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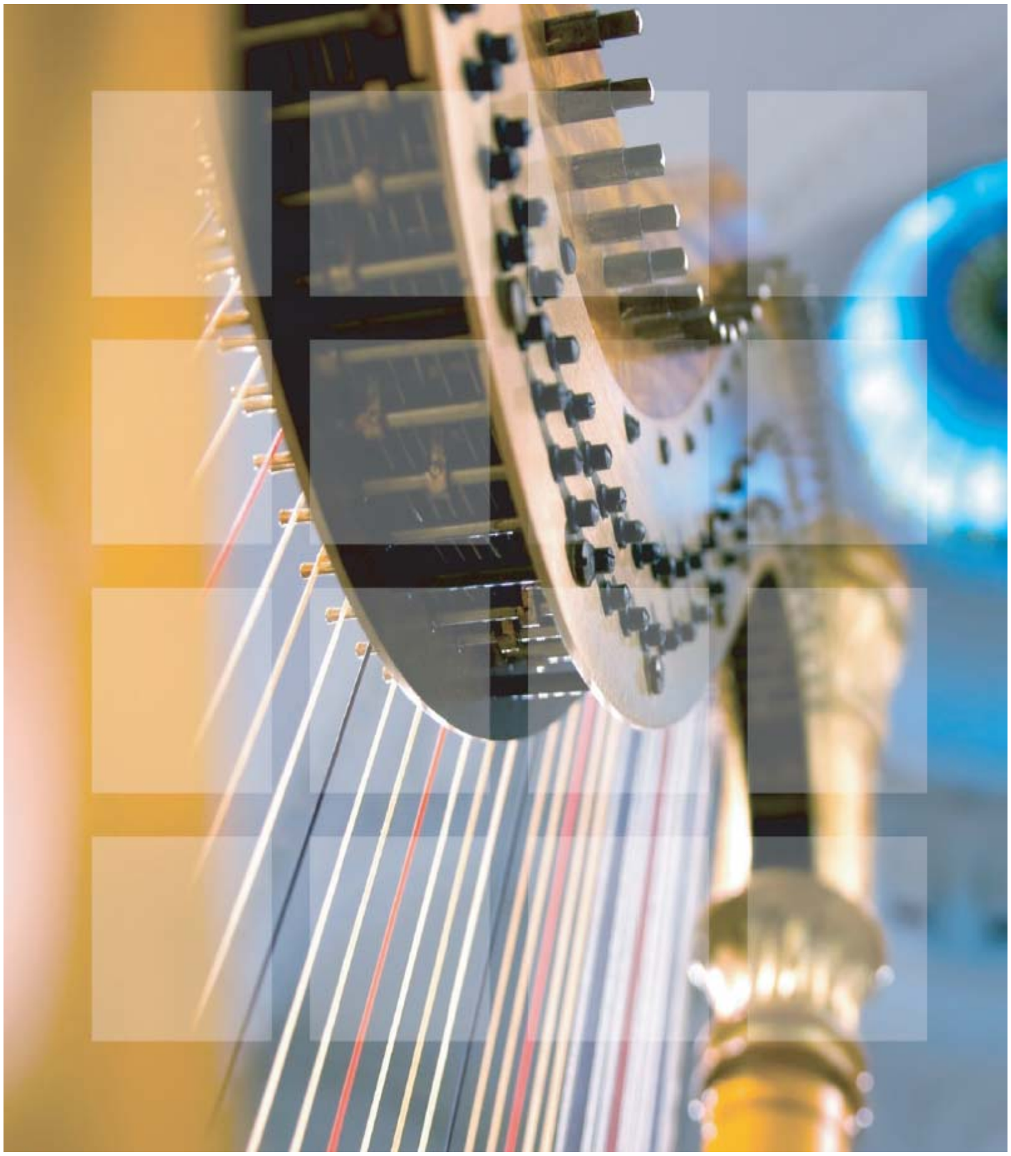

Eligible Liabilities Guarantee Scheme

Quarterly Information Note

September 2012

Overview

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Policy statement

The Department of Finance is working with the other Authorities and the Participating Institutions to reduce coverage of liabilities under the ELG Scheme during 2012.

> **"We will continue to phase out the ELG Scheme in an orderly manner. This important measure helped preserve financial stability through a tumultuous period but could be phased out gradually as the stability of the banking system becomes increasingly assured, which would also enhance bank profitability. An inter-agency working group led by the Department of Finance will, by end-2012, develop a roadmap for weaning the banking system off the Scheme while preserving financial stability and respecting fiscal targets."**

Memorandum of Economic and Financial Policies (August 2012)

Background

Prior to the expiry of the CIFS Scheme, the original guarantee scheme, on 29 September 2010, a new guarantee scheme, the ELG Scheme, had been introduced on 9 December 2009.

