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AN COMHCHOISTE FIOSRÚCHÁIN I DTAOBH NA GÉARCHÉIME BAINCÉIREACHTA

JOINT COMMITTEE OF INQUIRY INTO THE BANKING CRISIS

Dé Céadaoin, 2 Meán Fómhair 2015

Wednesday, 2 September 2015

The Committee met at 9.30 a.m.

MEMBERS PRESENT:

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

DEPUTY CIARÁN LYNCH IN THE CHAIR.

- honest opinion - that I disagree and that's it.

Chairman: Mr. Fingleton, I am going to bring matters now to a final conclusion. In doing so I would like to give you the opportunity to invite you to make any final comments or thoughts or observations that you might mean to or would like to add as we conclude.

Mr. Michael Fingleton: I'd just like to thank you, Chairman, for the courtesy of this inquiry and the ways it has been conducted and also to each of the members of the inquiry who were fair - tough but fair. That is my only comment.

Chairman: Thank you, Mr. Fingleton. With that said, I'd like to thank you for your participation today and for your engagement with the inquiry and to now formally excuse you. I will be proposing to suspend the meeting until about 2.30 p.m. or so. If I can maybe just ask members of the committee to hang on for a few moments at the end of this, while the room is being cleared, just to deal with one or two matters and then we will resume with our next session this afternoon with Mr. Michael Walsh. Is that agreed? Agreed.

Sitting suspended at 1.32 p.m. and resumed at 3.04 p.m.

Irish Nationwide Building Society - Mr. Michael Walsh

Chairman: I now propose as we are back in full quorum, that the committee of inquiry will now resume public session. Is that agreed? And can I ask members and those in the public Gallery to ensure that the mobile devices are switched off? Our focus today is on the Irish Nationwide Building Society, and we continue our hearings this afternoon with Mr. Michael Walsh, former non-executive chairman of INBS. Michael Walsh was a non-executive director of INBS from 1995 and non-executive chairman from 2001 to 2009. Mr. Walsh was also professor of banking and finance at UCD and managing director of the corporate finance business at the stockbroking firm, NCB Group Limited. Mr. Walsh, you are welcome before the committee this afternoon.

Mr. Michael Walsh: Thank you, Chairman.

Chairman: Before hearing from the witness, I wish to advise the witness that, by virtue of section 17(2)(*l*) of the Defamation Act 2009, witnesses are protected by absolute privilege in respect of their evidence to this committee. If you are directed by the Chairman to cease giving evidence in relation to a particular matter and you continue to do so, you are entitled thereafter only to a qualified privilege in respect of your evidence. You are directed that only evidence connected with the subject matter of these proceedings is to be given.

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

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

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

Mr. Michael Walsh, former Non-Executive Chairman, Irish Nationwide Building Society.

Chairman: Once again, Mr. Walsh, you are welcome before the committee this afternoon and, in doing so, can I invite you to make your opening remarks please?

Mr. Michael Walsh: Thank you, Chairman, members. I know you're pressed for time so I'm not going to repeat my statement in full, but obviously I'm more than happy to cover any aspect of it. As the Chairman has indicated, my career and background is in finance and public service. In 2001, I agreed with the board and the Central Bank to become non-executive chairman. The purpose of my appointment was to help the board oversee a sale of the society under legislation which was agreed by the authorities and which was to be implemented the following year. Accordingly, I expected my role would be relatively short, circa two years. When the authorities failed to deliver that legislation in 2002, the Central Bank and subsequently the Financial Regulator required that I stay *in situ* until the sale could be completed.

Every single year, the authorities, be they the Central Bank, the regulator, the Department of Finance, the Department of the Environment, and the relative Ministers, promised they would deliver the necessary legislation within the next 12 months. They failed to do so. As a result, instead of the expected two-year term, I actually served as non-executive director and non-executive chairman, in particular, for almost eight years, until I resigned in February 2009. The planned sale of the society is not the focus of this committee. However, the significant, avoidable delay in implementing the necessary legislation is and was very frustrating. Implementing it earlier would have avoided any involvement by the society in the banking crisis. This points to the enormous cost of inaction by the authorities and the policymakers alike, a theme that I will return to.

Chairman, I'd like to put on record my acknowledgement of the massive challenges that the collapse of the Irish banking system has imposed on the Government finances and the citizens of Ireland. Many families have suffered from both the collapse in the property market and the era of austerity that has followed it. Mistakes were made by all financial institutions. Irish Nationwide was no exception. However, in my view, by 2006-2007 it would have been impossible to completely avoid the damage from the global credit crisis. While the damage could have been mitigated, we must recognise that the crisis was global; it was systemic. None of the financial institutions, none of the authorities or the international or domestic economic advisers fully appreciated the significance of the global credit bubble, particularly as it related to property and indeed structured credit. This was equally true in the US, where both of the quasi-Government finance agencies, Fannie Mae and Freddie Mac, failed. The Fed models didn't adequately capture the events and 12 of the top institutions required support.

My greatest regret is that we didn't recognise sooner the convergence of factors that led to this global financial collapse and the devastating series of interrelated knock-on impacts for the Irish property sector, the financial institutions and the public purse. Some of the criticism levied at the Irish financial institutions, including the society, is warranted. That said, I cannot concede all the points made by those who have criticised the society, often without any real understanding of its model and, furthermore, based on 20:20 hindsight.

From the inquiry's perspective, I am deeply concerned that the popular, but erroneous, depiction of the society as being in the poorest financial health of all institutions at the time may hinder both the inquiry and, indeed, the public understanding of the real issues at play. For example, when the downturn hit, the society had the highest percentage capital of all Irish guaranteed institutions. Equally, at no stage did the society advocate a guarantee for bondholders. Because of the society's liquidity position, the society wasn't reliant on future bond issues.

You have heard from the managing director, later you'll hear from the finance director - the two key executive directors. My perspective is that of a non-executive director and I'd like to focus on a few key areas in my opening remarks: firstly, the society's model; secondly, the society's awareness to the changing environment and its actions in the period from December 2007; thirdly, the regulatory authorities - the interaction between the society and them and their powers; and, finally, I'll turn to liquidity and solvency. I'm going to spend most of my time discussing the society's model, so do not be too concerned if that takes a bit more time.

The society's model was different to that of other institutions but it was carefully considered. Notwithstanding the comments made to date, I believe it was more prudent than that adopted by many of its competitors. Though it may jar with the popular narrative, the society had a prudent financial model. Its loan book was much shorter than others, with many of its loans, particularly in the UK, being for less than 18 months. This was clearly not understood by some of your witnesses. In the absence of the global crisis, the society would have been expected to be able to realise half its commercial book in 2009. The average loan duration in September 2008 was 30 months. Obviously, in perspective, bond issues were typically for five years. Secondly, the society was very different in terms of liquidity. It was a net supplier of funds to the interbank market, both before and after the liquidity squeeze caused by the Reuters story.

On the night of the guarantee the society had over €3 billion of cash on deposit with other banks. Unlike others, the society didn't require emergency liquidity or funding and that position should be contrasted with both ILP and Anglo who, as you've been told on a number of occasions, were both about to run out of funds and, in ILP's case, had been requiring ECB funding for about a year. The society was also different in not competing for unprofitable mortgage business. Again, as a number of witnesses have testified, a small institution competing for this, at best marginal mortgage business, was ultimately going to have too much gearing and too little capital. By way of direct comparison, there was only one other stand-alone building society, EBS. In the period 2003 to 2008, INBS maintained its loan-to-capital ratio always between 10% and 13%. In contrast in EBS, by 2008 that ratio had fallen to just over 3%.

I have just noted - at a balance sheet level - INBS had a strong capital base and its gearing was less than half its peers. Despite what you might think, it had more conservative lending growth rates than many of its competitors. In the five years to the end of 2008, the society had a significantly lower lending growth rate than AIB, than Anglo, than Bank of Scotland Ireland and Ulster if you focus on the combined property, construction and mortgage areas, all of which became highly correlated due to the credit bubble and the crisis.

In summary, Chairman, the society stuck to its strengths, it focused on its key areas of competitive advantage. It didn't seek to turn treasury into a profit centre. There were no exotics, no structured products and money was placed with board-approved institutions. As a result, in early September 2008 the society had sufficient liquidity to meet all its bond repayment obligations through to the beginning of 2010. Indeed, but for the global credit crisis, the society would have been sold in late 2007, probably at a valuation between €1.5 billion and €2 billion.

The society's core business was funding property - its area of expertise. Ultimately, with the gradual decline in property values, by 2010 many of these loans were non-performing. However, as is evident from the NAMA transfers, there was no significant difference between the discounts applied to AIB, to Anglo, to EBS and to the society. In your deliberations, Chairman, you may also want to consider that, for a true comparison and to get a full picture across institutions, you need to examine what would have happened if a policy similar to NAMA had been taken in relation to other categories of loans and not just commercial loans. For example, in 2009 the mark-to-market loss on much of the new mortgage business which was entered by various institutions in 2006 and 2007 ... the loss on that group of loans would have been similar to the levels experienced in commercial property. In other words, about 60%.

The society failed as, with all others, it didn't anticipate the impact of the global credit squeeze sufficiently early. This made the refinancing of its short-duration loans impossible. However, the society wasn't asleep. It did monitor the economic development and took steps to adapt the business model accordingly. The society was the first of all Irish lending institutions to anticipate and respond to the changed market circumstances in late 2007. As non-executive chairman, I believed the Irish banking system was over-exposed and immediate retrenchment was required. The board agreed and in December 2007 the board decided to reverse engines, cancel the trade sale, decided to minimise lending and to build liquidity. Immediately after the board took that decision, my first port of call was the regulator. I was anxious to share both my analysis and the society's actions. In my analysis, the emerging threats to the banking system in Ireland and elsewhere should have caused concern. The society was willingly ceding market share to its direct competitors who were, in many cases, also under the control of the regulator. The decision by the society was taken over nine months before the State guarantee. Months later, the bank ... the Central Bank and the ESRI were still forecasting significant economic growth for 2008 and 2009. Indeed, internationally, in June .... July 2008, sorry, the ECB even raised interest rates. However, despite prompting, the leadership that I felt was required from the regulator never came. I took the opportunity of a meeting, in early May 2008, with the regulator and his senior staff to relay, both orally and in writing, the need for urgent leadership and, indeed, action to save the Irish financial system.

In summary, Chairman, my key messages were, and I quote them directly:

> [One,] Leadership is required from the Financial Regulator/Central Bank. Because of the differing competitive positions between the institutions no consensus will be achieved without the leadership of the Financial Regulator/Central Bank.
>
> [The second key message was on similar enough lines] In the absence of intervention, problems are inevitable as the Irish growth story has been funded by the capital markets and these are no longer available to meet redemptions. The sooner the intervention the lower the cost.

To this day, I cannot understand why the authorities did not intervene in the markets before the financial crisis broke months later. The inquiry has heard that the authorities were working on contingency plans but didn't activate those plans until the crisis broke and by then it was too late. Indeed, I was surprised to hear evidence from a senior Department of Finance witness that the Department appears to have welcomed the immediate crisis caused by the false Reuters story as it gave them, finally, the impetus necessary to begin to take action.

I’d like to talk briefly about the society and its relationship with the Central Bank and the regulator. During my time as non-executive chairman, the Central Bank raised routine issues with the society. The board took all issues raised by the Central Bank or the Financial Regulator very seriously and I and the other directors - and one in particular, along with myself - maintained very close relationships with the Central Bank and sought to get management to continually enhance systems. The Central Bank became the society’s regulator in 1990. Under the building society legislation, the Central Bank had much more power in relation to building societies than in relation to banks. The legislation specifically conferred a duty on the Central Bank to protect both depositors and to protect the stability of the societies. Commensurate with that duty, the legislation gave the Central Bank the power to do whatever the Central Bank deemed necessary to comply with its duty. Those powers existed from 1990, and in my experience the Central Bank had no hesitation in using its powers where it deemed necessary. For example, in 2006 the Central Bank-regulator threatened to remove the society’s licence if the society didn’t hold an election for a non-executive position on the board. This threat wasn’t made to protect depositors. It wasn’t made to ensure stability. It was not made in relation to lending. It wasn’t made in relation to controls or indeed any prudential issue. This threat was to facilitate an individual who wished once again to go forward as a non-executive board candidate. I believed then - I believe now - that threat was irresponsible, but none the less a clear indication of the powers of the Central Bank and the regulator and its willingness to use them. At no stage after 2004 did the CB-FR seek to take any meaningful action in relation to lending or lending-related issues. On the contrary, the regulator approved a reduction in the society’s deposit ratio in June 2007, which would have facilitated substantial further lending growth if the society, without any prompting, had not decided to reverse engines. In summary, contrary to what some have suggested, from 1990 the Central Bank and the regulator had extensive legal supervisory powers to do whatever it deemed necessary to protect depositors and the stability of the societies. Through their expert inspection teams they had direct access to and detailed knowledge of the inner workings of the society and indeed every institution.

Finally, if I just briefly turn to the liquidity and solvency debate. Within my statement I have dealt with the issues raised by the banking inquiry in relation to liquidity and solvency. The society was solvent in September 2008 and there is contemporaneous e-mail traffic which confirms this. Furthermore, I have attached key minutes of society meetings which took place in March 2009, some time after I had resigned. The minutes of those meetings record the views in March 2009 of the society’s auditors, the society’s legal advisers. Even more importantly those minutes in particular reference the attitude of the Financial Regulator and the Department of Finance at the time. Whatever the situation in September 2008, by March 2009 the authorities had full detail on each organisation, and in aggregate certainly more than any non-executive director in any one institution. In March 2009, following full consideration, the new INBS board confirmed that the society was solvent. Chairman, members, thank you for your time. As I said earlier, I deeply regret that we didn’t foresee the market instability at a much earlier stage, which would have resulted in earlier action by the society and potentially other institutions, and a situation where perhaps at least the society, due to the short duration of its loan book, its high liquidity and strong capital base, could have avoided being a cost to the Irish taxpayer. Thank you.

Chairman: Thank you very much for your opening statement, Mr. Walsh. If I can invite Senator Susan O’Keeffe to commence questioning. Senator, you have 15 minutes.

Senator Susan O’Keeffe: Thank you, Chair. Mr. Walsh, on page 9 of your own statement, the witness statement, you list a number of reasons which you believe were the “difficulties which the Society subsequently encountered and the associated losses arose from a combination of factors" and you list those factors - a bubble of cheap credit, hyper-competition, markets freezing, inability to refinance, the property bubble bursting, excess pressure and a concentration of risk in the commercial property sector. And that's where you say, "because the Society loaned funds to a relatively small number of borrowers many of whom were in the commercial property sector the Society was badly affected by the impact of the factors listed above". I'm ... forgive me for being puzzled or surprised that in that list you don't include, if you like, any of the activities at the building society itself, that if you like, you are largely saying that it was external factors that contributed to your problems. I would draw attention in that fact to the Central Bank's own report of 2015, which as you know, investigated the building society between August 2004 and 2008, INBS has admitted multiple failings at several levels of its commercial lending process from operational lending to credit review, its credit provisions and audit committees, all the way to its board of directors. INBS's admitted failings amount to a consistent and at times wholesale disregard for its own policies and procedures. So I'm wondering, Mr. Walsh, why in your list of reasons do you not list, if you like, your ... the failings of INBS along with those other matters?

Mr. Michael Walsh: Well I think, Senator, if I can take the thing at two levels, first of all in relation to that particular thing, I'm not sure who attested to what happened between 2004 and 2008, because I know nobody actually came to talk to me, and I was there during the period of time, so I think we should maybe just park that. I think-----

Senator Susan O'Keeffe: Before you park it, Mr. Walsh, just for the sake of clarity - we may forget to come back - are you saying that in relation to the Central Bank's, if you like, investigation, which it says was complex and lengthy, that you would park the whole of those findings because you were not directly invited to-----

Mr. Michael Walsh: Well, I mean, I can't comment on something when, you know, somebody, you know, after the period 2004-2008 says "this is the way things were in that time period", and doesn't actually check with the people who were there in 2004-2008. So I-----

Senator Susan O'Keeffe: So you would have issue with this?

Chairman: Senator O'Keeffe, leave a bit of time to respond as well now. Mr. Walsh.

Mr. Michael Walsh: Sorry. Absolutely, I take issue. I mean, by definition, there were things that needed to be remedied within the society but, you know, I had continuous contact with the Central Bank and the regulator from the time that I agreed to take on the chairmanship. You know, I would have had a meeting in early 2004 with the top two head people in the regulator at that point in time - it would have been Dr. O'Reilly and Mr. Neary, and both of them confirmed to myself and indeed Dr. Power, who I think was one of the other non-executive directors at the time, that there was nothing as between the regulator and the society, other than normal matters as between a regulated entity and the regulator. Now, you know, I have difficulty reconciling in some senses, you know, those statements there and the statements by Dr. O'Reilly and Mr. Neary in 2004. Were there issues? Absolutely, there were issues. Were they addressed as they arose? Yes, they were. Was the board ever happy with the degree of progress? No board should ever be happy with progress. Boards should always be pushing for more performance.

Senator Susan O'Keeffe: In that matter though, there was obviously a lot of correspondence, and we have seen some of it between yourselves and the Financial Regulator and the Central Bank in the time that you were chair, and there were criticisms raised going all the way back to 2004. So, are you saying that these criticisms in the Central Bank report don't relate at all to those other criticisms?

Mr. Michael Walsh: Well, sorry, because I wasn't, shall we say, talked to in relation to those and I don't know who was, you know, in the context of it I can't really comment on them but I think, you know, to be clear, and I think in, you know, the pack of papers there, you have provided a copy of a letter from Dr. O'Reilly to myself in 2004, I think December 2004, you know, and that letter would have been addressed very fully by the board. We would have involved both our, you know, external legal advisers, our external financial advisers. We would have actually held special board meetings to actually review it, and indeed I would have responded to every single item in that letter, I think by letter, at the beginning of February 2005.

Senator Susan O'Keeffe: Well, if we go specifically to Vol. 1, page 43 and 44. It is a letter from the Financial Regulator to the INBS dated 8 February 2008. 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". What is your view of that observation by the regulator?

Mr. Michael Walsh: Well, I think, first of all I have two observations in relation to it, and if I deal with the first and probably the most important one, this letter arrived, as you say, in February 2008. In December 2007, the day after the board meeting, I went and saw the regulator and his No. 2, and at that meeting I told the regulator and his No. 2 that we were not continuing to lend, other than where we needed to, to preserve existing facilities. So when I got this letter, it was got at a time when the board had already taken a decision to effectively cease lending and to actually build liquidity. Was I happy with this letter? No, I was never happy with a letter like this, and you can be sure that this letter was actually reviewed carefully. Considered responses would have been sent by the board to the regulator. In the context of the specific situation in relation to Mr. Fingleton, the reality is that the board had a very clear requirement which was up to, I think, the beginning or the middle of December 2007, all loans above €1 million, having been approved and recommended by the credit committee, had to come to the board for approval.

Senator Susan O'Keeffe: So you are saying, Mr. Walsh, that Mr. Fingleton did not ... was not ... did not appear ... he was not the only source of information on some of these clients and it was not that a degree of approval ... of authority rested with him. You would disagree with that.

Mr. Michael Walsh: Absolutely.

Senator Susan O'Keeffe: And ... Mr. Fingleton, as you know, was here this morning giving evidence and he said that much of the way in which he had been portrayed over the years, as a man who ran the Irish national building society and that he was the main guy and he gave money here and there and everywhere. What would you say, as the man who was chair for quite a number of those years?

