

## **Statement by the Government on the Recapitalisation of Credit Institutions**

The Government has today decided on an approach to the recapitalisation of credit institutions. The Government's objective is to ensure the long-term sustainability of the banking sector in Ireland and to underpin its contribution through the availability of credit to individuals and businesses in the real economy. This initiative will help to foster and encourage the flow of funds to the economy, and limit the impact of financial market difficulties on businesses and individuals.

The Government noted that recapitalisation is recognised by the European Commission as one of the key measures that may be used by Member States to preserve stability and proper functioning of financial markets, and that it believes that in current market conditions even fundamentally sound banks may require additional capital to respond to widespread market perception that higher capital ratios are appropriate for the sector internationally.

The Government decision followed the Minister for Finance's statement of 28 November 2008 which confirmed the State's willingness to supplement and encourage private investment in the recapitalisation of credit institutions in Ireland with State participation.

In that context, the Government has decided either through the National Pensions Reserve Fund or otherwise and subject to terms and conditions, to support, alongside existing shareholders and private investors, a recapitalisation programme for credit institutions in Ireland of up to €10 billion.

The State's investment may take the form of preference shares and/or ordinary shares and the State may where appropriate participate on an underwriting basis. In principle existing shareholders will be expected to have the right to subscribe for new capital on the same terms as the Government.

A key principle in the operation of such a fund will be to secure the interests of the taxpayers through an appropriate return on, and appropriate terms for, the investment.

The next step in this process will be for the Minister for Finance to initiate detailed engagement with the credit institutions themselves in respect of specific proposals.

In order to safeguard fully the interests of the taxpayer, State investment will be assessed on a case-by-case basis in an objective and non-discriminatory manner, having regard to the systemic importance of the institution, the importance of maintaining the stability of the financial system in the State, and the most effective and economical use of resources available to the State and each credit institution's particular requirement for capital. Any State investment will be undertaken in line with best practice in the EU and elsewhere and consistent with EU State aid rules and in particular the recent European Commission communication on recapitalisation.

Recapitalised institutions may be required to comply with such requirements as to transparency and commercial conduct as the Minister sees fit.

The National Pensions Reserve Fund Act, 2000 will be amended, as necessary.

Discussions with the relevant credit institutions are ongoing, and the institutions continue to progress proposals for private investment. Institutions are being asked to submit their proposals by early January.

The Government guarantee Scheme remains in place.

14 December 2008