

HOUSES OF THE OIREACHTAS

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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.

Nexus Phase

Anglo Irish Bank - Mr. Peter Fitzgerald

Chairman: As we have a quorum, the Committee of Inquiry into the Banking Crisis is now in public session and can I ask members and those in the public Gallery to ensure that their mobile devices are switched off.

We begin today's session 1, public hearing with Mr. Peter Fitzgerald, former director of corporate and retail treasury, Anglo Irish Bank, and in doing so, I would like to welcome everyone to the public hearings of the Joint Committee of Inquiry into the Banking Crisis. This morning, the focus of the inquiry is on Anglo Irish Bank. At our first session, we will hear from Mr. Peter Fitzgerald, former director of corporate and retail treasury at Anglo Irish Bank. Mr. Peter Fitzgerald joined Anglo Irish Bank in 1998. While working in the treasury division, he developed a retail savings franchise in Ireland and the UK. He was director of corporate and retail treasury from 2006 to 2008 and Mr. Fitzgerald now works as an adviser to startup and SME companies in Ireland in the areas of strategic planning, corporate communications and business development. Mr. Fitzgerald, you are very welcome before the inquiry this morning.

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

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

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

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

Mr. Peter Fitzgerald, former Director of Corporate and Retail Treasury, Anglo Irish Bank.

Chairman: Once again, I welcome before the committee this morning Mr. Fitzgerald and if I can invite you to make your opening remarks to the committee, please.

Mr. Peter Fitzgerald: Thank you Chairman and members of the committee. Firstly, I would like to say that I welcome this opportunity to share my experience in the roles I held in Anglo

Irish Bank and IBRC with the members of the joint committee. I look forward to answering, as best I can and to the extent possible, any questions you have in relation to my performance in those roles and wider matters relating to the bank both pre and post its nationalisation.

To enable best usage of the time allocated to this session, I have narrowed the focus of my opening statement to deal with what I believe are the key areas of my testimony. By way of background, I have worked in financial services for a substantive part of my career to date, beginning in corporate treasury roles in First Active and KBC, followed then by a variety of roles within Anglo Irish Bank and, latterly, IBRC. These roles in Anglo were performed over a 15-year period from 1998 to 2013. From 1998 up to managing the sale of the credit ... under the Credit Institutions (Stabilisation) Act of the bank's deposits and NAMA bonds to Allied Irish Banks plc in February 2011, my main role was to raise customer deposits in order to fund the bank's balance sheet growth. I performed that role as a corporate deposit manager up to 2001, as head of retail banking from 2001 to 2006, as director of corporate and retail treasury from 2006 to 2008 and as head of retail banking again from 2008 to 2011. During this period, I reported to the head of corporate deposits, head of treasury, director of treasury, the managing director of Ireland and the head of operations in the bank, respectively.

I was appointed to the senior executive board or the SEB for a 12-month period from in and around the middle of 2006 to 2007. This was a management level below the main board of the bank. I also served on a number of management committees and subsidiary company boards at various times. I did not, however, serve as an executive director or member of the board of Anglo Irish Bank or any of its sub-committees. Following the appointment of Mike Aynsley as the new CEO in late 2009, I became a member of the new leadership team of the bank and worked in a number of significant post-nationalisation restructuring projects. Finally, in early 2011, I was appointed as head of corporate treasury, or corporate affairs and communications, a role I held until my departure from IBRC in February 2013. For the purpose of clarity, my responsibilities in all of the roles previously mentioned did not extend to lending to customers or involvement in the credit, risk, audit or compliance functions of the bank.

The primary role of the group treasury role of Anglo was to fund the bank's lending growth. Both wholesale and customer funding were sourced for this purpose. By 2008, a significant portion of the bank's balance sheet was funded with customer deposits from two main categories, namely, retail deposit customers and corporate deposit customers. These deposits were the lifeblood of the bank and the business proposition was interest rate and customer service driven. The marginal returns offered for surplus cash on deposit made it worthwhile for customers to switch banking relationships for this aspect of their business alone. The corporate deposit customer profile ranged from SMEs to large corporate and institutional clients across practically every business sector. Retail customers were predominantly older savers with lump sums to invest.

The centres for sourcing corporate deposits in Anglo Irish Bank grew from a small network of branches in Ireland and offshore in the '70s to a large group treasury centre in Dublin in the '80s, followed by an ... additional branches in the UK and another large treasury centre in London in the '90s. From 2000 onwards, further centres in Austria, Dusseldorf, Jersey and Boston were used to source corporate deposits in line with asset growth. As a result of this planned expansion, deposits from corporate customers in Anglo grew year-on-year to €32 billion in 2008, accounting for 36% of the total funding position of the bank. The strategic intent to broaden its funding base to include deposits from retail customers was established in 2001 in line with the introduction of the SSIA, or special savings incentive scheme, in Ireland. Once established,

the retail savings function in Ireland became successful very quickly and attracted significant positive media coverage and commentary due to the perceived lack of competitive offerings for savers in Ireland at that time.

Following this success, a strategic decision was then taken in 2004 to launch a retail savings proposition in the United Kingdom. While the UK savings market was, at the time, one of the most competitive in Europe, it was agreed to proceed and, following a test-and-learn period in early 2005, the bank began to enjoy considerable success with UK savers and growth was driven using high interest rates advertised in best-buy tables, in online and offline media and other comparator and aggregator sites such as *moneysupermarket.com*.

The remaining retail funding site of the bank was the Isle of Man. This had been in operation for many years and attracted a limited but consistent level of savings from onshore and offshore high net worth savers. While successful among its local peers in this space, the Isle of Man operation would always remain the smallest retail saving centre operated by the bank up to nationalisation. As a result of this planned expansion from early 2001 to its peak in 2008, the volume of retail savings from those three markets alone grew to *circa* €19 billion of funds entrusted. Close to 50% of these funds had come from the UK market over a relatively short period of time, with the balance coming from Ireland and the Isle of Man. Total deposits from retail customers in 2008 accounted for 22% of the overall funding position of the bank. At its peak, therefore, Anglo Irish Bank had a total portfolio of €51 billion of deposits, which accounted for 58% of the total funding sources of the bank. Given the strong growth of the UK retail funding franchise, a full launch plan was developed and under consideration to enter the German savings market in 2009. This was with a view to reducing the growing geographic concentration and significantly expanding the bank's future potential funding sources. This plan, however, was never implemented following the nationalisation of the bank.

The fast-growing concentration of UK-sourced retail funding was influenced by the increase in the Irish deposit protection scheme in Ireland and the subsequent introduction of the Government guarantee, as I have detailed in my witness statement. The collapse of Northern Rock was the first event that weakened customer confidence in the security of their savings with Anglo Irish Bank. The bank took thousands of calls per day from concerned customers who either wanted to withdraw funds or seek assurances that their deposits were safe. While the UK retail centre of the bank was the main focus of calls from UK customers, Irish savers became equally nervous when queues formed outside the Northern Rock office in Dublin.

The collapse of Anglo's share price on 17 March was the second event to weaken customer confidence in the security of their savings. The seriousness of this event was greatly inflated by the fact that the Anglo share price, alone among Irish banks, was being targeted by sellers and fell by *circa* 15% on that day. The outflows were significant and the bank ran a very real risk of not being able to handle the volume of inbound calls from concerned customers. It also introduced the first real risk of the bank's branches in Dublin, Waterford, Cork, Limerick and Galway not being able to deal with the volume of customers calling to close their accounts.

The collapse of Lehman Brothers on 15 September 2008 was the third and final event that shook the confidence of customers in the safety of their savings. It is my view that the bank experienced a full-blown run on customer deposits from that period up to 29 September 2008. As the primary channel for both corporate and retail customers dealing with the bank, however, was via the telephone, this run never fully manifested itself in the public domain. In Ireland in particular however, the word on the street was that Anglo was in serious trouble. It was an incredibly stressful time for retail deposit customers in particular, many of whom still had all

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of their savings with the bank. While having survived two material events of this nature, the events of September brought a new level of uncertainty for the staff and management of the bank and, with the share price now below 30 cent, I believe most of the senior staff honestly feared the bank might not recover.

Up to the start of the crisis in August 2007, Anglo Irish Bank was lauded on the stock market for its spectacular balance sheet growth and highly profitable business model. This and Anglo's commentary from a multitude of market analysts and other commentators led to Anglo being put forward as an example to its competitors and peers. In terms of the bank's chosen credit strategy therefore, as a predominantly property-based lender in the Irish, UK and North American markets, it was difficult to foresee that everybody internally and externally could be wrong. The bank's loan default rates had remained very low for the previous decade and there remained a huge appetite for commercial property projects, in particular among investors and developers in the bank's chosen markets. Existing clients of the bank who had experience and track record in that sector were on hand to meet the demand and the clients' stated credit policy was to back and work with these types of clients where the property had strong tenants, where cashflows could be identified and secured and where personal guarantees were available as additional security.

Anglo was three monoline banking divisions in one financial institution, namely, lending, treasury and wealth management. While all were successful in rapidly growing and diversifying their markets for their individual activities, each sold what could be broadly viewed as a single financial product into a highly targeted customer base, i.e., loans to borrowers in the real estate sector, deposits to interest-rate sensitive corporate and retail customers and predominantly real estate investment products often geared to high net worth individual clients. While the global liquidity crisis affected nearly every bank worldwide to some degree in 2007 and 2008, the underlying structure of the bank, together with the pace at which it had grown in that structure, compounded the stress of that crisis in a much higher degree to other banks who had lower concentration of lending exposures, more diversified funding sources and fee income from a wider universal offering to a diverse and longer-established customer base.

While Anglo Irish Bank had ceased development lending to new clients and had no direct exposure to private mortgage lending, the monoline exposure to a highly mobile customer deposit base in particular hit Anglo hard and fast in late 2008, as the perceived liquidity issue quickly became an actual one for the bank. Further complications arose for the bank out of the difficulty in reducing or stopping lending as the crisis worsened. This was in part down to the contractual commitments to borrowers and also the risk that without further lending, some development projects would cease and result in immediate and significant loan default. All of this took place in the face of unforeseen and therefore unanticipated risks, which included a total market dislocation and a practically simultaneous failure of each individual source of funding open to the bank over a period of less than 12 months.

