

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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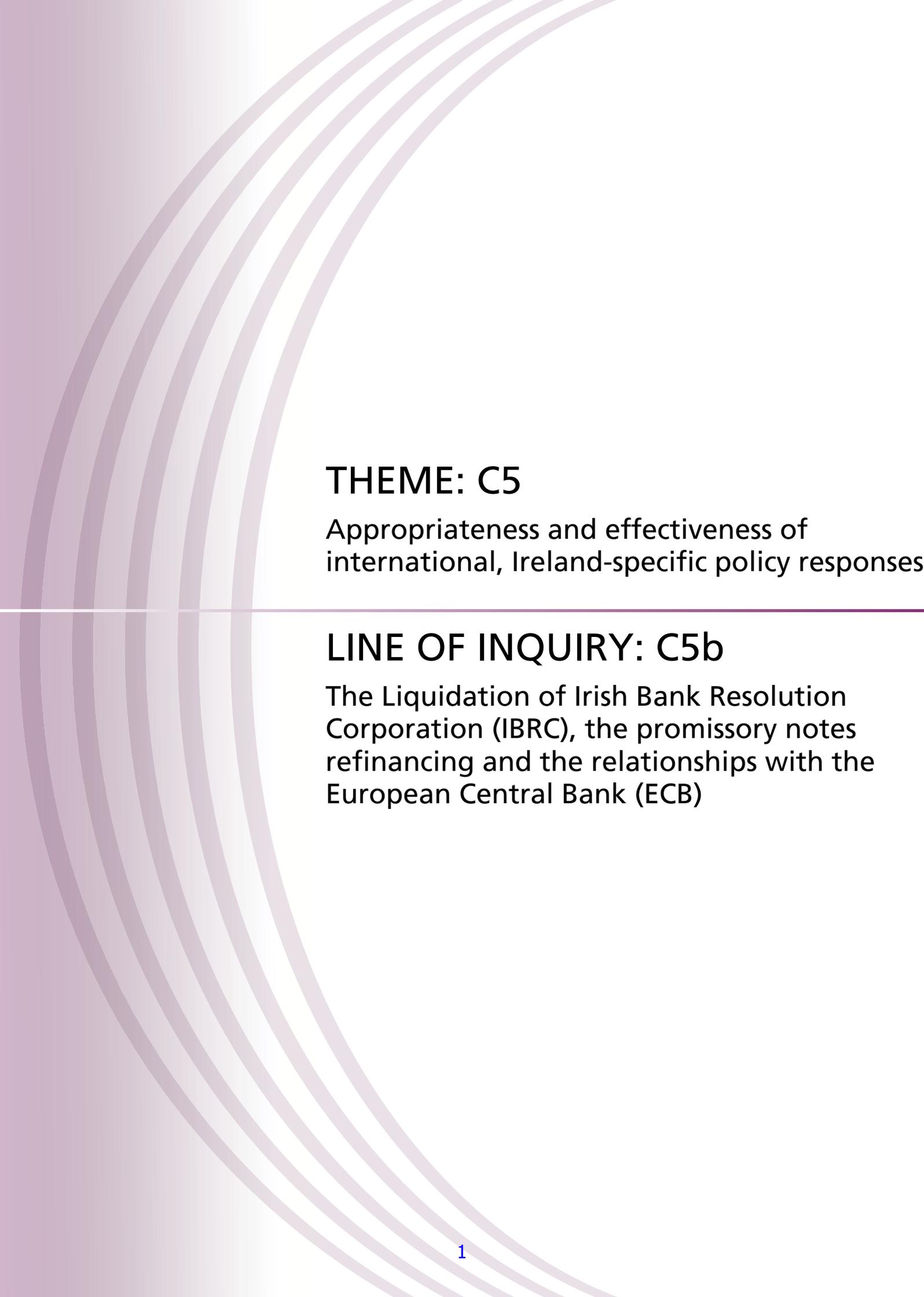
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THEME: C5

Appropriateness and effectiveness of international, Ireland-specific policy responses

LINE OF INQUIRY: C5b

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

SECRET

Oifig an Aire Airgeadais

Ref No: F 525/082 /12

Date: 6th February 2013

Memorandum for Government

IBRC Liquidation and Promissory Notes Settlement

Introduction:

1. The Irish authorities have been in discussion with the ECB for a considerable period of time on proposals to restructure the banking sector and amend the financial terms of the IBRC Promissory Notes. The Central Bank of Ireland (the "CBI") has advanced Emergency Liquidity Assistance ("ELA") to IBRC secured (under a sale and repurchase agreement, the "ELA repo") by the Promissory Notes and bonds issued by the National Management Agency ("NAMA") (together, the "ELA repo collateral") and in the form of a loan advanced under a facility deed (the "ELA Facility Deed") secured by a Ministerial guarantee and a floating charge over all the unencumbered assets of IBRC. In addition, IBRC currently has an outstanding open market operation with the Eurosystem.
2. As part of the ongoing discussions the Department of Finance submitted a proposal through the CBI to the ECB to address structural and liquidity issues impacting on the banking sector.
3. We have now reached agreement with the ECB on the implementation of these proposals.

Decision Sought

4. The Minister for Finance requests the Government to;
 - 4.1. Approve a proposal which provides for:
 - 4.1.1.the immediate liquidation of IBRC;
 - 4.1.2.the immediate exchange of the Promissory Notes for an agreed portfolio of long term non-amortising Government Bonds;
 - 4.1.3. the issue of new NAMA bonds as consideration for the purchase of the ELA debt of IBRC owed to the CBI under ELA Facility Deed and the assignment by the CBI to NAMA of the benefit of the floating charge held by the CBI over IBRC assets and the benefit of the Ministerial Guarantee in respect of the ELA Facility Deed obligations.

- 4.2. A copy of the proposal is attached at Appendix 1 and a summary presentation of the proposal is attached at Appendix 6.
5. In the context of this proposal the Government is specifically asked to:
- 5.1. Approve the publishing of a Bill, the purpose of which is to help to address the continuing serious disruption to the economy and the State by providing for the immediate liquidation of IBRC (copy of Explanatory Memo and Bill attached at **Appendix 2**).
 - 5.2. Progress the proposed Bill through all stages and Houses of the Oireachtas and proceed to early signing this evening. This is necessary due to the sensitivity of the matter, and potential of any delay to give rise to instability in the banking system and the incurring of unnecessary losses at IBRC.
 - 5.3. Approve, pursuant to Article 25.2 of the Constitution, that the President sign the bill as soon as possible and earlier than the fifth day after it has been presented to him.
 - 5.4. Approve the detailed implementation of a proposal, including the signing and issue of legal documentation, following on the enactment of the Irish Bank Resolution Corporation Act 2013. Details of the legal documents and procedures required are set out at **Appendix 3**.
 - 5.5. Approve the exchange of the Promissory Notes with a portfolio of Government instruments which reflect the economic terms agreed in technical discussions with the ECB.
 - 5.6. The issue of new NAMA bonds in respect of the purchase by NAMA of the ELA Facility Deed debt owed to the CBI by IBRC, along with, the benefit of the floating charge over IBRC assets held by the CBI and the benefit of a Ministerial Guarantee in respect of that debt. The value of NAMA bonds issued to the CBI will be equal to the net amount outstanding to the CBI by IBRC under the ELA Facility Deed (after all set off rights have been exercised by the CBI).

6. The Government is also asked to note:

- 6.1. That, on the enactment of the legislation, it will be necessary in implementing the proposal, to issue a number of Orders and legal documents under the Minister's signature or the signature of an authorised official, if appropriate. The NTMA order referred to at paragraph 6.1.7 below will be issued on behalf of the Government (by the use of the Government seal). The authority to issue these documents in respect of the liquidation of IBRC is generally provided for in legislation. The principal documents include:
 - 6.1.1. Directions to the board of directors of IBRC directing it to allow certain designated persons (being the proposed Special Liquidators of IBRC) free and unfettered access to the premises and records of IBRC, together with an instruction to the board of IBRC not to take any further action or exercise any of the powers conferred on them by the

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

- 6.1.2. Special Liquidation Order – This is a Statutory Instrument providing for the appointment of joint Special Liquidators to IBRC (together the “Special Liquidator”);
- 6.1.3. Instructions to the Special Liquidator which outline the manner in which the liquidation of IBRC is to be conducted;
- 6.1.4. Directions to NAMA to acquire the ELA Facility Deed debt owed by IBRC to the CBI (together with the benefit of the floating charge and Ministerial Guarantee). For these purposes, NAMA will incorporate a special purpose company following enactment of the legislation;
- 6.1.5. Directions to NAMA to bid for all of the assets of IBRC as part of the sales process until IBRC’s debt to NAMA is repaid;
- 6.1.6. Directions to NAMA to advance loan facilities to the Special Liquidator to fund working capital, any additional lending to existing customers to preserve the value of the assets of IBRC and to fund hedging and other financial risk management operations;
- 6.1.7. Delegation of Powers to NTMA – This is a Statutory Instrument issued under the Government Seal providing the NTMA with the power to issue bonds as consideration for the exchange of the Promissory Notes (or other liabilities of the Minister to the Central Bank) and to enter into hedging transactions or other transactions of a normal banking nature for the management of risk arising from the liquidation of IBRC, and issue funds from the Exchequer for these purposes;
- 6.1.8. Directions to the NTMA to undertake certain hedging and financial risk management transactions on behalf of IBRC, to enter into documents (and issue Government Bonds) to give effect to the exchange of the Promissory Notes for Government bonds and a subsequent exchange of those Government bonds, and to perform its obligations thereunder; and
- 6.1.9. A Deed of Exchange of the Promissory Notes between the CBI, the Minister for Finance and the NTMA.
- 6.1.10. An Exchange Option Deed between the CBI, the Minister for Finance and the NTMA
- 6.1.11. Directions allowing the return of the 2025 Government bonds issued as consideration for the 2012 Promissory Notes payment to IBRC.
- 6.2. The appointment of the Special Liquidator to IBRC will result in the CBI retaining legal and beneficial ownership of the ELA repo collateral, including the Promissory Notes. It will also

receive NAMA bonds in return for selling to NAMA IBRC's ELA Facility Deed debt and the benefit of the floating charge and ministerial guarantee.

