HOUSES OF THE OIREACHTAS

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AN COMHCHOISTE FIOSRÚCHÁIN I DTAOBH NA GÉARCHÉIME BAINCÉI-REACHTA

JOINT COMMITTEE OF INQUIRY INTO THE BANKING CRISIS

Dé Céadaoin, 29 Iúil 2015

Wednesday, 29 July 2015

The Committee met at 9.30 a.m.

MEMBERS PRESENT:

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

DEPUTY CIARÁN LYNCH IN THE CHAIR.

Nexus Phase

EBS - Mr. Alan Merriman

Chairman: We are back in public session. Is that agreed? Agreed. Can I ask members and those in the public Gallery to ensure that their mobile devices are switched off. We begin today's hearings with Mr. Alan Merriman, who is former finance director at EBS. In doing so I would like to welcome everyone to the public hearing of the Joint Committee of Inquiry into the Banking Crisis. Today, much of the focus of the inquiry is on EBS. At this morning's session we will hear from Mr. Alan Merriman, former director of finance at EBS. And Alan Merriman joined EBS in July 2005 where he was finance director until March 2009. Previously he worked with PricewaterhouseCoopers, where he was a partner. Mr. Merriman is now the chief executive at Elkstone Private. Mr. Merriman you are very welcome before the committee this morning.

Mr. Alan Merriman: Thank you Chairman.

Chairman: Before hearing from the witness, I wish to advise the witness that by virtue of section 17(2)(*l*) of the Defamation Act 2009, witnesses are protected by absolute privilege in respect of their evidence to this committee. If you are directed by the Chairman to cease giving evidence in relation to a particular matter and you continue to do so, you are entitled thereafter only to a qualified privilege in respect of your evidence. You are directed that only evidence connected with the subject matter of these proceedings is to be given. I would remind members and those present that there are currently criminal proceedings ongoing and further criminal proceedings are scheduled during the lifetime of the inquiry which overlap with the subject matter of the inquiry. Therefore, the utmost caution should be taken not to prejudice those proceedings. Members of the public are reminded that photography is prohibited in the committee room. To assist the smooth running of the inquiry, we will display certain documents on the screens here in the committee room. For those sitting in the Gallery, these documents will be displayed on the screens to your left and right. Members of the public and journalists are reminded that these documents are confidential and they should not publish any of the documents so displayed.

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

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

Mr. Alan Merriman, former Finance Director, EBS.

Chairman: Before Mr. Merriman makes his opening remarks, just to remind members once more that in certain engagements with financial institutions, some documentation may regard or contain personal names or financial data and in regard to protection of sensitive commercial information, members just need to be mindful of their questioning this morning in that regard. So with that said, if I can invite Mr. Merriman to make his opening remarks please.

Mr. Alan Merriman: Thank you, Chairman. I very much appreciate the opportunity of being here today. Rather than repeating my witness statement verbatim, in the interest of time I plan to give a brief introduction to my responsibilities and time with EBS, explain why I believe EBS was more of a casualty rather than a cause of this crisis and briefly comment on a number of very select topics which I guess would be of particular interest to the committee.

I joined EBS in the summer of 2005 as finance director. Prior to this I had been with PwC for a little over 17 years. I was on the audit and advisory team of the firm and I was the partner responsible for leading the firm's banking, audit and advisory practice. I was privileged to have practically all the Irish banks amongst my client base, including the Central Bank of Ireland and Bank of Ireland. I was very happy in PwC. Nevertheless, having been courted by EBS, I was eventually convinced to leave, attracted by the opportunity of testing myself in industry and by the wider challenge of ongoing professionalisation of the society and, of course, championing mutuality.

I ultimately ended up spending only a little over three and a half years with EBS and yet this very short period crossed both the tail-end of a long boom period that this country had enjoyed and the beginnings of what I would describe as two devastating crashes: the first being the global liquidity crisis which triggered the second, being our own catastrophic banking and property market crash. During the short, three and a half year period, I served under and diligently worked alongside, in very challenging circumstances, three different chief executives. I was given a wider role than might be considered the norm for a traditional finance director and, broadly speaking, this role might be best characterised as, in effect, being more like that of a COO, a chief operating officer. For instance, finance, treasury, commercial lending, operations, IT, internal audit, investor relations and risk, amongst others, all came under my areas of responsibility. I would emphasise that each of these important areas had their own head of finance, head of function - all well very well qualified and experienced in their subject matter fields and clearly responsible for the day-to-day runnings of their functions and/or departments. I had a very loyal, hard-working and talented team and strong support throughout this period from both our head office and the network, which I was, and continue to be, very grateful for.

As you may know, I stepped down - and reluctantly so - in early 2009. This was voluntary, in that I agreed that, as a mutual, it was important to show accountability to our members and other stakeholders for what had transpired in EBS and, in addition to the chairman resigning, I was the obvious choice at executive level to accompany him at that time. Similar to others, I would have preferred to have stayed and helped but we felt that, on balance, the right thing was that I should exit along with the chairman.

Let me emphasise that EBS was different. I think it's a very, very important point to acknowledge. It was a member-owned, non-profit organisation. It was the last remaining true building society in Ireland. It was established for teachers, was strongly supported amongst the public sector - guards and nurses, amongst others - and its people, whether at branch level or at head office, root and branch had a DNA and a culture of being community based and member focused. It was not focused on profit. It was about people, it was about trying to serve members better through superior service, real trust and competitive pricing compared to the banks, and to be relevant. It was a very democratic organisation, with a diverse board and true member representation. It was an alternative to the commercially-driven banks. It had a good culture and spirit, but neither was it perfect. The fact pattern, whether it was well understood or not, EBS was fighting for survival and relevance, not only in 2009 or 2010 but also back in 2005 and, indeed, before that. Had it not competed in the market, EBS, as Ireland's last true building society, would have ended up gone like the 20 other building societies that this country once had.

Running down the balance sheet realistically was not an alternative, so EBS continued doing what the board collectively thought best to preserve mutuality. This meant defending its natural mortgage market share and growing its non-member businesses to aid the member business. This strategy of running both a member and a non-member business in parallel had been successfully deployed by others in the UK and various international studies have shown that having a mutual is good for the market as a whole. However, as we all know now, regardless, the society was lost.

Let me comment on some specific matters that I think would be of particular interest to the committee. Risk appetite: I want to bring some clarity on this topic and, in particular, commercial property and development lending by EBS. Quite a number of commentators have questioned why a building society would be in those markets at all. Firstly, just to emphasise that my understanding is that the building society legislation was explicitly changed to allow for this. The Oireachtas must have felt it appropriate and justified and it was against this backdrop that EBS first entered commercial lending in 1991, and not, I might emphasise, 2005. And I note that as part of its then approved board strategy, EBS embarked on development lending as a sub-strategy of commercial lending business in 2001 and, again, I would emphasise, not in 2005. The commercial business was circa €1.5 billion and the development lending book was circa €100 million by the time I joined in July 2005. From the information I've been able to glean in preparation for today, the development lending book, which was built up to circa €500 million by the end of 2008, gave rise to about €300 million of crystalised losses. For clarity of understanding, I'd like to highlight that whilst undoubtedly the development finance losses were shocking and a very severe blow to EBS, they did not bring about its demise. Rather, the facts clearly show that given the magnitude of the total capital ultimately needed for EBS, which was a multiple of this number, clearly a multitude of factors - which evolved over a very considerable length of time - lead to its business model failure and not just development and/or commercial lending. And I'll be happy to elaborate on this in questioning.

Whilst of little comfort, I would also note that risk management and best practices always evolve. And whilst EBS made mistakes - and, for example, the controls we put in place such as the 3% cap on development finance, were inadequate - by late 2007 and early 2008 we were actually ahead of the curve and this is evident by firstly two clear facts: we were the first to exit these businesses; and, secondly, our loan-loss provisioning at the end of 2008 was more realistic than the banks'. During my time with EBS, capital funding and liquidity were always key agenda items for the EBS board and the risk committees. There was good MIS and intelligence continuously available and there was definitely a sophistication and a depth in the society management team of these critical areas. For a small financial institution, we had the benefit of both a head of treasury and a head of capital markets, both with deep treasury experience, who, alongside risk, finance and strategy personnel, also had a strong appreciation of these important pillars of banking. Actions were taken continuously by the board of management to mitigate these risks, including widening and lengthening our funding programmes, improving our collateral position markedly over this period, investing in the infrastructure necessary to establish our covered bond bank - which, amongst other things, brought further emergency liquidity protection - and raising of PIBS, permanent interest-bearing shares, to improve capital ratios and lost absorption, etc. However, in truth, these were remedies which created breathing space for the *status quo* to be maintained, rather than being sufficiently, materially corrective. Consequently, when the crisis did arrive, EBS was, whilst relatively better placed than others, still poorly positioned to withstand the overwhelming stresses it brought.

In wrapping up, let me say a couple of things. Many hard-working people and families all over Ireland, through no fault of their own, were just trying to get on with normal life and do the right thing. They continue to suffer today from this global financial crisis. In truth, for them, certainly in the wrong place at the wrong time. This, in my view, arose in particular because of how, in Ireland, the property and banking market was allowed evolve here. And hindsight clearly shows us that Ireland's comparably greater systemic vulnerability in this disaster evolved unchecked by those who ought to have been able to genuinely make a difference or at least provide some meaningful shelter. EBS is not without fault but the hard truth, if you want my considered insight, is that successive Governments and the authorities, local and European, have much to answer for and more so than EBS. EBS was different - it was very much more of a casualty of this one-in-100-year crash than a cause. As the only real building society we had left, it fought a good fight. Yes, it failed but not for the want of trying. It was definitely not a root cause of this crisis locally, never mind internationally. Of course it made mistakes and we had failings and these are regretted. But EBS was essentially a small fish in a big pond in an even bigger world, where we were takers and not makers of how banking funding worked. Within that system, EBS was trying to make a positive difference. It didn't give up on mutuality. Maybe that was a mistake; maybe it wasn't. I hope this somewhat panoramic and very personal perspective is of help, Chairman, and I'm happy to take questions.

Chairman: Thank you very much, Mr. Merriman, for your opening comments this morning and if I can invite Senator Marc MacSharry, please, to begin questioning. Senator, you've 25 minutes.

Senator Marc MacSharry: Thanks very much, Chair, and thanks, Mr. Merriman, for coming into us and for your account there. Can you tell me what was your assessment of the liquidity and the solvency of the society on the night of the guarantee in September 2008?

Mr. Alan Merriman: I think at that particular point, I mean, clearly the market was under strain, EBS was having its challenges, but its own liquidity position was relatively well-positioned as a home lender with a very substantial residential book. We had a lot of collateral available to secure funding. And on the solvency side, well, clearly again, there were stresses and strains, the capital ratios were very strong at that particular point. So we were more concerned about the market as a whole as distinct to our own individual position at that point.

Senator Marc MacSharry: What was the dependency on wholesale funding at that time?

Mr. Alan Merriman: Well, broadly speaking, the society's funding came ... approximately one third came from the member base, which we'd describe as retail funding. Together with corporate deposits, about 50% of the entire balance sheet was supported by what would be referred to as customer deposits. So both retail members and corporates. The other 50%, broadly speaking, would have come from what one would loosely describe as the wholesale markets. That would have been a mix and a variety of different funding, both short-term and long-term.

Senator Marc MacSharry: Your society was covered as part of the bank guarantee but you didn't appear to be involved in any way in the final discussions with Government or the regulator. Can you tell us what input, if any, your society and you did in any of the discussions that took place at that time?

Mr. Alan Merriman: I, personally, had no involvement. I think the society practically had no involvement either. And I think that really reflects back to my opening comments to your first question, that at that point in time we weren't seen to be a major factor one way or the other.

Senator Marc MacSharry: And how did that manifest itself? Did you just get a call and say, “Look, we’re doing this and you’re in”, or, “Do you want to be in?” or-----

Mr. Alan Merriman: Yes, basically. I mean, quite literally got a phone call to say the guarantee had happened and, clearly, it was market-wide and, yes, that’s exactly how it happened.

Senator Marc MacSharry: And who rang who?

Mr. Alan Merriman: I ... my recollection is I certainly got a call from Kevin Cardiff confirming that this had happened, and it was as simple as that.

Senator Marc MacSharry: Was that early in the morning or 3 o’clock in the morning or-----

Mr. Alan Merriman: I can’t remember. I genuinely can’t remember.

Senator Marc MacSharry: Okay. We note that you wanted a five-year guarantee put in place. Can you outline your rationale and understanding with regard to that stance and did you make any recommendation externally and was there any response?

