Minister for Finance Statement on Banking
Supplementary Documentation
30 March 2010

Table of Contents **Page**

Section

LEGAL NOTICE

SECTION 1

NAMA Overview of Transfer of 1st Tranche of Loans

NAMA Update

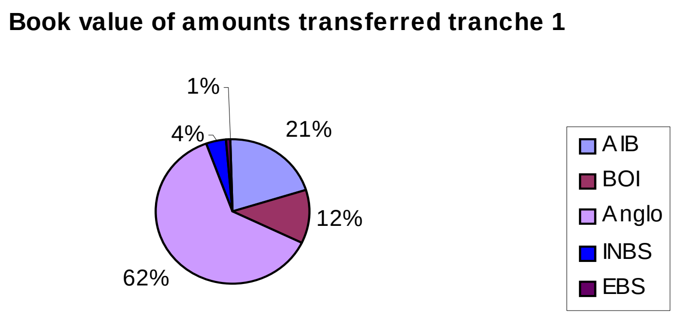
- NAMA was established on 21st December 2009.
- The Board were appointed on 22nd December 2009.
- The European Commission approved the establishment of NAMA on 26th February 2010.
- The revised valuation regulations taking account of EU Commission approval were published on 5th March 2010.
- The first tranche of loans identified for transfer to NAMA are the loans relating to the 10 largest Land & Development borrowers of the participating institutions.
- The participating institutions are confirmed as AIB, Bank of Ireland (BOI), Anglo, EBS and Irish Nationwide Building Society (INBS).
- Acquisition schedules for the first tranche of loans were served to participating institutions in March 2010.
- The transfer of the first loans to NAMA took place on 29th March 2010. The first tranche from Anglo will not transfer until early April as their valuations have not been finalised so their figures are the latest available and as such are estimated and unaudited. All of the other participating institutions first tranche valuations will be completed and ready for transfer this week.
- It is anticipated that the second tranche will transfer to NAMA by May 2010.
- NAMA is still on target for completion by the final quarter 2010.

- It is now envisaged that approximately €81 billion of loans will transfer to NAMA. Section 50 of the NAMA legislation places a limit of €54 billion on the total consideration to be paid by NAMA for the loans regardless of the nominal amounts involved. This limit can only be amended by a positive resolution by the Dáil. The Minister has no intention of adjusting this figure at this time.

Book value of total estimated loans for transfer	
	€ bn
AIB	23
BOI	12
Anglo	36
INBS	9
EBS	1
Total	**81**

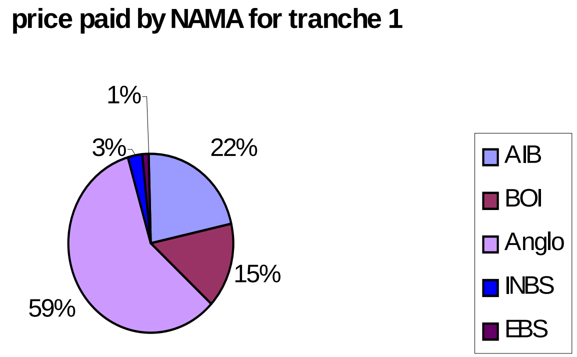
NAMA 1st tranche of loans transfer from participating institutions

Book value of amounts transferred tranche 1	
	€ bn
AIB	3.29
BOI	1.93
Anglo	10.00
INBS	0.67
EBS	0.14
Total	**16.03**



Price paid by NAMA for tranche 1	
	€ bn
AIB	1.88
BOI	1.26
Anglo	5.00*
INBS	0.28
EBS	0.09
Total	**8.51**

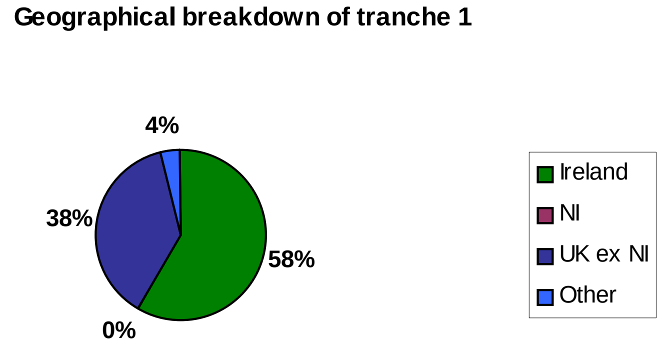
***Estimate; every 1% increase in haircut reduces price paid by NAMA for tranche 1 by €100m**



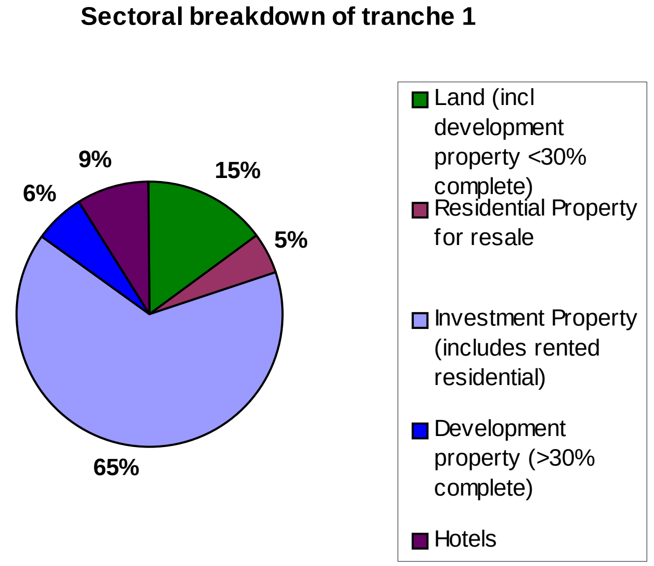
Breakdown of NAMA payments: 95% of the Tranche 1 payment by NAMA was in the form of bonds and 5% was through the issue of subordinated debt.

Geographic and sectoral breakdown of tranche 1 across all institutions

Geographical breakdown of tranche 1	
	€bn
Ireland	4.94
NI	0.00
UK ex NI	3.24
Other	0.34
Total	**8.51**



Sectoral breakdown of tranche 1	
	€bn
Land (incl development property <30% complete)	1.28
Residential Property for resale	0.43
Investment Property (includes rented residential)	5.53
Development (>30% complete)	0.51
Hotels	0.77
Total	**8.51**

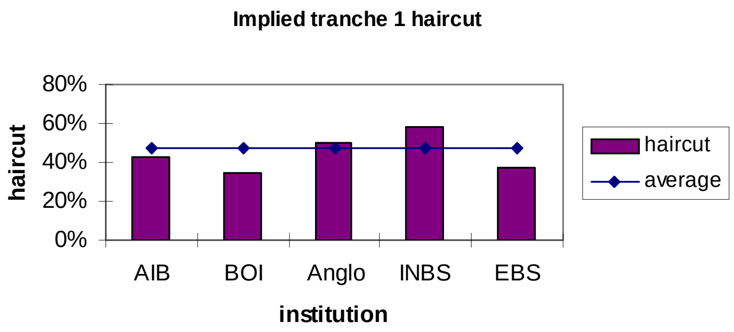


The underlying data supporting the calculation of the above percentage breakdowns reflects a total of all loans currently being processed and may differ from the final percentages to be presented.

Loan haircut\discount on the 1st tranche

Implied haircut on tranche 1	
	%
AIB	43%
BOI	35%
Anglo	50%*
INBS	58%
EBS	37%
Average	**47%**

***Estimate; every 1% increase in haircut reduces price paid by NAMA for tranche 1**



Explanation: The average discount that emerged on the first tranche of loans at 47% is larger than the industry wide average 30% discount estimate in the NAMA Business Plan for the whole portfolio of NAMA loans. The main reasons for this are:

- Market prices fell between end-August and 30 November 2009, which is the NAMA valuation date.
- The figures published in mid September 2009 were based on aggregate data provided by the institutions. The figures here reflect the results of individual loan valuations following extensive due diligence and individual property valuations by NAMA.
- The underlying legal security, when examined in due diligence, was of variable quality.

- The NAMA due diligence process highlighted that the original loan to value ratio were in some cases higher than estimated by some institutions in September 2009.

SECTION 2

Overview on Transfer to NAMA and Impact on Participating Institution

Illustration of Tranche 1 transfer to NAMA

	€bn
AIB	*1.88*
BOI	*1.26*
Anglo	*5.00**
INBS	*0.28*
EBS	*0.09*
NAMA consideration	**8.51**

***Estimate; every 1% increase in haircut reduces price paid by NAMA for tranche 1 by €100m**

AIB

	€bn
Gross loans	3.29
Haircut	-1.41
NAMA consideration	**1.88**

EBS

	€bn
Gross loans	0.14
Haircut	-0.05
NAMA consideration	**0.09**

NAMA

	€bn		€bn
Purchase price	8.51	NAMA bonds issued	8.08
Working Capital	0.1	Sub debt issued	0.43
		Capital	0.10
Assets	**8.61**	**Liabilities**	**8.61**

BOI

	€bn
Gross loans	1.93
Haircut	-0.67
NAMA consideration	**1.26**

INBS

	€bn
Gross loans	0.67
Haircut	-0.39
NAMA consideration	**0.28**

Anglo

	€bn
Gross loans	10.00
Haircut	- 5.00*
NAMA consideration	**5.00**

***Estimate; every 1% increase in haircut reduces price paid by NAMA for tranche 1 by €100m**

SECTION 3

Illustrative Balance Sheet

Illustrative balance sheet

The balance sheets below have been prepared to illustrate how the transfer of assets to NAMA impacts the balance sheet and capital requirements of a bank in which the State holds preference shares. The information provided is **not** typical of any one of the financial institutions participating in NAMA and is for illustrative purposes only.

1. Balance Sheet (prior to NAMA and capital raising exercise)

Assets		Liabilities	
	€		**€**
Loans	80.0	Funding	94.5
Other assets	20.0		
		Capital	
		Equity	5.0
		Preference shares	0.5
Total assets	**100.0**	**Total liabilities**	**100.0**

Capital ratios	€
Risk weighted assets (RWA)	60
Equity ratio	8.3%
Core tier 1 ratio	9.2%

NAMA transfers	€
Gross loans	10.0
Haircut (40%)	-4.0
NAMA Bonds issued	6.0
Comprising	
- Government Guaranteed	*5.7*
- Subordinated debt	*0.3*

The table above shows a simplified version of a balance sheet before the transfer of any loans to NAMA. As is clear from above the theoretical institution has a core tier 1 ratio of 9.2%.

All of the bank's "other assets" of €20 are assumed to be liquid assets. This would be kept in various forms such as government bonds, cash etc. so as to cover possible withdrawals/outflows of customer deposits and other market/wholesale funding from the other side of the balance sheet.

2. Balance sheet (after NAMA)

Assets		Liabilities	
	€		**€**
Loans	70.0	Funding	94.5
NAMA guaranteed bonds	5.7		
NAMA sub debt	0.3		
Other assets	20.0	**Capital**	
		Equity	1.0
		Preference shares	0.5
Total assets	**96.0**	**Total liabilities**	**96.0**

	€
Equity (at step 1)	5.0
Haircut	-4.0
Equity (after step 2)	1.0

Capital ratios	€
Risk weighted assets (RWA)	50
Equity ratio	2.0%
Core tier 1 ratio	3.0%

	€
RWA (1)	60
NAMA loans	-10
RWA (2)	50

The table above shows the bank's balance sheet after the transfer of the first tranche of assets to NAMA and the impact of this loss on shareholders equity. The bank's level of liquid assets is higher as a result of the addition of the NAMA bonds (€26 vs. €20).

As the guaranteed NAMA bonds are repo-able with the ECB they can be turned into cash if necessary. This further de-risks the bank making it a safer entity to lend to or deposit funds with.

After the transfer of loans to NAMA, the bank has a smaller amount of loans on its books (€70 vs. €80). The identified riskiest portfolio of assets has been removed from the bank's balance sheet.

3. Balance sheet (after NAMA and new equity)

Assets	€	Liabilities	€
Loans	70.0	Funding	94.5
NAMA guaranteed bonds	5.7		
NAMA sub debt	0.3		
Other assets	22.5	**Capital**	
		Equity	3.5
		Preference shares	0.5
Total assets	**98.5**	**Total liabilities**	**98.5**

	€
Equity (after step 2)	1.0
New Equity*	2.5
Equity (after step 3)	3.5

** New equity could come from disposals, private sources or conversion of State preference*

Capital ratios	€
Risk weighted assets (RWA)	50
Equity ratio	7.0%
Core tier 1 ratio	**8.0%**

Once the bank has adequate capital following a recapitalisation it makes economic sense for the bank to use this surplus liquidity to increase lending, as it generates a higher return from doing so.

Assumptions:

i. *Figures for illustrative purposes only. They do not represent the actual position for any financial institution*
ii. *Bank has not taken any write-downs on NAMA loans before transfer*
iii. *New equity raised from shareholders is €2.5*
iv. *Risk weighted assets are less than total loans as some of bank's loans are low risk e.g. mortgages*
v. *NAMA loans are 100% risk weighted as are seen as risky*
vi. *Equity ratio = equity/risk weighted assets*
vii. *Core tier 1 ratio = equity + preference shares/risk weighted assets*
viii. *Regulator in this example sets new target of 7% equity and 8% core tier 1*
ix. *Ignores any impact of FR stress test*
x. *Shows only impact of NAMA transfers and not the impact from non NAMA losses*
xi. *Tax is ignored*

SECTION 4

Credit Supply

Credit Package – new commitments being announced today

Banks' Commitments to SME sector

The major concern of the Government, in acting to stabilise the banking sector, was to ensure that Irish businesses could continue to have access to the credit and financial services that they need. For that reason the Government have already taken action to require banks to (i) make funding available for SME lending; (ii) to provide earmarked funds for Seed Capital and Environmental and Clean Energy investment, and (iii) to fund the Mazars reports. A Code of Conduct for SME lending has also been brought into force.

As the process of dealing with the financial crisis moves to a new stage, it is important to ensure that banks play their part in making available the essential financing for real economic activity and provide good and viable businesses with the funding they need to survive and prosper. Additional commitments on the part of the banks are therefore being required by the Government.

These commitments will apply to AIB and Bank of Ireland as business lenders benefiting from NAMA and recapitalisation. Details of the commitments and outcomes under the 2009 recapitalisation are included in this Section.

Making Funding Available

AIB and Bank of Ireland are to make available not less than €3 billion each for new or increased credit facilities including working capital targeted at SMEs in the real economy in both 2010 and 2011.

Each bank will make available €20m for Seed Capital to be provided to Enterprise Ireland supported ventures, building on the very successful programme launched in 2009.

Each bank will make available up to €100m for Environmental, Clean Energy and Innovation Funds, additional to the €100m each made available as part of the 2009 recapitalisation.

Detailed Lending Plans

In line with the Renewed Programme for Government, both banks will be required to prepare SME lending plans, broken down by sector and geography for 2010 and 2011, in line with the €3bn target. The plans are to be submitted to the Department of Finance within 6 weeks. These will be reviewed by Mr. John Trethowan, who will be examining bank SME lending policies generally as part of his remit as Credit Reviewer, to ensure that the plans reflect a realistic contribution to economic recovery, future growth and job creation. Government will decide, following his review, whether further action on lending targets is needed.

