



EUROPEAN COMMISSION

Brussels, 29.06.2011
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| <p>In the published version of this decision, some information has been omitted, pursuant to articles 24 and 25 of Council Regulation (EC) No 659/1999 of 22 March 1999 laying down detailed rules for the application of Article 93 of the EC Treaty, concerning non-disclosure of information covered by professional secrecy. The omissions are shown thus [...].</p> | | <p>PUBLIC VERSION</p> <p>This document is made available for information purposes only.</p> |
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COMMISSION DECISION

of 29.06.2011

ON THE STATE AIDS

Nos SA.32504 (2011/N) and C 11/2010 (ex N 667/2009)

implemented by Ireland

for Anglo Irish Bank and

Irish Nationwide Building Society

(Only the English version is authentic)

(Text with EEA relevance)

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THE COMMISSION OF THE EUROPEAN COMMUNITIES,

Having regard to the Treaty on the Functioning of the European Union, and in particular the first subparagraph of Article 108(2) thereof,

Having regard to the Agreement on the European Economic Area, and in particular Article 62(1)(a) thereof,

Having called on interested parties to submit their comments pursuant to the provisions cited above¹,

Whereas:

1 PROCEDURE

1.1 Anglo Irish Bank

- (1) By Decision of 14 January 2009, the Commission temporarily approved a recapitalisation of Anglo Irish Bank (hereinafter referred to as "Anglo")². That recapitalisation was not implemented as Ireland decided to nationalise Anglo instead. By Decision of 16 February 2009, the Commission concluded that the nationalisation did not involve State aid³.
- (2) By Decision of 26 June 2009, the Commission authorised emergency aid to Anglo in the form of a capital injection of EUR 4 billion (4 000 million) on the basis of Article 87(3)(b) of the Treaty establishing the European Community for a period of

¹ OJ C 214, 7.8.2010, p. 3.

² Commission Decision in Case N 9/2009, Recapitalisation of Anglo Irish Bank by the Irish State, (OJ C 177, 30.7.2009, p. 1.).

³ Commission Decision in Case N 61/2009, Change of ownership of Anglo-Irish Bank, (OJ C 177, 30.7.2009, p. 2.).

six months and the Commission took note of Ireland's commitment to notify a restructuring plan to the Commission by the end of November 2009⁴.

- (3) On 30 November 2009, Ireland notified a restructuring plan to the Commission⁵ (hereinafter referred to as "the initial Anglo restructuring plan") prepared by Anglo. On 24 November and 18 December 2009, the Commission sent information requests to Ireland regarding the initial Anglo restructuring plan.
- (4) On 17 February 2010, Ireland notified the Commission of its intention to inject additional capital of up to EUR 10,44 billion into Anglo (hereinafter referred to as "the second recapitalisation").
- (5) By Decision of 31 March 2010⁶, the Commission approved the second recapitalisation on a temporary basis until the final decision by it on Anglo's restructuring plan. The Commission also decided in that Decision to initiate the procedure laid down in Article 108(2) of the Treaty on the Functioning of the European Union (hereinafter referred to as "the Treaty") on the initial Anglo restructuring plan and the associated aid measures by Ireland (hereinafter referred to as "the opening decision"). The opening decision was published in the *Official Journal of the European Union* on 7 August 2010. The Commission invited interested parties to submit their comments on the aid. No comments were submitted by third parties.
- (6) On 31 May 2010, Ireland submitted a revised restructuring plan for Anglo Irish Bank (hereinafter referred to as "the second Anglo restructuring plan").
- (7) On 2 June 2010, the Commission sent an information request to Ireland regarding the second Anglo restructuring plan. Those questions were discussed in a meeting on 24 June 2010 between Commission officials, the Irish authorities and representatives of Anglo. Moreover, the Irish authorities replied to those questions in writing on 9 and 12 July 2010.
- (8) On 28 June 2010, Ireland notified the Commission of another capital injection of up to EUR 10 054 million in favour of Anglo (hereinafter referred to as "the third recapitalisation")⁷.
- (9) By Decision of 10 August 2010⁸, the Commission approved the third recapitalisation on a temporary basis until the final decision by it on Anglo's final restructuring plan.

⁴ Commission Decision in Case N 356/2009, Recapitalisation of Anglo Irish Bank by the Irish State, (OJ C 235, 30.9.2009, p. 3.).

⁵ According to recital 40 of the Commission Decision in Case N 356/2009 (see footnote 4 of this Decision), the adoption of a restructuring plan is consistent with paragraph 28 of the Credit Institutions Financial Support (CIFS) Scheme (the Irish guarantee scheme for credit institutions) and paragraph 30 of the Commission's approval of the CIFS Scheme. (See also Commission Decision in Case NN 48/2008, Ireland - Guarantee Scheme for banks in Ireland (OJ C 312, 6.12.2008, p. 2). In the context of CIFS, the Minister for Finance has required a restructuring plan to be produced if a participating institution's solvency ratio falls below the minimum regulatory standards applicable to it on a material basis.

⁶ Commission Decision in Case NN 12/2010 and C11/2010 (ex N 667/2009), Second rescue measure in favour of Anglo Irish Bank, (OJ C 214, 7.8.2010, p. 3).

⁷ Originally, the notification also covered an individual State guarantee on Anglo's short-term liabilities (after the expiry of the Irish Eligible Liabilities Guarantee scheme on 29 September 2010). However, on 4 August 2010 Ireland withdrew the notification of the individual State guarantee and only maintained the notification of the third recapitalisation.

⁸ Commission Decision in Case NN 35/2010 (ex N 279/2010), Ireland - Temporary approval of the third recapitalisation in favour of Anglo Irish Bank, (OJ C 290, 27.10.2010, p. 4.).

- (10) On 31 August 2010, Ireland submitted a new proposal to the Commission on the restructuring of Anglo which set out a split and wind-down of the bank over ten years.
- (11) In light of a detailed assessment of the prospects of Anglo, the Irish Minister of Finance announced on 30 September 2010 that the resolution of Anglo would require in total a cumulated capital injection of EUR 29,3 billion under base projections, and an additional EUR 5 billion under a stress scenario.
- (12) On 26 October 2010, Ireland submitted a work-out plan for Anglo (hereinafter referred to as "the third Anglo restructuring plan"), explaining in detail how it would implement the work-out of the entity which had been presented for the first time in its submission of 31 August 2010.
- (13) In the subsequent weeks, the Commission services requested some clarifications and sought additional information on 29 October 2010. The Irish authorities replied in a number of e-mail exchanges and conference calls.
- (14) On 8 December 2010, Ireland notified to the Commission an additional recapitalisation of EUR 4 946 million (hereinafter referred to as "the fourth recapitalisation") and State guarantees in respect of certain liabilities in favour of Anglo.
- (15) By Decision of 21 December 2010⁹, the Commission approved the fourth recapitalisation and guarantees in respect of certain liabilities in favour of Anglo on a temporary basis until the approval of Anglo's final restructuring plan.

1.2 Irish Nationwide Building Society

- (16) By Decision of 30 March 2010, the Commission temporarily approved a EUR 2,7 billion recapitalisation of Irish Nationwide Building Society (hereinafter referred to as "INBS") for six months as of the date the recapitalisation was put into effect (22 December 2009), or, if Ireland submitted a restructuring plan before that date, until the Commission had adopted a final decision on INBS' restructuring plan (hereinafter referred to as "the first INBS recapitalisation")¹⁰.
- (17) Furthermore, on 30 March 2010, the Irish Minister of Finance announced that, in the light of the reduction of the INBS' balance sheet resulting from transfers to the National Asset Management Agency (hereinafter referred to as "NAMA"), that institution did not have a future as an independent stand-alone entity.
- (18) On 22 June 2010, Ireland notified a restructuring plan for INBS to the Commission (hereinafter referred to as "the INBS restructuring plan"). That plan envisages the continued management of the society as a going concern in anticipation of a sale to a trade buyer.
- (19) In the following weeks, Ireland informally informed the Commission that it was assessing other options for the future of INBS. In particular, Ireland was planning to test the market appetite for acquiring parts of INBS.

⁹ Commission Decision in Case SA.32057 (2010/NN), Ireland - Temporary approval of the fourth recapitalisation and guarantee in respect of certain liabilities in favour of Anglo Irish Bank, (OJ C 76, 10.3.2011, p. 4.).

¹⁰ Commission Decision in Case NN 11/2010, Ireland - Rescue measures in favour of INBS, (OJ C 143, 2.06.2010, p. 23.).

- (20) On 30 September 2010, the Irish Minister of Finance made a public statement on the situation of the Irish banking sector and announced that INBS needed an additional recapitalisation of EUR 2,7 billion (leading to a total recapitalisation of EUR 5,4 billion). That capital injection (hereinafter referred to as "the second INBS recapitalisation") was notified to the Commission on 12 October 2010.
- (21) By Decision of 21 December 2010, the Commission temporarily approved the second INBS recapitalisation for a period of six months or, if Ireland submitted a restructuring plan before 31 January 2011, until the Commission had adopted a final decision on the restructuring plan of that bank¹¹.

1.3 Joint procedure

- (22) On 28 November 2010, an agreement was reached between Ireland and the European Union, the European Central Bank (hereinafter referred to as "ECB") and the International Monetary Fund on a Programme for Support for Ireland (hereinafter referred to as "the Programme for Support"). As part of the Programme for Support, Ireland agreed to undertake certain bank recapitalisation and reorganisation measures under a Programme for the Recovery of the Banking System (hereinafter referred to as "the Banking System Programme"). In the context of the Banking System Programme, the Memorandum of Economic and Financial Policies (hereinafter referred to as "MEFP") sets out measures which are necessary to restore the viability of the financial sector in Ireland¹². Point 10 of the MEFP states that: *"swift and decisive action will be taken to resolve the position of Anglo Irish Bank (Anglo) and Irish Nationwide Building Society (INBS) in a way that protects depositors and strengthens the banking system. To this end, by end-January 2011, we will submit to the European Commission a revised proposal developed in collaboration with IMF to resolve Anglo and INBS"*¹³.
- (23) On 12 January 2011, Ireland provided information to the Commission regarding the planned sale of deposits by Anglo and INBS. Further information regarding the sales process was submitted on 2 February 2011 and 21 February 2011.
- (24) On 16 January 2011, Ireland submitted information to the Commission regarding the contemplated resolution of the businesses of Anglo and INBS. On 31 January 2011, Ireland notified the Commission of a joint restructuring and work-out plan for Anglo and INBS (hereinafter referred to as "the joint restructuring plan").
- (25) On 5 April 2011, Ireland updated the joint restructuring plan by including the impact of the deposits and NAMA bond transfers which had taken place in the meantime and by replacing the forecast results and balance sheets of Anglo and INBS for 2010 by the actual ones, which had become known in the meantime. A further update was received on 21 April 2010.

¹¹ Commission Decision in Case NN 50/2010 (ex N 441/201) Ireland - Second emergency recapitalisation in favour of Irish Nationwide Building Society, (OJ C 60, 25.2.2011, p. 6.).

¹² The documents that make up the Programme for Support for Ireland can be found at the following website: http://ec.europa.eu/economy_finance/articles/eu_economic_situation/2010-12-01-financial-assistance-ireland_en.htm

¹³ Point 10 of the MEFP of 28 November 2010.

2 DESCRIPTION OF THE AID

2.1 The beneficiaries and their difficulties

2.1.1 *Anglo Irish Bank*

- (26) Measured by balance sheet size, Anglo is one of the largest banks operating in Ireland. As at 31 December 2010, it had a balance sheet size of EUR 72,2 billion¹⁴ and a loan book of EUR [...] billion. In terms of its business model, Anglo was a “monoline” bank specialising in commercial real estate lending in three core markets: Ireland, the United Kingdom and the United States. Since the beginning of the financial crisis, Anglo registered heavy losses mainly driven by impairment charges on its commercial loan book. Anglo was nationalised by Ireland on [...] 2009.
- (27) A detailed description of Anglo and its difficulties was provided in Sections 2.2 and 2.3 of the opening decision of 31 March 2010.
- (28) Anglo's business model proved to be unsustainable and led to unprecedented financial difficulties and losses in the context of the global financial crisis. Anglo's business model was overly concentrated on commercial property lending and led to excessive exposures to that sector of the economy which was particularly hard-hit during the financial crisis: commercial property prices decreased peak-to-trough by more than 62% in Ireland, 37% in the United Kingdom and 45% in the United States¹⁵. In addition, Anglo's lending was partly financed by wholesale funding, a source of funding which dried up as a result of the financial crisis.
- (29) Risk management in Anglo was not sufficiently developed and allowed uncontrolled balance sheet growth combined with risky lending practices (such as high loan-to-value lending and interest-only lending), in particular during the years of the Irish property boom. Between 1984 and 2008, the Bank's balance sheet grew at a compound growth rate of approximately 30% per year, reaching a balance sheet of EUR [...] billion in 2008. The loans-to-deposit ratio (hereinafter referred to as "LtD") increased from 100% pre-1990 to an average of 217% in the period from 2008 to 2009.
- (30) Anglo benefitted from four recapitalisations, an asset relief measure which allowed it to transfer around EUR 35 billion of impaired loans to the NAMA and State guarantees on most of its liabilities (see recital (66)).

2.1.2 *INBS*

- (31) A detailed description of INBS was provided in Section 2.1 of the Commission Decision of 30 March 2010 concerning the first recapitalisation of INBS. A short summary is therefore provided in this Section.
- (32) INBS is a building society and had a balance sheet total of EUR 12,1 billion as at 31 December 2010. Before the financial crisis, it was the sixth-largest Irish financial institution in terms of balance sheet size. It offered traditional retail

¹⁴ As compared to EUR 101 billion at the end of 2008.

* Confidential information.

