IRELAND: REGAINING CREDITWORTHINESS

Ireland met all its commitments in 2011, outperforming fiscal targets in particular; Further progress continuing in 2012

June 2012

Index

SUMMARY

Ireland expects to achieve fiscal targets for second consecutive year in 2012, while continuing to grow its economy modestly

Target for 2012 is to build on the recovery

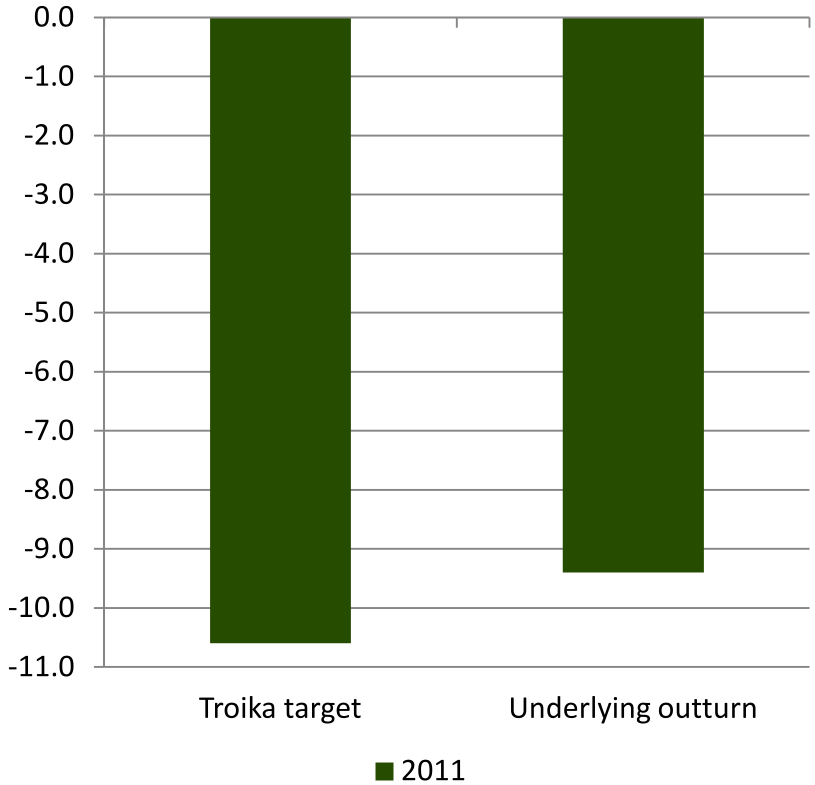
- **Government set to cut deficit to 8.6% of GDP**
  - Troika (EC/ ECB/ IMF) very pleased with delivery on all Programme benchmarks; significant outperformance versus fiscal target in 2011
- **Second consecutive year of modest GDP growth expected**
  - Export growth remains resilient so far in 2012, despite euro area difficulties; Ireland’s forecast GDP growth near top of euro area league
  - But domestic demand may continue to decline at a slow pace in 2012
- **Second half of bank deleveraging plan to continue**
  - More than half completed in 2011 (first year of three 2011-2013)
  - Government to reform insolvency laws to deal with mortgage arrears
- **National Asset Management Agency (NAMA) to move into phase of adding value to troubled assets**
  - Ireland's main contingent liability being reduced: on track to repay €7.5bn by 2013 (sales of €8.9bn so far)
  - NAMA to invest €2bn in the Irish economy over next four years

NTMA plans to return to the market in 2012

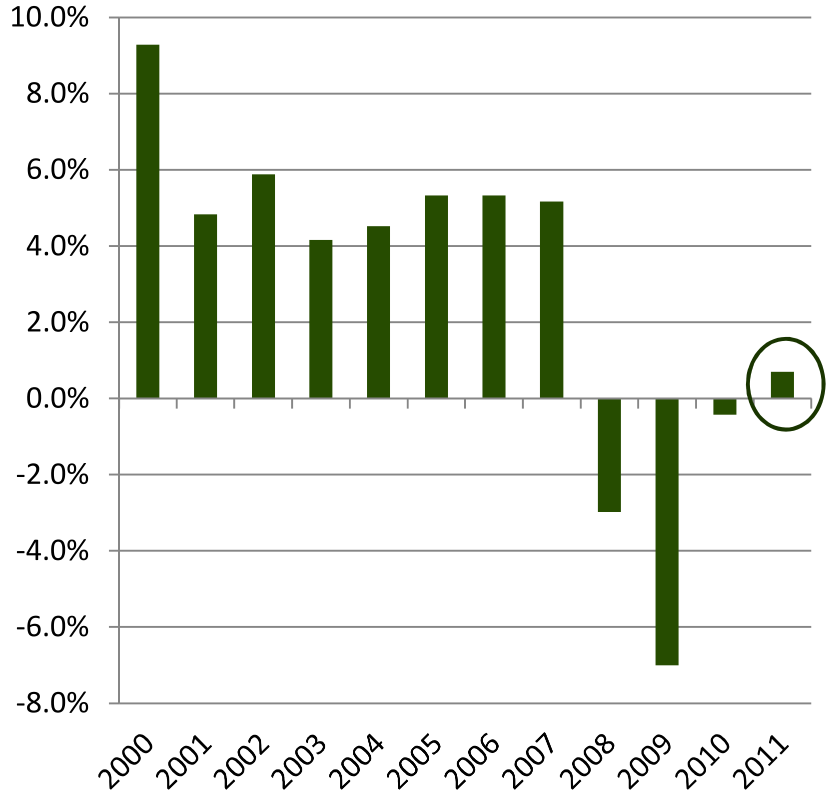
- **Renewed market presence planned over summer months**
  - NTMA to re-launch treasury bill auctions
- **Two main components of full market re-entry late in 2012 or early 2013**
  - Launch of longer-term bond issue
  - Introduction of amortising bonds: demanded mainly by local pension funds/ life assurance industry
- **But return to more normal funding cycle subject to euro area conditions**
  - Current market turbulence is unhelpful and many questions about euro area crisis resolution remain unanswered

Ireland has passed the turning point of its crisis

General Govt. deficit (% of GDP)

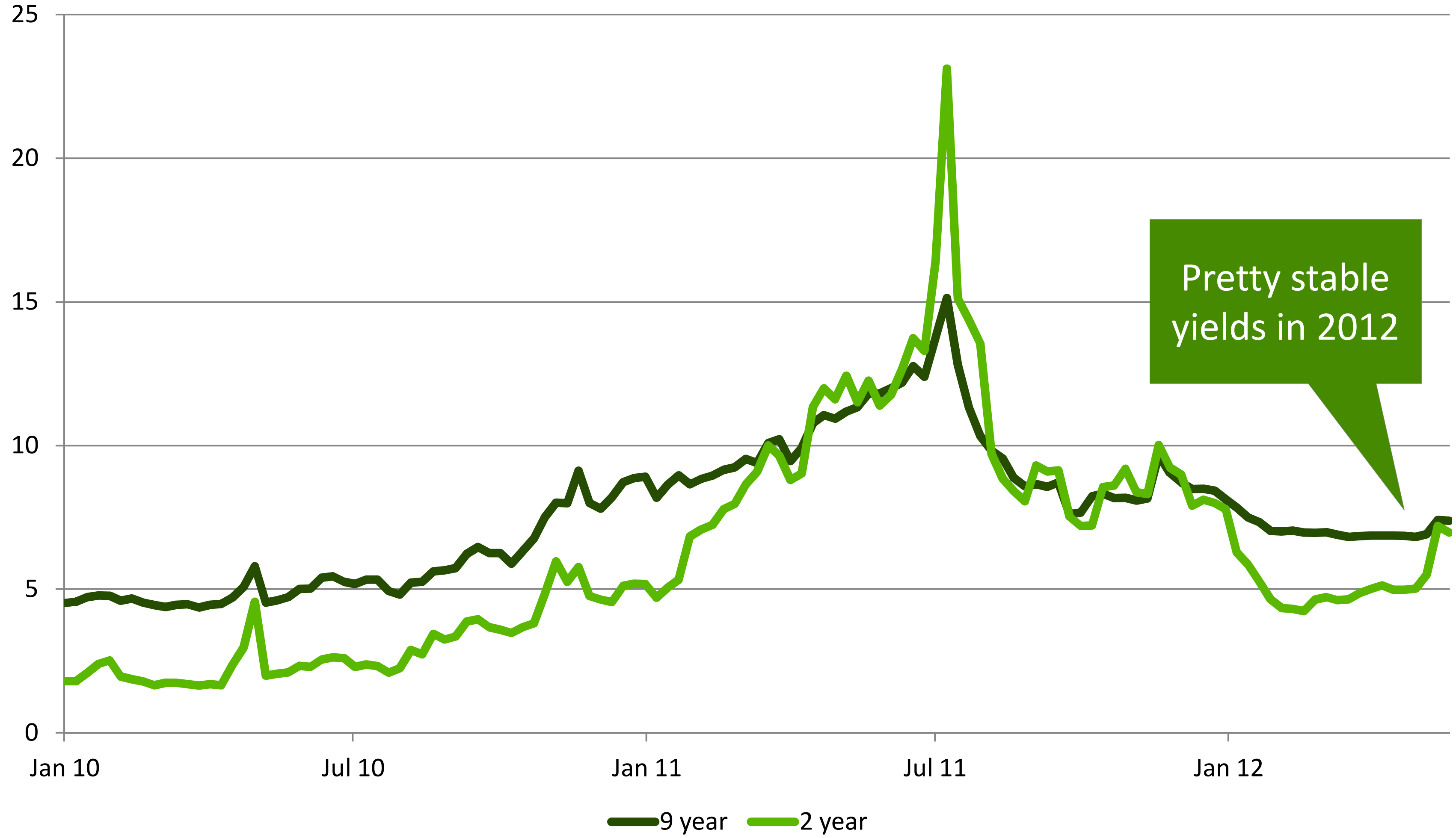


GDP (volume, % change yoy)



Source: Department of Finance; CSO

Yield curve looking more normal, as Irish sovereign bonds delivered best returns in euro area in 2011



Source: Bloomberg (weekly data)

Ireland's Credit Ratings have stabilised over last year

Rating Agency	Long Term Rating	Outlook
Standard and Poor's	BBB+	Negative
Fitch	BBB+	Negative
Moody's	Ba1	Negative
R & I	BBB+	Negative
DBRS	A (low)	Negative Watch

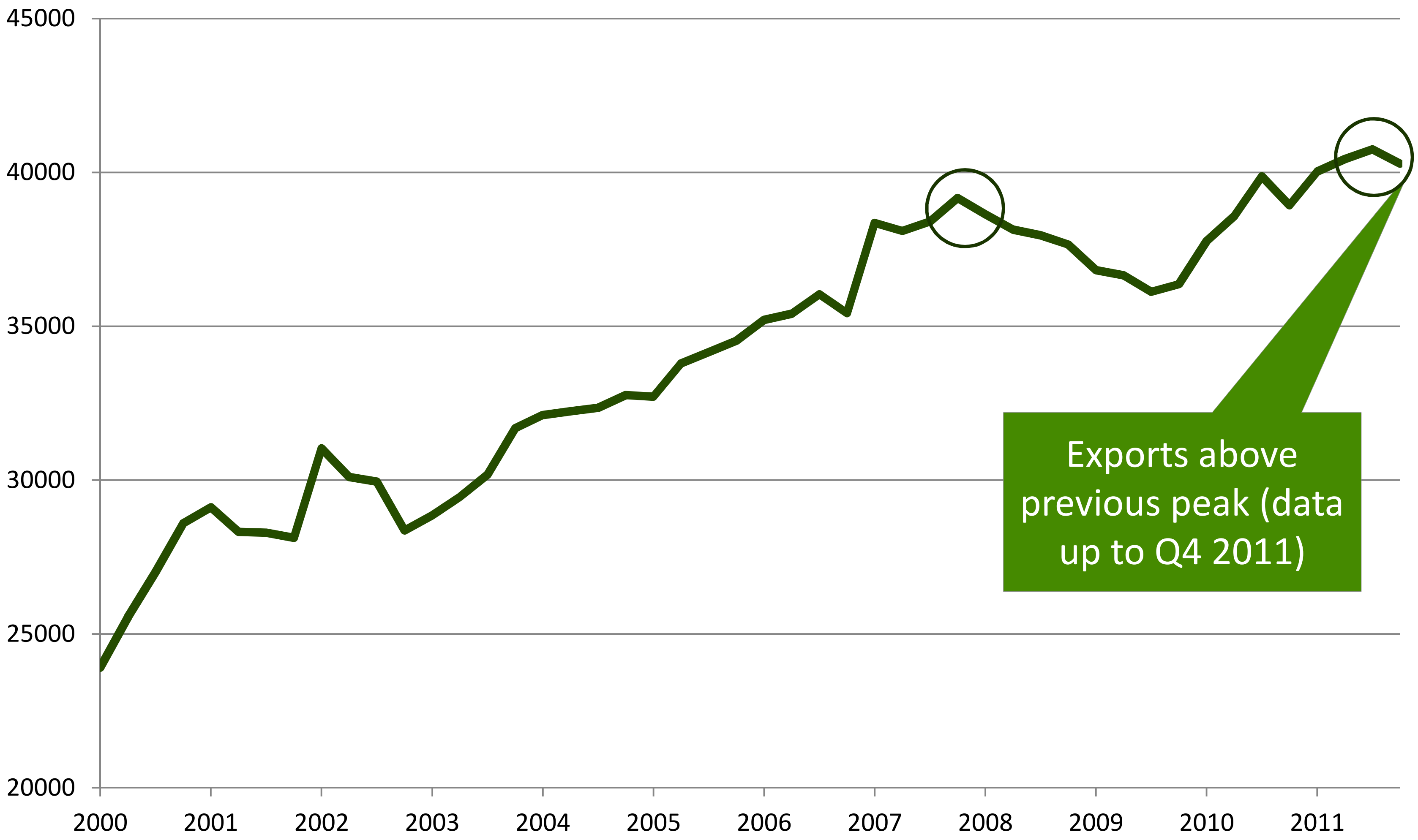
Source: Bloomberg

Last downgrade was by DBRS in August 2011

SECTION 1: MACRO

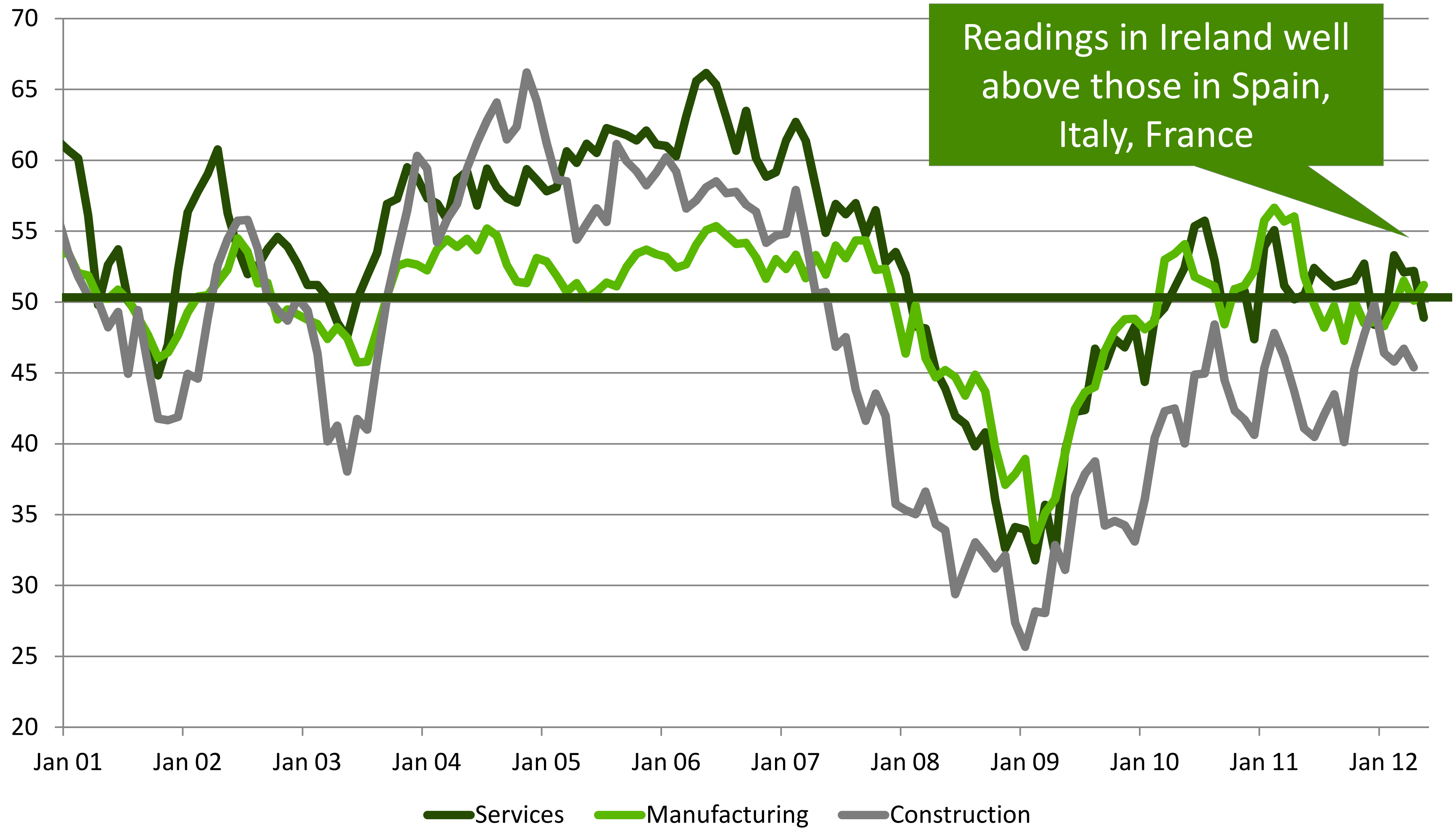
Ireland at top of euro area growth forecast table in 2012; PMIs well above euro area average; but domestic demand weak, thanks to necessary deleveraging

Rapid recovery in exports, but euro area crisis impacted negatively in H2 2011 (quarterly €m scale)



