

HOUSES OF THE OIREACHTAS

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AN COMHCHOISTE FIOSRÚCHÁIN I DTAOBH NA GÉARCHÉIME BAINCÉI- REACHTA

JOINT COMMITTEE OF INQUIRY INTO THE BANKING CRISIS

Dé Céadaoin, 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.

The joint committee went into private session at 6.33 p.m. Sitting suspended at 7 p.m. and resumed in public session at 7.30 p.m.

Irish Nationwide Building Society - Mr. John Stanley Purcell

Chairman: With that said, I am now going to call the session back into ... or the inquiry back into public session. Is that agreed? And to deal with session 3 of today's hearings with Mr. John Stanley Purcell, former finance director and secretary of Irish Nationwide Building Society.

The Committee of Inquiry into the Banking Crisis is now resuming in public session. Can I ask members and those in the public Gallery to ensure that their mobile devices are switched off? Our focus today is on the Irish Nationwide Building Society and we continue our hearings this evening with Mr. John Stanley Purcell, former finance director and secretary of INBS. Mr. Purcell joined Irish Nationwide as financial controller in 1986. He was appointed secretary of INBS in May 1999 and was appointed to the board of INBS in December 1994 as an executive director. He is now retired. Mr. Purcell, you are very welcome before the committee this evening.

Mr. John Stanley Purcell: 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'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 are directed that only evidence connected with the subject matter of these proceedings is to be given.

I would remind members and those present that there are currently criminal proceedings ongoing and further criminal proceedings are scheduled during the lifetime of the inquiry which overlap with the subject matter of the inquiry. Therefore, the utmost caution should be taken not to prejudice those proceedings. Members of the public are reminded that photography is prohibited in the committee room. To assist the smooth running of the inquiry, we will display certain documents on the screens here in the committee room and 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 that are so displayed.

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

Mr. John Stanley Purcell: Thank you.

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

Mr. John Stanley Purcell, former Finance Director and Secretary, Irish Nationwide Building Society.

Chairman: Once again, Mr. Purcell, thank you very much for your attendance at the committee here this evening and apologies for the delay that we are actually starting. And if I can now invite you to make your opening remarks to the committee, please.

Mr. John Stanley Purcell: Thank you, Chairman. I wish to begin by thanking the committee for inviting me to attend to give evidence at the inquiry. I also wanted to express my sincere regret to everyone who suffered as a result of the demise of INBS.

My role in INBS was very diverse and I was engaged in a wide variety of functions on a daily basis. Whilst I was heavily involved in reporting, treasury, retail deposits, IT systems and compliance, I was not involved in the lending function outside my role on the board.

Up to the crisis, INBS was successful. Profits increased year on year and the society grew accordingly. During the period leading up to the crash, much of the focus of the society and a huge amount of my time was taken up with demutualisation. The members hoped to gain a windfall profit from the demutualisation and sale of the society and the board worked extremely hard to put the apparatus in place for demutualisation. This involved the production, in 2007, by KPMG of a vendor's due diligence report which provided a detailed snapshot of INBS at that time. The report was provided to the Central Bank.

The strategy of the society, including demutualisation, developed over a long period of time. In terms of lending, as time progressed it became apparent that the residential market was overly competitive and margins were diminishing. Tracker mortgages, which INBS did not market, were commonplace. During the years 2004 to 2007, INBS, AIB, Anglo Irish, Bank of Ireland, Bank of Scotland, EBS, Permanent TSB and Ulster Bank lent heavily in the commercial-residential sectors. All of the institutions suffered extraordinary losses as a result of that lending. A combination of the availability of funding, low interest rates, increased competition, Government policy - including tax incentives for development - and rising property prices caused a surge in lending.

INBS's strategy was to increase lending in the UK. The UK property market did not collapse in the same way as the Irish market and the London market improved in the aftermath of the economic crisis. Over 50% of the loan book which transferred to NAMA related to assets outside Ireland. Consequently, I believe that the INBS assets transferred to NAMA were significantly undervalued.

INBS developed a strategy over time which involved lending to clients who had a proven track record. Towards the end of 2007, it became clear that liquidity was tightening. The board decided to cease new lending in December 2007 when other institutions continued to lend anew, and this was the right strategy at that time.

By September 2008, INBS's liquidity was coming under pressure due to a credit rating downgrade and an inaccurate report on INBS by Reuters. The regulator arranged, at short notice, a meeting on Sunday, 7 September 2008 with AIB and BOI to discuss the possibility of the provision by AIB and BOI of a standby facility for INBS. INBS's liquidity on 7 September was about €3.5 billion and information was provided to the meeting at short notice on liquidity, funding liabilities and the maturity of funding liabilities. The meeting concluded without any agreement to progress the provision of a standby facility. Had the matter progressed, any additional information required not brought to the "at short notice meeting" would have been provided.

NEXUS PHASE

Towards the end of 2009, Ernst and Young began an investigation into legacy issues at INBS. I gave Ernst and Young every assistance required. The investigation ultimately led to the initiation of legal proceedings against the “old board” for the losses of the society. IBRC and INBS formally accepted in the pleadings in the proceedings that there was no dishonesty whatsoever on my part.

The proceedings represented an attempt by IBRC to make the directors personally liable for the losses of the society. A central plank of the claim was the allegation by the plaintiffs that the delegation of powers by the board of the society to Michael Fingleton was excessive. On legal advice, I joined the Central Bank to the proceedings as a third party because they had approved the delegation of powers to Mr. Fingleton.

Given the extraordinary magnitude of the claim - for up to €6 billion - I entered into a confidential settlement with the special liquidators after a mediation process. The terms of the settlement are confidential. I can say that the settlement involved no admission of liability on my part. I paid a sum personally to the plaintiffs for the benefit of the State.

Separately, the E and Y investigation led to administrative sanctions proceedings being initiated against me by the Central Bank as far back as 2011. A notice of inquiry was issued on 9 July 2015 and I would ask the committee to be cognisant of the fact that I am the subject of that inquiry, pursuant to which punitive sanctions could be imposed on me by the Central Bank. I really can't understand how the Central Bank can purport to investigate me in relation to events for which they bear responsibility. That is the subject of legal proceedings.

I am not aware of any civil proceedings or any administrative sanctions having been initiated against the management of any other bank or building society as a result of the crash. I can't see how there is any benefit to the public in INBS being investigated and pursued on the double, when institutions which subsist have not been the subject of any serious investigation, inquiry or proceedings.

I will now address areas I have been asked to consider.

Financial reporting and accounting rules. INBS's financial reporting system was designed to meet regulatory and management information needs. The system was developed over the years to accommodate new accounting standards and additional reporting requirements.

The new accounting standards reduced INBS's loan loss provisions in 2005, and resulted in low provisioning while the property market remained strong. In addition, the solvency ratio was boosted by unrealised surpluses in good economic times and then reduced sharply in the downturn.

INBS's business model was commercial and residential property lending to experienced people in Ireland and the UK. The model evolved over time due to competitive pressures and lower margins in the residential lending market. INBS's loan book was concentrated and significant amounts of new lending was repeat business with existing customers.

INBS was funded in equal amounts from customer accounts and the wholesale market. INBS's treasury function was operated in a risk-averse manner with the emphasis on maintaining safe, readily available liquid assets. The funds raised on the wholesale market extended the maturity profile of borrowings. INBS sought to eliminate interest rate and exchange rate risk through swap agreements.

INBS had sought to enhance the effectiveness of internal audit by recruiting more staff, together with training and improvements to internal audit systems. KPMG carried out a report on internal audit in 2005. KPMG also produced a strategic performance review of internal audit in 2008. INBS engaged Deloitte to carry out internal audits on the IT function, treasury and commercial lending. Internal audit had a direct reporting line to the chair of the audit committee. The internal auditor met non-executive directors without executives being present. Internal audit had a documented internal audit charter which set out the purpose of internal audit, the scope of internal audit work, reporting lines, responsibility, standards and authority. Internal audit had a documented internal audit policies and procedures manual. That, Chairman, concludes my address.

Chairman: Thank you very much, Mr. Purcell, for your opening comments and if I can commence questioning and in doing so invite Senator Marc MacSharry.

Senator Marc MacSharry: Thanks very much and welcome, Mr. Purcell. Sorry for delaying you earlier. INBS's annual report for 2007 shows that over the period '02 to '07, profit before tax increased by 303% and total assets by 190%. Do you think that these levels of growth were prudent or sustainable in the context of the level of competition in the Irish lending market during this period?

Mr. John Stanley Purcell: Well, during that period there was a great expansion in lending in all institutions in the Irish market. Some institutions may well have expanded more than Irish Nationwide. Irish Nationwide's expansion in that period was also ... resulted from lending in the UK, where we lent to experienced people, mainly in the London market. I think at that time, it was not considered unusual, although it was fairly strong growth.

Senator Marc MacSharry: In your opinion, did this growth... was this growth influenced by the wish to add value at demutualisation and the potential windfall that that could bring to members and staff on it?

Mr. John Stanley Purcell: Well, we weren't lending purely because it would increase demutualisation dividend to members. I mean, the lending was done because there was good lending opportunities to be availed of.

Senator Marc MacSharry: Did this in your opinion lead to levels ... these growth levels? Did it lead to ... did it affect credit quality and lending standards in any way to your mind?

Mr. John Stanley Purcell: I had no reason to believe that credit quality was affected and I think actually, looking at the figures, that our lending in 2007 was slightly less than 2006, our new lending.

Senator Marc MacSharry: In a letter dated February 2008 regarding the inspection of commercial property lending exposures, the Financial Regulator "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, Mr Fingleton, who also appears to be the only source of information on some of these large clients."

Chairman: That quotation will be provided in documentation given to you, Mr. Purcell. Senator?

Senator Marc MacSharry: Sorry, it's on Vol.1, page 43 and 44 but I've quoted it for you anyway. Could you provide your view on the Financial Regulator's statement on what I've just

said and did you agree?

