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Joint Committee of Inquiry into the Banking Crisis

Witness Statement of

Mike Aynsley

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[1] *See s.37 of the Houses of the Oireachtas (Inquiries, Privileges and Procedures) Act 2013*

Statement to the Joint Committee of Inquiry into the Banking Crisis

A.M.R. (Mike) Aynsley

1 July 2015

Preamble

I have prepared this statement reflecting on my time as Group Chief Executive Officer of the post-nationalisation Anglo Irish Bank followed by the Irish Bank Resolution Corporation ("IBRC") . It covers the period from September 2009 when I took up the post to the point of legislated special liquidation in February 2013 when my role terminated.

At the time of preparation of this statement I am resident in the United Kingdom and without access to documents necessary for a more detailed response. Documents and access to them were requested from the Joint Special Liquidators ("JSL") of IBRC, however, the obstructive position adopted by the JSL in providing timely and practical access to information has restricted my capacity to provide further detailed information to the Joint Committee. Also, I have been unable to access or review in sufficient time or at all much of the material that may be necessary to respond in full to questions from members of the Joint Committee. The Joint Committee has been copied on the numerous requests and exchanges between my representatives and the JSL and will therefore be aware of these constraints.

I am conscious that that there are many civil and criminal cases in relation to Anglo Irish Bank; Irish Nationwide and IBRC before the courts. I am advised that I should not say or infer anything that may impact on those proceedings.

In addition, the Joint Committee will be aware that a Commission of Investigation into certain transactions by IBRC has been established by government under the Chairmanship of Judge Daniel O Keefe. I am advised that I should not say or infer anything that may impact on the work of the Commission of Investigation.

Introduction

I was appointed to the position of Group Chief Executive of Anglo Irish Bank in August 2009 and I took up the position in Dublin the following month effective 7th of September.

By the end of the 1st Quarter 2010 the top Executive team of the Bank had been restructured and, at the request of the then Minister for Finance the late Brian Lenihan, replaced with a highly skilled banking and restructuring team hired mostly from outside the Irish banking sector, together with other executives who had not figured in the buildup to and collapse of the financial system.

The initial period to the end of 2010 was characterized by an unfolding of unprecedented events that progressively brought into focus the extent of the damage that had been wrought during the so called boom years. By year-end 2010 Anglo Irish Bank had required a total of €29.3 billion of State funding, predominantly driven by a loss of €21 billion on the sale of €33.9 billion of loans to NAMA.

The new environment required a deep and detailed approach and unfortunately the nature of many of the challenges (such as bank restructure, recapitalization and loan work-out) required new skills to be brought into the Irish system. The response by the Minister at that time was, I believe, the correct one by insisting that the new key individuals appointed to Anglo were appropriately qualified for the restructuring and recovery task and sourced from the non-Irish market. It was unfortunate however that the permanent civil service at the Department of Finance (" DoF") was not fully equipped to address many of the issues and challenges that emerged.

In my view the early relationship 'troubles' with the DoF and National Treasury Management Agency (" NTMA") banking units were as a result of the understandable skills gap in the DoF at that time, combined with a lack of understanding of the drivers and legal, regulatory and management obligations associated with the ongoing deterioration of the Bank's asset portfolios. I detail some key areas of friction in B1:c below. The highly vulnerable overall position of the State's finances, making capital raisings of any kind extremely difficult, clearly aggravated the situation.

With the Fine Gael government coming to power in February 2011, the Banking Unit at the Department of Finance (DoF) was restructured with a number of the roles or 'deck chairs' shifted from the NTMA to Merrion Street and with the appointment of John Moran (who moved from the Central Bank) to head the new DoF Banking Unit.

The move to an early obliteration of Anglo / IBRC was forecast in the 'Fine Gael Manifesto' as follows:

SHUTTING DOWN DEAD BANKS
Anglo Irish Bank and Irish Nationwide have no further role to play in the Irish economy. A Fine Gael government will wind up both institutions by the end of 2011, by transferring their remaining assets and deposits to NAMA, other financial institutions or other asset recovery vehicles as appropriate. Further losses incurred in this process will be shared with remaining unsecured bondholders.

2011 and 2012 were years of further substantial restructuring and downsizing and included reduction in loan assets through the ordinary course of loan management (repayment through external refinance, collateral sale, enforcement), the sale of the majority of the Bank's USA loans, final closure of a number of the Bank's remaining foreign offices, acquisition and merger with INBS, and by year end 2012 reduction of the net loan portfolios of the whole Group to around €14 billion (or around €25 to €26 billion gross).

