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AN COMHCHOISTE FIOSRÚCHÁIN I DTAOBH NA GÉARCHÉIME BAINCÉIREACHTA

JOINT COMMITTEE OF INQUIRY INTO THE BANKING CRISIS

Dé Céadaoin, 9 Meán Fómhair 2015

Wednesday, 9 September 2015

The Committee met at 9.30 a.m.

MEMBERS PRESENT:

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

DEPUTY CIARÁN LYNCH IN THE CHAIR.

Nexus Phase

PricewaterhouseCoopers - Mr. Denis O'Connor and Mr. Aidan Walsh

Chairman: As we have a quorum, the Committee of Inquiry into the Banking Crisis is now in public session. Is that agreed? Agreed. Can I ask members and those in the public Gallery to ensure that their mobile devices are switched off. We begin today's session 1 of our public hearings with Mr. Denis O'Connor and Mr. Aidan Walsh, partners, advisory services, PwC. In doing so, I would like to welcome everyone to the public hearing of the Joint Committee of Inquiry into the Banking Crisis, and at our first session this morning, we will hear from witnesses from PricewaterhouseCoopers. Mr. Denis O'Connor and Mr. Aidan Walsh are partners in PwC. Both Mr. O'Connor and Mr. Walsh were key figures in the preparation of the PwC Atlas reports and reviews on Irish financial institutions for the IFSRA. Mr. O'Connor and Mr. Walsh, you're very welcome before the committee today.

Before hearing from the witnesses, I wish to advise the witnesses that by virtue of section 17(2)(*l*) of the Defamation Act 2009, witnesses are protected by absolute privilege in respect of their evidence to this committee. If you are directed by the Chairman to cease giving evidence in relation to a particular matter and you continue to do so, you are entitled thereafter only to a qualified privilege in respect of your evidence. You're directed that only evidence connected with the subject matter of these proceedings is to be given. I would remind members and those present that there are currently criminal proceedings ongoing and further criminal proceedings are scheduled during the lifetime of the inquiry which overlap with the subject matter of the inquiry. Therefore, the utmost caution should be taken not to prejudice those proceedings.

Members of the public are reminded that photography is prohibited in the committee room. To assist the smooth running of the inquiry, we will display certain documents on the screens here in the committee room. For those sitting in the Gallery, these documents will be displayed on the screens to your left and right. Members of the public and journalists are reminded that these documents are confidential and they should not publish any of the documents so displayed.

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

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

Mr. Denis O'Connor, Partner, Advisory Service, PricewaterhouseCoopers.

Mr. Aidan Walsh, Partner, Advisory Service, PricewaterhouseCoopers.

Chairman: Now once again, Mr. O'Connor and Mr. Walsh, welcome this morning and if I can invite you, in whichever order you like, to make your opening remarks to the committee, please.

Mr. Denis O'Connor: Thank you, Chairman, and members of the inquiry team. I am pleased to be here today with my colleague, Aidan Walsh. We were the partners leading the PwC work on Project Atlas from late September 2008 until January 2009. I was the main point of contact with IFSRA and the Department of Finance during our assignment. We have been requested to provide evidence in two key lines of inquiry - the role of advisers in analysing the crisis and, two, the effectiveness of reviews of the bank loan books and capital adequacy.

By way of background, PwC were retained by the IFSRA on 18 September 2008. Mr. Walsh and I met the Financial Regulator on that day. Mr. Neary explained to us that he needed urgent assistance to look at the liquidity position and the credit quality of a number of Irish banks. He explained that he would need us to carry out our work in a short period of time. Following our meeting, we exchanged a proposed scope of work and an engagement letter.

We commenced our work on Anglo Irish Bank on the following day, 19 September. Over the following number of days, our engagement was extended to include Irish Life and Permanent and Irish Nationwide Building Society. The original focus of our work was mainly on liquidity, as some of the banks were losing significant amounts of deposits and running out of money. We attended part of a meeting at the NTMA on 28 September, where we discussed the findings of our work over the previous eight or nine days. This work was focused mainly on liquidity and the level of provisions that existed in the banks' management accounts at the end of August 2008. Following on that ... following on from that, we issued an e-mail summarising the information shared at that meeting.

Apart from two e-mails discussing the deposit outflows on 29 September and the deposit inflows on 30 September, we had no other meetings or contact with IFSRA, the Department of Finance or the NTMA from 28 September until 6 October. On that date, we met the Financial Regulator in his office to discuss the work we had performed on the top 20 borrowers within each bank. We had not been involved in any discussions around the guarantee or any alternative options being discussed at that time. Our reports on Atlas 1 were discussed for the first time on the second week of October. Following a meeting with the regulator on 8 October 2008, the Atlas 1 exercise was extended to cover all six banks and to increase the sample of the top 20 loans to the top 50 loans and the top 25 land and development loans. This Atlas 2 was a significant exercise and involved placing a large team from PwC in each bank for approximately five weeks, with us reporting to the regulator on 17 November, approximately six weeks after the guarantee had been announced.

Our work involved us reviewing lots of loan files and interviewing senior management in each of the banks, with particular emphasis on lending and credit areas. The scope of our work did not include reviews of smaller developers or any element of actual mortgage lending. Our reports highlighted the very large exposures that the banks had to a small number of developers and the very high level of asset concentration in property. The top ten borrowers had loans of €17.7 billion with the six guaranteed banks and that was before any additional borrowings they had in Ulster Bank or Bank of Scotland Ireland.

The Atlas 2 reports also included, for illustrative purposes, a number of scenarios shown to impact on tier 1 capital of write-downs in various asset categories. Following discussions on the findings of Atlas 2, the regulator requested that we undertake more work on the top 75 land and development loans. We referred to this as Atlas 3. We were to engage a property valuer to assist us with this work and JLL were engaged in mid-November 2008. They were asked to focus on problem commercial real estate loans and to carry out a review of the bank's valuation of the underlying properties based on an actual medium-term view of potential future value. JLL reported their findings on 17 December 2008.

We have submitted statements to the inquiry team dealing with the nature and scope of the work we were asked to carry out. As the committee is aware, we are restricted by Central Bank legislation as to what we can say about certain confidential information that we received during our work. Subject to these constraints, I look forward to being as forthcoming as possible in answering any questions you may have. I will now hand you over to my colleague, Aidan Walsh.

Chairman: Thank you, Mr. O'Connor. Mr. Walsh.

Mr. Aidan Walsh: Thank you, Chairman and members of the committee. I am pleased to be here today with my colleague, Mr. Denis O'Connor. As he has stated, we have been requested to provide evidence to the committee on two lines of inquiry - the role of advisers in analysing the crisis and the effectiveness of reviews of bank loan books and capital adequacy.

I also attended the meeting with Mr. Neary, the Financial Regulator, on 18 September which Denis has referred to in his opening statement. This meeting took place following the collapse of Lehman Brothers the previous weekend and the severe constraints that were being experienced on an international basis in the interbank and wholesale money markets. As Denis has stated, following our meeting we agreed a specific scope of work and engagement letter. We deployed separate teams to each bank. In the first week of our work we focused, as agreed, on the movements in deposits into and out of the banks and in compiling information on the top 20 borrowers by jurisdiction in which the banks operated. Management at the banks were co-operative and shared management and accounting information with us. It was clear that the liquidity positions were deteriorating on a weekly and daily basis and interbank and corporate deposits were not being rolled over and where they were, the deposit periods were reducing significantly.

We both attended part of a meeting at the National Treasury Management Agency on Sunday, 28 September. There were participants from IFSRA, the Central Bank, the Department of Finance, the NTMA and from Merrill Lynch, who were the financial advisers to the Government. We did not have a draft report prepared for that meeting. We shared information we had collected on the rapidly declining liquidity and the substantial cash deficits that were forecast by the banks to arise in the very near term. We also shared information on a summary of the loan books at the three banks, the value of loans that were reported as impaired and the value of loan provisions that were booked. We had not done any substantive work on credit quality at this stage, just nine days into a complex assignment. Our next meeting, to discuss draft reports with the Financial Regulator and his staff, was on Monday, 6 October, a week after the bank guarantee had been announced. As Denis has stated, we were instructed on 8 October to commence work on what was known as Atlas 2. The results of our Atlas 2 work was reported to the Financial Regulator and the Department of Finance in mid-November 2008, roughly six weeks after the bank guarantee had been announced. The primary focus of this report was, as agreed, on the top lending positions. It also included the results of stress tests that had been run by each of the banks on their capital adequacy ratios, and based on their own assessments of the probable emergence of future loan losses. In addition, PwC included two additional scenarios based on higher levels of future loan losses, called scenario 1 and scenario 2. The assumptions for these scenarios were developed in conjunction with officials from IFSRA, the Central Bank, Department of Finance and NTMA. As is clearly stated in the report, these scenarios were for illustrative purposes only, to show the sensitivity of the banks to future losses in these two scenarios. Our work was not intended to be a comprehensive assessment of the most likely outcome for future losses. It is also important to note that within the timescale that we were working to, Atlas 2 did not include any third-party evaluation of property values, nor did it include a review of the security documentation supporting the loans.

Work on Atlas 3 then followed. JLL's work was carried out independently of our loan reviews. JLL were given details of the properties comprising the collateral for the loans, but the loan details were not shared with JLL. The property values were tested based on a long-term outlook for property values, which was formulated by JLL. The collateral values were not marked to estimated current market value at the time of the review, as there were no ... as there was no liquidity in the market and the market could not absorb a wholesale transfer of property. The results of the JLL work were consistent with the indicative future losses calculated under scenarios 1 and 2 as part of the Atlas 2 analysis. Mr. O'Connor and I shared responsibility for the work which PwC carried out for IFSRA in the period from 18 September 2008 to early January on the assignments that we have code-named "Atlas". I too am subject to statutory obligations which prevent me from discussing confidential information which we obtained as part of our engagement on the Atlas reports. However, I also aim to be as forthcoming as possible and of as much assistance as I can be to the committee in relation to the two themes which we have been asked to address. Thank you.

Chairman: Thank you very much, Mr. Walsh, and we'll get questioning under way, and in doing so, if I can invite Senator Sean Barrett. Senator, you've 25 minutes.

Senator Sean D. Barrett: Thank you very much, Chairman, and welcome to Mr. O'Connor and Mr. Walsh. I echo the Chairman's earlier welcome to you. In your statement, you state that PwC's role in many of these meetings was to obtain, analyse and summarise information from the banks. What was the response to PwC on liquidity, loan exposure and provision of assessments to ... from the other participants on the 28 September meeting?

Mr. Denis O'Connor: Okay, I will start this. On liquidity, the bulk of our work at that stage was done on liquidity. As you probably are aware, the ... as deposits were up for maturity on the banks, they were ... they were not being rolled over, so a number of Irish banks had significant liquidity issues, particularly coming up at the end of September, which was the quarter end or half-year end in some of the cases. So the information that we had compiled over the previous number of days from the banks' records emphasised to the regulator - and they were participants in the meeting - that this was a big issue and a contingency plan would have to be put in place ASAP. We were looking at a good few ... into €8 billion or €10 billion outflows in a number of days, and that was happening at the end ... in three days' time.

Senator Sean D. Barrett: And how did they react, Mr. O'Connor, when you informed them of your opinion?

Mr. Denis O'Connor: They were aware of the ... that the issue was out there, but when they saw it coming from a third-party independent, they knew there was ... that the numbers were, were accurate.

Senator Sean D. Barrett: Because you only had - what nine days, wasn't it - to come up with all that information? I think you said the first meeting was on 19 September and you ... and you reported back to them on the-----

Mr. Denis O'Connor: That is-----

Senator Sean D. Barrett: -----on the 28th.

Mr. Denis O'Connor: That is correct, Senator, but on liquidity the numbers were easy to obtain.

Senator Sean D. Barrett: And, I mean, we would've had in earlier evidence concerns about the St. Patrick's Day massacre and, you know, knowledge about the CFD purchases and so on, so I'm really trying to find, you know, did they need you to confirm what they already knew or were they surprised when you submitted your report?

Mr. Denis O'Connor: I don't think they were surprised, but it was confirmation of what they knew and it was also looking at the outlook for the next number of days which was emphasising that the ... as deposits were up for, up for renewal, if they were not rolled over at that stage - there were no corporate deposits more or less being rolled over - what they had been told by the banks was going to happen.

Senator Sean D. Barrett: Was there a sense of urgency?

Mr. Denis O'Connor: Yes, extreme urgency.

Senator Sean D. Barrett: They were really worried by that state.

Mr. Denis O'Connor: Yes.

Senator Sean D. Barrett: And, were there views expressed by IFSRA that you can recall from those meetings?

Mr. Denis O'Connor: Everybody, everybody was offering their views at the time around the table but the main issue was concern. Northern Rock episode had happened over the last number of weeks, there were people queuing on the streets to take out their money from deposits, that was what the Government, or the Department, wanted to avoid at all costs, so they had to put in place some plan that would give confidence to the whole system.

Senator Sean D. Barrett: Yes. The Department of Finance, what contribution did they make to those meetings?

Mr. Denis O'Connor: They were all offering the same type of advice.

Chairman: Which was what?

Mr. Denis O'Connor: That we had only one attempt at this and we had to get it right.

Chairman: Okay, right so.

Senator Sean D. Barrett: The NTMA had concerns about putting any of the pension funds on deposit in Anglo. Was ... did they feel vindicated or did they say anything to that effect?