Mr. Alan Merriman: Again, I don’t recollect, myself, in terms of making any personal representations etc., etc. I know Fergus Murphy was here last week and he confirmed that five years is a particular idea he floated. I think the wider context would be that at that point in time, five years from, you know, a Fergus Murphy perspective was seen as being more prudent and more in sync with some other markets and would allow for a greater period of stability. And, as we’ve all seen, unfortunately, it’s taken quite some time for this market to adjust.

Senator Marc MacSharry: And would he ... who did he make this case to?

Mr. Alan Merriman: I don’t know.

Senator Marc MacSharry: You don’t ... would it have been Kevin Cardiff or-----

Mr. Alan Merriman: I don’t know.

Senator Marc MacSharry: -----was there any dialogue? You’re not aware of any dialogue at all?

Mr. Alan Merriman: Not directly.

Senator Marc MacSharry: To the Central Bank or-----

Mr. Alan Merriman: No.

Senator Marc MacSharry: Nobody. Okay. Was it your first to hear of it last week when you heard Mr.-----

Mr. Alan Merriman: Pardon?

Senator Marc MacSharry: Was it the first time you heard it when Mr. Murphy was-----

Mr. Alan Merriman: No, I mean, look, clearly there was, you know, ongoing discussions on a continuous basis about what was happening in the marketplace. I, personally, would have attended quite a lot of meetings down in the Central Bank and the regulator discussing what was happening in the markets, discussing the strains, sharing intelligence, etc., etc. So, clearly, this was all done very much in a context and, clearly, there was sense in the markets - all the treasury departments would be very well interconnected - that there was a real strain. So was it a shock when we heard what had happened and the proposed solution? No, it wasn't a shock, but it wasn't something that we were party to in any central way.

Senator Marc MacSharry: Can you tell us about the ... you said you had multiple meetings, kind of, down in the Central Bank with the regulator and others to discuss strains and other issues to do with the market. Was there ... what was the frequency of these meetings? Was there a standard, kind of, weekly meeting, monthly meeting?

Mr. Alan Merriman: No, I'd say I ... my recollection of them is that they were *ad hoc*. They did, clearly, pick up in frequency. They were at the very highest of levels, so personally I would have been meeting with John Hurley and with Pat Neary and with Tony Grimes. And they would have been sharing with us their perspective on what was happening in the market and they would have been clearly, you know, looking for our intelligence in terms of - from the flows we were seeing - what was going on in EBS and our read of the markets at that point in time.

Senator Marc MacSharry: So before there was any strains or any issues that are identifiable, with the benefit of hindsight, could you tell us that ... when would you say the situation changed? That *ad hoc* became to be frequent or that the circumstances were demanding, that there was-----

Mr. Alan Merriman: Again, I won't have great recall but it would be most definitely in the second half of 2008 would be my guess from all I know.

Senator Marc MacSharry: And were those meetings at your request or was-----

Mr. Alan Merriman: No, they would have been ... the vast majority would have been at the Central Bank's request.

Chairman: We're getting some phone interference there now.

Senator Marc MacSharry: Sorry. And was it ... was it typical that the regulator and the Central Bank wouldn't ... even before the crisis when there would be other, kind of, meetings scheduled once a year or whenever that may be, was it normal that the regulator and the Central Bank team of Hurley and Grimes would meet you together?

Mr. Alan Merriman: No, absolutely not. I mean, this was extraordinary times and we were meeting very much in that context and that was absolutely understood at that point in time. These were not routine meetings, these were meetings in the context of, you know, what was happening in the marketplace, real concern in the Central Bank, real concern across individual banks in terms of what was happening and how this was going to be worked through. So these were extraordinary times.

Senator Marc MacSharry: I'm just trying to get a picture of what was routine and what wouldn't have been routine. So let's go back to the routine meetings pre-crisis.

Mr. Alan Merriman: Well-----

Senator Marc MacSharry: How would they ... what way would they manifest themselves? Would it be-----

Mr. Alan Merriman: Well, it would depend on the perspective. I mean, I never met - and I was the finance director - I never would have met with John Hurley until this time.

Senator Marc MacSharry: And would you have met with Tony Grimes and Pat Neary?

Mr. Alan Merriman: Would have met them in different contexts. So, EBS would have been quite good at what I'd call being proactive and sharing with the regulator our strategy. So there definitely would have been, I would guess, at least annual meetings, where we would've updated on, you know, "Here's how the performance was this year. Here's where we've made progress. Here's what the strategy is. Here's what our challenges are." So those type of meetings certainly did happen in normal times as well as in stressed times. Discussions with a Pat Neary or a Con Horan would have happened on, I don't know, maybe on a twice-yearly basis there might be meetings where, again, at a strategic level, observations would be exchanged, etc.

Senator Marc MacSharry: But certainly not the top brass that you say ... Mr. Hurley and everybody was there together in the one-----

Mr. Alan Merriman: As I said it was extraordinary times and it was very much in that context.

Senator Marc MacSharry: And these meetings started in and around, to the best of your recollection, the second half of 2008?

Mr. Alan Merriman: Yes. And I could be ... I mean, the record might show that it was earlier but that's my recollection.

Senator Marc MacSharry: Oh, yes, we're only looking for your recollection. That's fine. And did you have a sense that they were acting together?

Mr. Alan Merriman: Yes.

Senator Marc MacSharry: And they were on the same page, to your mind?

Mr. Alan Merriman: Broadly. I mean, they were meeting together, they were hearing us out together, they were sharing their input to us together. I'd no reason to believe otherwise.

Senator Marc MacSharry: At any of these meetings that you were involved with, was it ever, kind of, thrown out there by Mr. Hurley or Mr. Grimes or others that "Look, you know, we're thinking out loud here. What do you think? Do we need a guarantee, do we not need a guarantee?", was there any sense of any of that?

Mr. Alan Merriman: My recollection is ... guarantee wasn't discussed. That's my recollection. My recollection was that the meetings were more about what I would call the ebbs and flows of liquidity in the market, concerns around how this was going to be resolved, concerns about ECB. And it did clearly progress to EBS's position itself and what solutions there might be for EBS from a more M and A-type perspective.

Senator Marc MacSharry: Okay. And just as a result of these ongoing meetings that were going on over that six-month period, can you identify any specific tangibles that either ... that the Central Bank and regulator, acting together, prescribed for you to take, suggested you should take or that they suggested they themselves to try and mitigate against the difficulties of tightening liquidity positions?

Mr. Alan Merriman: Well, look, it was ... again, I would, my recollection is; nothing was prescribed. They were clearly very interested in what we were doing ourselves to resolve strains and, and find ... additional means of getting collateral and access to funding, so there was intense interest in that. And when it came to the latter stages and what was going to happen to EBS and the realisation that EBS was very unlikely to be able to stay stand-alone, we would have been, I'd say, encouraged is the word I would use, to go and talk to particular banks about EBS potentially becoming part of those banks.

Senator Marc MacSharry: Yes. So, really it was just a marking, a market kind of reporting set of meetings that was going on, as opposed to-----

Mr. Alan Merriman: Yes, I ... I, you know, I would probably use it as, you know, loosely intelligence exchange. It was, you know, the Central Bank, I think would have articulated it as being ... it was helpful to them to hear from those at the coalface what we were seeing and what our experiences were in terms of what was happening in the market, to reconcile that to, I guess, what was their more overarching perspective.

Senator Marc MacSharry: Was there any sense that, that ... or any discussion around that, that the liquidity difficulties could become solvency difficulties or anything like that?

Mr. Alan Merriman: No.

Senator Marc MacSharry: So, very much then, just if I was summarising and you can correct me if I'm wrong, that the ... they used you, in your own words, as an ... as an intelligence-gathering exercise and weren't prescribing or suggesting actions that should be taken in order to ease your liquidity difficulties?

Mr. Alan Merriman: No, look, I think that's unfair. I think it was clear ... clearly intelligence-gathering. I think they clearly were very interested in what we were doing on the ground to remedy what was, you know, a very serious situation. I ... they weren't prescribing particular actions that we should be taking but I think it would be unfair to categorise it as simply intelligence-gathering.

Senator Marc MacSharry: Okay. No. It's just ... and that's fine. What I just want to see is, you know, did the ... did the Central Bank and the regulator have a proactive hand in saying, "Look, you need to try this, you need to do that, you need to do the other" or were they saying, "Thanks for that, thanks for coming in. We appreciate you giving us the information and steady as you go, you're doing a good job"?

Mr. Alan Merriman: It ... it ... it was ... it was more the aggregate.

Senator Marc MacSharry: It was more the?

Mr. Alan Merriman: The aggregate. It was ... it was both-----

Senator Marc MacSharry: It was a little bit of both? But again ... so, just to ... just to ... sorry to be repetitive now, but, just to ask again, what kinds of actions were they recommending that you take?

Mr. Alan Merriman: As I said, there were no explicit actions. There was no, "Alan, Fergus, go out and raise €500 million in the French commercial property market or in the French CP market."

Senator Marc MacSharry: Okay. So, and again, I'm just going to finish on this, this train now in a second but, so ... you would be telling them perhaps, or would you, "We're getting some of our funding from X but it's getting more expensive, or it's more difficult to get anything from Y." Was that the kind of thing that was going on?

Mr. Alan Merriman: Yes. It was ...we ... "Look, we have €200 million of local authority money from the UK maturing in two weeks' time, we're in daily interaction with those local authorities to ensure that we can retain those moneys or here's what we've got in terms of feedback, in terms of €50 million of the €200 million, is definitely going to be withdrawn. We're on our programme of our covered bank, we're four weeks away from having it fully implemented, at that stage that will accommodate another €2 billion of funding that can be tapped with the ECB, which we'll have by way of emergency cover." So it was very much that type of meeting.

Senator Marc MacSharry: You spoke about the ... being encouraged towards the end to, to speak to other banks when it was clear that you weren't going, going to continue as stand-alone ... you, in your statement, said that you were a minority of one in ... in promoting, let's say, the ... the merger with AIB. When ... when was AIB first, you know, when did that merger option first develop?

Mr. Alan Merriman: Okay, there are two different chapters here. So, what we've just been talking about was clearly at the, you know, early stages of what was then the crisis and the discussion with the Central Bank and the regulator were very much in that context where ... clear EBS was very unlikely to remain stand-alone and was going to need to end up in a bigger bank.

Senator Marc MacSharry: Yes.

Mr. Alan Merriman: In my witness statement, the reference to the AIB merger is at a much earlier point in time, it's December 2006-January 2007, and that was internal to the EBS board at that point in time.

Senator Marc MacSharry: So, yes, thanks for that clarification. So ... did, did AIB make an approach or ... or-----

Mr. Alan Merriman: Yes.

Senator Marc MacSharry: Okay. And-----

Mr. Alan Merriman: So AIB, just to, you know, give you a very quick summary, AIB were very keen to merge, acquire EBS. Eugene Sheehy made the approach to Ted McGovern. It was a very clear approach. The type of conditions they were prepared to sign up to were to make it more attractive to the EBS board to agree to that deal. And I, personally, at the time - despite having joined EBS for a number of reasons including believing in mutuality - I at that time had a personal view that I felt it was the better option for EBS at that point and would have advocated to both the chief executive and the chairman that we should proceed on that basis.

Senator Marc MacSharry: And why did you feel that that was better? Was there-----

Mr. Alan Merriman: Look, I'd been in EBS for about a year and a half at that stage. I could see many challenges. The society was always very well-intentioned, it had very good people, it was doing well in certain areas. But, big picture: it had a capital issue and it had a funding challenge. They weren't day-to-day challenges but it was pretty clear that in the longer term there was a sustainability question.

Senator Marc MacSharry: So-----

Mr. Alan Merriman: So I felt that, given the pressures the society was under - particularly because of the mortgage market and the razor thin margins that were available at that point in time - that the ability for EBS to generate its own capital was very, very tight. And given what was going on in the market, that it was much more likely than not, that EBS wasn't going to be able to sustain itself, and therefore an exit at that point in time would be prudent and sensible.

Senator Marc MacSharry: So was it your concern, in that sense, driven by a reducing market share?

Mr. Alan Merriman: Not so much what I'd call a reducing market share but the substance of it was that because margins were so tight the society was generating very little capital, and without capital you can't lend out to your members. If you can't lend out to your members what are you in a member business for?

Senator Marc MacSharry: So there was obviously intense competition, there was other banks in, there was, you know, prices were going down, as you said margins were razor thin so, you know, was there a sense that other people were eating your lunch?

