

The Central Bank of Ireland

Banking Supervision: Our approach 2011 update

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Banc Ceannais na hÉireann
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Eurosystem

Chapter		Page
I.	Introduction	5
II.	Update on Progress against 2010 Actions	7
III.	Banks' Financial Position: Integrity & Transparency	14
IV.	Supervisory Culture & Approach	18
V.	Supervisory & Regulatory Environment	27
Appendices		34
A.	Current Priorities	
B.	Scope of Banking Supervision	
C.	Credit Unions Supervision	

I. Introduction

A year ago we published our strategy for banking supervision in *Banking Supervision: Our new approach (“the 2010 paper”)*. This document updates on actions we identified then as priorities for the Central Bank of Ireland (“Central Bank”). It also describes new actions we will pursue.

Ireland and its banking system have faced significant challenges in the twelve months since our previous strategy publication. During this period the Central Bank has sought to maintain its focus on those longer term measures we identified in June 2010 as essential to the future stability of the Irish financial system. We have increased the number of supervisors. We have enhanced and increased the training provided to supervisors. Extensive changes have occurred to the prudential regime for our banks, notably in the areas of capital, funding and governance. In addition, we have continued to work on longer term reforms to the infrastructure which supports risk management decisions in the banking sector – for example, proposals to overhaul the system which supports and supplies credit information banks can use. That work is detailed here.

Of the new actions, the most important are those which seek to enhance the soundness and integrity of Irish banks’ balance sheets. The stress test results announced on 31 March, and the consequent re-capitalisation measures due for completion by 31 July, represent a major step forward in this regard. But the Central Bank considers that further measures are required to ensure that stated balance sheets are reflective of the underlying risks today. We therefore explain in this paper how we propose to require banks to align the stock of provisions with the underlying realities of loan portfolios, albeit that additional provision recognition will not affect the post-PCAR capital position of these institutions. We set out the disclosures we will require banks to make. We also describe work to validate the assumptions underpinning risk weighted asset calculations, both within and across banks.

Core to our mission is the development of a culture in which those involved in supervision challenge one another and the institutions the Central Bank regulates. This will remain a priority as energetic, fact-led scrutiny of our own actions and those of the financial sector is an important safeguard of future stability and consumer protection. By challenging these institutions, the Central Bank will seek to ensure that the banks’ business models and strategies are risk sensitive, robust, viable and self-funded.

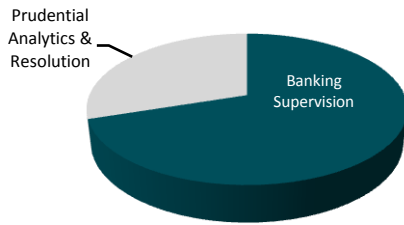
In the same spirit we welcome comments on this paper at bankingpaper@centralbank.ie

II. Update on Progress against 2010 Actions

Outlined below is a summary of progress against the actions identified in 2010 to enhance supervision.

Recruit and train staff

Division	Resources
Banking Supervision	98
Prudential Analytics & Resolutions	42



The budgeted headcount of BSD and PAR for 2011 is 98 and 42 respectively, i.e. a total budget of 140. The Central Bank has invested heavily in training all supervisory staff, including a mandatory four week induction programme for supervisors, the extended roll-out of online training, the implementation of a leadership development course for senior supervisors, and investment in more advanced training modules which will be rolled-out.

Restructured organisation to deliver more intrusive and challenging supervision

Banking supervision now comprises a single Banking Supervision Division (“BSD”) dedicated to the supervision of banks, and, separately, a division responsible for the provision of technical support to banking supervisors, the

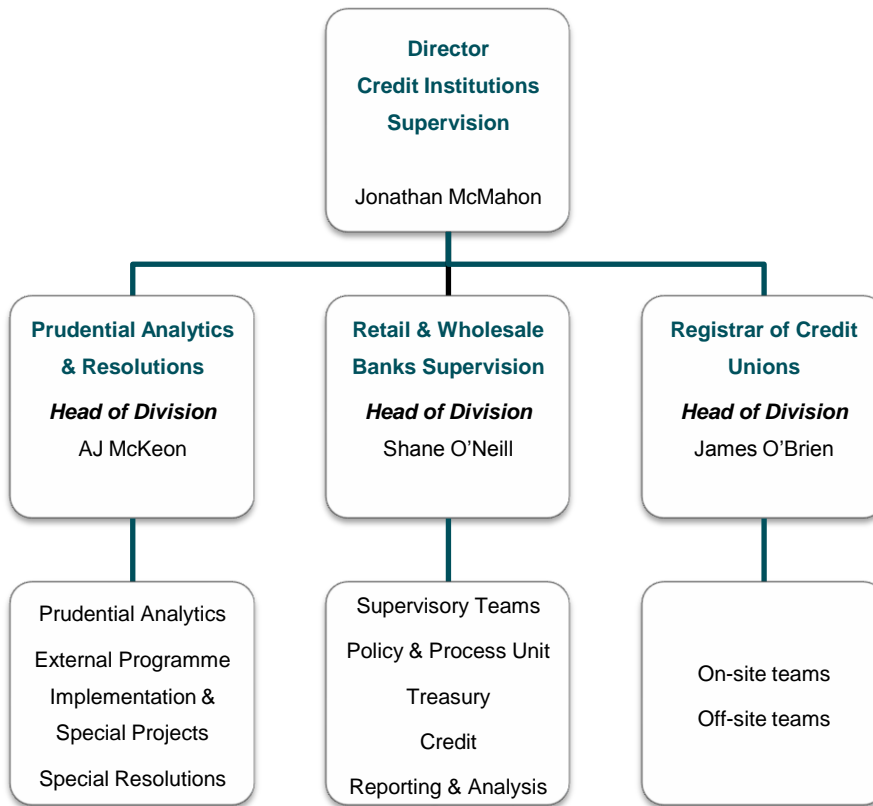
Prudential Analytics and Resolution Division (“PAR”). This new structure aligns to best practices internationally, and can be viewed in box 1, page 8.

The administrative load on supervisors will be reduced by the Central Bank’s new Regulatory Transactions Division (“RTD”), freeing frontline supervisory resources for more proactive supervision.

Banking Supervision is now responsible for the review of banking licence applications. This means that banking specialists are responsible for bank authorisation rather than an authorisation division.

Banking Supervision is supported in its supervisory activities by separate Legal, Enforcement, Financial Stability, Prudential & Accounting Policy and Risk Divisions.

Box 1: Banking Supervision Organisational Structure



During 2011 the Central Bank has re-organised its internal banking supervision structures. It has merged the existing retail and wholesale banks supervision departments into a combined *Banking Supervision* division. In addition, a new *Prudential Analytics and Resolutions* division (“PAR”) has been established. The combination of these two divisions, as well as the Registrar of Credit Unions, form the Credit Institutions Supervision directorate.

The Credit Institutions Supervision directorate is responsible for the prudential supervision of 37 credit institutions, including two building societies and 6 Irish incorporated banks (Reporting on a consolidated group basis). In addition, the Credit Institutions Supervision directorate is responsible under relevant European law for its limited part in the prudential supervision of passported branches of European Economic Area banks, of which there are 36 in total. It is also responsible for the supervision of 409 Credit Unions.

The *Prudential Analytics & Resolutions* division has a mandate to provide analysis services, primarily to the banking, credit unions and insurance divisions but also to the wider organisation. The division specialises in financial and risk analysis, business model analysis and stress testing. PAR also has a responsibility for the Bank’s implementation of the financial sector reform commitments under the external support programme. Additionally, a new function within PAR has been created to operate the pending special resolutions regime (“SRR”).

