National Treasury Management Agency

IRELAND: REGAINING CREDITWORTHINESS

Ireland’s market recovery continues, evidenced by normal issuance in January 2013 and positive reaction to Promissory Note deal

February 2013

Index

SUMMARY

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

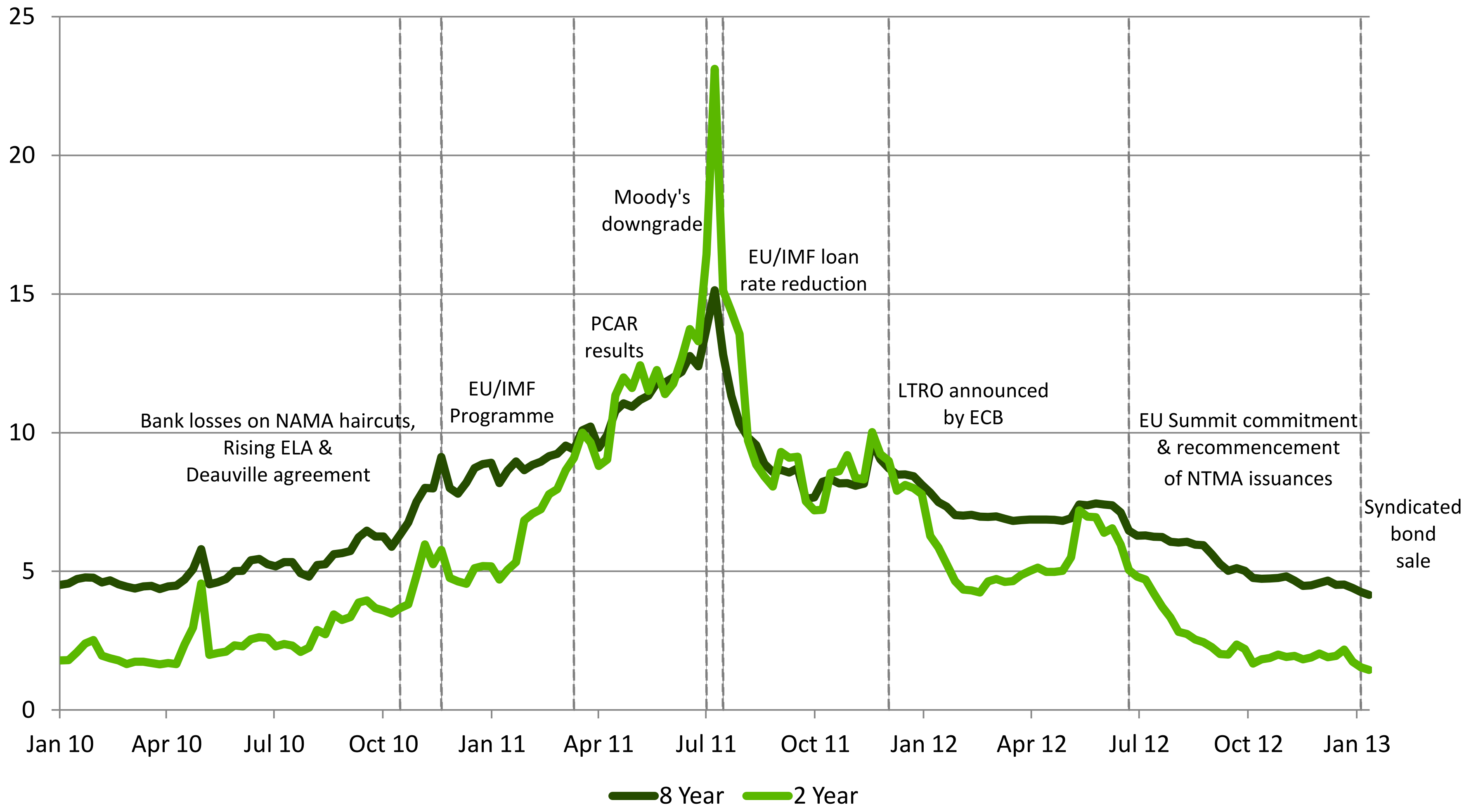
Ireland continued its macro/fiscal recovery in 2012

- **Government deficit set to dip under 8% for 2012 when final outturn revealed in April, beating target by wide margin again**
  - EDP deficit target was -8.6% of GDP for 2012. Final year Exchequer numbers suggest Budget estimate of -8.2% was quite conservative. Exchequer deficit at year-end fully 0.5% of GDP better than estimated on December 5th
  - Troika’s specific quarterly fiscal targets met every time during Programme
- **Second consecutive year of GDP growth certain for 2012**
  - Export growth remained resilient in 2012, despite weak trading partner demand; Ireland’s forecast GDP growth among highest in euro area
  - Domestic demand beginning to bottom based on recent indicators
- **Bank deleveraging plan has continued apace and other contingent liabilities reduced sharply**
  - Pillar bank deleveraging almost complete by end-2012 ahead of 2013 target
  - State has reformed insolvency laws to deal with mortgage debt overhang
  - Ireland's main contingent liability being reduced: NAMA is well on track to repay €7.5bn by 2013 of its senior bonds (repaid €4.75bn by end-2012)
  - ELG liability down to €73bn by end-2012 (mainly deposits over 100k). Ending of ELG scheme after 28th March 2013 for new liabilities marks significant step towards banking system normalisation

NTMA plans to normalise market access in 2013

- **NTMA issued conventional bond through syndication in January 2013**
  - Sold €2.5bn of 2017 bond at 3.32% through syndicate of five primary dealers: the first such syndicated deal for three years
  - Investor spread was broad-based and skewed towards real money accounts across the UK, euro area and US
  - This followed the return to the Treasury Bill and bond market in 2012
- **Next steps towards sustainable market re-entry in early 2013**
  - Continue regular schedule of Treasury Bill auctions - rate dropped to 0.2% as of the fifth/sixth auctions (Jan/Feb 2013) from 1.8% at the first one (Jul 2012)
  - Continue to engage with investors on a regular basis (the NTMA conducted two non-deal roadshows a year during both 2011 and 2012)
  - Consider the launch of a benchmark 10-year bond during 2013; issuance in dollars and of an inflation-linked bond also possible
- **Further reduction in legacy cost to State of banking clean-up would help**
  - Promissory note transaction of early February 2013 yields substantial benefits
  - EU summit commitment of 29 June 2012 to break “vicious circle between banks and sovereigns” would further improve debt sustainability as would extension of debt stock maturity
  - Clarity on Ireland's eligibility for ECB’s new Outright Monetary Transactions (OMT) would be helpful to underpin sustainable market re-entry

Irish bond market recovery continues in 2012 (yld: %)

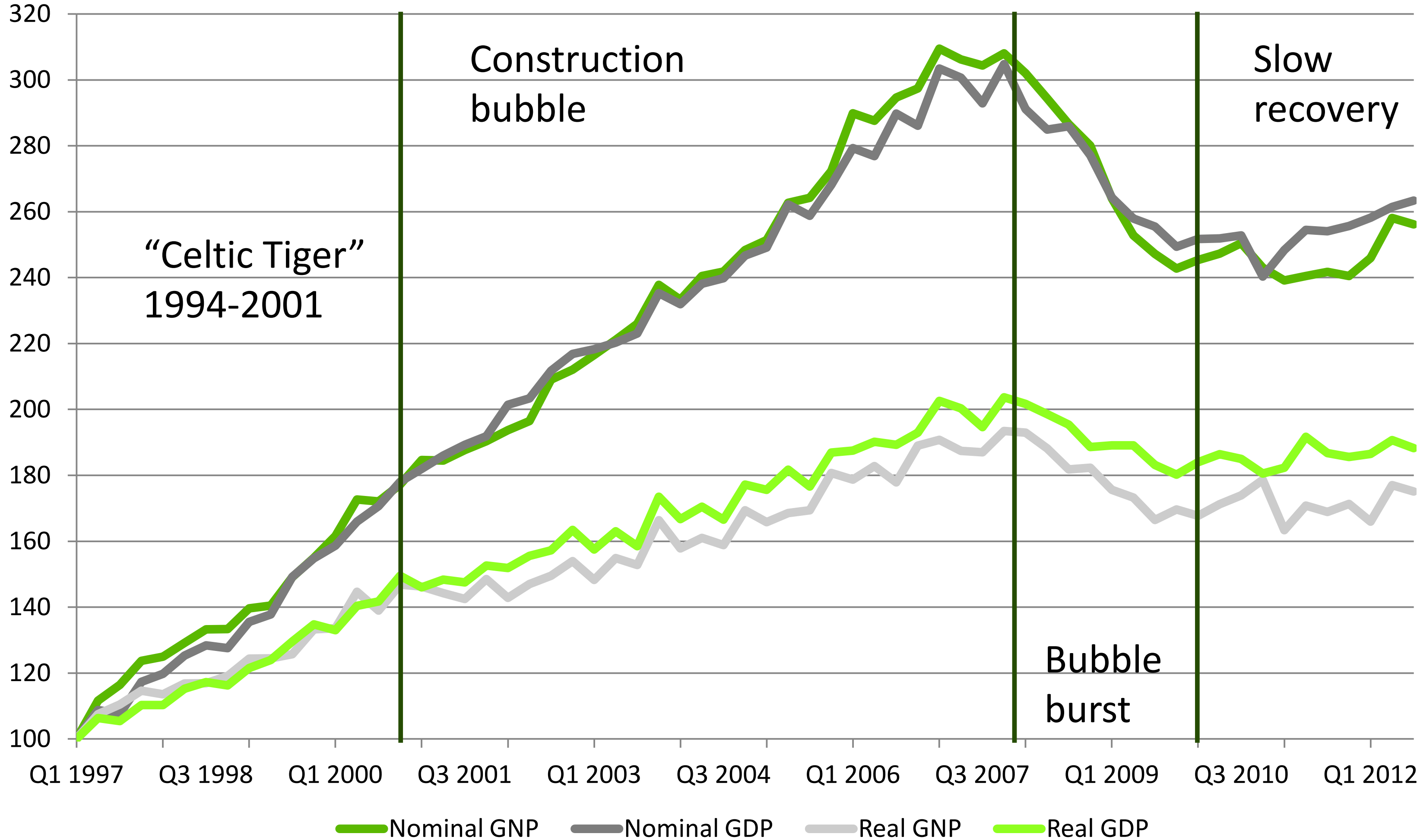


Source: Bloomberg (weekly data)

SECTION 1: MACRO

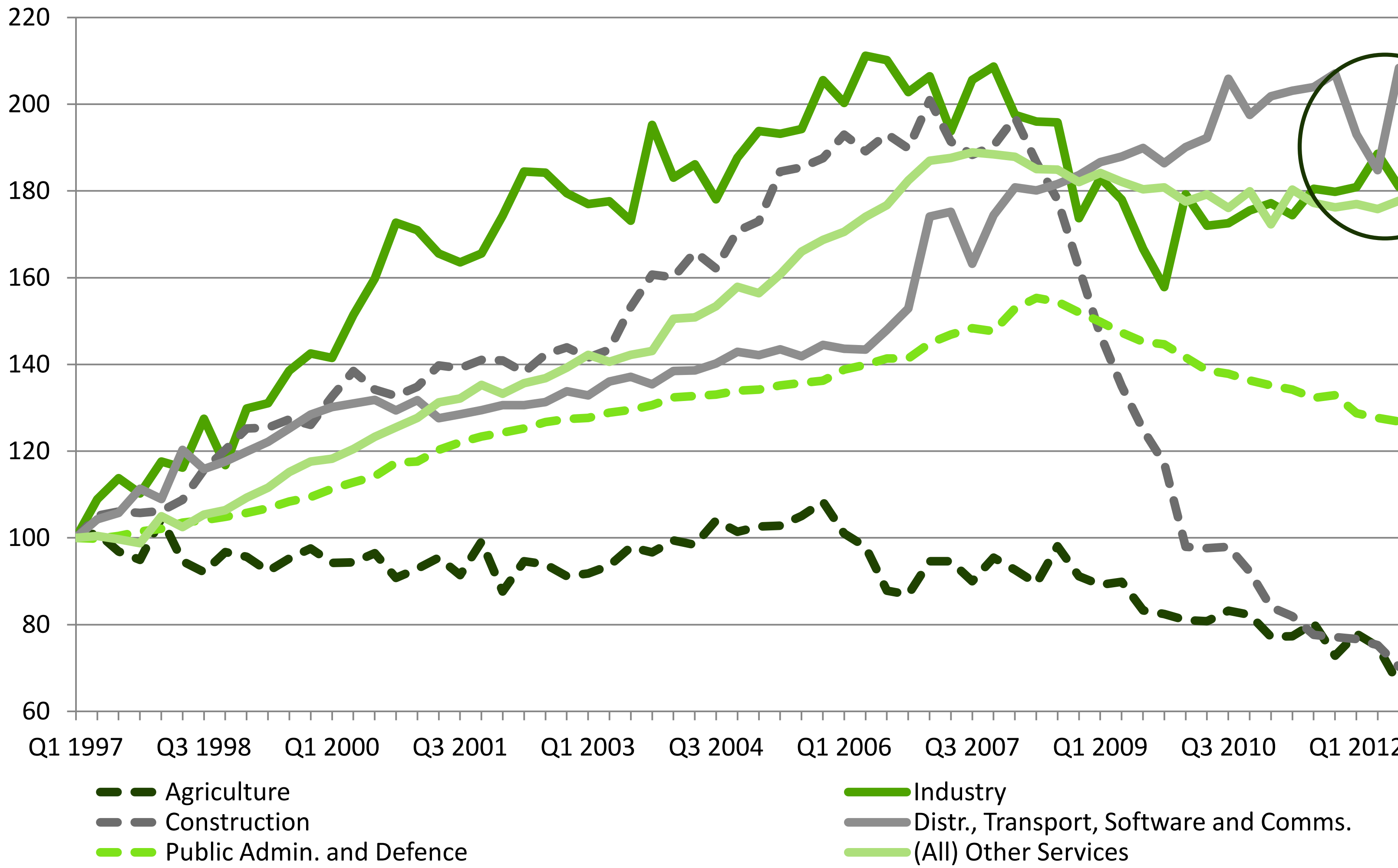
Ireland grew again in 2012; PMIs well above euro area average; signs too that labour market has reached turning point after five years of difficulty

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



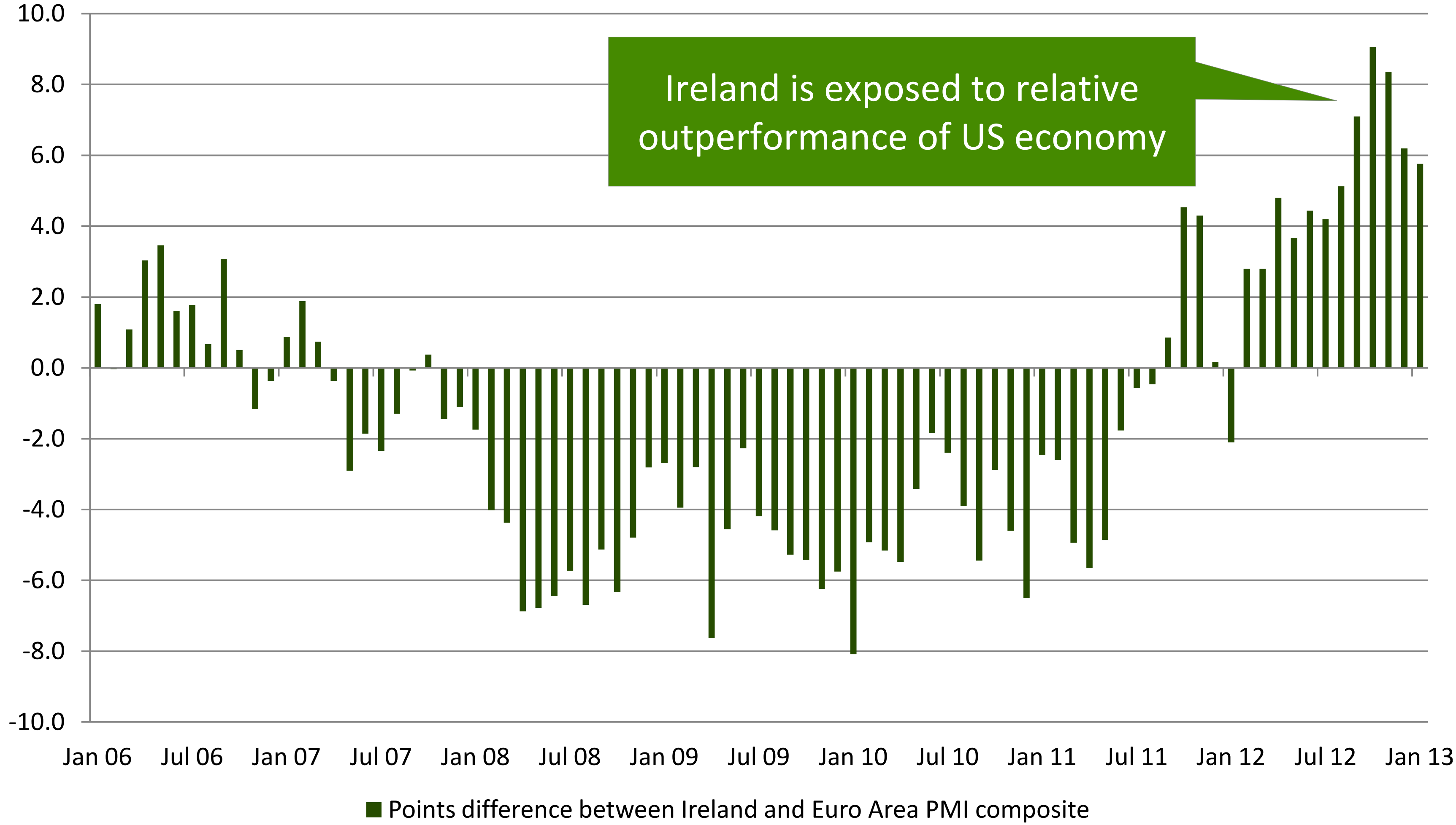
Source: CSO

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



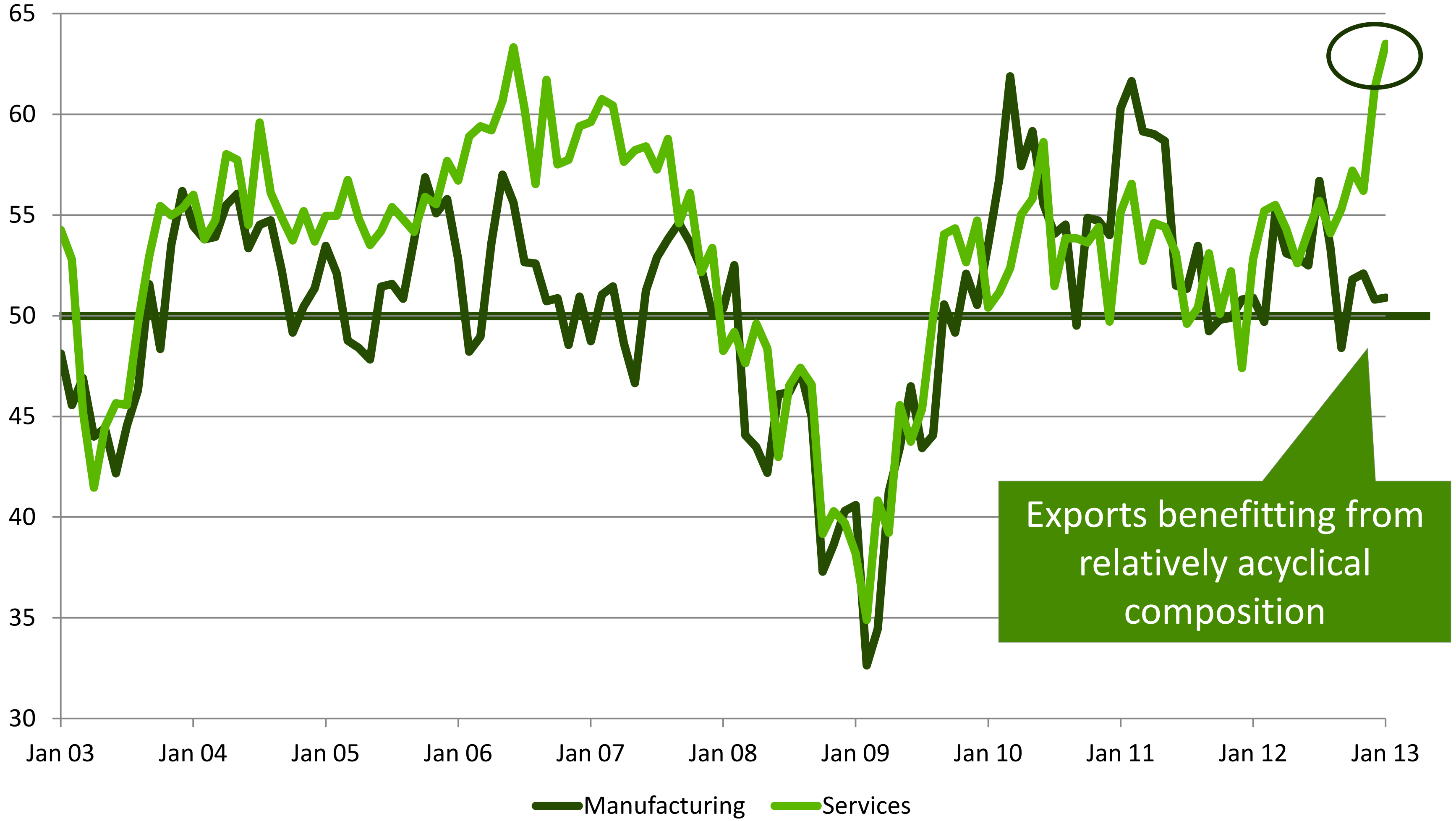
Source: CSO

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



Source: Markit; Bloomberg; NCB

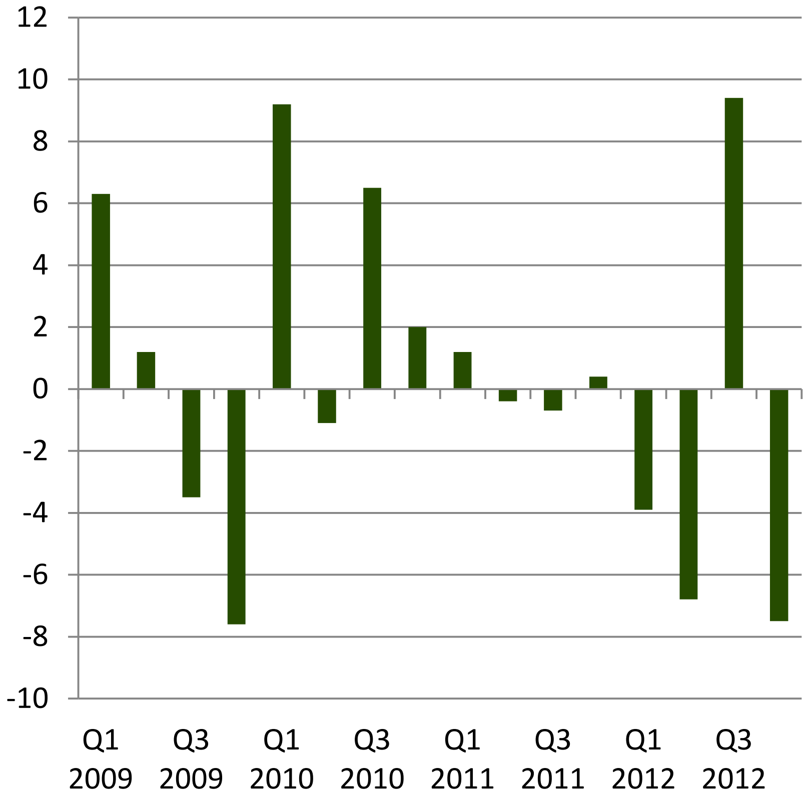
PMI new export orders: services show fastest growth on record