Mr. Alan Merriman: I mean it was black and white, and black and white from two different contexts. Again, you will know well, but if I paint the broader scene, if we go back quite some time, if you wanted a mortgage in Ireland, building societies were the traditional place you would go to get a mortgage - the banks weren't interested. Times clearly changed. You had the Irish banks coming into the mortgage market and competing very aggressively and it became a core part of their business. And then, over and above that, you had the foreign banks came in ... encouraged to come into the market because at the time before their arrival there was a concern about oligopolies and cartels and pricing and competition. So the foreign banks came in and they were incredibly aggressive at two levels. You had certain banks like Danske Bank who targeted the refinance market, very low LTVs, but, effectively, practically no margin. And you had the likes of Ulster Bank who very aggressively went after the first-time buyer market. So EBS as a traditional building society, having in an environment where it was one of the few players in a normal mortgage market, now found itself in a market where both ends were being very aggressively competed for.

Senator Marc MacSharry: Did you feel at the time that you were ahead of the curve and that you could see the demise of the society that nobody else could?

Mr. Alan Merriman: Look I wouldn't, you know ... banks, building societies, financial institutions, very complex - nobody has a monopoly on wisdom. I definitely had a concern about the long-term sustainability of the society from a capital perspective and a funding perspective. I had a concern later, mid '07, about market and house prices and so forth, but nowhere near to what ultimately transpired. But capital and funding at an earlier date, yes I had concerns.

Senator Marc MacSharry: So, as the situation developed, did Eugene Sheehy's approach to Ted in December '06 you said, did the approach, you know, was it a kind of an Aer Lingus situation? Was the approach continuous for a year or-----

Mr. Alan Merriman: No, no------

Senator Marc MacSharry: -----more, or was it a one-off turn down and that was it?

Mr. Alan Merriman: -----it was pretty much a one-off. I mean, they came ... he came, he met with Ted, he sent a formal letter outlining what they were prepared to do. It was definitely discussed amongst the management team initially. It was discussed directly with the chairman of the time and as I said, I made clear to the management team and the chief executive and the chairman, that I personally - and it was a very unpopular position to take - that I really felt that EBS should be seriously engaging on this and looking to sell, for the reasons that I've explained.

Senator Marc MacSharry: Okay, and that would have meant demutualising, all that kind of stuff-----

Mr. Alan Merriman: Yes, and clearly that would have been very much against the grain-----

Senator Marc MacSharry: An EGM to ... of the members to-----

Mr. Alan Merriman: And change in legislation, so this was a very, very big deal. And again I go back to the board, the majority board, very strongly of the view that, "No, look, Alan, let's be clear, we're a mutual, we're here to preserve mutuality, we've a more optimistic view of this market and how we're going to do this than you, and no, look, we're sticking to what is our roots".

Senator Marc MacSharry: In terms of the retail end of the banking, had you have much involvement in that, in terms of sales, product, product target development, and things like that?

Mr. Alan Merriman: No, not at a granular level. Clearly, I was on the board, clearly, I'm the finance director, so I, I clearly have a good overview, but not at a granular level.

Senator Marc MacSharry: A lot of the senior management and board executives from the other institutions have been in, and we've been asking them about that, about, you know, to what extent were staff, and I suppose, as you said, the granular level, the manager, the branch level, to what extent were they driven by targets, and, I suppose, demands from above, to sell more and lend more. Do you feel ... all of them said, "No," by the way; all of them said, "Not at all; we expect people to come to work and do their job and there's no targets at all". I'm sure we all have views on that. But can I get your view on that? Were there targets? Was there a competitive environment where staff were expected to cross-sell their products, to take every opportunity and to drive things on?

Mr. Alan Merriman: Well, look, let me answer it in two ways. Let me give you just what I might call a very layman explanation within EBS. EBS had a branch network. Within that network it was made up of both what I'd call branches where the management was employees of EBS, and I had tied branch agents where, effectively, the branch manager was running his own business as an entrepreneur. That was a relatively unique model to EBS in the Irish market. If you're a TBA and you're running your own branch, you don't need head office to be giving you additional incentives.

Senator Marc MacSharry: Okay. But, I mean, was that the culture? I mean, were-----

Mr. Alan Merriman: The culture of any normal SME businessman, businesswoman, if they're running their business, they want to make it as efficient and as lean and as profitable, within reason, and that's how those TBAs managed their businesses. They managed it in a context. The controls were there. All credit underwriting was centralised. No branch manager, no person at the front, could write a loan. It had to be underwritten at head office level. But did a branch manager have an incentive to develop business, to do business development?

Absolutely.

Senator Marc MacSharry: And then they, in turn, would motivate the front-line staff.

Mr. Alan Merriman: As any normal business would do.

Senator Marc MacSharry: You said there "to be profitable within reason". Can you ever recall an incident where at board it would have been said, "Well, look we have enough profit there now"?

Mr. Alan Merriman: No, and, again, I'll very clearly explain that. EBS, as I said, while it wasn't profit-orientated, EBS needed capital. Without capital, you can't have a building society, you can't have a bank. So EBS had to generate capital. Where does capital come for ... come from? Well, for a building society, it can only come from retained profits, broadly speaking. So, you know, this is somewhat of a contradiction, focus not on profit, but without profit, you can't have capital, and without capital, you can't have lending. So EBS wouldn't have had a scenario where it had enough capital, where I'm sharing with you, as a finance director, that as early as 2006, 2007, my view, well-known around the board, and ... sorry, not just my own personal view, treasury, strategy, finance people would have had the same view ... we didn't have enough capital, we wanted to be improving our capital.

Chairman: Final question there, Senator.

Senator Marc MacSharry: Thanks. Just to take advantage of your career before EBS, if possible, and we've had much discussion here about the international accountancy standards, in particular, is it IAS 39?

Mr. Alan Merriman: Yes.

Senator Marc MacSharry: Given your expertise in auditing, and, specifically on the banking side of that, with the benefit of hindsight, was this standard inadequate to the point where it just subverted the ability of financial institutions to plan for the future?

Mr. Alan Merriman: No, it's a complete red herring and let me explain. And I think Dargan Fitzgerald from E and Y put it very well. I'll actually read out what he said and then I'll-----

Senator Marc MacSharry: Okay.

Mr. Alan Merriman: -----elaborate on it. He said:

> I don't think the financial reporting of the losses was linked to the presence of the underlying causes of the crisis [He's clearly absolutely right]. The losses reported, whether in any particular period, are a consequence of the factors that caused the crisis, they didn't cause the crisis and I think that's a very important point.

So let me just put it very simply. IAS 39 was about how much loan loss provision you could recognise on your balance sheet or in your profit and loss account. It is has no impact on, "Do you have a bad loan or do you not have a bad loan?" The bad loans were written. They were there regardless of what the accounting standard would say. If management in any bank or any building society felt that the loan loss provisions under IAS were shy or weren't appropriate, it was open to management to share that through voluntary disclosure or other data. So, tables giving statistics on loan defaults, tables giving insights about future expected losses, they were all open to banks, regulators, everybody, to try and get that type of information. IAS is a red herring.

Chairman: Thank you very much, Mr. Merriman. Thanks, Senator.

Senator Marc MacSharry: Very good, thank you.

Chairman: Thank you, Senator. Deputy Murphy. Twenty-five minutes.

Deputy Eoghan Murphy: Thank you, Chairman and thank you, Mr. Merriman. You're very welcome. Just to pick up on that point ... just very briefly. I mean, the accounting standards didn't cause the crisis but did they hide the crisis?

Mr. Alan Merriman: No.

Deputy Eoghan Murphy: No.

Mr. Alan Merriman: Absolutely not and let's think about it. How did they hide the crisis?

Deputy Eoghan Murphy: In terms of not being able to look to the future and the potential losses-----

Mr. Alan Merriman: Sorry ... any ... let me be clear. We can all look to the future. This accounting standard over here that says, "You must do it this way, you must do that way in your books", that doesn't stop me as a manager being able to say, "Okay, I understand the accounting standard but this is the reality of what I'm dealing with, Mr. Regulator, or this is the reality of what I'm dealing with, Mr. Rating Agency, or this is the reality I'm dealing with, so I'm going to roll up my sleeves and hire a whole load of people who are going to help with credit recovery." The accounting standards are a complete red herring. Yes, they were unhelpful and, yes, there might have been a lag before the losses came through, and yes, that might have helped banks think they'd a better capital position than maybe they had. But it's a red herring-----

Deputy Eoghan Murphy: Okay. Thank you.

Mr. Alan Merriman: -----an inadequate accounting standard but not really any material impact on what's come about.

Deputy Eoghan Murphy: Okay, and the fact that the Spanish banks decided to allow for cross-cyclical provisioning in their own system-----

Mr. Alan Merriman: I think that's very sensible and I've made that point in my witness statement about, you know, there were lots of other avenues. The regulator could have come along, just by way of example, and said, "Do you know what? We understand the accounting standard. We don't like it", and they didn't like it and I think that, to be fair to them, they made that very clear back then, never mind since. But they could have come along and said, "Despite the accounting standard, what we're going to do is we're going to require you, the Irish banks, to have an additional capital buffer", and force us to take capital in that, as you say, in that, kind of, anti-cycle perspective.

Deputy Eoghan Murphy: But you had a battle with the board about what you were reporting, didn't you, at one point?

Mr. Alan Merriman: Yes and again that ... again to make the distinction from what was that battle about. That battle and battle is harsh ... it was a very tricky time. The facts kept on changing; the crisis kept on getting deeper, so we were struggling with what is the right number to put in the accounts and that was back to accounting. You had to come up with the number to put in the accounts.

Deputy Eoghan Murphy: Yes. But just you go on about it in length from pages 6 to 7 in your opening statement about ... and you specifically say that you didn't come under any ... or the only time you ever came under any real pressure or challenge on accounts in 2009, when reporting on the 2008 results-----

Mr. Alan Merriman: Yes.

Deputy Eoghan Murphy: -----and there was no difference of opinion between yourself and E and Y with your provisioning but the Central Bank and the regulator did have a problem, though, "that the provisioning might cause wider difficulties for the other banks and we were cautioned at the highest of levels to be very sure that what we provided was really needed". So there's a difference of interpretation there in terms of the presentation of the numbers?

Mr. Alan Merriman: No, I think they're two different matters and, again, let me explain my understanding of what was going on with the regulator and with the Central Bank. So, EBS come down and we share ... we're going to have our accounts, these are our provisioning levels and we're sharing with the market, not only these provisioning levels, but we're sharing with the market our expectations that there's going to be greater loan losses to come. We can't put them in our accounts but we're telling the market that we believe the loan losses will be higher-----

Deputy Eoghan Murphy: Yes. On that point, other banks weren't doing that at the time.

Mr. Alan Merriman: I can't speak for other banks.

Deputy Eoghan Murphy: Okay.

Mr. Alan Merriman: But we were being very appropriate in sharing, not only what we were providing, but letting everybody know we expected bigger losses to come that we couldn't provide for. The Central Bank, as I interpret it, their perspective .... and remember, I was only having to deal with EBS. The Central Bank has a much wider responsibility. So there's the Central Bank say, "Okay, here's little EBS coming along" and they're saying, "God, look, all these problems in development finance. Shit, what's the market going to read into that? Will they read across from that into the other banks? The other banks haven't being telling us that they got this extent of a problem. This could actually be another escalation in the Irish crisis. Now, Alan, and I'm just being clear, Alan, just be very sure you need those provisions because this could cause wider difficulty." That's the context.

Deputy Eoghan Murphy: But do you think that was unhelpful interference by them?

Mr. Alan Merriman: No, I don't think it was unhelpful-----

Deputy Eoghan Murphy: You were trying to more prudent and more honest, is that correct?

Mr. Alan Merriman: Look, I would choose different words. I had a responsibility as the finance director to call it as I saw it within the rules. I had a responsibility to our members and our stakeholders to give as a true an account as I could of what we understood at that point in time. The Central Bank has a different remit. It has a much wider responsibility and part of their responsibility was making sure that we were taking due and proper care. So I would put it in that context. But I answered the question you asked of me in coming here about the integrity of the accounts and I'm just being very clear. We had debate at board levels, we had uncertainty at board level about what was the right number from a provision perspective but I never came under pressure from the board around the integrity of the accounts.

Deputy Eoghan Murphy: And just to clarify, you were able to call it as you saw it?

Mr. Alan Merriman: Absolutely, and we did.

Deputy Eoghan Murphy: Okay. Thank you.

Mr. Alan Merriman: And, as I explained, the reality is that in due course the provisions that were needed were far greater than we even thought at that point in time.

Deputy Eoghan Murphy: I just want to back to the time, just prior to your arrival with the society, and if we can go the evidence book at Vol. 1, page 95, and it's a board meeting in 2002 and I just want to ... this is where they discuss at length for the whole board meeting commercial property and also the risks around development finance and the moves that the board's making at the time.

Chairman: What period is that, Deputy?