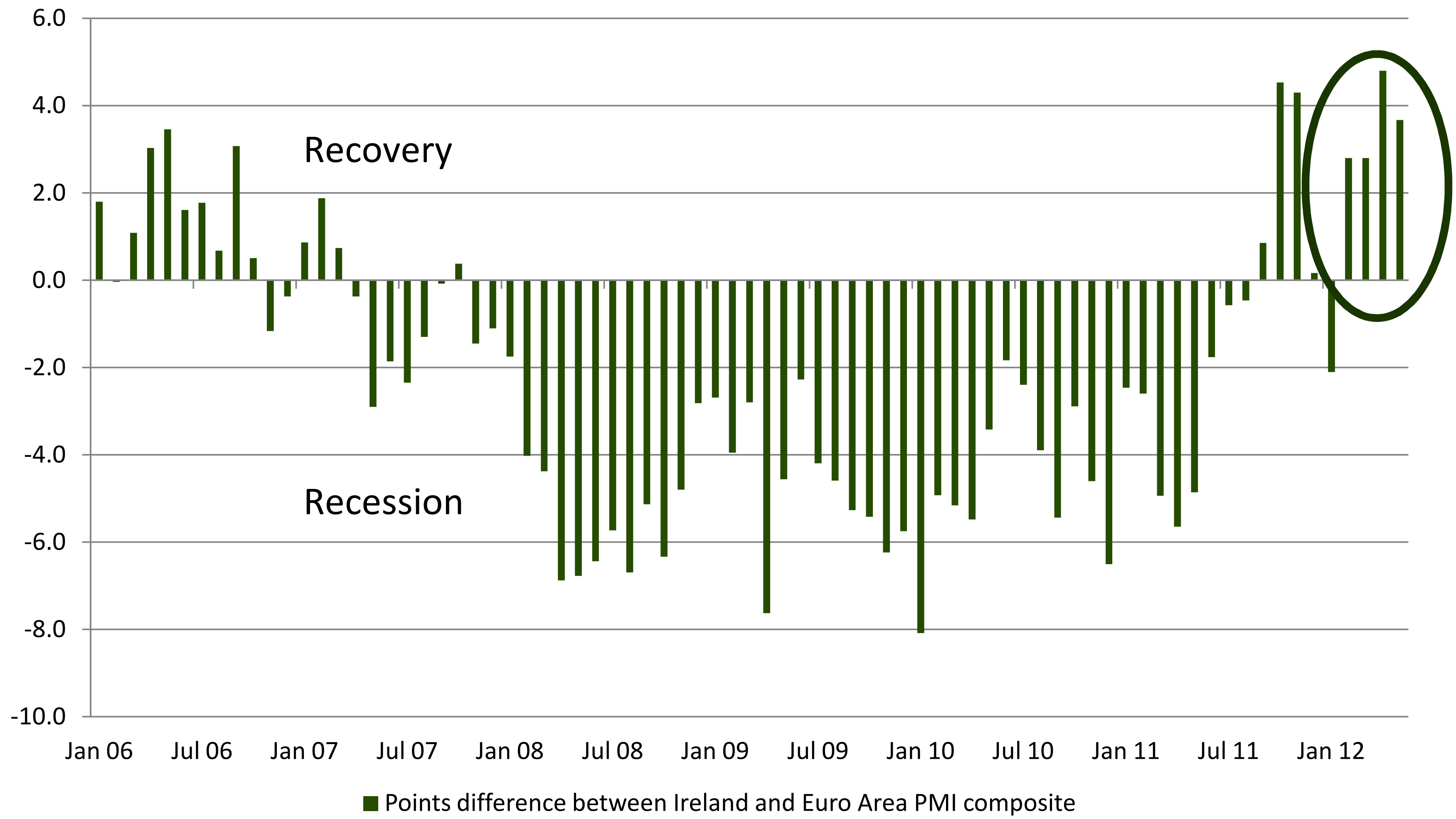
Source: CSO

Ireland's PMIs soften on further euro area weakness



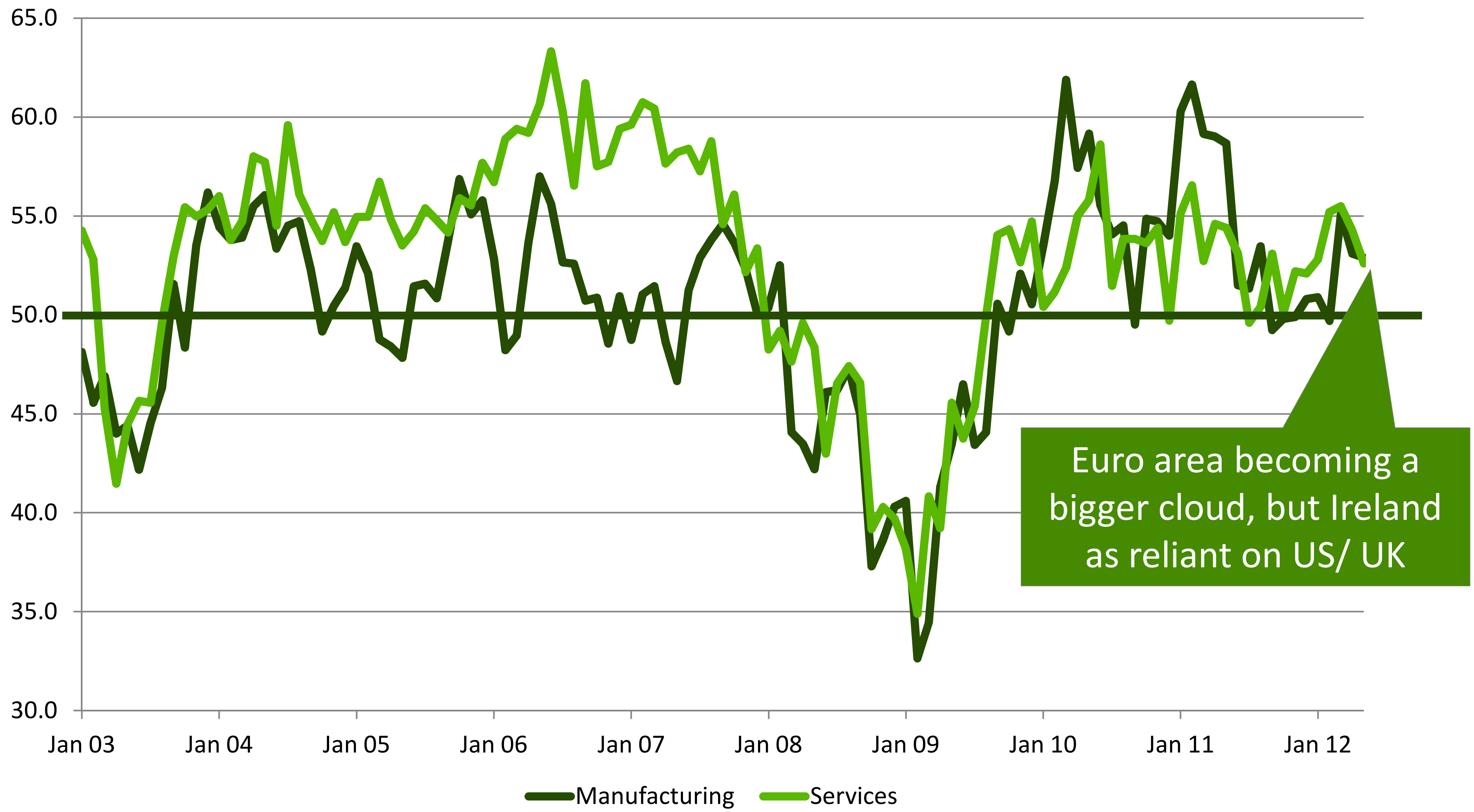
Source: Markit; NCB; Ulster Bank

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



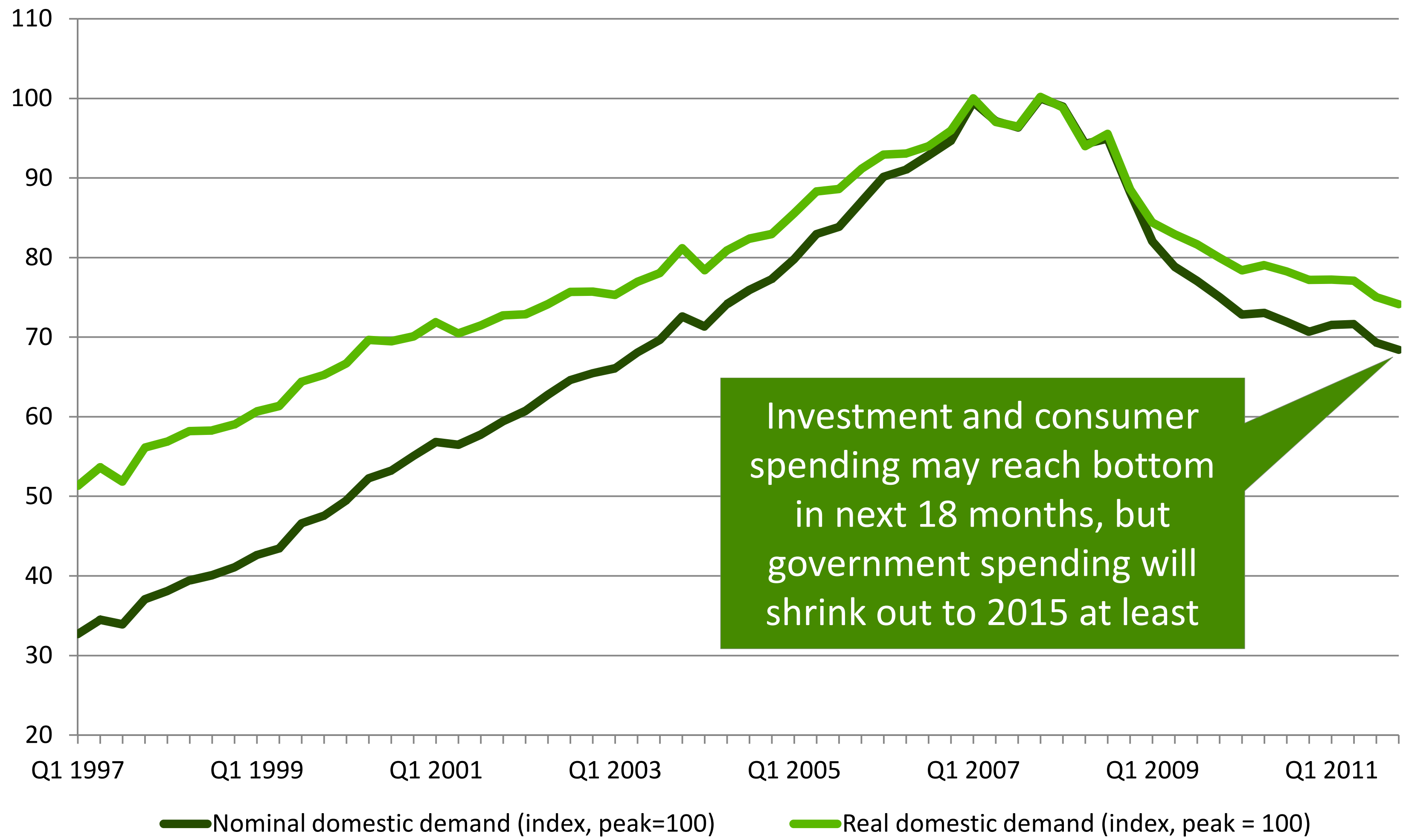
Source: Markit; Bloomberg

New export orders resilient



Source: Markit; NCB; CSO

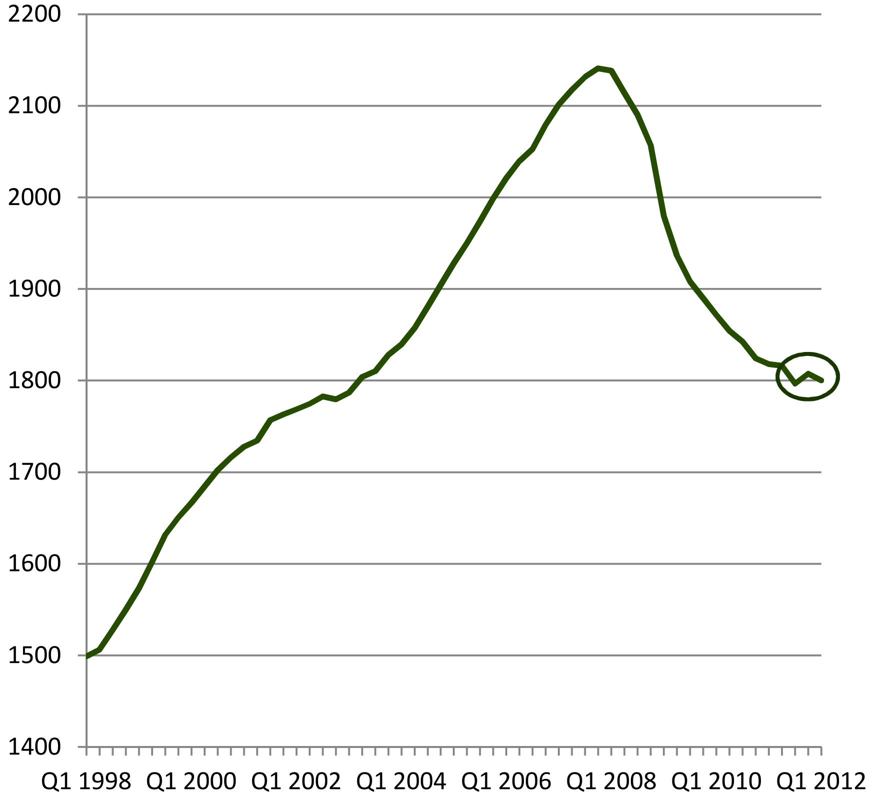
Domestic economy in debt reduction phase



Source: CSO

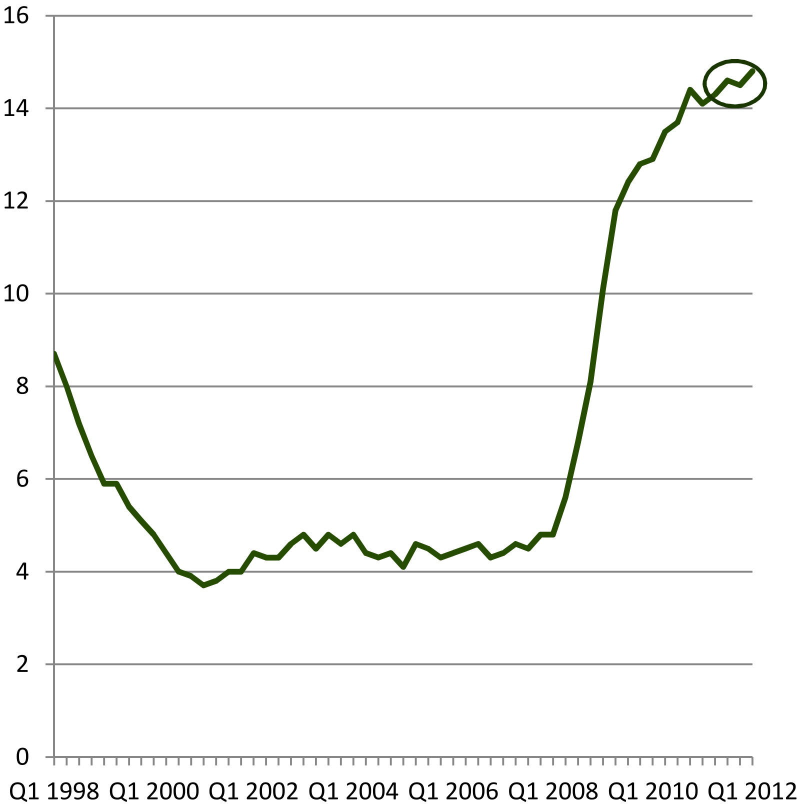
Labour market stabilising, but still weak

Employment flat for last six months



Source: CSO

Unemployment rate inching up

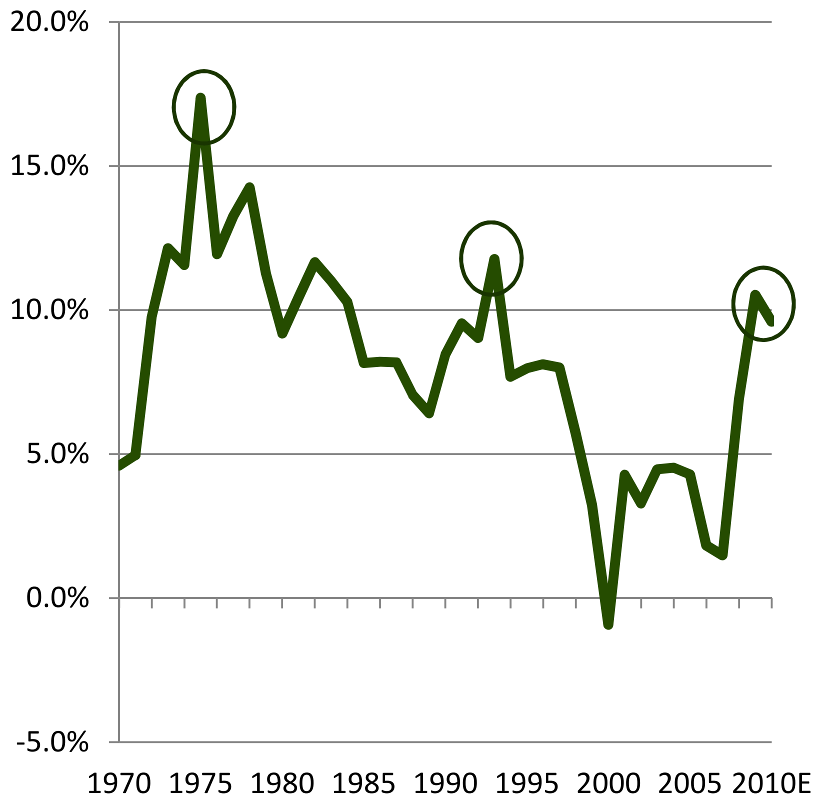


Deleveraging and negative wealth effects also hurting consumer spending

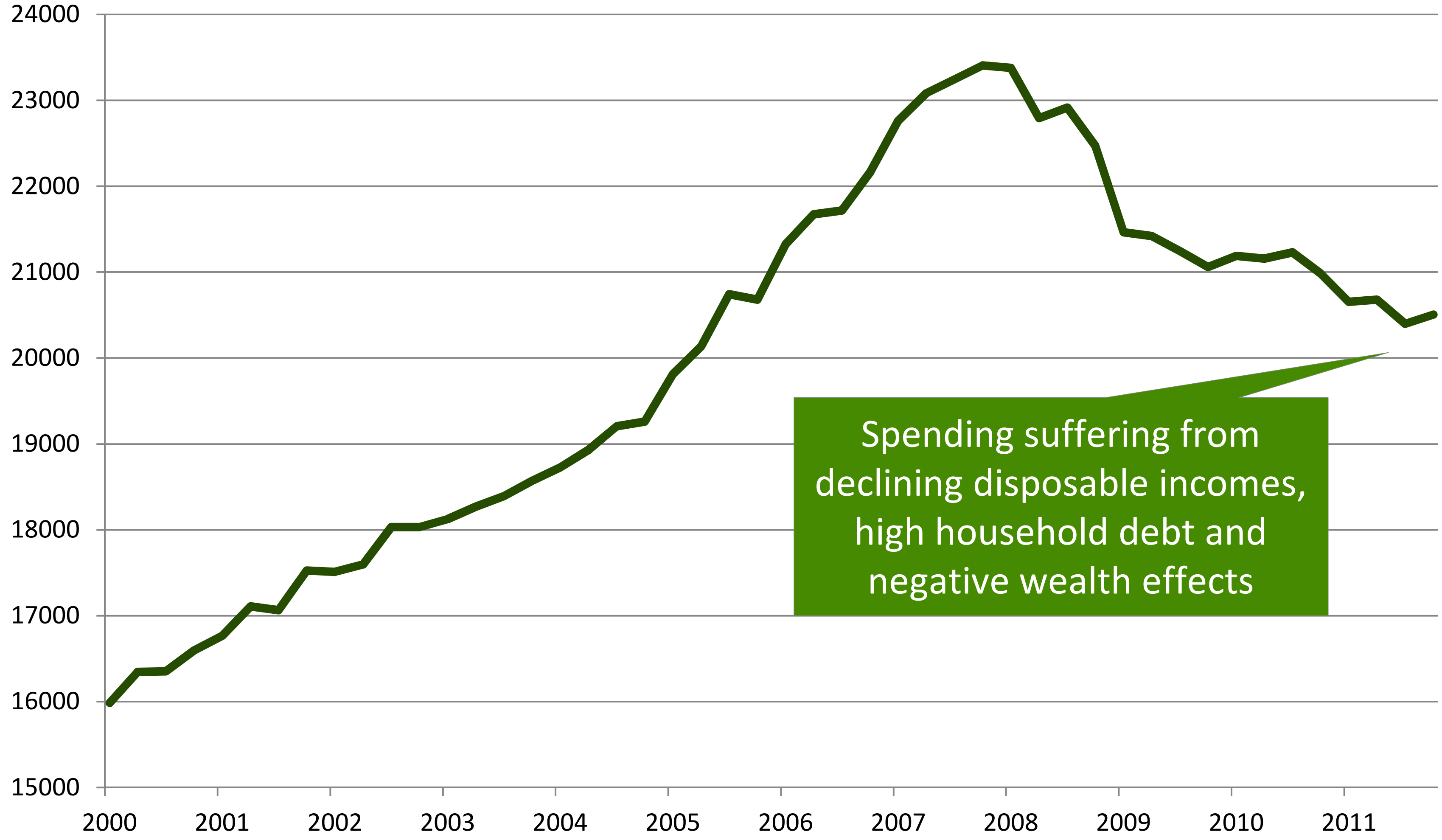
Net worth per capita (€)

Source: Central Bank; DoEHLG; CSO; NTMA

Household savings ratio (% DI)

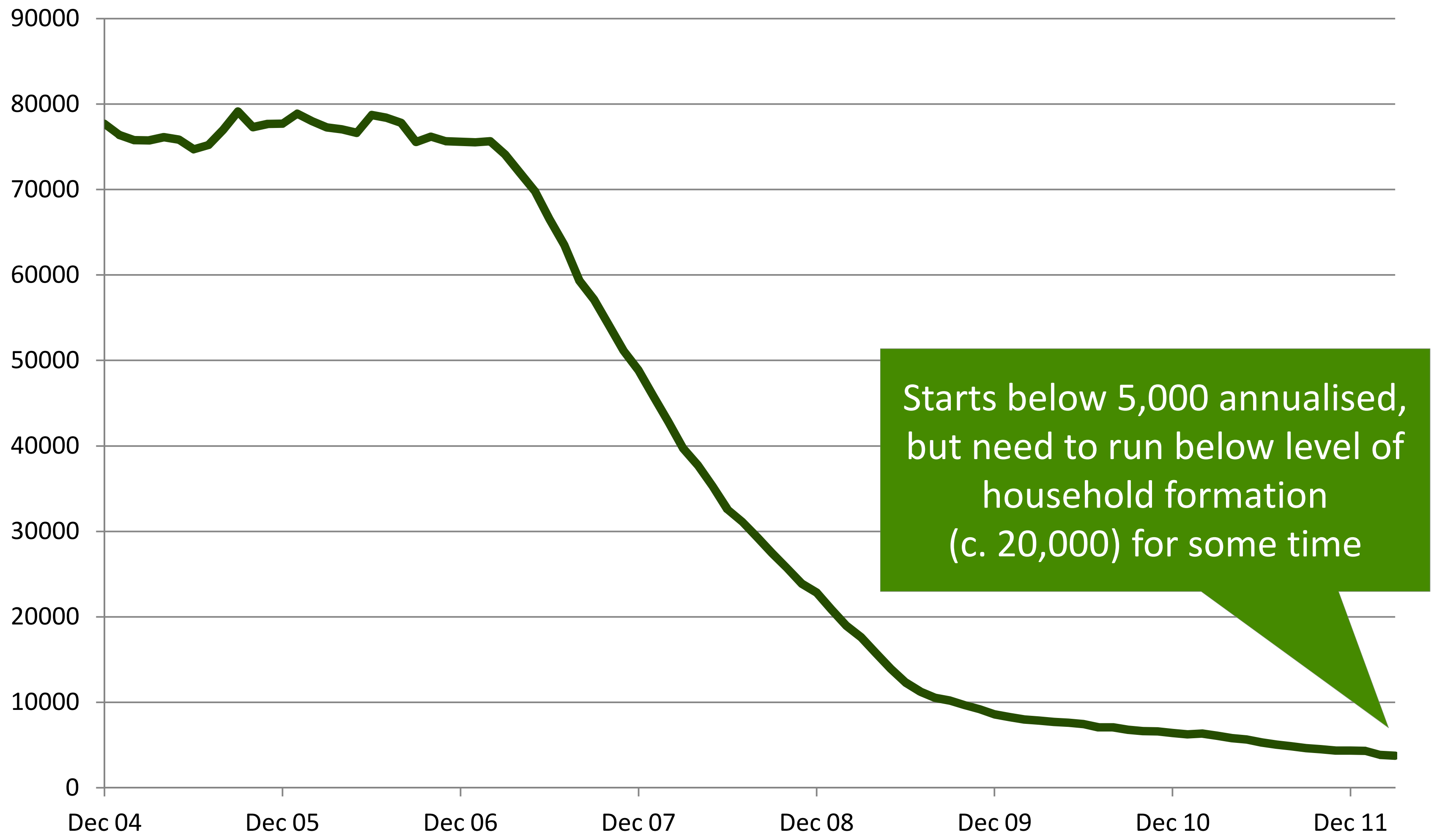


Consumer spending still declining: may continue to fall at slow pace through 2012 (quarterly €m is scale)



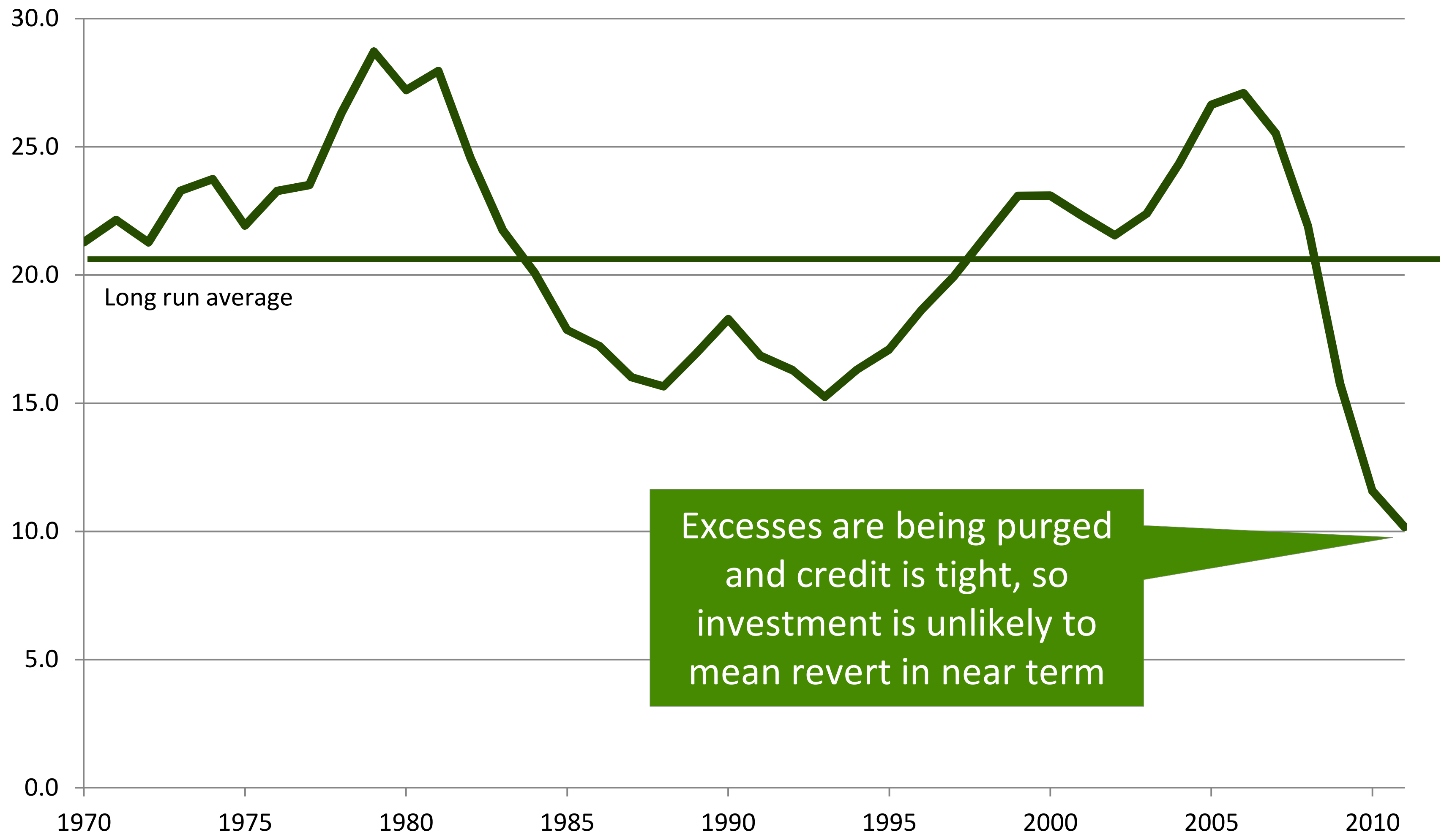
Source: CSO

Housing starts still falling



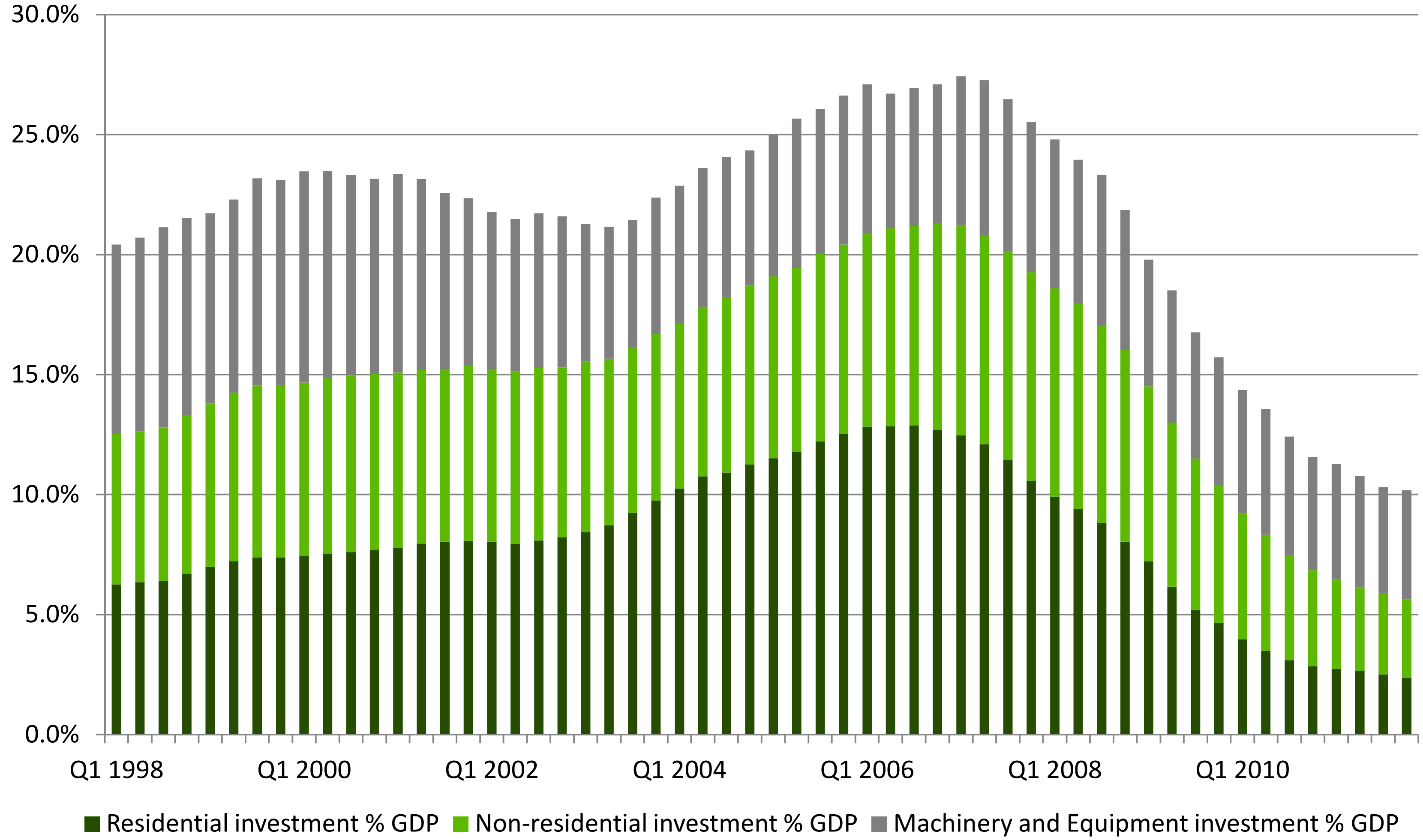
Source: Department of the Environment, Heritage and Local Govt.