Mr. Denis O'Connor: That wasn't discussed really.

Senator Sean D. Barrett: Yes, but what was their contribution because they seem, within the public sector, it was seen as somewhat further away, I suppose, than some of the other bodies that you were meeting with.

Mr. Denis O'Connor: Maybe they did but at that point in time we were two days before impact, as the man says, so we were all in the same boat, actually just put a plan in place, as opposed to look back historically.

Senator Sean D. Barrett: And the Taoiseach's Department, were they represented on that ... on that group that you reported to?

Mr. Denis O'Connor: No.

Mr. Aidan Walsh: No, not that I recall.

Senator Sean D. Barrett: So, because of the seriousness it was decided to, to extend the exercise to all the six banks, was that the ... that was the decision on that day was it?

Mr. Denis O'Connor: On liquidity no, liquidity, the information on those three banks was all that was needed at that point in time because the guarantee came into place a few days later. The exercise on the other six banks was mainly on credit.

Mr. Aidan Walsh: That didn't commence or wasn't requested until 8 October.

Senator Sean D. Barrett: So there was an interval between the ... at the end of Atlas 1 and the beginning of Atlas 2.

Mr. Aidan Walsh: Atlas 1 actually didn't finish for us until we reported to the regulator on 6 October.

Senator Sean D. Barrett: I see, but there was the meeting on 28 September where all the other-----

Mr. Aidan Walsh: That is right yes.

Senator Sean D. Barrett: And were you involved in any of the discussions about the Government guarantee?

Mr. Denis O'Connor: I was at meetings in the Department of Finance where there were about 20 people where everything was being discussed. The guarantee was one of them but they were discussed more or less in total general terms, there was no specifics discussed at the meetings I was at.

Senator Sean D. Barrett: Did they ask you for your input, given all the up-to-date information you'd provided, or guidance, on the form of the guarantee?

Mr. Denis O'Connor: No I wasn't asked for my input on the guarantee as such. Our main ... our main job was to provide information to help them with what was ... what they were doing themselves, mainly on credit and on liquidity.

Senator Sean D. Barrett: Thank you. Now, in your statement you also say that you made comments and observation about possible asset write-downs and scenarios:

> [T]hese were for indicative purposes only. And we did not seek to "mark to market" property assets in the present economic environment (where the market for property assets is largely illiquid); in that context it is difficult to forecast the outturn of any immediate short term assets, sales or asset developments.

Did that detract from the exercise? You knew that they were heavily concentrated, as you reported, in a small number of borrowers and you knew they were heavily concentrated in property, so were we leaving out too much by not investigating what, what was going to happen in property and in, in preparing the scenarios?

Mr. Aidan Walsh: I think the focus of our work was actually to get a lot of detail behind the top 20 connections so in any one connection, there could be hundreds of loans and hundreds of properties providing collateral for that individual loan. So, the focus of our work was very much on commercial property loans and development property loans and getting as much detail behind those and helping to aggregate information in relation to connections and connections could ... loans could be out in a range of different names, different special purpose company names, individuals' names, partners' names. And we sought to bring together all the loans that related to a controlling individual within either that company or partnership or individual name.

Senator Sean D. Barrett: But if you describe how the two scenarios that you added to the information you collected, how were they put together?

Mr. Denis O'Connor: At one of the meetings in the Department of Finance, there was a discussion on the assumptions the banks had made themselves. The banks ... originally they had two assumptions on what could happen going forward and it was felt that maybe those assumptions were not hard enough. So, there was a discussion among all the parties at a meeting in the Department of Finance, "Maybe we will do two extra assumptions or scenarios." And based on that discussion, where everybody chipped in, scenario 1 and scenario 2, as outlined in page 98 of our report, were compiled. The main discussions were around land and-----

Senator Sean D. Barrett: Yes.

Mr. Denis O'Connor: Land particularly, either zoned or unzoned. And the discussion there was for unplanned land, we would write down 45% over three years - 15% in year 1, year 2 and year 3 - and for land with planning, it was written down by 10% per annum over three years. They were things were added on. The amounts involved were not as large.

Senator Sean D. Barrett: Chairman, could we refer to Vol. 1, the PwC core documents, on page 5, please? It will come up on your screen, gentlemen.

Mr. Denis O'Connor: That's fine, yes.

Senator Sean D. Barrett: It's in your own green book as well. Looking at those, would it be fair to say that - on page 5 - that the institutions estimated a loss of ... it's not totalled but it starts with AIB thought it would be €2 billion and so on. That comes to €5.157 billion if I added up correctly. Then scenario 1 thought it would be €8.6 billion and scenario 2 thought it would be €10.3 billion. The concerns would be that while you had brought very important information to those meetings, this is way short of the eventual reality of the €64 billion. So, where did the scenarios come from given that they were so far short of what happened? And could I add to that? When the former Taoiseach, Mr. Cowen, was giving evidence - I don't know if you saw his presentation - he said on paragraph 25, the PwC analysis was "hopelessly optimistic" and certainly did not envisage the crisis to develop in the way that it subsequently did. So, those were scenarios within the banks. They still had no idea that we were headed towards the €64 billion and the inquiry we're conducting today.

Mr. Denis O'Connor: That's correct. I'll start off and Aidan can chip in. Well, first of all, to scenario 1 and scenario 2-----

Senator Sean D. Barrett: Yes.

Mr. Denis O'Connor: -----and you've added them up there for €8 billion and €10 billion. That's for a year. The scenarios were for year 1, year 2 and year 3 so if you multiply scenario 2 by three years, it's over €30 billion. And the other material bit of evidence that you need - this was done before the capital ratios in the banks increased from 4% to 10%, which is a significant increase, and also this was one year in advance of actually NAMA happening where the loans were written down to market. So, our work was done before NAMA, before tier 1 capital ratios increased from 4% to 10%. And also, there were a number of other issues like the amount of equity in the loans, which we had assumed was equity, wasn't really equity. It was actually borrowed from a different bank or a different part of the same bank. And the banks themselves were relying on personal guarantees of the borrowers and those personal guarantees proved not to have any value.

Mr. Aidan Walsh: Just, I would like to add to that, is that these scenarios were done in October 2008, which was around the time of the budget for the following year. And that budget was framed against assumptions that GDP would decline by 1% in 2009 and unemployment might rise to 7%. That was consistent with the outlook from the third quarter report from the Central Bank of the same time. The outturn for 2009 was that GDP declined by something ... 7% and unemployment rose to 15%. So the, the economic outlook in official documentation at the time was far more benign than the recession that evolved in Ireland over the subsequent two years.

Senator Sean D. Barrett: But you were starting to look into, I suppose what I might call this can of worms and you found-----

Chairman: Mind now Deputy, or Senator.

Senator Sean D. Barrett: -----the ... a dilemma in the banks that they were unaware Chairman, I suppose, of just how deep these things were and you were discovering things like, on page 6 of the document, the top 22 exposures were ... 53% of them were in Anglo and 32% in AIB - a huge concentration in borrowers, a huge concentration in property. And you mentioned the optimistic view, but there were also people like Professor Niamh Brennan and Jim O'Leary, Morgan Kelly, notably, pointing out there had been 40 property bubbles which he studied in his ESRI article. Was none of this intruding into the conversations of the people whom you were dealing with, like the banks themselves, the Department of Finance, the NTMA perhaps and IFSRA? Did they not realise what was coming down the track?

Mr. Denis O'Connor: Not really. Nobody expected the recession that evolved over the next number of years at that point in time. People thought there would be a soft landing, as everybody was forecasting. There were a few exceptions, but those people really were exceptions.

Mr. Aidan Walsh: I think it is fair to say that within the banks the people we were speaking to thought that our analysis was unbelievably pessimistic.

Senator Sean D. Barrett: So they actually believed that kind of banking was sustainable, with heavy concentration on property, heavy concentration on a small number of borrowers, high loan to deposits and high loan to value.

Mr. Denis O'Connor: Yes, that is correct.

Senator Sean D. Barrett: How do ... do accountants just record that or is there a wider need for the auditor to say "We really ... I would have doubts as well that this model of banking can continue as in the past"?

Mr. Denis O'Connor: Well, to start, our team was not an audit team. We were totally independent from the auditors, so we didn't ... we weren't auditing the books. Like, our job, going back to basics, was more or less to go in and analyse what was in the loan books, be it concentrational risk or the number of individual borrowers, and assemble that information over the six banks and give it to the Financial Regulator. And that for him was new information, particularly over the six banks. And for all of us, the element of surprise when we saw ten borrowers more or less owing €18 billion was very significant, to everybody concerned at those meetings.

Senator Sean D. Barrett: Would an auditor, say in a draper's shop down the country, would he just look at the books or would he say, "By the way, you have got a lot of 1952 suits at the back. I don't think you are ever going to sell those for anything remotely like what you paid." Do you do much of the latter? Would that form part of a typical audit?

Mr. Denis O'Connor: As part of our work it was and we looked at loan-to-value ratios, we looked at the concentrational risk, we looked at what ... whether there was planning in the areas or not or whether there was two or three shopping centres in the one small patch of ground coming up. That was all looked at and that was factored into our assessment of the risk on those top 22 borrowers, whether it was high risk, lower risk or moderate risk. And that was all part of our discussion and our debate over those four or five weeks in October-November.

Senator Sean D. Barrett: And I note, from the auditor's website, that your collective bodies ... there's a lot of advice to the Minister, Michael Noonan, who will be in here tomorrow, on what he should put in the budget. Now does that contrast with auditing of banks in Ireland and elsewhere, which didn't see a bank crisis coming down the line? Is there a traditional view of auditing that just adds up the numbers and says "That's what they are" or one that provides the wider economic advice like you were just talking about there - there are other shopping centres, you know, a lot of the stock isn't going to sell? Which, where does the balance lie in that?

Mr. Denis O'Connor: Well, the audit is a statutory responsibility which is totally geared to the audit opinion. Our work was a factual report on the loans, on the concentration and on the risks. Our work finished up in a document of hundreds of pages. The auditor's work finished up in a two-page opinion, so they're totally different aspects of ... two different jobs completely.

Senator Sean D. Barrett: And how did the recipients of your report on October 6 ... well, they'd since had the guarantee ... wasn't that it? But did they realise that huge changes would have to take place in the Department of Finance, the Financial Regulator, Central Bank and so on because you-----

Mr. Aidan Walsh: At that time-----

Senator Sean D. Barrett: ----brought this right to the fore?

Mr. Aidan Walsh: At that time there wasn't any discussion in relation to administrative change. Any discussion - and the total focus - was on how the crisis was evolving and what measures the authorities might be able to take to manage the crisis.

Senator Sean D. Barrett: When you were choosing the scenarios, even just to model it, did anybody say "Let's go to a 50% reduction in property"?

Mr. Denis O'Connor: We went to 45%, so there wasn't-----

Senator Sean D. Barrett: Well, how did the 45% so badly prepare the Government for the eventual bill that came in? You know, you were talking about-----

Mr. Denis O'Connor: Because of NAMA particularly. NAMA ... because of NAMA putting in a short-term-----

Chairman: You're leading now, Senator. Back to yourself, Mr. O'Connor.

Senator Sean D. Barrett: When you went to Atlas 3, that was having property people on board ... wasn't that right? Were they too optimistic about how property values would ... would fare in Ireland?

Mr. Denis O'Connor: I don't know whether they were optimistic or not, but the figures that they came up with were consistent with our scenario 1 and scenario 2 . They were in the middle of both scenarios.

Senator Sean D. Barrett: When you were looking at things like sectoral concentration and borrower concentration and so on, when you were looking at the banks, did you come across bank records which were short of what you would regard as optimal?

Mr. Denis O'Connor: Bank records would change or vary from bank to bank-----

Senator Sean D. Barrett: Yes.

Mr. Denis O'Connor: -----and from branch to branch. But it is fair to say that if a plc was looking for a €100 million loan or €200 million loan, you'd have a lot of files and due diligence being carried out. Where developers were looking for that type of money, the quality of information available to the bank was not as strong or not as good.

Senator Sean D. Barrett: Because that was a NAMA complaint ... was ... when they ... why did NAMA have a 61% discount on one of the banks? Because they found record-keeping was poor. Was that something which a normal audit might be expected to discern in banks, whether their record keeping was good?

Mr. Denis O'Connor: I think what NAMA found out was some of the security in place was not as expected. An auditor would not normally go into that level of detail on ... checking security.

Senator Sean D. Barrett: Should there have been closer contact between the auditors and the regulators?

Mr. Denis O'Connor: I don't really ... I can't comment on that, I don't know. But, I think, since the tribunal ... or since the recession has happened, there is more contact ongoing at the moment between the auditor and the regulator.

Senator Sean D. Barrett: The lessons of this crisis for reforming the relationships between the auditors and the clients. Could you give us some views on those?

Mr. Denis O'Connor: Sorry, say the question again.

Senator Sean D. Barrett: Does auditing and the relationship with the clients ... does auditing itself need to be reformed? Have we learnt lessons from what happened us in the years up to 2008?

Mr. Aidan Walsh: Could I just say that neither Mr. O'Connor nor I are current practising auditors. Our colleagues gave evidence to the committee a number of months back to discuss audits particularly in the financial ... regulated financial environment. I don't have views in relation to what the auditor's role and how it gets regulated and I don't have views in relation to how that should evolve.

Senator Sean D. Barrett: Thank you for that. Thank you Chair.