Risk Governance

A meeting of senior and cross-divisional management chaired by a Director or Head of Division (independent of BSD) and attended by supervisors is now regularly convened for each credit institution. The materials presented by the supervisors for discussion and approval at a Risk Governance panel include:

- *Risk & Management Information*
- *Risk Mitigation Programme*
- *Engagement Plan*

Risk & Management Information present the supervisors view and interpretation of the level and type of risk inherent in a supervised institution. Risk Mitigation Programmes are presented to the panel for challenge and approval and are subsequently shared with the respective institution so that risk mitigation actions identified are appropriately implemented and reviewed. Finally, supervisory Engagement Plans are also presented to the panel for challenge and approval, which set out the planned actions and approach to supervision of the institutions for the coming period. Where consensus on a particular issue or action is not reached, majority view may be formed.

Establish risk experts panel

A panel of Risk Advisors (with specialist and industry expertise) has been established and in operation since September 2010.

Reform internal committee structure for financial regulation

A revised internal senior management committee structure has been established. This is described in the Central Bank's Annual Report.

Complete PCAR

The Prudential Capital Assessment Review ("PCAR") as well as the Prudential Liquidity Assessment Review ("PLAR") were completed for Allied Irish banks plc ("AIB"), Bank of Ireland ("BOI"), EBS Building Society ("EBS") and Irish Life & Permanent plc ("ILP"). The results of the PCAR and PLAR, and details of restructuring and de-leveraging of the Irish banking system were published as part of the Financial Measures Programme ("FMP") announcement on 31 March 2011.¹ In addition, the Central Bank published an addendum to the FMP on 31 May 2011² detailing the results of an independent review of Anglo Irish Bank ("Anglo") and Irish Nationwide Building Society ("INBS").

De-leveraging

As part of the PLAR, the Central Bank established a loan to deposit ratio as an end-2013 target to right-size the Irish banking system. Further details of our role in the de-leveraging process are set out in

1

<http://www.centralbank.ie/regulation/industry-sectors/credit-institutions/Documents/TheFinancialMeasuresProgrammeReport.pdf>

2

<http://www.centralbank.ie/regulation/industry-sectors/credit-institutions/Documents/AddendumtotheFinancialMeasuresProgrammeReport.pdf>

Section IV where we describe our supervisory culture and approach.

Strengthen Supervisory Review and Evaluation Process (SREP)

A more robust SREP has been put in place including the review, challenge and approval of supervisor's SREP plans; utilisation of expert prudential analytics resources; stringent challenge of the institution's ICAAP design, implementation and results; and internal Capital Decision Committee panels to ensure independent challenge is incorporated into the capital requirement setting process. In addition, the SREP will be integrated with our new risk framework, Prudential Risk and Impact System, ("PRISM") which will aid supervisory resource allocation and the intensity, scope and frequency of reviews.

New corporate governance requirements for banks and insurers

The Corporate Governance Code for Credit Institutions and Insurance Undertakings was issued in November 2010 and came into effect on January 1 2011.

Interview and assessment process:

- *Senior appointments in major banks*
- *Extend process to other institutions*

The Central Bank's focus has been on the domestic retail banks but we have broadened our coverage to non-domestic banks. In 2010, a total of 26 interviews were held under the fitness and probity process, with 8 completed thus far in 2011.

Related party lending requirements

A consultation paper "Code of Practice on Lending to Related Parties" was published in May 2010. The code was finalised and published in October 2010 and came into effect January 1 2011.

Revised approach to handling overcharging issues

Work in this area has continued to ensure that charging errors are dealt with quickly and efficiently and corrected in a fair manner as required by Common Rule 45 of the Consumer Protection Code.

Implement risk assessment model

The Central Bank is engaged in ongoing development of its new risk framework, Prudential Risk and Impact System, ("PRISM"). Initial rollout will take place in Q4 2011 with full rollout to supervision divisions by Q2 2012. Further details of PRISM are set out in Section IV of this paper where we describe our approach to enhancing our risk assessment framework.

Supervisory themes for 2010

The following supervisory themes identified in 'Banking Supervision: Our New Approach' were completed:

- *New mortgage credit standards*
- *Remuneration*
- *Risk management and governance*
- *Bank strategies*

Revised fitness and probity framework

- *Prescribe controlled functions*
- *Fitness and probity standards*

A public consultation on the Central Bank's proposed revised fitness and probity framework was initiated separately in March 2011 and these new requirements will be published in September 2011.

Internal governance requirements

- *Including requirements for audit, risk, credit functions*

The Central Bank will wait for European guidelines on internal governance to be finalised prior to the development of a bespoke Internal Governance Code. The Central Bank is committed to adopting the Internal Governance guidelines produced by the European Banking Authority ('EBA') and the European Insurance and Occupational Pensions Authority ('EIOPA'). This does not preclude the Central Bank from producing additional Internal Governance guidelines, over and above those produced by the EBA and EIOPA.

Remuneration standards

A review of remuneration policies and practices in a number of Irish retail banks was published in December 2010. Following this, the updated EU Capital Requirements Directive (CRD III) and European Banking Authority ("EBA") Guidelines on Remuneration have now been implemented. On this basis, the Central Bank will review how remuneration may be set in the financial services industry in Q4 2011.

New rules on large exposures:

- *Capital Requirements Directive revisions*
- *Updated reporting format*

The Central Bank has implemented new rules on large exposures that have been implemented at a European level. Changes include amendments to large exposure limits, exemptions, reporting and collateral rules. Additional specific rules will be introduced as legislation is implemented and transposed. This includes further proposed amendments in future iterations of the Capital Requirements Directive ("CRD").

New standards on credit risk management and valuation

The Central Bank will introduce credit risk management and valuation standards in December 2011. Further details are set out in Section V of this paper where we describe our approach to credit risk standards including valuations and credit limits.

New standards on liquidity:

- *Banks projections to take account of CRD changes*
- *Reporting Net Stable Funding Requirement (NSFR) and Coverage Ratio*
- *Reporting of CRD Monitoring Tools, Revise Liquidity Requirements*

The Prudential Liquidity Assessment Review ("PLAR") regime establishes a package of liquidity metrics including a Net Stability Funding Ratio ("NSFR") and

Liquidity Cover Ratio (“LCR”) in line with that proposed by Basel III. This necessitates balance sheet deleveraging via asset disposal and run-off of non-core portfolios. Additionally, PLAR will establish a new liquidity governance regime providing enhanced monitoring and liquidity standards.

Revised minimum competency requirements

In June 2010, the Central Bank issued a consultation paper (CP45) reviewing the Minimum Competency Requirements for individuals who provide advice on, or arrange, retail financial products. The consultation paper sought views on a number of proposals such as phasing out ‘grandfathering arrangements’ over a four-year period and changing the current three-year cycle for Continuous Professional Development to an annual requirement. It is planned that the revised Minimum Competency Requirements will be published in 2011.

Review of process and methodology for assessing consumer charges

Work is ongoing in this area.

Revised Consumer Protection Code

It is planned that a revised Consumer Protection Code will be published towards the end of Q3 2011.

Revised Code of Conduct on Mortgage Arrears (CCMA)

The new CCMA became effective on 1 January 2011.

