

Bank of Ireland
Global Markets



The Irish Economy

An overview

August 2010

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GENERIC GRAPH KEY: (e) = estimate, (f) = forecast.





1. Irish economy returns to growth

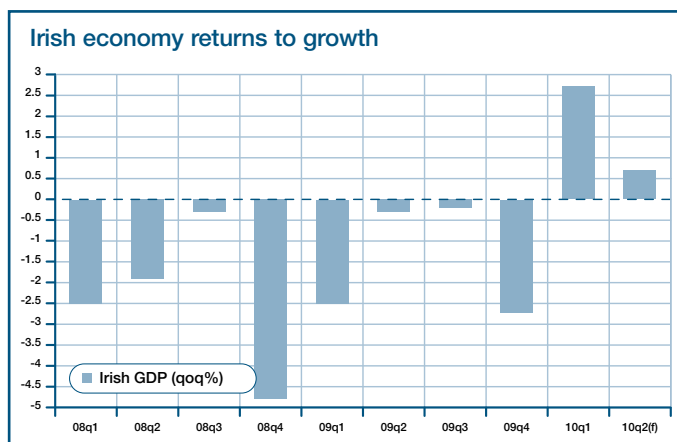
(a) Irish GDP grew in Q1 and activity indicators showing positive trends

In the first quarter of 2010, Irish GDP data revealed a significant rise in output, thereby formally signalling the end of the Irish recession. This positive outturn followed eight consecutive quarters of negative GDP and represented the fastest economic growth in the OECD.

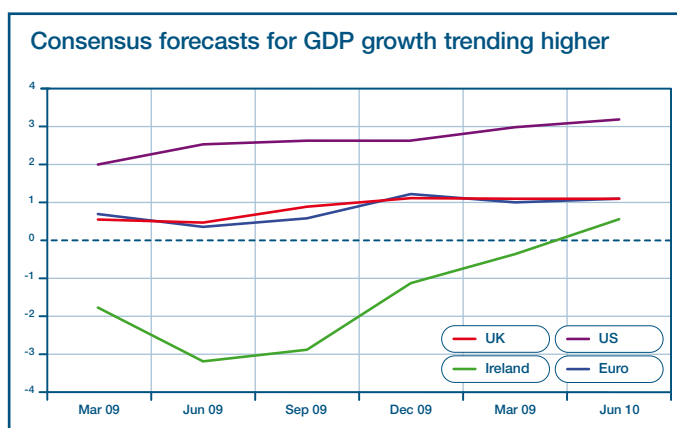
- Irish GDP rose by 2.7% on a seasonally adjusted basis in Q1 2010, driven by a strong performance from the external sector of the economy
- Exports grew by 6.9% in the quarter, the fastest pace of expansion since Q1 2007. Exports will continue to be the main driver of economic activity, supported by recovery in the global economy and depreciation of the euro, particularly relative to sterling
- Imports also picked up during the quarter rising by 2%, which implies that domestic demand is also showing some signs of recovery
- Personal consumption fell in the first quarter but only by a modest 0.2% and the available leading indicators signal a strong likelihood that consumer spending will rise in Q2
- The pace of recovery in Q1 prompted most market participants to revise up their growth forecasts for the year as a whole and the consensus now expects positive growth in 2010

A range of monthly indicators are now pointing to a broadening of the Irish recovery, which should help support a more sustainable increase in GDP over the year.

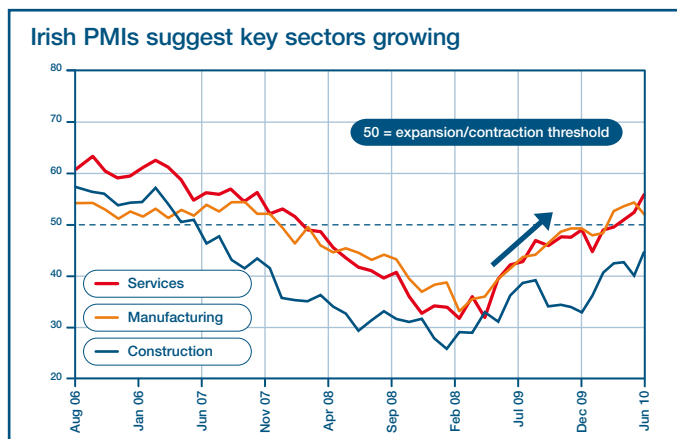
- Irish Purchasing Managers Indices (PMIs) are showing that key sectors of the economy are growing. In July, both manufacturing and service sector PMI readings had been in expansionary territory for three consecutive months
- Retail sales have risen strongly recently (boosted by a car scrappage scheme). Encouragingly, core retail sales (ex autos) have also risen, albeit at a more modest pace
- Industrial production grew by 7.5% in May following a near 10% drop in April. The fall in April was a retrenchment following strong gains in Q1 when production increased by 15.5% from Q4 2009. Industrial production data can be volatile on a month-to-month basis. However, the overall trend is showing sizable increases in production driven by strong export demand
- If real GDP were to remain at its (seasonally adjusted) Q1 level throughout the rest of 2010, this would imply growth of 0.4% for the year as whole. However, we believe that growth will trend higher over the rest of the year and we forecast GDP growth of 1% in 2010 and a recovery to 3% in 2011



