STATEMENT OF LIAM O'REILLY DELIVERED PURSUANT TO DIRECTION DATED 21 APRIL 2015 PURSUANT TO SECTION 67 (1) THE HOUSES OF THE OIREACHTAS (INQUIRIES, PRIVILEGES AND PROCEDURES) ACT 2013 (THE "DIRECTION")

JOINT COMMITTEE OF INQUIRY INTO THE BANKING CRISIS

This statement has been proofed by the Oireachtas legal team in accordance with section 33AK Central Bank Act 1942 (as inserted by section 26 of the Central Bank and Financial Services Authority of Ireland Act 2003 and as amended by section 1 of the Central Bank (Amendment) Act 2015). Where necessary parts of the statement have been deleted or a summary or aggregate of those parts has been created and inserted in compliance with the Act. Where the statement has been so amended or modified this is marked in red.

OIR Reference: LOR 01 [LOR –I - 02a]

Dated: 14 May 2015

I have prepared this statement in response to the Direction as a witness statement in connection with the summons to attend before the Joint Committee on 11th June 2015 at 9.30 am. I have noted that I am required to give evidence in relation to the lines of inquiry referred to as:

R1a, R1b, R1c, R1d, R2a, R2b, R2c, R3a, R3b, R3c, R4a, R4b, R4c, R6a, B1a, B1b, B2a, B2b, B3a, B3b, B3c and B3e.

I understand that my evidence is required in relation to my role as Chief Executive Officer ("CEO") of the Irish Financial Services Regulatory Authority ("IFSRA" / "the Financial Regulator") from November 2002 to 2006.

I have made this statement to the best of my recollection and belief based on the records which were made available to me by the Central Bank of Ireland (the "Central Bank") copies of which I understand have been provided to the Joint Committee pursuant to Section 33AK(5)(ahb) introduced by the Central Bank (Amendment) Act 2015. Where appropriate I have referred to documents which are already available to the Joint Committee or by reference to published materials.

I have also been reminded by the Central Bank of my legal obligations under Section 33AK of the Central Bank Act 1942 and under Directive 2013/36/EU and Regulation (EU) No. 575/2013. I have noted that the Joint Committee intends that all written statements received by the Joint Committee will be published on the web-site of the Joint Committee after due consideration by the Joint Committee. I have therefore omitted from **PART 1** of this general statement any information by which individual credit institutions may be identified.

I attach to this statement a further statement specifically marked **PART 2 Section 33AK** prepared on the basis agreed between the Central Bank and the Joint Committee as per the Joint Committee's letter dated 7th April 2015 to the Central Bank. This is subject to the confidentiality undertakings agreed between the Central Bank and the Joint Committee.

Signed by: ______________________
LIAM O'REILLY

Dated: 14 May 2015

PART 1

1 INTRODUCTION

Thank you for the opportunity to provide you with my perspective on the matters under review by the Joint Committee.

I have annexed as Appendix 1 a short synopsis of my academic and professional career leading to my appointment to the role of CEO of the Financial Regulator, and subsequent to my resignation from that position.

1.1 Statutory framework for the role of the CEO of IFSRA

The role of the CEO was established by the Central Bank and Financial Services Authority of Ireland Act, 2003 ("the 2003 Act") (commenced 1 May 2003). I held the role on an interim basis before its establishment pursuant to statute. The functions and powers of the Financial Regulator were set out in Section 33 C of the 2003 Act. The CEO reported to the ten person board of the Financial Regulator (the "Authority").

Apart from the CEO and the Consumer Director the members of the Authority were appointed by the Minister for Finance. As CEO I had five people who reported to me directly; in particular the Prudential Director and the Consumer Director. The Prudential Director headed four departments - Banking Supervision, Insurance Supervision, Securities & Exchanges Supervision and Financial Institutions & Funds Authorisation. Of the total staff in Prudential Supervision, staff in Banking Supervision accounted for about one quarter (see paragraph 2.6.)

The CEO had overall responsibility under Section 33 H of the 2003 Act for (a) enforcement for regulatory breaches; (b) day to day management of the Financial Regulator and (c) the performance by the Financial Regulator of its statutory role under Part IIIA of the 2003 Act. An organisation chart of the Financial Regulator at the relevant time is set out in Appendix 12 of the Annual Report 2003-2004[1].