¹⁵ Figures quoted in the restructuring plans.

banking products to its members (namely, savings and mortgages). In the years preceding the financial crisis, INBS aggressively increased its activities in risky commercial property lending, which became its main activity. INBS was predominantly active in Ireland, where it had a branch network of 50 branch offices and 40 branch agents, and in the United Kingdom where it had no branch offices.

- (33) INBS' loan book as at 31 December 2010 had a value of EUR 1,9 billion following the transfer of EUR 8,5 billion of loans to NAMA¹⁶. Retail deposits amounted to EUR 3,9 billion as at 31 December 2010. INBS recorded a loss of EUR 3,3 billion in 2009.
- (34) INBS' difficulties were caused by its overexposure to poorly underwritten Irish commercial property loans (approximately 80% of INBS' total loan book). Consequently, when the financial crisis hit and property prices, especially commercial property prices, fell dramatically in both Ireland and the United Kingdom, INBS was highly exposed to losses in its loan book. Those losses have forced it to take significant impairments in 2009 and 2010.
- (35) INBS benefitted from two recapitalisations, an asset relief measure which enabled it to transfer around EUR 8,9 billion of impaired commercial property loans to NAMA and State guarantees on most of its liabilities (see recital (67)).
- (36) Prior to the first recapitalisation by Ireland, INBS was owned by its members. As a result of the first recapitalisation of INBS, the State has taken full control of the bank. The members have thus lost control of INBS and have lost all economic ownership rights.

2.2 The individual restructuring plans

2.2.1 The initial Anglo restructuring plan

- (37) The initial Anglo restructuring plan was notified to the Commission on 30 November 2009. A comprehensive description of the initial Anglo restructuring plan can be found in Section 2.4 of the opening decision, in which the Commission raised a number of doubts as to whether that plan complied with the conditions laid down in the Restructuring Communication¹⁷. In particular, the Commission questioned whether the plan would lead to a restoration of the long-term viability of Anglo, would limit the restructuring costs to a minimum and would limit distortions of competition. Therefore, the Commission initiated the procedure laid down in Article 108(2) of the Treaty with regard to that plan. At the same time, the Commission requested the submission of a revised restructuring plan by 31 May 2010.

¹⁶ INBS will in total transfer EUR 8,9 billion of loans to NAMA. To date, EUR 8,5 billion have been transferred, while EUR 400 million are awaiting transfer.

¹⁷ Commission communication on the return to viability and the assessment of restructuring measures in the financial sector in the current crisis under the State aid rules, (OJ C 195, 19.8.2009, p. 9.).

2.2.2 *The second Anglo restructuring plan*

- (38) On 31 May 2010, Ireland submitted a revised restructuring plan which set out a significantly revised approach to restructuring Anglo.
- (39) As requested in the opening decision, the second Anglo restructuring plan presented a number of possible restructuring scenarios: (i) liquidate 100% of Anglo over 12 months; (ii) wind-down 100% of Anglo over 10 years; (iii) wind-down 100% of Anglo over 20 years; (iv) stabilise the whole of Anglo and keep it as a going concern; and (v) a split which included the wind-down of 80% of Anglo through the creation of an asset management company while the remainder would continue to do business (a good bank).
- (40) The split scenario, referred to in (v) of recital 39, was presented as the preferred option of the Irish authorities. In that scenario, the asset management company would hold "lower quality assets" that would not be transferred to NAMA or the good bank (book of EUR 13,6 billion at split), and would be managed to maximise asset recovery values while minimising State funding. The asset management company would not conduct any new business and would be liquidated in 2020.
- (41) The good bank would become a significantly smaller State-owned commercial bank which could deliver long-term viability with a sharply reduced balance sheet having a lower risk profile. It was envisaged to privatise the good bank within a five-year timeframe, providing a partial return to the State of its investment in Anglo.

2.2.3 *The third Anglo restructuring plan*

- (42) On 26 October 2010, elaborating on its submission of 31 August 2010, Ireland submitted a substantially revised proposal on the restructuring of Anglo. The third Anglo restructuring plan sets out the broad lines of a split of Anglo into two legally independent State-owned entities, namely a Funding Bank and a Recovery Bank, which would result in the wind-down of Anglo over a period of approximately ten years. Further State aid would be needed in the form of capital injections, persistent Central Bank funding and a comprehensive structure of State guarantees over the lifetime of the two Banks. The plan forecast a capital requirement of EUR 29,3 billion in the base case and EUR 34 billion in stress case.
- (43) Ireland indicated that the new approach to the restructuring of Anglo, which foresees that it would cease to operate as a lender, was triggered by deteriorating market circumstances. It argued that funding conditions for Anglo and sentiment towards the State (Sovereign) had worsened since the submission of the second Anglo restructuring plan, while the discounts on loans transferred to NAMA and the losses on the non-NAMA loan book were higher than expected.

2.2.4 *The INBS restructuring plan*

- (44) The restructuring plan for INBS was submitted to the Commission on 22 June 2010. In line with what was requested in the first INBS recapitalisation decision, the INBS restructuring plan explored several options for the bank: (i) restructuring

and continuation of the business with a view to selling it around 2013; (ii) immediate wind-down; or (iii) gradual wind-down to be completed by 2020. The sale required the lowest amount of State support in addition to EUR 2,7 billion already provided by the State at the time the plan was submitted.

- (45) In the preparation for the sale, INBS was supposed to become a small savings and loan institution. It would transfer a significant portion of its existing commercial loan portfolio to NAMA and cease commercial lending, and provide only residential mortgage lending and savings accounts to its customers.
- (46) The INBS restructuring plan did not envisage any particular measures aimed at limiting the distortion of competition created by the aid.

2.3 The joint restructuring plan for Anglo and INBS

2.3.1 Description of the joint restructuring plan

- (47) On 31 January 2011, Ireland submitted to the Commission the joint restructuring and work-out plan for Anglo and INBS. The joint restructuring plan foresees the merger of Anglo and INBS, after the sales of their respective deposit books, into one single entity (hereinafter referred to as "the merged entity") which will be licensed, fully regulated and 100% -State owned. The joint opening balance sheet after the merger will amount to EUR [60-70] billion.
- (48) The merged entity will: (i) work out the legacy commercial property loan book of Anglo over a period of ten years through redemptions and sales; (ii) work out the retail mortgage book of INBS over a period of [...] years [...] and (iii) rely [...]. The merged bank will only hold a small amount of deposits and will not engage in any new lending or other activities.
- (49) The merged entity will hold the various promissory notes which have been used to recapitalise both Anglo and INBS. All the promissory notes will be settled in accordance with their payment schedule¹⁸. [...]. The merged entity also have a small amount of subordinated debt, which will correspond to the amount which it does not manage to buy back in the framework of successive liability management exercises.
- (50) The objective of the proposed joint restructuring plan is to avoid the risk of further losses from new lending, manage the work-out of the loan books efficiently and keep State aid requirements to a minimum. Working out the two loan books in one merged entity enables synergies with regard to capabilities, infrastructure and processes.

2.3.1.1 Deposits

- (51) In conformity with the Programme for Support, Ireland committed to transfer, before the merger, the deposits (which are recorded on the liability side of the balance sheet) and NAMA bonds (which are recorded on the asset side of the balance sheet) of Anglo and INBS to viable institutions in an open process. Bids were invited on the package of NAMA bonds and deposits. The sale of circa EUR

¹⁸ See point 35 of the Commission Decision in Case NN 12/2010 and C 11/2010 (ex N667/2009), (footnote 6 of this Decision).

12,2 billion of deposits and of circa EUR 15,9 billion of NAMA bonds of both entities was completed¹⁹ on 24 February 2011.

- (52) In contrast to previous versions of the Anglo restructuring plans, the merged entity will, in principle, not hold deposits to fund its assets but will instead exit the deposit market.
- (53) However, in compliance with the commitments (see Section 2.2.5.1), the merged entity will be allowed to keep a small amount of corporate deposits which are held as guarantee for loans granted to several corporate institutions (legacy secured or deposits related to borrower accounts). The joint restructuring plan assumes that there will be a maximum amount of EUR 1 billion of deposits at the time of the merger.

2.3.1.2 *Funding*

- (54) The joint restructuring plan is based on the following assumptions:
 - (i) [...]
 - (ii) Existing wholesale funding of EUR [...] billion to mature as per existing schedules (majority within four years), [...].

2.3.1.3 *Guarantees*

- (55) The merged entity requires a comprehensive set of State guarantees (see also recital (69)), covering the following exposures:
 - (i) A State guarantee on deposits and bonds still outstanding. That guarantee would be needed for the entire duration of the joint restructuring plan and is currently provided under the Eligible Liabilities Guarantee Scheme (hereinafter referred to as "the ELG scheme"). Once the ELG scheme expires, the guarantee would have to be provided on an ad hoc basis;
 - (ii) A State guarantee to the CBI on the unsecured part of the ELA to Anglo/INBS, which would allow the merged entity to access CBI/ELA funding as needed [...];
 - (iii) A State guarantee on certain liabilities for its off-balance sheet transactions, services and transactional capabilities [...] ²⁰.
- (56) Under the joint restructuring plan, no payments will be made by the merged entity for the State guarantees, except for the guarantees on deposits (50 bps) for the duration of the ELG scheme and on already guaranteed bonds outstanding (for which a fee of 95 to 125 bps will be paid during the duration of the ELG scheme until they mature).

2.3.1.4 *Capital*

- (57) In the base case, the joint restructuring plan assumes that no additional capital beyond that effectively injected to date, namely EUR 34,7 billion (EUR 29,3 billion for Anglo

¹⁹ <http://www.ntma.ie/Publications/2011/NTMACompletesTransferAngloAndINBSDeposits.pdf>

²⁰ See Commission decision in Case SA.32057 (see footnote 9 of this Decision).

and EUR 5,4 billion for INBS) will be required²¹. Those amounts correspond to the amounts already authorised under the four rescue decisions for Anglo and the two rescue decisions for INBS²². The joint restructuring plan indicates that in a stress scenario (implying in particular higher impairments and losses on loans disposals), capital requirements would increase up to EUR 38 billion, meaning that an additional EUR 3,3 billion of capital [...] over the period of the plan (namely ten years). Besides the risk of higher impairments and losses on loans disposals, the joint restructuring plan also identifies several additional risks which could lead to the merged entity having recourse to [...] EUR 3,3 billion capital in a stress case.

2.3.1.5 *Main additional risks associated with the joint restructuring plan*

- (58) Firstly, the joint restructuring plan identifies a risk of an increase in the cost of funding and an exchange rate risk. [...] ²³. In total, the merged entity will need to access circa [...] of Central Bank funding at the time of the merger. That funding need would gradually decrease to [...]. If the reliance on Central Bank funding is not feasible to the extent and for the duration projected²⁴, the merged entity will have to rely on other sources of funding, if they exist, which could be more expensive.
- (59) Furthermore, some of the merged entity's assets are fixed interest rate, long-term assets (typically, promissory notes) which are funded through very short-term funding [...].
- (60) [...].
- (61) In addition, the joint restructuring plan highlights the risks associated with the merged entity's difficulties in running its business on a going concern basis while being in resolution mode. [...]. Finally, the merger process may lead to elevated operational risks, which in turn might require further capital.
- (62) The probability of such risks materialising is difficult to assess. Those risks and uncertainties were not incorporated in the expected capital needs in the stress case scenario.

2.3.2 *The Commitments*

- (63) Ireland has provided a number of commitments related to the merged entity in order to specifically limit the distortion of competition resulting from the State support received by Anglo and INBS. Those commitments are attached to this Decision in their entirety in Annex I. For the purposes of this Decision, the Commission has provided a non-exhaustive summary in recitals 63 to 66.
 - (i) Duration of the commitments. Unless otherwise specified, all commitments provided by Ireland will remain valid and applicable until the assets of the merged entity are fully worked out, including the promissory notes.

²¹ The Commission approved recapitalisations for Anglo totalling EUR 29,44 billion. Ireland has actually granted EUR 29,3 billion (namely EUR 0,14 billion less).

²² Commission Decisions in Cases N 356/2009, C 11/2010, NN 35/210 and SA.32057 for Anglo and Commission Decisions in Cases NN11/2010 and SA.31714 for INBS, (see footnotes 4 and 6 and footnotes 8 to 11 of this Decision).

²³ [...]

²⁴ [...]The ECB has received a copy of the joint restructuring plan.

- (ii) Ban to develop new activities and to enter new markets: The merged entity will not develop any new activities and will not enter new markets, that is to say that the merged entity will not carry out any activities other than those that are consistent with managing the work-out of the Anglo and INBS legacy loan book (including loan sales, where appropriate, to maximise recovery values). In particular, the merged entity will maintain and use its banking licence only as long as necessary for the work-out of the loan portfolios and will not use it to develop new activities. [...].
- (iii) Management of existing assets: The merged entity will manage existing commercial assets in a way that maximises Net Present Value (hereinafter referred to as "NPV") of the assets in accordance with normal commercial practice. Specifically, if a client cannot respect the terms of his/her loan, the merged entity will only restructure the lending terms if such a restructuring would lead to enhancing the NPV of the loan (that is to say, if the NPV of the cash flows to be expected from the restructuring is higher than the present value of the cash flows which can be expected from liquidation). In summary, the merged entity will manage its commercial asset portfolio in the same way as a private asset manager would manage the work-out of a similar book.

As regards the merged entity's mortgage assets, the same obligations that apply to the commercial assets will apply *mutatis mutandis*.

