

HOUSE OF COMMONS
ORAL EVIDENCE
TAKEN BEFORE THE
TREASURY COMMITTEE

PROJECT VERDE
TUESDAY 22 OCTOBER 2013

PETER MARKS

Evidence heard in Public

Questions 235 - 485

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Oral Evidence

Taken before the Treasury Committee

on Tuesday 22 October 2013

Members present:

Mr Andrew Tyrie (Chair)

Mark Garnier

Stewart Hosie

Andrea Leadsom

John Mann

Mr Pat McFadden

Mr Brooks Newmark

Jesse Norman

Mr David Ruffley

John Thurso

Examination of Witness

Witness: **Peter Marks**, former Chief Executive, The Co-operative Group, gave evidence.

Q235 Chair: Thank you very much for coming in this morning to discuss the Co-op, Mr Marks. I think you would agree that the Co-op, both as a group and as a bank, was strong seven or eight years ago and both are now very weak. How much of that is down to you?

Peter Marks: I have spent 45 years of my life working for the Co-op, starting at the bottom and becoming chief executive. Over the last five years, the retail arm has doubled profits, quadrupled dividend, made record levels of capital investment, transformed its brand and strengthened its values. So it is harsh to say that the group as a whole is weakened. Absolutely, the bank is weakened and that is a tragedy. It is a tragedy for me particularly, but for the group as well. That is what I would say. In terms of my role—

Q236 Chair: Before we leave the group, are you saying that overall, therefore, you think that the group is still strong or that it is weak now?

Peter Marks: It depends what you mean by strong or weak. The bank has weakened the group, because the group is the sole owner of the bank, and I accept that, but the food business, the funerals business, the pharmacy business, legal services and all of its eight other substantial businesses are in stronger positions now than they were in 2007, when I took over.

Q237 Chair: The bank represents about 40% of shareholders' funds?

Peter Marks: Yes, I believe it is that kind of figure.

Q238 Chair: And was that figure a bit higher prior to the crash?

Peter Marks: I am sorry, Chairman, I cannot remember that.

Q239 Chair: But we are talking about a little less than half here, are we not? So what you are saying is that a good half of the Co-op has been wrecked by the other half?

Peter Marks: You could look at it that way.

Q240 Chair: Is there any other way you can look at it? You cannot say that the good half has wrecked the bad half.

Peter Marks: I am not sure that the bad half has wrecked the good half. I still think there is a good future for its food business, its funeral business and so on and so forth.

Q241 Chair: Okay. Now let's turn to those weaknesses in the banking half—or slightly less than half. What responsibility do you bear for the demise of that part of the Co-op?

Peter Marks: I wonder if I could at this stage help the Committee by explaining the governance. I think that may be helpful. The group is governed by 20 non-executive directors who are elected democratically. Neither I nor any of the executive team were members of that board. The bank board is made up of 15 people, roughly a third executive, a third non-executive of which I was one, and a third independent professional non-executives. My official role with the bank was that of non-executive director. But I share responsibility, as a non-executive director, clearly for the demise of the bank.

Q242 Chair: But are you saying that you don't have responsibility because somehow the board of the Co-op as a whole, of which you were chief executive, does not really have any direct influence on the bank?

Peter Marks: No. The board has a number of non-executives to represent the shareholder, which is the group. I was one of those non-executive directors. But the bank was ring-fenced by regulation. So it had its own board and its own chief executive and executive committee.

Q243 Chair: May we come back to the question I asked? I want us to be clear. Perhaps I will ask it in a slightly different way. What do you think are the key mistakes that have more or less destroyed this banking arm of the Co-op? Why don't we just run through where the losses are? It is Britannia; it is the IT failures; it is PPI. There are also quite a lot of self-certified mortgages and other specialist mortgages and some further commercial real estate lending to come which we don't yet know the scale of losses for. Correct? Are there any other major heads which we should include?

Peter Marks: I don't think so.

Q244 Chair: Well let's just go through these. Which of these—they could arguably be called mistakes, and you may say that they weren't mistakes by all means if that is your view—which of these decisions, and behind each of those losses lie decisions, do you feel you bear responsibility for?

Peter Marks: If we take Britannia, I agree with the evidence that was provided to the Committee by Andrew Bailey when he said that the large amount of losses were due to the Britannia book. So if we go back to 2009 when we made the decision to merge with Britannia, I was on the board and I voted for that as a non-executive director. It was a friendly transaction: two mutuals coming together. We hired consultants—advisers—to do proper due

diligence. It was a lengthy process and fair value was attached to the assets of the business. We accepted the advice that we were given.

Q245 Chair: How much scrutiny of that deal took place at group level?

Peter Marks: The scrutiny was largely at bank level, because that is where the banking expertise was, particularly among the professional, non-executive directors.

Q246 Chair: But the risk lay with the group, didn't it? And it still does.

Peter Marks: Yes.

Q247 Chair: I am surprised that you hesitate about that. What I find perplexing in all your answers is the idea that, somehow, the group was over there and did not really matter so much and all the mistakes happened down in this banking group when, in fact, this is the holding company: the heart of the group. You were chief executive of it, and now you tell us that the group did not even look at this deal very carefully.

Peter Marks: I know that it sounds complex and different, but that is how the group is governed. The bank is a separate entity—it always has been. The group supervises its ownership of the bank by having non-executive directors on the bank board.

Q248 Chair: You are describing a severe structural weakness, or failing, at the heart of the Co-op, aren't you?

Peter Marks: You could interpret it that way.

Q249 Chair: I am asking whether you interpret it that way.

Peter Marks: There are areas of governance within the Co-operative that absolutely need to change.

Q250 Chair: Why didn't you change them?

Peter Marks: I was not a member of the board. On many occasions, I had conversations with the board in which I said, for instance, that I believed they were doing too many things. How many businesses try to be a major bank, a major food retailer, a major pharmacist, a major funeral services provider and so on?

Q251 Chair: So you were warning them the whole time?

Peter Marks: Not about the bank specifically; I was warning them that they needed to focus on fewer businesses. They were stretching their capital, and still do, over too many businesses.

Q252 Chair: You were chief executive for six years?

Peter Marks: Yes.

Q253 Chair: So you were in a position to do something about it. Are you saying that you were only a nominal chief executive and the real decisions were taken somewhere else?

Peter Marks: No. The chief executive in a co-operative is very different from a chief executive in a plc. In a plc, you will find the chief executive, and his executive team, on the board. In the Co-operative movement, that is not the case. You have 20 people, elected democratically. Therefore, the chief executive's role is to try to persuade the board with regard to strategy. We were focusing very much on bringing new life to the retail arm, which, as I said earlier, I believe we did successfully.

When I took over in 2007, the food business was declining. It had a 4% market share while all the other food retailers were growing their businesses. We needed to change that and we did.

Q254 Chair: I am still trying to come back to the question whether you, as chief executive, feel a sense of responsibility for this clear, serious structural weakness at the heart of the Co-op that you now say is responsible for the failure.

Peter Marks: I am not sure, Chairman, that you can attach the problems that emanate in the bank purely to the governance of the Co-operative.

Q255 Chair: I am only following what you just said to me. When I asked you about where the sources of these mistakes lay, you replied by saying that you felt the need to talk about the governance. You then described a weakness in the governance. I now ask you whether you feel you bear responsibility for allowing that to remain.

Peter Marks: I don't believe that I could have changed the whole governance of the Co-operative movement, which was established in 1860. It is a democratic organisation, and its whole ethos is democracy.

Q256 Chair: But you could have flagged up to them, "This is an unsustainable business model. We have to do something about this. We can't have this organisation run by a plastering contractor, a farmer, a telecoms engineer, a computer technician, a nurse, a Methodist minister"—who, incidentally, also chaired the bank—"and two horticulturists."

Peter Marks: That was the nature of the beast, Chairman. As chief executive, of course I could comment on the way that the Co-op has been developed, its history and so on, but there is no way I could have had the power to say, "You need to stop electing members democratically to the board." That was a fundamental principle of the whole co-operative ethos.

Q257 Chair: You were on the board of the bank. When the bank engaged heavily in PPI selling, did that come before the bank board? Did you find that that issue was discussed?

Peter Marks: No.

Q258 Chair: Not at all?

Peter Marks: I don't recall it, Chairman.

Q259 Chair: It has done a bit of damage to the image of an organisation that prides itself on ethical conduct, don't you think? It has been fined over £200 million for mis-selling. You have been telling your customers that you aim to "be an ethical leader...To build a better society by excelling in everything we do."

Peter Marks: Chairman, I accept that its reputation as an ethical bank has been damaged by PPI mis-selling. I do not think the Co-op has ever claimed to be perfectly ethical. I do believe very strongly that it tries to be more ethical than other organisations, and that is largely because it does not profit-maximise. For instance, it tries to provide banking for socially excluded people, not at any profit. That is just an example of what it does. It also turns down about £2 billion-worth of business a year that does not represent the kind of business that it wants to do.

Q260 Chair: Before I hand over to one of my colleagues, I want to come back to the question I asked earlier. What share of responsibility, if any, do you feel for the major mistakes that appear to have been made in the banking arm that have more or less destroyed it, or gravely weakened it, and weakened considerably the group as a whole? We agreed on the list, pretty much. You have had a moment to think about it. You have probably had years to think about it. Are you clear in your mind whether you are really responsible for those mistakes?

Peter Marks: As a non-executive director of the bank, of course I share responsibility. Should we have merged with Britannia building society? If we had had a crystal ball, of course we wouldn't have, but we relied very heavily on the fair value and due diligence work that was done on our behalf.

Q261 Chair: So it is the professional advisers' fault?

Peter Marks: You can never—

Q262 Chair: Who were your advisers?

Peter Marks: KPMG.

Q263 Chair: Who on the banking board was really running that deal?

Peter Marks: The chief executive of the bank, David Anderson.

Q264 Chair: So you think that he was responsible?

Peter Marks: Partly.

Q265 Chair: He is the key figure who carries the can on that issue? Or are we going to have another one of these discussions that we have had with so many banks, where somehow nobody feels individually responsible for anything?

Peter Marks: I think we all have to take some degree of responsibility, Chairman, including me, but—

Q266 Chair: I'm asking you who was primarily responsible. You have said it was not you, so who was it, Mr Marks?