Deputy Eoghan Murphy: It's 2002.

Chairman: 2002.

Deputy Eoghan Murphy: So just to clarify ... when did the EBS see it as strategically important or appropriate for them to enter the commercial lending market? You say 1991?

Mr. Alan Merriman: My understanding is they entered it in 1991-1992.

Deputy Eoghan Murphy: Okay, and here, in 2002, we see them talking about making a play into development finance in a particular way. If you see it in front of you on the screen.

Mr. Alan Merriman: Yes, okay, yes.

Deputy Eoghan Murphy: So what I want to understand is-----

Mr. Alan Merriman: I mean, before my time but yes, I see it.

Deputy Eoghan Murphy: Yes, but when you arrived in 2005, was this now settled policy for the society?

Mr. Alan Merriman: Absolutely, and again, just to give ... I might have some numbers here but just to give a context. Look, I can't find it. Broadly speaking, I think, by 2002 the commercial lending book was in the order of €800 million; by 2005 it was €1.5 billion; development finance lending was clearly, for us, done around this point in time, you can see it from the records here yourself. So, this was a clearly an embedded strategy within EBS, well before I arrived.

Deputy Eoghan Murphy: Yes. So, there it outlines two approaches for development finance. Go for broke or the toe in the water.

Mr. Alan Merriman: Yes.

Deputy Eoghan Murphy: And the toe-in-water approach is the favoured one. So when you arrived in 2005, would you still describe its involvement with development finance as toe in the water as it moved on from there?

Mr. Alan Merriman: No, I think, you know ... and, I mean, they're very colourful phrases that are being used. I would say that, you know, in terms of moving from 2001, 2002 to 2005, they had clearly gone from what I'd call "zero" to where they had a book in the order of €100 million. So, I don't think I could describe the book of €100 million, even in the context of an EBS as being "a toe in the water".

Deputy Eoghan Murphy: One hundred million in 2005 and then, I think you said, €500 million in 2008.

Mr. Alan Merriman: Yes.

Deputy Eoghan Murphy: Okay.

Mr. Alan Merriman: Back end of 2008.

Deputy Eoghan Murphy: Right. Just if we move on then to pages ... to the last page of that board report, page 97. I just want to look at the last paragraph, if I may ... let's see if it's on your screen. It's the last page of the ... so it's page 97.

Mr. Alan Merriman: Yes. Sorry, I'm just unclear. The 2005 strategic delivery process-----

Deputy Eoghan Murphy: No, no, it's sorry it's not up on the screen yet. It's ... I'll just get some more time as well, Chair, as a result. Thanks. I'm going to ... it's going to come up. I'm going to-----

Mr. Alan Merriman: Okay.

Deputy Eoghan Murphy: -----read out the paragraph I'm interested in:

> It was suggested that, with a view to widening the base of Commercial Property customers, a greater level of business networking would be needed in the future; in this respect, Brian Healy will contact individual Board members to establish whether they have contacts who may be a source of additional business.

So, tell me a bit about that. What does that mean and was that practice still going on when you appeared in 2005 in the society and did you see it as appropriate for the society to be using its board members in that way?

Mr. Alan Merriman: What, what's the date of that?

Deputy Eoghan Murphy: This is the same board meeting in 2002.

Mr. Alan Merriman: All right, okay. No, look, I'm not ... I'm not ... well, let me answer the question in two ways. One, I'm not explicitly aware of the board being used by commercial lending in what I might call a develop ... in a business development capacity. So I'm not familiar with that. But to answer your earlier question, do I see it as appropriate? Look, I think in, you know, what is the duty of a director? The duty of a director is, you know, a multitude of things but clearly it's for ... to act in the benefit of the society, of the company. So using a non-executive or any other director as a means as an introduction, I think is acceptable.

Deputy Eoghan Murphy: Okay. You think it was acceptable for the society to make that proactive approach to people to offer them commercial terms-----

Mr. Alan Merriman: No, no, again, let's be careful with wordings. I think it's appropriate for a non-executive or a director to make an introduction to a potential customer, whether it's a retail customer or whether it's a commercial customer. That is very different from saying do I think it's appropriate to go to somebody and say, "I've a bag of money here do you want to take it away and do something with it?" They are two very, very different things-----

Deputy Eoghan Murphy: And you see a distinction between the two?

Mr. Alan Merriman: Of course I do.

Deputy Eoghan Murphy: Okay. And when you arrived in 2005, were those types of conversations happening-----

Mr. Alan Merriman: No.

Deputy Eoghan Murphy: -----still on the board? No. Okay, thanks. Well if we can move on in the same evidence booklet please to page ... it's pages 99 through to 100, 101 and this is the commercial business plan from September 2005. You were in the society at this point in time?

Mr. Alan Merriman: Yes.

Deputy Eoghan Murphy: Were you responsible for developing or preparing this paper?

Mr. Alan Merriman: I'll need to see the paper.

Deputy Eoghan Murphy: Yes. 99 is the first page of the report and then it goes into detail and 100 and 101 from there on. That's the first ... yes, sorry, the first page is here just in front of you.

Mr. Alan Merriman: Okay so-----

Deputy Eoghan Murphy: And then it continues on.

Mr. Alan Merriman: -----again just for ... so, if I'm looking at ... is this the right one in front of me now?

Deputy Eoghan Murphy: Yes, yes.

Mr. Alan Merriman: Yes, so, you know, again, it's an important distinction, I think, in terms of your question. This plan would have been developed and prepared by the then head of commercial lending. So it wouldn't have been my plan if I can put it that way but clearly, as the person ultimately responsible for commercial lending and being a board director, clearly I would have been party to approving this plan and was comfortable with it at that time.

Deputy Eoghan Murphy: You were comfortable with the plan.

Mr. Alan Merriman: I was.

Deputy Eoghan Murphy: Okay. I mean it notes that commercial is an area that has more than tripled in scale to about €1.6 billion of the loan book. But the problem as it outlines in 2005 is that the lenders are lower risk, meaning good asset quality but low margins so the desire then is to go for higher-risk businesses. Now when Fergus Murphy was before us, he said on page 61 that ... of the transcript, that "the society entered into [the] marketplace [late and] at times [it] tended to do business ... with secondary ... developers and ... investors" in secondary locations and that the society wasn't "getting the better business, maybe none of the business was good".

Mr. Alan Merriman: You know, look, I ... and I think Fergus said this himself that, you know, because we were exiting the commercial business shortly after he joined, he wouldn't have had what I might call as granular an understanding of the commercial business as perhaps Brian Healy would have had or, indeed, myself. I mean I'll be very clear that ... and let me explain. First of all, the low risk versus high risk. The commercial business EBS had at that point in time wasn't generating a sufficiently attractive return for the risk that was there. And what I mean by that is that if you have a limited amount of funding to allocate, if you are going to allocate it to a non-member business, so it's not going to your members - you are taking it away from your members to give it somewhere else - you have to ensure you are getting an adequate return. So that was the motivation for looking to move the needle on the risk curve. Fergus's comment, I would say to you very clearly: commercial was built up from 1991. I would say that if you look at the analysis when it was done on the development of ... the development of finance book of €500 million, 70% of that business was done to established developers and builders. So I am clearly and again, just bear in mind the context here ... the total book is €500 million. So, the maximum loan we might have had, and, again, I am not going to remember the exact numbers, but broadly speaking, I think, it would have been €50 million. If you could lend at most €50 million to a single relationship, EBS wasn't going to be in a position that it was going to be banking the Glass Bottle site or Ballsbridge. So clearly, by definition, we were lending our money out in the areas that could accommodate that type of lending.

Deputy Eoghan Murphy: So was Fergus Murphy wrong then, in that they ... none of the business was good? They weren't getting the better business, none of the business was good?

Mr. Alan Merriman: No, look, I think, you know, the way I'd articulate and it's the fairest way I can possibly do it is that, yes, EBS was later into development finance than others. Yes, it was competing in a very, very tough market place. Yes, it was having to establish and build relationships. Therefore, you wouldn't ordinarily expect to have the business that would be the best business - for obvious reasons. Developers themselves want to build relationships, they want to have the confidence that somebody is going to be able to bank them etc., etc. However, having said all of that, so it was a tough environment for EBS to build up that business but it was mandated to do it. It was a strategy to do it. Now, best way of being objective in terms of answering your question, let's talk about the discounts that were applied to the books across all the banks that went into NAMA and the subsequent deleveraging that was done. Fergus himself explained that the EBS discount was, I think, 57%. Big picture, that's within the goalposts of the other banks. So objectively, it wasn't any ... it wasn't much worse than others-----

Deputy Eoghan Murphy: As worse-----

Mr. Alan Merriman: Well, it wasn't 61% or 62% or 63%. But, equally, in EBS's case, the other banks only transferred loans that were greater than €5 million. There was a special case for EBS. The entire books were transferred. So you are not comparing apples with apples. And if you look at the €2.5 billion that Fergus himself testified about; where he talked about that they had to deleverage €2.5 billion and it ended up with a write-off of, I think he said, €500 million. The aggregate discount of those two taken together is less than 30%. So I would say that objectively, the facts demonstrate that the EBS business wasn't any worse than what was being done in the market.

Deputy Eoghan Murphy: Okay. Let's just look at this strategy paper because there's four alternatives for going forward as they presented. You've got "Hold", "Lean and Mean", "Step Up" and "Rocket". So which strategy did you support?

Mr. Alan Merriman: Again, I don't have it on screen.

Deputy Eoghan Murphy: Sorry, it's page 101 of Vol. 1. It's also in your first booklet, the first green booklet, Vol. 1. It might be handier.

Mr. Alan Merriman: What page?

Deputy Eoghan Murphy: 101.

Mr. Alan Merriman: The "Step Up" strategy.

Deputy Eoghan Murphy: Yes, is that the one that you supported as well? I mean, was there unanimous support for "Step Up" or were there different points of view?

Mr. Alan Merriman: I don't recollect the contrary view and you know, certainly I was comfortable with the "Step Up" strategy.

Deputy Eoghan Murphy: Okay. The "Step Up" strategy allows for it to evolve into any of the other alternatives as circumstances allow. Did it?

Mr. Alan Merriman: It did and well, sorry, no it didn't to be more accurate. Clearly, and I think ...look, you draw out an important point that even then there was a recognition of let's see how this progresses. Let's see what is the obvious ... this was a interim step, let's put it that way. The strategy did change but the strategy was the exit strategy rather than a protracting strategy or a further acceleration. It was an exit strategy in due course.

Deputy Eoghan Murphy: Exit strategy. And when did that change to an exit strategy? After-----

Mr. Alan Merriman: I think you have ... I'm sorry, I know you have statistics that shows actually the second half of 2007, the advances being lent out in commercial and in development were tapered down and we exited completely in the first half of 2008.

Deputy Eoghan Murphy: 2008, first half.

Mr. Alan Merriman: So second half of '07 and the first half of '08.

Deputy Eoghan Murphy: Can I move on, if I may, to ... it's page 110 in Vol. 1 and it's a board meeting in February 2009. Your candidacy for re-election to the board is evaluated and the minutes state that you "would not be invited to stand for election as director for a second term" in the interest of the society. Can you just expand on that for us, please?

Mr. Alan Merriman: Yes, look, I think the ... again, the broader perspective or context here is that we were just about to report our results. It was the first year that EBS was going to be reporting losses. Clearly, it was very evident that the development finance book in particular was causing significant damage. We had an AGM that was coming up in April and there was a very strong view amongst the board that as a mutual it was absolutely appropriate that we should be showing accountability. The chairman was going to resign and we felt that it wasn't fair, if I can put it that way, that solely a non-executive would bear responsibility. We didn't think it made sense for wider board changes. We thought the chairman going was a clear indication of and acknowledgement of the mistakes that were made. But we also felt that an executive should go as well. This led up to that but this is more of a nuance because this is solely dealing with the board. And Bank of Ireland adopted the same approach. Their executive directors were not put up for re-election to their board but they stayed in their current positions.

Deputy Eoghan Murphy: Was it a voluntary departure then?

Mr. Alan Merriman: Yes, no, it was ... and I made this clear in my opening statement again today, I personally would have preferred to stay. You've heard Richie Boucher from Bank of Ireland talk about that's what he wanted to do and he was allowed do that. There's a natural desire to stay when one is in trouble and sort things out. But the wider context - and I was part of the board and I very much agreed with this - we were a mutual, mistakes had been made, we wanted to be different, we believed we were different and we wanted to demonstrate that. So it was absolutely part of the EBS to show accountability. And I was definitely the right person to go at executive level.

Deputy Eoghan Murphy: Okay, but just to come back to what's in your opening statement and some of your earlier conversation about this constant battle, maybe, that you were having with the board over the future direction of the society and the risks it was facing. And there seemed to be disagreement there.