Investment as a % GDP at all-time low



Source: CSO

Breakdown of investment to GDP shows building at low level

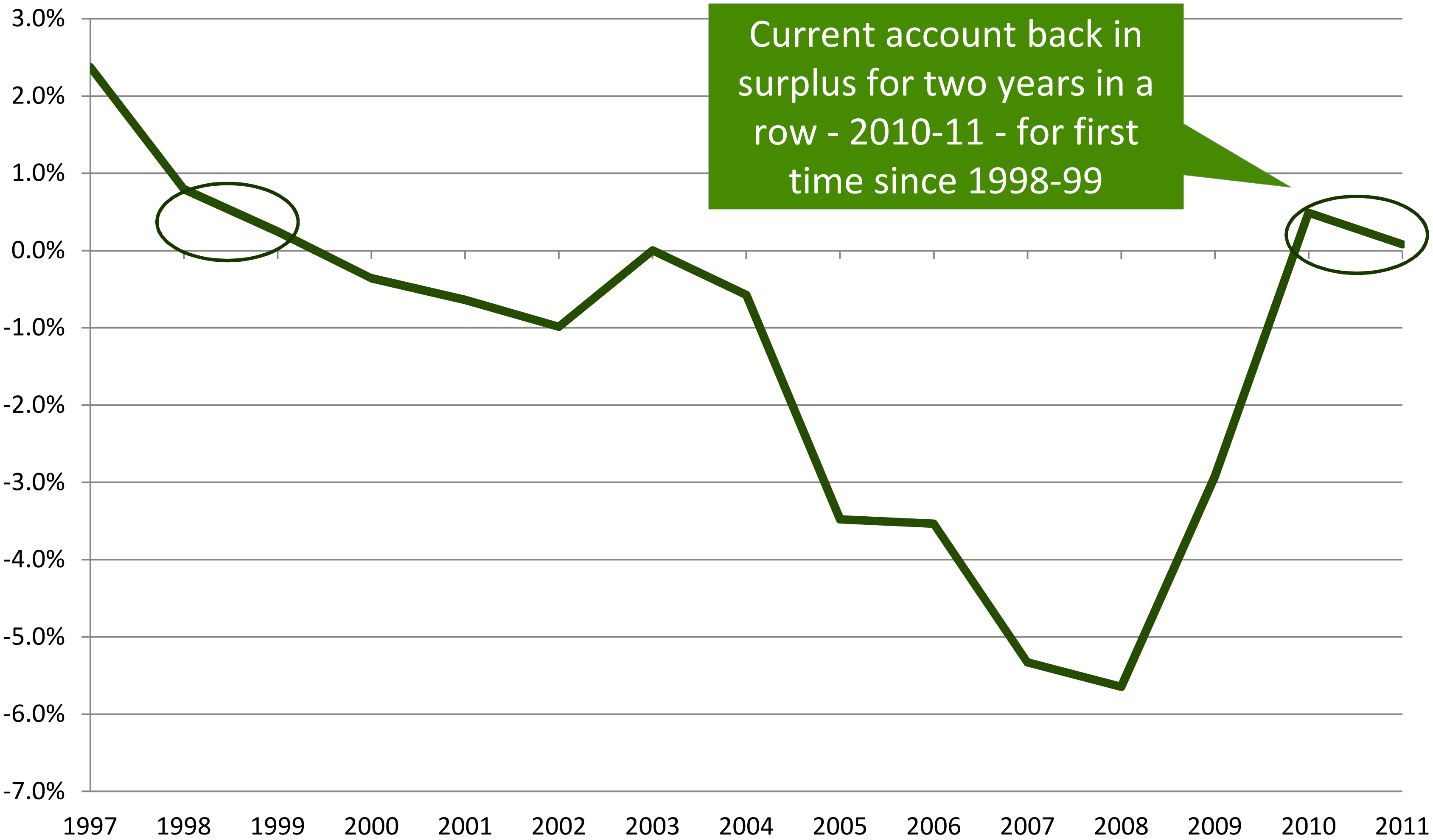


Source: CSO

SECTION 2: REBALANCING

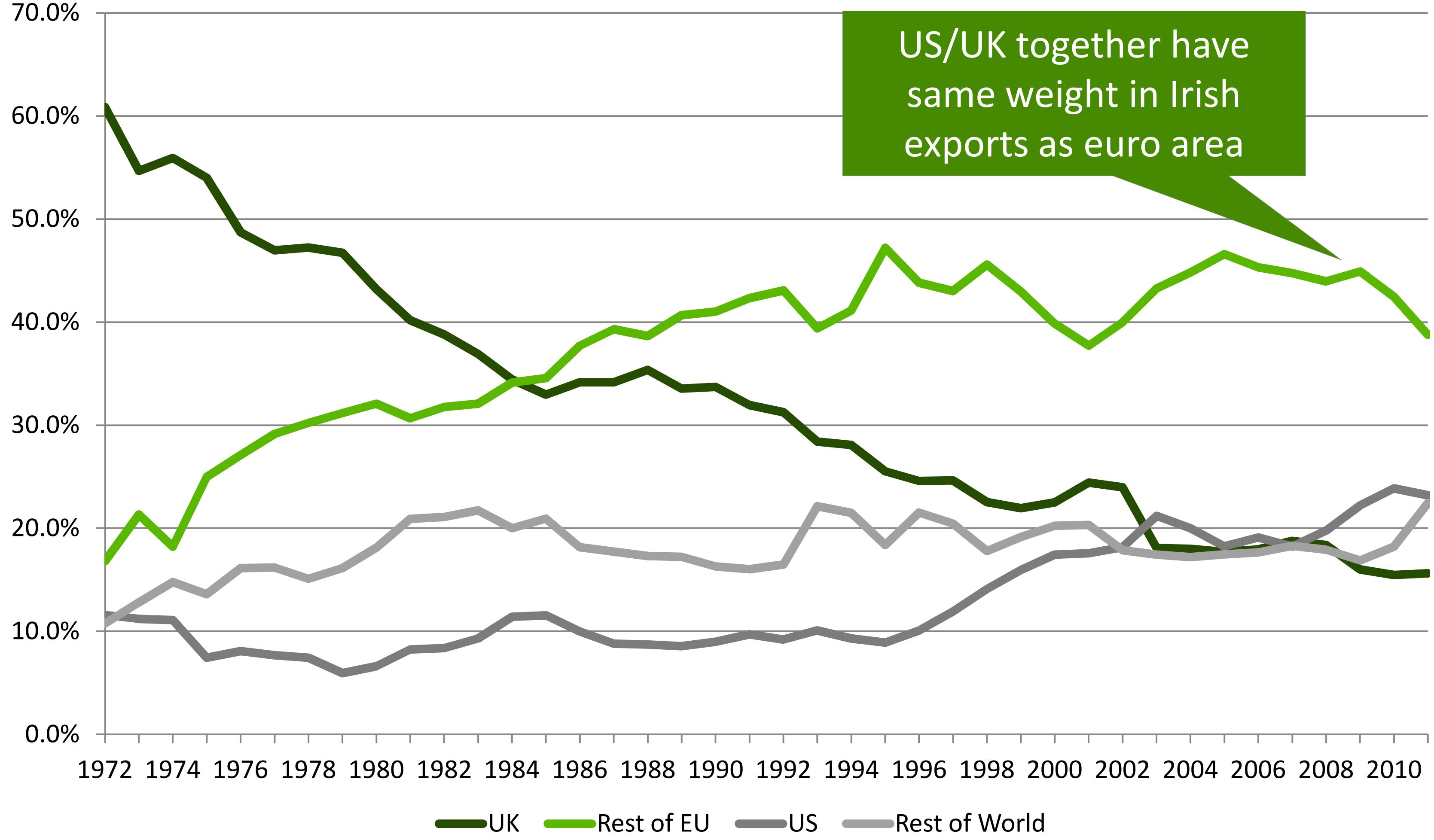
Ireland has accomplished the bulk of its “internal devaluation”; and outperforms other troubled countries thanks to its flexible economy

Ireland becoming more competitive and living within its means: current account (% GDP) back in surplus



Source: CSO

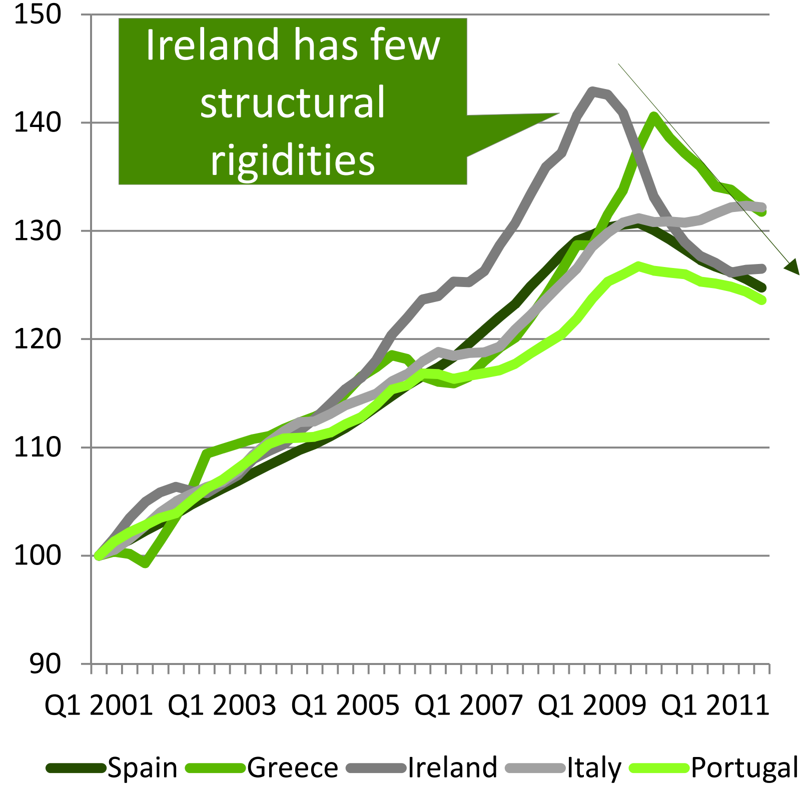
Ireland to benefit more than most from decline in FX value of euro in recent months (goods export shares)



Source: CSO

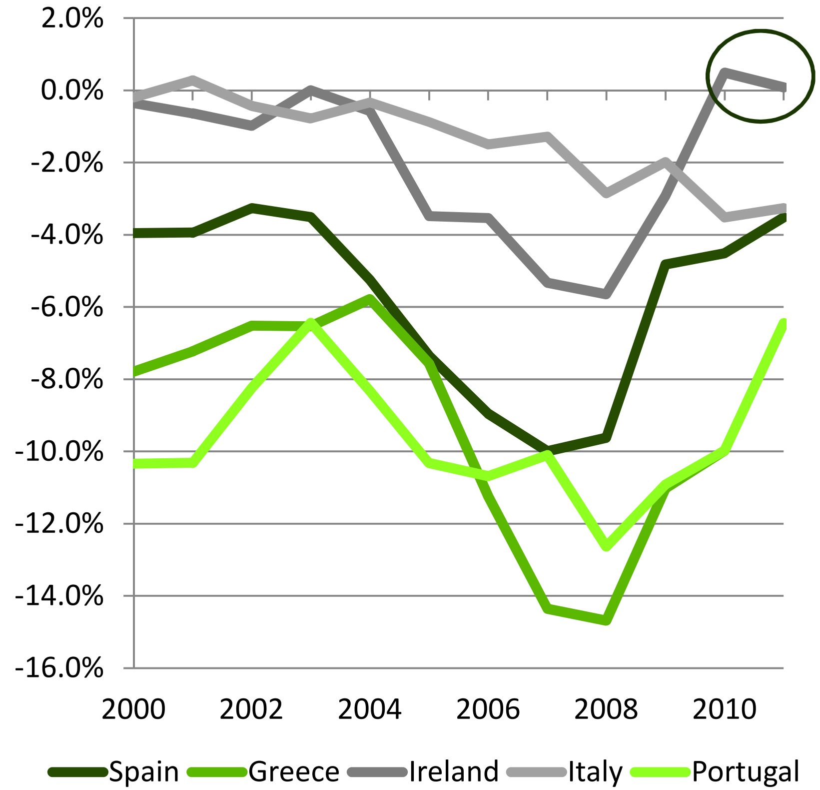
Ireland's competitive position vastly different to the other non-core countries

Unit Labour Costs (Q1 2001=100)



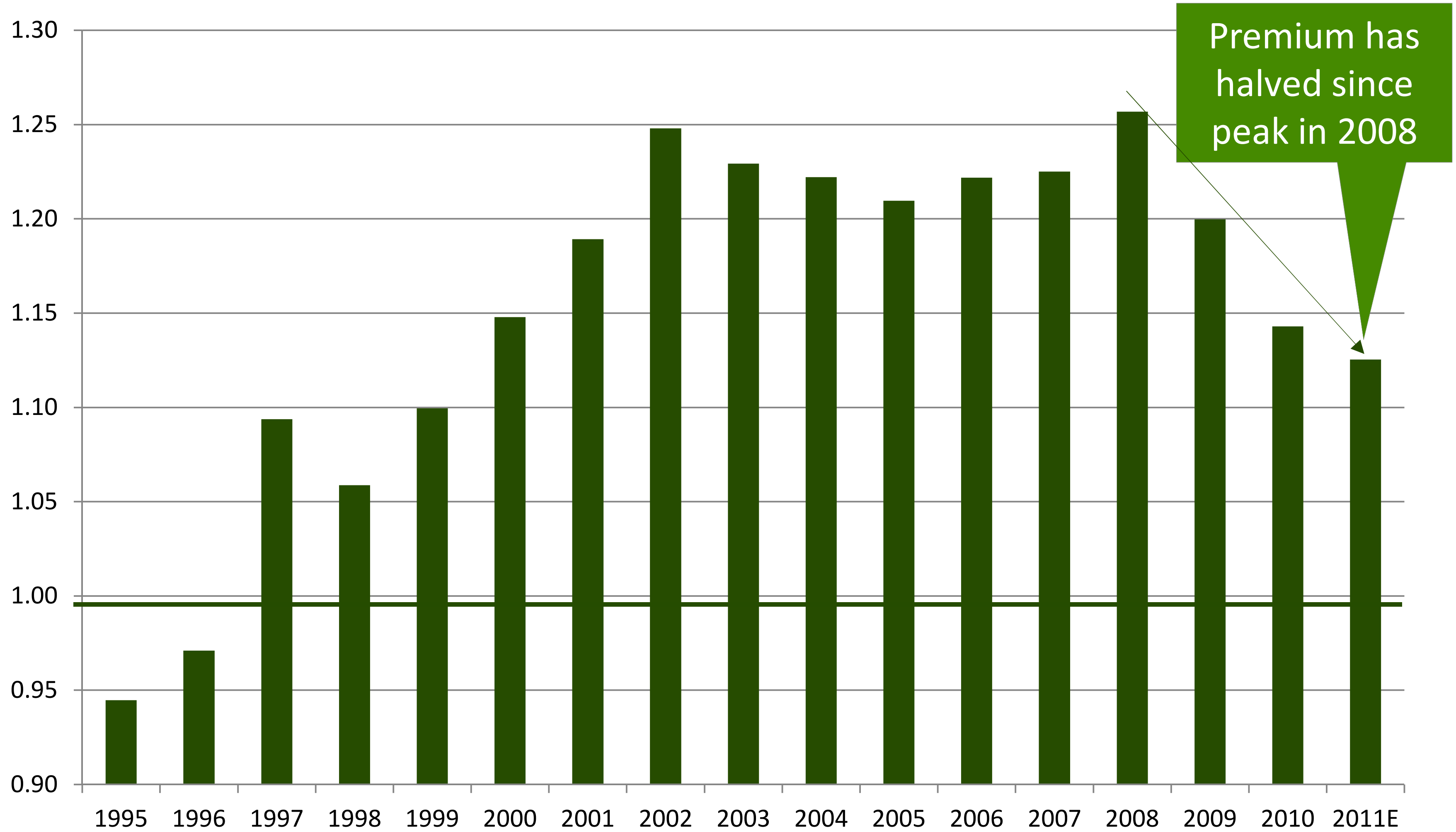
Source: ECB

Current Account Balance (% GDP)



Source: DataStream

Price level 13% above EA average at end-2011: lowest since 1999



Source: Eurostat (comparative price levels)

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 has many attractive investment characteristics

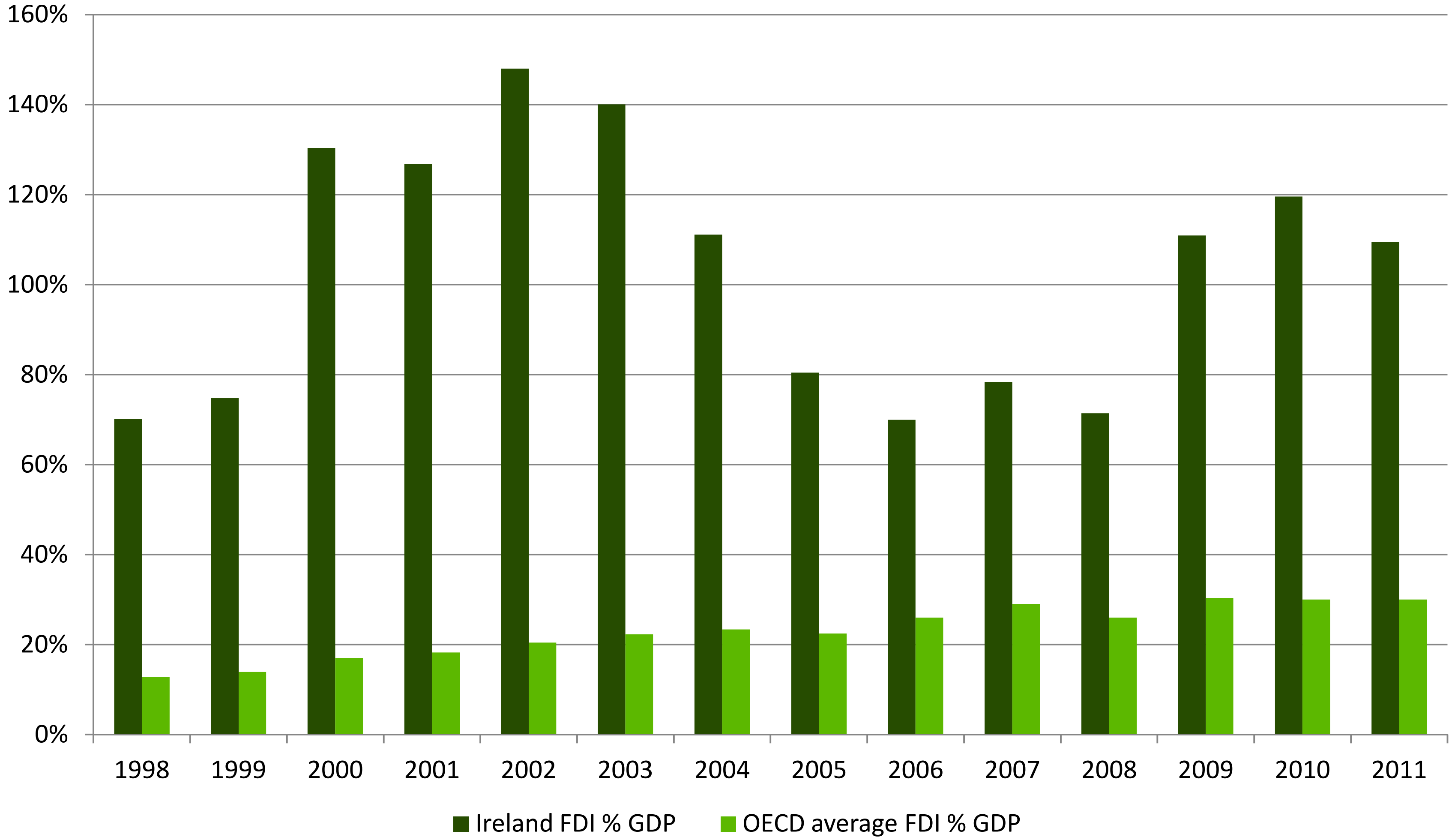
- The World Bank Doing Business Report 2011 ranks Ireland 10th in the world for ease of doing business
  - 1st in the Euro zone
  - Favourable regulatory environment

- Low Corporate tax rate of 12.5%

- Flexible labour market, availability of skilled labour
  - 1st in skilled labour rankings – *IMD World Competitiveness Yearbook 2012*
  - Sharp fall in unit labour costs since 2009