I sincerely hope that my testimony today will be of benefit to the inquiry in fulfilling its mandate. I would like to say that I fully accept responsibility for my roles as both corporate and director . . . corporate . . . as director of corporate and retail treasury and head of retail banking of Anglo Irish Bank for any part that I may have played in its failure and the consequences it had on the Irish State. It is genuinely something that I will always regret.

Finally, I would like to highlight that at the time of writing and submitting my witness statement to this inquiry, I do not hold any documents or other memoranda such as minutes of meetings from my time in the bank and, therefore, its contents are solely based on my recollection

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of events at the time. Thank you, Chairman and members of the committee.

Chairman: Thank you very much, Mr. Fitzgerald, I just want to clarify one matter there before I bring in the questioners this morning. Could you clarify to the committee as to whether or not you were a member of the assets and liquidity committee and whether you were a member of the supervisory board of the Austrian subsidiary?

Mr. Peter Fitzgerald: Sorry, I was a member of both, yes.

Chairman: Thank you very much. Senator Michael D’Arcy. Senator, you have 20 minutes.

Senator Michael D’Arcy: Thank you Chairman, just for a point of information for people who may - Mr. Fitzgerald, you are very welcome - people who may be tuning in this morning, I think it is appropriate to raise that Mr. Fitzgerald is Mr. Fitzgerald of the Anglo tapes and that they are not-----

Chairman: I am not going to go into that-----

Senator Michael D’Arcy: I just want to-----

Chairman: Sorry, Senator, let me make this very clear-----

Senator Michael D’Arcy: They are not on the agenda to be discussed today.

Chairman: Let me make this very clear from the outgo: this committee would be subject to a very serious court injunction if we were to go into that space. So that conversation is ending-----

Senator Michael D’Arcy: We are not discussing them is what I am saying.

Chairman: It’s ending right now. It’s ending right now.

Senator Michael D’Arcy: Thank you, Chairman. Mr. Fitzgerald, after the guarantee was announced, did Anglo use its enhanced credit status to attract deposits from non-guaranteed banks, either in Ireland or the UK?

Mr. Peter Fitzgerald: I have said in my witness statement that I am confident it didn’t, in that from my perspective, and, obviously, I had both a retail deposit team of some note in a couple of jurisdictions, and corporate treasury salespeople ... clear instructions were issued and, I believe, were followed, that that was completely inappropriate.

Senator Michael D’Arcy: How many staff worked under you at that stage, both between Dublin and the UK?

Mr. Peter Fitzgerald: I would have had about 300 staff in total between retail saving centres and corporate treasury and we also had an outsourced call centre in the UK which may have had up to 150 people working in it.

Senator Michael D’Arcy: So you’d hundreds of people working and you’re satisfied that at no stage-----

Mr. Peter Fitzgerald: I’m completely satisfied.

Senator Michael D’Arcy: Were you ever instructed either explicitly or implicitly to use the guarantee as a method of attracting deposits?

Mr. Peter Fitzgerald: No.

Senator Michael D’Arcy: You weren’t?

Mr. Peter Fitzgerald: No.

Senator Michael D’Arcy: While potentially morally wrong to do so, was it considered?

Mr. Peter Fitzgerald: No, it wasn’t, no.

Senator Michael D’Arcy: It was never discussed?

Mr. Peter Fitzgerald: It was never discussed. In fact, it was discussed on the basis that there was clear instruction to staff not to use it.

Senator Michael D’Arcy: And who gave those instructions?

Mr. Peter Fitzgerald: Well, I would’ve to my staff and my . . . the people working for me onwards down to their staff.

Senator Michael D’Arcy: And was that a matter of a decision that you made or was it discussed with you by senior other executives within Anglo Irish Bank?

Mr. Peter Fitzgerald: I don’t think we had a formal discussion about whether we would or would not use it. I just think the instructions were really clear at the time of the guarantee that it should not be used.

Senator Michael D’Arcy: But who instigated the policy of not using it? Was it yourself or was it other senior executives?

Mr. Peter Fitzgerald: I can’t recall who instigated a particular policy in that regard. I just know that from my perspective and with my team, when the guarantee came out, we explicitly instructed our staff that it should not be used as a means to market us as an Irish savings institution and the benefit of the guarantee that that brought with security of savings.

Senator Michael D’Arcy: And did you have that conversation with other executives?

Mr. Peter Fitzgerald: I would have, yes.

Senator Michael D’Arcy: You did?

Mr. Peter Fitzgerald: Yes.

Senator Michael D’Arcy: You did. And everybody was agreeable with that, was it?

Mr. Peter Fitzgerald: Yes.

Senator Michael D’Arcy: During your time on the board as a senior executive in ‘06-’07, did you ever express any concerns to other members regarding the bank’s increased concentration of risks, assets in the commercial property sector?

Mr. Peter Fitzgerald: I don’t believe I did. It wasn’t my area of responsibility in the bank, so I actually had no operational responsibility for lending and while there were frequent presentations of the business to the board, etc., there was a wide agenda at the senior executive board and I don’t believe that I would have expressed concern about development exposures or other

lending exposures because it wasn't my area.

Senator Michael D'Arcy: You were an experienced banker, Mr. Fitzgerald. Should you have considered those matters or raised them at the board level?

Mr. Peter Fitzgerald: Well, the senior executive board was made up of both executive directors, of which I believe there were four and - sorry, five - and non-executive ... or, sorry, executive directors and business or function heads. So I would have been a divisional director in the bank along with three other members of the senior executive board. Any communication with the board would have come from those meetings to the main board, because the executive directors were obviously members of those board ... of that board. I mean, certainly, there was a conversation back in 2006 and, just for clarity, I sat on the senior executive board for less than a year. From the records I've received, I think it was eight meetings that I would have attended as a member of the senior executive board, and I do recall that development lending, for instance, was discussed, because the bank was ... recognised that it was over-exposed to development lending, in particular, and had a policy from 2006 of not lending any more development finance to new customers. But, outside of that, the lending aspect of the business, as I described in my opening statement, just wasn't part of my functional responsibility, so I can't add any further insight into that, I'm afraid.

Senator Michael D'Arcy: I suppose where I'm coming from, Mr. Fitzgerald, is you had a large number of staff underneath you. Your job was to get ... to look after the retail deposits-----

Mr. Peter Fitzgerald: And corporate deposits.

Senator Michael D'Arcy: And the corporate deposits. And did you ... a term that is being used is "silos". Were you siloed? Did you only consider that and never offer other opinions to other executives within the bank?

Mr. Peter Fitzgerald: I think the nature of Anglo Irish Bank was, both culturally and divisionally, quite siloed in that, as I mentioned in my opening statement, it really was three monoline activities between treasury, between lending and between wealth management. They did come together through the senior executive board. I think the concerns that would have been raised around funding was not in relation to the risk in terms of the credit risk but in relation to our ability to fund that prudently. And you will see in the minutes of the ALCO meetings and also in board presentations, the presentations made by the business from the treasury perspective in terms of the quantum of funding that we had to raise in order to adequately fund that lending growth, so... sorry, to your point, and just to be helpful, the discussions, I think, at senior executive board from my perspective and others in the treasury side would have been around the need to be able to fund that appropriately. I would not have expressed a view, because it wasn't my area, on credit risk, because it wasn't my area of expertise.

Senator Michael D'Arcy: You were aware of the extent to which Anglo Irish Bank was a monoline bank.

Mr. Peter Fitzgerald: We were indeed, yes.

Senator Michael D'Arcy: Were you aware that the figures that we've had presented to us was ... were, upon analysis, prior to the guarantee ... 82% of Anglo Irish Bank was made up of commercial real estate lending, 17% corporate, much of which was attached to the commercial real estate, and 1% residential. Were you aware of that?

Mr. Peter Fitzgerald: I was, yes. And that was the chosen strategy of the bank on the lending side. So, yes, I was, yes.

Senator Michael D’Arcy: And were you satisfied at that stage that it was ... you used the term “prudent” ... that that was a prudent banking model?

Mr. Peter Fitzgerald: The bank-----

Senator Michael D’Arcy: Not now, but back then.

Mr. Peter Fitzgerald: Yes. Back then, the chosen business model operated by the bank was one that was deemed a success, was lauded as a success in terms of its ... the value that it created in terms of its rising share price. The rating agencies, the market commentators, media commentators all put Anglo Irish Bank forward - and it’s a point I’ve raised in my opening statement as well - as the business model for comparison and best practice against its peers and its competitors. So it was very focused in three core markets. It had a sectoral approach, which in hindsight now was very, very monoline. It met its funding targets to achieve that lending year-on-year and when the crisis hit, that commentary changed and-----

Senator Michael D’Arcy: Sorry, at what stage did the crisis hit do you... in your view?

Mr. Peter Fitzgerald: In my view, it was probably in 2006 when the bank was, I suppose, actively looking at not just its ... I suppose the fact that it was a monoline in the main real estate lender but the fact that it had a very high exposure to development finance in particular, which was the highest risk element of it.

Senator Michael D’Arcy: Would you consider yourself somebody who is well-informed about what the market was saying about your institution - Anglo Irish Bank?

Mr. Peter Fitzgerald: I would have, yes, because it was talked about at senior executive levels. We would have been very conscious about what was being said about us both by equity investors and capital investors.

Senator Michael D’Arcy: And in terms-----

Mr. Peter Fitzgerald: Sorry, just to your point ... so at a time that I sat on the senior executive board from 2006 to 2007, almost up to that point, the bank was still deemed by many externally and internally as operating a very successful business model. Its cost-income ratio was very, very low.

Senator Michael D’Arcy: Did RBS not have a market note in relation to Anglo Irish Bank being monoline and that it was not systemic to the Irish sector? Were you aware of that market note?

Mr. Peter Fitzgerald: Sorry, yes. There was ... obviously, there were-----

Senator Michael D’Arcy: That was in 2007.

Mr. Peter Fitzgerald: Yes. So there were people that had that view but it was an individual view. It wasn’t necessarily a wide view at that time and I make mention in my witness statement that the bank then brought in three investment banks in, and I’m not 100% sure of the timing of this, it was either in late 2006 or early 2007. I believe it was on the instigation of the head of capital markets at the time basically on how our balance sheet was being structured to fund

future growth. I believe those investment banks were BNP, Barclays and Merrill Lynch. They came in. We gave them substantial information in advance. They did a due diligence process and they presented to executive directors and the wide member ... and a wide grouping of the management team and I believe I highlight in the witness statement that they reaffirmed that we should be slowing growth in terms of our lending books, that our funding bases, while they had proved successful to date, were quite thin, and what I meant by that, is we were wholesale and customer and then the customer itself was just in a couple of markets.

