

HOUSES OF THE OIREACHTAS

Volume 2

No. 59
Morning
No. 60
Afternoon

AN COMHCHOISTE FIOSRÚCHÁIN I DTAOBH NA GÉARCHÉIME BAINCÉL- REACHTA

JOINT COMMITTEE OF INQUIRY INTO THE BANKING CRISIS

Déardaoin, 3 Meán Fómhair 2015

Thursday, 3 September 2015

The Committee met at 9.00 a.m.

MEMBERS PRESENT:

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

DEPUTY CIARÁN LYNCH IN THE CHAIR.

a lot written over the last number of years, a lot spoken about Anglo and its senior team. Mr. Fitzgerald, as a senior executive in Anglo Irish Bank, what are your views on the public perceptions that were put forward?

Mr. Peter Fitzgerald: Given everything that's gone on with Anglo Irish Bank in terms of its activities, both from a business perspective and also in terms of alleged issues of corporate governance, I fully understand that the actions of the bank can never be forgiven or forgotten. And I would never look to defend them, either in a forum like this or outside of it, and from that perspective, I'd leave it at that.

Chairman: So with that said, I just would like to invite you, Mr. Fitzgerald, if you so wish, if there are any closing comments or remarks that you'd like to make, to give you an opportunity to do so and then I'll bring matters to an end.

Mr. Peter Fitzgerald: I've no further comments to add and I just want to thank the Chairman of the committee for your time today.

Chairman: Okay, thank you. Thank you also for your participation today and your engagement with the inquiry. Mr. Fitzgerald, you're now formally excused and I propose that we take a recess for 15 minutes after which we will move on to our next session. Is that agreed? Agreed.

Sitting suspended at 11.13 a.m. and resumed at 11.38 a.m.

Anglo Irish Bank - Mr. Gary McGann

Chairman: We will resume in public session. Is that agreed? Okay, and we now commence with the second session of today of public hearings with Mr. Gary McGann, former non-executive director at Anglo Irish Bank. The Committee of Inquiry into the Banking Crisis is now resuming in public session and can I ask members and those in the public Gallery to ensure that their mobile devices are switched off? This morning, the focus of the inquiry is on Anglo Irish Bank. At this session, we will hear from Mr. Gary McGann, former non-executive director at Anglo. Mr. Gary McGann was a non-executive director of Anglo from 2004 to 2009. He is the former group chief executive officer of the Smurfit Kappa Group. Previously, he was group CEO of Aer Lingus and CEO of Gilbeys of Ireland. Currently, he is chairman of Aon Ireland and Paddy Power plc. Mr. McGann, you are very welcome before the committee today.

Before hearing from the witness, I wish to advise the witness that, by virtue of section 17(2) (l) of the Defamation Act 2009, witnesses are protected by absolute privilege in terms of the ... in respect of the 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 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 re-

minded that these documents are confidential and they should not publish any of the documents so displayed. The witness has been directed to this meeting of the Joint Committee of Inquiry into the Banking Crisis. You have been furnished with booklets of core documents. These are before the committee, will be relied upon in questioning and form part of the evidence of the inquiry. So with that said, if I can now ask the clerk to administer the oath to Mr. McGann, please.

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

Mr. Gary McGann, former Non-Executive Director, Anglo Irish Bank.

Chairman: Thank you for being here this morning. If I can invite you to make your opening remarks, please.

Mr. Gary McGann: Thanks, Chairman. As you're aware I've provided the inquiry with a written statement setting out my views on the topics which you've asked me to cover. I don't propose to go through my statement this morning but I'm here to answer any questions you may wish to raise with me. I think, as you're aware, there are a number of topics which, due to legal proceedings I've been advised that I can't address and therefore you'll appreciate that I may have to temper or constrain my responses in that regard, but other than that, Chairman, I'm happy to support and help the inquiry, so I'm happy to take questions.

Chairman: Okay, thank you. In that regard if I can invite our first questioner this morning, and that's Deputy Kieran O'Donnell. Deputy, you have 20 minutes.

Deputy Kieran O'Donnell: Thank you Chairman. Welcome Mr. McGann.

Mr. Gary McGann: Thank you.

Deputy Kieran O'Donnell: This is, Chairman, Vol. 1, page 35 to 48, a document. It's a memo to a board dated 30 January '07. In early 2007 you raised a number of concerns which are summarised and addressed in the memo to the board by Mr. McAteer and Mr. Moran, dated 30 January. Can you please tell the committee why you had these concerns and were they addressed to your satisfaction? That's Vol. 1, page 35. Yes. And if I could direct you as well that, on page 37 of that document, the heading is, "Banks and High Growth [not] always a happy marriage" and it says:

"High growth banks seldom die of old age!" (Mohammad Rhostom, Portfolio Manager, Brown Brother Harriman, referring to our growth).

You might, I suppose, put it in that context.

Mr. Gary McGann: Well thanks, Deputy. The particular document referred to, I can't remember it in detail, but having reviewed it I can certainly remember the context. On this board and indeed on any board that I've served, having spent a lot of my life in plc world, I'm very conscious of how businesses interact with the equity investment markets and my advice and views to any boards I've been on are basically contained in the principle that shareholder value, which is ultimately what plcs are required to deliver in the context of a number of other things, is only delivered on a sustainable basis if it's based on a business that has a sound business model, has achieved credibility over time by virtue of its delivery against that model and has a management team which in themselves have got credibility in the market. And my request of the team at all times was to ensure that in articulating the business, the model and the reporting of results, etc., that those factors would be borne in mind, and the manner in which that

that would be reflected in terms of outcomes would be that long-term value type holders would invest in the business. So that was the context of my, the issues I would have raised with the team. As I said, I would have raised it with teams in other companies as well.

Your reference to the comment on banks with high growth-----

Deputy Kieran O'Donnell: Seldom die of old age.

Mr. Gary McGann: Yes, and I've seen a number of references to this. I have to say, I'm not minded, I certainly don't recollect too many of them being brought to our attention at the time, but obviously high growth has challenges attached to it, but the concept of growth, even in the banking business, subject to proper governance and proper capital adequacy ratios etc., is of itself not wrong. The issue is to be aware of the challenges and risks associated with it.

Deputy Kieran O'Donnell: Do you believe now Mr. McGann that the Anglo model was a flawed model?

Mr. Gary McGann: I'm not sure I would go so far as to say that the model in its, kind of, in totality, was flawed. It certainly was a model that had challenges. I think businesses in general - and I'm mindful that banks need particular attention - but businesses in general that have a narrow product range have inherent risk. Ironically, in the business I've run for 13 years as CEO and 17 years as an executive in the world of packaging, which is very far removed from banking, I accept, but we have a very narrow product range and the equity markets love it, because it's high-concentration expertise in a narrow area, deep and meaningful engagement. The debt markets don't like it because obviously of the higher risk attached to it. The way we dealt with it in my current business is we widened the geographic spread so that we actually got the portfolio effect of geography in terms of the de-risking of it. In the Anglo case, again, the product range or the product area was narrow but there were significant moves afoot to widen the application of that both in terms of product and in terms of geography. And it was evolving over time but not quickly enough.

Deputy Kieran O'Donnell: Do you believe that the ... and I want to direct you to page 17, Vol. 1 in the same context, it's the Nyberg report, and it said, it's speaking specifically about Anglo ... he speaks about that "there is little evidence that board directors at the time were active in challenging the bank's approach or its pace of lending growth". How do you react to Mr. Nyberg's comments in that regard? And also it makes reference to the fact that the former CEO, Mr. FitzPatrick, was appointed to the new chair of the board in contravention of generally accepted governance principles at the time. Now you're a, I suppose, an experienced and seasoned holder of ... on boards, both as chair and as a member of the board. So how do you react to Mr. Nyberg's direct criticism of the board of Anglo in terms of its, the way it operated?

Mr. Gary McGann: Can you just help me? Which page, again?

Deputy Kieran O'Donnell: It's page 17, Vol. 1. It's the first paragraph, 2.5.6 and 2.5.7.

Mr. Gary McGann: Okay, thank you. I acknowledge what Dr. Nyberg has said. Dr. Nyberg reviewed Anglo, I think in 2011, maybe 2012 and, indeed, I met with Dr. Nyberg. And, certainly, the conclusions he has arrived at obviously have the benefit of a holistic look at the bank in the context of what transpired. And obviously he has the benefit of hindsight. And I'm not suggesting that it's the only basis on which he has concluded but, certainly-----

Deputy Kieran O'Donnell: With due respect, Mr. McGann, in the limited time, you were

a member of the board that appointed the former CEO as chair of the same board, which really was in complete contravention of good corporate practice. How do you stand over that?

Mr. Gary McGann: Well, I need to first of all correct you on one point. I was only joining the board as that appointment was made.

Deputy Kieran O'Donnell: But were you a member of the board that appointed that-----

Mr. Gary McGann: I can't recollect whether it was actually done before I arrived or done just after I arrived, but the die was certainly cast. In the ... in the other aspect of your point, as you know, in terms of governance and the various committees and people who've opined on corporate governance, and there's been quite a number of them over the years now, there is a fundamental principle still of comply or explain. And the comply or explain principle applies to this day in terms of independence, non-independence, etc. The ... as I ... as it was explained to me, and as I understood it subsequently in terms of that appointment, there are a number of factors attaching to it. One, the man had enormous knowledge and experience of the bank and arguably was the most expert person in terms of the type of bank that Anglo was. Two, the appointment of the new CEO was from one step below the director who reports to the existing CEO, given that it was going to be an internal appointment. And there was consideration of external candidates and it was decided against, and there are obviously views on that.

Deputy Kieran O'Donnell: Did you approve Mr. FitzPatrick's appointment as chair?

Mr. Gary McGann: I ... in all honesty, Deputy, it was a done deal. But, but I understood it and, and-----

Deputy Kieran O'Donnell: You accepted it.

Mr. Gary McGann: Yes, I did.

Deputy Kieran O'Donnell: And can you go on ... the direct criticism of Mr. Nyberg where he said that there is "little evidence that [the] directors at [this] time were active in challenging the bank's approach or its pace of lending growth", which was incredible over that period in which you would have been director of Anglo.

Mr. Gary McGann: Well, as the structure in Anglo was that the board were responsible for policy and strategy and governance, within the context of that, lending and risk was delegated, as is the right of a board, to the risk and compliance committee.

Deputy Kieran O'Donnell: But in quick time, did ye challenge the bank's approach of the management and the CEO in terms of the direction they were taking Anglo Irish Bank in terms of the massive growth in commercial lending?

Mr. Gary McGann: I think the context is important, Deputy. The context is very simple. The business was very successful. The environment was very strong. The profitability and the replenishment of the capital base was stronger than any bank in Ireland. Depositors and investors and rating agencies, etc., were all very, very happy. And, quite frankly, in the circumstances, the obvious, in hindsight, nature of the challenge, particularly in the context of a systemic downturn, wasn't apparent. So, challenging something with the benefit of the hindsight is very clear. The challenge at the time was to ensure that we were in reasonably good shape and there was no evidence brought to board that we weren't.

Deputy Kieran O'Donnell: Can I move on to the contracts for difference? You were re-

ported in *Anglo Republic*, the book, where you brought to a head the contracts for difference in September 2007. Did you believe it to be a critical problem for the bank and what did you see as the consequences? Were the non-exec directors kept informed? Did ye ... did the non-exec directors seek independent legal advice? How critical of an issue was it in terms of the future of the bank?