- Low old age dependency ratio
  - 17% in 2011, one of the lowest in Europe
  - Ireland has a young workforce, with nearly 35% of the population under the age of 25 years

As a result, Ireland has huge stock of inward FDI compared with developed world average

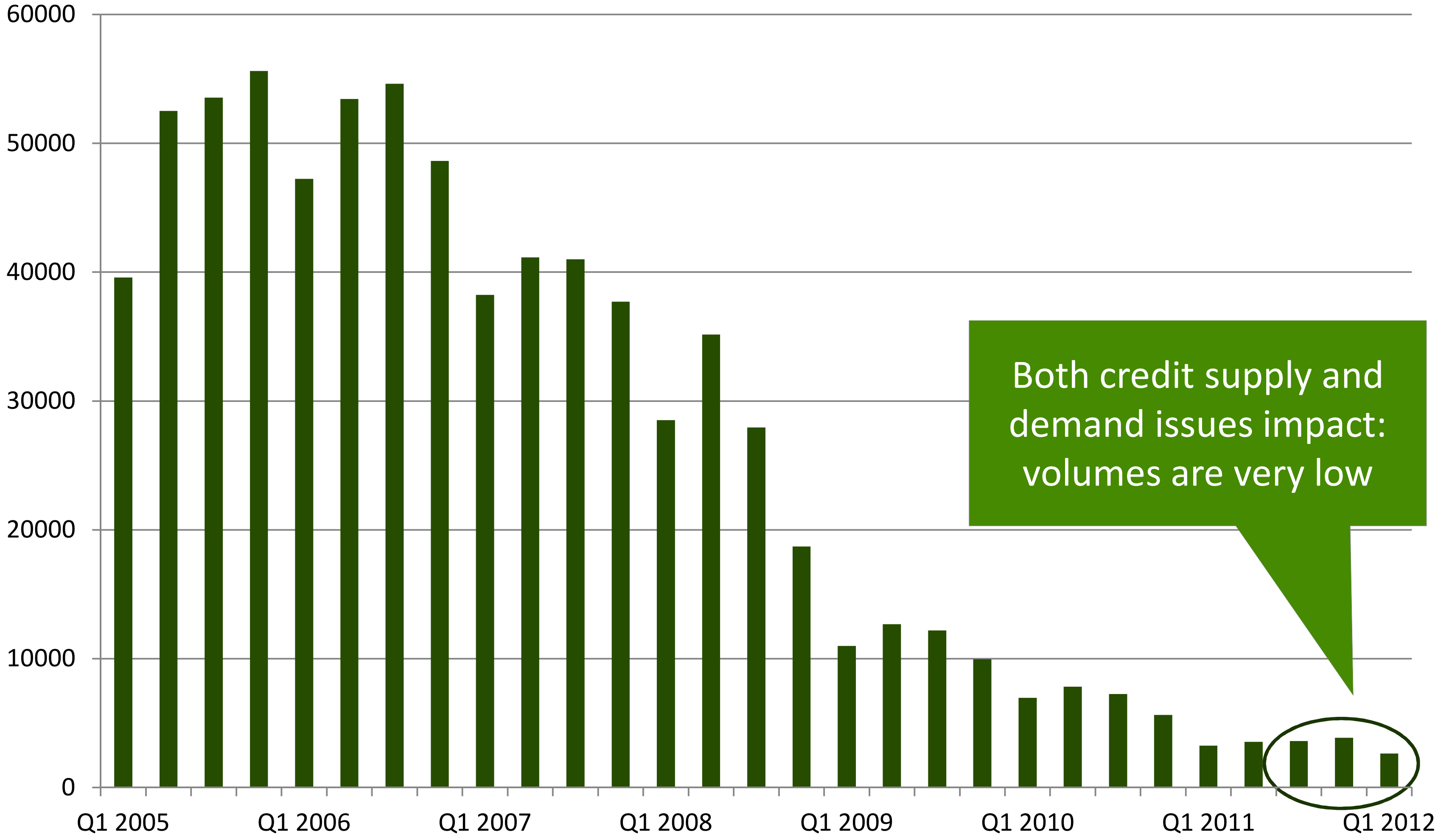


Source: OECD

SECTION 3: PROPERTY MARKETS

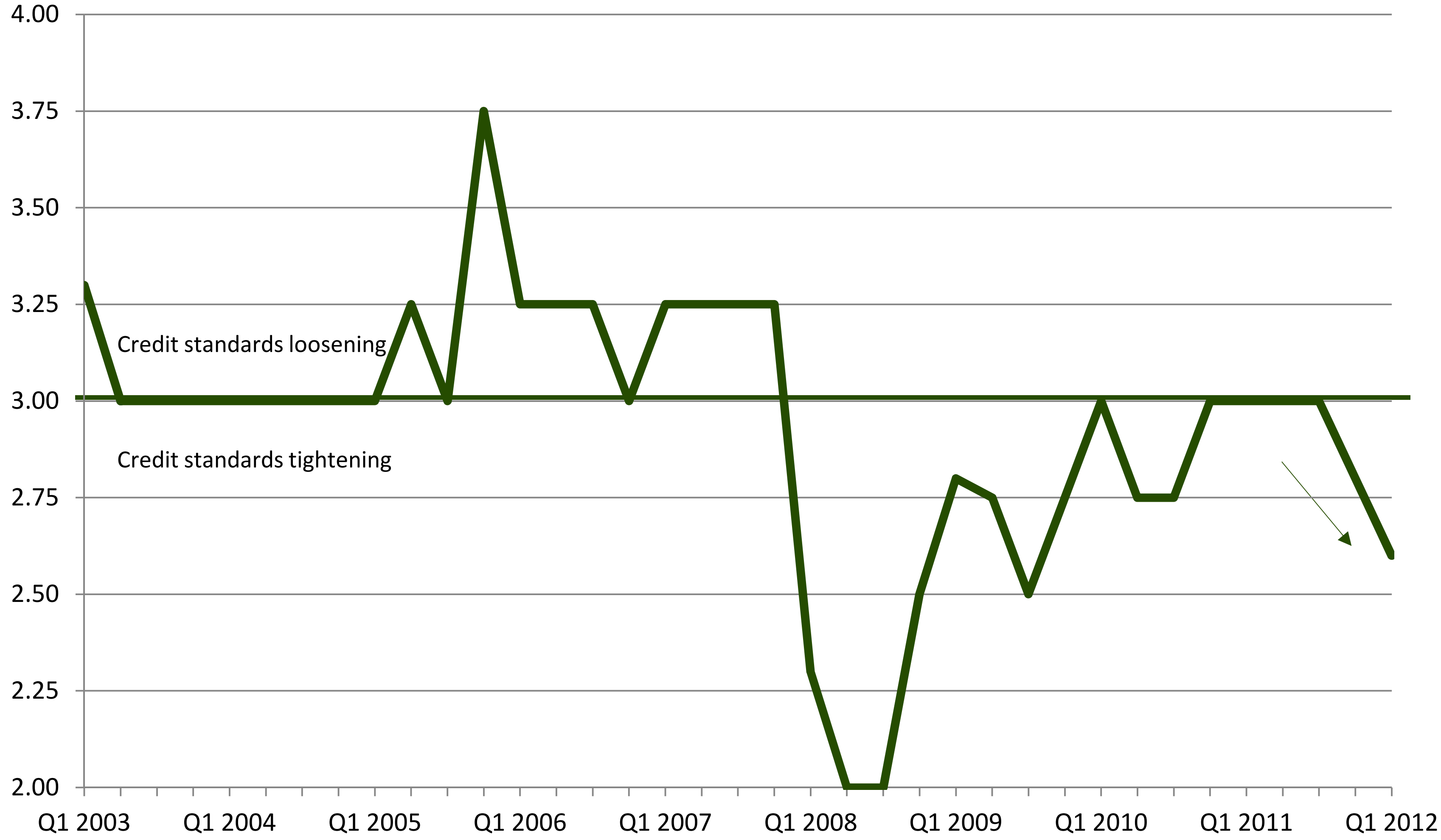
Lack of credit big problem for housing market, notwithstanding improved valuation; Commercial market is attractive to foreign buyers

Mortgage volumes (actual number) have collapsed



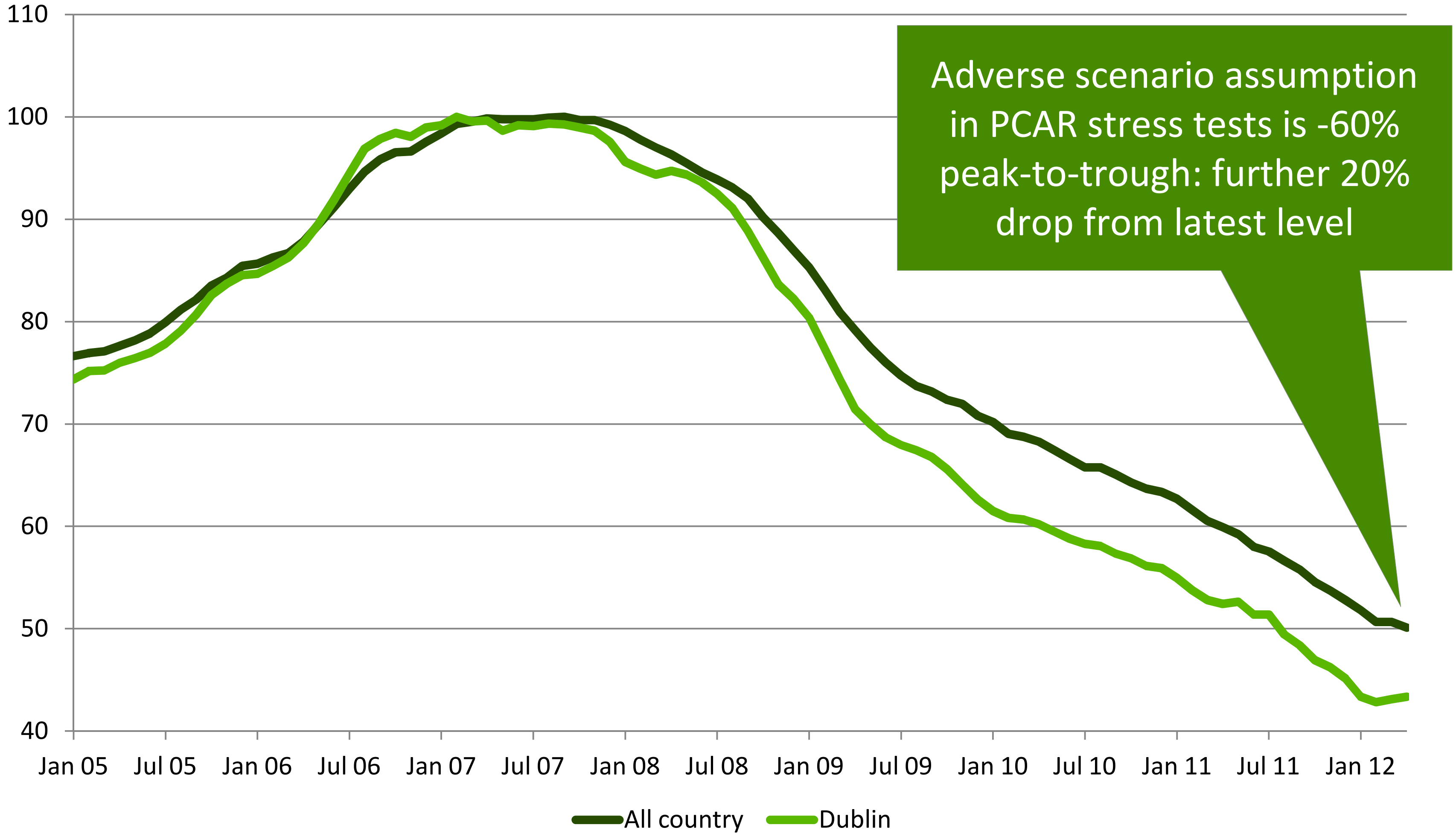
Source: IBF

Mortgage credit restrictions on the rise again



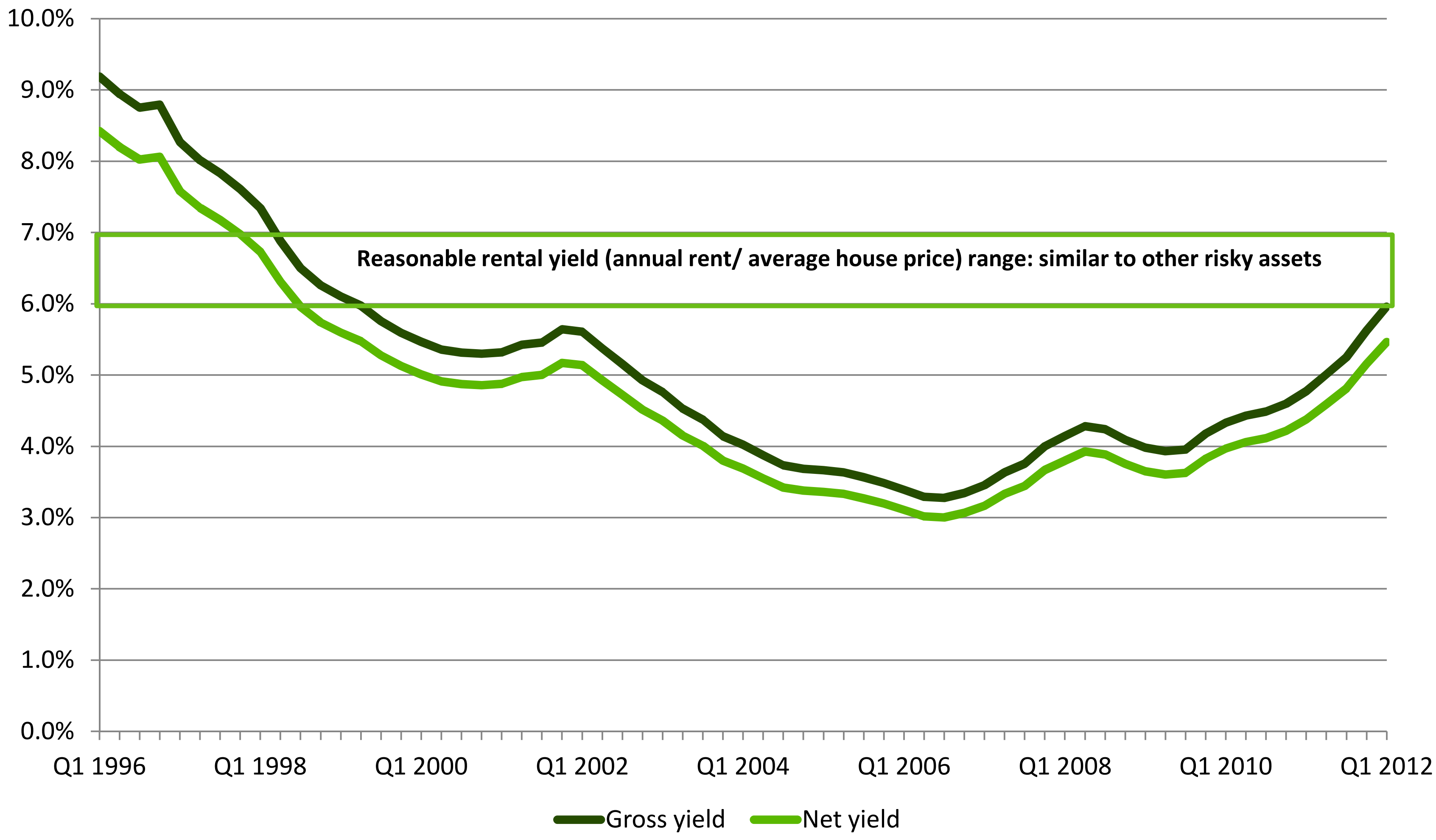
Source: ECB bank lending survey for Ireland

National house prices down 50% from peak in 2007 and down fully 57% in Dublin (index peak = 100)



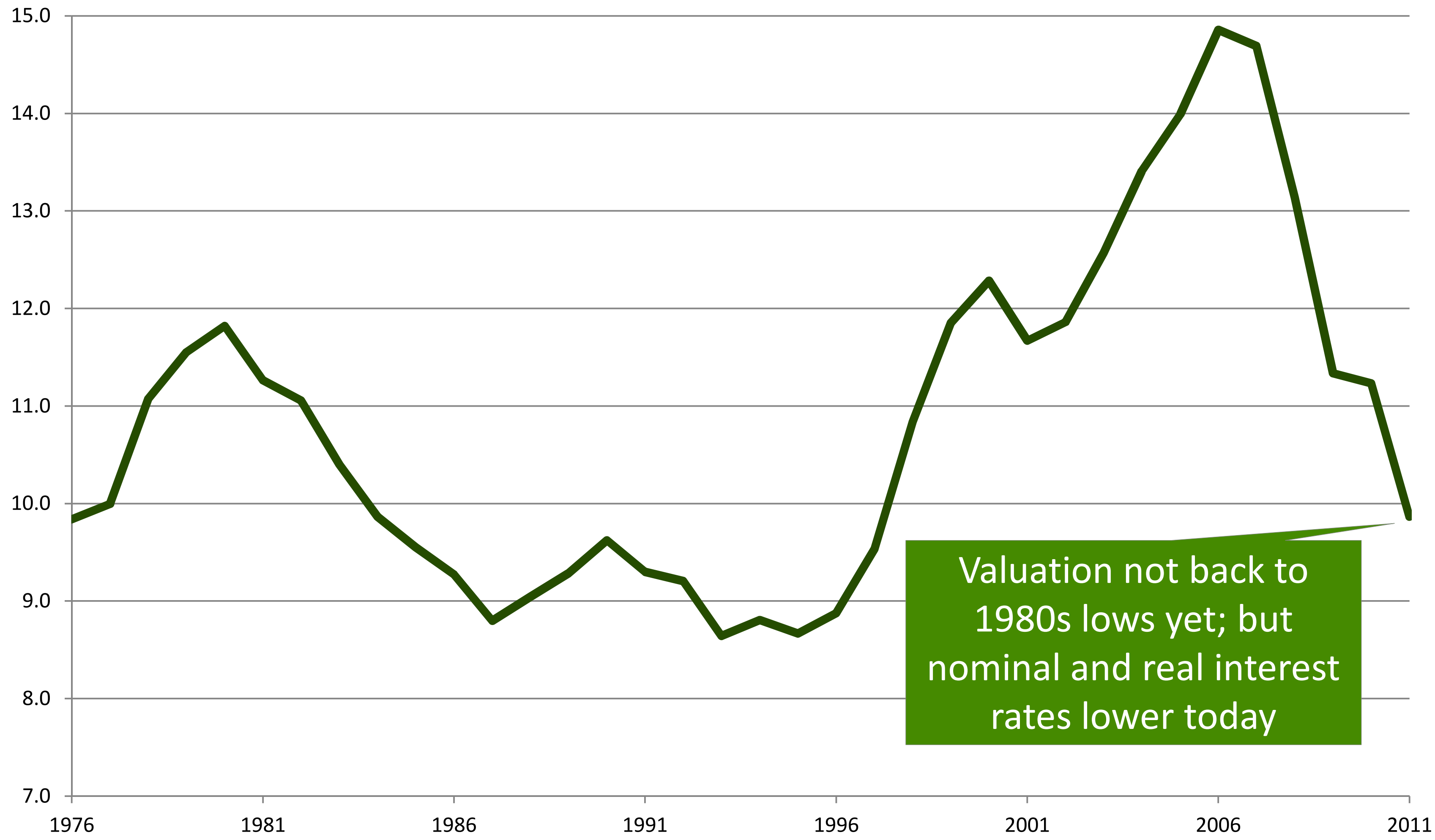
Source: CSO

Valuation of housing has adjusted significantly, and is beginning to look reasonable



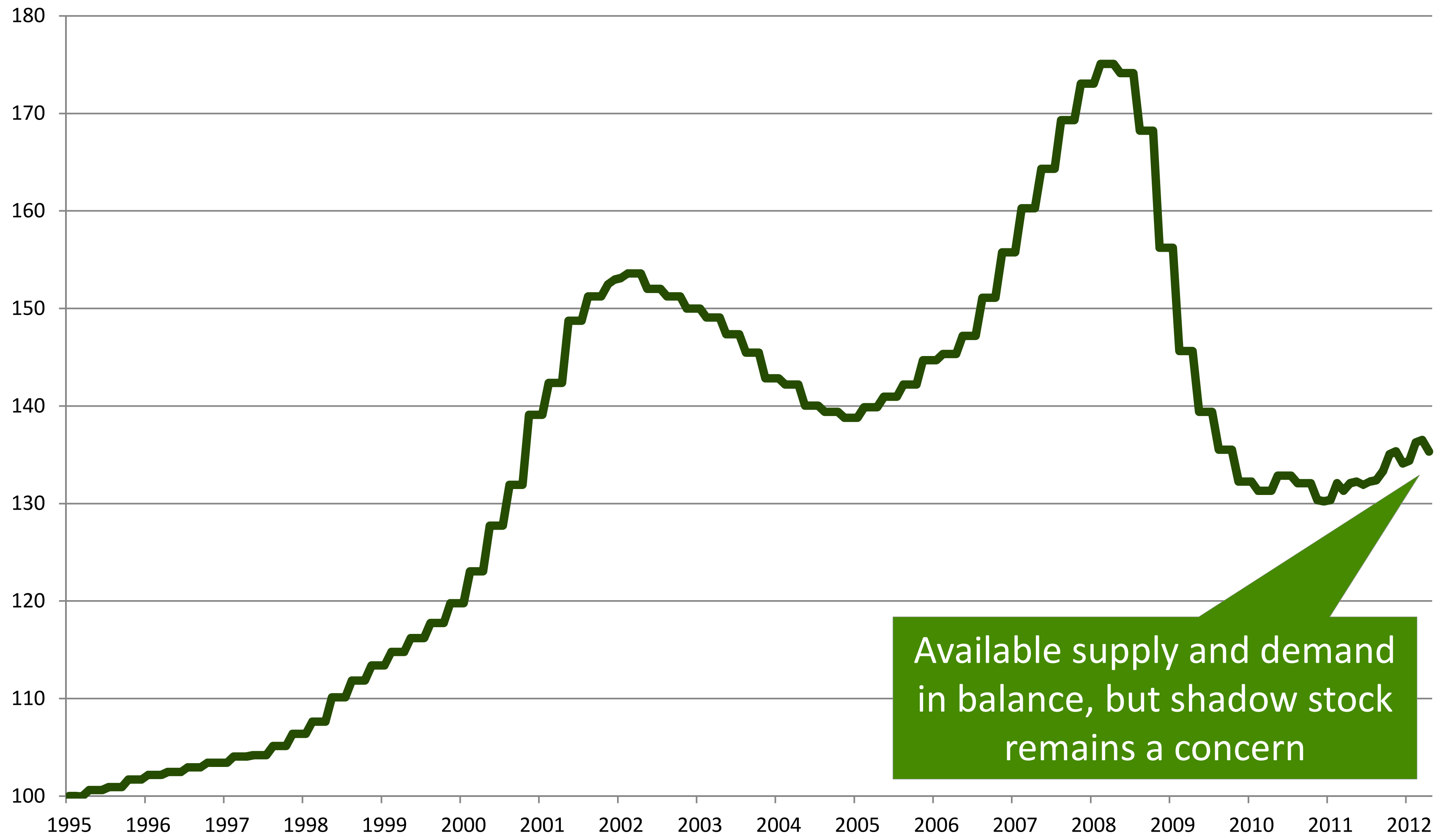
Source: CSO; ESRI; NTMA

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



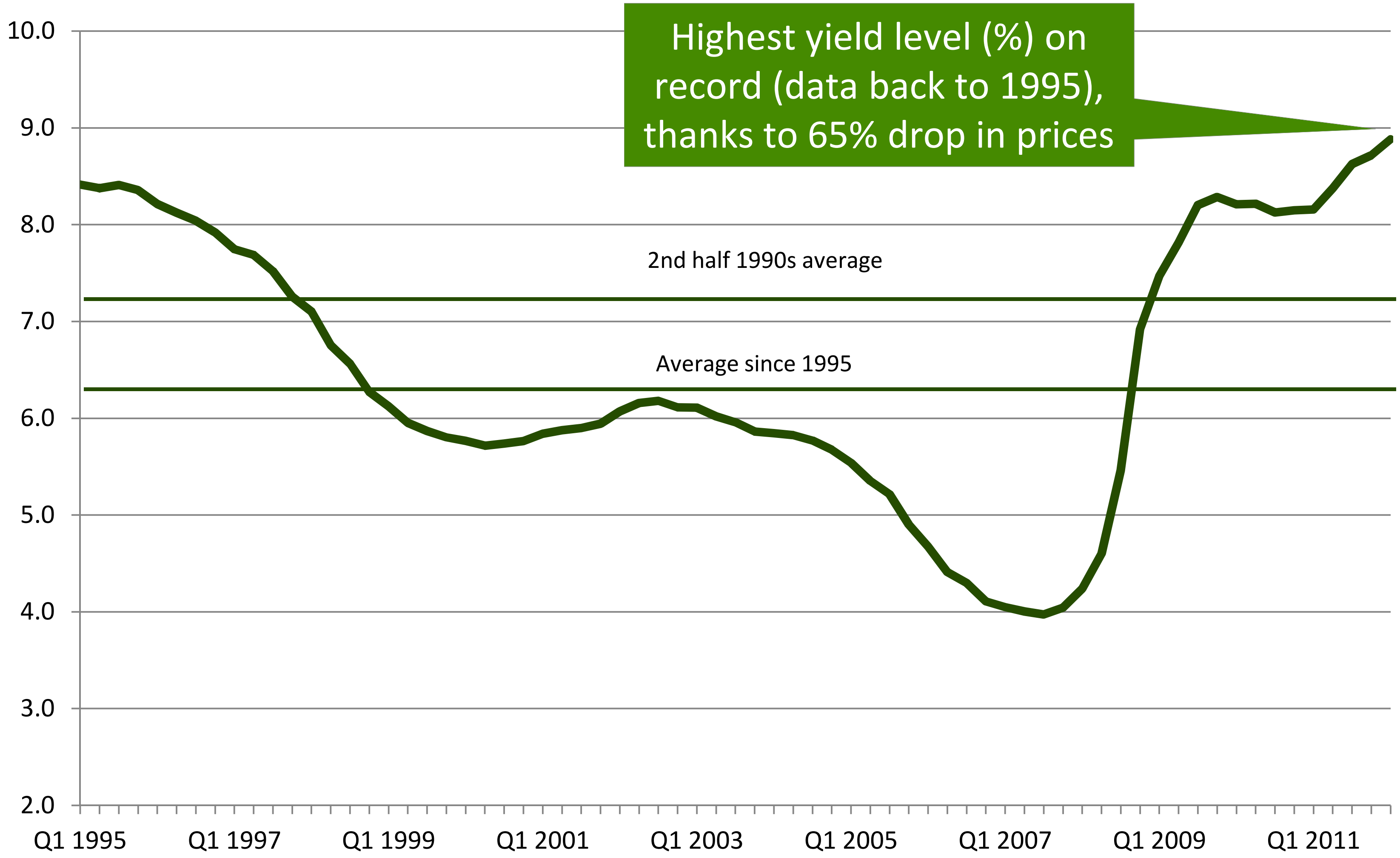
Source: CSO; NTMA

But private housing rents are now rising (CPI sub-index)



