

Credit Institutions (Eligible Liabilities Guarantee) Scheme 2009

Frequently Asked Questions

The purpose of this document is to provide answers to a number of questions (“FAQs”) about the Credit Institutions (Eligible Liabilities Guarantee) Scheme 2009 (the “ELG Scheme”) which commenced on 9 December, 2009, and was prolonged most recently on 1 June, on foot of a Decision of the EU Commission, to 31 December, 2012.

This document is for reference and clarification purposes only, and should not be relied upon as constituting financial advice or legal advice. It has no legal effect and does not form part of the ELG Scheme. It does not alter the terms of the ELG Scheme or any other document relating to the ELG Scheme.

Parts A of these FAQs provides general background to the ELG Scheme.

Part B is of particular relevance to depositors.

Part C is relevant to investors in debt securities issued by participating institutions.

Part D provides further miscellaneous information about the ELG Scheme.

Extension of the ELG Scheme

The ELG Scheme is prolonged to 31 December, 2012, under national law¹ for all liabilities under the Scheme. This arrangement is subject to EU Commission state aid approval at six-monthly intervals.

State aid approval was given by the European Commission on 1 June, 2012, for an extension of the issuance window of the ELG Scheme to 31 December, 2012. Further details are set out at Q2 below.

The FAQs below are now updated to reflect the extended issuance period for all eligible liabilities.

A. Background to the ELG Scheme

1. *What is the ELG Scheme?*

The ELG Scheme commenced on 9 December, 2009.

The issuance period of the ELG Scheme was extended until 31 December, 2012, for all eligible liabilities under the Scheme by way of an amending statutory instrument on 27 June 2012².

The ELG Scheme is a separate scheme to the blanket guarantee granted pursuant to the Credit Institutions (Financial Support) Scheme 2008 (the “**2008 CIFS Scheme**”). The 2008 CIFS Scheme expired on 29 September, 2010.

¹ SI No. 634 of 2011.

² SI No. 234 of 2012.

EU state aid approval was given on 1 June, 2012, for an extension of the issuance window of the ELG Scheme beyond 30 June, 2012, to 31 December, 2012, in accordance with the EU Commission practice of approving Member State guarantee arrangements for six-month periods at a time.

2. ***What does the ELG Scheme guarantee and what is the effect of the extension of the ELG Scheme?***

Under the ELG Scheme the Minister for Finance of Ireland can guarantee:

- deposits (see section B below for more information); and
- debt securities (see section C below for more information),

incurred by participating institutions (see current list at Q3 below) during the issuance period from the date they joined the ELG Scheme up to 31 December, 2012.

The guarantee under the ELG Scheme subsists to the maturity of the eligible liability issued during the relevant issuance period up to a maximum maturity of five years.

3. **Which banks or building societies are members of the ELG Scheme (“participating institutions”)?**

The institutions currently holding Participating Institution Certificates under the Scheme as set out on the NTMA website are:

<u>Participating Institution</u>	<u>Date joined ELG Scheme</u>
Permanent TSB plc	04/1/2010 (Cert. amended 29/6/12)
Bank of Ireland	11/1/2010
Bank of Ireland Mortgage Bank	11/1/2010
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
Irish Bank Resolution Corporation Limited	28/1/2010 (Cert. amended 9/11/2011)
AIB International Savings Limited	28/1/2010

	(Cert. amended 20/9/2011)
EBS Limited	01/2/2010
	(Cert. amended 1/7/2011)
Permanent Bank International Ltd 03/2/2010	
	(Cert. amended 15/2/2012)
Bank of Ireland (UK) p.l.c.	21/7/2010
	(Cert. amended 15/5/2012)

B. Deposits

4. What guarantee applies for deposits of up to €100,000?

Most retail (consumer) deposits will continue to be guaranteed under the existing statutory €100,000 Deposit Guarantee Scheme (the “**DGS**”) which covers 100% of retail deposits with all credit institutions authorised in Ireland (including credit unions) up to a maximum of €100,000 per qualifying depositor per institution. The DGS guarantee does not have an end-date.

The ELG Scheme only guarantees the balance of retail deposits in the participating institutions (see Q3 above) over the €100,000 limit of the DGS.

A private individual with a deposit of less than €100,000 is guaranteed solely under the DGS. If, however, the same individual has a deposit of over €100,000, the first €100,000 will be guaranteed under the DGS and the balance that exceeds €100,000 will be guaranteed under the ELG Scheme.

