Deleveraging

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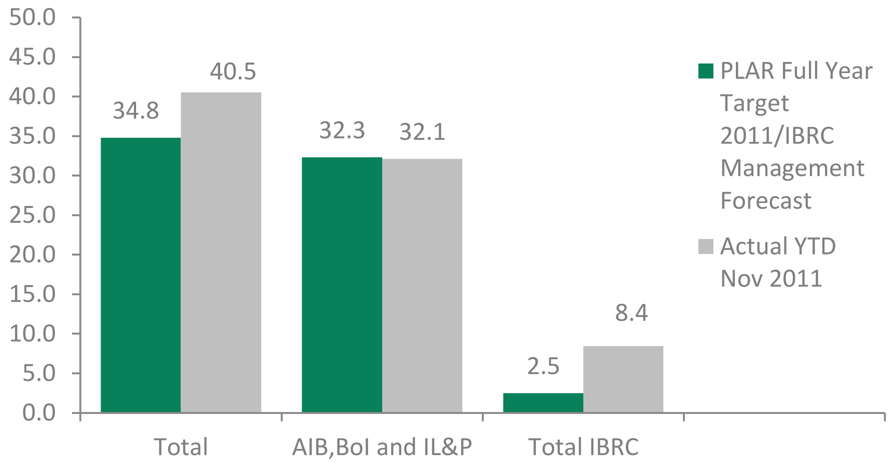
Department of Finance

Contents

Deleveraging targets beaten

2011 outcome (to November 2011) €bn



source : data from Banks

Main points

- AIB, BoI 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

2011 activity

Successful asset disposals by banks

Overall

- Deleveraging targets reached during 2011
- Prices within PCAR price levels
- Large disposal programme by Bank of Ireland
- Significant success of IBRC US loan sale
- Further transactions agreed but to be completed during Q1 2012

AIB

- €4.8 bn eq. of disposals on variety of international assets including US, UK and European exposures
- Assets sold at prices within PCAR levels

Bank of Ireland

- US commercial real estate portfolio (€0.8 bn eq.)
- UK commercial property portfolio (€1.5 bn eq.)
- UK mortgage loan portfolio (€1.3 bn eq.)
- Burdale (€0.7 bn)
- Other international loans (€2.9 bn)

- TOTAL: €8.6 bn eq.

