



Ireland's Banking Report Card

January 2012



An Roinn Airgeadais
Department of Finance



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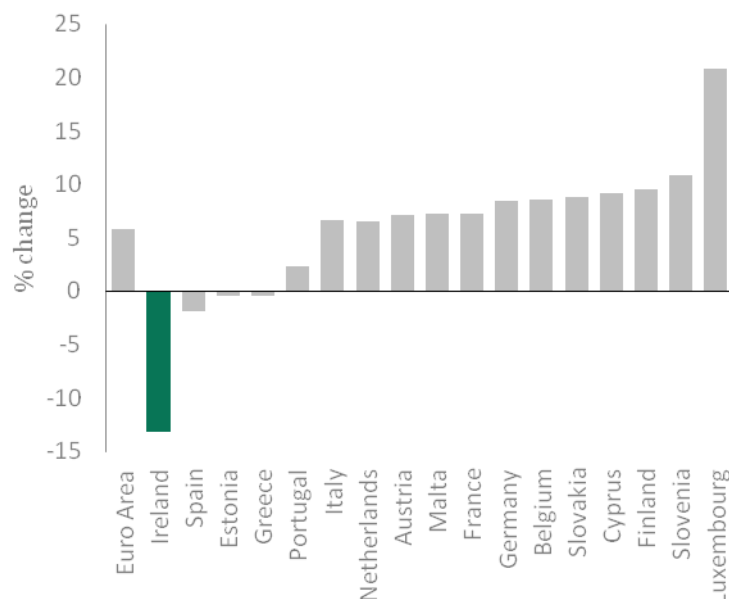
Banking Overview

Section 2



Return to economic growth driven by exports

Unit labour costs



source : European Commission Autumn Forecast, 2011

Export driven growth



source : CSO

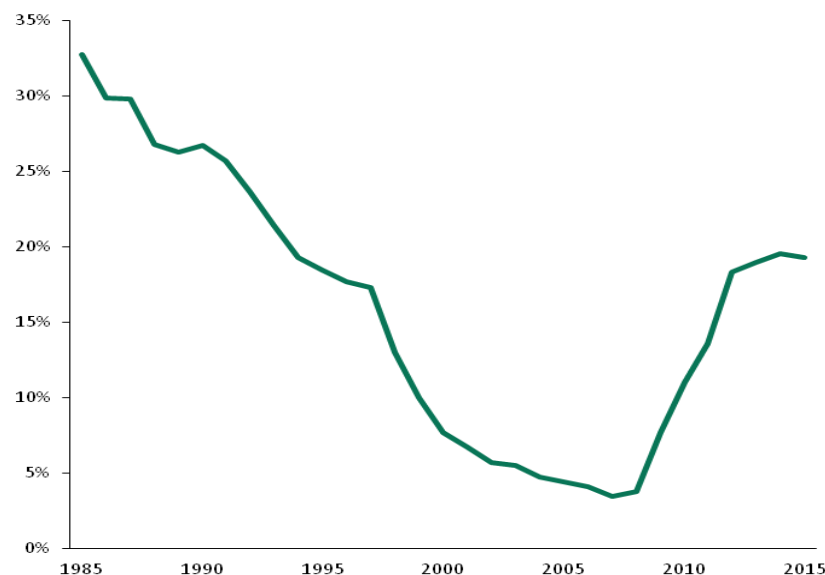
Main observations

- GDP growth of 0.7% recorded in first three quarters of 2011
- Competitiveness gains underpinning export-led growth – unit labour costs forecast to improve by around 20% relative to Euro area, 2009 to 2013 (Commission)
- Underlines the flexibility of the Irish workforce



Strong record of recovery with definite consolidation path

Interest costs as a % of Tax Revenue



Medium term consolidation framework

	Projected Budgetary deficit (% GDP)	Total adjustment (€ bn)	Source	Estimated savings (€ bn)
2013	-7.5%	3.5	Expenditure	2.25
			Revenue	1.25
2014	-5.0%	3.1	Expenditure	2.0
			Revenue	1.1
2015	-2.9%	2.0	Expenditure	1.3
			Revenue	0.7

source : Department of Finance

Main observations

- ❑ 2011 deficit is well within the EU/IMF programme target
- ❑ Medium term Fiscal Statement set out plan to reduce deficit below 3% of GDP by 2015
- ❑ Including Budget 2012, measures designed to deliver some €25bn (over 15½% of GDP) in savings implemented since mid-2008
- ❑ Another €8½bn required over the 2013-2015 period to bring the deficit below 3% of GDP by 2015



Current Account surplus with strong growth fundamentals

Ireland is paying its way



source : Department of Finance

Main observations

Recovery in export-led growth through:

Very open economy

- Exports forecast to be around 110% of GDP by 2012

High-tech export base

- Nearly one-third of Irish exports classified as high-tech

Well-educated workforce

- Proportion of 20-24 year olds educated to at least upper secondary - highest in EU-15

Favourable demographics

- Irish population relatively young, especially by European standards

High level of employment

- 1.8 million at work (2010) compared with 1.2 million (early 1990's)