The move into the final phase of resolution of the Bank in February 2013 was at the end of a difficult relationship period between the Bank and the DoF. While the Bank and Board maintained a track record of transparency and rigor in meeting the Minister's Objectives and while targets were met and/or exceeded by every measure, it seemed to the Board and Management that there was ongoing mistrust from the DoF for reasons that were never reasonably, or for that matter, clearly communicated to us as we carried out our work.

I left Ireland in late 2013, following completion of the Statement of Affairs for the JSL (in conjunction with the other IBRC Board directors). While I am sympathetic as to the reasons behind the pre-March 2012 relationship difficulties between the DoF and the Bank, and a purely political explanation for an accelerated resolution of the Bank may have been a factor (which ran against the more measured and commercially advantageous programme being run by the Bank's Board and Management), I am quite unclear as to why the relationship remained difficult – although the ongoing lack of banking knowledge and experience in the DoF would be one explanation. Another would be the DOF's unwillingness to share fully its concerns or resolving issues allowing misperceptions to fester and feeding distrust. The pattern of recently released unflattering internal DoF memorandum which were not shared with the Bank is evidence of this dysfunction.

Looking back on my time in Ireland I am proud of the significant work undertaken and results achieved in restructuring and moving Ireland's most toxic bank to final resolution. I had the privilege of working with a world-class Board and a world class Management team who I believe collectively delivered significant value to the Irish tax payer. Being candid, I am disappointed at how the current Government and certain DoF officials treated both Board and Management and for that reason alone I will retain a bad taste in my mouth for some years to come.

B1: a

<u>Composition, skills and experience of the board and board subcommittees</u>

I concur fully with the comments presented by the Chairman in his statement to the Joint Committee and provide supplementary commentary as follows:

With respect to general governance issues, Anglo Irish Bank (later IBRC) adhered to the Combined Code on Corporate Governance issued by the Financial Reporting Council. During 2009 Anglo adopted the Code of Practice for the Governance of State Bodies and worked with the Department of Finance towards full compliance, where applicable. The Bank has also adopted and complied with the corporate governance and other obligations imposed by the Ethics in Public Office Act, 1995 and the Standards in Public Office Act, 2001.

In addition, a Relationship Framework between the Minister and the Bank was formally approved by the Board in June 2009 and was updated in March 2012.

The request by the Financial Regulator during the 2nd half of 2010 to appoint two new Directors from outside the Irish environment was an important step in moving towards a stronger and more diversified board, more capable of supporting oversight of the significant non-Irish portfolios.

Korn Ferry in the UK were appointed by the Board to run a search process which resulted in a short listing of several candidates from which two candidates emerged and processed positively through the Central Bank Fitness & Probity process. The subsequent process of securing Ministerial approval however, stalled running into the election period with subsequent change of Government and Minister in February 2011.

With the appointment of John Moran (JM) as the head of the Banking Unit of the Department of Finance in March 2011, the approval was further delayed. Subsequent proposals by the Bank in the 1st half of 2011 to proceed with the appointment of one of the non-Irish linked preferred candidates, Oliver Ellingham (the other candidate had withdrawn by that point), also addressed the Board requirements of the merging Anglo and INBS entities into IBRC.

The standstill continued however, due to disagreements between JM and the Chairman as to the appropriate mix of directors and the possible role of JM as a director for which he proposed himself. Approval to appoint Oliver Ellingham was followed up with the Department regularly and the appointment eventually proceeded following a meeting between the Chairman and the Minister - Oliver Ellingham was appointed in October 2011, Roger McGreal in November 2011 and a further two directors as late as August 2012. In retrospect, the later two appointments to the Board in 2012 proposed by the Minister and the DoF appear to me to have been ill-thought-out and an unnecessary cost and legal exposure to those two directors, as it has since become clear that the DoF's plans to liquidate the Bank under special legislation were under serious consideration before those appointments were made.

During this period I became concerned about the oversight and approval process being conducted by the DoF and its officials. It appeared increasingly to be driven by political considerations rather than supporting the very real challenges that the bank faced. I was informed by one official at a meeting in the 3rd Quarter of 2011 that there was '*resistance*' to making change in the Anglo/IBRC Board based on the recommendations put forward by the Chairman because *"the old directors were appointed by the previous government"*...this apparently being offered as a reason to consider changing them as well. A further concern to me was that the Chairman had informed me of his discussions with JM and the suggestion by JM that he should join the board and that JM had proposed he and the Chairman would meet prior to each Board meeting to decide on agenda outcomes to be '*pushed*' through the board – this would clearly be a failing in good governance and a step back to how 'Old Anglo' did these things. It was clear to me that there was a lack of expertise in the DoF regarding bank board composition and banking operations (in either a going concern or wind-down situation) and it seemed to be either a disregard for or lack of understanding of the legal requirements for an independent board.

