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Joint Committee of Inquiry into the Banking Crisis

Witness Statement of

Fergus Murphy

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Opening Statement / Introduction

In my invitation to appear before the Joint Committee of Inquiry I was asked to give evidence relating to a number of lines of inquiry in the context of my role as CEO of EBS. I took over responsibilities as CEO of EBS on 14 January 2008, less than 8 months before the commencement of the Government guarantee. I joined the EBS Board on 1 February 2008. In July 2011, EBS was acquired by AIB and in December 2011, I was appointed Director of Transformation at AIB. I continued in the role of CEO of EBS until July 2012.

On my appointment as CEO I was specifically mandated to renew EBS at a very difficult time for the institution and to make changes that would help remedy the mistakes of the past. This was an enormously challenging period. As a consequence of my international experience I had formed the view that a correction in the Irish property market was likely. Upon joining EBS I soon realised the extent of the problems that existed in the institution, particularly in relation to its property lending. However, I did not predict that the down turn would be as severe as it has been and I thought that EBS was fundamentally sound and would survive.

By way of brief summary, my career progressed through a number of international banking institutions prior to joining EBS. I joined Rabobank in 1994 and held a range of senior positions at the bank including Global Treasurer Rabobank International and then Managing Director of Rabobank Ireland plc before becoming CEO Rabobank Asia. I had previously worked in Banque Nationale de Paris (BNP) and Kredietbank in a variety of treasury and capital markets roles. During my time with Rabobank and BNP I developed strong international banking expertise covering capital market, institutional business, and retail. On my return to Ireland in 2007 I was approached to join EBS as CEO.

My appointment to EBS resulted from a comprehensive selection process and my understanding is that, among other aspects, my experience in capital markets was considered a key asset by the interviewing panel as it was seen as a way of broadening the knowledge and skill set at executive level, particularly in light of the challenges facing EBS. My familiarity with international best practice in governance, prudential banking practices and risk management, gained in my years at Rabobank, was also an important factor in my selection. I also had the advantage of knowing EBS as I had tried, on behalf of Rabobank, to acquire EBS in 2002/2003 prior to my departure to Asia. This was prior to EBS moving into Land & Development lending in 2005.

EBS had, in the period before my tenure, built a significant loan exposure in Commercial Property and Land & Development lending. This exposure had been funded primarily from short term wholesale markets. The legacy impact of these two factors, in particular, contributed to a significant weakening of the institution as losses crystallised through the transfer of assets to NAMA, as the underlying weakness of the economy increased the level of non-performing loans, and as the institution deleveraged to a more sustainable funding profile. Ultimately, the cost of this legacy, despite advanced talks with third party capital providers, was borne predominately by the Irish taxpayer.

During my tenure at EBS, I sought at all times to minimise the potential capital impact of these legacy issues through a range of strategies including, in summary:

- Changed the profile of EBS from an institution with a high risk appetite to one that was much more risk averse. In particular, I led the adoption by EBS Board of a Risk Appetite Statement;
- Initiated a withdrawal from Land & Development lending within four months of taking office and a withdrawal from Commercial Property lending within six months;
- Continuously tightened new residential mortgage lending criteria thereby reducing credit risk;
- The net effect of the above steps reduced annual growth of the total loan book from circa 20% per annum on average in the years (2002-2007) preceding my appointment to an average per annum growth rate of circa 1% from 2008 onwards. The annual growth of the residential mortgage lending book reduced from 17% on average in 2002-2007 to circa 2% from 2008 onwards;
- Implemented a cost cutting programme that achieved a 20% reduction in the EBS cost base in two and half years;
- Strengthened corporate governance practices and internal controls, while building a culture of responsibility and accountability;
- Strengthened EBS' funding management by shifting the focus from short-term wholesale funding to retail deposits, representing 1.7 times the volume of net residential mortgage lending during the period 2008-2011;
- Established a covered bond bank in 2008 which generated stable long-term funding of €1bn in November 2009;
- Implemented a bilateral repo programme which helped to reduce reliance on Central Bank funding;
- Put in place a robust contingency liquidity infrastructure; and
- Relentlessly pursued all opportunities to improve the capital strength of EBS and reduce the need for State support, including debt buy-backs at a discount and leading discussions with numerous counterparties to effect a sale/merger of EBS that would secure its future.

I would like now to specifically address the lines of enquiry asked of me in the invitation document.