Source: Markit; NCB; CSO

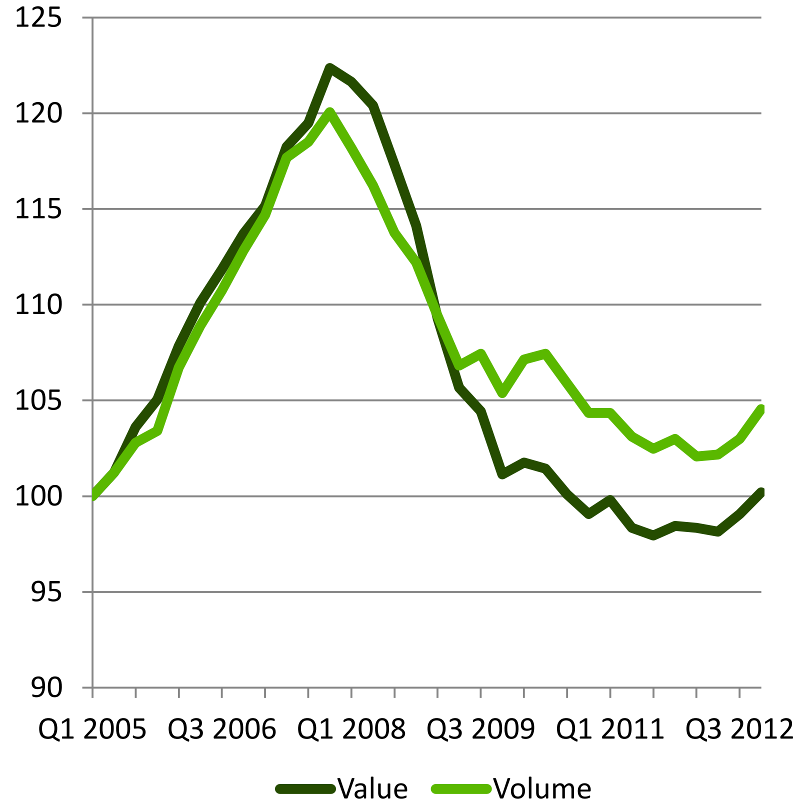
Trade and consumption data for H2 better than in H1

H2 goods export volumes improve despite weak Q4 (% change Q-Q)



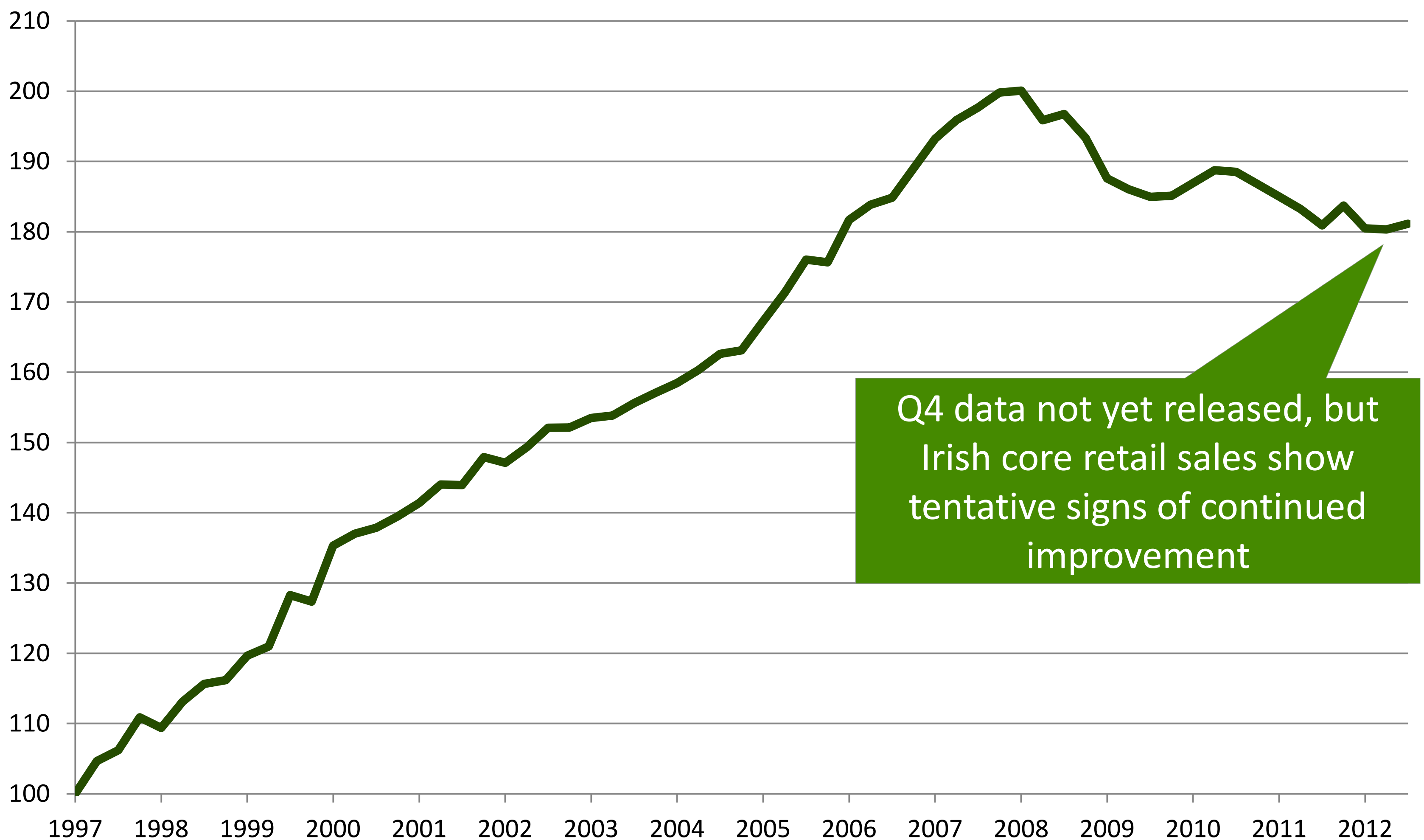
Source: CSO

Core retail sales also better



Source: CSO

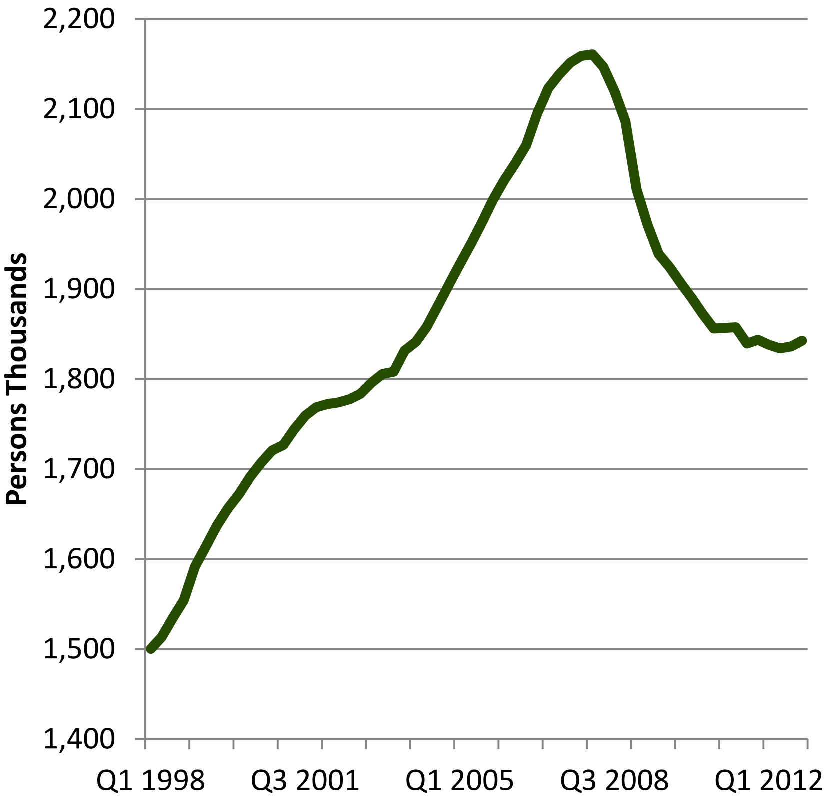
Consumer spending still declining: back to 2006 levels, but >70% higher than 15 years ago (1997=100)



Source: CSO

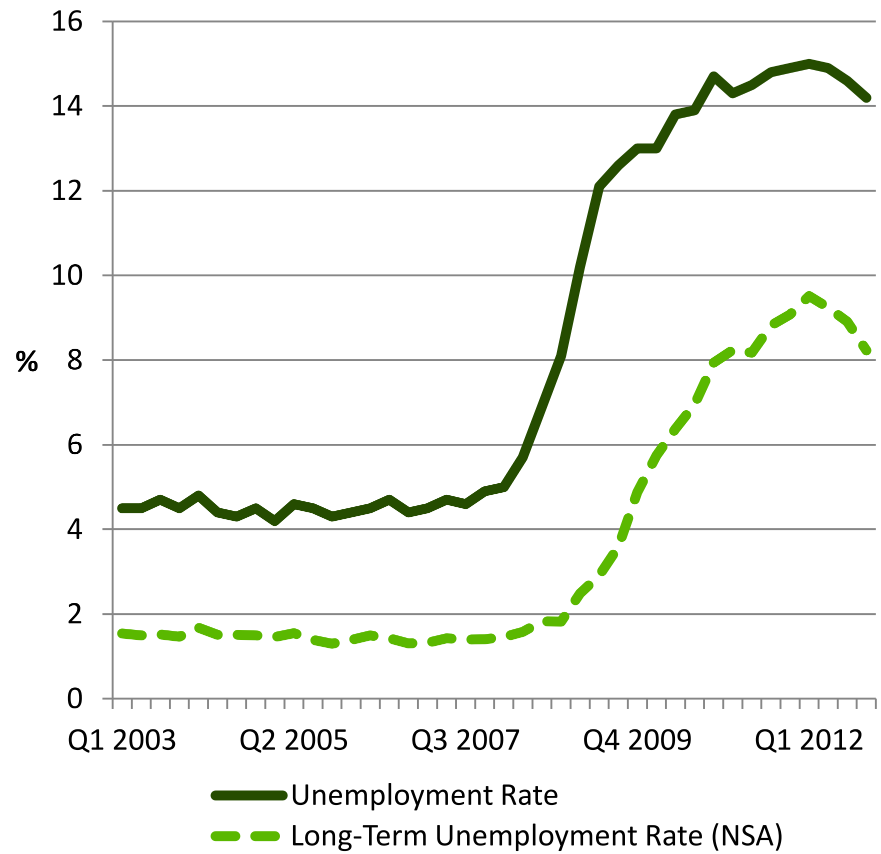
Labour market improving, but still weak

Employment growth for two successive quarters stems the recent decline



Source: CSO

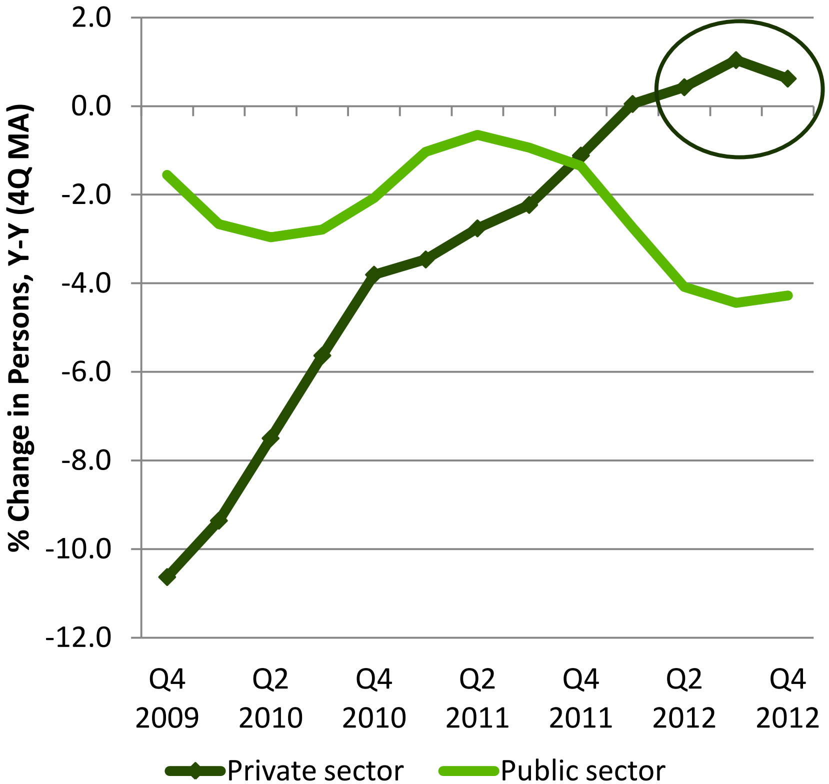
Unemployment rate falls over three consecutive quarters



Source: CSO

Private sector employment offsetting public sector declines; contraction in participation rate eases

Trend in private sector employment has begun to diverge with public sector

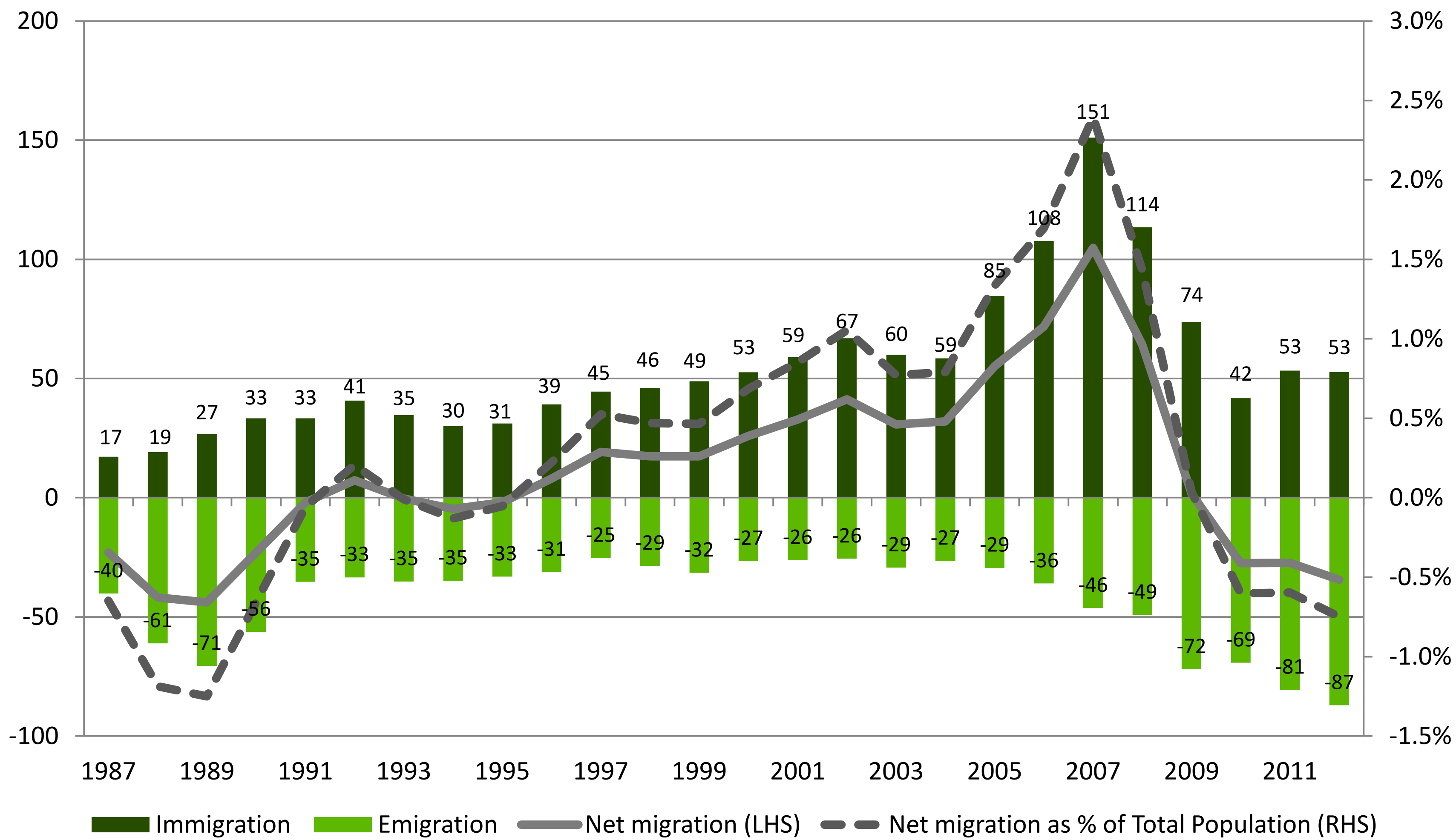


Source: CSO

Pace of decline in the labour force participation rate less marked

Source: CSO

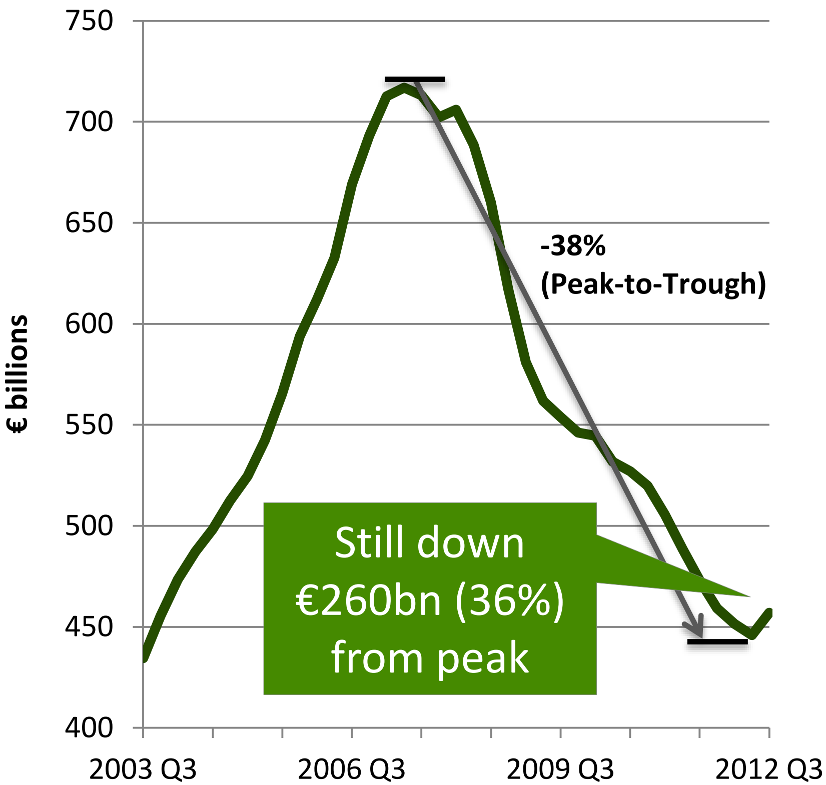
Net *emigration* for first time since mid-1990s, but not as severe as in the late 1980s in % of population terms



Source: CSO

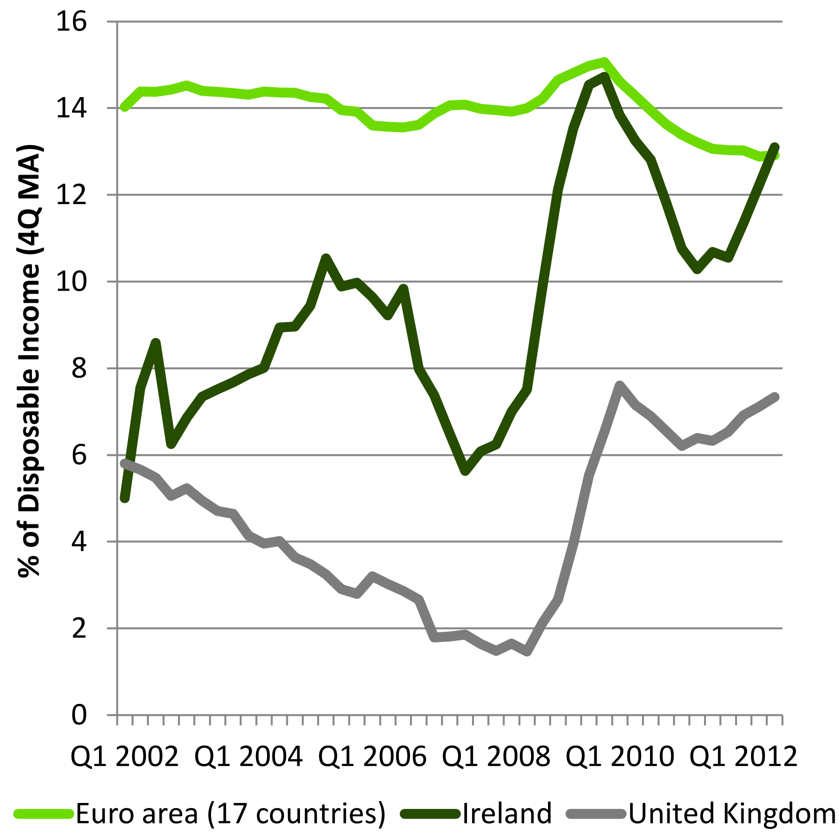
Deleveraging and negative wealth effects have harmed consumer spending