Scope of ELG Scheme

'Eligible Liabilities' under the ELG Scheme can have a maximum maturity of 5 years and include any of the following:

- **Deposits (excluding deposits which are covered by Deposit Guarantee Scheme up to €100,000)**
- **Certificates of Deposit**
- **Commercial Paper**
- **Senior unsecured Bonds and Notes**
- **Other senior debt specified by the Minister in accordance with EU State aid rules**

To qualify under the ELG Scheme, these liabilities must be incurred in the issuance period that runs from the date the Participating Institution received approval to join the ELG until 31 December 2012.

The State guarantee can be applied to standalone debt securities or to securities issued under programmes. Additionally, the liabilities must be denominated in a specified, single currency and must not contain an event of default.

Overview

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State exposure to the 'bank guarantee' (CIFS and ELG)

Figure 1. Changes in CIFS/ELG support since inception

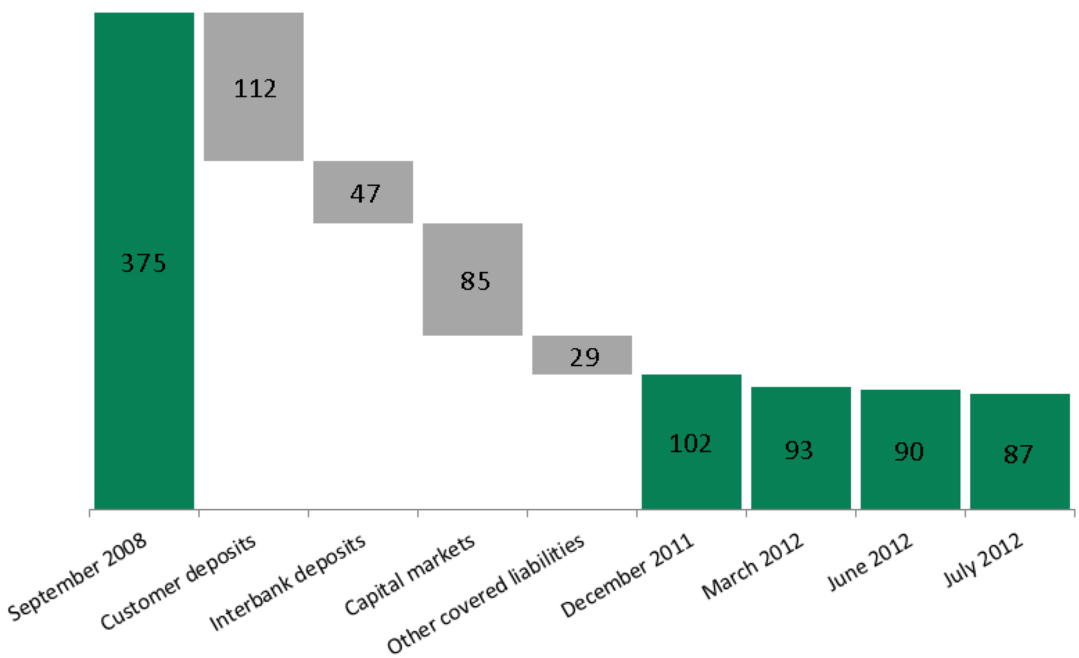
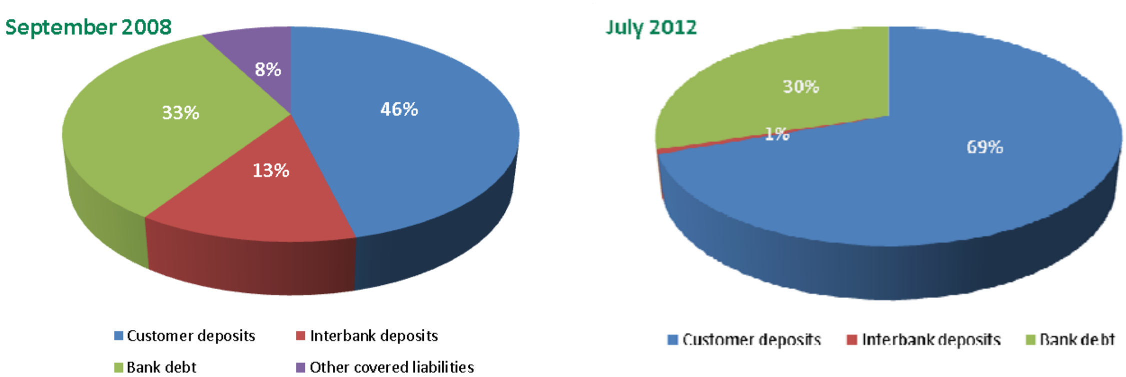


Figure 2. Constituents of ELG (€90bn) end-June 2012



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Total scheme fees and effect on Exchequer

The fee structure for the ELG was set out under rules which apply to all EU banking guarantee schemes based on recommendations from, firstly, the Governing Council of the European Central Bank and secondly of the EU Commission.

