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AN COMHCHOISTE FIOSRÚCHÁIN I DTAOBH NA GÉARCHÉIME BAINCÉIREACHTA

JOINT COMMITTEE OF INQUIRY INTO THE BANKING CRISIS

Dé Céadaoin, 2 Meán Fómhair 2015

Wednesday, 2 September 2015

The Committee met at 9.30 a.m.

MEMBERS PRESENT:

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

DEPUTY CIARÁN LYNCH IN THE CHAIR.

Nexus Phase

Irish Nationwide Building Society - Mr. Michael Fingleton

Chairman: As we have a quorum, 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.

Our focus today is on ... we begin today with session 1, public hearing with Mr. Michael Fingleton, former chief executive of the Irish Nationwide Building Society and, in doing so, I would like to welcome everyone to the public hearings of the Joint Committee of Inquiry into the Banking Crisis. Today, the focus of the inquiry is on Irish Nationwide Building Society and at our first session this morning, we will hear from Mr. Michael Fingleton, former INBS chief executive. A qualified chartered accountant and barrister, Michael Fingleton joined the building society in 1971 and was 38 years with the society until his retirement in 2009. Mr. Fingleton, you're very welcome before the committee this morning.

Mr. Michael Fingleton: 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 to their evidence to this committee. If you're directed by the Chairman to cease giving evidence in relation to a particular matter and you continue to do so, you are entitled thereafter only to a qualified privilege in respect of your evidence. You're directed that only evidence connected with the subject matter of these proceedings is to be given and I would remind members and those present that there are currently criminal proceedings ongoing and further criminal proceedings are scheduled during the lifetime of the inquiry which overlap with the subject matter of the inquiry. Therefore, the utmost caution should be taken not to prejudice those proceedings. Members of the public are reminded that photography is prohibited in the committee room. To assist the smooth running of the inquiry, we will display certain documents on the screens here in the committee room. For those sitting in the Gallery, these documents will be displayed on the screens to your left and right. Members of the public and journalists are reminded that these documents are confidential and they should not publish any of the documents so displayed.

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

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

Mr. Michael Fingleton, former Chief Executive, Irish Nationwide Building Society.

Chairman: Thank you, so if I can invite Mr. Fingleton to make his opening remarks to the committee please. Mr. Fingleton.

Mr. Michael Fingleton: Good morning Chairman, members of the committee. I appear before this committee on a purely voluntary basis. I will, of course, co-operate fully with the inquiry in so far as it is legally possible for me to do so given the issues that have been the subject of correspondence between my solicitors and the committee. I've already submitted a detailed witness statement which addresses the lines of inquiry as requested by the committee. This opening statement deals with the issues set out in that written statement. I prepared that statement on the basis of my recollection and the limited documentation available to me. My statements were prepared without access to information and documentation from the society which has not been available to me since my retirement in April 2009. I will confine my opening statement to a summary of some of the evidence given in my statement, together with some relevant comments.

The society's motivation for entering the commercial property market was the shortage of housing in Ireland in the early '90s following the extended downturn in that market in the '80s. The explanatory memorandum issued with the Building Societies Act 1989 encouraged building societies to get involved in residential development and provided specifically that building societies should be a "major source of funding for housing by investing directly in residential development". Following the entry of Bank of Scotland and the other foreign-owned banks into the market in 1999 it became increasingly difficult for the society to compete in the residential loans market. Their entry resulted in a period of intense competition, with all major lenders taking steps to protect and increase their market share, sometimes irrespective of price considerations. In addition, the brokers who controlled up to 50% of the market were predominantly aligned to the larger financial institutions.

It was decided by the society for good commercial reasons that it would off ... not offer 100% home loans as a matter of policy. Such loans were only provided by the society in exceptional circumstances. For the same commercial reasons, the society also refused to introduce tracker mortgages. We did not engage in self-certification of income mortgages or expand into the sub-prime lending market, and for some time resisted the term extension of loans to 30 and 35 years. The society also refused to lend at margins of 1%, which at that time was a prevalent practice in the market. In this prevailing climate, it was difficult for the society to grow its residential loan book. I would note that our fellow building society, the EBS, had 90% of its loan book in residential lending and it was not saved from the effects of the economic collapse as house prices fell nationally by up to 60% following the crash.

In 1995 the society came to the conclusion that building societies as stand-alone institutions had no long-term future and that the best option for the society was to seek a change in section 102 of the Building Societies Act 1989 which would enable it to effect a trade sale, thus realising the full value of the society for the shareholders. The enabling legislation was finally passed in August 2006 after ten years of unnecessary and inexplicable delay. The desired sale did not materialise for reasons detailed in my opening ... in my statement. Once it became apparent that we would not effect a trade sale of the society in the short term, I reviewed the society's position in the market and decided to downsize its balance sheet, reducing its commercial loan book, and from September 2007 I began taking appropriate steps to do so. I'd every expectation that this would achieve a significant reduction in the society's exposure based on the premise that in excess of €5 billion of the loan book was due to mature in 2008. At this time the society accepted the market consensus that in the event of a downturn in the property market, a soft landing scenario would apply. Under this scenario, it was anticipated that a fall in real property values of around 20% would occur over an extended period. The society would have, at this time, welcomed such a development on the basis that it was in the interests of a more stable market. We were influenced in our views by the forecasts and commentaries arising from successive reports by the Central Bank, the IMF, the OECD, the EU, the ECB, the Department of

Finance, the EIB, the World Bank, the ESRI and the NESC. In addition, all the economists in the banks, stockbrokers and academia were of the same view. Indeed, this consensus view appears to have been prevalent in every one of the 69 countries affected by the crash. In addition, prior to the general election of May 2007, all major political parties were seeking to increase spending, and indeed some campaigned on the basis of a proposed reduction in taxation. It was clear that parties on all sides of the House expected that the revenues from the property market would continue to accrue to the Exchequer.

The financial crisis which preceded the property crash originated in the US on the back of the sub-prime debacle which caused the banking crisis in which the rating agencies played a major role. A range of powerful institutions which went bust or had to be rescued or nationalised, such as Washington Mutual, AIG, Merrill Lynch, Freddie Mac and Fannie Mae, and, in April 2008, Bear Stearns. On 26 September 2008, the bankruptcy of Lehman's caused the collapse of the liquidity market in Europe and in the United States. As David Doyle, former secretary of Finance, said in his evidence, and I quote: "Lehman was the killer". If Lehman's and, to a lesser extent, Bear Stearns had not been allowed to fail in 2008, then things may have been different and the ultimate extent of the crash may have been somewhat moderated.

I reiterate, for the reasons outlined in my statement to the committee, that the society was not insolvent on the night of the guarantee. No individual financial institution could have prevented the property bubble in Ireland. The only entities that could have acted to prevent the property bubble were the regulator, the Central Bank, the Department of Finance or the Government. The ECB, who had the powers to compel the Central Bank to take any necessary action - sorry, the ECB also had the powers to compel the Central Bank to take any necessary action. However, none of them chose to do so.

The losses from property lending incurred by the banking sector in Ireland were not just confined to Irish institutions. The foreign-owned banks, namely, Ulster Bank, Bank of Scotland Ireland Limited, ACC, Danske Bank and KBC, all incurred significant losses estimated to be collectively in the region of €40 billion. The Building Societies Act 1989 states that it shall be the duty of the auditors to carry out such investigations as will enable them to form an opinion on whether the society has kept proper accounting records and maintained satisfactory systems of control of its business and records and systems of inspection. Where the auditors are of the opinion that the society has failed to keep proper accounting records or systems of control, they shall state so in their report. The committee should note that since their appointment as auditors of the society, KPMG, in each and every year have expressed satisfaction that the financial statements of the society correctly showed the financial position of the society and that proper books of accounts and records have been kept and that the directors had established and maintained reliable systems of control and, accordingly, issued full audit reports - full unqualified audit reports.

I do not accept that the NAMA valuations provided an accurate assessment of the value of the society loans. The extent of the losses attributable to the society on the back of the NAMA valuations of the society's commercial book is an issue which is in dispute. It is, in my view, that NAMA exceptionally discounted the society's loans in the absence of any, or with little credible, challenge to their valuations.

On 23 May 2012, in its address to the chartered certified accountants in Galway, Mr. Frank Daly, chairman of NAMA, said that having completed the due diligence of the property portfolio and having assessed the property portfolio in more detail, NAMA's view was that the assets had more potential than they initially had reason to expect. He went on to say, "A high proportion of the property assets in Ireland ... are located in or close to counties with large urban centres of population (Dublin and neighbouring counties, Cork, Limerick and Galway) and the long-term prospects for much of this property will be better after the economic situation stabilises." It is a matter of record and fact that the society's Irish commercial properties, including development lands, were located in precisely those locations - in Dublin, Wicklow, Meath, Kildare, Cork and Limerick. A reference to that is KPMG due diligence report, June 2007.

In the United Kingdom, where the society had the majority of its commercial loan book, with 60% of its lending to the London market, I have identified profits that have accrued or will accrue to NAMA in the region of €1 billion from sales relating to a relatively small number of borrowers. I am awaiting the receipt of further information and documentation in relation to many other borrowers to enable me to conduct a similar evaluation. I outline now examples relating to three properties to illustrate my point: property A - NAMA valuation £18 million, realised £200 million, excess £182 million; property B - valuation ... NAMA valuation £12 million, realised £100 million, excess £88 million; and property C - NAMA valuation £165 million, realised £250 million, excess, £85 million. The total accumulated profit in relation to those three properties amounted to £355 million, equivalent to €443 million. It must also be noted that at the time when NAMA was calculating the discounts, UK property prices were already on the rise again, particularly in the London area. The London property market has clearly performed strongly since this time.

I believe the society was a victim of the financial crisis which originated in the sub-prime market in the US, precipitated by the bankruptcy of Lehman's. However, I accept that the society was a contributor to the resulting property crash that followed by being unable to sufficiently reduce its exposure to the commercially property market, despite having realistic expectations to do so, while the decision of the society to downsize its commercial loan book in September 2007 and despite having diversified geographically its market exposure.

The financial crisis which occurred was in the ... was an event, the occurrence, size and magnitude of which was unforeseen by even the most astute observers of financial markets. As a result, the collateral damage caused by the collapse was immense for everybody concerned. Almost all commentators, as already said, accept that the financial collapse was not foreseen and could not have been reasonably foreseen. In my 30 years ... 38 years with the society, I had, prior to the economic collapse, gone through three recessions and downturns in the property market. I did not expect the predicted slowdown to be any worse than any of those previous recessions and none of the other market participants did either. Having built up the society in a competitive, innovative and cost-efficient manner over the years from a business with €20,000 profit and five employees with one branch office to almost €400 million profit and 455 employees with 50 full branch offices, it was an absolute shock and bitter disappointment to me that the society succumbed to such a cataclysmic financial crisis, a one-in-100-year event which caused such huge damage to every element of the nation, both corporate and personal. I regret very much ... I have and I am continuing to pay the price, personally, as a result. In particular, I regret it for the society's employees, shareholders and borrowers, who all became casualties of the crisis, and I regret it for the taxpayer and the State, who had to fund the deficit.

Thank you, Chairman. I am happy now to take your questions.

Chairman: Thank you again, Mr. Fingleton, for your co-operation with the direction by the committee to come before us here this morning. And I'll open up questions by inviting our first questioner this morning, which is Deputy Pearse Doherty.

Deputy Pearse Doherty: Go raibh maith agat agus fáilte chuig an choiste, tUasal Fingleton. Can I ask you, just following on from your last comment, what is it, exactly, you regret?

Mr. Michael Fingleton: I just regret that the State and the taxpayer had to pick up the bill for the collapse of the whole financial market and, in particular, for the banking sector.

Deputy Pearse Doherty: Okay. In your contribution you mentioned, for example, contributors or those who could stop the property bubble. You mentioned Lehman's, Bear Stearns - as instigators of the crisis - the regulator, the Central Bank, the Department of Finance, the Government, the ECB. In your view, where does Irish Nationwide and your role as the chief of Irish Nationwide, INBS, for the last 38 years ... where do you stand in relation to the fact that you regret that other people had to pick up the tab for the bank that you were in charge of that went bust?

Mr. Michael Fingleton: Well, over 38 years, Deputy, I was CEO and later, in ... since 1975, I became managing director of the society. And in that year, I changed the name of the society, of course, to Irish Nationwide. We were called the Irish Industrial Benefit Building Society. I changed the name to Irish Nationwide and I was instrumental in the appointment of KPMG as auditors to the society. Over the years, up to 1992, the society ... I built up that society, as CEO, with the full co-operation of our board and I always insisted that the board would be fully involved in the lending process, which was unique - and is unique - among financial institutions. And during the '80s, we expanded, slowly and conservatively, the development of the society, particularly in the home loans market. But in addition, we also did small ticket commercial loans for shops and individual offices, for farms and even for small developments and building construction. I think we have ... we had about 10% of our book in that area of the market. And in 1992, following the change in legislation, we took advantage, if you like, of the encouragement, as I've explained earlier, of the legislation which enabled the societies to engage in development and construction of housing. And we were encouraged, as I said, to do it and I quote, "[that] building societies should be a major source of funding for housing ... by investing directly in residential development". That was the purpose of the Act and the genesis of the Act in relation to that area. So, we decided at that time to get involved and we acquired, I think, 70 acres of land in Lucan.

Deputy Pearse Doherty: Mr. Fingleton, we won't have time ... and I'm sure other members will have time to go through the whole history of Nationwide, but in terms of the specific question of the regret that you've expressed, what role did you play yourself in relation to where Irish Nationwide found itself basically lumped on the Irish taxpayer-----

Mr. Michael Fingleton: I ... I-----

Deputy Pearse Doherty: -----and do you regret any decisions that you took or the way that you managed the bank in ... in ... to bring it to a point where it ultimately went bust?

Mr. Michael Fingleton: I don't regret any decisions I took. What I do regret is that, at the time, the society had a commercial loan book that was, at the time, too large and, as a consequence of the crash, was deemed to have significant losses within that book.

Deputy Pearse Doherty: Whose fault was it that the society had a commercial loan book that was too large?

Mr. Michael Fingleton: It was ... I was part of the strategy. I was part of the operation and I was part of the decision to increase ... to engage in commercial development-----

Deputy Pearse Doherty: But you don't regret that decision, as you've told us-----

Mr. Michael Fingleton: Well, I regret it now, of course, but at the time-----

Deputy Pearse Doherty: Okay, so you do regret-----

Mr. Michael Fingleton: -----at the time, certainly, I didn't. It was a normal commercial decision and it was based on demographics and all the rest of it that availed in the environment and the market at the time.

Deputy Pearse Doherty: Okay, we'll come back to the commercial property. Is there any other decisions, bar allowing your commercial property exposure to increase to significant levels, that you regret?

Mr. Michael Fingleton: I regret that when we took the decision to downsize the balance sheet and, in particular, downsize the commercial book, that we didn't get the time to do it because we were turning over our commercial book every three years. I think that's borne out in the due diligence report by KPMG in 19 .... in 2007. And we had matched our wholesale funding, which was between three and five years, to the maturity of those loans. Funny enough ... and that was a comfort to us at the time and it was a big plus. So, therefore, if we had got another year of normal lending or normal markets compared to 2007, Senator, there was the maturity of €5 billion ... there was a book of €5 billion of our loans due to mature in that year, 2008. Therefore, we would have reduced I'd say by, realistically, maybe €3 billion. So, we'd have our book down from €8.5 billion down to €5 billion.

Deputy Pearse Doherty: Okay. Mr. Fingleton, you were in charge of Irish Nationwide Building Society for 38 years. During that period, the bank made a series of business decisions that led to it eventually going bust and to be bailed out by billions of euro of taxpayer's money. In the annual accounts of Irish Nationwide Building Society, it was reported that a pension fund of €27.6 million had been set up and subsequent newspaper reports revealed that that separate pension fund that was set up at that time was for your exclusive benefit. Can you explain to the committee why a pension fund of €27.6 million was set up in the year 2007?

Mr. Michael Fingleton: I'll try, Deputy. In the early '90s, I think it was '91 or '92, I looked at my pension fund and the value that accrued on that fund. It was managed by an outside insurance company - an outside fund - and I discovered that if I had invested all the contributions in the lowest deposit account or the lowest paying deposit account operated by the society at that time, that would have produced more than what was produced by the insurance company in the fund. So I agreed with the society at that time that I would manage my own fund and I would invest the contributions that were provided by the society in that fund. So I made the decisions from that time on what to invest in and the fund was, of course, administered by the trustees of that particular fund. So that's the genesis of where it started and originated. And over the years the fund built up to almost €30 million based on my decisions on what to invest in. And when the fund matured and when the retirement came, as I said, there was €30 million in it, €30 million in it. Now the net cost of that, Deputy, to the society - booked it in a public document that doesn't appear to have got great circulation - was in my view almost nearer to €3 million than what the experts said was nearer to €4 million. So in that period, I increased that fund by almost ten times, tenfold. So you can appreciate, because pensions and the pension pots and funds are very much discussed within your environment, and you can appreciate what €3 million, what sort of a fund €3 million would buy you today, or even €4 million would buy you today. So the cost to the society was €3 million, or if you believe the ... some of the experts who have examined the account, and I will come to that in a minute, nearer €4 million.

Deputy Pearse Doherty: Was there a bonus culture in Irish Nationwide?

Mr. Michael Fingleton: No, Senator.

Deputy Pearse Doherty: No.

Mr. Michael Fingleton: There was no bonus culture in the Irish Nationwide.

Deputy Pearse Doherty: So there was no bonuses paid in-----

Mr. Michael Fingleton: Oh there was, sorry. There was no bonus ... there was bonuses paid on the basis of results on an annual basis. There was no bonuses culture from the point of view that if, to promote the business, in other words, to, you have to get so much lending done and you'll get so much if you achieve targets. There was no target-related bonuses paid in Irish Nationwide, except to the branch managers to incentivise them to get more home loans or attract more home loans for the society because that's where we were weakest for reasons I have outlined in my statement, that we didn't do tracker mortgages or we didn't do 100 per cents or we didn't do self-certification. We didn't take on loans at a 1% margin-----

Deputy Pearse Doherty: Is your view today, with hindsight, in relation to the bonuses that were paid out, as you mentioned, to individuals and the large pension pots that were set aside in the annual accounts that we've referred to - your own one that had a value of €27.6 million - is your view ... what is your view? Is your view that people were entitled to those bonuses and pensions funds even though that there has been, as you mentioned, victims of the crisis which don't have any pensions out there and have suffered immensely as a result of the financial crisis?

Mr. Michael Fingleton: Oh, I'm fairly conscious of that, Deputy. I certainly would say in hindsight they were excessive. That's all I'll say really.

Deputy Pearse Doherty: Okay.

Mr. Michael Fingleton: If it was today, they just wouldn't be paid, but at that time in the market - and we were, the society was extremely successful at the time - and I think that ... you see, I did not determine my bonuses. They were done by the remuneration committee, which comprised the three, or all the non-executive directors, and they decided what my bonus was.

Deputy Pearse Doherty: If you go to the core booklets on Vol. 1, page 43 and 44, in a letter dated in February 2008, it regards the inspection of commercial property lending exposures-----

Mr. Michael Fingleton: What are you, sorry-----

Deputy Pearse Doherty: Page 43 and 44 of Vol. 1, and I will quote it anyway-----

Chairman: It'll come up on the screen in front of you as well, Mr. Fingleton.

Mr. Michael Fingleton: Sorry?

Chairman: It will come on the screen for you there in a few moments. Oh sorry, it won't.

Deputy Pearse Doherty: It won't.

Chairman: It won't, no.

Deputy Pearse Doherty: I will quote. It says the Financial Regulator "calls into question the adequacy [and] controls and risk management in place in INBS for large commercial property loans and suggest[s] that a significant degree of approval authority rests with a single individual, Mr. Fingleton, who also appears to be the only source of information on some of these large clients". What is your views of the Financial Regulator's statement that he made at that time?

Mr. Michael Fingleton: I don't agree with it, Deputy.

Deputy Pearse Doherty: Why do you not agree with it?

Mr. Michael Fingleton: Because it's not true.

Deputy Pearse Doherty: What part of it is not true?

Mr. Michael Fingleton: It's all not true.

Deputy Pearse Doherty: All of it is not true.

Mr. Michael Fingleton: Except that I did have, it was my job to have knowledge of the different exposures of the society. So I would have knowledge but I didn't have exclusive knowledge Chairman, or Deputy, of any those loans.

Deputy Pearse Doherty: Okay, and the "significant degree of approval authority rests with a single individual", you'd ... do you disagree?

Mr. Michael Fingleton: That's a nonsense.

Deputy Pearse Doherty: Nonsense?

Mr. Michael Fingleton: Yes.