Mr. Gary McGann: Well, I think, the ... the starting point was ... and to this day I find it hard to believe that in any business, most particularly a bank, that a position can be built without the investors and the market knowing that the position is being built. So I find that just unbelievable.

Deputy Kieran O'Donnell: When did you first become aware of the contracts for difference?

Mr. Gary McGann: I can't be precise but my sense was ... sorry, my absolute clarity was from the media ... whenever the media started the rumouring and we started questioning it because, as you know, there was no definitive evidence of the holding. And to this day, in fact, there was no definitive evidence of the holding because that holding, as I understand it-----

Deputy Kieran O'Donnell: How do you believe it affected the bank? What was the impact it had on the bank?

Mr. Gary McGann: I think, ultimately, the impact it had on the bank was concern about the ... the ... the impact was very, very clear ultimately, from about March onwards, and that was that the invest ... the depositing public, both in terms of retail and corporates, were quite concerned-----

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

Mr. Gary McGann: -----predominantly because the share price was in decline.

Deputy Kieran O'Donnell: Was it a catalyst that brought about the demise of Anglo?

Mr. Gary McGann: I wouldn't say ... I wouldn't go so far as to say it was a catalyst but certainly it was a strong contributor.

Deputy Kieran O'Donnell: Can I move on?

Chairman: You would be as well not to be so directive.

Deputy Kieran O'Donnell: Can I move on?

Chairman: Yes, sure.

Deputy Kieran O'Donnell: The bonuses. I direct you to Vol. 2, page 77 to 95, and Vol. 2, page 97 to 99 - the Nyberg report. So can I ... and what I really want, I suppose, to ask is did you consider the level ... you were on the remuneration committee, is that correct, Mr. McGann?

Mr. Gary McGann: I joined the remuneration committee in mid-2007.

Deputy Kieran O'Donnell: 2007. Do you feel the level of bonuses awarded to senior executives to be justified in approach during the period? In the period from, we'll say, the years you were there, in '07 and, we'll say, '08 ... in '07, the CEO at the time - and it is in the accounts - received €3.274 million of a salary. He got a basic salary of €956,000 and he had a bonus of

... of €2 million. Do you believe it was justified?

Mr. Gary McGann: Well, I think it is important to understand the context of remuneration. I mean, the remuneration arrangements in any business, particularly plcs, are based on best practice in the marketplace as advised by the various people who are expert in this area and Anglo Irish Bank's structure was no different fundamentally than anybody else's. There are obviously three elements to it - there is salary, there is short-term bonus and there is long-term incentive schemes. And the basis of each of those is against market practices, the quality and the size of the business and the performance of the business. But it's important, Deputy, that you understand the context.

Deputy Kieran O'Donnell: But it's also ... it was the highest salary of any of the banks.

Mr. Gary McGann: It was the highest-performing-----

Deputy Kieran O'Donnell: A monoline bank.

Mr. Gary McGann: It was the highest-performing bank for the last 25 or ... 25-odd years. That's well recognised.

Deputy Kieran O'Donnell: So you believe that his salary of €3.3 million in '07 and €2 million in '08, with a basic salary of €1.15 million ... you believe that was justified.

Mr. Gary McGann: What I am saying is I'm telling you the circumstances in which it was paid, which is the normal type of circumstances in any business in any industry - which is, short-term salary based on market competition, bonuses based on targets to be achieved and long-term incentives based on sustainable profitability.

Deputy Kieran O'Donnell: Do you think it was justified?

Mr. Gary McGann: I think if the numbers that Anglo Irish Bank delivered were the basis for it, then, against the structure of the remuneration, yes.

Deputy Kieran O'Donnell: Mr. McGann, can I take you to ... there was a golf outing with the ... with Brian Cowen - he was Taoiseach at the time - on 28 July in Druids Glen. Were you present at that?

Mr. Gary McGann: I was.

Deputy Kieran O'Donnell: Can you take us-----

Mr. Gary McGann: Sorry, to be clear, Deputy, I was present at a meeting before it and dinner after it. I was not present on the-----

Deputy Kieran O'Donnell: Can you walk us through the day? What time did you arrive to Druids Glen at?

Mr. Gary McGann: Well, the meeting ... I'm trying to remember, the meeting before the game of golf was morning time, around nine, half-nine maybe.

Deputy Kieran O'Donnell: Who booked the room?

Mr. Gary McGann: I'm ... I'm not sure who did the bookings or-----

Deputy Kieran O'Donnell: Who paid for the room?

Mr. Gary McGann: I don't know. I didn't.

Deputy Kieran O'Donnell: What did ye discuss at the meeting?

Mr. Gary McGann: The meeting was requested ... well, I was asked to attend the meeting by Fintan Drury in the context of a general discussion around the economy. There was some sense that there was beginning to be a slowdown. The ... Mr. Cowen was due to come in as Taoiseach. It was coming close to holiday time. A discussion ... a general discussion - not in any way a kitchen cabinet, for want of a better word - was requested. I was asked to attend on the basis of our domestic and international business and give a perspective on the issues that I saw.

Deputy Kieran O'Donnell: Ye had a meeting in a meeting room in the hotel.

Mr. Gary McGann: No, we had a meeting room off-site.

Deputy Kieran O'Donnell: Off-site. Where was that?

Mr. Gary McGann: It is not particularly relevant, Deputy. I'd prefer not to.

Deputy Kieran O'Donnell: Well, I think, just for the sake of clarity, it would be ... it might bring a bit of-----

Mr. Gary McGann: Well, it was in a private home.

Deputy Kieran O'Donnell: Of whom?

Mr. Gary McGann: Mr. Drury.

Deputy Kieran O'Donnell: And did ye ... at that meeting, what did ye discuss? Did ye discuss banking?

Mr. Gary McGann: No.

Deputy Kieran O'Donnell: Why didn't ye discuss banking?

Mr. Gary McGann: Because it wasn't-----

Deputy Kieran O'Donnell: I mean, banking is-----

Chairman: You are barraging the minute you ask a question. Mr. McGann to answer.

Deputy Kieran O'Donnell: Sorry. Why didn't ye discuss banking considering it's such a large element of the Irish economy?

Mr. Gary McGann: Because it wasn't on the agenda.

Deputy Kieran O'Donnell: So what was on the agenda?

Mr. Gary McGann: General economic developments and what the likely challenges would be and what the possible actions might ... might mitigate those negative developments.

Deputy Kieran O'Donnell: And do you think it's credible, Mr. McGann, from the public looking in that - that was two days after Mr. Quinn would have written to Anglo about the contracts for difference, you had the share price falling in Anglo the previous March, tightening of credit within the banking system, the banking system being such a, I suppose, key driver of the

Irish economy - that banking wasn't discussed?

Mr. Gary McGann: Deputy, as I said, banking wasn't discussed.

Deputy Kieran O'Donnell: And was it said it was off the agenda?

Mr. Gary McGann: I am not sure I recall it, kind of, being excluded but ... I think, in the circumstances, it certainly didn't arise.

Deputy Kieran O'Donnell: And did ye follow up? What time did that meeting conclude?

Mr. Gary McGann: I think it was a couple of hours, Deputy.

Deputy Kieran O'Donnell: And did ye meet up thereafter?

Mr. Gary McGann: Met for dinner that night in Druids Glen.

Deputy Kieran O'Donnell: And what did ye discuss at dinner?

Mr. Gary McGann: General social conversations. The dinner was public; it was in the restaurant. It was, I think ... I can't remember ... I think, in fact, Mr. Cowen's driver was invited in because he had been around all day.

Deputy Kieran O'Donnell: So, throughout that entire period, how long would you have spent in Mr. Cowen's company?

Mr. Gary McGann: Maybe four, four and a half hours.

Deputy Kieran O'Donnell: So throughout four and a half hours, there was no mention ... amongst, we'll say, yourself, Mr. Cowen, Mr. FitzPatrick, Mr. Drury and Mr. Gray, there was no mention of any nature regarding banking of any description.

Mr. Gary McGann: To my recollection, no.

Deputy Kieran O'Donnell: And can I ... and Mr. McGann, do you accept that people would find that difficult to accept and understand in the context of the time?

Mr. Gary McGann: Well, I-----

Deputy Kieran O'Donnell: And in the context, Mr. McGann, that you were a board member of Anglo. We'd the chair of Anglo in - Mr. FitzPatrick. We had the former member in, Alan Gray, former member, Fintan Drury, both in Anglo - Mr. Alan Gray, a member of the Central Bank and the Financial Regulator. Do you think ordinary people looking in would feel that it defies logic and credibility that you didn't discuss banking? And if you didn't, surely you should have discussed banking.

Chairman: Mr. McGann.

Mr. Gary McGann: Sorry, excuse me, Chairman.

Chairman: No, you're in.

Mr. Gary McGann: I think you've asked me about four questions and they sound like-----

Deputy Kieran O'Donnell: All of them are credible.

Mr. Gary McGann: -----all potentially contradictory.

Deputy Kieran O'Donnell: Well, explain why they're contradictory.

Chairman: Sorry, Deputy. You'll have to allow Mr. McGann to deal with the series of questions there.

Mr. Gary McGann: All I can tell you, Deputy, we did not discuss banking to my recollection.

Deputy Kieran O'Donnell: You ... there was a previous dinner held by Anglo back on 24 April '08 with Mr. Cowen as guest. Did you discuss banking at that dinner for Mr. Cowen?

Mr. Gary McGann: Not specifically, no.

Deputy Kieran O'Donnell: Did you make a presentation?

Mr. Gary McGann: I didn't, no. Sorry, I was ... we certainly had a round the table discussion from various people from various backgrounds as to what we were seeing in the market.

Deputy Kieran O'Donnell: So what was discussed at that dinner, Mr. McGann?

Mr. Gary McGann: That dinner was, to my recollection, more a social event than a business event, but certainly there was a round-table, as I said, tour of the table, in terms of what the economics-----

Deputy Kieran O'Donnell: So no discussion around either Anglo Irish Bank, even though it was-----

Chairman: Final question now, Deputy.

Deputy Kieran O'Donnell: -----no discussion around Anglo Irish Bank, even though it was hosted by Anglo Irish Bank, or no discussion around banking?

Mr. Gary McGann: No, but I think, Deputy, in both cases, I think it would have been inappropriate to actually have the incoming Taoiseach, the Minister for Finance, into a general meeting based on a social occasion and table issues that should be tabled in a business environment. So the answer is "No", there was no discussion.

Chairman: Thank you very much. The next questioner is Deputy Joe Higgins. Deputy, 20 minutes.

Deputy Joe Higgins: Yes, Mr. McGann, if I can refer to Vol. 1, page 68, of the core booklet.

Mr. Gary McGann: Vol. 1?

Deputy Joe Higgins: Yes, and this relates, Mr. McGann, to a letter from the Financial Regulator to the chief executive of Anglo Irish Bank, dated 27 June 2007. And in that, 30 issues are raised by the Financial Regulator with the chief executive, and what would be considered as quite significant issues, particularly perhaps the extent of lending for land development, etc., and another significant issue, the exception to group credit policy. Now, can I first of all ask you to reconcile that letter with what you say on page 5 of your written submission, "I have no recollection of the board having received any correspondence directly from the regulator's office and I was not aware that the management received any correspondence from the regulator

outlining any material concern or dissatisfaction about how the bank was operating its business model, its risk profile or its lending practices.” Were you aware of this letter, Mr. McGann, and the concerns it raised?

