Banc Ceannais na hÉireann
Central Bank of Ireland
Eurosystem

Press release **31 March 2011**

Capital and Liquidity Results Published for Banking Sector

- Financial Measures Programme Sets €24bn Capital Requirement-

The Central Bank of Ireland today (31 March 2011) published the Financial Measures Programme Report which details the outcome of its review of the capital and funding requirements of the domestic Irish banks[1].

This Programme aims to place the Irish banking system in a position where it can fund itself and generate capital without undue reliance on the Irish or European public sectors, through a process of recapitalisation, deleveraging and reorganisation. Using a conservative approach, the Central Bank has set the following capital and liquidity requirements for the four banks examined under the Programme:

Collectively the four banks will be required to raise €24bn in capital in order to remain above a minimum capital target of 10.5% Core Tier 1 in the base scenario and 6% Core Tier 1 in the stress scenario, plus allowing for an additional protective buffer. Each bank must meet a liquidity requirement of a target loan to deposit target ratio of 122.5% by 2013, through a combination of run-off and disposals of non-core assets.

[1] AIB, BOI, ILP, EBS were subject to the full PCAR and PLAR processes.

The following are the **Capital Requirements** for each bank:

	AIB	BOI	EBS	ILP	Total
Capital required 2011-2013 pre-buffer	10.5	3.7	1.2	3.3	18.7
Additional capital buffer (equity) imposed by the Central Bank	1.4	0.5	0.1	0.3	2.3
Additional capital buffer (contingent capital) imposed by the Central Bank	1.4	1.0	0.2	0.4	3.0
Total capital required 2011-2013	**13.3**	**5.2**	**1.5**	**4.0**	**24.0**

Liquidity Assessment Requirements: The banks, in collaboration with the Central Bank and its advisers, have developed deleveraging plans that achieve compliance with a 122.5% loan to deposit target by 2013. The capital and liquidity impact of deleveraging has been incorporated into the PCAR and PLAR stress tests such that, following re-capitalisation of the banks to meet PCAR requirements, the banks will have the necessary resources to deliver on their deleveraging targets.

The **Financial Measures Programme** implements the Central Bank's obligations under the agreement between the Irish State and the International Monetary Fund (IMF), European Central Bank (ECB) and European Commission (EC). It involved:

- **An independent loan loss assessment exercise** performed by BlackRock Solutions (BlackRock), the results of which have provided the basis for the calculation of capital requirements and informed the calculation of capital requirements under the PCAR.

- **The Prudential Capital Assessment Review (PCAR) 2011,** an annual stress test of the capital resources of the domestic banks under a given stress scenario, undertaken in order to calculate the cost of recapitalisation necessary to meet Central Bank imposed requirements.

- **The Prudential Liquidity Assessment Review (PLAR) 2011**, which establishes targets for banks participating in the PCAR in order to reduce the leverage of the banking system, reduce banks' reliance on short-term, largely central bank funding, and ensure convergence to Basel III liquidity standards over time.

Completing these exercises in an integrated approach has allowed the Central Bank to model both balance sheet and profit and loss dynamics in a transparent and prudent manner offering robust reassurance to the market that the resulting capital requirements are soundly based on a credible stress model. This prudent conservative approach has been achieved by: applying Blackrock's estimated loan losses derived from an assessment of intrinsic loan value; using a prudent target capital ratio; applying a three year assessment period; and applying an additional prudential buffer.

Speaking today, the Governor of the Central Bank Patrick Honohan said:

'The Financial Measures Programme aims to create a sustainable Irish banking system through a process of recapitalisation, deleveraging and reorganisation. Banks will be capitalised as the additional capital requirements announced today provide for future loan losses over the course of the three years on a scale that is unlikely to occur and an additional buffer for subsequent events.'

'The assumptions we have used, the methodology BlackRock has followed, and the capital targets the Central Bank has set together provide an exceptionally conservative basis for re-capitalising the Irish banks.The data assembled in this exercise has been published to enable independent analysts to see the basis on how we have determined loan loss projections and to create more transparency about the final costs of resolving the Irish banking system.'

He added: ‘Smaller, but more soundly constituted, Irish banks should be in a better position to provide loan and other financial services to households and businesses to support the economic recovery’

This work by the Central Bank was a key element of the Ireland’s agreement with the EU-IMF Programme. The stress test criteria and the terms of reference for the diagnostic evaluation of bank assets were developed in consultation with the EC, ECB and IMF at the end of 2010, and these institutions have since monitored progress in the implementation of the Programme.

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Notes to Editors

Stress testing is used by banking supervisors to determine whether a bank is adequately capitalised to withstand adverse macro-economic events or unanticipated ‘shocks’. It is not an economic forecast: it employs hypothetical scenarios. It is important to note that the lifetime, stress loan loss estimates are not considered likely to materialise: they are merely an input to ensure that the associated capital requirements are fully convincing to the market as being sufficient to cover even extreme and improbable scenarios.

Full details of the assessment are carried in the Report

Appendix:

Executive Summary attached