Transaction Overview

Dublin, February 2013

An Roinn Airgeadais
Department of Finance

Overview of transaction

- Legislation has been passed providing for the orderly wind-up of IBRC through the appointment of Special Liquidators who will manage the process
  - Existing funding arrangements with regard to the Promissory Notes between IBRC and the Central Bank of Ireland (CBI) unwind and the CBI becomes economic owner of the Promissory Notes which are exchanged for Government bonds
  - NAMA, through an SPV, has been directed to acquire the Exceptional Liquidity Assistance (ELA) Facility Deed and the associated floating charge over the other IBRC assets from the CBI, funding this purchase by the issuance of Government Guaranteed NAMA bonds to the CBI
  - The other creditors of IBRC will receive payment to the extent there are excess assets in the company available

- The Promissory Notes will be replaced with a portfolio of Irish Government bonds
  - The portfolio will comprise:
    - three tranches of €2 bn each maturing after 25, 28 and 30 years;
    - three tranches of €3 bn each maturing after 32, 34 and 36 years;
    - two tranches of €5 bn each maturing after 38 and 40 years.

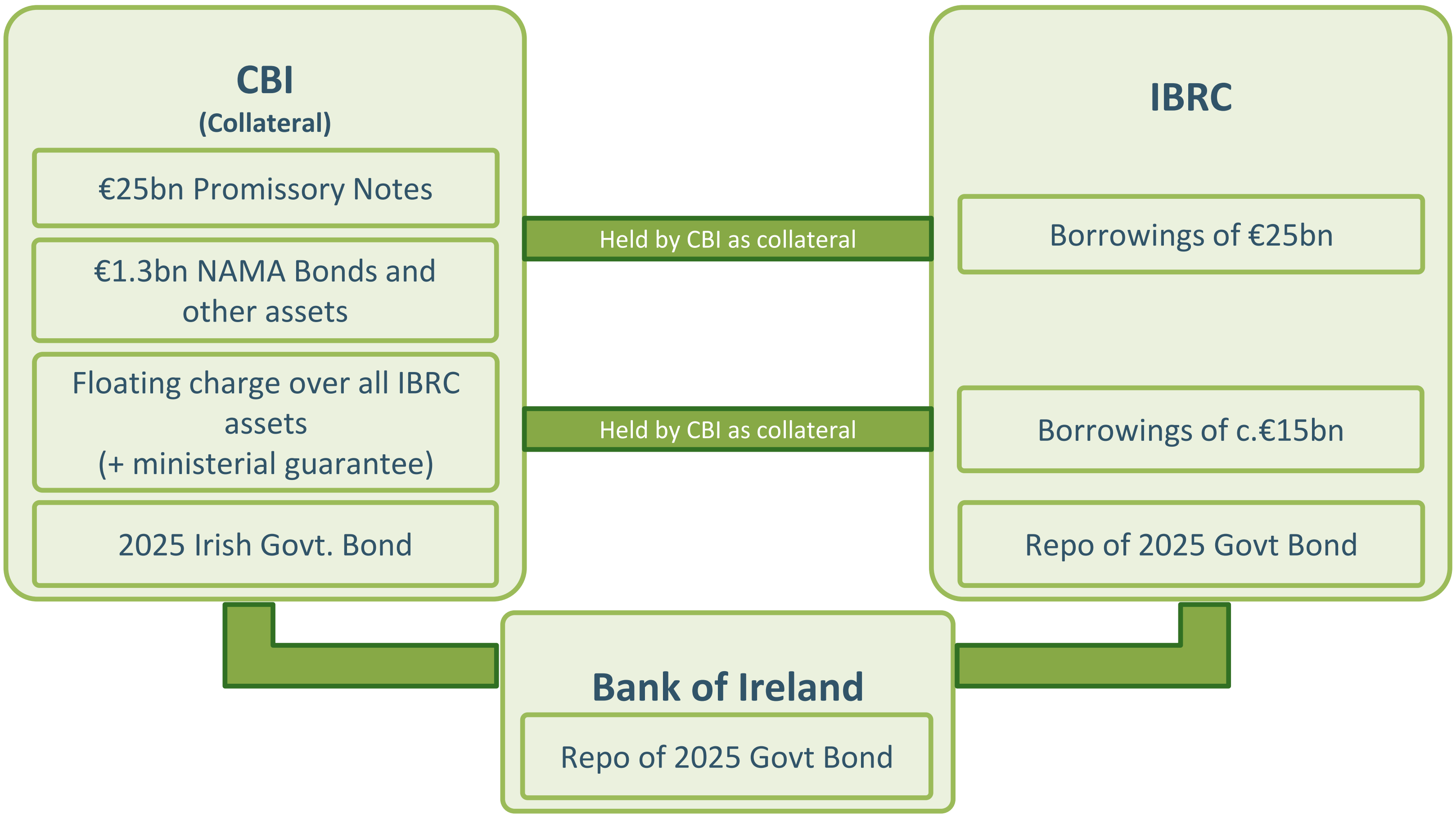
- NAMA, through an SPV, will acquire the Exceptional Liquidity Assistance (ELA) Facility Deed and the associated floating charge over IBRC's assets from the CBI
  - NAMA issues Government Guaranteed NAMA Bonds to the CBI in exchange for these assets and will enforce its security entitling it to the proceeds of the sale of the charged assets
  - An independent asset valuation and sale process for the charged assets will take place where third parties will be entitled to bid for the assets, with NAMA acquiring any assets not purchased by third parties
  - Following this process the Minister will make good any shortfall to NAMA if the valuation of assets acquired by NAMA < value of NAMA Bonds issued
  - Excess assets available following the repayment of NAMA will be for the pool of unsecured creditors (including the State as a result of the ELG payments)