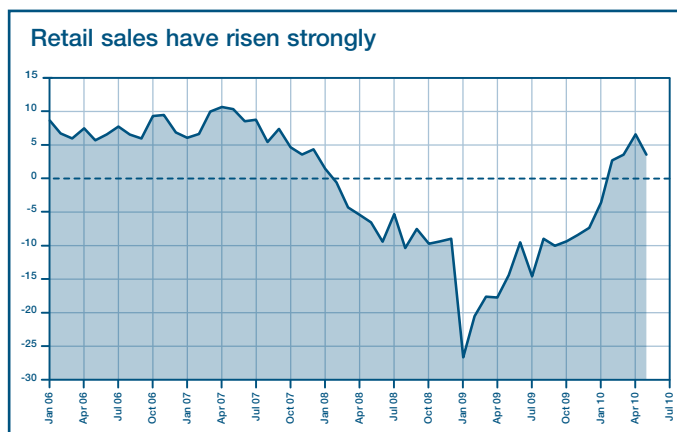
Graph shows: Irish GDP (quarter on quarter %)
Source: CSO and forecasts Reuters consensus



Graph shows: Consensus GDP forecasts for 2010
Source: IMF, ONS, BEA, Eurostat and forecasts Reuters consensus



Graph shows: Irish Purchasing Managers Indices
Source: NCB, Ulster Bank & Markit



Graph shows: Annual retail sales growth rates in volume terms
Source: CSO

(b) Exports driving upturn in growth

Irish exports expanded by almost 7% in Q1 2010 and this strong outturn was the main driver of growth in the period. The performance of Irish exports has been very resilient throughout the global downturn and the consensus view is for a return to export growth during this year as a whole.

- The strong start to the year for Irish exports is encouraging. The positive trend in industrial production also implies a sizeable up tick in future foreign sales
- Ireland is a very open economy and recovery in the global backdrop should be supportive of export performance. As recovery becomes more entrenched in Ireland's key trading partners - the US, UK and Eurozone - we expect healthy growth in Irish exports of c.7% for 2010
- Imports rose by 2% during the first quarter and we expect a positive import figure for 2010 of c.1.5%. However, with exports expected to grow by 7%, this still implies a sizeable net stimulus from the external sector for the year as a whole
- Ireland's strong export performance is supported by the presence of a large multinational sector in the economy. Given the strength of multinational exports and multinational profits (which are repatriated to home countries) we expect GNP to decline this year by 1.5%. However, GNP is forecast to return to growth in 2011 as the upturn in the economy becomes more balanced

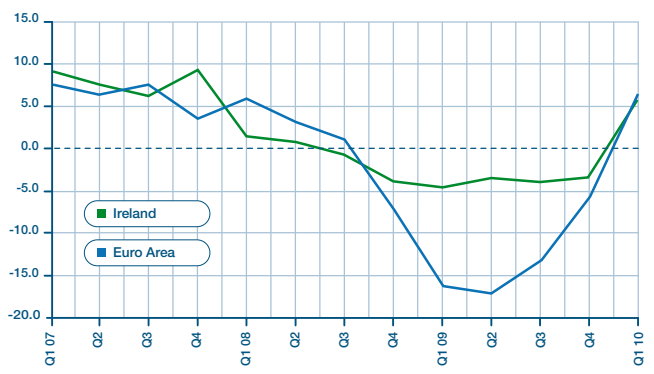
| Irish GDP component % weighting | | | |
|---------------------------------|------|------|---------|
| GDP component | 2008 | 2009 | 2010(f) |
| Personal Consumption | 53% | 53% | 53% |
| Government spending | 16% | 17% | 16% |
| Investment | 22% | 17% | 12% |
| Exports | 83% | 86% | 92% |
| Imports | -74% | -73% | -73% |

Source: Bank of Ireland ERU

Irish competitiveness has improved

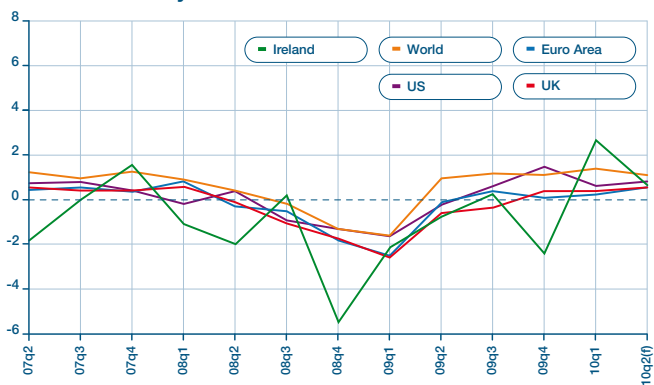
- The improvement in Irish competitiveness should help to support export performance and continue to help Ireland attract foreign direct investment
- The EU Commission is estimating that Irish unit labour costs will have fallen by 9% between 2008 and 2011, compared to an increase of 3.5% in the Euro Area for the same period
- Furthermore, currency movements are supporting Irish competitiveness. The euro has depreciated relative to sterling during the course of 2010. While the UK and the US are both key trading partners with Ireland, Irish export performance is more sensitive to changes in the value of sterling
- Irish multinational exports are less impacted by the euro/ US dollar exchange rate as many US companies based in Ireland price inputs and outputs in US dollars to negate exchange rate risk

