TUARASCÁIL ón gComhchoiste Fiosrúcháin i dtaobh na Géarchéime Baincéireachta

An tAcht um Thithe an Oireachtais
(Fiosrúcháin, Pribhléidí agus Nósanna Imeachta), 2013

REPORT of the Joint Committee of Inquiry into the Banking Crisis

Houses of the Oireachtas
(Inquiries, Privileges and Procedures) Act, 2013

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Dept. of Finance
DOF: Core Book 22

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THEME: C5

Appropriateness and effectiveness of international, Ireland-specific policy responses

LINE OF INQUIRY: C5b

The Liquidation of Irish Bank Resolution Corporation (IBRC), the promissory notes refinancing and the relationships with the European Central Bank (ECB)

An Roinn Airgeadais
Department of Finance

Oifig an Aire
Office of the Minister

Sráid Mhuirfean Uacht,
Baile Átha Cliath 2,
Éire.

Upper Merrion Street,
Dublin 2,
Ireland.

Teileafón / Telephone: 353-1 604 5626
Facsuimhir / Facsimile: 353-1 676 1951
Glao Áitiúil / LoCall: 1890 66 10 10
http://www.finance.gov.ie

National Treasury Management Agency
Treasury Building
Grand Canal Street
Dublin 2

___ February 2013

Directions to the National Treasury Management Agency ("NTMA") pursuant to Section 4(4) of the National Treasury Management Agency Act, 1990, as amended (the "Act")

These directions are given pursuant to Section 4(4) of the Act.

IRISH BANK RESOLUTION CORPORATION ACT

I give these directions having appointed Kieran Wallace and Eamonn Richardson of KPMG, 1 Stokes Place, St Stephen's Green, Dublin 2 as joint special liquidators of Irish Bank Resolution Corporation Limited (the "**Special Liquidators**") pursuant to the Irish Bank Resolution Corporation Act 2013 (the "**IBRC Act**").

I hereby direct the NTMA, for the purposes of Section 54(7F) of the Finance Act, 1970 and subject to the terms of these directions, to:

1. engage with the Special Liquidators (acting on behalf of Irish Bank Resolution Corporation Limited (in liquidation) ("**IBRC**")) in relation to, and use reasonable endeavours to enter into, (including by way of novation of existing IBRC derivative transactions), such derivative transactions of a normal banking nature as the Special Liquidators consider necessary for the purpose of managing the interest rate and foreign exchange exposure of IBRC;

2. terminate or amend its existing derivative transactions with IBRC and, if requested by the Special Liquidators, enter into new derivative transactions on substantially similar terms with the Special Liquidators (acting on behalf of IBRC) and if the Special Liquidators request, transfer collateral under such terminated transactions to form collateral under such new derivative agreements;

3. enter into a Facility Agreement with IBRC, the Special Liquidators and the National Asset Management Agency, in the form attached in Schedule 1;

4. provide the Special Liquidators and the National Asset Management Agency or their agents or advisers with such information and assistance that they may reasonably require for the purnoses of or in connection the foregoing directions; and

5. do all things, take all steps and enter into such other agreements and execute such documents as the NTMA considers expedient or necessary to facilitate the transactions contemplated by paragraph 1 to 4 above;

DE109/058/AC#7271928.1

SAVE HOWEVER THAT the NTMA shall have no obligation to:

(a) participate in a novation of derivative transactions with IBRC or the Special Liquidators (acting on behalf of IBRC); or

(b) enter into any derivative transactions the Special Liquidators consider necessary for the purpose of managing the interest rate and foreign exchange exposure of IBRC;

otherwise than on terms acceptable to the NTMA.

The NTMA shall not be a fiduciary or adviser to the Special Liquidators (acting on behalf of IBRC) in respect of any transaction entered into pursuant to these directions but shall enter any transactions on the basis that the Special Liquidators (acting on behalf of IBRC) shall make their own independent decisions to enter into derivative transactions and make decisions as to whether such derivative transactions are appropriate or proper for IBRC based on their own judgment and upon advice of their advisers.

ISSUE AND EXCHANGE OF GOVERNMENT BONDS

I give these directions in relation to the promissory note dated 22 December 2010 issued by me to IBRC in the aggregate principal amount of €25.3 billion, and the promissory note dated 22 December 2010 issued by me to Irish Nationwide Building Society in the aggregate principal amount of €5.3 billion, (together, the "**Promissory Notes**").

I hereby direct the NTMA, for the purposes of Section 17(1) of the IBRC Act and subject to the terms of these directions, to:

1. enter into an Exchange Deed among the Central Bank of Ireland (the "**CBI**"), the Minister for Finance and the NTMA in the form attached in Schedule 2, pursuant to which the NTMA will issue floating rate treasury bonds to the CBI in exchange for the transfer of the Promissory Notes to the NTMA, and issue the floating rate treasury bonds required to be issued by the terms of such Exchange Deed (the "**Floating Rate Bonds**");

2. enter into an Exchange Option Deed among the CBI, the Minister for Finance and the NTMA in the form attached in Schedule 3, pursuant to which the NTMA will grant the CBI an option to exchange (on an annual basis commencing in 2027) certain of the Floating Rate Bonds for fixed rate treasury bonds issued by Ireland acting through the NTMA ("**Fixed Rate Bonds**"), and issue any Fixed Rate Bonds required to be issued by the terms of such Exchange Option Deed;

3. do all things, take all steps and enter into such other agreements and execute such documents as the NTMA considers expedient or necessary to facilitate the transactions contemplated by paragraph 1 and 2 above.

I reserve the right to issue further directions to you from time to time.

Yours faithfully,

Michael Noonan TD
Minister for Finance

Direction to NTMA

Minister.

1. Approval sought

Your approval is sought for issuing the Direction to NTMA as set out in the envelope overleaf. If you so agree please sign the document.

2. Background

As you are aware IBRC has been wound up by means of a special liquidation order and promissory notes held by IBRC have moved into the ownership of the Central Bank of Ireland. The Government has approved the exchange of these promissory notes for Government bonds, following an agreement with the ECB.

Section 4 of the National Treasury Management Agency Act, 1990, provides that in carrying out its delegated functions the NTMA is subject your control and general supervision. It further provides that for that purpose you may give directions or guidelines to the NTMA and the NTMA shall comply with any such directions and perform its functions in accordance with any such guidelines.

In order to facilitate the decision of the Government and in order to exercise appropriate control and supervision over the NTMA in respect of this function I submit it is appropriate for you to issue this direction to the NTMA.

Ann Nolan

7 February 2013.

Special resolution and Direction relating to IBRC

Minister.

1. Approval sought

Your approval is sought for issuing the Special Resolution and the Direction to IBRC as set out in the envelope overleaf.

If you so agree please sign each document.

2. Background

As you are aware it is proposed to seek the approval of Government to introduce the Irish Bank Corporation Bill, 2013, to the Oireachtas today.

Media speculation, based on a Press ~~Bloomberg~~ story, has introduced instability in respect of IBRC and consequently it is necessary to take certain actions in order to stabilise the situation until the Oireachtas has had an opportunity to consider the Bill.

3. Special Resolution

This is a written Resolution by you as the sole shareholder of IBRC to allow you to issue a direction to the directors of IBRC not to exercise all or any of the powers conferred upon them as directors of IBRC. The Resolution also allows you to vest all of the powers conferred upon the directors in "the Relevant Person".

This document is at Tab A.

4. Instruction pursuant to Special Resolution

After the special resolution has been made, and the articles of Association of the Company amended by the Insertion of the new Article 41A the instruction at Tab B can be signed. This instruction directs the members of the board not to exercise any of the powers conferred upon them by the Companies Acts, the articles of association or otherwise and vests all such powers in the Relevant person.

The vesting of such powers in the Relevant Person should facilitate an orderly transition between the board and the special liquidators whose appointment is anticipated under the IBRC Act, after it has been enacted. This interim step is expected to be in place for a limited period of no more than 48 hours. During this period it will be preferable to have the powers of the board vested in a single person rather than residing in the board as a whole.

It is proposed that the Relevant Person would be Padraig Monaghan, who is an employee of KPMG. He will be in a position to liaise closely with the two proposed special liquidators, who are partners in KPMG.

This document is at Tab B.

5. Direction Order.

Section 3(3) of the Anglo Irish Bank Act, 2009, as amended enables you to give a direction in writing to IBRC requiring it to do or refrain from doing anything the doing or refraining from doing of which is, in the opinion of the Minister, necessary or expedient in the public interest, subject to regulatory requirements.

If you are of the opinion that it is necessary or expedient in the public interest that IBRC be directed in accordance with the document at Tab C I would ask that you sign the direction.

The publication of the Bloomberg story has generated, or has the potential to generate, significant rumour, controversy and doubt in the market and the public mind as to the financial stability and solvency of IBRC.

There is a significant risk that such rumour, controversy and doubt as to the financial stability and solvency of IBRC may in turn lead to an uncontrolled withdrawal of credit and deposits from IBRC.

There is a significant risk that an uncontrolled withdrawal of credit and deposits from IBRC may result in the actual financial instability and insolvency of IBRC. Were IBRC to become financially unstable and / or insolvent in an uncontrolled or disorderly manner, this could pose a serious risk to the stability of, or cause significant disruption to, the Irish banking system and the economy of Ireland as a whole.

The facts reported in the Bloomberg story are materially accurate. It is proposed, subject to Government approval, to introduce the IBRC Bill to the Oireachtas imminently. Because the information and facts reported in the story are materially true and accurate, it is obviously not possible for the Minister or the Government to address the rumour and controversy generated by the story by denying the accuracy thereof or by refuting that that the Department of Finance has proposed that IBRC would be wound-up.

I would submit in those circumstances that it is necessary and expedient in the public interest that IBRC be directed in accordance with the direction order at Tab C in order to enable the designated persons to prepare to take up their appointment as special liquidators and in order to assist to stabilise IBRC in the interim, pending the introduction of the legislation.

The Direction order instructs IBRC to grant Kieran Wallace and Eamonn Richardson, who are the proposed special liquidators, with free and unfettered access to the Bank's premises, access and records and shall provide such assistance and support as they shall request (and in obtaining such access, assistance and support, they shall be considered to be acting as an advisor to you for the purposes of Section 21 of the Act);

The order also directs that the Bank shall continue to maintain the confidentiality of any non-public information within the Bank's control and that the Bank shall refrain from contacting and otherwise speaking with any third party (including the media) on any matter or thing concerning or relating to these directions.

Ann Nolan

6 February 2013.

An Roinn Airgeadais
Department of Finance

Oifig an Aire
Office of the Minister

Sráid Mhuirfean Uacht, Baile Átha Cliath 2, Éire.
Upper Merrion Street, Dublin 2, Ireland.
Teileafón / Telephone: 353-1 604 5626
Facsuimhir / Facsimile: 353-1 676 1951
Glao Áitiúil / LoCall: 1890 66 10 10
http://www.finance.gov.ie

The Directors
Irish Bank Resolution Corporation Limited
Stephen Court
18/21 St. Stephen's Green
Dublin 2
6 February 2013

Directions to Irish Bank Resolution Corporation Limited (the "Bank") pursuant to Section 3(3) of the Anglo Irish Bank Corporation Act 2009 (the "Act"), Instructions to the Bank's Directors pursuant to Article 41A(a) of the Articles of Association of the Bank (the "Articles") and Vesting of powers of directors pursuant to Article 41A(b)

Direction: IBRC/1/13

These directions are given pursuant to Section 3(3) of the Act. I am giving these directions having decided that it is necessary to do so in the public interest.

Pursuant to Section 3(3) of the Act, I hereby direct: 6/2/2013

1. that with effect from 4.25pm on 6 February 2013, the Bank shall grant Kieran Wallace and Eamonn Richardson each of KPMG (the "**Designated Persons**") with free and unfettered access to the Bank's premises, access and records and shall provide such assistance and support as the Designated Persons shall request (and in obtaining such access, assistance and support, the Designated Persons shall be considered to be acting as an advisor to me for the purposes of Section 21 of the Act);

2. that the Bank shall continue to maintain the confidentiality of any non-public information within the Bank's control; and

3. that the Bank shall refrain from contacting and otherwise speaking with any third party (including the media) on any matter or thing concerning or relating to these directions.

These directions are issued subject to regulatory requirements.

I reserve the right to issue further directions to you from time to time pursuant to Section 3(3) of the Act.

Yours faithfully,

Michael Noonan TD
Minister for Finance

Copy: Company secretary, Irish Bank Resolution Corporation Limited

An Roinn Airgeadais
Department of Finance

Oifig an Aire
Office of the Minister

Sráid Mhuirfean Uacht,
Baile Átha Cliath 2,
Éire.

Upper Merrion Street,
Dublin 2,
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The Directors
Irish Bank Resolution Corporation Limited
Stephen Court
18/21 St. Stephen's Green
Dublin 2

6 February 2013

Instruction

Pursuant to Article 41A(a) of the Articles, in my capacity as the sole member of the Company, with effect from 4.25 p.m. on 6 February 2013 I hereby instruct the directors of the Company not to exercise all or any of the powers conferred upon them by the Companies Acts, the articles of association or otherwise (including such powers as they may have delegated to employees or officers of the Company), pending further instruction from me in my capacity as the sole member of the Company.

Vesting

Pursuant to Article 41A(b) of the Articles, in my capacity as the sole member of the Company, with effect from 4.25pm on 6 February 2013 I hereby vest all of the powers conferred upon the directors by these articles of association or otherwise in Padraic Monaghan, employee of KPMG, (the "**Relevant Person**") until further notice (and for the purposes and as a condition of such vesting, the Relevant Person shall be considered to be acting as an advisor to me for the purposes of Section 21 of the Act). .

Yours faithfully,

Michael Noonan

Michael Noonan TD
Minister for Finance

Copy: Company secretary, Irish Bank Resolution Corporation Limited

An Roinn Airgeadais
Department of Finance

Oifig an Aire
Office of the Minister

Sráid Mhuirfean Uacht,
Baile Átha Cliath 2,
Éire.

Upper Merrion Street,
Dublin 2,
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IRISH BANK RESOLUTION CORPORATION LIMITED ("the Company")
(Company Number 22045)

Decision of the sole member of the Company taken by way of written decision pursuant to Regulation 9 of the European Communities (Single-Member Private Limited Companies) Regulations 1994 pursuant to which the sole member has decided that the following shall be passed as a special resolution of the Company.

SPECIAL RESOLUTION

That the articles of association of the Company be and are hereby amended by the insertion after Article 41 of the following new Article 41A:

"41A The sole member of the Company shall be entitled at any time, by notice in writing to the Company–

(a) to instruct the directors of the Company not to exercise all or any of the powers conferred upon them by the Companies Acts, these articles of association or otherwise (including such powers as they may have delegated to employees or officers of the Company), pending further instruction from the sole member and without prejudice to the generality of the foregoing, the powers given to the Directors pursuant to Article 41 are expressly subject to the powers of instruction of the sole member under this Article 41A, and

(b) to vest all or any of the powers conferred upon the directors by these articles of association or otherwise in such person or persons, and for such period of time, and on such terms and conditions, as the sole member thinks fit."