Key benefits

- The provision of a longer term non-amortising (up to 40 years) portfolio of Government bonds to replace the amortising Promissory Notes will have significant benefits from a market perspective as it ensures the liability to repay is beyond most credit investors' time horizon
- Spreading the cost of the Promissory Notes from a weighted average life of c.7-8 years to c.34-35 years at a lower funding cost for the State, resulting in significant annual interest savings
- Substantial annual cash flow benefit to the State from replacing Promissory Notes with non-amortising Government bonds (c.€2.3bn in the first year and c.€20bn over the next 10 years if costs of the transaction are excluded)
- A reduction in the underlying deficit of c.€1bn per annum in the coming years (before transaction costs), reducing the forecast deficit by c.0.6% of GDP annually. 2013 benefits are much reduced on account of transaction costs
- A reduction in General Government debt over time
- Removal of IBRC from the financial landscape
- Removal of Exceptional Liquidity Assistance and the inherent risk associated with short term borrowings which have to be rolled over on a fortnightly basis
- Efficiency gains from housing 'legacy assets' in a single vehicle, NAMA
- Establishing a permanent solution for a significant part of the structural shortfall of bank liquidity

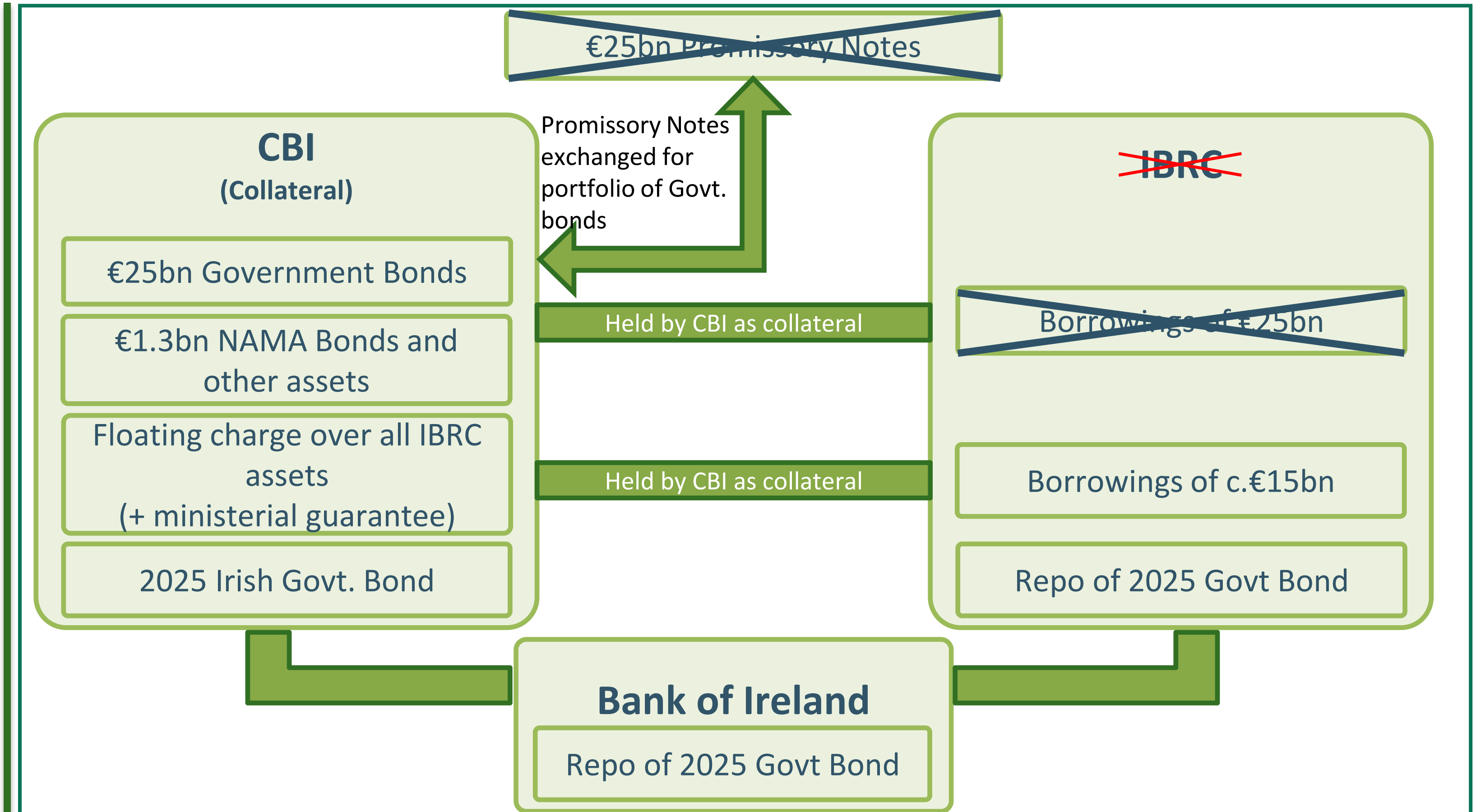
This solution does not address other challenges in the Irish banking system. But it is an important step in restoring the health of the Irish banking sector and we will continue to progress other initiatives, e.g., ESM, Banking Union, etc.