Mr. John Stanley Purcell: Mr. Fingleton was head of lending and Mr. Fingleton spent a lot of his time working with the senior commercial lenders. He was involved in the lending. He kept in contact with large clients. He would have seen that as a major part of his function in Irish Nationwide. I think information was available from sources as well as him.

Senator Marc MacSharry: Was he the one-stop-shop in terms of underwriting and decision-making?

Mr. John Stanley Purcell: No, no, no. There was a department there. There was a head of commercial lending Ireland. There was a head of commercial lending UK, and there was a number of underwriters and there was processes in place. I think those processes are set out in one of the Deloitte reports that you may have.

Senator Marc MacSharry: Do you believe that the degree of approval authority outlined by the Financial Regulator in that letter was appropriate?

Mr. John Stanley Purcell: Sorry, the degree of-----

Senator Marc MacSharry: Do you believe ... do you think that the degree of approval authority outlined in the letter that I quoted was appropriate?

Mr. John Stanley Purcell: I mean, are you referring to the fact that loans of up to ... over €1 million came to the board?

Senator Marc MacSharry: No, I will just quote you that section again. "INBS [this is a portion of it] INBS ... the adequacy of controls and risk management in place in INBS for large commercial property loans and suggest that a significant degree of approval authority rests with a single individual [as opposed to a department or heads of credit, or whatever], Mr. Fingleton, who [it goes on to say] also appears to be the only source of information on some of these large clients." Do you think that degree of approval authority, as I've just outlined, is appropriate, or was appropriate?

Mr. John Stanley Purcell: Well, I think the approval authority was in the context of that loans were underwritten in the department by the commercial lenders and that loans of €1 million and more came to the board.

Senator Marc MacSharry: Did loans ever, above €1 million, go to the board and be declined in your time on the board?

Mr. John Stanley Purcell: There was loans declined and there was loans sent back that wouldn't ... they were sent back because, maybe, they might go ahead some time but they were sent back for more-----

Senator Marc MacSharry: And without getting into any specific loans, can you recite any ... well, can you recall any occasions where, for example, as managing director or CEO, that lending was coming with the recommendation of the head of lending, the managing director, but that the board felt, "No"?

Mr. John Stanley Purcell: I think there was the odd case, but I can't-----

Senator Marc MacSharry: The odd-----

Mr. John Stanley Purcell: There were cases, but I do recall that there would have been a lot of loans talked about that, you know, who were not brought to the board, for a whole lot of reasons.

Senator Marc MacSharry: And, occasionally, on the over €1 million scenario, the credit committee, with the managing ... the head of lending, could take a decision if there was an urgency to do it for corporate reasons or whatever, and then it would go to the board at the earliest possibility, Mr. Fingleton was telling us earlier. Can you recall any instances that that happened? And, in all of the instances where that may have happened, were any of those odd occasions where the board declined it sent back?

Mr. John Stanley Purcell: I can't recall that a loan that was treated in that way was declined by the board, but I do recall occasions where a loan came and there was reasons why it may have had to be approved prior to it going to the board.

Senator Marc MacSharry: And just again, to the extent that you can remember, where these exceptional circumstances existed, where something had to be done urgently so that two members of the credit committee, plus a managing director, took the decision, and then the board had to be informed, was there always unanimity? Was this a rubber-stamping exercise?

Mr. John Stanley Purcell: Ah no, no. The loan-----

Senator Marc MacSharry: Or-----

Mr. John Stanley Purcell: Sorry, sorry.

Senator Marc MacSharry: Sorry, I don't want to lead you either.

Mr. John Stanley Purcell: No, no.

Senator Marc MacSharry: Was this a matter of form, the managing director, the head of lending, lent "X" last week. There was nobody around; it wasn't quick enough to have a meeting; so, "Is that agreed? We all agree." Or, was there anybody who said, "No, like, I don't agree, like"?

Mr. John Stanley Purcell: I don't recall that happening, but where a loan came like that, it would be discussed in the normal way, along with the reasons why it had to be paid out.

Senator Marc MacSharry: Would it have been better if such circumstances didn't go, that there didn't be an exceptional circumstance?

Mr. John Stanley Purcell: Yes, it would have been better. It should-----

Senator Marc MacSharry: It would have been better. Okay. Good. Can I ask, during the period 2003 to 2006 the society's loan book trebled from €3.4 billion to €10.7 billion, in your opinion, was the growth rate prudent and sustainable, particularly in light of the acknowledged fact, it seems, that the society did not have either "a highly developed approach to risk assessment or a sophisticated management information system"?

Mr. John Stanley Purcell: Well-----

Senator Marc MacSharry: The Project Harmony report, that's what I'm quoting there.

Mr. John Stanley Purcell: Yes. Yes. Well, what we were doing was, we were doing loans,

repeat business with people we knew. There had been an increased level of lending. The market was fairly active, so we were more or less repeating the same business as we had done all along.

Senator Marc MacSharry: If you were a good bet in the past with Irish Nationwide, did you skip the processes of underwriting for future loans?

Mr. John Stanley Purcell: No, the loan went through the normal process.

Senator Marc MacSharry: No matter how good you were in the past.

Mr. John Stanley Purcell: Yes.

Senator Marc MacSharry: So if it took B, as a new customer coming in, three months to get assessed for X loan, then if I, equally, had been a customer for 20 years and paid back all my loans and I was coming for another loan, it still took three months.

Mr. John Stanley Purcell: It meant the same processes applied.

Senator Marc MacSharry: Okay. The Nyberg report states:

INBS's overarching driver [and I touched on this earlier with you] was demutualisation and sale. This was frequently expressed by management, the Board and INBS members and was expected to result in a cash windfall for all parties. As the value of INBS would dictate the size of the windfall, it is noteworthy that the bank's most significant growth spurt was during the years leading up to the expected demutualisation.

And that's page 24 of the Nyberg report. In your opinion, did the desire on the part of management to maximise the value of INBS result in the adoption of poorer lending practices or more lax lending practices, or did it lead specifically to the growth in the UK?

Mr. John Stanley Purcell: No, I don't think the growth in the UK was a result of trying to improve the situation after demutualisation. As I said earlier, the level of new loans fell in 2007.

Senator Marc MacSharry: The Project Harmony report states:

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. The *modus operandi* would be described by management as fit for purpose, particularly given the degree of board oversight on the lending approval process.

Can you explain why you consider, and if you do, such a *modus operandi* to be fit for purpose for a financial institution with a balance sheet of €16 billion in size by the end of 2007?

Mr. John Stanley Purcell: Well, I mean, we were continually improving our systems as our loans increased over the years. The ... we were adopting new systems to deal with Basel and we were also conscious of producing information that would be needed in the event of a demutualisation. So we were improving systems but the basic loan model was still there.

Senator Marc MacSharry: Earlier we heard from Mr. Walsh, the then chairman ... and following a KPMG report recommending that a series of improvements needed to be made such as on the whole area of corporate governance and there were a number of them including the independence ... to assure the independence of directors and to ensure that the board in terms of

reference and so on and we put it to him that, “Why had you not, as chairman, introduced these things much earlier?” I think we were talking about a period now of 2008, if I recall correctly. He used words like, “Well, you know, corporate governances can be somewhat of a box ticking exercise and so on.” Can I ask, in your time on the board ... I mean, you know, those recommendations by KPMG at the time, you know, would hardly have been pioneering new ground in terms of the expectations of how corporate governance would be taken, or how serious it would be taken by a company with a balance sheet so large. Did you have a sense at the time that, look, this whole thing is loose; I mean-----

Mr. John Stanley Purcell: No, I didn't-----

Senator Marc MacSharry: -----look, everything is going well so-----

Mr. John Stanley Purcell: No, I didn't have a sense-----

Senator Marc MacSharry: -----there's no need to fix anything?

Mr. John Stanley Purcell: -----that everything was loose. But, you know, when those recommendations were made, I mean, they were probably setting out best practice, having looked at a range of reports that it mentions in it. And some of the things they mention about conflicts of interests, I mean, we were handling those under terms of the Building Societies Act and our own rules. So some of the recommendations would involve maybe more documenting of what we were doing already, say, in areas like conflicts of interest.

Senator Marc MacSharry: Did you ever know about the existence of a No. 3 account that was specifically for-----

Mr. John Stanley Purcell: Yes.

Senator Marc MacSharry: What was it for?

Mr. John Stanley Purcell: Well, it was an account that was there before I started in 1987 and it was an account that the signature on it was my predecessor and then me and the managing director. And there was also a number of other people who could act as signatories on that account.

Senator Marc MacSharry: And what was it for?

Mr. John Stanley Purcell: It generally was for non-standard payments.

Senator Marc MacSharry: Okay.

Mr. John Stanley Purcell: And maybe payments that would ... regarded as confidential.

Senator Marc MacSharry: Political donations?

Mr. John Stanley Purcell: No. The main ones I remember, and it would be ... stuff like maybe settlements in legal disputes.

Senator Marc MacSharry: Okay.

Mr. John Stanley Purcell: Yes ... maybe ... sometimes maybe if something came in ... you know ... you might want to pay it back to somebody and ... it was just stuff that you didn't run through the normal system. But everything that was on that account was fully documented.

There was, I think, in the period from the start of the euro to the time I left there were only about 60 cheques written.

Senator Marc MacSharry: Was it ever ... on those 60 occasions ever to give anybody a dig out, for want of a better expression?

Mr. John Stanley Purcell: No. Some of the payments were just routine stuff, say maybe came into a wrong account and I was moving it around.

Senator Marc MacSharry: Okay. In a letter dated March 2008, regarding the inspection of commercial property lending exposures, the Financial Regulator states the following under the heading "Credit Risk Management":

The Financial Regulator has raised issues relating to INBS' risk profile and credit risk management over a number of years. Our letter of 9 December 2004 set out our concerns regarding the significant shift in the nature and risk profile of INBS' business towards commercial property lending.

In the same letter the Financial Regulator continues to outline similar concerns raised in '06, '07 and '08. Can you provide an insight into the INBS board considerations of the Financial Regulator's inspections and why no apparent effort was made to address the concerns to the satisfaction of the regulator of the years?