TOPIC 1: B1 Effectiveness of banks' board governance, client relationship and business model

- *Composition and experience of board and board subcommittee (b1a)*
- *Quality of the business model setting process (b1c)*
- *Adequacy of board oversight over internal controls to ensure risk is properly managed and monitored (b1d)*

There were a number of critical factors relevant to the effectiveness of EBS' governance leading up to and upon my arrival in January 2008 and which had a bearing on the subsequent steps undertaken to improve that governance:

- EBS' status as a mutual organisation, with an ownership base made up of customers or "members", had a bearing in particular on Board composition. The appointment of Board directors from the membership base was a throw-back to former times and was unwieldy;
- There were a number of Board and senior manager and executive resignations preceding and immediately subsequent to my arrival, resulting in significant organisational changes and realignment of the key management team;
- There was transformational change in the regulatory environment from a principles-based prudential risk approach to a more "assertive" and micro risk based approach which led to a significant increase in the level of CBI regulatory oversight of all banks including in the area of governance.

During my tenure as CEO, significant changes were made to the EBS governance structure to meet new regulatory standards and to align with best international practice, while building a new, professional senior management team to implement these requirements and practices.

Some key steps undertaken during my tenure to enhance the quality of Board Governance include:

- I undertook to improve EBS' Risk Appetite Framework. The Risk Appetite Statement was proactively developed in 2009 before being approved by the Board Risk Committee and the Board in July 2010;
- As a core objective, I immediately sought to significantly increase the level of governance at EBS in line with international best practice with a strong emphasis on board oversight and its engagement in the risk management function;
- The effectiveness of the Board and Board Risk Committee was strengthened and oversight of risk management improved. For example,
    - Appointment of Chief Risk Officer ("CRO") with a reporting line to the Chair of the Board Risk Committee
    - Enhanced risk management capacity by improving training for the Board e.g. a Risk Management Manual was compiled for Board induction and for ongoing monitoring and evaluation
    - External assessments of the Board's effectiveness were conducted. Material Board subcommittees also undertook annual reviews of their effectiveness
    - Increased information and risk reporting to the Board and subcommittees
    - Increased the number of meetings held by the Board Risk Committee

The Board of Directors and/or the Board's Risk Committee constantly reviewed and "health-checked" adherence to new guidance on corporate governance. I also promoted the adoption of a risk control framework based on the "three lines of defense" model which is considered best practice, with actions including:

- Removing responsibility for the commercial property lending from the Finance Director/CRO role;
- Separating the CRO and Finance Director roles and creating a new CRO role reporting directly to the CEO. The CRO was also given a dotted reporting line to the Chair of the Board Risk Committee;
- Appointing a full-time Head of Compliance;
- Moving the Compliance reporting line to the CRO;
- Filled a regulatory relationship manager position to ensure that there was an appropriate CBI engagement policy in place.

In addition to improvements to EBS' governance structures and processes I took steps to change the business model to one that was more risk averse than in the years preceding my arrival through changing lending and funding strategies. These steps are discussed in more detail on **pages 6-9**.

TOPIC 2: B2 Effectiveness of banks' credit strategies and risk management

- *Appropriateness of property related lending strategies and risk appetite (b2a)*
- *Appropriateness of credit policies, delegated authorities and exception management (b2b)*
- *Analysis of risk concentration in the base, the adverse economic scenarios and the impact on capital structure (b2c)*

On joining EBS in January 2008, I identified a number of concerns with respect to risk appetite and property lending strategies. As context, the EBS total loan book had grown from €5.7bn in 2001 to €15.9bn by the end of 2007. There was a large increase in residential mortgage lending at the Building Society in the previous 6 years, and the residential mortgage book had grown from circa €5bn in 2001 to €14.2bn by 2007. The institution had entered Commercial Property lending in 2001/2002, a departure from its core business, and critically, EBS also had entered Land & Development lending over the period 2005-2007. Those two books had grown to a combined €1.7bn exposure by the end of 2007.

