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AN COMHCHOISTE FIOSRÚCHÁIN I DTAOBH NA GÉARCHÉIME BAINCÉIREACHTA

JOINT COMMITTEE OF INQUIRY INTO THE BANKING CRISIS

Déardaoin, 3 Meán Fómhair 2015

Thursday, 3 September 2015

The Committee met at 9.00 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.

Mr. David Went: No, I just want to repeat something that I said at the beginning because, from my perspective, Irish Life and Permanent was a sound, well-run business when I retired, and I've been shocked and disappointed at the impact of the subsequent events. And I do deeply regret the consequences for the staff, the customers, the shareholders and, obviously, for the Irish State. And I hope that my statements and my interaction here today will be useful to the committee. Thank you.

Chairman: Thank you very much, Mr. Went. With that said, I'd like to thank you for your engagement and participation with the inquiry this evening and to now formally excuse you and to propose that we suspend for 15 minutes and return at 15 minutes past 7 p.m.

Sitting suspended at 7 p.m. and resumed in public session at 7.20 p.m.

Irish Life and Permanent-Permanent TSB - Mr. David Gantly

Chairman: I now call the committee back into public session. Is that agreed? Agreed. And we move on now to session 5 of today's hearings with Mr. David Gantly, former head of group treasury at ILP-Permanent TSB. The Committee of Inquiry into the Banking Crisis is now resuming in public session and can I ask members and those in the public Gallery to ensure that their mobile devices are switched off.

This evening we will focus ... the focus of the inquiry is on Irish Life and Permanent-Permanent TSB and at this session we will hear from Mr. David Gantly, former head of group treasury, Irish Life and Permanent-Permanent TSB. Mr. Gantly joined the then Irish Permanent Building Society in 1994 as chief dealer in their treasury department. He was appointed group treasurer of Irish Life and Permanent in 2000 and held the post until he left the group in early 2009. Mr. Gantly, you're very welcome before the committee this evening.

Mr. David Gantly: Thank you very much.

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 do so, 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 must be taken not to prejudice those proceedings. Members of the public are reminded that photography is prohibited in the committee room and, 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, and members of the public and journalists are reminded that these documents are confidential and they 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 and you have been furnished with booklets of core documents. These are before the committee and will be relied upon in questioning and form part of the evidence of the inquiry. So with that said, if I can now ask the clerk to administer the oath to Mr. Gantly please.

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

Mr. David Gantly, former Head of Group Treasury, Irish Life and Permanent-Permanent TSB.

Chairman: Thank you again, Mr. Gantly, and if I can invite you to make your opening comments to the committee please.

Mr. David Gantly: Thank you, Mr. Chairman, for the introduction. Just ... I've a few brief comments just about five or six minutes, so at the outset-----

Chairman: Okay, that's grand.

Mr. David Gantly: -----I'd like to say that I've endeavoured in my written responses to address the lines of inquiry as fully as I could but in some instances that I actually had ... did have to limit my, my responses. So I worked in Irish Life and Permanent as treasurer from 2000 to early '09, effectively the period covered, obviously, by this inquiry. And in that role I was responsible for all activities relating to treasury, counterparty credit exposures, market risk, funding and liquidity management. The treasury function itself was physically located in the IFSC and my direct reporting line was to the group finance director. I was a member of the senior management of the group at that time. I was not a member of the board nor was I a member of the bank executive. With regard to board-appointed committees, I was a member of the assets and liability committee; I was a member there since 1994. I was also a member of the group risk committee, which was set up in 2007, and the group CEO had set up a new strategy team in early to mid-'07 and I was not a member of that group.

So given my role and the lines of inquiry that I've been asked to address, I'd just like to make a few brief comments regarding liquidity in the banking system and to make some specific comments in relation to Irish Life and Permanent's liquidity and, indeed, funding strategies. So a fundamental function of the banking system is the provision of maturity transformation whereby banks fund longer-term assets with shorter-term liabilities. This provides longer-term liabilities to households and corporates, which facilitates long-term capital investment with obvious economic benefit and social benefit, indeed. The provision of maturity transformation creates liquidity risk for banks. So the regulatory liquidity standards that banks are required to adhere to seeks to mitigate that risk and, in addition, Irish Life and Permanent's funding strategy sought to further mitigate that particular liquidity risk. So Irish Life and Permanent's funding was broadly split into three thirds: long-term debt, customer accounts and short-term wholesale debt. We also held and managed a liquidity portfolio, which provided a substantial buffer against any adverse movement in our short-term wholesale liabilities. Irish Life and Permanent's balance sheet differed from the two main banks in that 85% of the assets comprised residential mortgages, which were highly liquid in normal market conditions. Irish Life and Permanent was also a bank assurer which was created post the merger of Irish Life, the country's largest life assurer, and Irish Permanent in 1999. The bank's credit rating and its ability to raise debt in capital markets benefitted from that particular group structure. Despite extremely difficult market conditions in 2008, Irish Life and Permanent raised over €3 billion of long-term debt through bilateral transactions. Residential mortgages on top of that could also be used as collateral for drawings with the ECB.

So by 2008, Irish Life and Permanent had a loan-to-deposit ratio of 275%, which was significantly higher than that of the other Irish banks. Irish Life and Permanent had, as I said, the backstop of being able to access ECB funding by using its less risky residential mortgages as collateral, a point which is acknowledged in the Nyberg report. I would also say that, you know, a low loan-to-deposit ratio is not a panacea in itself. The Turner report, which was commissioned by the Chancellor of the Exchequer in the UK in October '08 and was published in March '09 ... and in that Lord Turner, the then chairperson of the FSA in the UK, was asked to review the causes of the crisis and to make recommendations on changes in regulation and supervisory approach to help create a more robust banking system. The report provides a very clear and in-depth analysis of the root causes of the crisis and provides a very clear template for suggested changes to make to the banking system to make it more robust. So, with regard to funding that particular report highlights the fact that Icelandic and Irish banks were active deposit takers in the UK market and these deposits, while they did reduce their loan-to-deposits ratios, as the crisis dragged on and deepened these deposits did not remain sticky and were ultimately not renewed, so-called "sticky deposits" obviously being less likely to be withdrawn in a crisis event.

So Mervyn King, the then Governor of the Bank of England, made the point that the crisis revealed faultlines in global regulation and supervision, pointing out that global banking institutions are global in life but national in death, a point that we clearly saw. So, Irish Life and Permanent's funding strategy was formulated with the intention of providing a sustainable, stable funding platform and this strategy was formulated against the conventional wisdom that a liquidity event would be very short-lived. The banking system is susceptible to liquidity events. I had first-hand experience of significant liquidity disruption in markets during the Russian debt crisis and the collapse of Long-Term Capital Management in 1998. Global markets also experienced a severe liquidity shock post the 11 September attacks and, in both those instances ,regulatory authorities acted very decisively to find a quick solution to the problems and that was actually achieved. So the recent crisis, which was clearly systemic, its impact unprecedented, the duration of the disruption in markets was not anticipated and, inevitably I think, the regulatory liquidity requirements which were in place were not sufficient to withstand that particular shock. So regulators, clearly, are revising capital and liquidity standards in order to strengthen the system and prevent a recurrence of recent events which, regretfully, have had such a devastating impact on Irish citizens.

Thank you, Mr. Chairman, and I am happy to take any questions.

Chairman: Thank you very much again Mr. Gantly. We will commence questioning; if I can invite Senator Susan O'Keeffe. Senator, 20 minutes.

Senator Susan O'Keeffe: Thank you, Chair. Mr. Gantly, you say in your statement that you were ... treasury was physically separated, that you were in a different building in a completely separate place. Isn't that correct?

Mr. David Gantly: That's right, as I say, the group structure as it is, bank assurance, the life company was located in Abbey Street, the bank in Stephen's Green and the treasury within the IFSC.