Statutory Switching Code

In October 2010 the Central Bank introduced a Code of Conduct on the Switching of Current Accounts with Credit Institutions (Switching Code) which builds on the provisions of the Irish Bankers Federation’s (IBF’s) voluntary codes.

Implement Comptroller and Auditor General’s recommendation on auditor attestation regarding the function of the internal corporate governance regime in institutions

Discussions are to commence immediately with the respective auditing bodies (specifically IAASA, CAI and ACCA) on the design of an Auditor Assurance framework, with public consultation to commence in Q4 2011. The framework will be implemented within 12 months of the implementation of the Internal Governance Code.

Assessment of data needs for financial stability assessments

This assessment will be completed and published as a discussion paper in Q3 2011.

Development of a financial stability systemic risk assessment framework

The development of this framework is in progress. Two economic letters, dealing with credit and house prices respectively, and three technical papers on mortgage distress, steady state credit to GDP ratios, impairment and negative equity in the mortgage market have been published in 2010-2011. Further work on risk indicators will be published as technical papers and letters in Q3 and Q4 2011.

Conduct in-depth comparative analysis of the performance of the Irish banking sector to inform discussions on the future structure of banking in Ireland

A key component of the Financial Measures Programme was the establishment of transparent plans to 'right-size' the Irish banking system to a manageable size. Consequently the Central Bank has established target loan to deposit ratios for the for the domestic retail banks to reach over time through de-leveraging (run-off and disposal of non-core assets).

Further development of bank specific quantitative risk assessment models

An independent external review of the Central Bank's Pillar II quantitative model was conducted in Q1 2011. The Prudential Analytics & Resolutions Division has implemented recommendations from the review and is continuing to enhance the sophistication of the Central Bank's model.

Detailed micro level analysis of important counterparts of the financial sector: non-financial corporations and households

This analysis is in progress, with the results for households presented already and including three published technical papers. Further complementary work on corporate credit risk will be completed and published in Q3 and Q4 2011.

New format Financial Stability Report

Discussions on the development of a new format for the Financial Stability Report are ongoing.

Review structure of domestic savings industry

This review is ongoing.

Central credit register

The Department of Finance is leading the work on the Central Credit Register. We are closely involved in this process. Further details are set out in Section V of this paper where we describe the approach to a central credit register.

New sectoral concentration limits and research to be conducted on feasibility and desirability of imposing predetermined standard limits on systematically important credit institutions

An examination of the possibility of imposing sectoral concentration limits on financial service providers is under way. A public consultation on the Central Bank's proposals is planned for September 2011.

III. Banks' Financial Position: Integrity & Transparency

Outlined below is a summary of progress and actions to be taken by the Central Bank to increase the integrity and transparency of the banks' publicly stated financial position.

(i) Loan loss forecasts

PCAR

The Irish banking system is being recapitalised based on the results of the Central Bank's PCAR published 31 March 2011 as part of the Financial Measures Programme ("FMP"). The Central Bank made its decision on required recapitalisation based on the loan-loss projections of BlackRock Solutions ("BlackRock"), along with further calculations concerning the prospective income, expenditure, and deleveraging plans of the banks. In addition, the Central Bank published an addendum to the FMP 31 May 2011 detailing the results of an independent review of Anglo Irish Bank ("Anglo") and Irish Nationwide Building Society ('INBS'). This review sought to develop an independent view on the loss estimates that were used in the Central Bank's previous capital estimation exercises for Anglo and a full review of INBS' losses.

As the results of BlackRock's exercise were independent and determinative, and designed to ensure that the associated capital requirements are fully convincing to the market as being sufficient to cover even extreme and improbable losses; it is

fair to say that a significant step has now been taken towards transparency and integrity of the these banks' financial position.

(ii) Provisions guidelines

Introduction

One lesson of the banking crisis in Ireland is that actual loan losses embedded in financial assets have greatly exceeded losses provided for in published financial statements and that recognising loan loss provisions earlier could have reduced market pressures on banks. The effect has been a gross shortage in the stock of provisions available to meet loan losses as they have arisen. Had banks taken larger provisions earlier, it is possible that the required level of public support to meet losses would have been less. Equally, a more conservative approach to the creation of provisions, applied earlier, could have reduced the uncertainty engendered by the challenging flow of negative numbers.

The Central Bank considers that this gap between banks' published financial statements provision levels and actual loss experience raises important questions about the application of existing accounting standards. (To a degree, it raises per se questions about existing accounting standards. This, however, is being properly addressed by accounting bodies, albeit with input from financial regulators.)

Provisioning proposals

In the wake of the Financial Measures Programme and the loan losses identified

in the PCAR and by BlackRock Solutions, we have performed a detailed review of how existing accounting standards in relation to accounting for loan loss provisioning could be applied in a more conservative and prudent manner. In other words, we are seeking to ensure that financial statements are prepared on a more conservative, prudent and consistent basis that, over time, will enhance trust in Irish banks' financial statements. A consequence of this approach is that banks will have to increase their provisions.

(1) Impaired Exposures - The Central Bank will require banks to ensure that financial statements, and most importantly the stock of provisions, reflect the asset quality of financial assets, for example, as identified in the PCAR.

- A review of provisions may be undertaken, for example, under IAS 39 as a result of a significant deterioration in the general economy.

(2) Core Portfolios - The Central Bank will work with the banks and accountancy firms to ensure that banks use a more conservative, consistently applied approach to impairment trigger parameters and provisioning model inputs including the recognition and valuation of underlying collateral.

- There is significant variation in how judgement is applied by institutions producing wide variations in provision outcomes for similar portfolios,

collateral values, emergence periods, forbearance and restructured loans.

(3) Non-Core Portfolios – The Central Bank will require banks to ensure that any potential impairment from future disposals are recognised as fully and early as possible.

(iii) Enhancing public disclosures

The Central Bank has examined how the extent and quality of disclosures in Irish banks' financial statements can be enhanced. If the purpose of our work on the application of accounting standards is to improve the integrity of financial statements, we believe that more and higher quality disclosures is a condition for a return to confidence in Irish banks' reported performance.

(1) Public Disclosures - We have examined best practices globally and will require banks to implement changes that support the objectives identified here. These objectives include enhancing transparency and disclosure of the following:

- Definitions of impairments used;
- Measurement processes of financial assets;
- Timing of write-off;
- Methodology used in collective provisioning processes; and
- Risk management and portfolio quality disclosures.

(iv) Capital requirements & internal models

Credit rating models are integral to how many Irish banks calculate the basis of their capital requirements, otherwise known as 'Risk Weighted Assets' ("RWA"). These Internal Ratings Based Approach ("IRBA") models should provide reliable credit scores and risk weightings through all economic conditions, however as the models are often built using limited historical data, reliability can deteriorate with significant changes in economic circumstances.

(1) Annual Performance Reviews - As a result, the Central Bank has introduced annual credit rating model performance reviews to ensure that these internally developed models used for regulatory capital and risk management purposes remain robust. These reviews have proven useful in identifying non-performing models that needed to be revised or discontinued and also include a review of IRBA implementation plans, target future coverage levels and supervisory developments in other jurisdictions.

