

**AIB Group**

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Policy Unit  
International Credit Institutions  
Financial Regulator  
PO Box 9138  
College Green  
Dublin 2

16 July 2010

**Re: Consultation Paper CP43 - Code on Related Party Lending**

Dear Sir / Madam,

The Board and Senior Management of Allied Irish Banks, p.l.c. ("AIB") are supportive of the substance of the proposals contained in the Financial Regulator's Consultation Paper CP 43 - Code on Related Party Lending. We welcome the opportunity to respond to the consultation process and set out below comments on specific aspects of the CP 43 proposals for your consideration. AIB Representatives are available to meet with the Financial Regulator should clarification be required on any aspect of the submission.

**Definitions**

The term 'Exposure' is defined on Page 12 of the document but is not used in the sample format of periodic lending report at Appendix 2 on page 16, which uses the term 'Loan'. This appears to be a change in approach from current reporting requirements, where the focus of reporting is exposures to relevant parties. Clarification is sought as to whether this apparent change was intended.

**Requirement 6(a)**

The definition of a related party includes entities "in which the credit institution has a significant shareholding", which, by default, includes subsidiary companies of credit institutions. Requirement 6(a) will, therefore, prohibit credit institutions from lending to subsidiary companies on terms more favourable than those available generally. There are many legitimate commercial circumstances in which a parent company will

be required to provide funding to a subsidiary company on such terms. This practice is common and is not restricted to banking groups. AIB proposes that the Code provisions should not apply to wholly-owned subsidiary companies of credit institutions where such subsidiary companies are included in the consolidated prudential returns of the banking group.

### **Requirements 6(b) and 6(c)**

CP 43 requires that “a loan to a related party, or any variation of the terms of a loan to a related party, shall be subject to individual prior approval by the Board”, and that “actions in respect of the management of a loan to a related party shall be subject to individual prior approval in writing by the Board”.

AIB believes that credit decision-making and management are executive functions which should be carried out by executive management subject to Board-approved lending policies and ongoing Board oversight.

As an alternative to the proposal that the Board should consider and adjudicate upon related party transactions, AIB proposes that:

- the Board ensures that all Board-approved lending policies, including those relevant to related parties, are implemented appropriately by executive management;
- the Board ensures that policy amendments, and exceptions to policy with respect to related parties, are escalated to the Board for consideration and decision;
- executive management ensures that the evaluation and terms of sanction of related party lending applications, and amendments to existing loans, adhere to the relevant Board-approved lending policy, and be subjected to the same level of review as would be applied to a customer who is not a related party;
- the Board receives, on a monthly basis, a report outlining the details of, and terms applicable to, all new related party loans, or amendments to existing related party loans to facilitate oversight of all exposures to related parties; and
- the Board receives, on a periodic basis, assurance from the Group Internal Auditor that related party lending is conducted in accordance with Board approved-policy.

**Requirement 6(e)**


Clarification is sought as to (a) the meaning of an “independent credit review process”;(b) the frequency with which such a review process should be conducted; and (c) whether or not it is the FR’s intention that this review could be carried out by an internal control function which is deemed to be independent.

**Requirement 6 (h) III**

The Government, through the National Pensions Reserve Fund Commission, is a significant shareholder in AIB. AIB proposes that Government-related exposures, should they exist, be excluded from the requirements of CP 43. If the Government is included within the definition of a related party, clarification is sought as to the range of related entities that may come within the scope of related party lending.

Please do not hesitate to contact us if you require any clarification of the comments above, which we would be happy to discuss with you at any time.

Yours sincerely



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Philip Brennan  
Group General Manager,  
Regulatory & Operational Risk