Irish exports return to growth



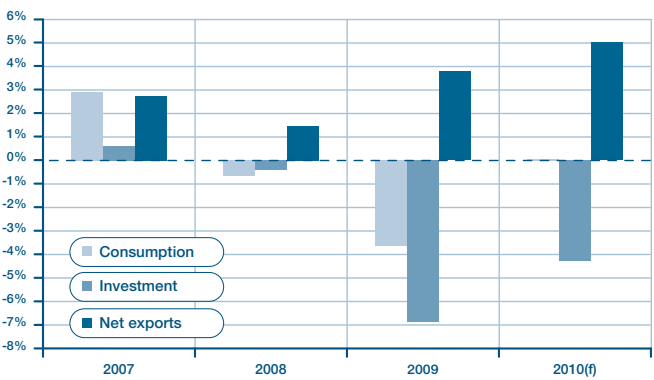
Graph Shows: Exports of goods and services (Annual growth in volumes %)
Source: Eurostat and CSO

Global economy has moved out of recession



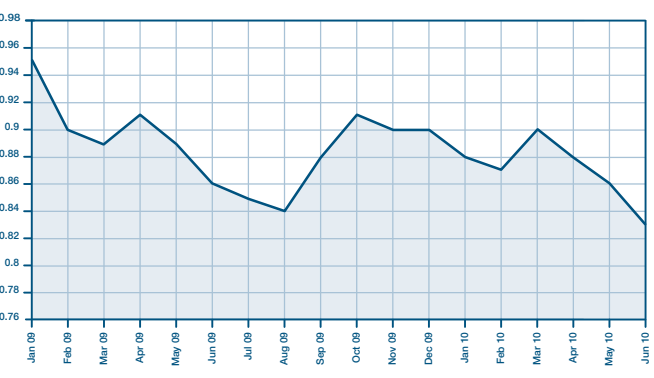
Graph shows: Annual GDP growth rates
Source: IMF, ONS, BEA, Eurostat & forecasts Reuters consensus & Bank of Ireland Economic Research Unit (ERU)

Exports key contributor to Irish growth



Graph shows: Contribution of main expenditure components to overall GDP % change
Source: CSO, ERU forecast

Euro/sterling depreciation should help exports

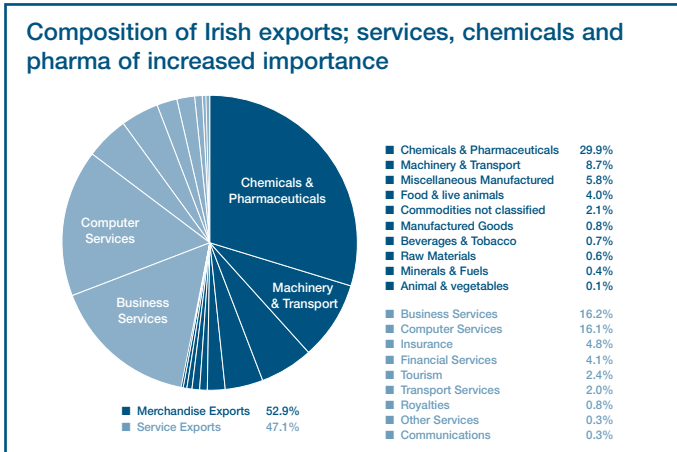


Graph shows: EUR/GBP daily closing rate since 2009
Source: Bloomberg

- The composition of Irish exports explains the resilience of the sector despite the downturn. Ireland's high concentration of pharmaceutical and chemical exporters is important, as demand in this area is less impacted by fluctuations in world trade due to cyclical factors
- Organic chemicals, medical and pharmaceutical products accounted for over half of Ireland's total merchandise exports in 2009
- Ireland also has a large high-tech export sector, which

should benefit as the global economy expands

- Service sector exports are growing strongly. Service exports actually rose in volume terms in 2009 and exceeded merchandise exports in Q4 2009
- The growth trends in service exports and in high value add areas such as pharmaceuticals and chemicals highlights how the composition of Irish exports has shifted away from more traditional manufacturing areas



Merchandise Exports adjusted for Balance of Payments terms
Source: CSO 2009

*Belgium is key distribution centre for pharmaceuticals
Source: CSO 2009

Special feature: Focus on foreign direct investment (FDI) into Ireland

Historically, Ireland has been extremely successful in attracting FDI. This is one of the key reasons behind the country's export-led boom in the late 1990s. During this time, Ireland became the European home for many sought-after international companies in the high tech, software, financial services, chemical and pharmaceutical industries. There were several key reasons behind Ireland's success at attracting such companies, and importantly these key features of the Irish economy remain in place today.

Young, highly educated population

Ireland's position as an English speaking country within the Euro Area gives the country a unique advantage when US and UK companies are looking for a base within the Eurozone. Ireland also has a young, highly educated population with experience and skills in key growth industries in both services and manufacturing areas.

Pro-business environment

Ireland is considered one of the most globalised countries in the world and the country's on-going ability to attract modern FDI is supported by a pro-business environment. The low corporate tax regime in Ireland is also supportive of inward investment. Importantly, Irish competitiveness is improving relative to European peers, as unit labour costs (and therefore the total cost base) are decreasing.