While the existing board at that time was composed of a number of highly competent and appropriately skilled individuals, the significant challenges facing the Bank would have been better supported through a speedier decision process in the DoF that would have seen the valuable skills of the additional directors focused on the task some nine months or so earlier.

B1: c

Quality of the business model setting process

I concur fully with the comments presented by the Chairman in his statement to the Joint Committee and provide supplementary commentary as follows:

Shortly following my arrival in Ireland in September 2009 I met with the Minister for Finance, the late Brian Lenihan, on two occasions, both included DoF officials and one was extended into a private segment – it was during these meetings that the Minister confirmed his initial desire/preference to clean up the bank and use the clean entity to centre-post establishment of a 'Business Bank' for Ireland.

During 2009 however, the extent of the damage done in the crisis years was not yet fully apparent. The initial DoF estimate of likely damage showed a requirement to inject €1.5 billion into the bank following nationalisation. As the market deteriorated, between June and September 2009 an initial €4 billion was required. By year end, the market had fallen significantly further and the post-nationalisation Anglo Irish Bank had begun to make progress in the detail of analysing, impairing and provisioning for losses. This involved creation of a robust portfolio review / monitoring / management and NPV based decision making process along with vigorous engagement with borrowers, addressing leakage, and repair and perfection of documentation and security.

At year end 2009 a loss of €12.7 billion was produced driven by an impairment provision of about €15billion, offset by a gain of about €1.8 billion on the buy-back of a portion of the bank's subordinated debt at a discount. Not only was the Bank well and truly in crisis due to the extent of losses being revealed in the Asset Quality Reviews, but funding pressures were increasing dramatically as clients withdrew deposits across all jurisdictions.

2010 showed a progressive and continuous downward spiralling of markets and by year end further losses of €17.7 billion was taken based on a combination of impairment charges and losses on sale of assets to NAMA. 2010 also continued to see deposit flight from not only Ango, but all Irish banks, and during the 3rd Quarter it was apparent that the the scale of the systemic funding issue, combined with the devastating deterioration of the loan portfolio throughout the year, had eliminated any possibility of retaining a viable and/or sustainable 'stub' bank.

By the end of 2010 a total of €29.3 billion of State money had been pumped into Anglo in order to offset losses, provisions, and to recapitalise the Bank.

It is notable that of the €29.3 billion of State funding, €21 billion related solely to losses on the €33.9 billion of gross loans transferred to NAMA (using the NAMA valuation process which did not allow for sale price negotiation) – these losses were taken in the 2009 and 2010 accounts of the bank. No doubt there will be a public interest at a point in the future in reconciling the €21 billion of losses taken by the Bank against the actual recovery levels achieved in the work-outs by NAMA.

The business model setting process was conducted against this backdrop and, as explained in the Chairman's statement to the Joint Committee, over this period, went through a process of preparing four restructuring plans for submission to the European Commission.

A further key factor influencing the business model setting process was the deterioration of the relationship with certain officials in the DoF and the NTMA during 2010 which, in my view, was the result of a lack of banking expertise in the DoF and a lack of understanding of the Bank's provisioning challenge on the one hand and on the other hand a position taken by the bank against the NTMA's/DoF's wishes with regard to the valuation methodology used for the NAMA bonds that the Bank had received in payment for the loans it had sold to NAMA .This had an impact on the level of State funding required.

<u>Bank's loan Provisioning process</u> – there was a high degree of friction with the DoF over the huge provisioning and loss numbers being produced throughout 2009 and 2010. There seemed to be a belief in official circles that the bank was *'over egging it'*. The Bank's position was that it had to thoroughly review each individual loan and value it according to accounting and regulatory obligations – a process which, in a downwardly spiralling market, would continue to show increasing losses on distressed assets. The Bank's portfolio was exceptionally heavily exposed to property values with, I recall, more than 80 percent of the asset book linked to property held as security. The collapse of values in the three major markets (Ireland, UK/Europe, US), in some cases up to 90 percent plus, was directly correlated to reduced loan portfolio quality / value. Notwithstanding the fact that the new post-nationalisation Board and Management had absolutely nothing to do with the acquisition of any of the Bank's loans, we were viewed with mistrust by certain senior DoF officials – whether this was based on a total lack of understanding of the loss drivers or whether it simply did not suit the agenda of the DOF, I am unclear. In a discussion with a retired DoF official in late 2012 regarding reasons for the poor perception of the Bank within the DoF, I was told that in his view *"it*

went back to the time that <u>you</u> were making those large losses in 2010, and the numbers just kept on getting bigger".

