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Summary of Government Interventions
Ireland

Overview

The Irish economy has been one of the worst-hit Eurozone economies due to the high exposure of the banking sector to the property market and the boom associated with that over recent history. To counter this, the Irish government has put in place a major state guarantee scheme and a recapitalisation package to ensure that the financial system in Ireland continuously meets the financial needs of individuals, business and the overall economy.

Most recently, the Irish government announced a "bad bank" plan, in which banks' troubled property loans will be taken over by an asset management agency at a discount to book value in order to ensure that the banks "have a clean bill of health, their balance sheets are strengthened and uncertainty over bad debts is reduced" and therefore that there is a sustained flow of credit on a commercial basis to individuals, households and businesses in the real economy.

State guarantees

On 30 September 2008, the Irish government announced its decision to provide a State guarantee for the deposits, senior debt and dated subordinated debt (lower tier 2) of participating named Irish credit institutions for the period until 29 September 2010 (the "**Scheme**"). The Scheme was formally approved by the Irish Parliament on 17 October 2008 in the Credit Institution (Financial Support) Act 2008 (No. 18/2008) which provides legal basis for the Scheme. The following Statutory Instruments were consequently issued by the Minister for Finance to give effect to the Scheme:

- the Credit Institutions (Financial Support) Scheme 2008 (S.I. No. 411 of 2008),
- the Credit Institutions (Financial Support) (Specification of Institutions) Order 2008 (S.I. No. 416 of 2008),
- the Credit Institutions (Financial Support) (Specification of Institutions) (No.2) Order 2008 (S.I. No. 425 of 2008), and
- the Credit Institutions (Financial Support) (Specification of Institutions) (No.3) Order 2008 (S.I. No. 515 of 2008) 2008).

On 13 October 2008, the scheme was approved by the European Commission as compatible with EC Treaty state aid rules.

Key features of the Scheme:

- the Scheme is limited to named participating institutions and certain named subsidiaries of credit institutions (the "**covered institutions**") and types of liabilities (the "**covered liabilities**");
- the eligible institutions formally join the Scheme by executing a "guarantee acceptance deed" and being included in an order made by the Minister for Finance;
- the covered liabilities include retail and corporate deposits (to the extent not covered by the deposit protection scheme), interbank deposits, senior unsecured debt, covered bonds and, subject to certain restrictions, subordinated debt;
- the covered institutions must pay quarterly charge to the Exchequer for the guarantee in order for the Scheme to be self-financing and to deliver a return to taxpayers;
- the covered institutions have to indemnify the Exchequer for any call under the guarantee and all costs incurred by the State under the Scheme;
- there are broad-ranging oversight and corporate governance provisions in the Scheme, including a right on the part of the Minister for Finance to appoint up to two non-executive directors to the Boards of covered institutions, and to effect changes in management and executive structures;
- strict requirements regulating executive remuneration and the establishment of an independent committee (CIROC) to oversee executive remuneration;
- significant monitoring, reporting, disclosure and compliance requirements, including onerous duties on the Chairman, CEO and auditors of covered institutions;
- provisions designed to prohibit covered institutions from entering into new businesses and M&A activity without the Minister for Finance's consent;
- the making of rules regulating the payment of dividends, and the prohibition of dividends until such rules are drawn up;
- a prohibition on share buy-backs without the approval of the Financial Regulator; and
- compliance with Corporate Social Responsibility (CSR) goals and targets to be laid down by the Minister for Finance.

The following covered institutions have signed up to the Scheme:

(a) Allied Irish Bank and its subsidiaries AIB Mortgage Bank, AIB Bank (CI) Limited, AIB Group (UK) plc. and Allied Irish Banks North America Inc. (at an estimated cost of less than EUR 130m a year);

(b) Anglo Irish Bank Corporation plc and its subsidiary Anglo Irish Bank Corporation (International) plc;

(c) The Governor and Company of the Bank of Ireland and its subsidiaries Bank of Ireland Mortgage Bank, ICS Building Society and Bank of Ireland (I.O.M.) Limited (at an estimated cost of around EUR 115m a year);

(d) EBS Building Society (at an estimated cost of around EUR 15m a year);

(e) Irish Life and Permanent plc and its subsidiary Irish Permanent (I.O.M) Limited (at an estimated cost of less than EUR 50m a year); and

(f) Irish Nationwide Building Society and its subsidiary Irish Nationwide (I.O.M.) Limited.

