

## **CEBS STRESS TEST RESULTS**

### **10 SEPTEMBER 2010**

On 10 September 2010, the Central Bank and Financial Regulator completed its Prudential Capital Assessment Review (PCAR) for Irish Life & Permanent plc (IL&P) in order to assess its capital requirements. The PCAR assessed the capital requirements arising for both a base case and a stressed case for the three years until 2012.

Irish Life & Permanent plc is 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, but is required to raise an additional €145m of Core Tier 1 capital to meet the stress case target of 4% Core Tier 1.

In addition, the Central Bank and Financial Regulator also applied to IL&P the stress test as determined by the Committee of European Banking Supervisors (CEBS) in July 2010.

The objective of the CEBS stress test is to assess a bank's ability to absorb further possible shocks on credit and market risks, including sovereign risks.

The CEBS stress test was conducted using the scenarios, methodology and key assumptions provided by CEBS.

IL&P has passed the CEBS stress requirements. The stress test required IL&P to meet a 6% Tier 1 target capital ratio. Using the adverse scenario, including the additional sovereign shock, IL&P's estimated Tier 1 ratio would be 7.6% at 31 December 2011. In applying the CEBS stress test, IL&P was not given credit for the additional capital required to be raised in respect of the PCAR. Including this additional capital would increase IL&P's estimated Tier 1 ratio at 31 December 2011 to 8.9%.

The CEBS stress test results for IL&P are attached.

In addition, IL&P's exposures to European central and local governments on 10 September 2010 are attached.

#### **Forward Looking Statement**

The July 2010 CEBS stress tests were carried out under a number of key common simplifying assumptions. Consequently, the information relative to the benchmark scenario is provided only for comparison purposes, and should not be construed as forecasts of future outcomes. However, this document contains statements that may be considered "forward looking statements" with respect to certain of the group's plans and its current goals and expectations relating to its future financial condition, performance and results. By their nature, all forward looking statements involve risk and uncertainty because they relate to future events that are often beyond the group's control. For example, certain risk disclosures are dependent on choices about assumptions and models, and by their nature are best estimates. Actual future gains and losses could differ materially from those that have been estimated. Other factors that could cause actual results to differ materially from those estimated by the forward looking statements include, but are not limited to Irish domestic and global economic business conditions, interest rates, property prices, the impact of competition, inflation and deflation, and the group's success in managing the above factors.

As a result, the actual future financial condition and performance of the group may differ from the targets and goals set out in the forward looking statements. The group has no obligation to update any forward looking statement contained in this review.

## The Central Bank and Financial Regulator CEBS JULY 2010 Stress Test Results Irish Life & Permanent plc

- The **Central Bank and Financial Regulator** has implemented the 2010 EU-wide stress test on **Irish Life & Permanent plc (IL&P)**. This was equivalent to the stress exercise of July 2010 conducted by the **Committee of European Banking Supervisors (CEBS)**, in cooperation with the **European Central Bank (ECB)**. IL&P acknowledges the outcome of the CEBS stress test.
- This stress test is in addition to the risk management procedures and regular stress testing programmes set up in **IL&P** under the Pillar 2 framework of the Basel II, CRD<sup>1</sup> requirements and the '**Implementation of the CRD, 28 December 2008**'. It is also additional to the **Central Bank and Financial Regulator's (PCAR)**.
- The exercise was conducted using the scenarios, methodology and key assumptions provided by CEBS (see the CEBS website<sup>2</sup>). As a result of the assumed shock under the adverse scenario, the estimated consolidated Tier 1 capital ratio would change to **8.9%** in 2011 compared to **11.3%** as of end of 2009. An additional sovereign risk scenario would have a further impact of **1.3%** of a percentage point on the estimated Tier 1 capital ratio, bringing it to **7.6%** at the end of 2011, compared with the CRD regulatory minimum of **4%**.
- The results of the stress suggest a **buffer** of **€169m** of the Tier 1 capital would exist at 31 December 2011 against the threshold of 6% of Tier 1 capital adequacy ratio agreed exclusively for the purposes of this exercise. This threshold should by no means be interpreted as a regulatory minimum (the regulatory minimum for the Tier 1 capital ratio is set to 4%), nor as a capital target reflecting the risk profile of the institution determined as a result of the supervisory review process in Pillar 2 of the CRD.
- **IL&P** has held discussions of the results of the stress test with its supervisor the **Central Bank and Financial Regulator**. The stress test was carried out under a number of key common simplifying assumptions (e.g. constant balance sheet, uniform treatment of securitisation exposures). Therefore, the information should in no way be construed as a forecast nor should it be taken as an update to capital plans. Consequently the numbers below may differ from numbers published previously by IL&P. In addition, where the information does not reconcile to previously published information (e.g. annual statements or capital plans), this is a result of supervisory adjustments applied as part of the methodology of the stress test. In the interpretation of the outcome of the exercise, it is imperative to differentiate between the results obtained under the different scenarios developed for the purposes of the EU-wide exercise. The results of the adverse scenario should not be considered as representative of the current situation or possible present capital needs. A stress testing exercise does not provide forecasts of expected outcomes since the adverse scenarios are designed as "what-if" scenarios including plausible but extreme assumptions, which are therefore not very likely to materialise. Different stresses may produce different outcomes depending on the circumstances of each institution.