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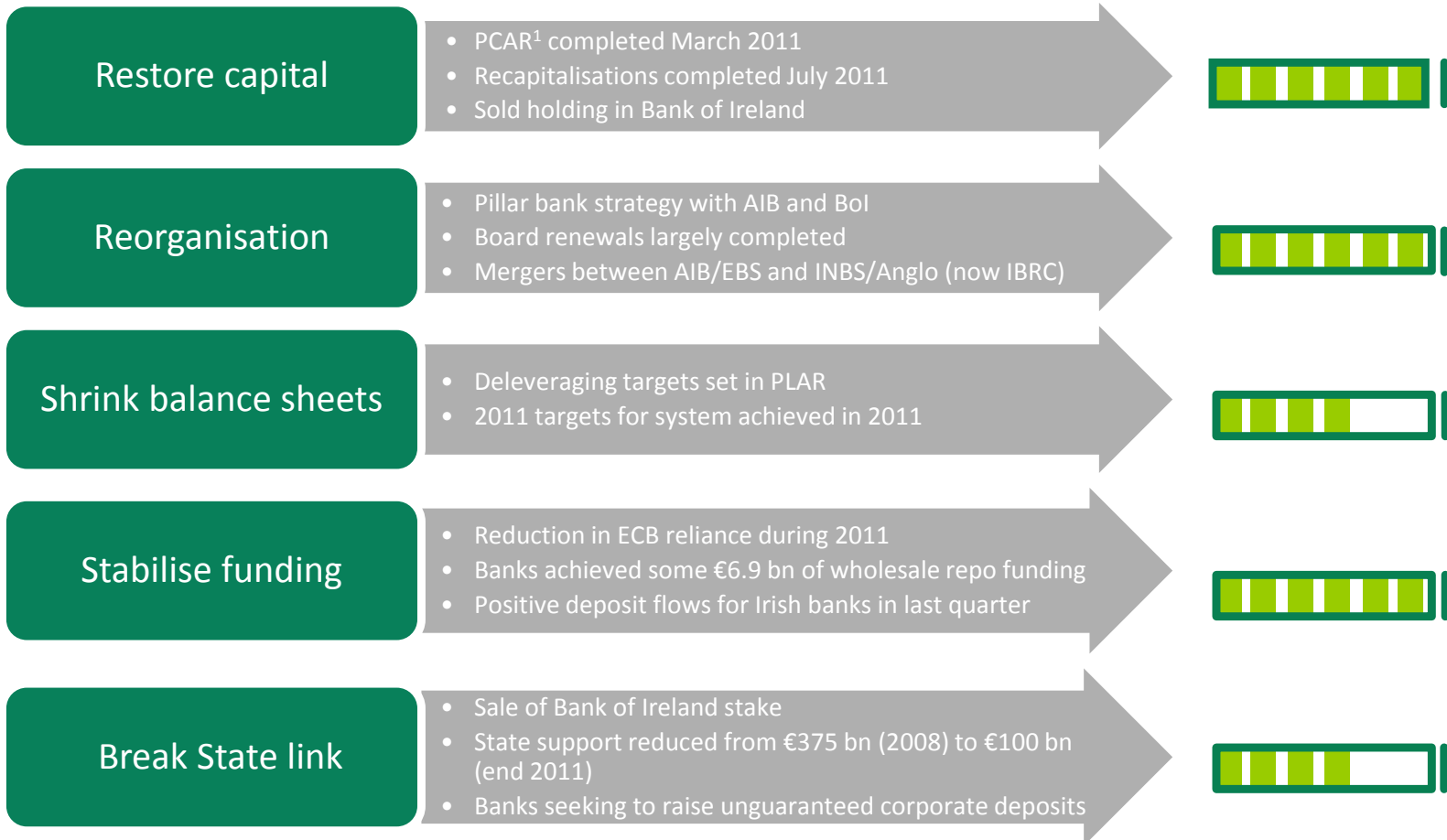
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2011 – a year of significant progress in Banking Sector

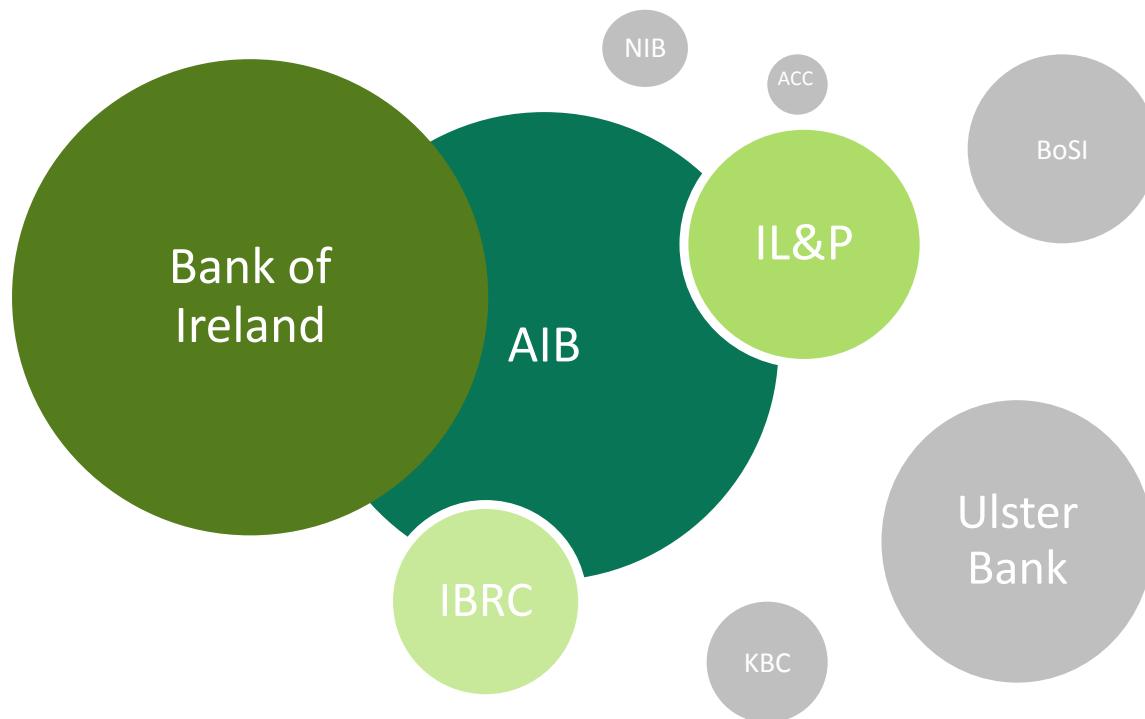


¹ PCAR is the Prudential Capital Assessment Review contained in the Financial Measures Programme, Central Bank of Ireland, March 2011