Deputy Pearse Doherty: Did you challenge the Financial Regulator in relation to his ... to this-----

Mr. Michael Fingleton: Chairman, even at the ultimate end of the process the board approved all the loans over €1 million, not Michael Fingleton.

Deputy Pearse Doherty: Okay. Why would the Financial Regulator say to the chairperson of INBS that a "significant degree of approval authority" lay with yourself?

Mr. Michael Fingleton: I don't know, you'll have to ask ... I know who ... I know who said it, you'd have to ask her because I don't think ... I think there was always this perception, and I emphasise perception Deputy, that I, sort of, controlled the whole operation of the society. But I took steps to ensure that I didn't control it or couldn't control it. I maintained and kept and ensured that the board always had the final say and that was ... no other institution had the board involved in the lending process.

Deputy Pearse Doherty: Did you ever provide a name-----

Mr. Michael Fingleton: And that was ... and I can maintain that right from the time I became CEO of Irish Nationwide. Secondly ... it's gone out of my head now ... anyway, that's-----

Deputy Pearse Doherty: Did you ever provide a name and an amount to-----

Mr. Michael Fingleton: Sorry, I've, I've-----

Deputy Pearse Doherty: If I can finish this question, did you ever provide a name and an amount to one of your staff members in INBS to provide a loan to an individual, for example, on a Post-it note?

Mr. Michael Fingleton: No.

Deputy Pearse Doherty: No, never?

Mr. Michael Fingleton: No.

Deputy Pearse Doherty: Okay. Did you ever provide it in any type of form?

Mr. Michael Fingleton: No.

Deputy Pearse Doherty: No, okay.

Mr. Michael Fingleton: I ... loans, loans ... I might introduce loans, people might come to me and the process was people came to me, I would meet them, I would always have a lender with a notebook, taking notes, or an underwriter in the case of a home loan and then I would pass them over to them to deal with the detail.

Deputy Pearse Doherty: Okay.

Mr. Michael Fingleton: And that was my-----

Deputy Pearse Doherty: Mr. Fingleton, in the core documents of Vol. 1, again on page 5, it states that over the period 2001 to 2003, Nationwide increased its level of commercial lending by over 60%. This was a source of concern for the regulator, that the society did not have the appropriate skill sets or controls in place to effectively manage this exposure. On page 47 of the core booklet that you have in Vol. 1, we see that by September 2008, 80% of INBS's loan book was in commercial property and 81% in land and development exposure was in speculative property activities. Do you think that this was an appropriate lending strategy for Nationwide, as a building society, in which to engage?

Mr. Michael Fingleton: I don't Deputy. It was a normal expansion of the business. The reason we had more ... or more ... volume in commercial loans is that we couldn't increase our home loan book for reasons I've already stated. And we developed-----

Deputy Pearse Doherty: To clarify, you say you don't, so you ... is it you don't believe it was appropriate but it was also a normal expansion, so which-----

Mr. Michael Fingleton: It was normal expansion as I've said-----

Deputy Pearse Doherty: Inappropriate normal expansion is that what you're saying?

Mr. Michael Fingleton: No, no I'm not saying it was ... an ... an inappropriate-----

Deputy Pearse Doherty: So it was appropriate?

Mr. Michael Fingleton: So it was within ... it was in the parameters of our liquidity, our capital availability and the share-to-deposit ratio. All the parameters and requirements of the regulator was complied with. It was also within the capacity of the society because it was normal lending at the time within the strategy and within the objectives of the society to engage and expand our loan book in that area.

Deputy Pearse Doherty: Were you aware of the risks?

Mr. Michael Fingleton: And remember Deputy we were, we ... we got out of commercial ... or got out of a construction, more or less, and we did more development and, indeed, more income generating investments, particularly in the UK, because we were turning over our book every three years.

Deputy Pearse Doherty: But were you aware of the risks that existed with the fact that you put 81, 80% of your loan book in commercial property and 81% of land and development were in speculative-----

Mr. Michael Fingleton: The risks ... the risk was diminished in that you're talking about land development and a lot of our lending was in that area and the risk to that was that we wouldn't get the planning or that our customers wouldn't get the planning, because that was the criteria. Our customers ... the loans were based on the premises ... on the premise that the borrower would get the planning. Once the planning was received, our risk would be transferred to another lender for the construction phase and we would get our money back. And we would get our money back in all our books between ... I think the timeframe was between six months and three years of when the planning accrued. That was the purpose of it. So the lower ... the shorter the period, Deputy, the lower the risk and that's how we dealt with our lending in that-----

Deputy Pearse Doherty: Can I go to maybe - just in relation to the risk - again the core booklets, Vol. 2? It's on page 45 and this is Project Harmony, the report in June 2007, and it notes:

> The overall approach to risk assessment would not be described as highly developed given that the Group continues to rely heavily on the Managing Director, does not have sophisticated IT systems and operates across a limited range of products. This modus operandi would be described by the management as fit for purpose, particularly given the degree of Board oversight of the lending approval process.

End of quote from the Project Harmony report.

Mr. Michael Fingleton: Sure.

Deputy Pearse Doherty: Can you explain why you considered such a *modus operandi* to be fit for purpose for a financial institution with a balance sheet of €16 billion at the end of 2007?

Mr. Michael Fingleton: I didn't ... did I decide? It was fit for purpose within the parameters and the criteria in operation within the society.

Deputy Pearse Doherty: Did you have a sophisticated ... do you dispute what the Project Harmony? For example, did you have a sophisticated IT system? It's reported that you never even had a computer yourself. I'm not sure if that's accurate or not. But was there a sophisticated IT system? Do you dispute what Project Harmony says in the report in June 2007?

Mr. Michael Fingleton: We had a system. Remember, Deputy, we were operating in a very narrow and simple, straightforward market in property and being funded by deposits on the wholesale market. We were just in a narrow banking function. Therefore, it didn't take great sophisticated systems that would normally operate in the larger banks-----

Deputy Pearse Doherty: You had €16 billion of a loan book, with respect, at the end of 2007.

Mr. Michael Fingleton: We hadn't the €16 billion.

Deputy Pearse Doherty: Sorry, €16 billion was-----

Mr. Michael Fingleton: Our assets.

Deputy Pearse Doherty: At the ... yes, here, the balance sheet was €16 billion.

Mr. Michael Fingleton: At what date?

Deputy Pearse Doherty: Did that not require a computer, for example, for the managing director?

Mr. Michael Fingleton: Oh we had, of course. We had a very good system that catered for the needs of the society.

Deputy Pearse Doherty: Okay. So ... okay, I'll leave it at that.

Can I ask you, in the letter from INBS, and again this is in core booklet, Vol. 3, page 41? This is a letter from INBS to the Financial Regulator's office in April 2008 and it's in response to the Regulator's query of February 2008 - its report on commercial property lending. The letter from INBS states:

> Mr. Fingleton is closely involved with the U.K. and Ireland commercial lending managers in assessing large commercial loan applications and in ongoing reviews and discussions with large borrowers. The Chief Executive is ultimately responsible for all lending and it is essential that he is involved in all material loans being approved by the Society.

That's coming from your own institution to the Financial Regulator. So, is it reasonable, or not, to say that with regard to commercial loan applications, that you were ultimately responsible for the lending?

Mr. Michael Fingleton: Well, as CEO or managing director ... listen, you are always ultimately responsible for whatever takes place within the organisation, and lending was our prime activity within that organisation. So, I would have to familiarise myself very thoroughly with all the loans that were being proposed, all the loans that were there for approval and all the loans that ultimately went on to the society's loan book.

Chairman: We going to start moving to wrapping up, Deputy.

Deputy Pearse Doherty: Yes. Mr. Fingleton, in the core booklet - again Vol. 1, page 71 to 73 - this is a review by Deloitte in the second quarter of 2008 into your bank, Irish Nationwide, commercial and residential lending. It had the following to say with regard to critical issues. On page 71 of these documents it quotes:

> No Credit Committee approval was present on a number of reviewed files, mostly relating to loans originating in Belfast.
>
> In many cases the Commercial Loan Application was approved by only one member of

the Credit Committee, while at least two members are required under the terms of reference to approve these loans.

It goes on then to say in page 73:

Until December 2007, board approval was required for all loans in excess of €1 million. In a number of incidences, no board approval could be located in either the loan file or the board minutes for loans which, according to the lending policy in operation at the time, would have required board approval.

You have told this committee that at all times - and you're very proud of it - that the board was involved in all of these decisions; that you didn't, despite what the Financial Regulator says, have ultimate responsibility in terms of these decisions, or the authority lay with you. How come is it that Deloitte is pointing out, again and again, that the board didn't approve these ... that the credit committee didn't approve some of these loans?

Mr. Michael Fingleton: Chairman, or Deputy, I just have to say on that one that this is an issue or an allegation or allegations that are in dispute and they're a matter for another jurisdiction. And I would dispute those and the chairman of the credit committee would dispute those allegations and that remains for another day. I cannot comment for legal reasons.

Deputy Pearse Doherty: Okay, that's fine. Just for clarity, you are disputing the Deloitte report, the Financial Regulator's report, Project Harmony's report in relation to-----

Mr. Michael Fingleton: Sorry, excuse me.

Deputy Pearse Doherty: -----Deloitte's report, the Financial Regulator's letters in relation to your authority and the Project Harmony report? It's that just for accuracy purposes.

Mr. Michael Fingleton: I've made my ... I've stated in my answers the responses to your questions-----

Deputy Pearse Doherty: Can I finally ask you ... in relation to ... INBS's overarching driver was demutualisation and sale and this is talked about in the Nyberg report. In your opinion, did the desire on the part of management, and on your part also as part of that management, to maximise the value of INBS result in the adoption of poor lending practice and an increased level of risk in the loan portfolio?

Mr. Michael Fingleton: We certainly would have wished to maximise the value of the society. That would be normal for any institution who wishes to sell its organisation to a third party. Sorry, the second part of your question-----

Deputy Pearse Doherty: The question is: did the fact that you wanted to sell ... the demutualisation and sale, did that result in your view, as part of the management to maximise the value of INBS ... did that result in the adoption of poor lending practices and an increase in the level of risk in the loan portfolio?

Mr. Michael Fingleton: I don't accept there were poor lending practices and it was not a motive at all in relation to the demutualisation of Irish Nationwide and the subsequent sale of the society, which was a normal ... we engaged in normal business ... ongoing development of the society.

Chairman: I will invite you back in at the end, Deputy, when we are wrapping up. Deputy

Kieran O'Donnell.

Deputy Kieran O'Donnell: Thanks, Chairman. Welcome, Mr. Fingleton. In relation to the loans acquired to the society by NAMA - you made reference to them earlier - the discount overall was 61% and you spoke about where you feel the discounts were too high. Now, they were the highest discounts of any of the financial institutions and, Chairman, I am referring here to Vol. 1, page 125. Can you explain how you got into a situation where you became partners with developers in terms of profit-sharing, where you gave 100% loans to developers, you took up to 50% of the profit on the development, you charged them a rate of interest? And were they non-recourse loans? So can you give a background in that area?

Mr. Michael Fingleton: Okay. Chairman, yes, I refer back to 1992. We were coming out of the recession of the '80s, where there was little or no increase in the real value of house prices, there was little or no construction going on. I think there was about 15,000 or 20,000 houses being built annually - and we had, of course, the 1989 Act just passed and, as I said to the Deputy ... that building societies ... it encourages us, it stated that, "Building societies should be a major source of funding for housing by investing directly in residential-----"

Deputy Kieran O'Donnell: Mr. Fingleton - and I don't wish to interrupt you - I'm aware of that. What I really want to ask is-----

Mr. Michael Fingleton: Sorry, I thought the Deputy was asking me a question.

Chairman: Yes.

Deputy Kieran O'Donnell: No, I was asking you a question.

Mr. Michael Fingleton: Oh, was it you?

Deputy Kieran O'Donnell: It was, Chairman, yes.

Mr. Michael Fingleton: I beg your pardon. I'm sorry.

Chairman: I haven't started yet, Mr. Fingleton.

Deputy Kieran O'Donnell: The question is, at the time of, we'll say, the bank guarantee was brought in, of the development loans, which were of the order - commercial loans - they were €9 billion of the €12 billion of loans in Irish Nationwide at the time, what percentage of them-----

Mr. Michael Fingleton: €8.5 billion.

Deputy Kieran O'Donnell: €8.5 billion. Right, we'll round it up. But what percentage of those were ... involved joint ventures where there was profit-sharing with the developer for Irish Nationwide?

Mr. Michael Fingleton: I think there was around - I am only guessing, Senator - maybe 30%.

Deputy Kieran O'Donnell: Now, I've seen and we've seen figures where it's been reported ... the Central Bank have said it was around 65% by value.

Mr. Michael Fingleton: Are you talking about land development now or are you talking about income-generating investments-----

Deputy Kieran O'Donnell: I'm talking about-----

Mr. Michael Fingleton: Just the loan book?

Deputy Kieran O'Donnell: -----the loan book.

Mr. Michael Fingleton: I'd be surprised if there was 60. I would certainly think it may be 50.

Deputy Kieran O'Donnell: And of the lands that were yet to be developed, what percentage of those would have been profit-sharing?

Mr. Michael Fingleton: I don't know. I haven't got that figure, Deputy, yes.

Deputy Kieran O'Donnell: Of those loans, the 50% - let's assume that it was of the order of about ... over €4 billion - what percentage of those were non-recourse loans where the only security given was the asset?

Mr. Michael Fingleton: There were certainly ... in the UK, they would be mostly non-recourse in relation to the joint ventures. In Ireland, there would be some non-recourse but the majority of them would be recourse.

Deputy Kieran O'Donnell: Why were so many of the loans non-recourse? They appeared to be very high-risk.

Mr. Michael Fingleton: Because non-recourse was not available in the UK from our customers in relation to the joint ventures. Because they were contributing 50% - up to 50% - of their profits to the society, they would not give personal guarantees.

Deputy Kieran O'Donnell: But did you not ... in terms of the interest, was that not, Mr. Fingleton, reckless of a form for you, as CEO of the society, to put the members' interests at such risk, or not?

Chairman: Don't make a judgment there now, Deputy.

Deputy Kieran O'Donnell: Well, put it this way, that ... you're saying that the developer was dictating that they would not give any form of security bar ... other than the asset itself.

Mr. Michael Fingleton: It wasn't available. But, Deputy-----

Deputy Kieran O'Donnell: Ye could've demanded it.

Mr. Michael Fingleton: We would ... when you ... we would be going on our experience with those particular developers or borrowers. From 1992, the vast majority of them were customers of ours, right up to 1997. That is 15 years. And we had little or no losses incurred in that period. And we had ... we had ring-fenced our area of activity and diminished the risk element by ensuring that all those loans would be redeemed within a three-year period. And effectively they were. So-----

Deputy Kieran O'Donnell: But is it not-----

Mr. Michael Fingleton: We had to ... we were basing all our decisions based on other considerations but principally on the basis of our experience in that market which we had built an expertise in in the intervening period of 15 years. So you have to take into consideration that element of risk in the lending.

Deputy Kieran O'Donnell: But, in September 2008, is it not fair to say, Mr. Fingleton, that you had a development loan book too much of which was tied up in joint ventures with non-recourse loans?

Mr. Michael Fingleton: Well, if there was too much of it tied up in joint ventures, I don't think the recourse would have made much difference, Deputy, in the final analysis, the way things turned out.

Deputy Kieran O'Donnell: But you don't-----

Mr. Michael Fingleton: It certainly didn't make any difference to the recourse loans we had here in Ireland or the few ... or the number ... we had a number, quite a number ... we had all our recourse loans in the UK in relation to that-----

Deputy Kieran O'Donnell: And you don't see that-----

Mr. Michael Fingleton: ----big interest-bearing investment properties.

Deputy Kieran O'Donnell: You don't see that as a contributory factor to the high discount with NAMA?

Mr. Michael Fingleton: It was a contributory but it wasn't the major issue in relation to the discounts applied by NAMA to our loans, I can assure you of that.

Deputy Kieran O'Donnell: On 7 September, Mr. Purcell, your secretary of the board and financial officer, and two other colleagues arranged a meeting with the Central Bank on behalf of Irish Nationwide, with representatives ... together with representatives from AIB and Bank of Ireland. Were you aware that this meeting had been arranged?

Mr. Michael Fingleton: I was.

Deputy Kieran O'Donnell: Okay, and who requested the meeting?

Mr. Michael Fingleton: As ... my understanding ... well, you have Mr. Purcell here this afternoon, he'll fill in more detail, but my understanding was that it was the regulator.

Deputy Kieran O'Donnell: And was a decision reached at the meeting?

Mr. Michael Fingleton: No, there was no decision reached at the meeting, as I understand.

Deputy Kieran O'Donnell: Why didn't you ... why did you not attend the meeting, Mr. Fingleton, as CEO?

Mr. Michael Fingleton: I was ... I had other engagements that required my attention. You do recall, Deputy, the false Reuters report and it might be interesting to know the background to that in that the night the Reuters report was issued, on the lines, we contacted the regulator's office and we informed them that the report was totally erroneous. And the ... I think our head of supervision said that they would get on to the media and that they would make a statement saying ... confirming that that was erroneous.

Deputy Kieran O'Donnell: That's ... Mr. Fingleton, that's in the public domain. I suppose, I want to get ... the meeting-----

Mr. Michael Fingleton: Well, I don't think that's in the public domain.

Deputy Kieran O'Donnell: Well, it's ... it's-----

Chairman: Can I ask you, Deputy, just to get to ... to ask Mr. Fingleton to clarify the purpose of that meeting?

Deputy Kieran O'Donnell: The purpose ... that's really ... the purpose of that meeting on 7 September?

Mr. Michael Fingleton: The purpose of that meeting ... from the regulator's point of view, they felt and believed that, following the Reuters report, there might be a run on the society or that there would be a run on the society the following Monday or whenever it was ... the following day - maybe the following Monday, I think it was - and that they wished to establish whether a major bank would supply, if the society needed it, some liquidity. Now, Deputy, it is clear from evidence given to this committee that the society didn't need any liquidity to absorb any run or withdrawals caused by the false Reuters report.

Deputy Kieran O'Donnell: Is it ... if I can just refer you to page 96 of Vol. 1, where it's a letter from the Financial Regulator to Mr. Walsh and on page 96, he says-----

Mr. Michael Fingleton: Let me see now.

Deputy Kieran O'Donnell: It's "**Liquidity Risk**".

Mr. Michael Fingleton: Let me get it ... let me get it. Let me see, "**Liquidity Risk**" ... 96. Okay.

Deputy Kieran O'Donnell: Paragraph 3, top of the page.

Mr. Michael Fingleton: 96, "**Liquidity Risk**", is it? Okay.

Deputy Kieran O'Donnell: Yes.

Chairman: Yes, it's the fourth page of an overall letter from the Financial Regulator.

Deputy Kieran O'Donnell: I want to direct you-----

Mr. Michael Fingleton: Okay.

Deputy Kieran O'Donnell: -----to three sentences down:

> Currently [Irish Nationwide Building Society] has no access to ECB monetary operations, [it] has not been accessing the wholesale markets for [lending] in recent months and is relying on retail and corporate deposit initiatives.

So, clearly, at the time, the Financial Regulator had concerns about your overall liquidity position. Ye were heavily reliant on deposits. And, following on from that, just to give it context, there was a meeting on 7 September where Mr. Richie Boucher stated that the Financial Regulator sought a meeting with him for the purpose of ... to discuss potential liquidities both for Irish Nationwide Building Society. So, you weren't able to access ECB funding, so-----

Mr. Michael Fingleton: Deputy ... sorry, Deputy, in relation to the wholesale funding, we didn't need to access wholesale funds at that time. We had €4 billion of cash or near cash on deposit with counterparty banks.

Deputy Kieran O'Donnell: So you'd no liquidity-----

Mr. Michael Fingleton: To over 25% of liquidity and a multiple of the requirements laid down by the regulator in the new requirements he introduced in 2007. We had no need ... and, in fact, I think ... I haven't got it confirmed yet but I think we might have paid back €750 million to our funders in February or March in that year.

Deputy Kieran O'Donnell: Which you were required to do.

Mr. Michael Fingleton: Which we were required to do. So we had no need even to roll it over.

Deputy Kieran O'Donnell: Can I just follow on from that question? You had a meeting subsequently with David Doyle on 18 September, the then General Secretary of the Department of Finance.

Mr. Michael Fingleton: Yes.

Deputy Kieran O'Donnell: What was discussed at that meeting?

Mr. Michael Fingleton: What was discussed at that meeting was that we ... were suggested ... we looked for a meeting, first of all, with the Minister and the Minister wasn't available. And that's ... the chairman and myself.

Deputy Kieran O'Donnell: For what purpose?

Mr. Michael Fingleton: The purpose was to ask or suggest to the Government that they would increase the guarantee on deposits from €20,000 to €100,000. That was the purpose of that meeting. And that was on the 18th of-----

Deputy Kieran O'Donnell: September.

