



Banking Division – Recent Progress & Deleveraging

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Department of Finance



Contents

Restructuring progress since January 2012 Section 1

Deleveraging Section 2

 System overview Section 2.1

 BOI deleveraging Section 2.2

 AIB deleveraging Section 2.3

 ILP deleveraging Section 2.4

 IBRC deleveraging Section 2.5



Key progress made since previous mission

Key progress since previous mission

Funding

- Deposit balances levels increased. Move to retrace interest rates
- Reduction in ECB and ELA funding levels

State Support

- Pro-active reduction in ELG support and State Guarantees for ELA

Competition and State Aid

- Bol Restructuring Plan approved
- Updates to AIB draft Restructuring Plan submitted

Bank Models

- Reductions in staff numbers through redundancy programmes (in process of negotiation) commencing
- At present, stability has been maintained with no industrial action

Mortgage Arrears

- Publication of draft Heads of the Personal Insolvency Bill
- Piloting of mortgage to rent scheme
- Banks' mortgage arrears resolution strategies

SME lending

- Two pillar banks achieved their €3bn lending targets for 2011
- Commissioned a further independent survey of demand for SME credit
- 7 regional meetings with stakeholders and Minister for Small Business on SME Lending and related issues



Key progress made since previous mission

Key progress since previous mission

Relationship Frameworks

- Frameworks specified and published by 31 March 2012 as required by the MEFP

Recapitalisation of ILP

- Direction Order secured to provide for the purchase by the Minister of Irish Life and finalise the recapitalisation of IL&P. This is currently subject to challenge.

Deleveraging progress

- Continued focus by the banks on deleveraging



Contents

Restructuring progress since January 2012 Section 1

Deleveraging **Section 2**

System overview Section 2.1

BOI deleveraging Section 2.2

AIB deleveraging Section 2.3

ILP deleveraging Section 2.4

IBRC deleveraging Section 2.5



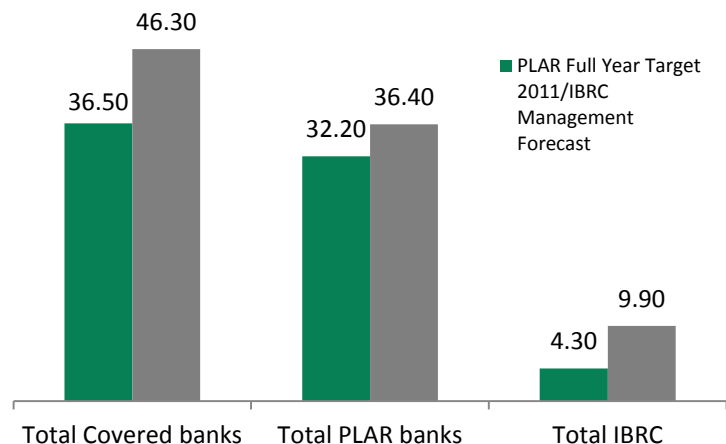
Contents

Restructuring progress since January 2012	Section 1
Deleveraging	Section 2
System overview	Section 2.1
BOI deleveraging	Section 2.2
AIB deleveraging	Section 2.3
ILP deleveraging	Section 2.4
IBRC deleveraging	Section 2.5