Mr. Gary McGann: I certainly did not see this letter and, therefore, did not see the content of the letter, the concerns raised.

Deputy Joe Higgins: And were the issues raised in this letter brought to the board by the chief executive?

Mr. Gary McGann: Not to my recollection. I have no recollection of ever hearing of any of these issues.

Deputy Joe Higgins: You are aware of the letter now, I take it.

Mr. Gary McGann: Sorry, I have it in my pack.

Deputy Joe Higgins: Would you agree that some of the issues are of very high significance?

Mr. Gary McGann: I certainly think in the context of how things evolved it would have been both helpful and informative if we were aware of them at the time.

Deputy Joe Higgins: Would you say, Mr. McGann, it should have been imperative that these issues were brought to the board?

Mr. Gary McGann: I think some of the issues were certainly of a magnitude that should have been brought to the board, yes.

Deputy Joe Higgins: And why weren't they, do you think?

Mr. Gary McGann: That I do not know.

Deputy Joe Higgins: Okay. Now, I'd like to move on then to Vol. 1, page 57. This relates to exceptions to group lending policy, and we see there ... this concerns the month of July, but I'm going to leave July out of it actually, Mr. McGann, because the previous five months - February to June - are given, and this is commercial lending. The exceptions to the lending policy and limits in February '08 was 26%; March, 28%; April, 28%; May, 28%; and June, 28%. In your opinion, Mr. McGann, were these high levels of exceptions ... would you agree that there were high levels of exceptions to begin with?

Mr. Gary McGann: Well, I think the principle of exceptions in the bank - and, as I understand it, not necessarily just in Anglo - that the policies were set tighter and that, therefore, there would be exceptions to the policy, and those exceptions were ... these exceptions, as I understand it, were not breaches. They were exceptions in the sense that they exceeded the policy and, therefore, required a higher order of review and/or sign-off-----

Deputy Joe Higgins: But would you say, Mr. McGann, that they might have been indicative of problems with the control environment inside Anglo, or whether the ... an independent credit control function was exerting itself sufficiently on the lending side, for example?

Mr. Gary McGann: I don't think it necessarily follows that exceptions to the policy, given that the policy was, as I said, written tightly and, as I say, it's not necessarily just in Anglo ... that the exceptions would by their nature be, if you like, a breach or a piece of evidence that there was a problem. I think what they needed was obviously a higher order of sign-off. It doesn't

... for example, it doesn't follow that loans that were made as exceptions to policy were necessarily bad loans or, indeed, worse loans than loans that were within policy.

Deputy Joe Higgins: Well, can I take you ... us then, Mr. McGann, to Vol. 2, page 3? This is a report from NAMA. If I can take you to the bottom of that page:

Of the 1,731 cases reviewed at client level, the number found to have represented an exception to credit policy was 1,073 or 62% of clients. The aggregate value of the exceptions identified was €31.97 billion or 92% of the value of the Book which transferred to NAMA.

Mr. McGann, 92% of the total loans transferred to NAMA from Anglo were exceptions to credit policy. Would an ordinary onlooker be forgiven for thinking that this was a damning indictment of credit policy in Anglo?

Mr. Gary McGann: In all honesty, Deputy, that's a number I hadn't seen before until I read this book, so I find it difficult to comment on it. It's a high number, that's for certain. Obviously, the time in which that number was calculated, I presume, is at the back end of the whole downturn.

Chairman: Mr. McGann, these books would have been furnished to you weeks ago.

Mr. Gary McGann: Yes.

Chairman: I would have assumed that you would have read over them during that period of time, so I would be assume that this would not have been the first time you would have seen this figure, when Deputy Higgins raised the question with you. So I will be expecting a broader answer to that question, than just, "This figure is kind of new to me".

Mr. Gary McGann: No, no. It was new to me, Chairman, as I said, when I saw it in the book.

Chairman: Yes, okay, so you had time to think about it.

Mr. Gary McGann: Oh no, absolutely.

Chairman: So maybe you could respond to it a bit further.

Mr. Gary McGann: No, no. I have read the book and read the book in great detail, I can assure you.

Chairman: Okay.

Mr. Gary McGann: What I'm saying is I don't know how the number was calculated. I haven't got the access to the NAMA base on which they ... the number was calculated.

Chairman: Joe, I just want to stay with this for a second. I've stopped the clock for you there. If you can continue on the figure there for a moment, so.

Mr. Gary McGann: I've nothing further to say, Chairman. It's a large figure. I don't know how it is calculated but I accept in the context in which we're discussing it, it's a very large figure.

Deputy Joe Higgins: Well, I must invite you to say more, Mr. McGann, because it doesn't matter when it was calculated. I take it that NAMA examined the loans and found that 92% of

the value of the book which was transferred to NAMA - almost €32 billion - was money that was lent by way of exception to the official credit policy of Anglo Irish Bank and the point ... I would ask you again: do you find that shocking?

Mr. Gary McGann: Deputy, I was not on the risk and compliance committee, which presides over the loans and so, therefore, the ... my ability to have these levels of detail at a main board level wasn't something that I can recollect-----

Deputy Joe Higgins: Mr. McGann, with respect, I wasn't on the credit committee either but as a lay representative of ordinary people out there, when I read that, I was utterly shocked.

Chairman: That's a prejudgement now, Deputy, and the witness is here to testify, not the member.

Deputy Joe Higgins: No, but I'm ... and I would say ... what I'm ... the point I'm making to you is that a layperson out there would see or would raise a question which I'm raising to you that this bespeaks ... or does it bespeak a credit policy that was ... that went out of control?

Mr. Gary McGann: Well, I think the ... first of all, I totally accept and acknowledge 92% is a heck of a big number. Secondly, I think if I understand it correctly, this number was calculated at the end when values ... when all sorts of numbers and dynamics had gained a momentum that certainly nobody anticipated but at face value, I accept the point you're making, Deputy.

Deputy Joe Higgins: Okay, move on for time, Mr. McGann, and at a board meeting on 12 December 2008, it was reported that Mr. Drumm, chief executive, and Willie McAteer, had met with Mr. Hurley, then Governor of the Central Bank, and Mr. Grimes of the Central Bank at which a figure of €3 billion of new capital was acknowledged as being needed. So this was December 2008, a few months after the bank guarantee. On the night of the bank guarantee, were you aware that Anglo would require this quantum of additional capital in order to remain solvent and what would your assessment be of the bank's liquidity and solvency position at the time of the guarantee?

Mr. Gary McGann: Certainly around the guarantee, I wouldn't have been aware of a number of €3 billion. I think the board were aware that there were certainly challenges in terms of how the bank's model would be sustained longer term. I think the speed at which developments occurred into the period towards the end of September and, indeed, thereafter was huge. The ... I think just to try and deal with it, at no point in time did we, as a board, believe we were dealing with a solvency issue. We most certainly believed we were dealing with a liquidity issue and that liquidity was not just an Anglo liquidity issue, albeit a significant one in Anglo, but was a much wider liquidity issue across a range of different businesses. So at the time of the guarantee, to specifically answer your question, €3 billion, no.

Deputy Joe Higgins: And you ... do ... were you of the view that Anglo was solvent at the time of the guarantee?

Mr. Gary McGann: Absolutely.

Deputy Joe Higgins: Okay. So if I move on then to Vol. 2, page 79, and Deputy O'Donnell has referred already to the bonuses and you as part of the remuneration committee would have been at a ... from a certain date, would have been responsible for part of ... and you described to the Deputy the level of bonus for the chief executive, for example, and, presumably, for the others as justified. How can ... how do you justify that justification, Mr. McGann? For example,

as I left home this morning at 6, 6.30, the ... my local postmen and women were already an hour or two at their depots sorting mail-----

Chairman: I remind you, Deputy, between the difference between giving evidence and asking a question.

Deputy Joe Higgins: -----and performing a very important social function. Would they be entitled or should they be entitled to a bonus of €2 million or €1 million? How do you justify-----

Mr. Gary McGann: With the greatest of respect, Deputy Higgins, we're talking about apples and oranges here. The international banking world, the international plc world has norms and structures around how remuneration takes place. Whatever about the absolute amount, the methodology is straightforward. There's an annual salary based on a competitive marketplace that's normally advised and guided by experts in this area and REMCOs decide on the appropriate level or not. That number tends to be market-competitive - size of business, performance of the business. There's an annual bonus associated with short-term objectives which is pre-agreed and, for want of a better word, contracted with the management between the management and the REMCO and then there's long-term schemes to sustain long-term profitability rather than short-termism. And against that backdrop, in the period 2007, there was a contracted commitment between the REMCO at the beginning of '07 when I wasn't a member of REMCO - but it doesn't matter - and the numbers delivered and the payout took place. That's how it works.

Deputy Joe Higgins: Mr. McGann, if I could ask, with the great respect to yourself as well, no postman and woman cost the taxpayers of this country €32 billion, which the management of Anglo Irish Bank did. How can you justify those levels of bonus for activities that led to, by any standards, a catastrophe for the taxpayer and the social situation of many people in this country?

Mr. Gary McGann: I think the correlation may be invidious in the sense of the pay at that particular point in time. I do accept that the remuneration system didn't have clawbacks for strategies that failed but the two need to be seen, I think, separate. I don't think you can make that straight correlation.

Deputy Joe Higgins: Okay. Mr. McGann, you are, I would say, by consent among your peers one of the leading capitalists of this generation with, you know, serious position in industry and so forth and you're an experienced person in business for a considerable amount of time. Bearing that in mind, can I ask you are you aware of the evidence of Professor William Black, a former US regulator, to this inquiry?

Mr. Gary McGann: I have heard of it.

Deputy Joe Higgins: Yes, and I want to put to you some of Mr. Black's evidence. He says there is a recipe which banks follow "which produces the worst losses, is most likely to cause hyperinflated bubbles [...] to cause catastrophic individual losses and future crises" and the recipe he says is a bank that grows like crazy, make terrible-quality loans, employ extreme leverage while setting aside no meaningful loss reserves for the inevitable catastrophic losses. And he says three sure things that arise as a result if these ingredients are followed, there will be record profits; under modern executive compensation, the senior leadership will promptly be made wealthy; there will be catastrophic losses. My first question, Mr. McGann, is: would you say is that a fair summation of what happened within Anglo Irish Bank and its effect on the nation? And, secondly, Mr. Black has been saying this since the late '80s, early '90s. Again,

given your experience, could you not have foreseen that booms always give way to busts?

Chairman: Allow time for a reply now, Deputy Higgins. Mr. McGann?

Mr. Gary McGann: You know, I'm ... as in most walks of life, Deputy, I think we can all find people who will posit a view that actually fits a particular theory. I don't buy the simplicity of that. Nobody, for example, planned for a systemic downturn, one-in-100-years event which, basically, brought about a lot of circumstances that nobody had anticipated. Anglo Irish Bank's capital ratios were strong. Anglo Irish Bank was replenishing its shareholders' funds on an annual basis because of tight cost-to-income ratios, low dividend pay, or decent dividend payout ratios, etc., so I don't think it was all a one-way street. I accept that, in hindsight, there were aspects of the model that did not stand up to the test of this type of environment, for sure.