Chairman: Can I just wrap up one item there with you? Senator Barrett was dealing with some issues around 28 September and so forth and Mr. O'Connor and Mr. Walsh, you are both invited to respond relative to any information you might have on the following: was PwC involved in any discussions about the Government guarantee?

Mr. Denis O'Connor: I was at a number of meetings at the Department of Finance where the guarantee was discussed.

Chairman: Prior or post?

Mr. Denis O'Connor: Prior.

Chairman: Okay.

Mr. Denis O'Connor: The week of the 23rd or 24th, whatever it was, of September.

Chairman: That was the earliest there?

Mr. Denis O'Connor: I can't say the date but sometime in that date-----

Chairman: In or around.

Mr. Denis O'Connor: In or around that.

Chairman: Okay, so, in or about-----

Mr. Denis O'Connor: The 24th or 25th. And at that meeting the guarantees, among other options, were discussed and our role there was more or less to provide some information on the land and development exposures or liquidity.

Chairman: Was that the only meeting that the guarantee was discussed or did you have others?

Mr. Denis O'Connor: I was at a couple of meetings ... it was discussed but it wasn't the main focus of the meeting, it was one of, will we do this, will we do that, will we do the next thing and that was one of the things we-----

Chairman: Who would have been at those meetings?

Mr. Denis O'Connor: IFSRA, Central Bank, Department of Finance, Merrill Lynch, Arthur Cox, all the advisers. There was 25 or 30 people at them.

Chairman: Would the Minister of Finance have been at-----

Mr. Denis O'Connor: He was at most of them and the Taoiseach was at one of them.

Chairman: The Taoiseach was at one-----

Mr. Denis O'Connor: Yes.

Chairman: -----and the Minister of Finance was at most of them, if not all, yes?

Mr. Denis O'Connor: Yes.

Chairman: Okay. So how many meetings in between, let's say it was the 24th approximately, up to the eve of the guarantee? By your recall, how many meetings were there that discussed the guarantee?

Mr. Denis O'Connor: They were working groups. I was at two or three of them anyway and the Taoiseach attended one of those.

Chairman: How long did the meetings last in terms of discussing the guarantee?

Mr. Denis O'Connor: Hours.

Chairman: Hours?

Mr. Denis O'Connor: Yes.

Chairman: Okay. So the guarantee would have been discussed for-----

Mr. Denis O'Connor: No, the meetings were ongoing, the guarantee was part of the ... there was one element of the meeting.

Chairman: So, how placed into the agenda of those meetings was the guarantee?

Mr. Denis O'Connor: There weren't really agendas, just more or less ... things were moving so quickly, banks were falling, the world was changing and we were, as I said earlier on, trying to make sure that there weren't people queuing on the streets to take money out of their banks.

Chairman: Were you there to just provide information or were you there in a passive position or in a more engaged position in that regard?

Mr. Denis O'Connor: Probably providing information.

Chairman: Providing information, okay. And what were the questions from Government in regard to information sought from you in regard to the guarantee and other matters?

Mr. Denis O'Connor: Mainly amount, sorry, mainly around the amount of money in land and development loans, unplanned, unzoned and we were only getting information, more or less, on that morning and passing it on that evening.

Chairman: Okay. And what was the strategic options discussed?

Mr. Denis O'Connor: Nationalisation, guarantee, park, those type of things were discussed but it was more in ... I wasn't involved in the total detail of those.

Chairman: Okay. Nationalisation of what?

Mr. Denis O'Connor: A bank, number of banks, any-----

Chairman: Which bank?

Mr. Denis O'Connor: The one that was nationalised in January 2009, Anglo.

Chairman: Anglo. So there was discussion-----

Mr. Denis O'Connor: Sorry, a discussion would be harder to say. It was, "maybe we can do this, maybe we can do that, maybe we can do the next thing".

Chairman: But the option of discussing Anglo, was it the ... sorry, the option of nationalising Anglo, can you confirm or not whether it was discussed?

Mr. Denis O'Connor: It was discussed.

Chairman: By whom?

Mr. Denis O'Connor: By the whole meeting.

Chairman: The whole meeting. Was the Taoiseach at that meeting?

Mr. Denis O'Connor: I am not sure if he was at that meeting or not. I can ... possibly was but I cannot tell you for definite.

Chairman: Okay. And was at any time the option of how prepared the Government were or the Department of Finance in terms of the nationalisation of Anglo, preparation of legislation, anything like that?

Mr. Denis O'Connor: Not to my knowledge. There was concern that people abroad could not distinguish between Anglo Irish Bank, AIB and AIB, plus the Bank of Ireland and Central Bank of Ireland.

Chairman: Mr. Walsh, have you anything to add to that?

Mr. Aidan Walsh: I wasn't at the meetings that are referred to.

Chairman: Okay. Thank you very much. Deputy O'Donnell.

Deputy Kieran O'Donnell: Welcome, Mr. O'Connor and Mr. Walsh. How many engagements in total have the PwC complete for the Financial Regulator, the Central Bank, financial institutions, the Government agencies, between '08 and up to '13, and I suppose, up to date? How many engagements has PwC been involved in in relation to the banks, either on behalf of the Financial Regulator, the Government, the Central Bank, the National Treasury Management ... any Government institution or the banks themselves between ... since the guarantee, since just before the guarantee up to the current date?

Mr. Denis O'Connor: Deputy, I don't know off the top of my head. Like, we have 2,000 people in the office so a fair bit of work has gone on but I can't ... I don't know off the top of my head.

Deputy Kieran O'Donnell: Well, specifically, your department, what's your remit? Are ye corporate services-----

Mr. Aidan Walsh: Corporate services. Could I just say, we prepared today to come and discuss issues around our work for ... services we provided in the period September 2008 to January 2009 on the three Atlas reports. We've a very significant financial services practice across the firm and I ... we don't have detail in relation to the full range of assignments that the firm might have carried out-----

Deputy Kieran O'Donnell: Yes.

Mr. Aidan Walsh: -----in the financial services sector over the last, now, seven years.

Deputy Kieran O'Donnell: But, specifically, we'll say on ... we'll say, the ... take just the Project Atlas programme, right - what would have been the type of teams, the size of teams you would have had involved?

Mr. Denis O'Connor: On Atlas?

Deputy Kieran O'Donnell: Yes.

Mr. Denis O'Connor: We'd about 25 to 28 people across the six different banks.

Deputy Kieran O'Donnell: And at partner level, manager level, what would they break down at?

Mr. Denis O'Connor: They're mainly partners, directors and senior managers.

Deputy Kieran O'Donnell: And the type of fees that you would've earned for Project Atlas, we'll say, for those three ... what was the total fees that ye earned for Project Atlas?

Mr. Denis O'Connor: Atlas 1 was €320,000. Atlas 2 was €1.6-----

Deputy Kieran O'Donnell: €1.6 million?

Mr. Denis O'Connor: €1.6 million, and Atlas 3 was €450,000.

Deputy Kieran O'Donnell: -----50,000, so in total, your total there would be-----

Mr. Denis O'Connor: €2.4 million.

Deputy Kieran O'Donnell: Sorry.

Mr. Denis O'Connor: €2.4 million.

Deputy Kieran O'Donnell: €2.4 million. And that was the total fees for the overall Project Atlas, for all the work on Project Atlas.

Mr. Denis O'Connor: For PwC work.

Deputy Kieran O'Donnell: For PwC work. And the ... the ... going back on the Project Atlas itself, right, you ... in your witness statement, Mr. O'Connor, you said that ... that, "The PwC scenarios [analysed were] based on a number of assumptions and other than [Irish Nationwide they], had not been reviewed by [the] management in the Institutions." Why were Irish Nationwide provided with a copy of the assumptions and not the other financial institutions? And what type of response did ye get from Irish Nationwide and what was your view on the scenario analysis? Do you believe it was aggressive enough, given subsequent PCARs reviews of the banks?

Mr. Denis O'Connor: What happened with these scenarios was that the ... the assumptions were agreed, as I said, at a meeting in the Department of Finance with all the parties around. We gave the assumptions to the banks to run the models based on those assumptions.

Deputy Kieran O'Donnell: And this was in Project Atlas 2.

Mr. Denis O'Connor: Yes.

Deputy Kieran O'Donnell: And three.

Mr. Denis O'Connor: Two.

Deputy Kieran O'Donnell: Just two.

Mr. Denis O'Connor: I think it was two, yeah.

Deputy Kieran O'Donnell: And the only difference between two and three-----

Mr. Denis O'Connor: Was property. JLL.

Deputy Kieran O'Donnell: With JLL, to come up with valuations. So, we'll say, Atlas 1 was a desktop general overview just dealing purely with Anglo and Irish Nationwide. Am I correct?

Mr. Aidan Walsh: And ILP.

Deputy Kieran O'Donnell: And ILP.

Mr. Denis O'Connor: And focused more on liquidity than loans.

Deputy Kieran O'Donnell: Okay. Atlas 2 was where, effectively, you brought in all the financial institutions - all six - and you looked at two stress case scenarios in there that you wouldn't have had looked at in Atlas 1. So were in ... and this is ... we're dealing with Atlas 2. And Atlas 3, you brought in Jones Lang-----

Mr. Denis O'Connor: JLL.

Deputy Kieran O'Donnell: -----to look at valuations.

Mr. Denis O'Connor: That's right.

Deputy Kieran O'Donnell: Fine. So, really, the substantive work was done in Atlas 2.

Mr. Denis O'Connor: That's correct.

Deputy Kieran O'Donnell: So, if we go into Atlas 2, tell me why Irish Nationwide were given sight of the assumptions and their views and the others weren't?

Mr. Denis O'Connor: No, there's a slight misunderstanding there. All the ... all the banks got the assumptions to run the scenarios but they were down at more junior level - at operative level. Because Nationwide was so all-centralised, the people who got the assumptions were the management as well and they queried them and said they were just unrealistic, over the top, total mad, whereas the people in the other banks just actually ran the models for us.

Deputy Kieran O'Donnell: The people in the other banks ran the models.

Mr. Denis O'Connor: Ran the models for us.

Deputy Kieran O'Donnell: Where did it end up with Irish Nationwide? Where did-----

Mr. Denis O'Connor: It ended up with what's there, like. They-----

Deputy Kieran O'Donnell: Ye overruled them.

Mr. Aidan Walsh: Well, absolutely. We reported on scenarios as we'd given to them and they expressed the views quite forcefully to us that they were hopelessly pessimistic.

Deputy Kieran O'Donnell: Okay. And can I . . . we'll say . . . the fact right that . . . and I'm reading from the summary report, Chairman, that was given on ... which was published on 20 February '09, and you state in ... in the summary, you state: "Under the PwC [it's page 37] highest stress scenario, Anglo's core equity and tier 1 ratios are projected to exceed regulatory minima (Tier 1 – 4%) at 30 September 2010 after taking account of operating profits and stressed impairments." Now you said these took place on 17 November 2008. The two questions I suppose I want to ask: how do you reflect on that now with the fact that Anglo has cost the taxpayer over €30 billion that they'll never see a red cent for? And, secondly, that when you reported on 17 November on Project Atlas 2 to the regulator, the Taoiseach of the day, Mr. Brian Cowen, came out two days later and he said:

> The report confirms that all institutions reviewed are in excess of regulatory requirements as of 30 September 2008 [the date the guarantee scheme was announced by Government] The PwC report demonstrates, under a number of stress scenarios, that capital levels in the covered institutions will remain above regulatory levels in the period to 2011. The Government's guarantee scheme has been successful.

The Government and the Taoiseach of the day relied on your report-----

Chairman: This is turning into a speech. I need the question, Deputy. You've gone on quite a bit.

Deputy Kieran O'Donnell: Well, can you comment on the fact that the Taoiseach of the day, two days after you gave him the Project Atlas report, made specific reference to your report in terms of stress case scenarios for loans as a basis underpinning the Government guarantee two months earlier?

Chairman: The question is made. Now I need time for a response. Mr. O'Connor and Mr. Walsh.

Mr. Denis O'Connor: I can't really comment on what he said. Like he said what he said. Our report was six weeks after the guarantee. The comments on tier 1 ratios at 4% is fine but tier 1 ratios increased up to 10% or in excess of that and that in itself had a huge change on the assumptions.

Deputy Kieran O'Donnell: And what about the fact that the taxpayer has ended up forking out €30 billion for Anglo Irish Bank on the-----

Chairman: That's a fact. Can I get a question from you?

Deputy Kieran O'Donnell: No, well, then can I ask you can you comment on the fact that you have stated in your report that under your highest stress case scenario on 17 November, Anglo would cover its tier 1 capital requirements and wouldn't require taxpayers' money but, in fact, it ended up €30 billion?

Mr. Denis O'Connor: As we said, at that stage the tier 1 ratio was only 4%; it increased to

10%------

Deputy Kieran O'Donnell: But you also said-----

Mr. Denis O'Connor: -----and November-----

Chairman: Deputy, I don't want to be too intrusive now but I have to allow the witness the same amount of time at least to yourself that you have taken for questioning. Mr. O'Connor.

Mr. Denis O'Connor: Tier 1 ratio before 10% is a big difference and this is all before NAMA came in where there was an asset write-down of 60-odd% in Anglo's banks, which we hadn't foreseen.

Deputy Kieran O'Donnell: Can you explain ... you made reference earlier to Senator Barrett that the capital that was in ... I don't know if you were speaking specifically about Anglo or the other banks, that what was being reported as equity wasn't actually equity, that here was an element of loans from other banks and subsidiaries. Can you expand on that?