Mr. Michael Walsh: I suppose, to put it in today's, you know, kind of, contemporary world, because, you know, there is this image and aura around the managing director or the former managing director, which is probably hard to relate to at a certain level, but, you know, if you think of him almost as being the Michael O'Leary of the day, you know, both of them very entrepreneurial, very driven, very focused, very much, kind of, building an organisation from scratch, not necessarily cuddly people but, you know, very strong people, very focused ... so

I would have said that he was absolutely the face of the society which was valuable from the society's point of view. It built up the perception of the society, its importance, and, you know, all of the coverage that the society got because of his, sort of, image or aura was all effectively beneficial.

Senator Susan O'Keeffe: In terms of the ... part of the way in which the society operated was it was involved itself with property subsidiaries and had shareholdings in various activities and so on. Whose idea was that and was that supported by the board?

Mr. Michael Walsh: Well, I think you have to, you know, kind of, go back to the very beginning. I mean, the initial permissions to actually get involved in property or property development were in 1992 in Ireland, you know, and that permission was obviously under Central Bank supervision. The second permission was in 1994 when the Central Bank gave permission to the society to acquire sites in London. So, to a degree, once that actually happened, there was a beginning of the development of expertise within the society in relation to that particular sector. Clearly, before, kind of, 1990, the society had done relatively small loans in the context of pubs or farms or whatever, but really, it was under the 1989 Building Societies Act that the society was effectively being encouraged - well, it was obviously before my time but, nonetheless, was being encouraged - to get into housing and housing development, and that was, you know, a facility and power that it actually embraced. By the time-----

Senator Susan O'Keeffe: But surely not as, you know, taking large stakes in vehicles set up to make profit from commercial property development. That wasn't what was envisaged. How did that come about?

Mr. Michael Walsh: Sorry, the initial structure was very much the society was actually-----

Senator Susan O'Keeffe: I am just conscious of the clock. I am sorry, Mr. Walsh, it is quite-----

Mr. Michael Walsh: Apologies. But ... you know, sorry, the initial concept was very much, kind of - and, as I say, it was pre-my time - "We will do it ourselves." That evolved into a situation where the society very quickly recognised that the expertise in terms of development was not within the society. You know, the society had expertise in terms of assessing and reviewing but it didn't have expertise in terms of doing the development itself so it actually formed partnerships, you know, different structures at different times. But the initial relationship was ... one of the, I think, people who have actually been involved here in terms of being a witness, which was, you know, Ballymore and Mr. Mulryan, and as, I think, Mr. Mulryan would have explained, you know, at no stage over whatever, kind of, the 25-28 years that he was involved with the society, did the society ever lose a penny; on the contrary, it actually made money. Now you'll see in that particular letter that you referred to, the one from whatever date it is in December of 2004, there is discussion in relation to, I think, joint ventures and, you know, the unwinding of those. And, you know, part of the problem was that, you know, that particular joint venture with Mr. Mulryan, which is blacked out obviously in your sheets, was actually causing distortions in the returns.

Senator Susan O'Keeffe: When Mr. Richie Boucher was here giving evidence he talked about this meeting on 7 September, that the purpose of the meeting was to discuss potential liquidity support for INBS. Now you say that no such liquidity support - I think you say that in your opening statement - was required, so why was that meeting being held, do you believe, at that point?

Mr. Michael Walsh: I think, you know, first of all, at that particular point, there was no need for liquidity support, but, equally, while there had been the false story run by Reuters on the Friday night-----

(Interruptions).

Mr. Michael Walsh: Yes, absolutely. But, you know, very rightly and very appropriately, I got a call from the Financial Regulator immediately after they became aware of it and, you know, they would have told me about what had actually happened. They sent me on the release, etc. Needless to say, you know, a story like that can actually be extraordinary damaging in terms of any financial institution. I mean, many of you will remember - no, actually, probably won't - but in the mid-----

Senator Susan O'Keeffe: Mr. Walsh, I'm sorry again to interrupt but I'm just looking at the time, and what I am asking really is the liquidity question at that time for INBS. Is it ... are you stating here that INBS was ... did ... had no liquidity difficulties in September 2008?

Mr. Michael Walsh: I am absolutely stating for the record it had no liquidity difficulties but I think what you're missing though, with respect, is that, you know, a story like that actually causes a massive amount of uncertainty.

Senator Susan O'Keeffe: No, I'm not missing. I do understand that.

Mr. Michael Walsh: Okay. But, you know, the Financial Regulator was doing absolutely the right thing by saying, "Look, we have to look at contingency.", and I think you'll be aware from the fact that, you know, I mean, months earlier, they had started to look at private sector contingency solutions in the event of something actually going wrong somewhere in the system. So the Financial Regulator was absolutely right. They did exactly what they should have. Now, I think, the reality is - I think you will have heard it from Mr. Burrows - all of the institutions, by September 2008, were suffering from, shall we say, liquidity pressures. The society was unique in the sense it had, for all practical purposes, more liquidity than anybody else. I mean, I think Mr. McDonagh mentioned that the NTMA had something like €5 billion in cash at that point in time. You know, in comparison, the society, even after the problems during September, had €3 billion cash on hand.

Senator Susan O'Keeffe: But why then when Goldman Sachs met with various members of the Department of Finance ... why then were they saying that for INBS, at your current rate, you would have a liquidity problem within ... your limit was within 11 days but in real danger of acceleration?

Mr. Michael Walsh: Well-----

Senator Susan O'Keeffe: And also the Government was effectively pulling together a huge operation to rescue INBS - not other institutions but INBS. So how does that square with you saying, "We were liquid"?

Mr. Michael Walsh: I am sorry, I understand that completely. I mean, you probably have seen. There's an e-mail which Mr. McDonagh forwarded to, I think, Mr. Beausang the night, or sorry, the day before the guarantee. In that, you know, Mr. McDonagh's words are more or less - or, sorry, the words in the e-mail, to be precise, are that at this point in time INBS has €3 billion in cash, its outflows are - I think, that day - something like €20 million, and his assessment or the assessment in that e-mail is that we don't have a current problem, we may need to actually do something precautionary for December 2008.

Senator Susan O'Keeffe: But Moody's, when it was down ... in the downgrade, said that the funding of INBS "is very heavily reliant on financial instruments (circa €7 bn at [the] end of 2007) making it vulnerable to the dislocation in financial markets". So wasn't the fact that you were increasingly reliant on financial instruments ... was that not causing a huge problem for you at that point?

Mr. Michael Walsh: No, because ... I mean, basically, obviously, when I went to the regulator in December 2007, you know, I mean, I laid out precisely what the issues were, what was actually going to be done and how we needed to actually deal with it.

Chairman: Senator, I need you to wrap up.

Mr. Michael Walsh: Sorry, you know, when I went back again and, you know, reiterated to them in May of 2008, "Look, these are the problems in the system. You've got to wake up and got to deal with them", you know, at that point in time we were continuing to build liquidity. You know, we had contingency facilities, from, I think it was, Danske Bank, at the time but, you know, we were building and we were looking at other avenues. So when we got to the beginning of September 2008, we had sufficient cash to meet all of the bond repayments through to the beginning of 2010. In that context, you know, particularly when you have such a short duration loan book - as I say, if there hadn't been complete dislocation in the markets we would have expected to realise half the loan book over the period of 2009 - so we had, you know, a very viable model at that point in time. Now, obviously, what happened in 2009 and 2010, the markets continued to remain frozen and that gave, unfortunately, all of the impacts that we saw subsequently. But, you know, if you had done a review at the beginning of September in 2008, I think you would have come to the exact same view as Mr. McDonagh was coming to at the end of September 2008, which was, you know, the society has €3 billion in cash, which, as I say, kind of, 60% of the amount that the NTMA had. The leakages or the withdrawals of cash at that point in time, you know, they would have been higher earlier in September, immediately after the uncertainty caused by the story, but then you had the guarantee raised to €100,000, I think on 20 September, and after that the outflows from the society dropped dramatically.

I think, just to put it in perspective, on I think it was ... what was it ... 29 September, was it the day of the guarantee ... the outflows from Anglo Irish that day were €2,000 million whereas from the society the outflows were €30 million.

Senator Susan O'Keeffe: Finally-----

Chairman: A supplementary, quickly.

Senator Susan O'Keeffe: Yes. Finally, was it appropriate with you, as chair, that by September 2008, 80% of the loan book of INBS was in commercial property and 81% of its land and development exposure was in speculative property activity? That happened under your watch. Was that appropriate?

Mr. Michael Walsh: First of all, you know, the answer to that is "Yes". In 2000, there was an equal split between commercial and residential. We had taken very clear decisions in terms of not pursuing certain markets - i.e. a residential market that was overly competitive and with a very low margin because that was going to destroy the capital base. The society maintained at all stages a very high level of capital. I think, you know, the core books include, you know, Project Harmony. At the end of 2006 the society's solvency ratio was nearly 14% - now that would have been probably twice anybody else's in town.

Senator Susan O'Keeffe: Thank you, Chair.

Chairman: Thank you very much. Deputy Joe Higgins. Deputy, 15 minutes.

Deputy Joe Higgins: Mr. Walsh, if we could get on the evidence book - it will come up in front of you there - some of the growth indicators for Irish Nationwide between 1998 up to 2007. It is in front of you now. Over the period 2002 to 2007 in particular, profit before tax increased by 303%, and total assets by 190%. Even the four diagrams there will show what some people might think would be an astonishing exponential growth from 2002 onwards. Do you think that these levels of growth were prudent or sustainable, particularly in view of the growing competition within the Irish lending market at this time?

Mr. Michael Walsh: Well, I think first of all, you know, with the benefit of hindsight, nobody really understood the dangers of the actual kind of degree of growth in terms of the aggregation. But, I think, to put things in perspective the society, you know, in the period say ... well, let's take the five years, the end of '03 to the end of '08, the society lent, in terms of the Irish property market on the commercial side, roughly speaking, €2.5 billion. In the same period, AIB would have lent €30 billion into the same sector and, indeed, Anglo would have lent €30 billion into the same sector. So, you know, the practical reality is the society was growing at a lower rate in terms of these sectors than all of its competitors. It was growing at a lower rate because, you know, it actually was trying to maintain appropriate standards in terms of what it should actually do.

You'll notice if you look at that - and I accept the asset growth is high - but you will notice the level of reserves, which is the accumulated funding. And, you know, that went up by a substantial multiple as well. All of those funds are available to actually meet the situation in relation to any downturn.

Deputy Joe Higgins: But, Mr. Walsh, can I ask you ... you said in retrospect, but may I press you in relation to your own position? I mean, you were not an untutored novice arriving at a board. You're a distinguished academic and you were professor of banking at UCD. What is your academic background, just in very brief terms?

Mr. Michael Walsh: Well-----

Deputy Joe Higgins: For some decades in any case.

Mr. Michael Walsh: For some decades I used to be professor of banking and finance. I have lots of degrees but-----

Deputy Joe Higgins: Can I suggest Mr. Walsh, or ask you why you wouldn't be aware - theoretically but also from practical experience of history - of the dangers here? For example, Professor Honohan, the former Governor of the Central Bank, in an article in the Economic and Social Review, summer 2009 says as follows, "A very simple warning sign used by most regulators to identify a bank exposed to increased risk is rapid balance sheet growth; that an annual real growth rate of 20% is taken as the trigger." And he goes on to say that in the case of INBS, Irish Nationwide crossed the line six out of nine years for an average rate of growth over the nine years of just over 20%. And are you aware of Professor Black who gave evidence to this committee? And I might assume, or you can tell us, that you might have been aware of the crisis in the savings and loans situation in the United States. Now, in view of that experience, Mr. Walsh, if you were aware of it as an academic, why were you not able to see that alarm bells should have been flashing in your head above anybody else in this period when this exponential growth was happening?

Mr. Michael Walsh: I suppose, you know, I would take that at two different levels. First of all obviously, I look back and say, "Why didn't I see it?" I suspect everybody who is in authority in any of the economic bodies now looks back and says "Why didn't they see it?" But the practical reality is that nobody saw it at the time. I think when you look at the savings and loan - and I would be fully aware of the savings and loan's situation - the problem was absolutely, completely different. The context of the savings and loan was they were lending at long-term fixed rates and they had a complete mismatch in terms of their book between the assets and liabilities side.

If I look at the society, the society, as you say, had high growth rates, but it also had twice the capital of most of the other institutions.

Deputy Joe Higgins: But Mr. Walsh, with respect, the society was involved in highly speculative activity. KPMG, its own auditors, referred to, you know, the speculative land developments. And, for example, you got a letter in 2003 from the regulator expressing concern on the growing concentration in property and development land. And then by September 2008, 80% of your loan book was in commercial property, and 81% of its land and development exposure was in speculative property activities.

Mr. Michael Walsh: Well-----

Deputy Joe Higgins: Now should you again, above all, have realised that this was ... that no property boom goes exponentially onwards without collapsing? And by the way, there were people, as you know ... we had evidence here where in 2003, David McWilliams very accurately predicted what was going to happen. I am wondering why, as an academic, you couldn't see this.

Mr. Michael Walsh: I accept actually ... I think Mr. McWilliams was probably one of the few commentators who at that point in time had a view. But, you know, being realistic, that view wasn't one that was shared by most other people. I think it was Professor Honohan who said, "You will always have mavericks. We should listen to mavericks more often, but in practical terms we don't."

I would love to have seen the problems earlier. The reality is we did not see the problems until 2007, but when we saw the problems we actually took action. We went to the regulator, or I went to the regulator, told them what was happening, told them that things needed to be changed. Now the reality is in 2006 - and you've heard from Professor Honohan in his report - there were stability tests done as part of the round-table discussions. And what wasn't disclosed in those stability tests, which is actually in his report, that under the stress test No. 2, 88% of the Irish system collapsed. Now if 88% of the system actually collapses and you don't actually feel as a central bank or regulator that you have a problem on your hands and you need to communicate that to people, then the problem is there.

Now I have tried for the benefit of this committee to actually get more information in relation to those stress tests, because those stress tests are actually terribly important. They are done at a point in time when we'd been coming out of a very positive period. There were no warning signs in terms of overall problems in the domestic economy, in the global economy. So if action had been taken when those signs were there under those stress tests, the country would have been much better off today. The society would have been able to unwind its loan book because of the very short duration.

Deputy Joe Higgins: Mr. Walsh, the Project Harmony, which was a due diligence report that you'd be familiar with in 2007 doing the ... examining the society up to the end of 2006, found a concentration of loans in the higher risk development sector at 41% of total commercial lending. Concentration of loans in higher loan-to-value, 30% of commercial loans had higher than 100% loan-to-value and 30 commercial customers accounting for 53% of the total commercial loan book and 41% of the total loan book. Can I ask you, did the board ever consider or was there a discussion about concern that these levels of concentration and the correlation between them greatly increased the risks to the business model that was being pursued?

Mr. Michael Walsh: By definition, the board was fully aware of these. The board would have commissioned the KPMG Project Harmony vendor due diligence. The board, obviously, would have reviewed that at the time and, indeed, so would the Central Bank and everybody else. Those reports are prepared, as you know, because you want to give a warts-and-all picture of the institution that you are seeking to sell. You know, at that point in time, there was no indication whatsoever of serious concern by any potential buyer in relation to the structure of the society or the model it was actually pursuing.

I think you make the point in relation to high LTVs. I think what you need to recognise is that the nature of the loans were very short in duration in many cases and, as a result of that, they were there with a view to getting planning permission or whatever kind of short-term refinement and that, in itself, enhanced the value of the actual loan. There was proper, or, when I say "proper", there was a detailed review done of the loan books, I think in, probably, kind of, November 2008, before the real collapse, I suppose, took place in 2010. But in 2008, I think it showed that the average LTV across the book was 80% and, you know, if you couple that 80% with the 24% absorption capability the society actually had, the society was actually in an extraordinarily resilient position if it hadn't been for the absolutely phenomenal decline in prices in 2009 and 2010.

Deputy Joe Higgins: Except that you should have known that, by the laws of finance, capital and the way capitalism works, that what goes up comes down, but I think we've explored that somewhat. Can I ask you, moving forward-----

Mr. Michael Walsh: I think though, in fairness Deputy, I think there have been so many reports come out so to say, "this time it's actually different". Nobody, prior to ... certainly from my point of view, I didn't see it being in difficulty until 2007. You know, clearly the Central Bank and the regulator, on the basis of the information they had, should have seen it in 2006. I know Dr. Nyberg says we should have seen it in 2005. The reality is, I wish I'd seen it earlier because we would have been able to avoid, you know, the problem and the costs that subsequently arose.

Deputy Joe Higgins: Mr. Walsh, just on the subject of demutualisation, and that was one of the key reasons why you were brought onto the board, and Nyberg says that the drive to demutualisation was a very important factor in the years that you were there. In your opinion, did the desire of management to maximise the value of Irish Nationwide for demutualisation result in the adoption of poor lending practices and increase the level of risk in the loan portfolio?

Mr. Michael Walsh: No, I wouldn't agree with that. I think, you know, the unfortunate reality is ... I mean I had believed - and I think I included a paper in part of my statement - I had believed really from, for all practical purposes, the early '90s that small institutions like the society, like EBS, like First Active, could not hope to survive in the long term, given the way the markets were evolving. So I was clearly of the view that the society should be sold to a larger institution and, you know, my deep regret, that did not happen. But the only way it could happen was on the basis of legislation. Now, when I agreed to take on the role in 2001, legislation had, supposedly, been agreed by the Central Bank, by the Department of Finance and the Department of the Environment. That legislation should have been implemented then; it wasn't for whatever reason and, unfortunately, the rest is history. Every single year ... I mean, when that didn't happen in 2002, the Central Bank said they were going to try and put it in as part of the 2003 Central Bank Bill. In 2003 they said, "Well, we didn't get it in there but there is a working party now; it's going to get agreement in terms of how things are going to be set up."

So, I believe the society would have been sold much earlier. Clearly, the society was going to continue to run its business properly and efficiently over the time period but I think both the board and the management would have expected that it would have been sold much earlier than that. I think Dr. Nyberg, whoever briefed him, didn't really get a proper understanding. The society was absolutely focused on getting a sale of the society done, obviously at the best price possible at the earliest opportunity, because that's what it believed was right from the point of view of the society, the point of view of the members and the long-term structure of the markets.

Deputy Joe Higgins: Mr. Walsh, just on another issue, towards the end of 2009, according to Mr. Stanley Purcell, who comes later in the afternoon, Ernst and Young began an investigation into legacy issues at INBS. I am quoting from his statement:

> I gave [Ernst and Young] every assistance. The investigation ultimately led to the initiation of legal proceedings against the 'old Board' for the losses of the society [...] proceedings represented an attempt by IBRC to make the directors personally liable for the losses of the society. [And] 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.

Were you involved in this, in these proceedings?

Mr. Michael Walsh: I was, absolutely.

Deputy Joe Higgins: And was there a settlement?

Mr. Michael Walsh: There was.

Deputy Joe Higgins: Can you tell us what the-----

Mr. Michael Walsh: I think the settlement is confidential.

Chairman: Okay, the details of the settlement may be confidential; the process of it Mr. Walsh may wish to talk about but the details are-----

Deputy Joe Higgins: Yes, well that's what I want, is the process. I mean, Mr. Purcell says that he had to pay to the State a sum of money, which is confidential, but can you tell me the general terms of the settlement, as far as you are concerned?

Mr. Michael Walsh: To be honest, Chairman, I don't think it's appropriate because there is a formal confidentiality agreement around that. You know, that confidentiality agreement is actually there, it is *in situ*, and, you know, certainly if, you know, shall we say, the appropriate authorities take a decision that we should be released from the confidentiality agreement, that's absolutely fine, but there is a confidentiality clause there and, you know, my understanding is that I have absolutely no right or authority to break that confidentiality clause. But I will rely on guidance from yourself.