<u>NAMA Bond Valuations</u> – the methodology used to value the NAMA bonds when the Bank booked them onto its balance sheet, effectively created a need for additional capital at IBRC. The methodology was based on market standard valuation principles validated with the Bank's external auditors. The DoF/NTMA pressurised the IBRC CFO and Board to use an alternative methodology that was unacceptable to the Bank's auditors and Board. The Bank was well aware of the unfortunate pressures on the State's finances at that point but was not in a position to ignore/contravene accepted valuation principles and legal requirements. This decision created a long period of conflict and friction during the course of 2010 at the same time as the various restructuring plan iterations were underway. It was a situation perhaps exacerbated by direct conflict between the Bank's Chief Financial Officer and certain DoF/NTMA officials which culminated in the CFO expressing a high level of concern over the legality of DoF proposals, his declining to co-operate based on his concerns and his walking out of a meeting in frustration.

The Bank's CFO resigned shortly after that and in his resignation letter to me stated the following:

"I have shared with you my view that although the management of the Bank has been overhauled, the system here in Ireland has not. You will be aware that I have very bad memories of the undue pressure the authorities exerted in the context of the NAMA bond valuations. I have great concerns regarding the concentration of power that the new law for the financial sector will put into the hands of the government and I do not think I will want to make myself subservient to it. I have no confidence whatsoever in the ability of government to do the right thing for the financial sector" and ... "Within a very short time it seems that the new Management was seen to be part of the old Anglo in spite of the radical changes implemented within the organisation. There has been a complete lack of engagement from the authorities and decisions have come out of left field." and ..."As part of the new Management team at Anglo I have seen no change dealing with the authorities to the pattern I have described. The authorities are stuck in their old ways. They do not recognise nor understand conflicts of interest."

It is notable that the valuation methodology used by the Bank was eventually accepted as correct and I understand has since been adopted generally by all Irish banks holding NAMA bonds.

The actual process pursued by the Bank in the formulation of the required plans and business model was thorough and robust. It was a fact-based analysis that utilised a combination of specialist external strategy, valuation and planning resources of top tier advisory firms. A key flaw with this process, however, was that there was not always an open and transparent dialogue between the DoF, it's advisors and the Bank on these issues which on many occasions left the Bank uninformed as to influential events unfolding – it was therefore unnecessarily lengthy, cumbersome and expensive.

With the appointment of JM in March 2011, the business model setting process became even less clear.

By that time the Bank had moved into finalising Plan 4 which included the acquisition and merger of INBS and the wind down of the Bank to take place by 2020. At this time the Bank had also moved forward with the required NAMA loan sales and had undertaken a series of recovery and restructuring activities. At the beginning of 2011, the Bank was ahead of its targets with gross loans and advances having been reduced to about €35 billion. In late October 2010, prior to the arrival of JM at the DoF, the Bank had also initiated a large and complex piece of analysis and valuation work on the entire USA loan portfolio to assess a potential sale opportunity in whole or part. The first phase of this was completed in early March 2011 and showed an opportunity to accelerate sales in certain areas at an acceptable recovery level. Under an instruction from the DoF (which eventually required a Ministerial Instruction to allow the Bank to execute) a larger portfolio was carved-out for a sale process that was completed in July 2011 and closed over the remainder of that year.

While the US portfolio sale was suboptimal in terms of recovery levels on a number of assets, and would not have been undertaken by the Bank because of this without the Ministerial Instruction, it achieved a recovery and wind down milestone that allowed the Bank to repay a large volume of ECB financing which had important implications for the State at that time in demonstrating the progress Ireland was making. It was also the single largest loan sale (by value) by any bank conducted in the USA since the collapse of Lehman Brothers.

Following this process, the Bank's Management was verbally encouraged on multiple occasions to accelerate the wind down of the residual portfolio. For its part, the Bank regularly undertook initiatives exploring opportunities to accelerate the wind down through disposal of specific assets / portfolios without the loss of capital. As we progressed through 2012 the Bank was highlighted in the media on a number of occasions as being at odds with the DoF and resisting an accelerated wind down. When this situation was raised formally by the Bank's board with a DoF official (Ann Nolan) who attended a Board meeting in late 2012, the official responded that the strategy being pursued by the Bank was seen as aligned with the Ministers objectives and that the Bank should not accelerate disposals at the cost of recovery levels.

