HOUSE OF COMMONS

ORAL EVIDENCE

TAKEN BEFORE THE

TREASURY COMMITTEE

PROJECT VERDE

WEDNESDAY 6 NOVEMBER 2013

REVEREND PAUL FLOWERS

Evidence heard in Public Questions 672 - 978

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Oral Evidence

Taken before the Treasury Committee

on Wednesday 6 November 2013

Members present:

Mr Andrew Tyrie (Chair)
Mark Garnier
Mr Andrew Love
John Mann
Mr Pat McFadden
Mr George Mudie
Mr Brooks Newmark
Jesse Norman
Teresa Pearce
Mr David Ruffley
John Thurso

Examination of Witness

Witness: **Reverend Paul Flowers**, former Chair, the Co-operative Bank, and former Deputy Chair, The Co-operative Group, gave evidence.

Q672 Chair: Thank you very much for coming to give evidence this afternoon. I apologise for the fact that it is being held this week, rather than last week. Could everybody turn off any electronic devices they have so that we can have an uninterrupted session? I do not think we are going to have any divisions, so that will make life easier this afternoon.

I would like to begin, Mr Flowers. Just remind us, you were chairman between which dates?

Reverend Flowers: Between April 2010 and the very beginning of June of this year.

Q673 Chair: What happened to profits during that period?

Reverend Flowers: Profits for the basic core bank during most of that period were fairly flat, but they were profits. They were of the order of £100 million to £120 million a year.

Q674 Chair: I have figures in front of me for the half-year to June 2010—the full-year figure was rather more—showing profits of about £100 million, between £50 million and £100 million.

Reverend Flowers: They did go up and down. They fluctuated a little around the £100 million mark.

Q675 Chair: What were they when you left?

Reverend Flowers: There was a loss, as you are fully aware, sir.

Q676 Chair: What was the loss?

Reverend Flowers: When you have to add in altogether the impairments, the IT matter and the PPI, I believe we are looking at a loss of around about £750 million to £800 million.

Q677 Chair: Let us just have a look at the capital situation. What was your core tier 1 capital ratio, which you inherited when you came in in June 2010, roughly?

Reverend Flowers: Which I inherited?

Chair: Which you, as chairman, inherited from your predecessor.

Reverend Flowers: It might be helpful to say that I was also a director of the bank for a year before I became the chair.

Q678 Chair: You acquired a much higher level of responsibility.

Reverend Flowers: The core tier 1 capital must have been around about 8% at that time. It went up to and fluctuated between about 9.4% and 9.6% towards the end of my tenure.

Q679 Chair: What is it now?

Reverend Flowers: Fortunately, I am no longer a director of the bank—

Q680 Chair: What was it when you left?

Reverend Flowers: It was around about 9.6%.

Chair: When you left?

Reverend Flowers: I believe so.

Q681 Chair: I have a figure of 4.9% in front of me.

Reverend Flowers: No, that is not right, sir.

Q682 Chair: That is incorrect, is it?

Reverend Flowers: It is entirely incorrect.

Q683 Chair: In June 2013 your core tier 1 capital ratio was about 9%?

Reverend Flowers: As I understand it, yes.

Q684 Chair: We will take a look at that. I think that is worth a look. Give me, and everybody listening to this, an idea of the size of the Co-operative Bank. Roughly, what is your total asset value?

Reverend Flowers: Valued at just over £3 billion.

Q685 Chair: I am talking about the assets, so we are looking at the balance sheet here.

Reverend Flowers: I am talking about the assets too. I am talking about the assets and the balance sheet, just over £3 billion. Those were the figures I just looked at recently.

Q686 Chair: How many loans did you have out—

Reverend Flowers: I would have to ask someone to tell me that because—

Chair: —as a proportion?

Reverend Flowers: I could not tell you the actual figure, I am sorry.

Q687 Chair: Do you know roughly how many loans and advances you had made to customers at the time you left?

Reverend Flowers: No, because it was not my function as the chair of the board to have all those details. They would be details supplied to the committees, and in particular to audit, risk and exposure committees.

Q688 Chair: But the loan book is the core asset of a bank.

Reverend Flowers: It is indeed. Yes.

Chair: You do not know what that figure is, even roughly?

Reverend Flowers: I cannot give you that figure at the moment but I will come back to you with a note, if that will be helpful.

Q689 Chair: Your total assets in June 2013 are listed at about £47 billion, just to give you an idea. You were offering me £3 billion, and I am telling you that your annual accounts show it at £47 billion.

Reverend Flowers: Indeed they did, forgive me.

Q690 Chair: Your loan book is about £32 billion. These are very basic numbers for a chairman of a bank. What expertise did you have in banking before you became chairman?

Reverend Flowers: Perhaps it would be important for me to say that I was appointed as chair because the Co-op had a practice of appointing a democrat from within its own numbers as the chair of that board. I went through a process that was rigorous and considerable. In terms of the appointment process itself, I was one of four on a shortlist and I am told I was the unanimous choice of the sub-committee that appointed.

I then had to go through a rigorous process with the Financial Services Authority, as it then was. I had already gone through a process to be appointed as a director of the bank in 2009, which were the significant influence function interviews, and passed those. Before I was confirmed as chair of the bank, in the spring of 2010 I also had to go through similar but somewhat more robust interviews with the FSA to see whether or not they felt that I was an appropriate person to be the chair of the board. That was undertaken by a panel of people at the FSA and was very rigorous and very searching. At a time when they were also turning down other prospective directors and chairs of financial services organisation, it was their judgment that I was an appropriate person and they confirmed that view.

To answer the implication in your first question, sir, I worked for a bank for four years after I left school, and I undertook the examinations of the Institute of Bankers. I completed part one and the best part of part two of those examinations, before I went to become a Methodist minister. I have some experience, but I would judge that that experience was largely out of date in relation to the needs of contemporary banking. Nonetheless, I still had that grounding.

Q691 Chair: You just used a phrase, "the needs of contemporary banking". Was there anything in your background that prepared you or would have prepared you to chair a sizeable bank with assets on the balance sheet of £47 billion?

Reverend Flowers: I think you have seen my truncated CV. You will know that what I believe my skills to be, and what others have judged my skills to be, is in terms of governance and not necessarily in terms of the specifics, which are faced—

Chair: We will come on to that in a moment.

Reverend Flowers: I would argue that is a discrete and important aspect.

Q692 Chair: But I am asking a very specific question, which is, do you accept—let us put it in a different and even more direct way—that you did not have any of the experience required to run a commercial bank, any banking experience required?

Reverend Flowers: With respect, I accept that the FSA believed that I was an appropriate person.

Q693 Chair: That is just passing the buck. By all means make that point, and we might have a discussion with the FSA or the successor bodies about it at a subsequent date, but at the moment we are asking you questions and I am asking you whether you think you had that experience?

Reverend Flowers: I did not have the sort of experience to which you specifically refer, but I had other skills and experience. I was there specifically, because it was a co-operative, as an elected member of the Co-operative, to represent the members of the organisation that owned the bank. That was why I was there.

Q694 Chair: Yes, I know. You have explained that to us, and that explains how you got the job. I am not asking that question. I will have one more go. Did you or did you not have the experience—with the advantage of hindsight, now looking back—required to run this bank? Was it a mistake for you to have taken this job in 2010?

Reverend Flowers: With respect, I thought I had answered your question. I said that I clearly did not have the degree of banking experience that you are referring to but I did have other experience, and I do not believe it was a mistake either, sir.

Q695 Chair: Do you agree with one of the central recommendations of the Parliamentary Commission on Banking Standards that chairmen of banks should have a great deal of financial and banking experience?

Reverend Flowers: Are you referring to the Vickers Report?

Chair: No. I am referring to the Parliamentary Commission on Banking Standards.

Reverend Flowers: I understand the distinction, forgive me. I understand that. However, I would again rest on the judgment made about me by my peers and by the regulator.

Q696 Chair: Do you know any of the recommendations of the Parliamentary Commission on Banking Standards?

Reverend Flowers: I read it some time ago.

Q697 Chair: Can you name one other recommendation of the Parliamentary Commission on Banking Standards?

Reverend Flowers: Not at this particular point in history, no.

Q698 Chair: So you have read it but you cannot remember one. This is a bank that was in—or appeared to be—reasonable nick in 2010, and is now holed below the waterline, needed a lot more capital, is in desperate straits and the obvious question, the inevitable question that has to be asked at a hearing like this, is what responsibility do you feel you bear for this catastrophe?

Reverend Flowers: Can I answer that in two parts? The first is, if I reiterate very briefly—

Chair: Do not say what you have already said.

Reverend Flowers: May I adumbrate some of it by talking about the role of governance and the way in which I sought to increase the amount of specialist expertise on the board, which is specifically what I did? I inherited a board that had been just over 22 members at one stage. It was at about 20 when I took over. By agreement with the regulator, we agreed that it had to be reduced but particularly beefed up in relation to banking experience.

When I took over the board, which was first of all exclusively male—and I changed that too—the board had six executive directors from the bank itself, as well as too many people representing the Co-operative Group. We had also inherited four directors from the merger with Britannia. It was very important that we substantially increased the amount of banking experience on that board, and that is precisely what I did by bringing in a considerable number of people whose wealth of experience was important to the development of the bank. I hope that that is an important thing for this Committee to understand in relation to changes of governance.

Q699 Chair: We will come on to governance in a moment, but the question that I am asking you is, what responsibility do you personally feel you bear for the near-collapse of this bank?

Reverend Flowers: First of all, the bank has not collapsed. Secondly, it has not required any Government support, either in the crisis of 2007/2008 or now. The bank has not collapsed. The bank—

Q700 Chair: I am going to have a third go.

Reverend Flowers: I am trying to answer your question.

Chair: I am asking a very straight and simple question. The answer is, "I bear no responsibility", "I bear some responsibility", or "I bear a lot of responsibility", and then by all means elaborate. What responsibility do you bear for the near-collapse of this bank?

Reverend Flowers: If you will allow me to elaborate once I have answered the question, then. I take very seriously the issue of responsibility for something that appears to go wrong during your watch and, therefore, I resigned in the beginning of June this year. I believed it was important to do so because I believe that when you are the head of an organisation, whether or not you totally were aware of all of the circumstances of what had gone wrong, when you are that person in the chair, you must take responsibility and I did.

Q701 Chair: Let us take a look at the bringing in of people around you who might have been able to substitute for your lack of experience. I have here the list of your board at the beginning of 2012. You had been in post by then how long?

Reverend Flowers: Two years.

Q702 Chair: After two years—this is December 2011, but it amounts to the same thing—how many non-executives had banking experience?

Reverend Flowers: I would guess about six or seven at that time.

Q703 Chair: Can you name them, or any of them?

Reverend Flowers: Of course. Merlyn Lowther, Peter Harvey—

Q704 Chair: What commercial banking experience did she have?

Reverend Flowers: She was the first female Chief Secretary to the Bank of England.

Q705 Chair: That is not commercial experience.

Reverend Flowers: She had had commercial experience in the retail arm of the Bank of England, and she appointed a considerable number of people, including most of the people now running the FSA.

Q706 Chair: So we have Merlyn Lowther, who had some experience via working in the commercial arm of a central bank. Who else do we have on this list?

Reverend Flowers: Peter Harvey.

Q707 Chair: Peter Harvey had his commercial experience from what job?
Reverend Flowers: Barclays.

Q708 Chair: That is two. How many others do we have here? You said six.
Reverend Flowers: I think I said six. Rodney Baker-Bates, who was one of my two deputy chairs.

Q709 Chair: What banking experience did he have?
Reverend Flowers: As general manager of Midland Bank in one of its incarnations before it became immersed in a larger entity.

Q710 Chair: When your bank was getting into difficulties, were you calling on these people a lot and saying, "What the hell is going on?"
Reverend Flowers: Part of the agreement with the FSA about my appointment was that we would appoint two deputy chairs specifically to advise and assist me. They were fully aware that my skills were not those of a banker, and, therefore, we came to an agreement that there would be two deputy chairs specifically to assist. Rodney Baker-Bates was one of them and David Davies was another.

Q711 Chair: Do you feel let down by them?
Reverend Flowers: Not at all.

Q712 Chair: So, where does the responsibility lie?
Reverend Flowers: I told you, sir, that I took responsibility as the chair, but I assumed that responsibility for things that have happened lay with all of us.
Chair: We will leave it there for the time being.

Q713 Mr Mudie: Good afternoon.
Reverend Flowers: Hello.
Mr Mudie: When you were interviewed by the FSA, at what level were you interviewed?
Reverend Flowers: On the second occasion when I became chair, and there was a panel of about five people. My recollection is that there was a very senior representative of the FSA present, together with two or three other people in different roles in the FSA. The FSA also had a panel of people, which it regarded as very senior, outside skilled people whom it would bring in. They had a particular name for them, but I cannot remember. I think it was called silver something-or-other. I was going to say "foxes", but I do not think that is right.
One of the people from that panel was Graeme Hardie. He was present during the interview process. He had had a considerable amount of experience in Scottish banking, and was a person of considerable honour and integrity when it came to some of the crises affecting Scottish banking.

