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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EBS: Core Book 37

January 2016

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THEME: B3

Effectiveness of banks' funding, liquidity strategies and risk management

LINE OF INQUIRY: B3A

Appropriateness of funding sources - the mix, maturity profile and cost

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Mr Charlie McCreevy
Minister for Finance
Government Buildings
Merrion Square
Dublin 2

29 August 2000

Dear Minister

Following your conversation with Martin Walsh on 2 August in Galway, we attach an outline of a savings scheme which, we believe, would have major benefits for individuals and for the economy in general. Needless to say such a scheme would be of benefit to institutions such as EBS.

The primary thinking behind this scheme is to provide a mechanism for taking spending power out of the economy in a reasonably painless way. Traditionally interest rates and fiscal measures have been seen as the two measures by which this objective can be achieved. Since joining the Euro, interest rates are no longer under our direct control and in any case can operate as a blunt instrument affecting both consumer expenditure patterns and businesses at the same time. Due to public expectations, direct fiscal measures do not appear to be an acceptable option at the moment as a tool for moderating economic activity.

The savings scheme proposed here is structured in such a way that it would be attractive to the majority of citizens and would thus provide an effective method of encouraging individuals to defer spending, while at the same time, promoting the very real benefits of personal capital accumulation. The essence of the scheme is that instead of increasing personal allowances, the State would make a direct tax credit, at standard rate, into a savings account, provided the funds were locked away for ten years. A shorter period could be considered if it were felt that an even more attractive scheme with a stronger impact was required.

From the point of view of moderating expenditure, the scheme would have the effect of removing approximately four times the amount of the tax credit out of current personal spending. Thus it can be seen that instead of providing increased personal allowances which would add to spending in the economy, the use of a scheme along these lines would in fact reduce consumer expenditure by a greater amount.

The obvious benefits to individual tax payers are such that the scheme should prove very popular. I have set out some further considerations on how the scheme might operate in practice in the attachment. Should you be interested in discussing these ideas further I would be delighted to meet you at your convenience.

Yours sincerely

Martin Walsh

PAT O'REILLY
Chief Executive

for

EBS01B01

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EBS01386-006

Approved Quality System

OUTLINE PROPOSAL FOR
A Tax Assisted Savings Plan (TASP)

Summary:

The primary thinking behind this scheme is to provide a mechanism for taking spending power out of the economy in a reasonably painless way. Traditionally interest rates and fiscal measures have been seen as the two measures by which this objective can be achieved. Since joining the Euro, interest rates are no longer under our direct control and in any case can operate as a blunt instrument affecting both consumer expenditure patterns and businesses at the same time. Due to public expectations, direct fiscal measures do not appear to be an acceptable option at the moment as a tool for moderating economic activity.

The savings scheme proposed here is structured in such a way that it would be attractive to the majority of citizens and would thus provide an effective method of encouraging individuals to defer spending, while at the same time, promoting the very real benefits of personal capital accumulation. The essence of the scheme is that instead of increasing personal allowances, the State would make a direct tax credit, at standard rate, into a savings account, provided the funds were locked away for up to ten years. From the point of view of moderating expenditure, the scheme would have the effect of removing approximately four times the amount of the tax credit out of current personal spending. Thus it can be seen that instead of providing increased personal allowances which would add to spending in the economy, the use of a scheme along these lines would in fact reduce consumer expenditure by a greater amount.

Outline of Scheme

Each tax payer/individual to be given an annual savings allowance at the standard tax rate, of up to a maximum £2,400, grossed up at the standard 22% tax rate, for money invested in a TASP account - Gross Allowance £3,076.92 (**Note 1**).

The savings allowance would be available at the rate of £200 a month (maximum), grossed up at the standard tax rate, and would have to be availed of in the month, otherwise the allowance would be lost.

For simplicity individuals could only opt for savings of £50; £100; £150 or £200 a month.

This system would operate like the TRS in that the institutions would maintain the accounts and claim the tax credit from the Revenue which would be credited to the customer's account.

While there are significant systems implications, they are considerably less than those involved in the TRS scheme as this is a far less complicated process than a mortgage with specified amounts and fewer systems, documentation & training implications. As the amounts to be saved are fixed and the terms predetermined, there would only be a limited number of calculations to perform and these would be the same for most individuals.

There would be two accounts for each individual. There would be an "A" account where for example, the customer would put in £100 a month and a "B" account to which the tax credit from the Revenue of £28.20 (**Note** 2) a month would be lodged. If the funds were withdrawn before maturity or outside the terms of the scheme, the customer would only get the funds in the "A" account. The funds in the "B" account, together with interest would go back to the Revenue.

Both accounts would bear the same rate of interest and there should be competition between institutions as to what rate would be paid. The rate of interest should be transparent and indexed such as EURIBOR less 1%. It should be stated simply in a clear, consumer friendly way and be easily compared between institutions.

In principle interest in this scheme should be free of DIRT. However, to ensure that no benefit would go to an individual who withdrew funds before maturity, DIRT would be deducted from the interest on the "A" account and credited to the "B" account. Thus the individual could only benefit from the DIRT concession if the funds remained to maturity. Otherwise the benefit would go back to the Revenue.

In order to minimise the amount of cross lending which would take place within the financial system to fund investments in these accounts, it could be made illegal and or void to give or to take security on any of these accounts. Thus if the financial institution wanted to lend money to an individual to benefit from the tax break they could have no redress to the funds in the accounts. This is similar to the situation with pensions.

It is possible that some lenders would set up schemes to use a TASP to fund repayment of mortgages along the lines of pension mortgages which operate at present. This would not invalidate the logic behind the scheme. As lenders would have no lien on these account the type of facility, like pension mortgages, would be limited.

In any event a limited amount of "leakage" would not affect the overall objective of reducing spending power in the economy.

Individuals on lower incomes could benefit by more than they would have paid in tax. They would receive the full tax credit irrespective of the amount of tax paid. This would be socially progressive and would assist such less well off individuals to build up capital.

Even though DIRT would not be payable if accounts ran to maturity, the same DIRT rules should apply to all institutions which took part in the scheme: banks, building societies, credit unions and the post office This would ensure no unfair advantage to any sector on accounts which were withdrawn before maturity.

Each institution would make a monthly return to the Revenue giving the name and address, PRSI number and the amount involved.

This would give the Revenue the basic information for auditing the scheme and how it was handled by each institution. It would also ensure that no individual was trying to obtain a double benefit with more than one TASP. If the Revenue was dissatisfied with the way any institution was handling the scheme, it could simply withdraw its authorisation to deal with the scheme.

An individual could only open a TASP with one institution in any one year. Savers would be free to change institution only at the end of a year. This would simplify administration for both the institutions and the Revenue.

It is envisaged that the scheme would run for a number of years - say 3 initially. Individuals could then have relationships with 3 different institutions. If extended for a further period savers could have even more relationships.

Revenue would be given power to forbid any institution to pay over funds in the "B" account in the event of serious tax non compliance. In these circumstances the account would be frozen until the matter was resolved.

The scheme would be open to individuals of all ages.

Each TASP would have to remain invested for a minimum of 10 years before withdrawal.

Funds could only be withdrawn before 10 years by those aged over 65, first time buyers withdrawing funds towards the purchase of their first house, or on the death of the investor.

No lower age limit is envisaged when starting a scheme. This could encourage parents to start a TASP to assist their children to save towards a deposit on a house. The 10 years, age 65 or first time buyer restrictions or withdrawals would still apply. There should also be a minimum withdrawal age of 18 in the case of first time buyers.

The age 65 break point is to encourage those, approaching retirement (particularly on lower incomes) to save towards supplementing their pensions.

It might be possible to consider the use of a TASP towards full-time education fees. If this were to happen, funds could only be released against receipts from recognised educational institutions.

To allow individuals on low incomes to benefit, they could lodge a small amount to a separate account each week, with a monthly transfer being made to a TASP account. This would administratively expensive as many of these would be labour intensive counter transactions. Authorised institutions should be compelled to offer this facility to ensure broad availability of the scheme to low income savers. In order to partly offset these costs, institutions should be allowed apply a standard charge of 20p per electric lodgment and 40p per counter lodgment under the scheme. For simplicity this should be established from the outset to avoid subsequent delays involved in applications by each institution for separate approval of the charge.

It could be argued that the funds saved would then become available to institutions to add to their lending capacity and thus defeat the objectives of the scheme. This effect would be marginal as there is already strong competition to lend money by both domestic and foreign lenders.

If a million TASP accounts were opened, this could remove £2.4 bn in spending power out of the economy in one year. This assumes that all such accounts were opened for the maximum of £200 a month. The cost to the Revenue in a year in the additional credits would be £677 million which would end up in savings accounts rather than in immediate expenditure. However, there would be some question as to the extent that the scheme would be taken up by all segments of the population or to the extent they would use the maximum monthly allowance. The number of accounts and the average amount saved per month could be significantly lower. However, it is clear that, even with a more modest level of take up - say 30%, a scheme along these lines would have potential to significantly dampen spending power while being very acceptable in that it confers a very real benefit on the ordinary tax payer. The benefits, long term, would be particularly significant for those on lower incomes in providing additional retirement funds and for young individuals saving towards a house deposit. It would be far less damaging to the economy than further significant tax cuts.

Note 1: $$\frac{\text{£}2{,}400}{(1 - .22)} = 3{,}076.92$$

Note 2: $$\frac{100}{(1 - .22)} - 100 = \text{£}28.20$$

2008 Funding Strategy

EBS
BUILDING SOCIETY

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- Budget Recap
- Current Position
- 2008 Funding Scenarios
- Immediate Steps

EBS
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Budget Recap

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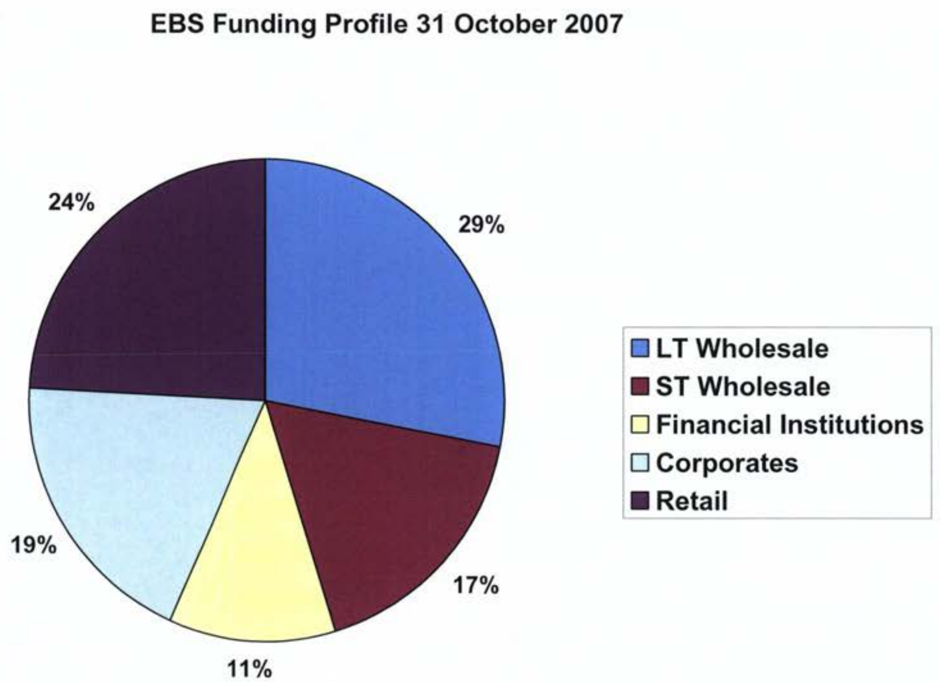
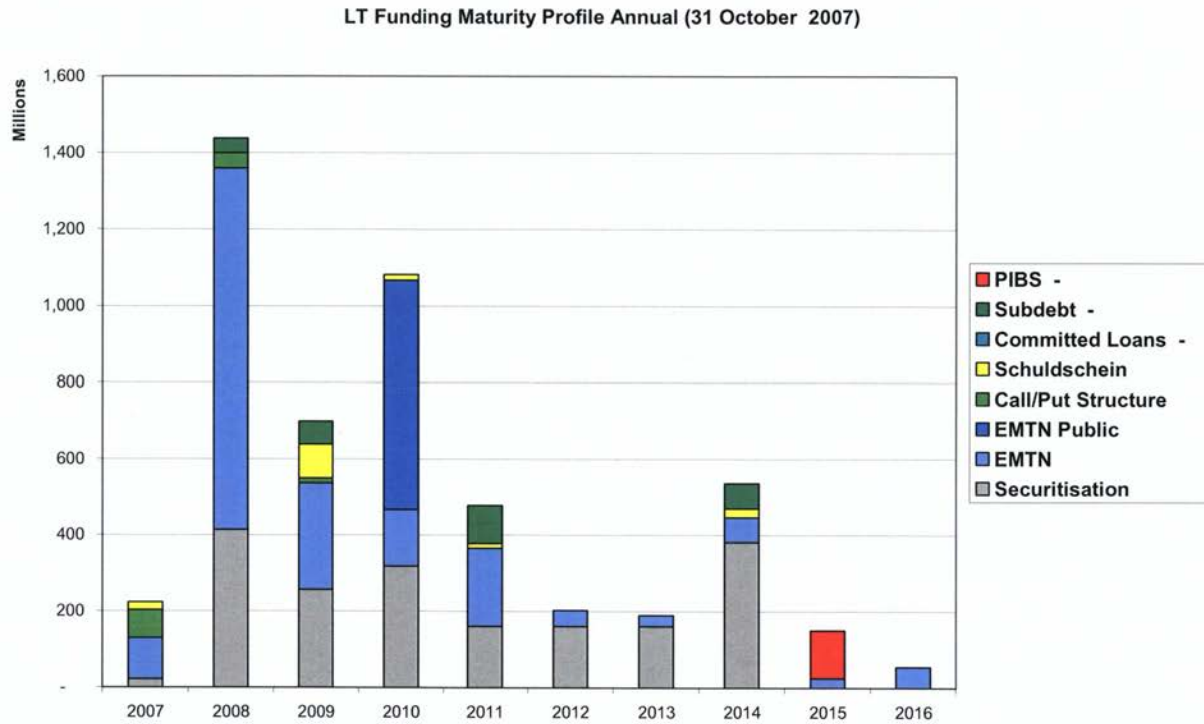
Budget Presentation



Budget Presentation Maturity Profile



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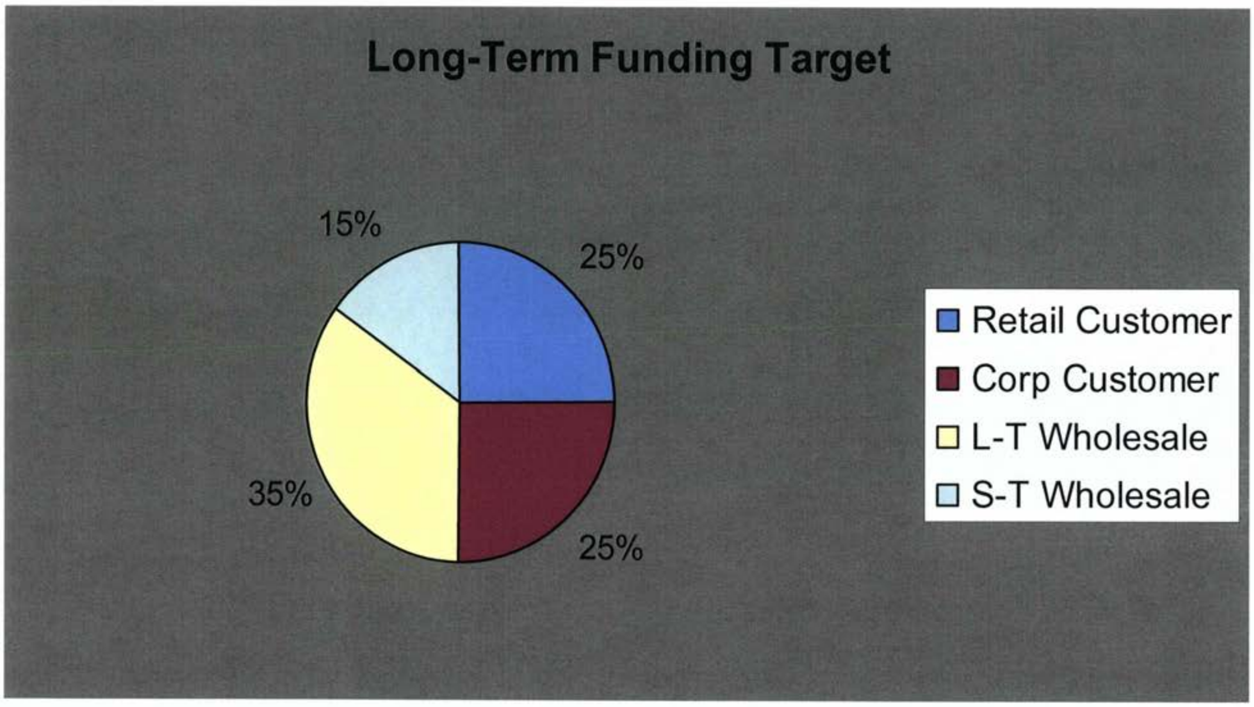
Budget Presentation



Current Position

Funding Policy – Approved Nov 2007

- **Long Term Policy Objectives**

Reduce reliance of Short Term Wholesale funding
Increase use of Long Term Wholesale & Customer funding

Specific funding limits apply regarding funding mix

	Policy Min	Policy Max	Long Term Target
LT Wholesale	25%		35%
ST Wholesale & ECB		25%	15%
Corporate & FI	20%		25%
Retail	20%		25%
Customer	40%		
LT Wholesale & Retail	50%		60%

EBS BUILDING SOCIETY

2007 Year End Funding Mix

•Out turn skewed by external factors

'Haven' loan book sale did not go ahead (assumed €1.5bn)
[redacted] withdrew €280m of various client funds
Liquidity / credit crunch closed MTN markets in H2 2007

	Dec 2007 €m	Dec 2007	Policy Min	Policy Max	Long Term Target
LT Wholesale	€4,896m	27%	**25%**		35%
ST Wholesale & ECB	€4,034m	22%		**25%**	15%
Corporate & FI	€4,841m	26%	**20%**		25%
Retail	€4,599m	25%	**20%**		25%
Customer	€9,440m	50%	**40%**		
LT Wholesale & Retail	€9,495m	52%	**50%**		60%

•Wholesale funding outflows managed in 2 ways:
Liquid assets used to repay maturities, balance sheet reduced
ECB Repo funding increased, YE 2007 outstandings €2.2bn

No breach of funding policy at year end 2007

THEME: B3

Effectiveness of banks' funding, liquidity strategies and risk management

LINE OF INQUIRY: B3B

Analysis of liquidity risks under adverse scenarios

Minutes of BACC meeting on 15 June 2006 (Contd.)

