Tithe an Oireachtais
Houses of the Oireachtas

Joint Committee of Inquiry into the Banking Crisis

Witness Statement of

Ronan Murphy

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[1] *See s.37 of the Houses of the Oireachtas (Inquiries, Privileges and Procedures) Act 2013*

RONAN MURPHY

I joined the Bank of Ireland Group at the end of November 1987.

I was appointed to a newly created role in the Group, Head of Group Risk Management, in November 2003 and took-up the position in January, 2004. My responsibilities in this role included the well established functions of Credit Risk, Market Risk and Operational Risk, developing an integrated Regulatory and Compliance function in the Group, and overseeing the delivery of the Basel II project.

In June, 2004 I was appointed a member of the Group Executive Committee, the senior management committee of the Group, in the newly titled role of Group Chief Risk Officer.

In May, 2009 I was appointed to a newly created position in the Group, Chief Governance Risk Officer, with responsibility for overseeing and, as appropriate, managing Regulatory Risk and Relationships, Compliance and Operational Risk, Group Internal Audit, Group Legal Services, and the Group Secretariat.

I retired from the Group in August 2010.

B1d Adequacy of board oversight over internal controls to ensure risk is properly identified, managed and monitored

Concentration Risk

Did you have concerns over the increasing concentration of the Loan portfolio in the property and construction sectors and if so, did you discuss those concerns with any member of senior management or any other Directors?

Response:

The Portfolio Review Committee (PRC), which I chaired, was established in 2005 as a sub-committee of the Group Risk Policy Committee (GRPC), which I also chaired. One of its key functions was to periodically review the composition of the Group's portfolio and identify emerging risk concentrations. This work covered both "name level" concentration as well as "sectoral" concentration. The outputs from these reviews were presented to GRPC (whose membership comprised senior management), for discussion, review and action as appropriate, and through GRPC, to the Board. Thus, Senior Management was provided with single name concentration information at least quarterly (and a Report on the Group's Large Exposures Listing was provided to the Financial Regulator quarterly), and sectoral information periodically for the main concentrations.

Separately, in July 2005, given concerns over potential concentration in the Group's Landbank loanbook, GRPC sought a comprehensive review of landbank exposure across the Group. On foot of this review policy criteria were tightened and landbank lending limits imposed in April 2006. Close monitoring and review of this loanbook followed with Reports to GRPC in December 2006, August 2007, October 2007, April 2008, and December 2008. A feature of these reviews at GRPC was the level of discussion on the risks involved. During this time opportunities to reduce our exposures to this sector were investigated (loanbook sales, CDOs etc) but it increasingly proved to be a very difficult asset class to sell.

The PRC's initial paper on concentration risk was issued in April 2006. The emerging concentrations resulting from the growth in the Bank's Construction & Property portfolio were identified by PRC and brought to the attention of GRPC in a paper dated 13 December

2007. A wide ranging discussion was held noting that the sector then accounted for 44% of all non-mortgage lending and that exposure was growing at a faster rate than other sectors. A number of factors were identified as being mitigants to the risk of this growth, including: the then perceived credit quality of the book; the fact that 65% of the book was income producing investment assets which compared favourably with competitors; that the book was spread evenly between Ireland and the UK giving a perceived element of diversification: and, that large individual exposures were managed in a professional manner by specialist teams considered to have the requisite credit skills.

It is acknowledged that while Property Lending as a percentage of the Group's balance sheet did not grow disproportionately it was the absolute quantum of lending, c.€32bn at March 2009, and, in particular, the quantum of Landbank & Development lending (albeit significantly less than competitors) that left BoI heavily exposed to the significant correction in the Irish and UK property markets and was one of the major contributors to its requiring State support.