Irish banking balance sheet

Main players

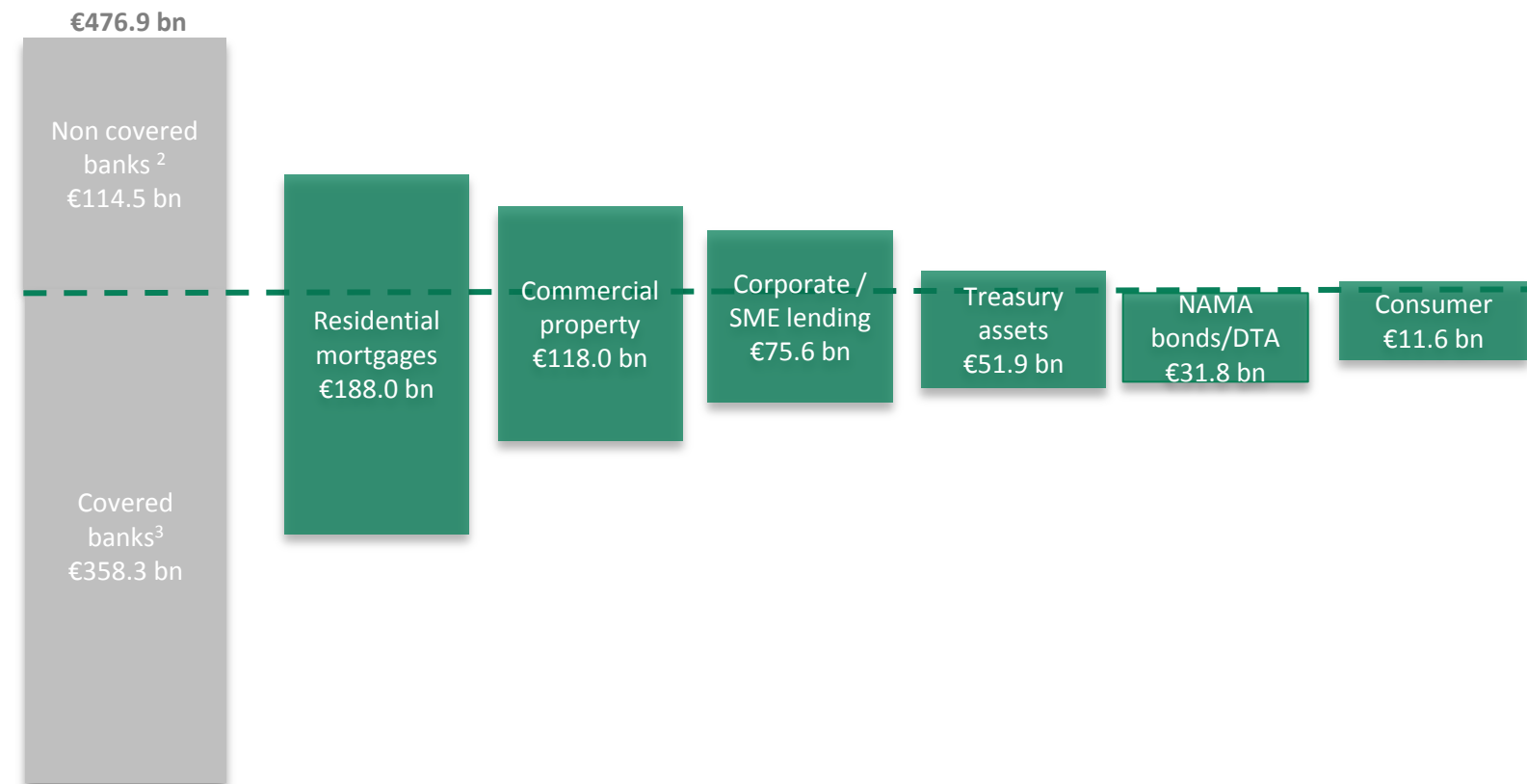


1. As at end of Q3 2011
2. Includes the Irish operations of Ulster Bank, NIB (Danske), KBC and Lloyds Group (BoSI)



Balance Sheets - assets

Total Irish banking system (Covered Banks and others)¹



1. As at end of Q3 2011

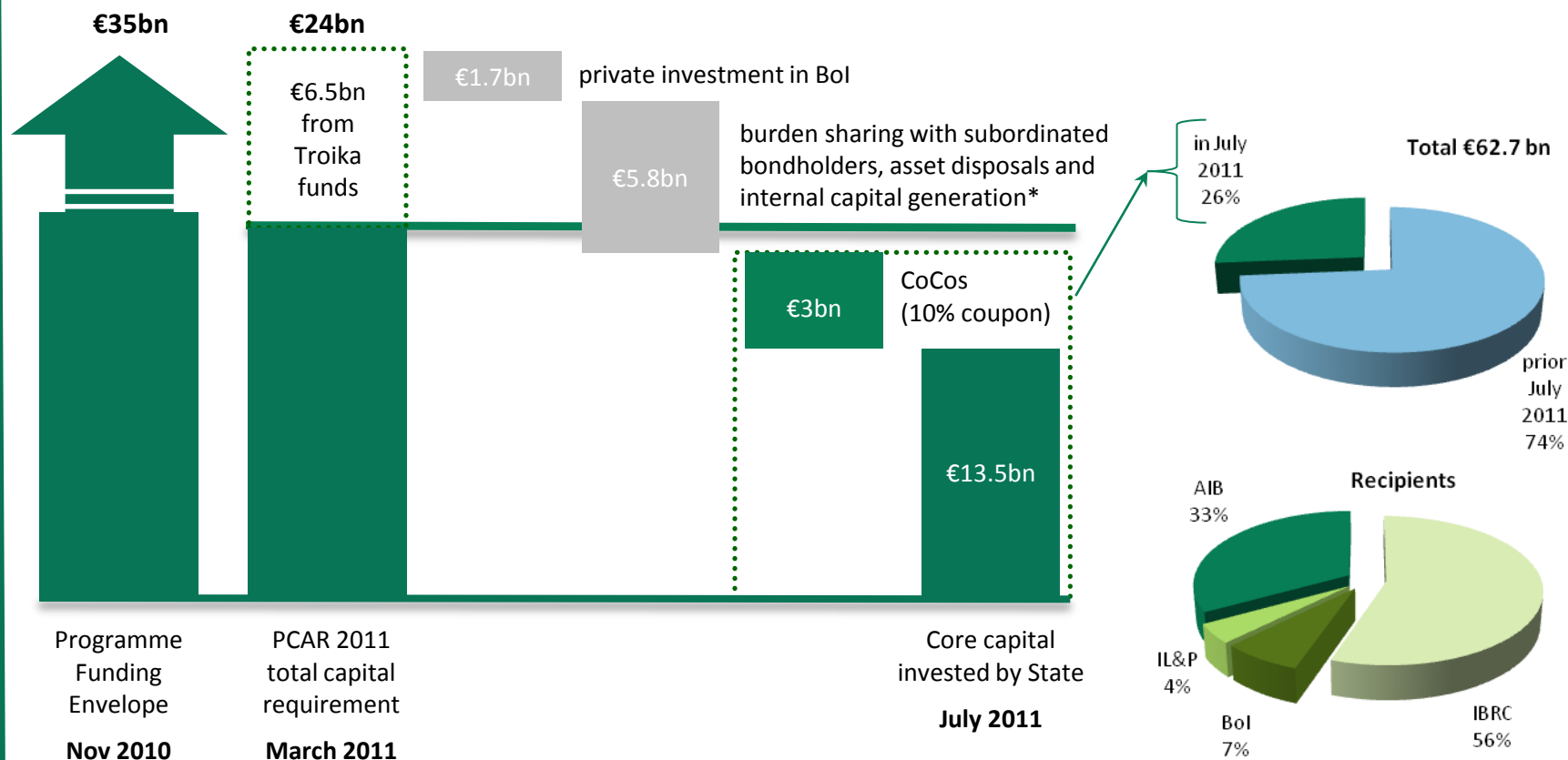
2. Includes the Irish operations of Ulster Bank, NIB (Danske), KBC and Lloyds Group (BoSI) and ACC (Rabobank)

3. Covered Banks are AIB Group (including EBS), Bank of Ireland Group, IL&P and IBRC



Lower cost to State of Recapitalisation*