Pre-transaction funding links between CBI and IBRC



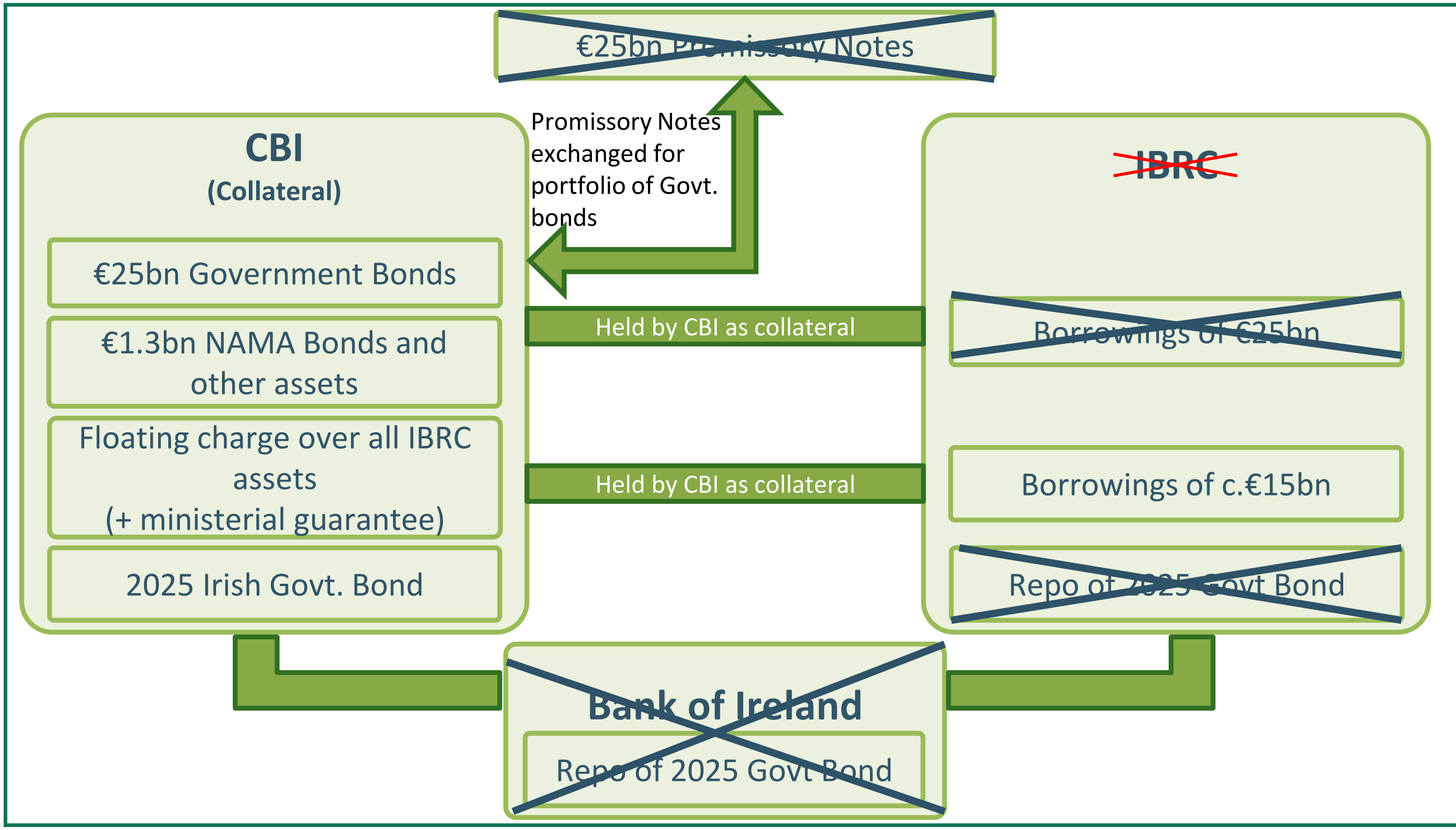
- CBI currently provides €40bn of funding in the form of ELA to IBRC
- The value of the collateral held by the CBI is in excess of the funding provided to IBRC as illustrated above
- The 2025 Irish Government Bond is currently funding through an agreement with Bank of Ireland