Mr. Alan Merriman: No, again, look, I, you know-----

Deputy Eoghan Murphy: I mean, does that play into this decision?

Mr. Alan Merriman: Battle is ... "battle" is the wrong word.

Deputy Eoghan Murphy: Battle ... okay, I beg your pardon.

Mr. Alan Merriman: I was very clear that I had my concerns about the long-term sustainability - for the reasons I shared earlier - of capital and funding.

Deputy Eoghan Murphy: Okay.

Mr. Alan Merriman: That was ... that was '06-'07. The board came up with a very considered view. It went through the detailed analysis and it came up with a very considered view, "No, we're not selling out, we want to stay mutual, we're going to make it work. Management, we want you to make this work. You've a mandate to go and make it work." So we put ... we'd had that debate. I wasn't the bad loser. I accepted the board's decision. And what the strategy then was about was trying to preserve mutuality as best we could. So there weren't battles going on in the boardroom in '08.

Deputy Eoghan Murphy: Okay.

Mr. Alan Merriman: What was going on in the boardroom in '08 was making sure that the society was doing all the prudent things it needed to be doing to best ... to best protect the society at that point in time.

Deputy Eoghan Murphy: Okay. I just want to look at two other areas then, if I may, in the time I have left. One is this reliance on wholesale funding. Because in 1998 100% of funding for the society came from retail deposits. In 2001 it's down to 70%. By 2008 it's 47%. Was this shift intentional? Did the board see it as a risk at the time? Did they understand the potential risks at the time?

Mr. Alan Merriman: Look, I think the start of it clearly was that wholesale funding became available to the market here. You know, EU, euro would have all been part, would have been a catalyst for that. Why did the society start seeking wholesale funding? Because it needed it to support the lending it was doing to its members. And then it just gradually grew over time. I think that's evident from all the papers and from the history. It grew over the course of time, bit by bit by bit. Was the board conscious of the risks around wholesale? It was conscious that there was a dependency on wholesaling ... on wholesale funding. It was very conscious of the need to diversify it. But it probably didn't anticipate - and I think this is true right across our own market, but globally - that a liquidity crisis of the type that came was as possible as it clearly was.

Deputy Eoghan Murphy: Mm-hmm. But do you feel that-----

Mr. Alan Merriman: So the disappearance of a securitisation market overnight would be a very clear example of that. The interbank market disappearing pretty much overnight would be a very clear example of that. Did the board have a view ... did it really understand those possibilities and did it really believe those could happen? They would have seen that as being more doomsday than being in the probable.

Deputy Eoghan Murphy: Okay. I have to move on, I'm afraid, because I am limited on time. Just the last thing I want to look at is Haven, the broker market business that EBS went into, which was a significant change for the society. Do you think the board had a sufficient understanding of what it was getting into? And how important was this move to the society, given that the CEO of Haven was also not invited to be re-elected to the board in 2008?

Mr. Alan Merriman: Well, again, the Haven CEO wasn't invited to be re-elected because, at that point in time, the Haven business was going to be exited.

Deputy Eoghan Murphy: Yes.

Mr. Alan Merriman: So that was that context.

Deputy Eoghan Murphy: Very shortly after it had been established.

Mr. Alan Merriman: Yes, but, again, you have to look at before and after. So it was established at a time when there wasn't a funding crisis and it was exited when the funding crisis was front and centre.

Deputy Eoghan Murphy: Okay.

Mr. Alan Merriman: The board would have done intense work around the merit of going into the broker market. The broker market typically in a European context is circa 50% of the market, so it's a very important part of the mortgage market, and it was done, again, in the interests of the long-term sustainability of the society. Broker markets bring more risks-----

Deputy Eoghan Murphy: Yes.

Mr. Alan Merriman: -----but they were understood.

Deputy Eoghan Murphy: And you supported the move, then-----

Mr. Alan Merriman: I did.

Deputy Eoghan Murphy: -----with Haven? I mean, it was-----

Mr. Alan Merriman: It was also part of the deleveraging strategy in terms of getting ... it was an answer to some of the funding challenges because there was going to be a JV at that point in time.

Deputy Eoghan Murphy: I wanted to ask you about that actually ... with Britannia Building Society.

Mr. Alan Merriman: Correct.

Deputy Eoghan Murphy: That failed. Why did that fail?

Mr. Alan Merriman: Again, it failed ... it failed for a variety of reasons but essentially it was because ... and, again ... look, it goes back to wholesale funding. When problems became evident in the Irish market, you know, if you're sitting in the UK in your building society in the UK or your local authority in the UK, you're going to very reluctant to engage in the Irish market.

Deputy Eoghan Murphy: So why did EBS continue with it then? Why not take the warning signal from the failure and pull out-----

Mr. Alan Merriman: Because ... excuse me.

Deputy Eoghan Murphy: -----instead of going ahead 100% on the-----

Mr. Alan Merriman: Well, because ... for two things: business was already up and running, so the book that was there at that point in time was going to go into the JV vehicle, so it wasn't a case of deciding not to proceed, it was already in progress; and then we've answered your question - we did exit it.

Deputy Eoghan Murphy: Yes, I mean, there was a potential sale at one point, €5 billion, but that-----

Chairman: One last question now, Deputy.

Deputy Eoghan Murphy: Thank you. But that didn't go ahead; why not?

Mr. Alan Merriman: I told you. Because, basically, Britannia had no interest in proceeding given the difficulties that emerged in the market.

Deputy Eoghan Murphy: Okay.

Chairman: Thank you very much.

Deputy Eoghan Murphy: Thank you, thank you.

Chairman: Mr. Merriman, if I can maybe just deal with one brief matter with regard to the guarantee and I then want to move on to some other matters with you. Was there any discussions at any time with any other bank, the Central Bank, the Department of Finance in relation to the - excuse me - in relation to liquidity issues or solvency of any particular bank in the weeks before the night of the guarantee?

Mr. Alan Merriman: I can't remember explicitly. I'm sure, you know, the head of treasury would have been having discussions with all his counterparties amongst the Irish banks. I'm sure the chief executive was discussing the same with other chief executives.

Chairman: Yes.

Mr. Alan Merriman: I know in those meetings that I personally was at in the Central Bank there were discussions about the market generally in terms of what was happening and concerns around institutions but I've no direct intelligence to be able to share.

Chairman: Okay. And there was nothing out there in the ether, by your recollection, in that regard?

Mr. Alan Merriman: Not ... not to my understanding.

Chairman: Okay. If I can maybe just move then to the period subsequently after the guarantee, Mr. Merriman. And in November 2008 the treasury department looked for an increase in the lending lines to the other covered banks in order to invest in their unsecured debt and to have them reciprocate the same. This is the, kind of, green jersey thing. And on the screen there in the first two chapters, what we have there, this is an e-mail to the board from Mr. Gerry Murray, 17 November 2008 "**Subject: Proposal to Increase Credit Limits [to] Irish Bank[s]**". And the first two paragraphs kind of give a summary of the situation:

> On September 30th, 2008 the Irish Government announced that it would guarantee Irish Banks / Building Societies until September 2010 under the Credit Institutions (Financial Support) Scheme 2008 (the "Scheme") [as it's known]. Subsequently, Moody's and [Standard and Poor] announced that they would rate any debt issued under the Scheme and maturing prior to September 2010 as AAA-backed.

That's top of the range, isn't it? It doesn't come any higher than that, yes?

Mr. Alan Merriman: I see it there, yes.

Chairman: Yes, okay:

> These events will result in Irish Banks attempting to access the market for senior unsecured debt. Integral to the success of the debt offering [...] is support from the domestic market. i.e. the banks will need to purchase significant quantities of each others bonds.

So this is ... this is a direction that Irish banks will start borrowing money from one another after the guarantee and securing bonds or borrowing bonds and everything else ... "Consequently, EBS Building Society will need to purchase debt issued by the [...] Irish institutions in order to get sufficient support to successfully issue a benchmark transaction of [its] own." So the suggestion there ... you start buying from other banks, that allows other banks to start buying from you. I'm correct there, yes?

Mr. Alan Merriman: Yes, absolutely.

Chairman: Okay. Right, in ... to what extent, in your opinion, did the board consider it was appropriate in this regard to pull on what was described as the "green jersey" and invest in such assets?

Mr. Alan Merriman: A hundred per cent, I would say.

Chairman: Okay. All right. The-----

Mr. Alan Merriman: So, you know, absolutely, you know, appropriately and accurately articulated by yourself. Very clear.

Chairman: As a-----

Mr. Alan Merriman: And that was absolutely the intention.

Chairman: Okay. As a suggestion that this was Irish institutions operating in a bubble ... if I can put this premise to you, that this was Irish institutions operating in a bubble, in a domestic market, ultimately just washing one another's laundry?

Mr. Alan Merriman: No again, look, let me make again a very clear distinction. This is now post the Government guarantee-----

Chairman: Indeed.

Mr. Alan Merriman: -----coming in.

Chairman: Okay.

Mr. Alan Merriman: It's in the crisis and it's trying to accommodate a normalisation of the market.

Chairman: Okay. Can I just bring up there, a slide here, okay? The next document coming up, Mr. Merriman, relates to its EBS Building Society minutes of the board meeting held on 17 November 2008. So, it's the minute relating to the same date of the earlier transaction. And if I can just bring you to the second column to the right and just take you down some of the language here:

> Fidelma Clarke outlined the basis of two proposals in relation to Treasury limits and programmes arising from the implementation of the Government Guarantee Scheme. Papers had been circulated prior to the meeting.

And then talks about the counterparty limits of the institutions that EBS now would engage with as part of this cross transactions:

> The Board resolved to
>
> (a) increase the counterparty credit limits for AIB, Anglo, Bank of Ireland, IL&P and INBS to €200m, with the quantum increase above credit limits exclusively available for issuance covered under the terms and period of the government guarantee scheme.

I just want to refer to two institutions there. We have it on record here that the NTMA had such concerns with regard to Irish Nationwide ... INBS, that they wouldn't put a brass farthing into them and wouldn't do so for years. And at Anglo Irish Bank, that the NTMA had similar concerns about and wouldn't ... would only put money in there when they actually received direction from the Minister for Finance in writing to do so. Had you any concerns with putting money into INBS or Anglo?

Mr. Alan Merriman: Okay. So, again, if I'm very precise on dates, this board minute is clearly, clearly in the context of the Government guarantee regime and therefore the reality is that while we're lending to those institutions, it's covered by the sovereign. And as an Irish building society operating in a stressed Irish banking context, it would have been very questionable had EBS not been supportive of this programme at that point in time. In other words, not being prepared to take risk on our own sovereign when our own sovereign was supporting the Irish banks and supporting EBS directly. So I think the context is very clear.

Chairman: I understand the context of it but there is also what would be, kind of, maybe real-time information at the time that people in the business would be aware of. Were you aware that the NTMA had reservations with regard to these two institutions and would not ... and had serious concerns with putting any of their own assets into these institutions?

Mr. Alan Merriman: This would be more ... I'd no direct involvement-----

Chairman: Well, you ... no, I'm asking you were you aware-----

Mr. Alan Merriman: No, and I'm answering your question.

Chairman: -----that the NTMA had reservations about these?

Mr. Alan Merriman: I had ... I had a ... I would have had a sense, I would have had an understanding at the time, that the NTMA were being reluctant to put moneys into the Irish banks. I'm not saying specifically those two-----

Chairman: Yes.

Mr. Alan Merriman: -----just generally the Irish banks, that there was a reluctance. Now, did I understand that from the head of treasury or where did I pick it up? But no I would have had that understanding at that time that the NTMA were being encouraged but were being slow to support. Now, that was probably prior to the guarantee.

Chairman: Sure. And so this is after the guarantee and you're now looking to be buying bonds from other banks and all the rest of it as a kind of means of a cross supporting one another.

Mr. Alan Merriman: Which is normal. Normal in a normal market-----

Chairman: Yes, I understand that.

Mr. Alan Merriman: -----and clearly normal in a stressed market.

Chairman: But we're not in a normal market here now one month after the State has actually guaranteed financial institutions.

Mr. Alan Merriman: So it's easier in this context.

Chairman: Was there any discussion in your institution with regard to the Nationwide or with regard to Anglo of how safe or unsound or how wise or unwise it would be for the EBS to be buying bonds from any of these two institutions?

Mr. Alan Merriman: At this point or earlier?

Chairman: At any time.