	Enda Faughnan, Ken Owens, Yvonne Scannell and Audrey Collins left the meeting at this point. Gerry Murray joined the meeting for the next item.
4. Treasury Update	Gerry Murray provided an overview of the developments in Treasury over the past six months having joined EBS as Group Treasurer six months ago. He used the recommendations from the PwC audit late in 2005 as the basis for this update, a summary of which was circulated to members prior to the meeting. Key areas highlighted included • **Liquidity** : A move is underway to change from a regulatory-determined 'stock' approach to managing liquidity (25% of assets held in liquid form) to a 'flow' approach (i.e., hold 90% of what is maturing over the next 30 days in liquid assets and monitor outlook for longer dated maturities in different maturity time buckets). To do this, assumptions on the likely behaviour of different types of products may be made. A parallel run of the old and new methods will commence on 1 July 2006 in line with developments at European level and it is supported by an automated liquidity management process which is now in place. The impact of maturing SSIAs and likely 'behaviours' emerging was discussed. EBS is actively managing and closely monitoring progress in relation to both the retention of funds on deposit, and the continuation of the savings habit. • **Interest Rate Risk** : The new automated process for monitoring interest rate risk in the banking book (IRRBB) was outlined. Treasury produces interest rate data on all products on a daily basis and there is a daily reconciliation, and a monthly reconciliation with Finance data. This is a significant support to the management of IRRBB and has supported the introduction of a new IRRBB policy on the appetite for impact of a 1% shift in interest rates for assets maturing across each time bucket. This prevents a concentration of risk in any time bucket. • **Reserve Investment Policy :** a new policy was approved at the start of the year in relation to how reserves are invested. • **Two other key risk policies –** counterparty credit risk and a wrapper hedging policy – are under review and will be brought to the Board Risk Committee in Q3 2006. • **Treasury Restructure** : Treasury has been restructured and reorganized into a single unit which includes corporate desk and the liquidity desk. The Group Treasurer is located on the floor with the dealers and is supported by a newly created middle office (having recruited a risk manager for Treasury who has two people working with him, and a dotted reporting line to the Head of Risk) and a separate back office. There are strong people in the team who have heretofore been somewhat hampered by poor MIS, but there is a solid base from which to make further progress. • **In summary,** H1 2006 has been focused on putting the right structure, people and systems in place and reviewing key policies. The focus for H2 2006 will be the Assurance side of management, with a focus on risk control self assessment, internal audit, KPMG UK review as part of the Basel 2 preparations and improving further reconciliations with Finance. Gerry Murray tabled a paper which provided an update on progress against the 12 areas for improvement identified by PwC late in 2006. • Progress made in each area was reviewed. The Committee noted the potential impact of maturing SSIAs on the share funding ratio and the reporting line for Treasury type policy reviews which start at ALCO, are then reviewed at management Risk Board and recommended to the Board Risk Committee for approval. The committee thanked Gerry for his comprehensive update.

1. Is EBS experiencing any difficulties (or note any change in market conditions) with regard to either the availability or pricing of funding/liquidity? (for example, is funding becoming more expensive, if so what is the impact?)

In general interbank liquidity has been limited to overnight and week over recent weeks and the premium for period cash has increased considerably with the 1 month rate now up to 45bps over ECB compared to the usual 12/15. We have been able to access interbank cash throughout this period. On the funding programmes maturing Commercial Paper has not been renewed but we have had ample liquidity to enable us to repay and not replace the funding.

EBS to provide details in relation to not renewing CP, to include inter alia;

- How much?

  Balances have changed from 1/8/07 to 23/8/07 as follows:

London CDs	+€75 million
ECP:	-€78 million
FCP:	-€217 million
Total:	**-€214 million**

- Why was the CP not renewed?

  EBS made a conscious decision not to pay excessive rates on issuing CP as EBS has access to cheaper liquidity via shorted dated interbank maturities and an ECB repo facility. If EBS were to pay the current excessive rates, not only would there be absolutely no rationale from an economic perspective, but it would send an inaccurate message to the "Market" with regard to our liquidity position. The only reason we would pay excessive rates for CP is if we were badly in need of liquidity, i.e. stretched from a liquidity perspective.

- Any change in market perception of EBS CP? No

- Details (an overview) of the EBS CP Programme.

  3 Programmes:

  1. European CP – Short-term paper targeted at European investor base
     Programme Size: €1.5 billion
     Current Outstandings: €496 million

  2. London CD – Short-term paper targeted at UK investor base
     No limit on programme size
     Current Outstandings: €598

  3. French CP – Short-term paper targeted at French investor base
     Programme Size: €1.5 billion
     Current Outstandings: €728 million

  Total Outstanding: €1,822 million

- Terms of the CP funding not renewed and size of each issue.

  Please see attached supplemental spreadsheet outlining all CP issued and matured.

  No CP funding is renewed for any institution. As and when CP matures, the general practice is to issue new CP, i.e. manage the outstanding balance. EBS has made a decision not to issue new CP.

2. Are there additional or heightened concerns should recent market conditions continue?

We have no concerns on our liquidity looking out over the next six months but would be concerned from a financial perspective if the current basis of euribor cash over the ECB rate were to continue.

3. Are there any specific funding or liquidity facilities (e.g. roll-overs or contingency arrangements) that EBS is concerned with? Please elaborate as appropriate.

No

How has EBS established that there are no specific funding or liquidity facilities that EBS is concerned with? Provide details of analysis conducted, markets contact etc as appropriate.
With regard to LCDs and ECP, EBS has had opportunities to issue at levels we are not prepared to pay. EBS did issue £50 million (€75 million) of LCD, since the price was appropriate given the current market conditions. In addition, EBS has been able to fund via the interbank market and the ECB repo market. The Society has approximately €4 billion of available ECB eligible assets of which only €950 million is currently being used. The Society has this available collateral due to its conservative and prudent liquidity profile.

4. Are there any exposures (credit or market) that are causing concern to you at this time? Is there any category of exposure under particular review?

The estimated mark to market of the long term FRN portfolio has gone from a positive €1.5M to a negative €10.7M on the back of wider credit spreads. An ALCO meeting was held on 21 August, the focus of which was recent turbulence in the market, and the impact of this on funding and liquidity in the short and medium term. We have reviewed key counterparts who have had issues highlighted in the recent market turbulence and have identified four. In relation to these institutions, EBS has a combined holding of €85M and Stg£52M. We are satisfied that none of these exposures is a cause for concern at this time.

EBS to provide:

- Details of the negative MTM of FRN's, purpose of the FRN book, and what action it is taking, including monitoring action, reporting to board etc..
  - i. Negative MTM of FRN of -€11.5 million.
  - ii. FRN portfolio is to diversify liquid asset investment in low risk assets and ECB eligible assets for the purpose of liquidity management.
  - iii. Mark-to-market and market update is reported to ALCO on a monthly basis. A update of the credit markets and the impact on EBS is due to be presented to the Board on 31/8/07.

- Details of the four banks and provide exposure to each one.
  - **i. IKB Deutsche Industriebank AG**

IKB 04/02/2008	EUR	5,000,000	04/02/2008	-€20,000
IKB DEUTSCHE INDUS	EUR	15,000,000	08/02/2008	-€60,000
IKB FLOAT 23/05/08	EUR	6,000,000	23/05/2008	-€36,000

On 8/8/07 this German bank, which was suffering from subprime losses, announced that its CFO had resigned. This was about 1 week after the CEO had left the bank. Germany's banking associations agreed to cover as much as EUR 3.5 billion of Potential losses at IKB.

Kfw have made a commitment to honour IKBs senior debt liabilities.

ii. **NIB Capital Bank N.V.**

NIB CAP	EUR	27,000,000	25/07/2008	-€370,000
NIBCAP	GBP	12,000,000	18/03/2009	-€360,000
NIBCAP	EUR	5,000,000	20/04/2010	-€270,000

NIBC holding, the Dutch investment bank reported losing >=USD 189 million this year, due to U.S. subprime mortgage market investments. Within a week of disclosing the losses Kaupting Bank hf, Iceland's biggest bank agreed to buy NIBC Holding NV for EUR 3 billion.

iii. **Northern Rock PLC**

Northern Rock	GBP	35,000,000	03/09/2007	-€2,000
NRBS	EUR	10,000,000	13/07/2009	-€118,000

This bank has been the UK lender most hit by concern that turmoil in credit markets will raise funding costs and hit profits, as it relies on wholesale money markets for three quarters of its funding needs.

iv. **Sachsen Europe**
We no longer have any exposure to Sachsen Europe. A EUR 27 million investment in the Money Markets matured on 23/8/07.

- An overview of how EBS has satisfied itself that there are no issues to be concerned with at this time.

  EBS has considered the market conditions as noted in the paper presented to ALCO on 21/8/07, which was provided to the Financial Regulator on 23/8/07.

5. Is EBS restricting lending to certain category(s) of counterparty (e.g. retail or wholesale participants)? Is EBS adopting a more cautious approach to any category of lending?

We are adopting a more conservative approach to our interbank placements particularly with regard to German banks

EBS to elaborate on the conservative approach it is adopting to interbank placements in particular with regard to German banks.

Limits have been cut in some instances and deposits not renewed

6. Has EBS extended any committed facilities to SPV's/funding vehicles or other similar type of counterparty that may be called upon?

No

7. **What additional measures, if any, is EBS taking to monitor current market developments, liquidity, credit, interest and market risks?**

A presentation will be made to the Board on current credit market conditions and their impact at its next meeting on 31 August 2007. ALCO will continue to closely monitor market developments and report upwards.

EBS to respond as necessary to the specific questions in relation to credit exposures, including retail and commercial loans.

As previously advised, a presentation will be made to the Board on current market conditions and their consequences for EBS as its next meeting on 31/8/07. ALCO and Management Board will continue to closely monitor market developments and escalate as appropriate. Save for selectively reducing funding lines available to other institutions and tight liquidity management, no other immediate actions are necessary at this time.

In addition, elements of the questions in relation to retail and corporate obligations have been previously requested by the Financial Regulator. In this regard I refer to an email to Ms Audrey Collins on 15 August and requests for similar credit information made by Clem Brennan on 6 July to Ms Helen Dooley.

Please see attached draft letter that was prepared by Audrey Collins. It would appear that this letter was never issued to the Financial Regulator. We should be grateful if you would confirm that it satisfactorily addresses the Financial Regulator's request, following which we shall submit the relevant information to you.

B3b – Analysis of Liquidity Risks Under Adverse Scenarios

Information Summary (Section33AK)

Note: All references are aggregated

Document Category	Time Period
Internal memos	
Correspondence	Q4 – 2007
External consultants reports	

In Q4 2007 the Financial Regulator wrote to EBS in relation to its funding and liquidity position in the context of the then volatility in the financial markets.

The Financial Regulator noted that EBS had advised that it could have a funding squeeze in Q1 2008 if the then current market volatility was to continue.

The Regulator further noted that, in its opinion, EBS's Liquidity Management Plan and Funding Policy were more aspirational than practical plans.

The Regulator therefore required EBS to formulate a Funding and Liquidity Plan (the "Plan") which set out how funding targets would be met in practical terms. This should include details of potential vulnerabilities to the Plan over the following 6-12 months and details of contingency funding arrangements which could be accessed at short notice.

The Regulator required EBS to consider and approve this Plan at its next Board meeting and to confirm to the Regulator that the Board was fully informed on funding and liquidity matters. It also required EBS to forward a copy of the approved Plan to the Regulator.

THEME: B3

Effectiveness of banks' funding, liquidity strategies and risk management

LINE OF INQUIRY: B3D

Appropriateness of investment of liquid assets in government and/or other securities

Treasury Changes Required as a result of the Government Guarantee Scheme:	Fidelma Clarke outlined the basis of two proposals in relation to Treasury limits and programmes arising from the implementation of the Government Guarantee Scheme. Papers had been circulated prior to the meeting. Counterparty Limits The Board resolved to (a) increase the counterparty credit limits for AIB, Anglo, Bank of Ireland, IL&P and INBS to €200m, with the quantum increase above current limits exclusively available for issuance covered under the terms and period of the government guarantee scheme. (b) Increase the country limit for Ireland from 25% to 35% in line with these changes. EMTN Programme Update In addition the Board resolved to authorise the Transactions Committee to do all things necessary to establish and enter into the Society's euro medium terms note programme encompassing the required details of the Government Guarantee Scheme.
Implementation of Government Guarantee Scheme:	A summary of the requirements stemming from the implementation of the government guarantee scheme had been circulated by Fidelma Clarke prior to the meeting and was noted.
Mortgage Market Update Q3 2008:	Fergus Murphy highlighted the updated position in relation to residential mortgage market activity and EBS market share as at Q3 2008 based recently published data. The value of residential lending was €5.6bn in Q3 2008, down 37% on the same period in 2007. EBS's overall share of the market was 15.1% for Q3, up from 13.6% in Q2 2008. Almost 40% of EBS lending is in the FTB segment.
Letter from FR 14 November 2008	Fidelma circulated a summary of the key recommendation contained in a letter faxed from the FR on Friday 14th November. The letter had been circulated electronically prior to the meeting. Recommendations in nine key areas were reviewed in turn and the Board was satisfied to accommodate all bar one, which it felt was not feasible to implement. This related to the recommendation to appoint a non executive director as a member of a management asset and liabilities committee, and that the committee meets twice monthly. It was noted that no non-executive director could accommodate an additional 24 meetings a year on top of the 20-30 meetings they attend on average at present. The Board also raised the question of the blurring of responsibilities between non executive directors and the executive. It was suggested that this be raised with the Financial Regulator to ascertain the basis of the recommendation with a view to finding some other method of accommodating the requirement.
[redacted]	[redacted]

1-5

To: Board
From: Gerry Murray
Date: 17th November 2008
Subject: Proposal to Increase Credit Limits for Irish Bank

Summary:

On September 30th, 2008 the Irish Government announced that it would guarantee Irish Banks / Building Societies until September 2010 under the Credit Institutions (Financial Support) Scheme 2008 (the "Scheme"). Subsequently, Moody's and S&P announced that they would rate any debt issued under the Scheme and maturing prior to September 2010 as AAA-backed.

These events will result in Irish Banks attempting to access the market for senior unsecured debt. Integral to the success of the debt offerings is support from the domestic market. i.e. the banks will need to purchase significant quantities of each others bonds. Consequently, EBS Building Society will need to purchase debt issued by the other Irish institutions in order to get sufficient support to successfully issue a benchmark transaction of our own.

Treasury estimate that investments of circa. €100 million in each of the potential Irish senior unsecured issues would result in a strong reciprocal investment in any potential debt offering by the Society. To make this investment Treasury will need to increase credit limits to €200 million for each of the following five institutions (all of which are guaranteed under the Scheme):

> Allied Irish Banks; Bank of Ireland; Irish Life & Permanent; Anglo Irish Bank; and Irish Nationwide Building Society

Increasing each line to €200 million would result in a breach of our current counterparty credit policy with regard to counterparty limits, however, it would be within the IFSRA Licensing Requirements and Standards for Credit Institutions.

Utilisation of all of the increased credit lines would result in a breach of the credit counterparty policy with regard to Country Limits, however, this limit would only be in breach until April 2009.

Treasury propose that the Board approves increases of counterparty credit limits to €200 million for each of the above named counterparties:

Treasury also propose that the Board authorises Treasury to fully utilise these credit lines and that this approval will supersede the credit counterparty policy with regard to counterparty credit limits and country limits

Treasury propose that approval is given under the condition that utilisation of these lines must be solely with regard to investments that are covered by the guarantee and that mature within the guarantee period.

