Tithe an Oireachtais
Houses of the Oireachtas

Joint Committee of Inquiry into the Banking Crisis

Witness Statement of

Colm Doherty

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

Written Statement of Mr Colm Doherty pursuant to Section 67(1) of the Houses of the Oireachtas (Inquiries, Privileges and Procedures) Act 2013.

Pursuant to the Direction Order issued to me on 8 July 2015 I attach herewith my written response to the list of questions provided by the Joint Committee of Enquiry into the Banking Crisis. My responses are listed in the same order and line of enquiry designation as the questions.

Introduction

I was Managing Director of AIB Capital Markets plc from August 1999 until November 2009. The Capital Markets Division comprised the Corporate Banking; Investment Banking; and Global Treasury activities of AIB Group. The business had operations in Ireland, UK, US, Canada; Australia; Germany; and France and was subject to Regulatory oversight by the Authorities in each jurisdiction. As of 2008 the Business had a Balance Sheet of c. 28Bn Euro of which c.Euro 5Bn was advanced in Ireland. The business was consistently profitable each year in the period 1999-2009 and in particular throughout the period of the Financial Crisis. The Business did not engage in Property Lending in the Republic of Ireland.

In November 2009 I was appointed Group Managing Director of AIB plc from which position I retired in November 2010. I was a Director of AIB plc from 2003 until my retirement.

Response to Questions

Q.1 (B1c)

It is pertinent to examine each of the prominent episodes mentioned in the question to determine whether problems existed with the internal culture of AIB. The Dirt issue was an industry wide problem which impacted on all Banks including State owned institutions and was not particular to AIB.

The Incident of the Rogue Trader who perpetrated a complex fraud on AIB's US Subsidiary in 2001 illustrated weaknesses in the Corporate Structure and Control Environment in place within AllFirst/ AIB. A small treasury business was allowed to conduct complex options trading as part of a Retail franchise, separate to the AIB Group's main treasury business, and without the attendant controls and management expertise appropriate for such activity.

It is noteworthy that AllFirst had its own Board of Directors, Senior Management cadre and was regulated in the USA. It is difficult to associate this fraud with internal culture issues in AIB Group.

The other issue cited being Forex (incl. overcharging), occurred in AIB's Irish Retail Bank.The issues were twofold; notifying the Regulator of incorrect charges to currency transactions; and overcharging by certain Bank branches. Similar issues were not evident in other parts of the AIB Group.
The Board and Senior Management of AIB dealt comprehensively with each of these items. The issues were investigated by highly regarded external parties in conjunction with the relevant Regulators and appropriate mitigation and remediation actions put in place.

The nature of the issues in AIB's Irish Retail Banking business did give rise to concerns at the Board about the 'culture' operating within this business. I recall that the Board retained consultants to conduct a review of the culture operating within the Group with particular emphasis on AIB(ROI). On foot of this review the Board and Senior Management implemented a substantive overhaul of the Ethics & Behaviour framework operating within the Group in 2004. This included:

- A Code of Business Ethics
- 'AIB Way - Leading by Example' - Code of Conduct for Senior Executives
- Compliance Driving Licence - E-learning training
- Speak Up Policy (via UK charity 'Public Concern at work')

The Compliance & Risk functions were considerably strengthened and the Group moved to an Enterprise-wide Compliance & Risk Assessment & Monitoring model; with regular reporting to the Board & Audit Committee. In 2006 The Institute of Business Ethics in a brief review stated that AIB was following good practice in training; assessing effectiveness; and reporting on the working of its ethics policy. The Promontory Group in a May 2006 Report titled 'Review of Risk Governance at AIB' commented favourably on how AIB had improved its culture,compliance and risk management environment.

It is my opinion that from 2004 onwards within AIB:

(a) The ethics & values were defined;
(b) Appropriate written policies were put in place;
(c) Directors & Senior Management formally attested in writing under the 'AIB Way' that they practiced and implemented these policies;
(d) I can confirm that the leadership behaviour and business ethics were part of my personal objectives. These were cascaded down through the Capital Markets Division. I am unable to

comment with certainty on whether they were included for other Directors or Divisions. Although I suspect they were included as objectives on a similar basis as my own.

Q.2 (B1d)

In order to properly address the question of my knowledge of Governance weaknesses in the Bank, I think it is appropriate to contextualise the attributed quotes from the Promontory/Mazar Report.

