IRELAND: REGAINING CREDITWORTHINESS

Ireland returns to bond market in phased way in 2012, as fiscal targets are met and economy continues slow recovery

December 2012

Index

SUMMARY

Ireland to achieve fiscal targets for second consecutive year in 2012, while economy continues modest expansion also for second straight year

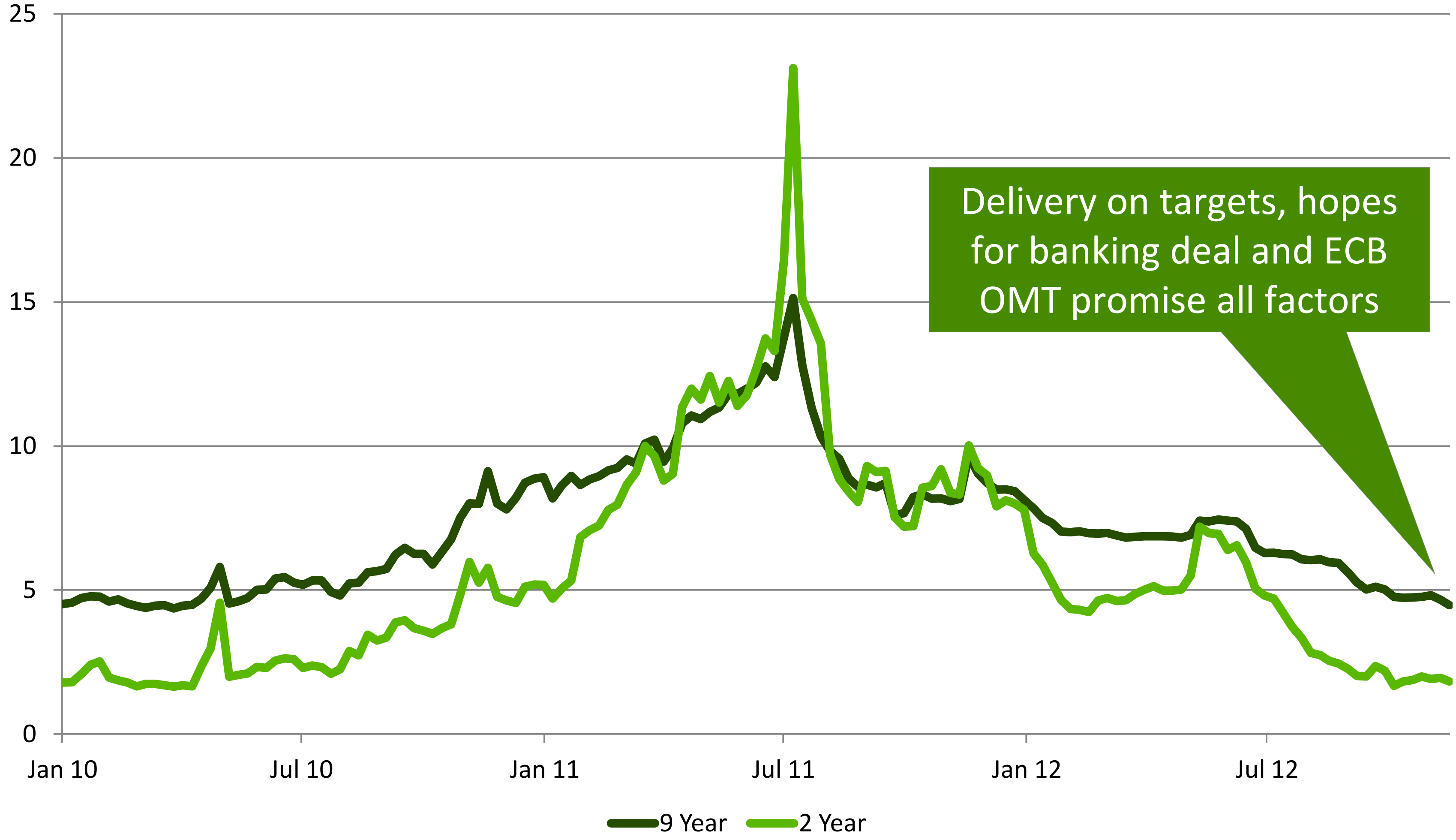
Ireland has continued its recovery in 2012

- **Government set to cut deficit to 8.2% in 2012, beating target again**
  - Troika (EC/ ECB/ IMF) very pleased with delivery on all Programme benchmarks; significant outperformance versus fiscal targets in 2011
  - Fiscal numbers on track after Q3 (and three Troika reviews)
- **Second consecutive year of modest GDP growth expected**
  - Export growth remained resilient in 2012, despite euro area difficulties; Ireland's forecast GDP growth among highest in euro area
  - But domestic demand may not bottom until H2 2013
- **Bank deleveraging plan has continued apace and other contingent liabilities reduced sharply**
  - Pillar bank deleveraging to be virtually complete by end year two of three
  - Government is reforming insolvency laws to deal with mortgage arrears
  - Ireland's main contingent liability being reduced: NAMA is well on track to repay €7.5bn by 2013 of its senior bonds (repaid €3.25bn by end-H1 2012)
  - ELG liability down to €78.3bn by September 2012 (€56.7bn were deposits)

NTMA plans to regain normal market access in 2013

- **NTMA bond market return for first time in almost two years in July-September 2012**
  - Returned to Treasury Bills market with three auctions. Brought rate down from 1.8% initially to 0.55%. Around 80% of the bills bought by international buyers.
  - Sold €4.2bn of conventional long-term bonds in July, at rate just below 6%. The majority of the purchases again came from overseas.
  - Sold €1bn in amortising bonds at 5.91% in August; this is a new product mainly demanded by the domestic pensions industry to construct sovereign annuities
  - Reduced near €12bn redemption in January 2014 to €7.6bn through switches: €5.2bn of that €7.6bn redemption is also covered by the new funding raised
- **Next steps towards sustainable market re-entry in early 2013**
  - Launch of longer-term bond issue, possibly through syndication in € or $
  - Introduction of inflation-linked bonds: driven mainly by domestic demand
- **Euro area financial conditions have improved, but risks remain**
  - In order to sustain Ireland's improvement , EU must act on summit declaration of 29 June 2012 to break “vicious circle between banks and sovereigns” and to examine “special case” Irish situation (as per recent communiqués)
  - The advent of the ECB’s revamped bond purchase programme - Outright Monetary Transactions (OMT) – led to sharp rally at the short-end of euro area yield curves. Programme available for countries with normal market access.

Irish bond market recovery continues in 2012

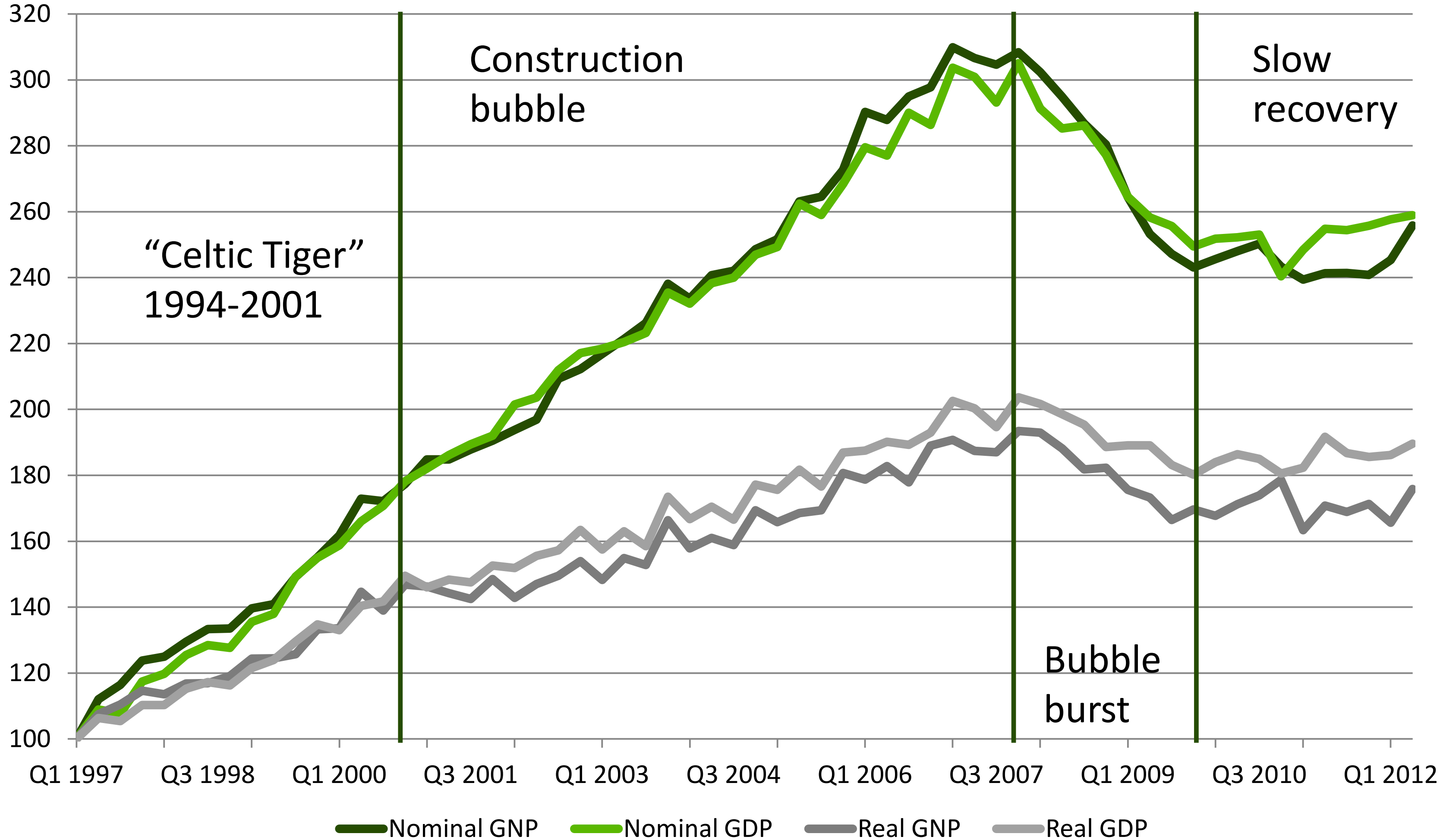


Source: Bloomberg (weekly data)

SECTION 1: MACRO

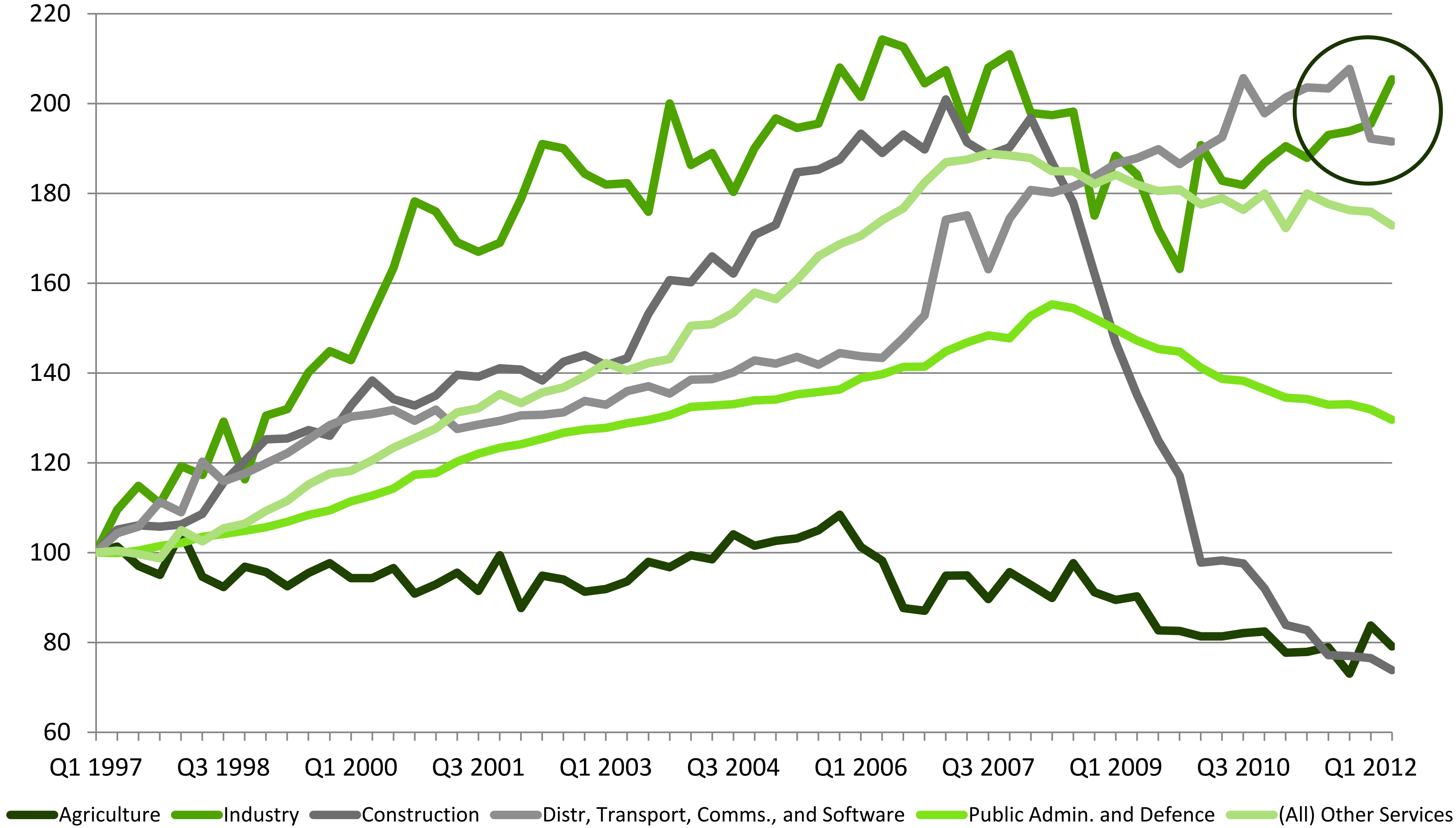
Ireland expected to grow again in 2012; PMIs well above euro area average; but domestic demand weak, thanks to necessary deleveraging

Economy stable since end-2009 (Q1 1995= 100)



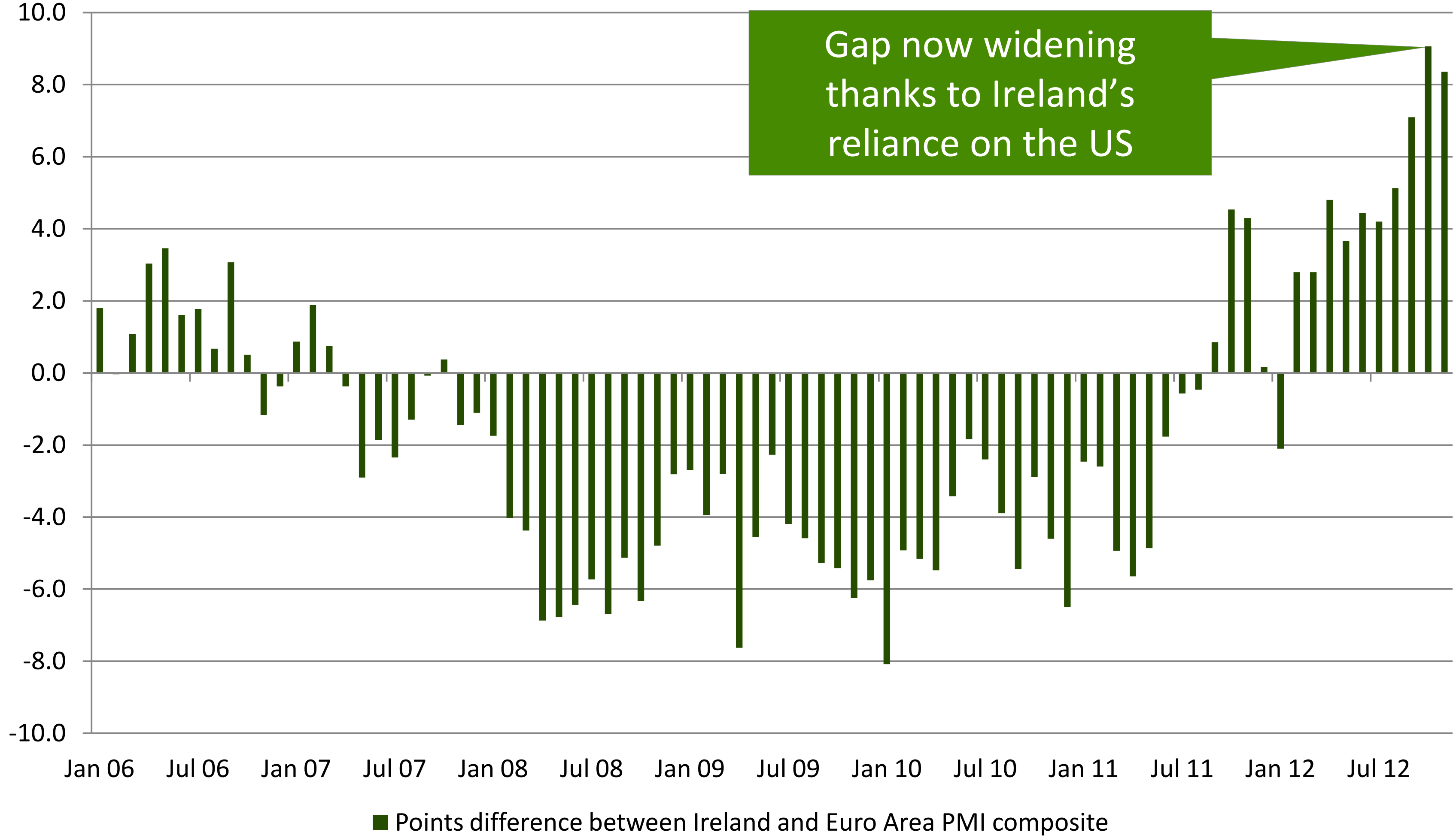
Source: CSO

Ireland's export sectors perform best over long run (gross output by main sector, Q1 1997 = 100)



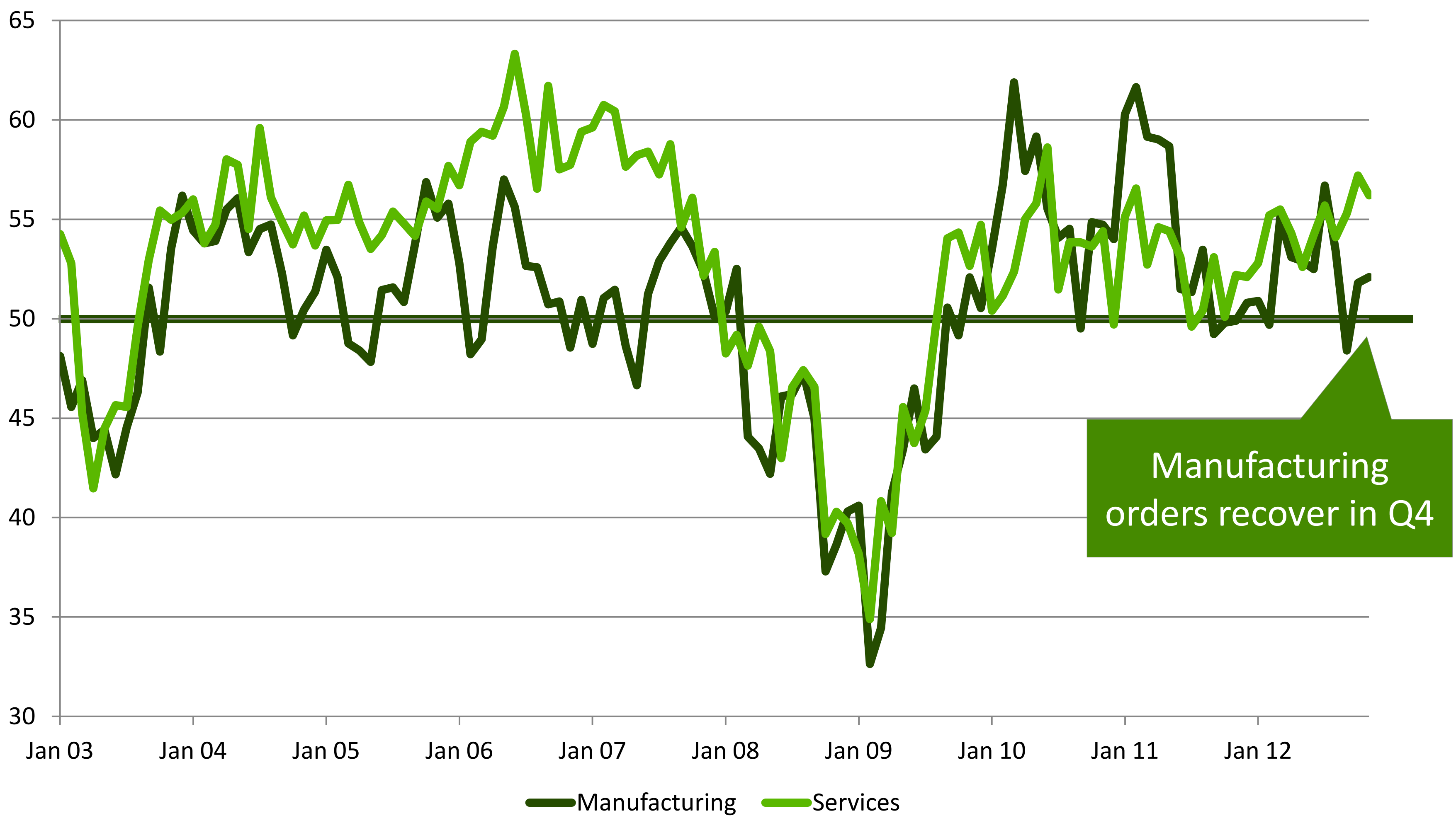
Source: CSO

Ireland’s PMI now much stronger than euro area’s



Source: Markit; Bloomberg; NCB

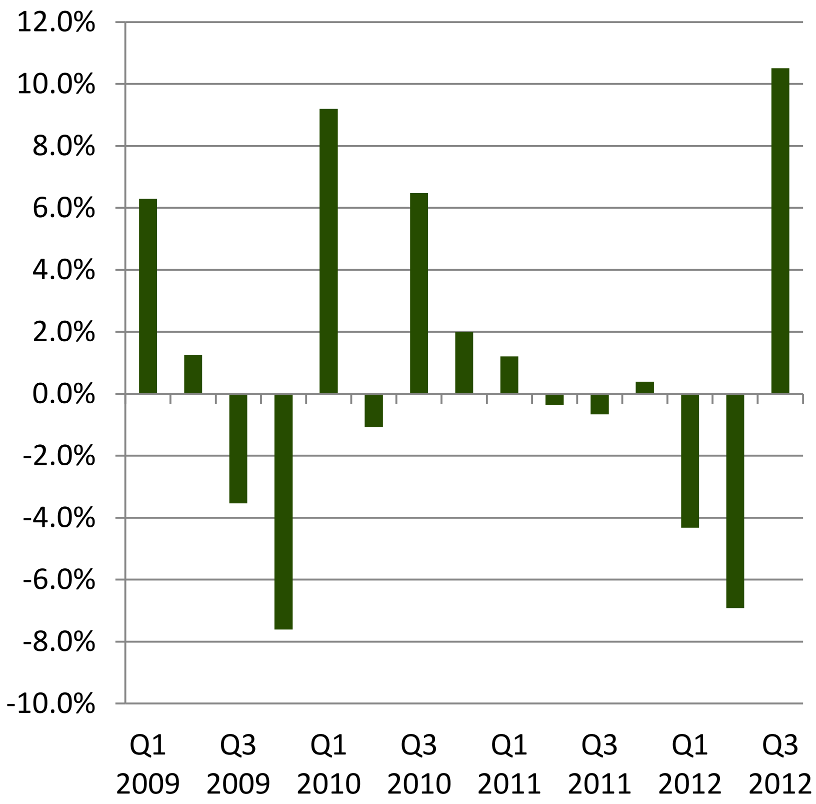
New export orders (from PMI) have driven Irish GDP