B2b Appropriateness of credit policies, delegated authorities and exception management

Loans Outside Lending Policy

(a) *Were you aware of the extent to which your bank issued loans that were outside the stated lending policy?*

(b) *Did you have any concerns about the volume of loans that were issued outside the stated underwriting policy?*

(c) *If you had concerns about the loans issued that were outside lending policy, how often were these concerns raised, in what format were they communicated, what details were communicated and to whom?*

(d) *If reports were issued or concerns raised, how were they received by management and what action was taken?*

(e) *Did you feel that you were kept fully informed about these issues, the actions taken to address them and the final conclusion?*

The Group Credit Policy Unit, part of the independent Central Group Credit Function, prepared reports based on credit underwriting units' returns from the businesses, which detailed the level of policy exceptions arising on loans approved by the various lending businesses of the Group i.e. loans which were not required to be approved by Group Credit Committee (the approving authority for large transactions in the Group). These Business Unit credit functions were required to maintain procedures and controls to monitor the level and quality of exceptions approved in respect of their unit. These reports were submitted to the independent Head of Credit Policy from 2002 onwards, for review and action as appropriate. From 2004, exception data for ROI mortgages was submitted to GRPC for ROI mortgage lending on a monthly basis. In addition, GRPC received a monthly list of transactions which had been approved by Group Credit Committee and which included any exceptions to Policy.

As CRO and a member of the GRPC I was therefore made aware of the level of exceptions. In the context of the significant growth in exceptions as detailed in the various reports received, it was a conscious decision, raised by me and discussed and agreed at GRPC, to continue to "force" exceptions rather than accommodate them by relaxing credit policies. The view was taken that those loans with exceptions to policy would be more carefully scrutinised through the "one-up" approval process and through the reporting of them to GRPC. What this meant was that in situations where a transaction was considered acceptable but where it represented an exception to Group, Business or Sectoral policy, it was a requirement to refer the credit proposal to, at least, the next higher level of credit authority for decision, with the rationale for recommending the exception to be explained.

The belief was that this approach was a more prudent one than loosening policy criteria; that it would ensure a strong case, most likely based on sound mitigants, would have to be made to secure approval for those loans; and, it would facilitate greater ongoing awareness up the line of the extent of exceptions which were being driven in part by competitive market forces.

In these circumstances, I did not have concerns about the exceptions reported.

B2b Loans Outside Lending Policy

1. *In your opinion was there sufficient evaluation of the credit risk and policy monitoring by the Credit Committee independent of the commercial bankers.*

2. *Were such evaluations, and issues such as risk register monitoring and exceptions to policy, passed up the line to both the Senior management and the Board?*

3. *Equity in the other projects appears to have been used as a form of additional security or collateral for loan portfolios. Were these non-tangible assets in accordance with policy and were they independently valued.*

The Bank operated a centralised risk committee structure and had, in my belief, an innately conservative approach to lending. In my opinion, that structure brought a significant degree of independent evaluation to the credit approval process.

Credit functions within Business Units were responsible for analysis and decisioning within delegated lending authorities. Throughout the period, there was a network of engagement on policy and transactional approvals between the central Group Credit function and the Business Unit credit functions. Business Unit and Sectoral lending policies while approved by GRPC and/or the central Group Credit function, were proposed and owned by Business Units.

The central Group Credit Function was responsible for assessing, recommending and processing credit applications above individual Business Unit lending discretions, and for monitoring and reporting to Group Credit Committee, GRPC and the Board on the composition and quality of the loan portfolio, on loan loss provisioning policy/trends and for overseeing credit standards. The function was also responsible for the formulation of credit policies and strategies for consideration by GRPC and the Board. It was the Group's policy to ensure that the central Group Credit function would be independent when delivering credit analysis, judgement and recommendations.

The above approval structures ensured a great deal of independent evaluation of the credit risks and notably so when it came to Group Credit Committee (GCC) where large exposures were reviewed. That committee had an independent chairman and membership drawn from the senior ranks of the major divisions of the Group. For each Credit Application the independent central Group Credit Function prepared a Credit Opinion that set out the key credit issues coupled with a recommendation and which was provided to the GCC members considering the credit application. That Opinion typically brought any issues of materiality from a policy perspective (exceptions etc) or otherwise (reputational/operational risk, portfolio impact on the Group's loan book) to the attention of the members. The application before the Committee was usually presented to GCC by the Business Unit from where it emanated and it was then discussed in detail by the members. In that manner the risks associated with the application and the mitigants were well exposed and discussed. A majority vote by members present, with the Chair having a second casting vote in the event of a tie, determined approval or rejection.