Household net worth improves for first time since mid-2007



Source: Central Bank; DoEHLG; CSO; NTMA

Gross household saving rate still high relative to previous levels *

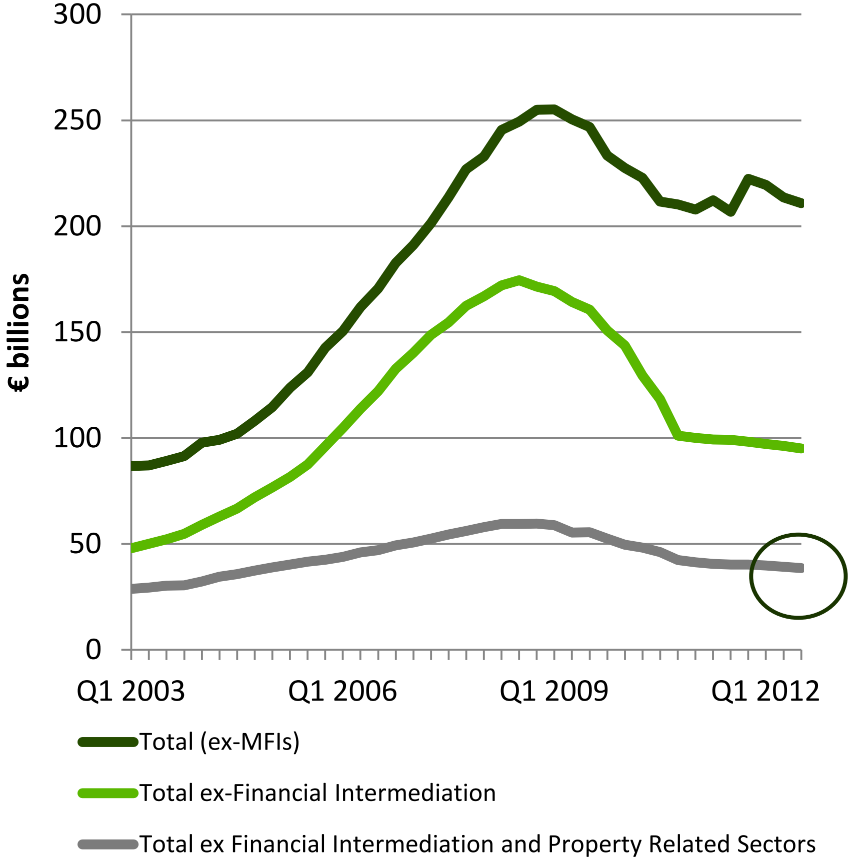


Source: Eurostat

* Measured on ESA-95 basis

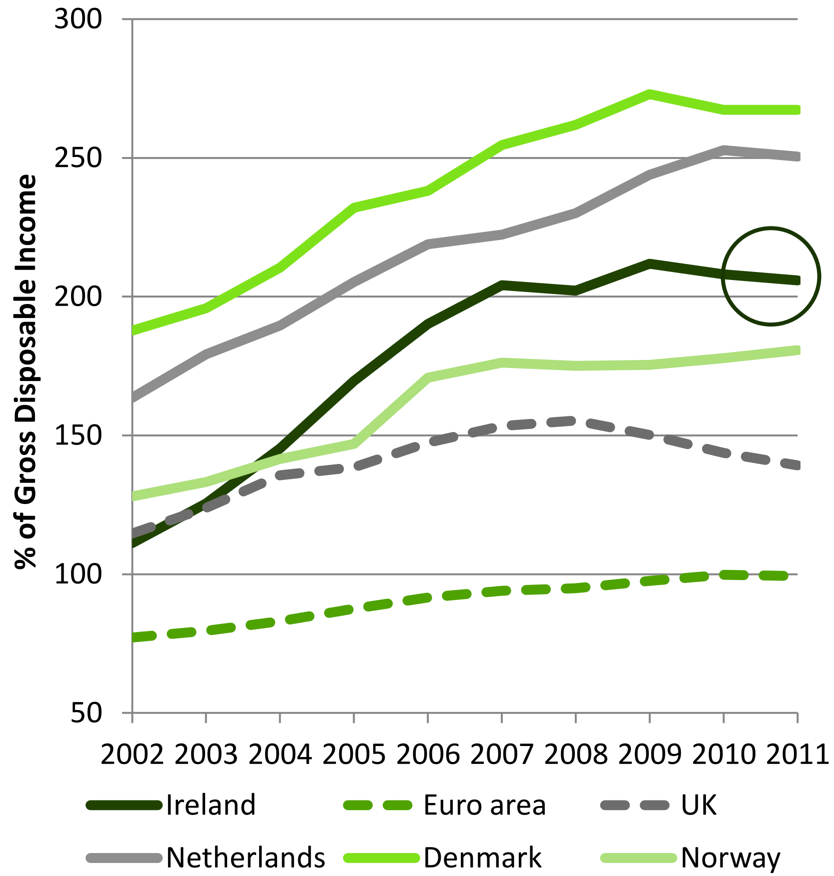
Debt levels are high, apart from "core" domestic private companies

Credit to resident Irish enterprises



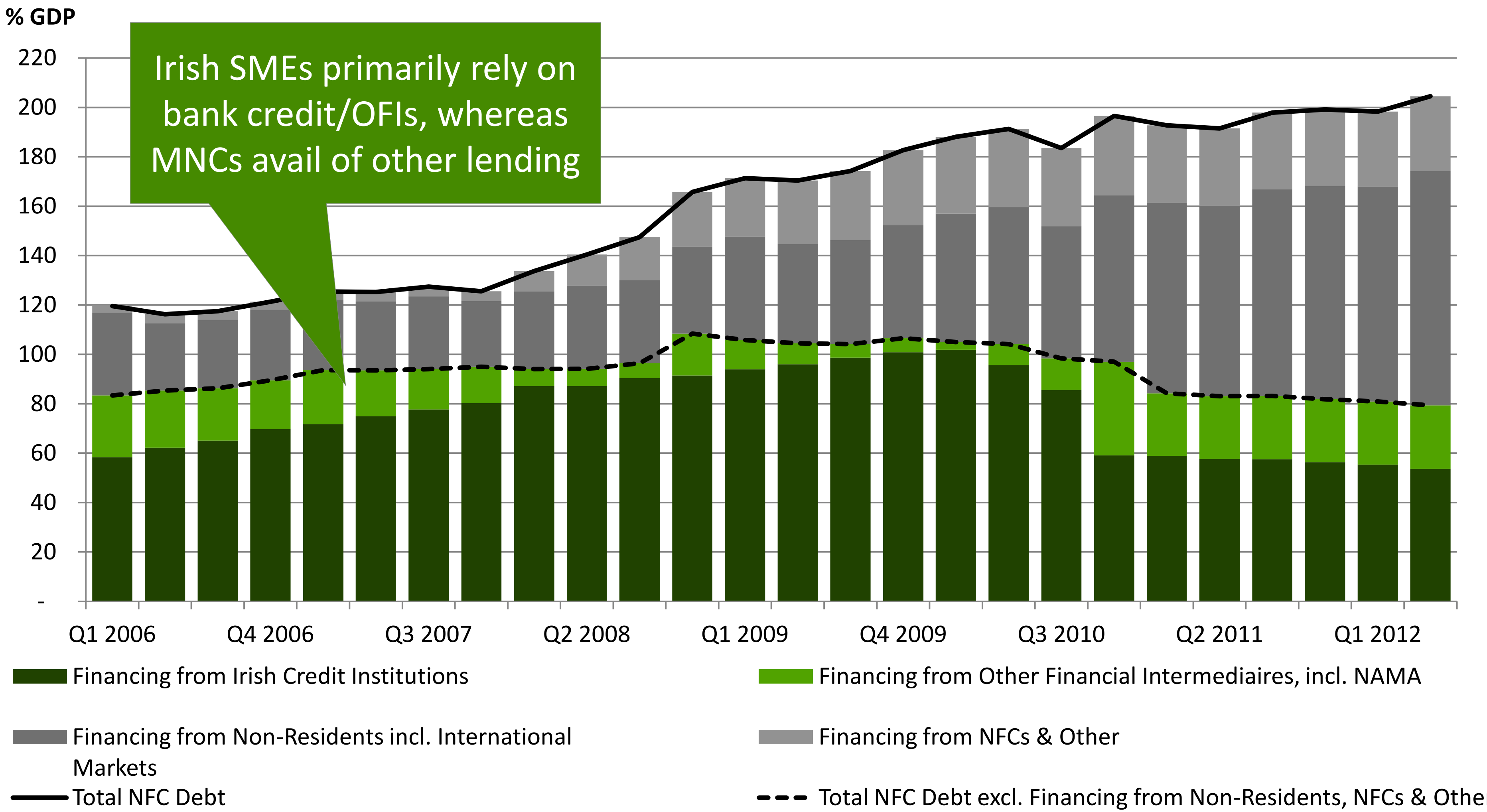
Source: Central Bank of Ireland

Household debt ratios among the highest in EU; declining only gradually



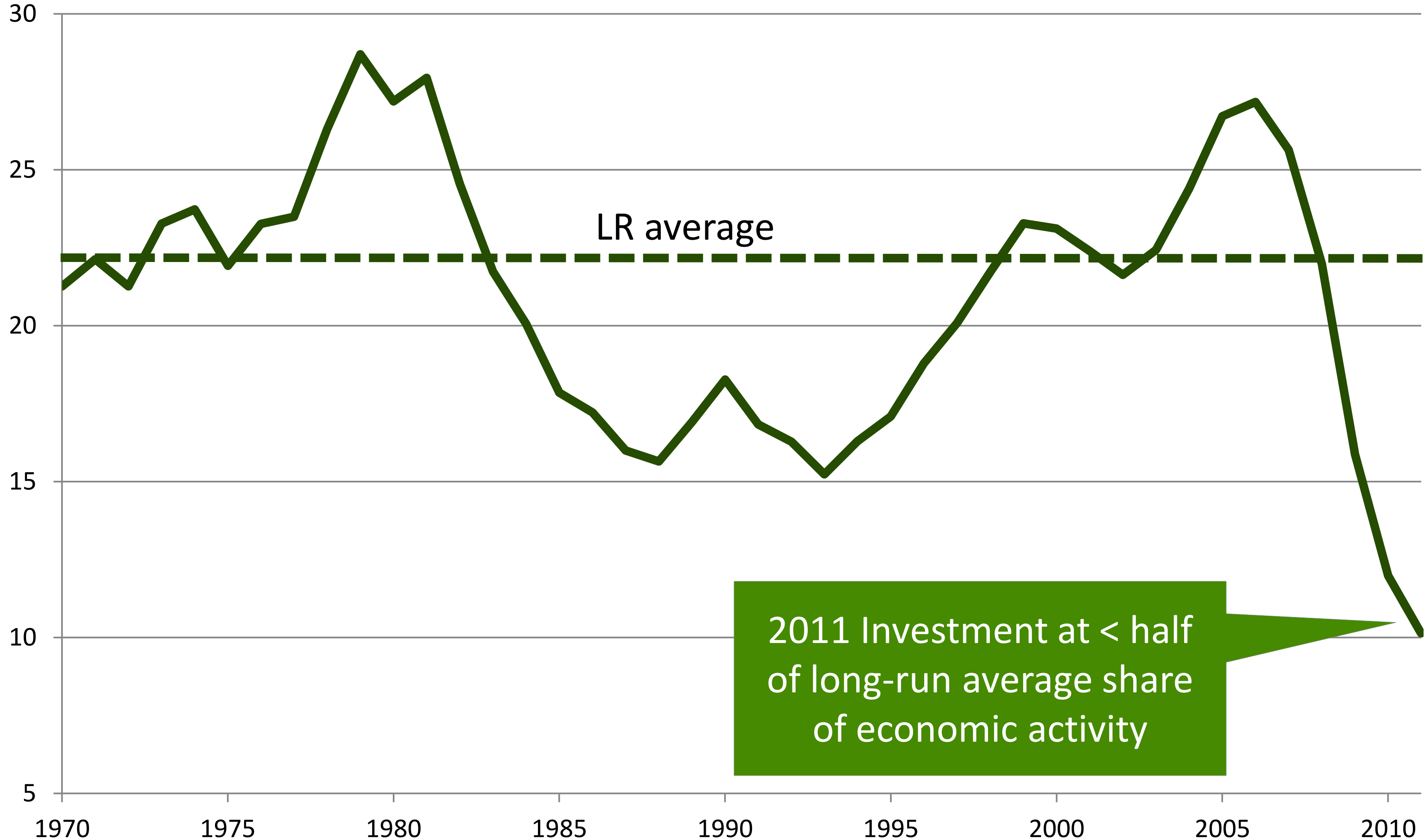
Source: Eurostat

Irish NFC borrowings from financial institutions are overstated by MNC activities (% of GDP)



Source: Cussen M. and B. O' Leary, Quarterly Bulletin Q1 2013, Central Bank of Ireland.

Investment as a % GDP at all-time low



Source: CSO

Economic and fiscal forecasts: Budget, 2013

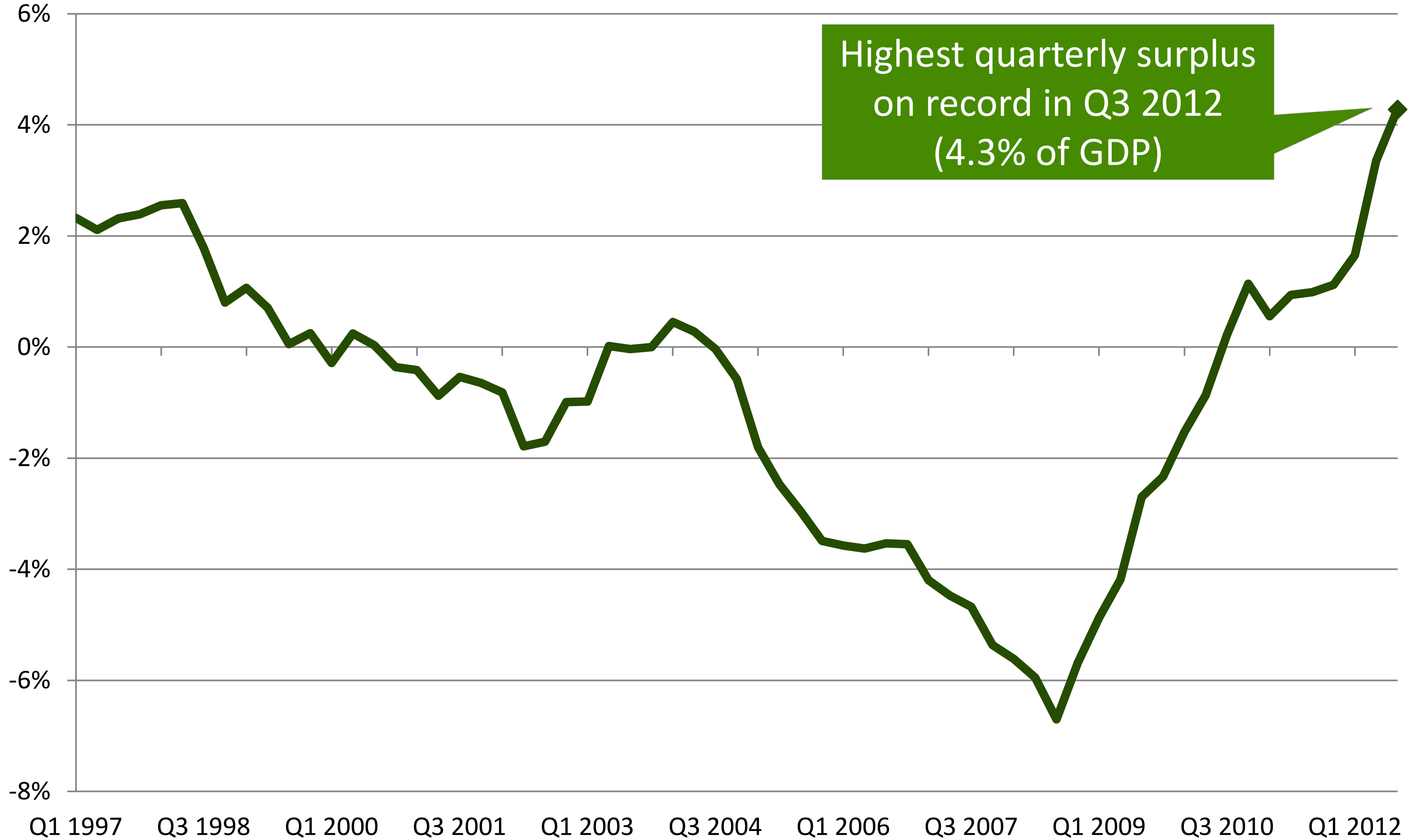
	2011	**2012e**	2013f	2014f	2015f
GDP (% change, volume)	1.4	**0.9**	1.5	2.5	2.9
GNP (% change, volume)	-2.5	**1.4**	0.9	1.7	2.1
Current Account (% GDP)	1.1	**3.4**	4.3	4.2	4.3
General Government Debt (% GDP)	106	**118**	121	120	117
Underlying General Government Balance (% GDP)*	-9.1	**-8.2**	-7.5	-5.1	-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

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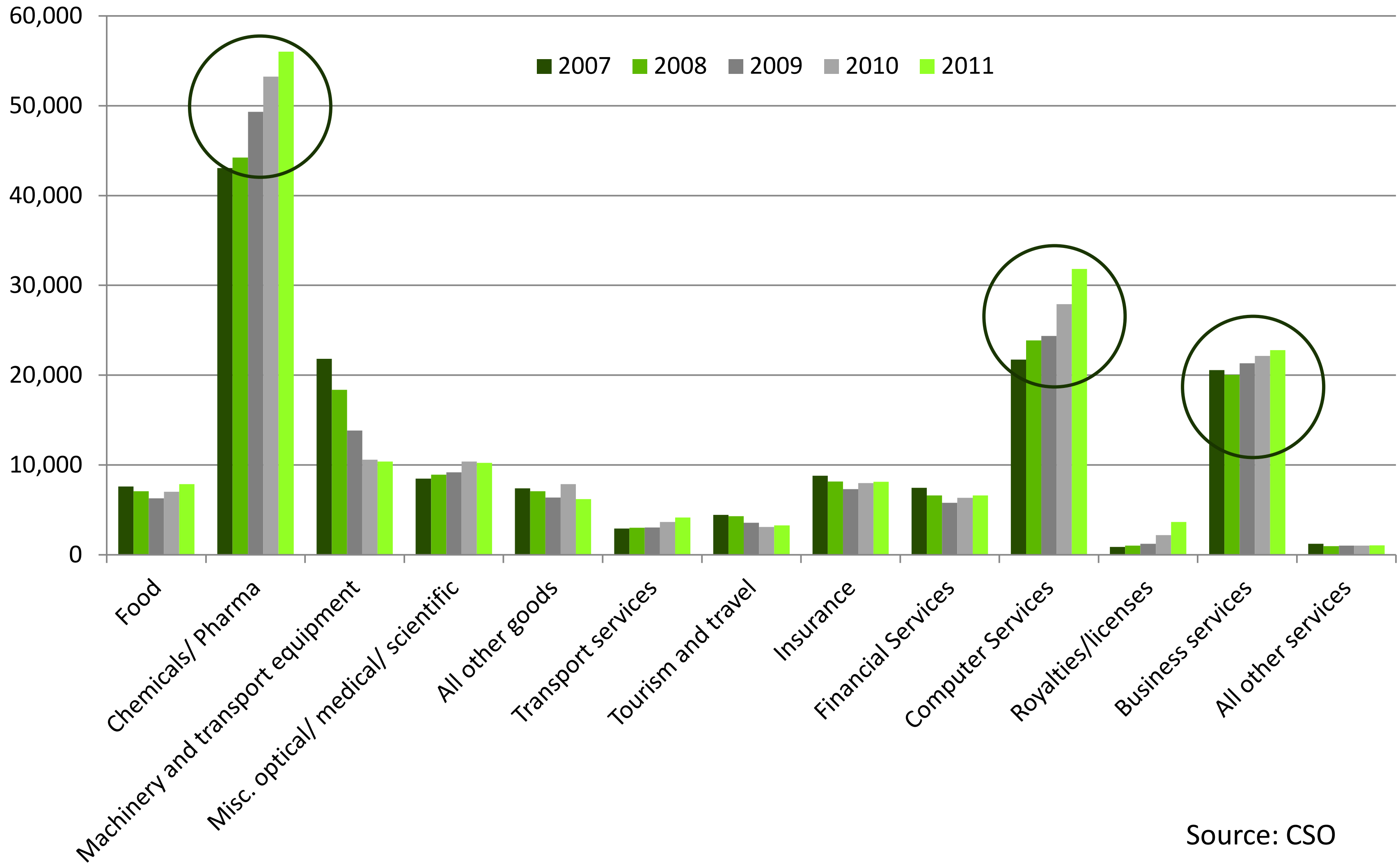
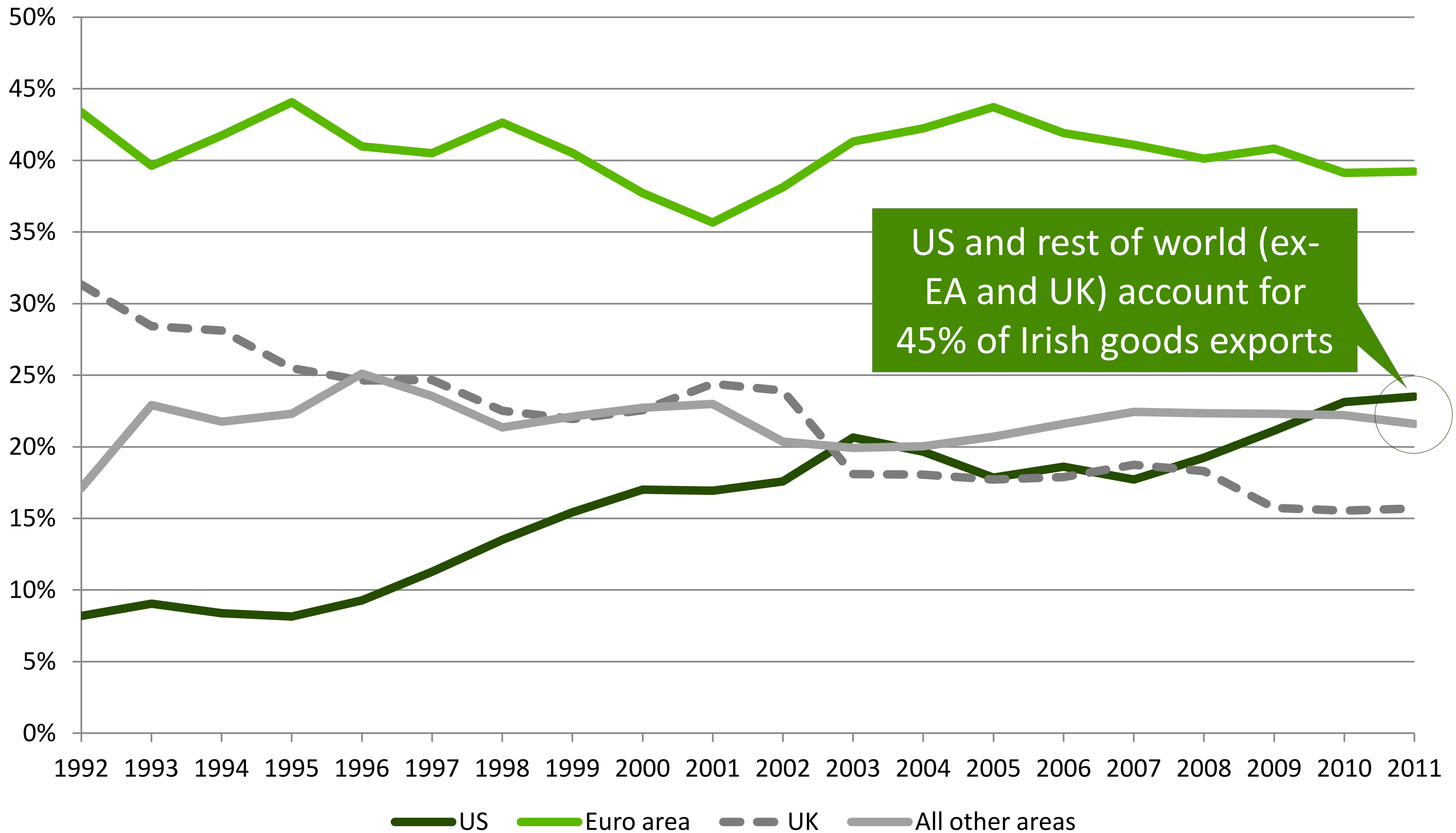
Exports dominated by pharmaceuticals, IT and businesses services (scale €m)



