

HOUSES OF THE OIREACHTAS

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AN COMHCHOISTE FIOSRÚCHÁIN I DTAOBH NA GÉARCHÉIME BAINCÉI- REACHTA

JOINT COMMITTEE OF INQUIRY INTO THE BANKING CRISIS

Déardaoin, 9 Iúil 2015

Thursday, 9 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.

property crash when you, financially, were impacted more here, significantly, than any other jurisdiction?

Mr. Derek Quinlan: Yes, because the losses here, Mr. Chairman, were much greater.

Chairman: Why?

Mr. Derek Quinlan: Well, I can't answer why property prices fell so much, but they did.

Chairman: Were they overpriced?

Mr. Derek Quinlan: At the time they didn't look overpriced, Mr. Chairman. But, in hindsight it's easy to say, I mean, I gave you the example of the IFSC, the value went to €15 million in 2010.

Chairman: Was there anywhere else in the world where the difference between what the high end and low actually was?

Mr. Derek Quinlan: Not that I'm aware of.

Chairman: Okay. And would that make Ireland unique in that regard?

Mr. Derek Quinlan: Yes we were unique. We are still unique.

Chairman: Okay, thank you. I'm going to bring matters to a conclusion, Mr. Quinlan. I'd like to invite you to make any closing remarks or any further comments that you would so wish.

Mr. Derek Quinlan: No I have no further comment to make.

Chairman: Okay. All right, with that said I'd like to thank Mr. Quinlan for his participation here today and for his engagement with the inquiry. The witness is now excused. And I propose that we would return at 3 p.m., if possible please, because we do have some other hearings to get through today, okay? Is that agreed? Agreed.

Sitting suspended at 2.19 p.m. and resumed at 3.15 p.m.

National Treasury Management Agency - Mr. Brendan McDonagh

Chairman: I now propose that we go back into a public session. Is that agreed? Agreed. So we commence this afternoon's session with Mr. Brendan McDonagh. It's our third public hearing today. Mr. McDonagh is a former director of finance, technology and risk at the National Treasury Management Agency. In resuming, I would like to welcome everybody back to the public hearings of the Joint Committee of Inquiry into the Banking Crisis. At this afternoon's session we will focus upon the role of the National Treasury Management Agency during the crisis. At our first session this afternoon, we will hear from Mr. Brendan McDonagh, former director of finance, technology and risk at the NTMA. Mr. McDonagh worked at the NTMA from 1994 to 2009 where he was financial controller and later director of finance, technology and risk. He is currently chief executive officer at the National Asset Management Agency, also known as NAMA. Mr. McDonagh, you're very welcome before the inquiry this afternoon.

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

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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 and 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 this inquiry. Therefore, the utmost caution should be taken not to prejudice those proceedings.

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

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

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

Mr. Brendan McDonagh, former Director of Finance, Technology and Risk, National Treasury Management Agency.

Chairman: So once again, Mr. McDonagh, thank you for coming before the inquiry this afternoon and if I can invite you to make your opening remarks to the inquiry, please?

Mr. Brendan McDonagh: Great thank you, Chairman. Good afternoon, Chairman, and inquiry members. In this brief opening statement, you have asked me to address from my perspective as the finance director of the NTMA during 2007 and 2008, the following lines of inquiry: appropriateness of the relationships between Government, the Oireachtas, the banking sector and the property sector; adequacy of the assessment of both solvency and liquidity risks in the banking institutions and sector; appropriateness of the bank guarantee decision; and appropriateness of any expert advice sought, quality of analysis and how effective this advice was used.

Appropriateness of relationship between Government, the Oireachtas, banking and the property sector and adequacy of assessment of solvency and liquidity risks. As advised to the inquiry's investigation team in advance of this submission, in my position as NTMA director of finance, I have no particular insights in the nature of relationships between the Government, the wider political system and the banking and property sectors up to 2008 and therefore I do not believe I am qualified to comment on or add to the first-hand testimony on this topic that has already been provided to the inquiry by other witnesses. I am not that well-positioned to opine on the adequacy of the assessment of solvency and liquidity risks in the banking institutions because I had no roles in assessing that back in 2007 and 2008. That was ultimately a role for the Financial Regulator and the Central Bank. The NTMA had no special insight into the banks, domestically or internationally. All we had were publicly available documents such as credit agency reports, market updates and reports and broker analyst reports. Not surprisingly, by reference to this published material from somewhat respected and financially literate com-

mentators from 2005 to 2007, one could conclude that, while there were risks, there were no strong warning signals of the financial carnage that would ultimately emerge.

By late 2007, however, although we at the NTMA had no inside information about any bank domestically or internationally, we began to sense that there were early signs of market dislocation beginning to emerge in the capital and money markets. The first hedge funds failed in early August 2007, followed by regular market rumours about the fragility of various international banks and the unsettling sight of queues of depositors at Northern Rock branches in September 2007. This caused us at the NTMA to adopt a conservative view of managing the State's cash assets which were raised in the main to fund the national debt. We had no idea at that stage of the global reach of the credit crisis or of how long it would last or of how serious it would become.

As I previously advised the inquiry, we were always sceptical of the business models of at least two Irish financial institutions, Irish Nationwide and Anglo Irish Bank, particularly their heavy exposure to property lending and the limited distribution access of Anglo Irish Bank which had no branch network. We had no credit limit for INBS so we did not do business with them and we restricted our credit limit to €40 million for Anglo Irish Bank even before the crisis started to emerge in 2007. However, from August 2007 we considered it prudent to reduce our counter-party credit limit exposure to the bank deposit market globally until a clearer picture would emerge. At that time, it was not an easy decision to justify as all we had was an uneasy sense that the whole global banking and capital market system was more fragile than appeared on the surface, but we had little by way of specific evidence. Ultimately, things got a lot worse as the months passed and our August 2007 decision proved to be the correct one although it would be a year later before major bank difficulties became more generally visible.

Appropriateness of the bank guarantee decision. In relation to other lines of inquiry, it is my understanding from discussion with your investigation team that you wish me to focus in my remarks on the period from mid-2007 to September 2008. As I advised the inquiry in April this year, there was no substantive discussion involving myself - and as far as I am aware with my senior NTMA colleagues - about a bank guarantee in the months, weeks or days leading up to 30 September 2008 and the NTMA had no involvement in the actual decision to introduce the blanket guarantee.

Mr. Hurley, in his evidence, referred to a note prepared by the Department of Finance of an 18 September 2008 meeting at which Dr. Somers, Mr. Corrigan and I were recorded as being present at which, Mr. Hurley states, a guarantee was discussed. My recollection, which is confirmed by the Department's meeting note, is that the discussion was purely about a deposit guarantee, not a blanket guarantee, and that the Central Bank and the Financial Regulator did not even favour such an approach at that meeting. The meeting mainly centred on the merits of increasing the deposit guarantee for individuals from €20,000 to €100,000. For the record, I believe the meeting was actually held on Friday, 19 September not 18 September but that is incidental.

Whilst my colleague, Mr. Whelan, and I were in Government Buildings on the night of 29 September, we were not, as I have previously advised, made aware as to the reason why we were there why we were required or consulted or otherwise asked to input prior to the Government taking the guarantee decision. Once the Government had decided to introduce a blanket guarantee, my focus and that of Mr. Whelan as public servants was, and you will appreciate, on the implications of that decision and its effect on the NTMA as the State's debt manager and, more immediately, on how the NTMA would deal with the market and credit rating agency

reaction to the decision at 7 a.m. that very morning.

As the banking crisis unfolded in the two weeks immediately before 30 September 2008, the NTMA's engagement with the Department of Finance had focused on three main strands. The first strand was the provision of secured lending by the NTMA to the banks, if so directed by the Minister, second, the NTMA input into draft legislation dealing with the possible nationalisation of two financial institutions, a building society draft nationalisation Bill and a bank draft nationalisation Bill and, three, the NTMA's commissioning of Merrill Lynch on 24 September on behalf of the Minister for Finance to provide advice.

On the first issue on discussions and secured lending by the NTMA to the banks, the NTMA had in fact been engaged in discussions with the Department of Finance from April 2008 about the provision of emergency liquidity in circumstances where the Irish banks could not meet their funding requirements from the wholesale markets. This was separate to the engagement we'd been having with the Department of Finance from the summer of 2007 in relation to the NTMA placement of bank deposits, which I will deal with later. By September 2008, these discussions had intensified and the NTMA had in place arrangements to allow it, in the event that it was directed by the Minister, to engage in emergency collateralised lending to the Irish banks. I estimate that we had about €5 billion in liquidity available at that time, across various mandates that could be lent up to one year. The NTMA had been maintaining a floor to its liquidity and allowed it to supply a certain amount of emergency funding requirements but only if directed by the Minister. There had also been discussion about the NTMA accumulating a war chest of liquidity to deal with the emerging banking liquidity crisis. However, while the NTMA was continuing to issue commercial paper of up to €20 billion, which was as long-dated as possible, with a maximum 12-month maturity, it was clear that there was no appetite from longer-term bond market investors to invest on the scale needed to create a cash buffer to deal with even part of the potential fallout from the banks. This was particularly the case given the pressures the sovereign was already experiencing in terms of funding the national debt during 2008, which was €50 billion approximately.

NTMA's input into the draft bank and building society nationalisation legislation. Our input into draft legislation being prepared during September 2008 by the Department of Finance to deal with the possible nationalisation of a building society and of a bank related mainly to the role the NTMA could play in providing restructuring assistance post-nationalisation and technical advices on obligations arising under the Companies Act, which could potentially limit the Minister's power to manage a nationalised institution.

The NTMA's commissioning of Merrill Lynch to advise the Minister for Finance. The NTMA engaged Merrill Lynch on 24 September but we were not prepared to enter into a contract with them without the Minister's approval. On 26 September 2008 the Secretary General of the Department of Finance, Mr. Cardiff, confirmed in an e-mail to me that the Minister was instructing the NTMA to engage Merrill Lynch to provide corporate finance advice to him. I understand that Merrill Lynch met the Minister and senior officials within his Department, including Mr. Doyle and Mr. Cardiff, to discuss strategic options that evening. I will discuss the quality of the expert advice later in my opening comments.

NTMA knowledge of a blanket bank guarantee. The first and only reference to a blanket bank guarantee throughout all the engagement in September 2008 was an e-mail that I received from Mr. Beausang, assistant secretary at the Department of Finance, at 1.26 p.m. on Friday, 26 September 2008. The e-mail, issued on the instruction of the Secretary General, sought the NTMA's view on, *inter alia*, the potential sovereign implications of a blanket bank guarantee. I

responded that afternoon at 2.22 p.m. after receiving a phone call from Mr. Beausang in which he sought an urgent response to the Department's ... for the Department's Secretary General. Without having much time to consider the matter, I discussed it with my colleague, Mr. Whelan, and in my reply to Mr. Beausang, I pointed out that the real exposures to the Exchequer from the banking system had not yet been independently quantified and that would make any assessment of a bank guarantee extremely difficult. The Department of Finance's e-mail to me referred to a possible total funding requirement of approximately €100 billion for the two institutions expected to be nationalised, as estimated by Merrill Lynch, and also a wider guarantee for the other institutions. I pointed out that, in the event of such a major decision being made, the credit ratings agencies would "be taken aback" at the scale of the State involvement that a blanket guarantee would necessitate and that there would be an immediate credit ratings downgrade of Ireland from AAA and a concomitant rise in the cost of funding the national debt. I also made the observation that, given the potential size of any guarantee relative to the size of the economy, Ireland could "expect to pay a lot more than Greece" in the international money markets. Greece, as you know, was an outlier at that time in terms of bond yield spreads at about 75 basis points in the ten-year maturity over Germany; Ireland was about 45 basis points, I recall. There was no follow-up from the Department to my e-mail.

NTMA deposit placement. Prior to September 2008, engagement between the NTMA and the Department of Finance related primarily to the NTMA's placement of bank deposits. This reflected the view in many quarters that the problem in the banking system domestically was one of liquidity, not solvency. By August 2007, the NTMA had made the decision firstly to reduce existing counterparty credit lines with a range of global financial institutions and to stop placing deposits with any bank. The NTMA policy was to move maturing deposits back to the Central Bank of Ireland – we referred to it internally as safe-harboured deposits. The Department of Finance was fully aware of the NTMA's position in this regard. The Secretary General of the Department, Mr. Doyle, was a member of the NTMA advisory committee, which received updates from me, as finance director, on the NTMA's counterparty credit limit policy and counterparty credit list at its September and December 2007 meetings, and this continued throughout 2008. I recall at these meetings that Mr. Doyle, as a member of the NTMA advisory committee, did not agree with the NTMA's position on deposit placements and safe-harboured at the Central Bank but the overall advisory committee agreed with the NTMA senior management's position and consistently advised us to take a conservative and prudent approach to counterparty risk.

In mid-December 2007, the NTMA was invited to the latter stages of a domestic standing group meeting with the Department of Finance and the Central Bank to discuss the placing of deposits within existing credit limits with; Bank of Ireland, €200 million; AIB, €200 million; Irish Life and Permanent, €50 million; and EBS, €50 million. An existing deposit of €40 million with Anglo Irish Bank, with a maturity of one year, had been in place before the NTMA made its decision to cease placing the deposits with the banks and to place them instead with the Central Bank. The NTMA's position at this meeting which took place I believe on 12 December 2007, was that in the absence of a written direction from the Minister, we did not intend reversing this policy of placing bank deposits in financial institutions. We made the point at the meeting that, if anything, the risks attaching to the banking system, internationally as well as domestically, had become even more pronounced since the original August 2007 decision of the NTMA to safe-harbour maturing deposits with the Central Bank. Following that meeting, the Minister for Finance at the time, Mr. Cowen, wrote to the chief executive of the NTMA, Dr. Somers, on 19 December 2007, directing the NTMA to place deposits with the four main banks, namely, Bank of Ireland, AIB, Irish Life and Permanent and EBS. The Minister also sought

proposals for additional NTMA activity within financial markets and the expansion of NTMA credit lines *vis-à-vis* banks. I have already referred to our subsequent engagement in 2008, particularly in September 2008, with the Minister and the Department on these two points. My colleague, Mr. Whelan, wrote to the second Secretary General of the Department, Mr. Cardiff, also on 19 December 2007, seeking clarification that the Minister's correspondence constituted a direction under section 4(4) of the NTMA Act 1990. Mr. Cardiff confirmed on behalf of the Minister, in correspondence on 21 December 2007, that this was the case. As regards maturities, Mr. Cardiff added, "The intention is to leave appropriate discretion to yourselves, but the aim should be to considerably in excess of one month and preferably towards three months."

