

## **Chapter 7 Central Government**

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### **Banking Stabilisation Measures**



# Banking Stabilisation Measures

7.1 Difficulties in the US housing market in 2006 and 2007 led to the exposure of other problems in financial markets around the world. This resulted in a global financial crisis that centres on concerns about the solvency of financial institutions and impairment of financial assets, including lending secured on complex and opaque financial products. In Ireland, the problems came to a head in September 2008, when serious concerns emerged about the stability of the Irish banking system. Since then, the Government has implemented a series of measures aimed at restoring the stability of the financial sector, protecting depositors and enabling and encouraging credit institutions to resume lending.

7.2 Some of the banking stabilisation measures implemented have involved the use of public funds, sourced from accumulated public reserves or increased State borrowing. Guarantees in respect of banking liabilities have exposed the State to very significant contingent liabilities.

## Report Focus

This Chapter has been compiled to present an overview of the main measures implemented, and of the financial impacts to date.

## International Comparison of Stabilisation Measures

7.3 Central banks in many countries have significantly increased the scale of their normal operations in support of the liquidity of financial institutions. For example, the European Central Bank has expanded its support for financial institutions since mid 2007, initially through lengthening of the lending period, and since October 2008, through an increase in the aggregate amount of liquidity provision.

7.4 In addition to central bank liquidity support operations, many countries have provided, or announced the intention to provide, further special support for their financial sectors. The main types of measures that have been implemented are

- **capital injections into financial institutions** — many countries have recapitalised banks, particularly those considered to be systemically important
- **asset purchase and direct lending** — governments and some central banks have purchased illiquid assets from financial institutions and/or have provided substantial direct loans
- **special central bank/treasury support** — central banks have provided credit lines to financial institutions, purchased asset-backed securities and commercial paper and engaged in asset swaps
- **guarantees for financial sector liabilities** — guarantees have been provided for bank deposits, interbank loans and, in some case, bonds
- **deposit guarantees** — deposit guarantee scheme limits in place prior to the financial crisis have been raised in most countries.

7.5 Figure 21 presents International Monetary Fund (IMF) data showing the range and scale of the measures provided by advanced economies up to mid-May 2009. The data are expressed in terms of percentage of Gross Domestic Product (GDP) to facilitate comparison of the scale of the interventions.

**Figure 21 IMF Estimates of Support for the Financial Sector in Selected Countries, at Mid-May 2009, (as a Percentage of GDP)**

	Capital Injection	Purchase of Assets/ Direct Lending	Central Bank Support backed by Treasury	Special Liquidity Provisions by Central Bank	Liability Guarantees	Up-Front Government Financing <sup>a</sup>
	%	%	%	%	%	%
Australia	—	0.7	—	—	8.8	0.7
Austria	5.3	3.5	—	—	26.6	8.9
Belgium	4.8	—	—	—	26.4	4.8
Canada	0.9	8.8	—	1.9	13.5	9.8
France	1.4	1.3	—	—	16.4	1.6
Germany	3.8	0.4	—	—	18.0	3.7
Greece	2.1	3.3	—	—	6.2	5.4
<b>Ireland</b>	<b>5.4</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>261.0</b>	<b>5.4</b>
Italy	0.8	—	—	2.5	—	0.8
Japan	2.4	11.4	—	1.2	7.3	0.8
Korea	2.5	5.0	—	0.2	12.7	0.3
Netherlands	3.4	2.8	—	—	33.9	6.2
Norway	2.0	15.8	—	—	—	15.8
Portugal	2.4	—	—	—	12.0	2.4
Spain	—	4.6	—	—	18.3	4.6
Sweden	2.1	4.8	—	15.4	47.5	5.2
Switzerland	1.1	—	—	7.2	—	1.1
United Kingdom	3.9	13.8	12.8	—	51.1	18.9
United States	4.6	2.3	0.7	41.9	31.4	7.5

Source: IMF Staff Position Note SPN/09/13, Fiscal Implications of the Global Economic and Financial Crisis, June 2009.

Note:

a Includes elements of support reported in first three columns that involve up-front government outlays.