The Bank's position on this was that it was ahead of target by every measure and obligated to adhere to the restructuring plan agreed with the European Commission and overseen by Grant Thornton, the EC Monitoring Trustee. Having said this, the Bank communicated that it was not opposed to accelerating sales (although this would reduce recovery levels and likely produce a need for further capital injection by the Shareholder) but the DoF/Minister would need to provide the Bank with a formal instruction to do so, as this was contrary to the primary objective set by the previous Minister under the Anglo Act 2009 and the Commitments Letter.

B1: d

<u>Adequacy of board oversight over internal controls to ensure risk is properly identified, managed and monitored</u>

I concur fully with the comments presented by the Chairman in his statement to the Joint Committee and provide supplementary commentary as follows:

As noted in B1:a above, Anglo Irish Bank (later IBRC) adhered to the Combined Code on Corporate Governance issued by the Financial Reporting Council. During 2009 Anglo adopted the Code of Practice for the Governance of State Bodies and worked with the Department of Finance towards full compliance, where applicable. The Bank has also adopted and complied the corporate governance and other obligations imposed by the Ethics in Public Office Act, 1995 and the Standards in Public Office Act, 2001.
In addition, a Relationship Framework between the Minister and the Bank was formally approved by the Board in June 2009 and was updated in 2011.

The Board ensured that a comprehensive framework was put in place that included guidelines and policies to govern the manner in which IBRC conducted recovery of its assets.

The governing policy was underpinned by three key framework documents:

1. The European Commission Restructuring Plan – this included the provisions of the commitments letter
2. The Operating Plan (approved by the European Commission and supported by the DoF)
3. The Relationship Framework including the Reserved Matters

The Board exercised oversight directly through its various committees as well as indirectly through a well defined and enforced governance framework at the management level.

In addition to the Board committees, a number of other forums and committees were operated at Management level to ensure correct separation of roles and responsibilities between line Management and risk Management and oversight functions. Specific committee structures and forums included:

- The Group Executive Committee (GEXCO)
- Credit Sanction Authorities (including Group Credit Committee and Local Credit Committees)
- Investment Products Committee
- Asset and Liability Committee (ALCO)
- Transaction Review Committee

- Collection Review forum (Residential Mortgages)

The operations and activities of such control bodies were reflected in specific committee Charters and reported regularly up through the Board and Board committee process.

The Bank ran an active Compliance unit that regularly monitored the business and reported its findings to the Board / Board Committees independently. At the operational level, the Bank created a bespoke case management system which provided the structure needed to ensure a systematic file management / review / recovery process.

B2: a

Appropriateness of property-related lending strategies and risk appetite

I concur fully with the comments presented by the Chairman in his statement to the Joint Committee and provide supplementary commentary as follows:

The lending strategies and risk appetite were required to conform with the European Commission's Commitments Letter detailing all commitments taken by the Irish authorities (and the Bank) relating to the wind down and work out of the merged Anglo Irish Bank and IBRC. Its worth noting the Bank was essentially not lending through the 2010 planning process and subsequent wind down. Only very limited number of small sums were advanced and in each case only where an improved NPV recovery would be achieved.

The Commitments were designed to support the Bank in its wind down process by specifying activities that could be undertaken with clients that would enhance recoveries, but also to detail activities prohibited, in order to maintain focus, momentum and adherance to wind-down timeframes.

The Bank was also required to consider and support the Minister's objectives which were embedded in the Anglo Irish Bank Act 2009. These were:

- To accelerate deleveraging of the Bank through disposal of assets to the extent possible while minimising capital impact
- To preserve the capacity of the Bank to continue its operations as a going concern in accordance with the Restructuring Plan
- To minimise cost and other risk to the Exchequer and the taxpayer
- To remedy a serious disturbance in the Irish economy by helping to restore the reputation and enhance stability of the financial system in the State
- To ensure that all Legacy issues are efficiently and comprehensively identified and addressed in accordance with the Legacy Plan
- To ensure compliance with: (i) any conditions or commitments attaching to any decision of the European Commission in relation to EU State Aid, competition law or other requirements which may arise, including without limitation the Approval

Decision; and the Programme of Support insofar as it relates to the financial sector; and

- Otherwise to ensure that the Bank operates in accordance with the public interest and in a manner consistent with Section 2 of the NAMA Act.

While consistent in nature and intent, the Commitments Letter and Ministers Objectives required careful management of potential conflicts, the most significant of which was the pace of wind down versus minimisation of capital impact. During 2011 and 2012, the Bank's deleveraging activities were ahead of targets as set in the Restructuring Plan. This was primarily due to the bulk sale of assets in the US loan book, a number of which were included at the request of the DoF and sold at sub-optimal levels under Ministerial Instruction.