Knowledge and experience in key sectors

Ireland is home to many world-leading companies in growth sectors:

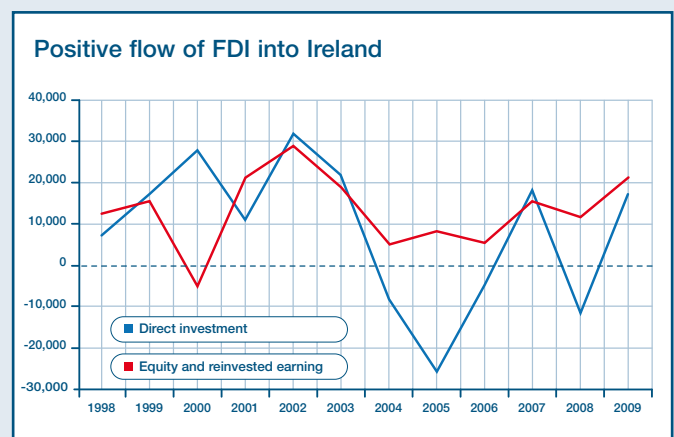
- 8 of the top 10 IT and communications companies
- 8 of the top 10 pharmaceuticals companies
- 15 of the top 25 medical devices companies
- over 50% of world's leading financial services firms

All of these companies create employment and according to the Irish Development Agency (IDA) c.135,000 people were employed by foreign companies in Ireland in 2009.

Continued ability to attract modern FDI

While 2009 saw global FDI fall by over 30%, Ireland did relatively well with the IDA reporting 125 unique new investments - a fall of just 4% from 2008, although the scale of these investments was smaller than in previous years.

In the graph below we show the flow of FDI into Ireland during the period 1998 to 2008. The overall stock of FDI in Ireland was close to €121bn at the end of 2008. The graph also shows equity and reinvested earnings into Ireland during this period, which encouragingly has been on a positive and generally increasing trend over the past 5 years.



Graph shows: Direct investment flow into Ireland in €bns and equity and reinvested earning inflows in €bns
Source: CSO 2009

(c) Domestic economy lagging but encouraging signs recovery is broadening

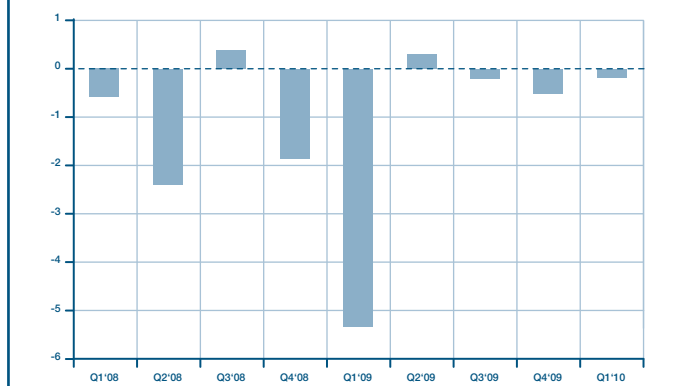
The domestic economy in Ireland remains more subdued than the external sector, however there are encouraging signs that the worst is behind us. Domestic demand still faces many headwinds and any growth in this area will be modest, nevertheless it will be an important step towards a more broad-based, sustainable recovery in Ireland.

- (i) Consumers have retrenched but worst may be over
- Consumer spending fell sharply in 2009 driven by increasing unemployment, uncertainty regarding job prospects and falling wages. However, consumer spending looks set to pick up as we go through 2010
 - Personal consumption fell in Q1 2010 but only marginally (-0.2%) and a key component of consumption, retail sales, has shown a positive trend of late
 - The negative impact of falling wages and increasing unemployment on average household incomes has been partially offset by social welfare payments from the Government, falling consumer prices and lower mortgage rates
 - We expect consumer spending to rise in Q2 2010 and to rise even further as the year unfolds. However, the negative carry-over effects of last year's 7% fall in consumption will leave average growth for the year flat
 - Irish consumers have high debt levels with household debt over 100% of GDP. Given this level of debt and the effects of falling asset prices, we believe the consumer will be more restrained in the coming years than during the mid 2000s

The table to the right highlights the Bank of Ireland Economic Research Unit forecasts for the key components of Irish economic growth.

- (ii) Unemployment rate up sharply however may be at or near peak
- The Irish labour market remains weak and it will be some time before we see a return to stable employment growth, however unemployment appears to be stabilising
 - Additions to the Live Register can be volatile on a month-to-month basis but overall the additions this year are much lower than we saw last year. In the first seven months of the year, 22,200 people were added to the Live Register, which compares to an addition of nearly 122,000 for the same period in 2009
 - Unemployment is currently estimated at 13.7%, up from 13.1% at the end of 2009. We expect a further small increase in unemployment this year before any improvement in 2011
 - The peaking of unemployment at a lower rate than previously expected is largely due to shrinkage of the labour force rather than any signs of employment growth
 - The labour force fell by 56,000 in Q1 2010 (annual rate), which followed an annual fall of over 69,000 in Q4 2009. The decline reflects lower participation in the work force as a result of people staying longer in education and a pick up in outward migration
 - Overall, we expect job losses to continue through the rest of 2010, although employment may fall at a slower pace. Employment growth is a lagging indicator of recovery and it will be into 2011 before we see job gains in the economy