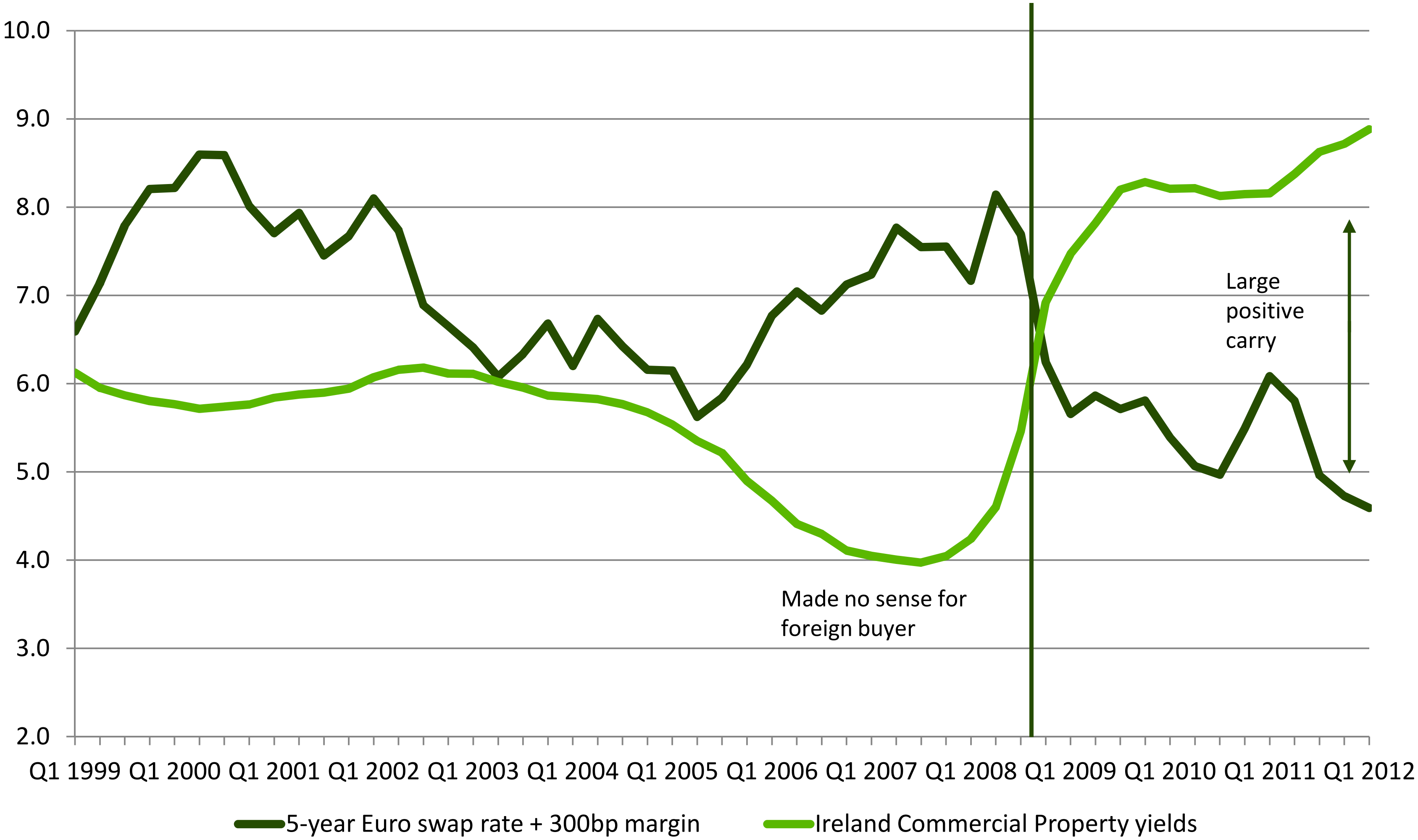
Source: CSO

Commercial property valuations (particularly office and industrial) look attractive versus history



Source: IPD

Foreign buyers now interested on valuation grounds



Source: IPD; NTMA

SECTION 4: NAMA (WWW.NAMA.IE)

NAMA well on track to meet end-2013 Troika debt repayment target

Favourable property market measures: Budget 2012

- **Budget 2012 contained a number of significant measures aimed at boosting the property market**
  - Should help boost NAMAs book of loan assets, underpin collateral in the banking system and may bring 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 between today and the end of 2013 will be exempt from CGT on sale as long as it is held for at least seven years
- **Mortgage interest relief raised**
  - Wont be available after 2012. This may bring forward some housing demand
- **Some legacy tax reliefs will be honoured for small buy-to-let investors**
  - This may help to reduce arrears in this troubled part of the mortgage market, all other things equal

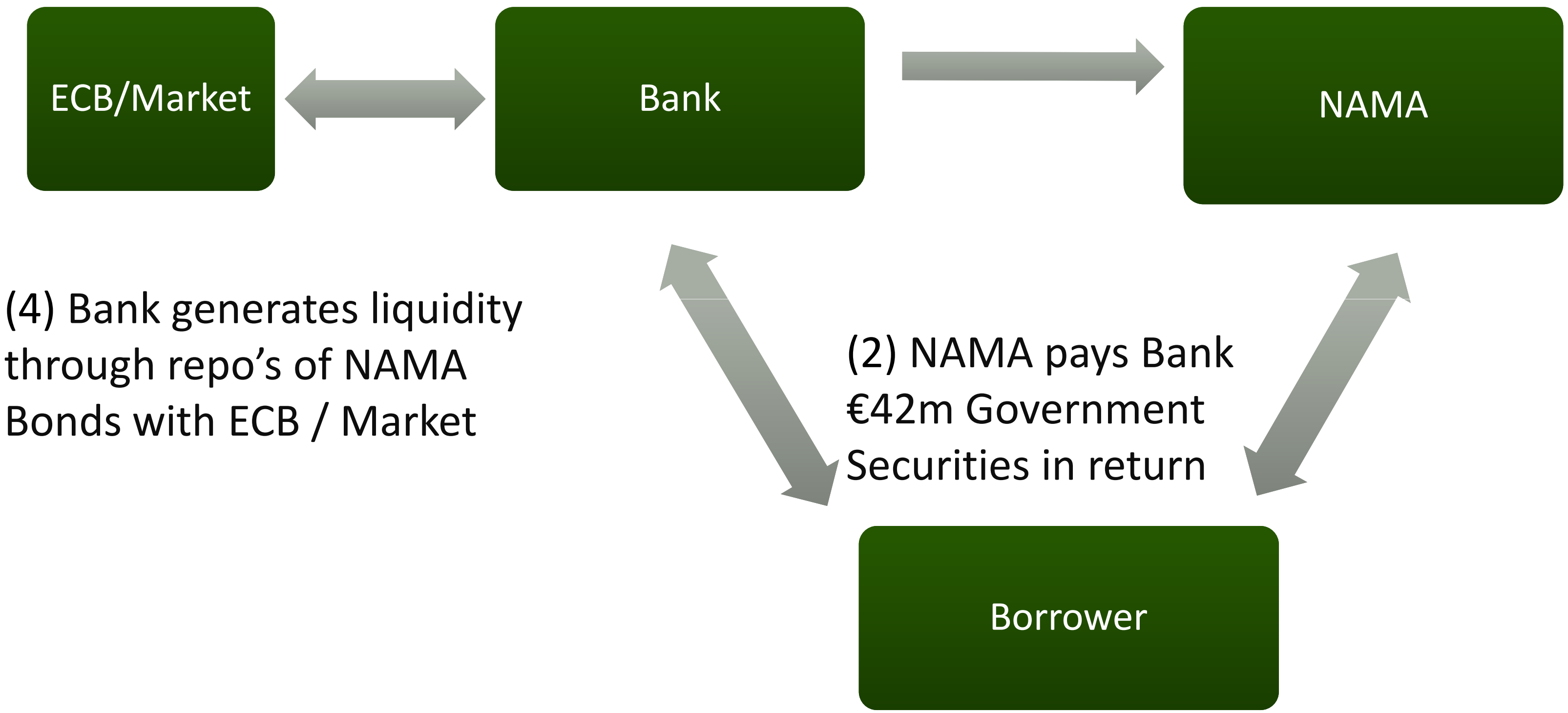
NAMA progress to end May 2012

Following the passing of the NAMA Act in late 2009 and the receipt of EU Commission approval in February 2010, NAMA has made much progress as outlined below:

- Successfully acquired 12,000 loans (over 35,000 individual properties) related to €73.8 billion par of loans relating to 800 debtors for €31.8 billion
- Successfully injected over €30 billion of liquid assets into five participating Irish institutions
- Paid down over €1.6 billion of NAMA debt (€1.3bn NAMA Bonds and €0.3bn to the State)
- Cash balances of €5.07 billion as at 31 May 2012
- Over €7.8 billion in cash generated by NAMA since inception
- 2010 Operating profit of €305m before impairment charge of €1,485m
- 2011 Operating Profit forecasted to exceed €1bn pre-impairment
- New organisation established from scratch (Almost 210 staff recruited with long standing experience in banking and property)
- Decisions made on debtor business plans relating to €72 billion – 97% of portfolio
- Over €8.9bn billion in approved sales as at 30 April 2012 (90% outside Ireland)
- 8,800 individual credit decisions made – incl. €1.2bn in development and working capital

NAMA Model

(1) Bank Sells €100m Loan to NAMA

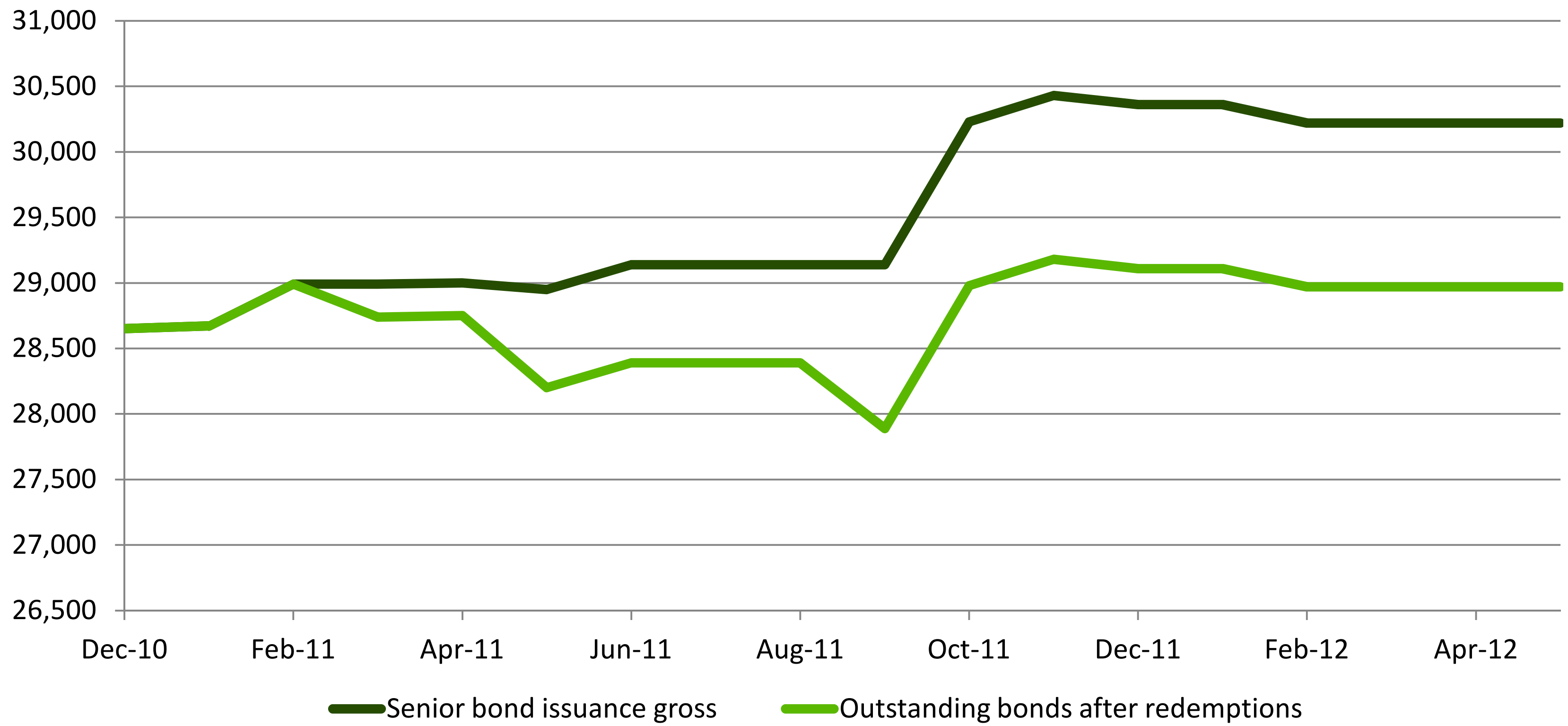


(4) Bank generates liquidity through repo's of NAMA Bonds with ECB / Market

(2) NAMA pays Bank €42m Government Securities in return

(3) Borrower continues to owe €100m to NAMA despite NAMA only having paid €42m to the Bank for the Loan.

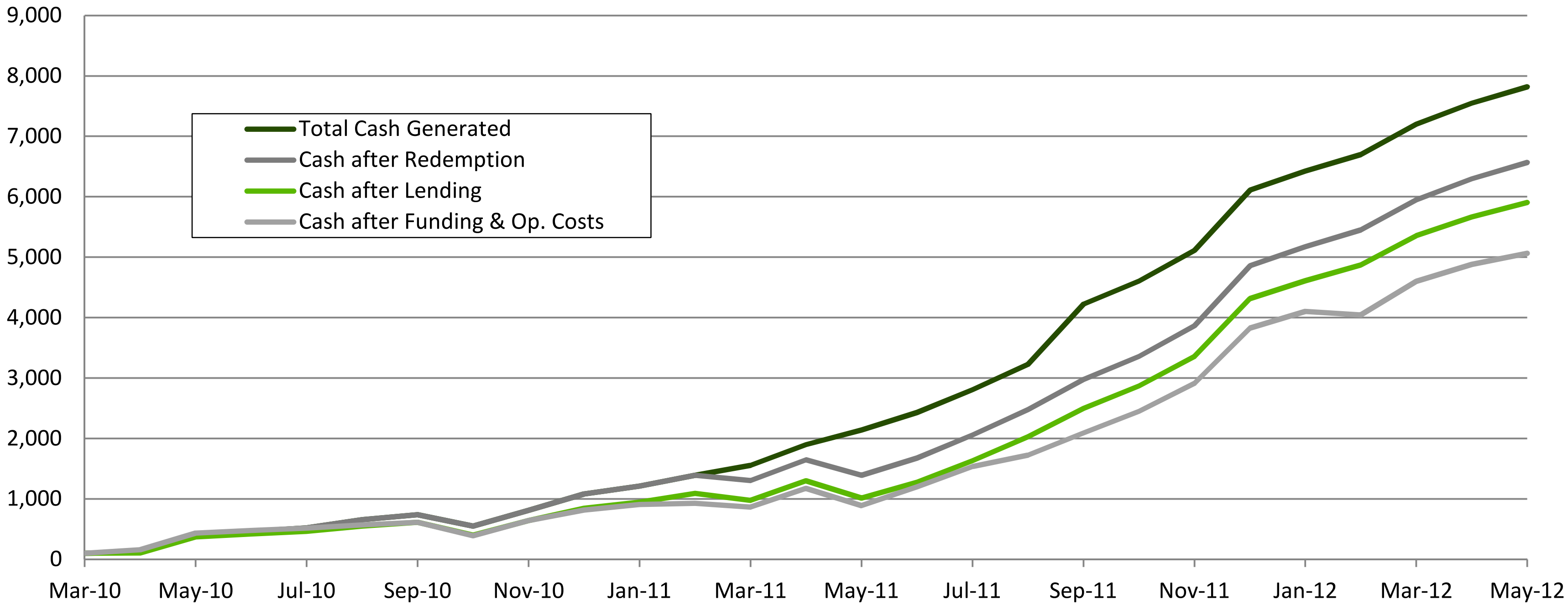
Summary of bond activity since inception



Source: NAMA

- Bond claw-back of c.€0.14 bn in Q1 2012 was due to final due diligence
- Senior Notes in issuance at 31May 2012 - €28,970,000,000
- Subordinated Bonds in issuance at 31 May 2012 - €1,594,000,000
- Further Senior debt redemptions expected in Q3 2012

Summary of Cash Flows since inception



Source: NAMA

- Total Cash Generated of €7.8n between 31 Mar 2010 and 31st May 2012
- Includes Principal Repayments €6.18bn; Interest & other income €1.57bn
- NAMA Senior Debt Redemptions of €1.25bn
- Lending disbursement (new advances) of €0.66bn
- Funding Costs (€0.60bn) and Miscellaneous /Operating Costs (€0.22bn)
- Leaving net cash balances of €5.07bn as at 31st May 2012

NAMA Strategy is three-pronged

- Financing
  - Provide equity capital and credit facilities only where appropriate
  - NAMA will provide staple/vendor financing on commercial property sales in Ireland
  - New capital is a scarce resource: it will be advanced by NAMA only where it makes commercial sense and enhances NAMA's financial position
  - Only undertake development to realise full value of underlying asset
  - NAMA has approved the advance of over €1.2 billion in working and development capital
- Asset disposal
  - Will be orderly and phased to generate maximum return for taxpayer
  - There will be no fire sales; neither will assets be held to speculate
  - NAMA's profitability goal will be consistent with potential growth in the economy, by facilitating functioning property market
  - 20% of NAMA portfolio is performing. That figure may rise, as business plans are approved or rejected: 98% of business plans by value (€72.6 billion nominal) have been reviewed
- Debt reduction targets; to reduce contingent liability of the Irish State
  - By year-end 2013: €7.5b of NAMA Senior notes to be repaid; By year-end 2020 all of NAMA Senior notes to be repaid

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

Management of larger debtors

Largest 190 Debtors – €61bn

- Intensively managed by NAMA – key credit decisions and relationship management carried out by NAMA multi-disciplinary teams.
- Loan administration performed by participating institutions

Other 610 Debtors - €13bn

- Credit decisions made by NAMA. Cascading system of credit limits and delegated authority: NAMA Board – Credit Committee - NAMA management – NAMA units in banks.

  NAMA will have a presence in each of the bank units – day-to-day credit decisions and operations – liaison and oversight role.
- Relationship management and loan administration carried out by participating institutions within NAMA parameters.

Breakdown of original NAMA portfolio (price paid for loan assets)

€bn	Land & Development	% of Total	Investment	% Total	Total book	% Total
Ireland	5.3	57%	12.6	56%	17.9	56%
UK & NI	3.5	38%	8.5	38%	12.0	38%
USA/Europe	0.5	5%	1.4	6%	1.9	6%
Total	**9.3**	**29%**	**22.5**	**71%**	**31.8**	**100%**

Source: NAMA

- The portfolio consisted originally of 71% Investment and 29% Land & Development
- The UK and NI accounted for 38% of the portfolio. Assets outside Ireland accounted for 44%
- The most difficult part of the portfolio to monetise is likely to be L&D in Ireland of €5.3bn but Dublin accounts for €3bn of this.
- There is a good chance of realising the remaining €26.5bn from the rest of the portfolio
- Commercial property market rents have undershot in Ireland, while the residential market may deflate further
- Good opportunity to continue to realise value in the UK (excl. NI) in the short term
- Budget 2012 changes may help to put a floor under Irish commercial property values, by restoring confidence and liquidity in time

Further Information

NAMA information available on www.nama.ie

For more information, requests can be sent to the email address info@nama.ie

Receivership information added in July 2011, with monthly updates thereafter.

As at April 2012, website contains details of over 1,206 properties where Receivers / Administrators have been appointed.