Senator Susan O'Keeffe: And in a way does that reflect how it operated? Were you quite a, sort of, separate entity or did you feel very much linked to the activity of the bank as a whole?

Mr. David Gantly: Okay, well, I suppose at the outset, while the term "group treasurer" was used, in reality the treasury function was aligned to the bank. The life company's business was quite independent so I suppose that is in the first case. I guess the ... my main interaction then with the bank *per se* ... I mean, obviously, I had a direct reporting line to the finance director which I've said, I would have had obviously a lot of access with the CEO and other members of the bank, I suppose, but by physically not being there you clearly were removed so that had some impact, I think, yes.

Senator Susan O'Keeffe: So coming up to the time of 2008 and the guarantee, how much were you aware of how things were changing and how more of an emergency it was becoming in those last weeks, or not?

Mr. David Gantly: I would say "Absolutely". I suppose, the issue was a treasury problem, a global treasury problem, so I would say back in mid-'07, you know, there were actions happening in the markets, there were credit spreads were starting to widen, there were markets just starting not to function and things that I'd seen happen for 30 years - you know, normal functioning markets - just really started to implode in a way that I had never seen before.

Senator Susan O'Keeffe: So this was new. What was happening in 2007 was a complete change from anything you'd see before.

Mr. David Gantly: I think that, as I said, the examples I've given were very specific. This was for sure ... we had heard of systemic risk, it was kind of ... sounded like a nebulous enough thing, people didn't really know what it meant but this is what it was and I don't think anybody saw the scale of it or what was coming, yes.

Senator Susan O'Keeffe: And so when you would talk to your colleagues and say, "I've never seen anything like this. This feels different, this is different" and that was in when - October, November 2007?

Mr. David Gantly: Yes, from mid ... probably, yes, absolutely around the autumn through - I'd say that's fair, yes.

Senator Susan O'Keeffe: One of the things that has always puzzled me personally is how, then, did it take until the end of September 2008 for it all, if you like, to come to a head, to blow up in a single night?

Mr. David Gantly: Yes, I mean ... if ... I gave a presentation to the risk committee in November 2007 and there were senior members of the ... from the banking side there including the CEO, the group finance director and the ... it's part of the documents that you have and it's basically saying that we had ... I mean, our funding strategy in the short term was based about a geographic and product diversification and I show a list in that and I'm clearly saying that there is traditional avenues that we have used extensively, you know, forever, as it were, have suddenly started ... are drying up, essentially, so like the USC commercial paper market for instance, which is a very short-term borrowings, would be instigated by banks there - that was a €2 trillion market that within three months, four months just absolutely dried up so this was just ... we had never seen anything like this before.

I think, in answer to your question, I think there was a sense with ... that something was going to come over the hill to kind of rescue this, whereas, in fact, as I said for sure people thought liquidity crises were normally short term - that would have been my absolute opinion - so I think people thought that something ... I don't know what was in mind but that something was going to happen that was going to actually sort this out. And I suppose it dragged on ... "muddled on" would be as best I could describe it, and then you mention September '08 and, I suppose, the final kind of, in my opinion, cliff that really ... that the markets fell over then was the collapse of Lehman and that really was the straw that broke the camel's back, if I could, yes.

Senator Susan O'Keeffe: So, as all that was going on, as you say, as you were muddling along hoping something might come over the hill and so on, were you aware whether, in general terms, the bank was having discussions with any other banks or with Central Bank or the Department of Finance in relation to those liquidity issues? I know you say you wouldn't have had direct contact with the Department of Finance yourself-----

Mr. David Gantly: I didn't have, I-----

Senator Susan O'Keeffe: Were you aware of what, sort of, if you like, official contacts were being had, either with other banks or with Government Departments?

Mr. David Gantly: Okay. No, I was. I had one meeting with the Department of Finance which, I think, was post the guarantee so I wouldn't have a relationship there. I suppose, just within treasury itself, we would have had very direct contact with the regulators - both the Financial Regulator and the Central Bank - and that would be conducted on a, really, a weekly and daily basis so the ... our liquidity manager would have been in contact, regular daily contact with the Central Bank money desk and, in the first place, that would have been for the conduct of normal market transactions so this would be repurchase agreements which the ECB would do on a regular basis so in normal times that was a ... the normal repos that they undertook were conducted once a week for a two-week duration and then the LTROs, or long-term refinancing operations, would have been done every three months for a three-month term. Now obviously, as the crisis, you know, dragged on they extended the term of those long-term operations to three months to six, to 18 and eventually out to two years.

Going back to your question, I mean I would have been absolutely aware that ... I knew people ... I would have had a very close working relationship with the finance director who was my immediate boss and I would have been absolutely aware of ... that there was regular contact with the regulator and, indeed, I would have been at some of those meetings myself.

Senator Susan O'Keeffe: I mean you, in Vol. 2, page 15, your e-mail to the Financial Regulator, dated 29 November, not surprisingly talked about the threats to liquidity and the fact that the interbank market is now effectively closed. Do you believe or do you think that the Financial Regulator, while you were giving information all the time and, as you say, you had a professional relationship and you were in touch, increasingly in touch, was the Financial Regulator's office slow to take control of the situation or did the Financial Regulator's office do a good job?

Mr. David Gantly: I'd say that a lot of the information ... there was a lot of information being collected, that's for sure, and so just from an organisational perspective when we were asking for something that was a priority they got exactly what ... and we had very good systems which produced the information which was obviously critical in the first place.

Senator Susan O'Keeffe: But you can have information. It is whether you act on it.

Mr. David Gantly: Absolutely. I think as ... certainly at meetings ... I was at a meeting I can recall in ... I guess it must have been somewhere around the summer to the autumn of 2008 with the CEO and the group finance director and there was certainly a sea change I think then that we were saying well, what was ... I was there to really say what was going on in the marketplace. I presented a picture and I think the regulator absolutely knew that the markets were in bad shape. So they were getting the information. I suppose the ... ultimately, the only real reaction, if you like, that I physically saw would have been the announcement of the guarantee because I can't recall that there were any other changes that would have happened. I mean at ECB level, it was being fed back and there was a longer-term repos were being provided so there was clearly an awareness that the system which normally ... the traditional, you know, method that banks would have used to fund was utterly drying up and that the lender ... ultimately, the lender of last resort was increasingly becoming the lender of first resort.

Senator Susan O'Keeffe: Do you think that perhaps the Financial Regulator and all the associated bodies also thought that someone would come over the hill ... in a way that they were hoping something would sort itself out? Did you get that impression or is that completely not fair?

Mr. David Gantly: I think that would be ... I couldn't really answer for how they saw it but I do think there was a little bit of ... I suppose it was incredibly unusual. People have used the expression "one in a 100 year event". It was there so there was ... I think there was an element of people ... all of us being caught in the headlights to an extent.

Senator Susan O'Keeffe: Again, in Vol. 2, Mr. Gantly, on page 5, is the e-mail from Peter Fitzpatrick relating to the retail deposit guarantees and adding the voice to increasing the limit:

> My view is anecdotal at this stage and based on reports on what people are [openly] talking about in the workplace. I think that an increase in the guarantee would go a long way to restoring retail confidence right across the [Irish] market.

Again, this is 17 September 2008. Is that an action that ... would it have made a difference if that action to guarantee ... to raise the limit were taken earlier? Would that have helped, do you think?

Mr. David Gantly: In terms of the actual flows that we saw across our retail division, no because we didn't experience ... we saw ... in fact, we didn't see any, you know, really significant negative flow. It's-----

Senator Susan O'Keeffe: Until post-Lehman's.

Mr. David Gantly: So I'd say it hadn't a huge impact but it certainly helped. I mean, you might remember there was ... there were radio shows going on, it was a very ... it's easy to ... I mean, it's a long time ago looking back now number one.