5. What guarantee applies for deposits in excess of €100,000?

As noted above, the ELG Scheme only guarantees the balance of deposits over the €100,000 limit of the DGS (or the full amount of deposits that do not qualify for DGS protection).

The balance in **on demand accounts** or **current accounts** in an ELG Scheme participating institution (see list above at Q3) in excess of €100,000 will be guaranteed until 31 December, 2012 **regardless of the date the account was opened.**

The balance on **fixed term deposits** in excess of €100,000 opened or rolled over with a participating institution during a period from the date the participating institution joined the ELG Scheme up to 31 December, 2012,

will be guaranteed for the full term of the deposit, up to a maximum deposit term of five years.

For example, a two year fixed term deposit of €150,000 opened with a participating institution on 1 May 2012 is guaranteed for the full two years of the term i.e. until 30 April, 2014.

The balance on fixed term deposits in excess of €100,000 opened **before the date the participating institution joined the ELG Scheme** would have been guaranteed under the 2008 CIFS Scheme until 29 September 2010 but are no longer guaranteed.

The guarantee for **notice accounts** is similar to that for on demand accounts, except that the guarantee will also last for any notice period if notice of withdrawal is made on or before 31 December, 2012.

As described in Q4 above, qualifying deposits of up to €100,000 will remain protected under the DGS and the ELG Scheme will only apply to deposit balances over €100,000 or in relation to deposits where the DGS does not apply at all.

4. ***I have a deposit in a notice account. How does the ELG Scheme apply to my deposit?***

If you have a notice account, your deposit will be guaranteed under the ELG Scheme if your bank or building society is a participating institution under the ELG Scheme in the same manner as on-demand accounts.

Once you give a notice of withdrawal to the participating institution and this notice is made on or before 31 December, 2012, the ELG Scheme will continue to guarantee your deposit until the end of the notice period, even if this extends beyond 31 December, 2012.

If a deposit is only partially withdrawn, the remaining amount will be guaranteed in accordance with the terms of the ELG Scheme. Any subsequent withdrawals will also be subject to the principle explained above.

5. **What guarantee applies for corporate deposits?**

The ELG Scheme applies to all corporate deposits (of any duration up to five years) in the same way as to other qualifying deposits until 31 December, 2012, in accordance with the terms and conditions of the Scheme.

Unguaranteed Deposits

6. ***Can the Participating Institutions offer unguaranteed deposits?***

Following the publication of a Notice dated 16 November, 2011, on the NTMA website, by the Minister for Finance, unguaranteed deposits may be offered by Participating Institutions in the ELG Scheme since that date in line with the three conditions set out in that Notice. It is a matter for each Institution to decide on whether or not to avail of the option to offer unguaranteed deposits.

7. ***How will I know if my deposit is guaranteed under the ELG Scheme or is unguaranteed?***

All existing and future qualifying deposits (retail and otherwise) will continue to be automatically covered by the ELG Scheme in accordance with the terms and conditions of that Scheme.

The exercise of the option for Participating Institutions in the ELG Scheme to offer unguaranteed deposits is aimed mainly at corporate and institutional investors

<http://www.ntma.ie/Publications/2011/NoticeOnUnguaranteedDeposits.pdf>

and is conditional on:

- The depositor acknowledging in writing that the relevant deposit shall not be guaranteed under the ELG Scheme;
- The terms and conditions of the relevant deposit stating that the deposit shall not be guaranteed under the ELG Scheme;
- The deposit being made after 16th November, 2011.

In this way, it will be absolutely clear which deposits are guaranteed and which are not.

8. ***Can anybody avail of the option to make unguaranteed deposits in the Participating Institutions?***

As already stated, the option for Participating Institutions to offer unguaranteed deposits is aimed mainly at corporate and institutional investors but any deposits which are not retail deposits as defined under the Rules of the Scheme also qualify, subject to the conditions referred to in paragraph 9 above.

9. ***Can I have a mixture of guaranteed and unguaranteed deposits with the same Institution?***

Yes. Provided your Institution is one of those covered by the ELG Scheme and is offering to accept unguaranteed deposits that comply with all of the conditions set out in paragraph 9 above.

10. ***What implication does the option for Participating Institutions to offer unguaranteed deposits have for the continuation of the ELG Scheme?***

On the advice of the Governor of the Central Bank, the Minister proposed the prolongation of the issuance period for eligible liabilities including deposits for a further 6 months period beyond 30 June, 2012, subject to approval of the European Commission. The requisite EU state aid approval was given on 1 June, 2012, prolonging the ELG issuance period beyond 30 June, from 1 July to 31 December, 2012.