Mr. John Stanley Purcell: Well, when ... well Deputy, when the regulator wrote a letter or met us about any issue, I mean the matter was taken very seriously. Any letters to, say, the chairman or the managing director were given to board members and they were discussed at the board and depending on the issues all the matters were responded to and where we had to do things, you know, we carried out our response and our rectification of any matter to the best manner possible.

Senator Marc MacSharry: So, to your mind, any issues raised were dealt with to the fullest extent. Is that correct?

Mr. John Stanley Purcell: We responded fully and-----

Senator Marc MacSharry: Okay. Just two-----

Mr. John Stanley Purcell: -----dealt with stuff as we could.

Senator Marc MacSharry: Just on that, and two very final questions, and we'll have covered all of that ground then, Chairman. You mentioned in your report, and I am conscious that I don't want to get into a particular area and the Chairman will stop me if I am going offside, you mentioned that your view as to why other financial institutions weren't the subject of investigations in the Central Bank. Can I ask how are you certain that there are no investigations into other financial institutions?

Mr. John Stanley Purcell: As far as I'm aware there are none.

Senator Marc MacSharry: And how would you be?

Mr. John Stanley Purcell: Well, just being cognisant of what's in the press and stuff like that.

Senator Marc MacSharry: I know, but I mean you yourself weren't cognisant until 9 July

or thereabouts so how would you be cognisant about other financial institutions?

Mr. John Stanley Purcell: Well, the particular matter of 9 July there was something on that going back, and I think I said it in my statement, back to-----

Senator Marc MacSharry: Okay. So just to be clear, to the best of your knowledge but you don't know.

Mr. John Stanley Purcell: Yes.

Senator Marc MacSharry: Okay. Very finally, do you feel, and I asked this of Mr. Walsh as well, do you feel that throughout your career in INBS that there has been an unfair focus by the regulator and Central Bank on the INBS and its activity?

Mr. John Stanley Purcell: Well throughout my career there, the way I regard it as the regulator would correspond with us, would meet with us and issues would be raised, and we would deal with them as best we could. I wouldn't ... I wasn't aware of, say, regulator dealings with other people so I wouldn't regard, you know, as being excessively unfair. It was just part of their job. They dealt with the thing properly and we tried to respond in a professional way.

Senator Marc MacSharry: But you have said in your statement maybe you're less than enamoured with activities since.

Mr. John Stanley Purcell: Oh well that's since, but in the time I was there, I mean, I said in my statement there that, I mean, I ... there was an issue with IBRC, INBS and then-----

Senator Marc MacSharry: Again, without getting into the specifics of Central Bank, regulator, Government, this inquiry or anybody else, do you have a sense or do you feel a sense, Mr. Fingleton said he felt wronged, do you feel that in some way INBS are the patsy, the fall guy for everybody else?

Mr. John Stanley Purcell: Well, I suppose INBS and Anglo, as the institutions which no longer exist, probably resonate with people in regard to the crash.

Senator Marc MacSharry: Do you see that as fair and accurate? I am finished then, Chairman.

Mr. John Stanley Purcell: I don't see it fully fair, no.

Senator Marc MacSharry: Thank you.

Chairman: Would you care to expand upon that or is that sufficient?

Mr. John Stanley Purcell: Well, I mean, other people had losses as well. I mean there was a ... yes, it was in the documentation ... there was a NAMA ... a report from NAMA ... an extract from the NAMA annual report, which showed the discount. The discount on the loans taken over from Anglo-Irish Nationwide wasn't all that much difference from, say, AIB and EBS.

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

Senator Michael D'Arcy: Mr. Purcell, you're welcome. During the period '01 to '03, INBS 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 to place ... in place to effectively manage this level of exposure and this level of increase. By September '08,

80% of INBS's loan book was in commercial property and 81% of its land and exposure was in speculative property activities. Do you think this was an appropriate lending strategy for INBS as a building society?

Mr. John Stanley Purcell: Well, INBS at that stage, although it was a building society, was moving towards seeking to have legislation that would allow it demutualise and engage in trade sale. So, it wasn't the sort of a situation whereby for years we were always going to be a pure mutual. We were moving in certain direction. We were in a market that was very competitive. I think as people have referred earlier, that the home loans market got very competitive in 1999 and it had been competitive before that. Banks, both foreign and domestic, were vying strongly for residential business. INBS had moved gradually away from dependency on residential so we were in the commercial market. We had worked with clients over a number years. Many of those had expanded with the market and we had expanded with them. So, at the time, there was probably a surge in lending generally anyway from what was before. So, we were a part of that.

Senator Michael D'Arcy: Was it appropriate?

Mr. John Stanley Purcell: I feel it was not inappropriate in the circumstances.

Senator Michael D'Arcy: It was "not inappropriate".

Mr. John Stanley Purcell: Well, no. It was proper lending.

Senator Michael D'Arcy: And the level of growth ... Mr. Bill Black - I am not sure if you heard it - when he attended here some months ago said that anything over 20% was dangerous per annum growth.

Mr. John Stanley Purcell: Yes, I heard that mentioned. Yes.

Senator Michael D'Arcy: A lot of institutions were pushing closer to 30%.

Mr. John Stanley Purcell: Yes. At the time, generally, it wasn't felt that that was excessive.

Senator Michael D'Arcy: Did you feel it was excessive?

Mr. John Stanley Purcell: No, I didn't feel it was excessive.

Senator Michael D'Arcy: Were you aware of the risks that were attached to that level of growth?

Mr. John Stanley Purcell: Yes, I was aware that, obviously, the society was growing and that it involved us in challenges, obviously, in funding the society and the requirements of keeping within certain ratios. So, I was aware of that.

Senator Michael D'Arcy: Did you keep within those ratios?

Mr. John Stanley Purcell: Generally, we did, yes. Occasionally, there might have been a slip but-----

Senator Michael D'Arcy: The land and development sectors ratios?

Mr. John Stanley Purcell: Oh, no. The sectoral ... there was breaches of the sectoral limits over the years.

Senator Michael D'Arcy: Many?

Mr. John Stanley Purcell: Well, I think INBS, and from what I understand a lot ... as well as other institutions ... that those ratios were exceeded somewhat over a period of time.

Senator Michael D'Arcy: And did you understand that they were not guidelines?

Mr. John Stanley Purcell: Yes, and there was correspondence with the Central Bank about it.

Senator Michael D'Arcy: And you still proceeded to exceed them.

Mr. John Stanley Purcell: Well, we had discussions with them about it. I think the discussions were maybe that they might be done on a different basis and that maybe there was something that should have been revised but the thing just petered out.

Senator Michael D'Arcy: Was that a sufficient way to do business?

Mr. John Stanley Purcell: Well, we were probably restricted in keeping to sectoral limits because those sectoral limits were probably devised for full service banks that would be lending to all areas of an economy and that would be in every business. By our very nature, we were focused on property.

Senator Michael D'Arcy: Mr. Purcell, if we could bring up the document, Vol. 1, page 125, the NAMA annual report please? The NAMA discount or the famous or infamous haircut. INBS, the institution you represented, amounted to 61%, the highest of all institutions. Could you offer an explanation why INBS was the highest?

Mr. John Stanley Purcell: Well I think we shared the 61% with Anglo. Well, I mean, I didn't take part in the work that was engaged in while those loans were being transferred. I left around that time so I don't have any insight into the thought processes and why those loans attracted that discount rate, so I can't comment on exactly why-----

Senator Michael D'Arcy: Were you ... were you surprised at the discount, the extent of it?

Mr. John Stanley Purcell: I was. I was surprised and I felt that, as I said there, that the UK loans were somewhat undervalued. And I felt that maybe from, you know, things I heard later and that, a lot of those loans were repaid in full, despite a large discount.

Senator Michael D'Arcy: Mr. Purcell, KPMG's annual statutory duty confirmation letters to the Financial Regulator for each of the years '04, '05, '06 and '07 note instances of breaches and errors in each sectoral return, prudential returns and large exposure reports made by INBS to the regulator. Why did these breaches and errors occur?

Mr. John Stanley Purcell: Well, when we were preparing those reports, I mean, we took every care to make sure there was no errors. Generally, they were prepared by a competent person, reviewed by another and subject to further review. We were conscious that we were at all times trying to do everything perfectly as regards regulatory returns and we were disappointed whenever any error occurred. Now some of the errors were larger, some of them were smaller. But the errors occurred because we'd a fairly tight timetable. After we had done the returns we continued checking and a lot of that checking would have brought up something that was not found earlier, and we would immediately adjust the return and we would inform the regulator of every mistake, every adjustment, every error, be it large or small. Some of the errors occurred due to mistakes, maybe a coding error in loans which we copped when we did further checking. Some of them were ... there was a lot of volume, maybe, happening and something slipped

through or else there was some classification that wasn't clear and that we maybe went to the regulator or the regulator went to us about it. But we did take every precaution to ensure that they were done to the highest standard, and it was disappointing for me and the people working with me who were doing those returns that errors occurred. But it wasn't for the want of effort, changing systems and reviews.

Senator Michael D'Arcy: Mr. Purcell, those errors occurred, re-occurred, over a number of years.

Mr. John Stanley Purcell: They did. I, that is correct, Deputy, they did and as I said, I was very disappointed at the time. And I think there is a mention there in the ... I think it's either 2.6, item 2.6 in the KPMG management letter of 2008, where there is a response to the fact that those errors occurred.

Senator Michael D'Arcy: And were the systems just incapable of rectifying the matter?

Mr. John Stanley Purcell: No, we changed systems. We brought in additional checking. All I can say is that some errors kept ... persisted. But some of those errors were small; some of them were caught by us but we reported every error, be it large or small, immediately, and I think KPMG acknowledge that in the letter.

Senator Michael D'Arcy: In the 2005 report, the review of effectiveness of internal audit, KPMG stated the existing internal audit ... this is Vol. 2, page 93, Chair:

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

In the 2008 management letter, KPMG stated, "the Society's Internal Audit department needs to build up its experience and training in order to perform reviews of key risk areas which are currently outsourced to a third party service provider".