I set about pursuing a significantly more conservative credit and risk appetite than over the years preceding my arrival:

- **Ceased Land & Development lending**: In April 2008, after reviewing the condition of the balance sheet, I immediately initiated a cessation of Land & Development lending, due to its high risk characteristics, the overheated nature of the domestic property market and recognition that it was non-core exposure for EBS core strategy;
- **Ceased Commercial Property lending:** In June 2008, I initiated a cessation of all other Commercial Property lending;
- **Pursued strategy of managing down commercial book**: To aid this process, I employed a number of commercial property lending professionals, closed regional lending offices and improved controls by consolidating operations into a more centralised operation. Staff were internally reassigned to wind down the book and processes and procedures were embedded to ensure the portfolio was managed in an effective manner;
- **Tightened residential mortgage credit standards:** With the above changes, residential mortgage lending then became the core lending function in EBS. I also tightened credit underwriting standards and shifted the focus to more sustainable, lower risk products by reducing the share of new business related to Buy-to-Let, switcher and equity release products;
- **Strengthened focus on "at risk" and non performing customers**: In late 2008, EBS set up task forces to manage residential and commercial customers that were non-performing or "at risk". EBS also actively worked with external bodies to evaluate potential forbearance measures including commissioning an external review of Potential Solutions for Mortgage Debt Management in Ireland and presenting its findings to the Joint Committee on Social & Family Affairs. I believe EBS was to the forefront of developing approaches to managing such borrowers given these initiatives preceded the requirements of the Mortgage Arrears Resolution Strategies and the October 2011 Keane Report; and
- **Improved risk management:** As discussed earlier, I also took steps to improve EBS risk management such as separating the roles and/or reporting lines around Finance Director, CRO and Head of Commercial Property Lending.

The effect of these changes was to dramatically reduce the growth in the EBS loan book, which grew by circa 1% per annum in the years 2008-2011 compared to the annual growth rate of 16% in the period 2005-2007. The tightening of residential lending standards to those based on a more sustainable and cash flow based criteria significantly improved the quality of new loans originated from 2008 onwards. However, even after the cessation of Land & Development and Commercial Property lending activities in 2008, the legacy of those exposures was to heavily impact the institution's capital base in the years to come.

TOPIC 3: B3 Effectiveness of banks funding liquidity strategies and risk management

- *Appropriateness of funding sources, the mix, maturity profile and cost (B3a)*

EBS had traditionally pursued a conservative funding strategy. For example, in the late 1990s retail deposits were the primary source of funding for EBS. However, by the start of 2008, EBS' funding profile consisted of 26% retail deposits and 74% from various wholesale sources and corporate deposits, with a clear overreliance on wholesale funding (36%). By the time I joined EBS, the contraction of the global funding markets that began in mid-2007 was significantly impeding EBS' access to the wholesale and corporate funds.

I sought to immediately shift management and Board focus to improving liability management in order to mitigate funding difficulties by:

- **Increasing retail deposits:** I sought to fund net growth in the residential mortgage book with retail deposits. EBS achieved a growth in retail deposits of €2.0bn over the period January 2008 to December 2011 versus net residential mortgage lending of €1.2bn in the same period;
- **Maximising long term debt issuance & implementing secured funding platforms**: in November 2008, EBS Mortgage Finance was established as a covered bond bank and to facilitate securitisations;
- **Ensuring that robust contingency liquidity mechanisms were in place:** I also established a platform to increase the amount of collateral available for contingency liquidity purposes; and
- **Asset & Liability Committee (ALCO):** I immediately set about strengthening the ALCO process. For example, I expanded the scope of the meetings to include a focus on retail deposits. In addition, significant time was devoted to the Internal Capital Adequacy Assessment Process **(ICAAP**) at ALCO and other fora**.**

Given the macro environment, and the particular difficulties faced by the Irish banking sector, these measures were not sufficient to prevent EBS from having to utilise emergency funding mechanisms such as the Credit Institutions (Financial Support) Scheme and the Credit Institutions (Eligible Liabilities Guarantee) Scheme. In addition, reliance on Central Bank funding fluctuated through the crisis and peaked in 2010 at 26% of total funding as a range of international shocks impeded access to alternative sources of finance. However, I believe were it not for the various funding and liquidity initiatives outlined above the reliance by EBS on emergency funding mechanisms would have been greater.

Capital structure and loss absorption capacity (B3e)

At the end of 2007, EBS had circa €1bn of total regulatory capital comprising €811m of Tier 1, including €245m of hybrid capital instruments, and €265m of Tier 2 capital which was predominantly comprised of subordinated debt. This equated to a Tier 1 Capital ratio of 9% and a Total Capital Ratio of 11.9%. However, as a mutual Building Society, EBS had limited ability to raise external capital as it could not raise equity capital from its members. Therefore under my leadership EBS implemented a number of initiatives to strengthen its capital through other means including:

- **Capital Forum**: I established a management committee that was charged with formulating, implementing and monitoring capital management;
- **ICAAP**: under the Basel II requirements adopted by Ireland in 2007 and 2008, credit institutions were obliged to submit ICAAP reports to CBI. Under my leadership, the ICAAP

was substantially developed and integrated within the risk management framework. I believe the enhanced ICAAP improved the risk and capital management processes of EBS;

- **Operating earnings:** costs were reduced and margins improved by introducing Risk Adjusted Return on Capital ("RAROC") discipline;
- **Subordinate buybacks**: In 2010 and 2011 EBS bought back/redeemed its outstanding subordinated debt and hybrid capital instruments at market prices resulting in a total net gain of €319m which contributed to EBS' capital;
- **Improvement in loan book quality**: through the cessation of Land & Development and Commercial Property lending and improvements in credit underwriting standards for residential mortgages I believe capital was preserved through less provisioning than would otherwise have been required;
- **Third party capital discussions:** From 2008 onwards, EBS entered discussions with a range of financial institutions (foreign and domestic) and private equity investors with the goal of agreeing an alliance or take-over of the Building Society. This culminated in the appointment of a preferred bidder for the institution in February 2011; and
- **Retail deposits:** As discussed, because of my refocussing EBS' funding strategy to retail deposits, EBS achieved a growth in retail deposits of €2.0bn over the period January 2008 to December 2011. While deposits are not treated as regulatory capital, as discussed further below in **Topic 5 pages 11 - 12**, there is a critical link between the capital strength of a bank and the strength of its funding. Therefore I believe the additional retail deposits raised during my tenure assisted in reducing the instability of EBS during an extremely volatile time.

While the level of additional required capital identified by PCAR I and II was considerable and subsequently led to the requirement of State support, I believe the above initiatives taken together lessened the need for State support as we continually sought to reduce the damage of the legacy loan exposure at the bank. The increase in retail deposits during my tenure significantly lessened the need for central bank and emergency State support, while we pursued all options available to raise external capital for the institution.

<u>TOPIC 4: B5 Adequacy of the Incentive and Remuneration arrangements to promote sound Risk Governance</u>

- *Adequacy of the incentive and remuneration arrangements to promote sound risk governance (b5a)*

EBS remuneration policy was set by the Remuneration Committee which was responsible for approving all material remuneration decisions. I cannot comment on the adequacy of the role of incentive and remuneration in promoting good risk governance at EBS prior to my arrival but I can say that from 2008 onwards no executive or manager bonuses were paid.

TOPIC 5: C2 Role and effectiveness of policy appraisal regime before and during the crisis

- *The liquidity versus the solvency debate (C 2c)*

From my experience, there is a critical link between the capital strength of a bank and the strength of its liability structure. Weakness in the liability side of a bank's balance sheet and overreliance on shorter term or temporary funding sources undermines the stability of a bank in times of extremity or shocks to the banking system. The remedy requires a significant increase in stable funding lines or decrease in the asset side of the balance sheet i.e. deleveraging the bank. Equally, worries over the capital base of a bank, in providing the protection to absorb future losses, affect the ability to attract stable funding sources.

This circular relationship is a negative force in times of banking market stress. Add in over exposure to a high risk asset class depreciating in value (i.e. falling property values) and the uncertainty over capital strength ultimately can undermine attempts to solve funding problems.

The Irish banking system's reliance on wholesale funding, a dependency shared across the European banking system, proved to be a critical weakness when the US sub-prime destabilisation of August 2007 ultimately lead to the weakening and then closing of access to market funding lines in 2008.

Whilst EBS' customer funding profile at year-end 2007 compared favourably to peers, for an institution of its size and mono-line nature with greater sensitivity to the cost of funds there was an over-reliance on short-term funding. Similar to other institutions, prior to my arrival at the bank in 2008, EBS had availed of the keen pricing and ready access to wholesale funds (particularly shorter-dated funds) which facilitated significant balance sheet growth up until 2007. The complete dislocation of the wholesale funding markets in the latter half of 2007 prevented EBS from securing any long term funding. Furthermore, EBS faced significant refinancing requirements in the first half of 2008. By the time I joined EBS, the damage had been done and could not be corrected in the short term. Nevertheless, as outlined on **pages 8-9**, a comprehensive program to strengthen the stability of EBS' funding was instigated in early 2008 which significantly reduced the potential for loss already embedded in the structure of EBS' liabilities.

