

Banks Statement by the Minister for Finance – 30th March, 2010

Introduction

This country has come a long way since we introduced the State guarantee 18 months ago. Back then, our banks were on the brink of financial collapse and our economy had gone into reverse. Revenue had fallen steeply and unemployment had risen sharply. For the first time in a quarter of a century, we were experiencing negative growth.

Economic activity remains weak and we face further difficult decisions. But the crucial difference is that we now have a credible fiscal position. That is because over the last two years, we have introduced budgetary adjustments of more than €15 billion. As a result, we are now in a position to stabilise the deficit and we are on a firm path to economic recovery.

This adjustment has imposed a heavy burden on our citizens. Taxes have increased, public sector workers have suffered significant reductions in their pay and social welfare payments have been reduced.

It is regularly suggested in this House and outside it that these painful measures have been necessitated by our banking crisis: that the cuts in pay are funding a bail out of the banks. That is simply wrong. The reason we have had to make very substantial savings is because of the huge gap that opened up between the revenue we take in and the cost of running this State. We are borrowing for day to day expenses and that is not sustainable.

Our determination to deal with this imbalance in our public finances through firm and decisive action has engendered real confidence in our economy on the international stage. The world out there believes in us and in our ability to work our way through our difficulties and return to growth.

Jean Claude Trichet said: "In the case of Ireland very, very tough decisions have been taken by the government and rightly so,"

More recently, Mr Trichet's colleague, Jose Manuel Gonzalez-Paramo on the ECB said: "The Irish measures are very courageous. They are going in the right direction."

The French Finance Minister, Christine Lagarde said: "Ireland has set the high standard the rest of us must follow".

On a recent visit to Ireland, the German Minister for European Affairs, Dr. Werner Hoyer said: "I think there is a deeply rooted trust and confidence in this country's ability to sort out its problems. ... There is a fundamental belief that the Irish are going to solve it."

Already, we have reaped the benefits of this growing confidence. Since last April's Supplementary Budget and the announcement of the decision to establish NAMA, borrowing costs have fallen and our bond spreads have halved. This trend was reinforced by last December's Budget which outlined the next

stage of our plans to return to a sustainable fiscal position. That is why we must retain our fiscal discipline.

Having stabilised our public finances we must move to the final phase in stabilising our banking system. There has been much criticism of the length of time it has taken us to get to this point. I reject that criticism. Crucial pieces of the jigsaw had to fall into place before we could embark on this ultimate phase of our bank rescue.

- First and foremost, we are in a position to do what we are doing today because as a sovereign we are now fiscally stable and credible.
- Second, we now know the extent of the losses in our banks and the scale of the damage that has been done by the excessive lending and bad practices of recent years. Through its bottom up valuation exercise, NAMA is progressively valuing and removing the most impaired loans from the system.
- Third, we now have in place a regulator of international standing who has independently and rigorously reviewed the capital requirements of the Irish banking system in accordance with best international practice. The capital requirements that I will outline presently to the House have been set by the regulator and announced separately by him within the past hour. That is as it should be.

Central Bank Bill

We now have in place a more stringent regulatory system overseen by the Central Bank Governor, Professor Patrick Honohan and the head of the Financial Regulator, Matthew Elderfield. The new fully integrated structures replacing the Central Bank and Financial Services Authority of Ireland will be established in law by the Central Bank Reform Bill which I have published today. The new Central Bank will be responsible for maintaining the stability of the financial system, the effective regulation of financial institutions and markets and safeguarding the interests of consumers and investors.

The Bill enhances accountability of the Central Bank and oversight by the Oireachtas of its regulatory performance. I have included in the Bill a provision that gives the Bank new powers to ensure the fitness and probity of nominees to key positions within financial institutions. This key provision will, from the outset, reinforce the tone of the new regulatory regime. It will help to restore confidence in the management of the banks here at home and in the international markets.

A further bill to be published in the autumn will contain additional new and enhanced regulatory powers and functions of the restructured Central Bank. A third bill will consolidate all existing statutory arrangements. Further details of today's Bill are included in the information booklet which has been circulated to members. There will be consultation with stakeholders and the legislation will be enacted as soon as possible after Easter.