Chairman: That would stand.

Deputy Joe Higgins: Let me just say, Chairman, for a parliamentary inquiry not to be ... If four directors have to make a settlement and one director says that they paid a sum of money to the State as part of the settlement in regard to their governance of Irish Nationwide, and a parliamentary inquiry is not enabled to explore that-----

Chairman: I'll just clarify the situation. As I said, Deputy, the processes around how the ... how it was arrived at and the exploration of that are one thing but, as members would have been briefed, as they are briefed before each and every one of those sessions, if somebody coming in before this inquiry has signed a confidentiality agreement, and there are other aspects as well as this with the Central Bank and there is section 33AK issues with regard to NAMA and whatever, the witness can't be asked to actually violate that agreement because they would be creating an offence inside in this room and I can't facilitate a situation where I'm actually aiding and abetting somebody to create what could be possibly a criminal act.

Deputy Joe Higgins: Okay, Chair, but the point is if there is a settlement, if at least one person does say, of the four individuals concerned, that they paid a sum of money, it would indicate that there were issues there in relation to the governance during their period.

Chairman: If you wish to explore that, I will indulge an extra bit of time in that. With regard to the sum, it's a different matter.

Deputy Joe Higgins: That's the point I'm putting to Mr. Walsh.

Mr. Michael Walsh: I understand exactly the point that you are actually putting. The practical reality is ... I don't know if you've ever been involved in civil litigation, but you would be mad to spend your life fighting litigation if there is an opportunity to actually come to some sort of compromise or settlement. And, absolutely, both sides were satisfied that a settlement was appropriate and that was done, obviously without admission of any wrongdoing or otherwise. But, sometimes, you do these things for the purpose of actually moving on with your life and not actually spending all your time kind of fighting an argument which, ultimately, nobody wins, other than the lawyers.

Chairman: Okay, a short supplementary, Deputy.

Deputy Joe Higgins: Mr. Walsh, finally, two very brief points or questions. *Thejournal.ie*, in an article on Tuesday, 12 February 2013, said as follows:

> Con Power ... , who sat on the INBS board between 2000 and 2006, noted how there were just six people including himself on the board and meetings would normally begin with the chairman asking Fingleton [That's Mr. Michael Fingleton]: "Well Michael, what have you got for us [and that was yourself, the chair] today?" with no agenda and no documents before the board members.

I want to ask you if that's typical of the meetings you chaired. And, second and last point, because of time, in-----

Chairman: I'll be bringing you back in at the end again, Deputy.

Deputy Joe Higgins: Yes. In the book called *Fingers*, in relation to Mr. Fingleton, in relation to yourself, they're speculating about your reasons for being on the board, "Whatever his reasoning, [Walsh] Mr. Walsh [that's yourself] would later tell friends that getting involved with a toxic society was his greatest regret in an otherwise distinguished career." Would you just comment on those two last questions, Mr. Walsh?

Mr. Michael Walsh: Thank you. You might have to remind me which is which. First of all, in relation to Dr. Power's comments, I actually can't relate to, you know, certainly, that description of them at all. Every single board meeting had a board pack, it had an agenda and, you know, in many ways, you know, others have criticised us for actually having too big a board pack, too much agenda, etc., so I'm not sure how one can say, you know, there was, shall we say, kind of, no information and the other can say there was too much. I suspect, to be honest, it's a misinterpretation. Con, as you know, is, kind of ... you know ... or can be quite a comical and quizzical figure. So I suspect the question was actually probably, shall we say, tongue-in-cheek addressed to Michael Fingleton, as managing director, rather than myself.

In relation to the other comment as to, you know, my attitude to the society, I would never have used such words or such a description. I got involved because of a particular situation which was ... you know, I had expertise in a certain area, I had undertakings from the Central Bank and various Government Departments as to what was going to happen. Clearly, it didn't happen. Given that it didn't happen, I continued to chair the place in the best fashion that I actually could, with as good a board as I could hope to have had at the time and to continue to look to strengthen all aspects of the society so as to have it in as perfect a condition as possible when it came for actual sale. There is no point in trying to sell anything unless you have a product that is interesting for the buyer and the only way to have something interesting for a buyer is to actually have it as a good business.

Chairman: Thank you. I'll be bringing you back in again, Deputy Higgins. I just want to clear up one or two items now that the leads are finished before I bring in the other questioners, Mr. Walsh. And one relates to ... on 7 September 2008, Mr. Purcell and two of his colleagues attended a meeting at the Central Bank on behalf of INBS together with representatives from AIB and Bank of Ireland. Mr. Walsh, in his opening ... or, sorry, Mr. Purcell, in his opening statement, refers to this. I assume you're familiar with that text. Were you aware that this meeting had been arranged?

Mr. Michael Walsh: I was aware, Chairman. When I actually talked to the, you know, regulator, on the Friday night after that story, you know, had broken, I would say that from that point on, I would have been in touch with the regulator probably every single day, potentially multiple times during the day, for the month of September. You know, that story ... you know, the potential damage it could have done to the society was just absolutely enormous and, consequently, it was very much, you know, "We have to make sure that we explore every opportunity and all such back-up opportunities that are there."

Chairman: Okay. And who was actually at the meeting that you can recall if they were representing-----

Mr. Michael Walsh: Well, sorry, I-----

Chairman: -----INBS and the other banks?

Mr. Michael Walsh: Yes, sorry, I wasn't there myself-----

Chairman: Yes.

Mr. Michael Walsh: -----so, you know, I would have heard reports back on it from either Mr. Neary or Mr. Horan-----

Chairman: Yes.

Mr. Michael Walsh: -----but I wasn't actually present myself.

Chairman: Okay. Who requested the meeting, do you know?

Mr. Michael Walsh: Well, I mean, certainly the meeting ... and I would have said it was entirely self ... I think the meeting was actually proposed by the regulator because obviously, you know, I mean, when a story breaks like that ... when I say I presume it was by the regulator, I mean, literally, I was talking to the regulator I would say, you know, 20 minutes, half an hour ... so I would say on that ... sorry, after the story broke. I would say that, in practical terms, you know, we had discussed, really, what needs to happen now in terms of precaution because obviously the society was different to the banks in the sense the society used to open on a Saturday morning, so, you know, there was a danger, effectively, that the story could actually do a lot of damage even on the Saturday and, consequently, you know, the focus really of the Friday night conversation was probably in relation to, kind of, Saturday, making sure that there were contingencies there, no queues and all the rest of the things that you saw with Northern Rock.

I think, the meeting ... the other meeting ... I can't remember was it a Saturday or Sunday but, you know, I am aware of the fact it didn't go well and, you know, certainly the explanation I heard at the time was that, you know, all of the other institutions were actually suffering from the same degree of concern in relation to liquidity as the society. I have to say I hadn't been aware that they were in nearly as bad a situation as subsequently has turned out to be the case.

Chairman: So your understanding of the purpose of the meeting was what, Mr. Walsh?

Mr. Michael Walsh: Sorry, my understanding of the purpose was to make sure there were contingency plans in place in the event that, you know, there was a severe outflow of funds, you know, as a result of that story and, consequently, you know ... I mean, reality is that the approach ... because I think earlier in the year the Governor had actually approached both of the two pillar banks with a view to, "If there is a problem, will you be there for a private sector solution?" I think what maybe the Governor didn't understand at the time, or maybe none of us really understood, was just how widespread and systemic the problem actually was.

Chairman: And was there any decision or recommendation as a result of that meeting that you're aware of?

Mr. Michael Walsh: As a result of the-----

Chairman: Of 7 September meeting?

Mr. Michael Walsh: No. I know coming out of that meeting, you know, both ... I mean, as reported back to me by both sides, if I put it that way, that both AIB and Bank of Ireland determined that they weren't in a position to offer a solution and, consequently-----

Chairman: What type of solution?

Mr. Michael Walsh: Sorry?

Chairman: What type of solution?

Mr. Michael Walsh: Well, as a stand-by facility, because, you know, at that point in time, as I say, the society had about €4 billion of cash, you know, on deposit. It, in total, I think had, you know, on the other side, you know, €8 billion of deposits from customers. So potentially, you know, if every single one of those deposits, you know, had been redeemed, you know, there would have been a shortfall in terms of cash-on-hand of about €4 million ... or €4 billion, sorry.

Chairman: And in that regard, to your knowledge, was any decision or agreement made?

Mr. Michael Walsh: Sorry, absolutely to my knowledge there was no agreement, because the regulator contacted me, you know, by phone, and I was actually in the society on the Sunday evening of whatever date it was - the 7th I guess - asking me to meet with the chairman and the chief executive of Anglo Irish Bank the next day because he had had some discussion with them and, you know, they believed they may be the ones who were in a position to offer a solution.

Chairman: Mr. Walsh, was Mr. Fingleton a domineering person and did he dominate the board?

Mr. Michael Walsh: I think I'll leave it to yourselves to judge whether I'm easily dominated but I think the practical reality is, you know, he has a strong personality. He'd used that personality to actually build the business from scratch and, you know, like all of those, as I say, the, kind of ... let's say, the Michael O'Learys of the world, you know, they are forceful people. That doesn't mean that the board abdicates responsibility. Just because somebody is a colourful character doesn't mean the board disappears but if I was to ask, I'd suspect, each of you here today - well, with maybe one exception - you know, could you name ten people who actually work for Ryanair, and I don't know how many people work for Ryanair - I suspect thousands and thousands - but I suspect most people could probably only name the one. In the same way, I think when people looked at the society from the outside - I mean, there was a senior executive team, you know, there was a whole network underneath - most people could only identify with one individual.

Chairman: Sure. And every organisation and structure probably has strong personalities in it but what ... could I maybe put the question to you, Mr. Walsh, did you or any other board members take any steps to, kind of, balance that type of energy that was inside in the room or to counterbalance any level of domination that an individual may have had inside there?

Mr. Michael Walsh: Yes ... sorry, absolutely. I mean, what I can never understand in terms of, you know, shall we say, kind of, some of the coverage that goes out, because there's, kind of, an assertion that, you know, the managing director could do whatever he wanted without any reporting lines, without any restriction. Very clearly, you know, there was a delegation set up in, I think it was 1994 initially before my time. That delegation and the, you know, shall we say, prevention or, you know ... I'm not sure what the right word is, but actually the powers retained to the board, the retention of powers, were clearly documented in 2000 ... sorry, not in 2000, in 1997. In 1997, we had discussion with the Central Bank, you know, the assistant director general at the time, and he laid out what he believed were appropriate reserve powers for the board. Now, the minutes of the board meeting whenever it was in 1997, clearly set out, "This is the delegated authority to the managing director". And then it goes on to say, "However, the board reserves the following powers to itself". And the powers that it reserved to itself were discretion in relation to, you know, anything above a certain threshold had to come to the board.

Chairman: Okay.

Mr. Michael Walsh: So, you know, loans above €1 million at all stages had to come to the board; capital expenditure decisions above certain levels had to come to the board; treasury policy had to be approved by the board; the list of people who are actually approved institutions had to be approved by the board. So there was a whole fabric of things that were reserved to the board. I mean, I think what is interesting is, you know, there is a governance report there from KPMG. And, you know, buried at the back of that governance report is a recommended list of reserved powers for boards of directors. And, you know, if you actually go through that - and, you know, I don't want to take your time; you actually have that, I think, as part of your wider documents, but all of the things that were reserved for the Irish Nationwide board were things that would have been recommended by KPMG in their report in - whenever it was - October or November of 2008. Now, many of those powers that KPMG advised should be reserved to the board wouldn't have been relevant in the context of the society, such as the final dividend, but things like the annual report and accounts, circulars to shareholders etc., etc., etc., were all powers that were specifically reserved to the board and always held by the board over the period.

Chairman: You mentioned earlier that the Financial Regulator had issues and you can discuss ... touched upon with regard to the board's composition. And I think you offered an opinion on that already. Am I correct in that there were five members of the board?

Mr. Michael Walsh: Well, sorry, there were five members of the board for most of the time-----

Chairman: And two of whom were employees.

Mr. Michael Walsh: Sorry.

Chairman: Two of whom were employees, yes?

Mr. Michael Walsh: Sorry, yes, sorry. At the time ... I'm sorry, I'm trying to think, because, sorry, there would have been more directors and then due to age factors and others, people had to retire. But, certainly in the period from, say, 2002 to 2008, or, say, early 2008, there would have been five, three non-executive and two executive.

Chairman: Did you ... were you satisfied with that number or did you ever try to change that or suggest that it would be changed?

Mr. Michael Walsh: Well, I think, Chairman, I'd like to answer that really at two levels. You know, first of all, you know, for companies of its size, I think if you actually look at the Higgs report, you know, which was one of the, kind of, famous reports on these things, a board size of five with, kind of, a majority of three non-executives and two executives was actually deemed appropriate. I mean, I think there has been a lot of debate over time as to what the appropriate board size is and what the appropriate mix is between executive and non-executive, and that's changed.

I think to come to, maybe, the other element of your issues though, by definition, you know, one would have always liked to have, you know, one or two additional board members. And, you know, I think it was probably early 2004, you know, I tried to convince the other board members that, shall we say, we should co-opt a particular individual to the board who should probably remain nameless. But that would enable us to both appoint him and to have, kind of, a larger board. But I couldn't get full agreement to that.

Chairman: Okay.

Mr. Michael Walsh: In 2005 we did get agreement from Mr. Brophy to actually join the board and we were very happy to do that. He had very good experience with the Smurfit group, a very good individual and ideal. And when we got agreement from Mr. Brophy, I expected the board size would actually increase to six. And we agreed with the regulator that Mr. Brophy would be co-opted to the board following the 2006 annual general meeting. Unfortunately, there was a problem in the sense that in the ... I think it was February of 2006, Dr. Power, because of a conflict of interest between his role as chairman of the audit committee and vice-chairman of the society, and his chairmanship of the financial ombudsman's council, had to step down due to that potential conflict.

I was very disappointed to lose Dr. Power at the time because he'd actually been a very good non-executive director, a very good chairman of the audit committee, but, nonetheless, when I tried to persuade him to stay, he felt that, you know, as chairman of the financial ombudsman's council, he had a first duty to that role.

Chairman: Just finally, before I bring in Senator MacSharry there, just with regard to the overall lending strategy and this was an item I raised with Mr. Fingleton this morning, in particular, did anybody on the board ever challenge the practice of taking equity stakes in developments in exchange for 100% funding?

Mr. Michael Walsh: "Challenge" is, I think, probably the wrong word to actually use-----

Chairman: Okay.

Mr. Michael Walsh: -----because, you know, that implies, I mean, you know, when you have discussion, you know, you have disagreement, you have argument, but then you come to consensus. You know, there would have been views expressed as to whether or not it was appropriate, but, you know, at the end of the day, you know, there was unanimity within the board.

Chairman: What was your own view?

Mr. Michael Walsh: My own view, you know, having had the discussion was that they were appropriate.

Chairman: Okay, thank you. Senator Marc MacSharry. Senator, you have seven minutes.

Senator Marc MacSharry: Thanks very much and thanks, Mr. Walsh, for being here. KPMG, in its view of the society's-----

Chairman: There's phone interference. Sorry, Senator, back again,

Senator Marc MacSharry: KPMG, in its view of Nationwide's corporate governance structure ... I don't think it's me; we'll put it under here just in case.

Take 3 - KPMG, in its review of Nationwide's corporate governance structure in November 2008, made numerous recommendations for improvement, including the development of strategic objectives, the introduction of formal strategic and financial planning process, documenting of board terms of reference and assessment of director independence. Many of these recommendations could be considered to be basic form of corporate governance considerations. Why were these measures not put in place much sooner by you in your role as chairman?

Mr. Michael Walsh: Well, I think, you know, the reality is first of all corporate governance is actually something that evolves over time. I would have been very happy with the KPMG report. I think it actually set out, you know, a menu of things that could actually be done, should actually be done and, you know, the board would have obviously adopted those. I think you have to recognise though that there is a real danger in corporate governance that it becomes, you know, almost, kind of, a box-ticking exercise where, you know, let's assume that we have terms reference for this, let's assume we check it and, you know, people actually stop thinking. I would say at no stage did the board of Irish Nationwide stop thinking. It may not have always come to the right conclusions, but it, at no stage, stopped being an active board or a focused board. I mean, I think within that series of recommendations - and there are, you know, multiple recommendations there - some of them would have been recommendations that, you know, the society itself would have actually prompted them to do and some of them would have already been in train for implementation.

Equally well, some of the recommendations would have been ones that, you know, one wouldn't have actually agreed with. Now, you know, the problem, being simple about it in the context of that particular report ... that report was completed in November 2008, and while it gave a menu for things to be done going forward, you know, at that point in time the whole issue across all of the Irish financial institutions was working out where they were going in terms of, you know, the global crisis that was actually emerging. So, you know, I would have, maybe in a different environment, spent more time reviewing with KPMG the report and considering it, but, you know, at the time, you know, there was a much greater degree of importance on other-----

Senator Marc MacSharry: And in other directorships that you would have hold - not going into the specific of any of those - would those sort of requirements have existed?

Mr. Michael Walsh: To be honest, you know, all directorships and all boards are actually very different, you know, I mean. Shall we say, in my very early days, I mean, I was on one particular State board, which probably should remain nameless, but, you know, almost the objective, I think, in that particular case was to give the non-executive directors so much information that you wouldn't know where to actually look. I would say in most, you know, commercial boards - and, you know, I've been involved in a wide range of them across a variety of different sectors - you know, the board actually are pretty focused in terms of what are the important things from their point of view. In the society's case-----

Senator Marc MacSharry: Sorry, I don't mean to be interrupting; I get the picture. But let's say I was made a non-executive of the board, I mean, what was the process? "Sure he'll be grand. He'll be sound or here's the terms of reference. These are the memorandums of articles of association. Board meetings start at 10, they finish at 12." Or was it just ... was there a culture of everything is sound, we're making profits, no panic?

Mr. Michael Walsh: Absolutely not. You know, I think, you know and maybe it's probably useful just to, kind of, set out what I would have done. You know, and maybe the best example really is, you know, in terms of, say, the public interest directors. You know, when I would have been made aware from Minister Lenihan of the identity of the two public interest directors, I would have sat down with each of them individually, gone through the society, gone through all of the issues. I would have given them copies of the various reports that were actually around. And, you know, I would have been entirely open to them to actually asking whatever questions or deal with any issues that were actually there. Now, you know, in the context of, you know, shall we say a board process, you know, I mean, if you're running a board of, kind of, 12 or 14 people, you know, you have a very different requirement for, let's call it, you know, paper tick-box-type exercise just so that everybody comes onto the system, but when you're in a relatively small group, you know, it is a much more, kind of, closely meshed situation. You've much more contact with each individual director than you would have in, say, a large plc-type board.

Senator Marc MacSharry: Okay. Do you feel that the Central Bank and regulator unfairly fingered Irish Nationwide as a misbehaver?

Mr. Michael Walsh: I'm not sure at what point in time you're actually talking about because I think, to me, what is actually obvious is-----

Senator Marc MacSharry: No, we spoke about the letter that had come from the regulator, and Mr. Fingleton earlier on had, kind of, taken issues with the contents of that letter, and you had said, for example, that you were convinced, in your opening statement, that the regulatory leadership that was required was to ensure a broader action across all financial institutions. You said that that leadership never came so, you know, what sort of leadership were you expecting from them? What sort of intervention were you expecting from them? And did you feel that there was a kind of an over-focus on you, for want of a better expression, you being the institution as opposed to you, Michael Walsh, as being: keep an eye on those fellows and everyone else can do what they like?