The ongoing pressure from DoF / JM to accelerate the wind down well beyond the targets embedded in the wind down plan required careful assessment by the Bank and 'push back' in order to avoid increased losses and thus further bail-out funding which was deemed unacceptable and to maintain compliance with the Commitments Letter.

B2: b

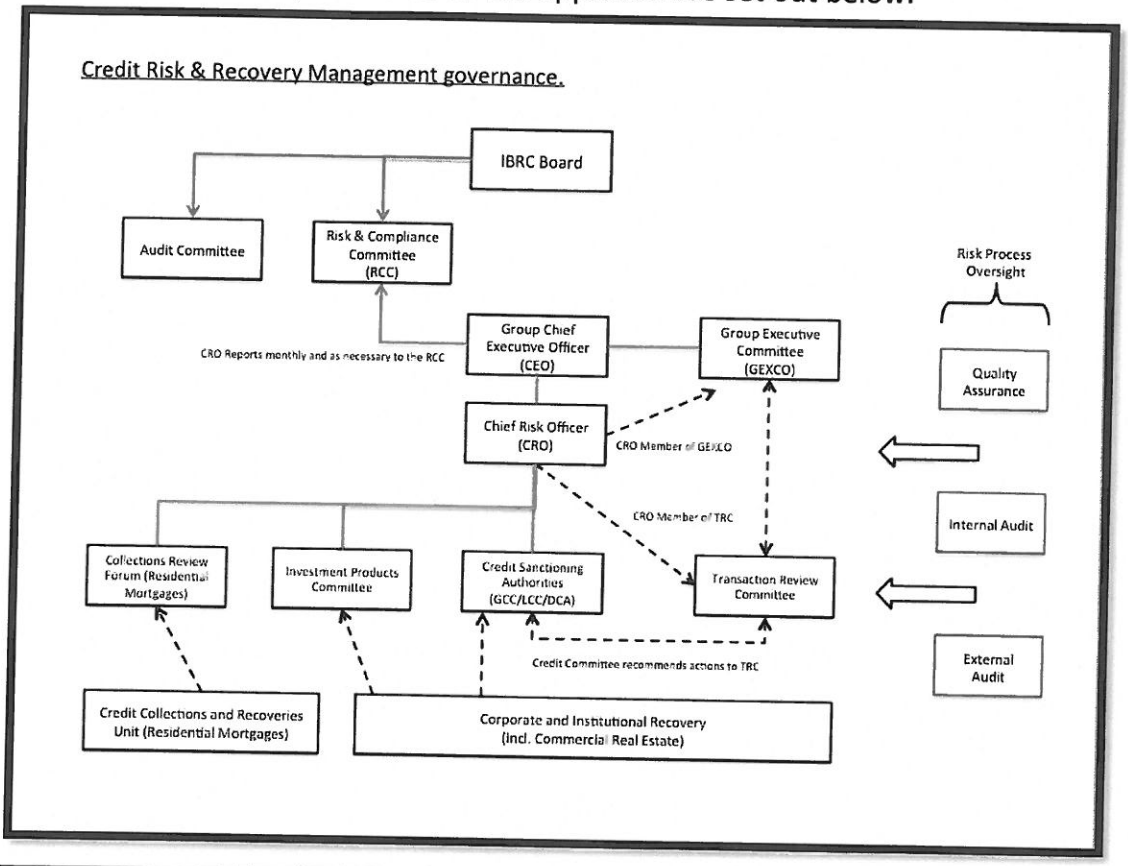
<u>Appropriateness of credit policies, delegated authorities and exception management</u>

I concur fully with the comments presented by the Chairman in his statement to the Joint Committee and provide supplementary commentary as follows:

A full suite of policies and delegated authorities were put in place to ensure ongoing, efficient and safe management during the wind down process. The policies as noted above in B1:d were underpinned by 3 key framework documents but were also aligned with best current risk management practices. The policies included a wide range of controls and constraints, but also exception aspects to ensure the business could effectively respond to the wide ranging events which the Bank was required to manage on a day to day basis. Exception management was controlled within delegated authorities and reported up through the chain of command including to Board if required.

Credit Polices in particular were fully developed and modified as the Bank proceeded through the restructuring plan development to the approved wind-down stage to ensure proper alignment with objectives. The policy was descriptive and included governance frameworks, sanctioning processes, Credit Risk and Recovery Approval Policy, Committee and Process terms of reference, Codes of Conduct, Conflicts of Interest Policy, Probity Policy, 'Chinese Wall', and a wide range of Portfolio Management associated policies including Policies to address Security Visits, File Standards, Systems Records, Litigation and Compliance.