Michael Noonan
THE MINISTER FOR FINANCE
as sole member of the Company

Dated 6th February 2013

An Roinn Airgeadais
Department of Finance

Oifig an Aire
Office of the Minister

Sráid Mhuirfean Uacht,
Baile Átha Cliath 2,
Éire.

Upper Merrion Street,
Dublin 2,
Ireland.

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Facsuimhir / Facsimile: 353-1 676 1951
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http://www.finance.gov.ie

Secret

25 October 2012

Mr Patrick Honohan
Governor
Central bank of Ireland
Dame St
Dublin 2

Dear Governor,

Thank you for your support for our efforts to address the problems associated with IBRC, the Promissory Note and related matters. As you are aware a proposal, to address these issues, has been prepared and presented to the Economic Management Council (EMC). The Council has given approval for the submission of the proposal to the ECB for assessment and for consideration/decision by the Governing Council. I request, therefore, that you bring the attached proposal to the Governing Council, on behalf of the Irish Authorities at the forthcoming meeting scheduled for 8th November 2012.

I would like to emphasise some of the main arguments to support the proposal. The proposal has the advantage of representing a viable way forward which could preserve the financial stability of the Irish State and is fully compliant with the law including specifically Article 123 TFEU. From the Central Bank's and indeed the ECB's perspective the proposal does offer:

- A coherent and sustainable solution to IBRC and the ELA issue;
- That financial arrangements protect the interests of the Central Bank and the Eurosystem by ensuring that the Bank and the Eurosystem are made whole in the form of high quality marketable debt instruments issued or guaranteed by the Irish Government;

- The removal of the potential overhang of the refinancing of the Promissory which is a vital component in restoring financial stability of the Irish economy;

The Irish Government, in bringing forward this proposal, has specific objectives and requirements. These include:

- To address the serious and continuing disruption to the economy caused by the enduring threat to the stability of certain financial institutions in the State and the financial system generally,
- To protect and preserve the financial position of the Central Bank of Ireland and to ensure that it is not prevented from intervening to support financial institutions in the State in the interests of financial stability generally,
- To provide for the liquidation of IBRC in an expeditious and efficient manner having due regard to the common good.

In order to advance its objective of ensuring funding of the banking system and maintaining the stability of the Irish economic system the Irish Government has certain fundamental requirements if this proposal is to progress. These are that:

- The ECB agree, as a minimum, to a long term weighted average life for Government and Government guaranteed marketable bonds in line with the proposal;
- The ECB agree that the Central Bank of Ireland will affirm to the market that it will hold these bonds to maturity in order to ensure the financial stability of Ireland,
- That MFI status is retained for IBRC, for technical reasons, post liquidation until the assets are sold.

Absent agreement on these key issues the proposal will not proceed.

I believe that the proposal represents a viable way forward and I am happy for you to present it to the ECB on behalf of the State.

Yours sincerely

Michael Noonan

Michael Noonan
Minister for Finance

C5 Appropriateness and Effectiveness of International, Ireland-specific policy responses

C5b – Liquidation of IBRC/Promissory Notes Refinancing/Relationships with ECB

Information Summary (Section 33AK)

Document category	Time period
• Letter from Central Bank to the Department of Finance	Spring 2012

The letter refers to the successful deferral of a Promissory Note payment due in March 2012 however notes that a longer term solution is needed, as an annual renegotiation of the Promissory Notes would not be satisfactory.

The letter goes on to discuss possibilities for refinancing the promissory notes, and offers the support and assistance of the Central Bank of Ireland in securing a long-term funding agreement for the €40 billion IBRC debt.

CB01B01 USB14-0031.PDF   CB00152-001/002

An Roinn Airgeadais
Department of Finance

IBRC (IN SPECIAL LIQUIDATION)

<u>Filenote</u>: Background Information & Current Status Update

Prepared By: **John Cronin, SMU**

Date: **6th November 2013**

LIQUIDATION TRANSACTION MECHANICS

- Legislation passed on 7th February 2013 appointing SL's to execute liquidation of IBRC.
- Appointment of SL's triggered events of default under a range of agreements between IBRC, the CBI and third parties. CBI became the economic owner of the Promissory Notes and other assets that were held by the CBI as collateral for ELA funding that had been provided to IBRC.
- Promissory Notes replaced with a series of longer term, non-amortising floating rate Government bonds.
- CBI assigned rights and entitlements under existing ELA Facility Deed to National Asset Resolution Limited ("NARL"), a newly established NAMA-IL SPV in exchange for €12.9bn of Government Guaranteed NAMA Bonds.
- NARL entitled to the repayment of the full amount owed by IBRC under the Facility Deed (€12.9bn at 7th February) together with the right to enforce security over the assets of IBRC.
- SL's will dispose of the charged assets and apply the proceeds of sale to discharge creditors of IBRC including NARL.

VALUATION & SALE PROCESS MECHANICS

- Independent valuers required to arrive at an independent valuation of the assets of IBRC (In Special Liquidation) by 30th November 2013 in accordance with any directions set out in the Ministerial Instructions issued to the SL's (which stipulate that a discount rate of 4.5% to be applied to present value future cashflows and that a haircut to the final valuation of 2.32% is to be applied to reflect potential legal issues like security and title deficiencies).
- SL required to run a sale process for the assets which is to be completed by 31st December 2013 or as soon as practicable thereafter (is expected to run into Q1 2014). Assets will be sold to third parties in the event that final binding bids at or above the independent valuation are received.
- Any assets that have not been sold to third parties will be transferred to NARL at the independent valuation price. If the value of the assets transferred to NARL (to include cash accruing from third party sales) is less than the amount due to NARL under the Facility Deed, then the Minister will be required to compensate NARL for the amount of any such shortfall.
- The amount due to NARL under the Facility Deed has reduced to €12.6 billion as a €300 million repayment was recently made by the SL. Further repayments are expected shortly.
- We do not currently anticipate a shortfall for NARL (based on information received from the SL).
- NARL required to fair value any assets acquired and review for impairment at reporting dates.

SECRET

Oifig an Aire Airgeadais

Ref No: F 525/082 /12 **Date: 6th February 2013**

Memorandum for Government

IBRC Liquidation and Promissory Notes Settlement

Introduction:

1. The Irish authorities have been in discussion with the ECB for a considerable period of time on proposals to restructure the banking sector and amend the financial terms of the IBRC Promissory Notes. The Central Bank of Ireland (the "CBI") has advanced Emergency Liquidity Assistance ("ELA") to IBRC secured (under a sale and repurchase agreement, the "ELA repo") by the Promissory Notes and bonds issued by the National Management Agency ("NAMA") (together, the "ELA repo collateral") and in the form of a loan advanced under a facility deed (the "ELA Facility Deed") secured by a Ministerial guarantee and a floating charge over all the unencumbered assets of IBRC. In addition, IBRC currently has an outstanding open market operation with the Eurosystem.

2. As part of the ongoing discussions the Department of Finance submitted a proposal through the CBI to the ECB to address structural and liquidity issues impacting on the banking sector.

3. We have now reached agreement with the ECB on the implementation of these proposals.

Decision Sought

4. The Minister for Finance requests the Government to;

   4.1. Approve a proposal which provides for:

      4.1.1. the immediate liquidation of IBRC;

      4.1.2. the immediate exchange of the Promissory Notes for an agreed portfolio of long term non-amortising Government Bonds;

      4.1.3. the issue of new NAMA bonds as consideration for the purchase of the ELA debt of IBRC owed to the CBI under ELA Facility Deed and the assignment by the CBI to NAMA of the benefit of the floating charge held by the CBI over IBRC assets and the benefit of the Ministerial Guarantee in respect of the ELA Facility Deed obligations.

4.2. A copy of the proposal is attached at Appendix 1 and a summary presentation of the proposal is attached at Appendix 6.

5. In the context of this proposal the Government is specifically asked to:

5.1. Approve the publishing of a Bill, the purpose of which is to help to address the continuing serious disruption to the economy and the State by providing for the immediate liquidation of IBRC (copy of Explanatory Memo and Bill attached at **Appendix 2**).

5.2. Progress the proposed Bill through all stages and Houses of the Oireachtas and proceed to early signing this evening. This is necessary due to the sensitivity of the matter, and potential of any delay to give rise to instability in the banking system and the incurring of unnecessary losses at IBRC.

5.3. Approve, pursuant to Article 25.2 of the Constitution, that the President sign the bill as soon as possible and earlier than the fifth day after it has been presented to him.

5.4. Approve the detailed implementation of a proposal, including the signing and issue of legal documentation, following on the enactment of the Irish Bank Resolution Corporation Act 2013. Details of the legal documents and procedures required are set out at **Appendix 3**.

5.5. Approve the exchange of the Promissory Notes with a portfolio of Government instruments which reflect the economic terms agreed in technical discussions with the ECB.

5.6. The issue of new NAMA bonds in respect of the purchase by NAMA of the ELA Facility Deed debt owed to the CBI by IBRC, along with, the benefit of the floating charge over IBRC assets held by the CBI and the benefit of a Ministerial Guarantee in respect of that debt. The value of NAMA bonds issued to the CBI will be equal to the net amount outstanding to the CBI by IBRC under the ELA Facility Deed (after all set off rights have been exercised by the CBI).

6. The Government is also asked to note:

6.1. That, on the enactment of the legislation, it will be necessary in implementing the proposal, to issue a number of Orders and legal documents under the Minister's signature or the signature of an authorised official, if appropriate. The NTMA order referred to at paragraph 6.1.7 below will be issued on behalf of the Government (by the use of the Government seal). The authority to issue these documents in respect of the liquidation of IBRC is generally provided for in legislation. The principal documents include:

6.1.1. Directions to the board of directors of IBRC directing it to allow certain designated persons (being the proposed Special Liquidators of IBRC) free and unfettered access to the premises and records of IBRC, together with an instruction to the board of IBRC not to take any further action or exercise any of the powers conferred on them by the

Companies Acts (the articles of association of IBRC will be amended to facilitate the issue of this instruction by the Minister to the board of IBRC);

6.1.2. Special Liquidation Order – This is a Statutory Instrument providing for the appointment of joint Special Liquidators to IBRC (together the “Special Liquidator”);

6.1.3. Instructions to the Special Liquidator which outline the manner in which the liquidation of IBRC is to be conducted;

6.1.4. Directions to NAMA to acquire the ELA Facility Deed debt owed by IBRC to the CBI (together with the benefit of the floating charge and Ministerial Guarantee). For these purposes, NAMA will incorporate a special purpose company following enactment of the legislation;

6.1.5. Directions to NAMA to bid for all of the assets of IBRC as part of the sales process until IBRC’s debt to NAMA is repaid;

6.1.6. Directions to NAMA to advance loan facilities to the Special Liquidator to fund working capital, any additional lending to existing customers to preserve the value of the assets of IBRC and to fund hedging and other financial risk management operations;

6.1.7. Delegation of Powers to NTMA – This is a Statutory Instrument issued under the Government Seal providing the NTMA with the power to issue bonds as consideration for the exchange of the Promissory Notes (or other liabilities of the Minister to the Central Bank) and to enter into hedging transactions or other transactions of a normal banking nature for the management of risk arising from the liquidation of IBRC, and issue funds from the Exchequer for these purposes;

6.1.8. Directions to the NTMA to undertake certain hedging and financial risk management transactions on behalf of IBRC, to enter into documents (and issue Government Bonds) to give effect to the exchange of the Promissory Notes for Government bonds and a subsequent exchange of those Government bonds, and to perform its obligations thereunder; and

6.1.9. A Deed of Exchange of the Promissory Notes between the CBI, the Minister for Finance and the NTMA.

6.1.10. An Exchange Option Deed between the CBI, the Minister for Finance and the NTMA

6.1.11. Directions allowing the return of the 2025 Government bonds issued as consideration for the 2012 Promissory Notes payment to IBRC.

6.2. The appointment of the Special Liquidator to IBRC will result in the CBI retaining legal and beneficial ownership of the ELA repo collateral, including the Promissory Notes. It will also receive NAMA bonds in return for selling to NAMA IBRC's ELA Facility Deed debt and the benefit of the floating charge and ministerial guarantee.

6.3. The CBI will exchange the Promissory Notes with the NTMA for an agreed portfolio of long term non-amortising Government Bonds and will also acquire additional NAMA bonds and other high quality securities (including the 2025 Government bonds issued to IBRC as consideration for the 2012 Promissory Notes payment).

6.4. A full list of the documents and an explanation as to their purpose is provided for in **Appendix 3**. In addition a questions and answers document providing additional clarity on the proposal is attached at **Appendix 7**.

7. Background

7.1. Since the onset of the banking crisis Ireland has taken considerable steps to stabilise and restructure its banking sector including extensive recapitalisation and restructuring of the banks. This has placed a significant burden on the State's finances.

7.2. The Irish Authorities have been discussing proposals, in consultation with the CBI, the NTMA and our Troika partners, to restructure the banking sector, to improve the terms of the debt associated with the IBRC Promissory Notes and replace the ELA funding provided to IBRC for almost a year. These discussions were bolstered by the decision in principle at the June Eurogroup Summit which committed to examine the situation of the Irish financial sector with the view to further improving the sustainability of the well-performing adjustment programme.

8. Rationale for the Proposal

8.1. The Department of Finance developed a proposal to liquidate IBRC, replace the Promissory Notes with Government bonds which would then be held by the CBI, and transfer the residual IBRC loan assets to NAMA. This proposal was presented to the Economic Management Council ("EMC") on 25 October 2012 and was sent by the Governor of the CBI to the President of the ECB urging him to recommend it to the Governing Council of the ECB for approval. [redacted]

8.2. [redacted]

8.3. [redacted] it was necessary to ensure that the CBI's holding of Government bonds is retained for a significant length of time to enable the Government to have more affordable funding (and thus obtain the debt sustainability benefits of the proposal). It was important to ensure that clarity was brought to this issue as a large overhang of bonds and associated uncertainty around timing of sales by the CBI would exclude the NTMA from debt markets for a considerable period of time.

8.4. The CBI has agreed with the ECB that the CBI will sell these bonds overtime, contingent that the timing of such sales does not create issues of financial stability for the Irish financial system and the functioning of markets. To this end the ECB has agreed that the CBI would be required to sell €0.5 billion of bonds by the end of 2014 and would further be required to sell €2 billion of bonds each year following the passage of 12 years from the date of signing of the Special Liquidation Order. In addition the ECB has also agreed to support the retention of IBRC on the MFI list until its effective liquidation.

8.5. The nature of the agreement will require the CBI to retain the bonds as part of a trading portfolio and as such there will be an on-going requirement to mark to market the valuation of the bonds they hold. This will introduce P&L volatility for the CBI depending on the how the bonds perform in the market. It should be noted that this volatility may have an impact on the ability of the CBI to recirculate profits to the Exchequer.