Where approval for a credit application was sought on the basis, inter alia, of obtaining security over equity held by the borrower in another asset, then that security would have been taken over the asset and not confined to the notional value of the borrower's equity in the asset, and that asset would be valued in accordance with Credit policy.

B2c Analysis of risk concentrations in base and adverse economic scenarios and impact on capital structure

Internal Audit Reviewing the Stress Tests

Did Internal Audit perform a review on the actual stress test performed and, in particular, did Internal Audit review the formulas and assumptions used?

Internal Audit reviewed the Internal Capital Adequacy Assessment Process (ICAAP), the first of which reports was submitted to the Regulator in June 2007, and concluded in respect of that submission that the Group's ICAAP provided an appropriate reflection of the Group's risk profile and its risk management and mitigation systems. GIA was satisfied that the relevant guidance from the Financial Regulator had been appropriately followed. The ICAAP includes stress testing and assumptions. Internal audits were also performed of the functions which comprise the elements of the Credit Risk Control Unit (as set out in the Capital Requirements Directive), being: Measurement Strategy Team; Independent Control Unit; and, Model Management Functions. Credit risk model validations were reviewed in the audits of the Independent Control Unit.

Internal Audit Reviewing the Stress Tests

(a) *Did the bank employ the services of a suitably qualified, independent expert, to carry out a review on the stress tests that were performed and the reporting of the results?*

(b) *Did you feel that you were adequately informed about the results of the stress Tests and their significance?*

Given the specialised and technical skills required in particular to carry-out audits of the credit risk model validations, external experts from Ernst and Young were brought into Internal Audit to assist in the completion of these audits. I was adequately informed about the results of these and their significance.

B2c Concentration Risk

(a) *Was there a review of the adequacy of the reporting to the Board of key risks (e.g. the concentration risk being faced by the bank, LTV 100% loans etc)?*

(b) *Did the Board receive adequate reports on the concentration levels of Sectoral and Customer exposures?*

(c) *Between the period 2004 and 2008, did you have any concerns about the growth in lending concentrated in property development and focused on a small number of customers?*

(d) *Were the various risks associated with these concentration levels adequately reported and discussed by the Board?*

To the best of my recollection I am not aware of any formal internal review of the adequacy of reporting to the Board being conducted, however GRPC and the Board were in receipt of quarterly Risk Reports throughout this period. These reports provided updates on the Risk, Credit and Liquidity environment for the Group with specific detail on those risks in the Bank's book in addition to Market, Operational, Life Insurance, Regulatory, Reputational, Model and Pension risks. These were in addition to reports on Strategic and Operational matters, including identification of and commentary on the Top 5 Risks and 100% LTV Mortgages.

As stated earlier (at B1d above), the Board did receive regular reports on the concentration levels of Sectoral and Customer exposures in addition to formal Risk Reports covering the key risks in the institution. The latter were provided at least quarterly and frequently monthly. For much of the period in question the credit risk environment was seen to be a very benign one and the growth in concentration of the Property portfolio to be in line with the Strategic Plan objectives. As a consequence concerns about the quality of the loan book didn't emerge until it was too late to do much about them.

Furthermore I am aware that Oliver Wyman (OW) conducted their review of Risk Governance which was completed in May, 2009. This was post my change in responsibilities from Group Chief Risk Officer to Chief Risk Governance Officer.

The OW Report made a number of recommendations which I understand have since been adopted. These included the establishment of a Board Risk Committee (composed exclusively of Non-Executive Directors), increasing the detail of risk Management Information shown to the Board, reinforcing the Board's risk skills through small group sessions with experts, and bringing all risk reports into a single hierarchical set of reports to the Board.

B3b Analysis of liquidity risks under adverse scenarios

<u>Liquidity</u>

In evidence to this committee a number of witnesses have stated that the Guarantee was needed due to Liquidity issues faced by a number of institutions. What is your view on this and what stress testing had been put in place at your institution to ensure such an event would not happen?

I believe on a stand-alone basis, BoI did not need a Guarantee on 29/09/2008 as it had significant available liquidity at that time. However, against the background of what had been happening in international liquidity markets over the previous 18 months; what had just happened with the collapse of Lehman's; and what was about to happen with the reported funding problem for Anglo Irish Bank on 30/09/2008 and its potential/probable collapse if its problems were not satisfactorily resolved from a market perspective, then the Guarantee became necessary to avoid systemic problems.