Source: CSO

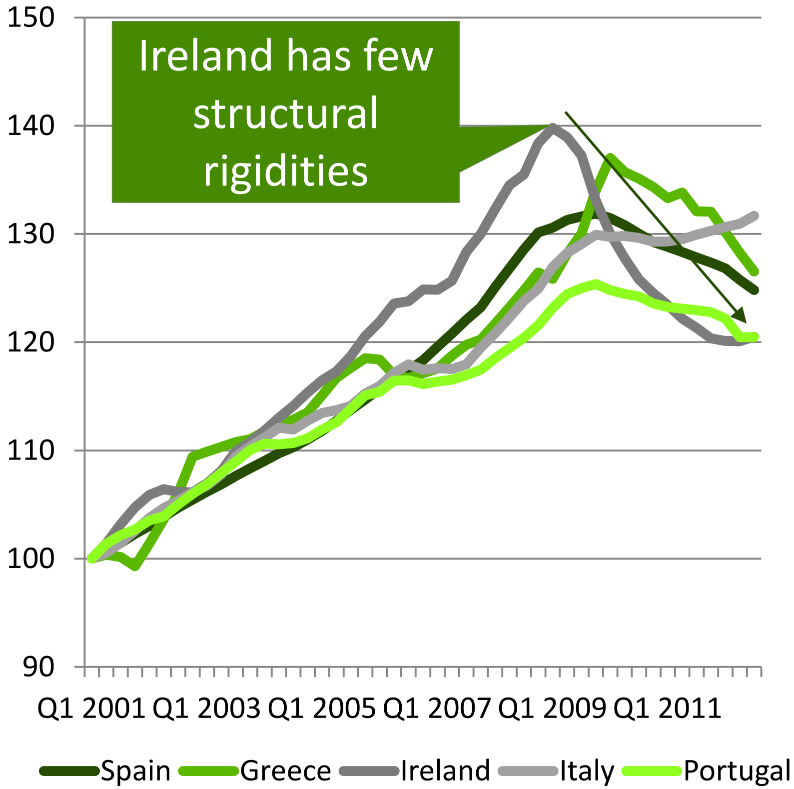
Ireland benefited more than most from last years decline in FX value of euro (goods export shares)



Source: CSO

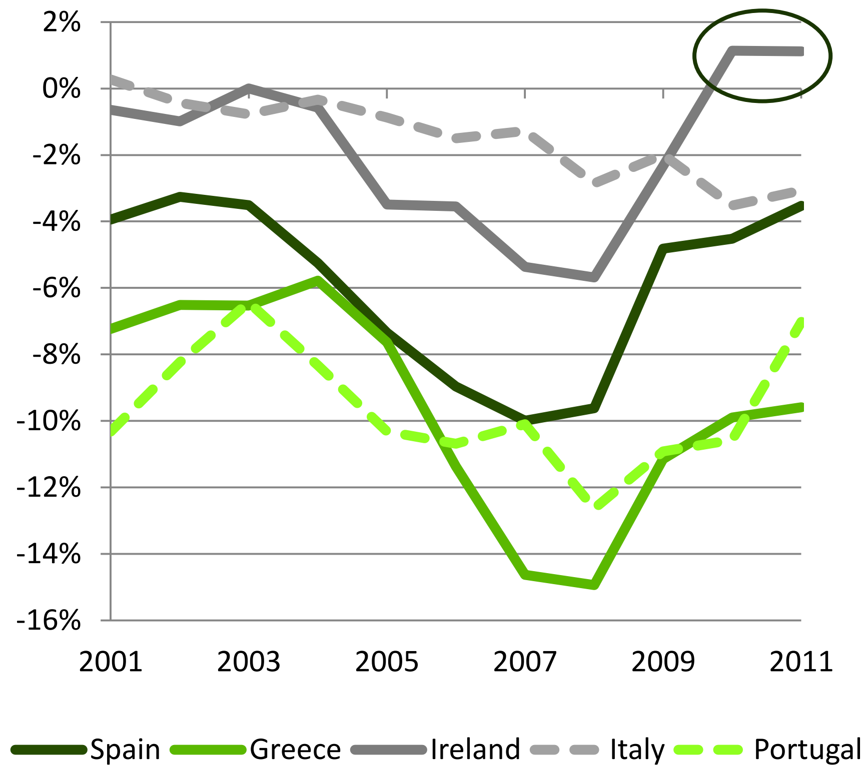
Ireland's competitive position vastly different to the other non-core countries

Unit Labour Costs (Q1 2001=100)



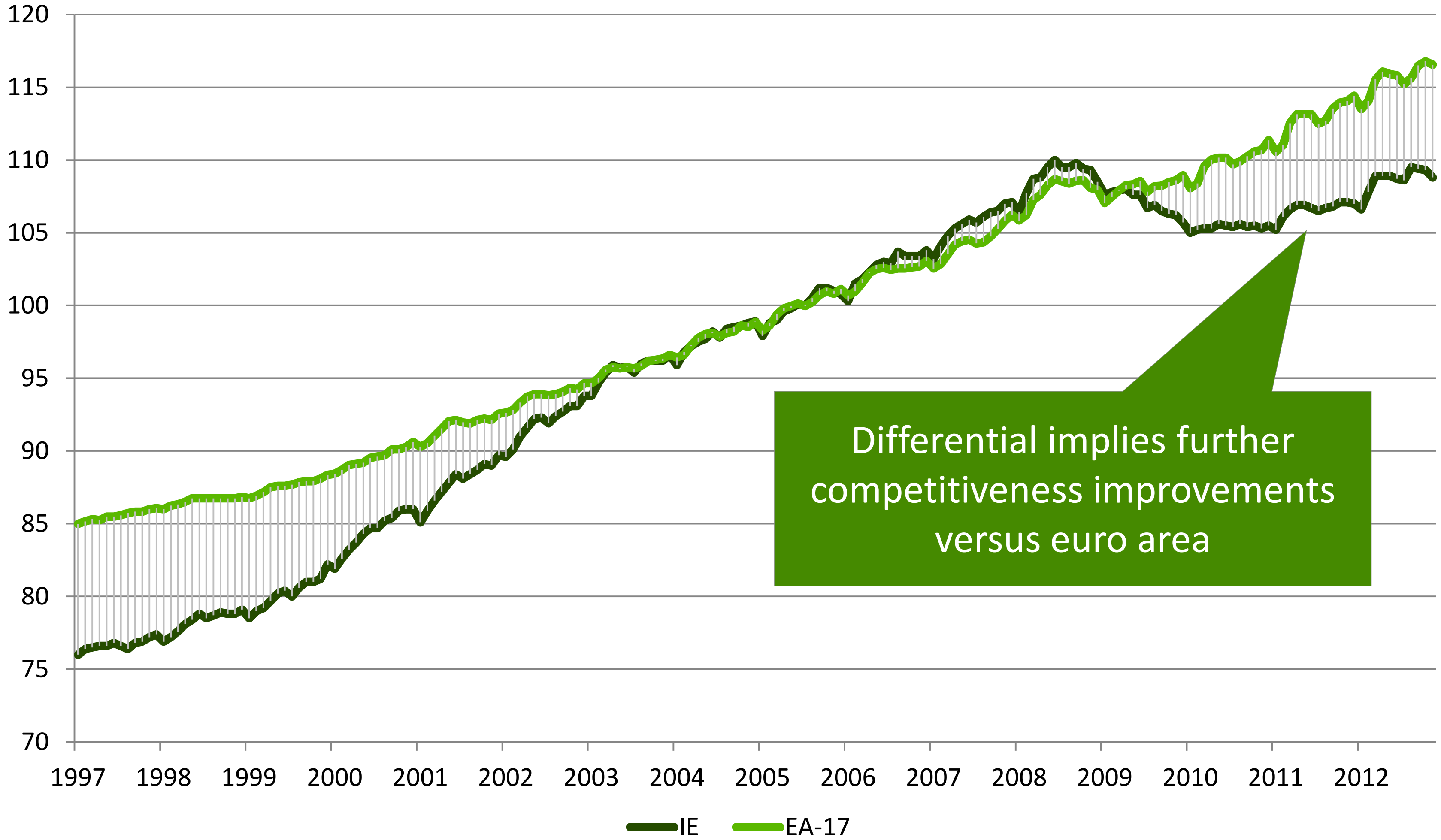
Source: ECB

Current Account Balance (% GDP)



Source: DataStream

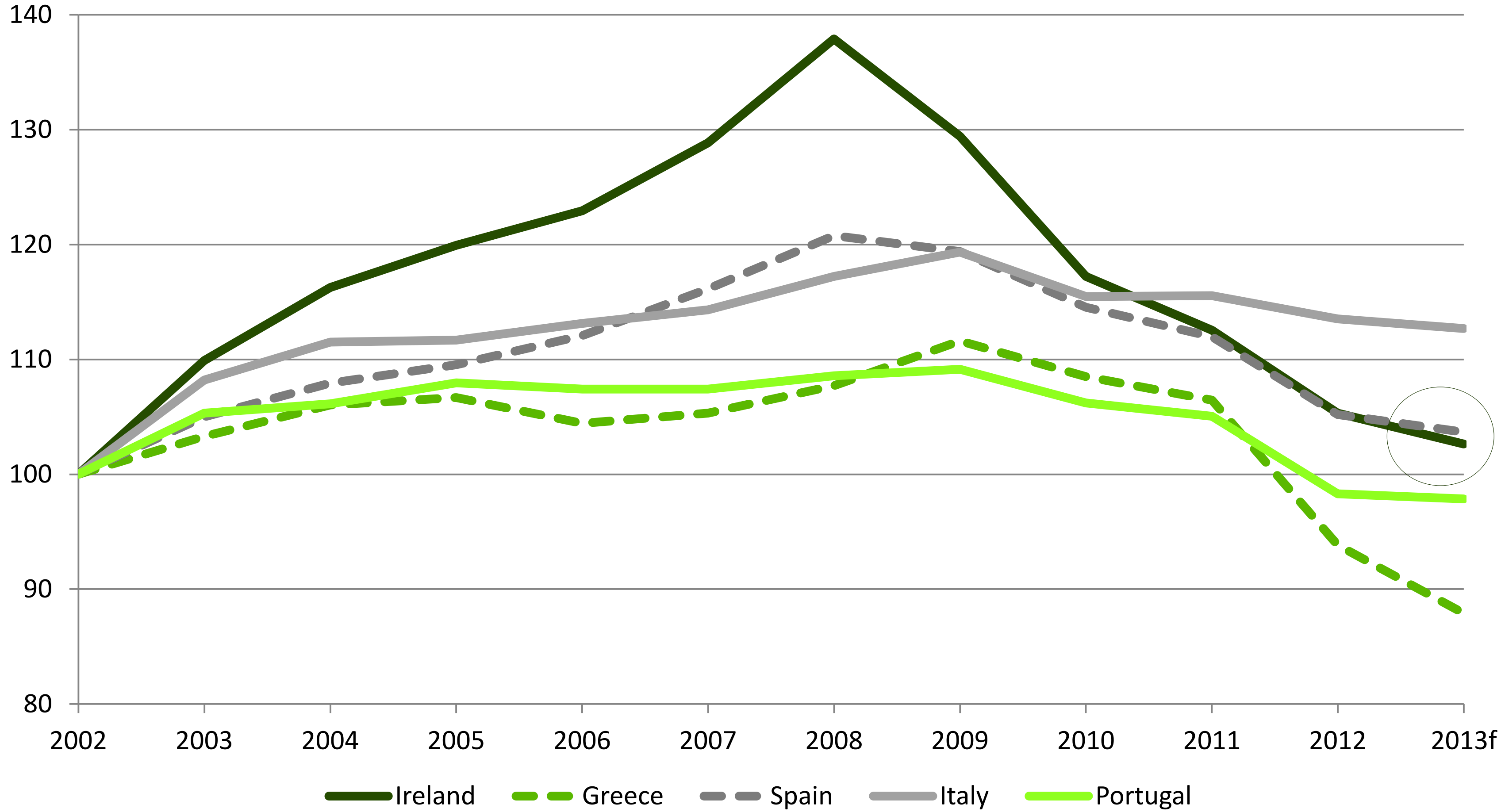
Ireland’s HICP Inflation has undershot that of the euro area since 2008



Source: Eurostat

Relative Real Effective Exchange Rates also reflect sharp recovery in competiveness

REERs, total economy, ULC-deflated: Performance relative to 36 industrial countries - double export weights (Base: 2002=100)



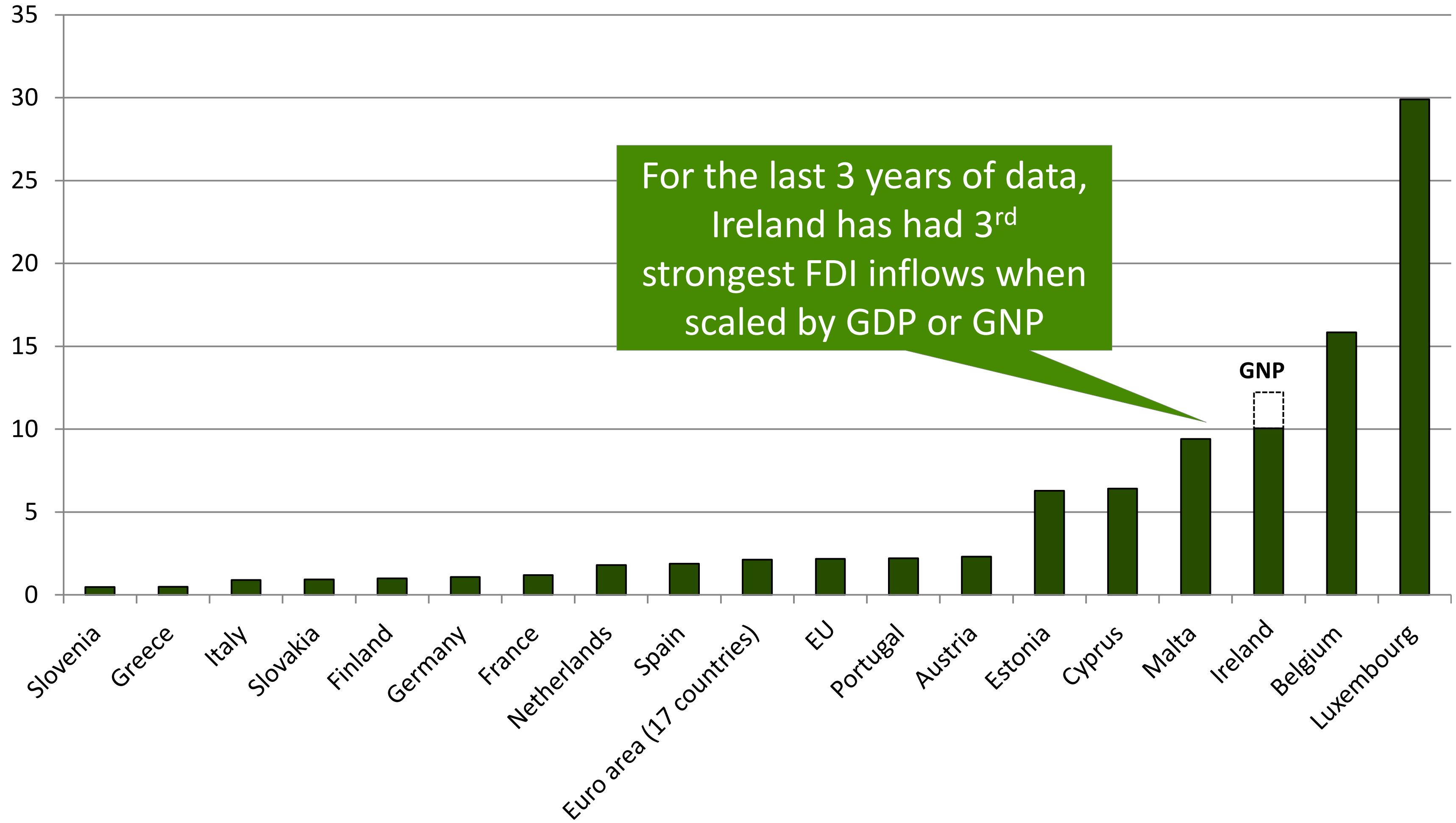
Source: AMECO

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)

Ireland continues to attract foreign investment (Average FDI inflows per annum as a share of GDP, 2009 – 2011)



Sources: UNCTAD World Investment Report 2012; IMF WEO database; CSO; NTMA

SECTION 3: PROMISSORY NOTE DEAL

Lower deficit and funding needs for Ireland in short and medium-term; reduction in Government debt in longer-term

Four-fold benefits from Promissory Note deal

- NPV reduction in Ireland's General Government debt
  - Interest payments that leave consolidated "Ireland Inc." key here
- NTMA funding need c.€20bn lower over next decade
  - Rollover risk much lower on Programme exit
- General Government deficit lower statistically in 2014 and 2015 and for a number of years thereafter
  - Because IBRC was classified outside General Government
  - May not be any GGB benefit in 2013, thanks to up-front costs of IBRC liquidation
- Deal cements domestic buy-in to final years of fiscal consolidation
  - Market reaction has been positive

Shorthand balance sheets of relevant parties to deal: before and after

CBI (before)

Assets	Liabilities
ELA	Central Bank reserves “i.e. other liabilities”

IBRC (before)

Assets	Liabilities
Prom. Notes Loan Assets Other assets	ELA

CBI (after)

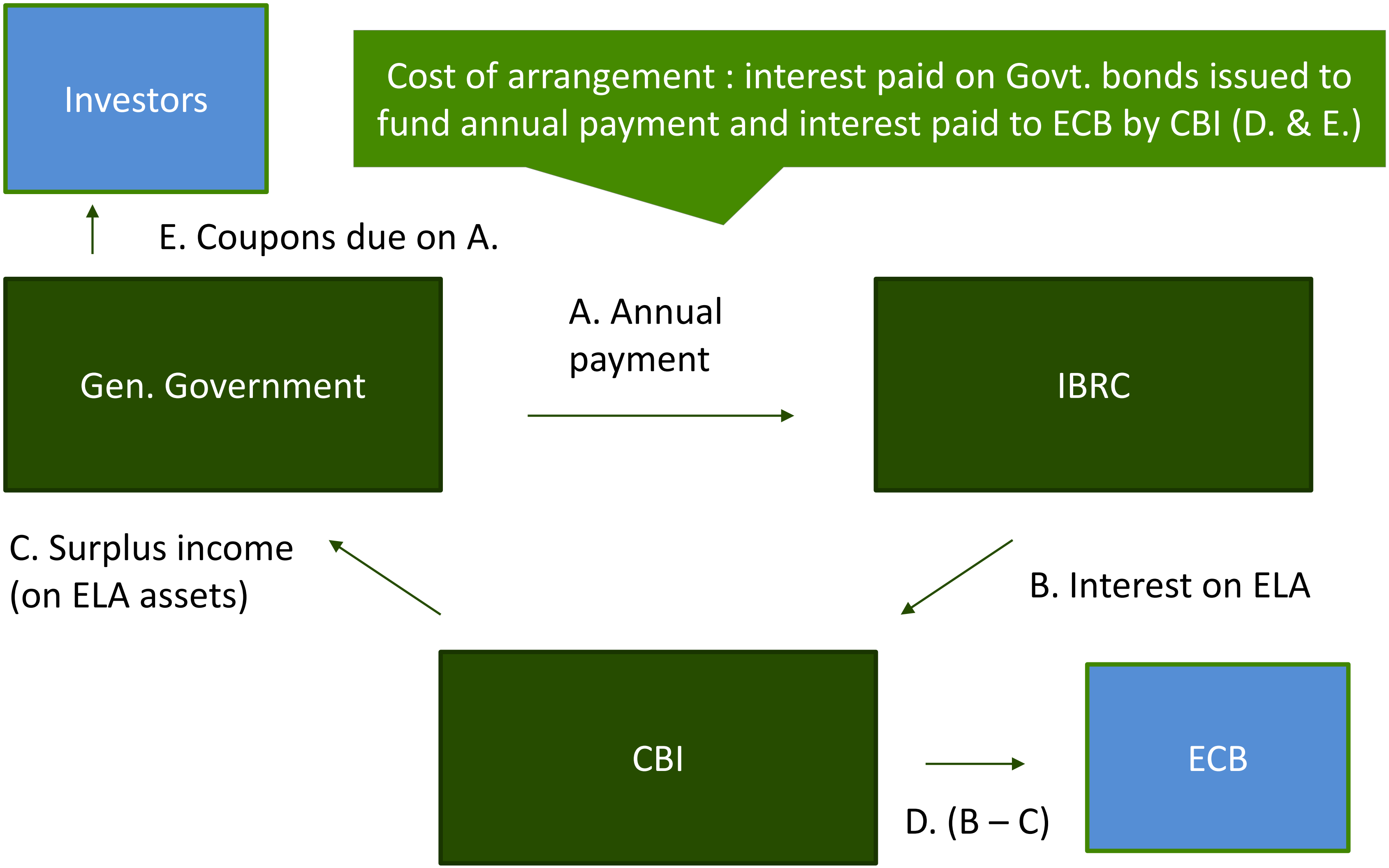
Assets	Liabilities
Govt. bonds NAMA bonds	Central Bank reserves “i.e. other liabilities”

NAMA (after)

Assets	Liabilities
Loan Assets	NAMA bonds

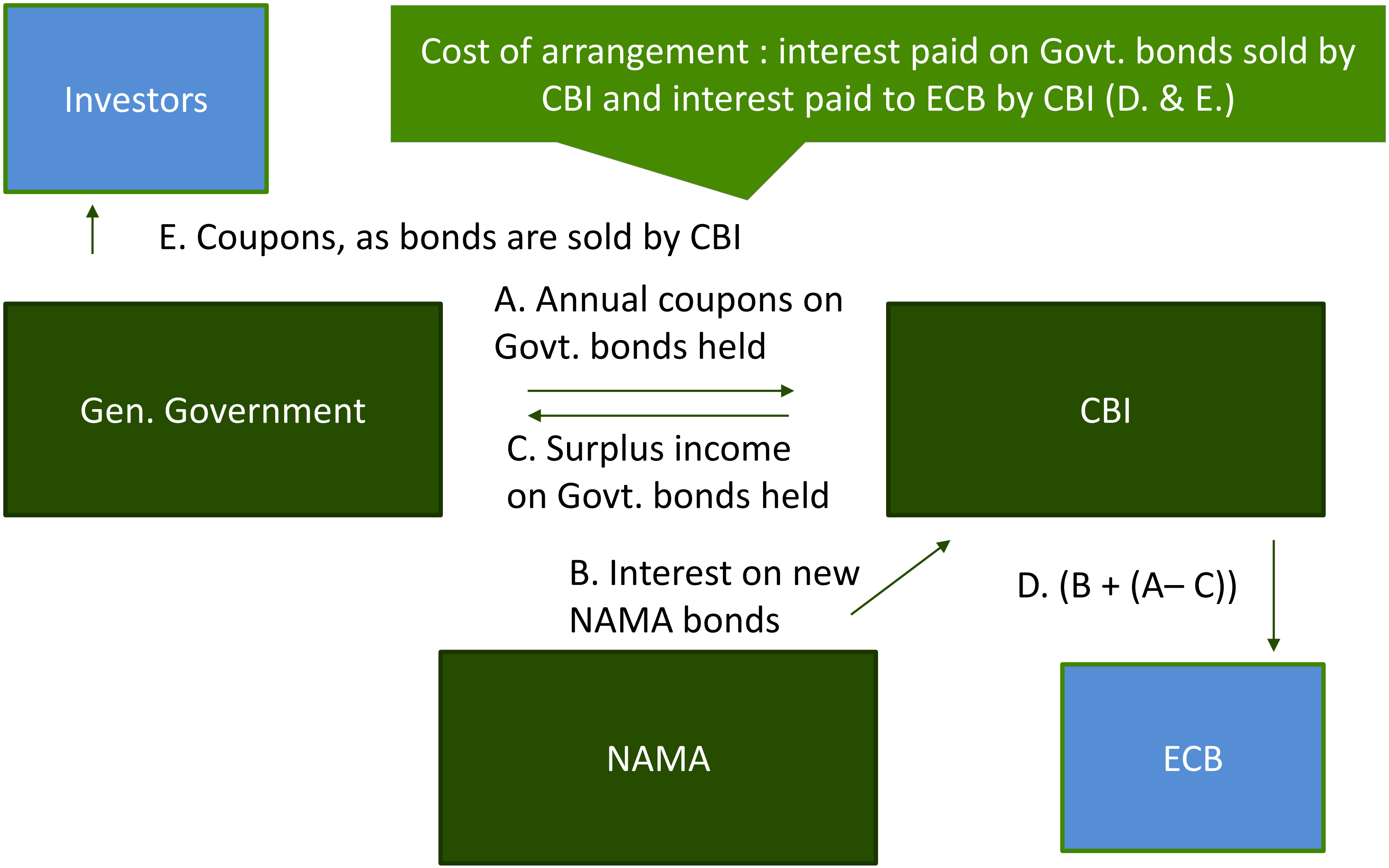
Source: NTMA

Promissory notes/ ELA: Cost before for “Ireland Inc.”