Mr. Michael Walsh: Well, I mean, certainly from my perspective, you know, every single piece of correspondence from the Central Bank or, subsequently, the Financial Regulator, you know, I would have taken very much to heart and, you know, tried to ensure that absolutely everything was addressed in it. Would I have felt we were being specially, kind of, identified? To a degree I would never have had that view at the time because I would have said at the time, look, you know, because as I say I'd a very open dialogue with these, you know, Central Bank people or regulatory people depending on the time so, you know, I would have understood when they had what I would call, you know, regulatory concerns which they would have expressed as normal and, you know, on a separate basis when they became, shall we say, more seriously concerned. Whenever there was anything of any, shall we say, seriousness, you know, I would always have actually met with them.

Senator Marc MacSharry: Okay. Can I ask you were you on the remuneration committee?

Mr. Michael Walsh: I was chairman of the remuneration committee.

Senator Marc MacSharry: Okay, very good. Considering the absence of terms of reference and assessment of director independence and financial planning process and strategic objectives for the board, is it reaching to assume that there was the same absences of criteria for remuneration?

Mr. Michael Walsh: Well, when people say there were no terms of reference, I mean I actually wrote very clearly to the Central Bank, as it would have been then in 2002, to-----

Senator Marc MacSharry: I don't want to go offline here because what I am trying to get to is, you know, when ye sat down to decide that employee or director X or managing director or everyone else was going to get salary thing, what criteria did you employ? Was it as, kind of, everyone was professional in the same way as ye were made a board of directors and, you know, you didn't really get into the auld corporate governance, to quote yourself, box-ticking exercises? What criteria were used to assess the level of remuneration or bonuses somebody should get?

Mr. Michael Walsh: Well, sorry, to be absolutely clear, and that is why think it is important to go back, I mean, when I set out to the Central Bank, I think it was probably 2002, that, you know, we were setting up a remuneration committee which consisted purely of the non-executive directors and the purpose of that is to actually review and consider the performance of the executive directors.

Senator Marc MacSharry: And would you ever be told, say, look, person A or director B is expecting, kind of, in the ballpark of such and such?

Chairman: Final question.

Senator Marc MacSharry: I've one very last one and I'm finished.

Mr. Michael Walsh: I mean, first of all, you know, the board would have been very conscious of, you know, what was the remuneration in, you know, other institutions, what was the performance of the society, you know. We were actually making decisions at the end of the year based on the performance, you know.

Senator Marc MacSharry: Would you have felt that ye were outperforming AIB in terms of, kind of, maybe a list of benchmark AIB plus whatever or-----

Mr. Michael Walsh: Well I think you've got to be very careful. I mean, first of all, you know, if you look at AIB, and I don't think we should be going there at all because I think they were rescued in the mid-80s. They nearly went down-----

Senator Marc MacSharry: I agree but you just ... you said that you looked at other institutions' pay.

Chairman: Senator, I have to ask you to wrap up because we are-----

Senator Marc MacSharry: Yes, it's a very final question. I'll just go off that point now. Can you address-----

Mr. Michael Walsh: Sorry, to be clear, we did benchmark. We even took in, you know, professional, you know, whatever they are, kind of remuneration advisers, at one stage.

Senator Marc MacSharry: Maybe one of the future colleagues that are coming in next could look more into the criteria that we didn't seem to get to there on pay and stuff. Can I just ask you, and again I don't want to take up other people's time, maybe other people will address it-----

Mr. Michael Walsh: Sorry, but, Senator, to be clear, you know, the assessment was on the basis of performance, input, contribution during the year-----

Senator Marc MacSharry: Okay.

Mr. Michael Walsh: -----and that was something that myself and the other non-executive directors sat down and evaluated at the end of the year. We also looked at the market and where the market remuneration actually was, and made a decision on that basis.

Senator Marc MacSharry: Okay. Can I ask-----

Chairman: Final question.

Senator Marc MacSharry: Yes, very briefly and we can deal with this in more detail with other colleagues. The NAMA valuations was something that the managing director clearly has an issue with. What's your view of that and do you share his view that they were flawed and what ought they have been?

Mr. Michael Walsh: I, I would love to know what the correct ... I'd love to know what the correct answer actually is, and unfortunately the only way you-----

Senator Marc MacSharry: What you feel is the correct answer.

Chairman: Senator, I'll have to come back to it if ... very briefly, without interruption, you're way over time and I'm moving on after this. Carry on please, Mr. Walsh.

Mr. Michael Walsh: What I can't reconcile, being very simple ... there was a detailed evaluation done by the board, you know, a year after I actually departed, or over a year after I departed from the society. There was also a detailed evaluation done by the regulator in terms of the capital needs. And on the basis of that and, you know, to use their words, they actually evaluated all of the loans on a cash-flow basis. So here we have a board saying in, I think it was probably, kind of, April 2010, you know, we have evaluated the cash flows associated with every single major loan that we actually have and, you know, for right or wrong due to the concentration in the book that should have been easy to do. They came to a view as to what the necessary write-down was. Now, for some peculiar reason and, you know, I have no idea what it was, the amount of the write-down actually almost doubled between April 2010 and September 2007, or September 2010, sorry, I get my years confused sometimes. Now, I don't know what actually happened over that five-month period for the board to actually agree to accept prices which were effectively 40% below what they had done as valuations. I mean, I have looked, obviously, at the NAMA reports, and if I look at say, tranche 1, I see that the society uniquely accepted a valuation which was below the market value of the underlying properties. I can't understand that, I can't rationalise that but that's what they actually did. I think it is fair to say that I did talk to my successor on one occasion in relation to a particular project, which probably should remain nameless, but it's actually the largest in terms of what's defined as the spec projects, and his view at the time was that they had an offer which was more than double the price they could actually convince NAMA to accept the transfer at. Now, I don't know, but I think the view of the board, and I can understand exactly where they were coming from, was, you know, NAMA had been set up, it was Government policy that everything would be transferred to NAMA, and I suspect that the board saw themselves as price takers but, as I say, I'm not an expert on property, I wasn't there at the time, so it is entirely supposition.

Chairman: Okay. We could be returning to this with another questioner as well, Mr. Walsh, so I am going to move on. Deputy Doherty, please.

Deputy Pearse Doherty: Go raibh maith agat and fáilte chuig an coiste. Can I ask you, in relation to KPMG's corporate governance review in 2008, 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 that ... as a board member and as chair of INBS, that you were receiving a full and accurate picture of the financial situation of the society at all times?

Mr. Michael Walsh: Sorry, I was absolutely satisfied. Every single year, you know, the board in the absence of any of the management would have actually met with KPMG as the auditors, and KPMG as the auditors would have confirmed (a) that, you know, they had reviewed everything; i.e. they had reviewed not just the numbers, they had reviewed the correspondence with the regulator, they had reviewed the correspondence with the financial ombudsman, they had reviewed all of the internal audit reports, they had reviewed the compliance documentation with Ita Rogers, the compliance person, and in those circumstances they were confirming to the board that everything was appropriate and unqualified, so I have no issue whatsoever in terms of figures. I think it was, was it June 2008? There was a meeting between KPMG and the regulator, with nobody from the society actually present, and in that meeting KPMG confirmed it was a very simple business, all the numbers were in one place. I think they-----

Deputy Pearse Doherty: But KPMG are saying there that there was little market and operational overview and salient financial commentary wasn't being provided to you in the board.

Mr. Michael Walsh: I think there's probably-----

Deputy Pearse Doherty: So do you agree with everything KPMG says or just do you dispute that part?

Mr. Michael Walsh: What KPMG are saying there, and I think you possibly misinterpret-----

Deputy Pearse Doherty: Okay.

Mr. Michael Walsh: You know, they're talking about the market and the market background. They're not talking about the society's numbers. And, you know, from time to time, and not on a continuous basis, we were getting, you know, economic commentary on the property markets, etc. But, you know, you have to put this into context ... Irish Nationwide was the institution that actually went to the regulator before everybody else and actually saw where the world was and basically warned the regulator. Now, you know, eight or nine months later somebody was saying, well, you know, you need to be aware of the market, you know. We had actually told, and it has nothing to do with structure of documents or otherwise ... the board was fully aware of what the situation was. And, if I contrast that, say, with you know-----

Deputy Pearse Doherty: Okay. That's fine, if you're satisfied that you were fully aware. As to the commercial lending business when it particularly grew, were the levels of impairment and the changes in accounting rules clearly articulated to the board to fully appreciate the risks that your institution was taking?

Mr. Michael Walsh: Sorry, I think if you're talking about the changing in the accounting standards, that was a matter of, you know, discussion both at the board level and, indeed - I can't remember which year it was now - but at the annual general meeting following the change one of the members, who was obviously kind of very financially literate, started to actually ask questions in relation to that. I expressed the view, as chairman of the society, that I didn't think the changes were appropriate but, you know, the changes were the changes. They were the rules and the society had to implement them.

Deputy Pearse Doherty: What about the impairments?

Mr. Michael Walsh: Well, you know, my recollection is that the society actually had higher levels of provisions, some of which it actually had to release as a result of that. But, I think, you know, if you actually go forward to ... whatever, kind of ... September of 2008, the society estimated what the worse case was going to be for the 2008 year in relation to impairments or provisions and was absolutely spot on in relation to that. If you contrast that with, say, the other society, the other society, in July of 2008, you know, had estimated-----

Deputy Pearse Doherty: We're not interested in the other society at this point in time.

Mr. Michael Walsh: I understand that but I-----

Deputy Pearse Doherty: But, your pointing isn't going to help anyone in terms of-----

Mr. Michael Walsh: Sorry, but you're talking about awareness and-----

Deputy Pearse Doherty: Yes.

Mr. Michael Walsh: ----in July 2008, the other society estimated that for 2008 they would need provisions of €5 million.

Deputy Pearse Doherty: Okay.

Mr. Michael Walsh: When their accounts were actually published they had provisions of €110 million.

Deputy Pearse Doherty: Okay.

Mr. Michael Walsh: That's the point. Knowledge and-----

Deputy Pearse Doherty: And, the provisions that you were providing was .... at 2008, was?

Mr. Michael Walsh: It was actually 5% of the book.

Deputy Pearse Doherty: Which was a total of what?

Mr. Michael Walsh: It would've been about €450 million.

Deputy Pearse Doherty: €450 million and within, what, 16 months, 12 months it went to €5.4 billion. Would that be correct?

Mr. Michael Walsh: Well, no, it wouldn't be correct but we can come back to that.

Deputy Pearse Doherty: Okay. Can I ask you in relation to the Central Bank's findings? This is in relation to your role on the board. It talked about, under its own internal policies ... and it's reviewed 110,000 documents here ... it's not ... it's an intensive investigation and I presume it's based on evidence on looking at the documents. It says, "Under its own internal policies and procedures, INBS was required to provide certain reports relating to commercial lending and credit risk management to its Board of Directors." It goes on to say, "INBS has admitted to [...] internal systemic failure[s]." I want to go through some of these. Reports on exceptions to commercial lending policies, it says that such reports would have given the board an insight into an overview of the extent of commercial lending, which was outside the scope of the lending policy. Did you get those reports between December 2005 and September 2008?

Mr. Michael Walsh: I think one of your other witnesses - I think, in written evidence - set out what the purpose of an exceptions policy is. The purpose of an exceptions policy is to make sure that decisions actually come up the line rather than actually stay down the line. The purpose of an exceptions policy - because these are board policies, they are not enshrined in rules or regulations, Central Bank or society rules ... they are board policies and, so, the purpose of those exception policies is to ensure that if somebody wants to do something which is outside a very sort of defined box then it has to come to the board for approval. Now, you've already heard that, you know, everything above €1 million had to come to the board for approval.

Deputy Pearse Doherty: No, that's not an exceptions policy; that was actually a policy that everything above €1 million had to go to the board for approval. An exceptions policy is where it would be an exception to the credit policy of the bank. The question quite clearly-----

Mr. Michael Walsh: But, sorry, you don't understand the exception policy. A policy is actually set down for, let's say, hotels. The maximum kind of debt is going to be, you know, whatever it happens to be in terms of percentage, interest cover, etc. Now, what happens is you have that ... if it doesn't actually comply with that, even if it is, you know, a small loan, it has to come to the board for approval because it's outside the normal lending.

Deputy Pearse Doherty: Yes. You still haven't answered my question and it's only the first of a-----

Chairman: We'll move to the supplementary-----

Deputy Pearse Doherty: There are four parts I need to ask you in this here so let's just focus on the question. Under your bank's own policies, exception policies had to come to the board in reports.

Mr. Michael Walsh: Absolutely.

Deputy Pearse Doherty: The Central Bank has found-----

Mr. Michael Walsh: No, sorry, the board was looking at every single loan above a certain level.

Deputy Pearse Doherty: Yes, and exceptions.

Mr. Michael Walsh: So the board was fully aware of what loans were actually being made.

Deputy Pearse Doherty: That's not the question that I'm asking you. In terms of exception policies, it says the Central Bank has found that INBS was required to provide certain reports. It's saying that between December 2005 and September 2008, the reports in exception to commercial policies ... these were one of the findings that was not happening. It said such reports would have given the board insight. So the question I'm asking you is did the board receive these reports in relation to the policies, the exception policies that were taking place within the bank?

Mr. Michael Walsh: But I've said to you ... the board was looking at every single loan. The board had full insight into what loans were actually being made and what they actually involved.

Deputy Pearse Doherty: So do you reject this finding of the Central Bank?

Mr. Michael Walsh: Absolutely.

Deputy Pearse Doherty: Absolutely. Okay. A-----

Mr. Michael Walsh: I mean the-----

Deputy Pearse Doherty: -----quarterly review of commercial lending ... again, within the policy of the bank, the board should have received a quarterly review of commercial lending for five quarters between 2005 and 2008. The review would have given the board information, among other items, on large exposures, sectoral and geographical profile and commercial loan books. Do you accept that in the five quarters between that period, that you did not receive, or the board did not receive reviews on commercial lending?

Mr. Michael Walsh: I mean, the quick answer is I can't actually confirm whether we did or we didn't because I don't remember what happened on a quarter-by-quarter basis.

Deputy Pearse Doherty: The results of the annual credit risk stress testing. This would have facilitated the board in accessing INBS ability to withstand potential loan losses.

Mr. Michael Walsh: Sorry, when you come to stress tests, the reality is there were stress tests done in 2006, there were stress tests done again in 2008. And the answer in relation to both of those stress tests is the society passed with flying colours. And the reason it did was because it had a very high level of capital and a very high level of absorption capability.

Deputy Pearse Doherty: Okay. The question wasn't that. The question was the ... again the point is that under the internal policies and procedures of Nationwide, the annual credit risk stress testing was required to be presented to the board. The question I had ... as a board member, as a senior member of the board, what were you doing to ensure that that happened, because they have found that this was not happening and this would have facilitated you, if it was happening, to assess better INBS's ability to withstand potential loan losses?

Chairman: Deputy, we do need a question to wrap up.

Deputy Pearse Doherty: The question is ... was ... do you dispute this or were you actually, do you accept this or were you actually receiving the credit risks stress testing annually, as was required?

Mr. Michael Walsh: You know, I mean, what I'm saying to you is that by definition, I cannot remember at this stage, you know, when we got stress tests and when we actually didn't get stress tests. I am equally aware of the fact there wasn't sufficient stress testing done but I'm also telling you that even if every stress test was actually being done on Central Bank guidelines or otherwise, the society would have passed with flying colours. There was a very detailed stress test done externally in 2008. There were internal stress tests done and on Central Bank guidelines in 2006. And in both cases, the society passed without any difficulty.

Chairman: Deputy, you're over time now.

Deputy Pearse Doherty: The last part in this here.

Chairman: Deputy, you should wrap up.

Deputy Pearse Doherty: The report on compliance with geographic concentration risk limits. Again, the Central Bank finds that these reports again in ... contrary to the policies of the institution weren't being provided to the board. Do you accept this finding or not?

Mr. Michael Walsh: No. I mean, the society was fully aware of where, you know, the loans were in terms of geographic-----

Deputy Pearse Doherty: The reports ... not being aware. Let's be clear in what we're talking about here. A report was required to be provided to the board of directors on compliance with geographic concentration risk limits. This wasn't about being aware of something, it was about a physical report being distributed to board members that the chair should ... obviously to ensure that the board members were fully aware, as the Central Bank have said, about the risks in terms of concentration, geographic risks and so on in terms of the commercial loan portfolio. Was there reports provided to the board as required within its internal policies and procedures?

Mr. Michael Walsh: I mean, the quick answer is, at this remove, I couldn't tell you. I think you're meeting the finance director later so you can ask him. However, having said that, I think every single person on the board was fully aware of where the society was concentrated. In Ireland it was concentrated-----

Chairman: Deputy, you're concluded. Just to finish, Mr. Walsh, and we're moving on.

Mr. Michael Walsh: It was concentrated in Dublin and Cork, and in England it was concentrated primarily around London and the south east.

Chairman: Thank you.

Deputy Pearse Doherty: To clarify, an earlier question-----

Chairman: Deputy, you have to wrap up. I can take it if you send it up to me as a supplementary towards the end, but I do have to bring your questioning to an end. Senator Sean Barrett.

Senator Sean D. Barrett: Thank you, Chairman, and welcome to our visitor this afternoon. Project Harmony - the report notes:

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

Was that an appropriate structure to have for an advanced institution which had a balance sheet of €16 billion at the end of 2007?

Mr. Michael Walsh: I mean, the quick answer ... yes, it was entirely appropriate. The society actually had a very simple model. You know, it wasn't, you know, a complicated business like, you know, the high street banks - the pillar banks, as we describe them today. It, you know, was, for all practical purposes, a small building society. It wasn't trying to offer complicated products. It was focused on a particular area where it had its expertise. You know, it didn't have a whole series of, kind of, treasury risk issues, which would have been, you know, potentially, kind of, an issue in some situations. You know, it was not trying to develop an esoteric set of products to market to its members. You know, its mortgages were completely plain vanilla. It was very straightforward and very simple. I think the point that KPMG are actually making there, which is a completely valid point, is if the buyer who took over the society wanted to actually build, you know, the equivalent of, you know, a high street bank or a pillar bank, then they would obviously have to change the systems to cater for that. So, while the systems were appropriate for the society, you know, it was clearly recognised that, in the context of an organisation where somebody was going to develop the retail side as opposed to the commercial side, that investment would be required both in the systems and, indeed, in the branch system.

Senator Sean D. Barrett: We've had witnesses and with ... in documents about who saw this happening and you said that many people didn't. Well, a number of your colleagues did. Professor Niamh Brennan saw it happening from the board of the Ulster Bank, that there was a property crisis going to happen in Ireland. Morgan Kelly, of course, most famously. Have you discussed with either of them their ability to see that we would end up investigating here a €64 billion bill to the Irish Exchequer?

Mr. Michael Walsh: Well, you know, Professor Brennan I know well, Professor Kelly I don't know. Sorry, but at the time, I think, when Professor Kelly, you know, published his report or his paper, which would have been I think, was it the May-June of 2007 - I can't remember the precise date - you know, I think there would have been a phenomenal amount of comment in relation to his views at the time. And, you know, his views were a legitimate view, I think, in relation to, kind of, house prices and what might actually happen but I think it is fair to say that, you know, he didn't foresee the depth of the problem or the speed of the problem. Obviously, you know, in the context of Professor Brennan, you know, a very capable individual, but I mean I think the reality is that, you know, as I've said earlier, the rate of growth and the continuing growth in property and property lending was actually higher in-----

Chairman: Sorry, Mr. Walsh, we will be back to you in a moment.

Mr. Michael Walsh: No problem. Sorry, I mean, I think, you know, Professor Brennan will actually tell you, you know, they didn't anticipate, you know, the, kind of, downturn any more than we did. Whatever about her own view, certainly, the reality is, as I think you know, over that period of time, you know, Ulster Bank would have actually grown at a higher rate, a substantially higher rate, than the society and indeed, you know, at a faster rate than EBS and a faster rate than ILP.