The NTMA wrote again to the Department of Finance, by e-mail to Mr. Cardiff, on 18 February and 18 April 2008, respectively, seeking clarification as to whether the Minister's direction of 19 December 2007 applied to the roll-over of maturing deposits with Bank of Ireland, AIB, Irish Life and Permanent and EBS. Mr. Cardiff responded on both occasions to confirm that the Minister's direction did so apply and all deposits should be renewed on maturity. On 17 June 2008, the new Minister for Finance, Mr. Lenihan, in correspondence to Dr. Somers, directed the roll-over of Bank of Ireland and AIB deposits on an unsecured basis and an increase in deposit sizes with Irish Life and Permanent from €50 million to €250 million and EBS from €40 million to €100 million, on a secured collateralised basis. In correspondence to the Minister on 27 June 2008, Dr. Somers confirmed the placement of deposit funds in the Irish market as follows: Bank of Ireland, €200 million unsecured deposit for two months; AIB, €200 million unsecured deposit for two months; Irish Life and Permanent, €250 million collateralised deposit for 12 months; and EBS, €100 million collateralised deposit for 12 months. The NTMA chief executive also advised that the NTMA did not intend to renew a one-year unsecured deposit of €40 million with Anglo Irish Bank which fell due on 8 August 2008, as the deposit was not covered by the Minister's December 2007 direction. On 17 July 2008, I wrote by e-mail to Mr. Cardiff to again advise that an unsecured deposit of €40 million with Anglo Irish Bank would mature on 8 August 2008 and asked whether the Minister intended to direct the NTMA to renew the deposit. As advised in the NTMA chief executive's earlier correspondence to the Minister, it was the NTMA's view that the Anglo Irish deposit was not covered by the Minister's 2007 direction and the NTMA's position is that it did not intend to renew the deposit. Mr. Cardiff wrote to me on behalf of the Minister directing the NTMA to place a €40 million one-year collateralised deposit with Anglo Irish Bank and to roll over the NTMA's €200 million deposits with Bank of Ireland and AIB on a six-month collateralised basis.

On 25 July 2008, I wrote to Mr. Cardiff to advise him that Anglo Irish Bank was not interested in doing a deal on a collateralised basis especially for only €40 million, and had requested instead that the NTMA renew the existing €40 million deposit on an unsecured one-year basis. Mr. Cardiff advised, on 28 July 2008, that Mr. Cardiff wished the NTMA to renew the existing €40 million deposit on a three-monthly maturity. There could have been no ambiguity at any time during this period on the part of senior Department of Finance officials or the Minister for Finance as to the NTMA's position on global bank risk from August 2007 and our reluctance, given the increasing dislocation of financial markets, to put at risk any State money under our management by placing it on deposit with domestic or international financial institutions unless we were directed to do so by the Minister for Finance.

Appropriateness of the expert advice sought, quality of analysis and how effective this advice was used. From mid-September 2008, when my colleagues, Mr. Corrigan, Mr. Whelan and I were requested to attend meetings which the Department of Finance had scheduled with the Central Bank and the Financial Regulator, it was obvious to me and also, I believe, to my

colleagues, that there was a dearth of information or analysis available in terms of real insight as to the financial state of the domestic banks and building societies. It surprised us that there appeared to be only one or, at most, two Financial Regulator staff engaged in close monitoring of each financial institution, even those institutions with balance sheets of up to €200 billion. At one particular meeting at the outset of the evolving crisis, Mr. Neary, the Financial Regulator, inquired as to the *locus standi* of NTMA officials at these meetings given banking confidentiality issues. Mr. Cardiff dealt with this and advised that the NTMA had been requested to attend and provide advice to the Department of Finance by the Minister himself. Each of the financial institutions in late September 2008 were beginning to retain investment banks as advisers. A decision was taken by the Minister that the State needed its own investment bank to advise it and the NTMA requested to engage that advice and this was arranged by my colleague, Mr. Corrigan.

During the last two weeks of September 2008, the whole focus was on having legislation ready to nationalise a building society and a bank, if required. The NTMA provided technical input into that draft legislation. A separate piece of legislation was also being prepared by the Department of Finance and the Attorney General's office which would enable the NTMA and the Central Bank to provide secured lending to the financial institutions.

Considerable pressure was being applied at the September 2008 Department of Finance-Central Bank-Financial Regulator meetings on the NTMA to increase the amount of deposits placed with the Irish banking system as Irish institutions rapidly began to lose liquidity. The NTMA refused and advised it was our view of our chief executive, Dr. Somers, that it was the role of the Central Bank to be the lender of last resort; it was not the role of the NTMA as a debt management agency. This caused considerable tension but we maintained our position.

Merrill Lynch was in place for about four days before the guarantee decision was made. In my view, it was only after that guarantee decision was made and through the work of PwC on behalf of the Financial Regulator, and the work of Merrill Lynch after the guarantee decision, that the real picture began to emerge of what was really going on in the Irish banking system and the scale of property and other lending. That emerging picture of asset and liability mismatch based on the PwC-Merrill Lynch work from mid-October 2008 onwards was very alarming. Excessive lending by financial institutions funded by short-term wholesale deposits, which were disappearing rapidly, with the result that liquidity from the Central Bank and the ECB was required and capital injections were inevitable. The ECB then, unlike today, was not very accommodative in terms of the type of collateral it would accept from the banks. By then, the damage had been done.

During the autumn of 2008 and the early part of 2009, I continued to perform my full-time role as NTMA finance director while also attempting, on almost a full-time basis, to assist the Department of Finance and my senior NTMA colleagues in its efforts to deal with the possible collapse of the Irish banking system and the direct effect on Ireland as the sovereign.

Subsequent to the period that we have just discussed, my professional responsibilities within the NTMA shifted to the establishment of NAMA from May 2009 and, as you know, I've already provided the inquiry with evidence as regards the NAMA experience. I hope that in these brief opening comments, I have given you a sense of my engagement and that of the NTMA and the Department of Finance and Minister for Finance during 2007 and 2008. Thank you, Chairman.

Chairman: Thank you, Mr. McDonagh. I just want to deal with a couple of matters before

I bring in the leads. Mr. Cowen, yesterday, in testimony, as we concluded yesterday's hearings, said he didn't know that members of the NTMA were actually in an ante room outside the room in which the guarantee was being discussed in Government Buildings. Is that your understanding, that the Taoiseach was not aware that you were there?

Mr. Brendan McDonagh: It wouldn't surprise me, Chairman. We ... there was a meeting going on with the Taoiseach and other parties in the main room and by the time I was called ... and my colleague went to Government Buildings about 9 o'clock, I understand from evidence given by those who ... Mr. Doyle and Mr. Cardiff, that the meeting started around half six, so he may well ... it wouldn't surprise me if he wasn't aware.

Chairman: Okay. Then maybe you can just explain to us once more as to who called you and on whose behalf was that call made? And for what purpose were you brought to Government Buildings, to your understanding?

Mr. Brendan McDonagh: Yes. Chairman, as I outlined here last April, I think I arrived home around 7.45 p.m. on Monday, 29 September 2008 and I received a call from Mr. Cardiff and he said to me, "Can you come to Government Buildings, please?" I said, "What's it about, Kevin?" He said to me, "I can't talk to you at the moment. Just come to Government Buildings." So I contacted my colleague, Mr. Whelan, because, as I outlined, Dr. Somers and Mr. Corrigan were away in the States, and we arrived in Government Buildings, I think, sometime after 9 o'clock.

Chairman: Okay. And did you or did any person in Anglo have a view or an understanding as to what was actually happening inside in the room that night prior to your arrival?

Mr. Brendan McDonagh: No. All I knew was that there was a meeting going on. We were in the ante room. The door was ajar at certain occasions. You could see there was people moving in and out but we had no idea what was being discussed.

Chairman: Okay. One of the issues that was being discussed inside in the room that night was the possibility of nationalising Anglo or making it inclusive as one of the banks in the broad guarantee. Did the NTMA have a view on the potential future of Anglo and whether it should be nationalised or not?

Mr. Brendan McDonagh: There was a very strong view within the NTMA and certainly by myself and, I believe, by some of my other senior colleagues but, certainly Mr. Corrigan, that Anglo and Irish Nationwide should be nationalised.

Chairman: Okay. Was Government aware of that view and was ... and, particularly, was the Taoiseach or the Minister for Finance aware of that view?

Mr. Brendan McDonagh: I believe they were aware of that view but I only can relate this through evidence given by Mr. Cardiff and Mr. Doyle to this inquiry, which basically said that they communicated the view of the NTMA at the meeting.

Chairman: Why did the NTMA have a view that Anglo would be nationalised?

Mr. Brendan McDonagh: Because, I suppose, we were always sceptical about the business model of Anglo Irish Bank. It was, effectively, a monoline institution with, effectively, just mainly property lending, and that it had rapid growth and we just couldn't understand the business model. And, as the liquidity crisis began to hit from 2007 onwards, we could see that

there was pressure coming on all banks, but we became aware through our meetings in ... from mid-September 2008 onwards with the Central Bank and Financial Regulator and Department of Finance, that they were ... their funding was probably under the most pressure.

Chairman: Okay. So was the determining factor the monoline structure or the other fundamental funding deficiencies in the bank?

Mr. Brendan McDonagh: I think it was both, Chairman. It was ... I suppose, it had spectacular growth and we were always very cautious about the amount of money that we would place on deposit with them and even though our counter-party credit limit policy gives a certain amount of deposits we could place based on the credit rating, their credit rating merited a €75 million deposit and we wouldn't ... we never went above €40 million.

Chairman: Mr. Cowen, yesterday afternoon, said that the views of Anglo were articulated. He used that word specifically that-----

Mr. Brendan McDonagh: The views of Anglo?

Chairman: Or, sorry, the views of the NTMA, and their views about Anglo were well-articulated and understood at the night of the guarantee. Would you concur with that view?

Mr. Brendan McDonagh: I have no idea, Chairman, because I wasn't in the room.

Chairman: Okay. Prior to that night, was the NTMA's views articulated sufficiently to Government?

Mr. Brendan McDonagh: We didn't ... I personally didn't have access to Government but our views would have been well-articulated in the meetings that concerned the Central Bank, Financial Regulator, Department of Finance.

Chairman: Okay. And would Ministers or members of Government have been present at any of those meetings?

Mr. Brendan McDonagh: I think there was a meeting, which I wasn't at myself, but I know Dr. Somers and Dr. Corrigan ... or Mr. Corrigan were at - I think it was 24 or 25 September - where I think those views might have been articulated.

Chairman: Okay and was Mr. Doyle and Mr. Cardiff present at those meetings?

Mr. Brendan McDonagh: Yes.

Chairman: Okay and anybody else that was in the room that night, were they present?

Mr. Brendan McDonagh: Yes, because I think in, in ... I've just seen in terms of the minutes that was produced for those meetings as part of the booklet that, I think the ... Governor Hurley was at that meeting, and Secretary General Doyle, Cardiff ... and the regulator people, yes.

Chairman: Was your view on Anglo similar or not to the view of Mr. Corrigan and Mr. Somers in regards to the concerns you just shared with us?

Mr. Brendan McDonagh: I believe they were, yes.

Chairman: Okay. On the night on the guarantee, would a fuller understanding of the deci-

sion that had to be made been assisted or not by the NTMA being physically present in the room to articulate the concerns you're articulating this afternoon?

Mr. Brendan McDonagh: It's impossible for me to speculate on that, Chairman, because I think there was a view that, certainly amongst the system other than the NTMA, that the banks could muddle through, that they just needed liquidity, and if they got assistance in liquidity, mainly by ourselves ... to increase our deposits on the banks, that this would be a great help and they muddle through and maybe there would be a wider solution, maybe a European-wide solution ... that could happen, that could help everybody.

Chairman: Two final questions. One, are you still of the view that Anglo should have been nationalised?

Mr. Brendan McDonagh: Yes.

Chairman: Why?

Mr. Brendan McDonagh: Because they were subsequently nationalised in January 2009. And I think in that period between the guarantee ... I mean, you know this was a very difficult decision for Government; it wasn't a decision of mine and ... and I think, Mr. Cowen referred, that they "only had one shot at it". And I fully respect in terms of the difficult decision they had to make. But I think what emerged, once the guarantee was launched, there was no consequence for Anglo. As corporate governance issues emerged in December, three senior people left and then, ultimately, the decision had to be made in January 2009 to nationalise them. The result was the same, just the timing was different.

Chairman: Was there a difference, ultimately, between nationalising Anglo on the night of the guarantee and nationalising it in January of the following year?

Mr. Brendan McDonagh: I think when you have a problem, you've got to start dealing with that problem as early ... if you've got a problem, you've got to try and start dealing with that problem. And I think, you know, it was a few months but that few months might have allowed certain actions maybe to be taken earlier to get control of that bank.

Chairman: Okay. Finally the decision was made, and can I ask you did you try to contact Mr. Somers or Mr. Corrigan on 29 September? They were in another time zone, I think five hours behind the Irish time zone, so they would have been in a working day, even though it was late in the evening. And how did you communicate the guarantee news to Mr. Somers and Mr. Corrigan eventually?

Mr. Brendan McDonagh: Yes, I e-mailed him probably early that evening on the 29th, which would have maybe have been about seven o'clock before I left the office. And I also e-mailed them, I think, about half one or quarter to two on the 29th, going into 30 September in the morning after the guarantee decision was made.

Chairman: Okay, thank you. Senator Susan O'Keeffe.

Senator Susan O'Keeffe: Thank you, Chair. Mr. McDonagh, how senior were you at that time in the hierarchy or in the structure of the organisation?

Mr. Brendan McDonagh: I was one of the senior people in the senior management team in the NTMA. Clearly, the most senior person was Dr. Somers, and I suppose everybody else would have been a certain age now and I was probably considered younger than everybody else,

but I was part of the senior management team.