Senator Michael D’Arcy: If I could move on, Mr. Fitzgerald, did you consider at any point during 2008 that the bank was insolvent?

Mr. Peter Fitzgerald: I didn’t. I didn’t.

Senator Michael D’Arcy: On the night of the guarantee, did you believe the bank was insolvent?

Mr. Peter Fitzgerald: I didn’t, no.

Senator Michael D’Arcy: Did you believe there was billions required by the State at that stage or tens of billions required by the State to underwrite the bank?

Mr. Peter Fitzgerald: No, I didn’t, no.

Senator Michael D’Arcy: You didn’t?

Mr. Peter Fitzgerald: No and I didn’t and I didn’t for, I suppose, a very simple reason from my perspective in that my role was on the other side of the balance sheet. I didn’t have-----

Senator Michael D’Arcy: You said earlier that you were a person who was well-informed.

Mr. Peter Fitzgerald: Yes, no, true but I wouldn’t have had any insight into the fact that property values were as over-inflated as they were, not just in Ireland but in other markets.

Senator Michael D’Arcy: But you must have been well-informed that the corporate deposits were possibly likely to ... I think the term used “flight to quality”, that was your term.

Mr. Peter Fitzgerald: Yes.

Senator Michael D’Arcy: That that was likely to happen based upon the monoline status of the bank.

Mr. Peter Fitzgerald: No, what I’m talking about here is ... I think ... I would regard that as liquidity as opposed to solvency.

Senator Michael D’Arcy: Liquidity runs directly into solvency depending on the extent of the crisis.

Mr. Peter Fitzgerald: Well no, I believe the solvency issue genuinely came post the guarantee. And I’d agree with a lot of market commentators that that is the case in terms of the deterioration in the asset values that applied in the bank at the time. The liquidity issue was one that was short-term ability to meet our obligations, not in terms of the-----

Senator Michael D’Arcy: Were you aware of Professor Morgan Kelly’s interview on “Prime Time” immediately after the ... I think it was within ... I think it was 30 September, in

relation to ... his theory was that the asset values were so poor that the guarantee was a mistake? Did you see that interview on “Prime Time” with Professor Morgan Kelly?

Mr. Peter Fitzgerald: I didn’t see that interview, no.

Senator Michael D’Arcy: Are you aware of it?

Mr. Peter Fitzgerald: I am, yes.

Senator Michael D’Arcy: His assertion was that the liquidity wasn’t available through Irish banks because of the quality of their loan book.

Mr. Peter Fitzgerald: Okay.

Senator Michael D’Arcy: And do you think that’s a fair comment?

Mr. Peter Fitzgerald: In hindsight, yes.

Senator Michael D’Arcy: And, which caused which? Was the liquidity crisis caused due to the standard of the loan book or was it, as you say, the crisis came after the guarantee?

Mr. Peter Fitzgerald: I think the roots of the crisis that led to a liquidity crisis were based on solvency as opposed to liquidity. I don’t think that manifested itself in terms of asset values in Ireland or the UK until ... in fact, right out into 2009 and 2010. I think when confidence in, for example, in Northern Rock was lost it was around, predominantly, their lending business but it manifested itself in a loss of confidence in the savings and so, therefore, the liquidity that the bank had built up in terms of its savings and wholesale funding ran, which perpetrated a further crisis whereby they weren’t able to meet their liabilities.

Senator Michael D’Arcy: Sorry, Mr. Fitzgerald, but the question I asked you was which caused the bank to crash. Was it ... the theory that Professor Morgan Kelly put forward was that the standard of the loan book was so poor that that caused the liquidity crisis within Anglo and other Irish banks.

Mr. Peter Fitzgerald: I don’t think that was evident to-----

Senator Michael D’Arcy: I’m not asking you what was evident. I’m asking you which caused it, in your opinion.

Mr. Peter Fitzgerald: In my opinion, it was a liquidity issue that caused the bank to crash, in that we simply couldn’t meet our short-term obligations.

Senator Michael D’Arcy: Not the standard of the loan book, as put forward by Professor Kelly?

Mr. Peter Fitzgerald: Ultimately, I think that proved to be correct but in the months leading up to the guarantee, I don’t think that that was evident to the bank. I think it was a short term liquidity-----

Senator Michael D’Arcy: But which was correct? I’m not talking about the months prior to the guarantee, what was evidenced. Which was the case, with hindsight, Mr. Fitzgerald?

Mr. Peter Fitzgerald: With the benefit of hindsight, it was the asset values in the bank.

Senator Michael D’Arcy: The standard of the loan book?

Mr. Peter Fitzgerald: The standard of the loan book, I would suggest, yes.

Senator Michael D’Arcy: Mr. Fitzgerald, Project Atlas - conducted by PwC - I think some of it had started prior to the guarantee and subsequently concluded the field work prior to Christmas 2008. The report was presented to the Minister in early 2009, the Minister for Finance, Mr. Lenihan. I think it was February 2009 it was presented. Were you aware of that?

Mr. Peter Fitzgerald: I had no involvement in the preparation of Project Atlas.

Senator Michael D’Arcy: You had no involvement. In terms of the *The New York Times* headline in 2010 ... you were still with Anglo Irish Bank at that stage?

Mr. Peter Fitzgerald: I was, yes.

Senator Michael D’Arcy: The headline that, “[Could] one bank bring down a country?” Did you think that was a fair headline?

Mr. Peter Fitzgerald: I guess, in hindsight, it was, given the fact that we required the greatest bailout of any bank in Ireland, ultimately.

Senator Michael D’Arcy: It was a bit more than that; it was the equivalent of half of the national debt-----

Mr. Peter Fitzgerald: Yes.

Senator Michael D’Arcy: -----at that stage. The NAMA figures subsequently ... that were transferred - with a discount of almost 60%, I think it was 59% - were you surprised at the level of discount?

Chairman: Final question now, Senator, and then I’m moving on.

Mr. Peter Fitzgerald: Yes. I can’t honestly offer an opinion on that because I wasn’t involved in the NAMA transfer process or the valuation of our loans at that time. Post-nationalisation, I was still head of retail banking, working with treasury, and so I wasn’t involved in the valuation process.

Chairman: Okay. Thank you, Senator. I’ll bring you back in later. Deputy McGrath.

Deputy Michael McGrath: Thank you very much, Chair. Good morning, Mr. Fitzgerald. Can I just start by asking you to clarify your own position? Because from the biog and from your own witness statement, you were head of retail deposits from 2001 to the summer of 2006-----

Mr. Peter Fitzgerald: Yes.

Deputy Michael McGrath: -----and then you joined the senior executive board and you became director of corporate and retail treasury and about a year later you came off the senior executive board and you went back to being head of retail deposits. Is that correct?

Mr. Peter Fitzgerald: That’s correct, yes.

Deputy Michael McGrath: Yes. So what led to you coming off the senior executive board after just a year and were you promoted and then demoted or what was the situation there, moving to director of corporate and retail treasury and then head of retail deposit, or was it the same

job? Just clarify.

Mr. Peter Fitzgerald: No, it was a promotion. The advancement to the senior executive board was me taking two portfolios - one was a retail deposit portfolio and the other was a corporate treasury business, which I had been involved in previously.

Deputy Michael McGrath: Yes.

Mr. Peter Fitzgerald: So maybe if I would just go through it. When I joined the bank, I raised corporate deposits for the bank. It was decided, for a variety of reasons, that we needed to get into the retail business in 2001. I was asked to leave that and set up a retail savings franchise for the bank, which I did.

Deputy Michael McGrath: Yes.

Mr. Peter Fitzgerald: Following that success, David Drumm was appointing some new people onto the senior executive board, asked me to join that and brought me back in under the total customer funding unit.

Deputy Michael McGrath: In June '06.

Mr. Peter Fitzgerald: Exactly, yes.

Deputy Michael McGrath: Summer of '06. Yes.

Mr. Peter Fitzgerald: He then, about a year later, removed myself and three other individuals from that, so it had gone from a committee of about nine-----

Deputy Michael McGrath: The senior executive board.

Mr. Peter Fitzgerald: Senior executive board.

Deputy Michael McGrath: Yes.

Mr. Peter Fitzgerald: He removed four to bring it back down to executive director level only. So, as I mentioned earlier on, it was made up of executive directors and heads of function. His reason to me was that he wanted to just rationalise it in terms of its structure and that was it. I was a director at the time so it wasn't a demotion in terms of grade but obviously it would have been important to me to be on the senior executive board, so-----

Deputy Michael McGrath: Were you a function head as head of retail deposit?

Mr. Peter Fitzgerald: Yes, I was a function head, yes.

Deputy Michael McGrath: Okay.

Mr. Peter Fitzgerald: So I always reported in to an executive director in the bank.

Deputy Michael McGrath: Okay.

Mr. Peter Fitzgerald: Yes.

Deputy Michael McGrath: And that executive director was on-----

Mr. Peter Fitzgerald: Was on the senior executive board.

Deputy Michael McGrath: -----the senior executive board then and not you. You were no longer on it from-----

Mr. Peter Fitzgerald: Yes, exactly.

Deputy Michael McGrath: -----the autumn of 2008.

Mr. Peter Fitzgerald: Exactly. So we just went back to our function, but not sitting on the senior executive board of the bank.

Deputy Michael McGrath: Okay. In September 2008, Anglo's loan-to-deposit ratio was 160% up from 125% in September '07. So, as head of corporate and retail treasury during the period '06 towards '08, were you concerned at any time during that period that the growth in customer deposits was not sufficient to fund the growth in the bank's loan book. In other words, there was clearly a growing dependence on wholesale funding as opposed to the bank's deposit base. Was that an issue that concerned you and were you raising that with your superiors?

Mr. Peter Fitzgerald: Yes, it was an issue. And if you go back to late 2007, early 2008, it was obvious to us that the markets that we were funding both corporate and retail deposits from were too thin. So if you take a retail deposit business, for example, we were operating out of Ireland, which is quite a small market in European terms, the Isle of Man, which is very small, and the UK had at this stage over three years produced 50% of our retail deposit funding. So we knew that we needed to diversify. And hence I worked on a plan with my team for a retail expansion into Germany, which was actually pretty much launch-ready shortly after the nationalisation of the bank. And we presented that to Donal O'Connor at the time. And obviously the bank had been nationalised so it didn't go any further. But there was certainly a strategic intent, to your point Deputy, that we were stretching our existing markets for too much funding and we needed to get into at least one or more ... to European markets on the retail side. And the other strategic development was we had got approval in the United States to raise deposits from a limited number of jurisdictions in North America, which again would have opened up much further funding capability. So in the ... I think one of the messages from the 2008 results was that the aim of the bank, predominantly through the customer deposit side, was to be 100% loan-to-deposit ratio by 2011.