Senator Sean D. Barrett: And David McWilliams ... in that category also?

Mr. Michael Walsh: Absolutely, I mean, I gave credit to Mr. McWilliams earlier. I think he was the one person who, at an early stage, saw the problems. Obviously, I regret at this stage that I didn't spend more time, you know, kind of, listening to his views or thinking about his views but, you know, the practical reality is I didn't.

Senator Sean D. Barrett: You mentioned the stress tests. Were they adequate at all to measure loan-to-value, loan-to-deposit, the massive appreciation of property prices in Ireland in excess of any other jurisdiction that *The Economist* was publishing the data on? Were we measuring the wrong thing in stress tests?

Mr. Michael Walsh: I think collectively we actually were, in a sense ... not that we were measuring the wrong thing but we were measuring the wrong magnitude. I mean, it's very clear, as I said to you earlier, the society should have had an absorption capability of about a 45% or 46% decline in property values. Unfortunately, the actual decline in many areas was higher than that.

Senator Sean D. Barrett: You mentioned your contacts with the regulator at some stages on a daily basis, but the volumes we have show, for instance, in Vol. 2, 56 recommendations from the regulator to INBS on 20 November 2006, seven more actions required as late as 7 March 2008 and right through the decade - I think it's in Honohan as well - the INBS seemed to be the most difficult of the financial institutions in dealing with the regulator. There are mountains of correspondence about how unsatisfactory they found things.

Mr. Michael Walsh: Yes, and, to be honest, I have found some of that difficult to relate to, obviously because as I said to you earlier, I had pretty continuous contact with the regulator - obviously more continuous at different stages than others - and there were issues that were there and all of the issues that were brought to the attention of the board, directly or indirectly, in relation to the regulator were actually, you know, set out in a work programme and actually addressed to.

Senator Sean D. Barrett: Do you think the society was solvent on the night of the guarantee?

Mr. Michael Walsh: I absolutely do and I think, you know, the reality is there is a very clear e-mail which is, as I say, the one that went from - or was forwarded from - Mr. McDonagh to the Department of Finance which sets out very clearly that the society has €3 billion of cash, that the outflows at that point in time were €30 million and that in the context of where they were that night, the society ... there may be a need, I think, in his words - I have them somewhere there in the e-mail - there may be a need to have a contingency plan for December 2008 but equally well, it may not be necessary.

Senator Sean D. Barrett: The final one. Did you have secret discussions with ILP - it is mentioned in the *Fingers* book - unbeknown to Mr. Fingleton, about a sale to ILP?

Mr. Michael Walsh: I think it's probably fair to say that I didn't have secret discussions with anybody without the knowledge of the board and the board would have included, obviously, Mr. Fingleton. In fact, I think it was actually Minister Lenihan - to be honest I can't remember whether it was Minister Lenihan or the regulator - would have actually encouraged all of the institutions to look at all possible combinations to see what could be done.

Senator Sean D. Barrett: Thank you very much. Thank you, Chairman.

Chairman: I have had a request for a short comfort break. We'll do that for five minutes, returning just before 4.55 p.m. if that is agreed. Is that agreed? Agreed. Just in doing so, I would just remind the witness that once he begins giving evidence he should not confer with any person other than his legal team in relation to the evidence or matters that are being discussed before the committee. With that in mind, I suspend the meeting now until 4.55 p.m. and remind the witness that he is still under oath until we resume. Is that agreed? Agreed.

Sitting suspended at 4.48 p.m. and resumed at 5.05 p.m.

Chairman: We're going back into public session. Sorry for the delay, Mr. Walsh. In doing so, I'll now ask Deputy Eoghan Murphy. Deputy, seven minutes.

Deputy Eoghan Murphy: Thank you, Chairman, and thank you, Mr. Walsh. You're very welcome. Did you see Brendan McDonagh's evidence to the committee?

Mr. Michael Walsh: I saw some of it; I wouldn't have seen it all.

Deputy Eoghan Murphy: Because he said that his view on the night of the guarantee was that the society was insolvent - "a broken institution" he called it. So what did you make of that or, if this is the first time you are hearing it, what do you make of that?

Mr. Michael Walsh: I mean, to be blunt about it, I'm absolutely astonished by his evidence, or at least by that statement, because, you know, it was he who actually sent the e-mail to Mr. Beausang in the Department of Finance, effectively, that day, saying the society had €3 billion and that the outflow from the society at that stage was €30 million, so a multiple, because the reality is that once the guarantee level had been increased to €100,000, the outflow from the society in terms of deposits actually went down dramatically. I think in the earlier part, before that increase, there was substantial outflows which would have caused serious concerns in the middle of September. Once, I think it was 20 September that the increase in the guarantee went to €100,000 that largely stopped. As I said, the specific e-mail, which, as I say, was sent from McDonagh to Beausang, says the society has €3 billion, the outflows are €30 million. They are, for all practical purposes, in no immediate need of cash. They may have a need in December and they may not. Now, if somebody is saying they have all the cash they actually require, there is no short-term problem, they have potentially an issue coming up in December but we don't know at this point in time, they may or they may not, I would have said it was pretty much irreconcilable for that and an insolvent situation to be put together. I just can't rationalise it, to be honest.

Deputy Eoghan Murphy: Okay, just to clarify that, essentially you think that the interaction that you had with the NTMA at the time contradicts the evidence then that Mr. McDonagh gave us in terms of his view at the time.

Mr. Michael Walsh: Sorry, I think I left it up in my bag but, I mean, there is a very specific e-mail which says, you know, and, as I say, this is going from McDonagh to Beausang, saying, "The society has €3 billion in cash and its outflow is €30 million and it has sufficient cash at the moment. We may need to consider a contingency plan for December". So, on any basis, at that point in time, it was absolutely solvent.

Deputy Eoghan Murphy: Okay, thank you. If I could then move on to the Project Harmony report. From 2003 to 2006 the society's loan book trebles-----

Chairman: On that note, I'll just ask if Mr. Walsh, at the end of today's proceedings, could furnish the referenced e-mail to the committee.

Mr. Michael Walsh: Sure.

Chairman: Thank you.

Deputy Eoghan Murphy: The loan book trebles from €3.4 billion to €10.7 billion, driven mainly by commercial lending, as you know.

Mr. Michael Walsh: Yes.

Deputy Eoghan Murphy: Yes. Given the facts in the Harmony report and what we have seen about there not being a highly developed approach to risk assessment or a sophisticated information system, I mean, is that growth rate prudent or sustainable?

Mr. Michael Walsh: I think whether it is prudent or sustainable, at the end of the day, are two separate questions. I mean, no loans were actually made which the society didn't deem were actually prudent. Would it have been sustainable going forward? I think the reality is almost certainly no and we all know, with the benefit of hindsight, it wouldn't have been. Clearly, those people who were interested in actually buying the society at the time and I think, you know, you have the names of a number of them, all believed the society was actually a good model and, you know, had good potential.

Deputy Eoghan Murphy: "Interested in buying the society" but let's look at this idea of prudence. I mean, if they're saying that you do not have a highly developed approach to risk assessment, how can you judge the risk or a prudent decision?

Mr. Michael Walsh: Sorry, how do you define a "highly developed approach" in the context of the type of business the society was actually doing? I mean, the society actually had a very simple business. It didn't need overly sophisticated systems or overly sophisticated tools.

Deputy Eoghan Murphy: Why would the report note this then? Why would this be picked out an issue?

Mr. Michael Walsh: Because I think, very clearly, because in the event that the society, or whoever acquired the society, was going to diversify into other areas, they would have to consider the investment. I mean, the purpose of these reports is to say, "Look, this is what an organisation actually looks like. If you're coming in to buy it, this is what we're representing to you. So, if you're going to come in and buy it, to do what it's doing at the moment, that's one thing; if you're coming in to buy it to do something different, then you're going to have to make changes."

Deputy Eoghan Murphy: Okay. So the relevance of those points, as in Project Harmony, relate to if the buyer decides to diversify out of what you see as a very simple banking function up to that point in time.

Mr. Michael Walsh: Yes, but even KPMG, I think in 2008, described, you know, the operation - sorry, the society - as a very simple business. It was all in the one sort of place, you know, very straightforward. So, yes, it was straightforward and simple. The reality is it was concentrated in property and whether it had been residential property or construction or commercial, you'd have had the exact same writedowns if you decided to mark to market everything in 2009.

Deputy Eoghan Murphy: Okay. The final area I want to look at in the limited time I have is coming back to the regulator. Because one of the titles ... subheadings in your written statement is "Lost Opportunity". You talk about the society reversing the engines before any other institution. So, when you decided to make that ... when you made that decision in December 2007 and the regulator at the time was doing the five by five, large exposure-large debtor connections in the individual institutions ... so it had some awareness of the liquidity crisis that was developing in Irish banks. But you brought this to the regulator and said, "We're making this decision out of prudence because we're not sure about the next year for Irish banking." And then what happened on the side of the regulator?

Mr. Michael Walsh: I would have said, "Very little." Sorry, I mean, clearly there was correspondence during 2008, and to a degree, I suppose, I always wondered whether it was an element of, you know, shall we say, kind of moving the deck chairs. You know, there was a problem that was actually systemic across the country. I mean, it should have been obvious for over a year, but it was a systemic problem. It wasn't a problem with one institution or some small number of institutions. I mean, those 2006 stress tests were saying 88%. So, by definition, all the pillar banks had to be gone at that point in time. It should have been an extraordinarily worrying situation for any regulator or central bank. Now, very clearly, you know, liquidity was an issue that they were focusing on. I mean, I think we've actually heard that the domestic standing group, you know, was putting in place contingency plans from the beginning of, I think, 2008.

But I kind of can't actually reconcile, you know ... I mean, I went back to the regulator, as you know, in May. There was other correspondence in between but primarily in May. And I said, "Look, you've got to take a leadership role." You know, you had AIB there and with due respects to AIB, they were actually sort of saying, "We can't stop lending because, you know, we'd lose market share." The society was taking a decision, "Look, it may mean we lose market share but this is the right thing to actually do." Now, from the regulator's point of view, they should've seen that if it was the right thing for us to do, it should've been right across the system and yet, you know, you find, I think, there was €3 billion in property and construction lending by AIB during 2008. It just ... I mean, I don't ... and, sorry, I need to be very clear: I do not believe that all of the damage or anything close to all of the damage could've been stopped at that stage. We were-----

Chairman: Back to you, Deputy.

Mr. Michael Walsh: Sorry. We were too .... you know, at that point in time, you could have mitigated, and I don't even know what you could have done to really kind of sort it out. But the problem was if you really think about it, you get to September 2008, you've employed Merrill Lynch a week before the night of the guarantee and you're asking people who've been there for a week to advise you on the future of the country. We should've never got to that situation.

Deputy Eoghan Murphy: Thank you. It's just then my final question. So, in your view, did the Financial Regulator ever take that leadership role?

Mr. Michael Walsh: Sorry, I think it's very clear. I mean, you know, you have my written statement in terms of my direct quotes as to what they needed to do. Because from the society's point of view, I mean, it actually was a decision we had taken. We recognised the implications of it but it was also clear that there were competitive pressures still going on around the place. People were trying to actually suggest there was instability around and they were doing that obviously for competitive advantage because if money left the society, it was going to go to one of the larger institutions, but ... or, indeed, Northern Rock, which was actually seen as guaranteed by the UK Government at the time. But the only way you were going to stamp that out or really get ahead of the curve was actually by the regulator - or not necessarily the regulator; the regulator, the Central Bank, the Department of Finance, whoever - actually taking a real role in terms of trying to deal with the crisis.

Deputy Eoghan Murphy: Thank you, Mr. Walsh. Thank you, Chair.

Chairman: Thank you. Senator Michael D'Arcy.

Senator Michael D'Arcy: Thank you, Chairman. Mr. Walsh, you are welcome. Did you watch Mr. Fingleton's evidence?

Mr. Michael Walsh: Some of it.

Senator Michael D'Arcy: Some of it. I would think you got sight of his opening statement.

Mr. Michael Walsh: Yes, yes.

Senator Michael D'Arcy: Mr. Fingleton said that no one bank could prevent the bubble. Did INBS and Anglo create the bubble?

Mr. Michael Walsh: Absolutely not. Certainly ... I can't answer that question in the context of Anglo but in the context of the society, it had no role in creating the bubble.

Senator Michael D'Arcy: None at all?

Mr. Michael Walsh: None at all.

Senator Michael D'Arcy: It didn't participate in the bubble at all.

Mr. Michael Walsh: Sorry, "participation in" - you know, anybody who was involved in property, by definition, you know, was in some way participating in the bubble. The question you asked was did it create the bubble-----

Senator Michael D'Arcy: Create the bubble.

Mr. Michael Walsh: -----and, you know, there was nobody I would say actually sort of saying "Well, there's this minnow over here we have to try and follow them". You know, clearly, the performance of Anglo, which was very public, very successful, but was actually a very different model to the society. I mean, Anglo was entirely focused on commercial lending from day one. It had no natural deposit base. It was highly dependent on, you know, both the commercial deposit base, it was highly dependent on the interbank market, it was highly dependent on corporate bond issues. So, you know, the society was in a much different situation. It was much more liquid and had much less gearing. I mean, the gearing ratio in Anglo is over twice the level it was in the society. When I talk about gearing, I'm talk about loans to actual capital. So, you know, they were very different. But to go back to your original question is, you know, by definition, no one institution can create a bubble. I think, you know, some institutions have said "Well, we were out there playing follow the leader, we weren't thinking for ourselves". Certainly, nobody was playing follow the leader with us. The society was, as I say, the minnow. Over the period, you know ... and the worst of the property crisis obviously was in Ireland ... over the period 2003-2008, I think the society lent a total of about €2.5 billion into the Irish market. You know, as I said to you earlier, in 2008 alone AIB actually lent more than that into property and construction.

Senator Michael D'Arcy: But, Mr. Walsh, all of the institutions were concerned about market share and not just you but the others have all said that they were prepared to fight for their share of the market. And it also seems to me that, over that period, that it wasn't just organic - it didn't just start and be created - that there was a plan in place going back to demographics, and Mr. Fingleton touched upon it earlier, of the late '70s ... that children born in the late '70s would require loans and housing from the noughties onwards. Your ... the institution that you chaired was ... cost the most in terms of the money that was State required and you're saying to me that no one institution can create a bubble.

Mr. Michael Walsh: Well, sorry, absolutely, I'm saying no one institution created a bubble. I think the reality is, you know, if you look at market shares, you know, first of all in total market share, obviously, you know, basically Anglo increased its market share and AIB and Bank of Ireland decreased. But if you were to actually look at it in terms of ... instead of kind of the total lending, if you were to look at it in terms of, kind of, property and construction, you'll find that, you know, the two big lenders into property and construction in this country were AIB and Anglo. Bank of Ireland is less than half of either of those.

Senator Michael D'Arcy: If I could move on please, on page 8 of your opening statement you made what I find an astonishing statement, Mr. Walsh. At the top of the page, first paragraph, you know, you speak about the Central Bank-Financial Regulator and you say:

> Contrary to some of the evidence that has been given to [the] Inquiry the [Central Bank-Financial Regulator] was far from toothless and where it had an issue, it was my experience that it had no hesitation in using its powers, albeit not always, in my view, in a sensible fashion. One such instance is when the [Central Bank-Financial Regulator] approved a reduction in the Society's deposit ratio in June ['07] which would have facilitated substantial lending growth, had the Society not subsequently decided on its own initiative to curtail lending.

Is that not your job and the chair of the board and the executive of the institution in question, INBS, to curtail lending in a prudent manner?

Mr. Michael Walsh: It is absolutely the job of the board to make that decision.

Senator Michael D'Arcy: Are you suggesting there that the Financial Regulator and the Central Bank should have put in those deposit ratios to force you to curtail lending?

Mr. Michael Walsh: Well, no, what I'm actually saying is, first of all, and to be absolutely clear, you're perfectly right; it is absolutely the board's decision as to what it should actually do-----

Senator Michael D'Arcy: With lending?

Mr. Michael Walsh: Sorry?

Senator Michael D'Arcy: With lending?

Mr. Michael Walsh: With lending or, indeed, with the business. I mean, subject to, obviously, kind of, appropriate ratios, prudence, etc.

Senator Michael D'Arcy: Well, I ... I suppose what I'm trying to pursue here-----

Mr. Michael Walsh: No. Sorry, I understand what you are trying to pursue, but I want to actually give you ... for the balanced answer. You know, if Central Bank or the Financial Regulator, in terms of looking at the total market, was of the view that the market was becoming unstable, then it should not have done anything which would have facilitated additional lending by any institution or by all of the institutions. Second thing I am saying to you is if the Financial Regulator or, indeed, the Central Bank had serious concerns in relation to the lending, lending practices or the governance, then instead of actually approving something which would facilitate additional lending, they should have actually rejected it. So, what I'm saying to you is, two actions: if they believed there was instability in the market they should absolutely not have actually allowed it and, secondly, if they believed the society wasn't being properly run, if its lending policies weren't sensible or if its lending decisions weren't sensible, then they should not have done anything to facilitate growth. They should have been saying the opposite.

Senator Michael D'Arcy: Okay, but can you just clarify for me, please, who has primary responsibility in relation to lending? Who should have curtailed lending?

Mr. Michael Walsh: Sorry, as I have already said, primary responsibility, obviously lies with the board, and the board was the group that took the decision.

Senator Michael D'Arcy: Okay.

Mr. Michael Walsh: Having taken the decision, it went to the regulator and said, "Look, we've taken a decision and this is why we have actually taken it". But we were taking it because of our perception of what the domestic and global banking market was like.

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

Chairman: Watch your time there, Senator.

Senator Michael D'Arcy: Yes, just ... just a bit of time there, please, Chairman. Page 19, you state, B5, paragraph 2, "The primary objective of the Society from the day I became Non-Executive Chairman was a successful sale of the Society to a larger institution." Now, Mr. Fingleton, in previous evidence, said that that wasn't the primary objective of the institution. Could you tell me if the sale had gone through during the tenure ... your tenure as chairman, would you have benefited? Would the board have benefited financially from the sale of the institution?

Mr. Michael Walsh: No. I mean ... very definitely, there was always a kind of a separation. You had, kind of, executive and non-executive directors and it would have been inappropriate for the non-executive directors to be beneficiaries. Management, I want to say management - the two executive directors, you know - and all of the management within the society would have expected to benefit and that would have been appropriate.

Senator Michael D'Arcy: Okay, could you bring up Vol 1, page 68 and 69, in relation to the Deloitte commercial and residential lending review, May '08, please? The society reviewed its commercial and residential lending policies and I am speaking about the change of the policy, Mr. Walsh, in relation to the credit committee approval for all loans over €1 million were presented to the board. Subsequent to the change, the board's approval was no longer required. Why was this decision made and who initiated the proposal to change that decision, to change that process, in December '07?

Mr. Michael Walsh: The initiative to change it was actually something that came from the executive, obviously.

Senator Michael D'Arcy: Sorry - the executive?

Mr. Michael Walsh: The executive. The executive director, sorry.

Senator Michael D'Arcy: Not ... not the board? I think ... if I ... I think that was ... that wasn't said this morning.

Mr. Michael Walsh: Well, all that I can say is my recollection-----

Senator Michael D'Arcy: Okay.

Mr. Michael Walsh: We are dealing with ... whatever ... eight-nine years ago. But my recollection is it was-----

Senator Michael D'Arcy: But sorry, Mr. Walsh, it's a very important-----

Mr. Michael Walsh: No, sorry, I understand that.