9. Proposed approach to Exchanging the Promissory Notes for Long Dated Government Bonds and ending ELA to IBRC

9.1. In summary, the proposal will involve the liquidation of IBRC through the passing of the Bill and the appointment of the Special Liquidator pursuant to it to undertake the liquidation process under the direction of the Minister for Finance. The appointment of a liquidator to IBRC will result in the termination of the ELA repo and in the collateral provided by IBRC under this ELA repo, including the Promissory Notes, being taken on to the balance sheet of the CBI. In addition, IBRC's current Eurosystem monetary policy operation will terminate and the underlying collateral will be seized by the CBI and fall under a Eurosystem resolution process. On liquidation, there will be a number of immediate payments made under the Deposit Guarantee Scheme ("DGS") and the Eligible Liabilities Guarantee ("ELG") Scheme (these costs are set out at Section 12).

9.2. The CBI will exchange the existing Promissory Notes with the NTMA for an agreed portfolio of long term non-amortising floating rate Government bonds (convertible into fixed rate bonds after a period of time at the option of the CBI) and will retain any NAMA bonds and other high quality collateral acquired.

9.3. A new NAMA special purpose vehicle, National Resolution Limited ("NRL"), will be incorporated following enactment of this legislation to purchase IBRC's ELA Facility Deed debt from the CBI, together with the underlying floating charge and Ministerial Guarantee that secure the debt, for a purchase price equal to the net amount outstanding under the ELA Facility Deed (after set off has been applied). The purchase price will be satisfied by the issue of new Government guaranteed NAMA bonds. The steps set out in Sections 9.1, 9.2 and this Section 9.3 will terminate all outstanding ELA and make the CBI whole in respect of

IBRC's obligations to it, which is a central objective of this proposal and improves liquidity in the Irish banking system.

9.4. Given the extension of NAMA's remit as part of this proposal, the ECB has requested that NAMA's governance rules be adjusted to reflect those of other State owned Asset Management agencies in other Member States and this may include some level of direct oversight from the ECB.

9.5. The floating charge assets will be sold by the Special Liquidator, following an independent valuation process, to third parties and/or NRL. The Special Liquidator will endeavour to sell the assets to third parties so as to maximise the value of the assets sold. Current customers, including borrowers of IBRC, will not be prohibited from purchasing assets in this process, including their own loans. There will, however, be a requirement that connected assets are sold together in a minimum portfolio size, which will be determined by the Special Liquidator.

9.6. To the extent that the Special Liquidator receives bids from third parties at or above the value attributed to the assets by the independent valuer, then those assets may be sold to that third party. To the extent assets that are subject to the floating charge are not sold to third parties at or above the price established by the independent valuer, NRL will be required to purchase all such assets (subject to minor exceptions) at the price established by the independent valuer, up to the full amount of IBRC's debt outstanding to NAMA under the ELA Facility Deed. The Special Liquidator will set off the purchase price of any assets purchased by NRL against the amounts owed by the Special Liquidator to NRL under the ELA Facility Deed.

9.7. **If the value of the collateral is not sufficient to fully discharge IBRC's debt outstanding to NRL, the State will be required to reimburse NRL for the shortfall under the Ministerial Guarantee.** If, on the other hand, the value of the collateral is greater than the debt outstanding to NRL, the Special Liquidator will retain the surplus assets for the benefit of creditors generally.

9.8. Once the preferential creditors and NRL have been paid, to the extent that there is any value left in IBRC, the Special Liquidator will repay all unsecured creditors of IBRC in accordance with normal priorities set out in the Companies Acts. It is unlikely that there will be sufficient assets to repay unsecured creditors (including trade creditors) in part or at all. The Minister for Finance will rank as an unsecured creditor to the extent that he has paid out under guarantee schemes (excluding the Deposit Guarantee Scheme) (see below).

9.9. Eligible depositors, bondholders and derivative counterparties will be paid directly under the terms of the DGS (funded by the banks), the ELG Scheme (funded by the Minister for Finance), and, if required, the Derivatives Guarantee (funded by the Minister for Finance).

10. Impact of the Proposal

10.1. There are a number of immediate impacts as a result of this proposal;

10.2. IBRC will be wound up and eliminated from the Irish financial landscape with consequent reputational benefits.

10.3. The substantial and persistent ELA funding extended by the CBI to IBRC will disappear, to be replaced with a holding by the CBI of longer term, low cost non-amortising instruments and NAMA bonds of shorter duration.

10.4. The Promissory Notes, as currently structured, are an unsatisfactory arrangement, both from the perspective of the ECB and the Irish authorities, and will be eliminated.

10.5. Financial stability should be improved and Irish Government finances should benefit consistent with the commitment of the 29th June 2012 Euro Area Summit Statement to examine the situation of the Irish financial sector with the view of further improving the sustainability of the well-performing adjustment programme.

10.6. There will be a number of upfront payments by the State as required under the terms of the guarantee schemes (excluding the Deposit Guarantee Scheme) and, if applicable, to make good any shortfall for NAMA. These are fully set out in Section 12.

11. Benefits of the Proposal

11.1. The potential benefits of the proposal are considerable.

11.2. The value of the removal of IBRC from the financial landscape cannot be overstated. The liquidation of this institution represents a significant turning point on the road to economic recovery and removes, once and for all, the overhang of legacy issues associated with the institution.

11.3. Housing much of the 'wind-down assets' in a single wind-down vehicle, NAMA; the associated clean-up of the Irish banking system and taxpayer savings.

11.4. Improvement of the health of the Irish banking sector by putting in place a permanent, finite and viable solution for a significant part of the structural shortfall of bank financing that has emerged through the crisis.

11.5. The provision of a longer term refinancing solution for the Promissory Notes, which will have significant benefits from a market perspective because it will ensure the liability to repay is beyond most credit investors' time horizon.

11.6. The improvement of the financial position of the State by improving upon the funding solution (the Promissory Notes) that was employed to recapitalise IBRC. The transaction ensures that the cost of funding the residual €25bn Promissory Notes is spread out from a weighted average life of circa 7 - 8 years to a weighted average life of circa 34 - 35 years at a low funding cost for the State. This has a significant benefit over the period to maturity of the replacement instruments.

11.7. The current outstanding principal amount attributed to the Promissory Notes is €25bn. Interest payments will amount to €16.2bn by 2031. Under the current arrangement, the State is obliged to make a payment of €3.06bn every March for each of the next eleven years; thereafter it will make further payments which total c.€7.6bn over an eight year period.

11.8. In contrast, current market floating rate interest expectations suggest that the interest payment due on the replacement instruments exchanged for the existing Promissory Notes would be c.€0.8bn in the first year and gradually rising to c.€1.1bn within five years. More importantly, the new Government instruments will be non-amortising, which means the State only has to pay interest until maturity. There is a significant annual cash flow benefit to the State from moving from the current amortising arrangements to a long-term bullet repayment arrangement. This should also improve the State's ability to re-access the bond markets.

11.9. Significant financial benefits are expected as a result of the proposal, including a substantial reduction in the current annual cash flow burden for the State (c.€2.3bn in Year 1, and c.€20bn over the first 10 years if costs of the transaction are excluded), resulting in a reduced borrowing requirement. Additionally, the proposal is expected to result in a reduction in the deficit of c.€1 billion per annum before costs of the transaction (see below) over the coming years when no dividends had been expected from IBRC. The proposal is also expected to result in a significant improvement in the State's debt position over time.

11.10. In addition, by winding up IBRC, we are finally removing the legacy of Anglo Irish Bank and Irish Nationwide from the Irish banking system and substantial operational savings should result through the transfer of the residual debt to NAMA.

12. Costs/Risks of the Proposal

Upfront costs

12.1. There are a number of immediate costs that will accrue as a result of this proposal including exposures under the ELG, impacts on IBRC staff and other creditors and also the potential State liability to NAMA on foot of the Ministerial Guarantee associated with the IBRC debt.

12.1.1. When IBRC is placed in liquidation it is expected that there will be claims made under the DGS and the ELG (claims under the ELG will principally be made by senior guaranteed bondholders and depositors, to the extent that their deposits are not covered by the DGS). ELG payments are expected to cost the Exchequer between c.€

0.9bn and c.€1.1 billion based on current estimates. Payments made on foot of the DGS are funded by the banks through a fund administered by the CBI.

12.1.2. Fixed charge holders may be entitled to appoint receivers to realise any assets of IBRC that are the subject of fixed security. The Revenue will rank as a "preferential" creditor ahead of all other creditors, and behind only the costs of liquidation, the CBI (for so long as the CBI continues to hold security) and some fixed charge holders in respect of all amounts of employees' PRSI collected but not paid by IBRC prior to winding up; and as a preferential creditor in respect of certain amounts owing by IBRC in respect of CT, CGT, income tax, VAT, employers' PRSI contributions and PAYE.

12.1.3. As NAMA will be acquiring the net debt owing by IBRC to the CBI, it will rank behind fixed chargeholders and preferential creditors with respect to any payments from the proceeds of sale of IBRC's assets. The purchase of the debt by NAMA ensures that the CBI is fully repaid immediately. If NAMA does not recover the full amount of the debt, the Exchequer will have to make up the shortfall under the Ministerial Guarantee.

12.1.4. Unsecured creditors (such as trade creditors, unguaranteed bondholders and subordinated bondholders), must await the outcome of the asset valuation and sales process managed by the Special Liquidator to see what (if any) amounts will be available for distribution to them. To the extent that unsecured creditors are not paid, they may make a claim against the State on the grounds of 'legitimate expectations' based on previous Government statements of support for IBRC.

12.1.5. All employees will be made redundant on the winding-up of IBRC (circa 964 as at end December 2012). However, the Special Liquidator will seek to re-hire sufficient employees for the purposes of the orderly liquidation on such terms and for such duration as it may determine. Employees will rank as preferential creditors ahead of unsecured creditors (but behind the CBI and fixed charge holders) in respect of certain amounts owing on a winding-up, including accrued wages, salaries, holiday pay, sick pay, statutory redundancy, pensions contributions and claims for damages arising from accidents. Employees will claim under the Insolvency Fund in the first instance and, to the extent that the Minister for Enterprise, Trade and Innovation pays out under the Insolvency Fund, he will step into the shoes of those employees who have claimed as a preferential creditor in the liquidation.

Other costs

12.2. As NAMA will be acquiring the net debt owing by IBRC to the CBI, it will rank behind fixed charge holders and preferential creditors with respect to any payments from the proceeds of sale of IBRC's assets. The purchase of the debt by NAMA ensures that the CBI is fully repaid immediately. If the value of the assets is not sufficient to fully discharge amounts owing to NAMA, the Minister will be required to reimburse NAMA for the shortfall under the Ministerial Guarantee.

12.3. KPMG's preliminary estimate of the total costs of liquidation (including all advisory fees) is in the range of €30-35 million.

Legal risks

12.4. The Act provides that neither the Special Liquidation Order nor any instructions/directions affect any existing or future investigations of, or proceedings taken by, the CBI and/or DPP and/or any regulatory authority in respect of actions taken in IBRC prior to the liquidation. In the case of civil proceedings taken by IBRC (e.g., in relation to Quinn and Drumm), the Special Liquidator may continue the proceedings, transfer them to a third party or settle or otherwise discharge them. The Special Liquidator's duty in this regard will, in the ordinary course, be to maximise the assets of IBRC. However, the Minister may require the Special Liquidator to report to him in relation to such proceedings and give directions to the Special Liquidator in relation to the proceedings to the extent the Minister considers it necessary to achieve the purposes of the Act.

12.5. The proposal has significant operational and execution risks as well as the potential for unforeseen problems (as the liquidation of any bank of scale would) given its financial complexity, the risk of loss of key staff members from IBRC as a result of the process, and the fact that for stability reasons, it has not been possible to involve IBRC in planning for or performing diligence on the practical impact of its liquidation. These risks could lead to additional financial downside for the State. In addition, the proposed transaction involves the usual risks around constitutional challenge as well as challenges based, for example on the instructions and directions issued by the Minister to the Special Liquidators under the Act.

12.6. The legal risks of the proposal are further explored in **Appendix 5**.

Negative public reaction

12.7. The proposal will see all the employees of IBRC (circa 964 as at end December 2012) made redundant. While the Special Liquidator will seek to rehire the majority of staff, the contracts will be necessarily short term in nature.

12.8. Unsecured creditors (such as trade creditors, unguaranteed depositors, unguaranteed bondholders and subordinated bondholders), must await the outcome of the asset valuation and sales by the Special Liquidator to see what, if any, amounts will be available for distribution to them. It is important to note that the potential exists for many suppliers of IBRC to end up significantly out-of-pocket.

Other Risks

12.9. There could be potential payments required under the Derivatives Guarantee. There is a Derivatives Guarantee in place which states that the Minister will only be liable for net amounts due to the relevant counterparty after such counterparty has exercised all of its rights under the relevant agreements to which it is a party (including rights by way of set-off) and after the relevant counterparty has exercised all of its rights in respect of counterparty collateral. Given that we understand that IBRC has an excess cash collateral position, it is not anticipated that claims will be made under this guarantee. However, we cannot be certain of this conclusion as we do not currently have sufficient financial information, in particular, on a contract-by-contract basis.

13. Irish Bank Resolution Corporation Bill 2013

13.1. The proposed IBRC Bill 2013 (attached at **Appendix 2**) provides for the making of a Special Liquidation Order by the Minister, for the winding up of IBRC and the publication of that Order.

13.2. The making of this Order will have the same effect as the making of a winding up Order by the High Court or the appointment of a liquidator. The Order will also allow the Minister to issue instructions and directions to the Special Liquidator in relation to the winding up of IBRC. This is to ensure the orderly transfer of assets, minimising the risk of loss of value to the CBI or the Irish State.

14. The Purposes of the Bill

14.1. The purposes of the Bill provide for the winding-up of IBRC in an orderly and efficient manner in the public interest and, in so doing to:

14.1.1. help to address the continuing serious disturbance to the economy of the State;

14.1.2. end the exposure of the State and the CBI to IBRC;

14.1.3. help to restore the financial position of the State;

14.1.4. help to enable the State to re-establish normalised access to the international debt markets;

14.1.5. assist, to the extent achievable, in recovering the financial assistance provided by the State to IBRC as fully and efficiently as possible;

14.1.6. resolve the debt of IBRC to the CBI;

14.1.7. protect the interests of taxpayers;

14.1.8. restore confidence in the banking sector by furthering the reorganisation of the Irish banking system in the public interest; and

14.1.9. underpin Government support measures in relation to the banking sector;

with a view to restoring the financial position of the State and re-establishing normalised access to international debt markets. (A copy of the Bill and Explanatory Memorandum is attached at **Appendix 2.**)

15. Next Steps

15.1. Should the proposal be agreed it is anticipated that we will progress the Bill through all stages of the Houses of the Oireachtas this evening with enactment as soon as possible thereafter. Following enactment of the legislation immediate steps will be taken to formally appoint the Special Liquidator and proceed at speed with the proposal.