Deputy Michael McGrath: To be less dependent on wholesale funding.

Mr. Peter Fitzgerald: Yes.

Deputy Michael McGrath: Okay. You were a member, as you indicated to the Chairman, of the supervisory board of Anglo Irish Bank Austria. The sale of this bank in December 2008 reduced Anglo's deposit base by around €600 million at a time when the bank's overall liquidity position was coming under pressure, so can you explain why did Anglo agree to sell this subsidiary at this juncture despite the resulting loss in deposits which the bank was needing?

Mr. Peter Fitzgerald: Yes. Okay, well, maybe just one minute of background: the sale of the Austrian private bank followed on from a strategy of the bank to divest of private banking businesses outside of Ireland and the UK, so there was a trust business in the Isle of Man which was sold in 2006, I think, a private bank in Geneva that was sold around the same time, a fledgling private banking operation in Dubai, which we closed very early on, and I was asked to lead the sale of the private bank in Austria following on from that. That sale process started before the crisis. To your point, we did pause halfway through that process as liquidity issues were hitting the bank to determine if we sell this bank we are also selling, I think, it was either €575

million or €600 million in deposits, so it was considered. I had a discussion with the CEO and the finance director about it. We decided to proceed for three reasons. One was we had ... we were now fully engaged in a sale process and, obviously, stopping the sale of a private bank in particular is quite difficult in that you've got counterparties now actively doing due diligence etc., so we felt that pulling the sale would not just reduce the value significantly then but also any further time that we were to put it on the market. That's number one. Number two, our view was that the deposits at the time were a very small percentage of our overall customer funding business, so if you think about it we may have probably had about €45 billion, I can't remember the number, of total customer deposits then and this was €600 million. I think the third was I don't think we genuinely believed that the liquidity stress that the bank was under would actually result in its total collapse. We believed that we would get through it.

Deputy Michael McGrath: Did you support the decision, agree with it at the time?

Mr. Peter Fitzgerald: I did.

Deputy Michael McGrath: Did Anglo provide some vendor financing as such, €24 million to the buyer as part of the sale agreement?

Mr. Peter Fitzgerald: It did, yes.

Deputy Michael McGrath: Yes. And what was the rationale behind that?

Mr. Peter Fitzgerald: I am not ... totally *au fait* with that, and the reason being was that it was done at the finance division in the bank level rather than myself.

Deputy Michael McGrath: In your witness statement you take us through the key events leading up to the autumn of 2008, and you refer to the Northern Rock issue in the autumn of 2007, then the so-called St. Patrick's Day massacre where the share price of Anglo took a hammering, and then you come to the collapse of Lehman Brothers on 15 September 2008, and you say at the end of that paragraph on page 6 that "While having survived two material events [the previous two, Northern Rock and the St. Patrick's Day share collapse], the events of September brought a new level of uncertainty for the staff and management of the Bank and with the share price now below 30c, I believe most of the senior staff honestly felt the Bank would not recover." So, can you elaborate on that? Who were you talking about there? And on what are you basing that assertion that senior people in the bank felt the bank would not recover? And what does "not recover" mean?

Mr. Peter Fitzgerald: Okay. Yes, well, to put that in perspective, really, I suppose, what I was observing in my statement was the stress that the bank had been under for such an extended period at that stage. I think it was predominantly around the fact that we had no answers to the constant outflow of customer and wholesale deposits at that stage in that every day was just a fight to try and reassure customers, to try and retell our story, to try and outline that we had no mortgage lending, and all of the other types of answers we would have been giving to the marketplace.

I also think that when the share price went to the point that it did, it probably made equity raising very, very difficult for the bank. And so, without specific, you know, sitting down and saying, "Oh, this has to be the end", I think what I was describing really was just a sense in the bank that, you know, we were in serious trouble here.

Deputy Michael McGrath: Sure, but, I mean, the sense comes from what people were

saying and what you were hearing and what was being discussed.

Mr. Peter Fitzgerald: Yes.

Deputy Michael McGrath: What I'm asking you is do you believe that the people who were running Anglo Irish Bank in the second half of September 2008, before the guarantee, felt the game was up, that the bank really had no long-term future?

Mr. Peter Fitzgerald: I think that's ... yes, I think that's a fair assessment.

Deputy Michael McGrath: That they knew the bank would not survive?

Mr. Peter Fitzgerald: I think the bank ... I think we felt that the bank had very, very serious issues and that it-----

Deputy Michael McGrath: But were existential issues.

Mr. Peter Fitzgerald: Yes. Genuinely I'm trying to be as helpful as I can here but it is my view.

Deputy Michael McGrath: Yes, and what are you basing that view on?

Mr. Peter Fitzgerald: I'm basing that view on conversations where we had no answers at that time and an incredibly stressful environment where we had been trying as many things as we possibly could to try and restore confidence in the bank.

Deputy Michael McGrath: And do you believe that those grave concerns about the survival of the bank pre-guarantee in September 2008 were shared with the authorities?

Mr. Peter Fitzgerald: I had no involvement with the authorities but I had a sense that they were. I had a sense that there was lots of conversations externally as to how we might rectify the situation for the bank but I wasn't a party to them. I wasn't at that level ... I cannot explain to you ... at executive ... the level of board level, so I don't know.

Deputy Michael McGrath: Can I just ask you about the area that you had responsibility for? And when I look at the annual report for Anglo at September 2008, which was the year end, the amount of customer deposits was €51.5 billion, of which retail deposits were €19 billion and non-retail deposits were over €32 billion. So, this is the very end of September 2008. Can you define "retail deposits" first, Mr. Fitzgerald? What are retail deposits?

Mr. Peter Fitzgerald: Sure, yes. Retail deposits are deposits from individual customers.

Deputy Michael McGrath: Persons, individuals?

Mr. Peter Fitzgerald: Yes, persons. There may have been, but it's a tiny, tiny percentage of, you know, sole traders, kind of, owner-managers, where they might have used their ... but, we're talking less than ... we're talking hundreds of thousands of euros and very few of them in that it did actually fit into the definition of "retail", but, in the main, it was either individual or joint savings accounts.

Deputy Michael McGrath: Okay, and that €19 billion of retail deposits, how much of that would have been in Ireland? This is the group figure now. The bank was €14.7 billion, the group, €19 billion, broadly speaking.

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Mr. Peter Fitzgerald: Well, yes, working backwards, €10 billion of it came from the UK in euro equivalent. There was probably €4 billion from the Isle of Man and the balance from Ireland, so, €6 billion to €7 billion, I would suggest, yes.

Deputy Michael McGrath: Okay. And then non-retail deposits of €32 billion. What are non-retail deposits?

Mr. Peter Fitzgerald: Non-retail deposits are anything from an incorporated entity. It could have been from a-----

Deputy Michael McGrath: Okay.

Mr. Peter Fitzgerald: -----a small business with €100,000 on deposit up to a financial ... or a fund manager in the UK who gave us €600 million-----

Deputy Michael McGrath: Okay.

Mr. Peter Fitzgerald: -----on deposit here.

Deputy Michael McGrath: And how much volatility was there in the overall level of deposits that the bank was holding? Would some of those non-retail deposits be overnight deposits which were flowing in and out? Can you give us the sense of the level of movement?

Mr. Peter Fitzgerald: Sure. Well, the retail business, you could take it that 50% of it was in one-year fixed deposit accounts.

Deputy Michael McGrath: Okay.

Mr. Peter Fitzgerald: The bank only sold two types of deposit accounts. You either had on-demand or it was a one-year fixed. It didn't get any more complicated than that.

Deputy Michael McGrath: Okay.

Mr. Peter Fitzgerald: And, so 50% of the retail deposits, being the €19 billion, was basically at risk of moving at a phone call's notice; 50% of that would have required notice for whenever the maturity was coming up to say, "I'd like to have it repaid".

Deputy Michael McGrath: Okay. Were you in charge of non-retail deposits as well?

Mr. Peter Fitzgerald: I was, yes.

Deputy Michael McGrath: Even when you were - your title was head of retail deposits - you were in charge of non-retail deposits?

Mr. Peter Fitzgerald: No, I was in charge of retail deposits ... in around 2000, I think, it was either July or August 2008, my role changed again, where David Drumm asked me to ... basically because the retail business was proving, I suppose, the future, going back to my earlier piece where if we could have 100% of loan-to-deposit ratio, a huge portion of that would be from retail.

Deputy Michael McGrath: Okay.

Mr. Peter Fitzgerald: He asked me to concentrate on the retail business and actually move it across into something that's much more operational, as in-----

Deputy Michael McGrath: Okay.

Mr. Peter Fitzgerald: -----go in under the head of operations for the bank. Now, that said, that was a conversation before the year-end. I would have still been quite active in the corporate deposit area-----

Deputy Michael McGrath: Okay.

Mr. Peter Fitzgerald: -----right up to the end.

Deputy Michael McGrath: Just to clarify, on top of the €51 billion of retail and non-retail, then there were interbank deposits of €20 billion. That wouldn't have fallen under your area.

Mr. Peter Fitzgerald: No.

Deputy Michael McGrath: Was that under treasury?

Mr. Peter Fitzgerald: Yes, it was treasury, but on the capital market side-----

Deputy Michael McGrath: Okay.

Mr. Peter Fitzgerald: -----and liquidities.

Deputy Michael McGrath: So, talk me through the scenario where at the end of September 2008. If Anglo had collapsed or had been allowed to collapse, how would this have worked itself out? You had €51.5 billion of customer deposits. How much cash should you have on hand? If the bank collapsed, how would it have played out?

Mr. Peter Fitzgerald: I don't know if I can answer that with any level of qualification.

Deputy Michael McGrath: Your opinion is all I'm asking.

Mr. Peter Fitzgerald: Yes.

Deputy Michael McGrath: You know, you were in charge of all the deposits.

Mr. Peter Fitzgerald: Yes.