The report alludes to a number of governance and control weaknesses that contributed to AIB's difficulties but noting "That the resulting problems manifested themselves mostly in the Republic of Ireland(ROI) Division". The report cites 4 key weaknesses which it concludes collectively meant "AIB did not have a suitable Corporate structure" yet the majority of the weaknesses reflect those cited by Mr O'Connor in his "Interim Review of Credit Management in AIB" and again relate to the ROI Division. Equally the comment that "there appears to have been considerable reluctance among Senior Management…..to give any priority to robust governance weaknesses" again cites weaknesses in ROI credit processes as evidencing same.

A further related and recurring theme in the Report is that the Enterprise Risk function was in a subordinate role to the Business and was unable to address the risk concentration which built up in the Property Portfolio in ROI.

AIB ran a Decentralised Business Model operating via four principal Divisions. Such a Business Model is not uncommon and requires a high degree of control to be exercised at Divisional level to be effective.

In my opinion AIB had an extensive suite of Risk Management policies and well developed Risk Management structures through the pre-Crisis period (2005-2008). This followed an elaborate review of Risk Management & Governance by the Promontory Group ; Deloitte and others; in the wake of the Rusnak related fraud in 2001. Indeed in May 2006 The Promontory Group in a report titled 'Review of Risk Governance at AIB,plc' commented that 'AIB has shown significant progress in establishing a central programme for managing risks' and that 'the key organisational pieces are in place for an effective risk management operation" The Report complimented both the Board and Management on the progress achieved.

AIB also operated an industry standard '3 line of defence Risk model' between the Business - Risk & Compliance and Internal Audit. In the period 2005-2008 AIB substantially increased the numbers in its Compliance function from 57 to 139; it's Risk function from 160 to 191; and in its internal audit function from 45-91. The Heads of each of the Risk and IA functions were recruited externally at Senior Executive rank. In March 2008 PWC carried out a review of the Internal Audit function and opined that it ranked in the second quartile amongst all firms in their database of such functions, with a clear path to first quartile. in 2006 governance metrics International measured Corporate governance in AIB at 9.5/10.

The Group had developed an extensive suite of Credit Policies which were approved by the Board and had an "established credit management framework which ensures there is independent oversight across its Divisions" (PWC Report 2008).

Against this background, and as set out in Promontory/Mazar (2010); The Interim Review of Credit Risk in AIB (2010); AIB in Crisis (N. Treble 2009); it became clear that this policy suite and risk framework was not implemented with the necessary or equivalent rigour in AIB(ROI) or indeed by the Group Risk function; as they were in other Divisions; to constrain risk.

It is now also clear that at the Group level the Growth Agenda pursued in ROI was strongly embraced. It is also now clear that at Group and ROI there were major failings in the approach to credit management while elsewhere “it is evident that credit was managed and embedded to a high (AIBCM/BZWBK) or satisfactory standard (GB)” (O’Connor Report 2010).

As a Divisional Managing Director/Executive Director of AIB, I was reliant on the Group Credit, Risk & Internal Audit functions, as the second and third line of defence to ensure I was made aware of governance issues and\or credit risk management failings which occurred across the organisation. As noted in the Promontory/Mazar report, the Board (including myself) knew much less than certain other senior management about ongoing issues due partly to receipt of accurate and timely data but also due to the lack of ‘red flags’ being raised by the Group Chief Risk Officer and Head of Internal Audit regarding key issues in ROI.

It was not until Q3 2008 as the Irish Economy deteriorated that we began to get an understanding of the the extent of the large exposures to single counterparty’s; the impact of the level of exposure to the property sub sector of Development Land; and the absence of basic credit procedures in ROI. It was at this juncture that the weaknesses in the Governance and Risk Management in ROI and at the enterprise level began to become apparent to me.

At this time the damage to the Bank had been done and both the Board & Management were in crisis mode endeavouring to size and manage the extent of our problems in the ROI property portfolio.

Q.3 (B1e)

AIB policy on Gifts Benefits and Inducements came into force in 2003 and set out the ethical standards for the offering, giving, soliciting or accepting, of any gift benefit or inducement. The policy applied to all Employees of AIB Group. The Policy required each Division to establish limits on the value of gifts or entertainment that required declaration by an employee and entry into a register maintained by the Business. Limits for pre-approval were also to be set.