Peter Marks: The architects of the Britannia merger deal were David Anderson and Neville Richardson. David Anderson was the chief executive of the bank and Neville Richardson was the chief executive of Britannia building society.

Chair: Okay. We have the answer to the question—unless there is a very important rider you want to add.

Peter Marks: I just want to say that I do not want to sit here and say, “It’s not me.” I was a non-executive director of the bank.

Q267 Chair: We have heard what you said on that but you have now given us an answer to that one. What about the IT failures—who was responsible for those? Who was driving that?

Peter Marks: Again, that was driven by the chief executive of the bank.

Q268 Chair: Mr Anderson?

Peter Marks: It started under Mr Anderson. When Neville Richardson took over, he continued it.

Q269 Chair: What about this heap of impaired self-certified mortgage lending and other lending that we are still grappling with, which has gone sour? What is it—£7 billion out of £20-something billion?

Peter Marks: Again, that largely arises out of the Britannia book, which Mr Bailey has talked about. I agree with him.

Q270 Andrea Leadsom: Good morning, Mr Marks. It would seem to most people listening to this evidence that, effectively, you are saying, “It’s not my fault—I was just voted on to the board.” What any normal person would rely upon, namely that the chief executive of the holding company—the group—would be accountable, you are therefore effectively saying is not the case because the Co-operative movement is different from other structures in the banking sector. Is that right?

Peter Marks: Yes. The banking arm of the business was ring-fenced by regulation. I was approved by the FSA as a non-executive director.

Q271 Andrea Leadsom: Bearing in mind that most people would have thought that the chief executive of the Co-operative Group would have known what was going on in the bank and would have been protecting the group’s investment in the bank, would you not agree that at some point, as the chief executive, you should have made clear—before it all went horribly wrong—that actually you were not in a position to be in authority over what went on in the banking arm?

Peter Marks: I think that was patently clear to the group board and everybody else within the organisation.

Q272 Andrea Leadsom: But we are only hearing about this for the first time on the Treasury Committee, so I think you can probably count on the fact that there will be many bondholders and other investors in the Co-operative Group who also relied on the fact that the group knew what was going on and that the chief executive was accountable for that. Effectively, you are saying that that is not the case.

Peter Marks: I couldn’t be accountable because I wasn’t approved by the FSA to run a bank. That was not my role in the organisation.

Q273 Andrea Leadsom: Okay, so effectively then it was a case of “buyer beware” for all those bondholders who now feel very bitter about the whole thing: they should have found

out that you couldn't be accountable because you weren't regulated by the FSA to be responsible for the banking arm. How do you think that somebody in your position should have made it clear to the public that actually the bank could effectively bring down the group and there would be nothing you could do about it?

Peter Marks: It is difficult to answer that question. All I can tell you is what the governance structure of the group was and what my role was in that. The bondholders, I would have thought, would see the bank almost as a separate entity. I am not sure that the bondholders would rely on the fact that the bank was owned by the group. But I don't know—I am not a bondholder, so it is difficult for me.

Q274 Andrea Leadsom: The Co-operative movement, as you put it, elects members to its board who may or may not have any experience relevant to the business that they are trying to run. With the benefit of hindsight, would you say that that needs to change in the 21st century?

Peter Marks: Yes, I think it does need to change.

Q275 Andrea Leadsom: So that would be your strong advice to the Co-operative movement—that they should change their governance structures in the wake of your experience?

Peter Marks: Absolutely, yes.

Q276 Andrea Leadsom: Thank you. I would like to come on to one other point, namely political involvement in the decision to award the bid for the Lloyds bank branches to the Co-op. Specifically, Lord Forsyth, who was a member of the NBNK board, has said that he was certainly aware that political pressure was applied during the process of the deal. He further said: “how on earth did we get to the situation that everyone can now see is inexplicable?” In that, he is referring to the fact that the Co-op went ahead, rather than NBNK. So tell us whether, in your experience, any political pressure was brought to bear to encourage the Co-op to bid for the Lloyds branches.

Peter Marks: None that I am aware of.

Q277 Andrea Leadsom: Absolutely not?

Peter Marks: Not that I am aware of.

Q278 Jesse Norman: In July 2011, Neville Richardson approaches various members of the Co-operative Financial Services board with his concerns about overstretch across a series of businesses. He then meets various members, and he has testified to us that he did so using a script, because he was sufficiently concerned about the legal implications of the things he was saying. Would you talk us through what happened from your perspective at that time?

Peter Marks: Yes. There is no doubt that Neville Richardson expressed concern about management stretch, both to me and to the bank board. It is something that we discussed in the bank board and at the management level. Having consulted widely with Neville's team, none of us on the bank board thought that management stress was so great that we should not go ahead either with Project Unity or Project Verde.

Q279 Jesse Norman: Right. So you considered his concerns, then dismissed them, essentially? You disagreed with them?

Peter Marks: Yes.

Q280 Jesse Norman: Shortly thereafter, he ends up leaving the institution?

Peter Marks: Yes.

Q281 Jesse Norman: Why was that?

Peter Marks: I can only assume why he left. He decided that he wanted to leave.

Q282 Jesse Norman: What did he tell you about why he wanted to go?

Peter Marks: Actually, he didn't. I do not recall him saying: "I'm leaving because of..." He tendered his resignation after a number of discussions with me and the board, but I do not recall him specifically saying: "I am leaving because of x, y and z".

Q283 Jesse Norman: He met Paul Flowers, who is the CFS chair and group deputy chair, and Rodney Baker Bates, who was the CFS deputy chair, before he met you, didn't he?

Peter Marks: I don't recall, but if he says that, I don't disagree with him.

Q284 Jesse Norman: His testimony says that he did that. At that point—in 2011—you had been chief executive of the institution for four years. So he came to you because you were the boss. He had had a series of discussions with these other folk and he comes to you for a final showdown to say: "Are you paying attention to these serious concerns that I am bringing to your attention about Verde and Unity, and can I please appeal to you to take some action on it?"

Peter Marks: Yes.

Jesse Norman: And you turned him down.

Peter Marks: We disagreed.

Q285 Jesse Norman: Fine. At almost exactly the same time, Andrew Bailey comes to visit you from the Prudential Regulation Authority, or as it then was, the FSA, does he not? It was in Mr Richardson's testimony that it was in the same week.

Peter Marks: I can't remember that meeting at all. He didn't come to see me. Andrew Bailey never came to see me at all.

Q286 Jesse Norman: Were you aware of the concerns that he had expressed on grounds of overstretched management capability, capital and information systems at exactly that time to the Co-operative?

Peter Marks: Are we talking about Project Verde?

Jesse Norman: I'm just talking about the time he visited. He visited in July 2011.

Peter Marks: He certainly came to see the board and talked about what we needed to do. If I may refer to his comments, he said the board was told about five areas of the business they had to deal with: capital, liquidity risk management, integration, governance and management. He went on to add that Verde would have brought the Co-op three things: capital—because Lloyds were putting capital in—management and IT systems. All would

have been of benefit to the Co-op. I absolutely agree with that and the other two were being dealt with as well. On risk management, the board of the bank, following that conversation, appointed a new head of risk.

Q287 Jesse Norman: So the chief executive has presented his concerns; they have gone up the tree within Co-operative Financial Services. He has come to you as a court of final appeal. You have disagreed with him. He has resigned. The institution then goes spectacularly bust; and you are telling us you don't feel a strong degree of personal responsibility for that?

Peter Marks: I don't think that management stretch was the cause of the bank's problems. It was a capital problem, and I don't think that not pursuing Verde or not pursuing Project Unity were things that created the problem. In fact, Project Unity, which was very simply the bank and the retail businesses working together to save costs and cross-sell products—that project delivered around £70 million on the bottom line in the first 18 months of its life. That doesn't seem to me to say that there is a management stretch problem.

Q288 Jesse Norman: But I don't understand that, because you have already testified to this hearing that you warned the Co-operative board—the group board—about the dangers of doing too much.

Peter Marks: That was not to do with the bank, Mr Norman. That was to do with the fact that it was not just being a bank, but a food retailer, a farmer, and so on and so forth. That was a strategic issue surrounding the whole group. What Mr Richardson was talking about was management stretch within the bank, and I did consult, on a number of occasions, the banking team, the executive team of the bank, and ask the specific question, “Are we doing too much? Is this going to cause a problem?” The answer was no. There was an enormous amount of enthusiasm for both Project Unity and Project Verde among the management team of the bank.

Q289 Jesse Norman: Mr Richardson has testified to us that you were one of the driving forces, if not the driving force, behind the decision to bid for Verde.

Peter Marks: Yes.

Q290 Jesse Norman: Why was that?

Peter Marks: The rationale, for me and for the bank board, and the group board, was clear. The bank, in our view, was sub-scale. It needed to build scale to compete and survive. Verde represented a great opportunity to achieve that scale, and brought with it significant capital—£1.5 billion, I think, was the number; a high quality CEO, Paul Pester, who was appointed, if the deal went ahead, as the new chief executive, and was approved by the FSA; and a management team to strengthen the Co-op management team. It gave the Co-op access to the Lloyds IT systems, which was very important, saving capital but also de-risking execution. It meant that we did not have to migrate customers' information from one system to another, which is where the risk is. I think, also, not discounting what the Chairman said about the ethical issue, it was a great opportunity for the consumer, for the bank to be a real competitor.

Q291 Jesse Norman: Okay, so this is a deal, then, that is really being driven by the Co-operative Group rather than by Co-operative Financial Services. Is that right?

Peter Marks: Both. Very much so, yes.

Q292 Jesse Norman: And it is a deal which is going to take you from 100 branches to 1,000 branches?

Peter Marks: Yes.

Q293 Jesse Norman: So do you now accept, then, that as the driving force you were not really acting as a non-executive director of Co-operative Financial Services—that you were in fact the architect of this, and it was a catastrophic misjudgement?

Peter Marks: No, I don't accept that. I don't think our—

Q294 Jesse Norman: Well, you were the driving force. You must accept that.

Peter Marks: Yes. Look—

Q295 Jesse Norman: The group was in the vanguard, was in the driving seat. You were pushing it forward. It was not merely a Co-operative Financial Services deal; we know that's true.

Peter Marks: Yes.