Deputy Joe Higgins: But, Mr. McGann, with respect, how can you describe it as a one-in-100-year event? Professor Morgan Kelly of UCD published a study of, I think it's maybe two dozen countries over the previous, maybe, 30 years that had a property development-housing bubble, and each one, without exception, crashed. And you, I've no doubt, would have been familiar with the Scandinavian situation of the late '80s and the early '90s. What I'm saying to you is that as an experienced business person, were you not aware of this danger when you saw the exponential growth of lending, speculative development and so forth within the bank that you were a prominent member of its board?

Mr. Gary McGann: Let me clarify that any of the events that I've read about, at no point ... to my point about one in 100 years, I don't think I can recollect in my lifetime - and, unfortunately, I'm around a long time - when we have seen bank of Wachovia, Washington Mutual, Freddie Mac, Fannie Mae, Depfa, Fortis, you name it, banks all over the place, going into difficulties, if not total demise. I have not seen, as a company that I ran in 33 different countries, the business affected in almost every one of those countries all at the same time. So, I am saying to you the one in 100 years is in the sense of the global nature of what happened and, therefore, geographic spread and de-risking across geographies didn't necessarily underpin models of businesses in other sectors. In Anglo's case, it didn't.

Chairman: Final question now, Deputy.

Deputy Joe Higgins: Was it the case not that all those distinguished banks internationally that you mentioned were all at the same game, the same methods, as Anglo? You are aware of the debate about the financialisation of the international economy and the banks and speculative lending etc., came to have such a preponderance. So, was it surprising that those banks met a similar fate?

Mr. Gary McGann: No, but I think, Deputy, all banks had elements of what Anglo were doing. Clearly, Anglo's was a narrower base with the wider geography to mitigate it. But I accept that there were elements of this in most banks but development and property and building is part of economics. It ... I mean, arguably, today, the price of housing in Dublin is going up because of lack of development.

Deputy Joe Higgins: Okay, thank you, Mr. McGann.

Chairman: Thank you very much. If I could just, maybe, deal with two matters myself. I just operate with the books at the moment, with you, Mr. McGann, and it relates just to ... it's Vol. 1, page 58. It's an extract from Anglo's risk management report 2008 and in it, Anglo's monthly risk management report notes on the continuous basis that the bank is in excess of the

Financial Regulator's single sector exposure limit. This should be 200% of own funds. This is concentration limits lent out, that a bank should be in one area and in another area they can ... to use a phrase you used earlier, apples and oranges. You don't put all your money in apples; you lend out to apples and oranges and other types of fruits. But in the July '08 report noted that the exposure was 587.88% of own funds. So, maybe if I could put the question to you Mr. McGann that as an independent, non-executive director, were you concerned at the level of exposure at any time and did you raise these concerns with management?

Mr. Gary McGann: I'm not ... I can't recollect, Chairman, but my ... I do remember conversations around the sector concentration and, as you know, this was something that was returned regularly to the Financial Regulator.

Chairman: Yes.

Mr. Gary McGann: But there was an argument that the categorisation could be thought about differently, for example, the categorisation was towards development investment, property investment, when in actual fact, Anglo's model, in the first principle, was around income stream. It was based on income stream lending with a collateral, with the, if you like, the underpin being the property, and then there was, obviously, collateralisation across other businesses and then personal guarantees. But the ... if you categorise it across the basic income streams, and the source of those income streams, you get a different categorisation.

Chairman: Maybe, correct me if I'm wrong here, but, as I understand it, Anglo wasn't a high street bank. You wouldn't find it in your local town or village.

Mr. Gary McGann: Correct.

Chairman: It didn't have ATMs around the country and it may have had a mortgage book but its mortgage book wouldn't have been its main body of work.

Mr. Gary McGann: Correct.

Chairman: So, Anglo's ... and bearing in mind as well that construction in the country at that time accounted for 24% of the Irish economy, which was twice above the recommended norm. Construction should account to about 12%. It's at 6% at the moment. They're moving upwards again, which it needs to get back to a sustainable rate of 10% to 12%. But, at that time, the construction in the country was twice, 200%, of what it should've been. I mean it was ... that was a well-known figure around the place. You were highly concentrated into this area, and there were exposures being raised from it. So, I suppose, if I could return to the question and break down into two parts, were you concerned with the issue and were you bringing these concerns to management?

Mr. Gary McGann: I think, Chairman, it's the other way round. I mean, the role of non-executives, obviously, is to govern the business in the context of general plc governance. The role of management is to bring the concerns or the information and the base for those concerns, to the board. I'm not sure it was articulated as clearly as you've done.

Chairman: Okay. And were you satisfied with any of the explanations that you-----

Mr. Gary McGann: I certainly had an understanding of the nature of how the loans were being funded and, therefore, the categorisation of the sourcing of that fund.

Chairman: But with the ... NAMA's testimony to this inquiry in terms of how loans were

actually being funded was, if I could give an example, a person would maybe, from the get-go, at the very, very first development, would maybe get a loan-to-value situation where they might have to come up with 10% or 20% or 30% of the cash. But, because we were in an escalating and hyper property inflated environment, that, by the time they moved to the next development, the value of the initial development had exceeded the loan-to-value and probably was in high positive equity, therefore that positive equity could be used as a deposit on the next development, which meant that there was no cash payment on the next loan. What was there was a securitisation on what we subsequently found out was an overvalued development. And this became compounded where a very small number of lenders with your institution found themselves getting massive cash loans, or getting massive loans, over a period of time, to accumulate more developments without ever spending a single cent in deposit terms. I mean, this is the type of concentrations we're talking about. And, when Anglo finally crashed, what we saw on its loan book was a very, very small number of people with huge debt exposure. Was that ever a consideration inside in the bank that there is something here that we need to be looking at?

Mr. Gary McGann: It wasn't evident as clearly as you've articulated. It wasn't as evident as that.

Chairman: And, as I articulated it, would you consider that an accurate articulation?

Mr. Gary McGann: No, in hindsight, I think that's very clearly the case.

Chairman: Okay. Moving on again just to another document, it's Vol. 2 of the court documents, which is page 27, transcript of public hearings dated the-----

Mr. Gary McGann: Sorry, Chairman, could you repeat?

Chairman: It's Vol. 2, page 27 and it's a transcript of public hearings that we had with Mr. Brendan McDonagh. And, NAMA, when they were before us, and in information that they provided, estimated that circa of around €9 billion of interest roll-up was included in loans transferred to it by five banks. €3 billion of it related to Anglo, and I'll just go to the testimony there. It was actually ... I think Deputy Higgins was speaking to Mr. McDonagh at the time, and Mr McDonagh says that:

I should add that that €9 billion [figure] was based on data which was given to the banks before NAMA came into existence, so it was based on information we got back in the summer of 2009. We estimated that [the] €9 billion was broken down as follows; AIB about just over €3 billion, Anglo Irish Bank €3 billion, Bank of Ireland €1.8 billion, INBS €1 billion and EBS €0.1 billion.

Could I ask you, were you aware of the level of interest roll-up in Anglo Irish Bank?

Mr. Gary McGann: I wouldn't have been aware of the total number, but I would have been aware of the principle of ... of principal roll-up, yes.

Chairman: Okay. And was the figure included in board and senior management information dashboards on a regular basis?

Mr. Gary McGann: No.

Chairman: Okay. And was this level of increased risk monitored within the bank?

Mr. Gary McGann: Well, I think the concept of interest roll-up is inherent in some of the

products that were basically being dealt in. Development lending obviously has a long lead time to income. So interest roll-up as part of that deal is not an unusual concept. And obviously the trade-off or the ... the ... underpinned to that needs to be, obviously, quality collateralisation and experienced developers and so on. But the principle of interest roll-up of itself is not necessarily a failure on the original loan but, rather, part of it.

Chairman: Yes, but if you ... coming back to my earlier articulation to which you agree with, where you have a significant, though small, number of investors, a number of which would be engaging in interest roll-up ... if you've interest roll-up over a broad field, the exposure is weighed out of one small field. But with such a narrow field of individuals, did the bank consider that in terms of risk?

Mr. Gary McGann: Not specifically, Chairman.

Chairman: Okay. And did the bank have adequate information systems to monitor this risk properly?

Mr. Gary McGann: I think we need to distinguish between the information systems and the information that actually emanated to-----

Chairman: Okay.

Mr. Gary McGann: -----to board.

Chairman: Well, distinguish.

Mr. Gary McGann: And my understanding is the information systems were such that I think the information would have been available. Whether it was presented as clearly as that, I certainly don't have a recollection of it.

Chairman: Okay. Thank you. Senator Sean Barrett.

Senator Sean D. Barrett: Thank you and welcome to Mr. McGann. The Nyberg report states that "There is little evidence that board members in Anglo [...] were active in challenging the [board's] approach or its pace of lending growth." How did you react when you read that?

Mr. Gary McGann: Again, I think, Senator, the evaluation done was obviously somewhat in retrospect. I think there is no doubt about it that the board were aware of a certain amount of lending. There were initiatives taken to work on curtailing lending and to only lend new loans to well-established and existing customers where there was a long-standing relationship and confidence. I think the board would also be very conscious of the capital base of the board and the extent to which that capital base was reasonably robust and, obviously, in the context of profits, was replenished on an annual basis in a substantial way. So ... and I think the third issue is the extent of the downturn certainly wasn't anticipated, with the exception of some notable commentators - a small number - the general sense was we were heading for a soft landing rather than a crash of cataclysmic ... of a cataclysmic nature, so ... so the context, I think, was such that we wouldn't have necessarily had that view.

Senator Sean D. Barrett: Could I refer to Vol. 2, Chairman? And on page 105 ... there was a board meeting of Anglo Irish Bank on 12 December 2008, which is a fairly critical time. Nine people were absent, only five present. That hardly communicates a board, at a critical time, performing up to scratch.

Mr. Gary McGann: I don't recall, Senator, whether this was a scheduled board meeting or a board meeting called at short notice.

Senator Sean D. Barrett: Yes.

Mr. Gary McGann: So, in all honesty, I can't comment.

Senator Sean D. Barrett: You were there with Mr-----

Mr. Gary McGann: I'm ... I'm-----

Senator Sean D. Barrett: Sorry, I beg your pardon.

Mr. Gary McGann: I'm delighted to see I was there, Senator.

Senator Sean D. Barrett: Yes. You were there with Mr. McAteer and Mr. Drumm, Mr. Jacob and Mr. Whelan, but, you know, by conference call with Mr. FitzPatrick, Mr. Harwerth, Mr. O'Connor, Mr. Quilligan, Bradshaw, Ms Heraty, Sullivan, Dukes and ... and Daly. You know, you refer in your statement, you know, these were people of the highest calibre, but they weren't there at a crucial stage. I think the bank had to be nationalised pretty soon after.

Mr. Gary McGann: I think, Senator ... I'm surmising, but I think, given the number absent and joining by conference call, it strikes me that this was probably a board meeting that was called at relatively short notice. This would not be the norm.

Senator Sean D. Barrett: Could I refer to Vol. 3, page 3? The survey of the board members by Mrs. Hague - that the board members were asked to evaluate themselves, I think. Being accountable to the public, 11 thought ... of the directors thought they were excellent and two, acceptable. Compliance with regulatory requirements, ten thought they were excellent and three, acceptable. "Are there any areas of the board's work which cause you unease?" No, 11 directors; yes, two. And the two refer to the complexity of accounts and "Preparing for and managing the unexpected". Wasn't it a board which not only didn't attend on the other date I mention, didn't seem to be in touch with what was happening in the business at all, that it could have these questions?

Chairman: Please ask the question now, Deputy ... or, Senator, without moving to your own conclusion, please.