The emergency budget, announced by the Minister for Finance on 7 April 2009, indicated that the Irish government intends to put a state guarantee in place for future issuance of debt securities with a maturity of up to 5 years. It is thought that access to longer-term funding will contribute significantly to supporting the funding needs of the banks and to securing their continued stability.

Bank deposit guarantee

On 20 September 2008, the Irish government announced an increase of the statutory cover under the deposit protection scheme for banks and building societies from EUR 20,000 to EUR 100,000 per depositor per institution. The guarantee cover applies to 100 per cent. of each individual's deposit and to credit union savers.

Government loans and capital injections

On 14 December 2008, the Irish government decided to support a recapitalisation programme for credit institutions in Ireland of up to EUR 10bn either through the National Pensions Reserve Fund (from its current resources or future contributions) or otherwise, alongside existing shareholders and private investors. It has been decided that the State investment would be assessed on a case-by-case basis having regard to the systemic importance of the credit institution and may take a form of preference shares and/or ordinary shares. The State may where appropriate, participate on an underwriting basis. Recapitalised institutions may be required to comply with certain transparency and commercial conduct requirements.

On 11 February 2009, the Minister for Finance, announced details of the proposed recapitalisation of Bank of Ireland ("**BOI**") and Allied Irish Bank ("**AIB**"). This announcement followed the initial recapitalisation announcement made by the Minister for Finance on 21 December 2008.

The main features of the government's proposed investment in AIB and BOI are as follows:

- the government provides a total of EUR 7bn (EUR 3.5bn for each of the banks) in core tier 1 capital (of which EUR 4bn is to be funded from the National Pensions Reserve Fund's current resources while EUR 3bn is to be provided by means of a frontloading of the Ministry of Finance's contributions to the Fund for 2009 and 2010);
- in return for the overall investment the Irish governments gets preference shares with a fixed dividend of 8 per cent. per annum payable in cash or ordinary shares in lieu. These preference shares can be repurchased at par up to the fifth anniversary of the issue and at 125 per cent. of face value thereafter;
- the Minister for Finance can appoint, in total, 25 per cent. of the directors of each of the banks and has 25 per cent. of total ordinary voting rights in respect of change of control and board appointments; and

- warrants are attached to the preference shares giving an option to purchase in five years time at a predetermined strike price up to 25 per cent. of the ordinary share capital of each bank existing on the date of issue of the new preference shares; the warrants are exercisable at any time from the fifth anniversary of the issue and will be reduced if any of the banks redeems up to EUR 1.5bn of the State investment in the preference shares from privately sourced core tier 1 capital prior to 31 December 2009.

Both recapitalised banks agreed in December 2008 and confirmed on 11 February 2009 their commitment to the following credit package for small and medium sized enterprises ("**SMEs**"):

- additional 10 per cent. capacity for lending to small and medium enterprises in 2009;
- an additional 30 per cent. capacity for lending to first time property buyers in 2009 and assistance to households who are in mortgage arrears;
- business lending by the recapitalised banks to be monitored by the Financial Regulator and supported by a new code of practice developed by the Financial Regulator (see the SME Code below); and
- EUR 100m environmental and clean energy innovation fund to support and develop financial education for consumers and potential consumers to be established by each bank.

On 27 February 2009, the Irish government published the Investment of the National Pensions Reserve Fund and Miscellaneous Provisions Bill 2009. The bill amended the existing National Pensions Reserve Fund Act 2000 to allow the National Pensions Reserve Commission to make investments in listed credit institutions in the public interest and to underwrite or otherwise support the issue of securities by such credit institutions.

The full text of the bill is available at: http://www.oireachtas.ie/documents/bills28/bills/2009/0809/b0809d.pdf

Bank of Ireland

The recapitalisation process in relation to BOI was completed on 31 March, following satisfaction of the conditions set out in the BOI's Circular to the Stockholders of 4 March 2009 (the "**Circular**") and the direction of the Minister for Finance to the National Pensions Reserve Fund Commission ("**NPRFC**") to proceed with the investment in the new preference stock. Under the terms of the NPRFC investment, in return for the subscription proceeds of EUR 3.5bn, BOI issued 3,500,000,000 units of new preference stock of EUR 0.01 nominal value at an issue price of EUR 1.00 per unit and granted to the NPRFC warrants to subscribe for up to 334,737,148 units of ordinary stock of EUR 0.64 nominal value.