Senator Susan O’Keefe: When you gave evidence here before you said that you didn’t know that there was going to be a conversation about the guarantee that night, because Mr. Cardiff hadn’t indicated it to you on the phone, and you’ve just recounted that again. Does that mean you didn’t know that the Government was considering a guarantee at all or that you just didn’t know it would be that conversation?

Mr. Brendan McDonagh: No. I mean Merrill Lynch had produced this report, which they produced, I think on Sunday, 28 September which set out, sort of, a range of options - four, five or six options. It was one of those four, five or six options that we had seen. And that was the report that, ultimately, was sent to Mr. Cardiff, I think, by Merrill Lynch at about seven o’clock on the evening of the 29th. These were all a range of options. But in any of the meetings that we had up to that point, all the discussion seemed to be pointing that it was inevitable that we were going to nationalise Irish Nationwide and Anglo Irish Bank. And when the e-mail came to me from Mr. Beausang on the Friday afternoon, the 26th, it seemed to me ... came out of ... you know, almost came out of nowhere saying, “What about a system-wide guarantee?”

Senator Susan O’Keefe: We’ll just come back to that e-mail in a moment.

Mr. Brendan McDonagh: Absolutely. But just to answer your question, Senator, it was a range of options. What I believed, and I believe my colleagues believed, and they’ll have to answer it themselves, that it was just one of the range of options. I certainly believed it was discounted because I didn’t believe the State had the wherewithal to do it.

Senator Susan O’Keefe: So when you say all the conversations and meetings had been heading for nationalisation, who was driving those meetings? Who was central to them and whose opinion was that?

Mr. Brendan McDonagh: Well, I mean, these were meetings involving the senior people in the Central Bank, the senior people in the Financial Regulator, the senior people in the Department of Finance and ourselves. And all, I suppose, the workflow that was coming out of those meetings. And the product is there, was that there was two separate Bills to be worked on intensively, which is the building society nationalisation Bill and a bank nationalisation Bill. And towards the end of that week on 26 September, there was work going on, basically, on a secured lending scheme. You know so that’s ... all I can say to you, Senator, is that the discussions and the workflow seemed to be going a particular direction. When it came to the night of the guarantee and the Government made the guarantee decision - and I respect that’s the Government’s decision - it seemed to be out of the hat that, you know, the least probably viable option in my view. And I mean it’s only my view in terms of the options put forward by Merrill Lynch, was suddenly the one that was pulled out of the hat. So I mean, as I said before, when I was back here in April I said, you know, there could have been other conversations happening which I was not party to, there could be conversations happening where people might have taken the view I didn’t need to know about these conversations, and that’s absolutely fine. But all I can tell you is what I know.

Senator Susan O’Keefe: And when you talk about those work streams and those meetings, was it as harmonious ... when you say everybody was working, if you like, in the sense of nationalisation was there lots of dissent or was everybody, sort of, working in that direction?

Mr. Brendan McDonagh: Well, in terms of the technical work, it seemed to be very much

a common purpose that, you know, in terms of technical input, it seemed to be like, “There’s a work stream arising out of this meeting; this has to be produced; let’s get it produced the best we can and have the best Bill possible that we can possibly have.” So there was certainly no issue there.

As I mentioned in my opening remarks here, all the time through September, you know, everybody in the room, the Central Bank, the Financial Regulator, including ... and also the Department of Finance, it always seemed to be looking over to the ... what I’d call, the NTMA corner of the meeting which says, “ You guys have, you know, loads of liquidity, you’re withdrawing it from the banking system, why don’t you just put that liquidity, and you’ll start earning a great return. I mean you’re not getting a good enough return from the Central Bank, why can’t you just put this money on deposit with the banks?” And we kept saying, “No, listen, this is not going to happen.” Our chief executive, who you’ll be meeting ... our former chief executive, Dr. Somers, had a very strong, let’s just call it, whip-line type of view to us as senior executives to say, “The NTMA’s job is not to provide liquidity to the banking system. The NTMA’s job is to fund the national debt.” That’s our statutory and primary responsibility and it’s the Central Bank’s job to be the lender of last resort if the banks need money. And I didn’t disagree with that.

Senator Susan O’Keeffe: Okay, and I’ll come back to that. So just to go back then to William Beausangs e-mail of the 26 September, in which he said he had spoken with the Secretary General that morning, that’s the Secretary General of the Department of Finance, and he was now asking for the NTMA “to crystallise the issue that might be expected to arise for our sovereign rating in the event that the State provides a guarantee for all the deposits”. So when you got that e-mail, at 13:26 on the 26th, was that the first time you’d been asked specifically for a direct piece of analysis relating to a guarantee?

Mr. Brendan McDonagh: Yes.

Senator Susan O’Keeffe: Okay, and you said you didn’t have a huge amount of time but in your response, and I think you say it in your statement, you refer to it ... that it would ... what was the remark that you made? It would cost more than Greece would cost.

Mr. Brendan McDonagh: Yes. The cost to funding impact and the rate-----

Senator Susan O’Keeffe: Ireland could expect to pay a lot more than Greece. So in saying that, you said to me earlier on the reason you didn’t have a belief in a guarantee was you didn’t think Ireland could manage that. So when you were writing that, were you writing it just thinking “Well that’s the truth and I’ll just say it” or were you thinking “That’ll ring a bell and they’ll understand that that’s not possible” or what were you thinking when you were writing that e-mail?

Mr. Brendan McDonagh: Well, I suppose it’s a long time ago, Senator-----

Senator Susan O’Keeffe: I know.

Mr. Brendan McDonagh: -----but I suppose what I was trying to put out because I hadn’t much time was to sort of say, listen, I’ve got to set out my view from this and having discussed it with my colleague, who’s in charge of funding the national debt, Mr. Whelan, that this is going to be huge. This is going to have a big impact on the sovereign and furthermore, if you’re going to give a guarantee, what can we say when we are talking to people, the credit rating agencies, when they’d turn around and they’ll say to us, you know, “What’s the problem with

the banks and what's the scale of it?" and we'll turn around and we'll say "Well we actually don't know." And I said this ... In my first line of that response, I said because the scale of it or the impact hasn't been quantified and unfortunately, I've been proved right ... I've been proven right, because the cost has been huge.

Senator Susan O'Keeffe: And when you were writing that do you recall whether you thought "I'm just answering a query here", did you think this was a move away from where you were or did you think someone was just trying to cross the t's and dot the i's in terms of getting the information?

Mr. Brendan McDonagh: No, in fairness to the Department of Finance officials, everybody was under massive pressure. The banks were losing liquidity rapidly. There was no information coming on the banks from the Central Bank or the Financial Regulator. Any of the questions we were ... at the meetings we were asking, sort of, simple questions about what was our liability profile, what was our assets profile. We weren't getting that information back so there was a dearth of financial information-----

Senator Susan O'Keeffe: Were you asking - let's be clear - you were asking questions of the Central Bank and the Financial Regulator and you were not getting the information?

Mr. Brendan McDonagh: Yes, now at the meetings and I mean, there was one particular e-mail, I remember, back on, I don't know the 20 or 21 September after one of these meetings and I think it was a Saturday or a Sunday and they were talking doing ... about Goldman Sachs doing a review of the INBS book and I think I'd just arrived home and I just took up my BlackBerry and I sat there and I said "These are questions I want to know the answers to" and I listed 33 questions, which I wrote out on my BlackBerry and e-mailed them to Mr. Cardiff and said "These are questions that should be asked as part of this review" and I went back and looked at these question and, like, they're right. You don't have to be ... they're common sense questions in terms of that. So there was no, I suppose, Senator, coming back to the main point here, the issue here is that there was very little information about the profile of the banks' assets and liabilities in the system. In September 2008 when I ... the Department of Finance were exploring a range of options to try and see, and every option needed to be challenged, absolutely, and every option needed to be thought about and that's absolutely right. But I suppose when that came into me on 26 September at half one from Mr. Beausang, who is a guy who worked incredibly hard during the whole financial crisis, I took the view, I said, they're exploring a range of options but this option ... I ... just in my response really was to respond back in, probably, not in a ... just to set out the key points, because he was looking for a quick response, just to say, you know you can ... it was almost like my view and my colleague's view that this was an option that can be dismissed very easily if you're exploring a range of options.

Senator Susan O'Keeffe: Would you describe this ... the ... your view, the NTMA view of what should be done that night, would you describe it as a strong view that you believed, that nationalisation ... was it a strong view that you held as a team?

Mr. Brendan McDonagh: I think ... I mean, you'll be meeting Mr. Corrigan and Mr. Somers but I certainly would think that it was a strong view and we ... but I would probably, along with Mr. Corrigan would probably have the stronger views.

Senator Susan O'Keeffe: Do you believe that the strength of your view is in any way linked to the fact that you were not in the room on the night of the guarantee?

Mr. Brendan McDonagh: I don't know, Senator. I mean, from what ... I mean, from the evidence I've seen here, it said the meeting started at 6.30 p.m. I wasn't aware the meeting started at 6.30 p.m. We arrived there some time after 9 o'clock so all I can say is what Mr. Cardiff and Mr. Doyle told the committee here in their evidence. Mr. Cardiff said the NTMA's views were fully communicated to the meeting. Mr. Doyle referred to somebody from the NTMA without name who was in the ante-room who had very strong views. I believe he might have been talking about myself but he could have been talking about Mr. Whelan as well, I don't know, but I suspect it was myself.

Senator Susan O'Keeffe: When you were last here, Mr. McDonagh, you may ... you said ... just bear with me ... on page 61 of your own evidence, the last time that you were here, you said at the beginning of September I think we were becoming understandably concerned, maybe, about the Central Bank and the ... sorry:

the Department of Finance, I think, were becoming understandably concerned maybe about the Central Bank and the regulator and the banking system. And the way it was put to us was that would we come to a meeting, I remember it was a Saturday morning in [and you go on].

So can you just tell us, what do you think those concerns were that the Department of Finance had, that they then invited you to be more closely involved, perhaps?

Mr. Brendan McDonagh: Yes ... I remember Kevin Cardiff ringing and saying "Would you come along to this meeting, we're having these meetings ... we're having these meetings in the Central Bank with the Central Bank, the Financial Regulator, would you come along?" and he said "We in the Department of Finance", he says "are policy people. We're not fully *au fait* with all the, the sort of, I suppose, capital market side and you've experience of that in the NTMA and would you come along and just ... and sit in the meetings and just give us your view in terms of what's being discussed or what's going on." So we did. But as I said then and I say in my statement today, it really was a bit mind-boggling, certainly to me and I think certainly ... and I think the same with my colleagues, is that there seemed to be no real knowledge of the banks. There's one or two people on each bank. When I was asking questions we couldn't, we couldn't get the information ... the information couldn't be answered. We were questioned about ... because we sort of, I suppose, the nature of people in the NTMA, rightly or wrongly, is that we're questioning types of individuals. And I suppose at the meeting we began to, rather than sitting back and observing what was going on, we decided if we were going to be at the meeting we might start asking questions ourselves and that's why I make reference to the fact that Mr. Neary sort of said, "Well who are you to be asking questions? What's your *locus standi* here?"

Senator Susan O'Keeffe: So was there some tension then, do you think?

Mr. Brendan McDonagh: Well I think it was dealt with very quickly, in fairness, by Mr. Cardiff because he said, listen, these guys are part of ... they work for the ... they're part of the Minister's bailiwick, you know, the NTMA is reporting directly to the Minister, he's asked them to ... he knows they're here, he wants them to be here with the Department of Finance, that was the end of it.

Senator Susan O'Keeffe: Were you surprised when ... as you said, when you heard that they weren't able to answer questions, were you surprised at that? Were you shocked, what was the reaction?

Mr. Brendan McDonagh: Well to be honest, Senator, I was quite surprised because ... it's like, if you're ... if you've got a subject matter that you're dealing with and you're supposed to be regulating and you're supposed to know the, sort of, basic details about what you're ... about that institution and, I suppose, at the start I began to question and say well, they won't answer the questions because maybe they don't want to tell us because they think we're outside banking confidentiality, which is understandable. But once that issue was over and, I suppose, as we went to more meetings during September 2008 it became, probably, very obvious to myself and my senior colleagues that actually, maybe these guys just don't know.

Senator Susan O'Keeffe: What advices or analysis was carried out by the NTMA in the months leading up to the increase in the deposit guarantee, and was there a deliberate strategy to increase the guarantee scheme to be one of the largest in Europe to maximise ... was that to maximise deposit liquidity?

Mr. Brendan McDonagh: Are you talking about the personal deposit guarantee from €20,000 to-----

Senator Susan O'Keeffe: The personal guarantees, yes.

Mr. Brendan McDonagh: -----to €100,000?

Senator Susan O'Keeffe: Yes.

Mr. Brendan McDonagh: That really happened very quickly I think around 18 or 19 September 2008 because I suppose ... there's a bit of hysteria beginning to emerge in the media about, you know, should people withdraw their money from the banking system, should people withdraw their money from the post office. Clearly we had a huge interest in the money in the post office because that was national debt money and if ... and you know, it would affect us in terms of funding of the national debt. So there was a meeting convened ... the Department of Finance, I remember ... I think that was my first time actually meeting Governor Hurley, he had just returned from being out on sick leave, I think that might have been his first meeting after which ... after he returned. And myself and Dr. Somers and Mr. Corrigan went along to that meeting from the NTMA, the Minister chaired that meeting. There was a discussion about, you know, people are concerned about their deposits and what are we going to do and the view was taken at that meeting that maybe the deposit guarantee limit should be increased from €20,000 to €100,000, because I think in every country in Europe as far as I can recall at the time had a €100,000 limit, so there was nothing unusual in terms of ... in terms of doing that, in terms of trying to calm the, sort of, personal deposit market. And to be honest with you Senator I think that was, in fairness, I think that was a very sensible decision.

Senator Susan O'Keeffe: Okay. On page 6 of your own, I'm sorry, on page ... it's a reference to ... to something Michael Somers I think will say, was there a specific reason why the NTMA was omitted from further discussions on the liquidity situation of the banks and the extent of their borrowing from the Central Bank? Do you know about this?

Mr. Brendan McDonagh: No.