- 6.3. The CBI will exchange the Promissory Notes with the NTMA for an agreed portfolio of long term non-amortising Government Bonds and will also acquire additional NAMA bonds and other high quality securities (including the 2025 Government bonds issued to IBRC as consideration for the 2012 Promissory Notes payment).
- 6.4. A full list of the documents and an explanation as to their purpose is provided for in **Appendix 3**. In addition a questions and answers document providing additional clarity on the proposal is attached at **Appendix 7**.

7. Background

- 7.1. Since the onset of the banking crisis Ireland has taken considerable steps to stabilise and restructure its banking sector including extensive recapitalisation and restructuring of the banks. This has placed a significant burden on the State's finances.
- 7.2. The Irish Authorities have been discussing proposals, in consultation with the CBI, the NTMA and our Troika partners, to restructure the banking sector, to improve the terms of the debt associated with the IBRC Promissory Notes and replace the ELA funding provided to IBRC for almost a year. These discussions were bolstered by the decision in principle at the June Eurogroup Summit which committed to examine the situation of the Irish financial sector with the view to further improving the sustainability of the well-performing adjustment programme.

8. Rationale for the Proposal

- 8.1. The Department of Finance developed a proposal to liquidate IBRC, replace the Promissory Notes with Government bonds which would then be held by the CBI, and transfer the residual IBRC loan assets to NAMA. This proposal was presented to the Economic Management Council ("EMC") on 25 October 2012 and was sent by the Governor of the CBI to the President of the ECB urging him to recommend it to the Governing Council of the ECB for approval. [REDACTED]
- 8.2. [REDACTED]
- 8.3. [REDACTED] it was necessary to ensure that the CBI's holding of Government bonds is retained for a significant length of time to enable the Government to have more affordable funding (and thus obtain the debt sustainability benefits of the

proposal). It was important to ensure that clarity was brought to this issue as a large overhang of bonds and associated uncertainty around timing of sales by the CBI would exclude the NTMA from debt markets for a considerable period of time.

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

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

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

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

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

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

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

- 9.4. Given the extension of NAMA's remit as part of this proposal, the ECB has requested that NAMA's governance rules be adjusted to reflect those of other State owned Asset Management agencies in other Member States and this may include some level of direct oversight from the ECB.
- 9.5. The floating charge assets will be sold by the Special Liquidator, following an independent valuation process, to third parties and/or NRL. The Special Liquidator will endeavour to sell the assets to third parties so as to maximise the value of the assets sold. Current customers, including borrowers of IBRC, will not be prohibited from purchasing assets in this process, including their own loans. There will, however, be a requirement that connected assets are sold together in a minimum portfolio size, which will be determined by the Special Liquidator.
- 9.6. To the extent that the Special Liquidator receives bids from third parties at or above the value attributed to the assets by the independent valuer, then those assets may be sold to that third party. To the extent assets that are subject to the floating charge are not sold to third parties at or above the price established by the independent valuer, NRL will be required to purchase all such assets (subject to minor exceptions) at the price established by the independent valuer, up to the full amount of IBRC's debt outstanding to NAMA under the ELA Facility Deed. The Special Liquidator will set off the purchase price of any assets purchased by NRL against the amounts owed by the Special Liquidator to NRL under the ELA Facility Deed.
- 9.7. **If the value of the collateral is not sufficient to fully discharge IBRC's debt outstanding to NRL, the State will be required to reimburse NRL for the shortfall under the Ministerial Guarantee.** If, on the other hand, the value of the collateral is greater than the debt outstanding to NRL, the Special Liquidator will retain the surplus assets for the benefit of creditors generally.
- 9.8. Once the preferential creditors and NRL have been paid, to the extent that there is any value left in IBRC, the Special Liquidator will repay all unsecured creditors of IBRC in accordance with normal priorities set out in the Companies Acts. It is unlikely that there will be sufficient assets to repay unsecured creditors (including trade creditors) in part or at all. The Minister for Finance will rank as an unsecured creditor to the extent that he has paid out under guarantee schemes (excluding the Deposit Guarantee Scheme) (see below).
- 9.9. Eligible depositors, bondholders and derivative counterparties will be paid directly under the terms of the DGS (funded by the banks), the ELG Scheme (funded by the Minister for Finance), and, if required, the Derivatives Guarantee (funded by the Minister for Finance).

10. Impact of the Proposal

- 10.1. There are a number of immediate impacts as a result of this proposal;
- 10.2. IBRC will be wound up and eliminated from the Irish financial landscape with consequent reputational benefits.
- 10.3. The substantial and persistent ELA funding extended by the CBI to IBRC will disappear, to be replaced with a holding by the CBI of longer term, low cost non-amortising instruments and NAMA bonds of shorter duration.
- 10.4. The Promissory Notes, as currently structured, are an unsatisfactory arrangement, both from the perspective of the ECB and the Irish authorities, and will be eliminated.
- 10.5. Financial stability should be improved and Irish Government finances should benefit consistent with the commitment of the 29th June 2012 Euro Area Summit Statement to examine the situation of the Irish financial sector with the view of further improving the sustainability of the well-performing adjustment programme.
- 10.6. There will be a number of upfront payments by the State as required under the terms of the guarantee schemes (excluding the Deposit Guarantee Scheme) and, if applicable, to make good any shortfall for NAMA. These are fully set out in Section 12.

11. Benefits of the Proposal

- 11.1. The potential benefits of the proposal are considerable.
- 11.2. The value of the removal of IBRC from the financial landscape cannot be overstated. The liquidation of this institution represents a significant turning point on the road to economic recovery and removes, once and for all, the overhang of legacy issues associated with the institution.
- 11.3. Housing much of the 'wind-down assets' in a single wind-down vehicle, NAMA; the associated clean-up of the Irish banking system and taxpayer savings.
- 11.4. Improvement of the health of the Irish banking sector by putting in place a permanent, finite and viable solution for a significant part of the structural shortfall of bank financing that has emerged through the crisis.
- 11.5. The provision of a longer term refinancing solution for the Promissory Notes, which will have significant benefits from a market perspective because it will ensure the liability to repay is beyond most credit investors' time horizon.
- 11.6. The improvement of the financial position of the State by improving upon the funding solution (the Promissory Notes) that was employed to recapitalise IBRC. The transaction ensures that the cost of funding the residual €25bn Promissory Notes is spread out from a

weighted average life of circa 7 - 8 years to a weighted average life of circa 34 - 35 years at a low funding cost for the State. This has a significant benefit over the period to maturity of the replacement instruments.

- 11.7. The current outstanding principal amount attributed to the Promissory Notes is €25bn. Interest payments will amount to €16.2bn by 2031. Under the current arrangement, the State is obliged to make a payment of €3.06bn every March for each of the next eleven years; thereafter it will make further payments which total c.€7.6bn over an eight year period.
- 11.8. In contrast, current market floating rate interest expectations suggest that the interest payment due on the replacement instruments exchanged for the existing Promissory Notes would be c.€0.8bn in the first year and gradually rising to c.€1.1bn within five years. More importantly, the new Government instruments will be non-amortising, which means the State only has to pay interest until maturity. There is a significant annual cash flow benefit to the State from moving from the current amortising arrangements to a long-term bullet repayment arrangement. This should also improve the State's ability to re-access the bond markets.
- 11.9. Significant financial benefits are expected as a result of the proposal, including a substantial reduction in the current annual cash flow burden for the State (c.€2.3bn in Year 1, and c.€20bn over the first 10 years if costs of the transaction are excluded), resulting in a reduced borrowing requirement. Additionally, the proposal is expected to result in a reduction in the deficit of c.€1 billion per annum before costs of the transaction (see below) over the coming years when no dividends had been expected from IBRC. The proposal is also expected to result in a significant improvement in the State's debt position over time.
- 11.10. In addition, by winding up IBRC, we are finally removing the legacy of Anglo Irish Bank and Irish Nationwide from the Irish banking system and substantial operational savings should result through the transfer of the residual debt to NAMA.

12. Costs/Risks of the Proposal

Upfront costs

- 12.1. There are a number of immediate costs that will accrue as a result of this proposal including exposures under the ELG, impacts on IBRC staff and other creditors and also the potential State liability to NAMA on foot of the Ministerial Guarantee associated with the IBRC debt.
 - 12.1.1. When IBRC is placed in liquidation it is expected that there will be claims made under the DGS and the ELG (claims under the ELG will principally be made by senior guaranteed bondholders and depositors, to the extent that their deposits are not covered by the DGS). ELG payments are expected to cost the Exchequer between c.€

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

- 12.1.2. Fixed charge holders may be entitled to appoint receivers to realise any assets of IBRC that are the subject of fixed security. The Revenue will rank as a “preferential” creditor ahead of all other creditors, and behind only the costs of liquidation, the CBI (for so long as the CBI continues to hold security) and some fixed charge holders in respect of all amounts of employees’ PRSI collected but not paid by IBRC prior to winding up; and as a preferential creditor in respect of certain amounts owing by IBRC in respect of CT, CGT, income tax, VAT, employers’ PRSI contributions and PAYE.
- 12.1.3. As NAMA will be acquiring the net debt owing by IBRC to the CBI, it will rank behind fixed chargeholders and preferential creditors with respect to any payments from the proceeds of sale of IBRC’s assets. The purchase of the debt by NAMA ensures that the CBI is fully repaid immediately. If NAMA does not recover the full amount of the debt, the Exchequer will have to make up the shortfall under the Ministerial Guarantee.
- 12.1.4. Unsecured creditors (such as trade creditors, unguaranteed bondholders and subordinated bondholders), must await the outcome of the asset valuation and sales process managed by the Special Liquidator to see what (if any) amounts will be available for distribution to them. To the extent that unsecured creditors are not paid, they may make a claim against the State on the grounds of ‘legitimate expectations’ based on previous Government statements of support for IBRC.
- 12.1.5. All employees will be made redundant on the winding-up of IBRC (circa 964 as at end December 2012). However, the Special Liquidator will seek to re-hire sufficient employees for the purposes of the orderly liquidation on such terms and for such duration as it may determine. Employees will rank as preferential creditors ahead of unsecured creditors (but behind the CBI and fixed charge holders) in respect of certain amounts owing on a winding-up, including accrued wages, salaries, holiday pay, sick pay, statutory redundancy, pensions contributions and claims for damages arising from accidents. Employees will claim under the Insolvency Fund in the first instance and, to the extent that the Minister for Enterprise, Trade and Innovation pays out under the Insolvency Fund, he will step into the shoes of those employees who have claimed as a preferential creditor in the liquidation.