The Circular providing further details of the NPRFC investment is available at:

http://www.bankofireland.com/includes/investor/pdfs/governors_letter_0309.pdf

The recapitalisation of BOI was approved by the EU Commission under the State aid rules on 26 March 2009.

Allied Irish Bank

The recapitalisation process in relation to AIB is ongoing and remains subject to regulatory approval, the approval of the ordinary shareholders at the bank's general meeting and approval of the EU Commission. The general meetings of the AIB's shareholders are to be held on 13 May 2009.

National Asset Management Agency

On 7 April 2009, the Irish government announced a further government initiative concerning establishing a new commercial semi-state agency, the National Asset Management Agency ("**NAMA**"), to acquire (performing and non-performing) portfolios of property loans from banks operating in Ireland in return for issue of Irish government bonds (or government guaranteed bonds issued by NAMA) to the banks. These government bonds are intended to enable Irish banks to access liquidity and provide credit to the Irish economy.

NAMA will be established on a statutory basis under the governance, direction and management of the National Treasury Management Agency, with a commercial mandate and the central objective of maximising over time the income and capital value of the assets entrusted to it.

According to the indicative term sheet for NAMA, it is intended that:

- eligible credit institutions will be selected by the Irish government on the basis of the structure of their loan book, access to support, ownership structure and relative importance to the Irish economy (it is not yet clear whether participation will be limited to the "covered institutions");
- all loans in respect of the purchase of land for development of participating banks, participating banks' largest property investments loans and foreign property loans could be transferred to NAMA;
- the potential maximum aggregate book value of loans to be transferred to NAMA is estimated to be in the region of EUR 80bn to EUR 90bn;
- loans will be acquired at significant discounts to book value; pricing will depend on asset quality, risk and underlying security and will reflect the deterioration in land values and collapse of house sales as well as "real economic value" of the loans in accordance with EU State Aid rules (accordingly, the "cleansed banks" will be required to make an initial write-down of loans but will gain a corresponding reduction in risk weighted assets as a result of the transfer);
- optional participation of banks is proposed but the participating banks will not be able to select which loans in particular portfolios are transferred to NAMA; legislation is to be introduced to provide NAMA with a mandatory power to acquire assets from the participating banks to ensure cooperation of banks and to overcome any legal difficulties with assignment of loans;
- on the winding-up of NAMA, any profits made by NAMA will accrue to the State and if NAMA makes a loss, the Irish government will apply a levy to the banks to recoup the shortfall;

- it is intended that the borrowers under the eligible loans cannot opt out of the transfer scheme and will not be entitled to prevent their loans from being transferred to NAMA; and
- all loans are to be transferred on their existing terms and conditions to optimise the return on the portfolio over time; accordingly, NAMA will have the benefit of cross-collateralisation and guarantees contained in the loan contracts.

Any specific details of the NAMA initiative have not been provided. The initiative will be developed and implemented within the common EU framework detailed in the EU Commission Guidance on the Treatment of Impaired Assets, working closely with the European Commission to obtain prior State aid approval. Legislation setting up NAMA and establishing the transfer scheme is stated as the Irish government priority and is expected to be introduced "before the summer". The NAMA management structures is to be put in place in parallel with the drawing up of this legislation.

There are a few issues which will require clarification and detailed regulation, concerning in particular, the valuation to be applied to loans which will have to protect taxpayers, ensure banks can remain viable after the write-downs and will comply with EU State Aid requirements.

Following the government's announcement, Citigroup has prepared a report in which it estimated that the write-downs would crystallise pre-tax losses of EUR 7.9bn at AIB in 2009, and EUR 5bn at BOI as a result of which both banks will most likely need a further capital injection of AIB - EUR 2.1bn and BOI - EUR 1.2bn, resulting in both banks being majority government owned.