Source: Markit; NCB; CSO

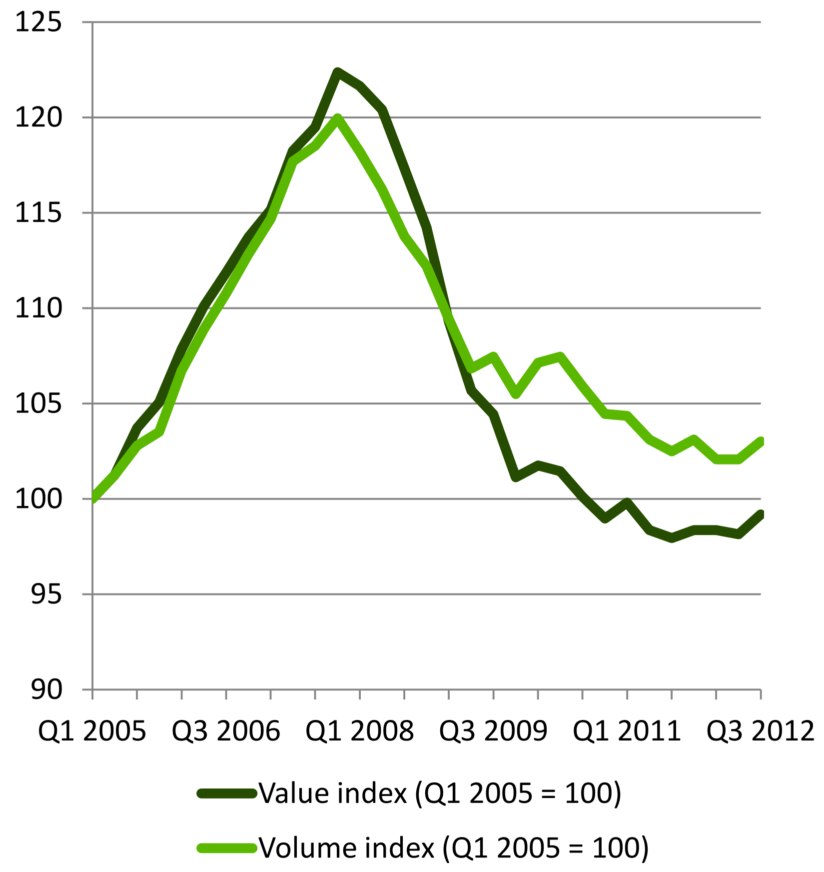
Third quarter data better than H1

Goods export volumes jump (% change Q-Q)



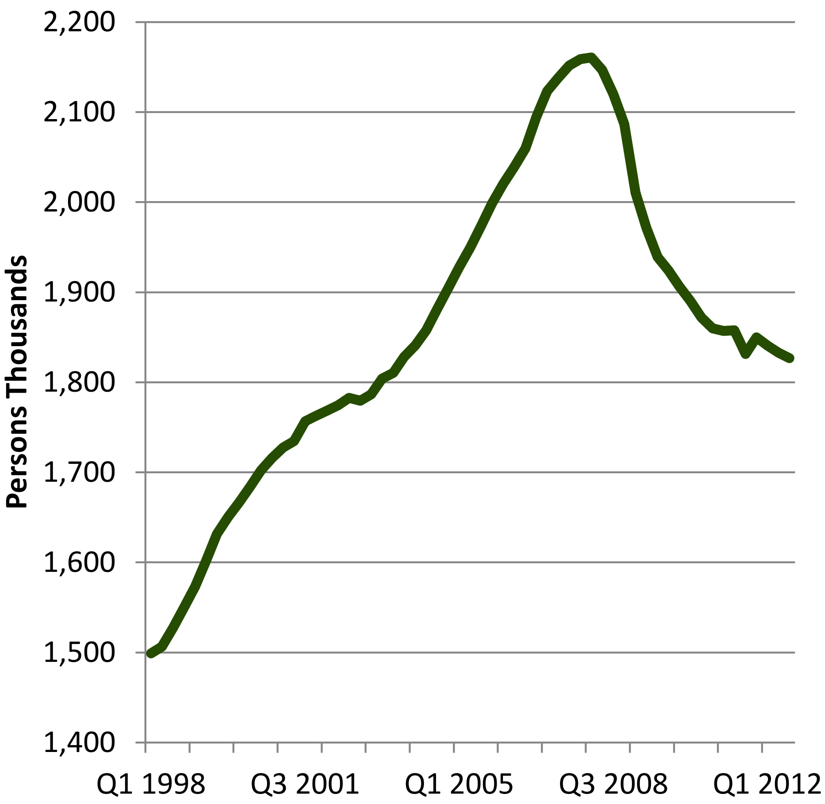
Source: CSO

Retail sales improve



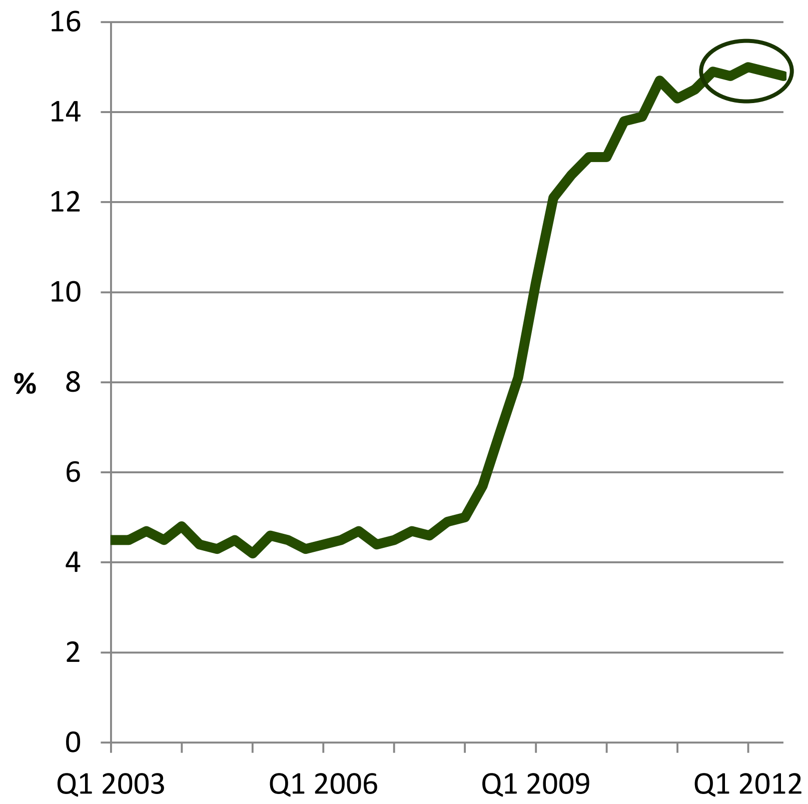
Labour market stabilising, but still weak

Employment inching lower



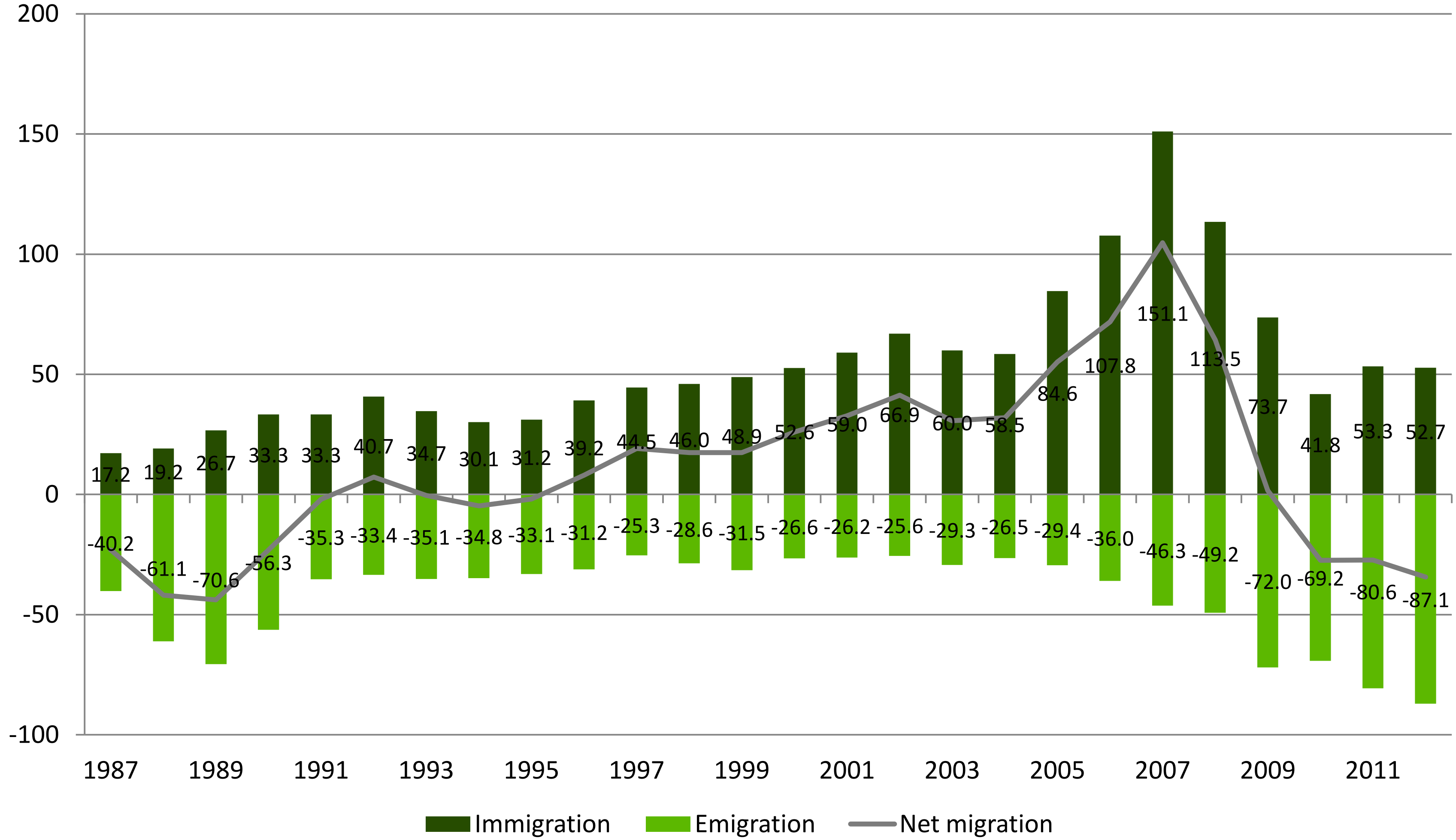
Source: CSO

Unemployment rate stable



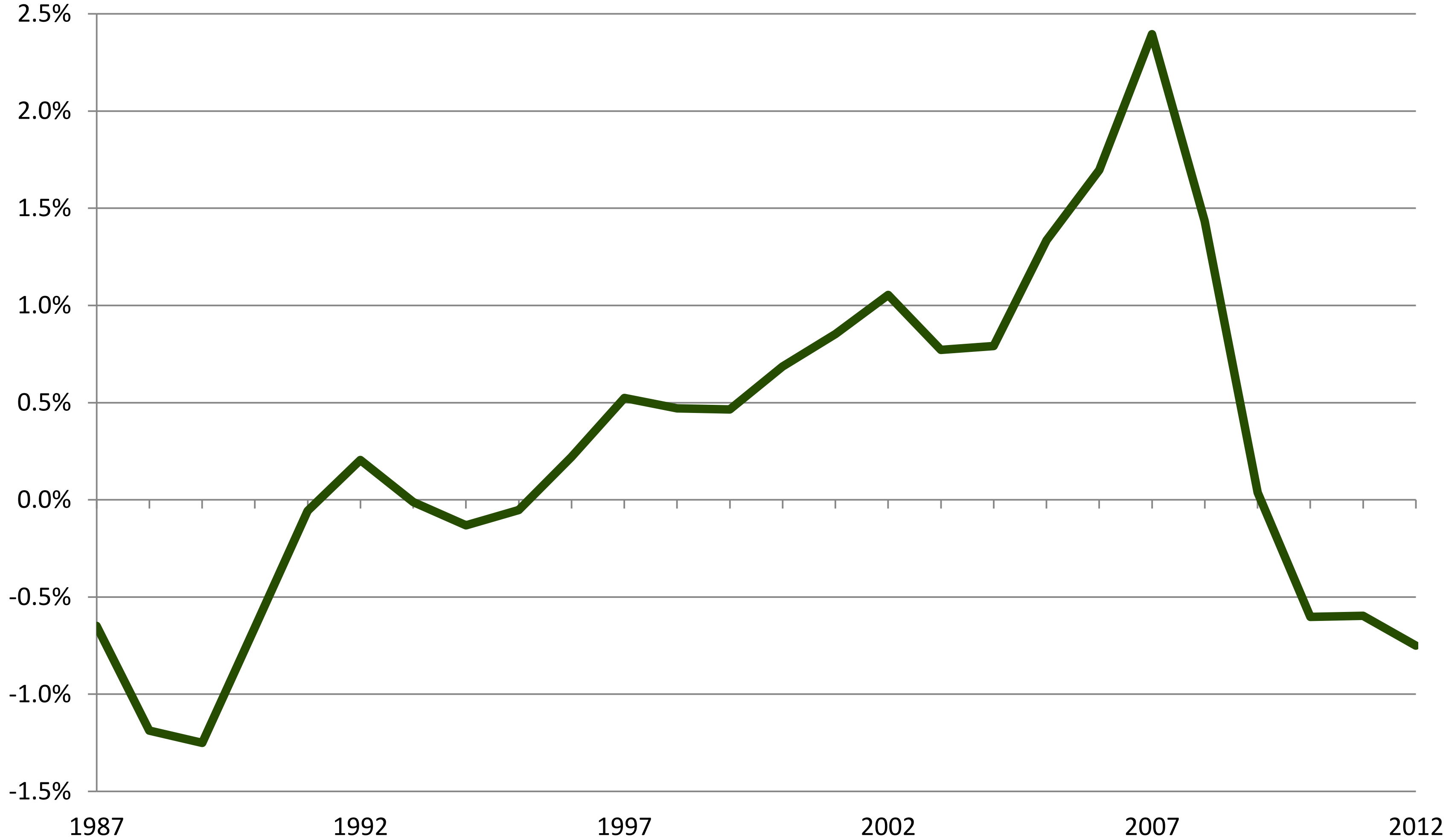
National Treasury Management Agency

Net *emigration* for first time since mid-1990s (000s)



Source: CSO

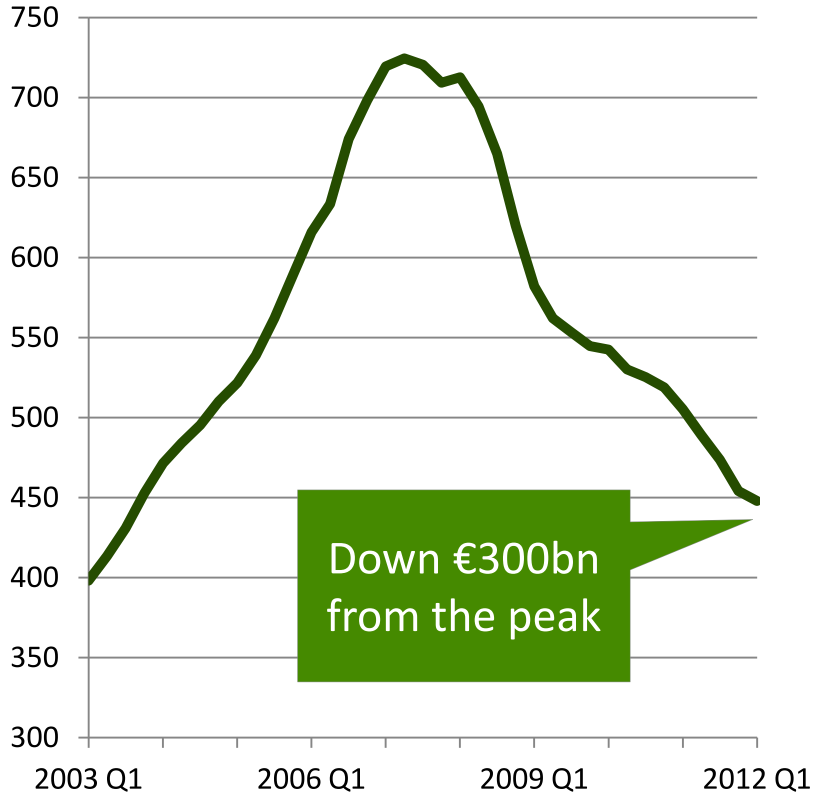
Net emigration as % of population not as bad as in the late 1980s



Source: CSO

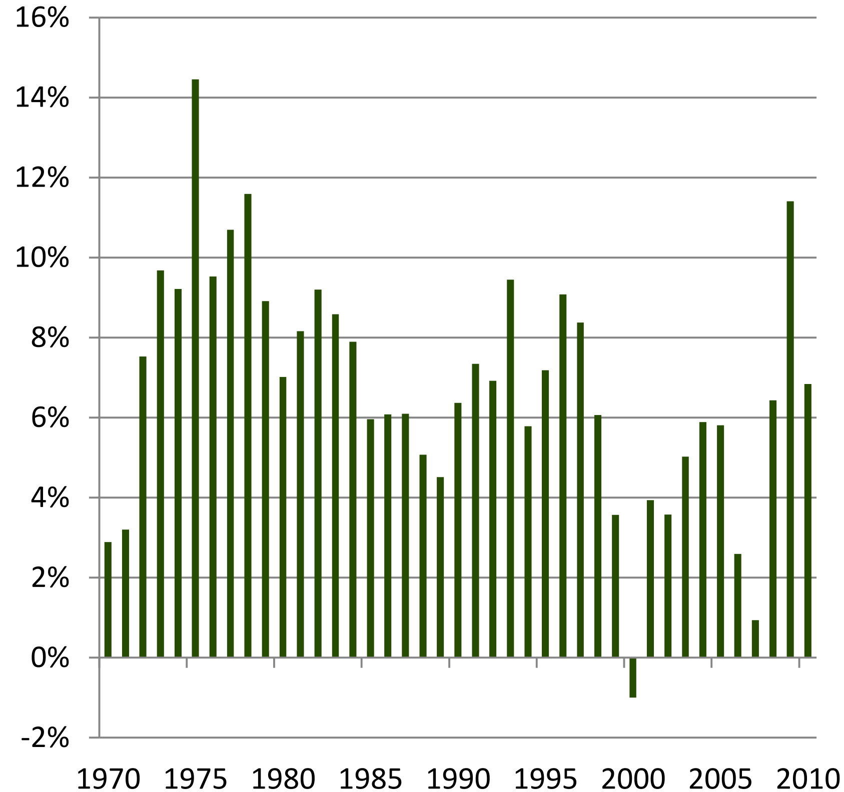
Deleveraging and negative wealth effects also hurting consumer spending

Household net worth (€bn)

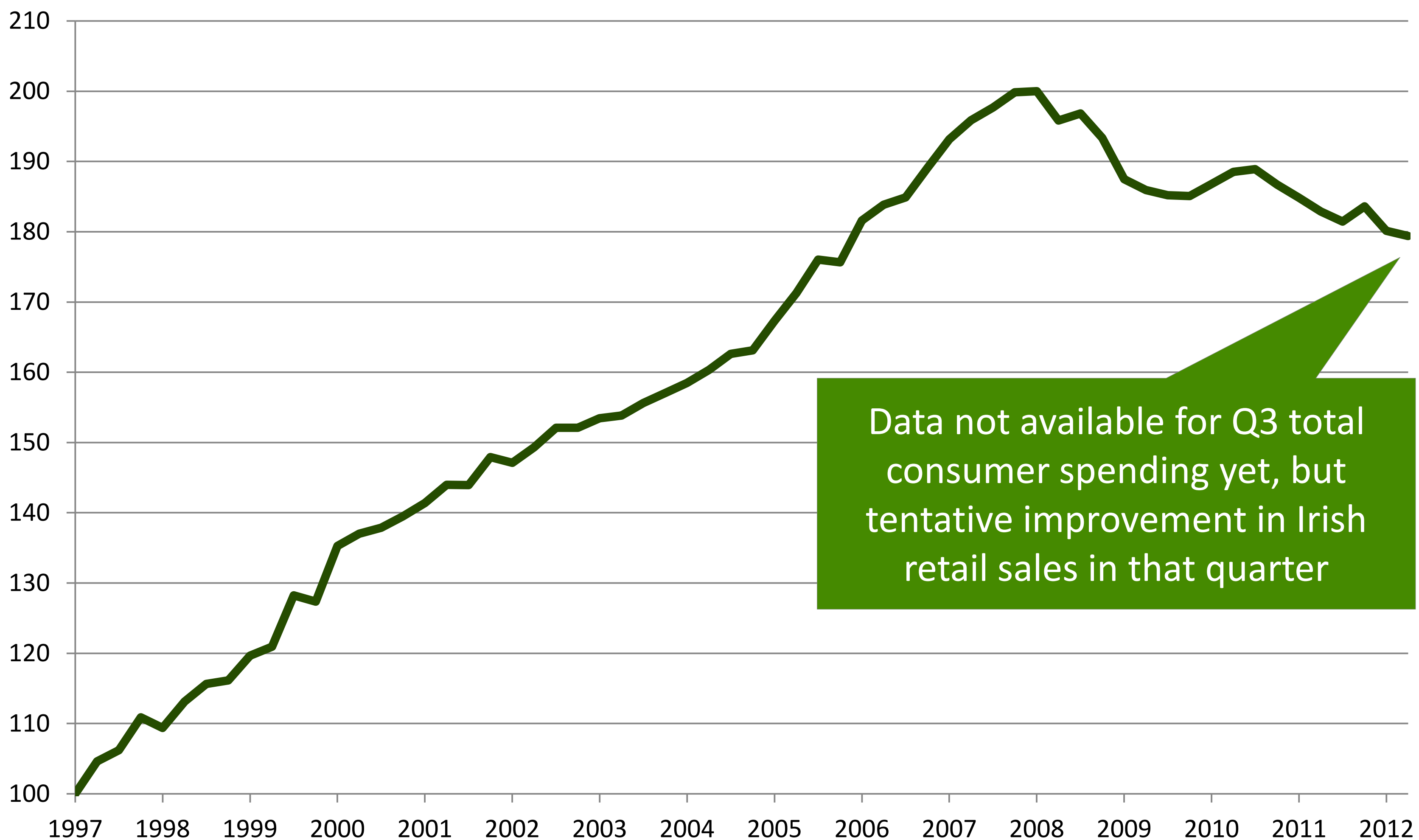


Source: Central Bank; DoEHLG; CSO; NTMA

Household savings ratio (% DI)



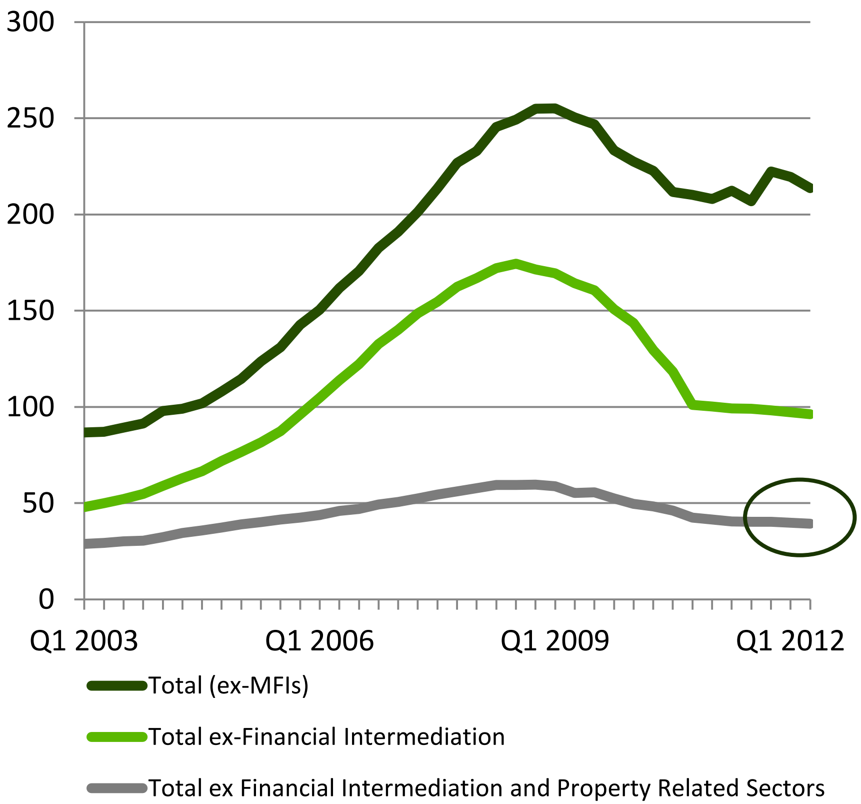
Consumer spending still declining: back to 2006 levels, but 80% higher than 15 years ago (1997=100)