Senator Susan O'Keeffe: Yes, this is post-Lehman's, of course, isn't it too?

Mr. David Gantly: This was post-Lehman and really ... it's hard to describe. I mean I certainly know from my side ... you know when you're going in in the morning and you're saying "Right, what's our liquidity situation? What's going to happen next?" At that particular time, there was ... there were rumours of ... I suppose ... I'm not going to name banks but there were rumours of, you know, two or three German banks that were being ... there was speculation that they were in trouble ... a Belgian bank. It was just ... every day, you went in it was rumoured as to who was next kind of thing.

Senator Susan O'Keeffe: Again, in Vol. 2, on page 11, there's an e-mail again from Peter Fitzpatrick writing to the Financial Regulator and, specifically, he's talking here about ... and this is going back to 22 November 2007.

Mr. David Gantly: Yes.

Senator Susan O'Keeffe: He's talking about Bank of Ireland actively talking down the Irish story and:

> [T]o quote Schroders in the UK, who met with BOI yesterday, the CEO said that "in quarter 1, the issue for all Irish banks was one of survival". Bit alarming for BOI, but to put us all in the same boat is creating massive negative sentiment. Of course, I'm getting-----

Mr. David Gantly: Sorry, Senator, if I could just ask which part ... where are you in the text?

Senator Susan O'Keeffe: I beg your pardon - page 11, Vol. 2, the second paragraph of the e-mail.

Mr. David Gantly: The second paragraph, okay, thank you.

Senator Susan O'Keeffe: So, again, you know, it's quite ... it's a curious moment, I suppose, that your organisation was complaining to the Financial Regulator about the Bank of Ireland talking down the market and including you guys in it. Was that something that ever happened again or what ... do you remember this or do you have anything ... obviously, you've had the books prior to coming here?

Mr. David Gantly: Absolutely. Well I think the reference to me in it is very specific in the first paragraph in terms of an engagement with the regulator.

Senator Susan O'Keeffe: Yes.

Mr. David Gantly: I think this is a private view of Mr. Fitzpatrick which he's representing so.

Senator Susan O'Keeffe: Okay. You're not aware of it?

Mr. David Gantly: I may have seen this before ... the memo but certainly this wasn't ... I wouldn't have seen this as a house view.

Senator Susan O'Keeffe: Okay.

Mr. David Gantly: Or a view, or maybe more fairly, a view that I subscribed to.

Senator Susan O'Keeffe: Indeed, in that first paragraph, you are thanking the help that you've had from the regulator in helping to get the assets across the finishing line to be included in the tender and it's ... you're talking about €2 billion drawing from the ECB tender. Was that again an indicator of the trouble ... the difficulty that you were in or would that have been normal business?

Mr. David Gantly: It would have been, I'd say, out of the ordinary. Not ... I'd... if we ... when we went back to... going back to 2007, which was in a sense where we started this, one of the responses that I initiated as I saw the markets starting to dry up ... we would have used securitisation, which, obviously, was an obvious tool for us to use given the nature of the balance sheet with 85% of the assets were residential mortgages. So in the normal course of events, you know, pre ... let's call it up to mid-07, I mean securitisation from the 90s on had become more sophisticated, wider investor base and we could use securitisation to fund longer term. And, typically, a securitisation would be funded for five years ... would be the duration and I know Mr. Went earlier referred to the weighted average life on mortgages being somewhere around six so we were actually, kind of, almost match-funding the assets.

So when the conventional sources of securitisation actually started to dry up, I was extremely nervous about what was going on in the marketplace. What we started to do was we identified with the help of our colleagues in the wider bank to ... we identified the pools of mortgages. If you want to do a securitisation, you'll say ... typically say €1 billion or €2 billion in that case in that instance. They have to satisfy certain criteria. You've got to have ... you've got to be able to ... because they're going to be put into a special investment vehicle and the cash flows have got to be very clear. There's a lot of criteria that it must kind of adhere to.

So back in '07, faced with the markets as I saw them, I put in place a plan to create pools of ... to have pools available for essentially what would have been deemed to be internal securitisations. So at the time then, the ECB in the normal course of events would, as I said earlier, would be engaged in repos in their normal market activity and would get more involved with, you know, as required I guess. And at the time, residential mortgages counted as tier 1 collateral for drawings with the ECB so this was a very valuable asset for us to have.

Senator Susan O'Keeffe: Okay. Are you aware of whether stress testing took into account the correlation between the different types of property being financed, in particular category of loans issued, for example, tracker mortgages, and the availability of appropriate funding or was that outside your-----

Mr. David Gantly: Stress testing on sort of ... on the banking asset side was utterly removed from my remit so I would have had no input into that.

Senator Susan O'Keeffe: Okay. In looking at your statement, Mr. Gantly, where if you like do you see your ... I don't mean you personally but the contribution of if you like ... where did it go wrong for the bank? Because we can talk about the global impact and we can talk about Lehman's and all of those things absolutely nobody's pretending they didn't happen. But internally in the bank in that time that you were there, what do you think the bank did that contributed to the eventual cost to the taxpayer of some considerable amount of money - billions?

Mr. David Gantly: You started the question when you asked about my input into it or are you talking about the wider, sorry-----

Senator Susan O'Keeffe: No, I am looking at your statement and I'm thinking I can't quite see in your statement where that is acknowledged if you like. What was it in the bank ... no, not you personally, Mr. Gantly-----

Mr. David Gantly: Sorry, okay.

Senator Susan O'Keeffe: ---- the bank and, obviously, from where you were sat in the bank as opposed to ... because, you know, you were significant within the bank.

Chairman: The operational business model from an observation - what were the fault lines in it?

Mr. David Gantly: Yes, sure. I think one of the documents that you'll have seen in the documents that were submitted to you would have shown that the strategy in the bank ... there was a strategy presentation in 2005 and the drive was towards ... it was faced with ... I think at the time the market share was somewhere in the bank was about 17% and I know, as David Went referred to earlier, the bank always saw itself as having a kind of 20%-25% market share was its kind of target. That's where it saw itself being and the response to that, you know, was to actually go for higher volume, lower margin and there was a migration then of existing customers to the tracker product, okay. So I think with the benefit of hindsight, I think that was not maybe the most perfect strategy to adopt but, as I say, that's with the benefit of hindsight.

Senator Susan O'Keeffe: ILP was downgraded by Standard and Poor's in June 2008 and placed on a negative outlook, and then Moody's also put it on a negative outlook in July. Can you recall what was the reaction, if you like, among you and your colleagues after that happened? Was it what you expected or was it ... did it come out of the blue or was it fair or what did you think?

Mr. David Gantly: You said, "in 2008".

Senator Susan O'Keeffe: Eight.

Mr. David Gantly: Yes. Well, in the first place, I would have engaged in discussions with the rating agencies, and I can't remember the exact timing. I think it was Moody's first and then Standard and Poor's, if I remember, but I can remember being in London, you know, at a presentation to the rating agencies and having a discussions afterwards. And, you know, I was asked what did I think and my view was that, you know, the presentation went as well as it could go, the case was very fairly presented but I thought that they would downgrade us. So, I think, somewhere in there too, I think, there is a statement, maybe about how rating agencies actually behave. So, you know, you could argue, you know, 12 months ago the Irish story was clearly becoming ... at the sovereign level was becoming clearly better but it takes the rating agencies ... they tend to be, I think, after the event. And ... but ... I suppose, it's not as important if you're ... if the curve is rising, but if you're in a crisis, it clearly adds, and adds significantly, to the problem. It has a disproportionate influence in a downgrade.

Senator Susan O'Keeffe: When the Department of Finance was, if you like, trying to organise itself through September, it was looking at all the various institutions. It put you in the same category with Anglo Irish Bank and INBS, the three of you grouped together and, indeed, they referred to your position as "finding conditions very challenging". I mean, again, they would have been drawing that, obviously, from the information that was going through to the Financial Regulator and so on. But was that something that you were aware of, that the three institutions were bracketed in the same breath - they would be talked about together - or did it matter at all by then?