Mr. Michael Fingleton: September and-----

Deputy Kieran O'Donnell: Mr. Fingleton, did you-----

Mr. Michael Fingleton: -----deposits were increased on 20 September from €20,000 to €100,000.

Deputy Kieran O'Donnell: Fine. Did ye discuss solvency of Irish Nationwide on that . . . at that meeting?

Mr. Michael Fingleton: I think ... I'm not too sure, Chairman. I can't remember that. I don't think we did but I'm not too sure. No, I can't ... I can't remember. But certainly we did ... the purpose of going to meet the Minister and we met instead the-----

Deputy Kieran O'Donnell: Do you accept, Mr. Fingleton, that, in terms of scale - size - that Irish Nationwide's cost to the Irish taxpayer, €5.4 billion, has been the biggest single banking failure in size in the history of the Irish State? And, in that context, that it cost €5.4 billion, do you still believe Irish Nationwide Building Society was solvent on the night of the guarantee?

Mr. Michael Fingleton: I certainly do believe we were solvent on the night of the guarantee, Deputy, and there's been no evidence produced, as far as I am aware, to this committee by all the participants to date to suggest otherwise.

Deputy Kieran O'Donnell: And do you accept that the €5.4 billion of taxpayers' money that's ended up going into Irish Nationwide Building Society, which they will never see a red cent of-----

Mr. Michael Fingleton: If you accept-----

Deputy Kieran O'Donnell: Is it the biggest single failure?

Mr. Michael Fingleton: Deputy, if you accept the discounts applied by NAMA, yes. But I don't accept the discounts applied by NAMA and I have evidence - and will produce evidence at a future date - to really substantially disavow those discounts.

Deputy Kieran O'Donnell: So you're disagreeing fundamentally with an independent organisation like NAMA?

Mr. Michael Fingleton: Sorry, Deputy, can I just finish? Therefore, I'm not saying there wasn't ... there would have been a ... certainly cost to the taxpayer. It may not have been €5.4 billion. Even if it was €4 billion, it still would be too much.

Deputy Kieran O'Donnell: Well, do you want to-----

Mr. Michael Fingleton: And it would have been too much for the taxpayer and the State to bear.

Deputy Kieran O'Donnell: Mr. Fingleton, do you want to take this opportunity to apologise to the Irish taxpayer and the members of Irish Nationwide Building Society for your stewardship of the institution?

Mr. Michael Fingleton: I have already extended my ... I regret the thing fully and ... very, very much and I've already stated that and if there was a-----

Deputy Kieran O'Donnell: What would you have done differently?

Mr. Michael Fingleton: Sorry?

Deputy Kieran O'Donnell: What would you have done differently, Mr. Fingleton?

Mr. Michael Fingleton: Well, if I'd done differently I don't know what I . . . in hindsight, we all have ... would have done things differently in our lives and in our business lives as well. I would've not lent in 2006 or 2007. If we had stopped lending in 2006 instead of 2007 - when we ceased in September 2007 - we would have eliminated totally our commercial book.

Deputy Kieran O'Donnell: Can I ask you, Mr. Fingleton, what was the set-up remuneration-wise within Irish Nationwide for executives like yourself? What was the ... how was your remuneration arrived at? Like, you were on €2.3 million of a salary in 2007, which was in excess of what the CEO of AIB at the time was on. How did you arrive at that level of a salary?

Mr. Michael Fingleton: I didn't arrive at it, Deputy.

Deputy Kieran O'Donnell: How was it arrived at?

Mr. Michael Fingleton: The remuneration committee arrived at it and it was made up of a basic salary and a bonus.

Deputy Kieran O'Donnell: How was the bonus arrived at, Mr. Fingleton?

Mr. Michael Fingleton: On the basis of the performance of the society in that given year.

Deputy Kieran O'Donnell: And what was the bonus that you would've agreed, we'll say, for '07 and '08 at the time?

Mr. Michael Fingleton: I didn't agree anything. I didn't agree anything. It was done in retrospect, it wasn't done in prospect in relation to delivering any profits or any elements of lending or anything else.

Deputy Kieran O'Donnell: Well, do you believe-----

Chairman: This is your last question.

Deputy Kieran O'Donnell: No, I'll ask a very simple question. Do you believe, Mr. Fingleton, in light of the fact of the performance of Irish Nationwide, that the bonuses in '07-'08 were warranted?

Chairman: I need to be mindful there----

Mr. Michael Fingleton: Oh, not at all.

Deputy Kieran O'Donnell: They weren't warranted?

Mr. Michael Fingleton: They wouldn't be ... in hindsight-----

Chairman: Sorry, I'm going to have to pull you back in that area because that relates to other matters that are part of a civil action-----

Deputy Kieran O'Donnell: But the ... can-----

Chairman: -----and it doesn't matter if the witness wants to co-operate or not. I have to be mind ... and that's-----

Deputy Kieran O'Donnell: I'd only one final question on that, Chairman.

Chairman: Sure, go on.

Deputy Kieran O'Donnell: Can I ask Mr. Fingleton that ... it's reported that, we'll say, on your ceasing as CEO, that you were presented with a watch of-----

Chairman: Ah, tut, tut.

Deputy Kieran O'Donnell: Out of bounds.

Chairman: Please, if we can return to the evidence books, please.

Deputy Kieran O'Donnell: Can I ... Mr. Fingleton, the Financial Regulator in December '04 noting the ongoing concerns with the level of resources at senior and executive management Irish Nationwide.

Mr. Michael Fingleton: What page was that?

Deputy Kieran O'Donnell: That was . . . that's Vol. 1, page 3 and 2. That letter was dated 9 December 2004. And it was repeated in March 2008.

Mr. Michael Fingleton: What page is it at, Deputy?

Deputy Kieran O'Donnell: That's page . . . it should come up on the screen. It's Vol. 1, page 3 to 12, letter, Financial Regulator, and Vol. 2, page 35. I'd say you're probably reasonably familiar, Mr. Fingleton, with the overall tenant of what's being put forward.

Mr. Michael Fingleton: Well, there's a lot of documentation, Deputy, and I can't remember it all specifically. So, I'll see can I deal with ... what page-----

Deputy Kieran O'Donnell: It's page 3 to 12 on Vol. 1, which is the initial letter, Financial Regulator and-----

Mr. Michael Fingleton: In November 2004, is it?

Deputy Kieran O'Donnell: Correct. December 2004.

Mr. Michael Fingleton: Or December 2004, yes, I have it now. I have it, Deputy, yes.

Deputy Kieran O'Donnell: Chairman, can you give time for the witness to locate-----

Chairman: It's a Central Bank document so I don't think it will come up on screen, Deputy.

Deputy Kieran O'Donnell: Time-wise, Chairman, it's very important.

Chairman: Yes, yes, I can give you a small bit of flexibility.

Deputy Kieran O'Donnell: Vol. 2, page 35 to 38, is a letter from the Financial Regulator to Mr. Walsh that's dated 7 March and really the tenant of it is that it would appear the regulator continually repeated that there was lack of strength at the board or senior management level over a six-year period. In view of these concerns over resources that was in senior management, why did the building society expand its loan book and, in particular, to commercial lending throughout this period? They're basically saying that the ... that you did not have the strength at either board or management level to deal with dealing with that level of loan expansion, particularly in the commercial area.

Mr. Michael Fingleton: I ... we didn't ... you will ... I refer to the full reply and detailed reply of the Chairman, Dr. Walsh, to that letter, in December 2004, where he pointed out clearly that we had increased the level of management substantially in the organisation, which, clearly, the regulator wasn't aware of. And, secondly, we also pointed out that while we needed some further strengthening of the management for normal administrative reasons, we were finding it difficult to get the calibre of employee because we were being sold ... the perception was out there that we were being sold and nobody was prepared to join us on a contract and all we could offer in anticipation of the sale was a contract.

Deputy Kieran O'Donnell: Well, if you-----

Mr. Michael Fingleton: And that is the position. So, we weren't deficient in management ... in adequate management, but we could do with more. That's all.

Deputy Kieran O'Donnell: Mr. Fingleton, why didn't you demutualise earlier? You had the opportunity. Irish Life and Permanent demutualised much quicker and ... Permanent TSB, rather, demutualised much quicker. You could have done it over a five-six year period. Why didn't you do that? Why did you push so hard so that you could actually, once you demutualised it, you could sell straight away? Why weren't you willing to wait the five-year period?

Mr. Michael Fingleton: Because, at the time, when we made the decision in 1995 we looked at our position as a stand-alone building society. And our advice was, at the time, that we hadn't the critical mass to convert to a company and launch the society in ... to the public. So, therefore, we decided then that we had two options. One was to merge with another building society. Secondly was to effect a trade sale and the second one we chose to do. At that time, we sought to get the change in the legislation. There was absolutely no commercial reason for that change in legislation not to have been implemented at that time. Even the Central Bank, without ... without the Government or the Department of the Environment bringing in new legislation, the Central Bank could have made the decision in the interests of the shareholders or depositors, but they chose not to. So we lobbied for years for the change in that legislation and we were obstructed from time to time. If you want the whole history-----

Deputy Kieran O'Donnell: I don't.

Mr. Michael Fingleton: -----chapter and verse-----

Deputy Kieran O'Donnell: Not today.

Mr. Michael Fingleton: -----we'll give it to you.

Deputy Kieran O'Donnell: Not today.

Mr. Michael Fingleton: And it was unnecessary for the delay, and it was not caused by the society; it was caused elsewhere.

Deputy Kieran O'Donnell: Can I ask-----

Mr. Michael Fingleton: I've ... as already set out in my statement-----

Deputy Kieran O'Donnell: Mr.-----

Mr. Michael Fingleton: -----written statement.

Deputy Kieran O'Donnell: Mr. Fingleton, why didn't you increase the size of the board in your tenure to bring in, like many other institutions, where they would have had eight or nine, ten people on the board? Why did you maintain it at five, where you had only three non-executive directors? Two of them were executive directors. Why did you maintain the board and more or less the same people over that ten ... whatever ... year period?

Mr. Michael Fingleton: That was the decision of the board, Deputy. It wasn't my personal decision. That was a decision of the board, that they felt that the board was adequate in size to deal with the level of business being generated and conducted by the society.

Deputy Kieran O'Donnell: And was there ever an occasion ... And, finally Chairman, if I could direct the witness to Vol. 1, page 83. It's the Deloitte and Touche report and it deals with the-----

Chairman: What page, Deputy?

Deputy Kieran O'Donnell: Page 83. Sorry, well I don't know if it's 83 or 63, Chairman. It's the ... it's 63, I believe.

Chairman: The Deloitte report, is it?

Deputy Kieran O'Donnell: Deloitte. Deloitte and Touche report.

Chairman: 83. It's actually page 83.

Deputy Kieran O'Donnell: Is it 83? Page 83, at the end, Mr. Fingleton, right. And I just want to get an idea of the day-to-day activity around commercial lending and in terms of approval of commercial lending. And this particular report speaks about ... and I've a few quick questions that-----

Chairman: You're running out of time, Deputy-----

Deputy Kieran O'Donnell: Yes.

Chairman: -----so you'll have to be moving on.

Deputy Kieran O'Donnell: Were there ever occasions, Mr. Fingleton, where you approved a loan prior to it being approved by the board ... or, sorry, you approved and granted and extended a loan prior to it being approved by the board?

Mr. Michael Fingleton: I never approved a loan outside the procedures and policy of the society.

Deputy Kieran O'Donnell: That's not my question, Mr. Fingleton. My question is ... is there any occasion where ... prior ... up to December 2007, any loan above €1 million had to be approved by the board.

Mr. Michael Fingleton: Correct.

Deputy Kieran O'Donnell: Were there ever occasions where you, as CEO, approved and extended a loan of over €1 million to a developer or anyone else ... a commercial loan, without ... or any loan ... without the prior approval of the board of directors?

Mr. Michael Fingleton: Deputy, you're ... I could, in certain circumstances, in conjunction with two members of the committee, approve a loan without the approval of the board.

Deputy Kieran O'Donnell: And could you extend the funding?

Mr. Michael Fingleton: I could extend the funding, again, on the same basis.

Deputy Kieran O'Donnell: And what were those ... how would that situation arise?

Mr. Michael Fingleton: It would arise ... it was an urgency or a commercial circumstances that was needed to be addressed.

Deputy Kieran O'Donnell: So it's not ... so, is it fair ... you ... you made reference earlier, Mr. Fingleton, that you were unique-----

Chairman: That's a supplementary now, Deputy. You're over time.

Deputy Kieran O'Donnell: -----you're unique amongst institutions. Any loan of above €1 million had to go to the board. That is not the case, Mr. Fingleton. There was ... you had the discretion to grant a loan above the €1 million level without prior approval of the board.

Mr. Michael Fingleton: But the board had to be notified of it at earliest opportunity.

Deputy Kieran O'Donnell: But not prior to making it.

Mr. Michael Fingleton: Well, Chairman, the board was required ... or, the requirement of the board was to approve all loans over €1 million, and there was an exception. There had to be some exceptions within an organisation to deal with the commercial realities of the day.

Deputy Kieran O'Donnell: And in hindsight-----

Mr. Michael Fingleton: And that was-----

Chairman: Last point.

Deputy Kieran O'Donnell: In hindsight, why did you change the rules that after December 2007, loans above €1 million no longer had to be approved by the board? They could be approved by the credit committee without being approved by the board. Why did that change come in?

Mr. Michael Fingleton: I wasn't party to that change. It was changed by the board and, maybe, you have the chairman in this afternoon and you will ask him why. But that was the decision of the board and not me.

Chairman: Now, Mr. Fingleton, I just want to deal with a couple of matters myself and, time permitting, I will invite Senator O'Keeffe, after which then I'll propose that we take a break. Just to stay on that matter with regard to the management of loans at board level. Can I just specifically ask-----

Mr. Michael Fingleton: I'm sorry, Chairman.

Chairman: I want to deal with the issue of the management of loans that Deputy O'Donnell is relating to you, just to-----

Mr. Michael Fingleton: Okay.

Chairman: -----deal specifically with it. Did you authorise loans before they were approved by the board and were the loan amounts ... were the loan amounts required board approval? Did that happen?

Mr. Michael Fingleton: No. I ... outside I could approve loans in conjunction ... in certain circumstances, with ... in conjunction with two members of the committee. My signature would be required.

Chairman: Okay. And in any situation, would there ... was there subsequently seeking of retrospective approval?

Mr. Michael Fingleton: I will point you to, again ... not again but, as an aside, Chairman, it might help. There's been an investigation, and I'll just mention it once, by Ernst and Young into the affairs of the society post-2010. And it states in that report, which has been circulated and misinterpreted by outside interests and inside interests ... in that it states that they found no evidence to suggest that I had approved solely any loan.

Chairman: Okay. Mr. Fingleton, earlier this morning when you were speaking in your opening statement, you said about being here as a voluntary witness. You are here as a directed witness, like every other witness that has been here before the banking inquiry. I do appreciate your co-operation, but you are not here in a voluntary capacity, just to clarify that. And-----

Mr. Michael Fingleton: Well, I accept that, Chairman, and I-----

Chairman: -----and you are here under oath. So, I just want to get it on the record. Are you saying, as a matter of fact, that you never authorised loans before they were approved by the board?

Mr. Michael Fingleton: Yes, that's what I'm saying. Yes.

Chairman: Okay. Were loans given out without proper legal paperwork being in place?

Mr. Michael Fingleton: I can't say, Chairman, that in every instance all the paperwork would be on the file, but whatever was necessary and essential was always there and there was no security ever compromised, either legally or physically, in relation to any loan.

Chairman: Okay. I'd just ask a question-----

Mr. Michael Fingleton: And we ... also I would point out that we employed outside solicitors to examine the legal title of every loan and we employed the best, both in the UK and in Ireland. And I went out of my way to identify in Ireland ... I remember well ... identify the best commercial solicitor in Dublin. And the partner of that firm was my adversary when we set up our own legal department against the wishes of the Law Society here, in the early '80s, to do our own mortgage work.

Chairman: Okay.

Mr. Michael Fingleton: And yet I gave that firm the business because of the calibre of the person who would deal with our business.

Chairman: Okay. I want to just briefly also deal with the lending strategy of your institution, Mr. Fingleton. Did anyone on the board ever challenge the overall lending strategy? In particular, did anyone on the board ever challenge the practice of taking equity stakes in developments in exchange for 100% funding?

Mr. Michael Fingleton: No, not to my knowledge-----

Chairman: Okay, there was a------

Mr. Michael Fingleton: -----or my recollection or knowledge, Chairman. That's the straight answer.

Chairman: You, earlier, spoke about the composition of the board and you said, and you explain, as to how decisions were taken on the board. Did any members of the board ever propose an increase or new members ... that the board size should be increased, or that other members should be brought on board to it, and was that ever proposed, and was there ever a vote taken on such a proposal?

Mr. Michael Fingleton: We did seek to increase the board level in 2005 and 2006 and I approached a number of people. But because of the fact that we were being sold, the individuals concerned felt that this was a short-term thing and they weren't interested in taking up the position. And we were looking for a particular calibre at the time of ... at a very high level. Some of them weren't interested because of the imminent sale of the society and others weren't because they were just too busy in their own businesses. That is fact, and also the chairman, I think, asked a former director general of the Central Bank to become a director and that did not materialise either.

Chairman: Did those proposals ever come to a vote, Mr. Fingleton?

Mr. Michael Fingleton: Sorry?

Chairman: Did those proposals ever result in a vote on the board?

Mr. Michael Fingleton: No.

Chairman: Okay. Just finally, Mr. Brendan McDonagh from the NTMA, when he was before this inquiry, spoke about the INBS business model. In one comment he said, "I think we might, and I speak again personally here Deputy, I think a few of my colleagues and myself would have been sceptical about the business model of INBS and Anglo Irish Bank." That is in regard to the NTMA's perception of your institution. Mr. McDonagh then also went on to say:

> Yes, that we had concerns about placing the deposits, particularly in INBS and Anglo. We stopped placing deposits.

Do you have any observations or comments that you would like to say with regard to Mr. McDonagh's comments about your institution?

Mr. Michael Fingleton: I have, Chairman. The reason they did not deposit with the society was simply that our ratings weren't high enough. It is as simple as that.

Chairman: Senator Susan O'Keeffe.

Senator Susan O'Keeffe: Thank you, Chair. Mr. Fingleton, in KPMG's corporate governance review in 2008 it said that board packs ... it's a very specific question about ... "board pacts are very detailed and at times lack clarity and structure". For example, there is little market and operational overview and salient financial commentary provided. What would your observation be in relation to that ... to their observations?

Mr. Michael Fingleton: Senator, you either give too much or you give too little. There is always a happy medium. We wouldn't ... I wouldn't agree. We gave all the information that we thought as an executive, to the board who enabled them to reach their decisions and to deliberate on whatever was before them in relation to the agenda. The interpretation by KPMG in their report, I think, was ... is that the one you are referring to?

Senator Susan O'Keeffe: Yes.

Mr. Michael Fingleton: -----would be that it would be better if we had fewer detailed documents and more focused and shorter and more to the point documents presented to the board. I would agree with that. It would lead to more efficient conduct of the board and its time.

Senator Susan O'Keeffe: Can I bring you, please, to Vol. 2 of the evidence books, on page 24? Again, this is the Financial Regulator ... a very detailed letter that was sent to you ... sent to the INBS ... dated 20 November 2006 which means, obviously, this work had gone on for quite a considerable time.

Mr. Michael Fingleton: What page is that on?

Senator Susan O'Keeffe: Page 24, Vol. 2.

Mr. Michael Fingleton: Vol. 2.

Senator Susan O'Keeffe: And it specifically-----

Mr. Michael Fingleton: Hold on a second.

Senator Susan O'Keeffe: I beg your pardon, I thought it was coming up. I am sorry.

Mr. Michael Fingleton: Wait until I get it. I see. What date was that letter?

Senator Susan O'Keeffe: The date of the letter is 20 November 2006. There is obviously a lot of detail in the letter so the work had gone on over a long period of time prior to the writing of the letter.

Mr. Michael Fingleton: That was following an inspection-----

Senator Susan O'Keeffe: That's correct.

Mr. Michael Fingleton: -----Senator. You are okay. Go on now. I have it now.

Senator Susan O'Keeffe: Page 24, M21, you will see, this is relating to credit risk and, it says:

> The inspectors are concerned at the following:
>
> 1. The Managing Director, who is a member of the committee, did not attend any of the 27 meetings reviewed by the inspectors, covering the period 8 May 2005 to 11 May 2006 [so that would be a year].

It then goes on to say:

> 2. [Mr.] Darragh Daly, Homeloans Manager, who is a member of the committee, attended only 2 of 27 meetings.
>
> 3. The quorum of three members was only achieved for 2 of the 27 meetings.
>
> 4. For the four meetings of the committee in July 2005, only one member [...] was present.