AIB Capital Markets plc (The Division for which I was responsible) implemented a Divisional Policy in 2003 which:

(a) Permitted Gifts/Benefits/Entertainment up to €500;
(b) Required Gifts/Benefits/Entertainment between €500-€1000 to be maintained in a register held by the Business;
(c) Required pre-approval for the acceptance of any Gifts/Benefits/Entertainment in excess of €1000.

The Register was subject to Regular Quarterly Review by the independent Divisional Compliance function. The thresholds under (b) and (c) above were reduced to €100 and €500 respectively in May 2010.

In relation to the specific questions:

(a) Lending to Property Developers was conducted in AIB ROI and I am not in a position to comment on the extent of their specific level of entertainment. I am aware they would have hosted property developers to the Ryder Cup event in Ireland and they brought a large contingent of property clients to the Ryder Cup in Kentucky, USA.
(b) With regard to Corporate Customers, our entertainment was multifaceted, occurring across a number of countries in which we operated and would have included:

- Sporting Events
    - GAA: Corporate Box Croke Park
    - Tickets for Rugby Soccer Events
    - Golf: Ryder Cup/Localised Golf Outings/Overseas Golf Trips

- Social Events: Concerts/Theatre

- Restaurant Dining

(c) Where staff within Capital Markets were entertained by customers, any such entertainment, to a value in excess of €500 would have been recorded in the relevant Business Unit Registers.

(d) I believe the limits set out in the AIBCM policy as noted above were appropriate.

Q.4 (B1e)

I believe the Corporate Hospitality/Entertainment/Marketing Expenditure relating to Corporate Clients and others by AIB Capital Markets was generally appropriate, on a par with common practice in the Industry, and in line with both the Divisional and Group Policies. I am only aware of one instance where hospitality received by staff from a loan client was deemed inappropriate. This occurred in our UK Business. In this case the Executives involved were subject to disciplinary proceedings ,resigned, and left the Bank.

Q.5 (B3a)

In line with the growth in AIB's Balance Sheet the funding Gap (i.e. excess of loans over deposits) saw consistent increase from 2003. I believe our loan to deposit ratio (LDR) peaked at c. 159% in 2009. Within AIB we benchmarked our LDR against a Peer Group of c.35 UK and European Banks with an objective to ensure our growth and level of wholesale funding did not exceed the average of such peer group. In addition we maintained an Adjusted Loan Deposit Ratio (ALDR) with a hard cap of 115% (The ALDR was the LDR adjusted to recognise liquidity in certain Asset Covered Securities; provide a liquidity weighting to issuance in the 35-365 day period; and reduce liquidity weighting of Corporate Deposits).

With the growth in our reliance on wholesale funding we focused heavily on diversifying our Funding Sources and terming out our maturity profile. Our objective was to ensure that at worst we had no more than 20% of our wholesale funding maturing in any one year.

While AIB had an increased reliance on wholesale funding, reflected in an increasing LDR, it was well structured, and in line with our UK and European peers. Pre crisis I believe our wholesale position was not considered high risk, however it did nonetheless make the Bank vulnerable to a severe liquidity crisis.
It is important to note, however, that a relatively high LDR did not, in itself, predict a poor outcome in the Financial crisis. The asset side of the Balance sheet and in particular the quality, fungibility and liquidity of different asset classes, had to my mind, a greater influence on how banks came through the crisis.

AIB's Prudential Liquidity Policy contained a Liquidity Contingency Plan which set out 5 distinct escalation phases up to and including asset and business sales to counter stressed liquidity conditions. Through 2008/09/10 our liquidity position was formally stressed on a quarterly basis by the Asset and Liability Management (ALM) Group; and stressed daily within AIBCM Global Treasury around our Regulatory limits.(0-8 days; 8-31 days)

The speed and severity of the Global liquidity crisis certainly impeded our ability to implement the Liquidity Contingency Policy and quickly deleverage the Bank thus reducing the LDR and reliance on wholesale markets.

It does need to be recognised that the current LDR levels 100-120% reflect the deleveraging mentioned above(which substantively occurred in 2010) and an 8 year period of extremely low loan demand.

Q.6 (B3b)

The catalyst for the guarantee was the severe liquidity issue being faced by INBS and Anglo Irish Bank, both of who were unable to fund maturing liabilities. As a result of the Global Financial crisis, the remaining Irish Financial Institutions were also experiencing (to varying degrees) stressed liquidity conditions, and a continuation and intensification of these liquidity stresses, would have required State support at some point thereafter.