Falls in consumer spending have eased



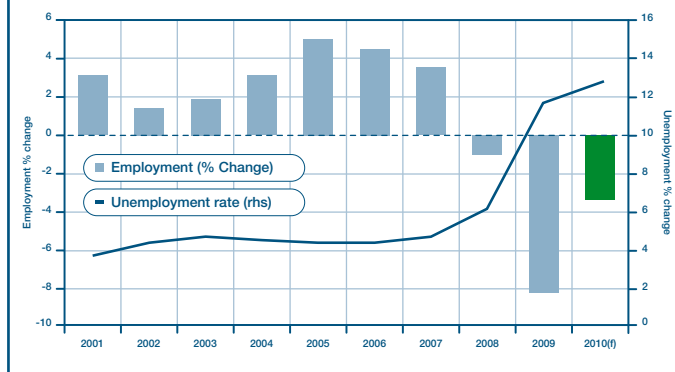
Graph shows: Quarterly change in personal consumption
Source: CSO

Irish economy forecasts %

| | 2008 | 2009 | 2010(f) |
|------------------------|-------|-------|---------|
| Personal Consumption | -1.5 | -7.0 | 0.0 |
| Government Consumption | 2.2 | -4.4 | -4.0 |
| Capital Formation | -14.3 | -31.0 | -25.3 |
| Exports | -0.8 | -4.1 | 7.0 |
| Imports | -2.9 | -9.7 | 1.5 |
| GDP | -3.5 | -7.6 | 1.0 |
| GNP | -3.5 | -10.7 | -1.5 |

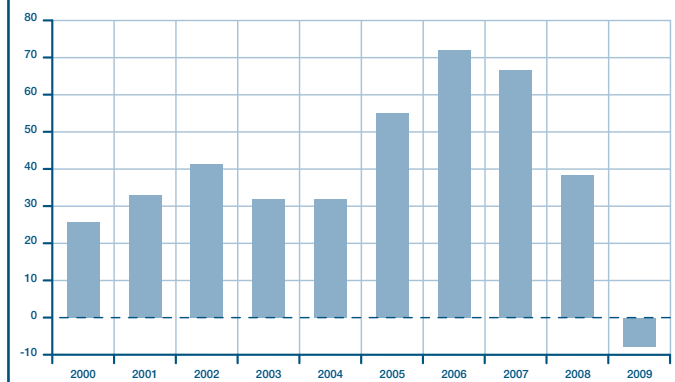
Source: Bank of Ireland ERU

Sharp increase in Irish unemployment slowing



Graph shows: % change in Irish employment and the unemployment rate
Source: CSO, forecast Bank of Ireland ERU

Labour supply falling as migrants leave



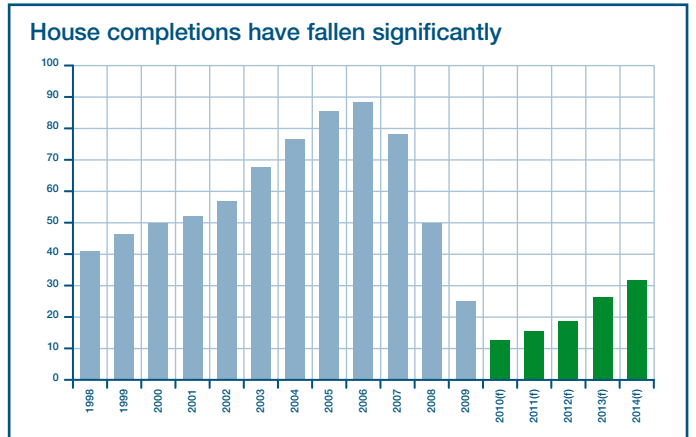
Graph shows: Irish net migration (000s)
Source: CSO

(iii) Property prices still falling but notable improvement in affordability

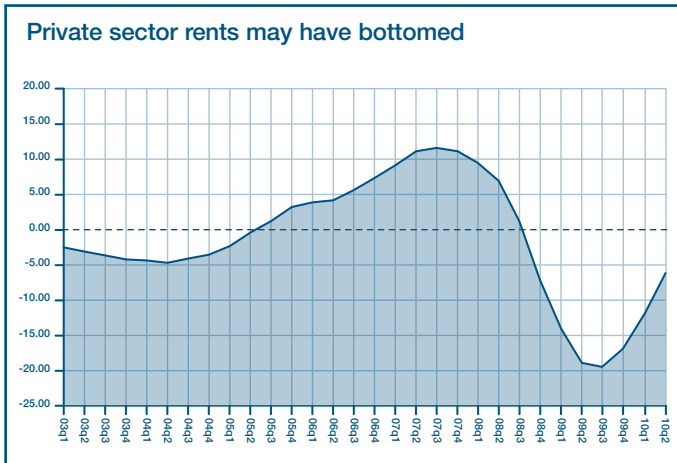
- House prices in Ireland do not appear to have bottomed yet, even though the pace of house price declines has slowed. The Permanent TSB/ESRI index showed that house prices fell by 1.7% in Q2 2010 and are down just over 35% from their peak
- House price deflation is likely to ease again in the months ahead, as the economic backdrop and sentiment improves. However, it may take some time before the excess supply in the market is cleared
- Housing completions in 2009 were c.26,500 compared to over 50,000 in 2008, and a peak of almost 90,000 in 2006. We believe the number of completions will fall again in 2010 to about 16,000, which should represent a low for the cycle
- However, there are some encouraging signs, particularly the improvement in affordability. The decline in house prices, along with falls in mortgage interest rates, has provided a notable boost to affordability, which is back to 2003 levels
- In addition, the fall in residential rents may have bottomed. Private housing rents as measured in the CPI rose by 1.2% in the three months to April 2010. Rents have fallen by an overall 24% since their peak in early 2008

| Irish house prices still falling, rents may have bottomed | | | |
|---|--------|------------------|-----------------|
| | Peak | Change from peak | Latest 3 months |
| Permanent TSB/ESRI | Q4 06 | -35.2% | -1.7% Jun 10 |
| Daft.ie | Feb 07 | -37.20% | -4.2% Jun 10 |
| Dept. of Environment | Q2 07 | -36.80% | -4.0% Q4 09 |
| Residential Rents (CSO) | Q2 07 | -23.80% | +1.2% Apr 10 |

