HOUSES OF THE OIREACHTAS

Volume 2 **No. 61**

AN COMHCHOISTE FIOSRÚCHÁIN I DTAOBH NA GÉARCHÉIME BAINCÉIREACHTA

JOINT COMMITTEE OF INQUIRY INTO THE BANKING CRISIS

Dé Céadaoin, 9 Meán Fómhair 2015

Wednesday, 9 September 2015

The Committee met at 9.30 a.m.

MEMBERS PRESENT:

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

DEPUTY CIARÁN LYNCH IN THE CHAIR.

think you maybe should have had that discussion and told the Taoiseach that there ... you had a visit from these gentlemen that afternoon and, on the information that you had, this is the exposure the State would actually be taking?

Mr. Alan Gray: Chairman, just to be clear, I never said I felt, even in retrospect, I should have told the Taoiseach. I felt then and I feel now it would've been a mistake to mention that to the Taoiseach because it could've been misinterpreted as suggesting that I had some, you know, issue and the Taoiseach might have asked me about what Anglo were talking about, and it wasn't relevant to what I was being asked by the Taoiseach.

Chairman: Okay. I'm going to wrap things up, Mr. Gray. I certainly appreciate, and the committee does, your co-operation this afternoon. We've, kind of, a long schedule today and we've a bit of an overrun. Is there anything you'd like to say? I know in your opening statement you gave some recommendations for the future, which the committee would always welcome to hear in terms of our report. Is there anything other than that that you'd like to further add this afternoon?

Mr. Alan Gray: No, Chairman, just to thank members for their impartiality and their courtesy. I was going to say, Chairman, when you were asking me that question, that I hope the committee will consider some of the gaps that currently exist, which are ... need to be addressed to potentially prevent another crisis. And I haven't had an opportunity at this session to outline the details of what I think would ... are those gaps in detail, other than the short ideas I have outlined. And if the committee would find it useful to have some subsequent written views from me on those, I would be willing to do that.

Chairman: Okay, by means of correspondence, that's always welcome. In terms of ideas, we never have enough ideas, as we know, without a formal legal process and all the rest of it, Mr. Gray, so thank you very much for that offer. With that said, I now propose that in thanking Mr. Gray for his participation and engagement with the inquiry, that we formally excuse him and doing so, that we will suspend until 7:15 p.m. Is that agreed? Agreed.

Mr. Alan Gray: Thank you very much.

Sitting suspended at 6.51 p.m. and resumed at 7.25 p.m.

Additional debate to follow shortly.

Anglo Irish Bank - Mr. Tom Browne

Chairman: The Committee of Inquiry into the Banking Crisis is now resuming in public session. Can I ask members and those in the public Gallery to ensure that their mobile devices are switched off? Our final hearing of this evening is with Mr. Tom Browne, former director of Anglo Irish Bank. Mr. Browne was a director of Anglo from 2004 to November 2007. He joined Anglo in 1990 and was a member of the Dublin lending division from 1990 to 2000. He retired from Anglo in November 2007 and stepped down from the board at the same time. Mr. Browne, you are very welcome before the committee this evening and thank you for your co-operation in being here.

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. I would remind members and those present that there are currently criminal proceedings ongoing and further criminal proceedings are scheduled during the lifetime of this 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 and will be relied upon in questioning and form part of the evidence of the inquiry. So, with that said, if I can now ask the clerk to administer the oath to Mr. Browne, please.

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

Mr. Tom Browne, former director, Anglo Irish Bank.

Chairman: Okay. So, welcome again, Mr. Browne and if I can invite you to make your opening remarks to the committee, please.

Mr. Tom Browne: Thank you, Chairman. Good evening, ladies and gentlemen. I have been a career banker, starting with AIB in 1979 where I worked in various branch banking and head office departments. In 1990, I joined Anglo Irish Bank as lending manager in its Dublin branch. I was promoted to divisional head in 1997. In November 2000, I resigned from the bank to join the Devey Group as chief executive. The Devey Group was a Dublin-based health care, hospitality and property group with business operations in Ireland and Portugal. After approximately 11 months with the Devey Group, I was approached by the Anglo CEO, Seán FitzPatrick to rejoin the bank. I returned to the bank in February 2002 to establish a new division in the bank called the wealth management division. The wealth management division was an amalgam of various private banking operations in Dublin, London, Vienna, Geneva and the Isle of Man. In January 2004, I was appointed as an executive director to the board of the bank. In January 2005, I was appointed head of lending Ireland as part of significant management changes introduced by the newly appointed CEO, David Drumm. In April 2007, I advised Mr. Drumm and the chairman, Mr. FitzPatrick, of my intention to leave the bank with the announcement of my departure being made to the Stock Exchange on 4 September 2007 and set up a new business LeBruin, which is a corporate finance and debt advisory business now employing 20 people in Dublin, Galway and London. I welcome the opportunity to be of assistance to the inquiry.

Given that I left the bank at this time, I can only be of limited assistance on what happened in the last quarter of 2007 and through 2008 when the bank experienced growing pressures and issues, which culminated in the Government guarantee and, ultimately, the nationalisation and State bailout of the bank. The inquiry has provided me with core documents. I have, however, not had any insight into the workings of the bank itself since I left in 2007. I will, again, however, do my best to be of assistance to you.

When I left the bank in 2007, I firmly believed that the credit approval process, the loan review process, the ongoing reviews of credit policies and the developing risk function within the bank were sufficiently robust to provide early indications of problems in the loan book to the executive team, the board and to the Financial Regulator. Over the ten years to 2005, Anglo Irish Bank had transformed from being a small player in the Irish marketplace to becoming a serious player in terms of market share in chosen segments in Ireland, with a growing business in the UK and an emerging business in the US. This performance in Ireland was driven by a number of factors: a very active, long-standing client base, many of whom had become the leading players in the property development and investment sectors; very strong customer loyalty across the core client base, which ensured a high level of repeat business for the bank; and an economic environment with low interest rates and wholesale bank funding at unprecedented levels. The success of Anglo over the ten-year period to 2005 was reflected not just in the growth of the loan book, but also in year-on-year increases in earnings and a strong market rating recognised by reputable international agencies such as Oliver Wyman who, in 2007, named the bank as the best performing bank in the world over the previous five years.

Due to this comparative success and to the prevailing economic conditions, competition in the mid-2000’s began to significantly intensify. This competition came from existing universal banks in Ireland and from emerging foreign lenders in the market. For example, AIB bank established what they called win-back teams to target former clients who’d moved their business elsewhere, or existing clients who were multi-banked. Emerging players, such as Bank of Scotland Ireland, ACC Bank and Ulster Bank, all competed very aggressively to wrest market share from existing banks, including Anglo. All of this led to an avalanche of credit in the marketplace. The timing of the Savills launch could not have been worse. Asset values rocketed, signs were emerging of a property bubble and, while the general consensus was that the market would have a soft landing, the emerging evidence indicated a serious potential problem.

In early 2006, the Anglo board decided, on the basis of management advice, to change its lending policy reflecting the concerns we held about the acceleration in asset values and given the growing intensity of competition. A decision was taken that no new clients with development funding proposals would be entertained. The bank would exclusively deal with existing customers with a deal carrying an acceptable level of risk. This policy change became widely known in the marketplace and, indeed, some competitors played on this in their tactics to attract new development business. This policy change was Anglo’s attempt to curtail activity in this sector of the market, which, clearly, had begun to overheat. On reflection, the motivation for this policy change was entirely correct; however, the policy itself was seriously flawed because it did not go far enough. We continued to support our bigger existing clients who continued to be active in the market, which led to very large exposures to a concentrated number of clients. The lending proposals at that time all met the acceptable levels of risk. These proposals were from long-term, proven operators, each with a depth of expertise and capability to deliver successful projects time and again.

Yet, with the benefit of hindsight, the failure to more forcibly implement the policy decision taken in early 2006 together with the shortcomings in the policy itself was a serious mistake. The consequences of this mistake became very clear when the property market in Ireland collapsed, resulting in very significant losses for the bank. The bank should not have defended its position with its biggest borrowers against the intensive competition in the market to the extent that it did. This defence led to unacceptable exposures concentrated on a relatively small number of customers, and no matter how professional and capable these customers were, the concentrated risk profile which resulted from this defence was to put the bank's loan book at an unacceptable risk.

Regarding the funding of the bank during this period, I did not experience that funding was under pressure prior to my departure from the bank. Through the early part of 2007, wholesale corporate and retail funding had held up well and the performance of the bank in attracting new funding was very good. There was no indication of stress. However, the pressure which emerged ultimately, post the Northern Rock issue, demonstrated that the funding base was not sufficiently wide, deep or stable to underpin the scale of the loan book. It also since emerged that at the time of my departure from the bank, Seán Quinn had a sizeable position in the bank through CFDs, contracts for difference. I was not made aware of this, although other board directors of the bank were. Although Seán Quinn's CFD position would go on to cause difficulties for the bank, it would not, however, be appropriate for me to make any further comment on this matter because of ongoing legal proceedings.

When I left Anglo, I genuinely believed that the bank was solvent and liquid. Indeed, a thought that a liquidity or solvency issue would emerge was alien to me. I did not see a threat to the long-term viability of the bank as I left the bank in 2007. I was a senior executive and an executive director of Anglo until 2007. Given what ultimately happened and the consequent impact on so many people, staff, customers, shareholders and the State, I deeply regret my own role in the building of the loan book to what became an unsustainable, overly concentrated scale. Thank you.

Chairman: Thank you very much, Mr. Browne, for your opening remarks.

Senator Susan O'Keeffe: Could we have clarification as to when Mr. Browne, exactly, left the bank?

Mr. Tom Browne: My announcement was on 4 September 2007 to the Stock Exchange, and I physically departed out of the bank, probably, over the following four to five weeks.

Senator Susan O'Keeffe: Thank you.

Chairman: Thank you. Deputy Murphy.

Deputy Eoghan Murphy: Thank you, Chairman, and thank you, Mr. Browne. You're very welcome.

Mr. Tom Browne: Thank you.

Deputy Eoghan Murphy: I'd like to begin with the performance of the board, if I may. There was a board review undertaken by external consultants in 2003 and this review noted that some directors felt that the board pack "fails to ignite debate on important issues". The report also notes that many directors expressed a "frustrating need for more debate on strategic issues". When we come to the Nyberg report in 2011, when speaking about Anglo, it says, "There is little evidence that board directors at the time were active in challenging the bank's approach or its pace of lending growth". And, again, many of these observations were also reflected in a board evaluation that was carried out in November-December 2007. Do you agree, or not, with these observations?

Mr. Tom Browne: Again, the first report, obviously, would have been carried out before I became a board member. I didn't become a board member until early 2004.

Deputy Eoghan Murphy: But, would that have been your impression of the board when you arrived?

Mr. Tom Browne: No, it wouldn't have been.

Deputy Eoghan Murphy: "Fails to ignite debate on important issues ...many directors expressed a frustrating need for more debate on strategic issues."

Mr. Tom Browne: I would have always seen the board as a very open, transparent gathering. I never felt, over the couple of years that I was there, that there was any fear of any of the non-executive directors asking any hard questions in regard to any matter pertaining to the business of the bank.

Deputy Eoghan Murphy: But, do you think that the level of debate and challenge to management of the board was sufficient then from the non-executive directors?

Mr. Tom Browne: Again, you know, as I said, the atmosphere of the board is very much an open, transparent process, and I never felt that any of the non-executive directors were afraid to actually, kind of, ask any far-reaching questions in regard to any aspect of business.

Deputy Eoghan Murphy: So, when you came onto the board, though, was there any reference made back to this external consultants review from 2003 on the strategic management committee, was any discussion of how you might improve the board packs, improve debate at the board level?

Mr. Tom Browne: Well, the board packs were being improved the whole time in terms of the level of information that was being given, so there was continuously upgrading of all the information on an ongoing basis from various aspects of the business. And, again, going back to my point, I never felt there was anything but a very transparent, open environment in terms of discussion around any issue relating to the activities of the bank during my period on the board.

Deputy Eoghan Murphy: Okay. When Mike Aynsley was before us, he said that the committee structures was not as effective as they could have been, and he was aware that a board within a board existed. Can you comment on this in a general way, please?

Mr. Tom Browne: Can you just clarify ... what do you mean by that?

Deputy Eoghan Murphy: Mike Aynsley talked about this idea of a board within a board existing at Anglo.

Mr. Tom Browne: Again, you know, during my period of time on the board, I never got a sense that there was anything but a very transparent, open process around the board table, and I wouldn't have got a feel ... I wouldn't have got a sense that there was a, kind of, a board within a board during my period of time there.

Deputy Eoghan Murphy: Okay. The Nyberg report also talked about Anglo having insufficient checks and balances - "Traditional risk evaluation procedures and risk mitigants were not implemented in practice", and that governance also "fell short of best practice". What do you say to that? Do you agree with that?

Mr. Tom Browne: Again, if you go back to the risk function in terms of how the risk function evolved over the years as the bank grew, I would have felt the risk function was very much on top of its game in terms of actually, kind of, being on top of the loan book. The bank was growing, you know, in three jurisdictions - Ireland, the UK and in America - and the risk function was staffed up by high-quality people, from within and new hires from other banks, so I would ... Deputy, I would have always felt that the risk function, in particular, was ... you know, it ... it was growing in tandem with the bank. You know, the management structure they put in in regard to watch lists where the ... you know, every manager had his watch-list case, which was actively managed by the managers ... I would have always felt the risk function was very much on top of their game in terms of management of the overriding risk in the bank.

Deputy Eoghan Murphy: So is Nyberg incorrect when he says that governance fell short of best practice in Anglo Irish Bank?

Mr. Tom Browne: You know, again, I'd ask the question, "What does that actually ... you know, what does he mean there?" You know, in what context is he saying the governance ... you know.

Deputy Eoghan Murphy: Have you read the Nyberg report?

Mr. Tom Browne: I haven't read the Nyberg report.

Deputy Eoghan Murphy: Okay. Would you have a ... okay, if you haven't read it, I'll move on from that. If you could, just briefly describe to me the corporate culture of the bank during your period on the board.

Mr. Tom Browne: The corporate culture of the bank was very much ... you know, it was a very inclusive bank. It was a, you know, ... it was a very from the, kind of, top-down in terms of, the bank was very much on the one-way street in terms of what it was doing. It was very focused in terms of what it actually ... it did. You know, the board was very aware of, actually, kind of ... the actual ... the issues around the ongoing activities of the bank, no matter what area of the bank, and any ... and there was always encouragement to actually ... to flag any issue of concern to the board early, and that was very much the mindset, you know, within ... across the board table, that if there was a concern, if there was an issue, bring it up earlier and make the board aware of it.

Deputy Eoghan Murphy: How often would the board have social occasions, a dinner, for example, where it would bring in someone from outside of the bank to engage with them, maybe make presentations in an informal way? We have heard here before about a dinner at Heritage House, at which the former Taoiseach attended. Those kinds of engagements ... were you party to any of those types of dinners with the bank engaging with people from outside of the bank?