While this extension has been decided upon in order to continue to promote and ensure financial stability in the banking system, the Minister also recognises the need to allow the Institutions involved the possibility to offer products where a Government guarantee is not required. Thus while the extension of the ELG Scheme is independent of, and not affected by, the move by Participating Institutions to seek to be able to offer unguaranteed deposits to certain customers, the latter development is a welcome one as it indicates that a move away, on a voluntary basis, from total dependence on a State guarantee for deposits may occur.

The extension of the ELG Scheme means that the existing State guarantee will continue to be available for both eligible short and long term liabilities, including retail deposits, until 31 December, 2012. The future of the ELG Scheme is subject to six-monthly review and approval by the EU Commission in accordance with EU State aid rules. The next review of the ELG Scheme will take place in advance of 31 December, 2012.

11. ***Will the introduction of unguaranteed deposits have any effect on the Deposit Guarantee Scheme?***

No. The scope of the changes to the ELG Scheme proposed has no effect on, or implications for, the Deposit Guarantee Scheme (DGS). There is no end-date on the duration of the guarantee for retail deposits up to €100,000 under the DGS and provision for unguaranteed deposits does not arise here.

The DGS is a separate scheme to the ELG Scheme and is available to depositors with all of the banks regulated by the Central Bank of Ireland provided their deposit is an eligible deposit within the meaning given by the European Communities (Deposit Guarantee Scheme) Regulations 1995 (S.I. No. 168 of 1995).

12. ***Why is the option to make unguaranteed deposits not being extended to holders of retail deposits as defined?***

If a request were made by Participating Institutions in the ELG Scheme to offer unguaranteed products to these customers, the Minister would be happy to consider it.

15. ***Does the unguaranteed deposit option apply to UK customers with subsidiaries of the Participating Institutions?***

Yes. Furthermore, since 31 March, 2012, Bank of Ireland (UK) no longer offer ELG covered deposits to any category of customer. The bank decided to limit its participation in the ELG Scheme to align its deposit protection arrangements with those of other Financial Services Authority (FSA)-authorised banks and building societies covered under the UK's deposit protection scheme (FSCS).

C. Debt securities

16. What sort of debt liabilities will be covered by the ELG Scheme?

The ELG Scheme will cover the following types of debt securities:

- senior unsecured certificates of deposit;
- senior unsecured commercial paper;
- other senior unsecured bonds and notes; and
- other forms of senior unsecured debt which may be specified by the Minister, consistent with EU State aid rules and subject to prior consultation with the EU Commission.

13. ***What are the eligibility criteria for a debt security under the ELG Scheme?***

In order to be an eligible liability, a debt security must:

- be incurred between the period from the date the relevant participating institution joined the ELG Scheme up to and including 31 December, 2012;
- have a maturity of less than five (5) years;
- not contain an event of default (howsoever described or constituted) constituted by cross-default or cross-acceleration; and
- be single-currency denominated in one of euro, sterling or US dollars or any other currency approved by the Minister for Finance. A liability issued under a programme may be issued in any currency permitted by the programme documentation.

14. ***How will I know if a debt security is guaranteed under the ELG Scheme?***

An institution will have to apply for a guarantee certificate for each specific debt security that it issues and wishes to be guaranteed under the ELG Scheme. Details of stand-alone issues of debt securities that have been guaranteed under the ELG Scheme are published on the website of the NTMA.

It is also possible for participating institutions to obtain a guarantee certificate for entire programmes and details of these guaranteed programmes will also be published on the NTMA website. All debt securities issued under a guaranteed programme will be guaranteed. The amount of debt incurred under such programmes will be closely monitored and subject to control by the Minister and the NTMA (as scheme operator).

The ELG Scheme allows participating institutions to issue unguaranteed liabilities, which will help reduce their reliance on State support over time as financial market conditions continue to improve. Therefore, if a participating institution issues a debt security without a guarantee certificate on either a standalone basis or off a programme which is not itself guaranteed, the debt security will not be guaranteed under the ELG Scheme.

15. ***I bought a debt security issued by a “covered institution” which was a “covered liability” under the 2008 CIFS Scheme. Will the debt security now be guaranteed under the ELG Scheme?***

No. The ELG Scheme applies only to debt securities issued during the issuance period of the ELG Scheme. If a debt security was guaranteed under the 2008 CIFS Scheme it was not possible for it to be also guaranteed under the ELG Scheme. Such a debt security will not be guaranteed under the ELG Scheme following the expiry of the 2008 CIFS Scheme (unless the debt security in question matured and rolled-over during the ELG Scheme issuance period).