Deputy Michael McGrath: If the bank didn't open its doors in early October 2008, how would it have played out?

Mr. Peter Fitzgerald: As in if there was no back-stop funding facility available for the bank?

Deputy Michael McGrath: Yes, if the bank collapsed.

Mr. Peter Fitzgerald: Liquidation. Yes, liquidation, I presume, where the retail deposit customers would have been covered. If you remember, back on 20 September-----

Deputy Michael McGrath: Yes.

Mr. Peter Fitzgerald: -----deposit protection increased to €100,000.

Deputy Michael McGrath: Yes.

Mr. Peter Fitzgerald: So two things happened then. Now, it was only within a week of the

Government guarantee, so-----

Deputy Michael McGrath: So the State would have had to pick up the-----

Mr. Peter Fitzgerald: Yes.

Deputy Michael McGrath: And that-----

Mr. Peter Fitzgerald: And there was-----

Deputy Michael McGrath: That figure ... that sum would have run into several billion, which the State would have had to pay.

Mr. Peter Fitzgerald: If the fund was sufficient enough to pay. So, obviously, the deposit protection fund is a fund-----

Deputy Michael McGrath: Yes.

Mr. Peter Fitzgerald: -----which the Minister guarantees to top up-----

Deputy Michael McGrath: Yes. And it wasn't sufficient at the time but, yes.

Mr. Peter Fitzgerald: Yes. So, I can only assume liquidation, where retail deposit customers would have been covered up to the deposit protection scheme ... would have been at risk thereafter. Corporate deposit customers would have been totally at risk, based on the proceeds of a liquidation. Sorry, is that satisfactory?

Deputy Michael McGrath: Yes, I'm just trying-----

Mr. Peter Fitzgerald: I'm trying to be as helpful as I can.

Deputy Michael McGrath: -----to tease out that scenario. You were in charge of the whole deposit area. There were over €51 billion of deposits that you had direct responsibility for. You have conceded that Anglo was facing an existential crisis. The State intervened, as we know; we know what happened since. We don't know the other scenario, which never played itself out.

Mr. Peter Fitzgerald: True.

Deputy Michael McGrath: So I think it's important just to ask that question. Finally, from the period, March 2008 until the end of September 2008, the liquidity situation was changing very quickly.

Mr. Peter Fitzgerald: Yes.

Deputy Michael McGrath: What level of concern did you have over that period of time about the liquidity position of the bank?

Mr. Peter Fitzgerald: Well, through the ALCO committee on which I sat, the bank had internal liquidity ratios, and also then it had regulatory liquidity ratios. So I won't go into the regulatory liquidity ratio now in terms of detail but it basically meant that from a regulatory point of view ... and I think this came in in the middle of ... or the start of 2007, the bank had to hold an amount of liquidity that was able to meet any outflows within 30 days with inflows in 30 days. The bank ... and we then set more stringent internal liquidity ratios, and it's evident in the minutes of the ALCO meetings that the bank actually held its line in terms of liquidity

... regulatory liquidity until ... practically up to the collapse of Lehman's. So, while liquidity was incredibly volatile, yes, the bank was liquid, yes? So it had a lot of liquidity; in fact, we were lenders into the market for quite a period of time. And the liquidity ratios as set by the Central Bank or the Financial Regulator were actually only breached almost September time, when liquidity stress became the most severe. But, obviously, from March right through, we were concerned daily about larger customers pulling credit lines that they had for the bank, ongoing retail worries where people weren't renewing their savings accounts when they hit a one-year maturity, as I described earlier. But, from a liquidity point of view, we were sound until Lehman's, in effect.

Deputy Michael McGrath: Okay, thank you.

Mr. Peter Fitzgerald: And then it was very swift.

Chairman: If I may stay with that for a moment with Mr. Fitzgerald, in that, in December 2007, the group ALCO - or asset and liability committee - and the ALCO liquidity committee approved a stress testing and scenario analysis. I'll just bring it up on the screen there, just an example of it. This relates, I think, it's to you ... it's one of the core documents, Vol. 2, 37 to 59. I think it's two or three pages into that document. And the title of it is, "Stress testing: a scenario analysis - funding, liquidity, risk policy". This details a number of stress scenarios against the bank's liquidity and how they would be tested. Were you involved in developing or writing this policy?

Mr. Peter Fitzgerald: I wasn't. It was presented, I've seen, and approved by the ALCO, by the liquidity ... by, it was ... this was put together by group risk and by the group trading and liquidity management function of the bank. And it was then presented into ALCO ... sorry, asset and liability committee-----

Chairman: Right.

Mr. Peter Fitzgerald: -----and approved by them, and then on to the board ... risk and compliance of the main board.

Chairman: Okay.

Mr. Peter Fitzgerald: Yes.

Chairman: The policy does not include an extreme doomsday scenario similar to that which occurred post the collapse of Lehman Brothers. Can you explain why that wasn't the case in this instance?

Mr. Peter Fitzgerald: I just don't think it was envisaged. I mean, when I was looking at this in terms of my preparations for today, one of the things that struck me was that while the bank had, I suppose, adequately put forward a variety of different stresses that may occur to affect its liquidity and funding, practically all of them occurred throughout certainly the latter half of 2008, either to some degree and then, finally, all degree, yes? So, if you look here at the ... and this was done, I suppose, at a time when the outlook was more benign but we are regarding the probability of a neutral stress as being most likely then, and then very low probabilities attaching to even an Irish-specific market event.

Chairman: And that is December 2007.

Mr. Peter Fitzgerald: Yes.

Chairman: Just about nine months later, the bank doesn't go beyond the point of rescue; it actually gets rescued-----

Mr. Peter Fitzgerald: Yes.

Chairman: -----in September 2008 and in January 2009, the bank is nationalised. In the period leading up to the guarantee, were you aware of any discussions that might have been taking place in Anglo that the bank was seeking to be guaranteed or may be guaranteed?

Mr. Peter Fitzgerald: Not at all. I learned of the guarantee in ... on the morning itself, on the way into work.

Chairman: Okay, yes.

Mr. Peter Fitzgerald: So, I had no insight into that.

Chairman: Were you surprised that your bank was guaranteed, or were you not?

Mr. Peter Fitzgerald: I was relieved, but I wasn't surprised, no.

Chairman: And why were you not surprised?

Mr. Peter Fitzgerald: I didn't think at the time that there were choices being made as to who was being guaranteed or otherwise. I thought it was a general blanket guarantee to sort a systemic issue. It's only in hindsight that I learned that there was a debate as to whether the bank should be included together with the INBS or not.

Chairman: And from hindsight what is your understanding of the rationale as to why Anglo Irish Bank was guaranteed?

Mr. Peter Fitzgerald: From hindsight my understanding?

Chairman: Yes, as and from now.

Mr. Peter Fitzgerald: That it was systemic.

Chairman: That it was systemic.

Mr. Peter Fitzgerald: Yes, systemically important.

Chairman: The bank was subsequently nationalised in January '09 and this committee has heard evidence in regard to ... that even nationalisation of Anglo was considered on the night of the guarantee. When did you first become aware of any consideration that your bank might be nationalised?

Mr. Peter Fitzgerald: The ... I became aware from a phone call on the evening of its nationalisation, in other words about two hours beforehand.

Chairman: There was ... and was there any discussion or debate or consideration in the ether, to the best of your knowledge, through any period prior to that, either prior to the guarantee or prior to the nationalisation itself, that Anglo was going to be nationalised?

Mr. Peter Fitzgerald: Not that I was aware of or a party to. As I said, I think it was announced ... it might have been announced on the national broadcaster in the 9 o'clock news.

Chairman: Okay.

Mr. Peter Fitzgerald: I remember I found out about it through a phone call from a senior executive at 7 o'clock that evening.

Chairman: Okay, and no other indication to your knowledge?

Mr. Peter Fitzgerald: None.

Chairman: Okay. Thank you. Deputy Kieran O'Donnell.

Deputy Kieran O'Donnell: Thanks, Chairman. Welcome, Mr. Fitzgerald.

In September 2008, Anglo's - and I'm referencing Vol. 2, page 33, its board's presentation and strategic options - and in September '08 Anglo's loan-to-deposit ratio was 160%. That's up from 125% in September 2007. That's roughly a year. Did you regard Anglo's increasing dependence on wholesale funding as a risk to the bank and would you've ever raised these concerns with other members of the senior management team?

Mr. Peter Fitzgerald: Thanks, Deputy. Yes, I think I might have dealt with that earlier on where-----

Deputy Kieran O'Donnell: Yes.

Mr. Peter Fitzgerald: Certainly it was a concern to the bank. It was discussed at ALCO. It would have been discussed with the senior executive in terms of, I suppose, the stretch that we were putting on the funding to cover that amount of lending. But, equally, we were funding sufficiently at the time and the long-term aim was that we have 100% loan-to-deposit ratio with further initiatives. So, if you look back, we had already moved funding from very, very small and humble beginnings - '80s, '90s, 2000. Probably what surprised us was the success of the business in the UK market which was tentative to start off with - very competitive market - and therefore we were looking at at least one new European market in the following 12 months to try and redress that. But, it was a concern and it was discussed.

Deputy Kieran O'Donnell: And would you have been aware of the level of ECB funding that Anglo would have been looking to source, we'll say, as its deposits base was drying up?

Mr. Peter Fitzgerald: Yes, to be honest, again there was three divisions in treasury and that wasn't one of mine.

Deputy Kieran O'Donnell: And how big of a factor was ... when the contracts for difference issue arose with Mr. Quinn, were you aware of that? When did you become first aware of the contracts for difference issue between Anglo Irish Bank and Mr. Quinn?

Mr. Peter Fitzgerald: Can I seek the direction of the Chairman on that? Is that-----

Chairman: I just need your attention there. I was just taking a note-----

Mr. Peter Fitzgerald: I'm sorry, just in terms-----

Deputy Kieran O'Donnell: What I was asking really, Chairman, was I am really trying to-----

Chairman: What's the question?

Deputy Kieran O'Donnell: Really, what was the impact of the contracts for difference in terms of Mr. Fitzgerald's capacity to source deposits for Anglo? The question, I suppose, I was asking was, the contracts for difference in terms of Mr. Quinn and Anglo, what impact did that have on Mr. Fitzgerald's role as securing deposits for Anglo?

