HOUSES OF THE OIREACHTAS

Volume 2 **No. 37 Morning**

No. 38 Afternoon

AN COMHCHOISTE FIOSRÚCHÁIN I DTAOBH NA GÉARCHÉIME BAINCÉIREACHTA

JOINT COMMITTEE OF INQUIRY INTO THE BANKING CRISIS

Dé Céadaoin, 1 Iúil 2015

Wednesday, 1 July 2015

The Committee met at 9.30 a.m.

MEMBERS PRESENT:

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

DEPUTY CIARÁN LYNCH IN THE CHAIR.

Nexus Phase

Department of Finance - Ms Ann Nolan

Chairman: As we have a quorum, the Committee of Inquiry into the Banking Crisis is now in public session, and 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 public hearings with Ms Ann Nolan, second secretary general of the Department of Finance. In doing so, we'd like to welcome everyone to the public hearing of the Joint Committee of Inquiry into the Banking Crisis. This morning we will continue our hearings with senior officials from the Department of Finance who had key roles during the crisis period. At this morning's session we will hear from Ms Ann Nolan, second secretary general at the Department. Ann Nolan has worked for the Department of Finance since 1985; she has been second secretary general in the financial services division of the Department since 2010 and prior to this she was assistant secretary in financial services division and in public expenditure division at the Department. Ms Nolan, you're very welcome before the committee this morning.

Ms Ann Nolan: Thank you.

Chairman: Before I hear from the witness, I wish to advise the witness that by virtue of section 17(2)(*l*) of the Defamation Act 2009, witnesses are protected by absolute privilege in respect of their evidence to this committee. If you are directed by the Chairman to cease giving evidence in relation to a particular matter and you continue to do so, you are entitled thereafter only to a qualified privilege in respect of your evidence. You are directed that only evidence connected with the subject matter of these proceedings is to be given. I would remind members and those present that there are currently criminal proceedings ongoing and further criminal proceedings are scheduled during the lifetime of the inquiry which overlap with the subject matter of the inquiry and 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 and members of the public and journalists are reminded these documents are to be confidential and should not be published ... and should not publish any of the documents so displayed. The witness has been directed to attend this meeting of the Joint Committee of Inquiry into the Banking Crisis. You have been furnished with booklets and 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 Ms Nolan please.

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

Ms Ann Nolan, Second Secretary General, Department of Finance.

Chairman: So good morning to you again and welcome, Ms Nolan, and when you're ready if I can invite you to make your opening remarks to the committee, please.

Ms Ann Nolan: Okay. Thank you, Mr. Chairman, and thank you for having me here today, and I will do my best to help the committee in its difficult task. You have my statement and I won't read it all out but will summarise a few important aspects of crisis management and the new legislative framework.

When I started on the banking side at the beginning of November 2008, the task at hand was the assessment of the size of the problem and the possible tools to handle it. The liquidity aspects were well measured at that time and fairly stable. The Irish economy had been contracting all that year and by the autumn of 2008, following the Lehman Brothers collapse, the property market had collapsed, with activity ceasing and prices falling. The solvency of the Irish financial institutions depended on the performance of the economy overall and the value of the property assets against which the institutions had lent money. Therefore, it was clear, as the property market continued to decline, that future losses on the property would be greater than had been previously expected and future profitability would be less than previously anticipated. This meant that the capital position of the banks had to be addressed. The PwC analysis showed clearly that there was a serious problem with land and development loans, both because of the total volume of such loans across the system and because of the small number of developers who had huge debts across the system. The Department immediately began discussions with the bankers on the need to bolster their capital position. The policy parameters within which the Department approached the recapitalisations throughout the period were as follows: banks should take action, where possible, to reduce the capital need by making changes to their balance sheets; assets should be sold; subordinated debt holders should be bailed in as far as possible; money should be raised on the markets, if available; the risk to the guarantee should always be considered; the systemic risk, that is, the risk of contagion, if capital were not provided, should also be considered; State support should only be considered as a last resort.

The initial recapitalisations of Bank of Ireland and AIB, consisting of €3.5 billion in preference shares, was agreed and implemented between December ‘08 and May ‘09, with detailed discussions on the amount and the terms and conditions in these capital injections. AIB also agreed at that time to sell their US and Polish subsidiaries.

The chairman and chief executive of Anglo Irish Bank left in December ‘08 and Donal O’Connor was appointed executive chairman on a temporary basis until a new CEO could be recruited. In view of what we knew about it and had discovered, once the announcement of our intention to recapitalise the banks was made on 21 December ‘08, we prioritised legal due diligence of Anglo. Arthur Cox carried out the due diligence and their first report was with us on 15 January ‘09. The options which we had at that point were to continue with the original recapitalisation, either by preference shares or ordinary shares, to nationalise or to try and disengage. The latter was not realistic in view of the guarantee, the expectation that European governments would stand behind their banks and the extreme likely contagion effect across the Irish system. In the event, it was decided to nationalise and replace the board and management.

The problem of land and development loans was dealt with, following a study by Peter Bacon, by setting up NAMA. An asset management agency was necessary because this loan book was so big and dysfunctional that it would have been very difficult for the banks to deal with these loans while continuing to provide banking services to the rest of the economy. NAMA has proved efficient in dealing with these loans. However, the slow, detailed method of valuing them individually and moving them over in tranches, which was developed to meet the requirements of the European competition ... European Commission, the competition directorate, increased the pressure on Irish banks and on the Irish State throughout 2010. The effect of this should not be exaggerated. The size of the losses was the major issue and overvaluing NAMA loans in 2010 would have resulted in losses materialising for the State later. Nonetheless, the transfer of loans based on discounted ... a discount calculated on a broadly stratified sample of loans for each bank would have been a better methodology and would probably have left ... given us the same result.

Another major issue was the haircuts for loans was significantly higher than we had estimated. This was mainly because of lack of equity in the developments. In addition to this, the continued recession meant that other loans, including both mortgages and loans to SMEs, were registering an increase in arrears. The first PCAR stress test run in March 2010 by the Financial Regulator found that the banks had very significant capital needs. Bank of Ireland met this need through a combination of raising capital on the market and a conversion of €1.7 billion of their Government preference shares. AIB sold their overseas assets, with the balance of capital - €3.7 billion - being provided by the Government.

Following our entry into the EU-IMF programme, the second PCAR stress test in March 2011 resulted in further capital demands for the banks. Once again, Bank of lreland was able to raise money from the private sector, but the other banks, AlB, PTSB, EBS relied mainly on the State.

Given how much the State had to invest in the banking system, the policy throughout the period was to burden-share where appropriate. All of the original shareholders in the covered institutions saw their share value diluted to nothing, or almost nothing. At peak in 2007, the total share value of the institutions was €53.7 billion. In addition, €15.5 billion capital was raised through burden-sharing with subordinated debt holders. Much of this was done through liability management exercises where debt holders were asked to voluntarily sell their debt back to the banks at a reduced price. We also passed legislation to allow the Minister get a special liability order, SLO, from the courts to change the terms of the bonds. This forced the bondholders to sell into the liability management exercise, or have their bonds extended for a long period and interest suspended. The SLO was only used in AlB, but, undoubtedly, the existence of the legislation contributed to the success in burden-sharing with the sub debt holders in the other institutions.

The question of extending burden sharing to senior bondholders was considered seriously twice that I remember - first, in October and November 2010 when the guarantee had lapsed and the programme of assistance was being put in place. A number of lMF officials were strongly in favour of burning any unguaranteed and unsecured bonds in Anglo. This was opposed by the EU and ECB officials. In the event, the matter was considered at a more senior level in the IMF and, as a result of a US Treasury veto, the IMF also came down against any such action. It would not have been possible for the lrish Government to act without troika consent. The question was considered again in March 2011, but it was ruled out this time, as I understand, by the ECB.

The financial crisis ... to look at the regulatory supervision and government issues. The financial crisis lead to a reassessment of the legislative framework for the financial services, both domestically and internationally. I will give a brief summary of the changes made. I will divide my comments into domestic and EU, though obviously the two programmes were developed in tandem and the Department worked to ensure they were consistent to the greatest extent possible.

On the domestic side, the first action was to amalgamate the Central Bank with the lrish Financial Services Regulatory Authority. Separating the supervisory and financial stability functions, albeit with a requirement to cooperate, had undermined the importance of the macro prudential aspects of the role of both organisations. The amalgamation was effected through the Central Bank Reform Act 2010. This was followed by an extensive renewal of the supervision and enforcement powers of the Central Bank through the Central Bank (Supervision and Enforcement) Act 2013. This latter legislation streamlined, enhanced and modernised the powers of the Central Bank. Again, while this was a necessary and welcome improvement in the legislative framework, the Central Bank had significant powers before it was enacted and, indeed, used them extensively in the crisis management period, 2008 to 2013, prior to the new legislation.

The third major strand of legislation was providing for resolution powers. This was done initially through the Credit Institutions (Stabilisation) Act 2010, which gave extensive temporary resolution powers to the Minister for Finance to deal with the six covered institutions, as necessary, during the crisis. Subsequently, the Central Bank and Credit institutions (Resolution) Act 2011 was passed. This provides for the orderly resolution of a financial institution in financial difficulties. The Central Bank is the resolution authority.

A final major piece of domestic legislation in the Credit Reporting Act 2013. This is to enable credit institutions check what loans potential borrowers have from other institutions and organisations. This should prevent a reoccurrence of a situation where a small number of people can have large loans from many different institutions and pose a systemic risk. The credit register is currently being set up by the Central Bank.

On the EU front, the crisis lead to significant changes to the international regulatory framework also. The 2009 de Larosiére report recommended the establishment of a new European systemic risk board and three new supervisory authorities, the European Banking Authority, the European lnsurance and Occupational Pensions Authority, and the European Securities and Markets Authorities. These bodies set technical standards, resolve disputes between supervisors and assist in developing consistent interpretation of European law. Major legislative directives were also put in place for all the financial services areas, including the capital requirements directive, CRD lV dealing with bank capital, solvency ll dealing with insurance, and MIFID ll dealing with markets. This was followed by the banking union proposal which centralised banking supervision and resolution for euro area countries, with a possible opt-in for non-euro countries. The Single Supervisory Mechanism, SSM, was set up as a new branch of the ECB with responsibility for supervising the top 130 banks in Europe. The bank restructuring and resolution directive, BRRD, was also agreed to provide for a single resolution mechanism to resolve financial institutions in difficulties.

All of these changes represent a major reconfiguration of the regulatory and supervisory framework. Many of them have only just been implemented and some are not yet operational. It will be some time before their effectiveness can be assessed.

And I'll stop at that, Chairman, and allow you ask your questions.

Chairman: Thank you very much for your opening statement, Ms Nolan, and if I can now invite Deputy Joe Higgins to commence questions this morning. Deputy, you've 25 minutes.

Deputy Joe Higgins: Morning, Ms Nolan. Ms Nolan, the banking and financial services division at the Department of Finance have, as a principal directive, it's on your website, and I'll just quote: "On the one hand, to contribute to the maintenance of financial and economic stability and identify and manage potential risks to that stability...". And then, on the other hand, a little bit later, "...to continue the development of Ireland as a centre for international financial services". As you well know, in the 2003 Central Bank and Financial Services Authority Act, responsibility was given to the Central Bank and the regulator in the Act "to promote the development within the State of the financial services industry". And that was removed, then, in the Central Bank Reform Act 2010.

Can I ask you if continuing to give this mandate to the Department of Finance to develop the financial services industry on the one hand, and then to have ... identify and manage potential risks, can this impact on making appropriate decisions regarding policy and legislation in regard to the regulation of the financial sector?

Ms Ann Nolan: It is a function of government to develop the economy and a major priority of the current Government and, I think, of previous Governments is employment development, and there are in the funds industry alone, 35,000 people working in the funds industry in Ireland. So, you know, it is a major source of jobs for Ireland and a major and important area. However, for us to develop that, we need a strong regulatory system. I don't see the two as being in contradiction. I think if our regulatory system isn't robust, then that industry isn't secure, and the jobs in that industry is not secure. So, although I think for the regulator to have a job of promotion is inappropriate, I don't think it's inappropriate for the Department of Finance to have that job, and I don't think it influences our regulatory decisions because I think for us, we would see as a major policy issue to have a robust regulatory system, and that that robust regulatory system is necessary to develop the international financial services industry. I don't think they can develop against a background of light regulation in the modern world.