Senator Susan O'Keeffe: No, okay well that's fair enough, you can't answer that. Can you comment on the Merrill Lynch strategic options paper, the one that was dated 28 September, which was considering all the options, as you've said, including a guarantee? And can you describe the discussions that NTMA senior management had, or did they have, having seen that presentation?

Mr. Brendan McDonagh: In terms of that memo that was produced by Merrill Lynch on 28 September ... that was a Sunday and there was a meeting convened in Treasury Building, in our building, on the Sunday ... on the Sunday morning where all the parties came along because obviously there was concern that if these meetings were known to be happening the ... people might be seen ... a lot of people coming out from the Central Bank or the Department of Finance, so have it somewhere else off-line, so it was decided to have it in Treasury Building. And Merrill Lynch came along to that meeting and said they were working on this memo and discussing the range of options. There was lots of, I suppose toing and froing in terms of what was going on. People left Treasury Building and went off, I thought the people were going home. I found out subsequently that there might have been another meeting at the Central Bank which we were never told about, from evidence that other people gave. And Merrill Lynch stayed on our premises and I stayed there with them, along with Mr. Whelan and they started trying to finalise this memo and they circulated it then for ... I suppose comments or ... and I think we supplied comments back on the Monday morning. Dr. Somers and Mr. Corrigan were already gone to the States so it was up to myself and Mr. Whelan to give what we believed appropriate commentary on it and the next time that memo appeared then was ... I think it was sent directly by Merrill Lynch to Mr. Cardiff at around 7 o'clock on the evening of the 29th.

Senator Susan O'Keefe: What was your understanding of that other meeting that took place at the Central Bank?

Mr. Brendan McDonagh: I didn't know anything about that-----

Senator Susan O'Keefe: I know, but what is your understanding subsequently?

Mr. Brendan McDonagh: Well my ... from what I can glean Senator, was that there was a meeting at the Central Bank with Governor Hurley and maybe senior people in the Department of Finance, Mr. Cardiff and maybe Mr. Doyle. I'm not sure whether the Minister was actually ... went to the Central Bank or not, but that's all I know about it. I know nothing else.

Senator Susan O'Keefe: Can you just clarify, we have a document DOF01702. It was an e-mail from Andreas Matthaeus and it was dated 29 September 2008, at 23.54, so almost midnight. And it was addressed to Henrietta Baldock and Kevin Cardiff and I don't think you ... let me just see-----

Mr. Brendan McDonagh: I think I might have been copied on that.

Senator Susan O'Keefe: Yes, you were. And I'm just wondering, yes, you were, that's why I ... yes, so do you ... were you aware there was another ... there was another email at 21.27 and you were also ... you were involved in that. Were you aware, given that you were then in Government Buildings, did you have access to this? So you were being included in the documentation but not at the meeting? I'm just trying to clarify.

Mr. Brendan McDonagh: Yes ... yes, but if I can just locate that chapter-----

Chairman: Give him a chance to familiarise him ... with Mr. McDonagh there, you just need to slow down a small bit there now Senator okay?

Senator Susan O'Keefe: Okay, absolutely.

Mr. Brendan McDonagh: Sorry, I'm trying to find that particular e-mail Senator.

Chairman: So you can get it up on screen-----

Senator Susan O’Keeffe: Have you got it?

Chairman: Is it in the DMS system is it?

Senator Susan O’Keeffe: DOF01702.

Mr. Brendan McDonagh: Yes, I’ve got it, is it 23.53?

Senator Susan O’Keeffe: Yes.

Chairman: Okay, very good.

Mr. Brendan McDonagh: Yes, this e-mail came in from Merrill Lynch ... I think it ... it is telling for the following reason; because both me in the NTMA and my colleague Mr. Whelan and Merrill Lynch - and Merrill Lynch weren’t at Government Buildings on the night of 29 September, they were in London - the first line of this e-mail says “Below are ... initial thoughts ... the Government should think about [if it was] to take over an institution”. So therefore, the view of Merrill Lynch and ourselves the NTMA, was that there ... the meeting that was going on was about nationalising an institution. It wasn’t about a bank guarantee. I responded to Mr. Matthaesus of Merrill Lynch at 1.32 in the morning and I said;

The Government is likely to guarantee the debts, other than equity and hybrid and undated debt, of the six financial institutions with immediate effect. We need your advice on how to deal with rating agencies and institutional corporate investors.

Senator Susan O’Keeffe: So, let’s just be clear, at midnight-----

Mr. Brendan McDonagh: Yes.

Senator Susan O’Keeffe: -----they’re in touch with you and ... Kevin and Brendan it’s addressed to-----

Mr. Brendan McDonagh: Yes.

Senator Susan O’Keeffe: -----saying suggestions with how to prepare for an intervention, and then an hour and a half later you’re saying, “Sorry guys it’s something else.”

Mr. Brendan McDonagh: No because I think it was ... I think I said it here back in April that, I think it was about 1 o’clock, I think it was about 1 o’clock in the morning when Kevin came out of the room and says ... said “The Government has made a decision to ... do a blanket guarantee”, and I was flabbergasted because all the work had been about preparing for nationalising an institution.

Senator Susan O’Keeffe: Did you see this in real time, this e-mail? I mean were you-----

Mr. Brendan McDonagh: I ... I-----

Senator Susan O’Keeffe: Did you have it on your BlackBerry?

Mr. Brendan McDonagh: -----I probably did see it in real time, but it didn’t surprise me, because it was talking about nationalising an institution at five to twelve on Monday, 29 September and that’s the way I suppose I was orientated, that this is the way this was going. I didn’t know what the discussion was going on in the Government’s meeting room, or the Taoiseach’s meeting room, but I thought the meeting was about that.

Senator Susan O’Keeffe: And again, it was addressed to you and Kevin, not you and somebody else, you were the-----

Mr. Brendan McDonagh: No, but you see, I think what actually happened there was that I was the sort of ... became this sort of internal point person within the NTMA for dealing with Merrill Lynch and Department of Finance, so that, I suppose, the view was, you know, I’d pick up my e-mails or if I got something in on BlackBerry I could forward it ... I was to ... I was literate enough to forward it on to people or whatever the case is, so no more than that Senator.

Senator Susan O’Keeffe: And finally Mr. McDonagh, on the night of the guarantee you’ve ... you’ve said your views, the NTMA’s views were-----

Chairman: Ask a question now Senator.

Senator Susan O’Keeffe: Yes, strong views about nationalisation. Was it your view that INBS and Anglo Irish were solvent?

Mr. Brendan McDonagh: I, I don’t believe ... I don’t believe they were solvent.

Chairman: Thank you very much.

Senator Susan O’Keeffe: Thank you.

Chairman: Deputy Doherty.

Deputy Pearse Doherty: Go raibh maith agat agus fáilte arís. Can I ask you, that last statement that you made that you don’t believe that the two banks were solvent. We’ve had numerous witnesses come before the committee and tell us that they believe that they were solvent, they’ve had reassurances from the Financial Regulator, the former Taoiseach says the Financial Regulator tested this here. What, what allows you, or what, what brings you to have a different conclusion, given everything that’s been said by others?

Mr. Brendan McDonagh: I’m not saying my view is right Deputy but I suppose going back to my accountancy training, if, if you can’t pay your debts when they are due, you are effectively insolvent. And the ... you know, these institutions were rapidly running out of money. The forecast was that they would be €2 billion to €3 billion ... in Anglo’s case it would be €2 billion to €3 billion negative in funding terms within 24 or 48 hours, and INBS was beginning to lose liquidity rapidly. And I suppose if you profile forward we know now and we know for a long time that these institutions required €34 billion of capital.

Deputy Pearse Doherty: I’ve had this ... we’ve had this discussed at the committee, I think. I’ve questioned individuals on this because there’s a lot of fixation, in my view, around the word “solvency.” And you’ve described solvency from an accountancy point of view, that if you can’t pay your dues as they fall due, then you’re technically insolvent. Others would argue that that was a bank that was illiquid and not solvent, as in they had assets that could pay them but they just couldn’t turn them into hard cash. Did you ... more than the liquidity pressure that those two banks had, did you have at that time concerns in relation to the assets that the banks had?

Mr. Brendan McDonagh: No I had bigger concerns, Deputy, that nobody could give me any information ... certainly from the regulator’s side, of what their balance sheets ... any detail about their balance sheets or asset quality. There just was no information.

Deputy Pearse Doherty: When you say no information, like ... at that stage we're well into the crisis, there is meetings taking place on a regular basis. Could it be the case that they were holding the information from the NTMA, or do you believe-----

Mr. Brendan McDonagh: No, Deputy, you know, clearly there was published annual accounts but I'm an accountant. They're at a point in time. Two weeks, later two hours later, things can be completely different. I suppose, if you want to go into the management accounting world, you need real-time information in terms of what's your asset-liability profile, what assets have you lent against, are they worth what everybody thinks they're worth or not? And of course, the position was maintained by all the banks in the autumn of 2008 that they were fine, they didn't need capital. If they did need capital they needed a small amount of capital. They'd only take capital if another institution took capital - this sort of silly game-playing was going on. And they'd source capital from third parties if they needed to. Another line is, "This is a global problem, this is not just in relation to the Irish banks."

I think the issue really was that you might have had assets on your balance sheet. Nobody knew what those assets were worth or what the banks were saying. You couldn't go to the ECB and pledge those assets as securities because, as I said in my statement, the ECB wasn't very accommodating at the time - which effectively is a nice way of saying, they were saying to you, "Don't turn up here with those assets because we won't advance you money against them." I suppose the prevailing view ... and I suppose the hope of everybody ... that it was just a liquidity crisis, that it was ... that there is a liquidity squeeze which was beginning to emerge globally, everybody's withdrawing their deposits in the system, nobody's lending to each other even though people are offering big interest rates for you to lend them money. People are saying, "It's not worth my job to get 50 basis points if I'm not going to get the money back." I think the view really is that liquidity ... the view is that all it is is a liquidity problem. And in my view, liquidity is a contributor to solvency but it's not the only issue in insolvency.

Deputy Pearse Doherty: And in relation to INBS? Is it the same views, in relation to INBS?

Mr. Brendan McDonagh: Yes. I mean, we won't place any deposit with INBS. We won't give them any credit line. They'll look for credit lines from us and we wouldn't give it to them. I think a couple of years previously we had given them a €6 million credit line and then we decided to cut it because we just couldn't understand the business model. We took the view that really it's more trouble than it's worth to place €6 million on deposit with this institution when it really was a very opaque structure.

Deputy Pearse Doherty: On 25 September there was a meeting held including the Taoiseach, the Minister for Finance, senior advisers, including the NTMA. You weren't there yourself, Mr. McDonagh, but two representatives including the CEO was there from the NTMA and they discussed the liquidity issues of Anglo and INBS. Did the NTMA, did Mr. Somers or Mr. Corrigan talk to you in relation to the outcome of the meeting? Did they discuss how they reacted and the different solvency options that were being discussed at the meeting? Did they have any discussion with you in relation to this?

Mr. Brendan McDonagh: Not that I can really recall, Deputy, because I wasn't at the meeting. I've seen the minutes of the meeting. It's a ... I think the view was that, "Let's look at all the options, let's get Merrill Lynch to sit down and look at all the options." That's my understanding of what I was told came out of that meeting which again feeds into the Merrill Lynch option they produced in the memo over the weekend of the following weekend.

Deputy Pearse Doherty: I'd say that ... we can discuss the Merrill Lynch option now in a minute, but in the lead-up to the decision on the blanket guarantee, what alternatives ... was there any alternatives other than the Merrill Lynch options were considered? And how were those options evaluated against one another? What advice was the NTMA given on each of the options?

Mr. Brendan McDonagh: Well ... the reality was that we were glad to see somebody like Merrill Lynch come on board because it brought a bit of structure. We were attending the meetings with the Central Bank, the Department of Finance and the regulator and everybody, in fairness, was trying their best but there was no structure on it. And when the view was taken to get Merrill Lynch on board, I think in fairness what they brought, it was very expensive but what they brought was a bit of structure in terms of evaluating the options, the range of options, the pros and cons of the options, and that's set out in that memo.

Deputy Pearse Doherty: Okay. And they were the only options that were being discussed at that time? The options are encapsulated in the Merrill Lynch-----

Mr. Brendan McDonagh: Yes, yes.

Deputy Pearse Doherty: Okay. And if we can see, Merrill Lynch Summary Options, this is on page 33 of your core books. So there's five options outlined there. Which one was the NTMA arguing strongly for or was it a hybrid?

Mr. Brendan McDonagh: I suppose it was a hybrid. I mean as I said in my opening statement, there was the nationalisation of a building society Bill, the nationalisation of a bank Bill, and the third thing was the provision of secured lending by the NTMA and the Central Bank. And we didn't want to be placing our deposits with institutions, and the house view of the NTMA was that we'd place with institutions if we were directed to do so by the Minister.

Deputy Pearse Doherty: Merrill Lynch went on to give a presentation and it's I think on page 41 of the core booklets ... it starts on page 41 gave a presentation a couple of days later. And on page 44 it talks about the equity and debt investors and this would be in the context of what they called "State protective custody", or nationalisation. And it says, "At Anglo the majority of equity and debt investors are Irish, UK and US institutional holders, but there are significant retail interests including a major shareholding by Sean Quinn." If Anglo were to be nationalised on that night, would Seán Quinn as a major shareholder have lost out substantially?

Mr. Brendan McDonagh: Yes, like all other shareholders, yes.

Deputy Pearse Doherty: Okay. And on the presentation that Merrill Lynch gave yourselves, did they mention the fact that ... did they mention Seán Quinn? His name doesn't appear in that but he's the only name that appears on the presentation that was given a couple of days later.

Mr. Brendan McDonagh: No. I mean, it was common knowledge I think around September 2008, that Mr. Quinn was a big shareholder in Anglo. I think it might even have emerged a few months previously in the media.

Deputy Pearse Doherty: Okay. In your ... was there any, in your discussions ... I know you weren't there on the night of the guarantee. So you weren't in the room on the night of the guarantee but in relation to wiping out the shareholders and the potential spillover effects that they may or may not have on other areas, was that ever considered or discussed to your knowl-

edge in the meetings that you were at?