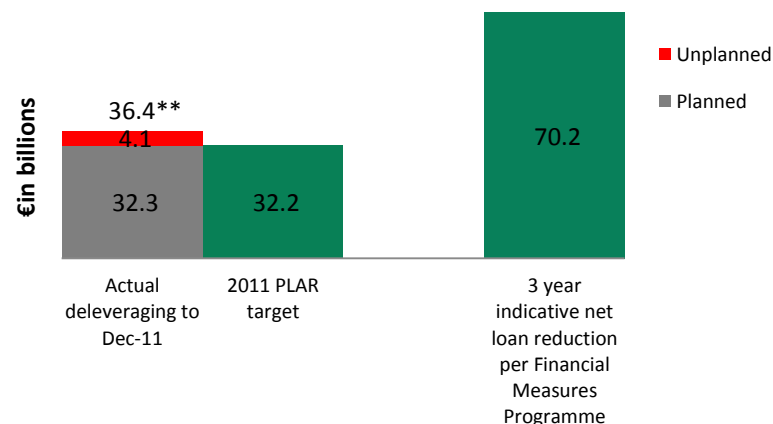
Deleveraging is on track

Covered* bank deleveraging - Dec-11



Source: data from banks

PLAR* bank deleveraging - Dec-11



Main observations

- Total system deleveraging of €46.3bn – AIB, BOI and ILP achieved deleveraging of c.€36.4bn and IBRC €9.9bn. Of the PLAR bank total c.€4.1bn relates mainly to movements in core balance sheets not anticipated in the €70.2bn benchmark.
- The numbers above also exclude c.€1.8bn of transactions that were sale agreed at 31 Dec-2011 – these transactions have largely settled post year end.
- A further €1.1 billion of transactions had been sale agreed by 31 March 2012
- Deleveraging has been achieved within PLAR assumed base case discounts
- AIB and BOI met their CBI mandated LDR targets at 31 Dec-11

Note: 'Planned' is €70.2bn net loan balance reduction anticipated as part of the Financial Measure Programme(FMP) – conversely 'unplanned' is deleveraging not anticipated as part of the scenario outlined in the FMP – discussed overleaf

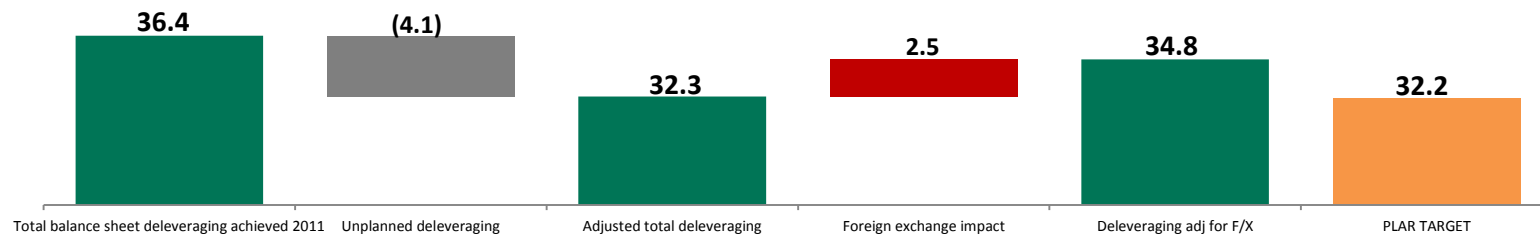
*Note: The Covered Banks are AIB Group (including EBS Building Society), Bank of Ireland Group, Irish Life & Permanent (ILP) and IBRC. PLAR Banks excludes IBRC.

**Note: Individual bank figures above have been rounded in calculating totals



Actual PLAR bank 2011 Deleveraging - Planned versus Unplanned

Net loan balance movement versus Planned deleveraging



Source: data from banks

Explanatory note:

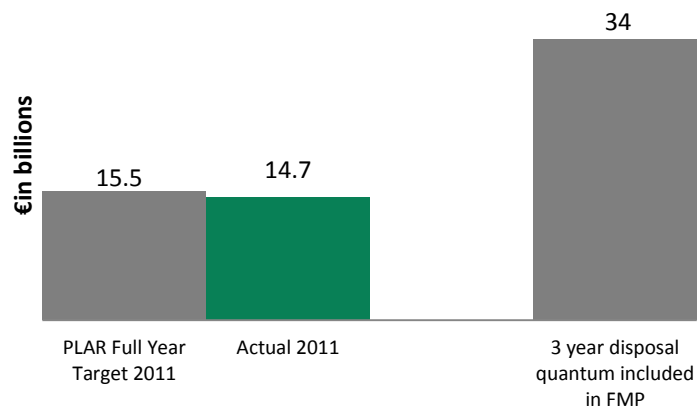
- Provisions booked (AIB and ILP) are higher than the numbers included in the deleveraging plans
- The CBI allowed a certain quantum of total provisions to comprise part of the net loan balance reduction over the 3 years - this is lower than the total provision figure built into the March 2011 PCAR/ PLAR stress test exercise - rather the emphasis of deleveraging is to be on **'hard deleveraging'** items, loan **disposals and amortisation**. Thus, while **'soft deleveraging'** achieved via raising provisions reduces the net loan balance, the focus of deleveraging is more **concentrated on 'hard deleveraging' items** hence the disaggregation between planned and unplanned.
- The actual deleveraging figures for 2011 (€36.4bn & €32.3bn) includes €2.5bn FX movement* which increased the end-year loan balances. The 2011 PLAR envisaged reduction of €32bn did not include negative foreign exchange movements.
- Excluding the pure negative F/X movement, the underlying deleveraging total for 2011 would increase by c.€2.5bn to €34.8bn.