Source: NTMA

Promissory notes/ ELA: Cost after for "Ireland Inc."



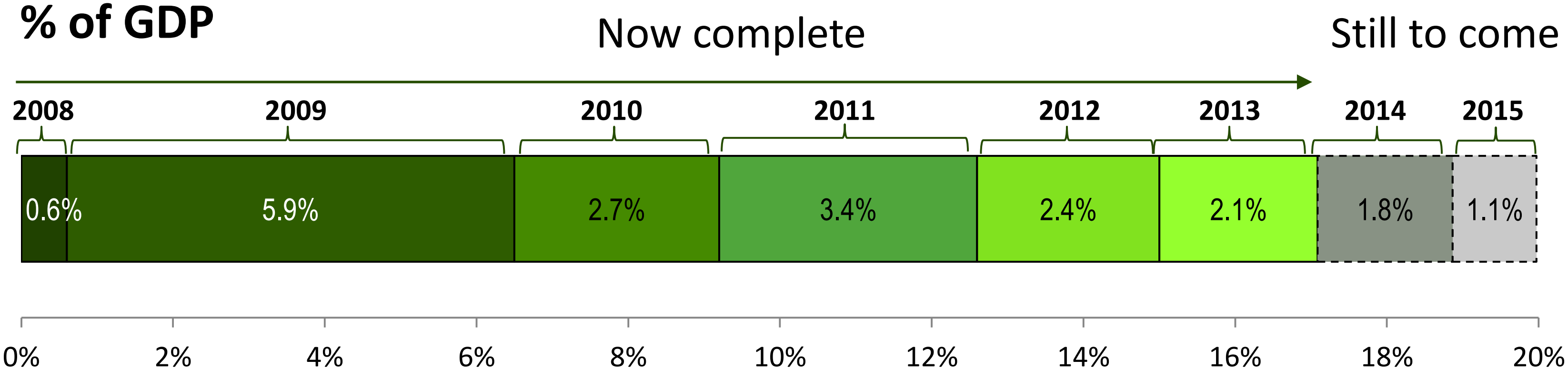
Source: NTMA

SECTION 4: BUDGET 2013

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

Fiscal Consolidation thus far...

% of GDP



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

Source: Department of Finance; Department of Public Expenditure and Reform

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

Source: Department of Finance; Department of Public Expenditure and Reform

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

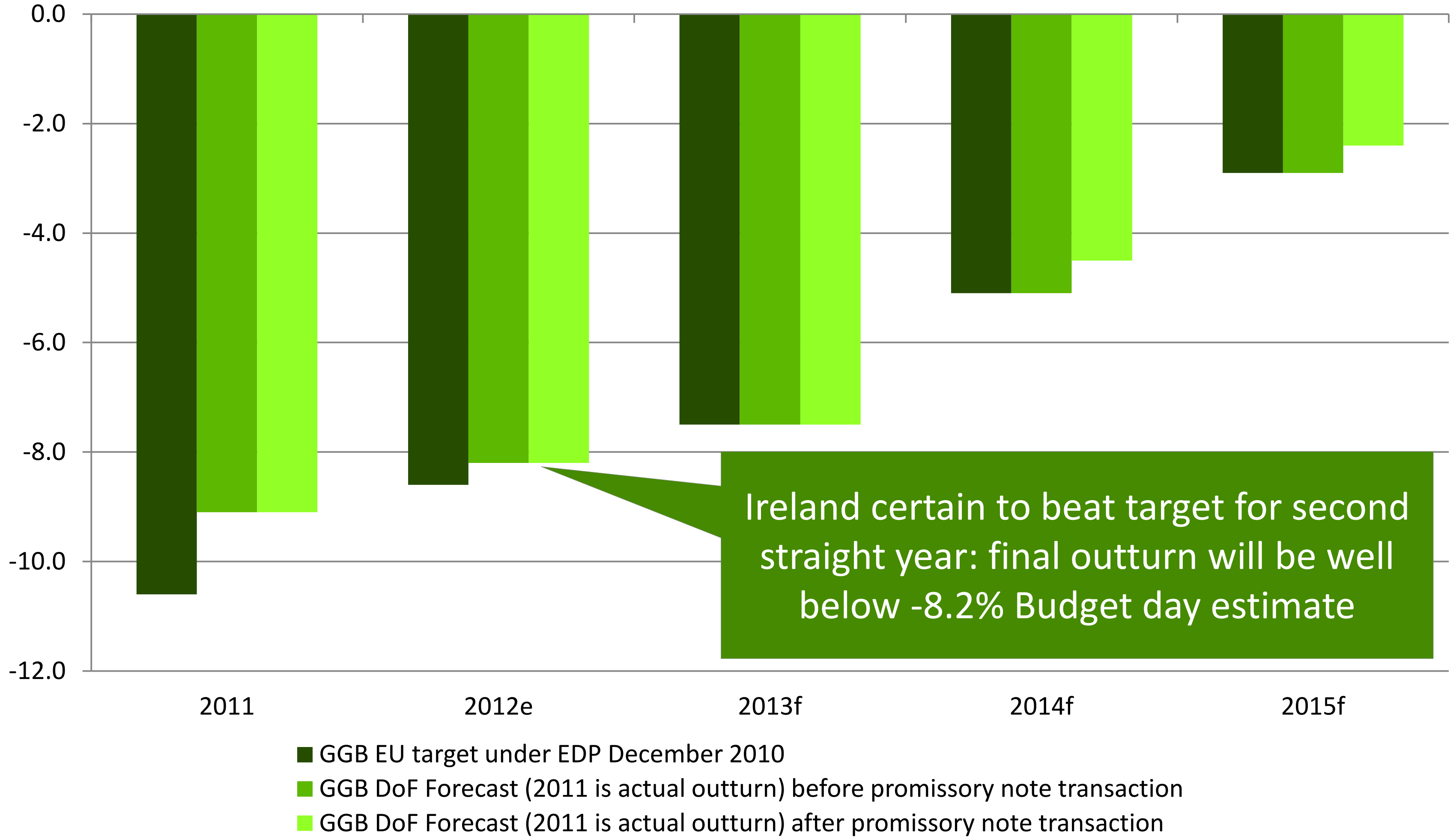
Breakdown of revenue measures (€bn)	
PRSI measures	0.29
Local property tax	0.25
Excise changes	0.33
CGT/ CAT/deposit interest tax	0.13
Tax on withdrawn pensions	0.10

Source: Department of Finance; Department of Public Expenditure and Reform

SECTION 5: FISCAL & FUNDING

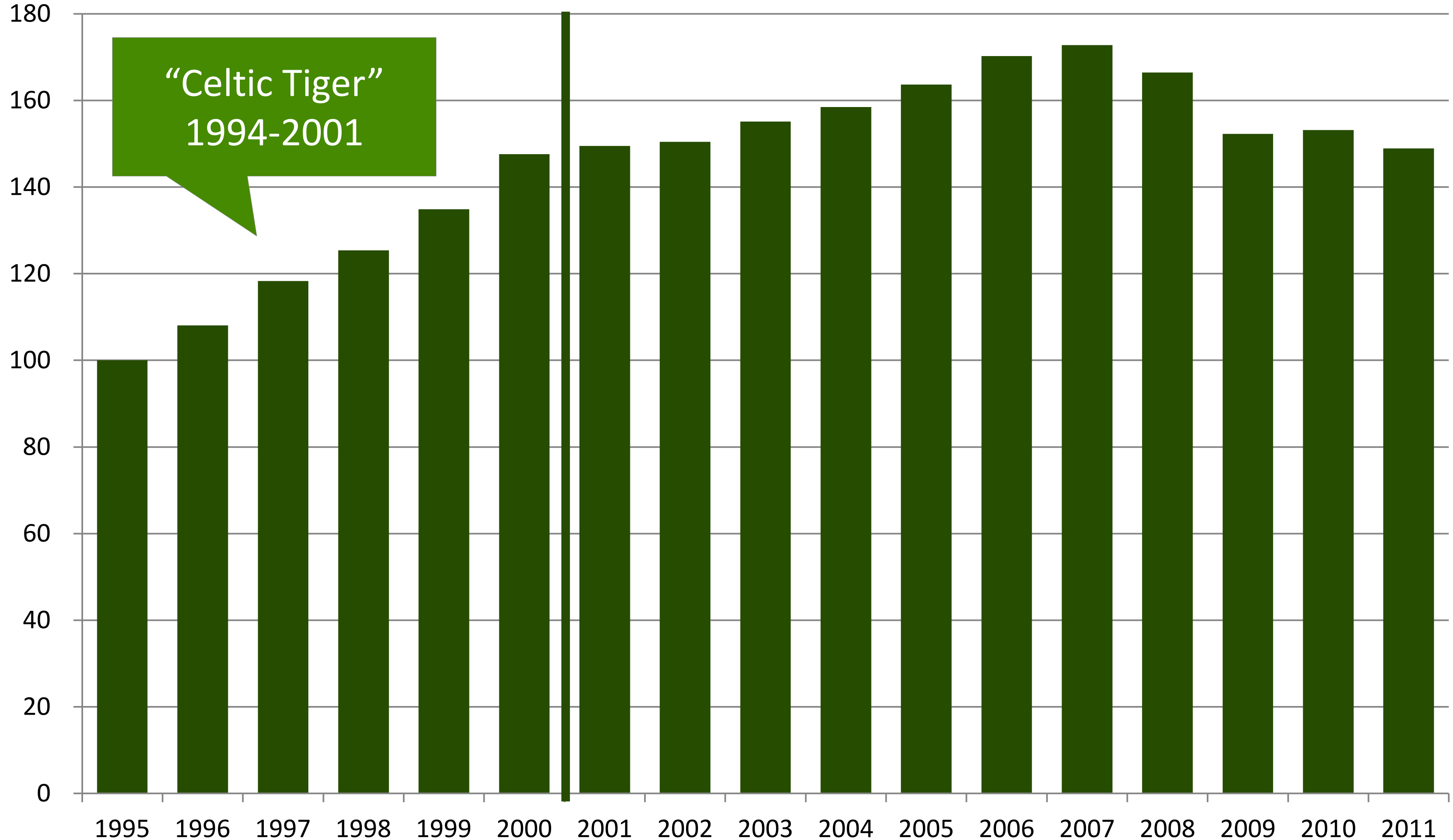
Fiscal trends improving : further two-year challenge to stabilise debt ratio

Promissory note transaction to sustain outperformance of Programme/EDP fiscal targets (GGB % GDP)



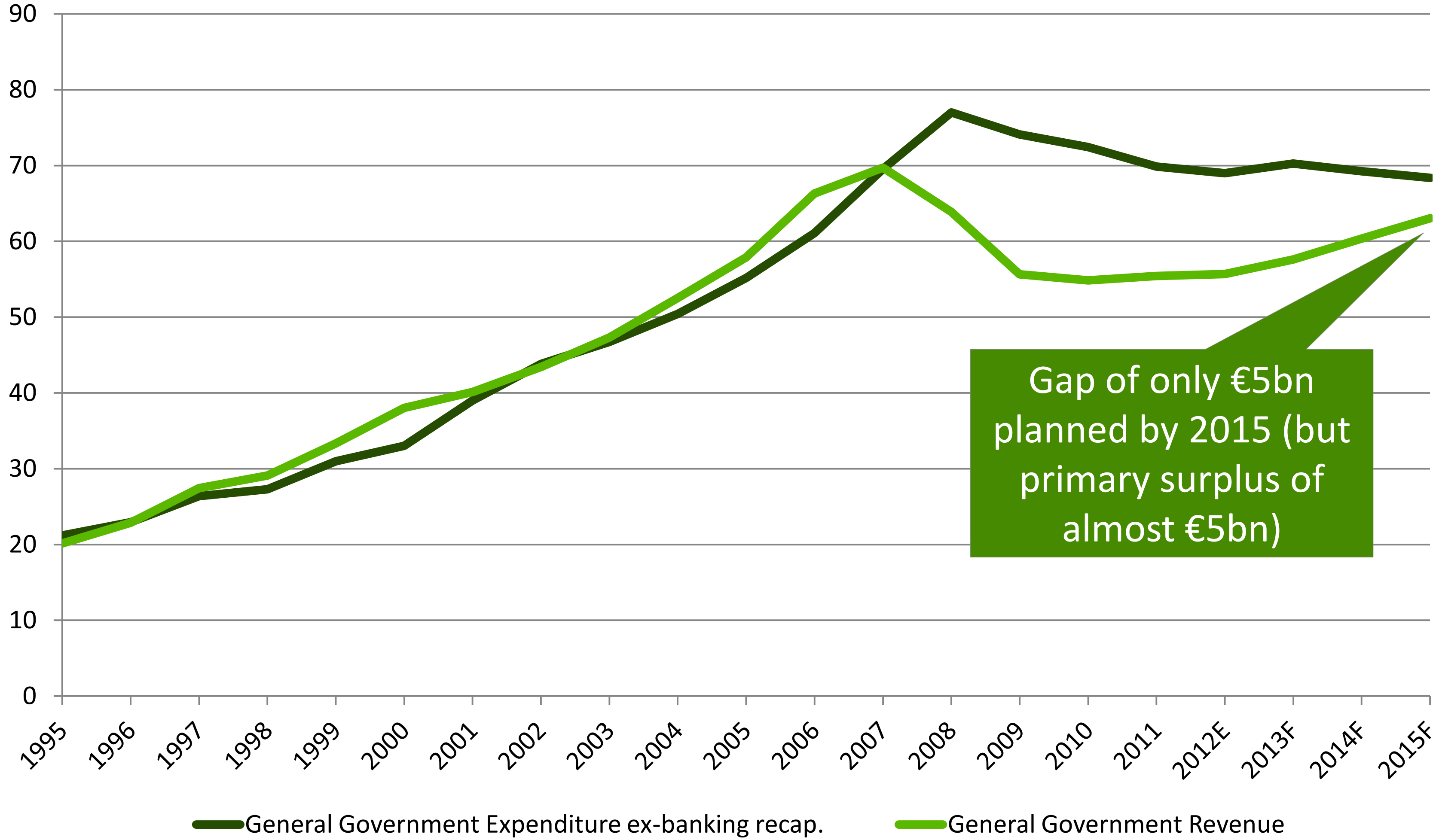
Source: Department of Finance; CSO

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



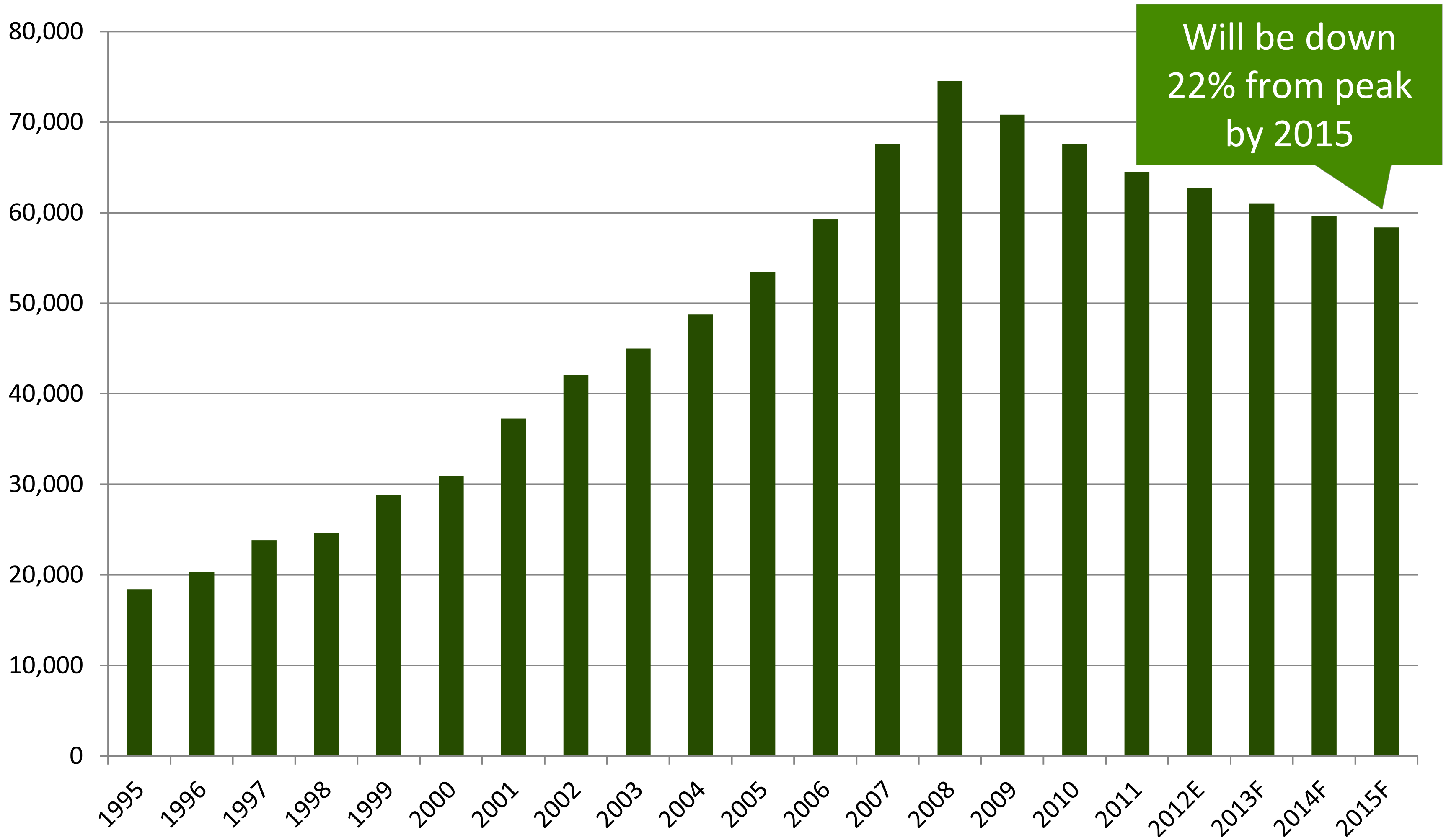
Source: CSO

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



Source: Department of Finance; Eurostat

Primary government expenditure cut sharply (€m)*

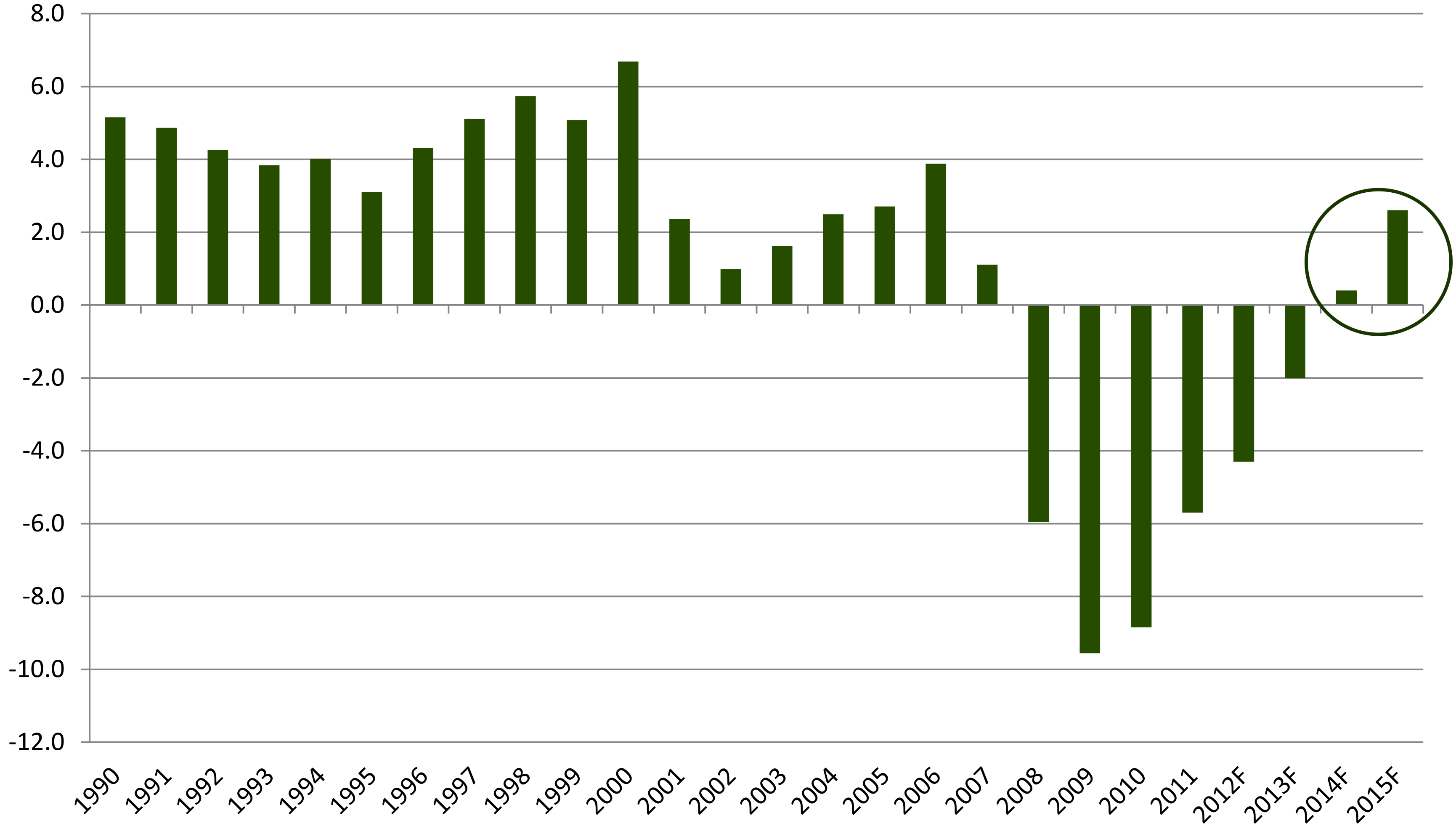


Source: Department of Finance; Eurostat

*excluding interest expenditure (and banking recapitalisation)