Mr. Brendan McDonagh: No. The wiping out of the shareholders was certainly, I suppose, a technical issue that I felt that had to be grappled with because of constitutional property rights and that was, I suppose, at technical level in terms of the draft Bill presentation but, I suppose, there really wasn't any more because they went the guarantee route, these Bills were left aside, just as obviously there was other things to be worked on. And, I suppose, it came back up again as a huge issue that had to be dealt with in a very complex way by the Attorney General's office when the Anglo nationalisation Bill was being prepared in mid-January 2009.

Deputy Pearse Doherty: In your previous evidence, you told us that you've spent about four hours in Government Buildings on the night, 29 September, the night of the guarantee, during which time you spoke to Mr. Beausang. Can you describe any conversations you had with him and other parties, identifying the parties and the topics discussed?

Mr. Brendan McDonagh: Yes. I mean, we sat there ... I described it that there was a portable TV in the corner and the Dow Jones was rapidly going downhill and TARP was being rejected in the US. And I suppose, one of the things that emerged in Mr. Beausang's evidence, which I wasn't aware of ... it must have happened just before I got into the room that he had got an e-mail from Mr. Doyle, which had been sent to Mr. Doyle from the Central Bank, which effectively was some, sort of, draft press release on a guarantee. And, I suppose, I didn't know Mr. Beausang very well at the time. I had only met him a couple of weeks previously but, in fairness, if he was told to keep it to himself, I can confirm to the inquiry, he certainly did. There was ... he never let on a word because I was ... I'm a curious person by nature and I was sitting in the room for a good few hours and Mr. Whelan and Pádraig O Ríordáin and Mr. Beausang and more out of boredom than anything, you're sitting around, you're saying, you know, "I could be at home rather than sitting in here. If you called me into something and just have me sitting here, why am I sitting here? What's going on?" "Do you know what's going on, William?" "No, I don't know what's going on?" And that was the way it was and you just had to sit there and wait.

Deputy Pearse Doherty: You see, if you were - and this is speculative now - but if you were called into the meeting, into the room, when the decision was being trashed out and if the Taoiseach turned to you and asked you, "Mr. McDonagh, what is your view in terms of what we should do and justify your view?" What would you have said to the Taoiseach?

Mr. Brendan McDonagh: I think we're in the realm of speculation there, Deputy, but-----

Deputy Pearse Doherty: You were outside the room for four hours, knowing that at any minute you could be called in.

Mr. Brendan McDonagh: No, no, no ... I know. Listen, I ... the decision-makers here was the politicians, which is the Taoiseach and the Minister for Finance, but I think I would have made my ... if he had asked me, I would have said, "You've got to nationalise these two institutions and to try and deal with the four remaining ones as best as best we can." It's, you know ... this wasn't an easy decision. This wasn't ... it's easy to look back at decisions we made and said, "You should have this, you should have done that." But the decision, you know ... but I think at the time and I have to believe from Mr. Doyle and Mr. Cardiff said to this inquiry. They said they made our views known. I take their word that they made their views known and I don't think I would have said anything different other than what I'm saying to you now is that I would have pressed strongly for the nationalisation. Clearly, they could have been said, "Thank

you for your views but we're going a different route." That's fine. I'm not the decision-maker. I'm only ... if I was only asked for my views, that's what I would have said.

Deputy Pearse Doherty: Mr. McDonagh, the NTMA refused to place deposits at a certain stage in 2007 with Nationwide and Anglo, or renew the Anglo deposits and only did so under direction from the Minister for Finance. Who made that decision within the NTMA? Not actually, who authorised it eventually, but who said, "I think we shouldn't do this"? Who was it personally instigated it?

Mr. Brendan McDonagh: I think I instigated it. I clearly discussed it with Dr. Somers, who was the chief executive, and I think he had been ... had just gone on holidays to France. I think I might have rang him and said, "There's something happening here. Big hedge funds are beginning to fail who are attached to big banks. I'm just a bit worried, Michael, can we ... I think my view...". In fairness, Michael would be of the view that if he wasn't there and you were back at base and you were closest to it, he says, "Well, okay, let's do that and we can review it", because I was going on holidays on 10 August and Mr. Whelan was returning from holidays on 13 August, so there was always going to be somebody there. And he said, "We can review it with Oliver Whelan when you're gone on holidays and he comes back." And I went on holidays and I was wondering what was happening and then I got an e-mail from my head of risk, who was reporting to me to say that Mr. Whelan had a conversation with Mr. Somers and that, yes, as deposits matured, we would just take them back at the Central Bank until we got a bit more clarity or to see what was happening in the markets because the markets were acting strangely.

Deputy Pearse Doherty: And you say in your opening statement that it was not an easy decision to justify. Did you have to justify this decision to anybody outside of the NTMA?

Mr. Brendan McDonagh: I suppose within the NTMA, at senior management level, it wasn't ... we ... I suppose we all had the same view. We're, sort of, conservative, cautious people that this ... we would do this and we'll see what happens. We weren't necessarily out of the markets forever but just see what would happen. But, I suppose, in terms of our dealers who were in the front office, who were dealing with these institutions they were placing deposits with, they were getting a lot of questioning saying, "What are you up to? Why won't you place the deposits back with me? I'll pay you more money for that deposit", you know, and they ... of course, they wouldn't be aware ... they would just know the decision was taken. They wouldn't know the whole rationale or whatever behind it. And I suppose then, as September 2007, at the time, there was an NTMA advisory committee because there was no board. And this would have been communicated to the advisory committee about what we're doing. And then there was another advisory committee in December and I suppose, the view would be, you know, everybody else is placing deposits with the banks, guys, what do you guys know that nobody else knows, you know, and we were, sort of, saying "Well, we're not really sure we know anything but just that we're not comfortable about placing deposits out in the banks and we just want to see, you know, what's going to happen." And as I said in my statement, it ... things got worse and we were proved correct but we weren't quite sure. We just knew some ... we just got a sense from the markets that it was becoming more difficult to fund. We were trying to fund ourselves in the short-term market to build up a war chest and while it was very easy in the first half of 2007 to build up that and you can do it completely under the radar and nobody takes any notice, people were beginning to say, "Well, you know, you're borrowing a lot of money short term, what are you up to?", and you were trying to keep it under the radar. So, we could see it was harder for us to borrow and we also could see on the other side that people on the other side were becoming very thirsty for us to place deposits back with them. So we, sort of, said,

“Well, what’s wrong here? Is this shortage of liquidity, we’re not the only ones doing it, so let’s just hold on.”

Deputy Pearse Doherty: Mr. McDonagh, the State injected €20.7 billion from the National Pensions Reserve Fund into AIB and Bank of Ireland. Dr. Somers will tell us later that, in 2009, the discretionary portfolio was making a return of 20.6%. Have you any indication of what type of return that €20.7 billion that went from the National Pensions Reserve Fund into the banks could have made, in the years subsequent, if it stayed within the pension reserve fund?

Mr. Brendan McDonagh: I don’t have those figures with me because I left the NTMA in 2009 to go to NAMA but I think if you look at equity markets since 2009, the ... I mean, the Dow Jones is up, what is it? 18,000? It probably would have been down around 13,000 or 12,000 or 13,000 at that stage. So, that’s about a 50% return.

Deputy Pearse Doherty: Just explain that to the layperson who doesn’t follow the Dow Jones.

Mr. Brendan McDonagh: Well, all I’m speaking ... in terms of this I ... as far as I can recall, the Dow Jones, which is the US stock market ... and the NPRF was investing in global funds and a lot of it was invested in global equities. But I believe that, you know, I don’t have the figures before me but I’d say 40 ... I’d say it has ... since 2009 it’s probably has increased by 40% to 50%.

Deputy Pearse Doherty: So the €20 billion investment, if it stayed within the National Pension Reserve Fund could have increased by about 50%?

Mr. Brendan McDonagh: Well, that’s saying if it’s all invested in, sort of, global equities if that was the growth in the period, yes.

Deputy Pearse Doherty: Okay. Mr. McDonagh, the committee has heard evidence with regard to the bail-in strategy developed by the NTMA in March 2011 and I appreciate you weren’t with the NTMA at that time. With regards to your time with the NTMA, was there any discussion around possible bail-ins or hair cuts for senior or subordinate bondholders?

Mr. Brendan McDonagh: Up until, I suppose, May 2009 when I was with the NTMA, there was a very strong view that it would ... that senior bondholders definitely needed to be repaid their money and there was no talk of a bail-in at that stage.

Deputy Pearse Doherty: And can you talk to us what ... there was a bail-in then developed later on in 2011. It was as they ... the justification was we were going into a programme, we were out of the markets for a number of years. Can you talk to the narrative about that ... if you burned the bondholders, that the markets would be waiting to punish you in the long grass. Is that not the way that markets work or is it the way that markets work?

Mr. Brendan McDonagh: Well, certainly the view ... up until May 2009, when I was more involved in the NTMA, the view was that they would be waiting ... if you were still in the markets, they would be waiting for you in the long grass and, as a small country, you’d find it difficult to fund. In relation to the change of strategy in 2011 ... and, I mean, you would have to ask Mr. Corrigan about that because he was directly involved in those discussions but from ... but from what I have seen and read, the view, I think, might have changed such that if you were out of the markets, people had priced in to the fact that ... that a bail-in may occur. So, Mr. Corrigan’s more appropriate to answer that question than myself.

Deputy Pearse Doherty: Okay. We were ... you were dealing with Senator O’Keeffe in terms of the e-mail asking your opinion on if they went with the ... one of the options, which wasn’t the option they eventually went with, and how much it would cost the State in terms of bond yields rising. Do you have any estimation as to the cost to the State of actually the decision on the guarantee in terms how much extra it cost per annum in terms of the cost of our national debt?

Mr. Brendan McDonagh: I don’t, Deputy. I mean, at the time, back in September 2008, I sort of estimated that it’d at least lead to a 1% increase in the cost of funding. I think our cost of funding at that stage would have been probably 5.5% to 6% for ten-year money. So, I think, you know, the guarantee was put in place to guarantee deposits but, you know, the guarantee I suppose wasn’t called because the deposits were paid back. But the only way ... but, I suppose the big cost to the State has been the State resources that has been used to fill the capital hole in the banks and that has had to be borrowed. And that was certainly a big hangover on the State for many years until the markets took the view, I suppose, that Ireland had dealt with the problem. But it had been a very expensive problem to deal with.

Deputy Pearse Doherty: Okay, my final question-----

Chairman: Final question. Wrap it up.

Deputy Pearse Doherty: It’s a technical question that I’m interested in and when ... and, again, I know that you weren’t involved with the NTMA at the time when the Government sought a bailout or a programme of assistance from the troika. At the time there was certain newspapers internationally saying that we shouldn’t panic in terms of the yields because there was a very low level of trading on the bond market and that the yields weren’t reflective of what was actually really happening. So can I ask you, in that context, what was the size in terms of the volume of the trade on the Irish sovereign bond market during your time with the NTMA? Was it ... how many trades involving Irish sovereign bonds would occur each day? In other words, was it, like, thousands, hundreds? Was it in the single digits? And if you have any indication beyond ... particularly during that period in the run-up to the troika coming here?

Mr. Brendan McDonagh: I don’t, Deputy, but up until, I suppose, May 2009 there was quite an active Irish bond market, and the NTMA ran a secondary trading desk to ensure that there was liquidity in Irish bonds the whole time. And you had a situation that you had loads of international banks wanting to be primary dealers in Irish Government bonds, because, obviously, we’d a very low debt ratio - it had gone down to 25% - and I suppose there was a scarcity value of Irish bonds, you know, I suppose in the crisis because our debt was very low. So the volumes of activities in 2010-2011, I just don’t have that information. But I’m sure my colleagues in the NTMA, if the committee wants it, can be ... can be ... they can provide it to it.

Deputy Pearse Doherty: Thank you very much.

Chairman: Thank you very much. Deputy Eoghan Murphy.

Deputy Eoghan Murphy: Thank you, Chairman. Thank you, Mr. McDonagh, you’re very welcome. I just wanted to clarify something initially in relation to a hypothetical that Deputy Doherty took you through, just to be certain of your views on the night of the guarantee, even though they weren’t requested. If you had been asked into the room, and you had been asked by the Taoiseach, “We’re thinking of guaranteeing all the banks,” you would have said, “Don’t guarantee Anglo and INBS, because they’re insolvent.” Was that your view?

Mr. Brendan McDonagh: Yes, my view, Deputy, was that they were broken institutions and-----

Deputy Eoghan Murphy: But would you have used that word?

Mr. Brendan McDonagh: Yes.

Deputy Eoghan Murphy: Okay. And if you had then ... if it had then been put to you, "Well, the Financial Regulator or the Central Bank have certified their solvency", what would you have said to that?

Mr. Brendan McDonagh: Well, I mean, the Central Bank and the Financial Regulator were the people with the statutory responsibilities around that. I mean, clearly, if I was the Taoiseach and I was looking at the guy from the NTMA who had this view, and I was turning to the Financial Regulator and the Central Bank, who are the statutory responsibility to do it, I'd probably go with the Central Bank and the Financial Regulator, to be honest with you.

Deputy Eoghan Murphy: Okay, well then just coming back to a couple of days and weeks previously, you said the nature of the people in the NTMA are questioning and that the Financial Regulator had a problem with you asking questions, and it gets to the point where you say, "Maybe, these guys just don't know what's going on or what the situation is with the banks." So did you make those concerns known to anyone prior to the 29th?

Mr. Brendan McDonagh: Yes. I mean, I would have said it to my colleagues, but I also would have said it to Kevin Cardiff.

Deputy Eoghan Murphy: So Mr. Cardiff in the room would have known that the NTMA thought that the Financial Regulator and the Central Bank-----

Mr. Brendan McDonagh: Yes, yes-----

Deputy Eoghan Murphy: -----didn't know what was going on?

Mr. Brendan McDonagh: Yes, because, I mean, I remember having discussions with Kevin about this point. I said, "We need to get somebody in there to find out what's going on." And, as I said, I sent this e-mail because I was so concerned about it that when there was talk about Goldman Sachs doing a review of INBS, I remember arriving home and thinking and saying, "These are questions we should know the answer to." And I e-mailed Kevin a list of 33 questions. I said, "You might get them to try and find out the answers to these."