Recapitalisation completed on time (July 2011) and below expected costs

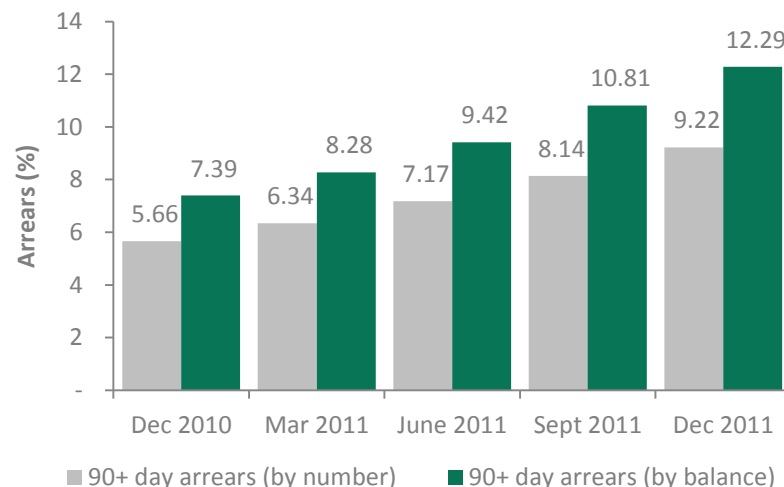
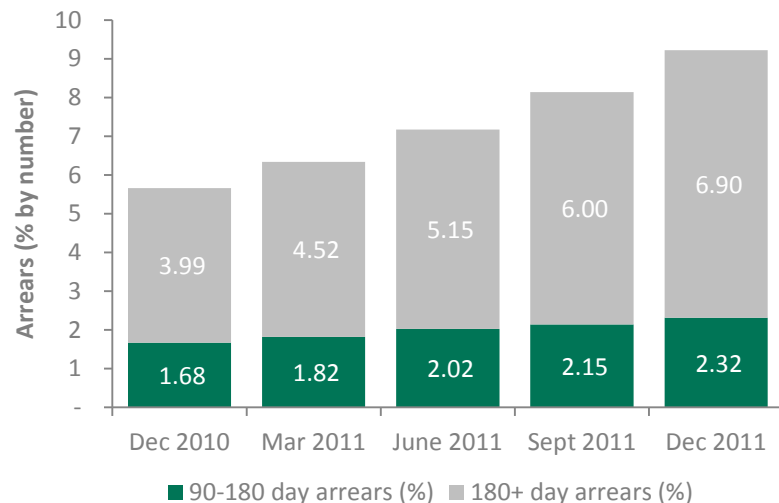


* The State capital injections of €16.5 bn (€13.5 bn Equity and €3.0 bn Contingent Capital) above exclude €1.3 bn the State is expected to incur in acquiring Irish Life or in providing IL&P with a direct capital injection in Q1/Q2 2012. **Total burden sharing exercises of bonds resulted in €15.5 bn of capital generation.**



Residential Mortgage Arrears – still challenging

Total Irish Residential Mortgage Arrears – source: CBI



Total Residential Mortgage Loans Outstanding (owner occupied)