Making Bank Lending Serve the Economy Better

Irish bank lending has been heavily concentrated on property, both as an investment and as collateral for other business lending. Increasingly growth in the economy is coming from services and high tech. sectors and different banking skills are needed to support companies in these sectors. Each bank will therefore be required to –

- ⇨ commit resources to work with Enterprise Ireland and the IBF to develop sectoral expertise in the modern growth sectors of the Irish economy

- ⇨ explore with Enterprise Ireland and the IBF how best to develop the range of banking services that Irish SMEs trading internationally will need.

- ⇨ develop expertise and bring forward new credit products in areas where cashflow, rather than property or assets, is the basis for business lending

Both banks will report to Government each quarter on progress with these measures.

Credit Review Process

The Government is seriously concerned about reports of viable businesses being refused the credit facilities that they need. The independent Credit Review process is being introduced to address this issue. Guidelines, under S210 of the NAMA Act, are being issued which institutions participating in NAMA must comply with, creating a Credit Review process which will:

- Allow SME’s, sole traders, and farmers, where credit is refused or withdrawn, to apply for an independent review of the banks decision.

- Provide for a review of banks lending policies and procedures

The review process covers all applications for new loans or restructured credit facilities, or credit withdrawals, from €1000 up to €250,000 and is available to SMEs, sole traders and farm enterprises. Where the Reviewer recommends that credit should be granted, the bank is required to comply with the recommendation or explain why it will not do so. The Reviewer will prepare a regular analysis of applications for review and their outcomes, including the number of claims for review, the number of valid claims for review, the reasons for invalid claims, whether or not and to what extent each participating institution complied with the recommendations and their explanations for not complying. The analysis will be provided to the Minister for Finance who may publish it.

In addition to examining individual cases, the Reviewer will examine the lending policies of the banks, taking account of the perspective of particular sectors, and report to the Minister for Finance on whether the needs of the various sectors are being met.

Mortgage Arrears and Personal Debt Review Group

The Government is acutely aware of the incidence of mortgage arrears and other debt problems at this time and already has a number of measures in place to assist those in difficulty. The Minister for Finance announced, on 25 February, the setting up of a revamped Group, under an independent Chair, and bringing in additional expertise, to address the commitments in the Renewed Programme for Government on these issues. The work of the Group is well under way.

Membership

Chair: Hugh Cooney, an insolvency accountant with BDO Simpson Xavier.

Matthew Elderfield, CEO Financial Regulator

David Duffy, ESRI, author of report on Negative Equity

Pat Farrell, Irish Banking Federation

Tom Foley, retired banker

Paul Joyce, FLAC

Patricia Rickard-Clarke, Law Reform Commission

Brendan Burgess, www.askaboutmoney.ie

Senior officials of the Department of Finance, Department of the Taoiseach, Department of Justice, Equality and Law Reform, Department of Social and Family Affairs and Department of Environment, Heritage and Local Government .

Terms of Reference

- Having regard to the commitments in the Renewed Program for Government to protect the family home and help those in personal debt to make recommendations to the Minister for Finance on options for improving the current situation for families with mortgage arrears and personal debt. Such recommendations to be issued on a rolling basis as appropriate.

- To bring together the latest information held by relevant government departments and elsewhere on mortgage arrears and personal debt.

- To consult with experts both within and outside the group where necessary regarding latest facts regarding the mortgage arrears and personal debt problem.

- To make recommendations to the Financial Regulator in relation to the Code of Conduct on mortgage arrears.

- To take account of the proposed Review of the Operational Protocol between the IBF and MABS and to submit observations and recommendations to that Review.

- To examine the state support schemes and to make recommendations as appropriate for improvement having taken into account Mortgage Support Schemes in operation in other jurisdictions.

- To have regard for the ongoing deliberations by the Law Reform Commission on personal debt. In particular, to consider how to reform personal insolvency and bankruptcy regulations and to establish as far as possible how non-judicial settlement proceedings can be formulated.

- To take account of the Report on indebtedness by the Joint Committee on Social and Family Affairs together with the ESRI report on negative equity in the Irish housing market.

Credit Package 2009

As part of the recapitalisation of AIB and Bank of Ireland in February 2009, a package of measures, to be put in place by the banks, was agreed. Banks report quarterly on their compliance with the agreement and their reports are examined by the Financial Regulator.

A detailed note on each bank based on the quarterly reports is shown on the following pages.

SME Lending

The bank's obligation was to make further credit available, rather than to reach a specified level of lending. Both banks reported that they made funding available to meet this requirement, although actual lending levels remained well down on 2008. As was made clear by the Mazars Reviews, demand for credit from SMEs was down on previous levels.

Nevertheless, the figures show a significant flow of SME lending for 2009. BOI report drawdown of €2.5bn, while AIB report €2.5bn "additional credit sanctions". It is clear that credit drawdown/approvals were substantially down on 2008, but the amounts are still substantial and represent a significant level of activity.

Mortgage lending

Following the downturn in the property market, the Government was particularly concerned about the position of First Time Buyers. Increased capacity for FTB lending was specified in the recapitalisation agreements with both institutions.

IBF statistics for all mainstream mortgage lenders show that overall mortgage lending to FTB fell by 36% in 2009 over 2008, although the pace of decline moderated in the last six months of the year. In this market of retrenchment, AIB and Bank of Ireland continue to lend substantial monies and grow market share. For 2009 as a whole, Bank of Ireland were slightly down (3% year on year) for the number of mortgages drawndown but the latter part of the year showed a significant turnaround with FTB drawdown numbers up by 48% year on year in Q4. AIB increased the number of drawdowns by 42% for all of 2009 over 2008.

Other Aspects

The recapitalisation agreements contained a number of other requirements designed to ensure the continued flow of credit to sound businesses, support for environmental improvements, assure better treatment for business and mortgage customers through the statutory Codes of Conduct, support for better financial education and introduce Basic Bank Accounts.

Bank of Ireland Update on 2009 Recapitalisation Credit Package

SME Lending Capacity

As part of the original recapitalisation agreement, Bank of Ireland committed to providing an additional 10% capacity for lending to SMEs in 2009.

Bank of Ireland has confirmed that there are no lending constraints regarding the provision of SME loans.

Bank of Ireland introduced a business support fund of €250m for SMEs in December 2008. In March 2009, the Bank introduced a €100 million Loan Fund supported by the European Investment Bank, targeted at investment projects that support business expansion.

The total amount of lending to SMEs[1] in 2009 was €2.53 billion. Lending to the SME sector during 2009 was as follows:

SME Lending[1] – Core & Non Core SME Branch Term Lending Drawdowns €'m			
	Core SME	**Non Core Prop / Dev**	**Total SME**
Quarter 1 2009	**384**	**153**	**537**
Quarter 2 2009	**586**	**277**	**863**
Quarter 3 2009	**384**	**121**	**505**
Quarter 4 2009	**465**	**163**	**628**
Total	**1,819**	**714**	**2,533**

[1]Excludes lending to Personal (Private Households) of €357m. Core SMEs include all "trading" businesses and exclude property and related activities. Non Core SMEs include property, speculation and related activities. Source: Bank of Ireland

The number of business current accounts opened in 2009 was c.23,500, a reduction of 13% on the 2008 figure of c.27,000.

Independent Review of Credit Availability

Bank of Ireland has been an active contributor in both independent reviews of credit availability, being fully engaged with the process leading to the publication of the first Mazars report on 10th July 2009 and the second on 22nd December 2009.

Venture Capital Funding

Launched in conjunction with Enterprise Ireland and the University of Limerick, the €26m Bank of Ireland Seed & Early Stage Equity Fund has been operational from November 2009, with a strong response being received from regions across Ireland.

Code of Conduct for Business Lending

Bank of Ireland participated with the Financial Regulator in the development of the Code of Conduct for Business Lending in early 2009. In complying with the Code, Bank of Ireland has made a number of changes to relevant documentation and processes, followed by additional training and awareness testing. An ongoing monitoring plan has also been put in place to ensure the Bank's compliance with the Code.

Environmental Funds

Bank of Ireland has established two such funds, a €100 million Environmental Fund for environmental project finance and a €100m Green Business Loan for SMEs.

First Time Buyer Mortgages

Bank of Ireland as part of the original recapitalisation committed to providing an additional 30% capacity for mortgage lending to First Time Buyers. A First Time Buyer fund of €1 billion was launched in February 2009, with a second fund of €1bn launched in February 2010. The total number of First Time Buyer drawdowns in 2009 was approximately 3,463, totalling €707million. The second half of the year performed better than the previous year, with 2,206 drawdowns (number) (+28% YoY), representing a value of €449m (+9% YoY).

Mortgage Performance - 2009	Q1 2009	Q2 2009	Q3 2009	Q4 2009	Total
FTB Drawdowns (number)	**467**	**790**	**1,088**	**1,118**	**3,463**
FTB Drawdowns (value €m)	**106**	**152**	**217**	**232**	**707**
FTB Drawdowns % (number)	**20%**	**26%**	**30%**	**34%**	**28%**
FTB Drawdowns % (value)	**25%**	**31%**	**36%**	**40%**	**34%**

Source: Bank of Ireland

The number of First Time Buyer drawdowns and the amounts involved have increased in 2009 and First Time buyers took up a higher percentage of overall mortgage lending. The number of First Time Buyer approvals for December 2008 was 292, with a value of €69m, while in June 2009 there were 492 approvals, with a value of €107m, and in December 2009 there was 411, with a value of €86m.

Mortgage Arrears

Bank of Ireland has confirmed that it is acting in accordance with the Code of Conduct on Mortgage Arrears which was published by the Financial Regulator in February 2009.

Prompt Payment

Bank of Ireland is fully committed to prompt payment of suppliers and continues to implement a programme of activities that ensures payment within agreed timeframes. A process to ensure 'late payment' interest where appropriate is also now in place.

Financial Inclusion

In addition to its commitments in respect of the **Credit Package**, Bank of Ireland has progressed the implementation of the broader commitments made as part of the Recapitalisation agreement in respect of financial inclusion:

Bank of Ireland is fully committed to the introduction of a basic bank account and has participated in meetings on its introduction.

The Bank is an active participant in the IBF working group tasked with reporting on the Corporate Social Responsibility section of the Government Guarantee Scheme. Financial

Education is included as one of the headings of this report. The second report was published in September 2009 and includes in its appendix details on current financial education programmes for each of the covered institutions.

AIB Update on 2009 Recapitalisation Credit Package

SME Lending Capacity

In the context of the original recapitalisation, AIB committed to providing an additional 10% capacity for lending to SMEs in 2009. The total amount of lending to SMEs at the end of 2008 was €13.8 billion and AIB has sanctioned an additional €2.5 billion in credit facilities during 2009. The total amount of lending outstanding at the end of December 2009 was €13.1 billion. The change from year end 2008 to year end 2009 takes account of additional drawdowns, interest charged and repayments by customers and does not incorporate provisions for impaired loans.

Sanctions to the SME sector during 2009

	Number	Value €million
Q1 2009	**16,059**	**746**
Q2 2009	**12,890**	**568**
Q3 2009	**13,018**	**538**
Q4 2009	**14,797**	**655**
Total 2009	**56,764**	**2,507**

Source: AIB

Independent Review of Credit Availability

AIB continues to contribute to the funding of the independent review of credit availability and is fully engaged with IBF and Mazars with regard to this matter.

Venture Capital Funding

The AIB Seed Capital Fund in the amount of €23m was formally launched in December 2009. This comprises a contribution of €15 million from AIB and €8 million from Enterprise Ireland. This fund is now active and is receiving applications from entrepreneurs.

Code of Conduct for Business Lending

AIB completed changes to documentation, procedures and training by June 2009 and in Quarter 3 2009 the required IT system changes were implemented to comply with the September deadline specified by the Financial Regulator.

Credit for Suppliers to Major Projects

AIB worked closely with Enterprise Ireland throughout 2009. A small number of individual cases were highlighted and these have been addressed through the agreed structures.

Environmental Fund

Promotion of AIB's environmental lending initiative has taken place through the new 'Add More Green' brochure and the AIB website. During 2009, 53 loans to the value of €13 million were sanctioned.

First Time Buyer Mortgages

AIB committed to providing an additional 30% capacity for mortgage lending to First Time Buyers. The number of First Time Buyer sanctions in 2009 showed an increase of 50% on 2008.

First Time Buyer Mortgage Sanctions

	2008	2009	% change
Number	**3,114**	**4,670**	**50%**
Value	**€769m**	**€1,043m**	**36%**

Source: AIB

First Time Buyer Mortgage Drawdowns

	2008	2009	% change
Number	**2,634**	**3,752**	**42%**
Value	**€618m**	**€818m**	**32%**

Source: AIB

Mortgage Arrears

AIB is operating in accordance with the Code of Conduct on Mortgage Arrears and has extended the waiting period in relation to the commencement of court proceedings to 12 months.

Prompt Payment

AIB has processes in place to ensure payments are made to vendors of goods and services within 30 days of receipt of invoice by AIB.

Financial Inclusion

Basic Bank Account: AIB is extensively involved in the progression of the National Payments agenda and has contributed to the Report of the Advisory Group on the National Payments Implementation Programme which was presented to the Minister for Finance in July 2009. Consideration of the Basic Bank Account proposal was included in this report. AIB is awaiting the conclusion of final discussions between the Department of Finance and IPSO relating to the terms of reference and deliverables of the proposed National Payments Task Force.

Financial Education: AIB is a participant in the Irish Bankers Federation (IBF) Working Group established in response to the report of the National Steering Group on Financial Education. AIB along with Bank of Ireland, IBF and the Institute of Bankers participate in a stakeholder group charged with the development and implementation of a Workplace Programme. Participation in this programme will meet part of the requirement to support and develop financial education for consumers.

Customer Communications/Transparency: AIB reverted to the Financial Regulator in December 2009 setting out details and timescales for implementation of AIB proposals on this matter.

STATUTORY INSTRUMENTS

S.I. No. 127 of 2010

Guidelines issued under section 210(1) of the National Asset Management Agency Act 2009 regarding lending practices and procedures and relating to the review of decisions of participating institutions to refuse credit facilities.

Issued by the

Minister for Finance

I, Brian Lenihan, Minister for Finance, in exercise of the powers conferred on me by section 210 of the National Asset Management Agency Act 2009 (No. 34 of 2009), hereby issue the following guidelines:

Outline

1. These guidelines are issued with the intention of encouraging and increasing the supply of credit to viable borrowers (that is, borrowers who have the capacity to service their loans) for business purposes.

Definitions

2. “Credit facility”: Any form of credit including (but not limited to) loans, term loans, overdrafts, finance and leasing arrangements and invoice discounting.

“Credit reviewer”: The person appointed by the Government to review decisions to refuse credit facilities.

“Borrower”: an applicant for credit facilities, including one who has been refused and including persons acting on behalf of the applicant.

“SME”: a business that meets one or more of the following criteria: it has fewer than 250 employees, it has an annual turnover of less than €50 million, it has a balance sheet value of less than €43 million.