Deputy Eoghan Murphy: So do you know if Mr. Cardiff made that point in the meeting about the fact that the NTMA didn't have confidence in what the Financial Regulator and the Central Bank knew?

Mr. Brendan McDonagh: I have no idea, Deputy.

Deputy Eoghan Murphy: Okay. I think it's probably good advice, Chair,. If we might request that information from Mr. Cardiff-----

Chairman: Yes, I'm just noting that down.

Deputy Eoghan Murphy: -----on those two points, as to whether he said the view of the NTMA was that those two banks were insolvent, and that they didn't have confidence in the knowledge in the regulator and the Central Bank?

Mr. Brendan McDonagh: Yes, yes.

Deputy Eoghan Murphy: And also, if we could, that e-mail that you sent with the 30 or 33 questions, could you supply that to the committee, Mr. McDonagh?

Mr. Brendan McDonagh: Yes, yes, yes.

Deputy Eoghan Murphy: Thank you. Just to then move on to something that Senator O’Keeffe raised earlier in relation to the deposit guarantee scheme, and just to understand a bit about what that meant. That increase from €20,000 to €200,000 was for every ... every institution in Ireland; was that applied to everyone?

Mr. Brendan McDonagh: Yes, it ... yes.

Deputy Eoghan Murphy: Did you have to consult with the ECB before that change was made?

Mr. Brendan McDonagh: Well, it wasn’t for the NTMA to consult, but I presume the Department of Finance - Mr. Beausang, I think, was the contact person - will certainly have consulted with the European Commission. I understood, and I presume, that the Central Bank would have communicated with the ECB.

Deputy Eoghan Murphy: Okay, and just ... if I could clarify something on page 3 of your opening statement. This is about the meeting on 18 September which Mr. Hurley gave evidence on. And this was a meeting about a deposit guarantee, not a blanket guarantee, and you were saying that the “Central Bank and the Financial Regulator did not favour such an approach at that meeting.” Did not favour a deposit guarantee-----

Mr. Brendan McDonagh: Did not ... effectively, a ... a guarantee, basically, this ... €20,000 to €100,000 was really to protect personal depositors and there was a brief discussion about ... would you guarantee the wholesale deposits of the financial institutions? And it was dismissed very quickly by both the regulator and the Central Bank at that meeting.

Deputy Eoghan Murphy: So that came up as a suggestion from ... from where, from-----

Mr. Brendan McDonagh: Well, I think it was an option that was just thrown on the ... you know, these are ... this was sort of a brain-storming session. I don’t know who ... who raised it, to be honest with you. And, I was saying, you know, because the deposits were ... the institutions were losing liquidity and they were certainly ... and the wholesale liquidity was the one that was running out the door the fastest, I was saying, is this a way of stimulating it, of having a ... a wholesales deposit guarantee? And, I think it was ... I think the proposition might have been put forward, maybe, by the Department of Finance, to the meeting, and Mr. Hurley - and I think the minutes show it - said ... said, “No, no, we’re not in that space yet, we need to just deal with the personal deposit situation first”.

Deputy Eoghan Murphy: So, this is my next question: “not in that space yet” ... when you move from €20,000 to €100,000 and people start talking about wholesale as well, have we taken a particular step that is going towards a guarantee of everything?

Mr. Brendan McDonagh: No, because ... because at that ... as I said earlier on to Senator O’Keeffe, at that time things were moving rapidly, wholesale deposits were beginning to leave ... to leave the system, then the focus became on people getting worried about their personal ... personal deposits. And that meeting, really, was about personal deposits and it came up as an

... as I recall, as an aside of something ... something that was just thrown out there, but it was ... it was ... I think, Mr. Hurley just almost immediately dismissed it and said, “No, we’re here to talk about personal deposits, that’s what we got to deal with here”.

Deputy Eoghan Murphy: Okay. I’ll move on from that if I may then. And, if we could look at page 27 of the booklet ... is this e-mail exchange from William Beausang of 26 September. And just a quick question ... just to clarify, the third paragraph in, which is combining the take-on of the banks’ balance sheets of Anglo and INBS of €110 billion, and guaranteeing the others of over €420 billion. My understanding was that the ... the liability the State was taking on with the guarantee was around €440 billion. That’s what ... the figure at the time. So, just to clarify, why ... there’s the €110 billion, is that a part of the €420 billion or is it additional to?

Mr. Brendan McDonagh: Combine the others of ... no, I think when, at the time, we ... we were trying to pull information together because, as I said to you, we won’t get much information from ... from the regulator. So, I think, when you added up the balance sheets of the banks, you know, total assets, total liabilities, I think the gross balance sheet was about €500 billion, so I think that’s where the, the two figures-----

Deputy Eoghan Murphy: This was the NTMA’s view of what a blanket guarantee actually would cost.

Mr. Brendan McDonagh: Yes, because we were just listing out ... writing it out on a piece of paper, and saying, this is ... this is the size of Anglo’s balance sheet, this is the size of INBS’s balance sheet, EBS’s balance sheet, all the other balance sheets and just saying ... not taking account of any equity or sub-debt or whatever the case is - it’s the gross size of the balance sheet.

Deputy Eoghan Murphy: Okay, thank you. And, then just further on in that e-mail, in the next paragraph, at the very end of that, “We expect to pay a lot more than Greece due to the scale relative to our GNP as the market will be unforgiving about our problems.” And you also mention then, on page 4 of your opening ... opening statement, that you were trying to build up a war chest of liquidity to deal with the emerging banking liquidity crisis but you couldn’t, “there was no appetite from longer-term bond market investors to invest on the scale needed to create a cash buffer to deal with even part of the potential fallout from the banks [...] [because of] the pressures the sovereign was already experiencing in terms of funding the National Debt which, during 2008, was €50 billion approximately.” So, in that e-mail, are you pointing to a bailout? Are you saying that this now comes into view as a possibility for the sovereign, if we take on this liability?

Mr. Brendan McDonagh: No, what ... what I was pointing out, Deputy, was that if we have a problem and it emerges as a problem the markets will be-----

Chairman: Are you talking about a guarantee or a bailout there?

Mr. Brendan McDonagh: No, I was talking about a guarantee here, Deputy, right?

Deputy Eoghan Murphy: Yes, I know, but-----

Mr. Brendan McDonagh: Yes, because if it turns out that you’ve a big problem with your banks, and nobody at the time knew the scale of the problem with the banks, that, effectively ... markets are cruel, they will, you know, drive up the cost of your ... of your debt funding very, very significantly because if they think you’re stuck for funding, they will charge you more ... more for it. Around this time, Deputy, so that ... to put it in a bit of context here, what was be-

ing talked about in the secured lending scheme - which the Central Bank didn't want anything to do with, they wanted to push the problem all onto the NTMA - would be that there'd be a €20 billion secure lending programme, entirely funded by the NTMA, that we'd go out and borrow the money in the market and put that money into a secure ... a fund, called "the secured lending fund", and lend it out on a collateralised basis back to the banks. So what I was talking about there, really, to be upfront with you, was that if we ended up borrowing €20 billion in the markets and lent that to the banks and suddenly the banks couldn't pay it back or the collateral wasn't worth that and there was a hole in it, then, you know, the markets wouldn't have been very forgiving if we had a shortfall of €5 billion or €10 billion.

Deputy Eoghan Murphy: So the cost of borrowing would increase to the point at which we might have to access funds in terms of a programme or the IMF or-----

Mr. Brendan McDonagh: No, there was no question of a programme in September 2008.

Deputy Eoghan Murphy: Well, just to clarify that, Mr. McDonagh ... because in evidence from Mr. Cardiff, he said that he started to ask a few questions around that possibility in a way, so I am wondering about a possible relationship.

Mr. Brendan McDonagh: Well, I saw what Mr. Cardiff said but Mr. Cardiff, in his role, could've been ... I think he said he was exploring it on a personal level, right. And if he was exploring it on a personal level, he wasn't saying that to me or, I don't believe, to any of my colleagues in the NTMA. What I was aware of - and the documentation point towards it - is that there was talk about the NTMA going out borrowing maybe potentially up to €20 billion and lending it back to the banks as a secure ... as a secured lender. And my concern would be that if the banks couldn't pay you back that €20 billion or if the collateral you took wasn't worth €20 billion and you had a hole in it, then that would have to be ... basically the State would be taking the hit and the ... people would see you have a problem. But, that was a €20 billion problem as opposed to a problem which turned out to be €64 billion.

Chairman: Last question, Deputy.

Deputy Eoghan Murphy: Thanks, Chairman. Just something to clarify for myself though then. I mean, you had a problem raising the €20 billion. There was a problem already on the sovereign borrowing rate. You didn't think that a guarantee was credible for all the banks. So surely, then, in taking on the guarantee, you were putting the sovereign lending position at risk and then the consequences could be-----

Mr. Brendan McDonagh: Yes, and I think I was pointing that out in my response, you know, back to Mr. Beausang. I mean, I had 40 minutes to give him a response. I tried to hit as many bases as I could but there's consequences to everything that you do.

Chairman: Very final supplementary now.

Deputy Eoghan Murphy: Was that one of the consequences you foresaw when you were responding to Mr. Beausang?

Mr. Brendan McDonagh: Well, one of the ... the consequence I foresaw would be that ... in my first response ... my first line of that, Deputy, if I bring it to you, it says, "This is very difficult to answer as [a] potential real exposure to the Exchequer of writeoffs is not yet independently quantified." And if it turned out that you did have write-offs ... and just being selfish about it, if we had taken collateral that wasn't worth what the banks said it was worth and it

was write-offs for the Exchequer, then the markets ... it's like the markets smell blood and they would say, "You've a problem. If you want to borrow money from us, you're going to pay much more for it." There was no question that we couldn't ultimately borrow the money but we were ... I suppose, in September 2008, you know, there was really a ... talk about a budget adjustment having to happen which was ... the Minister was talking about doing his budget in October 2008 - and this was September 2008 - that ... you know, Ireland was in a great position of having a debt-GDP ratio of 25%, suddenly our budget deficit was ballooning, not to do with the banks but on the fiscal side. But now, you add the banking problem on top of that ... and at that stage I thought maybe if we were forced to borrow €20 billion, even if we could borrow it, and we ... and it was against collateral which wasn't worth what we were given, then this would be a big issue for us.

Chairman: Thank you. Deputy O'Donnell.

Deputy Kieran O'Donnell: Thanks, Chairman. Welcome, Mr. McDonagh. Mr. McDonagh, in your opinion, would the nationalisation of Anglo Irish Bank on the night of the guarantee have saved the taxpayer money and, if so, how much?

Mr. Brendan McDonagh: I think, given what has emerged, Deputy, it's hard to see it would have, ultimately, saved the taxpayer money because the ... the issues were ... the bank had so many problems.

Deputy Kieran O'Donnell: Anglo?

Mr. Brendan McDonagh: Yes.

Deputy Kieran O'Donnell: And when, in your view, do you believe Anglo was insolvent?

Mr. Brendan McDonagh: I think the markets had made the decision about banks like Anglo, and banks like HBOS, that they had huge difficulties, in March 2008.

Deputy Kieran O'Donnell: Why March 2008?

Mr. Brendan McDonagh: Because, if you remember, just after Paddy's Day-----

Deputy Kieran O'Donnell: Paddy's Day, yes.

Mr. Brendan McDonagh: -----it called it the Paddy's Day massacre or something like this-----

Deputy Kieran O'Donnell: That's true, yes.

Mr. Brendan McDonagh: -----or something like this, the share prices of HBOS in the UK and Anglo got severely hit.

Deputy Kieran O'Donnell: And, we'll say, on 17 June 2008, you were in correspondence, you looked for, effectively, I suppose, an indemnity from the Minister for Finance in terms of extending funding to, we'll say, deposits. Deposits to Irish Life and Permanent went up five-fold, from €50 million to €250 million. EBS went up two-and-a-half-fold, from €40 million to €100 million. Was that the first occasion on which you would have looked for the Minister for Finance to give such a letter of comfort?

Mr. Brendan McDonagh: Well, it wasn't a letter of comfort, Deputy, and there was no indemnity because it was Exchequer money, which was borrowed from that and that you-----

Deputy Kieran O'Donnell: What was the purpose of the letter?

Mr. Brendan McDonagh: Well, the purpose was this: it was that, under the NTMA Act, the NTMA had lots of discretion and had to operate under guidelines, ministerial guidelines, that was issued each year by the Minister to the NTMA in terms of how we're going to manage the national debt. And we had a certain amount of discretion to operate on that basis and, on that basis, we took our responsibilities seriously. We placed deposits in institutions when we had surplus money to try and earn an incremental return, which would go against the debt service costs, and I suppose it came ... we took the view from 2007 onwards that we weren't going to pay ... it wasn't worth us, as senior executives in the NTMA, that we regarded this almost as the State's money as being our own money; that we wouldn't place that at risk and that, if we were told to place it at risk, and there was lots of arm-twisting trying to tell us to place it at risk so that it ... and the view was, of the chief executive, Dr. Somers, and the rest of the senior management team, was that, "We don't think it's the right thing to do but if you tell us to do it, then you better direct us to do it so that if something goes wrong, we can say that we wouldn't have done this voluntarily, that we're doing it on the basis of a direction."

Deputy Kieran O'Donnell: And is that ... was that under the legislation-----

Mr. Brendan McDonagh: Yes.

Deputy Kieran O'Donnell: -----or was that an executive decision?

Mr. Brendan McDonagh: That was under the legislation, under ... that if you want us to do something that we don't want to do, then the Minister has the power to direct us under section 4(4) of the 1990 Act.

Deputy Kieran O'Donnell: And was that the first occasion that you sought such a direction?

Mr. Brendan McDonagh: In relation to?

Deputy Kieran O'Donnell: Putting money on deposit-----

Mr. Brendan McDonagh: Yes.

Deputy Kieran O'Donnell: -----with the banks.

Mr. Brendan McDonagh: I think so, yes.

Deputy Kieran O'Donnell: And when you got ... you made that decision back in August 2007 and this was the first occasion where there was a roll-over of deposits. Did it set off alarm bells that the Minister for Finance was looking for such a large increase in the likes of Irish Life and Permanent, where they went from €50 million to €250 million, and EBS from €40 million to €100 million? Did it send off alarm bells for the National Treasury Management Agency?