A Cheann Comhairle, the detailed information that has emerged from the banks in the course of the NAMA process is truly shocking. At every hand's turn our worst fears have been surpassed.

Some institutions were worse than others. But the fact is that our banking system, to a greater or lesser extent, engaged in reckless property development lending. In too many cases there were also shoddy banking practices. The banks played fast and loose with the economic interests of this country.

Yes, our previous regulatory system failed abysmally and it is right that the role of the regulator, the Central Bank and the Government is now the subject of independent inquiry. But the fact remains that senior figures in Irish banking made appalling lending decisions that will cost the taxpayer dearly for years to come. As I said in this House last September during the debate on the NAMA legislation: the banks should be extremely grateful for the continued support and forbearance extended by the citizens. They must now repay that debt by facilitating the economic recovery which is widely forecast to get underway in the second half of this year. The Government will insist that they do so by supplying credit to viable businesses and households in this State.

Today's Statement

Today, we are entering the ultimate phase in the resolution of our financial crisis

- NAMA has determined the price to be paid for the first tranche of loans to be transferred to the Agency, after detailed and painstaking loan by loan analysis
- The Financial Regulator and Central Bank have carried out their analysis of the appropriate capital requirements for financial institutions so as to ensure not just the bare regulatory minimum, but a prudent and adequate deployment of capital.

I will outline in detail to the House the Government's response to these developments and explain the strategy for addressing the needs of the banking sector, and individual banks.

NAMA

The process of transferring the eligible loans from the designated financial institutions to NAMA has begun. The first tranche of loans has an original book value of approximately €16 billion. This tranche consists of just over 1,200 individual loans owed by the ten largest borrowers. This first tranche represents 20% of the anticipated total assets to transfer. The transfer of these loans should be completed for four institutions in the coming days, with Anglo following next week. NAMA has advised me that the whole transfer process remains on target for completion by the final quarter of the year.

NAMA's work has enabled us to estimate with greater accuracy the overall discount to be applied to each institution and the likely total quantum of loans to be transferred.

The original value of the loans transferred in the first tranche is

- for AIB €3.29 billion from a total of €23 billion in eligible loans;
- for Bank of Ireland €1.93 billion from a total of €12 billion;
- for Anglo €10 billion from a total of €36 billion;

- for INBS €670 million from a total of €9 billion; and
- for EBS approximately €140 million from a total of €1 billion.

The difference between what NAMA has paid for these loans and the original value attributed to them by the institutions, or the so-called haircut, is as follows: AIB, 43%, Bank of Ireland, 35%; Anglo, about 50%; INBS, 58%, and EBS 37%.

The weighted average haircut across these institutions is 47%. These discounts have been calculated following loan-by-loan assessments, including legal due diligence, detailed valuation processes, and internal and external checking processes, including external audit. The doubters have been proved wrong. NAMA has carried out its valuations in a hard-headed commercial manner. As I have said all along, the interests of the taxpayer are paramount in this exercise.

Capital Requirements

The fall in value of the transferred loans means the banks will now have to recognise their losses upfront. Decisions on the appropriate capital requirements are a matter for the Financial Regulator in conjunction with the Central Bank. A robust recapitalisation exercise will ensure that the banks are not just adequately, but properly and prudently, capitalised, so they can absorb these losses and foreseeable future losses that may arise on remaining loans. The banks will then be in a better position to attract funding.

The Regulator has advised me that he will require an 8% core tier 1 capital requirement, of which 7% must be equity. This is a prudent capital provision consistent with emerging best practice internationally. The Regulator has performed a detailed assessment of the capital requirements, current and under a stress scenario, over a three year time horizon and has determined the additional capital requirement of each NAMA participating institution. The capital to meet these new requirements must be in place in each of the institutions by the end of 2010.