Q714 Mr Mudie: You are aware of and have referred to a very senior person. Do you know who it was?
Reverend Flowers: I believe it was Andrew Bailey, but I cannot remember at this time.

Q715 Mr Mudie: Do you think you could possibly find a piece of paper that would tell us who interviewed you and found you acceptable?
Reverend Flowers: I am sure that we could.

Q716 Mr Mudie: That would be very useful. Good. I thought you seemed a bit defensive about your banking experience. As I view the Co-op, lovely as it is, it is not Barclays, and everybody would say, "Thank God it's not". It is not a big investment bank, into sub-prime and CDS and the like. Why are you so defensive? You said you were a bit old-fashioned or things had moved on. What sort of things happened in the Co-op in 2010? I always thought it was a very sleepy, well-run, conservative bank.

Reverend Flowers: I would judge that it was conservative, with a very small "c" of course. I believe that the experience that I had as someone working in a bank, which was from 1968 to 1972, was such that banking was in a very different place. I started working for the old Westminster Bank before it merged with the National Provincial and the District to become the National Westminster Bank. I went through a considerable amount of in-house training, which was exceptionally good quality training, as well as the training at night school, in my case, for the Institute of Bankers' examinations.

I would guess that the basics of how you look at running a bank, especially in terms of trust and probity, were there and still are. I still happen to have a fairly high view—very unfashionable—of bankers. I think that a considerable number of people in banking are profoundly decent and good people, and I learnt that when I was doing my own work a long time ago.

Q717 Mr Mudie: I accept that, but I am almost seeking to see why you think you are old-fashioned in terms of the technical aspects of banking. Has it moved on that much? The Co-op was into current accounts, mortgages and a bit of personal lending, and perhaps a bit of commercial lending.

Reverend Flowers: Indeed it was.

Mr Mudie: But not overwhelming. It was pedestrian—

Reverend Flowers: It was.

Mr Mudie: —in a nice way.

Reverend Flowers: I would hope so.

Q718 Mr Mudie: Then how had it changed in 2010, apart from the Britannia merger?

Reverend Flowers: It changed partly because of the Britannia merger, and if you wish I can—

Q719 Mr Mudie: No, but Britannia brought mortgages plus some doubtful commercial lending.

Reverend Flowers: It also brought some savings.

Q720 Mr Mudie: But that would not have changed. That would change the quality, but lending is lending. What was different in terms of the 2010 Co-op from the 1990 Co-op?

Reverend Flowers: Not very much, if look just at the Co-op Bank itself, because the Co-op Bank had been exceptionally prudent in its lending, but it carried on lending during the crisis.

Q721 Mr Mudie: I wondered why you were so defensive. You joined the Co-op in 2009, when the Britannia merger was being finalised.

Reverend Flowers: Yes.

Q722 Mr Mudie: Did you play any part in that merger? Did you have any views on the merger?

Reverend Flowers: I did indeed. I was a member of the group board from 2008, so a year before, when the initial discussions were being held. We had a considerable number of due diligence reports, not just one but three in all. The first was commissioned from Deloitte, which was the initial due diligence process about whether or not a merger would be sustainable and would be able to occur. The second was done by KPMG, with a third specific report, which was done by KPMG, on the issues of fair value adjustments, and in particular how that related to potential bad debts from the commercial and platform arms of the former Britannia.

I was not on the bank board at the point when that was being discussed, but I was on the group board, which looked at the substantial issue. It was my view that we took a considerable amount of evidence from those preparing due diligence reports. We relied as well upon other work done by specialists whom we employed to assist us. If anything, I think we were told at the time that the due diligence reports were of the best that had been done by anybody in this sort of sphere.

Q723 Mr Mudie: I presume these are still available.

Reverend Flowers: Indeed. I have copies elsewhere but I am sure they are, yes.

Q724 Mr Mudie: If you have copies, it might be easier if you gave us copies, if you would not mind, in due course.

Reverend Flowers: I am sure that can be done. I will probably have my wrist slapped by somebody.

Q725 Mr Mudie: We had KPMG on the premises this week, and I can perhaps understand your problems, but it would be interesting to see what they wrote.

Reverend Flowers: If might add to what I said to you first, I think the only question that I did raise on the group board at the time was a question about who should be the chief executive of the bank, going forward. In the group board discussions, I recall specifically questioning the advisability of appointing Mr Richardson, as opposed to appointing Mr Anderson who I felt would have had more trust within the bank itself.

Q726 Mr Mudie: Going on to that, when the merger was going through and you arrived, what was the prevailing view among the group officials and the bank officials?

Reverend Flowers: The view with—

Mr Mudie: Was it a good move?

Reverend Flowers: It was overwhelmingly that this was a good move.

Q727 Mr Mudie: Yes. When did you personally start to have doubts about whether the due diligence was as good as it was supposed to be?

Reverend Flowers: Those came to a head through 2012 and certainly towards the beginning of this year, but certainly through 2012. I think it is important to say that we had significant committees that looked at areas of risk, audit and exposures, and each of those was chaired by one of the experienced bankers that we had on the board. In particular, from early 2012, the exposures committee had pointed up to us that there were a range of quite difficult loans, which had been made under the Britannia book, which were likely to cause us future problems as, indeed, they have done.

Q728 Mr Mudie: Does that mean that your view personally is that the present problems—the Britannia merger and the problems that came with it, I mean the financial problems in terms of the assets—were a major part in the present problems you find yourself in?

Reverend Flowers: With respect, hindsight is a very—

Q729 Mr Mudie: No, I am not asking you for hindsight. I am saying that, as we are sitting here and more and more is coming out, you are starting to say the due diligence was lacking.

Reverend Flowers: I am not quite saying that, sir. I am saying—

Mr Mudie: No, I am saying it.

Reverend Flowers: Fine, but I am wishing to demur a little bit from that by saying that I believe that the due diligence reports that were undertaken were done faithfully and well, and that they were undertaken by good professionals who knew what they were doing. I would add the rider that, after the merger, the whole country faced a deteriorating economy, and that, in company with everybody else, we were working through an economic situation that was not particularly good for banks or for anybody else, exacerbated of course by the flatlining of base rate at 0.5%. Banks need to make some money somewhere in order to exist, and a base rate of 0.5% does not give you the opportunity to earn the margins that you would hope to earn in a reasonable market.

Q730 Mr Mudie: No, but you went through the crisis and suddenly it starts falling apart.

Reverend Flowers: Yes.

Q731 Mr Mudie: If it was not for Britannia's loan book—

Reverend Flowers: It was.

Mr Mudie: It was?

Reverend Flowers: It was, and I —

Q732 Mr Mudie: I think you are being too gentle and perhaps not seeking to be controversial. Do you not think that those loan books, professionals looking at that financial situation in Britannia, even in 2009, would have started worrying or would have been worried and would have been happy to sign it off as, "Fine, go ahead"?

Reverend Flowers: Of course most of those reports were done in 2008.

Q733 Mr Mudie: Yes, well, the world was in a bad place in 2008.

Reverend Flowers: It was, and the Co-op Bank was surviving that fairly well because it had a liquidity ratio that was exceptionally high. As a bank we did not lend what we did not have in, which was a good, old-fashioned way of doing banking. It was the Britannia book and the deterioration of that book that brought the bank to a difficult place.

Q734 Mr Mudie: What I am asking you is—and this is my final question—are you being too charitable to say that these were professionals doing a fine job? They were doing a fine job in 2008, allowing you to wander into a merger with a seriously troubled loan book, which has erupted and caused severe damage to the Co-op.

Reverend Flowers: I have a professional obligation to be charitable, and I try to be. I hope I can also take a rigorous view of the reports that we had at the time. What I am trying to do is to acknowledge that things deteriorated badly, but that in good faith I believed people did their best to analyse the situation appropriately in 2008 when they looked at fair value adjustments.

Q735 John Mann: When Jesus kicked the moneylenders out of the temples, was he just having a bad day?

Reverend Flowers: No. No, he was not. I am happy to have a theological discussion with you. He was having a perfectly good day.

Q736 John Mann: That is where I wanted to take the questioning because that is the third biblical question I have asked on this Committee. We happened to start at the same time. I came on to this Committee at the same time you went on to the Co-op Bank, so I can remember timelines very, very distinctly of what was happening. You are the first banker who could have a theological discussion, but the others might have had more of a banking discussion. I am not interested in whether you are at fault or, to be frank, who is at fault. I do not really care. Although I am surprised that you say that the Co-op Bank has not collapsed. For the Co-operative Bank to have to put in £430 million to be run by two American hedge funds is not what most members would describe as a success. Why did you not ask about the loan book of the Britannia when you came on the board?

Reverend Flowers: We did, and it was under constant review. It was under constant review by the appropriate committees, who reported to the board on the loan book.

Q737 John Mann: What was your view of the fact that the Britannia had moved from being a traditional building society into commercial high street lending?

Reverend Flowers: At the time, the lending that they were engaged in appeared to be sound. Appropriate questions were raised in the board, and—

Q738 John Mann: No, I am asking what your view was of the fact that the Britannia, which for decades had lent mortgages, had branched out into an entirely new area of business recently before the merger, i.e. commercial high street lending. What was your view on that?

Reverend Flowers: My personal view was and will remain that that was ill-advised for a building society to undertake that.

Q739 John Mann: Was that your view at the time?

Reverend Flowers: Yes.

Q740 John Mann: So you are there, and I am not arguing or discussing whether or not it should be a lay chair of professional. It is an issue, but it is not an issue for me. What I am interested in is here we have the Co-op Bank—and you have come through the membership ranks—that for 100 years has acted in a very specific way in how it has lent. Suddenly it decides to do something it has not really done before, it is going to buy out somebody else and bring them in. But they have just changed from being a traditional building society into an organisation that is becoming more powerful; it is doing commercial lending.

Reverend Flowers: I think it might be important to say that, as part of the due diligence reports, there was considerable analysis of the distinction between ordinary mortgage lending on the Britannia book and the more risky elements of the lending that they had engaged in. We also had in the board—

Q741 John Mann: I am not interested in the due diligence, although others may be. I am looking at your position, not the position of specialist bankers looking at due diligence. I am looking and thinking. First question I ask, coming on this Committee, is what sub-prime is around? Who has it? What problems is that going to cause? The Chancellor at the time, Alistair Darling, asked the same question in more brutal ways. It cannot have been missed by you or anybody else involved.

Reverend Flowers: He did it well.

Q742 John Mann: Why are you not asking these very basic questions, whether they can be described as ethical or of ethos and purpose of the organisation?

Reverend Flowers: They were asked, and they were set alongside a range of other issues about why the merger might be beneficial. The unanimous view of both boards was that the merger would be beneficial. Some of the reasons for that were that the Co-op did not pay a penny piece for the Britannia merger. We did not put any money on the table whatsoever. We acquired the assets for nothing. You could in fact say that it was not a merger so much as an acquisition of the Britannia Building Society, but that might not be quite such a palatable word for some here.

Q743 John Mann: You put that as a virtue. When I bought a house, I had a clause added in that gave me a barn free. The reason it was put in free was that it was falling down, and I have had to build it back up. The fact you are given something for free might tell the lay person that there is something that is rather a problem there.

Reverend Flowers: First of all, I am sorry about your barn; but, secondly, there were considerable good other reasons why we should have that acquisition. The extent of the branch network that we were taking over, making certain that the Co-op moved from branches of about 90 to about 340, was a considerable reason for doing the deal, and when we analysed the thing in totality we still believed—as I believe you heard last week from my former colleague, Barry Tootell—that there was complementarity between the different abilities of the bank and of the building society and that we each brought considerable benefits to the whole. That was while also acknowledging that there were problems with the corporate lending book.

Q744 John Mann: I have been a member of the Co-op for over 40 years, and I sit in this Committee. No one asked me my view as a customer or as a member. Did you ask the view of any politicians?

Reverend Flowers: Politicians?

John Mann: Yes.

Reverend Flowers: I was not in a place where I would know whether that happened at the time, but I do not believe so.

Q745 John Mann: What I am trying to get my head around is that it is fairly obvious to everyone on this Committee that the Co-op was out of its depth, or a long way out of its depth, and that it expanded at the wrong time. There is no argument about that: it expanded at the wrong time, with the wrong decisions. There are two questions, the specifics and the Co-op, but there is a deeper underlying question of how organisations are structured and managed. What I am not hearing is where precisely the lay non-banker voice is saying, "Hang on a minute, why are we doing this?"

Reverend Flowers: With respect, that was being heard all the time. It was being heard from the group board that were on the bank board, and I was one of four on the bank board from the group. When the substantive issue of whether or not the acquisition should be acquired at all went to group board, first of all, it was analysed in considerable detail by my colleagues on the risk committee of the group board and then by the group board itself. It then further filtered down to regional boards and area committees, who were all consulted about that acquisition. All those questions were raised at the time.

Q746 John Mann: But none of them were experts.
Reverend Flowers: No.