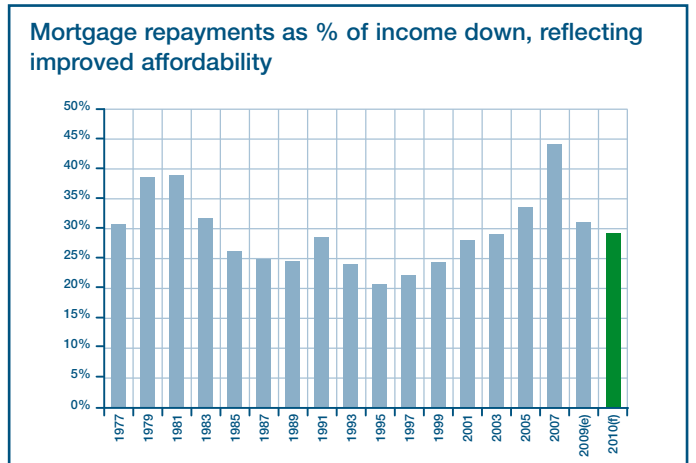
Graph shows: % change in average national house prices since peak and over the last quarter available. Residential rents taken from CPI
Source: ESRI, Daft.ie, Department of Environment, Heritage and Local Government, CSO



Graph shows: Irish house completions (000s)
Source: Irish Department of Finance & Irish Department of Environment



Graph shows: Private sector rents (% change)
Source: CSO



Graph shows: Irish mortgage repayments as % of income
Source: Bank of Ireland ERU

(iv) Deflation may be coming to an end

- The Irish CPI index (which includes mortgage interest) started to fall on a monthly basis in late 2008 and by January this year had recorded a cumulative decline of 7.3% from the peak
- Over recent months, prices have begun to rise on a monthly basis. Prices rose for four consecutive months from February to May and declined marginally in June (-0.1%). The overall increase in inflation for the five-month period was 1.1%
- However, the scale of the price falls last year means that the annual inflation rate in June was still in negative territory, at -0.9%, but we still expect the annual rate to turn positive by end 2010

| Deflation continuing but positive inflation rates set to return in H2 2010 | | |
|--|------|---------|
| | 2009 | 2010(f) |
| Quarter 1 | -1.5 | -3.4 |
| Quarter 2 | -4.5 | -1.4 |
| Quarter 3 | -6.1 | -0.2 |
| Quarter 4 | -5.8 | 1.0 |
| Year (2009) | -4.5 | -1.0 |
| HICP | -1.7 | -1.4 |

Graph shows: Inflation (CPI % change)
Source: CSO, forecasts Bank of Ireland ERU



2. Exchequer finances - underlying General Government Deficit stabilising

(a) Austerity measures on track

The Irish Government has taken decisive action to restore budget sustainability through taxation increases and expenditure cuts and as a result, we are starting to see signs of stabilisation in revenue sources. The Government began austerity measures in late 2008, nearly two years ahead of other European countries and their medium term plan to improve public finances is well underway.

(i) Tax revenue in line with Budget forecasts

At the end of July 2010, tax revenue was broadly in line with the Department of Finance Budget forecasts for the year. This represents a significant improvement over the performance in the first quarter when tax revenue was falling behind expectations.

- So far in 2010, over €17bn in revenue has been collected with VAT, corporation tax, capital gains tax and customs all slightly ahead of profile, while income tax is down on its target for this point of the year
- The performance of income tax returns reflects the weak labour market and very subdued inflationary wage pressures in the economy
- The Department of Finance forecasts that the tax take will total about €31bn this year, down c.6% from 2009
- As planned, Government spending has decreased, with net voted expenditure 7% lower in the first seven months of this year compared to last year
- Current spending fell by 2.9% year-over-year, while capital expenditure is down 36%. However, it is expected that capital expenditure will pick up in the second half of the year
- The Department of Finance expects that total net voted spending will fall by 1.7% for the year as a whole
- The above fiscal trends left the General Government Deficit at €10.2bn for the first seven months of 2010 against €16.4bn for the same period in 2009. The much lower number this year reflects lower capital spending by

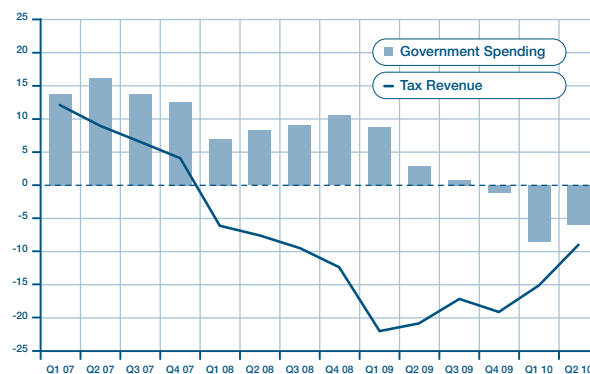
(ii) Scope for further fiscal tightening