7.6 The pattern in Figure 21 indicates that different choices have been made by different countries about the most appropriate measures to use to support their respective financial sectors.

7.7 Based on the IMF data, it appears that Ireland's up-front government financing up to mid-May 2009 (5.4% of GDP) was significant but not exceptional in relative terms. Norway and the United Kingdom had provided substantially higher levels of up-front government support, equivalent to 16% and 19% of GDP, respectively.

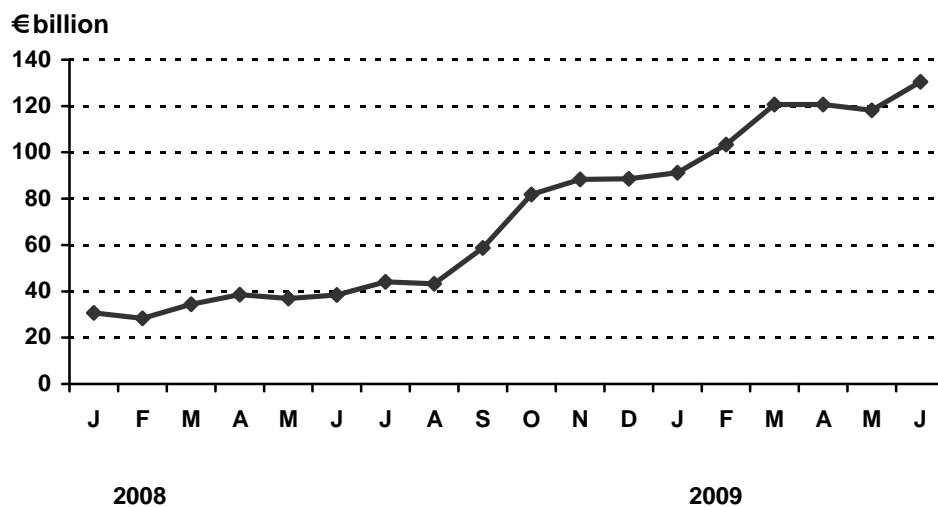
7.8 The Department of Finance considers that the IMF used an incorrect estimate of Ireland's guarantees for financial sector liabilities in compiling the data, and that the measure of liability guarantees shown by the IMF was consequently overstated. The Department estimates that at the end of March 2009, the value of credit institution liabilities covered by State guarantees equated to 164% of GDP. This excludes the value of customer deposits covered by the Deposit Guarantee Scheme. Furthermore, the Department has stated that while Ireland's guarantee of credit institution liabilities is formal and legally-binding, governments in a number of other countries have given robustly-worded commitments which, although less formal, are much closer in scope and intent to the Irish guarantee than would be evident from the formal legal position.

## Central Bank/Eurosystem Liquidity Support

7.9 The Central Bank, acting on behalf of the European System of Central Banks (Eurosystem), has provided substantial funding to support the liquidity of the banking sector, in the form of lending backed by collateral. In practice, it has provided as much liquidity as banks sought, as well as broadening the list of assets acceptable as collateral.

7.10 As Figure 22 indicates, Central Bank Eurosystem lending to credit institutions increased from €38 billion at the end of June 2008, to €130 billion at the end of June 2009.

**Figure 22 Central Bank/Eurosystem Lending to Credit Institutions, January 2008 to June 2009**



Source: Central Bank Monthly Statistics Bulletin

## Extension of Deposit Guarantee Scheme

7.11 A Deposit Guarantee Scheme was put in place in 1995, giving effect to EU Directive 94/19/EC. Under the scheme, certain depositors in credit institutions were provided with a guarantee of limited compensation in the event that the institution(s) went into liquidation. The level of protection provided was limited to the minimum allowed under the EU Directive. From 31 December 1999, the level of compensation was limited to the lesser of €20,000, or 90% of deposits held in current accounts, demand deposit accounts and term deposit accounts, in any one institution.

7.12 Institutions subject to the provisions of the Scheme are required to deposit funds in a Deposit Protection Account administered by the Central Bank/Financial Regulator. Since the

inception of the Scheme, the required deposit to be maintained in the account by each institution has been set at a level of 0.2% of the total value of current customer deposits with the institution — not just of the value of deposits guaranteed.