In accordance with Section 33 F (8) the CEO is subject to the direction and control of the Financial Regulator and in this regard I attended monthly board meetings to keep the Authority updated on matters in relation to the Financial Regulator. The Prudential Director attended all board meetings and had equal status with the Consumer Director. Operationally the CEO reported to the Chairman between meetings of the Authority.

A CEO's report was presented at the monthly meetings of the Authority, this included information in relation to the matters which were managed by my direct reports.

1.2 Structure of the Financial Regulator and its relationship with the Central Bank

The Financial Regulator was part of the overarching structure of the Central Bank and Financial Services Authority of Ireland ("CBFSAI").

The CBFSAI board was chaired by the Governor. The other directors consisted of six Financial Regulator board members, together with four other members also appointed by the Minister for Finance. The functions of the Central Bank were financial stability, ECB membership, EMU monetary policy, operations (such as currency production) and the provision of services, such as economic services, technology, human resources, maintenance etc.

A Financial Stability Unit within the economic services division of the Central Bank provided services to the Financial Stability Committee. The CEO of the Financial Regulator was a member of the

[1] http://www.centralbank.ie/press-area/press-releases/

Financial Stability Committee (chaired by the Director General ("DG") of the Central Bank). The Committee produced an annual Financial Stability Report.

2 RESPONSE TO THE THEMES AND LINES OF INQUIRY

2.1 General Context.

A financial shock of huge proportions hit the world financial system in the autumn of 2008. This led to massive liquidity shortages worldwide and a global recession. The effect of this crisis on the Irish economy and banking system was exacerbated by domestic weaknesses. Financial Regulators in the U.K., the U.S. and Europe have been severely criticised for contributing to the crisis through lax regulation.

As a general point, I would like to emphasise that the approach of the Financial Regulator was that of a principles based regulator. This approach was well known and enunciated by the Financial Regulator and by Government and publicly accepted. It was the centrepiece of the strategy of the Financial Regular from the beginning. The policy laid a heavy responsibility on the boards and senior managements of banks. It demanded of them that they had a clear business risk policy and the risk controls in place to monitor and control that risk. Resources in the Financial Regulator were based on this premise.

2.2 R1a. Appropriateness of regulatory regime

The regulatory regime was a principles based regime. The expectation of such a regime was set out in our published Strategic Plan 2004-2006. I commented at the time:

> *"We are committed to a principles-based approach to regulation. This is achieved by the boards and top management of financial institutions committing fully to a culture of integrity, competence and best practice. In turn, we will expect them to ensure that this culture flows throughout all levels of their organisations. It is also achieved by financial service providers having compliance systems, controls and internal audit departments that have the standing and the powers to meet the standards of behaviour that we now expect of those we regulate. We set out those standards; they must invest in the system and staff to ensure those standards are met."*[2]

In short, this regime relied on the boards of the particular institutions being responsible for business strategy and having the proper risk controls in place commensurate with the size and complexity of the organisation.

An important aspect of the corporate governance regime was that non-executive directors had a controlling role on the Audit Committee and the Remuneration Committee. The regime required direct reporting lines between both the internal auditor and external auditors to the board audit committees.

The Financial Regulator's main focus at the time was on determining the quality of corporate governance and risk control within a bank.

The main method of asserting influence or control over credit institutions was moral suasion, by that I mean that the Financial Regulator would assert its influence over the board of a financial institution to take remedial action as a result of the findings of inspections or as a result of other issues that came to light in some other way. For example, issues might arise in the course of review meetings with the bank, during themed bank inspections, by the bank itself reporting a problem or by information supplied by an external auditor, the internal auditor or members of staff.

[2] http://www.centralbank.ie/press-area/speeches/Documents/

There was a view that taking any action of a legal nature might cause reputational damage to a banking institution, with possible consequent effects for the banking system and depositors. In general, the foregoing measures were appropriate for compliant banks.

The approach adopted by the Financial Regulator at the time, in line with our principles based approach, was to expect that a board would implement the necessary changes and in an expeditious manner. It is now apparent that for certain banks more robust measures were required.

2.3 R1b. Effectiveness & Appropriateness of the Supervision policy and powers;

At the time, the Financial Regulator was of the view that enforcement action would be more effective if it were in the form of a set of legally based codes and the newly enacted legislation (2004) on administrative sanctions was applied for breaches of codes. The use of such sanctions was viewed as a more effective and lower key way of keeping non-compliant institutions in line.