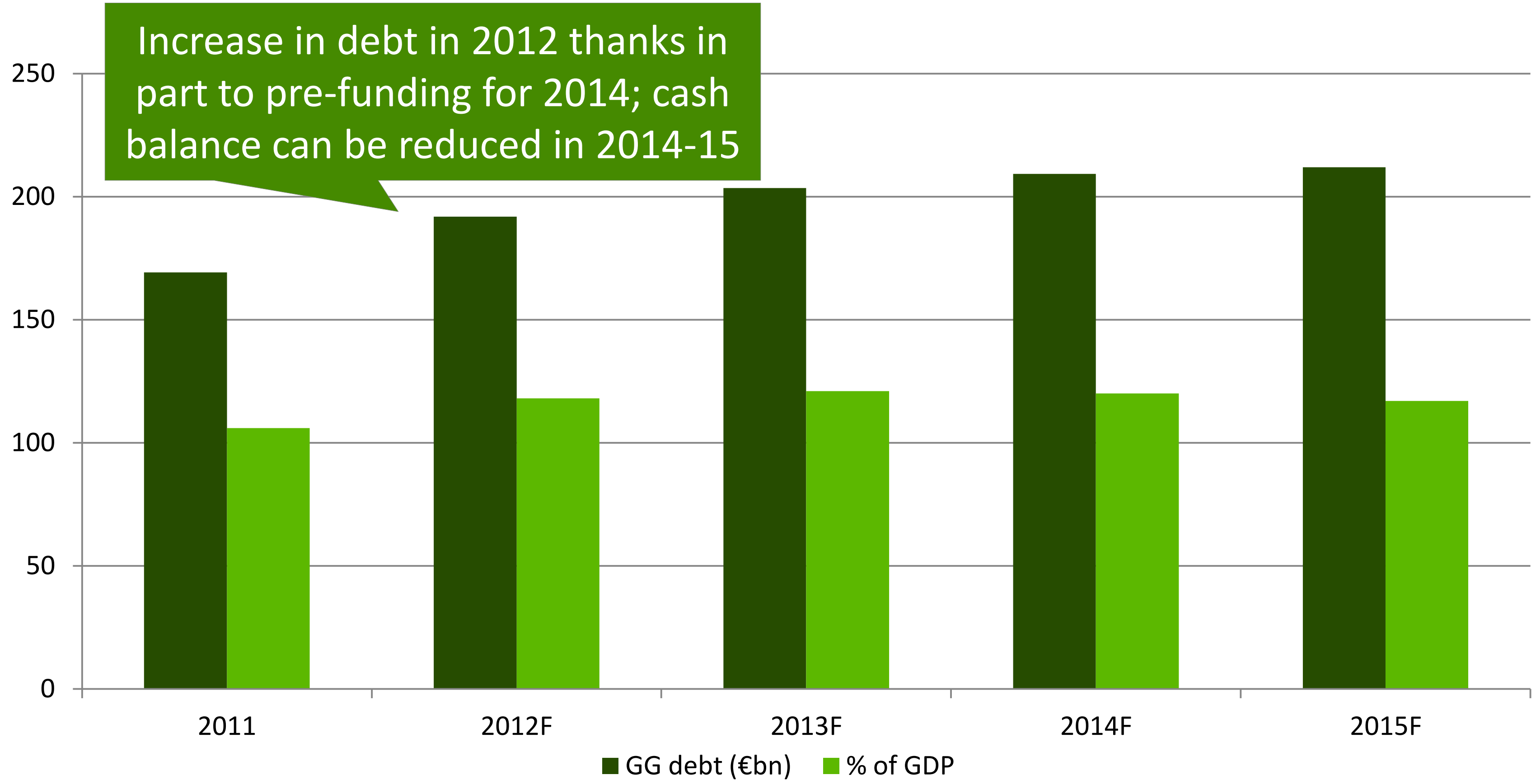
National Treasury Management Agency

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



Source: Department of Finance; Eurostat

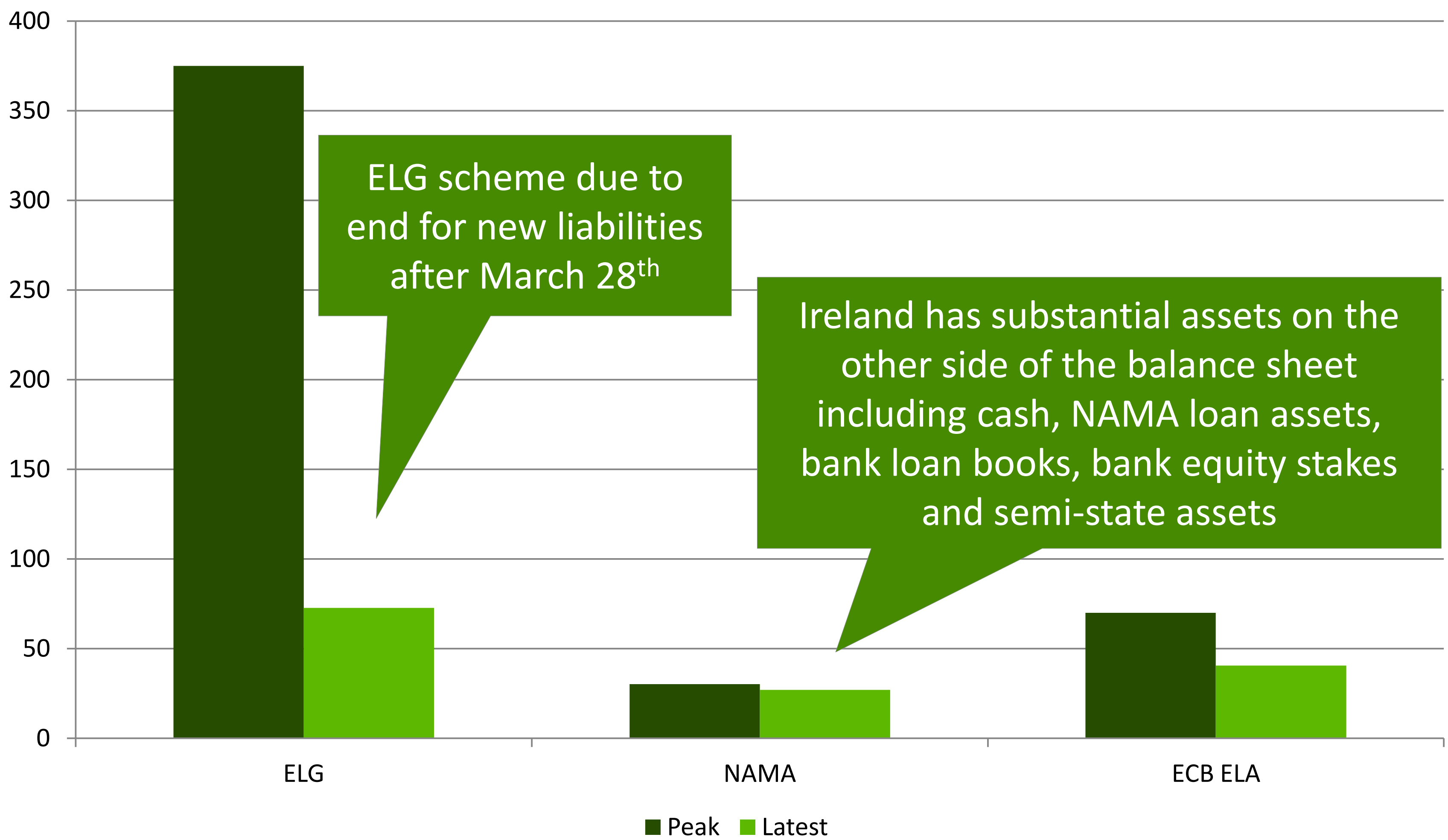
Gross Government debt is set to stabilise at c.120% of GDP in 2013, lower than originally forecast



- All things equal, 2013 debt level is expected to be lower than Budget day forecast due to sale of Irish Life and BOI CoCos

Source: Department of Finance; CSO

Contingent liabilities reduced considerably (€bn)



Source: NTMA; Central Bank of Ireland; NAMA

Foreign ownership of marketable bonds is high

€ million

End quarter	**December 2011**	**March 2012**	**June 2012**	**September 2012**	**December 2012**
1. Resident	**18,864**	**18,755**	**22,447**	**24,212**	**24,387**
– MFIs and Central Bank	15,665	17,158	20,083	21,285	**21,784**
– General government	806	349	841	1,558	**1,706**
– Financial intermediaries	2,157	1,043	1,339	1,179	**710**
i) Financial auxiliaries	337	445	501	313	**288**
ii) Insurance corporations and pension funds	1,192	453	452	447	**12**
iii) Other financial intermediaries	627	146	386	419	**410**
– Non Financial Corporations	12	10	8	5	**5**
– Households	224	195	176	184	**183**
2. Rest of world	**66,446 (78%)**	**60,896 (76%)**	**60,684 (73%)**	**64,295 (73%)**	**63,466 (72%)**
Total MLT debt	**85,310**	**79,651**	**83,131**	**88,506**	**87,853**

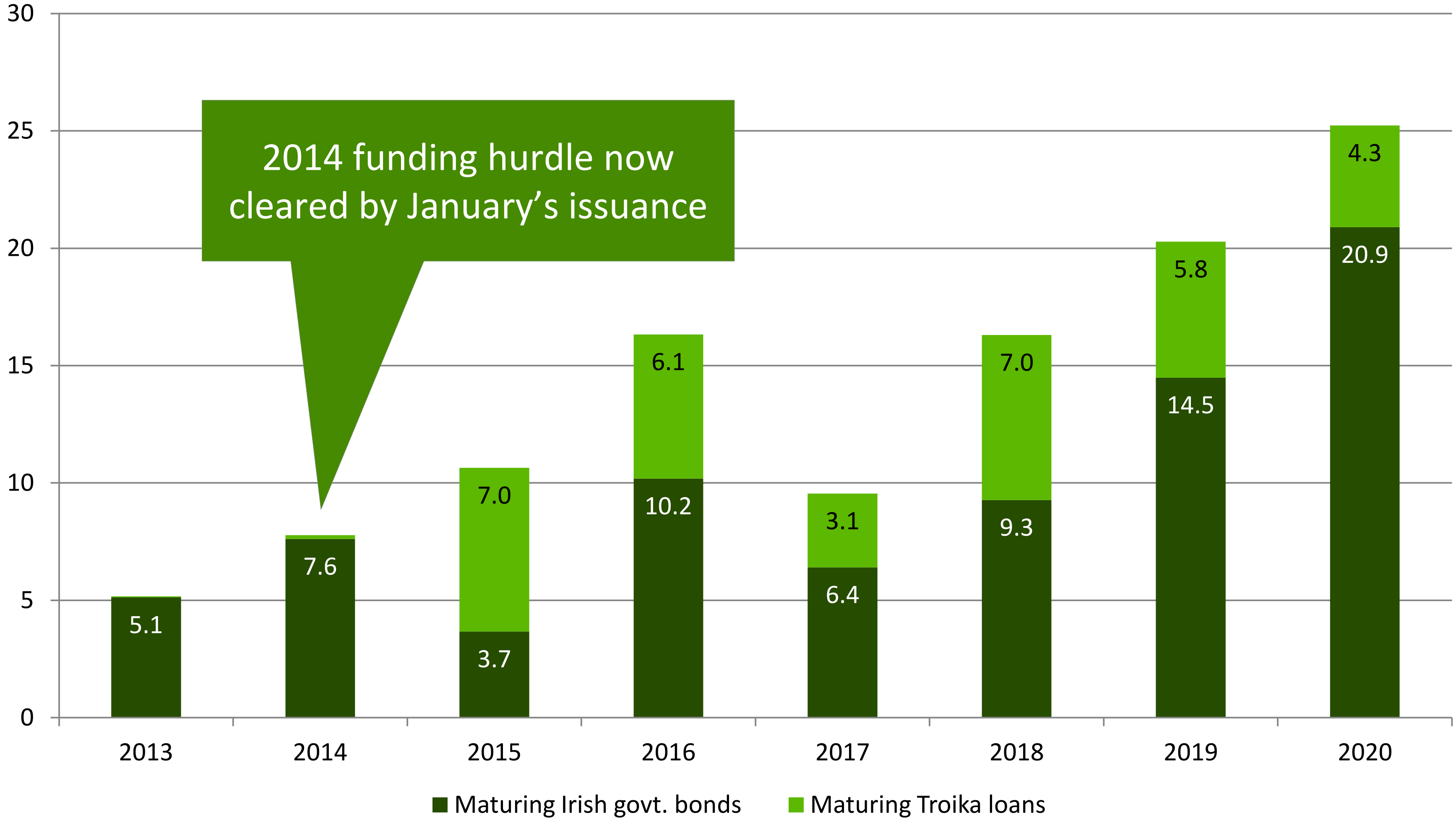
Source: Central Bank of Ireland

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**

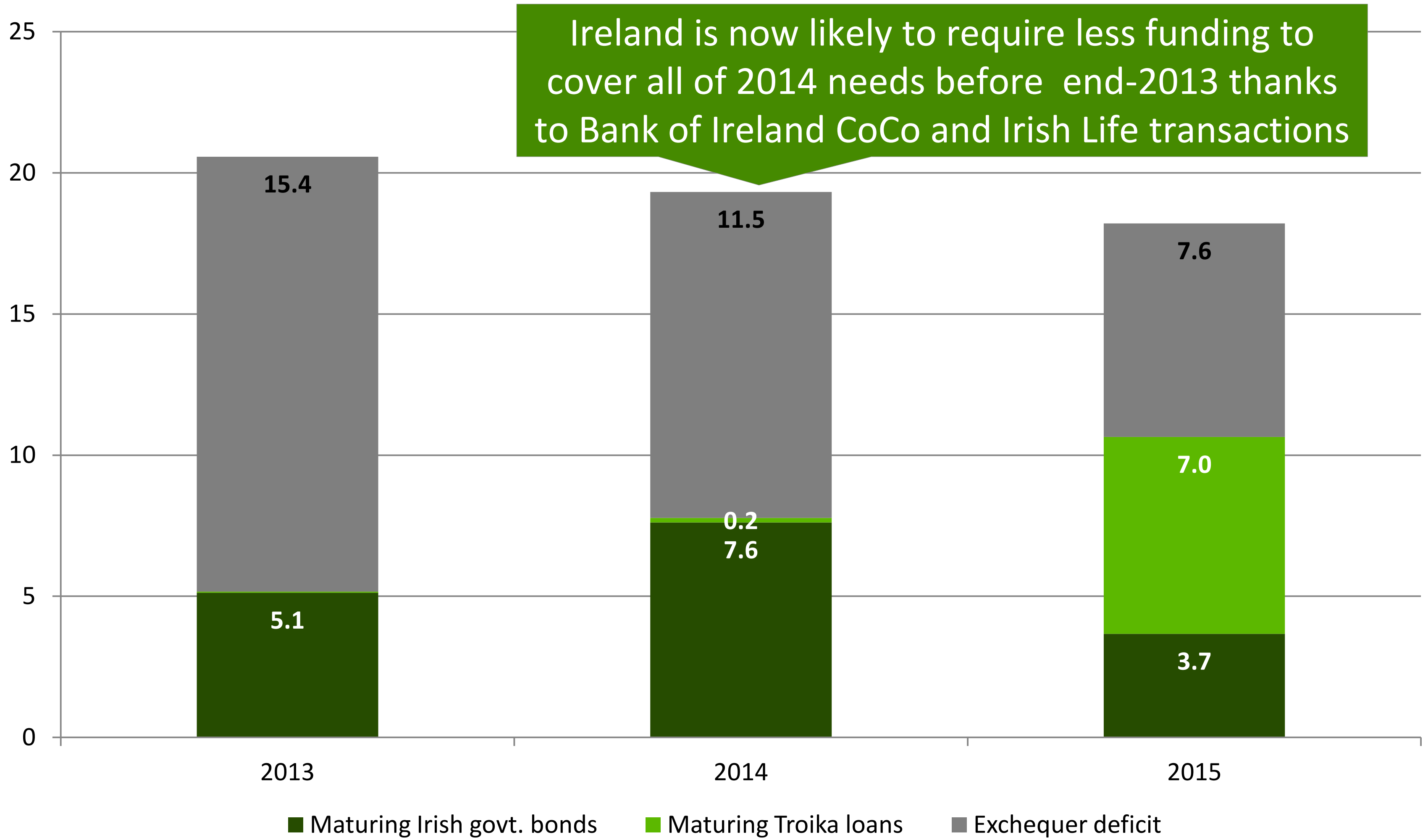
Source: CSO

Maturity profile now much smoother for 2013-2015



Source: NTMA

Total funding requirement declining steadily (€bn)

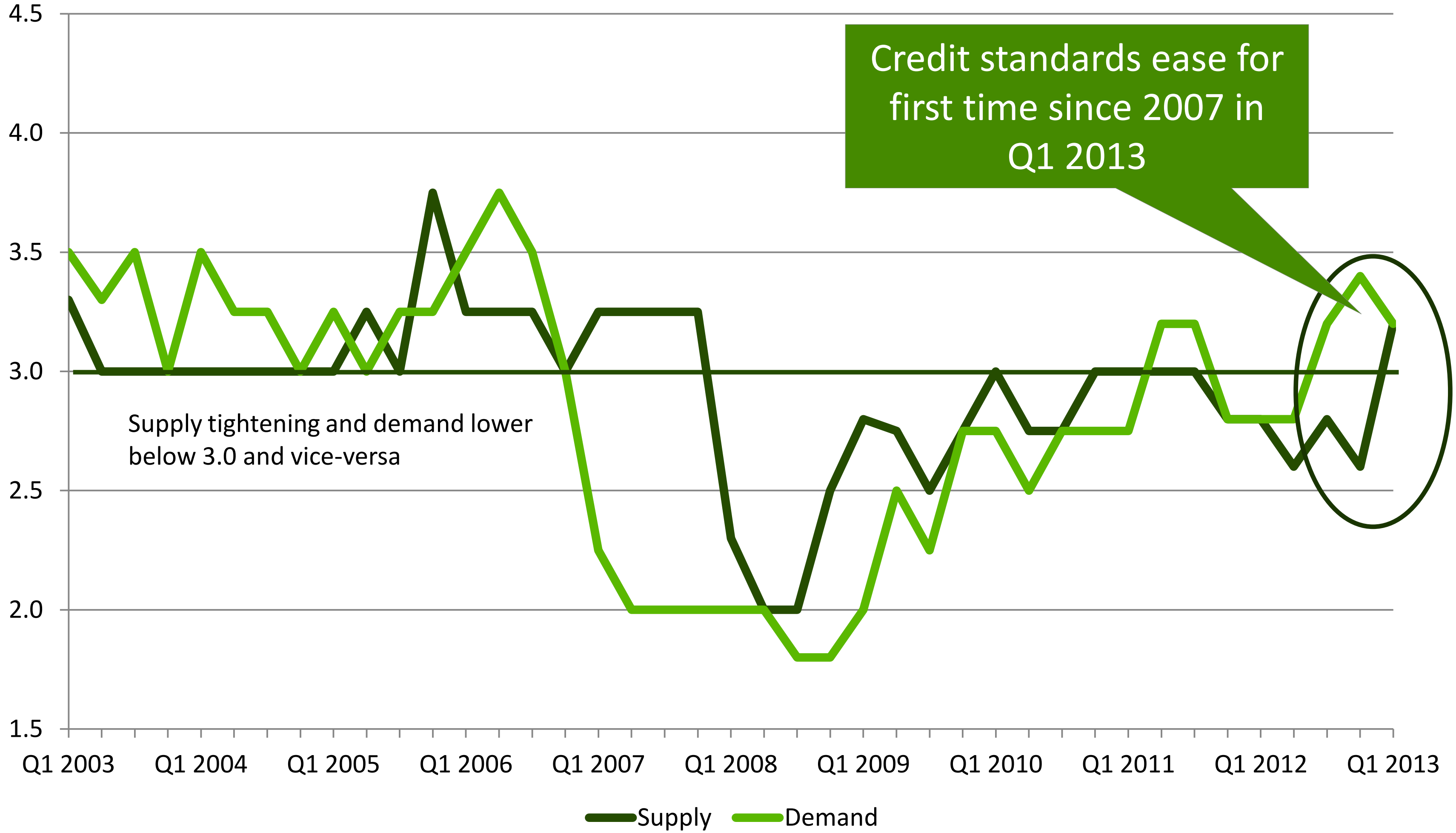


Source: NTMA; Department of Finance

SECTION 6: PROPERTY

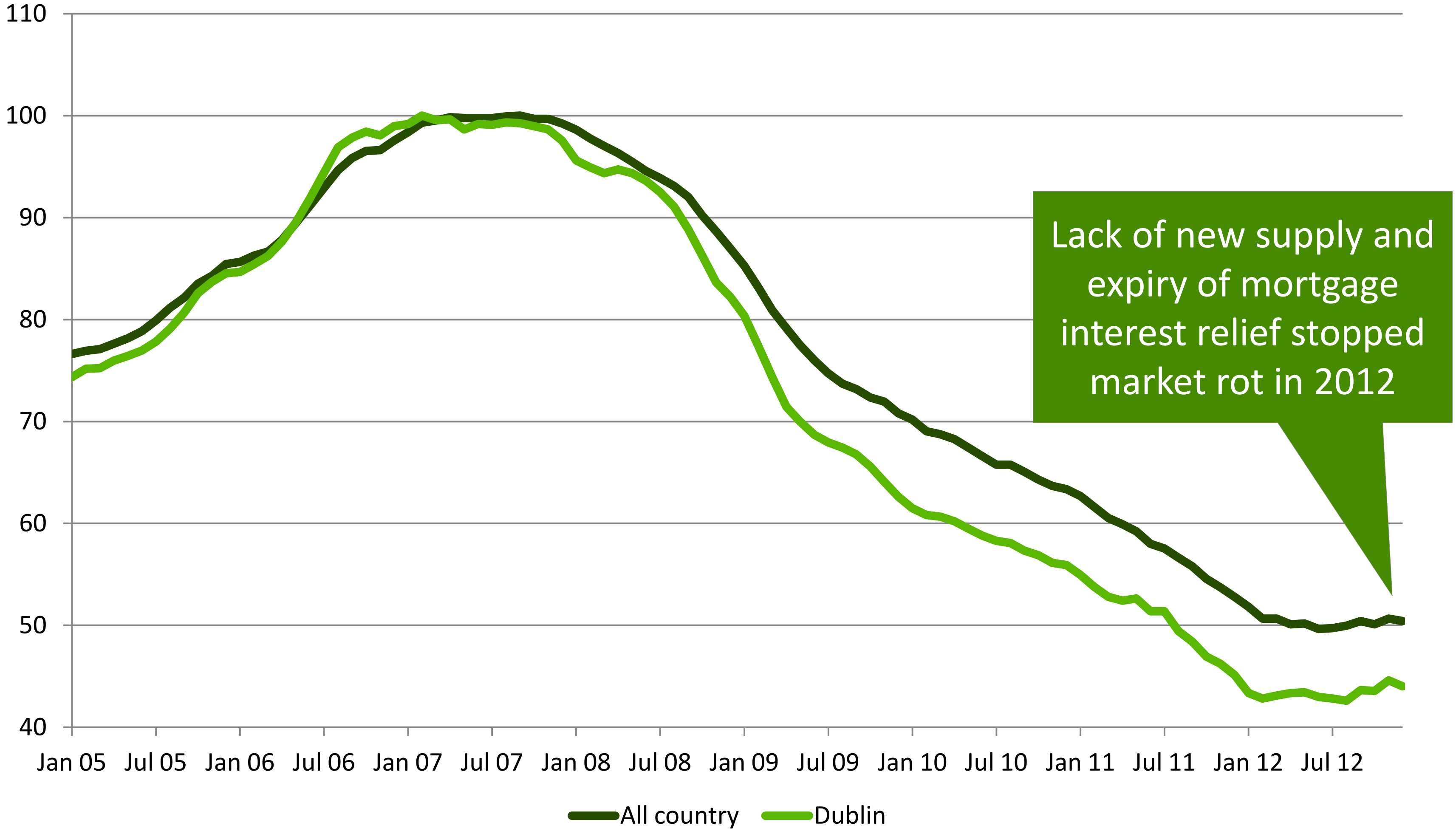
House prices have tentatively stabilised in 2012, but risks remain; interest rising in Irish commercial property thanks to search for yield

Mortgage demand eases after expiry of interest relief while banks begin to ease credit standards



Source: ECB (Bank lending survey)