Q747 John Mann: In the answers to the Chairman's questions, you again made a virtue of the fact that you had brought in lots of people with additional banking experience. What that says is that the Co-op that is—others used the word "trundling"—doing perfectly satisfactorily for its membership and its customers, which had not uniquely but remarkably survived the financial crisis in 2008, suddenly decides to massively expand, not once but twice. That says to me that it all went to your head a bit. You had survived the crisis, and you thought, "Ah, the co-operative model. We are a membership-based organisation. Mutuals and so on. That is the way forward. We are going to expand, because everyone else is collapsing" and that was actually the driving motivation. I put it to you that you and your ethos was a critical part of the drive in motivation, because you would be there saying, "Mutuals, co-operatives, look at the rest of them. We can fill the gap in the market". That is why you jumped into bed with the Britannia, and then went even further and tried to do so with Lloyds.
Reverend Flowers: I think there are two distinct issues in terms of the one merger that did occur and the merger that has not occurred. On the first, there was considerable parliamentary support for the merger between the Co-operative and Britannia.

Q748 John Mann: From whom?
Reverend Flowers: First of all, there was a Private Member's Bill that was put through by the then-Member for Bournemouth East or West, Sir John Butterfill, which was the Private Member's Bill that, first of all, legally enabled two mutuals of different sorts to join together. At that time we were being given considerable nods and winks by those in the Treasury that that was a wise and good thing to happen.

Q749 John Mann: Who precisely in the Treasury? You said politicians.
Reverend Flowers: Mr Balls, in particular, was very supportive of the whole process.

Q750 John Mann: In what way?
Reverend Flowers: Talking with us and encouraging us, in the same way that Conservatives did as well.

Q751 John Mann: Which Conservatives?
Reverend Flowers: I cannot recall all the names at this stage. This was before the Conservatives came into office.

Q752 John Mann: Presumably Mr Osborne was—he is a well known figure. You would know if it was Mr Osborne.
Reverend Flowers: If I just say that, if you want some sense of parity of this matter, although we clearly took the Britannia into our ownership, we were also approached by the Coalition Government shortly after it came into office in 2010 to see whether or not we would be prepared to take over another building society.

Q753 John Mann: We have not heard anything about this. Could you elaborate?
Reverend Flowers: I would be happy to do so. The building society was the Presbyterian, in Northern Ireland, which went into considerable difficulties. First of all, we had an approach from the most senior civil servant from the Office of the First Minister and Deputy First Minister in Northern Ireland, who came to see me in my room in Manchester

with my colleagues. He came in and said that he felt like he was coming as a snake oil salesman, representing the Government, to offer us the opportunity to take over the Presbyterian Building Society. That was pursued with meetings, where I was invited to meetings with the then Secretary of State, Mr Paterson, his junior Minister and his most senior civil servant. That meeting occurred in his bedroom at the Hyatt Hotel at the Conservative Party conference in 2010, when I was the one—not the banker, I have to say, just the humble democrat—who had to tell them that the figures they were looking at were £100 million adrift and that there was a black hole in their own figures, and that was why we would not take over the Presbyterian as they had asked us to do.

Q754 John Mann: Now we are getting somewhere. I am trying to put myself in your shoes, as someone with no banking background—I have been a member of the Co-op for many years—thinking, "I am there, appointed". You were part-time chairman, were you?

Reverend Flowers: The agreement was that I would do three to four days a week and I did.

Q755 John Mann: So you were part-time chairman, working out, "Right, I have this position. What do I do? Who do I seek advice from?" You are saying you were getting politicians of both leading parties pushing the Co-op in a certain direction.

Reverend Flowers: Exactly the same thing happened with the Verde process as well.

Q756 John Mann: I will come to that in a minute. We have asked others from the Co-op this question. You know who has been here before. They have flatly denied that there was any—I do not think the word was—"pressure". That may have been used, but I have asked more gently as well whether any politicians have been involved, and they have denied it flatly. They have said, "Never, not once, no pressure, no discussion, no meetings". It would probably be helpful to have a note from you because you are saying, first of all, Mr Balls when he was in the Treasury.

Reverend Flowers: Yes.

Q757 John Mann: That must be around—

Reverend Flowers: That was at the time of the Britannia merger and particularly in relation to facilitating the process that was put in place under the Private Member's Act, as it became, because the Treasury had to be involved in facilitating that to happen and Ed Balls was the person who assisted us.

Q758 Chair: Roughly what date? Sorry to interrupt.

Reverend Flowers: This would have been just before the merger occurred, so in the spring of 2009, I think.

Chair: Sorry, John, go ahead.

Q759 John Mann: Then we have Mr Paterson and officials from the Northern Ireland Office in 2010 with a separate but the same; I am hearing what you are saying—

Reverend Flowers: They were asking us to take the Presbyterian, which was a basket case.

Q760 John Mann: Yes, and you used the words, "Politicians cheerleading" when you first raised this. Any more? Anyone else from the Treasury at any stage?

Reverend Flowers: I think I said that there were further interventions at the time of the long process of looking at the Verde deal with Lloyds; Project Mars, as we called it. To my certain knowledge, those included—and I would not say "pressure"; it was mainly a sense of political goodwill behind the process but there were plenty of politicians who wanted the deal to succeed and were willing it on—in the Treasury team at the time, the Treasury minister who kept most in touch with Peter Marks, as the group chief executive, was Mark Hoban. I think he was financial secretary to the Treasury at the time, and he had many, many telephone conversations and meetings with Peter about the process and whether or not there was anything that the Treasury could do to assist that process. It would be fair to say that we also had nods of support from Vince Cable, who was and still is Secretary of State for Business.

Q761 John Mann: What is a nod of support? How do you define that?
Reverend Flowers: Clear messages of encouragement.

Q762 John Mann: How?
Reverend Flowers: Telephone, and other messages of goodwill, that this is a desirable outcome, and that if the—

Q763 John Mann: Direct contacts to the bank?
Reverend Flowers: Yes, and if the process that was enunciated in the Vickers Report about the need for a bank of scale, which could act as a challenger to the other banks, could come about, then there was a political steer that that was desirable.

There is one further thing to be said about that. I had many conversations with Andrew Bailey of the FSA. He was the regular point of contact that I had during all of this process.

Q764 John Mann: Sorry, by "all of this process", what time? There are two processes. There is Britannia and then there is—
Reverend Flowers: Forgive me. During the whole of the time that I was chair, I did have regular meetings with Andrew Bailey and with other officials. During the time of the Verde process, which began in 2011 and ended in the spring of this year, I also had regular conversations with him about the process and the issues that were under debate. It would be fair to say that on one occasion I specifically remember—he was an absolute gentleman and he would always take you to the door after any meeting with him—in the process of the walk back to the door, he once said to me that they would do their best to ensure that the process was assisted, although, as you would expect them to do, they would still apply due rigour and due process. He also indicated to me that he was under no doubt at all that there was considerable political support for this deal from members of the Government, and he wanted me to be aware that he was aware that that was the case.

Q765 John Mann: We are talking of around 2011?
Reverend Flowers: This would be 2012.
John Mann: 2012. Others will pick up; otherwise I will go on forever, but just to—
Chair: One more question. I have let it run because the answers have been interesting, to say the least.

Q766 John Mann: I have two more questions. When you say "regular contact", there are different definitions of "regular". Is "regular" every six months, every three months, every month? What do you mean when you say "regular"?
Reverend Flowers: My meetings with Mr Bailey?
John Mann: Your discussions and meetings.
Reverend Flowers: At least every two months, and sometimes more frequently than that. In terms of Project Verde, we set up a specific team who met with officials of the FSA

every single week to keep them abreast of all of the issues. They met with them every single Friday, from the beginning of the process until the end.

John Mann: My final question—

Chair: It really is your final question?

John Mann: It is my final question. It is just to draw it together with the—

Chair: No more questions from you for six months. It is a long run you have had this afternoon. But anyway, do ask one more.

Reverend Flowers: Not until your barn is restored.

Q767 John Mann: Just on the three political parties because you have named all three main parties or four, I think. We will include the fourth, being the Northern Ireland parties as well, so—

Reverend Flowers: Forgive me. The Northern Ireland representation was a civil servant and not the politician.

John Mann: But, I understood, with political backing from Northern Ireland.

Reverend Flowers: One must presume so.

Q768 John Mann: You are giving a clear impression that, as a lay chair, who is not a banker, not perceived as a banker by the outside world in particular, which is perhaps more important, you and your organisation—the Co-op, the Co-op Bank, the Co-op Group—are getting very clear encouragement to expand in the ways that you attempted to expand from successive Governments and from key people in the Treasury in successive Governments, and others in Government.

Reverend Flowers: I have absolutely no doubt that that was the case.

John Mann: Thank you.

Q769 Chair: Just go back a moment through these episodes. Are you saying that these two episodes are similar in kind, that is the episode of the enthusiasm of Ed Balls for Britannia and the enthusiasm of Mark Hoban for Verde?

Reverend Flowers: I think that there was a distinction between the two, in that Mr Balls had a specific role at the Treasury. Was he Chief Secretary at the time? I think so. He had specific things that he had to lay before Parliament to enable the legislation to become effective. As it happens, he did so because he clearly supported what we were trying to do, and he made it clear that that was the case.

I do not want to misrepresent Mr Hoban, but my understanding is that in the many telephone conversations that there were—and there were many—he was trying to keep a watching brief on what was happening and was clearly indicating the Treasury's desire that if a deal could be done, and if all the hurdles that we had identified with Lloyds and that the regulator had also identified could be addressed, then the Treasury was indicating its pleasure and support for such a deal because of the way in which a challenger bank would be created.

Q770 Chair: I will be slightly more precise with the question I want to ask. Did either of these discussions go to the point where you felt that either of those parties was sharing in some way a responsibility for the decisions that were taken?

Reverend Flowers: No, not at all.

Chair: So, the responsibility for both of these, for each of them in turn, both the one in which Ed Balls and the one that Mr Hoban was involved in, you are very clear that the discussions you had did not amount to political pressure?

Reverend Flowers: No, I do not believe they did. They were—

Q771 Chair: Neither of those were discussions, therefore, that would be considered inappropriate?

Reverend Flowers: No. There was no interference in process and there was no undue pressure, but in each instance we were left with a very clear view that this was something that, if it could occur in each case with two different scenarios, each would support.

Q772 Chair: But your attitude to it would have been, "Well, that is all very interesting, but responsibility still lies with us, and we have to do it, so we will take the decision on its merits". Is that what you did in response to this?

Reverend Flowers: Of course we did, sir. However, it was more than just interesting. When you get senior Government Ministers in different circumstances indicating their likely encouragement for what you are doing, you get some sort of a feel that it has a secular imprimatur.

Q773 Chair: In what way? I do not necessarily want to move forward with secular imprimatur, but what I want to know is whether you felt that in any way the decision had been altered.

Reverend Flowers: No. Not at all.

Q774 Chair: Therefore, it was of interest and it was perhaps nice that the Government might want to support each of these respective deals.

Reverend Flowers: Forgive me, sir, I think it was more than that.

Q775 Chair: But it is less than something that led you to feel that you might have taken a decision other than the one you were going to take anyway.

Reverend Flowers: No. We took the decisions on their merits, but it could so easily have been the other way round.

Q776 Mr Love: Can I refer the Committee to my designation in the House as a Labour and Co-operative Member of Parliament? Can I briefly pursue the questioning that we have had prior to my questions? It is really to get the view of the Co-op Bank, because one the one hand we have been told as a Committee by Mr Bailey that the regulator was sceptical of the possibilities of the Verde measure. You are telling us that Mr Hoban was enthusiastic.

Reverend Flowers: Yes.

Q777 Mr Love: He did not directly intervene, but he was enthusiastically in favour. Did that lead to any confusion at the Co-op Bank about what was being said to them in relation to Verde?

Reverend Flowers: No, because old co-operators are quite used to dealing with politicians and are used to dealing with the ways in which politicians sometimes speak, and, therefore, it was something that you listen to, hear and receive. I think we took the view of Mr Bailey much more seriously, because he actually had the ability to say "yea" or "nay" to the proposals before us.

Q778 Chair: I am sorry, Andy, but can we deconstruct what you have just said there? Are you saying that you did not take what the politicians said seriously but you did take what the regulator said seriously? Can you put this in plain man's language, please, Mr Flowers?

Reverend Flowers: Forgive me; I will try not to be so obtuse. Of course we took what everybody said seriously, and it was lovely to have affirmation from senior politicians of all parties. But, with respect, they had no locus in the matter when it came to the final decision.

Q779 Chair: For which purposes you ignored what they had said, set it aside?
Reverend Flowers: No, you do not ignore, because of course you are—

Q780 Chair: I asked you earlier whether it had any influence on your decision, and you said no.
Reverend Flowers: It does not have any influence on the final decision.

Q781 Chair: How can it not be ignored and simultaneously not have influence?
Reverend Flowers: With respect, we did not ignore it. You never ignore what somebody says to you, particularly if they are a very senior politician. It is how you take that offering and whether or not you use it in any way in what you are deciding. We did not.
Chair: I do not think we have made much progress there.