(2) Increasing Scope - Due to the continuing challenging environment the credit rating models are facing, the Central Bank is extending the scope and depth of the annual credit rating model reviews. The additional engagement shall ensure there is consistency in:

- Quality and comprehensiveness of the information received
 - Modelling input parameters and the use of historical data for model development, calibration and validation
 - Approach used to model the influence of the economic cycle on estimated probability of default
 - Application of minimum model performance thresholds
 - The calculation of capital requirements for borrowers in financial distress, particularly for those whose repayment terms have been temporarily or permanently altered
- (3) Consistency of approach - Given the potential for inconsistency in the above elements, there is the potential for a large variance in capital needs across Institutions for similar portfolios. This variance has recently been recognised as an issue for European banks by supervisors and market participants.
- The Central Bank shall work towards achieving convergence in the calculation of capital requirements for IRBA exposures by reviewing Irish supervisory policy. Amendments to policy will be applied in a manner that is broadly aligned with approaches adopted by other European supervisors. The Central Bank shall feed its views into the wider supervisory debate as a member of EU and EBA working groups.

(4) Distressed Borrowers - In the current economic climate, the treatment of distressed borrowers when calculating capital requirements is of particular relevance to banks lending into the Irish market. It has been observed that borrower credit rating outcomes can vary considerably across institutions upon the alteration of loan repayment terms due to financial distress. It has also been observed that there is significant variation in the treatment of such borrowers for the purposes of provisioning for loan losses.

- The Central Bank shall focus on ensuring that consistent treatment is applied from both rescheduled borrowers and loan loss provisioning perspectives.

IV. Supervisory Culture & Approach

The need to reform our supervisory culture and approach in the aftermath of the banking crisis has been well documented. That change process is now well progressed. Since the publication of the 2010 paper, we have concentrated our efforts in this regard to giving effect to the provisions of the Central Bank Reform Act 2010 and to delivering assertive, risk-based and outcome-focused banking supervision. Future enhancements to our risk assessment framework (see below) will enable us to embed these changes.

Continued progress to enhance our supervisory culture and approach will take time and sustained effort. We are committed to building upon the initiatives that we commenced in 2010 and to fully specifying our objectives in the context of the Central Bank's mission. Below, we have set out our progress to date and future milestones in the following areas:

- Recruitment;
- Enhancing our Risk Assessment Framework;
- Enhancing our Operational Framework;
- Training and Development Initiatives;
- Benchmarking; and
- Retention of supervision staff.

(i) Supervisory themes for 2011

- *The effectiveness of Internal Audit Functions*

- *Risk management functions*
- *Follow-up review of remuneration*

(ii) Human resources

Recruitment

Since the publication of the 2010 paper, a total of 48 additional resources have been recruited into BSD (36) and PAR (12). Included in this total are experts in treasury, credit and financial & risk analysis. Further recruitment of highly skilled individuals is anticipated in the coming year, with an immediate focus on:

- Business Model Analysts;
- Corporate Finance Professionals; and
- Business Strategy Analysts.

Training and development initiatives

As stated in the 2010 paper, supervision requires staff with skills necessary to effectively challenge and interrogate institutions. We recognise that training and development initiatives to reinforce our expertise are critical not only to enhance our capability to work effectively as an organisation but also to provide our people with the skills to work effectively with each other. At a macro-level, our commitment to training is evidenced by the fact that institution-wide, the total number of training days in 2010 is up by 146% on the equivalent figure for 2009, albeit we started from a low base. We have also invested in management training and coaching to develop leadership and optimise performance.

Regulatory induction programme

Over the course of 2010, we continued to improve both the content and delivery of our regulatory induction programme for staff in the Financial Institutions Supervision Directorate. Of three weeks duration and substantively delivered by an external facilitator, the course in 2010 introduced staff to the key elements of regulation and to the application of technical skills. Internal presentations were also provided from the Economics, Legal and Enforcement directorates. Four programmes were held in 2010 and rollout has been extended to other functions within the organisation.

A trainer has been identified to deliver regulatory induction for the period 2011 to 2013, which will comprise general and advanced programmes going forward. We estimate that in the period 2011 to 2013, 80 staff will attend the general programme and 90 staff will attend the advanced programme annually.

Ongoing in-house training

In addition to the regulatory induction programme, a number of technical training courses provided by external parties were held in-house for supervisory staff since the publication of the 2010 Paper including (but not limited to) the following:

- Advanced Bank Analysis
- Financial Reporting
- Understanding Investment Management
- Understanding Financial Markets
- Balance Sheet Analysis

Similarly, a number of personal development courses were provided to staff on a scheduled basis including (but not limited to) the following:

- Decision Making
- Influencing and Negotiation Skills
- Meeting Skills
- Leadership skills

The strong organisational emphasis on staff training and development will continue in 2011 and in subsequent years. The above courses will continue to be provided on a scheduled basis. In addition, we have prioritised the provision of the following training in 2011:

- Risk Model (PRISM)
- Business Strategy and Business Model Analysis
- Evaluating Governance
- Evaluating the Compliance Function
- Evaluating the Audit Function
- Legal Powers for Regulators
- Administrative Sanctions and Fitness and Probity
- Conducting an on-site review

E-learning is also a component of our training programme. Currently, approximately 229 staff members, the majority of whom work in banking and insurance supervision use *FSI Connect* as an on-line training and information tool.

Review of Attraction, Retention & Reward Strategies

With the onset of the global financial crisis, regulatory skills are in high demand across the financial services industry. The Central Bank is a public sector organisation,

operating against a background of fragile public finances. Despite this, the Central Bank needs to adapt to the changes in this wider marketplace.

(iii) Embedding change and enhancing our operational framework

We continue to enhance our operational framework to support our outcome-focused approach, to embed our culture of challenge and to ensure that resources are allocated to institutions that have the greatest impact on our supervisory objectives.

Reorganisation of Banking Supervision

In May 2011, we amalgamated the two frontline banking supervision divisions (Retail Banks and Wholesale Banks). This will provide a more consistent approach to banking supervision aligned with the PRISM approach. We have also reconstituted our frontline examination teams and moved staff between those teams. Specifically, we have largely structured frontline teams such that they are staffed by a mix of personnel with business, regulatory, general and specialist experience. This “cross pollination” not only brings teams closer to operating at optimum capability but will also facilitate the exchange of ideas and experiences in addition to creating an environment more amenable to cultural change and the introduction of new supervisory practices.

Growth of Specialist Teams

The amalgamation of banking supervision allowed for the creation of the Prudential

Analytics and Resolutions (PAR) division. Prudential analytics – a team of dedicated quantitative specialists in the areas of risk analytics, Pillar 2 and stress testing has grown since June 2010. In addition, this division has specialist resources dedicated to external programme implementation and special resolutions. PAR will work closely with Banking Supervision as well as other supervisory divisions. Similarly, the specialist credit and treasury teams embedded within Banking Supervision have grown significantly and are now almost fully resourced. The expertise of these teams will be provided to frontline banking supervision teams on the basis of impact and risk as determined by PRISM going forward.

New operational structures

In addition to recent organisational changes in bank supervision there are numerous operational initiatives that will support the cultural and engagement model changes.

Implementing performance measurement

Proposals have been initiated to reform working practices which provide the Central Bank with a workable platform upon which to build an organisation that is flexible, agile and responsive to the needs of its stakeholders. The introduction of a Performance Measurement System for staff on 1 July 2011 is a key step towards our objectives and vision.

Establishment of change management office

- A dedicated change programme will be initiated to oversee all of the projects/initiatives,
- A fulltime dedicated Change Manager will lead the programme for the three year duration,
- A Change Executive committee will monitor progress.

Information Technology and MIS

An important contributor to the effectiveness of the supervisory function is the availability of data across the sector in a consistent and accurate form.

