how it could give rise to a capital accretion, that would give rise to a capital accretion.

Deputy Joe Higgins: Yes, I think it did arise as a result of an ECB method of evaluating being different to AIB's method, so-----

Mr. John Corrigan: I haven't had the benefit-----

Deputy Joe Higgins: Okay, thank you. Just to move, Mr. Corrigan, if I could have the letter NTMA 002501, and this is a letter, Mr. Corrigan, that you wrote to the Minister, Brian Lenihan, on 27 November 2010, and if we can go to the second page of that letter please, it's .... yes. And you're very concerned here ... you're ... the letter is talking about a €35 billion requirement. Now, Deputy McGrath has covered some of this territory, I just really want to revisit for a little while. So, you ... €35 billion necessary for bank recapitalisation and you're extremely concerned about the effect of this on the national debt, etc. And then, you are recommending in the paragraph, "The NTMA recommends that all possible avenues towards mitigating the extra burden be pursued." You mention there the €12 billion, subordinated debt and the €20 billion in senior unguaranteed debt on the balance sheets. And then you want, or suggest, "An aggressive liability management exercise / resolution regime has the potential to significantly reduce the extra burden." At that stage in November, how much did you think could have been shaved off the burden that came onto the state and the taxpayers?

Mr. John Corrigan: I ... I don't know that we had a specific figure in our mind, but I mean the €35 billion that the troika had identified, that has to be seen in the important context of one of the objectives of the programme was to reduce the ... the loans-to-deposit ratios in the banks from something like - some of them were as high as 160% - to around 120%. Now that involved ... would have involved and did involve, the bank ... the banks selling assets. And it seemed to us at the time, and it was a big concern in the discussions with the troika, that there would be a fire sale of those assets because they were very gung-ho on getting the figure down to this figure of around 120%. And of course, that fire sale in itself would have given rise for more capital. So, we had a real concern that the €35 billion would be required. And it would've ... it ran the risk of ... in the event, the figure crystalised out at €24 billion and then allowing for liability management exercises and private sector capital injection into Bank of Ireland, the actual figure I think ended up around €17 billion.

Deputy Joe Higgins: Last question, then, Mr. Corrigan, is this. You were close to the National Pensions Reserve Fund for a long period of your working life and the legislation in 2009 was changed allowing the Government to direct funds to Bank of Ireland and Allied Irish Bank. You mentioned this in your statement, €7 billion. Can I ask you, you had been in charge, you had been seeing how these funds had been managed on behalf of the Irish people, what was your feeling about this particular change and to see this kind of money from the pension fund going into the banks, at the time?

Mr. John Corrigan: It was a bit like a death in the family, to be frank with you. We had built up a management team who had done a very good job. The performance of the fund was considerably ahead, over its lifetime, of the private sector analogues and ... but, I mean, we're subject to public policy direction but it certainly felt like a death in the family at the time.

Deputy Joe Higgins: Well, if it continued to be invested as you had been doing, would the returns have been much bigger than the banks would give in those circumstances?

Mr. John Corrigan: I believe so because at the time we consulted with some of our investment managers. We outsourced the management of European equities to some London houses, for example, and we asked them for their views on whether, for example, they would buy shares in the Irish banks at that point in time and the ... for all sorts of reasons, which are now obvious, they said that they wouldn't. So if it had been invested conventionally in the markets, the return, I believe, would have exceeded the return earned to date ... so far.

Deputy Joe Higgins: Should a notional figure like that be put into the ... when we come to the final balance of what was lost and what was gained in this whole scenario of guarantee, bailout, etc.?

Mr. John Corrigan: Well, that's not an unreasonable way of looking at ... looking at the opportunity cost but, I mean, that's a matter for the policy makers to decide but I ... I ... it's ... it's ... I ... it's not an unreasonable way to look at it.

Deputy Joe Higgins: Thank you, Mr. Corrigan.

Chairman: Okay, can I just stay with that theme there, Mr. Corrigan, as we, kind of, move towards the wrap-up and ask you did the National Treatment Purchase ... sorry, the National Pension Reserve Fund Commission or ... review did it ... did they review their discretionary investment strategy in light of the directed portfolio instruction and was there any risk ... or any risk review taken of the overall portfolio, given that the concentration risk of 60% of total funds invested were now invested into Irish banks?