15.2. It is envisaged that the valuation and sales processes and ultimate transfers to NAMA will be fully completed in 2013.

16. Views of National Authorities

16.1. **Central bank –**

16.1.1. The Governor of the CBI has provided the following comment;

"The protracted duration of the negotiations, especially over the past five months, reflects the determination of the Central Bank of Ireland to obtain as favorable an arrangement as possible for Ireland, consistent with the constraints of the ECB Governing Council.

In its final form, the proposal is of considerable benefit to Ireland.

The bond exchange greatly lengthens the duration of the instruments which were used to fund the losses of Anglo Irish Bank and INBS, and lowers the interest rate.

While it proved impossible to get agreement from the ECB on a fixed and assured minimum duration for the Central Bank of Ireland's holding of the bonds, and while the ECB insists that the bonds be sold into the market by the Central Bank of Ireland as soon as possible, provided that conditions of financial stability permit, it is accepted by the ECB that significant sales will not be required until the stability of the Irish financial system overall is assured. This enhances the value of the arrangement as a whole to Ireland.

While fully complying with the Treaty prohibition on monetary financing, the Central Bank of Ireland Commission will adopt a very cautious approach to selling."

16.2. **NTMA**

16.2.1. The NTMA has provided the following comment

"The NTMA supports the decisions sought in this memorandum. The NTMA believes that a successful execution of the transaction as proposed, while not without risks, would be supportive of Ireland's re-entry to the capital markets."

16.3. **Attorney General**

[redacted]

[redacted]

[redacted]

[redacted]

Appendices

1. Proposal overview
2. Copy of the Explanatory Memorandum and Bill
3. List of Legal Documentation and Notifications to issue by the Minister and / or Government following the enactment of the Act
4. Views of the Attorney General
5. Legal Risks paper
6. Summary proposal presentation
7. Q&A document on proposal

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EMC paper

10th October 2012

STRICTLY SECRET: A disclosure of the contents of this proposal would prejudice the ability to implement it, if approved

Background

- Ireland continues to seek a significant improvement in its debt sustainability.
- A key pillar of any such solution relates to the restructuring of the Promissory Notes in IBRC.
- A number of potential restructuring options have been assessed in this respect (Tap & Swap; direct replacement with an alternative instrument), all of which present drawbacks from a State or Troika perspective.
- An alternative solution contemplating the liquidation of IBRC is now considered to achieve the objectives of both the State and the Troika.
- We believe that the ECB may tolerate this solution.

Transaction steps

1. CBI legally increase its security over all of IBRC's assets via a floating charge to reduce the Ministerial guarantee exposure
2. Approval sought and given by the ECB in relation to this proposal
3. New legislation to be introduced to allow the Minister to appoint a Special Liquidator which will allow the Minister to direct the Special Liquidator how to achieve an orderly wind-down of IBRC
4. The Minister appoints a Special Liquidator to IBRC and sets the mandate of the Special Liquidator
5. The CBI enforces the security which it holds over all of the assets of IBRC
6. The State and CBI settle the Promissory Notes by issuing a long-term (40-year) bullet repayment Government instrument
    a. [redacted]
    b. However, replacement of the Promissory Note with shorter-dated Government bonds would negate the benefit to the State and create a 'funding cliff' in the near-term, thereby severely hampering the State's ability to re-access debt markets, as the Irish market lacks capacity to absorb additional shorter-dated issues
    c. We believe that a 40 year Government bond should be acceptable to the ECB, as the ECB already accepts 40 year plus bonds from other countries as eligible collateral
    d. We would need a firm commitment from the ECB that this long term instrument to be held by the CBI would be recognised as a Special Holding and would be held to maturity. *This is a critical consideration as the benefits to the Irish financial*

system and to the well performing Irish Programme are dependent on the provision of this long-term funding support to the financial system.

7. The CBI will appoint a receiver to its secured assets, the receiver will dispose of the secured assets to NAMA or a subsidiary of NAMA
8. NAMA would have to pay fair value (e.g. long term economic value) for the assets it acquired. This would be required in order to ensure that Eurostat would not re-examine NAMA due to the State exerting control on NAMA and potentially include NAMA in the State debt figures
9. If the fair value that NAMA pays for the assets is at a significant discount to the net value of the assets in IBRC, this may create a capital shortfall for the CBI arising from the sale, for which the State would ultimately be liable as a result of the Ministerial guarantee.
10. In the event of a CBI shortfall, this could be rectified via a number of options:
    a. The CBI retains surplus income for a defined period instead of returning it to the State
    b. The State could provide a guarantee that it would meet any shortfall following the liquidation process (although this may result in an increase in Government debt).
    c. The State could make a cash payment to the CBI (which would result in adverse Government debt and deficit impacts).
11. The Special Liquidator would address issues such as transferring / netting of deposits, closing out derivative / hedging contracts, etc., and overseeing the liquidation of the remaining assets of IBRC

Benefits

The potential advantages of this solution, if feasible, would include:

- Significant net present value benefit to the State (based upon initial estimates, potentially up to a maximum c. €34 billion depending on agreement of the length of the replacement Government bond and its associated interest rate)
- Annual deficit improvement of c.€1.5 billion based upon initial estimates
- A substantial improvement in the State's debt position over time
- A substantial reduction in the current annual cash burden for the State
- A permanent solution for IBRC and the permanent removal of both IBRC itself as an entity, and the contentious Promissory Notes
- The removal of ELA from the Irish banking system
- Housing all the 'bad assets' in one entity (NAMA) resulting in just one wind-down vehicle, and the associated clean-up of the Irish banking system.

Risks

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Pre-Existing Risks (on the basis that a floating charge will be put in place anyway)

A. The value ascribed to the collateral that the CBI can seize is a key determinant of any potential liability to the State. If there is insufficient collateral to cover the ELA lending, the Minister would be required to make good any shortfall.

B. The Minister may have a greater level of liability to make immediate cash payments under the guarantees than envisaged and may not be able to recover those payments from IBRC.

[redacted]

It is important to note that, under the status quo, any shortfall in assets available is ultimately a liability of the State. However, the transaction may serve to crystallise these liabilities immediately.

Transaction-Related Risks

A. A commitment would be required from the ECB that the long-term instrument to be held by the CBI would be recognised as a Special Holding to be held to maturity.

[redacted].

C. Any perception by the market of a sovereign default due to such a liquidation process will be mitigated, as the State will honour all its guarantees.

D. Risk that a cross-default is triggered with knock-on consequences for other transactions. It should be possible to manage this to ensure that it does not arise.

E. Maintaining confidentiality is critical.

F. No analysis of operational risks has been undertaken.

G. Potential for unforeseen consequences due to the complexities of the transaction, particularly in circumstances in which IBRC is not engaged in the planning process. Our analysis is based on limited financial and legal information in relation to IBRC. There is a risk that there are additional issues or financial downsides for the State.

Other Notes

- Net book value of customer loan book per IBRC 30 June 2012 accounts: €15.6 billion.
- Total ELA funding at end September 2012 (as advised by CBI): €40.6 billion. The Promissory Notes and NAMA Bonds are pledged against €24.4 billion of this €40.6 billion of funding. Additionally, €3.7 billion of funding has been provided against certain loans (nominal value: €5.4 billion). The balance of ELA funding (€12.5 billion) is made up by the Ministerial Guarantee.

zxxzxxxxxxxxxxxxxxxxzzzzzzzzzzzzProject Dawn

Key Messaging, February 2013

- Ireland is meeting its commitments to the Troika in the well-performing Programme of Financial Assistance. As part of this we have delivered extensive support to, and restructuring of, the domestic banking system.

- There still remains a structural liquidity issue in the Irish financial system. Much of this is captured in the Exceptional Liquidity Assistance (ELA) funding provided to IBRC, backed in large part by the Promissory Notes. We need to address this structural liquidity issue in a way which enhances the Programme and supports Ireland's sustained return to international debt markets.

- There is a shared recognition of the issues between Ireland and our international partners and we have been in discussion for the past year with the ECB towards agreeing a solution.

- We have put forward a proposed solution having reached agreement with the ECB in this regard.

- Some key elements of the proposal to be implemented are:

    - IBRC will be put into liquidation. A Special Liquidator, acting under the direction of the Minister for Finance, will be appointed to IBRC following the enactment of legislation for that purpose.

    - The Central Bank of Ireland will take ownership of collateral pledged as security against its lending to IBRC. This is mainly the Promissory Notes, which will be replaced with long term lower interest rate bullet maturity Government bonds. This will discharge some of the IBRC debt to the Central Bank.

    - NAMA will acquire the remaining Central Bank ELA debt together with the associated floating charge over IBRC assets and the Minister's guarantee in exchange for NAMA bonds to be issued to the Central Bank. In this way the debt to the Central Bank is fully discharged.

    - The Special Liquidator will value the IBRC assets and sell them to third parties or to NAMA, with the proceeds applied to super-preferential and preferential creditors, then to NAMA. Any residual will be distributed to other creditors in the normal way.

- The potential benefits of the proposal are considerable:
    - Removal of IBRC from the financial landscape;
    - Removal of Exceptional Liquidity Assistance and the inherent risk associated with short term borrowings which have to be rearranged on a fortnightly basis.
    - Efficiency gains from housing 'legacy assets' in a single vehicle, NAMA;
    - Establishing a permanent solution for a significant part of the structural shortfall of bank liquidity;
    - The provision of a longer term non-amortising (up to 40 years) portfolio of Government bonds to replace the amortising Promissory Notes which will have significant benefits from a market perspective as it ensures the liability to repay is beyond most credit investors' time horizon.

- Spreading the cost of the Promissory Notes from a weighted average life of c.8-9 years to circa 34-35 years at a low funding cost for the State, resulting in significant annual interest savings;
- Very substantial annual cash flow benefit to the State from non-amortising Promissory Notes (c.€2.3bn in the first year and c.€20bn over the next 10 years if costs of the transaction are excluded); and
- A reduction in the underlying deficit of c.€1bn per annum in the coming years (before transaction costs), reducing the forecast deficit by c.0.6% of GDP annually; and
- A significant improvement in the debt sustainability over time.

- It should be noted that certain costs are expected to be borne in connection with the proposal. These include ELG costs of c.€0.9-1.2 billion, potential costs in the event of a shortfall for NAMA, costs of the liquidation, and any potential costs associated with legal challenges.

An Roinn Airgeadais
Department of Finance

Minister's Meeting with Special Liquidators re liquidation process

Date: 10:30 a.m., Thursday, 21st November 2013

Venue: Minister's Conference Room, Department of Finance

Attendees: Mr. Michael Noonan T.D., Minister for Finance; Eoin Dorgan, Special Adviser, Department of Finance ("ED"); Ann Nolan, Second Secretary, Department of Finance ("AN"); Des Carville, Shareholding Management Unit, Department of Finance ("DC"); John Cantwell, Shareholding Management Unit, Department of Finance ("JCA"); John Cronin, Shareholding Management Unit, Department of Finance ("JCR"); Kieran Wallace, Joint Special Liquidator ("KW"); Eamonn Richardson, Joint Special Liquidator ("ER")

Asset Sale Process

- KW & ER updated the Minister on the process:
    - [redacted] (c.€2.5 billion gross corporate / SME loans) – Phase 2 bids due Friday 6th December; very high level of interest noted across all of the 14 portfolios.
    - [redacted] (c.€1.8 billion gross residential mortgage loans) – Phase 1 bids have surpassed expectations; very likely that 3 of the 4 portfolios will be sold to third parties; SL's have been engaging with bidders regarding valuation assumptions / approach; Phase 2 due to commence Friday 6th December.
    - [redacted] c.€7.3 billion gross UK loans) – Phase 1 bids due Friday 22nd November; very high level of interest noted across all of the 16 portfolios.
    - [redacted] (c.€9.3 billion gross CRE loans) – Phase 1 commenced Monday 11th November; c.60 bidders participating in the process; likely to be the most challenging of the loan lots from a third party sales perspective.
    - [redacted]

Estimated Liquidation Outcome

- KW & ER updated the Minister as follows:
    - Confident that the €12.9 billion will be repaid in full to NARL, i.e., no shortfall for NARL.

    - There may be a surplus for unsecured creditors (latest high-level estimate is c.€500 million but this is predicated on the assumption that no third party sales are achieved). SL's will have more visibility on the quantum of any surplus in 2014.
- It was agreed that there would be some form of communication (to be agreed between DoF and the SL's) with respect to the estimated liquidation outcome in Q1 2014. The Minister stands as an unsecured creditor with respect to amounts paid out under both the ELG Scheme and the Derivatives Guarantee – KW pointed out that it would be reasonable to assume that any return of proceeds to unsecured creditors could be effected in 2015.

  Note: The SL's separately communicated to JCR that a further repayment to NARL of €150-200 million is expected to be approved by IBRC ALCO on Wednesday 27th November. This will bring the total amount repaid to NARL to date to €575-625 million.

Employees

- KW updated the Minister as follows:
    - Staff morale now good. No indication of any industrial actions, bonus demands, etc.
    - More than 600 staff currently employed by IBRC (In Special Liquidation) – c.500 staff have left the Company but the vast majority of these leavers have moved to other jobs.
    - Buoyant jobs market – particularly for regulatory and risk personnel.
    - Further extension to employment contracts for certain staff members expected shortly.
    - Some redundancies expected to be effected in March 2014 (likely to be less than 50) – SL's will communicate with these employees in December and expect that most will secure alternative employment opportunities.
    - SL's have been recruiting staff on short-term contracts.

[redacted] Oireachtas-p [redacted]

- KW stated that he is separately progressing the application of legal fee reductions.

Deposits

- KW & ER updated the Minister as follows:
    - Payouts under both the DGS and the ELG Scheme have been progressing.
    - Expectation that c.20-30 payments will not be processed by NAMA until 2014 - the amount concerned is c.€30 million. However, NAMA is aware of the urgency to effect these payments.
- Both the Minister and AN emphasised that it is critical to ensure that payouts under the ELG Scheme in 2014 be kept to an absolute minimum, i.e., it is imperative that payouts are made in 2013 to the extent this is possible.

[redacted]

[redacted]

<u>**Other**</u>

- KW relayed his views on the current economic climate to the Minister. Very positive assessment – high levels of demand noted in asset sale processes; strong evidence of clients rebuilding / restructuring businesses; sentiment much improved; etc.
- The Minister thanked the SL's for their contribution and noted that he is pleased with liquidation process progress to date.