Mr. Tom Browne: Yes, like, you know, there would have been one or two occasions every year. Somebody from, you know, the industry expert or, you know, from financial markets would have been brought to a, you know, a luncheon or a dinner after a board meeting and would have given their view in terms of the relevant topic of expertise. So that was kind of ... that was something that happened on a regular enough basis.

Deputy Eoghan Murphy: The purpose of those occasions was to hear from the outside experts-----

Mr. Tom Browne: Yes, exactly.

Deputy Eoghan Murphy: -----to speak to the board.

Mr. Tom Browne: Yes, exactly, to give their view in terms of, you know, whether it was the property market or whether it was the financial markets, you know, in terms of actually giving their view of, kind of, of something that the bank felt was a relevant topic.

Deputy Eoghan Murphy: Were you ever at a dinner or a luncheon where a politician attended?

Mr. Tom Browne: No, I don't remember. Yes, I don't because, again, that one you referred to happened after I left the bank.

Deputy Eoghan Murphy: Okay.

Mr. Tom Browne: You know, we ... for example, there was ... you know, there was, I think, a couple of lunches where the Financial Regulator attended it. You know, I remember that one, okay. That was back in 2006, maybe.

Deputy Eoghan Murphy: Was that a lunch or a dinner, do you remember?

Mr. Tom Browne: I think it was a lunch, Deputy.

Deputy Eoghan Murphy: And the purpose would have been to hear from the Financial Regulator about-----

Mr. Tom Browne: Yes, exactly, how ... you know, because what was, kind a, going on in terms of actually the whole regulatory environment around Europe and locally in terms of the impact it was going to have.

Deputy Eoghan Murphy: Okay.

Mr. Tom Browne: I think that was ... I think, John Hurley was the man-----

Deputy Eoghan Murphy: Okay.

Mr. Tom Browne: -----at the time.

Deputy Eoghan Murphy: Okay. Moving on from that to your role as managing director for lending, Ireland, can you tell me a bit about the lending culture under your stewardship because Mike Aynsley also told the committee about a story that was related to him about an auction as a way of illustrating the culture and the lending practices in the bank prior to the crisis? This is what Mike Aynsley said to us, and he is talking about someone speaking to him about an auction:

> And [the person] said, "I don't know how they found out about it but I was at an auction one morning and a fellow came up and he handed me an envelope, and it was an Anglo Irish Bank envelope, and I opened it up, and there was a cheque inside, which represented slightly more than what the deposit would be and it says ... a note attached saying, 'Just in case you need the deposit'.". So, you know, this is the mindset at the time. It was to go out there at all costs ...

Do you recognise that?

Mr. Tom Browne: I would absolutely refute that story. That would never have happened, in my view. I'll give you another example of an auction that I attended. In early 2006, when the bank had brought its new policy in place, I attended an auction on a property, which was guiding somewhere in the region of €10 million, in terms of its guide price, and it sold for something in excess of €30-odd million at the time, and I remember coming back to the office and requesting my secretary to get all the lenders into the room because this was, kind a, further justification of the change of policy that we had just introduced, that the market had gone out of control. You know, people were way ... were paying way over the odds based on indicative pricing for assets, and that's the other side of the story where the bank was at in early 2006.

Deputy Eoghan Murphy: Okay, well, let's look at this change in policy. In the core booklets, in Vol. 1, page 121, is a map of Ireland. It's from a presentation from lending Ireland of 30 April 2007. You've seen this report in the booklets.

Mr. Tom Browne: Yes, yes.

Deputy Eoghan Murphy: Yes, so that would have been compiled and put together while you were-----

Mr. Tom Browne: Yes, it was done in April 2007, yes.

Deputy Eoghan Murphy: So you were involved in that.

Mr. Tom Browne: Yes, that would have been ... that would have been ... that would have been of the new information that would have been developed over the couple of years.

Deputy Eoghan Murphy: There's a map here on page 121 and it is, "Total Drawn Land Balances - €5.29bn Loans by Location as at 30/04/07", and it is up on the monitor there in front of you - €2.7 billion in Dublin, a third of a billion in Meath, a quarter of a billion in Galway, a half a billion in Cork, and it is showing, for each county, the exposures. So was this map presented as a positive to the bank, to the board, to the directors? What was the purpose of this?

Mr. Tom Browne: The purpose of this was to actually show the ... exactly where the exposures were in terms of land balance. Land was always, you know, the key issue of concern in terms of actually ... because if there was any correction in the market, your land values were the ones that were immediately going to be dramatically affected.

Deputy Eoghan Murphy: Okay.

Mr. Tom Browne: And there was three elements in terms of ... you know, you had your unzoned land, your zoned land and land with planning permission. Your real risk category was your unzoned land because, you know, that was the one that, kind of, if markets had continued to actually ... had deteriorated, the value in regard to that type of land would eliminate overnight. So this, the purpose of this presentation, was to show the exposure, kind of, on a geographical basis.

Deputy Eoghan Murphy: So what was the point or what was the goal of lending Ireland at this point in time in relation to these figures? To reduce them, to increase them, to-----

Mr. Tom Browne: No, no. The goal was, again, based on the new lending policy that was introduced in 2006, which was very much to curtail the activity in this regard. As I said in my opening statement, we could see from early 2006 that the market was getting seriously overheated.

Deputy Eoghan Murphy: But if you changed the policy in 2006, why did ... and, again, your internal report shows this, that development lending in Ireland accounted for 30.5% of total lending and that it increased by 50% in the previous 12 months. This is in the report of April '07. If the policy changed in '06, how could lending in Ireland increase by 50% in the following 12 months?

Mr. Tom Browne: As ... again, as I said in my opening statement, is that we continued to support some of our bigger clients who were still remaining very active and that was the mistake that we made, that we continue to support a lot of these bigger clients in terms of the projects that they brought to the bank, and I think that was the mistake, looking back, that we made.

Deputy Eoghan Murphy: But 50% is ... I mean, if you recognised something in 2006 and the policy is to try and pull back - I understand the caveat that you put in there - but then to see it still increase by 50% in a 12-month period.

Mr. Tom Browne: Well, I think it is a reflection of the fact where asset values were going. You know, again, going back to my point about, you know, we had a very active, you know, client base, they were the biggest players in the market and, unfortunately, we continued to actually support those players when we should have actually probably curtailed the level of lending to the bigger players in the market.

Deputy Eoghan Murphy: So that was a mistake.

Mr. Tom Browne: Absolutely.

Deputy Eoghan Murphy: Okay. And just then to note that from September 2004 to September 2007 Irish lending grew by 284% - so that's €13 billion to almost €38 billion - and this was on loans advanced ... It was on loans advanced during this period that Anglo took its heaviest losses and you were MD of lending for most of this period, so what do you say to that?

Mr. Tom Browne: Again, going back to the ... you know, again, the franchise ... you know, the franchise over those number of years was growing in terms of what ... it just wasn't property lending. We'd attempted to, kind of, broaden the base in terms of cashflow lending, M and A-type lending, corporate ... more corporate lending. So we'd broadened the base over those number of years. Again, going back to the point I made earlier on, we had a very active client base. We had a very high level of repeat business.

Deputy Eoghan Murphy: Sorry, how did you broaden the base? Excuse me.

Mr. Tom Browne: How did we broaden?

Deputy Eoghan Murphy: Yes.

Mr. Tom Browne: We were trying to move away from just being purely, you know, dominated by actually property lending. We were trying to move into other areas of activity in terms of------

Deputy Eoghan Murphy: What kind ... what areas?

Mr. Tom Browne: Cashflow lending.

Deputy Eoghan Murphy: Okay.

Mr. Tom Browne: You know, mergers and acquisitions-----

Deputy Eoghan Murphy: Okay.

Mr. Tom Browne: -----management buy-ins, management buyouts. So we were trying to actually, kind of, reduce the over-reliance on property lending.

Deputy Eoghan Murphy: And what was your view of 100% lending?

Mr. Tom Browne: Sorry?

Deputy Eoghan Murphy: What was your view of 100% lending within the bank?

Mr. Tom Browne: Well-----

Deputy Eoghan Murphy: Could you intervene in a process, in a lending process, to make sure that a developer, a borrower, would get 100% financing?

Mr. Tom Browne: No, because, you know, that ... you know, that was, you know, the high-risk area, if you were giving 100% lending on development-type stuff you were ... you know, that was huge risk you were taking at ... you know, at that time, you know.

Deputy Eoghan Murphy: So you're familiar with the Applewood development in Swords?

Mr. Tom Browne: Applewood in Swords?

Deputy Eoghan Murphy: Yes.

Mr. Tom Browne: Yes.

Deputy Eoghan Murphy: Were you involved in securing that loan?

Mr. Tom Browne: That loan was being done back in the ... probably sometime in-----

Chairman: Just speak in the general if you can there, Deputy, now, okay.

Deputy Eoghan Murphy: Okay, yes.

Mr. Tom Browne: Sorry?

Chairman: I'm just-----

Deputy Eoghan Murphy: Just ... sorry-----

Chairman: Just to be general.

Deputy Eoghan Murphy: Yes.

Chairman: Mr. Browne.

Mr. Tom Browne: Sorry, yes, I was aware of that project, yes.

Deputy Eoghan Murphy: Okay. And just in terms of the finance for that project or finance for projects at the time, in terms of 100% lending being done by the banks in terms of providing all of the money that was needed to secure the site, was that a practice in the bank?

Mr. Tom Browne: No, it was a unique situation. That would have been a very much one-off situation.

Deputy Eoghan Murphy: A one-off situation?

Mr. Tom Browne: Yes.

Deputy Eoghan Murphy: Okay. And you were involved with that.

Mr. Tom Browne: Yes.

Deputy Eoghan Murphy: Okay. So how can such a situation arise in the bank with such strict lending policies as you outlined in your written statement?

Mr. Tom Browne: Again, I think, if my memory serves, my ... that project would have been done ... that project could have been started probably ... would that have been back in the ‘90s?

Deputy Eoghan Murphy: I’m not sure about the start of the project.

Mr. Tom Browne: Yes, I think it could have been, you know. But, again, I think it was a very unique situation where the bank decided to actually ... because of the actual promoter that was involved there, we decided, you know, to take that position and get involved in that scheme at that time, but it was a very much a one-off type situation.

Deputy Eoghan Murphy: And that decision was made by the board of the bank?

Mr. Tom Browne: By the credit committee of the bank.

Deputy Eoghan Murphy: By the credit committee, not by the board?

Mr. Tom Browne: Yes. No, it ... it would have been signed off by a non-executive director-----

Deputy Eoghan Murphy: Okay.

Mr. Tom Browne: -----under a noting policy.

Deputy Eoghan Murphy: Okay. And what about the use of personal guarantees in the bank?

Mr. Tom Browne: Again, the bank, kind of, always, you know, looked for personal guarantees. It was the one key ... one of the key tenets in terms of the way the bank did its business - always looked for personal guarantees from its borrowers.

Deputy Eoghan Murphy: Okay.

Mr. Tom Browne: And in many cases, you know, people weren’t prepared to give personal guarantees, and we weren’t prepared to do the loan.

Deputy Eoghan Murphy: Okay. But there was an internal inspection report ... or, sorry, an inspection report done by the Financial Regulator in 2007 and one of the issues it highlighted was that the bank didn’t have a mechanism for formally monitoring the overall extent of the loan book subject to personal guarantees. Why didn’t it?

Mr. Tom Browne: Well, every loan would have been subject to personal guarantee?

Deputy Eoghan Murphy: Okay. Every loan would have been-----

Mr. Tom Browne: Yes-----

Deputy Eoghan Murphy: -----subject to personal guarantee?

Mr. Tom Browne: -----because it was either ... it was either borrowed on a personal basis-----

Deputy Eoghan Murphy: Right.

Mr. Tom Browne: -----or if there was a company situation, a personal guarantee would have been sought.

Deputy Eoghan Murphy: I see. So you didn't need to have a mechanism because it applied to every single loan.

Mr. Tom Browne: No, because it applied ... it was ... and it was one of the key standards that Anglo was recognised for, that they always looked for personal guarantees.

Deputy Eoghan Murphy: Was that a mistake?

Mr. Tom Browne: No, because the logic behind it was, is that the reason why you were looking for personal guarantees, that if you got into a difficulty with the client, right, you had leverage over the client in terms of the personal guarantee.

Deputy Eoghan Murphy: Okay.

Chairman: I'll give you another five minutes but I just want to pick up on this point, Mr. Browne. There were propositions that people who gave personal guarantees gave personal guarantees to many financial institutions and when NAMA was auditing its loan book, when it took it on board, that was certainly something that was visible in the NAMA. So, while you were taking personal guarantees, were you also examining to see if the person who was giving you a personal guarantee hadn't already given a personal guarantee to another institution?

Mr. Tom Browne: Yes. And one of the key things we would have done with our bigger clients in the latter years would have been we would have looked for, kind of, full transparency in their total bank obligations.

Chairman: And did you discover or uncover situations where a personal guarantee was already in place with another institution and you did not issue a loan?

Mr. Tom Browne: I can't remember that, Chairman, happening. Again, you would have been with, you know, with our bigger clients, the top ten, top 20. We would have, you know, in the latter years been looking at, kind of, their total banking obligations across all their banks.

Chairman: Yes.

Mr. Tom Browne: And we ... you know, in terms of actually ... it was a standard ... it was very much standard ... par for the course that we would look for personal guarantees.

Chairman: Okay. Would you say that the examination of the exposure in personal guarantees in regard to cross-guaranteeing at a personal level was robust enough given where NAMA found themselves when they went and looked at the loan books?

Mr. Tom Browne: Again, going back to my time there ... you know, to picture a moment in time in terms of where, you know, people's, kind of ... you know, the value of the personal guarantees, you know, back in 2005, 2006, 2007, you know, was significantly, you know, I suppose, greater than their debt obligations.

Chairman: Okay.

Mr. Tom Browne: Given where the balance ... their balance sheets would have at that moment in time, Chairman-----

Chairman: Okay, that's not the question I asked you, Mr. Browne. The question is: given what came out in the wash when the loans were transferred into NAMA, and the level of exposure on cross-exposure on personal guarantees, do you think that the ... that the risk analysis of personal guarantees was sufficient enough in Anglo?

Mr. Tom Browne: I think, again, it goes back to the case-by-case basis.

Chairman: I'm not ... look, we know the paperwork transferred-----

Mr. Tom Browne: Yes.

Chairman: -----we know what the details of that show. Do you believe, given what NAMA then uncovered when they started looking at each of the books and the personal guarantees that were actually given, that Anglo's risk analysis of personal guarantees ... you say it was a ... it was one of your performing criteria, but when it was washed out and what was seen, was it ... do you now consider it to be robust enough or not?

Mr. Tom Browne: Again, going back to my time there, Chairman, I would have thought, you know, we were looking at the ... you know, the cases on a case-by-case basis. We would have satisfied ourselves in regard to our position in regard to the loan and the personal guarantee.

Chairman: Okay. I don't want to be repeating myself, Mr. Browne, but that's not the question I'm asking you. I'm asking you now ... we know what happened afterwards. Do you consider it now ... you're going back to then-----

Mr. Tom Browne: Yes.

Chairman: -----and that you think that everything was fine then-----

Mr. Tom Browne: Yes.