“Refusal” includes a decision by a participating institution to reduce or withdraw an existing credit facility.

Eligibility

3. An SME, including a farm enterprise or sole trader, may apply for a review of a decision by a participating institution to refuse credit facilities or to restructure existing credit facilities.

Exclusion from right of review

4. The following applications and decisions are not reviewable under these guidelines:

a. Decisions by participating institutions to refuse applications for credit facilities because of EU State Aid rules,

b. Decisions by participating institutions to refuse applications for credit facilities in excess of €250,000,

c. Applications for credit facilities of less than €1000,

d. Decisions notified to borrowers before the issue of these guidelines.

Constructive refusal

5. Where a decision on an application for a credit facility is not given by the participating institution within 15 working days, this shall be regarded as constructive refusal and the borrower may apply for review to the Credit Reviewer.

6. Where a borrower considers that the terms or conditions attached to a credit facility or its price are so onerous as to amount to a constructive refusal, the borrower is entitled to apply for a review. The Credit Reviewer shall issue guidance on the reasonableness of terms, conditions and pricing.

Review of decisions

7. The Credit Reviewer shall review a decision that is eligible for review under these Guidelines on application by the borrower concerned. This review shall be investigative in nature. The Credit Reviewer may investigate and carry out any inquiries and collect information in any form he chooses. The Credit Reviewer is not bound by the normal rules of evidence. The review process shall be conducted with as little formality as possible and as expeditiously as possible. Any formality that is necessary to the process shall be to the smallest degree possible.

8. In carrying out a review, the Credit Reviewer shall take all reasonable precautions and put suitable systems in place to prevent the disclosure of confidential information obtained in the course of the review to any other person unless authorised to do so or in the opinion of the Credit Reviewer required to do so in the course of and in accordance with his duties.

Lending policies

9. The Credit Reviewer shall review the lending policies of each participating institution, including taking account of the perspective of particular sectors, and shall report to the Minister for Finance on whether those needs are being met.

Analysis of outcomes of Credit Reviewer's recommendations

10. The Credit Reviewer shall prepare a regular analysis of applications for review and their outcomes, including the number of claims for review, the number of valid claims for review, the reasons for invalid claims, whether or not and to what extent each participating institution complied with the recommendations and their explanations for not complying.

11. Participating institutions shall maintain, and supply to the Credit Reviewer on request, any records necessary for this analysis. The Credit Reviewer shall provide this analysis, or such other analysis as the Minister for Finance may request, to the Minister for Finance, who may publish it.

Powers

12. The Credit Reviewer shall have such powers as are necessary to undertake the review of the decision to refuse formal applications for credit facilities, the review of lending policies and the analysis of the outcomes of Credit Reviewer recommendations. Amongst such powers shall be the power to enter into contracts, with the consent of the Minister for Finance, including contracts for the provision of expert services. The Credit Reviewer, with the consent of the Minister for Finance, may appoint a person, or persons, to act on his behalf in relation to these guidelines. Recommendations made by persons so appointed shall be treated as recommendations of the Reviewer.

Process

13. Before applying for review, a borrower shall exhaust any credit appeal mechanisms available within the participating institution concerned. The borrower shall apply to the Credit Reviewer within ten working days of being notified of the refusal. The application for review shall be in the form prescribed by the Credit Reviewer. The borrower shall comply with the procedures prescribed by the Credit Reviewer for reviews, including any appropriate legal agreements and waivers of confidentiality necessary to allow the review to take place. In making the application the borrower shall agree, in the form required by the Credit Reviewer, that no claim may be made against the State or the Credit Reviewer in respect of any recommendation made by the Credit Reviewer.

Documents to be included with a borrower’s application

14. With a borrower’s application the borrower shall include copies of the documentation provided to the participating institution by the borrower and the response of the participating institution if available. The borrower may also make a submission to the Credit Reviewer. The Reviewer may seek further documentation where insufficient information to allow a recommendation to be made is provided in documentation provided by an applicant.

Fee

15. The application shall be accompanied by a fee of €100 or €1 per thousand euro of the value of the credit facility requested (whichever is the greater), but subject to a maximum of €250. An application for review is not complete until the fee is paid.

Notification of participating institution

16. The Credit Reviewer shall notify the participating institution which refused credit facilities of the receipt of an application for a review. The participating institution may make a submission to the Credit Reviewer in response to the application within ten working days of the Credit Reviewer’s notification. The submission shall be in the form prescribed by the Credit Reviewer. The participating institution shall provide any information and documents sought by the Credit Reviewer.

Review criteria

17. In reviewing a decision to refuse a credit facility, the Credit Reviewer shall take account of all submissions made to it and the viability and repayment capacity of the borrower. The Credit Reviewer shall ensure that the participating institution and the applicant for review each have the opportunity to examine, and respond to, the material put forward by the other party. Such responses shall be in the form prescribed by the Credit Reviewer.

Recommendation

18. In reviewing a decision to refuse a credit facility, the Credit Reviewer may support the decision, recommend that the credit facilities should be granted, or make such other recommendation as he or she considers appropriate in all the circumstances.

19. The Credit Reviewer shall inform the borrower and the participating institution of the recommendation and the reasons for it.

Withdrawal of application

20. A participating institution may make an alternative credit offer to a borrower at any time before the Credit Reviewer issues a recommendation in relation to a refusal. If the alternative offered is acceptable to the borrower, the review application shall be deemed to be withdrawn.

21. A borrower may withdraw an application for review at any time.

Response to Credit Reviewer recommendation

22. If the Credit Reviewer recommends that a credit facility should be granted, the participating institution which refused credit shall comply with the recommendation of the Credit Reviewer or provide an explanation to the Credit Reviewer why it would not be appropriate for the institution to comply with the specific recommendation. The explanation shall be in the form prescribed by the Credit Reviewer.

23. The standard terms which apply to this type of credit in the participating institution shall apply to the credit facilities granted. The participating institutions shall not apply unduly onerous terms to the credit facilities granted.

Costs

24. The administrative and other costs of the Credit Reviewer, including costs of expert assistance, IT support, internet facilities, advertising, etc., after taking account of the fees paid by borrowers, shall be paid quarterly by the participating institutions. The share of the costs payable by each participating institution shall be in proportion to the number of

applications for review of decisions of the participating institution. Start up costs of the Credit Reviewer shall be paid, on demand and in equal amounts by the two main participating institutions.

Financial Services Ombudsman

25. Nothing in these guidelines purports to affect, in any way, a borrower's right to have recourse to the Financial Services Ombudsman.

GIVEN under my Official Seal,
26 March 2010.

Brian Lenihan.
Minister for Finance.

SECTION 5

Sovereign Bond Spreads

Sovereign Bond Spreads

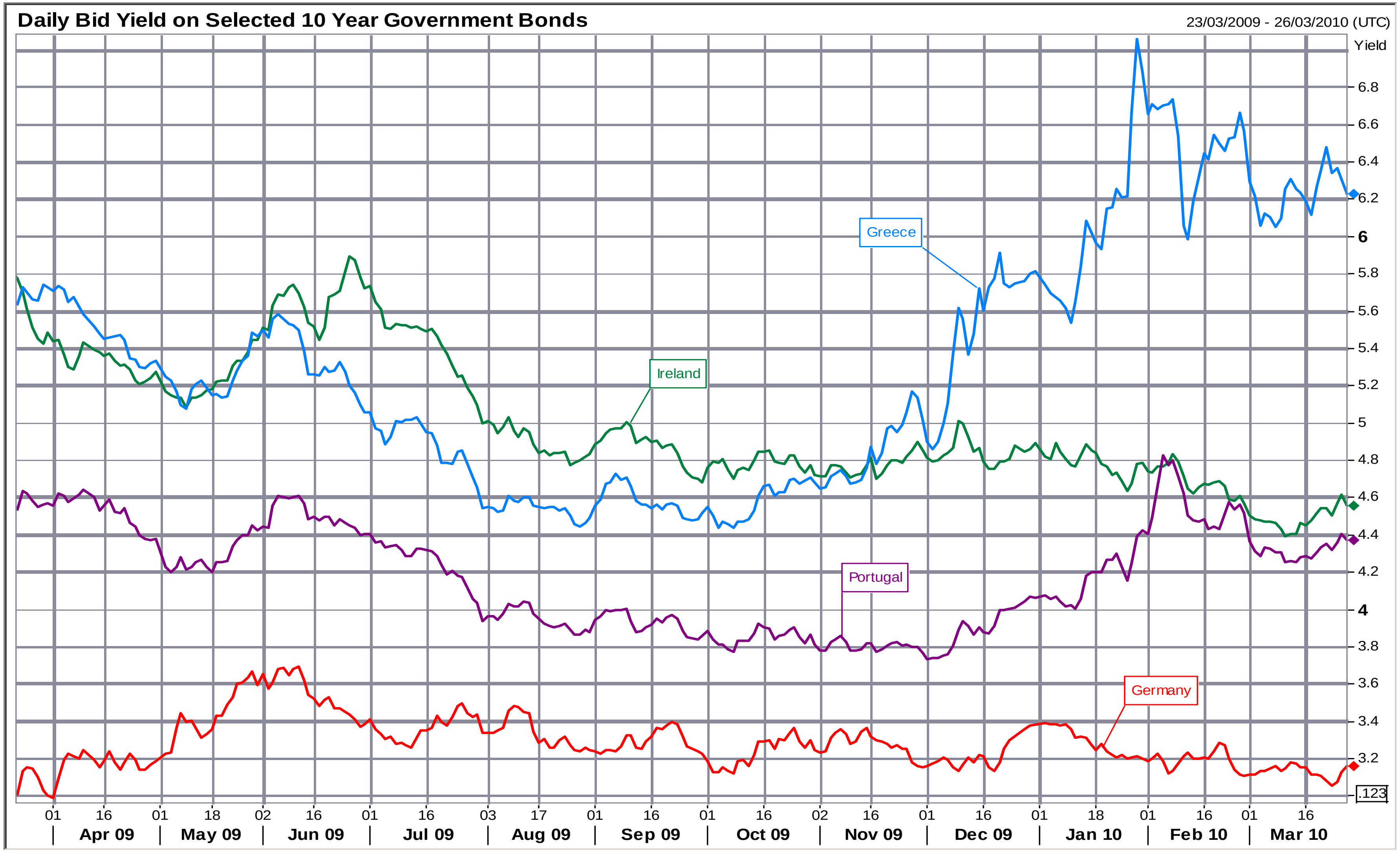
A key objective of Government policy is to maintain and enhance the State's access to international funding markets. This is necessary in order to fund our annual borrowing requirement. The cost of this borrowing, or interest rate that we pay, is also a critical factor and is influenced by the credibility of Government policy and Ireland's international standing.

As the Irish State stands behind the Covered Institutions in the form of a formal guarantee, the cost of borrowing for Irish banks on the international markets is linked to the interest rates the State itself pays. In fact given that the markets deem the Irish State a stronger credit than the individual banks, by definition the cost of borrowing for Irish banks cannot be any lower than that of the State. What the banks pay to borrow money has an obvious knock-on influence on the interest rates they charge their customers.

The key benchmark the market looks at is the premium Ireland has to pay versus German bunds.

On the 16th March, the NTMA held its third auction of Irish Government bonds in 2010. Two bonds were sold in the auction, including the 10-year benchmark, the 4.5% Treasury Bond 2020. The yield on the benchmark 10-year 2020 bond was 4.426%. This yield represents a spread over the comparable German Government bond of 1.26%, the lowest level of spread since December 2008 and 1.58% below the peak spread which obtained in March 2009. The graph below shows the yield on Irish Government 10 year bonds in relation to Germany, Greece and Portugal.

Graph - Yield on 10 year Government Bonds



Source: Reuters

SECTION 6

Central Bank Reform Bill

Central Bank Reform Bill 2010

The Central Bank Reform Bill provides as follows:

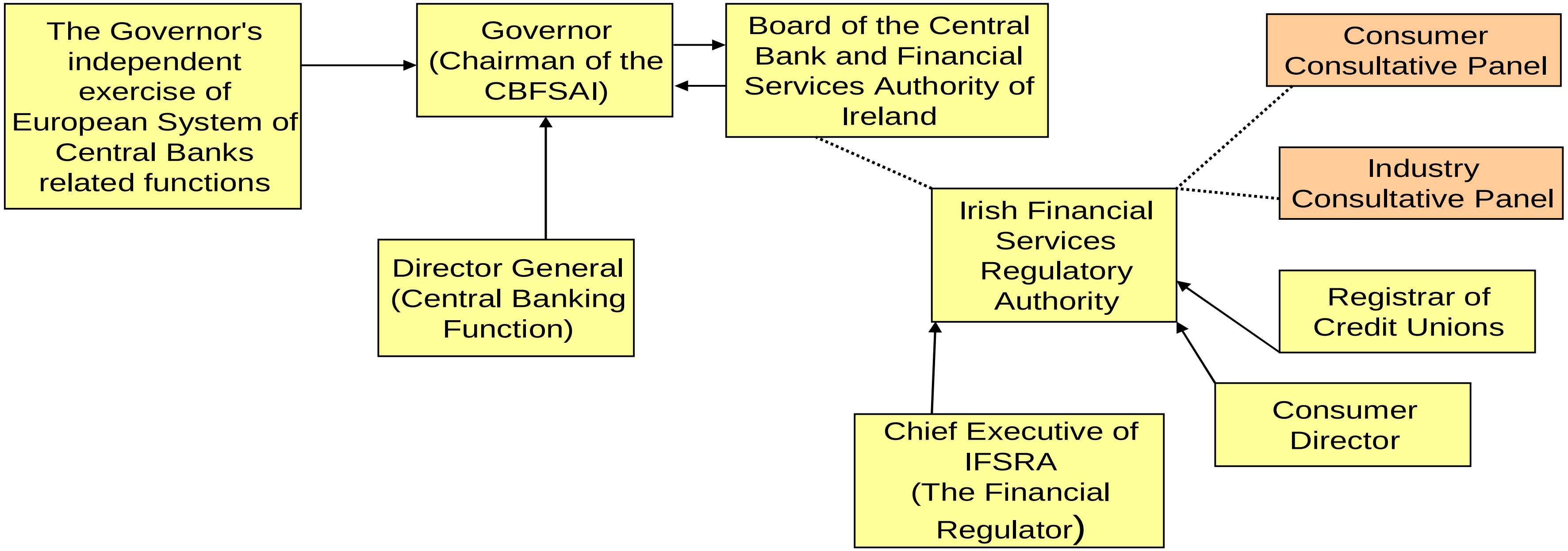
- The CBFSAI will be reformed as the Central Bank of Ireland (the Bank).The Bank will be a single fully-integrated structure with a unitary Board, “the Central Bank Commission”, which will be chaired by the Governor.
- The Irish Financial Services Regulatory Authority (IFSRA), which is constituent part of the CBFSAI, will be dissolved and the posts of Chief Executive of the Regulatory Authority and Consumer Director will be abolished. Two new posts – Head of Financial Regulation and Head of Central Banking – will be provided for. The Registrar of Credit Unions will continue and will be appointed by the Commission.
- The Bank will be responsible for the stability of the financial system overall, for prudential regulation of financial institutions and for the protection of consumer interests. The Governor remains solely responsible for European System of Central Banks (ESCB) related functions.
- The Bank’s current statutory function of promoting the development within the State of the financial services industry is being removed.
- The Bank will have power to impose levies for the purpose of funding the regulation of financial service providers.
- New enhanced accountability and oversight mechanisms will include:
    - A specific focus of the Commission to be on regulatory performance, including development of performance benchmarks.