- (iv) Ban on acquisitions: The merged entity will not acquire or take participations in any other firm, except with the prior consent of the Commission.
- (v) Ban on coupons and exercising calls on subordinated debt and hybrid capital instruments: The merged entity will not pay coupons or exercise calls on subordinated debt instruments and hybrid capital instruments, unless it is legally obliged to do so.
- (vi) Cap on new lending: The merged entity's net commercial loan book will not exceed the forecasts in the joint restructuring plan by more than [...] in any single year during the plan period. Concerning the mortgage loan book, the merged entity will limit further advances to contractually committed amounts and amounts arising as part of the restructuring of existing mortgage facilities. The aggregate total of further mortgage advances is capped at a maximum of [...] for the period starting 1 January 2011 and ending 31 December 2012, and [...] per annum thereafter.
- (vii) In addition, the following lending commitments will also apply to the commercial loan book:
 - a. Contractually committed but not yet paid-out amounts: The merged entity will be allowed to advance funds under contractually committed but not yet paid-out loan facilities. However, such payments will not exceed a cumulative amount of [...] over the entire period of the joint restructuring plan with regard to the merged entity's loan book.
 - b. Additional financing to existing borrowers: The merged entity may not provide additional financing which is not contractually committed at the time of the approval of the joint restructuring plan (in line with the commitment referred to in point (ii)).

As an exception to that prohibition, the merged entity may finance small additional amounts to existing regulatory groups if it complies with the commitment in point (iii)

- It is strictly necessary to preserve the value of the loan collateral (for example, to cover collateral maintenance, insurance, tax, security, insolvency or legal costs); or
 - It is otherwise related to enhancing the expected recovery value of a loan or other asset on an NPV basis (for example, meeting essential investment working capital or liquidity needs of the underlying business)
 - The merged entity may only provide such additional financing where:
 - If the nominal exposure concerned is less than [...], the additional financing will not exceed [...] of the nominal exposure;
 - If the nominal exposure concerned is between [...] and [...], the additional financing will not exceed [...];
 - If the nominal exposure concerned exceeds [...], the additional financing will not exceed [...] of the nominal exposure.
- c. New borrowers: The merged entity may lend to a new borrower (or a group of borrowers, also called 'a regulatory group') only where the following conditions are met:
- The proceeds are used to reduce the exposure of an existing borrower or regulatory group;
 - The transaction overall does not increase the total net exposure to the merged entity;
 - The new lending enhances expected recovery values (as measured by NPV) compared to other restructuring or foreclosure strategies; and
 - There is no capitalisation of interest ('interest roll-up')
- (viii) Specific lending commitments on the mortgage book. The merged entity will not be allowed to provide financing which it is not contractually committed to providing at the time of the approval of the joint restructuring plan. As an exception to that rule, the merged entity may, when the balance of the loan exceeds the value of the mortgaged property, facilitate its redemption through selling off the property by providing additional finance to a vendor enabling the repayment of the outstanding balance if the provision of financing is in line with the commitment in point (iii).
- (ix) Further exceptions in the national interest. On an exceptional basis and in the national interest, Ireland may determine that further exceptions to the lending restrictions set out in points (vii) and (viii) may be required to enhance expected recovery values on a NPV basis. Such determinations will be subject to prior approval by the Commission.
- (x) Deposits – transfer of Anglo and INBS deposits. Following the transfer of legacy Anglo and INBS deposits, the merged entity will be left with certain categories of deposits and accounts, not considered for the transfer. The overall amount of deposits from existing customers at the date of the merger will at no point in time exceed EUR [...] billion. The merged entity will reduce its deposits at broadly the same rate as the overall net loan book is worked out. In addition, the deposit book of the merged entity will not exceed the forecasts of the joint restructuring plan by

more than EUR 200 million at any time. The categories of deposits retained by the merged entity are listed in the following points (a) to (h):

- (a) Deposits which at the time of transferring the legacy deposits of Anglo and INBS to viable institutions, are held by or on behalf of any subsidiary of Anglo or INBS, except the Isle of Man subsidiary of Anglo;
 - (b) Secured accounts (in favour of Anglo or INBS or any other person) and deposits related or connected to a regulatory group from Anglo or INBS or tracker bond accounts at the time of transfer of Anglo's and INBS' deposits to two other Irish banks²⁵;
 - (c) Deposits denominated in currencies other than euro, United States Dollars (USD) or pounds Sterling (GBP) at the time of transferring the deposits. They will not be replaced as they mature;
 - (d) Deposits held or booked at branches at Jersey, at Dusseldorf, Germany or at Vienna, Austria. They will not be replaced as they mature;
 - (e) Any account which has a negative balance;
 - (f) Internal control accounts;
 - (g) Accounts where the account or the customer to whom the account relates has been the subject of notification of an investigation by any police, fraud or investigative authority; and
 - (h) All INBS accounts identified in the accounting records of the Transferor by branch “[...]”.
- (xi) Monitoring Trustee: The merged entity will appoint a Monitoring Trustee, subject to the Commission’s approval, who will verify adherence by the merged entity with the commitments set out in Annex I. The Monitoring Trustee will be nominated for a period of three years.
- (64) Ireland will ensure that the merged entity complies with the commitments set out in Annex I. Ireland will submit regular reports on the measures taken to comply with those commitments. The first report will be submitted to the Commission not later than six months from the date of notification of this Decision and thereafter at six monthly intervals.

2.4 The State measures assessed in this Decision

- (65) Both Anglo and INBS have received a substantial amount of State aid. After the merger, the merged entity will also benefit from several State measures. This Section presents those measures (see also Table 1).

²⁵ On 24 February 2011, Allied Irish Banks acquired EUR 8,6 billion of deposits from Anglo and Irish Life & Permanent plc acquired EUR 3,6 billion in deposits from INBS.

- (66) Over the course of the rescue period, Anglo received several State aid measures which have been approved by the Commission in the various decisions pertaining to this case²⁶, and which are referred to in points (a) to (v) of this recital and recitals 67, 68 and 69):
- a. A State guarantee under the CIFS scheme covering Anglo's deposits (retail, commercial, institutional and interbank), covered bonds, senior debt and dated subordinated debt for the period from 1 October 2008 to 30 September 2010²⁷;
 - b. A first recapitalisation of Anglo for an amount of EUR 4 billion²⁸;
 - c. State guarantees under the ELG scheme covering deposits, senior unsecured certificates of deposit, senior unsecured commercial paper, senior unsecured bonds and notes²⁹;
 - d. An asset relief measure in the form of the transfer of EUR 35 billion³⁰ of impaired commercial property loans to NAMA at an average discount of [50-70]%³¹;
 - e. A second recapitalisation for an amount of EUR 10,44 billion, of which EUR 10,3 billion was effectively granted by Ireland³²;
 - f. A third recapitalisation for an amount of EUR 10 054 million (of which EUR 8 580 million was granted upon approval while the remainder (EUR 1 474 million) was injected together with the fourth capital injection, see measure (h) ³³;
 - g. A guarantee on Anglo's short-term liabilities following the re-application of the ELG scheme to cover such securities, notably commercial paper, certificates of deposit, interbank deposits and corporate deposits with a maturity of less than three months (covered amount is around EUR [...] billion as at 31 December 2010)³⁴;
 - h. An additional recapitalisation of EUR 4 946 million was granted to cover further losses resulting from the accelerated transfer of impaired property development loans to NAMA and losses on the non-NAMA loan book until [...]. The remaining balance of the third recapitalisation (measure (f)) amounting to EUR 1 474 million has already been injected together with EUR 4 946 billion³⁵;

²⁶ The Commission will, for the sake of clarity, when describing and assessing the measures, use the lettering employed in the description of the measures in recitals (66) to (69) in the remainder of this Decision.

²⁷ See Commission Decision in Case NN48/2008, (see footnote 5 of this Decision).

²⁸ Commission Decision in Case N 356/2009, (see in footnote 4 of this Decision).

²⁹ See Commission Decision in Case N 349/2009, Ireland - Credit Institutions Eligible Liability Guarantee Scheme (OJ C 72, 20.3.2010, p. 6), subsequently prolonged until 30.6.2010 by Commission's Decision in Case N 198/2010, Ireland - Prolongation of the Eligible Liabilities Guarantee Scheme (OJ C 191, 15.7.2010, p. 1), extended until 31.12.2010 by Commission Decision in Case N 254/2010, Ireland – Extension of the ELG scheme until 31 December 2010 (OJ C 238, 03.9.2010, p. 2) and again extended until 30.6.2011 by Commission Decision in Case N 487/2010, Extension of the ELG scheme until June 2011, not yet published, and by Commission Decision in Case SA.33006, *Prolongation of the ELG scheme until December 2011*, not yet published .

³⁰ Of the EUR 35 billion loans that are to be transferred to NAMA, to date EUR 34 billion has been transferred, while EUR 1 billion is awaiting transfer.

³¹ Commission Decision in Case N 725/2009, Ireland – Establishment of a National Asset Management relief scheme for banks in Ireland – NAMA, (OJ C 94, 14.4.2010, p. 10.).

³² Commission Decision in Case C11/2010, (see footnote 6 of this Decision).

³³ Commission Decision in Case NN 35/2010, (see footnote 8 of this Decision).

³⁴ Commission Decision in Case N 347/2010, Prolongation of the guarantee for certain short-term liabilities and interbank deposits, (OJ C 37, 5.2.2011, p. 4.).

³⁵ Commission Decision in Case SA.32057, (see footnote 9 of this Decision).

- i. A guarantee on certain off-balance sheet transactions covering an amount estimated at around EUR [...] billion³⁶.
- (67) INBS, during the rescue period, has received the following measures (j) to (o) that were approved by the Commission:
- j. A guarantee under the CIFS scheme covering INBS' deposits (retail, commercial, institutional and interbank), covered bonds, senior debt and dated subordinated debt from 1 October 2008 to 30 September 2010³⁷;
 - k. A first recapitalisation for an amount of EUR 2,7 billion³⁸;
 - l. State Guarantees under the ELG scheme covering deposits, senior unsecured certificates of deposit, senior unsecured commercial paper, senior unsecured bonds and notes³⁹;
 - m. An asset relief measure in the form of the transfer of EUR 8,9 billion⁴⁰ of impaired commercial property loans NAMA at an average discount of 64%⁴¹;
 - n. A State guarantee on INBS' short-term liabilities following the re-application of the ELG scheme to cover such securities, notably commercial paper, certificates of deposit, interbank deposits and corporate deposits with a maturity of less than three months (covered amount as at 31 December 2010 is approximately EUR [...] million)⁴²;
 - o. A second recapitalisation for an amount of EUR 2,7 billion⁴³.
- (68) In addition to the State aid measures (a) to(o) referred to in recitals 66 and 67, Anglo and INBS have received prior to the merger further rescue measures (p) and (q):
- p. Anglo has received a State guarantee on a part of the ELA provided to Anglo by the CBI from March 2009 until the merger with INBS. That guarantee covers up to EUR [...] billion of ELA⁴⁴;
 - q. INBS also received a State guarantee on a part of the ELA granted to INBS by the CBI from 24 February 2011 until the merger with Anglo. That guarantee covers up to EUR [...] billion.
- (69) After the merger, the merged entity will be provided with the following measures (r) to (v):
- r. A State guarantee for the remaining customer deposits, for a maximum amount of

³⁶ See footnote 33.

³⁷ See footnote 26.

³⁸ Commission Decision in Case NN 11/2010, (see footnote 10 of this Decision).

³⁹ See footnote 28.

⁴⁰ Of the EUR 8,9 billion to be transferred to NAMA, to date EUR 8,5 billion have been transferred, while EUR 400 million is awaiting transfer.

⁴¹ See footnote 29.

⁴² See footnote 32.

⁴³ Commission Decision in Case NN 50/2010, (see footnote 11 of this Decision).

⁴⁴ It is important to note that the amount provided to Anglo under ELA covered by a State guarantee has fluctuated over time. The State guarantee which was implemented in September 2010 and initially covered an amount of EUR [...] billion was increased to [...] billion by December 2010. The State guarantee was furthermore increased up to EUR [...] billion to deal with the funding needs of Anglo following the transfer of deposits to Allied Irish Banks in February 2011 and it is expected to decrease after that to around EUR [...] billion before the merger with INBS.

EUR [...] billion;

- s. A continuation of the State guarantee on off-balance sheet transactions covering an amount estimated at approximately EUR [...] billion;
- t. A State guarantee on a part of the ELA provided by the CBI to the merged entity, essentially combining both guarantees on the ELA granted to Anglo and INBS separately. That guarantee is estimated at up to EUR [...] billion at the commencement of merger, declining thereafter [...];
- u. An additional recapitalisation, [...] to cover additional losses in case of additional stress of EUR 3,3 billion;
- v. A State guarantee on the outstanding ELG-covered wholesale funding transferred from Anglo to the merged entity covering an amount of EUR [...] billion⁴⁵.

2.4.1 Rescue measures approved by the Commission

- (70) As regards the measures (a) to (o) referred to in recitals 66 and 67, they have already been assessed by the Commission in the context of the earlier decisions regarding Anglo and INBS and have been qualified as rescue aid. Further to the rescue measures, Ireland notified the Commission of additional measures that are intended to enable the resolution of Anglo and INBS, measures (p) to (v) referred to in recitals 68 and 69.
- (71) With regard to the measures already approved by the Commission (namely measures (a) to (o) referred to in recitals 66 and 67), it should be pointed out that the CIFS guarantee scheme is no longer in force since 30 September 2010 (measures (a) and (j) referred to in recitals 66 and 67) and has been replaced by the ELG scheme and the re-application of the ELG scheme to short-term liabilities (measures (c), (g), (l) and (n) referred to in recitals 66 and 67). After the merger, those schemes will be replaced by individual State guarantees (measures (r) and (v) referred to in recital 69), once the ELG scheme is no longer in place, see recitals (77) and (81)).
- (72) As for measures (d) and (m) referred to in recitals 66 and 67, the transfer of [...] loans to NAMA was completed in November 2010 at an average haircut of 62% for Anglo and 64% for INBS.
- (73) Together with the fourth recapitalisation, Anglo also received a State guarantee on its off-balance sheet transactions (measure (i) referred to in recital 66). That guarantee, for which Anglo does not pay a fee, essentially provides comfort to Anglo's counterparties in derivatives transactions (mostly hedging contracts) and clearing arrangements.