Chairman: -----and maybe it's fine now even in that regard. That's what was the ... the visible to you then. Given what's visible to you now, do you consider that the risk analysis of personal guarantees was robust enough?

Mr. Tom Browne: Well, given what happened subsequent to that time, Chairman, you know, it would be clear to say that it wasn't robust enough, you know.

Chairman: Okay. Thank you. Deputy Murphy.

Deputy Eoghan Murphy: Thanks, Chair. Mr. Browne, looking then ... continuing on this theme, and enforcement of security, NAMA reported that a downward adjustment of €477 million in aggregate was required to the value of the loans acquired from the participating institutions due to the difficulties with enforcement of security, and Anglo accounted for 57% of this total, €273 million. So can you explain why the discount applying to Anglo's loans in respect of difficulties with security was so high?

Mr. Tom Browne: Again, you know, the process was that we would have engaged a solicitor, a firm of solicitors to put our security in place. That was always farmed out. We had a panel of ... two panels of solicitors, depending on the size of the deal. And a solicitor would be responsible for putting the security in place. So, you know, when you ... you know ... so on a case-by-case basis, there was individual legal firms appointed to make sure that the security was perfected. And it was the responsibility of the lending team and the banking administration team to ensure that the security was put in place. But, ultimately, the responsibility was actually ... was the role of the legal agent appointed by the bank in terms of perfection of security. And, again, you know, I don't ... it seems ... that when you say that figure, it seemed extraordinary high. You know, again it depends on, kind of, the individual aspects of each case. But it seems remarkably high to me, because again the process was very much, you farmed out your legal perfection work to an appointed panel of solicitors.

Deputy Eoghan Murphy: Okay. So you don't think this is indicative of a lax approach to taking security-----

Mr. Tom Browne: No, because, again-----

Deputy Eoghan Murphy: -----by Anglo?

Mr. Tom Browne: -----because the primary responsibility in regard to the taking of security was with the actual legal firm that was appointed-----

Deputy Eoghan Murphy: Okay.

Mr. Tom Browne: -----to perfect it on behalf of the bank. So in that case then, you know, in ... based on your figures, there's a huge issue in regard to the quality of the work that was undertaken by those legal firms. So, you know, it was very much part and parcel of the actual process that the security was perfected by an appointed law firm acting on behalf of the bank. So that work then was, obviously, not done correctly by the individual law firm. And there should be, you know, there should be a ... you know, initial questions asked of those law firms in terms of why didn't they do their job properly.

Deputy Eoghan Murphy: Okay. And just-----

Chairman: Thank you very much. Finally.

Deputy Eoghan Murphy: Final question, sorry. And it's just in relation to discussions at the board in relation to why the NTMA wasn't placing deposits with the bank. What was your view ... I mean, we have a view from Brendan McDonagh from the NTMA that they were always sceptical about the business model of Anglo and that the bank couldn't get deposits from the NTMA. And then, eventually, it did and the NTMA didn't want to keep those deposits with the bank but it had to because of a direction from the Department of Finance. So did the board discuss this and what was the view of the board?

Mr. Tom Browne: I don't remember it ever being discussed at the board while I was there. My answer to that would be, you know, over the years that I was there the bank had a tremendous track record in terms of its ... its actual liquidity and fundraising. It always used to amaze me when you looked at the list of corporate depositors, you know, you had international firms across Europe, you know, with €700 million, €800 million, €900 million on deposit. So the bank was very successful in terms of growing its deposit base under a number of strands over many many years but that issue, you know, in terms of the NTMA, I don't remember it ever being coming up at the board meeting.

Deputy Eoghan Murphy: Or outside of the board in your role as MD of lending Ireland.

Mr. Tom Browne: Well, I wouldn't ... it wouldn't have been an aspect of-----

Deputy Eoghan Murphy: On the strategic management committee?

Mr. Tom Browne: It wouldn't have been an aspect that I would've been looking at.

Deputy Eoghan Murphy: Okay, thank you. Thank you, Chair.

Chairman: Thank you very much. Deputy Doherty.

Deputy Pearse Doherty: Can I just get clarification on the personal guarantees? You say that the bank always took personal guarantees from individuals. What was the situation when a developer ... when the loan was being applied in the name of the company, as opposed to the person?

Mr. Tom Browne: Yeah, so if it was being ... if the loan was being drawn down in the name of a company, the client or the person would have had to sign a personal guarantee to support that loan.

Deputy Pearse Doherty: So it's the same thing.

Mr. Tom Browne: Yes, so if you borrow personally you're on the line-----

Deputy Pearse Doherty: Yes.

Mr. Tom Browne: ----- you've got personal liability. If you borrow in a company you'll be signing a personal guarantee in support of the loan.

Deputy Pearse Doherty: So, their house or whatever their assets, their personal assets-----

Mr. Tom Browne: Would have been on the liability.

Deputy Pearse Doherty: And you say that this happened on all occasions.

Mr. Tom Browne: That, sorry ... that was very much part and parcel of the actual process in Anglo, the personal guarantees were actually looked for.

Deputy Pearse Doherty: But you testified that in all loans that this was the case.

Mr. Tom Browne: Sorry, in all loans it would have been looked for and that was part and parcel of actually kind of the process. Now-----

Deputy Pearse Doherty: The reason I ask is, Michael O'Flynn has come before this inquiry, which ... where he had, I think, loans with a range of institutions, but 50% of them were with Anglo Irish Bank. And he has given evidence to say "I never issued personal guarantees to any lender in relation to the business".

Mr. Tom Browne: In that situation we obviously didn't take personal guarantees.

Deputy Pearse Doherty: So it wasn't every loan.

Mr. Tom Browne: No, sorry-----

Deputy Pearse Doherty: Every loan wasn't backed by a personal guarantee.

Mr. Tom Browne: You know, maybe that was a very ... too general a statement, but as a matter of form, right, we would have always looked for personal guarantees, and I-----

Deputy Pearse Doherty: Of ... of, for example, not wanting to individualise it, but are you suggesting that this case where we know - well, where it has been given in evidence - that there was no personal guarantee ever given, you are suggesting that a personal guarantee would have been asked for, is that what you are saying?

Mr. Tom Browne: No, no, I'm not saying ... again I, you know, again it depends on where that relationship started out from.

Deputy Pearse Doherty: What was the policy? Just explain. You're the head lender in Anglo Irish Bank.

Mr. Tom Browne: The policy-----

Deputy Pearse Doherty: Explain the policy because we're ... you told us there was personal guarantees in all loans, now there was not in all loans but they were always asked for, now you're not-----

Mr. Tom Browne: The policy very clearly was ... your starting position ... you'd be looking for personal guarantees on all loans.

Deputy Pearse Doherty: So did you?

Mr. Tom Browne: Sorry?

Deputy Pearse Doherty: Did you look for it? Did you-----

Mr. Tom Browne: Yes.

Deputy Pearse Doherty: Okay, so in relation to this loan for example, you would've requested of O'Flynn Group for a personal guarantee.

Mr. Tom Browne: And again, depending on where the relationship started out, it obviously wasn't looked for at that ... in regard to that case.

Deputy Pearse Doherty: But you're just after telling us that they was ... they were looked for in all cases.

Mr. Tom Browne: But the policy very clearly was, you would start out looking for a personal guarantee and then-----

Deputy Pearse Doherty: Yes, and I asked you "And did you?" and you said "Yes".

Mr. Tom Browne: And in the ... in the vast majority of cases the personal guarantees were signed.

Deputy Pearse Doherty: So not in all cases.

Mr. Tom Browne: In the vast majority of cases, yes.

Deputy Pearse Doherty: Okay.

Chairman: Without changing the subject, I just want to round something off on this and we'll stop the clock a second. In just the general area of securitising loans, did you follow that up, this process, with law firms?

Mr. Tom Browne: Yes.

Chairman: Did you actually have a legal process for following-----

Mr. Tom Browne: Yes.

Chairman: -----up the securitisation?

Mr. Tom Browne: So, the way it worked, Chairman, is that the ... the law firm was appointed to put the security in place on behalf of the bank.

Chairman: Okay, and maybe you could just explain to us in that regard when we had the transference into NAMA, the letters of undertaking that were required seemed to be a huge issue in terms of securitisation, the incompletion of legal work by banks and securitisation, and all the rest was a very, very ... was a legacy issue that NAMA had to deal with quite quickly to get its, kind of, deeds and portfolios sorted out. How did Anglo perform in that regard?

Mr. Tom Browne: Again, it would have been the responsibility of the individual lending manager.

Chairman: No. I know well. I'm talking about the process when Anglo came in. How did they rate in compare to other institutions in having their legal undertakings completed when the portfolios were transferred into NAMA?

Mr. Tom Browne: I don't know. I've no visibility on that because, you know, I wasn't involved in it. I wasn't in the banking world at that stage, so I've no ability to answer that question.

Chairman: Okay. Deputy Murphy, sorry, Deputy Doherty.

Deputy Pearse Doherty: Well, I was just going to go on to that issue in terms of security and the perfection of security. And Deputy Murphy rightly outlined the €477 million, I think it was, from NAMA, but NAMA confirmed that that for the institution - the individual banks - was in the region of €2 billion. That's how much loans that could not be perfected because of ... or could not ... had to be written off as a result of unperfected security, and the majority of them rested with your bank. We see on the core documents, Vol. 2, page 63 ... we see an example of 12 files that was carried out. And of ten of those files, no letter from the bank's solicitors confirming the security was complete is evident, that's, 83%. These are loans above €6 million. It talks about the credit policy where draw-down shouldn't happen unless it's authorised in writing by a manager before the perfection of security, but we see that the draw-downs were taking place. And I think in the situation the number of draw-downs up to the time of the review for the 12 selected loans was 67. So, again, we are seeing, like, loans of €149 million which were drawn down with no solicitor's letter on file. So, as a result of your credit policy, that would have had to be authorised by a manager. So, it's not solely the responsibility of the solicitors.

Mr. Tom Browne: No, that would like ... sorry, ultimately, ultimately, the responsibility would come back to the individual portfolio manager dealing with those cases.

Deputy Pearse Doherty: Yes, and ultimately you as head of lending would it be?

Mr. Tom Browne: Yes, ultimately me, okay.

Deputy Pearse Doherty: Yes.

Mr. Tom Browne: So in those cases here, you look, kind of, in terms of the jurisdictions there. They were across jurisdictions-----

Deputy Pearse Doherty: What do you mean "cross jurisdictions"?

Mr. Tom Browne: Well, you have sterling loans, US dollar loans, right, so ultimately, right, the responsibility for the security being put in place lay at the foot of the portfolio manager and ultimately the directors of the division.

Deputy Pearse Doherty: Yes, these are Dublin... just see the top of the paper ... these are Dublin loans.

Mr. Tom Browne: Yes, so therefore then, we would have been ... we would have ... somebody would have had to sign off, right, okay, on the draw-down of all that money, and in the draw-down form it would have been ... it would have asked, "Has the security been perfected?".

Deputy Pearse Doherty: And you would have been told "No, it's not", and you still allowed for draw-downs, for example, of €149 million without any security being effected, £11 million sterling without security being effected, US $30 million, €23 million in another one, €18 million in another one, €14 million in another one, and so on. And that's only ten out of the 12 loans that were inspected, 83%.

Mr. Tom Browne: But again, you have to look behind each of the individual loans and see why ... why was the loan drawn down. The security could have been perfected, but it may not have a letter on the file.

Deputy Pearse Doherty: Well, given the fact that we know that €2 billion from the financial institutions that went into NAMA of loans that were issued, had to be written off basically - the security wasn't perfected and the majority of them rested with your bank - do you not think that there was a serious issue here, which this audit was outlining to you?

Mr. Tom Browne: Yes, and again, on the basis of this audit, right, action would have been taken to ensure that, you know, you got the letter on file from the solicitor. But, like, the reality of it is ... is that whilst you may not have the letter on file, right, the security, would have been in place, and it would have been signed off by the respective authorised signatures that the security was in place.

Deputy Pearse Doherty: But can I put it to you that the reality that we're dealing with today is that, according to NAMA, €2 billion of loans issued by financial institutions, of which the majority of them rested ... originated from your institution, could not be pursued because the security was not perfected? So, it's not ... it doesn't seem to be the case that this was just a delay, that the letter was in the post or something that this ... these loans had to be written off. People who got this money were not pursued as a result of this type of ... managers authorising draw-downs of loans without perfection of security.

Mr. Tom Browne: And again, I would say to you, on the basis of, you know, the responsibility there, right, in terms of perfection of the security was with the law firm that was actually-----

Deputy Pearse Doherty: That's fair enough, but is the responsibility not with you, as head of lending, not to issue the money before the perfection of security is there?

Mr. Tom Browne: And again, right, in regard to all ... you have to look behind all of these cases to see why, you know ... there's a reason behind why the loans were drawn down, right, without having the letter on file, right. And the follow up would have been, right, to actually, kind of, make sure that the security was put in place, and a letter in the file from the legal firm, you know, verifying the fact that the security had been put in place.

Deputy Pearse Doherty: Do you believe that the security was put in place in all of these loans, despite what NAMA has told this committee?

Mr. Tom Browne: Obviously, you know, on the basis of what NAMA saw after the event, right, there was loans of where the security wasn't fully perfected.

Deputy Pearse Doherty: Do you take any responsibility for that as head of lending?

Mr. Tom Browne: You know, ultimately, it comes down in my ... you know, when I was there for the period of time that I was there. But, like, you know, I was there up to, kind of, September 2007. What happened after, that I do not know.

Deputy Pearse Doherty: Okay, and ... but you take responsibility up until that period. Is that what you're-----

Mr. Tom Browne: Yes. No problem with that.

Deputy Pearse Doherty: -----telling me? Can I ask you ... it was mentioned in terms of the culture of lending within the bank and it was talked about in terms of the auction ... evidence that we've had ... you've mentioned that you haven't read the Nyberg report, but have you read *Anglo Republic*?

Mr. Tom Browne: *Anglo Republic* ... which one was-----

Deputy Pearse Doherty: Book by Simon Carswell.

Mr. Tom Browne: I have read it, yes.

Deputy Pearse Doherty: Okay. The opening chapter of that there deals with the biggest transaction in the history of the Irish property bubble, a transaction that totalled €1.165 billion. It suggests that the property that was purchased was purchased at 2 o'clock in the morning. A manager from Anglo landed with a bank draft for the purchaser ... to the ... for the purpose of the purchase of that property. Is that an accurate reflection of what was going on in Anglo - that Anglo was on call at 12 o'clock at night, landed down to the office where this auction - so-called auction - was taking place and produced a bank draft at 2 o'clock in the morning to allow this developer to buy the biggest valued asset in the history of the Irish property bubble?

Mr. Tom Browne: What transaction are you referring to, Deputy?

Deputy Pearse Doherty: Well, it's in ... it's in the prologue of ... it's the opening chapter ... it's the opening words of *Anglo Republic*. It's the Jury Inn property and it was ... the question is in terms of the ... the ... the ... the culture-----

Mr. Tom Browne: Yes.

Deputy Pearse Doherty: -----is this the type of activity that was going on in Anglo?