Our concentration on solving the funding problem at EBS drove a growth retail deposits of €2bn over the period January 2008 to December 2011. EBS was also the most successful of the covered institutions in retaining customer deposit funding, losing just 4% of its total deposits in 2010. The institution actually increased retail deposits by €531m in 2010, despite the Greece debt crisis in May 2010, which fundamentally destabilised the global markets in the lead into the expiry of the guarantee scheme.

The program to seek new capital partners for the bank in 2010, to decrease the potential cost to the taxpayer, could not ultimately alleviate the damage that was done by the excessive property lending which had taken place pre 2008. When in 2010 €836m of property loans, originated in just two years between 2005 and 2007, were transferred to NAMA at an average discount of circa 60% the resulting capital loss on those loans was very damaging.

My view is that, in isolation, the capital impact of the loss generated from property lending pre 2008 proved to be the dominant reason why the institution required external capital support in 2010 and 2011. EBS, during the period from 2009 to 2011, sought to reduce that bill through continual talks with third party investors, to the stage of agreeing a preferred bidder in February 2011. However, it was the combination of the nature of the funding difficulties that the society faced by early 2008, accompanied by the sharp downturn in the Irish economy and the collapse of the property market, that created a follow on impact on capital, which undermined EBS's autonomy in funding and capital plans.

<u>TOPIC 6: C3 Appropriateness and effectiveness of DOF actions during the crisis</u>

- *Appropriateness of the Bank Guarantee decision (C3b)*

As CEO of EBS, I was not party to any discussions with the Irish State in the period before 29 September 2008 about the guarantee scheme which was agreed that night, or any proposals to put in place a guarantee scheme for the Irish banking system.

EBS was the largest building society in the Irish State, but despite the underlying structural weakness of its funding profile and the build out of property lending pre-2008, the liquidity worries which dominated in the summer of 2008 did not extend to EBS in the way that it did to INBS and Anglo Irish Bank. EBS was not under pressure from a significant flight of deposits in the lead up to the guarantee, although weakness in the wholesale funding markets were challenging to the Society.

My first knowledge of the guarantee scheme announcement was through a short call with my Chairman early on the morning of the 30 September. He had been contacted by the CBI. This was followed by confirmation that EBS would have to apply to be covered under the guarantee scheme. At EBS, we had spent the months since my arrival in January 2008 reviewing all alternatives for stabilising the funding profile of the society but a guarantee of any kind would not have been factored into our plans. When a guarantee was formally announced, EBS was named as one of the covered institutions and we had no input into its construct or make up.

It is clear, in hindsight, the conditions which precipitated the decision to put in place a guarantee scheme were fully in existence before I took over leadership at EBS in January 2008. The property exposure that had been built into the Irish system over the previous 5 years to 2007 and the increased dependency on wholesale funding to predominately fund that exposure proved a critical weak point for the banking sector. As wholesale interest rates increased significantly from August 2007, this weakness was to prove deeply damaging as wholesale markets shut in 2008.

The reality that the crisis was already in play by 2008 is a point well captured by Professor Patrick Honohan in his 2010 report ("The Irish Banking Crisis - Regulatory and Financial Stability Policy 2003-2008"). In discussing his report with the Houses of the Oireachtas Joint Committee on Finance and Public Service on 15 June 2010, Professor Honohan noted:

> *"…We know clearly enough the real bubble from the banking point of view and the excessive lending started somewhere in 2003. The period 2003 to 2007 is the real bubble period."*

Professor Honohan wrote in his report that:

> "*..above all, the lending decisions that generated this huge cost were made long before the point was reached of the guarantee. The damage had already been done*."[1]

In hindsight, given the weakness of the Irish banking system in the lead into 2008 and the acceleration of negative international events (such as Lehman's collapse) by September 2008, the options available were limited by the night of 29 September 2008.

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[1] P. Honohan, "The Irish Banking Crisis - Regulatory and Financial Stability Policy 2003-2008", 2010, page 15

<u>TOPIC 7: C4 Appropriateness and effectiveness of domestic policy responses</u>

- *Decision to recapitalise AIB Anglo, Bank of Ireland, EBS, PTSB, and the alternatives available and or considered (C4c)*
- *Effectiveness of the actions to merge AIB and EBS, Anglo and INBS, and deposit transfers, CISA (C4d)*

As a prelude to examining the path to recapitalisation at EBS in 2010 and 2011, I want to put the period in context. EBS had Core Tier 1 capital at the end of 2009 amounting to €455m, which was used to absorb impairment provisions on the residential and commercial book in 2010, offset by gains on the buyback of capital instruments and operating profits for the year.