Deputy Joe Higgins: Yes. With respect, Ms Nolan, the paper, Regulating Better, from the Department of the Taoiseach in January 2004 made exactly those points, that regulation was to develop in a responsible way the sector. But we know what happened in the meantime with the bubble and the disastrous crash. Now, several witnesses in front of this inquiry have suggested that giving the Central Bank and the regulator at that time the mandate to regulate and control at the same time as promoting the industry gave rise to a conflict. And the Governor of the Central Bank listed it as one of the difficulties that arose with tougher regulation and allowing so-called light-touch regulation. What's different now, one would have to ask?

Ms Ann Nolan: Well, what's a major difference is the Central Bank no longer has that requirement. I mean, I think you have to differentiate significantly in the role of the Department and the role of the Central Bank. The role of the Central Bank is to regulate, and it is absolutely not the role of the Central Bank to promote the development of the industry. We provide the legislative framework for that regulation, and the legislative framework is separate, even within the Department, to the promotion of the IFSC, which is in a different section of the Department. But all Departments have the economic development of the country as part of their mandate.

Deputy Joe Higgins: Yes. I'm just trying to explore whether this is a conflict that still can have detrimental effects because it was suggested by witnesses that one reason for so-called light-touch regulation was that there was a reluctance to be tough on Irish banks, for example, in relation to the extent of property lending, over-lending, etc., because that would make then the Irish Financial Services Centre and the foreign banks that were there look like an offshore account. Isn't there still that contradiction there then?

Ms Ann Nolan: Absolutely not, in the sense that first of all, the Central Bank no longer has that requirement but far more importantly, the regulation across Europe for all financial services has become far more strict and far more uniform, so the regulatory system to which the IFSC organisations are now subject is not lighter than the regulatory system in other countries. It is not a light-touch regulatory system and nor should it be. It is subject to the EU directives which are implemented in Ireland by the Irish Central Bank but implemented in other countries by their central banks.

Deputy Joe Higgins: I want to quote from you ... for you, something from the Irish funds industry marketing brochure from March 2015-----

Chairman: Can you cite that Deputy, if it is part of the documents?

Deputy Joe Higgins: No, but it's quite simple to-----

Chairman: All right, fair enough.

Deputy Joe Higgins: So the Irish funds industry organisation says: "We represent the fund promoters/managers, administrators, custodians, transfer agents and professional advisory firms involved in the international funds industry in Ireland, with more than 13,000 funds and net assets of more that €3.8 trillion." Then it goes on to say, "Through its work with governmental and industry committees and working groups, Irish Funds contributes to and influences the development of Ireland's regulatory and legislative framework." Is that worrying, that a powerful lobby can say, in effect, on one reading, that they are writing the regulation for their own industry?

Ms Ann Nolan: Well, they most certainly are not. I mean, I'm not responsible for what they say. They are free ... they're ... if you want to find out what they say you'll have to ask them, I can't answer for that but they most certainly are not writing their own regulation. The regulations for the fund industry are almost entirely EU regulations and are developed by the European Commission in conjunction with the European Parliament. We would consult with the funds industry as we would consult with any other group on those regulations as how they would affect them ... interest group. Most of our consultations nowadays are done on the web in ... by means of public consultations. But they do not write the legislation, it just simply isn't true.

Deputy Joe Higgins: Okay, can I just move on then Ms Nolan, thank you ... and if you could comment please on the decision to nationalise Anglo Irish Bank. Why that was not taken the night of the guarantee rather than a few months later and what advice the Government received at the time in this regard? And if you could comment if, in your opinion, nationalising Anglo earlier would have sped up a resolution of the crisis?

Ms Ann Nolan: Okay, just on the night of the guarantee, at that time I was not working on the banking side and was not involved and I can't comment on what happened that night at all. I was working on the emergency budget which, if you remember happened on 15 October and was working all that weekend all right but it was on a different topic. So I wouldn't be aware as to what ... why decisions were taken in that. I know Kevin Cardiff has already spoken on this and is in a far better place, and probably William Beausang as well, to give you commentary on that. On whether it would have made any difference, I honestly do not believe it would have made any difference but I can't prove that. You can only run life one way and you only get to see it once but I personally don't believe it would have made any difference on the speeding up of resolution.

Deputy Joe Higgins: I appreciate you weren't there on the night, Ms Nolan, but you are a very senior official in finance-----

Ms Ann Nolan: Yes, and I did answer the second part of your question as to whether I thought in my opinion it would make any difference, and my opinion is-----

Deputy Joe Higgins: Okay, just to ask you if you might think it's curious that ... I refer to core documents Department of Finance Vol. 2, pages 116 and 119, but I'll quote, it's not necessary to follow it. This is the advice from Merrill Lynch to the National Treasury Management Agency and the Department on 28 September, which is one day before the guarantee. And it is obviously in favour of what it calls "state protective custody" of Anglo Irish Bank and INBS, and it says on paragraph (b) there, page 116, "This could occur over a very short period of time ... within days, but the point at which it occurs it will not be of surprise to debt or equity investors as knowledge of the institution's financial position will be obvious and they should expect such intervention in the absence of a private-sector solution." And then, on page 119, under "Guarantee for six Primary Regulated Banks", it says, "This would almost certainly negatively impact the State's sovereign credit rating, and raise issues as to its credibility." That was the advice of the, one of these groups that the Government retained quite a bit. Does it surprise you, in view of that and in view of the fact that their prognosis about the sovereign being affected came true very strongly, that the comprehensive guarantee was still given - and, again, to reflect on the effect of that - as opposed to nationalising Anglo and INBS on the night?

Ms Ann Nolan: Well, I suppose the one thing I will say is that nationalising Anglo, when it did happen in the following January, did not stop the outflow of funds in Anglo. So, the suggestion which seems to be in this document, that merely nationalising would stop all the outflow of funds from the system, our experience ... subsequent experience was not that that was the effect of nationalisation. So, you know, apart from that, that's really all I can say-----

Deputy Joe Higgins: Okay. Just to move on to a different but related area, then, Ms. Nolan, on page 5 of your statement, yes, you said, "There was a great reluctance at European level...". We have moved forward to the October-November period of 2010, and approaching the crunch period and the so-called bailout, and you said, "There was a great reluctance at European level to allow the burning of senior bondholders." And that has featured here, but what is your understanding, why was there such reluctance, where did it come from and how was it conveyed to your Department?

Ms Ann Nolan: Well, we were in discussions, detailed discussions with the Commission, the ECB, and the IMF, so it would be conveyed to us through the various officials ... to us, at official level, through the various officials of those organisations. It may also have been conveyed to the Minister separately, at Eurogroup meetings and so on. The reluctance was because of the contagion effect. They were very concerned that it would encourage or create difficulties in other states, for example, Portugal, Spain, Italy, where it might be seen that they were likely to burn bondholders less, and that you could create a run across Europe from the peripheral states into the centre ... in bondholders.

Deputy Joe Higgins: Ms Nolan, I'd be curious to see how ... how the information ... how it went back and forth between you yourselves and the European Commission and the ECB or whichever of your organisations. So this would be going on at the same time as Mr. Trichet was writing to the Minister for Finance and, you know, demanding certain courses of action. Would that then have been replicated in frequent phone calls or how ... between senior people in the Department of Finance and the European institutions?

Ms Ann Nolan: Yes, I think there were ... at that time there were a lot of different meetings, okay. There was the discussions on the imminent bailout, EU-IMF programme, and I think Kevin Cardiff, in his long statement, probably far better than I remember, gives details of the various meetings that occurred, so I would have taken part in some of those meetings. But also, my colleague at the time who was in charge, our EFC member, would have been going to very frequent EFC meetings ... meeting his European counterparts at the European working group and so on. So there would have been a lot of interaction ... in fact, there is always a fair amount of interaction.

Deputy Joe Higgins: Yes.

Ms Ann Nolan: And this would have been an issue, not so much a major issue of discussion and the agenda but a side issue that was discussed ... both at ... it was discussed at our meetings but it was very ... like ... you asked a question if we had-----

Deputy Joe Higgins: Which of the European institutions was constantly in the ear of your colleagues or, indeed, maybe yourself, in relation to this?

Ms Ann Nolan: Well, it wasn't constantly in the ear. I mean, we had some discussion on it and they just made their position very clear. It's not a question of that they wanted ... you know, their position was really clear. They didn't want this to happen. The ECB, the European Commission which would have been DG ECOFIN, probably at that time, who would have been very reluctant because they were afraid of the contagion across Europe.

Deputy Joe Higgins: Thank you and then on page 4 ... page 5 in your opening statement again, I'll just quote very briefly. It says:

> Firstly in October and November 2010 when the guarantee had lapsed and the programme of assistance was being put in place. A number of [the] IMF officials were strongly in favour of burning any unguaranteed and unsecured bonds in Anglo.

What do you know about this? What level at the IMF was this-----

Ms Ann Nolan: I think the two people in question have actually said it publicly and they were Ajai Chopra and Ashoka Mody.

Deputy Joe Higgins: So, would this have been seen as a very high level within the IMF? Were you aware of this at the time?

Ms Ann Nolan: Oh yes, I was talking to both of them.

Deputy Joe Higgins: Yes, and what authority did they carry within the-----

Ms Ann Nolan: Well, they were negotiating the programme here and they were fairly senior people. I couldn't give you their exact grade or anything. I'm sure the committee could look it up.

Deputy Joe Higgins: How did your Department react to this suggestion?

Ms Ann Nolan: Well, certainly burning the senior bondholders in Anglo seemed, at that point, like something that we would be in favour of because it was very clear that Anglo's losses were irreparable and the State was basically on the hook for them. But we couldn't do it without actual backing from the IMF and the Commission and the ECB. I think if we-----

Chairman: What period are we talking specifically about here, Ms Nolan? That this discussion was taking place?

Ms Ann Nolan: As I understand, we're talking about October 2010 but that's the-----

Deputy Joe Higgins: Yes, October-November.

Ms Ann Nolan: Yes, October-November 2010.

Deputy Joe Higgins: Yes. And can you throw any light then on further on what Mr. Cardiff said in testimony here, Ms Nolan, when he's speaking about pressures from certain quarters that no bondholders would be burned and he said that there was a real damage being done essentially by people operating behind the scenes:

> [H]idden 'sources' were using leaks of inaccurate information to bounce Ireland into a bailout [...] then the people concerned were not just undemocratic, but anti-democratic - they ought to be asked to explain their actions, but they would first have to admit them. Who was in Korea, pretending to announce that the Irish Government had decided to seek a bailout? Who, in Korea or elsewhere, [and that's in relation to a G7 meeting, I think, that was happening] was taking these false rumours and putting them into the hands of press and financial commentators?

Can you throw any further light on this?

Ms Ann Nolan: I have no additional knowledge to add to what Kevin has said about that.

Deputy Joe Higgins: No.

Ms Ann Nolan: I don't know what happened in Korea. I've never been to Korea.

Deputy Joe Higgins: Okay, thank you. Now, just then on ... in relation to the veto on burning bondholders, can I ask you, Ms Nolan, it's core document Ann Nolan, Vol. 2 and it's page 19. This is a letter from Mr. John Corrigan, the chief executive of the National Treasury Management Agency, to Brian Lenihan, TD, Minister for Finance, dated 28 November 2010. And in the second paragraph, Mr. Corrigan writes:

> I learnt during the course of the discussion [and that was a discussion at a meeting of the Government the night before which he attended] that the external authorities and the European Central Bank (at board or equivalent level) had taken the view that burden sharing with unguaranteed bank senior bondholders was "not on the table". It is unfortunate that, notwithstanding the fast moving pace of recent events, I was not made aware of this outcome.

Ms Nolan, is that an extraordinary revelation that the NTMA was again outside the loop which seemed to have happened the night of the bank guarantee as well?

Ms Ann Nolan: It is unfortunate. The NTMA weren't outside the loop; they were at many of the meetings we were at. In that period 27-28 November, we had meetings night and day, I mean, literally 'til two, three in the morning. The NTMA were at some meetings. There were at some times five or six. I remember one of the Saturday nights there were five or six different meetings taking place at a technical level throughout the building. It was very unfortunate that John was not made aware of that but I rather think it was entirely accidental that people believed he had been told and that he wasn't told, rather than that anyone decided not to tell him.

Deputy Joe Higgins: Yes, but could this potentially have changed something if the NTMA had been aware that they may have taken a different approach and convinced the Minster of a different course of action?

Ms Ann Nolan: Absolutely not. I mean, I think the issue ... the NTMA and ourselves were *ad idem* to what we wanted, which would have been the burning of the bondholders and the question was that the European Central Bank that ... had taken a very strong line. The word came back to us at the last minute before the Government meeting and as far as I remember and it is a long time ago ... but it was unfortunate that John wasn't told but I don't think you can read anything else into it.