- Annual Performance Statements on regulatory performance prepared by the Bank, presented to the Minister for Finance and laid before the Houses of the Oireachtas. (Note that this will be in addition to the Bank's Strategy Statement which is to be prepared at least every three years and its Annual Report and Accounts).
- International peer reviews of regulatory performance prepared every two years which will form part of the Performance Statement in the relevant year.
- A committee of the Oireachtas may call the Governor and/or the Heads of Functions to be examined on the Performance Statement.

- The Consumer and Industry Panels will be replaced with better arrangements to advise the Bank on the exercise of its statutory functions - including on consumer matters.
- Responsibility for consumer information and education functions will transfer to the National Consumer Agency (NCA) along with associated staff. The NCA will have power to impose levies on financial service providers for the purpose of funding the functions assigned to it under the Bill. The Bank or a body prescribed by the Minister for Finance, including the Pensions Board, the Financial Services Ombudsman and the NCA, may collect the various industry levies as an agent of the others.
- The Heads provide for the amendment of section 35 of the Credit Union Act 1997 to allow credit unions greater flexibility in re-scheduling loans in arrears subject to appropriate liquidity, provisioning and accounting transparency.

- Provision is also being made for the Bank to regulate appointments within financial service providers to help ensure the fitness and probity of key office-holders.
- Section 59 of the Insurance Act 1989 will be amended to enable the Bank to appoint employees of the Bank or other suitably qualified persons to be authorised officers for the purposes of the Insurance Acts to give the Bank flexibility in its approach to ensuring compliance with insurance regulation.

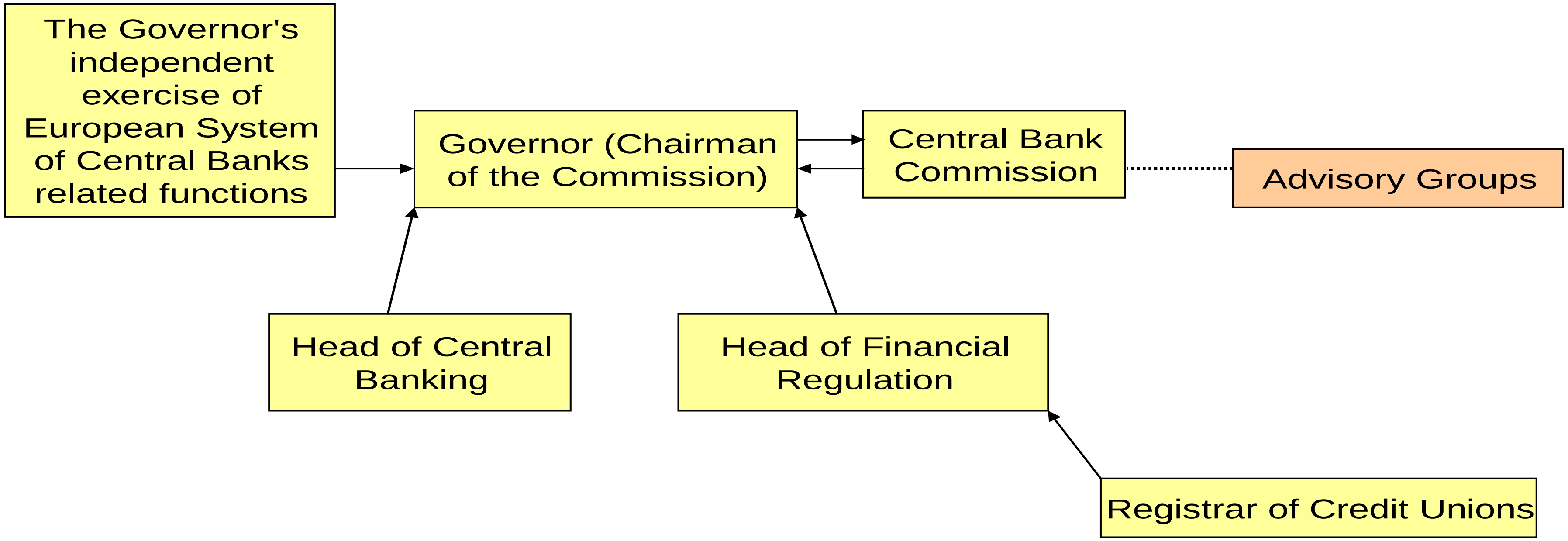
The Central Bank Reform Bill 2010 Explanatory Memorandum is attached at Appendix 1



Central Bank Acts 1942-2009

Under the Central Bank Acts 1942-2009 the reporting arrangements are complex. The Irish Financial Services Regulatory Authority is a constituent part of the Bank but independent from the Board of the CBFSAI in the exercise of its regulatory functions. The Consumer Panels advise the Irish Financial Services Authority and the Governor exercises his European System of Central Bank responsibilities independently of the Central Bank Commission.

Reports to
Does not report to



Central Bank Reform Bill 2010

Under the Central Bank Reform Bill 2010 the reporting arrangements are streamlined. The Governor exercises his European System of Central Bank responsibilities independently of the Central Bank Commission.
It will be a matter for the Central Bank to determine the detailed organisational and reporting arrangements within the new statutory structures.

The Central Bank will operate in the context of new European Union institutional and legal framework for financial regulation.

Reports to
Does not report to

SECTION 7

Frequently Asked Questions

Frequently Asked Questions

1. NAMA

Does the Minister still believe that NAMA is the right approach?

The Government and the Minister have decided that NAMA is the best approach to restoring the financial system so that it can support the Irish economy and its jobs.

The decision was made after consultation with the Central Bank, the Financial Regulator, the NTMA, and legal and financial advice. The establishment of an asset management agency is the most effective way to bring stability to the Irish banking system. Furthermore, the asset management model has been supported and recommended by banking experts throughout the world. It has been used successfully in other countries in the past as part of the work-out process for problem loans.

This approach has been supported by the European Commission under EU State aid rules the IMF, OECD and the ECB.

The Government’s approach to the unprecedented crisis in global financial markets has been structured and considered, at all times taking advice and counsel from qualified sources. Through its actions it has sought to protect depositors in Irish banks, the Irish financial system and Irish taxpayers.

Why has the NAMA haircut changed?

The estimated aggregate discount of 30% that I indicated last September was a top-down estimate of the discount based on the decline that had taken place up to that point in the Irish, UK and US property markets. It was also based on a number of other variables for which estimates had been provided by the prospective participating institutions. I always made it clear that the actual valuation would be determined on a loan by loan basis and that only after a significant number of loan-by-loan valuations had been carried out would it be possible to get a full sense of the overall discount.

The average discount that emerged on the first tranche of loans at 47% is larger than the industry wide average 30% discount estimate in the NAMA Business Plan for the whole portfolio of NAMA loans. The main reasons for this are:

- Market prices fell between end-August and 30 November 2009, which is the NAMA valuation date.
- The figures published in mid September 2009 were based on aggregate data provided by the institutions. The figures here reflect the results of individual loan valuations following extensive due diligence and property valuation by NAMA.
- The underlying legal security, when examined in due diligence, was of uneven quality.
- The original loan to value ratio were in some cases higher than estimated by some institutions.

What is a haircut and why does it impact on capital needs?

The haircut represents the difference between what NAMA is paying for the loans and the amount that the bank has lent. The consideration that is paid by NAMA for any particular loan is determined largely by four factors: the current value of the underlying property, its long-term prospects, the extent to which the loan is cashflow-producing and the quality of the security. The larger the discount or haircut, the less is paid by NAMA for the loans. As loans transfer, participating institutions must write down their value to reflect the actual consideration they receive from NAMA. The write-downs create a loss for the institutions and depending on the level of capital in the bank this may lead to a capital requirement.

Why has it taken so long for loans to start transferring to NAMA?

The first tranche of loans is transferring to NAMA. As I indicated in my speech these loans transferred at an average discount of 47%.

From the perspective of taxpayers, it is crucial that the assets being acquired by NAMA are accurately valued. For that reason, it is necessary that the valuation of underlying properties reflected current market realities. It is also necessary to ensure that loans are properly secured and, to the extent that there are defects in such security, it has been necessary to make appropriate adjustments to valuations. It is not reasonable to suggest that the due diligence could have been carried out more quickly, without putting at risk the interests of the taxpayer.

It is also the case, of course, that the European Commission evaluated the NAMA valuation methodology and process in great detail before giving its approval some weeks ago. It is expected that all loans will have been transferred to NAMA in full by the final quarter of the year.

Will NAMA be accountable to the Dáil?

The issue of accountability featured extensively in the debate of the NAMA legislation in the Oireachtas. During the debate, I made it clear that I was in favour of effective Oireachtas oversight of NAMA. Accordingly, I ensured that there were substantial provisions already in the NAMA Act dealing with transparent reporting by NAMA and oversight of NAMA by the Oireachtas.

Further to the quarterly reports requirement under Section 55, Section 59 of the NAMA Act makes provision for the Chairperson and CEO of NAMA to appear before a Committee of the Oireachtas to examine matters relating to NAMA, if requested to do so.

The legislation also provides for NAMA to submit annual accounts, which will be audited by the Comptroller and Auditor General and for the Committee of Public Accounts to examine NAMA on these audited annual accounts.

2. Capital Requirements

Why are we seeking an 8% core tier 1 capital requirement?

It is essential that the institutions have sufficient capital so that the market will have confidence in them going forward. The Financial Regulator has spent a considerable amount of time assessing the capital requirements for the Irish banks, including substantial engagement with the banks themselves. Based on this analysis and interaction, the Financial Regulator has advised me that a core tier 1 capital requirement of 8% is the prudent target capital ratio required of the banks. This is informed by emerging best practice internationally and takes into account potential future loan losses.

Why is there now a new 7% equity requirement?

Regulators and the markets are focusing increasingly on the quality of capital and its ability to absorb future losses that may be incurred by the banks. Since equity is the highest quality of capital, and therefore the most loss-absorbing, the Financial Regulator has determined that the majority of the 8% core tier 1 requirement needs to be in the form of equity and has therefore set a 7% target equity ratio.

What does that mean?

Equity capital essentially comprises shareholders' capital and retained earnings. It is the highest quality capital and is loss absorbing on a going concern basis. This means that the Irish banks should have sufficient buffers to absorb future losses and therefore protects depositors.

The new Head of Financial Regulation at the Financial Regulator has carried out an extensive exercise and formed a view on the level of capital.

Are the various Financial Regulator estimates for capital requirements robust?

The new Financial Regulator has been in discussions with the institutions for several months to ensure that the appropriate level of capital is identified and maintained by the institutions. The Financial Regulator has issued a statement today and I am confident that the capital requirements announced are robust and credible.

What do you mean by a stress scenario?

The stress capital requirement for the banks will be to maintain a 4% core tier 1 capital ratio. This is designed to ensure that the banks will be adequately capitalised even in the event of experiencing a hypothetical adverse macroeconomic scenario and more severe shocks on particular loan portfolios.

This is a matter for the Financial Regulator and I understand that the Head of Financial Regulation has issued a statement today on the matter.

Guarantee

What is happening with the guarantee?

The Eligible Liabilities Guarantee (ELG) Scheme which was recently introduced updates and revises the Bank Guarantee Scheme approved on 30 September 2008. The ELG Scheme is subject to ongoing six monthly approval by the European Commission and is next due to be reviewed prior to 1 June 2010.

Under the ELG Scheme the Minister for Finance can guarantee deposits and debt securities incurred by participating institutions up to 29 September 2010. Liabilities guaranteed under the ELG Scheme can have a maturity which extends beyond 29 September 2010 (up to 5 years).

Further details are available at

http://www.finance.gov.ie/documents/publications/other/2010/FAQelg.pdf

Will the guarantee be extended?

Arrangements for the continuation of State guarantees for bank liabilities following the expiry of present arrangements are currently under review by the Department of Finance in consultation with the Central Bank and the Financial Regulator. Any extension of the existing guarantee arrangements is subject to State aid approval from the European Commission.

Why was the ELG Scheme introduced?

As you will be aware, the Credit Institutions (Financial Support) Scheme 2008 (CIFS Scheme) will expire on 29 September 2010. This scheme was introduced following the collapse of Lehman Brothers and the subsequent liquidity crisis of September 2008. However, the funding situation of Irish banks has improved dramatically in the intervening period and the blanket guarantee will no longer be necessary into the future. A key feature of the new ELG Scheme introduced in December 2009 is access to longer-term funding, which is in line with the mainstream approach in the EU and is expected to contribute significantly to supporting the sustainable funding needs of the banks and to securing their continued stability. The structure of the ELG Scheme allows participating institutions to issue both guaranteed and unguaranteed liabilities, which will help to reduce their reliance on State support over time as financial market conditions continue to improve.

Is Dated Subordinated Debt covered under the ELG Scheme?

Dated subordinated debt is not covered under the ELG Scheme. However, dated subordinated debt in issue prior to the introduction of the ELG Scheme will continue to be covered under the CIFS Scheme until September 2010. The guarantee of subordinated debt will not be extended.

How much are the banks paying for the new scheme?

The ECB pricing recommendations on government guarantees for bank debt will apply to liabilities guaranteed under the ELG Scheme. The exact remuneration is dependent on a range of factors such as the maturity profile of the liabilities and the extent to which institutions choose to issue under the Scheme. However the fee will be charged at a higher rate than under CIFS. The fee for short term bank debt has increased to 0.5% under the ELG Scheme.

Between the CIFS Scheme and the ELG Scheme the Exchequer estimates that the guarantee fees paid by the banks will exceed €1bn from September 2008 to September 2010.

What fee has been raised by the State under the CIFS Scheme?

All of the covered institutions have paid the charge in a prompt and timely manner and are up-to-date. As of 8 March 2010, there was just over €718 m in the mandated account which is held in the Central Bank.

In late 2009 the Department reassessed the CIFS mechanism and increased the cost applicable to the covered institutions in order to ensure that the commitment to achieve €1 billion in fees over the 2 year period from the covered institutions will be met.

The new fee levels due under the ELG Scheme will help ensure that the €1bn. minimum target for payments under the State guarantee is realised.

What impact has the guarantee had on Ireland's cost of borrowing?

In the context of the review of the charge under the CIFS Scheme, the NTMA reaffirmed their estimate that the long term cost to the exchequer for the provision of the guarantee remains 15-30 basis points, which approximately equates to €1bn.

Central Bank Reform

Why are there three separate Central Bank Bills?

The rationale for the three-Bill approach is to facilitate progress as soon as possible on the reform of the structures of the Central Bank and financial regulation. We are ready to move now to establish a single fully-integrated structure. A new Governor has been appointed, Prof Patrick Honohan, and an international expert Matthew Elderfield, has been recruited to lead and build the capacity needed for new and better financial regulation in Ireland.