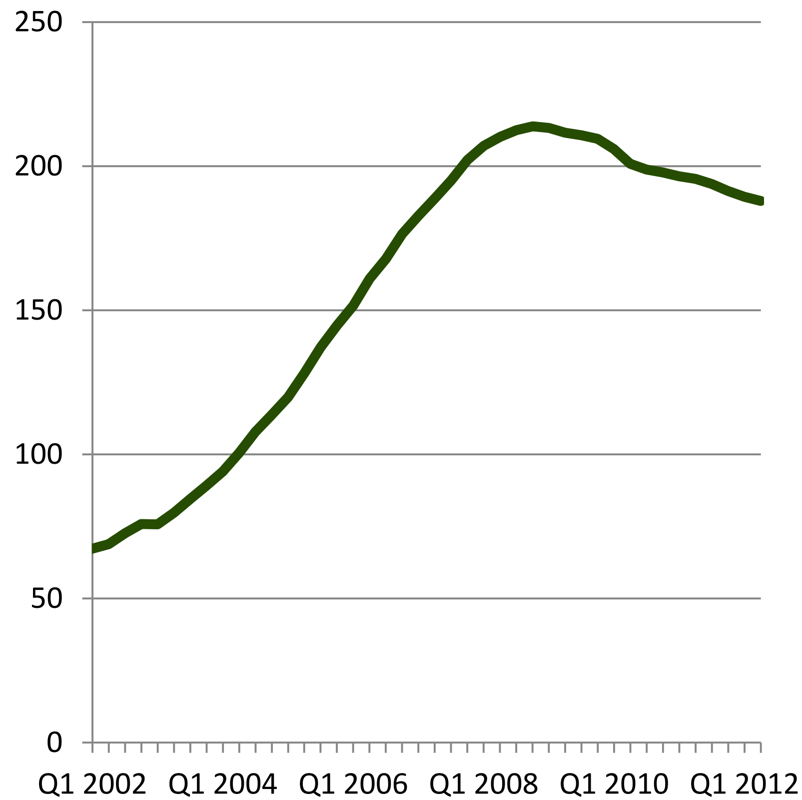
Source: CSO

Debt levels are high, apart from "core" domestic private companies

Credit to resident Irish enterprises (€bn)

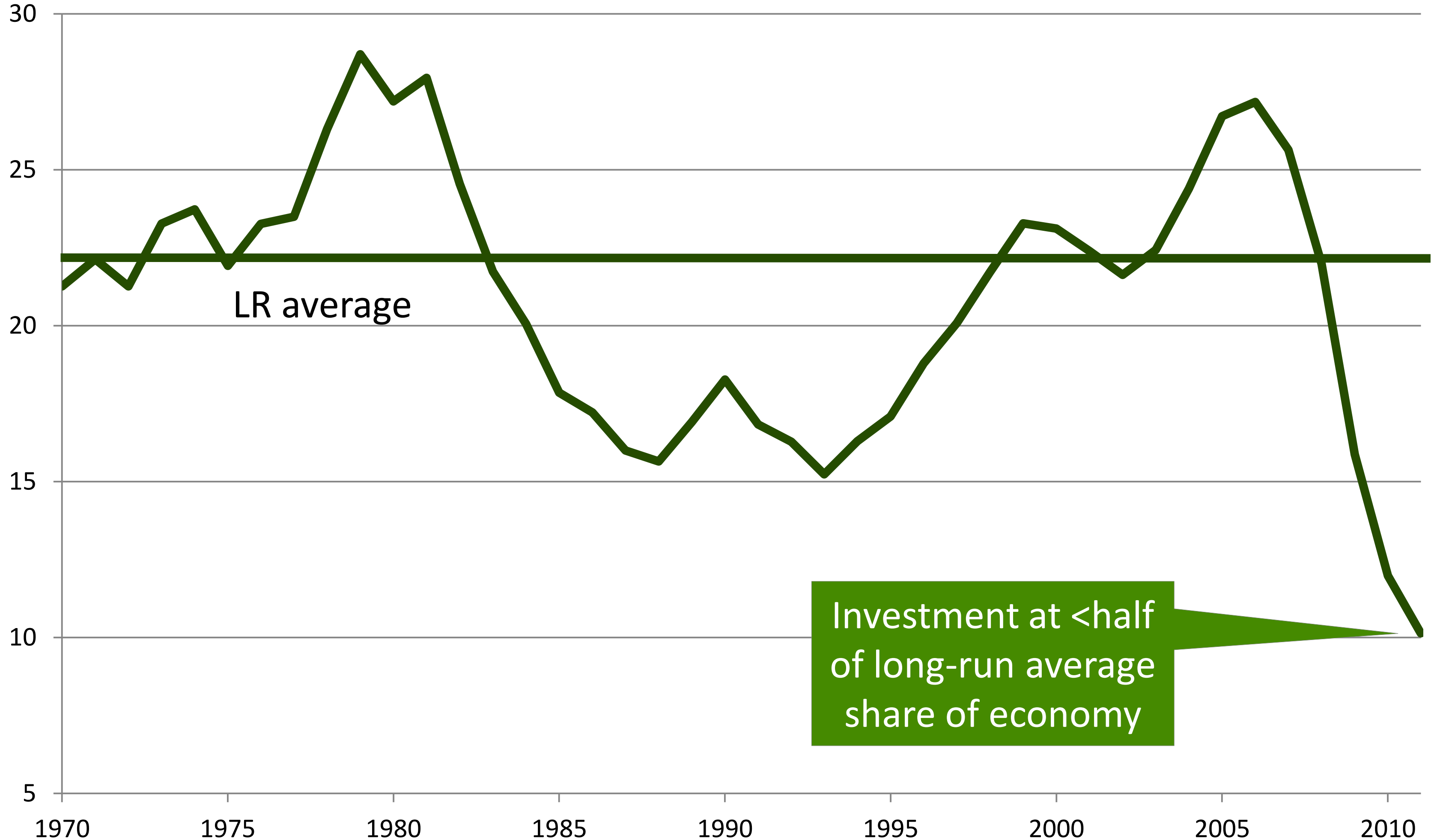


Household liabilities (€bn)



Source: Central Bank of Ireland

Investment as a % GDP at all-time low



Source: CSO

Economic and fiscal forecasts: Budget, 2013

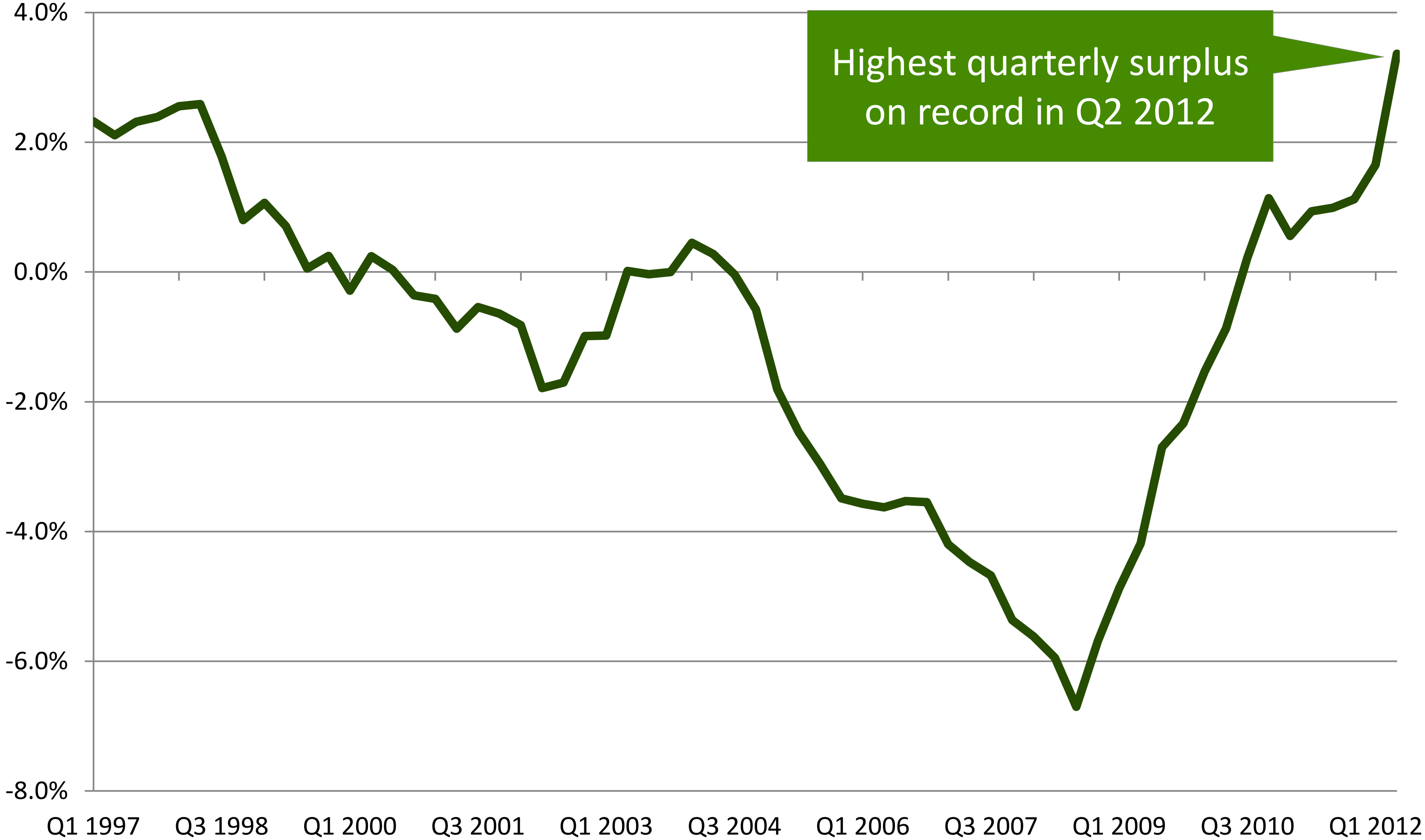
	2011	**2012F**	2013F	2014F	2015F
GDP (% change, volume)	1.4	**0.9**	1.5	2.5	2.9
GNP (% change, volume)	-2.5	**1.4**	0.9	1.7	2.1
Current Account (% GDP)	1.1	**3.4**	4.3	4.2	4.3
General Government Debt (% GDP)	106	**118**	121	120	117
Underlying General Government Balance (% GDP)*	-9.1	**-8.2**	-7.5	-5.1	-2.9
Inflation (HICP)	1.1	**2.1**	1.7	1.8	2.0
Unemployment rate (%)	14.4	**14.9**	14.6	14.1	13.1

Source: Department of Finance, Budget 2013, December 2012
* Underlying: ex-banking recapitalisation

SECTION 2: REBALANCING

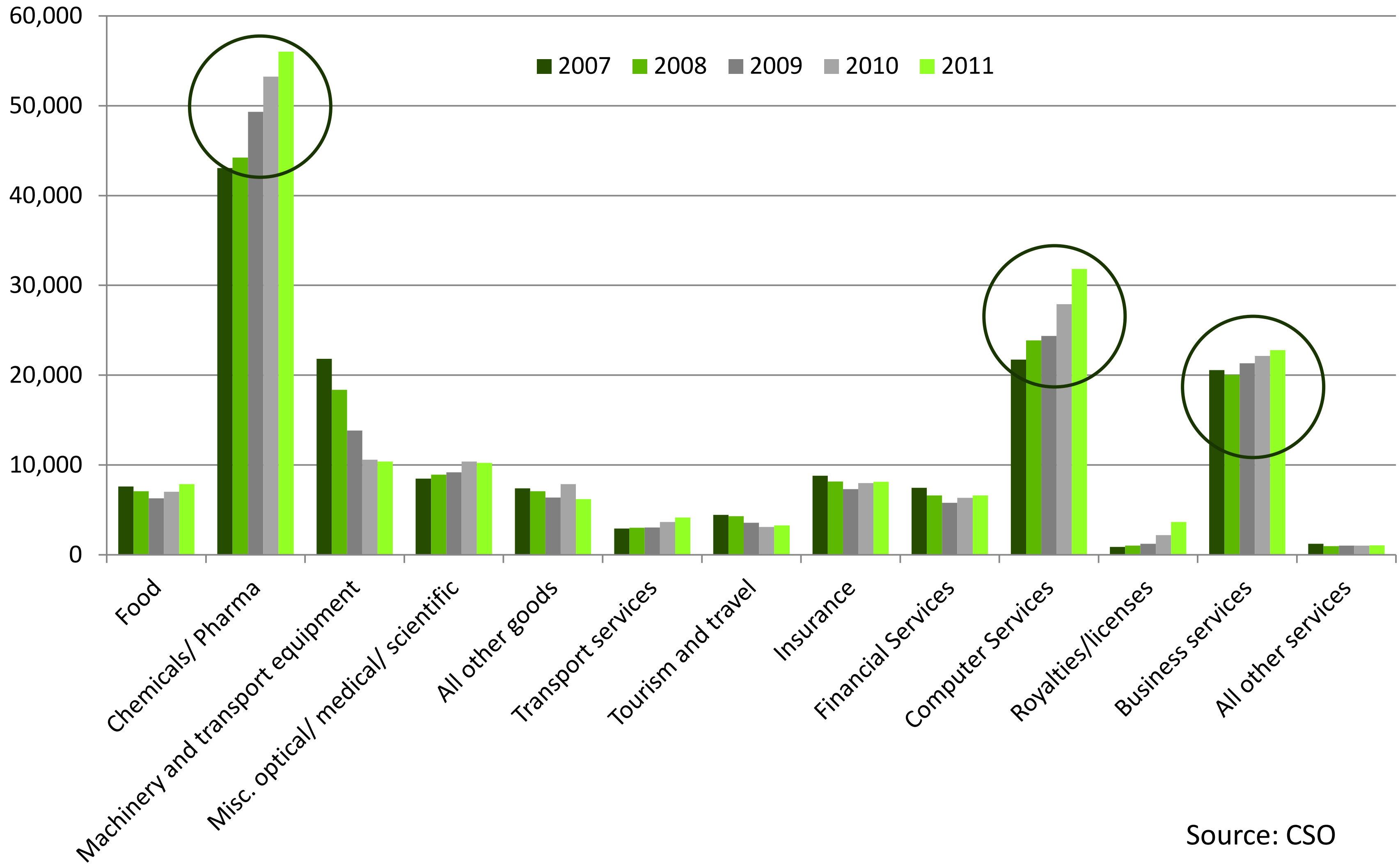
Ireland has accomplished the bulk of its “internal devaluation”; and outperforms other troubled countries thanks to its flexible economy

Ireland's BoP current account surplus reflects large-scale rebalancing of economy (4QMA % GDP)



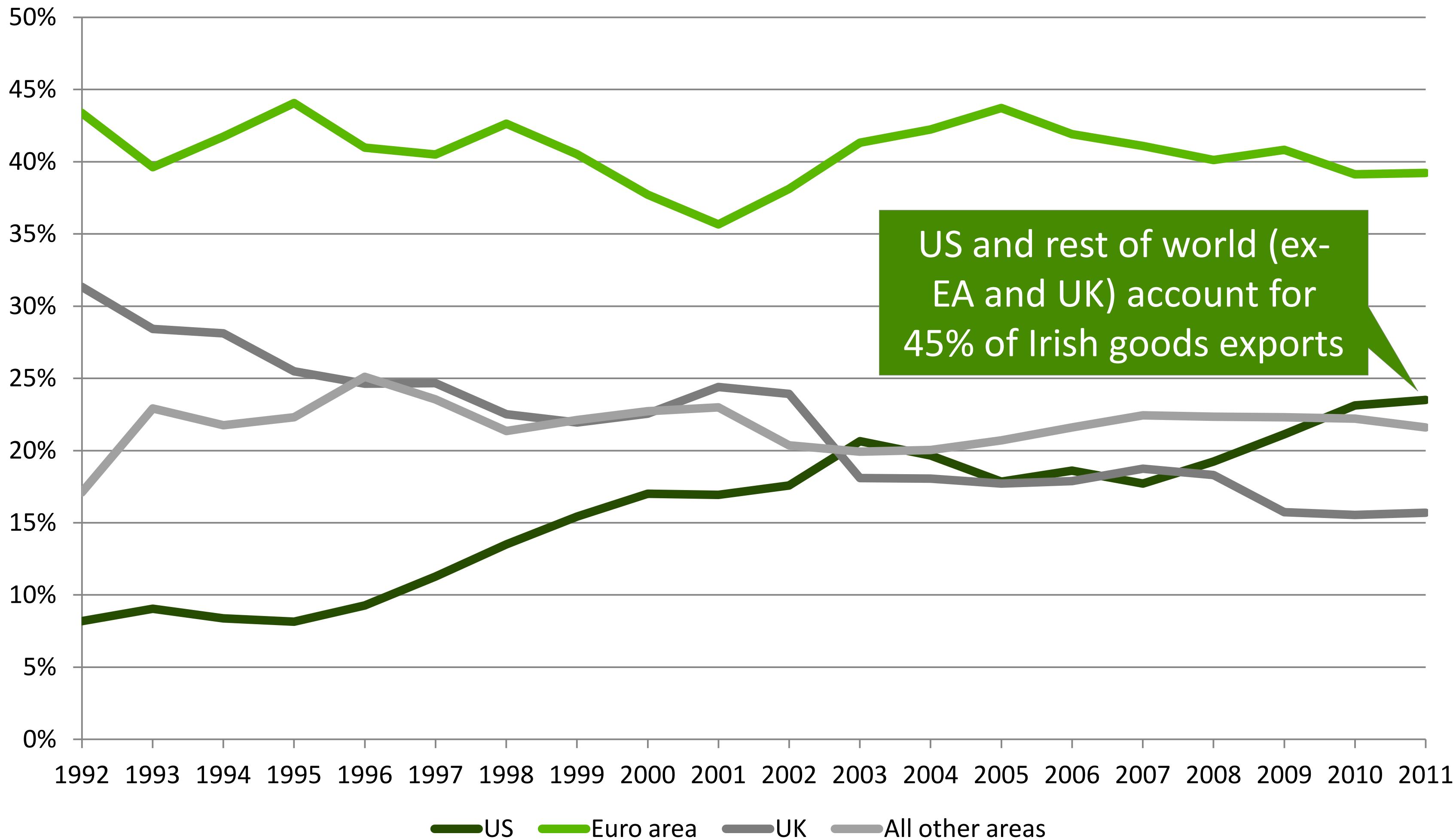
Source: CSO

Exports dominated by pharmaceuticals, IT and businesses services (scale €m)



Source: CSO

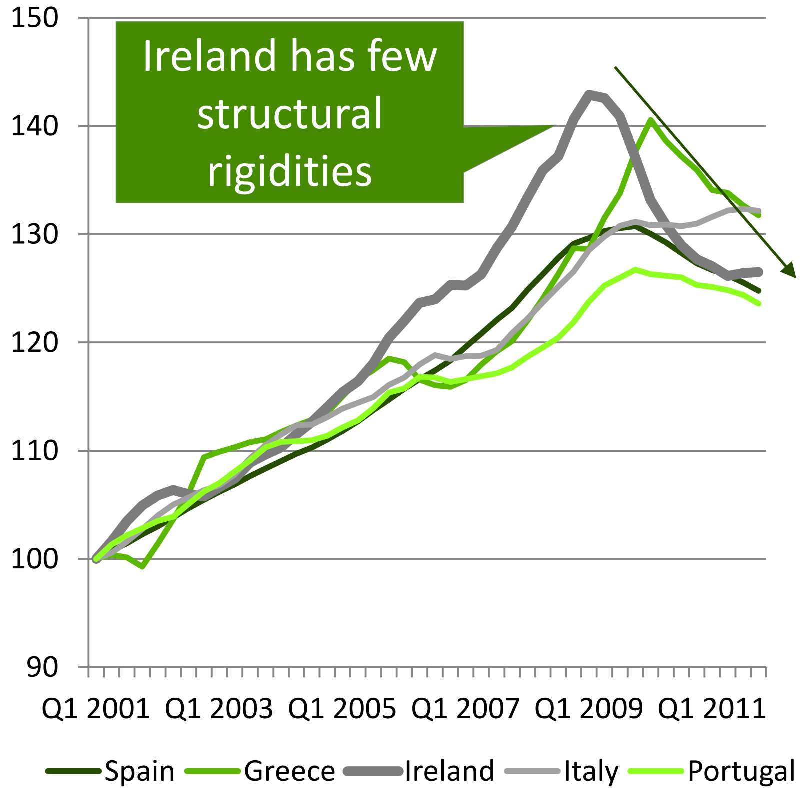
Ireland to benefit more than most from decline in FX value of euro in 2012 (goods export shares)



Source: CSO

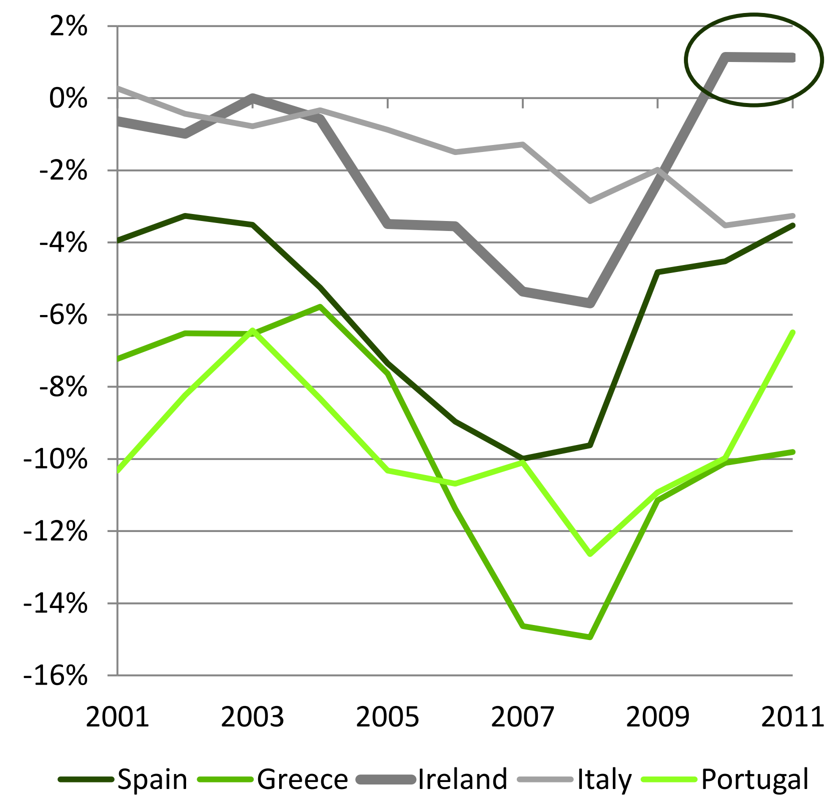
Ireland’s competitive position vastly different to the other non-core countries

Unit Labour Costs (Q1 2001=100)



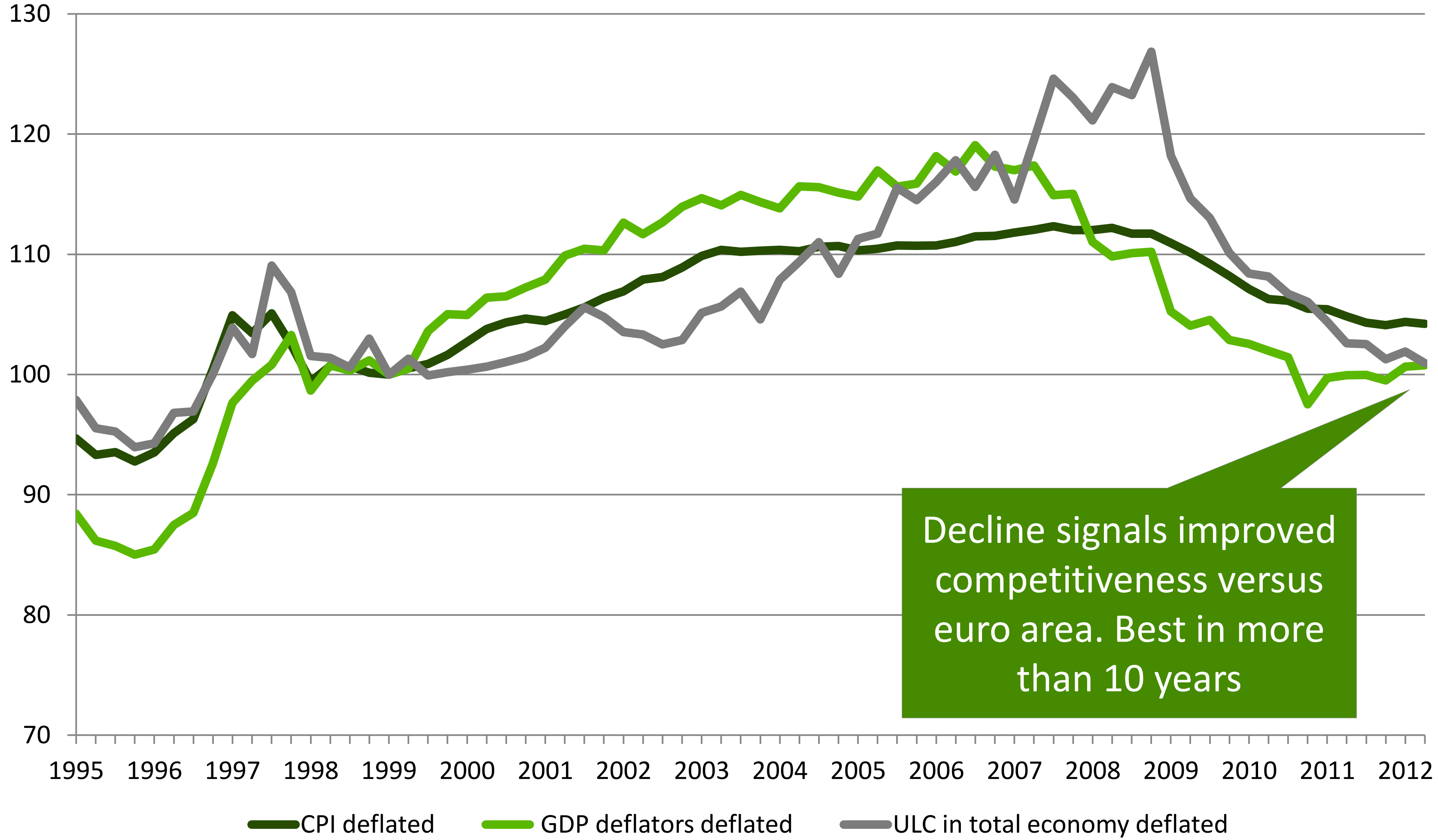
Source: ECB

Current Account Balance (% GDP)