Mr. Peter Fitzgerald: In terms of, I suppose, the ... any legal action, just any legal action relating to Mr. Quinn, that position, its effect on the bank, and knowledge of that in the bank, I've just ... I have concern ... I have concern voicing something today that might be prejudicial in six months' time.

Chairman: I would err on the safest side, on the side of safety. The issue of Mr. Quinn's involvement with Anglo Irish Bank has been discussed at this committee before-----

Mr. Peter Fitzgerald: Okay.

Chairman: -----so if your concern is in regard to just entering that into the debate at this committee, I wouldn't consider that a concern. But if you have material information that is related to a potential or pending matter that's under consideration by the DPP, I would ask you to take a more cautious approach.

Mr. Peter Fitzgerald: No, no, I understand, and thank you, Chairman. So, if your question is in relation to how it affected my role-----

Deputy Kieran O'Donnell: In accessing deposits for Anglo.

Mr. Peter Fitzgerald: I am advised that we should seek a short adjournment, if that's okay.

Chairman: That is more than accommodating. What I propose is, if you need to speak to your own legal team there, I'll certainly accommodate that. I presume that you just need maybe about five minutes, Mr. Fitzgerald. If you need longer than that, just come back to me.

Mr. Peter Fitzgerald: That's fine. I just want to get clarity as to where I can go with this.

Chairman: Just adjourn, and I'll just put the meeting into a very short suspension for a couple of minutes. Okay?

Mr. Peter Fitzgerald: Okay. Thank you, Chairman.

Sitting suspended at 10.17 a.m. and resumed at 10.35 a.m.

Chairman: All right. I propose we go back into public session so. And if maybe Deputy O'Donnell could just maybe resummarise the question again, and then I'll go back to Mr. Fitzgerald.

Deputy Kieran O'Donnell: Thank you, Chairman. Mr. Fitzpatrick, just to recap the question I asked-----

Senator Michael D'Arcy: His name is Fitzgerald.

Deputy Kieran O'Donnell: Mr. Fitzgerald. What did I say?

Senator Michael D'Arcy: Fitzpatrick.

Deputy Michael McGrath: Fitzpatrick.

NEXUS PHASE

Deputy Kieran O'Donnell: Fitzgerald. To recap on the question, what I'd like to know is when did you first become aware of rumours that the Quinn contracts for difference with Anglo Irish Bank shares was happening. And did that have an impact on your role in terms of your capacity to raise deposits for Anglo Irish Bank?

Mr. Peter Fitzgerald: Okay. I was aware of Mr. Quinn's reported stake in the bank.

Deputy Kieran O'Donnell: When did you first become aware?

(Interruptions).

Deputy Kieran O'Donnell: Yes, when did you first hear the rumours?

Mr. Peter Fitzgerald: I cannot recall when.

Deputy Kieran O'Donnell: Roughly.

Mr. Peter Fitzgerald: Roughly the start of 2008, maybe.

Deputy Kieran O'Donnell: Okay.

Mr. Peter Fitzgerald: Yes. And in terms of the second part of your question, the rumours that were in the marketplace - and I think are already talked about in the public domain - about the reasons for the short-selling of the Anglo Irish Bank share price really only affected the business that I ran in the bank on 17 March.

Deputy Kieran O'Donnell: 17 March.

Mr. Peter Fitzgerald: Exactly.

Deputy Kieran O'Donnell: When the share-----

Mr. Peter Fitzgerald: Exactly.

Deputy Kieran O'Donnell: Okay.

Mr. Peter Fitzgerald: So what was the impact of that? So-----

Deputy Kieran O'Donnell: 17 March is when the share price-----

Mr. Peter Fitzgerald: Apologies, yes ... 17 March ... the Patrick's Day-----

Deputy Kieran O'Donnell: Yes.

Mr. Peter Fitzgerald: -----massacre, as it was named afterwards. So the share price of the bank fell substantially - I think at the end of the day it was close to 15% or more - and that caused obviously considerable stress among savers. It precipitated a short run on the bank ... and what I would describe as "run" is thousands of calls over the course of a number of days.

Deputy Kieran O'Donnell: That was in the week after the 17th.

Mr. Peter Fitzgerald: Yes.

Deputy Kieran O'Donnell: Patrick's Day '08.

Mr. Peter Fitzgerald: Yes, so the day after for approximately four days. And it went broadly unabated to the extent that it was-----

Deputy Kieran O'Donnell: And were these both corporate and retail deposits?

Mr. Peter Fitzgerald: Both corporate and retail deposits, yes. There was then an announcement by the Financial Regulator of an investigation into short-selling. I'm not sure whether it was just of bank stocks or in the Irish marketplace. I believe that was on a Friday. And when that announcement was made, the share price rose, withdrawals abated and eventually stopped. So it was a real spike impact, to answer your question.

Deputy Kieran O'Donnell: Okay, and in your presentation - and following on from Deputy McGrath - you said this was about the post-Lehman's 15 September 2008 collapse. And your last sentence is "I believe most of the senior staff honestly [felt] the bank [would] not recover." And then you said there was no answer at that time, when you spoke earlier. What do you mean by that, that there was no answer?

Mr. Peter Fitzgerald: I personally believe that the bank felt it needed external assistance.

Deputy Kieran O'Donnell: When you say "external assistance", what form?

Mr. Peter Fitzgerald: Well, I genuinely believe the bank didn't feel it could survive on its own.

Deputy Kieran O'Donnell: And are you talking about liquidity or capital investment?

Mr. Peter Fitzgerald: I'm talking about ... well, liquidity at the time.

Deputy Kieran O'Donnell: Yes.

Mr. Peter Fitzgerald: As I mentioned previously, I don't believe the bank believed that it was requiring capital investment at the time. And so that was my sense, that the bank felt we won't be able to survive as an independent entity as Anglo Irish Bank.

Deputy Kieran O'Donnell: From what time would you have felt that was the view in the bank? From what period?

Mr. Peter Fitzgerald: I think very late in September, very late in September.

Deputy Kieran O'Donnell: And was that emanating from the top down in the bank?

Mr. Peter Fitzgerald: I didn't have a huge interaction with the chairman or members of the board at the time but certainly among my peers-----

Deputy Kieran O'Donnell: The CEO?

Mr. Peter Fitzgerald: No I don't think I got that directly from the CEO but certainly among the divisional heads in the bank and especially in treasury where we were seeing the greatest impact of the outflows and as I mentioned earlier on every day was more difficult than the next, certainly post the collapse of Lehman's.

Deputy Kieran O'Donnell: And what was generally the atmosphere like in Anglo say in that month of September? What was it like amongst the staff? Was it crisis management, was it chaos, was it chaotic? What was it like to be head of a division dealing with staff, dealing

with customers? Did you feel the end was nigh, what was generally the ... describe to me the atmosphere?

Mr. Peter Fitzgerald: I think very difficult obviously, very worrying obviously. The bank had built up very, very strong, I mean one of the ... one of the great cultural things about Anglo was its relationships with customers, and I think that's well documented. So, you know, we didn't have an online banking system, you know, customers dealt with us by phone, yes. The fear with customers was palpable despite deposit protection, despite maybe having removed some of their savings, they were very, very worried that the bank was not going to survive and that their deposits would be lost. I think it's very, very true to say that. The stress on the staff was dealing with that, trying to reassure them as best as possible that we were doing everything we could and I think generally then among staff themselves, having been through the bones of nine months of almost constant stress - and certainly from my perspective I would have managed three runs on our savings business in particular-----

Deputy Kieran O'Donnell: From the St. Patrick's Day massacre?

Mr. Peter Fitzgerald: Well from Northern Rock, thousands of calls, Patrick's Day massacre, thousands of calls, in around September, thousands of calls. I mean, an anecdote is, you know, we were moving customers that called to our savings branches which we had a number of, well predominantly in Dublin, off the street and into meeting rooms in the back of the building to avoid precipitating a crisis by people seeing a queue outside the bank on Stephen's Green.

Deputy Kieran O'Donnell: So there was a real worry-----

Chairman: Last question please Deputy.

Deputy Kieran O'Donnell: Sorry yes, so there was a real worry in Anglo-----

Chairman: Last question.

Deputy Kieran O'Donnell: Sorry, was there a concern in Anglo that you would see people queuing in the streets to take out their deposits?

Mr. Peter Fitzgerald: Oh very much.

Deputy Kieran O'Donnell: Can I just very ... just one-----

Chairman: I need discipline now from everyone.

Deputy Kieran O'Donnell: I will be very quick. There was a dinner with Mr. Cowen, the then Minister for Finance, on 24 April in Stephen's Green. Were you present at that dinner?

Mr. Peter Fitzgerald: I wasn't.

Deputy Kieran O'Donnell: Okay, thank you.

Chairman: Senator Susan O'Keefe, ten minutes Senator.

Senator Susan O'Keefe: Thanks Chair. Mr. Fitzgerald, why in your opinion, despite the fact that the bank appears to have undertaken regular stress testing on its liquidity position, did the bank not react sooner and more robustly to the liquidity crisis as September unfolded?

Mr. Peter Fitzgerald: I believe, sorry, as I said earlier on, I believe from my experience -

and I was on the customer funding side as opposed to the interbank or wholesale market side where it was predominantly managing the liquidity of the bank – but I do believe that every option was being explored to deal with that.

Senator Susan O’Keeffe: And by “every option” can you give us some indication of what you mean by “every option”?

Mr. Peter Fitzgerald: Well I can’t, it’s a highly specialist area so I ... it would be wrong of me to try and inform you of that.

Senator Susan O’Keeffe: Would you say that the bank had its own emergency plan to deal with the crisis or were you making plans as the crisis changed?

Mr. Peter Fitzgerald: I certainly think the latter is true. I think we would have always had overflow arrangements, as I mentioned earlier on we had outsourced call centres, we had plans for escalation of calls, both for good reasons and bad. In other words, if we had a market leading product we’d get more calls, if we had a negative environment we’d get more calls. Unfortunately from 2007 on it was predominantly the latter. So we had, I think, sound operational plans in place to deal with high volumes and stress and what I mean by that, just referring to the earlier piece, of just being able to control the environment as best we could with staff working late, etc. I don’t think we had a plan to deal with every aspect of our funding sources drying up over that sustained period but also then in a very, very stressed way from the collapse of Lehman’s, which really was a turning point, as I mentioned, in terms of breaching our regulatory liquidity requirements and just the sheer volume of outflows every day.

