Frequently Asked Questions

Minister for Finance's statement on banking

31 March 2011

1. Are my deposits safe?

Yes. 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 Eligible Liabilities Guarantee (ELG) Scheme guarantees all corporate deposits and the balance of retail deposits in the participating institutions over the €100,000 limit of the DGS. On demand deposits in banks or building societies that joined the ELG Scheme are fully guaranteed to 31 December 2011, subject to EU state aid approval for an extension beyond 30 June. All fixed term deposit accounts are covered for the full term of the deposit up to a term of five years as long as the institution was a member of the scheme on the date the fixed term deposit was made or rolled over. Further details, including a list of participating institutions, can be found on in the Department's FAQs http://www.finance.gov.ie/documents/publications/other/2010/elg/FAQelg.pdf or the National Consumer Agency's dedicated website at www.itsyourmoney.ie under 'deposit protection'. An announcement will be made in advance of 30 June regarding any application to the EU Commission for state aid approval for continuing the Scheme for new liabilities to 31 December.

2. What actions should customers take?

- All steps taken by the Government to date have been to protect depositors.
- Government actions are to ensure the banking system is functioning – meeting the needs of the real economy and ensuring that viable businesses can access credit.
- The ECB has provided invaluable support to the Irish banks since wholesale markets effectively closed to Irish banks. This support has been crucial.
- Deposits covered by the Eligible Liabilities Guarantee remain guaranteed.

The steps announced to day are to restore confidence and reassure depositors that their deposits are safe. Customers should continue day to day banking in the normal way.

3. What are the implications for staff from today's announcement?

Today's decisions by Government are to place the Irish financial system on a sustainable level so it is not as reliant on State support. This is necessary as everyone recognises the banks continued operation is thanks to the support provided by all of the citizens of this State and that support must be reduced over time.

Unfortunately, there will be a reduction in employment numbers as non-core businesses are sold or wound down. The State will ensure that all staff are treated fairly, whether they remain with the institutions or not. Employees in non-core businesses that are to be wound down will be entitled to fair redundancy packages that will be at levels that reflect the resources of the State and the bank.

Staff members with queries should direct them to their employer.

4. What changes are being announced to the banks' capital requirements?

Based on the Central Bank's work, a further €24 billion, including €3 billion of contingency funds, is now required by the banks for capital purposes. This is broken down as follows - Bank of Ireland €5.2bn, AIB Bank €13.3bn, IL&P €4bn and EBS €1.5bn. This additional capital will ensure that the banks maintain at a minimum a Core Tier 1 capital ratio of 10.5 per cent at all times in the base case scenario and do not fall below a minimum Core Tier 1 capital ratio of 6 per cent even in an extreme stress scenario. This compares favourably with many banking systems in developed jurisdictions. As noted some €3 billion of any recapitalisation will be on a contingent basis and if it is not required, it must be returned to the State.

5. Who will provide this capital?

The Government commits to ensure that the banks meet the PCAR target. However the Government will seek direct contributions to solving the capital issues of the banking system by looking for a further significant contributions from subordinated debt holders, by the sale of assets to generate capital and where possible by seeking private sector investors. It is expected that the effect of these actions will be to reduce the amount of capital required very significantly

6. What capital requirement is new and what capital is outstanding from PCAR 2010?

€bn	**Remaining for PCAR 2010 due to increased target ratio from 8% to 12%**	**Incremental PCAR 2011 requirement**	**Central bank buffers (including contingency)**	**Total now required**
Bank of Ireland	1.5	2.2	1.5	5.2
AIB	4.2	6.3	2.8	13.3
EBS	0.3	0.9	0.3	1.5
Irish Life & Permanent	0.3	3	0.7	4.0
Total	6.3	**12.4**	**5.3**	**24.0**

7. How well capitalised will the banks be following the PCAR?

Once the banks have been capitalised to these levels their capital levels will be

- AIB 21.9%
- BOI 16.1%
- EBS 22.6%
- ILP 32.4%

These capital levels are well above the 10.5% internationally accepted target rate and are designed to withstand very significant shocks.

8. How was the PCAR capital requirement determined?

The PCAR capital requirement has been set at a level to ensure that the banks maintain at a minimum a Core Tier 1 capital ratio of 10.5 per cent at all times in the base case scenario and do not fall below a minimum Core Tier 1 capital ratio of 6 per cent even in an extreme stress scenario.

The PCAR capital number is derived from three complementary but separate exercises:

- The results of Blackrock's independent loan loss scenario assessment exercise;
- The results of the European Banking Authority ("EBA") based stress test; and
- The outputs of the PLAR.

The loan loss exercise measures the nominal loss that banks might experience under the base and stress scenarios, over both a three-year and a loan-lifetime basis. The 'base' scenario is in line with the EU Autumn forecasts for the Irish economy and the stress scenario represents an unlikely, but not utterly implausible, further economic contraction. These losses are generated from a bottom-up analysis of loan data.