Mr. Brendan McDonagh: Well, the view was at the ... and the chief executive at the time sought a senior counsel's opinion on, you know, "Do we have to comply with a direction?", and he can discuss this with you when he is with you shortly and-----

Deputy Kieran O'Donnell: He took it that seriously?

Mr. Brendan McDonagh: He took it that seriously because he felt that we were being ram-rodded into doing something that we wouldn't advise anybody to do and the senior counsel's

opinion came back, said, “Legislation’s very clear under the 1990 Act. If the Minister issues you a direction under section 4(4), you are obliged to comply with the Minister’s direction.”

Deputy Kieran O’Donnell: And did you have concerns at the time about the solvency of the entire banking system at that stage in Ireland?

Mr. Brendan McDonagh: I ... we had concerns from August 2007 about banks globally, Deputy, because things ... strange things were beginning to happen. There was rumour after rumour in the market even about big banks like Wachovia, Wells Fargo, Washington Mutual, Citibank, BNP Paribas, Goldman Sachs, Bank of ... Merrill Lynch. So there was no bank ... a lot of the German banks as well, so like, it wasn’t just confined to Ireland. It was-----

Deputy Kieran O’Donnell: Would you have had discussions with the Department of Finance at the time, back in June 2008, that there was a need for, we’ll say, analysis to be done, due diligence to be done, a plan to be put in place to deal with the banks, a strategic plan?

Mr. Brendan McDonagh: Yes, certainly from September 2008, once we were invited to these meetings because we were outside the ... we were down in Treasury Building, Grand Canal Street-----

Deputy Kieran O’Donnell: No, but back, going back. I know that and we’ve heard that.

Mr. Brendan McDonagh: Yes.

Deputy Kieran O’Donnell: But going back to June, your CEO, Mr. Somers, went to the, I suppose, unprecedented position of effectively getting ... looking for senior counsel opinion, effectively against the direction of the Minister for Finance at the time, Mr. Brian-----

Mr. Brendan McDonagh: He sought that back at the end of 2007.

Deputy Kieran O’Donnell: 2007, who was then the Minister ... was Minister-----

Mr. Brendan McDonagh: Cowen.

Deputy Kieran O’Donnell: Cowen. Which was I would have thought relatively unprecedented. So the question is at that point, when you made such a dramatic decision, did you see fit as an organisation to say to the Minister for Finance, “There’s a problem here. What alternative measures are you putting in place to deal with the issues in the banking system?” You were the experts in terms of raising funding. The fact that you had the guardian of the public funds saying, “We’re not secure putting those funds into the Irish banking system”, did you not make a recommendation to the Minister of Finance both in August 2007 and then in the roll-over in June 2008, this matter needs to be looked into?

Chairman: Your question now, Deputy.

Deputy Kieran O’Donnell: That’s the question.

Mr. Brendan McDonagh: The Secretary General of the Department of Finance, who I met at the NTMA advisory committee boards or committee meetings, I outlined the position on counter-party credit limits ... was very well aware of our position. And, in terms of what discussion happened between Dr. Somers and the Minister, I wasn’t privy to them. I had only met Minister Cowen once, fleetingly in, I think, it was in July 2014 ... 2004, when he was made Minister for Finance he came to Treasury Buildings to meet Dr. Somers. Dr. Somers brought

him around the floor and I met him for about ten seconds. And I never met Mr. Cowen again after that. So-----

Deputy Kieran O'Donnell: Sorry, we can take up from Mr. Somers. Can I go, Chairman ... can I direct you to Vol. 1, it's the Merrill Lynch report and I specifically want to go on to page 42 and ... particularly page 42. And this Merrill Lynch report is dated Sunday, 28 September. It was the last Merrill Lynch report or maybe there was a subsequent one on the 29th ... no, it was the last one.

Mr. Brendan McDonagh: Well-----

Deputy Kieran O'Donnell: It's the final one.

Mr. Brendan McDonagh: This is the one that was worked on over the weekend and this was produced, I think, it's dated Sunday the 28th but I think it was finalised overnight-----

Deputy Kieran O'Donnell: Okay.

Mr. Brendan McDonagh: -----Monday morning, yes, but the date mightn't have changed.

Deputy Kieran O'Donnell: Okay, can I just refer to two final paragraphs-----

Chairman: On page 42, yes?

Deputy Kieran O'Donnell: 42, Chairman. Irish Nationwide Building Society. It says: "In the extreme stress case analysis the total writeoffs including losses of interest income would just deplete most of [Irish Nationwide] reserves of €1.8 billion." And for Anglo, it says, "If one was to apply the [Irish Nationwide] stress case scenario the writeoffs would ... deplete ordinary shareholders and other lower category subordinated debt of €7.5 billion." Is that sufficient independent third party evidence from a company that was taken on, I think, at a cost at €7 million to the Irish taxpayer?

Chairman: I'd like to bring you back in again, Deputy.

Deputy Kieran O'Donnell: The question is: was that sufficient evidence provided to the Irish Government on the night and to the authorities that Anglo Irish and Irish Nationwide Building Society were insolvent?

Chairman: Thank you. I want to bring you back in, so make it ... Mr. McDonagh?

Mr. Brendan McDonagh: This was Merrill Lynch's view. As I said, Merrill Lynch came on board about two or three days previous to that and this was their initial view, from a high level, helicopter view, that if you had the level of write-offs it would have depleted the reserves.

Deputy Kieran O'Donnell: But was that sufficient evidence for an objective viewpoint to say that based on what's being provided here, in all probability, Irish Nationwide and Anglo Irish Bank were insolvent on the night of the guarantee?

Mr. Brendan McDonagh: I mean, Deputy, whether it is or whether it isn't, they were insolvent ... they were proven to be insolvent, and this was Merrill Lynch's view after a few days' work based on desktop work, because they hadn't gone into the institutions at that stage.

Deputy Kieran O'Donnell: Very final point then. Was ... in your opinion, was enough preparation done-----

Chairman: Last question.

Deputy Kieran O'Donnell: -----was enough preparation done in the months prior to the guarantee to ... for the decision that was taken on the night of the guarantee? Could more have been done in preparation?

Mr. Brendan McDonagh: I certainly think more could have been done.

Chairman: Okay. Thank you very much. Deputy John Paul Phelan.

Deputy John Paul Phelan: Thank you, Chairman. Good afternoon, Mr. McDonagh. Some of my questions have been asked so I'll be brief with the ones that are left. In relation to page 9 of your statement on the meeting in September ... early September which was organised by the Department of Finance that Mr. Neary inquired as to the *locus standi* of the NTMA for being present and contributing to those meetings, can you just recap again the circumstances of his concern?

Mr. Brendan McDonagh: I think, in fairness to Mr. Neary, I think he was worried about his statutory responsibilities as regulator and discussing details of financial institutions under the Central Bank Acts and his own legislation with third parties who he shouldn't be sharing information with.

Deputy John Paul Phelan: Okay. And he was reassured, you said, by Mr. Cardiff-----

Mr. Brendan McDonagh: Yes, Mr. ... well-----

Deputy John Paul Phelan: Yes.

Mr. Brendan McDonagh: Well the NTMA couldn't offer him that reassurance, Deputy, but Mr. Cardiff was very categorical.

Deputy John Paul Phelan: Can you remember from that meeting or any others ... well, that meeting, in particular, or any other notable interventions from Mr. Neary with regard to ... well, I suppose, particularly with regard to the situation that was unfolding in the domestic banks?

Mr. Brendan McDonagh: Yes. I remember a subsequent meeting that Mr. Corrigan ... this was after the bank guarantee and Mr. Corrigan and I were pressing hard for a real deep dive review of the banks after the bank guarantee because I think there was a fear, certainly amongst myself and John Corrigan that, you know, the guarantee ... the view amongst the system was that the guarantee had worked - "Sure there's a huge flow of liquidity back into the banking system after the guarantee was announced and, you know, sure this proves the guarantee was the right decision." And we pressed very hard to say "Listen, hold on a second here, we know nothing about the institutions. It seems to us that you don't know a huge amount about the institutions either. We need to get a third party in to do some work."

And I remember it was one time myself and John went to a meeting at Mr. Neary's office in the Central Bank which was attended by himself, Ms Burke and Mr. Horan and we had a discussion about whether this should happen or should not and myself and John were saying. "You've got to do it. You know, you need to get in there, start this deep dive." And I remember Mr. Neary turning around at one stage to Mr. Corrigan, who was much more forceful on the issue than I was, and said, "John, you are not the regulator. I am the regulator. I will make the decision." And, of course, we ... myself and John, we weren't the regulators - Mr. Neary was

the regulator. But it was probably the one other occasion I can recall where Mr. Neary got very testy with John and myself.

Deputy John Paul Phelan: Do you feel that there was any action taken following that exchange?

Mr. Brendan McDonagh: Oh there was. Oh there was because we didn't give up, because we kept ... we went back to Mr. Cardiff and said, "We've just been in a meeting with the Central Bank. We don't think they're going to commission PwC to do this extra work." Because PwC were working on the liquidity position but they weren't working on the assets quality position. And we said, "We absolutely insist that this has to happen." And it did happen and that's when the reports started after that ... started to be compiled. And I think also around that time myself and John were getting ... starting to get exposure to Minister Lenihan which we hadn't had before that and I think we ... John and I used the opportunity seeing as we were getting exposure to him to say to him, "You've got to make the regulator to undertake these reviews because you've given a guarantee and you're on the hook you're on risk now."

Deputy John Paul Phelan: Okay ... I was, earlier actually in your statement you referred to the fact that you were surprised that there appeared to be only one or two people from the regulator engaged in close monitoring of each financial institution. That's the original meeting in early September '08. Did you express that surprise at the meeting or did you have any other avenue or use any other avenue to express that surprise?

Mr. Brendan McDonagh: Yes ... I suppose our main point of contact really because he had invited us along was Mr. Cardiff. And I certainly recall mentioning this to him and saying, "You know, is this not strange that these balance sheets are so big and there's only one or two people looking after them. You know, how can you possibly, how can anybody possibly know, to be able to deal with these complex, big financial institutions with one or two people?"

Deputy John Paul Phelan: And was that ... those meetings were the first time that you became aware of the fact that there was one or two people that were looking after---

Mr. Brendan McDonagh: Yes. Absolutely.

Deputy John Paul Phelan: Okay. Can I change now to ask you, did the ECB ever express to you or to the NTMA or officials of the NTMA, or other officials to your knowledge, the need to transfer risk in order to reduce the ECB liquidity funding risk to financial institutions with deteriorating asset values, property asset values? Was that concern ever expressed from a European level or would there have been any channel for that?

Mr. Brendan McDonagh: No, no we ... I and I don't believe any of my colleagues from the NTMA, certainly in 2008, 2009 had any real contact with the ECB. All our contact with the ECB I think was through Governor Hurley.

Deputy John Paul Phelan: Another question in relation to the e-mail which has been extensively mentioned already on page 27 to Mr. Beausang from yourself. Did you copy Mr. Somers routinely on responses to Mr. Beausang? Because I noticed that Mr. Whelan, Mr. Cardiff and Mr. Somers are cc'd on the e-mail, or was it because of you attached extra significance to what you were responding to that you included him in the correspondence?

Mr. Brendan McDonagh: Myself and Mr. Whelan clearly discussed my response in terms of going back to Mr. Beausang. But I suppose ... I don't think we had an opportunity to discuss

that with Mr. Somers ... whether he was out that day, or he wasn't available at the time because it was over lunch time. But myself and Oliver took the view that this was a big question and if we were sending a response back I didn't want Dr. Somers, who was chief executive, who I've full respect for to be blind-sided in case he was rang by Secretary General Doyle about his two guys down in Treasury Building and he was blind-sided by it. So the view was myself and Oliver took at the time was that we would copy Dr. Somers on it just to make sure he was in the loop.

Deputy John Paul Phelan: Okay. Thank you.

Chairman: Can I just deal with one issue now ... I know, I'm getting tired, I'm getting tired. Sean Patrick, my apologies, John Paul you were born in the year, so I should remember. Thank you. Do you want to take that, 29, and then I'll come back in.

Deputy John Paul Phelan: I will, Chairman, thanks for pointing that out to me. Were you aware that the Secretary General in the Department of Finance was striving to quantify the cost of a soft and a hard landing guarantee?

Mr. Brendan McDonagh: Before the guarantee decision?

Deputy John Paul Phelan: Yes.

Mr. Brendan McDonagh: No.

Deputy John Paul Phelan: Okay. Thank you.

Chairman: And did you copy Mr. Somers routinely?

Deputy John Paul Phelan: That's been asked.

Chairman: That's been dealt with. Okay. Before I more to wrap-up, it's just on a point of information because I know that Senator D'Arcy is leading with Mr. Somers so we just want to get a bit of consistency between the two sessions, just on a point of information, not a question line now.

Senator Michael D'Arcy: Should the NTMA have been stronger in relation to the advice ... in relation to the direction from the Minister for Finance for the placing of NTMA funds to the institutions in question?

Mr. Brendan McDonagh: Dr. Somers would be the person to answer that but I think the NTMA, in seeking a direction, was sending a very strong signal back to the Department of Finance and to the Minister that we weren't going to do this off our own bat and that we were only going to do it on the back of a direction. And whatever conversations occurred between Dr. Somers and Mr. Cowen who was then Finance Minister, I was not privy to, Senator.

Senator Michael D'Arcy: Would you have gone for-----

Chairman: You're not bringing the in question line, I've said, it's been just-----

Senator Michael D'Arcy: Same question?

Chairman: No, no, I've just bringing you in on a point of information, you're not listed as a questioner. I'm accommodating you, Senator, because you're in leading next.

Mr. McDonagh, I just want to ... on the general theme of a soft landing - and I'm going to wrap things up and then invite the two leads - there was a lot of discourse and a lot of mentioning and, even in witness testimony here, about preparation for a soft landing coming into 2007-2008. Was the NTMA aware of any documentation that it had itself or had to hand that supported that theory?

Mr. Brendan McDonagh: No, we weren't even aware that there that such item was under consideration because I've just seen from the evidence here by the other witnesses, that seemed to be managed in a very close group within the Department of Finance and Central Bank and the regulator.