Senator Susan O’Keeffe: As you said, you could see that sheer volume of outflow and it was, as you said in your statement, effectively a sustained run on the bank albeit not a public run in the way that we might understand. In what way was that run being made known to the Department of Finance, to the Central Bank to the Financial Regulator? How was that ... how was the severity of the crisis transmitted to those people?

Mr. Peter Fitzgerald: Yes, I understand-----

Senator Susan O’Keeffe: If indeed it was.

Mr. Peter Fitzgerald: Yes, true. The only piece that I am aware of, because I wasn’t - and I mentioned in my statement earlier on - I wasn’t party to conversations with the regulator, the Department of Finance or Central Bank. So, from my perspective I know that our risk function would have sent a daily, if not twice daily, report generated from the bank’s systems of our liquidity position to the Financial Regulator. It was on their behest and going right back to early in the crisis, so it was now a formal part of our day.

Senator Susan O’Keeffe: So sorry, when you say “early in the crisis” do you mean January ’08 or September ’07?

Mr. Peter Fitzgerald: No it might have been slightly, I can’t remember, I mean, first or second quarter of 2008.

Senator Susan O’Keeffe: Okay.

Mr. Peter Fitzgerald: We started this ... three o’clock, I remember it’s three o’clock, either call or -----

NEXUS PHASE

Senator Susan O’Keeffe: But as it turned into a sustained run there, after Lehman’s, did you do anything or were you asked to do anything different as that accelerated before your eyes?

Mr. Peter Fitzgerald: For me it was managing what was in front of us at the time on the treasury side. At levels more senior than me I assume, and I don’t know, that there was pretty significant engagement with the Financial Regulator, but as I said I wasn’t party to it so I don’t know.

Senator Susan O’Keeffe: Okay, you say in your own statement on page 6, you talk about, you know, finding in hindsight the sort of problems that Nyberg showed – “That credit risk management structures [in the Bank] were, in practice, deficient [and there was] ineffective overview of Group credit decisions”, and so on. And you say, “Look that wasn’t part of my detail, but I know about them now.” But on your side of banking are you saying that while there were problems on the other parts of the bank, there weren’t similar kinds of problems, deficiencies, lack of governance-----

Chairman: There is phone interference there Senator, somewhere in proximity to you.

Senator Susan O’Keeffe: Sorry, you know, what were the problems on your side or were there any?

Mr. Peter Fitzgerald: Well if you think about what the treasury business was doing, it was basically taking money, predominantly from counterparties as opposed to lending it, so the risk was on their side as opposed to ours, yes?

Senator Susan O’Keeffe: Yes, yes.

Mr. Peter Fitzgerald: So while we had credit risk around interest rate management and around volatility of currency and lots of things that you’d expect on a treasury operation, it was a very, very different business. It was a very transactional business as opposed to committing bank funds based on longer-term lending decisions.

Senator Susan O’Keeffe: Sure I appreciate the difference but what I’m asking you is whether or not your side of the bank was clean and pure while there were other activities going on in the other parts that-----

Mr. Peter Fitzgerald: Yes, I understand what you are saying. I’m just trying to think in relation to our own business. I don’t recall significant governance issues on the liability side of Anglo’s business as opposed to ... as compared to those that have transpired on the asset side. And that’s ... I’m being as helpful as I can but I don’t think-----

Senator Susan O’Keeffe: In those last few weeks of September were you aware that, if you like, Anglo was now trying to find a partner, trying to find somebody to save the business, talking to other banks, talking to anybody who would talk to Anglo? Was that known among you generally?

Mr. Peter Fitzgerald: It wasn’t known and certainly I’m aware now that the chairman and chief executive at the time would have contacted AIB, Bank of Ireland, etc. That was news to me on hearing about it post event. What I did know was their reasonably strenuous interactions, and perhaps at board level as well, with the Financial Regulator and perhaps the Central Bank about the funding position of the bank and the deteriorating funding position of the bank. So,

anecdotally, I would have heard that in the corridors of the bank but in terms of trying to partner the bank or, you know, sell the bank or merge the bank with another entity, I hadn't insight into that.

Senator Susan O'Keeffe: Senator D'Arcy raised the matter of, you know, "Can one bank bring down a nation?", the headline of 2010 in *The New York Times*. Would it have been your view or anybody ... well, would it have been your view much earlier than that that, in fact, the bank had brought down a nation or could bring down a nation?

Mr. Peter Fitzgerald: No, it wouldn't, no.

Senator Susan O'Keeffe: Not even ... not even, sort of, after 2008-2009 when it was nationalised.

Mr. Peter Fitzgerald: No, because I don't think the extent of the losses that ultimately came about on those transfers across to NAMA, which I think were €21 billion ... until they came to light, with fresh eyes on the risks that the bank had undertaken and the credit assessment of the recoverability of the loans that had been made over the previous five-ten years, I wouldn't have had any foresight that that level of loss could have been perpetrated by the bank on the lending side of its activities - genuinely.

Senator Susan O'Keeffe: The public would say, having looked across the years, that, you know, bankers had a good time, bankers were paid well, they were incentivised, they had good salaries, they had good pensions and they got away lightly given what had happened. Is that true? Was that true for you?

Mr. Peter Fitzgerald: Personally?

Senator Susan O'Keeffe: Yes.

Mr. Peter Fitzgerald: I genuinely believe that when I worked with Anglo Irish Bank in the area that I did, that we built a business that was successful, albeit it turned out to be flawed in terms of the thinness of the funding basis that we were building to support the lending. I know that on that side of the business, we certainly worked hard and had some successes. When we look back, I think we had a responsibility and accountability obviously for what happened - most certainly. I don't know whether I could honestly give a view for bankers whether everybody got off lightly or otherwise. Everybody has had to deal with it in their own particular way, I think, in terms of the changed banking environment now.

Senator Susan O'Keeffe: And finally, Mr. Fitzgerald, do you think that the contracts for difference situation in fact was the piece that brought the bank down?

Mr. Peter Fitzgerald: I ... unfortunately, I'm going to have look for direction on that. It ... I've been legally advised that I shouldn't cover that area.

Chairman: I think if you go into that space, there are prejudgments that could be in that.

Mr. Peter Fitzgerald: I definitely think I would be putting myself and the committee at risk.

Chairman: I would concur with your position. Senator O'Keeffe's time is up anyway, which is just convenient. Deputy Joe Higgins, please.

Deputy Joe Higgins: Mr. Fitzgerald, in page 3 of your written opening statement, you say:

[T]he size of deposits taken from individual customers however grew significantly from 2005 onwards [where] some ‘institutional’ clients had over €1 billion placed on overnight deposit with the Bank. This concentration level meant the deposits in the Bank became increasingly more volatile and, while every effort was made by the treasury teams to attract deposits from a wider range of small customers, the growth in deposits and other funding sources required to fund the huge volume of lending growth during the period from 2005 onwards made that task almost impossible.

And you finish by saying, on this point, that “This was to lead to significant problems for the Bank in 2008.” Can I ask you did you ever express this concern to any member of senior management as it became clearer to you the type of problems that were emerging?

Mr. Peter Fitzgerald: Okay. Well, if I could for a moment, I just want to put that ... put a little bit of context around my statement there because the ... I’m sorry, without going on too much of a tangent but when I worked in First Active Building Society very early on in my banking career, savers would come in and they would lodge regular savings or small deposits with the bank ... with the building society through a multitude of branches which would then result in mortgages for 20 and 25 years being issued.

Deputy Joe Higgins: Yes.

Mr. Peter Fitzgerald: Yes. There was no treasury function-corporate deposit-taking function of note in the building society at that time and it was a stable business. The context of my point there was that, while we operated in treasury and started off life very early on taking hundreds of thousands of euros from deposits ... in deposits from customers, the loan growth and the general market environment meant that customers had ... corporate customers, in particular, had a lot more money. I used the billion euro overnight deposit as just an example. There may have been one or two in those but for me-----

Deputy Joe Higgins: Yes, but essentially you could sum it up by saying you became quite dependent on large corporate-----

Mr. Peter Fitzgerald: Yes, and it increased the volatility for sure.

Deputy Joe Higgins: -----deposits, yes.

Mr. Peter Fitzgerald: And we did discuss that. We were aware of the risk of that.

Deputy Joe Higgins: And who did you discuss it with?

Mr. Peter Fitzgerald: We would have discussed it at the ALCO committee of the bank, which would have gone to the board risk and compliance committee. We would have had customer concentration lists in terms of the largest customers.

Deputy Joe Higgins: Yes, and would the top management have been ... above your level, have been aware of this?

Mr. Peter Fitzgerald: They would have indeed. Yes.

Deputy Joe Higgins: Were any plans, at any stage say from 2005 on, put in place to mitigate the impact?

Mr. Peter Fitzgerald: Yes. So, as I’ve mentioned, we had opened from ... in the 2000s we

had opened new centres to try and get more customers, to try and get more granular deposits.

Deputy Joe Higgins: Okay, that was to try and spread the-----

Mr. Peter Fitzgerald: Exactly, yes.

Deputy Joe Higgins: Okay.

Mr. Peter Fitzgerald: And, just to finish, I think while those plans were in place, the liquidity crisis of 2008, from a timing perspective, just caught up with a lot of those plans.

Deputy Joe Higgins: Right, I'll just move on because of time, Mr. Fitzgerald. On page 10 and 11 of your statement, you say:

Merrill Lynch, BNP and Barclays Capital Markets were separately retained in 2007 to conduct a detailed due diligence of the Bank's balance sheet. The resulting findings highlighted, among other matters, the Banks high concentration to property and development lending, the thin nature of its funding base and the possible need to raise more equity as a capital buffer for possible future [use].

Did each of those entities make a report, a formal report, to you?

Mr. Peter Fitzgerald: They developed their findings and report ... and made them in a report to the bank, yes.

Deputy Joe Higgins: Each had a written report to the bank.

Mr. Peter Fitzgerald: Yes.

Deputy Joe Higgins: And where did these reports go? Who ... were they discussed?

Mr. Peter Fitzgerald: Oh yes. So, each of the counterparties mentioned presented, over perhaps a half day, to the executive directors of the bank and a selection of the management team. Then the report was obviously left at the end of that and it was discussed. I don't know if those reports were then brought by the executive directors up to the board.

Deputy Joe Higgins: You don't know if they were presented to the board.

Mr. Peter Fitzgerald: I don't know, no.