Mr. Denis O'Connor: That's all there is to say. The assumption in some of the banks was 80:20 - 80% debt, 20% equity, but the 20% equity was either from private banking or from a different bank so it wasn't really real equity on some of their loans.

Deputy Kieran O'Donnell: Explain that because that's – oh, you were talking about the equity on the loans.

Mr. Denis O'Connor: Yes.

Deputy Kieran O'Donnell: So effectively ... and when you looked at it further were there situations whereby there was nearly 100% gearing across the board on all loans?

Mr. Denis O'Connor: That's correct.

Mr. Aidan Walsh: I wouldn't say across the board on all loans. This was very much a loan-to-loan situation and there were marked differences between individual borrowers and individual loans in terms of loan-to-values and how the equity portion was funded. I think one of the issues we found was that while money might have been borrowed from the commercial bank, you might find a situation where the related private bank had lent money to fund the equity portion of that loan. Or a different bank had funded the equity portion of that loan.

Deputy Kieran O'Donnell: Can I go back on this ... the ... looking at the stress scenarios on the loans in Project Atlas 2? What ... give me the basis of the assumptions in the worst-case stress scenario in Atlas 2? What was your worst case? What were your assumptions?

Mr. Denis O'Connor: In core documents, page 5, you see them down there on the impairment basis points. Scenario 2, this is for a year, out of three-year assumptions, residential mortgages: 15 basis points.

Deputy Kieran O'Donnell: That would mean the value of the property would fall 15-----

Mr. Denis O'Connor: Residential mortgages-----

Mr. Aidan Walsh: No, that would be based on the loan. These-----

Deputy Kieran O'Donnell: Explain for a layman. What do you mean by saying that the

15 basis points for mortgages?

Mr. Aidan Walsh: If there was £100 mortgage loan, then that's 0.15% provision against the £100 loan.

Deputy Kieran O'Donnell: But did ye build into your scenarios in terms of projected fall in the value of property?

Mr. Aidan Walsh: In relation to mortgages particularly, we did no detailed work on the mortgage books.

Deputy Kieran O'Donnell: But in terms-----

Mr. Aidan Walsh: But in Atlas 1 and Atlas 2, we took the highest level of provision that was made across the system and added 20% or 25% to that in arriving at that level for-----

Deputy Kieran O'Donnell: But, in layman's terms, in terms of looking at your stress case scenarios and potential losses, and in the worst-case stress scenario, what did ye project property would fall by, commercial property?

Mr. Aidan Walsh: Could I just emphasise that we didn't set out to do a worst-case scenario.

Deputy Kieran O'Donnell: But you did a worst-case scenario.

Mr. Aidan Walsh: We didn't call it a worst-case scenario. We looked at the stress ... two levels of stress that were significantly higher than the levels that the banks themselves were forecasting. We weren't asked for and didn't prepare a worst-case scenario.

Deputy Kieran O'Donnell: But it's the highest stress. What will then ... in the highest stress scenario, what did you provide for that in terms of fall in the price of property? Commercial land.

Mr. Aidan Walsh: On the development land without planning permission it was 45%, and on development land with planning permission it was 30%, and that was against the loan value, not against the collateral.

Deputy Kieran O'Donnell: And that was land. What about property itself?

Mr. Aidan Walsh: On commercial and corporate loans, we provided 375 basis points, which was about 4%.

Deputy Kieran O'Donnell: So, 4%. And do you believe that was adequate, considering the fall in property-----

Chairman: Mind now, ask the question, don't give a judgment.

Deputy Kieran O'Donnell: No-----

Chairman: Was it sufficient, Mr. Walsh?

Mr. Aidan Walsh: In hindsight - and here we are seven years on - no, that level wasn't sufficient. It was significantly higher than was being projected by the banks themselves at the time and I'd emphasise, again, that it was done as a time when the Government's own forecasts for the national budget was a 1% decline in GDP and a 7% rate of unemployment-----

Deputy Kieran O'Donnell: But, Mr. Walsh-----

Mr. Aidan Walsh: -----which, a year later, turned out to be a 7% decline in GDP and a 15% level of unemployment. So, we were doing it at a time when the depth of the recession that emerged in Ireland was not foreseen, by us or the people that we were working with.

Deputy Kieran O'Donnell: But, Mr. Walsh, ye took a 45% expected reduction in development land without planning. Over what period of time was that for, did ye think?

Mr. Aidan Walsh: Over three years.

Deputy Kieran O'Donnell: And you took it ... for land with planning, you took 30% over three years. But then, in terms of commercial property itself, you took 4%, much of that which might have been unlet, maybe partially built; 4% would appear to be ... would you not feel it's a very small figure?

Mr. Aidan Walsh: No, anything that was partially built would have fallen into the development categories and what was in commercial and corporate lending was income-producing.

Deputy Kieran O'Donnell: But, looking at it, even at that moment in time, where liquidity had dried up, the banks themselves were doing no further lending, surely 4%, right ... and I would assume the majority of the commercial loans, if you group all corporate commercial loans together, the majority of those would have been in the commercial area, correct? We'll say, the majority.

Mr. Aidan Walsh: The majority of value, yes, was in the commercial property area.

Deputy Kieran O'Donnell: So, exponentially, the loss provision that you would have been calculating, the fact that you were only taking 4% on the commercial loan book, would give an artificially low projected loss. Is that fair comment?

Mr. Aidan Walsh: In hindsight, yes. At the time, it was significantly higher than any of the banks were forecasting for their books.

Deputy Kieran O'Donnell: Okay, so you accept that. Can I ask, Mr. O'Connor, you were at various meetings on the ... there's a note, Chairman, on ... it's ... I'm going to a previous volume, but I'd say Mr. O'Connor would be familiar with it.

Chairman: First of all, ask the question is he familiar with it, and then we'll talk about it.

Deputy Kieran O'Donnell: Are you familiar with it? It's a note, a minute of a meeting of a meeting of ... 'twas either the 25th or the 28th, at which you were present at the meeting. They have you down as "Dan O'Connor", but I presume it's Denis O'Connor.

Mr. Denis O'Connor: That's the same man.

Deputy Kieran O'Donnell: Same man, right. Are you Dan or Denis?

Mr. Denis O'Connor: Denis.

Deputy Kieran O'Donnell: Okay, we'll call you Denis.

Chairman: We're meeting you all over again.

Deputy Kieran O'Donnell: Chairman, it makes reference ... are you familiar with the note?

Mr. Denis O'Connor: I am, yes.

Deputy Kieran O'Donnell: Can I just make reference to it and ask you ... the Taoiseach was present and the Minister for Finance was present at that meeting. Was that meeting on 25 or 28 September?

Mr. Denis O'Connor: The 25th.

Deputy Kieran O'Donnell: The 25th, right. Now, at that meeting, it makes reference, "[David] Doyle noted [the]Government would need a good idea of the potential loss exposures within Anglo and INBS - on some assumptions INBS could be 2bn after capital and Anglo could be 8½" billion. Were ye asked to do any further work on Anglo and Irish Nationwide on the foot of those comments by David Doyle?

Mr. Denis O'Connor: It's all part of Atlas 1 and 2. It was all rolled in together.

Deputy Kieran O'Donnell: Were you asked for your comments, to give your opinion on the night, or your observation as to whether Anglo and Irish Nationwide were solvent at that time?

Mr. Denis O'Connor: No, we weren't asked at that time.

Deputy Kieran O'Donnell: Did it come up for discussion at that time?

Mr. Denis O'Connor: Whether they were solvent?

Deputy Kieran O'Donnell: Yes.

Mr. Denis O'Connor: No, it didn't, no.

Deputy Kieran O'Donnell: Do you believe, yourself, that Anglo and Irish Nationwide with solvent on the night of the guarantee?

Chairman: Are you able to answer the question?

Deputy Kieran O'Donnell: Well, I'd say Mr. O'Connor is a highly qualified man. I'd say-----

Chairman: Let the witness determine his own credit-----

Deputy Kieran O'Donnell: With due respect, Chairman, right, Mr. O'Connor was the only third-party person that would have looked at the balance sheets of the banks and their loans in the nine days up to - well, not quite nine, but certainly up to six or seven days up to that date-----

Chairman: Okay.

Mr. Denis O'Connor: On 30 September, after the guarantee ... You can define solvency by two ways. Can a company pay its bills when they fall due? Does its assets exceed its liabilities? After the guarantee, it could pay its bills as they fell due and, at that point in time - we cannot recognise any future losses at a balance sheet date - so its assets exceeded its liabilities.

Deputy Kieran O'Donnell: Prior to the guarantee being put in place, was Anglo and Irish Nationwide solvent?

Mr. Denis O'Connor: That's a different question to answer, but-----

Deputy Kieran O'Donnell: Sure that's why I'm asking the question.

Mr. Denis O'Connor: Well, the information we prepared for the 28 September meeting of the NTMA would have indicated that the deposits were not rolling over or expected to roll over on 30 September and future weeks, which would have left the banks in a very difficult position where we recommended to them a contingency plan had to be put in place.

Deputy Kieran O'Donnell: And what contingency plan did you recommend be put in place?

Mr. Denis O'Connor: They had to get cash from the ECB, or from somebody else along the line, to replace deposits that were not going to be replaced themselves.

Deputy Kieran O'Donnell: So, technically, prior to the night of the guarantee, technically, was Anglo and Irish Nationwide Building Society - I suppose, Anglo in particular - was it insolvent?

Mr. Denis O'Connor: Well, the Anglo calculations produced by management themselves would have indicated that it would have extreme difficulty in paying its bills as they fell due after 30 September.

Deputy Kieran O'Donnell: And if you'd been asked on that meeting of 25 September whether Anglo or Irish Nationwide were solvent, what response would you have given?

Mr. Denis O'Connor: That's the answer I would have given. Unless some plan was put in place, a contingency plan put in place, to get the cash on 30 September, it wouldn't have been solvent. They had to put some plan in place to get the money.

Deputy Kieran O'Donnell: So therefore, technically, prior to the guarantee it wasn't solvent, they were insolvent.

Mr. Denis O'Connor: If there was no plan. Maybe, they had a plan. But, if they didn't do anything, if the money kept going out the door, they had a problem.

Deputy Kieran O'Donnell: Can I just go back to the ... by the end of 2013, €64 billion in the six financial institutions, can you comment on the capital adequacy of the Irish financial institutions, risk over-concentration in property and land and development, arrears identification, interest roll-up? And, in your PwC report, you stated that - this is core document Project Atlas 1, Vol. 1:

> The latest available capital information for the Banks shows current core Tier 1 ... ranging from 5.9% [in Anglo] to 8.6% [in Irish Nationwide] ... at 30 September before any stress testing or scenario analysis ... The table [below left] sets out the Banks' estimated capital ratios and risk weight[ings] as at the 30 September.

The table on the right sets out State investment. So, I suppose, the question is, how do we get from a point with Project Atlas 2 ... Project Atlas 1 ... that you were saying that the banks had ... would have sufficient core tier 1 to absorb any losses? Take ... and I am factoring into that the lower core tier 2 that's required - I think, it was at 4%; it went to 10% in future time periods. Even with that situation, how do we get to a point where €64 billion went into the six covered financial institutions?

Mr. Denis O'Connor: On page 81, the page you have up there in front of me, what we ... all we highlighted there was the bank's management accounts position at the end of August or September for each of the banks. That's what the accounts were actually ... were saying. We hadn't done any work at that stage.

Deputy Kieran O'Donnell: No work. And did you at all, when you had initially looked at the ... in Project Atlas 1, you reported on that on was it 27 September, am I correct?

Mr. Denis O'Connor: Or middle of ... the second week of October.

Deputy Kieran O'Donnell: Second week of October. Did you advise the Financial Regulator and the Government that there was a need for more in-depth review of the loans of the banks?

Mr. Denis O'Connor: Yes, and that is what we did in Atlas 2.

Deputy Kieran O'Donnell: Yes, but you still relied on management for Atlas 2. I mean, you relied, we'll say, on the ... did ye do any, I suppose, drilling down that, we'll say ... the fact that, subsequently, we'll say, there was results done by the Financial Regulator back in 2011 ... 2010-11, where it showed that the banks needs €24 billion. The question I'm asking is: being the professionals that you are, did you advise the Financial Regulator that the type of work that was done was insufficient?

Mr. Aidan Walsh: We did a very significant amount of work in Atlas 2 in drilling down into the top 50 loans by jurisdiction and the top 25 development loans - sorry, connections - which would have been into hundreds of loans and hundreds of properties, and we identified loans and connections that we regarded as higher risk, medium risk or lower risk. We had a lot of specific comments in relation to individual developers and collateral.

Just to your point in relation to the Financial Regulator's work in 2011, in my view, the world had changed fundamentally between 2008 and 2011. NAMA had been instituted, the properties were being transferred over so they were now being marked down at mark-to-market basis, the capital adequacy ratios had increased from 4% to 10%, unemployment had gone to 15%, mortgage books were starting to experience significant stress and default rates, and, by 2011, we were very close to the very bottom of the property cycle.

Deputy Kieran O'Donnell: Okay, Mr. Walsh.

Chairman: Deputy O'Donnell, I will let you back in again in the wrap-up.