HIGHLY CONFIDENTIAL
FOR DISCUSSION
DRAFT

Base case assumptions and NPV

- The NPV of the annual cashflows relating to the existing position, i.e., "base case", was calculated as shown below
- For illustration, annual cashflows from 2012 to 2020, 2030 for bond repayment and the final cashflow in 2032 are shown

Base Case - NPV Calculation	2012	2013	2014	2015	2016	2017	2018	2019	2020	2030	2032	Notes
Promissory Note payment	0.00	(3.06)	(3.06)	(3.06)	(3.06)	(3.06)	(3.06)	(3.06)	(3.06)	(0.91)	(0.05)	Pro Note interest and principal payments
Int on borrowings to make Promssory Note Payments			(0.15)	(0.31)	(0.48)	(0.66)	(0.85)	(1.04)	(1.25)			Interest costs relating to amounts borrowed to make Pro Note payments
Repayment of interest on borrowings									4.74	(4.74)		Repayment of 10 year bond issued in 2020 to cancel interest on borrowings
Sale of BOI			0.70									Sale of State's equity interest in BOI
Redemption of BOI CoCo's					0.99							Redemption of BOI CoCo's in 2016
Redemption of Preference Shares			1.00			0.84						Redemption of BOI Preference Shares (50% in 2014, balance in 2017)
Sale of AIB (Prefs convert to Ords.)				5.00								Sale of State's equity interest in AIB
Redemption of AIB CoCo's					1.60							Redemption of AIB CoCo's in 2016
Sale of PTSB				0.30								Sale of State's equity interest in PTSB
Redemption of PTSB CoCo's					0.40							Redemption of PTSB CoCo's in 2016
Banking income		0.49	0.41	0.39	0.24	0.09						Income from banking interests until redeemed
Dividend from IBRC / CBI Income		1.81	1.66	1.56	1.87	1.50	1.16	1.09	1.01	0.16	0.01	CBI surplus income & income from IBRC when surplus capital is generated
Annual Cashflow	**0.00**	**(0.76)**	**0.56**	**3.88**	**1.56**	**(1.29)**	**(2.75)**	**(3.01)**	**1.44**	**(5.49)**	**(0.05)**	Sum of cashflows
Discounted Cashflow	0.00	(0.72)	0.50	3.35	1.28	(1.01)	(2.05)	(2.14)	0.98	(2.28)	(0.02)	
NPV	(11.68)											NPV assuming 5% discount rate

BANKING INVESTMENTS

- Various assumptions have been applied in relation to potential realisations of banking investments by the State (see table above)

INTEREST ON INTEREST IMPACT

- As the State currently runs an annual deficit, it has to borrow to the make the annual Promissory Note repayments
- Consequently, due to the deficit it must also borrow to pay the annual coupon on this borrowing - therefore, an interest on interest cost is incurred in each year in which the State borrows to pay this coupon
- Our forecasts show the State running a surplus from 2020 and, consequently, can pay the coupon going forward from this point – therefore, interest on interest is no longer incurred
- A Government bond is issued in 2020 to fund the repayment of all interest on interest built up prior to 2020; this bond is then redeemed in 2030

NPV

- These set of assumptions illustrate that the NPV for the State would be -€11.7bn

To: Minister
From: Pat Ring

Re: Anglo Irish Bank capital requirement projections

CONFIDENTIAL - Commercially sensitive

Based on information provided by Anglo Irish Bank the capital projection for the institution is currently as follows:

Capital	**€bn**
2009:	
Initial capital injection	4.0
Initial value of Promissory Note - covers capital needs to 31 March 2010	8.3
2010:	
Additional requirement in 2010 - based on a 38% NAMA haircut.	3.2
Further requirement in 2010 - if 50% NAMA haircut applied on all tranches.	4.3
2011-2015:	
Projected capital requirement 2011–2015 - split bank scenario	2.7
Total requirement	**22.5**
Less capital committed to date (€4bn + €8.3bn)	(12.3)
Total projected additional requirement	**10.2**

The NAMA haircut for the first and subsequent tranches has to be finalised. In addition, the capital requirement for 2011-2015 is dependent on the economic assumptions that underlie the bank's projections in the draft Restructuring Plan, and on the scale of the new bank that would be created.

Anglo has projected that the approach of splitting the bank into a relatively small new banking entity and an asset management company would involve a funding requirement by, or backed by, the State of c.€13bn. This compares with a projected State funding requirement under a ten-year wind-down of the bank of c.€27bn.

The Department in conjunction with Rothschild's financial advisors are continuing the assessment of the bank's draft Restructuring Plan.

31/03/10

Cc Secretary General, Mr. Beausang

DRAFT 2

Minister
From: Michael J. McGrath

Impact of Promissory Notes on the Public Finances in Cash & Accounting Terms

1. You raised with me the issue of the impact of the Promissory Notes committed to Anglo Irish Bank, INBS and EBS on the public finances, both in cash and accounting terms.

2. As you know, just under €31 billion has been committed to be provided to these financial institutions in the form of Promissory Notes so far in 2010. The amounts committed to each institution, the various issues dates and the applicable interest rates (see paragraphs 8 -10) are as follows:

Table 1 – Value, Issue Dates & Interest Rates on Promissory Notes Issued in 2010

€m		
Anglo	Issue Date	Interest Rate
€8,300	31 Mar 2010	4.1745%
€2,000	28 May 2010	4.5693%
€8,580	23 Aug 2010	5.1316%
€6,400	Before end-year	6.4% approx*
€25,280		
INBS		
€2,600	31 Mar 2010	4.1745%
€2,700	Before end-year	6.4% approx*
€5,300		
EBS		
€250	17 Jun 2010	5.4634%

*Will depend on Irish Government 10 year bond yield at time of issue

3. The Promissory Note issued to Anglo Irish Bank in March has been increased on two separate occasions and a further increase of €6.4 billion, as outlined in the 30th September Statement on banking, is imminent. It was also outlined in that Statement that the Promissory Note issued to INBS in March will, in the very near future, be increased by an additional €2.7 billion.

4. This full amount of just under €31 billion is included in the headline General Government deficit measure for 2010, as are the €100 million Special Investment Shares in both INBS and EBS. This means that the headline General Government Deficit for 2010 is currently estimated at 32% of GDP. On an underlying basis, it is estimated at 11.9% of GDP, broadly in line with the Budget day target.

5. It is currently assumed that 10% of the total value of the Promissory Notes (or just over €3 billion) is drawn down each year, beginning in 2011, and paid in cash to the financial institutions. While these payments do not impact on the General Government Deficit (as the total value of the Notes is included in the 2010

deficit), the principal payments must be funded by borrowings. Debt interest costs on cash borrowings of €3 billion next year are currently estimated at about €200 million and this debt interest cost impacts on the General Government Balance. The cumulative interest costs on the cash borrowings will increase as the further €3 billion in cash payments are made each year.

6. The first full cash payments of the Anglo Irish Bank and INBS moneys are due to be paid on 31st March 2011, the anniversary of the issue date of the first €8.3 billion Promissory Note instalment committed to Anglo and €2.6 billion to INBS. The first cash drawdown of the EBS money is due on the 17th June 2011.

<u>Accounting Treatment</u>

7. Also included in the General Government deficit measure for 2010 is accrued interest on the Promissory Notes. As you might recall from the BSM, there is an interest coupon attached to these Promissory Notes. This is necessary to allow these institutions "fair value" the Note at face value in their accounts for capital purposes.

8. While the Government has committed to giving cash of €31 billion to these three institutions in equal instalments over the next number of years, the institutions are now showing the full value of the Promissory Notes in their accounts for capital adequacy purposes. As the actual cash is not being paid upfront to the institutions, interest must be paid so that the institutions can value the Notes at par on their accounts. The terms of the Promissory Notes allow interest to be rolled up and paid after the principal sums have been repaid. Although the interest will not be paid on the due dates, and will instead be rolled up over the life of the Promissory Note, under General Government accounting rules, the amounts payable must be accrued into the year in which they are due, and will therefore impact upon the General Government deficit. It is currently estimated that the interest which must be accrued into 2010 is just over €700 million. The exact issue date of the most recent increases to Anglo Irish Bank and INBS and the precise interest rates will determine the exact amount of interest to be accrued.

9. Interest began to accrue on the Notes issued on the 31st March from that date. Interest is therefore accruing on the full value of those Notes for the period 31 March – 31 December in 2010 and for the period from 1 January to 30 March in 2011. Once the first 10% cash drawdown is made, interest then accrues on the outstanding balance of the capital sum plus the rolled up interest for the remainder of 2011 and the first 3 months of the 2012. This continues until the principal sum and rolled up interest payments have been paid down in full. This will be some time in the middle of the next decade.

10. Table 2 in the Appendix details the impact, on the Exchequer and General Government Balances of the principal payments and the interest accruals over the 2010 – 2014 forecast period.

____

xx October 2010

cc Secretary General, Mr. O'Brien, Ms. Nolan, Mr. Beausang, Mr. Ahearne, Mr. Keane, Mr. O'Leary

DRAFT 2

APPENDIX

Table 2 – Impact of Promissory Notes & SIS on the Public Finances 2010-2014

	2010	2011	2012	2013	2014
Impact on GGB:					
Capital	€31.03bn				
Pro Notes	*€30.83bn*				
Special Investment Shares (SIS)	*€200m*				
Accrued Interest	€0.7bn	€1.5bn	€1.4bn	€1.3bn	€1.2bn
Annual debt interest costs on cash borrowings of c. €3 billion*		€200m	€200m	€200m	€200m
Total as a % of GDP	*20%*	*1%*	*0.9%*	*0.8%*	*0.7%*
Impact on Exchequer:					
SIS	€200m				
Principal Payments		c. €3b	c. €3b	c. €3b	c. €3b
Annual debt interest costs on cash borrowings of c. €3 billion		€200m	€200m	€200m	€200m

**based on current interest rate*

An Roinn Airgeadais
Department of Finance

SPECIAL LIQUIDATION Costs Session – Meeting Note

Date: 6th November 2013 @ 4:00 p.m.

In attendance: Eamonn Richardson, Alan Boyne, Shane McCarthy (SL), John Cronin, Gary Hynds, and Clare McCabe (all DoF).

Overview
Meeting arranged to talk through the updated forecast of Special Liquidation and professional advisor fees received on 31st October 2013.

IBRC Overheads

- The level and average cost of IBRC employees was queried. Overall levels do not appear to be falling as quickly as expected and average staff cost is increasing.
    - SL response was that this is due to more junior members of staff exiting the organisation pushing up the average cost.
    - We queried if this has resulted in senior IBRC staff working at levels not appropriate to their grade or if it is as a result of widespread salary increases.
        - SL suggest that this is not the case but that responsibility levels have changed. Salary increases are not being authorised but acting up allowances are being provided where appropriate.

[redacted]

Oireachtas-p

- [redacted] Oireachtas-p

Follow Up action points:

- SL to review its own costs with a view to imposing a reduction given the quantum of work involved – despite the fact that there largely appears to be valid reasons for incurred and forecast costs.
- Updated report to be provided on 22nd of each month going forward. (with the exception of November as DoF would like to receive the report before the Minister's meeting on the 21st)
- One page summary of material forecast changes to be included at the front of each report along with appropriate KPI's.
- Summary to give explanations for increases in the staff numbers of any workstream.
- SL to include KPMG forecast chargeable hours broken down by workstream going forward.

An Roinn Airgeadais
Department of Finance

SPECIAL LIQUIDATION PROGRESS UPDATE SESSION: 30th October 2013 @ 11:00 a.m. – MEETING MINUTES

In attendance: Kieran Wallace (SL), Eamonn Richardson (SL), Ann Nolan, John Cronin, Gary Hynds, Declan Reid, Antoine MacDonncha and Enda Newton (all DoF). Alan Boyne, Paul Hollway, Shane McCarthy and Jonathan Hunt (all KPMG) joined later to provide an update on the asset valuation and sale process.

➢ NAMA Engagement

- DOF to revert to SL regarding what assets could transfer to NARL in 2013 - SL to then finalise closing dates for asset sales to NARL.
- NAMA is progressing DGS / ELG claims work.
- Transitional Services: SL in ongoing discussions around defining what costs are unique to NAMA (and for NAMA's account) as distinct from those transitional costs which would be incurred in relation to a sale to any third party. It was noted that if costs for NAMA are above a certain threshold NAMA may require DG Comp approval for the incurrence of such costs.

➢ Employees Update

- While staff attrition has reduced significantly of late, a lot of senior people resigned in recent days, particularly within the Risk function.
- SL stated that staff contracts may be extended beyond 31st March 2014 depending on decisions made regarding asset sale closing dates (see above). The sooner this can be confirmed the better.
- SL confirmed that staffing issues have not impeded liquidation progress to date.
- Former executives claim for termination payments to be heard by the LRC on 15th November. SL views prospect of success as extremely low.

➢ Financial

- **Cost Management**: [redacted] Oireachtas-p [redacted] SL indicated that they expect to submit updated Costs Report to DoF later today (30th October).
- **NARL Facility Deed Repayments:** Meeting to be held later today (30th October) with NARL to approve another €100m repayment of the Facility Deed debt.

➢ Deposits

- SL to meet with Anthony Linehan of the NTMA to work through the details of the IBRC Mortgage Bank claim. IBRC Mortgage Bank Board met on Monday 21st October and has not yet reverted to the SL following this meeting.

- No significant new ELG claims submitted.

➢ **Legal**

- **US Chapter 15 Application:** Kieran Wallace is expecting to be deposed. Provisional Court hearing date: 6th / 7th November. Discovery of communications between SL and DoF will be debated.
- [redacted]
- [redacted]
- **Quinn**: Injunction hearing on 16th & 17th October went well. Decision not expected for another few weeks.
- **DPP to review information SL has** – no further disclosure of information expected.
- **Drumm**: Briefing papers provided to DoF by SL. SL pressing ahead with litigation.
- **Mortgageholders**: SL has been in discussions with Brendan Burgess and David Hall.
- **DPC complained about certain disclosures relating to McKillen documentation** – DPC to review same on Thursday 31st October.
- **Priory Hall:** Sale to Dublin City Council approved. BTL approved on Wednesday 23rd October.

ASSET VALUATION and SALE PROCESS SESSION

- **Evergreen**
  - All assets progressing to Phase 2 of the sale process. Full outstanding principal and interest repayments made with respect to some of the loans in the last week or so.
  - Some sales may be agreed prior to the conclusion of Phase 2 if the bids are sufficiently attractive.
  - 5 of 14 first round bidders for the mixed portfolio sale are progressing to Phase 2.
  - [redacted]

- **Sand**
  - Level of buyer interest lower than that for Evergreen. SL believes Performing [redacted] portfolio stands the best chance of sale.

- **Rock & Salt**
  - Sale process launched.
  - Rock: 11 portfolio sales and 3 individual sales. 92 process letters issued and 26 parties have been admitted to the VDR thus far.
  - Salt: 2 portfolio sales. 68 process letters issued and 16 parties have been admitted to the VDR thus far.

- **Stone**
  - Segmentation decisions finalised – 10 portfolio sales (largest of which is par value c.€1.2bn) and 5 individual sales (total par value c.€1bn).
  - Sale process due to launch Monday 11th November.