2.4.2 Further rescue measures

- (74) Anglo and INBS both have received further rescue measures prior to the merger and thus the effective restructuring (measures (p) and (q) referred to in recital 68). From March 2009 until the merger, Anglo has already received an ELA from the

⁴⁵ As deposits have now been transferred from Anglo and INBS (excluding the amount of up to EUR 1 billion), it refers to ELG debt funding, all of which related to Anglo.

CBI which was partly State-guaranteed (measure (p)). The State guaranteed part of the ELA has fluctuated, from EUR [...] billion in September 2010 to EUR [...] billion in March 2011. Anglo pays the CBI an interest rate consisting of the ECB base rate (currently 125 basis points) plus [...] basis points (hereinafter "bps") for the ELA but does not pay a fee for the guarantee.

- (75) INBS also has received a State guarantee on part of the ELA provided by the CBI (measure (q) referred to in recital 68). In total, INBS received a State guarantee on its ELA of EUR [...] billion from 24 February 2011 onwards until the merger with Anglo. INBS also pays the CBI an interest rate consisting of the ECB base rate (currently 125 bps) plus [...] bps for the ELA, but does not pay a fee for the State guarantee.

2.4.3 *Measures for the merged entity*

- (76) The merged entity [...] from several State guarantees and a capital injection of EUR 3,3 billion in a stress case (measures (r) to (v) referred to in recital 69).
- (77) The merged entity will benefit from a State guarantee on the deposits that will be transferred to it from both Anglo and INBS (measure (r) referred to in recital 69). The maximum amount of those deposits will be EUR 1,05 billion. They are made up in particular of deposits that are either secured or connected to a borrower account that is transferred to the merged entity, and they have therefore not been transferred out of Anglo and INBS. The merged entity will pay a flat fee of 50 bps for the duration of the ELG scheme and nothing thereafter.
- (78) The merged entity will also benefit from a measure granted to Anglo before the merger, namely the continuation of the State guarantee on off-balance sheet transactions for an amount estimated at around EUR [...] billion⁴⁶ (measure (s) referred to in recital 69). The merged entity will not pay a fee for that guarantee.
- (79) In order to fund the resolution of Anglo and INBS, it is foreseen in the joint restructuring plan that the merged entity will benefit from a State guarantee on part of the ELA that it will receive (measure (t) referred to in recital 69). In total, the merged entity will have access to an ELA of up to EUR [...] billion, at the commencement of the merger, declining thereafter [...]. The merged entity will pay the CBI an interest rate of [...] bps for euro currency funding and [...] bps for foreign currency funding, but will pay no fee for the State guarantee.
- (80) According to the joint restructuring plan, [...] in case of a further deterioration of its financial position (stress case - measure (u) referred to in recital 69). In that case, [...] up to EUR 3,3 billion of capital [...]. That approach will ensure that the merged entity satisfies the relevant minimum regulatory capital requirements set by the Irish Financial Regulator (currently an 8% total capital ratio).
- (81) Finally, the merged entity will benefit from a State guarantee on the existing wholesale funding of around EUR 3 billion that will be transferred from Anglo to the merged entity (measure (v) referred to in recital 69). The merged entity will pay a fee of between 95 to 125 bps during the duration of the ELG and will pay no fee thereafter.

⁴⁶ This is an estimated gross maximum that would be required to be covered under the State guarantee; the net exposure at December 2010 was EUR [...] million.

Table 1: Overview of the measures granted to Anglo, INBS and the merged entity (referred to in recitals 66 to 69)

| Measures granted to Anglo, Recovery Bank and Funding Bank | | | |
|--|---|--|--|
| Nr | Type of measure | amount (EUR, bln) | remuneration |
| Rescue measures approved | | | |
| Anglo Irish Bank | | | |
| a | Guarantee under the CIFS scheme | Peak EUR [...] billion at September 2008 ¹ | flat fee 18,5 bps rising to 32 bps |
| b | First recapitalisation | EUR 4 billion | no remuneration |
| c | Guarantee under the ELG scheme | EUR [...] billion ² | ECB recommendation + 40 bps ³ |
| d | Asset relief measure - transfer of eligible loans to NAMA | EUR 35 billion transferred | n/a |
| e | Second recapitalisation | EUR 10,44 billion ⁴ (EUR 10.3 billion) | no remuneration |
| f | Third recapitalisation | EUR 10 054 million | no remuneration |
| g | Guarantee on short-term liabilities | c. EUR [...] billion at December 2010 | 160 bps as at December 2010 ³ |
| h | Fourth recapitalisation | EUR 4 946 million | no remuneration |
| i | Guarantee on certain off balance sheet liabilities | estimated gross max. EUR [...] billion ⁵ | no fee |
| Irish Nationwide Building Society | | | |
| j | Guarantee under the CIFS scheme | Peak EUR [...] billion at October 2008 ¹ | flat fee 18.5 bps rising to 25.6 bps |
| k | First recapitalisation | EUR 2,7 billion | Secured the rights to the net surplus assets of the Society |
| l | Guarantee under the ELG scheme | EUR[...] billion ² | ECB recommendation + 40 bps ³ |
| m | Asset relief measure - transfer of eligible loans to NAMA | EUR 8,9 billion transferred | n/a |
| n | Guarantee on short-term liabilities | c. EUR [...] million at December 2010 | 160 bps as at December 2010 ³ |
| o | Second recapitalisation | EUR 2,7 billion | no remuneration |
| Further rescue measures | | | |
| Anglo Irish Bank | | | |
| p | Guarantee on Emergency Liquidity Assistance | Peak guaranteed EUR [...] billion up to 16 March 2011 ⁶ | [...] no fee for guarantee |
| Irish Nationwide Building Society | | | |
| q | Guarantee on Emergency Liquidity Assistance | Guaranteed EUR [...] billion | [...], no fee for guarantee |
| Restructuring measures | | | |
| Merged entity | | | |
| r | Continuation of guarantee on remaining deposits | max. EUR [...] billion | Guaranteed for the life of the workout, first under ELG and following its expiry on an ad hoc basis at 50bps |
| s | Continuation of guarantee on off-balance sheet transactions | estimated at around EUR [...] billion ⁵ | no fee |
| t | Continuation of guarantee on Emergency Liquidity Assistance or other similar facility | estimated at up to EUR [...] billion | 3 |
| u | Recapitalisation in stress case | EUR 3,2 billion | no remuneration |
| v | Guarantee on outstanding ELG wholesale funding | around EUR [...] billion | fee in line with ELG for its duration, no fee thereafter |

1 The CIFS Scheme expired on 30 September 2010

2 The figures quoted are as at 31 December 2010. (However, the peak ELG guarantee level was EUR [...] billion as at April 2010 for Anglo and was EUR [...] billion for INBS as at September 2010.)

3 As per latest Commission decision on the scheme, remuneration may be adjusted in case of prolongation of the scheme beyond 30 June 2011.

4 Amount effectively granted by the Irish authorities in (brackets)

5 This estimated figure of EUR [...] billion is an estimated gross maximum that would be required to be covered under the State guarantee, the net exposure at December 2010 was EUR [...] million.

6 Figure of EUR [...] billion was required due to transfer of Anglo / INBS deposits, this has reduced to EUR [...] billion on 16 March 2011.

3 GROUNDS FOR INITIATING THE PROCEDURE

- (82) The Commission opened the formal investigation procedure on the initial Anglo restructuring plan on 31 March 2010 with the adoption of the opinion decision. Since then, Ireland has fundamentally altered the restructuring plan for Anglo several times before submitting the joint restructuring plan for Anglo and INBS on 31 January 2011. Most of the doubts raised in the opening decision (see Section 4.3.1 of that Decision⁴⁷) were specific to the initial Anglo restructuring plan, which was based on the assumption that Anglo would be split into a good bank and a bad bank. Those doubts are therefore no longer relevant as Anglo will cease to undertake new activities and instead will be merged with INBS and focus on working out its loan book over time.
- (83) For the sake of completeness however, a summary is provided in Section 3.1 of the doubts raised by the Commission in its opening decision.

3.1 The opening decision

- (84) As regards the return to viability of the good bank (in the opening decision also referred to as 'NewCo') and the orderly wind-down of the bad bank (in the opening decision also referred to as 'Old Anglo'), the Commission expressed doubts, since at the time of that decision there was not enough information on the business plans of both entities. The Commission also doubted whether the estimation of the impairments on both the loans transferred to NAMA and the non-NAMA loans was sufficient. In addition, the macro-economic assumptions provided in the initial Anglo restructuring plan seemed to be incomplete, thus leading to doubts as to their reasonableness. The Commission also expressed doubts with regard to certain new activities the good bank would be undertaking in areas where it did not have any previous experience. The Commission also doubted whether the funding and liquidity needs of the good bank could be met based on the plan.
- (85) As regards burden-sharing and Anglo's own contribution, the Commission questioned whether the own contribution to the restructuring by Anglo itself was sufficient in view of the fact that the good bank was to expand into new activities, something which would require significant investment. In addition, the Commission pointed out that the Irish authorities had not explored in the initial Anglo restructuring plan whether Anglo could contribute to its restructuring by selling assets or through other means.
- (86) Concerning the measures limiting distortion of competition caused by the massive State aid provided to Anglo, the Commission indicated that it doubted that the measures presented in the plan were sufficient to offset the distortive effects of the aid to Anglo.

4 COMMENTS FROM INTERESTED PARTIES

- (87) The Commission did not receive any third party comments following the publication of the opening decision in the *Official Journal of the European Union*.

⁴⁷ See footnote 4.

5 COMMENTS FROM IRELAND

- (88) Ireland did not provide any comments on the opening decision, but instead submitted the second Anglo restructuring plan and then the third Anglo restructuring plan on 26 October 2010.
- (89) The third restructuring plan is now replaced by the joint restructuring plan submitted on 31 January 2011 by Ireland.

6 ASSESSMENT

6.1 Existence of aid

- (90) It must be assessed whether the measures contained in the joint restructuring plan constitute State aid. Article 107(1) of the Treaty provides that any aid granted by a Member State or through State resources in any form whatsoever which distorts or threatens to distort competition by favouring certain undertakings or the production of certain goods is, insofar as it affects trade between Member States, incompatible with the internal market.

6.1.1 *Measures already temporarily approved*

- (91) With regard to the measures already temporarily approved by the Commission as rescue aid in its earlier decisions pertaining to Anglo and INBS (namely measures (a) to (o) as set out in recitals (66) and (67)), the Commission has already concluded that those measures constitute State aid in favour of Anglo and INBS. As a consequence, it is not necessary to reassess whether they constitute State aid in this Decision.
- (92) The measures that have to be assessed in this Decision in order to determine whether they constitute State aid have already been described in recitals (68) and (69). The relevant measures are: for Anglo measure (p), for INBS measure (q) and for the merged entity measures (r) to (v). In that context, it should be noted that Ireland accepts that the measures represent State aid.

6.1.2 *State resources*

- (93) Measures (p) to (v) referred to in recitals 68 and 69 are financed through State resources as the measures are made up of State guarantees and direct grants financed by the State and should therefore be considered to constitute State aid.

6.1.3 *Selectivity*

- (94) It is also necessary to assess whether the measures referred to in recitals 66 to 69 confer a selective advantage on the beneficiary or beneficiaries of the State aid. The measures concerned are selective as they solely benefit Anglo, INBS and the merged entity.

6.1.4 *Advantage*

- (95) The measures referred to in recitals 66 to 69 confer an advantage on the economic activity of both Anglo and INBS as carried on by them until the merger and their successor, the merged entity, thereafter.
- (96) Anglo benefits from a State guarantee covering EUR [...] billion of ELA it receives from the CBI (measure (p) referred to in recital 68), and which enables Anglo to fund its assets. That guarantee represents an advantage for Anglo as such a guarantee would not be available on the market and. [...]. Furthermore, the State guarantee on the ELA is provided without Anglo having to pay a remuneration for it. That absence of remuneration presents a further advantage to Anglo as it avoids the costs associated with the guarantee.
- (97) For the same reasons, the State guarantee on the ELA that INBS has received from 24 February 2011 onwards for an amount of EUR [...] billion provides an advantage to INBS (measure (q) referred to in recital 68).
- (98) As regards the measures in favour of the merged entity, that entity will benefit from a continuation of several State guarantees, namely on the remaining deposits (measure (r) referred to in recital 68), on off-balance sheet transactions (measure (s) referred to in recital 69), on the ELA (measure (t) referred to in recital 69) and on the existing wholesale funding (measure (v) referred to in recital 69). The merged entity only pays a fee for the guarantee [...], the deposits and the wholesale funding for the duration of the ELG scheme (no fee will be paid thereafter), but does not pay a fee for the other guarantees. Those guarantees provide an advantage to the merged entity by helping to ensure that the merged entity does not default on its obligations. Indeed, without the necessary funding through the guaranteed ELA, the remaining deposits and the remaining wholesale funding and without the guarantee on its off-balance sheet liabilities, an orderly resolution is not possible. Furthermore, the fact that the merged entity does not have to pay a fee for several of those guarantees provides a further advantage to it as it avoids higher funding costs and thus more losses.
- (99) Finally, [...] EUR 3,3 billion in the stress case to cover further losses as a result of the work out of its loan book. [...] The recapitalisation [...] an advantage to the merged entity as it ensures that it fulfils its relevant regulatory capital requirements during the resolution period. [...].