Mr. David Gantly: Well, one, I wouldn't have been aware of it and I wouldn't have known what analysis that they were forming that on. I mean, clearly, if you're talking about business models, we're very different organisations. I mean, my sense ... and, again, you know, markets ... a huge part of markets is, kind of, confidence and rumour, but, like, post-Lehman, the talk globally was, you know ... I suppose, I was thinking ... you say to people ... everybody would say to you, like, "There's a big liquidity problem out there but we're fine", and that doesn't actually ... that doesn't stack up. So my sense at the time, and, I think, the regulator's actions on, I think, it was 20 September or post the meeting on 20 September when they increased the retail deposit from €20,000 to €100,000 ... I mean, clearly., that was reflective of the fact that there was ... there were liquidity issues but my understanding would have been that those liquidity issues were there for all of the banks.

I can only speak, obviously, to Irish Life and Permanent's position. We certainly experienced, you know, some run on ... "run" would be probably too strong. I mean, we had corporate customers who would have been non-Irish who would have rolled over their funds so they might place one-week money with you or they might place overnight money, but they could do that for 365 days a year. So that's, kind of, was the nature of the business. So we did see in the two weeks, say, up to the guarantee, we saw some of that money not being renewed, particularly, I would say to you, the overseas element to it, but it wasn't huge. But, I mean, obviously, the issue was ... and you're saying, "Well, if this continues." And, as I said, post-Lehman, it was just the heat really just seemed to get turned up. You felt something was just going to give, yes.

Senator Susan O'Keeffe: Did you think the bank would go under at that point?

Mr. David Gantly: I didn't think the bank was going to go under. I think that there was ... I mean, I know I had conversations with the finance director and said ... like, months prior to that, and said that I felt it was inevitable that people would breach the regulatory liquidity requirements. I mean, if I remember correctly, the week before the guarantee, I think, we were, like, ... we satisfied our regulatory requirements twofold, somewhere in that region, to the best of my knowledge, but I was absolutely aware that if the pace of what was happening was going to continue, it just felt that something was going to give.

Chairman: Hold it at that now, Senator, thank you very much. Deputy Michael McGrath.

Deputy Michael McGrath: Thank you, Chair. Mr. Gantly, you are very welcome.

Mr. David Gantly: Thank you.

Deputy Michael McGrath: Can I start by just going back to the issue of tracker mortgages? And I know you weren't on the banking side, as group treasurer, but in terms of interest rate risk, were you aware of the extent of the tracker mortgage interest rate risk and was this issue ever discussed at board level, to your knowledge? And I know you weren't on the board, but can you just discuss that?

Mr. David Gantly: Okay. I can recall in the ... in some of the documentation, there is a reference at a board meeting to discussing basis risk between seven and 30 days' funding so basis risk was ... you know, therefore, was discussed. The principal area where it would have come up would have been at ALCO meetings, which I was a member of. And if ... when trackers were introduced, I suppose, if you went back to '99, obviously, and the creation of the euro in the financial markets, I mean, clearly, we had come from a situation where you had the Irish market with all its, kind of, vagaries and a lot more volatility. If you went back to the '80s, you know, just currency problems and you'd get 16% and 17% interest rates. So with the euro, it wasn't written in stone but, for sure, I was asked this question and it was something I tracked myself. The ECB ... there was ... broadly, it appeared that they were running with a policy where they were running about a five basis points, in other words, 0.05%, between the ECB rate and the one-month rate, and I certainly would have been asked that question and would have reflected that, and, equally, would have pointed out that our funding was ... tended to be over 30 days so you straightaway had basis risk between the ECB rate and the one-month. The tracker products were clearly priced off the ECB rate so there was risk there and it was ... and we pointed it out.

Deputy Michael McGrath: When did the bank start rolling out tracker mortgages?

Mr. David Gantly: To the best of my knowledge, I would have said somewhere like in late '04-'05.

Deputy Michael McGrath: I think '05 actually, yes. I think '05.

Mr. David Gantly: I do know that ... I think 85% of tracker mortgages in Ireland, to the best of my knowledge, were written between 2004 and 2008.

Deputy Michael McGrath: Okay. And can you just explain to the inquiry how a bank would fund, let's say, a bundle of mortgages - an individual mortgage, a bundle of mortgages? Where does that money come from?

Mr. David Gantly: Okay. Well, if I went back one, I suppose, you're going to be generating, you know, assets from within the bank, right? So, typically, they are going to be writing ... If they write, say, for instance, just for argument's sake, €500 million of business in a month and that's going to be spread across, say, a standard variable product, tracker, five-year fixed, whatever, yes? So, in the first place, our systems, that was fed back down to treasury. So all of that ... the risk that that generated was transferred into treasury and, I suppose, structural asset and liability management was our ... one of our core, probably, you know, things that we did, in addition to, sort of, liquidity management. I'd say, they were the two prongs that were really critical. So ... sorry, I've just-----

Deputy Michael McGrath: The money, ultimately, is coming from-----

Mr. David Gantly: Absolutely, sorry, excuse me.

Deputy Michael McGrath: -----deposits, wholesale funding, you know, your funding mix.

Mr. David Gantly: Okay, sorry.

Deputy Michael McGrath: The point I am getting at is, like, from a bank's point of view, I could never understand the logic of a tracker mortgage because you were linking the price that you could, ultimately, charge the consumer to a lever that you had no control over. I mean, at the peak, what proportion of your funding, as a bank, was accounted for by ECB funding?

Mr. David Gantly: Okay. I think-----

Deputy Michael McGrath: I mean, a small percentage?

Mr. David Gantly: I would have said ... I said up to, sort of, the guarantee, I think, about €12 billion would have come-----

Deputy Michael McGrath: Percentage wise?

Mr. David Gantly: -----from the ECB and that was ... the balance sheet at the end of 2008, to the best of my knowledge, was, I think, about €40.1 billion.

Deputy Michael McGrath: Okay.

Mr. David Gantly: So, essentially-----

Deputy Michael McGrath: Between a quarter and a third.

Mr. David Gantly: About 25%, 30%. But in that scenario, essentially, what had happened was that all of the short-term funding had basically exited and, essentially, it was replaced by ECB drawings.

Deputy Michael McGrath: Okay. So, in the years prior to that, the proportion of your funding-----

Mr. David Gantly: I think the thirds that I mentioned-----

Deputy Michael McGrath: -----from the ECB would have been lower?

Mr. David Gantly: Entirely.

Deputy Michael McGrath: Dramatically lower.

Mr. David Gantly: It was there as a backstop. So I mentioned in the opening statement, I think, and in the written submission, that our funding strategy was centred around both the products and geographical spread in the one hand, but, equally, we spread the funding between ... like, three thirds, between long-term, customer deposits and short-term. So, if you like, then the crisis impacted, well, ultimately on them all, but the first place that it is going to hit you is going to be in your short-term debt.

Deputy Michael McGrath: You see, I could understand the logic of a tracker from a bank's point of view if the cost of funds from the ECB was the full measure of the bank's cost of funds but, of course, it wasn't; it was only a small proportion of your funding mix and yet you tied the price that you could ultimately charge the consumer to what was only a small proportion of your funding mix, which ... What was the logic?

Mr. David Gantly: Well, I think, the decision surrounding the introducing of trackers in terms of Irish Life and Permanent ... I suppose it was ... as has been shown before, it is a very competitive marketplace, other people are there so it's ... I think there was a reaction to some extent to competitive pressures. It was also, I suppose, the ... a very stated objective of the group to be the No. 1 provider of retail financial services so I think there was an element of cross-sale seen in this, to be fair, as well. I did say that in that ... in a normal conditions that you had this roughly five basis points basis risk and if ... so, if you're writing a track with 100 basis points you're saying, "Well, actually it's 95 but we can live with that." And, the pricing would have reflected that.