- **Other Assets**
  - Liberty: No further recent engagement with Liberty so SL is going ahead with sale process launch. Information expected to be received by Tutelana today (30th October) for purposes of Phase 2 of a sale process. Final date on which SL can participate in cash call is 29th November – SL current view: unlikely to participate. SL believes that Liberty's goal is to agree a satisfactory deal with NAMA.
  - IBRCAC: Discussions have been held with interested parties. Sale process to launch on Friday 1st November. NDAs have been signed and Process Letters have been issued to c.30 potential bidders. 4-week Phase 1 sale process and 6-week Phase 2 process planned. SL is awaiting independent valuation from UBS.
  - NAMA Subordinated Bonds: Goodbody has issued a Teaser document. 3-week one-phase sale process to launch on Monday 4th November. Parties that have expressed interest to date mainly hedge funds.

THEME: C6

Appropriateness and effectiveness of other EU-wide policy responses

LINE OF INQUIRY: C6c

Other - Fiscal Compact Treaty, Sovereign Debt Restructuring Mechanism

24

28

Dublin, [] November 2012

Mr. Mario Draghi
President
European Central Bank
Kaiserstrasse 29
60311 Frankfurt am Main
Germany

Mr. Jean-Claude Juncker
Eurogroup President
Ministère des Finances
3, rue de la Congrégation
L-1352
Luxembourg

Mr. Olli Rehn
Vice-President of the European Commission responsible for Economic and Monetary Affairs and the euro
European Commission
BERL 10/299
B-1049 Brussels
Belgium

Mr Vassos Shiarly
Minister of Finance
Michael Karaoli & Gregori Afxentiou
1439 Nicosia
Cyprus

Dear Messrs Draghi, Juncker, Rehn, and Shiarly

1. The Irish Government remains firmly committed to the programme, as illustrated by our continued strong performance in implementing the agreed policies.

2. For the eight review, we have once again met our commitments under the EU/IMF supported programme in terms of policy reforms as well as quantitative targets:

- As regards our fiscal consolidation objectives, the 2012 cumulative exchequer balance through end-September was ahead of the programme profile (as was also through end-October) and, for 2012 as a whole, the general government deficit is projected to be below the 8.6% of GDP programme ceiling. We are alert to the overruns experienced in the health sector, and are taking structural measures to correct them in a durable manner. We are also going to present Budget 2013 to the the Dail on December [5], which will underpin our commitment to reduce the general government deficit in 2013 and future years in line with our agreed programme consolidation path.

- We have introduced legislation to the Dail by end-September as envisaged, including to: (i) reform the personal insolvency framework; (ii) set up a Central Credit Register; (iii) strengthen the Credit Union legislative framework; and provide the legal basis for, respectively, (iv) the Irish Fiscal Advisory Council and (vi) the medium-term expenditure ceilings (both introduced last year on an administrative basis). We have also launched an advisory service for distressed mortgage borrowers and introduced on a statutory basis (i) the requirement, under the terms of the Deposit Guarantee Scheme, for Credit Unions to maintain an amount in the Deposit Protection account in the central bank and (ii) a levy to fund the credit institutions resolution fund. Moreover, we progressed on reforming activation policies and preparing identified non-strategic state assets for eventual disposal, and reforming the sectoral wage setting mechanisms (legislation for which has been approved). Finally, we are taking necessary steps to introduce water meters, centralize the provision of water services and ensure a sound financial footing for Irish Water according to the timeline envisaged under the programme.

- The overarching strengthening, restructuring, and right-sizing of the domestic banking and the credit union sectors are also progressing according to plans. Two out of three PCAR banks are well advanced in reaching their end-2013 asset disposal and loan-to-deposit ratio targets, and the Central Bank has formalized to the PCAR banks the revised deleveraging monitoring framework. Revised restructuring plans for both AIB and PTSB have been submitted to the European Commission. Further actions to address loan arrears and unsustainable debts in banks' mortgage and SME loan portfolios are being implemented.

3. In light of our performance under the programme and our continued commitment, we request the completion of the eight review and the release of the eighth EFSF/EFSM disbursement of EUR 0.8 billion.

4. In the attached seventh update of the Memorandum of Understanding of Specific Economic Policy Conditionality (the MOU), as well as in the Memorandum of Economic and Financial Policies (MEFP), we set out our plans to further advance towards meeting the objectives of our economic adjustment programme., We also continue to work with staff of the European Commission, the European Central Bank and the International Monetary Fund on the follow-up to the 29 June statement by the Heads of State and Government of the euro area.

5. We consider that delivering in full our commitments under the programme, while progressing towards severing the pernicious link between the banks and the sovereign,,will enable Ireland to successfully exit the programme and return to sustained private market funding.

6. We are confident that the policies set forth in the Letters of Intent of 3 December 2010 and subsequent letters as well as this letter are adequate to achieve the objectives of our Programme. At the same time, while we do not envisage that revisions will be needed, we stand ready to take any corrective actions that may become appropriate if circumstances change. We will continue to consult with staff of the European Commission, the ECB, and the IMF on the adoption of such actions in advance in the event that revision of the policies contained in this Letter and the attached Memoranda becomes necessary.

7. This letter is being copied to Mme Lagarde.

Sincerely,

Michael Noonan, T.D.

Minister for Finance

Patrick Honohan

Governor of the Central Bank of Ireland

EU-IMF Programme of Support Drawdowns

96. **Deputy Pearse Doherty** asked the **Minister for Finance** the amounts currently borrowed from the International Monetary Fund under the programme finance agreement; the annual rate of interest payable on these borrowings; and the dates by which the principals must be repaid **[14576/13]**

Minister for Finance (Deputy Michael Noonan): At the end of February 2013, the nominal liability of loans from the IMF under the EU-IMF Programme amounted to €19.14 billion. The details of the individual IMF loan amounts are set out in table format below. The table also provides information on the IMF loan maturities. The Deputy should be aware that all of this information is available on the website of the National Treasury Management Agency. The interest rate on the IMF Extended Fund Facility is tied to the IMF's market-related interest rate, known as the basic rate of charge. As the IMF loan is provided in Special Drawing Rights, which comprise a basket of four currencies (USD, EUR, GBP, JPY), the interest rate is constructed from three-month Eurepo, US and UK Treasury Bills and Japanese Government Discount Notes rates, plus a margin of 100 basis points. Borrowings of up to three times a country's IMF quota are subject to the basic rate of charge. Borrowings above three times quota attract a surcharge of 200 basis points which is in addition to the 100 basis points margin which forms part of the basic rate of charge. This surcharge rises to 300 basis points three years after the loan size exceeds three times the quota. At the end of February 2013, the overall blended euro equivalent interest rate on Ireland's IMF loans was 4.17%.

IMF Loan Maturities

Nominal Loan Amount (SDR = Special Drawing Rights)	Date of Drawdown	Maturity Date (Amortising)	Term from Drawdown
SDR 5.01 billion	18 Jan 2011	18 Jul 2015 – 18 Jan 2021	4.5 – 10 years
SDR 1.41 billion	18 May 2011	18 Nov 2015 – 18 May 2021	
SDR 1.32 billion	7 Sep 2011	7 Mar 2016 – 7 Sep 2021	
SDR 3.31 billion	16 Dec 2011	16 Jun 2016 – 16 Dec 2021	
SDR 2.79 billion	29 Feb 2012	31 Aug 2016 – 28 Feb 2022	
SDR 1.19 billion	15 Jun 2012	15 Dec 2016 – 15 Jun 2022	
SDR 0.76 billion	28 Sep 2012	28 Mar 2017 – 28 Sep 2022	
SDR 0.76 billion	20 Dec 2012	20 Jun 2017 – 20 Dec 2022	

<

The total loan amount, as measured in Special Drawing Rights, is 16.54 billion, the euro equivalent of which is €19.14 billion. The average weighted life of these loans is 7.5 years from the date of drawdown.

An Roinn Airgeadais
Department of Finance

Sráid Mhuirfean Uacht,
Baile Átha Cliath 2,
Éire.

Upper Merrion Street,
Dublin 2,
Ireland.

Teileafón / Telephone: 353-1 676 7571
Facsuimher/ Facsimile: 353-1 678 9936
Glao Áitiúil / LoCall: 1890 66 10 10
http://www.irlgov.ie/finance

Dublin, 28 November 2011

Mr. Mario Draghi
President
European Central Bank
Kaiserstrasse 29
60311 Frankfurt am Main
Germany

Mr. Jean-Claude Juncker
Eurogroup President
Ministère des Finances
3, rue de la Congrégation
L-1352
Luxembourg

Mr. Olli Rehn
Commissioner for Economic and Financial Affairs
European Commission
BERL 10/299
B-1049 Brussels
Belgium

Mr. Jan Vincent Rostowski
Minister of Finance
Ul Swietokrzyska 12
PL-00-916 WARSZAWA
Poland

Dear Messrs Draghi, Juncker, Rehn and Rostowski:

1. The Government's commitment to the Programme is illustrated by our continued strong performance in its implementation. Once again, for the fourth quarterly review, we have met all the programme targets both in terms of policy reforms as well as quantitative targets:

- On fiscal policy, the outturns up to the end of October are in line with the programme profile, and the general government deficit for 2011 as a whole is expected to be within the 10.6% of GDP programme ceiling. We have also conducted a comprehensive review of expenditure, established an independent fiscal advisory council, and reformed pension entitlements for new entrants to the public service (including linking them to career average earnings).

- We have substantively completed the recapitalisation of the domestic banks, at a cost to the taxpayer significantly lower than initially anticipated, thanks to private sector participation and burden sharing. Domestic banks have sold a significant amount of non-core assets. The restructuring of the domestic banks is progressing and plans for this have been submitted to the European Commission for clearance in accordance with State Aid rules. We have published a memorandum of understanding governing the relationship of the Department of Finance and the Central Bank in relation to banking sector oversight.

- We have made significant progress towards opening up sheltered sectors (e.g., pharmacies, general practitioners, and legal services), and laid out an action plan to reform, in consultation with our social partners, the sectoral labour arrangements to facilitate the needed adjustment in the labour market.

This performance comes at a time when there have been both positives and negatives for Ireland. On the negative side, the growing uncertainty in relation to Euro Area debt has contributed to increasing financial market pressures. This in turn is being reflected in a deteriorating outlook for the world economy which is contributing to a heightened risk outlook. On the positive side, growth has resumed, albeit mainly export led. Our banking sector is now attracting private investment and is also successfully funding in the private market. In addition, the Euro Area Heads of State or Government meeting on 21 July this year, made the welcome and significant decision to reduce the cost of EFSF loans, and this was followed by similar commitments in respect of the EFSM loan and our UK bilateral loan. Further steps toward establishing a comprehensive framework to address the crisis facing the region were taken on October 26. These positive developments have been reflected in our bond spreads which, though still high, have narrowed considerably from the elevated levels seen earlier this year. Against this background, we are proceeding with the process of preparing Budget 2012, and we have recently published our medium-term fiscal strategy, which sets out our fiscal targets for 2012 and for the years up to 2015. In the case of Budget 2012, we are committed to meeting the deficit target of 8.6% of GDP, and will take the high quality adjustment measures necessary to achieve this target.

2. In particular, in the attached third update of the Memorandum of Understanding on Specific Economic Conditionality (MoU), we set out our plans to further advance towards meeting the programme objectives. The budgetary measures provided in the MoU are based on the current assessment of policy intentions. The final decisions on the measures necessary

to achieve the agreed level of fiscal adjustment will be made with the introduction of the Budget – which for 2012 will be announced on 5th and 6th December 2011. Based on the strength of these policies, and in light of our performance under the programme and our continued commitment, we request the completion of the fourth review and the release of the fourth EU disbursement of EUR 4.2 billion. The financing needs outlook remains broadly in line with expectations at the third program review, but to allow a more prudent financing position with respect to the timing of the completion of reviews and disbursements, we request a re-phasing of disbursements. Specifically, we request that the disbursement following the fifth review should be €5.8 billion with the additional amount taken equally from the sixth, seventh and eighth reviews. This represents a redistribution within 2012 of the already agreed disbursements.

3. We are confident that the policies set forth in the Letters of Intent of 3 December 2010, 28 April 2011, 28 July 2011, and in this letter are adequate to achieve the objectives of our programme. The degree of uncertainty and margins of error surrounding macroeconomic and fiscal projections over the period remain high, due mainly, but not exclusively, to international events. We stand ready to take any corrective actions that may become appropriate for this purpose as circumstances change. As indicated in the MoU, we will consult with the European Commission, the ECB and the International Monetary Fund on the adoption of such actions in advance of necessary revision of policies contained in this letter and the attached Memorandum of Understanding.

4. This letter is being copied to Mme Lagarde.

Sincerely,

Michael Noonan, T.D.,
Minister for Finance

Patrick Honohan
Governor of the Central Bank of Ireland

Noonan says he never shared 'panic' over Merkel remarks

Harry McGee

Tue, Oct 23, 2012, 01:00

IRISH REACTION:MINISTER FOR Finance Michael Noonan said he was always confident Ireland would get a deal on legacy bank debt and never shared the degree of "panic" that swept through the public following German chancellor Angela Merkel's comments on Friday.

Mr Noonan said the negotiations would revolve around the quality of the concession on legacy debt that Ireland could obtain rather than whether the Government could secure a deal.

The Minister, speaking in Limerick yesterday, said negotiations on dealing with the cost associated with bank recapitalisation (estimated at €64 billion) would have no impact on the budget on December 5th. No move could happen until after the architecture to set up the new European banking supervisory body was put in place (a January 1st, 2013, target date was agreed at last week's summit).

"We are looking well into next year, quite clearly after the budget," said Mr Noonan. "If we get a resolution which makes the debt more sustainable obviously that improves budgets in the future."

He said German had a vested interest in Ireland's programme being a success. "[It's in Germany's interest that] Ireland becomes a sustainable economy again where we make our own decisions and organise our own affairs [and] where we are getting funding through the markets. To get us into that position we need a deal on both elements of the debt. I'm confident that there are two parts to the deal and there will be intense negotiation, and I'm very hopeful that we'll have a resolution."

Tánaiste Eamon Gilmore said Ireland was being treated as a "special case" when it comes to bank debt so the State could be the "winner" the EU needed.

He insisted there was political support for tackling Ireland's debt problem in capitals throughout the EU, "including, in this case, in Berlin".

Mr Gilmore said the joint statement by Mrs Merkel and Taoiseach Enda Kenny on Sunday night made Ireland's position clear.

"It is being regarded as a special case firstly because of the progress we have been making and, secondly, because the European Union and the Eurogroup needs a winner, and Ireland is the best placed candidate to do that."

He said the deal on Ireland's bank debt "was never off track", although he conceded there was "concern" at Government level on Friday after Mrs Merkel dismissed retrospective recapitalisation of banks in response to a question about the Spanish situation.

He said contacts between Berlin and Dublin began immediately after Mrs Merkel's comments and continued at very senior diplomatic level over the weekend, culminating in a telephone discussion between Mrs Merkel and Mr Kenny.

Fianna Fáil finance spokesman Michael McGrath said the joint communiqué by the Taoiseach and Mrs Merkel was welcome but still open to interpretation.