Other costs

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

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

Legal risks

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

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

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

Negative public reaction

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

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

Other Risks

12.9. There could be potential payments required under the Derivatives Guarantee. There is a Derivatives Guarantee in place which states that the Minister will only be liable for net

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

13. Irish Bank Resolution Corporation Bill 2013

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

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

14. The Purposes of the Bill

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

- 14.1.1. help to address the continuing serious disturbance to the economy of the State;
- 14.1.2. end the exposure of the State and the CBI to IBRC;
- 14.1.3. help to restore the financial position of the State;
- 14.1.4. help to enable the State to re-establish normalised access to the international debt markets;
- 14.1.5. assist, to the extent achievable, in recovering the financial assistance provided by the State to IBRC as fully and efficiently as possible;
- 14.1.6. resolve the debt of IBRC to the CBI;
- 14.1.7. protect the interests of taxpayers;
- 14.1.8. restore confidence in the banking sector by furthering the reorganisation of the Irish banking system in the public interest; and

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

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

15. Next Steps

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

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

16. Views of National Authorities

16.1. Central bank –

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

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

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

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

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

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

16.2. NTMA

16.2.1. The NTMA has provided the following comment



To: John Cronin

From: Kieran Wallace

Date: 15 October 2012

Calculation of the Red Liquidation outcomes

Introduction

- We have being asked by the Department of Finance to prepare a **Base Case** (“**BC**”) Estimated Outcome in respect of Project Dawn and provide commentary and assumptions in relation thereto.
- We have also been asked to prepare both a **Positive Case** (“**PC**”) and **Conservative Case** (“**CC**”) Estimated outcomes which are framed around the “**BC**” model.
- The information available to us was limited and our work has been based on;
 - Discussions with the Department of Finance including discussions on the transaction structure
 - Department of Finance calculations and assumptions
 - 30 June 2012 interim accounts for Red which we have assumed are not materially different to the current position.
 - The Interim accounts present the Consolidated position of RED. We have assumed that all material assets and liabilities are within RED and that any assets and liabilities in RED subsidiaries are not material.
 - Publicly available information.
 - March 2012 report carried out on the loan book of RED.
- Each Estimated outcome assumes deposit amounts are set off against customer loans and also assumes derivative counterparties exercise set off
- The Estimated outcomes exclude any tax charge which may arise on asset disposals, Liquidation
- costs and any other associated realisation costs.
- Any impact of the Barclays charge registered in RED has not been taken into account
- The assumptions used in the preparation of the various outcomes are attached

Calculation of State Deficit

1 Asset adjustments

- The book value of the loans was originally €7.103bn and have now being written down to €15.565bn. The following further reductions in the book value of the loans has been assumed in the calculations;
 - *BC – a further reduction of 25%*
 - *PC – a further reduction of 20%*
 - *CC – a full provision of €1.185bn against loans to JV interests*
 - *a further reduction of 50% against the balance of the €15.565bn*

- Given recent loan portfolio sales in the Irish marketplace and a recent report we have seen on the quality of loans within Red and our discussion with the Department of Finance in our view the above assumptions which we have used in each of the scenarios are reasonable in the circumstances and appropriately reflect a suitable value range.

- In relation to the “CC” outcome we have further reduced realisations on Investment Property (€66m) and US loans (€35m), assumed excess collateral on Derivatives is not returned and written down the value of NAMA subordinated bonds to nil.

- In relation to the “PC” outcome we have also included an additional potential upside
 - Recognising €719m surplus between the nominal and carrying value of the NAMA subordinated bonds.

2 Preferential Creditors

- These claims comprise mainly of employee, pension and revenue claims. We have estimated the employee preferential claims at €20m..

- It is likely that there may be a shortfall in the winding up of the pension schemes. The status of any shortfall should rank as a preferential creditor. We have estimated the pension shortfall at €10m.

- We have assumed that the Revenue Commissioners will set off the Revenue asset (€1m) against the Revenue liability of €46m.

- The current legislation provides that CBI floating charge ranks ahead of the preferential creditors

- Any increase the level of preferential creditors will have an impact of the deficit for the State.
- The preferential figure does not change in any of the models referred to above.

3 Costs of Liquidation

- No amounts are included for liquidation costs in the estimated outcome. These costs should not materially impact on the expected outcome under any of the Estimated Outcomes outlined above.
- All Liquidation costs incurred in this process will increase the CBI and State deficit.
- The costs should not be materially different under any of the various scenarios.

4 Unsecured/Contingent Claims

- It is likely that the unsecured claims will be increased due to the following creditor claims not currently included:
 - Legal Actions
 - Termination of contracts (employee and non employee)
 - Termination of property leases
 - Financial Instruments
 - Off Balance Sheet Items
- The increase in the unsecured creditor amounts should not impact on the overall deficit to the State. The amount of unsecured creditors could differ in each scenario but this is academic given that none of the estimated outcomes suggests any dividend to unsecured creditors.

State Deficit

- We have assumed that CBI steps into BOI's position and this affords them priority for the €2.845bn
- It is our understanding that the State is guaranteeing any deficit in the value of the loans taken over by NAMA.
- We are advised that any such liability arising under this guarantee will rank as a creditor ahead of other unsecured creditors. No provision has as yet been included for such a liability in the overall State liability as set out in each of the estimated outcomes.
- The analysis assumes that NAMA/any third party will pay the assumed percentage for the loans. Any amounts paid above this level will reduce the deficit to the State.

- In the same way, any amount paid below the assumed percentage threshold will increase the deficit to the State.
- The calculations (“BC”, “PC” and “CC”) shows the following Estimated Outcomes;
 - *BC – CBI : Deficit of €1.701Bn State : Overall Deficit of €3.052Bn*
 - *PC – CBI : Deficit of €0.192Bn State : Overall Deficit of €1.543Bn*
 - *CC – CBI : Deficit of €7.429Bn State : Overall Deficit of €8.780Bn*

Conclusions

- The various outcomes show in a range in value for the CBI Deficit of €192m to €7.4Bn and for the State Deficit between €1.6Bn and €8.8Bn.
- Each scenario assumes no dividend for unsecured creditors
- Each model also assumes no additional funding by the State during the one hundred day loan book sale period.
- We have had limited information to review but based on the review carried out and discussions with the Department of Finance, we are of the opinion that assumptions used in the calculations are reasonable.



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Department of Finance

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National Treasury Management Agency
Treasury Building
Grand Canal Street
Dublin 2

___ February 2013

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

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

IRISH BANK RESOLUTION CORPORATION ACT

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

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

1. engage with the Special Liquidators (acting on behalf of Irish Bank Resolution Corporation Limited (in liquidation) (“**IBRC**”)) in relation to, and use reasonable endeavours to enter into, (including by way of novation of existing IBRC derivative transactions), such derivative transactions of a normal banking nature as the Special Liquidators consider necessary for the purpose of managing the interest rate and foreign exchange exposure of IBRC;
2. terminate or amend its existing derivative transactions with IBRC and, if requested by the Special Liquidators, enter into new derivative transactions on substantially similar terms with the Special Liquidators (acting on behalf of IBRC) and if the Special Liquidators request, transfer collateral under such terminated transactions to form collateral under such new derivative agreements;
3. enter into a Facility Agreement with IBRC, the Special Liquidators and the National Asset Management Agency, in the form attached in Schedule 1;
4. provide the Special Liquidators and the National Asset Management Agency or their agents or advisers with such information and assistance that they may reasonably require for the purposes of or in connection the foregoing directions; and
5. do all things, take all steps and enter into such other agreements and execute such documents as the NTMA considers expedient or necessary to facilitate the transactions contemplated by paragraph 1 to 4 above;

DE109/058/AC#7271928.1



SAVE HOWEVER THAT the NTMA shall have no obligation to:

- (a) participate in a novation of derivative transactions with IBRC or the Special Liquidators (acting on behalf of IBRC); or
- (b) enter into any derivative transactions the Special Liquidators consider necessary for the purpose of managing the interest rate and foreign exchange exposure of IBRC;

otherwise than on terms acceptable to the NTMA.

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

ISSUE AND EXCHANGE OF GOVERNMENT BONDS

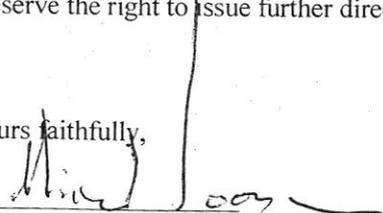
I give these directions in relation to the promissory note dated 22 December 2010 issued by me to IBRC in the aggregate principal amount of €25.3 billion, and the promissory note dated 22 December 2010 issued by me to Irish Nationwide Building Society in the aggregate principal amount of €5.3 billion,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

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

1. enter into an Exchange Deed among the Central Bank of Ireland (the "**CBI**"), the Minister for Finance and the NTMA in the form attached in Schedule 2, pursuant to which the NTMA will issue floating rate treasury bonds to the CBI in exchange for the transfer of the Promissory Notes to the NTMA, and issue the floating rate treasury bonds required to be issued by the terms of such Exchange Deed (the "**Floating Rate Bonds**");
2. enter into an Exchange Option Deed among the CBI, the Minister for Finance and the NTMA in the form attached in Schedule 3, pursuant to which the NTMA will grant the CBI an option to exchange (on an annual basis commencing in 2027) certain of the Floating Rate Bonds for fixed rate treasury bonds issued by Ireland acting through the NTMA ("**Fixed Rate Bonds**"), and issue any Fixed Rate Bonds required to be issued by the terms of such Exchange Option Deed;
3. do all things, take all steps and enter into such other agreements and execute such documents as the NTMA considers expedient or necessary to facilitate the transactions contemplated by paragraph 1 and 2 above.

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

Yours faithfully,


Michael Noonan TD
Minister for Finance

Direction to NTMA

Minister.