6.1.5 *Distortion of competition and effect on trade between Member State*

- (100) It should be concluded that measures (p) to-(v) referred to in recitals (66) and (67) are able to distort competition and affect trade between Member States.
- (101) As indicated in section 6.1.4, without the State support measures, both Anglo and INBS would have defaulted and completely exited the markets in which they were active. As a result of the very substantial amount of State support, they remained active on the deposit market (until the transfer of their deposits to Allied Irish Bank and Irish Life & Permanent in February 2011) and to a very limited degree on the commercial property lending market and residential mortgage market (servicing existing loans). Therefore, that State support distorted competition. In those markets, Anglo and INBS competed not only with Irish banks but also the foreign players active in Ireland. Anglo was also active (both for deposits and commercial

lending) in the United Kingdom and thus has competed with domestic UK players and players from other Member States active on that market. It should be noted, however, that the activity of those two entities has been more and more limited over the last couple years, thus reducing the negative affect on competition and trade.

- (102) As regards the merged entity, it will carry out some limited economic activities in a market where both Irish and foreign banks remain active. In particular, it will be allowed to retain a small amount of deposits and to provide some loans to its existing customers in order to increase the NPV of the loans in question in line with the commitments provided by Ireland (see Section 2.3.2). Without the State support measures, it would not be able to carry out those activities. It should be noted that as the balance sheet of the merged entity will be reduced as a result of its resolution, the distortion of competition and the affect on trade will be significantly reduced due to the very limited operations which the merged entity will continue to carry out on competitive markets.

6.1.6 Application of the market investor principle

- (103) Finally, the market economy investor principle does not apply to the measures referred to in recitals 66 to 69 since they are part of a substantial package of rescue measures in favour of Anglo and INBS. In addition, even if it were applicable, those measures are not in line with normal market conduct. No market economy investor would implement all those measures in order to rescue Anglo and INBS and then merge them in order to work out the loan book as the chances that it would recoup its investments (total recapitalisations provided to Anglo and INBS together amount to EUR 34,7 billion in a base case) are negligible. No market economy operator placed in a similar situation as the State would have been able to provide the amount of capital and funding needed in order to facilitate the resolution of both Anglo and INBS. Taking into consideration the situation on the markets and the appetite for Irish assets and liabilities, it would not be possible for a market operator to obtain such financing.

6.1.7 Identification of the beneficiary of the aid

- (104) Ireland intends to introduce new aid measures (measures (r) to (v) referred to in recital 69) in order to facilitate the resolution of Anglo and INBS. Those measures will enable the merger of Anglo and INBS into one legal entity. The main objective of the merged entity is to work out the loan books of Anglo and INBS with a view to maximise the return and reduce the cost for the Irish taxpayer.
- (105) Under the joint restructuring plan, the merged entity will carry out only limited lending required by existing contractual obligations and then only to ensure that the NPV of the loan book is preserved, thus limiting the situations where it is in competition with other banks to the minimum. The merged entity will, according to Ireland, only realise its assets as they mature or by selling them on the market. The merged entity will use the proceeds of those sales to repay its debts as they become due and fund its ongoing operational costs as well as any retained historic liabilities. It should, therefore, be concluded that the merged entity will continue to

carry out some limited economic activities following the merger and thus should be considered as a beneficiary of the State aid measures.

- (106) With regard to Anglo and INBS, prior to the intended merger they have both been able to continue to operate aided by State guarantees on their liabilities, recapitalisations and an asset relief measure (measures (a) to (o) referred to in recitals 67 and 68). Anglo and INBS are therefore the beneficiaries of those measures.

6.1.8 Conclusion

- (107) On the basis of the foregoing, it should be concluded that measures (a) to (v) referred to in recitals (68) and (69) constitute State aid.

6.2 Amount of aid

6.2.1 Recapitalisations of Anglo and INBS

- (108) Both Anglo and INBS have received individual State aid in the form of several recapitalisations. Anglo received a total of EUR 29,3 billion through four capital injections⁴⁸. INBS received a total of EUR 5,4 billion through two capital injections.

6.2.2 Impaired asset measure for Anglo and INBS

- (109) Both Anglo and INBS have participated in NAMA (measures (d) and (m) referred to in recitals in 66 and 67). As regards the aid amount included in the impaired asset measure, namely the transfer of assets to NAMA, it should be noted that footnote 2 to paragraph 20(a) of the Impaired Assets Communication (hereinafter referred to as "IAC")⁴⁹ defines the aid amount in an asset relief measure as the difference between the transfer value of the assets and the market price. However, it is very difficult to estimate the market value of the covered assets as most of them are loans which are not traded. Furthermore, the actual aid amount can only be determined after the valuation by Ireland of the assets transferred to it has been finalised in line with the Commission's Decision in Case N 725/2009⁵⁰ which will lead to final conclusions regarding the amount of aid involved. In that context, information on the amount of aid associated with the first and second tranches of loans transferred to NAMA has been made available to the Commission, while the information on the final tranches is still pending.

⁴⁸ The Commission observes that it actually approved recapitalisations for Anglo for an amount of EUR 29 440 million. EUR 140 million of the second recapitalisation approved on 31 March 2010 by the opening decision, however, was never granted and because of the structure of that particular recapitalisation may now no longer be granted. For that reason, it is more appropriate to use the EUR 29,3 billion figure of total recapitalisation, which reflects the amount Anglo has actually received before the merger with INBS.

⁴⁹ Communication from the Commission on the treatment of impaired assets in the Community Banking Sector, (OJ C 72, 26.3.2009, p. 1.).

⁵⁰ See footnote 29.

- (110) Based on the information available for the first and second tranches transferred to NAMA, a number of conclusions may be made. Firstly, the first tranche of commercial property loans that Anglo transferred to NAMA had a nominal value of EUR 9 251 million. That transfer contained an aid amount of EUR 870 million, which represents 9,4% of the nominal loan balances transferred. Secondly, in the second tranche, Anglo transferred loans with a nominal value of EUR 6 747 million to NAMA. That transfer contained an aid amount of EUR 427 million and represents 6.3% of the nominal loan balances transferred. Accordingly, the average percentage of aid to nominal loan balances for the two tranches is 7.9%. When applying that average percentage to the still outstanding tranches (EUR 19 billion), the aid amount for those tranches would be approximately EUR 1,5 billion. In total, the State aid amount associated with the transfer of Anglo's commercial property and development loans and associated loans to NAMA may therefore be estimated at around EUR 2 797 million⁵¹.
- (111) INBS transferred loan balances with a nominal value of EUR 669 million in the first tranche. That transfer contained an aid amount of EUR 70 million, which represents 10.5% of the nominal loan balances transferred. As part of the second tranche, INBS transferred loan balances with a nominal value of EUR 591 million. That transfer resulted in an aid amount of EUR 43,7 million which represents 7,4% of the nominal loan balances transferred. Accordingly, the average percentage of aid to nominal loan balances for the two tranches is 9%. When applying that average percentage to the still outstanding tranches (EUR 7,7 billion), the aid amount associated may therefore be estimated at approximately EUR 693 million. In total, the State aid amount associated with the transfer of INBS' commercial property and development loans and associated loans to NAMA may therefore be estimated at around EUR 806 million⁵².
- (112) Although the exact amount of State aid for the still outstanding tranches will be verified at a later stage, it is not necessary to know the exact aid amount contained in those last tranches in order to assess the joint restructuring plan's compatibility with the Treaty as: (i) the way the transfer price will be determined has already been agreed by the Commission in its Decision on NAMA⁵³; (ii) any potential change in the aid amount will not affect the Commission's assessment of the aid in this Decision given the large amounts already involved and the fact that Anglo and INBS will completely exit the market; and (iii) in particular, an increased aid would not increase the distortion of competition created by the resolution of the merged entity as it would not mean that the merged entity would carry out more competitive activities.

6.2.3 Guarantees for Anglo and INBS

- (113) Anglo and INBS have also participated in the CIFS and ELG guarantee schemes (measures (a), (c), (g), (j), (l) and (n) referred to in recitals 66 and 67). The amount of the liabilities covered for each institution under both schemes has fluctuated over time. For instance, in the case of Anglo, the liabilities covered under the CIFS scheme peaked at EUR [...] billion in September 2008, decreasing to EUR [...]

⁵¹ EUR 870 million + EUR 427 million + EUR 1,5 billion = EUR 2 797 million.

⁵² EUR 70 million + EUR 43,7 million + EUR 693 million = EUR 806,7 million.

⁵³ Commission Decision in Case N 725/2009, see footnote 30.

billion as at 30 June 2010, partly as a result of the introduction of the ELG. Furthermore, Anglo's liabilities covered by the ELG, decreased to EUR [...] billion as at 31 March 2011 from a peak of EUR [...] billion as at 30 June 2010 as a result of the transfer of its deposits to Allied Irish Banks. For INBS, the same trend can be observed.

- (114) In addition, both Anglo and INBS have received State guarantees on short-term liabilities and ELA, while Anglo has also received a State guarantee [...] on its off-balance sheet liabilities.
- (115) It should be noted that, as regards companies in financial difficulty, if a bank is not able to raise sufficient non-guaranteed debt to cover all its funding needs, the aid element of such guarantees might go up to the level of their nominal value. That was manifestly the case when Anglo and INBS started to use the CIFS in 2008 and the ELG, the guarantee on short-term liabilities in 2010 and the guarantee on their ELA, while Anglo also received a State guarantee on its off-balance sheet liabilities. In that context, there was a significant overlap between the different guarantees, more specifically, the CIFS and ELG scheme, which could lead to double-counting. At the same time, the amounts covered by the various guarantees fluctuated over time (CIFS, ELG scheme and ELA). It should also be recalled that the participation of those two banks in State guarantee schemes is not taken into account for the calculation of the amount of aid relative to their risk weighted assets (hereafter "RWA") in order to establish whether an in-depth restructuring is necessary. On the other hand, the aid element in the guarantees will be taken into account in the context of the restructuring. For those reasons, the Commission has not calculated the aid amount associated with those State guarantees.

6.2.4 Aid measures for the merged entity

- (116) The merged entity [...] a further EUR 3,3 billion of capital in case the stress scenario materialises.
- (117) The merged entity also benefits from State guarantees on its remaining deposits which stands at a maximum of EUR 1 billion, its off-balance sheet transactions which is estimated at a gross maximum amount of [...], and a continuation of the State guarantee on the ELA or other similar facility it receives which is estimated at up to [...] at commencement of the merger. For the calculation of the State aid amount, the Commission finds that as regards the guarantees provided to the merged entity, the reasoning in recital (115) applies.

6.2.5 Conclusion as regards the amount of aid

- (118) On the basis of the foregoing, it should be concluded that Anglo has received State aid in the form of recapitalisations and an asset relief measures amounting to at least EUR 32 billion (43,9% of RWA). INBS has received State aid in the form of recapitalisations and an asset relief measure amounting to at least EUR 6,2 billion (59% of RWA). Those levels are substantially above the 2% threshold as indicated in the Recapitalisation Communication⁵⁴ and the IAC.

⁵⁴ Communication from the Commission - The recapitalisation of financial institutions in the current financial crisis: limitation of aid to the minimum necessary and safeguards against undue distortions of competition, (OJ C 10, 15.1.2009, p. 2.).

- (119) Finally, it should be concluded that the total State aid amount involved, when adding up the figures for the recapitalisations and asset relief measure in favour of Anglo and INBS, as well as the recapitalisation of the merged entity in a stress case, may be estimated to be at least EUR 41,5 billion⁵⁵.

6.3 Compatibility of the aid

- (120) When assessing the compatibility of the joint restructuring plan for Anglo and INBS, it should be first assessed whether Article 107(3)(b) of the Treaty is applicable before assessing whether the joint restructuring plan fulfils the requirements of the Recapitalisation Communication and the Restructuring Communication.

6.3.1 *Legal basis for the compatibility assessment*

- (121) Article 107(3)(b) of the Treaty permits the Commission to declare aid compatible with the internal market if it is intended “to remedy a serious disturbance in the economy of a Member State”. In that regard, market conditions have been difficult worldwide since the last quarter of 2008. Ireland, in particular, has been severely hit by the financial crisis. The economic downturn combined with the fall in property prices and the exposure of the Irish banks to land and property development loans have led to significant impairments for Irish banks. Irish banks have also been faced with persisting difficulties in obtaining funding and capital from the markets due to the uncertainty associated with the property market in Ireland. As a result, the Irish State (Sovereign) has also come under pressure, in the end leading to the Programme for Support.
- (122) The Commission has acknowledged that the global financial crisis can create a serious disturbance in the economy of a Member State and that measures supporting banks are apt to remedy that disturbance; that view has been confirmed in the Banking Communication⁵⁶, the Recapitalisation Communication, the IAC and the Restructuring Communication. In respect of the Irish economy, it has been confirmed in the Commission's various decisions approving the measures undertaken by Ireland to combat the financial crisis⁵⁷.
- (123) Given the specific circumstances in Ireland, combined with the improved but not yet stabilised situation on the financial markets, the Commission considers that the measures may be examined under Article 107(3)(b) of the Treaty.

6.3.2 *Compatibility assessment*

- (124) Anglo, INBS and the merged entity have benefited and will benefit from several State aid measures whose compatibility has not previously been assessed by the Commission. They include the State guarantee on the ELA for both Anglo and INBS (measures (p) and (q) referred to in recital 68) and the State guarantees and recapitalisation in the stress case [...] (measures (r) to (v) referred to in recital 69).

⁵⁵ 32 billion (Anglo) + 6.2 (INBS) + 3.3 (stress recap for the merged entity) = 41,5 billion

⁵⁶ Communication from the Commission — The application of State aid rules to measures taken in relation to financial institutions in the context of the current global financial crisis, (OJ C 270, 25.10.2008, p. 8.).

⁵⁷ See amongst others Commission Decisions as referred to in footnotes 26 to 33.