Total fees paid to the State for the CIFS and ELG Scheme including accrued interest are shown below:

Table 1. Total fees under CIFS and ELG (to end-June 2012)

	€ millions
CIFS	763.7
ELG	2,607.4
Total	3,371.1

Key achievements during first half 2012

1. ***UK deposits have been taken out of the Scheme.*** **Bank of Ireland (UK) commenced withdrawal from the Scheme effective 31 March and BoI (IOM) on 11 August. AIB Group (UK) and AIB Offshore commenced withdrawal effective 18 August and 30 August respectively.**
2. ***Unguaranteed deposits.*** **Following formal approval in November 2011, some deposits have been raised on an unguaranteed basis.**
3. ***Inter-agency working group.*** **The Department is leading a study to identify a roadmap for weaning the banking system off the Scheme.**

Appendix

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When we consider the effect of the two guarantee schemes (the CIFS Scheme and the ELG Scheme), the developments in coverage have seen significant reductions :

Table 2. Evolution of Liabilities under State Guarantee Schemes

€ billions	CIFS	ELG	Total
Q3 2008	375	-	375
Q4 2008	346	-	346
Q1 2009	293	-	293
Q2 2009	276	-	276
Q3 2009	287	-	287
Q4 2009	281	-	281
Q1 2010	130	139	269
Q2 2010	103	153	256
Q3 2010	-	147	147
Q4 2010	-	113	113
Q1 2011	-	117	117
Q2 2011	-	123	123
Q3 2011	-	100	100
Q4 2011	-	102	102
Q1 2012	-	93	93
Q2 2012	-	90	90
July 2012	-	87	87

Appendix

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ELG legislative timeline

Table 3. ELG Legislative Status Timeline

Date	Legislative Event
2009	
November 20	State Aid approval for introduction of ELG until 29 September 2010
December 9	ELG approved by the Oireachtas as Credit Institutions (Eligible Liabilities Guarantee) Scheme 2009 (S.I. 490/2009).
2010	
May 31	State aid approval for prolongation of ELG issuance period until 30 June 2010.
June 28	State aid approval for prolongation of the issuance period until 29 September 2010.
September 21	State aid approval for prolongation of the issuance period until 31 December 2010.
September 29	First amendment to ELG (end-date extended to 31 December 2010) approved by the Oireachtas by Statutory Instrument (S.I. 470/2010).
November 10	State Aid approval for prolongation of the ELG issuance period to 30 June 2011
November 17	Second amendment to ELG (end-date extended to 31 December 2011) was approved by Oireachtas by Statutory Instrument (S.I. 546/2010).
2011	
June 1	State Aid approval for prolongation of ELG issuance period to 31 December 2011.
December 1	Third amendment to ELG (end-date extended to 31 December, 2012) was approved by the Oireachtas by Statutory Instrument (S.I. 634/2011).
December 8	State Aid approval for prolongation of ELG issuance period to 30 June 2012
2012	
June 1	State Aid approval for prolongation of ELG issuance period to 31 December 2012

Appendix

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Day-to-day operations

The ELG Scheme has four parties involved in its operation:

- **The Participating Institutions**
- **The Scheme Operator (National Treasury Management Agency)**
- **The Department of Finance**
- **Central Bank of Ireland**

Roles of the parties

The roles of the parties were outlined in the Rules for the operation of the Scheme that were put in place in November 2010.

The interaction with the Participating Institutions is via the Scheme Operator. The NTMA ensures that it is satisfied that the Participating Institutions maintain compliance with the operation of the ELG.

The CBI prepares a monthly returns report of Eligible Liabilities and provides copies to the NTMA and the Department of Finance. The CBI also collects the fees that are due on a quarterly basis to the Exchequer.

The Department of Finance is responsible for ensuring that the fees are paid and that the ELG operates according to the terms of the relevant legislation. The Department is also responsible for ensuring the extension of the Scheme and that the relevant EU approval (DG Comp) has been received for the effective operation of the ELG.

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