7.13 At end 2008, around 50 credit institutions were subject to the provisions of the Scheme. The balance in the Deposit Protection Account was €69 million (up from €26 million at the end of 2007).

7.14 In the event of the liquidation of a credit institution, claims by depositors would be met in the first instance by the Central Bank, using the resources of the Deposit Protection Account. Any shortfall would be met from the Central Fund of the Exchequer. Subsequent payments into the Deposit Protection Account from surviving credit institutions to restore their required deposits would be used to repay the Exchequer.

7.15 No claims have been made under the Scheme since its inception.

7.16 Because of apparent consumer concerns about the security of their deposits in credit institutions, the Government announced a number of reforms of the Deposit Guarantee Scheme on 20 September 2008. These included

- an immediate increase in the compensation limit from €20,000 to €100,000 per eligible depositor per institution
- the ending of the requirement whereby the depositor bore at least 10% of any loss
- the extension of the scheme to cover deposits in over 400 credit unions — previously, the deposits of some credit unions had been covered by a more limited, non-statutory deposit protection scheme.

7.17 Subsequent to the announcement of the planned changes to the Deposit Guarantee Scheme, the EU initiated a number of other reforms of these schemes. These include reducing the normal time limit for the payment of compensation under the schemes from three months to 20 working days.

7.18 The Financial Services (Deposit Guarantee Scheme) Act 2009 was passed on 18 June 2009 to provide for the necessary changes. A statutory instrument that came into effect on 30 June 2009 increased the guarantee limit to €100,000 and provided for the time limit for payment of compensation to be reduced with effect from the start of 2011. A further statutory instrument will implement the necessary changes in relation to credit unions.

## **Bank Guarantee Scheme**

7.19 The Credit Institutions (Financial Support) Scheme (referred to as the Bank Guarantee Scheme) was initially announced on 30 September 2008. It provides a two-year State guarantee in respect of all deposits of seven credit institutions, to the extent that they are not covered by existing deposit guarantee schemes in the State or in other jurisdictions, and for certain other liabilities of the institutions. The Scheme is voluntary, but certain terms and conditions are imposed on the institutions participating in it. These include

- payment to the Exchequer of quarterly charges in respect of the guarantee over the life of the Scheme
- a requirement on each of the covered institutions to appoint two public-interest directors from a Government-nominated panel to their boards
- limits on the remuneration of senior bank officials

- more intensive regulatory oversight of the covered institutions, including more frequent prudential reporting (daily reports on liquidity) and permanent on-site Financial Regulator observers (e.g. attending credit committee meetings).

#### **Liabilities Covered by Guarantee under the Bank Guarantee Scheme**

Liabilities covered by the Scheme are

- all **retail and corporate deposits** (to the extent not covered by existing deposit protection schemes in Ireland or any other jurisdiction) — this includes any credit balance with a covered institution that results from funds left in any account or from banking transactions and which the credit institution is obliged to repay; any such debt evidenced by a certificate issued by a credit institution; and money in share accounts with building societies
- **interbank deposits** (but excluding intra-group borrowing, and excluding any debt due to the European Central Bank arising from Eurosystem monetary operations)
- **senior unsecured debt** — includes all securities that have priority ahead of all other unsecured subordinated debt in ranking for payment in the event of default. It includes debt instruments such as: short-term paper; medium-term notes (fixed or floating); convertible or exchangeable debt instruments; loan facilities; structured unsecured debt products (including interest rate linked notes, inflation linked notes, equity linked notes, commodity linked notes and foreign exchange linked notes); and crystallised exposures under derivative contracts after taking into account any netting.
- **asset covered securities**
- **dated subordinated debt** (lower tier 2) — This is debt with a specific redemption or maturity date, as opposed to a ‘perpetual’ debt that has no fixed maturity. It is subordinate to other debts, meaning that it would be honoured after those debts should a credit institution be wound up. The term ‘lower tier 2’ is a classification used for regulatory purposes.

7.20 Figure 23 indicates the estimated total value of the liabilities covered by the guarantee at the end of each quarter since the Scheme was initiated. It also indicates the estimated value of the deposits in the institutions participating in the Scheme that were covered under the Deposit Guarantee Scheme<sup>15</sup>.