Deputy Kieran O'Donnell: Is it fair comment that the 4% potential reduction ... fall in the value of commercial property that you sought from '08 to 2011 in Project Atlas 2 grossly understated the fall in property ... commercial property as it happened over that three-year period, and if you had put in any ... what level of fall in ... in property prices would have given rise to a situation where you would not have been able to make the statement that the tier 1 ... the core tier 1 levels in the banks were sufficient to cover any impairment losses?

Chairman: All right. I will bring you back in at the end, Deputy, and to wrap up, Mr. Walsh.

Mr. Aidan Walsh: I think the ... scenario 2 showed that in one of the banks, that they would breach their then 4% capital ratio and it's clear, in hindsight, that that 4% write-down was inadequate, but the-----

Deputy Kieran O'Donnell: I suppose, the question I'm asking-----

Chairman: I am sorry now, Deputy. I will bring you back in the wrap-up again.

Deputy Kieran O'Donnell: It is a very simple question, Chairman.

Chairman: You can come back to it. It doesn't matter how simple the question is. The witness must respond to the earlier question.

Deputy Kieran O'Donnell: No, but, Chairman, I just want ... It's very simple. The 4 ... what level, if it had been 6%, 10%, ... at what level would all the banks have breached their core tier 1 requirements and you would have stated that the banks needed capital?

Mr. Aidan Walsh: All-----

Chairman: Mr. Walsh, and without interruption, and then I am moving on. Mr. Walsh?

Mr. Aidan Walsh: All the banks, I don't know. But it's clear that, at scenario 2, Anglo would breach its core tier 1 ratios.

Deputy Kieran O'Donnell: At 4%?

Mr. Aidan Walsh: Yes.

Deputy Kieran O'Donnell: So ... but you didn't say that.

Chairman: Okay.

Mr. Aidan Walsh: We did.

Chairman: We will come back to it in the wrap-up, Deputy. I'm going to be more tightly disciplined with time today, now.

I just want to deal with a couple of matters before I bring in the ... the leads have completed but before I move on to the other questioners, could one or both of you, Mr. Walsh and Mr. O'Connor, explain as to why the Government announced on December '08 that it intended to inject €1.5 billion into Anglo?

Mr. Denis O'Connor: Sorry, say it again.

Chairman: Could either of you explain as to why the Government announced in December '08 that it intended to inject €1.5 billion into Anglo?

Mr. Denis O'Connor: I don't know.

Mr. Aidan Walsh: No, I don't know. We weren't involved in the discussions leading up to that decision.

Chairman: Okay. So there was no analysis or services, to your knowledge, that PwC gave that informed the Government to come out with that announcement.

Mr. Aidan Walsh: The only information they had from us at that time was Atlas 2.

Chairman: Okay. As we know, that never transpired that the ... Anglo was nationalised practically within a month of that announcement actually happening so there wasn't any injectment of cash; it was a nationalisation "prospacy". But you're unaware as to what informed the Government making that announcement. Is that your testimony?

Mr. Aidan Walsh: I'm unaware of what informed the Government.

Chairman: Okay. All right, fair enough.

I just want to deal with some matters regarding to loan selection samples, the decision criteria and concentration risk for a moment before I bring in the next witness. The two relevant documents to this, you would be familiar with. There's your own statement, Mr. O'Connor, and there's the Project Atlas 2, Vol. 1 - the working draft of that. And in that, it says:

> The top 22 exposures across the six institutions we have received total €25.5 billion, of which €13.7 billion [that's 53%] is in Anglo and €8.1 billion [that's 32%] is in AIB. The top ten exposures are each in excess of €1 billion, accounting for €7.5 billion [that's 17%] of the top 22 exposures.

It then goes on to say:

> 78.2% of Anglo's book is lent to property companies, 5.5% for personal investments and 6.3% to hotels. 42.2% of Bank of Ireland's book is in home mortgages. It appears that concentration limits may be exceeded in a number of cases [as the figures would have indicated as I've read out].

In your management discussions, what was the background and rationale for the major lending positions and the level of loan provisions from this examination?

Mr. Denis O'Connor: Sorry, what was the question?

Chairman: I said, in your management discussions, what was the background and the rationale for the major lending positions and the level of loan provisions in this regard?

Mr. Denis O'Connor: The level of loan provisions was based on their actual judgment and the history they had with the client. They did it loan-by-loan, connection-by-connection, but the amount of provision they had made was very, very light.

Chairman: Okay. Was it evidential based or was it, kind of, "Well, I know you and you're grand, I will give you a few bob", or was it that "We have a long-standing history with this guy and he always brings in the bacon?" What was the rationale underpinning it?

Mr. Aidan Walsh: The provisions at the time were based on loans that had gone into default. There were no expected future losses for loans that had not gone into default booked and that was in accordance with the accounting standards at the time. So the provisions was based on default ... loans in default rather than an economic view or judgment in relation to what might transpire over time.

Chairman: In that regard, was there a view that loan loss provisions were not sufficient for relevant loans?

Mr. Denis O'Connor: In the banks themselves, they were happy the provision they had booked were adequate.

Mr. Aidan Walsh: And they were quite robust about that.

Chairman: Okay. Could you give us an example of that robustness?

Mr. Denis O'Connor: Well, they disputed every additional provision and any negative comment that we would have made.

Chairman: And were you challenging that position with the bank? And could you, maybe, give us an example of that discourse as to how that went back and forth?

Mr. Denis O'Connor: Just very strong discussions. I can't think of specific things, but each bank ... each lending officer was defending his own loans to the hilt.

Chairman: Okay. When NAMA came before the committee, they gave an example of the lending model that was in place, and I'm just putting this out to see would ... did it kind ... was this related to the context of those conversations. Whereas where Mr. Daly says - he gives an example of the loan modelling - a developer would come in, they would borrow to develop a particular site. The equity in that would increase because there was, kind of, very vast property inflation at the time. So when that was complete, in fact, the value of the property would be probably in excess of the original loan and there would be a significant degree of equity. The developer would then go for another loan and the securitisation and the deposit would be based upon the equity in the earlier ... there was no cash transaction-----

Mr. Denis O'Connor: Yes.

Chairman: -----there was just this equity. Is that the type of discussions that you had in regard to ... well, how the loans were securitised and supported? Was it in that area or somewhere else?

Mr. Denis O'Connor: That'd be part of discussions. What Mr. Daly would have described is accurate; that would have happened. The one thing we were surprised at, as I said earlier on, was that if a plc was to go in for ... looking for a loan for €100 million, there'd be a huge amount of work, due diligence, everything else-----

Chairman: Okay.

Mr. Denis O'Connor: -----a massive exercise. This was not the case for developers.

Chairman: Okay. And what would happen? Maybe that's something to the conclusion that we might come to in regard to how loans are dealt with in the future. And so just continuing that line of questioning, did PwC suggest that the greater loan book granularity should be pursued to view another 50 loans or was this at the suggestion of the ... of IFSRA or another party, given the outcome of the top 20 loan reviews?

Mr. Denis O'Connor: That was coming from the regulator.

Chairman: The regulator said that you-----

Mr. Denis O'Connor: Yes.

Chairman: -----needed to-----

Mr. Denis O'Connor: Yes.

Chairman: -----drill down further-----

Mr. Denis O'Connor: Yes.

Chairman: -----in that regard. And was that done?

Mr. Denis O'Connor: Yes.

Chairman: And what ... did it reflect something different or something new or much the same?

Mr. Denis O'Connor: Very consistent, very the same.

Chairman: Very consistent.

Mr. Denis O'Connor: The ... consistent, yes.

Chairman: Okay. Moving on then to ... I just want to deal with the matter of ... were you aware ... and this comes back to your own statement again, Mr. O'Connor. Were you aware of summary information from PwC reports was likely to be discussed by Government officials from the Central Bank, the Financial Regulator, the Department of Finance, etc., at meetings taking place on 29 September 2008?

Mr. Denis O'Connor: No.

Chairman: Was that a surprise to you?

Mr. Denis O'Connor: We didn't know about it until more or less it came out in the transcript that we saw there recently.

Chairman: Okay. When ... in the information that you had been providing, did you know that it might be used in that regard or had you any indication that these discussions would, kind of, find themselves falling into this sort of environment?

Mr. Denis O'Connor: Well, we knew the Department of Finance were looking at the information and the regulator but we hadn't thought about where else it was going after that-----

Chairman: If you-----

Mr. Denis O'Connor: -----and we didn't know the pace at which things would develop. I have to say that I was very surprised when I heard the news on the morning of the 30th, driving into work.

Chairman: Yes. If you knew that information and data and analysis that you were providing to Government and other services had that stop on its journey - and I do want to take on board the speed and all the rest of it - would that have informed how you would have presented your information or would you have considered that you would have, kind of, maybe reshaped it or focused on other areas if you knew it was going to lend itself to a discussion like that?

Mr. Denis O'Connor: Not really. The information on liquidity was all factual. "This is the position as of now; this is what'll happen the next few days." And on credit, we had nothing done.

Chairman: Okay. Other than the option of nationalisation, which we discover ... discussed earlier, was ... what were then other strategic options available to the Government before 30 September 2008?

Mr. Denis O'Connor: I can't remember. There was a part guarantee, full guarantee, nationalisation, issue new shares, ordinary shares, preference shares, that type of ... wide-ranging discussions that Merrill Lynch primarily were bringing to the table at that stage, mainly how you get more capital and more liquidity and equity into the banks.

Chairman: Okay. All right. And just on ... coming back to your own statement there, Mr. Walsh, in which you say: "Following the granting of the Government Guarantee on 30 September 2008, our preliminary work on collateral that could be provided to the Central Bank in support of ELA was not pursued." In that regard, could you tell the committee why were PwC requested to draw up a list of loans that would be used as collateral?

Mr. Aidan Walsh: I think that applied to one particular bank that didn't have a mortgage book and most of the collateral was coming from mortgage lending rather than from commercial lending?

Chairman: Which bank was that?

Mr. Aidan Walsh: Pardon?

Chairman: Which bank was that?

Mr. Aidan Walsh: Anglo.

Chairman: Anglo, okay, yes.

Mr. Aidan Walsh: And they wanted to see what loans with commercial property backing might be suitable to use in an ECB-type scheme and wanted to make sure that those loans hadn't been secured under any other funding mechanism.

Chairman: Okay. And in your discussions with the Financial Regulator, did you ever express material concerns about additional liquidity and quality of the supporting collateral?

Mr. Aidan Walsh: We had very factual discussions in relation to the loans that were being put forward as possible collateral, the nature of the loans, the nature of the collateral supporting those loans, the work that could be done to ensure that they hadn't been secured elsewhere and to ensure that the security for those loans was in place properly.

Chairman: And-----

Mr. Aidan Walsh: Yes, but they were factual discussions rather than-----

Chairman: And, as that process progressed, it would then go on to the next stage, and in that regard, did the Central Bank and/or the Financial Regulator advise why the work on loans suitable for emergency liquidity assistance, ELA, were not pursued?

Mr. Aidan Walsh: The flow of funds actually changed dramatically on 30 September. What had been a rapid outflow of funds on deposit turned into a positive inflow of funds into the banks and the banks reinstigated their efforts to find new capital in the public markets.

Chairman: Okay. The reason why I'm asking you is to, kind of ... to expand upon why that wasn't pursued is that the Government subsequently gave a guarantee which was a contingent commitment.

Mr. Aidan Walsh: Yes.

Chairman: This is the State standing behind its banks and it's not a funding instrument.

Mr. Aidan Walsh: Yes.

Chairman: There's no cash transfer. As we heard comments at the time, this was not going to cost ... it'll be the cheapest and all the rest of it. So why were you looking at ELA? And how can you square that off to us that you were in the area of looking at ELA and ELA then never ended up as an option?

Mr. Aidan Walsh: Well, we were looking at ELA before the Government guarantee was given. After the Government guarantee was given, the liquidity position in the banks improved quite significantly and-----

Chairman: Because of the guarantee or because of-----

Mr. Aidan Walsh: Because of the guarantee.

Chairman: Okay.

Mr. Aidan Walsh: So people were now prepared to put ... they were able to get more money in the wholesale money markets and more corporate deposits coming back into the banks.

Chairman: And maybe you could distinguish what the difference would be, for the committee, the State standing behind the bank created a certainty that created liquidity. If ELA had come in, what would have been different there in terms of cost to the State and other factors?

Mr. Aidan Walsh: I couldn't estimate what that would be.

Chairman: Okay. Would the State have been exposed through the ELA in the same way?

Mr. Aidan Walsh: I'm actually not sure of the chain of security on an ELA arrangement. I don't know the detail, I'm afraid.

Chairman: Okay. You wouldn't be able to give us, to the best of your ability, an analysis of the different exposures from ... one from the guarantee and one from seeking the ELA.

Mr. Aidan Walsh: Well, the guarantee was across the entire balance sheet. On an ELA situation, the bank would come with a parcel of loans and look to, effectively, get cash ... give the loans to the Central Bank and get cash in return for it.

Chairman: Maybe just to arrive to the fundamental of it - and this is my very last question - by the State giving the guarantee, who ends up with the responsibility of the debt?

Mr. Aidan Walsh: The taxpayer ends up with responsibility.

Chairman: Okay. By the bank being afforded the ELA, who ends up with the responsibility of any liability on the ELA?

Mr. Aidan Walsh: Well, the Central Bank and the ECB.

Chairman: Okay. Thank you. Deputy Michael McGrath.