Furthermore, Anglo and INBS have received measures that have been found compatible by the Commission as rescue aid (measures (a) to (o) referred to in recitals 66 and 67), but which now will have to be assessed to determine whether they are compatible as restructuring aid. It is necessary to assess the compatibility of those measures and the joint restructuring plan in the context of the Banking Communication, the Recapitalisation Communication and the Restructuring Communication.

- (125) Although Anglo and INBS have benefited from asset relief measures while transferring assets to NAMA, Anglo and INBS' resolution in itself does not give rise to a State aid in the form of an asset relief measure. All Anglo and INBS assets and liabilities will be merged into one entity exclusively for their work-out in its entirety. Accordingly, it is not necessary to assess the merger and resolution of the assets under the IAC.

6.3.3 *The application of the Banking and the Recapitalisation Communication to measures (p) to (v) referred to in recitals 68 and 69*

- (126) In line with point 15 of the Banking Communication, in order for an aid or aid scheme to be compatible under Article 107(3)(b) of the Treaty it must comply with general criteria for compatibility under Article 107(3) of the Treaty, which imply compliance with the following conditions:

(i) Appropriateness: The aid has to be well-targeted in order to be able to effectively achieve the objective of remedying a serious disturbance in the economy. This would not be the case if the measure were not appropriate to remedy the disturbance;

(ii) Necessity: The aid measure must, in its amount and form, be necessary to achieve the objective. That requirement implies that it must be of the minimum amount necessary to reach the objective, and take the form most appropriate to remedy the disturbance;

(iii) Proportionality: The positive effects of the measure must be properly balanced against the distortions of competition, in order for the distortions to be limited to the minimum necessary to reach the measure's objectives.

- (127) Those general criteria apply both to recapitalisations and guarantees. The Recapitalisation Communication further elaborates on the three principles of the Banking Communication and states that recapitalisations can contribute to the restoration of financial stability. In particular the Recapitalisation Communication states in point 6 that recapitalisations may be an appropriate response to the problems of financial institutions facing insolvency.

(i) Appropriateness of the Measures

- (128) The recapitalisation of the merged entity in the stress case (measure (u) referred to in recital 69) aims at ensuring that it has sufficient capital to comply with its regulatory capital requirements while it works out the Anglo and INBS loan books. A capital injection is the most efficient and straightforward measure to deal with the potential capital shortfall that could arise in the stress case as it directly improves the total capital ratio of the merged entity.

- (129) [...]

- (130) The State guarantees provided to Anglo and INBS on the ELA they receive (measures (p) and (q) referred to in recital 68) and to the merged entity on its remaining deposits (measure (r) referred to in recital 69), its wholesale funding (measure (v) referred to in recital 69), the State guarantee on the ELA it receives (measure (t) referred to in recital 69) and the off-balance sheet liabilities (measure (s) referred to in recital 69) aim to ensure that the funding the merged entity receives is secure and that the merged entity will not default. That funding is needed in order to ensure that Anglo and INBS have sufficient funding to cover their assets, while the funding the merged entity receives will enable it to work out the Anglo and INBS loan books over time. [...].

Conclusion

- (131) The recapitalisation of the merged entity in a stress case is appropriate because it effectively meets its objective to ensure that the merged entity is in compliance with its regulatory capital requirements. The measure therefore effectively achieves the objective of preventing the default of the merged entity.
- (132) The guarantee measures are appropriate since they ensure that Anglo and INBS pre-merger and the merged entity post-merger have sufficient funding to carry out their tasks, while it prevents a potential default of the merged entity.
- (133) Furthermore, the different State aid measures ensure that financial stability in Ireland is maintained.

(ii) Necessity – limitation of the aid to the minimum

- (134) According to the Banking Communication, the aid measure must, in its amount and form, be necessary to achieve the aid's objective. That requirement implies that the capital injection and the guarantees must be of the minimum amount necessary to reach the objective. In that context, it may be observed that the capital injection will only occur in the stress case and is limited to an amount of EUR 3,3 billion. The recapitalisation will ensure that the merged entity will fulfil the relevant regulatory capital requirements. As for the State guarantees, they will ensure that there will be funding available for the merged entity so as to meet its obligations as a going concern.
- (135) As regards the remuneration that the merged entity has to pay for the recapitalisation, the State will receive no fixed remuneration on the recapitalisation. Anglo, INBS and the merged entity also do not pay a fee for the guarantee on the ELA, while the merged entity does not pay a fee on the guarantee on the off-balance sheet liabilities. The merged entity will also cease to pay a fee for the guarantee on wholesale funding and deposits once the ELG scheme has expired.
- (136) As regards the recapitalisation, points 15 and 44 of the Recapitalisation Communication explain that in duly justified cases lower remuneration can be accepted in the short-term for distressed banks on the condition that the lack of remuneration will be reflected in the restructuring plan. The merged entity essentially is a resolution vehicle which will facilitate the orderly resolution of Anglo and INBS. It will not carry out any economic activities besides those

necessary to work out the loan book. Ireland has provided the necessary commitments in that regard (see Section 2.3.2). Anglo and INBS will both disappear from the Irish lending and deposit markets. It may be concluded that restructuring in that form compensates for the lack of remuneration. Finally, Anglo and INBS have been fully nationalised and their respective shareholders have lost their rights and interests in both institutions. As a consequence, any potential proceeds realised on termination of the resolution of the merged entity will accrue to the State in full.

- (137) The Banking Communication assumes in point 26 that, for guarantee schemes, an adequate fee should be paid. The fee should be set as close as possible to what could be considered the market price, however taking into account the potential difficulties for beneficiaries to bear the amounts that might properly be charged. As elaborated in recital (135), it should be noted that the merged entity will be charged with the resolution of Anglo and INBS. In view of those circumstances, it should be concluded that the fact that the merged entity does not pay a fee for the guarantee is justified.

Conclusion

- (138) It should be concluded that the recapitalisation of the merged entity in a stress case and the State guarantees to Anglo, INBS and the merged entity are necessary in order to ensure the latter's capital adequacy and to ensure that sufficient funding is available, while also reducing the potential risk of default of the merged entity. As regards the remuneration of the aid measures in order to keep the aid to the minimum, it is justified that no remuneration is paid given the resolution of Anglo and INBS by the merged entity.

(iii) Proportionality – measures limiting negative spill-over effects

- (139) The merged entity will ensure the resolution of Anglo and INBS and that as a result both institutions will exit the Irish deposit and lending markets. As established in recital (105), the merged entity will carry on some limited economic activities in order to work out the loan books of Anglo and INBS. The Commission notes positively that Ireland has provided the necessary commitments to ensure that the economic activities carried out by the merged entity will be limited to the minimum. The lending granted by the merged entity will be in the sole context of the management of the legacy loan books of Anglo and INBS (restructuring of loans, preservation of collateral value) and will be subject to strict restrictions. The merged entity will not collect any deposits nor engage in new activities. Consequently, the distortion of competition caused by the massive aid to Anglo, INBS and the merged entity will be limited.

Conclusion

- (140) It should be concluded that that: (i) the recapitalisation of the merged entity in a stress case and the guarantees are appropriate to ensure the resolution of Anglo and INBS; (ii) Anglo and INBS will exit the Irish deposit and lending markets; (iii) the fact that the investment in Anglo, INBS and the merged entity will not provide any remuneration or positive return is justified under the circumstances of the case; and (v) there are sufficient measures limiting the negative spill-over effects for other competitors.

6.3.4 *The application of the Restructuring Communication*

- (141) The Restructuring Communication sets out the State aid rules applicable to the restructuring of financial institutions in the current financial crisis. According to the Restructuring Communication, in order to be compatible with Article 107(3)(b) of the Treaty, the restructuring of a financial institution in the context of the current financial crisis has to:
- (i) lead to a restoration of the viability of the bank, or to the orderly winding-up of the bank;
 - (ii) include sufficient own contribution by the beneficiary (burden-sharing);
 - (iii) contain sufficient measures limiting the distortion of competition.

6.3.4.1 *Orderly resolution of the merged entity*

- (142) The joint restructuring plan aims at the resolution of Anglo and INBS by the merged entity in an orderly fashion. Accordingly, it is not necessary to assess the viability of the merged entity.
- (143) The joint restructuring plan presents an orderly resolution of Anglo and INBS based on State support. The legacy loan books of both banks will be worked out over a ten-year period. Ireland has estimated the capital injections necessary in [...] in order to guarantee the merged entity against any risk of default. In addition, the merged entity will benefit from State guarantees to pursue operations necessary to work out Anglo and INBS assets.
- (144) Consequently, the conditions to work out the assets of the merged entity in an orderly fashion are in place.

6.3.4.2 *Own contribution/ burden-sharing*

- (145) The Restructuring Communication indicates that an appropriate contribution by the beneficiary is necessary in order to limit the aid to a minimum and to address distortions of competition and moral hazard. To that end: (a) both the restructuring costs and the amount of aid should be limited and (b) a significant own contribution is necessary.

a. Limitation of restructuring costs and of the amount of aid

- (146) The principles of the Restructuring Communication require that the aid amount is limited to the minimum and banks should first use their own resources to finance restructuring.

Anglo and INBS will exit the market

- (147) Ireland has decided that Anglo and INBS should not pursue their activities in view of the massive losses suffered by both institutions and in view of the uncertainty that the continuation of their activities would convey to the market. In particular, the State would be at risk of having to continuously inject capital into Anglo and

INBS as long as both banks are active in order to cover for losses and to ensure that both institutions fulfil the new capital requirements set by the Financial Regulator. By opting for the resolution of both banks, Ireland has put an end to market speculation on Anglo and INBS and has clarified the cost of the State support for them.

- (148) That decision by Ireland, combined with the commitments outlined in Section 2.3.2, will ensure that the aid is not used to develop new activities, which would require capital and funding, and thus contributes to limit the amount of aid to the minimum. The merged entity will, in particular, not engage in new lending and will limit its activities to managing the legacy loan book of Anglo and INBS under strict restrictions.

The merged entity is the most appropriate resolution mechanism

- (149) As part of the resolution of both Anglo and INBS, Ireland has decided to merge the two entities in order to manage only one resolution vehicle. That solution is likely to create synergies in terms of the loan books' work-out, human resources and funding management. Although limited, such synergies will facilitate the work-out of the assets. [...] Merging the two entities in this specific case limits the capital that Ireland has to inject into those banks.
- (150) More generally, merging the two banks will simplify the resolution structure, and has the potential to reduce the structural costs, albeit to a limited extent.

A liquidation would be more costly and would present more systemic risks

- (151) Alternatively, Ireland could consider an immediate liquidation of Anglo and INBS. The Commission is, however, of the view that a liquidation would be more costly than an orderly resolution and would require more State aid. [...].
- (152) Concerning the commercial loans transferred to the merged entity from Anglo, the joint restructuring plan foresees impairments on the nominal value of [...] ⁵⁸. Considering the discount levels estimated by Anglo's market advisors in May 2010, the fire sale of non-NAMA loans from Anglo would imply substantially higher losses than an orderly work-out of the loan book ([...]) ⁵⁹. Overall, the losses that would be incurred in case of an immediate liquidation of Anglo would imply greater losses to those that the loans would bear if they are worked out over a long period. It should be underlined that, as regards the Irish loans in particular, there has been no transaction of the size discussed here. Consequently, all the figures are estimations based on experts' judgment and in case of rapid sale it is far from certain that a buyer could be found for that enormous volume of assets, even at very low prices.

⁵⁸ That level of impairment is more conservative than that anticipated by [...] in May 2010 () in the case of an orderly winding down of the loan book.

⁵⁹ The Anglo legacy loan book has a book value of EUR billion; if the levels of discount estimated by [...] for a liquidation were applied to the legacy loan book, it would result in a loss in excess of [...]. Considering the deterioration of the situation in Ireland since those estimations were made, the excess loss would likely be greater.

- (153) In a liquidation process, the proceeds from the sale of assets would be distributed to repay senior bondholders, depositors and State-guaranteed ECB/CBI funding. [...].
- (154) In Anglo, approximately EUR [...] billion of unsecured debt is not covered by the State guarantee⁶⁰. [...]. The rest of the unsecured debt in Anglo (approximately EUR 3 billion) is guaranteed by the State and the relevant debt holders would be paid at par by the State. In total, in case of liquidation, the senior unsecured bond holders would thus contribute to the losses by a net amount of maximum [...] billion. That amount is exceeded by the additional losses that would result from fire sales of Anglo assets.
- (155) In addition, in case of liquidation, the subordinated debt holders would have to assume losses. However, since the subordinated debts have been bought back in the last years and the remaining outstanding subordinated debts are small, those losses would not compensate the additional State aid required to repay the other, more senior, debt holders⁶¹.
- (156) In conclusion, a rapid liquidation of the loan portfolio, assuming that it would be feasible - which is far from certain - would crystallise a cost for Ireland superior to the costs incurred by an envisaged ten-year work-out of the assets of Anglo and INBS, where the assets easier to sell will be sold first while the assets for which there is no market will be held for several years.
- (157) Concerning INBS, similar considerations as those for Anglo apply with regard to the legacy commercial loan book of the bank (almost transferred to NAMA in full). The large majority of liabilities of INBS are also guaranteed by Ireland⁶².
- (158) Concerning the legacy mortgage book of INBS, in the INBS restructuring plan, Ireland indicated that, based on the quality of the book and market intelligence available on transactions involving similar assets of better quality in Ireland and the United Kingdom, [...], it is reasonable to anticipate a high discount on any short-term transactions concerning the mortgage book of INBS.
- (159) The joint restructuring plan foresees total losses on the INBS mortgage book of approximately [...], based on impairments of [...]. If the mortgage book were to be sold in 2011, [...]. The benefit of an orderly resolution of INBS could be reduced if a higher than expected discount were offered for the mortgage book. However, it is likely that the discount [...].

