



Tithe an
Oireachtais
Houses of the
Oireachtas

Joint Committee of Inquiry into the Banking Crisis

Witness Statement of

Fintan Drury

Session 55

30 July 2015 (a.m.)

Strictly Private & Confidential

As indicated on its cover page, the document(s) contained within are confidential unless and until the Joint Committee decides otherwise including where the Joint Committee publishes such document(s). For the avoidance of doubt, “documents” include witness statements in this context. Further to section 37 of the Houses of the Oireachtas (Inquiries, Privileges and Procedures) Act 2013 (“the Act”), while the documents remain confidential, you must not disclose the document(s) or divulge in any way that you have been given the document(s), other than:

- “(a) with the prior consent in writing of the committee,
- (b) to the extent necessary for the purposes of an application to the Court, or in any proceedings of the Part 2 inquiry, or
- (c) to his or her legal practitioner.”¹

Serious sanctions apply for breach of this section. In particular, your attention is drawn to section 41(4) of the Act, which makes breach of section 37(1) a criminal offence.

¹ See s.37 of the Houses of the Oireachtas (Inquiries, Privileges and Procedures) Act 2013

Effectiveness of Banks' Board Governance, Client Relationships and Business Models

Statement of Fintan Drury

In responding to the Committee's request to deal with certain issues in writing ahead of an oral hearing I do so as one of a number of people who served as a non executive director of Irish bank boards during the period under review. I was a non executive director of Anglo Irish Bank between July 2002 and June 2008. In common with most non executives I applied myself diligently to providing stewardship and oversight. That is the primary responsibility of and reason for the involvement of non executive directors in any business. To effectively provide such guidance and independence there is an unstated contract between the non executives and the management of the business around trust in the quality, depth and veracity of information that you are provided with, not to the point where independent questioning is not required, but in the sense that basic practices and standards are met. It is clear, from what we have known now for some years, that this did not apply in some of what transpired within Anglo Irish Bank and this was a contributor to its acute difficulties towards the end of 2008. No individual with even a modicum of personal, never mind professional, pride could not but regret a failure to have identified and dealt with flaws within the management of the business. I regret very much that I did not do so.

B1 a. Composition, skills and experience of the board and board sub committees?

I believe the Board had a strong mix of experience and talent across the important business disciplines and to the point where I finished my term with the Bank in early June 2008 I considered that to have been the case. I served as a member of the Risk Committee for the duration of my period as a NED the last ten months of which as Chairman. Overall the approach to the composition of both the board and its committees was careful and thorough and was, appropriately, underpinned by the direct involvement of the Nominations Committee.

B1 c. Quality of the business model setting process?

Board members and senior management met for an annual strategy and planning session. Management, representing all business and banking disciplines, presented plans and budgets for the year ahead. This was an open and detailed process. The business plans for the year ahead including client management and resource requirement and allocation were considered in detail and presented to the board. Any substantive issues that arose were discussed in a professional and mature fashion. It was a bottom up process with individual managers at each level in the organisation taking resource and budget responsibility for their proposals.

B1 d. Adequacy of board oversight over internal controls to ensure risk is properly identified, managed and monitored?

Any review of documentation would show the regularity of risk committee meetings, their scope and quality, the subsequent reporting to board, the depth and frequency of the loan reviews, cross sector analysis and the regular independent external expert analysis of the risk function in the bank that the board had a strong commitment to risk.

Effectiveness of Banks' Credit Strategies and Risk Management

B2 a. Appropriateness of property-related lending strategies and risk appetite?

The property – related lending strategy of Anglo Irish Bank achieved exceptional returns over the period 2002 – 2008 and no one questioned their appropriateness over those years when the bank was revered by shareholders, analysts, rating agencies and commentators in Ireland and overseas.

The Credit Policy was approved by the board annually. This was a detailed document that was then submitted to the Financial Regulator. Management had to operate according to the Credit Policy and the board did not as a matter of course get involved with individual credits or individual cases. The Risk & Compliance Committee, of which I was a member, did. It was at this committee that the detail of different loans would be considered.

A full loan review process was conducted twice annually which covered each loan on the bank loan book. This was presented to the Risk & Compliance Committee with a breakdown of asset quality and a special focus on Impaired Loans and those on the Watch List. A considerable amount of work went into this as members of the Risk Executive Team would meet with the lending teams in situ in the different markets and review each loan in order that the overview the bank was taking was based on a granular assessment of that risk.

As well as this providing a detailed analysis on a geographic market basis part of the executive team's work was to examine the bank's exposure to different sectors or areas of business which could merit special attention (eg: the hospitality sector in Britain or retail in the USA). The risk management team evaluated the Value at Risk (VAR) on a quarterly basis and this was reported to the board.

The committee was also provided with a detailed breakdown of every Impaired Loan which would status the progress being made in dealing with the case and at the same time set out management's strategy to deal with it. The loan book was always stress tested by the relevant Risk Management and Internal Audit Officers.

B2 b. Appropriateness of credit policies, delegated authorities and exception management?

As has already been referenced there was a detailed Credit Policy confirmed annually by the board. It was reviewed every year and it was sent to the Financial Regulator. Management had to operate according to that policy. The board did not get involved in its management nor could it or should it have done so. I believed that policy was appropriate to the bank's stated business ambition.

B5 a. Adequacy of the incentive and remuneration arrangements to promote sound risk governance?

I was never a member of the Remuneration Committee of the bank.

B5 b. Impact of shareholder or lending relationships in promoting independent challenge by the board and/or executives?

In the six years that I served on the board I saw no evidence whatsoever that anything other than normal rigorous application of procedures was applied. I do not believe there was any non-executive director of Anglo Irish Bank during my tenure on the board who would have been remotely inhibited in asking an “independent” question irrespective of the circumstances or individuals involved.

Effectiveness of the Regulatory, Supervisory and Governmental Regime Structure

R1 a. Appropriateness of the regulatory regime?

Throughout my time on the board of Anglo Irish Bank I would have assumed that the regulatory system was robust and that it dealt with the executive of the bank in a systematic and comprehensive manner. I did not – either as a board member or as a member of the Risk Committee – have any direct access to or interaction with the Regulator or the Central Bank.

It should be noted too that the board considered the engagement with the Financial Regulator as essential when any issues of import arose and so, with the increasingly difficult market conditions of 2008, it ensured that a weekly report on the bank’s liquidity was sent to the Regulator. The enormous difficulties around the gamble taken by the Quinn family with its investment through CFDs was immediately referred to the Regulator once the board became aware of it.

R1 b. Effectiveness and appropriateness of the supervision policy and powers?

I had no reason to believe during my six year term on the board of Anglo Irish Bank plc that the policy and powers of supervision vested in the Office of Financial Regulator and of the Central Bank were anything other than sufficiently comprehensive and robust to allow them to oversee the banking system. Any issue raised by the Regulator that was brought to the attention of the board was responded to promptly.

Clarity and Effectiveness of the Nexus of Institutional Roles and Relationships

R3 b. Nature and appropriateness of the Relationship between the Central Bank (including the Financial Regulator), the Department of Finance and the banking institutions?

See answer to R1 above.

Clarity and Effectiveness of the Government and Oireachtas Oversight Role

R5. D. Appropriateness of the relationships between Government, the Oireachtas, the banking sector and the property sector

This is not something I believe I am equipped to answer.