Tithe an Oireachtais
Houses of the Oireachtas

Joint Committee of Inquiry into the Banking Crisis

Witness Statement of

Aidan Walsh

Session 61

09 September 2015 (a.m.)

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

Submission to the Banking Inquiry

Aidan Walsh

Dated 31 July 2015

Introduction

My name is Aidan Walsh. I am a partner in PricewaterhouseCoopers. I was admitted to partnership in a predecessor firm, Craig Gardner, in 1987. I am a fellow of the Institute of Chartered Accountants in Ireland having qualified in 1981. I graduated from Dublin University with a Bachelor of Business Studies in 1978.

I lead the Corporate Finance team in PricewaterhouseCoopers in Ireland. The Corporate Finance team work with clients to raise finance and execute corporate transactions. We frequently work with other PwC teams to assess the financial standing and funding requirements of clients businesses.

I was invited to appear before the Committee as part of a panel with my fellow partner in PwC , Denis O'Connor, in my capacity as Co Team Lead for the PwC team working for the Financial Regulator on financial information and loan quality of Irish covered banks in late 2008 and early 2009.

Context of my appearance

In advance of my appearance, the Committee provided me with a direction to address aspects of the remit of the Inquiry. The direction set out the themes which it wishes me to cover. These are:

- Role of advisors in analysing the crisis (to include crisis management options);
- Effectiveness of reviews of banks' loan books and capital adequacy.

My evidence on these themes relates to the work performed by PwC resulting from our engagement by the Irish Financial Services Regulatory Authority ("IFSRA") as per our letters of engagement. The first letter is dated 18 September 2008. Subsequent engagement letters are dated 9 October 2008 and 25 November 2008. This work was called *"Project Atlas"* which I led jointly with my fellow partner in PwC, Denis O'Connor.

Mr O'Connor has prepared his own statement for the Committee.

Confidentiality Obligations

I am obliged to point out to the Committee that we are advised that we are bound by the following statutory provisions:

- Sections 33 AJ and 33 AK of the Central Bank Act, 1942; and
- Sections 57, 57A and 58 of the Criminal Justice Act, 1994.

As the Banking Inquiry will be aware Section 33 AK of the Central Bank Act 1942 provides that no party is permitted to disclose confidential information concerning:

1. *"the business of any person or body whether corporate or incorporate that has come to the person's knowledge through the person's office or employment with the Bank", or;*

2. *"Any matter arising in connection with the performance of the functions of the Bank or the exercise of its power."*

The Central Bank has confirmed in writing to the Committee that we remain subject to our obligations under Section 33AK of Central Bank Act (as amended).

This limits by Statute the information that I can include in my Statement and discuss with the Committee.

Role of advisers in analysing the crisis- Pre 28 September 2008

My first professional involvement in analysing the crisis occurred in mid-September 2008. I also attended the meeting with the Financial Regulator and two of his colleagues, on Thursday 18 September ,which is referred to in Mr. O'Connor Statement.

Following discussion with the Financial Regulator we agreed the scope of work which forms part of our engagement letter dated 18 September 2008. This and subsequent engagement letters are provided to the Committee.

Our work on Project Atlas was very much one of information gathering and analysis. It was based on current Management accounts of the relevant banks, prior year audited accounts and loan book analysis. It did not involve independent verification procedures. Our initial work focused on liquidity and a high level review of major lending positions and the level of loan provisions that were booked by the banks.

We attended a meeting at the National Treasury Management Agency ("NTMA") on Sunday, 28 September 2008 at which we shared information, obtained from management, on the liquidity positions that Anglo, IL&P and INBS were facing over the coming weeks and a summary of the loan loss provisions booked in management accounts of these banks.

- Post 28 September 2008

We were not involved in any meetings or significant correspondence after that date and our next meeting with the Financial Regulator and his staff on Monday 6 October 2008.
I did not participate in any discussions with IFSRA or other parties on crisis management options.
Following the granting of the Government Guarantee on 30 September 2008, our preliminary work on collateral that could be provided to the Central Bank in support of ELA was not pursued.

Effectiveness of reviews of banks' loan books and capital adequacy

Following on from these discrete pieces of information gathering which was carried out in advance of 30 September 2008, we continued to work on the scope of work noted above. The results of our work was reported to the Regulator in early October.

The next phase of work that PwC were engaged to carry out was **Atlas Phase 2.**
This work was concentrated primarily around reviewing loan books and loan losses concentrating on the large loan relationships, initially the top 20 borrowers which was then expanded to top 50 borrowers.

The work involved was covered by our letter of engagement dated 9 October 2008.

The list of institutions covered by this work was:

- Allied Irish Banks plc
- Anglo Irish Bank Corporation plc

- Bank of Ireland Group
- Educational Building Society
- Irish Life & Permanent plc
- Irish Nationwide Building Society

The results of our work was reported to the Financial Regulator and the Department of Finance in mid-November 2008.

This included the results of a stress test run by each of the banks on its Capital Adequacy Ratios. In addition, PwC included two additional scenarios, Scenario 1 and Scenario 2 which the banks ran on their own models. As was stated in the reports these scenarios were for illustrative purposes only to show the sensitivity of the Institutions to losses on this quantum. Mr. O'Connor's Statement deals with the context and scenario analysis carried out on capital adequacy ratios.

At that time, early October 2008, IFSRA were looking for information and analysis of the composition of the covered banks' balance sheets, with the work to be done in short turnaround times of 4 to 5 weeks.

Our work on Atlas 2 did not include third party evaluation of property values held as security nor did it include any legal review of security documentation.

Our work was principally documentation and analysis of financial information from management accounts and information sourced within the covered banks and review and commentary on stress case analysis of capital ratios prepared by bank management at that time. The bases for other scenarios were developed in conjunction with officials from IFSRA, NTMA, the Department of Finance and the Central Bank.

We reported on our work to senior officials in IFSRA. On completion of our Atlas 2 work, IFSRA requested an extension of our work to cover a wider sample of loans and to seek a review from property professionals of the value of properties held as collateral.

Atlas 3

Atlas 3 commenced in late November 2008, and involved both PwC and Jones Lang LaSalle ("JLL"). The scope of the work to be carried out at each of the 6 banks is attached at Appendix 4 and was appended to our November 2008 engagement letter.

It is important to note that the JLL work was carried out independently of our loan book reviews. They were given details of the properties that comprised the collateral for the loans but the loan details were not shared with JLL.

The results of the JLL exercise were consistent with the indicative losses calculated under Scenario 1 and Scenario 2 analysis as part of Atlas 2. It is also relevant to note that the work did not include any legal review of security documentation at the time. The collateral values were not marked to estimated market value at the time of the review as there was no liquidity in the market and the market could not absorb a whole sale transfer of property. The property values were tested based on a long term outlook for property values which was formulated by JLL.

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