Q296 Jesse Norman: So then the question is, why wasn't it a catastrophic misjudgement?

Peter Marks: Because I don't think that our examination of this opportunity was at the heart of what's happened to the bank. What has happened to the bank is that it hasn't got sufficient capital. This acquisition would have brought capital into the bank, as Mr Bailey has said; I absolutely agree with him.

Q297 Jesse Norman: And you had taken steps to assure yourself, in that driving role, that the due diligence that had been done was satisfactory and that the institution had the capability and the capacity to manage the network if the transaction was successful?

Peter Marks: Absolutely. It took us two years to consider this acquisition.

Q298 Chair: You have said you were the driving force behind this financial acquisition—banking acquisition. What qualifications did you have to be on the board of a bank?

Peter Marks: I worked very closely with the chief executive of the bank and his team, so—

Q299 Chair: We'll come on to that in a moment. What qualifications did you have to be the driving force behind a huge deal of this type?

Peter Marks: Well, I was the group chief executive and I had negotiated deals of this nature before. We acquired Somerfield, which is a major food business, in 2008 and successfully integrated it, so—

Chair: This is a banking deal.

Peter Marks: Yes, I accept that.

Q300 Chair: I'll have a third go. I'm just asking you: what qualifications do you have to examine, scrutinise and ensure thorough due diligence of a banking deal?

Peter Marks: I don't think I needed it, Chairman, because the chief executive of the bank was actually running the process. I was—

Q301 Chair: So you were relying on the chief executive for that?

Peter Marks: Yes, and his team.

Q302 Chair: You weren't doing the work yourself?

Peter Marks: No.

Q303 Chair: You were relying on someone else to do it?

Peter Marks: Yes.

Q304 Chair: Did Neville Richardson have a reporting requirement to the group?

Peter Marks: He reported to the chairman of the bank initially, but in 2010, I think it was, when the group board wanted to institute Project Unity in order for this to be a success, it was felt he reported to me, and he was made deputy group chief executive. But it was important that he was running the bank, not me. I was very careful not to interfere with the running of the bank, and the FSA as was made it very clear that my influence, because I am not a banker, was limited to Project Unity.

Q305 Chair: I'm just trying to get clear where the driving force behind this lay. You have said that you were the driving force behind it, but at the same time, what you have just said—correct me if I have misunderstood or you want to qualify it in some way—is that actually the responsibility for this lay not with you, not least because you were not qualified to take that responsibility, but with Neville Richardson.

Peter Marks: No, Neville Richardson had gone by then, so—

Q306 Chair: Lay with the chief executive.

Peter Marks: Yes, and look—

Q307 Chair: Throughout the period that you were dealing with the bank?

Peter Marks: The way the Co-op works—this is not a dictatorship. On numerous occasions, I said to the management team and the board, "I'm retiring"—

Q308 Chair: I am trying to get to the issue of who, if anybody, is carrying individual responsibility for the deal.

Peter Marks: It was joint responsibility.

Chair: We have heard that before.

Peter Marks: Well, I'm sorry, Chairman—

Q309 Chair: Everybody collectively moving forward together and nobody actually responsible for running it. Did you take a look at the recommendations of the Banking Commission?

Peter Marks: I believe I did, but—

Chair: Sorry, was that a yes or a no?

Peter Marks: I don't recall looking at them in detail, Chairman, but—

Chair: Well, have you looked at them at all?

Peter Marks: Yes.

Q310 Chair: What is probably the prime recommendation of the Parliamentary Commission on Banking Standards?

Peter Marks: I can't remember; I'm sorry, Chairman.

Q311 Chair: It is that individual responsibility should be taken for actions in banks, and you are saying that there was no individual responsibility for these decisions—that they were always jointly owned. Is that correct?

Peter Marks: Yes.

Q312 Chair: Did you have a lot of informal chats with the chief executives under you of the bank at this time?

Peter Marks: I had lots of formal and informal chats, yes.

Q313 Chair: Did you ever vote against a policy on the bank board?

Peter Marks: I don't recall, Chairman, that I voted against a policy.

Q314 Chair: Did you ever vote against anything on the bank board?

Peter Marks: I don't remember voting against. There were lots of things that we discussed. I certainly remember challenging and querying. I don't actually remember.

Q315 John Mann: Good morning. First, I want to clear my mind and clarify a couple of facts. You were group chief executive and you oversaw the integration of Somerfield—you mentioned that a minute ago—and the integration of Britannia.

Peter Marks: No. The integration of Britannia was overseen by the CEO of the bank.

Q316 John Mann: So you oversaw Somerfield but not Britannia?

Peter Marks: Correct.

Q317 John Mann: A strange structure then.

Peter Marks: It is a strange structure but none the less true.

Q318 John Mann: You chaired the risk committee of the group?

Peter Marks: No—oh, I'm sorry—the group risk committee. Yes.

Q319 John Mann: So you were looking at all issues related to risk. When your retirement was announced on 7 August, you were not quite as hesitant in what you said to the media. Let me quote your words on Project Verde. “Having done the deal it now feels like the right time to hand it over to my team.” That does not have the ambiguity that you just gave to the Chairman of this Committee.

You went on to say, “Just look at the state the banking industry is in. The Co-op brand is back on track and in renaissance and what a time to do it.” That was referring to the deal. “Mutualism is back in vogue, with what has happened in the plc world.” You also said in relation to your time there, “It has been full on for the last six years. I am now running one of the biggest businesses in the UK.” Your group chairman said of you, “Peter was the architect of the current strategy to ensure that we developed real scale in our key businesses.” So then you were at the heart of it.

Aren’t the facts of the matter rather simple? You and others were totally out of your depth in expanding the size of the Co-op so quickly. It is that attempt to grow so rapidly when you were all out of your depth that has led to the Co-op’s current catastrophe.

Peter Marks: I reject that completely. The strategy, as I said earlier, was to build scale in our businesses. When you look at the food business and what we achieved over the five years that I was in charge, integrating Somerfield, in the depths of arguably the worst economic recession in living memory, and giving the Co-op food business a real future, I am actually very proud of what we achieved in the retail businesses.

Q320 John Mann: It sounds to me—I may be wrong—that two American hedge funds, Aurelius and Silver Point, are about to take over the strategic direction of the group. That is what seems to be happening today, unless I am wrong. That is what was reported yesterday. So we have a membership organisation that, in your words, saw a massive opportunity because of what happened in the banking world, and you rushed into it. I put it to you that you were out of your depth; you got it wrong. You critically didn’t assess the risk, which was your role in the group, and we have a catastrophe here. Is there or is there not a catastrophe currently facing the group?

Peter Marks: Not borne out—first, the hedge funds are not controlling the group; they are controlling the bank. We took two years to look at Project Verde. That is not rushing into something, by any means. At the end of the day we pulled out; we did not go ahead. Santander pulled out of the RBS deal after a similar period of time.

Q321 John Mann: But when you did you blamed the regulators.

Peter Marks: No, I am not blaming the regulator.

Q322 John Mann: Well, that’s what the group’s statement said at the time you pulled out. You blamed the regulators. Are you trying to say that the group didn’t make a disastrous error with Britannia?

Peter Marks: In hindsight, with a crystal ball, we should have—

Q323 John Mann: Everything in life is with hindsight. Did the group make a disastrous error with Britannia, in your judgment?

Peter Marks: It didn’t feel like it at the time.

Q324 John Mann: Today is today. Did the group make a disastrous error in its judgment on Britannia?

Peter Marks: I think “disastrous error” is harsh, but it certainly was an error.

Q325 John Mann: Why have two hedge funds taken over the Co-op bank, then? You are painting a rosy picture of everything being done properly by people who knew what they were doing, but the Co-op bank is now being controlled by American hedge funds. Is that what the pioneers who formed the Co-op anticipated—that it would be in the hands of American hedge funds?

Peter Marks: Things have moved on since the pioneers. It is a tragedy, but in many ways it can be seen as a good thing. In actual fact, it will force the Co-op to focus on fewer businesses and not stretch its capital in the way it has done.

Q326 John Mann: You’ve said that the mutual model was in vogue. Isn’t the truth that what was in vogue was the same irresponsible risk taking that Goodwin and others did in other banks? You and your colleagues had exactly the same mentality. You reached for the sky, you got nowhere near it and you are leaving someone else to inherit the mess.

Peter Marks: No, not at all. I absolutely deny that that is the case. The Britannia deal, when you look at it, was two mutuals coming together. I guess it was a victim of the economy. The loans that were made in Britannia have gone sour to some extent because of the economy. We should remember that banks need to be able to compete; they need scale. That was the strategy behind the Britannia deal. I repeat that I was not driving the Britannia deal, but as a non-executive director I voted for it when it was proposed.

Q327 Chair: What we’re trying to get to is, first, acknowledgment of the scale of the error. You have repudiated the suggestion that it was a disastrous error, but you have said it was an error. Was it a big, small or medium-sized error?

Peter Marks: I still think, looking back, that strategically, the Britannia merger was the right thing to do. As it has turned out—

Chair: That means it is not an error at all.

Peter Marks: It didn’t feel like it at the time.

Q328 Chair: But you have acknowledged it was an error, at least. We tried to establish two things at the start of this hearing, and we are still on them. I asked you whether mistakes had been made, and you were hesitant about even acknowledging those.

Peter Marks: It seems to me that what we are saying is that we should not have done the Britannia deal. What we should have done, I guess, was to “fair value” the assets in a more aggressive manner.

Q329 Chair: Was it bigger or smaller?

Peter Marks: I don’t understand what you mean.

Q330 Chair: Too difficult, that question. You have said that this was a tragedy, but isn’t that word usually used to describe events that are uncontrollable? Is it not the truth that this set of events was controllable, and that you were, as chief executive of the group, in control?

Peter Marks: I am not sure it was controllable. I think the bank is a victim of the financial crash—the financial crisis—and the deepest and longest recession.

Q331 Chair: An innocent victim?

Peter Marks: Well—yes.

Q332 Chair: Okay. It was an innocent victim. The other question that I have tried to raise with you right from the start concerns what individual responsibility you feel that you bear for this. Do you feel that you should take some individual direct responsibility?

Peter Marks: To some extent. You have to break it down. Are we talking about Britannia, Verde, or the capital issue?