Q782 Mr Love: Let me ask a further question. You mentioned Mr Bailey, and he has told this Committee that he raised five concerns in relation to Verde. Did you or others at the Co-op Bank discuss these with Mr Hoban on any occasion, and were you given any impression that they would assist in any way to overcome these hurdles?
Reverend Flowers: I certainly did not, but I do not know whether anybody else did. I cannot answer the question, because I am not certain.

Q783 Mr Love: Can I come on to a conundrum that this Committee has been grappling with and we hope you can shed some light on? It is about the provisions for loan impairments. Your accounts show that you recognised £100 million or so loan impairments in the years 2009 to 2011, and then for 2012 and the first part of 2013 it jumped enormously to £970 million. The conundrum we have is that every other major bank in the country provided for these loan impairments at a much earlier stage, so can you shed some light on how it comes that the Co-op Bank left it until very late to provide for these loan impairments?
Reverend Flowers: I hope I can. The bank takes advice from its senior committees—the bank board—which look at those matters in considerable detail during each financial round. In this particular round, while the accounts were being concluded for the end of 2012, a letter was sent from the FSA to every single bank in the country—it was dated 20 December, which was an interesting little Christmas present for all of us—which was specifically about impairments and how they should be recorded. The bottom line of that quite lengthy and detailed letter had the effect of saying that the FSA wanted to see a proper accounting for any future impairments, and that they would prefer to see those all rolled up into one figure and included in the current year's accounts.

Q784 Mr Love: I understand that, but that letter was also sent to all the other banks.
Reverend Flowers: It was.

Q785 Mr Love: They provided for loan impairments at a much earlier stage. If I can put it crudely, they seem to have been much more prudent than the Co-op Bank was. Why did that happen?
Reverend Flowers: I cannot answer for other banks. All I can try to do is answer for the one that I chaired for a time, and I believe that we had endeavoured to act prudently. I think we would have had some conversation with the regulator about the fact that some of the

figures that were included within the end-of-year 2012 figures for impairments may not in the end actually be bad debts, and that they may turn around over the next few years. Nonetheless, we did what we believed was right and we recorded the figure that we believed was just.

Q786 Mr Love: Did anyone at the bank look at the figures from other banks and say, "These seem to be providing for loan impairments at a much higher rate than we are"?

Reverend Flowers: Yes.

Q787 Mr Love: This was from 2009. I understand you were not chairman for part of that period, but right through 2011 into 2012, did no one point out that the Co-op Bank seemed to be an outrider in terms of providing for loans in this way?

Reverend Flowers: I cannot recall so, sir, no.

Q788 Mr Love: You do not remember any conversations of that nature?

Reverend Flowers: No.

Q789 Mr Love: Did internal audit or anyone from the auditing side draw this to the attention of either the board or some of the other committees?

Reverend Flowers: In relation to what other banks might be providing for?

Mr Love: That you may not be being as prudent as other banks in terms of provisions.

Reverend Flowers: I would believe that if they had, then that would have been discussed in the appropriate committee and would certainly have been discussed in the board, and I do not recall any discussion of those comparisons.

Q790 Mr Love: You mentioned earlier on, when you were asked about KPMG, that you thought they had done what the bank and its board had asked of them. But as your auditors, they are tasked to provide a true and fair view of the accounts. Do you remember any occasion on which the auditors drew to the attention of either the board or members of internal audit those tasked with risk by the board, drawing to your attention that you may not be as prudent as necessary in terms of loan provisions?

Reverend Flowers: No. I think it is important to state that, because I chaired the bank board, I was of course not a member of audit. That would have been improper in terms of governance processes. Nonetheless, the audit committee had regular meetings with the auditors without officers of the bank being present. They had separate meetings with them. I also had my own meetings with the senior partner of KPMG in Manchester, a man called Jonathan Hurst, who has a long experience of working for KPMG. It was my practice to have meetings with him at least every six months, just to see whether there were any issues that he as the senior auditor wished to bring to my attention. Those issues that you have just talked about were not part of that discussion.

Q791 Mr Love: Let me refer you to the written evidence that Neville Richardson gave to us, and this is in relation to his explanation of why the Britannia merger was sensible in the circumstances. This is talking about mid-2011. He said, "There was no indication of the need for significant additional impairment provisions. This was supported by the many 'clean' external audit reviews". He goes on to talk about the due diligence that was carried out by the Co-operative Bank when the merger first took place in 2008/2009. He seems to have put a lot of weight on what the auditors and the due diligence showed. Do you think you put too much weight?

Reverend Flowers: With hindsight, probably yes. I believe, though, that when you are in the roles that we were in, you must take cognisance of the advice that you are given by those who do due diligence reports, which you must submit to rigorous discussion. You must also put due cognisance by the advice of your duly appointed auditors, and when they are prepared to give clean reports on your accounts and they tell you that there are no reasons why they would not do that, then you listen to that advice, and most people in those circumstances would do.

Q792 Mr Love: Let me just ask, finally, KPMG have a long relationship with the co-operative movement. They have been auditors, I think, of all the majors. There is a lot of discussion about whether or not you should have to revolve your auditors, in order that you do not develop too close a relationship, because they have to be independent and provide that true and fair view. Do you think that that was a factor, in the fact that you got these clean reports, the fact that the due diligence turned up no problems with Britannia, yet in 2009 to 2011 the problems started to emerge, and they really came to fruition in 2012 and the first part of 2013?

Reverend Flowers: I think there would be two points to my response. The first is that, yes, the Co-operative Group has had a particularly long relationship with KPMG, but that has not been for want of going through the normal process of review and placing the tender up for a bid. I believe the last time that occurred was about two years ago, when KPMG were faced with considerable opposition from three other firms, and still, through due process, retained the contract as the auditor.

The second point of what I would say to you is that, although in principle I agree that it would be wiser to have rotation of auditors between organisations, there is the additional problem that in this country at the moment there are probably no more than three or four firms that have the expertise to be able to handle the sort of accounts with which we are dealing. It is a little bit like a cartel, in that people move from one of the large firms to another. You would like to see more churn, but in reality it is quite difficult because of the substantial numbers of mergers of accountancy firms that there have been over the last 20 or so years.

Q793 Teresa Pearce: I would like to take you through some of the evidence that Neville Richardson gave us, but just before that: KPMG are your auditors, but do you buy in accountancy or tax planning advice from any other firm?

Reverend Flowers: A considerable number of other firms.

Q794 Teresa Pearce: Would they have been involved in that advice at all on the merger or on the acquisition, or would it just have been your auditors?

Reverend Flowers: No, first of all, there was a report from Deloitte. That was a substantial piece of work, which was the first piece of due diligence done for the group board about the potential acquisition of Britannia. It was a very lengthy and detailed report looking at the likely position should there be a merger. There was then subsequent official due diligence work done by KPMG. In addition, to my certain knowledge, we have employed PricewaterhouseCoopers in recent years as well.

Q795 Teresa Pearce: Thank you. As you are aware, Neville Richardson gave evidence to this Committee, and I would like to run past you a few of the things he said. One of the things he said was that it was you who was very keen on the Verde bid. Is that your recollection?

Reverend Flowers: Me?

Teresa Pearce: Yes, you, and that you wanted to pursue the transaction strongly.

Reverend Flowers: No, I think that is unfair. I believe that the role of the chair is to encourage other people to speak, and that was what I sought to do from the chair in the meeting. As it happens, at the end of the process, I was certainly supportive of the bid but no more so than any other member of the board was supportive. Indeed, there was a unanimous vote of the group board to support the process of going through Verde as well. So, yes, I supported it, but I was not the person who was pushing it.

Q796 Teresa Pearce: Thank you. He also told us that the decision to bid was driven by the group, rather than the bank, and that the bank executives were sceptical. Is that your recollection?

Reverend Flowers: No, it is not.

Q797 Teresa Pearce: What Mr Richardson said to us is that it is his view that it was the case of the group's view trumping the bank's view.

Reverend Flowers: No, I think that is grossly unfair. The board, which had to run and deal with all the detail, and certainly went through all the iterations of a different potential deal, into the spring of this year, was the bank board. Although the bank board was leading on that, it clearly had the support of leading figures within the group as well, but not such that they could in any way be seen to be interfering in due process through the bank.

If I may put it in a slightly different way, when we first looked at the deal with Lloyds over Verde, there was overwhelming support for that deal from the bank board. There were one or two who had questions about whether it was the right thing to do, and we heard that dissent as well within the board. It was important that we did. But there was an overwhelming majority to support it.

However, when you go through—I have learnt the word "iterations" in the last few years and I never knew that it existed before—further iterations of the process and different ways of looking at a deal, you can sense when you are chairing a meeting, from the level of questions that come from different people, the mood shifts and changes. Towards the back end of 2012 and the beginning of 2013, if I had been asked to call a vote on the particular proposal, I knew that I would have a divided board and that there would be those who would still support a deal, but many who would not. It was also clear to me at the very point when we came to take a final decision that there was a unanimous vote against doing a deal. That was because we had thorough and rigorous debate at every single stage of all of the issues. I hope that answers the question.

Q798 Teresa Pearce: Yes, it does answer the question. Mr Richardson said that he was concerned that his views were not heard or accepted and that he needed to bring the matter to a head, and he did that on 10 July 2011 in a telephone conversation with you. Do you remember that conversation?

Reverend Flowers: I do indeed. I do.

Q799 Teresa Pearce: Did you accept any of the concerns he raised, or were you completely at odds?

Reverend Flowers: It was my duty to listen and to accept his concern, and it is important to state that I shared that concern with my two deputy chairs, Rodney Baker-Bates, a very experienced banker in the City, and David Davies, who particularly was an experienced insurer in the City and had been chair of a number of insurance companies in the City. It was their judgment and mine that, although Neville was enunciating something about Verde, actually his concern was somewhere else. If you wish, I will tell you what I believe that was.

Q800 Teresa Pearce: Yes, please do.

Reverend Flowers: Coterminously with the initial discussions about Verde, the whole organisation was going through a process known as Project Unity. This was specifically to try to make certain that the different businesses within the Co-operative Group spoke to each other and worked together corporately. One of the very real problems that we had for decades was businesses operating in what I would call silos, where there was very little real communication between the different businesses that were part of the Co-operative Group as a whole. Part of the problem with that is that there was also considerable duplication of functions, and very little of anyone saying, "This is just plain crazy, and you should get rid of this duplication and have common back office functions especially across the whole organisation, which can then be seen to be much more rational".

It was partly about saving costs, but I would remind you and the Committee that one of the problems that Co-operative Bank has had for a considerable period of time is that the cost-income ratio of the bank is extremely high, and we needed to bring down costs. My successors are now grappling with that issue as we speak. Therefore, Project Unity was specifically about trying to make certain that costs were reduced and that businesses related more effectively to each other.

It was my judgment—and I know it was the judgment of my two deputy chairs—that Neville, although offered considerable support and opportunity for advancement within the organisation as a whole, did not really want to work in any way at all to somebody else. He always wanted to be his own boss. It is my judgment that that was what was behind the comments that he made. I think it is fair to say that the regulator was consulted at every point about Project Unity, and supported the fact that the bank and the other businesses clearly needed to reduce costs, and that shared back office functions was not at all a problem as far as the regulator was concerned.

Q801 Teresa Pearce: Mr Richardson stated that he stepped down as chief executive of the Co-op Bank because, "The board and the CEO of the Co-op Group at that time did not accept my warnings and were determined to press ahead". Are you saying that his disquiet was not particularly about Project Verde, it was about Project Unity?

Reverend Flowers: Forgive me, I know that it was. The month before, he and I had been on an official visit to China, where we had a number of commercial interests at the time. I recall spending a particularly sunny afternoon in my hotel room in Shanghai with Mr Richardson, and the only sustenance that we had between us was half a bottle of white wine, and having a very long discussion about all of these issues. I know, from that very long discussion with him, that the actual import of the matter was about whether or not he would be top dog.

Q802 Teresa Pearce: Did you try to persuade him to stay and not resign?

Reverend Flowers: No.

Q803 Mr McFadden: I would like to take you back to the issue that John Mann and the chairman asked you about a few minutes ago. You said to us that there was political encouragement for Co-op expansion from both Governments and several political parties. You also said that in relation to Mr Balls and Mr Hoban, these were not quite the same thing. Can you tell us what you meant by that?

Reverend Flowers: Of course I can. Specifically in relation to Ed Balls, he had the responsibility within his office as Chief Secretary to the Treasury—

Q804 Mr McFadden: He was not Chief Secretary.

Reverend Flowers: Forgive me. However, my recollection is that he had to present some legislation to Parliament, which came out of the Private Member's Bill. In other words, a Minister has to lay a paper.

Q805 Mr McFadden: He was responsible for the legislation that allowed you to do this.

Reverend Flowers: Precisely. Well, no, the legislation was a Private Member's Bill, which had been given a clear steer by Government. It had been given time. Subsequently, when it became an Act, he then had legal responsibility for making certain that certain legislation was tabled in Parliament to enable the process to occur. Therefore, you could judge that his role was neutral, in that, although he clearly supported it, he was doing his job as a Minister. I hope that makes sense.