	Dec 2010	Mar 2011	June 2011	Sept 2011	Dec 2011
By Number	786,164	782,429	777,321	773,420	768,917
By Balance (€ bn)	116.68	115.96	115.09	114.41	113.48

- Latest mortgage arrears data shows significant growth over past 18 months
- Approximately 71,000 accounts are more than 90+ days in arrears
- Approximately 74,000 mortgage accounts have been restructured
- Indicators such as ICB would indicate trend in arrears is still upwards



Successful sale of Bank of Ireland stake

Foreign consortium invests

- PCAR 2011 required €5.2bn of capital for Bank of Ireland but Irish State investment was only €1.2 bn¹ - **€0.2bn in equity and €1bn CoCo**
- On 25th July 2011, private investors agreed to an investment of up to €1.123 bn² (34.9%) in Bank of Ireland's Tier 1 capital
- Those investors were led by Fairfax Financial Holdings and include WL Ross, Capital Research (part of The Capital Group), Fidelity Investments and Kennedy Wilson
- Investors taking genuine equity risk - no risk protection or guarantees from the State (such as IndyMac Bank or BankUnited in the US or LTCB/Shinsei in Japan)

1. net of fees.

2. Private investors subsequently made an investment of €1.051bn.

Bank of Ireland 

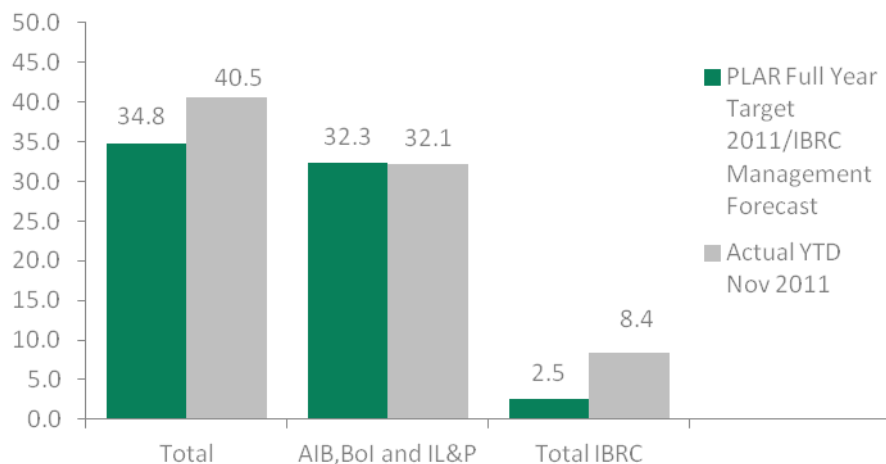
Post PCAR 2011 shareholdings

Shareholders	%
NPRF (Irish state)	15.1%
Strategic investors	34.9%
Existing shareholders	31.0%
Exchanging bondholders	19.0%



Deleveraging targets beaten

2011 outcome (to November 2011) €bn



source : data from Banks

Main points

- AIB, Bol and IL&P achieved deleveraging of €32.1 bn versus €32.3 bn 2011 full year target
- Prices achieved were in line with PLAR base case assumptions
- Further transactions continue to be negotiated for 2012

Outlook

- 2012 could be a more difficult year:
 - Some €1.5 – 3 trillion of assets could, according to investment bank research analysts, be deleveraged by European banks increasing opportunities for buyers and driving prices lower
 - Market liquidity conditions could limit ability to execute transactions during 2012 until risk appetite returns



IBRC US loan sale

“Largest single loan sale transaction in global real estate history” *Eastdil*

Overview

- \$9.2 bn offered in 8 pools (reduced to \$8.9 bn as a result of repayments and some ineligible assets)
- 600 assets in total

Process

- 13 week sale process from engagement to non-refundable deposit being paid
- Over 350 qualified investors and a minimum of \$500 m of debt and equity
- Market friendly data tape containing over 250,000 data fields relevant for the transaction

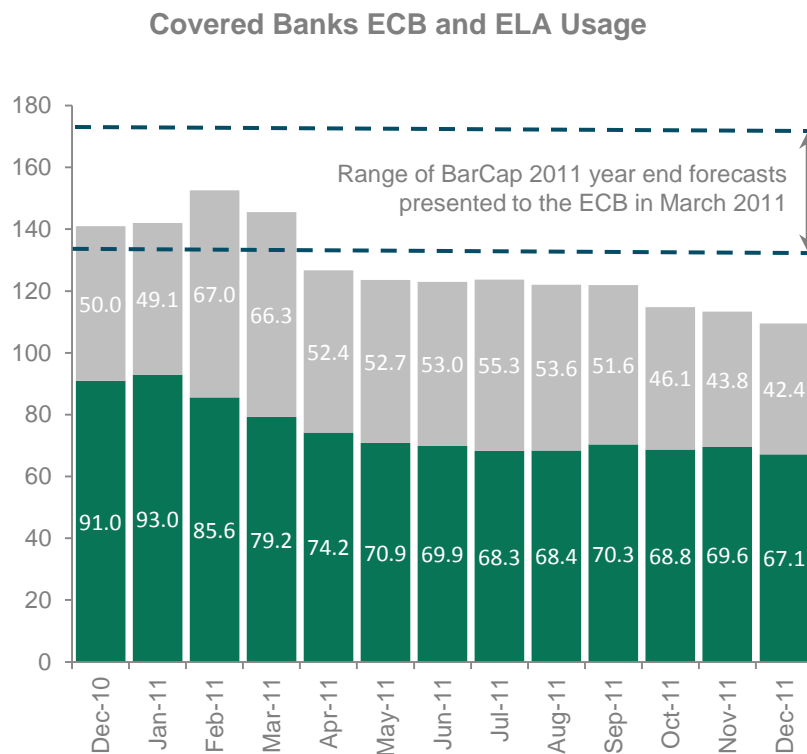
Results

- \$70 bn of global debt and equity bid on the transaction with:
 - 58 distinct bids
 - 26 bidders in total
 - 44 institutions involved
- Pricing ahead of market expectations despite severe global market uncertainty
- By mid-December, \$7.7 bn of loans sold on a broadly regulatory capital neutral basis
- At end year 2011, circa. \$1 bn of residual with on-going work with a view to further disposals