IBRC Wound Up; CBI Retains Collateral & Exchanges Pro Note



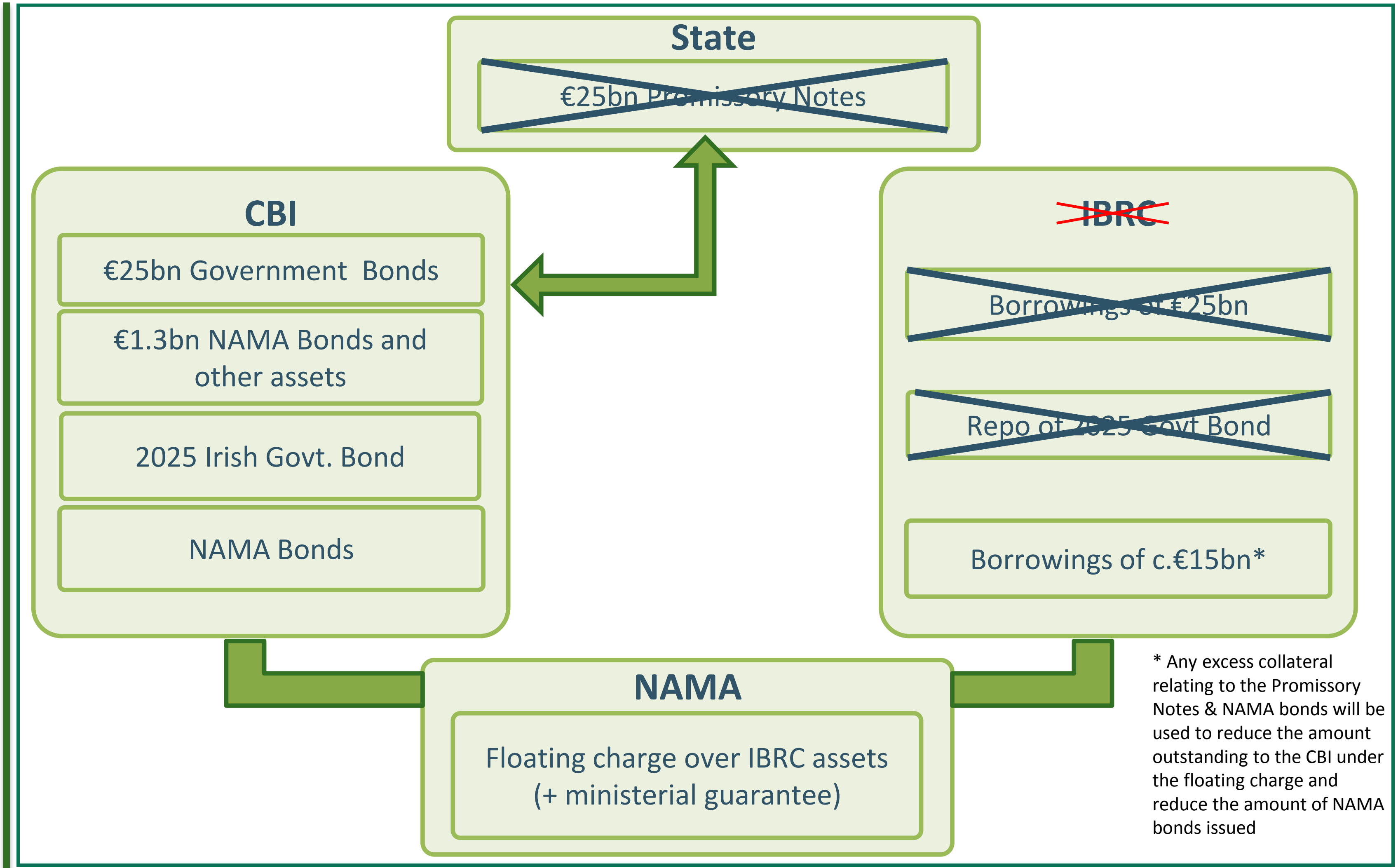
- Any excess collateral relating to the Promissory Notes & NAMA bonds will be used to reduce the amount outstanding to the CBI under the floating charge

Arrangement with BOI terminates; CBI holds 2025 Govt. Bond



- As part of the transaction the 2025 Government bond repo agreement with Bank of Ireland will unwind and the CBI will hold the bond

CBI Sells Floating Charge to NAMA for NAMA Bonds



IBRC Settles NAMA Claim with Remaining IBRC Assets

State

~~€25bn Promissory Notes~~

CBI

€25bn Government Bonds

€1.3bn NAMA Bonds and other assets

2025 Irish Govt. Bond

NAMA Bonds

~~IBRC~~

~~Borrowings of €25bn~~

~~Repo of 2025 Govt Bond~~

~~Borrowings of c.€15bn~~

NAMA

Other IBRC assets

Transaction Costs & Unsecured Creditor Impacts

- A small amount of customer deposits remain within IBRC with a significant number of these depositors having connected loans with IBRC. The status of the contractual position of these deposits will be considered by the Special Liquidators