Deputy Joe Higgins: Ms. Nolan, you deal in your statement with the recapitalisation of the banks and the dealing between the banks and the Department. Now, at one stage Bank of Ireland told you that it needed €2 billion. It finished up getting multiples of that. Allied Irish Bank said it didn't need as much support as both Anglo and Bank of Ireland and it finished up getting €21 billion. Were the banks straight with the Department or were they covering up or were they even lying some of them?

Ms Ann Nolan: I think there's a few things you have to think about in this and it's something I've thought about quite a bit over the period since. I ... it's not a question of whether they were lying or not. First of all, the question is whether they knew themselves what their position was at the time. There is a question of what their position was at one point in time and the fact that the things deteriorated. I mean the drop in GDP in Ireland in 2009 was phenomenal. I don't think anyone at the end of 2008, which is the point where this is taking part, had any idea the extent to which the recession would be so deep as it was, particularly in 2009-2010. So, therefore, I think the capital needs grew over that period and so even if they were right in 2008 as to what they needed at that point, that point was not even allowing for what was envisaged as so-called stress tests wasn't sufficient when the actual stress was so much bigger than they were testing for. So I don't think there was a question of they told ... you know, in 2008 if somebody had walked into this committee and said, ''By the way, AIB need €20 billion'', everyone would just simply have said, ''You're mad; you can't possibly think AIB needs €20 billion''', you know, because there was no ... there was no facts on which to base such an idea. So I don't think it's a question that they lied, that they knew they needed the €20 billion and lied to us. I think it's a question that they didn't think they needed and, at that time, they didn't really need it. It was later they needed it.

Deputy Joe Higgins: But, on the other hand, Ms. Nolan, from evidence we have here in front of the inquiry, we have shown and put it to witnesses that, on the night of the guarantee, particularly in the case of Irish Nationwide, it was insolvent in view of the figures that both Merrill Lynch and Goldman Sachs had presented.

Ms Ann Nolan: You - the first question you asked me was about AIB and Bank of Ireland. Irish Nationwide, I think, is a slightly different case. I think, Irish Nationwide, there was greater evidence that they were in difficulty. But ironically, it took longer for it to manifest, partly because their deposit base was more sound and, therefore, they weren't as hit by the market walking away from them as some of the other banks.

Deputy Joe Higgins: Well, as a senior official and looking back at the evidence now, do you think that a different view should have been taken of INBS clearly from the figures we had, but also Anglo in relation to their state of solvency on the night of the guarantee?

Ms Ann Nolan: I think technically, from an accounting point of view, they were probably solvent on the night of the guarantee, they just simply weren't able for the ... for the property collapse which, certainly by mid-November, was very obvious that year and had started well before that. So technically, being solvent wasn't sufficient.

Deputy Joe Higgins: Right. Thank you.

Chairman: Thank you very much. Deputy Kieran O'Donnell. Actually just before you ... just to clear up one thing with you, Ms. Nolan. You were saying to Deputy Higgins about the Central Bank and the relationship with regard to promotional services in the IFSC and how that now is separated and that conflict doesn't actually exist. Can I ask you to share an opinion or your own views as to, in the previous manifestation, as to whether that was a good operation or a good way to approach the promotion of the IFSC centre?

Ms Ann Nolan: I think, in retrospect, it was probably a mistake to have it there but I wouldn't want to suggest that that was the reason that they didn't regulate the banks in the way that might have been appropriate because I don't think that. I think it's very easy to pick something like that and say that's the reason the problem existed, and I don't think that's true.

Chairman: And how did the mistake manifest itself then? What were you ... what were the day-to-day occurrences that demonstrated that it was a mistake?

Ms Ann Nolan: I think ... it's not so much ... it's almost a philosophical mistake that the regulator would be promoting the thing it's regulating. It's, kind of, what Deputy Higgins was referring to earlier. I don't think the regulator should be ... have a promotional role as a matter of policy.

Chairman: Okay, thank you. Deputy Kieran O'Donnell.

Deputy Kieran O'Donnell: Welcome, Ms. Nolan. In January 2009 a meeting with the Department of Finance, the Central Bank and Financial Regulator and the NTMA took place to discuss the nationalisation of Anglo. And this is coming from Vol. 1, page 37 to 52, and Vol. 1, page 55 to 57.

Ms Ann Nolan: Vol. 1 of the Department of Finance or my own?

Deputy Kieran O'Donnell: No, your own.

Ms Ann Nolan: My own, okay. Vol. 1-----

Deputy Kieran O'Donnell: Ms. Nolan, yes.

Ms Ann Nolan: -----page 37.

Deputy Kieran O'Donnell: Fifty-two, and then following on to 55 to ... 37 to 52, about the recapitalisation of Anglo. At 55 to 57, about the nationalisation of Anglo.

Ms Ann Nolan: Oh yes.

Deputy Kieran O'Donnell: So please comment on what occurred between 8 January 2009, which is page 37 to 52, when the Government ... Irish Government formally notified the European Commission that they would be recapitalising Anglo to ... on 15 January, just over a week later, when you announced ... when the Government announced they would be nationalising Anglo instead. What led to the change of decision and what other options were considered and what advice was advised the Minister and the Government in this regard? So it's that critical week between 8 January 2009 and 15 January 2009, where you went from recapitalising Anglo to the tune of €1.5 billion to nationalising Anglo.

Ms Ann Nolan: Okay, I have to be careful what I'm saying on this issue but, just to put in context, the chairman and chief executive of Anglo resigned on, I think it was 18 December the previous year. On the 21st we announced that ... we had previously announced that there was capital available, on the 21st we announced that it would be divvied up by, I think at that time, €2 billion each for Bank of Ireland and AIB and €1.5 billion for Anglo - any that were most in need of the capital ... of the three of them ... most immediate need. We had deep concerns about recapitalising Anglo without nationalising it, simply because of the issues that had led to the chairman's resigning. So we prioritised the due diligence of Anglo. We sent Arthur Cox in to do a legal due diligence to see were there any other issues which might have to be dealt with.

Deputy Kieran O'Donnell: What date was that?

Ms Ann Nolan: That was, I think, probably 22 December. Because ... and possible even the 21st, the day we announced it. Once we decided, we sent them straight in.

Deputy Kieran O'Donnell: To do due diligence on Anglo.

Ms Ann Nolan: To do due diligence on Anglo.

Deputy Kieran O'Donnell: Okay.

Ms Ann Nolan: In the meantime, we had to ready to do the recapitalisation if the due diligence came back and said, "Everything's wonderful, you can go ahead." So it was like we had two work streams, one looking at nationalisation, one looking at recapitalising. The recapitalising notion ... this paper that you ... on page 37 was on the work stream that was looking at the recapitalisation because we had to have that ready. Otherwise, you would be presenting the Government, when the due diligence came back, with a false choice.

Deputy Kieran O'Donnell: What date would that have gone to the European Commission, Ms. Nolan?

Ms Ann Nolan: I think it's dated-----

Deputy Kieran O'Donnell: 14 January.

Ms Ann Nolan: -----14 January, yes.

Deputy Kieran O'Donnell: So, therefore, this-----

Ms Ann Nolan: The decision was taken ... we got the due diligence back on 15 January.

Deputy Kieran O'Donnell: But you had a letter going to the European Commission-----

Ms Ann Nolan: Yes.

Deputy Kieran O'Donnell: -----on 14 January-----

Ms Ann Nolan: Yes.

Deputy Kieran O'Donnell: -----so why didn't you hold off until 15 January to write to the European Commission? It's only a day later. Why do we have a situation where you were recapitalising on the 14th and a day later you were nationalising?

Ms Ann Nolan: As I remember it, and I ... you know, it's ... it's a long time ago, and it's hard to remember the exact details, but, as I remember it-----

Deputy Kieran O'Donnell: You would have been in charge at the time, would have been ... you would have been over that section, yes.

Ms Ann Nolan: It would have been my area, yes, and I would have known it very well at the time, it's just memory can sometimes ... but, as I remember it, there was comeback dates for when the capital had to come in, how long it took the Commission to do their thing, and the 14th was the latest we could send it in. If we didn't send it in then, then the Government didn't have that ... you know, we'd be sending something to a decision ... for a decision for Government, where the Government didn't have the options.

Deputy Kieran O'Donnell: Why didn't ye-----?

Ms Ann Nolan: So, it was a technical issue.

Deputy Kieran O'Donnell: Why didn't ye get onto Arthur Cox and say we needed due diligence back before the 14th? It's only a day of a difference.

Ms Ann Nolan: Well, honestly, I think it wasn't ready and they weren't willing to sign off on it.

Deputy Kieran O'Donnell: So a day-----

Ms Ann Nolan: As far as I remember, I mean, you know, that's the way I remember it, that the ... they were ... we were at them to bring it back and bring it back and bring it back, and the 15th was the earliest they could bring it back.

Deputy Kieran O'Donnell: But ... so you were required to file with the European Commission on the 14th?

Ms Ann Nolan: Yes.

Deputy Kieran O'Donnell: And the due diligence from Arthur Cox came back a day later?

Ms Ann Nolan: Yes, but filing with the European Commission didn't commit us to anything. I mean, the Government didn't make the final decision to put in the money at that point.

Deputy Kieran O'Donnell: Yes, but the perception was out there that, effectively, you were going to recapitalise Anglo rather than-----

Ms Ann Nolan: Oh, we had announced it the previous-----

Deputy Kieran O'Donnell: -----rather than nationalise Anglo.

Ms Ann Nolan: Yes. We had announced it the previous ... on 21 December.

Deputy Kieran O'Donnell: And, would you have had any discussions ... interim discussions with Arthur Cox. Effectively, you're paying the fee to Arthur Cox, correct?

Ms Ann Nolan: Yes.

Deputy Kieran O'Donnell: Who were they appointed by - the Central Bank, the Financial Regulator, or the Department of Finance?

Ms Ann Nolan: I honestly can't remember, Deputy. I-----

Deputy Kieran O'Donnell: But, ultimately, Government.

Ms Ann Nolan: It was us, anyway; they were working for us.

Deputy Kieran O'Donnell: Okay. Was there no discussions with them ... like, they were appointed on the 22nd. Was there no discussions with them, like ... I suppose-----

Ms Ann Nolan: No, they had been working for us. They were working for us before that.

Deputy Kieran O'Donnell: For someone looking in, would say that it does seem a bit unusual that you had Arthur Cox doing due diligence on Anglo, you put ... you've decided to recapitalise Anglo on 8 January; you wrote to this European Commission on 14 January; and then, the day later, you nationalised Anglo. So, it does ... why wasn't ... weren't you able to get to a point where, by the 14th, that you would have known from discussions with Arthur Cox that you were going to be nationalising Anglo anyway?

Ms Ann Nolan: Well, the decision to nationalise Anglo was a decision of the Government, so we couldn't just decide. Even if we had informal discussions from Arthur Cox and were considering nationalising, as, indeed, we were because we were ready to nationalise, we couldn't just decide ... I think it was probably the 19th before they were actually nationalised. I ... we couldn't just decide that, and decide to put aside the other part of the work stream, I mean, if you're giving Government the decision, you have to be able to implement both options.

Deputy Kieran O'Donnell: The decisions you took on the decision to nationalise Anglo on the ... page 55, 15 January, "The advice was given because a number of serious corporate governance concerns at Anglo, and because of Anglo's progressively deteriorating liquidity position." The governance issues-----

Chairman: ----- the page for me there ... please.

Deputy Kieran O'Donnell: Page 55 and 56. The governance issues, Ms Nolan, were there since December, since the former chairman had resigned.

Ms Ann Nolan: Have you-----

Chairman: I'm just being mindful of other matters taking place outside now and I'd advise Ms Nolan in that way.

Deputy Kieran O'Donnell: Well, sorry ... the corporate governance issues clearly were there. Would you agree or not agree that they were there?

Ms Ann Nolan: Oh, absolutely, I mean, that's what I said ... prioritising due diligence.

Deputy Kieran O'Donnell: So, nationalising wasn't around the corporate governance issue; it was to resolve-----

Ms Ann Nolan: It was.

Deputy Kieran O'Donnell: Well, it was there already in December.

Ms Ann Nolan: I suppose our question in December: was this a once-off or was there more than one thing? I mean, an organisation can have a once-off corporate governance issue, and, if people resign, then you have sorted it.

Deputy Kieran O'Donnell: Well, then the final-----

Ms Ann Nolan: I ... sorry, I really am uncomfortable-----

Deputy Kieran O'Donnell: The final question on this. Do you believe that, when Arthur Cox were appointed ... did you believe that, at that point, that Anglo would end up being nationalised?

Ms Ann Nolan: I thought, on the balance of probabilities, it probably would.