Backround:

Credit Institutions (Financial Support) Scheme 2008

On September 30th, 2008 the Irish Department of Finance announced the Credit Institutions (Financial Support) Scheme 2008, which is a statutory guarantee with regard to covered liabilities of participating covered institutions for the period 30 September 2008 to 29 September 2010 inclusive (Appendix 1). The liabilities covered under this guarantee are as follows:

- all retail and corporate deposits (to the extent not covered by existing deposit protection schemes in Ireland or any other jurisdiction);
- interbank deposits;
- senior unsecured debt;
- covered bonds (including asset covered securities); and
- dated subordinated debt (Lower Tier 2).

Following Ministerial Orders made on 24 October and 5 November 2008, the following credit institutions and subsidiaries are ‘covered institutions’ for the purposes of the Scheme:

1) Allied Irish Banks, p.l.c. and its subsidiaries AIB Mortgage Bank, AIB Bank (CI) Limited, AIB Group (UK) plc and Allied Irish Banks North America Inc.;

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

3) The Governor and Company of the Bank of Ireland and its subsidiaries Bank of Ireland Mortgage Bank, ICS Building Society and Bank of Ireland (I.O.M.) Limited;

4) EBS Building Society;

5) Irish Life & Permanent plc and its subsidiary Irish Permanent (IOM) Limited;

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

7) Postbank Ireland Limited.

Rating Agencies

On 7 November 2008, Moody's announced that, with regard to the six Irish institutions that it provides ratings for (AIB, BOI, IPBS, Anglo, EBS and INBS), it would also assign a backed-Aaa rating to all issuance that is covered by the guarantee and matures within the guarantee period (Appendix 2).

On 11 November 2008, Standard & Poor's announced that, with regard to the four Irish institutions that it provides ratings for (AIB, BOI, IPBS and Anglo), it would also assign a backed-Aaa rating to all issuance that is covered by the guarantee and matures within the guarantee period (Appendix 3).

Implications of the Credit Institutions (Financial Support) Scheme 2008 (the "Scheme")

Irish Credit Institutions covered by the Scheme will now be able to issue ECB eligible, senior unsecured debt securities with Aaa-backed ratings and zero percent risk-weightings. The Irish institutions will probably each look to issues senior unsecured debt of between €1bn and €2.5bn and the order in which the institutions come to the market will likely be as follows:

1st Issuer:	AIB
2nd Issuer:	Bank of Ireland
3rd Issuer:	Irish Life & Permanent
4th Issuer:	Anglo Irish Bank
5th Issuer:	EBS Building Society
6th Issuer:	Irish Nationwide Building Society

Integral to successful issuance is for a strong domestic bid. i.e. All Issuers will need large orders from other Irish institutions. This would require EBS Building Society purchasing large amounts (circa €100 million) of all of the above Issues. If EBS Building Society does not support the Issues of the other institutions it is highly unlikely that the Society could successfully come to the market with a transaction of their own.

Treasury propose that in order to support all of the Irish Institutions with regard to their intended senior unsecured issuance the Society increases the counterparty limits of the covered institutions (excluding Postbank) to €200 million.

Counterparty Credit Policy

Counterparty Limits

The Society's current policy with regard to credit limits (Appendix 4) is based on the IFSRA Licensing and Supervisory Requirements and Standards for Credit Institutions (1995). This document suggests that from a prudential perspective the maximum exposure to any single counterparty can be no greater than 25% of Own funds[1]. EBS current policy uses a more conservative amount of 20% of Tier 1 (€168 million) for counterparties with an internal EBS rating of 1 (AAA equiv.).

A limit of €200 million would result in a maximum exposure of 23.4% of Tier 1 and therefore breach current policy. However a limit of €200 million would result in a maximum exposure of 18.7% of own funds[2] which is within the IFSRA Licensing Requirements and Standards for Credit Institutions.

A limit of €200 million for any individual counterparty would be as an exception to current counterparty credit policy with regard to counterparty limits and would require approval from the Board.

Country Limits

The Society's current policy with regard to country limits (Appendix 5) is only applicable with regard to securities that have a residual maturity of 18 months or greater. The limit with regard to Irish securities is as follows:

The proportion of Irish Securities must be no greater 25% of Total Securities. The current ratio is approx. 20%.

If credit limits for AIB, BOI, IPBS, Anglo and INBS were increased to €200 million (for each counterparty) and EBS were to fully utilise these credit lines, Treasury would expect the ratio to increase to circa 35%. This resultant ratio would be in excess of current policy, however, by 30 Mar 2009 the limit would be within current policy (guaranteed debt will then have a maturity of less than 18 months and therefore would not be included in the calculation of the ratio).

Utilisation of a limit of €200 million for all of the approved Irish counterparties would result in a breach of the current counterparty credit policy with regard to Country Limits and would require approval from the Board.

[1] Own Funds are defined by the regulator as the total Tier 1 and Tier 2 debt of the Society. EBS uses a more conservative amount of Tier 1 only which was €856 million (31st December 2007)
[2] Own Funds = €856 million (Tier 1) + €215 million (Tier 2) = €1,071 million. €200 million / €1,071 million = 18.7% of Own Funds

Proposal:

Treasury propose that the Board approves increases of counterparty credit limits to €200 million for each of the following counterparties:

- Allied Irish Bank
- Bank of Ireland
- Irish Life & Permanent
- Anglo Irish Bank
- Irish Nationwide Building Society.

Treasury also propose that the Board authorises Treasury to fully utilise these credit lines and that the country limit for Ireland be suspended for this puspose.

Treasury propose that approval is given under the condition that utilisation of these lines must be solely with regard to investments that are covered by the guarantee and that mature within the guarantee period.

THEME: B3

Effectiveness of banks' funding, liquidity strategies and risk management

LINE OF INQUIRY: B3E

Capital structure and loss absorption capacity

Key Observations – IMPACT OF PROVISIONS ON CAPITAL RATIOS

Key Observations by PWC	Management View
▪ EBS's core capital (before Government injection) reduced to 1.4% if additional provisions (€437.5m) were taken at 30 September 2009 in line with the levels considered justifiable from our review. €275m of core tier 1 capital will be required to meet the 4% threshold	▪ If EBS were to take all these provisions at year end 2009, our capital would be depleted. We are fully committed to ensuring that we have sufficient capital to meet desired capital ratio targets and are conducting detailed stress testing to support this evaluation.
▪ The Society's general reserve at 30 September 2009 is €564.8m which reduces to €144.5m following inclusion of Q3 impairment charge and PWC proposed provision	▪ This is correct : gross of the proposed Government capital injection into account which will repair capital ratios

Activity Reports (Contd.):	***Membership Business (cont'd)*** The Savings and investments business is also performing well. It was noted that there is a lot of competition in the market especially from new entrants such as Danske Bank.

[redacted]

	Enterprise Risk Management The Regulator has written to institutions regarding higher risk weightings applying to higher LTV lending, however if MIG is attaching it does not apply. The duplicate payments issue was discussed and the fact that a process is now in place to prevent this occurring again. Quality assurance is key in this regard. The New Product Development forum is now in place for all new products. A lot of work is underway on process mapping - we have identified all correspondence points with members and are putting processes in place for each. A process is in place also for rate changes. We are currently operating close to our minimum internally agreed, capital ratios, with our Tier I ratio now at circa 7.1% and likely to be below 7% by month end. The acceleration in the decline is due to, inter alia, higher lending growth and impact of IFRS on our year-end accounts. To alleviate this, the Board last month agreed to a €1bn Securitisation Programme and a further PIBS issue is being contemplated for later this year. In addition, we will have an interim audit conducted which will allow us include the profits as at the half year in our capital ratios. /............

[redacted]

Activity Reports (Contd.):	***Enterprise Risk Management (cont'd)*** Whilst such measures will resolve immediate difficulties, we are still very challenged by our structural imbalance with low profitability / high growth and particularly so, as this constrains our ability to grow core capital appropriately. This area has been the focus of management attention over the recent weeks and will be reported on in full to the Board imminently. In the interim, a short term breach of internal policy will arise, with Tier I dipping below 7%.

[redacted]

	Norman Burns and Dara Deering joined the meeting
MIG (Mortgage Indemnity Guarantee):	MIG cover is up for renewal. There are a number of reasons for MIG including concentration risk, capital relief and the positive views taken by the Regulator and Rating Agencies with regard to MIG. The recommendation is that we should continue to reinsure using MIG, however, new legislation will facilitate setting up a captive insurer, which may be considered in due course. In terms of cover, it was recommended to change the attachment point from 80% to 85% with a saving of €4m per annum, but that retail Buy-to-Let would remain at 75%. This is likely to result in savings of €13.3m from 2006-2008. A 5 year deal will be signed but we can terminate at 3 months notice and we have renegotiated a profit share rebate which could be in the region of €9.7m for six years. These recommendations were agreed by the Board.
	Norman Burns and Dara Deering left the meeting

[redacted]

THEME: B4

Impact of the property valuation methodologies on banks' credit risk management

LINE OF INQUIRY: B4a

Adequacy of the valuation policies and assumptions to accurately assess loan security

Joe Ryan
22 March 2002.

Keep this Report ☐

8(a)

Board Report

Circulated on 20th March 2002

Applicant:	[redacted] Limited
For Decision:	To increase total approved facilities by €2m in respect of [redacted] Road Total connected exposure to [redacted] will increase to €47m

1. Background

In February 2002, the Board approved a facility of €40m to [redacted] Limited in respect of EBS's proposed new headquarters at 2 [redacted] Road, Ballsbridge. The 10 year facility comprised an interest only loan at a margin of 0.75%, secured over the [redacted] Road property, with recourse to [redacted] imited to c.€3m (to match a competing offer from AIB).

Subsequently on 6th March 2002, Ms. Jackie Gilroy made a verbal presentation to the Board seeking an increase of €5m to the approval in respect of the property. This increased our exposure to €45m which we understood matched the competing AIB offer. The proposal was approved by the Board, subject to a note detailing the changes to the loan being circulated for information to the Board at the next meeting. The salient points of this approval are set out below:-

- Assuming a valuation of the property at €63.6m (as indicated in the original report), the revised exposure represents a LTV of 71% (an increase from 63% under the original report). Taking a more conservative value of €60m (which represents a net yield of 5.5%), our exposure remained satisfactory at 75%;

- The agreed rent would cover interest on the revised facility (stress tested at 7%) at 1.13 times (v's 1.25 times for the original approval);

- With regard to recourse, the Board considered a proposal to reduce/waive the recourse to [redacted]. It was agreed that the recourse could be waived if necessary to obtain the deal, but some level of recourse (e.g. €1m) would be preferrable. In subsequent negotiations, the recourse to [redacted] has been agreed at a level of €1.5m.

- The increased facility equates to 15.3% of our reserves. This is well within Central Bank guideline limits of 25% but marginally in excess of our internal guidelines of 15%.

2. Proposal

As previously indicated, at the request of [redacted], the Board approved a €5m increase in the facility earlier this month. However, it now transpires that [redacted] made an error in converting Punts to Euro when they sought the increased facility. As a result, they under-estimated their financial requirement by €2m and consequently EBS are now being asked to approve a total facility of €47m in respect of the property. This represents an increase of €7m over that originally approved by the Board in February. The impact of the proposal is set out below for consideration:-

- Based on a conservative value of €60m, the revised exposure increases to 78%;

- The initial rental covers interest on a total facility of €47m (stress tested at 7%) at 1.08 times;

- Recourse to [redacted] has been agreed at €1.5m;

- Revised facility equates to 16% of our General Reserves.

- Only €38m of the facility will be drawn down initially. The remaining €9m represents a standby facility which will be available to the Borrower to draw upon, as required, to fund its working capital requirements. We have negotiated a 0.15% commitment fee in respect of this standby facility.

3. **Assessment**

Under this proposal our exposure on [redacted] Road increases to €47m. Based on a value of €60m, the LTV is satisfactory at 78%. Although interest cover is tight at 1.08 times, it is regarded as acceptable given that EBS is the covenant. In addition, [redacted]s a long established and reputable development company.

Overall, we regard this as a good low risk loan for EBS. Approval is recommended to increase the facility to €47m, on the terms and conditions of the original approval.

Note:- Our approval is subject to an independent valuation of the property . Dependent on valuation, we are seeking the Board's consent to a maximum LTV of 80% (this matches the terms of the AIB approval).

Prepared By: Joan Barron

20/3/02

THEME: B4

Impact of the property valuation methodologies on banks' credit risk management

LINE OF INQUIRY: B4c

Adequacy of internal controls over perfection of security and policy exceptions

EBS BUILDING SOCIETY

Internal Audit Department

Review of Task Force Medusa – High Level Summary Report

1. BACKGROUND

In October 2007 it emerged that the Society was potentially exposed to a significant financial loss in relation to Commercial and Residential loans taken by [redacted]

A project task force, 'Medusa', was established by management to oversee the Society's response to the financial exposure (including a review of the Society's credit practices) and take the necessary steps to recover the Society's assets. Internal Audit were subsequently requested by Management to perform a review of the Task Force.

2. OVERVIEW OF KEY FINDINGS

Internal Audit (IA) has now completed its review. Set out below are the key findings for each of the six objectives of the review:

a. To ensure that management has taken appropriate steps to ensure that the quantum of the financial exposure has been accurately assessed;

As at the date of this report the total value at risk in the Medusa loans is €41.6 million. This is represented by [redacted]
We have reviewed management's calculation of this exposure and nothing has come to our attention to suggest that this is not an accurate reflection of the exposure.

b. To ensure that the root cause(s) of the financial exposure has been correctly identify by management, highlighting any internal control weaknesses or areas of non-compliance with procedures or policy which may have directly or indirectly lead to the exposure;

Underlying Cause

The underlying cause for the Society's loss was the reliance on the Irish conveyancing system and the failing on the behalf of [redacted] Specifically [redacted] acted on a number of deals in which [redacted] was party to and failed to perfect the security on which the Society lent [redacted]. In addition [redacted] acted on behalf of [redacted] Prior to the discovery of this failing to perfect the security, both [redacted] and [redacted] loans were performing in accordance with their respective good credit gradings (both loans were graded 3).

Contributory Factors

In addition to the underlying root cause noted, a number of contributory factors have been identified by the Task Force and in the subsequent Review of Credit Practices. These were:

- There was a disconnect between the approval process for Commercial Lending and the requirement to ensure that deeds offered as security for previous loans had been perfected, prior to the approval of additional loans;

- Panel Solicitors were not used for all Commercial Loans;
- Gaps in Commercial and Credit procedures and practices, specifically the lack of an independent credit review function for Commercial Lending; and
- Shortcomings in the format of the Loan Reports.

We note that significant work has been carried out by Management to address these, in terms of improvements to both Commercial and Credit operating practices.

Internal Control Weaknesses

From IA's detailed review of the Medusa loan files, a number of serious (high) internal control weaknesses have also been identified. These were:

- There is a lack of clarity and consistency within the Commercial Lending Governance framework.
- The reliance on the Statement of Affairs within the Medusa loan assessments were ill judged. Numerous instances were noted in which the Statement of Affairs were not independently verified or out of date. In addition, the level of review of the information contained within the Statement of Affairs was not sufficient. This would prompt the need to revisit the risk appetite in this regard.
- On a number of the Medusa loan files there were incomplete Cheque Requisitions and Solicitor's undertakings. This may result in the security not being perfected and the Society's interest in the property may not be legally binding.

A number of Moderate (11) and Low (3) risk issues were also noted and should be addressed by management. Suggested corrective actions are outlined within the detailed report.

c. To review management's response and proposed operational changes to ensure that the internal control weaknesses (operational and monitoring) identified as part of the root cause are now appropriately mitigated. Further IA will review the processes to ensure that no significant control weaknesses within the process have been overlooked (no control design weaknesses are still evident in the process);

Based on changes to policy and practices emanating from the review of Credit Practices along with management responses received to the issues raised by IA, we are satisfied that the internal control weaknesses will be appropriately addressed to mitigate the related risks.

d. *To ensure that the mitigating controls are in place and operating as intended;*

We de-scoped this objective from our review as a number of the controls were not in operation long enough to assess their effectiveness. In addition, the recent Financial Regulator's report on Commercial Property Lending activities has called for a number of further enhancements to policy and practices to be implemented. The regulator's report has also called for further internal audits of Commercial Lending, we concur with this and suggest that this occurs at least annually going forward, once the recommendations raised by IA have had an opportunity to be implemented.

e. *To ensure that an appropriate level of resources have been assigned to the asset recovery and insurance claim process. In addition, ensure that the asset recovery process is reasonable and that no significant actions have been overlooked;*

The Medusa Task Force was initiated in response to the discovery of the failing of [redacted] to perfect the securities on the Medusa loans. The Task Force comprised of the following key people Head of Commercial, Head of Credit & Risk, Head of Legal, Head of Operations, Chief Commercial Underwriter, A senior Commercial Relationship Manager, A senior Commercial Underwriter and the Fraud Officer. This was approved by the Management Board and noted at Board.

Significant steps have been taken by the Task Force and *inter alia* the Management Team to ensure that the asset recovery process is progressing. Key advisers have been retained in terms of the legal proceedings and the insurance claim. **Nothing has come to our attention that would indicate that the asset recovery process is not reasonable and that significant actions have been overlooked.**

f. *To review the governance processes (including reporting to the Board) in place over the project task force.*

As observed through attendance at the formal Medusa Task Force meetings and review of subsequent minutes and action logs, clear governance processes have been established in relation to the Task Force. Terms of reference were established, regular meetings were held and updates were provided to both the Management Team and Board as appropriate. **We consider the Governance Processes to be appropriate.**

Reporting Lines

The review period was from 2002 to 2008, it should be noted that the control environment changed significantly over this period along with a number of organisation structural and reporting line changes. This is set in Appendix V in the detailed report.