Similar concerns were raised in '04, with the Financial Regulator concluding:

The level of resources in this area are deemed to be inadequate ... The FSR has concerns with regard to the level of expertise and experience which exists in the IA function.

The Financial Regulator concerns expressed in '07 echo this sentiment. Can you explain why no apparent effort was made to address the concerns raised by both your auditors and the Financial Regulator over a period ... over a number of years?

Mr. John Stanley Purcell: In 2004 we arranged with KPMG to commission a report on the effectiveness of our internal audit. We were conscious that work had to be done. We had a new acting internal auditor and we were conscious that we needed to review that area, and we asked KPMG to produce a report and to work with us. And KPMG produced that report. As a result of it, there was ... they were involved in mentoring the internal auditor. They also conducted workshops with the internal audit committee and the ... we would have increased the staffing level, we would've increased training internal audit and we would've purchased systems for them. In addition to that, we brought in Deloitte to do a number of audits there - treasury, IT and commercial lending. So we were working, during that time, to bring internal audit to a higher level.

Senator Michael D'Arcy: Chairman, if you could go to Vol. 1, page 31. I'll just move on,

Mr. Purcell. In KPMG's corporate governance review in '08 it states:

Board packs are very detailed and at times lack clarity and structure. For example, there is little market and operational overview and salient financial commentary provided.

Were you satisfied, as a member of the board of INBS, you were receiving a full and accurate picture of the financial situation of the society at all times?

Mr. John Stanley Purcell: Well, there was a detailed set of accounts provided to every board meeting and, generally, when the accounts were considered by the directors, I would be asked for comments on them. Sometimes I was able to maybe put a paper in about something beforehand but generally I gave a verbal report on the accounts. There was a lot of information provided to the board and the board pack grew over the years because what would happen is somebody would say, "Well, you know, I want a report on something" ... "Well, you know, do it every quarter, do it every month." So there was a sort of a growth in it that people were used to. They didn't ... sometimes didn't want me to excise reports, you know, they wanted it left there and maybe, after a while, there was a lot of stuff there. But the board members were able to work through it, and probably it was a good recommendation at the time that the thing be looked at again.

Senator Michael D'Arcy: As the commercial lending business, in particular, grew, were the levels of impairment and the changes in accounting rules clearly articulated to the board, to fully appreciate the risk?

Mr. John Stanley Purcell: The levels of impairment were, yes. Sorry, is this the new rules as well?

Senator Michael D'Arcy: Yes, IFRS.

Mr. John Stanley Purcell: Yes. The introduction of IFRS, I think it was around 2005, it resulted in us writing back. I think we had a bad debts provision of about €100 million and under those rules we had to write much ... much of that back.

Senator Michael D'Arcy: Mr. Purcell, the INBS section of the Nyberg report, did you read that?

Mr. John Stanley Purcell: I did.

Senator Michael D'Arcy: Were you surprised at the content of that?

Mr. John Stanley Purcell: Well, I can't say. I mean, I read it, kind of, a while back and ... I see what was said there, yes.

Senator Michael D'Arcy: Did you agree with it?

Mr. John Stanley Purcell: Probably not with everything. But he probably made some points, yes.

Senator Michael D'Arcy: In the main, did you agree with it? Was it accurate of the institution that you served in?

Mr. John Stanley Purcell: I thought, you know, I thought it was a bit hard on certain areas. I thought, maybe, you know, it regarded our lending in a poorer light than actually was the case.

Senator Michael D’Arcy: Mr. Purcell, if you could just clarify a matter. Have you seen or heard Mr. Fingleton’s and Mr. Walsh’s evidence earlier today?

Mr. John Stanley Purcell: I’ve heard some of it - not all of it but I heard some of it.

Senator Michael D’Arcy: If I could just clarify, please, because I put both ... this question to both gentlemen earlier today. I am speaking in relation to the change of lending policy in December ‘07 where the board previously had approval of €1 million-plus loans and subsequent to that the board no longer had approval of it, that it went to the board ... the commercial loan applications ... the board no longer required consent. You are aware of that?

Mr. John Stanley Purcell: Yes.

Senator Michael D’Arcy: Mr. Fingleton certainly seemed to indicate that was a board matter and Mr. Walsh indicated that it came from the executive. Could I ask you your understanding of whether it came from the board or from the executive?

Mr. John Stanley Purcell: I think at that time the question of having the credit committee approve loans and that the loans then would be notified to the board ... It was discussed at the board and, I mean, it was a board decision to do it that way and I think the proposal came from ... it probably came from myself. You know, this is my best recollection. I was discussing the matter with the internal auditor and I think we concluded that the way Irish Nationwide was doing it wasn’t the way everyone else was doing it and that maybe ... it was time, maybe, to change the system. And it was a good time to do it because we weren’t lending anew, we were trying to cut back on lending. If there was lending, it ... there wouldn’t be much; it would be in relation to maybe stuff already committed and that it would be done on low volumes and that maybe it was moving towards the practice that was used in other institutions.

Senator Michael D’Arcy: Could you clarify then, Mr. Purcell, was it a decision by the executive, accepted by the board?

Mr. John Stanley Purcell: Well, it was a proposal by the executive, I’d put it that way, that would have been brought to the board and would have been discussed and agreed. There was probably a good bit of discussion about it.

Senator Michael D’Arcy: Was Mr. Fingleton in agreement with that prior to it going to the board?

Mr. John Stanley Purcell: At this stage I mean, I would regard it, maybe ... After a lot of discussion, it was a unanimous decision but ... that’s my best recollection

Senator Michael D’Arcy: And again, to conclude, Mr. Purcell, please, the relaxation in the lending criteria, was that appropriate given the Financial Regulator’s ongoing concerns in relation to commercial property lending and the risk management within the society?

Mr. John Stanley Purcell: Well, in relation to having the credit committee approve loans, I think it was appropriate because the board would still be notified of the loans, we would still review them ... especially, you know, for a long while after we would look at them. It was also at a time where lending was decreasing and we were moving towards, maybe, a practice that was more normal with other banks.

Senator Michael D’Arcy: Thank you.

Chairman: Thank you very much. Okay. I now invite Deputy Kieran O'Donnell. Deputy.

Deputy Kieran O'Donnell: Thanks, Chairman. Welcome, it being such a late hour, Mr. Purcell. Mr. Purcell, can I just clarify a number of points? Mr. Fingleton occupied the role as both CEO and head of lending. Am I correct?

Mr. John Stanley Purcell: That's correct.

Deputy Kieran O'Donnell: A dual role. Would every single loan be ... end up on Mr. Fingleton's desk?

Mr. John Stanley Purcell: I wouldn't think so, no. No, not every loan would end up on his desk at all. No, loans would be dealt with by the department. They would probably wind up on the desk of the head of commercial lending or people who worked with him.

Deputy Kieran O'Donnell: When would they ... What would be the level at which loans would end up on Mr. Fingleton's desk?

Mr. John Stanley Purcell: Now, I think he would have been in contact with the commercial lenders. I don't know when ... I think ... if there was loans that they felt he had an input in, they may well have-----

Deputy Kieran O'Donnell: And you made reference earlier that 50% of the loans that went into NAMA were outside of Ireland.

Mr. John Stanley Purcell: Yes, I think so. Yes.

Deputy Kieran O'Donnell: How many of those would have been with Irish developers?

Mr. John Stanley Purcell: There would have been an amount with Irish developers in London-----

Deputy Kieran O'Donnell: The majority?

Mr. John Stanley Purcell: I wouldn't say ... I'd say a good lot but not the majority. They would be ... the developers that we ... the Irish developers that we dealt with in London, there would be people that we were dealing with for a long time. Some of them were probably more versed in London than Dublin so they would have been at home in both markets.

Deputy Kieran O'Donnell: And can I ask you, in your role as financial controller of Irish Nationwide Building Society, do you believe on the night of the guarantee that Irish Nationwide Building Society was solvent?

Mr. John Stanley Purcell: Yes, I do.

Deputy Kieran O'Donnell: And what do you base your assessment on that, considering that €5.4 billion of taxpayers' money ended up, to date, going into Irish Nationwide Building Society?

Mr. John Stanley Purcell: I believe ... and probably my belief was borne out by subsequent events ... I mean, we had a very detailed audit at the end of 2008 on the accounts. We also ... we had a solvency certificate which involved a good bit of work, both legal and by accountancy. The review of impaired loans in early 2009 was extensive. It involved the provisioning committee a lot of time ... a lot of meetings. KPMG spent a lot of time with it. I think it even

delayed the production of our accounts, there was so much work done on the area.

Deputy Kieran O'Donnell: Is your basic contention, along with the two previous witnesses from Irish Nationwide Building Society, Mr. Fingleton and Mr. Walsh, that the haircut that was applied to the NAMA loans, you believe was excessive?

Mr. John Stanley Purcell: I believe it was excessive. To the extent of its excessiveness, I mean I'm ... you know, I don't have-----

Deputy Kieran O'Donnell: And what do you believe the discount should have been? It was 61%. What do you feel would've been a reasonable discount?

Mr. John Stanley Purcell: I find it hard to give a figure, but I feel that the ... especially loans in London ... a lot of those loans turned out to actually pay back the full amount.

Deputy Kieran O'Donnell: And can you just elaborate on ... were you facing a funding cliff in 2009? You had roughly about €2.3 billion, my understanding is, of debt to be rolled over in 2009.

Mr. John Stanley Purcell: That's correct. I think there was ... there was a figure of that nature, yes.

Deputy Kieran O'Donnell: And effectively, I think, €1 billion of that was due in May '09. How were you set up to deal with that funding cliff?

Mr. John Stanley Purcell: Well, in 2008 we had reduced our loan book considerably. We had raised a lot of money on ... from retail deposits. We had brought in a mortgage-backed promissory note programme. We were working on its securitisation. And, in September, even though things were very fraught, there was an increase in the deposit guarantee amount around 20 September. So we were looking at the credit crunch probably would persist for a while, but people's perspective wasn't that it would go for as long and as deep. So we expected that we would be able to return to the markets in 2009.