Q333 Chair: You were in charge of most of these decisions.

Peter Marks: I was not in charge of the bank when the Britannia deal was done, but I was a non-executive director. I absolutely voted for it, but I was not the architect of the Britannia deal.

Q334 Chair: On self-responsibility, the Co-operative Group's values and principles state: "We take responsibility for, and answer to our actions." Do you really feel that what you are giving us in evidence today is consistent with those values?

Peter Marks: Yes, I do. I have always taken responsibility for actions. If you were to say to me, for instance, "Do you take absolute responsibility for the Somerfield deal?" had it gone wrong, I would have said, "Absolutely yes." But I cannot take responsibility for something that I am not in full control of, which was the bank.

Q335 Mark Garnier: Mr Marks, I want to come on to Lloyds, but before I do, I am struggling to reconcile a couple of statements that you made, particularly to Mr Norman. On the one hand, you say that you were very worried about the stretch of the group in terms of going into lots of different businesses, but then you are okay with the Project Verde deal. So you are saying that one of those parts of the business worried you in terms of the stretch, and yet you enlarge the business into a 1,000-branch bank. How do you reconcile those two actions?

Peter Marks: As I said earlier, the net effect of the Verde deal was positive to the bank—positive in capital, management and scale. I honestly think that if we could have done—

Q336 Mark Garnier: But negative in terms of stretching the managerial resources of the group as a whole?

Peter Marks: We were bringing in management and capital, so I would argue that the stretch was being, to some extent, helped by the Verde deal.

Q337 Mark Garnier: Had the bank completely integrated Britannia?

Peter Marks: Pretty much.

Q338 Mark Garnier: You say pretty much, so the answer is no, it had not completely integrated Britannia.

Peter Marks: Again, when is integration ever full? If you take the fact that we still have—

Q339 Mark Garnier: That is a slightly alarming rhetorical question that you are asking. It would have been obvious.

Peter Marks: What I mean by that is that you may say that it is not integrated until all of the branches have a blue Co-op fascia, but that might not have been necessary or required.

Q340 Mark Garnier: Integrated is when you have integrated systems that allow the free flow of information and management skills around the institution. That is fully integrated.

Peter Marks: Yes. That had not been fully completed.

Q341 Mark Garnier: Which is quite an important point. The management of Britannia and Co-op bank had not been fully integrated, which is really important for a financial institution—I do not want to stray too much into the regulatory side, because one of my colleagues will follow up on that—and you went off and did another deal, which would not help and would confuse that integration process by bringing in an extra element.

Peter Marks: The good thing about it was that we were going to use the Lloyds systems.

Q342 Mark Garnier: So it was backward integration into someone else's system—

Peter Marks: Yes, which would have helped integration significantly, both between Britannia and Co-op and ultimately with the Lloyds branches as well.

Q343 Mark Garnier: Had a lot of due diligence been done on the systems of the Verde branches?

Peter Marks: An enormous amount of due diligence.

Q344 Mark Garnier: For example, what do you think of this statement that I heard from someone who did a bit of due diligence on the Verde branches? They said that there was still a computer programme within the IT systems that converted pounds, shillings and pence into decimal currency.

Peter Marks: I didn't know that. I wasn't aware of that and I have not heard that.

Q345 Mark Garnier: I think it is well known that the big banks' IT systems go back to punch-card systems in the 1950s and 1960s. These are antiquated systems.

Peter Marks: But if the systems that Lloyds is running are adequate for a bank the size of Lloyds, I am pretty sure that they would have been adequate for the size of bank that we were talking about.

Q346 Mark Garnier: Really?

Peter Marks: I believe so.

Q347 Mark Garnier: How much due diligence did you do?

Peter Marks: An enormous amount.

Q348 Mark Garnier: Can we turn to what Lloyds did and did not know? Mr Horta-Osório, when he came before us, told us that Lloyds first identified the capital shortfall in Co-op back in December 2012 and approached Co-op—he did not specify which part of Co-op—to discuss their concerns about your ability to complete the deal. What discussions took place at that stage in 2012?

Peter Marks: There were lots of discussions by the team that were running the process with Lloyds.

Q349 Mark Garnier: This would have been a strategic discussion, rather than an ongoing one.

Peter Marks: I honestly do not recall that particular conversation. I would have to know the date and time.

Q350 Mark Garnier: Shall I read to you what António Horta-Osório said to us? I will cut out the waffle. He said: “in our own analysis of that combined information, for us it was reasonably clear that the assumptions of the plan had changed and there was a shortfall of capital. This was at the end of December 2012...what we did immediately was to ask the Co-op about it, formally...they did not come formally to us and say, ‘We have a problem.’ They came to us and said, ‘This is the new combined plan,’ and the Co-operative Group’s answer to us was, ‘We are handling this. We have several options to handle this and we are revising the plan and the options we have, together with the regulator, in order to address this situation.’” That sounds like a pretty important flag that was being waved by Lloyds Group.

Peter Marks: Can I say, in answer to that, that capital was an issue that the bank board discussed on numerous occasions? We needed a stronger bank, and we accepted that. However, in March 2013, just after the year end and having provided for a number of issues in the year-end accounts, our core tier 1 capital ratio was over 9%, which did not indicate a bank with a capital problem. That figure was not the best in the market, but it did not indicate a bank under capital stress.

Q351 Mark Garnier: This is a bank in the process of integrating two organisations—the Britannia and the Co-op—is it not?

Peter Marks: Yes. We had within the bank a project team named Project Pennine that was looking at ways of raising capital. We had agreed to sell the life and savings business to Royal London. We had agreed to sell the insurance business. We had agreed to wind down corporate lending, because that requires significant capital. So the bank was looking at a lot of things to improve its capital position.

Q352 Mark Garnier: Which Co-op directors, either from the group or the bank, were party to the significant discussions with Lloyds? If you genuinely do not know whether there were any significant discussions—

Peter Marks: Barry Tootell, who was the chief executive of the bank and who I believe will be here next week, was the main person supervising the day-to-day running of the process.

Q353 Mark Garnier: Did he raise this? I want to clarify, because you just said that you were not aware of any specific significant flag-waving by Lloyds in December 2012.

Peter Marks: When I say that I cannot remember it, that does not mean to say that it did not exist. We had lots of conversations.

Q354 Mark Garnier: No, sure, but this is a major concern on the part of Lloyds. You are painting a picture where this is a very important deal for the Co-op in order to strengthen the balance sheet of the bank, you are doing a whole lot of different bits and pieces, you are integrating Britannia, you are doing an awful lot of stuff, and key to it all is the Project Verde transaction going ahead. Lloyds raises it to the Co-op organisation in December 2012, according to the chief executive and the chairman of the Lloyds Group, and you were not aware of it.

Peter Marks: I could have been aware of it, but you know, it is some time ago, Mr Garnier, so—

Mark Garnier: It wasn't that long ago.

Peter Marks: I don't know when it was.

Mark Garnier: December 2012.

Peter Marks: December 2012—well, that is some time ago. And bearing in mind that we had—

Mark Garnier: Is it? It is within a year.

Peter Marks: All I can say is that we had lots of conversations with Lloyds—

Q355 Mark Garnier: But this would be the most significant conversation. This is Lloyds saying that they are not too sure about it. Lloyds have said to us that this is the point at which it is looking as if the wheels are coming off the whole deal, and they have come back to you to flag that up and ask what you have to say about it.

Chair: You cannot recall that at all?

Peter Marks: No, I can't.

Mark Garnier: This is a major, major conversation.

Q356 Chair: Extraordinary. Not at all? You were the driving force but you cannot remember it?

Peter Marks: There were lots of conversations, Chairman, and I cannot remember every one.

Q357 Mark Garnier: Do you think that in a year's time you will remember this hearing before the Treasury Committee?

Peter Marks: Yes.

Q358 Mark Garnier: It is this sort of level of importance. You will remember this in a year's time, so why do you not remember, from less than a year ago, that the deal that you were one of the driving forces behind was about to crash?

Peter Marks: Well, it wasn't.

Q359 Mark Garnier: According to Lloyds it was looking pretty iffy.

Peter Marks: It wasn't about to crash.

Q360 Mark Garnier: So the person you are about to do a transaction with flags up that they are worried that there is a problem, and you do not recall that conversation.

Peter Marks: I am sure that we will have said to him at the time that we were addressing the capital issues.

Q361 Mark Garnier: Do you think that somebody has been pulling the wool over your eyes internally at the Co-op?

Peter Marks: No, not at all.

Q362 Mark Garnier: So you take responsibility for the fact that there was a conversation that you should have known about that you did not know about.

Peter Marks: I honestly cannot remember the conversation. There were lots going on, you know?

Q363 Chair: Do you remember the point at which Lloyds got nervous about this? Can you remember the general point, even if you cannot remember the specific conversation?

Peter Marks: I do not remember a day or a week or a month that said that Lloyds were getting nervous. We were all concerned about whether we could do the deal, all of us.

Q364 Mr Ruffley: I hope, Mr Marks, that your selective amnesia will not continue during my questioning. You have painted a picture that you were not FSA approved—those were the words you used earlier in your testimony. You have given the impression that really the bank was not something you got too closely involved with because of the governance structure, despite the fact that you were group chief executive.

In evidence to the Committee, Neville Richardson said: “During 2010 I became increasingly concerned at Co-op Group’s aim to fully integrate” Co-op funeral services “within Co-op Group from a management and administrative point of view (Project Unity).” He said that he made his concerns known about the disruption and distraction to the CFS business as a result of the strategy. He continued that Project Unity was “not taking into account the risks which would be created in the bank.” What do you say to that?

Peter Marks: Project Unity was not designed to fully integrate the management and the systems of the bank—

Mr Ruffley: Hang on, I just want to stop you there. This is testimony that Mr Richardson has given to the Committee, and I have just read it out. I read it out because it throws into question your argument that you were not particularly hands on with the bank.

Peter Marks: May I explain what Project Unity was?

Q365 Mr Ruffley: No, I have just told you what Richardson said. What do you think it was?

Peter Marks: Yes, well, I am just about to tell you. This was about the bank collaborating with the retail businesses to share services such as HR, procurement and the like

to save costs, and to cross-sell products—for instance, selling insurance products through our chain of supermarkets and so on.

Q366 Mr Ruffley: So it wasn't management?