We have included in the Bill published today an enhancement of regulatory powers in relation to the fitness and probity of senior staff of financial institutions. This was done because of its importance, not least in helping to set the tone of the new regulatory arrangements overall. However, more work is needed in developing the processes and forms of regulation best suited to the Irish financial sector. Both Patrick Honohan and Matthew Elderfield will be well placed to contribute to the evolution of thinking on the new regulatory requirements through the support provided by the new structures.

The Bill provides for a new unitary board – the Central Bank of Ireland Commission. What arrangements is the Minister making in this regard?

I intend to make an announcement on this matter very shortly.

Why is the post of Consumer Director being abolished?

The post of Consumer Director was created within the dual structure of Central Bank and Financial Regulator. It is being abolished because it is no longer necessary to maintain the distinction within the fully-integrated regulatory regime. High level and well qualified staff are being assigned responsibility for managing the business of the Bank in monitoring, protecting and vindicating consumers of financial services in relation to institutions, products and markets. The new structures and chain of command will ensure that consumer issues are properly aligned with the regulatory strategy of the Bank overall.

Why are the Industry Panel and the Consumer Panel being abolished?

They are being abolished in order to enable their replacement by better fit-for-purpose advisory groups. Again the emphasis is on the integration of functions previously divided between the Central Bank and the Financial Regulator and on performance. The Bill empowers the Bank to establish groups to advise it on the performance of its functions and the exercise of its powers – except for the Governor's ESCB-related functions. The Bill requires that one such group should advise in relation to the performance of the Bank in relation to consumers of financial services.

What arrangements will replace the statutory consultative panels?

The Bill provides that the Bank may establish a group or groups to advise it on the exercise of the Bank's functions and must report on such groups in its annual report. Any group so established must comprise of persons who have expertise, knowledge or experience relevant to the functions of the advisory group concerned. There is a specific requirement in the Bill that the Bank must establish a group of relevant persons to advise it on consumer-related matters.

How will the additional resources be paid for?

The Government's intention is that we should move to a funding model in which the financial services industry bears the full costs involved in regulating it effectively. Currently, the industry meets about half of the costs involved. My Department and the newly structured Central Bank Commission will be addressing this issue in consultation with industry representatives in the period immediately ahead.

How much will the new regulatory regime cost and how does that compare to current costs?

The new regime will cost considerably more than past arrangements. The cost of financial supervision in 2009 was about €60 million. For 2010, the cost is expected to be in the region of €78 million and for the years beyond that slightly more again as the new regulatory regime is put into place fully.

SECTION 8

Glossary of Terms

Glossary of Terms

1. **Capital –** Made up of equity (proceeds from issue of shares plus retained earnings) and certain debt instruments. There are various definitions, some broader than others, used by regulators and the financial market.

2. **Tier 1 Capital** - is a key measure of a bank's financial strength from a regulator's point of view. Tier 1 capital consists largely of shareholders' equity – the amount paid up to originally purchase the shares of the Bank (not the amount those shares are currently trading for on the stock exchange), retained profits, and other qualifiable Tier 1 capital securities. The Government Preference Shares in Bank of Ireland and Allied Irish Bank qualify as Tier 1 Capital.

3. **Core Tier 1 capital –** a sub set of tier 1 capital including only certain qualifying debt instruments e.g. perpetual preference shares that have “equity-like” characteristics.

4. **Preference Shares** - Shares which provide a dividend that is paid before any dividends are paid to ordinary stock holders, and which takes precedence over ordinary stock in the event of a liquidation. Unlike ordinary stock, preference shares pay a fixed dividend, though can similarly avoid paying this dividend (depends on the structure) if it lacks the financial ability to do so. As these instruments are treated as a form of “equity” rather than a debt, ability to pay the coupon (or distribution) is determined by distributable reserves on the balance sheet.

   <u>Government Preference Shares in Bank of Ireland and Allied Irish Bank</u>
   The Banks have the option to repurchase at par (i.e. €3.5 billion) during the first five years of the investment or at 125% of par (€4.4 billion) thereafter.

5. **Core Equity –** the narrowest sub set within tier 1 and only includes “pure” equity capital (e.g. proceeds from issue of shares plus retained earnings) which is “loss absorbing” on a going concern basis. As the market/regulators increasingly focus on the quality of capital this has become more important.

6. **Tier 2 Capital –** a junior or subordinated form of capital. Divided into Upper Tier 2 (no maturity date) and Lower Tier 2 (have a maturity date) capital instruments. Lower tier 2 debts are covered under the original guarantee, tier 1 and upper tier 2 instruments are not.

7. **Subordinated Debt** - Debts or claims that have a lower status or priority than other debts or claims and are subordinate. Hence they are more risky for the lender of the money and typically have a higher rate of return than senior debt. In some cases subordinated debt (both tier 1 and tier 2) has been bought back by the banks at a significant discount thus leading these bondholders to take a substantial loss relative to the face value of the bonds.

8. **Coupon –** Equivalent to interest payable to a bondholder over the lifetime of a bond.

9. **Rights issue –** an offer by a company to its shareholders to subscribe for shares with new cash proportionate to their existing shareholding. If shareholders choose not to participate this “right” can be sold in the market (in the form of nil paids) but the shareholder has

their stake reduced or diluted in the company. New shares are usually offered at a discount to the prevailing price as an incentive to subscribe.

10. **Wholesale funding –** any bank funding that comes from the capital markets (be it short duration or long term in the form of bonds) that is not in the form of a bank deposit.

11. **Senior debt** - debt that takes priority over other unsecured debt owed by the issuer such as subordinated debt. Senior bonds are not part of the banks risk capital (whereas sub-debt is), but are part of the banks funding in the same way deposits are. Generally, they rank equally with ordinary deposits in a wind up situation, which is why the convention has been to protect them in wind-up situations. They are issued at interest rates that reflect their much lower expected risk profile compared to subordinated debt. Senior debt includes other forms of funding such as Certificates of Deposits and commercial paper.

12. **Commercial paper –** An unsecured, short-term debt instrument issued by a corporation/bank. The debt is usually issued at a discount, reflecting prevailing market interest rates.

13. **Certificates of Deposit –** A savings certificate entitling the bearer to receive interest. It bears a maturity date, a specified fixed interest rate and can be issued in any denomination. It is a time deposit that restricts holders from withdrawing funds on demand. Although it is still possible to withdraw the money, this action will often incur a penalty.

14. **Secured/Unsecured Debt –** Unsecured debt is a loan not secured by an underlying asset or collateral. It is the opposite of secured debt. An example of secured debt would be a mortgage. In the case of unsecured debt, a lender loans money without the security that an underlying asset provides. For this reason, unsecured debt carries more risk for the lender, which in turn makes the loan more expensive.

15. **Buy backs –** Repurchase of stock or bonds issued. In the case of stocks, this reduces the number of shares outstanding, giving each remaining shareholder a larger percentage ownership of the company. A debt buyback is the repurchase by a debtor of its own debt, usually at a substantial discount. The debtor’s obligations are reduced which boosts their equity level, while the creditor receives a single final payment.

16. **Mark to market –** The accounting act of recording the price or value of a security, portfolio or account to reflect its current market value rather than its book value.

17. **Impaired loan –** Definitions vary but typically a loan that is 90+ days in arrears and is not accruing interest. May also include loans that are not 90 days overdue but where the bank believes it will have a problem getting its money back e.g. development loans have interest roll-up as standard.

18. **Impairment provision –** an amount set aside from profits to cover the expected loss on a loan that is impaired. Under current accounting standards banks can generally only provide for losses that have been incurred – they cannot provide for losses that might arise in the future. A provision for a loss reduces the “gross” or face value of the loan on

the bank's books. As banks have already borne some of the loss on their NAMA loans, this is why the loss on transfer will be less than the full value of their haircuts.

19. **Credit default swap (CDS)** - An instrument which provides protection against the risk of a company or Government defaulting on their debts. CDS markets during the recent financial crisis have been used by market participants as a barometer of risk.

20. **The Government's Warrants –** Warrants giving the Government the option (but not the obligation) to purchase up to 25% of the ordinary share capital of each bank existing on the date of issue of the New Preference Shares, in 2014

21. **Strike Price –** The price which the Government would pay for the core tranche (15%) of ordinary shares issued under the warrants is €0.975 for AIB and €0.52 for BOI. The strike price of the balance of the Warrants is €0.375 for AIB and €0.20 for BOI.

22. **Liquidity Ratios –** Measure of a company's ability to pay off its short-terms debt obligations. Bankruptcy analysts and mortgage originators frequently use the liquidity ratios to determine whether a company will be able to continue as a going concern.

23. **Loan to deposit (LTD) ratio –** the ratio of customer loans to customer deposits. A key measure of a bank's funding strength. By replacing loans with liquid bonds, NAMA will reduce the LTD's of the Irish banks.

24. **Repurchase Agreement (REPO) –** a contract to sell and subsequently repurchase loans/securities at a specified date and price. European banks are regularly repo-ing mortgages/mortgage securities with the ECB as a means of raising temporary cash to cover expected and unexpected outlays e.g. to meet deposit outflows. When funding markets are difficult/at times of stress, the more cash a bank has within its assets the better its ability to meet commitments/funding outflows.

25. **Long-term Economic Value (LEV) –** The Government is taking a longer-term view on asset prices by acquiring assets from NAMA at their long-term economic value ("LEV") in return for NAMA bonds. The long term economic value is made up of the current market value plus a premium where the property has potential for higher value in the future. The premium (where applicable) will be a percentage of the current market value. The original price paid for the asset will not be taken into account.

30. **Special Purpose Vehicle (SPV) –** NAMA will arrange and supervise the identification and valuation of property-backed loans on the books of qualifying institutions and a Master Special Purpose Vehicle (Master SPV) will be established by the NAMA Board for:

- the purchase, management and disposal of loan assets identified and valued by NAMA, and
- financing the asset purchases by issuing debt securities: these will consist of securities guaranteed by the Irish Government (95%) and subordinated debt securities (5%) – the latter may only be redeemed and coupons will only be paid if the SPV makes a profit over its life.

This is being done to keep the NAMA entity off the Government's balance sheet, and is in line with EUROSTAT rules and practices in other countries. The Master SPV will be a separate legal entity and will be jointly owned by private investors, who will own 51% of its ordinary equity, and by NAMA, which will hold the remaining 49% ordinary equity. However, the return to the private investors will be strictly limited and any significant profit by NAMA will accrue to the taxpayer.

32. **NAMA Bonds -** NAMA will issue Government guaranteed securities to the financial institutions as consideration for the loans purchased. The interest rate to be paid on the NAMA bonds will be linked to EURIBOR (Euro Interbank Offered Rate – the rate at which euro interbank term deposits are being offered by banks to each other within the eurozone). The 6 month EURIBOR rate is currently around 1% but the markets expect it to rise over the next year.

33. NAMA Subordinated Bonds – NAMA will pay 5% of the purchase price of the loans it acquires in the form of subordinated bonds. These bonds will not be repaid unless NAMA has the funds to do so at the end of the period. This means that if NAMA makes a loss, the first 5% of that loss will be borne by the financial institutions.

34. Promissory Note - A promissory note to be provided by the Minister to a credit institution providing for periodic payments by the Minister to the credit institution, and which will constitute Core Tier 1 capital of the Credit Institution at the time of issue of the note.

AN BILLE UM ATHCHÓIRIÚ AN BHAINC CEANNAIS 2010
CENTRAL BANK REFORM BILL 2010

EXPLANATORY MEMORANDUM

The purpose of this Bill is to create a single, fully-integrated, Central Bank with a unitary Board, ‘‘the Central Bank Commission’’, chaired by the Governor of the Central Bank. The Irish Financial Services Regulatory Authority is dissolved and most of its existing functions merged into the new structure.

The Central Bank is responsible and accountable for the prudential supervision of individual financial firms, the conduct of business, including protection of consumer interests, and the stability of the financial system overall.

Functions of the Consumer Director in relation to promotion of the interests of consumers through the provision of information and the development of financial education and capability are assigned to the National Consumer Agency.

Within the new structure, the positions of Head of Central Banking and Head of Financial Regulation are given a statutory basis and the office holders are made ex-officio members of the Central Bank Commission.

The Central Bank may make regulations prescribing ‘‘controlled functions’’ and nominees to related positions within financial service providers are regulated to ensure the fitness and probity of key office-holders.

Section 59 of the Insurance Act 1989 is amended to enable the Central Bank to appoint employees of the Bank or other suitably qualified persons to be authorised officers for the purposes of the Insurance Acts to give the Bank flexibility in its approach to ensuring compliance with insurance regulations.

In order to allow credit unions greater flexibility in re-scheduling loans, Section 35 of the Credit Union Act 1997 is amended to increase the proportion of the loan book of individual credit unions comprising loans of greater than five years duration, subject to appropriate liquidity provision and accounting transparency.

The Bill is structured to achieve its objectives by means of amendment of existing legislation. Therefore, there is substantial restatement and reordering of the existing legislation.

PART 1

Preliminary

Section 1 contains the short title of the Bill and provides that it is to be cited collectively with the Central Bank and Financial Services Authority of Ireland Acts 1942-2009 as the Central Bank Acts 1942-2010.

Section 2 provides for the commencement of the Act.

Section 3 provides that the interpretation of expressions in the Act is to be the same as the interpretation of expressions in the Principal Act unless otherwise stated.

PART 2

Reform of the Central Bank — Transitional and Saving Provisions

Section 4 provides that the Chief Executive of the Irish Financial Services Regulatory Authority immediately before the commencement of the section is to be the first Head of Financial Regulation and will hold that office until he or she would otherwise have continued to hold the office of Chief Executive. From that point on the arrangements in Section 23B of the Central Bank Acts for filling these posts will take effect.

Section 5 provides that the terms and conditions of employment of existing employees of the Bank will not be affected. However, the offices of Chief Executive of the Irish Financial Services Regulatory Authority and the Consumer Director will cease to exist.

Section 6 provides that certain staff of the Bank may be seconded to the National Consumer Agency for the purposes of the functions being transferred to the Agency from the Bank.

This section allows for a seconded employee to voluntarily choose to change employer to the Agency within a period of two years and three months from the commencement of section 4, with the consent of the Minister for Finance, the Minister for Enterprise, Trade and Employment and the Chief Executive of the Agency. The terms and conditions of the transferred staff are to be no less favourable than the terms and conditions they enjoyed immediately prior to choosing to change employer.

Section 7 provides that any rule, regulation, order, codes of practice or similar instrument made by the Irish Financial Services Regulatory Authority or the Consumer Director will continue to have effect notwithstanding the dissolution of the Authority and the office of Consumer Director, and that the Bank will take the place of the Authority and the Consumer Director in amending or revoking same.

Section 8 provides that notwithstanding the repeal of section 33 any superannuation schemes made under that section are continued in case the repeal of the section might otherwise have unforeseen consequences.

Section 33 dealt with the creation of the Central Bank in 1942 and the transfer of members of the Currency Commission to the Central Bank. It provided, amongst other things, that superannuation schemes may have been established for former Governors and Directors of the Currency Commission.