Mr. Tom Browne: No. I think that is an unfair reflection, you know. You know, there was a very clear culture in the bank, right, of a loan process that went from ... you know, the team that actually originated the loan or the team who managed the exposure, they would actually look at the actual ... the individual loan. They would decide whether they felt that loan was worth bringing to actually what we used to call our mini-credit committee meetings. The mini-credit committee meeting was a meeting amongst the lenders like in a room like this. There could be 20, 30 people who would actually ... the loan would be presented, it would be debated amongst the actual ... the lenders. If the consensus view was that the loan was a good loan, it would go on to a main credit forum in terms of, actually, for final sign off where non-lenders and risk would have been the final arbitrators of the individual loans. In some situations, you know, there would have been forums - gathered quickly - of senior people to decide whether a loan was actually one that was worth doing in terms of acceptable levels of risk, but the vast majority of, actually, loans would have gone through a very formal process of approval. As I say, from the team up to the mini-credit situation to the main credit situation and being signed off at that level.

Deputy Pearse Doherty: But did we have ... the question I am asking is, did we have - as is reflected in this book - at around 2 a.m., a senior lender from Anglo arrived at William Fry with a bank draft for €1.165 billion? Is that ... was there-----

Mr. Tom Browne: Well, before they ever got to that point, Deputy, right-----

Deputy Pearse Doherty: Yes, there was a process.

Mr. Tom Browne: -----there would have been a huge ... for something like that, there would have been a massive amount of debate. It wasn't someone rocking up with a cheque for that level at 12 o'clock at night. There would have been a massive level of discussion and debate in regard to the merits, demerits of actually doing the deal. So, you know, that - the way it's portrayed - is actually kind of, you know, not the way it happens.

Deputy Pearse Doherty: Okay, so, there would be an upper limit for-----

Mr. Tom Browne: There would've been a huge amount of discussion around that. It wasn't somebody kind of, as you say, rocking up at 12 o'clock at night to William Fry's. There would have been a massive amount of discussion around an exposure such as that. And then, going back to my point, you know, there was a very formulaic approach from the ground up in terms of, actually, approval of loans. Every loan, you know, went up to credit committee every year for review and every loan was reviewed by risk - in the early days, four times a year, and in latter years, two times a year. And out of those review processes came what probably was the most important management tool, which was the actual watch list. The watch list was, you know, the individual loans on each portfolio that needed attention. The attention was decided by the risk people in terms of what action was ... was to be taken in regard to, you know, correcting the situation that they weren't happy with.

Deputy Pearse Doherty: It all sounds absolutely fantastic and it sounds great, bar the small point that the bank cost the State €30 billion as a result of loans ... the loan ... the loans that were issued.

Mr. Tom Browne: And again-----

Deputy Pearse Doherty: It sounds very robust and-----

Mr. Tom Browne: No, but, and again, Deputy, from the point of view of ... actually, it was a very robust process, okay. You know, as I said earlier on, the mistake that was clearly made, right, in terms of, actually, the property development loans in particular, was that we did support, you know, probably our top 20 clients too robustly against intense competition and we got too big with those exposures. And I think they would have caused an awful lot of difficulty when the property market went into its nosedive.

Deputy Pearse Doherty: We've seen ... there's figures in Vol. 1, on page 57, for 2008 but they reflect also a similar pattern in 2007 - and this is on page 57 of Vol. 1 - and it's the exceptions to group policy lending credit policy. We're seeing an average of about 25%. So, what of all your loans are exemptions ... exceptions to your own policy?

Mr. Tom Browne: Yes. That's a very good question.

Deputy Pearse Doherty: How do you stand over that as head of lending?

Mr. Tom Browne: Yes, well, I think you have to look at the exceptions. Every exception has to be look ... looks ... looked at in terms of its materiality. An exception could be the following: if credit policy says that interest cover has to be 1.3 times, the lending manager brings a loan to credit committee and, say, the loan is €5 million and the interest cost is, say, at a rate of 5%, so that means the cost of funding that loan is €250,000. So, at 1.3 times, you need €325,000 of income to actually tick the box in terms of-----

Deputy Pearse Doherty: Yes.

Mr. Tom Browne: -----in terms of interest cover. But if the loan comes up and it only has 1.2 times of income, so it's only got €300,000, it'll be shown up on the actual ... the actual credit application that this is an exception to credit committee. It'll be debated whether it'll, actually, should be done and in that situation it's decided, for a whole host of reasons, why the credit would be signed off.

Deputy Pearse Doherty: What-----

Mr. Tom Browne: If I go back to your picture ... your thing ... your page 57, if you look at that, right, okay, you know, where from February '08, 26% went to 42%, right, okay, if you look at, kind of, the comment underneath it - "The percentage increase in exceptions for July is primarily due to lenders applying a 20% discount to security values." Obviously, this is, you know, into 2008, you know, a year after I left the bank and obviously what the bank was doing at that stage, because asset values were under pressure, when the loans were going up for, actually, their annual review, the actual value of security was being written down to reflect the fact that the market was actually ... asset values were actually on a downward spiral. And that's where you've got the increase in that period of time. So, you have to look behind ... there was an individual story behind every exception. And exceptions, you know, on the basis of ... you have your lending policy, right, okay, but if it's an exception to credit policy, it's put up very clearly upfront, right, for a decision to be made whether you would actually want to approve the actual ... the credit, if it's outside policy. And that could be for a whole host of reasons. Like, it could be there's other security that ... cross-secured. There's ... the client could be a depositor of the bank. The client, you know, could be, you know, have another, kind of, relationship with the bank in terms of, actually, on the private banking side. So, there is a whole range of issues that could determine why you would actually, kind of, approve a loan-----

Chairman: A final question, Deputy.

Mr. Tom Browne: -----that was outside of credit policy.

Deputy Pearse Doherty: Okay. We've heard testimony from ... from others in the committee, including Professor Honohan, which talks about the damage was done, you know, in the period running up to 2006 ... that period ... that when you were going into 2008, it was too late. Can you explain to me - and that was ... obviously ... coincides with the period when you were head of lending of Anglo Irish Bank for the Irish division - can you explain to me how NAMA had to apply a 61% discount to loans that your bank and you, as head of lending, approved? How did you get it so wrong and ... when we compare it to other banks which had haircuts but not as high as 61% applied to them?

Mr. Tom Browne: I think ... as I said in my opening statement, I think the big ... the biggest issue looking back at it now is that we got very big with a very small number of clients who were the most active in the market at that time. We defended our position too strongly with these people and our exposures went to levels that were unacceptable and as a result of that then, you know, the haircuts that the bank, you know, obviously were forced to take because they were very big exposures with clients reflected in the fact of what happened when NAMA came into being. And, you know, I've openly admitted it here tonight that we did actually defend ourselves too strongly with a small, select group of clients-----

Deputy Pearse Doherty: What does that mean - defend yourselves? Does that mean continue to give them money when you shouldn't have given them money?

Mr. Tom Browne: No, I think again looking back at every ... all the loans at time look on the basis of ... when you looked at them, they had acceptable risk but I think the biggest issue looking back there now is we didn't cap out our exposures with some of these bigger clients and say that's, you know, that's as much as we can do and without ... that's the mistake that was made in hindsight.

Chairman: I'll let you back in again, Deputy, as we wrap up. I just want to kind of come into an area myself which is probably a summary where Deputy Doherty is at so I won't drill back down to the detail. I'll just take it at top level with you, Mr. Browne, which is with regards to the bank's lending approach. What was your view of the lending policy procedures and prevailing culture? Was it the kind of ... was it the norm as reflected in the wider banking sector or was it a very aggressive one or was it passive? How would you reflect upon that now?

Mr. Tom Browne: I think the ... as I said in my opening statement again, I think what the bank had developed over kind of the period '95 to 2005 was a very active client base, Chairman, where there was a very high level of repeat business from that client base. There was huge loyalty from that client base and we continued to support those clients probably too strongly into a period when the market was actually getting overheated.

Chairman: But in cultural terms, coming back to Deputy Doherty's earlier question that there was ... the level of exceptions, could it be put forward or not that the question was "yes, we do have an exception policy and there's a culture reflected in that and that's why we have 25%, in that we have a different view of what exceptions are hence we have such a high level and that's a cultural position in the bank"?

Mr. Tom Browne: Again, I think you have to look behind. I think if you look at ... if you talk about exceptions kind of in a very naked way, I think you have to look behind every individual loan-----

Chairman: But there is a kind of a ... but in every organisation whether you study it academically or exist in one, every organisation has a culture. This structure is ... this committee has a culture-----

Mr. Tom Browne: I think the word you'd use ... Anglo was a very commercial organisation.

Chairman: Okay.

Mr. Tom Browne: That's the word I would use, Chairman, and, you know, you actually, you took a view on each case, right, on its merits and if it was outside of exception, there was a, you know, there was a general sign-off of the credit based on a ... you know, as I said as a collective forum at credit committee to say "yes, we're happy with the risk".

Chairman: And coming on to the credit risk then and in your opinion, did you believe that the controls adopted by the bank were sufficiently robust?

Mr. Tom Browne: Again, looking back on my time there right, I, you know, I never thought that the actual credit function ... the risk function was anything but robust and independent in terms of the review.

Chairman: So were you voicing any concerns at that time?

Mr. Tom Browne: In terms of?

Chairman: In terms of the credit risk controls? You weren't articulating any concerns at that time, no?

Mr. Tom Browne: Again, because again I would have felt that the actual risk function, the risk function, Chairman, was a very independent-minded function in terms of actually their view of whether the risk was acceptable to the bank or not.

Chairman: All right. I'm going to ... I'm referring to three different documents but I'm just going to bring up two pages as examples of them. One is regard ... they're all in Vol. 1. One deals with risk appetite, the other one's minutes of risk and compliance meetings and the other one is an extract from the loan review summary. So in core book Vol. 1 there, I'm just bringing up on the screen ... I think it's page 97 if I can just have a look at it there ... page 97. If we just to go to the bottom of that page there, Mr. Browne, it says:

> Residential development accounts for 67% of development overall. Exposure [of] zoned land without planning primarily related to the Bank's Top 10 customer relationships with whom the Bank has a long and satisfactory track record [and] It was noted that the exposure to the unzoned land was not significant.

And then I'll just go on to page 101 in the same book and we might just leave this one on the screen then afterwards. If you go to 101, and it's the second table down there where it gives a breakdown of the areas of the exposures, I'm assuming that sum on the left is €10 billion, is it ... €10 billion and €600 million ... on the left, yes ... is that €10 billion?

Mr. Tom Browne: Yes.

Chairman: Okay. All right, so the other ones then are €627 million unzoned land; €3,580 million on zoned land; just about one-and-a-half billion on zoned land with planning permission and over €600 million, €641 million in fact, with speculative development and then the development, what's the "w/c" there? What does that mean? Development?

Mr. Tom Browne: Working capital.

Chairman: With working capital with pre-sales and pre-lets of €4,240 million. Right. Did you have any concerns over the extent of the bank's exposure to the development sector?

Mr. Tom Browne: Absolutely and that's why we tried to bring in the new policy change in early 2006 and if you look at kind of the comments there in terms of the real issue in regard to ... the big risk in any bank around development lending is around its land exposure.

Chairman: Okay. So how did you raise those concerns? What actually happened because this is ... you say you raised it in 2006? This is 2007 and this is what the portfolio is showing.

Mr. Tom Browne: Absolutely and again, it goes back to the point that, you know, a lot of, you know ... a significant amount of that exposure would have been to our top clients and again, it's ... again highlighting, you know, the mistake that was made ... that we didn't cap out with some of those bigger clients.

Chairman: Maybe you can just talk me through this so I can understand it. There is a risk analysis being done here in terms of exposure and what is happening is that property is being broken down into different sort of categories. Am I correct there, yes?

Mr. Tom Browne: Absolutely and based on the risk element of the actual ... going from unzoned land across to development with pre-sales, your high-risk category is your unzoned land and then you move across in terms of the risk profile so your risk profile in terms of your development ... with pre-sales, pre-let, you believe you're actually kind of, you know, you're working out there ... in terms of actually, your pre-sales, pre-lets will repay your debt. The real issue here, when you look at kind of where the risk was, is around unzoned land and zoned land and again, the mistake that was made is that we continued to support people who were actually kind of acquiring, you know, that type of asset.

Chairman: But could I put it to you. Mr. Browne, that the real risk, as a counter-proposal just to challenge that statement if you don't mind, is that basically what we have here is a sectionised area of one single sector, which is property, albeit in different manifestations, and that Anglo were overly concentrated into the property market?

Mr. Tom Browne: And that's why we endeavoured, you know, in the years from kind of, you know, '04, '05, '06, '07 onwards, to actually spread the actual ... the risk by moving into other areas like cashflow lending because it was recognised within the bank that we had an over-dependence on exposure to property, both development and investment.

Chairman: How long of a period of time did this difficulty take to create?

Mr. Tom Browne: Here?

Chairman: Yes.

Mr. Tom Browne: Well those clients, for example, you know, the main ... the bigger clients we would have had would have been on our books for probably ten, 15 years.

Chairman: So this was a crisis that developed over a period of time?

Mr. Tom Browne: And I think, you know, when you look at kind of, you know ... probably, as I said earlier on, what clearly came to our attention from probably the spring of 2006, the residential market had hit its kind of peak.

Chairman: But this was a problem that had developed over a period of time.

Mr. Tom Browne: Yes but-----

Chairman: And was that problem developed through Anglo's lending practice?

Mr. Tom Browne: I think it was a combination of the way the market was starting to actually soften, you know, from probably 2006 onwards. We had built up an exposure in those areas over a number of years prior to that.

Chairman: So would it ... would ... you repeated a number of times this evening that you departed in September 2007 or so but were the difficulties that came to unfold after post ... after 2007 already in the ether and already in play before 2007?

Mr. Tom Browne: I suppose that's a reflection of where the property went after 2007. You know, everybody felt-----

Chairman: Can we come back here? The risk is already in place, as you say, from 2006.

Mr. Tom Browne: Yes but in 2007, right, the consensus view at the time was that, you know, the market was definitely starting to actually kind of get soft but a quantum of actually the collapse was not felt for a number of years thereafter.

Chairman: Okay but ... if I can maybe use an analogy, and it is not like somebody getting off the *Titanic* in Cobh because what happened afterwards was completely different, but subsidence in a house takes place because there's a drainage problem not fixed and all of a sudden somebody has to come in and the underpinners and it costs a big load of money. So it's not that the wall fell down yesterday is what the problem was; it's that there was a problem not addressed over a long period of time and, hence, a major intervention. Was the problem in Anglo growing like a subsidence issue because there was a difficulty underpinning the structure, or was it that something happened later in 2007 that was unforeseen, and where did that come from?

Mr. Tom Browne: No, I think, you know, the growth in the loan book had happened over a period of time. You would have been very comfortable, you know, up to 2006 in terms of where you were at in terms of the overall exposure, but from 2006 on, as the market definitely became softer, we tried to curtail our activity in regard to actually this element of the market and, unfortunately, we did continue to support some of the bigger clients who were the most active players and, as a result of that, the loan balances grew.

Chairman: Okay, thank you. Deputy Joe Higgins.

