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Prudential Capital Assessment Review (“PCAR”^{OSCE}) (Technical Statement)

Ireland: Irish Financial Services Regulatory Authority

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Prudential Capital Assessment Review ("PCAR")

1. The Central Bank has set a new minimum capital requirement for Allied Irish Bank, Bank of Ireland, ILP and EBS of 10.5% Core Tier 1. In addition, the Central Bank is requiring these banks to raise sufficient capital to achieve a capital ratio of at least 12% core tier 1 by 28 February, 2011 in the case of AIB, BOI and EBS and by 31 May 2011 in the case of ILP.
2. The Central Bank will require this additional capital to be in the form of equity (or equivalent instruments for EBS).
3. The total capital injection will be €8bn. This figure takes account of the capital impact of further NAMA transfers (see below). This action, along with early measures to support deleveraging, will result in an injection of €10bn of fresh capital into the banking system, above and beyond that already committed.
4. Bank of Ireland, Allied Irish Banks, ILP and EBS will be subject, as previously announced, to a stress test in March 2011 under the Central Bank's PCAR methodology. If, as a result of the PCAR, banks are assessed to be at risk of falling below the 10.5% core tier 1 target then further capital injections will occur.
5. The PCAR will be enhanced by the inclusion of a detailed review, to be conducted by an independent third party, of asset quality in the participating banks. In addition, an independent third party will review the quality of the data banks submit for the PCAR.
6. The Central Bank will conduct a review of the adequacy of provisions in Irish domestic banks. Where required, banks will be required to increase provisions to take account of asset performance.

Prudential Liquidity Assessment Review ("PLAR")

7. The Central Bank will perform a PLAR for Bank of Ireland, Allied Irish Banks, ILP and EBS in Q1 2011. The PLAR will set bank specific funding targets consistent with Basel III and other international measures of stable, high quality funding.
8. To meet PLAR targets, and also to maximise the efficient utilisation of capital through Risk Weighted Asset ("RWA") reductions, the Central Bank will require Bank of Ireland, Allied Irish Banks, ILP and EBS to put in place detailed asset disposal plans by end-April 2011. These plans will identify measures banks will take to dispose of non-core assets and/or securitize other assets. If required, credit enhancement will be provided by the State.
9. In addition to work the banks undertake, the Central Bank will retain specialist advisors to identify further disposal or securitization measures.

10. The remaining land and development loans of <€20mn will transfer from Bank of Ireland and Allied Irish Bank to NAMA by end-Q1 2011.

Anglo Irish Bank and Irish Nationwide Building Society

11. The restructuring of Anglo Irish Bank and Irish Nationwide Building Society will be swiftly completed by the Department of Finance with the support of the Central Bank and submitted for EU State aid approval.

Special Resolution Regime ("SRR")

12. The Central Bank will continue its preparations for the introduction of the SRR in early 2011.

Credit Unions

13. A significant strengthening of the regulation and stability of the credit union sector will be carried out by end-2011. These measures will be based on the results of the Central Bank's loan book review, the Central Bank's sector-wide stress test and the outputs of the Strategic Review of the credit union sector.

Technical Annex

New capital requirements for the Irish banks

1. On 30 March, 10 September and 30 September 2010, the Central Bank of Ireland ("CB") announced details and updates of the Prudential Capital Assessment Review ("PCAR") for AIB, BOI, ILP and EBS, which included setting new target capital requirements of 8% Core Tier 1, of which 7% must be Equity Core Tier 1, under the base case and 4% Core Tier 1 under the stress case after taking account of expected losses.
2. In setting the capital requirement, the CB has now moved the target capital ratio under the base case from 8% Core Tier 1 to at least 12% Core Tier 1 and taken account of loan losses associated with the transfer of further loans¹ to the National Asset Management Agency ("NAMA"). In addition, the ongoing minimum capital requirement for AIB, BOI, EBS and ILP will be set at 10.5% Core Tier 1.
3. The additional capital requirements for the individual banks as a result of this amendment are summarised in Table 1 and set out in more detail below:

Table 1 – Capital Results

€'m	Additional CT1 Capital required	Total CT1 Capital still to be raised ²	Estimated ³ impact of capital injection to CT1 ratio
AIB	5,265	9,765	14.0%
BOI	2,199	2,199	12.5%
EBS	438	963	13.5%
ILP	98	243	12.7%
Total	8,000	13,170	

¹ Loans eligible to transfer to NAMA with value less than €5m and between €5m and €20m.

² This includes the original PCAR requirement that has yet to be raised and the additional requirement as a result of this update.

³ Based on the latest information available and the bank's own estimates, the Core Tier 1 ratios of the banks at yearend 2010 are estimated assuming capital required is injected immediately, and where relevant, the completion of NAMA transfers and proceeds of divestments agreed and announced. The buffer in terms of the estimated Core Tier 1 ratio above the PCAR base case benchmark of 12% reflects the capital required for loss absorption on an individual bank by bank basis.

Individual capital requirements

Allied Irish Banks plc ("AIB")

The capital requirements resulting from the PCAR exercise previously announced were:

- a. An additional €7.396bn⁴ of equity capital to meet the base case target of 7% equity, before taking account of projected asset disposals; and
- b. €4.865bn of Core Tier 1 capital, less any equity generated under paragraph 1 excluding conversion of preference shares held by the Government, to meet the base case target of 8% Core Tier 1. This additional Core Tier 1 capital will also satisfy AIB's stress case target of 4% Core Tier 1.

AIB is now required to raise an additional €5.265bn Core Tier 1 capital. Taking account of the capital AIB has still to raise under its capital plan, the bank has now to raise €9.765bn of Core Tier 1 capital by end-February 2011.

The Governor & Company of the Bank of Ireland ("BOI")

The capital requirements resulting from the PCAR exercise previously announced were:

- a. An additional €2.66bn of equity capital to meet the base case target of 7% equity; and
- b. In meeting this requirement provided at least €0.25bn of new Core Tier 1 is raised, then Bank of Ireland also meets (a) the base case target of 8% Core Tier 1, and, (b) the stress target of 4% Core Tier 1.

BOI is now required to raise an additional €2.199bn Core Tier 1 capital by end-February 2011.

EBS Building Society ("EBS")

The capital requirements resulting from the PCAR exercise previously announced were:

- a. An additional €875m of Core Tier 1 capital to meet the base case target of 8% Core Tier 1; and

⁴ Taking account of the additional capital requirement announced 30 September 2010. In the case of AIB, the NAMA haircut for Tranche 2 and the estimated haircuts for all remaining Tranches were higher than the first tranche used for the PCAR exercise. The Central Bank therefore advised AIB on 30 September that it was required to raise an additional €3 billion.

- b. Contingent capital of €120m of Core Tier 1 capital to meet the stress case target of 4% Core Tier.

EBS is now required to raise an additional €438m Core Tier 1 capital. Taking account of the capital EBS has still to raise under its capital plan, the bank has now to raise €963m of Core Tier 1 capital by end-December 2010, a per the original PCAR requirement.

Irish Life & Permanent plc ("ILP")

The capital requirements resulting from the PCAR exercise previously announced were:

- a. Not required to raise any additional capital in respect of the base case, as it meets the 8% Core Tier 1 and the 7% Equity Tier 1 requirement under the base case; and
- b. An additional €145m of Core Tier 1 capital to meet the stress case target of 4% Core Tier 1.

ILP is now required to raise an additional €98m Core Tier 1 capital. Taking account of the capital ILP has still to raise under its capital plan, the bank has now to raise €243m of Core Tier 1 capital, by end-May 2011, a per the original PCAR requirement.