Chairman: Okay, would you have a view that there was evidence to support the soft theory, or that there was greater or less evidence to support the hard landing?

Mr. Brendan McDonagh: It's a very difficult one to answer, Chairman, because it clearly was a very hard landing and maybe people hoped for a soft landing.

Chairman: There was a number of different correspondence ... or, sorry, a number of different references this afternoon to an e-mail between yourself and Mr. Beausang in September. However, I want to go on to an e-mail that took place between yourself and Mr. Beausang on 11 October 2008 titled, "State Aid policy issues". Do you recall this e-mail, Mr. McDonagh?

Mr. Brendan McDonagh: Yes.

Chairman: Could you maybe explain to us what the general ... this is 11 October, so about two weeks after the guarantee. Could you, maybe, explain to us what the purpose of this e-mail was about?

Mr. Brendan McDonagh: After the Government made the decision to guarantee the institutions, a work stream started immediately, an intense work stream started immediately, I think, on 1 or 2 October, which was effectively to deal with the European Commission in terms of the guarantee, who were taken, as everybody knows, by surprise by this guarantee to be announced. And William was the technical liaison person with the European Commission and I was, I suppose, asked to help him out in terms of the design of the ... I suppose, the *modus operandi* of the guarantee, the, sort of, certain consequences for the banks arising out of this. And myself and William had a lot of engagement with the Central Bank and the Financial Regulator people and Cox's who were involved advising in ... and Merrill Lynch, in terms of working out the issues as they came up, in terms of designing the structure of that guarantee. And the decision had been taken ... the guarantee, at that stage it included sub debt, it was a two-year guarantee and William had asked me a question, which I think he said himself in his own evidence, that he mightn't have appreciated the complexities or differences between dated subordinated debt and undated subordinated debt and, you know, what happens if you're going to issue and would they be ... like, what the European Commission was always concerned about was competition issues, was ... well, if you were able to do something that some other country couldn't, or another bank couldn't in another country, was that not, you know, raising competition or state aid issues so he asked me that question, I responded, and gave him my view.

Chairman: Okay. If I could maybe bring your attention to the fourth paragraph down because I think you, kind of, refer specifically in that area, where you say "Surely the objective of the guarantee of this dated subordinated debt from our point of view is to give the covered institutions the ability to access at least 2 year term funding to reduce their reliance on short

term funding thereby avoiding the liquidity squeeze.” So this is, basically, the summary of the action that had taken place two weeks ago, what it was to achieve and so forth. “If any covered institution was to issue term debt with a maturity longer than 2 years, then the market would want to be compensated for that by an appropriate step up in the interest rate pricing and that would be entirely commercial.” The two years you are talking about there, is the two-year guarantee, is it?

Mr. Brendan McDonagh: Yes.

Chairman: In that regard, there’s an indication here, and I want to test this out with as to ... with you Mr. McDonagh, as to what is actually being said here. Is it being suggested here that the design or structure of the guarantee, along with its period of duration would have a bearing on the Irish State entering a bailout programme two years and two months after this guarantee was put in place?

Mr. Brendan McDonagh: No, not at that stage, because at that stage the Government had ... made the decision to issue a two-year guarantee from 30 September 2008 and the banks, you know, still had this, you know, issue about liquidity and they were trying to extend the maturity of their funding so it was about issue ... being given the wherewithal to issue debt with a two-year maturity so that they won’t be reliant so much on short-term funding.

Chairman: Was there a stage where the design of the guarantee did or did not give an indication that a bailout was going to be required because of its design and timeline?

Mr. Brendan McDonagh: Now I, Chairman, I think the issue ... the guarantee was done, I mean everybody knew - in terms of the size of our economy, €160 billion, a €400 billion guarantee - everybody knew that that ... if that guarantee was called, Ireland couldn’t pay it. I mean that’s just the reality. Merrill Lynch make reference to that in their own report. I think the issue that came out in the two-year period really was the cap ... was the losses that the banks had built up on their books which were there, which had to be recapitalised and the scale of the recapitalisation basically drove Ireland out of the markets.

Chairman: Okay, I ... this is my final question to you, I suppose this is what you done every day for a living when you were working with the NTMA before you moved to your new position, is that you looked at the cost of Irish bond yields on a daily basis. I would assume that would have been one of the things that you did?

Mr. Brendan McDonagh: Yes.

Chairman: Just a very last question to you. Irish bond yields September ‘08, just before the guarantee, how much? Irish bond yields, November 2010, just before the bailout, how much? And Irish bond yields now?

Mr. Brendan McDonagh: Yes, well I suppose in ten-year, in ten-year funding, as I said in my statement, what I suppose we are looking at is the spread over Germany, because Germany was the benchmark and before the guarantee we’re about 45 basis points over ten-year Germany, so if ten-year Germany in September 2008 - I don’t know what it was - it might have been 4.5%, we were probably paying 5%. In September 2010, a ten-year Irish Government bond yields, I think ... just before NTMA decided to exit the markets, were around 6%. And Irish bond ... ten-year Irish Government bond yields today ... I think the last I saw them, I’m not as close to it now Deputy as before, but I think they’re probably 2.3% or 2.45%, I think.

Chairman: Thank you. Senator Susan O’Keeffe.

Senator Susan O’Keeffe: Thanks. When you mentioned the e-mail that you wrote to Mr. Cardiff, the 33 questions that you did on your BlackBerry, were ... was the Governor of the Central Bank and the Financial Regulator made aware of those questions?

Mr. Brendan McDonagh: I have no idea.

Senator Susan O’Keeffe: Did, did you have a conversation with them directly about your observations or your, your concerns about the lack of their knowledge?

Mr. Brendan McDonagh: No, no, at the time my chief ... the NTMA chief contact was with Mr. Cardiff.

Senator Susan O’Keeffe: Okay. Right. In ... on page 10 of your statement, when you talk about the pressure that was brought to bear upon you, considerable pressure you say was being applied, for the NTMA to increase the amount of deposits. So to be clear, the deposits had already been increased hadn’t they, in June 2008 as per the previous page?

Mr. Brendan McDonagh: Yes.

Senator Susan O’Keeffe: So this was now new pressure to increase again?

Mr. Brendan McDonagh: Yes.

Senator Susan O’Keeffe: How was it then that you maintained your position, was it because no direction was given or because you fought your ground or people gave up or what happened?

Mr. Brendan McDonagh: Well, I think the view was taken as ... we always maintained that if you want us to increase the amount of deposits with the financial institutions, get the Minister to give us a new direction and tell us the quantum.

Senator Susan O’Keeffe: And that didn’t happen, I take it?

Mr. Brendan McDonagh: No.

Senator Susan O’Keeffe: When you say “considerable pressure”, what are you referring to, who-----

Mr. Brendan McDonagh: Well, like ... every meeting, Senator, that we went to, everybody around the table, other than the NTMA, everyone was saying “if only the NTMA would only increase their deposits to the financial institutions, this would be a great help to the system” and we kept retorting back, which was our mantra, it was saying “Central Bank, you’re the lender of last resort, why don’t you give more money, why don’t you increase your deposits back into ... back into the banking system, because you’re the lender of last resort?” It was a game of, I suppose, cat and mouse going on really, but we were sort of saying ... it almost was like a mantra at every meeting, “Why won’t you increase your deposits?” As if we’re going to come along some day and say “Okay we give up, we’ll increase deposits with institutions”, which we wouldn’t do.

Senator Susan O’Keeffe: Did you attend meetings with Anglo Irish Bank in November 2008 about what would happen to them, or was that somebody else at the NTMA?

Mr. Brendan McDonagh: November 2008?

Senator Susan O’Keeffe: Yes, this would have been after the guarantee.

Mr. Brendan McDonagh: I don’t recall that, Senator.

Senator Susan O’Keeffe: No, I mean ... it may not have been you. So finally, just two things: one, in the booklet that you got, on page 7, there was that-----

Mr. Brendan McDonagh: Sorry, Senator, just so the thing is complete: the chief executive of Anglo Irish Bank, Mr. Drumm at the time, and Mr. McAteer, the CFO of Anglo Irish Bank, sought a meeting with Dr. Somers, John Corrigan and myself in October 2008 after the bank guarantee, where he came to Treasury Building, basically to make a presentation to the three of us, along the lines is, you know, “This is a liquidity problem, Anglo is a very good institution, we know the assets we lent on, we know the debtors that we lent on ... it’s a very simple business model, we borrow, we charge a 2% margin, and you know ... we’ve a better business model than the AIB and Bank of Ireland because we have a lower cost base so we have that done ... some of the big land deals that were done in 2007 and 2008, Anglo wasn’t really involved, we’re stepping back from the market, we’re focusing on expansion overseas.” So he came in to sell us a story and we listened to that story, and that was it so, that was the only meeting I can recall in terms of, I think it was October 2008.

Senator Susan O’Keeffe: Okay, and were you convinced by the story?

Chairman: Last question, that’s it.

Senator Susan O’Keeffe: Pardon me?

Mr. Brendan McDonagh: No.

Senator Susan O’Keeffe: No. Okay.

Chairman: Thank you, Senator. Deputy Doherty, please.

Deputy Pearse Doherty: Go raibh maith agat. Can I ask you, Mr. McDonagh, that, we’ve had evidence to the committee and the evidence suggests that the length of time that it took NAMA to undertake the loan valuations, that that caused problems in itself. And I recall you recounting just the length of time that it took you just to deal with the first tranche of loans and the haircut that came from that. Can you inform the committee again, just in terms of how long did it take, from taking the decision to go in, look under the bonnet, how much did you look at, and how long did it take to get a quantification of what type of haircut?

Mr. Brendan McDonagh: Deputy, this is a huge logistical exercise. It was 12,000 loans to 5,000 different borrowing entities with 60,000 underlying properties. So we started the process ... we got European Commission approval at the end of February 2010, the first loan transfer, tranche one, transferred to us at the end of March 2010, and then we got tranche ... we were constantly waiting for the institutions to give us information so we could do the valuation, they were having difficulty compiling all the information together to give it to us, because it was obviously a huge logistical exercise. So we couldn’t move forward until we got the information institution, then we had to do our work. We had the tranche two, I think, in August 2010, and at the end of September 2010, we were asked to come up, based on the first two tranches, an estimated valuation for the residual portfolio and that valuation proved to be entirely accurate.

So by the end of September 2010, even though we hadn't the full due diligence got, we had estimated a quantum of loss related to NAMA loans, which effectively was six and a half months from European Commission approval.

Deputy Pearse Doherty: Okay, so six and a half months, and that's for the entire ... so the Financial Regulator had the power to go in and look under the bonnet, to do on-site inspections and do loan-by-loan analysis, send in a team as such. In your view, if there was, given your experience from NAMA and bearing in the mind that the Central Bank wouldn't have to wait for European approval and all that, how long would it have taken to do an estimate, you know, a tranche of loans within a bank that would give us a good estimate of the type of the loan-loss that, in your view, in your words, wasn't available on the night or even weeks afterwards?

Mr. Brendan McDonagh: Well, in terms of the tranche 1 and tranche 2 borrowers, you're probably talking about the top 50 ... you're probably talking about, maybe, the top 50 borrowers of the almost 800 borrowers that came to NAMA. You probably ... it would probably realistically ... to do the exercise that we did, if they were trying to do it even in a more ... you know, I suppose sample basis or because they ... it probably would have taken them realistically three to four months.

Deputy Pearse Doherty: Three to four months.

Mr. Brendan McDonagh: Yes.

Deputy Pearse Doherty: To look at the top 50 borrowers.

Mr. Brendan McDonagh: Yes. But it would be ... you couldn't do it under the radar, Deputy. And I think, in fairness, to the people there was a very strong view amongst the Central Bank regulator was that if you're seen to be doing this exercise, then it's going to get out ...it's going to be think that you've got a big problem with your banking system. And, you know, there was view that you needed to ... whatever you needed to do, you needed to do under the radar. NAMA was over the radar because the Government had made the decision and had European Commission approval. But back in 2008 when this exercise could have been done, you probably would have had to start that work probably back in ... probably March-April 2008. And probably the trigger for it really should have been after the share price fall in March 2008 that there would be more questioning going on of saying, "Are the banks really telling us that their books are sound and the assets are worth what they're worth." And ... but that didn't happen.

Deputy Pearse Doherty: Okay. Thank you.

Chairman: Final question. Thank you very much. With that said, is there anything else you'd like to add by means of a closing statement or remark, Mr. McDonagh?

Mr. Brendan McDonagh: No, Chairman, thank you.

Chairman: Okay. So, in just prior to excusing you, I just want to put the committee on notice that we just need a very, very short private session to deal with a notice of direction and if we can maybe just suspend for a few moments when excusing Mr. McDonagh, that we would actually deal with that. So, Mr. McDonagh, I would like to thank you very much for your participation today and for your positive engagement with the inquiry. I now state that the witness is formally excused and I propose that we now suspend to go into private session. Is that agreed? Okay. Just stay in the room, so folks, please.

Sitting suspended at 5.27 p.m. and resumed in private session at 5.28 p.m. Sitting suspended at 5.31 p.m. and resumed in public session at 5.53 p.m.

National Treasury Management Agency - Dr. Michael Somers

Chairman: So, I now propose that we go back into public session. Is that agreed? And our final and fourth session of today is a public hearing with Dr. Michael Somers, former chief executive of the National Treasury Management Agency and ... at our next session. So, in that regard, the Committee of Inquiry into the Banking Crisis now resuming in public session and can I ask members and those in the public Gallery to ensure that their mobile phones are switched off.

At our next and final session now, we will continue on the role of the NTMA during the crisis and we'll hear from Dr. Michael Somers, former chief executive of the National Treasury Management Agency. Dr. Michael Somers was CEO of the NTMA for 19 years, from December 1990 until his retirement in December 2009. Prior to this, he was Secretary General, national debt management, in the Department of Finance and Secretary General at the Department of Finance. Dr. Somers, you're very welcome before the committee this afternoon, or this evening.

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

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

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

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

Dr. Michael Somers, former Chief Executive, National Treasury Management Agency.

Chairman: Again, thank you Dr. Somers for your attendance today and if I can invite you to make your opening remarks please.

Dr. Michael Somers: Thank you, Chairman. I have been asked to provide a statement to