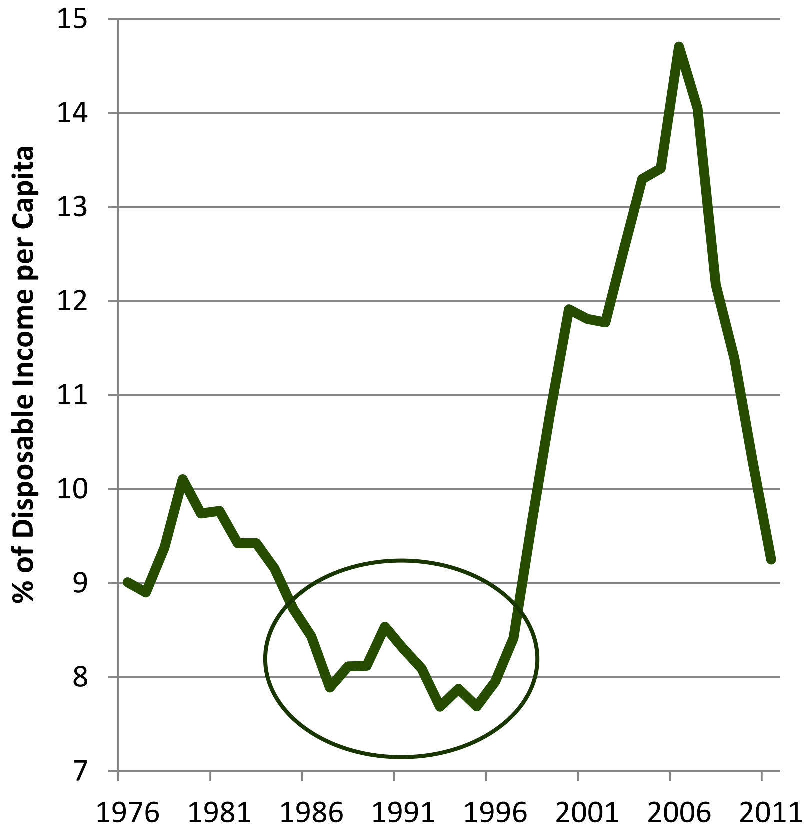
House prices rise for first time in five years, but risks remain for 2013 (Base: Sep 2007 = 100)



Source: CSO

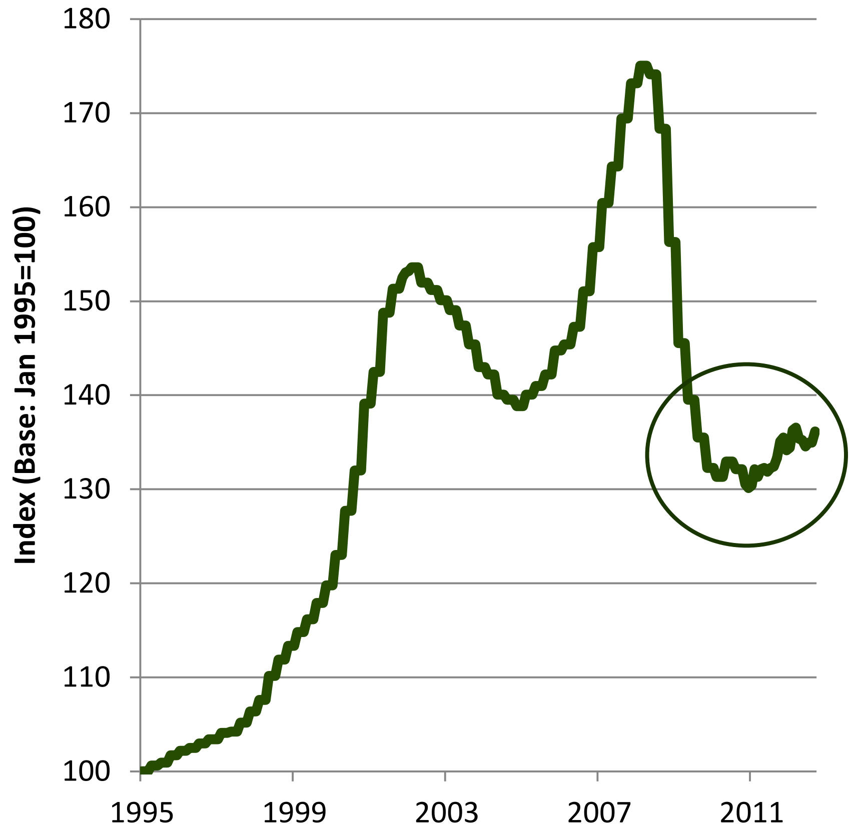
House prices near typical trough; rents rising

Valuations not quite at 1980s levels yet on this metric, but likely to be close by end-2012



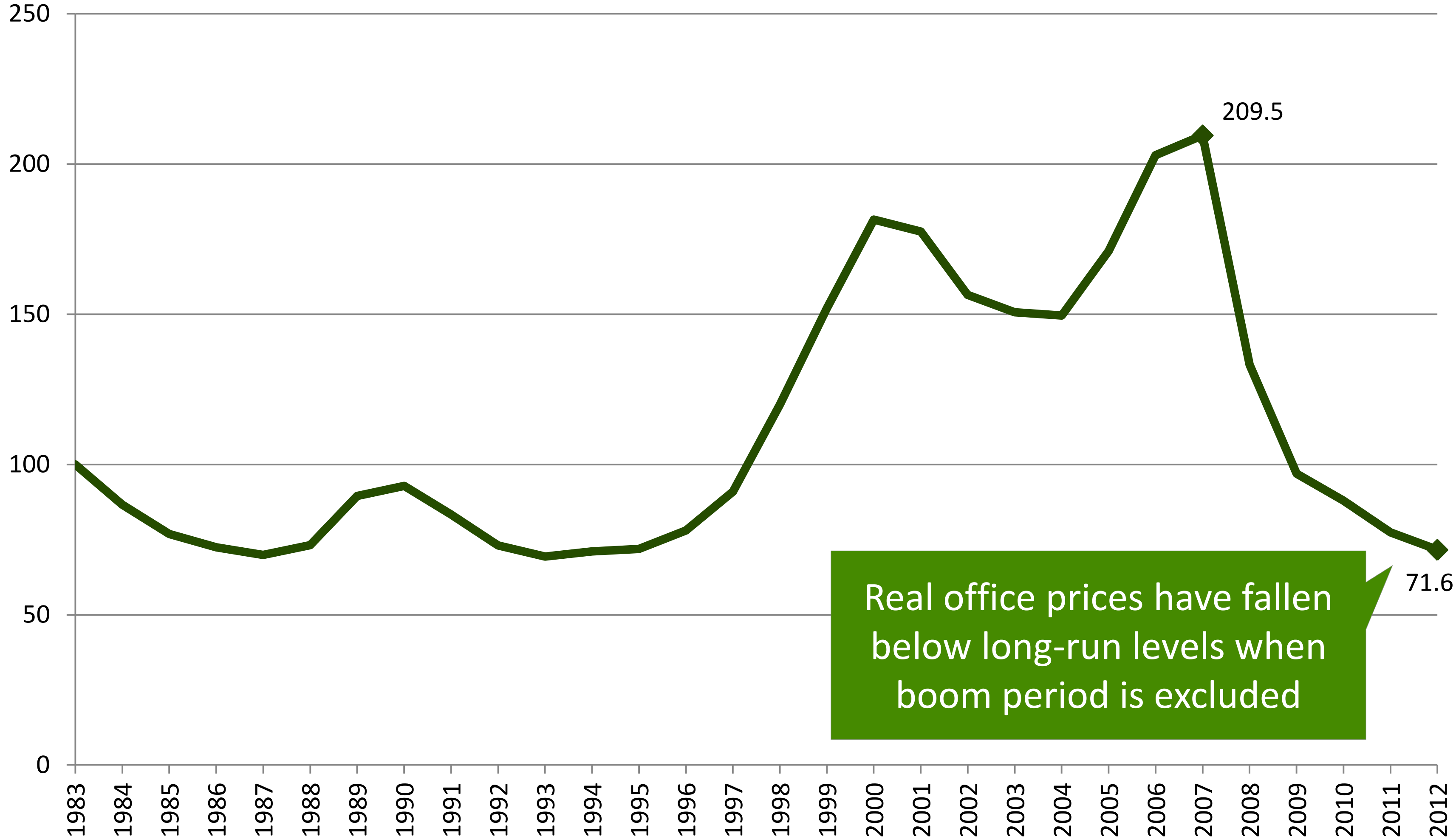
Source: CSO; NTMA

Rents have stabilised at new lower level (CPI sub index)



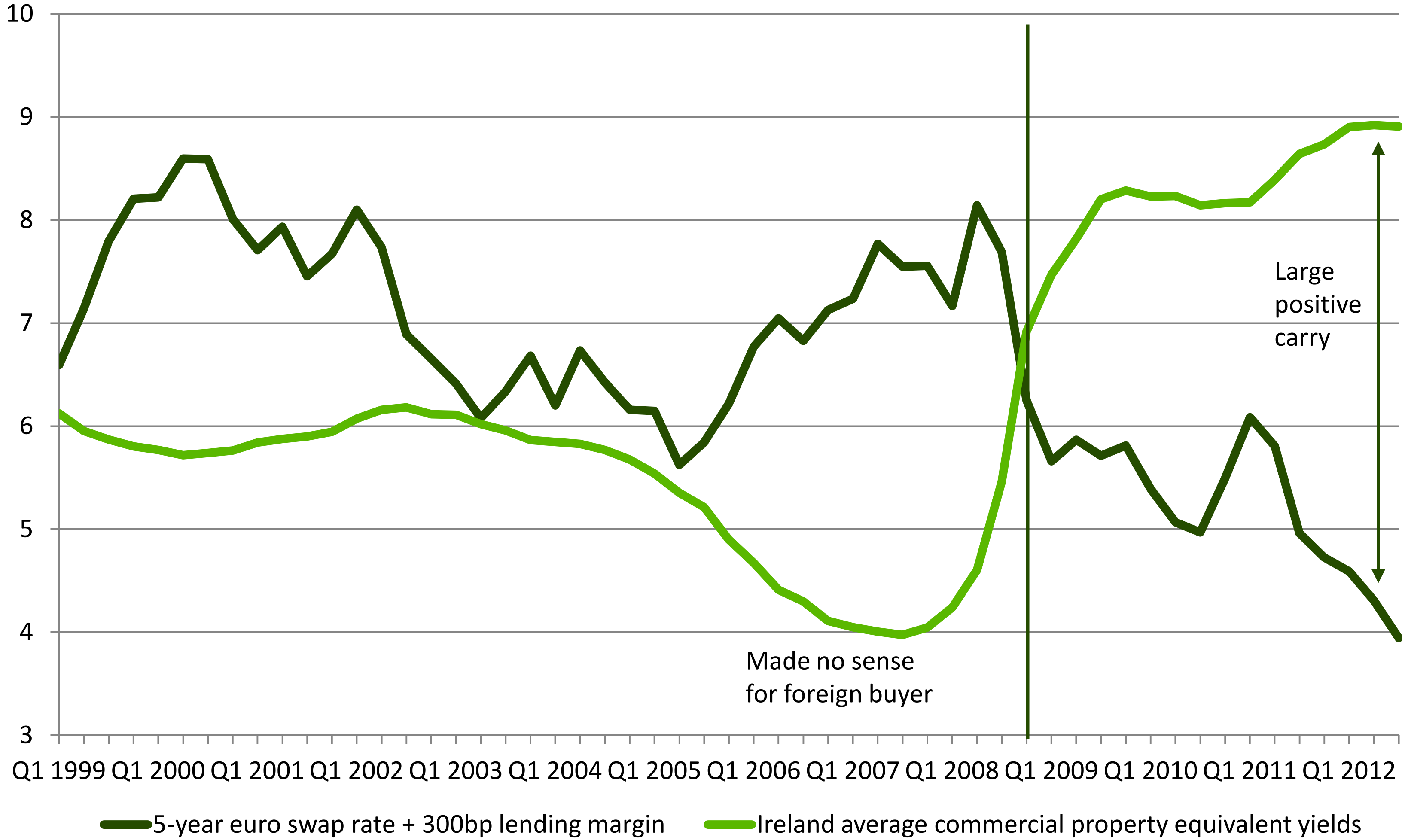
Source: CSO; NTMA

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 7: NAMA

NAMA is generating a healthy cash flow

NAMA: progress to end-2012

- **NAMA's operating performance is strong**
  - Successfully acquired 12,000 loans (over 45,000 individual properties) related to **€73.8bn** par of loans of 800 debtors for **€31.8bn**
  - New organisation established from scratch (226 staff recruited with long standing experience in banking, asset management and property)
  - As of February 2013, credit decisions totalled over 17,000. **Sales of €7bn have completed** with further active disposal pipeline in progress.
- **Senior debt redemption on track**
  - **Paid down over €5bn of NAMA debt cumulatively** (€4.75bn NAMA Bonds and €0.3bn to the State)
  - **End-year cash balances and liquid asset holding of €3.6bn** (including CSA derivative collateral paid to the NTMA); €10.5bn in cash flows generated by NAMA since inception
  - **On target to have repaid €7.5 billion or 25% of debt by end-2013.**

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 <u>€1.278bn</u>** (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 €1.7 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
  - Currently 80% of disposal income is being generated in the UK
- **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

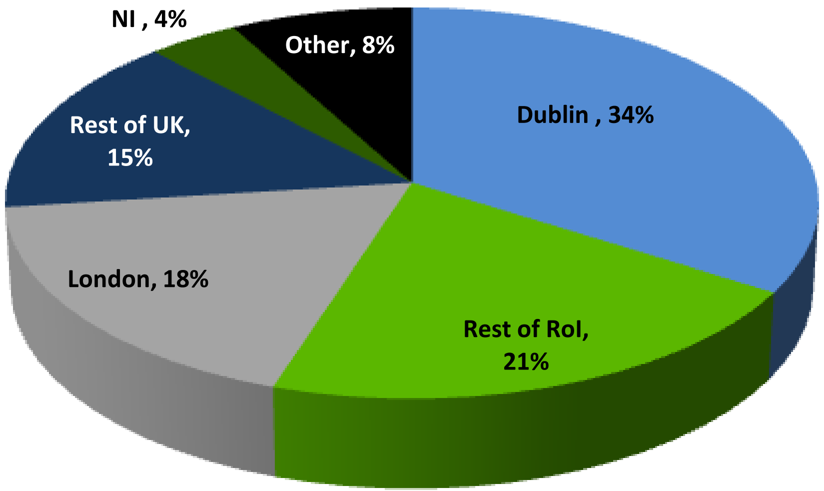
* This figure relates to legacy loan facility obligations and does not reflect acquired loan value

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 115 properties (sales value €20m).
- **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. Intended to loan over €2bn to end-2016
- **Qualifying Investor Fund & REITs:** NAMA is considering QIFs and REITs as a means of adding liquidity into the Irish market.
- **Social Housing:** Offers long-term leasing options to local authorities. More than 3,800 units identified. Local authorities have assessed about 4,000 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

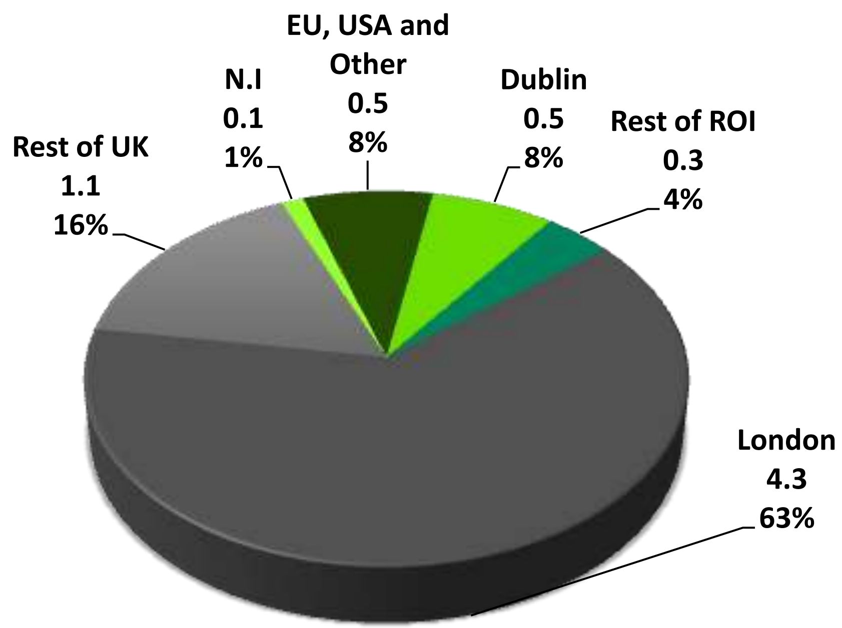
10,000+ properties, 45,000 units



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-2012 (sale proceeds by location)

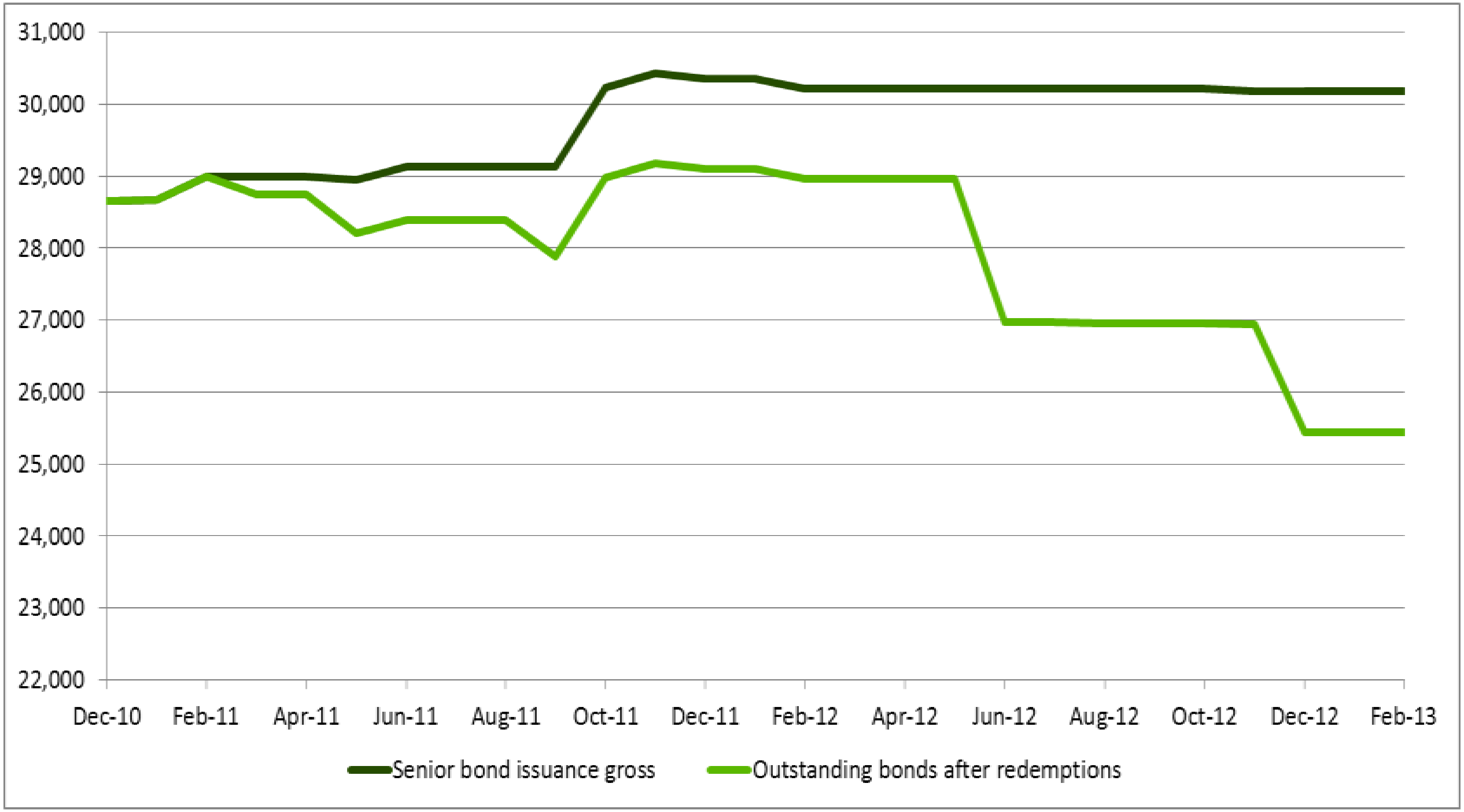


Asset Type	Value €bn	%
Dublin	0.5	8
Rest of Ireland	0.3	4
London	4.3	63
Rest of Great Britain	1.1	16
Northern Ireland	0.1	1
EU, USA and Other	0.5	8
TOTAL	**6.9**	**100**

- **Main focus to date on UK disposals due to liquidity etc.**
- **Increasing emphasis on Irish disposals in response to heightened international demand**
- **Current Status: €7bn generated in asset disposals to February 2013**

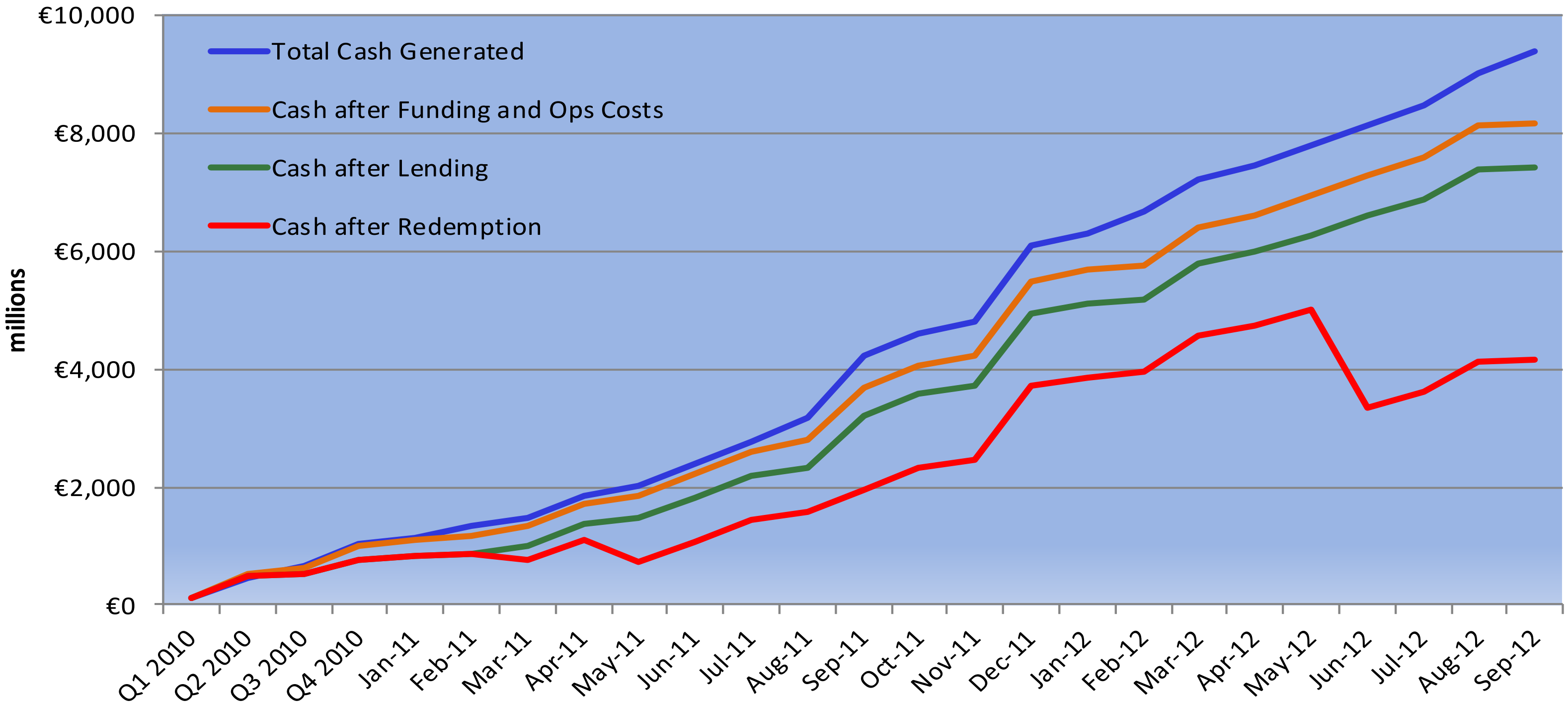
Source: NAMA

NAMA: Summary of bond activity from inception to Feb-2013



- Cumulative debt redemptions of over €5 billion as of end-2012
- €4.75bn NAMA Bonds and €0.3bn to the State