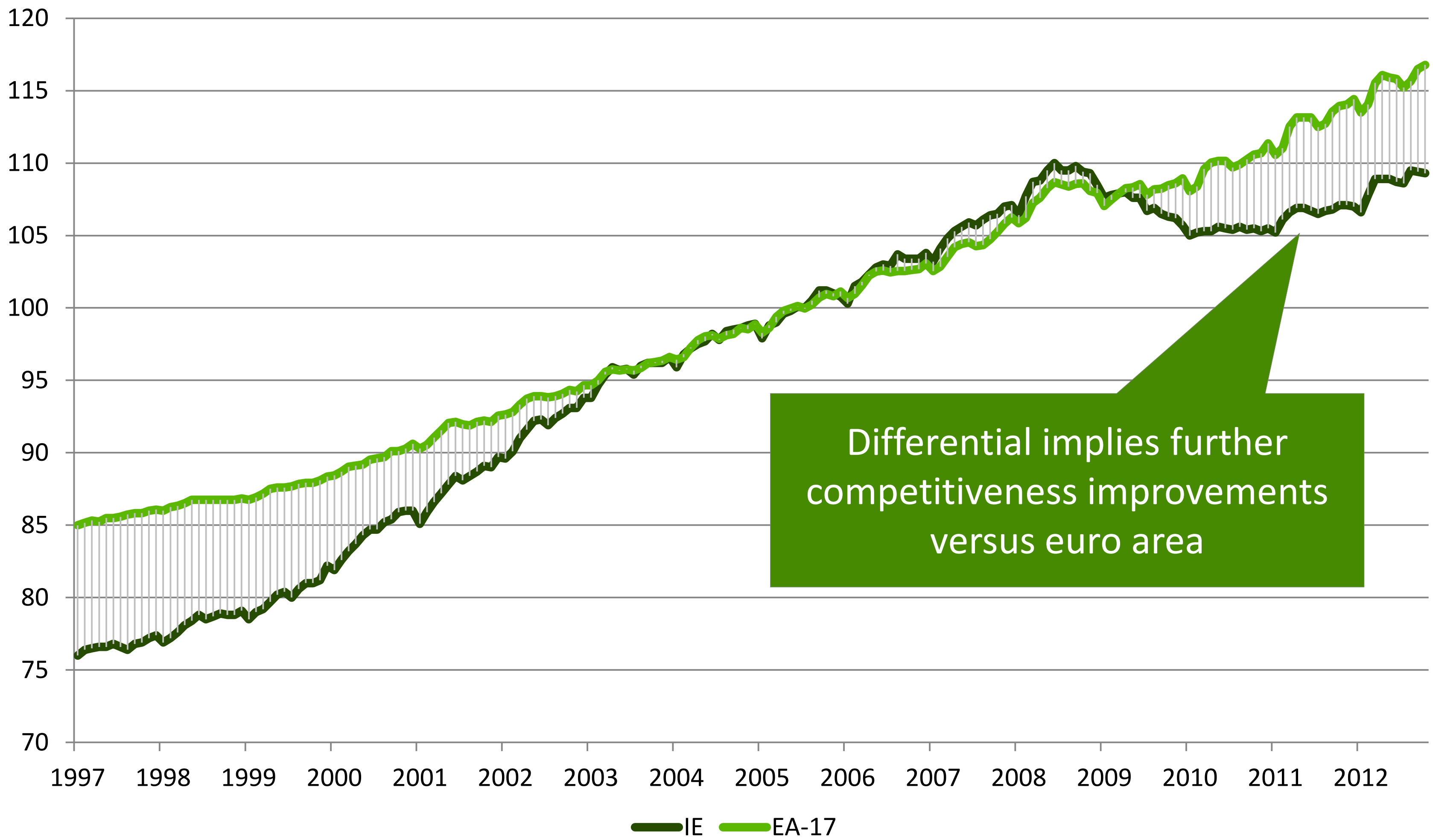
Source: DataStream

Ireland's real exchange rate (versus rest of euro area) has improved dramatically since 2008 (Q1 1999=100)



Source: ECB

Ireland's HICP Inflation has undershot that of the euro area since 2008



Source: Eurostat

Ireland is far more open than other non-cores

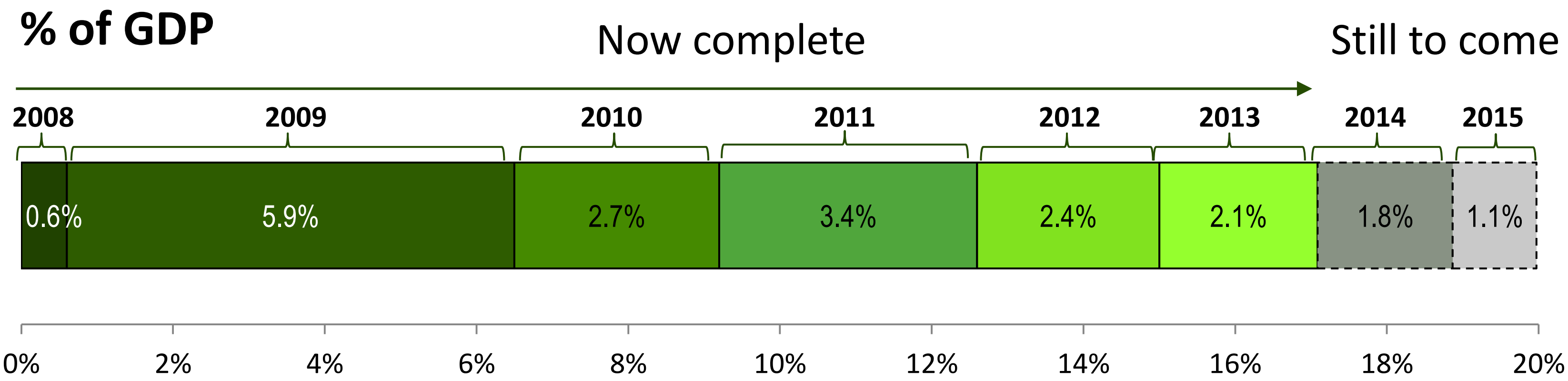
	Exports (%GDP)	Imports (%GDP)	Openness proxy (X+M/GDP)
Ireland	106	84	1.90
Spain	30	31	0.61
Italy	29	30	0.59
Portugal	35	39	0.75
Greece	21	29	0.50

Source: Datastream (for 2011)

SECTION 3: BUDGET 2013

Fifth full year of fiscal consolidation ahead; but fiscal drag is set to lessen

Fiscal Consolidation thus far...



Breakdown of revenue measures (€bn)

€ million	2008	2009	2010	2011	2012	**2013**	2014	2015
Revenue	0.0	5.6	0.0	1.4	1.6	**1.4**	1.1	1.3
Expenditure	1.0	3.9	4.3	3.9	2.2	**1.9**	2.0	0.7
Total	1.0	9.4	4.3	5.3	3.8	**3.5**	3.1	2.0
Total (% of GDP)	0.6%	5.9%	2.7%	3.4%	2.4%	**2.1%**	1.8%	1.1%
% of Total Progress to Date	3%	32%	45%	62%	74%	**84%**	94%	100%
€bn Progress to Date	1.0	10.4	14.7	20.0	23.8	**27.3**	30.4	32.4
% of GDP Progress to Date	0.6%	6.5%	9.2%	12.6%	15.0%	**17.1%**	18.9%	20.0%

Sources: Report of the Review Group on State Assets and Liabilities, Budget 2011, Budget 2012, Budget 2013 and Medium Term Fiscal Statement, November 2012.

Budget 2013 breakdown

- Budget 2013 measures announced by the Government in December 2012 comprise €3.5bn in consolidation measures
- Expenditure reduction of €1.94bn coupled with revenue-raising measures of €1.43bn are boosted by increased dividends of some €0.1bn from State companies.
  - Within the €3.5bn there is significant carryover
  - Additional health measures of some €0.7bn are required

Breakdown of Budget 2013 consolidation effort (€bn)	
Capital expenditure	0.5
Current expenditure	2.1
Revenue	1.4

Budget 2013: Current Expenditure Measures

- Expenditure measures are concentrated in the areas of health and social expenditures.
  - Includes reduced universal child benefits and pay-related savings
  - Also includes reductions in drugs/prescription costs

Breakdown of current expenditure reduction (€bn)	
Social protection	-0.39
Health	-0.78
Education	-0.09
Other	-0.25

Budget 2013: Revenue Measures

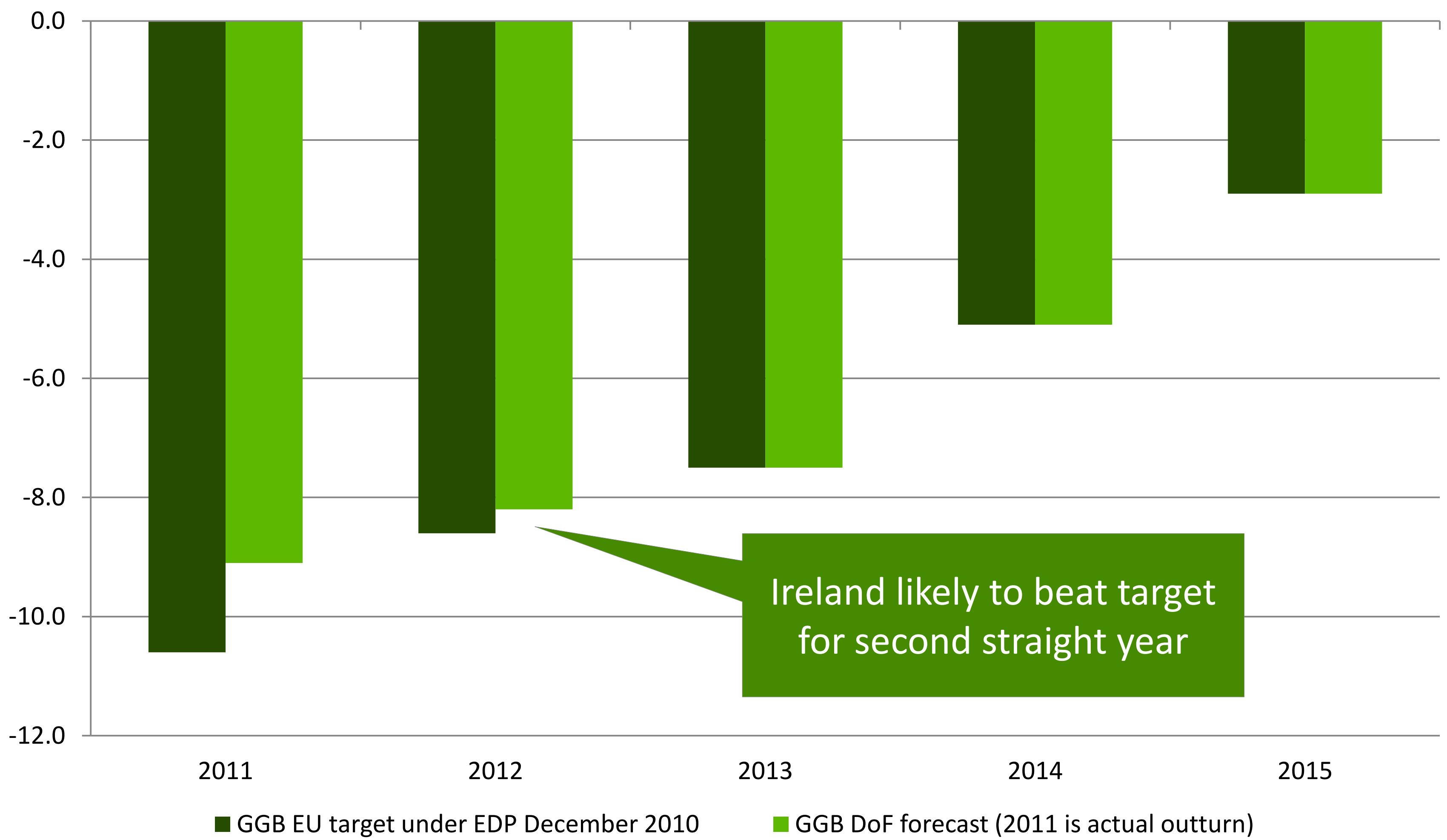
- Removal of PRSI tax allowance/exemptions & increased self-employed contribution
- Local property tax introduced to replace household charge
- Increase in Excise duties on alcohol products
- Excise duties relating to Vehicle Registration Tax, Motor Tax & Carbon Tax increased
- Capital Gains Tax, Capital Acquisitions Tax deposit interest tax all increased to 33%
- Optional pre-retirement supplementary pension withdrawal subject to marginal tax rates

Breakdown of revenue measures (€bn)	
PRSI measures	0.29
Local property tax	0.25
Excise changes	0.33
CGT/ CAT/deposit interest tax	0.13
Tax on withdrawn pensions	0.10

SECTION 4: FISCAL & FUNDING

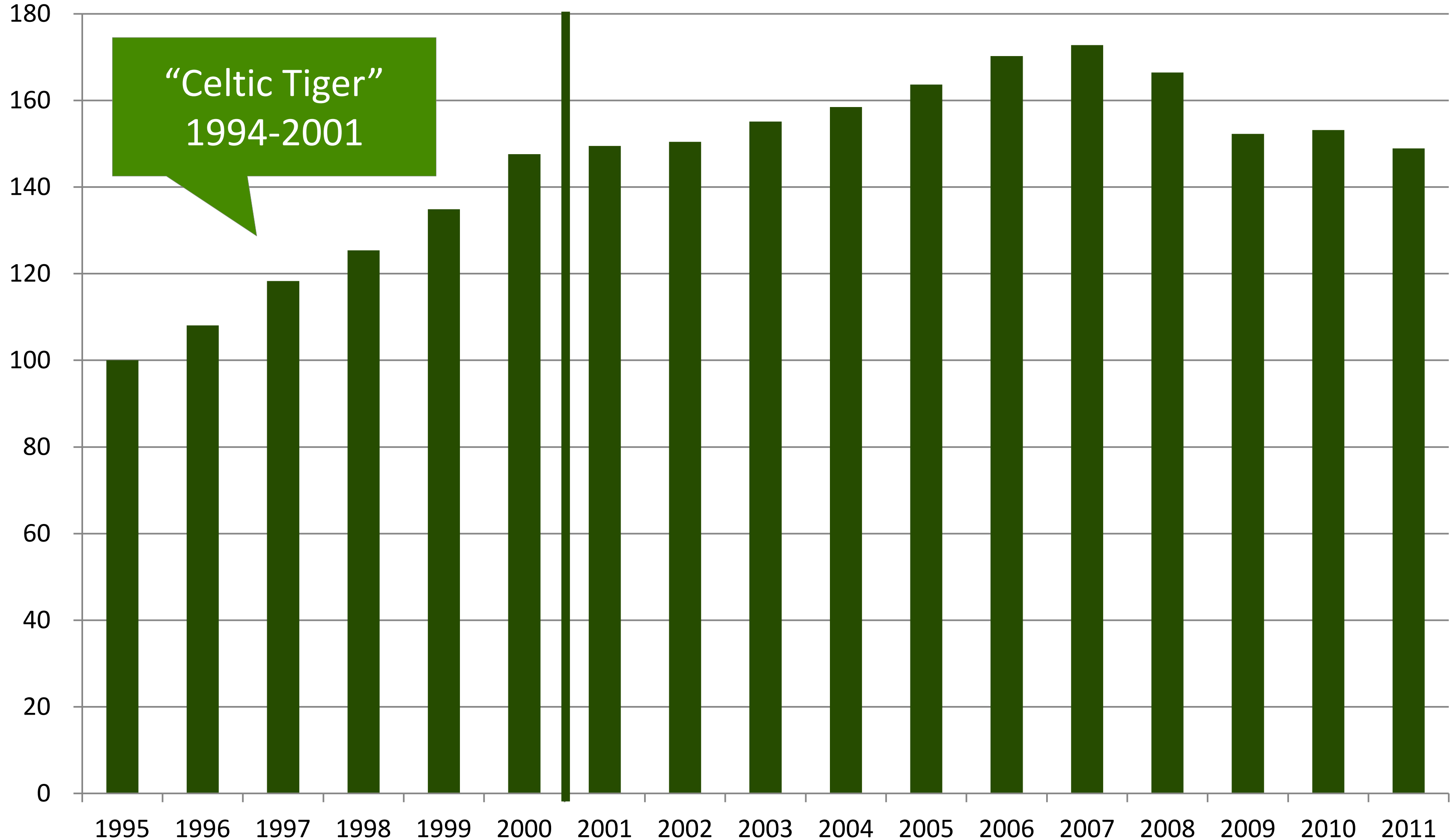
Fiscal trends improving: further two-year challenge to stabilise debt ratio

Government has stuck to its fiscal targets (GGB % GDP) under the Programme and EDP procedure



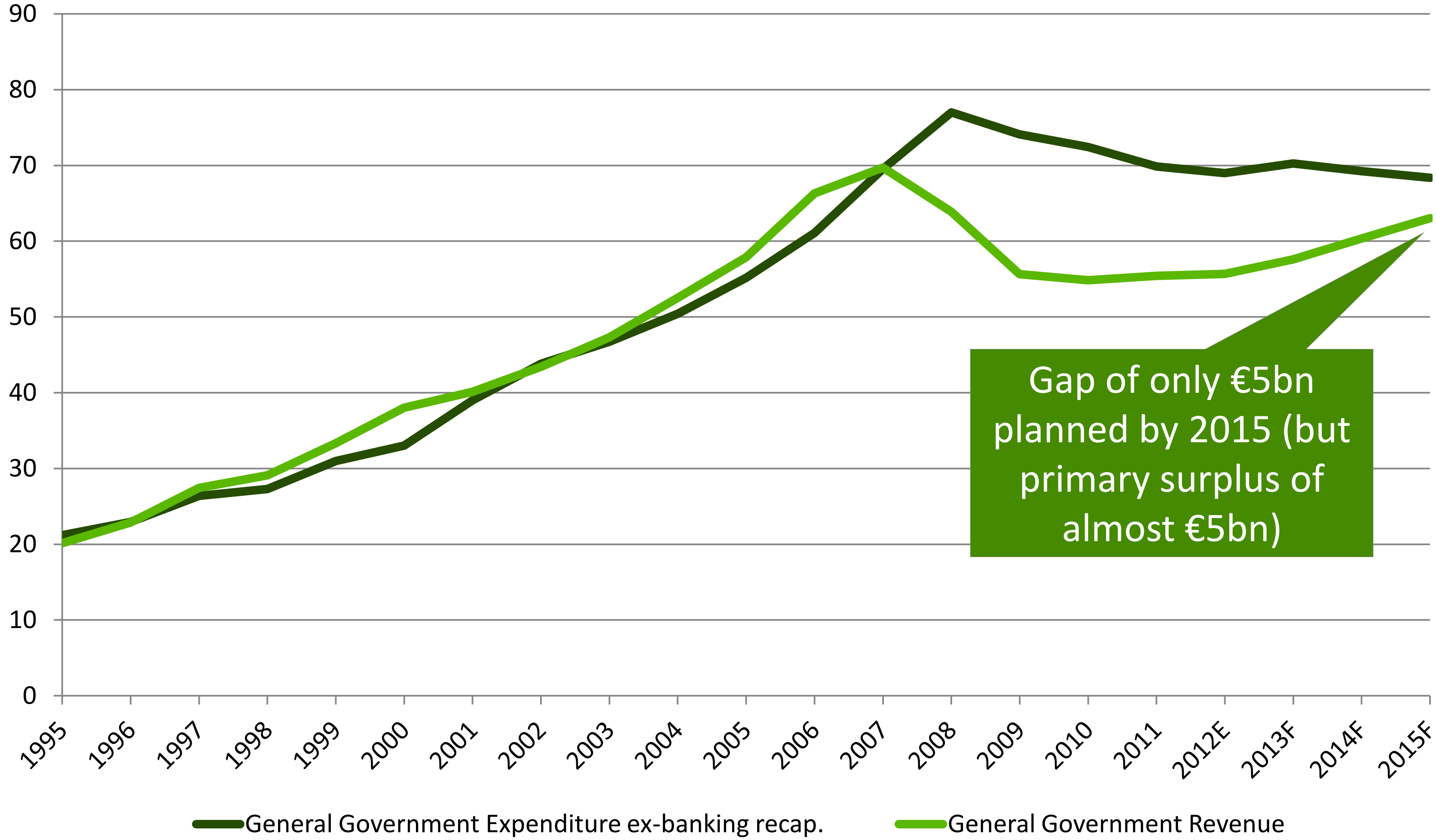
Source: Department of Finance; CSO

Gains from 2001-07 bubble lost, but living standards up c. 50% from 1994 (real GNI per capita 1995 =100)



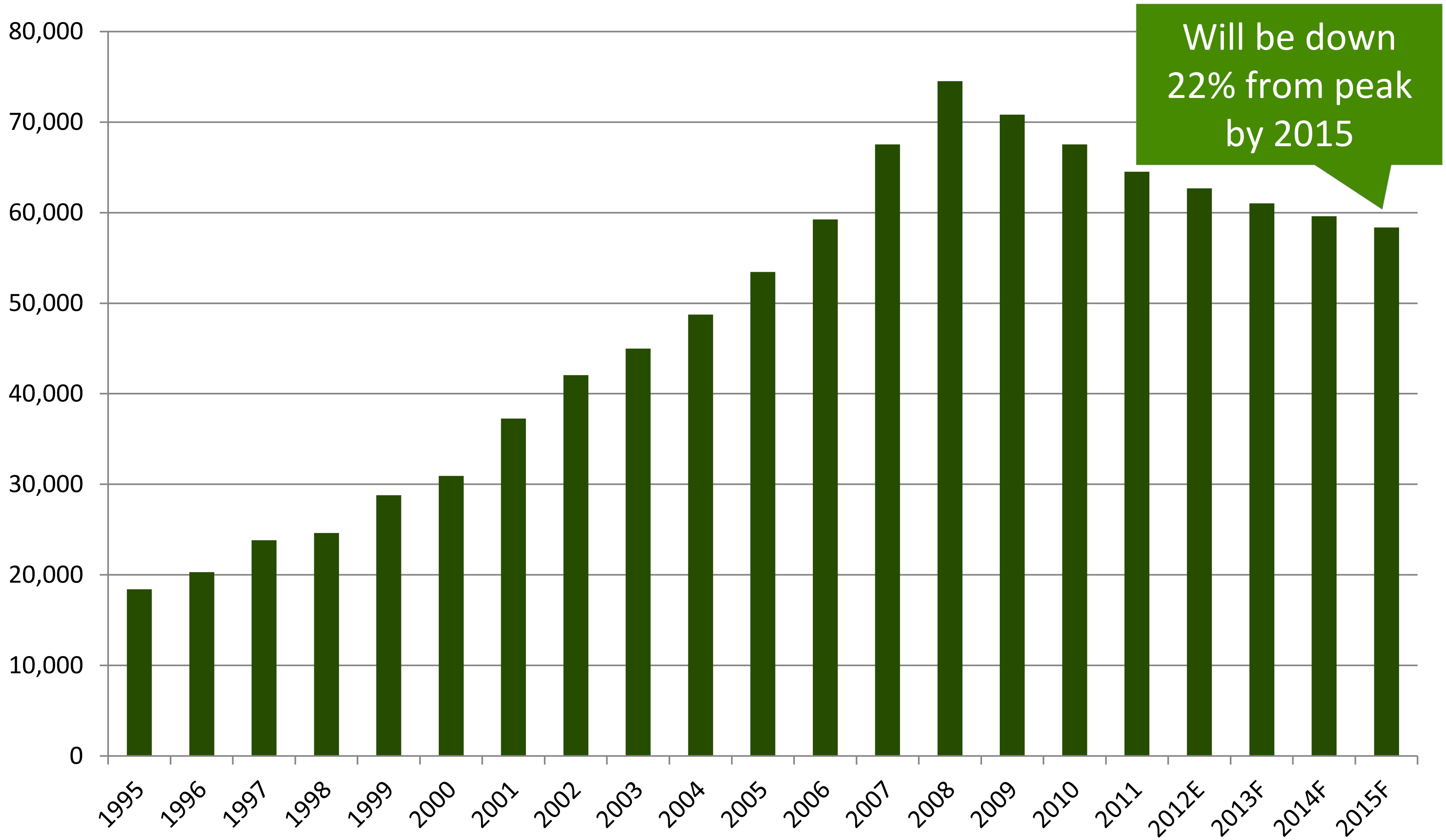
Source: CSO

General Government revenue is growing and expenditure coming down (€bn)