⁶⁰ At 18 February 2011, Anglo had (i) unsecured unguaranteed senior bonds worth EUR [...] million; (ii) unsecured guaranteed senior bonds worth EUR [...]million; and (iii) [...] secured unguaranteed senior bonds.

⁶¹ At 18 February 2011, Anglo subordinated liabilities amount to only EUR [...] million.

⁶² At 18 February 2011, INBS had unsecured unguaranteed senior bonds worth EUR [...] million, no unsecured guaranteed senior bonds, and no secured unguaranteed senior bonds.

Conclusion

- (160) It should be concluded that the orderly resolution of Anglo and INBS, via a merged entity, limits the restructuring costs and the amount of State aid to the minimum necessary.

b. Significant own contribution

- (161) The principles on the own contribution of the beneficiary bank in the restructuring phase require: (i) that the beneficiary bank should use to the extent possible its own resources to finance restructuring, for example, through the sale of assets; and (ii) that the costs associated with the restructuring are also adequately borne by those who invested in the bank by absorbing losses with available capital and by paying an adequate remuneration for State interventions. The objective of burden-sharing is twofold: to limit distortions of competition and to address moral hazard⁶³.

(i) Own contribution of the institutions concerned

- (162) In the present resolution of Anglo and INBS, the own contribution of both institutions to their restructuring is maximised because all assets are identified for sale and the proceeds accrue in full to the financing of the resolution. However, the value of assets is so depreciated that the proceeds of their sale is dwarfed by the capital injected into both banks.
- (163) In addition both banks have sold their deposits books.

(ii) Burden-sharing by shareholders and subordinated creditors

- (164) As regards burden-sharing, the Restructuring Communication requires that the restructuring costs are not only borne by the State but also by the bank's past investors and former shareholders.
- (165) In the particular case of Anglo, private shareholders have been fully 'wiped out' and the bank was fully nationalised.
- (166) Concerning INBS, prior to the State recapitalisation INBS was owned by its members. In particular "share members" (persons who have a deposit account in INBS) had a right to gains on any surplus of assets realised in case of its demutualisation (transformation of INBS into an ordinary bank), winding-down or dissolution. As a result of the first recapitalisation of INBS, the State has taken full control of INBS via the issuance of Special Investment Shares, following which the members have lost all rights to gains on surpluses of the assets realised to the benefit of the State (for instance, in case of a sale of INBS). As a result, the economic rights of the share members have been completely 'wiped out'.
- (167) Both shareholders of Anglo and members of INBS have thus contributed to the maximum extent possible by releasing to the State control and ownership of the institutions.
- (168) Subordinated debt holders have also contributed to a significant extent to the restructuring by means of two Liability Management Exercises (hereinafter referred to as 'LMEs') in Anglo and one in INBS. The two LMEs in Anglo were

⁶³ See point 22 of the Restructuring Communication.

conducted in August 2009 and December 2010 respectively, crystallized large losses for the bond holders, generated pre-tax profits of approximately EUR 3,5 billion and provided additional core tier one capital to the bank⁶⁴. INBS conducted a LME in 2009, with bondholders exchanging their securities at a 42% discount to par, thereby releasing EUR 112 million of core tier 1 equity for the institution.

- (169) In total, the merged entity will hold EUR 500 million of subordinated liabilities (as at 31 December 2010), significantly less than the subordinated debt held by Anglo and INBS at 31 December 2008 (respectively EUR 5 billion and EUR 300 million), illustrating the massive losses taken by subordinated bond holders. Ireland has committed, in addition, that the merged entity will not pay coupons or exercise calls on subordinated debt instruments and hybrid capital instruments, unless it is legally obliged to do so.
- (170) Given the extraordinarily high amount of State aid those two institutions have received compared to their size and the corresponding cost for the State, it is legitimate to assess whether burden-sharing by senior creditors could not be achieved. In that context, in Ireland senior bond holders have the same level of seniority as holders of deposit accounts. [...]. As already indicated, liquidation of the banks would result in a substantially higher State aid requirement and eventual cost for the taxpayer. To date, the Commission has not received any detailed proposal on how to make the senior creditors participate [...] in the burden-sharing without increasing the cost of the resolution for the State.

Conclusion

- (171) Overall, it should be concluded that, in the current legal framework, the own contribution of Anglo and INBS to their orderly resolution respects the conditions laid down in the Restructuring Communication.

6.3.4.3 Measures limiting the distortion of competition

- (172) The Restructuring Communication provides that the measures limiting distortion must be a function of the aid amount and of the presence of the aided institution on the markets after the restructuring.
- (173) As described previously in section 6.2.5, the amount received by Anglo, INBS and their successor, the merged entity, is extraordinarily large both in absolute amounts and when compared to the size and RWA of the institutions. It reflects the size of the failure of those institutions.

⁶⁴ On 22 July 2009, Anglo launched a fixed price tender for several Tier 1, upper Tier 2 and lower Tier 2 securities. The purchase price was between 27% and 55% of the nominal value of the instruments. A total of EUR 2,5 billion securities were tendered (weighted average success rate of 77%) and the transaction generated a pre tax profit of EUR 1,8 billion for the bank.

On October 21 2010, Anglo launched a Liability Management Exercise for lower Tier 2 securities, offering 20 cents in the euro for an exchange into a new State Guaranteed Issue maturing in December 2011. Bond holders voted in majority to accept the exchange, which was at a rate (20 cents) below market value, and to insert a call in the relevant securities by which Anglo could buy back the relevant securities at a price of 1cent (applicable to bond holders who did not accept the exchange at 20 cents). The transaction concerned Tier 2 instruments with a nominal value of EUR 1 890 million and generated a pre-tax profit of EUR 1 588 million. In addition, securities hold by US private placements which did not participate in the LME were purchased at a price of 25cents, for a nominal value of US\$ 200 million, and generated a pre-tax profit of US\$ 150 million.

- (174) At the same time, the distortion of competition is limited as the institutions will almost completely exit all the markets where they were present. The commercial activities of the merged entity will be limited to the maximum extent possible by the commitments provided Ireland as described in Section 2.3.2. It will work out the legacy loan book of Anglo and INBS, and will not enter into new activities. It will also stop the collection of deposits⁶⁵. All commitments provided by Ireland will remain valid and applicable until the assets are fully worked out.
- (175) The following recitals explain why those commitments by Ireland ensure that the distortions of competition are limited to the minimum.

No new activities

- (176) The Commission notes positively that Ireland has committed that the merged entity will not develop new activities and will not enter into new markets. The merged entity will work out the legacy loan book of Anglo and INBS exclusively and will be liquidated once legacy assets are fully worked out.
- (177) In addition, the merged entity will not be authorised to acquire or take participations in other firms, preventing it to use State resources to expand its activities.

Managing existing lending activities

- (178) The merged entity will not grant lending to new customers and will restrict its lending activities to the management of the legacy loan book of Anglo and INBS. As such, the merged entity will actively manage that loan book in a way that maximises the NPV of the assets, which is normal commercial practice for all going concern banks.
- (179) With regard to the commercial loan book, active management may also imply limited additional lending to a borrower in order to finish or improve a property when it preserves or increases the NPV of the assets. However, such active management is restricted, in that the merged entity commercial loan book may not exceed the joint restructuring plan forecasts by more than [...] in any single year during the plan period. Furthermore, that overall cap on the increase of the commercial loan book is complemented by several additional caps which apply to specific borrowers as described in Section 2.3.2.
- (180) Ireland has furthermore committed that no additional mortgage residential property lending will be granted in relation to the INBS legacy mortgage portfolio (unless the bank is contractually obliged to do so). The mortgage book will be managed so as to maximise its NPV, and new lending will be strictly limited, with further residential mortgage advances capped at EUR 20 million for the period 2011 to 2012, and EUR 5 million per year thereafter. These caps (yearly average of EUR 10 million in 2011 and 2012, and EUR 5 million per year after) amount to less than 1% of the nominal value of the mortgage book of the merged entity, therefore preventing it from expanding its activities in the mortgage market.

⁶⁵ In that respect, Anglo's wealth management department will either be sold in 2011 or wound down over a period of five years.

- (181) Overall, the cap on the loan book and the commitments undertaken by Ireland will ensure that the legacy loan books of Anglo and INBS are managed in a prudent way aiming at maximising their return, and preventing the merged entity from engaging into genuinely new lending activities with new or existing customers. The commercial activities of the merged entity will thus be limited to the minimum necessary, and the commitments by Ireland will ensure that the activities of the merged entity will not raise significant concerns with regard to the distortion of competition.

Collecting deposits

- (182) In conformity with the Programme for Support, the sale of circa EUR 12,2 billion of Anglo and INBS deposits and of circa EUR 15,9 billion of NAMA bonds of both entities was completed on 24 February 2011 (see Section 2.3.1.1).
- (183) The merged entity has, however, retained up to EUR 1 billion of deposits at the date of the transfer of the deposits.
- (184) In particular, some of those corporate deposits are held as guarantee for loans granted to several corporate institutions (income sweep accounts). Holding those deposits is part of the contractual lending arrangements between the institutions and some of their customers, and is as such part of the orderly work-out of the Anglo and INBS loan portfolios. However, the activities of the merged entity will be limited as it will not collect deposits from new customers and the deposits it will continue to hold will be progressively redeemed.
- (185) The merged entity will decrease the deposits remaining in the merged entity at broadly the same rate as their related or connected assets are wound down (or, if there are no related or connected assets, at broadly the same rate as the overall net loan book is wound down). In addition, Ireland has committed that the deposit book of the merged entity will not exceed the forecasts of the joint restructuring plan by more than EUR 200 million at any moment.
- (186) To conclude, the commercial activities of the merged entity in the deposit market is dramatically reduced and limited to the strict minimum necessary to work out the legacy loan books of Anglo and INBS in an orderly fashion. The commitments by Ireland will thus guarantee that the deposit activities of the merged entity do not lead to a significant distortion of competition in the Irish deposit market.

Conclusion

- (187) It should be concluded that the extraordinarily large State aid amounts do not lead to undue distortion of competition as they are offset by a corresponding large reduction of market presence. The measures addressing distortion of competition fulfil the requirements of the Restructuring Communication because the merged entity will not enter into new activities and will stop the collection of deposits, while its lending activities will be limited to the normal management and work-out of the legacy loan book of Anglo and INBS. The merged entity will eventually fully disappear from the Irish lending and deposit markets, and therefore no longer distort competition. In addition, the merged entity will apply a ban on acquisitions.

6.3.4.4 *Monitoring*

- (188) Point 46 of the Restructuring Communication indicates that, in order to verify that the restructuring plan is being implemented properly, detailed regular reports from the Member State are necessary. Accordingly, Ireland should provide the Commission with such reports every six months, starting from the date of notification of this Decision.
- (189) In the case of the restructuring of Anglo and INBS, a monitoring trustee will also be nominated for a period of three years to monitor the application of the commitments undertaken by Ireland. The monitoring trustee will be in charge of monitoring all the commitments (see Annex II). In particular the monitoring trustee will monitor on a regular basis whether the merged entity manages the legacy loan books of Anglo and INBS in line with the terms of the commitments and will ensure that the management of the Anglo and INBS loan books does not result in distortion of competition in the market.

6.3.4.5 *Conclusion*

- (190) It should be concluded that the joint restructuring plan of Anglo and INBS fulfils the requirements of the Restructuring Communication. The plan foresees an orderly work-out of Anglo and INBS assets. The own contribution of the banks is sufficient, while the burden-sharing is substantial and the State aid is limited to the minimum. The measures addressing distortion of competition are appropriate, and finally proper monitoring will be implemented.

7 CONCLUSION

- (191) The measures (a) to (v) referred to in recitals 66 to 69 and listed of Table 1 are considered to be restructuring aid. Concerning the aid measures covered by the opening decision of 31 March 2010, the Commission finds, pursuant to Article 7(3) of Council Regulation No 659/1999 of 22 March 1999 laying down detailed rules for the application of Article 93 of the EC Treaty⁶⁶, that those measure are compatible with the internal market under Article 107(3)(b) TFEU. As regards the remaining measures covered by this Decision, the Commission, pursuant to Article 4(3) of the Regulation No 659/1999, raises no objections to those measures as they are compatible with the internal market under Article 107(3)(b),

HAS ADOPTED THIS DECISION:

Article 1

The following aid, which Ireland has implemented in favour of Anglo Irish Bank and Irish Nationwide Building Society or which it plans to implement in favour of the merged entity of those two banks, is compatible with the internal market, in light of the commitments by Ireland set out in Annex I:

⁶⁶ OJ L 83, 27.3.1999, p. 1.

- (a) [...] recapitalisations of Anglo Irish Bank in the amount of EUR 29,44 billion;
- (b) Implemented recapitalisations of Irish Nationwide Building Society in the amount of EUR 5,4 billion;
- (c) Implemented State guarantees for Anglo Irish Bank, including the Guarantee Scheme for Credit Institutions (CIFS), the Eligible Liabilities Guarantee Scheme (ELG), the Emergency Liquidity Assistance (ELA) and guarantees on short-term liabilities and off-balance sheet liabilities;
- (d) Implemented State guarantees for Irish Nationwide Building Society, including CIFS, ELG, ELA and guarantees on short-term liabilities;
- (e) Implemented asset relief measure for Anglo Irish Bank, namely transfers of eligible loans to the National Assets Management Agency (NAMA) of EUR 35 billion;
- (f) Implemented asset relief measure for Irish Nationwide Building Society, namely transfers of eligible loans to NAMA of EUR 8,9 billion;
- (g) [...] recapitalisation of the merged entity of EUR 3,3 billion in a stress case;
- (h) Planned guarantees for the merged entity on its wholesale funding, deposits and off-balance sheet liabilities.