I believe Mr Hoban was encouraging the process on behalf of the Government, on behalf of the Treasury. I could make no other interpretation of the cause than that.

Q806 Mr McFadden: When you say "encouraging the process", you mean Project Verde?

Reverend Flowers: Yes, indeed.

Q807 Mr McFadden: Let me put it this way. The competition to the Co-op, in relation to Project Verde, NBNK, has alleged that there was Treasury favouritism or political favouritism towards the Co-op as being a preferred bidder in this deal. Is that what you felt?

Reverend Flowers: Not at all, sir. I am sure that the esteemed former chair of this Committee, who was a director of NBNK, and his colleagues believe that. Nonetheless, if you look at the rigour that is within the Vickers Report in terms of the scale of a challenger bank that would be able to take on the others, and which would be encouraged in the Vickers Report, we were looking at a challenger bank that would have somewhere between 6% and 7% of market share. We were also looking at a bank that already had a banking licence and already had a range of branches across the country; in our case, over 340.

The problem for NBNK is that, although it was able to attract capital from a range of City institutions, it had none of the other things. It had no presence, it had no scale, because it did not have any bank at all, and it certainly did not have a banking licence, and it did not satisfy the criteria that were part of the Vickers Report recommendations on what ought to be the case for a challenger bank. Those are the main issues that NBNK has to answer.

Q808 Mr McFadden: But you have told us today that Mr Hoban encouraged the process, encouraged the deal.

Reverend Flowers: I did, and I believe he did. He did not interfere with the deal—I have tried to make that clear—but he wanted to be informed of progress and was regularly in contact with us about that.

Q809 Mr McFadden: Did he want the Verde deal to happen with someone, or did he want it to happen with the Co-op?

Reverend Flowers: With respect, I think you would have to ask him that question. He gave us the impression that he would like it to happen with the Co-op.

Q810 Mr McFadden: You also mentioned Mr Cable. Can you tell us what Mr Cable's involvement in this was?

Reverend Flowers: I cannot tell you that there was any obvious conversation with anybody that I know of, but we were informed that the Secretary of State for Business wanted the whole thing to succeed.

Q811 Mr McFadden: Who told you that?
Reverend Flowers: A number of other Members of Parliament.

Q812 Mr McFadden: Can you tell us who they were?
Reverend Flowers: Not at this time, no.

Q813 Chair: Why not?
Reverend Flowers: Because I think it would breach some confidentiality. However—

Q814 Chair: This is a parliamentary inquiry—
Reverend Flowers: I accept that.
Chair: —into, among other things, that question, so we would like an answer, please, Mr Flowers.
Reverend Flowers: I am now trying to recall precisely who those Members of Parliament were.

Q815 Chair: So it is not the confidentiality point; it is that you cannot remember?
Reverend Flowers: It is precisely that, sir.
Chair: Okay, well then we will go back to Pat McFadden.

Q816 Mr McFadden: Reverend Flowers, other witnesses from various parts of the Co-op Bank and Co-operative Group have been asked by this Committee in recent weeks, "Was there any political interference in the Verde deal?" They all said no. You are giving a very different account to us. Could you explain that?
Reverend Flowers: No, sir, forgive me, I am not giving you a different account. I have made it clear that I do not believe there was political interference, nor do I believe there was political pressure. I believe there was political goodwill for a deal to succeed, and I think there is a very distinct difference between a steer and a goodwill that something should happen and any improper interference. There was none of the latter.

Q817 Mr McFadden: Thank you. So, you would characterise this as encouragement, best wishes, but not pressure or interference?
Reverend Flowers: Yes.

Q818 Mr McFadden: Can I turn slightly to another subject, which is the process by which the deal unravelled and the Co-op reached the conclusion this was not going to fly? Lloyds told us that in December 2012 they realised there was a problem with capital at the Co-op. Can you tell us the time scale of when the Co-op decided this deal could not fly?
Reverend Flowers: I think it is important to say that the deal went through about six different major changes between the beginning of the process and the end of the process, and the deal that was on offer at the end was substantially different from the one that was on offer at the very beginning. We had been discussing the issue of capital adequacy for the standalone bank, regardless of whether it was to merge with the Verde operation, from 2011 in particular. We set up a board sub-committee, looking specifically at issues of capital, which was to report to the board every single month.

Q819 Mr McFadden: A bank board sub-committee reporting to the bank board?

Reverend Flowers: A bank board sub-committee reporting to the bank board, specifically about capital, and that used to meet very regularly and report to the bank board for the whole of 2012, especially after we had received a letter from the FSA in December 2011 addressed to me.

The issue was about capital adequacy and the ways in which we would seek to address that need to have further capital. You will know that one of the things we had already decided was to sell the life insurance and asset management business, which has at last been transferred to Royal London. If at all possible, we wanted to have a solution that would enable the thing to go to another mutual and that is what we secured.

We had on the books and were discussing in detail the sale of the general insurance business. I think that there were other internal political reasons why that was more fraught, because the group board would have been more chary of the sale of such a business, having just sold the life insurance business. Nonetheless, that was on the list as were a range of other options. It is also important to say that at the same time we were also engaged in a huge amount of lobbying to try to get the law changed, specifically to enable mutuals like ourselves to be able to raise capital in a way that is similar to our mutual comparators, particularly in the European Union.

Q820 Mr McFadden: Who were you lobbying?

Reverend Flowers: We were lobbying, first of all, internally, in this House and that was predominantly with our colleagues, with the Building Societies Association. Also we were lobbying through the aegis of the European Association of Co-operative Banks because the European Parliament and Council were also discussing appropriate legislation, which is still in process.

Q821 Mr McFadden: I want to bring you back to this Verde decision. What I am interested in is that Neville Richardson leaves in the summer of 2011 as the bid is being formed. He has told us that the reason he left is because, “It was the right deal at the wrong time”. He did not want to go ahead with it. After he leaves, is the bank board completely signed up to the Verde deal until April 2013, or are there other people on that board who are doubtful about it?

Reverend Flowers: There are some who had become doubtful about it, as I believe I indicated earlier, as part of process. There is one other thing to add, and that is that it is important to recall that a substantial part of the discussion about Verde with Lloyds was also about the injection of a substantial amount of capital from Lloyds into the newly created bank, should that have occurred.

Q822 Mr McFadden: Did the bank board take a vote on the Verde deal, or were there votes between Neville Richardson’s departure and the decision to cool the deal?

Reverend Flowers: The bank board took a vote on whether to go into the Verde deal in the first place.

Q823 Mr McFadden: Was that vote unanimous?

Reverend Flowers: No.

Q824 Mr McFadden: So the board were divided?

Reverend Flowers: There were two votes against.

Q825 Mr McFadden: Two votes against, out of how many?

Reverend Flowers: Out of 15.

Q826 Mr McFadden: Fifteen. Were there subsequent votes after that initial 13:2 split?

Reverend Flowers: No. It is a very difficult area, but it was my judgment as chair that to have taken votes at particular points in the process might have been premature, and that we should allow the process to continue to a natural conclusion, and then for the board to take a decision one way or the other, and that is what we did. The final vote was unanimously against.

Q827 Mr McFadden: So, between that 13:2 initial vote in favour and the final vote unanimously against, were there any other votes along the way?

Reverend Flowers: Not about the process, no.

Q828 Chair: You have said that there was no political pressure placed upon you with respect to the Verde deal. That question was also asked of Peter Marks and he replied similarly. He said, "None that I am aware of". When these telephone conversations and meetings were taking place between you and Mark Hoban—

Reverend Flowers: Not between me and Mr Hoban.

Q829 Chair: Between who?

Reverend Flowers: Mr Hoban and Mr Marks.

Q830 Chair: I see. So when he said, "None that I am aware of" he was being a little bit economical with the truth, was he not?

Reverend Flowers: I do not know what Mr Marks said to you about a conversation with Mr Hoban.

Q831 Chair: You have not looked at the transcript?

Reverend Flowers: Not only have I looked at the transcript, I looked at the television—

Chair: So you do know. I mean you must know. I will read you what it says.

The question is, "tell us whether, in your experience, any political pressure was brought to bear to encourage the Co-op to bid for the Lloyds branches". The reply from Peter Marks was, "None that I am aware of".

Reverend Flowers: That is his interpretation of it and it is correct in that there was no pressure.

Q832 Chair: All right. So, I am now asking you, was he economical with the truth? Bearing in mind you are now telling us that there were heaps of telephone conversations, things that you described elsewhere as "lovely" conversations, "nice" conversations, "interesting" conversations and that when politicians ring you, you take notice.

Reverend Flowers: I think your question was about whether Mr Marks was economical with the truth, and my belief is that he was not being economical with the truth. He told you what he believed was the truth. That he had had no interference from any politician.

Q833 Chair: Then why then have you felt the need to tell us so much about these telephone conversations that are of so little consequence? Clearly, if somebody asks you, "Was any political pressure brought to bear?" the logical thing to do, if you think this is relevant, is to say, "Well, perhaps not pressure but there were a good number of telephone conversations".

Reverend Flowers: With respect, that is what I thought I had said.

Q834 Chair: Yes, it is what you said. But it is not what Mr Marks said and I am asking you whether you think he was economical with the truth.

Reverend Flowers: I am not answerable for Mr Marks, sir.

Q835 Chair: I am asking you whether you think he was economical with the truth since he had all these contacts.

Reverend Flowers: With respect, I have already replied to that and I have said that I do not believe that he was.

Q836 Mr Newmark: I want to go back to the beginning of this meeting, with respect to the competency of the board and how much you ended up having to rely on outside advice as opposed to using your own judgment and the balance of that. You said yourself to the Chairman at the beginning of this meeting that you lacked the expertise and qualifications to make a real judgment call on the finance of the business. You were there to provide other sorts of judgments. It has been said that the Co-op Group board lacked banking expertise and experience at the time that the Co-op submitted its initial Verde bid. Would you agree that the same would apply to the rest of the Co-op board, or not?

Reverend Flowers: Are you talking about the group board or the bank board?

Mr Newmark: The group.

Reverend Flowers: In my experience of it, the group board has to rely considerably upon the advice of its own senior executives in coming to a judgment about matters before it. After sitting on that board for several years, however, I would argue that the level of debate is often extremely robust and that lay people are not necessarily conned or cowed into taking a view that some experienced person believes they ought to take. Very often they will raise questions that some of those people would least expect to hear.

Q837 Mr Newmark: At the end of the day, where this bank in particular would succeed or fail was based on having a good grip on the numbers, the balance sheet, the income statements and so on—

Reverend Flowers: Forgive me; there is a danger of confusing the roles of the group board and the bank board. The group board was not responsible for the day-to-day management of the bank. If it had been, then the group board directors would have been declared shadow directors by the FSA and would have been seen to be interfering in the running of the bank. The bank board had the ring-fenced function of running the bank and making certain that questions were raised.

Q838 Mr Newmark: Right. But the group board has to make certain judgment calls with respect to the businesses it is responsible for. You had a bank as part of that group. So, do you think it is appropriate for the board of a non-financial company, lacking in banking expertise, to involve itself in the affairs of a banking subsidiary, notwithstanding obviously, not falling into the trap of being shadow directors?

Reverend Flowers: For over 150 years it worked.

Q839 Mr Newmark: Why do you think it worked and why do you think it did not work this time?

Reverend Flowers: I think we are rehearsing some of the issues that we faced in recent years. It has not worked because the Britannia merger gave us a corporate lending book that seriously deteriorated as the economy deteriorated and that there were particular problems with much of that book. Nonetheless, we have seen a process that included considerable debate on the bank board about whether or not there should be what is called resolution, which would effectively have meant handing the keys over to the Government and the Bank of England and saying, "There it is. You get on with it". We did not do that either. What actually happened is that, although there has been a crisis, the bank is still operating—in a very different form, but it is still operating—and it has not needed fiscal support from the Government or the taxpayer in order to do that.

Q840 Mr Newmark: If I differentiate between acquiring a far more complex business and buying a business that ultimately proved to be holed below the waterline, your argument seems to be, "We were not necessarily buying into a complex business, it was that it was holed below the waterline and we just did not see that".

Reverend Flowers: You are correct.

Q841 Mr Newmark: In its report into the failure of HBOS, the Parliamentary Commission on Banking Standards stated that the board of HBOS lacked the expertise or experience to identify many of the core risks that the bank was running. Given that you guys perhaps did not have the expertise or competency to ask the right questions, do you think there are lessons to be learned for the Co-operative Group in this statement?

Reverend Flowers: I would challenge the question, first of all, because we did have at least six or seven experienced bankers on the bank board. Those people were appointed after a process where we consulted the regulator about their appointment, and the regulator was always comfortable with the nature of the people that we were bringing on to the board. So I would challenge that we did not have some experienced people who were bankers around the table.

Q842 Mr Newmark: So when you did this acquisition—

Reverend Flowers: Which acquisition, forgive me?

Mr Newmark: When you looked into the Verde situation, or Britannia, did you think some good questions were being asked that would have helped identify the risk, or from your memory were the questions that should have been asked not asked?