I fully agree with the Regulator's view that we do not want institutions to get by on a bare minimum of capital. This only prolongs their difficulties. The capital requirements are set by the new Regulator and are being imposed on the banks. I will now outline the implications for each institution of the Regulator's decisions and give details of their capital needs, proposed solutions and the anticipated Government ownership for each institution:

Bank of Ireland

Bank of Ireland will transfer €1.93 billion of assets to NAMA in the first tranche, which represents 16% of its €12 billion NAMA assets. NAMA has confirmed that it will buy the loans transferred in the first tranche at an average discount of 35%. Taking account of this and his broader assessment of the bank, the Regulator has determined that Bank of Ireland must raise additional equity capital of €2.7 billion by the end of the year to meet the new capital standards.

I have been advised that Bank of Ireland expects to be able to raise private capital and is well advanced in its actions to address its capital needs, which I believe underlines the strength of the institution. I fully support the bank's objective to meet a substantial amount of its capital requirement from private sources.

I believe that Bank of Ireland has a strong future. In conjunction with this private capital raising and to support it, the State will commit to converting part of its Preference Shares in Bank of Ireland into ordinary equity. This process requires no new investment of State funds. This conversion will be executed on market terms and the State will achieve full value for its investment in the bank.

Based on the current envisaged structure, the State expects to remain a minority shareholder in the Bank. In recapitalising Bank of Ireland we will secure an institution that will maintain a presence in the international capital markets, provide loan finance to individuals and businesses and support our economic recovery.

These proposals are dependent upon the agreement to the Bank's restructuring plan by the European Commission. I have discussed the main elements with Commissioner Almunia and I am satisfied that there is the basis for agreement between us on the overall framework of the bank's plan but that further discussions are, of course, required on all the details.

Allied Irish Bank

Allied Irish Bank will transfer €3.29 billion of assets to NAMA in the first tranche, which represents 14% of its €23 billion NAMA assets. NAMA has confirmed that it will buy the loans transferred in the first tranche at an average discount of 43%. Taking account of this and his broader assessment of the bank the Regulator has determined that Allied Irish Bank must raise additional equity capital of at least €7.4 billion by the end of the year to meet the new base case capital standards. In view of the extent of capital to be raised, Allied Irish Bank will be required by the Regulator to produce a detailed capital plan by the end of April this year.

The basic elements of this plan are already clear. Allied Irish Bank is in a position to raise capital through the sale of overseas assets. As the first step in meeting its capital needs the bank will immediately commence the process of sale of assets in the US, Poland and in Great Britain. The sale of these assets will be completed this year, subject to regulatory clearances.

The disposal proceeds will provide significant capital but it will not be sufficient to address the full requirement. To the extent that the gap is not filled by the private sector the State is willing to convert some or all of its preference shares as required on terms to be agreed that will provide full value for the State. Depending on the structure of the capital raising, and the extent of private participation, no new Exchequer funding may be required. But if additional money is required, it will be provided by way of ordinary equity. Any additional capital requirement will be met from the National Pension Reserve Fund.

The private sector will have an opportunity to participate in Allied Irish Bank's capital raising. If sufficient private capital is not available, it is probable that the State will have a majority shareholding in Allied

Irish Bank as a listed entity, but this is much more preferable than an under capitalised or only adequately capitalised entity.

These proposals are dependent on agreement with the European Commission in the context of the assessment of the bank's Restructuring Plan.

Anglo Irish Bank

Finding a long-term solution for Anglo Irish Bank is by far the biggest challenge in resolving the banking crisis. The sheer size of the bank means there are no easy or low cost options.

Winding-up the bank is not and was never a viable option.

As the bank's new management and board have estimated, an immediate wind-up would lead to a fire-sale of assets resulting in a permanent additional and unnecessary loss of upwards of €30 billion. In addition, the State would have to provide a large sum of cash – in the order of €70 billion – up-front to meet the deposits, bondholders and the liabilities due to the Eurosystem.

Similarly, a longer term wind-down is not in the taxpayers' interest. The new management has provided me with figures, assessed by independent financial advisors, indicating that in addition to the capital losses that would be sustained, a long-term wind-down of the bank over ten years could expose the State to funding obligations approaching €30 billion.