Deputy Kieran O'Donnell: Okay. Thank you. Can I go on to ... The evidence presented by NAMA to the inquiry referred to the interest roll-up of €9 billion on acquired loans, lending backed by paper collateral only, no equity, substantial issues relating to varying degrees of due diligence, and debtors' borrowing across the institutions. Can you please comment on the circumstance that resulted in recapitalising the banks without a full analysis of the banks' true loan books? Really, what, I suppose, that I'm saying-----

Ms Ann Nolan: I'm not sure what you're-----

Deputy Kieran O'Donnell: No, the question I'm saying ... you wanna let me ... let me put it the way I'd like to put it. The ... when it came around and the ... the PCAR test was done in NAMA in March 2010. That gave rise ... in the follow-up, that gave rise to significant haircuts.

Ms Ann Nolan: Yes.

Deputy Kieran O'Donnell: What due diligence, proper due diligence was done on the loans in the various institutions prior to that date to back up putting in State funding of the order you put it in, prior to the PCAR test in 2010? You put in €3.5 billion-----

Ms Ann Nolan: The €3.5 million in preference shares?

Deputy Kieran O'Donnell: ----- in the two institutions, money was put into Anglo at various times so why was it literally well over a year after the guarantee, in March 2010, when you got some recognition and, in fact, it was a second PCAR test in March 2011 that showed the true position? How were you able to stand over putting taxpayers' money into banks, based on what type of due diligence was carried out?

Ms Ann Nolan: Okay. There was due diligence, some due diligence carried out and I suppose the PwC reports was the initial due diligence that we did and it did not go into explicit detail. I think, I suppose when you look at the position we were in, in crisis management in this area, the banking system in October 2008, which was guaranteed, was basically far too big for the Government, for the country. The banks were, you know, credit had grown far too much.

Deputy Kieran O'Donnell: Let me put it another way in the limited time. Why wasn't proper or more detailed due diligence done significantly in advance of the guarantee being put in place?

Ms Ann Nolan: Well, in advance of the guarantee, I wasn't there so... but in any case, I think Kevin and William have answered those questions.

Deputy Kieran O'Donnell: But say, post the guarantee.

Ms Ann Nolan: Post the guarantee? The reality is we did look, you know, the crisis was ongoing and we couldn't allow the ... we couldn't give ourselves the luxury of taking six months to look at every single loan because the banks might have collapsed in that time, which would have left every small business in Ireland without a proper banking system. So the first recapitalisation was done on the basis of relatively little due diligence in that sense, relative to whatever happened afterwards. But also, the position kept getting worse so even if we had looked at everything, a lot of the loans were perfectly okay at the beginning of 2009, they were very bad by 2010 or 2011. Things got worse over the period.

Deputy Kieran O'Donnell: In hindsight, Professor Honohan is on record here as saying that he believes that the first real analysis of the state of loans was when BlackRock were appointed, in the PCAR test 2011.

Ms Ann Nolan: Well, you know, hindsight is a great thing, if you have it but, unfortunately, you usually only have it about the past, not the future. In hindsight, it is easy say things could have been done differently but it wasn't possible at the time. I think, you know, the Central Bank itself had in 2008, the end of 2008, told me all the banks were solvent but, in reality, I don't think they had that much detailed knowledge of what was going on in the banks or, indeed, all the expertise they needed to do that. Throughout 2009, they revamped their system as well. By 2010, they were capable of doing a proper PCAR. I don't think they could have done the same PCAR in 2009. I don't think they had the expertise. So I think there is an element of that in what happened.

Deputy Kieran O'Donnell: So was it a lack of expertise in the Central Bank and the Financial Regulator?

Ms Ann Nolan: It was a factor but you always have to remember that the situation kept getting worse so had we measured accurately earlier, we wouldn't have got as big a number.

Deputy Kieran O'Donnell: In your comment on page 1 where you say - this was at the time of the guarantee - "However, the liquidity problem was caused by the markets looking at future solvency."

Ms Ann Nolan: Yes.

Deputy Kieran O'Donnell: So you might just expand on that and can one infer from that statement that you believe on the night of the guarantee the banks were insolvent?

Ms Ann Nolan: Oh no, they were solvent. I am talking about future. I mean the issue ... to be honest almost better than looking at all the loans, if you wanted to know in November 2008 what the real problem was, you just had to drive around Dublin and look at all the half-built office blocks and housing developments that had just stopped building.

Deputy Kieran O'Donnell: That would not be sufficient now for due diligence, Ms Nolan.

Ms Ann Nolan: I know it is not sufficient but it was actually a good indicator of where the real problem lay. The due diligence told you what those loans were and what the banks owed in them and so on. Even then, had they had the 25% equity they promised us they had in those loans, things wouldn't have been as bad. If you look at the haircuts for bank-----

Deputy Kieran O'Donnell: This is what the banks were informing ye at the time.

Ms Ann Nolan: At the time, yes.

Deputy Kieran O'Donnell: And that proved when the-----

Chairman: Deputy, don't make a judgment.

Deputy Kieran O'Donnell: Yes. When did it arise, where you realised that wasn't the case?

Ms Ann Nolan: When NAMA did their actual loan-by-loan due ... analysis, and it was a detailed analysis-----

Deputy Kieran O'Donnell: And why-----

Ms Ann Nolan: -----before it got to that.

Deputy Kieran O'Donnell: And, Ms Nolan, why wasn't that spotted with the various due diligence that were done by PwC and others prior to that date?

Ms Ann Nolan: Because they didn't have the timeframe. I mean, when NAMA did its loan-by-loan analysis, they got into every single detail of that loan, including the legal documentation, the loan agreements and so on.

Deputy Kieran O'Donnell: But surely ... surely equity-----

Chairman: ... sure.

Deputy Kieran O'Donnell: But surely equity. Sorry, would it not as a normal form of due diligence, would an equity stake in a loan not be a normal question to ask as part of due diligence?

Ms Ann Nolan: Well, they did ask and the banks were ... said they had equity. I know I spoke to the banks-----

Deputy Kieran O'Donnell: So then-----

Ms Ann Nolan: -----and they told me they had equity in those loans.

Deputy Kieran O'Donnell: So, can we take it from that the banks were not telling the truth?

Chairman: Don't be conclusionary now. Ask the question.

Ms Ann Nolan: Or they didn't know.

Deputy Kieran O'Donnell: Or they didn't know, okay. Can I ask, the issue in terms of the ... the discussions around, we'll say, with burden-sharing with the ECB and so forth, and I want to draw attention, Chairman, to Vol. 2, page 49, which is effectively a report that was commissioned by ... completed by the National Treasury Management Agency in March 2011, basically on burden-sharing for senior and subordinated. Now, in that report, they stated, "[D]epending on the eventual level of haircut applied to the senior unsecured guaranteed debt (senior debt) and subordinated debt, could give rise to a capital saving to the State of approximately €14.9 billion." So, I suppose the question I want to ask is can you tell me the various ... this was March 2011, the various discussions that would have taken place with the IMF, the European Commission over the period since '08 as to where this issue would have come up? Do you believe that if the US had not issued ... exercised their veto within the IMF in late 2010, do you believe that burden-sharing in terms of senior bondholders and subordinated debt holders would have arisen at that time?

Ms Ann Nolan: Okay, in terms of burden-sharing, I certainly think, if there had been no veto, burden-sharing in Anglo would have happened. I think this document-----

Deputy Kieran O'Donnell: And how much would that have saved the State, the taxpayer?

Ms Ann Nolan: I honestly cannot remember. That's a good question.

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

Ms Ann Nolan: The Anglo-INBS figure is there actually ... it's there on page 53.

Deputy Kieran O'Donnell: Sorry, it's here, yes, apologies.

Ms Ann Nolan: Page 53.

Deputy Kieran O'Donnell: Yes, it's-----

Ms Ann Nolan: Yes, I think that's €3.6 billion-----

Deputy Kieran O'Donnell: €3.6 billion.

Ms Ann Nolan: -----would have been-----

Deputy Kieran O'Donnell: So, in late 2010, if the IMF-----

Ms Ann Nolan: Yes.

Deputy Kieran O'Donnell: -----had not exercised their veto, you believe burden sharing, tax saving of just short of €4 billion would have arisen in Anglo?

Ms Ann Nolan: I think that ... well, we mightn't have got it all, because you know the way this burden sharing works, but I think that certainly we might have got €3 billion out of the €3.6 billion.

Deputy Kieran O'Donnell: Okay. And in terms of ... and in that particular case. Just going back to the issue in terms of the loans, do you think in hindsight, and looking back, that you could have got to grips with the level of potential losses in ... or, sorry, the level of losses that were building up in terms of the loan book in the banks, earlier than you did? And how would you have gone about that?

Ms Ann Nolan: It's very difficult to ... I mean, I suppose the problem with the banking system is that it needed to downsize very significantly and that downsizing, no matter what you do, takes time. If you look at the trajectory, you know, it was €400 million loans outstanding in '08 across the six institutions; and, 2010, there was €280 billion loans outstanding; and now it's down to, oh, about €172 billion and we're now at a loan-to-deposit ratio of about 112%. So we're probably around a sustainable level now across the three banks that are left. But that downsizing, could it have been done quicker? It might have cost the State a lot more if we did it quicker is the real problem because there's always a trade-off. If you sell everything very quickly, you get a less good price, so, you know, it isn't a given that doing it quicker would have things better. It might have made things worse.

Deputy Kieran O'Donnell: And what would be your estimate, Ms Nolan, of what the cost of the guarantee, in terms of the recapitalisation of the banks, will be to the Irish taxpayer eventually?

Ms Ann Nolan: Well, I think the long-term cost is the Anglo cost and we'll get our money back from everyone else but ... we might even make a small profit here and there, you know, €1 billion on NAMA, €1 billion on maybe AIB ... Bank of Ireland's shares. We might make a bit of profit eventually on AIB, I don't know, it depends on how we sell them and ... and how the timing goes and all kinds of other things in the economy. I think we'll get our money back from the living banks. I don't think we'll get anything back ... we won't get anything back from Anglo. That's just sunk money.

Deputy Kieran O'Donnell: You don't see that arising?

Ms Ann Nolan: Unfortunately.

Deputy Kieran O'Donnell: And can I ask you, the ... just going back to the ... I suppose the issue in terms of ... are you familiar with IAS 39, the accounting standard in terms of-----

Ms Ann Nolan: I wouldn't ... I'm not an accountant, I wouldn't have any detailed-----

Deputy Kieran O'Donnell: The question really, I suppose, is that, based on that accounting standard, there would be a view that it allowed the delay of losses from 2005 onwards. At the time, when you were looking at due diligence, did you receive any professional advice regarding ... that, from '05 onwards, that there was a change in the way losses were assessed in terms of audits of banks?

Ms Ann Nolan: Yes, I think we got some advice, accounting advice, on the way audits were done but I wouldn't remember the detail of it now.

Deputy Kieran O'Donnell: You wouldn't remember the detail, no, okay. Thank you, Chairman.

Chairman: Thank you very much. Deputy Michael McGrath.

Deputy Michael McGrath: Thank you very much, Chair. You're very welcome, Ms Nolan. Can I start by asking you, from 1998 to 2003, you were principal officer dealing with the IFSC, as I understand it?

Ms Ann Nolan: That's correct.

Deputy Michael McGrath: Can you outline your responsibilities and duties in that role, please?

Ms Ann Nolan: Okay. I suppose the two ... the major things that were involved there was I was involved in the assigning of licences to IFSC companies which ... the last number of licences were done by competition, so I ran the competitions for companies that wished to get licences in the last two or three rounds of licences for the IFSC. And the other major piece of work I did in there was to integrate the tax system between the IFSC and the non-IFSC tax system because the IFSC had had a 10% rate, it was moving up to a 12.5% rate, and the rest of the tax system was moving down to a 12.5% rate, but there were a number of other aspects where the IFSC ... of the taxation where the IFSC was treated differently to the parts that were outside, so my role was to develop plans to integrate those two.

Deputy Michael McGrath: Sure, okay. You said in response to Deputy O'Donnell just a moment ago that the overall net cost of the banking crisis will effectively be the money put into Anglo Irish Bank. Can I just ask you your view on some of the work that was done in Project

Atlas by PwC? I mean, for example, in February 2009, they produced a summary report of three previous reports that they had conducted into Anglo Irish Bank and they projected what the capital position of the bank would be on the various loss scenarios and they reached a conclusion, for example: "Under the PwC highest stress scenario, Anglo's core equity and tier 1 ratios are projected to exceed regulatory minima, (Tier 1 - 4%) at [end of] September 2010 after taking account of operating profits and stressed impairments." Now, when it actually came to September 2010, the losses in Anglo were almost €30 billion, so how can you rationalise that conclusion in early 2009 with the outcome of a loss and a bill for the taxpayer of almost €30 billion in September 2010?