1. Approval sought

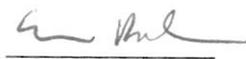
Your approval is sought for issuing the Direction to NTMA as set out in the envelope overleaf. If you so agree please sign the document.

2. Background

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

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

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



Ann Nolan

7 February 2013.

- Spreading the cost of the Promissory Notes from a weighted average life of c.8-9 years to circa 34-35 years at a low funding cost for the State, resulting in significant annual interest savings;
 - Very substantial annual cash flow benefit to the State from non-amortising Promissory Notes (c.€2.3bn in the first year and c.€20bn over the next 10 years if costs of the transaction are excluded); and
 - A reduction in the underlying deficit of c.€1bn per annum in the coming years (before transaction costs), reducing the forecast deficit by c.0.6% of GDP annually; and
 - A significant improvement in the debt sustainability over time.
-
- It should be noted that certain costs are expected to be borne in connection with the proposal. These include ELG costs of c.€0.9-1.2 billion, potential costs in the event of a shortfall for NAMA, costs of the liquidation, and any potential costs associated with legal challenges.

Special resolution and Direction relating to IBRC

Minister.

1. Approval sought

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

If you so agree please sign each document.

2. Background

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

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

3. Special Resolution

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

This document is at Tab A.

4. Instruction pursuant to Special Resolution

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

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

period it will be preferable to have the powers of the board vested in a single person rather than residing in the board as a whole.

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

This document is at Tab B.

5. Direction Order.

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

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

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

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

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

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

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

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

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



Ann Nolan

6 February 2013.



An Roinn Airgeadais
Department of Finance

Oifig an Aire
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The Directors

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

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

Direction: IBRC/1/13

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

Pursuant to Section 3(3) of the Act, I hereby direct:

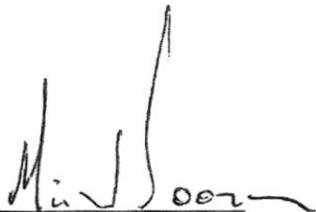
- 6/3/2013
1. that with effect from 4.25pm on 6 February, 2013, the Bank shall grant Kieran Wallace and Eamonn Richardson each of KPMG (the "Designated Persons") with free and unfettered access to the Bank's premises, access and records and shall provide such assistance and support as the Designated Persons shall request (and in obtaining such access, assistance and support, the Designated Persons shall be considered to be acting as an advisor to me for the purposes of Section 21 of the Act);
 2. that the Bank shall continue to maintain the confidentiality of any non-public information within the Bank's control; and
 3. that the Bank shall refrain from contacting and otherwise speaking with any third party (including the media) on any matter or thing concerning or relating to these directions.

These directions are issued subject to regulatory requirements.



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

Yours faithfully,

A handwritten signature in black ink, appearing to read 'Michael Noonan', with a horizontal line underneath it.

Michael Noonan TD
Minister for Finance

Copy: Company secretary, Irish Bank Resolution Corporation Limited



An Roinn Airgeadais
Department of Finance

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<http://www.finance.gov.ie>

The Directors

Irish Bank Resolution Corporation Limited
Stephen Court
18/21 St. Stephen's Green
Dublin 2

6 February 2013

Instruction

Pursuant to Article 41A(a) of the Articles, in my capacity as the sole member of the Company, with effect from ~~9.25~~ 4.25 p.m. on 6 February 2013 I hereby instruct the directors of the Company not to exercise all or any of the powers conferred upon them by the Companies Acts, the articles of association or otherwise (including such powers as they may have delegated to employees or officers of the Company), pending further instruction from me in my capacity as the sole member of the Company.

Vesting

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

Yours faithfully,

Michael Noonan TD
Minister for Finance

Copy: Company secretary, Irish Bank Resolution Corporation Limited





An Roinn Airgeadais
Department of Finance

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<http://www.finance.gov.ie>

IRISH BANK RESOLUTION CORPORATION LIMITED ("the Company")
(Company Number 22045)

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

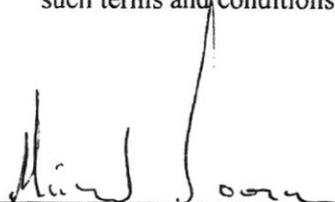
SPECIAL RESOLUTION

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

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

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

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


THE MINISTER FOR FINANCE
as sole member of the Company

Dated 6th February 2013





**An Roinn Airgeadais
Department of Finance**

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Mr Patrick Honohan
Governor
Central Bank of Ireland
Dame Street
Dublin 2

7th February 2013

Re: Irish Bank Resolution Corporation Limited (the “Company”)

Dear Patrick

I refer to the European Communities (Reorganisation and Winding up of Credit Institutions) Regulations 2004 (SI No. 48 of 2011) (the “**CIWUD Regulations**”) and to the European Communities (Settlement Finality) Regulations 2010 (SI No. 624 of 2010) as amended (the “**SFR Regulations**”).

I hereby give you notice, for the purpose of Regulation 15(1) of the CIWUD Regulations and Regulation 8(3) of the SFR Regulations, that the Irish Bank Resolution Corporation Act 2013 (the “**Act**”) was enacted on 7th February 2013 to provide a framework for the winding up of the Company.

The Minister for Finance has, pursuant to Section 4(1) of the Act, made a special liquidation order at 7:20 a.m. on 7th February 2013 (the “**Order**”) and appointed Kieran Wallace and Eamonn Richardson of KPMG as joint special liquidators of the Company. The Order was immediately effective, and the winding-up of the Company (the “**Winding-Up Process**”) commenced immediately upon the making of the Order.

I enclose a copy of the speech made by the Minister for Finance during the second stage of the Act’s passage through the Dáil and a copy of the Q&A that is being issued by the Department of Finance in relation to the Winding-Up Process.

Yours sincerely

**Michael Noonan TD
Minister for Finance**

DE109/058/AC#6387898.7



Irish Bank Resolution Corporation Bill 2013
Second Stage Speech by Minister for Finance, Michael Noonan T.D.
6 February 2013

A Cheann Comhairle,

I move this Bill to be read a second time. I would like to thank you all for your attendance at such short notice.

As I have consistently informed this House, the Government has been in ongoing discussions with the European Central Bank to reach an agreed position on resolving the Promissory Note satisfactorily for all sides; the Irish State, the European Central Bank and the Eurozone. As many Deputies will have noted from this evening's media commentary, the ECB is considering a proposal from the Government as part of these ongoing discussions. In the discussions with the ECB it was envisaged that the first step would be the liquidation of IBRC and the sale of its remaining assets to NAMA or other market purchasers.

As soon as the information relating to the proposal to liquidate IBRC was made public, there was an immediate risk to the bank. Given this position, I as Minister for Finance, took immediate action to secure the stability of the Bank and the value of its assets, valued at €12 billion, on behalf of the State. To this end, I vested the powers of the Board temporarily in an employee of KPMG and a KPMG team is now in control of the Bank on my behalf.

The Government has met in the last hour and approved this proposed legislation for presentation to the Oireachtas.

What will happen to IBRC?

Once the legislation is passed joint Special Liquidators will be appointed to IBRC with immediate effect to wind up its business and operations.

It is intended that the net debt owed by IBRC to the Central Bank and its associated floating charge security will be purchased by NAMA, using NAMA bonds, in a way that ensures that there is no capital loss for the Central Bank. The Ministerial Guarantee underpinning the net debt owed to the Central Bank will also be transferred to NAMA. Eligible depositors, bondholders and counterparties will be repaid under the Deposit Guarantee Scheme and Eligible Liabilities Guarantee Scheme. There is also a Derivatives Guarantee in place. As is common in liquidations, all employment contracts in IBRC are immediately terminated, but the Special Liquidators have indicated that the majority of staff are likely to be re-hired to assist in the liquidation on such terms and for such duration as the Special Liquidators may designate.

As indicated, the IBRC debt to the Central Bank, which is intended to be purchased by NAMA, is secured by a floating charge over the assets of IBRC and a Ministerial Guarantee. Following an independent valuation process, the Special Liquidators will sell the assets of IBRC (which are subject to the floating charge) to third parties at or above their independent valuation and failing that, the Special Liquidators will sell the assets to NAMA at their valuation price. The proceeds of these sales will be used to repay creditors in accordance with normal Companies Acts priorities, so that preferred creditors, including employees would be paid first, and then the IBRC debt to NAMA would be paid under the floating charge. To the extent that there are proceeds available after repayment in full of the NAMA debt, these proceeds will be applied to remaining unsecured creditors who have not been paid under the guarantee schemes (which, for clarity, do not include the Deposit Guarantee Scheme). These remaining unsecured creditors will include the Minister to the extent that he has paid out under guarantee schemes. Similarly, if the proceeds are not sufficient to pay IBRC's debt to NAMA, the shortfall to NAMA will be met by the existing Ministerial guarantee.

The remaining subsidiaries will be wound up or sold by the Special Liquidators to optimise value, and once all of its obligations are resolved, IBRC will cease to exist.

Main Provisions of the Bill

I will now go through the sections of the proposed Bill.

Section 3 sets out the purposes of the Act.

Section 4 provides that the Minister will make a Special Liquidation Order in respect of IBRC.

Section 5 provides, among other things, for the publication of the Special Liquidation Order.

Section 6 provides, amongst other matters: (i) for an immediate stay on all proceedings against IBRC, (ii) that no further actions or proceedings can be issued against IBRC without the consent of the High Court, (iii) that no action or proceedings for the winding up of Red, or the appointment of a liquidator or an examiner can be taken, issued, continued or commenced, (iv) for the removal of any liquidator or examiner appointed prior to the Order, and (v) that the order constitutes notice of termination of employment for each employee with immediate effect.

Section 7 provides for the appointment of the Special Liquidators.

Section 8 limits the power to grant injunctive relief in certain proceedings.

Section 9 provides that the Minister will issue instructions and may issue directions to the Special Liquidators and requires the Special Liquidators to comply with such instructions and directions.

Sections 10&11 deal with the application of certain sections of the Companies Acts and Central Bank and Credit Institutions (Resolution) Act 2011 in the context of the winding up.

Section 12 provides for the sale or transfer of assets and liabilities in IBRC.

Section 13 provides that the Minister may give directions in writing to NAMA in relation to: (i) the acquisition by NAMA of the debt of IBRC to the Central Bank; and (ii) in relation to the purchase of assets of IBRC from the Special Liquidators.