16. ***Entire programmes can be guaranteed under the ELG Scheme. How does this work?***

It is possible for participating institutions to obtain a guarantee certificate for an entire debt issuance programme, e.g. for EMTN, CD or CP programmes. Where an entire programme is guaranteed, each debt security issued under the programme will be guaranteed. Details of these programmes will be included on the website of the NTMA.

The Department of Finance and the NTMA will impose strict issuance limits on participating institutions and will monitor very closely the amount of debt issued under guaranteed programmes.

17. ***Will participating institutions prepare Prospectus Directive compliant prospectuses for guaranteed debt securities?***

No, as there is an exemption under the Prospectus Directive for government guaranteed debt securities. The Department of Finance has issued a direction to participating institutions in relation to the permitted contents of any other offering materials relating to debt securities guaranteed under the ELG Scheme.

18. ***Will guaranteed debt securities be zero per cent risk weighted for capital adequacy purposes?***

Yes. The Central Bank of Ireland has confirmed that debt securities guaranteed under the ELG Scheme will be zero per cent risk weighted for capital adequacy purposes.

19. ***If the Minister for Finance has to make a payment under the ELG Scheme, will withholding tax apply?***

No. There will not be an obligation on the Minister for Finance to deduct withholding tax in the event of payments being made under the ELG Scheme.

20. ***Are dated subordinated debt and covered bonds covered by the ELG Scheme?***

No. It was possible for some dated subordinated debt and covered bonds (asset covered securities) to be guaranteed under the 2008 CIFS Scheme but the 2008 CIFS Scheme has now expired.

D. Miscellaneous

21. ***What has happened to the bank guarantee scheme announced in September, 2008?***

The 2008 CIFS Scheme expired on 29 September 2010. Liabilities can now only be guaranteed under the ELG Scheme in accordance with its terms.

22. ***Who are the participating institutions?***

See question 3 above. Any update to the names of the participating institutions will be published on the websites of the scheme operator (the NTMA) and the Department of Finance from time to time

23. ***How long will the guarantee under the ELG Scheme last for?***

The ELG Scheme has been prolonged to 31 December, 2012, for all liabilities under the Scheme. EU Commission state aid approval for the continuation of the Scheme was received on 1 June 2012. As such, qualifying liabilities must be incurred during the period from the date the relevant participating institution joined the ELG Scheme to 31 December, 2012.

However, such liabilities can have a maturity of up to five (5) years duration and therefore the guarantee could last until 31 December, 2017³.

The future of the ELG Scheme is subject to six-monthly review and approval by the EU Commission in accordance with EU State aid rules. The next review of the ELG Scheme will take place in advance of 31 December, 2012.

³ SI No. 225 of 2012.

24. ***Who runs the ELG Scheme on a day-to-day basis?***

The National Treasury Management Agency (the “NTMA”) operates the ELG Scheme on a day-to-day basis on behalf of the Minister for Finance.

29. ***Do institutions covered by the ELG Scheme pay a fee to the State for the benefit of the guarantee?***

The participating institutions pay a fee to the Minister for Finance in respect of each liability guaranteed under the ELG Scheme. For liabilities incurred before 31 December, 2011, the fees are calculated by reference to the European Central Bank recommendations on government guarantees for bank debt dated 20 October, 2008, and on EU Commission recommendations set out in the Commission staff working paper dated 30 April, 2010, on the ‘Application of State Aid Rules on Government Guarantee Schemes covering bank debt to be issued after 30 June 2010’.

For liabilities incurred after 1 January, 2012, the fee structure is based on the ‘Communication on the application from 1 January, 2012, of state aid rules to support measures in favour of banks in the context of the financial crisis’.

Full details of the fee structures are set out in Annex 7 of the Rules of the ELG Scheme.

Participating institutions are also required to indemnify the Minister for Finance for any costs and expenses incurred by the Minister and for any payments made by the Minister under the Scheme which relate to the participating institution’s guarantee under the ELG Scheme.

30. ***Where can I find out more information on the ELG Scheme?***

The ELG Scheme and accompanying rules are available on the website of the Department of Finance. Details of liabilities guaranteed under the ELG Scheme and other materials will also be available on the website of the NTMA. Consumers may also find information regarding the guarantee on deposits on the www.nca.ie website run by the National Consumer Agency.