- The Irish Government has agreed with the EU Commission to cut the General Government Deficit to just under 3% of GDP by 2014. After adjustments of c.€12bn since late 2008, the Government plans further adjustments of €3bn in each of the years 2011 to 2013
- While the Government has not laid out the specific details yet, the adjustments will comprise of reductions in current and capital spending and tax increases. We would expect the burden of adjustment to fall more on spending than tax hikes
- The following are areas that could potentially be targeted by the Government;
 - Ireland has one of the lowest tax wedges in the Euro Area. Up to 50% of all workers pay no tax, as such there is potentially room for the Government to draw more people into the tax net
 - With the economy still in a deflationary environment, there may be room to cut social welfare rates and/or tax some allowances
 - The Government is also considering a range of new service charges such as water charges, which are common in other EU states

the Government during the first seven months of 2010, and the impact of a capital injection into Anglo Irish Bank and advance payments into the National Pensions Reserve Fund in 2009

- On the spending side, current expenditure has come under more pressure in the past year due to rising unemployment but austerity measures are being implemented and expenditure is being tightly controlled. If this momentum can be maintained it will provide a good springboard for the Government to cut the deficit in the coming years as the economy recovers

Budget gap narrowing as tax shortfalls stabilise and Government spending falls

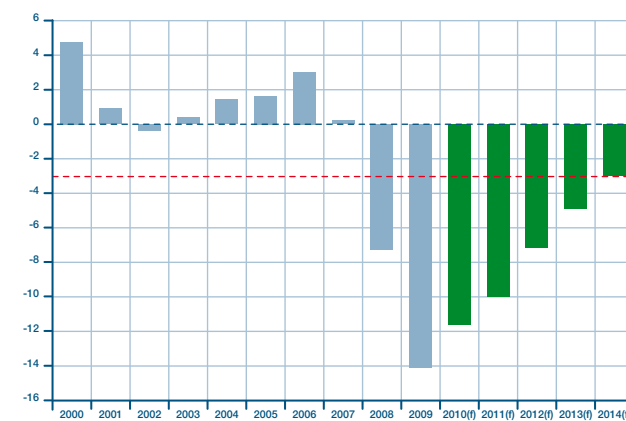


Graph shows: Irish tax revenue & total voted Government expenditure (% change year-on-year)

Source: Irish Department of Finance

- The Government commissioned an expenditure review last year (the McCarthy Report). Several elements of this report are yet to be implemented and could generate significant savings

Irish Government to cut deficit to < 3% of GDP by 2014



Graph shows: General Government Balance as a % of GDP. The red line represents Stability & Growth Pact 3% deficit limit

Source: Irish Department of Finance

(i) Core deficit may beat target

- The General Government Deficit reached 14.3% in 2009, however this included a €4bn capital injection into Anglo Irish Bank. Excluding this item, the deficit would have been 11.8% and the Government expects that the underlying deficit will be stable at around this level in 2010 before improving in subsequent years
- The revision of the General Government Deficit figure for 2009 to include the capital injection into Anglo Irish Bank did not require any additional borrowing. The money was already included in the Exchequer Borrowing Requirement for last year and was fully accounted for in the National Debt figures. The Government's borrowing target for 2010 remains unchanged from its Budget day requirement of €20bn
- In 2010, the Government has put further capital into Anglo Irish Bank and to a lesser extent into Irish Nationwide Building Society. Thus far, over €10bn in the form of promissory notes has been ear-marked for Anglo Irish Bank, however the EU has yet to decide how these funds will be treated in the deficit figures. If classified as spending, the General Government Deficit could rise to over 20% of GDP
- It is important to highlight that the underlying Exchequer deficit is stabilising and that the money associated with Anglo Irish Bank has already been accounted for in the National Debt figures
- Nevertheless, as the EU standard measure is the General Government Deficit and if the promissory notes are included

in the figure, then Ireland will look comparatively much worse than European peers

- Excluding the provisions for Anglo Irish Bank, we expect that the core Exchequer deficit will actually beat the Government Budget day forecast, coming in at 11.2% versus 11.6%
- Tax revenue is likely to be around forecast but non-tax revenue could be well above expectations
- Day-to-day spending may come in around target but debt service payments may be lower than originally projected, with capital spending also finishing the year below the Budget forecast

| Irish Government Budget surplus/deficit as a % of GDP | | | |
|---|---------|---------|---------|
| | General | Current | Capital |
| 2005 | 1.6 | 3.9 | -4.2 |
| 2006 | 2.9 | 5.1 | -3.8 |
| 2007 | 0.3 | 3.7 | -4.5 |
| 2008 | -7.2 | -1.6 | -5.2 |
| 2009 | -14.3 | -6.9 | -8.1 |
| 2010(f) | -11.6 | -8.5 | -3.2 |

Ireland's General Government Balance (GGB) in 2009 includes payment of €4bn to support Anglo Irish Bank. According to Eurostat, if this payment was excluded the GGB would be 11.8% of GDP

Source: Irish Department of Finance; General based on General Government Balance, Current and Capital based on Exchequer Balance

Special feature: Cost of State support for Irish banking system

The international financial crisis, which started in the summer of 2007 and intensified in the autumn of 2008 with the collapse of Lehman's, prompted many governments to intervene in support of their respective banking systems. Ireland was no exception. Since September 2008, the Irish Government has supported the banking system through liability guarantees, capital injections, direct investments and through the setting up of the National Asset Management Agency. We outline below the actual cost incurred by the State as a result of this support.