Section 14 provides that the Minister shall direct the Special Liquidators in respect of the independent valuation of the assets of IBRC prior to sale;

Section 17 provides that the Minister may issue securities.

Customer Impact

The decision to liquidate IBRC is unique to IBRC and does not affect other banks. In the case of IBRC, the vast majority of IBRC's deposit accounts moved to AIB and Permanent TSB last year and they are unaffected by today's announcement. Deposit accounts that were retained in IBRC are generally associated with a wider ongoing relationship with the bank. It is important to state that all eligible deposits up to €100,000 for an individual and €200,000 for two individuals holding a joint account in IBRC are protected by the Deposit Guarantee Scheme in operation in the State and eligible deposits beyond this limit are guaranteed under the Eligible Liabilities Guarantee Scheme.

It is critically important that deposit account holders, mortgage account holders, and those indebted to IBRC understand that their situation following the liquidation should generally remain unchanged. If deposit account holders have any concerns they should make contact with the operators of the relevant schemes. Contact numbers are available on the Department of Finance website.

Staff Impacts

I wish to emphasise that the reason these steps are being taken is entirely distinct from the performance or direction of the Board or management of IBRC. It is simply compelling in the larger public interest to now take this action and the Government has made its decision on that basis alone.

I want to acknowledge, with much appreciation, the significant efforts the directors and staff of IBRC have made to the stabilisation of, and maintenance of value in, IBRC. I regret the abruptness of how this decision is communicated to the management and staff, but due to the scale, sensitivity and complexity of the economic issues involved, it was necessary in the public interest to keep the matter confidential until now.

Unfortunately, as is common in liquidations, all employee contracts will be terminated on the winding-up of IBRC. However, it has been indicated to me that the majority of staff will, if they wish, be re-hired for the purposes of the orderly liquidation on such terms and for such duration as may be determined by the Special Liquidators. Employees will rank, in the normal way, as preferential creditors ahead of NAMA and unsecured creditors in respect of certain amounts owing on a winding-up, including accrued wages, salaries, holiday pay, sick pay, statutory redundancy, pensions contributions and claims for damages arising from accidents.

I understand that this announcement will come as quite a shock to employees of IBRC and to some of those who do business with the bank and the Special Liquidators will be instructed to handle that as well as possible in the circumstances.

Conclusion

I would have preferred to be introducing this Bill in tandem with a finalised agreement with the European Central Bank. However, I understand that the European Central Bank will continue to consider the proposals made by the Irish Government tomorrow.

I commend this bill to the House

Q&A - IBRC liquidation 6 Feb 2013

Note: This Q& A document is provided solely for information purposes. It does not constitute (and shall not be construed as constituting) legal advice. It is also not a substitute for legal or other professional advice. No action should be taken or reliance placed solely on the information contained in this document.

1) What is happening?.....	2
2) What will the liquidation of IBRC mean?	2
3) What is the role of the Special Liquidators?	2
4) What will happen to the deposits in IBRC?	3
5) What is the claims procedure for deposits?	4
6) How does this affect mortgage account holders / borrowers?	4
7) What will this mean for employees of IBRC?	5
8) What happens to unsecured creditors?	6
9) Court cases	6
10) What will happen to ongoing regulatory investigations?	7
11) What does this mean for IBRC?	7
12) What will this mean for other banks?	8
13) Why is emergency legislation being used?	8
14) Does this mean a debt write off for individuals?	8



Minister's Meeting with Special Liquidators re liquidation process

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

Venue: Minister's Conference Room, Department of Finance

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

Asset Sale Process

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

Oireachtas-p

Estimated Liquidation Outcome

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

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

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

Employees

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

Oireachtas-p

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

Deposits

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

[REDACTED]

- | [REDACTED]
 - | [REDACTED]
 - | [REDACTED]
 - | [REDACTED]
 - | [REDACTED]
 - | [REDACTED]
 - | [REDACTED]
 - | [REDACTED]
 - | [REDACTED]
 - | [REDACTED]
 - | [REDACTED]

Other

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



Executive Summary

- We seek to build upon the recent technical discussions held with the Troika as a result of the Euro Area Summit commitments of 29th June 2012:
 - to break the vicious circle between banks and sovereigns, and
 - to examine the situation of the Irish financial sector to further improve the sustainability of the Irish Programme
- During the most recent Troika mission, technical discussions evolved from early “Tap & Swap” structures to the consideration of a three pillar approach to a broad banking system restructuring comprising:
 - **PILLAR 1** - An equity component involving acquisition by the EFSF / ESM of the State’s interests in the Irish banks allowing a significant reduction in State debt
 - **PILLAR 2** - A debt component whereby the IBRC Promissory Note is restructured / replaced with a long-dated debt instrument eligible for stable financing
 - **PILLAR 3** - A longer-term funding solution to further normalise the Irish financial system
- On 9th July 2012, the Eurogroup agreed to consider at its September 2012 meeting, technical solutions to improve the sustainability of the well-performing Irish adjustment programme
- In preparation, the Troika have submitted a draft paper for our consideration which builds upon our recent technical discussions and which the Irish principals have had an opportunity to consider
- This paper incorporates the preliminary technical discussions between the DoF, NTMA and CBI in response to the Troika’s draft EWG note and aims to facilitate a discussion of the potential alternatives among the Principals in formulating our response to the Troika’s draft EWG note and preparation for the EWG meeting



Executive Summary

		Recommendation
Pillar 1 Equity	Acquisition by ESM of State’s interests in the Irish financial institutions with the proceeds used to repay outstanding debt <ul style="list-style-type: none"> Assumes ESM’s ability to acquire interests in “going concern” banks directly Would require proceeds approximating the State’s investment in the going concern banks to allow a meaningful debt reduction (c.€29bn) <i>Acceptance among Troika with expectation of future negotiations regarding valuation</i> 	Pursue sale of State’s interests in the banks to the ESM at historical investment cost (c.€29bn)
	Two options are currently under consideration to restructure the IBRC Promissory Note <ul style="list-style-type: none"> Preferred <ul style="list-style-type: none"> Promissory Note is restructured to a longer term, bullet note to avail of new CBI financing Solution is dependent upon receipt of “no objection” from Council of Governors regarding money creation concerns Secondary (Troika proposal) <ul style="list-style-type: none"> EFSF / ESM provides long term bullet note to the State which is used to replace the existing Promissory Note Likely to be construed as an extension of the Programme with new conditionality <i>General commitment to a Promissory Note restructuring without any commitment to refinancing</i> 	Restructure Promissory Note to a longer term, bullet note. Exclude asset swap from EWG paper in order to remove focus from proposals that could see Irish State continuing to maintain exposure to “hard to value, hard to sell” assets.
Pillar 2 Debt		
Pillar 3 Long Term Funding	Long-term funding solution for IBRC Promissory Note and banks’ legacy assets <ul style="list-style-type: none"> CBI converts fortnightly IBRC financing to a longer term, low cost CBI facility Long term funding solution for bank legacy assets <i>Most difficult of the pillars to accomplish given ECB financing constraints</i> 	CBI to seek “no objection” from ECB on new long term funding facility

Figures and impacts in this document are highly preliminary and have not been validated



Options - key components

	Option 1 (Irish Preferred Solution)	Option 2 (Troika Technical Solution II)	Option 3 (Troika Technical Solution I)	Option 4
Pillar 1 – Equity component (Equity investment by EFSF / ESM in going-concern Irish banks)				
EFSF / ESM buys the State's bank interests	Yes	Yes	Yes	Yes
State use of proceeds	To be determined (however discussions with EC indicate likely requirement to repay European loans)	Repay European (EFSF/EFSM) loans	Repay European (EFSF/EFSM) loans	To be determined (however discussions with EC indicate likely requirement to repay European loans)
Pillar 2 – Debt component (Promissory Note restructure)				
Promissory Note instrument replacement	Promissory Note repayment profile is restructured to match terms of CBI loan	EFSF / ESM bond <u>or</u> Govt. bond*	EFSF / ESM bond	EFSF / ESM bond <u>or</u> Govt. bond
Pillar 3 – Long term funding solution (Long term ELA funding and funding for "hard to sell, hard to value" assets)				
Replace ELA funding	CBI grants a low cost long-term loan / funding	Not addressed by Troika paper	Not addressed by Troika paper	Low cost long-term loan / funding
New funding for "hard to sell, hard to value" assets	Arranged by EFSF / ESM	Arranged by EFSF / ESM	Exchanged for EFSF / ESM bonds	Low cost long-term loan / funding, in addition to funding ProNote replacement
Transfer of "hard to sell, hard to value" assets				
Owner of "hard to sell, hard to value" assets	EFSF / ESM undertakes the cleansing of legacy assets from AIB & PTSB. No State involvement	Legacy assets are transferred to ARV (owned by EFSF / ESM)	EFSF / ESM bonds in IBRC are swapped for the legacy assets in AIB & PTSB	Legacy assets transferred to SPV sub owned by the Irish State

* Troika solution does not assume use of Govt. bonds but feedback is that this ought to be feasible – this would be preferable as it avoids an EFSF / ESM new or extended Programme



Comparison of options and recommendation

	Option 1 (Irish Preferred Solution)	Option 2 (TTS II)		Option 3 (TTS I)	Option 4	
	40 yr CBI loan	40 yr EFSF/ESM	40 yr Gov	40 yr EFSF/ESM	40 yr EFSF/ESM	40 yr Gov
KEY OBJECTIVES						
Debt sustainability						
Break link State/Bank						
Functioning bank system						
KEY REQUIREMENTS						
Sale of banks						
PN restructure						
Long term funding						
QUANTIFIABLE IMPACTS						
NPV impact (see Appx 4)						
Debt reduction						
Deficit reduction						
RANKING						
KEY RELATIVE PROS / CONS	<ul style="list-style-type: none"> “Hard to value / sell” assets sold to EFSF / ESM Swap financed via EFSF / ESM resources Complete funding solution for IBRC 	<ul style="list-style-type: none"> “Hard to value / sell” assets sold to EFSF / ESM Swap financed via EFSF / ESM resources 2nd Programme ? Funding solution not addressed 		<ul style="list-style-type: none"> “Hard to value / sell” assets owned by State Bonds exchanged for transferring assets 2nd Programme? Funding solution not addressed 	<ul style="list-style-type: none"> “Hard to value / sell” assets owned by State Cash exchanged for transferring assets (new funding) 2nd Programme? 	