The problems in the U.S sub-prime mortgage market, the effects of which many would agree initiated the liquidity crisis, have been well documented, as has the catalogue of subsequent financial institution failures. Concerns about sub-prime delinquencies were building since late 2006. The collapse of two Bear Stearns funds that were heavily invested in sub-prime Collateralised Debt Obligations, and the scale of the losses incurred, shocked the markets and focused attention more generally on the risks inherent in highly geared structured credit. This led to a collapse of the Asset Backed Commercial Paper market which exacerbated tensions in the money markets and this produced a sharp rise in term rates in August 2007. For banks such as the Group, this is arguably when liquidity difficulties started.

The hoped-for easing in liquidity conditions failed to materialise in the first quarter of 2008. Contrarily, throughout the first half of 2008 market liquidity conditions tightened fairly relentlessly. There was some improvement over the summer months but by September conditions deteriorated dramatically. The effective failure of Fannie Mae and Freddie Mac in early September, followed by the collapse of Lehman's Brothers and the enforced rescue of AIG caused a freeze in the availability of international liquidity.

What had been an increasingly nervous liquidity market over the previous 18 months, in which obtaining funds at desired maturities became increasingly difficult, was now effectively closed. Allied to the reported problem of Anglo Irish Bank in meeting a funding maturity on the 30th September, it left very little by way of a solution to an inevitable systemic banking collapse if not appropriately addressed. The options were limited and the considerations around them have been well discussed. It is also worth noting that confidence is a critical factor in the banking industry. That confidence collapsed in September 2008 and to restore it required banks to significantly improve their key balance sheet ratios including Core Equity Tier 1, Loan-to-Deposit Ratios, and Wholesale Funding Ratios. The Guarantee in Ireland afforded Irish banks the time to achieve the new standards expected by the markets. On balance, therefore, I believe a systemic Guarantee was needed for the reasons which I have just explained and the impact of it was initially very positive for liquidity for Irish banks.

The Group had introduced liquidity testing in June 2007 to identify the consequences of a number of unexpected events on the Group's ability to fund its outflows. The tests were conducted quarterly at two levels: (a) a change in the liquidity position of individual elements of the balance sheet; and, (b) combining these elements into scenarios in which the substantive risk identified was a rating downgrade.

B3b <u>Liquidity & Crisis Planning</u>

What crisis plans did you have in place and what emphasis was placed on Liquidity?

The Group ran quarterly liquidity tests and scenario testing. In addition, the Group had an operational contingency plan for the management of a liquidity crisis. The Contingency Liquidity Plan was formulated by the Asset and Liability Management function in conjunction with Global Markets, reviewed by the Group's Asset and Liability Committee and approved by the GRPC.

The purpose of the Contingency Plan was to outline the actions that might be taken where there was an issue with the Group's liquidity and funding arising from either a systemic crisis or a crisis specific to the Group. The Contingency Plan was detailed and identified what steps were to be taken at different stages of a crisis and also identified who would be involved and what they had to do. This Plan was activated during the financial crisis.

B3b <u>Wholesale Funding</u>

Was the level of Wholesale funding in your Institution a concern for you and did you feel the possible risks attached to such funding were clearly understood at both Senior Management and Director level?

Post the events of 9/11 and the subsequent support provided by the Fed to the U.S. market in both bringing interest rates down and injecting a material quantum of liquidity into the market, the ensuing years up to the emerging credit and liquidity crisis in mid-2007 were ones of a super-abundance of liquidity. At the time there was nothing on the horizon to suggest that that would change and no sense that the availability of it could evaporate as it did. BoI's Strategic Plan, Strategy 2012, signed-off by the Board in July 2006, called for significant organic growth. Realistically, this could only be funded by access to wholesale funding markets. In conjunction with colleagues and Board members I held the view at the time that that was an acceptable and reasonable risk for the institution to take.