Reverend Flowers: The former. I know that we completely rejigged the board meetings to make certain that substantive items of business and of principle should always come first and, therefore, should take the dominant part of each meeting. I am also aware that my role was to make certain that those who had considerable experience of those matters should be encouraged to speak about them and to raise questions in the meetings. The minutes will record that that is precisely what happened.

Q843 Mr Newmark: If I switch my target slightly from the board, who you seem fairly satisfied with, how about your advisers: do you think you were well advised by KPMG and your bankers at that time, given what ultimately happened?

Reverend Flowers: Are you talking specifically now about Verde?

Mr Newmark: Yes.

Reverend Flowers: We had other advisers as well as KPMG. You have to take people at face value, hear what they say to you, do your best to question the evidence they are bringing to you and question their judgment about what they are saying.

Q844 Mr Newmark: It is not judgment. KPMG's job is to drill down into the numbers and you pay them lots and lots of money to do this.

Reverend Flowers: We do.

Q845 Mr Newmark: Given what subsequently happened, do you feel that in many ways the board was let down by its advisers?

Reverend Flowers: No, the board is ultimately responsible for its own decisions and that is why I take responsibility for what we decided.

Q846 Mr Newmark: I appreciate you falling on your sword but I am trying to understand because it raises a wider question, particularly with KPMG with other institutions that it was advising. With the benefit of hindsight, do you think that they really did a proper job in drilling down and understanding what it was they were advising you, as an institution, to get involved in, given how it holed you guys below the water?

Reverend Flowers: I think it is important that I tell you that, at a significant point in the discussions about Verde—about three months before we finally decided not to proceed—I asked for a private meeting with three of the senior representatives of KPMG. It is invidious to try to place your auditors in a position where they would express a judgment that would contrast with their role as auditor, but I what I was trying to do was to drill down myself and see whether or not they believed that we should proceed with the deal.

I came away from a very long meeting with those three representatives of KPMG persuaded that they were clearly of the mind that it would be deleterious—very bad—for us to proceed with the deal, and I believe that that was helpful. So my judgment is that, both publicly and privately, KPMG were doing their best to be helpful.

Chair: I have three more colleagues who want to come in and we have already been going getting on for an hour and three quarters. I will encourage colleagues to keep going rather than take a break. That is the option before us.

Q847 Mark Garnier: If I can I take you back to the Project Verde deal, back in particular to the conversations that were had between Lloyds Bank and the Co-op Bank in December 2012. Were you familiar with those conversations?

Reverend Flowers: Yes. I was not part of them but I was aware of them.

Q848 Mark Garnier: Who was part of them?

Reverend Flowers: We had a specific team that worked on those.

Q849 Mark Garnier: Do you remember who was on that team?

Reverend Flowers: Yes. It was led by Rod Bulmer, who was senior executive within the bank. The other person who entered into those discussions from time-to-time was Peter Marks.

Q850 Mark Garnier: So he was part of that team.

Reverend Flowers: Yes. But not all the time.

Q851 Mark Garnier: No, but if he was not there, he would have been aware of what was going on.

Reverend Flowers: Absolutely, and he often had particular meetings with António Horta-Osório.

Mark Garnier: The chief executive of Lloyds Bank.

Reverend Flowers: Yes.

Q852 Mark Garnier: At that time, did either Rob Bulmer or Peter Marks raise with you this conversation that António Horta-Osório has mentioned that took place in December 2012?

Reverend Flowers: No.

Q853 Mark Garnier: Why do you think they did not?

Reverend Flowers: Forgive me; it is one of those questions that if you start with a negative it is very difficult to know why someone has not asked you something.

Q854 Mark Garnier: Fair enough. I will rephrase the question. When António Horta-Osório came to see us, he made a big play of this conversation that was had between Lloyds and Co-op in December 2012. We are told that at that point he raised very serious doubts as to whether this deal was going to go ahead. This is something that clearly Co-op was very keen to do. We have seen a little bit—well, quite a lot—of corporate amnesia going on between Barry Tootell, Peter Marks, about this particular conversation. While it seems that Lloyds Bank could not have been clearer about the fact that they very specifically raised this point, that they felt that Co-op was not in a position to be able to go ahead with Project Verde, nobody at Co-op seems to have had the slightest idea that this was going on. As chairman, what would you say to that extraordinary revelation and the apparent corporate amnesia?

Reverend Flowers: I hope I can try to address it. The conversations—whether that specific conversation or generic conversations at any point—were always reported to each subsequent board meeting.

Q855 Mark Garnier: How frequent were the board meetings?

Reverend Flowers: Every month.

Q856 Mark Garnier: What period of the month, the end or the beginning?

Reverend Flowers: It varied but it was normally the middle of the month, so we would be talking about the middle of January in this particular case. There were always reports back about the conversations.

Q857 Mark Garnier: Let me just be clear, it would have been perfectly acceptable that a conversation between the vendor of Project Verde, and the purchaser—being you guys—that this deal may be off, could wait up to four weeks before anybody brings it up?

Reverend Flowers: No, that would not be acceptable and I would have viewed it as utterly unacceptable.

Q858 Mark Garnier: So did you hear at that board meeting in the middle of January that there had been a conversation between António Horta-Osório and your project management team?

Reverend Flowers: Yes, and because the teams continued to meet there was further discussion about the possibility of whether or not a different sort of deal could be struck.

Q859 Mark Garnier: The starting point was Lloyds had come to Co-op to say, “The deal looks pretty dodgy”. That was the starting point of the report back to the board. Were you happy that that took up to four weeks to get to you?

Reverend Flowers: No.

Q860 Chair: What did you say at that meeting? Give me a sense of your tone. Give me a sense of your pleasure or displeasure when you heard this news that, before Christmas, the chief executive of one of the largest banking groups in the UK had come along to say that they thought your bank that you were in charge of was not solvent, or had a question mark over its solvency to the point where they felt they could not go ahead with the sale of 650 branches to you guys, and it had taken—well, you had presumably gone off and celebrated Christmas and New Year, got over the hangover and got back to work and everybody had got their feet back under the desk, and it was two weeks—

Reverend Flowers: Actually I was working through Christmas.

Mark Garnier: Many of us do. But two weeks into the new year—assuming you have your meetings around the 15th of the month—you were told that this major revelation had been presented before Christmas to the bank that you ran. So give us a bit of a sense, just a general sort of idea, of your frame of mind when you were told that Lloyds Banking Group were accusing you of running an organisation that was about to go bust.

Reverend Flowers: Forgive me; I fear that in a similar way to Mr Tootell last week, I cannot recall precisely the conversations I had in January. All I do know is that the issues were discussed, and that we particularly discussed the likelihood of whether or not we should continue in discussion with them and whether another sort of deal was achievable.

Q861 Mark Garnier: Can you elaborate on those discussions?

Reverend Flowers: In the course of the year we went through something like six different processes.

Q862 Mark Garnier: What about in January, which I am particularly interested in? The whole point about this conversation that António Horta-Osório raised to us is that this is the number one flag. This was the point at which the, “We think this is going to fail” flag was run up the proverbial flagpole and we are getting absolutely no sense at all—

Reverend Flowers: Forgive me, but my recollection is that one of the issues that were discussed was whether or not Lloyds would be able to enhance the amount of capital it put into the deal. That was part of the discussion in the early part of 2012.

Q863 Mark Garnier: So, three or four weeks after the initial problem had been raised and the first point at which you were told about it?

Reverend Flowers: Yes.

Q864 Mark Garnier: At no point had the chairman of the bank been told that a counterparty to a pretty substantial transaction felt that you guys were in financial trouble?

Reverend Flowers: I believe that what Lloyds were saying was a reiteration of a letter sent from the regulator that had been sent in December, which was specifically about a range of issues that the regulator had, where we had been specifically asked to inform Lloyds about those issues, one of which, as you heard in detail last week, was about capital—

Q865 Mark Garnier: Can you start on that again? There was a letter that was sent by the regulator to you? I want to make sure I have got this right.

Reverend Flowers: In December.

Q866 Mark Garnier: In December 2012?

Reverend Flowers: 2011.

Mark Garnier: Yes, but we are talking about 2012 so this is a year earlier.

Reverend Flowers: I thought you were talking about the beginning of 2012.

Q867 Mark Garnier: I was talking about the conversation António Horta-Osório had in December 2012 in which they raised the problem. Sorry, you are quite right, there was a letter at the end of 2011when Andrew Bailey airs his concerns. But I am talking about this whole business of the António Horta-Osório conversation with your project management board—as you have described it—at the end of 2012, which you then did not hear anything about until the beginning of 2013.

Reverend Flowers: I believe that is the case.

Q868 Mark Garnier: That is right. I am still trying to get a flavour of what was going on in the management of this organisation that you run.

Reverend Flowers: I tend not to do synthetic anger, sir. I think it is important that when you are chairing a meeting—

Q869 Mark Garnier: You do not have to be synthetically angry to be worried about the management process of a bank that fails to keep you in touch.

Reverend Flowers: I accept that, but that is about trying to then deal in the board with the actual issues before you and trying to make certain that you address those issues.

Q870 Mark Garnier: Part of those issues are management communication issues, are they not?

Reverend Flowers: Yes, indeed.

Q871 Mark Garnier: How did you tackle this management communication issue? Nearly a full month went by before the chairman of a bank was told that a counterparty to a major transaction—

Reverend Flowers: I do not think it was a full month.

Q872 Mark Garnier: All right, three weeks. If it was more than a few minutes or a few hours, it would be worrying and I am sure you would agree.

Reverend Flowers: I do.

Q873 Mark Garnier: So what discussions happened about the management processes within your organisation that withheld critical information about the stability of your institution for more than a few days?

Reverend Flowers: Forgive me, I do not recall any such discussion and that was probably because I was at fault.

Q874 Mark Garnier: Why not?

Reverend Flowers: I should have done so but I did not.

Q875 Mark Garnier: Is it minuted?

Reverend Flowers: What is minuted is the discussion in the board about the issues themselves and the way in which we then addressed them in the board.

Q876 Mark Garnier: There is a bit more to go; we have a few other issues. There is a bit of a timeline of amnesia and it is a rather interesting management style. So in July 2011, Andrew Bailey visits Co-op Bank board dinner—

Reverend Flowers: At my invitation.

Mark Garnier: —at your invitation, and questions the Co-op's ability to take on Verde. Do you remember that?
Reverend Flowers: I do.

Q877 Mark Garnier: How did that go?
Reverend Flowers: What Mr Bailey was doing was putting down a marker about the particular hurdles that we would have to overcome should we get the FSA's support for a potential deal. He was doing his job.

Q878 Mark Garnier: This would have been general sort of chitchat. There is nothing menacing about this type of conversation at all.
Reverend Flowers: No, it was not menacing but it was certainly rigorous.

Q879 Mark Garnier: I appreciate that. But there was nothing threatening coming out of it. No bad news or anything like that.
Reverend Flowers: Not at all.

Q880 Mark Garnier: This was mentioned to us by Neville Richardson, not remembered at all by Peter Marks.
You also mentioned that, "At the tail end of 2011, Andrew Bailey airs concerns to Co-op Bank that it will not be able to transform itself sustainably into an organisation on the scale that would result from Verde".
Reverend Flowers: Yes.

Q881 Mark Garnier: This is the letter, "Andrew Bailey asks Co-op Bank to make his concerns known to Lloyds" and you did that, yes?
Reverend Flowers: I believe so.

Q882 Mark Garnier: Again, can you remember what happened within the management at the time? There was a lot of effort put in to that. Can you give—
Reverend Flowers: Forgive me; this is all part of a regular process where all these issues are debated every single month in the board meeting. This is an overriding concern from the regulator about a range of issues that we had to treat with great seriousness. Therefore, the team seeking to do the deal had to be supported in looking at those discrete issues and advise the board on whether or not we were likely to achieve a potential deal and whether, therefore, we could make certain that the issues raised by the FSA could be addressed.

Q883 Mark Garnier: At the beginning of this session, the Chairman asked you if you could remember anything about the Parliamentary Commission on Banking Standards and the report. You said you could not remember anything about it. Has anything come back into your mind at all since we have been talking over the last hour and 45 minutes?
Reverend Flowers: I fear that my mind has been preoccupied by a number of other things in the last hour and a half, so, no, I cannot.
Mark Garnier: You cannot. No, that is fair enough.
Reverend Flowers: Forgive me. I do remember reading the report a long time ago.

Q884 Mark Garnier: When you say "a long time ago", how long ago do you think? I just wonder if you are not confusing it with something else. When do you think it came out?
Reverend Flowers: I believe it came out in 2010.

Q885 Mark Garnier: No, we are at cross-purposes. If you remember, this is a report that was commissioned by the Chancellor of the Exchequer last year, as a result of the LIBOR scandals, and comes—

Reverend Flowers: Then we are talking at cross-purposes about different things.

Q886 Mark Garnier: We are talking at cross-purposes. It is quite an important report. I was on it myself, along with the Chairman and one or two other members of this Committee. It was a very well-crafted report—

Reverend Flowers: Of course.

Mark Garnier: —and had a number of very high profile and very important issues. It was published in July this year. What is very interesting about this is it had a great deal of comment to make about the responsibility of people who run banks. It would have been very, very relevant to you, particularly in the light of what has happened. I suggest you go and have a look at it.