Summary Comment – Brian Healy, Head of Commercial

We would like to thank Internal Audit for the difficult task they undertook which involved forensic level review of our loan files to [redacted]. Their audit spanned files originating over a five year period, which was the most active period in the history of the Commercial business, and where the risk governance structures were changing / rapidly.

We believe that the underlying cause of the Medusa exposures is due to the fact that a fraud has been perpetrated against EBS. Between [redacted] approximately ten financial institutions have been exposed to the tune of €125m in aggregate, plus there is a further €80m in exposures to [redacted] in the industry. These individuals were able to exploit weaknesses in industry wide banking / accounting / legal practices firstly to obtain borrowings with imperfect financial information, and secondly in undermining the crucial fall back position i.e. the security. Thus these exposures are an industry wide issue, and the learnings / findings which we can derive from our own files are probably equally applicable in other financial institutions also.

In considering the contents of this report it **is crucially important** to absorb and understand the following:-

- [redacted] was considered by the Commercial business to be a highly respected and trusted client up until 22/10/2007, when we first became aware of our problems with [redacted]. He had banked with us since early 2002, and we had grown our relationship with him gradually over a five year period, and throughout this time he maintained an impeccable record with us. For all intents and purposes [redacted] appeared to be a very successful property developer / investor with a net worth in excess of [redacted]. In our dealings with him, there was also a belief on our part that the net worth details disclosed to us were only a portion of what he owned. He frequently mentioned development deals / JVs in the UK which he was involved in, which were outside of the scope of his Irish property interests. [redacted] was very well known to [redacted], our [redacted] Branch manager, and also had been banked by [redacted] (EBS RM since [redacted] but who had also been an RM to [redacted] from his days in [redacted] & before that with [redacted]), for a period of over 10 years without issue. [redacted] was proactively targeted by our RM team on a consistent basis for more business, and would have been on our relationship marketing target list.

- [redacted] was likewise considered to be a very respectable and progressive solicitor in the [redacted]. He made a name for himself in [redacted] and after that he moved into property conveyancing. He was well known to our [redacted] branch manager and was a key introducer of business to him. He was well connected politically and frequently held large corporate / social meet & greet events with high profile business / political guest speakers. He had an impeccable repayment record through out the 5 years we have done business with him.

The business we operate in (Lending to property developers / investors) is a risky one. Verification of net worth's and incomes is extremely difficult as fast paced developments and site / asset revaluations create significant volatility / movements in asset / income profiles from one year to the next. It is because of the inherent risks associated with our business that we insist all of our lending is secured by property. The fact that it was our security which failed in the [redacted] files is the primary driver of the quantum of the losses we will incur.

In the five year period covering 2002 to 2006 the Commercial business was expanding rapidly. New business volumes in 2002 were €240m and this had escalated to a peak of €930m by 2006. Commercial has been a busy place in that time, particularly in our RM teams. It is important to acknowledge this, and recognize that the findings / judgments of our Internal Audit team (which are very thorough) are carried out on the back of a number of weeks detailed **forensic** examination of the financial records of the [redacted] files in their entirety, with the benefit of hind sight that we are dealing with a fraud situation. We need to contrast this with the situation an RM team will face whereby typically they will have less than 48 hours to process an application / report and typically are in the mindset of servicing / supporting what they believe to be a key / valued client. The "files" will look very different from these two opposite perspectives.

This audit has highlighted a number of issues which will be addressed by management which we break down broadly into three headings:-

(i) **Operational / Administrative issues.**

These include items such as mislaid documents, mismatching addresses, data quality in our systems, controls / check lists around our disbursements etc. Many of these matters have already been resolved, and we have agreed with Internal Audit a range of initiatives to further improve controls in this area.

(ii) Procedural Compliance issues.

These include a number of issues to do with our policies and procedures and raise valid questions as to the roles of our RM teams, our Commercial Credit team in key areas of credit due diligence, as well as conditions compliance / sign off.

It is agreed that our current policy framework needs to be addressed to incorporate the lessons / learnings of this report. We aim to have this completed by the end of September 2008.

(iii) Qualitative Judgment issues.

This category deals with the assessment of the quality of the input in the loan reports upon which the business case to approve the loans was based.

It is agreed that some of the judgments made in the [redacted] loans were questionable, particularly as there was an over reliance on the integrity of the people, our security, and a range of unverified income data. There were anomalies in the net worth statements which either were not addressed, or we were too willing to accept [redacted] explanations at face value. In mitigation against this we must weigh the high regard we held for both these customers, as well as the nature of our business, where RM's frequently must make judgment calls on a case by case basis, sometimes with imperfect financial information at hand.

We have had fifteen years of buoyant market conditions and a good track record of getting the 'judgment calls' right. This perhaps has contributed to a degree of complacency with our credit due diligence. We propose to discuss in detail the output of this report with our RM and Credit teams to maximize the awareness of the issues raised for future lending.

Going Forward

In deciding what action to take going forward, the Management and the Board of EBS needs to revisit what type of lender does it wishes its Commercial Business to be. We have been broadly moving in the direction of a mini Anglo model in recent years, where our competitive proposition is based around close relationship / trust between our clients and RM teams, and where we offer expertise, flat decision making structures, fast responsiveness and flexibility as a quid pro quo for seeking higher margins & fees and ultimately more rewarding client relationships.

We can seek to reverse this course and move to a much more "command & control" model, where there is less emphasis on the "client led" approach and much more emphasis on documentation compliance / verification of key data etc. No business is able to fully safeguard against the risk of fraud, particularly where collusion is suspected.

In light of these exposures and learnings some rebalancing is clearly required and we propose that the forthcoming review of our credit policy / governance structures also include a strategic review of our risk appetite and the brand / market positioning of EBS Commercial.

Overall whilst satisfied that no material breach of policy or procedure which directly contributed to our possible loss occurred, I am nevertheless disappointed with the audit findings and fully accept that the control environment needs further strengthening.

Summary Comment - Fidelma Clarke – Head of Credit & Risk

Extensive work has been undertaken by Internal Audit in reviewing the control environment at the time of approval and cheque issue of each of the loans issued directly to [redacted] and to his client, [redacted], as well as the delivery against the objectives of the management task force put in place in October 2007 to minimize the value at risk.

It is acknowledged by all that the exposure EBS faces is not unique, although its size was of much more significance in a relative context. The exposure is directly attributable to two aspects of conveyancing practice inherent in the Irish mortgage market, namely,

(a) Acceptance of an Undertaking from solicitors to register security after the mortgage transaction has completed, and

(b) For residential property lending, using the solicitor who is acting for the borrower to complete the conveyance for the credit institution, rather than appointing a separate solicitor to act on behalf of the credit institution.

The key questions in relation to the size of the exposure hinge on the controls in place around these two conveyancing practices. A second set of questions raised by the audit which are also valid and value-adding relate to the general control environment governing commercial lending in EBS over the period 2003 to 2007 and the lessons we can learn going forward.

A. Size of the Exposure

With the benefit of hindsight it is clear that the industry was naïve in relation to its acceptance of the delays in registering security. EBS had procedures in place to issue follow up letters to solicitors at specified intervals following the release of funds. In addition, EBS followed up cases individually with solicitor firms which were moving into the highest risk category (more than 6 years outstanding) and those relating to loans which were in default. The issue of outstanding Deeds was identified, analysed and closely monitored by the Credit Risk Committee on an ongoing basis from 2003. Notwithstanding the focus it received, over time the long delays in registration (some due to the huge expansion in new house building) became the accepted norm. Along with the industry, EBS has now moved at speed to change the method by which outstanding Deeds are requested and reported on to the Incorporated Law Society.

This acceptance of long delays in the registration of security coupled with a gap between the perfecting of security (done by the 'back office', i.e. Operations), the assessment of new credit applications (done in the first instance by the RMs) and the approval of credits on the basis of that Title was registered (done by Commercial Credit), meant that, as late as 2007, EBS released equity against property for which our first charge interest had not yet been registered. In retrospect, as above, this may appear to have been naïve industry practice. For the [redacted] credits, as with all credit assessments, a key area of focus would have been the client ; by June 2007 individuals in EBS had a ten year working relationship with [redacted] whose loans had always performed satisfactorily. This naturally fed into the judgment calls made across EBS in relation to his creditworthiness and integrity. One of the outcomes of the recent detailed credit practices review was the approval of changes to the loan report and RM assessment to reflect the status of security, and to provide guidance to both the RMs and the Commercial Credit function on what a reasonable timeframe is for security registration to be completed. This will then formally feed into the credit decision.

Finally, the move to use the client's solicitor to complete registration for loans secured against residential property was an industry / Incorporated Law Society practice which migrated across the industry, and in retrospect unintentionally, from the Homeloans side of the business to portfolio Buy to Let business. The use of an EBS-appointed solicitor to conduct searches on Title and to complete registration would not have eliminated the risk of exposure to solicitor fraud, but would have made it more difficult to perpetrate the fraud, as our solicitor would have been obliged to follow up with the solicitor acting for our clients [redacted]. An EBS (panel) solicitor will be used in all cases going forward.

B. General Control Environment

In addition to the specifics of these exposures, Internal Audit has identified a number of areas of weakness – some historic – in relation to the control environment. Notwithstanding that we are to some extent reviewing 2003 – 2007 practices with 2008 eyes, it is of course incumbent on us as a group to address the weaknesses identified. The governance framework for Commercial lending has improved very considerably over the past 5 years (as set out in an appendix to the report) but over the same timeframe credit standards have tightened across the industry and, in more recent times, the credit landscape has altered very substantively. Together with EBS Commercial, the Commercial Credit function and the Credit Risk area will undertake a review of our credit risk appetite in the current environment and to agree what the control environment should be going forward to protect our business, our asset quality and our employees involved in the commercial lending business. Some progress has already been made in this regard on foot of the conclusion of the detailed review of credit practices (the output of which is set out in two additional appendices to the report). Any additional actions arising foot of the audit report will be monitored by the Credit Risk Committee to ensure that they are completed within the agreed timelines.

THEME: B5

Impact of the remuneration arrangements on banks' risk management

LINE OF INQUIRY: B5a

Adequacy of the incentive and remuneration arrangements to promote sound risk governance

EBS Top Ten Bonus Payments 2001 -2008

Please note these include both annual and medium term bonuses paid in each year for previous years' performance.

	2001	2002	2003	2004	2005	2006	2007	2008
Oireachtas-P [redacted]	-	-	€123k	€448k	€120k	€398k	€280k	-
Oireachtas-P [redacted]	-	-	€40k	€234k	€50k	-	-	-
Oireachtas-P [redacted]	-	-	-	€48k	€52k	€72k	€256k	-
Oireachtas-P [redacted]	-	-	-	-	-	€200k	€309k	€220k
Oireachtas-P [redacted]	-	-	€60k	€242k	€170k	-	-	-
Oireachtas-P [redacted]	-	-	-	-	-	€45k	€140k	€90k
Oireachtas-P [redacted]	-	-	€40k	€157k	€37k	€82k	€176k	-
Oireachtas-P [redacted]	-	-	€34k	€114k	€36k	€36k	€140k	€64k
Oireachtas-P [redacted]	-	-	€26k	€110k	€26k	€34k	€80k	€50k
Oireachtas-P [redacted]	€8k	€11k	€12k	€94k	€30k	€30k	€103k	€40k

*Executive Directors

**Head of Commercial Lending

THEME: B6

Impact of the banks' internal audit processes in supporting effective risk management

LINE OF INQUIRY: B6a

Effectiveness of internal audit oversight and communication of issues related to governance, property-related lending strategies and risks, and funding and liquidity risks

DETAILED FINDINGS

Securities Management (H) – Repeat Issues

Observation

Securities management for EBS Commercial business is complex, due primarily to the level of cross secured lending involved. With the significant growth in commercial lending over the last number of years, and the targeted growth for future years, the risks associated with securities management have increased.
Since late 2001, securities have been tracked for the entire Society on the securities system known as SAM. The move to a single automated solution for securities management is a positive development. SAM is an off the shelf securities package and is used by other Irish financial institutions.

As part of our 2003 audit a number of issues were noted in relation to securities for commercial property loans. We are delighted to report that the majority of issues raised have been addressed by management. We commend the level of effort that management and staff have put in to date in closing off these key risks. However we must report that one of the high risk issues raised previously, relating to the tracking of deeds for panel solicitors, has not been adequately addressed by Operations Management. EBS Commercial use panel solicitors for all non – Commercial BTL loans. Once the loan is completed on COM and the cash is advanced, the panel solicitor is responsible for registering the charge and forwarding the deeds to EBS. In 2003 we reported that no tracking mechanism was in place to monitor the collection of these deeds from the panel solicitors.

Arising from our detailed substantive testing performed during this audit we identified that while the majority of solicitors have received tracking letters from the Society, a number of solicitors (identified as panel solicitors on COM) have yet to receive any tracking letters. We also noted from our testing that certain securities were not being tracked due a system issue with the SAM system

We feel that the tracking of deeds from solicitors will help the Society in reducing the number of deeds currently outstanding[5].

Recommendations

It is a requirement that deeds due from all solicitors (both panel and non-panel) be tracked and reminder letters sent out as a matter of priority. A procedure notice should be drafted by the Securities Department which specifies our tracking policy for the receipt of deeds from solicitors and dictates the frequency of sending out such letters

[5] 31,951 sets of deeds for both home loans and commercial loans were reported to the Credit Risk Committee as being outstanding as at 19 April 2005, circa 15,000 of these were related to pre 2004 advances (We note that EBS Commercial loans represents 2.1% of the total number of EBS loans and 12.3% of the value of the EBS loan book). This issue was also previously raised by the external auditors in their February 2004 report when they noted that there was an unacceptable fraud risk for the Society arising from the apparent inefficiency of registering interests in properties with the Registry of Deeds. This was noted as being an industry wide issue that needed to be raised with government.

THEME: B7

Impact of the banks' external audit processes in supporting effective risk management

LINE OF INQUIRY: B7b

Effectiveness of the external audit process to identify and report to the board and management, any concerns related to significant risk exposures, including property, funding and liquidity

Detailed Recommendations

1.1 Operations - High priority issue

1.1.1 Deeds Management	
Department: Securities	**Process Owner:** [redacted]
Observation	**Corrective action and management comment**
During the course of our audit, we noted some deficiencies in the procedures for the safekeeping of deeds on properties. In our sample testing of 25 accounts, we noted that, for one deed, the location of that deed was not as detailed in the SAM system. We also noted that 20 of the 25 deeds were still held by solicitors.	Recommendations We recommend that EBS more actively seek to recover title deeds from solicitors on a timely basis. At present, Management sends out the first tracking letter after 7 months, another tracking letter after 15 months and then letters yearly or half yearly. These should be followed up with phone calls and tracking letters should be sent more regularly. Management comment A detailed programme of work to address this is now well under way.

FY 2008 Outlook & Key Judgments	Audrey Collins provided an outline of the key judgments factors affecting the FY 2008 outlook. It was noted that the most material consideration was credit impairment provisions. Alan Merriman confirmed that detailed assessment work continued in this area to support an assessment of provision forecasts for 2008 also for the period 2009 - 2011. The results announced by Anglo Irish Bank (released earlier that day) were discussed. It was noted that the evaluation of impairment provision requirements undertaken to date were consistent with those reported to the Board on 17 November 2008. An actuarial review had been undertaken by Mercers in relation to pension calculations as at 1 January 2008. The report was received in September 2008 and will be reviewed at REMCO on 11 December 2008. The deficit on valuations as at 1 January 2008 amounted to €14m. On this basis, the managers of the pension scheme had recommended an increase in the contribution rate from 11% to 18%. Based on developments in 2008 it seems likely that the contribution rate may need to increase further. The outcome of that review is scheduled for evaluation at the January 2009 board meeting. The Committee also evaluated other key judgmental matters including taxation matters, the effective interest rate and balance sheet provisions including VR, an insurance loss provision, a finance loss provision, a term extension provision, the Grafton Street lease provision, a bonus provision and profit claim back from AIB. The committee was also updated on the preliminary tax bill.

[redacted]

Audrey Collins left the meeting at this point, and John Fitzgerald joined the meeting.

Credit Impairment Under IAS39 – Refresher & Policy Review	A paper had been circulated prior to the meeting with an updated Credit Impairment Provisions policy document. John Fitzgerald tabled a presentation outlining the way in which loans and other assets are assessed for impairment purposes. John outlined • the assets under review & process of review ; • the process of assessment for significant, impaired assets ; • collective impairment pool calculations and the dynamic nature of pool assessments ; • provisions levels over past 4 years An example of the impact of judgment on the amount of an individual provision was outlined, highlighting the difference in the quantum of any provision based on the assumptions underpinning cashflows, the estimated value of collateral at realisation and the duration to realisation. Fidelma Clarke highlighted the changes in the Credit Impairment Policy which incorporated the outcome of backtesting on the pool provisions calculations and the uplift in recovery costs inter alia. The Credit Impairment Policy was reviewed and approved from recommendation to the Board subject to an amendment to wording in relation to section 5 on disclosures. The role and responsibility of the external auditors in relation to impairment provisioning was discussed by the Committee.