Section 9 provides that any application made to the Irish Financial Services Regulatory Authority for a licence, authorisation or permission will be deemed to have been made to the Bank for the purposes of this Bill.

Section 10 provides that information currently in the possession of the Irish Financial Services Regulatory Authority is deemed to be in the possession of the Bank and that the Bank can use such information for the same purposes as the Authority.

Section 11 provides that orders and directions of the Irish Financial Services Regulatory Authority which are not yet spent remain in force and that the Bank can enforce them.

Section 12 provides that inquiries and assessments being undertaken by the Irish Financial Services Regulatory Authority may be completed by the Bank.

Section 13 provides that where the Irish Financial Services Regulatory Authority was involved in a legal action, including where the Authority was undertaking a prosecution, these continue with the Bank substituted for the Authority.

Section 14 provides for the amendment of the Principal Act.

Section 14(2) Part IIIC, Part VIIA and Part VIIB are amended by substituting the word ''Bank'' wherever the words ''Regulatory Authority'' appears.

Section 14(3) Part II Schedule I repeals the provisions set out in the table which related to the Central Bank and Financial Services Authority of Ireland.

Section 14(4) provides for amendments to the Central Bank Act 1971 (Part 3 of Schedule 1). This schedule removes or replaces references to the Irish Financial Services Regulatory Authority and its Chief Executive in the 1971 Act.

Section 14(5) Part 4 Schedule 1 substitutes ''the Bank'' for the Governor and the Chief Executive of the Irish Financial Services Regulatory Authority in appointing persons to committees of investigation in respect of the holders, or former holders, of licenses and deletes a reference to the Irish Financial Services Regulatory Authority in the interpretation provision of 1989 Act.

Section 14(6) provides for amendments to the Central Bank Act 1997 to provide for the dissolution of the Irish Financial Services Regulatory Authority and the creation of a unitary structure.

Section 14(7) provides for amendments to the Central Bank Act 1998 to provide for the dissolution of the Irish Financial Services Regulatory Authority and the creation of a unitary structure.

Section 15 Schedule 2 Part 1 provides for the amendment of Acts other than the Central Bank Acts. Parts 1 through to 4 delete and replace references to the Irish Financial Services Regulatory Authority and its Chief Executive in the following Acts:

- The Anglo Irish Bank Corporation Act 2009,
- The Companies (Auditing and Accounting) Act 2003,
- The Company Law Enforcement Act 2001, and
- The Consumer Credit Act 1995.

Section 15(5) Schedule 2 Part 5 amends the Consumer Protection Act 2007 to provide for the transfer of a number of functions of the Consumer Director to the National Consumer Agency.

Section 15(6) Schedule 2 Part 6 amends the Credit Institutions (Financial Support) Act 2008 by deleting an obsolete reference to the Regulatory Authority.

Section 15(7) Schedule 2 Part 7 amends the Credit Union Act 1997 by deleting an obsolete reference to the Regulatory Authority and inserting or substituting sections 35(2), 35(2A), 35(2B), 35A and 35B.

Section 15(8) Schedule 2 Part 8 amends the Disability Act 2005 to delete obsolete references to the Regulatory Authority.

Section 15(9) Schedule 2 Part 9 amends the Health (Repayment Scheme) Act 2006 to substitute the "Central Bank of Ireland" for the "Central Bank and Financial Services Authority".

Section 15(10) amends section 59 of the Insurance Act 1989 to provide that the Bank may appoint employees of the Bank or other suitably qualified persons to be authorised officers for the purposes of the Insurance Acts.

Section 59 of the Insurance Act 1989 currently allows for the appointment of employees of the Bank to the position of "authorised officer" for the purpose of securing compliance with the insurance regulations. However, the equivalent provision in the reinsurance regulations is broader as it also allows for the appointment of "other suitably qualified persons".

Section 15(11) Schedule 2 Part 11 amends various provisions of the National Assets Management Agency Act 2009 to take account of the structural changes to the Central Bank contained in this Bill.

Section 15(12) Schedule 2 Part 12 amends the Official Languages Act 2003 to replace references to the Central Bank and Financial Services Authority and the Irish Financial Services Regulatory Authority with references to the "Central Bank of Ireland".

Section 15(13) Schedule 2 Part 13 removes the reference in the Personal Injuries Assessment Board Act 2003 to the Consumer Director being an ex-officio member of its Board. The Minister for Enterprise, Trade and Employment will instead now appoint an additional member to the Board at his/her discretion.

Section 15(14) Schedule 2 Part 14 substitutes references to the "Central Bank and Financial Services Authority" for references to the "Central Bank of Ireland" in a range of enactments.

Section 16 replaces or deletes obsolete references to the Central Bank and Financial Services Authority of Ireland, the Irish Financial Services Regulatory Authority and the Chief Executive of the Regulatory Authority in various statutory instruments.

Section 17 provides that references to the Central Bank and Financial Services Authority of Ireland, the Irish Financial Services Regulatory Authority, and references to members of the Boards of those bodies will be construed in accordance with this Bill.

PART 3

Power of Bank in relation to officers, etc., of financial service providers

Part 3 of the Bill provides the Bank with the power to regulate sensitive or influential appointments in regulated financial service providers, including the power to direct that a person should not be appointed to perform a controlled function or should be removed or suspended from the performance of a controlled function where the Bank is satisfied that the person is not a fit and proper person to perform such a function.

Section 18 provides for the interpretation of various terms in Part 3 of the Bill.

Section 19 provides for a definition of ‘‘relevant obligations’’ for the purposes of this chapter.

Section 20 provides that the Bank may make regulations to determine which functions in a regulated financial services provider, or entities which are not of themselves regulated financial services providers, are to be considered ‘‘controlled functions’’ for the purposes of this Part.

Section 21 provides that a regulated service provider shall not permit a person to perform a controlled function unless they are satisfied that the person complies with any standard of fitness and probity issued under section 47 and unless the person has agreed to abide by those standards.

Section 22 provides that certain ‘‘controlled functions’’ where a person may exercise a significant influence on the conduct of a regulated financial service provider’s affairs can be prescribed as controlled functions requiring approval.

Section 23 provides that a financial service provider may not appoint a person to a controlled function requiring approval without the prior approval of the Head of Financial Regulation. If the Head of Financial Regulation refuses to approve a person for appointment to such a function, the decision may be appealed to the Irish Financial Services Appeals Tribunal and subsequently to the High Court.

Section 24 provides for a definition of ‘‘suspended person’’ for the purposes of this chapter.

Section 25 provides that if the Head of Financial Regulation is of the opinion that there is sufficient reason to suspect that a person carrying out a controlled function is not a fit and proper person to warrant an investigation, and that it is desirable to suspend the person while the issue is investigated, the Bank may issue a suspension notice. The person concerned is required to show cause why they should not be suspended, within 5 days and the regulated financial service provider concerned can also make a written submission on the fitness and probity of the suspended person during that period.

Section 26 provides for the effects of a suspension notice. The person concerned cannot continue to perform a controlled function while the notice is in effect.

Section 27 provides for the period of effect of a suspension notice. It lapses after 10 days unless confirmed pursuant to section 28 within that period.

Section 28 provides for confirmation of the suspension notice for a period of up to 3 months from the expiry of the 10 days referred to in Section 27. The Head of Financial Regulation, is obliged to consider any evidence submitted by the person as to why they should not be suspended before deciding whether to confirm the suspension.

Section 29 provides that if a suspension notice is not complied with the Head of Financial Regulation can apply to the High Court for an order directing compliance with it.

Section 30 provides that the Bank may apply to the High Court to extend a period of suspension confirmed under section 28 and the Court may extend the suspension for a further period of three months if it believes there are grounds to do so.

Section 31 provides that while considering the fitness of a person under this Part, the Head of Financial Regulation may issue a notice to relevant persons to furnish it with relevant documents or to appear before the Head of Financial Regulation to give evidence.

Section 32 provides that unless there is a reasonable excuse, failure to comply with a notice to appear before the Head of Financial Regulation in accordance with section 24 is an offence.

Section 33 provides that the Head of Financial Regulation may permit a person giving oral evidence to be cross examined under procedures determined by him.

Section 34 provides that hearings are normally to be conducted in private. The section also sets out the circumstances in which a hearing should be conducted in public.

Section 35 provides for an offence of failing to produce a document in compliance with an evidentiary notice, without a reasonable excuse.

Section 36 provides that a person failing to swear an oath, or refusing or failing to give evidence in accordance with this Part without a reasonable excuse is guilty of an offence.

Section 37 provides that evidence given to the Head of Financial Regulation under these provisions is absolutely privileged and therefore cannot give rise to a liability for defamation.

Section 38 provides that a person appearing before the Head of Financial Regulation in accordance with this Part is entitled to travelling and other expenses as the Head of Financial Regulation may reasonably allow.

Section 39 provides that if the Head of Financial Regulation certifies that a person has failed to comply with the requirements of this Part, the High Court may make an order directing compliance or such other direction as it sees fit.

Section 40 provides that an officer or employee appointed under section 49 to carry out an investigation under this Chapter shall prepare a report for consideration by the Bank and the Governor.

Section 41 provides for a definition of ‘‘prohibition notice’’ and ‘‘prohibited person’’ for the purposes of this Chapter.

Section 42 provides that, where the Governor is of the opinion that a person is not a fit and proper person, then the Bank or the Governor may issue a prohibition notice prohibiting them from carrying out a controlled function. Such a prohibition notice persists for 2 months at most unless an application is made within that time to have the order confirmed by the High Court.

Section 43 provides that where a person fails to comply with a prohibition notice issued under section 42, the Head of Financial Regulation can make an *ex-parte* application to the High Court for an order directing them to comply.

Section 44 provides that where a person fails to comply with a prohibition notice made under section 42 then the Bank may apply to the Court for an order confirming a prohibition order made under section 42. The High Court should endeavour to hear that application within 3 months of the date the application is made to it. The Court may confirm the order where it is satisfied that the opinion that a person is not fit and proper has been reasonably formed unless it is satisfied that to do so would give rise to an injustice. It may make an order prohibiting the person from carrying out a controlled function or such other order as the Court thinks fit.

Section 45 provides that a person who knowingly provides to the Bank or the Head of Financial Regulation information in accordance with this Part which is false or misleading is guilty of an offence.

Section 46 provides the penalties for an offence under this Part.

Section 47 provides that the Bank can issue standards of fitness and probity for the purposes of this Part.

Section 48 provides that nothing in this Part affects the carrying out by the Bank of its other functions where they may relate to fitness and probity. In addition, the section provides that the Bank may use information associated with the exercise of its functions under this Part for the purposes of its other functions.

Section 49 provides that the Governor and the Head of Financial Regulation may appoint other persons to carry out their functions under this Part if they are of the opinion that it is necessary and appropriate to do so.

Section 50 provides for regulation making powers.

SCHEDULE 1

Amendments of Central Bank Acts

Part 1

Items 1, 2, 3, 4 and *5* make necessary changes to the interpretation provisions of the Principal Act to allow for the changes in the structure of the Bank contained in this Bill.

Interpretation

Item 6 defines "designated enactment".

Item 7 deletes the definition of Director as the post no longer exists.

Item 8 adjusts the definition of "Secretary of the Bank".

Item 9 defines the term "*ex-officio* member of the Commission" and refers to the Governor, the Heads of Function and the Secretary General of the Department of Finance.

Item 10 identifies the general fund (see section 32F).

Item 11 substitutes "Head of Central Banking" for "Director General of the Central Bank".

Item 12 provides for the use of the term "Heads of Function" and related terms as provided for in Section 23.

Item 13 defines "member" as it relates to members of the Central Bank Commission.

Item 14 identifies "Officers" of the Bank.

Item 15 deletes the obsolete definition of "official director".

Item 16 deletes obsolete references to the "Regulatory Authority" in the definition of "regulated financial service provider".

Item 17 deletes the obsolete definition of "Regulatory Authority".

Item 18 changes the definition of the "Treaty of Rome" to include the Treaty of Lisbon.

Item 19 provides that Commission Regulations EC 1287/2006 shall be taken to be a designated enactment.

Establishment of the Central Bank of Ireland, its Functions and Objectives and related Matters

Item 20 substitutes section 5 and reconstitutes the Central Bank and Financial Services Authority of Ireland as the Central Bank of Ireland under the management and control of the new Commission.

Item 21 substitutes section 5A, relating to the general functions and powers of the Bank, and makes the following changes from the original provision:

- it removes the reference to "constituent parts of the Bank",
- it removes the Bank's function to promote financial services within the state, and
- it adds the holding of inquiries under Part III C to the list of functions. This was a function of the Regulatory Authority.

Item 22 inserts a new section 5C into the Principal Act. It provides that the Bank will have the power to undertake and publish studies, analyses and surveys into the provision of financial services. In doing so, the Bank has the power to compel the provision of information or the attendance before an employee or officer of the Bank by a person who is relevant to the undertaking. Failure to cooperate is an offence.

In addition, the Head of Financial Regulation may cause an investigation into a relevant person. Failure to cooperate with an investigation is also an offence. Conviction on indictment under this section could result in a maximum fine of €30,000 and/or imprisonment for up to 5 years. Summary conviction could result in a fine of up to €3,000 and or a maximum prison term of 12 months.

Item 23 inserts new subsections into section 6 of the Act in order to emphasise the independence of the Bank, the Governor and the Commission in matters relating to the Treaty of Rome and the ESCB Statute.

Item 24 amends section 6A of the Principal Act by redefining the objectives of the Bank, other than its primary objective of maintaining price stability. The Bank's objectives include the stability of the financial system overall; the proper and effective regulation of financial institutions and markets; the efficient and effective operation of payment and settlement systems; the provision of analysis and comment to support national economic policy development and the discharge of such other functions and powers as are conferred on it by law.

Item 25 substitutes section 6A(5) and replaces reference to the ''Board'' with references to the ''Commission''.

Item 26 substitutes sections 6B and 6D.

Section 6B provides for the Bank's power to hold and deal in land and in particular this substitution provides explicitly that the Bank is responsible for the administration and provision of its accommodation and Office and other equipment.

Section 6D provides for the staffing requirement of the Bank. The substitution for the previous section 6D removes references to the Regulatory Authority and the Secretary to the Regulatory Authority. It provides that the Bank and the Governor (in exercising his ESCB related functions) may appoint staff and determine the terms and conditions of their employment, and related matters.

Item 27 substitutes section 10 which deals with the seal of the Bank

The Commission

Item 28 substitutes sections 18B, 18C and 18D and inserts new sections 18CA, 18E.

Section 18B provides for the functions of the Central Bank Commission and in particular that the Bank's central banking and supervisory roles are integrated and coordinated and that the Bank properly discharges the function conferred on it by Section 5A and 5B.

Section 18C provides that the exercise by the Commission of its functions and powers is taken to be an action of the Bank.

Section 18CA sets out details of the membership of the Commission. The Commission is to consist of the Governor (who is the chairperson of the Commission), the two Heads of Function, the

Secretary General of the Department of Finance and between six and eight other members appointed by the Minister for Finance.

Section 18D provides that the Commission has the power to do whatever is reasonably necessary to carry out its functions. This section also provides that the Commission may establish committees to carry out such of its functions that it determines. However, the Commission may not establish a committee to carry out a function that must be carried out by the Governor.