Peter Marks: No.

Q367 Mr Ruffley: And it wasn't administration? It might be administration with sharing services, but management it was not.

Peter Marks: No.

Q368 Mr Ruffley: So there is a clear conflict of testimony between what you are saying.

Is it not the case that in January 2011, according to Mr Richardson, "in recognition of my contribution to the group and as part of Project Unity I was appointed Deputy CEO Co-op Group"? So, from the beginning of 2011, you had as your deputy group CEO a man who was running the financial services business.

Peter Marks: Yes.

Q369 Mr Ruffley: So you would be quite intimately connected on a day-to-day basis with what was going on in the bank, would you not, Mr Marks?

Peter Marks: More intimate than it was before, absolutely.

Q370 Mr Ruffley: Going back to the testimony that Andrew Bailey gave us in July, he said that at the tail end of 2011, he told the board of Co-op bank that it was not clear to the regulator that "the Co-op Banking Group had the ability to transform itself successfully and sustainably into an organisation on a scale that would result from acquiring" the Verde assets. How did you react to those views expressed by Mr Bailey?

Peter Marks: I agreed with his points that we needed to address—

Q371 Mr Ruffley: What did you do about it? How did you address his concerns?

Peter Marks: He talked about five concerns—

Mr Ruffley: Yes, we've done that. We don't need to repeat it. What did you do about it?

Peter Marks: We appointed a head of risk, which was addressing one of his other concerns. That head of risk was reviewing and implementing a whole new risk architecture for the bank. That was four out of five. The other one that he was talking about was governance. That was more of a long-term issue for the group.

Q372 Mr Ruffley: What does that mean? What did you do about governance in response to Mr Bailey? What did you actually do? You. What was your advice? What positions did you take about fixing the governance problems that Mr Bailey identified?

Peter Marks: I believe that—

Mr Ruffley: What did you do, Mr Marks?

Peter Marks: In terms of governance?

Mr Ruffley: I just asked that.

Peter Marks: I did not do anything about governance.

Q373 Mr Ruffley: Right. So what did you actually do in relation to Andrew Bailey's statement of five areas of weakness?

Peter Marks: We pursued the Verde deal, which would have delivered three of them.

Q374 Mr Ruffley: Right. Andrew Bailey expressed his doubts. He asked Co-op bank to make his concerns clear to Lloyds Banking Group. How did you do this—informing Lloyds Banking Group? When and how did you do it?

Peter Marks: It was done by the chief executive of the bank.

Q375 Mr Ruffley: By Mr Richardson?

Peter Marks: No, by his successor, Barry Tootell.

Q376 Mr Ruffley: In December 2011, because Mr Richardson had gone by then.

Peter Marks: Yes.

Q377 Mr Ruffley: In their evidence to the Treasury Committee in June this year, the chairman and chief executive of Lloyds told us that they became aware of a combined Co-op-TSB capital shortfall in December 2012. When was that capital shortfall relayed to Lloyds by you—any time before 2012?

Peter Marks: No.

Mr Ruffley: No, it was not.

Peter Marks: Sorry, but it was not apparent that we had a capital shortfall. The capital shortfall—the £1.5 billion that has been talked about—was only apparent at the beginning of this year. As I said earlier, we had a core tier 1 capital ratio of over 9% at the year end, so how was there a capital shortfall?

Q378 Mr Ruffley: At the end of 2012, António Horta-Osório told us that you told them in December 2012: "We are handling this. We have several options to handle this and we are revising the plan and the options we have, together with the regulator, in order to address this situation." That is what the chief executive of Lloyds said that Co-op told Lloyds in December 2012. Is that correct?

Peter Marks: Yes, which goes back to what I was saying earlier—that we knew we needed to strengthen our capital. We had a project team working on that—selling the insurance business, selling the life and savings business, winding down corporate lending, and so on.

Q379 Mr Ruffley: Just to be clear, there were no alarm bells ringing at the tail end of 2011 coming, as far as you were concerned, from the regulator.

Peter Marks: No—other than I had a conversation with Mr Bailey about the Verde deal. He said that he would support it, but he wanted the deal to happen from a position of strength, and by that he meant capital.

Q380 Mr Ruffley: Those answers are quite interesting. You say in an unintentionally comical—in the light of events announced this morning—valediction in *Management Today*, Mr Marks, that you worked your way up from the bottom: “Bloody hard work and determination has got me where I am.” Where are you at the moment, Mr Marks?

Peter Marks: Feeling very sad.

Q381 Jesse Norman: I want to come back with one quick question, if I may, Mr Marks. You have said that you were the driving force behind the Verde deal, and of course the Verde deal was, when it was announced, a deal between Lloyds and the Co-op Group, not Co-operative Financial Services or the Co-operative Banking Group.

Peter Marks: No, actually the deal was between the bank and Lloyds, but, because it is such an important strategic deal, the group, as the shareholder, clearly was very interested in it.

Q382 Jesse Norman: I understand. You felt responsible, you were driving the thing through, it was a group deal as much as it was a bank deal.

Peter Marks: Yes.

Q383 Jesse Norman: Thanks. That is helpful. Given that it was a group deal as much as a bank deal, and given that you were the driving force, do you not think there was a danger that you were acting as a shadow director of Co-operative Financial Services, although you do not have an FSA clearance? Therefore, do you think that that might make you vulnerable to some form of criminal proceedings?

Peter Marks: I was a director of the bank.

Q384 Jesse Norman: Is there a danger that you might have been acting as a shadow executive director, although not FSA-cleared?

Peter Marks: No, because I was working very closely with the chief executive of the bank and his team. When you describe me as the driving force, I think you need to remember that the group board unanimously voted to look at this deal; the bank board unanimously voted to look at this deal. I was acting on behalf of the group board, but I was not acting alone. This was not in a Peter Marks plc; it was a joint effort between the bank team and the retail team.

Q385 Jesse Norman: You have assented to the description of yourself as a driving force. You have accepted, agreed, that this was as much a group deal as a bank deal. You have already testified that Co-op’s corporate culture was so unquestioning that it was highly unlikely that there was going to be any genuine pushback from either the CFS board or the Co-operative Group board, so it does not seem unreasonable to put the question.

Peter Marks: Sorry, I do not understand what you mean by there was not likely to be any pushback from the bank board. The bank board—

Q386 Jesse Norman: You suggested to us that you never voted against any bank board decisions.

Peter Marks: I did not say that. I said that I could not remember voting against any decision, but I may well have done.

Q387 Jesse Norman: Votes were regularly held, were they, on the bank board?

Peter Marks: Yes, of course.

Q388 Jesse Norman: So you did not proceed on a consensual basis; you proceeded on a put-it-to-the-vote basis?

Peter Marks: Yes, sometimes. But sometimes it was consensual.

Q389 Jesse Norman: Would you allow us to see board minutes testifying and supporting that position?

Peter Marks: I am not in a position—

Q390 Jesse Norman: Or would you encourage the Co-op to allow us to see them?

Peter Marks: Yes, of course.

Q391 Mr Ruffley: Mr Marks, it is normal practice for the regulators to interrogate a departing chief executive. I am thinking of when Mr Richardson departed as chief executive of Co-op Financial Services. Did you or any of your colleagues at group level have any discussions with Mr Bailey or any of Mr Bailey's fellow regulators about the reasons for Mr Richardson's departure?

Peter Marks: No.

Q392 Mr Ruffley: Did you think that odd?

Peter Marks: What? That the regulator did not speak to us about it?

Mr Ruffley: Yes.

Peter Marks: No, I do not think so because—

Q393 Mr Ruffley: It did not register, and you did not want to offer any thoughts to the regulator to set their mind at rest as to why this man seemed to depart in a rather peremptory fashion?

Peter Marks: If we had been asked, I am sure we would have commented, but we were not asked.

Q394 Chair: What would you have said?

Peter Marks: I think I would have said that Mr Richardson was in disagreement with his board, his management team and me about two important projects, Project Unity and Project Verde. Whether anything else was in Mr Richardson's mind at the time he resigned, I do not know, but that is what I would have said to the regulator.

Q395 Chair: So you would have warned the regulator?

Peter Marks: Warned them?

Chair: That there was a difference of view on the board about a very important deal affecting the bank's future.

Peter Marks: Of course. If asked, we would have said that Mr Richardson did not agree with those two projects.

Q396 Chair: But you did not think it was your duty to tell the regulator or offer to tell the regulator?

Peter Marks: No, not really.

Q397 Stewart Hosie: Mr Marks, on 24 April this year, the Co-op Group announced that it had withdrawn its bid for Project Verde. Why was the bid withdrawn, and whose decision was it?

Peter Marks: It was a collective decision within the management team.

Q398 Stewart Hosie: Is that the group or the bank?

Peter Marks: Both. The steering group that was looking at this project was a combination of the bank's executive and the group's executive, which I chaired. It was a difficult decision. We got the final business case after lots of due diligence, looking at risk and so on and so forth. The business case was projected over five years and the team had used the Treasury model on the prospects for interest rates and GDP growth over the next five years. The economics of the deal just did not work.

Q399 Stewart Hosie: Okay. Let me come back to that in a moment, because the announcement from the Co-op Group's withdrawal said, "This decision reflects the impact of the current economic environment," which you have suggested, "the worsened outlook for economic growth," which you have also suggested, "and the increasing regulatory requirements on the financial services sector in general." Can you please tell us which of the specific regulatory requirements led you to conclude that that was part of the bundle of problems that meant you could not progress with the deal?

Peter Marks: The regulator was asking all banks to carry significantly more buffer capital. At the time that we announced that, we did not know what the number was from the regulator, but we knew that it was going to be a significant increase on what the buffer capital was. That was what was meant by that statement.

Q400 Stewart Hosie: But you have said on several occasions today that the deal would have brought capital, along with systems and management expertise. You have been able to remember that you had 9% tier 1 capital, which you said was not the best but certainly not the worst at that time. So how was it the case that capital was suddenly an issue by the time you got to 24 April when it had not been until then? Indeed, you had been saying how well the bank had been doing generally with 9% tier 1 capital sitting there.

Peter Marks: The problem was that if the combined bank was not making much profit over a five-year period, capital was not building up when it needed to. The profitability of the combined bank was not good enough to build capital over a period of time.