**Figure 23 Estimated Value of Guaranteed Liabilities of Covered Credit Institutions, December 2008 to June 2009**

	<b>Deposit Guarantee Scheme coverage<sup>a</sup></b>	<b>Bank Guarantee Scheme coverage</b>	<b>Total value of guaranteed liabilities of covered institutions</b>
	<b>€bn</b>	<b>€bn</b>	<b>€bn</b>
End December 2008	82.5	344.5	427.0
End March 2009	83.7	299.1	382.8
End June 2009	81.6	264.9	346.5

Source: Department of Finance

Note:

- a Relates only to eligible deposits in the institutions covered by the Bank Guarantee Scheme.

<sup>15</sup> Some of the liabilities of the credit institutions are covered by the Deposit Guarantee Scheme, but this is not regarded as a State guarantee.

7.21 The Scheme provides for the Minister for Finance to publish the aggregate value of the covered liabilities on a quarterly basis. The covered credit institutions are required to produce audited figures for the amounts of the covered liabilities at the end of each quarter. It took some time for consistent definitions and methodologies to be agreed between the Department of Finance, the credit institutions and their auditors. The first of the audited figures were submitted to the Department in July 2009. The Department intends to publish a report on the value of the covered liabilities as soon as a complete set of audited data is available.

### **Guarantee Premium Payments**

7.22 The Guarantee Scheme provides for each of the covered institutions to pay quarterly charges in respect of the guarantee of their liabilities. This is intended to recover from the institutions concerned an appropriate amount in respect of the financial cost and the risk incurred by the State as a result of providing the guarantee.

7.23 The overall sum to be recovered through charges is based on the estimated increased cost of funding Government debt as a result of the provision of the guarantee. In practice, there is a difficulty in separating the impact of the guarantee on Government funding costs from the impact of other factors, particularly in the exceptional market conditions that now prevail. In arriving at the sum, account was also taken of the capacity of the covered institutions to pay the charges, given the circumstances that gave rise to the need to introduce the guarantee.

7.24 Based on the advice of the National Treasury Management Agency, the Department of Finance assumed that the cost of funding Government debt would rise as a result of the guarantee by between 0.15% and 0.3%, and determined that the sum to be collected from the covered institutions should be around €500 million a year for two years.

7.25 The model adopted for calculating the distribution of the charge between the covered institutions was based on long-term credit ratings as indicators of the risk profiles of the individual institutions. Each institution is required to calculate the amount to be paid each quarter, and to have the amount verified by the institutions external auditors. Other than in the first quarter of operation of the guarantee, the institutions are required to pay the charge within five working days of the start of the quarter.

7.26 A special account has been set up at the Central Bank into which the charges paid by covered institutions are lodged. This is being maintained as a reserve for any payments to be made under the scheme. Any balance remaining at the expiry of the Scheme will be paid to the Exchequer. Figure 24 indicates the amounts paid into the Guarantee Scheme account to date.

**Figure 24 Payments by Covered Institutions of Guarantee Charges, Quarter 4 2008 to Quarter 2 2009**

	Payment for Quarter	Cumulative Payment at end of Quarter
	€m	€m
Quarter 4 2008	110	110
Quarter 1 2009	115	225
Quarter 2 2009	70	295

Source: Department of Finance

7.27 The Guarantee Scheme provides for the Minister for Finance, at his discretion, to review the charges levied on covered institutions. The charges have not been revised to date.

7.28 Covered institutions have also committed in their respective guarantee acceptance deeds to indemnify the Minister in respect of any payments made under the guarantee, and to reimburse other costs incurred (e.g. administration costs).

### **Review of the Scheme**

7.29 A review of the Bank Guarantee Scheme was undertaken in April 2009. This concluded that, while the Scheme was successful in its immediate aim of preventing a systemic banking crisis, the liquidity position of the Irish banking system remains under stress. The review concluded that a reason for this was that because the guarantee will expire within a relatively short time, the covered institutions were unable to obtain long-term funding from the markets. In contrast, it was found that most of the guarantee schemes introduced in other EU member states, while smaller in scope, provide for guarantees of debt instruments within a specified maturity term e.g. five years from date of issue to maturity. The review concluded there was justification for continuing the Bank Guarantee Scheme, and that there was a need to introduce a guarantee for debt issues with maturities up to five years.