I understand why many want us to close this bank. I understand the impulse to obliterate it from the system. But I cannot, as Minister for Finance, countenance such a course of action. The realisation of the costs involved and the wider disruption to the financial system would generate enormous instability for the State with unforeseeable but potentially long-lasting damage to the overall economy.

The unavoidable reality is that the bank has incurred losses from its large-scale property lending and needs substantial further capital. Unpalatable as it is, only the taxpayer can provide that capital. It is the least worst option. For that reason, I am providing €8.3 billion this week to support the capital position of the bank to take account of the bank's losses to date. Additional capital support is likely to be required depending on the NAMA discount on the first tranche of Anglo's loans. The bank will provide comprehensive information on its financial position in its annual report for the 15 month period to end-2009 which will be published later this week.

I must point out that the bank will need further capital to cover future losses and accomplish the restructuring of the bank and its balance sheet. The current estimate is that this could be of the order of a further €10 billion.

However, notwithstanding very substantial work underway on the bank's Restructuring Plan, there are still significant uncertainties about this figure including the size of the discount on all of its loans transferring to NAMA, the scale of future losses on its loans that are not transferred to NAMA and the exact nature and the scope of any split of the bank under its plans and the EU Commission Decision on the plan.

It is because of the heavy loan losses already incurred on a loan book of €72 billion and those in prospect that the injection of resources in this bank is so large. There is simply no alternative that meets the bank's unavoidable obligations at a lower cost consistent with the maintenance of the hard-won stability of the banking system in Ireland.

The bank is expected to transfer about €10 billion of loans to NAMA in the first tranche. This tranche will not transfer until early April as the valuations have not been finalised. The latest available unaudited estimate of the discount is in the order of 50%.

The bank's capital support is being provided by the State in a way which spreads the cash requirements over an extended period of time. I am injecting the capital this week in the form of a promissory note, payable over a number of years into the future. In essence this means the amount will be paid over a period of 10 to 15 years, thereby reducing the impact on the Exchequer this year and stretching the payments into the future.

Since nationalisation of the bank on 21 January 2009 there has been a wholesale replacement of key top executives and the Board. The new Chief Executive and the new senior management team have implemented rigorous and robust risk management processes and controls. There have been cost base reductions following a detailed cost review and voluntary redundancy scheme. The bank, as part of this recapitalisation, will reduce costs further.

The bank's new senior management team is working closely with my Department to update and strengthen its restructuring plan as submitted to the EU Commission last November. Following a comprehensive evaluation of strategic re-structuring options, the bank has identified as its preferred option, in terms of minimizing the future cost to the taxpayer, to carve out a smaller and stronger bank, leaving the remainder in the form of an asset management and recovery company. The new going concern entity would be prepared for sale in due course. This option is being evaluated but holds out the prospect of reducing the impact on the taxpayer and yielding some value in the future when the bank is sold out of State hands. The bank has estimated that the new bank could become profitable over the medium term and a target exit from State hands could take place in 5 to 7 years' time. This is a complex process but I am confident that by the end of the summer we will have a clear plan for the future of the bank approved by the Commission.

The bank will give more details on the likely costs of various options for its future when it publishes its results.

The sums required to rescue the bank are enormous but the costs of winding it down are even greater. The current bank strategy of seeking to devise a way to realise value for the taxpayer out of the remains of the old bank means the State could at least get some return, in time, recouping some of its assistance.

I can assure the House that the bank shares my overriding objective to maximise the potential return for the taxpayer in recognition of the State support.

The Building Societies

Traditionally, building societies have played a vital role in providing residential mortgages in Ireland.

But in recent years EBS and, in particular, INBS became involved in non-residential lending. Indeed, in the case of INBS such lending became its primary focus comprising approximately 80% of its lending business. As a result they have incurred significant losses on speculative lending for land and development and commercial investment loans. In the case of INBS around €9 billion will have to transfer to NAMA while in the case of EBS approximately €1 billion will transfer.

Both societies have passed resolutions allowing them to issue new Special Investment Shares to the State in return for its support. Both institutions have recently been subject to the Regulator's capital assessment process to determine their capital needs.