---

<sup>1</sup> Directive EC/2006/48 – Capital Requirements Directive (CRD) as implemented by SI 660 and 661 of 2006

<sup>2</sup> See: <http://www.c-eps.org/EU-wide-stress-testing.aspx>

**IL&P - Individual Results****At 31<sup>st</sup> December 2009 (For the twelve months ended 31 December 2009)****EUR mln**

Total Tier 1 capital	1,858
Total regulatory capital	1,858
Total risk weighted assets*	16,413
Pre-impairment income (including operating expenses)	131
Impairment losses on financial assets in the banking book	-376
1 yr Loss rate on Corporate exposures (%) <sup>3</sup>	5.63%
1 yr Loss rate on Retail exposures (%) <sup>3</sup>	0.89%
Tier 1 ratio (%)	11.3%

**Outcomes of stress test scenarios**

The stress test was carried out under a number of key common simplifying assumptions (e.g. constant balance sheet, uniform treatment of securitisation exposures). Therefore, the information relative to the benchmark scenarios is provided only for comparison purposes and should in no way be construed as a forecast.

**Benchmark scenario at 31 December 2011<sup>4</sup>****EUR mln**

Total Tier 1 capital after the benchmark scenario	1,111
Total regulatory capital after the benchmark scenario	1,111
Total risk weighted assets after the benchmark scenario	11,282
Tier 1 ratio (%) after the benchmark scenario	9.85%

**Adverse scenario at 31 December 2011<sup>4</sup>****EUR mln**

Total Tier 1 capital after the adverse scenario	998
Total regulatory capital after the adverse scenario	998
Total risk weighted assets after the adverse scenario	11,282
2 yr cumulative pre-impairment income after the adverse scenario (including operating expenses) <sup>4</sup>	198
2 yr cumulative impairment losses on financial assets in the banking book after the adverse scenario <sup>4</sup>	-541
2 yr cumulative losses on trading book after the adverse scenario <sup>4</sup>	0
2 yr Loss rate on Corporate exposures (%) after the adverse scenario <sup>3,4</sup>	1.57%
2 yr Loss rate on Retail exposures (%) after the adverse scenario <sup>3,4</sup>	3.52%
Tier 1 ratio after the adverse scenario (%)	8.9%

**Additional sovereign shock on the adverse scenario at 31 December 2011****EUR mln**

Additional impairment losses on the banking book after the sovereign shock <sup>4</sup>	-178
Additional losses on sovereign exposures in the trading book after the sovereign shock <sup>4</sup>	0
2 yr Loss rate on Corporate Exposures after the adverse scenario + sovereign shock (%) <sup>3,4,5</sup>	1.71%
2 yr Loss rate on Retail exposures after the adverse scenario + sovereign shock (%) <sup>3,4,5</sup>	4.22%
Tier 1 ratio after the adverse scenario + sovereign shock (%)	7.6%

Additional capital needed to reach 6% Tier 1 ratio under adverse scenario + additional sovereign shock, at the end of 2011

Nil  
(surplus of 169m)

\*Inclusive of CRD transitional floor adjustments

<sup>3</sup> Impairment losses as a % of corporate/retail exposures in AFS, HTM, and loans and receivables portfolios

<sup>4</sup> Cumulative for 2010 and 2011

<sup>5</sup> On the basis of losses estimated under both the adverse scenario and the additional sovereign shock

**Irish Life & Permanent plc – Exposures to central and local governments on a consolidated basis**Reporting Date 10<sup>th</sup> September 2010

EUR mln	Gross exposures (net of impairment)	Of which Banking Book	Of which Trading Book T	Net exposures (net of impairment)
Austria	254	254		254
Belgium				
Bulgaria				
Cyprus				
Czech Republic				
Denmark				
Estonia				
Finland				
France	353	353		353
Germany	877	877		877
Greece				
Hungary				
Iceland				
Ireland	1,688	1,688		1,688
Italy	24	24		24
Latvia				
Liechtenstein				
Lithuania				
Luxembourg				
Malta				
Netherlands	152	152		152
Norway				
Poland	109	109		109
Portugal				
Romania				
Slovakia				
Slovenia				
Spain				
Sweden				
United Kingdom				