Mr. Gary McGann: I think there are a number of points that I could make, Senator. One, the concept of an external evaluation of the board at that time was quite-----

Chairman: I'm going to stop you for a second there.

Mr. Gary McGann: Sorry.

Chairman: I'm getting reports, there, of communications interference all morning from mobile phones. Even the public have actually been in contact with the communications unit here. So I have to insist ... I'll go into public ... or private session and the next time this actually happens but ... if I hear phone interference. It's of huge annoyance to people who are actually trying to avail ... and watch these hearings as they're taking place. It's of huge annoyance to them. So please, turn off your mobile phones.

Senator Sean D. Barrett: My microphone is on currently. There's no device, Chairman, and Mr. McGann-----

Chairman: I understand that, Senator, but ... and I appreciate, but it can be in your vicinity ... it can be in the vicinity of a microphone even-----

Senator Sean D. Barrett: Thank you.

Chairman: -----a person or two away and it'll still be picked up. Back to yourself, Mr. McGann, please.

Mr. Gary McGann: I think the concept of third party evaluation of a board was somewhat ahead of its time. It's only latterly that many plcs are doing this. So, in that context at least, there was some degree of initiative by the board. As to whether the board was out of touch or not, I mean, this is a ... this is an evaluation done by an experienced third party with a lot of board evaluation experience. It was done quite objectively, as far as I'm concerned, in the sense that I had ... I can only testify as to my engagement with Ms Hague. And the board's evaluation ... if you go further into it, you'll see that there was quite a variety of different answers across a number of different areas, so it wasn't as if it was just tick the box and move on.

Senator Sean D. Barrett: If I could refer, Chairman, to Vol. 1 at page 15, our parliamentary colleague, the Committee of Public Accounts, found:

Anglo had poor governance structures and procedures and risk controls during its period of high growth. Weaknesses in these areas were identified by auditors and regulators in 2003, 2006 and 2008.

So was that brought to the attention of the board in your time as the director?

Mr. Gary McGann: Any feedback of any shape or form from auditors and evaluators is ... wherever it came to the board members would have gone to the board without a shadow of a doubt. I mean, the feedback that I can ... I can ... I can give you quotations of feedback from our external auditors and I can give you quotations of feedback from PwC and the independent evaluation of the committees in 2007, which is quite positive and quite progressive in terms of its evaluation.

Senator Sean D. Barrett: Was some of the positivity generated by the way the bank dealt with dissident opinion in Ireland? For instance, Morgan Kelly was contacted by officials of the bank. Were you aware of that?

Mr. Gary McGann: No, I wasn't, Senator, no.

Senator Sean D. Barrett: And there's also evidence that the bank contacted stockbrokers who had unfavourable views of the Anglo performance with a view to getting those stockbrokers sacked. Were you aware of that?

Mr. Gary McGann: No, I wasn't.

Senator Sean D. Barrett: Yes. On pages 148 to 149, an official-----

Mr. Gary McGann: Which volume, sorry?

Senator Sean D. Barrett: Of Simon Carswell, *Anglo Republic*.

Chairman: Are you familiar with the book, Mr. McGann, are you?

Mr. Gary McGann: I'm aware of the book, Chairman; I haven't read it.

Chairman: Okay. Thank you.

Senator Sean D. Barrett: But it says that an official ... a senior official wanted a certain stockbroker fired, you know. So we have found this - that there was lots of dissident opinion, not just Morgan Kelly, Niamh Brennan and so on, Jim O'Leary-----

Chairman: Be mindful, now, of conclusion and judgment. Ask a question, Senator.

Senator Sean D. Barrett: The consensus, I think, may have been manufactured. And having contrarian stockbrokers threatened, I think, may have artificially made the board overconfident. Would you accept that as a proposition? You can generate your own PR and it makes you feel good.

Chairman: Do you have a comment or an observation on that, Mr. McGann?

Senator Sean D. Barrett: Did you do that in your time as a director?

Mr. Gary McGann: I ... certainly, I mean, I think the concept of engagement with analysts on their views on business is a standard proposition, but it generally is associated with convincing or trying to convince analysts of the areas that maybe they have misinterpreted. But the concept of ... putting them under pressure to change their views under threat I think is not something I'm aware of at all.

Senator Sean D. Barrett: Thank you. 24 April 2008, in the second edition of the book, *Anglo Republic*, it says that a dinner took place in Heritage House with the Minister for Finance, Brian Cowen. Were you present?

Mr. Gary McGann: I was, Senator.

Senator Sean D. Barrett: And it says:

Gary McGann, Ned Sullivan, Anne Heraty and Drury, all non-executive directors, spoke. The new Taoiseach was told about the pressure in the property market as a result of the credit crunch and how the bank had funding problems because of the turmoil in the international financial markets, but that it wasn't a major issue.

Pat Whelan, Declan Quilligan and Tony Campbell also spoke. That's different, I think, from the other meeting, which was a general one about Ireland. This one seems to have been very strongly about the difficulties of the bank.

Mr. Gary McGann: Well (a) Senator I haven't read the book but (b) certainly that's not my recall of the meeting and I don't know what the sources of Mr. Carswell has used for that.

Senator Sean D. Barrett: What did you speak about?

Mr. Gary McGann: I spoke about Smurfit Kappa's experience as a manufacturer in Ireland and what we were seeing in the basic industrial world, both in Ireland and internationally.

Senator Sean D. Barrett: Was there a problem in your time as director with documentation in the bank? Again, that's ... Carswell finds that the documentation in regard to directors' loans, he said, was a mess and there's been-----

Chairman: Directors' loans is-----

NEXUS PHASE

Senator Sean D. Barrett: Sorry, there is also the NAMA evidence that one of the reasons-----

Chairman: Last question now, Senator.

Senator Sean D. Barrett: -----for the 61% discount was bad documentation in the loans that they transferred from Anglo to them.

Mr. Gary McGann: I wasn't aware of wholesale difficulties with documentation. Internal audit from time to time did evaluations on the documentation process and wherever there were difficulties found, they were raised and dealt with and undertakings given to correct them and, indeed, in some instances where lawyers who would have been responsible on a panel to give legal undertakings and provide legal undertakings wherever they were repetitively failing to do that they were delisted. So that's the only knowledge I have, Senator, but I hadn't the sense that it was widespread and wholesale.

Senator Sean D. Barrett: Thank you very much. Thank you, Chair.

Chairman: Deputy Michael McGrath.

Deputy Michael McGrath: Thank you very much, Chair. Mr. McGann, you are very welcome. Can I just start by asking you about the length of your witness statement. It's only three and a half pages long. You were directed to give evidence on over a dozen lines of inquiry. It strikes me as very short.

Mr. Gary McGann: Well, what I tried to do Deputy is give information that was clearly known to me and available to me. And wherever I wasn't able to comment in terms of my lack of knowledge or experience of the particular question, for example, relationships with Finance, Central Bank and so on, I wasn't really in a position to elaborate.

Deputy Michael McGrath: Okay.

Mr. Gary McGann: I tried to give as much as I could without speculating.

Deputy Michael McGrath: Can I ask you to clarify what was in the board packs which were sent to members of the Anglo board in advance of each board meeting? Can you take us through the content of a board pack?

Mr. Gary McGann: You're testing my memory now-----

Deputy Michael McGrath: Well from the-----

Mr. Gary McGann: -----but yes-----

Deputy Michael McGrath: What would it have contained? The minutes of the previous meeting-----

Mr. Gary McGann: It would be, yes.

Deputy Michael McGrath: -----sub-committees-----

Mr. Gary McGann: It would certainly have, obviously, agenda, minutes of the previous meeting. Wherever there were minutes of sub-committees to be circulated they were circulated, wherever there was a subject matter that was specific to that board meeting to be discussed, in

many instances, not all, papers would be pre-circulated for consideration so that at least the non-execs would have read themselves into the subject matter.

Deputy Michael McGrath: Yes, but was it practice for the minutes of the sub-committee meetings to be circulated with each board pack?

Mr. Gary McGann: To my recollection, we certainly ... can I be sure that we got them all the time? I can't be sure but ... but I think, in general, yes.

Deputy Michael McGrath: And am I right in saying that the credit committee was not a committee of the board?

Mr. Gary McGann: No, the credit committee was executive.

Deputy Michael McGrath: Sorry?

Mr. Gary McGann: Sorry, credit committee were executives-----

Deputy Michael McGrath: Yes.

Mr. Gary McGann: -----and then they engaged through the group risk director with the risk and compliance committee.

Deputy Michael McGrath: Okay, so by extension would the board pack have contained the minutes of the risk and compliance committee minutes but not the credit committee minutes?

Mr. Gary McGann: Certainly not the credit committee minutes.

Deputy Michael McGrath: But the risk and compliance committee-----

Mr. Gary McGann: To my recollection I think they were-----

Deputy Michael McGrath: Okay. Can I just take you to Vol. 1 page 31, and this is a draft business plan summary from late 2008, November 2008, and it is for the five years 2009 to 2013. Whatever became of this document? Was it adopted by the board at the time as the business plan going forward?

Mr. Gary McGann: I think, Deputy, I think events overtook it, in all honesty. This is, I think, November 2008.

Deputy Michael McGrath: Yes.

Mr. Gary McGann: I believe events overtook it.

Deputy Michael McGrath: It wasn't actually adopted. Can I just ask you to square a reference in this document on page 31, where it says notwithstanding the recessionary environment:

[W]e are confident that given the nature of our business model and appropriate pricing and management of risk, the Bank will continue to generate strong profits and capital. We believe that Anglo [Irish Bank] will be the most profitable and capital generative of all publicly quoted financial institutions in Ireland over the next five year period.

This was November 2008. We heard evidence this morning from Peter Fitzgerald that, in his view, after the Lehman collapse, so in the second half of September 2008, those in charge

of running Anglo knew the game was up. What is your view?

Mr. Gary McGann: I don't believe certainly ... certainly at board, and obviously with board's engagement with the executive directors, of which there were four, that certainly wasn't the concept. The environment was extremely challenging. Funding and liquidity was a serious issue. There was a strong view that that environment that prevailed, that created the funding challenges, couldn't sustain long term. I mean, we have to remember these were times when (a) banks wouldn't lend to banks; they'd lend to the central bank ... the European Central Bank rather than lend to one another, they had to go that circuitous route. These were times when, latterly, you had UBS and Deutsche Bank and Bank of New York basically charging people to mind their money by putting it on deposit. So we had very unusual and hard to believe long-term sustainable circumstances. So against that backdrop there was a belief that a recapitalised Anglo could have a future but it would need (a) stronger funding sources and (b) probably a broader funding footprint.

Deputy Michael McGrath: When did you realise that Anglo's future as an independent financial institution without any intervention or State support was longer tenable?

Mr. Gary McGann: I don't think there was a point in time. I mean, there is no doubt about it that all the banking system around the bank guarantee were struggling in terms of liquidity and therefore ... hence, I presume, the context for the guarantee. But at all points in time the board saw this as a funding liquidity challenge. We'd obviously issues around property valuation and the asset side of the balance sheet to be addressed, probably with capital raising but Anglo Irish Bank had a very strong track record in capital raising. In the first half of 2007 it had basically raised €500 million at a 2% discount, which even in today's standards is a hell of a fund ... or an equity raising. It had a tier 1 bond six times oversubscribed in the first half of 2007, so this was a rapidly, kind of, changing environment.