If you looked at it in absolute terms, and in a crisis scenario where spreads, you know, just got blown out, I think, beyond where anybody thought they were going-----

Deputy Michael McGrath: Yes, outside linking. Linking your price to the consumer was a small element of your funding mix.

Mr. David Gantly: It was ... it's inherently dangerous. The optionality in the product was with the customer.

Deputy Michael McGrath: Sure.

Mr. David Gantly: And from a treasury perspective to hand away the options wouldn't be ... is never a good idea.

Deputy Michael McGrath: Okay. We'll move on. Can you comment on the reasons why Permanent TSB had an exposure to Icelandic banks of €92.4 million and what was the total amount written off on these exposures, if you know? And, that is referenced in the core booklets as well. Vol. 1, page 79, there's a letter which I'm sure you've read from Peter Fitzpatrick to Mary Burke in October '08. What's the background to that issue, that exposure?

Mr. David Gantly: Well, as I said in the opening comments, we would have held a liquidity portfolio which was typically of very very high quality, didn't go below, sort of, single A. The bulk of it was triple A rated. It was sovereigns. But, as part of that portfolio we did have an exposure to Icelandic banks, I suppose, which back in 2006-2007 had been rated triple A. So that was ... I mean, the purchase of those was within the terms of the credit guidelines that we actually worked within treasury. And, essentially the crisis ... Iceland decided to default and, to the best of my knowledge, the full €92 million was written off.

Deputy Michael McGrath: The full amount was lost, okay. In his statement to the committee Mr. Kevin Cardiff stated that ILP was set to run out of money by Thursday, 2 October 2008. You covered some of this earlier on. What was your assessment of your bank's liquidity and solvency position on the days leading up to the night of the guarantee and the night of the guarantee itself and, indeed, the subsequent days?

Mr. David Gantly: Okay. Well these, Senator ... the liquidity issue was certainly getting more critical. My take was that our regulatory requirement was absolutely satisfied up until the guarantee. I'm not ... I don't know the full details behind, you know, what document he's referring to. Clearly, we would have had ... we would have been sending liquidity reports. They would have gone to the regulator, would show your inflows and outflows and your net position and there are going to be days where you've got bigger exposures than not. So, I'm ... I'd really need to see the document to comment there.

Deputy Michael McGrath: Okay, but did you need the guarantee?

Mr. David Gantly: I'm sorry.

Deputy Michael McGrath: Did the bank need the guarantee?

Mr. David Gantly: Well, at the time, I'm pretty sure that we had ... I mentioned earlier that we had collateralised ... created the internal securitisations as a backstop.

Deputy Michael McGrath: Yes.

Mr. David Gantly: And, we had a pool of €20 billion coming from that which was available to us. And, to the best of my knowledge, at the time we had ... our drawings were somewhere in the region of €8 billion. So, I would've thought we had absolutely available collateral to ... available emergency collateral. I mean that might be the difference.

Deputy Michael McGrath: Yes. Okay.

Mr. David Gantly: With regard to solvency, I mean, the bank had 9.2% capital ratio at the end of 2008. Again, as I said, we were part of the wider group. The solvency ratio in the life company was 1.6% and I think that effectively meant there was a bit of ... a surplus of about €700 million or €800 million capital within the life company. So, you know, solvency was ... I never saw as an issue.

Deputy Michael McGrath: Okay. I'll come back to the solvency issue but just sticking with liquidity for a moment, as far as you were concerned as group treasurer there was adequate liquidity on hand for the bank in the immediate days leading up to the end of September.

Mr. David Gantly: Yes, but as I said ... post ... I mean, this is a problem-----

Deputy Michael McGrath: This is post-Lehman's now.

Mr. David Gantly: -----that's been happening since '07 and it's getting worse.

Deputy Michael McGrath: So, short-term funding has stopped.

Mr. David Gantly: Short term is drying but, equally, longer-term funding is getting harder. Don't forget all the longer-term funding that you would normally access that's starting to bite-in clearly as you move along the time axis.

Deputy Michael McGrath: And had you debts maturing in the weeks ... the days and weeks-----

Mr. David Gantly: Absolutely. So, we would've had a long-term debt profile somewhere out the region of probably about ten years, typically, and we purposely set it up like that because one of ... obviously every year when you sit down with the funding you're looking at your new lending growth and you're looking at the refinancing of maturing debt. So, we looked to stagger the refinancing risk to try and mitigate that. But, as I said, as we moved into, sort of, late '08, you know, all of the markets were just ... were just ceasing so the problems were getting worse. So I'm not saying that there wasn't potentially ... looking into it post-Lehman you're looking down saying "Well if this doesn't stick well it's going to cause problems", absolutely.

Deputy Michael McGrath: Okay. And while PTSB was covered by the guarantee and you weren't in any way involved in the final discussions, as you know, AIB and Bank of Ireland went to Government Buildings on the night in question. So, did the bank have any input in the days leading up to it about the possibility of a guarantee and whether it would wish to be included? It might have been at a more senior level to you possibly but-----

Mr. David Gantly: I don't ... yes, I'm aware that, you know, that the CEO and chairperson were at meetings in Government Buildings. Frankly, if that's after the event I'm not ... I can't honestly say. We had no input into the guarantee would have been absolutely my take. I mean, I-----

Deputy Michael McGrath: And you personally wouldn't have been aware in the 24-48 hours leading up to the decision-----

Mr. David Gantly: That that was in the offing?

Deputy Michael McGrath: -----that something was about to be done.

Mr. David Gantly: No.

Deputy Michael McGrath: No.

Mr. David Gantly: I got a phone call, I think, on the Tuesday morning from the CEO at about 4 o'clock saying that a blanket guarantee had been put in place.

Deputy Michael McGrath: What was your reaction?

Mr. David Gantly: I was surprised but not shocked I suppose would be the honest way to put it.

Deputy Michael McGrath: Did you feel it was the right decision----

Mr. David Gantly: I think that's a-----

Deputy Michael McGrath: -----then?

Mr. David Gantly: I suppose the ... my immediate reaction to it was ... the question that was put me, "Well what's this going to mean?" So, I mean ... and essentially what it meant was that, you know, we had gone from being a weak single A creditor you know to having triple A status, that funds were going flow in and ... which is exactly what happened. So that was my immediate reaction.

In terms of ... you know, I'm aware that there was a lot of discussion, there was a lot of advisers around before it. I was always a little bit surprised after the event that it seemed to ... that decisions appeared to have had to be made in a rush, but, frankly, I don't ... I hadn't access to it. I don't know enough about it. That's more of an opinion, I guess.

Deputy Michael McGrath: And what was the immediate impact of it on your operations and on the funding and liquidity side of the bank?

Mr. David Gantly: Where we had started to see an issue with the non-rollover of, in particular, funds from the UK and Europe I suppose there was probably a day or two of ... things stabilised straight away and there was a day or two of people looking for full clarification as to what it meant. Some investors were quite happy to lend but, absolutely, there was a massive flow of funds. Going back too to the increase in the €100,000 on the-----

Deputy Michael McGrath: Yes.

Mr. David Gantly: That was specifically on the retail side.

Deputy Michael McGrath: Yes.

Mr. David Gantly: But ... I mean, I was certainly ... the message was put to me like that ... and, as I understand it, it came from the regulator was, look, to put it out there that ... to, you know, corporate investors, that there is an implicit, sort of, guarantee here behind the Irish banks and I think that that was also clear.

Deputy Michael McGrath: And, on the broadly blanket nature of the guarantee, did you believe that it was too broad? Had you any views at the time and what is your current view of the appropriateness of the bank guarantee?