7.30 The Government has indicated that it intends, under a new scheme, to put a State guarantee in place for future issues of debt securities with maturities of up to five years. It is expected that debt covered by this guarantee would be substituted for debt covered by the Bank Guarantee Scheme, and so would not add to the overall stock of guaranteed liabilities.

## **Recapitalisation of Banks**

7.31 Because of the increased market focus on the capital position of banks in the later part of 2008, the Financial Regulator commissioned PriceWaterhouseCoopers to carry out an independent assessment of the loan books and capital position of the credit institutions covered by the Guarantee Scheme. Based on the results of the assessment, the Government decided in December 2008 to assist in recapitalisation of certain credit institutions through preference shareholding.

7.32 The banks included in the recapitalisation proposal were AIB, Bank of Ireland and Anglo Irish Bank, with an initial proposed provision of €5.5 billion. Following further analysis by PriceWaterhouseCoopers, the Government decided instead to nationalise Anglo Irish Bank.

7.33 Further work was also undertaken by PriceWaterhouseCoopers and Jones Lang La Salle, a firm of independent valuers, in relation to the value of the property-base loan portfolios of AIB and Bank of Ireland. Based on that work, the proposed recapitalisation provision for the two banks was increased in February 2009 to a total of €7 billion.

7.34 The recapitalisation was funded from the National Pension Reserve Fund, with €4 billion coming from the Fund's current resources and €3 billion provided by means of frontloading of the Exchequer contributions to the Fund for 2009 and 2010. The funding was invested in preference shares with a fixed dividend of 8% payable annually. Dividends will be paid into the Fund.<sup>16</sup>

7.35 Provision was made for the proposed investment by the National Pension Reserve Fund by way of primary legislation, passed on 5 March 2009<sup>17</sup>. In preparation for the investment, the National Pension Reserve Fund Commission carried out a detailed due diligence exercise in relation to the two banks, with the assistance of PriceWaterhouseCoopers and others.

<sup>16</sup> The key features of the investment mechanism are described in Chapter 42, which reports on the operation of the National Pension Reserve Fund.

<sup>17</sup> Investment of the National Pensions Reserve Fund and Miscellaneous Provisions Act 2009.

7.36 At subsequent extraordinary general meetings of AIB and BOI, shareholders agreed to the terms and conditions of the recapitalisation. The investment in Bank of Ireland occurred on 31 March 2009.

7.37 In advance of the planned investment in AIB, the Commission of the National Pension Reserve Fund conducted a due diligence process that concluded that in certain extreme stress test scenarios, AIB's Core Tier 1 capital could need to be further strengthened. Following discussions, the Minister for Finance and the bank formed the view that it would be appropriate that AIB would strengthen its capital position by a further €1.5 billion, over and above the National Pension Reserve Fund's investment of €3.5 billion. As part of this process, AIB engaged in a debt buy-back operation in June 2009 which increased its capital position by approximately €1 billion. The investment in AIB occurred on 13 May 2009.

7.38 Each of the banks paid an arrangement fee of €30 million which was deducted from the investment amount on the closing of the respective investment deals.

## **Nationalisation of Anglo Irish Bank**

7.39 Following the proposal in December 2008 to recapitalise Anglo Irish Bank, the evident absence of market confidence in the bank and growing concerns about the bank's governance resulted in a Government decision on 15 January 2009 to take the bank into State ownership.

7.40 The nationalisation was given effect through the Anglo Irish Bank Corporation Act 2009, which was signed on 21 January 2009. The bank remains subject to regulation by the Financial Regulator and must comply with liquidity and regulatory capital requirements.

7.41 Anglo Irish Bank remains a 'covered institution' under the terms of the Bank Guarantee Scheme. The bank also has support in the form of a letter of comfort issued by the Minister for Finance on 30 September 2008 backing Anglo Irish Bank's borrowings from the Central Bank under the Eurosystem.