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

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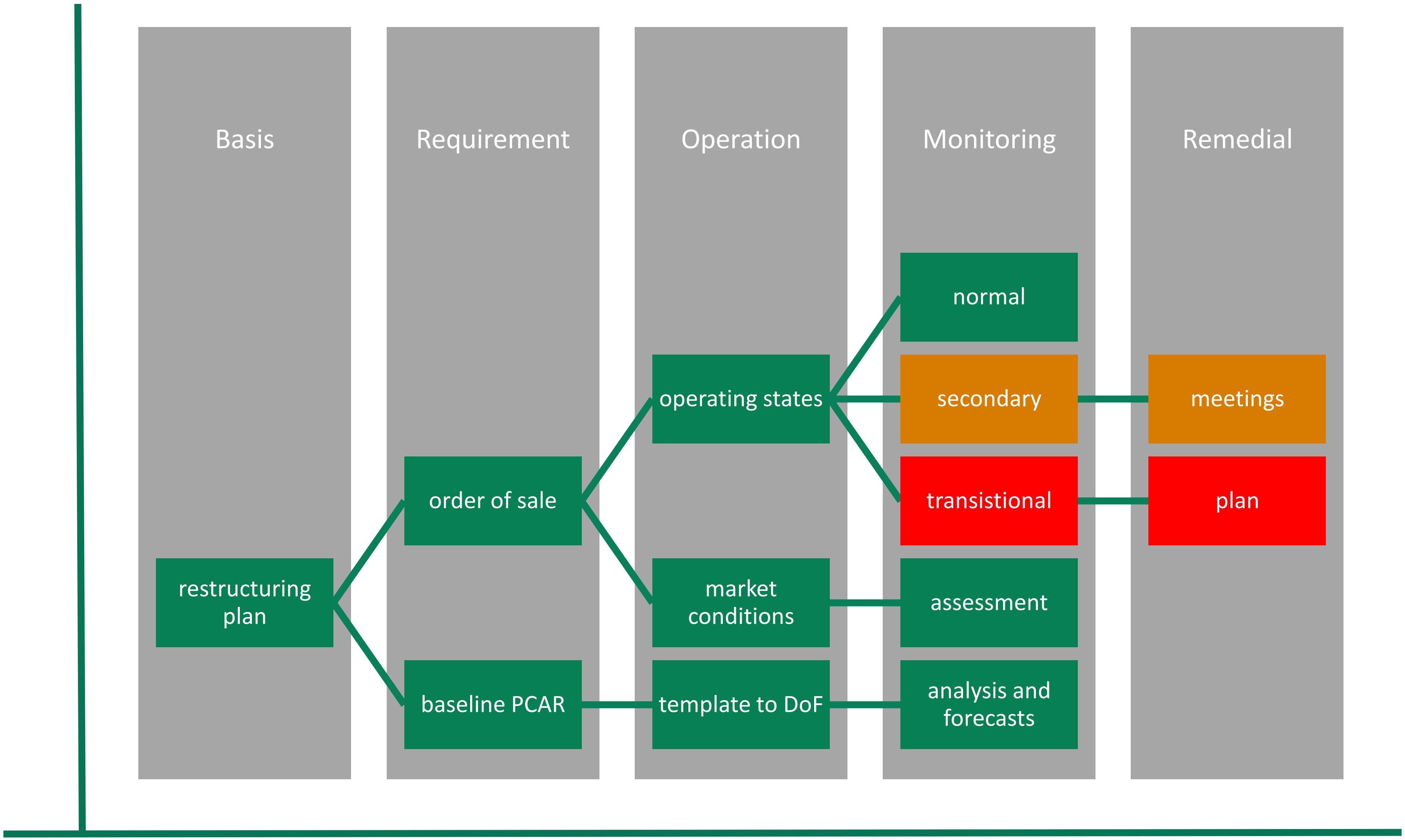
Summary of Governance (from January 2012)



Issues around Governance

- A number of factors have to be considered in relation to governance at the banks:

Independence

- The purpose of the new governance structure is to allow the State to maintain a monitoring role in relation to goals that have been set by the Troika and agreed by the banks in R-plans
- Teams of experienced personnel at the covered banks have been formed within non-core divisions to divest assets

'Skin in the game'

- The State, as a significant shareholder in the banks, has an aligned interest in meeting sales targets and protecting its investment
- A goal of the State is to see a return to a viable and stable banking market
- Desire on the State's part to ensure that the existing capital commitment is not increased due to 'firesale' of assets

Market depth and liquidity

- The level of depth in the market is reducing rapidly as there is limited demand from credit sources and larger selling supply
- In the medium term, it is unlikely that this imbalance will redress due to macroeconomic imbalances and concerns

Responsibility

- In the event that the covered banks do not maintain their deleveraging path, the State will enter into discussions to ensure that a remedial plan is put in place
- The covered banks maintain responsibility for the plan during this process but goal is to ensure overall attainment of Troika targets

Challenges for deleveraging 2012 - 2013

The market has changed significantly

- European banking sector is in the midst of a huge asset deleveraging process (identified non-core assets within the industry are up to €3 trillion)
- French institutions are expected to be among the most active sellers with BeneLux and Portuguese institutions following. Spain, the UK and Germany are expected to experience significant increases in the levels of transaction activity by volume in the next 12 months
- As a result of the expected increase in the volume of assets coming to market, there may be a longer execution timeframe for portfolio sales processes
- Deleveraging execution risk is also increasing due to:
  - Recent liquidity squeeze and elevated pricing for long term funding
  - Macro uncertainty limiting appetite for assets
  - Execution risk likely to be reflected in (i) longer execution timeframes; (ii) pricing pressure; (iii) “rump” assets from portfolio sales; (iv) increased sale conditionality

Banking Sector – 2012 focus

Mortgage Arrears

- Personal Insolvency Bill
- MARP

Banking Structure & Stability

- Viability of banks
- Restructure IL&P
- Status of IBRC
- Rebuilding stability

Deleverage

- Difficult environment
- Monitor targets
- Achieve goals

Credit Supply to Economy

- SME lending targets
- Total credit supply
- Household debt

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