The EBA-based PCAR stress test is a top-down exercise which has required the banks to model the impact of certain assumptions on their balance sheets and profit and loss accounts. The PCAR incorporates much of the methodology used by the EBA, but the Central Bank stress test is more conservative and more stringent.

To achieve PLAR loan-to-deposit ratio targets banks will be required to sell assets. In doing so, they are likely to incur losses. These losses will give rise to a capital requirement the estimated amount of which has been included in the overall assessment of the capital needs of the banks.

9. What is going to happen to EBS?

It has not been possible to conclude a sale of EBS that would satisfy the State's objectives and consequently the NTMA advised the remaining bidder yesterday that we were terminating the sale process. In order to continue with the required restructuring of EBS it will now be combined AIB.

This development will have no impact on how customers interact with EBS and customers can expect that business will be handled as normal. Depositors and borrowers of EBS should continue to carry out their business in the normal way. All branches remain open. Customers of EBS can be assured that their deposits remain fully guaranteed under the Deposit Guarantee Scheme and the Eligible Liabilities Guarantee Scheme. Customers should also note that the terms and conditions of current financial products will remain unchanged following the transfers.

10. Why are you merging AIB and EBS?

The recent bid for the EBS did not represent good value for the state as shareholder. By merging the operations of AIB and EBS we will build a second pillar bank from the strengths of both institutions. This merged entity will become a stronger and more domestically focused institution which will leave it better placed to service the needs of the Irish economy.

During the transition, customers continue to do business with either bank and over time the fuller services of AIB become available to the customers of the EBS but all retain the protection of the state guarantee for their deposits.

11. What is going to happen to AIB? How will the capital requirements be met?

AIB has been directed by the Central Bank to raise a further €13.3bn in new core tier 1 capital.. This figure is inclusive of the remaining €4.2bn of equity the bank is committed to raising under PCAR 2010. Subject to further capital raising initiatives planned by the bank itself, the State will make the necessary remaining capital available to the bank to meet this requirement.

12. What is going to happen to IL&P? How will the capital requirements be met?

The Central Bank has determined that IL&P Group must raise additional equity capital of at least €4bn to meet its regulatory capital requirements. This will require a significant restructuring of their business and their shareholding, involving in all likelihood a majority stake held by the government. The management of ILP have agreed to produce a detailed capital plan to me shortly.

The basic elements of this plan are already clear and are reflected in IL&P's deleveraging plans agreed with the Central Bank. IL&P will immediately commence a process to sell its life insurance subsidiary Irish Life Assurance, as well as other non-banking assets. In line with the other institutions, assets will be divided between core and non-core, and non-core assets will be available for sale or run-off to help to reduce the imbalance between assets and deposits.

It is the intention of the State to provide the PCAR capital to the group after appropriate private sector involvement.

Irish Life Assurance remains a well capitalised insurance company in full compliance with all solvency requirements.

13. How does this affect customers of IL&P?

Depositors and borrowers of Permanent TSB should continue to carry out their business in the normal way. All branches remain open. Customers of PTSB can be assured that their deposits remain fully guaranteed under the Deposit Guarantee Scheme and the Eligible Liabilities Guarantee Scheme.

There will be no change for policyholders and customers of Irish Life Assurance and Irish Life Investment Management. Irish Life remains a well capitalised insurance company in full compliance with all solvency requirements and has a standalone credit rating of A –.

14. How does this affect shareholders of IL&P?

Should it not be possible for IL&P to meet its revised capital requirements through asset disposals or other capital generative measures (including burden-sharing) the State will provide the necessary capital by way of equity. As a consequence of this injection the State will potentially end up with a majority equity stake in the institution. While shareholders' ownership of, and rights over, the existing ordinary shares would be unaffected by this move their shareholding will be diluted as a result. Shareholders should get independent financial advice in relation to this matter.

15. Will BOI shareholders get an opportunity to contribute to the bank recapitalisation or will it be nationalised?

BOI has been directed by the Central Bank to raise a further €5.2 bn in new core tier 1 capital. This figure is inclusive of the remaining €1.5bn of equity the bank is committed to raising under PCAR 2010. The bank will be given the opportunity to raise this money from private sources. If this cannot be achieved then the State will provide this capital in order to meet the revised PCAR target.

16. What is the current situation with Anglo and Irish Nationwide?

In accordance with the terms of the EU/IMF Programme, a joint restructuring and work out plan for these two institutions was submitted on 31 January 2011 to the EU Commission for approval under State Aid rules. The plan envisages the orderly work out of Anglo and INBS over a period of a number of years and, as part of that process, the immediate transfer of deposits from Anglo and INBS to third party credit institutions. This transfer of deposits and corresponding assets has now taken place under the provisions of the Credit Institutions (Stabilisation) Act 2010 and the remainder of the restructuring plan is now being considered by the Commission, in consultation with the other External Authorities as necessary.