Mr. Alan Merriman: Well, certainly at this point the discussion was there in relation to all the banks, and the context was the guarantee allowed one lift the limits and be comfortable with them. Prior to that I would have no recollection of any direct concern being raised about those two institutions from a lending perspective. But again I would emphasise that the lending would have been short term. These programmes are short-term programmes and we would have taken the comfort ... and again, look, you know, I say this in the context of what's happened, you know, all senior ... this was senior debt. All senior debt was clearly going to be stood over and was stood over.

Chairman: And just on the broader level of those two institutions, I just want to know, at board level was there concern with any transactions that your institution might engage with with those two institutions?

Mr. Alan Merriman: No. And again I just go back to the transactions were senior debt.

Chairman: At that time?

Mr. Alan Merriman: At that time.

Chairman: Okay. Thank you. Senator Susan O'Keeffe.

Senator Susan O'Keeffe: Thanks, Chair. Mr. Merriman, can I just clarify there when you said about the NTMA and you had a sense of it not putting anything on deposit with the banks from 2007? Was that knowledge not publicly available? You were saying you had a sense of it. Would they not have indicated that in their own figures?

Mr. Alan Merriman: Well, look, it's ... no, it's well, no, I mean-----

Senator Susan O'Keeffe: It was private?

Mr. Alan Merriman: I'm very sure it was private. They wouldn't be disclosing by counterparty where their money was being placed.

Senator Susan O'Keeffe: And you were not aware of it through other people?

Mr. Alan Merriman: Not especially. I'm guessing, and it's a guess, so, therefore, I'm ... you know, I don't want to-----

Senator Susan O'Keeffe: No, well we don't want guessing. Thank you. In Vol. 1, page 130, and again I know this was from the 2004 strategic review, it says ... it talked about, "Profits grow on average by 13% p.a. [per annum] from 2002 to 2004 and by 25% p.a. [per annum] thereafter." And I'm just wondering what you thought of that kind of forecast for growth at that time for the EBS?

Mr. Alan Merriman: The historic one of 13% or the forward one of 25%?

Senator Susan O'Keeffe: No, the forward one. Was it an ambitious target at that time do you think?

Mr. Alan Merriman: I think it was and I think it was understood as being ambitious.

Senator Susan O'Keeffe: So, why have it there as part of the strategic review?

Mr. Alan Merriman: Well, because it ... well again, as you rightly say it was before my time. But clearly that was their plan and that was their ambition and-----

Senator Susan O'Keeffe: Well you came in just a year later so are you aware or can you recall whether that plan had changed by then or whether that was still, if you like, your ... the stated plan of the EBS when you joined?

Mr. Alan Merriman: No, I think it was rebalanced because when I came in in 2005 I think the profits for that year were closer to ... I think the net profits were closer to 55 [million euro].

So clearly it was quite some distance away from the 85 [million euro] that's on this page that you're sharing with me.

Senator Susan O'Keeffe: Okay. In Vol. 2 of the core documents, Mr. Merriman, page 139, is a list of the top ten bonus payments in 2001-2008 and you received a bonus in 2007 of €309,000 that was the highest for that year. In 2008 you received a bonus of €220,000. Given what was happening at that time in terms of the stress in the financial markets and so on, was it appropriate or not to take a bonus of €220,000 do you think?

Mr. Alan Merriman: Well, let me answer. First of all, I think the dates here are maybe out of sync by a year, I think.

Senator Susan O'Keeffe: Well, I can't be ... yes.

Mr. Alan Merriman: That, that-----

Senator Susan O'Keeffe: I'm sorry I don't know that.

Mr. Alan Merriman: No, that's all right, but that ... I'm just, just clarifying it here. So, I think they're out of sync by a year. I think they're cash payments made in those years for the prior years, I think.

Senator Susan O'Keeffe: Yes, it does say that, for the previous year. But, again, you would have known in 2008 what was going on in the world around you and I'm asking-----

Mr. Alan Merriman: Sure and I've-----

Senator Susan O'Keeffe: -----whether it was appropriate to take the bonus for the previous year in 2008?

Mr. Alan Merriman: Okay, so again, to try and clarify it for you, so it's I think it's the '07 bonus you're asking me about which I took in 2008.

Senator Susan O'Keeffe: Correct.

Mr. Alan Merriman: At the time that was taken it was probably early '08 and I'd also put it in the context of, as I explained in my opening statement, I was recruited, courted into EBS, I clearly had been a partner in PwC. I was on a very good package. I was leaving a very, very secure job. In making the move to EBS I would have been very minded to have some protection about my income at that point in time. I had obligations, I had loans and therefore it was important that I had visibility over what type of income I would have. And I would have needed that money at that point in time to cover my own obligations.

Senator Susan O'Keeffe: And so part of the courting of coming to the EBS would have been appropriate bonuses and-----

Mr. Alan Merriman: As as is natural for any move in any employment.

Senator Susan O'Keeffe: Okay. On page 3 of Vol. 1 there is a note from Cathal Magee, who was a non-executive director of EBS. This is 30 March 2006 - it's quite a long document, but in paragraph 2 he says:

> It is my first experience of being corporately "bullied" as a Director because of positions I have articulated. However, it has reinforced in me an understanding of and a commitment

to the need to implement the Corporate Governance Standards set out in the Combined Code in the [EBS] Building Society.

And then he goes on to talk about the society "slowly and painfully emerging from a legacy Building Society governance culture". What was Mr. Magee talking about there being "corporately bullied" to use his term?

Mr. Alan Merriman: My understanding is that Cathal, amongst a number of non-executives, had been raising their concerns around a number of issues for quite some time in relation to, you know, various agenda items around the board. And he wasn't satisfied that they were being dealt with to his satisfaction. And it's in that context I believe that he's made that statement.

Senator Susan O'Keeffe: Yes. I mean, he would have been ... he was a man with a strong track record in other organisations wasn't he? So he was a very senior manager.

Mr. Alan Merriman: Very experienced, very senior, very commercial.

Senator Susan O'Keeffe: He was very commercial. So how did the EBS take his observations at that point in terms of his approach or his attitude? I mean, he was clearly appointed, he didn't wander in and become a member, he was appointed.

Mr. Alan Merriman: Yes. I think we have to be careful about, you know, when we talk about what did EBS do, what do we really mean by that so-----

Senator Susan O'Keeffe: But what was the response at that time to his observations?

Mr. Alan Merriman: No, no, let me be clear, I am just trying to help so, this was clearly at board level. So this was about relations around the board, so all non-executives and a number of executives. So how would those executives dealing ... between each other in relation to these matters, that's what Cathal is drawing out. So look, maybe to help I would say to you there is a very clear distinction between corporate governance and structures and systems on one hand and on the other hand, conduct of individuals around the board table. You can have very strong corporate governance, you can have good systems, good processes - as E and Y attested here that EBS had in their opinion - and, separately, you can have conduct and conduct can be different. It is personality driven, etc., etc. So the conduct around the board amongst certain individuals was considered to be not appropriate and that's what Cathal is drawing out here.

Senator Susan O'Keeffe: Okay. In Vol. 3 of the core documents on page 59 is the statement, the witness statement of Ms Ethna Tinney. She talks here about ... on page 59 at the bottom of paragraph 1, and she is talking about the appropriateness of property relating lending strategies and risk appetite, and she says "There was a sort of feeding-frenzy as the banks clambered over one another to get a piece of the action, especially as new foreign banks had entered the market as competitors." At the beginning of that paragraph she says "Lending large sums to developers was new to the society." and she said "The senior management in EBS, as in most of the lending institutions, were taken in by Ireland's so-called developers and also by their professional and other advisors." Mr. Murphy said in evidence last week "there was a ... reasonable chance of the organisation making it through, had they not been involved in all of that" and by "all of that", he meant commercial property and land and development. So what was going on? I mean, Ms Tinney's observation is that this was new to the society and it was a kind of a frenzy as banks clambered over each other and she goes on to discuss how the senior management were asked to review credit applications and so on, and I'll come to that, but I wonder what your first observation is of that?

Mr. Alan Merriman: Okay, so let me deal with Ms Tinney's observations first and then with Mr. Murphy's. In relation to Ethna's - and I understand she is here later this morning and, therefore, you can ask her directly - but I am guessing that ... she started with EBS I think in the year 2000, so five years prior to my own joining the society. So I would suggest that perhaps she is talking about the step up into development finance in 2001 ... was new at that point in time and that was recently after her joining the society. And, you know, as I said, the development finance book in EBS started in 2001 and was stepped up to €500 million by the end of 2008 so that is an eight-year period. In relation to Mr. Murphy's comment-----

Senator Susan O'Keeffe: Sorry, in fairness, Mr. Merriman, you will have read this because you were given the document. She does go on in the next paragraph to say:

> In the period from December 2006 to April 2007 I was inundated via email by proposals from EBS senior management on behalf of "developers" for quantities of cash in the tens of millions which appeared to be asset-backed and also to contain personal guarantees. [So, typically] as a member of the credit committee, your approval or lack of it had to be sent ... by email to EBS by close of business the same day or the next day. The rationale was that if EBS did not facilitate the "developer" another bank would and we would simply be losing out on the business.

Chairman: I need you to ask the question so that he gets time to respond.

Senator Susan O'Keeffe: Yes. So I am just saying, I mean, that is Ms Tinney's observation of what was happening. You were also a member of the board, I am asking do you share that view of what happened in EBS at that time?

Mr. Alan Merriman: Again, I need to be very clear in terms of what question I am addressing. So, I have explained that Ethna joined, I believe in 2000, she can confirm that later, development finance started in 2001, that explains why she said it was new to society. In terms of the specific question that you are asking me, my recollection is that Ethna moved on to the board advances committee, which is the committee of the board that approves loans beyond a certain size. I am guessing that was perhaps in this time period December 2006 to April 2007 and that's the committee amongst the board members that gets individual loan documents to approve if the society wishes to do it. So that would have been new to Ethna at that point, not new to the society but new to Ethna at that particular point in time. And in terms of her being inundated, look, that's a subjective comment.

Senator Susan O'Keeffe: No, I am not asking about the inundated-----

Mr. Alan Merriman: In my view the frequency and the number would not have been of that magnitude.

Senator Susan O'Keeffe: No, I am not asking about the inundated, she is saying that she was asked on each occasion:

> the approval or lack of it had to be sent ... by email to EBS by close of business ... the next day. The rationale was that if EBS did not facilitate the "developer" another bank would and we would simply be losing out ... the business.

I am asking you the question was: is she correct in her observation that there was a rush, if you like, to facilitate the developer, otherwise you would be losing out on business?

Mr. Alan Merriman: No, there wasn't a rush. There was a requirement for the business to be able to get board approval within a 24-hour period.

Senator Susan O'Keeffe: In a 24-hour period. So that is correct?

Mr. Alan Merriman: That is correct but, again, just so there are no misunderstandings, the board approval is the ultimate approval. It is the end of a long process of working through a loan application. It is the ultimate safeguard. It is beyond a certain €10 million level. We are not going to allow the executive to give this loan out without a further check coming from the board of non-executive directors as an additional precaution. And in doing that, the society understands if it is going to compete in this market, it needs to be able to provide the type of service that is expected. So therefore, we need to give a 24-hour period. Those members who sat on that committee fully understood that requirement and the need for them to be able to be available to give the consideration that would be needed within that timeframe and they would have got very detailed documents to help them support their agreeing or not agreeing to make those individual loans.

Senator Susan O'Keeffe: Thank you.

Chairman: Senator D'Arcy.

Senator Michael D'Arcy: Mr. Merriman you are welcome. Could you bring up book 1, page 125 to 128 please? Mr. Merriman, was consideration given to the fact that during the period of substantial growth, '04 to '08, that other banks in the Irish market were seeing double-digit growth? And was it possible that all banks could achieve the same level of double-digit growth within the jurisdiction? Could every bank be having those levels of growth and would the market not be destabilised by that quantity of growth?

Mr. Alan Merriman: No, and, again, I was interested in seeing some of the commentary from earlier sessions about growth and what is good growth and what is bad growth and is 10% okay or is 15% bad or should it only be 5% and tie it to GDP. My simple answer to your question would be, you know, of course you can have high-teen growth or mid-twenty growth across the market and all participants can enjoy that if the market itself is growing in sync with that. If the market is not growing and people are trying to get 5%, 10%, 15% growth, there is going to be winners and losers. But if the market as a whole is growing then that can be accommodated and it is very driven by where you are in the cycle and what is going on in the market at that point in time.

Senator Michael D'Arcy: In evidence from other witnesses from the banking sector, Mr. Merriman, the demographics that ... coming towards the late '70s, that the children born at that stage would be requiring finance for properties and the like, going to the mid-noughties. It would suggest or would it suggest that the level of lending was carefully planned and that each institution had an objective to achieve its market share? Can I ask the question: was that a risky strategy by all of the banks, all of the financial institutions?