Section 18E provides that the Bank may establish advisory groups. In particular, the Bank is to establish such a group to advise it on the exercise of its consumer related functions.

Section 18F provides for the delegation by the Commission to the Governor, a Head of Function or an employee of the Bank, those of its functions and powers as it deems appropriate. The Commission may impose conditions, limitations or restrictions on the person to whom the exercise of the function or power is delegated.

Item 29 Section 19A(3) provides that the Governor may discuss his performance in relation to his ESCB related functions with the Commission.

The Governor

Item 30 Section 19B provides that the Governor has sole right to determine budgetary or funding issues in relation to the Bank which might interfere with the independence of the Bank or the performance of his duties under the European Communities Act 1972 or the ESCB statute.

Item 31 amends section 21(2) of the Principal Act removing the requirement for the unanimous resolution of the Board of the Bank to request the removal of the Governor from Office for specified grounds of serious misconduct. The effect of this change is that the President may now remove the Governor from Office for specified grounds of serious misconduct on the advice of the Government acting on its own initiative.

Items 32 and 33 replaces references to ‘‘directors’’ with references to ‘‘members of the Commission’’.

Item 34 Section 22 provides for the circumstances where a person may act as Governor for a period of 3 months if the necessity arises. The substitution of subsections 3 to 7 allow for the Commission to appoint one of its members to act in the position of Governor for functions other than ESCB related functions. This is similar to the provisions that are replaced.

Heads of Function

Item 35 provides in section 22A for the substitution of ‘‘Director General of the Bank’’ with ‘‘Head of Central Banking ’’

Item 36 inserts sections 23, 23A, 23B, 23C, 23D, 24, 24A, 24B and 25 in the Principal Act.

Section 23 provides for the offices of the Heads of Function. The Heads of Function include the ‘‘Head of Central Banking’’ and ‘‘Head of Financial Regulation’’. However, the Commission may, with the consent of the Minister for Finance, replace these titles with alternative titles of its own choosing.

Section 23A provides that the Heads of Function are to have such responsibilities as are assigned to them by the Commission.

Section 23B provides that the appointment to the office of the Head of Function is to be made by open competition, unless the Commission determines that this would not be appropriate, and that members of the Houses of the Oireachtas, the European Parliament, a local authority or a person nominated to be a member of one of those bodies with their consent is not eligible to hold the office of Head of Function.

Section 23C provides that the term of office for a Head of Function is five years and a Head of Function may be reappointed for a further term of office. The terms and conditions are to be determined by the Commission. In addition, the section provides for the circumstances in which the person ceases to hold the office or in which the Commission may remove or suspend a Head of Function.

Section 23D provides for the appointment of an acting Head of Function where the circumstances require. An acting Head of Function cannot continue in that role for more than six months without the consent of the Minister for Finance.

Section 24 provides for the appointment of a member to the Commission and sets out the eligibility requirements.

Section 24A provides that the Minister for Finance is to decide the terms and conditions of engagement of members of the Commission.

Section 24B provides that members of the Commission are ordinarily appointed for a term of office of five years. The Governor, the Heads of Function and the Secretary General, Department of Finance serve as members for as long as they hold their respective offices.

Section 25 sets out the circumstances in which a person ceases to be a member of the Commission or in which an appointed member may be removed from office by the Minister for Finance.

Members of the Commission

Item 37 Section 28 provides for the filling of vacancies through the appointment of members of the Commission by the Minister for Finance.

Item 38 provides for the substitution of the ‘‘Commission’’ for ‘‘Board’’.

Item 39 substitutes a new part IIIA entitled Management, Finance and Accountability.

PART III

Management, finance and accountability

Chapter 1 A

Management

Section 32A provides for the Governor to propose to the Commission a plan for how it should assign responsibility for the carrying out of the Bank’s functions and powers by the officers and employees of the Bank. The section details the types of responsibilities concerned and provides that Heads of Function and employees are to be accountable to the Governor in carrying out their assignments.

Section 32B provides that the Bank should submit to the Minister for Finance a strategic plan once every three years. The strategic plan should specify the Bank's objectives for the relevant period and the means by which it proposes to meet those objectives. The Minister for Finance is to lay the plan before the Houses of Oireachtas and the Bank is to publish the plan reasonably soon thereafter.

Chapter 2A

Finance and Accounting

Section 32C provides that each year the Bank is to give an estimate of the costs associated with, and the income from, its activities in regulating financial service providers for the coming year to the Minister for Finance.

Section 32D sets out the powers of the Bank to impose levies to finance its activities in relation to financial supervision.

Section 32E provides for the Bank to prescribe fees by regulation.

Section 32F provides for the general fund of the Bank.

Section 32G provides for the circumstances in which the Minister for Finance may make regulations for the Bank to pay to the exchequer its surplus income.

Section 32H provides for the provision of funds by the Bank to meet a shortfall. If levies and fees raised under sections 32D and 32E are insufficient for the Bank to properly perform its functions and exercise its powers in respect of financial regulation, the Bank may meet the shortfall from its own resource as the Commission considers necessary.

Section 32I requires the Bank to prepare and keep accounting records and to transmit to the Comptroller and Auditor General a statement of accounts within six months after the end of each financial year.

Section 32J provides for reports to the Minister of operations and returns of the Bank within six months after the end of each financial year.

Chapter 2A

Accountability

Section 32K provides that an annual regulatory performance statement should be prepared and presented to the Minister for Finance, no later than the 30 April each year. Among other things, the regulatory performance statement is to include details of the activities carried out during the preceeding year in respect of the Bank's internal audit function and in respect of the activities of the Registrar of Credit Unions.

Section 32L provides the Bank will undergo a review of its performance by one of its peers, or another suitability qualified person at least every 4 years.

The Registrar of Credit Unions

Item 40 Section 33X(1) provides for substitution of ‘‘Bank shall’’ for ‘‘Regulatory Authority is to’’

Item 41. Section 33X(3) provides for substitution of ‘‘Bank’’ for ‘‘Regulatory Authority’’.

Item 42. Section 33X(6) provides for substitution of ‘‘Bank’’ for ‘‘Regulatory Authority’’.

Item 43. Section 33X(7) provides for substitution of ‘‘Bank’’ for ‘‘Members of the Regulatory Authority’’.

Item 44. Section 33X(8)(c) provides for substitution of ‘‘Bank’’ for ‘‘Members of the Regulatory Authority’’.

Item 45. Section 33X(9) provides for substitution of ‘‘Bank’’ for ‘‘Regulatory Authority’’.

Item 46. Section 33Y(1) provides for substitution of ‘‘the Governor, with the consent of the Commission’’ for ‘‘the Regulatory Authority’’.

Item 47. Section 33Y(3) provides for substitution of ‘‘Bank’’ for ‘‘the Regulatory Authority’’.

Item 48. Section 33Y(4) provides for substitution of ‘‘Bank’’ for ‘‘Regulatory Authority’’.

Item 49. Section 33AA(1)(a) provides for substitution of ‘‘Bank’’ for ‘‘Regulatory Authority’’.

Item 50. Section 33AA(3) provides for substitution of ‘‘Bank’’ for ‘‘Regulatory Authority’’.

Item 51. substitutes subsections (4) to (7) of Section 33AA with new subsections (4) to (9). This relates to the responsibilities and powers of the Registrar of Credit Unions. The changes provide that the Head of Financial Regulation takes the place of the Chief Executive of the Irish Financial Services Regulatory Authority and the Bank replaces the Irish Financial Services Regulatory Authority.

Item 52. Section 33AB, which provides that the Irish Financial Services Regulatory Authority is required to make available adequate funds to the Registrar of Credit Unions, is replaced with a similar provision requiring the Bank to do the same.

Item 53. Section 33AC(1)(b) provides for the substitution of ‘‘Bank’’ for ‘‘Regulatory Authority’’.

Item 54 relates to section 33AC(2) and provides for the substitution of the Head of Financial Regulation for the Regulatory Authority in approving the form of the Registrar of Credit Unions’ annual report.

Item 55 Section 33AD provides for the substitution of ‘‘Head of Financial Regulation’’ for ‘‘Chief Executive.’’

Item 56 Section 33AE provides for the Registrar to prepare a work plan detailing the objectives and activities for the financial year concerned and to submit same to the Bank for approval

Item 57 Section 33AF(3) provides for substitution of ‘‘Head of Financial Regulation’’ for ‘‘Chief Executive’’

Miscellaneous

Item 58 Section 33AF(5) provides for the substitution of ‘‘Commission’’ for ‘‘Regulatory Authority.’’

Items 59 and *60* refer to section 33AG which provides for the new structures as they affect the superannuation provisions relating to the members of the Commission and former members of the Commission.

Items 61-63 make changes to the provisions which provide immunity to the Central Bank to take account of the creation of the Commission and the new offices.

Item 64 Section 33AK deals with the disclosure of sensitive information by persons connected to the Bank. This item substitutes subsections (1) and (1A) of that section in order to take account of the creation of the Commission and the new offices.

Item 65 amends section 33AK(5)(p) in order to refer to the new section 32H which replaces the repealed section 6H.

Item 66 Section 33AL provides that persons about to become subject to section 33AK are informed of that fact in advance of their appointment and requires them to acknowledge that they have been so informed. This item substitutes the text of the existing section 33AL with new text to take account of the creation of the Commission and the new offices.

The Secretary General of the Department of Finance is to be notified subsequent to his appointment.

Item 67. Paragraphs (*a*) to (*d*) of section 33AM(1) are substituted in order to take account of the new structures.

Item 68. provides for the definition of an Inquiry, elsewhere there is a saving provision to prevent ongoing Inquiries being affected by the Bill.

Item 69. Section 33 BE which relates to the performance and exercise of regulatory functions in relation to Inquiries by the Regulatory Authority is replaced by a revised section 33BE which takes account of the creation of the Commission and the new offices. In addition, this substitution allows for the appointment of persons who are not officers or employees of the Bank to undertake inquiries on its behalf.

Item 70 Section 57AV deletes an obsolete reference to the Regulatory Authority.

Items 71 and *72* remove obsolete references to the Regulatory Authority and the Consumer Director.

Item 73 Section 61C provides for the substitution of ‘‘the Government, the Minister or the Bank’’ for ‘‘the Government, the Minister or the Chief Executive’’.

Item 74 inserts new section 61DA providing that the Bank may take summary prosecutions for offences under the Act.

Item 75 Section 61G(1) provides for the deletion of an obsolete reference to the regulatory authority.

Item 76 Section 61G(3)(a) provides for the deletion of an obsolete reference to the regulatory authority.

Item 77 provides for the insertion of new section 61H "arrangements for collection of certain levies" after section 61G to allow for the co-operation of prescribed bodies to collect levies on each others' behalf.

Item 78 Schedule 1 amends the Principal Act by the substitution of a new schedule 1 for the existing schedule 1. The content of the schedule remains largely unchanged but provides for references to the "Board" to be changed to "Commission".

Board membership provides for a minimum of 10 and a maximum of 12 persons. Where the Commission numbers 12 the quorum must be 7, and where the Commission numbers 10 or 11 the quorum must be 6 for all meetings.

Item 79 provides for new schedules of enactments and statutory instruments in respect of which administrative sanction regimes apply.

SCHEDULE 1

Part 2

This part provides a list of provisions in the Central Bank Act 1942, which are repealed.

- Section 6G, 6H and 6I dealt with the general fund, accounting and reporting arrangements for the Central Bank and Financial Services Authority of Ireland. These provisions are replaced in this Bill by Sections 32F, 32H and 32I.
- Section 33 provided for transitional arrangements for the Currency Commission to the Central Bank in the 1942 Act and is repealed.
- Section 33AJ provided that the Central Bank and Financial Services Authority of Ireland and its constituent parts, its officers, employees, its agents and the Registrar of the Appeals Tribunal were not liable for acts carried out in the exercise of their functions or powers unless done in bad faith. This provision is replaced by section 6FA in this Bill.
- Part VIIC provided for consultative Industry and Consumer panels. These panels will cease to exist. However, the Bank may appoint advisory groups to advise it on the performance of its functions and the exercise of its powers. In particular, the Bank shall appoint such an advisory group to advise in respect of its consumer-related functions.
- Schedule 3 provided for the procedure and other administrative arrangements of the Regulatory Authority. The Regulatory Authority will cease to exist so these provisions are being repealed.
- Schedule 8 provided for the procedure and other administrative arrangements of the consultative panels. The consultative panels will cease to exist so these provisions are being repealed.

SCHEDULE 1

Part 3

This part provides a list of amendments made to the Central Bank Act 1971. This part removes or replaces references to the Irish Financial Services Regulatory Authority and its Chief Executive in the 1971 Act.

SCHEDULE 1

Part 4

This part provides for amendments to the Central Bank Act 1989 to take account of the dissolution of the Irish Financial Services Regulatory Authority and the creation of a unitary structure.

SCHEDULE 1

Part 5

This part provides for amendments to the Central Bank Act 1997, to take account of the dissolution of the Irish Financial Services Regulatory Authority and the creation of a unitary structure.

SCHEDULE 1

Part 6

This part provides for amendments to the Central Bank Act 1998, to take account of the dissolution of the Irish Financial Services Regulatory Authority and the creation of a unitary structure.

SCHEDULE 2

Amendments of Other Acts

Part 1

Schedule 2 provides for amendment of Acts other than the Central Bank Acts. Part 1 provides for the amendment of the Anglo Irish Bank Corporation Act 2009, to take account of the dissolution of the Irish Financial Services Regulatory Authority and the creation of a unitary structure.

SCHEDULE 2

Part 2

This part provides for the amendment of the Companies (Auditing and Accounting) Act 2003, to take account of the dissolution of the Irish Financial Services Regulatory Authority and the creation of a unitary structure.

SCHEDULE 2

Part 3

This part provides for the amendment of the Company Law Enforcement Act 2001, to take account of the dissolution of the Irish Financial Services Regulatory Authority and the creation of a unitary structure.

SCHEDULE 2

Part 4

This part provides for the amendment of the Consumer Credit Act 1995, to take account of the dissolution of the Irish Financial Services Regulatory Authority and the creation of a unitary structure.

SCHEDULE 2

Part 5

This part provides for the amendment of the Consumer Protection Act 1995, to take account of the dissolution of the Irish Financial Services Regulatory Authority and the creation of a unitary structure and to provide for the transfer of certain functions formerly performed by the Consumer Director to the National Consumer Agency.

Item 1 amends section 3(2) of the Consumer Protection Act 2007 to provide that regulations made by the Agency in respect of levies on the financial services industry do not need to be laid before the Houses of the Oireachtas.

Item 2 inserts paragraph (ha) into section 8(3) of the Consumer Protection Act 2007 which provides that it is a function of the Agency to provide information to consumers in respect of financial services and to promote the development of financial education and capability. This function was previously carried out by the Consumer Director of the Irish Financial Services Regulatory Authority.