And so on, so I just draw------

Mr. Michael Fingleton: Can I, yes sorry-----

Senator Susan O'Keeffe: I am asking, just as an example, Mr. Fingleton, of some of the things that the Financial Regulator was drawing attention to about the way in which the society ran its business and you have said here that, in answer to my colleagues, that pretty much things were done well and you employed good people, and so on. I am saying, well, that is one very specific-----

Mr. Michael Fingleton: I am not saying, Senator, they were done perfectly, you know, but they were done as well-----

Senator Susan O'Keeffe: Mr. Fingleton, the managing director did not attend any of the 27 meetings.

Mr. Michael Fingleton: The managing director-----

Senator Susan O'Keeffe: Who was the managing director?

Mr. Michael Fingleton: The managing director never attended any-----

Senator Susan O'Keeffe: A member of the committee.

Mr. Michael Fingleton: -----never attended.

Senator Susan O'Keeffe: Why not, Mr. Fingleton?

Mr. Michael Fingleton: I will tell you ... I will explain to you the background. I was authorised *ex officio* to attend all credit committee meetings. But I excused myself permanently from 2002 to the time the committee was set up to 1 December 2007 when the board decided to allocate the credit committee with the full powers to approve loans. And I did that, Senator, to ensure there was no conflicts of interest and that I would not have undue influence on the credit committee and that it would remain fully independent.

Senator Susan O'Keeffe: And were you aware that the quorum of three members was only achieved for two of the 27 meetings?

Mr. Michael Fingleton: That is seriously in dispute by the chairman of the credit committee. I will just leave it at that.

Senator Susan O'Keeffe: Okay. Do you accept in relation to the detail of this particular inspection there are many other matters raised here ... are those just for the record, are those also in dispute, Mr. Fingleton, or do you accept any of them?

Mr. Michael Fingleton: No, there are some of them that are valid, of course they are, but I will point out to you, Senator, just in case I will forget it, that the regulator's system of prioritising complaints ... he had a high priority, he had a medium priority and a low priority, and you will notice that any of those 30 items referred to ... some of them are not extremely serious, they are just observations by the regulator ... that there was not one single high priority in that ... in any of those 30 observations.

Senator Susan O'Keeffe: In fairness, Mr.-----

Mr. Michael Fingleton: If they were considered to be serious by the regulator, he would have ensured that high priority would be up there in lights.

Senator Susan O'Keeffe: Well, it does say actually on page 30 of that same document, "High Priority - Absence of or unsatisfactory operation of critical risk management and critical internal control systems, inadequate Board/management oversight/control over the operations of the institutions." It is there on page 30.

Mr. Michael Fingleton: That's a high priority.

Senator Susan O'Keeffe: Yes, and you have just said there weren't any. I am sorry, I am just-----

Mr. Michael Fingleton: Is that the description of them, Senator? Is that the description of them?

Senator Susan O'Keeffe: It does say, "Absence of or unsatisfactory operation of critical risk management-----

Mr. Michael Fingleton: That is the description of them.

Senator Susan O'Keeffe: It seems to me to be a grading of the finding.

Mr. Michael Fingleton: Sorry?

Senator Susan O'Keeffe: It is described as a grading of the finding.

Mr. Michael Fingleton: That is the grading; it is not the content.

Senator Susan O'Keeffe: Okay.

Mr. Michael Fingleton: It doesn't relate to the content, Senator.

Senator Susan O'Keeffe: However, there are quite a number of findings here, you would agree.

Mr. Michael Fingleton: There always is.

Senator Susan O'Keeffe: There always is.

Mr. Michael Fingleton: I can recall, Senator, through the Chair, that you had another building society in here. And I think the regulator had identified 76-----

Senator Susan O'Keeffe: Yes.

Mr. Michael Fingleton: -----if I'm not mistaken-----

Senator Susan O'Keeffe: Mr. Fingleton, it is not a competition about how many things were wrong with your's or with somebody else's. We're here talking about the INBS.

Mr. Michael Fingleton: No, I'm only saying that it was a normal practice of the regulator to identify things and incorporate them here and we would deal with them, and they were all dealt with.

Senator Susan O'Keeffe: Can I ask about-----

Mr. Michael Fingleton: Have you got replies to those, Senator? I don't, I did not get them in my documentation.

Senator Susan O'Keeffe: I think ... I'm not entirely clear. There are replies to some of them but I just wanted to draw your attention to that.

Mr. Michael Fingleton: Is there a reply? Is there a letter of a reply by the society, because I can only consider it and respond to you if the copy of the letter of reply is in my possession? Because that will then indicate how significant or otherwise was the nature of any or all of those particular----

Senator Susan O'Keeffe: Okay, I would like if I may-----

Mr. Michael Fingleton: -----observations by the regulator.

Senator Susan O'Keeffe: I would like if I may to ask about the appropriateness of the €1 million bonus that in September, in 2008-----

Chairman: We had legal briefings yesterday afternoon, Senator, on this matter-----

Senator Susan O'Keeffe: Okay, that is fine, thank you.

Chairman: -----so I just want to pull you back a bit now.

Senator Susan O'Keeffe: In evidence to this committee, Mr. Boucher from Bank of Ireland talked about the meeting that was held in September 2008, in early September 2008. This was in relation to INBS, and he said, "I would say that weekend was a weekend when, on a personal basis, I realised the extent of the issues in the system were very, very serious", and he goes on to talk ... it was a lengthy meeting. Were you at the meeting, Mr. Fingleton?

Mr. Michael Fingleton: No, I was not, Senator.

Senator Susan O'Keeffe: Were you aware of the meeting?

Mr. Michael Fingleton: I was, Senator.

Senator Susan O'Keeffe: Okay, and he, Mr. Boucher, said, "Eventually, we were asked to look at, from memory, I think a quantum of around about €4 billion and we fed back to the regulator that we weren't comfortable, [that] that wasn't an accurate picture of what was needed, but even if it was, that we wouldn't be in a position to provide that - we were very uncomfortable taking on an exposure to that entity." And he talks about wishing to have, you know, I actually felt we should have left the meeting. So I just wonder, Mr. Fingleton, what-----

Chairman: There will be no time for a reply now, Senator, as you're out of time.

Mr. Michael Fingleton: I wasn't there.

Senator Susan O'Keeffe: What is your response to Mr. Boucher in relation to that ... his observation of that-----

Mr. Michael Fingleton: Well, the regulator called the meeting. He was in attendance, and I think he gave evidence, and you asked him that question I think, or somebody asked him the question - through the Chair I just mention this - and he says that he ... there was no ... he gave no information to the meeting. There wasn't that much information given because we weren't aware of what the purpose of the meeting was at the time or what the significance of it was and what information was required. And you will have Mr. Purcell here this afternoon, who will tell you precisely what transpired at that particular meeting.

Senator Susan O'Keeffe: But was INBS not asked-----

Chairman: Start wrapping up, Senator.

Senator Susan O'Keeffe: Yes, thank you. Was INBS asked to provide documentation or detail for that meeting?

Mr. Michael Fingleton: I think there was some documentation brought but what was disclosed ... I mean...you have to understand, Senator, that these were competitors of ours, you know, and the documentation ... we wanted to see and establish the ground rules as to what was required and what was not required, and what we will disclose and what we will not disclose, because at that time, Senator-----

Senator Susan O'Keeffe: Were looking potentially to rescue you.

Mr. Michael Fingleton: -----we were not insolvent and we had no threat. We were ... there was a threat of a run following the false Reuters report and .... but that we had more than adequate liquidity. It was the regulator, as part of this green jersey thing that was mentioned by the-----

Senator Susan O'Keeffe: The Central Bank.

Mr. Michael Fingleton: -----by the Central Bank CEO-----

Senator Susan O'Keeffe: That is right, John Hurley.

Mr. Michael Fingleton: -----arising from some discussions he had with people in the EU and elsewhere, and this was part of bringing that together, which was ... that was the purpose of it, I think, so we weren't quite clear at that time but the bottom line is, irrespective of what, as the regulator pointed out to you in his evidence, these people from the two banks were looking after their own interests.

Senator Susan O'Keeffe: But the bottom line is, did you need to be rescued at that time?

Mr. Michael Fingleton: I have said, Senator - twice at this committee - that we did not.

Senator Susan O'Keeffe: You did not need to be rescued.

Mr. Michael Fingleton: No.

Senator Susan O'Keeffe: Thank you.

Mr. Michael Fingleton: We had adequate liquidity. We had €4 billion, almost €4 billion liquidity. I would say, in cash, I would say that our liquidity position would out-match in ratio terms any other institution-----

Senator Susan O'Keeffe: So the meeting was unnecessary.

Mr. Michael Fingleton: -----on that day.

Senator Susan O'Keeffe: The meeting was unnecessary.

Mr. Michael Fingleton: Well, it mightn't have ... I don't know was it unnecessary ... it depends on the regulator. He called it. He thought it was necessary. We didn't think it was necessary afterwards.

Senator Susan O'Keeffe: Thank you.

Chairman: Thank you, Mr. Fingleton. I now propose that we break for 15 minutes to 11.30 a.m. In doing so, I'd remind the witness that once he begins giving evidence he should not confer with any person other than his legal team in relation to his evidence on matters that are being discussed before this committee. With that in mind I now suspend the meeting until 11.30 a.m. and I remind the witness that he is still under oath until we resume.

Sitting suspended at 11.15 a.m. and resumed at 11.40 a.m.

Chairman: We are back in full quorum and Mr. Fingleton is almost present. I now propose that we go back into public session and in doing so I just remind members about their mobile devices and so forth, and invite Deputy John Paul Phelan. Deputy, you have ten minutes.

Deputy John Paul Phelan: Thank you Chairman. Good morning, Mr. Fingleton. Firstly, can I ask you in relation to the Irish Nationwide annual report from 2007? It shows that in the period 2002 to 2007, profit before tax increased by 303% and total assets by 190%. It is document B02, IBRC00678-002. I don't think you are allowed to show. It is the annual report from 2007 of Nationwide, showing that tax ... profit before tax increased by 303%-----

Chairman: Vol. 1, page 3.

Deputy John Paul Phelan: Yes, and assets by 190%. This was at a time where you said in your opening statement that there was increased competition in the Irish lending market. Do you think ... the question really is: do you think that level of increase was sustainable in the context of that increasing level of competition in the Irish market at that period of time?

Mr. Michael Fingleton: Well, in relation to the society, obviously, that level of lending probably couldn't be sustained because you come up against regulatory ratios and all that, which would diminish the lending going forward. That would be the criteria there.

Deputy John Paul Phelan: And why wasn't there any action taken to ensure a more sustainable level of growth?

Mr. Michael Fingleton: Well, we were operating within the parameters and the guidelines set down by the regulator in relation to all regulatory ratios and we were comfortable within that in relation to our lending, and within the strategy and the risk appetite of the society. And also, as I said before, we were turning over our book every three years. So it was within that context, Senator, sorry, Deputy, that we were engaged in our lending programme.

Deputy John Paul Phelan: Okay. Can I ask, in your opinion did those levels of growth indicate that the pursuit of growth was affecting credit quality and lending standards within the institution in those years, 2002 to 2007?

Mr. Michael Fingleton: They weren't really, because we were dealing with tried and tested customers for the last, what, 15 years, who had delivered, who had performed, who had done what they said they'd do. They were professionals and they knew their business. So, from in that context, Deputy, no.

Deputy John Paul Phelan: Can I ask you, then, in relation to an article that was published in *The Sunday Business Post*, 23 June 2013?

Mr. Michael Fingleton: The *Business Post*?

Deputy John Paul Phelan: Yes, 23 June 2013. It cited a report compiled by KPMG into Irish Nationwide where it said that 15% of all residential mortgages issued in 2006, which amounted to €111 million, were to just 39 clients who borrowed on average €2.8 million each for the 39 of them. How was that situation allowed to happen? Was that not an over-concentration of the risk from the point of view of the building society?

Mr. Michael Fingleton: Well, it depends on the underlying security and the proposal and the quality of the borrower and the evaluation of the risk and the asset. And while we might have a fairly large exposure to a single borrower, there'd be a number of stratification of loans within that exposure, which you already referred to, in the average loan. All these things would be taken into consideration in relation to the decision to lend that money.

Deputy John Paul Phelan: Can I ask-----

Mr. Michael Fingleton: And it was within the context of what we were doing and within the policy at the time.

Deputy John Paul Phelan: Would many of those 39, from your recollection, those 39 loans of an average of €2.9 million each, have been initiated through you personally, do you have any recollection?

Mr. Michael Fingleton: This is one of the myths that are still around, you know, that I brought in everybody and I approved every loan. No, Senator. UK loans would be introduced by the manager of the UK office almost exclusively. I think we had one or two that were Irish. The Irish loans from customers that were there since the '90s, I would have introduced them to the society, but they'd have started off as customers in the Irish market and became customers in the UK market. I would say, if you look at the top 30, maybe five might have come through me. I don't know, I'm just guessing now, but they'd be the Irish, they'd be the Irish ... some of the Irish borrowers.

Deputy John Paul Phelan: You refer to it as a myth yourself, Mr. Fingleton, but it was a widely held view. I used to work in financial services before I became a public representative and a view did exist that you were Irish Nationwide Building Society and that you, more than perhaps any other financial institution operating in the Irish market, had, and I think you indicated this in your opening comments to Deputy Doherty-----

Chairman: Try and pose a question now, Deputy, rather than presenting an argument.

Deputy John Paul Phelan: -----a particular knowledge of individual loans and exposures that existed. Is that not the case? Is it not borne out by several of the letters from the regulator, in particular, which showed a concentration of power, if you like, in your office?

Mr. Michael Fingleton: The regulator misunderstood totally the powers that I had. I had defined powers given me by the board and approved by the regulator's office, and they were the normal powers to manage the society and promote the business and develop the business. And, therefore, it would be my duty as CEO to be fully familiar with all the loans, not least as they moved through the process but also as a member of the board where the final decision was being made, so it wasn't unusual. I was suffering from the perception that was out there that it was me and me alone, because I was seen as the face of the society that I came into in the '70s and '80s, and I did promote myself and the society through PR, because we couldn't afford to buy advertising space at the time. So it evolved from that time because I was ... my picture was appearing in the paper day in, day out in relation to some sponsorship we were doing, or some statement I would make, or some conflict I would have with some of the banks or whatever, and that's how that evolved.

Deputy John Paul Phelan: Okay, but did that not also stem then from the fact - Deputy O'Donnell asked earlier about the fact - that your board was smaller that virtually every other institution?

Mr. Michael Fingleton: Well, every other institution was larger than our institution and as I said, I think, in my statement, we had a maximum of seven directors and a minimum of five, and the requirement was three. And I said, also, that the maximum the society had even after the new board came in and took over in whatever it is, 2008 or 2009, and even that board, with two extra directors, the Government directors, only had seven.

Deputy John Paul Phelan: Can I ask, then, in relation to the document I referenced earlier, Vol. 1, page 3, the letter from the regulator from 9 December 2004, first paragraph, "High-level concerns"? You spoke earlier on that there weren't many high-level concerns but this was one on the issue of corporate governance, where it says: "As you are aware", it was addressed to you: "Dear Michael", the Financial Regulator-----

Mr. Michael Fingleton: It wasn't addressed to me, Deputy.

Deputy John Paul Phelan: And it would have been addressed to-----

Chairman: Michael Walsh.

Deputy John Paul Phelan: Yes, Michael Walsh actually.:

> As you are aware [I'm sure you were aware of the document] has on many occasions expressed its concerns with regard to the level of resources at senior [executive level] ... management level within INBS. In particular, the regulator stressed the need for increase in size of the board, a strengthening of the executive management team. The latter point was to address concerns such as an over-reliance on the managing director, succession planning for the managing director, and the absence of a senior executive to oversee the commercial lending function

Were there any actions taken following that letter from 9 December 2004 to address-----

Mr. Michael Fingleton: Oh, yes. Yes, there were. We did try to increase the level of the board but we were being sold. That was the perception outside and it was difficult to get the ... a director of the calibre which we were seeking. And the regulator was ... emphasised that we needed to get the top-notch people with a lot of specific experience maybe, you know, that would assist the board in ... and provide the advice and the contributions and all the rest of it that they would ultimately make.

Deputy John Paul Phelan: On an issue ... on the issue of-----

Mr. Michael Fingleton: And in relation-----

Deputy John Paul Phelan: -----over-reliance on you and-----

Mr. Michael Fingleton: Yes, but ... what this again-----

Deputy John Paul Phelan: -----on succession planning-----

Mr. Michael Fingleton: Again, this-----

Deputy John Paul Phelan: -----for your position.

Mr. Michael Fingleton: Again, this was the perception, but also they were ... had concern about succession and we had dealt with that-----

Deputy John Paul Phelan: Was it dealt with?

Mr. Michael Fingleton: Sorry?

Deputy John Paul Phelan: Was it dealt with?

Mr. Michael Fingleton: Oh, it was, yes.

Deputy John Paul Phelan: How?

Mr. Michael Fingleton: We ... they were anxious that we recruit and we had already put it in train ahead of commercial lending. We already had a commercial ... head of commercial lending. I think there's confusion here with the regulator but he was, I believe ... we believed he was going to retire and we were trying to recruit then a top-notch guy from another institution. We were coming up against this perception of being sold and we could only offer contracts. Now, we did succeed in getting one head of lending from another institution but, at the end, he changed his mind and didn't come, principally because we were being sold.

Deputy John Paul Phelan: So, in other words - this is my final point, Chairman - this "high-level concern" in relation to over-reliance on you and succession planning for your position, you didn't ... you ... because of the fact that you were being sold, you feel that that's the reason why it wasn't addressed.

Mr. Michael Fingleton: There was ... I think the chairman ... I think you've a letter from the chairman there. He responded fully and totally to each point raised by the ... that particular letter and I believe, as far as I recollect, he dealt fully with the paragraph you're referring to.

Deputy John Paul Phelan: Okay. Thank you.

Chairman: Senator Marc MacSharry. Senator, ten minutes.

Senator Marc MacSharry: Thanks, Chairman, and welcome, Mr. Fingleton, and thanks very much for the time. This question may have been somewhat covered already by some colleagues but during the period 2003-2006 with commercial lending being the driver for the reasons that you outlined earlier on, the society trebled its book from about €3.5 billion to just under €11 billion. Considering the risk assessment capabilities of the society at that time and, indeed, the management of information, the MIS systems that were available to the society at that time, was that growth prudent or sustainable in your view?

Mr. Michael Fingleton: It certainly was within the parameters of the policy ... the lending policy of the society and our capacity to deal with it, because there was, as was pointed out by the Deputy here, there was a higher concentration in relation to customers than would probably normally be the case, although from the evidence produced to this committee from other institutions, it appears we weren't alone in the high concentration with particular individual borrowers. So it was within our capacity in volume terms, in number terms, to deal with all those-----

Senator Marc MacSharry: So you're happy that you did have the capacity; it was prudent at the time-----

Mr. Michael Fingleton: Our IT system was adequate for the needs. As I said, we were in a simple business - just money in and money out, fixed on a property and secured on an asset. And also, Senator, the growth reflected that our book was being turned over and redeemed every three years.

Senator Marc MacSharry: Did the demutualisation-----

Mr. Michael Fingleton: Sorry, which was unique in relation to any institution and, therefore, our risk and exposure was limited and-----

Senator Marc MacSharry: Sorry, go on.

Mr. Michael Fingleton: Sorry, yes.

Senator Marc MacSharry: Yes, okay. Around the same time in the early 90s, Irish Permanent, then building society, demutualised and made changes and so on and they had very much laid the foundations for their ultimate flotation. Did this add pressures to your own outlook from a corporate perspective to say, "Look, this is where the society needs to go or should ... or ought to be going"?

Mr. Michael Fingleton: Well, as I said in my statement, Senator, that my opinion was at the time, that I formed, and the advice the board had and the advice I gave the board, was that all societies had no future as an independent stand-alone institutions. And that was all societies, not just Nationwide, but, in particular, us because of our size and our lack of critical mass, we ... it would be not feasible for us to go the incorporation route, the plc route and go public. It just wouldn't ... we just wouldn't get the support for it, and that was the advice we got independently as well as my own feelings on the matter.

Senator Marc MacSharry: So the core business of home loans, is it fair to say or not that there was an abandonment of core business in favour of growth using the commercial market that was out there, as you said, because of a deficit in the 1980s for housing?

Mr. Michael Fingleton: No, not a hope. We tried ... we made all the effort to expand our home loan book and, as you may be aware and as I've already mentioned it in my statement, when Bank of Scotland came into the market in 1999, all things changed in that marked irrevocably. They undercut everybody, competition intensified, our book was attacked and we, effectively, couldn't compete, because, principally, we did not ... we refused to adopt as a policy 100% loans, we refused to adopt as a policy tracker mortgages, we refused certification, we refused to lend at uneconomic rates such as 1%. Nobody could lend risk ... or buy risk at that level. And that is why we failed to grow our book in the analysis. We were evaluating the risk compared to what the market was dictating. And we weren't into market share; we hadn't the capacity. And you also had the brokers who controlled 50% eventually of the market and they were aligned, almost totally, to the bigger institutions, and they all fought for their market share and we were left behind.