"Does it override the statement made by the finance ministers in September and [Mrs Merkel's] comments on Friday that ruled out legacy debt?"

He said the Taoiseach had faced a barrage of criticism following Mrs Merkel's comments.

"He picked up the phone and I give him the credit for making the phone call. He got something from Angela Merkel. He got a statement."

Sinn Féin leader Gerry Adams described events at the weekend as the Government stumbling from one difficulty to another.

"The problem underpinning the Government's failure thus far is its insistence on paying the debt despite its unsustainability and the cost to the Irish people plus the absence of any coherent negotiating strategy. It is little wonder the Government stumbles from one difficulty to another."

Fine Gael TD Paschal Donohoe challenged as a "flagrant disregard for facts" Mr Adams's assertion that €64 billion of the €67 billion Ireland received from the troika was used to recapitalise the Irish banks. All of the €67 billion was used for day-to-day costs while €17.5 billion from the State's own resources went to the banks.

COLUMN: Ireland's debt deal will be crucial

24 January 2013 by Jim Power

http://www.businesspost.ie/#!story/Home/News/COLUMN%3A+Ireland's+debt+deal+will+be+crucial/id/19410615-5218-5100-da2b-44ad13479304

Cynics and opposition politicians will decry the deal that was discussed this week, but the reality is that if delivered, it would make a significant difference to Ireland’s longer-term fiscal sustainability, writes Jim Power.

At the end of 2012, Ireland’s national debt stood at just under €192 billion, equivalent to 118 per cent of gross domestic product (GDP).

This is by any standards a dangerous level of debt, with the dangers clearly highlighted by the anticipated cost of servicing that debt.

In Budget 2013, the Government estimated that interest expenditure reached €6.3 billion in 2012 and is expected to rise to just over €10 billion by 2015. These numbers are put into perspective when we consider that the total tax take in 2012 was €36.6 billion, with Income tax accounting for €15.2 billion.

In other words, interest on the national debt in 2015 is expected to be equivalent to two thirds of the total Income tax take in 2012. That is a lot of money being expended on paying interest on a debt and pre-empts a significant lump of tax revenue that will obviously not be available for other more worthy uses such as providing public services such as health and education.

In simple terms, the opportunity cost of the debt that we have built up is unacceptably high.

The crisis in the banking system and the Government’s response has clearly made a significant contribution to the debt situation, and that is really what irks the tax paying public. The recapitalisation of the banking system has cost the Irish state just over €64 billion to date.

The source of the funds has come in the form of €30.9 billion in Promissory Notes relating to Anglo Irish Bank, which will be paid back at a rate of €3.1 billion per annum for 10 years; €12.6 billion from the Exchequer; and €20.7 billion from the National Pension Reserve Fund (NPRF).

Arguably, the decision of the state to pay the bond holders in the banks, and particularly those in Anglo Irish Bank was a very contentious decision. We cannot say for certain why the Government took that decision. It may have been a failure to understand the full implications of what that decision entailed (i.e.: ignorance) or it may have been at the behest of the ECB, who feared the damage that bond holder burning would have done to the European banking system.

In other words, Ireland took one for the ‘team’, but has not got any real rewards for doing so.

The deal that Michael Noonan was seeking to negotiate this week, does not directly relate to the promissory notes and the bank bailout. Rather, it relates to some of the funding that Ireland was given at the time of the 'Troika' deal for Ireland, agreed at the end of 2010.

Just to re-cap. At part of the 'Troika' deal, Ireland was given access to funding of €85 billion to cover the borrowing requirements of the country in the period from 2011-2014. €22.5 billion was provided by the IMF; €17.5 billion came from the National Pension Reserve Fund; €4.8 billion was provided in the form of bi-lateral loans from the UK, Sweden and Denmark; €22.5 billion came from the European Financial Stabilisation Mechanism (EFSM); and €17.5 billion from the European Financial Stability Facility (EFSF).

The EFSM is a fund under which the European Commission is empowered to borrow money on behalf of the EU for the purpose of providing loans to member countries in difficulty. As stated, Ireland borrowed €22.5 billion under this facility, with varying maturities of 5 years, 7 years, 10 years, 15 years, 20 years and 30 years.

The EFSF on the other hand is a series of loans and guarantees from EU member states. Ireland received €17.7 billion under this facility, with maturities ranging from 3 years out to 29 years.

The EFSM and the EFSF are the two funding mechanisms that are the subject of this week's negotiations. We are not likely to get a decision until March at the earliest.

There will not be any write-down of this debt, but it is probable that the maturity profile will be pushed out considerably and the interest rate charged could be reduced. A lower interest rate would obviously reduce the annual cost of servicing, but a longer maturity profile would obviate the need for the NTMA to refinance the maturing debt and of course by pushing it out over many years, inflation will erode the real value of the debt in today's money terms. This would provide considerable relief.

The EFSF was set up originally as a temporary lending facility. This facility will be replaced this year by a permanent lending facility called the European Stability Mechanism (ESM).

For Ireland, the next big negotiation should revolve around using ESM funding to pay off the infamous promissory notes. However, there is opposition to using this new ESM to retrospectively fund band debt already incurred.

In other words, for banks that get into difficulty in future, the ESM will be used to re-capitalise banks and it will not go on the national balance sheet. However, it is tough luck on Ireland that we already did so, or at least that seems to be the attitude amongst some of our European partners. That is simply not an acceptable attitude, given what Ireland has already done.

The ECB should feel morally obliged to help out Ireland, but then again, morals rarely enter the deliberations of institutions such as the ECB. However, Ireland should continue to aggressively fight this battle and draw on the support of sympathetic parties such as the IMF and European Commission.

Meanwhile, the cynics and opposition politicians will decry the deal that was discussed this week, but the reality is that if delivered, it would make a significant difference to Ireland's longer-term fiscal sustainability. It was never likely that debt write down would be contemplated, so the proposals on the table would represent the second best option.

Now for the promissory note battle! Progress on the promissory notes would make a very significant difference.

Jim Power is an independent economist

PAC Briefing – Promissory Note Deal

Background - Legislation & Negotiation Conclusion

- Discussions were on going with the ECB for 18 months. As part of these discussions the ECB was considering a proposal from the Government. In the discussions with the ECB it was envisaged that the first step would be the liquidation of IBRC and the sale of its remaining assets to NAMA or other market purchasers
- As soon as the information relating to the proposal to liquidate IBRC was made public, there was an immediate risk to the bank and as result the Minister took immediate action and introduced emergency legislation to the Dáil. This was necessary to secure the stability of the Bank and the value of its assets, valued at €12 billion, on behalf of the State
- The enactment of legislation providing for the orderly wind-up of IBRC though the appointment of Special Liquidator will have significant implications for Ireland's fiscal roadmap for many years to come
- On the 7th February there was conclusion to the discussions with the ECB. The transaction was unanimously noted by the ECB Governing Council, as indicated by President Draghi
- Furthermore on the 18th February President Draghi stated that the promissory note deal was a "positive" step for Ireland
- The Irish Government fully understands the need for the ECB to ensure it is operating within its mandate. As outlined by the Central Bank of Ireland on the 7th of February, "the bonds will be placed in the Central Bank of Ireland's trading portfolio and sold as soon as possible, provided that conditions of financial stability permit. The disposal strategy will of course maintain full compliance with the Treaty prohibition on monetary financing

Overview of the Transaction

- Existing funding arrangements with regard to the Promissory Notes between IBRC and the Central Bank of Ireland (CBI) were unwound and the CBI became economic owner of the Promissory Notes which were exchanged for Government bonds
- NAMA, through an SPV, has been directed to acquire the Exceptional Liquidity Assistance (ELA) Facility Deed and the associated floating charge over the other IBRC assets from the CBI, funding this purchase by the issuance of Government Guaranteed NAMA bonds to the CBI
- The other creditors of IBRC will receive payment to the extent there are excess assets in the company available
- The Promissory Notes where replaced with a portfolio of Irish Government bonds The portfolio will comprises
    - 3 tranches of €2 bn each maturing after 25, 28 and 30 years;
    - 3 tranches of €3 bn each maturing after 32, 34 and 36 years;
    - 2 tranches of €5 bn each maturing after 38 and 40 years.

On the 8th February 2012 the NTMA issued 8 new Floating Rate Treasury Bonds for a total amount of €25 billion with maturities ranging from 25 to 40 years. The bonds will pay interest every six months (June and December) based on the 6-month Euribor (0.372% at the date of issuance) interest rate plus an interest margin which averages 2.63% across the eight issues.

Key Benefits of the Transaction

- The provision of a longer term non-amortising (up to 40 years) portfolio of Government bonds to replace the amortising Promissory Notes will have significant benefits from a market perspective as it ensures the liability to repay is beyond most credit investors' time horizon
- Spreading the cost of the Promissory Notes from a weighted average life of c.7-8 years to c.34-35 years at a lower funding cost for the State, resulting in significant annual interest savings
- Substantial annual cash flow benefit to the State from replacing Promissory Notes with non-amortising Government bonds (c.€2.3bn in the first year and c.€20bn over the next 10 years if costs of the transaction are excluded)
- A reduction in the underlying deficit of c.€1bn per annum in the coming years (before transaction costs), reducing the forecast deficit by c.0.6% of GDP annually. 2013 benefits are much reduced on account of transaction costs
- A reduction in General Government debt over time
- Removal of IBRC from the financial landscape
- Removal of Exceptional Liquidity Assistance and the inherent risk associated with short term borrowings which have to be rolled over on a fortnightly basis
- Efficiency gains from housing 'legacy assets' in a single vehicle, NAMA
- Establishing a permanent solution for a significant part of the structural shortfall of bank liquidity

Post Transaction Events

The following events occurred post the enactment of the IBRC Act 2013 and the conclusion of discussions with the ECB

Promissory Notes

- The Promissory Notes were exchanged for a portfolio of Irish Government Bonds on Friday 8th February

Bank of Ireland Repo

- As a consequence the Government Guaranteed Repurchase transaction of Irish Government Bonds entered into by the Bank and IBRC on 19 June 2012 will be terminated on a no gain / no loss basis to the Bank
- This trade was contracted on Thursday night (7th February) and settled Wednesday 13th February in line with normal Eurosystem operations

Facility Deed

- All repurchase agreements (including that which governed the promissory notes) have unwound
- Excess collateral has been calculated by the CBI and is being used to set off, or pay down, the outstanding amount under the government guaranteed facility deed
- With the settlement of the BOI repo unwind today (Wednesday), the CBI will confirm the final outstanding amount under the facility deed which will then be purchased by NAMA over the coming days by the issue of NAMA bonds. This will make whole the CBI and it will have no further claim over IBRC assets

NAMA

- NAMA held a meeting of its Board to approve (i) the establishment of new NAMA SPV (National Asset Resolution Ltd-NARL) ,(ii) designation of NARL as a NAMA Group entity and (iii) consent to issue bonds under section 48 of the NAMA act (iv) consent to set up new Bond programme
- NAMA held a meeting of the Board of NAMAIL (equity shareholders) to seek approval for the transaction
- Following approval by NAMA and NAMAIL Boards the new NAMA SPV NARL was incorporated
- Execution of Debt Transfer deed : NARL will acquire the facility deed from CBI and CBI will transfer the benefits of the facility deed and floating charge and the ministerial guarantee to NARL (provisionally expected to occur on [Wednesday 20th February])
- NAMA in return will issue NAMA bonds to the CBI for the amount outstanding under the facility deed.

The current provisional indication is that NAMA will issue the bonds on [Wednesday 20th Feb] for same day value.

Litigation

Mr. Justice Peter Kelly, in the High Court, has raised questions relating to the stay imposed on claims against IBRC by section 6 of the Act. On the seventh of March he will hear submissions on whether the Court has a discretion to lift the stay imposed by the Act. Consequently the matter is sub judice and we should not comment on whether or not the Court has such a discretion.

An Article in the Irish times indicates that:

"Section 12 of the Bill says any security created by the bank "shall be taken to be valid" and shall "not be invalidated or rendered void" by a listed series of sections of the Companies Acts, including section 60. The latter is the section that prohibits a company from giving out loans to support its own shares. In other words, the Oireachtas, in the course of its night-time sitting last week, appears to have told the Quinns to shove off."

This is incorrect since section 12(3) deals only with the IBRC security granted to the Central Bank. Bank is defined in section 1 of the IBRC Act as the Central Bank of Ireland.

It does not affect any other loans granted by IBRC to the Quinns or other third parties, nor does it affect any previous claim made that IBRC breached section 60 of the Companies Acts and the prohibition on funding the purchase of a company's own shares made in other reported Quinn proceedings.

Appendix 1 – Presentation Transaction Overview

Appendix 2 – Impact Analysis Pro Forma Transaction Impact Analysis - State Finances (Based on No policy Change)

Noonan says he never shared 'panic' over Merkel remarks

Michael Noonan: Debt deal ‘unlikely to be addressed' before end of year

Friday, March 07, 2014

By Juno McEnroe

Ireland’s attempt to get a deal on historic bank debt is unlikely to be addressed until the end of this year at the earliest and will be considered alongside the potential sale of State-owned banks, Finance Minister Michael Noonan has said.

The issue of retro recapitalisation of Ireland’s bailed-out banks is expected to be informally raised today with German chancellor Angela Merkel.

A Government spokesman said that “the matter could potentially be touched upon” by Taoiseach Enda Kenny when he meets chancellor Merkel during the European People’s Party (EPP) congress in Dublin.

Mr Noonan reiterated the agreement made last June, where EU member states said retroactive recapitalisation may be decided on a case-by-case basis.

The union’s future bailout fund, the European Stability Mechanism, is the technical mechanism which will allow for an injection of capital for bank bailouts.

Outlining priorities for the year ahead yesterday, Mr Noonan added: “There is significant time for consideration of this option as retroactive recapitalisation can only occur after the single supervisory mechanism is operational, most likely towards the end of 2014.

“Any application for retroactive recapitalisation will be considered in light of the potential returns to the State from alternative options for realising the value of the State’s bank holdings.”

The Government has been trying to persuade European countries to retrospectively pay for the bailout of Irish banks, with specific focus on the estimated €30bn paid into AIB, Bank of Ireland, and Permanent TSB.

This week marks Chancellor Merkel’s first trip to Ireland and is seen as an opportune moment among coalition figures to raise the issue during informal talks.

But Department of Finance officials stressed a debt deal is not the only method to recover funds paid out for the bank bailouts. Bank asset sales could complement any deal, officials say, and point to the sale of Bank of Ireland shares this week, which netted wealthy investors €690m for 6.4% in shares.

The Long and Winding Road: The struggle to secure a bank debt deal

RTE / By Tony Connelly on Friday 20 June 2014

The odds on Ireland securing a full-blooded bank recapitalisation using Europe's €500bn ESM bailout fund now appear low.

Time and politics have moved on since the eurozone summit of June 2012, when Taoiseach Enda Kenny secured the promise of help for Irish banks.