The failure of Northern Rock in the UK and collapse of Lehmans and Washington Mutual (WaMu) in the US, caused Banks to become concerned with counterparty risk and become more reluctant to lend or rollover maturing balances. All Banks using wholesale funding began to experience liquidity problems. As the liquidity crisis spilled over from the Banking market to the Insurance, Funds and Corporate Sectors; Term Funding markets closed to Banks further intensifying the liquidity squeeze. Funds became available in 1 month periods only. We are now aware that many Institutions in Europe were in difficulty at this time. In October 2008 both HBOS and RBS received a total of £62 billion in emergency funding fro the Bank of England. A number of European Banks were accessing Emergency Liquidity Assistance from the ECB and were receiving support from National Governments.

AIB's stress testing and contingency plans were well documented and were in line with best practice in the industry. Our stress testing was both idiosyncratic and systemic. We were in compliance with and maintained surpluses to our Regulatory liquidity requirements throughout the crisis and into September 2010 when the Institution was required to access ELA.

I am not aware of any Financial Institution globally that had a liquidity stress test in place that prevented the impact and liquidity stresses of the 2008 Crisis. The speed and depth of the systemic crisis made it extremely difficult to react and rendered normal stress testing of minimal value.

Q.7 (B3b)

As part of AIB Prudential Liquidity Policy we maintained a Liquidity Contingency Plan (LCP) which set out the actions/escalations required to take place in the event the Institution faced a liquidity crisis. The LCP recognised five stages of stressed liquidity and set out, at each stage, the actions and contingencies to be adopted up to and including asset and business sales.Through 2008/2009/2010 the liquidity position was stressed formally on a quarterly basis by group ALM and Global Treasury with daily stressing of our Regulatory limits by Group Treasury.

Q.8 (B3b)

I refer to my answer to question 5 (B3a).

Prior to the crisis, I believe the profile of our wholesale funding position was not considered high risk. Our funding sources were well diversified and our term structure well spread with an objective of ensuring that at no time did more than 20% of our wholesale liabilities fall due in any one year. In addition our funding structure was well in line with our peer group banks (35). Our liquidity position was strong and was well in excess of our regulatory limits. The funding profile of the Institution was reported on a regular basis to the AIB Board; Audit Committee; Senior Management Group; and Risk Management Committee.

I think it is fair to say that people understood our position and the normalised risks attaching thereto. I am unsure as to whether anyone (including myself) rationalised the risks attaching to the speed and intensity of the worst global liquidity crisis to occur in the last 100 years.

Q.9 (B3c)

Interest Rate Risk Limits were allocated on foot of a Board Approved Policy by the Group Chief Risk Officer and managed by AIB Capital Markets (AIBCM) Global Treasury. The limit was set as a %, being 8.25%, of AIB Tier1 Capital. AIB's Capital and Net Interest Rate Insensitive Liabilities(NIRIL) were invested over agreed time frames to minimise volatility in earnings as a result of changes in interest rates.

Our risk tolerance levels were expressed in value at risk (VAR) terms. VAR is the industry standard for market risk measurement. It is a statistical technique used globally to measure and quantify the level of financial risk within a firm or portfolio over a specific timeframe. It is expressed as a single number.
The Group Treasurer was responsible for the management of VAR limits against policy. Our exposure versus policy was monitored by the independent risk function in AIBCM and reported monthly to the Group Asset & Liability Committee (ALCO); Group Chief Risk Officer; AIBCM Board; and as part of the Group Risk Dashboard to the Board of AIB plc.

In general we maintained a low limit utilisation (c. 40%) of permitted limits.

Q.10 (B3c)

As far as I understand the matter, the principal risk attaching to tracker mortgages is basis risk. In AIB this structural risk was the responsibility of the Group Asset & Liability Committee (ALCO).

While I was not a member of this committee, I am aware that the Group Treasurer presented a paper on the Basis Risk inherent in the Tracker Portfolio and recommended hedging be undertaken to mitigate part or all of such risk. I believe ALCO undertook some hedging in this regard but found it difficult to identify suitable counter parties or pricing levels to execute volume. Accordingly I conclude that Senior Management understood the basis risk in the Portfolio. I am unable to conclusively say whether the Non Executive Directors equally understood this risk.

Q.11 (B3d)

AIB had Board approved Credit Policies on Bank and Country Exposures. Within these policies limits were set for trade, cash lending, derivatives and bond exposures and were calibrated to reflect credit quality and expected liquidity profiles for each potential and actual counterparts.