Senator Marc MacSharry: Did-----

Mr. Michael Fingleton: So it was as simple as that.

Senator Marc MacSharry: Did-----

Mr. Michael Fingleton: And we also, as I just ... it came up in the remuneration ... somebody asked me about remuneration, you know, about promoting lending through incentives and bonuses and all the rest of it. The only element of our lending that was incentivised was the promotion of our home loans and we set targets for managers and incentivised them by bonuses to achieve volume.

Senator Marc MacSharry: But surely you would have had commercial loan targets as well?

Mr. Michael Fingleton: No, they're ... we didn't utilise our branches for commercials. There was only, I think, one or two branches that would deal with that commercial ... that were a source of commercials for us.

Senator Marc MacSharry: Okay, so-----

Mr. Michael Fingleton: Except in maybe a small ticket like a pub or shop or whatever it is, farmer-----

Senator Marc MacSharry: Okay.

Mr. Michael Fingleton: -----that sort of thing.

Senator Marc MacSharry: You mentioned Bank of Scotland coming in. When they did, and you said your book was attacked and they were very much pursuing your business, did that lead to a looser underwriting strategy-----

Mr. Michael Fingleton: Oh, absolutely, yes.

Senator Marc MacSharry: -----or policy in the society?

Mr. Michael Fingleton: No, no. That's why we didn't make progress. That's why we didn't make progress. We'd a very ... as I pointed out, what we didn't engage in, and which caused problems for other institutions following the crash ... we all know about the tracker mortgages, we didn't do any of those. So that wasn't implying, Senator, a loosening of requirements. In fact, we increased them. And at the end of 2006, only 17% - this sticks in my mind - of our home loans was in excess of 90% when 92% was the norm, and that's of our-----

Senator Marc MacSharry: Some months ago at this stage we had the various auditing firms in as witnesses and in questioning I had asked one - I had asked them all in fact - had they ever had a company firm that they were auditing ask them to remove an auditor or a person from the audit team for overzealous or invasiveness or ... and so on. One particular firm admitted that that happened on three occasions and in one instance it was a financial institution. Can you tell the committee of inquiry did Irish Nationwide ever request the removal of the member of an audit team from their auditors?

Mr. Michael Fingleton: Not to my knowledge.

Senator Marc MacSharry: So not to your knowledge, so therefore you know nothing.

Mr. Michael Fingleton: I don't ... not to my knowledge.

Senator Marc MacSharry: In terms of the top 25 exposures, were there any employees who had a stake in those self-same top 25 investments?

Mr. Michael Fingleton: Sorry, say that again.

Senator Marc MacSharry: In terms of the top 25 borrowers, were there ever any employees or board members or yourself or whoever party to those 25 exposures - the top 25?

Mr. Michael Fingleton: Absolutely not.

Senator Marc MacSharry: Okay.

How many of your own clients, who the society would have lent to, did you in any other capacity go into business with?

Mr. Michael Fingleton: Yes, I had a relationship with one; that's all.

Senator Marc MacSharry: Okay. Was that a politician?

Mr. Michael Fingleton: Outside of the society.

Senator Marc MacSharry: Was that a politician?

Mr. Michael Fingleton: Yes.

Senator Marc MacSharry: Would you like to tell the committee who it is?

Mr. Michael Fingleton: I don't want to discuss it.

Senator Marc MacSharry: That's fine.

When you ever invested, yourself, in anything, did you ever borrow from the society yourself?

Mr. Michael Fingleton: Yes. I had some buy-to-let properties over the years but I will say, Senator, that I always had a deposit account in the society that was at least as much as the exposure on the loans and sometimes double.

Senator Marc MacSharry: Understood. Can I ask, in the event of you wishing to borrow on that, what way would it have been managed in terms of credit committees and underwriting?

Chairman: Can I make an intervention here Senator? The witness is free to answer if he wishes, but if they're nature of financial confidentiality, you can be more discretionary in your responses, Mr. Fingleton, if you so wish.

Mr. Michael Fingleton: Thank you, Chairman. They would go through the normal process and be approved by the board and I would get no concessions.

Senator Marc MacSharry: Would you step out?

Mr. Michael Fingleton: Oh, I wasn't involved. I wasn't involved. I wasn't involved in it at all. They'd be done in the normal way on the normal terms. That's it, no concessions.

Senator Marc MacSharry: Throughout your period of-----

Chairman: Final question, Senator.

Senator Marc MacSharry: -----tenure, your relationship to Government or, you know, was the Minister for Finance of the day accessible to you as the head of a mutual or was there contact there? In particular, you had mentioned about appropriate representations being made to Government at the time to amend the section 102 of the Building Societies Act of '89. So, you know, what shape did that take? I mean, did you contact Ministers directly? Did a PR firm do it on your behalf? What-----

Mr. Michael Fingleton: I ... in the '90s, I contacted the shadow Minister for Finance in relation to getting a change in the legislation. At that time I was seeking a change in the Central Bank Act because, as I said earlier, the Central Bank had the powers, themselves, to effect a change to allow us to effect a trade sale. They didn't need the Government to bring in new legislation to do so and there was a Central Bank Act going through in 1995, I think. And the Opposition - I think the Minister - put in a proposal to change the legislation and it was defeated by the Government on the day.

Senator Marc MacSharry: Just very last question. In your tenure did the society lend to mezzanine or shelf companies abroad for the purposes of buying property here?

Mr. Michael Fingleton: No.

Senator Marc MacSharry: That's all. Thanks very much. Thank you.

Chairman: Senator Michael D'Arcy, you've ten minutes.

Senator Michael D'Arcy: Thank you, Chairman. Mr. Fingleton, you're welcome.

Mr. Michael Fingleton: Thank you.

Senator Michael D'Arcy: The document, Chairman, if you could bring it up please, is Vol. 1 INBS page 68 and 69. Mr. Fingleton, it is the Deloitte report in relation to the commercial and residential lending review, completed in May 2008. The reports states:

> the Society reviewed and revised its commercial and residential lending policies ... in December ['07]. Of particular note for commercial lending was the extension of the power of the Credit Committee from the approval of loan applications up to €1 million ... to the approval of all commercial loan applications [post 2007. As a result the] Board [was] no longer directly involved in the approval of loans; prior to ['07] the Board approved commercial loan applications in excess of €1 million.

Can you explain why the board made this decision?

Mr. Michael Fingleton: I don't know, Chairman. Personally, I don't know, but you'll have an opportunity to ask the chairman in the afternoon, but there was a board decision to do it and that was it. I would not have been in favour.

Senator Michael D'Arcy: You were against it.

Mr. Michael Fingleton: Well, I wasn't specifically against it; it was a board decision. And I can't recall the meeting in which it was made and whether I was present or not I don't know; I can't remember, but I would have been personally opposed to it because I had maintained for the previous 37 years it was essential from my point of view that the board would be involved in the lending process.

Senator Michael D'Arcy: Okay. It was a small-----

Mr. Michael Fingleton: That was part of our structure, part of the-----

Senator Michael D'Arcy: It was a small-----

Mr. Michael Fingleton: ----- evaluation of control within the society.

Senator Michael D'Arcy: It was a small board, Mr. Fingleton. Do you know who was personally in favour of it?

Mr. Michael Fingleton: I don't know. It is obvious the board made the decision, but I presume it was unanimous, you know.

Senator Michael D'Arcy: In your opinion was the relaxation in lending criteria appropriate, given the Financial Regulator's ongoing concerns regarding commercial property lending control and the risk management within the society?

Mr. Michael Fingleton: No, there was never ... sorry, what did you say in the first ... sorry I missed your first sentence.

Senator Michael D'Arcy: Was the relaxation in lending criteria-----

Mr. Michael Fingleton: No, there was no relaxation in the lending criteria. The lending criteria was the same, going forward, going through and all the rest of it, and essential to the lending criteria was that each and every loan would be examined on its merits and conditioned accordingly.

Senator Michael D'Arcy: But Mr. Fingleton, the board had sight of every loan over €1 million prior to December '07 and after December '07 it didn't. That must be a-----

Mr. Michael Fingleton: I would say the reason why the decision was made, Chairman, or Senator, on reflection was that we had stopped ... effectively stopped lending, stopped new lending. In ... from about September, October on, we were reducing our exposure to the property market and that would be reflected in the board decision. So we weren't doing very much lending whatsoever except to the commitments we had and to protect the security of the assets we already had on our books. So there was little or no business anticipated by the board at that time. So that could explain why it was given solely then to the credit committee.

Senator Michael D'Arcy: If I could move on-----

Mr. Michael Fingleton: But again, having said that, the board had to be notified, Senator, of any approval of loans, of the loans.

Senator Michael D'Arcy: They had to be notified.

Mr. Michael Fingleton: They had to be notified.

Senator Michael D'Arcy: But they didn't have consent over the loans.

Mr. Michael Fingleton: Correct.

Senator Michael D'Arcy: Can I move on, Mr. Fingleton, please? You said on page 16 of your written opening statement, "no single bank could have prevented a property bubble". Could one or two banks create a property bubble?

Mr. Michael Fingleton: It depends on the competition. I mean, the reason for my statement, there Senator, in relation that no single society ... If Irish Nationwide, for example, Senator, decided in 2003, for example, or 2002 or wherever, we're not going to do any more lending ... with the competition in the market, the lending we did not do would be absorbed by the other providers of funds in the market. You'd have to have everybody prevented from or ... or to make the decision not to lend. Do you understand what point I'm making?

Senator Michael D'Arcy: I do, but you didn't answer the question.

Mr. Michael Fingleton: Sorry-----

Senator Michael D'Arcy: Could one or two banks create a property bubble?

Mr. Michael Fingleton: I don't think so.

Senator Michael D'Arcy: They couldn't have.

Mr. Michael Fingleton: I don't think so. Not at all. When you consider that €64 billion was the figure that was put into the banks, Irish banks, isn't that right? And, secondly, the non-Irish banks, I think their ... it is believed that their exposure cost them in the region of €40 billion, so you're talking about €100 billion and that's in relation to eight banks, nine banks, so I don't think two banks would have made any difference. Now, it depends on the banks. If it was some of the big banks, the biggest supplier of funds, then it would have got out into the market and then it would become an issue for the Central Bank and it would become an issue for Government and the Central Bank and maybe through that avenue there may be a pause-----

Senator Michael D'Arcy: But, Mr. Fingleton, you quoted-----

Mr. Michael Fingleton: -----and the market would get the message that-----

Senator Michael D'Arcy: You've quoted Bank of Scotland Ireland as coming in and chasing business-----

Mr. Michael Fingleton: Yes.

Senator Michael D'Arcy: -----reducing the margin-----

Mr. Michael Fingleton: Correct.

Senator Michael D'Arcy: -----and you quoted 1% on a number of occasions.

Mr. Michael Fingleton: Yes.

Senator Michael D'Arcy: And the perception I took from what you were saying was other banks went chasing them because they were chasing their business.

Mr. Michael Fingleton: Yes, market share, yes.

Senator Michael D'Arcy: So again, the question I've asked you is: could one or two or a small number of institutions create a property bubble in a small jurisdiction like ours?

Mr. Michael Fingleton: It would take a lot more than that, unless the regulatory authorities and the Central Bank interfered. And if they did, then the market would fundamentally change, as I've said. It would change and there'd be a new-----

Senator Michael D'Arcy: Can I-----

Mr. Michael Fingleton: -----there'd be a new dynamic then within the market once it became public.

Senator Michael D'Arcy: Okay. Can I put it to you, Mr. Fingleton, that the expectation is the two institutions that the State will get no money back from are Anglo Irish Bank and INBS?

Mr. Michael Fingleton: I don't agree, Senator. I've already outlined my evaluation of NAMA and what they're going to get back.

Senator Michael D'Arcy: Okay, and you don't agree. You don't agree with NAMA discounts?

Mr. Michael Fingleton: No, I don't.

Senator Michael D'Arcy: Okay. You ... again, I took the impression you didn't agree with

Project Harmony, KPMG.

Mr. Michael Fingleton: Sorry?

Senator Michael D'Arcy: Project Harmony?

Mr. Michael Fingleton: No, I didn't say that. I didn't say, that, Senator, I didn't agree with it.

Senator Michael D'Arcy: The Nyberg report was critical of INBS. The Nyberg report-----

Mr. Michael Fingleton: Yes, well, the Nyberg report ... if you look at the terms of reference of the Nyberg report, Senator, you will find that it focused exclusively almost on two institutions, Anglo and Irish Nationwide, and they dealt with those two institutions separately in the report. And they amalgamated in their commentary all the other institutions, which, I believe, was totally unfair.

Senator Michael D'Arcy: You don't agree with the terms of reference of the Nyberg report?

Mr. Michael Fingleton: No, I don't. They should have dealt with all the institutions separately and individually.

Senator Michael D'Arcy: Mr. Fingleton, you seem to be swimming against the tide against a lot of reports and positions that have been accepted for a long period of time now. Are you saying they're all wrong and your interpretation is correct?

Mr. Michael Fingleton: I'm only giving you my views, Senator. I mean, reports that have been made and commentaries in the media and elsewhere, you know, they're not always accurate and they're not always right. Perceptions are perceptions, and, normally, perceptions become facts in the ... in certain climates and in certain circumstances. I'm only giving you my views, which may be not in the public domain up to now, and I haven't had the opportunity of doing it for many reasons.

Senator Michael D'Arcy: Were you interviewed by Mr. Nyberg?

Mr. Michael Fingleton: Oh, I was, yes, certainly.

Senator Michael D'Arcy: And why then do you think if he interviewed you, why would he not put the facts? I assume you gave him the same information you're giving us.

Mr. Michael Fingleton: I can't remember what I gave but I would have given him the same ... more or less the same information. I think I've given you a lot more than I gave Nyberg. Nyberg was an hour or something of an interview.

Senator Michael D'Arcy: But you're saying the Nyberg report in relation to INBS is incorrect.

Mr. Michael Fingleton: No, no, I'm not saying anything. I'm saying, I'm saying that it dealt with the society based on the information it ... that was made available to it by the new management, and it was based primarily on a report done by a firm of accountants that I referred to earlier which, in my view ... I describe it as a flawed document.

Chairman: A supplementary, Senator, to wrap up.

Senator Michael D'Arcy: Okay, just very quickly, in terms of lending policy, Mr. Fingleton, please, were the board aware of all types of lending that would have been made?

Mr. Michael Fingleton: Absolutely.

Senator Michael D'Arcy: Okay. In terms of warehousing of loans, were the board ... did the board sanction the warehousing------

Mr. Michael Fingleton: What do you mean "warehousing"?

Chairman: We won't be going there. No, no, no.

Senator Michael D'Arcy: Chairman, that question, I think, is relevant.

Chairman: Yes, I know. We had a legal briefing yesterday afternoon on this stuff, Senator. Members will be familiar of that. I won't go back into the briefing yesterday afternoon so-----

Senator Michael D'Arcy: The question I'm asking is: was the board aware of warehousing of loans?

Chairman: Okay, no.

Mr. Michael Fingleton: What do you mean "warehousing"? What do you mean?

Chairman: Sorry Mr. Fingleton, I'm going to have to move on. Next question, Senator, please.

Mr. Michael Fingleton: Thank you, Chairman.

Senator Michael D'Arcy: Sorry?

Chairman: Next question.

Senator Michael D'Arcy: Okay. You quoted properties in the UK in your-----

Mr. Michael Fingleton: Sorry?

Senator Michael D'Arcy: You quoted properties in the United Kingdom of-----

Mr. Michael Fingleton: I what? Sorry?

Senator Michael D'Arcy: You quoted properties?

Mr. Michael Fingleton: Quoted?

Senator Michael D'Arcy: Yes.

Mr. Michael Fingleton: Oh sorry, yes.

Senator Michael D'Arcy: -----that the discounts in NAMA were incorrect by multiples.

Mr. Michael Fingleton: That's my opinion.

Senator Michael D'Arcy: Your opinion. Why did you not quote properties that would be of little or no value from your time in INBS to balance the conversation?

Mr. Michael Fingleton: I just haven't any information. I haven't got any information on them at this point in time.

Senator Michael D'Arcy: Thank you, Chairman.

Chairman: Deputy Michael McGrath. Ten minutes, Deputy.

Deputy Michael McGrath: Thank you very much, Chair. You're very welcome, Mr. Fingleton. Can I just start by asking you to clarify what you said about the credit committee and your relationship with it? Did you say that you were an *ex officio* member but you didn't attend to keep yourself at arm's length?

Mr. Michael Fingleton: Correct.

Deputy Michael McGrath: Okay.

Mr. Michael Fingleton: From 2002 when it was formed to 1 December 2007 when the ... when it was ... when the powers given to the committee changed. Then I felt obliged to sit on that committee.

Deputy Michael McGrath: And then you did attend from 2008 onwards-----

Mr. Michael Fingleton: Correct.

Deputy Michael McGrath: -----during the remainder-----

Mr. Michael Fingleton: When there was little-----

Deputy Michael McGrath: -----of your term.

Mr. Michael Fingleton: -----or no lending-----

Deputy Michael McGrath: Sure.

Mr. Michael Fingleton: -----except a bit on residential.

Deputy Michael McGrath: And, to your knowledge, was the initial approval of any individual loan given by one person?

Mr. Michael Fingleton: Not at all.

Deputy Michael McGrath: Not at all.

Mr. Michael Fingleton: I mean, even my chairman ... or not my ... the acting chairman at the time, he came on ... he became chairman of the audit committee later on in 2008 and I remember him saying to me that he was very impressed by the discussion of the contribution of the people who attended, and our policy was not just to confine it to the members of the committee. We also brought in, for the sake of efficiency and knowledge and contribution, all the staff that were involved in the lending process in relation to each or that particular loan that was being considered.

Deputy Michael McGrath: So you are disputing the finding in the Deloitte report-----

Mr. Michael Fingleton: The, the-----

Deputy Michael McGrath: -----that in many cases the commercial loan application was approved by only one-----

Mr. Michael Fingleton: The commercial-----

Deputy Michael McGrath: -----member of the committee.

Mr. Michael Fingleton: I don't think it would be possible knowing the structure within the organisation. All the members of the committee were in the same building within a phone call to come to a meeting and to access it. I can't understand those comments and I've ... I spoke to the chairman of that committee and he just is-----

Deputy Michael McGrath: And, equally, page 27 of the Nyberg report references an inspection by the Financial Regulator in 2006 which looked at a 12-month period from May 2005 to May 2006. It looked at the operation of the credit committee. A quorum of three members was only achieved for two of the 27 meetings, and for four of the meetings, only one member was present.

Mr. Michael Fingleton: That's in dispute. I don't think that's accurate, Chairman. That's my view.

Deputy Michael McGrath: Is that not a matter of fact which can be established-----

Mr. Michael Fingleton: It can be-----

Deputy Michael McGrath: -----by examining the minutes of the relevant meetings?

Mr. Michael Fingleton: -----but it's... it was hotly disputed by the chairman of the credit committee at that time. That's all I'll say. I can't go any further than that.

Deputy Michael McGrath: So, at no stage-----

Mr. Michael Fingleton: And it'd be ... it'd be a surprise to me if that was any ... if that was correct. It would be a great surprise to me because there was absolutely no necessity whatsoever for it to happen - none - knowing the availability of the people who were members of that committee within the organisation and within the same office.

Deputy Michael McGrath: But is it not the case, Mr. Fingleton, that an examination of the documentation which was available to Deloitte, for example, which was available to the Financial Regulator supports the conclusion that on many occasions the credit committee met with one person in attendance?

Mr. Michael Fingleton: I don't think ... I don't think that's true. I really don't. That's my opinion now and I can't ... I can't say otherwise. It's there, it's said and I think, in deference to the chairman of the credit committee, I have to defer on that one.

Deputy Michael McGrath: And, Mr. Fingleton, what about the conclusion of the Central Bank's investigation into INBS in July 2015? I assume you're familiar with that.

Mr. Michael Fingleton: Oh, I am. I'm very familiar with it, Deputy.

Deputy Michael McGrath: Can I put it to you, Mr. Fingleton, that the Central Bank stated at the conclusion of that process "INBS has admitted to having committed multiple breaches of financial services law and regulation, including persistent failure to comply with its own internal policies and procedures during the [period 2004 to 2008]". This was a five-year investigation commenced in 2010, concluded in the summer of 2015. Do you accept that?

Mr. Michael Fingleton: No, I don't.

Deputy Michael McGrath: You don't.