Reverend Flowers: With great respect to you, if it was published in July this year, that was after I had resigned as chair of the bank.

Q887 Mark Garnier: So, after you resigned as chair of the bank, you took no further interest whatsoever in anything to do with the industry that you had been running just a few weeks beforehand.

Reverend Flowers: Not entirely. However, when you have been run through the mill and when you have gone through a fairly fraught time—as many people in this room will understand—it is reasonable to take a rest from the normal arduous issues that you were dealing with. I am not likely to have any future engagement in financial services and, although I have an interest in the matter, I am not going to take the close interest that I once had to.

Q888 Mark Garnier: Interestingly enough, one of the things we were very interested in in the Commission was the contribution that former chief executives and chairmen of banks could make to the regulation of future banks. It was something we discussed and did not necessarily report on.

However, the most high profile publication of this, or the one that received the most amount of interest by the media, was the concept of senior bankers taking responsibility for their actions; a senior persons regime. This is something that will hopefully be embedded within the regulation. The key element of this is that, in the event of failed institution, rather than the burden of proof being on the regulator to prove that senior people—such as yourself—who are in control of these organisations, were responsible for the collapse, it assumes a reversal of that burden of proof where people, such as yourself, effectively would have to prove that they were not responsible for the collapse of that institution. What would you say to that?

Reverend Flowers: I would say what I said earlier, that the institution has not collapsed. It has gone through considerable—

Q889 Mark Garnier: It has had to be bailed out. I think most people would define that as a collapse.

Reverend Flowers: Forgive me, sir, it has not had to be bailed out. It has found capital from other sources to enable it to survive. It has not required a bailout from public funds.

Q890 Mark Garnier: It has required a bailout from private funds.

Reverend Flowers: And indeed it has got them, which is how the market operates.

Q891 Mark Garnier: There are quite a lot of very worried people who have been bondholders. Less so now, but they have been very worried as I think probably everybody round this table has been—with the exception perhaps of the clerk—who would have received communications from these bondholders who were extremely worried that they were being asked to bail out this institution that you ran.

Reverend Flowers: I want to draw a line if I may between what happened when I was the chair and what happened after. I ceased being the chair at the very beginning of June. The issue of the bailout from hedge funds and others, and the issue of what happened with bondholders were not on my watch. I had resigned before then. I might have a view about the matter but it was not a view that I had to have as chair.

Q892 Mark Garnier: But you were running the institution as it steamed on to some sort of rock.

Reverend Flowers: Forgive me, I was the chair of the bank board and we all had responsibility. I have told you that I take responsibility for what happened on my watch.

Q893 Mark Garnier: So, had the recommendations of the Banking Commission been in place, you would not have contested that you were culpable.

Reverend Flowers: Forgive me; I cannot answer a hypothetical question.

Q894 Mark Garnier: But you take responsibility for what happened at the bank.

Reverend Flowers: I did take responsibility. I resigned. That seemed to me to be the right thing to do.

Q895 Chair: You have said you do not intend to take any further engagements in financial services businesses. Do you consider yourself a fit and proper person to run a bank?

Reverend Flowers: I do, and so did the regulator and so did my peers within the Co-operative Group.

Q896 Chair: That is then. I am talking about now, now we know what happened.

Reverend Flowers: I still do. However, we all come to an age when we want to retire from things and I am at that age.

Q897 Chair: All right. This is a business that has lost—do you know what it has lost in IT?

Reverend Flowers: In the last year's figures about £250 million.

Q898 Chair: About £300 million. Do you know what it has lost in PPI mis-sellings?

Reverend Flowers: The figure keeps on going up. It is now round about £300 million.

Q899 Chair: Do you know what the loan loss impairments are?

Reverend Flowers: I think we went through that earlier on. They were round about £800 million.

Q900 Chair: Two-thirds of these losses are not related to Britannia, are they? They are related to what was going on in the Co-op that you were running independently of that deal.

Reverend Flowers: Forgive me; are you talking about PPI in particular?

Q901 Chair: All three.
Reverend Flowers: PPI was something that used to occur but never occurred while I was chair of the bank, nor was I ever a director of the bank that sold PPI.

Q902 Chair: No PPI was mis-sold under your chairmanship?
Reverend Flowers: No, not at all.

Q903 Chair: None at all?
Reverend Flowers: None at all.

Q904 Chair: It was all sold prior to or after you left. Since you left in July that means prior to.
Reverend Flowers: Forgive me; it certainly will not have happened after I had left because no bank in its right mind would ever sell PPI these days.

Q905 Chair: We have no PPI on your books for which you feel in any way responsible?
Reverend Flowers: I take corporate responsibility with my colleagues for something that the bank did. It happened before I became the chair. Nonetheless, it happened and all banks are culpable of that mis-selling.
Chair: We might come back to it in a moment.

Q906 Mr Ruffley: Reverend Flowers, looking at your CV before I heard your evidence I thought you probably knew too much about God and virtually nothing about mammon. But you are someone who is very political, are you not, Reverend Flowers? You say in your CV that you have been an active member of the Labour Party since you were 16, and it is on your evidence on politicians that I now wish to turn. The Britannia deal and your reference to Mr Balls; just on a point of clarification, do you agree with Neville Richardson and Andrew Bailey, who in evidence to this Committee suggested approximately £550 million of the non-core corporate loan impairment in the group arises from Britannia-originated assets? Does that sound about right?
Reverend Flowers: Yes.

Q907 Mr Ruffley: That is about right. That deal was not very good, with hindsight, was it?
Reverend Flowers: I think—
Mr Ruffley: A "yes" or "no", was it good or bad?
Reverend Flowers: My view is that at the time it was the right deal.

Q908 Mr Ruffley: At the time it was the right deal. You talked about Ed Balls and I wrote down what you said. You said you had meetings in spring 2009. Let us remind ourselves. August 2009 is when the acquisition was completed. Then I think you are getting your dates muddled because you talk about the Private Member's Bill. That was passed in 2008.
Reverend Flowers: No, I am not getting my dates confused, sir.

Q909 Mr Ruffley: Okay. I will ask you this question. How many times did you meet Ed Balls?
Reverend Flowers: I did not meet Mr Balls at all.

Q910 Mr Ruffley: You did not meet him at all. You thought he was supportive.
Reverend Flowers: I was not on the bank board at that time, sir.

Q911 Mr Ruffley: You were not a director?
Reverend Flowers: Of the bank board, no.

Q912 Mr Ruffley: When did you become a director in 2009?
Reverend Flowers: My recollection is that it was about May or June.

Q913 Mr Ruffley: May or June, and the deal was August 2009.
Reverend Flowers: Yes.
Mr Ruffley: So you were on the board at the time the deal went through, Reverend Flowers?
Reverend Flowers: If my memory is correct in terms of timing, yes. But your question was about—

Q914 Mr Ruffley: No, hang on. August 2009, and you were the director in what month? It was before August 2009, we know that, Reverend Flowers.
Reverend Flowers: Forgive me; I was a member of the group board at that stage. I now cannot precisely remember the month I went onto the bank board.

Q915 Mr Ruffley: You were.
Reverend Flowers: Okay, then I was.
Mr Ruffley: You were a director of the bank.
Reverend Flowers: Okay.

Q916 Mr Ruffley: You mentioned Ed Balls in connection with the Britannia acquisition.
Reverend Flowers: I tried to express what I believed his role was. That was specifically to facilitate the passage of some parliamentary process.

Q917 Mr Ruffley: Who told you about Mr Balls and his interest in the Britannia deal?
Reverend Flowers: Forgive me; there was no interest in the Britannia deal save the official role he had to have.

Q918 Mr Ruffley: How did you find out about Mr Balls' involvement?
Reverend Flowers: It was a matter of common knowledge in conversation.

Q919 Mr Ruffley: It was a matter of common knowledge. But you did not take any phone calls from Mr Balls in relation to—
Reverend Flowers: No, I was a very lowly director, sir.

Q920 Mr Ruffley: You were indeed a director. I am glad you could remember that at least. Did you speak to Mr Balls after the Britannia takeover on any aspect of Co-op banking?
Reverend Flowers: No.

Q921 Mr Ruffley: None at all? You never met him?
Reverend Flowers: I have met him.

Q922 Mr Ruffley: Did you discuss on the phone or in person—
Reverend Flowers: You asked me specifically if I had met him and discussed—

Q923 Mr Ruffley: Let me clarify. Did you meet him or did you speak on the phone to him regarding Co-op banking business?
Reverend Flowers: I have never spoken on the phone to Mr Balls. I have met Mr Balls.

Q924 Mr Ruffley: Did you discuss Co-op banking business?
Reverend Flowers: No. We—
Mr Ruffley: No? Fine.
Reverend Flowers: No. We mainly met at Labour Party conference functions.

Q925 Mr Ruffley: You did not speak about Co-op banking business.
Reverend Flowers: No.

Q926 Mr Ruffley: That is fine. I want to clarify. You have given conflicting descriptions when you are talking about the absence of pressure or interference from politicians. I wrote down you have said variously in your evidence "There was no pressure" and then you have also said "no undue pressure". Being an intelligent man, Reverend Flowers, which is it? Is it no pressure, meaning no pressure at all, or is it no undue pressure? Those are the words the record will show you used. No pressure at all.
Reverend Flowers: I am trying, Mr Ruffley, to find the semantic distinction between the two.

Q927 Mr Ruffley: No pressure means none at all; no undue pressure means there was no serious undue pressure.
Reverend Flowers: There was no pressure.
Mr Ruffley: No pressure.
Reverend Flowers: There was—

Q928 Chair: Due or undue. That is what you are saying?
Mr Ruffley: Due or undue. There was zero pressure from politicians. Is that correct, Reverend Flowers?
Reverend Flowers: Thank you for using my title so elegantly, sir. My understanding is that politicians were supportive of the deal and that—

Q929 Mr Ruffley: You used the words, "Plenty of politicians willing it on" earlier and I am prepared to accept that. Can we just go back? You are a man of the cloth in front of a parliamentary Select Committee, so I think you should answer the question I am going to ask very carefully indeed. When you were asked about the politicians who might have spoken on behalf of Vince Cable, you used the words, "Nods of support from Vince Cable", and in response to Mr Mann you talked about other MPs. When you were challenged as to their identity you said you could not because of confidentiality. Then when you were challenged, looking very shifty—the average observer might say—you said, "Confidentiality", you paused nervously, shiftily, and then said you could not recall. Which is it?
Reverend Flowers: First of all, sir, it is never easy to be in a place where you sit before this august Committee and are questioned in detail about—

Q930 Mr Ruffley: You said it was a matter of confidentiality.

Reverend Flowers: Forgive me; I am just about to try to answer your question. What I want to indicate is that we were given clear views that Mr Cable was supportive of the deal that we were trying to do. He made many public statements as well.

Q931 Mr Ruffley: We are talking about the identity of the individuals, not Vince Cable.

Reverend Flowers: Yes. I did not have those approaches myself.

Q932 Mr Ruffley: No, listen, you were asked for the names of those individuals, not Vince Cable.

Reverend Flowers: Yes, indeed.

Q933 Mr Ruffley: First of all, you said you could not say because of matters of confidentiality, and then you changed it to say you could not recall. They are two diametrically opposed views that you are expressing. Which is it, Reverend Flowers?

Reverend Flowers: Forgive me; I am trying my best to answer honestly.

Q934 Mr Ruffley: Who were they?

Reverend Flowers: I said to you about two seconds ago that the approaches were made by other people to others within the group. I did not have those approaches directly. It was clear from other statements that Dr Cable has made that he was very supportive of the Co-operative and the endeavour that we were trying to do of taking Verde. Those are matters on the record.

Mr Ruffley: I have that.

Q935 Chair: I would just like to clarify one thing. It is quite understandable that you cannot remember. You might have known once but you do not know now. There is no reason particularly that you should carry words in your head. Now, why did you initially give the reply, “It is confidential”?

Reverend Flowers: I think that was stupid, forgive me.

Chair: David, do you have any more?

Mr Ruffley: I have actually.

Reverend Flowers: My apologies, I had no intention of trying to—

Chair: Okay.

Q936 Mr Ruffley: In response to the Chairman’s questioning on Project Verde, you were giving the suggestion, and you have been very clear throughout your testimony that you think the fact that politicians were involved was quite significant. Otherwise, you would not have bothered to go on about it so much, would you, Reverend Flowers? In connection with the question put to you, “Did it have any influence?” or words to that effect, you said as a throwaway line—and I do not know if you were being stupid at this point—you said, “It could so easily have been the other way round”. What did you mean by that?

Reverend Flowers: I am trying to recall the context in which that question was asked.

Q937 Mr Ruffley: It was in the context of Mr Hogan’s involvement.

Reverend Flowers: It would have been equally possible for Government Ministers and other politicians to have expressed a view that the deal was not a good thing to happen.

Mr Ruffley: Absolutely mad.

Reverend Flowers: Precisely, and that they may have wanted another contender to have done the deal. That was always a possibility.

