



An Roinn Airgeadais Department of Finance

Publication of the Relationship Frameworks for the Banks

30 March 2012

On 30 March 2012 the Department of Finance published the Relationship Frameworks for each of the banks in which the State acquired an interest in the context of the financial crisis. The Frameworks are specified by the Minister for Finance for the following banks:

Allied Irish Banks

Bank of Ireland

Irish Life and Permanent

Irish Bank Resolution Corporation

The Frameworks have been prepared in the context of EU and Irish competition law considerations and commitments made in connection with the EU/IMF Programme for Financial Support for Ireland. The commitment under paragraph 10 of the Memorandum of Economic and Financial Policies dated 10 February 2012 provides:

“We are finalizing relationship frameworks with the covered banks to ensure their core businesses will be run on a commercial, cost effective and independent basis designed to ensure the value of the banks as an asset to the State. These frameworks for the core businesses of AIB, BoI and IL&P contain clear guidelines to: (i) ensure the Minister for Finance’s relationship with the domestic banks is in line with best institutional shareholder practices; (ii) rule out intervention by the Minister for Finance in day-to-day management and commercial decisions (including in relation to lending) and preserve independence of the banks’ boards; and (iii) allow the banks appropriate discretion to define their own strategies, budgets, and business plans. The frameworks will be published by end-March 2012”

The Frameworks provide:

- each bank will continue to operate at arm's length from the State;
- each bank will remain a separate economic unit with independent powers of decision;
- each bank will continue to have its own independent board and management team;
- there will be no cross-directorships between banks;
- the board of each bank will determine the bank's strategy and commercial policy, including the adoption of its business plan and budget; and
- the State will not intervene in the day-to-day operations of the banks or their management decisions including with respect to pricing and lending decisions;
- the State's power to intervene in the conduct of the banks' business is limited to particular circumstances in each case

The Frameworks are proportional to the size of the State's shareholding interest in each bank.

The Minister's consent is required under existing legislation, placing agreements and subscription agreements in relation to certain matters. These include remuneration matters and for some banks, the appointment of the Chairman or the CEO. SME lending targets also continue to apply.

Under the Frameworks, some of the banks are expected to consult with the Minister in relation to their business plans and sectoral lending plans although final responsibility rests with the Board of Directors in accordance with competition rules.

The Minister expects the Board and management team of each of the banks to conduct their commercial operations in a prudent and sustainable manner which seeks to create commercially oriented credit institutions.