Ms Ann Nolan: I mean, Anglo surprised on the downside every time you looked at it for the entire period I've been dealing with it, I think I could say, and that's just looking at the losses. I think there were two aspects where they were wrong in ... not necessarily that they should have been right but, in retrospect. The first one was the issue we've dealt with earlier, the question of whether there was any equity at all in the loans and I think, if you were to ask me, Bank of Ireland did have equity, AIB had some and Anglo, as far as I could see, just topped up all the loans to 100%, or were lending to the borrowers in a different hat ... with a different hat on, so the loans effectively had almost no equity.

The second aspect, I think, where there's the biggest difference between the original PwC work and what actually happened is the assumption that the bank had a model that would continue to generate income. And the other banks, and the living banks, and the reason they're still living banks, had other business where they were generating income, whereas Anglo, this was all they did. Their model was broken and, therefore, there was no income to compensate, or to make up extra ... and no prospect of income to make up extra capital.

Deputy Michael McGrath: But looking back now, how would you characterise that report which, you know, essentially formed the basis of------

Ms Ann Nolan: The original.

Deputy Michael McGrath: -----decisions that Government were making and it was projecting-----

Ms Ann Nolan: It was-----

Deputy Michael McGrath: -----that Anglo would, even in the most stressed scenario, would have achieved the minimum capital requirement by September 2010 and the outturn was a €30 billion bill?

Ms Ann Nolan: Yes, extremely disappointing. I suppose there are two aspects to that question, Deputy. Obviously the question is could PwC have known better, and I'm not sure whether they could or not. Obviously it was wrong, and I remember at the time, if you look at the ... the first time I saw those reports, summary report, I think it was a bit earlier than the beginning of 2009, some time in 2008, so it was the banks' own projections and the PwC's projections which were stress 1, stress 2, and I remember looking and thinking, "Wouldn't it be wonderful if what happens is the banks' own projections?" Because you don't know the future at any given time, but thinking not very realistic. And then thinking that actually there was a real chance that things were worse than the PwC stress 2 because the economy, you know, with the other side of our hat we were looking at the economy, looking at having done a budget in October, which I was involved in, October 2008, which was out of date already by January '09. So you, kind of, looked at that and thought, you know, "It might be worse than they're saying."

Deputy Michael McGrath: In September 2010 the Government made a decision on the strategic future of Anglo to separate it between a funding bank to hold deposits and an asset recovery bank. What other options were being considered at that time, because we know the management of the bank, for example, were putting forward an alternative model which would have seen a surviving bank emerge, as such, from the carcass of Anglo, so what options were the Government considering in the autumn of 2010 for the future of Anglo?

Ms Ann Nolan: I think by the autumn of 2010, we realised in 2009 when, as we went through the year as the losses in Anglo accumulated, that there was a very serious long-term problem with the operating model of Anglo. The new management team had tried to get a business plan for an ongoing bank which would work, and we looked at those, I think in August 2010, as best I remember it, in conjunction with the Central Bank. In the meantime, their funding model was, you know, they were just ELA almost entirely, and as every piece of their funding rolled off it was replaced by ELA, so they had a huge funding problem. And the new bank just wasn't to my mind - that they were proposing - wasn't to my mind - and we did look at it seriously, but it wasn't actually fund-able in terms of ... it didn't have a business plan that you could convince the ECB or the markets was a funding model going forward. So, that option was looked at and decided against. The twin-track approach was on the basis that we were under the impression, which turned out to be a misapprehension, that the ECB was willing to fund the funding bank, so-----

Deputy Michael McGrath: Yes.

Ms Ann Nolan: -----the decision, actually, was never implemented because the ECB didn't ... or say they hadn't agreed that. I think there was a misunderstanding.

Deputy Michael McGrath: Okay. And then if I take you to January of 2011, and it's in core booklet Vol. 1 of your own booklet, and this is a note on the sale of Anglo and INBS deposit books.

Ms Ann Nolan: Sorry, what page? Sorry.

Deputy Michael McGrath: Sorry, 123, page 123 of Vol. 1. So it's a note for the Minister on 28 January 2011, and this is when the sale of the deposit book for Anglo and INBS was being examined and there seemed to be an amount of pressure from the troika to press ahead with-----

Ms Ann Nolan: Yes.

Deputy Michael McGrath: -----the disposal of the deposit books as well. Even though, on the top of page 124, it says, "As yet we do not know how to remain in combined entity is to be funded", and yet there seemed to be pressure to proceed on that basis. But, subsequently, on page 126, it says, "Anglo has requested us to consider an "orderly" sale process rather than the more immediate sale process currently envisaged." Is that a reference to the deposit book or to the overall wind-up of the bank?

Ms Ann Nolan: That's just the deposit book.

Deputy Michael McGrath: Okay. So they were disagreeing with the approach of-----

Ms Ann Nolan: They took-----

Deputy Michael McGrath: -----the Government to sell the deposit book, which actually happened subsequently in February 2011.

Ms Ann Nolan: Yes.

Deputy Michael McGrath: The deposit book of Anglo and INBS was transferred-----

Ms Ann Nolan: Yes.

Deputy Michael McGrath: -----to AIB and Irish Life and Permanent.

Ms Ann Nolan: Yes.

Deputy Michael McGrath: Okay. And what was their logic in opposing that strategy?

Ms Ann Nolan: It's hard to tell and maybe you can ask them when you have them in.

Deputy Michael McGrath: Okay, we will.

Ms Ann Nolan: My own view would be that they felt, once the deposits were gone, there was no possibility of resurrecting the bank.

Deputy Michael McGrath: Right. So even at that stage they were still holding out the hope of resurrecting a surviving bank from Anglo?

Ms Ann Nolan: That would ... I mean ... that's what I would have thought, but I mean I'm ... I'm only supposing.

Deputy Michael McGrath: Okay. We heard from Governor Honohan last week that by November 2010 the total amount of ECB support for the Irish banks normal liquidity and ELA was €131 billion, of which ELA was €45 billion. He said that the ELA was effectively State guaranteed, that it was underpinned by some form of a letter of assurance-----

Ms Ann Nolan: Yes.

Deputy Michael McGrath: -----from the Minister. Is that the case?

Ms Ann Nolan: That's true, yes.

Deputy Michael McGrath: So, there was an effective State guarantee in place of €45 billion of ELA to the ECB-----

Ms Ann Nolan: In effect, yes.

Deputy Michael McGrath: -----in the autumn of 2010.

Ms Ann Nolan: Yes.

Deputy Michael McGrath: Okay. And what was your view of the first letter received from Mr. Trichet then in the middle of October 2010 where, effectively, he's saying, "Look, you can take this extraordinary level of ELA support for granted." And he's quite explicit, and of course we know where all of that let to eventually. But what was the view within the Department of the ELA being highlighted in that manner and the way in which it was put by the ECB?

Ms Ann Nolan: The letter was unhelpful. I mean ... and probably unnecessary. I mean I think, it was designed to push towards getting into a programme, which probably was necessary at that point anyway, and I don't think we needed to be pushed. I think it was more to do with negotiating tactics than anything else.

Deputy Michael McGrath: Thank you.

Chairman: Can I stay with that for a moment, if you don't mind, Ms Nolan, and put the question to you because from our understanding you would have been very much involved with the kind of day-to-day financial situation as we move from the guarantee towards the bailout, and you would have very intimate knowledge as to what was happening in Government and Finance at that time. So could I put the question to you, and it follows up with what Deputy McGrath was saying, is that the structure, or design of the bank guarantee along with its period of duration, have any bearing on the Irish State entering a bailout programme two years and two months after the guarantee?

Ms Ann Nolan: It was one of the factors, yes.

Chairman: In what way?

Ms Ann Nolan: There was a funding cliff because the structure of the guarantee was for two years, there was a funding cliff, and on top of that when we looked for extension of the guarantee - I think it was that June from the Commission - they were late in giving it to us, and that in itself reinforced the funding cliff. So there were ... it wasn't just the guarantee itself, there was other things which contributed to that, but certainly that was a factor. It was a factor in the ELA being as big as the Deputy just pointed out.

Chairman: And in regard to Mr. Trichet's letter that Deputy McGrath referred to, prior to that - or in or around the same period as Minister Lenihan's letter of 21 November 2010 - when that letter was written, were Irish banks that were covered by the guarantee still solvent and, therefore, qualifying for ELA funding at the time of that letter, in your opinion?

Ms Ann Nolan: Oh, they were solvent, but they were solvent ... like, Anglo was solvent because the Department ... because the Irish State was standing behind it, so they were solvent, yes.

Chairman: Okay. And if the Irish State was not solvent were the banks still solvent?

Ms Ann Nolan: I think the Irish State was solvent.

Chairman: At that time?

Ms Ann Nolan: At that time.

Chairman: Okay. So, just coming back then finally to Mr. Trichet's engagement with the inquiry where he talks about this period, and Mr. Cardiff in his witness statement referring to the Jean-Claude Trichet letter, says in many ways the letter the entirely superfluous since it was already clear by the time of the letter that the Government was going to opt into a bailout programme. Would you be of the same view that the Government was preparing to opt into a bailout programme at that time?

Ms Ann Nolan: Sorry, which ... which of the letters are you talking about now? The second letter?

Chairman: This is Mr. Trichet's letter. Mr. Cardiff in his testimony to this inquiry-----

Ms Ann Nolan: Yes, no, there were two letters from Mr. Trichet, certainly-----

Chairman: 19 November.

Ms Ann Nolan: Oh yes. At that point I think it was inevitable; we were in the middle of negotiations, and I think the letter was superfluous, yes.

Chairman: Okay.

Ms Ann Nolan: But annoying at the time for the Government.

Chairman: Okay. When Mr. Trichet was, as I say, at the IIEA event in which the inquiry engaged with him, speaking on the same issue, he says:

> [As] you know, we could [have almost] continued on our side ... having gone up to 100% of ... GDP ... to 200% of ... GDP [this was with regard to the ELA funding that was coming into the country], and why not 300% of ... GDP? [That would] Then what would ... the commission [of] inquiry [be] asking for? [Talking about this inquiry, as to what would be our purpose] You would say, "Were you totally crazy at the ECB to continue, when you were going to the wall at 100 mph, to continue to provide liquidity and liquidity and liquidity?"

So could I ask you, Ms Nolan, was Mr. Trichet right? If this action hadn't happened and entry into the programme had been delayed, would the cost of the bailout have even been bigger for Ireland?

Ms Ann Nolan: Well, of course, you know, you can't do things ... you only get to do things once. You don't get to try them out for several days.

Chairman: Yes, and we learn from what we do wrong.

Ms Ann Nolan: But just ... just to answer the question, I think ... I mean, to an extent, I thought some of what Mr. Trichet said in his evidence or non-evidence, to the inquiry was a little disingenuous. I mean-----

Chairman: Okay.

Ms Ann Nolan: -----I think, when you look at monetary policy by the ECB-----

Chairman: I can get into all of that with you later on and-----

Ms Ann Nolan: Yes, okay.

Chairman: -----you'll have plenty of time in the wrap-up-----

Ms Ann Nolan: But do I think it would have cost more? I've no idea whether ... you know, I mean, the reality is we were moving towards a bailout before he wrote that letter.

Chairman: Okay. Can I just come back to an earlier ... it was relating to Deputy O'Donnell, and that is on the issue of Anglo, and Deputy O'Donnell was taking a line of questioning with regard to the whole due diligence issue. Kevin Cardiff, when he was here, suggested that nationalising Anglo would be difficult due to the legality of the bondholders. So how, all of a sudden then, was this not a problem once the due diligence was actually completed, by your own engagement this morning?

Ms Ann Nolan: Sorry, Kevin said what?

Chairman: Mr. Cardiff was saying that the nationalising of Anglo was difficult due to the legality of the bondholders, that there was constitutional issues and so forth, but taking your own testimony this morning, you were saying once the due diligence was completed, this didn't seem to be a problem anymore. How did due diligence take this off the agenda?

Ms Ann Nolan: Well, there were ... there two aspects ... legal aspects. I mean, the legislation was ready, I think, and could be made ready very quickly in terms of ... that was ready, I think, at the time of the guarantee, in that nationalisation, and that legislation was ready to go. Part of the due diligence we did in Anglo before we nationalised it was looking at all the bond agreements to make sure there were no clauses ... there were some of the clauses that had to be bought out just before the nationalisation, you know, in terms of swaps and these kind of things, technical stuff, and that ... you know, you need to do that stuff before you nationalise, and we did do it before we nationalised.