Q401 Stewart Hosie: Okay. Let's take a step back from that April date. On 21 March, the Co-op announced losses of £600 million at the bank. It was not even making a small profit. It was making a substantial loss. Did senior Co-op executives, either from the group or the bank, discuss at that stage the possibility of withdrawing from Project Verde?

Peter Marks: Yes. I'm sure we did.

Q402 Stewart Hosie: And the conclusion at that point was?

Peter Marks: We were almost at the stage—this was March this year—of getting the final business case together, so no decision was made, but clearly it did not help.

Q403 Stewart Hosie: Okay, so your business plan going forward to build capital required substantial profit. By the time you reached mid to late April, it was clear that the joint group was not going to make that profit in order to pack the balance sheet. But in the period between 21 March and 24 April, which is only a month, you did an interview with the *Manchester Evening News* in which you were bullish about the deal going ahead. That was still the case in late March. It is almost as if those on the steering group were in complete denial for a prolonged period that this was ever going to work. Having announced the losses in March, which presumably people knew about significantly before then, why was this deal even live until 24 April?

Peter Marks: Even after March, the core tier 1 capital ratio was 9.2%. Even after the losses at the year end, the capital position was not dire. That said, of course it dented our enthusiasm and we were clearly having second thoughts. However, in terms of announcing it to the media, who were asking us pretty much constantly, it was not right to tell them where we were until we made our decision, because we knew that we would be completing the process and making a final decision within a few weeks. In any case, it was a decision for the bank board and the group board. They had to be apprised of all the facts. It was right to have a look at this deal, but it was also right to pull out of the deal as we did.

Q404 Stewart Hosie: Okay. I understand why someone would like to assess and appraise the deal and have a look at it in that sense, and I understand why it would be right to come to a decision at the end of the appraisal, whatever the decision, but this was not having a look. This was gung-ho, all guns blazing. You were saying that you were going to beef up the bank and get this capital and systems and management expertise in from Lloyds via Project Verde. This was not just an appraisal. This was all systems go to make it deliver until suddenly at the very last moment you and others found out that you simply could not manage to do it.

Peter Marks: That's true. That's absolutely true. We absolutely believed that this was the right thing to do for the bank. I repeat—and I agree with Andrew Bailey—that it brought significant benefits to the bank. A number of colleagues—not just me—thought that there was as much risk in not doing this deal as there was in doing it. The bank was small, it was weak, and, yes of course, the deal would have brought risk, but it was also going to bring significant benefits for the bank.

Stewart Hosie: Well, it is smaller now, weaker now and it isn't independent any more, because it is being run by two hedge funds.

Q405 Mr McFadden: I want to clarify your group role on some of the issues raised about the bank. Mr Ruffley asked you about Andrew Bailey's warnings on five areas, delivered in late 2011. As group CEO, you sat on the group audit and risk committee and chaired the group risk management committee.

Peter Marks: I was not on the audit and risk committee.

Mr McFadden: You were not on the audit and risk committee?

Peter Marks: No.

Mr McFadden: Not on the group audit and risk committee?

Peter Marks: No.

Q406 Mr McFadden: Okay. Can you tell us the difference between the group audit and risk committee and the group risk management committee?

Peter Marks: The audit committee was essentially the audit committee. The risk committee looked at general risks to the group: health and safety and risks of that nature, not necessarily financial.

Q407 Mr McFadden: But the group is running a bank, which potentially exposes it to big risk. In what way did the group risk management committee consider Andrew Bailey's warning about five areas that had to be improved in the bank?

Peter Marks: As I said earlier—I am sorry to repeat it—Andrew Bailey's comments were taken very seriously and taken on board.

Q408 Mr McFadden: So you knew about them at the time and knew exactly what the issues were?

Peter Marks: Yes, but three out of five were dealt with by the acquisition of Verde. Of the other two, we appointed a new head of risk, who was doing a very good job in improving the structure of the bank. As for governance, I am not absolutely sure what Andrew Bailey had in mind in terms of governance. Governance was always a difficult one to change because of the nature of the Co-operative structure.

Q409 Mr McFadden: You said to me a minute ago that you were not on the group audit and risk committee. Did you ever attend it?

Peter Marks: No.

Mr McFadden: You never attended it?

Peter Marks: No, I was not asked to attend it.

Q410 Mr McFadden: Looking at the loan impairments and the balance sheet, we have talked a lot about the core tier 1 capital ratio—

Peter Marks: Sorry, can I just correct myself? I have just remembered that I did attend the audit and risk committee on a number of occasions, but only for specific issues. So if there was a specific issue on which they wanted my input—I can't remember which ones they were—occasionally I was asked to attend the committee meeting.

Q411 Mr McFadden: So you did attend on a number of occasions. Can you remember the issues of bank risk ever being discussed there?

Peter Marks: No, I wasn't party to that.

Q412 Mr McFadden: Going to the balance sheet, you have talked about the core tier 1 capital ratio and how healthy the position seemed until late in the day. Can you tell us what the Co-op Bank's balance sheet says are the total impairments and significant items from 2012?

Peter Marks: I can't remember that number, I'm sorry.

Q413 Mr McFadden: It was £859 million. This is at a time when you were saying that you thought things were healthy, because of the core tier 1 capital ratio, but even last year £859 million of impairments and losses were identified on the balance sheet. Doesn't that ring alarm bells?

Peter Marks: Of course it does, but wouldn't that show on the core tier 1 capital ratio? I specifically spoke to KPMG, the bank's auditors, after the year end and said to them: "Are there any going concern issues?" and I was assured that there weren't. If the bank was in such a parlous state, you would have thought that the bank's auditors would have said that there was a going concern issue here. They didn't, and that was in February or March of this year.

Q414 Mr McFadden: So this £1.6 billion hole appears from nowhere?

Peter Marks: Well, I can tell you what my thoughts are on that. Clearly—
[Interruption.]

Chair: Sorry—try to ignore the bell if you can.

Peter Marks: In terms of crystallising and providing for potential losses in the Britannia loan book or in the loan book generally, normally accounting rules say that you don't provide for something that has not gone bad until it has gone bad. We had a letter from the regulator saying that we had to ignore accounting rules and we had to use our judgment about what might go bad. So what we are seeing now is assumptions about the loan book based on judgment. There has been acceleration of provisioning. The other part of the £1.5 billion, bearing in mind that I had left by the time this came out was, I believe, the regulator saying that all banks needed to keep more capital. We know, don't we, that all the big banks have been raising capital to satisfy that requirement. The Co-op was in a difficult position. It cannot raise equity capital. The bank board, myself included, believed that we had more time to build capital and that we would not be subject to what appears to be the acceleration of, first, the provisioning for risk in a loan book and secondly, building up but for capital.

Q415 Mr McFadden: Are you saying that the regulator has shifted the goalposts?

Peter Marks: Yes. I am not criticising the regulator. I think he has shifted the goalposts because of what has happened over the last few years. I do not in any way blame the regulator. What I am saying is that the goalposts have well and truly been shifted.

Q416 Mr McFadden: Let me ask you about the position of the Co-op bank today. Do you believe it is possible to have an ethical hedge fund?

Peter Marks: No. If I could qualify that: hedge funds are there to maximise profit; that is their sole purpose in life. To be truly ethical, you cannot do that—but that's an opinion.

Q417 Mr McFadden: So there is a fundamental clash between the model of the bank that is appearing and its principles and traditions for the last 150 years?

Peter Marks: I think so, yes.

Q418 Mr McFadden: Your successor said in a message last night that the group retained control of the bank. That is not true is it?

Peter Marks: Because I now do not have the information available and I have left the business, I honestly don't know what the circumstances are.

Q419 Mr McFadden: Let me put it another way. The reported stake that the group will have in the bank after this restructuring is around 30%. That does not represent control, does it?

Peter Marks: No it doesn't.

Q420 Mr McFadden: The way that the bank proposes to deal with the ethical question I put to you is to write all these values into its core mission and so on. Do you believe that that is worth much, given that ethical conduct statements are pretty easy to find in the City among major banks?

Peter Marks: That is true and from a banking perspective I think the ethical initiative, if I am reading accurately what is being said, does not apply any more, or is not there. That is not to say that the group cannot be ethical, because it can. Without the bank it can focus on its other businesses and be very ethical and values-driven in those businesses.

Q421 Mr McFadden: Can it still be called the Co-op bank if it is no longer a co-op?

Peter Marks: Again, that is difficult for me to answer. In terms of branding, I suppose it can, but it is not a co-op, is it? It is difficult for me to answer that question without further information.

Q422 Mr McFadden: What is your reflection on where we have ended up with this? This is the country's biggest mutual and people believed that the Co-operative bank was different.

Peter Marks: I think it is tragic. I have worked for the Co-op for all my working life and it is very said, in terms of the bank. However, I think there is a degree of inevitability, because it was trying to stretch its capital across too many businesses. I do not know of any other business that tries to be a major bank, a major food retailer, a major funeral services provider, a pharmacy chain, a motor group, a legal services business, a security business and a property business. With limited capital resource, how can you do that in today's world? I think this crisis, if you call it that, will be beneficial to the Co-op in making it focus on what it is good at.

Q423 Mr McFadden: Isn't the conclusion that it was inevitable a bit dismal? Surely we should not conclude that mutuals cannot survive in the financial services world. They do here, albeit on a smaller scale than before, and they do in other countries.

Peter Marks: Mr McFadden, I think the Co-op could survive in financial services if it focused on financial services. What I am saying is that it is very difficult to see how it can focus on financial services, food and everything else. If it wanted to be a serious financial services business, it could sell all of its other businesses and put all of that capital into being a bank.

These are things that we discussed in the group boardroom on many occasions. The problem with the governance of the group is that, because you have all these constituencies around the table, 20 of them, with emotional ties to various businesses, it is very difficult to get them to make big strategic decisions such as, for instance, selling farms—that is another

business I didn't mention: it is Britain's biggest farmer—and focusing on core businesses, or one core business. If I failed in anything, I failed to get the group to consider that.

Q424 Chair: If we go looking for the documentary evidence of your attempt to do that, will we find it?

Peter Marks: I doubt it. These were strategic discussions.

Q425 Chair: So there is no written record at group level of you giving the devastating critique that you have given us of the business model of the group of which you were chief executive.