THEME: C2

Role and effectiveness of the Policy appraisal regime before and during the crisis
Pre Crisis phase

LINE OF INQUIRY: C2c

The liquidity versus solvency debate

EBS Building Society

Minutes of Board Meeting held on 1 April 2011

Present	Philip Williamson (Chairman), Emer Finnan, Pat McCann, Liam Mulvihill, Fergus Murphy, Linda O'Shea Farren, Barbara Patton, Ann Riordan, Jim Ruane, Tony Spollen, Ethna Tinney
Location	EBS Chief Office, 2 Burlington Road, Dublin 4
Apologies	Martin Donnellan
Eligibility to Vote	All members of the Board present at the meeting were eligible to vote at the meeting.
In Attendance	Helen Dooley (Secretary)
[redacted]	
Combination of AIB and EBS	The Chairman of the Board (Philip Williamson) advised the Executive Directors that the proposed combination of AIB and EBS had been discussed by the Non-Executive Directors prior to the Board meeting. The Chairman advised that the Non-Executive Directors welcomed the announcement of the restructuring of the banking sector together with the Minister's confirmation that the capital requirement of €1.5bn for EBS, on the basis of the PCAR assessment, would be met by the Government. There followed a discussion generally with regard to the proposed combination of AIB and EBS, including the opportunities this presented for EBS in view of the continued strength of the EBS brand.
[redacted]	

[redacted]

Funding & Liquidity Update	The Group Treasurer (Gerry Murray) advised that the markets were surprised at the announcement by the Minister for Finance with regard to the combination of AIB and EBS. On foot of the announcement with regard to the amount of recapitalisation required for the banks, the Group Treasurer advised that he expected the sovereign rating to be downgraded. Accordingly, as a contingency measure, the ECB have relaxed the ratings criteria for Irish collateral that they will accept for repo purposes. The Group Treasurer advised that whilst the bank recapitalisation and restructuring announced by the Minister for Finance should go some way to restoring confidence in the Irish banking sector, a medium term funding facility for Irish banks would be welcomed because of the certainty of funding and pricing that it would deliver. He confirmed that funding and liquidity remains difficult for EBS and that non-bank financial institution outflows continue, including Bank of Ireland Asset Management deposits, which are now owned by State Street Bank. It was also confirmed that €5bn of funding is currently drawn down from monetary authorities, being €4.5bn of ECB repo funds and €0.5bn from the Central Bank of Ireland under the emergency liquidity assistance facility. Finally, the Group Treasurer advised that EBS will breach its regulatory liquidity ratios on 1 April 2011, due to the maturity of a Government guaranteed self-issuance. The breach has been notified to the Central Bank in advance.
	Gerry Murray left the meeting

[redacted]

	The Board expressed their thanks to management in completing the PCAR/PLAR exercises and, in particular, acknowledged the work performed by the Finance, Treasury and Risk functions.
Strategy Update	The Chief Executive and the Finance Director advised the Board of the discussions that have taken place with the NTMA and AIB in relation to the statement by the Minister for Finance with regard to the combination of AIB and EBS. The Board expressed disappointment that the private equity transaction had not been brought to fruition but welcomed the Minister's announcement in terms of bringing clarity of direction for EBS. There followed a discussion amongst the Board with regard to the strength of EBS including brand, customer loyalty, staff loyalty and the importance of ensuring these strengths are maximised in the AIB transaction. In particular, the Board expressed the view that given the amount of capital that has already been invested in EBS by Government and will be invested on foot of the PCAR outcome, it is critical that EBS' value is maximised. The Board were also concerned with the impact of the announcement on staff and requested that staff be kept informed of developments to the extent these can be made public. Management outlined that a number of meetings had been scheduled for the following week with regard to the transaction and that it would be necessary to schedule ad hoc Board meetings from time to time if any developments arose which needed to be communicated to the Board. With regard to the corporate finance advisors, it was confirmed that both KPMG and NCB were involved in the transaction on behalf of EBS and that AIB were represented by their internal corporate finance division. It was also confirmed by management that the corporate finance advisors would be paid a monthly retainer of €75,000 each per month until the end of April as approved by the Board Audit and Compliance Committee (BACC) and noted previously by the Board, and that the success fee payable on a disposal of EBS was likely to become due in connection with the AIB transaction. Linda O'Shea Farren requested that the corporate finance mandate letters be reviewed to ascertain whether or not EBS is legally obliged to pay these success fees, pointing out that there may be a conflict of interest in terms of any lawyers or others who were involved in drafting or negotiating these letters of engagement. **<u>Action</u>** The corporate finance mandate letters to be reviewed to ascertain whether or not EBS is legally obliged to pay the success fees.

[redacted]

	Chairman highlighted that, from a risk perspective, it may be necessary to seek binding commitments from certain critical EBS staff by offering them retention bonuses, etc. **Action** Any forbearance measures announced for mortgage customers in arrears in connection with the merger, to be priced and referred back to the Board for approval before implementation.

[redacted]

THEME: C3

Appropriateness and effectiveness of the Department of Finance actions during crisis

LINE OF INQUIRY: C3b

Appropriateness of the bank guarantee decision

EXECUTIVE SUMMARY

Funding / Liquidity

- Funding markets have stabilised somewhat on the back of government guarantees and retail inflows continue strongly.
- The covered bond bank programme has made excellent headway and we expect it to be incorporated before the end of the month. This will provide access to significantly cheaper funding when markets re-open.
- Developments externally on government guarantees have put Ireland is relative less advantageous position as some guarantees extend to 3 years (UK) and to 5 years (parts of Europe). We will be lobbying the government here to adopt a guarantee duration of five years to match the European model but indications this morning are that the government will not entertain any changes to the draft legislation, due to be concluded on before the weekend, on the basis that it has been approved by the EU Commission under State Aid rules.
- An executive summary on the guarantee is set out overleaf ; we also attach relevant material received this morning.
- Following the annual review process with Fitch and Moodys in June of this year, Fitch confirmed the EBS rating. Moodys are now concluding on their EBS rating and we expect to hear from them formally on Friday 17th. Our sense from recent interactions is that, given the deterioration in the economic landscape over the past four months and the increase in arrears and provisions estimates EBS will be downgraded. This has less of an impact from a funding perspective, given the government guarantee scheme in place, however it will have a cost impact. The charge to be levied on institution is still being worked out but there are indications that it will be linked to the risk profile of the institution as determined perhaps by external ratings.

Pricing

- In line with all other lenders EBS reduced its standard variable rate by 50 bps following the ECB rate reduction of 50bps (to 3.75%) on 8 October 2008. No rate reductions has been passed on yet to Buy to Let business or new variable / fixed rate LTV products. The rate change will take effect from 1 November 2008 for the loan book. There has been no movement to date on increasing savings rates.

Credit

- No further update on the EBS Kaupthing exposure ; we await developments on foot of developments in Iceland and discussions between Iceland, the UK and others. A better indication will be available early in November.
- Arrears trends continue upwards ; August figures were well up on July, reflecting in part the lower level of resources over the summer period. We are seeing some small pick up in cure rates but the rate of increase in new cases outweighs the cure rate by some distance.
- A special assets unit has been established in commercial credit with 3 teams in situ and cases allocated. The credit task force has restructured its first case following detailed evaluation and more will follow.
- The retail credit management team is being restructured into six teams focusing on different exposures to ensure maximum recovery activity across the book.
- Given the pace of change of the economic outlook in the country and the knock on effects on the property market and our loan book we are conducting a comprehensive review of provision estimated for 2008, and 2009 – 2011.

REPLACED ITEM #4
DEFERRED TO NEXT
MEETING

Board Presentation

26 September 2008

EBS
BUILDING SOCIETY

Contents

1. UPDATE ON CHANGES SINCE LAST BOARD OFFSITE

Global changes

- There has been substantial changes in the market since our last strategic discussions - Lehmans, Merrills, HBOS, AIG all causalities
- Global financial system now undeniably under extraordinary stress
- Heightened anxiety and acceptance that US Government intervention/bail out is absolutely necessary to avoid banking system collapse and economic depression
- ECB collateral rules are changing which will make accessing ECB funding more challenging and expensive
- Numerous regulatory interventions to date with limited success; and crisis has moved to next level with money market funds taking flight and Interbank rates at highest level since credit crunch began
- Financial markets remain highly volatile and unpredictable

Local market changes

- Irish bank shares down 14% over last 2 months with many Irish Institutions down-graded or on negative watch
- Growing sense of bank sector under greater stress with Regulator on high alert
- Speculation of merger between Anglo and Irish Nationwide with further M&A activity anticipated with movements behind the scenes involving Regulator and Government
- Media and public anxiety leading to risk of material retail outflows with Irish Government forced to increase Deposit Protection from €20k to €100k to include credit unions
- Corporate/Treasury/money market outflows adding further stress
- EBS is relatively better positioned when compared to other Irish players however market as **a whole is under considerable stress**

EBS Challenges – A reminder from offsite

- Structural challenges include:-
  - Funding constraints
  - Capital constraints
  - Lack of scale
  - Lack of diversification
  - Financial vulnerability
  - Corporate form

→ Fundamental issues

"now even greater"

- Operational challenges include:-
  - Strategic drift
  - Organisational stretch and capacity
  - Immediate macro economic outlook
  - TBA model in current environment
  - Negative stakeholder sentiment

→ Other short term challenges

What this means for EBS?

- Challenges facing EBS are even greater with downside risks evident: access to and cost of funding; impairment charges; capital need; earnings; etc
- Individual institutions in Ireland are clearly under extreme stress and we are likely to see fallout which will impact on EBS
- Government intervention anticipated and unavoidable; potential scale of intervention is likely to be considerable and could change the Irish banking landscape here fundamentially
- Balance sheet strength, liquidity, rating and scale are increasingly important to withstand such a stressed environment
- Against this background EBS is more vulnerable as a smaller entity
- Need to leverage our strenghts to get best possible answer for our members, employees and other stakeholders.
- Need to reconsider our strategic options again in this new environment which include:
  - EBS standalone
  - Mutual alternatives
  - **M&A activity**

Global Banking Market – Chronology of Recent Events

June 2007

June
Two Bear Stearns hedge funds suffer after bad bets on U.S. Subprime mortgage-related securities.

July - September
German bank IKB becomes first in Europe to be hit by bad investments in U.S. subprime market; SachsenLB bailed out in September, also due to subprime exposure.

Sept 2007

September 14
First run on a major UK bank in over a century as customers besiege mortgage bank Northern Rock.

Jan 2008

January 11
Bank of America pays $4 billion for Countrywide Financial after the mortgage lender goes under when risky loans to borrowers fail.

Feb 2008

February 17
Northern Rock nationalised after funding crisis.

Mar 2008

March 16/17
Bear Stearns sold to U.S. investment bank JP Morgan Chase

July 2008

July 13
U.S. Treasury and Federal Reserve effectively nationalise mortgage finance companies Fannie Mae and Freddie Mac.

September 2008

September 15
Wall Street's worst day since markets reopened after the September 2001 attacks; Lehman Brothers in largest U.S. bankruptcy; Merrill Lynch taken over by Bank of America Corp.

September 16
Central Banks pump billions of dollars into money markets in a bid to ease tensions and prevent global financial system from freezing. Fed announces plan for $85 billion AIG rescue loan in return for 80 percent stake.

September 17
Lloyds TSB buys rival HBOS; U.S. Securities and Exchange Commission (SEC) curbs short-selling.

September 20-25
U.S. plan for $700 billion bailout for firms burdened by bad mortgage debt being progressed; Goldman Sachs, Morgan Stanley transformed into bank holding companies, ending Wall Street's investment banking model.

2. IRISH FINANCIALS

Comparable Trading Multiples

Company		Market Cap	Net Income (adj.)	EPS*	EPS Chg(%)	PE Ratio (x)	P/Book (x)	ROE (%)	Dividend Yield (%)		Equity Tier 1 Ratio (%)
Allied Irish Banks	2007A		€1,897	2.15	13%	3.0x	0.6x	20.0%	12.3%	2007A	5.6%
€6.40	**2008E**	**€5,650**	**€1,543**	**1.75**	**-19%**	**3.7x**	**0.5x**	**14.5%**	**8.6%**	**2008E**	6.0%
	2009E		€945	1.07	-39%	6.0x	0.5x	7.9%	6.3%	2009E	5.8%
Anglo Irish Bank**	2007A		€976	1.28	41%	3.2x	0.8x	24.1%	4.8%	2007A	5.2%
€4.16	**2008E**	**€3,166**	**€1,148**	**1.51**	**18%**	**2.8x**	**0.6x**	**23.3%**	**5.0%**	**2008E**	6.0%
	2009E		€791	1.04	-31%	4.0x	0.6x	14.2%	5.0%	2009E	6.6%
Bank of Ireland***	2008A		€1,488	1.48	2%	2.8x	0.6x	22.9%	15.6%	2008E	5.7%
€4.09	**2009E**	**€4,107**	**€1,137**	**1.13**	**-24%**	**3.6x**	**0.6x**	**16.0%**	**7.8%**	**2009E**	5.8%
	2010E		€597	0.59	-48%	6.9x	0.6x	8.0%	3.9%	2010E	5.8%
IL&P*****	2007A		€513	1.85	9%	3.2x	0.5x	15.2%	12.7%	2007A	10.4%
€5.90	**2008E**	**€1,633**	**€443**	**1.60**	**-14%**	**3.7x**	**0.5x**	**13.1%**	**12.7%**	**2008E**	10.6%
	2009E		€338	1.22	-24%	4.8x	0.5x	9.5%	7.6%	2009E	10.7%
	Avg	**2007A**				**3.0x**	**0.6x**	**20.5%**	**11.4%**		
	Avg	**2008E**				**3.4x**	**0.6x**	**16.7%**	**8.5%**		
	Avg	**2009E**				**5.4x**	**0.5x**	**9.9%**	**5.7%**		

25/09/2008

*EPS figures are based on adjusted earnings figures

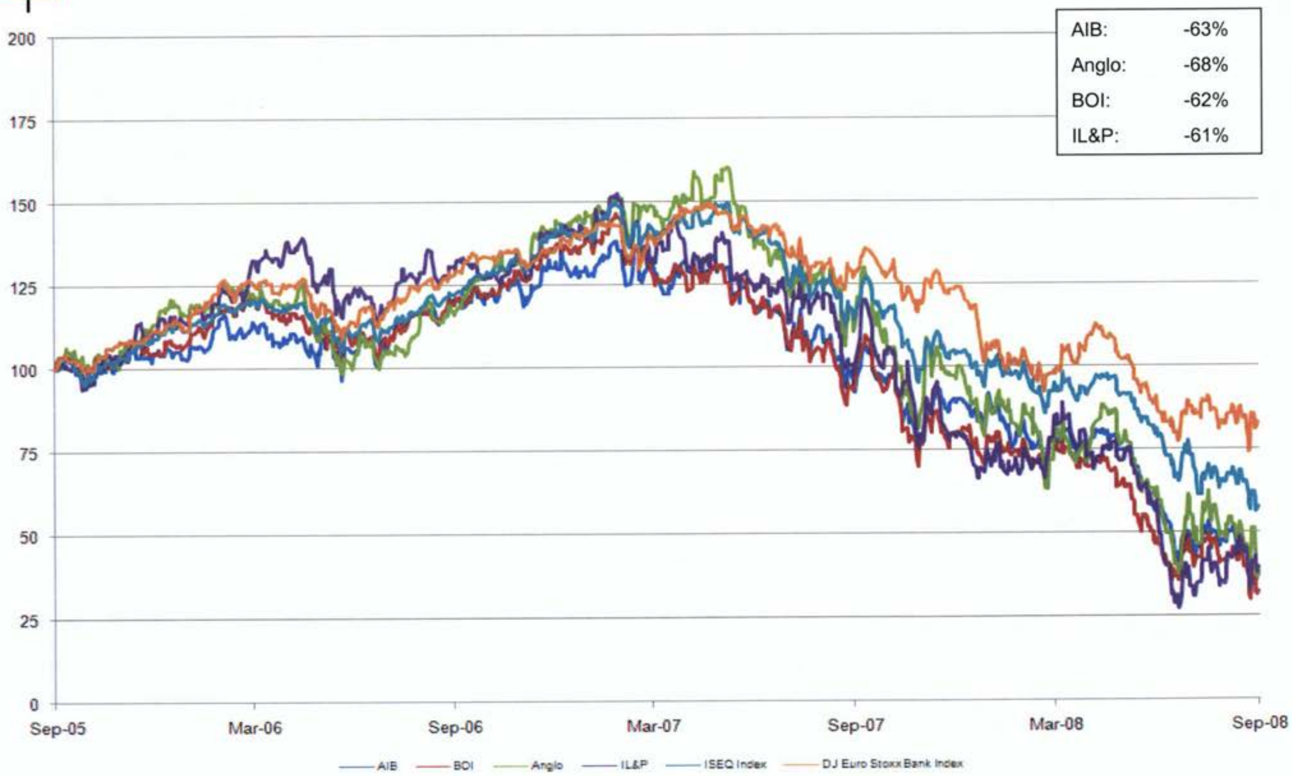
**September year end

***March year end

****IL&P Net Income adjusted for STIF variances

- Continued negative sentiment towards Irish financials with rating agencies downgrading Irish quoted and unquoted banks
- Valuation discount to sector has widened – European banks trading at c.9.9x 2008E P/E and 1.3x P/B
- UK banks trading at 1.3x P/B 2008E