Geographical breakdown of these 1,206 properties

75%	ROI
13%	NI
13%	UK

SECTION 5: BANKING*

Range of contingent liability for the State narrowed dramatically;
Deleveraging plan well ahead of target and deposits are growing

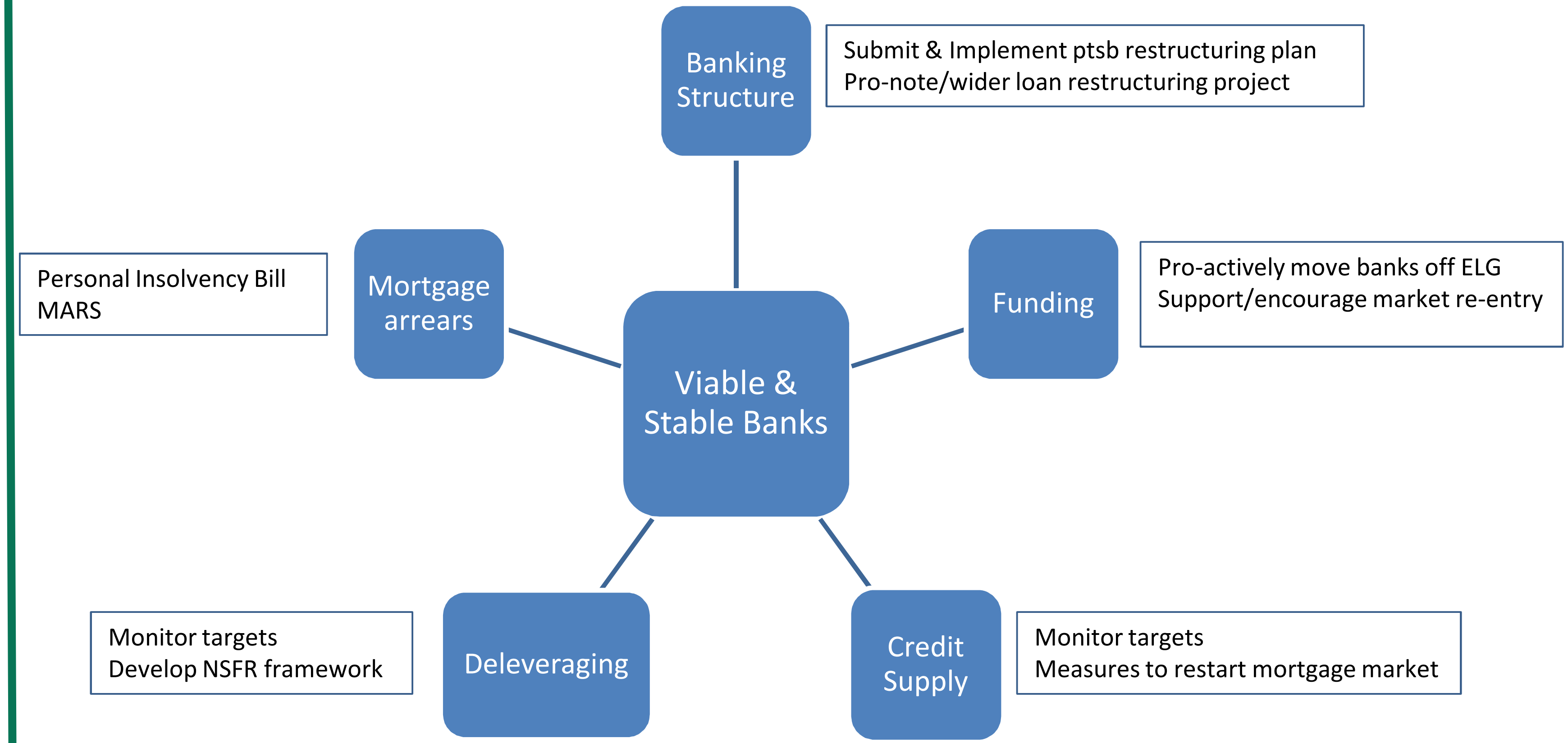
* Information provided by the Banking Unit of the Department of Finance

Progress since last mission

Funding	• Deposit levels have increased. Deposit rates are reducing • Reduction in ECB and ELA funding
State Support	• Pro-active reduction in ELG support and State guarantees for ELA • IL&P direction order secured to allow purchase of Irish Life and recap of ptsb
Competition and State Aid	• BOI Restructuring plan approved • Updates to AIB draft Restructuring plan submitted
Deleveraging / bank Models	• Further deleveraging achieved since year end • Reduction in staff through redundancy programmes commencing
Mortgage arrears	• Publication of draft heads of Personal insolvency bill. • Banks mortgage arrears resolution strategies • Piloting of mortgage to rent scheme
SME lending	• Pillar banks achieved their €3bn lending targets for 2011 • Commissioned a further SME demand survey • Seven regional meetings with stakeholders on SME lending and related issues

Priorities for rest of 2012

Our focus map



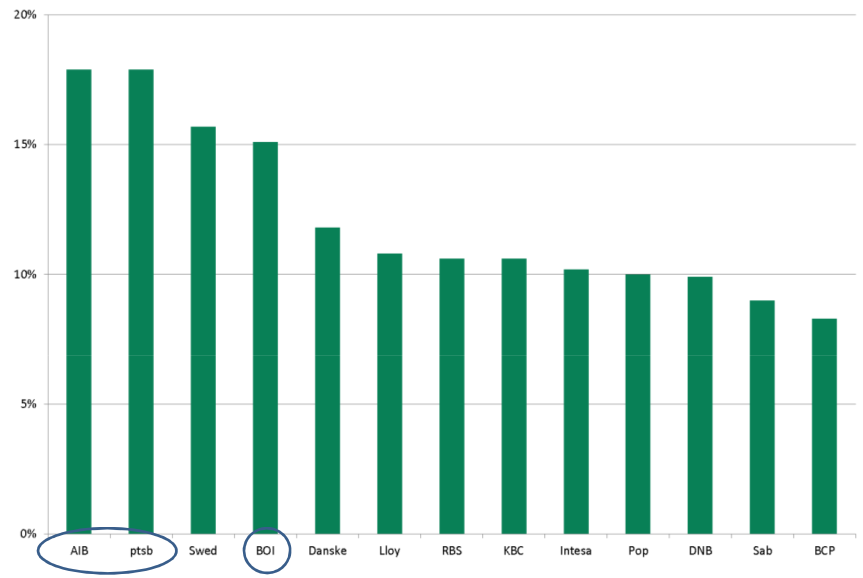
Restructuring developments

IBRC and IL&P

- IBRC pro-note discussions continue
- May lead to wider involvement of State banks which would improve the State's ability to exit investments
- Future direction for ptsb decided
  - A good bank will be carved out with a separate asset management unit (AMU)
  - Restructuring plan will be submitted by end June
- State will complete IL&P PCAR requirement through €1.3bn purchase of life company following which the life and banking businesses will be separated

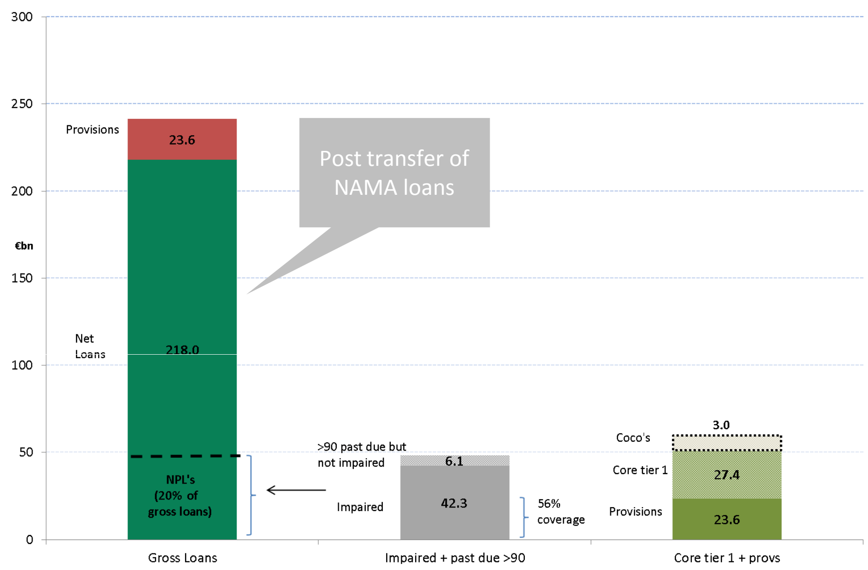
Update on bank capital

Core tier 1 ratios for peer European banks



Source : DoF

Covered banks – balance sheet snapshot



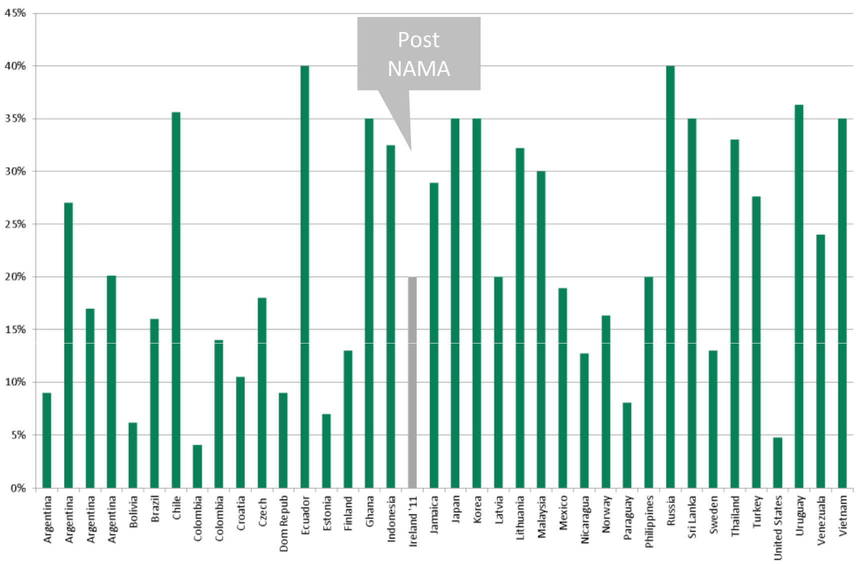
Source : DoF and banks' 2011 accounts

Comment

- Irish bank capital ratios at end 2011 at top end of European range
- Ratios will come down as further provisions are made
- Capital more than enough to come through cycle

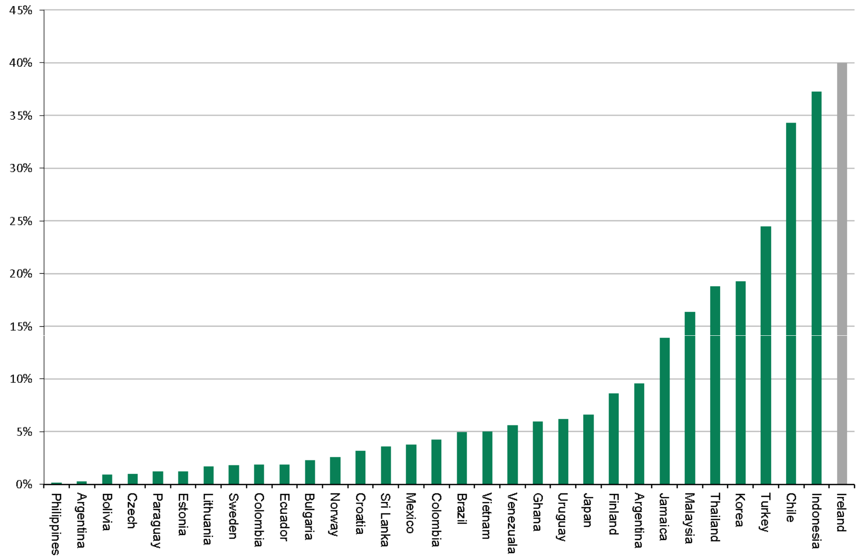
Ireland’s banking crisis in context

Peak NPL ratios for banking crisis



Source : IMF and DoF (PCAR banks shown for end 2011)

Recap costs as % of GDP



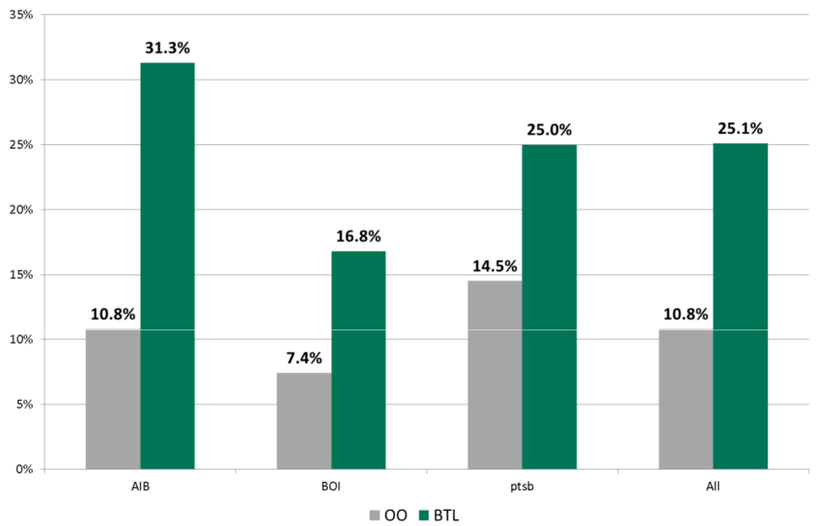
Source : IMF; for Ireland state recap cost of €63bn used only; total capital raised in system is substantially higher than this

Comment

- NPL ratios for covered banks at end 2011 are post NAMA loans
- Government has injected nearly €63bn equating to 40% of GDP and this ignores other capital generated through LMEs (€15bn) and self help measures (disposals, private raisings at BOI etc.)

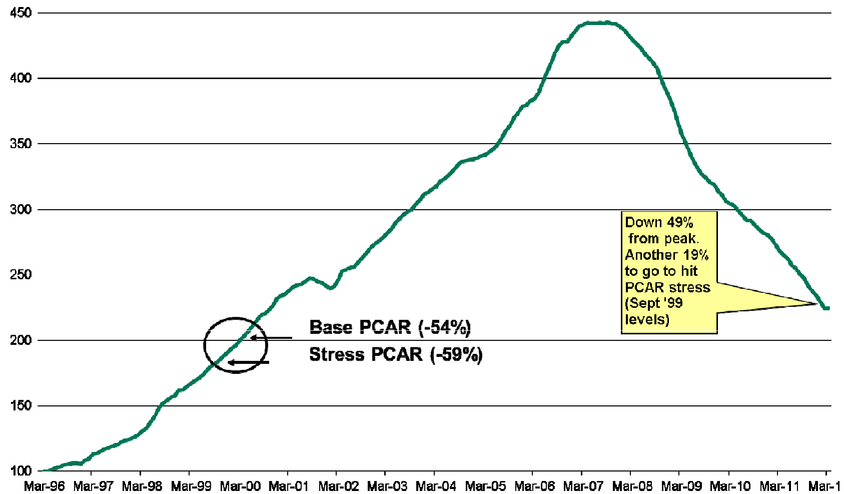
Mortgage arrears and losses

Irish 90+ arrears/impaired loans



Source: Banks

Irish House prices

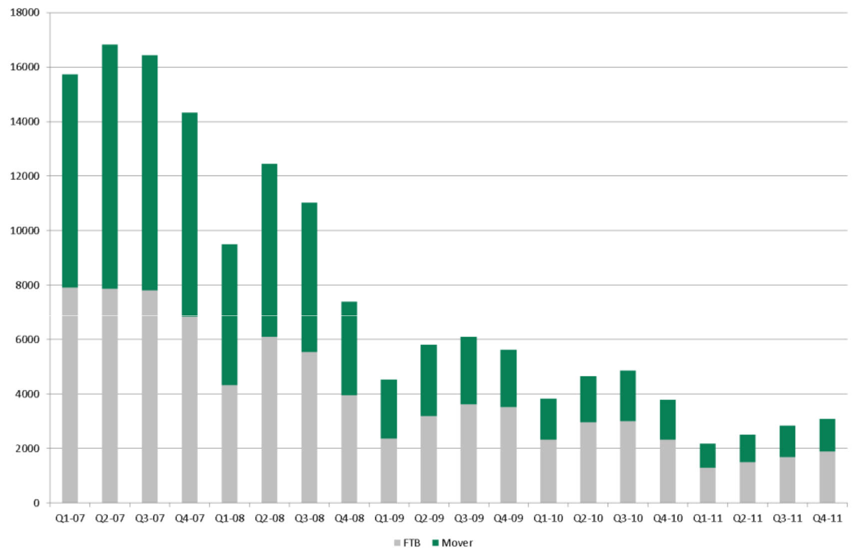


Source: CSO

- Mortgage arrears rose rapidly during 2011 but pace of arrears has slowed in Q1
- Widespread forbearance measures and lack of repossessions a factor as banks put-off resolution of the problem
- Personal insolvency bill will prompt/help banks to comprehensively deal with the issue which will see arrears stabilise and begin to fall
- PCAR provided for €9bn of stressed losses on Irish mortgage books. Arrears running between base and stress

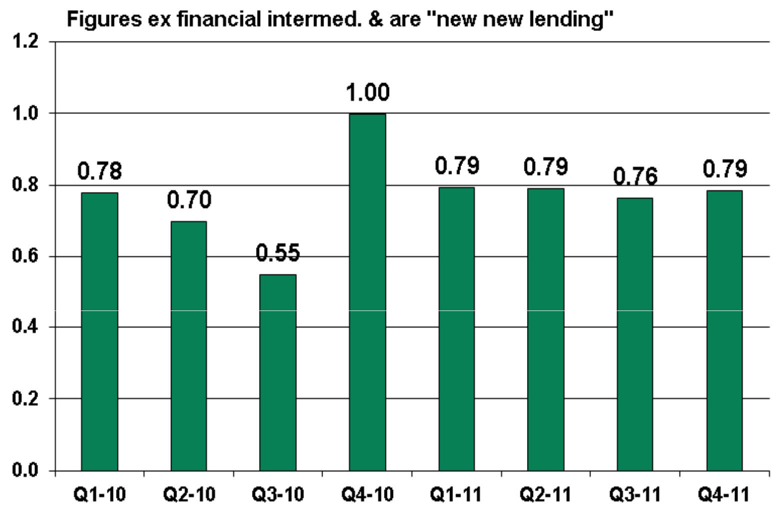
Update on personal & SME lending activity

No. new mortgages (FTBs and movers)



Source : IBF

SME new lending (all banks, €bn)



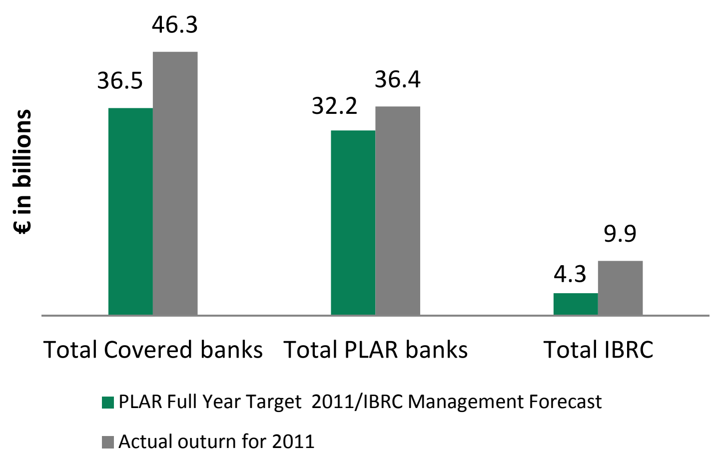
Source : DOF

Comment

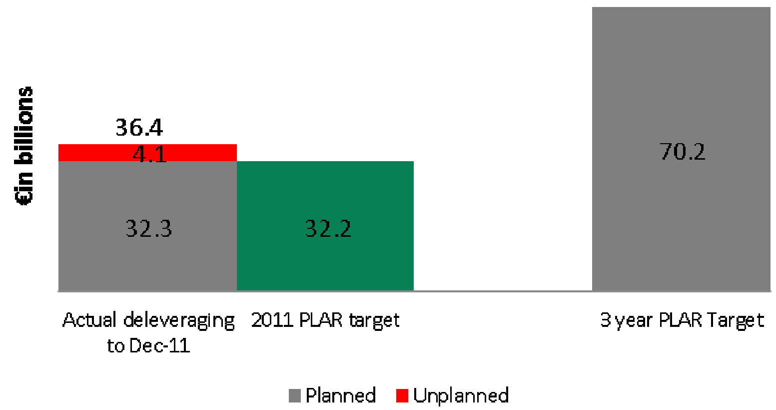
- Mortgage lending activity rising albeit off a depressed base
- Pillar banks achieved their €3bn SME lending targets in 2011

Deleveraging is on track

Covered bank deleveraging - Dec-11



PLAR bank deleveraging - Dec-11



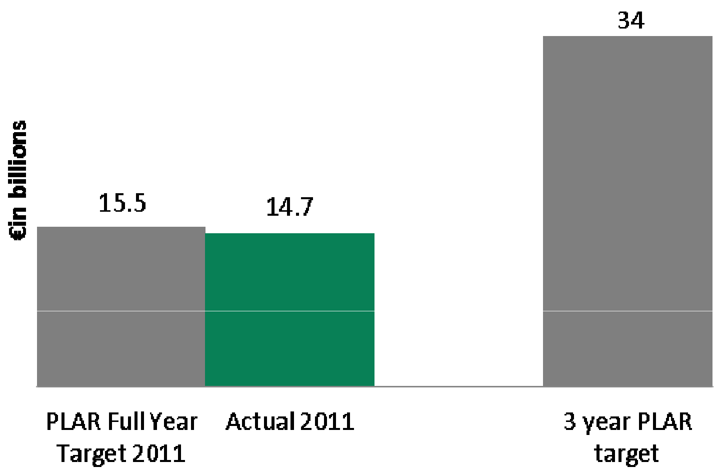
Comment

- Total system deleveraging of €46.3bn in 2011
- These figures exclude €1.8bn of transactions that were sale agreed at 31 December 2011 and have largely settled post year end.
- Deleveraging has been achieved within PCAR assumed discounts
- AIB and BOI met their CBI mandated LDR targets at 31 December 2011

Note: 'Planned' is net loan balance reduction anticipated as part of the €70.2bn reduction in PLAR – conversely 'unplanned' is deleveraging not anticipated as part of the €70.2bn outlined in the FMP

Asset disposals update

2011 Target asset disposals versus forecast



Comment

- In 2011 disposals completed of €14.7bn which by end Q1 2012 had reached €17.6bn.
- The majority of the remaining asset disposals targeted as part of the PLAR plan are located at IL&P
- Excluding IL&P, the Pillar Banks have settled or agreed transactions for 75% of the quantum outlined in the 3 year PLAR plan.