Given its importance in the context of the Strategic Plan wholesale funding was carefully scrutinised by Senior Management. The risks inherent in the reliance on wholesale funding were recognised and managed through a range of actions, including the following: funding and liquidity policies being put in place which were reviewed regularly by GRPC; frequent stress testing being implemented; appropriate experienced personnel in Group Asset & Liability Management and Global Markets being appointed; diversification and lengthening of the funding mix with longer term funding being significantly increased; and, an emphasis was placed on developing new funding structures in the Irish marketplace including being at the forefront of developing the Asset Covered Bonds market and the use of internal securitisation vehicles that were eligible at the major central bank liquidity windows.

As a consequence I believe the historical and known risks attaching to such funding were clearly understood at both Senior Management and Director level and stressed for. What was not anticipated or stressed for was the set of circumstances which gave rise to the complete collapse of the wholesale funding markets.

B3c Interest rate risk appetite setting and monitoring

<u>Interest Rate Risks Appetite</u>

What was the Interest Rate Risk appetite of your institution, how was it managed and who monitored the resulting net position?

No Business Unit in the Group was allowed to take interest rate risk other than Global Markets and their ability to do so was subject to policy and limits approved by the Board. Where naturally occurring interest rate risk arose in a Business Unit e.g. where a customer fixed its interest rate for 5 years, the Business Unit could not take on that risk. It was mandatory that such a risk would be managed in Global Markets within their approved limits. Global Markets could also assume risk in its trading book by positioning to take advantage of a change it anticipated in interest rates. Interest rate risk limits were set in terms of Value-at-Risk, which is an estimate of the potential 1 day gain or loss that had no more than a 1% probability of being exceeded. Since 2001 interest rate risk was monitored independently and reported monthly to the Group Asset and Liability Committee.

B3c <u>Interest Rate Risks Appetite</u>

The Banking Inquiry has heard evidence and obtained documentation examining the risks that products such as tracker mortgages posed for the credit institutions. Did the senior *management and the directors of the bank fully understand these risks and levels of exposure?*

Based on experience, especially since the introduction of the Euro, it seemed reasonable to assume that the relationship between the Group's cost of funds and the ECB Refinance Rate was a highly predictable one to such an extent that it was not seen as carrying an interest rate risk in the same way as funding a 5 year loan with shorter term funding was. It was never anticipated that the market could become so disconnected as it did and as outlined in B3b above. As a consequence, the exposure inherent in the tracker mortgage book was not reported as an interest rate risk position to GRPC and the Board who therefore are not likely to have fully understood the level of exposure being undertaken by the Group.

B3e Capital structure / loss absorption capacity

<u>Capital Structure</u>

Banks appear to have set capital target levels higher than the regulatory limits. What was your view on this?

Was there a markets related expectation to exceed the regulatory levels?

It was the norm for Banks to set capital target levels higher than the regulatory limits. This was driven by a number of factors including the need to have on-going access to debt and equity markets; the need to meet, maintain or improve rating agency ratings so that we were perceived to be at least as good as what were considered to be peer banks; and, to have a sufficient level of capital for a through-the-cycle view that investors would take of the organisation to allow for earnings volatility. On the other hand, having too much capital was not seen as a positive by the bank investor analyst population as, in their view, this could lead to poor returns or excessive risk-taking. So, the market was a key driver of how much capital we should have for the type of bank we were.

B4a Adequacy of valuation policies and assumptions to accurately assess loan security

<u>Valuation of Assets</u>

(a) *What reports did the Board or the (Credit) Risk Committee receive that detailed assets which were:*

- *Were taken as security and were valued over €lm?*
- *Taken with registration outstanding for more than 90 days?*

(b) *What details were presented on these reports?*

(c) *How often were these reports received and in what format?*

(d) *Did the board ever discuss or comment on assets with a value of over €lm, taken as security for loans underwritten?*

The Board did not receive specific reports on such assets. Group Credit Committee (GCC) in approving and reviewing individual cases received information on the security being taken or held, together with comment on estimated valuation. This commentary was typically contained in both the Business Unit credit application and an accompanying Credit Opinion prepared by the independent credit unit. Consideration and discussion of the valuation by members of GCC was the norm as part of the process of deciding to approve or decline the credit application.