Deputy Joe Higgins: Mr. Browne, in that regard, is it the case that you gave extraordinary support to a handful of clients because from 2004 to 2005 customer lending went up by €10 billion in 2006, it went up €16 billion and in 2007, €17 billion? Now if that was in a period of restraint, how do you explain figures like this?

Mr. Tom Browne: Are those figures in regard to the overall bank or just Ireland?

Deputy Joe Higgins: The group.

Mr. Tom Browne: Yes, but at that time, Deputy, you know, the group was expanding, you know, and had significant growth in the UK and in America at the same time. So the bank, you know, was not just growing in Ireland, it was growing across a geographical spread and it was felt at the time that that was a good strategy to adopt, that Ireland was a wealthy-----

Deputy Joe Higgins: Do you accept that they are enormous figures?

Mr. Tom Browne: Yes, I do accept they were very big figures.

Deputy Joe Higgins: And, Mr. Browne, can I ask you ... you were director of lending Ireland, 2004-2007-----

Mr. Tom Browne: 2005-2007.

Deputy Joe Higgins: 2005-2007. You were ... risk and compliance committee 2005-2007. Are you saying that you gave full financial information to the board on the lending situation and, indeed, other aspects that you were responsible for during your time with this responsibility? And did any board colleagues ever express concerns to you or to other directors about the quality of information provided to the board?

Mr. Tom Browne: No, there was never any ... the board was given full transparency in regard to actually the loan book of all jurisdictions. The risk function would have reported to the board every time they did a loan review process. The top ten exposures would have been identified to the board on an ongoing basis. At no stage did I get a sense that the actual ... the board members were getting anything but a fully comprehensive overview of the loan book from any jurisdiction.

Deputy Joe Higgins: Right, you say in your opening statement, written, Mr. Browne, "in relation to exception management where a loan was being put forward that was outside of credit policy, this was clearly highlighted in credit papers for discussion at the credit committee meeting as to why the credit should be approved if an exception to credit policy and your decision to be made in relation to same at the credit meeting...". Could I ask you to look at - sorry, I didn't give notice of this - page 3, in Vol. 2 of the IBRC book? You have it yourself there, Mr. Browne, Vol. 2, page 3, it is easily got. This relates to documents from IBRC liquidators in NAMA, exceptions to credit policy for Anglo loans, and the findings at the very bottom and the very bottom paragraph:

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

Chairman: That is a typo. Actually it is a billion but it says a million on the page but it is actually a billion.

Mr. Tom Browne: Yes. It is billion, Chairman.

Deputy Joe Higgins: Mr. Browne, 92% of the book that was transferred to NAMA was by way of exception to credit policy but how do you explain ...

Mr. Tom Browne: Deputy, if I take you back, I think the answer is in the book itself, right. If you go to book number, Vol. 1, page 57, I think it is ... if you again go back to that table where you see the level of exceptions in 2008 over a period of February '08 to July '08 has dramatically jumped from 26% to 42%, so ... and the reason for that is ... it states there in the document that, "The percentage increase in exceptions for July is primarily due to lenders applying a 20% discount to security values." Now I presume what happened thereafter is that as asset values continued to actually collapse over the period of time, '08 onwards, every time the actual credit was going up to renewal on an annual basis, it was being highlighted as an exception because the lenders were actually applying bigger and bigger discounts to the underlying security. So, when that report was done it reflects the fact that within the bank, from probably '08 onwards, they were actually discounting the underlying value of the security, hence it shows up as an exception. When I looked at that as well, the only rationale I could come up, in terms of why that figure is such ... it's based on that the bank was, obviously, applying more and more discounts to the underlying security.

Deputy Joe Higgins: You are saying a retrospective ... retrospectively applied.

Mr. Tom Browne: Yes, because every credit would go up to credit committee for an annual review, so a policy was, obviously, adopted in '08 after I had left the bank where they saw asset values were actually starting to actually decrease and, as a result of that ... because, you know, it says 20% discount, it could have been higher thereafter. So every time a credit went up, it would, obviously, be shown as an exception to actually credit ...

Deputy Joe Higgins: Okay, I think we may want to get clarification on that from liquidators and NAMA but in any case, Mr. Browne, the fact that there was such a huge transfer of your loan book to NAMA at such a huge discount, does that imply that there was huge pressure on your employees to expand and expand lending way beyond safe limits?

Mr. Tom Browne: No. There was no pressure on anybody to expand lending. It didn't work like that. There was no pressure whatsoever on the actual ... on the lenders-----

Deputy Joe Higgins: Okay.

Mr. Tom Browne: -----because the reality of it was ... is that, I think, the key thing that drove the growth of the book was a function of a client base of the bank, which was a very active client base.

Deputy Joe Higgins: Mr. Browne, you said you had read the *Anglo Republic* book by Simon Carswell. He portrays a different picture based on interviews with former employees and you've probably seen it where he says ... I have not time to quote it all, but I will just quote, as follows from page 50 ... the credit committee meetings - "It was a cross between a Nuremberg rally and the half-time talk to an American football team,' says one ex-Anglo manager. 'There were between fifty and sixty people in the room ... The whole system was set up wrong. No one was going to dissent in that atmosphere." That suggests ... Do you agree with that?

Mr. Tom Browne: I don't agree with that at all.

Deputy Joe Higgins: Okay. Can I ask you a final question then, Chairman, because my time, unfortunately, is up. It is this-----

Chairman: Take more time, if you wish there now.

Deputy Joe Higgins: Mr. Browne, do you ... oh, yes, a second last question then. In the annual report for Anglo Irish Bank 2006 ... you were also involved in the human resources department, is that correct?

Mr. Tom Browne: Yes, I was head of group HR as well as ...

Deputy Joe Higgins: Okay. Can I ask you what was the reason for Anglo Irish Bank's anti-trade union policy, and were you an originator or an enforcer of that?

Mr. Tom Browne: No. I was not an originator or an enforcer of it.

Deputy Joe Higgins: And what the rationale-----

Chairman: Try not to be leading now, Deputy, even though I am giving you more time.

Deputy Joe Higgins: Sorry?

Chairman: I am giving you a bit more time but try not to be leading in the question.

Deputy Joe Higgins: Yes. I'm not leading, Chairman, because in minutes of a board meeting where there was to be a merger proposed-----

Chairman: Yes.

Deputy Joe Higgins: -----one of the downsides, according to the bank management, was the fact that the union would now come into the reckoning.

Chairman: A question.

Deputy Joe Higgins: I am just asking ... non-union policy, let's say that, what was the reason for that?

Mr. Tom Browne: The view was there was ... the view within the bank ... that if people wanted to bring a union in, it wasn't actually, kind of, stopped but there was no requirement to bring a union in because the staff didn't seem to demand it.

Deputy Joe Higgins: Right, finally then, Mr. Browne, you ... I think you did say you regretted the damage that has been done to the economy in relation to what happened in the banks. Did I hear you correctly in that regard?

Mr. Tom Browne: Yes.

Deputy Joe Higgins: And do you accept that there have been rather serious and very bad consequences for ordinary people as a result of the bubble and the bust?

Mr. Tom Browne: Absolutely, Deputy. You know, it is with deep regret what has happened.

Deputy Joe Higgins: Is there an irony then, Mr. Browne, that you now run a debt-restructuring company and involved with you are-----

Chairman: That is not on.

Deputy Joe Higgins: -----some of the biggest debtors in NAMA?

Chairman: Sorry, Deputy, I'm moving on. Senator Sean Barrett, please.

Deputy Joe Higgins: What's wrong with that?

Chairman: You're outside the terms of reference, timewise and everything else. There's also an implied statement with regard to an institution that has not been called before us and its operation.

Deputy Joe Higgins: I was just asking Mr. Browne-----

Chairman: I know that and I'm moving on.

Deputy Joe Higgins: -----if there's an irony in the fact that he's-----

Chairman: I know that and I love to give you as much time as I can, Deputy, but in this case I have to pull back. Senator Sean Barrett.

Senator Sean D. Barrett: Thank you, Chairman. Thanks for coming in, Mr. Browne. The Anglo annual report for 2007 on page 3 shows that over the period 2002-7, profit before tax increased by 376%, earnings per share by 363% and total assets by 398%. Do you think that these levels of growth were prudent or sustainable in the context of the level of competition in the Irish lending markets during that period?

Mr. Tom Browne: Sorry, Senator. What period again was it?

Senator Sean D. Barrett: I'll give it to you again. I must have spoken too quickly. The Anglo annual report for 2007 shows that over the period 2002-7, profit before tax increased by 376%, earnings per share by 363% and total assets by 398%. And then the question was: do you think that these levels of growth were prudent or sustainable in the context of the level of competition in the Irish lending market during that period?

Mr. Tom Browne: I think, Senator, what they reflect is again going back to the very active client base we had in a very active market where we enjoyed a very high level of repeat business over those five years. So they were a function of, you know, as I say the client base that had ... the bank had developed, probably over the previous ten, 15 years who were very active in the marketplace.

Senator Sean D. Barrett: And then were those levels of growth ... do they imply that the pursuit of growth was affecting credit quality and lending standards?

Mr. Tom Browne: Again, going back to the point about kind of, in terms of the process of lending in terms of actually ... every loan that came up for approval went from the team doing their due diligence to the mini-credit forum, who actually was the lenders themselves deciding whether the risk was acceptable. And then going on to main credits where group risk was the final arbitrator whether the risk was acceptable. So that process was the standard approach in terms of actually, kind of, the individual loans that were actually underwritten at the time.

Senator Sean D. Barrett: In Vol. 1, page 37, Mr. McAteer and Mr. Moran sent a memo to the board in 2007 - "High growth banks seldom die of old age". They say, "A key balancing act for us is to impress upon the market that Anglo's growth is delivered in a measured and conservative manner, without loosening our credit standards." Isn't your evidence to Deputy Doherty and Deputy Higgins that there were 92% exceptions and Nyberg found that the audit committee ... neither the internal audit nor the audit committee was in a position to challenge credit decisions where the main problems ultimately arose? I mean, wasn't the model unsustainable?

Mr. Tom Browne: Again, you know, I don't think ... it wasn't unsustainable in the context of where we were at at that moment of time. The exceptions, as I explained ... you have to look behind the reason behind the exception in every loan. You know, at the time in the marketplace when you were actually going out to investors, you were being quizzed on a continuous basis in regard to the sustainability of the model. And in every situation we were actually able to kind of explain why we felt the model was sustainable. And the growth in the bank really in the years was going to come from markets such as the UK and the USA.

Senator Sean D. Barrett: But didn't Davy Stockbrokers and Merrion Stockbrokers in early 2007 and about a year later put the shares as overvalued by two thirds?

Mr. Tom Browne: But again the market was the one who dictated where the share price was at. That was the market taking a view where they felt the value of the share was at.

Senator Sean D. Barrett: And a reflection that this model was unsustainable because it was based 88% on property, following a property boom which was ... when the bubble was bound to burst, wasn't it?

Mr. Tom Browne: That's why we were trying to actually spread the risk in terms of our entrée into other areas of the marketplace by developing kind of other aspects of the business.

Senator Sean D. Barrett: But did you ever get your lending share to industry even into double digits?

Mr. Tom Browne: Sorry, Senator?

Senator Sean D. Barrett: Did you ever get the share of the loan book in industry above 6%, 7%, 8% even? It was 88% property. You were a monoline bank.

Mr. Tom Browne: Absolutely. And that was why we were trying to actually kind of spread the risk by actually developing an approach into other areas of the market, because it was recognised within the bank that we were too property dependent.

Senator Sean D. Barrett: And were you aware of the literature that, you know, fast growing banks as the quote that they gave at the board meeting-----

Mr. Tom Browne: Yes and again----

Senator Sean D. Barrett: They do come to an end because it's-----

Mr. Tom Browne: And that's why again-----

Senator Sean D. Barrett: -----it's not solidly based.

Mr. Tom Browne: And that's why again you were trying to actually kind of diversify the bank from both a geographical point of view and also from a sectoral point of view here in Ireland, because it was clearly identified that we needed to actually, kind of, reduce the over-dependency on lending to property.

Senator Sean D. Barrett: So were you surprised, after you left Anglo, that it did collapse with 61%-----

Mr. Tom Browne: I was-----

Senator Sean D. Barrett: -----discount-----

Mr. Tom Browne: Yes, because-----

Senator Sean D. Barrett: ----- when it transferred to NAMA?

Mr. Tom Browne: -----when I left the bank there was absolutely no sense at all that there was any stress on the system either from the credit point of view or from the funding point of view. So I was shocked when I left the bank in ... after I left it in 2007 because I had no ... as I said in my opening statement, it was alien to me that there was kind of a liquidity or a solvency issue coming up the track as I was leaving in 2007.

Senator Sean D. Barrett: The St. Patrick's Day massacre, did that cause you to change your views?

Mr. Tom Browne: Well, obviously the market was talking at that stage. I'd left the bank ... well and truly left the bank at stage. And obviously there was other issues going on in terms where ... the world financial markets were in crisis at the time and it was rebounding back on all the banks here in Ireland.

Senator Sean D. Barrett: Did they react in the correct way from the bank's perspective to the CFD? Were they too slow to react? What would you have done if you had known earlier about the CFD purchases?

Mr. Tom Browne: Chairman, I don't think I can go-----

Chairman: I don't think you can either. Final question, Senator.

Senator Sean D. Barrett: Sorry, I did not intend to-----

Chairman: That's all right.

Senator Sean D. Barrett: ----- cause difficulties; it was a genuine question. Thank you, Mr. Browne, and thank you, Chairman.

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

Deputy John Paul Phelan: Thank you, Chairman. Good evening Mr. Browne. Firstly, I want to refer to the book that has been referred to by many others, Mr. Carswell's *Anglo Republic*. In it, it states that you were paid €3.75 million from Anglo when you resigned in November 2007 as a golden handshake or retirement package. Is that correct?

Mr. Tom Browne: That's correct, yes.

Deputy John Paul Phelan: How do you feel, yourself, now in light of what we've subsequently discovered with Anglo and its operations and the cost to the Exchequer about that sum?

Mr. Tom Browne: I suppose every day I worked in Anglo I worked kind of to my best of my ability. I suppose I used my best judgment in any decisions I made or any decisions I influenced while I was there. When I left the bank in 2007 I felt I'd done a good job and I felt I left behind a bank that there was no undue stress when I was walking out the door. So all decisions I took when I was there and implemented, I took them all in good faith. You know, when I handed in ... when I told the chief executive and the chairman that I was leaving, it was the board's decision to actually decide whether I was entitled to, you know, a payment. I decided I was leaving. Whether I got one or not was irrespective. I was leaving, my race was run. And, you know, the board decided that they were going to actually recognise my efforts over the previous 15 or 16 years.

Deputy John Paul Phelan: That's fair enough. I was reading your ... part of your biography there, during your second term in Anglo, and it is remarkable reading because you seem to have held a lot of different, kind of, roles within the bank at the ... at the same or similar times. You were the head of ... managing director of lending for Ireland between 2004 and 2007, when lending went from €3 billion to €38 billion.

Mr. Tom Browne: Sorry, from 2005.