- The joint safeguards of the Deposit Guarantee Scheme ('DGS') and Eligible Liabilities Guarantee ('ELG') Scheme remain in place for all eligible deposits
  - Eligible deposits of up to €100,000 for an individual and €200,000 for a joint account in IBRC are protected by the DGS and eligible deposits beyond this limit are guaranteed under the ELG Scheme

- DGS costs are not a cost for the Minister for Finance and will be paid from a Deposit Protection Account maintained by the CBI

- It is not anticipated that any payments will need to be made under the Derivatives Guarantee – however, it is not possible to be certain of this outcome

- However, claims are expected under the Eligible Liabilities Guarantee ("ELG") scheme. This could cost the State €0.9bn-1.1bn in 2013 based on best estimates. (These costs would have been incurred by IBRC at some point regardless of the transaction.)

- There may be a further cost if the Minister is required to make up any potential difference between the consideration paid by NAMA for IBRC's assets and the valuation placed on those assets by the Special Liquidators
  - If the value of the assets sold is not sufficient to compensate NAMA for the bonds it has issued the Minister will be required to reimburse NAMA for the shortfall
  - If the value of the assets is greater than the net outstanding borrowings under the Facility Deed, the Special Liquidators will retain the surplus assets for the benefit of unsecured creditors

- Any remaining assets after the unwinding of all secured liabilities will be available for the benefit of the pool of unsecured creditors (including the Minister due to payments under guarantees, unguaranteed bondholders, suppliers, and sundry liabilities)
  - Whether unsecured creditors receive anything depends on the value ascribed to the assets in the valuation process

- It is not expected that any assets will be available to repay subordinated liability holders

Newly issued Government bonds

- The table below sets out the tranches of the newly issued Government bonds which replace the Promissory Notes
- The term and price profile of these Government bonds are in line with maturities and quantums that have been previously presented to and discussed with the CBI

Term	€bn	Price
25 Year	2.0	Floating rate, Irish spread over 6 month Euribor
28 Year	2.0	Floating rate, Irish spread over 6 month Euribor
30 Year	2.0	Floating rate, Irish spread over 6 month Euribor
32 Year	3.0	Floating rate, Irish spread over 6 month Euribor
34 Year	3.0	Floating rate, Irish spread over 6 month Euribor
36 Year	3.0	Floating rate, Irish spread over 6 month Euribor
38 Year	5.0	Floating rate, Irish spread over 6 month Euribor
40 Year	5.0	Floating rate, Irish spread over 6 month Euribor

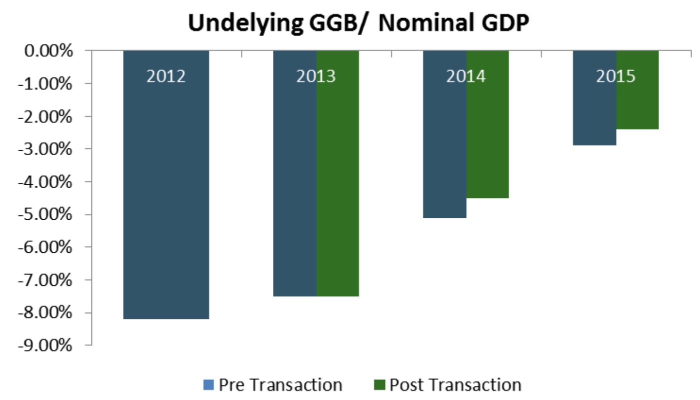
- The weighted average life of the above structure is 34–35 years in comparison to the weighted average life of the Promissory Notes of 7-8 years
- The CBI will have an option to exchange a portion of the new floating rate bonds for fixed coupon bonds
- The Central Bank of Ireland will sell the bonds but only where such a sale is not disruptive to financial stability. They have however undertaken that minimum of bonds will be sold in accordance with the following schedule: to end 2014 (€0.5bn), 2015-2018 (€0.5bn p.a.), 2019-2023 (€1bn p.a.), 2024 and after (€2bn p.a.)