Mr. Michael Fingleton: I don't, Deputy, whatsoever and I would love to know who comprised ... who was the board that made that admission to the credit team. However, it's hotly in dispute and will be dealt with in the normal process in time. And I can't ... I, obviously, can't discuss it further-----

Deputy Michael McGrath: Okay, can I put it to you, Mr. Fingleton, that-----

Mr. Michael Fingleton: -----but I disagree fundamentally with those allegations.

Deputy Michael McGrath: Right. Well, the Central Bank-----

Mr. Michael Fingleton: The motivation for them.

Deputy Michael McGrath: The Central Bank identified a series of breaches, which were admitted by INBS subsequently, underpinned by evidence of more than a thousand alleged instances of INBS breaching its own policies and procedures relating to commercial lending and credit risk management - more than a thousand alleged breaches, supported by documentation, Mr. Fingleton.

Mr. Michael Fingleton: Deputy, I'm not going to get involved in this. I've already said we dispute them ... strongly would dispute that. And, because of the impending inquiry, I can't get involved in the detail of any allegations that are being made or have been made or will be made in relation to that inquiry, for, obviously, legal purposes.

Deputy Michael McGrath: Yes, well I put it to you that they are findings of a Central Bank report which includes instances-----

Mr. Michael Fingleton: That doesn't ... that doesn't mean, Senator, they can't be disputed and that they're correct.

Deputy Michael McGrath: No. I just want to put them on the record - where no commercial loan application was prepared for certain loans or situations where applications were only prepared after funds had been drawn down by borrowers. They refer to instances where loans were not approved by the board of directors, not recommended or approved by the credit committee, not approved in accordance with Nationwide's urgent credit decision approval procedures and you dispute all of this.

Mr. Michael Fingleton: We'll deal with it at the time, Senator, I'm not going to make any further comment on it.

Deputy Michael McGrath: The personal pension pot of €27.6 million, was that transferred out of Nationwide in early 2007? Are those reports accurate, Mr. Fingleton?

Mr. Michael Fingleton: That's correct, yes. It matured at that time and the board decided to terminate the scheme. A very wise decision.

Deputy Michael McGrath: The pension scheme matured, so the ... as in the investments in it matured?

Mr. Michael Fingleton: The board decided to terminate it and to deal with it ... the trustees-----

Deputy Michael McGrath: And what happened to it then?

Mr. Michael Fingleton: -----and it was then ... under the different structures available to me, I was entitled to take it out of the society and put it into another vehicle.

Deputy Michael McGrath: Another vehicle entirely within your own personal control.

Mr. Michael Fingleton: Yes, which was normal and legitimate at the time.

Deputy Michael McGrath: And what is the annual pension deriving from that pot?

Mr. Michael Fingleton: Sorry, I'm not going to discuss it, Deputy, whatsoever. I've made my comments in relation to the pension. I've explained it and I'm not going to deal with it any further.

Deputy Michael McGrath: And would it be normal for a pension scheme of a building society or a bank, which was for the sole benefit of one individual, to then be transferred entirely into the control and ownership of that individual while they remained an employee?

Mr. Michael Fingleton: It was an option ... after that was done I became ... my employment had terminated on reaching the age of 70 years and I was re-employed by the society, under contract, for a further one year. And the option was open to me to leave it with the society or to take it. Under the legislation introduced by the Government, the option to me was to take it into my own ownership so I choose to take it into my own ownership.

Deputy Michael McGrath: Do you feel that you have been wronged, Mr. Fingleton?

Mr. Michael Fingleton: I feel, Deputy, that I've been misrepresented, seriously.

Deputy Michael McGrath: In what way?

Mr. Michael Fingleton: In all the comments. I'd say 80% of what has been written about me by certain individuals is totally wrong. 10% might be disputed but 10% might be ... are ... would be totally correct. And that's where I'll leave it. I certainly, most certainly, do.

Deputy Michael McGrath: Feel that you have been wronged?

Mr. Michael Fingleton: Yes.

Deputy Michael McGrath: And the central allegation, Mr. Fingleton, which has been put to you is that you operated Irish Nationwide as a personal fiefdom, that it was your project, you were in control, any decision of any significance was made by you, you called all the shots.

Mr. Michael Fingleton: Totally untrue, and it's evidenced by my continued insistence that the board would be fully involved, since I joined that society, in the approval of loans within the society. No other institution ... no board of any other institution was involved in the approval of loans and-----

Deputy Michael McGrath: And is it your evidence-----

Mr. Michael Fingleton: -----I believe some individuals in institutions had lending power far in excess than anything I'm alleged to have.

Deputy Michael McGrath: And is it your evidence to the inquiry that not a single loan was extended by Irish Nationwide without either the prior approval of the board or the subsequent noting by the board of that loan?

Mr. Michael Fingleton: I have no-----

Chairman: Generally, as a general question.

Deputy Michael McGrath: My question is very specific, Chairman.

Chairman: With regard to a specific loan, I'd just be mindful that Mr. Fingleton doesn't go into a specific loan but anything in a general capacity, yes.

Mr. Michael Fingleton: I have no recollection, Chairman ... Deputy, of any loan not complying with whatever the policy of the board was.

Deputy Michael McGrath: And finally, in many instances would the board have rejected the recommendation of the credit committee to provide a loan to a borrower?

Mr. Michael Fingleton: It would happen on occasions but not very often.

Deputy Michael McGrath: But it did happen.

Mr. Michael Fingleton: I recall it happening. It's in the ... I think we came across one in the minutes. I was looking through some recent minutes there recently and I saw one.

Chairman: Thank you very much, Deputy. Deputy Joe Higgins. Deputy, ten minutes.

Deputy Joe Higgins: Mr. Fingleton, your auditors, KPMG, did a due diligence report, which came to be known as Project Harmony, in 2007. And it found a number of issues regarding the concentration of loans in the higher-risk development sector - or what the report calls the "speculative property investment" - namely: that 41% of total commercial lending was, in this sector, €3.2 billion; that there was a concentration of loans in the higher loan-to-value bands; that 30% of commercial loans had loan-to-value of over 100%; and that there was a concentration in your customer base where 30 commercial customers accounted for 53% of total commercial loan book. This was at the end of 2006. Did your board ever consider or were they concerned that these levels of high concentration and the correlation between them posed a risk to the business model that the society was based on?

Mr. Michael Fingleton: Yes, I can't speak for individual members of the board but it was never discussed, as far as I recall, at any board meeting. And they would have been reassured by the fact that since 1992 to the end of 2007, that there was little or no bad loans within that book. And, furthermore, you've mentioned ... they would also be comforted by the fact that our book was being turned over by .... every three years, and it was relatively low risk in the sense that even their land development loans embraced just planning, mainly - getting the planning and then refinancing it with another institution to take on the big risk, which was the construction risk.

Deputy Joe Higgins: And you yourself had no concern that this very high concentration in speculative development could come crashing down in the event of, you know, property prices falling?

Mr. Michael Fingleton: Well, all that ... we were guided and probably influenced and reassured by all the commentaries of all the institutions that I have mentioned earlier: the Central Bank, the OECD, the IMF, all the economists, from the bank economists and the academics and also the broker economists, and also the demographics that existed both in the UK and Ireland, which were all very positive.

Deputy Joe Higgins: Okay. Mr. Fingleton, the chief executive of NAMA, Mr. McDonagh, said as a comment on the covered banks generally, including Irish Nationwide, "the banks consider[ed] property lending to be almost a one-way bet, notwithstanding the well-established cyclical behaviour of property markets". And the chairman of NAMA, Mr. Daly, on the same lines, said, "the banks were taking the type of risk normally the preserve of private equity ... hedge fund providers without demanding the same level of rigorous analysis". And if I can put to you then the ... in some detail what the Nyberg report, which I am sure you have read in detail, and I quote in relation to INBS, "Loan contracts tended to include profit share agreements, with INBS receiving ... between 25% and 50% of the profit when [the] project was concluded successfully." Nyberg continues:

> This business model was, in principle and in practice, risky because of the planning permission risks involved and because of the reliance on the refinancing of borrowers by other banks. These risks were seen by INBS as significantly mitigated by accepting, as borrowers, only developers who had a long and successful history of doing such projects.

And my quote concludes: "The model was in some ways closer to that of a venture capital financier than that of typical banks."

Now if you take those three observations, Mr. Fingleton, essentially amounting to a claim that INBS was more a venture capitalist organisation than a building society, and then if we add further observations about only 30 individuals or entities being responsible for 41% of your total loan book, and these individuals, as you said yourself, had a long relationship with, with you and the society ... I mean, would it be fair to say that it wasn't just a venture capitalist project but a crony capitalist one as well in the methods which you used?

Chairman: Mr. Fingleton, I'll just allow a bit of time for response as well as it was a long question. Mr. Fingleton.

Mr. Michael Fingleton: Sorry, what's the question?

Deputy Joe Higgins: The question is, Mr. Fingleton-----

Mr. Michael Fingleton: There seemed to be about ten questions there, Deputy. Sorry-----

Deputy Joe Higgins: -----to sum it up briefly, that certain-----

Mr. Michael Fingleton: -----I just lost track.

Deputy Joe Higgins: Many observers, including Nyberg, said that the methods of banks, and including the INBS, resembled more venture ... hedge funds, essentially-----

Mr. Michael Fingleton: Yes, okay.

Deputy Joe Higgins: -----rather than a building society.

Mr. Michael Fingleton: I'm with you.

Deputy Joe Higgins: And the second part of the question was the close relationships, and yourself being very central to that with people you were giving huge amounts of money to, would it be fair to say that it was crony capitalism as well as venture capitalism?

Mr. Michael Fingleton: No, I would disagree. That's a short answer. And I would also disagree, Deputy, with the observations of Nyberg in the saying that lending on land development under the criteria employed by the society in relation to planning ... planning wasn't a risk at all. Planning was well-defined in the UK and here. You knew what planning you would get in relation to loans. You knew, it was established by precedent and all the rest of it. And that was the easy part. The big risk was the construction, and we had disengaged from that almost totally, I think, in the early 2000s. There was little or no risk in land development and that's proven by the fact that we would get our money back in six months or 12 months, whenever the planning came through. We would get our money back and we would have a free run on the construction side financed with another institution, who were very ... I know the institutions involved and they were very anxious to take all the business from us, not just the construction lending.

Deputy Joe Higgins: Mr. Fingleton, isn't it true that you had seen in your long career as well many property busts in many different countries and bank bursts as well? Surely, would you not have been aware of the inherent risk in that type of speculative lending on property?

Mr. Michael Fingleton: Well, I took into consideration ... certainly, as I've said in my opening statement, I went through three of them, where there was a downturn in the property market, but I didn't expect ... or there was no evidence to support, either emanating from the Central Bank, who were charged with the financial stability of the State, or the Department of Finance or anybody else, to suggest that there was any downturn going to emerge, except a soft landing, which would equate to my experience of downturns in the '70s and '80s-----

Deputy Joe Higgins: Okay.

Mr. Michael Fingleton: -----and early '90s.

Deputy Joe Higgins: Mr. Fingleton, in *thejournal.ie*, 12 February 2013, there is a quote. Con Power, who sat on the INBS board between 2000 and 2006, noted how there were just six people, including himself, on the board and meetings would normally begin with the chairman asking Fingleton: "Well, Michael, what have you got for us today?", with no agenda and no documents before the board members. That would give a picture, if it was true, of a really autocratic regime. Is that true?

Mr. Michael Fingleton: I absolutely ... totally untrue. I mean, that is untrue. I would dispute that.

Deputy Joe Higgins: Okay.

Mr. Michael Fingleton: Now, I would defer to Mr. Power in that he was a corporate ... I would accept he was a corporate governance expert and all the rest of it but that was simply not true. Again, the board were the final determinator of all loans and all policies within the organisations.

Deputy Joe Higgins: Finally, Mr. Fingleton, for time-----

Mr. Michael Fingleton: So, it wasn't exclusive ... Michael Fingleton dictating everything and anything that happened within that organisation.

Deputy Joe Higgins: Right. Finally, Chairman. Mr. Fingleton, if demutualisation had happened in the course of up to 2005 or 2006, what would it have meant to the management of INBS in terms of financial gain?

Mr. Michael Fingleton: I don't know. I don't know, Deputy, because it wasn't determined or evaluated at the time. Certainly, the management and the staff would have benefitted. To what extent, I don't know, and they would be entitled to benefit from demutualisation ... or the successful sale of the organisation would have merited some element of compensation to the staff.

Deputy Joe Higgins: Would it not have been much more than that, Mr. Fingleton? Would it not have been tied to the extent of the assets, the loans, the profits?

Mr. Michael Fingleton: No, no. It never was. Nothing was ever attached to the loans, the profits. That ... all bonuses in relation to any individual other than the branch managers, were incentivised to secure targeted home loans ... were based on the performance of the society solely, not on any targets or anything like that.

Deputy Joe Higgins: So do you say then ... do you deny the suggestion that is made in a number of sources-----

Chairman: You've to wrap up now Deputy.

Deputy Joe Higgins: -----that the drive for-----

Mr. Michael Fingleton: Sorry, where are these made? Where are these allegations made? In relation to?

Deputy Joe Higgins: Let me just state-----

Mr. Michael Fingleton: Sorry, Deputy.

Deputy Joe Higgins: -----state what's said. That ... Nyberg makes it, among others.

Mr. Michael Fingleton: What does he make?

Deputy Joe Higgins: Okay, I'm about to put it to you.

Mr. Michael Fingleton: Sorry.

Deputy Joe Higgins: That the drive for demutualisation was linked to the very high levels of lending, the drive for profits, etc. ... that that's the point that's made.

Mr. Michael Fingleton: Totally untrue, Deputy.

Deputy Joe Higgins: Thank you.

Chairman: Thank you very much. Deputy Eoghan Murphy. Deputy, ten minutes.

Deputy Eoghan Murphy: Thank you, Chairman, and thank you, Mr. Fingleton. You are very welcome.

I just want to go back to something that the Chair raised with you earlier on in relation to the NTMA and why they didn't place deposits with your society. And your answer was?

Mr. Michael Fingleton: That our ratings received from the rating agencies wasn't high enough. They would be looking for AAA-----

Deputy Eoghan Murphy: Okay.

Mr. Michael Fingleton: -----for to place deposits with the counterparty institutions. We hadn't AAA.

Deputy Eoghan Murphy: But when Mr. McDonagh was asked that when he was before the committee, he never mentioned the ratings agencies.

Mr. Michael Fingleton: Well I'm mentioning them because that was the reason.

Deputy Eoghan Murphy: Well, I'll tell you what his reason was, as the NTMA.

Mr. Michael Fingleton: Sorry, yes. Sorry, yes.

Deputy Eoghan Murphy: Yes. From page 93 of the transcript he said, "We won't place any deposit with INBS. ... They'll look for credit lines from us and we wouldn't give it to them. ... we just couldn't understand the business model"-----

Mr. Michael Fingleton: Sorry?

Deputy Eoghan Murphy: -----"we just couldn't understand the business model". This is Mr. McDonagh.

Mr. Michael Fingleton: All right.

Deputy Eoghan Murphy: "We took the view that really it's more trouble than it's worth to place €6 million on deposit with this institution when it really was a very opaque structure." So what do you say to that from the NTMA as to why they wouldn't place deposits?

Mr. Michael Fingleton: That's an opinion. I can't ... I don't agree with it.

Deputy Eoghan Murphy: It's an opinion.

Mr. Michael Fingleton: Yes.

Deputy Eoghan Murphy: And you say that they wouldn't do it because the ratings agencies didn't give you AAA.

Mr. Michael Fingleton: Well, that's ... that was my interpretation of why they wouldn't do it.

Deputy Eoghan Murphy: Where does that interpretation come from?

Mr. Michael Fingleton: It came from ... I remember asking one individual from the Auntie Mae or, sorry, the ... what do you call ... what the ... that institution-----

Deputy Eoghan Murphy: NTMA.

Mr. Michael Fingleton: Yes, NTMA. Sorry, NTMA, about deposits and he said, "Your ratings are not high enough".

Deputy Eoghan Murphy: And what was the context of that conversation? You were pursuing a credit line probably.

Mr. Michael Fingleton: Just a casual conversation that ... I had just bumped into this individual and I just mentioned it. That's all.

Deputy Eoghan Murphy: And were they senior in the organisation? Were they speaking with authority or were they just-----

Mr. Michael Fingleton: Yes, they were senior in the organisation, yes. That was only-----

Deputy Eoghan Murphy: Can you tell us who you were speaking to?

Mr. Michael Fingleton: I'm not ... I'm not ... I don't know whether I can. Is that, Chairman?

Chairman: Go on.

Mr. Michael Fingleton: I can, yes. It was ... it was Dr. Somers, yes.

Deputy Eoghan Murphy: Dr. Somers. That was the reason that he gave you when you met him but it-----

Mr. Michael Fingleton: That is my recollection that-----

Deputy Eoghan Murphy: -----but it wasn't an arranged meeting.

Mr. Michael Fingleton: It was only once. There was only the ... the only time that we ... that I mentioned it. I don't believe ... I am not too sure now about treasury ... whether they had sought to put money with or obtain deposits ... I don't know. But that was the one, only one occasion, and that was the answer I got.

Deputy Eoghan Murphy: This wasn't when you were pursuing a credit line from the NTMA; this was an informal meeting or a-----

Mr. Michael Fingleton: That was years ... it was several years before. I think it was maybe the early 2000s or something like that. It wasn't relatively recently.

Deputy Eoghan Murphy: Okay.

Mr. Michael Fingleton: And nothing connected with the opinion given by Mr. McDonagh.

Deputy Eoghan Murphy: Is it possible that the view of the NTMA might have changed subsequent to that?

Mr. Michael Fingleton: I can't comment on anything NTMA says or does or what their policy was. I can only give you my opinion, and that's all, and what's within my knowledge.

Deputy Eoghan Murphy: Okay. Even after you were told that by Mr. Somers, you continued to seek credit lines from the NTMA. Is that correct?

Mr. Michael Fingleton: I don't know. I didn't.

Deputy Eoghan Murphy: You didn't?

Mr. Michael Fingleton: No, I didn't.

Deputy Eoghan Murphy: Okay.

Mr. Michael Fingleton: And I wasn't aware that anybody else-----

Deputy Eoghan Murphy: This basically was €6 million in a credit line.

Mr. Michael Fingleton: I wasn't aware anybody else did either.

Deputy Eoghan Murphy: Okay. Did you ever raise this issue with anyone in government?

Mr. Michael Fingleton: Not at all. No, no. I understood the organisation. I would have accepted that as, "Grand, no problem", you know? I would have accepted ... I would have understood that they were in the most conservative element of the market and they had to be whiter than Caesar's wife.

Deputy Eoghan Murphy: Why didn't you have the preferred rating from the ratings agencies?

Mr. Michael Fingleton: We had adequate ratings for our business. We had good ratings, but, apparently, not good enough for them.

Deputy Eoghan Murphy: For the rating agencies or for the NTMA?

Mr. Michael Fingleton: For their ... for their ... for the NTMA, or them.

Deputy Eoghan Murphy: How did that compare to other banks or other societies in Ireland at the time?

Mr. Michael Fingleton: I don't know. I don't ... I have no knowledge of any other banks.

Deputy Eoghan Murphy: But you never pursued it any further with the NTMA, seeking of a credit line.

Mr. Michael Fingleton: Absolutely not. That was just a comment I made; a question asked, an answer I got. That was it.

Deputy Eoghan Murphy: Okay.

Mr. Michael Fingleton: And I never raised that issue with anybody ever after connected with NTMA.

Deputy Eoghan Murphy: Okay. And you refute that statement from Mr. McDonagh about the very opaque structure of the society.

Mr. Michael Fingleton: I don't know what evidence he had. What evidence was he basing it on? I don't know. I would dispute that. It's his opinion. He's free to make his opinion but he must have evidence and I don't know what evidence he was relying on. We had published, at that time, 2007 accounts, I think, and in that context they were ... the auditor had certified them and the controls were in place. The accounts were first class and all the rest of it, no qualifications, and they were excellent-----

Deputy Eoghan Murphy: Okay.

Mr. Michael Fingleton: -----to any outside observer. So I don't know why, or what, or why he made those comments. Only he can explain that to you and you had him in here. And I'm sure he did. I can't remember. I wasn't watching his interview.

Deputy Eoghan Murphy: I'll move on to some of KPMG's work for the society.

Mr. Michael Fingleton: Sure.

Deputy Eoghan Murphy: And in Vol. 1 of the evidence books, page 112, we're looking at the statutory duty confirmation letters that the KPMG would have to send to the Financial Regulator every year.

Mr. Michael Fingleton: Sure.

Deputy Eoghan Murphy: There is a series of them in the evidence booklets for 2004, 2005, '06 and '07. What KPMG is noting in this statutory duty confirmation letter is instances of breaches and errors in each of the sectoral returns, prudential returns and large exposure returns. And they also note in that letter to the Financial Regulator that you had already informed the regulator verbally and in writing of these breaches and these errors.