The Information Management & Technology Directorate has implemented a new organisation structure comprising of the following sections:

- Customer Engagement (comprising Business Analysis and Solution Design);
- Enterprise Architecture;
- IT Solution Delivery; and
- Project Management Office.

New methodologies are being introduced to support the work of these areas. In Customer Engagement, a new Business Process Modelling methodology has been introduced. This methodology enhances business requirements gathering and specification for IT projects by:

- Focussing on understanding the current processes; and

- Modelling how those processes should optimally operate in the future.

There is a greater emphasis on streamlining of processes; introducing efficiencies and freeing up staff to work on value add activities. In addition, in designing solutions for the Central Bank, there is an increased focus on Capability-wide rather than Divisional solutions. This enables solutions to be implemented which take a cross-organisational approach, leading to more standard solutions with wider applicability, less maintenance & training overheads and greater benefits.

(iv) Enhancing our risk assessment framework

Having reviewed international best practice the Central Bank is developing the Probability Risk and Impact System (PRISM) to provide a structured framework for institution supervision, which will compliment new and existing practices such as Risk Governance panels, institution specific Risk Mitigation Programmes and Engagement Plans.

PRISM will enhance the Central Bank's ability to deliver judgement based, outcome focused regulation. It will provide a tool for supervisors to continually challenge themselves and their institutions in order to safeguard financial stability and protect consumers.

PRISM is both a new engagement model for the supervision of regulated institutions

and a tool to facilitate a detailed risk assessment of institutions. The system requires supervisors to form judgements about the risks each institution presents and then to develop appropriate risk mitigation programmes to reduce unacceptable risks to an acceptable level.

PRISM will enable supervisors and management to see the risks posed by institutions in any sector at any point, facilitating frequent review of the evolving financial risks at a micro level, allowing high quality resource allocation and risk mitigation decisions to be taken. It will also provide senior management with additional information to assess macro risks both within and across sectors.

PRISM – Impact and engagement

PRISM will segment all the institutions regulated by us into distinct impact categories on the basis of quantitative data. Each institution will be allocated to one of four impact categories reflecting its relative importance based on size, turnover, client base and so forth: High, Medium High, Medium Low and Low. An institution's categorisation may be revised as these metrics change over time.

To match our four impact categories, there will be four engagement models. The highest impact institutions will have dedicated supervision teams following a pro-active programme of supervision - to ensure that the Central Bank always has a good knowledge of an institution's strategy and business model. This analysis will focus on business models, financial risk

analysis, governance to name but three activities. We see it as crucial to look at the substance of the business model of an institution – this being a key lesson from the crisis.

Supervisors will also be resourced to have a deep knowledge of the financials as well as the corporate and internal governance structure of these institutions.

High impact institutions will have a high level of continuous supervisory engagement – an irreducible minimum that will not fall, no matter how plausible the business plan, how good the apparent treatment of consumers or how large the corporate profits.

PRISM - Assessing risk probability and mitigating risk

Understanding the capacity for an institution to cause harm – impact – is a critical component in PRISM. The other key part of risk assessment is understanding the probability that any given institution is going to cause harm at a given time. The Central Bank's supervisors will constantly be assessing the risk profile of a high impact institution. As part of PRISM, we are introducing a structured approach to assessing the probability of a problem occurring by seeking to identify issues that could cause prudential or consumer failures. When risks exceed our risk appetite - where the probability of an adverse event is high - we will require action to be taken to mitigate the risks and deploy extra resources until the probability of that institution causing a

danger to the economy and consumers recedes.

In terms of deciding which risks we should routinely look at in our probability assessment, we have reviewed international best practice. Based on this international review and our own experience we will assess: governance risk; business model risk; credit risk, market risk, operational risk, insurance risk, liquidity risk, capital risk, environmental risk and conduct risk, at our institutions.

It is important to note that, for none of these risk categories will PRISM take numbers into a black box and tell the supervisor the risk. For each risk category, the supervisor will be required to make a judgement as to the risk, based on the engagement tasks he or she has undertaken to assess the institution and supported by key information on the various risk types.

Our new tool will enable us to track and group together timely information on our institutions' profiles against all of these risks. Any spike in a particular risk type, a particular sector or a particular institution, will prompt an early response and intense supervision where necessary with a view to mitigation before it becomes a significant issue.

Once the new system is embedded we will be able to track progress on mitigation in one place. We will continue to work to make sure that all our risk mitigation actions are outcome focused and result in

problems being sorted out rather than simply analysed further. We will ensure that the financial penalties and other enforcement tools available to us are applied on non-compliant institutions in a manner that reflects not only the seriousness of the issue at hand but also as a meaningful deterrent to others.

Implementation

The first release of PRISM is scheduled for Q4 2011. It will be targeted at the Banking and Retail Insurance Supervision Divisions. Additional functionality will be added to the PRISM software in Q2 2012. It will then be rolled out to all the Central Bank's supervisory divisions.

(v) Credit Risk Assessment Approach

Banking Supervision's objective is to ensure that the banks have an effective system in place to identify, measure, monitor and control credit risk as part of their overall risk management.

Approach

Our approach will be:

- Forward looking, risk based and proportionate to each bank's impact on the economy
- Intrusive and will include the credit team challenging the bank's senior management credit risk assessments
- Geared towards benchmarking the bank's credit risk management against the "Principles for the Management of Credit Risk" and against credit risk

recommendations identified in the analyses of the Irish banking crisis

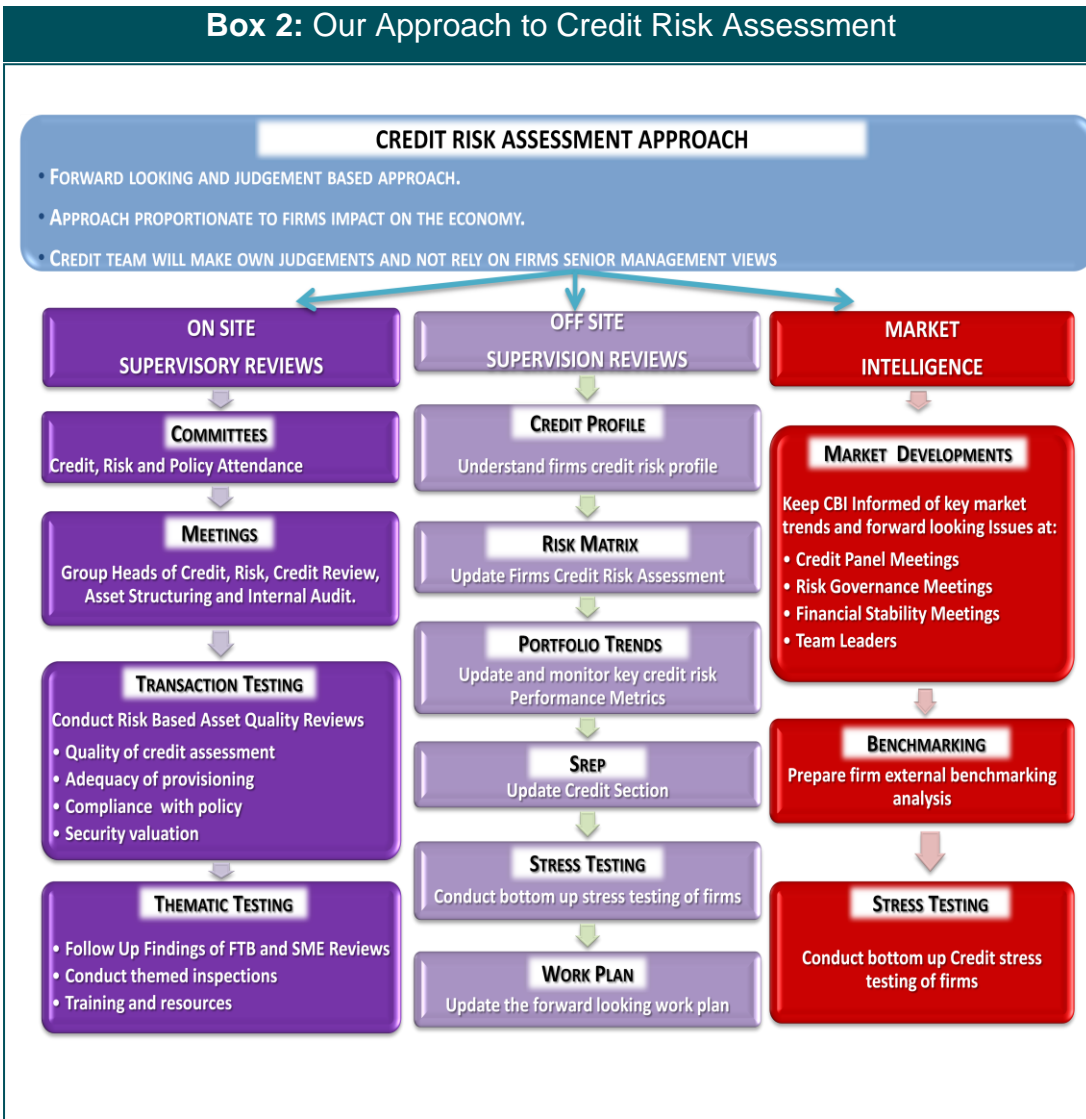
- Geared towards keeping the Central Bank informed of key market trends, issues and developments
- Informed by the findings of the Financial Measures Programme and the supervisory teams.
- Integrated into the wider supervision programme.