Following the PCAR I exercise in 2010 the CBI determined that EBS required €875m of capital. This was to cover: 1) the expected losses on the sale of assets to NAMA and the impairment provisioning on that loan book; and 2) to bring the Core Tier 1 ratio from 4% to 8%.

As stated EBS's status as a mutual Building Society limited its ability to raise external capital. Under my leadership EBS implemented a number of initiatives to strengthen the Society's capital and lessen the need for State support (as set out on **pages 8-9**). When Irish banks and EBS were denied access to the capital markets, I attempted to find a partner that would solve EBS' capital problems. I also actively pursued private equity investors. Following the 2010 PCAR, I established the Capital Forum, a management committee that was charged with formulating, implementing and monitoring capital management.

As the requirement for a sale / merger with a third party seemed likely from September 2008 onwards, this was included as a potential capital source in EBS' capital planning. EBS also outlined in its EU Restructuring Plan submitted in May 2010 the plan for a sale and was instructed to commence the sale process by the Department of Finance / NTMA in May 2010. EBS attracted a number of interested parties and a preferred bidder was confirmed by the NTMA in February 2011. The discussions with the Consortium were ended by the NTMA on 30 March 2011 prior to the announcement that EBS was to be merged with AIB on 31 March 2011.

In 2011, before the merger announcement with AIB, the CBI conducted a Prudential Liquidity Assessment Review (PLAR) and a second PCAR exercise that determined EBS required additional capital of €1.5bn to cover forecast impairment of the commercial and residential property loan books and expected deleveraging losses. This total additional requirement also included a buffer of €300m at the discretion of the CBI.

As a mono-line bank, the future of EBS as a standalone was always dependent on government strategy and on the type of banking sector which could be agreed with the Troika. The decision to merge AIB with EBS was taken on the basis that a stronger combined bank would emerge to lend to and support the Irish economy as a "Pillar Bank" alongside Bank of Ireland.

I think that the past three years have shown the success of that merger. Since the merger, AIB, in combination with EBS, has recovered significantly. In its role as a principal lender in the Irish economy, the AIB committed €6bn in new lending in 2014 and as growth takes hold, in line with the recovery of the economy, the bank has a role to continue to support it. AIB recorded profits over €1.1bn in 2014, the highest level in 7 years. EBS produced profits of €128m during that period. AIB's Core Equity Tier 1 ratio reached 16.4%, from 15% in 2013. With a loan to deposit ratio of 99%, AIB has significant potential to grow its balance sheet in a sustainable way, underpinned by both the opportunities here and abroad. The group outlined a strategic plan three years ago to bring the bank from restructuring to stabilisation to positioning for growth and profitability. We have met and exceeded the targets we set ourselves and in 2014.

AIB's EU Restructuring plan has been approved and we have comfortably passed the Comprehensive Assessment. We hold leading market shares in core Irish target markets and we are targeting €7bn-€10bn in lending per annum across these markets. Our lending to corporate and business customers (ex UK) grew by over 50% in 2014 to circa €2.5bn. I believe the bank is very well positioned to return capital to its shareholder, at the State's discretion.

TOPIC 8: R3 Clarity and effectiveness of the nexus of institutional roles and relationships

- *Nature and appropriateness of the relationship between the CBI (including the Financial Regulator), the DoF and the banking institutions (r3b)*

I had little exposure to the CBI or Department of Finance prior to joining EBS in January 2008. I therefore cannot comment on the relationships EBS had with the institutions before that point.

As I joined EBS, I immediately set about establishing a strong framework for risk governance and made a number of strategic decisions aimed at containing potential losses at the society (such as the decision to close the commercial property unit) and to ease the funding challenges at the Society. I ensured that all these decisions were communicated to CBI on an ongoing basis. CBI itself would periodically request information and recommendation actions as the nature of regulatory oversight shifted from 2008, and the reporting requirement on Irish institutions increased.

My interaction with the Department of Finance was initially limited but intensified as EBS developed the plan for recapitalisation, and I worked closely with that team as we sought to find a viable capital partner for the institution up to February 2011.

As CEO of EBS I was engaged with CBI during the two stress tests, the PCAR of 2010 and PCAR/PLAR of 2011.

In my opinion during the period from January 2008 and March 2011, the engagement between EBS, the CBI and the Department of Finance was transparent, consistent, constructive and positive given the background environment in the Irish Banking sector. Today, the relationship between AIB and the Minister for Finance is governed primarily by the March 2012 Relationship Framework and is a very constructive one.