### ***Valuation of Shares***

7.42 The Act provides for the appointment of an assessor to assess whether shareholders in Anglo Irish Bank at the date of the nationalisation should receive compensation in respect of their lost shares, and if so, to determine a fair amount. If the assessor determines that compensation should be paid, a scheme will be established to effect the payment. The Act specifies that the compensation will be paid out of Anglo Irish Bank funds, if available. If not, any compensation payments made will be made out of the Central Fund.

7.43 An assessor has not yet been appointed to examine the issue of compensation payments.

### ***Recapitalisation of Anglo Irish Bank***

7.44 Detailed internal assessment of the Anglo Irish Bank loan book was carried out for the period leading up to the end of March 2009, and was reviewed independently by PriceWaterhouseCoopers. As a result, it was recognised that there was very substantial impairment of certain loans, resulting in the bank's half year accounts published at the end of May 2009 showing pre-tax losses of €1.1 billion.

7.45 In light of the losses, the Minister announced that, subject to EU approval, he would provide up to €4 billion of capital for the bank. Part of the injection of capital was to be used by the bank to buy back certain outstanding subordinated loans from bondholders at a significant

discount on their par value. EU approval for the Government's capital injection was received on 26 June 2009.

7.46 On 29 June 2009, the Government provided capital to the bank through the purchase of ordinary shares in Anglo Irish Bank Corporation Limited to the value of €3 billion. This sum was paid out of the Central Fund, under Section 6 (9) of the Credit Institutions (Financial Support) Act 2008.

7.47 Further capital of up to €1 billion is expected to be provided by the Government following the agreement of the terms of a programme whereby the bank will repurchase its debt. On 9 July 2009, the bank announced that it proposes to make an offer for securities with a nominal value of €3.05 billion.

## Purchase of Financial Assets

7.48 Much of the concern about asset quality in Irish banks relates to loans advanced to fund property transactions, particularly lending for land acquisition and development in Ireland and in the UK. A collapse in property values has resulted in impairment of related loans and doubt as to the value of asset-backed lending.

7.49 Following an examination by a consultant<sup>18</sup> of options to deal with impaired assets, the Government announced on 7 April 2009 that it would establish a National Asset Management Agency (NAMA) on the basis that it would be the most effective way to bring stability to the Irish banking system. It is intended that the agency will purchase land as well as development and related loans from the banks, thereby removing the doubtful assets from their balance sheets. This is expected to improve their capacity to source funding from financial markets and facilitate lending to the economy.

7.50 One of the more difficult challenges in operating the NAMA model will be to establish the appropriate price for the agency to pay for the property loans it will acquire. The book value of the loans to be transferred is estimated to be in the region of €80 billion to €90 billion. However, NAMA will not be paying the book value, so the banks concerned will have to recognise losses in their accounts on the transfer of the loans to NAMA.

7.51 Payments to the banks will be by means of issue of government or government-guaranteed bonds directly to the banks. The value of the bonds to be issued is dependent upon the loan valuation process and has therefore to be determined.

7.52 Income from the assets acquired, and the proceeds from their eventual sale, will accrue to NAMA. If NAMA has made a profit by the time it comes to be wound up, this will accrue to the State. If NAMA eventually ends up with a loss, it is the Government's intention to apply a levy on the banks to recoup the shortfall.

7.53 NAMA will operate under the aegis of the National Treasury Management Agency. The initial preparations for the agency, including the drafting of the necessary legislation, are being managed by a steering group made up of representatives of the Department of Finance, the Office of the Attorney General and the NTMA. An interim Managing Director has been appointed to lead the implementation process.

7.54 Legislation to provide for the establishment of NAMA has been published and is scheduled for consideration by the Oireachtas in Autumn 2009.

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<sup>18</sup> Dr Peter Bacon.

## Regulatory Reform

7.55 The failure of regulatory systems to restrain the development of high risk banking practices has been identified as a contributory factor to the global financial crisis. As a result, changes are being made in regulatory regimes in many jurisdictions.

7.56 The oversight of banks has been intensified since the introduction of the Credit Institutions (Financial Support) Scheme. The Scheme provides for a heightened direct engagement with each of the covered institutions and new reporting arrangements, including the provision of Scheme compliance certificates by the covered institutions themselves and by their external auditors.