Focus

The key areas of focus for credit risk include:

- Governance and Culture
- Skills and Resourcing
- Credit Approval Process
- Credit Monitoring Process
- Credit Control Process
- Impairment Provisions
- Credit Risk Capital
- Management Information
- Credit Risk Modelling

Box 2: Our Approach to Credit Risk Assessment



(vi) Our Role in the deleveraging process

The role of the Central Bank in the deleveraging process primarily relates to the establishment and subsequent monitoring of prudential liquidity targets, with non-compliance potentially requiring the Central Bank to sanction banks as appropriate. An important principle will be applied in considering sanctions. This principle is to acknowledge the important differentiation between target breaches caused by non implementation of asset disposals and target breaches caused by deposit outflows.

The Central Bank will also continue to develop and implement a rigorous process to challenge banks' deleveraging plans. Where Financial Stability matters are considered to arise in relation to asset disposals in the deleveraging plans the Central Bank has an additional role of involvement.

The Central Bank will maintain an independent role from the Department of Finance (DoF) and the National Treasury Management Agency (NTMA) throughout the process, reflecting the DOF/NTMA's role as shareholder and the Central Bank's various obligations under EU law.

Monitoring the Enforcement of Prudential Requirements

Against the backdrop of substantial funding losses in the domestic banking system as debt instruments failed to roll and deposits were withdrawn, the Central Bank

instigated the Prudential Liquidity Assessment Review (PLAR) in 2010 to set Irish financial institutions on a path to a more sustainable funding and liquidity position. In particular the programme aims to:

- Deleverage the banking system in a controlled manner;
- Reduce banks' reliance on short term funding; and
- Encourage the convergence to Basel III liquidity standards by the relevant dates.

To these ends, the Central Bank has set targets for liquidity that aim to restore the banks to a more sustainable funding position. The three key target funding ratios are:

1. The Loan to Deposit ratio ("LDR");
2. The Net Stable Funding Ratio ("NSFR"); and
3. The Liquidity Coverage Ratio ("LCR").

The first phase of the PLAR was completed in March 2011 by which time the four institutions (AIB, BOI, EBS and ILP) submitted and iterated deleveraging and funding plans.³

The Banks own governance procedures may form the primary mechanism for monitoring the progress of deleveraging through:

- Dedicated non-core management teams; and

³ Anglo Irish Bank and Irish Nationwide were not included in the PLAR.

- Oversight by the banks' Board of Directors.

The Central Bank's responsibility lies with monitoring targets and any sanctions that may be used in the event targets are missed. This may be achieved by:

- Imposing loan to deposit ratio targets at end-2013;
- Establishing a reporting and monitoring framework; and
- Ensuring financial stability considerations are fed into transaction approval by means of referral.

V. Supervisory & Regulatory Environment

The section provides details of how the Central Bank aims to improve the supervisory and regulatory environment.

(i) *Enhancing credit intelligence in Ireland*

Credit register

The Central Bank aims to improve the identification and control of credit risk in the Irish financial system. The current lack of robust credit intelligence introduces lenders to many risks including poor credit decisions, inappropriate credit scoring and modelling, poor case management, overleveraged borrowers, fraud and systemic failure. It also limits the Central Bank's ability to monitor risk levels in the banking system and ultimately respond to mitigate these risks on a system-wide or individual bank basis.

To address the risk arising from the lack of robust credit intelligence, the Bank is actively participating in an inter agency working group to establish a new framework for credit intelligence sharing. Our specific objectives include:

- More robust lending practices around credit approval decisions, account and portfolio management
- Enhanced supervision relating to both institution and system wide risk
- Improved consumer awareness
- Increased access to credit and monitoring of access to credit

The other members of the working group on credit registers include the Department of Finance, the Data Protection Office, the Department of Enterprise, Jobs and Innovation and the Competition Authority.

The aim of the working group is to develop a strategy for an effective credit information system in Ireland. The working group will conclude in June 2011 with a set of recommendations to the Minister of Finance with regard to:

- Optimal register structure and ownership
- Licensing and regulation
- Data protection issues
- Scope of mandatory reporting requirements
- Introducing standard credit scores
- Supervisory access to credit register
- Consumer access to credit history
- Connected companies and related borrowers
- Data integrity and verification

In order to ensure the introduction of an effective solution for both credit lenders and supervisory authorities, the Bank is supporting the view that mandatory and frequent reporting to the register should be introduced. The Bank is also seeking that entities who are engaged in the provision of credit registry services are required to be licensed and actively regulated. As standard credit scores can assist in convergence of borrower ratings and consumer understanding, the Bank is actively seeking that they be introduced in Ireland.

Credit intelligence and prudential considerations

A lack of robust credit intelligence introduces lenders to many risks including poor credit decisions, inappropriate credit scoring and poor case management. This has the potential to result in overleveraged borrowers and increased fraudulent activity. It also limits the ability to monitor credit risk levels in the financial system and respond to potential threats on an individual lender or system-wide basis in an adequate and timely manner.

The comprehensive recording of credit information will enable lenders to obtain a more complete picture of the history and exposure profile of credit applicants and thus promote more robust lending practices. Lending decisions would be made on the basis of a clearer view of borrower commitments across both product lines (e.g. mortgages, credit cards, overdrafts, etc.) and lending entities. Borrower accounts will be managed using both positive and negative information flows and business strategy will be informed by observing borrower appetite for consumer and commercial products across loan books in all lending institutions.