Deputy Michael McGrath: Okay. Did you say earlier on in response to Deputy Higgins that correspondence from the Financial Regulator would not have been brought before the board as a matter of course?

Mr. Gary McGann: I don't believe the board ever saw any correspondence from the regulator. I've no recollection.

Deputy Michael McGrath: Would never have been included with board packs.

Mr. Gary McGann: No, as I say, in my time I have no recollection of ever seeing anything from the regulator and ... sorry-----

Deputy Michael McGrath: Reports such as, for example, risk management reporting - it is on page 55 of Vol. 1 - would that have been included in information which the board would have been apprised of?

Mr. Gary McGann: I don't believe so, Deputy, no.

Deputy Michael McGrath: So where would this have sat in the structure?

Mr. Gary McGann: The risk and compliance-----

Deputy Michael McGrath: The risk and compliance committee. You were the chairperson of the audit committee. Is that right, Mr. McGann?

Mr. Gary McGann: I was, yes.

Deputy Michael McGrath: From what period?

Mr. Gary McGann: From June or July 2007.

Deputy Michael McGrath: Sure. Can I take you to Vol. 2? And we'll start with page 63. Now, the initial report here predates your period, it relates to 2003, but I just want to highlight a couple of issues where at the bottom of page 63, "In 10 [...] of [the] 12 files [examined - this is on the issue of security underpinning loans] no letter from the bank's solicitor confirming that security was complete is evident". And it goes through various examples where no solicitor's letter confirming security being present and then the explanations were the verbal confirmation in many cases had been received and the documentary evidence had been requested from the solicitor after the loan had been issued. Now, as I said, that was 2003. If you keep going to page 67, at the bottom of that - this is January 2007 - it references, "The previous audit report on Banking Ireland in 2005 highlighted cases whereby advances were made on the receipt of verbal rather than written confirmation from the Bank's solicitors." So, clearly the issues identified in 2003 continued in 2005. Now you were on the audit committee at that time. Do you recall these difficulties?

Mr. Gary McGann: I was. I recall issues like this being raised in internal audit as part of the audit process and when they were, they were taken very seriously and they were raised at board and undertakings given by the ... first of all, as you know, the process here would be that management have the right to respond. They would, in most cases, agree that this was the case and agreed actions would be taken, including getting the documentation and an undertaking that this was not going to happen in future. I do recollect at one point basically this becoming a real issue where the chairman instructed the CEO to ensure that no lending would happen without the documentation being in place. So, as-----

Deputy Michael McGrath: Was there sufficient follow-up? I mean, if you look at, say, page 68 and 69, which, again, is from January 2007, there are various examples there. Page 68, "We noted 5 (out of 34) cases where items of security specified on the approved credit were either not put in place or were amended without appropriate written approval." Across the page, 69, at the top, "**Confirmations of Security** [...] items on 7 (out of 34) accounts were still outstanding." I mean this was crazy practice.

Mr. Gary McGann: With respect, Deputy, I mean, in most businesses you will find aberrations around control processes. In this case, in many instances, these would have been ... they would have been strong verbal statements and the documentation eventually would have been brought to the product.

Deputy Michael McGrath: Hold on now, Mr. McGann. This was a situation where Anglo Irish Bank was lending out millions of euro to borrowers and was accepting verbal assurances that adequate security would be forthcoming.

Mr. Gary McGann: From the legal profession. Verbal assurances from lawyers.

Deputy Michael McGrath: Was that acceptable to you?

Mr. Gary McGann: No, it's not ideal at all but it happens. I'm not condoning it, but what I'm saying is obviously it-----

Deputy Michael McGrath: It happened a lot in Anglo Irish Bank.

Mr. Gary McGann: Well, I think there's evidence of progress. Numbers are reducing, but, yes, it did.

Deputy Michael McGrath: We have a report from 2003, which is before your period. We have a reference to a 2005 report, which isn't in the pack but, again, where verbal confirmation was being accepted. And, we have a report from January 2007 citing specific instances, again where written confirmation of security of many loans was not evident.

Mr. Gary McGann: Correct. And that was ... a breach of rules is not acceptable: it is a fundamental principle, Deputy. But, what I'm saying to you is it does happen. When it did happen and internal audit raised it, we took it very seriously. We took it to the board and, as I said, the chairman instructed the CEO to-----

Deputy Michael McGrath: Finally, Mr. McGann, a report, again in Vol. 1, starting at page 115 - Lending Ireland, Anglo Irish Bank Development Report, April 2007. Where would that report have sat in the structure of governance? Would that report have come to the board? It's quite high level; I would assume it went to board level.

Mr. Gary McGann: I don't recall seeing it but it may well have done, Chairman. It is ... while high level in one sense, it's actually very, very detailed in another.

Deputy Michael McGrath: It is, yes.

Mr. Gary McGann: Instinct, I doubt it did. It would ... normally that would be the type of report that would go to the risk and compliance committee who, in turn, would give a summary and synopsis of it to the board.

Deputy Michael McGrath: Okay. If you look at page 129, for example, where it looks at Galway client analysis, so these are loans, presumably, extended in that area. It goes through unzoned land, €84 million; zoned land, €392 million, without planning; zoned land, with planning, €236 million - that's the whole land area - development with no pre-sales, €342 million; development with pre-sales, €638 million; development with pre-lets, €48 million; total development exposure, €1.2 billion; land exposure, €700 million: in Galway alone. Do you have any comment on that?

Mr. Gary McGann: Not really, Deputy. I mean-----

Deputy Michael McGrath: Where does the buck stop ultimately, Mr. McGann, for the running of the company? Who's ultimately responsible?

Mr. Gary McGann: The buck stops with the CEO and, ultimately, the board are responsible for the CEO's appointment.

Deputy Michael McGrath: But, for the running of the company and its ultimate performance, is it the CEO or is it the board?

Mr. Gary McGann: The CEO. Absolutely the CEO.

Deputy Michael McGrath: Not the board, for the overall governance and the running and operation of the company.

Mr. Gary McGann: No, the board set policy, set strategy and appoint a CEO to implement

and deliver on it.

Deputy Michael McGrath: And is the board responsible for the performance of the CEO and his team?

Mr. Gary McGann: Oh, yes, I think ... absolutely. They appoint him. They have the right to appoint and the right to dis-appoint.

Deputy Michael McGrath: So, ultimately, in the hierarchy the buck stops with the board.

Mr. Gary McGann: Certainly in terms of the appointment of the executive to deliver on the strategy.

Deputy Michael McGrath: "On the appointment of the executive to deliver on the strategy" but not for the overall implementation of the strategy.

Mr. Gary McGann: No, I think that's an executive responsibility.

Deputy Michael McGrath: Not the board's?

Mr. Gary McGann: To my knowledge ... certainly as I have operated on both sides of the equation - and I recently retired CEO after 30 years as CEO - I've always ... that's the context in which I've always viewed it.

Deputy Michael McGrath: But you could argue by extension that the-----

Chairman: You are going to have to-----

Deputy Michael McGrath: -----responsibility of the board ends with the appointment of the CEO.

Mr. Gary McGann: No, no. The appointment and the assurance that the CEO delivers on his objectives, which are the objectives set by the board.

Deputy Michael McGrath: I'm unclear, Chairman, but if you want to move on-----

Chairman: I can allow you a moment if you're just on the same line of questioning, if you need clarity on that. Once we don't open up another line of questioning, I will give you another moment, if you wish.

Mr. Gary McGann: Deputy, I'm not trying to be Jesuitical.

Deputy Michael McGrath: No, nor am I.

Mr. Gary McGann: I am genuinely saying to you ... I'm saying to you, as a CEO - I've retired three days - as long as I've been a CEO, I've been very clear that the responsibility to deliver rests with me. I appoint a team, I deliver it with the team. In terms of how I do and who ... how it's evaluated, how I do, absolutely, that's the board and they have the right to maintain me, appoint me or get rid of me.

Deputy Michael McGrath: Yes.

Mr. Gary McGann: If I'm not performing, I'm presuming get rid of me is the ultimate objective.

Deputy Michael McGrath: The CEO reports to the board.

Mr. Gary McGann: Absolutely.

Deputy Michael McGrath: Thank you.

Chairman: We'll round that off then, if we can, maybe. Is ... was there any concern at board level with regard to the CEO and how the company was being managed and the business model being pursued?

Mr. Gary McGann: And I don't want, Chairman, to stray in the wrong direction here-----

Chairman: I understand, yes. I'm not talking in hindsight now but at that time.

Mr. Gary McGann: No, Chairman, is the honest answer.

Chairman: There wasn't. Okay, thank you. Deputy Pearse Doherty.

Deputy Pearse Doherty: Fáilte to Mr. McGann chuig an coiste. Can I ask you just to start off with: in your opinion was the decision to combine the role of finance director and the chief risk officer prudent or appropriate at the time when the loans were growing rapidly, in terms of the need to maintain an independent risk function at the time, allocation needed ... and the time allocation needed for both responsibilities, was it prudent and responsible to merge both functions?

Mr. Gary McGann: I think the ... if I start with the consequence of it and work backwards, if I may, Deputy. I mean, I think, on the positive side, the person appointed was probably the most experienced banker in Anglo, after the chairman himself and, obviously, a qualified accountant, a man of long experience and a man very highly regarded in terms of his knowledge, integrity, etc. So, from the point of view of the role of risk, that was a plus. Under him, as finance director, there was a very strong team led by a very strong CFO who, in my experience, was actively involved in a lot of the areas that you would typically see a finance director in. In fact, the concept of a finance director, with a CFO reporting to the finance director, in my experience, is rather unusual. But, having said that, if you pull it all together and look in hindsight, clearly, I think the answer is it certainly wasn't, in hindsight.

Deputy Pearse Doherty: Okay, it wasn't prudent or appropriate, in hindsight. And, when this was discussed, was it discussed in detail? Was there ... this is quite an important change, a big change, was there discussions or was it just a rubber-stamping situation by the board?

Mr. Gary McGann: I'm not sure it was a rubber-stamping. I don't have a recollection of it being a big subject issue, quite honestly, Deputy.

Deputy Pearse Doherty: Who proposed it?

Mr. Gary McGann: I don't recollect but I ... sorry, the logic, without being able to tell you definitively ... but the logic would be that this would be the CEO who would propose this.

Deputy Pearse Doherty: Mr. Walsh, on page 2 of your statement, you say the unique combination of the freeze in liquidity and interbank lending, coupled with the huge deposit withdrawals, was not anticipated; its scale and reach impacted globally across the wide range of industry and commerce and not just banking. Now, one could argue that this is one view of the international context. Evidence presented to this committee shows that from late 2007,

Irish banks were seen as overexposed to the credit crunch, and from early 2008, Anglo Irish Bank was being cited as increasingly risky investment above others. The reasons given by the rating agencies at the time were its commercial property lending portfolio and its reliance on wholesale funding. So, can you inform the committee as to whether the downgrades from rating agencies were discussed at meetings that you attended at board?

Mr. Gary McGann: They were certainly referred to but in many ways, the rating agencies' actions and elaborations were of a business model and business circumstances that had prevailed for many, many years, and indeed the people who continued to put money with the bank, the people who continued to invest with the bank were the same type of people who ... who had been supporters of the bank for many, many years previously. What had changed is obviously the circumstances and the potential confluence of a number of different issues, which is effectively what I was referring to in my, in my initial statement.