The system was well developed in the consumer area where a set of consumer codes were being finalised (in 2005) and administrative sanctions would apply to breaches of the codes. A sanction could range from an official caution, to monetary penalties or a disqualification of the service provider.

In the prudential area, it was planned that sanctions would be imposed on institutions in the event of breaches of Corporate Governance Codes. Updated requirements were also being developed for being a fit and proper person to hold a senior position in a credit institution. Directors' compliance statements and Corporate Governance Codes were also being developed. These were to be implemented following an extensive consultative period.

2.4 R2a. The effectiveness of the use of Supervisory Powers.

The Financial Regulator's "Report: Investigations in AIB Group on Foreign Exchange & Other Charging Issues & Deal Allocation & Associated Issues" published on 7 December 2004[3] demonstrated the manner in which it could act effectively.

The report was published and was based on extensive investigations over a 15 month period. The investigations involved prudential and consumer issues within AIB. Both sides of the Regulator (Consumer Director and Prudential Director) acted robustly, came to firm findings against the institution as detailed in the report leading to compensation to customers and changes in the institution.

I refer to a case in the Honohan Report[4], page 73, Case (i). This case highlights the interaction of the Financial Regulator with a particular bank. Persistent efforts were made by the Financial Regulator to rectify the situation. At the time the Financial Regulator presumed that the issues identified could be resolved by the board of the institution and engaged by correspondence with it to this end. On my departure I felt that progress had been made. However, in hindsight, the approach was over reliant on the board of the institution itself to rectify the weaknesses which had been identified by the Financial Regulator.

2.5 R1c: Appropriateness, nature and effectiveness of the macroeconomic and prudential policy; and

R2b: Nature and effectiveness of the operational implementation of the macroeconomic and prudential policy

I comment on these issues together. After the establishment of the EMU, the Central Bank, the Financial Regulator and the banking system operated in an environment characterised by a strong exchange rate and a low inflation /low interest rate. Cheap credit was available to the banking system

[3] http://www.centralbank.ie/press-area/press-releases/Documents/

[4] http://www.bankinginquiry.gov.ie/

from Europe and elsewhere. The control of credit growth through changes in domestic interest rates was no longer available while no centralised mechanisms for regulating EMU banks existed.

Following EMU, credit rating agencies gave the Irish banking system a high rating and upgraded some banks. The general consensus in markets in January 2006 was that the Irish banking system was well capitalised and the Irish economy was healthy and growing. Whilst some vulnerabilities were signalled, their extent were not realised and there was no expectation of the magnitude of the shock that eventually occurred.

These vulnerabilities were:

a) Increase in personal indebtedness and credit risk in the economy (particularly building and construction); and

b) Dependence on narrow tax base for Governmental funding (highly dependent on the property market).

The Central Bank and the Financial Regulator regularly voiced concerns in its publications (quarterly bulletins, annual reports, Financial Stability reports) about credit growth and the increase in personal indebtedness. The question remained as to what macro policy instrument could be used other than moral suasion to dampen credit growth.

By way of macro prudential policy instrument, two options have been mentioned in the Honahan Report and in evidence before this Committee: (a) to change general capital requirements to reflect the increase in risk and (b) the application of sectoral limits on a mandatory basis.

A 1% increase in capital ratios was applied across all banks in 2006, subsequent to my departure. In the event this increase had little effect.

2.6 R2c: Adequacy of the assessment and communication of both solvency and liquidity risks in the banking institutions and sector.

B2a: Appropriateness of property related lending strategies and risk appetite

B2b: Appropriateness of credit policies, delegated authorities and exception management.

B3c: Interest rate risk appetite, setting and monitoring.

B3e: Capital structure and loss absorption capacity.

The following were the chief means used by the Financial Regulator in analysing and communicating risks to the credit institutions:

- **Financial Stability Reports** prepared and published annually by the CBFSAI. These analysed and assessed the systemic health of the financial system in Ireland and pointed to areas of risks and vulnerabilities. In the 2005 report, the overall conclusion was that “the Irish banking system continues to be in a good state of health”.

- **Stress tests** carried out by the CBFSAI concluded that the capital in the system would be sufficient to absorb the shocks predicted.

- **Annual statutory audits of institutions** indicated their general health which gave comfort to the Financial Regulator.