Mr. Michael Fingleton: Sure.

Deputy Eoghan Murphy: So, just tell me first about your relationship with the Financial Regulator. And what does informing the Financial Regulator verbally of something involve?

Mr. Michael Fingleton: It would be part of our policy always to inform the regulator if we came across any defect in any return we made. Returns are made. There's large volumes of funds. They're in different pockets, different codes, from time to time and errors can be made. And when we come across them, it has been our policy all the time to inform the regulator of them, even the most minute. And most of those referred to or that you're referring to, were not material ... maybe one or two of them, maybe, in final terms.

Deputy Eoghan Murphy: Your relationship with the regulator?

Mr. Michael Fingleton: My relationship or, sorry, the society's relationship with the regulator was grand, and my own personal relationship was very good. I respected the regulator and I thought he was very good-----

Deputy Eoghan Murphy: And if there was ever a problem-----

Mr. Michael Fingleton: -----in the manner in which he did his job under the policy he adopted on a principles-based basis.

Deputy Eoghan Murphy: Could you or would you ever contact him directly in relation to an issue with the society?

Mr. Michael Fingleton: Never. The society ... I heard that evidence being given that people went over the supervisory management to the regulator. We never did, as far as I am aware. I'd be very surprised, very, very surprised.

Deputy Eoghan Murphy: Never direct contact from you to the regulator?

Mr. Michael Fingleton: I've no recollection of it, unless somebody else has. But I didn't.

Deputy Eoghan Murphy: Okay. Just in relation then to these errors that you said were not material, in the documentation we see that they're actually ... they're errors that are picked up during an internal review within the society-----

Mr. Michael Fingleton: No, they wouldn't be an internal review. They'd be a ... you're still referring to the returns, are you?

Deputy Eoghan Murphy: I'm talking about the large exposure returns, say, in March 2004.

Mr. Michael Fingleton: Yes. They would be returns made on aggregates of lending, individuals, you know, and things change over a transitory period. At the 31st, something might be coming in and delayed. For example, a payment might come in and it wouldn't be cleared by the bank, and we discover that we have mis-stated the loan balance of somebody and then we advise the regulator or whoever-----

Deputy Eoghan Murphy: But this continues to happen-----

Mr. Michael Fingleton: -----in his office would be dealing with it.

Deputy Eoghan Murphy: It continues to happen in '04, '05, '06, '07-----

Mr. Michael Fingleton: Yes, yes, but-----

Deputy Eoghan Murphy: In '06, you had to resubmit the September returns twice, the June returns twice, the December return-----

Mr. Michael Fingleton: I don't think it would be any different, Deputy, in relation to any other organisation.

Deputy Eoghan Murphy: Okay.

Mr. Michael Fingleton: To be mathematically perfect in assembling information, there would be some errors.

Deputy Eoghan Murphy: Because-----

Mr. Michael Fingleton: If you evaluate them, the vast, vast majorities were non-material and they were advised to the regulator as part of our policy by the society, not-----

Deputy Eoghan Murphy: And they keep on happening, and the Financial Regulator says to you, to the society, that it's concerned with the number of errors reported and it requests the society to outline what controls the society was going to put in place.

Mr. Michael Fingleton: Well-----

Deputy Eoghan Murphy: So what controls were put in place?

Mr. Michael Fingleton: They were put in place and I think you'll have the opportunity this afternoon of speaking to the financial director who will-----

Deputy Eoghan Murphy: Okay. Well, I note that the errors continue after this ... from the Financial Regulator in '06.

Mr. Michael Fingleton: Errors will always continue in the context of the manner in which comprehensive detailed information is provided and applied. That's all I'll say.

Deputy Eoghan Murphy: But they didn't-----

Mr. Michael Fingleton: I'm sure it's not different in any other organisation. But, again, we would have preferred if there wasn't any errors. We're dealing with people who are human and who make mistakes. That's it. That's all I can say -----

Deputy Eoghan Murphy: You didn't see them as a systemic weaknesses in the society?

Mr. Michael Fingleton: Sorry?

Deputy Eoghan Murphy: You didn't see them as systemic weaknesses in the society?

Mr. Michael Fingleton: No, because they were not material.

Chairman: Final supplementary now, Deputy.

Deputy Eoghan Murphy: Thank you. Can I just ask then about the final returns or the sectoral returns, which, in each of the years from '04 to '07, you were exceeding the sectoral limits - the 200% of own funds and the 250% of own funds. So, what was the regulator's response to this when that was raised with you?

Mr. Michael Fingleton: Well, I recall - and I think I mentioned in my witness statement - that we discussed or made some proposal, I think, to the regulator in relation to that, that, as far as I recall, the criteria was very lumpy.

Deputy Eoghan Murphy: Lumpy?

Mr. Michael Fingleton: Lumpy in the sense that we looked for more stratification, like to put in home loans ... under construction, you put home loans separately, you put buy-to-lets separately, you put investment properties separately, retail separately and you apply a factor to them or a limit to them, whereas in the ... historically, they were all lumped into one. Retail would be lumped in and then construction would be lumped in or property and construction lumped into one. So we wanted them to stratified and to apply ... We were looking for that and we did ask ... the regulator was to come back to us on it but he never did and even though we sent a reminder-----

Deputy Eoghan Murphy: Between '04 and '07, he never came back to you?

Mr. Michael Fingleton: No. Well, I think the last reminder we sent to him was about 2004 or 2005, as far as I remember, but that's our position on that.

Deputy Eoghan Murphy: And the board was satisfied that-----

Mr. Michael Fingleton: So, since that there was never any communication and I believe, like, that he was considering implementing some policy on it. And I note in Honohan's report, which I didn't agree with, where he said it was nearly impossible to ring-fence sectoral limits between institutions as there was too many ways around them but I don't agree with that.

Deputy Eoghan Murphy: Just sorry, to clarify, the board was satisfied that you were in breach of the limits in those years.

Mr. Michael Fingleton: Well, they probably would be aware of them, as we were, you know, from time to time, but we were looking for clarification for them to be dealt with in a manner that was appropriate and necessary and clearly understood.

Deputy Eoghan Murphy: Just to clarify finally, you don't agree with the Honohan report either. Is that correct?

Mr. Michael Fingleton: No, I didn't say that-----

Deputy Eoghan Murphy: Sorry-----

Mr. Michael Fingleton: I just... I disagreed-----

Deputy Eoghan Murphy: That's what I heard-----

Mr. Michael Fingleton: -----with one comment. I disagreed with one comment Honohan made in relation to sectoral limits-----

Deputy Eoghan Murphy: Okay.

Mr. Michael Fingleton: That he said the reason that he considered they weren't ... it wasn't feasible to introduce sectoral limits or to implement them or to supervise them was that they could be easily evaded by institutions and I said I didn't agree with that ... that I couldn't see why not, if the regulator choose to do so.

Deputy Eoghan Murphy: Thank you. Thank you Chair.

Chairman: Okay, thank you very much. Now we're moving on to Senator Sean Barrett. Senator, ten minutes please.

Senator Sean D. Barrett: Thank you, Chairman, and welcome again to Mr. Fingleton. On the internal audits, if I may discuss that with you ... in their 2005 report, KPMG stated:

> The existing internal audit function is not best practice. ... In particular it lacks the depth of experience necessary to challenge ... areas of key risk which includes Treasury and Commercial Lending.

And in their management letter in 2008, they stated: "The Society's Internal Audit department needs to build up ... experience and training in order to perform reviews of key risks areas which are currently outsourced to a third party service provider." I think they had concerns in 2004 and I think they had concerns in 1999. So, how would you respond to those critiques?

Mr. Michael Fingleton: Well, I think the internal audit report done by KPMG was a very good one and it was in the context of the original internal auditor leaving the society and engaging in ... with ... or employing a new internal auditor and it was appropriate at the time that we would seek, or the board would seek, the best advice possible in how we could structure or restructure - whatever way you want to put it - the department or the section of the ... pertaining to the internal audit. And they did but they found a lot of positives. They found, Deputy, that we'd a strong audit committee in place. And the audit committee was extremely strong and dealt in detail on reports from the internal audit and, indeed, effectively supervised the internal auditor in his reports and in his activities. And the credit committee was made up of all of the non-executive directors. So they had a full, detailed knowledge of the business ... of the micro-business of the organisation. They said we had strong mandate ... there was a strong mandate for internal audit; they said funding available to enhance the section was available; they said the internal audit used a risk-based methodology; they said an audit manual was in place; they said large exposures were reviewed regularly. The new head of internal audit function was thought very highly of throughout the business and there was an expectation that improvements would occur, as advised by KPMG-----

Senator Sean D. Barrett: Could I put on the record-----

Mr. Michael Fingleton: There was an existence of a dedicated training budget and there was a strong team culture within the IA section. That's ... These are positives; it wasn't all negative but we took on board ... the board took on board the recommendations and we implemented them. And we got appropriate staff to do so and there was never an issue about increasing the staff numbers and other resources of that department-----

Senator Sean D. Barrett: Now, I have to put on the record as well that they also said, Mr. Fingleton, "Certain members of the [internal audit] team lack[ed] credibility with management." This is not surprising, given that "Only one member of the [internal audit] team has a recognised [internal audit] qualification" and that the internal auditor did not attend crucial committee meetings, including the credit, provisioning and asset liability committees, nor was he included in the circulation of the agenda or minutes of these meetings, effectively leaving him in the dark. So, I mean, they did find faults-----

Mr. Michael Fingleton: Senator, the internal auditor would never attend a credit committee meeting.

Senator Sean D. Barrett: What about the qualifications issue?

Mr. Michael Fingleton: They had ... The people that were there ... the internal auditor at the time that was *in situ* was extremely well qualified and the staff that he had had a lot of experience within that department in dealing with the internal audit as was practice at the time.

Senator Sean D. Barrett: Well, how did they find only one member of the internal audit team had a recognised internal audit qualification?

Mr. Michael Fingleton: Yes, but they had practical experience on the ground. Deputy, people get experience from activity and dealing with matters. Qualifications have a place all right but they're not the ultimate in evaluating the ability of any staff member to do their job and do it effectively. If we relied on qualifications of people, then ... okay, thanks.

Senator Sean D. Barrett: Could I refer to Vol. 1, at page 43, the letter from the Financial Regulator, dated 8 February. Now, you just said, I think, to Deputy-----

Mr. Michael Fingleton: Sorry, where are you now?

Senator Sean D. Barrett: 8 February 2008-----

Chairman: On page 43, Senator, yes?

Senator Sean D. Barrett: Page 43, indeed. Thank you Chairman-----

Mr. Michael Fingleton: February 2008. What's that?

Senator Sean D. Barrett: You said you ... You were commenting on the regulator, that you respected him, but I have to say what he said-----

Chairman: Please formally relay it to Mr. Fingleton, there, Senator.

Senator Sean D. Barrett: -----in that letter-----

Mr. Michael Fingleton: 43 is it?

Senator Sean D. Barrett: Page 43.

Chairman: Vol. 1.

Mr. Michael Fingleton: In Vol. 1, okay. I'm nearly there.

Senator Sean D. Barrett: "The findings of this inspection of INBS calls into question the adequacy of controls and risk management in place in INBS for large commercial property loans and suggest[s] that a significant degree of approval authority rests with a single individual,-----

Chairman: End of page-----

Senator Sean D. Barrett: -----Mr. Fingleton, who ... appears to be the only source of information on some of the large clients."

Mr. Michael Fingleton: Who said? I think I already dealt with that with an earlier answer.

Senator Sean D. Barrett: Well, this is not Mr. Neary. This was from ... the-----

Deputy John Paul Phelan: Mary Burke.

Senator Sean D. Barrett: Mary Burke.

Mr. Michael Fingleton: Well, I think, Chair or Deputy, I've dealt with that fairly extensively in a reply to somebody out of the committee - I can't recall - but I would disagree with her.

Senator Sean D. Barrett: And have you formally replied?

Mr. Michael Fingleton: I didn't. It wasn't to me, Senator, that that letter was addressed. It was replied to by the chairman, Dr. Walsh.

Senator Sean D. Barrett: Could I bring to the attention the resignation of Dr. Con Power? You said that the board discussed all major matters. Mr. Power resigned because the decision to take legal action against the financial ombudsman was not discussed at the board. You phoned him up from London to try to change his mind in 2006, but he did resign. Why was that decision not taken by the board?

Chairman: Just be careful of pre-judgment now, Senator, and a question please.

Mr. Michael Fingleton: Sorry, the ... what is the question?

Senator Sean D. Barrett: The question is: would it be normal to engage in that kind of legal activity without telling the board members?

Mr. Michael Fingleton: It would be advised to the board. We would ... I would deal with ... I had the authority to deal with all elements within that function in the society, and it was not a materiative function - it was an administrative function, an ongoing administrative function - and we were dealing with the regulator in his capacity as regulator on an ongoing basis. That was it. We got legal advice that we were supposed to get, and also Dr. ... well, I'm not going to get into a dispute with Dr. Power, but Dr. Power was at a meeting when this was discussed by the management and all the management around the table. And secondly, I do not accept that Dr. Power resigned because of that. He resigned because there was a conflict of interest between his appointment as ... as chairman of the ombuds-committee and as a director of the society.

Senator Sean D. Barrett: The society lost ... was it €243 million in 2008?

Mr. Michael Fingleton: Sorry?

Senator Sean D. Barrett: The society lost-----

Mr. Michael Fingleton: Oh yes. It didn't.

Senator Sean D. Barrett: -----€243 million. Is that correct?

Mr. Michael Fingleton: I'm sorry, Chairman, it didn't lose 200 ... there was provisions made of €243 million.

Senator Sean D. Barrett: Yes, and what was the-----

Mr. Michael Fingleton: There was no losses. There was no losses realised.

Senator Sean D. Barrett: Yes, and-----

Mr. Michael Fingleton: There was a provision made by the auditors. Sorry, I've interrupted you.

Senator Sean D. Barrett: No, you say that the society was solvent in September-----

Mr. Michael Fingleton: Yes.

Senator Sean D. Barrett: -----2008, but Goldman Sachs advised that there was no hope of a sale.

Mr. Michael Fingleton: Sorry?

Senator Sean D. Barrett: Goldman Sachs said-----

Mr. Michael Fingleton: What has that got to do with liquidity, Senator?

Senator Sean D. Barrett: Well, one would imagine that it was saleable if it was ... and there was optimistic ... and Goldman Sachs told you it wasn't.

Mr. Michael Fingleton: It was still saleable, but the market was not there. That's accepted.

Senator Sean D. Barrett: Well then it was not saleable.

Mr. Michael Fingleton: That's nothing got to do with liquidity, Senator, nothing whatsoever. If you look at our balance sheet at that date, even the date of the 5th of, whatever it is, the 5 April when the ... those accounts were published, we were-----

Senator Sean D. Barrett: So are you disagreeing with Goldman Sachs?

Mr. Michael Fingleton: Senator, I'm just going ... they've said, they gave, they gave an opinion that we wouldn't effect a sale, but Senator that's nothing got to do with liquidity and what was in their balance sheet at that date. And in the balance sheet at that date, there was ... there was adequate liquidity and capital of €1.5 billion.

Senator Sean D. Barrett: Did Professor Walsh think-----

Mr. Michael Fingleton: And all ... and can I further add that it reflected on our book that only ... subsequently what happened ... that there was only a provision made of that amount at that time - in 2009 - which didn't reflect any adverse findings in relation to the quality of our book.

Senator Sean D. Barrett: Did Professor Walsh share your optimism, because he was in secret talks with ILP at that stage?

Mr. Michael Fingleton: ILP?

Senator Sean D. Barrett: Yes, Irish Life and Permanent.

Mr. Michael Fingleton: I cannot comment on, on that because I wasn't aware of them.

Senator Sean D. Barrett: Thank you.

Chairman: Thank you very much, Senator. I'm now going to wrap up with a couple of matters - just a tidy-up on it - and seek further clarification on some earlier questions, and then after which I'll invite the two lead questioners this morning, Mr. Fingleton - Deputy Doherty and Deputy O'Donnell - to conclude before we break. Can I just get clarification on one point, Mr. Fingleton, and it's in regard to an earlier question by Senator O'Keeffe? Can you clarify that the findings made by the Financial Regulator in November 2006, raised by Senator O'Keeffe, were rated? How were they rated? Were they medium priority by the regulator? Were they? What was the rating of them?

Mr. Michael Fingleton: Medium, yes.

Chairman: Yes. Just to get, it was a medium rating, yes?

Mr. Michael Fingleton: Yes.

Chairman: Okay. All right. Thank you.

Mr. Michael Fingleton: And a low ... there was some low I think in it as well.

Chairman: Okay. On the .... another matter ... it's just the ... following ... there'll be two documents coming up on the screen there relating to the credit committee's operational review. The first one relates to December '08. Following the delegation of authority of the credit committee in December 2007, internal audits carried out by two reviews of the operation of the credit committee: one in July 2008 covering the period of January to June 2008, and the other in January 2009 covering the period of July to December 2008. The findings note that the frequency of meetings declined as the year went on, to the point where the ... in the internal audit's opinion, the credit committee is not meeting just ... is not meeting with enough frequency to fulfil its duties, and it's listed there as being of high risk. It's given a rating of 2.4 that the credit committee may not be adhering to its terms of reference of meeting.

Then moving on to the January '09 report, it also notes that several other weaknesses, including one critical issue re the failure to present a facility for approval before drawdown, and that relates ... I think it's coming up on the screen there. It says, when it comes - it's the fourth one down I think - the credit committee minutes may not be adequate and may not represent an accurate description of each meeting. And the other one, once again the credit committee may not be adhering to its terms of reference and so forth. Mr. Fingleton, can I ask you to explain why the credit committee was not functioning properly during this critical period in 2008?

Mr. Michael Fingleton: Chairman, the reason there wasn't any meetings of the credit committee as set down there was there was no loans being issued, simple as that. The credit committee met when it was required to meet. The volume of meetings had no ... has no relationship to anything except the approval of loans and at that time, we weren't lending.

Chairman: Mr. Fingleton, as chief executive of INBS over a period of 37 years, you had ultimate executive responsibility for the operations and businesses of the society during this period. However, from your evidence here today, you would appear to have excused yourself from many of the key credit decisions during that time. You also dispute the ... many of the findings made in several reports produced by a number of independent parties, such as Deloitte Touche, KPMG, the Financial Regulator and on the governance of the society, and have suggested that there were no real problems with INBS. Could you please explain to the committee as we come to our conclusions today of the session why you believe INBS has ended up costing the Irish taxpayer €5.4 billion and what responsibility you personally bear for this?

Mr. Michael Fingleton: Chairman ... I'm just going to ... I just have ... hold it a minute. Sorry, can you just ask me that again because I have lost your-----

Chairman: I can. Can you-----

Mr. Michael Fingleton: -----train, yes?

Chairman: As we come to the end of today's proceedings and-----

Mr. Michael Fingleton: Ah, yes. It's okay. I've got it. All I say is, Chairman, that you've implied that I haven't answered the questions to this inquiry-----

Chairman: I said that you-----

Mr. Michael Fingleton: -----to the best of my ability.

Chairman: -----dispute many of the findings made in several reports.

Mr. Michael Fingleton: Yes, yes. You ... I've ... I've-----

Chairman: You would appear to have excused yourself from many of the key decisions.

Mr. Michael Fingleton: I have ... I have ... I have not excused myself from anything. I have merely answered the questions to the best of my knowledge and given my opinion on the various questions that were asked to me, and that's what I have done. And, secondly, in relation to the second question-----

Chairman: So can you explain to the committee why you believe that INBS has ended up costing the Irish taxpayer €5.4 billion and what responsibility you bear-----

Mr. Michael Fingleton: Simply-----

Chairman: -----in regard to this?

Mr. Michael Fingleton: Simply, Chairman, because we failed to reduce our commercial loan book sufficiently, despite having decided ahead of the market - well ahead of the market - to downsize the book in September 2008 in the expectation ... the realistic expectation ... on the basis that over ... around €5 billion of the loans were due to mature in 2008. We failed to achieve that prior to the crisis and we had too much of those loans on our book at the time the crisis happened and that's why we were, or that's why we lost that much money.

Chairman: Thank you. Deputy Pearse Doherty, five minutes.

Deputy Pearse Doherty: Go raibh maith agat. Can you put that last document that you had on the ... on the screen in terms of the internal audit that the Chairperson was just talking to you, the findings? Do you accept the findings from the internal audit?

Mr. Michael Fingleton: Well, he, he made the findings and that was his findings. I, I don't know whether you have a ... have a report or a commentary or a reaction from the head of commercial lending at the time, I don't know, or the-----

Deputy Pearse Doherty: Do you, sorry, there's three significant witnesses-----

Mr. Michael Fingleton: Yes, I accept that he has, he has ... that those reports are his opinion and I have no reason to doubt him-----

Deputy Pearse Doherty: Okay.