Financial supervision will significantly benefit from more complete and reliable credit information at both micro and macro prudential levels. The behaviour patterns of individual lenders will be reliably monitored for changes in concentrations, credit quality, business mix and pockets of high risk lending. Observation of collective borrower behaviours and sectoral analysis

would inform consumer and financial stability related policy decisions. Tracking of large borrower exposure and observation of trends towards high-risk lending would result in the identification of increases in system-wide risks. Granular loan information would lead to more robust testing of the validity of bank developed credit rating models; this would not only ensure more consistent credit scoring and credit management, but would also promote convergence of the calculation of regulatory capital requirements, which would lead to improved utilisation of available capital resources across the financial system. Improved standardisation of reporting would also lead to better supervision in the area of consumer protection.

Increased capture of credit data will also benefit bone fide borrowers. More reliable and complete recording of borrower credit history would promote more efficient and reliable access to credit. The introduction of standardised credit scores would lead to enhanced consumer understanding of the opportunities and barriers when applying for credit.

(ii) Credit risk standards including valuations and credit limits

In *Banking Supervision: Our new approach*, we outlined our intention to comment and suggest proposals on the establishment of valuation standards, and to give consideration to introducing credit limits. The purpose of this initiative is to improve credit risk management standards

across the industry by providing the sector with details of lessons learned, examples of best practice and ensuring credit risk management standards are appropriate for future demands. In this regard, we will incorporate our proposals into a dedicated, discrete paper to be published in 2011. Supervisory credit control tools at portfolio level currently exist and include sector concentration, large exposure and risk weightings. We are of the view that detailed work on two further approaches are necessary to assist in the improvement of future credit risk management and control.

Credit Risk Standards - Proposals

The Basel Committee on Banking Supervision has outlined the key principles of credit risk. Credit risk principles and guidelines are relatively constant over time so these, combined with other international references, will help develop our supervisory approach for the coming year.

Specifically, the Central Bank will:

- (1) Review *Valuation Standards for Collateral*, as this is particularly relevant to mortgages and commercial real estate loans, which constituted 65% of BlackRock forecast losses in the recent Financial Measures Programme report.
- (2) Investigate and highlight processes, behaviours and policies that we consider weak and that were prevalent prior to and during the financial crisis, whilst benchmarking them against best practice.

- In line with best practice and following from work conducted by the Basel Committee, our work here will involve outlining the common sources of Irish credit problems based on our experience and credit analysis over the course of the current crisis.
- (3) Provide commentary and guidance on best practice, as well as succinct industry wide observations to the banks.
 - This will result in a more granular approach than previous banking reports and publications and should complement banks' own awareness of credit risk and lessons learned from previous experience.

(4) Address other areas including:

- Culture and risk awareness gaps at senior management level;
- Challenges of conducting a thorough credit risk assessment;
- Controls on credit, including credit review;
- Weakness of documentation;
- Caution with leveraged lending.

Credit Limits - Proposals

The Central Bank will review the potential for credit limits to be applied as a macro-prudential measure.

Consumer

It is our intention to conduct a detailed analysis, primarily focussed on consumer lending, which will include the macro-economic context; international

comparisons and a particular emphasis on the objectives of the Central Bank in this area, and the methods proposed to achieve these goals. Such limits could apply to both Residential and Residential Investment Property Mortgages.

Non-Consumer

In the area of non-consumer lending, we will review the provision of finance for land purchases which are considered speculative.

The Bank's intention is to have our position with respect to credit limits finalised and published in Q3 2011, with implementation by year end.

(iii) Review of arrears handling under the Code of Conduct for Business Lending to SMEs

The Code of Conduct for Business Lending to Small and Medium Enterprises ("the SME Code") was published in February 2009. It is planned to complete a themed review of this Code in H1 of 2012 and conduct the full review of the SME Code thereafter. However, given the current economic climate and to build on previous work we have undertaken to facilitate arrears resolution between borrowers and lenders, the Central Bank has decided to bring forward a partial review of the SME Code to examine the arrears handling provisions for SMEs facing financial difficulties or in arrears. The review will also assist us in meeting our commitments to the IMF/EU programme on strengthening the banking framework.

Relevant Provisions of the SME Code

The focus of the review will be on Provisions 16 & 17 of the existing SME Code as set out below:

'Financial Difficulties'

16. *A **regulated entity** must have in place procedures for the handling of arrears cases.*
17. *Without prejudice to a **regulated entity's** regulatory and/or legal obligations and legal rights a **regulated entity** must*
 - a) *give the borrower reasonable time, having regard to the circumstances of the case, to resolve an arrears problem,*
 - b) *endeavour to agree an approach that will assist the borrower to resolve an arrears problem, and*
 - c) *advise the borrower of any possible impact of the default on other accounts held by the borrower.*

A number of lenders, representative bodies of the SME sector and other relevant agencies will be consulted with both prior to, and as part of the consultation process.

(iv) Special Resolution Regime

As outlined in “Banking Supervision: Our New Approach”, work on the development of a Special Resolution Regime has been ongoing in the Department of Finance and the Central Bank for some time. As part of the package of measures agreed recently with the external authorities, the work on SRR has now accelerated. This has had two effects, first a suite of emergency powers to allow the Minister for Finance to take certain resolution actions was passed into law on 21st December 2010; and second, a bill providing for a permanent SRR was published in February 2011 (in line with Programme commitments).

Organisation

A new function within the Prudential Analytics & Resolutions Division of the Central Bank has been created to operate the special resolutions regime. This unit will be staffed by legal, corporate finance and regulatory specialists and will focus on:

- policy issues with respect to resolution
- resolution planning and initiation, including communications, and
- resolution execution, including project management and logistics

Credit Institutions (Stabilisation) Act, 2010: Emergency SRR currently in place

The Emergency SRR has been implemented by the above Act and provides for the Minister for Finance to take the following actions:

- Appoint a Special Manager to take over full control of a bank, building society or credit union;
- Issue wide ranging directions to a bank, building society or credit union; and
- Make an order for the transfer of assets and/or liabilities of a bank, building society or credit union.

The Minister must consult the Governor of the Central Bank before making an order or direction. The Minister may only make an order if, after consulting the Governor, he is of the opinion that making the order or giving the direction is necessary for:

- achieving the purposes of this Act;
- securing the stability of the financial system in the State,
- securing the financial stability of a relevant institution and preserving or restoring the financial position of a relevant institution, whether or not to do so would affect the rights of third parties existing before the order,
- avoiding the winding up of a relevant institution on an insolvent basis to the detriment of its creditors and members, or of the State,
- complying with the conditions for the financial support received by the State from the European Union, other Member States and the International Monetary Fund,

The Act also provides for the modification of the rights of subordinated creditors, a

stay on a range of contractual rights or actions that might be triggered by the use of the powers in the Act, and the provision of financial assistance to entities that are either receiving or divesting of assets or liabilities on foot of a transfer order.

As described, the Act does not contain the suite of powers and resolution tools normally seen in SRR legislation. Equally, it does not integrate those powers with the ongoing supervisory process or the detailed decision-making processes usually seen. The Act provides emergency powers and will be superseded by legislation providing for a Permanent SRR.

Central Bank and Credit Institutions (Resolution) (No.2) Bill 2011 (yet to be passed)

This passage of legislation which creates a permanent SRR is the culmination of work that commenced early in 2010. The Bill is a permanent replacement for emergency legislation introduced last year.

After an examination of the alternative models being used in other jurisdictions, the Department of Finance and the Central Bank have developed a regime that is modelled on the UK SRR regime but tailored to the specific legal and institutional environment in Ireland.