Central Bank funding has significantly fallen

1 year funding trend



Source: Department of Finance

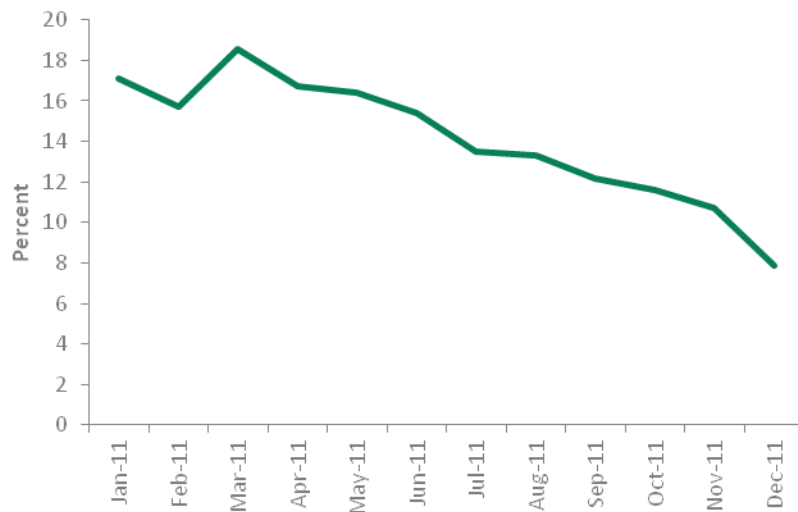
Key Observations

- From a peak of €152.6 bn, the total amount of CBF has reduced due to:
 - State capital injections (€19.6 bn)
 - Deleveraging (ca. €40 bn)
 - Wholesale funding transactions (€6.9 bn)
- Reliance on central bank funding much lower than forecasts presented to the ECB in March 2011.
 - High forecast (€176.9 bn)
 - Low forecast (€134.0 bn)
- Reducing at a time when the ECB is increasing liquidity measures to support financial institutions and sovereigns.



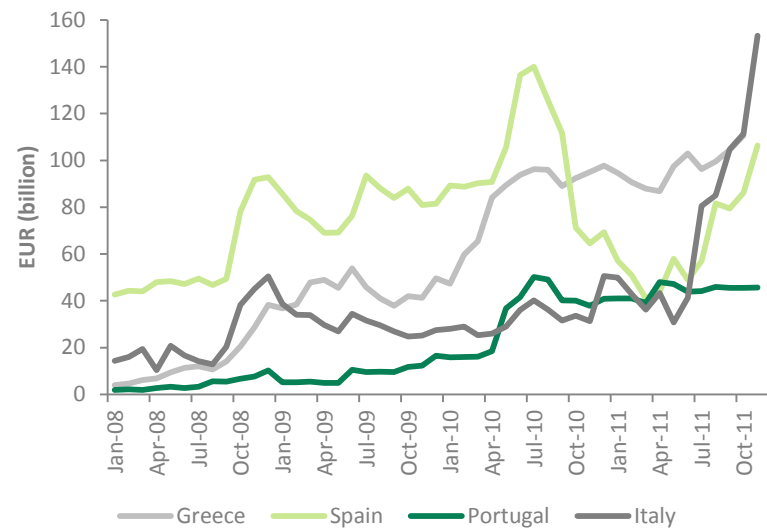
Covered Banks represent falling percentage of ECB facilities

Covered Bank Usage of ECB Facilities



source : CBI, ECB Statistical Warehouse

ECB & ELA Usage by Country



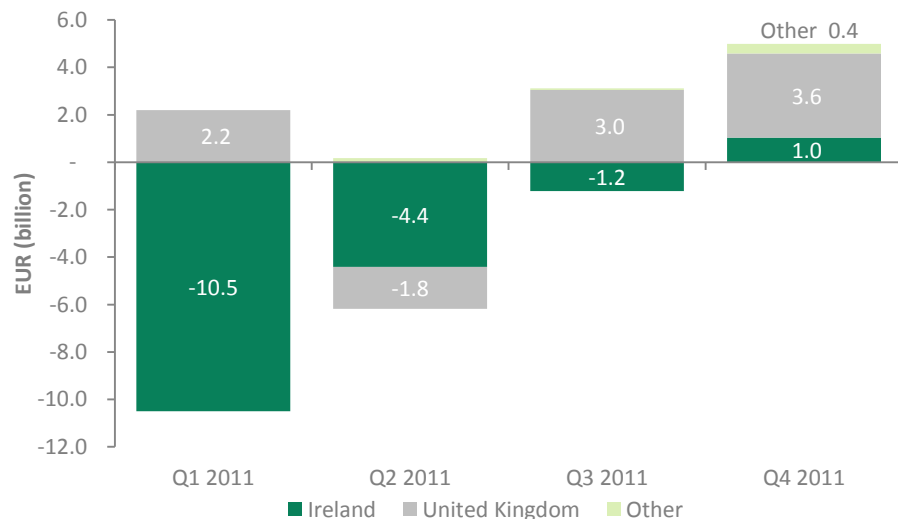
source : CSFB

- ❑ Covered Banks' usage of ECB facilities has significantly fallen:
 - Covered Banks' usage of the total ECB facilities has reduced to 8% from a 2011 peak of 18.5%
 - Total usage has fallen to €67 bn from €93 bn
- ❑ Irish usage of ECB facilities has fallen at a time when other Eurozone members have drawn more heavily:
 - December ECB and ELA usage has not yet been released for other Eurozone members