Deputy Kieran O'Donnell: And did ... so do you believe ... well, first of all, two quick questions. Do you believe that Irish Nationwide Building Society needed the blanket guarantee to be covered by it? And do you believe if that guarantee wasn't there ... do you believe ... and NAMA wasn't put in place ... do you believe Irish Nationwide would be operating today?

Mr. John Stanley Purcell: It's very hard to be definitive about that, but what I would say is that it would depend on how the world markets ... how the money markets went after September; it would depend on whether the credit crunch ameliorated; it would depend on a whole load of factors. But where we were at the end of September was we did have a good amount of liquidity. We had probably over €3 billion. When the deposit protection scheme was increased, it did reduce outflows. I mean I think that's mentioned in some reports as well. So it was hard to know what way things were going. I mean, things could've turned well in October. Things could have-----

Deputy Kieran O'Donnell: But you were looking for fair weather.

Mr. John Stanley Purcell: Well, yes, we were looking for a situation whereby there would be an increase in stability and there would be less worry and less turbulence in the market.

Deputy Kieran O'Donnell: You weren't, as such, set up for a ... for shocks.

Mr. John Stanley Purcell: Well, we were ... I mean, if the-----

Chairman: -----making a statement.

Deputy Kieran O'Donnell: Sorry, were you set up for shocks?

Mr. John Stanley Purcell: We were set up that we could, let's say, exist for a while longer in ... in a very fraught market. If the market returned to a more stable situation, we felt we could maybe raise money on the wholesale again.

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

Chairman: Thank you very much, Deputy O'Donnell. Deputy Michael McGrath.

Deputy Michael McGrath: Thank you very much, Chair. Good evening, Mr. Purcell.

Mr. John Stanley Purcell: Good evening, Deputy.

Deputy Michael McGrath: Can I start by asking you ... that following the delegation of authority to the credit committee in December 2007 ... as you know, internal audit carried out two reviews of the operation of the credit committee and the evidence is in the core booklets, Vol. 2. One review in July 2008 covering the period of January to June '08 and the second in January '09 covering the period July to December 2008. And the internal audit's findings note that the frequency of meetings declined as the year went on to the point where, in the opinion of internal audit, the credit committee is not meeting with enough frequency to fulfil all of its duties. Can you comment on that? Is that just a function of the reduction in lending activity at that time or is it indicative of a weakness in the systems at INBS?

Mr. John Stanley Purcell: Well, a factor would have been the reduction in lending activity, yes, because our new lending was curtailed very significantly after December 2007 so that would have been a function, so-----

Deputy Michael McGrath: So is the primary reason that they didn't really have a purpose to meet?

Mr. John Stanley Purcell: I would reckon there was less business and they weren't meeting as often.

Deputy Michael McGrath: Okay. And is it your view that the credit committee was functioning properly during that key period throughout 2008 and was ... or was it indicative of further weaknesses?

Mr. John Stanley Purcell: Well, as far as I was aware, it was functioning correctly but I mean I'm cognisant that certain recommendations were made by internal audit.

Deputy Michael McGrath: Okay, can I take you Mr. Purcell to the meeting on 7 September 2008 with the regulator, which you say was organised at short notice and you reference it in page 3 of your witness statement? Can you confirm who attended that meeting? I take it that AIB and Bank of Ireland were represented.

Mr. John Stanley Purcell: Yes.

Deputy Michael McGrath: And were you accompanied on behalf of INBS?

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Mr. John Stanley Purcell: I was at that meeting along with our treasurer and our financial controller.

Deputy Michael McGrath: Okay, and the meeting was organised by the Financial Regulator?

Mr. John Stanley Purcell: Yes, I got a phone call, I think I got it from our chairman, late on Friday ... or late on Saturday night-----

Deputy Michael McGrath: Okay.

Mr. John Stanley Purcell: -----to say they would be meeting probably sometime 11 or 12 o'clock on Sunday and that we would be meeting AIB and Bank of Ireland and I think it was to discuss the question of them providing us with a standby facility.

Deputy Michael McGrath: And this was on foot of the report carried by Reuters?

Mr. John Stanley Purcell: Well, it was -----

Deputy Michael McGrath: Is that what raised concerns?

Mr. John Stanley Purcell: Yes, I think the Central Bank were acting in the light of that report and they were looking at the idea that maybe Bank of Ireland and AIB could provide us with a standby facility.

Deputy Michael McGrath: Okay, can you just inform the committee the nature of that Reuters report at the time? What did it say?

Mr. John Stanley Purcell: Well, the Reuters report in essence said that INBS was making accommodation with its creditors, which wasn't true. In other words-----

Deputy Michael McGrath: How did you interpret that? What did that mean, "making accommodation"?

Mr. John Stanley Purcell: It meant that we would be ... we were talking to people who fund us asking them to come to some arrangement of some nature.

Deputy Michael McGrath: And it was untrue?

Mr. John Stanley Purcell: It was totally untrue, and Reuters admitted it later.

Deputy Michael McGrath: And did you ever discover the provenance of that report?

Mr. John Stanley Purcell: No.

Deputy Michael McGrath: Okay, and so was the underlying purpose of the meeting on 7 September not valid?

Mr. John Stanley Purcell: Well, I mean the fact that-----

Deputy Michael McGrath: Or were there funding pressures facing INBS as well?

Mr. John Stanley Purcell: The Reuters report was utterly unhelpful. I mean, it created a sense of unease and it was going to result in withdrawals so I mean, the regulator was taking precautions and one of the precautions was to see could a standby facility be arranged.

Deputy Michael McGrath: A liquidity support from the Bank of Ireland.

Mr. John Stanley Purcell: A backstop as they call it.

Deputy Michael McGrath: Okay, and did AIB and Bank of Ireland indicate a willingness to provide such a backup at that meeting? I know no decision was reached but-----

Mr. John Stanley Purcell: No, they didn't indicate a willingness.

Deputy Michael McGrath: Is it because it didn't get that far?

Mr. John Stanley Purcell: Well, we had a discussion. I can't remember all the details, but there was three of us there and the meeting just petered out.

Deputy Michael McGrath: Okay, and you weren't asked to provide any further documentation or anything like that?

Mr. John Stanley Purcell: No.

Deputy Michael McGrath: Can I ask, Mr. Purcell ... this issue of demutualisation has come up several times today and the expected change in the legislation and this seemed to be the whole strategy really for INBS was to prepare it for demutualisation and a trade sale but, financially, what would that have meant for executives and for directors of INBS? Were there bonus arrangements in place in the event of it happening or was it members were going to benefit? How ... what would the financial implications have been?

Mr. John Stanley Purcell: The financial implications ... sorry, Deputy, the financial implications is that there would be a windfall for members; in other words, their shares would be bought by whoever bought us and that they would receive an amount of money, just in the same way as people in Irish Permanent did in the early '90s and somewhat later in First National. So the members and the borrowing members would have received an amount of money.

Deputy Michael McGrath: What would directors have stood to ... to gain?

Mr. John Stanley Purcell: There was nothing agreed that directors would gain anything in particular.

Deputy Michael McGrath: But it could have formed part of the commercial arrangement with a trade buyer.

Mr. John Stanley Purcell: It could. It could have. It would depend on a number of factors.

Deputy Michael McGrath: And likely would have. I would imagine that it likely would have formed some aspect of a commercial arrangement if one was entered into.

Mr. John Stanley Purcell: It would have been discussed and probably would have, yes.

Deputy Michael McGrath: So there may have been a financial incentive in place or the prospect of one. It wasn't nailed down but there may have been the prospect of one if a successful demutualisation and trade sale of INBS had ... had been executed.

Mr. John Stanley Purcell: Yes, there was a prospect that it would benefit staff, as I think it might have also done in the other demutualisations.

Deputy Michael McGrath: Okay. You were also company secretary. What role did that

involve? What specific responsibilities did you have, as secretary, which were additional to your role as finance director?

Mr. John Stanley Purcell: I was responsible for-----

Deputy Michael McGrath: Returns.

Mr. John Stanley Purcell: For returns, yes. There was a lot of returns to be done under the Building Societies Act on an ongoing basis.

Deputy Michael McGrath: Okay and were you a member of any other ... any internal committees within the building society?

Mr. John Stanley Purcell: I was a member of the assets and liabilities committee.

Deputy Michael McGrath: What did that do?

Mr. John Stanley Purcell: Well, the main focus of the assets and liabilities committee was the liquidity position of the society, its funding and its managing the mix and the maturities of borrowings raised, and also dealing with stuff like hedge effectiveness, interest rate risk, currency risk - all issues to do with the funding and the liquidity position.

Deputy Michael McGrath: Okay, and finally-----

Mr. John Stanley Purcell: We also looked at things that were there as well, like the share-deposit ratio. That was something always on our agenda.

Deputy Michael McGrath: Finally, Mr. Purcell, and given the length of time you spent at INBS, you're probably best placed to answer this question. In your view, looking back now, did Michael Fingleton have excessive influence and control over the operation of INBS?

Mr. John Stanley Purcell: Well, Michael Fingleton was a very focused managing director. He worked extremely hard. He was very interested in demutualisation. He was very keen to sell the society. He felt that was the best outcome for the society. He also was very involved in the lending and he was very ... he had ... he was very knowledgeable about lending. It was mentioned earlier about economic reports at board. He would be very familiar with the position as regards the economy, the lending market. He was ... he was a strong, focused managing director.

Deputy Michael McGrath: But from a governance point of view, do you believe that he had too much influence and control over the organisation?

Mr. John Stanley Purcell: His control was subject to the board and he consulted with the board and at every board meeting he made reports on his activities.

Deputy Michael McGrath: Okay, thank you.

Chairman: Thank you, Deputy McGrath. Senator Susan O'Keefe.

Senator Susan O'Keefe: Thanks, Chair. Mr. Purcell, in the Project Harmony report, it would show that the society had a concentration of loans in the higher risk development sector, a concentration of loans in the higher loan-to-value bands, a concentration in its customer base - the top 30 commercial customers, for example, accounted for 53% of the total commercial loan book - and a concentration in sources of supplemental arrangement fees, representing 48% of

profit in 2006. Indeed, 73% of those fees came from just nine customers. Did the board ever consider or did they become concerned or did they discuss those levels of concentrations and the correlation between them and whether or not they could increase the risk to the society's business model?