Chairman: Deputy.

Senator Michael D'Arcy: Okay.

Mr. Michael Walsh: Sorry, I understand it is important and, you know, I think we should actually, deal with it----

Senator Michael D'Arcy: Yes, please.

Mr. Michael Walsh: -----but, I mean, I have to say my recollection is it was a proposal that came from the executive.

Senator Michael D'Arcy: By the executive.

Mr. Michael Walsh: Yes. Now, you know-----

Senator Michael D'Arcy: Was it Mr. Fingleton?

Mr. Michael Walsh: I actually believe it was the finance director who put the proposal to the board.

Senator Michael D'Arcy: Mr.-----

Mr. Michael Walsh: Mr. Purcell.

Senator Michael D'Arcy: Purcell. Okay.

Mr. Michael Walsh: Because it would have been typically his role as part of being finance director to actually put the draft of policies together.

Senator Michael D'Arcy: And can you clarify for me, please, would he have put that without the knowledge of Mr. Fingleton?

Mr. Michael Walsh: I ... I mean ... truth is you'd have to ask the two of them. I would be ... well, I'll answer-----

Senator Michael D'Arcy: I have asked him and I will ask Mr. Purcell afterwards and I am asking you would it be likely Mr. Purcell would bring that to the board without the knowledge of Mr. Fingleton?

Mr. Michael Walsh: Well, I mean, personally I'd be surprised, but I don't actually know.

Senator Michael D'Arcy: Okay. You'd be surprised.

Mr. Michael Walsh: But, you know, I think ... sorry, just maybe to put it in context, there is a danger always, in particular to that one item, that people kind of misunderstand. What the society had actually being doing was requiring that the board actually take every single decision. When I say, take every single decision ... probably a slight exaggeration, but, nonetheless, there was a view around at that point in time that actually that wasn't appropriate and that really what boards should be doing is being notified. So, it is not that they are not aware of what is actually happening but that they don't actually make the decisions. Now at that point in time I think if you looked at most other institutions, boards were actually being notified above certain thresholds but boards weren't actually taking decisions and that was the view that was taken as being appropriate.

Chairman: Wrap up now, Senator.

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

Mr. Michael Walsh: I suppose the truth is I don't actually believe that the criteria or the decision making actually changed over the time period. Every single loan that was made, that certainly any one that I was aware of, was always made on the basis of proper consideration. We had a very simple view. We were there, we were trying to make money which would effectively be there for the benefit of members of the society, to strengthen the society and keep it, you know, developing.

Chairman: Okay, thank you very much, Senator. Deputy Kieran O'Donnell, seven minutes, Deputy.

Deputy Kieran O'Donnell: Mr. Walsh, Vol. 2, page 57 and 66, which are the credit committee's ... there were reviews done by the internal audit ... and it speaks about two reviews, one in July and one in December ... sorry, in January, respectively, two six month periods in '08.

Mr. Michael Walsh: Yes.

Deputy Kieran O'Donnell: The committee is ... the conclusion really that arises is that the committee is not meeting with enough frequency to fulfil all its duties. We had Mr. Fingleton in this morning and he said he had the delegated powers from the board that he could approve and grant loans without prior approval of the board. Is that correct?

Mr. Michael Walsh: There was a situation where ... and I think it is actually referenced in the Project Harmony, if there were exceptional circumstances and a decision needed to be made shall we say, kind of, some weeks before a board meeting, as opposed to, you know, right before, then he had discretion provided, he had, I think, sign of from ... I can't remember was it one or two other people.

Deputy Kieran O'Donnell: How frequently did this happen, Mr. Walsh?

Mr. Michael Walsh: Well, certainly, as far as I am aware, very seldom. You know, in the Project Harmony, it is actually stated as being very rare.

Deputy Kieran O'Donnell: You were chair of the board for nearly a ten-year period so during your tenure?

Mr. Michael Walsh: During my tenure I don't think I was aware of any time where shall we say, a decision had been made and money had been advanced before it came to the board.

Deputy Kieran O'Donnell: And do you believe that you were independent of the board ... independent of the CEO ... or was the board just rubber-stamping his decisions and loans?

Mr. Michael Walsh: Personally, I would say I was completely independent. I was very conscious of the need for independence. I never borrowed a penny from the society. I never was dependent on the remuneration in any fashion, I wasn't part of the social circle of either Mr. Fingleton or, indeed, any of the other non-executive directors so, you know, I certainly preserved my independence. I believe the other non-executive directors preserved their independence.

Deputy Kieran O'Donnell: Did you have a discomfort with the fact that you'd Mr. David

Brody ... Brophy ... was brought onto the board in '05 and in 2007 he became chief operations officer with Ballymore Properties which were the single biggest client that Irish Nationwide had ... that he remained on as a director? Did you have a concern with conflict of interest in that?

Mr. Michael Walsh: I mean, let's be absolutely clear. Mr. Brophy joined, as you say, or was approved to join the board in, I think, probably October or November of 2005. He was an excellent appointment with great experience in Smurfit. In, whatever it was, August 2007 he was invited ... I gather he'd been introduced to Ballymore by Dr. Smurfit and he was invited to become ... I am not sure whether it was chief executive or COO of Ballymore. The board was fully conscious of its relationship with Ballymore and the potential conflicts of interest that that could give rise to. So the board actually met without Mr. Brophy actually being present and discussed what actions had to be taken to ensure that, you know, that conflict of interest didn't emerge. The board resolved that, you know ... I'm sorry, I should say this was cleared with the regulator at the time but the board actually resolved that obviously he shouldn't be present for or participate in any lending decisions that related to Ballymore and, indeed, where there was potentially a competitive element, that he should not be party to anything. When I determined in December of 2007, some three months later, that the society needed to reverse directions, I got absolute and complete support from Mr. Brophy, despite the fact that that might not have been in the interests of Ballymore.

Deputy Kieran O'Donnell: Can I go back? Your own background, Mr. Walsh ... how did it come about that you were invited to become the chair of the board of Irish Nationwide Building Society in 2001?

Mr. Michael Walsh: I suppose, you know, I think, as a number of people have alluded to, you know, for better or worse, I was, kind of, an academic who was interested in markets and market structures, you know, back in-----

Deputy Kieran O'Donnell: And were you working in academia at the time?

Mr. Michael Walsh: No, no, sorry. I need to give you a kind of brief bit of history to be honest. So, you know, what actually happened then, I think probably one of the last, you know, or almost a transition piece of work that I had actually done, having looked at the, kind of, financial markets and where they were actually going was, I suppose, I would have had a view that, you know, the building societies were effectively going to get into difficulty, you know, because effectively from, roughly speaking, the mid-'80s, the main banks were coming into the traditional mortgage market. So I would've done a lot of work for the building societies, in total, in advance of the 1989 legislation. And then, you know, there was consideration given, I suppose, in '92 or '93 to possibly kind of merging the society with some larger entity, which ultimately was, kind of, one of the GE subsidiaries, though not at the time. And, you know, I did a paper for the board of Irish Nationwide. At the time I took a view. I would have had a very good relationship with the Central Bank at that stage. You know, the Governor of the Central Bank, Maurice O'Connell, was somebody that I would've known well, I would've worked closely with him during the time that I was advising the ... really the Department of Finance, in relation to the sale of Irish Life or, more precisely, the flotation of Irish Life. So, you know, I would've-----

Deputy Kieran O'Donnell: And what were the circumstances that you came about? What post were you in? What was your job prior-----

Mr. Michael Walsh: Oh, I'm sorry.

Deputy Kieran O'Donnell: -----to going onto the board of ... becoming chair of Irish Nationwide?

Mr. Michael Walsh: I mean, basically I had been, you know, through, kind of, well really from, whatever, kind of, 1986 on, when I left I left academia, I'd been involved in various types of corporate finance advisory ... so, you know, mergers and acquisitions, sales of companies, etc.

Deputy Kieran O'Donnell: Who were you working with at the time?

Mr. Michael Walsh: I was working with NCB Stockbrokers or NCB Corporate Finance. Sorry, this was originally.

Deputy Kieran O'Donnell: And in 2001 who were you working with?

Mr. Michael Walsh: Well, I mean, basically, sorry, I've continued to work with Dermot Desmond in different aspects since, you know, 1986.

Deputy Kieran O'Donnell: And what were they ... just out of interest, what were the ... how did it arise that you were invited to become chair of the board?

Mr. Michael Walsh: I mean, I was approached by the board of Irish Nationwide.

Deputy Kieran O'Donnell: Were you approached by Mr. Fingleton?

Mr. Michael Walsh: I was approached by Mr. Fingleton.

Deputy Kieran O'Donnell: That was the CEO at the time.

Mr. Michael Walsh: That was the CEO at the time.

Deputy Kieran O'Donnell: To be ... and that was in 2001.

Mr. Michael Walsh: No, sorry, that would have been '95.

Deputy Kieran O'Donnell: So you went on the board in-----

Mr. Michael Walsh: Sorry, I became a non-executive director of the society in '95.

Deputy Kieran O'Donnell: So you were a non-executive director from 1995 until 2000.

Mr. Michael Walsh: 2001, yes.

Deputy Kieran O'Donnell: 2001. And how did you come about to become chair thereafter?

Mr. Michael Walsh: Well, basically the board collectively, you know, asked me to consider taking on the role.

Deputy Kieran O'Donnell: So did you come on the board in 1995 in terms of advance of demutualisation or was it demutualisation from becoming chair?

Mr. Michael Walsh: No. I would say ... well, sorry, I mean, I had believed, obviously, from, you know, kind of, the late '80s and the early '90s, that there was a need for the society actually to be sold into a larger institution. You know, I didn't actually go away from that view and, you know, potentially, I wouldn't be sure but, you know, that may have been part of the reason they invited me onto the board.

Deputy Kieran O'Donnell: And can I ... just two quick questions. What ... who would have been ... when ye were looking to demutualise ... two quick questions, why didn't you demutualise like other bodies where they demutualised, sorry, they went for the five-year period? Why did ye push so hard so that ye could demutualise overnight and who was the intended ... who would you have seen as your intended purchaser ... as a takeover ... to buy out Irish Nationwide Building Society at the time?

Mr. Michael Walsh: I mean, if I could separate the thing into, kind of, two components. You know, as I say, you know, the first time, you know, I got involved in doing a report for the society when I wasn't involved with it at all, you know, the proposed acquirer was effectively, you know, kind of the GE Woodchester-type grouping. And, indeed, you know, when ultimately, you know, the society became available for sale in 2007, you know, they became, you know, one of the potential buyers, you know, second time around. You know, obviously there were approaches over the years but the practical reality is that nothing could be done because of, you know, the legislation of the structure in the absence of the Central Bank or the regulator deciding to exercise its discretion. You know, I mean, my view was that ... pretty clear and it is on the record, you know, my view was that the legislation should have been implemented in 2001 or 2002; it wasn't. My view post that was, you know, look, if the legislation is not going to be passed for whatever reason then you - the Central Bank - have discretion here, we should move on and actually do it. And, I mean, I remember the discussions at the time. It was, kind of, "Look, we don't believe there is, you know, any particular problem with the society. We don't think there is any question of stability. We do not think there is any question. We would only use that if we felt there was a problem and, therefore, we want you to await for normal legislation."

To answer your other question, which is, why didn't you just go the, let us call it the Irish Permanent route, the reality is, and I think you'd have heard from Mr. McCarthy, you know, First Active went what I would describe as the Irish Permanent route and, you know, discovered that it really wasn't a viable model for all sorts of different reasons. In the context of the society, the society was even smaller than First Active, I mean, substantially smaller than First Active. My view is that if the society had gone out, it would not have really captured any sort of shareholder demand or shareholder interest and it would have been potentially destabilising so I would have thought it was an absolute mistake to actually go out as a small institution into the markets. I think the right thing ... sorry, I mean, if you did that, okay, you know, you'd be there, you're quoted in five years' time but, you know, the uncertainty that you are creating for that five-year vacuum, you know, doesn't make any sense at all from, you know, a direction point of view or otherwise.

Deputy Kieran O'Donnell: Two very quick questions.

Chairman: Deputy, wrap up please.

Deputy Kieran O'Donnell: Yes. The pension ... the €27.5 million pension fund of Mr. Fingleton. In 2007, where did the decision come about? Was that a proposal put forward by Mr. Fingleton to the board? Did ye consider it and why did you agree to allow it to be moved off-balance sheet and into the ... under the personal control of Mr. Fingleton?

Mr. Michael Walsh: First of all, I take it at a number of different levels because at the beginning of 2007, the society was expecting to actually complete its sale and one of the areas that is always problematic in any of these sales is valuation of pensions and pension liabilities. So here we had a situation where, you know, at the beginning of 2007, my recollection is that we got a proposal from the managing director, as was his right, to enable him to actually take, you know, the money from something that was directly on the balance sheet of the society or in a fund, as I say, noted on the balance sheet into an independently managed situation. From the society's point of view, it actually made complete sense. You know, if there was an actuarial liability there of whatever magnitude it happened to be then transferring, you know, the risks associated with that onto another individual made perfect sense. You know, I mean-----

Deputy Kieran O'Donnell: That's fine.

Just a very tiny question. You've a background in banking. You're a seasoned individual in terms of finance. You were 14 years on the board of Irish Nationwide Building Society. During your tenure as chairman of the board, the commercial loan book went from €3 billion up to nearly €9 billion - the commercial loan book alone. At the end, €5.4 billion of taxpayers' money ended up going into Irish Nationwide Building Society. Do you accept that it was the costliest bailout of any Irish financial institution since the foundation of the State?

Mr. Michael Walsh: I think, Deputy, there are a number of things I would dispute within that, you know, and let's park the model for a second.

Deputy Kieran O'Donnell: Do you dispute the €5.4 billion?

Mr. Michael Walsh: Sorry, absolutely. You know, I actually can't rationalise where some of the numbers have come from, I mean, I am not sure whose background is finance or accounting or whatever. But if I take the numbers of the society in very simple terms, you know, the gross loans from the society in the commercial area were about €8.7 billion.

Deputy Kieran O'Donnell: Billion, yes.

Mr. Michael Walsh: Billion, yes. The own funds in the society at the time were about €1.5 billion, which leaves you with €7.2 billion. That loan book was transferred to NAMA for €3.4 billion. So if you take those numbers, you are left with the maximum amount that the society could have cost, is €3.8 billion. Now any loss - and I should make this absolutely clear - any loss-----

Deputy Kieran O'Donnell: You're assuming that the mortgage residential loan book has made no loss.

Mr. Michael Walsh: Well, sorry, first of all, I should say, absolutely, I am making an approximate assumption on that, which, obviously, is not correct.

Deputy Kieran O'Donnell: Correct.

Mr. Michael Walsh: But there are also balancing factors. The deposit book was there; it was actually sold. There was a liquidity-----

Deputy Kieran O'Donnell: A deposit book does not bring about losses - profit or losses.

Mr. Michael Walsh: Sorry, it does bring about gains.

Deputy Kieran O'Donnell: Very little, but go on.

Mr. Michael Walsh: Well, sorry, that actually depends and it depends on what was actually transferred. Secondly, there was a liquidity management exercise done of approximately whatever, you know, €300 million. But, all that being said, whatever the number - and there was a number there and nobody doubts that - no number is actually acceptable. I think the other factor that you need to take into account - but, as I say, no number is acceptable - is what was actually realised subsequently in the context of, you know, the loans that were transferred across to NAMA. I don't know the answer to that; I can only surmise. But, you know, as I said to you before, you know, in 2010 in April, you know, the board confirmed that they had done a very detailed analysis and come up with a valuation. Less than six months later they effectively, you know, reduced the value of those ... or accepted a value for those loans of-----

Deputy Kieran O'Donnell: Finally, Mr. Walsh-----

Chairman: Deputy, you have to finish. I'm not bringing in any more after this.

Deputy Kieran O'Donnell: I will finish on this. The Department of Justice budget - this is an important point - the Department of Justice budget is €5 billion a year.

Chairman: Is this your question, Deputy?

Deputy Kieran O'Donnell: Yes. The question I want to ask is: what do you say to all the mortgage holders?

Chairman: That's it.

Deputy Kieran O'Donnell: No, but ultimately €5 billion ... you are disputing the €5 billion.

Mr. Michael Walsh: Sorry-----

Deputy Kieran O'Donnell: The taxpayer has borne that to date.

Mr. Michael Walsh: Sorry, Deputy, to be absolutely clear, I have said in absolutely unambiguous terms that not a penny is acceptable, right? I have deep regrets that I didn't foresee the problems in terms of the global markets, in terms of liquidity, coming at least a year earlier where we could have avoided any problems. But you asked me in terms of, you know, the size of the actual deficit, and I'm pointing out to you that under any reasonable assessment the deficit could not have been that high. So I do not know what accounting games are going on. You are all ... a number of you are accountants. You can actually go back through the thing, but I mean, the simple reality is there were two sets of loans on those books there. There were the loans that were transferred to NAMA and there was the residential book. There was nothing else that would cause risk.

Chairman: Thank you. Deputy John Paul Phelan.

Deputy John Paul Phelan: Thank you, Chairman. Good afternoon, Dr. Walsh. I have a long initial question. I would ask you to bear with me, maybe. It concerns a number of quotations from the booklets that you would have been provided with. The first one is from Vol. 2, page 93, the KPMG report on review of the effectiveness of the internal audit function, "The existing internal audit function is not best practice ... In particular it lacks the depth of experience necessary to challenge the areas of key risk which include Treasury and Commercial Lending."

And then in Vol. 1, at page 163, I think, there is a letter from the regulator. It says that "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." And then similar concerns are raised in a letter from the regulator in 2004. That is at Vol. 1, page 171, I think. The quote is, "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 also expressed concerns in 2007 echoing, I suppose, their earlier expressed concerns. Can you explain how in this period, which stretches over exclusively - it's five years when you would have been the chairman of Irish Nationwide - that no apparent success at least appears to have occurred in addressing the issues that were raised by your external auditor, KPMG, and the Financial Regulator with regard to the internal audit function of the building society?

Chairman: Mr. Walsh.

Mr. Michael Walsh: Thank you. I think, first of all, there were concerns about the internal audit, you know, going way back, which is why all of the non-executive directors actually participated in the audit committee. There was a letter, which is part of the books there, I think, on 9 December 2004, which actually specifically raises questions in relation to internal audit and actually requires that the society actually outsource the internal audit. What did the society do when it got that letter? Obviously, it reviewed it - reviewed it with the board, reviewed it with the executive, also reviewed it with KPMG. Based on the work that the society did with KPMG in 2005, the society actually developed a risk metrics, audit risk programme and also a, shall we say, decision matrix in terms of what work would be done internally and what work would actually be outsourced. I think the concern, you know, with Dr. O'Reilly in 2004 initially was that he was concerned that the individual that the society decided to appoint as the internal auditor didn't have enough background or experience, despite that fact that, I think, he had worked with PwC or Craigs or whatever it was in those days for about six years.

Deputy John Paul Phelan: My time is short, and I'm not trying to cut across you, but, in 2008, KPMG were still raising this concern. You referenced 2004 and actions that you said took place. They're in 2008, in their management, are raising more or less the same concerns about building up the experience in the internal audit function.

Mr. Michael Walsh: Sorry, is this 2008 or-----

Deputy John Paul Phelan: Well, 2004 was the first one. In 2005, actually the report by KPMG on the effectiveness of internal audit and in 2008 their management letter from KPMG, again on the internal audit department within the building society.