Mr. David Gantly: I guess ... the real cliff that I was looking at was in terms of liquidity so, therefore, my reaction at the time was, it's going to .... it sorts that problem. You know, I hadn't, I suppose considered it ... I don't think anybody ... I don't ... I think few had ... was to look at what the scale of the blanket guarantee meant in terms of its absolute size relative to Irish GDP. So, in terms of, you know ... equity bore the full cost. You know, subordinated debt that counted as capital for me I would have thought that that should have suffered the same fate.

Deputy Michael McGrath: Okay. The State ultimately ended up injecting €4 billion into Irish Life and Permanent: €1.3 billion was recouped with the sale of Irish Life and a further €500 million or so in the recent restructuring. The net cost is still north of €2 billion, as I understand it.

Mr. David Gantly: Yes.

Deputy Michael McGrath: Given that Permanent TSB didn't go into the whole area of speculative property lending, land banks and development finance, how did it end up costing €4 billion? Was it the collapse in property prices? Can you explain, from your point of view, and I know you were gone in early 2009-----

Mr. David Gantly: February '09, yes.

Deputy Michael McGrath: Property prices fell dramatically in '09 and '10 but, from where you were sitting, on your departure did you foresee that the cost could be so great of rescuing Irish Life and Permanent?

Mr. David Gantly: I'd say absolutely not, Deputy, no. But I didn't sit down and ... and either, you know, to, sort of, deeply analyse it either, I'd have to say.

Deputy Michael McGrath: But where could the losses have come from? Can you just rationalise it? You know-----

Mr. David Gantly: Well, some ... okay, again, I was gone in February '09 but, I mean, clearly, as part of the whole PCAR, sort of, process, like, banks' capital requirements were increased substantially-----

Deputy Michael McGrath: Yes.

Mr. David Gantly: -----so they were going to need more capital so ... than hitherto. So that was ... they were ... in the marketplace, as it was then, that capital was only coming really from one place. I honestly don't have insight into the breakdown and analysis of the mortgage portfolio, to answer your question.

Deputy Michael McGrath: So it would have been driven by loan impairments, additional provisioning-----

Mr. David Gantly: Sorry, that's-----

Deputy Michael McGrath: -----stress testing-----

Mr. David Gantly: Sorry, that's where it would have come from, yes. I beg your pardon, yes, that would be absolutely my take, but I don't know the mechanics of that.

Deputy Michael McGrath: Sure. And you said that 85% of the ... was it the group assets-----

Mr. David Gantly: No.

Deputy Michael McGrath: -----were accounted for by residential mortgages?

Mr. David Gantly: Yes.

Deputy Michael McGrath: What were the other 15%, broadly-----

Mr. David Gantly: Well, you'd the car finance-----

Deputy Michael McGrath: -----of the asset base?

Mr. David Gantly: You had car finance division-----

Deputy Michael McGrath: Okay.

Mr. David Gantly: -----and then there was the joint venture with Springboard, with Merrill's. That would have been the bulk of it.

Deputy Michael McGrath: Okay. Can you just explain how the loan-to-deposit ratio reached a mouth-watering 275%? And, in the context of the fact that the funding mix ... if you look at the graph on Vol. 1, page 121, which looks at '06, '07, late '07, March '08, and the composition of the funding mix remains broadly stable, with long-term debt being, you know, 20-odd per cent; securitisation, 7%, 8%, 9%; deposits, 34%-32%; and then short-term funding. Was it just the explosion in credit, that while the composition of your funding remained broadly stable, your loan-to-deposit ratio was going through the roof-----

Mr. David Gantly: Yes, absolutely.

Deputy Michael McGrath: -----because the lending was-----

Mr. David Gantly: Yes, absolutely. I mean, the strategy didn't change. I mean, the strategy that we had in 2000 was ... was ... as I said earlier, was that we would fund a third long-term, a third through customer deposits and a third short-term. So, that broadly stayed the same-----

Deputy Michael McGrath: Yes.

Mr. David Gantly: -----but obviously the quantum, as you rightly say, as you've described, it just ... it increased, yes.

Deputy Michael McGrath: Why was it so out of step with the other financial institutions in terms of the loan-to-deposit ratio? It was way out on its own.

Mr. David Gantly: I think some of the emphasis, maybe, on the ... at a group level was actually ... there was probably ... there could have been some cannibalisation of, sort of, retail deposits that went into life product. It's possibly part of it.

Deputy Michael McGrath: Would that have been a significant factor?

Mr. David Gantly: I couldn't put a number on that. But I suppose, the point ... when you say "mouth-watering", I mean, we were always very upfront about where the ratio was, and I just ... I make the point in my opening statement that, like, ultimately, you know, there are Irish banks with much lower loan-to-deposit ratios, as there were-----

Deputy Michael McGrath: Yes.

Mr. David Gantly: -----global banks who had much lower loan-to-deposit ratios. And the reality of the situation is, you know, I'm pretty confident that they ended up in ... with bigger issues sooner than we did.

Deputy Michael McGrath: Sure.

Mr. David Gantly: And I think, maybe to that point as well, that if you look at the ... the NFSR, the net stable funding ratio, which is one of the proposals that the regulators, kind of, are introducing, it's really aimed at ... at addressing that. So I don't think ... I don't think a, you know, low loan-to-deposit ratio in itself is such a-----

Deputy Michael McGrath: Sure, it's just one measure but, in nominal terms, were the level of deposits broadly stable or were deposits rising over the period in question ... let's say, those key years '06- '07?

Mr. David Gantly: Well, I mean, the-----

Deputy Michael McGrath: As I said, you have two elements to that measure - you've loans and you've deposits. Were the deposits ... in nominal terms, what was the pattern?

Mr. David Gantly: It was ... sorry, that ratio was widening, yes.

Deputy Michael McGrath: I know that.

Mr. David Gantly: So the loans were growing at a faster rate than the ... than the retail deposits.

Deputy Michael McGrath: Costs were growing but----

Mr. David Gantly: Absolutely. But not at the same pace, yes. And, if you like ... so going back pre the crisis, well, I mean, securitisation - and we were, kind of, as I said, a unique balance sheet in that regard - was, you know, it was suddenly a very deep market and did we over-rely on that? With the benefit of hindsight, possibly.

Deputy Michael McGrath: What was the main mistake that was made? Was it the over-reliance on wholesale funding?

Mr. David Gantly: I ... faced with the challenges that we came across, the answer is, I suppose, is yes. Yes. But-----

Deputy Michael McGrath: Where would you rank that then with ... alongside, say, credit decisions and the quality of lending?

Mr. David Gantly: Well, I suppose ... yes, okay-----

Deputy Michael McGrath: I know it was the confluence of a number of factors that-----

Mr. David Gantly: Sure.

Deputy Michael McGrath: -----crystallised the whole thing in the end but, in terms of the decisions that were made by ILP, the factors that were within your control, how would you rank-----

Mr. David Gantly: I think a bank-----

Deputy Michael McGrath: -----the mistakes that were made?

Mr. David Gantly: I think a bank can survive a liquidity crisis, but not a solvency crisis. So I think ... so if the solvency remains intact, I think you could come through the crisis. I mean, it's ... securitisation today is back on the market. I mean, what happened is that, you know, things were so bad that, you know, the baby gets thrown out with the bath water really, essentially. So, as I said, I think the bigger issue is clearly your solvency.

Deputy Michael McGrath: Thank you.

Chairman: Thank you very much, Deputy. Deputy Doherty.

Deputy Pearse Doherty: Go raibh maith agat. Fáilte roimh tUasal Gantly. Can I ask you, and it was mentioned in relation to the e-mail to IFSRA on 22 November, it's on page 11-----

Mr. David Gantly: Of Vol. 1 or 2? Sorry, Deputy.

