Banc Ceannais na hÉireann
Central Bank of Ireland
Eurosystem

T +353 1 224 6000 F +353 1 671 5550

Bosca OP 559, Sráid Wapping Nua, Cé an Phoirt Thuaidh,
Baile Átha Cliath 1, Éire.
Po Box No. 559, New Wapping Street, North Wall Quay,
Dublin 1, Ireland.

www.centralbank.ie

Mr Kieran Lenihan,
Clerk to the Committee of Public Accounts,
Leinster House,
Dublin 2.

7 June 2017

Dear Mr Lenihan,

I refer to your letter dated 3 April 2017 seeking information on certain items and set out the Central Bank's response below:
'An update from the Irish Central Bank in relation to their own review of the allegations and the names/titles of the persons dealing with the case'.

The Central Bank of Ireland (the Bank) has reviewed these allegations; it has satisfied itself that its lending to domestic institutions under ELA arrangements was, at all times, fully collateralised and the ECB has been advised of same.

As a practice, the Bank does not disclose the names of individual staff members involved in reviewing allegations.

'The letter stated that ELA is only granted against suitable collateral, where suitability is in line with criteria defined by the Bank, and in accordance with terms and conditions that protect the Bank against the risk associated with such lending. It was reported in the media that Bank of Ireland had drawn down €35bn in emergency funding. Was the collateral that the Bank provided debt instruments?'

Bank of Ireland's property and construction loan book was stated to be €35bn in a report to investors in January 2010. Did the Central Bank accept the debt instruments for this loan book as collateral for the emergency funding?

Regarding queries 2 & 3 above, as to the precise collateral used by Bank of Ireland to secure its ELA borrowings, the Bank is subject to strict confidentiality requirements that constrain its ability to disclose details of its transactions with specific credit institutions. Nonetheless, it is recalled that the Bank's 2010 Annual Report states (on page 16):

"A loan provided to a credit institution under ELA is granted against suitable collateral, where suitability is in line with criteria defined by the Bank. As with procedures for ECB eligible collateral, appropriate haircuts/discounts are applied with a view to ensuring that the Bank would not suffer any loss in the event of default on the loan assistance. The Bank has received formal comfort from the Minister for Finance such that any shortfall on the liquidation of the collateral is made good. At end of December 2010 the Bank had extended ELA of approximately €49.5 billion."

Furthermore, in the Notes to the Accounts in the Bank's 2010 Annual Report, footnote (iii) of Note 20 states the following in regard to ELA:

"All facilities are fully collateralised and include sovereign collateral as well as a broad range of security pledged by the counterparties involved...The Bank has in place specific legal instruments in respect of each type of collateral accepted. These comprise: (i) Promissory Notes issued by the Minister for Finance to specific credit institutions and transferrable by deed, (ii) Master Loan Repurchase Deeds covering investment/development loans, (iii) Framework Agreements in respect of Mortgage-Backed Promissory Notes covering non-securitised pools of residential mortgages, (iv) Special Master Repurchase Agreements covering collateral no longer eligible for ECB-related operations and (v) Facility Deeds providing a Government Guarantee."

The above extracts from the 2010 Annual Report remain valid.

I hope the above is of assistance.

Yours sincerely,

Ed Sibley,
Director of Credit Institutions Supervision