Figures and impacts in this document are highly preliminary and have not been validated



Important Risks and Considerations

EFSF / ESM Capacity

- Under existing rules proposals included here would require a new programme or extended programme with approval from various parliaments with (additional?) conditionality
- The EFSF Framework Agreement and the ESM Treaty refer to funding at the Member State level and do not include provision for direct assistance to or purchase of banking entities and it is not clear if the use an SPV structure can be used to provide financial support to banking entities.
- Troika must explain how any proposed solution can be accommodated using the EFSF / ESM (and the process if amendments / agreements are required)

Revised IBRC Operating forecasts

- IBRC provided the Department with refreshed financial forecasts on 7th August (yesterday). These show an increase in impairments and operating costs over the July 2012 to December 2020 period of c.€900m and c.€300m respectively. The net impact of these changes is a €1.3bn capital hit for IBRC (over time). These revisions have not been factored into our NPV calculations. These revised forecasts do not change our conclusions.

Statistical Issues

- The Statistical implications of the proposals need to be validated by the Statistical Section of the Department.
- Any solution should include requirement that IBRC and any SPVs used in the proposed structures stay outside Government.

Asset Transfer

- The transfer of assets from AIB and PTSB into another vehicle presents timing, valuation and operational challenges
- Delay or uncertainty in providing clarity to the market on the value of the transferring assets would negatively impact Ireland's ability to re-access external debt markets
- Management and servicing of assets post-transfer presents significant challenges



Important Risks and Considerations

Extension of CISA

- CISA legislation is due to expire on 31 December 2012. The implementation of any proposed solution prior to this date would not be feasible and, as such, consideration needs to be given to the extension of CISA in order to enable the Minister to direct an asset transfer

Further Technical Work

- Significant additional technical work required in advance of implementing a solution, including 'firming up' on assumptions applied and Government Accounting / CSO / NTMA final sign-off on expected financial impacts for the State (NPV, debt, deficit, etc.)

Legal issues

- Solutions need to be comprehensively reviewed to identify legal issues arising as early as possible to ensure that there are no blockages to the implementation of a solution

Common Control

- In order to undertake a transfer of assets from AIB & PTSB at book value to the controlling entity the use of the common control exemption under IFRS 3 would be required. Initial feedback, on an informal basis, suggests that this exemption should be available to both the State and the EFSF/ESM, depending upon which body undertakes the transaction. However, the engagement of an accountancy firm is required to formalise this opinion

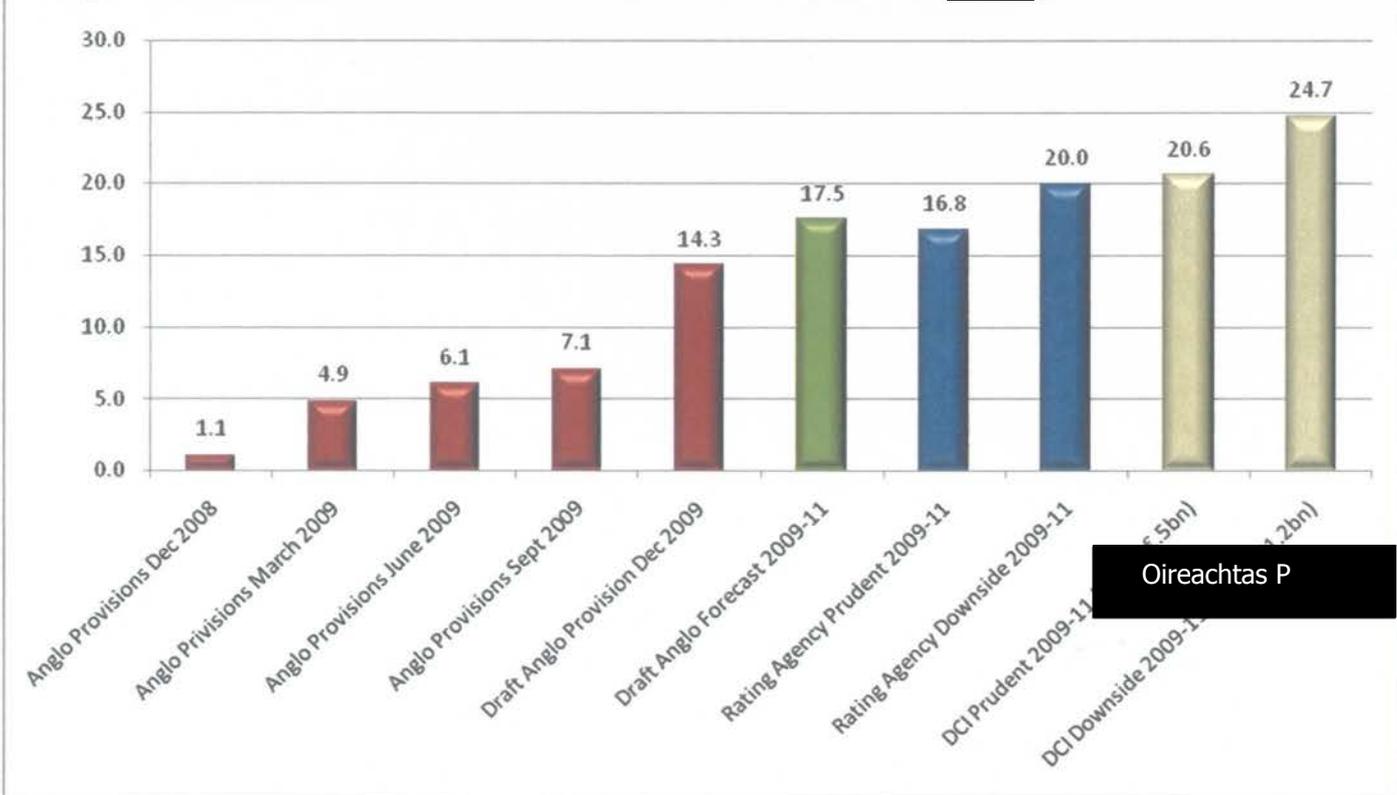
Non-covered Institutions

- Non-covered banks have expressed an interest in transferring assets to IBRC or another vehicle
- Approach to communication with the non-covered banks needs to be agreed (may require external legal advice)

Project management - external advisors

- Significant additional resources required by the Irish Authorities to manage the project
- External expertise will be required to undertake an independent valuation if assets are to be transferred from AIB and PTSB.
- Advisors with expertise in Project Management, and in the operational and mechanical aspects of transferring assets will be required to manage the process.

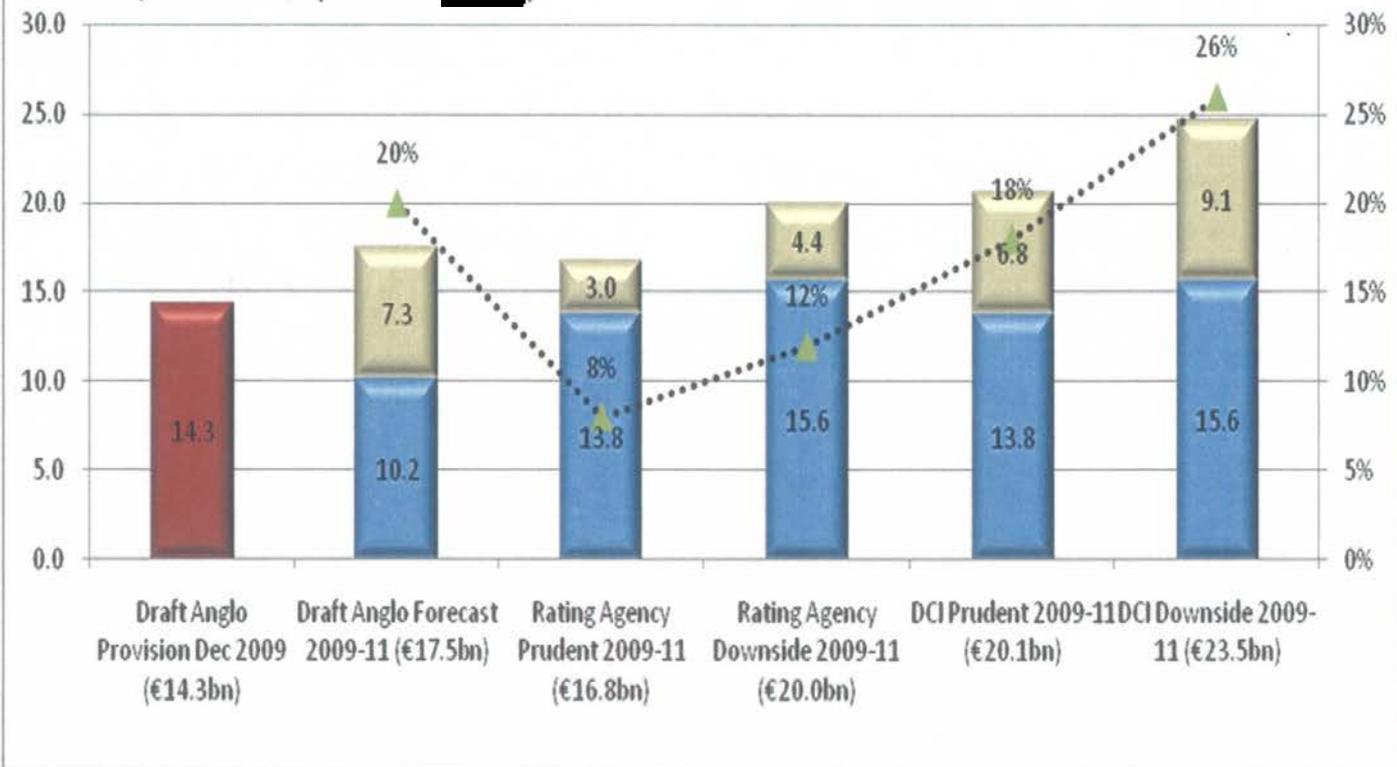
Anglo Loan Provisions and Forecast 2009-2011 € bn (includes Oir P)