Peter Marks: I am sure that if you asked my colleagues whether I talked about these issues with the group board, they would say that I did, but I do not think that you will find a board minute that says that we discussed this.

Q426 Chair: So there was never an agenda discussion on the evidence that you just gave us that you had stretched the capital over too many businesses.

Peter Marks: I do not think that there will be.

Q427 Chair: Why should we accept that that is what you did if you cannot provide any documentary evidence and you do not think it is worth us trying to look for it? You were chief executive of this operation.

Peter Marks: Yes I was.

Q428 Chair: And you have just told us that the group had a fundamentally unsound business model for the whole of the period you were running it.

Peter Marks: It had been run like that for more than 150 years. For me to come in and say, "By the way, you should sell off this and that—" Let me give you an example, one of which there will be documentary evidence. I suggested that it should sell its farms business, which is worth £100 million at today's prices, I think, or was then. That was rejected.

Q429 Chair: But you never once made the point at board level, as chief executive, in a way that will be recorded, that the capital was stretched over too many businesses?

Peter Marks: As I said, Chairman, I had many conversations with the board about strategy.

Chair: I am talking about board meetings here. I am not talking about friendly chats in the corridor. Organisations are run at meetings with minutes.

Peter Marks: Yes, I appreciate that. We didn't discuss those things at regular board meetings.

Q430 Chair: Okay. Would you think it was an unfair inference of ours, in the light of the evidence you are giving us now, that you are placing much greater emphasis on your concerns about that business model than you did at the time?

Peter Marks: It is difficult, because you have to understand the nature of the Co-op. I felt it was—

Chair: But is it an unfair inference of ours to conclude that?

Peter Marks: Yes, I think it is.

Q431 Mr Newmark: You have talked about what a good food man you are—you managed to integrate the Somerfield acquisition, and so on—and how your skill set lies in food and food retail, but not really in financial services. Yet you seemed to be very gung-ho about expanding the financial service business, while at the same time acknowledging that you did not have the competency to do the analysis that was needed in order to understand what you were buying. Have I got that right?

Peter Marks: No. I think I had the competence to understand the nature of what we were doing in the deal. In terms of the technicalities, I was working with a very experienced team in the chief executive of the bank and his executives.

Q432 Mr Newmark: You had your differences with Mr Richardson, who did have the expertise. That was his background.

Peter Marks: It was also the background of his successor, Barry Tootell. It wasn't as if we didn't have a chief executive who wasn't a banker. We did.

Q433 Mr Newmark: But, as chief executive, in your desire to be slightly gung-ho in expanding the financial services business, you were leading the charge in many ways in that, even though you had no background in it.

Peter Marks: Well, hang on. There was the group board and the bank board, and the bank board had lots of professional bankers, including executives on the board. It wasn't just Peter Marks; it was the bank board.

Q434 Mr Newmark: I know, but you were the chief executive. The buck stops at the top. That is what leadership is about.

Peter Marks: But I don't think "gung-ho" is the appropriate phrase. If we were gung-ho we would have done the deal at any price, like RBS and ABN AMRO. We actually pulled out of the deal. I ask the Committee to bear that in mind. Although we looked at it, and we looked at in great detail, and we wanted to do it, because we thought it was the right thing for the bank to do, in the final analysis we had the discipline to say, "We have to walk away from this because we can't do it," just as Santander did with the RBS deal.

Q435 Mr Newmark: But if I focus on Britannia and the other acquisitions, there would seem to have been a heavy reliance on KPMG's analysis. You said that they gave you a clean audit and that everything seemed to be all right, when it wasn't.

Peter Marks: I think that to say it wasn't is maybe— It was at the time, and what has happened is that the economy has gone south—

Q436 Mr Newmark: You can't blame the economy for it. There are huge impaired assets on the balance sheet, no?

Peter Marks: Yes, and those impairments are because of loans that were made by Britannia building society.

Q437 Mr Newmark: Who did the audit for you on that, though?

Peter Marks: KPMG.

Q438 Mr Newmark: Who scrutinised the balance sheet? Did KPMG screw up?

Peter Marks: Well, there was a team of people engaged within the bank to supervise the due diligence. It was very thorough. They had the assistance of advisers, who were quality, very experienced advisers, in this case particularly.

Q439 Mr Newmark: The responsibility has to lie with somebody. I am trying again to get to the bottom of this. Either there is the competency internally in your organisation and you are the guy, as the head of that organisation, who takes responsibility for it, or you are saying that you outsourced the decision making to an organisation such as KPMG; you relied on their audit and KPMG failed you dramatically.

Peter Marks: You can't outsource decision making; I absolutely accept that. I was a non-executive director at the time. I voted in favour of—

Q440 Mr Newmark: You can't say, "I'm a non-executive director." You were the group CEO; you were the main guy.

Peter Marks: But I wasn't responsible—

Q441 Mr Newmark: You are in complete denial. I don't understand this denial. On the one hand, you want to take responsibility for the strategic direction of the business, yet you keep putting your hat on this thing called "non-exec" as though being non-exec abrogates any responsibility.

Peter Marks: What I am trying to do is explain the truth. That is what you want me to do. I was not in control of the bank at the time that the Britannia building society deal was done. I was a non-executive director. I did not have absolute control of the bank. However, absolutely, I share responsibility with the rest of my board colleagues for the decision to merge with Britannia building society. I absolutely share that responsibility. But to say that I was the group chief executive and the architect of the Britannia building society deal is wrong, and if I said that I would be telling you a lie, because it is not fact, it is not true. My role as group chief executive was limited.

Q442 Mr Newmark: But at the end of the day, you were chief executive. That is why you had that title. It says it on the tin—chief executive—for a reason. You were the leader. You can't just say, "I was one of many."

Peter Marks: No, I am sorry. That is wrong. I was the leader of the trading group. My role was all of the other businesses—eight businesses—100,000 people—

Q443 Mr Newmark: But not financial services?

Peter Marks: Not financial services.

Q444 Mr Newmark: Even though, as we heard earlier, you very much wanted to drive the expansion of that particular business of yours.

Peter Marks: I agreed with the bank board and the group board that we needed scale in the bank. Yes, I was absolutely in favour.

Q445 Mr Newmark: Again, you say you agreed. What competency do you have to agree, given that you have no financial services expertise to make that judgment?

Peter Marks: Because I was a non-executive director, and also in my capacity as group chief executive I had to look after the interests of the shareholder, which was the group.

Q446 Mr Newmark: Let me go back. I'm not really focusing on you; I want to focus on KPMG, because KPMG is a blue-chip organisation and it seems to me that they gave you bad advice. Do you think they gave you bad advice? They did the audit. They said that the balance sheet looked pretty good to them. Yet they were wrong.

Peter Marks: Yes.

Q447 Mr Newmark: So is there any liability you would throw back at KPMG for screwing things up for you? You might not be here today if they had done a better job.

Peter Marks: Yes. Is there any liability? I don't know. Is there legal liability? I don't know.

Q448 Mr Newmark: But this was a dramatic event in your organisation. Surely you must have looked at that and said, "We got advice from these guys who were in fact completely wrong in scrutinising the balance sheet of a business that we ended up taking on."

Peter Marks: Yes.

Q449 Mr Newmark: So you are saying that they screwed up but there is no—

Peter Marks: I didn't say there was no liability. All I am saying is that we took their advice.

Q450 Mr Newmark: But are you guys, someone internally, saying that we should do something about this, that we should hold KPMG to account?

Peter Marks: I am not there any more so I don't know.

Q451 Mr Newmark: But before you left, there was no follow-up when the proverbial whatever hit the fan. You guys did not say, "Wow! We had this clean bill of health from this blue-chip accounting firm yet they were dramatically wrong. We must follow up on this. This was bad advice."

Peter Marks: I have no doubt that those conversations will be happening now.

Mr Newmark: I think I will leave it at that, Mr Chairman.

Chair: Two colleagues want to come in with quick questions. I emphasise the word "quick".

Q452 Mr Ruffley: Pursuant to the Chairman's queries about the written records of what you were saying at the group's board meetings, I want to put this to you. In written evidence to this Committee, Mr Richardson said: "I have full contemporaneous transcripts"—of the meeting on 11 July 2011, which he says he had face to face with you—"in which I told them amongst other things that 'to push through all projects simultaneously could lead to disastrous consequences and would be completely to disregard the interests of key stakeholders, namely employees and customers. This breaches Directors' duties and also is

likely to breach contractual and other obligations’.” He has told this Committee that that is a transcript of what he told you. Is Mr Richardson telling the truth, or are you?

Peter Marks: I’m not sure there is a discrepancy between what I am saying and what Mr Richardson is saying. I am agreeing that he raised issues about management stretch and the number of projects. That was discussed by the board, of which I was a director, and the board and management team felt that, despite management stretch, we should proceed with Project Unity—which, I repeat, significantly delivered additional profit, which the bank needed—and also Project Verde, because it was such a great opportunity for the bank. So I am not saying that Neville Richardson did not say he was concerned about management stretch. I am saying that that was discussed in the boardroom.

Q453 Mr Ruffley: Did he warn you that there were breaches, possibly, of directors’ duties?

Peter Marks: No, I don’t believe that.

Q454 Mr Ruffley: So you do not think the transcript is accurate?

Peter Marks: I don’t remember that comment.

Q455 Jesse Norman: That is obviously a fundamental point. You would not mind if Neville Richardson shared his transcripts with the Committee?

Peter Marks: Not at all.

Q456 Jesse Norman: Thank you. I want to follow up one final thing. You have said on several occasions that the point of the Verde transaction was to remedy three of the five problems that the FSA had identified with the Co-op and its financial services in particular. May I remind you of what Andrew Bailey actually said in testimony to this Committee? “Towards the end of 2011”—December 2011—“we made it clear to them”—the Co-op—“that—and I will use these words carefully—it was not clear to us that the Co-op Banking Group had the ability to transform itself successfully and sustainably into an organisation on the scale that would result from acquiring the Verde assets. Then we set out five things, the five areas that they would have to deal with” to be able to make the Verde acquisition. He listed: “Capital, liquidity-risk management, integration, governance and management.”