Mr. John Stanley Purcell: The board were aware of the concentration. The large exposures report would be produced and it would be a board document. The board were also aware of the nature of our business, that we, Irish Nationwide, had repeat business with experienced developers. During my time there the board would have met some of the borrowers and the board was sort of satisfied with the people we were dealing with and the business we were dealing with.

Senator Susan O'Keeffe: So, in saying that you were satisfied, therefore you were saying you were not concerned. Is that correct?

Mr. John Stanley Purcell: We always, you know, monitoring stuff.

Senator Susan O'Keeffe: Sorry, concerned as in-----

Mr. John Stanley Purcell: No, we were not, no-----

Senator Susan O'Keeffe: -----as in being anxious-----

Mr. John Stanley Purcell: Yes.

Senator Susan O'Keeffe: ----rather than-----

Mr. John Stanley Purcell: No, we weren't concerned at that level. We felt the business was good.

Senator Susan O'Keeffe: You felt the business was good and that the model was-----

Mr. John Stanley Purcell: The model was working, yes. It was a good model to go into demutualisation with, as described in ... in Harmony.

Senator Susan O'Keeffe: The Ernst and Young investigation suggests that Michael Fingleton was given special powers in 1981, and again renewed in 1994 and again in 1997, that allowed him and him alone to set and alter interest rates and fees if he so pleased and to make arrangements with individuals. Is that correct to your knowledge, given the time that you were there?

Mr. John Stanley Purcell: Yes, those powers were used by him in a practical way. He would have used them, maybe if, let's say we were under pressure and we might lose a loan, he would maybe make a decision that we would have to maybe reduce a rate. He would make other decisions in relation to loan matters.

Senator Susan O'Keeffe: So he did have those powers. Is it at all the case that he ever used those powers in a less than practical way? In a way that was not, I am not suggesting for personal gain, I am talking about, you know, for ... to do a favour for someone, to be good to somebody?

Mr. John Stanley Purcell: No, I am not aware of any instances of that.

Senator Susan O'Keeffe: You are not aware. Is it also the case that the reporting structure

was such that there were 12 people reporting to Mr. Fingleton as the boss, rather than a more pyramid structure where, as you go up, you have fewer people at the top? Is that correct?

Mr. John Stanley Purcell: I can't remember whether it was the number - there was a number of people reporting to him. It is set out in the organisation chart in the Project Harmony document.

Senator Susan O'Keeffe: Can you clarify why a lot of savings would have been tied up in term deposits in Isle of Man accounts? Would that be normal procedure? I refer here to the fact that, at a time when the society was under a lot of pressure coming in to September 2008, savers would have had to break their terms in order to withdraw if they were concerned about the state. Why was the Isle of Man used in that way?

Mr. John Stanley Purcell: Well, the Isle of Man was ... would market products that would appeal to the people that they felt would put deposits with us and term deposits were a product that was successful for the Isle of Man. People, say for example, were interested in putting a deposit with you for a year because they got a rate they felt was happy - they were happy with.

Senator Susan O'Keeffe: So INBS would manage that on ... if I was coming to you, you would manage that for me in the Isle of Man. Is that-----

Mr. John Stanley Purcell: The Isle of Man, mainly, role was basically source sterling deposits.

Senator Susan O'Keeffe: Okay. And so how much ... would there have been considerable business in that?

Mr. John Stanley Purcell: I think the numbers are maybe just between €1 billion and €2 billion.

Senator Susan O'Keeffe: And were you the only building society offering that particular?

Mr. John Stanley Purcell: Well, there was a lot of competition in the Isle of Man. I mean-----

Senator Susan O'Keeffe: Sure.

Mr. John Stanley Purcell: I think Irish Permanent had an operation there and at one stage the EBS had an operation there and there was all the ... a number of the Irish banks were there and there also would have been all of the English institutions there.

Senator Susan O'Keeffe: And that was all perfectly within the ... Going back to Mr. Boucher in relation to the meeting and I know that you said it was difficult to recall all of the detail, he said in his own evidence, he said:

There was a discussion between ourselves and AIB, there was some commentary from the regulator that they felt, well, the haircut on Irish Nationwide's books would be, I don't know, a mid-teens per cent. Whether I had a justification to say it, but I do recollect I said, "Well, whatever they say, it's two or three times that."

And then he goes on to say:

I felt we should get out of the building. I said, "We can't support these people.

So, do you recall that at all?

Mr. John Stanley Purcell: I don't recall about-----

Senator Susan O'Keeffe: Or knowing about that?

Mr. John Stanley Purcell: Well, I was there at the meeting. I don't recall that particular comment. I don't ... I am not sure was he referring to loans or was he referring to something else? It looked like he was referring to loans.

Senator Susan O'Keeffe: He says also that there had been an "exercise" he describes it, back in 2006 - he can't remember the exact date - where options were being considered for Irish Nationwide, and he says:

[We sat down with the] chief executive of Irish Nationwide and his company secretary to discuss their business model to get an outline of the type of lending they did ... I got an understanding of what I felt the business model was. I went back to the chief executive and said I didn't feel ... there was an opportunity for us and I didn't recommend we pursue it.

Is that ... do you have a memory of that meeting in 2006?

Mr. John Stanley Purcell: I do have a memory of it.

Senator Susan O'Keeffe: What happened there? Why was there a meeting?

Mr. John Stanley Purcell: Well, I mean, there were a number of institutions we were talking to at the time, with a view that perhaps they may well be interested in buying Irish Nationwide and Bank of Ireland – that indicates – was one of those institutions.

Senator Susan O'Keeffe: And did they write back to you after that meeting and say, "Well actually we don't think you're a suitable fit", or did it just end after that meeting? Do you recall?

Mr. John Stanley Purcell: I don't recollect a letter, Deputy, but I know it didn't progress.

Senator Susan O'Keeffe: Okay, and did you at that time talk to Allied Irish Banks in the same manner that you did with Bank?

Mr. John Stanley Purcell: I don't think discussions were as developed or as, you know, they didn't, weren't at that level with AIB.

Chairman: One minute there Senator.

Senator Susan O'Keeffe: Yes. Documents that we have seen that obviously we can't – for 33AK – sort of state precisely what they were, but they show that there was a long-standing difficulty between the INBS and the Financial Regulator, going back to even before the separation of the way they were set up in 2003 and 2004. Given that you were there all that time, would you say that, would you use that expression "long-standing difficulty" to describe or would you have a dispute with that description?

Mr. John Stanley Purcell: There was-----

Senator Susan O'Keeffe: I can give the reference if required, Chair.

Mr. John Stanley Purcell: I mean, there was communications with the regulator, IFSRA,

the Central Bank, you know, over a period of time but in all our dealings with them they were dealt with on an open basis.

Senator Susan O’Keeffe: Sure, no I am not implying that but the suggestion here is that there was always a difficulty, that the regulator always had a struggle to get INBS to respond, to come back, to talk to them, to give the responses that they require to give, the information that they require to get changes through. That’s the evidence here in these documents, so what is your own view given that you were on the board? And we have seen documentation, which I am sure you have been given in the evidence books, that would also show a long-standing difficult, long-standing exchange.

Mr. John Stanley Purcell: There’s a long-standing exchange but when they wrote to us and when they raised any matter, I mean, my approach and our approach was to deal with it as properly and as promptly as possible.

Senator Susan O’Keeffe: And you felt you did.

Mr. John Stanley Purcell: I felt I did. Sometimes issues took longer. Sometimes it took a while to come back on something because you were trying to put something in place or you were trying to get information or you were trying to go through it with somebody.

Senator Susan O’Keeffe: I have just one last question, Chair, and that relates ... and again I am going here now if I may, Mr. Purcell, to the time of the guarantee and to your medium-term note programme, and to the payments that you would have had to make on these. I am referring here to a document actually from Brendan McDonagh to William Beausang and it talks about repayments that you would have to make of €630 million at the end of November and then on into 2009 there would be another €1.5 billion payable, and I’m just wondering how did that arise that those, that there was so much to be repaid?

Mr. John Stanley Purcell: Well those-----

Senator Susan O’Keeffe: And again, I can give you the reference, Chair.

Mr. John Stanley Purcell: Those repayments would have arisen as a result of the deals we did a number of years before. Say, for example, we would have raised money, generally in lumps, and at different maturities, so some years you might have a small amount, a relatively small amount, and other you might have chunkier amounts.

Senator Susan O’Keeffe: But was that a difficulty for INBS at that time? Was that now becoming a much more, you know, looming problem than it might have been previously?

Mr. John Stanley Purcell: Well, I mean, every year we had EMTN repayments.

Senator Susan O’Keeffe: Yes.

Mr. John Stanley Purcell: I mean, in 2007 I recollect we had one in February 2008, and we had one later in 2008 at least.

Senator Susan O’Keeffe: Yes.

Mr. John Stanley Purcell: In 2009 we had more. The funding and the repayment of those would depend on the state of the markets. It would depend on whether we could raise funds.

Senator Susan O’Keeffe: So if the markets were poor, you were struggling.

Mr. John Stanley Purcell: Well, yes, that would have always applied, yes.

Senator Susan O’Keeffe: Of course. Thank you.

Mr. John Stanley Purcell: Unless you could raise money elsewhere through retail-----

Senator Susan O’Keeffe: And you were struggling to do that.

Mr. John Stanley Purcell: Well, in September there was a lot of issues with a lot of institutions as regards funding.

Senator Susan O’Keeffe: And raising funds wasn’t-----

Mr. John Stanley Purcell: Raising funds was obviously-----

Senator Susan O’Keeffe: Thank you. Thank you, Chair.

Chairman: Deputy Joe Higgins.

Deputy Joe Higgins: First, if I can allude again to the meeting on 7 September 2008, and Mr. Boucher, in one of his statements to this investigation, stated the purpose of the meeting was to discuss potential liquidity support for Irish Nationwide. Now, leaving the Reuters issue aside, Mr. Purcell, why was there such concern in many quarters about the viability of INBS or the need for liquidity support because both Mr. Fingleton and Mr. Walsh in their opening statements stressed that INBS had sufficient liquidity at that time?