Mr. Michael Fingleton: -----but as I've said before ... that there was, in relation to the, the meetings, there was no necessity for a meeting-----

Deputy Pearse Doherty: Okay, no, that's fine-----

Mr. Michael Fingleton: -----so, therefore, he was wrong ... he was wrong on that one.

Deputy Pearse Doherty: -----we're under the clock. Point 3 there, which is ... a loan for €10 million was advanced without sufficient back-up documentation and without receiving credit committee approval, do you accept that finding? This is an internal audit department review.

Mr. Michael Fingleton: No, we would ... we would ... we would probably ... I can't comment on that because that would be part of the ongoing litigation that that was ... that's in the courts. We would ... it would be disputed, Deputy, but that's ... that's it.

Deputy Pearse Doherty: So the internal audit department makes-----

Mr. Michael Fingleton: Sorry?

Deputy Pearse Doherty: -----the internal audit department makes that as a significant weakness. The Deloitte ... in the Deloitte report they have ... on page 74 they talk about a loan amount of ... a loan amount was increased by £10 million sterling from £71 million to £81 million with the approval of the manage ... managing director, with only an accompanying memo stating that the £10,125,000 of VAT moneys will repay ... be repaid within three months. It goes on to say it's in breach of the commercial lending policy "as the increased approval can only be given by the Credit Committee" and it says "in this case only the Managing Director [which was you] agreed to the increase".

Mr. Michael Fingleton: I don't ... while that is again in dispute, I, I ... that is not true. I'll ... I'll just make it clear that I would have done it with the approval of two members of the credit committee and only in that context and the materiality of it is, is ... is mentioned there that-----

Deputy Pearse Doherty: Okay. Mr. Fingleton, you were given what some have called excessive powers going back to, what, 1994. And, again, in August 1997, in ... an extract from the board minutes say that the ... they are to include the powers to set, vary and alter its interest rates, fees, terms and conditions of all loans, whether secured or unsecured, and on all investment and deposit accounts. It goes on to talk about reviewing settled documentation, legal or otherwise, to initiate legal action and so on, and to make arrangement with individual borrowers, investors and depositors in the normal course of business. The board devolved those powers solely to you.

Mr. Michael Fingleton: They were standard executive powers enjoyed by any CEO in any institution to manage the day-to-day operations of the society-----

Deputy Pearse Doherty: But you ... can I clarify ... can I clarify this because the question was put to you by a number of my colleagues on a number of occasions in terms of did you issue a loan without the approval of the board or the credit committee and to my knowledge you've responded to say that you've ... you've only ever done so with the-----

Mr. Michael Fingleton: No-----

Deputy Pearse Doherty: -----let me finish, this is an important point-----

Mr. Michael Fingleton: Yes, sorry.

Deputy Pearse Doherty: -----you've only ever done so with the approval of the board's policy. But is it not the case, as far back as 1994, you had that authority yourself to actually do this, to vary loans, to change interest rates, to create extensions - that you were acting within the policy of the board-----

Mr. Michael Fingleton: I had ... I had-----

Deputy Pearse Doherty: -----but you could do it solely yourself-----

Mr. Michael Fingleton: Oh, yes-----

Deputy Pearse Doherty: -----as an individual?

Mr. Michael Fingleton: -----I had power to vary interest rates and it was very useful when Bank of Scotland came in and I started targeting our mature loans and it ... we had even a retention department in ... in the mortgage administration section whereby they would identify requests from borrowers for the ... the deeds of their ... of their ... their home loans and we would, through the managers, contact those borrowers and see were they switching to another ... another provider and we would seek to hold on to the business. And in seeking to hold on to the business, they would evaluate whether we could meet their requirements to reduce the interest on their loans.

Deputy Pearse Doherty: You, there was a review-----

Mr. Michael Fingleton: And that decision ... that decision would have to be ultimately approved by me on their recommendation-----

Deputy Pearse Doherty: There was a-----

Mr. Michael Fingleton: And that was continuous all through ... since 1999, right through.

Deputy Pearse Doherty: Mr. ... Mr. Gerry McGinn, who became your successor, talked about the shoddy and well-below-standard practice in relation to what went on in Nationwide.

He talked about it as an "outrage" but he also carried out a review into what was called "celebrity loans". He said that there was nothing untoward in relation to them because the ... powers had been devolved by the board to you which could allow you to have interest-only repayments or moratoriums or reduced rates. So was this ... was there a special category for certain connected people? I think there was reference to sports stars and politicians and some others which Mr. Fingleton gave these celebrity loans to.

Mr. Michael Fingleton: Another ... another, Deputy, another one of the myths. There were people who may be considered as celebrities who got loans but they got them on the basis that they qualified for them in the normal ... in the normal criteria.

Deputy Pearse Doherty: So, when Mr. McGinn talks about ... Mr. McGinn talks about the reduced interest rates and so on and exceptional rates, this is-----

Mr. Michael Fingleton: That ... I ... I would like Mr. McGinn to produce one iota of evidence of me unilaterally reducing an interest rate that wasn't recommended to me to do so for competitive reasons by ... by another member of the staff.

Deputy Pearse Doherty: Can I finally say or ask you-----

Mr. Michael Fingleton: And also ... talking about Mr. McGinn, he also criticised us for not having enough of meeting rooms, which, of course, being a civil servant, he needed a lot of meeting rooms, and we had eight or nine meeting rooms but they were adequate for our needs when I was in charge of the society.

Deputy Pearse Doherty: Okay, Mr. Fingleton, can I ask you finally, you've made the claim that Nationwide was solvent on the night of the guarantee but is it not the case-----

Mr. Michael Fingleton: It's not a claim, it's a fact Sen ... Deputy-----

Deputy Pearse Doherty: Well-----

Mr. Michael Fingleton: -----and it hasn't been disputed by anybody that I have heard or read in this ... in this-----

Deputy Pearse Doherty: Well, it actually has ... sorry, with respect, it has been disputed-----

Mr. Michael Fingleton: By whom?

Deputy Pearse Doherty: -----in this ... in evidence to this committee.

Mr. Michael Fingleton: By any ... any contributor?

Deputy Pearse Doherty: By their claims - and at the minute their claims - in defining the facts also-----

Mr. Michael Fingleton: Yes, okay, it's been ... also been disputed by members of you committee. I accept that.

Deputy Pearse Doherty: The question is, is it not the case that you were steering or the institution ... maybe not you, personally, but the institution was on a collision course with ... with a financial iceberg? It was going to happen anyway. You had €4.5 billion on euro medium-term notes due to mature between December 2008 and November 2009. Unless the crisis disappeared, it would be very challenging, if not impossible, to actually refinance those. Was it not the case that you were on this direction anyway, that there was a collision course coming? And is that not the reason, as we've heard in evidence here, that nationalisation legislation that was being prepared by Government was not originated for Anglo Irish Bank, it began for your institution, it began for Irish Nationwide Building Society? We have documents here, reams of them, in terms of 24-point plans as to what the Government would do when the decision would be taken to nationalise Irish Nationwide. All of this exists. Why was there crisis meetings if you believed that everything was so-----

Mr. Michael Fingleton: Of course the CRD committee ... was it CRD ... is that what we're ... would make contingency plans. That was what they did for all institutions-----

Deputy Pearse Doherty: No, they didn't. With respect, Mr. Fingleton, they did not have nationalisation legislation for AIB, Bank of Ireland or, indeed-----

Mr. Michael Fingleton: They had it for banks ... for banks generally.

Deputy Pearse Doherty: The point I'm making is that in relation to Nationwide ... in relation to Nationwide-----

Chairman: Deputy, I understand the question needs to be answered.

Deputy Pearse Doherty: Nationwide was the first area that was identified as a crisis. This is where the legislation originated and it was amended then for banks.

Mr. Michael Fingleton: They had not ... they had not-----

Deputy Pearse Doherty: Is it not the point ... going back to the core issue, is it not the point, given the funding difficulties that you had which you discussed at board minutes - and we have the minutes - about how you were going to try and refinance or repay that €4.5 billion ... given the fact that you were shut out of the markets at that point in time, that it was a ... an accepted ... that this was going ... that insolvency was going to be an issue in the future?

Mr. Michael Fingleton: Deputy ... Deputy, the benefit of hindsight is wonderful but let me remind you that we, in 2008 and prior to the guarantee, had no need to access the ... the wholesale market and I've made that clear earlier. We had sufficient liquidity and perhaps if everybody put their liquidity on the table - of other institutions - we might come out very fairly indeed. And it was all in cash, it wasn't in other instruments where ... some institutions lost a lot of money by not having some of their ... by having their liquidity in those derivatives.

Deputy Pearse Doherty: Mr. Fingleton, you did not have enough liquidity to cover what was maturing in the following 11 months.

Mr. Michael Fingleton: Deputy, we had ... we had ... if you look at the accounts of the society in 2010 - remember, 2010 - and we would have ... we had enough cash to deal with it in relation to the evaluation of the loan book at that time.

Deputy Pearse Doherty: Well, can I just put on the record this here? The minutes of the meeting actually does not suggest that the liquidity available to the bank would actually cover this. It actually talks about retail deposits wanting to be increased by-----

Mr. Michael Fingleton: The minutes of what meeting?

Deputy Pearse Doherty: The minutes of the board of directors of Nationwide on 10 March

2008 deals with this issue, the fact that there was €4.5 billion going to mature. At this point, you're shut out of the markets. It talks about the society continuing to market and promote through its branches and trying to raise €1.4 billion. It talks about trying to squeeze €600 million out of the Isle of Man society. It talks about asset covered funding and trying to secure €800 million from that. It talks about €500 million in mortgage-backed promissory note, which would have been in the future, and it talks about, in terms of your loan book, which you mentioned that matures and rolls over every so years, it talked about only €900 million coming from that in the period of 2009.

Mr. Michael Fingleton: Senator, or Deputy, at the date of the guarantee, the society was solvent.

Deputy Pearse Doherty: That's not the question. We're not disputing in terms of a theoretical moment in time-----

Mr. Michael Fingleton: And after-----

Deputy Pearse Doherty: The point is is that-----

Mr. Michael Fingleton: And as the market evolved beyond ... even at 2008, in March after the audit by KPMG, we were extremely solvent and had €1.5 billion of capital. I think after the audit of 2010, we still had €1.2 billion in capital and about nearly €4 billion in assets. What we were anticipating was all the possibilities and the contingencies that may or may not arise, as would be prudent for us to do. This was not to say that we had any, any at that time, worry about our liquidity or our solvency. What materialised afterwards - after 2010 and NAMA and all the rest of it and the crash - that took care of all that and then we were insolvent. Certainly at the time of the guarantee and a year later in March 2009, we were very liquid and very solvent and had capital of, let's say, 10.2% on our balance sheet.

Chairman: Okay. Deputy Kieran O'Donnell.

Deputy Kieran O'Donnell: Mr. Fingleton, can I refer? Are you familiar with the book, *Fingers: The Man Who Brought Down Irish Nationwide and Cost us €5.4bn*? Are you familiar with that?

Mr. Michael Fingleton: I would prefer not to discuss that book because there's at least 20 libels in it. Be very careful, Deputy.

Deputy Kieran O'Donnell: Well, I will refer to something and you can either answer it or not. On page 254, it speaks about a special account within the society called a No. 3 account-----

Mr. Michael Fingleton: Yes.

Deputy Kieran O'Donnell: -----which consists of Irish Nationwide, yourself and Mr. Purcell, between 2008, jointly controlled. It could make payments without limits and were used for such things as loans to particularly sensitive figures for the settlement of disputes, fast-track mortgages of kind advanced.

Mr. Michael Fingleton: Sorry. Sorry, say that again.

Deputy Kieran O'Donnell: They effectively are saying that you had an account, under the control of yourself and Mr. Purcell, that effectively could fast-track loans without approval from the board.

Mr. Michael Fingleton: Absolutely, totally untrue. That's absolutely and totally untrue and it's defamatory.

Deputy Kieran O'Donnell: Okay. Can I ask you, your pension, when you took it from Irish Nationwide society in 2007, did you seek the approval of the board?

Mr. Michael Fingleton: Sorry?

Deputy Kieran O'Donnell: Did you seek the approval of the board?

Mr. Michael Fingleton: It was the board were fully engaged in it and the trustees. So the board made the decision to terminate the fund at the time and then I took the options that were available to me.

Deputy Kieran O'Donnell: Okay.

Mr. Michael Fingleton: The board didn't decide the options. I took the options because it was up to me to make the decision.

Deputy Kieran O'Donnell: And why was the decision taken at the time for you, for the fund to go from the society into your own-----

Mr. Michael Fingleton: Well, the board and the trustees determined it was an appropriate time to do so.

Deputy Kieran O'Donnell: Can I ask you, if the guarantee ... you believe that Irish Nationwide was solvent on the night of the guarantee.

Mr. Michael Fingleton: Absolutely.

Deputy Kieran O'Donnell: If the guarantee hadn't been put in place, could Irish Nationwide Building Society have survived without the guarantee?

Mr. Michael Fingleton: On the basis of the increase in the deposit guarantee from €20,000 to €100,000, over 95% of our deposits were within those limits. Therefore, we would have been in a very good position if the guarantee didn't take place that night, maybe to survive better than some of the banks that were guaranteed. On that basis. Our book wouldn't be targeted----

Deputy Kieran O'Donnell: So how do you reconcile that-----

Mr. Michael Fingleton: -----without having the guarantee.

Deputy Kieran O'Donnell: Mr. Fingleton, how do you reconcile that the €5.4 billion of taxpayers' money went into Irish Nationwide?

Mr. Michael Fingleton: I've already explained that ... that at that time, that the four billion materialised was based on the discounts applied by NAMA, which I dispute.

Deputy Kieran O'Donnell: What discounts should have been applied by NAMA?

Mr. Michael Fingleton: I don't know. I don't what discounts but certainly the ones that were applied to us were not accurate in my view.

Deputy Kieran O'Donnell: But the discounts gave rise to about €5 billion of a discount, right.

Mr. Michael Fingleton: That was their opinion.

Deputy Kieran O'Donnell: Yes, but even if it hadn't been that level of a discount-----

Mr. Michael Fingleton: Okay, it could've been €4 billion - that is fine - but it was too much. As I already said before to another member of your inquiry, that was too much.

Deputy Kieran O'Donnell: Therefore, taking out the fact that the discount would have been less, do you-----

Mr. Michael Fingleton: Any loss, Senator, or Deputy, any loss would be too much. Any loss at all would be far too much.

Deputy Kieran O'Donnell: So, your view is that Irish Nationwide did not need a guarantee, was not insolvent-----

Mr. Michael Fingleton: No, no, no. We are saying we were solvent on the night of the guarantee and subsequently.

Deputy Kieran O'Donnell: So when did Irish Nationwide become insolvent? Did it-----

Mr. Michael Fingleton: I'd say ultimately when NAMA decided to crystallise the losses because certainly up to ... In the accounts, and this is the new management now, in the accounts for 2009, which were produced in March or April 2010, the expectation of the losses accruing to Irish Nationwide was, on the book of €8.5 billion, it would fall, having-----

Deputy Kieran O'Donnell: So, do you believe that-----

Mr. Michael Fingleton: Sorry, it would fall to about €5.6 billion or €5.7 billion.

Deputy Kieran O'Donnell: So, do you believe if NAMA wasn't established-----

Mr. Michael Fingleton: That is a big difference from where it ended up at €5.4 billion.

Deputy Kieran O'Donnell: Do you believe that if NAMA hadn't been established, Irish Nationwide would never have become insolvent and would be still standing today?

Mr. Michael Fingleton: I am not saying that at all.

Deputy Kieran O'Donnell: So what are you saying, Mr. Fingleton?

Mr. Michael Fingleton: From once the liquidity crisis hit and the funds dried up, it was inevitable that that would happen. On the basis that there was a closure, a full closure, in the market, that there was no funds available for anything, it would happen.

Deputy Kieran O'Donnell: Do you believe on the night of the guarantee-----

Mr. Michael Fingleton: Whether in the absence of NAMA, it would have meant ... it would have led to the extent of the discounting by NAMA, that's another argument, Deputy.

Deputy Kieran O'Donnell: Two quick questions. Do you believe then on the night of the guarantee, Irish Nationwide had no liquidity problems of any description?

Mr. Michael Fingleton: Well, we had, we had ... You have the Goldman Sachs report there and it was ... I don't think it was appreciated. It certainly wasn't, from the evidence that was given to this inquiry, it wasn't appreciated, even by the officials, because I think maybe the regulator didn't, for regulatory reasons, didn't disclose information, it wasn't appreciated by the people there that we had so much cash.

Deputy Kieran O'Donnell: Mr. Fingleton, do you believe that you knew best? Did you believe that you knew what was best for Irish Nationwide Building Society, as the CEO?

Mr. Michael Fingleton: Oh no, no. I was CEO and I gave my opinion as the CEO and the board gave their opinion and that's it. We did the best we could-----

Deputy Kieran O'Donnell: Do you agree with-----

Mr. Michael Fingleton: ----- the same as every other institution did. Nobody, Deputy, conducted their business to achieve the ultimate result that was achieved in-----

Deputy Kieran O'Donnell: Do you believe the corporate structures of operations in Irish Nationwide Building Society during your tenure were adequate?

Mr. Michael Fingleton: I think they were adequate. I don't think they were perfect and I don't think any other institution would claim perfection in their systems but they were adequate for our needs because we were running-----

Deputy Kieran O'Donnell: Just one quick question.

Mr. Michael Fingleton: -----we were running a very restricted type of business.

Deputy Kieran O'Donnell: You said earlier in reply to a previous Deputy that there was no conflicts of interest in any loans that were given in respect of the board or anyone else. How do you explain Mr. David Brophy continuing on the board in 2005 after he became the chief operations officer of Ballymore Properties?

Mr. Michael Fingleton: He declared his interest like anybody will do on any board who are connected with any company that would have borrowings from that institution and there were many directors in many boards who would have had the same conflict of interest. They would have excused themselves from any decisions that were made in relation to-----

Deputy Kieran O'Donnell: Sorry Chairman, would-----

Mr. Michael Fingleton: And in fact, I think there is a statement made at this committee by, I think, somebody from Ballymore that there was no loans given to Ballymore after Mr. Brophy became CEO of that.

Deputy Kieran O'Donnell: And finally, you made reference earlier that what was written about you that 80% was inaccurate, 10% you disputed and 10% you agreed with. Which of the 10% did you agree with?

Mr. Michael Fingleton: I haven't read that particular ... I haven't cogitated on that but I think that would be fairly accurate. I mean that would be my assessment.

Deputy Kieran O'Donnell: Do you agree with any official report that was issued in respect of Irish Nationwide?

Mr. Michael Fingleton: Oh yes but there is official reports and there is official reports and there is inquiries and there is opinion, Deputy. And I am entitled to disagree if it is my opinion

- honest opinion - that I disagree and that's it.

Chairman: Mr. Fingleton, I am going to bring matters now to a final conclusion. In doing so I would like to give you the opportunity to invite you to make any final comments or thoughts or observations that you might mean to or would like to add as we conclude.

Mr. Michael Fingleton: I'd just like to thank you, Chairman, for the courtesy of this inquiry and the ways it has been conducted and also to each of the members of the inquiry who were fair - tough but fair. That is my only comment.

Chairman: Thank you, Mr. Fingleton. With that said, I'd like to thank you for your participation today and for your engagement with the inquiry and to now formally excuse you. I will be proposing to suspend the meeting until about 2.30 p.m. or so. If I can maybe just ask members of the committee to hang on for a few moments at the end of this, while the room is being cleared, just to deal with one or two matters and then we will resume with our next session this afternoon with Mr. Michael Walsh. Is that agreed? Agreed.

Sitting suspended at 1.32 p.m. and resumed at 3.04 p.m.

Irish Nationwide Building Society - Mr. Michael Walsh

Chairman: I now propose as we are back in full quorum, that the committee of inquiry will now resume public session. Is that agreed? And can I ask members and those in the public Gallery to ensure that the mobile devices are switched off? Our focus today is on the Irish Nationwide Building Society, and we continue our hearings this afternoon with Mr. Michael Walsh, former non-executive chairman of INBS. Michael Walsh was a non-executive director of INBS from 1995 and non-executive chairman from 2001 to 2009. Mr. Walsh was also professor of banking and finance at UCD and managing director of the corporate finance business at the stockbroking firm, NCB Group Limited. Mr. Walsh, you are welcome before the committee this afternoon.

Mr. Michael Walsh: 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 this inquiry which overlap with the subject matter of the inquiry. Therefore, the utmost caution should be taken not to prejudice those proceedings. Members of the public are reminded that photography is prohibited in the committee room. To assist the smooth running of the inquiry, we will display certain documents on 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.