Attention was paid to setting prudent maturity profiles for individual countries and individual counterparty's. Bank and country exposures were managed by AIB Global Treasury where exposures were held for (i) liquidity and (ii) credit trading purposes. Individual counterparty exposures (sovereign and bank) were subject to approval by the independent credit function in AIBCM. In addition regular Quarterly Portfolio Reviews of all country and bank exposures were conducted by Senior Credit, Risk ,& Treasury professionals.

Cash & Bond exposures to 'peripheral' countries were well managed. In the systemic crisis which occurred every traded instrument excepting US Treasuries and Bunds became less liquid. However I cannot recall any of AIB's Sovereign Exposures, including peripheral sovereigns, which had issues around price discovery. Certainly yields on peripheral Sovereign Bonds widened dramatically causing prices to fall and resulting in capital losses for forced sellers. On the other hand, buyers at these levels, as indeed experienced in Ireland , made substantial gains.

Q.12 (B3e)

In general banks always maintained Regulatory Capital levels, both Tier 1 and Total Capital, above minimum Regulatory Requirements. In my opinion there were a number of reasons for this:

(i) As a matter of prudence, no institution could afford to operate at the Bare Regulatory Minimum for fear of a negative capital event causing a breach. Some buffer was required; and

(ii) Rating Agencies required certain levels of Capital, to sustain a Banks Long Term Rating. The higher the level of Capital the stronger the Rating.

There certainly was a market expectation that Capital levels would be set well above Minimum Regulatory Requirements.

Q.13 (B6b)

I am not aware of any specific review of risk culture and appetite having been carried out by either external consultants or Internal Audit in AIB.
There were a number of reports by the Promontory Group (I understand these documents have been furnished to the Enquiry) which covered the Risk and Compliance Framework but was not specific to Risk culture and appetite. The 2006 Report by Promontory stated that 'AIB generally has a conservative appetite for risk'; and that its "risk management programmes for market risk and credit risk and its internal audit programme are sound given its current risk profile'. .
I am aware of a number of Internal Audit reports which assessed the work being carried out by Group Risk in developing a group wide risk strategy and risk appetite. The first was a 2005 Report on the Group wide credit risk framework which highlighted the need for substantive enhancement to the Groupwide Risk Framework.(contained in the core documents). The second report in November 2006 titled 'Risk appetite and strategy' was essentially a follow up to the 2005 Report and reviewed the work which had been undertaken by Group risk in conjunction with Mercer Oliver Wyman in defining the 'top down' risk appetite and strategy and the the agenda for establishing a 'bottom up' assessment of risk. While I was not a recipient of this report my recollection is that the Management actions agreed with IA were implemented by Group Risk. In this regard Group Risk made a presentation to the AIB Board on 25/4/2007 titled 'Property Portfolio Management Framework',which inter alia set out limits for property exposure in AIB Group.

Q.14 (C2c)

I believe AIB was solvent. Both its Tier 1 and Total Capital Ratios were well above Regulatory Requirements. In Q3 2008 House prices were down c7% from peak.. AIB"s 2007 Property Portfolio stress test had, a plausible case ,weighted average peak to trough fall of 19%, and an extreme case wighted average fall of 36%, giving rise to provisions of Euro 250m and Euro 1.9 bn. In neither of these cases was AIB solvency compromised. At the time, even on a look through basis it did not appear solvency was the major issue.

Q.15 (C2c)

Within the Capital Markets Group and in particular our Corporate Banking Division, restructuring of Credit Facilities only took place when borrower default had occurred or material covenant breaches were not remediated. In each instance the credit would be subject to independent review by the Credit & Risk functions and any amended terms of lending would be required to be approved by the Divisional and/or Group Credit Committee.

To the best of my recollection the number of restructured cases and resulting impairment provisions within AIBCM Corporate Banking was extremely small in 2006 and 2007 with some pick up in impairments in 2008. In general the Credit Quality of our Corporate Loan Portfolio was quite robust. Interest roll up was not a common feature in the facilities which may have been restructured in AIBCM and indeed I can only recall one restructuring case in the period 2006-2008 in which interest roll up was facilitated. In the event interest roll up did occur it was exceptional and determined on a case by case basis.

The Capital Markets Division operated across multiple jurisdictions with multiple regulators. Our Loan Books were continually reviewed by Foreign Regulators and the standards of our loan grading and impairment recognition was required to be best in class. In my opinion our recognition of impairment or insolvencies was timely and appropriate.