Deputy Michael McGrath: Thank you very much, Chair. You're very welcome, Mr. O'Connor and Mr. Walsh. Can I just take you back to the first engagement that you had with the regulator in September 2008? Can you advise the committee when PwC was first approached and by who? And what reason were you given for being contacted at the time?

Mr. Aidan Walsh: Our managing partners' office was contacted on 17 September with a request that a partner would meet with Mr. Neary the following day to discuss a very confidential assignment.

Deputy Michael McGrath: Okay.

Mr. Aidan Walsh: And that's the first contact we had with Mr. Neary then when we met him on the 18th.

Deputy Michael McGrath: Okay. So the meeting happened the following day following the initial contact. Was there any procurement process involved for the appointment of PwC?

Mr. Aidan Walsh: I'm not aware that there was a procurement process and I'd be surprised if there was because Mr. Neary was very concerned about the confidentiality and the sensitivity of the work that he was asking us to carry out.

Deputy Michael McGrath: Okay. And can you comment if you were requested for any input into the scope and specification of the engagement or was this provided to you by the Financial Regulator at the time?

Mr. Aidan Walsh: We had a discussion with Mr. Neary and his colleagues in relation to what their needs were and what work we felt we could do within a very tight timeframe.

Deputy Michael McGrath: Okay.

Mr. Aidan Walsh: We documented the scope following our meeting, shared it with Mr. Neary and his colleagues, got some editorial comments of a technical nature rather than a substantive nature, and signed off on that scope of work.

Deputy Michael McGrath: Sure, and were there a number of drafts of the letter of engagement between the regulator and your firm?

Mr. Aidan Walsh: There was probably one or two, but as I say, in terms of the scope there wasn't any substantive change from what we discussed and then-----

Deputy Michael McGrath: Okay.

Mr. Aidan Walsh: -----documented initially.

Deputy Michael McGrath: Okay and I think you said that the overall fees for the three Project Atlas reports was €2.4 million. The Minister has previously put a figure of €3.8 million on the record in the Dáil. Is that accounted for by fees to Jones Lang LaSalle? Or can you account for that?

Mr. Denis O'Connor: Probably is JLL and VAT.

Deputy Michael McGrath: Okay.

Mr. Denis O'Connor: JLL got €670,000, so €2.4 million, €700,000, €3.1 million, plus VAT gets you up close enough to that.

Deputy Michael McGrath: Okay, so the €2.4 million you quoted is excluding VAT.

Mr. Denis O'Connor: Yes.

Deputy Michael McGrath: And can you comment on what other fees PwC earned during the banking crisis by way of due diligence on AIB, Bank of Ireland, during the various recapitalisation programmes that took place in the subsequent couple of years? Do you have the overall picture?

Mr. Denis O'Connor: I don't have the overall ... like, I don't have the overall picture here. You're correct, we did due diligence for the pension funds on AIB and Bank of Ireland as part of the preference share investment. We did work on Anglo for the Department of Finance in '09. We did work on INBS and EBS as part of a proposed merger of the building societies that didn't happen in '09 or '10-----

Deputy Michael McGrath: Okay.

Mr. Denis O'Connor: -----but that type of jobs were done.

Deputy Michael McGrath: Sure. Can I ask you, Mr. O'Connor, just to clarify a comment you made to Deputy O'Donnell on the issue of whether Anglo was solvent on the night of the guarantee? And I think you used the measure of whether it was able to meet its obligations as they fell due, as opposed to the measure of whether its liabilities exceeded the true value of its assets. Can you just clarify your statement that Anglo, in your view, was insolvent at the end of September 2008?

Mr. Denis O'Connor: Well, the Anglo projections they had produced themselves for management would have indicated that it couldn't pay its bills as they fell due without some contingency plan or plan on 30 September. The assets exceeded liabilities because you can't book any future losses at that point in time.

Deputy Michael McGrath: Yes. So you were using a liquidity measure of solvency, as such-----

Mr. Denis O'Connor: A liquidity measure, yes, yes.

Deputy Michael McGrath: -----in arriving at that conclusion.

Mr. Denis O'Connor: So, after the guarantee it ... it was back in a solvency position again.

Deputy Michael McGrath: Okay. Can I just ask that page 5 of the core booklets would again be put up? And, so this is Project Atlas No. 2. And just so that we're all understanding these figures correctly, the box on the top left, looking at the impairment basis points. So, for residential mortgages scenario 1, 15 there is actually 0.15%.

Mr. Denis O'Connor: Correct.

Deputy Michael McGrath: So, similarly, development land without planning permission is 10% in scenario 1 and 15% in scenario 2.

Mr. Denis O'Connor: Correct.

Mr. Aidan Walsh: On an annual basis.

Mr. Denis O'Connor: For three years.

Deputy Michael McGrath: Yes. Just so we're getting our zeros correct. And this was the assumption for scenario 1 and scenario 2 for one year.

Mr. Denis O'Connor: Yes.

Deputy Michael McGrath: And it was clear in the report that the overall assessment was based on a repeat of that for three successive years.

Mr. Denis O'Connor: Absolutely.

Deputy Michael McGrath: That was clear in the documentation because it's not clear in the extracts we have here.

Mr. Aidan Walsh: But it ... it is clear in the overall document which was furnished ... which we ... was furnished to us from yourselves.

Deputy Michael McGrath: Yes, okay. So the projection for development land without planning permission was, under scenario 1, that it would fall by 10% in 2009 and 15% in 2009 under scenario 2. Is that correct?

Mr. Aidan Walsh: Yes.

Deputy Michael McGrath: Okay and that that would repeat for three years, so a total fall, in development land without planning of 30% or 45%. And on the area that Deputy O'Donnell zoned in on - commercial/corporate, so scenario 1, a 1.5% drop in commercial property values in 2009, and scenario 2, a 1.25% drop in 2009.

Mr. Aidan Walsh: And they were provisions against the loan balances, rather than the underlying collateral.

Deputy Michael McGrath: Okay. Yes, these are impairments of the loan balance.

Mr. Aidan Walsh: Yes.

Deputy Michael McGrath: So, bringing you to either 4.5% or 3.75% of full provisions. So, I think in your discussion there, you are accepting that overall, given what happened subsequently, those impairment levels - which were not intended to be a forecast, and that is clear in your document - ended up hopelessly underestimating the true extent of the impairment in that area.

Mr. Aidan Walsh: That is correct but also the economic environment was significantly worse than people involved in this work, or involved in working with us, anticipated at that time. And I'll go back to the 7% fall in GDP and the 15% unemployment rate that transpired through 2009-2010, compared to what the Government's own forecasts and the Central Bank forecasts were-----

Deputy Michael McGrath: Okay.

Mr. Aidan Walsh: -----for the same period.

Deputy Michael McGrath: When did the tier 1 capital requirement go from 4% to 10%?

Mr. Denis O'Connor: I think-----

Deputy Michael McGrath: Because you've referred to it a number of times.

Mr. Denis O'Connor: I think in '09 or ... in 2010, I think, and that's ... not certain on that. I think 2010.

Deputy Michael McGrath: 2010, so it wasn't in any way relevant at the time when-----

Mr. Denis O'Connor: No.

Deputy Michael McGrath: -----when these reports were being compiled? And when did PwC conclude that additional capital would have to be put into Anglo Irish Bank?

Mr. Denis O'Connor: We didn't conclude ... we didn't conclude on that. Anglo ... the board of management liaised with the Department of Finance, the regulator. PwC were not involved in those discussions. After our Atlas 1, 2 and 3 reports on Anglo we didn't do much more work on that until some specific assignments on the business plan, etc., back in 2009, I think.

Deputy Michael McGrath: Okay, but even under the most adverse assumptions that you made, your analysis was projecting at that time that Anglo would not need any additional capital in order to meet the minimum capital requirements.

Mr. Denis O'Connor: That's-----

Mr. Aidan Walsh: No, I think-----

Deputy Michael McGrath: Through 2009 and 2010.

Mr. Aidan Walsh: I think that's ... that's not correct. I think, under scenario 2, we said that Anglo could breach its capital requirements at 4%.

Deputy Michael McGrath: Well then, just go to that excerpt on page 37, which isn't on the system, of the summary document which has been published - that under PwC highest stress scenario, and it was core equity and tier 1 ratios are projected to exceed regulatory minima 4% at 30th of September 2010, after taking account of operating profits and stressed impairments. So, under the highest stress scenario, you were projecting that Anglo would not need any additional capital and would still be in excess of the minimum capital requirements two years forward, using the assumptions that you were working under. Is that correct?

Mr. Denis O'Connor: I don't have that document in front of me, but if you're reading it out there that must be it.

Deputy Michael McGrath: And you make it clear that you were sticking with the four of the five assumptions that management had made in their assessments, they're in the previous page of that document. And assumption one is, Anglo will continue to generate core operating profits in line with existing profit levels, despite the current downturn. So your projections were based on that assumption, that Anglo would continue to be profitable going forward into 2009 and throughout 2010. You accepted that management assumption.

Mr. Denis O'Connor: At that time we did, but it was not correct. Anglo did not make any profits for any of those years, and that was a ... one of the big issues with the forecasts. Any of the banks made very little profits in '09 and '10 because there was no activity.

Chairman: Finish up now, Deputy.

Deputy Michael McGrath: Thanks, Chair. Finally, one of the reasons that you cited earlier for the true picture ending much worse was around the issue of loan security, security not being properly tied down, cross collateralisation, personal guarantees not being worth a whole lot when the bank tried to pursue them. But when did you first identify any concerns in that area, because even going back to the letter of engagement for Atlas 1, point No. 9 in appendix A, you were to select a sample of the customer loan balances at the end of August '08 on the large exposures, and review the loan files, discuss the contents of these files with members of management. And then subsequently, in October, letter of engagement for Atlas 2, you were required to again review the loan balances at the end of September '08 for the top 20 this time-----

Chairman: A question, Deputy.

Deputy Michael McGrath: -----and review the loan files, and discuss the contents of these files and supporting documentation with members of management. So your engagement did require you to look at the underlying documentation in respect of the loans extended to the major borrowers. So did you identify any concerns about the underlying security, cross collateralisation and securities not being legally tied down?

Mr. Denis O'Connor: Correct. We looked at the loan files but security is not kept on loan files. Security is a separate issue completely and we did not look at security under any files. That was part of the legal process that happened and that really wasn't identified until NAMA came into being and they transferred the loans from the banks to NAMA. And as part of the legal due diligence it was found that the security assumption was totally flawed.

Deputy Michael McGrath: Okay. So Project Atlas 1, 2 and 3 did not identify or examine any issues in relation to the underlying security underpinning the loans given to the largest borrowers of Anglo.

Mr. Denis O'Connor: That's correct.

Deputy Michael McGrath: Thank you.

Chairman: Thank you, Deputy. Senator Susan O'Keeffe. Senator, ten minutes.

Senator Susan O'Keeffe: Thank you, Chair. Gentlemen, good morning. Is it ... is it the case that your analysis was based on management accounts of the relevant banks and that it didn't involve any independent verification procedures?

Mr. Denis O'Connor: That's correct. If you think about it-----

Senator Susan O'Keeffe: And what ... and if so, why?

Mr. Denis O'Connor: -----we were there in September. Any audited accounts would be very historical at that stage. The most relevant and updated information was the recent management accounts, which would have been the end of August.

Senator Susan O'Keeffe: And could the management accounts and the half-year management accounts have been requested directly by the Financial Regulator to ascertain the information? Could the office have gone directly there and said, "Just give us those"?

Mr. Denis O'Connor: Yes, they could have and they probably had them but they ... the amount of action that was going on and the amount of staff in the regulator's office meant he couldn't do everything at that stage. There was an avalanche of information coming in his direction.

Senator Susan O'Keeffe: Okay. So when you ... you had ten days effectively between that meeting on 18 September to the bigger meeting, then, of 28 September that you spoke about. Am I correct in understanding that that was your last contact with officials prior to the guarantee - was on the 28th?

Mr. Denis O'Connor: Correct. Sorry, apart from two e-mails that I sent to the Department of Finance confirming the positive outflows in three banks on 29 September and inflows on 30 September.

Senator Susan O'Keeffe: Yes. So did anybody pick up the phone, did anybody talk to any of you between the evening of the 28th and the evening of the 29th? No.

Mr. Denis O'Connor: No.

Senator Susan O'Keeffe: And so, why was there, if you like ... 'cause that was a Monday, wasn't it?

Mr. Aidan Walsh: Yes.

Senator Susan O'Keeffe: Why do you think ... why was there a pause? Were you expecting that when you left the meeting on the 28th? Were you expecting that there'd be a silence or what were you expecting to happen at that point?

Mr. Aidan Walsh: I don't think we had any defined expectations? We went back to trying to collect information in the three banks that we were working on. I ... I have to say we weren't aware of the pace at which the discussions in relation to how to implement the contingent plans were developing. I think we were both surprised when we heard news on the morning of Tuesday the 30th in relation to the ... the guarantee being announced.

Senator Susan O'Keeffe: On page 85 of Brendan McDonagh's evidence, which you may or may not have seen, but he talks anyway about the meeting on 28 September and he says, you know, there were a range of options - and you've said that yourselves - "But in any of the meetings that [we'd] had up to that point, all the discussion seemed to be pointing that it was inevitable that we were going to nationalise Irish Nationwide and Anglo Irish Bank". Now, I appreciate that you weren't called in as advisers at that level but you were at some of those meetings that Mr. McDonagh was also at. Did you take that impression away?

Mr. Denis O'Connor: It was an option being discussed. I wouldn't have said it was the only option, but it was discussed.