* FX movement is the retranslation of foreign currency customer lending which is still on balance sheet at period end, retranslated at the period end balance sheet rate

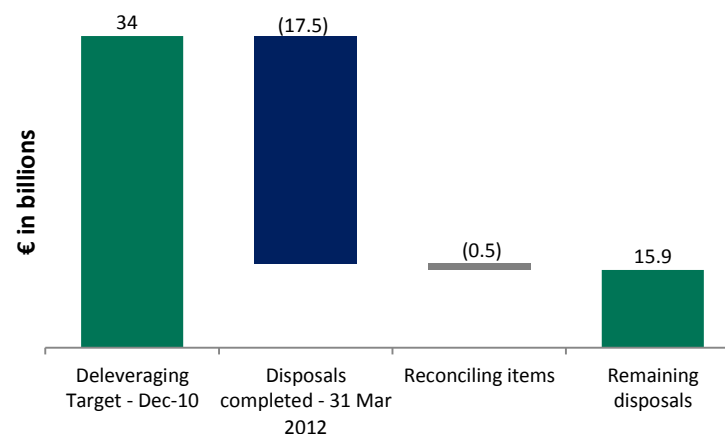


€34bn PLAR target asset disposals are on track

2011 Target asset disposals versus forecast



Progress/remaining versus 3 year target



Source: data from banks/CBI/DoF calculations

Main observations

- In the 12 months to 31 December 2011 total asset disposals completed of €14.7bn, driven by BOI and AIB.
- A further c.€1.8bn of disposals had been contractually agreed at that date. **A further €1.1bn of transactions were sale agreed by 31 March 2012.** Further transactions are at various stages of the deal cycle.
- Excluding ILP the Pillar Banks have settled or agreed transactions for 75% of the quantum outlined in the 3 year PLAR plan.

*Note: Restated completed/agreed disposals and remaining disposals total to €33.5bn. Difference versus €34bn total is explained by certain assets, for example, NAMA assets initially envisaged to transfer under PLAR as part of the net customer loan balance reduction, being de-scoped. This is offset by additional redemptions not anticipated in PLAR so that the full forecast net customer loan reductions are still ahead at Dec-11 and on track for Dec-12.



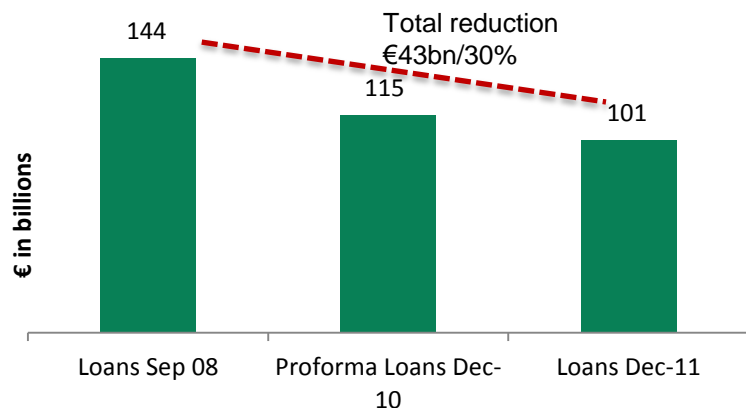
Contents

Restructuring progress since January 2012	Section 1
Deleveraging	Section 2
System overview	Section 2.1
BOI deleveraging	Section 2.2
AIB deleveraging	Section 2.3
ILP deleveraging	Section 2.4
IBRC deleveraging	Section 2.5



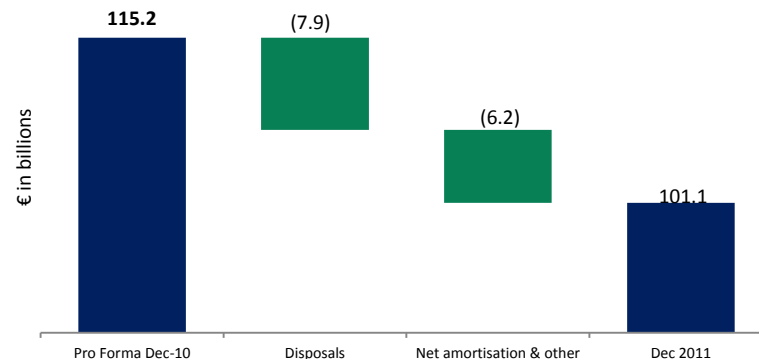
BOI - Movement in net customer loans - as at 31 December 2011