Chairman: All right. I just want to just pursue a different line of questioning with you for a moment, Ms Nolan, and then we'll return to the question list. It's the ... and I'm bringing it up on the screen here. It's an economic management paper, 10 October 2012, which would, I'd imagine, have been a very top drawer, top secret document at the time in the-----

Ms Ann Nolan: It was, yes. What book is it, do you know?

Chairman: It's coming up on your screen in front of you. It's from ... it's witness book Ann Nolan, Vol. 2, pages 85-87. Okay. Now, if I can just scroll down this a moment, and while it's being done, maybe to a page ... it's the third page of it, it's the last footnotes of it here. But in doing so, as I'm pulling that up, by March 2012, it was becoming clear within the Department of Finance that a longer term restructuring solution was needed to the promissory notes which had been provided to IBRC. The paper was produced in October 2012 for the EMC. This proposed replacement of promissory notes with longer terms bonds over maybe a 30 to 40-year spread, however the view was that this would require liquidation of IBRC to allow this to be acceptable to the ECB. Now, what I'm trying to do here is to get an understanding as to who was responsible for the strategic planning of the balance sheet impact of the banking crisis and also to establish with you the level of assistance and co-operation the Department of Finance received from the European Central Bank and Central Bank of Ireland during the crisis plan and implementation of putting in a solution. So, in this regard, who originated this idea and what level of co-operation was evident from the Central Bank of Ireland and the ECB to investigate, discuss and cost alternatives and can you also describe the interaction and level of co-operation between the Central Bank of Ireland, the EMC and the European Central Bank and your Department to work through this proposal?

Ms Ann Nolan: Okay. This proposal ... I suppose, it goes back to what we were talking about earlier about moving all the deposits out of Anglo and INBS and then the following summer we amalgamated the two of them. Now, we then had, effectively, a run-off vehicle with very big European funding which was rolling on a two-week basis, which was very unsatisfactory. At the time of the guarantee ... at the time of the bailout, which would have been November 2010, there was some discussion about how the long-term funding of Anglo ... but no conclusion was reached at that time. So we had various options after we had amalgamated the two of them in summer of 2011. Various options were discussed, many of which didn't make very much sense but, from our own point of view, those discussions with the troika were very important because we knew we needed to get some resolution which would give long-term, not two-week funding, that we couldn't have a vehicle there ... you know, effectively for us, a priority was fixing it up or having a long-term solution before we left the programme. While you were in the programme, you had a kind of certain protection from the markets but you wouldn't have that when you left the programme so it was quite important to look at that. So it was, I think ... I genuinely do not remember who first suggested it, but I think it was at some meetings at the very beginning of September 2011, no, 2012, when the liquidation of Anglo was first discussed and suddenly it became possible because, because it's kind of almost legal theology that the ECB had, this was a more attractive solution to them than the other solutions we'd been putting forward. And it was ... had huge attractions to us as well, in that it would, effectively, remove Anglo or IBRC from the landscape, which was causing so much trouble for everyone. So we entered into discussions fairly intensively starting at the very beginning of September 2012, ourselves, the Central Bank and the ECB.

Chairman: And maybe you could just paint a picture as to what the difficulties were, if I can maybe draw your attention there to the very bottom of the page, where it says:

> [The] Net book value of customer loan book per IBRC 30 June 2012 accounts [one, they had] €15.6 billion. Total ELA funding at the end of September ... (as advised by [the Central Bank]: €40.6 billion. The Promissory Notes and NAMA Bonds are pledged against €24.4 billion of this €40.6 billion of funding. Additionally, €3.7 billion of funding has been provided [in] certain loans (nominal value [of] €5.4 billion). The balance of ELA funding (€12.5 billion) is made up by the Ministerial Guarantee.

Ms Ann Nolan: Yes.

Chairman: Is that a summary of the type of sums that you were dealing with and what you were trying to unravel?

Ms Ann Nolan: Yes.

Chairman: Okay.

Ms Ann Nolan: We were trying to get this ... all these various elements. We needed to make sure the Central Bank was whole, because you couldn't leave the Central Bank with a deficit in it. We'd only have to make that up ourselves. We needed to make sure that the ELA was gone out of the system because that was the objective of the ECB in getting involved in this. We needed to make sure that the promissory note payments were put on a much better position ... a better schedule for the Irish Government so that when we were going back into the market, we wouldn't have this huge borrowing requirement for the promissory note, which would damage our capacity to do business in the market. So they were our ... you know, the solution we got met most of those objectives.

Chairman: Okay. And if I can just go back to the very first page of that document there, Ms Nolan. It's point B at the end of the page and it says, "However, replacement of the Promissory Note with shorter-dated Government bonds would negate the benefit [of] the State and create a 'funding cliff'"-----

Ms Ann Nolan: Yes.

Chairman: -----"in the near term, thereby severely hampering the State's ability to re-access debt markets, as the Irish market lacks capacity to absorb additional shorter[-term] dated issues."

Ms Ann Nolan: Yes.

Chairman: What was the thinking in terms of the co-operation that was going to come from the ECB and other agencies in getting over what was probably this ... summarised as the hurdle that had to be cleared?

Ms Ann Nolan: Well, I suppose, you know, you had ... we were ... you see it in the next paragraph, we were looking for a single 40-year bond which would be perfect, but, obviously, it wasn't a realistic ... it was our negotiating position. Their negotiating position was shorter dated ... very short-dated Government bonds. The negotiation went on for a period. We ended up with, I think, a reasonably ... one that was certainly a lot closer to what we were looking for than what they were looking for. We ended up with a position which we were all happy with.

Chairman: Okay. And just moving onto the next page-----

Ms Ann Nolan: Or maybe, in fairness-----

Chairman: Sorry.

Ms Ann Nolan: -----was unanimously noted by the ECB. I think that they would never say that they're happy.

Chairman: Okay, but what level of entertainment were they giving the 40-year proposal?

Ms Ann Nolan: Well we did get some 40-year bonds, so, that's how ... yes it was a good deal.

Chairman: Okay. And just moving on to point 9, and this will be my final question on this issue, it says, "If [the fair value of NAMA pays for the assets sorry, if] the fair value that NAMA pays for the assets is at a significant discount to the net value of to the assets at IBRC [this is the relationship now of NAMA and the loan book of what was formerly the Anglo Irish Bank], this may create a capital shortfall for the [Central Bank of Ireland] arising from the sale, [from] which the State would ultimately be liable as a result of the Ministerial guarantee." Can you explain to us what that actually means there?

Ms Ann Nolan: Okay ... well, when we liquidated we didn't know we could sell all the assets. So, if the assets sold or ... the assets would be transferred to NAMA ... What happened was, the flow ... the Central Bank had a floating charge on the assets; the floating charge was sold to NAMA in return for NAMA bonds, so then the Central Bank had NAMA bonds. So the Central Bank was okay from day one, it had NAMA bonds and they were Government-guaranteed NAMA bonds. The floating charge then went to NAMA. All the assets were then valued, the valuation, the NAMA valuation set a floor. They couldn't be sold for less than that. If the sales process had bids for less than that, they go to NAMA at the NAMA valuation. In the event they were all sold for more than the NAMA valuation so it never arose. But in the ... had it been that the NAMA valuation added together for all the assets and none of them had sold to the private sector and the NAMA valuation was less than the floating note charge, we could have been left with a ... with a bill, and that's what that is referring to. But that did not happen.

Chairman: Okay. So just to come back to maybe to summarise my very, very first question to you, all of these details very, very big numbers, very big sums, very difficult detailed, complexed issues to be unravelled to try and create another type of solution or another type of approach. Who originated the idea, and if you could maybe summarise again as to what level of co-operation was evident coming from the Central Bank and the European Central Bank to discuss and cost these alternatives?

Ms Ann Nolan: Okay, well, as I say, I can't quite remember who suggested the idea but most of the work for it was done in the Department. We seconded ... corporate bankers from AIB, who weren't very busy at the time ... a team of corporate bankers into the Department, and had them working directly on my team there, to look at all of these very complex details. And they did the planning for us in co-operation with the Central Bank of Ireland who co-operated very strongly and in negotiation ... technically, the ECB weren't negotiating with us; technically, this was a deal between us and the Central Bank of Ireland, but, of course, there were technical discussions between my team and the ECB on several occasions. The ECB, I think, blew hot and cold on it. There were people within the ECB who felt it was a good deal and should be done; there were people within the ECB who felt it was, you know, not such a good deal and maybe shouldn't be done. But the ones who wanted to do it were the ones whose view prevailed in the end, thank God.

Chairman: All right, thank you. Senator Susan O'Keeffe.

Senator Susan O'Keeffe: Thank you, Chair ... sorry, Ms Nolan. From 2009 to May 2010, what was the Department of Finance doing to ascertain the true state of the banks?

Ms Ann Nolan: From 2009 to May 2010?

Senator Susan O'Keeffe: Yes.

Ms Ann Nolan: Okay ... first of all we were dealing with the various issues which arose around setting up NAMA. We were dealing with the aftermath of the PwC report, which was putting in the preference shares into Bank of Ireland and AIB. We were not doing due diligence on the banks themselves, we felt that was for the ... Financial Regulator's job to do-----

Senator Susan O'Keeffe: Even, even though, even though, arguably, the Financial Regulator's due diligence had not been, if you like, as complete as it might have been, that was clear already in 2008, so why would you still have taken that position in 2009?

Ms Ann Nolan: Well, the ... to be fair to the Financial Regulator, they were, they were gearing up their system to do the PCAR. Like the PCAR 2010, they were recruiting people and so on and ... you know, for us to do a parallel recruiting system, because, you know, we are not the regulator, we wouldn't have the expertise to go in and actually look ourselves at the regulation-----

Senator Susan O'Keeffe: But does due diligence in that sense in the state that we were then in ... does due diligence fall under regulation at that point when in fact what you want is information and knowledge so that you can make further decisions?

Ms Ann Nolan: Well, establishing the capital needs of the banks falls under regulation, yes.

Senator Susan O'Keeffe: Okay. So, so the regulator was doing that, so what else were you then doing in the Department?

Ms Ann Nolan: Well, the biggest single job was the legislation on NAMA in 2009, which was a huge piece of work, and the parallel agreement with the European Commission on how the NAMA loans would be valued and the setting up of NAMA as an organisation. So it was ready to go and had it's first piece done by the beginning of 2010, that was a huge piece of work which the Department did in the period and which I was ... spent a lot of my time on.

Senator Susan O'Keeffe: Would you agree with Professor Honohan's evidence when he was here last week, its on page 29 of his evidence. He says:

> when I came in 2009, I realised that nobody was particularly concerned about Ireland [and I'm editing slightly] there was a sense that we were okay. ... But it was really the change in attitude in August of 2010 ... and, in September [that] we were absolutely in the centre of attention.

Do you think that that's how you recall it or is that just his view?

Ms Ann Nolan: Well, obviously, it's his view.

Senator Susan O'Keeffe: Of course.

Ms Ann Nolan: I'm not sure who he means by nobody.

Senator Susan O'Keeffe: He's talking here in the European context-----

Ms Ann Nolan: Well, in the European context, yes.

Senator Susan O'Keeffe: -----that, if you like, in Europe, that nobody was really looking at Ireland. They weren't worried.

Ms Ann Nolan: I think that's possibly true. I mean, I think, in 2009, if you look across Europe, there was a fall in the growth level in every single country and people were looking at themselves and trying to deal with their own problems, the fallout from the crash in autumn '08 was being dealt with throughout the system, and it probably is a fair comment that it was 2010 that pressures built up again across the system. I think the Greek problems ... probably not best ... in early 2010 started people looking at other countries in the periphery.

Senator Susan O'Keeffe: In Vol. 1 of your book, its on page 28, "The PwC report ...look[s] at the trends in these capital ratios for the next two years, starting with forecasts provided by the institutions, and show that the institutions are currently forecasting operating profits well in excess of loan impairment levels."

Ms Ann Nolan: Yes.

Senator Susan O'Keeffe: That was dated November 2008. So, was that a valid observation there? Operating profits well in excess?

Ms Ann Nolan: Well, that's what they were forecasting. I mean, it's not what happened but it's what they were forecasting, I'm sure that's true.

Senator Susan O'Keeffe: So what does that tell us, about, I mean this is in-----

Ms Ann Nolan: It tells us like ... it tells us that in the autumn of 2008, nobody knew how bad it was going to be. I mean, the fall in the GDP throughout Europe in 2009 was one of the most deepest recessions that ever happened, you know, I mean, once you have a deep recession, banks do not make profits.