Mr. John Stanley Purcell: Yes, at that time we had between €3.5 billion and €4 billion in liquid assets and our liquid assets were liquid. I mean, they were readily available. They were short-term deposits with large European banks. However, the initiative as regards the standby: it came from the Financial Regulator and the Financial Regulator came up with the idea, probably in the light of the threat to liquidity and the threat of maybe increased withdrawals as a result of the Reuters report.

Deputy Joe Higgins: But were there concerns before that, Mr. Purcell? Because, for example, the Department of Finance had secretly or quietly put on the stocks legislation for the nationalisation of an institution like yours.

Mr. John Stanley Purcell: I wasn’t aware ... I heard that, yes, earlier in ... from the inquiry. Well, I mean, there was - how would I put it - there was a lot of concern probably in the summer of 2008.

Deputy Joe Higgins: Can I go over again the question of whether INBS was solvent in September 2008? And if I could refer to the Goldman Sachs report that was done into INBS. This is in documentation that has been many times in front of the committee but we have it up in front of us there, Mr. Purcell. And if you see that line of the total loan book, €11.7 billion, and then their mark-to-market analysis going from 69 ... best mark 69% of the loan book to the worst mark 42%, which equates to €8.1 billion or €4.7 billion worst. Quite clearly on those figures, INBS was not solvent.

And if I might then refer to a similar diagram from Merrill Lynch, presentation to the National Treasury Management Agency, 26 September 2008, and then on the right ... top right-hand side, Mr. Purcell, you’ll see their summary is INBS has €11.7 billion of loans, “Write-downs of 30% – 60% results in an impairment of €3.6 bn – €7 bn”. In other words, figures

remarkably similar to Goldman Sachs'. And then the very next line is the liquidity of €3 billion to the end of 2008. On that basis, INBS is not solvent. Now how can you square these figures, plus the concerns that emerged about the liquidity, as opposed to what Mr. Fingleton and Mr. Walsh have assured us?

Mr. John Stanley Purcell: Well, this scenario I'm looking at here is Merrill Lynch setting out a scenario of what possibly would happen. You know, they would be setting out best case, worst case, medium cases. At that time all options and all eventualities were being explored. It was people looking at what might happen.

Deputy Joe Higgins: Were you concerned ... were you worried at that time that INBS was insolvent, or not?

Mr. John Stanley Purcell: I wasn't worried that INBS was insolvent at that stage. The main concern at that stage was liquidity and the ability to raise funds.

Deputy Joe Higgins: Okay. Thank you, Mr. Purcell.

Chairman: Thank you very much. We'll move on so to Deputy Pearse Doherty, please.

Deputy Pearse Doherty: Yes. The Financial Regulator sent a letter in December 2004 noting its ongoing concerns with the level of resources at senior and executive management level within Nationwide. These concerns were repeated in a further letter in March 2008. Can you explain why the regulator's concerns were not addressed and no apparent effort was made to strengthen the board of the senior management to the satisfaction of the regulator over the period stretching at least six years?

Mr. John Stanley Purcell: Well, in relation to some of the concerns raised in 2004 in relation to senior management, there were ... it was mentioned there that there had been people recruited. There was ... and I think it was also dealt with by Michael Walsh and Michael Fingleton, there was a difficulty in recruiting extra non-executive directors around that time. They have mentioned that a number of people were approached and the situation that INBS was going to demutualise and sell, it meant we were not a very attractive ... as I understand.

Deputy Pearse Doherty: In view of the concerns over resources levels in senior management, why did the building society continue to expand its loan book - and this is the years that it dramatically expanded its loan book and, in particular, its commercial lending throughout that period - given the resource level in terms of senior management?

Mr. John Stanley Purcell: INBS, you know, continued doing the sort of business it felt it had a capacity to do. It felt it was doing good business with experienced people, much of it repeat business and, as a background to that, we were recruiting people in relation to aspects of loan. We set up around that time a credit risk department. We were preparing the loan book for the mutualisation, for Basel II, and for credit grading a number of things. So we were working in areas that needed attention.

Deputy Pearse Doherty: In your opening statement, you mention in page 3, you say "By September 2008 INBS's liquidity was coming under pressure due to [...] credit rating downgrade and an inaccurate report [...] by Reuters." Mr. Purcell, did your bank have access to ECB funding in September 2008?

Mr. John Stanley Purcell: In ... during 2008, we raised funds by a mortgage ... a mortgage-

backed promissory note programme.

Deputy Pearse Doherty: From the ECB?

Mr. John Stanley Purcell: No, it was raised in banks.

Deputy Pearse Doherty: Yes, but the question is, I'm not asking you about that.

Mr. John Stanley Purcell: No, I know. You asked me about-----

Deputy Pearse Doherty: The question is-----

Mr. John Stanley Purcell: I will just come to that-----

Deputy Pearse Doherty: -----did you have access to ECB funding?

Mr. John Stanley Purcell: We had ... We were working on a securitisation.

Deputy Pearse Doherty: Did you have access to ECB funding?

Mr. John Stanley Purcell: No, we didn't have access at that stage.

Deputy Pearse Doherty: Okay. Did you have access to funding from the money markets? Did you have access to the European medium-term notes at this time?

Mr. John Stanley Purcell: No, the ... around September 2008, the markets were not accessible-----

Deputy Pearse Doherty: Okay.

Mr. John Stanley Purcell: -----probably to us and ... not to us and to others.

Deputy Pearse Doherty: Well, you were shut out from the markets and shut out from the ECB at that stage. When did Nationwide ... when were Nationwide shut out from the money markets?

Mr. John Stanley Purcell: Well, probably, I mean, I can't get an exact date on it, but probably some ... in ... in 2008, as the credit crunch-----

Deputy Pearse Doherty: We've seen details, or I've seen details, that suggest that it would have been in the first quarter of 2008. Would that be in line with your view?

Mr. John Stanley Purcell: It possibly could be, you know. In early 2008, we were raising a lot of money on retail funding-----

Deputy Pearse Doherty: Okay. Given the fact-----

Mr. John Stanley Purcell: -----and we were raising ... we were reducing our book at the same time.

Deputy Pearse Doherty: Okay. Given the fact that you were shut out to the money markets from about September or, sorry, from about March 2008 'til this period I'm talking about now, in September, and you mentioned that liquidity was a serious problem, you know that in the next 12 months, in 2009, there was about €4.8 billion of a roll-over on the markets. How were you going to cope?

Mr. John Stanley Purcell: Well we, like a lot of other institutions, were faced with a credit crunch. It was difficult for others also to raise money on the money markets. I mean, the credit crunch had started in 2007, and was getting worse. There was very little lending. In 2008, we were trying to reduce our loan book and we have ... we had reduced our loan book by a lot. We were still raising retail funding and the market was in a stage where people were optimistic maybe it would improve next year.

Deputy Pearse Doherty: You were the only Irish bank that were shut out from the money markets and the ECB at that time, just for the record.

Mr. John Stanley Purcell: I, I, yes, I don't know that, but, I mean, I, yes.

Deputy Pearse Doherty: Do you believe that that might have been what prompted the Government to start preparing legislation to nationalise the building society around that period?

Mr. John Stanley Purcell: I can't say. I can't say, Deputy-----

Deputy Pearse Doherty: Okay.

Mr. John Stanley Purcell: -----but, I mean, we were, we were still raising money and we, we still had a lot of liquidity in September.

Deputy Pearse Doherty: Okay but, yes, that was the major risk and the Financial Regulator understood ... accepted that as well. Can I ask ... you mentioned in your statement that you were also involved in IT systems and development of IT systems and this is an area that came under criticism from the internal audit report, I believe. There is mention in terms of the IT systems. Can you just clarify this for once and for all? Did the CEO of Nationwide have access to a computer in his office? Did he run a €16 billion business without access to a computer?

Mr. John Stanley Purcell: I mean, I think there was ... he definitely had access to a computer. His secretary would have a computer and he would have access through that. I'm not ... can't ... he ... he probably had one on his desk as well.

Deputy Pearse Doherty: But, like, I'm thinking ... I'm sure you've been in with like his office on many occasions. It's usually one of the most notable things you will see on anybody's desk is a computer. But in terms of a bank, and you're looking at the reports, and you're looking at all of the stuff, obviously, you're looking at it on a screen. Was there ... you know, you were, sorry, you were the person in charge with the IT systems in the institution. Did the CEO have access to a computer in his personal office?

Mr. John Stanley Purcell: I'm not sure. I don't think he did, but he had access to one, and his secretary would have one, but he also operated in terms that reports were brought to him. In other words, he wouldn't be focusing on trying to figure things on a screen. There would be regular reports.

Deputy Pearse Doherty: We're not talking about a corner shop here.

Chairman: Deputy, just let me in there for one second. Was there any device on Mr. Fingleton's desk?

Mr. John Stanley Purcell: I can't recollect whether he had a computer or not, at what stage.

Chairman: Any electrical device?

Mr. John Stanley Purcell: But I would say, Deputy and Chairman, that he was well informed of everything in relation to the areas he was looking after.

Chairman: Okay, back to yourself, Deputy Doherty.

Deputy Pearse Doherty: The point I'm making is, in terms of the systems - and this may seem a bit trivial and all that but I actually think it's not. Right - in terms of the systems, because you mention you were in charge-----

Mr. John Stanley Purcell: Yes.

Deputy Pearse Doherty: -----of IT systems.

Mr. John Stanley Purcell: Well, the IT. Now-----

Deputy Pearse Doherty: We're not talking, as I was saying, about the wee corner shop, you know, that's selling a couple of loaves of bread and a couple of pints of milk at the weekend. It is a €16 billion enterprise, where Mr. Fingleton ... report after report is saying - we know he was the chief lender - but report after report is how he was heavily involved in all aspects of the bank. Can you explain to me, as somebody who was responsible for the systems, how the CEO didn't have access to a computer, given in banking everything is computerised, is it not, or were you still running around with post-it notes and paper clips and reports?