Progress in balance sheet run-down



Source: data from bank

Shrinkage of loan balances - 12 months



Main observations

- Substantial asset deleveraging achieved from September 2008 to December 2011; Net customer loan balances down €43bn (30%) from FY08 peak reflecting NAMA transfers, provisioning and loan balance deleveraging.
- Circa €14.1bn of net customer loan deleveraging completed by 31 December 2011 (from proforma Dec-10 of €115.2bn)
- During 2011 BOI announced €8.6bn asset divestments (€7.6bn completed along with another €0.3bn NAMA disposals/transfers) within PCAR base case assumptions.
- At 24 April 2012, BOI had contracted for the divestment of a further €0.9bn of loans, which are due to complete over the coming months. BOI's completed /contracted divestments to date amount to €9.5bn, (€9.8bn including NAMA) at an average discount of 7.6%*.
- BOI successfully met its mandated CBI Loan to deposit ratio at 31-Dec-11 (down to 144% from 175% at Dec-10). The LDR further improved to 142% post year end, driven mainly by further loan balance reductions.

* Discount on disposal above (7.6%) excludes NAMA loan disposals



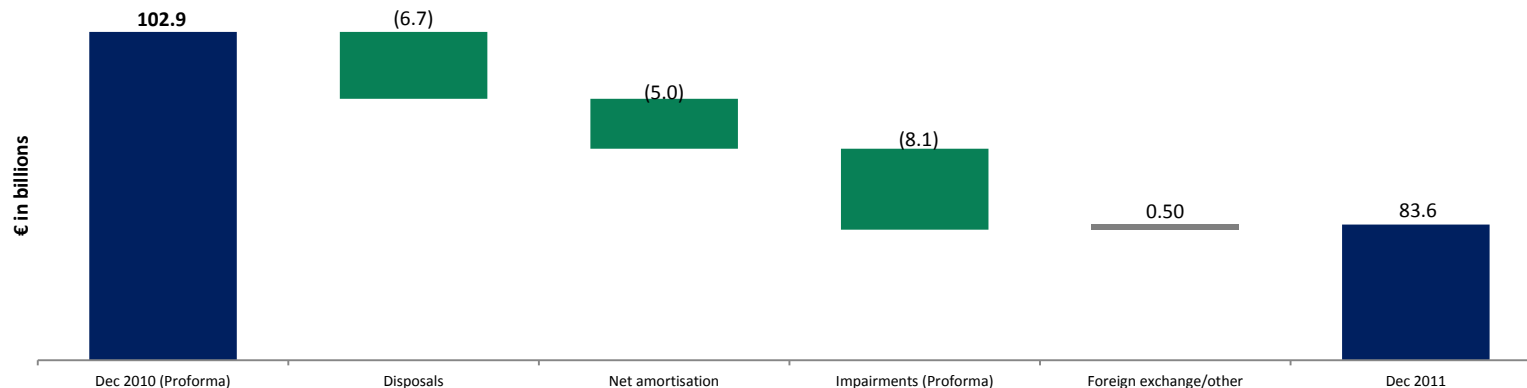
Contents

Restructuring progress since January 2012	Section 1
Deleveraging	Section 2
System overview	Section 2.1
BOI deleveraging	Section 2.2
AIB deleveraging	Section 2.3
ILP deleveraging	Section 2.4
IBRC deleveraging	Section 2.5



Movement in AIB net customer loans - as at 31 December 2011

Progress in balance sheet run-down



Source: data from bank

Main observations

Total net customer loans movement of €19.3bn includes €3.5bn of core *unplanned deleveraging which we exclude in our assessment towards the PLAR target. The adjusted deleveraging figure for AIB is €15.8bn (€19.3bn - €3.5bn)