Senator Susan O'Keeffe: But, but if you looked at the, at the forecasts for ... even for tax revenues in Ireland between June 2008 and October 2008, that was just going one way, it was going from €3 billion to €5 billion to €6 billion. That's true isn't it, I mean we have the documentation that shows that?

Ms Ann Nolan: I think you mean the deficit in tax revenues, if tax revenues were going that way we'd have been fine ... but, yes, I agree they were.

Senator Susan O'Keeffe: Yes, so that was going one way and unlikely to suddenly start recovering-----

Ms Ann Nolan: Well, it might have stayed like that, rather than kept going down-----

Senator Susan O'Keeffe: Did anybody really think it would? Given the state of the banks, given the state of the world economy-----

Ms Ann Nolan: I mean, I think the ... if you look at the forecasts done in the autumn of 2008, I don't necessarily have them with me, from the various people, they all were predicting 2009 to be bad, I don't think any of them to were predicting it to be as bad as it was. I mean, you know, I'm not trying to justify what the banks were forecasting for themselves in autumn 2008. Obviously, it turned out to be wrong. I'm merely saying that it was their forecast at the time.

Senator Susan O'Keeffe: Yes, but-----

Ms Ann Nolan: I mean, that's what the document says.

Senator Susan O'Keeffe: Yes, and the question is, how, you know, how can we ... how could those have been relied on to the extent that they appear to have been relied upon, when all around us, you know ... we're losing our heads, so to speak, everything was going one way-----

Ms Ann Nolan: But, but they weren't relied on-----

Senator Susan O'Keeffe: -----and yet one could look at these and say-----

Ms Ann Nolan: If we believed them, we wouldn't have given them any capital and we gave them €3.5 billion in preference shares. I mean the reality is we didn't believe-----

Senator Susan O'Keeffe: Well, this is the letter to the Minister, confidential and commercially sensitive, written by ... the Central Bank. Why on ... I mean, if it's not to be believed, then why were we ... why was Mr. Lenihan receiving it as a confidential document-----

Ms Ann Nolan: Well, I think, if you look on page 30-----

Senator Susan O'Keeffe: Yes.

Ms Ann Nolan: You'll see in the summary at the end ... what John Hurley and Jim Farrell were actually saying is:

> The above scenarios are predicated on a number of capital assumptions outlined in Section 2 above and the caveats set out in the report. While the assumptions used by PwC are challenging, they must be seen in the context of considerable uncertainty about the prospects for the economy; and indeed an even more pessimistic economic outturn cannot be ruled out.

So, I don't think, you know, at that time anyone was suggesting that this was the bottom and the worst-case scenario.

Senator Susan O'Keeffe: You referred earlier on to that expression "the living banks". So, when did Anglo die?

Ms Ann Nolan: I think the decision to wind it down was taken in August 2010.

Senator Susan O'Keeffe: No, but when did it really die?

Ms Ann Nolan: Well, I suppose, technically, it really died when we liquidated it in February 2012.

Senator Susan O'Keeffe: Right.

Chairman: 2013.

Ms Ann Nolan: 2013. Sorry ... that's bad. Thank you, Deputy.

Senator Susan O'Keeffe: At the night ... during the time of the bailout, when Patrick Honohan went on "Morning Ireland" on the morning of 18 November, what was the reaction among officials like yourself to that interview?

Ms Ann Nolan: It was very Patrick. I ... you know, in some ways it made no difference because he was pre-empting the Government's decision. I think it probably was unhelpful to the Government but I don't think it really changed anything. It was probably unhelpful to our negotiation position, which was probably our immediate reaction, if I was being really honest about it, because for us at that point, down in the trenches, we were more interested in the small print of what was being agreed. You know, what are we committing to, is it things we don't want to take off it? You didn't want someone coming along pre-empting that. But, even in that, I'm not sure if it really made any difference. It's more an emotional reaction when you're very involved.

Senator Susan O'Keeffe: You were obviously involved, as you said, very close up from the beginning ... from 2008 right through. How early on did you believe Ireland would need a bailout? Because Patrick Honohan suggested he had a conversation - albeit a small conversation - with Minister Lenihan in April of that year, suggesting that there might be. Did you have a view yourself?

Ms Ann Nolan: I think ... I mean, I would've been aware that somebody had mentioned it and ... probably by May anyway, that year. And I don't think I remember having a conversation with Patrick about it particularly. I think we were looking at how it could or couldn't be avoided and whether it should or shouldn't be avoided because there's two aspects to that. At a certain point of stress, you might be better off in a programme, you know, provided you could control what the programme was forcing you to do. In other words ... and certainly by that August we were working in the Department very much on the national recovery plan, the four-year plan, because we wanted to make sure that if we entered into negotiations, that we had a version up front, ourselves, of what we wanted out of them. In other words, that we weren't in a position where the IMF was coming in and making it up *ab initio*.

Senator Susan O'Keeffe: And finally, if I may, Chair, when you came into the job in early November 2008, how - if you look back - how would you describe what you found ... if it was, sort of, in between chaos and a lack of information at the very one end and extremely organised and loads of information at the other end? Where was it when you arrived? And what did that mean, then, for you?

Ms Ann Nolan: It certainly wasn't chaos, okay. There was some information but probably not as much as we needed and it was coming in fairly slowly. So I think that's-----

Chairman: All right, thank you.

Senator Susan O'Keeffe: Oh.

Chairman: Have you got one more, have you?

Senator Susan O'Keeffe: Sorry, I thought that Ms Nolan was going to continue speaking there.

Chairman: She can if she wishes.

Ms Ann Nolan: I'm fine.

Chairman: Okay, thank you very much. Deputy John Paul Phelan.

Deputy John Paul Phelan: Thank you, Chairman. Good morning, Ms Nolan. Firstly, actually, did you see the evidence of Mr. Cardiff on his two-----

Ms Ann Nolan: I saw bits of it and not all of it. It was quite a long ... several sessions.

Deputy John Paul Phelan: It was. Can I ask, were you aware ... he outlined to the committee that a number of people and individuals and institutions had come to him and others making suggestions about the need for either a political guarantee or a guarantee months in advance of the actual night that the guarantee decision was made. Were you aware of that at the time or was-----

Ms Ann Nolan: No, I wasn't aware of it at the time.

Deputy John Paul Phelan: He also indicated that at a similar time in 2008, far in advance of the actual bailout, which came at the end of 2010, that he and a group within the Department were involved in examining, shall we say, the possibility of a bailout. Again, were you party to it or were you aware-----

Ms Ann Nolan: Is this the Johnny Logan group?

Deputy John Paul Phelan: Well, there was two groups. I'm not sure if this was the Johnny Logan group or the other ... there was two groups that he mentioned. But were you aware of it or were you party to it?

Ms Ann Nolan: Yes. I would have been involved in any groups that existed.

Deputy John Paul Phelan: You were in the Johnny Logan group?

Ms Ann Nolan: Yes. I attended a few meetings, anyway, of the Johnny Logan group. I'm not sure there were ever ... if it was ever formally-----

Deputy John Paul Phelan: Christened?

Ms Ann Nolan: Christened. It was informally called that.

Deputy John Paul Phelan: And was that group actually active at the time of the ... when did it become active-----

Ms Ann Nolan: Of the bailout? I think it was ... it was beforehand and I genuinely can't remember when the meetings were. But it was looking at ... you know, one of the things we had going for us at the time - and, in the end, it may not have mattered that much - we had a fair bit of cash in hand with the NTMA, which certainly helped our negotiating position. And we also ... you know, what we were looking at is were there other places where you could get cash. But we were never ... in the event we had the bailout agreed before we were in a position where we were actually looking for cash in any desperate way. And I think, in retrospect, that was right. We should have ... it's much better to negotiate from a position where you're not desperate.

Deputy John Paul Phelan: Okay. Can I ask you now again ... and I don't want to re-cover ground that's been already covered but there's a question that I must ask you in relation to the analysis and due diligence that was carried out on .... to identify the amount of €3.5 billion in capital for AIB and Bank of Ireland in February 2009. Why did the Government proceed with this amount for AIB given that it was clearly outlined that this amount was insufficient to meet their capital needs, with AIB ultimately requiring in excess of €20 billion?

Ms Ann Nolan: Well, at the time our assessment was that AIB needed about €5 billion or €5.5 billion ... somewhere between €5 billion and €5.5 billion. And we gave them €3.5 billion on the understanding that they would sell their Polish and US subsidiaries to make up the difference.

Deputy John Paul Phelan: Okay. Now I want to turn to the issue of capitalisation ... recapitalisation in general. And I've referred already ... you actually said in your opening statement that it became clear that the banks' managements had differing views on the need for capital in their institutions. Can you briefly outline what those differing views-----

Ms Ann Nolan: This is at the initial position?

Deputy John Paul Phelan: Yes.

Ms Ann Nolan: Yes. I think Bank of Ireland were the most realistic. I mean, I think very early on they told us that even if, technically, they could do a projection that showed they wouldn't need capital, they felt for the markets to really have faith in them, they needed probably €2 billion extra capital. And AIB told us they were the alpha male that didn't need any capital. And ... sorry that's a bad expression ... they were, you know, well able to cope. And Anglo told us that the private sector would give them capital. The first time I met them I was stunned at the amount of capital the private sector was going to put into them. But, of course, it never materialised. I mean, you knew it was-----

Deputy John Paul Phelan: Okay. I was just going to turn to the Bank of Ireland question because we have minutes - and I've referred to them in evidence - from Mr. Cardiff from 13 and 17 October 2008, where they were discussing at board level that ... the need for a taxpayer injection - actually, not just a recapitalisation but a taxpayer funded one - and on 17 October, one of their minutes said "it would be inappropriate to push the Government at [this] time, as the Exchequer budget was due to be announced the following day." Would you have been aware, and when did you become aware - because I think you indicated that you were - that, internally, Bank of Ireland were acknowledging the need for taxpayer capital?

Ms Ann Nolan: I think it wasn't ... certainly not at that point because in October I was working on that budget, on the spending side, so I was not aware of what Bank of Ireland were or weren't doing internally. But-----

Deputy John Paul Phelan: They didn't, like, in their initial discussions with you say that-----

Ms Ann Nolan: I'm trying to remember-----

Deputy John Paul Phelan: -----or flag it.

Ms Ann Nolan: -----it's very difficult. I think it was probably the beginning of December that it was flagged by Bank of Ireland to us. And they were looking for preference shares of some sort.

Deputy John Paul Phelan: I now want to turn, actually, briefly - because my time is getting brief - to your previous role in relation to the IFSC from 2000 ... or 1998 to 2003, I think, you were involved-----

Ms Ann Nolan: Yes, that's right.

Deputy John Paul Phelan: -----in that function. There's an oft-quoted article by my colleague Deputy Higgins, which he didn't refer to today, from *The New York Times* in April 2005 - which admittedly was just after you would have left the role; it would have been referencing the time that you were there - when they described the IFSC as "the Wild West" of finance. Was that a fair description of what you saw in your time when you were with the IFSC?

Ms Ann Nolan: Absolutely not.

Deputy John Paul Phelan: Where do you think that they, I suppose, drew that from exactly?

Ms Ann Nolan: No, I think it's to do with the 12.5% tax rate. I really don't know; you'd have to ask them. I haven't even ... I probably saw it at the time, I don't remember the article-----

Deputy John Paul Phelan: Was there a reaction in the Department of Finance to that comment from-----

Ms Ann Nolan: Probably, but I genuinely don't remember. An awful lot has happened since.

Deputy John Paul Phelan: Okay, that's fair enough. I now want to turn actually briefly to Mr. Moran. Mr. John Moran, the previous Secretary General we've had in giving evidence already. He in many respects was one of the first outsiders, maybe the first one, to become Secretary General of the Department of Finance. How would you define his period as Secretary General? And did the Department operate in a different manner while he was in the role? Was there a notable change, I suppose, from his predecessors and if there were, can you just briefly outline them?

Ms Ann Nolan: Okay, well, I think it's fair to say that the Department has implemented a huge change of management programme from, basically, 2009-2010 to date because we could see that there were shortfallings ... shortcomings in the way we were organised. And John, in his unique, inimitable way, contributed very positively to that change but it had started before he arrived - the Wright report, it indicated quite a lot of changes - and has continued after he's left, but he certainly brought some very positive things to that and contributed very positively to that.

Deputy John Paul Phelan: Finally, I want to refer to e-mails which were covered in the *Irish Independent* on 9 June 2015 from Patrick Honohan, where he wrote to you to make sure that subordinated bondholders in IBRC would not receive payment after the liquidation. That was the tenor of what was covered in those reports. You held a different view, it seems, or can you-----

Ms Ann Nolan: No, I absolutely ... I ... if there's any way I can avoid paying subordinated bondholders in Anglo any money, I will do it.