B4b <u>Independence of Valuers</u>

(a) *Where the bank received a valuation on assets presented as security for a loan, did the bank have a policy of:*

- *Obtaining a second valuation?*

- *Reviewing the valuation of the assets on a regular basis?*

(b) *Do you feel that the professional valuation firms may have had a conflict of interest when requested to value an asset?*

The Bank did not have a policy of obtaining a second valuation. The practise in larger property loans was to obtain a bank addressed valuation pre-drawdown. Group Credit Policy stated that responsibility for the proper completion and regular revaluation of the security for a loan lay with the designated loan officer. The requirement to have the valuation addressed to the Bank effectively put professional valuation firms on notice to raise with the Bank any concern they may have had of a conflict of interest nature. I suspect that the terms and conditions of their Professional Indemnity policies would also have required them to declare any possible conflict of interest issues.

B6a Effectiveness of internal audit oversight and communication of issues related to governance, property-related lending strategies and risks and funding and liquidity risks

<u>Effectiveness of Internal Audit</u>

Did Group Internal Audit review the risks associated with customer concentration levels and short term funding to service long term lending?

Group Internal Audit did not carry-out these functions. As outlined above at B1d the Portfolio Review Committee (PRC) reviewed the composition of the Group's portfolio and identified emerging risk concentrations at both the "name-level" and "sectoral" level. The Group Asset and Liability committee reviewed the funding profile of the book and reported to GRPC on the Group's adherence to Regulatory and Bank policies on this front.

B6b Effectiveness of oversight of prevailing risk culture

<u>Risk Culture</u>

Was a review of the risk culture and appetite of the Bank ever carried out by either external consultants or internal audit? If yes what was the outcome and any action taken afterwards?

I am unaware of any review of the risk culture and appetite of the Bank being carried out during my time as CRO. I am aware of the findings of a Review of Risk Governance completed by Oliver Wyman (OW) in May '09.

I believe a strong level of risk awareness prevailed in the Group and was a material influence in behaviours. The Group considered it had a relatively conservative culture and Strategy 2012 reflected that, in so far as its success depended on organic growth in what were considered to be conventional and familiar markets and sectors for the Bank in which it had been active for a long time. While the Group's approach was indeed conservative relative to its peers in Ireland, in retrospect, as the OW Report found, there was not enough Management Information System (MIS) functionality, controls, stress testing or scenario evaluation. As a consequence, inter alia, the risk committee structure to manage risk was not geared as it should have been towards fully understanding the aggregate risk profile of the book.

In May '07 as part of the programme of work undertaken by the Office of the Group Chief Risk Officer, a Group Risk Framework document was compiled and presented to the Board. The purpose of the document was to provide a high-level overview of how risk was then managed in the Group. A critical component of the Risk Framework was establishing in a formal way what the Group's Risk Appetite (RA) should be and this was endorsed by the Board.

A key finding of the OW Report was that the Group's strategy set the context for risk appetite. Their recommendation was that it should be a boundary for the setting of strategy. In OW's view, the link between overall exposure limits and the RA statement was not sufficiently direct and dependant on expert judgement. In their view this limited the effectiveness of the RA as an instrument of policy because the translation of changes in RA into new limits was cumbersome and partly subjective.

I understand that all the OW recommendations made in the Report have been accepted and have been either already adopted e.g. establishment of a Board Risk Committee, or are in the process of implementation e.g. the €5m MIS project.

R2b Nature and effectiveness of the operational implementation of the macro-economic and prudential policy

<u>Financial Roundtable Discussions</u>

The Financial Roundtable meetings were attended by senior management of you bank. Were you an attendee at any stage or were you informed of the roundtable discussions? Were discussions held with you or was any policy/strategy change considered as a response to these meetings?

I was never an attendee at these meetings. I have no recollection of being specifically informed of the discussions that were held nor that there were any policy/strategy changes considered as a response to them.

R2b <u>Macro-Economics Inputs</u>

Did you include macro-economic considerations in your credit strategy? Did you discuss Financial stability Reports or other macro-economic forecasts with the Banks economics unit or senior management?