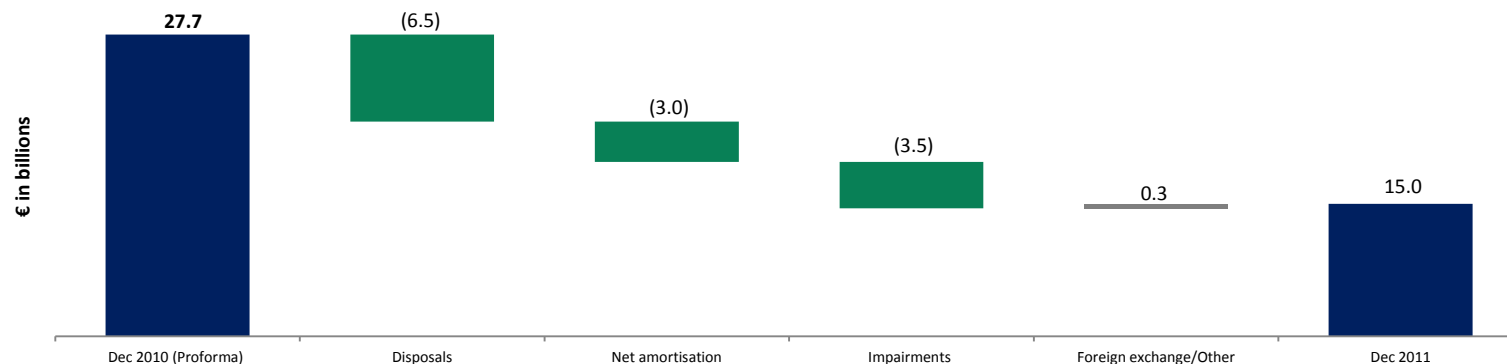
- Cost of deleveraging achieved is well within base case capital set aside in PLAR (4% average discount)
- AIB successfully met its mandated CBI Loan to deposit ratio at 31-Dec-11 (down to 138% at Dec-11 from 165% at Dec-10).

*Note: 'Planned' is net loan balance reduction anticipated as part of the indicative reduction outlined as part of the Financial Measure Programme (FMP) for the three PLAR banks – conversely 'unplanned' is deleveraging not anticipated as part of the scenario outlined in the FMP – discussed on page 8



62% of 3-year Non-core AIB deleveraging target achieved

Non-core run down to 31-Dec-11



Source: data from bank

Main observations

Presented above is the split of deleveraging on a Non-Core basis as at 31 Dec 2011:

Non-core is €3.3bn ahead of PLAR loan reduction target agreed with the CBI

- 62% of 3-year Non-core deleveraging target achieved; Additional sales of c.€0.7bn were agreed but not settled at 31 December 2011. Vast majority of this had settled by 31 March 2012

AIB has made a good start to 2012:

- A further €1.4bn of deleveraging completed by Q1 2012; and
- Disposals processes are at various stages of the deal cycle.

AIB is well positioned to achieve further asset disposals/& loan reduction through 2012



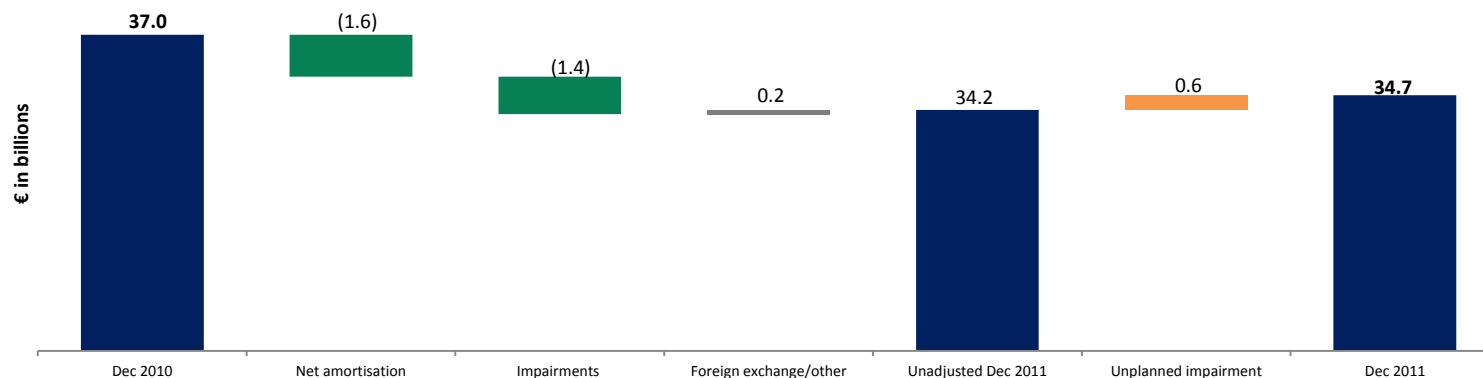
Contents

Restructuring progress since January 2012	Section 1
Deleveraging	Section 2
System overview	Section 2.1
BOI deleveraging	Section 2.2
AIB deleveraging	Section 2.3
ILP deleveraging	Section 2.4
IBRC deleveraging	Section 2.5