INBS

INBS will transfer €670 million of assets to NAMA in the first tranche, which represents 7% of its €9 billion NAMA assets. NAMA has confirmed that it will buy the loans transferred in the first tranche at an average discount of 58%. Taking account of this and his broader assessment of the building society the Regulator has determined that INBS will need an injection of €2.6 billion to remain compliant with its current regulatory capital requirements. This is a very large bill for the taxpayer but as in the case of Anglo, it is the least costly solution. It is important to highlight that this level of capital support is required to maintain the institution's financial position in light of the large losses incurred on its loan portfolio. Without this capital injection, the taxpayer would have to shoulder the significant and immediate costs in meeting the deposits, bondholders and the liabilities due to the ECB.

I intend to inject the necessary capital through a combination of €100 million in Special Investment Shares in the society and a Promissory Note for €2.6 billion issued to the Society, giving INBS a small buffer. This Note will be payable over ten to fifteen years, which will reduce the impact on the Exchequer this year. Following the investment by means of the Special investment share, the State will have extensive powers as well as economic ownership of INBS. As a result, the State will control the society.

Following the transfer of €9 billion of its loan book to NAMA, INBS will have a small mainly residential loan book of about €2 billion. In such circumstances the institution does not have a future as an independent stand-alone entity.

The Government's priority will be to secure a swift sale of INBS or its integration with another entity. All options will be fully examined in the institution's EU Restructuring Plan which must be completed within three months. Deposits in INBS are secure and INBS will continue to have adequate regulatory capital.

As in the case of Anglo Irish Bank, a new management team is now in charge of INBS. I will insist on Board changes in the changed ownership circumstances.

EBS

EBS will transfer approximately €140 million of assets to NAMA in the first tranche, which represents 14% of its €1 billion NAMA assets. NAMA has confirmed that it will buy the loans transferred in the first tranche at an average discount of 37%. Taking account of this and his broader assessment of the building society the Regulator has determined that the society will need an injection of €875 million to meet the target sufficient to ensure 8% core tier 1 capital. To secure EBS's immediate capital position, the State will provide EBS with €100 million of capital through the issuance of Special Investment Shares in a manner consistent with the EU State aid rules. The issuance of the Special Investment Shares by EBS was approved by the society at its EGM in December 2009 and will give the State extensive powers and full economic ownership of EBS. The State will therefore have control over the future strategic direction of the society.

EBS is currently exploring the availability of private market capital and has had an expression of interest from a private party. Any private capital transaction will need to comply with the relevant European Commission guidelines for an institution in the receipt of State Aid. To the extent that private capital is not forthcoming, the remaining capital requirement will be met either partly or fully through the issuance of a Promissory Note from the State to the institution which will enhance the Society's core capital by the same amount. If the Promissory Note is used, it would again reduce the impact on the Exchequer this year as the cost of the note would be paid over a period of ten to fifteen years.

EBS will be required to submit a Restructuring Plan to the European Commission that will examine all options for the future strategic direction of the society by end-June.

Whatever outcomes emerge there is no doubt that notwithstanding the differences between them, each society must recognise the position they have got themselves into. They must both focus on making themselves more efficient. Their future value will be enhanced by a committed drive to improving efficiencies in the coming months. I am strongly of the view, and I am committed to ensuring, that the residential mortgage sector in Ireland is competitive. I want to see an appropriate number of participants in the market to meet future demand.

Irish Life and Permanent

Irish Life and Permanent is not taking part in the NAMA process. The Regulator is satisfied that Irish Life and Permanent has sufficient capital to meet its needs. The Regulator will continue to monitor the capital needs of Irish Life and Permanent and is in discussion with them.

Banks and the Real economy

The burden on taxpayers stemming from the losses incurred in our banking system is horrifying. Unless we face up to these losses now, we will not have a functioning banking system and the economy will not recover.

My overriding concern throughout this financial crisis has been to get credit to viable businesses, particularly SMEs, which will lead our way out of this recession.