The SRR contained in this Bill contains all of the established resolution tools not already provided for in legislation or by precedent. In relation to banks, building societies, and credit unions the Bill

provides greater powers to the Governor of the Central Bank who may now:

- Establish, manage and administer the Credit Institutions Resolution Fund to provide a source of funding for the resolution of or imminent threat to the financial stability of a bank, building society or credit union.
- Establish a bridge bank to hold some or all of a failing institution's assets or liabilities temporarily pending their transfer.
- Make a proposed transfer order to the High Court in relation to assets or liabilities.
- Make a proposed special management order to the High Court, including applying for a special manager to be appointed. This special manager may take control of a lender and to plan its recovery or put in place resolution plans to wind it down.
- Present a petition the High Court for the orderly winding up of a credit institution (liquidation). The role of the Central Bank comprises approving the liquidator and nominating two individuals to sit on the liquidation committee. This form of liquidation process, initiated by the Central Bank, is also modified in order to protect depositors first and then to ensure the best outcome for other creditors (up to now, depositors rank as unsecured creditors in the event of a liquidation).

- Direct a credit institution to prepare and implement a recovery plan. Having done so, the Central Bank may also prepare a recovery plan on a contingency basis.

Clear mechanisms for co-ordination between the Department of Finance and the Central Bank are being developed, in the interests of efficiently operating the permanent SRR. Additionally, internal

structures to operate an SRR within the Central Bank are being built. These include the creation of a resolution function within the Prudential Analytics and Resolution Department, separate to the supervisory function, processes to ensure a smooth transition from supervision to resolution and the development of staff and other resources to operate the SRR.

Appendices

Appendix A: Priorities 2011 – 2012

Supervisory areas to be targeted	Specific actions to be taken
Banks' Financial Position: Integrity & Transparency	
PCAR	<ul style="list-style-type: none"> • Recapitalisation of the Irish banking system based on the results of the Central Bank's PCAR, published 31 March 2011 as part of the Financial Measures Programme ("FMP").
Provisions Guidelines	<ul style="list-style-type: none"> • Require banks to ensure that financial statements, and most importantly the stock of provisions, reflect the asset quality of financial assets, for example, as identified in the PCAR. • Work with the banks and accountancy firms to ensure that banks use a more conservative, consistently applied approach to impairment trigger parameters and provisioning model inputs. • Require banks to ensure that any potential impairment from future disposals are recognised as fully and early as possible.
Enhancing Public Disclosures	<ul style="list-style-type: none"> • Require banks to implement changes in line with best practice.
Capital Requirements & Internal Models	<ul style="list-style-type: none"> • Annual credit rating model performance reviews. • Work towards achieving convergence in the calculation of capital requirements for IRBA exposures. • Focus on ensuring that consistent treatment is applied from both rescheduled borrowers and loan loss provisioning perspectives.
Supervisory Culture & Approach	
Supervisory Themes for 2011	<ul style="list-style-type: none"> • The effectiveness of internal audit functions • The role and effectiveness of Board Risk Committees • Remuneration and evaluation of senior staff.
Recruitment	<ul style="list-style-type: none"> • Further recruitment of highly skilled individuals.
Training and development initiatives	<ul style="list-style-type: none"> • Develop individual training programmes for all staff. • Continued delivery of the regulatory induction programme.

Supervisory areas to be targeted	Specific actions to be taken
	<ul style="list-style-type: none"> Continued targeted in – house training in PRISM, business strategy and business model analysis, evaluating governance, compliance & audit functions, legal powers for regulators, administrative sanctions, fitness and probity, conducting on-site reviews. Continued delivery of Diploma in Regulatory management course. Continued focus on e-learning. Further development of the executive coaching initiative.
Comparative Information	<ul style="list-style-type: none"> Review of Attraction, Retention & Reward Strategies
New operational structures	<ul style="list-style-type: none"> Rollout of further initiatives to support cultural and engagement model changes.
Performance Measurement	<ul style="list-style-type: none"> Rollout of a Performance Measurement System for all staff
Change Management	<ul style="list-style-type: none"> Establishment of a Change Management Office.
Information Management & Technology	<ul style="list-style-type: none"> Further development of methodologies to support the new organisational structure.
Risk assessment (PRISM) framework	<ul style="list-style-type: none"> First release of the PRISM software, Q4 2011. Add functionality to the PRISM software, followed by a full rollout to supervision divisions, Q2 2012.
Credit Risk Assessment Approach	<ul style="list-style-type: none"> Development of a forward looking, intrusive, and risk based approach, which is linked to best practice.
Deleveraging	<ul style="list-style-type: none"> Monitoring of deleveraging targets, sanctioning banks as appropriate.
Supervisory & Regulatory Environment	
Enhancing credit intelligence in Ireland	<ul style="list-style-type: none"> Active participation in an interagency working group tasked with establishing a new framework for credit intelligence sharing.
Credit risk standards including valuations and credit limits	<ul style="list-style-type: none"> Develop supervisory approach to credit risk standards. Review <i>Valuation Standards for Collateral</i>. Review the potential for credit limits to be applied as a macro-prudential measure. Position on credit limits to be finalised and published in

Supervisory areas to be targeted	Specific actions to be taken
	Q3 2011, with implementation by year end.
Code of Conduct for Business Lending to Small and Medium Enterprises ("the SME Code").	<ul style="list-style-type: none"> • Partial review of the SME Code in 2011 (arrears handling provisions). • A themed review of the Code in H1 2012 and a full review of the SME Code thereafter.
Special Resolution Regime	<ul style="list-style-type: none"> • Develop clear mechanisms for co-ordination with the Department of Finance. • Build internal structures to operate an SRR, including the continued development of a resolution function within PAR.

Appendix B: Scope of banking supervision

The Credit Institutions Supervision directorate is responsible for the prudential supervision of 37 credit institutions (including 2 building societies and 4 Irish incorporated banks)⁴. In addition, Credit Institutions Supervision is responsible under relevant European law for its limited part in the prudential supervision of passported branches of European Economic Area banks, 36 in total⁵.

Table 1: Supervised entities

	All credit institutions licensed by Central Bank		Overseas banks operating in the State either on a branch or cross border basis
	Banks	Building societies	Branches
Total number of firms	35	2	36
of which, Irish	4	2	
of which, other EEA	31	0	36

In addition to Irish retail banks, the Credit Institutions Directorate is responsible for the supervision of wholesale banks, as subsidiaries of international banks.

Through its supervision of authorised credit institutions, the Credit Institutions Directorate is responsible for the prudential regulation of firms holding €1.05 trillion of assets in Ireland and globally, equal to around seven times Irish GDP. Within this total, Irish-owned banks alone hold assets equal to nearly three times Irish GDP.

The retail banking system in Ireland is highly concentrated, with few firms – all of which are Irish, with the exception of two (Ulster Bank Ireland plc, KBC) – representing a large proportion of the retail market.

⁴ Reporting on a consolidated group basis

⁵ This figure includes subsidiaries of North American banks located in the EEA (Ireland) or similar.

Appendix C: Credit Unions supervision

Within the Credit Institutions Supervision directorate the Registrar of Credit Unions is responsible for the supervision of 409 registered credit unions holding €14.2bn of assets in Ireland. The credit union sector is widely dispersed with many credit unions in all counties across the country.

Asset Size	No. of Credit Unions
Over €200m	4
€100m to €200m	26
€80m to €100m	12
€60m to €80m	19
€40m to €60m	48
€20m to €40m	83
Less than €20m	217
Total	409