Senator Susan O'Keeffe: No, no, no. He doesn't say that either. He says it was "pointing that it was inevitable that we were going to nationalise". So that was his ... that was the opinion that he took away and I am asking whether you would share that opinion at that point or not.

Mr. Denis O'Connor: I wouldn't share ... it was the only option being discussed at-----

Senator Susan O'Keeffe: No, again, Mr. O'Connor-----

Mr. Denis O'Connor: No, I wouldn't share that ... his total opinion on that.

Senator Susan O'Keeffe: Okay. Mr. Walsh?

Mr. Aidan Walsh: I wasn't at those meetings on the 24th and 25th.

Senator Susan O'Keeffe: Okay. So, in terms of the, if you like, the gap between the 28th and the 6th of October, as the week unfolded and you saw the guarantee and all of that, are you saying that there was then no contact at all between you guys - your team - and the Financial Regulator and everybody else that you'd been dealing with?

Mr. Denis O'Connor: We were still working on our reports.

Senator Susan O'Keeffe: Yes.

Mr. Denis O'Connor: Yes, but-----

Senator Susan O'Keeffe: So, on the morning of the guarantee, you'd heard it on the news, you didn't go in and go "Okay. We need to meet them, we need to talk to them, we need to give-----". No?

Mr. Denis O'Connor: No.

Mr. Aidan Walsh: No.

Senator Susan O'Keeffe: Why do you think that was?

Mr. Denis O'Connor: Our work was independent of that. At that stage, we had moved on to the underlying loans and the ... the liquidity issue had gone now. The guarantee was in place so that the banks were liquid again, they had deposits, they could open their doors the following morning. So, now we were going on to looking at the loan books - the top 20 loans in each bank - and because we are dealing with the banks themselves, we actually were not dealing with the Department or the regulator or anybody else.

Senator Susan O'Keeffe: At what point did it crystalise for you that there was such a concentration of lending among such a small group of lenders? What ... when was that ... at least that you knew of it, even if you didn't know the entire detail of it? Can you recall when you knew that?

Mr. Denis O'Connor: Probably in the second or third week of our work. When we went from bank to bank, like, you had borrower A in one bank who had X amount, then you went through the same borrower A was ... another couple of hundred million in the next bank. When you put them all together, it became evident very, very quickly that the top ten borrowers had huge amounts of money out there.

Senator Susan O'Keeffe: So in the first ten days it was evident, even if all the detail of it wasn't evident.

Mr. Denis O'Connor: Yes, well the ... the balances were building up as you went through your work because, as my colleague has said, the connection is not easily tracked down on day 1-----

Senator Susan O'Keeffe: Sure.

Mr. Denis O'Connor: -----because it could be any combination of loans in this ... controlled by this individual.

Senator Susan O'Keeffe: And so at what point did you share that information, that at the very least there was this high level of concentration among a small number and, therefore - there's a vulnerability attached, I take it, if you have a small number with a big loan - so where, at what meeting did you say "Guys, this is what we're finding. We haven't got all the detail yet."?

Mr. Denis O'Connor: I can't tell you the exact date of the meeting, but it would have been ... come through fairly early ... very early in our work, probably in early October.

Senator Susan O'Keeffe: Early October. Not before the guarantee, even though it was clear in the first ten days.

Mr. Denis O'Connor: No, I'm not ... we hadn't gone into the banks in the first ... we hadn't gone into the banks looking at the loans pre the guarantee. At that stage, we were looking at the amount of loans in land and development in the various asset captions as opposed to the various individuals.

Senator Susan O'Keeffe: Okay. So nothing was known about the individuals and their concentrations prior to the guarantee.

Mr. Denis O'Connor: As far as I can remember.

Senator Susan O'Keeffe: According to you, I mean.

Mr. Denis O'Connor: Yes. Yes.

Senator Susan O'Keeffe: Okay. Now, Mr. McDonagh talked about when he ... he had asked in relation to Goldman Sachs and in relation to INBS, he said, you know, there were 33 questions, he referred to at his evidence here, that I want to know the answers to and he had e-mailed them to the Department of Finance. He said they were terribly basic questions. He described them as commonsense questions in his evidence and I am just wondering whether or not that, sort of, lack of evidence ... that lack of detail was apparent to you also in the work that you were doing. He was saying that he was surprised by the lack of information available.

Mr. Denis O'Connor: Information available in INBS or at the regulator?

Senator Susan O'Keeffe: In the regulator. Those basic questions could not be answered by the regulator about INBS.

Mr. Denis O'Connor: That didn't really come across our work because he had asked us to go in and get information for him. We didn't ask him what he had already, if you know what I mean. Like, we didn't discuss with him what he already had.

Senator Susan O'Keeffe: Okay. Mr. McDonagh also suggested at one point that he would like to share the Goldman Sachs information with PwC to get their view. Did that happen do you recall?

Mr. Denis O'Connor: I ... I presume so because everything was shared at that stage.

Senator Susan O'Keeffe: Everything was shared.

Mr. Denis O'Connor: Yes, yes, yes.

Senator Susan O'Keeffe: Okay, and did anything coming from there change your view in any way?

Mr. Denis O'Connor: No.

Senator Susan O'Keeffe: In the information that you gave to ... in that ... one of those e-mails that you referred to - on 28 September - you say that "We have not had the opportunity to discuss the comments with management of the three institutions." I'm not clear, reading from the summary report and reading from the e-mail ... at what point did you talk to management about what you were saying and what they were saying, as opposed to just looking at information that they were giving you?

Mr. Denis O'Connor: Those e-mails you're referring to obviously came from the teams down along the line in the different banks. We hadn't discussed them or agreed them with the more senior management.

Senator Susan O'Keeffe: Why was that? Was that because-----

Mr. Denis O'Connor: Because of time. Because of time.

Senator Susan O'Keeffe: -----they wouldn't meet you or because there wasn't time?

Mr. Denis O'Connor: No, no. They just hadn't time.

Mr. Aidan Walsh: No, no. They were available to us. They were available to discuss things. It was a question of collating information and getting a picture before we engaged in significant discussion with more senior management.

Senator Susan O'Keeffe: And do ... should it ... I mean, by the time you were going into that meeting on the 28th, should you not have had that opportunity to talk to senior management before you went into that meeting?

Mr. Denis O'Connor: I don't think it was relevant at that stage because the information we were getting on liquidity was a matter of fact. We could get it off the guys in the treasury department ... how much money was coming and going on those days and what was forecast to go over the next number of days. There wasn't any judgment on it, where you would have discussions with senior management. It was quite easy to identify the amount of big loans that were up for maturity and whether they would roll over or not.

Senator Susan O'Keeffe: Was there at all a sense that you were trying to keep Anglo going to the next weekend at that point. So, this would have been the Sunday - at that meeting - and you would've had meetings in those few days. Was there a sense at all that that's what you were trying to achieve?

Chairman: Allow an answer now, Senator. I'll allow a response and I'll allow you back in again once more.

Senator Susan O'Keeffe: There's been a lot of discussion about, you know, trying to keep Anglo going to the next weekend and; nobody wanting to intervene or do anything during the week.

Mr. Denis O'Connor: Well I'm not sure about that. The Anglo crisis point was Tuesday. It was end of year for them - 30 September - and I said earlier on, lots of deposits were up for maturity on that day. Depositors from other parts of the world really couldn't distinguish. It's hard to believe but they couldn't between AIB and Anglo Irish Bank and the contagion effect if one bank was to go would knocked everything else over at the same time. So it was key that all confidence was kept in the market and that whatever was to happen was to happen in an organised manner in the next number of days and we had only one attempt to sort this out.

Chairman: A brief supplementary now - a supplementary and then we're moving on, Senator.

Senator Susan O'Keeffe: So sorry, when you say the depositors wouldn't be able to distinguish between Anglo and AIB, why?

Mr. Denis O'Connor: Because they're both ... one is Anglo Irish Bank, one is Allied Irish Bank. If you're somewhere over in ... wherever you are and you're putting money on deposit, they don't go into that level of detail. They're investing really in Ireland at that rate of going and our understanding and our discussions with management and with other people was that one bank going in Ireland would have a contagion effect and all the banks would be in the same boat and the amount of discussion that would go on to distinguish one from the other will not happen. They will just put it into a more secure bank in a different country.

Chairman: Thank you. Can I just clarify one thing on that? The deposit exposure in Anglo, I understand both are AIB in one way or another and I can understand from a distance there can be confusion, but the personal deposit exposure between the two institutions ... were they similar?

Mr. Denis O'Connor: No, the personal deposits holders in Anglo would be very small. It's mainly all corporate deposit holders.

Chairman: And the investor depositors, as they would be in financial institutions ... like we know the loan portfolios and all the rest of it but in terms of confusion on the international market, did people who would be depositing wouldn't be depositing in Anglo Irish ... Allied Irish Bank or sorry in Anglo Bank? Am I right there, no?

Mr. Denis O'Connor: No, well there was concern-----

Chairman: There might be confusion but the people were actually voting with their feet and put the money in. There was no confusion with them when you look at the profile of the two banks.

Mr. Denis O'Connor: What you're saying is right but if Anglo Irish Bank was to fall over on any one of those ... at that point in time - 29 September, 30 September - it would have impacted on AIB as well.

Chairman: Alright - Senator Marc MacSharry.

Senator Marc MacSharry: Thanks very much and thanks gentlemen for being here. Can I ask you can you advise to the extent of discussions you had with management of the financial institutions regarding the collating of arrears, information on non-performing loans and interest roll up at certain-----

Chairman: Phone interference - will people please turn off their phones please if they're near the Deputy because we'd have two more days of this? So I'm sorry now for interrupting you Senator but if there's a phone in proximity to you, I want it turned off please because it's interrupted you.

Senator Marc MacSharry: Understood. Where did I lose you there gentlemen?

Mr. Denis O'Connor: To answer your question, we-----

Chairman: Sorry, I'm just going to stop proceedings for a moment until the phones are switched off there. Mr. O'Connor, just hold on a minute and I'll stop the clock.

Mr. Denis O'Connor: I'm good.

Chairman: Okay, is it good? Okay, we'll resume so please.

Mr. Denis O'Connor: We looked at the arrears portfolio. We looked at all the watch lists there at the end of August, the-----

Chairman: Sorry, I'm just going to suspend for just 30 seconds before the phones are switched off there-----

Senator Marc MacSharry: Do, yes, for security.

Chairman: Will people in proximity to Senator MacSharry please turn off their phones and then we'll resume? We've a lot of complaints in the public last week about this and I'm not going to go through the last week with the same level of complaint coming in in broadcasting and all the rest of it. So, back to yourself, Senator MacSharry.

Senator Marc MacSharry: Will I finish the question? I was saying that there's the arrears issue, non-performing loans obviously, and the level of interest roll-up on certain facilities and the percentage representation of interest roll-up on the overall book.

Mr. Denis O'Connor: Yes, as part of our work, we looked at all those characteristics you've said but they were a bit out of date in that the files that were available to us were probably July and August at that stage and the arrears interest roll-up on the watch lists came after that.

Senator Marc MacSharry: Was all management in the various institutions forthcoming? Were they happy to see you and three bags full, whatever you needed or were they obstructive and *laissez-faire* about the pace at which they sought to help you?

Mr. Aidan Walsh: No, they definitely weren't *laissez-faire*. They were organised and structured to meet us, to share information, to make sure that they understand what our questions were, to make sure that they made loan officials available to us, to make sure that we got access to the loan files we asked to see. Just to go back to your earlier question, one of the things that surprised us a little bit was they didn't have separate analysis of loans that were just interest-only or interest roll-up, that they struggled to identify the value of interest roll-up in their P&L accounts.

Senator Marc MacSharry: Okay. Did you seek to understand the material ... the number of material loans by clients that were restructured in advance, say, in the period up to 2008?

Mr. Aidan Walsh: Again, yes ... the information didn't facilitate that. Loans got rolled over. Loans got renewed. The practice at the time was when a loan matured, unless there was something desperate going on, it tended to get rolled over and they weren't regarded as restructured loans. They were just regarded as a loan in the normal course. There was no separate segregation of restructured loans in the analysis that we saw from any of the banks.

Senator Marc MacSharry: So there was no analysis done then of, for want of a better expression, the deterioration of loan quality?

Mr. Aidan Walsh: There was analysis of deterioration of loan quality. A lot of very statistical information in respect of mortgage books and smaller commercial loans in terms of the development from compliant to maybe missing a payment or missing several payments. There wasn't that same statistical analysis for the larger lenders. They were dealt with on a case-by-case basis.

Senator Marc MacSharry: Okay. In all your engagements and you mentioned various meetings where all these agencies were in the room and so on - the Minister for Finance was at most, the Taoiseach was at one - who chaired those meetings?

Mr. Denis O'Connor: Kevin Cardiff.

Senator Marc MacSharry: Did the Minister speak much or listen?

Mr. Denis O'Connor: Mainly listened.

Senator Marc MacSharry: Okay. Did the Taoiseach make any interjections at the meeting he attended?

Mr. Denis O'Connor: He listened.

Senator Marc MacSharry: He just listened. Okay. Was there any agenda being pushed by the chair or by the politicians that were present at various meetings?

Mr. Denis O'Connor: I didn't feel there was any agenda being pushed.

Senator Marc MacSharry: Okay. Was it a sense that look, "We're all in here to try and come up with", as you in your own words, "we're going to have one chance at this, let's get it right", and that there ... was there an openness around that so there was no agendas from any quarter, was there?