Banks' Commitments to SME sector

The actions I have announced today will put the banks in a much stronger position than before. I am imposing specific lending targets on AIB and Bank of Ireland. They will make available for targeted lending not less than €3 billion each for new or increased credit facilities to SMEs in both 2010 and 2011. This in particular must include funds for working capital for businesses. This will be a significant increase on the figures reported by the banks for 2009 and will help to sustain the economy and foster growth. This figure will be reviewed as the needs of the economy change.

Bank of Ireland and AIB must also make available €20 million each for Seed Capital to be provided to Enterprise Ireland supported ventures, building on the very successful programme launched in 2009.

They will each set up a fund of up to €100 million for Environmental, Clean Energy and Innovation projects. This is in addition to the €100 million provided under the recapitalisation last year.

Historically, Irish banking has focussed too much on property-related lending. It is fair to say that our banks have not been very well acquainted with our modern economic sectors. This will have to change. For that reason, I am requiring the banks to:

- commit resources to work with Enterprise Ireland and the IBF to develop sectoral expertise in the modern growth sectors of the Irish economy;
- explore with Enterprise Ireland and the IBF how best to develop the range of banking services that Irish SMEs trading internationally will need; and
- develop expertise and bring forward new credit products in areas where cashflow, rather than property or assets, is the basis for business lending

In line with the Renewed Programme for Government, the two banks will be required to submit SME lending plans both by geography and sector for 2010 and 2011 in light of the €3 billion target. These plans are to be submitted to my Department within 6 weeks. They will be reviewed by Mr. John Trethowan, an experienced banker with a demonstrated commitment to public and social service who will be examining bank lending policies as part of his remit as Credit Reviewer. It is, of course, important to stress that credit should only go to viable businesses. The last thing we need is for the banks to incur high losses on risky loans in the SME sector. That sort of imprudent lending must be a thing of the past.

Government will decide, following Mr Trethowan's review, whether further action on lending targets is needed.

Credit Review Process

AIB and Bank of Ireland will also be subject to the Credit Review process, headed by Mr Trethowan, which will allow individual SME's, sole traders and farmers, who have had credit refused or withdrawn, to apply for an independent review of the bank's decision. Where the Reviewer recommends that credit should be granted, the bank is required to comply with the recommendation or explain why it will not do so. This process will also provide me with an accurate assessment of banks' lending policies and

procedures. The administrative arrangements are in place and the Statutory Instrument is being laid before the House today. Accordingly, applications for a review will be accepted from today.

This Credit Review process will give viable businesses, in all sectors, an opportunity for an independent second opinion, where credit is refused or withdrawn. The Review will ensure that the banks, which have been supported by the State and the taxpayer, comply with their responsibilities to our economy. Mr Trethowan will outline his work in this area later this week.

Mortgage arrears issues and personal debt

The prospect of a family losing their home is one the most appalling vistas in any recession. Those who find themselves in this position are likely to have lost their jobs as well. I do not need to tell anyone in this House the havoc and trauma such events can visit on the lives of those affected.

The Government has taken a number of initiatives to support those having difficulty with their mortgages.

- We have introduced the statutory Code of Conduct on Mortgage Arrears for all lenders.
- We have extended the 6 month moratorium on legal proceedings to 12 months.
- We have refocused mortgage interest relief on those who bought their homes at the peak of the market with extensions up to end 2017.
- We have also provided financial help to over 15,000 families, through the Mortgage Interest Subsidy Scheme, and
- We have increased the advisory services provided through the Money Advice Budgeting Services.

In addition, the Irish Bankers' Federation has said where a satisfactory arrangement is reached and adhered to, its members will not take legal action against borrowers.

The number of mortgage holders in arrears is still increasing, although more slowly than before. In general, repossession rates in Ireland remain extremely low. The Guaranteed institutions have told us that last year they sought and obtained orders for repossession through the courts in just 28 cases.

The question has been asked in this House and outside: How can banks that have been rescued by the State be allowed to pursue homeowners experiencing difficulty with the mortgages? I acknowledge the anger and frustration of those who ask this question. But the Government's measures have been successful in minimising the number of repossessions. And the institutions which have had most recourse to the courts are not covered by the Guarantee.