Deputy John Paul Phelan: €13 billion, sorry, to €38 billion. Do you think ... do you think, I suppose, basically, that was a sustainable level of increase for that four year ... for that four-year period?

Mr. Tom Browne: It wasn't sustainable, it just happened, you know, in terms of, you know, you'd a very active client base in a very active market with a landscape that actually created those type of opportunities, and we had a client base that we continued to support and, as I said earlier on, we supported too strongly.

Deputy John Paul Phelan: Okay. Again referring to the ... Mr. Carswell's book, it is noted in one point, or mentioned in one point, that you have been critical of senior management in Anglo. I'm instructed by legals not to get involved in that discussion and I-----

Chairman: We are not dealing in a legal framework, so it's not that you're instructed, you're obliged.

Deputy John Paul Phelan: Yes, and I'm obeying the instruction. But I want to know, do you feel yourself that there was any of your conduct, or "any of your own conduct" is probably the wrong word, but any things that you did, particularly in your time as head of lending in Anglo, that contributed to the financial difficulties ultimately a year after you left and to the, you know, exposure of the taxpayer to billions of euro of ... that's lost?

Mr. Tom Browne: I don't ... I don't understand your question.

Deputy John Paul Phelan: Yes, you ... I was referring to the ... that you had been critical of senior management in Anglo.

Mr. Tom Browne: Sorry, where do you get that from?

Deputy John Paul Phelan: It's from Mr. Carswell's book-----

Mr. Tom Browne: Sorry I-----

Deputy John Paul Phelan: -----as well.

Mr. Tom Browne: Can you ... can you-----

Deputy John Paul Phelan: I can. Page ... it's the Kindle version, page 5911, where he said, and I'll quote it, the conduct of senior officials at Anglo had ultimately proved-----

Chairman: I think I need to be mindful of allegations there now.

Deputy John Paul Phelan: Sorry this is not an alleg----- this is a published-----

Chairman: Yes, I know, there ... the ... as we mentioned before the meeting here, I would urge the Deputy to err on the cautious side rather than to create a risk. We're just about a day away from concluding public hearings. We haven't ended up in court yet and I'd like to see the closing line in the same manner.

Deputy John Paul Phelan: Okay, look it, really the point I suppose I'm trying to ask you, Mr. Browne, is do you feel ... you're saying that Anglo was grand when you left in 2007. You were head of lending for the preceding four years, if you like-----

Mr. Tom Browne: Two and a half years.

Deputy John Paul Phelan: Well, okay, two and a half years. Do you feel that any of your actions in that time contributed to the downfall of the bank a year after you left?

Mr. Tom Browne: As I said in my opening statement, you know, I'd no sense that the bank was under any stress as I was walking out the door-----

Deputy John Paul Phelan: Okay.

Mr. Tom Browne: -----and that's my honest view. As I was leaving I had absolutely no sense of any issue coming down the track.

Deputy John Paul Phelan: In your opinion was the decision to combine the roles of finance director and chief risk officer prudent or appropriate at the time when loans ... time when loans were growing so rapidly, in terms of the need to maintain an independent risk function at the time allocation needed, albeit that both responsibilities essentially were merged into one? Do you think it was a prudent decision?

Mr. Tom Browne: And again, that was a decision which would have been taken after I departed. I don't think it was the right decision because I think given the growth of the bank at the time, I think it would have been a much better decision if there would have been an independent risk function completely dedicated to the risk activity.

Deputy John Paul Phelan: Okay. Can I ask you did you see the evidence of Mr. Moran, Matt Moran, when he was in here last week?

Mr. Tom Browne: No, I didn't, no.

Deputy John Paul Phelan: He stated, and I want to put a quote that he said ... gave to the inquiry. He said, with respect to Anglo, that "the lending function was excessively dominant"-----

Chairman: Deputy Phelan I will let you finish and I'll stop the clock now. I'm just getting reports that there is dreadful mobile phone interference coming in proximity to you there.

Deputy John Paul Phelan: Okay, well, I don't ... I don't have a mobile phone here. Where was I? "The lending function was excessively dominant in the bank and that the risk function controls were, ultimately, insufficient". What you make of that comment?

Mr. Tom Browne: Well, the lending function was always, you know, the dominant function in terms of the bank and where it came from. I wouldn't accept that the risk function didn't have, you know, it's independence, staffed up by high-quality people who had the independence to be able to, kind of, decide whether the risk is acceptable or not, and I would've always seen the risk function as being more than capable of actually calling the ... the decision in regard to whether the deal made sense or not from a risk point of view.

Deputy John Paul Phelan: Finally, briefly, the FitzPatrick's tapes book by Tom Lyons and Brian Carey outlines that you had a meeting with the regulator, staff of the regulator, after the collapse of Northern Rock. Basically I want you to briefly to outline what was discussed at the meeting, and if you could, what types of issues the regulator was raising with you on behalf of Anglo, or do you remember ... do you remember that?

Mr. Tom Browne: I don't remember that meeting at all.

Deputy John Paul Phelan: Okay, that's fair enough.

Chairman: Thank you. Moving on, next questioner is Deputy Kieran O'Donnell. Deputy.

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

Mr. Tom Browne: Thank you.

Deputy Kieran O'Donnell: NAMA estimated that there was €9 billion in interest roll-up in the loans transferred by the five banks to NAMA, and they said €3 billion of that related to Anglo. Now they ... I'm ... the document I'm referring to, Chairman, is Vol. 2 page 27. It was evidence given by Brendan McDonagh, who's the CEO of NAMA. I suppose the question really was were you aware of that level of interest roll-up in the Anglo loan book? Would those figures have been made aware to the board and senior management and dashboards on a regular basis ... management information dashboards? How was this level of risk ... increased risk monitored within the bank? And do you believe that the bank had adequate information systems to monitor this risk properly?

Mr. Tom Browne: Yes, again, when I read that I was surprised at that figure when I read it. You know, again I would have ... I would have thought-----

Deputy Kieran O'Donnell: Can I ... can I just clarify one or two points, Mr. Browne? When in 2004 did you become managing director of lending in Ireland?

Mr. Tom Browne: It was 2005.

Deputy Kieran O'Donnell: 2005, and what date did you actually leave Anglo, because the ... what precise date did you leave Anglo?

Mr. Tom Browne: I left probably around the start ... probably the end of September, the start of October.

Deputy Kieran O'Donnell: Because I looked at the ... at the ... the annual accounts for 2007 for Anglo, and they state ... which are dated 27 November, they state that you were shortly leaving the board.

Mr. Tom Browne: Yes, I didn't-----

Deputy Kieran O'Donnell: That was the end of November.

Mr. Tom Browne: I didn't actually ... because we were in closed period I was effectively there until 27 November officially, but I was physically gone out of the busi----- the bank some time around ... in some time in October.

Deputy Kieran O'Donnell: Okay.

Mr. Tom Browne: So that was a technical issue in terms of, actually, on the accounts.

Deputy Kieran O'Donnell: Okay, and the €3 billion roll-up-----

Mr. Tom Browne: Yes, again, like-----

Deputy Kieran O'Donnell: How would that have arisen?

Mr. Tom Browne: That would have probably ... that would have come about mainly from the development loans where you would have, you know, interest ... interest roll-up would've actually been part of some of those deals, Deputy.

Deputy Kieran O'Donnell: Was it a common feature among development loans?

Mr. Tom Browne: On land acquisition loans it would have been, you know, on the basis that you would've looked at the loan you were happy to actually, kind of, allow the roll-up on the basis of the profile or where you saw the actual project moving out-----

Deputy Kieran O'Donnell: So, say if one of your existing clients rang you and said, "I've a land deal I want to invest in", and ... would you typically ... did you distinguish between with or without planning?

Mr. Tom Browne: Yes, again going back to the report we had, you know, the various aspects of the land in terms of it's zoned, unzoned, planning, with working capital, so very much clearly it was identified in terms of what the risk category in regard to the land loans, and land was always, you know, the risk ... the high-risk capital.

Deputy Kieran O'Donnell: So typically you'd have given interest roll-up on land. If that developer-----

Mr. Tom Browne: Again, it'd depend who the developer was, the client was, not-----

Deputy Kieran O'Donnell: And would you-----

Mr. Tom Browne: -----not in every case would you've given interest roll-up.

Deputy Kieran O'Donnell: Would you allow interest roll right up to developing the site, building houses on the site?

Mr. Tom Browne: Again you may, depending on the project, depending on the location of the project, depending on the actual developer that was behind it, depending on your view of, kind of, the actual, you know, the end ... the end product in terms of its salability. So again, so every loan like that was looked at in terms of, you know-----

Deputy Kieran O'Donnell: Did it not leave the bank very exposed to a downturn?

Mr. Tom Browne: It did, and it was always a big concern. Land was always going to be ... always the area of concern in terms of actually, kind of, loans like that, and that's why, you know, the 2006 change of policy was an attempt to try to curtail activity in that regard where we said-----

Deputy Kieran O'Donnell: That was only for new lending. The existing clients you continued to lend to.

Mr. Tom Browne: I know and that's, as I said earlier on, that was the big mistake we made, unfortunately.

Deputy Kieran O'Donnell: Why did you leave Anglo?

Mr. Tom Browne: I suppose why I left was, my race was probably run at that stage-----

Deputy Kieran O'Donnell: What do you mean by your race was run?

Mr. Tom Browne: I was interviewed for the top job in 2004, which I didn't get. I decided to stay ... David Drumm asked me to stay after he'd got the job. I decided to stay and by the time 2007 came ... I'd always a desire to set up my own business. I was 45-----

Deputy Kieran O'Donnell: Would you accept, Mr. Browne, that during your period as managing director of lending in Ireland, that was the rapid escalation in property lending within Anglo?

Mr. Tom Browne: Again, on the basis of figures it was, but I think it's on ... it was a reflection of the fact that, again, we had a very active, you know, client base in a very active market that, unfortunately, we continued to actually support-----

Deputy Kieran O'Donnell: But it happened under your watch.

Mr. Tom Browne: We also were actually ... but it wasn't just property. We were also actually, you know, increasing our exposure to new areas of lending in terms of cash flow-type operations.

Deputy Kieran O'Donnell: Will you expand, then, in terms of your leaving ... the reasons you left? So, you said your race was run, you went for the top job in '04. Subsequently?

Mr. Tom Browne: And then I decided I was, what, 45 years of age at that stage. I wanted to set up my own business and I felt that was the right time to do it. If I didn't do it at that stage I probably would never have done it. And that was the reason why I decided to leave.

Deputy Kieran O'Donnell: There wasn't in any way ... like it's circumstantial that you left a relatively short time before the Patrick's Day massacre in terms of share price in Anglo.

Mr. Tom Browne: No. It was very much a personal decision.

Deputy Kieran O'Donnell: Okay.

Mr. Tom Browne: I decided to go, in terms of ... I had informed the chief executive and the chairman in April of that year that I wanted to leave and I didn't see anything coming down the tracks, as I said in my opening statement. As far as I was concerned the bank was in rude good health in ... as I was leaving. And as I said earlier on in my statement, I never ... a liquidity or solvency event was alien to me in terms of my thinking as I was leaving.

Deputy Kieran O'Donnell: Can I just refer, very briefly, to the Anglo Irish ... *Anglo Republic* ... and you made reference in your opening statement that you were not made aware of the contracts for difference. You said "I was not made aware. Other directors were." I'd just refer to page 108 of it, where it's "Gary McGann, chief executive of paper and packaging group

Smurfit ... and a non-executive director at Anglo, pushed the matter at a board meeting in early September." This refers to the contracts for difference. "By now the directors felt it was time to speak to [the] Quinn directly." Were you a member of the board at that time, Mr. Browne?

Mr. Tom Browne: I was, yes.

Deputy Kieran O'Donnell: Do you remember that issue coming up at the board at that time?

Mr. Tom Browne: That issue was discussed for several months because there was rumours in the market, probably from February 2007, you know ... there was rumours in the market about what was going on. And again, Chairman, I just need to be careful here.

Chairman: Well, I would ... I would encourage you to err on the side of caution, Mr. Browne, really, if-----

Mr. Tom Browne: Yes. So, it was ... it had been discussed at several meetings over a number of months because-----

Deputy Kieran O'Donnell: Was that from February onwards?

Mr. Tom Browne: Yes, because the market was kind of ... rumours were circulating, right, and obviously that comment was on the basis of - well somebody better go and find out. Chairman, I just need to be very careful-----

Chairman: Yes. Hold it there. Have you any other question that's not related to that?

Deputy Kieran O'Donnell: Well no, it was that Mr. Browne said he wasn't made aware of it and I'm asking that ... was the board and were ye made aware of it?

Mr. Tom Browne: Again, I can't-----

Chairman: Yes, I know, we're not going to go there. Thank you.

Deputy Kieran O'Donnell: Okay.

Chairman: Thank you Mr. Browne. I'll now bring in Deputy McGrath.

Deputy Michael McGrath: Thank you very much Chair. Good evening, Mr. Browne. Can I start by taking you to core booklet Vol. 1, page 67? So, this is an inspection of commercial property lending activities at Anglo by the Financial Regulator in May 2007. And in the-----

Chairman: That will have to be referenced off the book. I think it's -----

Deputy Michael McGrath: That's fine, yes. Mr. Browne has it anyway. Page 67, Vol. 1. So, that particular inspection by the Financial Regulator identified 30 separate issues which it required to be addressed and which it listed in a report dated 27 June 2007. Varying degrees of seriousness, I think would be fair to say, Mr. Browne, but a number of quite important issues. So, can I ask, were you made aware of this report as a board member and was it discussed by the board?

Mr. Tom Browne: Yes, you would have been made aware of that and it would have been discussed and it would have been decided what action was required to go through each item on a one-by-one basis and deal with it and report back, in terms of the actual ... the action taken in regard to that report.

Deputy Michael McGrath: Okay and would correspondence from the Financial Regulator typically have been brought before the board?

Mr. Tom Browne: Yes, something like that would have been brought before the board. And again, going back to, kind of, what I said earlier on, Deputy, my view of the board, in terms the openness and transparency, it was very much ... if there was an issue that had to be discussed, it would be brought up forthright and put before the board in terms of any issues that needed to be discussed. So, something like that, I would have said to you, would've definitely have been brought up to the board-----

Deputy Michael McGrath: Yes.

Mr. Tom Browne: -----for notification, with a view to actually kind of, making sure that action was taken on the back of it.

Deputy Michael McGrath: Okay and to your recollection that wasn't the only time that correspondence from the regulator would have been included-----

Mr. Tom Browne: Yes-----

Deputy Michael McGrath: -----in the board pack and discussed.

Mr. Tom Browne: Yes, and again, and any-----

Deputy Michael McGrath: Okay.

Mr. Tom Browne: The other point with that, Deputy, would've been that any time there was any interaction between the regulator and mainly through, I suppose, the finance director, that would've been ... in my view would've been brought to the attention of the board. Again, going back to the point that there was-----

Deputy Michael McGrath: Okay.

Mr. Tom Browne: -----to make them completely aware on a timely basis of any issues that arose.

Deputy Michael McGrath: Sure and in respect of this particular correspondence, who was responsible for dealing with it and for ensuring that it was followed up on and the recommendations implemented?