Source: Department of Finance; Eurostat

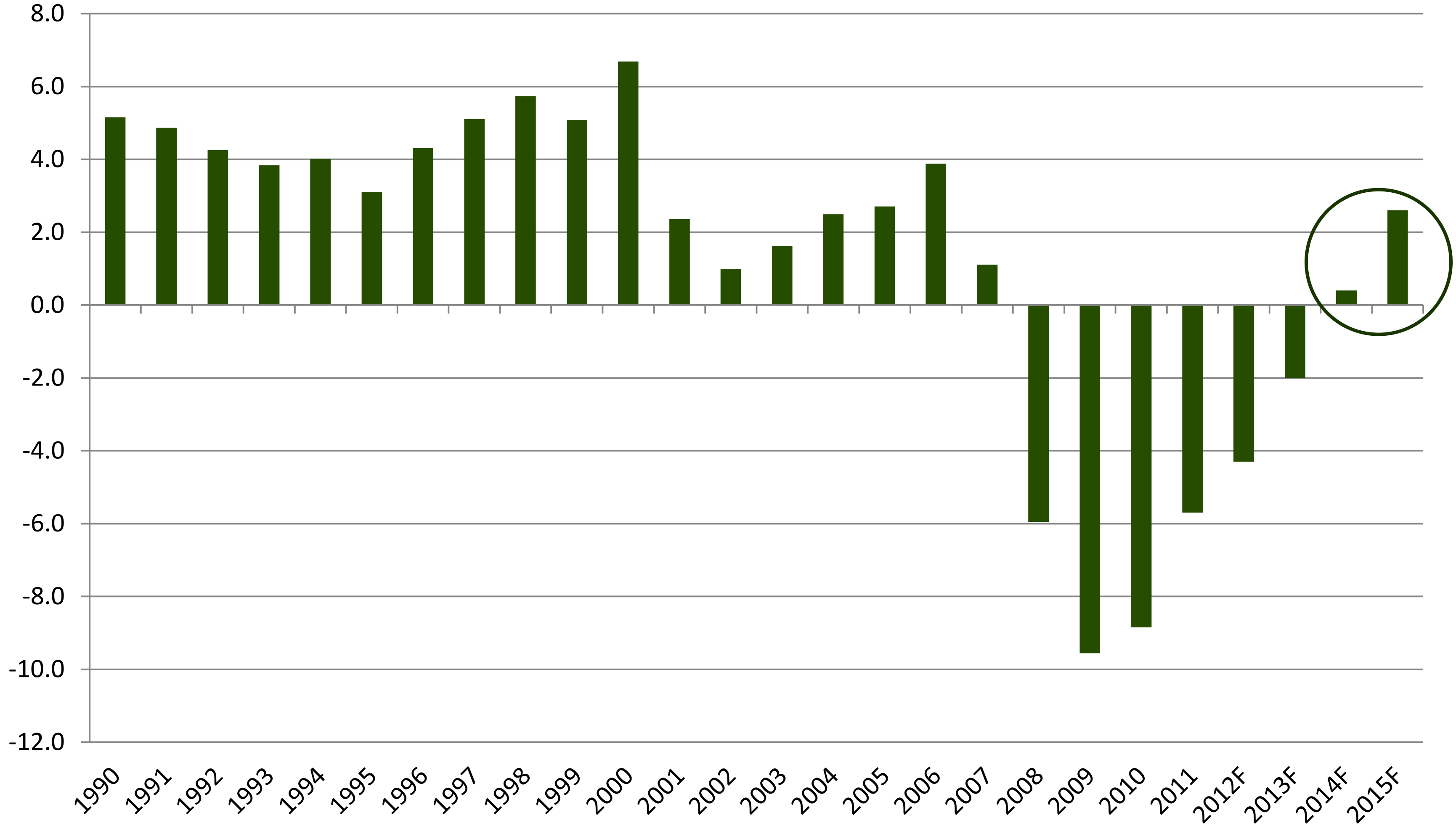
Primary government expenditure cut sharply (€m)*



Source: Eurostat

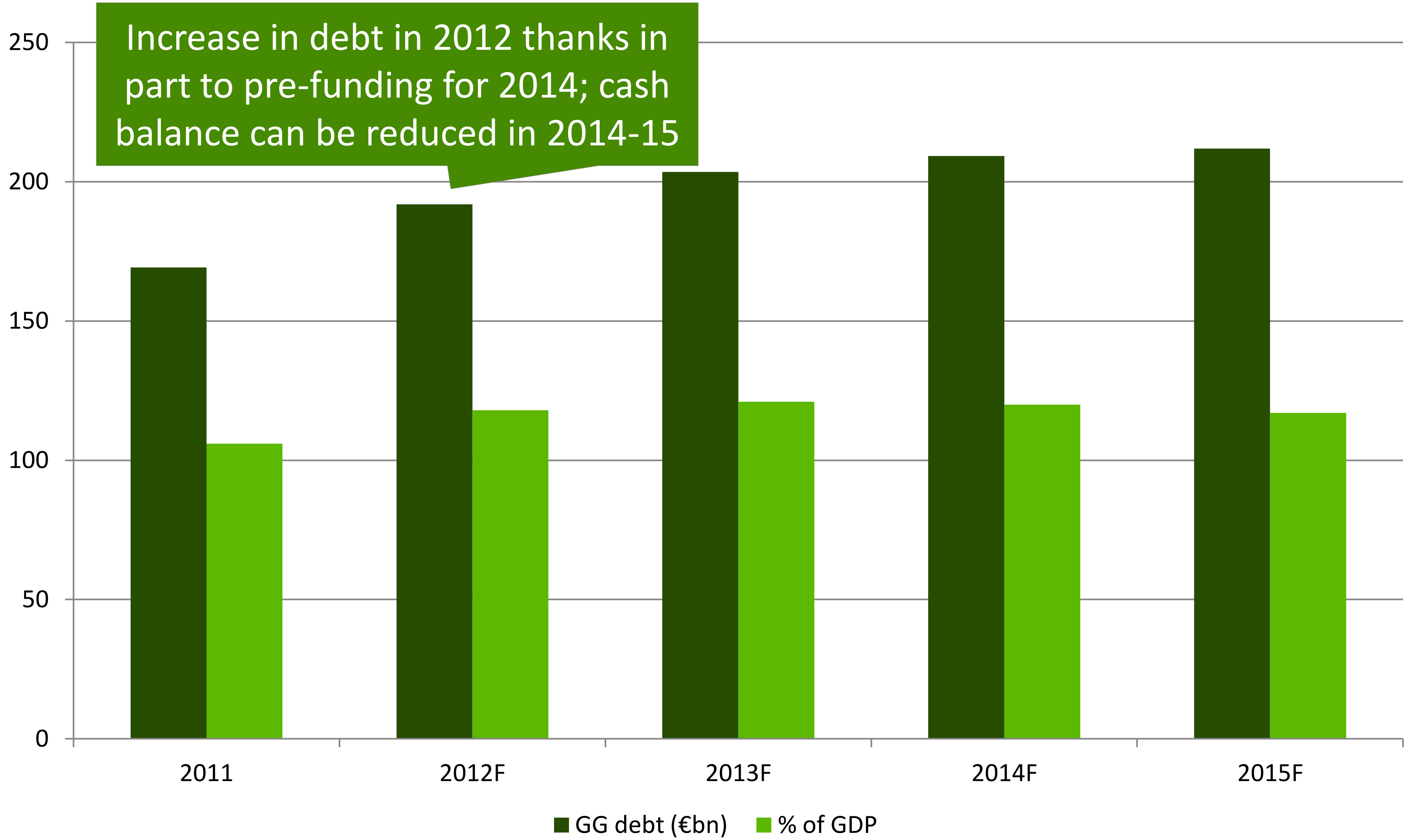
*excluding interest expenditure (and banking recapitalisation)

Ireland not far from confirming debt sustainability: primary surplus (% of GDP) to be achieved by 2014



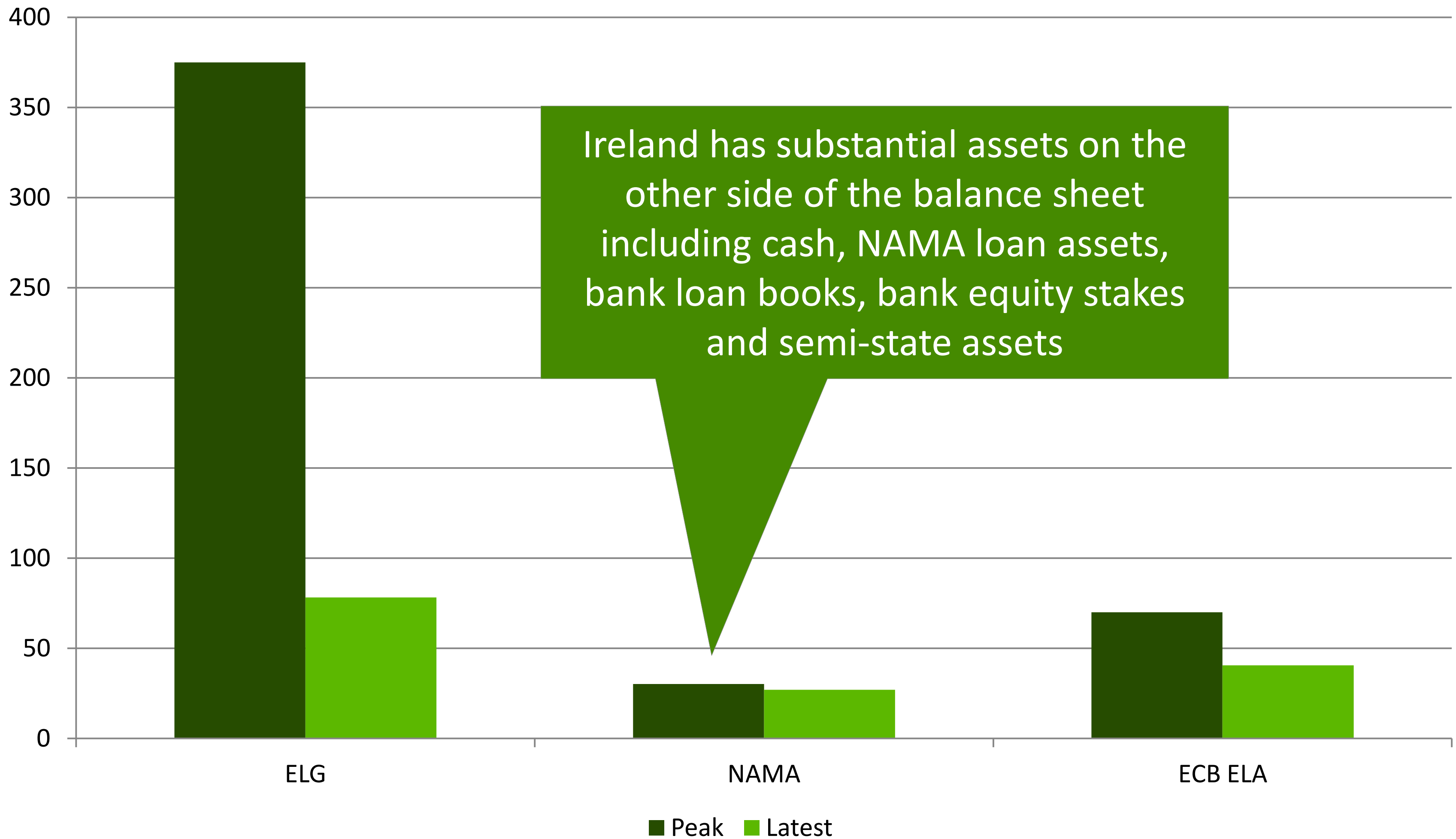
Source: Department of Finance: SPU, April 2012; Eurostat

Gross Government debt stabilises below 120% of GDP in 2013, as nominal GDP revised up for 2011



Source: Department of Finance: SPU, November 2012; CSO (new National Accounts)

Contingent liabilities reduced considerably (€bn)



Source: NTMA; Central Bank of Ireland; NAMA

Foreign ownership of marketable bonds is high

€ million

End quarter	**September 2011**	**December 2011**	**March 2012**	**June 2012**	**September 2012**
1. Resident	18,407	18,864	18,755	22,447	24,212
– MFIs and Central Bank	15,441	15,665	17,158	20,083	21,285
– General government	879	806	349	841	1,558
– Financial intermediaries	1,822	2,157	1,043	1,339	1,179
i) Financial auxiliaries	333	337	445	501	313
ii) Insurance corporations and pension funds	1,147	1,192	453	452	447
iii) Other financial intermediaries	341	627	146	386	419
– Non Financial Corporations	48	12	10	8	5
– Households	217	224	195	176	184
2. Rest of world	71,182	66,446	60,896	**60,684 (73%)**	**64,295 (73%)**
Total MLT debt	**89,589**	**85,310**	**79,651**	**83,131**	**88,506**

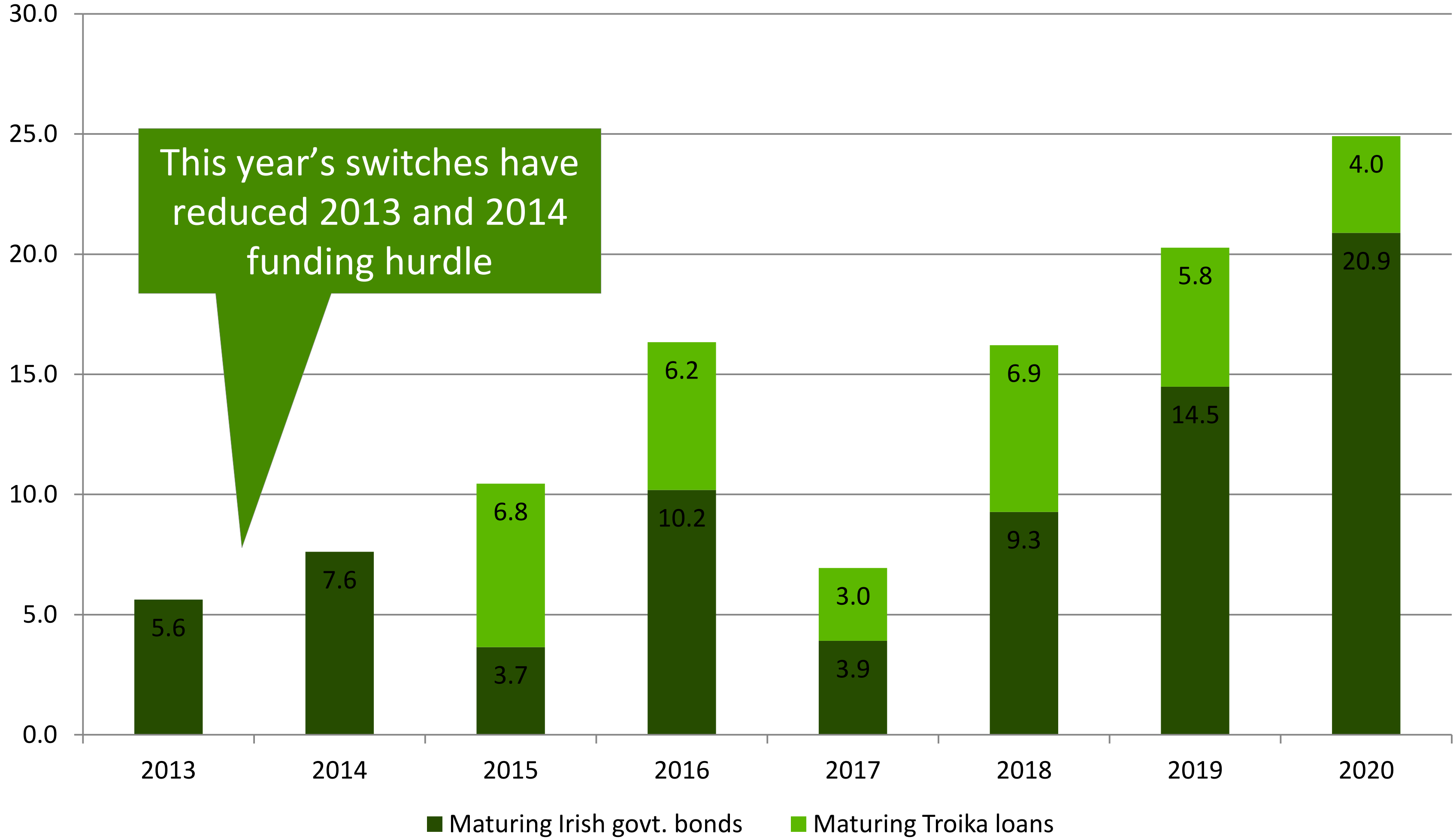
Source: Central Bank of Ireland

Breakdown of General Government debt

€ million	2006	2007	2008	2009	2010	2011
General Government Debt by category:						
Currency and deposits (mainly retail debt)	8,073	7,676	8,843	10,307	13,707	15,209
Securities other than shares, exc. financial derivatives	33,603	37,386	67,969	91,518	96,381	88,562
- Short-term (T-Bills, CP etc)	*1,554*	*5,598*	*25,525*	*20,443*	*7,203*	*3,777*
- Long-term (MLT bonds)	*32,049*	*31,788*	*42,443*	*71,075*	*89,178*	*84,786*
Loans	2,023	2,094	2,791	2,801	34,135	65,360
- Short-term	*380*	*389*	*455*	*705*	*733*	*533*
- Long-term (official funding and promissory notes)	*1,643*	*1,704*	*2,336*	*2,096*	*33,402*	*64,827*
General Government Debt	**43,699**	**47,155**	**79,603**	**104,626**	**144,223**	**169,131**

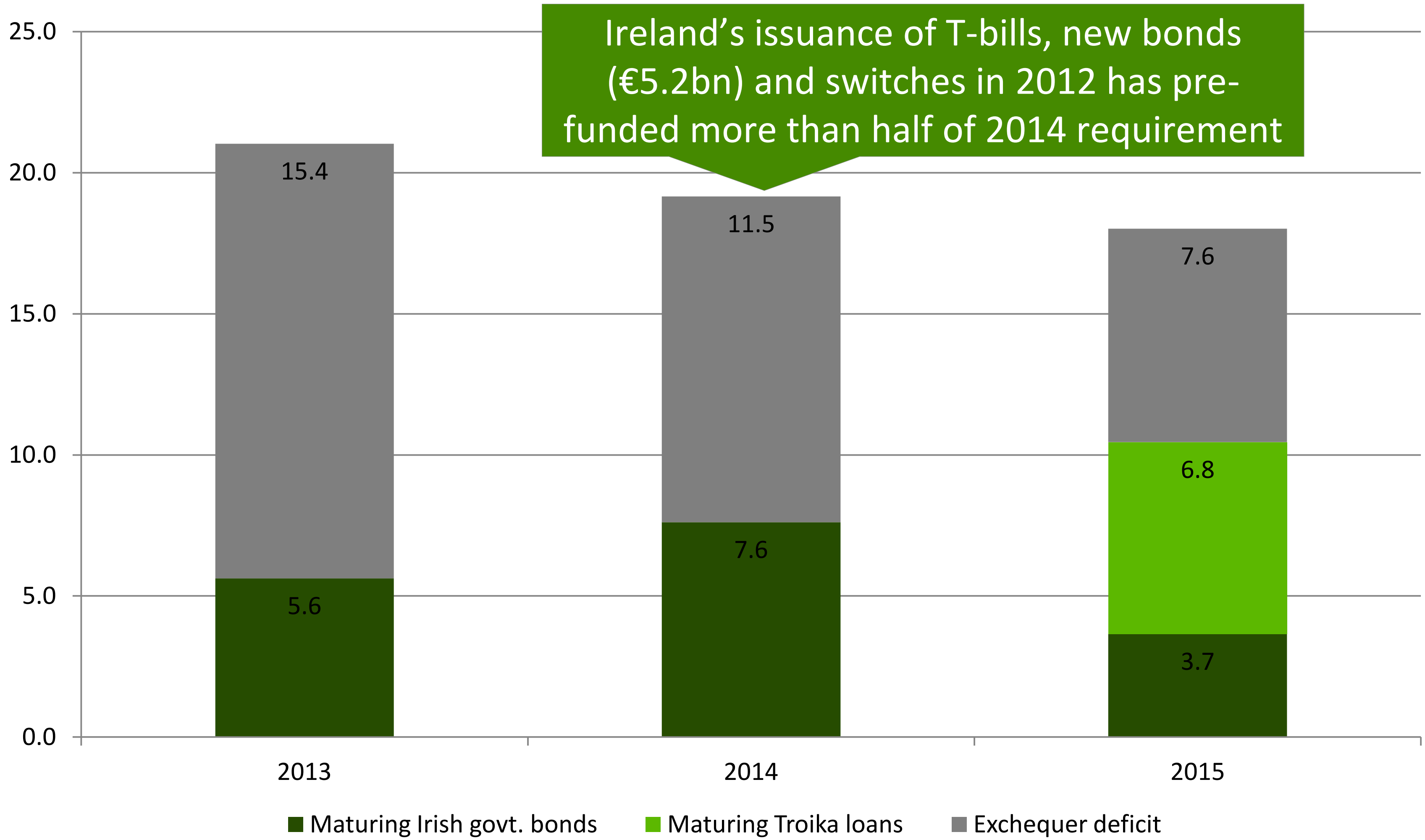
Source: CSO

Maturity profile now much smoother for 2013-2015



Source: NTMA

Total funding requirement declining steadily (€bn)