Mr. John Corrigan: Well, as I said in my written statement, Chairman, the board of the fund ... the National Pensions Reserve Fund Commission took the view - rightly, in my view - that the directed investments ... that they were not accountable for them. So when they reported on the performance of the fund, they reported two performance figures, one for what they called the discretionary portfolio, that which over they had control, and the other being the directed portfolio. I think one of the consequences of the direction was that the ... certain shares had to be sold off, certain bonds had to be sold off and the portfolio that was left under the management of the National Pensions Reserve Fund Commission had to be rebalanced back to what we considered a prudent, diversified, investment portfolio. So, again, there would have been costs involved in that rebalancing but they clearly delineated between, as I said, the discretionary portfolio and the directed portfolio.

Chairman: But, in the overall scheme of things, was there any discussion regarding the appropriateness of the National Pension Reserve Fund being used for such a purpose?

Mr. John Corrigan: No, the board of the fund ... the National Pensions Reserve Fund Commission was ... acted in accordance with the legislation. Their mandate was defined to seek the optimal financial return on their investments, provided they were happy with the level of risk. So when this policy decision was made by the Government and the legislation was changed, that was not something that they expressed an opinion on. They were policy takers, not policy makers.

Chairman: Okay. So on the position of risk and return, which are two significant factors in any level of investment, are you saying that having 60% of total funds invested in two Irish banks that that was considered good risk and good return?

Mr. John Corrigan: Sorry, Chairman?

Chairman: I'm saying to you, having 60% of the portfolio invested in two Irish banks, in terms of risk and return, would ... was that considered a good risk and a good return by the National Pension Reserve Fund and the NTMA?

Mr. John Corrigan: No, because if the investment decision had been left to the National Pensions Reserve Fund Commission, it would never have happened because they ... they couldn't see such an investment decision being justified on commercial grounds. That's why there was a need to change the law and have a public policy direction.

Chairman: Okay, thank you. Just a final question. One of the key requirements was your ability to fully inform potential investors regarding progress in consolidating public finances, recapitalising and restructuring the banks and regaining competitiveness. You also referenced a statement by the ECB President that the ECB was prepared to do whatever it takes to save the euro. So, Mr. Corrigan, can I ask you, can you outline the source and flow of information from the Department of Finance and the Central Bank of Ireland and can you please outline what form this took and how effective it was for your needs?

Mr. John Corrigan: Well, we, at the outset of the crisis, reinforced the small economic team that we had in the NTMA and, certainly, they were happy with the flow of information they got from the Department and from the bank. They developed what's known in the trade as quite a sophisticated pitch book, which is actually up on the NTMA website, and to the extent that they wanted information re-presented or reconfigured in a certain way for, if you like, marketing purposes, certainly, the bank and the Department were extremely helpful in that respect.

Chairman: Okay, thank you. We'll move to wrapping things up, so. Senator O'Keeffe.

Senator Susan O'Keeffe: Thank you, Chair. Mr. Corrigan, were you ... did Indecon or Alan Gray consult the National Treasury Management Agency when it was preparing its advice or its opinion for Government?

Mr. John Corrigan: No, I don't believe we'd any contact with Indecon. I don't believe so.

Senator Susan O'Keeffe: Were you ever made aware of the correspondence that they shared with the Minister or with the Taoiseach?

Mr. John Corrigan: No.

Senator Susan O'Keeffe: No. Were you aware of any of the e-mails that were going over and back on the night of the guarantee? Were you either made aware of them at the time or subsequently? By that, I mean between Merrill Lynch and Mr. McDonagh.

Mr. John Corrigan: Yes, I ... I was aware of them and I would have seen them probably subsequent to the night of the 29th-30th, but I was certainly fully in the frame on them, yes.

Senator Susan O'Keeffe: Were you surprised or otherwise, or not, that the NTMA did not have an opportunity to be in the meeting on the night of the guarantee?

Mr. John Corrigan: I was surprised. I was surprised and ... but ... that's ... I can't ... can't say much more than that.