Further information about NAMA is available at: http://www.nama.ie

Notable developments with commercial banks

Anglo Irish Bank Corporation plc

On 21 January 2009 the Anglo Irish Bank Corporation Act 2009 was passed into law, under which Anglo Irish Bank Corporation plc ("Anglo") was nationalised by the Irish government. As part of the nationalisation process:

- Anglo has become a private company limited by shares under the name "Anglo Irish Bank Corporation Limited"; and
- the law provides that any listing of shares of Anglo are discontinued without the need for any further notices or consents. Both the Irish Stock Exchange and the UK Listing Authority moved to suspend trading in Anglo shares in Dublin and London on Friday, 16 January 2009.

The principal areas covered by the Anglo Irish Bank Corporation Act 2009 are:

- the transfer to the Minister for Finance of all of the shares in Anglo;

- the appointment of an assessor to determine the level of compensation, if any, to be paid to the former shareholders of Anglo upon the transfer of their shares to the Minister for Finance. (the assessor is to determine the value of Anglo shares as at 15 January 2009 taking into account a number of considerations, including the market value of Anglo's assets and liabilities);
- arrangements whereby default clauses in contracts to which Anglo or any of its subsidiaries is a party which would otherwise be triggered by the provisions of the Act have no effect except to the extent authorised by the Minister for Finance (the extent to which this provision can affect agreements which are not governed by Irish law is to be explored);
- the right of the Minister for Finance to remove and appoint directors, secretaries and employees of Anglo and its subsidiaries; and
- the disapplication in relation to Anglo of certain provisions of Irish law, in particular provisions of the Companies Act, 2002.

On 14 January 2009, the European Commission has approved the EUR 1.5bn emergency recapitalisation of Anglo by the Irish authorities. On 17 February 2009, the European Commission confirmed it had no objection to the Irish government nationalising Anglo as no state aid was linked to the move.

Irish Nationwide Building Society

On 16 April 2009, Irish Nationwide Building Society ("**INBS**") reported a loss after tax of EUR 243m for 2008 year, after charging EUR 464m to cover expected losses from loans. Its ability to remain a going concern depends on government support.

In the report statement, INBS said that, with reserves of EUR 1.2bn and continuing support from the Irish government, the institution can achieve the objectives in its business plan "to continue as a viable and systematically important credit institution". INBS said its ability to raise funding "on a continuing basis" depended on the State guarantee, which costs it about EUR 20m a year. INBS has EUR 2.23bn of debt maturing in 2009 and plans to repay this through the reduction of its loan book, the securitisation of loans and the issue of new notes.

Bank of Ireland

On 25 March 2009, BOI and the European Investment Bank ("**EIB**") signed a EUR100m loan facility, which allows BOI access to credit lines to fund SMEs or small scale infrastructure projects. The EUR 100m Business Investment Fund has been available from April 2009 to BOI's new and existing SME customers at a discounted interest rate. The fund forms part of a series of initiatives offered by BOI in support of the SME sector.

Allied Irish Bank

On 25 March 2009, AIB announced that it had secured a deal with the EIB to provide a EUR 100m fund for investment projects by SMEs. AIB launched its EIB loan fund on the 6 April 2009, offering loans to all SME customers in Ireland at a very competitive variable interest rate.

On 20 April 2009, AIB announced a plan to increase its core tier 1 capital by a further EUR 1.5bn (beyond the EUR 3.5bn capital injection by the Irish government) in order to sufficiently strengthen its capital position. Potential sources of the additional capital are to include the disposal of assets and "marketable assets will be considered as part of this process". In its statement, AIB acknowledged that any further capital injections required from the State would be in the form of equity capital and confirmed its support for the NAMA initiative in which AIB intends to participate.

Covered institutions

Report on disclosure of directors' loans in covered institutions

Following the discovery in January 2009 at Anglo of issues relating to the removal from the bank and reduction of directors' loans at year-end to avoid disclosure of the loans in the bank's financial statements, the Financial Regulator has conducted a review of loans to directors and connected parties at six of the covered institutions (excluding Anglo which is subject to a separate on-going investigation). The review primarily focused on the accuracy of disclosure in relation to directors' loans in the financial statements of the six covered institutions and their parent companies. On 3 March 2009, a report on disclosure of directors' loans in covered institutions was published which found that all credit institutions subject to the review provided loans to directors of various types, according to the business of the credit institution; however, no evidence was found in the six covered institutions of the removal or reduction of loans at the year-end to avoid disclosure in the financial statements. Following the review, the Financial Regulator issued new requirements with regard to the disclosure of information regarding directors' loans in the annual accounts of Irish banks and buildings societies and informed relevant credit institutions of the matters raised during the examination and the new disclosure requirements.