Deputy Joe Higgins: You would expect that they would, would you?

Mr. Peter Fitzgerald: I would expect that those findings certainly would have been passed on to the board, yes.

Deputy Joe Higgins: They haven't ... those three reports, Chair, haven't appeared in our evidence book. I mean, it seems to me that they are very material. The resulting findings, according to Mr. Fitzgerald, are quite stark, you know, again highlighting the concentration to property and development lending, the thin nature of the funding and the need to raise more equity. So, could we, at this stage, for further consideration, request that these come from IBRC?

Chairman: I'll have that noted today, Deputy.

Deputy Joe Higgins: Yes, thank you. Okay. On page 11 again, Mr. Fitzgerald, you say, and I quote:

[T]he bank found it extremely difficult to reduce or stop lending as the crisis worsened. This in part was down to contractual commitments to borrowers and also the risk that, without further lending, some development projects would cease and result in significant immediate loan default.

And then you say that in the first part of 2008 a, by any standards massive, €6.5 billion was lent out.

This is a ... is this a very, very kind of a stark situation, Mr. Fitzgerald, that you are locked into something as if it is out of your control, despite the fact that everything should be saying that you should be cutting back on lending? I mean, a picture that came to my mind, would it be too dramatic to describe Anglo as let's say a "legal prescription drug supplier" with a highly addicted client who shouldn't ... who should be weaned off the stuff but you are terrified of the effects of cold turkey, economic arrest, cardiac arrest or something like this? Is ... does this paint, does this in your mind paint a very stark picture in retrospect?

Mr. Peter Fitzgerald: I don't think your analogy is offside at all, in that I know that we obviously had - and if we just break it down, I suppose, when you are trying to curtail lending to a client base that have a multitude of projects that are on-running, etc. - then you basically have, as I mentioned earlier on and just, I suppose in context as well, I wasn't on the lending side ... I was just aware of the funding implications, yes, of the continued lending in 2008.

Deputy Joe Higgins: Can I ask you, Mr. Fitzgerald, then, just to ... did that situation arise largely from the methods of Anglo? Large loans, for example, for speculative land development and then to justify this you had to fund the developers who were speculating with a construction of some kind to go on it.

Mr. Peter Fitzgerald: That-----

Deputy Joe Higgins: It was an inevitable consequence of this method of work.

Mr. Peter Fitzgerald: I don't, I couldn't give you an informed answer on that because I wasn't on the lending side of the business. I suppose the highest level-view that I could give you on it was that lending to try and stop the lending machine in Anglo, yes, from the start of 2008 or maybe the last quarter of 2007, involved careful choosing of which projects that could be backed, I believe, which projects would need to be not backed any further. And I suppose the point and the reason I put it in my statement was that stopping lending outright when a crisis hits - and it may well have been a factor for all of banks, all of the banks that were hit by the crisis - proved very difficult for Anglo and I don't think your analogy is wrong either.

Deputy Joe Higgins: And Mr. Fitzgerald, was this partly what left us, for example, with a multitude of ghost estates? That the initial lending had been made to buy but then the crisis came and no more-----

Mr. Peter Fitzgerald: I think that is very possible, yes.

Deputy Joe Higgins: Yes. But did it not occur to you, Mr. Fitzgerald, an experienced financial person who keeps an eye on world affairs, that booms like this inevitably slump and crash, so it's a musical chair but at some stage the music will stop?

Chairman: You must give way now, Deputy.

Deputy Joe Higgins: Would that not have occurred to you in the course of the 2000s?

Mr. Peter Fitzgerald: Yes. To be honest, Deputy, I had no experience of that other than a growth environment for the bank. I believed the model that we operated was sound until it was evident that it wasn't.

Deputy Joe Higgins: My very last question, Mr. Fitzgerald for the time, I beg your pardon, is this. Again, to say, to quote you, "[A]s I understand it, a substantial portion of the [total] new net lending figure of €6.5 billion in 2008 was lent in the first half of 2008 when funding the existing balance sheet was becoming increasingly more difficult". Mr. Fitzgerald, was that reckless trading to dole out €6.8 billion at a time when you had difficulty funding the existing commitments?

Mr. Peter Fitzgerald: The only comment I would make on that, I think, is that what I was looking to do was describe the challenge of maintaining and growing funding, together with curtailing, as best as possible, the amount of lending. If that was the net result that was probably the best the bank could have done at the time. I would also add that it was our view that the credit crisis would abate and that it would resolve. If you look at the results, the presentation of the bank in 2008, it was for, you know, dislocation in the markets to last for another 12 months, maybe 18 months, and then we would regain traction. So it was about slowing, curtailing growth so that we could recover and move on. I think there was never a view in the bank that, quite obviously, that we wouldn't see it to the end of the year.

Deputy Joe Higgins: Okay. Thank you.

Chairman: Thank you very much. I'd like to move towards wrapping up and in doing so I invite Senator D'Arcy in please. Senator D'Arcy, three minutes.

Senator Michael D'Arcy: Mr. Fitzgerald, what was your salary and bonuses at the peak during the boom?

Mr. Peter Fitzgerald: Can I ask direction on that, Chairman?

Chairman: That's a matter that has been raised with a number of other witnesses that have been before the committee, Mr. Fitzgerald. It is your prerogative whether you wish to answer that or not.

Mr. Peter Fitzgerald: I'd prefer not to answer that question, if that is okay.

Senator Michael D'Arcy: Mr. Fitzgerald, in terms of your role in retail and non-retail deposits, can I ask in terms of anti-money laundering legislation, was that high on your list of issues to be dealt with and did you have any interaction with the Financial Regulator in that matter?

Mr. Peter Fitzgerald: It was very high on the agenda. We were inspected on it regularly, externally as well as internally, but I didn't have interaction with the Financial Regulator - it would have been through the group compliance function of the bank.

Senator Michael D'Arcy: And Mr. Fitzgerald, to finish, did you read the Simon Carswell book?

Mr. Peter Fitzgerald: I did, yes.

Senator Michael D'Arcy: In your view, did it paint an accurate picture of life within Anglo Irish Bank?

Mr. Peter Fitzgerald: I think it did.

Senator Michael D’Arcy: And just to finish on a specific issue, in relation of page 148 and I am discussing the St. Patrick’s Day massacre, in relation to Merrion Capital and a broker and adviser, Mr. Ken Costello, who was, I use the term “focused upon” by Anglo Irish Bank. Are you aware of what I am discussing?

Mr. Peter Fitzgerald: I am from the book, yes.

Senator Michael D’Arcy: From the book. Were you aware that that occurred?

Mr. Peter Fitzgerald: I wasn’t at the time, no.

Senator Michael D’Arcy: You weren’t. You had no knowledge of that matter.

Mr. Peter Fitzgerald: No.

Chairman: Thanks very much, Mr. Fitzgerald. I just want to wrap up with a couple of questions myself with you and then we will bring matters to a conclusion. Mr. Fitzgerald, do you believe that it was appropriate that you, as a member of senior management having a team of over 300 people reporting to you, were focused solely on one area of business and that you appear to have operated in a type of isolation from the rest of the bank? Would that be a fair assessment?

Mr. Peter Fitzgerald: I think it is a reasonable assessment, yes. I think it is the way the bank operated in that it was very segregated in terms of its divisions - lending, treasury and wealth management - and within those lenders had geographic locations and individual portfolios, and in treasury it was the same.

Chairman: And in that regard, do you believe that you had an obligation to concern yourself with the wider business strategy of the bank?

Mr. Peter Fitzgerald: For the period of time I was on the senior executive board which was, as I have mentioned, probably less than a year I did input into that strategy but aside of that it wasn’t part of my role.

Chairman: Okay. Do you feel it should have been?

Mr. Peter Fitzgerald: In hindsight, I think the board of the bank regularly took budget presentations from the bank - and when I say “regularly” it was on an annual basis. If they had concerns they would make an agenda item for your business function to come up and the debate at those board meetings was always robust but in hindsight, yes, we probably could have benefited from being less segregated.

Chairman: And in your opinion what was the fundamental failing of the management structure of the bank?

Mr. Peter Fitzgerald: My personal view is that one of the deficits in the structure was that we didn’t have a director of treasury represented on the main board of the bank as an executive director. We did have non-executive directors with banking and treasury experience but, if you think about it, for a considerable period before and during the crisis we did not have a director of treasury at an executive level.

Chairman: Mr. Fitzgerald, I’d like to return to maybe the period of in and around 2008

and maybe first ask you as to where do you think that Anglo eventually ran out of road and was beyond the point of no return?

Mr. Peter Fitzgerald: I think it was ... certainly, in my mind, it was post the collapse of Lehman's, because-----

Chairman: Which was in what period?

Mr. Peter Fitzgerald: It was 15 September onwards.

Chairman: Okay.

Mr. Peter Fitzgerald: It's when it became most stressed.

Chairman: Of 2008?

Mr. Peter Fitzgerald: In 2008, yes, excuse me.

Chairman: Okay. Prior to that? The road looked okay, yes?

Mr. Peter Fitzgerald: No, I think the bank and I mentioned in my statement the bank found itself defending its position and defending its business model from probably the last quarter of 2007 onwards.

Chairman: So there was a growing awareness of evolving issues in the bank at that time, yes, okay?

Mr. Peter Fitzgerald: They were predominantly equity issues, where the share price started to fall and we were vigorously defending, I suppose, the business model of the bank at that stage.

Chairman: So in that environment of growing awareness and evolving issues, did you have any discussion with any board members, senior management or, indeed, any officials at any level in Anglo Irish Bank on the need to get access to what might be called "the political air" or to get issues facing Anglo into the political air? And, if so, was there any mechanism by which this would actually happen in Anglo?

Mr. Peter Fitzgerald: It wasn't a conversation that I had with anyone in the bank.

Chairman: And would you be familiar that if such a conduit was to be taken, who would be the conduit?

Mr. Peter Fitzgerald: I would've assumed it would've been the chairman.

Chairman: Who was who?

Mr. Peter Fitzgerald: I would've assumed it would've been the chairman.

Chairman: Which was who?

Mr. Peter Fitzgerald: Seán FitzPatrick.

Chairman: Seán FitzPatrick. Okay, with that said, there's just one final issue I want to raise with you, Mr. Fitzgerald, this morning. And that is in regard to just the general perception of Anglo Irish Bank and its senior management and so forth, and to ask you if ... there's been

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-