Senator Susan O'Keeffe: Okay. I mean, you talked a little bit about that idea of being less than equal partners and your former colleague, Mr. Somers, referred to it as an inner circle and when asked what meant he said ... in evidence, he talked about the Central Bank, the Department of Finance and sometimes the regulator and that, if you like, the NTMA was outside that, and you've talked about a less than equal partnership. So did that extend to Ministers ... either of the Ministers for Finance and your relationship ... the NTMA's relationship with the Ministers and then, particularly in relation to the pressure that you came under to ... first of all, to direct the deposits to be put and then for those deposits potentially to be increased, which I know they weren't, but can you just describe that relationship?

Mr. John Corrigan: Well, I mean, I've said what I've said about it being an uneven partnership and I think that's ... that's the way I would prefer to characterise it. In terms of access to the Minister, Minister Lenihan would have been the main player, obviously, and we ... I had good access to the Minister. The question of Trichet's letter was mentioned earlier and I don't think, actually, I responded to the question at the time, but we weren't shown Trichet's letter at the time. Again, just to ... just to, sort of ... I'm not into spinning any conspiracy theories but to underline the comment about the uneven nature of the ... the unequal nature of the partnership. So the officials, I think, like to think of the NTMA as providing technical advice. That was a word that they frequently used. I think the political expectation was for a lot more than that and, as I said, in the conclusions of my statement, I think we did whatever was asked of us. But at times we probably could have been brought more fully into the picture.

Senator Susan O'Keeffe: I have one final question. On page 4 you say ... you talk about AIB and it "stuck to its view that its problem was no bigger than [that] of Bank of Ireland". How did they express that view and why did they express that view?

Mr. John Corrigan: Well, there was extreme push back from the two banks at the outset of these discussions, which was the first round of recapitalisation negotiations. They felt ... and it's a question that I've asked myself repeatedly over the years, were they misguided or were they being willful in some form or fashion? I don't know the answer to that but certainly they resisted the notion of recapitalisation.

Chairman: Now, Senator-----

Mr. John Corrigan: And, sorry, if I could just comment in relation to the establishment of NAMA, what that would lead you to conclude is that they would have engaged in a slow bicycle race in order to preserve capital and we'd still be looking at the land and development loans today but for the establishment of NAMA.

Senator Susan O'Keeffe: Were you surprised to finally ... I mean, again, what was your view when you saw this push back because, obviously, you were trying to move things on and-----

Mr. John Corrigan: Well, I was quite astounded and I remember at the time making certain unrepeatable comments to Minister Lenihan about the behaviour of the banks.

Senator Susan O'Keeffe: And what was the Minister's response?

Mr. John Corrigan: He agreed with me but his officials probably thought I was being a little bit too gung-ho.

Chairman: Okay, thank you. Deputy McGrath.

Deputy Michael McGrath: Thanks, Chair. Mr. Corrigan, a number of differences have emerged between the NTMA's position on some issues and the Department's and Senator O'Keeffe went through some of those there - the nationalisation of Anglo, your view that AIB would need more capital than Bank of Ireland, the issue of placing deposits in the banks. So can I ask: do you believe that the NTMA was sufficiently listened to by the Department on all of these issues? Did the NTMA provide their written rationale to the Minister? And was it common or normal practice for the advice of the NTMA on some issues not to be reflected in the actual decision?

Mr. John Corrigan: Well, I mean, it was all part of the cut and thrust at the time and, you know, you've said that there were certain differences, and you're right, have emerged between ourselves and the Department. I don't necessarily believe that the emergence of differences was unhealthy. I mean, at the end of the day, the Minister is the decision maker at the Government and at the end of the day, while we had access to the Minister, it would be the natural inclination of a Minister, I would suggest, to listen maybe a little bit more closely to his officials.

Deputy Michael McGrath: You referred earlier to the NTMA's view that there was a need for what you called a "deep dive" into the banks to examine their underlying health and that happened first in September 2008 when PwC were appointed but when did the NTMA first start saying this, first start asking or suggesting that, look, we need to go in here and do a due diligence on the banks to see-----

Mr. John Corrigan: In September 2008. I believe it was a direct result of our intervention. I went to a meeting in the Central Bank in early September 2008 and it was clear that the bank didn't have the depth of information that one would have expected it to have and as a consequence of that, the "deep dive", as you describe it, was done.