But priorities for the Government have changed as well, and officials are insisting that the promise of support can yet deliver something for the Irish banking sector, even if it is not the pile of cash that seemed to be on offer exactly two years ago.

It's worth recalling the events of June 2012 and the torrid mood that prevailed.

It was the darkest moment of the euro crisis: the borrowing costs for Spain and Italy were rising to a point at which Europe's modest rescue funds would not have been sufficient to step in.

A doom-loop had developed between banks and sovereigns, whereby governments were frantically bailing out banks, which in turn were relied upon to buy the sovereign debt of governments.

An attempted bailout of Spanish banks, one which increased the size of Spain's deficit, had failed spectacularly. The euro itself was on the edge of collapse.

Against this backdrop was a change of personnel at Europe's top table. Mario Monti, who had the backing of US President Barack Obama, was Italy's respected new prime minister.

François Hollande had just taken over from Nicolas Sarkozy as president of France.

Along with the canny Spanish leader Mariano Rajoy, they hatched a plot to ambush Angela Merkel at the summit, in order to push her into agreeing a bolder and, to the Germans, unacceptable bid to save the euro.

Their demand was that the ESM, and its predecessor the EFSF, be allowed to buy up Italian bonds. The ESM would also have to be allowed to directly recapitalise banks that were in trouble, but in such a way as not to burden the sovereign.

In short, it was a dramatic bid to break the vicious cycle between banks and sovereigns that was posing an existential threat to the single currency.

As the meeting in Brussels progressed, Rajoy and Monti threatened to upend the summit, and talk of a new growth pact, unless Merkel cast aside decades of German orthodoxy, and agree the roundabout monetary financing of governments.

Under intense pressure the German chancellor buckled – and somewhere in the small hours of the morning, Kenny, who had been in close contact with Rajoy and Monti, secured a dramatic sideline concession for Ireland.

In the statement that followed, it was clear that the 16 eurozone leaders had "got" the necessity to break the link between bank and sovereign debt.

Although Spain and Italy weren't mentioned by name, everyone knew that they were the two critical countries that had to be dealt with if the euro was to be saved.

But at the end of the statement's first paragraph, one country was mentioned: "The Eurogroup will examine the situation of the Irish financial sector with the view of further improving the sustainability of the well-performing adjustment programme. Similar cases will be treated equally."

That last sentence was key. If Spanish banks were getting direct recapitalisation, then Irish ones would too.

Irish officials broke the news at 4am. Ireland had got its long-awaited deal on bank debt. The €30 billion or so that had gone into the pillar banks (excluding Anglo Irish), could now be addressed.

Enda Kenny was jubilant and, in no small measure, somewhat surprised at the turn of events.

He told reporters: "Europe is always about patience and about timing. Ireland was one of the first to put forward the measures of direct injections into banks. Issues that at first sight, first indications, seem to be rejected inevitably are left on the table and find a way of becoming a reality later on."

But two years on that reality has not dawned.

The trouble began when Jens Weidmann, the head of the Bundesbank, disassociated himself from the idea.

Then in Helsinki, just three months after the June summit, Wolfgang Schauble, the German finance minister, issued a statement with his Dutch and Finnish counterparts, which seemed to pour cold water on the Irish prize.

Direct recapitalisation would only come about once there was a new European regulator in place, and once there was a clear commitment that the private sector and national governments would step in first, before there was any pan-European funding available for stricken banks.

Even then, the statement added ominously, recapitalisation could only apply to future problems. Legacy problems were "a matter for national governments".

The following month the German chancellor caused a storm when, at a summit in Brussels, she insisted that ESM funding for banks was only for "future cases" and that there would be “no retroactive direct bank recapitalisation” for Spanish banks (and presumably Irish banks as well).

There ensued a furious round of weekend phone calls between Dublin and Berlin, resulting in a joint Kenny-Merkel communiqué to the effect that Ireland was “a special case” and that the June commitment would be kept.

The following day the Taoiseach met President Hollande in Paris and the “special case” notion was repeated.

But the months passed. Direct bank recapitalisation was now bound up with the tortuous negotiations towards a new European Banking Union.

The basic trade off was that if Germany was going to tolerate ESM funds being used to bailout banks, then a whole new regime was needed to make sure that banks were more strictly supervised (so they wouldn’t need bailing out).

Furthermore, if they did need bailing out the ESM would be a last resort, and in the meantime the private sector – shareholders, bond-holders and depositors – would have to “bail-in” money first.

The Government switched its strategy away from retroactive recapitalisation and on to Anglo and the promissory notes.

When a deal was struck with the European Central Bank in February 2013 on Anglo the Government earned some breathing space.

By now Ireland was eyeing its bailout exit. But the improvement in the State’s economic situation would prove deleterious to the bank recap aspirations.

With the bailout exit looming, I posed a question to Wolfgang Schauble at a meeting of eurozone finance ministers in Luxembourg on 15 October 2013, about prospects for a retroactive recapitalisation of Irish banks.

Such an option was “not probable,” he said. “Ireland did what Ireland had to do… now everything is fine.”

His remarks were seized upon by the opposition in Dublin as “proof” – once again – that the Taoiseach had been sold a pup in June 2012, and that Europe was not to be trusted on the issue.

In reality, Schauble’s remarks were simply reflecting the consistent view in Berlin that the promise to break the link between banks and sovereigns, enshrined in the June 2012 statement, was to be read entirely separately from the promise to “examine the situation of the Irish financial sector with the view of further improving the sustainability of the… [bailout] programme”.

The upturn in the Irish economy, as well as the fact that Merkel was now sharing power with the Social Democrats, who were even more averse to German taxpayers' money going to banks, both meant that opposition to help for Ireland was hardening in Berlin.

In the meantime, the key elements of a new banking union were taking shape.

A raft of new rules were tortuously negotiated between EU member states and the European parliament on how Europe could avoid a situation in the future, where the failure of a systemically important bank – or even a non-systemically important one like Anglo – could be handled without posing a fatal threat to the single currency.

The ECB would become the supervisor of Europe's most important banks. Member states would have to harmonise rules on how to ensure banks were capitalised properly, and how to wind them down and recover the parts worth saving if they still faltered.

In time, there would be an over-arching Single Resolution Mechanism (SRM) to supersede the national rule book, and which would work out who took the decision at European level, and when, to wind up a bank if it got into trouble.

A pecking order, applicable across the European banking system, of shareholders, junior bondholders, senior bondholders and depositors was established in terms of who was first in line to take a hit if a bank failed.

The idea of a Single Resolution Fund (SRF) was also established, a pot of money built up through contributions by the financial sector, which would help stabilise a bank collapse.

Throughout this process it was becoming apparent that European taxpayers were to be protected in a way that Irish taxpayers weren't when the banks got into dreadful trouble in 2009 and 2010.

This seemed to strengthen the government's key argument: Ireland stepped in and saved the European bank system by not burning Anglo bondholders in 2009, at a time when the current instruments – including the ESM – were not available.

Now it was only fair that the burden Irish taxpayers took on in relation to the banks was acknowledged retroactively.

This week a senior eurozone official, however, told RTÉ News that it was now "extremely unlikely" that Ireland would get such a recognition.

His argument was that so much had changed politically and technically since 2009/10 that it was "next to impossible" to wind back the clock.

Under pressure from Germany, the ESM was to be used to help banks as a very last resort, and with onerous conditions attached.

The two main conditions – that the private sector be bailed in, and that a bank has been supervised by the ECB beforehand – clearly cannot apply in Ireland's case, the official reasoned, because Irish banks were bailed out long before the rules were made.

Irish officials beg to differ.

The political agreement on how the ESM could directly recapitalise banks was made in June 2013, one year after the original summit commitment.

On that occasion Ireland's concerns were catered for, albeit not in a robust way. Potential retroactive bank recapitalisation, the agreement said, could be considered "on a case-by-case basis," with the agreement of all 17 eurozone countries required.

On 10 June, after months of work by officials, the detailed guidelines on how direct recapitalisation would work were finally agreed and were sent to eurozone capitals for approval.

As an indication of how sensitive the issue is in Germany, I was given a categorical denial by German officials that "retroactive recap" was included in the detailed guidelines, which will be voted on in September by the Bundestag.

That, however, turned out not to be the case.

Following further enquiries I obtained a copy of the parliamentary guidelines (they have not been made public).

Article 14 refers to "Retroactive application of direct recapitalisation".

It states: "This guideline is established without prejudice to existing ESM and EFSF programmes in which financial assistance has been provided to ESM Members who recapitalised their institutions, which could be replaced in part or in full with a retroactive application of direct recapitalisation following a decision by the ESM Board of Governors…"

The second paragraph of Article 14 is the one which gives Irish officials comfort.

It states that the "detailed modalities" for the use of ESM funds for something which happened in the past "shall be established in the relevant ESM Board of Governors decision."

In other words, if the Government can manage, through negotiation and in advance, to get around the concerns mentioned by the eurozone official, quoted above, then those details will all be contained within one straightforward decision by the ESM board.

That still leaves a lot of room for doubt – the board of the ESM is, after all, in reality just the eurozone finance ministers, including the German, Dutch and Finnish ones.

The other comfort for the Government, however, is the increase in the value of the shares of the banks that were initially bailed out.

Bank of Ireland is now worth €1 billion more than the government put into it. AIB may also show a significantly increased value since 2010.

The reality is that the Government may not need the ESM to take an equity stake in the pillar banks, the approach long seen as the best way for retroactive recapitalisation to work.

Should the Government convince its eurozone partners in the long term that the ESM could have an explicit option on Irish bank shares, that could provide a solid price floor which could attract other investors.

It all depends on the goodwill of Ireland's eurozone partners, and on the continuing rise in value of the pillar banks.

It may not be the windfall that seemed to have been promised in the early hours of 29 June 2012. But it might just give the Government enough cover to ward off Opposition attacks, in the run up to next year's general election.

File Note Extract

At my request I met the Minister for Finance, Mr. Michael Noonan TD, in his office on Wednesday, 27 March, 2013 at mid-day. The meeting concluded at 12:35 pm. The following items were covered at the meeting:

PCAR

The Minister and I discussed the likely timing of the next Central Bank PCAR. He said that in his view the Troika was likely to insist that it be carried out and the results published later this year. I said that, if a further capital requirement were to emerge in that event, there was a significant risk, in light of Cyprus, of a run on deposits if the source of the fresh capital were not announced at the same time as the publication of the PCAR. The Minister said that "he heard what I saying " but that it would be difficult politically to provided any funds from the Exchequer.

Exit from Troika Programme

We discussed the exit from the Troika programme. The Minister indicated that the Troika now seemed to be thinking of a "clean break" i.e. that the exit would not be supported by any contingent credit lines. His view seemed to be driven by a perception that our access to the capital markets was being normalised. I expressed reservations about exiting without access to Troika credit lines. I said that there were lots of threatening uncertainties and the prudent approach would be to have such lines in place, provided the conditionality was not too onerous.

Rating Agencies

The Minister asked for an update. I said that Fitch and Standard and Poor's, having recently moved us to stable outlook (in investment grade), were unlikely to revisit their ratings until late this year at the earliest. I said that Moody's still had us in sub-investment grade with a negative outlook. We had met them recently: a new analyst – based in New York – had been assigned to Ireland. She had made encouraging positive public pronouncements about Ireland. However, it was out view that the hair-cutting of depositors in Cyprus – described by Moody's as credit negative for the Eurozone – meant that it was now highly unlikely that Moody's would change the rating.

Conclusion

I thanked the Minister for seeing me.

28 March 2013

THEME: C7

Impact of the crisis on bank creditors

LINE OF INQUIRY: C7a

Options for burden sharing during the period 2008-2013

Increases in Public Service Allocations 2000-2008

	2000 €m	2008 €m	% change 2000 - 2008
Social Welfare	6,829	17,741	+160 %
Education	3,716	8,465	+128 %
Health	5,362	15,356	+186 %
Capital Investment	3,930	9,011	+129 %
Total Expenditure	25,925	62,395	+141 %
GDP	105,018	179,989	+71%

CATEGORY C5(a)

EUROPEAN UNION ("EU") INTERNATIONAL MONETARY FUND ("IMF") EUROPEAN CENTRAL BANK ("ECB") PROGRAMME OF ASSISTANCE

55. The Government was very concerned about achieving the best possible terms, from the Troika. In particular there was a concern to protect Ireland's legal autonomy pursuant to the European Union Treaties in relation to its corporation tax rate.

56. The EU/IMF Programme of Financial Assistance provided for a significant number of legal measures. The most pressing measure was the CISA Act which was intended to provide a legal basis for altering the rights of subordinate bondholders. The CISA Act was also essential to enable the further urgent recapitalisation of AIB on the 23rd December 2010.

CATEGORY C5(b)

THE LIQUIDATION OF IRISH BANKING RESOLUTION CORPORATION ("IBRC"), THE PROMISSORY NOTES, RE-FINANCING AND THE RELATIONSHIPS WITH THE ECB.

57. I was no longer in office when these events took place.

CATEGORY C7(a)

OPTIONS FOR BURDEN-SHARING DURING THE PERIOD 2008 - 2013

58. This category raises some issues covered by my obligation of confidentiality. I can say however that the CISA Act provides for a form of burden-sharing, and that there was no fundamental legal or constitutional impediment to introducing legislative measures to provide for further burden-sharing.

CATEGORY C7(b)

ROLE OF THE EUROZONE AND INTERNATIONAL PARTNERS IN THIS DECISION.

59. See response to the preceding category.

CATEGORY R1(a)

APPROPRIATENESS OF THE REGULATORY REGIME

60. Significant lessons have been learned from the financial and sovereign debt crises and undoubtedly the regulatory regime governing credit institutions in Ireland and indeed elsewhere has been changed to reflect those lessons. These changes included the enactment of the Central Bank Reform Act 2010 which created a single fully integrated Central Bank of Ireland Commission.

61. Many countries did not have bank resolution regimes at the start of the financial crisis. By way of example, Denmark introduced resolution legislation in October 2008. The United Kingdom introduced its Banking Act on 12th February 2009. Prior to that the United Kingdom did not have a permanent statutory regime for dealing with failing banks but the Banking (Special Provisions Act) 2008 provided limited resolution powers enabling the UK Government to nationalise high street banks in an emergency and to make provision for the subsequent transfer of a nationalised bank to a buyer. The 2008 legislation was passed as a direct response to the Northern Rock crisis. Germany introduced its Bank Restructuring legislation on 14th December 2010 and it entered into force on 1st January 2011. Ireland introduced the CISA Act on 21st December 2010. Spain adopted laws in August 2012 paving the way for a state owned bank to help clean up the country's banking sector and providing for a framework to wind down failing banks. On 18th July 2013 France adopted Law No. 2013-672 providing for the separation and regulation of banking activities and for various resolution powers.

62. It should be borne in mind that resolution regimes can take various forms including providing for nationalisation, bridge banks, special management and burden-sharing.

63. The crises have disclosed significant deficiencies in the European legal order relating to the issue of financial stability which have only been addressed in recent times.