Mr. Tom Browne: Again, it would probably be divided up between the risk function and the lending ... and lending people.

Deputy Michael McGrath: But it wasn't you?

Mr. Tom Browne: Sorry, some of it could have been within my remit and some of it would have been, probably, through the risk function. I would've said the overall responsibility for dealing with it would probably have been at the foot of the risk people supported by the lending people in terms of relevant aspects of it.

Deputy Michael McGrath: Okay. Can you recall specifically what action was taken-----

Mr. Tom Browne: I can't.

Deputy Michael McGrath: -----on foot of this?

Mr. Tom Browne: I can’t recall specifically on this, Deputy.

Deputy Michael McGrath: Sure. Okay. Just an issue that was raised earlier on by Deputy Higgins ... just intrigued me. You were head of group HR for a time, is that right?

Mr. Tom Browne: When the management changes took place in ... from January 2005, I was appointed both head of Ireland and head of group HR.

Deputy Michael McGrath: January ‘05 until when?

Mr. Tom Browne: Until I left in 2007.

Deputy Michael McGrath: Okay. How does the head of lending Ireland also become the head of human resources?

Mr. Tom Browne: It was probably felt by the then chief executive that I was probably the best man to put together a cohesive HR policy across the group, in terms of ... he obviously felt that I had an ability to actually put together-----

Deputy Michael McGrath: Right.

Mr. Tom Browne: -----a HR policy.

Deputy Michael McGrath: Was there a HR department?

Mr. Tom Browne: There was a HR department but I went out and recruited new people into the HR department.

Deputy Michael McGrath: Okay.

Mr. Tom Browne: Recruited new people into the UK-----

Deputy Michael McGrath: Right

Mr. Tom Browne: -----but predominantly would’ve taken control of putting a cohesive HR policy in place.

Deputy Michael McGrath: And who reported to you in respect of HR issues?

Mr. Tom Browne: There was a ... the HR person that I actually recruited to report directly in to me here in Ireland was a gentleman called Seán Fitzpatrick. A different Seán Fitzpatrick.

Deputy Michael McGrath: A different ... and what was his position? He was-----

Mr. Tom Browne: He was director of HR-----

Deputy Michael McGrath: Right.

Mr. Tom Browne: -----reporting in to me. So he had a management ... his ... he came from a HR background.

Deputy Michael McGrath: Right.

Mr. Tom Browne: So he came in to bring, kind of a whole HR-----

Deputy Michael McGrath: Okay.

Mr. Tom Browne: -----professional approach into it.

Deputy Michael McGrath: And on the other governance issue and sticking with the name Seán FitzPatrick, when he left as CEO and became chairperson of the board in 2005, you were on the board at the time. Was that a move that you supported? Was there a serious discussion on that as to whether it was the appropriate thing to do from a governance point of view - that the outgoing CEO would step straight in as chairman?

Mr. Tom Browne: Yes, I think the discussion, you know, around that issue would have been mainly taking place with the non-executive directors as opposed to the executive directors.

Deputy Michael McGrath: Was that as a sub-committee of the board or was it not the board as a collective-----

Mr. Tom Browne: No, it would have been-----

Deputy Michael McGrath: -----would have discussed that?

Mr. Tom Browne: It would've been mainly dealt with at, kind of, non-executive level rather than at executive level.

Deputy Michael McGrath: In what forum? How would that ... would they meet separately or-----

Mr. Tom Browne: Yes.

Deputy Michael McGrath: -----how would that work?

Mr. Tom Browne: Again, they would've probably met separately in regard to issues like that, in terms of nomination committee and things like that.

Deputy Michael McGrath: Right, okay. Just on the issue of exceptions to credit policy, just looking at page 3 of Vol. 2, this issue was touched on earlier on, but the reference at the very bottom of it, which basically is a summary of the aggregate of exceptions to credit policy for the period 2001 to 2008 prepared by ... by the special liquidator, as such, found that of the 1,731 cases reviewed at client level, the number found to have represented an exception to credit policy was 1,073 or 62% of clients, in volume terms, and then in value terms, the aggregate value of the exceptions identified was €31.97 billion or 92% of the value of the book which transferred to NAMA. So, I know you explained some element of that would have arisen after you left, but this was a representation of the 2001 to 2008 period. Does that match your experience in your role?

Mr. Tom Browne: No. Again, there was exceptions and, as I explained earlier on, you know, when you look at exceptions you have to go behind the individual reasons for every exception. As we saw in one of the other exhibits, you know, probably in the latter years as asset values, security values, actually kind of diminished, the bank obviously was taking a very conservative approach in terms of writing down security values-----

Deputy Michael McGrath: Right.

Mr. Tom Browne: -----and every time a loan came up for review at credit committee, if they were writing down securities by, they say 20% there, it's not surprising that actually the exception, you know, levels increased.

Deputy Michael McGrath: If we look at, like, page 13 of the same booklet, there were some changes to the credit policy in July 2005. So when we talk about exceptions to credit policy, presumably we're talking about exceptions to these type of rules which were in place about maximum loan-to-value across-----

Mr. Tom Browne: Exactly.

Deputy Michael McGrath: -----the different type of lending.

Mr. Tom Browne: Because, again, to give an example of that, you know, if the credit policy was no more than 75% loan-to-value and if through the process of approval, you know, a credit came up where it was 80% loan-to-value, it was highlighted at, you know, at the approval stage and a decision would've been taken based on the, you know, ... could be on any whole host of reasons why the loan would be approved on, you know, at an exceptional level. So, you know, somebody saying, "Well, the credit policy says 75% loan-to-value but the loan has come up at say 80% loan-to-value", so it's highlighted from the word "go" and a decision is made to approve that based on other, you know, circumstances. So it's clearly identified from the word "go" in terms of that approval. What the discussion around why you would approve it, you know, will depend on a whole range of reasons.

Deputy Michael McGrath: Sure. But, I mean, a lot of your answers on this issue and on the issue of security seems to be the case-by-case analysis, but, I mean, I have to put it to you that the basis of making a decision on a case-by-case scenario doesn't seem to have regard to what the policy was. The policy seemed to be breached on a wholesale basis, looking at the figures that we have before us.

Mr. Tom Browne: Yes. No, based on that figure, right, okay. But, you know, again, you know, if you look at that figure there which is, you know ... is you highlighted there ... you know, again it goes back to what's behind, you know, each of those loans, right. Why are they exceptions? If the bank has decided in 2008 to write down, you know, the underlying security by 20%, that, in itself, and you can see the figure there, it went from, what, 28% to 46% over the period of four or five months as a result of the bank deciding that, you know, let's kind of take a 20% haircut in the underlying value of the security, and that's why an awful lot of accounts will end up being exceptions in that situation.

Deputy Michael McGrath: Sure. That's a snapshot in 2008, but we're looking at the aggregate position-----

Mr. Tom Browne: Yes, you know, but the reality of it is, yes, I would say to you, go back to kind of, you know, the period '01, '02, '03, '04, '05. Yes, there would have been exceptions to credit policy. They would have been reported on a monthly basis, just like that report we saw there, okay, and there would have been, you know, a specific reason behind each of those exceptions, why it was an acceptable thing to do.

Deputy Michael McGrath: The point I am making is the exceptions seemed to become the norm. If the policy had to be breached that often, then either you weren't following the right policy or it was being-----

Mr. Tom Browne: Or the policy had to be changed. As you said there, in the 4th of July, the policy was changed there from 75% to 80%, you know, development finance. So, the policy was always being kind of ... was always being moved, you know, to actually-----

Deputy Michael McGrath: Policy was catching up with the practice - trying to.

Mr. Tom Browne: Yes, it could be, and reflecting the fact that market dynamics had changed and competitive pressure was out there.

Chairman: I just want to clarify one thing for you there, before you conclude, Deputy, because this might want to bring you back in again, okay. Is the ... if I could ... in your witness book, there, page 67, that's ... it's the letter to the Financial Regulator, 27 June 2007. It's in Vol. 1. It won't come up. It's just I want to get a clarification on it more than anything else. You ... were you a non-executive director, Mr. Browne, yes? Were you an executive or non-executive?

Mr. Tom Browne: Executive.

Chairman: Executive, okay. In ... and you haven't seen this document before, no?

Mr. Tom Browne: Sorry, the one from 2007?

Chairman: You're familiar with this document.

Mr. Tom Browne: Sorry, I would ... I would've presumed I saw it back in 2007.

Chairman: All right. It's just to say that in his statement in evidence Mr. Gary McGann stated that as a non-executive director he'd never seen this letter. Could you clarify whether, in your opinion, that it would've gone to the non-executive directors?

Mr. Tom Browne: I would be surprised if it didn't. That would be my understanding of it.

Deputy Michael McGrath: He said it was discussed at the board, a few months ago.

Mr. Tom Browne: That would be my ... sorry, that would've been my understanding of it, Chairman.

Deputy Michael McGrath: It's different.

Mr. Tom Browne: You know, looking at that letter, my understanding is that it would have. But I can't remember it. I don't remember this document, obviously.

Chairman: Okay.

Mr. Tom Browne: Right. But I would have expected that letter would've gone to the board.

Chairman: And Mr. McGann would have been part of the correspondence list.

Mr. Tom Browne: He would have been on the board at the time, obviously, yes.

Chairman: I'm just trying to clarify that now, for sure.

Mr. Tom Browne: Yes. But, sorry, my understanding of it, you know, that that would have gone to the board.

Chairman: Are you concluded then, Deputy McGrath?

Deputy Michael McGrath: Yes. Thank you.

Chairman: Okay. Senator O'Keeffe.

Senator Susan O'Keeffe: Thanks, Chair. Mr. Browne, I know that you say you haven't read the Nyberg report but I'm just wondering ... they ... in the Nyberg it says that the ... it observes that the Financial Regulator raised concerns over the shortcomings in Anglo's risk function, but it isn't clear whether the risk committee or the board saw the letters relating to that. So, do you recall ever seeing that correspondence from the regulator relating to Anglo's risk function?

Mr. Tom Browne: I don't recall it at this stage, Senator.

Senator Susan O'Keeffe: Okay. So that means literally that - you don't remember.

Mr. Tom Browne: I don't remember. Sorry, I don't remember.

Senator Susan O'Keeffe: That's fine. That's fine. Broadly, what share of responsibility would you say that Anglo would shoulder for the banking crisis?

Mr. Tom Browne: You know, obviously, it shares a significant portion of the blame.

Senator Susan O'Keeffe: Right. Significant. Is that - you're the man with the figures - is that more or less than 50%?

Mr. Tom Browne: I think, you know, there's no hiding from the fact that it significantly attributed to the problem that arose as a result of the collapse of the property market. There's no hiding from that fact.

Senator Susan O'Keeffe: Okay. I have to say I am wondering, in fact, why your own statement to this inquiry is so short, Mr. Browne. It's two and a half pages long. I think it's the shortest statement we've probably received. Was there a reason why your statement is literally that short?

Mr. Tom Browne: No, I just ... I was just trying to keep it as concise as possible.

Senator Susan O'Keeffe: Okay. In the book, *The FitzPatrick Tapes*, and don't worry this is not contentious, it's an observation made by Seán FitzPatrick himself, and he was talking about how, after David Drumm had been appointed, he said well:

> The bank was about lending. ... The lending guys were all about Lionel Messi. They were all strikers. They were the pop stars. They were the guys who were making the f-ing money. They didn't worry about how the money was got to give to them. As far as they were concerned they were the guys lending money and that was where it all was. That was where the culture was as well.

Now Mr. FitzPatrick, obviously - pretty much important guy in your bank. What do you think about his observation?

Mr. Tom Browne: Well, the bank was driven ... it was a lending bank, you know, that's what it was, that's what it started out as. And the treasury operations, you know, its primary responsibility was to actually fund the growth of the loan book. So it was, fundamentally, a lending bank.

Senator Susan O'Keeffe: Was it lending at all costs?

Mr. Tom Browne: I don't think it was. I think there was a very clear process in terms of, actually, kind of, how the whole ... you know, the whole loan approval process went and how it evolved over the years. It was very thorough, it was very complete. You know, all the management tools around management of the loan book in terms of watch lists, everything like that, you know-----

Senator Susan O'Keeffe: Although Mr. FitzPatrick does say they didn't worry about how the money was got to give to them. I mean, he's ... he's saying that himself about your own bank.

Mr. Tom Browne: Well, I think what he ... I think what he's referring to there is that, you know, they didn't worry about, you know ... the treasury guys, you know, as on ... on the funding side, their responsibility was to be able to go out and develop new strands of funding to be able to fund the actual growth of the ... of the loan book. And the bank, you know, in the latter ... you know, in the latter years, you know, was kind of developing, you know, its operations in the UK and in America, so suddenly you had the three, kind of, areas of geographical growth in terms of the ... yes, the loan growth in the bank.

Senator Susan O'Keeffe: You've said several times, Mr. Browne, that when you left the bank in September '07 that it was in - I think you used the expression - "rude health". Mr. Moran, when he gave evidence, on page 76, he was talking about how it had started. He said, "the start of the liquidity crisis or the first signal that became available in the market", that was August 2007, and then he goes on to talk about Northern Rock, which, clearly, you would be aware of. So is Mr. Moran wrong? I mean, lots of people have given evidence that, really, things started to get very tight August-September, really beginning to feel the tension by October-November, never mind then what happened when you had left. So, I'm just wondering, would you revise your view or do you-----

Mr. Tom Browne: No, because-----

Senator Susan O'Keeffe: So why then does the ... did the liquidity crisis start and then why was that of not ... no concern? Why do you not rate it as a concern?

Mr. Tom Browne: You know, again, going back to my comments earlier on, I didn't ... you know, I didn't get any sense that, you know, liquidity was becoming an issue as I was leaving the bank in ... in-----

Senator Susan O'Keeffe: But what was that about then? What was the tightening ... why is he saying that and why have plenty of other people said it?

Mr. Tom Browne: Well, I think ... I think ... I think the first people ... the first event that people, kind of, point to was Northern Rock in September 2007. That was the first, kind of, real public manifestation that there was problems starting to actually arise in the whole, you know, liquidity world. And it went from there.

Senator Susan O'Keeffe: Although he says August, I think Northern Rock was September, but-----

Mr. Tom Browne: Yes, September, yes. I-----

Senator Susan O'Keeffe: -----do you still maintain-----

Mr. Tom Browne: Yes. Yes, I would-----

Senator Susan O'Keeffe: -----you didn't-----

Mr. Tom Browne: I didn't have any sense in ... in ... in August, you know, of that year that there was any problems in terms of, actually ... in terms of liquidity from the bank's point of view.

Senator Susan O'Keeffe: You said at the start that when you came back to Anglo ... when you'd been asked to come back by Mr. FitzPatrick, that I think you returned to manage the wealth management division. Is that correct?

Mr. Tom Browne: That's correct, yes.

Senator Susan O'Keeffe: And so, tell us, was the wealth management division, was that high net worth individuals?