- **IMF Article IV reports** gave a generally favourable view of the solvency of banks.

- **Credit rating agencies** were generally positive and even upgraded some banks.

All of these evaluations have now proven to be mistaken in that they all failed to recognise the extent of the credit exposure within the banking system. Neither did they anticipate the huge upheaval in the worldwide financial system which occurred in September 2008.

In the period 2003 – 2005, the Central Bank and the Financial Regulator were concerned about the quality of credit and the level of indebtedness in the economy. The Central Bank and the Financial Regulator were continually voicing concerns on these issues to the lending banks. Communications were made to the banks and the general public reflecting these concerns:

a) In July 2003 the Board of the Financial Regulator considered the results of a survey carried out by the Financial Regulator, (through themed inspections) of the **mortgage lending criteria** being applied by mortgage lenders. The survey indicated that there seemed to be a lowering of credit standards. The major conclusion of the paper was that despite the assertion of credit institutions that lending decisions were based on the ability to repay, evidence showed that the analysis and verification of the information supporting these assertions were questionable.

   Following from this the Board of the Financial Regulator approved the implementation of the recommendations:

   - All inspection findings were to be issued to the chairman of each credit institution, who in turn had to bring the findings to the attention of his board.

   - A minute of the board meeting was to be furnished to the Financial Regulator stating that they were compliant with their stated policies.

   - Further stress tests were planned as a result of the findings.

b) **A forum of lending banks,** chaired by the Central Bank, made up of senior executives and economists from the main lending institutions met both in 2004 and 2005 where concerns about credit growth were expressed to the lending banks by the Central Bank and the Financial Regulator.

c) **A warning** was given on 26 July 2005[5] in the Financial Regulator's press statement at the launch of its report of the period 2003-04:

   "*There is an increasing debate about the rapid growth in credit in the economy and I want to address this area as a matter that could cause concern in the future. Along with the Central Bank we are concerned about the rapid rise in the levels of indebtedness in the economy and are well aware that if conditions changed adversely, many people could be severely affected.*

   It is the responsibility of each financial institution to ensure that their credit standards, provisioning policies and levels of capital are appropriate to provide not only for today but in the event of a future downturn in the market.

   In short, institutions should only advance loans where they are confident of their customers' ability to repay. They have the responsibility to inform their customers about the risks they are taking on borrowing large amounts of money and that they retain some flexibility to cope with change in their personal circumstances like unemployment and higher interest rates."

   It is important to emphasise that in making that statement there was no belief in the Financial Regulator that conditions might deteriorate to such a level that the banking system would succumb to a traumatic shock of the magnitude that occurred in 2008.

It is now widely agreed that the event which occurred was a one in one hundred year event, and would have therefore had a very low probability of occurring. It would therefore have been practically impossible to predict. Again we were not alone in that this shock was not predicted anywhere in the world.

[5] http://www.centralbank.ie/press-area/speeches/Documents/

2.7 R1d: Composition, skills and experience and number of resources at the Financial Regulator.

At the end of 2005, 318 full time staff were employed by the Financial Regulator. Of that total, Banking Supervision Department had a complement of 45.5 staff and there were 6.5 vacancies. Details of the deployment of staff resources within the Financial Regulator were set out in page 94 of the annual report[6].

I refer you to the Honohan Report[7] Table 5.1 and Table 5.2 in relation to staff complement of the Banking Supervision Department. As can be seen, almost half the staff was involved in the inspections of banks.

My direct interaction with individual banks would have been occasional. Such interaction would have been with the CEO and /or chairman of a bank, in response to issues raised at this level.

Day to day interaction with the banks took place between the assigned staff within the inspection teams in Banking Supervision department and their counterparts in the banks being inspected. Such interactions would have taken place as a result of – regular review meetings, scheduled or themed inspections, dealing with compliance queries, or discussion of business proposals where compliance issues were involved. The manager of the department would also have had a good deal of interaction, as would the Prudential Director, though less so. If a serious issue arose, the interaction would be escalated.

In general, the time devoted to institutions by inspection teams was risk based. Moreover, a standard banking return was completed monthly and provided a comprehensive set of accounts data, liquidity data, exposures etc. The factors determining relative risk were supervisory complexity, corporate governance, business and operational risk etc., based on the regular data supplied.