Deputy Pearse Doherty: So when agencies and those who advise investors were saying "sell, sell your shares in Anglo Irish Bank" as early as January 2008 because of the exposure, overexposure to commercial property and then seeing what was happening in the market and what was likely to happen in the future, how did the board respond to that?

Mr. Gary McGann: There wasn't a sense that there was that level of difficulty in early 2008, Deputy. I mean, the reality of property collapse in Ireland is probably ... was only really crystallised in early 2009, when the last quarter of 2008's stats-----

Deputy Pearse Doherty: But you were being downgraded in early 2008-----

Mr. Gary McGann: Yes, but-----

Deputy Pearse Doherty: -----as a result of overexposure in property. We had the *Financial Times* article, for example, in around the "St. Patrick's Day massacre", talking about Anglo Irish Bank being in the same boat as some of the other banks that had gone bust and run into trouble. So this wasn't a secret kind of conversation that was happening between the numbers. There was openly people ... large institutions who were telling people to get out of Anglo Irish Bank, rating agencies were downgrading you, serious commentators in international financial press were saying "stay clear of Anglo Irish Bank". Did the board just say "we know better" or did you take a serious-----

Mr. Gary McGann: No, no, but the board had a business and a business model that it needed to sustain. The board's focus at all time was how to ensure the viability of the business, how to sustain the business, how to protect the depositors' interests, how to ensure that the value for shareholders wasn't totally eroded.

Deputy Pearse Doherty: What strategies did the board put forward to address the downgrades that were happening at that time, in early 2008?

Mr. Gary McGann: It wasn't open to the board to change the model, if you think about it. I mean, there was a business model that really had to be sustained, so the focus then was on where lending was made. There was obviously the challenge of curtailing or stopping the lending which would actually become a self-fulfilling prophecy in terms of the demise of the business. There was the whole area of having to ensure that we could source funding to sustain the business.

Deputy Pearse Doherty: Mr. McGann, we have seen evidence at this committee and ...

you know, in terms of where all the banks seen themselves post-2008. It was a presentation, I think, either to the Central Bank or to the Department, and Anglo Irish Bank stood out because they expected to lend more during that period. They believed they were going to be highly profitable and so on and so forth. We have heard evidence from Nationwide, for example, that they stopped all new lending in ... at end of 2007. Was it not the prudent and appropriate thing for the board to change the strategy at a time when agencies, international commentators that were reputable, were saying that your model is “broke” and people should run from your model and from your bank?

Mr. Gary McGann: I don’t think the board accepted that the model was broken, number one. I think, number two, in terms of the lending, there was a very definite focus on where lending was to be made into areas that the board and the management, most particularly in the risk and compliance committee, believed could deliver ... obviously not in the circumstances that ultimately prevailed but in a more benign downturn than we ultimately achieved.

Deputy Pearse Doherty: Do you regret not recognising at that point in time that the model may have been broke?

Mr. Gary McGann: I certainly regret being a party to the business that turned out the way it did.

Deputy Pearse Doherty: In relation to the St. Patrick’s Day massacre, can you inform the committee as to whether this was discussed at board meetings and what were the issues raised by the drop of Anglo’s share price?

Mr. Gary McGann: The answer was “yes”, it was discussed on a number of occasions and at that time, the big factor that was weighing on the minds of the board was the whole uncertainty that the CFDs or the increasing clarity of what the CFDs meant, and what the implications and challenge that was going to be for the business in terms of an overhang and the lack of confidence as to how it was going to play out, and therefore the fear factor. I mean, I happened to be running a business where the share price was in freefall. If I could take a quick segue just to give you a parallel in a totally different world, but it is very important that it was ... in Smurfit Kappa, we IPO’d in March 2007 with a €16.50 share price. By early 2008, mid-2008, our share price was €1, so the value of the business had gone from about €5 billion to €300 million. That was what was happening in a recession-proof business but because we weren’t a bank, it actually didn’t matter to the core model and the core business. In the case of the bank, once the share price started to come under pressure, obviously confidence in the bank in the context of retail depositors and even corporate depositors was the issue, and that was the key focus at the time.

Deputy Pearse Doherty: Would you accept that while the St. Patrick’s Day massacre was the most dramatic fall in share prices, that your bank was taking a bludgeoning for the previous number of months, right back as far back as 2007 in terms of share drops?

Mr. Gary McGann: It was certainly being ... once the rumour machine started to run on, around, I think, September, October 2007.

Deputy Pearse Doherty: Okay. Can I go back to the point you mentioned in terms of the, the Druids Glen outing? And you said that the meeting took place in Fintan Drury’s house. Is that house in Druids Glen?

Mr. Gary McGann: No.

Deputy Pearse Doherty: No? Where was that meeting?

Mr. Gary McGann: It was, it was near Druids Glen. But I mean, it's a private house, I don't-----

Deputy Pearse Doherty: No, well, you see, it's important because we have not been told that ... up until now, and the public hasn't been told that there was a private meeting in a residence, despite this being a matter of public discussion since 2011 at least. There has been never a suggestion that there was a meeting in a private house off Druids Glen.

Chairman: Just to give a bit of assistance here, Deputy, I'm not looking for the postal code of the property but is it kind of-----

Mr. Gary McGann: It's in the vicinity.

Chairman: It's in the vicinity. So you're talking kilometres, miles or-----

Mr. Gary McGann: Yes.

Chairman: Less than kilometres.

Mr. Gary McGann: It's in Wicklow and Druids Glen is in Wicklow.

Chairman: Okay, thank you. Back to yourself, Deputy.

Deputy Pearse Doherty: Okay. The agenda for the meeting ... can you furnish the agenda to the meeting to the committee?

Mr. Gary McGann: I don't have it, Deputy. I didn't keep it.

Deputy Pearse Doherty: It was not saved on your computer.

Mr. Gary McGann: I got a hard copy.

Deputy Pearse Doherty: We were told by Fintan Drury that you actually drew up the agenda for the meeting and brought the agenda to the committee.

Mr. Gary McGann: No, when you talked to Fintan Drury ... that Alan Gray drew up the agenda-----

Deputy Pearse Doherty: Sorry, my apologies, my apologies. We will check that with Alan Gray when he comes in. You don't have ... you don't have a copy of the agenda.

Mr. Gary McGann: No.

Deputy Pearse Doherty: And in relation to the meeting that took place, Alan Gray had made previous ... previous statements in relation to the meeting in terms of how he joined Mr. Cowen and Mr. FitzPatrick for dinner afterwards, and that has been the impression, the public impression up until now; that it was a golf outing and then dinner. Now we learn that there was actually a private meeting in a private residence which discussed issues around the economy but nothing to do with bankers or banks, despite the fact that we have directors or board members of Anglo Irish Bank, the CEO, members of the Central Bank there. Why, in your view, would the likes of Mr. Cowen, the former Taoiseach, address the Dáil-----

Chairman: A question, Deputy.

Deputy Pearse Doherty: -----and made the point that you joined the Taoiseach after the golf outing, and it was held in public and it was not in any private corner? Why did you not challenge that and say ... and explain that actually there was a private meeting held behind closed doors, not even in Druids Glen complex, as we were all led to believe, but in somebody's private residence, that discussed these matters?

Mr. Gary McGann: I had no sense that there was any such misinterpretation, Deputy, quite honestly. I thought Mr. Drury was very clear that there was a meeting because I think you queried him on the sequence of events as to whether they would have been better to have the golf first or the golf second. I can't remember the query but I think you queried the sequence of events.

Deputy Pearse Doherty: We did query the sequence of events. We asked Mr. Drury to ... I asked Mr. Drury, in particular, to correct me if I was wrong and I ... I suggested that he explain to this committee that there was a meeting beforehand either in the foyer or upstairs in a private room. We were not told that it was off-site in a different ... in a different residence. But Mr. Cowen in his evidence didn't provide any indication whatsoever that there was a private meeting beforehand off-site in relation to, and indeed his testimony to the Dáil-----

Chairman: Deputy, I'd ask you not to make a judgment on it but-----

Deputy Pearse Doherty: Well I'm not making a judgment-----

Chairman: -----just to seek the record, Deputy.

Deputy Pearse Doherty: I'm actually just ... for example, can I ... the reason I ask you to challenge this is ... the perception is that there was a social outing - this is from the Taoiseach in the Dáil:

We were joined that evening by Alan Gray, an economic consultant, Gary McGann, the chief executive of Smurfit Kappa, and my Garda driver, who also attended the lunch. These individuals came for dinner but only three of us were on the golf course. When Deputy Ó Caoláin came over, I went to the wedding breakfast as he suggested. The reason I said that was not to muddy the waters. There was no suggestion of meeting surreptitiously in a corner or a room.

But wasn't ... isn't it now the case that there was a meeting, privately, in a corner or in a room, not even in Druids Glen, that discussed all this matters and that you not only joined afterwards but you were actually there from half nine that morning discussing an agenda that none of us ... none of us have seen yet?

Mr. Gary McGann: That is correct, there was. There was a meeting.

Chairman: Deputy?

Deputy Pearse Doherty: Thank you.

Chairman: I'm going to move to wrapping things up. Deputy Kieran O'Donnell, you have three minutes.

Deputy Kieran O'Donnell: Thank you, Chairman. Just a point of clarification, Mr. McGann. I may have misinterpreted, but you did speak at the dinner for Mr. Cowen that Anglo gave on 24 April?

Mr. Gary McGann: Yes, there was a kind of a round the table discussion. Yes, I did.

Deputy Kieran O'Donnell: But you gave a presentation-----

Mr. Gary McGann: No-----

Deputy Kieran O'Donnell: -----on Smurfit Kappa, no?

Mr. Gary McGann: I had no presentation ... I mean I gave a view of the world through the eyes of Smurfit Kappa, yes.

Deputy Kieran O'Donnell: Can I just bring ... the issue around the contracts for difference for Seán Quinn. Did the board look for information from the CEO or was it a matter that the CEO brought the issue to the board?

Mr. Gary McGann: I think - and I'm kind of working on memory and surmising, Deputy, here - but my sense is we all kind of arrived at the same information base via the media, and how the media got it in the first instance is ... is not clear to me. But it all started in the ... kind of, the general public environment. We obviously raised the question and, in fact, the discussion at board was that the chairman, I think the chairman and the CEO, if I remember correctly, were dispatched to meet ... but first-----

Deputy Kieran O'Donnell: The board insisted on the chair and the CEO to go and meet Mr. Quinn.

Mr. Gary McGann: I'm not so sure we had to insist, I think. I mean, it was agreed.

Deputy Kieran O'Donnell: And did you deem it at the time that it ... that it was a serious threat to the bank?

Mr. Gary McGann: I certainly deemed it to be a very unhealthy environment to be in. And I'm minded ... I'm old enough to remember that the late Tony Ryan, in fact, had a big chunk in Bank of Ireland at one stage and that was deemed - it was much less, it was around 10% - and that was deemed to be an unhealthy situation for an individual to have in a significant bank. So, yes, I did not think, in any sense, that this was a healthy situation.

Deputy Kieran O'Donnell: Could it have brought down the bank if it went unchecked?

Mr. Gary McGann: I, I'm not sure it was in that ... in hindsight, in the circumstances that prevailed, it certainly could have undermined it seriously, but that wasn't on our mind at the time if you remember, Deputy, because a systemic failure wasn't ... wasn't on the cards.

Deputy Kieran O'Donnell: Can I refer finally, Chairman, to Vol. 2, page 109? It's a presentation that was made to the board by the then CEO, David Drumm, on 26 September, three days prior to the guarantee being put in place. I suppose I just ... were you present at that meeting, Mr. McGann?