Covered Bank deposits have stabilised

Covered Banks Deposit Inflows / Outflows



Source: CBI – regulatory filings (excludes (i) NTMA pre-capitalisation deposits, (ii) AIB Poland)

Key Points

- Keen deposit rates competition:
 - Driven by LDR targets
 - Higher YoY cost of between 12bps and 72bps despite cut in ECB rates
- Strong Q4 deposit inflows for Irish banks
- Eurozone and sovereign concerns:
 - Increases competition on deposit rates
 - Inhibits move to non guaranteed deposits

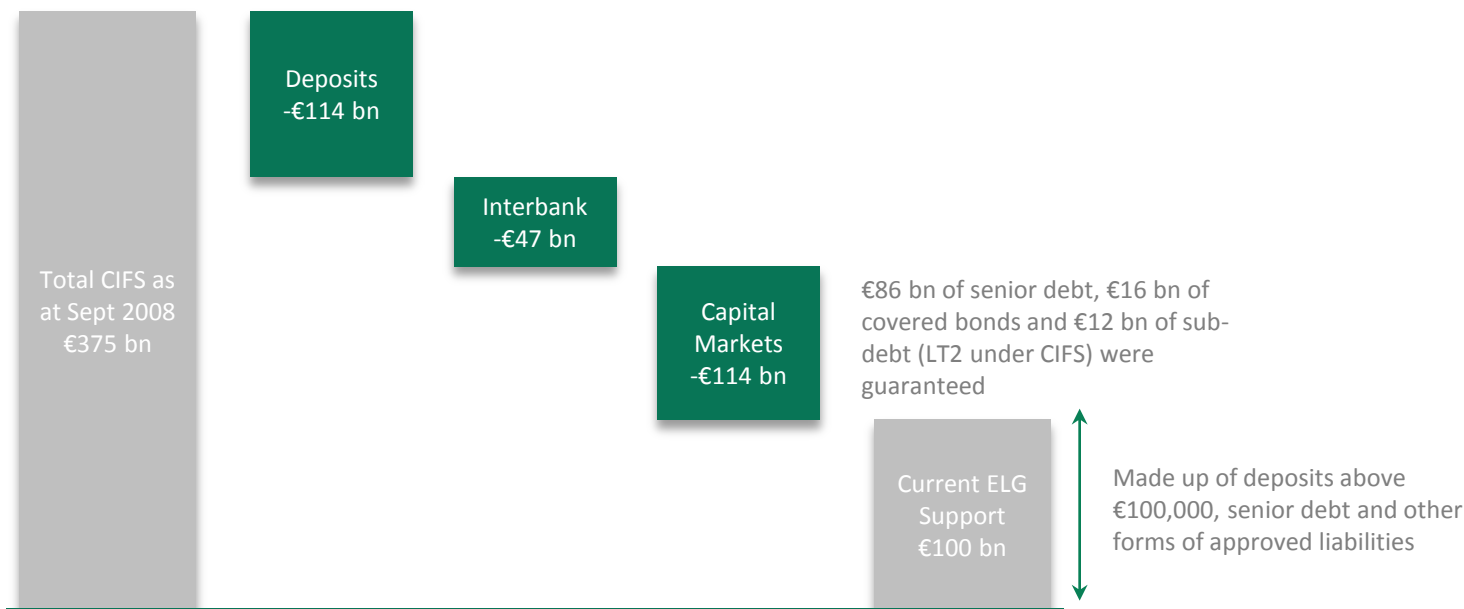
Outlook

- Deposits at the Covered Banks have stabilised with net inflows since Q3 2011.
 - Deposit trends are highly sensitive Irish sovereign and Eurozone risk perception.
- Potential for corporate deposit inflows, depending on sovereign risk considerations.
 - The Covered Banks have witnessed extensive corporate deposit outflows since 2008, with corporate deposits representing only 15% of total deposits (down from 37% in October 2009).