Deputy John Paul Phelan: Okay-----

Ms Ann Nolan: But I'm not guaranteeing that there is ... I mean there mightn't be any money to pay them in the first place but-----

Deputy John Paul Phelan: Do you believe that there will be sufficient funds from the-----

Ms Ann Nolan: I think there'll be sufficient funds to pay the ordinary debt holders; the credit unions, the State, the other people who are owed money but whether there'll be any for the subordinated debt holders ... first of all, there mightn't be and, secondly, we will do, if there is, everything in our power to avoid giving it to them. But I don't think a moral argument will get me very far. I think that's the tenor of my-----

Deputy John Paul Phelan: Okay. I have almost a minute left and I'll ask briefly, because I note from your CV, the brief CV that we've gotten, that you were previously a member of the board of ACC.

Ms Ann Nolan: That's right, a long time ago in the mid-90s.

Deputy John Paul Phelan: Yes, I'd just like to ask you, that it's ... do you believe that its corporate governance structure differed in any significant way, I suppose, from the other Irish financial institutions, the principal banks that we're discussing at this inquiry?

Ms Ann Nolan: I mean, at the time I was on the board of the ACC Bank its structures were very different. It was still largely an agricultural bank, lending to farmers. It was doing a small bit of property lending. I didn't like the structures of the property lending but I was told I was a conservative civil servant. In retrospect, maybe I should have brought my conservatism to all of the other banks as well. I wasn't keen on it but it was a small portion; it wasn't a huge risk at the time because it was a relatively small proportion of their book, so it was different.

Chairman: Okay, and we'll move to towards wrapping things up so and if I can invite Deputy Joe Higgins to commence the wrap-up and then I'll finish with Deputy O' Donnell.

Deputy Joe Higgins: Ms Nolan, on page 4 of your opening statement, you say:: "The State received shareholdings in the banks in return for its capital and for the continuing banks this investment can be recovered over time by selling the shareholdings." And you go on to say that the long-term losses essentially arise from INBS and Anglo. Can I query and interrogate that somewhat with you for a minute or two? In regard to Allied Irish Banks, the general figure that is put out there is that €21 billion of State funds went in. I would say that has to be added to by the following: NAMA witnesses said to the inquiry that the banks were overpaid for loans transferred to NAMA from them by €10 billion. That was the evidence from NAMA chief executive and chair. If we allocate the Allied Irish Bank proportion of that, it would be €2.8 billion, so I say if you add that to the €21 billion, you get €23.8 billion. the merger with the EBS gives a further €777 million in a, kind of, a hidden recapitalisation to AIB and then there's a further transfer, in February 2011, of €1.6 billion or €1.7 billion of Anglo NAMA bonds and deposits. Now that brings the cost, arguably, to €26 billion. Can I ask you how do you see such costs, between €21 billion and €26 billion, being recovered for the taxpayer, as you suggest?

Ms Ann Nolan: Okay, first of all there's double counting there because the €20 billion includes the EBS money. You know, the money that we ... the capital we put into EBS is counted as part of the €20 billion, I think.

Deputy Joe Higgins: No, it's .... I don't think so. Well, let's not query about-----

Ms Ann Nolan: And similarly the NAMA piece ... I mean, I think NAMA will sell the loans for what they spent so there's no extra loss there; that extra loss doesn't exist. So I couldn't agree with that piece being extra. I can't remember what the third thing you said was added to it. So I mean it's the €20 billion, I think, we'll get back. We've already got fees of about €5 billion and we have our CoCos due back next year of €1.6 billion, which I expect them to pay us back. And I expect that over time we can get the rest back. I mean, it's my expectation and, you know, it's pretty for the future-----

Deputy Joe Higgins: But it's a hope rather than-----

Ms Ann Nolan: No, I think it's based on the position the bank is currently in and the, kind of, profits it's currently making.

Deputy Joe Higgins: And what about the extra €2.8 billion that, according to NAMA-----

Ms Ann Nolan: That €2.8 billion is coming back to NAMA from the cost of the funds; that isn't an extra €2.8 billion. I just don't agree that there's a loss there. That would imply that there's a loss to the State from NAMA of €2.8 billion, which there is not.

Deputy Joe Higgins: Well, NAMA suggested that they overpaid the banks by €10 billion-----

Ms Ann Nolan: No, they overpaid-----

Deputy Joe Higgins: -----by contrast with what the market would pay at the time.

Ms Ann Nolan: Yes, but NAMA's going to ... they did that with the view to getting that money back over time, which they will. The money is coming back to NAMA. I don't expect NAMA to have a €10 billion loss at the end of the day.

Deputy Joe Higgins: So what timescale are you working on in relation to Allied Irish Banks? And you're suggesting that it would be re-privatised to make back the-----

Ms Ann Nolan: Yes, to make back the money, you'd have to sell it, or, I suppose, if you held it long term you could get the money over a very long timeframe by taking the profits but the question of the sale of AIB, it's a political question for the Government of the day.

Deputy Joe Higgins: Yes. And, Ms Nolan, in view of the disaster that befell our people as a result of the banking crisis related to the drive for profit maximisation and competition-----

Chairman: Final question now, Deputy.

Deputy Joe Higgins: -----what would your view be of, instead of giving it back to private interests again seeking profit maximisation, of maintaining a publicly owned banking services devoted to social good, social investment, rather than private profit maximisation?

Ms Ann Nolan: That is an entirely political question and the Government of the day has a choice, and I'll do whatever they say.

Deputy Joe Higgins: Thank you.

Chairman: Thank you very much. Deputy Kieran O'Donnell, just to wrap up.

Deputy Kieran O'Donnell: At the time when Anglo was nationalised on 18 January '09, was Anglo insolvent at the time?

Ms Ann Nolan: Technically, no, because I think the-----

Deputy Kieran O'Donnell: In substance?

Ms Ann Nolan: I think the real problem with Anglo at the time, okay ... and I'm ... I mean, I'm not an accountant so ... an accountant would have to tell you whether they were solvent or not. The real problem was that - and I didn't know this at the time but I know it now - their model was broken. They were lending effectively into the building industry. The bulk of their lending, directly or indirectly, was into the building industry. And that method of financing developments can't be done any more, you know, banks will never again give more than 60% into development loaning ... lending - 60% of any given development. So, the problem wasn't so much ... there were several problems but the big thing was that there was no capacity to re-generate profits, which the other banks had.

Deputy Kieran O'Donnell: And, on NAMA, in your statement you referenced that ... the transfer of loans based on a discount on a broad stratified sample of loans for each bank, which I'm assuming is linking in to what was the original business plan, which is a 30% discount.

Ms Ann Nolan: Well, it doesn't ... it would have ... it probably could be the same discount, it probably would have been the same discount. All I'm talking about there is the method of doing it. What we did was we looked at every single loan. So in tranche 1, they went through every single loan in every single bank. Probably if they'd done 20% of the loans for every bank, in the different tranches, and done them all together, you'd have got more or less the same answer.

Deputy Kieran O'Donnell: What would have been the benefit of that?

Ms Ann Nolan: Quicker.

Deputy Kieran O'Donnell: Okay. Would you have liked to have seen Anglo - or IBRC - liquidated before it was?

Ms Ann Nolan: I'd like to have seen it liquidated earlier, probably, and to have seen it liquidated while it still had some of its senior bonds in it that we could liquidate but, in practice, that really wasn't an option. There was never a point at which I could do that.

Deputy Kieran O'Donnell: And was there a point that you could have done it prior to the first repayment having to be made on the promissory note?

Ms Ann Nolan: It just simply wasn't an option at that point.

Deputy Kieran O'Donnell: It wasn't an option.

Ms Ann Nolan: No.

Deputy Kieran O'Donnell: And, I suppose, finally, if NAMA hadn't been established ... hadn't been set up or the haircuts were much lower, could we have avoided a bailout?

Ms Ann Nolan: If NAMA hadn't been established, we would have had a different problem; we would have had zombie banks. And while we may or may not have ... I don't think we would have avoided a bailout but I think we may have had a far worse problem in terms of the SME loans and the capacity of the banks to get back to looking at their SME loan books, which might have had a much worse impact on the real economy. Because, after all, you know, the banking ... and this inquiry is, obviously, looking at banking, but banking is there to service the economy and getting employment growing and unemployment falling was the most important political desire by both of the Governments in the last seven years.

Deputy Kieran O'Donnell: And, I suppose, in summary, as you're here, what would be your overall, I suppose, summation of your dealings with the banks from November 2008 onwards to now, both in terms of how it came to pass that €64 billion of taxpayers' money gross went into the banks?

Ms Ann Nolan: Well, I mean, it's been a very difficult time, I'd say, certainly for the Department and probably for the banks and certainly for the country. In dealings with the banks, the vast bulk of the bankers that I have dealt with have worked as best they could for their organisations and, indirectly, to minimise what the State was giving them. I wouldn't say all, but the vast bulk.

Deputy Kieran O'Donnell: Okay. And, just, I suppose, a final point ... a very final point. When you were doing the due diligence with Arthur Cox and Anglo Irish Bank, would they have looked at the model in terms of the type of interest rates that would have been charged to customers and the cost of funds for the bank itself?

Ms Ann Nolan: The particular due diligence I referred to earlier was looking at corporate governance issues. In particular, it may have looked at other things and I was looking at the legal ramifications.

Deputy Kieran O'Donnell: So Arthur Cox did not look at the loan book?

Ms Ann Nolan: At that time in January, no. There wouldn't have been time in the three weeks that were there.

Deputy Kieran O'Donnell: So, therefore, are you saying to me that you made your decision on nationalisation of Anglo based on corporate issues as distinct from financial issues?

Ms Ann Nolan: Yes, financial issues ...we were based ... but the information on financial issues were as per the PwC reports and the ... Anglo's own annual reports.

Deputy Kieran O'Donnell: Okay.

Chairman: Thank you very much, Deputy. Thank you very much Ms. Nolan. I'm going to bring proceedings to a conclusion. I ... if you want to add anything by means of your own final comments, the inquiry, as you mentioned earlier yourself, is not just for looking at the past, it's also about measurements going into the future, and if you have any particular observations, recommendations, you'd like to make in that regard, we'd be most welcome to actually hear them. So if I can ask you maybe to make your closing remarks now, Ms. Nolan.

Ms Ann Nolan: Okay. Well, listen, I really would like to thank you very much and wish you well. It's a very difficult thing and I know that ... having to come here has made me think very carefully about everything I've done for the last seven years and it's been quite a challenge. So I really do wish you well in trying to put together everyone's views of it ... into a coherent narrative that will allow us have very positive, hopefully, recommendations for going into the future.

Chairman: Thank you very much, Ms. Nolan. With that said, I'd like to thank you for your participation today and for your engagement with the inquiry, to now formally excuse you and, in doing so, to propose to suspend the meeting until 11.50 a.m. Is that agreed? Agreed. Thank you.

Sitting suspended at 11.36 a.m. and resumed at 11.59 a.m.

Department of Finance - Mr. Donal McNally

Chairman: Thank you very much. Okay, with that said, I now bring the meeting the meeting back into public session, is that agreed? For session 2 of today ... which is a public hearing and discussion with Mr. Donal McNally, former second secretary general of the Department of Finance. The Committee of Inquiry into the Banking Crisis is now resuming in public session. Can I ask members and those in public Gallery to ensure that their mobile devices are switched off? This morning we continue our hearings with the senior officials from Department of Finance who had key roles during and after the crisis period. At our next session we will hear from Mr. Donal McNally, former second secretary general at the Department. Mr. McNally joined the Civil Service in 1969, and joined the Department of Finance in 1986. He has worked in the Department at various levels in banking policy, health spending, tax policy, budget and economic division, and finally public expenditure division. He was appointed second secretary general in 2000, and headed the budget and economic division until 2008, and the public expenditure division until his retirement in 2012. So, Mr. McNally, you're very welcome before-----

Mr. Donal McNally: Thank you.

Chairman: -----the committee today. Before hearing from the witness, I wish to advise the witness that by virtue of section 17(2)(*l*) of the Defamation Act 2009, witnesses are protected by absolute privilege in respect of their evidence to this committee. If you are directed by the Chairman to cease giving evidence in relation to a particular matter and you continue to do so, you are entitled thereafter only to a qualified privilege in respect of your evidence. You are directed that only evidence connected with the subject matter of these proceedings is to be given. I would remind members and those present that there are currently criminal proceedings ongoing and further criminal proceedings are scheduled during the lifetime of the inquiry which overlap with the subject matter of the inquiry and, 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