

Minister welcomes approval for the bank guarantee

The Minister for Finance, Mr Brian Lenihan TD, today welcomed EU state aid approval for the extension of the Credit Institutions (Eligible Liabilities Guarantee) Scheme (the 'ELG Scheme')

On the advice of the Governor of the Central Bank, the Minister proposes to extend the issuance period of the Scheme beyond the current end date of 31 December 2010 and will be placing a Statutory Instrument before the House shortly which will enable the issuance period to extend to 31 December 2011 subject to six-monthly State aid approval by the European Commission.

The Minister for Finance said:

“The European Commission today announced the approval of the Scheme under State aid rules to 30 June 2011 which is the maximum period permitted for state aid approval under the European Commission’s policy on guarantee schemes in the financial sector.

Today’s announcement is a most welcome development and will underpin the Government’s efforts to restore the financial system and support the funding position of the participating institutions in the Guarantee scheme. The Government is determined to rebuild consumer and investor confidence in our financial system which has an important role to play in ensuring businesses, and notably SMEs, can invest for growth.

The approach has now received the endorsement of both the European Commission and the ECB.”

The extension announced today applies to all liabilities covered under the existing ELG scheme including both short term and long term bank liabilities.

The relevant State authorities had been closely monitoring the funding situation of Irish banks and the requirement for the continuation of the guarantee beyond the end-year issuance period, to underpin the core principles of financial stability and funding access for the financial institutions.

The Commission approval follows closely on from the recent legal opinion from ECB dated 2 November 2010 which endorsed the extension to 31 December 2011 on financial stability grounds.

This is an important support to the Irish banking system and complements the broad Government Strategy to restore fully the banking system and maximise its contribution to overall economic recovery.

ENDS

10 November 2010

Notes for editors

1. The State guarantees certain eligible deposits and debt securities under the *Credit Institutions (Eligible Liabilities Guarantee) Scheme 2009* (SI no. 490 of 2009).
2. The ELG Scheme introduced in December 2009 is not a blanket guarantee but instead guarantees specific issuances of eligible debt securities and deposits (of up to five years) placed during the relevant issuance period, which currently runs to 31 December 2010 for all liabilities under the Scheme.
3. The issuance period (or window) for debt or deposits is the period during which a guaranteed deposit can be made or guaranteed debt issued.
4. The Oireachtas (Parliament) is shortly due to approve a draft Statutory Instrument to enable the issuance period to extend to 31 December 2011 subject to six-monthly state aid approval by the European Commission.
5. The European Commission today announced the approval of the Scheme under state aid rules to 30 June 2011 which is the maximum period permitted for state aid approval of guarantee schemes. The extension announced today applies to all liabilities covered under the existing ELG scheme including both short term and long term bank liabilities.

The participating institutions (banks or building societies and subsidiaries that have joined the ELG Scheme to date) under the ELG Scheme are:

<u>Institution</u>	<u>Date institution joined ELG scheme</u>
Irish Life and Permanent plc	4/1/2010
Irish Permanent (IOM) Limited	4/1/2010
Bank of Ireland	11/1/2010
Bank of Ireland Mortgage Bank	11/1/2010
Bank of Ireland (UK) plc	27/7/10
The ICS Building Society	11/1/2010
Bank of Ireland (IOM) Limited	11/1/2010
Allied Irish Banks, p.l.c.	21/1/2010
AIB Group (UK) p.l.c.	21/1/2010
AIB Bank (CI) Limited	21/1/2010
AIB Banks North America Inc.	21/1/2010
Anglo Irish Bank Corporation Limited.	28/1/2010
Anglo Irish Bank Corporation (International) plc.	28/1/2010
EBS Building Society	01/02/2010
Irish Nationwide Building Society	03/02/10
Irish Nationwide (I.O.M.) Limited	03/02/10

4. The fees are currently calculated by reference to the ECB recommendations on pricing for government guarantees for bank debt dated 20 October 2008. Furthermore, the Commission staff working paper dated 30 April 2010 on ‘Application of State Aid Rules on Government Guarantee Schemes covering bank debt to be issued after 30 June 2010’ provides for additional charges that vary according to the beneficiary bank's creditworthiness and are as follows for debt issued after 30 June –

- 20 basis points for participating institutions with a rating of A+ or A¹,

¹ Or A1 and A2 depending on the rating system employed.

- 30 basis points for participating institutions rated A-², and
 - 40 basis points for participating institutions rated below A-.
- Participating institutions without a rating will be considered to belong to the category of banks with a BBB rating³.

Additional fees apply to very short term liabilities (other than retail deposits) issued after 29 September 2010.

5. The ELG Scheme does not guarantee dated subordinated debt or asset covered securities.
6. On demand retail deposits in excess of €100,000 will guaranteed under the ELG Scheme up to 30 June 2011.
7. Retail deposits term deposits taken out between the date an institution joined the ELG Scheme and the 31 June 2011 remain covered until maturity (up to a maximum term of 5 years) (over €100,000) .
8. Retail deposits up to €100,000 are guaranteed under the Deposit Guarantee Scheme and this Scheme does not have an end date.
9. EU Commission approval is required under state aid rules for guarantee schemes in EU member states.

² Or A3 depending on the rating system employed.

³ In the case of divergent assessments by different rating agencies the relevant rating for the calculation of the fee increase should be the higher rating. The material time for the rating in the determination of

10. A significant number of other EU member states have guarantee schemes such as Austria, Denmark, Germany, Hungary, Latvia, Netherlands, Poland, Slovakia, Slovenia, Spain and Sweden.

11. Postbank is not a member of the ELG Scheme.

12. The Credit Institutions (Financial Support) Scheme 2008 (the 'CIFS Scheme') and the CIFS guarantee expired on 29 September 2010.

the guarantee fee is the day on which the guarantee is granted in relation to a specific bond issuance by the beneficiary.