7.57 On 18 June 2009, the Government announced its intention also to establish a single fully-integrated regulatory institution, to be called the Central Bank of Ireland Commission. This will replace the current board structure of the Central Bank and the Financial Services Regulatory Authority. The proposed Central Bank Commission will be chaired by the Governor of the Central Bank and will be responsible for both the supervision of individual firms and the stability of the financial system generally.

7.58 Two top-level posts will be established within the Central Bank of Ireland as ex-officio members of the Commission.

- A Head of Financial Supervision will report to the Commission on the regulatory and supervisory functions and objectives of the new structure. The process of recruiting the Head of Financial Supervision is already underway.
- A Head of Central Banking will report on the performance of central banking functions (other than those that relate to the independent role of the Governor under the Eurosystem and ECB structure).

7.59 It is intended that the organisational reforms will be supported by a significant expansion of regulatory capacity within the new structure. Substantial additional staff with the skills, experience and market-based expertise needed to meet the objectives of the new structures will be appointed. Those recruited will also have the expertise to regulate the international financial services sector. The Financial Regulator is working through business changes in light of a business review process.

7.60 The consumer information and education role currently carried out within the Consumer Directorate in the Financial Regulator will be re-assigned to the National Consumer Agency, which is to be amalgamated with the Competition Authority.

7.61 The Government has indicated that it intends to enhance the accountability of the new regulatory structures to the Oireachtas and to strengthen processes for the evaluation and quality assurance of regulatory performance.

## Administrative Costs

7.62 In the course of developing and implementing the measures aimed at stabilising the banking sector, there has been very significant recourse to the services of legal, financial and economic advisors. This was necessary because of the highly technical issues that have arisen, and because of the need to complete elements of the work within a short timeframe. The urgency of the work also necessarily resulted in the procurement of some services without recourse to competitive processes. Significant internal costs in relation to staff engaged in the design and implementation of the stabilisation measures were also incurred.

7.63 Up to the end of May 2009, the Department of Finance had paid a total of €3.9 million to Arthur Cox Solicitors for legal advice in relation to the Bank Guarantee Scheme, the recapitalisation of banks and the nationalisation of Anglo-Irish Bank. In late July 2009, the Department invoiced the credit institutions covered by the Guarantee Scheme a total of around €2.5 million in respect of recoupable costs, including €1.6 million in respect of legal expenses.

7.64 The expenses of the Minister for Finance in connection with the nationalisation of Anglo Irish Bank are recoupable from the bank under Section 33 of the Anglo Irish Bank Corporation Act 2009. The Department has stated that the expenses will be charged in due course. Separately, there is a provision in the agreement for the Anglo Irish Bank recapitalisation that the bank will reimburse the Minister for the costs relating to the execution of the agreement. These costs are currently being compiled and will be charged when the recapitalisation process is complete.

7.65 The Financial Regulator paid a total of €2.95 million to PriceWaterhouseCoopers and a further €0.84 million to Jones Lang LaSalle for financial and property consultancy services in relation to the Bank Guarantee Scheme. The Financial Regulator levied fees totalling €3.4 million on the relevant institutions up to the end of December 2008.

7.66 The National Treasury Management Agency paid a total of €7.3 million to Merrill Lynch for investment banking advice.

## Conclusions

The range of actions taken and measures implemented by State agencies have had the common aims of restoring the stability of the financial sector, protecting depositors and enabling and encouraging credit institutions to resume lending.

Up to the end of June 2009, the State had directly expended a total of €10 billion on banking stabilisation measures. This comprised

- €3.5 billion invested in preference shares in Bank of Ireland
- €3.5 billion invested in preference shares in AIB
- €3 billion invested in the State-owned Anglo Irish Bank.

A further €1 billion is expected to be invested in Anglo Irish Bank in the near future.

In addition to the expenditure incurred, the State has taken on very substantial financial commitments. At end June 2009, State guarantees covered liabilities of credit institutions totalling €65 billion.

The financial implications for the State of the proposed NAMA have yet to be determined.