Deputy Michael McGrath: But the NTMA wasn't suggesting that at a much earlier point. And I'm not saying it was your role to do so but in the spring and summer 2008-----

Mr. John Corrigan: The first meeting we were at collectively with the bank, the regulator and the Department was in September 2008. I came back from my holidays-----

Deputy Michael McGrath: The NTMA was at no earlier meeting of the domestic standing group?

Mr. John Corrigan: The meeting in September ‘08 wasn’t a meeting of the domestic standing group-----

Deputy Michael McGrath: Right.

Mr. John Corrigan: -----the meeting in September ‘08 was a crisis meeting-----

Deputy Michael McGrath: A crisis meeting.

Mr. John Corrigan: -----held down at the Central Bank, where there would have been maybe 15 or 20 people present at the meeting.

Deputy Michael McGrath: Okay. But just to be clear the domestic standing group from 2007 onwards had been looking at bank liquidity, had been looking at a scoping paper on different scenarios of banks failing, insolvent banks, etc., and the NTMA were present at those meetings. Is that not the case?

Mr. John Corrigan: We were and we relied heavily on what the regulator and the Central Bank told us. It was only when we went to this plenary meeting in early September ‘08 and ... we asked very detailed questions at that and it only became apparent at that stage that the insights were pretty skin deep.

Deputy Michael McGrath: On 25 September 2008 - and I don’t believe this minute is in your core booklet, so if you don’t recall it, then, obviously, you can’t answer - but it was one of these crisis meetings and the CEO of the NTMA, Dr. Somers, was present, you were present along with PwC, Merrill Lynch, the Financial Regulator, the AG, the Taoiseach, Arthur Cox and there was a reference in that paper to “D Doyle noted that Government would need a good idea of the potential loss exposures within Anglo and INBS - on some assumptions INBS could be 2bn after capital [...] Anglo could be 8½ [billion].” Mr. Neary said, “there is no evidence to suggest Anglo is insolvent on a going concern basis ... He felt INBS was in a similar situation.” Do you recall that meeting and do you recall if the NTMA challenged that assertion that the banks were solvent, including Anglo and INBS, at that time and it was simply a liquidity issue?

Mr. John Corrigan: I don’t recall whether we challenged it but, certainly, the question of Anglo’s nationalisation would have surfaced at that meeting. Again, on the basis that we needed to get our hands around the throat of the problem. Whether the outcome, as I’ve said already, would have been any different, I don’t know.

Deputy Michael McGrath: Very finally, the Deauville declaration - you made reference to it in your witness statement - of October 2010. Given Ireland had been borrowing on the markets up to the early part of September 2010 at reasonable rates, 4% to 5%, what impact did the Deauville declaration have when this issue of burden-sharing was floated, what impact did that have on Irish yields and-----

Mr. John Corrigan: Irish yields rose to over 7% at that time.

Deputy Michael McGrath: Directly as a result?

Mr. John Corrigan: Directly as a result. Absolutely no doubt about it.

Deputy Michael McGrath: So did it contribute to what happened subsequently in November or was that inevitable anyway, entering into a programme. What role did it play, if any?

Mr. John Corrigan: It probably was inevitable because we had cancelled the October and November 2010 auctions in a statement at the end of September but when we cancelled them, we did or the Minister indicated that they would be resumed in January, or whatever, that's my recall. But whatever chance we had of resuming and I'm not sure we had a chance anyway-----

Deputy Michael McGrath: Okay.

Mr. John Corrigan: -----but the final nail was put in the coffin by the Deauville statement.

Deputy Michael McGrath: And before the formal negotiations begun into the programme, the Government were saying, you know, we're funded up to the middle of next year, up to mid-2011, so there's no urgency around all of this. Like, what would the NTMA's recommendation be as to how far ahead a country should be funded? How much cash, how much reserves would you have for the ongoing running of a country in the kitty?