Share Price Performance – Irish Quoted Banks Last 3 Years



Sector marked by significant share price declines over the past year – trading at lowest level since 2000

11

Challenge – Economic Drivers

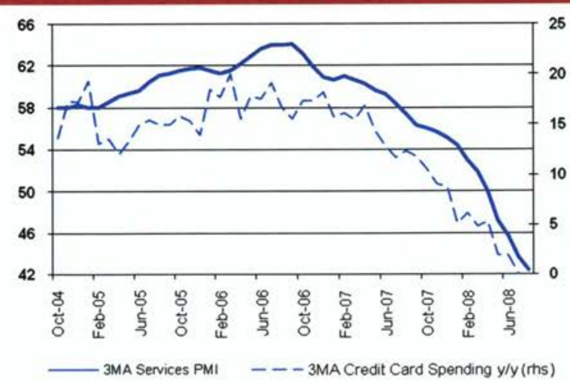
House Prices

Bank Lending to Property & Construction

Country	2000	2008	Diff.
Ireland	39%	77%	38%
Spain	59%	84%	25%
South Africa	30%	49%	19%
UK	63%	78%	15%
US	52%	60%	9%
Japan	33%	42%	8%
Italy	30%	35%	5%
Germany	35%	37%	2%

Consumer Confidence

Credit Card Spending

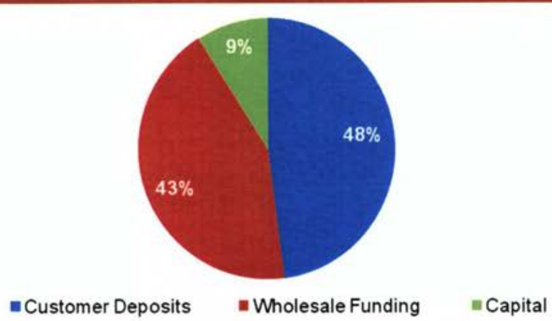


Key Challenges

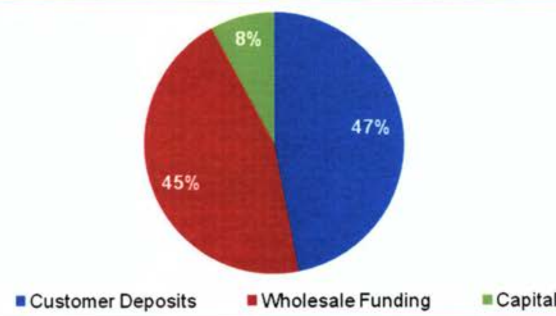
Challenge	Market Comment	Impact on EBS
A marked slowdown in loan growth	▪ The last "banking shock" in the late 1980s/early 1990s saw banks in the UK and US de-leverage quite markedly ▪ Loan growth at both AIB and BOI is forecast to fall sharply from the levels of 20%/ 30% enjoyed in 2005 and 2006 ▪ Significant slowdown in the Irish mortgage market with volumes expected to be a c.20% lower than 2007. This trend is likely to deteriorate further in 2009	▪ EBS revenue is very dependent on interest income, therefore large potential impact on future earnings. Additionally EBS's non-interest income stream is heavily dependent on mortgage volumes
The need to change funding mix	▪ AIB and BOI's loan/deposit ratios have increased dramatically since 2001 ▪ The banks are aggressively trying to reverse this trend given the uncertainty in the wholesale markets ▪ The net impact will be higher retail and wholesale funding costs	▪ Long term funding is currently unavailable . This leads to an increased reliance on short term wholesale and ECB funding.
Further pressure on net interest margins	▪ With c. 66% of the banks revenue coming from net interest income, the impact on earnings growth is substantial ▪ Net interest margins have fallen sharply in recent years as loan growth outstripped deposit growth and competition drove down loan pricing ▪ Gross margins are increasing but upward pressure on funding costs will drive net interest margins down quite markedly this year (AIB – 11 bps, BOI - 12bps)	▪ Higher wholesale funding costs ▪ The need to pay up for retail funding ▪ Limited access to all types of funding ▪ Continued basis risk volatility ▪ And the lag effect in terms of passing on increased cost to customers ▪ Given EBS's size and long-term competitive positioning, this is an even greater challenge
Higher levels of bad debts	▪ Bad debt charges reached unsustainably low levels at AIB and BoI in 2007/08 of 9bps and 17bps respectively ▪ Non-performing loans and loan provisions are already moving upwards	▪ Bad debts continue to trend upwards for all Irish financial institutions but provision levels as a % of our profits are far higher than our peers – we are less able to absorb shocks
Pressure to decrease leverage and increase capital ratios	▪ While AIB and BOI's capital positions are not critical they are generally weaker that their UK peers ▪ There are also growing concerns about the quality of the Irish Banks' loan books ▪ Rating agencies, the regulator, market counterparties and credit analysts are very focused on capital adequacy and capital ratios.	▪ This puts pressure on EBS and other financial institutions to deleverage their balance sheets

Funding Profile & Impairments

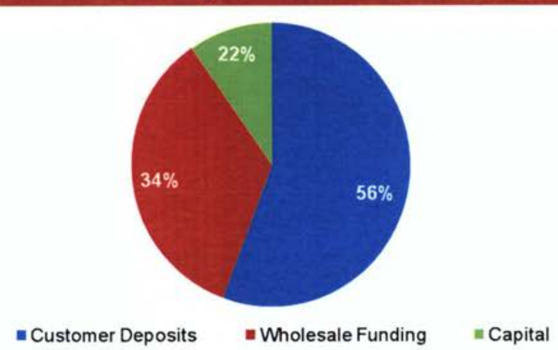
Allied Irish Bank



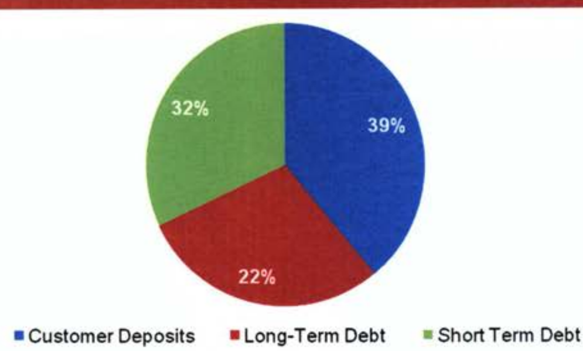
Bank of Ireland



Anglo Irish Bank



Irish Life and Permanent (1)

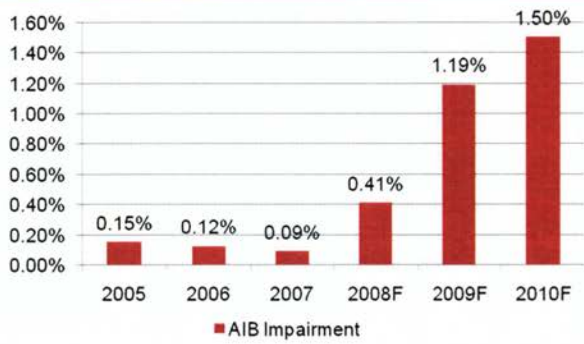


Irish Life & Permanent has greatest exposure to wholesale funding

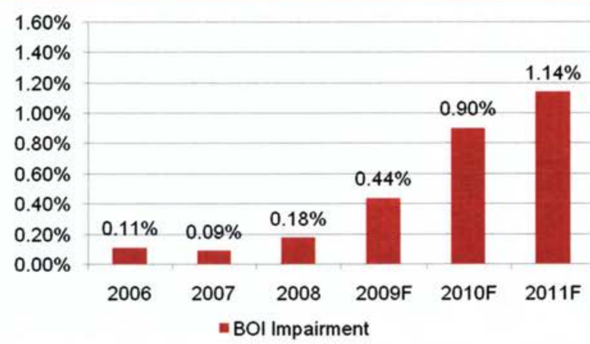
Note 1: As of Interim Results 27/08/09

Funding Profile & Impairments

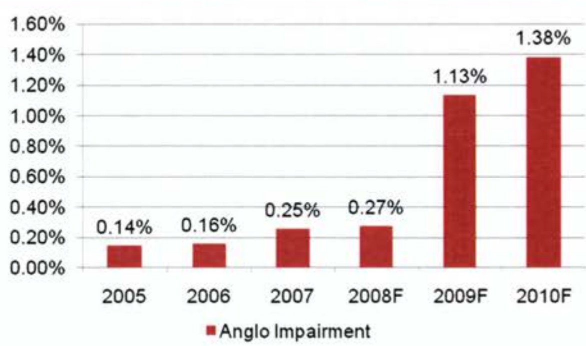
Allied Irish Bank (1)



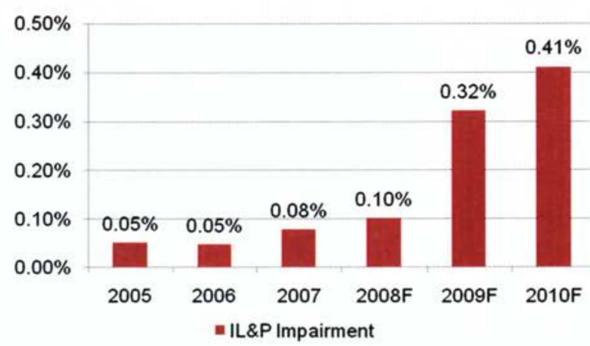
Bank of Ireland (1)



Anglo Irish Bank (1) (2)



Irish Life and Permanent (1)



Note 1: NCB Estimates
Note 2: Impairment includes write-down on SIV

Regulatory Backdrop

- The Regulator is in close contact with all institutions and although the Regulator and the Minister for Finance considers EBS to be in a relatively strong position, the Regulator has encouraged EBS to talk to other institutions
- Recent media speculation in this regard:
  - *"The Irish Financial Services Regulatory Authority is exploring possible mergers between Irish financial institutions to strengthen the banking sector in the event of any further deterioration due to the global financial crisis."*
  - *"The financial regulator is continuing discussions with senior bank executives this week about potential solutions to future pressures facing the sector."*
  - *"Possible marriages between institutions have been suggested and examined in exploratory discussions to ensure the banking system can react quickly to any emerging shocks. Bank executives have proposed a variety of potential tie-ups to the regulator as ways of strengthening institutions." [Source Irish Times 23/09/08]*
- In other markets the Regulator has encouraged consolidation:
  - US – Merrill Lynch/Bank of America
  - UK – Lloyds/HBOS

  In those situations the deals were done quickly and legislation and competition issues were waived
- What happens to INBS will be crucial in this regard as if a deal is done for them it is likely that there will be more focus on EBS. Currently the view is that an ANGLO/INBS deal is unlikely but INBS is unlikely to remain independent.
- Ultimately EBS has a number of options, including staying as is and looking at consolidation alternatives
- The key question for EBS is whether the regulator will require EBS to be consolidated into another institution

3. Options

EBS Options

- An approach has also been received from IL&P which means we must evaluate that as an option against other alternatives

- The main options which we see are as follows:
  - EBS standalone
  - EBS and UK Nationwide
  - EBS and Irish Nationwide with support
  - EBS acquired by IL&P
  - EBS acquired by AIB or BOI

EBS Standalone

EBS – Standalone

- EBS's current plan assumes we operate on a standalone basis.
- The P&L profile over the next few years is reasonably positive and improves from 2010 onwards:

	2007A €'million	2008F €'million	2009F €'million	2010F €'million	2011F €'million
Net Interest Income	173.6	154.4	160.1	162.3	166.9
Non interest Income	20.2	16.2	14.8	17.7	20.7
Total Income	**193.8**	**170.6**	**174.9**	**180.0**	**187.6**
Total Expenditure	**(108.1)**	**(106.5)**	**(103.5)**	**(107.9)**	**(109.4)**
Impairment	(19.1)	(10.0)	(15.0)	(10.0)	(10.1)
Income before taxation	66.6	54.0	56.4	62.0	68.1

	Dec-09	Dec-10	Dec-11
Lending	17,289,159	18,106,152	19,210,689
Treasury Assets	4,218,380	5,068,882	5,478,310
Other Assets & Liabilities	-135,500	-135,500	-135,500
Total	**21,372,039**	**23,039,534**	**24,553,499**
Retail Savings	5,970,278	6,470,278	6,970,278
Treasury Liabilities	14,703,865	15,823,360	16,789,325
General Reserve	697,896	745,896	793,896
Total	**21,372,039**	**23,039,534**	**24,553,499**

EBS – Standalone

- We also have a funding and capital plan to sustain the borrowers over the next few years

	2007A	2008F	2009F	2010F	2011F
Funding mix					
LT Wholesale & Covered Bonds	27%	21%	22%	26%	29%
ST Wholesale & ECB Repo	21%	24%	20%	16%	16%
Corporate & FI	26%	27%	28%	29%	26%
Retail	26%	28%	29%	29%	29%
Total	**100%**	**100%**	**100%**	**100%**	**100%**
Customer (Retail, Corp & FI)	52%	55%	57%	58%	55%
Retail & LT W'Sale	53%	49%	51%	55%	58%
Capital*					
Standard RWA%	44.14%	40.09%	39.58%	39.05%	
Tier 1 Core Equity %	6.25%	5.80%	6.24%	6.70%	
Total Tier 1%	9.00%	8.11%	8.55%	9.01%	
Tier 2%	2.90%	2.40%	3.52%	3.54%	
Total Capital %	11.90%	10.51%	12.07%	12.55%	

** 2011 data currently not available*

EBS – Standalone continued

- If funding markets persist, as they are at present we, like other institutions, might need some government support but we are in a lot better position than other institutions

- This may be forthcoming for the following reasons:

EBS Specific	General
– Last remaining mutual in Ireland	– Move to protect sector
– Around for 73 years	– Move to safeguard consumers
– Choice for the consumer	– Move to enable buyers
– 450,000 members to be protected	

- The key to EBS surviving is our **treasury and capital position**

Treasury

- Significant volatility in the credit markets may mean that access to long term funding may remain difficult and indeed the short term market could become more difficult as concerns over the banking system result in a flight to higher rated names
  - A downgrade of EBS would have a significant negative effect on our access and cost of funding
- Recent events (Lehman failure) have resulted in a more cautious approach from money managers with many now looking to invest in lower yielding treasury bills rather than bank deposits or commercial paper.
  - We expect to see some outflow from these types of accounts and some counterparties have already asked for early breakage
- In addition the cost of funding both short and long term continues to rise.
- EBS long term wholesale funding levels have fallen below desired levels and short term wholesale funding utilisation is currently greater than desired
  - Covered bond bank will help increase funding stability. However, first issuance is not planned until 2010 as markets are currently closed. Issuance margin on covered bonds assumed at 75bps
- Liquidity in the interbank market continues to deteriorate and rates continue to move higher
- EBS will have to continue to rely on ECB funding
  - However, collateral rules announced by the ECB to be introduced in February will result in less money lent by the ECB against certain types of assets

Capital

- It will be key to strengthen our capital position to safeguard EBS against unexpected losses and provide assurance to external and internal stakeholders of the robustness of our capital position.
- Overall current ratios are towards the higher end of our target range. However, while we are in a downturn of the credit and economic cycle we cannot boost capital from current levels as we have maximised (from the point of view of rating agencies and peer group comparison) our external Tier 1 levels following the transaction completed in July 2008.
- The redemption of a €60.0m Lower Tier 2 issue in December 2009 will result in a small reduction in the Total Capital ratios in 2009. To increase total capital, an issue of €150m replacement Lower Tier 2 in 2009 (on account of current market focus by regulator and rating agencies) is proposed, at a cost of at least euribor +500bps (at an increased costs p.a. of €5.8m)
  - **Every €10m we raise increases the Total Capital Ratio by 10bps.**

EBS Standalone

Summary	
Pros	**Cons**
▪ Remain independent	▪ Negative news-flow form other Irish Banks – potential failure of an Irish Bank – sector sentiment
▪ Survive through this period and potentially do a deal when markets are in a better position	▪ Further deterioration in economic conditions – step-up in loan losses – profitability impact
▪ Drive through elements of strategy to build enterprise value and obtain more value for the members	▪ Risk of being forced by the regulator to be taken over
	▪ Risk of government support not materialising
	▪ Changes in ECB auction rules given our dependence
	▪ Higher cost of wholesale funds impacting profitability
	▪ Risk of destroying value for members through the intervening period

Right to consider Standalone option, but need to sense check against market difficulties?