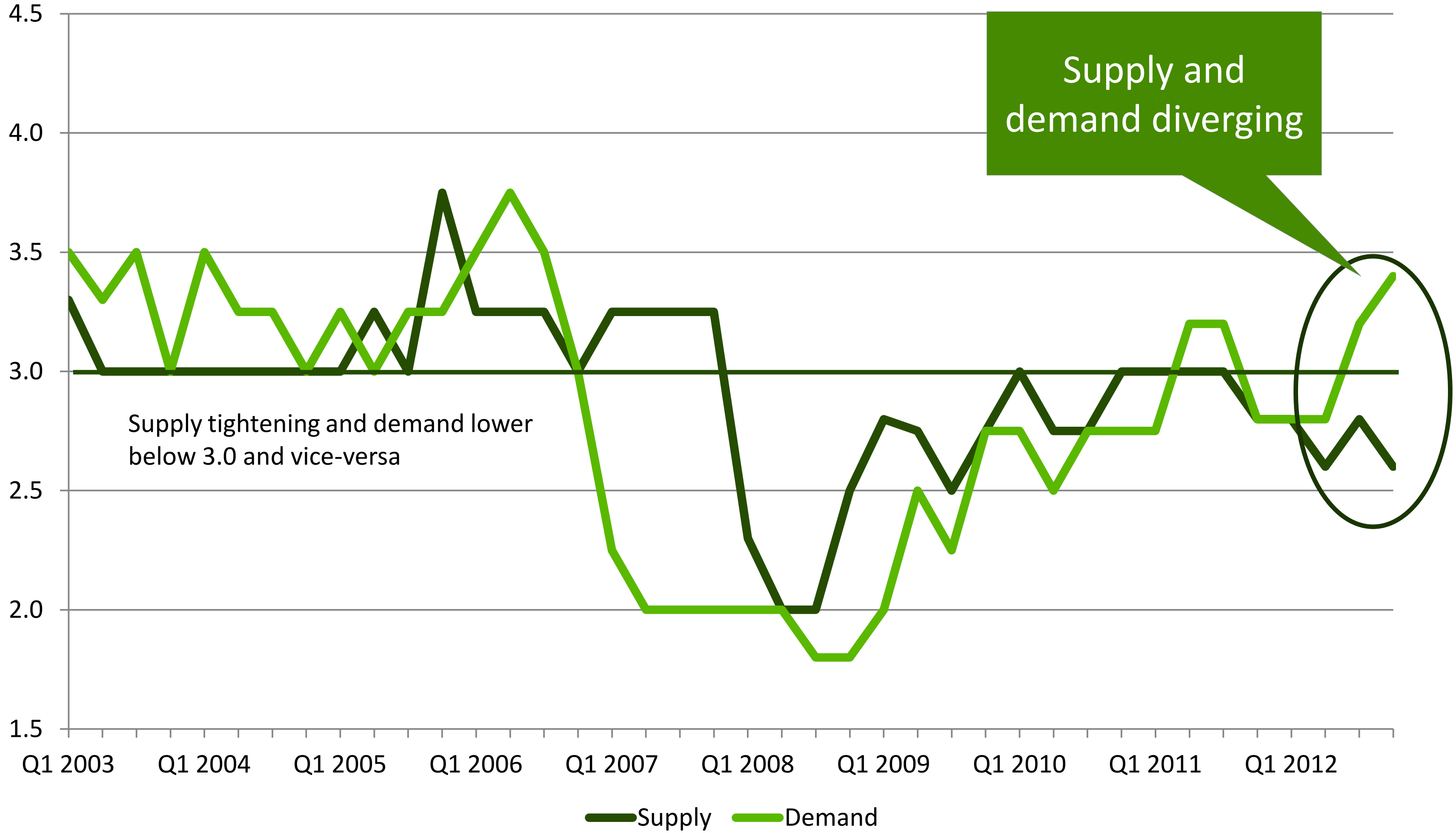


Source: NTMA; Department of Finance

SECTION 5: PROPERTY

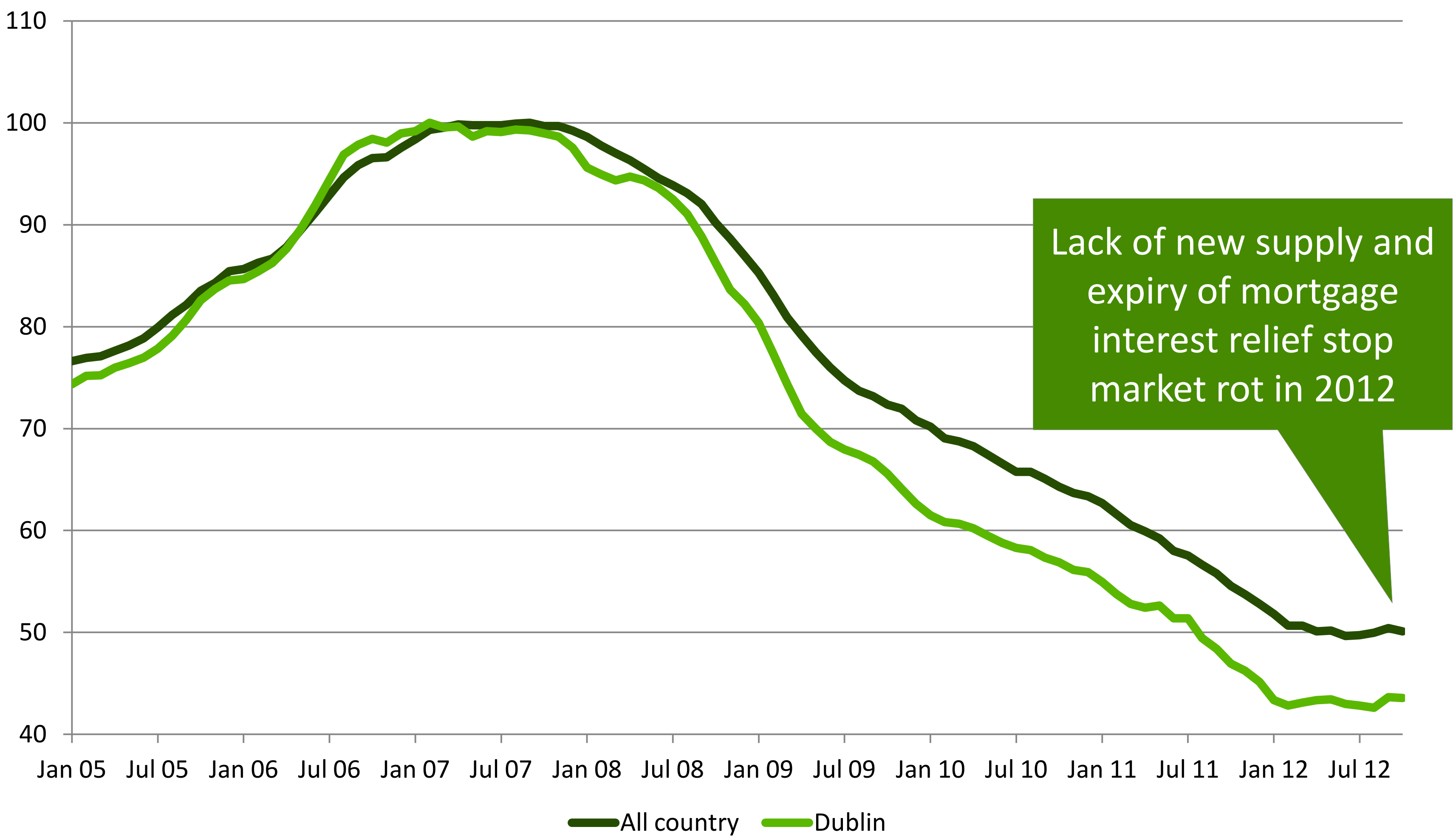
House prices have tentatively stabilised in 2012, but risks remain; interest rising in Irish commercial property thanks to search for yield

Mortgage demand picked up before expiry of interest relief, but banks tighten credit standards



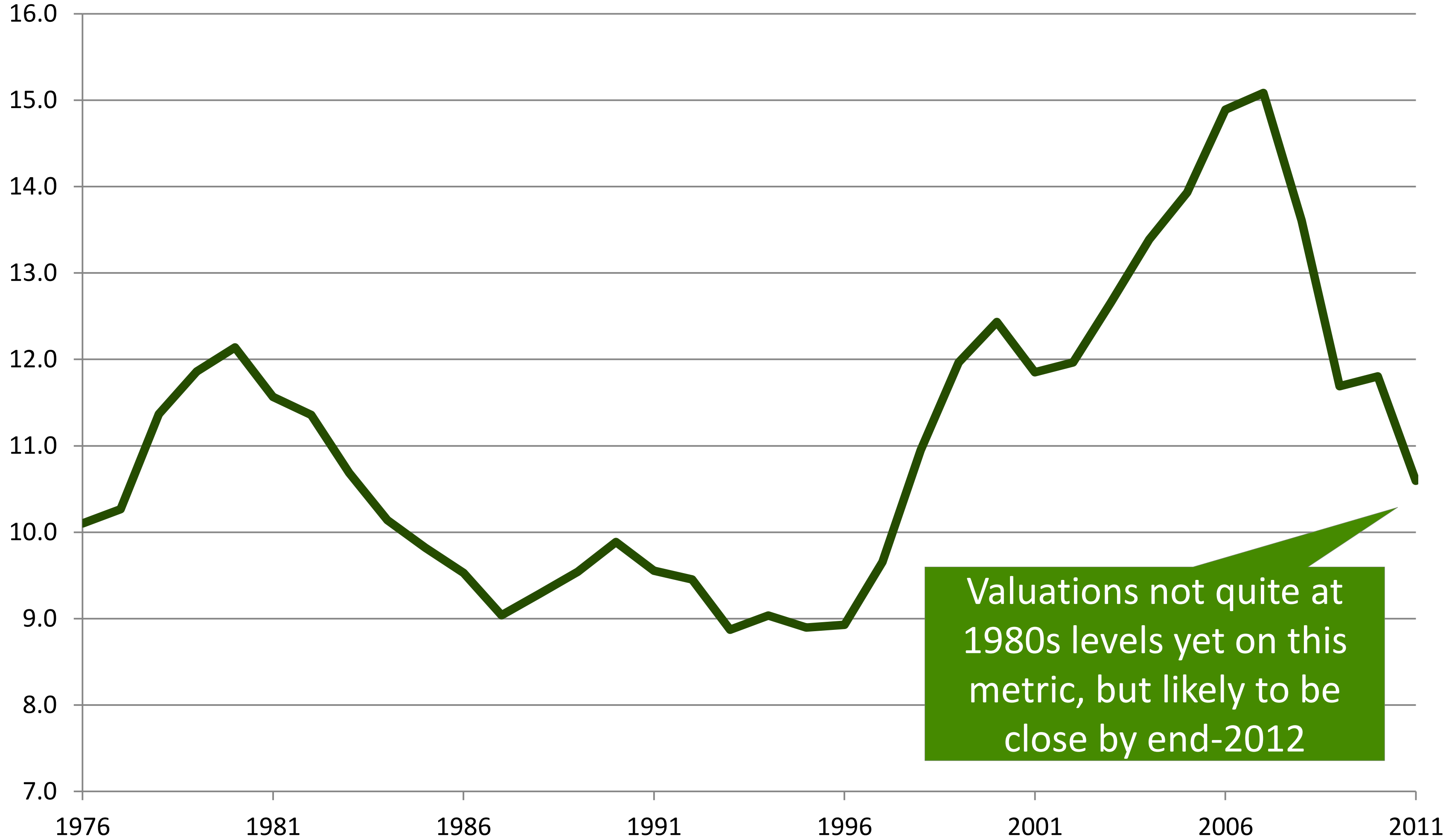
Source: ECB (Bank lending survey)

House prices rise for first time in five years, but risks remain for 2013



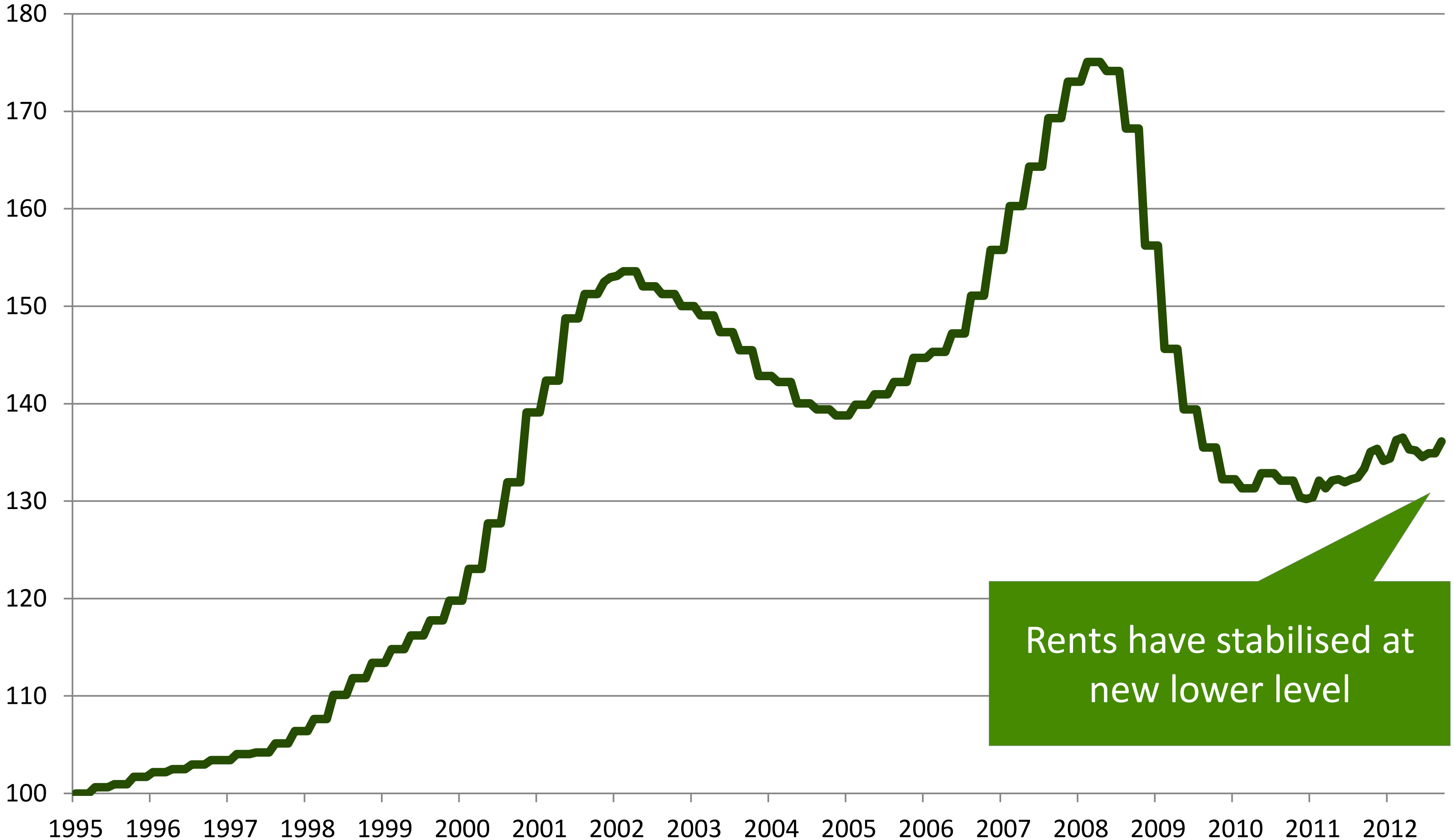
Source: CSO

House prices as a ratio of disposable income per capita nearly back to typical trough of 8-9x



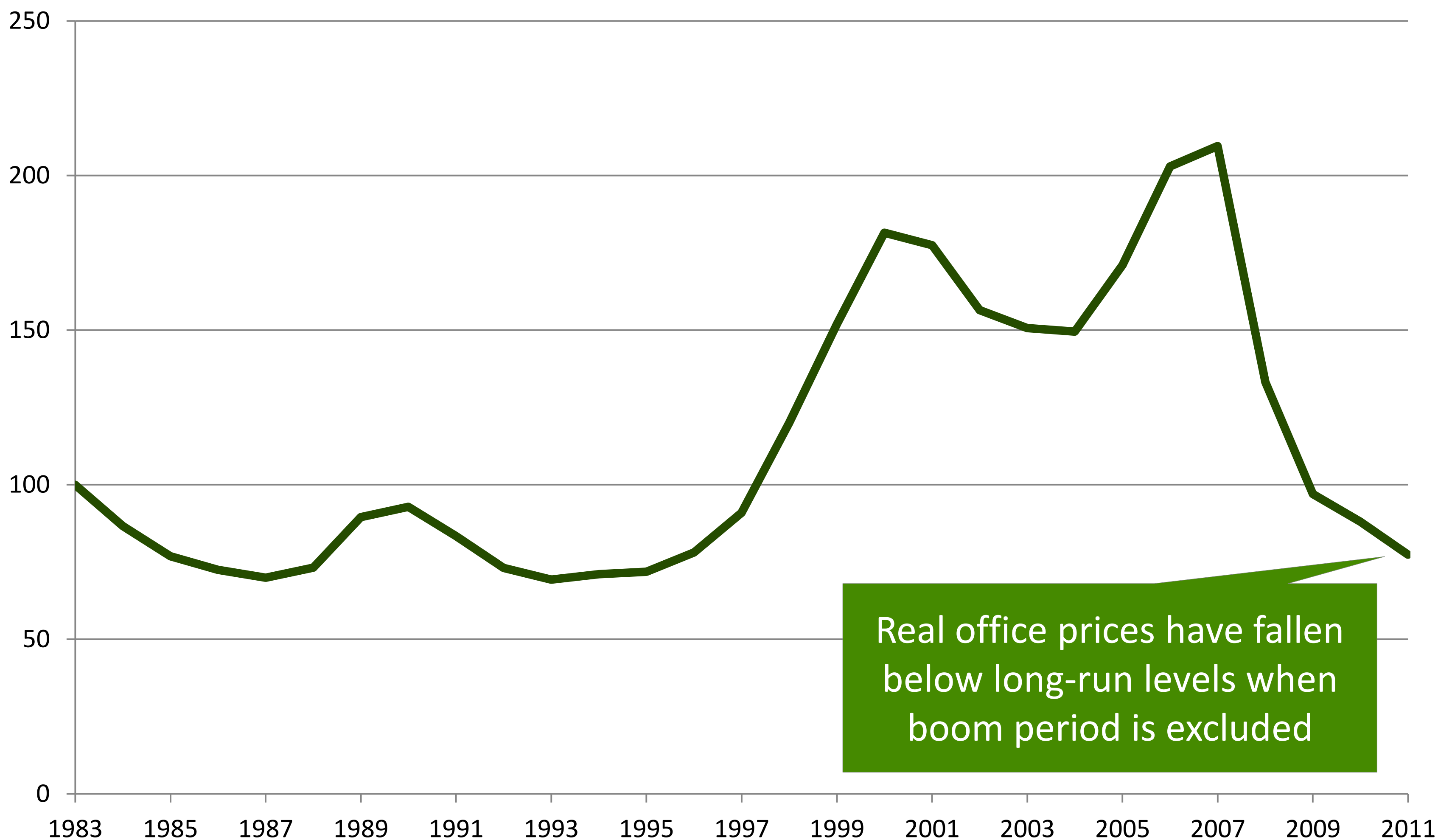
Source: CSO; NTMA

But private housing rents generally rising in last 12 months (CPI sub-index)



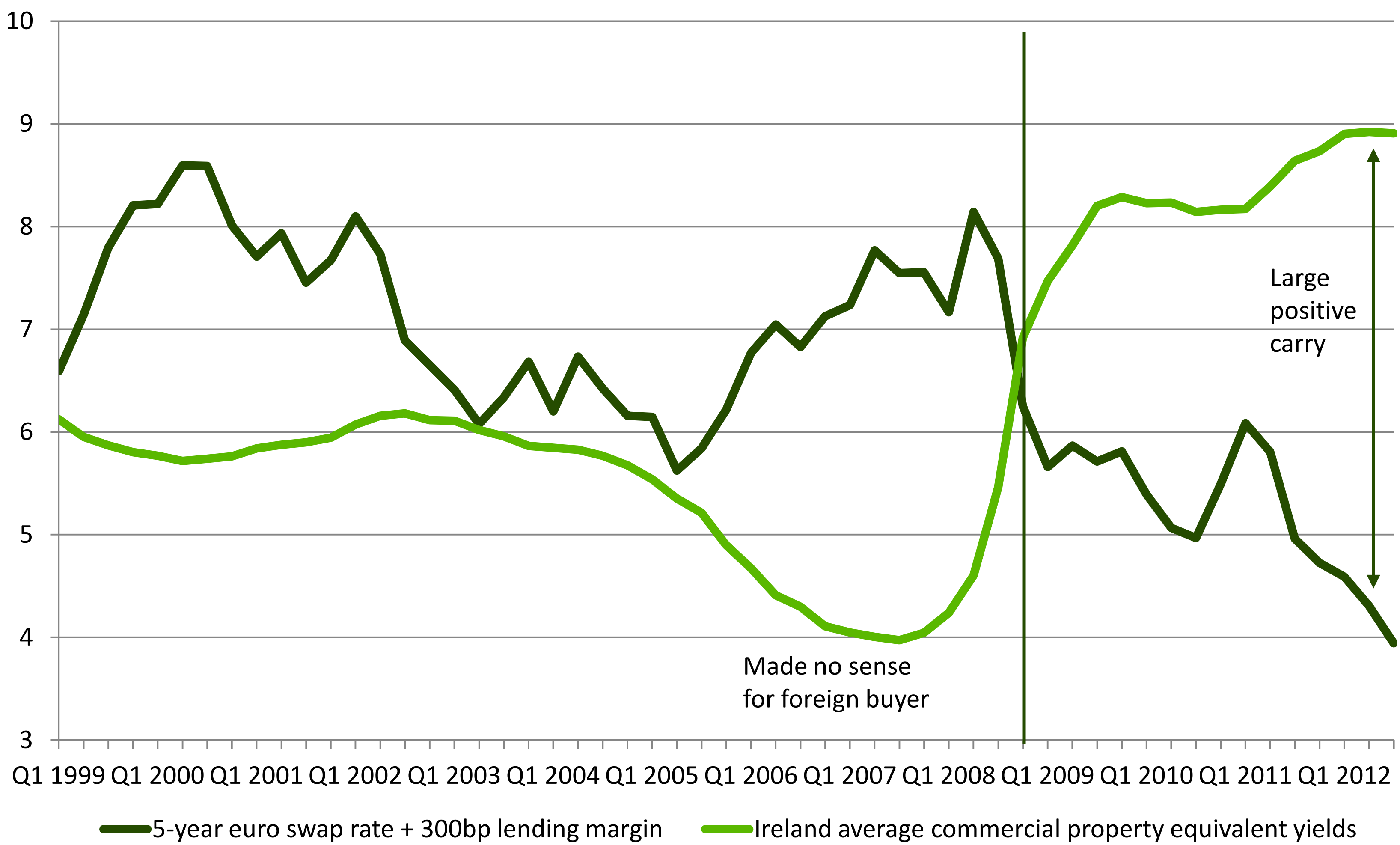
Source: CSO

Real commercial property prices in 2011 were down over 60 per cent from their peak (index 1983 = 100)



Source: IPD and NTMA

Foreign buyers now interested on valuation grounds



Source: IPD; NTMA

SECTION 6: NAMA

NAMA is generating a healthy cash flow

NAMA: progress to end September 2012

- **NAMA's operating performance is strong**
  - Successfully acquired 12,000 loans (over 45,000 individual properties) related to **€73.8 billion** par of loans of 800 debtors for **€31.8 billion**
  - New organisation established from scratch (226 staff recruited with long standing experience in banking, asset management and property)
  - As of September month-end ,individual credit decisions totalled 16,000 – including €1.6 billion in development and working capital. **Over €10.5 billion in approved sales as at 30th September 2012**. €6.2billion have completed and the active disposal pipeline is estimated at €2.2bn

- **Senior debt redemption on track**
  - **Paid down €3.55 billion of NAMA debt** (€3.25billion NAMA Bonds and €0.3 billion to the State)
  - **Cash balances and liquid asset holding of €4.2 billion** as of 30th September 2012 (including CSA derivative collateral paid to the NTMA); €9.5 billion in cash generated by NAMA since inception
  - **Total cash flows in excess of €9.5bn have been generated** since March 2010, and NAMA currently has €4bn of cash on hand

NAMA: financial summary
2011 and H2 2012 financial results (€bn)

	2011 Full Year	2012 Half Year
Operating Profit before impairment	1.28	0.43
Incremental Impairment Charge	1.27	0.13
Deferred Tax Credit	0.24	0.13*
Net Profit After Tax	0.25	0.22
Cumulative Provisions	2.75	2.88
Net Capital Reserves	0.47	0.51

* Deferred Tax Release (Charge)
Source: NAMA

- **NAMA continues to generate Operating Profits after impairment** charges, despite unfavourable market movements
- **2011 Operating Profit €1.278bn** (before impairment charge of €1.267bn). Cumulative impairment of €2.75 bn to end of 2011
- **Management accounts for H1 2012 show an operating profit of €425m** before an incremental impairment charge of €129m

NAMA: Distribution of larger debtors

Nominal Debt	Number of debtors	Average nominal debt per debtor €m	Total nominal debt in this category €m
In excess of €2,000m	3	2,758	8,275
Between €1,000 and €2,000m	9	1,549	13,945
Between €500m and €999m	17	674	11,454
Between €250m and €499m	34	347	11,796
Between €100m and €249m	82	152	12,496
Between €50m and €100m	99	68	6,752
Between €20m and €50m	226	32	7,180
Less than €20m	302	7	2,117
TOTAL	**772**	**96**	**74,015**

Source: NAMA

NAMA: Strategy is three-pronged

- **Financing Strategy**
  - NAMA has approved the advance of over €1.6 billion in working and development capital, providing equity capital and credit facilities only where appropriate
- **Asset Disposal**
  - Will be orderly and phased to generate maximum return for taxpayer
  - 19% (Q3 2012) of original NAMA portfolio is performing.* That figure may rise, as business plans are approved or rejected.
- **Debt reduction targets; to reduce contingent liability of the Irish State**
  - By year-end 2013: €7.5bn of NAMA senior notes to be repaid; By year-end 2020 all of NAMA senior notes to be repaid

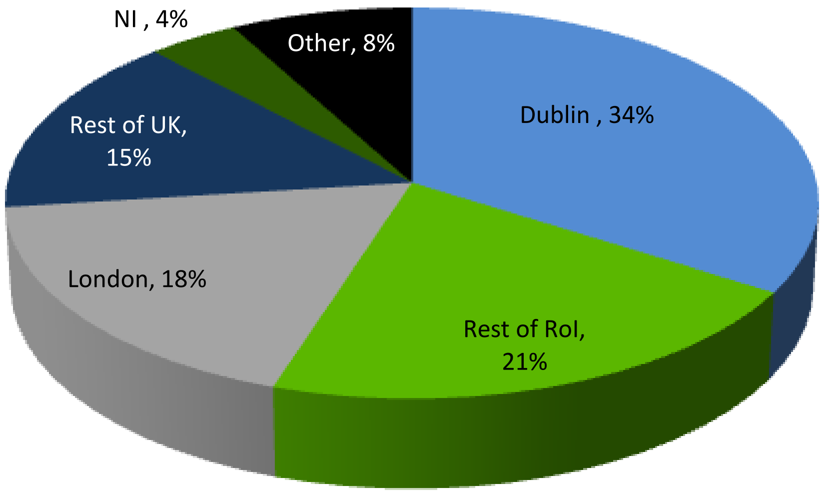
* This figure relates to legacy loan facility obligations and does not reflect acquired loan value

NAMA: strategic initiatives

- **Deferred Payment Initiative:** Offers price protection to residential buyers. Piloted in May with family homes in Greater Dublin and Cork. Second phase launched in October. Sales agreed or reservations placed on 81 properties (sales value €15.5m).
- **Vendor Finance:** Offers medium-term finance to commercial buyers. First transaction in April (Dublin 2 Offices). Others under consideration, including regional retail centre and IFSC properties.
- **Qualifying Investor Fund:** Offers reduced transaction risk and increased tax efficiency to institutional investors. NAMA to hold minority share. QIF Board to decide on acquisitions. Tender process for investment management and custodian services underway. NAMA to hold minority share. Q1 2013 launch.
- **Social Housing:** Offers long-term leasing options to local authorities. More than 3,800 units identified. Local authorities have assessed about 2,000 of these units and have confirmed demand for 1,600 of houses and apartments. NAMA facilitates direct engagement between Local Authorities and debtors (or receivers).
- **Public Bodies:** Works closely with public bodies to identify synergies between their needs and NAMA's property portfolio. All conducted on a commercial basis.