We must also be careful that our efforts to help home owners do not store up more problems in the banking sector that will require further calls on the hard pressed taxpayer.

The revamped Mortgage and Debt Group, which I announced recently, has started its examination of the extent of the problem of mortgage default and will report to me on a rolling basis on the most sensible and effective way to deal with this problem.

Management of the State investments

We have reviewed arrangements for the State's management of its investments in the banking system in anticipation of the potential changes in the State's interests in the banks.

At present, the State's preference share investments in AIB and Bank of Ireland are funded and held on my behalf by the National Pension Reserve Fund Commission. I have decided that the NPRF Commission will be given the ongoing role of managing the State's financial investment in AIB and Bank of Ireland, as two banks listed on a stock exchange and operating at arm's length.

As Anglo Irish Bank is no longer listed, it is in a different position. I hold its shares directly and the NTMA will manage the State's ownership through a relationship framework. Similarly, as they are not listed, I propose to hold directly any Special Investment Shares in EBS and INBS and again the NTMA will manage those interests on the basis of relationship frameworks which will ensure that each institution's board and management team will continue to run its business on an arm's length basis.

Guarantee and its future

In September 2008 in response to the international financial crisis, Ireland introduced a two year blanket guarantee scheme for certain liabilities of covered institutions. A new more targeted guarantee scheme was then introduced in December 2009 to facilitate the ability of credit institutions to issue debt securities and take deposits with a maturity post-September 2010 on either a guaranteed or unguaranteed basis. A key feature of the new Scheme is access to longer-term funding, which is in line with the approach adopted elsewhere in the EU and is expected to contribute significantly to supporting the funding needs of the banks and to securing their continued stability. In addition, banks can access unguaranteed funding under the new scheme.

Although the capital injections I am announcing today will greatly strengthen the position of the banks and serve to reassure their depositors, I am satisfied that it would be prudent to seek an extension of the guarantee in a more limited form until this confidence has been reliably restored.

Therefore, I will be seeking the Commission's agreement for a modified extension of the guarantee consistent with a phasing out over a realistic period of time. As with the extended guarantee scheme, any new scheme will not cover subordinated debt. The existing subordinated debt guarantee will lapse at end-September.

This Scheme is due to be reviewed by the Commission before 1 June and I intend to make an announcement about the future of the guarantee in advance of that date.

I want to stress that, of course the ordinary Deposit Guarantee Scheme that covers €100,000 per depositor per institution is in place and will continue on a permanent basis. Nothing in today's announcement changes that position.

Conclusion

A Cheann Comhairle, this evening, I have, necessarily, concentrated on the costs of resolving the banking crisis. But there are upsides for the taxpayer who is funding these measures:

- First, we now have a clear path to fix the banking system. And because of that, we have safeguarded our economic future.
- Second, NAMA's aggressive valuations greatly increase its prospects of securing a reasonable financial return for the taxpayer.
- Third, the NPRF will hold valuable shares in our two main banks which can realise gains for the citizens of this country.
- Fourth, there is the proven gain of €1 billion which will accrue to the taxpayer in six month's time from the bank guarantee scheme.
- And finally, if a smaller and good bank can be carved out of Anglo's current loan book, we will recoup some of the taxpayers' assistance to that bank.

I began my statement by pointing out the widespread international confidence engendered by last December's budget. The citizens of this country have shown grit and determination in facing up to our severe budgetary difficulties and it has paid off.

We are facing up to our banking difficulties. We have acknowledged the scale of our problems and we have taken the necessary actions to solve them.

The banks have been forced to recognise their losses and this government, on behalf of the taxpayer has committed the capital that will ensure we have a banking system to serve this economy as it recovers.

The steps we are taking today will provide:

- certainty to the people from whom we must borrow;
- certainty among our trading partners; and
- certainty to investors, both at home and overseas, who look to this country for opportunities.

This certainty will further boost international confidence in our ability to recover.

A Cheann Comhairle, others believe in us. We must now begin to believe in ourselves.