Mr. Michael Walsh: But I mean, to be absolutely clear, it was the society who actually got the internal audit review done in whatever it was, kind of, January or February of 2005, and it was KPMG who actually did that and KPMG worked with the society to determine what was the appropriate way forward. KPMG agreed certain things would be outsourced and certain things would be retained inside, and they took the view that the internal auditor at the time was somebody who was capable of actually doing the job and doing it very well. That discussion went on and, basically, from a situation where the regulator wanted everything outsourced, you know, the regulator ultimately agreed - and when I say "the regulator", Dr. O'Reilly agreed with the process and the way the society was carrying it forward.

Deputy John Paul Phelan: Then, how do you explain the 2008 management letter?

Mr. Michael Walsh: Absolutely. When you come to 2008, you'll see that there is actually a reversal of directions because the reversal of directions is, you know, "We want you to build more expertise internally." So, we started out with a situation where the regulator says, "Everything should go external," and then, we, as a board, say, "Well, we have to develop the team and the management; you know, we have to focus on the things-----"

Deputy John Paul Phelan: I don't think ... I think you're misrepresenting it slightly. I don't think they said that everything should go ... I mean, they were identifying a shortcoming which they felt could be addressed by an external solution more so than completely externalising it.

Mr. Michael Walsh: In 2004, sorry, they wanted a simple external contract and, in fact, I don't know whether it's in the documents there or not, but there is ... actually, that letter, effectively on, whatever it is, 9 December, and then there is another letter which comes from an individual in the regulator's office, I think about 10 January or 12 January, saying, "Has the society contracted out its internal function yet?" And, you know, needless to say, the society actually hadn't. The society was reviewing its response to Dr. O'Reilly's letter and doing it properly and professionally and coming up with what the society viewed as actually being appropriate. Now, I would have to go on and say that, you know, there is a lot of innuendo in some senses about the internal auditor. The internal auditor ... and, sorry, I don't mean from yourself, but just in the ether ... he was a very good individual who actually developed continuously over the years and, you know, as I said, there was a new board that came in for all practical purposes in early 2009. That internal auditor continued with the society as the head of internal audit for another, I think roughly, three years, until he decided to move to the UK.

Deputy John Paul Phelan: Can I ask, and this is my final question, I just want to reference that book again, Tom Lyons and Richard Curran, *Fingers: The Man who Brought down Irish Nationwide*, the prologue, page 11, there's one quote I want to put to you.

Chairman: Are you familiar with the book, Mr. Walsh?

Mr. Michael Walsh: No.

Chairman: Okay. He's not.

Deputy John Paul Phelan: Well, I'll put the quote to you anyway, as I think the quote is a general kind of ... I just want your comment on it. "It exposes for the first time the way in which Fingleton was allowed to operate at will around the board table of Irish Nationwide, despite the society being chaired by an eminent professor of banking and being regularly micro-managed by the state's banking watchdog." And we've seen, and others have referenced, letters from the regulator. Many might argue - and this is what I want to put to you - that you, effectively, you or your status as a leading academic in terms of banking, that it provided cover, if you like, for some practices that were identified by the regulator over a period of six or seven years, most of which you were chairman of the board of the bank, which identified serious corporate governance issues within the bank, which didn't appear over that six or seven period ever to have been successfully addressed. How would you respond?

Mr. Michael Walsh: I mean, first of all, obviously I don't accept the quote or the prologue or whatever, but if I'm trying to sell a book I'm going to write sensational things. If I actually look more realistically at things, you know, who did the regulator or the Central Bank or the Department of Finance choose to become the first chairman of the financial ombudsman's council? They took somebody who was actually the vice chairman of the society. Now, are you seriously trying to tell me that if the Central Bank or the regulator or the Department of Finance has serious concerns about the board or the governance within Irish Nationwide, that they would have appointed such a person as chairman?

Deputy John Paul Phelan: Sorry, we've identified, more than any other institution over the period that we're investigating, letters from the regulator, specifically the first point in most of them was corporate governance issues, particularly focused, in fairness, around the role of the chief executive or the managing director, whatever he was called at different times, not specifically the chairman, but I think the point you're making is inaccurate in that sense.

Mr. Michael Walsh: No, because if you actually-----

Chairman: No judgment. You can ask but just-----

Mr. Michael Walsh: Sorry, but if you were-----

Chairman: -----be mindful of being judgmental, Deputy.

Mr. Michael Walsh: If you were looking at what were they looking for in terms of corporate governance, they were looking for two things. They were looking for additional-----

Deputy John Paul Phelan: Membership.

Mr. Michael Walsh: -----non-executive directors.

Deputy John Paul Phelan: Yes.

Mr. Michael Walsh: And they were looking for, you know, what I would describe as a chief operating officer, right. In terms of the non-executive directors, quite frankly, the conduct of the Central Bank and the regulator made it virtually impossible to attract people. It was only in, you know, kind of 2008, really, that it was possible because sort of game playing that had been going on at the annual general meeting for years, which the Central Bank could have cut out, decided not to cut out, made it ridiculously difficult to actually get people to join the board. I mean, who ... I mean, you're all used to elections, but the reality is within the business community, why would I put my name or reputation on the line to actually go into what was effectively a complete bunfight at an annual general meeting in terms of who would actually get elected? I mean if you go back and look at the conduct of those meetings, what was actually being required to be proposed, I mean, basically some of the proposals that were being required to be considered were to actually loosen lending standards.

Deputy John Paul Phelan: And what about the second half of their concerns around the chief executive-----

Mr. Michael Walsh: The second half of their concerns. You know, obviously, you know, we had sought to appoint what I'll describe as a chief operating officer in kind of late-2001 and I brought him in ... when I say "I", you know, the society had actually brought him in on the basis of the fact that, you know, "The society is likely to be sold, you know, in the next year because we're expecting the legislation, so we're going to take you on and actually give you a kind of a contract that protects you."

Unfortunately, for many reasons we probably don't need to go into here but that's a decision for yourselves, that appointment didn't actually work out. Ultimately, there were requirements being imposed which the board couldn't accept. Consequently, the board had to decide then "How do we go forward?" And there were two ways to go forward. One was to actually try to strengthen the management team around in terms of depth or, two, was to try and actually generate a new focal point. My view at the time was you would ideally like to have got both. On the other hand, you cannot impose a single individual into an organisation and consequently, given that you can't impose, you're better off actually building the management team, or the engine room of the place.

Deputy John Paul Phelan: Well, can you bring-----

Chairman: Thank you, Deputy.

Deputy John Paul Phelan: Would you be able to say what those requirements ... you said there were ... you didn't want to get into too much detail. What were the requirements that proved a stumbling block?

Mr. Michael Walsh: I'm not sure ... sorry, because in some ways-----

Deputy John Paul Phelan: Sorry, I don't-----

Mr. Michael Walsh: -----the behaviour of the individual was not behaviour that I would have found appropriate.

Deputy John Paul Phelan: Sorry, I didn't realise what you were ... that is fair enough.

Mr. Michael Walsh: Sorry, Chairman-----

Chairman: Do you need a break?

Mr. Michael Walsh: No. I just ... "appropriate" is a terrible word to use because that has all sorts of connotations. May I completely withdraw that?

Chairman: Okay.

Mr. Michael Walsh: I was looking for what I would describe as kind of control systems that no board could accept.

Chairman: Okay. Thank you very much. Deputy Michael McGrath.

Deputy Michael McGrath: Mr. Walsh, you are very welcome. Can I start by asking you about KPMG's annual statutory duty confirmation letters to the Financial Regulator for each of the years 2004 to 2007, inclusive? And they are in the booklets in Vol 1. And they note instances of breaches and errors in each of the sectoral returns, prudential returns and large exposures reports made by INBS to the regulator. Can I ask why, in your opinion, did these breaches occur and these errors? In your view, in view of the fact that the breaches occurred repeatedly over a number of years, were they indicative of systemic weaknesses in the control and reporting environment within INBS?

Mr. Michael Walsh: First of all, I think from the board's point of view it was a matter of extreme frustration that every single year there were issues that arose in terms of the reporting. And the board was clearly never happy with that. Equally well the board revisited that pretty much on an annual basis, particularly in relation to the LEx column - sorry, not the LEx column, the LEx report, sorry - because, you know, it was something that was obviously very important.

And consequently there were new systems put in place, new control systems put in place. I would have to say that I would have thought round 2006 that we were getting the issue under control. But the reality is that a lot of them re-arose again in 2007, and again that from a board point of view was clearly unacceptable.

Now, having said all that, it was the society who actually identified each of the issues. And I suspect it was a mixture of the society and the regulator because there seemed to be - obviously it was an executive function, I wasn't close to it - but it seemed to be pretty much kind of continuous interaction between the society and the regulator in relation to that. But I think every year, I mean, what gave me comfort, as a board member, a member of the audit committee or the chairman, was the fact that every year KPMG confirmed to the board that the society had already identified the issues, had already reported them to the regulator.

Deputy Michael McGrath: Sure, but you accepted that there were repeated regulatory breaches, which the auditor-----

Mr. Michael Walsh: I accept-----

Deputy Michael McGrath: -----had to report.

Mr. Michael Walsh: Sorry, whether they were regulatory breaches or not, I am not sure, but certainly there were errors in those reports. They shouldn't have occurred; they did occur. They were of various magnitudes and KPMG felt at the time ... they were of the view that they should actually report them. I am not sure from some discussion I had with a KPMG partner whether all organisations did the same thing where they had already identified and reported them to the regulator.

Deputy Michael McGrath: Okay.

Mr. Michael Walsh: But KPMG felt they had a duty and obviously we were completely supportive of them undertaking that duty.

Deputy Michael McGrath: Okay. Earlier today Senator O'Keeffe raised with you the Central Bank investigation which concluded in just July of this year. You didn't really engage in respect of that report because you said you weren't interviewed. Is that right? You weren't ... your views were not sought.

Mr. Michael Walsh: I frankly find it extraordinary that you can have an organisation who admits ... or which admits to, you know, a pile of issues between a period of 2004 and 2008 and the people who confirm that are people weren't there at the time. Therefore, you have to say they have simply gone on a documentary basis of some sort. Now, for anybody to come to conclusions without actually at least interviewing the people who were around at the time, I find quite extraordinary.

Deputy Michael McGrath: But that aside do you contest the substance of the findings?

Mr. Michael Walsh: To be honest, I haven't been through the substance of the findings and I've heard of some of them obviously. So, I would need to go through each and every one of them. Obviously, I think the people ... I think you've heard from the managing director, or the former managing director. I think he believes that he can contest every single one of the issues.

Deputy Michael McGrath: Sure.

Mr. Michael Walsh: Whether you can or can't, I can't comment.

Deputy Michael McGrath: Well, you might have seen the exchange I had with Mr. Fingleton earlier on and the published statement by the Central Bank in July went through the seven different headings where breaches were identified, including the initial loan application stage, loan approval, taking of security, the role of the credit committee, and it goes on to say these breaches, admitted by INBS, are underpinned by evidence of more than 1,000 alleged instances of INBS breaching its own policies and procedures relating to commercial lending and credit risk management. How do you respond to that?

Mr. Michael Walsh: Sorry, well, I mean, first of all, I can't respond because, you know, without actually going through the evidence properly and going to see who did they actually talk to, who confirmed that these things actually occurred ... I mean, if you got a group of people in 2011 or 2012 or 2013 or, indeed, 2015-----

Deputy Michael McGrath: Right.

Mr. Michael Walsh: -----to confirm all of these things then, you know, they're going purely on the documents as they exist at this point in time.

Deputy Michael McGrath: So when they cite instances where there were no commercial loan applications prepared, where the situation is where applications were only prepared after the funds had been drawn down, you would never have encountered anything like that?

Mr. Michael Walsh: But ... Deputy, how could I have? You only-----

Deputy Michael McGrath: Well, I don't know. You tell me.

Mr. Michael Walsh: Well, sorry, as a non-executive director you're only going to see the documentation that comes to the board. You're not going to come ... see something that hasn't come to the board.

Deputy Michael McGrath: Right, but you would have a board pack and you would have minutes of the various meetings. Presumably, you would be entitled to ask for any document that you wished to see and which you felt was necessary to perform your duties as director.

Mr. Michael Walsh: Absolutely, yes.

Deputy Michael McGrath: Some of the contents of that Central Bank statement are extraordinary, and I would just put it to you, Mr. Walsh, that elements of it at least are backed up by the contents of the core book list that we have. I mean, if we look at the Deloitte report, for example, of May 2008, Vol. 1, page 51 ... or 71, in terms of the overall booklet, "No Credit Committee approval was present on a number of reviewed files [...] In many cases the Commercial Loan Application was approved by only one member of the Credit Committee, while at least two members are required under the terms of reference". Page 73, "In a number of instances no Board approval could be located [...] for loans which, according to the lending policy in operation [...], would have required Board approval." So, I mean, the Central Bank report didn't just appear out of nowhere from thin air. I mean there are-----

Mr. Michael Walsh: Sorry-----

Deputy Michael McGrath: -----evidence in the booklets of-----

Mr. Michael Walsh: Sorry-----

Deputy Michael McGrath: -----these issues.

Mr. Michael Walsh: But you've got to be careful in the context of, you know, were these material issues or were they actually normal issues. You know, I think you've heard from every single institution that there were what I would describe as, kind of, "back-office problems" from time to time. Now, you know, should they have occurred? Absolutely no they shouldn't have occurred, but if you go to Project Harmony, Project Harmony which, you know, was there to actually do a detailed review of the society for the purpose of a sale, you know, it identified in that, I think, one loan which actually hadn't been approved. Now, I have no idea what actually happened between the time that KPMG were doing Project Harmony and where we are today because, you know, there are two almost unrecognisable institutions.

Deputy Michael McGrath: In your experience as chairperson of the building society, was there ever a situation that you came across, or that you would have been informed of, where a credit committee meeting took place with one person present?

Mr. Michael Walsh: I think, you know ... which is exactly why the society was very focused in terms of ... you know, when I say the society, the non-executive directors were very focused on internal audit because the internal audit programme actually gave us a chance to get into, you know, the detail of what was actually happening in some of the areas. There was clearly unacceptable behaviour in some areas and, you know, in each occasion that was identified remedies were actually put in place. So, you know, from a non-executive point of view, what you actually do is you go out there, you try to identify where are the problems, where are the issues, where are the risks-----

Deputy Michael McGrath: But just on that specific one.

Mr. Michael Walsh: -----having-----

Deputy Michael McGrath: You're giving a general answer to a specific question-----

Mr. Michael Walsh: No, I'm ... I'm giving you a-----

Deputy Michael McGrath: -----which was about ... did the credit committee ever meet with one person present? Mr. Fingleton said it didn't. Can you answer: did it or not?

Mr. Michael Walsh: I can't answer that because, obviously, the credit committee was, you know, a function of the executive. What I can tell you is that any loan that came to the board always the question was asked, "Has it been approved by the credit committee?", and the answer was always "Yes". Now, it is clear from some of the internal audit reports - and they were the internal audit reports actually done by the society's internal auditor, you know, obviously Deloitte did some reviews as well, but the society's own internal auditor reviewed these things and actually considered them. Where the non-executive directors, you know, met with, as part of the audit committee work, the internal auditor and identified these issues, clearly there were remedies actually put in place and clearly there were undertakings from management.

Deputy Michael McGrath: Right. Do you accept the conclusions of the Nyberg report in respect of the building society?

Mr. Michael Walsh: Well, I think in fairness to Dr. Nyberg, his report was very good but there were lots of conclusions.

Deputy Michael McGrath: Where he says, for example, the MD "had been given extraordinary powers by the board [...] many staff reported directly to him." He refers to when the board formally delegated powers "for the practical, effective and efficient management, promotion and development of the bank to the MD", that it was very unusual that that would be done "given its vague and general formulation [...] not immediately apparent what the limits to this empowerment were." He makes a number of criticisms about the credit committee, the lack of a risk committee, the membership of the credit committee, for example, and a whole series of areas.

Mr. Michael Walsh: But, sorry, if we actually start with the key thing, which is, you know, where was the power within the society, what was the delegation, I have always, kind of, grappled with how the misunderstanding took place in the beginning because it almost developed a folklore about it, you know. Everybody seems to have, kind of, page 1 of the minutes, which basically says, you know, "These are the powers delegated". Nobody seems to have been given page 2, which says, "These are the reservation of powers to the board". Now, I don't know why. Obviously, there was a, kind of, probably, kind of, new management without the institutional recollection or history. But the simple reality is ... from all the time I was there, as chairman, there was very clear powers reserved to the board, there were clear authority levels and, from a board point of view, they were there, required and nobody had permission to actually go round them.

Deputy Michael McGrath: And do you accept that the board had ultimate responsibility for the running of the building society?

Mr. Michael Walsh: In any company, the board has ultimate responsibility for it.

Deputy Michael McGrath: Thank you.

Chairman: Thank you, Deputy. I'm going to move to wrap things up. I just have one question to ask that remains outstanding. I'll just wrap up with another question and then I'll invite the two final ... the leads in finally, Mr. Walsh, after which if there's any closing comments or remarks that you want to make yourself.

Mr. Walsh, did the level and tone of engagement with the Financial Regulator over the period of 2002 to 2008 cause any concerns at board level? And I'll just go through just a sample of this. March 2008, a letter from the regulator. These are all section 33AK documents, so they won't be coming up on the screen. Corporate governance arrangements in the society - this is on the first page of it. Moving on to the next page - I'm just going to give an aggregate of these, okay - concerns raised related to the growth in the commercial loan book. Then going on to 2004, another letter from the Financial Regulator - the Financial Services Regulator - stressed the need for an increase in the size of the board. The same report goes on ... the Financial Services Regulator "had concerns for some time with regard to the level of expertise and experience within INBS's Internal Audit function." It then goes on as well with regard to the regulatory follow-up and capital adequacy requirements "a significant shift in the nature and risk profile of INBS's business, particularly in the last couple of years. INBS has moved from being a predominantly and broadly based residential mortgage lender to a commercial property lender." And, then, going on to a ... even as far back as April 2002, another letter from the Central Bank talks about corporate governance once more, talks about the audit committee, seven meetings scheduled were adjourned due to pressure of time. Also, "There are no terms of reference in place for the committee." ... that's the ALCO committee. Concerns with regard, again, to commercial lending "that a substantial number of loans represented 100% loan to value[s].".

That's in the commercial lending. In home loans, "There was no evidence of stress testing on five of the files examined." The same correspondence again talks about "There has been a lack of progress made in implementing a risk-based methodology." Then, returning back to 2006, another letter from the Financial Regulator, it talks about "The Society should demonstrate how it [has] satisfied the Internal Audit function" or:

> The Society should demonstrate how it is satisfied the Internal Audit function now has the expertise to perform its audit of [treasuries]. The Society should consider requesting an external audit [form] to oversee the Treasury Audit.

It then talks about minutes of close out meetings with auditors and auditees, "The Head of [the] Internal Audit advised that [no] audit close out meetings [were] minuted."

And Irish Nationwide, again it talks about the inspectors noting that while some basic information in relation to Irish Nationwide Limited is contained in certain monthly reports, such as inflows and outflows, and in the management of accounts, there appears to be no specific discussions of its activities during the period reviewed by the inspectors. This relates to minutes between May 2005 and April 2006.

Once again - I'll just conclude, there are more pages I could be going through - the terms of reference ... this is to do with the credit committee. The terms of reference of the credit committee on page 2 need to be amended as they state that the committee can approve exposures up to €500,000. However, it is noted that the amounts approved were up to €635,000 and the inspectors were informed that the terms of reference to the credit committee were being amended accordingly.

Mr. Walsh, were the changes proposed at board level to address these concerns of the regulator ... were the changes actually made?

Mr. Michael Walsh: Were changes made? Absolutely. Changes were made, changes were ongoing. I mean, you know, obviously you've gone through a very long list of things.