General Government Deficit impact (based on no policy change)

GGB Impact (€M)	2013	2014	2015
Underlying GGB per Budget 2013 document	**(12,645)**	**(8,905)**	**(5,325)**
Adjustments:			
1. Promissory Notes - interest savings	1,875	1,775	1,675
2. Government Bonds - interest costs	(800)	(875)	(950)
3. ELG claim costs*	(1,000)	0	0
4. Interest cost of payments under ELG	(50)	(50)	(50)
5. Change in CBI Surplus income dividend	0	50	125
6. Interest cost savings (incl. interest on interest)	0	100	225
7. NAMA true-up**	n.a.	n.a.	n.a.
Change in Underlying GGB due to transaction	**25**	**1,000**	**1,025**
Underlying GGB post-transaction	**(12,620)**	**(7,905)**	**(4,300)**
Pre-Transaction Underlying GGB / Nominal GDP	**(7.5%)**	**(5.1%)**	**(2.9%)**
Post-Transaction Underlying GGB / Nominal GDP	**(7.5%)**	**(4.5%)**	**(2.4%)**
Change	**0.0%**	**0.6%**	**0.6%**

** Estimated ELG claim costs range: €0.9 - €1.1 billion*
*** Unknown until end of valuation process*
Note: Budget 2013 forecasts assume no dividends paid by IBRC to the State

Note: Table may contain rounding differences and figures are rounded to nearest €25 million



General Government Balance ("GGB") impacts assume an ELG payout of €1.0 billion in 2013 but do not include any further shortfall arising for the Minister for Finance (or, indeed, clawback) from the asset disposals

Also note that the future interest costs to determine the financial impacts are best estimates

Impact Summary

- Minimal GGB benefit initially due to the assumed €1.0 billion ELG payout in 2013
- GGB improves (the deficit reduces) from 2014 because: i) interest costs on the Government bonds are less than the interest costs on the Promissory Notes in the earlier years, ii) compounding interest benefit (assumed at 5%) on cumulative interest savings in later years, and iii) increased CBI surplus income paid as a dividend to the State

General Government Debt impact (based on no policy change)

GGD Impact (€M)	2013	2014	2015
GGD per Budget 2013 document	**203,500**	**209,200**	**211,900**
Adjustments:			
1. Promissory Notes - interest savings	(500)	(1,825)	(1,750)
2. Government Bonds - interest payments	800	875	950
3. ELG claim payments*	1,000	0	0
4. Interest cost of payments under ELG	50	50	50
5. Change in CBI Surplus income dividend	0	(50)	(125)
6. Interest cost savings (incl. interest on interest)	0	(100)	(225)
7. NAMA true-up**	n.a.	n.a.	n.a.
Change in GGD in year	**1,350**	**(1,050)**	**(1,100)**
Cumulative change in GGD	**1,350**	**300**	**(800)**
GGD post-transaction	**204,850**	**209,500**	**211,100**

** Estimated ELG claim payments range: €0.9 - €1.1 billion*
*** Unknown until end of valuation process*
Note: Budget 2013 forecasts assume no dividends paid by IBRC to the State

	2013	2014	2015
Pre-Transaction GGD / Nominal GDP	**121.3%**	**120.2%**	**116.8%**
Post-Transaction GGD / Nominal GDP	**122.1%**	**120.3%**	**116.4%**
Change	**0.8%**	**0.2%**	**(0.4%)**

General Government Debt ("GGD") impacts assume an ELG payout of €1.0 billion in 2013 but do not include any further shortfall arising for the Minister for Finance (or, indeed, clawback) from the asset disposals

Also note that the future interest costs to determine the financial impacts are best estimates

Note: Table may contain rounding differences and figures are rounded to nearest €25 million