Mr. Gary McGann: I presume I was, Deputy. I just can't ... I didn't-----

Deputy Kieran O'Donnell: Really, I suppose, what I want to ask is that it's put in the report that immediate liquidity support from the Government is essential. That's on page 113. And we had Mr. FitzPatrick in here this morning, a former-----

Chairman: Mr. Fitzgerald. Different soldier, Deputy. You're all right.

NEXUS PHASE

Deputy Kieran O'Donnell: Wishful thinking on my part, Chairman.

Chairman: Careful.

Deputy Kieran O'Donnell: A personal view, Chairman, not a committee view.

Chairman: Please move on.

Deputy Kieran O'Donnell: He stated that around that time, he said: "I believe most of the senior staff honestly [felt] the bank [would] not recover". He says there was no answers at the time. So-----

Chairman: A question.

Deputy Kieran O'Donnell: What was the prevailing mood at that meeting? Was ... did the board feel at that meeting on 26 September that the game was up for Anglo, unless the Government stepped in to support it?

Mr. Gary McGann: Sorry, what page?

Deputy Kieran O'Donnell: Page 113, Vol. 2., and it's "1. Go it alone". It's the fourth point down - "Immediate liquidity support from Government is essential".

Mr. Gary McGann: Thanks, Deputy. I heard earlier that Mr. Fitzgerald gave the testimony he did. I ... certainly that wasn't ... there was no way like that level of doomsday mentality. This is a very, very challenging ... let me not understate it. It was extremely fraught, very challenging, but it was totally liquidity based. The perception ... belief, rather than perception, was that the lack of liquidity couldn't sustain. It wasn't just Anglo. There was a ... it was absolutely choked in the broader system and ... so therefore a liquidity event was needed as a matter of urgency to, to obviously fund it.

Deputy Kieran O'Donnell: Did you as a board direct the CEO and the chair to make contact with Government to get a liquidity support?

Mr. Gary McGann: No, not to my recollection. I think that may well have been already under way but-----

Deputy Kieran O'Donnell: But what I want to know ... this is only three days prior to the guarantee. And when I read this presentation, I don't feel the sense of alarm or a reflection of what the actual perilous position that Anglo was in.

Chairman: Conclude now, Deputy.

Deputy Kieran O'Donnell: So what was the prevailing mood?

Mr. Gary McGann: The prevailing mood was there was a fundamental need to address what was looking like a very challenging situation, at least on a liquidity basis and, perhaps, longer term.

Deputy Kieran O'Donnell: Were you told by the executive that if you didn't get a liquidity support stream in place that Anglo would go out of business a week later?

Mr. Gary McGann: No.

Deputy Kieran O'Donnell: There was no feeling, no view, even though that was the case?

Chairman: Thank you, Deputy.

Mr. Gary McGann: The answer's "No".

Deputy Kieran O'Donnell: Okay, thank you.

Chairman: Deputy Joe Higgins.

Deputy Joe Higgins: Mr. McGann, just to ... trying to get clarity on this ... in the pre-golf outing meeting in Mr. Drury's house, it was yourself, the Taoiseach, Mr. Cowen, Mr. Drury and anybody else?

Mr. Gary McGann: Mr. FitzPatrick and Mr. Gray.

Deputy Joe Higgins: Mr. Seán FitzPatrick and?

Mr. Gary McGann: Mr. Alan Gray.

Deputy Joe Higgins: Mr. Alan Gray. And Mr. FitzPatrick was the chairman of Anglo Irish Bank, you were a director or you were a member of the board-----

Mr. Gary McGann: But I was invited by Fintan Drury as CEO of Smurfit Kappa Group.

Deputy Joe Higgins: Yes, but you were a member of the board of Anglo.

Mr. Gary McGann: I was. I was.

Deputy Joe Higgins: Mr. Drury was a member of the board or had been a member of the-----

Mr. Gary McGann: He may still have been, or about to go.

Deputy Joe Higgins: -----board. And how does that meeting relate to the dinner that took place later? Because the impression that many of us have is that-----

Chairman: A question, not conclusion.

Deputy Joe Higgins: I mean, was it the same discussion that started earlier in the morning-----

Mr. Gary McGann: At the dinner that night?

Deputy Joe Higgins: Yes.

Mr. Gary McGann: Yes, the dinner that night was a social ... like, "We're having dinner - join us". I mean, I was invited to go to a meeting to discuss the general economic environment that I saw in Smurfit Kappa. That was the morning meeting. There was a game of golf which ... I had to go back to work and I was invited, if I was available, for dinner.

Deputy Joe Higgins: So your evidence is that the substantive discussion on economic issues of a general character took place at the morning meeting.

Mr. Gary McGann: Yes.

Deputy Joe Higgins: And even with high-level representatives of Anglo Irish Bank and Anglo Irish Bank somewhat, or quite a bit, in the limelight, beckoning problems etc., its prob-

lems or issues related to it were not discussed.

Mr. Gary McGann: It was clearly ... it was clearly positioned to me that that was not the purpose of the meeting.

Deputy Joe Higgins: It was not the purpose of the meeting-----

Mr. Gary McGann: Yes.

Deputy Joe Higgins: -----but was-----

Mr. Gary McGann: No, and therefore didn't occur.

Deputy Joe Higgins: Okay. Mr. McGann, you also attended an Anglo board dinner on 24 April 2008 at which the then Minister for Finance, Mr. Cowen, was a guest.

Mr. Gary McGann: Yes.

Deputy Joe Higgins: Was it common for Anglo to have dinners with senior political figures?

Mr. Gary McGann: Common ... in my recollection, common as in regularly, no. To my knowledge, to my experience, no. I should caveat this by saying I travelled an awful lot. I was away, so anything that was outside the normal cycle of board meetings I wouldn't have been available anyway. So, I don't sense it was common. It happened from time to time over the years.

Deputy Joe Higgins: Did you attend other dinners of the board or substantially organised by Anglo, with senior political figures?

Mr. Gary McGann: I can't recall that I did, Deputy.

Deputy Joe Higgins: Were you aware of any-----

Mr. Gary McGann: I was aware that there were previous ones, certainly before my time, and maybe even during my time when I wasn't there.

Deputy Joe Higgins: Do you recall who the guests, the political-----

Mr. Gary McGann: I don't, Deputy, I'd be speculating. I've heard names but I don't definitively know that.

Deputy Joe Higgins: And finally, at those dinners, do you know if any representatives of the Central Bank or the Financial Regulator would have been in attendance?

Mr. Gary McGann: I ... again I'm working on ... hearsay is maybe too strong a word, but I have a sense that there may have been a dinner once or twice with the Central Bank or with the regulator but I couldn't be more definitive.

Chairman: Thank you, Deputy. I am going to move things to wrapping up and in final conclusion I'll ask yourself, Mr. McGann, if you want to make anything by means of final comment or contribution and maybe just to, kind of, assist you into that area, you were speaking earlier, I think with both Deputy O'Donnell and Deputy Higgins, in regard to the bonus culture, or the bonus structure in Anglo Irish Bank. Could I ask you, in your opinion, if the structure of the bonus programme in Anglo helped or hindered the pursuit of a sustainable business model

and strategy?

Mr. Gary McGann: In theory, Chairman, it should have helped a sustainable business model because the weighting of the economics, if the business was successful and reflected in the marketplace, would be that the economics for the management would have been better from a sustainable, long-term programme rather than a short-term one. That's not to say that the short-term, obviously, as we've discussed already, wasn't attractive but the weighting was towards the longer term. Now, as you know, over time this is all evolved and, indeed, the argument is that it should be even more weighted long term and with claw backs.

Chairman: So, that is in theory; in practice, did it help or hinder?

Mr. Gary McGann: I think, in practice, it clearly didn't. I'm not sure that you can draw a direct line of correlation between the two but it's obviously not unrelated and the answer is, "No".

Chairman: Okay, Mr. McGann, in terms of your own engagement here with the inquiry this morning and as Deputy Higgins referred to you as a very well-established capitalist. Coming from a very well-established socialist, I don't know how that balances itself out but do you, kind of, take the comment anyway? As one of Ireland's leading businessmen, do you feel that your business experience enabled to you to make a meaningful contribution to the governance of Anglo Irish Bank?

Mr. Gary McGann: I certainly believe, Chairman, that I did the job I was meant to do to the best of my ability. I gave it as much effort as I could and the fact that it has ended up the way it did is a matter of serious regret to me, but I don't feel that I short-changed the business or the shareholders or the staff.

Chairman: Did your general business experience translate into you having sufficient skills to carry out your role as a bank director during your time with Anglo?

Mr. Gary McGann: Well, I think if the view is that only people who are experienced bankers should be bank directors then the answer is clearly, "No", but I don't hold that view, Chairman. I think a good mix of directors is always good.

Chairman: And in that regard, do you consider your decision to join Anglo to have been a mistake or a good decision?

Mr. Gary McGann: On a human level, Chairman, I'd be a happier man if I hadn't been there but given that I chose to accept the offer, I did my best.

Chairman: And in your own regard, what was your personal responsibility for its ultimate failure?

Mr. Gary McGann: I think being a member of the board of the bank that ended up the way it did, I obviously share the responsibility that everybody else did.

Chairman: Thank you, Mr. McGann. I'm going to bring matters to a close. Is there anything further that you would like to add by means of suggestions going into the future or any other comment that you would like to make, Mr. McGann?

Mr. Gary McGann: Not really, Chairman. I think it's been very comprehensive and I thank you ... to you and the committee.

Chairman: Thank you. With that said, I'd like to thank you for your participation with the inquiry today and for your engagement with it. You're now formally excused. I propose that we suspend for just about an hour and to return at 2.30 p.m., if that's agreed. Is that agreed? Agreed.

Sitting suspended at 1.25 p.m. and resumed in private session at 2.37 p.m. The joint committee resumed in public session at 2.44 p.m.

Anglo Irish Bank - Mr. Matt Moran

Chairman: We will resume in public session. Is that agreed? Agreed. We'll now move on to session 3 of today's public hearings with Mr. Matt Moran, former finance director, Anglo Irish Bank. The Committee of Inquiry into the Banking Crisis is now resuming in public session and can I ask members and those in the public Gallery to ensure that their mobile devices are please switched off, particularly so given that there was complaints this morning with regard to interference. Today the focus of the inquiry is on Anglo Irish Bank. At this session we will hear from Mr. Matt Moran, former chief financial officer at Anglo Irish Bank. Mr. Matt Moran was chief financial officer at Anglo Irish Bank from 2004 to 2008 and finance director from 2009 until 2011. He is currently a partner in the corporate finance division of PwC Luxembourg. Mr. Moran, you are welcome before the committee this afternoon.

Mr. Matt Moran: Thank you, Chairman.

Chairman: Before hearing from the witness, I wish to advise the witness that by virtue of section 17(2)(l) of the Defamation Act 2009, witnesses are protected by absolute privilege in respect to their evidence to this committee. If you are directed by the Chairman to cease giving evidence in relation to a particular matter and you continue to do so, you are entitled thereafter only to a qualified privilege in respect of your evidence. You're directed that only evidence connected with the subject matter of these proceedings is to be given. I would also 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. And members of the public and journalists are reminded that these documents are confidential and they should not publish any of the documents so displayed.

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

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

Mr. Mr. Matt Moran, former Chief Financial Officer, Anglo Irish Bank.