Mr. Alan Merriman: No, but look, I, again, if I understand the question correctly, you know, each market participant has to make up its own mind in terms of what is appropriate with business and what it can accommodate but all market participants have to do it by reference to what is going on in the market. And as I have testified in my witness statement - and I think many people have testified here - the very, very broad consensus was that the market was going to continue to be growing, albeit slowing, and that the demographics and the economics of the country as a whole were going to be supported.

Senator Michael D'Arcy: Mr. Merriman, Mr. Fergus Murphy gave evidence last week that when he joined the financial institution, the EBS, that there was a change of strategy. Was that change of strategy driven by one individual?

Mr. Alan Merriman: No. I mean, I think Fergus himself said that, you know, clearly, as a new chief executive, he was better placed because he had, I think, no baggage and no association with the past. I think he very clearly articulated, and I think it's true, tone is very much set at the top and, therefore, has a cascading-down impact. But I also think - and this is probably the most important point - the circumstances were very different, so the strategy and the changes were being driven by what was happening in the market and our read of the market at that point in time. And as I've clearly articulated and explained earlier, EBS as a whole in the management team, at a much earlier point, had concerns and was already beginning to address the strategy and change things accordingly. Fergus's arrival certainly helped in that regard and it did accelerate because it was a new chief executive, and that helped, but it certainly ... enabled by him, but not exclusive to him.

Senator Michael D'Arcy: You joined in early 2005; is that correct?

Mr. Alan Merriman: July 2005.

Senator Michael D'Arcy: Oh, mid-July, okay. In evidence previously presented by others, a lot of people have said that there was a period - late '05, early '06 - that it was a point of no return; the extent of the downturn was going to be substantially more than if some actions had been taken prior to that. Did you notice, or did you have any knowledge prior to joining EBS, that potentially there was a fall coming?

Mr. Alan Merriman: No. I mean, I would say - and again I say it in my witness statement - July 2005 for me, leaving PwC, going to EBS, what was the market like right then? Well, it was full employment, as we all understand what we mean by full employment. The economy was booming. House completions were going up. We had a lot of immigration into the country because of the job flow here. PwC were literally scouring the world, trying to find people to come into this market, to service the business and the business that we had at that point in time. It was a very, very strong economy and the immediate outlook in 2005 continued to be good. I would articulate that it was late '06-early '07 before there were strong indicators that there could be trouble ahead and, again, I'll be very clear that, even post the crisis, in late 2009 and 2010, many commentators believed that the worst was over and the truth was things got substantially worse in 2010 and 2011.

Senator Michael D'Arcy: In your opening statement you ... or previously you discussed that 50% of the funding for EBS came from wholesale funding and, prior to that, in the late '90s, it was all backed by deposits. At what stage did EBS move from ... when did EBS achieve 50% wholesale funding, are you aware?

Mr. Alan Merriman: Look, I can't recollect, but it, clearly, grew over the course of time. I'm not sure ... I did see that; I heard that; that 1999, it was all non-wholesale. As a matter of fact, I'm not sure, I think ... I'd be interested in knowing, but, clearly, it grew substantially and, to answer your earlier question in this context, I would say ... you know, if you have a ... let me use very simple numbers ... if you have a €20 billion balance sheet and €10 billion of it is funded by wholesale funding, that is not something you deal with or change overnight. You've a €20 billion balance sheet of assets; €10 billion of it is coming from wholesale markets; it takes many, many, many years to try and change that needle.

Senator Michael D'Arcy: Mr. Merriman, have you seen the witness statement from Fidelma Clarke? Have you read that?

Mr. Alan Merriman: I have.

Senator Michael D'Arcy: You have. Page 5, Ms Clarke says, "The traditionally conservative approach to lending in EBS unravelled in the period ['00 to '07]." Were you aware that there was an unravelling of the conservative approach by EBS?

Mr. Alan Merriman: Sorry, I'd just like to find the-----

Senator Michael D'Arcy: It's page 5.

Mr. Alan Merriman: I've different page numbers on mine.

Senator Michael D'Arcy: Oh, sorry, okay.

Mr. Alan Merriman: Her statement starts on page 41 in my book.

Senator Michael D'Arcy: It's, "Effectiveness of banks' credit strategy and risk management."

Mr. Alan Merriman: Yes.

Senator Michael D'Arcy: And it's the last paragraph, first line. Oh sorry-----

Mr. Alan Merriman: No.

Senator Michael D'Arcy: -----first paragraph ... last paragraph, first line.

Chairman: It's page 45 in the core booklet.

Senator Michael D'Arcy: Is it?

Mr. Alan Merriman: Page 45.

Senator Michael D'Arcy: I'll read the line to you, "The traditionally conservative approach to lending in EBS unravelled in the period ['00 to '07]." You came in mid-'05. Did you ... were you aware-----

Mr. Alan Merriman: Sorry, she said '00 to '07, is it?

Senator Michael D'Arcy: Correct.

Mr. Alan Merriman: Okay, so over that seven-year period.

Senator Michael D'Arcy: You ... were you aware that that had happened?

Mr. Alan Merriman: I was very conscious, as I think, generally, anybody in the market would be. So, five of those seven years were before my time-----

Senator Michael D'Arcy: I'm well aware.

Mr. Alan Merriman: ----- the latter two, clearly, I was there. No, I'd be very conscious, and I know Fergus Murphy explained it as well, that maybe over the prior six-year period, there'd been 13 credit policy changes. They were clearly all ... "accommodative" would be the word. And I think the market, as a whole, totally understood that. Why did those changes happening? I'll give you a very simple example. We go back to what I call traditional building society lending. People would get 20-year mortgages. Well, 20-year mortgages became 25-year mortgages. Then they became 30-year mortgages. Then they became-----

Chairman: It's on the monitor there now, Senator, as well, just to assist you.

Senator Michael D'Arcy: Yes.

Mr. Alan Merriman: Then they became 35-year mortgages. Why was that done? It was done, in part, because demand; people wanted to be able to access greater funding so they could get their houses. And it was accommodated because there was a rationale too, "Well, if you're 20 years of age, why shouldn't you be able to borrow for 35 years?" It clearly ended up, at a macro level, being bad because all it did was inflate house prices etc., etc., but they're the type of changes that were accommodated during that period.

Senator Michael D'Arcy: But what I'm asking you: were you satisfied with the change? And did you have any impact when you entered, when you joined the organisation, for those changes to continue changing? Did you do anything to try and revert back to the more conservative method of lending?

Mr. Alan Merriman: No. And I say "No" in the context of late 2005 and 2006 and early 2007. Late 2007 and 2008, yes, lots of credit changes were made and they were done in a different context. They were done to dampen down-----

Senator Michael D'Arcy: I suppose where I'm coming from is-----

Chairman: Last question now, Senator.

Senator Michael D'Arcy: Yes. Where I'm coming from, Mr. Merriman, was you were coming in at a very high level, with substantial experience behind you, and you had seen the market growth and I'm asking did you request any changes to the conservative ... or to revert back to conservative lending approach?

Mr. Alan Merriman: From a credit policy perspective, there was no credit policy that I was uncomfortable with from a loan-to-value or from an income perspective, in terms of interest cover and things like that. From a process perspective, from a talent perspective, from a control perspective, I brought in numerous changes to strengthen the processes and the governance and so forth, but from a credit perspective, if a credit policy was approved at EBS board level, I personally would have been satisfied that it was supported and it was appropriate at that point in time.

Senator Michael D'Arcy: Thank you. Thank you, Chairman.

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

Deputy John Paul Phelan: Thank you, Chairman. Good morning, Mr. Merriman.

Mr. Alan Merriman: Morning.

Deputy John Paul Phelan: Firstly, I want to reference a document that Senator D'Arcy just spoke about earlier, Vol. 1, page 126, minutes of a board meeting, 22 July 2005. The heading at the top is, "**Section 3: Key Business Drivers Behind the Plan**" and, specifically, the fourth point there, which is as follows, "Tracker mortgages will account for an increasing proportion of business - rising from 5% today to 60% by 2008. [And] This will push mortgage margins down"; somewhat prophetic, maybe.

Chairman: There's some phone interference coming by you there, Senator. Obviously-----

Deputy John Paul Phelan: It isn't my one anyway.

Chairman: I appreciate that, but sometimes proximity can cause it so, if it is, I'd ask the member to deal with it, please; not to have it interfering with your questioning.

Deputy John Paul Phelan: In relation to that, were you yourself aware of the risks that, you know, the tracker mortgage rate could pose for the institution? And, actually, as a board member, was it ever discussed really in-depth at board level in the EBS?

Mr. Alan Merriman: It was discussed. I was aware and I always ... and, again, I think it's fascinating. It hasn't come up, to the best of my knowledge, in your discussions, I was always fascinated with the fact that the tracker mortgage was priced cheaper than the standard variable rate. It made no logical sense to me, from any perspective. In other words, you know, by a customer having a guarantee that their rate was going to be tied to the ECB, when, in fact, they should have been paying more-----

Deputy John Paul Phelan: They should have been paying the premium. Yes, okay.

Mr. Alan Merriman: So I just thought it was madness------

Deputy John Paul Phelan: And did you raise that? Did you-----

Mr. Alan Merriman: I did raise it. But ... and, again ... no, look, you know, EBS got lots of things of wrong, it got lots of things right as well. The whole area of pricing of mortgages ... if you look at our book as an ... in aggregate, proportionally, compared to the other banks, we had very, very little by way of tracker mortgages. We had a lot of people in fixed rate and we had them in fixed rate because we felt that was the prudent thing to do. Typically, around five-year ... it affected stress testing as well but it gave them certainty. A bit like my own arrival into EBS and my own package, having visibility about what your expenses would be ... very, very helpful in terms of assessing credit. So we steered people more towards fixed rate and the standard variable rate for those reasons.

Deputy John Paul Phelan: But you're saying there was a discussion but perhaps not as in-depth as there-----

Mr. Alan Merriman: It would have been understood but-----

Deputy John Paul Phelan: Yes.

Mr. Alan Merriman: -----it was a feature of the market. EBS was not going to change the market.

Deputy John Paul Phelan: Okay, okay. I want to reference your opening statement. I think it's the seventh page but it's numbered as No. 9. The first paragraph ... the bottom of the first paragraph where you say, and I quote, "All understood the necessity for EBS to expand it's business and improve profitability. I would go as far to say we were encouraged to expand and become more commercial." In fact, at the start of that statement you'd referenced the regulator and Fitch and Moody's and a number of other bodies. Who was encouraging you? Because you seem to be indicating there that it's an external encouragement rather than an internal encouragement.

Mr. Alan Merriman: Yes, well, look, I ... you know, clearly there's a lot of interested parties with a building society. So obvious candidates being the rating agencies, obvious candidates being the people who are lending you money, obvious candidates being the ... the regulator. So, you know, in sharing our strategies and sharing our business plans with all those parties, what was the reaction? What feedback were we getting? I'm being very clear, nobody - and I will say nobody - ever said, "Do you know what? Ted, Alan, Mark, Fergus, we really think that's not very clever.' In fact, I'm saying the opposite. I'm saying, "Do you know what guys? That makes very good sense. Yes, that doesn't give us a problem from a rating perspective and our particular A rating. Yes, we see the sense of you diversifying away from your mortgage book. Yes, we can see that the margins are under strain and, yes, of course it makes sense that you would diversify your business and have your non-member business. Yes, it makes sense to have a member business and a non-member business because we can see how it's circular." That's what I'm trying to explain.

Deputy John Paul Phelan: Okay, that's fair enough. I want refer to core document 2 ... Vol. 2, sorry, page 37, which is a letter from the Financial Regulator to Mr. Murphy, managing director, on 3 March 2008. It should be up on the screen, I'd say, momentarily. It says "Copy to Emer, Brian, Fidelma, Alan [who, I presume, is yourself] [and] Grant." It's a result of an inspection process. There's an interesting comment on the third paragraph where it says "The Financial Regulator's inspection process is a high level review and does not constitute a detailed examination or audit.", which, perhaps, may well have been the case. I want to specifically reference page number 43 ... it's a review of a number of files - loans, effectively - and issues that have been spotted by the regulator and a number of comments by them on those issues. The last comment at the bottom of page 43, should be up in a second. Is it? You have it anyway, yes?

Mr. Alan Merriman: I do, yes.