Oireachtas P

Anglo Loan Provisions and Forecast 2009-2011 €bn

NAMA/Non NAMA (includes Oir P)



To: Minister
From: Pat Ring

Re: Anglo Irish Bank capital requirement projections

CONFIDENTIAL - Commercially sensitive

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

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

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

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

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

31/03/10

Cc Secretary General, Mr. Beausang

DRAFT 2

Minister
From: Michael J. McGrath

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

1. You raised with me the issue of the impact of the Promissory Notes committed to Anglo Irish Bank, INBS and EBS on the public finances, both in cash and accounting terms.
2. As you know, just under €31 billion has been committed to be provided to these financial institutions in the form of Promissory Notes so far in 2010. The amounts committed to each institution, the various issues dates and the applicable interest rates (see paragraphs 8 -10) are as follows:

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

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

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

3. The Promissory Note issued to Anglo Irish Bank in March has been increased on two separate occasions and a further increase of €6.4 billion, as outlined in the 30th September Statement on banking, is imminent. It was also outlined in that Statement that the Promissory Note issued to INBS in March will, in the very near future, be increased by an additional €2.7 billion.
4. This full amount of just under €31 billion is included in the headline General Government deficit measure for 2010, as are the €100 million Special Investment Shares in both INBS and EBS. This means that the headline General Government Deficit for 2010 is currently estimated at 32% of GDP. On an underlying basis, it is estimated at 11.9% of GDP, broadly in line with the Budget day target.
5. It is currently assumed that 10% of the total value of the Promissory Notes (or just over €3 billion) is drawn down each year, beginning in 2011, and paid in cash to the financial institutions. While these payments do not impact on the General Government Deficit (as the total value of the Notes is included in the 2010

DRAFT 2

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

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

Accounting Treatment

7. Also included in the General Government deficit measure for 2010 is accrued interest on the Promissory Notes. As you might recall from the BSM, there is an interest coupon attached to these Promissory Notes. This is necessary to allow these institutions “fair value” the Note at face value in their accounts for capital purposes.
8. While the Government has committed to giving cash of €31 billion to these three institutions in equal instalments over the next number of years, the institutions are now showing the full value of the Promissory Notes in their accounts for capital adequacy purposes. As the actual cash is not being paid upfront to the institutions, interest must be paid so that the institutions can value the Notes at par on their accounts. The terms of the Promissory Notes allow interest to be rolled up and paid after the principal sums have been repaid. Although the interest will not be paid on the due dates, and will instead be rolled up over the life of the Promissory Note, under General Government accounting rules, the amounts payable must be accrued into the year in which they are due, and will therefore impact upon the General Government deficit. It is currently estimated that the interest which must be accrued into 2010 is just over €700 million. The exact issue date of the most recent increases to Anglo Irish Bank and INBS and the precise interest rates will determine the exact amount of interest to be accrued.
9. Interest began to accrue on the Notes issued on the 31st March from that date. Interest is therefore accruing on the full value of those Notes for the period 31 March – 31 December in 2010 and for the period from 1 January to 30 March in 2011. Once the first 10% cash drawdown is made, interest then accrues on the outstanding balance of the capital sum plus the rolled up interest for the remainder of 2011 and the first 3 months of the 2012. This continues until the principal sum and rolled up interest payments have been paid down in full. This will be some time in the middle of the next decade.
10. Table 2 in the Appendix details the impact, on the Exchequer and General Government Balances of the principal payments and the interest accruals over the 2010 – 2014 forecast period.

xx October 2010

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

DRAFT 2

APPENDIX

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

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

**based on current interest rate*

DRAFT

Sequence of events for Anglo capital provision:

16 September 2009: Second Stage speech on the NAMA legislation. Minister noted that some institutions may require capital on foot of transfers to NAMA. Minister stated that to the extent that sufficient capital cannot be raised independently or generated internally, the Government remains committed to providing such banks with an appropriate level of capital to continue to meet their requirements.

15 September 2009: Anglo CEO letter to FR (Bernard Sheridan) noting that the bank forecasts a regulatory capital breach by 31 October and requesting reinstatement of regulatory capital derogations.

2 October 2009: Anglo CEO letter to FR (Con Horan) outlining the consequences of a capital breach for the Anglo, on foot of discussions with Bernard Sheridan.

21 October 2009: FR (Bernard Sheridan) letter to Anglo CEO noting that the FR can only consider granting regulatory capital derogations on the basis of a written commitment from the shareholder to introduce sufficient capital into the bank in order to restore the institution to compliance with capital requirements. (Cc AN).

22 October 2009: Anglo Chairman letter to DoF (Mr. Ring) requesting a written commitment to the FR on restoring Anglo's capital requirements, given the critical importance of the requested regulatory capital derogations.

27 October 2009: Anglo CEO letter to FR (Bernard Sheridan) confirming that the bank projected a regulatory capital breach by end October. (Cc KC, WB.)

30 October 2009: DoF (Mr. Beausang) letter to FR noting that the Minister confirms that the Government will provide Anglo with an appropriate level of capital to enable it to continue to meet its regulatory capital requirements, at the latest by the date of the European Commission's agreement to the Bank's Restructuring Plan.

30 October 2009: FR grants regulatory capital derogations to Anglo to enable the bank to meet its capital requirements until 30 April 2010 at the latest.

3 November 2009: PQ reply. Minister referred to his statement in the NAMA Bill Second Stage speech on the Government's commitment to provide necessary capital to institutions participating in NAMA to the extent this cannot be raised independently. Minister noted that he had recently confirmed this position to the Financial Regulator in the case of Anglo Irish Bank to facilitate the FR in granting Anglo derogations from certain regulatory capital requirements.

30 November 2009: Anglo Irish Bank Restructuring Plan notified to the European Commission.

[] December 2009: [to be confirmed] First indication by DoF to Commission that capital support would be required for Anglo?

22 December 2009: Minister wrote to Anglo Chairman, Mr. Donal O'Connor, noting that the bank has informed his officials that arising from Anglo's ongoing review of its loan book that the bank may require significant further Government support to address any capital shortfall that may arise.

Noted that:

- Proposal has been developed to ensure Anglo Irish Bank continues to meet its regulatory capital requirements at year end.
- Proposal will ensure no need for Anglo to take further provisions on the current book value of its NAMA loans
- Proposal will be implemented on terms and conditions that the Government may determine and consistent with EU state aid rules
- European Commission has been informed of the proposal and it is intended to notify the Commission for State aid approval shortly.
- The proposal is an important restatement of the Minister's previous commitments in relation to ensuring that Anglo has sufficient capital to continue to meet its regulatory capital requirements.

Copy of this letter was provided to the European Commission at the time of issue.

20 January 2010: Governor of the Central Bank letter to Minister confirming systemic importance of Anglo to the banking system and the need for the proposed capital measure to ensure the financial stability of the bank.

22 January 2010: Note to Minister from Mr. Beausang noting that notwithstanding the Department's accounting advice at year end that Anglo's accounting advice was that the bank would still be obliged to take impairments on NAMA loans even following receipt of the Minister's letter of 22 December. Noted that the Department's accounting advisors did now not dispute this assessment. Noted that Anglo's legal advice was that the letter of 22 December could however be treated as a contingent receivable on the balance bank's balance sheet at year end.

Noted that alternatives had been examined and proposing that the Minister under the CFIS Act could issue a Promissory Note sufficient to enable Anglo (and INBS) to meet their regulatory capital requirements. (Cc SG, KC, AA, CH, PR)

29 January 2010: Draft State Aid Notification for Anglo (and for INBS) submitted to European Commission.

2 February 2010: Minister met with Anglo Board. Subsequent Anglo CEO letter of 15 February to DoF (Mr. Beausang) noted that the Board had indicated its view that the bank should target a Tier 1 capital ratio of between 8% (which would require €9bn additional capital) and 9%. Letter footnote noted that it was expected that €6.5bn would be required to cover regulatory capital requirements at year end.

3 February 2010: PQ reply confirmed that based on the information provided by the Minister in mid-September to the Dáil, the scale of Anglo's NAMA-eligible loans are such that they will give rise to a further capital requirement for the State. Confirmed that the Minister was currently assessing the scale of any further capital support for Anglo Irish Bank in the light of the emerging accounting end year

financial position of the bank, and the likely impact of the NAMA transfers over the course of 2010.

8 February 2010: Memorandum to, and Government approval for, notification of the proposed Promissory Note capital support measures for Anglo, INBS and the EBS to the European Commission for State aid approval.

Government noted that final Government approval would be sought for the implementation of the capital support measures once the extent of capital support required for each institution is confirmed through finalising the end-2009 accounts and confirmation on regulatory capital treatment of the measure is received from the FR, and Government accounting treatment from the CSO.

Noted that the EC has been made aware of the proposed measure before Christmas and that a draft State Aid notification was recently submitted to the Commission.

16 February 2010: Formal State aid notification for the measure for Anglo (and INBS) to the European Commission submitted.

22 February 2010: DoF letter (Mr. Beausang) to Anglo CEO noting reservation with assessment of the scale of the bank's capital needs as set out in the letter of 15 February, and noting that State aid approval would require that any aid is limited to the minimum necessary.

Letter also confirmed that when it became clear that the level of projected end-year impairments for the bank were such that a capital support measure would urgently be required that the Department alerted the European Commission to this fact, to the Department's proposed approach. Noted also that a copy of the Minister's letter of 22 December was provided to the Commission at the time of issue.

1 March 2010: Anglo CEO letter to FR (Mary-Elizabeth Donoghue) enclosing the bank's updated legal and accounting opinions on treatment of the Minister's letter. Concluded that Anglo intends to take a receivable at year end together with a deemed capital contribution at year end and to treat the increase in equity as an increase in core Tier 1 capital in the regulatory returns as at year end 2009 and subsequently.

3 March 2010: Email from FR (Mary-Elizabeth Donoghue) to DoF (Mr. Beausang) outlining FR observations on Anglo's estimated capital requirements and view on year end impairments. FR initial estimate of Anglo having a regulatory capital shortfall of €7.655bn at end-March 2010. FR views Anglo impairment process as closely aligned with FR view.