Impact Summary

- GGD increases initially due to the assumed €1.0 billion ELG payout in 2013 and because cash interest payments on the Government bonds in 2013 are higher than eliminated interest payments on the Promissory Notes in 2013 – this is because the interest payments expected to be made on the Promissory Notes on 31 March 2013 are compressed due to the interest holiday taken in 2011 and 2012
- Although not evident upon examination of the impacts to 2015, there is a significant GGD benefit over time due to lower interest payments (in the earlier years) and because the State is only required to fund interest payments in the market at sovereign rates (assumed at 5%) and is not required to fund capital repayments (as required under the Promissory Notes arrangement). In addition, CBI surplus income increases. These factors result in significant compounding interest savings (assumed at 5%) over time

Role of the Special Liquidators

- Joint Special Liquidators appointed by the Minister will now manage the operations of IBRC pursuant to the IBRC Act 2013
- The appointment of the Special Liquidators is effective immediately
- The Special Liquidators will generally have the same duties, powers and responsibilities as are usually conferred on a Court appointed liquidator, however there are some key differences including that the Minister (and not the Courts) have the principal role in overseeing the winding-up
- The Special Liquidators replace the Board and management in IBRC and will wind up its business and operations in the interests of its creditors
- As a key part of their appointment, the Special Liquidators will oversee a valuation and sales process for the assets of IBRC which may result in NAMA acquiring the bulk of the remaining IBRC assets
- It is expected that the majority of staff will be retained for the purposes of the liquidation process, some staff may be offered positions by NAMA or other purchasers of assets but that will be a matter for the Special Liquidators, NAMA and the other asset purchasers
- Employees will rank as preferential creditors ahead of the floating charge holders and unsecured creditors in respect of certain amounts owing to them on a winding-up, including accrued wages and salaries, holiday pay, sick pay, statutory redundancy, pensions contributions and claims for damages arising from accidents
- The Special Liquidators will assist any employee in respect of the processing of claims under the Insolvency Payments Scheme or the Social Insurance Fund

Appendix: Detailed Transaction Steps

Special Liquidators

- Pass new legislation dealing with appointment of Special Liquidators
- The legislation provides for orderly winding-up of of IBRC
- The appointment of the Special Liquidators will trigger events of default under a range of agreements between the CBI and IBRC
- The CBI will become the economic owner of the Promissory Notes and the other assets held by CBI as collateral

CBI repaid and ELA Facility Deed and related security sold to NAMA

- Government replaces the Promissory Notes with a series of longer term, non-amortising floating rate Government bonds. CBI holds the newly issued Government bonds
- CBI assigns rights and entitlements under existing ELA Facility Deed to a newly established NAMA special purpose vehicle (SPV)
- NAMA will issue Government Guaranteed NAMA Bonds to CBI in an amount equal to the amount outstanding under the ELA Facility Deed
- NAMA SPV will become entitled to the repayment of the entire amount owed by IBRC under the Facility Deed, together with the right to enforce security over the assets of IBRC
- NAMA SPV will be entitled to the proceeds of sale of all of the charged assets up to the amount outstanding under the ELA Facility Deed (after discharge of amounts owing to preferential creditors including fixed chargeholders, Revenue Commissioners and employees)
- Special Liquidators will be obliged to dispose of the charged assets and apply the proceeds of sale to discharge the creditors of IBRC including NAMA
- Special Liquidators will oversee an independent valuation and sale process for the charged assets
- Third parties will be entitled to bid for the charged assets and any charged assets not sold to third parties will be purchased by NAMA SPV pursuant to a Ministerial direction. Proceeds from the sale of charged assets will be distributed to the creditors of IBRC (in accordance with statutory priority)
- NAMA will receive proceeds of sale not distributed to super-preferential and preferential creditors up to the nominal value of NAMA Bonds issued to CBI. It is intended that these would be set-off against the debt owing by IBRC to NAMA. If total value of the charged assets is less than the nominal value of NAMA Bonds issued to CBI that shortfall will be made good to NAMA by the Minister. If total value of the charged assets is more than the nominal value of NAMA bonds issued to CBI the excess assets will be transferred to the pool available for unsecured creditors

Liquidation

- In conjunction with the valuation process, the Special Liquidators will continue the wind down of IBRC in the normal way