Deputy John Paul Phelan: "Overall indebtedness was assessed on the basis of an uncertified Net Worth Statement. The inspectors would question whether reliance should be placed on such a statement." Over the page, page 44, second box, point No. 3, "The purpose of the €4m loan changed after approval - it is not clear to inspectors how the €3m funds advanced will be utilised (€1m being used to acquire US Property)." Next box down, "No evidence of income - (client will not provide it)." Point No. 3, "Salary details were estimated by EBS." Point No. 5, "No valuation of property being acquired. This property was used as security along with existing properties secured by EBS." And again, on the bottom of page 45, last ... the very last point, "Reliance placed on uncertified Net Worth Statements." This was in 2008 ... early 2008 ... March 2008, I presume referencing the previous year. How can you explain those discrepancies ... that this admittedly high-level review rather than an in depth analysis by the regulator, which they've said in their opening letter that these were identified? How did they happen?

Mr. Alan Merriman: Okay. Well, let me ... let me deal with two or three things there. First of all, and I'm ... I want to be very clear ... very plain language - "The Financial Regulator's inspection process is a high level review and does not constitute a detailed examination or audit." That's insurance language, contingency language, you can clearly see from the nature of the findings that they're very forensic and a very detailed review had been undertaken.

Deputy John Paul Phelan: Okay.

Mr. Alan Merriman: That's my view.

Deputy John Paul Phelan: Okay.

Mr. Alan Merriman: Secondly, I'd say ... and I've had the benefit of it, I'm not sure if it's in the document that was shared with you by AIB and EBS, but I have seen the detailed response to all these queries that went back to the regulator, and it deals with every single point and explains them. And that was clearly done to the satisfaction of the regulator because there was no subsequent correspondence on the matter. The third thing I'd say is - and I think it's an important point in terms of giving you some personal insights - when we talk about the regulator, and in this case we're talking about the Financial Regulator here, there's many different components of the regulator. So there's the Pat Neary level, there's the head of the banking division level, there's teams that might do a thematic review of "know your customer", or there's an inspector who's doing a very detailed review, regardless of the wording, of the loan files. So my broad insight to you would be ... look, I can completely understand that somebody reads this cold and they go "Jesus, what's going on here?" Completely get that. What I will say to you, candidly, is that unfortunately the practice amongst the regulator was they'd come in and they would do these reviews, they wouldn't engage properly in terms of getting clarity while on site and then they would then send very detailed questions to have clarification. But, much more importantly, I'd be standing back and I'd be saying "Okay, look, this level of inspection was going on but where were the dots being joined up so that, at a higher level, the regulator would be coming in saying "Do you know what? I get it, that there's a passport where the photograph isn't legible. And that's not great. But do you know what? I don't need to talk about that. What I want to talk about is your development finance. And what I want to talk about is that you've got 33% of your book is funded only by retail deposits."." That's what was needed in terms of macro-regulatory intervention. That's where the regulator needed to be. When we talk about 100% mortgages, it's not about on an individual case whether an institution was doing it or not or why it was doing it-----

Deputy John Paul Phelan: Yes. I don't think anyone ... I'm not here to disagree, I don't particularly disagree with anything that you said, but my-----

Chairman: Last question, Deputy.

Deputy John Paul Phelan: -----my point still remains. I mean, this investigation by the regulator which was, as you said, kind of, standard practice, highlighted a number of fairly startling and-----

Mr. Alan Merriman: But like-----

Deputy John Paul Phelan: -----omissions by the EBS.

Mr. Alan Merriman: But ... well, again, and I ... you know, look, I'm not trying to disguise or change the ... this was clearly, you know, a letter that was not well received in terms of the level of findings and it was taken very seriously in EBS. But, again, I just want to try and deal with what I might call prioritisation and what was going on. And, again, just be very stark: all of these findings, as extensive as they are, not one of them is rated a high priority. And even the ones that are there are rated a medium priority. So even these findings weren't leading to the regulator saying "Look, here's a problem and it needs to be dealt with right now."

Deputy John Paul Phelan: Okay.

Chairman: Okay, thank you very much. I'm moving to wrap things up. First up is Senator MacSharry. Senator.

Senator Marc MacSharry: Nothing further.

Chairman: Okay, thank you. Deputy Murphy.

Deputy Eoghan Murphy: Thank you, Chairman. And, Mr. Merriman, just to clarify, from the board minute meetings in March 2007, the regulator expressed concern that you were responsible for both the commercial business and the risk function. Why did ... why did the regulator express that concern and what was the reaction from the board then?

Mr. Alan Merriman: Okay. And I think this deserves a full response. First of all, when I joined EBS, it wasn't intended that risk would be under my remit. At that point in time, there was a director who had that responsibility at board level. They resigned shortly after my arrival and after, you know, consideration, the chief executive and the board asked whether I would take on the responsibility of risk along with my other responsibilities. So that's how it evolved, and that was pre-cleared with the regulator at that point. So we had an explicit discussion with the regulator.

Deputy Eoghan Murphy: That was 2005 at that point? Or it was-----

Mr. Alan Merriman: That was late 2005.

Deputy Eoghan Murphy: Late 2005.

Mr. Alan Merriman: And we had an explicit discussion with the regulator. We would have written to them. They would have written back to us confirming their acceptance of the appropriateness at that time of my taking on that responsibility. Now, I just want to be very clear because, you know, there's this observation by others that EBS didn't have a chief risk officer and it didn't have a chief risk officer on a stand-alone basis reporting to the board or the chief executive. And in somehow or some way, that has contributed, in a meaningful way, to what transpired. Now, again, let me deal with the facts. Yes, it didn't have a stand-alone chief risk officer, but it had a head of risk, and you'll be meeting them later today. And that head of risk reported to me but they also had visibility at board level and they had their arms completely around risk but in an EBS context. So what I'm trying to say is that the question of there being a layer between the head of risk and the chief executive or a layer between the head of risk and the board, in my view, was unhelpful in terms of a post mortem, because, clearly, it would have been better to have a single individual at board level solely responsible for risk, but I actually don't think it made a meaningful difference. And, again, just to give that some objective analysis, two things I'd say - look at all the other banks who did happen to have a stand-alone chief risk officer reporting to the board, and I don't think they ended up in a different position. And, ultimately, I'd say - and I think again it's a corporate governance matter - ultimately, the chief risk officer of any organisation is not the head of risk, is not the head of finance; it's the chief executive and the board collectively.

Deputy Eoghan Murphy: Can I just ask-----

Chairman: Final question, Deputy.

Deputy Eoghan Murphy: -----what changed then in 2007? Why did the Financial Regulator change his opinion?

Mr. Alan Merriman: Because ... and, look, it's inevitable, it's life. Best practices change. There were some documents out of Europe that were now saying ... and if you go back to the late '90s, the role and the job of a chief risk officer didn't exist at all.

Chairman: It's Galway races week, lads. I'm sorry about that; that's where that came from. Time is up. I don't know where that came from, Deputy. I'm going to wrap things up. Something that struck me this morning when you were talking, Mr. Merriman, and as you go along the journey, you sometimes forget the obvious, and that the EBS was set up to assist teachers to buy homes and that's the start of the journey of the EBS's establishment. That was its *raison d'être*, that was its client base, and it grew out of that. I'm correct in that regard? And at the very end of the story, the affordability for the teacher to be able to buy a home was possibly gone beyond their affordability, certainly as a teacher.

Mr. Alan Merriman: Yes.

Chairman: At any stage during that journey, did you say to yourself, or was it discussed in the bank, the purpose of the establishment to which we serve, which was to allow a particular, sort of, income group ... and they become the classical, sort of, teacher and guard, in terms of looking at affordability-----

Mr. Alan Merriman: Sure.

Chairman: -----it's ... we're now moving from 20 years out to 35 years to give these people mortgages, the ratios of their incomes with regard to the loans that were given to them are now out of kilter severalfold and other matters relating to that. Was that ever, ever discussed?

Mr. Alan Merriman: I wouldn't say in that explicit way but, in the round, and it was something EBS did continuously, it did have extensive member forums. It had a lot of engagement with members, it did a lot of surveys, and the feedback was still very strong that the members wanted EBS to preserve. They wanted EBS to continue and the client ... you know, the satisfaction surveys and all that ... and, ultimately, at the end of the day, EBS was still able to provide mortgages to its members at competitive rates during those times. So EBS evolved but it still was serving members. It still was fulfilling a need.

Chairman: But the affordability in that competition became difficult and more difficult than when-----

Mr. Alan Merriman: It came ... it's the point I made earlier about-----

Chairman: So for the purchase-----

Mr. Alan Merriman: -----you know, change credit policy, go from 20 years to 25 years. Yes, it helps at that particular point in time but the reality is it's just pushing up prices for everybody.

Chairman: Okay.

Mr. Alan Merriman: But, again, that's not an EBS making.

Chairman: I'm going to bring matters to an end.

Deputy Kieran O'Donnell: Chairman.

Chairman: Yes.

Deputy Kieran O'Donnell: Could I invoke just one clarification?

Chairman: You can, indeed. Quickly, before we go.

Deputy Kieran O'Donnell: You made reference that-----

Chairman: Just a clarification not a question now.

Deputy Kieran O'Donnell: Yes. It was on IAS 39, Chairman-----

Chairman: Yes.

Deputy Kieran O'Donnell: -----and Mr. Merriman said it was a red herring, and the question I want to ask-----

Mr. Alan Merriman: Big picture.

Deputy Kieran O'Donnell: -----was EBS ever asked by the Financial Regulator or the Central Bank to increase the provisions on loan losses?

Mr. Alan Merriman: No.

Deputy Kieran O'Donnell: Were you surprised with that?

Mr. Alan Merriman: No.

Deputy Kieran O'Donnell: Did you-----

Mr. Alan Merriman: They'd no reason in the context of we had auditors, they clearly knew we were very robust in our approaches. So they'd no reason to ask us to increase provision.

Deputy Kieran O'Donnell: But did they have the power to ask you?

Mr. Alan Merriman: They'd the power to engage with us.

Deputy Kieran O'Donnell: Did they have the power to ask you to increase the provisions?

Mr. Alan Merriman: I think they could have asked us. But - and I'll be very clear on this - we couldn't have complied if it was outside of the accounting standard.

Deputy Kieran O'Donnell: So, therefore, how do you regard it as a red herring then?

Mr. Alan Merriman: Because I'm very clear the provisions are simply an accounting number. They're nothing to do with the underlying losses that are true and economic.

Chairman: All right, Deputy-----

Deputy Kieran O'Donnell: Just for the final point, just in-----

Chairman: Final point.

Deputy Kieran O'Donnell: Yes. If you say it's a red herring, who then would make the decision to show in the notes to the accounts, the published accounts, that additional losses should have been ... additional provisions should have been provided for the losses?

Mr. Alan Merriman: No. What was provided in the accounts was not we should be providing additional provisions. What was shown and disclosed in the accounts was these are the provisions that we have provided under the accounting standards and, by the way ... loose line ... by the way, we fully anticipate there's going to be higher loan losses in the coming periods.

Deputy Kieran O'Donnell: Why wasn't that done?

Chairman: Sorry-----

Mr. Alan Merriman: Sorry, that was done. That was done.

Chairman: -----Deputy, I take the point of clarification, now that's it, it's done, okay.

Deputy Kieran O'Donnell: That's fine.

Chairman: Mr. Merriman, I want to bring matters to an end. Is there anything you'd like to say by ... in addition or by closing remark or anything else?

Mr. Alan Merriman: No. Thank you, Chairman.

Chairman: Okay, with that said, I would now like to thank Mr. Merriman for his participation with the inquiry this morning and for his engagement with it. The witness is now formally excused. I propose we break for 15 minutes and return just after noon. Is that agreed? Agreed. Thank you.

Sitting suspended at 11.47 a.m. and resumed at 12.16 p.m.

EBS - Ms Ethna Tinney

Chairman: Thank you very much. So I now bring the committee back into public session is that agreed? And we move on to session two of today's hearings with Ms Ethna Tinney, former independent non-executive director of the EBS. The Committee of Inquiry into the Banking Crisis is now resuming in public session and can I ask members and those in the public Gallery to ensure that their mobile devices are switched off. Today we continue our hearings with Ms Ethna Tinney, former independent non-executive director EBS. Ms Tinney was appointed non-executive director in December 2000. She was a member of the board audit and compliance committee from 2001 to 2005, she was transferred to the board credit committee in mid-2005. In 2007 she was voted off the board by members of the EBS at the AGM. In 2008 she was voted back on the board by the members and was a member of the board risk committee until May 2011. Ms Tinney, you are very welcome before the committee.

Ms Ethna Tinney: Thank you.

Chairman: Before hearing from the witness I wish to advise the witness that by virtue of section 17(2)(*l*) of the Defamation Act 2009, witnesses are protected by absolute privilege in respect 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 so do, you are entitled thereafter only to a qualified privilege in respect of your evidence. You are directed that only evidence connected with the subject matter of these proceedings is to be given and I would remind members and those present that there are currently criminal proceedings ongoing and further crimi-