Movement in net customer loans - as at 31 December 2012

Balance sheet run-down – 31 Dec 2011



Source: data from bank

Main observations

Customer Loan balances:

- Down c.€3bn from opening position at Dec-10
- Significant amount of this reduction is from provisions raised - in excess of the €0.8bn envisaged being allowed towards the PLAR target – restating for amount in PLAR* gives deleveraging of €2.3bn
- LDR was 221% at 31-Dec-11(including acquisition of Northern Rock deposits on 3 January 2012) down from 249% at Dec-10

*Note: The CBI allowed a certain quantum of provisions to be included in the composition of the roll down of the Banks balance sheets - this is lower than the total provision figure built into the March 2011 PCAR stress test exercise, rather the emphasis of deleveraging is to be on 'hard deleveraging' items, loan disposals and amortisation. Thus while 'softer deleveraging' achieved via raising provisions reduces net loan balances, the focus of deleveraging is more concentrated on hard deleveraging items hence the exclusion out of the number above from our result.



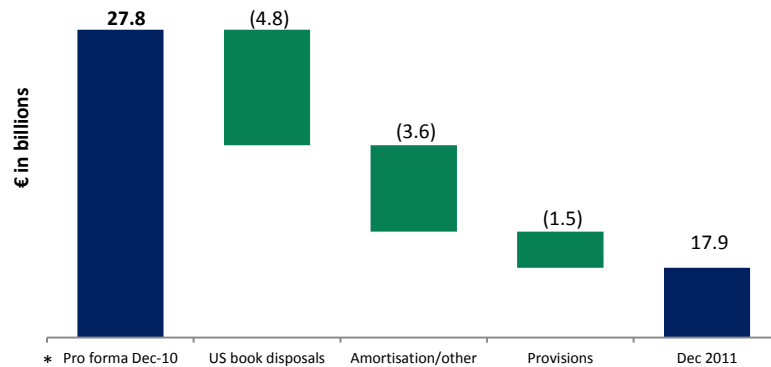
Contents

Restructuring progress since January 2012	Section 1
Deleveraging	Section 2
System overview	Section 2.1
BOI deleveraging	Section 2.2
AIB deleveraging	Section 2.3
ILP deleveraging	Section 2.4
IBRC deleveraging	Section 2.5



IBRC - progress to date

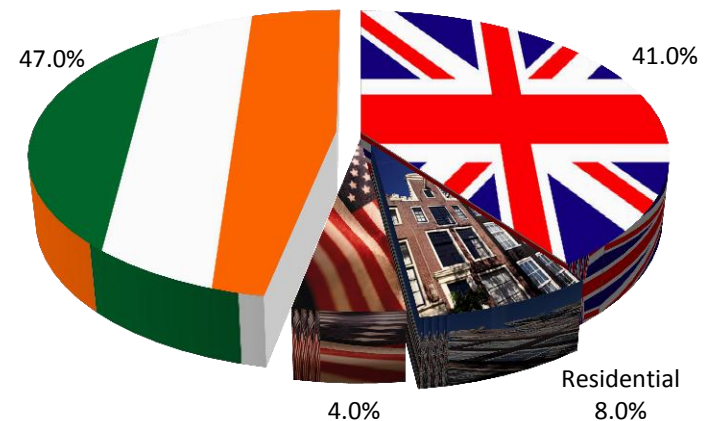
Net loan balance reduction 31 Dec 2011



*Includes INBS loans acquired 1 July 2011

Source: data from bank

Net loan book geographical analysis



Main observations

- IBRC has net loans of €17.9bn at 31 December 2011 a reduction from €27.8bn at 31 December 2010 (pro forma)
- Successful US bulk loan disposal process - €5.8bn of gross assets (€4.8bn carrying value) sold at broadly regulatory capital neutral pricing
- Sale of Scottish loan portfolio £286mn gross value



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