Chairman: Believe you me, that's just-----

Mr. Michael Walsh: Just a sample.

Chairman: It was salt and pepper on a big dish.

Mr. Michael Walsh: I understand the phrasing, etc. but if we come back and actually get down into the issues in more detail you get a very different sort of picture. Because I think we've talked about corporate governance and, really, the two areas of corporate governance were a bigger board and what I would describe as kind of a chief operating officer type situation. You know, the board couldn't increase during a period of time for various different reasons. As I think I may or may not have mentioned, the board would have always welcomed additional people. You know, the board got permission from the regulator to actually approach Mr. Barron, former director general of the Central Bank, to come on the board. Now, if one really believes that you are going to invite the Central Bank or the regulator on to the board in situations where they're not happy or you're not happy, or trying to keep anything from them, that would absolutely not be the case. The society ran with absolute and complete transparency with the Central Bank, with the regulator, and always had a good relationship. I mean, it was very disappointing when Mr. Barron decided he wasn't going to come on to the board but that was his choice. The practical reality is if we were trying to fight against the regulator or the

Central Bank, we wouldn't have done it. And just to put the thing in context, when Dr. Power resigned, the regulator got in touch to thank him for all his work and efforts. When I resigned, they did the same. So people are beginning to rewrite the history for whatever purposes.

Chairman: Mr. Walsh, this is my wrap-up question to you and then I'll invite Senator O'Keeffe and Deputy Higgins to come in. Mr. Walsh, this inquiry, in preparing for its public hearings, gathered hundreds of thousands of documents. For today's hearings 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, issues on regulatory reporting and control, lack of experience in the quality of internal auditor resources and so on and so forth. Having listened to your contribution today, is it your opinion here today that these documents are consistently and repetitively wrong?

Mr. Michael Walsh: Absolutely not. I mean, from the society's point of view and from the board's point of view, if you get correspondence from the regulator, you actually see it as a menu that you are going to actually use almost as a checklist for things that are going to be done. Now, you don't take it absolutely on the basis of they're 100% right, you're 100% wrong. That's not the way life actually works. You know, there were practical difficulties in some areas and, you know, where there were practical difficulties, you'd actually end up discussing them with ... in my case, I would've primarily been ... kind of, Maurice O'Connell in the early days, or Dr. Reilly or Mr. Neary in the later days. But you would actually recognise what needed to be done, what could be done. You also had to recognise where the society was at any point in time. I mean, I think there was one particular letter that came in, was it March 2007, which was all about, you know, you need to increase your board and your management. Now, you know, in March 2007, where was the society? It was actually in the process of being sold. It was in discussion with, amongst others, GE and, you know, Hypo, but there were a number of other people as well ... probably haven't been mentioned yet and probably shouldn't be. If you're in the business of actually selling the society over the next number of months you're not going to put in place new directors or new management, because the first thing that's going to happen once the acquisition is completed, the person or the company who actually buys the society is going to make their own decisions on who should be on the board, who should be the executive, who should be at whatever level it happens to be. And to try and actually bring people in, in a framework where you're doing that, is actually completely counterproductive.

Chairman: Senator O'Keeffe.

Senator Susan O'Keeffe: Thank you. I'd just like to follow on. The Financial Regulator first, well, wrote to you in December '04 noting its concerns about resources at senior level and so on. Are you saying ... you've just given us the explanation as to why nobody might have been added in 2007, because there were negotiations with banks. Are you saying now that that was the same in 2004 and this was a consistent state of being for the organisation? I mean, it sounds like an extraordinary, convenient situation not to be able to appoint anyone, because the Financial Regulator kept asking you to do something about it.

Mr. Michael Walsh: Well, sorry, that's actually not borne out by the facts.

Senator Susan O'Keeffe: The facts are that you didn't, that the resources were not put in.

Mr. Michael Walsh: Sorry, no, the facts are, and if you look at the - I can't remember which of your core books it's actually in - but if you look at the response which, I think, is roughly speaking kind of 20 pages, I think the beginning of ... is it February 2005 ... there is a list of the appointments that have actually been made in, kind of, a very recent time period and it was across all facets of the society. There was credit risk ... I can't remember precisely what they were, but I think there is a list of four or five actual individuals who'd been appointed. And, that's why I go back to, you know, there's a real danger that everybody sort of says, you know, this was a one-person organisation. Now, within my statement I've actually given you an organisation diagram there and that actually identifies the different areas that are there, the different actual people involved, the size of the teams involved. I don't remember offhand what the size of the different teams are, but I mean the reality is there was a process of continuous recruitment. Now, what there wasn't was new appointments to the board and what there wasn't was a chief operating officer.

Senator Susan O'Keeffe: And no head of commercial lending either-----

Mr. Michael Walsh: Well, sorry, I think-----

Senator Susan O'Keeffe: -----according to the regulator.

Mr. Michael Walsh: -----the reality is that what actually happened in, you know, just in terms of the timing of that, there was an individual identified who had agreed to come on board and-----

Senator Susan O'Keeffe: I know, but the point is that ... the point is that the regulator was still concerned about that in March 2008. Can I ask you, the Building Societies Act of 1989, as far as I understand it, says that the retirement age of any director is 70, so how ... what did you do that you didn't have a succession situation when Mr. Fingleton turned 70 and he then ended up staying in the job, but with some re-arrangement so that he wouldn't breach the Act? Is that correct or not?

Mr. Michael Walsh: Well, sorry, no it's actually slightly more complicated than that. First of all, I think-----

Senator Susan O'Keeffe: Well, under the circumstances, if you can just tell us how did it happen that he stayed on when the Building Societies Act-----

Mr. Michael Walsh: I was about to, right. I mean, to be absolutely clear, first of all, as I say everybody expected, including myself, including the regulator, the society would be sold in 2007. It was abundantly clear that, you know, the society would not be sold once you hit the beginnings of the global liquidity crisis. The next day, when I actually went to the regulator in whatever date it was in December of 2007, I said, "Look, the society is not going to be sold. In that context, we need to actually increase the management team, increase the actual board."

Senator Susan O'Keeffe: I'm sorry, Mr. Walsh, the question I'm asking relates specifically to Mr. Fingleton. Why was he still there after the age of 70?

Mr. Michael Walsh: Sorry, the reason he was still there after the age of 70 was because the board took a decision - the regulator agreed with the decision - that we were reversing engines, we were going to prudently try to reduce the book and in that circumstance you decide who is the best person to actually lead and drive that. Now, you have met him. You know his strengths, his weaknesses. In that context, you know, I was of the view, the board was of the view and the regulator was of the view-----

Senator Susan O'Keeffe: Okay.

Mr. Michael Walsh: -----that he was the right person to actually lead it. Now, equally well, immediately after that, the board sought to identify other individuals who would come in. There were two individuals identified in March and unfortunately one of them actually opted out because of the fact that you had the run on Anglo----

Senator Susan O'Keeffe: In the time we've left, Mr. Walsh, I'm grateful to you for that answer, and that's sufficient. I just want to go back, if I may, to the Central Bank of Ireland-----

Chairman: That's it now, Senator. I'm wrapping up.

Senator Susan O'Keeffe: -----report that we referred to earlier. Can I just be clear? You said, I think, to me, in the opening question, that you had not been interviewed by the Central Bank in relation to that report that they published in 2015. Yes or no?

Mr. Michael Walsh: No. Sorry, I haven't been.

Chairman: Time, Senator. Just a bit of time now.

Senator Susan O'Keeffe: You weren't. That's what you said to me earlier today. Yes. Now, according to their own documentation, they say they had over 100,000 documents - I think it was 105,000 documents - that they used in order to derive these findings and they interviewed 21 people. I am just trying to clarify from what you said, I think to Deputy McGrath - are you suggesting somehow that, first of all, you didn't read the findings yourself, which, even that they relate to the time you were there; and secondly, are you saying that you believe that those people that were interviewed somehow had some other agenda or that they were people who were not there at the time because your response to him was not clear?

Mr. Michael Walsh: Well, to be absolutely clear, I have no idea who they actually interviewed in coming to those conclusions. If you think about it from my point of view, as a board member, I doubt if I saw 105,000 documents in all the time I was there.

Senator Susan O'Keeffe: So, you don't ... you're saying you don't ... you've no idea, therefore, have you read it?

Mr. Michael Walsh: No, I haven't read it.

Senator Susan O'Keeffe: Can I ask you why you haven't read it?

Mr. Michael Walsh: Because I took a view that, you know, I'm coming to the inquiry here, I would get a pile of questions at the inquiry. I hadn't actually thought that, you know, an ongoing investigation would be the subject of the discussion and consequently-----

Senator Susan O'Keeffe: But it concluded in July, Mr. Walsh.

Mr. Michael Walsh: Well, I gather it is not entirely concluded.

Senator Susan O'Keeffe: Oh. Okay. Can I just ... I do have one more clarification. We understood from the Central Bank that it was concluded. You were disputing the €5.4 billion figure earlier on, I think with Deputy ... I can't remember who it was with-----

Mr. Michael Walsh: Deputy O'Donnell.

Senator Susan O'Keeffe: Yes, Deputy O'Donnell. Is that not the amount that was contributed by Government as new capital to INBS and to IBRC in respect of obligations after the write-downs? So, is that not where the figure came from?

Mr. Michael Walsh: Well, I mean the real issue is ... sorry, if you want to talk about the actual cost, which I think is what Deputy O'Donnell was-----

Senator Susan O'Keeffe: The cost to the taxpayer is recognised as being €5.4 billion and you disputed that.

Mr. Michael Walsh: Sorry, yes absolutely I disputed that because I think no matter how you actually do the figures, you can't get to that number. Now, you know, that means that ultimately there has to be a surplus, which actually comes back to the taxpayer. How that surplus comes back, whether it's part of the gain that the Central Bank has actually reported separately in terms of the promissory notes or what the situation is, I couldn't tell you, but I mean ... as I say, the society was very simple. It had two books - it had a commercial loan book and it had a residential loan book. We know precisely what happened to the commercial loan book, irrespective of how we actually argue or justify or believe in the NAMA transfers. So, that gives you a situation where, if you assume all the NAMA transfers are correct and NAMA made no money in relation to those loans after they were transferred, then you end up with a figure of around €3.8 billion plus, as Deputy O'Donnell said, whatever the losses were on the residential book. Now, I don't know what the losses were on that. I know some of the book was actually sold at a premium to Bank of Ireland. I am sure some of it was actually sold at a loss elsewhere. It'd depend on the timing of the sale of those books as to what would have actually happened. Equally well, as I indicated to Deputy O'Donnell, there was a liquidity management exercise which saved, roughly speaking, €0.3 billion and then whatever was made, if anything, on the sale of the deposit book.

Senator Susan O'Keeffe: Chair, it may be necessary after the hearing to get a clarification from Mr. Walsh in relation to these figures because it does seem-----

Deputy Kieran O'Donnell: Chairman, can I make reference-----

Chairman: Yes-----

Senator Susan O'Keeffe: It seems extraordinary that there is such a dispute between what is recognised and what-----

Deputy Kieran O'Donnell: Can we bring up page 125 of Vol. 1-----

Senator Susan O'Keeffe: It really is quite-----

Chairman: Can you turn off the phone there as well because it's-----

Deputy Kieran O'Donnell: 125 in Vol. 1. Page 125. This'll provide clarity. This is directly from NAMA and NAMA says €8.7 billion of loans were transferred from Irish Nationwide; consideration paid was €3.4 billion; that gives a loss of €5.3 billion. Now, 5.3 is very, very near 5.4 so I think the figures that you're quoting, Mr. Walsh, are not accurate.

Mr. Michael Walsh: No, sorry, I think the figures that you're quoting don't fully take into account-----

Chairman: On the figures, just call the figures as you see them-----

Deputy Kieran O'Donnell: Well, if you go to page 125 and you look at the table there, it says-----

Mr. Michael Walsh: Sorry, there's absolutely no argument about that table. I mean, basically it shows that the society had a 61% haircut. It transferred a loan balance of €8.7 billion and consideration was received by the society of €3.4 billion. What that table doesn't tell you, because it is actually the NAMA experience in relation ... it doesn't tell you about the €1.5 billion of own funds that were actually there.

Deputy Kieran O'Donnell: Correct.

Senator Susan O'Keeffe: But there may have been other liabilities, Mr. Walsh.

Mr. Michael Walsh: But the only other potential liabilities were the residential loan book-----

Deputy Kieran O'Donnell: With due respect, Mr. Walsh, you said it was €3.8 billion to NAMA. It's actually €5.3 billion of a loss experienced in the NAMA haircut, so I think if-----

Mr. Michael Walsh: Absolutely, but you have to reduce ... sorry, if you're trying to actually look at what the aggregate figure is, you have to reduce that figure in terms of cost by the reserves the society actually had at that point in time, which is the €1.5 billion.

Deputy Kieran O'Donnell: Yes, but equally you had €3.6 billion of home loans involved, which-----

Mr. Michael Walsh: Well, I am sorry-----

Deputy Kieran O'Donnell: Sorry, I do not wish to argue the point but I think-----

Mr. Michael Walsh: First of all, there weren't €3.6 billion of home loans.

Deputy Kieran O'Donnell: Well, of other loans.

Mr. Michael Walsh: There was roughly €2-----

Deputy Kieran O'Donnell: Sorry?

Mr. Michael Walsh: There was roughly €2 billion of home loans.

Deputy Kieran O'Donnell: Well, there was €12 billion of loans in total. There was about €8.5 billion of commercial loans.

Mr. Michael Walsh: I would be pretty sure the figure is €2.2 billion, but to be honest I couldn't-----

Deputy Kieran O'Donnell: Anyway.

Chairman: Deputy Higgins. Then we'll close out.

Deputy Joe Higgins: Mr. Walsh, I've just one issue I want to put briefly to you, and it's based on the book *Fingers: The Man Who Brought Down Irish Nationwide and Cost Us €5.4 Bn* by Tom Lyons and Richard Curran. It says that on 22 September 2008, that you met Mr. David Doyle, the then Secretary General of the Department of Finance. Did that meeting take place?

Mr. Michael Walsh: No. Sorry, to be clear I met David Doyle on one occasion ... sorry, during the month of September. And I met him ... I would say it ... sorry, I am guessing ... probably around 15 or 16 September, or maybe slightly later, and I met him in the company of the managing director. Now it was a strange meeting, but nonetheless, you know, the three of us were actually in the room together. There was no-----

Deputy Joe Higgins: The managing director being Mr. Fingleton.

Mr. Michael Walsh: Yes.

Deputy Joe Higgins: Did the ... is the following then accurate or not? I quote:

> Walsh [you, Mr. Walsh] made his strongest argument in favour of a merger with Anglo Irish. This was the plan he had already privately discussed with its chief executive, Seán FitzPatrick, a close friend for twenty years. Anglo Irish, Walsh said, already knew many of Irish Nationwide's clients and had the expertise to manage them. However, the bank would need a state guarantee to protect it from any negative consequences. 'In effect, the State will have to guarantee Anglo at the same time.' He warned [that is you].

Finally:

> In short, Walsh was arguing that in order to save Irish Nationwide the state should take on the much heavier burden of rescuing Anglo Irish. Having completely failed to prevent the society going mad during the boom, Walsh was now proposing that the state should be prepared to accept every risk taken not only by Irish Nationwide but also by Anglo Irish. It was catastrophic advice, capable of bankrupting the entire country.

Is this factual?

Mr. Michael Walsh: It is completely non-factual. What actually happened, and you know I have actually touched on it already, on the Sunday evening of 7 September I got a phone call from Con Horan. As I say, I was in the society that evening because of the situation and the fragility of the markets. Basically, I was meeting at that time with Goldman Sachs and the clear direction from the regulator was that I should organise to meet with Anglo Irish. That was a direction that I got. When I say "direction", it was a phone conversation; it wasn't a written direction, obviously. Basically, the reason he was telling me to do that was because they had been looking at a contingency plan, as you know, with AIB and Bank of Ireland that hadn't operated. Apparently, Anglo had contacted the regulator to say that they might represent a solution. I was slightly surprised, but nonetheless the regulator wanted me to meet them. I accordingly organised to meet them the next morning. Having met them, I did a briefing paper for the regulator setting out the options as I saw them at that point in time. I met the regulator, discussed that options paper. I then revised and adjusted that at the regulator's request and submitted it to the Department of Finance. That paper is in the public domain. It was released I think at some stage as part of some of - I think - the disclosures in relation to the month of September and the night of the guarantee. I did not advocate the merger with Anglo. I certainly didn't advocate any situation where, shall we say, the State would take on the combined liability. That is a complete misrepresentation of the situation. What I actually advocated was that the society would continue as an independent entity with whatever changes the Government obviously wanted to make and to continue to operate the policy it had adopted the previous December, which was to wind down the society in a gradual and controlled fashion, which was what I felt was best for the society and best from a national point of view. Anglo had a different agenda clearly. They wanted to be seen as the people who were rescuing the system because they had a belief that if they were seen to take over the society that they would be viewed as being systemic. They were very different to Nationwide; they didn't have depositors. You know, we had, I think, 180,000 depositors made up of residential, business as well as the commercial. They were purely commercial. We obviously had a large deposit book; they didn't have the deposit book. We had a large amount of liquidity; they were out of cash.

Deputy Joe Higgins: Okay, thank you, Mr. Walsh.

Chairman: Thank you very much. I'm going to bring this session to a conclusion but, in doing so, Mr. Walsh is there anything by means of closing remark or further comment or additional information you might like to add?

Mr. Michael Walsh: Chairman, yes, thank you and thank you, members. You know, just to reiterate, I do deeply regret the events that occurred and their impact on Ireland but I think the purpose of this committee is for you to actually consider what to do going forward. Key groups in Ireland saw the problems or foresaw the problems that were coming about. The stress tests in the Central Bank, you had the NTMA expressing views, even Irish Nationwide was expressing a view in December '07. The domestic standing group started working in January 2008 to actually generate solutions, possible solutions, etc. But as everybody here now knows, we ended up in September 2008 without really a clear view of where we were actually going. And I think, Chairman, you've got to consider what would have happened if we avoided the growth that took place in 2007, even if we only saw the problems at the end of 2006.

As a minimum, there'd have been €70 billion less money lent into the Irish market. I think there was about 100,000 additional mortgages taken out, so additional families actually probably in negative equity today. Given the results of the stress tests, you would have required every institution, or should have required every institution, to get more capital. I think you've heard from the former Attorney General, there was no bank resolution legislation actually in place. That could have been put in place. It could have helped Europe in place, whatever. Now, who knows if that action had been taken at the end of 2006 how much less damage could have been done? And I think that in terms of your recommendations, what you have to think about is how do you actually remove the silo mentality that exists. I think one of your witnesses said we weren't prepared to share information until September - it took the Reuters story. I have no idea what the correct solution is but you have to recognise that there would be a very different situation if, at the end of 2006, you had brought together the key players in the public sector and the private sector and actually tried to find out what was the best thing to do for the country.

So I think, in terms of you framing your views, your recommendations, you have to think about that. I said I deeply regret I didn't see the problems much earlier. If I had, hopefully, I would have taken the right decisions earlier but I didn't. I apologise unreservedly for that but I think if we want to avoid the same problems occurring again, you've got to think about how you actually avoid that, sort of, silo-type thinking. Thank you.

Chairman: Okay Mr. Walsh, thank you very much for your participation this evening and this afternoon with the inquiry and I'll move to formally excuse you in just a moment. I would be asking members just to stay on for a few moments because I just need to deal with some time management issues with the remainder of the evening and so forth. So with that said, I want to thank you again, Mr. Walsh, for your participation with your engagement with the inquiry today. You are now formally excused and I suspend for a few moments so the committee can just go into private session to deal with other matters.