Q938 Mr Ruffley: Fine. I have one more question. The meeting that has been referenced when Mr Bailey came to see you and he referred to that as a meeting at "the tail-end of 2011". He talked about several things but he especially talked about capital. Mr Flowers, what I wish to know from you is that when Mr Bailey talks about capital, on behalf of the FSA, what did you ensure happened: firstly, to transmit your action points in relation to capital back to the FSA; and, secondly, what in late 2011 did you transmit by way of information to Lloyds in relation to Bailey's concerns about capital? The question is in two parts and then that is it.

Reverend Flowers: Indeed, if I can say so, the meeting with Mr Bailey about a range of issues occurred in July 2011.

Q939 Mr Ruffley: I am saying "the tail-end of 2011" are the words that Bailey uses. But, go on, we are talking about the same meeting.

Reverend Flowers: It was in July 2011 when he came to meet with the board and discussed a range of issues that would be game-stoppers if we did not deal with those issues appropriately. Those were reiterated in a letter to me in December 2011, and they were then the subject of a huge amount of debate. It was precisely at that point that specifically in relation to capital, which is the issue that you evince, we set up a special board sub-committee to look specifically at that issue as the prime issue among the others being talked about by the FSA. That was the issue that we continued to discuss with the FSA at monthly and much more regular intervals, in terms of the issues that we thought could be addressed to raise the capital. It was about capital adequacy for the bank going forward, as well as the lobbying that we were engaged in as well.

Q940 Jesse Norman: Thank you very much indeed. Should I call you "Reverend Flowers"?

Reverend Flowers: You may call me what you like, sir. Many people do.

Jesse Norman: Mr Flowers or Reverend?

Reverend Flowers: Whatever you wish, sir.

Q941 Jesse Norman: Reverend Flowers, I want to start from a slightly different point, which is the Rochdale Principles. How important were they to the Co-op when you were there and how important are they or were they to you?

Reverend Flowers: Because you, sir, have had more experience of the co-operative movement than probably many other persons on the Conservative benches, you will understand that the Co-operative Group has those embedded within its DNA. I think that there are occasions when they are honoured more in the breach than in reality. Nonetheless, they undergird everything we say we believe in. I genuinely believe that the group board in particular takes those principles extremely seriously. Whether or not we can remember all of them is another matter entirely.

Q942 Jesse Norman: Including principles of transparency and honesty and all that stuff? Do say yes.

Reverend Flowers: Yes.

Q943 Jesse Norman: I apologise, I was slightly late for this and therefore I might have missed it. Have you told the Committee about your earlier background or experience or qualifications in financial services or banking?

Reverend Flowers: Yes.

Q944 Jesse Norman: Could you just briefly recall? It seems from your CV that you did not come with any, and therefore what you have you picked up while you were there.

Reverend Flowers: No, not entirely. What the Committee heard a little earlier was that I was appointed as chair because my peers and others thought that I had governance skills to bring to the role. As it happens, I had four years working for a bank before I went to university to read theology.

Jesse Norman: I understand.

Reverend Flowers: We had a discussion about the relevance and robustness of—

Q945 Jesse Norman: As I understood earlier, you were unclear about what the assets of the Co-op Bank were.

Reverend Flowers: Yes, indeed.

Q946 Jesse Norman: You also said—which I did hear, which I thought was odd—that the Britannia merger "cost us nothing". That is not true, is it? The terms of the merger were essentially a pooling of interests but it did cost you something because Britannia came with a £500 million or £600 million hole in the balance sheet that the Co-op has had to pay for.

Reverend Flowers: You are correct in that.

Q947 Jesse Norman: I understand. Despite that lack of board-level experience and unawareness of the shape of the balance sheet, you still regard yourself as having been a fit and proper person to be chairman.

Reverend Flowers: I may have many failings, sir, but one of them, I hope, is how to run a board and to try to ensure that the board asks rigorous and appropriate questions. That was my role.

Q948 Jesse Norman: Right. A fit and proper person does not concern that, does it? It concerns whether or not, from a regulatory standpoint, you satisfy the regulator that you have the skills, the expertise and the experience to be specifically in a banking role. We do not ask for fit and proper person tests of people who run other kinds of businesses because we are testing their ability, effectiveness and qualifications to be in a bank.

Reverend Flowers: Precisely, and that is why the FSA did approve me at two different junctures.

Q949 Jesse Norman: You accepted that judgment.

Reverend Flowers: What else can I do, sir?

Q950 Jesse Norman: I suppose a degree of self-criticism might have prevented you from accepting their judgment. Over the years, and while you were chairman of the bank, the Co-op made significant donations to political parties, did it not?

Reverend Flowers: No, the bank did not. The group did.

Q951 Jesse Norman: The group did?

Reverend Flowers: Yes. The bank is utterly neutral in these matters. The group as a whole makes political donations that are voted on each year at the annual general meeting.

Q952 Jesse Norman: By the members of the group?
Reverend Flowers: Yes.

Q953 Jesse Norman: When we see £800,000 to—I think it said in the annual report—the Co-op and Labour Parties in 2012, those have all been voted and approved?
Reverend Flowers: They were specifically for the Co-operative Party and for its work because we had made a judgment that it was useful to have that political linkage and colleagues working with us in the Co-operative Party.

Q954 Jesse Norman: It was important to you to support the Co-operative Party rather than the Labour Party?
Reverend Flowers: I believed that it was important to support the sister party, the Labour Party as well.

Q955 Jesse Norman: But the purpose of that donation was to support the Co-operative Party, it was not to support Labour.
Reverend Flowers: It was predominantly for the Co-operative Party. As a matter of course in General Election year, we made a one-off donation to the Labour Party. It is all very transparent; it is there in the accounts. My recollection is that during that last General Election the figure given to the Labour Party was about £60,000.

Q956 Jesse Norman: I have seen some information that suggested that the Co-op had given something like £6 million to the Co-operative Party and the Labour Party over the last 10 years.
Reverend Flowers: For goodness sake, if you add up the total figure the figure last year was—
Jesse Norman: I suppose over 10 years, £600,000, it would be—
Reverend Flowers: It has gone up each year, but last year the figure in the accounts was—this was a permissive figure, so it was not a figure that was actually given—the permissive figure, which the membership voted on in the annual report was about £1.15 million as a whole. That was for all political purposes, not just the Co-operative Party.

Q957 Jesse Norman: That is the cap and then the amount that is given is up to that level?
Reverend Flowers: Yes, and indeed we did not give up to the total cap.

Q958 Jesse Norman: Right. In 2011/2012, reading the Co-op accounts, it looks like the Co-op gave £50,000 to Ed Balls personally and £50,000 to his office. Is that right?
Reverend Flowers: My recollection is that we paid for a particular researcher to assist the Shadow Chancellor in the work that he needed to do, and that we believed to be a legitimate and proper use of resources.

Q959 Jesse Norman: You knew about that and approved it as part of your role on the Co-op board?
Reverend Flowers: Yes.

Q960 Jesse Norman: I understand. Did the Co-op Bank make available lending facilities to the Labour Party and to the Co-op Party?

Reverend Flowers: I am not aware of any lending at all to the Co-operative Party. I would be because I was a member of the National Executive of the Co-operative Party.

Q961 Jesse Norman: You would have been on the other side of any lending?

Reverend Flowers: Yes. I am aware that there was none to the Co-operative Party. There was, as is a matter of record, lending to the Labour Party but it would be improper for me to tell you precisely how much, save to tell you that it has been consistently reduced as an overdraft over many years.

Q962 Jesse Norman: The suggestion I have seen in the press is that it is about £3.9 million in overdraft facility, somewhat less than that in the amount drawn down.

Reverend Flowers: As Mr Dobbs said, you might think that so I could not possibly comment.

Q963 Jesse Norman: Thank you. That sounds like an informative raising of the eyebrow. Thank you. Can I ask then, when you approved these, and by the way—

Reverend Flowers: Forgive me, we did not approve them. If there was any lending this was done commercially by executives and never by the board.

Q964 Jesse Norman: Right. Therefore, there would be question of a concessionary rate or anything like that. It would just be normal business terms.

Reverend Flowers: Not as far as I am aware and, indeed, the amounts involved were so small compared with other lending that this would never have come anywhere near the board.

Q965 Jesse Norman: But possibly not small compared with the amount of the assets of the entity being lent to. It might be quite large from their point of view.

Reverend Flowers: It is hardly for me to say, sir.

Q966 Jesse Norman: Another highly eloquent eyebrow raise. Reverend, can I just ask you, if there had been a concessionary rate it would have come to the board of the Co-op Bank presumably, because it would have raised the question of—

Reverend Flowers: No, it would have gone to the exposures committee.

Q967 Jesse Norman: Okay. That is helpful, thanks. But the facts are that £100,000 was given to Ed Balls and his office between them in the year 2011/2012 when you were chairman of the bank.

Reverend Flowers: Forgive me; this was not money from the bank. I make it clear. The bank has a very clear policy of political neutrality.

Q968 Jesse Norman: I understand. You were senior deputy chair of the group at the time.

Reverend Flowers: Precisely, and the group has a clear view that it will engage in political activity to support co-operative endeavour and co-operative values, and we see absolutely no reason why that should not continue.

Q969 Jesse Norman: That could potentially occur from any political party. You could potentially support the Conservative Party if it were sufficiently committed to co-operative values and the Rochdale Principles.

Reverend Flowers: I do believe in heaven, sir, yes.

Q970 Jesse Norman: Is that a polite way of saying that would never happen in reality, although it is a theoretical possibility implied by what I have just said?

Reverend Flowers: I have a lot of Conservative friends, but in my experience of them they have not been noted supporters of co-operation.

Q971 Jesse Norman: Although notionally open to all political parties, it is in fact reserved to the Co-operative Party and the Labour Party?

Reverend Flowers: It is a matter for the group board to make a recommendation to the membership at the annual meeting about how that money should be spent, and therefore hypothetically your statement is correct.

Q972 Jesse Norman: You are quite comfortable that all these transactions meet the Rochdale Principles of openness and transparency?

Reverend Flowers: Absolutely.

Q973 Jesse Norman: You are aware the Rochdale Principles were amended and the original principles included political neutrality?

Reverend Flowers: I do. They were amended in the 1920s for very good reasons.

Q974 Jesse Norman: It is only because they were amended that these transactions can have taken place and you were able to support them?

Reverend Flowers: The 1920s was a long time ago, but there was a lot of political conversation at the time about why this was necessary. We believe in supporting political friends in the same way that many other businesses have consistently supported their political friends, and we believe that the small amounts of money we give are small redress for the amounts given by other substantial donors.

Q975 Jesse Norman: These have not coloured your opinions in the dealings you have had with Labour politicians, or the lending decisions made by your colleagues?

Reverend Flowers: I have no part in lending decisions, and it would not colour them in any shape or form whatsoever.

Q976 Chair: Mr Flowers, I quite understand that you will have found today an uncomfortable experience. But I hope you also realise that a lot of people have lost a lot of money and the co-operative model has been badly damaged, one that while you were chairman, even while the bank was folding around you, you were trumpeting. I have one example of that in front of me now where you were suggesting that the co-operative model should step forward because, as you put it, "Against the backdrop of a world left financially and spiritually poorer by corporate greed and speculation, the co-operative business model has once again gained contemporary relevance". But the truth is that your chairmanship of the Co-op has severely tarnished the co-operative model, hasn't it?

Reverend Flowers: I do not think so, sir. I genuinely do not think so. Thank you for reminding me of my hyperbole, and all of us would doubtless sometimes have difficulty with having speeches that we made some time ago shot back at us to try to recall whether that was correct or not. I believe that the co-operative model has gone through a difficult period because of a range of different circumstances.

Q977 Chair: This was January 2012.

Reverend Flowers: Forgive me; we have discussed those circumstances in great detail in this Committee today. That does not mean that the model itself is bad or that it will continue to be a good model for future operation of businesses. That is still my view.

Q978 Chair: You have given a great deal of evidence today. It has certainly been colourful in places and of eyebrow-raising interest. Indeed, your eyebrows moved around a good deal this afternoon. There have been a number of—I hope you do not mind me characterising it this way—big contradictions in your evidence. One of the biggest, and perhaps not the biggest, is that you have, not initially but after a while, taken responsibility for this failure. You have said that you take responsibility and that is why you resigned, and that is a reflection of the fact that you bear responsibility for the failure of the Co-op. Yet you still think you are a fit and proper person to run a financial institution. I just want to give you one opportunity to think again about that reply before we close this afternoon, Mr Flowers.

Reverend Flowers: Forgive me; I think there is no contradiction between the two, sir. I think a responsible person of integrity, who takes responsibility when something has gone wrong, when it has happened on their watch, is trying to say something about what they believe is their integrity and their fitness to do something in the future. As it happens, the issue is entirely hypothetical because I can conceive of no way in which I, in my semi-retirement, would ever wish to be involved in running another financial service institution.

Chair: We realise this has been a bumpy ride and there may be things that you would like to clarify afterwards. If you want to, please put them down in writing afterwards. Thank you very much for giving evidence this afternoon, Mr Flowers.