Q. 16 (C3b)

(a) I did not participate in correspondence with BOI in relation to the Government Guarantee Scheme in advance of the announcement of the Guarantee. I am aware that the Chairman of AIB spoke to the Chairman of BOI by phone on the afternoon of 29/9/2008 regarding the liquidity position of certain other Institutions. Following announcement of the Guarantee Scheme on 30/9/08, I did participate in discussions and correspondence regarding the terms of the Guarantee with representatives of the Capital Markets & Treasury Group in BOI.

(b) On the 30/9/2008 The Department of Finance (DOF) had requested both BOI and AIB to review the list of instruments (deposit products and bonds) to be included in the Guarantee. I believe they were concerned that the terms of the Guarantee and instruments to be covered were complete and would be fully acceptable to the market. In this regard I recall that the BOI representatives drafted a list of instruments which were submitted to us for review. We made certain amendments to this draft which was subsequently submitted to DOF.

(c) I do not recall being aware of; participating in, or engaging in any correspondence or meetings with the Central Bank or DOF during the day or night of the Guarantee other than corresponding by telephone with Mr.Sheehy and/or Mr. Gleeson who were present in the offices of DOF on the evening of 29/9/2008. Substantively our phone conversations dealt with the provision of, and terms attaching to, a proposed Euro 5 billion loan to Anglo Irish Bank; and secondly, to the duration of the Guarantee.

Q.17 (C3b)

(a) At the request of the Financial Regulator (FR) I was requested to attend a meeting on Sunday September 7, 2008 at the offices of the FR to discuss the provision of liquidity to Irish

Nationwide Building Society (INBS). I was accompanied by a number of my Treasury colleagues. Representatives from BOI were also present.

I prepared a memo for the Board of AIB in this regard. I understand this memo and the relevant Board Minutes were made available to, and have previously been discussed by, the Committee of Inquiry, and in the interest of brevity I do not propose to recant these details.

Apart from this meeting and Mr Gleeson's telephone call with Mr. Burrow's on the afternoon of 29/9/2008 I am not aware of any other discussions between AIB or any other credit institution regarding liquidity, nationalisation or a government guarantee in the period leading up to the night of September 29, 2008.

(b) The Executives who remained at Head Office and in contact with the AIB Chairman and CEO were:

- Mr Colm Doherty, MD AIBCM
- Mr John O'Donnell, Group CFO
- Mr Nick Treble, Group CRO
- Mr Eamonn Hackett, Group Treasurer

(c) My advice to the AIB Chairman and CEO in regard to the severe liquidity crisis being experienced by INBS and Anglo Irish was:

(i) For the Government to effectively nationalise INBS and Anglo allowing for orderly wind down; and

(ii) To stand ready to issue a Government Guarantee for the surviving Banks in the event the action at (a) precipitated a further liquidity squeeze.

Our view was that if the market was convinced that INBS and Anglo were dealt with comprehensively the issuance of a Guarantee for the surviving Banks would have real value in improving sentiment and increasing available liquidity.
The lack of availability of term funding greater than 30 days, meant that a Guarantee was necessary for AIB.

(d) I was adequately informed of the issues and provided clear advice. I believe my advice was heeded.

Q.18 (C3b)

As set out in response to 17 (c) above my view was that INBS and Anglo should have been nationalised at the end of September 2008.

Apart from (i) our interaction with INBS set out at 17(a) above; and (ii) the interaction of my colleagues and BOI with the Government on the evening of 29 September 2008; I am not aware of any other discussions between AIB and other financial institutions on the issue of Anglo/INBS nationalisation.

The Chairman and CEO represented AIB's position to the Government on 29/9/2008. At a Board meeting on 28/9/2008 the Board of AIB were advised by the CEO that he had consultations with the DOF & Central Bank, where he was advised that two financial Institutions were likely to fail, with the surviving Banks being Guaranteed on a temporary basis. Apart from this I am not aware of any other communication between AIB and Government agencies on this matter prior to the announcement of the Guarantee.

To the best of my recollection I believe the CEO of AIB made some representations to the DOF in respect of how the Guarantee cost would be calculated linking it to the cost of insuring deposits with the FDIC in the US. Apart from this I can not recollect of any other discussions with other parties on this issue.