Each team had a portfolio of banks to examine on a cyclical basis. Even though the number of staff employed remained static, work in the department increased considerably over this period due to the increasing level of work for the EU and ECB committees (of which banking supervision staff were members), and in working on the new Basel Accord. Recruiting the required complement of staff with the necessary experience was difficult in the Banking Supervision area. It was difficult to maintain the required complement of staff with the necessary experience. Moreover, the most experienced staff were head hunted by the financial sector which could offer higher salaries than were possible in the Financial Regulator.

The level of professional and academic qualifications of staff within the Financial Regulator was high and included qualified accountants, one senior economist and a risk section which had a number of mathematicians. Where the problem arose was in maintaining the level of experience. There was never a policy to freeze staff levels. However for the reasons given, it was difficult to achieve and maintain staff levels with adequate competencies.

Occasionally there was a need to supplement experienced resources by using accounting firms. Further, credit institutions with issues were required by the Financial Regulator to hire outside expertise to carry out work directed by the Financial Regulator.

2.8 R3a: Awareness and Clarity of roles and accountability amongst the regulatory and supervisory institutions of the State.

With the establishment under statute of the Financial Regulator, there was clarity of its supervisory role. Our obligation to communicate suspicions of crime, to other authorities, e.g., Gardaí, Revenue, corporate enforcement, among others, was set out clearly in S33AK. However, communications in reverse were limited, as there was not a corresponding legal responsibility for those entities to report to the Financial Regulator.

[6] http://www.centralbank.ie/publications/Documents/
[7] http://www.bankinginquiry.gov.ie/

The structure and roles within the CBFSAI were clear. I can say that I agree with all the characteristics of the structure and communications system as set out in the Honohan Report at chapter 3, section 4, page 38 and agree with his assessment that while the structure of the CBFSAI was complex, it did not contribute materially to the failures that occurred.

.

2.9 R3b: Nature and appropriateness of the relationships between the Financial Regulator and the Banking Institutions.

The relationship between the Financial Regulator and the Banking Institutions was professional and challenging.

The Financial Regulator within the Central Bank has since 2008 adopted a more intrusive policy in its dealings with Banking Institutions. Post the economic crash, and possibly because of it, there are now more staff in the office of the Financial Regulator because it has been the publically stated intention of the Central Bank that the Financial Regulator is to be more aggressive and intrusive.

Also, I agree that the Financial Regulator during my period in office could have adopted a more aggressive and intrusive policy. However this would have required more resources.

2.10 R3c: Effectiveness of the communication between the Central Bank and the Department of Finance

My response below relates to the Financial Regulator. Staff at all levels of the Financial Regulator communicated regularly with the Department and there were good working relations. Such communications generally related to the formation and implementation of EU legislation. Staff were unable to communicate about individual institutions under S33AK of the 2003 Act.

Occasional meetings were held between the chairman and CEO of the Financial Regulator on the one hand and the Minister on the other. These meetings, which were informal and infrequent would have related to reporting on our work on setting up the Financial Regulator, about IFSRA budgets and other general administrative issues, such as the progress on the enactment of legislation. Specific meetings took place to brief the Minister if considered necessary.

The Secretary General of the Department was an ex officio member of the Central Bank Board which was briefed on Regulatory matters at every meeting. However he was also bound by the secrecy laws. The Minister could only be involved if there were issues of serious financial stability.

R4a: Appropriateness of the expert advice sought, quality of analysis of the advice and how effectively this advice was used.

The following consultancy and expertise was sought:

- Expertise on regulation was usually sourced either in the Financial Regulator or from other financial regulatory authorities abroad, such as the FSA in the U.K. or other regulators in Europe and U.S.
- Economic advice was obtained from in-house qualified economists (who had close contacts with their colleagues domestically and abroad).
- Accounting firms were engaged at times, to carry out work for the Financial Regulator, as in the case of the AIB overcharging and deal allocation issues.

The sourcing of advice as outlined above worked well. However, in hindsight, the biggest gap in expertise lay in the area of overlap between macro and micro prudential matters. An IMF mission could have been requested to examine that particular area and provide recommendations on how to bridge the gap. However, this was never considered or suggested at any time during my term in office.