Mr. John Stanley Purcell: I mean, he had access to a computer. I mean, if he didn't use a computer a lot himself, he had access if he wanted to, to use a computer. You know, there was, he could sit down with somebody and go through stuff on computer.

Deputy Pearse Doherty: Mr. Purcell, what do you say to those who accuse you of being Mr. Fingleton's "Yes" man?

Chairman: Wrap up, Deputy.

Mr. John Stanley Purcell: I don't agree.

Deputy Pearse Doherty: You don't agree. In your view-----

Chairman: Last question.

Deputy Pearse Doherty: -----and in your knowledge, from being there, from being secretary, from being chief financial officer, was ... had ... did Mr. Fingleton ever sanction a loan or ask somebody to provide a loan to an individual without it first going through the credit committee approval process or the board?

Mr. John Stanley Purcell: I'm not aware. I don't recollect a loan in that case.

Deputy Pearse Doherty: Are you aware, as we've seen in the Deloitte report, an internal report, where loan applications were actually made after loans were advanced to the customers?

Mr. John Stanley Purcell: In Deloitte internal audit reports, that is what you're referring to?

Deputy Pearse Doherty: Yes.

Mr. John Stanley Purcell: Yes, I mean, there were findings of that regard and they were followed up.

Chairman: -----wrap it up actually.

Deputy Pearse Doherty: Could I just ask this because you sat on the board? So one of the findings was, in Deloitte, that Mr. Fingleton was the individual who extended Stg£10 million of a loan on his own say, nobody else, and this was also backed up in terms of the independent internal review.

Mr. John Stanley Purcell: Yes.

Deputy Pearse Doherty: When those findings were made, did the board investigate these findings and clarify whether that was the case or not, or did you just say, "That was a nice read and let's move on to the next item on the agenda"?

Mr. John Stanley Purcell: No, no, no.

Chairman: Right, Deputy.

Mr. John Stanley Purcell: It would have been explained to the board and action would have been taken so that-----

Deputy Pearse Doherty: What explanation did you receive?

Mr. John Stanley Purcell: I can't recollect the explanation on that but I know it would have been dealt with.

Chairman: Thank you. Mr. Purcell, I'm going to bring matters to a conclusion. I just have a couple of questions myself to ask and I just need to wrap up, and I'll also be inviting yourself to make any closing comments or remarks that you might wish to make.

Mr. Purcell, this was, kind of, touched upon earlier. I just need to get a bit further clarification on it. What was the limit of the MD's authority to issue loans? What was the sum of money? What was the lending limit?

Mr. John Stanley Purcell: Well, the lending limit, there was a lending limit of stuff, of €635,000, that could be dealt with-----

Chairman: Okay.

Mr. John Stanley Purcell: -----in the loans department without coming to the board.

Chairman: Okay. With an earlier question there that I put to Mr. Walsh when he was in earlier - and I can pull up the document again - I think that figure of €635,000 you mention seems to ring a familiarity with ... that the sum should have been £0.5 million but ... the ... in a report by the regulator, there was actually a comment about a sum of that size. So was that sum actually beyond the scope? Is that the same sum that's being discussed?

Mr. John Stanley Purcell: Yes, I think this figure of 600 and ... it was ... actually, it represented the old £500,000.

Chairman: Okay. So it is the £500,000 instead of €600,000. All right. So once it went beyond the old £500,000 - £0.5 million - he would then need board approval, yes?

Mr. John Stanley Purcell: Yes.

Chairman: Okay. Did he ever issue loan cheques to borrowers and later seek board ap-

proval retrospectively?

Mr. John Stanley Purcell: There may well have been some of those - I can't recollect an example.

Chairman: Are you aware of any cases?

Mr. John Stanley Purcell: No, I can't recollect any particular case at the moment.

Chairman: Okay. Did the board reject loans which were submitted to it by the credit committee?

Mr. John Stanley Purcell: It did.

Chairman: Okay. Can you ... maybe without getting into the specifics of customer transactions and customer confidentiality, could you maybe give us a general example?

Mr. John Stanley Purcell: I can't think of any particular examples. I know there was cases of that and also there would have been cases of loans, kind of, sent back. You know, maybe the board wanted more work done on them.

Chairman: So, in that regard-----

Mr. John Stanley Purcell: They mightn't have been rejected out of hand, a lot of them, but they would've been put back into the system.

Chairman: So, are you also saying that there were situations so where the board seek ... or sought additional information from the credit committee before approving loans?

Mr. John Stanley Purcell: Yes.

Chairman: Okay.

Mr. John Stanley Purcell: Or the approval was subject to things being done.

Chairman: To the suggestion ... to maybe just to get your own comment and opinion on ... to the suggestion that credit committees can be rubber stamps and ... was there ever ... that never would ... that never go against management ... a managing director's decisions to grant loans? Would that be a fair or unfair description of the credit committee in INBS?

Mr. John Stanley Purcell: Well, I was not a member of the credit committee.

Chairman: Okay. But by your own observations?

Mr. John Stanley Purcell: No. By my own observations, that ... you know, the loans were underwritten in a proper way.

Chairman: Okay. And at a board level, did anyone on the board every challenge the overall lending strategy? In particular, did anybody on the board ever challenge the practice of taking equity stakes in developments in exchange for 100% funding?

Mr. John Stanley Purcell: Well, in December 2007 the board deliberated and made a decision that we were going to cease new lending, but that was-----

Chairman: Okay. That's not what I am asking you, though.

Mr. John Stanley Purcell: Sorry.

Chairman: There was a particular model that was being operated by Irish Nationwide Building Society. Usually, if somebody went into a bank, they'd get a loan-to-value of 80%, 20%, 60% or whatever, and they would have to come up with some cash themselves. Irish Nationwide, if I'm correct, and you can correct me if I'm wrong, operated on a basis that they gave 100% funding but on the basis that they would get a proportion or a profitability on what they were giving the loan on. It's that lending model that I am talking about. Did anybody on the board ever challenge that practice of taking equity stakes in developments in exchange for 100% funding?

Mr. John Stanley Purcell: Not that I am aware.

Chairman: Okay. On a review of that lending practice, how would you consider that now?

Mr. John Stanley Purcell: Well, probably, in today's terms it wouldn't be regarded as maybe interim lending-----

Chairman: Okay.

Mr. John Stanley Purcell: -----but back then it was based on the fact that we were dealing with experienced people. It was repeat business. We were dealing with people who had been very successful in the past and knew their business.

Chairman: In terms of a recommendation to this committee going into the future, how would you view such a practice?

Mr. John Stanley Purcell: Well I ... in my statement, there, I was asked what regulators might do to ensure that lending markets didn't overheat in future and I said maybe there should be loan-to-deposit ratios applied, perhaps maybe a balance between residential and commercial lending and that's ... those, sort of ... loan-to-values as well, which the Central Bank have applied.

Chairman: In ... I concluded with a question to Mr. Walsh earlier, Mr. Purcell, and I'd put the same question to you. And that is, Mr. Purcell, that this inquiry, in preparing for the public hearings, gathered hundreds of thousands of documents. For today's hearing regarding INBS, documents from the Financial Regulator's office consistently and repetitively over many years expressed concerns regarding corporate governance, senior management resources, lending expertise appropriate to your business strategy, direction of the society's overall business model and the associated control framework, issues on the regulatory reporting and control - and, I think, in your own engagement this evening, which, as you admit, were a source of continuing disappointment to you - and also the lack of experience in the quality of internal audited resources. Having listened to your contribution this evening, Mr. Purcell, is it your opinion, as we come to close these proceedings, that these documents are consistently and repetitively wrong?

Mr. John Stanley Purcell: Those documents express the concern of the Financial Regulator over years. They brought up concerns following inspections and, in all cases, we worked to resolve the issues. For example, we worked to upgrade internal audit in all aspects of its operation. So, when you look at them all together there is a long list there, but they came up over a number of years and we would have worked to resolve each one as well as we could at the time. And many of them resulted in systems and processes being upgraded to a good standard. Some of them about recruiting directors, there was reasons why it was delayed and for other reasons.

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Chairman: You have a far, far greater experience of banking than I have, Mr. Purcell, and I would acknowledge that right from the get-go both in terms of experience, time in the job and all the rest of it. And you may or may not observe things better than I would just in terms of general detail, but ... and I am sure, maybe I'm wrong, that you would have maybe observed some of the testimony of the different financial institutions here to date. In quantitative terms in regard to just the volume of correspondence that came from the regulator's office to financial institutions in this country, where would you rank Irish Nationwide Building Society?

Mr. John Stanley Purcell: I don't know. I wouldn't have knowledge of what other banks had in dealings with the regulator, but I do know - I recollect it came up - a remark was made to one of our non-executive directors that the dealings that the regulator/Central Bank had with us were just normal issues.

Chairman: That would be your-----

Mr. John Stanley Purcell: That was an observation that was made to-----

Chairman: Yes, but what's your observation?

Mr. John Stanley Purcell: Well, my observation was that I don't know whether other institutions had more or less than we did.

Chairman: Okay. Is there anything else you'd like to add by means of final comment, Mr. Purcell?

Mr. John Stanley Purcell: No, thank you, Chairman, except to thank the members-----

Chairman: Okay, with that said, I'd like to bring matters to-----

Mr. John Stanley Purcell: -----and I hope I was of assistance.

Chairman: Sorry?

Mr. John Stanley Purcell: I just want to thank the members and hope I was of assistance.

Chairman: Okay, thank you. So, with that said, I would like to bring matters to a conclusion and thank Mr. Purcell for his participation this evening, and for his engagement with the inquiry, and to now formally excuse you. In doing so, I would just like to suspend for a moment to deal with just one point of information before we close this evening and as we prepare for our hearings tomorrow morning. Is that agreed? Agreed.

Mr. John Stanley Purcell: Thank you, Chairman.

The joint committee went into private session at 9.08 p.m. and adjourned at 9.10 p.m. until 9 a.m. on Thursday, 3 September 2015.