State Support is much reduced

Changes in amount of guarantees under CIF/ELG since inception

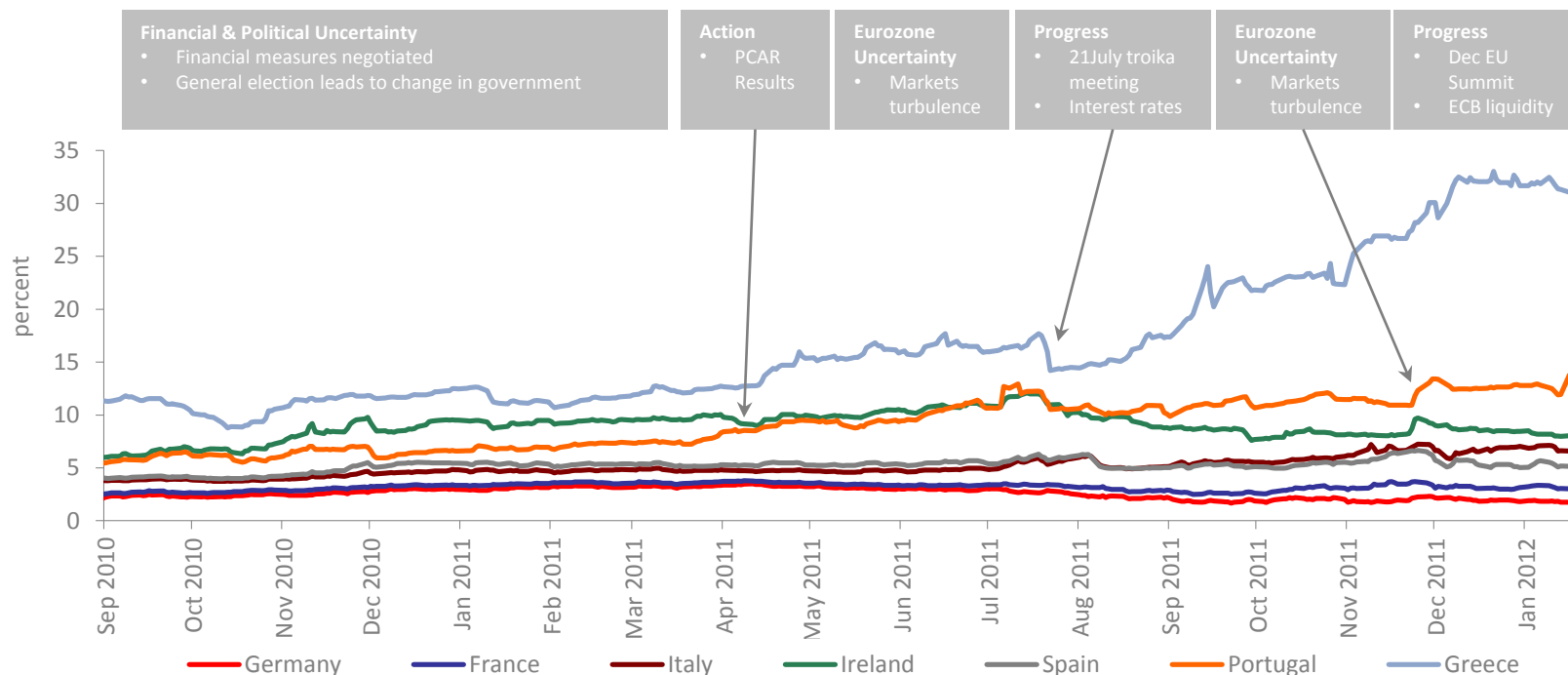


- Large reduction in State support for the Irish Covered Banks:
 - Further reductions targeted in 2012
 - Non guaranteed deposits
 - Collateralised funding initiatives - MBPN's
- State facilitated the orderly repayment of ca. €86 bn of senior unsecured bank debt.



Ireland's progress reflected in sovereign yields

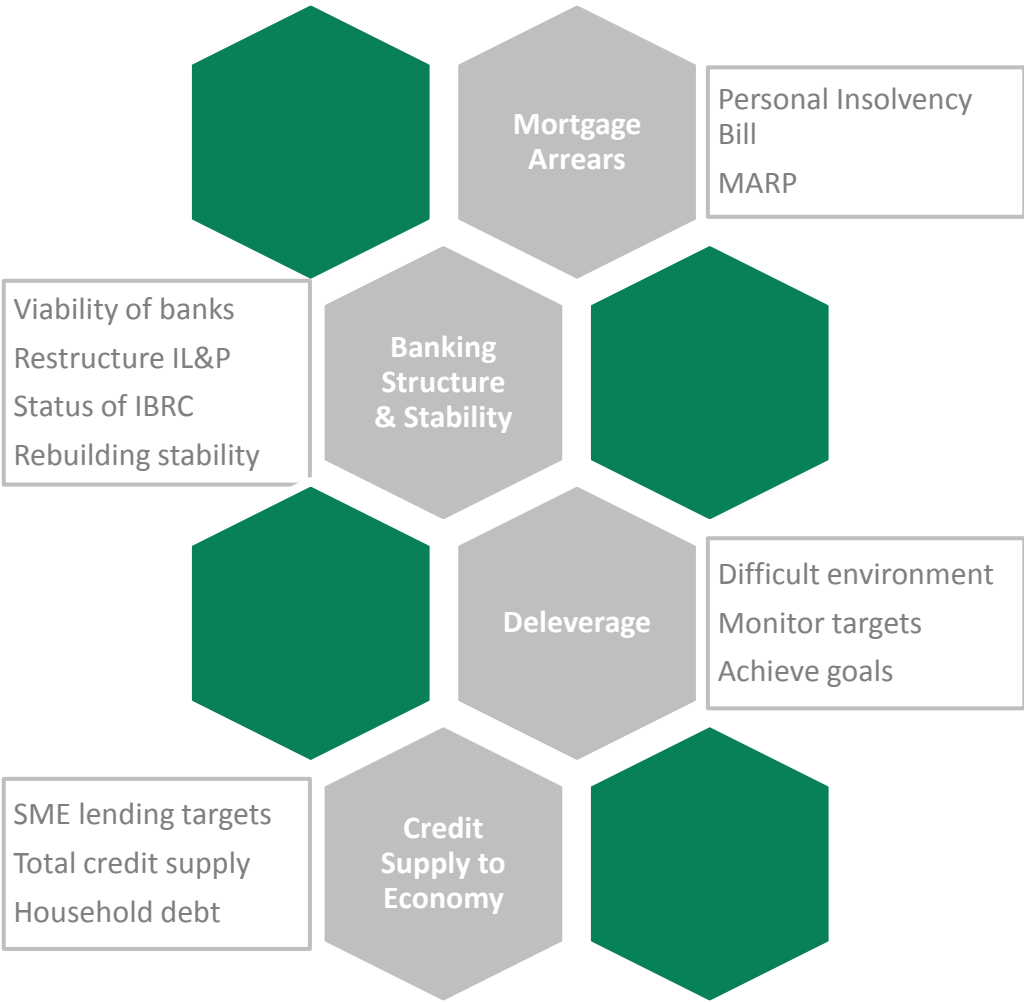
Selected European 10 year bond yields equivalents



- Irish sovereign yields reflect Irish progress and Eurozone progress
 - Yields have tightened following periods of progress in Ireland
 - PCAR 2011 (March 2011), Bank recapitalisations (post July 2011)
- Irish sovereign yields have widened and tightened in sympathy with general Eurozone concerns



Banking Sector – 2012 focus





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