Article 2

Ireland shall inform the Commission, within two months of notification of this Decision, of the measures taken to comply with it. Furthermore, Ireland shall, from the date of notification of this Decision, submit detailed six-monthly reports on the measures taken to comply with it.

Article 3

This Decision is addressed to Ireland.

Done at Brussels, 29.06.2011

For the Commission

Joaquín ALMUNIA
Vice-President

Notice

If the decision contains confidential information which should not be published, please inform the Commission within fifteen working days of the date of receipt. If the Commission does not receive a reasoned request by that deadline, you will be deemed to agree to publication of the full text of the decision. Your request specifying the relevant information should be sent by registered letter or fax to:

European Commission
Directorate-General for Competition
Directorate D, Financial Services
Building/Office J70 02/142
B-1049 Brussels
Fax No: +32 (0)2 29969818

Annex I: Commitments undertaken by Ireland

State aid case C 11/2010 – restructuring of Anglo Irish Bank and INBS (together "the merged entity")

- (1) Duration of the commitments. Unless otherwise specified, all commitments taken by the Irish authorities will remain valid and applicable until the assets of the merged entity are fully worked out, including the promissory notes.

Ban to develop new activities and to enter into new markets. The merged entity will not carry out activities other than those that are consistent with managing the work-out of the merged entity's legacy loan book (including loan sales where appropriate to maximise recovery values and minimise capital losses). The merged entity will not develop any new activities and will not enter new markets. The merged entity will conserve and use its banking licence only as long as necessary for the work-out of the loan portfolio and will not use it to develop new activities. The merged entity will be liquidated once the merged entity's assets are fully worked out.

- (2) Management of existing assets. The merged entity will manage existing commercial assets in a way that maximises Net Present Value (NPV) of the assets in accordance with normal commercial practice and fiduciary duties. Specifically, if a client cannot respect the terms of his loan, the merged entity will only restructure the lending terms (deferral or partial waiver of repayments, conversion of (part of) the claim in capital, etc.) if such a restructuring would lead to enhancing the present value of the loan (i.e. if the present value of the cash flows to be expected from the restructuring is higher than the present value of the cash flows which can be expected from liquidation). In summary, the merged entity will manage its commercial asset portfolio in the same way as a private asset manager would manage the work-out of a similar book.

As regards the merged entity's mortgage assets, the obligations that apply to the commercial assets will apply *mutatis mutandis*. The merged entity, in particular, will be allowed to restructure its mortgage assets via the following variations to the terms of existing mortgages i) a change of deal (e.g. by offering a new fixed rate); ii) transferring existing mortgages to new properties; and iii) transferring equity (e.g. adding a borrower to the mortgage or removing one).

- (3) Ban on acquisitions. Other than with the prior consent of the European Commission, the merged entity will not acquire or take participations in any other firm. That ban on acquisitions does not apply to capital participations acquired by the merged entity in the framework of the restructuring of an existing exposure to a regulatory group¹ in difficulty (for instance through a debt-for-equity swap), as long as any such restructuring complies with the principles laid down in commitment (3) above.

¹ For the sake of clarity, a regulatory group can comprise a single borrower, or several customers to which the merged entity has provided a loan. If a regulatory group consists of several customers, multiple loans may be held which are cross-collateralised. When seeking to minimise capital losses or maximise recoveries, lending can be considered at the level of the regulatory group rather than of the individual borrower.

- (4) Ban on coupons and exercising calls on subordinated debt and hybrid capital instruments. The merged entity will not pay coupons or exercise calls on subordinated debt instruments and hybrid capital instruments, unless it is legally obliged to do so.
- (5) Cap on new lending. Consistent with the objective to work out the merged entity's post-NAMA loan book over a 10-year period and commitment (3) above, the merged entity's net commercial loan book will not exceed plan forecasts by more than [...] in any single year during the plan period, excluding currency movements. That cap applies to the full commercial lending activity of the merged entity, including lending described under point (7).

In addition, the following lending commitment will apply to the mortgage loan book: The merged entity shall limit further advances to contractually committed amounts and amounts arising as part of the restructuring of existing mortgage facilities. The aggregate total of further residential mortgage advances is capped at a maximum of [...] for the period starting 1 January 2011 and ending 31 December 2012, and [...] per annum thereafter.

Specific lending commitments on the commercial book. The following specific lending commitments will also apply to the commercial loan book.

- a. Contractually committed but not yet paid-out amounts: The merged entity may advance funds under contractually committed but not yet paid-out loan facilities. However, such payments will not exceed a cumulative amount of EUR 1.4 billion over the entire plan period with regard to the merged entity's legacy loan book, consisting of EUR 1.1 billion of contractually committed, but undrawn facilities and EUR 0.3 billion of contractually committed off-balance-sheet guarantees (as of 30 June 2010 interim accounts). Revolving facilities will be counted on the basis of the overall limit amount rather than on individual draw downs.
- b. Additional financing to existing regulatory groups: The merged entity may not provide additional financing which is not contractually committed at the time of the approval of the restructuring plan (in line with commitment (2) above). As an exception to that prohibition, the merged entity may provide additional amounts to existing regulatory groups if it complies with the commitment in point (3) and
- It is strictly necessary to preserve the value of the loan collateral (e.g. to cover collateral maintenance, insurance, tax, security, insolvency or legal costs); *or*
 - It is otherwise related to minimising capital losses and/or enhancing the expected recovery value of a loan or other asset on an NPV basis (e.g. meet essential investment working capital or liquidity needs of the underlying business/ regulatory group).
- The additional financing is subject to the following limitation:

- If the nominal exposure to the regulatory group concerned is below [...], the additional financing will not exceed [...] of the nominal exposure;
- If the nominal exposure to the regulatory group concerned is between [...] and [...], the additional financing will not exceed [...];
- If the nominal exposure to the regulatory group concerned exceeds EUR [...] million, the additional financing will not exceed [...] % of the nominal exposure.

c. New regulatory groups

New lending to new regulatory groups: The merged entity may lend to a new regulatory group only where the following conditions are cumulatively met:

Proceeds are used to reduce the exposure of an existing regulatory group; *and*

The transaction overall does not increase the total net exposure to the merged entity; *and*

The new lending minimises the expected capital losses and/or–enhances expected recovery values (as measured by NPV) compared to other restructuring or foreclosure strategies; *and*

There is no capitalisation of interest (interest roll-up).

- (6) Specific lending commitments on the mortgage book. The following specific lending commitment will also apply to the restructuring of existing mortgage loans. When the balance of the loan exceeds the value of the property, the merged entity may facilitate the loan's redemption through selling off the property by the way of providing additional finance to a vendor enabling the repayment of the outstanding balance; *and* it complies with the commitment in point (3).
- (7) On an exceptional basis and in the national interest, the Irish National Authorities may determine that exceptions to the above lending restrictions in points (7) and (8) are required to enhance expected recovery values on a Net Present Value basis. Such determinations will be subject to prior approval by the European Commission.
- (8) Transfer of legacy Anglo and INBS deposits. Following the transfer of all legacy Anglo and INBS deposits (where deposits do not include intra-group deposits, interbank deposits, wholesale funding, debt-securities in issue or funding provided central banks and/or equivalent institutions), the merged entity will be left with the categories of deposits and accounts specified below (“excluded liabilities”) which are permitted to remain in the merged entity, subject to any associated commitments:

Deposits which at the time of transfer of the deposits are held by or on behalf of any subsidiary of the Transferor (but not including Isle of Man Co);

- (a) Secured accounts (in favour of the Transferor or any other person) and deposits related or connected to a regulatory group from the Transferor or tracker bond accounts at the Transfer Time;

- (b) Deposits denominated in currencies other than euro, United States Dollars or Sterling at the time of transfer of deposits. They will not be replaced as they mature;
 - (c) Deposits held or booked at branches at Jersey, at Dusseldorf, Germany or at Vienna, Austria. They will not be replaced as they mature;
 - (d) Any account which has a negative balance ;
 - (e) Internal control accounts;
 - (f) Accounts where the account or the customer to whom the account relates has been the subject of notification of an investigation by any police, fraud or investigative authority;
 - (g) All INBS accounts identified in the accounting records of the Transferor by branch [...].
- (9) Caps on deposits and excluded liabilities. The merged entity will not collect deposits from new customers. The overall amount of deposits from existing customers at the date of the merger will at no point in time exceed EUR 1 billion, and will not consist of deposits other than those defined in point (10) above. The merged entity will wind-down deposits at broadly the same rate as their related or connected assets are wound down (or, if there are no related or connected assets, at broadly the same rate as the overall net loan book is wound down) excluding currency movements and contractual commitments to retain deposits. In addition, the deposit book of the merged entity will not exceed the forecasts of the restructuring plan by more than EUR 200 million at any moment.
- (10) Monitoring Trustee. The merged entity will appoint a Monitoring Trustee, subject to European Commission's approval, who will verify the adherence to the above listed commitments.
- The Monitoring Trustee will be nominated for a period of three years. The appointment rules of the Monitoring Trustee and its duties are listed in Annex II. The Monitoring Trustee will in particular need to prove that he has an experience in the area of loan restructuring and loan management to monitor commitments (3) and (6).
- (11) Enforcement and Reporting. The Irish authorities will ensure that the merged entity complies with the above listed commitments. The Irish authorities will submit regular reports on the measures taken to comply with the commitments. The first report will be submitted to the Commission not later than six months after approval from the date of notification of the Decision and thereafter at six monthly intervals.

Annex II

Appointment and duties of the Monitoring Trustee

Anglo Irish Bank and INBS are commonly referred to "the merged entity".

I. The Monitoring Trustee

1. The Irish authorities commit that the merged entity will appoint a Monitoring Trustee for a period of three years.
2. The Monitoring Trustee shall be one or several natural or legal person(s) independent of the merged entity who will be approved by the Commission and appointed by the merged entity, and will have the duty to monitor whether the merged entity complies with its obligations towards the Commission and implements the restructuring and work-out plan.
3. The Monitoring Trustee must be independent of the merged entity and must possess the necessary qualifications to carry out its mandate, for example as an investment bank, consultant or auditor, and shall neither have nor become exposed to a conflict of interest. In particular the Monitoring Trustee must have an experience in the area of loan restructuring and loan management to monitor commitments (2) and (5). The Monitoring Trustee shall be remunerated by the merged entity, which does not impede the independent and effective fulfilment of its mandate.

II. Appointment of the Monitoring Trustee

Proposal by the Irish authorities

No later than four weeks after the date of delivery of the Decision approving the restructuring and work-out plan of the merged entity, the Irish authorities shall submit for the Commission's approval the names of two or more persons as Monitoring Trustees and shall indicate which of them is their first choice. The proposal must contain sufficient information for the Commission to verify that the proposed Trustee fulfils the requirements set out in paragraph 3 and shall include:

the full terms of the proposed mandate together with all the provisions necessary to enable the Monitoring Trustee to carry out its duties in accordance with these commitments;

the outline of a work plan describing how the Monitoring Trustee intends to carry out its assigned tasks.

Approval or rejection by the Commission

The Commission shall have the discretion to approve or reject the proposed Monitoring Trustees and to approve the proposed mandate subject to any modifications it deems necessary for the Monitoring Trustee to fulfil its obligations. The Monitoring Trustee shall be appointed within one week of the Commission's approval, in accordance with the mandate approved by the Commission.

New proposal by the Irish authorities

4. If all the proposed Monitoring Trustees are rejected, the Irish authorities shall, within one week of being informed of the rejection, submit the names of at least two other persons or institutions, in accordance with the conditions and according to the procedure in paragraphs 1 and 5.

Monitoring Trustee nominated by the Commission

5. If all further proposed Monitoring Trustees are also rejected by the Commission, the Commission shall nominate a Monitoring Trustee(s), whom the merged entity shall appoint in accordance with a trustee mandate approved by the Commission.

III. The duties of the Monitoring Trustee

6. It shall be the duty of the Monitoring Trustee to ensure compliance with the conditions and obligations attached to the Decision and guarantee implementation of the restructuring and work-out plan.

Duties and obligations of the Monitoring Trustee

7. The Monitoring Trustee shall
 - i) propose to the Commission within four weeks of appointment a detailed work plan describing how it plans to monitor compliance with the commitments towards the Commission and implementation of the restructuring and work-out plan;
 - (ii) monitor compliance with all commitments taken by the Irish authorities on behalf of the merged entity and implementation of the restructuring and work-out plan;
 - (iii) propose measures, which the Monitoring Trustee considers necessary to ensure compliance by the Irish authorities with all commitments towards the Commission;
 - (v) submit to the Commission, the merged entity and the Irish authorities within 30 days after the end of each quarter the draft of a written report in English. The report shall cover the Monitoring Trustee's fulfilment of its obligations under the Mandate, compliance with all commitments and the implementation of the restructuring and work-out plan. All recipients of the draft report shall be able to submit their observations within five working days. Within five working days of receipt of the comments, the Monitoring Trustee shall prepare a final report and submit it to the Commission, taking into account, if possible and at his sole discretion, the comments submitted. The Trustee will also send a copy of the final report to the Irish authorities and to the merged entity. Should the draft report or the final report contain any information that must not be disclosed to the merged entity or the Irish authorities, the merged entity or the Irish authorities shall only be provided with a non-confidential version of the draft report or the final report. The Monitoring Trustee shall submit no version of the report to the merged entity and/or the Irish authorities before submitting it to the Commission.

The Commission can give the Monitoring Trustee instructions or directions in order to ensure that the commitments towards the Commission are met and the restructuring and work out plan implemented.

The Irish authorities and the merged entity shall provide for all such cooperation, support and information which the Monitoring Trustee may reasonably require in order to perform its tasks. The Monitoring Trustee shall have unlimited access to the books, records, documents, managers and other staff members, to files, locations and technical information of the merged entity which are necessary in order to perform its tasks in accordance with the commitments.