Deputy Pearse Doherty: Yes, it's Vol. 2. On 22 November, Peter Fitzpatrick stated, "To quote Schroders in the UK, who met with [Bank of Ireland] yesterday, the CEO said that "in quarter one the issue for all Irish banks was one of survival"." Can you expand on this comment that's made in this e-mail, that as early as to November 2007 they're suggesting that the Irish banks' survival is the key issue for the next three months? It's in the second paragraph.

Mr. David Gantly: Yes, I've got the ... yes, yes. Clearly, the liquidity issue had raised its head. I mean ... I think, Deputy, really, I can't answer for Mr. Fitzpatrick's words. I-----

Deputy Pearse Doherty: Do you share the view that, at that point, there was an issue in terms of the Irish banks' survival?

Mr. David Gantly: No.

Deputy Pearse Doherty: That it was that serious or it was getting that serious?

Mr. David Gantly: No, I wouldn't have perceived that it was survival, absolutely not. I mean if I ... if I refer back to the document that I presented to the risk committee, I said that capital was going to be scarce, I said that the use of ECB benchmark for product was an issue, that credit spreads were going to widen. They were the sort of issues that were in my mind. But survival? No, no.

Deputy Pearse Doherty: The e-mail also talks about the fall in stock prices and at the end there, the second last paragraph, the two lines, says, "Another reason for the stock prices going off is another round of margin calls in the remaining [contract for difference] market. I am told that this is all done and dusted now and that a good number of previously wealthy folk have lost their shirts in [contract for differences]." Was this a view that was well established or is this a view that you held yourself? I know this isn't your e-mail but is this something that was known at this time ... in November, that previous wealthy folk had lost their shirts in contract for differences?

Mr. David Gantly: No, I wouldn't recognise that. I mean, I would have been aware that there was a certain ... certainly an issue within banks, I'd say, that hedge funds were short-selling stock and people saw that as being ... I took more of a market view on it, that it was ... if ... it was a just a ... it was a function of markets and they were either ... they were right or they were wrong.

Deputy Pearse Doherty: We've heard about this short-selling and, you know, and it's in this e-mail as well. And we had the Government instigating ... or in ... the Central Bank instigating an inquiry in relation to Anglo. But isn't it not the case that the actual short-selling of stocks and the banks that they were short-selling - if they were short-selling - if they were spreading the rumours then to benefit from it, that they all went bust? Maybe there was ... was there ... could there have not been a grain of truth in the fact that they looked at the numbers of the banks, seen what was coming down the road and were saying, "This isn't good, folks", you know?

Mr. David Gantly: But, as I said ... I didn't ... I philosophically wouldn't have had a problem with the concept of hedge funds short-selling stocks, which, I think, a lot of bankers seemed to have. So I wouldn't have shared that and they absolutely ... I would agree with you, Deputy, their analysis-----

Deputy Pearse Doherty: Short-selling is a normal practice, although it was banned, but it was a normal practice and a legitimate practice. The issue here, and it is referred in the e-mail, is that people would have been involved in short-selling and would spread what would be viewed by some as malicious rumours in relation to events.

Mr. David Gantly: Okay. I wasn't talking ... I was talking about them taking ... if somebody takes a view on the market-----

Deputy Pearse Doherty: Short, yes.

Mr. David Gantly: -----and they have done their analysis and they see problems emerging and I think they were quicker and maybe that's because they were distant and, ultimately, they were right. I mean, I agree with you, yes.

Deputy Pearse Doherty: Okay. In terms of the pre-crash period, when did you begin to notice that something was up with the capital markets?

Mr. David Gantly: The capital markets, you mean in funding, the whole shebang?

Deputy Pearse Doherty: Yes.

Mr. David Gantly: I would say mid ... I, kind of, put mid-2007 as being when I was starting to really get kind of jittery about what was going on.

Deputy Pearse Doherty: And what was the perception of Irish financial institutions during that period, 2007 going up to 2008? What were they saying to you? Like, you were on the end of the phone to them, you were meeting with them, they were telling you what they thought of the banks, what they thought of your bank.

Mr. David Gantly: Speaking to whom, sorry?

Deputy Pearse Doherty: Well, the markets, the funds.

Mr. David Gantly: Yes, I would have spoken to people in other treasuries, obviously, and I think they would have shared - we would have shared the same concerns that this is behaving in a way we've never seen before, what's going to happen next, which was a pretty disconcerting place to be.

Deputy Pearse Doherty: But the lenders to your institution, what were they saying? What was the perception of the markets in relation to Irish financial institutions?

Mr. David Gantly: The perception of the Irish, of the Irish-----

Deputy Pearse Doherty: Of the Irish banks.

Mr. David Gantly: I'm sorry, I'm not quite sure, I'm not with you.

Deputy Pearse Doherty: The question is, what was the market perception at that time? So, you say that about mid-2007, you felt that something was up with the markets, obviously.

Mr. David Gantly: Yes.

Deputy Pearse Doherty: What was the perception? What were people saying? What were traders saying to you, people that would normally lend to banks?

Mr. David Gantly: Sorry, I beg your pardon, just that the normal functioning of markets that we'd experienced for the last 25, 30 years was broken, was fundamentally changing. And I suppose the concern was is this - there are issues - is this temporary or is this going to be the new ... is this the new reality?

Deputy Pearse Doherty: From your day-to-day dealings with the capital markets, was there any distinction being made between various financial institutions or various Irish financial institutions or were they all being treated as a block?

Mr. David Gantly: Well, again, I mean, I can only tell you what my perception would have been of that. I don't know how external investors were viewing it but I ... but it would be my strong, sort of, suspicion that some banks were seen as being stronger than others, for sure.

Deputy Pearse Doherty: Okay. In the deals that you were making, you were carrying out, was there no conversations in relation to how they perceived your bank via Anglo, via Bank of Ireland, via AIB? You know, was there none of that conversation going on?

Mr. David Gantly: Well, I mean the actual ... no, I wouldn't have actually said so, no, no. I mean I can't remember specifically that, you know, having conversations with people. I really can't say, can't answer that.

Deputy Pearse Doherty: One of the things, one of the issues we have come across in the banking inquiry is this quote about "No Dublin trades", with a suggestion basically that Ireland was being locked out of the capital markets, that this was a direction that was given. Did you ever come across any evidence of a blanket block on deals with Irish banks? Did you ever hear any sense of that "No Dublin trades" in the days running up the guarantee?

Mr. David Gantly: A blanket block from international investors?

Deputy Pearse Doherty: Yes.

Mr. David Gantly: No, but I mean, obviously, if you went back to ... I can't remember when the famous PIGS acronym was generated. You know, Ireland was ... I have no doubt that Ireland, in some investors' eyes, was in that pool and, therefore, was not being viewed in, you know, in a great light.

Deputy Pearse Doherty: Okay. So you have, kind of, no specifics of any conversations whatsoever. Like, you know, I'm looking ... I'll go back to the e-mail that we were referring to there. Again, on page 11 - and we have this as documentary evidence - where it talks about, "One of our Canadian Holders said that she has been informed out of London that we [ILP] in Irish Life and Permanent are the next Northern Rock." That's just a snippet that we got in an e-mail of kind of conversations that go on in relation to the perceptions of the bank and so on and so forth. And this e-mail is actually very much about Bank of Ireland as well, even though it is coming from ... So, like, you weren't privy to any kind of conversations in relation to the perception of investors to the bank, whether they were looking at the Irish banks all as one or whether they thought maybe Irish Life and Permanent wasn't as ... in a worse state than other banks.

Mr. David Gantly: Well, I didn't speak ... in the first place, there were people who were more active in that, sort of, area and this document actually refers to our hedge funds, right.

Deputy Pearse Doherty: Yes.

Mr. David Gantly: So I didn't speak with hedge funds.

Deputy Pearse Doherty: Right.

Mr. David Gantly: So, that's part of the answer.