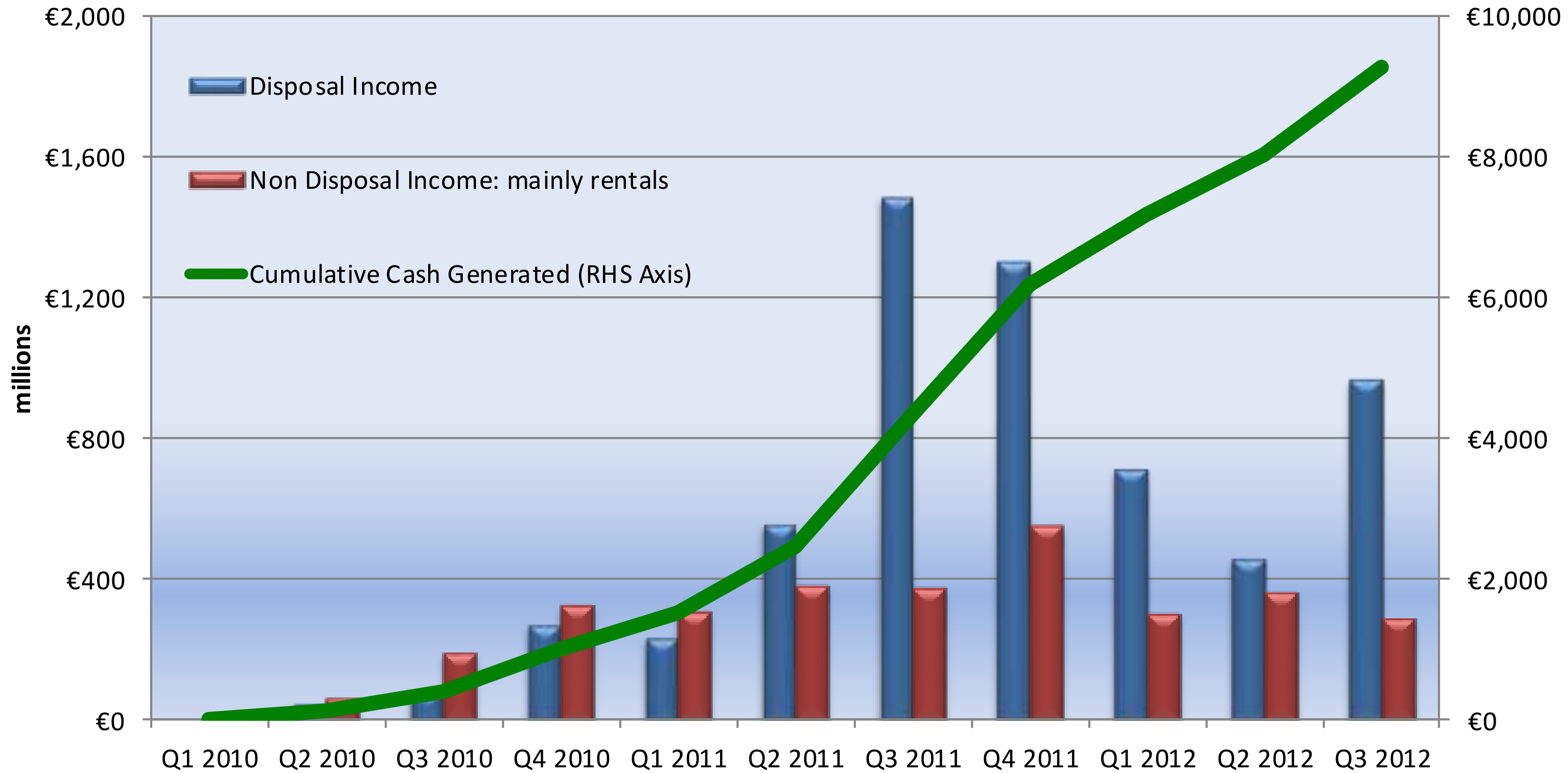
NAMA: Summary of cash flows from inception to end-Sep 2012



Source: NAMA

- **Total cash generated of €9.5 billion between 31st Mar 2010 and 30th Sep 2012 (€10.5bn as of end-2012)**
- Disposal proceeds €7 billion at Feb 2013 (€3.6 billion generated in non-disposal income by end-2012)
- NAMA senior debt redemptions of over €5 billion as of end-2012
- Lending disbursement (new advances) of over €1 billion (end-2012)
- End-year cash and equivalent balances of €3.6 billion

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

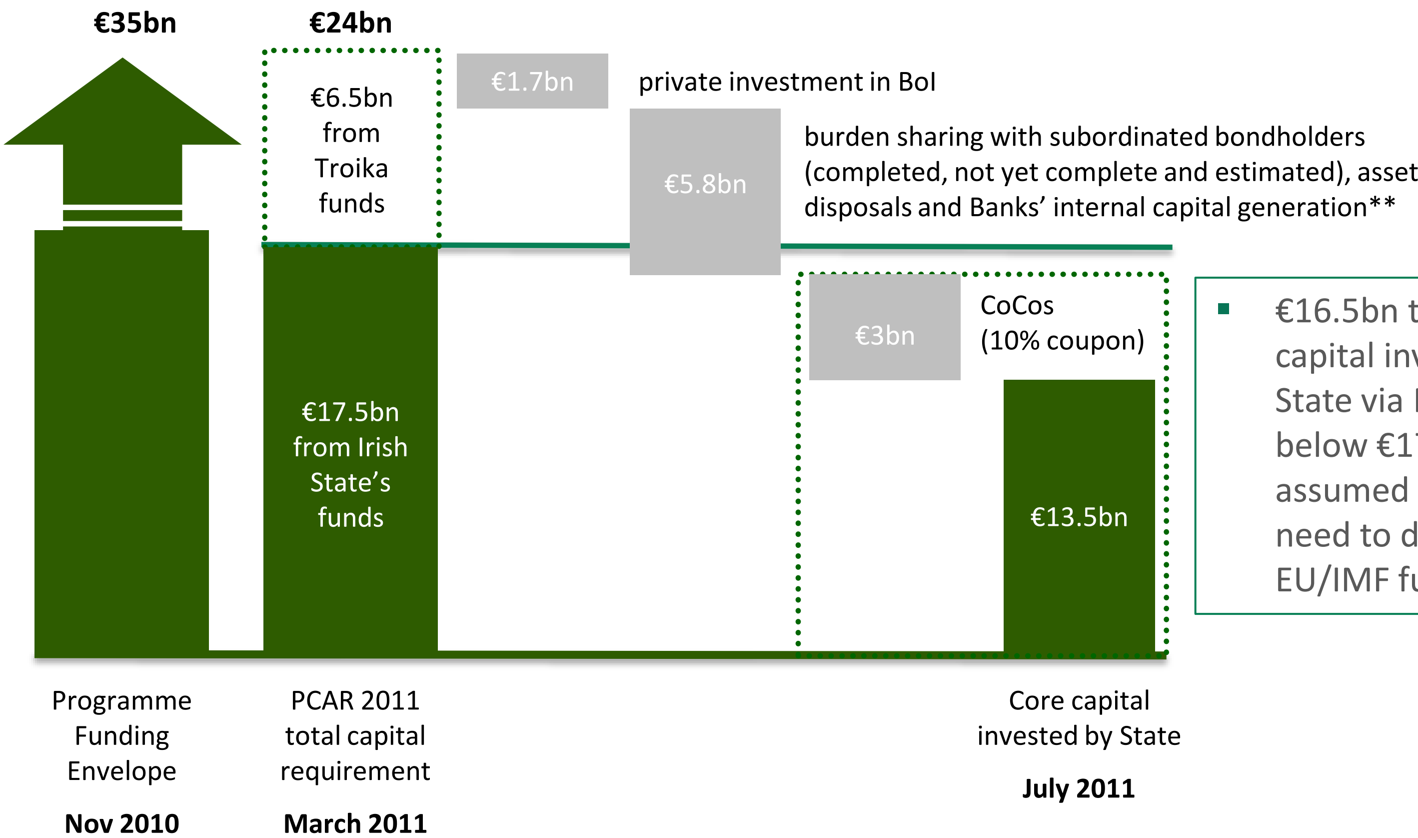
SECTION 8: BANKING*

Deleveraging plan well ahead of target and deposits are growing

* Most of the 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**
Pre-PCAR 2011:						
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%**
PCAR 2011:						
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%**
Source of Funds:						
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

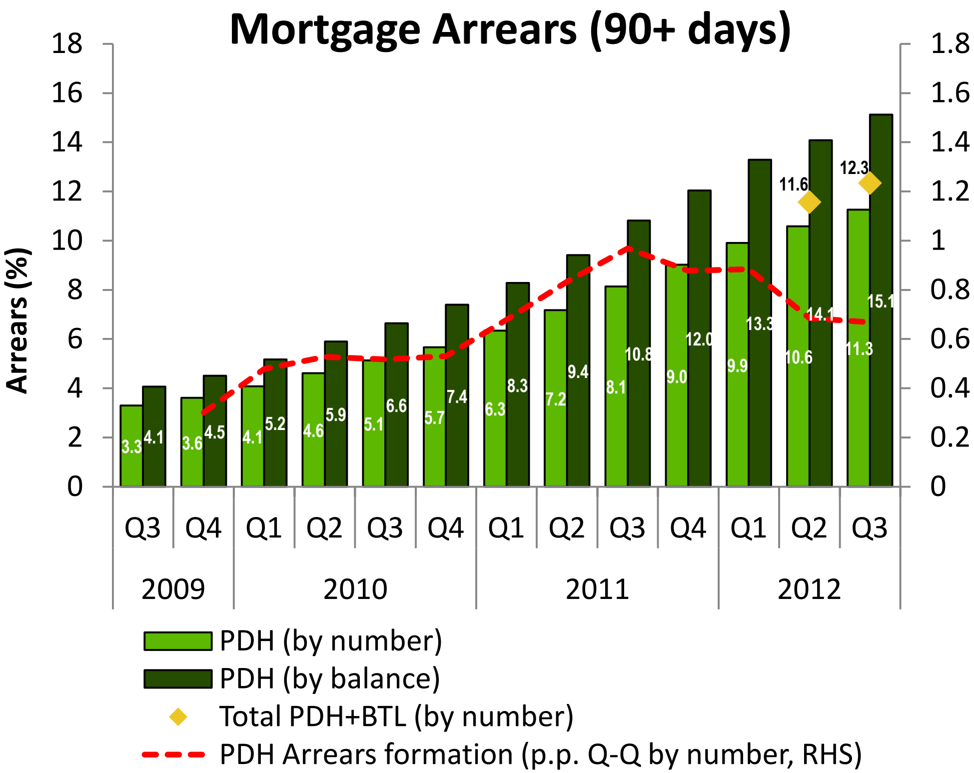
**€1.7bn of BoI's government preference shares were converted into ordinary shares in May/June 2010 (€1.8bn government preference shares remain in existence).*
*** 2011 GDP*

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



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

- PDH mortgage arrears continue to rise, albeit at a slower pace with underlying numbers for early arrears also slowing. The smaller BTL market shows relatively higher arrears.
- Published accounts for PCAR banks at June 2012 show NPLs - defined here as arrears >90 days/impaired loans – amounted to 17% of the total loan book. Central bank data put the latest figure at 17.4% for September 2012 (BTL+PDH, by value)

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

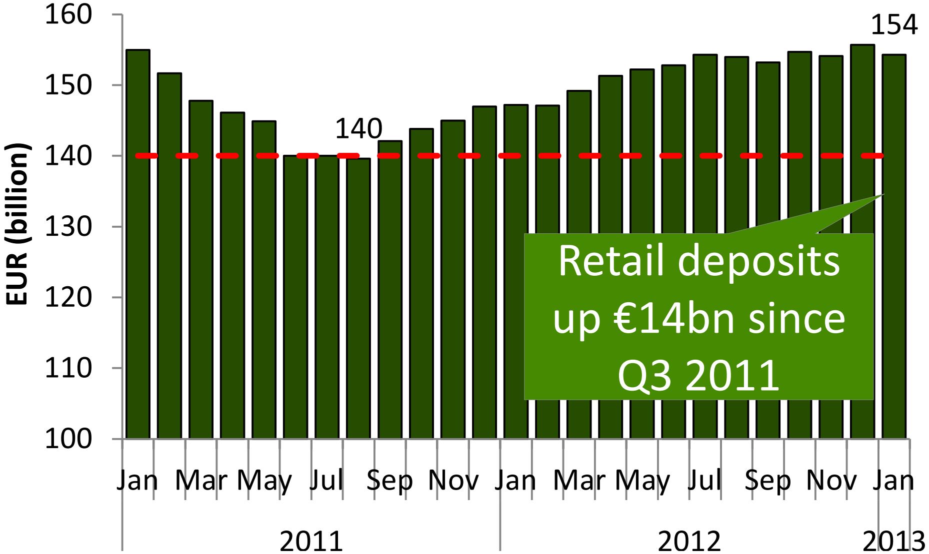
Impaired loans at PCAR banks (group)

€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

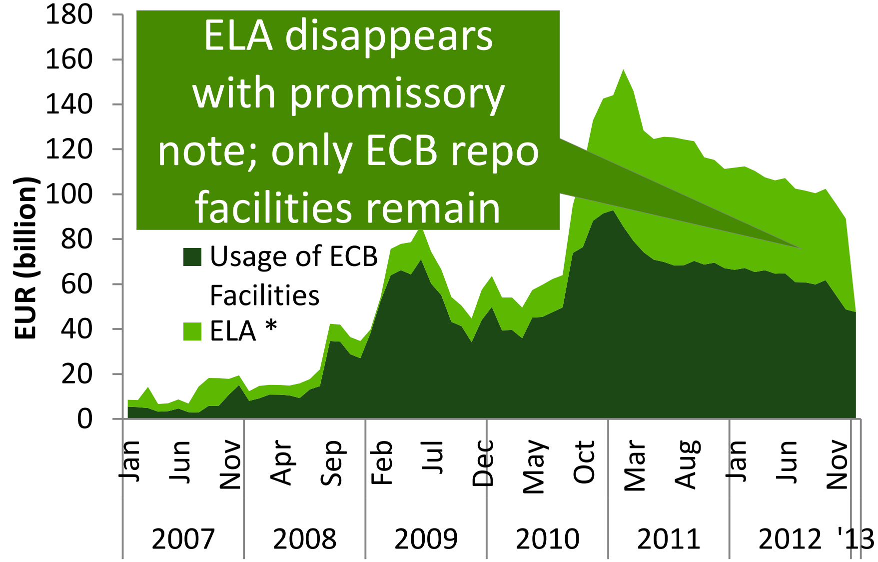
Bank deposits have stabilised / Drawings on ECB facilities reduced

Covered Banks' retail & corp. deposits



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

Covered Bank usage of ECB and ELA facilities



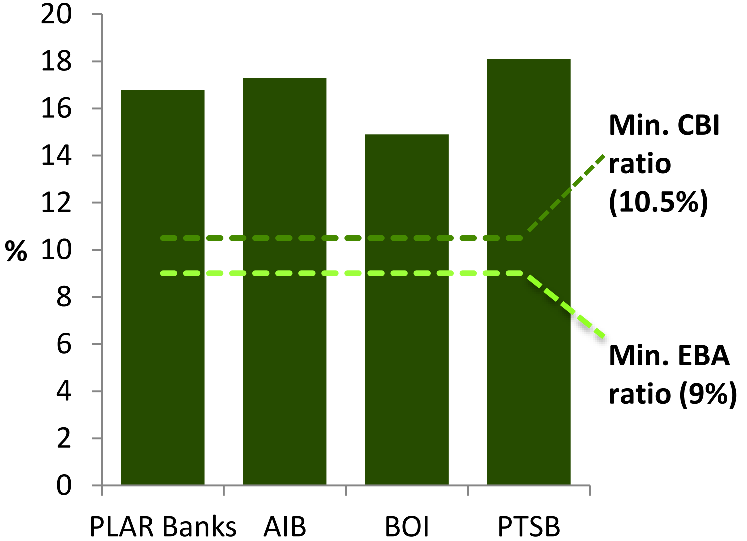
Source : CBI (* ELA proxied by sum of CBI's other claims on euro area credit institutions and other assets)

- As of end-January 2013 Covered Banks' deposits were up €14bn from their trough in Q3 2011
- State guarantees fall from c.€375bn (Sep '08) to c.€73bn (Dec '12) - ELG scheme ending for new liabilities after 28th March 2013
- BOI and AIB have raised €2bn in covered bond funding in recent months; sale of BOI CoCo (€1bn) also signals improved market sentiment

- Covered Banks' usage of ECB repo facilities has fallen significantly:
- ECB repo usage reduced to c.4.2% of total Eurosystem funding from a 2011 peak of c.18.8%.
- Covered banks ECB funding down to €49bn (Jan 2013) from peak of €93bn (Jan 2011).

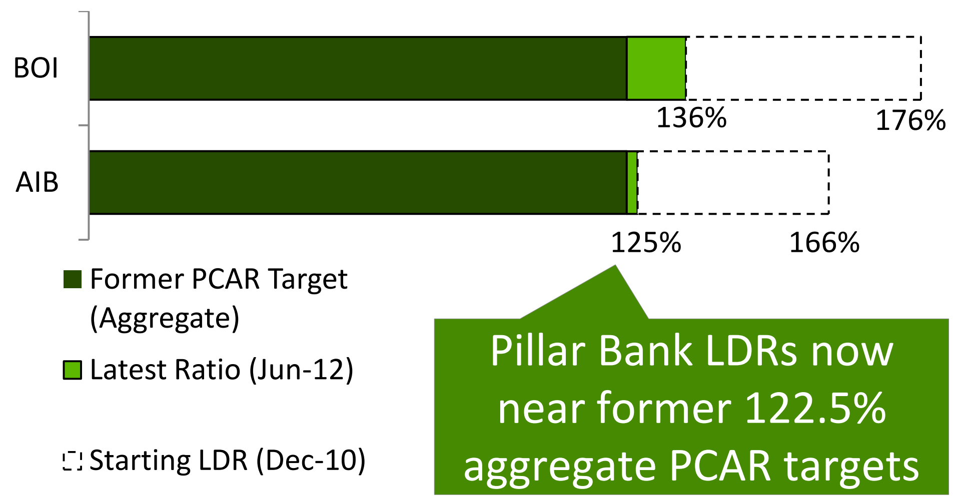
Capital ratios and loan-to-deposit ratios strengthened

Core Tier 1 Capital Ratios (June 2012)



Source: Published bank accounts

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

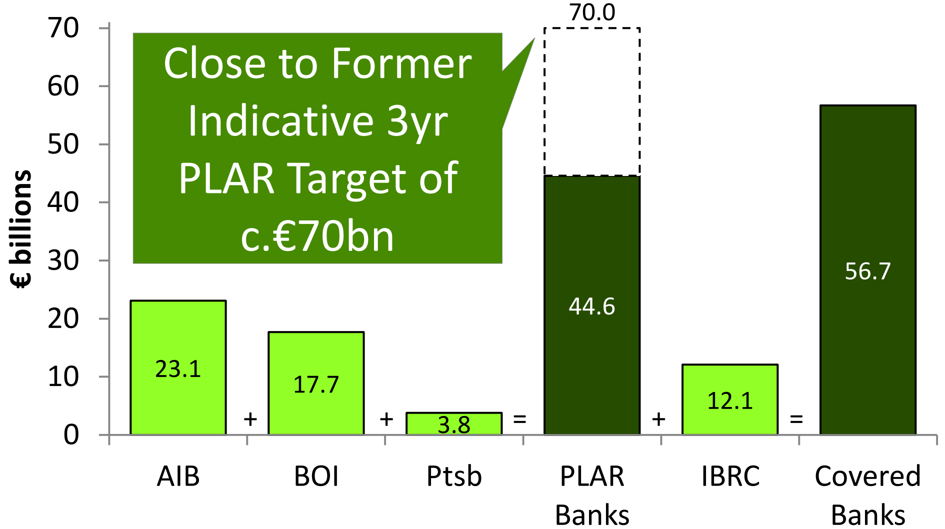


Source: Published bank accounts

- 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 former PCAR targets, with latest data likely to show further progress; agreement has since been secured to streamline deleveraging framework and remove LDR targets minimising lending and deposit pricing distortions
- Deleveraging is now 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)

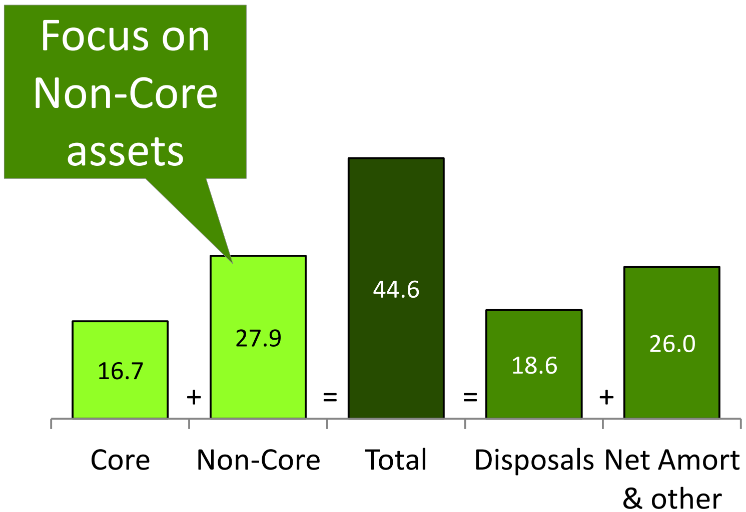
Deleveraging programs continue to progress

Bank deleveraging from Dec-10 to June 2012



Source: Department of Finance

PLAR Banks reduction split



Source: Department of Finance

- **Cumulative covered bank deleveraging to end-June 2012 of €56.7bn; more progress since then**
- 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.**

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 reviews bank decisions to refuse/reduce/ withdraw credit facilities of €1,000 - €500,000. **It has overturned 56% of referred decisions to date**, supplying €13m credit & protecting 1,102 jobs
- Pillar banks report **in excess of 80% of SME formal loan applications are receiving credit**
- In 2013, the **NPRF introduced 3 new SME funds** to provide equity, credit and restructuring/recovery investment worth up to €850m with NPRF acting as a cornerstone investor alongside third-party investors.
- Range of additional funding supports include:
  - MicroFinance Fund - €40m available over 5 years
  - Loan Guarantee Scheme - €150m per annum over 3 years
  - Enterprise Ireland – upwards of €200m in 2013
  - European Investment Bank , European Investment Fund (€80m through AIB) and Silicon Valley Bank partnership with the NPRF ($100m over 5 years)

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

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

Main provisions of 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 has been enacted as of December 2012
- Personal Insolvency Service to be established and operative in 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