Original property portfolio by region

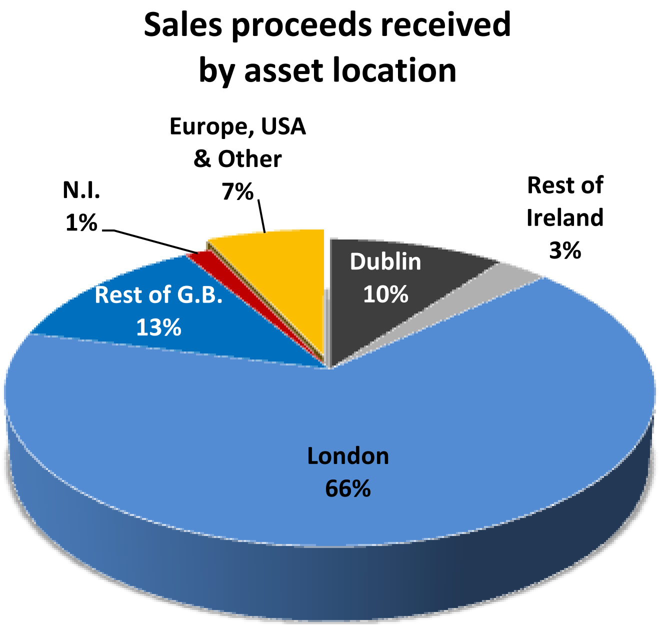
10,000+ properties, 45,000 units



Jurisdiction	Market value of assets (Nov. 2009) €bn	%
Ireland	17.5	54
Britain	10.9	34
Northern Ireland	1.3	4
Other	2.2	8
TOTAL	**31.8**	**100**

Source: NAMA

Asset disposals to end-August 2012

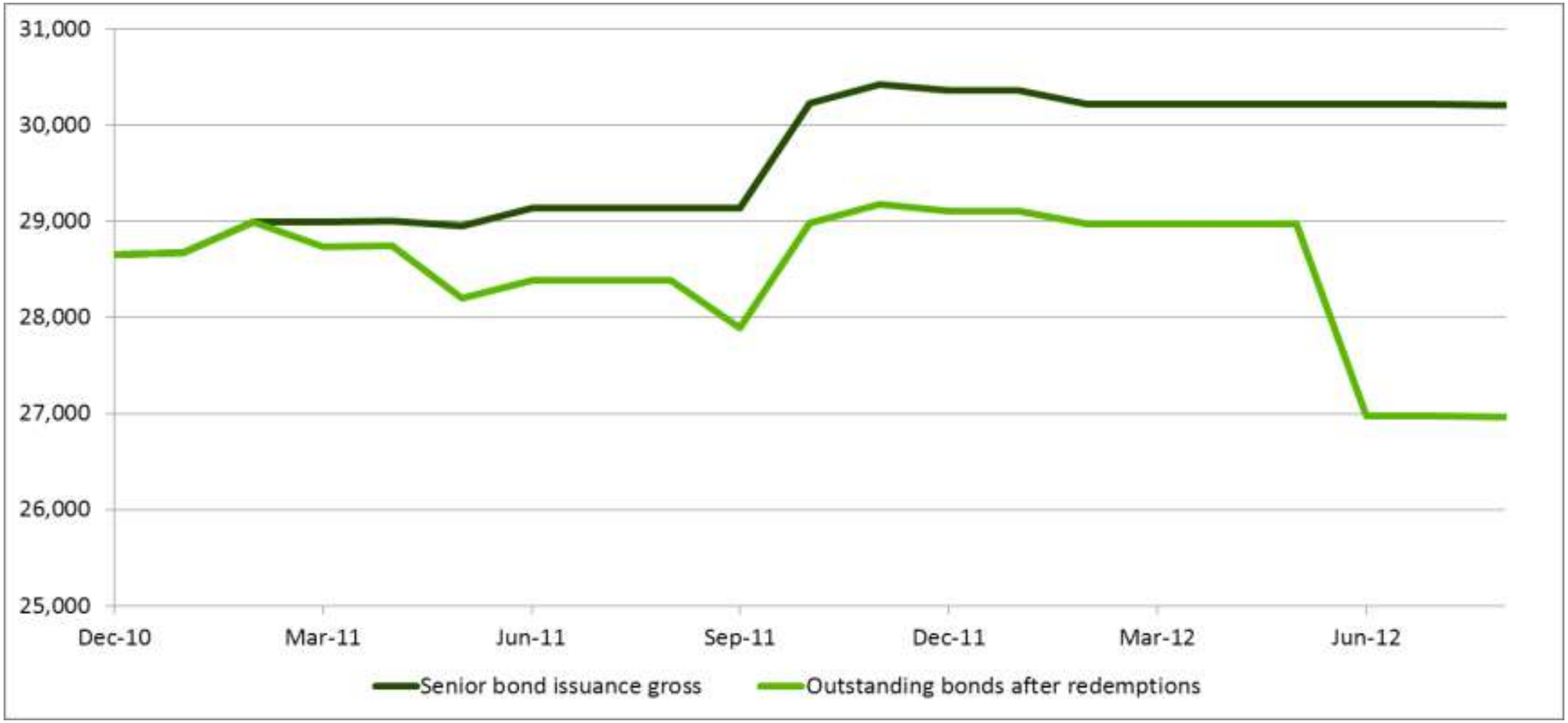


- Main focus to date on UK disposals due to liquidity etc.
- Increasing emphasis on Irish disposals in response to heightened international demand
- Current Status: €6.4bn generated in asset disposals to end-November 2012

Source: NAMA

Asset Type	Value €bn	%
Dublin	€0.6	10
Rest of Ireland	€0.2	3
London	€3.8	66
Rest of Great Britain	€0.7	13
Northern Ireland	€0.1	1
EU, USA and Other	€0.4	7
TOTAL	**€5.7**	**100**

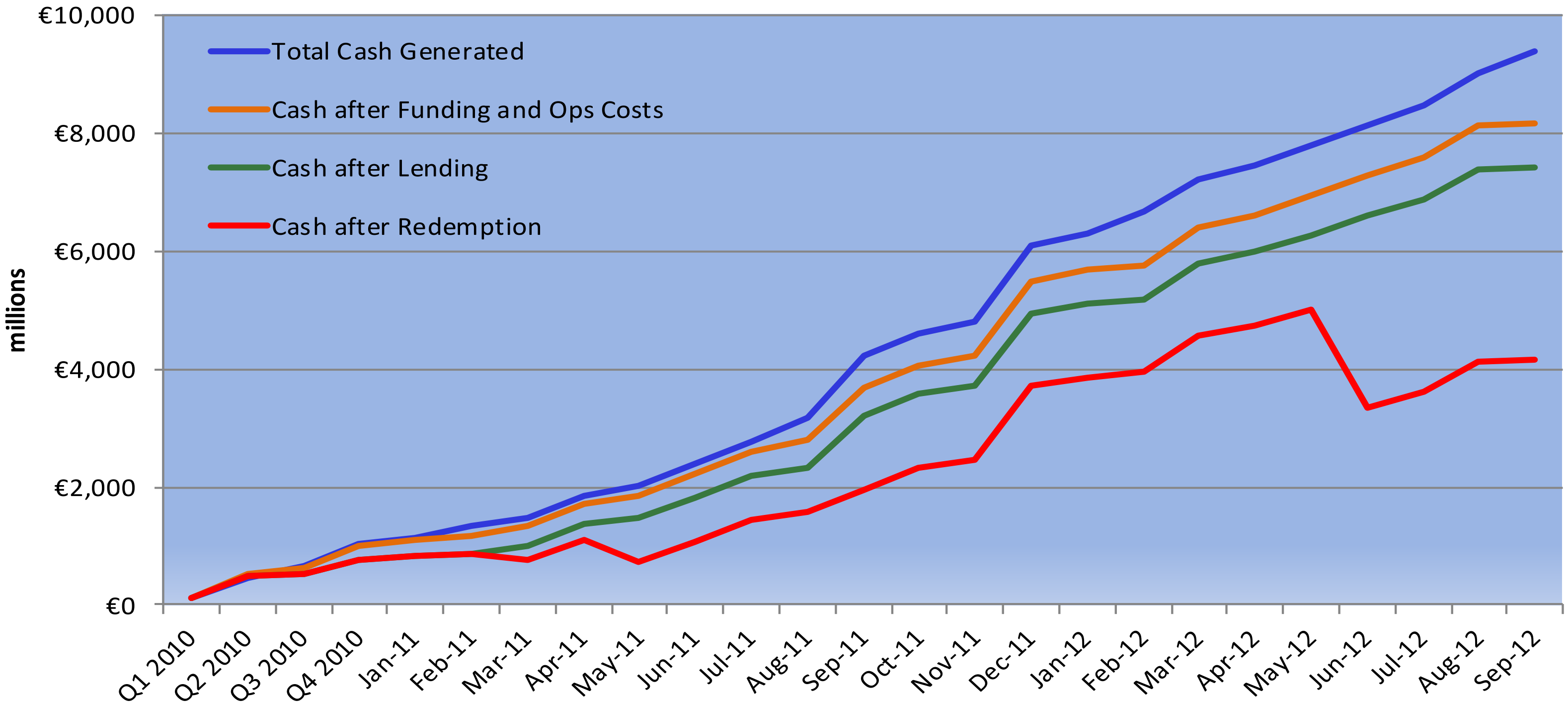
NAMA: Summary of bond activity since inception



Source: NAMA

- Senior notes in issuance at 30th September 2012 - €26.957bn
- Subordinated bonds in issuance at 30th September 2012 - €1.594bn
- Cumulative debt redemptions of €3.55 billion to date (on 27 June 2012 €2bn senior notes redeemed; total senior notes redeemed of €3.25bn)

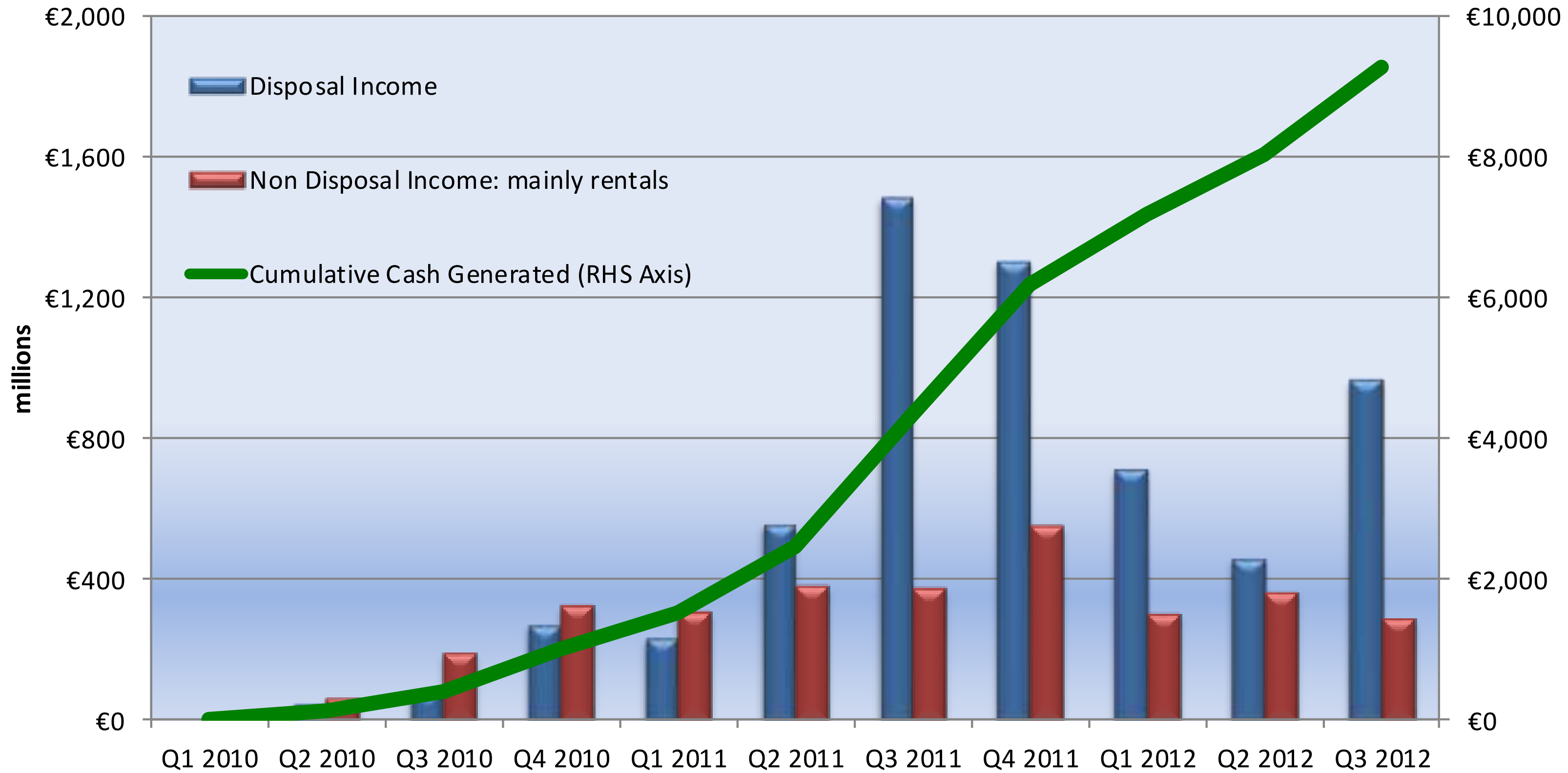
NAMA: Summary of cash flows since inception



Source: NAMA

- **Total cash generated of €9.5 billion between 31st Mar 2010 and 30th Sep 2012**
- Includes disposal proceeds €6.2 billion; Recurring income/other income €3.3bn
- NAMA senior debt redemptions of €3.25 billion to date
- Lending disbursement (new advances) of €0.75 billion
- Funding Costs (€0.78 billion) and miscellaneous/operating costs (€0.3 billion)
- Leaving net cash balances of €4.2 billion (including CSA collateral posting) as at 30th Sep 2012

NAMA: cash received disposal v. non-disposal income



Source: NAMA

- **Key feature is the level of non-disposal income**
  - €100m monthly run-rate of non-disposal income
  - Overall cash generation is very important to NAMA's future strategy,

NAMA: favourable property market measures in Budget 2012

- **Budget 2012 contained a number of significant measures aimed at boosting the property market**
  - Helped to boost NAMA's book of loan assets, underpin collateral in the banking system and brought forward mortgage demand
- **Stamp duty on commercial property cut from 6% to 2%**
  - Now lower than the current UK rate. Should boost overseas demand
- **NAMA can directly approve rent reductions with tenants of commercial properties under its control**
  - Changes to upward-only rent legislation shelved
- **Incentive Scheme**
  - Property bought before the end of 2013 will be exempt from CGT on sale as long as it is held for at least seven years

NAMA: future outlook

- **NAMA on plan to meet short-term debt redemption targets (€7.5bn by Dec 2013)**
  - Market restoration initiatives have commenced to support medium-term goals. Deferred payments, vendor finance and social initiatives are building momentum and will be supplemented by QIF in 2013
  - Possible introduction of REIT legislation
  - NAMA intends to make €2bn of vendor finance available between 2013 and 2016 to support disposal activities. The majority of new equity is expected early in the period, i.e. 2013-14. The initiative will widen the potential investor base, even where finance is offered but not accepted, and will help overcome weak credit availability.
  - NAMA intends to provide €2bn of development capital to projects in Ireland between 2013 and 2016 to support disposal and market restoration objectives.
  - Agency well positioned to achieve long-term objectives

NAMA information available on www.nama.ie

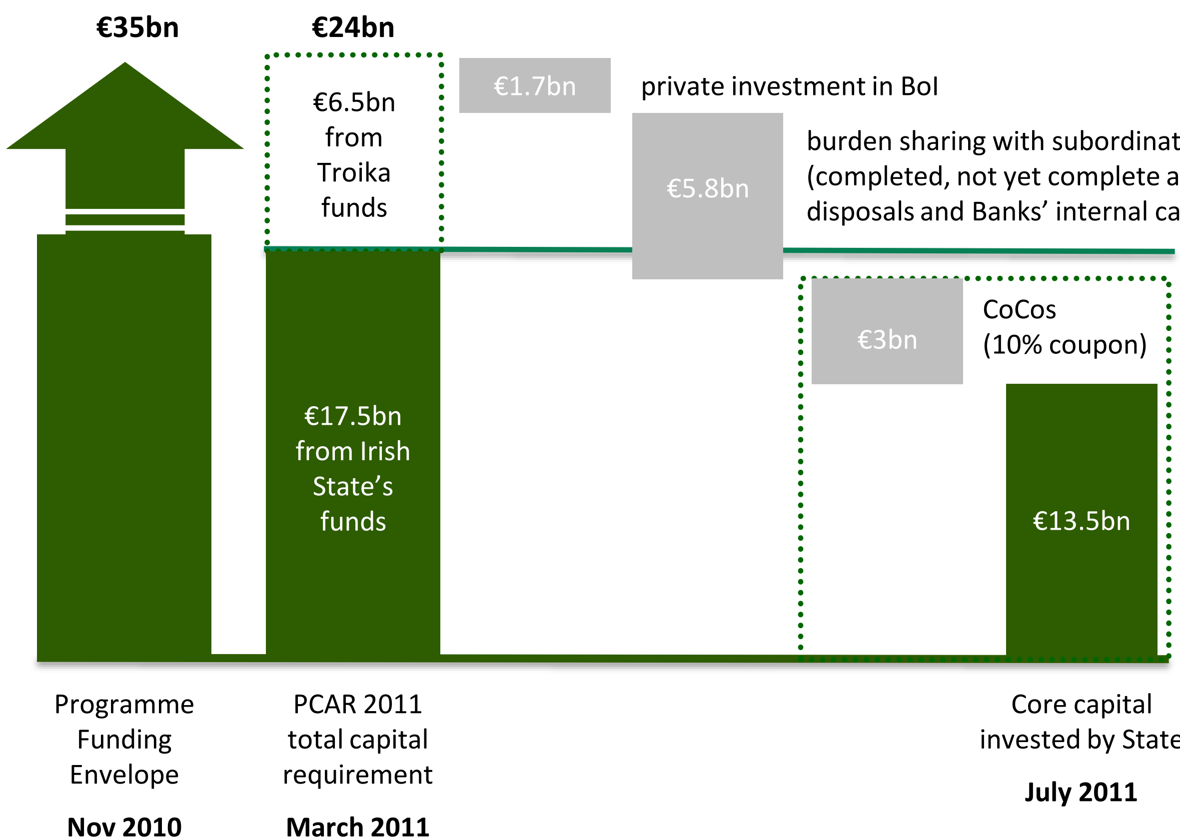
SECTION 7: BANKING*

Deleveraging plan well ahead of target and deposits are growing

* Most information in this section is provided by the banking unit of the Department of Finance

Lower cost to State of recapitalisation than expected at time of Programme launch

Recapitalisation completed on time and below expected costs



- €16.5bn total capital invested by State via NPRF; below €17.5bn assumed without need to draw on EU/IMF funds

Source: Department of Finance

* The State capital injections of €16.5bn (€13.5bn Equity and €3.0bn Contingent Capital) above exclude the €1.3bn cost that the State incurred in acquiring Irish Life in 2012

Gross domestic bank recapitalisation

€ bn	AIB/EBS	BoI	IL&P	IBRC	Total	% of GDP**
<u>Pre-PCAR 2011:</u>						
Government Preference Shares (2009) –NPRF	3.5	3.5*			7.0	4%
Ordinary Share Capital (2009) – Exchequer				4.0	4.0	3%
Promissory Notes (2010)	0.3			30.6	30.9	20%
Special Investment Shares (2010) – Exchequer	0.6			0.1	0.7	0%
Ordinary Share Capital (2010) –NPRF	3.7				3.7	2%
Total pre-PCAR 2011	**8.1**	**3.5**		**34.7**	**46.3**	**30%**
<u>PCAR 2011:</u>						
Capital from Exchequer	3.9		2.7		6.6	4%
NPRF Capital	8.8	1.2			10.0	6%
Total PCAR 2011	**12.7**	**1.2**	**2.7**		**16.5**	**11%**
Purchase of Irish Life			1.3		1.3	
Total Recapitalisation from the State	**20.8**	**4.7**	**4.0**	**34.7**	**64.1**	**41%**
<u>Source of Funds:</u>						
Promissory Notes	0.3			30.6	30.9	20%
Exchequer	4.5		4.0	4.1	12.6	8%
NPRF	16.0	4.7			20.7	13%

Source: Department of Finance

**€1.7bn of BoI's government preference shares were converted into ordinary shares in May/June 2010 (€1.8bn government preference shares remain in existence).*
*** 2011 GDP*

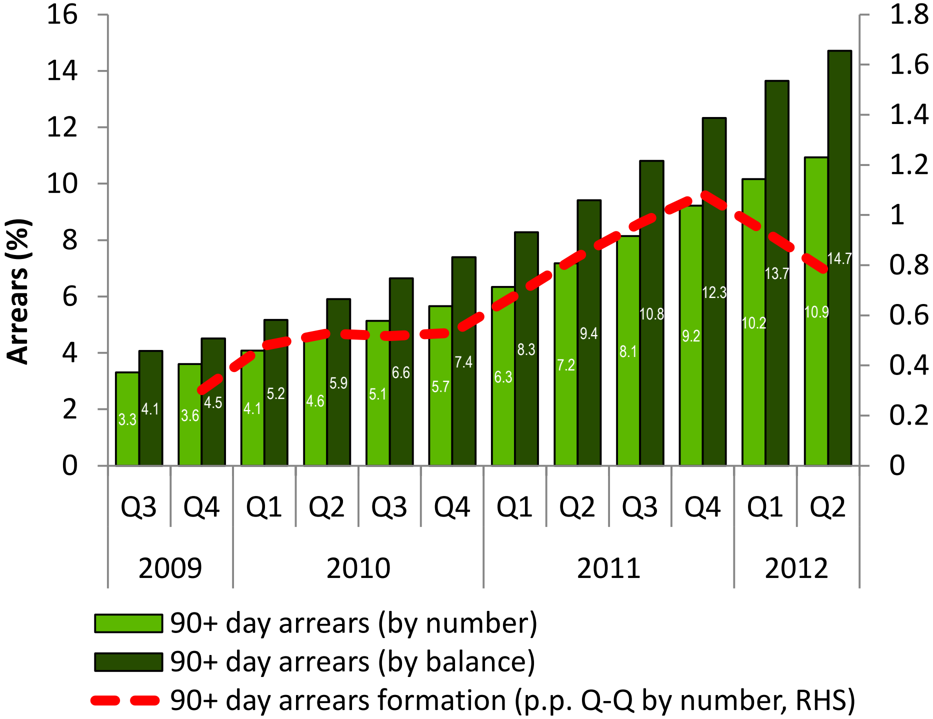
Ireland took the necessary step of heavily-capitalising its domestic banks;

The current cost of bank recaps amount to c.41% of 2011 GDP;

As other European nations now face similar obstacles to Ireland, Europe is seeking alternative ways of breaking the sovereign-bank links

Irish residential mortgage arrears – still challenging

Irish Mortgage Arrears – owner occupier



Source: Central Bank of Ireland (CBI)

PCAR Bank NPLs (90+ arrears/impaired)

€m		Dec-11	Jun-12
AIB	NPL	6,453	7,582
	Total mortgages (€m)	41,667	41,093
	%	15.5%	18.5%
BOI	NPL	2,708	3,324
	Total mortgages (€m)	27,854	27,582
	%	9.7%	12.1%
PTSB	NPL	4,378	5,064
	Total mortgages (€m)	25,419	25,011
	%	17.2%	20.2%
Total	**NPL**	**13,539**	**15,970**
	Total mortgages (€m)	**94,940**	**93,686**
	%	**14.3%**	**17.0%**

Source: Published accounts

- Central Bank arrears figures cover the Irish market and are for owner occupiers only. Arrears are still rising, albeit at a slower pace and early arrears numbers are also slowing.
- A more complete picture of the PCAR banks can be garnered from their published accounts. At June 2012, NPLs - defined here as arrears >90 days/impaired loans – amounted to 17.0% of the book.