The Bank's approach to corporate governance and credit risk management was to ensure that there was independent ownership and assurance monitoring of the credit risk control frameworks. The Bank established a risk oversight framework to deliver this approach and the key elements of this approach are set out below.



B5: a

Adequacy of the incentive and remuneration arrangements to promote sound risk governance

I concur fully with the comments presented by the Chairman in his statement to the Joint Committee and provide supplementary commentary as follows:

The Board and Management of the post nationalisation Bank appreciated the inappropriateness of bonus/incentive arrangements in the State funded bank environment.

Post nationalisation, remuneration was not initially a point of friction between the Bank and the DoF. On the contrary, following my arrival in September 2009 I met with the then Minister for Finance, the late Brian Lenihan, who reinforced the need to bring in a new management team, preferably from outside of Ireland and with no negative involvement in the Global Financial Crisis (GFC). The Minister was well aware of the direct link between quality/skills of Bank management and the risk management restructuring/work-out results. The Minister subsequently personally vetted and signed off a range of top tier appointments to the Bank that complied fully with the guidelines issed by the Covered Institutions Remuneration Oversight Committee (CIROC). These were the same appointments and remuneration arrangements later consistently highlighted and noted as being unacceptable by JM/DoF from 2011 onwards.

All appointments at the Bank fully complied with CIROC, however as noted above following the appointment of JM, much conflict around remuneration arose with the DoF adopting an aggressive stance towards the Banks staffing requirements.

Certain officials within the DoF were of the mistaken belief that it was relatively easy to identify and hire individuals into specialised roles in the Bank as it wound down, and that in some cases, argued against recommendations of the Bank's Board and Management that certain key roles were not necessary or could be combined. There also seemed to be a distinct lack of understanding with respect to the need for highly specialised personnel in the recovery environment as a pre-requisite and key driver of enhanced recovery levels and seemingly little appreciation of the challenge of retaining key staff in a wind-down situation.

The Bank's position was that it needed to deploy appropriately qualified and skilled people to complete the complex task of winding down the Bank while at the same time limiting the cost to the tax payer.

The Bank completed an enormous amount of work, with the assistance of external consultants, in benchmarking roles and remuneration levels across a range of going concern and wind down organisations in an effort to educate or appraise the DoF as to the challenges facing the Bank. The DoF appeared not to accept the Bank's position and highlighted the political sensitivities the new government was facing and that was the priority.

In a number of cases which included critical roles such as the replacement of the Chief Risk Officer and the Head of Group Legal, the DoF's position weakened the capabilities of the Bank and resulted in additional costs being incurred due to the need to run an extended processes and/or utilise external consultancy where organisational knowledge had been lost. An ongoing issue for the Bank was the challenge of 'key person' retention, because of the short-term timeline for the Bank in wind-down, with staff opting for positions in more stable organisations that could offer enhanced job security and better pay.

Additional confusion arose when CIROC compliant proposals were submitted and subsequently rejected based on unadvised adjustments and interpretations of the CIROC guidelines.

During the course of 2011 and 2012, the responses of the DoF to the submissions and requests put forward by the Bank became increasingly unsupportive, unhelpful and in some cases irrational, the result being a weakening of the risk and management structures of the Bank.

In my view, the DoF approach to remuneration was politically motivated, uninformed, unrealistic and ran counter to good governance, sound risk management and ultimately negatively impacted upon recovery levels.

B5: b

Impact of shareholder or lending relationships in promoting independent challenge by the board and/or executives

I concur fully with the comments presented by the Chairman in his statement to the Joint Committee and provide supplementary commentary as follows:.

The focus of the Bank's Board and Management was on achievement of the Minister's Objectives, tempered by constraints detailed in the Commitments Letter. Lending relationships were managed with these objectives at front of mind, to achieve as full recovery as possible.

Management of lending relationships was vested in a Relationship Manager (RM), supported by an account management team. Approval of restructuring and credit sanctioning was progressed with Management support up through the Credit Risk and Recovery Management Governance Framework (Credit Policy) detailed in B2:b above.

Full and appropriate challenge was provided by both Board and Management.
This independent challenge was apparent at multiple points within the Credit Policy (including at Board level) with responsibilities delegated under Board approval based on threshold exposures.

A number of accusations have been made alleging that I, as CEO, and others in the Bank's Executive team has close relationships and provided private commiitments to certain named key customers. I have been clear in both a public release and in press interviews that I totally reject such assersions and that there was nothing untoward in the management of these or other key client relationships which were focused on achieving the fullest possible recovery for the Bank. I repeat my rejections of the allegations again here. It was not possible under the Bank's Credit Policy for any of the Banks Executives to provide commitments to clients outside of the credit sanctioning and approval process.