Item 3 inserts section 8A which provides that the Agency may undertake and publish studies, analyses and surveys into the provision of financial services in carrying out its functions under section 8(3)(ha). In doing so, the Agency may require persons to provide it with information relevant to the undertaking and, if necessary, compel the attendance before an employee or officer of the Bank of a person to provide that information. Failure to cooperate will be an offence. Conviction on indictment under this section could result in a maximum fine of €30,000 and/or imprisonment for up to 5 years. Summary conviction could result in a fine of up to €3,000 and/or a maximum prison term of 12 months.

Item 4 substitutes a reference for the Irish Financial Services Regulatory Authority in section 21(11) of the Act.

Item 5 inserts section 24A into the Consumer Protection Act 2007. It provides that the Agency is to furnish to the Minister for Finance and the Minister for Enterprise, Trade and Employment an estimate of the expected cost of the provision of the information and educational services for the coming year. This mirrors a similar provision in respect of the Bank's regulatory activities.

Section 24B gives the Agency the authority to impose levies on financial service providers for the purpose of performing its functions under section 8(3)(ha) of the Act.

Section 24C provides that the Agency may co-operate with bodies which have similar levy-raising powers, such as the Central Bank, for the collection of levies. This is likely to reduce the costs and administrative burdens on both bodies raising such levies and those upon whom the levies are imposed.

Section 24D provides that the annual report of the Agency will provide discrete information on the levies raised and their use so as to provide transparency in their use.

SCHEDULE 2

Part 6

This part provides for the amendment of the Credit Institutions (Financial Support) Act 2008 to take account of the dissolution of the Irish Financial Services Regulatory Authority and the creation of a unitary structure.

SCHEDULE 2

Part 7

This part provides for the amendment of the Credit Union Act 1997, to take account of the dissolution of the Irish Financial Services Regulatory Authority and the creation of a unitary structure and to amend the provisions of Section 35 of that Act.

Section 35 of the Credit Union Act 1997 limits credit unions in the area of longer-term lending.

Currently under Section 35 a maximum of 20% of a credit union's loan portfolio may be outstanding for periods in excess of five years, and only 10% of the loan portfolio may be outstanding for periods exceeding 10 years. It is proposed to relax these limits.

Item 1 updates the definition of ''bank'' in the Credit Union Act 1997 to refer to the Central Bank of Ireland.

Item 2 replaces Section 35(2), changing the 20% limit to a 30% limit in respect of the proportion of loans with a term greater than five years.

Item 3 inserts a new Section 35A to provide that the Bank may impose on credit unions requirements in relation to their lending practices. This includes requirements in respect of provisioning for bad and doubtful debt, liquidity requirements, controls and reporting.

Section 35B imposes on credit unions a requirement to have appropriate processes, procedures, systems, controls and reporting arrangements in place to monitor compliance with the requirements of sections 35 and 35A.

These protections are required to balance against any increased risk attaching to increasing the lending limits and rescheduling loans.

SCHEDULE 2

Part 8

This part provides for the amendment of the Disability Act 2005, to take account of the dissolution of the Irish Financial Services Regulatory Authority and the creation of a unitary structure.

SCHEDULE 2

Part 9

This part provides for the amendment of the Health (Repayment Scheme) Act 2006, to take account of the dissolution of the Irish Financial Services Regulatory Authority and the creation of a unitary structure.

SCHEDULE 2

PART 10

This part provides for the amendment of the Insurance Act 1989, to take account of the dissolution of the Irish Financial Services Regulatory Authority and the creation of a unitary structure. The amendments also permit the bank to appoint employees or other suitably qualified persons as authorised officers for the purposes of the insurance Acts.

SCHEDULE 2

PART 11

This part provides for the amendment of the National Asset Management Agency Act 2009, to take account of the dissolution of the Irish Financial Services Regulatory Authority and the creation of a unitary structure.

SCHEDULE 2

Part 12

This part provides for the amendment of the Schedule of the Official Languages Act 2003, to take account of the renaming of the Central Bank.

SCHEDULE 2

PART 13

This part provides for the amendment of the Person Injuries Assessment Board Act 2003, to remove the provision that the Consumer Director of the Central Bank would be a member of the Personal Injuries Assessment Board.

SCHEDULE 2

PART 14

This part provides for the amendment of the listed Acts to take account of the renaming of the Central Bank.

SCHEDULE 3

AMENDMENTS OF STATUTORY INSTRUMENTS

This Schedule provides for the amendment of the listed Statutory Instruments, to take account of the dissolution of the Irish Financial Services Regulatory Authority, the creation of a unitary structure and the renaming of the Central Bank.

An Roinn Airgeadais,
Márta, 2010.

Wt. —. ????, 3/10. Cahill. (X55909). Gr. 30-15.

APPENDIX

The National Asset Management Agency

A Brief Guide

30th March 2010

What is NAMA?

The National Asset Management Agency is a key part of the solution to the current banking difficulties in Ireland.

The Government examined all of the potential approaches available to it to deal with the riskiest loan portfolios on the balance sheets of Irish banks. These loans were preventing banks from lending into the economy which is required to support economic recovery. Following an examination of the options available, it was decided that an asset management agency approach was the best means of ensuring the stability of the financial system and the protection of depositors and of ensuring that banks were able to lend to the real economy.

NAMA is an asset management company that will acquire good and bad loans from participating institutions. It will manage these assets (hold, dispose, develop or enhance them) with the aim of achieving the best possible return for the taxpayer on the acquired loans and on any underlying assets over a 7 - 10 year timeframe.

NAMA is a workout vehicle, not a liquidation vehicle, and can take the longer view on borrowers and assets if it makes commercial sense to do so.

NAMA is sometimes described as a “toxic” or “bad” bank. In fact, it is not a bank since it will not be taking deposits from the public and will not have a banking licence. Moreover, there will be a mix of bad or “non-performing” loans and good or “performing” loans in NAMA’s portfolio.

What is NAMA doing?

NAMA is buying loans, at a discount, from the participating banks. These loans come from the riskiest part of the banks’ portfolios - loans secured on development land and property under development. In addition, the largest property-backed loans of all the banks in the scheme are being acquired. Taking these riskier loan classes off the balance sheets of the banks concerned will make the banks safer and more secure for depositors and investors and free them to lend again to the productive economy.

By doing this NAMA is putting itself in the place of the bank that originated the loan and will have all the same rights to pursue debts, where this is necessary. Borrowers who continue to meet their contractual obligations will, of course, have their rights fully protected.

What price will NAMA pay for the loans?

The price NAMA will pay for the loans will not be based on the peak prices recorded during the property boom. Instead, the price will be based on the current market value of the property adjusted to NAMA’s view of its long-term economic value in accordance with the valuation methodology approved by the EU Commission.

In most cases, the long-term economic value will be significantly less than the outstanding loan extended to the borrower who will continue to owe the full amount. In some cases NAMA will pay just a nominal amount for loans where, for example, the underlying security is deficient or non existent.

What is the NAMA “discount” or “haircut”?

The NAMA “discount” or “haircut” refers to the discount applied by NAMA when buying loans from the banks. Every loan will be valued separately and professionally on behalf of NAMA. The actual amount of the discount applied will depend on the quality of the underlying property (which is the security for the loan), on any other collateral and on whether the loan is performing or non-performing.

In simple terms the discount is the difference between the nominal value of a loan on the bank’s books and the price NAMA will pay for it.

How will NAMA pay for the loans it buys and how much will it cost the taxpayer?

NAMA is not paying cash but will exchange Government Guaranteed Securities (95% of the total consideration) for the loans it buys. These Securities will pay a floating rate of interest but it is expected that the cash flow from the loan assets acquired by NAMA will be sufficient to cover the interest payments on the NAMA securities.

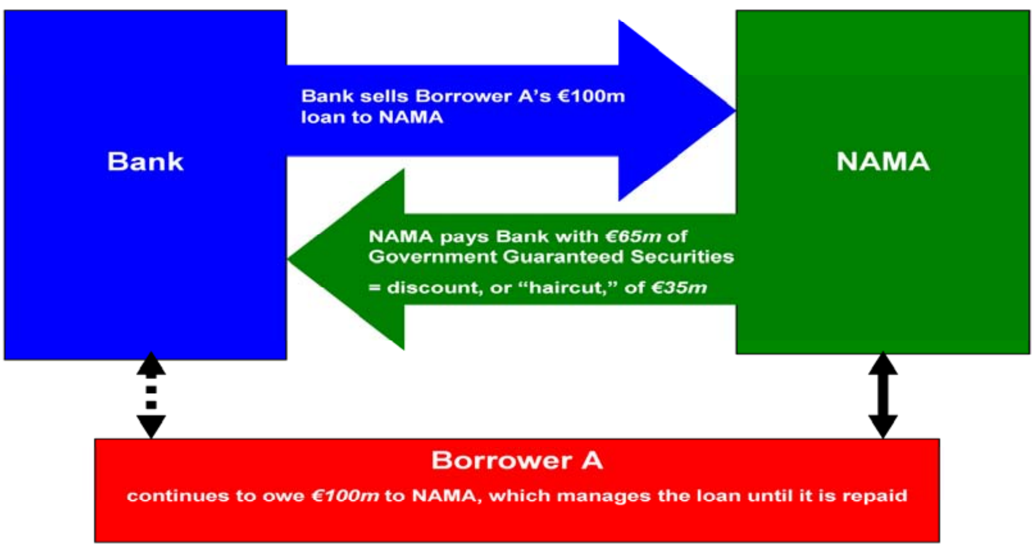
NAMA will pay the remaining 5% of the total consideration in the form of NAMA subordinated securities.

The potential book value of loans that will be transferred to NAMA is estimated to be in the region of €80 billion. NAMA will not pay anything approaching this amount for the loans. To ensure best value for money for the taxpayer NAMA will pay a discounted price for these loans – considerably less than their book value. The borrowers, however, will continue to owe NAMA the full amount of their outstanding loans regardless of the price paid by NAMA.

What will NAMA want to achieve with these loans?

NAMA will manage the loans it takes on so as to obtain the best achievable return from them. It will collect interest due

How NAMA works



The discount figure used is for illustrative purposes only and pursue debts so as to ensure its own income stream and to recoup the taxpayer investment over time.

Income from loans that are being repaid will accrue through NAMA to the taxpayer. Where a borrower defaults and NAMA takes over the underlying asset, the proceeds from the sale of those assets will also accrue through NAMA to the taxpayer.

If NAMA succeeds in making a surplus when its work is finished, the taxpayer keeps all of it. If, however, NAMA makes a loss, a levy will be applied to the banks to make up the shortfall.

It has been suggested that the property market will need to recover to 2004-2007 levels for NAMA to break even. The scale of recovery required is, in fact, a more modest 10% over the lifetime of NAMA.

What happens after loans transfer to NAMA?

NAMA is acquiring the loans of the largest 70-100 borrowers first. Borrowers will have to submit a detailed 3-year business plan to NAMA within 30 days of their loans being acquired. NAMA will then determine whether these plans are viable and will either approve them, reject them or refer them back to the respective borrowers for amendment.

Where plans are approved, NAMA will monitor the borrowers' subsequent performance to ensure they adhere to the targets contained in the approved business plans.

Where business plans are rejected and borrowers are considered to be no longer viable, NAMA will take whatever actions it considers necessary to protect the interests of the taxpayer, be it through the appointment of Statutory Receivers, receivers, or through the use of vesting orders or other enforcement mechanisms such as liquidation.

How will NAMA evaluate these business plans?

NAMA will insist that borrowers provide business plans that are commercial, realistic and backed up by hard data. There are a number of important considerations for NAMA in assessing borrowers' business plans. Some of the projects originally envisaged under these loans will not be allowed to proceed if they no longer make commercial sense. Other projects may remain commercially viable but may need investment in order for them to reach completion and generate cash flow through rental activity or through disposals. NAMA may, provided it makes commercial sense to do so, make funding available to allow these projects to be finished. It also has the flexibility to enter into partnerships or joint ventures as a means of ensuring project completion. Finally, borrowers may be required to sell non-income producing assets (primarily land and development assets) at appropriate prices in the early years of NAMA to generate cash to support their own operations – this will be on a case-by-case basis.

How exactly will NAMA improve the situation?

It is important to take these property loans off the balance sheets of the banks now not because they are inherently worthless but because they are part of a class of assets whose worth is harder to assess in the current economic environment. Irish banks rely heavily on financial institutions abroad for capital market funding but the financial and capital markets are uncertain about the overall impact of such property loans on the sustainability and viability of the banks and about the extent of the losses these loans will generate.

Replacing these property-related loans with Government Guaranteed Securities will remove uncertainty about the soundness of banks' balance sheets and make it easier for them to access funds in the international financial markets.

Banks cleansed of risky categories of loans will be free to concentrate on their core business of lending to and supporting businesses and households.

Is NAMA a bailout for developers?

No. Just as any borrower from a bank must expect to have to repay his or her debts in full, the same will apply to anyone whose debts are transferred to NAMA. NAMA has a clear commercial mandate to recover debt and therefore its purpose is certainly not to let developers or any other borrowers walk away from their respons bilities. In fact, NAMA will assess each borrower's viability more rigorously and impartially than banks have done to date. Moreover, this assessment will be based on the borrower's aggregate exposure to all institutions. Some borrowers are unlikely to survive this process and their businesses may ultimately be liquidated.

Is NAMA paying large fees to advisers?

To safeguard taxpayers interests NAMA will not acquire any loan without the most rigorous examination of its real value and the security attaching to it. This means that NAMA has to engage professional assistance.

The cost of advisory services has been low to date. The very competitive and thorough public procurement process used by NAMA for valuation and legal due diligence services is in fact driving the cost of these services down. Furthermore, NAMA will recoup the cost of these services from the banks as the valuation regulations provide for recovery of initial due diligence and any subsequent enforcement costs (i.e. legal and other costs incurred in the process of taking over the underlying asset when a borrower defaults). These costs will be recouped through an upfront deduction of 5.25% from the price NAMA will pay the banks for the assets.

Who runs NAMA?

NAMA has been established on a statutory basis under the aegis of the National Treasury Management Agency (NTMA) which has a proven track record in meeting the State's financial requirements in a number of different areas.

NAMA has its own Board comprising seven members appointed by the Minister for Finance. The Chief Executive of NAMA and the Chief Executive of NTMA are also on the Board.

The Chief Executive and the Chairman of NAMA are accountable to the Committee of Public Accounts and must report to Dáil Éireann on NAMA's appropriation accounts and on the reports of the Comptroller and Auditor General who will audit NAMA's accounts. To ensure that both Houses of the Oireachtas are fully aware of NAMA's financial and business activities, the Minister for Finance will lay copies of NAMA's annual report and such other reports as appropriate before each House of the Oireachtas.

The NAMA numbers (as of March 2010)

- The portfolio size is approximately €80 billion. NAMA will acquire some 14,000-15,000 loans.
- The largest 100 borrowers account for approximately 50% of the portfolio. Some 1,400 other borrowers make up the rest.
- About 67% of NAMA's prospective assets are based in the Republic of Ireland and approximately 6% in Northern Ireland. The rest are overseas, with the bu k of these (approximately 21%) in the UK.
- About 43% of NAMA's prospective assets are land, about 26% are development and about 31% are commercial.

More information on the National Asset Management Agency can be found at www.nama.ie