The macro-economic outlook for each of our principal markets was a significant input to strategy formulation. Strategy 2012 was no exception to this approach. It was also a major factor with regard to on-going assessment and review of our loan book. Each Risk Report to GRPC and the Board provided a general commentary on the risk environment and typically incorporated inputs from the economic research units in the Bank and Davy. Their views were also incorporated in the stress scenarios used in determining/managing our loan loss tolerance positions. In formulating a view on the economic outlook theirs and other commentators' research were also taken into account. This included the views expressed in the Financial Stability Reports which were also brought to the Board's attention. In addition, a written monthly summary of economic and financial developments was provided by the Bank's economic research unit to the CEO for his Report to the Board.

R2b Prudential Policy Implementation

In your opinion was the introduction of new liquidity requirements and reporting standards in 2007 a helpful measure to improve liquidity forecast and liquidity monitoring? If not, why not?

I believe the new requirements were a helpful measure to improve liquidity forecasting and monitoring as the standards sought to set down what was best practice at the time. These measures tied in with and enhanced a number of policy and practical measures that had already been introduced within the Group to deal with liquidity, such as the lengthening of the Group's wholesale funding maturities and introducing liquidity stress testing.

R2b - Prudential Policy Implementation

Please provide details of any discussions held with FR staff on the continuous relaxation of credit policies. Could you please describe the outcome of these discussions?

I do not recall having any such discussions with the Financial Regulator. In general, it was the Group's practice to notify the Financial Regulator of material policy changes relating to RoI residential mortgages following the internal BoI Group governance approval process. I'm not aware of any particular issues that arose from those communications. Notifications of this type, for information purposes, were provided c.five times over the 2001 – 2008 period and were typically noted by the Financial Regulator.

R3b Nature and appropriateness of the relationship between the Central Bank (including the Financial Regulator), Department of Finance and the Banking Institutions

Relationship with FR/CBI

Apart from the provision of reports to the Central Bank/Financial Regulator what other communication did you, or your reporting lines, have with staff at the Central Bank or Financial Regulator?

There was a significant level of interaction with the Financial Regulator on day-to-day business issues. The nature of this interaction was substantially one of keeping the Regulator informed of relevant issues in the business about which they would expect to be kept informed including compliance issues e.g. money laundering reporting; breaches in consumer compliance regulations e.g. format of the disclaimers in public advertisements, data protection breaches; or progress on business initiatives such as Outsourcing, or on customer refund programmes such as Payment Protection Insurance.

Apart from day-to-day operational matters there was substantial interaction with the Financial Regulator during this period on the implementation of Basel 11, an Accord bringing in requirements on how much capital a bank had to hold for the risks in its balance sheet. This was a substantial project for Bank of Ireland, for industry participants and regulators, with significant resources committed to it and which called for regular communication and for clarificatory meetings with the Financial Regulator

There was very little interaction with the Central Bank that I can recall.

R3b **Relationship with FR/CBI**

(a) *Did the bank provide any "out of course" insight (i.e. informal) to the Financial Regulator on their credit risk and bond exposures during 2007 and 2008?*

(b) *If so how often would this have occurred?*

(c) *Who within the financial Regulator was your primary contact, for credit risk and bond exposures?*

There were no regular informal or formal meetings of this nature and there wasn't a primary or designated contact in the Financial Regulator for meetings of this nature. I have a vague recollection of one informal meeting that a colleague and I had with Mr. Con Horan and possibly a colleague of his. I think he was seeking our view on the property market in Ireland but I cannot be sure. I cannot put a year on it either. Having inquired, I am told there is no record of it in the Bank.

R3b **Relationship with FR/CBI**

How would you describe your relationship with the Central Bank/Financial Regulator?

I would describe the relationship with the team dedicated to the day to day supervision and oversight of the Bank as professional, at times demanding but always courteous, for all the interactions with my areas of responsibility.

R3b **Relationship with FR/CBI**

During reviews of your loan book, monitoring or governance structures, how would you describe the working relationship with the Banking Supervision teams of the CBI/FR? What was your view of the knowledge and expertise of the banking supervision teams?

My recollection is that we typically had one such examination/review per annum. This usually consisted of a team of 4 people (being a separate team to that referred to above) reviewing a business unit over a 2/3 week period. For a business unit such as Corporate Banking with a significant volume of complex credits I would say the size and skill-set of the team was challenged for the role expected of it. Focus would have been more on process than quality of the book or individual credits.