Main sources of funding for Covered Banks[1]

Central Bank Funding — €108 bn
- Reliance on Central Bank Funding is expected to reduce more slowly this year
- Eurozone risk and Irish economy concerns will continue to weigh on banks ability to find alternative sources of funding

Deposits — €149 bn
- Retail and corporate deposits at the Covered Banks have stabilised with Ireland showing genuine growth recently
- Deposit rates still too high

Wholesale funding — €50 bn
- Covered Banks continue to look for opportunities (e.g. UK RMBS market)
- €13 bn of Covered Bank Debt matures in 2012 if include IBRC

Bilateral Repo — €14 bn
- Deals from here generally need to be around Irish collateral. Some large international banks looking at Irish unsecured/secured books

Equity
- Perception of Irish banks makes equity raising difficult.
- Competition from stronger European banks for scarce resources

1. *as at 30th March 2012 (source: CBI)*

State Support for Funding Measures

The Department of Finance has been pursuing **two key policies** in relation to State support over the past 3 months:

- Reducing ELG exposures

  A policy review paper was prepared in January 2012 for January – December 2011 and this led to increased scrutiny of three specific areas with the banks (i) UK deposits (ii) the costs of the guarantees following a review with DG Comp and (iii) potential for normalisation

- Reducing guarantees supporting ELA

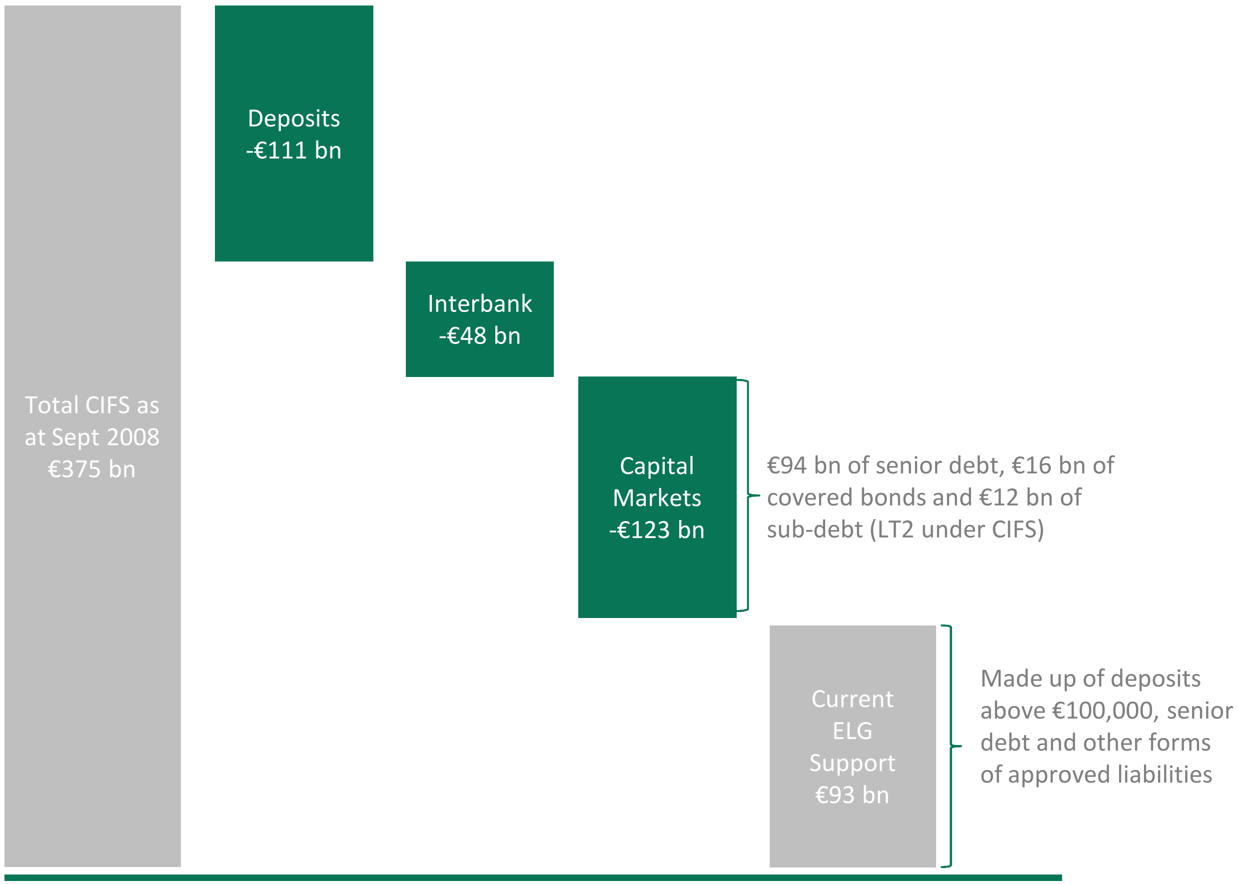
  The Department determined that the level of the contingent exposure was greater than required

- A more pro-active approach will see DoF vigorously engage with the banks to determine a speedy but prudent approach to wean them off ELG over a realistic timeframe as 2012 progresses

- Questions being asked?
  - How much value do customers put on the guarantee post heavy bank recapitalisation?
  - Is the guarantee needed for demand deposits or just term deposits or both?

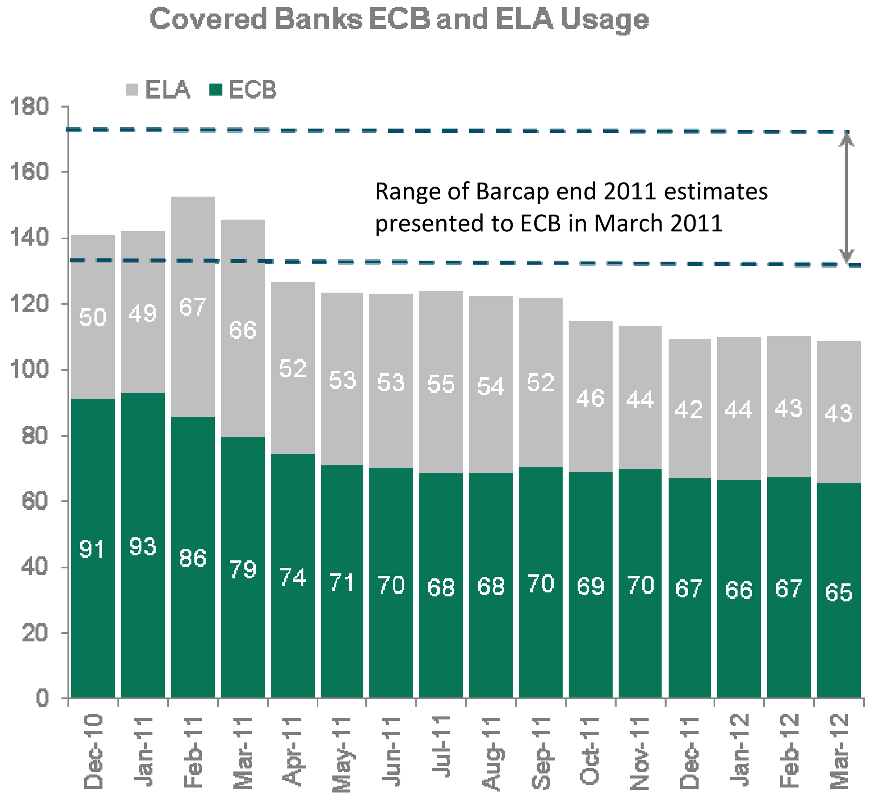
State Support continues to fall

Changes in CIFS/ELG since inception



Central Bank Funding remains on a downward trend

Funding trend since end 2010



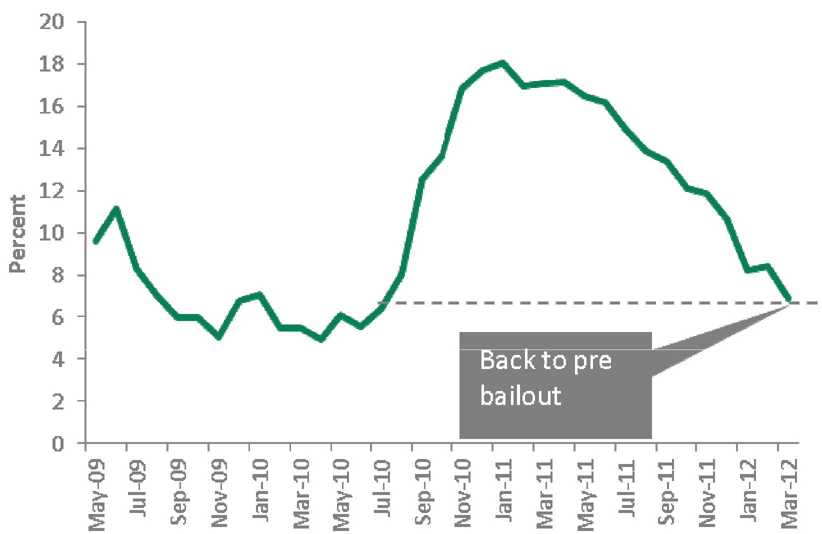
Source: Central Bank of Ireland

Key Observations

- CBF has declined modestly this year
- Little deleveraging activity in Q1 while debt maturities kicked in.
- With the exception of some investment by BOI, Irish banks did not really play 'the carry trade' in the LTRO's

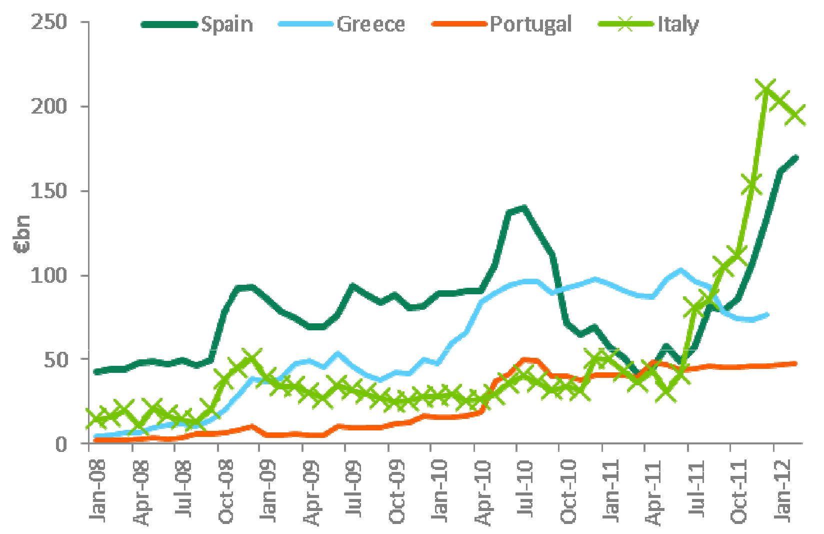
Covered Banks relative usage of ECB facilities down significantly

Covered Bank Usage of ECB Facilities



Source: CBI, ECB Statistical Warehouse

ECB & ELA Usage by Country

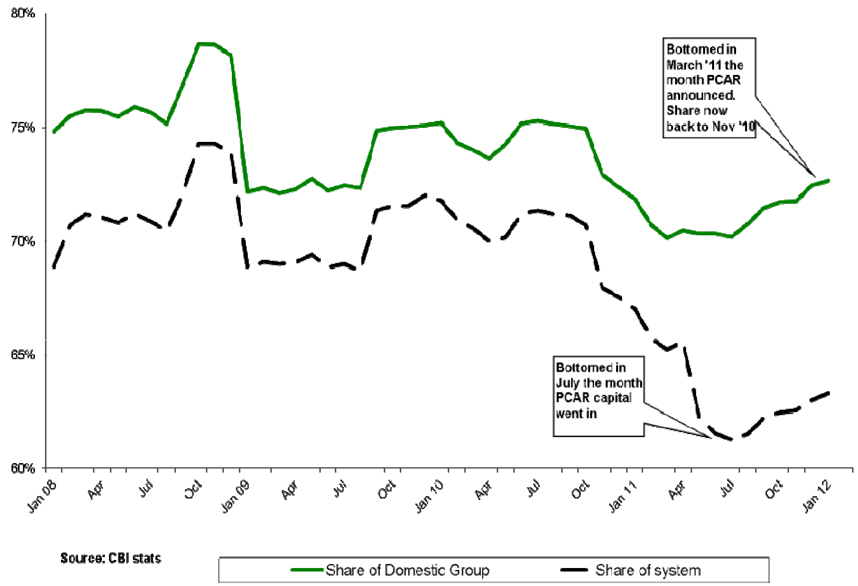


Source: CSFB

- Covered Banks' usage of ECB facilities has significantly fallen on a relative basis:
  - Covered Banks' usage of the total ECB facilities has reduced to 7% from 18%
  - Total usage had fallen to €65 bn at end March from peak of €93 bn
- Irish usage of ECB facilities has fallen at a time when other Eurozone members have drawn more heavily – contagion across the Eurozone system

Covered Banks relative deposit position

Covered Bank share of deposit market



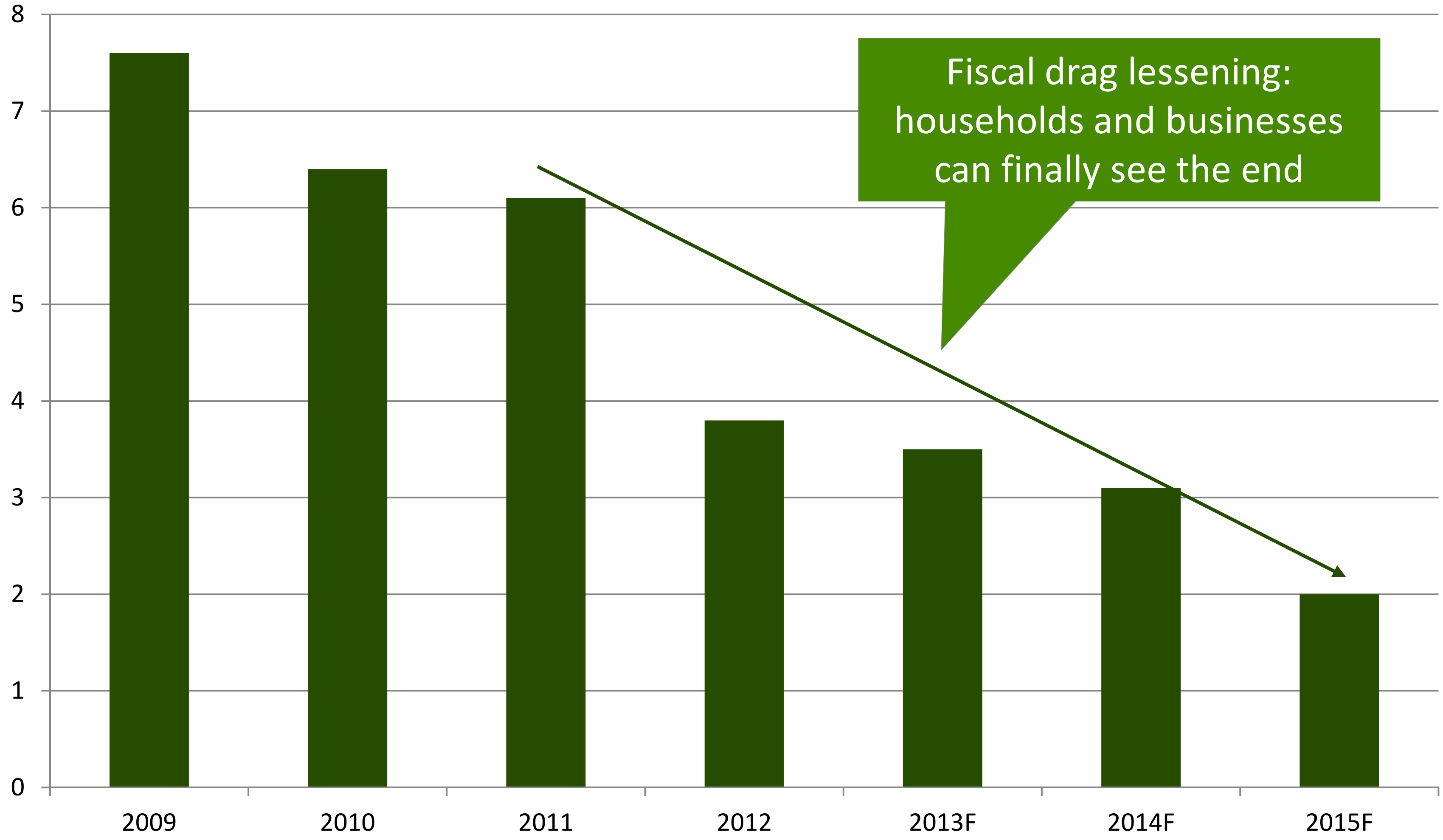
Key observations

- BoI have moved rates decisively downwards
- Other Covered Banks have followed but perhaps to a lesser extent
- Covered banks have regained some lost market share according to CBI unconsolidated stats.
- Overseas banks still aggressive
  - Rabodirect offers 2.4% on demand with Nationwide and Leeds both offering 3%
  - KBC recently raised demand rate to 3.25% and 1 year rate to 4.15%

SECTION 6: FISCAL & FUNDING

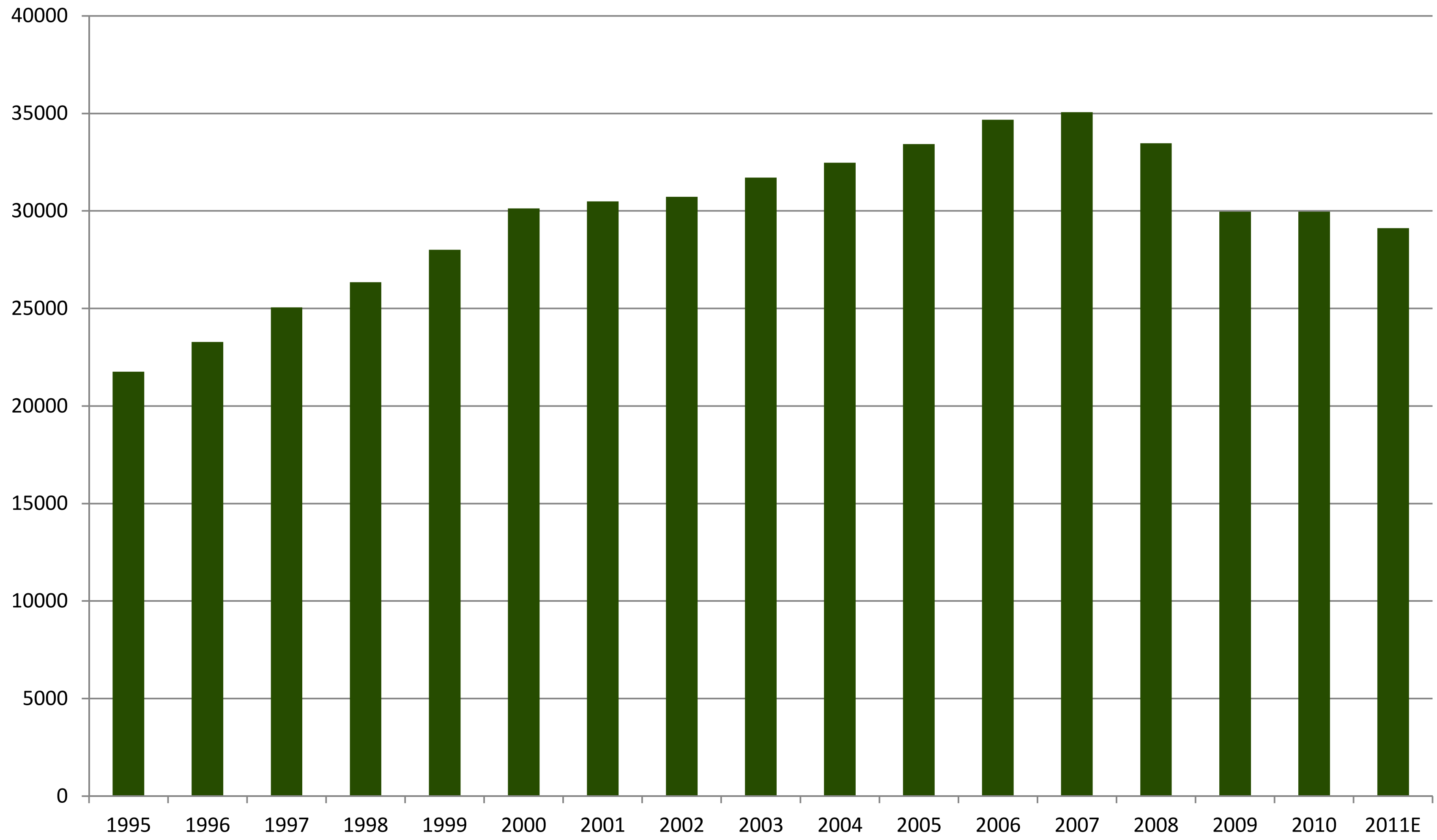
Fiscal trends improving: further two-year challenge to stabilise debt ratio

Planned gross annual fiscal consolidation to 2015 (€bn), the target year to meet 3% of GDP deficit rule



Source: Department of Finance; IMF

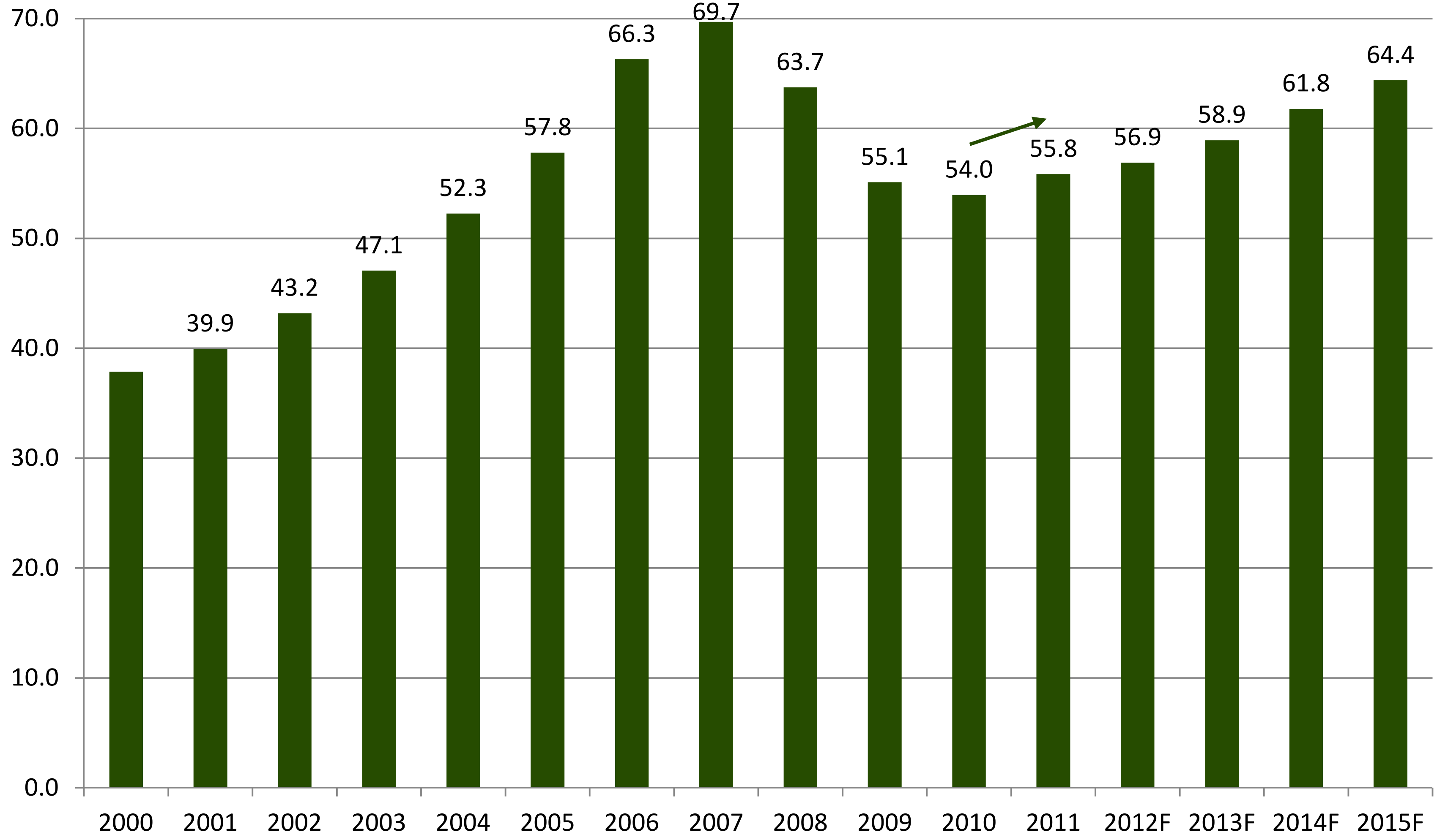
Gains from 2001-07 bubble given back, but living standards (GNI per capita) 33% higher than mid-90s