In terms of independent challenge being provided by the shareholder (DoF) I do not believe this was either constructive or effective, largely due to lack of skills in credit and recovery management. Contrary to recent press reports, the DoF was kept informed of significant restructurings, received Board packs and Minutes and attended regular briefing meetings with senior executives - the Bank was fully committed to providing transparency together with any information requested. If feedback or challenge was received on specific matters however, it was usually an 'expression of concern' after a transaction had been completed. In addressing concerns / challenges raised by the DoF, the Bank expended significant time and effort in detailing each transaction and providing a full body of supporting documentation. On a number of occasions this included independent reviews and reports which in each case explained and supported the decisions the Bank had made. Notwithstanding this, certain transactions have continued to be identifed by the DoF as areas on ongoing concern with the additional information provided including independent reports/reviews apparently being disregarded.

I formed the view that much of the comment / challenge from the DoF increasingly became politically motivated.

I was shocked in January 2013 when I received an email memorandum from one of my direct reports at the Bank who had a detailed discussion on recovery activities with a DoF official. Discussions at that meeting initially covered the processes that the Bank was pursuing, with the Bank Executive reinforcing the need for the Bank to conduct thorough, structured and transparent processes versus the DoF official's predisposition to a relatively short and more opaque loan sale approach that was open to possible conflicts and exposure for the Bank. The email details the DoF official stating as part of the discussion that a major asset sale transaction should not have been completed simply because the buyer was a named Irish businessperson or his company. The Bank Executive then moved the conversation to the possible sale of another major business asset and asked the DoF official whether he would be in agreement with a certain price in the sale process from the same Irish businessperson or his company, or alternatively a €100 million less from another party. The response from the DoF official was that the lower price would be preferable and that he believed the Minister for Finance would also be supportive of that position. Astonishingly, another key point of issue between the DoF official and the Bank, was in fact the suggestion by the DoF official that the Bank should be effectively accelerating disposals by entering into bilateral sales arrangements, a process that the Bank had previously embargoed in favour of an open sales process that had to be transparent, arms-length and fully valued. The overall extent of the exchange detailed in the email confirmed to me yet again that the experience levels in the DoF were not sufficient to add value to the Bank's efforts.

C2: c

<u>The liquidity versus solvency debate</u>

I concur fully with the comments presented by the Chairman in his statement to the Joint Committee and have no more comments to add.

C3: b

<u>Appropriateness of the bank guarantee decision</u>

I concur fully with the comments presented by the Chairman in his statement to the Joint Committee and have no more comments to add.

C4: c

<u>Decision to recapitalise Anglo, Allied Irish Banks (AIB), Bank of Ireland, Educational Building Society (EBS), Permanent TSB (PTSB) and the alternatives available and/or considered</u>

I concur fully with the comments presented by the Chairman in his statement to the Joint Committee and provide supplementary commentary as follows:

When I arrived in Ireland in September 2009 there was still little appreciation of the scale of damage done by the pre nationalisation Bank Management or the extent to which the market had yet to fall. The extraordinary and irresponsible pre-nationalisation focus of the Bank, almost exclusively on property related lending, combined with a highly aggressive (short) liquidity/funding management strategy, left the Bank fully exposed to the two core sources of the global market's collapse – i.e. reduced credit availability (flight of funding/deposits), and the bursting of a hyper-inflated property bubble (dramatic asset value destruction).

The deterioration in the market was progressive and extended throughout 2010 to 2012 and it was against this uncertain and fluid environment that difficult decisions to recapitalise were being taken.

C7: a

<u>Option for burden sharing during the period 2008-2013</u>

I concur fully with the comments presented by the Chairman in his statement to the Joint Committee and have no more comments to add.

R1: a

<u>Appropriateness of the regulatory regime</u>

I concur fully with the comments presented by the Chairman in his statement to the Joint Committee and have no more comments to add.

R1: b

<u>Effectiveness and appropriateness of the supervision policy and powers</u>

I concur fully with the comments presented by the Chairman in his statement to the Joint Committee and have no more comments to add.

R3: b

<u>Nature and appropriateness of the relationship between the Central Bank (including the Financial Regulator), the Department of Finance and the banking institutions</u>

I concur fully with the comments presented by the Chairman in his statement to the Joint Committee and have no more comments to add.

R5: d

<u>Appropriateness of the relationships between the Government, the Oireachtas, the banking sector and the property sector</u>

I concur fully with the comments presented by the Chairman in his statement to the Joint Committee and have no more comments to add.

A.M.R. (Mike) Aynsley
28 June 2015