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Other Options

Nationwide | EBS BUILDING SOCIETY

Acquisition of EBS by Nationwide

Pros

- **Mutuality** – Would be acquiring a leading mutual in Irish market
- **Strategic** – Would provide diversification away from core UK market into a similar banking market in close geographical proximity
- **Synergies** – Less synergies than for existing player but some scope available to realise
- **Competition** – Would not be an issue
- **Current Irish Plans** – Launching savings products in Irish market in early 2009, Wants to further diversify geographical operations and funding opportunities
- **ECB Funding** – Irish presence will give access to ECB funding
- **Other**
  > Have been acquisitive in UK with Portman, Cheshire and Derbyshire
  > Deal size unlikely to be prohibitive

Cons

- **Capital** – market focus on capital preservation through de-leveraging and dividend cuts – but would not be an issue if no member payout
- **Irish Market** – Is now the right time for a foreign institution to consider entering the Irish mortgage market – but Government support could counter any concerns

Pros

- **Removes Uncertainty** – future of business secured as part of larger institution, with brand likely to be retained
- **Control** – EBS can retain influence over future direction
- **Members**
  > Could be a liquidity event for members, avoid potential destruction of member value in current market turmoil
  > Member Benefits – potentially retain as part of a larger mutual
- **Management & Employees** – unlikely to be significant redundancies
- **Not Dependent on Regulatory Support for funding** – avoid potential need to obtain regulatory support which may not be forthcoming
- **Avoid Forced Situation** – avoid potential scenario where EBS is forced into a transaction

Cons

- **Timing** – greater value could be secured for members if a deal was done when normal market conditions return

Creates the Strongest Mutual Player / Positive Impact on Irish Market

Other Options

IRISH NATIONWIDE BUILDING SOCIETY

EBS BUILDING SOCIETY

Government Sponsorship of Partial Combination of EBS and INBS

Pros

- **Strategic** – Part of an overall solution to current difficulties
- **Government Support** – could be forthcoming in absence of any superior alternative
- **Mutuality** – INBS retail members would continue to benefit from mutual status
- **Competition** – Would not be an issue

Pros

- **Larger Independent EBS Business** – would remove current uncertainty and ensure that a larger, independent EBS and Irish mutual can survive going forward
- **Management & Control** – EBS management can retain control and influence future ownership of combined business
- **Members**
  > With sufficient Government support avoid potential destruction of member value in current market turmoil
  > Member Benefits – retain as part of a larger mutual
- **Employees** – unlikely to be significant redundancies
- **Avoid Forced Situation** – avoid potential scenario where EBS is forced into a transaction

Cons

- **Business** – essentially would be broken up and brand may not be retained
- **Deal Execution** – separation may prove difficult
- **Funding** – would be an impediment in absence of Government support
- **Commercial Book** – May be difficult to find a willing buyer

Cons

- **Funding** – would be dependent on Government support
- **Commercial Book** – dependent on finding a buyer – outside control of EBS
- **INBS** – unlikely to be preferred option of INBS, likely to resist, although may be forced through if no viable alternative
- **Timing** – greater value could be secured for members if a deal was done when normal market conditions return

Option with Government Support Assuming No other viable alternative for INBS

Other Options

Acquisition of EBS by AIB

Pros

- **Strategic** – One of a limited number of options to enhance Irish business. Limited strategic opportunities in UK, CEE and US
- **Synergies** – Can maximise cost synergies
- **Competition** – Unlikely to be an issue – Combined mortgage market share estimated at c.24%
- **Other**
  > Improve risk profile of Loan book as AIB have weighting to Property/ Construction and SME business
  > Market Leader in mortgages

Cons

- **Capital** – market focus on capital preservation through de-leveraging and dividend cuts – but options available through M&T and Polish assets
- **Deal Size** – Given current market conditions may not be sufficiently large or attractive to attract AIB

Pros

- **Removes Uncertainty** – future of business secured as part of larger institution, although brand may/ may not be retained
- **Control** – EBS could potentially influence future direction if proactive
- **Members** – Liquidity event for members. Avoid potential destruction of member value in current market turmoil
- **Not Dependent on Regulatory Support for funding** – avoid potential need to obtain regulatory support which may not be forthcoming
- **Avoid Forced Situation** – avoid potential scenario where EBS is forced into a transaction if proactive
- **Other**
  > AIB have expressed interest before

Cons

- **Membership** – mutual benefits no longer available to members
- **Staff** – likely to be significant redundancies
- **Timing** – greater value could be secured for members if a deal was done when normal market conditions return

Have Expressed Interest Before. EBS Folded into AIB Retail Business

Other Options

Bank of Ireland

EBS BUILDING SOCIETY

Acquisition of EBS by Bank of Ireland

Pros

- **Strategic** – One of a limited number of options to enhance Irish business. Limited strategic opportunities in UK, CEE and US
- **Synergies** – Can maximise cost synergies
- **Competition** – Unlikely to be an issues – Combined mortgage market share estimated at c.28%
- **Other**
  > Transfer of engagements to ICS

Pros

- **Removes Uncertainty** – future of business secured as part of larger institution, although brand may/ may not be retained
- **Control** – EBS could potentially influence future direction if proactive
- **Members** – Liquidity event for members. Avoid potential destruction of member value in current market turmoil
- **Not Dependent on Regulatory Support for funding** – avoid potential need to obtain regulatory support which may not be forthcoming
- **Avoid Forced Situation** – avoid potential scenario where EBS is forced into a transaction if proactive

Cons

- **Capital** – market focus on capital preservation through de-leveraging and dividend cuts
- **Exposure to mortgages** - Group
- **Deal Size** – Given current market conditions may not be sufficiently large or attractive to attract BOI

Cons

- **Membership** – mutual benefits no longer available to members
- **Staff** – likely to be significant redundancies
- **Timing** – greater value could be secured for members if a deal was done when normal market conditions return

EBS Folded into BOI Retail Business

Other Options

Irish Life & Permanent plc

EBS BUILDING SOCIETY

Acquisition of EBS by IL&P

Pros

- **Strategic** – One of a limited number of options to enhance Irish business. Limited strategic opportunities in UK, CEE and US
- **Synergies** – Can maximise cost synergies
- **Competition** – Unlikely to be an issue – Combined mortgage market share estimated at c.24%
- **Other**
  > Improve risk profile of Loan book with strong weighting to Property/ Construction and SME business
  > Market Leader in mortgages
- **Funding** – assists in funding solution for IL&P

Cons

- **Capital** – market focus on capital preservation through de-leveraging and dividend cuts
- **Deal Size** – Given current market conditions may not be sufficiently large for IL&P to survive

Pros

- **Removes Uncertainty** – future of business secured as part of larger institution, although brand may/ may not be retained
- **Control** – EBS management can retain control and influence future ownership
- **Members** – Liquidity event for members. Avoid potential destruction of member value in current market turmoil
- **Avoid Forced Situation** – avoid potential scenario where EBS is forced into a transaction if proactive

Cons

- **Membership** – mutual benefits no longer available to members
- **Staff** – likely to be significant redundancies
- **Timing** – greater value could be secured for members if a deal was done when normal market conditions return

Have Expressed Interest

Other Options – Other Potential Acquirers?

EBS

- ***Below are a number of financial institutions who might consider an acquisition of EBS under normal market conditions***
- ***However an acquisition by one of these institutions is unlikely given their current positions and the general market environment but Irish banks could be an acquirer as part of a Government supported transaction***

Potential Acquirer?	Comment
Anglo Irish Bank	▪ Believed to be in discussions with INBS and latter's commercial book would be of interest ▪ Have not previously expressed interest in acquiring a retail business but might consider EBS as part of a Government supported transaction
RBS The Royal Bank of Scotland	▪ Complement existing Ulster/ First Active retail business – comfortable with multiple banking brands ▪ Post ABN deal, write-downs and equity issuance even small acquisitions likely to be difficult for management
Bank of Ireland	▪ Complement existing BOI/ ICS retail business – create market leader in mortgages ▪ ICS as building society would negate need for change to legislation ▪ As Regulator looks at ways of strengthening the Irish financial system BOI might be a potential acquirer
postbank / FORTIS	▪ EBS would provide scale to nascent retail banking business ▪ Speed of execution – even in more benign environment likely to be slow
Rabobank	▪ Have considered EBS before and familiar with business ▪ Focus likely to be on improving existing ACC franchise and unlikely to transact in current market
IIB Bank / KBC	▪ Along with parent company KBC, a well funded and capitalised financial institution ▪ Continue to commit to Irish market but historically have had a conservative approach to consolidation in Ireland
BARCLAYS	▪ Might consider a retail banking/ high street presence in Irish market ▪ Management focused on acquiring a number of Lehman Bank assets
Lloyds TSB	▪ BOSI acquired as part of HBOS acquisition adds to existing niche commercial finance presence ▪ If committed to the Irish market EBS could further enhance retail presence as product/ service offering fits ▪ Plans for BOSI not confirmed
ZURICH	▪ Have demonstrated commitment to Irish Insurance market with re-branding of Eagle Star ▪ Niche property banking business recently established to replicate Dunbar model in UK ▪ Do not seem to have wider banking ambitions at present

4. OVERVIEW OF IL&P

Irish Life & Permanent – Current Position

- IL&P's share price has fallen 60% since this time last year
- Now trading at 0.5x book value
- Confirmed term funding (30/07/08) to replace the €3bn of funds maturing in Q3 2008
  - Part of securitisation program – Fastnet 4
  - Varying tranches, LTV's and maturities
- Close to finalising €1bn of further funding at 105bps – c. €1.5bn term funding maturing in 2009
- Solvency II not due to be implemented until 2011/12
  - Potentially c. €1bn of capital available
  - Surplus currently in technical reserves
- Finalising a €250m reinsurance facility in relation to its new business strain on the life side
  - Release of capital on new business which is held as a percentage of Life book
  - Allows accelerated release of surplus in new business from 2008 – 2010
    - 2008: €100m
    - 2009: €75m
    - 2010: €75m

IL&P Group – Key Financials

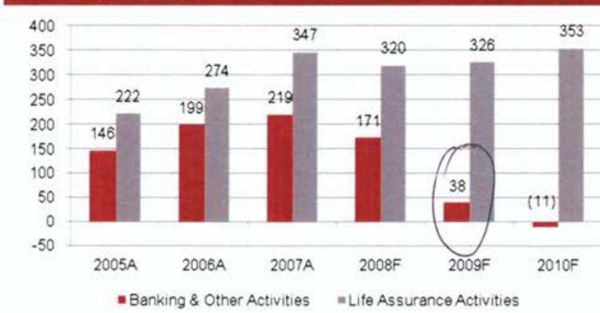
Share Price (€m)	5.9
Shares ('m)	277
Market Cap (€m)	1,633

Source: NCB & Bloomberg (25/09/08)

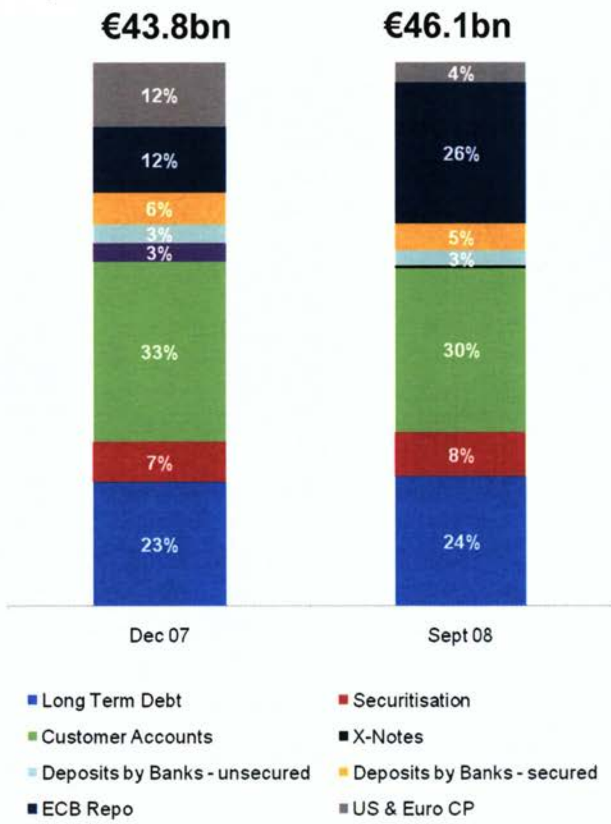
Year End 31 December	2008E[1] €m	2009E €m	2010E €m
Pre-tax Contribution	510	384	364
Operating Profit Pre Associates	491	364	343
Adjusted Net Income	443	338	324
Net Assets	3,391	3,551	3,749
Valuation / Ratio's			
PE	3.7x	4.8x	5.0x
P/BV	0.5x	0.5x	0.4x
EPS (€)	1.60	1.22	1.17

Source: NCB Estimates
Note 1: Net income adjusted for €230m negative STIF variance

Operating Profit Pre Associates – €'m



IL&P Funding Profile



- Customer accounts (deposits) & long-term debt at Dec '07: 64% of total funding (Sept: 63.5%)
- ECB Drawings of €5.3bn at Dec '07 have increased to €12.0bn (Sep '08)
- US & Euro CP – €5.1bn at Dec '07 decreased to €1.7bn (Sept '08)
- First major roll over of long-term debt in Q3 '08 – IL&P confirmed refinancing in July '08
- Close to finalising €1bn of further funding at 105bps – c. €1.5bn term funding maturing in 2009

Bond & Medium Term Notes	2007
Repayable < 1 Year	€2,250m
Repayable 1 – 2 Years	€1,663m
Repayable 2 – 5 Years	€3,832m
Repayable > 5 Years	€755m
Total	**€8,500m**

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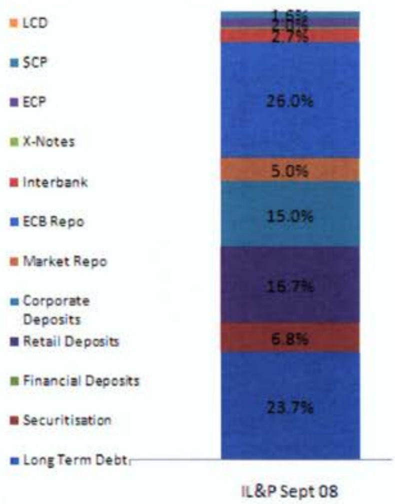
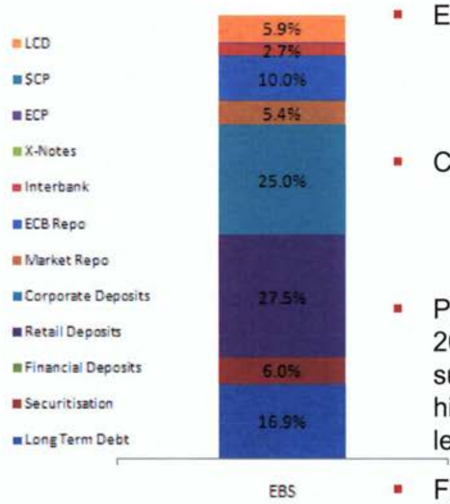
Funding Comparison

Funding Profile – €19bn



Funding Profile - €46bn



Funding in Context of a Deal

- ECB Funding
  - EBS c.€3bn
  - IL&P c.€12bn
- Collateral readily available
  - EBS - €3bn
  - IL&P - €4bn
- Potential Refinancing / funding gap in 2009 - €7.5bn for which Government support required, but potentially higher to allow for more sustainable level of ECB funding
- Funding Capacity – EBS' Covered Bond Bank will enhance funding capacity from early 2009 on - this will prove attractive to IL&P

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5. EBS VALUATION

Valuation

- Current market not weighting earnings (P/E) or DCF valuations
  - Too many uncertainties about future profits, impairments, asset quality and funding affecting investor sentiment
  - Terminal value assumptions significant in DCF
  - Appropriate equity returns and discount rates very difficult when market P/Es at 2 to 3 times
  - Broker coverage focused on market cap to net assets for past 12 months

- Dividends under pressure

- Primary basis of value is Market Cap to Net Assets

Comparable trading companies Price/Book analysis

Company	Share Price (close 25/09/08)	Current Market Cap (m)	Net Assets (m)	Calculated Price / Book	Funding Mix (Customer deposit/ Total assets)
Ireland					
Bank of Ireland PLC	4.12	4,138	6,484	0.64	44%
Allied Irish Bank PLC	6.43	5,662	9,555	0.59	48%
Anglo Irish Bank PLC	4.29	3,262	4,375	0.75	54%
Irish Life & Permanent PLC	5.87	1,624	2,639	0.62	39%

Comments:

- Current Price/Book range for Irish banks is 0.6x to 0.75x
- Applying this range to EBS indicates a pricing range of c.€350m to €440m

Comparable trading companies Price/Adjusted Book analysis

Company	Share Price (close 25/09/08)	Current Market Cap (m)	Net Assets (m)	Impairment forecast	Goodwill	Adjusted Net Assets	Calculated Price / Book	Calculated Price / Adj. Book	Funding Mix (Customer deposit/Total assets)
Ireland									
Bank of Ireland PLC	4.12	4,138	6,484	(1,921)	(293)	4,270	0.64	0.97	44%
Allied Irish Bank PLC	6.43	5,662	9,555	(3,089)	(389)	6,077	0.59	0.93	48%
Anglo Irish Bank PLC	4.29	3,262	4,375	(708)	0	3,667	0.75	0.89	54%
Irish Life & Permanent PLC	5.87	1,624	2,639	(791)	(198)	1,650	0.62	0.98	39%

Comments:

- An alternative measure is to look at adjusted Book Value where adjustments are made for the exclusion of Goodwill and an estimate made for additional impairment
- Current Price/Adjusted Book range for Irish banks is 0.9x to 1.0x
- Applying this range to EBS indicates a pricing range of c.€490m to €549m (adjusted Net Assets for EBS of €549m)

Comparable Banking transactions

Date announced	Target name	Acquiror name	Implied Equity Value (m)	Net Assets (m)	Price/NA
18/09/2008	HBOS Plc	Lloyds TSB Group Plc	12,541	20,100	**0.6x**
14/07/2008	Alliance & Leicester Plc	Santander Central Hispano	1,334	1,294	**1.0x**

Comments:

- The Price/Book range for recent transactions is 0.6x to 1.0x
- Lloyds TSB estimates that a combination with HBOS will lead to an additional contribution from cost synergies in excess of £1bn by 2011 following completion of the transaction, in excess of 10% of the cost base
- Regulatory pressure to complete
- Santander expects to generate £180m in pre-tax cost synergies, representing 26% of Alliance & Leicester's 2007 core operating expenses
- Based on the range above the pricing attributable to EBS would be in the range of c.€350m to €584m, however we would place less reliance on this metric given both transactions are UK based

Identified Synergies

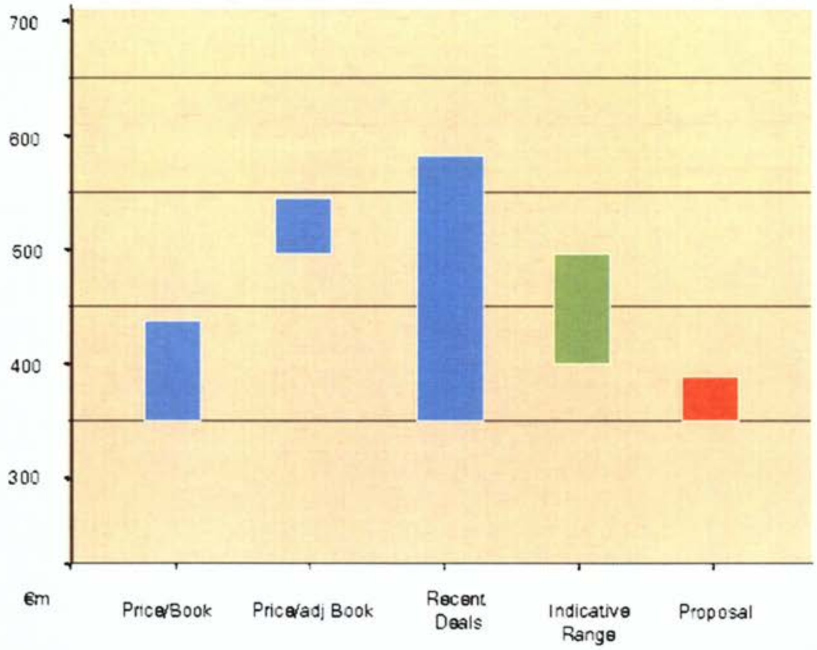
- Estimated synergies from revenues and cost base could be €50m plus, including:
  - MIG
    - Discontinuation of mortgage insurance cost
  - Extra margin on SVR book
  - Cross selling opportunities to EBS customer base
  - We have assumed no funding benefit
  - Staff costs savings from combined operations
  - Non Staff Costs
    - Reduction of rent and operating expenses

- EBS to argue for share of capitalised value of savings in any potential transaction

Key negotiation points

- Well established brand
- 450,000 members – high ABC1 profile
- Haven – dedicated broker provider
- Strong conservative asset base
- Successful retail savings franchise
- Covered Bond Bank set up
- Significant synergies to a potential purchaser
- Members giving up control and mutuality

Indicative Value Range



- Indicative value range from €400m to €500m
- Level of Synergies argue for higher end of indicative value range

6. DELTA PROPOSAL

Proposal Terms

- Valuation
  - EBS Members will be offered Ordinary Shares in Irish Life & Permanent
  - Consideration is based on "Current market valuations for Irish Financial Services businesses" – 50% to 60% of net asset value
  - Advisers are to work out precise valuation formula
  - A further loyalty share grant will be awarded to EBS Members after 3 years to reflect the realisation of merger synergies [additional 10% consideration]

- Other Terms
  - EBS signs an Exclusivity Agreement with IL&P
  - Short transaction time frame and due diligence
  - EBS and IL&P jointly brief the Financial Regulator and Department of Finance on the proposed transaction in order to secure funding support and approval
  - Appropriate Board and Senior Management representatives of EBS in new enlarged entity
  - Transparent selection process of "Best of Both" staff involving third party
  - IL&P will honour existing arrangements of EBS staff
  - Option to allocate a portion of the agreed consideration to create a staff ESOP

Proposal Assessment

Key Areas of Proposal	What IL&P Say	Assessment/Comment	
Valuation	• "Consideration will reflect current market valuations…50%-60%" • "…further loyalty share grant…after 3 years to reflect realisation of merger synergies [additional 10% consideration]"	• Valuation does not meet expectation • Does not sufficiently take account of synergies and quality of book • Additional detail required on loyalty share grant	*
Funding	• "…given the chaotic state of financial markets Government support will be required for the transaction in order to ensure the enlarged bank has a stable funding position. We believe this support will be available"	• Key area on which EBS require comfort • Need full detail of any analysis of funding and discussions with Regulator to date	*
Members	• "Members will be fairly rewarded with significant upside potential as financial markets normalise" • "...providing Members excellent value for money and outstanding customer service" and "...broader range of products and innovative new services"	• Need to consider in context of future shareholders of IL&P • How does IL&P products/ services/ benefits compare with those currently enjoyed	Irrelevant.
Employees / Network	• "IL&P will honour existing arrangements of EBS staff" • No reference to network	• Further details required in due course • No mention of network – will require further analysis as overlap in 76 outlets	*
Management	• "Best of both" • "Involve EBS, IL&P management and independent third party to identify and select appropriate candidates" • "Appropriate Board and Senior Management representatives for EBS in new enlarged entity"	• Need further detail on corporate/ management structure and how the merger of human resources in the combined entity **will be managed**	

Proposal Assessment

Key Areas of Proposal	What IL&P Say	Assessment/Comment
Next Steps/ Process	**Exclusivity** • "EBS sign an Exclusivity Agreement with IL&P to enable discussions to advance"	**Exclusivity** • No reason to give until further discussion on valuation and funding issues • IL&P not incurring major costs until due diligence commences • Consider non-solicit agreement for Ireland only and for a small period of time. Pursue UK options in meantime
Next Steps/ Process	**Valuation** • "Advisers…engage…finalise terms of offer to members" • Due Diligence • "Short due diligence programme…" **Funding** • "EBS and IL&P jointly brief the Financial Regulator and DOF…to secure funding"	**Valuation** • Engage at an adviser level to attempt to agree price • Due Diligence • Short due diligence programme in both parties interests but must agree valuation and get comfortable with funding in advance **Funding** • Only approach when valuation and other high level points are agreed – to do beforehand would be premature

7. LEGISLATION

Legislation

- Current legislation does not facilitate a merger between a building society and a licensed bank (public limited company).
- We understand that the regulator/government will be minded to change legislation to facilitate a transaction
- There are options to amend the Building Societies Act (as amended) and the Central Bank Act, 1971 (as amended)

Amend Building Societies Act, Part X

- It would appear that the least problematic option would be to amend Part X of the Building Societies Act which deals with amalgamations and transfers of engagements between building societies so as to allow a transfer of engagements by a society to a licensed bank.
- In order to transfer its engagements a society must resolve to do so by a special resolution or, if the Financial Regulator consents in circumstances where it considers it expedient to do so, by resolution of the Board of Directors.
- If the Financial Regulator consents to the transfer proceeding by resolution of the Board of Directors of the Society, then there is no need to circulate details of the proposed transfer to members of the society.
  - However, the proposed transfer must be advertised in two daily newspapers published in the State and indicating that objections and representations relating to the transfer may be made in writing to the Financial Regulator within a specified period.
  - The Financial Regulator, having considered any objections shall either confirm the transfer or refuse to confirm the transfer if it is satisfied that it would be contrary to public interest.
- Payments to members of a transferring society are already contemplated by the existing legislation and subject to minor legislative amendment could take the form of shares in the bank being issued to **the members of the society, as consideration for the transfer.**

8. Advisors

Advisors

- It has been decided to appoint NCB and KPMG Corporate Finance houses as advisors
- NCB have advised EBS in the past on other transactions and there is a strong relationship with the Chairman and Director of Strategy
- KPMG have advised the CEO on previous transactions
- KPMG's focus has been on the financial valuation side and NCB's on the corporate side
- They have proposed the following fees:
  - Retainer of €100k per month (first 3 months off settable against success fee)
  - Success fee of 0.8% of the transaction value if a transaction is concluded
  - Board approval is sought for these fees

9. SUMMARY & CONCLUSION

Summary & Conclusion

- Consideration required by the Board as to whether to proceed with the options outlined above

- Executive recommendation is to continue to evaluate all options including standalone and consolidation opportunities

- If it is decided to proceed with Delta the following is advised:
  - Exclusivity not to be granted until the following points are clarified:
    - Price
    - Funding arrangements
    - Future Group structure
    - Due-diligence requirements (if any)
  - Any exclusivity should then be linked to Milestones being achieved.

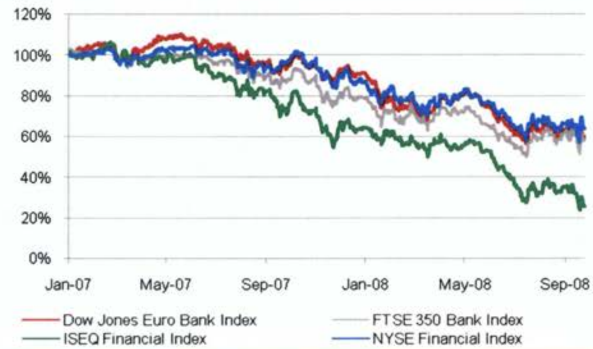
APPENDIX
Global Banking Sector - Trends

Global Banking Sector – Trends

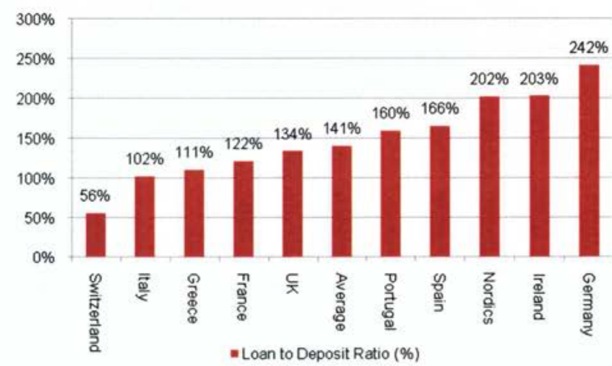
- **One Year On**
  - Current financial market turmoil now over a year old
  - First manifestation of the crisis was liquidity problems as lending in the interbank markets contracted over concerns about exposure to sub-prime assets
  - However difficulties in the underlying real economy now impacting banks in US, Europe and UK/ Ireland – depressed corporate earnings, rising unemployment, rising energy costs and reduced consumer confidence are common themes

- **Funding & Liquidity**
  - Key issues for banking models dependent on wholesale funding
  - Challenges have been well documented – widening spreads, reduced risk appetite and closure of funding markets such as the ABS market
  - HBOS and Northern Rock most high profile examples – former forced to find a suitor in Lloyds TSB and latter nationalised

Global Financial Indices



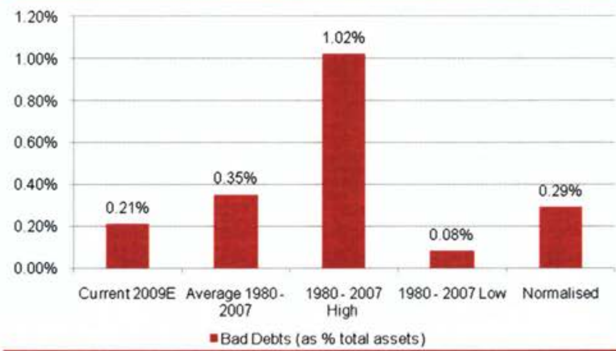
Loan to Deposit Ratio's – By Country



- **Loan Impairments & Equity Issuance**
  - Driven by difficulties in the real economy – corporate, personal and other earnings weakness has triggered defaults
  - Of all asset classes US sub-prime mortgages have resulted in the largest write downs for both US and European banks
  - Total sub-prime write downs estimated at $500 billion as of August 2008
  - Following large write-downs banks have attempted to repair their depleted balance sheets through raising equity – pre-dominantly UK Banks – HBOS, Barclays and RBS
  - Others have sought strategic investors such as Sovereign Wealth Funds
  - Depressed valuations and short selling have made equity issuance difficult

- **Increased Regulatory Intervention**
  - First demonstrable sign of intervention was Federal Reserve in facilitating acquisition of Bear Sterns by JP Morgan
  - UK Government nationalised Northern Rock
  - Subsequent bailouts of Fannie Mae, Freddie Mac and AIG to prevent systemic risk
  - In Ireland and UK, like US, restrictions on short selling of financial stocks were introduced

Bad Debts



Write downs & Losses

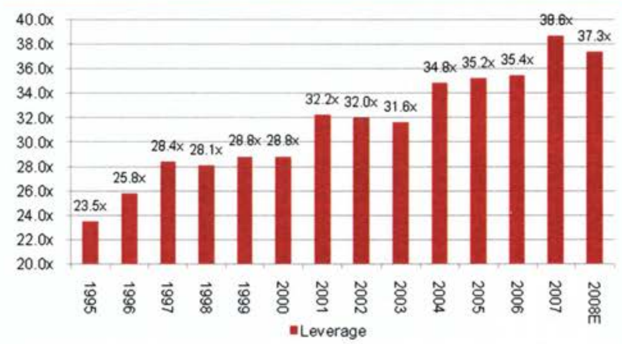
Bank	Write downs & Losses ($'bn)	%
Citigroup	55.1	11.0%
Merrill Lynch	51.8	10.3%
UBS	44.2	8.8%
HSBC	27.4	5.5%
Wachovia	22.5	4.5%
Bank of America	21.2	4.2%
Other	278.9	55.7%
Total	**501.1**	**100.0%**

Global Banking Sector – Trends

- **Consolidation**
  - Current difficulties have prompted consolidation – particularly in the highly fragmented US banking market
  - Government/ regulatory bodies have sponsored transactions such as the Bear Stearns and HBOS acquisitions to ensure stability in the banking system
  - Certain banks have actively sought to secure partners with strong balance sheets in form of large wholesale and retail deposit banks – Merrill Lynch and BofA, Alliance & Leicester and Banco Santander
  - Commenced in the US, ongoing in the UK and Irish market will also see activity

- **Valuation and Earnings**
  - Robust growth in bank earnings over last decade has been driven by leverage
  - European Bank sector in particular has seen step change in profitability
  - However, market now focussed on levels of bank capital which will be addressed through dividend restraint, de-leveraging and external capital
  - De-leveraging will result in reduced profitability and lower ROE's
  - Valuations are reflecting these adjustments with tangible book multiples of 2.0x - 2.5x a thing of the past – European Banking Average P/B'08 – 1.1x

Banking Leveraging



Banks Return on Tangible Equity

THEME: C4

Appropriateness and effectiveness of the domestic policy responses

LINE OF INQUIRY: C4d

CISA* – effectiveness of the actions to merge AIB and EBS, Anglo and INBS and deposit transfers

* Credit Institutions Stabilisation Act (2010)

Maximising Long-Term Value for EBS Members

EBS
BUILDING SOCIETY

Irish Life & Permanent plc

A unique opportunity exists to create a strong "National Champion" for personal financial services

EBS
BUILDING SOCIETY

(Mission Statement)

"to be the most trusted financial brand in Ireland"

Irish Life & Permanent plc

(Mission Statement)

"to be the leading provider of personal financial services in Ireland"

BEST OF BOTH

(New Mission Statement)

"Creating the most customer focussed provider of personal financial services in Ireland"

A combination of EBS and Irish Life & Permanent will create a strong National Champion for Personal Financial Services

	EBS	Irish Life & Permanent plc	Best of Both
Balance Sheet (Bank)	€20bn	€43bn	€63bn
Balance Sheet (Life)	N/A	€32bn	€32bn
Residential Mortgages - % share	12%	20%	32%
Deposits	€10bn	€16bn	€26bn
Customers	0.5m	1.5m	2m
Life - % share	N/A	33%	33%

By combining the strengths of both organisations, we can create a robust new force to maximise the long-term opportunity, whilst withstanding the short-term pressures

Benefits of creating a new, bigger entity

- Strength - creation of a stronger, bigger, more robust business. Brings closure to discussion on strategic options for both sides
- Control - both organisations shape their own destiny
- Opportunity to develop a genuinely dynamic Member / Customer proposition (more on this later)
- Greater job security and progression opportunities for staff
- Funding - given the chaotic state of financial markets Government support will be required for the transaction in order to ensure the enlarged bank has a stable funding position. We believe this support will be available

Managing the Merger Process

- Management and staff of EBS would play an important role in the creation of the new entity
- It is proposed to use a tried and tested process from previous mergers
  - Steering Committee (representatives from EBS and IL&P)
  - "Best of Both" is key principle
  - Formal workstreams to work through the detail of implementation
  - Involve 3rd party consultant to ensure rigour and fairness
- Selection process needs to be transparent
  - "Best of Both"
  - Involve EBS, IL&P management and independent 3rd party to identify and select appropriate candidates
- Appropriate Board and Senior Management representatives for EBS in new enlarged entity
- Brand for new merged entity
  - To be agreed using external support and research as part of the merger process

EBS

Irish Life & Permanent plc

Proposed Next Steps - the following are the suggested next steps to progress this proposal

- EBS signs an Exclusivity Agreement with IL&P to enable discussions to advance
- Advisers for EBS and IL&P engage immediately to finalise the terms of the financial offer to Members
- Short due diligence programme to enable each party to satisfy themselves on critical issues
- EBS and IL&P jointly brief the Financial Regulator and Department of Finance on the proposed transaction in order to secure funding support

EBS

Irish Life & Permanent plc