Deputy Pearse Doherty: Okay, but you're not aware of it. Obviously, you spoke to people who were speaking to hedge funds.

Mr. David Gantly: Honestly, I mean, as I said, the best way I can probably answer the question, Deputy, is to say that if people were seeing us ... there was certainly a body of thought out there, and I certainly perceived that, you know, you had Portugal, Ireland, Greece and Spain were, you know, the ones that had the bigger problems. So, obviously, if you were being viewed in that division, you certainly weren't in the premiership so that-----

Deputy Pearse Doherty: Yes, but the key thing I'm trying to find from here, from your experience in treasury, is was Ireland Ireland? So that means every financial institution in Ireland or was there a different ... were people sophisticated enough to look and say, "Well, we actually think, hypothetically-speaking, that Anglo Irish Bank's model is one that we do not understand [to borrow a quote from the NTMA] so, therefore, we isolate them but in terms of AIB or Bank of Ireland we're more favourable to them." Or was it-----

Mr. David Gantly: Sorry, I-----

Deputy Pearse Doherty: -----just, in your understanding, was it just Ireland was, kind of, a no-go area for some.

Mr. David Gantly: Okay, I don't think it was that Ireland was a no-go area. Specifically, I think that Anglo and Nationwide, people would have had more concerns. That, anecdotally, that's what I would have picked up. And then the flipside would have been that you would have had Bank of Ireland probably and AIB at the top of the tree, with ourselves somewhere in the middle.

Deputy Pearse Doherty: Mr. Gantly, we heard evidence that the main reason-----

Chairman: Time, Deputy.

Deputy Pearse Doherty: -----the main reason decided by rating agencies for downgrading Irish banks was because of the dominant business model shared by the main Irish banks, that is, commercial and residence property loans funded through large degrees through wholesale markets that were mired in a sustained credit crunch. Would you have come across this perception in your day-to-day dealings? Was this or was this not a general perception?

Mr. David Gantly: A general perception by the agencies?

Deputy Pearse Doherty: Yes, by people that you dealt with externally.

Mr. David Gantly: I think if ... I can recall - I think it was in 2007 - and the Moody's, in their report, cited the fact that our well-diversified funding model was actually, was seen as a positive.

Deputy Pearse Doherty: Okay. Finally, can I ask you in relation to bondholders and the debate that has been going on and we have discussed this in the inquiry as well in relation to the burning of bondholders, what was the view, to the best of your knowledge, or were you aware of the view of people in the market as to whether, for example, subordinated bondholders should have been burned or whether senior bondholders should have burned that bought their bonds that were sold in the secondary market? Was there a perception out there that this would happen?

Mr. David Gantly: I'd say ... my own view, and I think it would, and it certainly would have been shared, I think, by quite a few market participants that I would know, was that, as I said, equity bore the full cost. So, you know, accordingly, that subordinated debt, which counted as capital, should have been fully hit. I think straying into the senior side of it, I'm actually not sure.

Deputy Pearse Doherty: You are not sure on what?

Mr. David Gantly: As to whether it should or shouldn't have been.

Deputy Pearse Doherty: Yes.

Mr. David Gantly: All I do know is that clearly the Government on the night had a big decision to make. They were clearly under a lot of pressures and I mean I don't ... to offer you a view as to what should or shouldn't have been, I would have had to see the whole picture.

Deputy Pearse Doherty: I think we can all agree with that.

Chairman: Deputy.

Deputy Pearse Doherty: Just to make the question a bit clearer, sorry, it's not about what should have happened on the night of the guarantee.

Mr. David Gantly: Okay.

Deputy Pearse Doherty: The NTMA had prepared a document - it would have been after your departure - but prepared a document in relation to the burning of subordinated and senior unguaranteed bondholders at the time when we went into the troika bailout. The question I was asking you, because this debate was still ongoing in a public way, was there ever a concern or expectation raised by those in the markets, people that you would have spoken to, that this may happen, not that they may have supported it but that it may happen? Was there a view that this was a risk for them or-----

Mr. David Gantly: It's not a conversation, frankly, I would have had.

Deputy Pearse Doherty: Okay, thank you.

Chairman: Thank you, Deputy Doherty.

Mr. David Gantly: Thank you.

Chairman: Mr. Gantly, by means of wrapping up this evening if maybe-----

Deputy Kieran O'Donnell: Chairman, can I ask a short question?

Chairman: Yes, if the Deputy can be brief.

Deputy Kieran O'Donnell: Yes, very brief. What is the difference in time period between the average wholesale funding term and the mortgage term? When you were going for wholesale funding, give me the difference in the time period? On average, how long was the wholesale funding?

Mr. David Gantly: Long-term funding would be typically defined as over one year.

Deputy Kieran O'Donnell: Fine.

Mr. David Gantly: Our debt profile-----

Deputy Kieran O'Donnell: On average, what was the wholesale funding - for what term?

Mr. David Gantly: I'd say four to five years.

Deputy Kieran O'Donnell: Typical. Right, go on.

Mr. David Gantly: At the time if you went back to, as Mr. Went referred to earlier, the weighted average lives on a mortgage-----

Deputy Kieran O'Donnell: Six to seven.

Mr. David Gantly: ----- I think it was actually lower. At the peak of the market it was about five. Now this clearly has widened subsequently.

Deputy Kieran O'Donnell: My final question is as follows. When did Irish Life and Permanent first begin to lose money on tracker mortgages in your experience? In what year?

Mr. David Gantly: Oh, boy. To answer the question, clearly we have got a weighted average margin on the assets and we have got a weighted average margin on the liabilities. What I can say is that at the end of '08 our net interest margin was 105 basis points. That was down from 117. Obviously trackers are going to drag that down and the SVR is going to take that up. That is as much as I could offer, Deputy. I don't know within that. I suspect, I mean if you were to do the economics of it and you looked at the ... just in absolute terms, if you looked at where wholesale funding costs had gone to-----

Deputy Kieran O'Donnell: That is where I want to.

Mr. David Gantly: By ... you know ... certainly I could stand over and say that by early '08, it wouldn't have been economic.

Deputy Kieran O'Donnell: Thank you.

Chairman: Thank you very much. Mr. Gantly, just to wrap things up, if I can ask you in your role as treasurer of Permanent TSB, do you believe you performed your duties in the best interest of the company at all times?

Mr. David Gantly: I absolutely do, yes.

Chairman: What, if anything, do you consider you could have done better during that period?

Mr. David Gantly: I beg your pardon?

Chairman: What, if anything, if at all, do you consider you could have maybe have done better?

Mr. David Gantly: It's very difficult to come back with the benefit of eight years.

Chairman: Sure.

Mr. David Gantly: Capital home loans was a unit that we had in the UK. There was certainly, I think there was a lot of interest for that at the time. It certainly crossed my mind that maybe it was a good thing to sell. Am I sorry I didn't, sort of, shout louder? Absolutely. Am I sorry that I didn't highlight even stronger in '07 as to what was going on in the markets? I probably am. But, frankly, I saw the issues arising. I don't think ... I'm not sure that I've met anybody who saw the scale of them.

Chairman: Is there anything you'd like to add by means of closing comment or further remarks, Mr. Gantly?

Mr. David Gantly: No. In conclusion, I thank you very much. I'd like to thank your secretariat. They have been extremely good on the day and in the past. I genuinely hope that my contribution has been of some value to you and I wish you well in, obviously, the final production of your report.

Chairman: With that said I would like to thank you, Mr. Gantly, for your participation here this evening, for your own co-operation in the late sitting this evening and for your engagement with the inquiry. I now formally excuse you. In doing so, I wish to say that the meeting is now adjourned until 2.30 p.m. on Tuesday, 8 September 2015. Is that agreed? Agreed.

Mr. David Gantly: Thank you.

The joint committee adjourned at 8.33 p.m. until 2.30 p.m. on Tuesday, 8 September 2015.