First, that is a massive indictment of the way in which the bank has been set up—it is roughly everything that could have gone wrong: capital, liquidity-risk management, integration, governance and management—from the FSA. It seems that that is true. Secondly, these are things that you would have to have sorted out in order to be able to make the Verde acquisition, not as a result. He is clear that you will not be able to solve the problems that he has identified through the Verde acquisition. That is going to be insufficient.

Peter Marks: But he also said, “Verde would have brought to Co-op three things: capital, because Lloyds was putting capital in; management; and IT systems, all three of which would have been of benefit to Co-op.” He also said to me personally in a conversation that he was in favour of us trying to do the Verde deal, but he wanted it to be done from a position of strength, and by that he meant capital. There was never a time when the regulator said, “You should drop this because you can’t do it.”

Q457 Jesse Norman: But he did ask you to pass on the concerns they had indicated to Lloyds.

Peter Marks: Which was done.

Q458 Chair: You just said that you had conversations with Andrew Bailey about all this. Earlier you told us that you didn't know what Andrew Bailey meant by governance, among the list of five concerns. Did you ask him?

Peter Marks: I think specifically—

Chair: Did you ask him?

Peter Marks: I can't remember asking him, Chairman.

Q459 Chair: But if the regulator comes to you and says that there are five major things wrong with an outfit of which you are group chief executive, don't you think it is a good idea to ask him what he means by each of those five things?

Peter Marks: We got four of them sorted out.

Q460 Chair: But you forgot to ask him about the fifth.

Peter Marks: I seem to remember him talking about the bank, the make-up of the bank board, the fact that the chairman was a lay person, and perhaps that we should have a different structure within the bank board. But it did not appear to me that that was his main—

Q461 Chair: You did know what he meant by governance, then?

Peter Marks: Yes, but I don't believe that was his main issue.

Q462 Chair: With great respect, why did you tell us you didn't know what he meant by governance earlier this morning?

Peter Marks: "Governance" is a nebulous word, isn't it? I wasn't absolutely sure—

Q463 John Thurso: May I get a tiny bit of clarity on the governance structure? The Co-op itself—the main structure, the mutual—is by virtue of being a mutual owned by all its members.

Peter Marks: Yes.

Q464 John Thurso: The members elect the 20 members of the board. It is an entirely democratic operation, which results in whatever choice democracy chooses to throw up.

Peter Marks: Yes.

Q465 John Thurso: So there is no filter for the particular skills of the people who arrive on the board. They are the people who put themselves forward and get elected. The interesting thing is that unlike a plc, you, the chief executive, your finance director, your operations directors and your division chiefs do not sit on the board.

Peter Marks: No.

Q466 John Thurso: So there is presumably an executive committee?

Peter Marks: Yes.

Q467 John Thurso: And you chaired that executive committee?

Peter Marks: Yes.

Q468 John Thurso: The executive committee is like a Government, and the board is like a Parliament. So you have to work out how to run the thing and take it to the Parliament to try to get the decisions through?

Peter Marks: Yes.

Q469 John Thurso: And that is both the strength and the weakness of the mutual model?

Peter Marks: Yes.

Q470 John Thurso: So far, I completely understand. Was the bank a completely mutual bank, or was it owned by the mutual?

Peter Marks: It was owned by the mutual.

Q471 John Thurso: So it actually had share capital.

Peter Marks: Yes, it did.

Q472 John Thurso: So right from day one it was never a mutual bank; it was a bank owned by a mutual.

Peter Marks: Yes.

Q473 John Thurso: That is a pretty fundamental difference. Therefore, it had a different board structure of a third, a third, a third. It was one third executives, one third selected from the Co-op board to represent the Co-op, and one third of skilled, professional non-execs, whom you would presumably be relying on.

Peter Marks: Yes.

Q474 John Thurso: There is a raft of questions around those non-execs. They are probably the same questions the Banking Commission asked non-execs of all the other banks, and I suspect they fell into exactly the same traps and were equally incompetent and all the other things that we discovered when we did that. I don't want to discuss that with you today. I just wanted to get the model straight, and I have got that now. Thank you.

May I look at what that means for the future of mutuals or mutually owned organisations? To what extent do you think the difficulties that the Co-op bank has experienced and the position it is now in come from its adherence to the mutual model, or from the fact that really it was behaving like any other bank but with a poor governance structure?

Peter Marks: I don't think that its problems arose out of the fact that it is a mutual, other than that it could not raise capital as easily as other banks. For instance, if the regulator says, "You need another £1 billion buffer capital," if you are a plc you either sell businesses or go to the market. The mutual model does not allow that, and I think that that has been a major problem with why the bank is where it is. If it needed to raise capital, it could have

gone out to the equity markets if it was a plc. I'm sorry, I do not think I have answered your question properly.

Q475 John Thurso: Really, I am trying to get at this. Richard Pym, the new chairman of the Co-operative group, has stated: "The Co-operative Bank has an important role in providing a viable alternative to the traditional banks." The question is therefore around the fact that it was behaving like a traditional bank, it was structured like a traditional bank but without the checks and balances or capital-raising ability, so, as an equity bank owned by a mutual, it was in an extraordinarily weak position. When Mr Pym states that there is "an important role in providing a viable alternative", one must ask a very big question about that. Do you believe that the mutual model remains viable, looking ahead?

Peter Marks: I think it is going to be very difficult for a mutual to compete in the banking market that the Co-op bank was trying to compete in, which was high-volume, low-margin business. The cost of regulation has escalated, as have the cost of capital and the amount of capital that a bank now has to keep in reserve. So it is going to be difficult going forwards for a mutual to be a really serious competitor in the retail banking market.

Q476 John Thurso: The mutuals have played a vital and wonderful role in our society over the years. The building societies, particularly when they were locally based, were outstanding institutions. I, for one, always regretted their passing. But they were not banks. They took savings and gave loans—they provided that vital service. To be clear, the distinction I think I hear you making—correct me if I am wrong—is that there is nothing wrong with that model, but there is a great deal wrong when those mutuals try to get into all the low-margin, high-volume aspects of modern high street banking with all the concomitant problems and regulation.

Peter Marks: That would be my opinion.

Q477 Chair: I want to clarify one point about your role, Mr Marks. Were you not chairman of group risk management?

Peter Marks: Yes.

Q478 Chair: In that capacity, were you at all aware of the main risks that have now been brought to us as the major weaknesses—the commercial real estate exposure, the high loan-to-value ratios, and what they would call in America sub-prime mortgages?

Peter Marks: Yes.

Q479 Chair: What did you do, or what action was in train, to mitigate those risks?

Peter Marks: As I said earlier, we were building up capital in the bank. Clearly, the Co-operative was not pursuing the kind of areas you mentioned. It had acquired them via Britannia, largely. It had to manage those risks going forward. But there was not much we could do about what was already in the loan book.

Q480 Chair: So it was a very, very difficult inheritance that you had had from this big mistake with this deal?

Peter Marks: Yes.

Q481 Chair: Was sufficient information coming to you at group level to enable you to form those judgments on the group risk committee? Was this being withheld or just not provided?

Peter Marks: No, it was not being withheld.

Q482 Chair: So everything you needed to know to perform your job effectively as chairman of group risk management was being supplied to you?

Peter Marks: Yes.

Q483 Chair: Mr Marks, you have told us today that you were the victim of an economic crisis. You are not prepared to agree that Britannia was a large error as a deal. You say that the Co-op bank board was separate from the group but you were chief executive of the group driving the Verde deal forward at the same time. You also accept that you effectively set aside the advice of the bank chief executive on both Projects Unity and Verde even though you have agreed that you weren't qualified to run banks. Looking at all of that in summary, do you now feel that you made very big mistakes in the course of your period as chief executive?

Peter Marks: If we talk about Verde—

Chair: If you concentrate on the heart of the question, which in a sense is the same question that I put to you right at the beginning, Mr Marks. We have moved forward a little on all these points. I am trying to get a scale of the acknowledgment of the mistakes.

Peter Marks: Of course, I acknowledge that Britannia has turned out to be not a good deal for the bank. I absolutely accept that. I don't accept that it was a mistake to give a lot of consideration to Project Verde. I think Project Verde would have transformed the bank. I think it would have given a real competitor in the banking market. The Independent Banking Commission said that to be a true competitor you needed 6% or 7% market share of current accounts. That is what this would have given us, together with the things that Andrew Bailey talked about. So I think it was a project that was well worth pursuing.

By the way, I really need to say that on many occasions I said to the board and to the management team that because I would not be around post-Verde if it happened, I had to be really confident that everybody was supportive of what we were doing. That included the bank executive and the retail-arm executive. On each occasion when I asked them for their opinion and we voted on it, it was unanimous. That was the same in the group boardroom and the bank boardroom. So, yes, I was in favour of Verde. Absolutely, I was. But I also was absolutely aware that it needed to be a collective decision and not Peter Marks, gung ho. I really need to get that point across.

So far as Project Unity was concerned, again that is not a mistake. That has turned out to be highly beneficial, delivering £70 million or £80 million—I can't remember the exact figure but I am sure we can give you that—of savings by combining back-office services. Why wouldn't we cross-sell products? Tesco sells insurance products in its supermarkets. Why shouldn't the bank sell its financial services products in the other retail chain? That is all Project Unity was trying to deliver. It did deliver it, which does not suggest that it got in the way of management stretch. I also think that management stretch has not created the problem in the bank. It is a capital problem. The operations of the bank—dealing with customers and satisfying customers—have, as I understand it, been absolutely fine. The capital issue was driven by the Britannia loan book, essentially, and by the requirement for significant buffer capital in the new world.

Q484 Chair: Mr Marks, large numbers of people have lost money out there—I am not just talking about the bondholders, but very many other people as well—as a consequence of all these decisions. I am sure that this has not been an easy morning for you. Frankly, I do not think that it has been an easy morning for any of us, but I hope you understand that it was necessary that we go through this.

Peter Marks: Of course.

Q485 Chair: Is there anything that you want to add before I bring the sitting to a close?

Peter Marks: All I would reiterate is that I spent my life—45 years—working for the Co-op. I believe in its values and it is a tragedy what has happened: for the group, for the movement and for me personally. We did, however, achieve a lot of success in the retail business and to say that it is completely defunct is an exaggeration. The group still has a very good future, due to a lot of the work that we did.

Chair: Thank you very much for giving evidence today.