2.11 R4b: Impact of the reliance placed upon information and reporting from statutory auditors of the banks.

Auditors directly supplied copies of their management letters on the statutory annual audited accounts of banks to the Financial Regulator. Such reports and the annual accounts of the banks generally gave comfort to the Financial Regulator about the solvency of the institutions in question. It was one of the most important elements in the general assessment being made.

However, there were inherent weaknesses in relying on the information provided in annual accounts. Such accounts were prepared by reference to accountancy policies which could not provide for unknown risks. It was a concern which we shared with the banks. Nevertheless, the annual accounts were statutory accounts, and as such, we rightly placed a good deal of reliance on them.

No issues of a solvency nature were raised in any reports from auditors between 2003 and 2006. If an important issue of a risk control nature arose, the matter would have been brought to the board.

2.12 R4c: Analysis and consideration of response to contrarian views (internal and external).

The vast majority of views from market commentators about the Irish economy were positive. The CBFSAI depended for its economic advice, on the input from the Financial Stability department in the Central Bank. I am conscious from reviewing the Honohan report that there appear to have been contrarian views within the economist community. However, I assume such views would have been weighed up and taken into account in the course of the economic input into the published Financial Stability Reports prepared by the Financial Stability Committee and approved by the CBFSAI board.

2.13 R6a: Adequacy and impact of International organisations oversight on banking regulation and supervision activity.

It is now clear that the IMF Article IV[8] report was far too positive and, as a result, provided false comfort. Moreover the FSAP 2006 report from the IMF[9] also provided a positive assessment of the Regulatory regime. At the time it provided the Financial Regulator and the Central Bank with assurance that we were discharging our obligations and functions satisfactorily.

2.14 B1a: Composition, skills and experience of boards and board subcommittees.

This was one of the areas which were addressed by the Financial Regulator in inspections. If inadequacies were noted, particularly in the risk and control areas, such matters were highlighted in the inspection reports. The suitability for candidates to be appointed to the board of institutions was treated as a very serious matter.

One of the major tools in assessing prospective members of the board of a bank was a comprehensive questionnaire. As stated earlier updated requirements were being developed for being a fit and proper person to hold a senior position in a credit institution. This questionnaire and these requirements were used when a director was about to be appointed, and was in the process of being updated. The proposal was being explored by the Financial Regulator in my year of departure to have regular updating of this questionnaire by directors, rather than only completing a questionnaire on being admitted for the first time as a director

2.15 B1b: Integrity of Financial Reporting

In hindsight it is clear that reports to the boards of Banks both from within their own institution and from external sources (legal, accounting, market risk, valuation experts) did not provide sufficient information of the credit risks being taken. For example the level of exposure in commercial loans to a small number of individuals was not known.

[8] http://www.imf.org/external/np/sec/pn/2005/pn05146.htm
[9] http://www.imf.org/external/pubs/ft/scr/2006/cr06292.pdf

The Financial Regulator relied on data in quarterly returns supplied by the banks. I do not recall any issue being escalated regarding the quality or integrity of this data.

2.16 B3a: Appropriateness of Funding Sources.

There was an over reliance on short term lending on the EMU interbank market. Customer deposits (usually a more stable source of liquidity), as a proportion of the balance sheets, continued to contract. Increasing reliance was placed on large commercial depositors, which by nature would have been more mobile.

2.17 B3b: Analysis of liquidity risk under adverse scenarios.

The liquidity crisis in September 2008 was not predicted. Banks in their normal course of business use the liquidity rules set out by the Financial Regulator and the Central Bank and this can provide for certain stress events. When contingency plans are being made, for a future possible crisis, such as, a collapse of the credit markets, it is important that all relevant authorities are involved, i.e., the Central Banks and Departments of Finance and Treasuries of Europe and the U.S.

PART 2

[DELETED]

Material in this statement is relevant in particular to the Themes and Main Lines of Enquiry: B1a, B1b, B2a, B2b, B3a, B3b, B3c, B3d, B3e. I have set out two examples of actions taken by the Financial Regulator in relation to particular issues concerning financial institutions where it became aware of shortcomings of corporate governance and other matters. I have referred to documents which have been submitted by the Central Bank to the Joint Committee.

[INSTITUTION X]

The Financial Regulator had long standing difficulties in ensuring that [Institution X] complied in the areas of corporate governance and risk control of commercial lending. The Financial Regulator inherited this problem in 2003 when it took over responsibilities for regulation.