Source: CSO

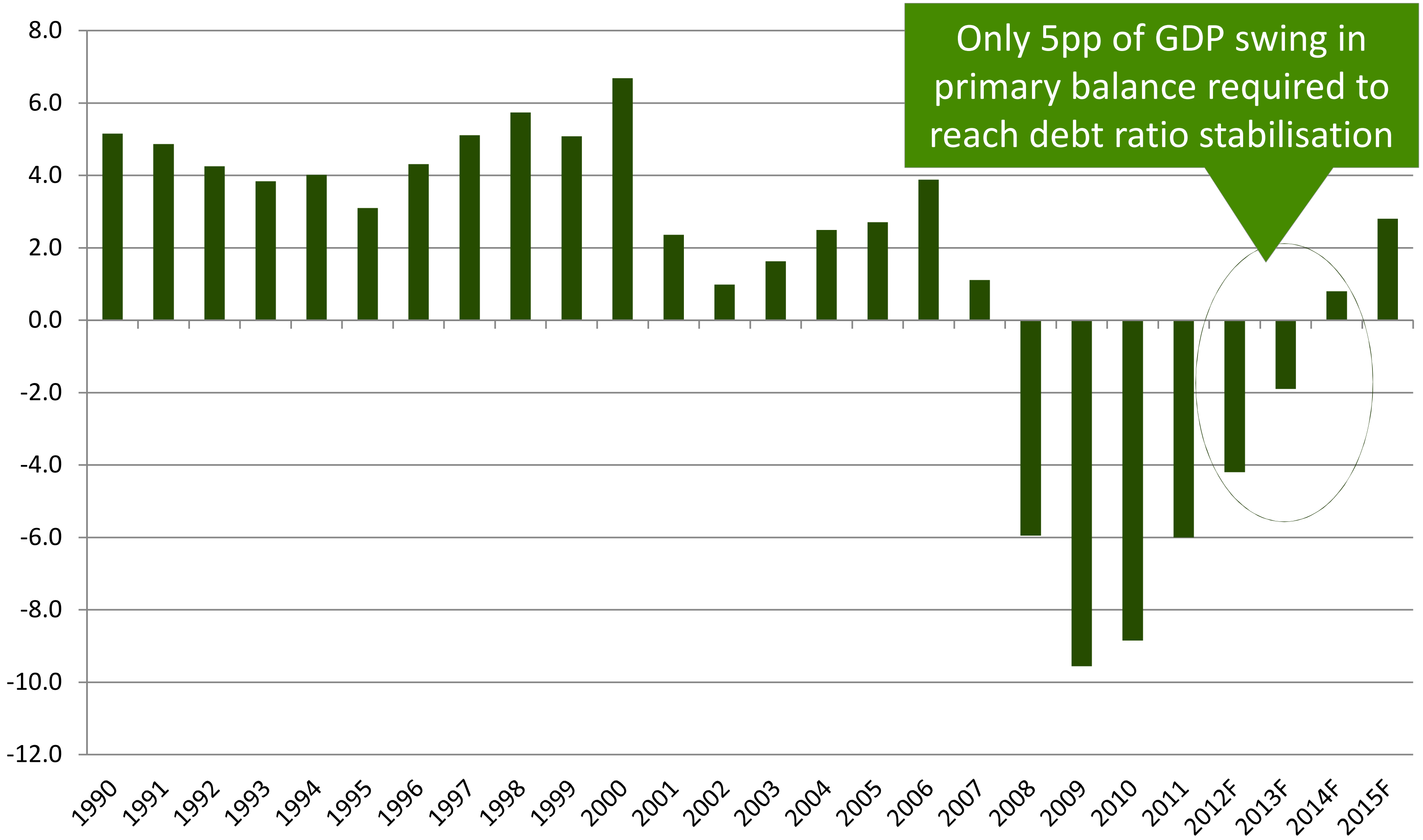
National Treasury Management Agency

General Government revenue (€bn) has stabilised at levels between 2004 and 2005



Source: Department of Finance; Eurostat

Ireland not far from confirming debt sustainability



Source: Department of Finance; Eurostat

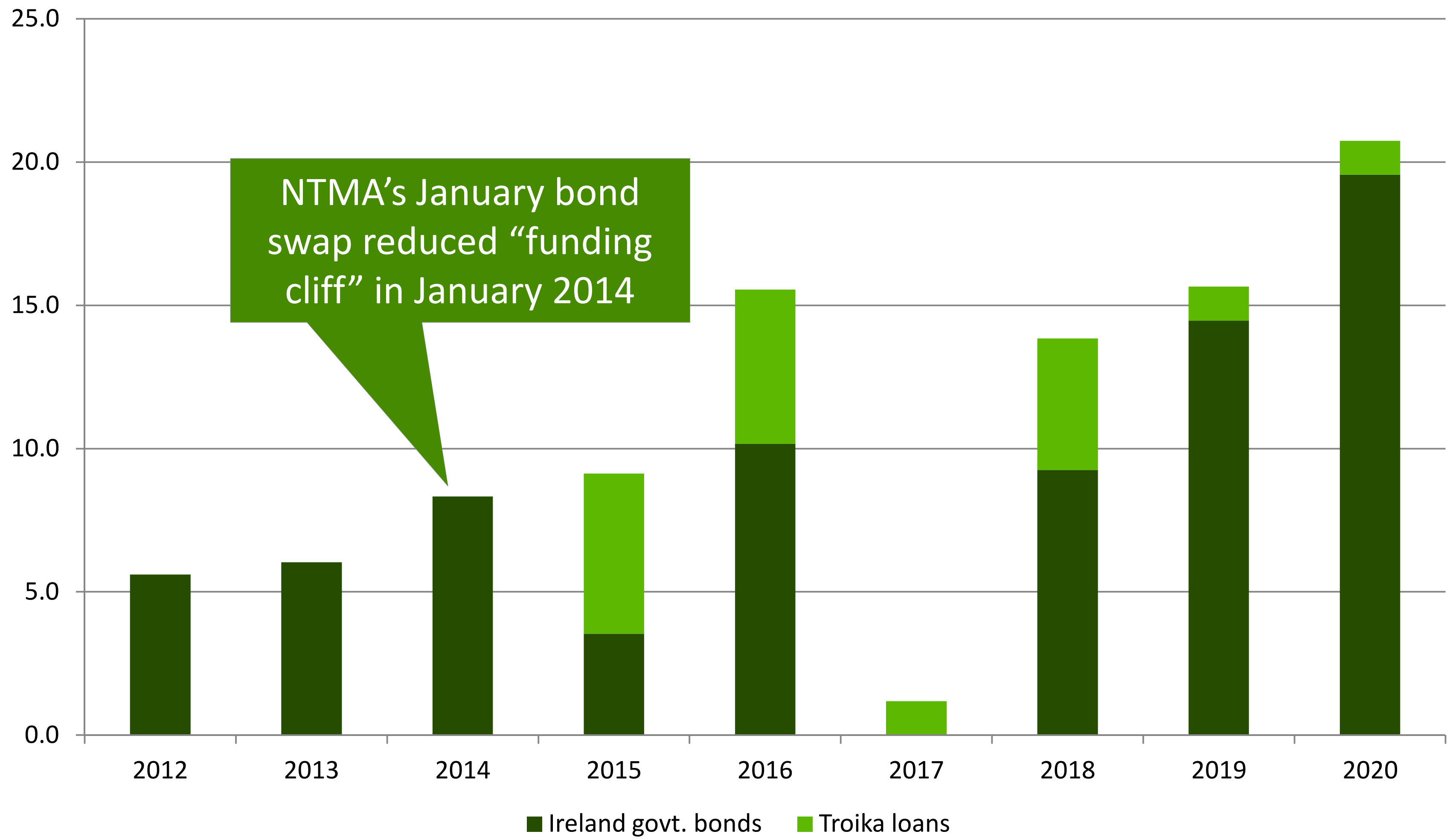
Ireland's fiscal challenge to stabilise debt ratio easier on paper than for similar small countries in the past

	Years	Turnaround required in Primary Balance (% of GDP)	GDP (% chg. real)	GDP (% chg. nom)
Belgium (1981-1990)	9	12.3	2.3	5.8
Denmark (1982-1986)	4	14.1	3.9	9.2
Finland (1993-2000)	7	13.5	4.5	6.7
Sweden (1993-2000)	7	12.6	3.7	5.4
Ireland (1982-1991)	9	12.0	3.6	8.2
Ireland (2009-2014F)*	5	**10.1**	1.2	1.3

Source: NTMA

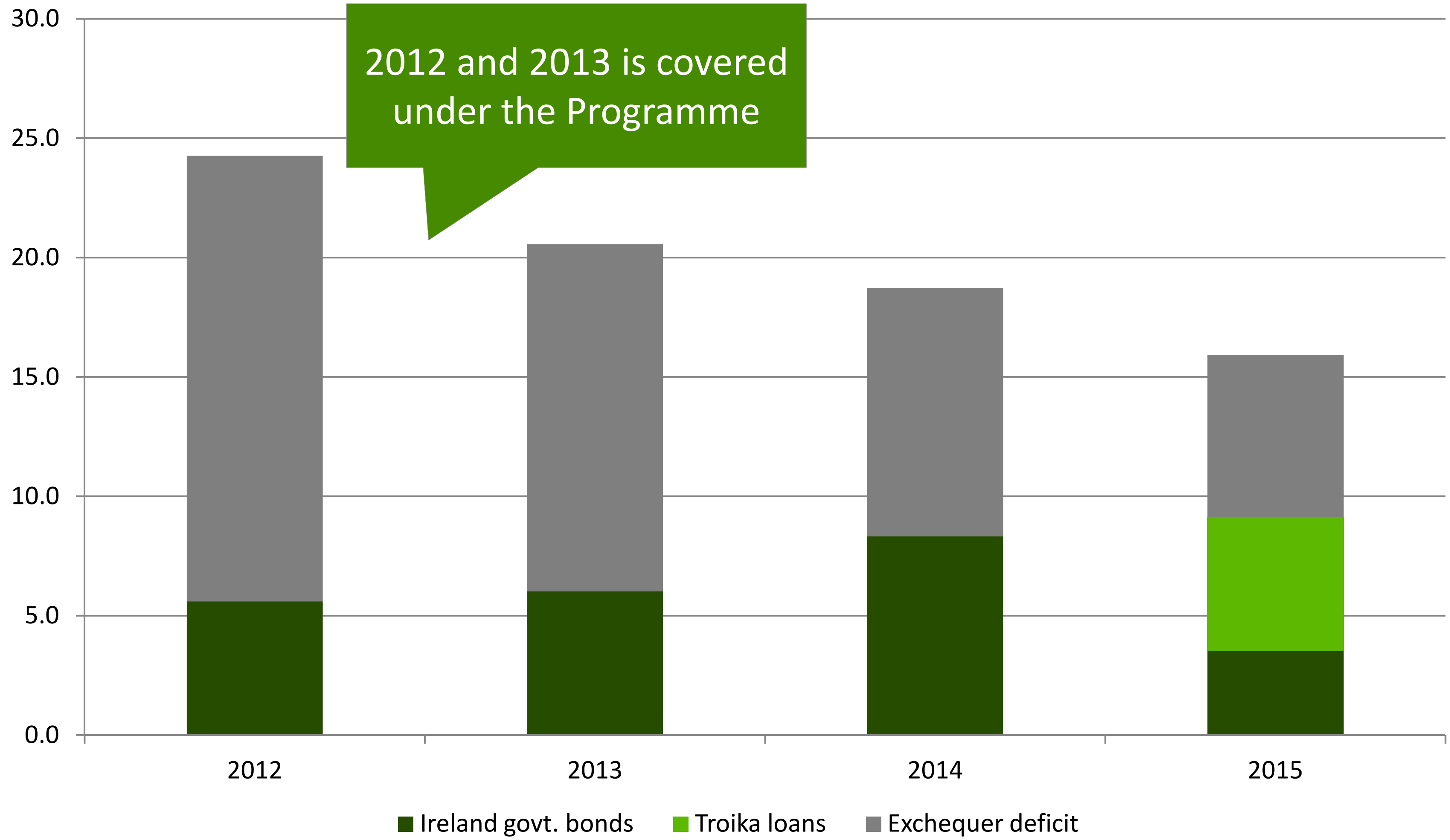
Ireland is halfway through the process, but it is politically difficult to consolidate when inflation is low and private debt high

Rollovers of bonds (€bn) light in 2012 and 2013



Source: NTMA

Total funding requirement (€bn) declining steadily



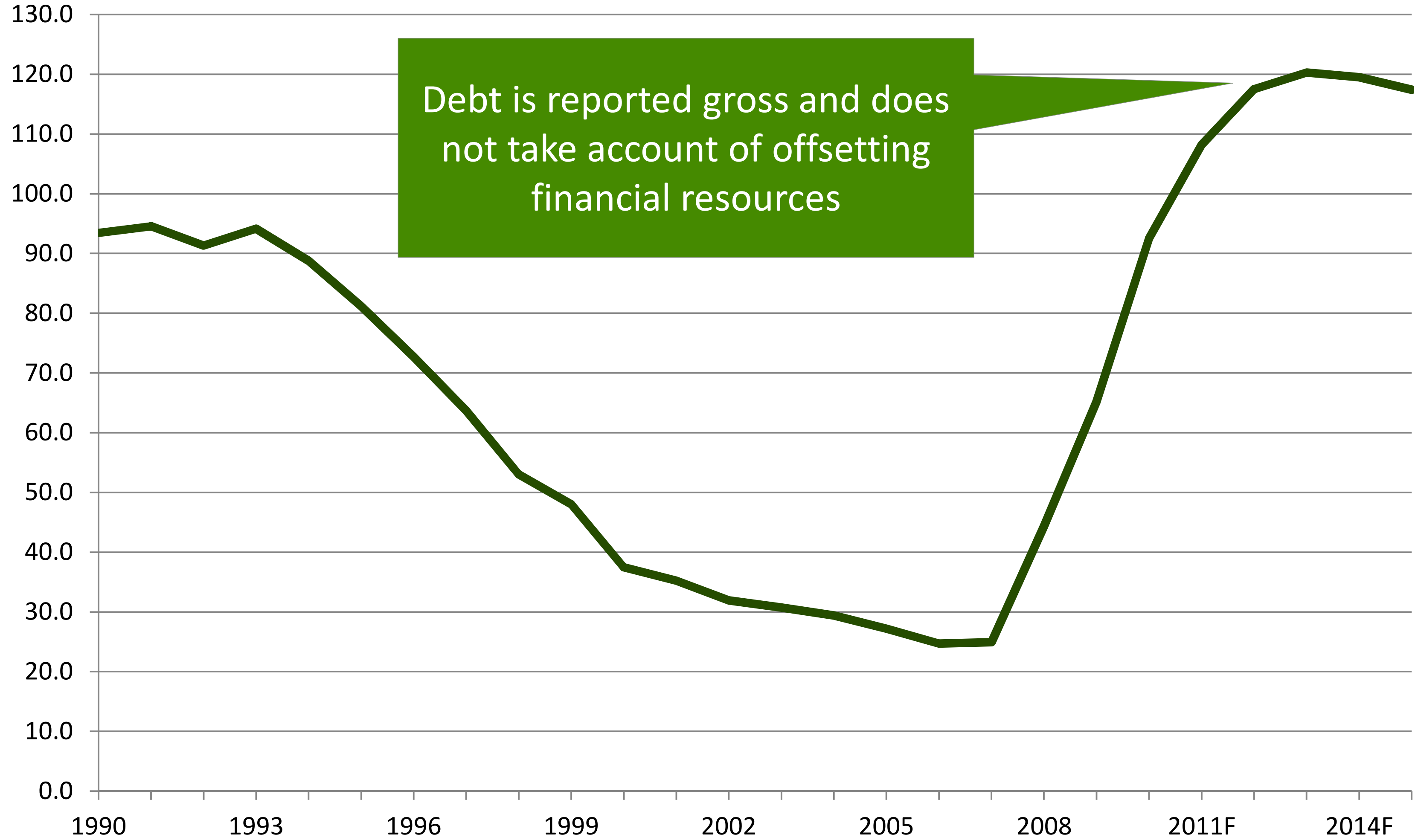
Source: NTMA; Department of Finance

Foreign ownership of marketable bonds is high

€ million	2011			
End quarter	March	June	September	December
1. Resident	14,916	15,466	15,141	18,408
– MFIs and Central Bank	12,345	12,404	12,175	15,210
– General government	539	890	879	806
– Financial intermediaries	1,781	1,912	1,822	2,157
i) Financial auxiliaries	315	309	333	337
ii) Insurance corporations and pension funds	1,335	1,331	1,147	1,192
iii) Other financial intermediaries	132	272	341	627
– Non Financial Corporations	32	31	48	12
– Households	219	228	217	224
2. Rest of world	74,891	74,160	74,448	**66,901 (78%)**
Total	89,807	89,626	89,589	85,310

Source: Central Bank of Ireland

Gross Government debt stabilises at 120% of GDP in 2013



Source: Department of Finance

APPENDIX

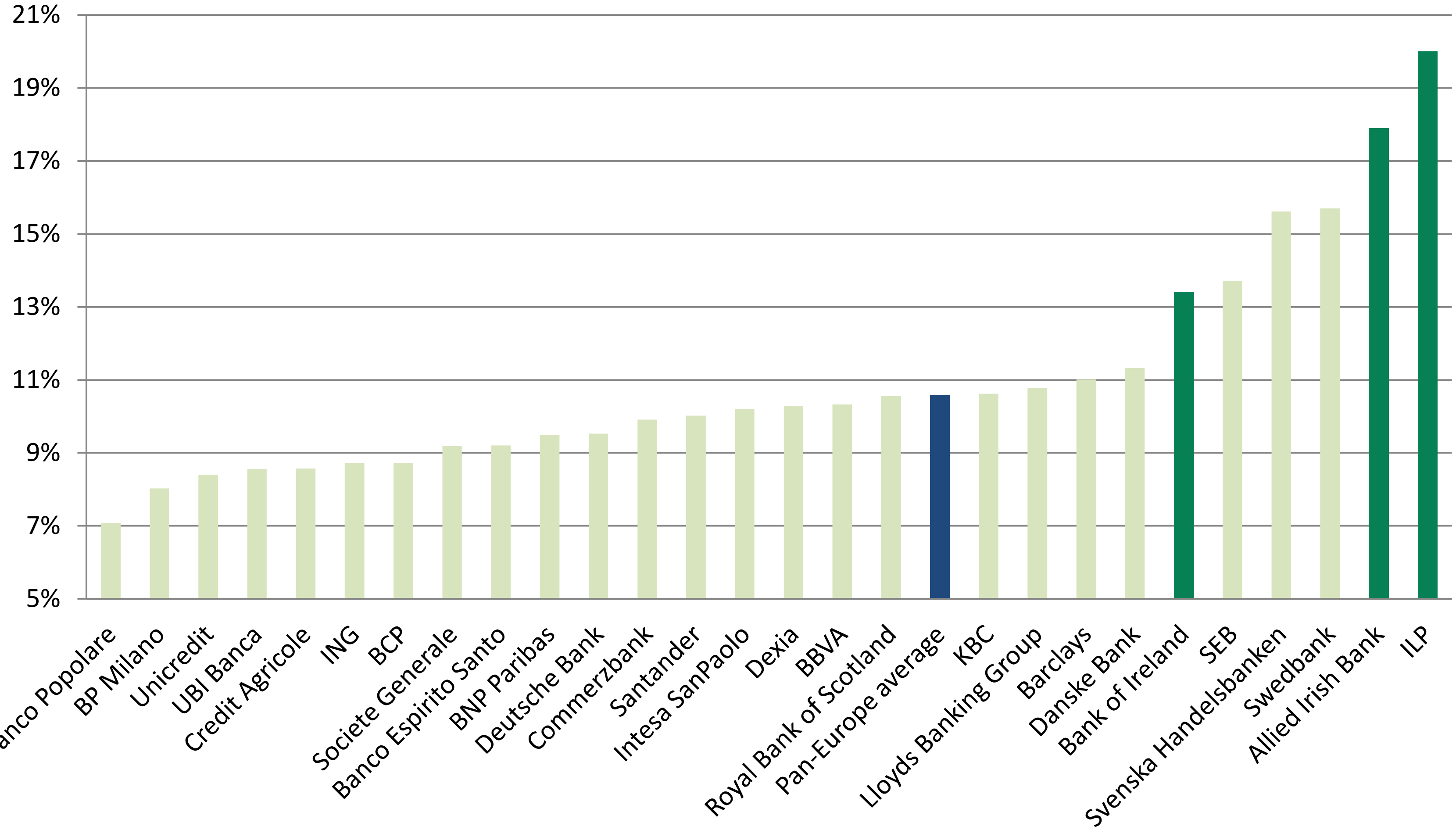
Additional banking data

Summary balance sheets year-end 2012

€m	AIB	BOI	IBRC	ILP	
Summary balance sheet as at	**30-Dec-11**	**30-Dec-11**	**30-Dec-11**	**30-Dec-11**	**Total**
Assets					
Loans and advances to customers*	82,540	99,314	17,689	33,677	233,220
Promissory notes	-	-	29,934	-	29,934
NAMA notes	19,856	5,016	0	-	24,872
Loans and advances to banks	5,718	8,059	2,306	1,623	17,706
Available for sale assets	15,589	12,708	3,859	28,900	32,156
Other assets	10,016	21,602	1,653	7,749	33,271
Cash	2,932	8181	100	88	11,213
Total assets	**136,651**	**154,880**	**55,541**	**72,037**	**382,372**
Liabilities					
Deposits from banks	36,890	31,534	42,591	16,966	127,981
Customer accounts	63,932	70,506	597	14373	135,035
Debt securities in issue	15,654	19,124	5,371	8,356	48,505
Subordinated liabilities	1209	1,426	304	317	2,939
Other liabilities	4,503	22,038	3440	28508	29,981
Total liabilities	**122,188**	**144,628**	**52,303**	**68,520**	**344,441**
Total equity	**14,463**	**10,252**	**3,238**	**3,517**	**31,470**
Total liabilities and equity	**136,651**	**154,880**	**55,541**	**72,037**	**375,911**

Source: Department of Finance; Published accounts as at 31/12/11

European banks' capital levels (Core tier 1 comparison)



Source: Datastream; GS Research; Company Reports

Timeline of banking sector developments

2008 · 2009 · 2010 · 2011 · 2012

September 2008

Bank Guarantee Scheme introduced (CIFS)

January 2009

Nationalisation of Anglo Irish Bank

March and May 2009

NPRF investment by way of preference shares of EUR 3.5bn each in BOI (March) and AIB (May)

March and September 2009

The Prudential Capital Assessment (PCAR) raised the Core Tier 1 Capital Ratio to 8%, including a minimum of 7% in Core Tier 1 equity capital

December 2009

NAMA established

September 2010

Estimates for fiscal costs associated with support measures for the banking sector were raised to c. EUR 45bn

The Eligible Liabilities Guarantee Scheme (ELG) extended (to cover shorter maturities)

December 2010

IMF/EU financial support package signed

NPRF investment of EUR 3.7bn in AIB

March 2011

Following PCAR/PLAR 2011, AIB/EBS, BoI and IL&P are required to raise €24bn in order to meet a Core Tier 1 ratio of 10.5% and 6% in the base and stressed scenarios respectively

The banks are also required to deleverage c. €70bn of loans to meet a loan to deposit ratio of 122.5% by 2013

31 July 2011

PCAR €24bn recap complete (except for €0.4bn forbearance afforded to BoI) - LME gains of €5.2bn generated, BoI source €1.7bn from private investors, net contribution from State of €16.5bn

31 December 2011

BoI completed remaining €0.4bn recap

30 June 2012

Govt €1.3bn acquisition of ILP expected to complete

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

Huge gross cost to the Irish State of Banking clean-up

€bn	AIB/EBS	BoI*	IL&P***	IBRC	Total
Government preference Shares (2009) - NPRF	3.5	3.5	-	-	**7.0**
Capital contributions (Promissory Notes /Special Investment Shares (2010) - Exchequer **	0.9	-	-	30.7	**31.6**
Ordinary Share Capital (2009) - Exchequer	-	-	-	4.0	**4.0**
Ordinary Share Capital (2010) - NPRF	3.7	-	-	-	**3.7**
Total pre-PCAR 2011 (A)	**8.1**	**3.5**	**0.0**	**34.7**	**46.3**
PCAR 2011:					
Capital from Exchequer	3.9	-	2.7	-	**6.5**
NPRF Capital	8.8	1.2	-	-	**10.0**
Total PCAR (B)	**12.7**	**1.2**	**2.7**	**0.0**	**16.5**
Total Cost of Recap for State (A) + (B)	**20.7**	**4.7**	**2.7**	**34.7**	**62.8**

*€1.7bn of BoI's government preference shares were converted to equity in May/June 2010 (€1.8bn still left in existence). The government also received €479m from the warrants and €403m in dividend income from preference shares.

** The IBRC (Anglo/INBS) amount is made up of a total capital contribution for Anglo / INBS of €30.6bn and a special investment share of €0.1bn (INBS).

*** In addition, the State is committed to acquiring Irish Life for €1.3bn to complete the recapitalisation of Irish Life & Permanent. It is expected that the proceeds of an onward sale of Irish Life in due course will reduce the amount the State has committed to the bank recapitalisation.

Source: Department of Finance