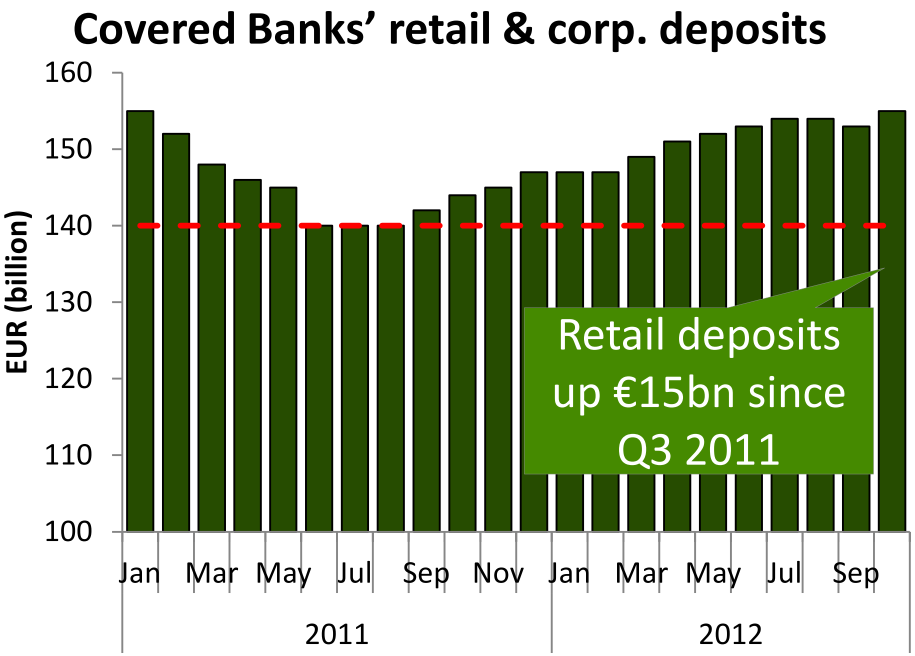
Asset quality reflects huge losses already recognised; Sovereign linkages are being removed

Impaired loans at PCAR banks (group)

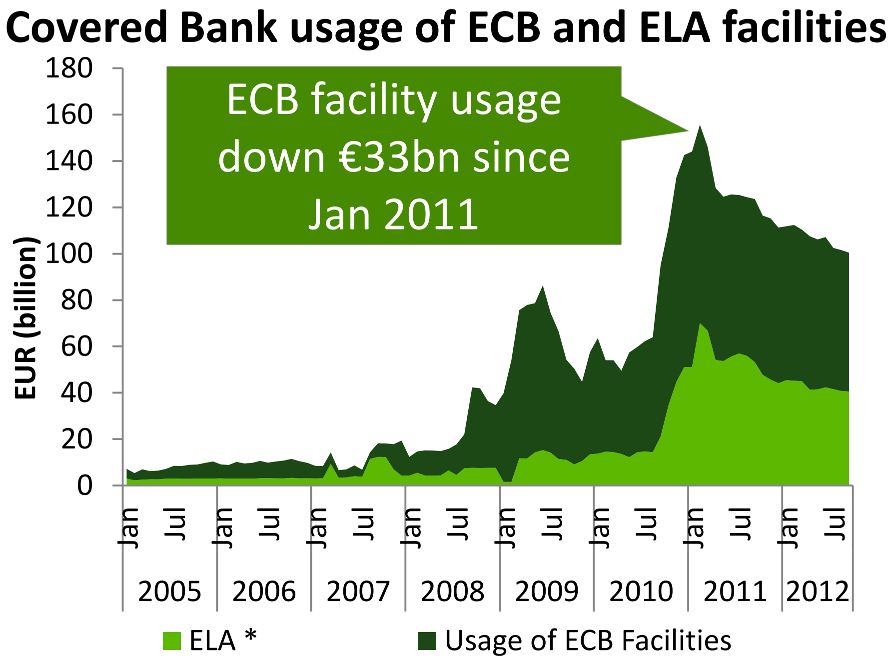
€m		Dec-11	Jun-12
AIB	Impaired	24,833	26,807
	Total Loans	98,687	95,365
	%	25.2%	28.1%
BOI	Impaired	13,478	15,422
	Total Loans	108,102	104,591
	%	12.5%	14.7%
PTSB	Impaired	4,030	5,387
	Total Loans	35,772	35,746
	%	11.3%	15.1%
Total	**Impaired**	**42,341**	**47,616**
	Total Loans	**242,561**	**235,702**
	%	**17.5%**	**20.2%**

Source: Department of Finance & published bank accounts

Bank deposits have stabilised / Drawings on ECB facilities reduced



Source: CBI & DoF (excludes (i) NTMA pre-recapitalisation deposits, (ii) AIB Poland)



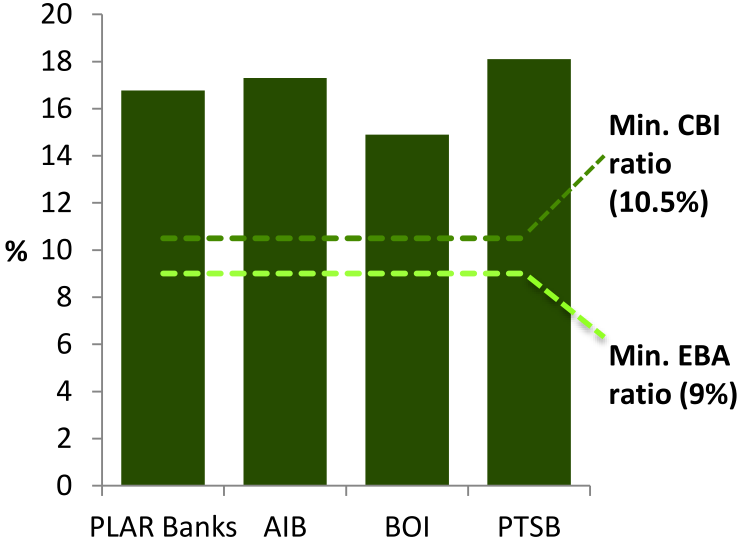
Source : CBI (* ELA proxied by sum of CBI's other claims on euro area credit institutions and other assets)

- As of end-October Covered Banks 'deposits were up €8bn for the year to date and €6.1bn on a constant currency basis.
- Large reduction in State support with guarantees falling from a peak of c.€375bn (Sep '08) to c.€78bn (Sep '12)
- BOI and AIB have raised €1.5bn of covered bond funding

- Covered Banks' usage of ECB repo facilities has significantly fallen:
- Total ECB repo usage reduced to c.5% of total Eurosystem funding from a 2011 peak of c.18.1%
- Total usage has fallen to €60bn from €93bn
- ELA usage has also fallen substantially, down from c.€70bn to c.€41bn*

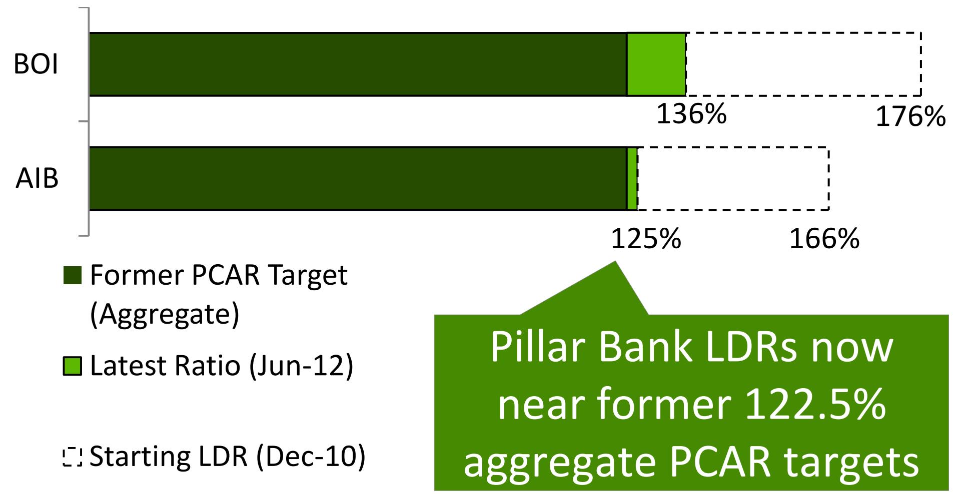
Capital ratios and loan-to-deposit ratios strengthened

Core Tier 1 Capital Ratios (June 2012)



Source: Published bank accounts

Loan-to-Deposit Ratios (Dec-10 to June 2012)

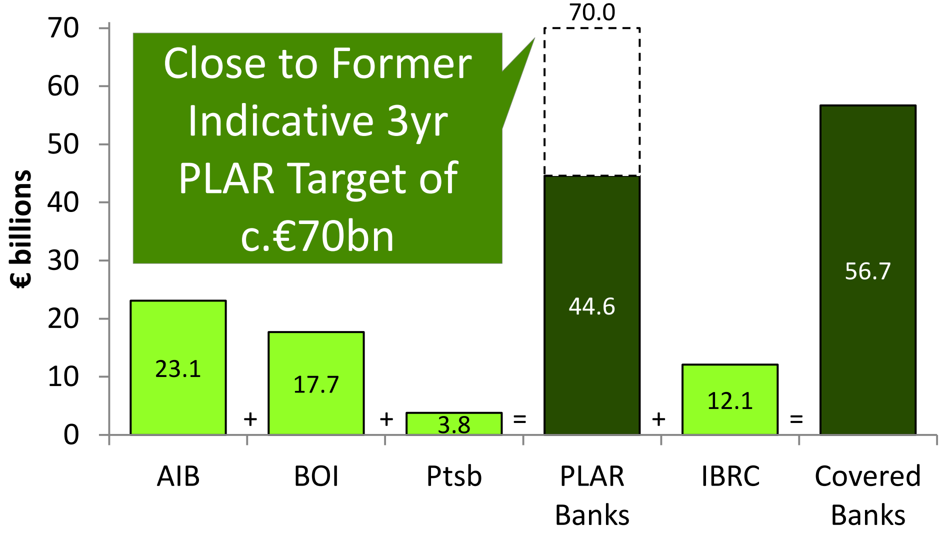


Source: Published bank accounts

- Core Tier 1 capital ratios at the PLAR banks remain well above minimum requirements and among best-capitalised in Europe, with significant buffers available for future losses
- Pillar bank LDRs are close to the former PCAR targets, but agreement has since been secured to streamline the deleveraging framework and remove LDR targets to minimise risks to lending and deposit pricing distortions
- Deleveraging will now be assessed based on the ‘existing nominal targets for disposal and run-offs of non-core assets in line with the 2011 Financial Measures Programme while avoiding fire sales of assets’ (MEFP 4)

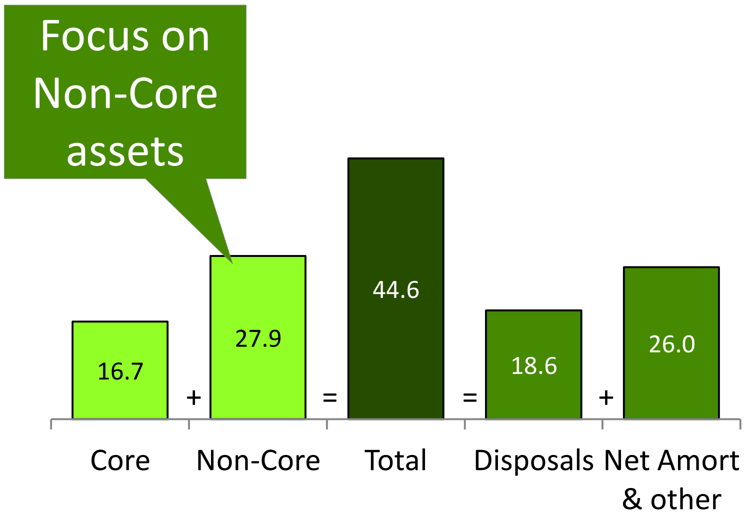
Deleveraging programs continue to progress

Bank deleveraging from Dec-10 to June 2012



Source: Department of Finance

PLAR Banks reduction split



Source: Department of Finance

- **Total cumulative covered bank deleveraging to end-June 2012 of €56.7bn**
- Successfully completed disposals concentrated at Pillar banks (AIB and BOI)
- Discounts incurred on disposals calculated off gross loan book values: **AIB (6.0%), BOI (7.9%)**
- **Ptsb programme largely postponed pending EC's decision on restructuring plan** (progress even stronger excluding this)

- **PLAR Bank deleveraging driven by:**
- Non-core loan portfolio & business sales (42%), amortisation and other items (58%)
- **Several billion of further disposals on track for completion by Dec-12**

SME credit and lending

- The SME sector (firms with <250 employees) accounts for approximately 72% of private sector employees and 52% of economic activity
- The Credit Review Office (CRO) reviews decisions by banks to refuse, reduce or withdraw credit facilities from €1,000 up to €500,000
- CRO is **overturning 56% of the decisions referred to them**, supplying €9.6m of credit, supporting 859 jobs in the SME sector to date
- Pillar banks report **in excess of 80% of SME formal loan applications are receiving credit**
- Other key policy initiatives include the introduction of demand surveys for SME credit, regional meetings on Credit Supply Reports, SME Credit Consultation Committee, Temporary Partial Credit Guarantee Scheme and Microfinance Loan Fund

Mortgage arrears – policy responses

- **Engagement with the banks – Central Bank**
  - Lenders have submitted loan modification and resolution options
  - Ipsos MRBI engaged to conduct Household Income Survey
  - Mortgage Arrears Resolution Strategies in place:
    - Code of Conduct on Mortgage Arrears
    - Mortgage Arrears Resolution Process
- **Mortgage to Rent Scheme – D/Environment**
  - Launched in June 2012
  - Involvement of 12 Approved Housing Bodies
  - Involves loss of ownership for those facing repossession by banks
  - Debtors become social housing tenants
  - 492 cases put forward by lenders, 202 cases being progressed through the Housing Agency

…For more details on mortgage arrears policies, see Department of Finance Presentation Oct-12

Main provisions of *proposed* Personal Insolvency Bill

Personal Insolvency Arrangement (PIA)

Insolvent Debtor

€20,000 - €3,000,000

Secured/ Unsecured (>6yrs)

Applies via personal insolvency practitioner to

Personal Insolvency Service

Approved

Debt settlement/restructuring mechanism provided. Family home protected, protected from action by all bound creditors & covered unsecured debts discharged after supervision period **if conditions met**

Not Approved

Exposed to creditor action and possible bankruptcy with discharge period of 3yrs

Alternative mechanisms:

Debt Settlement Arrangement (DSA)
>€20,000, Unsecured (>5yrs)
Debtor obliged to pay agreed amount for up to 5/6 years
Remainder of debts discharged at end of period

Debt Relief Notice
No income/assets
<€20,000, Unsecured
Write-off of qualifying debts subject to supervision period

- DSA process similar to PIA; both require approval of 65% of creditors (by value)
- Bill – Committee stage passed and expected to be enacted in December 2012
- Personal Insolvency Service to be established and operative for Q1 2013

APPENDIX

Additional banking data

Summary balance sheets of "covered banks" June 30th 2012 (including consolidated IBRC)

€m	AIB	BOI	IBRC	ILP	
As at:	**30-June-12**	**30-June-12**	**30-June-12**	**30-June-12**	**Total**
Assets:					
Loans and advances to customers*	77,982	96,978	15,565	32,878	223,403
Promissory notes	-	-	27,785	-	27,785
NAMA notes	18,387	4,684	-	-	23,071
Loans and advances to banks	5,375	11,216	2,093	2,691	21,375
Available for sale assets	13,605	11,890	4,530	421	30,446
Other assets	10,224	22,058	3,184	7,777	43,243
Cash	4,286	11,012	8	59	15,365
Total assets	**129,859**	**157,838**	**53,165**	**43,826**	**384,688**
Liabilities:					
Deposits from banks	31,279	34,527	45,470	14,332	125,608
Customer accounts	63,564	71,657	518	17,267	153,006
Debt securities in issue	12,392	18,015	1,360	7,907	39,674
Subordinated liabilities	1,242	1,458	533	346	3,579
Other liabilities		10,609		897	11,506
Other Liabilities - Life	8,117	12,681	2,550	-	23,348
Total liabilities	**116,594**	**148,947**	**50,431**	**40,749**	**356,721**
Total equity	**13,265**	**8,891**	**2,734**	**3,077**	**27,967**
Total liabilities and equity	**129,859**	**157,838**	**53,165**	**43,826**	**384,688**

Source: Department of Finance; Published accounts as at 30/06/12

Loan book analysis

Total loans (€bn)	AIB	BOI	ILP	Total
Residential mortgages	45	57	33	135
Corporate	8	12	0	19
SME	16	15	0	31
CRE	25	21	2	47
other	5	3	1	9
Total (Dec 2011)	**99**	**108**	**36**	**241**

Source: Company Data Annual Reports

Mortgage analysis (€bn)	AIB	BOI	ILP	Total
Irish owner occupier	32	21	20	72
Irish Buy-to-let	10	7	6	23
Total Irish	42	28	26	95
UK owner occupier	3	15	0	20
UK Buy-to-let	0	12	7	19
Total UK	3	29	7	39
Total residential mortgages (Dec 2011)	**45**	**57**	**33**	**135**

Source: Annual Reports

Central bank 2011 - 2013 projected losses under adverse scenario

Projected stressed losses derived from bottom-up analysis of loan data by Blackrock Solution

€bn	**AIB**	**BOI**	**ILP**	**EBS**	**Total**
Residential mortgages	3	2.4	2.7	1.4	9.5
Corporate	1	1.1	0	0	2.1
SME	2.7	1.8	0	0	4.5
CRE	4.5	3.9	0.4	0.2	9.0
other	1.4	0.9	0.3	0	2.6
Total	**12.6**	**10.1**	**3.4**	**1.6**	**27.7**
% of loan book					
Residential mortgages	9.9%	3.9%	7.9%	8.7%	6.7%
Corporate	4.7%	5.2%	0.0%	0.0%	4.9%
SME	13.9%	10.6%	0.0%	0.0%	12.3%
CRE	26.2%	18.8%	19.5%	23.4%	22.1%
other	25.0%	16.4%	20.7%	0.0%	20.7%
Total	**13.4%**	**8.0%**	**9.1%**	**9.4%**	**10.1%**

Source: PCAR 2011

- The €27.7bn of projected losses is significantly more conservative than the banks' own forecast provisions over the same period (c. €22bn) and is designed to add to the credibility of the tests
- The losses are projected on a "repossess and sale" approach using stressed property values with little recognition of customer repayment capacity, incorporating the write-down experience of foreign jurisdictions (UK repossession levels)
- Negative equity (as opposed to unemployment levels) had a large bearing on forecast residential loan losses
- Modelled rental income declines assumed on commercial real estate (with little regard to sustainable cash flows from actual lease contracts)

Projected adverse case losses by bank and portfolio used for capital purposes (derived from BlackRock analysis)

Product		AIB	BOI	ILP	EBS	Total	
Residential Mortgages	BlackRock lifetime loan losses post-deleveraging	4,908 *(15.8%)*	4,286 *(7.2%)*	5,209 *(15.4%)*	2,495 *(15.7%)*	9,925 *(7.1%)*	16,898 *(12%)*
	CB three-year projected losses	3,066 *(9.9%)*	2,366 *(3.9%)*	2,679 *(7.9%)*	1,380 *(8.7%)*	5,838 *(4.1%)*	9,491 *(6.7%)*
Corporate	BlackRock lifetime loan losses post-deleveraging	1,133 *(5.5%)*	1,379 *(6%)*	0 *(0%)*	0 *(0%)*	1,608 *(3.7%)*	2,512 *(5.8%)*
	CB three-year projected losses	972 *(4.7%)*	1,179 *(5.2%)*	0 *(0%)*	0 *(0%)*	1,362 *(3.1%)*	2,151 *(4.9%)*
SME	BlackRock lifetime loan losses post-deleveraging	4,085 *(21.2%)*	2,871 *(16.6%)*	0 *(0%)*	0 *(0%)*	5,398 *(14.8%)*	6,956 *(19%)*
	CB three-year projected losses	2,674 *(13.9%)*	1,837 *(10.6%)*	0 *(0%)*	0 *(0%)*	3,603 *(9.9%)*	4,511 *(12.3%)*
CRE	BlackRock lifetime loan losses post-deleveraging	4,717 *(27.5%)*	4,950 *(24.2%)*	411 *(20.1%)*	225 *(26.7%)*	8,114 *(20.1%)*	10,303 *(25.5%)*
	CB three-year projected losses	4,490 *(26.2%)*	3,847 *(18.8%)*	400 *(19.5%)*	197 *(23.4%)*	7,159 *(17.7%)*	8,934 *(22.1%)*
Non-mortgage Consumer and Other	BlackRock lifetime loan losses post-deleveraging	1,674 *(29.8%)*	1,332 *(24.5%)*	444 *(26.8%)*	0 *(0%)*	2,477 *(19.5%)*	3,450 *(27.1%)*
	CB three-year projected losses	1,403 *(25%)*	891 *(16.4%)*	342 *(20.7%)*	0 *(0%)*	2,052 *(16.1%)*	2,635 *(20.7%)*
Total	BlackRock lifetime loan losses post-deleveraging	16,517 *(17.6%)*	14,819 *(11.8%)*	6,064 *(16.1%)*	2,719 *(16.3%)*	27,522 *(10%)*	40,119 *(14.6%)*
	CB three-year projected losses	12,604 *(13.4%)*	10,119 *(8%)*	3,421 *(9.1%)*	1,577 *(9.4%)*	20,014 *(7.3%)*	27,722 *(10.1%)*

Source: PCAR 2011

Projected adverse case mortgage book losses used for capital purposes derived from BlackRock

		AIB	BOI	ILP	EBS	Total
Ireland	BlackRock lifetime loan losses post-deleveraging	4,846 *(17.6%)*	3,836 *(13.7%)*	5,103 *(19.4%)*	2,495 *(15.7%)*	16,280 *(16.7%)*
	CB three-year projected losses	3,007 *(10.9%)*	2,016 *(7.2%)*	2,594 *(9.9%)*	1,380 *(8.7%)*	8,997 *(9.2%)*
Owner Occupier	BlackRock lifetime loan losses post-deleveraging	2,968 *(14.7%)*	2,075 *(9.9%)*	2,975 *(15.3%)*	2,164 *(15.5%)*	10,181 *(13.7%)*
	CB three-year projected losses	1,791 *(8.9%)*	1,115 *(5.3%)*	1,598 *(8.2%)*	1,164 *(8.3%)*	5,668 *(7.6%)*
Buy-to-Let	BlackRock lifetime loan losses post-deleveraging	1,879 *(25.5%)*	1,761 *(24.9%)*	2,128 *(30.8%)*	331 *(17.1%)*	6,099 *(26.2%)*
	CB three-year projected losses	1,216 *(16.5%)*	901 *(12.7%)*	996 *(14.4%)*	216 *(11.2%)*	3,330 *(14.3%)*
UK	BlackRock lifetime loan losses post-deleveraging	62 *(1.8%)*	451 *(1.4%)*	106 *(1.4%)*	0 *(-)*	619 *(1.4%)*
	CB three-year projected losses	59 *(1.7%)*	350 *(1.1%)*	85 *(1.1%)*	0 *(-)*	494 *(1.1%)*
Owner Occupier	BlackRock lifetime loan losses post-deleveraging	37 *(1.2%)*	112 *(0.6%)*	6 *(1.3%)*	0 *(-)*	156 *(0.7%)*
	CB three-year projected losses	34 *(1.1%)*	92 *(0.5%)*	5 *(1.1%)*	0 *(-)*	131 *(0.6%)*
Buy-to-Let	BlackRock lifetime loan losses post-deleveraging	25 *(5.2%)*	338 *(2.9%)*	100 *(1.4%)*	0 *(-)*	462 *(2.4%)*
	CB three-year projected losses	25 *(5.3%)*	259 *(2.2%)*	79 *(1.1%)*	0 *(-)*	363 *(1.9%)*
Total Residential Mortgages	BlackRock lifetime loan losses post-deleveraging	4,908 *(15.8%)*	4,286 *(7.2%)*	5,209 *(15.4%)*	2,495 *(15.7%)*	16,898 *(12.0%)*
	CB three-year projected losses	3,066 *(9.9%)*	2,366 *(3.9%)*	2,679 *(7.9%)*	1,380 *(8.7%)*	9,491 *(6.7%)*

Source: PCAR 2011