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26 October 2012

Ms Niamh Maguire
Committee Secretariat
Committee of Public Accounts
Leinster House
Dublin 2

Dear Ms Maguire,

I refer to your letter of 9 October 2012 in relation to taxpayers' money given to AIB for the purposes of mortgage writedowns.

In the first instance, I must point out that the Central Bank of Ireland that has the responsibility for setting and ensuring that the Irish Banks maintain appropriate capital levels. In this regard and following the 2011 Prudential Capital Assessment Review (PCAR) conducted by the Central Bank of Ireland, AIB was required to raise €14.8 billion of capital in total (includes EBS limited). This level of recapitalisation was deemed necessary to ensure that the Bank remained above a minimum capital target of 10.5% Core Tier 1 in a base scenario and 6% Core Tier 1 in a stress Scenario.

The Central Bank made its decision on required recapitalisation based on loan-loss projections along with further calculations concerning the prospective income, expenditure, and deleveraging plans of the banks as outlined in the 2011 Financial Measures Programme Report. This report was published by the Central Bank of Ireland on 31 March 2011 and is available at <http://www.centralbank.ie/regulation/industry-sectors/credit-institutions/pages/financialmeasuresprogramme.aspx>

In order to arrive at a stressed loan-loss estimate that was fully credible to the international markets, the Central Bank engaged BlackRock Solutions, a specialist in analysing potential loan losses under stressed conditions. It is important to note that the stress test scenarios were designed to represent extreme but plausible events, but they were not forecasts. The Central Bank has advised that the three-year stress loss on AIB's residential mortgage portfolios estimated by BlackRock was €3.066bn with an additional €1.380bn relating to EBS limited (€4.446bn in total).

While the capital required by the Central Bank's Financial Measures Programme for AIB in a stress situation to cover residential mortgage losses is €4.446bn, this should not be considered as a provision of capital to AIB for the purpose of write-offs, especially should scenarios as negative as



those assumed in the stress test not occur. AIB is expected and required to operate in a commercial manner, which should ensure the future value of the asset is maximised for the benefit of the State, while also having due regard for the wider public interest.

It is important to recognise the Financial Measures Programme stress case loss on AIB's residential mortgage portfolios estimated by BlackRock as an input to the required recapitalisation amount, rather than as a direct amount that was invested in AIB to cover mortgage losses.

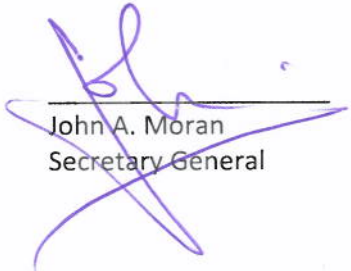
In relation to the query on how this money has been used, AIB does not seek to measure its capital performance directly against the inputs to the PCAR process but utilises its capital prudently for the benefit of its stakeholders as circumstances require.

I would also like to point out that the Government is aware of the significant difficulties some homeowners are facing in meeting their mortgage obligations and it is committed to advancing appropriate measures to assist those mortgage holders who are experiencing real and genuine difficulty. In this regard, the Government is now actively implementing the main recommendations contained in the report of the Inter-Departmental Working Group on Mortgage Arrears. Some of the new initiatives to assist troubled mortgage customers are detailed below:

- The Personal Insolvency Bill was approved by Government and published last June and the Committee stage of the Bill was passed by the Dáil last month;
- The Minister for Housing and Planning has formally launched the "mortgage to rent" scheme on a nationwide basis;
- Lenders have now provided details to the Central Bank on their proposed forbearance and loan modification options and some forbearance measures have been introduced on a pilot basis with a further roll out later in the year;
- Also an extensive independent mortgage advice framework has now been put in place by the Minister of Social Protection comprising (i) an enhanced website www.keepingyourhome.ie (ii) a Mortgage Arrears information helpline, and (iii) the provision of free independent 'one-to-one' professional financial advice to borrowers when considering a long term forbearance/resolution offer from their lender. The list of accountants providing this service is located on the www.keepingyourhome.ie website.

The Government remains very committed to progressing these measures, which are in addition to existing supports such as the protections afforded by the Central Bank Code of Conduct on Mortgage Arrears, to assist genuine mortgage holders in difficulty and the Government sub-committee on mortgage arrears, which is chaired by An Taoiseach, continues to meet to ensure this receives priority attention across relevant Departments and agencies.

Yours sincerely,


John A. Moran
Secretary General