Mr. Denis O'Connor: I didn't feel there was any agenda. I thought it was totally open and totally all in the same boat to get it sorted.

Senator Marc MacSharry: Okay. Was there any indication that the view of the room or the consensus in the room was being passed by a higher authority, say, in the ECB or the EU Commission or ... was that discussed or mentioned at any stage by anybody?

Mr. Denis O'Connor: There was always an overhang that we had to get it through the ECB, get legislation in place. A box had to be ticked. It wasn't a simple answer of just implementing plan A, B or C. There was a system to go through and that was always factored into the equation.

Senator Marc MacSharry: Yes, like, what system? I mean, in terms of "Let's guarantee, let's not guarantee, let's have a partial guarantee, let's issue more shares", I mean, what's the system that you have to go through for the ECB?

Mr. Denis O'Connor: Well there was the concern would a plan be state aid? Can we put money into this bank without it being state aid?

Senator Marc MacSharry: Well that's more the Commission that the ECB, isn't it, in terms of state aid?

Mr. Denis O'Connor: Well whatever it was ... to come back to your first question, was there an open agenda, there was an open agenda but there also was ... we had to make sure we ticked all the boxes to get it through.

Senator Marc MacSharry: To get it through, that's ... I understand that from a state aid perspective and that would be the Commission but was there any view that apart from the state aid aspect, that ... was there any ... "God, you know, the ECB won't wear that" or, you know, a suggestion that maybe the ECB had particular expectations and particular views about how these ... about the outcome of what was going on in your room when you were all doing your best to come up with the best way?

Mr. Denis O'Connor: I don't recollect that being an issue.

Senator Marc MacSharry: Okay. You said to Deputy McGrath earlier on that there was no examination ... that it wouldn't typically be expected of auditors or it wouldn't be kind of best practice to go into the kind of cross-collateralisation of individual loans and to assess that, for example, the equity that you thought that was there and now it wasn't there because, you know, that just isn't the done thing in terms of auditing. Would you say or would it be reasonable to say that, in hindsight, the best practice of real time, you know, is flawed and that perhaps-----

Mr. Aidan Walsh: Could I maybe make an observation on that?

Senator Marc MacSharry: No, but it ... just ... I think that maybe you should, and I think the Chairman alluded to this, would you say that some of the recommendations to be considered by this inquiry should be that, look, really, you know, auditing is ... one of the lessons of this whole process is auditing of the focus of organisations like yourself that operate to the highest standards of the day need to change and be more penetrative in their examinations of issues such as this?

Mr. Aidan Walsh: Can I just deal with the problem of the equity not being there? Part of that problem existed because there wasn't visibility across different banks and we had a very privileged position at the time in terms of getting an oversight across those six banks, but we actually didn't have any visibility into two other significant banks in the system at the time. So even the work we did didn't give us full visibility of what might have been going on with those top 20, 25 borrowers. We didn't see into the Scottish banks.

Senator Marc MacSharry: And would you say that there's a need then in legislation to put an onus on financial institutions or individuals to declare such things in the future?

Mr. Aidan Walsh: I ... absolutely and I think that's one of the recommendations that's being pursued at the moment in terms of a credit register.

Senator Marc MacSharry: Okay. Thank you very much.

Chairman: Thank you very much, Senator. I'm going to move to wrap up, three minutes each. Senator Barrett.

Senator Sean D. Barrett: Thank you, Chairman, and thanks to again to our visitors. On page 5, the losses and the scenarios - that's in our core volume - you mentioned you'd gone as high as 45%. Was 50% or a higher number considered?

Mr. Denis O'Connor: I can't remember today whether ... what numbers would be considered but, at the end of the day, the consensus was we'd provide 15% per annum over a three-year period.

Senator Sean D. Barrett: And in those discussions, who would've been pushing for higher numbers and who for lower numbers, say, between the Central Bank and the Financial Regulator and the NTMA and the Department of Finance?

Mr. Denis O'Connor: I can't remember anyone approaching a particular ... you have to ... like, some of the issues here in land and development, some of these lands and developments were acquired in 2000 or 1995, so they were already on the books for a long period of time.

Senator Sean D. Barrett: So nobody had more input into those ranges than anybody else at the meeting, that you can recall.

Mr. Denis O'Connor: Not that I can recall.

Senator Sean D. Barrett: Could I just have one other quote in the written submissions to us by Professor Niamh Brennan. She says at 7.13, "Accounting is highly judgemental". I'll just give you the quote if I may:

> Many observers of the banking crisis will wonder how bank financial reporting turned out to be so wrong. The problem with almost all accounting information is that, while it has the appearance of precision and accuracy, it is the product of extensive subjective judgements. Most non-accountants do not understand the extent to which accounting is a matter of judgement. Bank financial statements were, with the benefit of hindsight, flawed. The judgements behind the accounting numbers were too optimistic. Specifically, receivables from customers were overstated because they did not reflect people's inability to repay their borrowings which subsequently came to light.

How would you react to Professor Brennan's submission to us?

Mr. Denis O'Connor: Well, the main point is that the auditor looks backwards. He can only make a provision if a condition exists at the balance sheet date. Sorry, the company can make a provision if the condition exists on the balance sheet date, the auditor will report on that. If a company had provided for losses that were going to happen in two or three years' time the auditor would not allow that to go through. So that is the issue more than anything else.

Senator Sean D. Barrett: You say in your own-----

Chairman: Final question now, Senator.

Senator Sean D. Barrett: -----submission on page 8, I think it's about the third last paragraph, that "Changes have been made since but, nonetheless, [those] were the prevailing rules and notwithstanding one's view of their fitness for purpose, they were required to be applied." Is that what has us investigating the €64 billion, do you think, relentless applying of rules which we now see were flawed?

Mr. Aidan Walsh: Could I just offer a view, that I think the problem-----

Senator Sean D. Barrett: I think that was Mr. O'Connor's, but never mind, yes, thank you.

Mr. Aidan Walsh: I think the problem is not in the accounting. The problem is in the judgments in relation to the lending.

Chairman: Okay, thank you.

Senator Sean D. Barrett: Thank you very much.

Chairman: Deputy O'Donnell, three minutes to wrap up and then we'll conclude.

Deputy Kieran O'Donnell: Can I refer back to Vol. 1, page 5, and can I direct Mr. O'Connor and Mr. Walsh to scenario analysis, scenario 1 and scenario 2. Am I correct in saying that ... is scenario 2 the higher case scenario? Is scenario 1 or 2 the worst-case scenario? I know they don't want to use the worst-case but just-----

Mr. Denis O'Connor: Scenario 2.

Deputy Kieran O'Donnell: Scenario 2. The commercial corporate, you've ... speaking ... you've looked for a 1.5% reduction per annum in scenario 1 and a 1.25% in scenario 2. Why are you taking a lower reduction in scenario 2 rather than scenario 1 for the corporate?

Mr. Denis O'Connor: It was felt at a meeting that it was unrealistic to jump everything up.

Deputy Kieran O'Donnell: Sorry?

Mr. Denis O'Connor: It was felt at the meeting we were at, where this ... numbers were discussed, that it was unrealistic to increase everything.

Deputy Kieran O'Donnell: But you put a 4% reduction over three years, which is only about 1.25% per annum, more or less, there or thereabouts, and the commercial corporate made up the bulk of the majority of the loans. So how could you do a scenario 2 look at ... that you have a smaller reduction in the value of commercial property, rather than scenario 1, when scenario 2 was supposed to be the more worse-case scenario? What's the logic of that?

Mr. Denis O'Connor: Because we're looking at it in total, not individual components of it.

Deputy Kieran O'Donnell: But corporate commercial lending was the majority of the lending; particularly certainly in the Anglo case it was the majority-----

Chairman: A question please.

Deputy Kieran O'Donnell: The question I suppose I want to ask is that commercial property was falling in price from, really 2007 into 2008, well above the 4%, and the two questions I have are the logic for using 4% against a backdrop of real time where the fall in commercial property was higher, and secondly, if you had taken a realistic figure would the banks, and would Anglo Irish Bank, have required capital?

Mr. Denis O'Connor: I will start to answer and you can come in. The ... as I said, the group of people around the table agreed that these would be the two options we would use. All these assets were income-generating assets at this point in time. They all had tenants in them. They were all generating income. There was no reason for to provide for them in-----

Deputy Kieran O'Donnell: Yes, but, Mr. O'Connor, the viewpoint would have been that scenario 2 was a worst-case scenario when, in fact, in terms of commercial property you've actually gone for a lower reduction in the value ... fall in the value of commercial properties in scenario 2 rather than scenario 1. It, kind of, doesn't appear to be logical in terms of analysis ... a base of analysis.

Chairman: Finish now, Deputy. This is your last question.

Deputy Kieran O'Donnell: Is it logical on the basis? It's a critical point, Chairman.

Chairman: Yes I know, but you need to ask the question properly. That's why it's critical. Ask the question and we'll wrap up.

Deputy Kieran O'Donnell: The question really I suppose I want to ask is: you used a figure of 4% for a fall over a three year period when the fall over that period was of the order of over 60%. Property was already falling well above 4% alone in 2008, and when you looked at a worst-case scenario you actually increased the value of commercial property rather than reduced it, so the logic why-----

Chairman: A question please, Deputy-----

Deputy Kieran O'Donnell: What was the reason for that?

Chairman: -----because I'm wrapping up. Mr. Walsh, Mr. O'Connor, please.

Mr. Aidan Walsh: Can I just point out at the bottom of that page 5, the bottom right-hand comment shows the make-up of the variance between scenario 1 and scenario 2, and it says that:

> The move from PwC Scenario 1 to Scenario 2 is driven by impairment increases of €907 million on development land without planning ... and [€1.6 million ... billion] in relation to development land. This is offset by reductions of €446 million from commercial / corporate and €7.5 million ... unsecured consumer lending.

So the reader could see from that analysis that's written into the report what the impact of those individual changes were, and in the context of the exposures, I take from that that the impact of development land with and without planning permission far outweighed any movement on provisioning on commercial and corporate lending.

Deputy Kieran O'Donnell: But the final question, if-----

Chairman: Deputy, you're out of time.

Deputy Kieran O'Donnell: Yes, but sure, Chairman, it's-----

Chairman: Hang on a second please Deputy-----

Deputy Kieran O'Donnell: -----the critical question in this-----

Chairman: Don't interrupt me please, Deputy. I'm going to run this tightly today. People will have specific time to prioritise their questions. It's not that, "I have another question"; it's not "Columbo", where you've just one more question before I go out the door. You ask your question in the time you're allocated. Deputy, I'm going to give you a bit of time, but from here on out, that's the way it's going to be.

Deputy Kieran O'Donnell: Chairman, it's a very straightforward question, and the question is: ye are a world-renowned accountancy firm and professional advisers. Ye went for a 4% reduction on average in commercial property over a three-year period between '08 and 2011, when commercial property went down in reality by 60 ... over 60%. When you looked at the worst-case scenario, scenario 2 rather than scenario 1, you actually reduced the reduction in valuation from 1.5% per annum to 1.25% per annum. And looking back now, in hindsight, were those figures grossly understated?

Mr. Denis O'Connor: Deputy, I'll say at the start that these figures were agreed with by a number of people and the-----

Deputy Kieran O'Donnell: Agreed with by whom, Mr. O'Connor?

Chairman: Sorry, Deputy, I'm moving on. I'm closing things up.

Deputy Kieran O'Donnell: Sorry, just let Mr. O'Connor finish.

Chairman: No, please, no. No. You have been afforded more time than any other member-----

Deputy Kieran O'Donnell: No, but I'd like to hear the answer, Chairman.

Chairman: -----on the committee today in regards to this engagement. Mr. O'Connor, Mr. Walsh, do you have anything further you'd like to add to that question? The question has been made, I'm not re-entering the question again.

Mr. Aidan Walsh: Nothing further to add.

Chairman: Mr. O'Connor, do you have anything you'd like to add to it?

Mr. Denis O'Connor: I'm fine thanks. No.

Chairman: Okay. I just want to return to two items and then I'm going to wrap up. Were there any ... and it comes back to your own evidence earlier today, Mr. O'Connor, in regard to the solvency of Anglo *circa* September '08 and were there any discussions on solvency/insolvency in your meetings at that time?

Mr. Denis O'Connor: Not that I can recollect.

Chairman: Okay. You've no recollection of any solvency being discussed.

Mr. Denis O'Connor: There were no discussions on solvency at that time, no.

Chairman: Okay. And would you have any views on whether the Irish State should have been engaged in the protection of insolvent banks?

Mr. Denis O'Connor: I don't have any views.

Chairman: Okay. All right. I'm going to wrap things up. Mr. O'Connor, Mr. Walsh, in thanking you to be here today I'd like to invite you, if you have anything you want to say by closing remarks, additional comments and so forth.

Mr. Denis O'Connor: No, I'm fine thanks.

Chairman: Okay. Mr. Walsh?

Mr. Aidan Walsh: Thank you for your time today.

Chairman: Okay. With that said, I now propose that we conclude this session. In doing so, I'd like to thank Mr. Walsh and Mr. O'Connor again for their participation and engagement with the inquiry. Both witnesses are now formally excused and the meeting will suspend until 12 noon. Is that agreed? Agreed.

Sitting suspended at 11.42 a.m. and resumed at 12.05 p.m.