Mr. John Corrigan: Well, in ... it's a very good question, Deputy. In normal times, probably up to six months. In more strained times, like in 2013 when we were coming out of the programme, we had to have 12 to 15 months visibility. So it's a bit of a moveable feast but it ... certainly when we had to cancel options, which was totally unprecedented, even if you had six months' funding ahead, you couldn't see beyond that and the clock runs fairly quickly in those circumstances.

Deputy Michael McGrath: Okay, thank you.

Chairman: Thank you very much. I think the NTMA's position on NAMA has been covered but maybe if we could just revisit one aspect of it with you, Mr. Corrigan, before we close and just comment upon the assessment and reaction by the NTMA to Dr. Bacon's proposal in general?

Mr. John Corrigan: Well, Dr. Bacon was commissioned by the Minister to look at this question and the NTMA was broadly supportive of the NAMA proposal, as you heard from my former colleague, Dr. Somers. He subsequently felt that a slightly more ... a slightly different approach to how NAMA would do its business might be adopted. I'd have to say that because people were multi-banked, it was a key to NAMA's success that the process be centralised. That would have been my view at the time, and is still my view.

Chairman: Was multi-banked that big lenders had loans from various institutions, cross-securitised and so forth, yes?

Mr. John Corrigan: Yes, yes. So that to resolve those by each institution taking its own approach, I think would have been a much lengthier process.

Chairman: Okay, thank you. With that said, I would like to bring matters to a conclusion, is there anything you'd like to add by means of a closing comment or statement or remark, Mr. Corrigan?

Mr. John Corrigan: No. Thank you, Chairman, for your courtesy.

Chairman: Okay thank you. So with that said, I'd like to thank Mr. Corrigan for his participation here today and his engagement with the inquiry. I now propose to formally ... that the witness will be formally excused. I propose that we briefly suspend when Mr. Corrigan is absented from the room, just to return for a private session with the committee then afterwards. So, Mr. Corrigan, thank you very much for your engagement and you're now excused.

The joint committee went into private session at 12.31 p.m. and resumed in public session at 1.11 p.m.

Irish Banking Federation - Mr. Pat Farrell

Chairman: We will now go back into public session. Is that agreed? Agreed. Okay. We will now commence on with our session of today with Mr. Pat Farrell, former CEO of the Irish Banking Federation. The Committee of Inquiry into the Banking Crisis is now resuming in public session. Can I ask members and those in the public Gallery to ensure that their mobile devices are switched off? At our next session, we will hear from Mr. Pat Farrell, former CEO of the Irish Banking Federation. Pat Farrell was CEO of the Irish Banking Federation and the Federation of International Banks in Ireland from January 2004 to June 2013. He is currently head of group communications and government affairs at Bank of Ireland. Mr. Farrell, you are very welcome before the committee this afternoon.

Before hearing from the witness, I wish to advise the witness that by virtue of section 17(2)(*l*) of the Defamation Act 2009, witnesses are protected by absolute privilege in respect of their evidence to this committee. If you are directed by the Chairman to cease giving evidence in relation to a particular matter and you continue to 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. Therefore, the utmost caution should be taken not to prejudice those proceedings. Members of the public are reminded that photography is prohibited in the committee room. To assist the smooth running of the inquiry, we will display certain documents on the screens here in the committee room. For those sitting in the Gallery, these documents will be displayed on the screens to your left and right. Members of the public and journalists are reminded that these are documents and that they are confidential and should not publish any of the documents so displayed.

The witness has been directed to attend this meeting of the Joint Committee of Inquiry into the Banking Crisis. You have been furnished with booklets of core documents. These are before the committee, will be relied upon in questioning and form part of the evidence of the inquiry. So with that said, if I can now ask the clerk to administer the oath to Mr. Farrell please.

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

Mr. Pat Farrell, former Chief Executive Officer, Irish Banking Federation.

Chairman: Once again, Mr. Farrell, welcome before the committee this afternoon. And if I can invite you to make your opening remarks to the committee please.

Mr. Pat Farrell: Thank you, Chairman. As requested by the Joint Committee of Inquiry into the Banking Crisis, I am providing this witness statement in my capacity as CEO of the Irish Banking Federation, the Federation of International Banks in Ireland, a position I held from January 2004 to June 2013. I'm endeavouring to address the broad themes which the