5 March 2010: FR letter (Donncha Connolly) to Anglo CEO requesting confirmation by 31 March of how the bank anticipates meeting its minimum regulatory capital ratio requirements on an ongoing basis given that regulatory derogations expire on 30 April.

9 March 2010: FR (Donncha Connolly) to DoF (Mr. Beausang) outlining FR obligations in relation to institution's own funds requirements. Under CRD FR can not approve of a capital arrangement which only satisfy's Anglo's legal capital

requirements at a point in the past and not the institution's ongoing capital requirements.

10 March 2010: PQ reply confirmed that based on the information provided by the Minister in mid-September to the Dáil, the scale of Anglo's NAMA-eligible loans are such that they will give rise to a further capital requirement for the State. Confirmed that the Minister was currently assessing the scale of any further capital support for Anglo Irish Bank in the light of the emerging accounting end year financial position of the bank, and the likely impact of the NAMA transfers over the course of 2010.

11 March 2010: FR confirmation that on foot of Anglo's (McCann) legal advice and (DeLoitte) accounting advice and the Department's (PwC) accounting advice that it has no objection to the institution recognising the capital reserve created by the Minister's letter of 22 December 2009 and the Promissory Note as Core Tier 1 capital up to the Principal Amount of the Promissory Note. (FR letter gave same confirmation for the INBS case.)

12 March 2010: Email from FR (Bernard Sheridan) to DoF (Mr. Ring) outlining FR updated forecast of estimated capital requirement for Anglo of €8.195bn to 31 March 2010, based on a 38% haircut on the first tranche of assets transferring to NAMA. Noted Anglo forecast of €8.249bn capital shortfall at 31 March 2010. Noted FR consideration that it would be prudent for the amount of the Promissory Note to include a buffer over this amount.

17 & 18 March 2010: DoF sent response to EU Commission queries on the State aid notification raised by the Commission on 16 March. Confirmation on 17 March that initial amount of Promissory Note measure for Anglo would be €8.3bn.

19 March 2010: Anglo CEO letter to FR (Donncha Connolly) replying to letter of 5 March outlining that the bank is finalising the terms of a Promissory Note that the Minister for Finance intends to give to Anglo as capital support. Noted that the Promissory Note contains an adjustment clause that allows the amount of the note to be increased if necessary in order to meet minimum regulatory requirements.

23 March 2010: DoF email (Mr. Beausang) to the European Commission confirming that the Promissory Note will only be increased in accordance with the time profile of forecast impairment on the non-NAMA book and the relevant discount on the Anglo assets transferred to NAMA as set out in the relevant table submitted to the Commission.

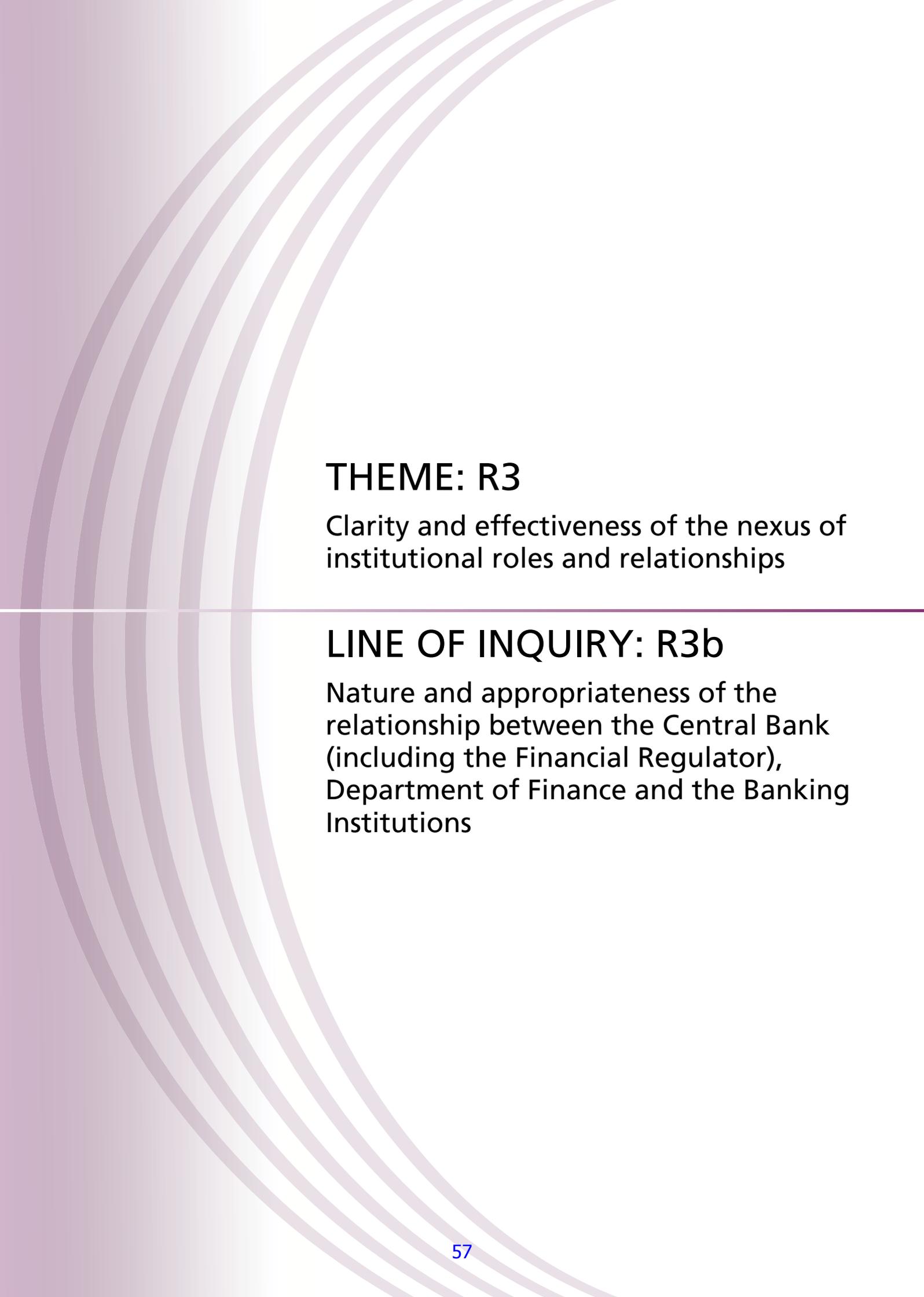
24 March 2010: DoF email (Mr. Beausang) to the European Commission noting indication received from NAMA of likely higher haircut of at least 50% on the first tranche of Anglo loans transferring to NAMA.

26 March 2010: Email from Commission to DoF (Mr. Beausang) noting that the Commissioner is due to speak with the Minister on Monday (29 March) and that he would be in a position to agree to an increase on the Promissory Note by €2.14bn (in line with the final table submitted by DoF on 25 March).

29 March 2010: [to be confirmed] DoF indication to Commission that additional impairments on NAMA and non-NAMA loans may need to be by Anglo taken shortly after 31 March 2010. Measure therefore submitted for approval on the basis of €8.3bn at 31 March 2010, and potential increase of the recapitalisation up to €2.14bn (under pre-determined conditions on NAMA haircut and impairments on non-NAMA loans) to enable Anglo to meet its capital requirements up to 31 May 2010.

30 March 2010: Promissory Note signed by Minister. Enables Anglo to close off their accounts for end 2009 by 31 March 2010.

31 March 2010: Formal Commission decision approving the Promissory Note for Anglo. Commission Press Release noting same also issued.



THEME: R3

Clarity and effectiveness of the nexus of institutional roles and relationships

LINE OF INQUIRY: R3b

Nature and appropriateness of the relationship between the Central Bank (including the Financial Regulator), Department of Finance and the Banking Institutions

Eurozone Debt Crisis: Resolution Mechanism

1. Eurozone Debt Crisis - Resolution Mechanism

Initial Steps

The initial response to the euro debt crisis was an agreement on 2 May 2010 by the eurozone member states to provide a total of €80bn in bilateral loans to Greece (co-ordinated by the EU Commission) together with €30bn from the IMF – a total loan package of €110bn – the Greek Loan Facility.

In May 2010 the EU also agreed a general stabilisation mechanism for the eurozone until mid 2013 for an amount of €750bn. This comprised

- the European Financial Stability Facility (EFSF) : €440bn
- the European Financial Stabilisation Mechanism (EFSM): €60bn
- IMF funds: €250m

In addition, it was agreed that the ECB could purchase eurozone countries' sovereign debt on the secondary markets.

The EFSF borrows on the markets on the strength of guarantees provided by eurozone member states and onlends the funds at a margin of 2.47%. The borrowing country also incurs the cost of an upfront service fee of 50bp plus the cost of providing cash buffer credit enhancement arrangements to secure a triple A credit rating for EFSF. These credit enhancement costs may vary over time, but amounted to 0.42% per annum when Ireland borrowed from EFSF in January 2011.

The EFSM is the mechanism under which the EU Commission borrows on the markets on behalf of the European Union (27 Member States) under an implicit EU Budget guarantee. The Commission onlends the funds to the beneficiary member state at a margin of 2.925% plus an upfront service fee of 50bp.

Establishment of ESM

The EU also agreed on a permanent crisis resolution mechanism – the European Stability Mechanism (ESM) – to replace EFSF/EFSM from mid-2013. ESM was initially proposed by France and Germany in their *Deauville Declaration* of October 2010 when they included a requirement for “*an adequate participation of private sector creditors*” in the envisaged new arrangements. The proposal was subsequently approved by the EU.

Financial Assistance Programme for Ireland

The NTMA announced on 30 September 2010 that it was cancelling the bond auctions scheduled for October and November. Irish bond yield spreads over Germany had increased by 200bp during August and September to 429bp. However, the banks' funding position continued to deteriorate and the Irish government bond spread over Germany, influenced in part at least by the private creditor haircutting envisaged in the Deauville declaration, reached 668bp by end November. Driven by the ECB's unease at the level of support it was obliged to provide to the Irish banks, Ireland agreed the terms of an EU-IMF assistance programme of €85bn on 28 November 2010 to cover the period to end 2013, even though the Exchequer was funded well into 2011. (Portugal agreed a similar assistance programme in May 2011 for a total of €78bn.)