The difficulties [related to the management of this institution]. **[DELETED]** In 2004 as a result of concerns raised by the Bank inspectors and [Institution X's] external auditor, the Financial Regulator commissioned a third party review [of the institution's] commercial loan portfolio. The results of the report were presented to the board on November 2004. As a result of concerns raised, a letter was sent to [Institution X] setting out specific requirements, and requiring a response.

Required actions were demanded and a sanction was imposed **[DELETED]**. This was imposed notwithstanding serious resistance from the institution which claimed that it would adversely impact on its credit rating. The approach adopted depended on the [board of the institution] continuing to effect the necessary changes.

In 2005, there was intense engagement with the [the institution's board] to resolve outstanding problems, which engagement was ongoing at the time of my departure. Some progress was made during 2005 following exchanges of letters between me as CEO of the Financial Regulator and the [institution's board]. A summary of the progress made was reported to the board in September 2005.

[Institution Y]

[DELETED]

In May 2004 a board minute noted the results of an inspection of [Institution Y] which raised issues of accounting policies for, inter alia, Profit and Loss, control of operational risk, and the adequacy of credit control for property lending **[DELETED]**. It requested answers to those questions by the June meeting. In the event, a presentation was made at the July meeting.

A minute of the July 2004 meeting records that the board of the Authority noted that having reviewed the credit risk issues, banking supervision would examine wealth management, treasury and other areas of [Institution Y's] operations. The issue of consolidated exposures was also raised and this issue was resolved at the December 2004 meeting.

[DELETED]

In examining the records I found that no further issues were raised to board level up to January 2006. The general issue of the large growth in credit remained which was a common theme with the other institutions **[DELETED]**.

INBS

AN issue arose in 2003 in relation to the conduct of the AGM and a possible breach of S72.7 of the Building Societies Act 1989. **[DELETED]** A press release was issued (22 December 2004) referring to the investigation and set out INBS's acceptance that it had not fully complied with the legislation. It also stated that in future, administrative sanctions, which were not available in December 2004, would be applied. This press release could not be published without the agreement of INBS under S33AK.

The board of the Financial Regulator was informed of the proposed press release on 15 December 2004.

APPENDIX 1

Synopsis of Liam O'Reilly professional career

- I hold a B.Comm. degree from U.C.D., an MSc in Statistics from T.C.D. I became a Fellow of the Institute of Statisticians in 1980, and I hold a PhD in "Time Series Analysis & Econometrics" from T.C.D. I also spent a year at Queen's University, Kingston, Ontario, Canada, studying economics at MSc level. Apart from the foregoing, most of my study was done at night while working in the Central Bank.

- Following a short period working in Dublin Corporation, I joined the Central Bank in 1967. By the time I retired as CEO of the Financial Regulator in January 2006, I had been a public servant all 41 years of my working life.

- Within the Bank, I worked at a senior level as manager of International Relations, Financial Control & Settlements, and Financial Markets. I was introduced to Financial Supervision in September 1998 when I became Assistant Director General in charge of all financial entities. I was also a member of the Review Group on Auditing, chaired by Senator Joe O'Toole (2000).

- I acted as interim CEO of the Financial Regulator for the period from November 2002 to 30 April 2003. From May 2003, when the Financial Regulator took up its statutory responsibilities and became a statutory body within the general structure of the Central Bank and the Financial Services Authority of Ireland, I held the role of CEO of the Financial Regulator until I retired from that position at the end of January 2006.

- During my term as CEO of the Financial Regulator, I had overall responsibility for the supervision of - Credit Unions, Insurance entities, Securities & Exchanges, Funds, and other financial institutions – a total of 8,298 entities at the end of 2004. Within the structure of the Financial Regulator, the Prudential Director, the Consumer Director, the Registrar of Credit Unions and the manager of the Legal & Finance Department reported directly to me. I, in turn, reported to the chairman of the board and the board itself.

- When I retired as the Financial Regulator in January 2006, I voluntarily refrained from taking up any positions for a 12 month period. Subsequently, when I became a director of two financial institutions, I continued of course to be bound by the secrecy laws. I held the following positions:

    - Chairman of the Chartered Accountants Regulatory Board; 2007-2009.
    - Director of Merrill Lynch International Bank Ltd; March 2007- March 2011.
    - Director of Irish Life & Permanent plc & Irish Life & Permanent Group Holdings plc; September 2008- May 2010.