To the best of my recollection the Guarantee cost was determined by the DOF in consultation with NTMA and the cost quantified on the basis of:

(i) Cost to the Irish Government if required to issue additional Treasury Bonds; and

(ii) Assessment of the Risk & Quantity of Qualifying Liabilities. I recall this may have been reflected by using CDS pricing for individual banks.

Similar to any guarantee agreement, the State undertook a contingent liability to repay the liabilities covered by the Guarantee in the event of default by a Guaranteed Institution.

Effectively the contingent liability consisted of the aggregate liabilities of all the banks covered by the Guarantee.

I am not aware of any representations made by AIB to any European parties on how to resolve the crisis.

Q.19 (R2b)

I am not aware of Financial Roundtable Meetings. I never attended these meetings nor have I any recollection of being informed of any such discussions; or having discussion on policy/strategy changes arising therefrom.

Q.20 (R2b)

AIB Capital Markets had business operations in a large number of countries. To place our business profile in context the Division held a Balance Sheet of c. €28Bn of which c. €5Bn was exposed to Ireland.

Accordingly the Global Macro Economic environment was of critical importance to us in framing our credit risk appetite and credit strategy.

The Head Economist of AIB Global Treasury was a staff member of AIBCM and prepared detailed monthly forecasts and reviews of all major economic trends impacting the markets in which we operated. These forecasts were widely circulated to Business Unit Management.

Personally I met with the Head Economist on a 1:1 basis monthly to review the Global Economic environment and assess developments which impacted the business.

In addition to the regular monthly review cycle, detailed annual macro economic forecasts were developed and were used by the Group in framing the Divisional Corporate Plans.

Q.21 (R2b)

I believe that introduction of the policy was helpful to the Banking community in managing liquidity. The 2007 liquidity requirements and reporting standards reflected a move by the Regulator from what was known as a "stock (of liquid assets) approach' to a "cash flow maturity mismatch approach". The approach adopted by the FR looked at cash flow through 7 time bands ranging from 1 week to 2 years with regulatory limits applied to a 0-8 day time bucket; and an 8-31 day time bucket. Observation ratios were applied to other time periods. The maturity mismatch approach which reflected actual cash flows over relevant periods was generally used by Regulators globally and provided a more accurate picture of liquidity stresses than the simple stock approach.

Within AIB Capital Markets Global Treasury we had operated a maturity mismatch approach in assessing our liquidity since 2004. This position was set out in the Board Approved Policy 'Prudential Liquidity'. Our internal policy limits for the equivalent Regulatory Limit Time Buckets were substantially more penal then the regulatory limits and were designed to ensure we consistently operated liquidity surpluses to the regulatory limits.

Q.22 (R2b)

I am not aware of any discussions which took place between AIB Capital Markets plc and the Financial Regulator on the relaxation of credit policies. Nor did I participate in any such discussions.

Q.23 (R3b)

To the best of my recollection I believe that the AIBCM Head of Compliance & Risk met with the Central Bank/FR on a semi-annual basis for a general review of matters of interest.

In the period 2007/08/09 I together with Treasury colleagues would have had frequent contact with the Central Bank and FR in regard to the liquidity position of AIB and the general state of funding markets for Irish banks.

Q.24 (R3b)

(a) I am not aware of any “out of course” insight provided to the Financial Regulator on AIBCM credit risk or bond exposures during 2007/2008.

(b) Nil response

(c) I am not aware of who the primary contact was (or indeed if there was a designated person) within the FR for credit risk and bond exposures. Discussions on Bond exposures would have occurred through our Wholesale treasury team. Discussions on Corporate credit would have been through our head of Risk.

Q.25 (R3b)

AIB Capital Markets conducted business in a number of countries and interacted frequently. with local regulatory Authorities. We had large loan portfolios in the US & UK and had high levels of interaction with the FSA; New York State Bank Examiners; and Federal Reserve, in addition to our interaction with the Irish Financial Regulator. At all times we maintained both an open and professional relationship with every Regulatory Agency we interacted with, and conducted our business to the highest standards of Regulatory compliance.
As far as I was aware the relationship between AIBCM staff and the Central Bank/FR was good open and professional.

Q.26 (R3b)

As far as I was aware the working relationship between the Banking Supervision teams in CB/FR were both open and professional.

I cannot recall there being much engagement between the Business Personnel and Regulatory teams until 2010. Engagement was maintained with the Division Compliance & Risk functions.

In general my perception of the Irish Banking Supervision teams was that they appeared to have a heavy reliance on small numbers of experienced staff.