Mr. Tom Browne: Basically at the time what it was was you had probably five satellite operations, all very much independent republics in terms of, you know, Vienna, Geneva, the Isle of Man, Dublin private banking, the assurance company, and they were all very much doing their own thing. The creation of the develop ... of the ... what I was asked to do was pull together, you know, a cohesive approach in terms of those businesses in terms of creating a strategy around them in terms of growing the business, and using, kind of, some of the attributes of, say, the fund management expertise in a place like Geneva and see could it be applied in places like Dublin or London or Vienna. So it was ... they were ... they were very much independent republics in their own right before that and the idea about creating the division was to actually pull it all together and put a, kind of, a strategy around the business.

Senator Susan O'Keeffe: And, as I say, what did that involve though? Was it about high net worth individuals or-----

Mr. Tom Browne: Well, I ... again-----

Senator Susan O'Keeffe: No.

Mr. Tom Browne: -----the profile of each individual location was completely different. You know, you go from, say, Geneva was probably high net worth individuals, to the Isle of Man, which was very much retail deposit. So each of the ... each of those operations had a very, very different clientele.

Senator Susan O'Keeffe: And did it involve the creation of property syndicates?

Mr. Tom Browne: Yes, it did in latter years, yes, yes.

Senator Susan O'Keeffe: Right. And was that something you had a hand in?

Mr. Tom Browne: I was-----

Senator Susan O'Keeffe: Or you were involved with rather?

Mr. Tom Browne: It was something that would have ... would have been ... would have been happening over the ... over probably from, you know, 2003-'04 onwards.

Senator Susan O'Keeffe: And what relationship was there then? What interface was there between that part of the business and the bank part of the business or was it utterly separate?

Mr. Tom Browne: Yes, no, it was separate and then the ... you know, the private bank ... that would have been mainly done out of Ireland, where the private bank would have gone and sourced these investment opportunities, you know, and probably in the early days was predominantly probably in the UK. Then there was probably some European opportunities brought and then latterly there was some things in America brought ... brought into the private bank.

Senator Susan O'Keeffe: What share of-----

Chairman: Okay, time to wrap up, Senator.

Senator Susan O'Keeffe: What share of the profit of Anglo Irish Bank would have been contributed by that division?

Mr. Tom Browne: Senator, in the initial years when it was set up, it probably was less than 5%. It was a very small part of the bank.

Senator Susan O'Keeffe: Sure.

Mr. Tom Browne: With ... and by pulling it all together in terms of trying to create a cohesive approach, the ambition was maybe to grow that maybe to 10% of the profits over a five-year or ten-year period.

Senator Susan O'Keeffe: And just-----

Mr. Tom Browne: So it was ... it was always going to be a very small element of the bank.

Senator Susan O'Keeffe: Small but comfortable.

Mr. Tom Browne: Growing.

Senator Susan O'Keeffe: And, just to clarify, when you ... when you changed your job and became head of lending, Ireland, some ... that division stayed though. I take it somebody else took that job.

Mr. Tom Browne: Yes, yes, somebody else took that ... yes, exactly.

Senator Susan O'Keeffe: So it didn't close down.

Mr. Tom Browne: No, no. No, no.

Senator Susan O'Keeffe: Thank you.

Chairman: Thank you very much. I'm going to move to wrap things up inviting Deputy Murphy to conclude, please. Sorry, my apologies, Senator D'Arcy just indicated on one point.

Senator Michael D'Arcy: Yes, just very ... just two very small things, Mr. Browne.

Chairman: Turn off your phone first. There's some areas there that's-----

Senator Michael D'Arcy: I asked Mr. Peter Fitzgerald if he had read the book and he said he had and I asked him was it a genuine reflection-----

Chairman: Please. I'm going to hold for a second, Senator, because there's terrible phone distortion there, wherever it is coming from. Okay, continue again, please.

Senator Michael D'Arcy: I asked him was it a genuine reflection of the way business was transacted within Anglo Irish Bank. Can I ask your opinion on it, please?

Mr. Tom Browne: I don't ... I don't think it is.

Senator Michael D'Arcy: You don't think it is.

Mr. Tom Browne: No.

Senator Michael D'Arcy: Okay. And then, finally, Mr. Browne, your severance payment of €3.75 million. You left the institution; were they obliged to pay you a severance package?

Mr. Tom Browne: No, they weren't.

Senator Michael D'Arcy: They weren't. And it was within their gift to do so.

Mr. Tom Browne: Yes.

Senator Michael D'Arcy: Was that very generous?

Mr. Tom Browne: Yes, you know, in any man's language it was generous.

Senator Michael D'Arcy: And was it the norm for people leaving who decided to leave, where there was no legal obligation to pay anything?

Mr. Tom Browne: I think the precedent had been set by, you know, two other directors who had left and ... you know, in, I think, '05 and '06.

Senator Michael D'Arcy: Who were they?

Mr. Tom Browne: John Rowan and Tiernan O'Mahony.

Senator Michael D'Arcy: And what were they paid?

Mr. Tom Browne: I think around ... roughly around the same thing. I think the figures were much the same.

Chairman: Okay. Thank you very much. Deputy Murphy.

Deputy Eoghan Murphy: Thank you, Chairman, and thank you, Mr. Browne. Just to come back to this 2006 policy change. You decide you're going to stay with your proven clients, the big developers who've got large scale projects in Ireland and that's going to be the MO from 2006 on. And then total lending in Ireland doubles over this period of time. Were you placing too much trust in these special clients that you were sticking with from 2006? And I'm not asking you about trust in their business abilities, I'm asking about trust in their wealth, how much you perceived that they owned, their exposures in terms of their assets or what they were developing and too much trust in terms of how much they were telling you they were borrowing from others?

Mr. Tom Browne: I think ... I think, you know, I think it's an interesting word, "trust", you know, we backed them because we believed their ... of ... we believed their ability to deliver on the projects. You know, there were people that we had, kind of ... we had developed a close relationship with over ten, 15, 20-year period, and we'd seen them perform and, I suppose, the view was that if there was going to be a soft landing, you know, the people that you wanted to be in the trenches with were people that had a track record of delivering performance. And the view would have been that these were the people to actually, kind of ... to support.

Deputy Eoghan Murphy: So your lending was based on belief rather than based on hard data or-----

Mr. Tom Browne: No, obviously the first criteria was: did a deal make sense?

Deputy Eoghan Murphy: Okay.

Mr. Tom Browne: You know, were you happy with the risk, were you happy with the credit risk, were you happy with, kind of, the actual proposal in terms of its ... its work-out, its repayment proposal? And then ... and then the issue was: are these the type of people you want to actually, kind of, deal with?

Deputy Eoghan Murphy: Were you making assumptions of their own personal wealth in terms of personal guarantees? Were you making assumptions in terms of what they might be exposed to in terms of borrowing from other banks?

Mr. Tom Browne: No, we were-----

Deputy Eoghan Murphy: Was any of this being backed up with paperwork in terms of-----

Mr. Tom Browne: No, we would have ... we would have looked for full visibility. We would have seen it through their annual accounts.

Deputy Eoghan Murphy: But did you have full visibility?

Mr. Tom Browne: In many cases we did.

Deputy Eoghan Murphy: Because there was an inspection done by the Financial Regulator at the end of 2007 and ... you had just left, but this relates to lending done under your period in charge. And there was a number of findings and one of the findings was that, "several show how much trust the banks were placing in the unverified assertions of their borrowers with regard to their personal wealth, and how inaccurate some of the information being used by the banks was." It talked about management estimates of wealth, not estimates coming from the person who was selling but management sitting there, coming up with numbers but not having anything behind that other than their own impression of the borrower.

Mr. Tom Browne: Going back to my own experience, like, you know, I remember having several meetings with some of the bigger clients. When you went through detail of their exposures and their actually ... and their net worth positions, you know ... and that would have been something that I would have done on a number of occasions with some of the bigger clients.

Deputy Eoghan Murphy: "The inspectors noted that the institutions have been unable to obtain a Net Worth Statement from [Mr. X], as he is unwilling to disclose such details in writing. In addition, the statements provided by [Mr. Y and Mr. Z] have not been certified by a third party". So, was this happening in Anglo?

Mr. Tom Browne: Sorry, it could have happened, yes. I'm not saying it didn't happen but there would have been, kind of, you know, fairly detailed conversations around, you know, the bigger clients' exposure to other banks, the bigger clients' kind of, you know, net worth positions and verification of that information.

Deputy Eoghan Murphy: This inspection report found that the understanding of bank A's exposure to a developer ... another bank's exposure to the same developer was out by more than €1 billion. So I mean, how can you tell me that you had accurate understanding of their exposure to the banks and then you could be out by potentially €1 billion in this case?

Mr. Tom Browne: Again, you know, it comes back to the point in terms of actually ... you were interrogating the people in terms of getting the information. You know, there was a level of trust.

Deputy Eoghan Murphy: Okay, a level of trust. A big developer who you have now decided to back, you know, from 2006. Are you really going to interrogate them about their personal wealth or their exposure to other banks when they've been with the bank for so long? Would you really be able to have that relationship with them?

Mr. Tom Browne: I think you would have had to have been able to have that conversation with them. And like, and I would remember on several-----

Deputy Eoghan Murphy: And you would just trust the figures?

Mr. Tom Browne: Sorry, you might ... if you wanted to query it and get it backed up, you'd look for that information. But I remember having several conversations with some of the bigger developers, going through that in detail.

Deputy Eoghan Murphy: And what about this idea of management estimates rather than figures coming from the borrower themselves?

Mr. Tom Browne: That's not the ideal scenario but I'm not saying it didn't happen.

Deputy Eoghan Murphy: Okay, then that contradicts what you just said about the vigorous approach you took to getting this information.

Mr. Tom Browne: No, but some of the ... on the bigger ones, for example, I can talk personally, right. We would have sat down with them and gone through their detail in terms of their overall exposures to the banks and where their, kind of, net worth position was.

Deputy Eoghan Murphy: And they would have provided documentary evidence for that in every case?

Mr. Tom Browne: Sorry, you would have looked for that, yes, and-----

Deputy Eoghan Murphy: Would you have gotten it?

Mr. Tom Browne: Sorry, we would have gotten it. In the cases I can remember, we would have.

Deputy Eoghan Murphy: Okay.

Chairman: Thank you. Deputy Doherty, please. Wrap up.

Deputy Pearse Doherty: Page 15 of Vol. 1 details the Public Accounts report of July 2012 on the crisis in the domestic banking sector and it notes:

> Anglo had poor governance structures and procedures and risk controls during its period of high growth. Weaknesses in these areas were identified by auditors and regulators in 2003, 2006 and 2008. ... Management showed a lack of awareness of risk and focused their

attention on business growth.

So, with that noted, Mr. Browne, how do you reconcile these comments with the positive statements on the governance structure of the bank contained in the corporate governance statements each year in the bank's annual reports?

Mr. Tom Browne: Sorry, could you repeat that question again?

Deputy Pearse Doherty: The whole lot of it?

Mr. Tom Browne: The key part of it.

Deputy Pearse Doherty: Okay. I'll have to start from the start because ... Do you understand what's in the PAC report in terms of the poor governance structure, the fact that the auditors and regulators identified weaknesses in these areas in 2003, 2006 and 2008, that the management, which you're part of, showed a lack of awareness of risk and focused their attention on business growth? And I'm asking you how do you reconcile those comments of the PAC's report with the positive statements on the governance structure of the bank that was contained in the corporate governance statements each year in the bank's annual reports?

Mr. Tom Browne: It, obviously contradicts it, you know. In terms of this report, you know, there's a complete contradiction.

Deputy Pearse Doherty: Yes, we know that because the auditors identified ... the PAC revealed that the auditors identified weaknesses in 2003, 2006 and 2008. How come ... the point here is how come the statements of corporate governance every year in the bank's annual reports was giving you a clean bill of health basically?

Mr. Tom Browne: You know, it's actually, kind of, on the basis that they were made aware of those issues ... and they must have been made aware of, kind of, what action was being taken on the back of those reports ... they must have been happy that, kind of, whatever was being identified was being dealt with and they were happy to sign off on the basis of, kind of, their report. So they must have looked for satisfaction that something was being done in the context of the issues that had been raised.

Deputy Pearse Doherty: Do you believe that the management showed a lack of awareness of risk and focused their attention on business growth?

Mr. Tom Browne: I don't on the basis of the risk function, you know, as I said, you know, in my view, was staffed up with, you know, very good lenders-----

Deputy Pearse Doherty: Okay.

Mr. Tom Browne: -----from both inside and outside the bank, you know, and were very much on top of raising the issues and bringing them to the attention of the respective people.

Deputy Pearse Doherty: Okay. I want to refer to another book - sorry, if you just bear with me - Matt Cooper, *Who Really Runs Ireland?* I'm not sure if you are familiar with the book or not.

Mr. Tom Browne: Sorry, say-----

Deputy Pearse Doherty: Matt Cooper's book, *Who Really Runs Ireland?* It's a book that he published. You're referenced or you're mentioned in the book along with Tiernan O'Mahony, both of you leaving a number of years after not being appointed to the top position. He talks about Tiernan O'Mahony writing in *The Irish Times* as far back as 2002, saying the big days of 40% per share profits are over and it'll be more likely to be 15% to 20%. But he mentions ... he says about you, and I will quote just for your benefit:

> Browne stayed on for another three years before leaving with the same generous package as O'Mahony enjoyed. In that time, he tried to reduce the bank's exposure to the Irish property market. As far back as early 2005, he told me that it had become dangerously overheated and too dependent on tax breaks. There was limited value left for investors. However, while he had some success in reducing the bank's exposure, it continued to do new business in Irish property, both as a banker and as an investment organiser.

He goes on to talk about how Drumm wanted to prove himself FitzPatrick's equal, wanted to double the profits of the bank within five years, which he did within two. So, can I ask you is that a true reflection of your own position at that point in time in 2005? Were you trying to reduce the over-exposure to the Irish property market at that time in the bank and was there other pressures within the bank?

Mr. Tom Browne: No, it is a true reflection. I remember the conversation. I suppose the first attempt to try to do that was the change of policy in 2006. I remember the board meeting well where it was debated long and hard in regard to the policy change and the policy change was adopted by the board. You know, there was several examples where I saw this market getting seriously overheated. The policy change was an attempt to actually curtail our activity. As I said earlier on, you know, we didn't do it ... we didn't impose that policy strong enough. You know, we continued to support, you know, the bigger clients when we shouldn't have - we should have kept out - and we failed in terms of the implementation of that policy. So, from that ... so, you know, the policy that was brought to the board was the attempt to try to curtail activity and that was reflective of that comment.

Chairman: Okay, thank you. With that said, I'm going to bring matters to a conclusion. Mr. Browne, is there anything you would like to add by manner of closing comments, further remarks or additional information?

Mr. Tom Browne: No, Chairman. I think my opening statement that I read sums up my view of ... and my regret in terms of what happened and I think the statement covers it in full.

Chairman: Thank you very much, Mr. Browne. With that said, I'd like to thank you for your participation this evening and your co-operation with the schedule today and your engagement with the inquiry. You're now formally excused and it is proposed that the meeting is adjourned until 9 a.m. tomorrow, Thursday, 10 September, when we will conclude our final day's hearings, our public hearings, of the inquiry. Is that agreed? Agreed.

The joint committee adjourned at 9.38 p.m. until 9 a.m. on Thursday, 10 September 2015.