The full text of the report is available at: http://www.financialregulator.ie/press-area/press-releases/Documents/Directors%27%20Loan%20Report.pdf

Summary of proposed/new key legislation/regulation

On 16 October 2008, the Financial Regulator announced that, on a temporary and exceptional basis, it would permit money market funds to derogate from the requirement to carry out a weekly review of discrepancies between the market value and the amortised cost value in respect of certain money market instruments with a residual maturity of three months and under. Accordingly, certain money market instruments may be valued at amortised cost.

Codes of Conduct

On 13 February 2009, the Financial Regulator issued two new codes of conduct which introduce minimum lending standards for Irish regulated entities:

- the Code of Conduct for Mortgage Arrears (the "Mortgage Code") which came into effect on 27 February 2009; and

- the Code of Conduct for Business Lending to Small and Medium Enterprises (the "SME Code") which came into effect on 13 March 2009.

The Mortgage Code builds on an existing voluntary code of practice issued by the Irish Banking Federation and incorporates a requirement for the lenders to grant at least six months grace period to the mortgagors in arrears before taking legal action.

The SME Code applies to all regulated entities such as banks, building societies and retail credit providers. The Code includes a requirement for banks to offer business customers annual review meetings, to inform customers of the basis of their decisions and to have written procedures for the proper handling of complaints.

Both codes are drafted with the aim to provide a list of high-level principles together with some detailed rules and allowing each regulated entity to individually interpret the codes, implement them and apply their provisions. Both codes emphasise the importance of retaining proper records, implementing documented procedures and appropriate handling of client complaints. They are both issued under Section 117 of the Central Bank Act 1989 which provides for criminal sanctions for a breach and enables the Financial Regulator to impose administrative sanctions regime.

Other developments

Credit ratings

Moody's

On 30 January 2009, Moody's lowered the Irish government's AAA debt-rating outlook from 'stable' to 'negative' and warned Ireland was in danger of losing its AAA sovereign debt rating. Ireland has therefore become the first western European country to have its top credit rating given a negative outlook by Moody's.

On 8 April 2009, Moody's downgraded ratings on 12 Irish banks as a result of an increase in expectation of losses on bank loan portfolios due to continued deterioration in real estate prices, the likelihood of more corporate defaults and the erosion in residential loan performance. Both AIB and BOI had their Bank Financial Strength Rating (BFSR) downgraded to D with a "developing outlook", from C with "negative outlook". The banks which had their rating downgraded include also: ICS Building Society, EBS Building Society, Irish Life & Permanent, Ulster Bank Limited, Ulster Bank Ireland, First Active, Bank of Scotland (Ireland), KBC Bank Ireland, Zurich Bank and Irish Nationwide Building Society.

Standard & Poor's

In January 2009, Standard & Poor's cut its outlook for Ireland's sovereign debt to negative from its previous stable rating.

Fitch Ratings

On 8 April 2009, Fitch Ratings lowered the Republic of Ireland's long-term foreign and local currency Issuer Default Rating (IDR) to 'AA+' from 'AAA', affirmed the short-term foreign currency IDR at 'F1+' and affirmed the Country Ceiling at 'AAA'. The Outlook on the long-term IDR was revised to "negative".

Short selling

The Financial Regulator has amended the Market Abuse Rules to introduce provisions to prohibit short selling of stocks on Irish publicly quoted banks which came into force from on 18 September 2008. Under the new regulation, a person, other than a market maker, may not enter into any transaction, transactions or arrangements which have the effect of generating a net economic benefit which would arise from a fall in the price of the shares of either the Governor and Company of the Bank of Ireland, Allied Irish Banks Plc, Irish Life and Permanent Plc or Anglo Irish Bank Corporation Plc.

Further, by 3.30pm on each business day from 23rd September 2008 each person who has on that day an economic interest involving 0.25 per cent. or more of the issued share capital of any of the above financial institutions, shall make disclosure to a Regulatory Information Service setting out the name of the person who has the position, the company in which the position is held and the amount of that position.

These above measures are under continuous review and the Financial Regulator may issue guidelines on application of these rules as required.

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