Liability guarantees

The Government introduced the Credit Institutions Financial Support Scheme (CIFS) in September 2008, for which the covered institutions paid a fee estimated at €1bn over the two-year period of the Guarantee. The Eligible Liabilities Guarantee Scheme (ELG) set up in December 2009 to allow for both guaranteed and un-guaranteed issuance carries fees and we estimate the State is due to receive around €750m to date for the use of this Scheme.

Direct capital injections

The Irish Government took Anglo Irish Bank into State ownership in January 2009 and injected €4bn of capital in that year. The Minister for Finance subsequently announced an additional €8.3bn capital injection in March 2010 and a further €2bn in June, these two sums by way of a promissory note payable over 10 to 15 years. The State has therefore injected a total of €14.3bn into Anglo Irish Bank. The State has

also injected €100m of equity into two small mutual societies (Irish Nationwide Building Society and EBS) with the former also receiving a promissory note to the value of €2.7bn.

State investments

The State has also supported the two major Irish banks, Bank of Ireland and AIB, this time through the National Pensions Reserve Fund (NPRF). The Fund invested €3.5bn in each bank by way of preference shares, with an 8% annual coupon payable in cash or ordinary shares. The investment also included warrants giving the Fund the option to purchase shares in both banks. In early 2010, the Fund received ordinary shares in both banks in lieu of cash coupon payments.

The NPRF subsequently converted over 1 billion of its preference shares into Bank of Ireland equity and converted more preference shares to take up the Bank's rights issue, leaving the Fund with 36% of Bank of Ireland's ordinary share capital. The coupon on the remaining preference shares has increased to 10% and the NPRF received €491m from Bank of Ireland for the purchase of the warrants on the preference shares. The NPRF also received a transactions fee of €51m.

Consequently, the NPRF has received a return of over €500m on its investment to date (from Bank of Ireland capital raising process), and holds equity and preference shares in both Bank of Ireland and AIB.

NAMA

The Irish Government also set up the National Asset Management Agency (NAMA) to purchase land, development and associated loans from five Irish institutions. NAMA pays for the loans by issuing Government Guaranteed bonds to the value of 95% of the consideration, paying a floating rate of interest (6 month Euribor), with the remaining 5% in the form of subordinated securities.

NAMA has been established on a statutory basis under the control of the NTMA, and has created an SPV to purchase, manage and dispose of the loans. As a result, the EU has deemed NAMA as being off balance sheet for Irish debt purposes and it is therefore not included in the Irish General Government Debt measure.

It is unknown at this point whether NAMA will make a profit over its lifetime. In any case, the Minister for Finance has said that the banks involved would pay a levy to cover any losses incurred by NAMA.

Summary

Overall, direct State support for the Irish banking system has cost €17.2bn to date (10.7% of GDP), primarily via capital injections to three banks (Anglo Irish Bank, Irish Nationwide and EBS), with Anglo Irish Bank accounting for the bulk of the total. Further capital injections may be required to cover additional loan losses. The NPRF has also invested €7bn

(4.3% of GDP) into Bank of Ireland and AIB and has received over €500m in return. One could also argue that the support of the banking sector has also led to increased borrowing costs for the Irish State. On the revenue side, the liability guarantees look set to generate c.€1.75bn for the Government while the NPRF received €500m as part of Bank of Ireland's recent recapitalisation process.

Summary cost to State of support for Irish banking sector as at June 2010 (€bn)

| | Cost | Revenue | Net |
|--|--------------|-------------|---------------|
| Guarantees | | 1.00 | 1.00 |
| | | 0.75 | 0.75 |
| <i>Sub-total</i> | | | <i>1.75</i> |
| Direct Capital: Anglo Irish Bank | -4.00 | | |
| | -8.30 | | |
| | -2.00 | | |
| Irish Nationwide Building Society | -2.70 | | |
| | -0.10 | | |
| Educational Building Society | -0.10 | | |
| <i>Sub-total</i> | | | <i>-17.20</i> |
| Total | | | -15.45 |
| Pension Fund Investment | -7.00 | 0.50 | |
| <i>Sub-total</i> | | | <i>-6.50</i> |

Graph shows: Cost in €bns of investment and support to Irish banking system from public finances up to June 2010

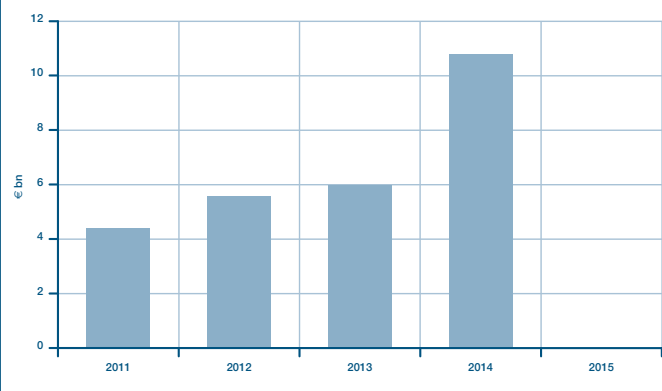
(b) No liquidity or solvency issues for Irish State

- Irish debt has outperformed other peripheral European sovereign bonds during the recent period of turbulence in financial markets. Investors have begun to differentiate between Ireland and other peripheral countries based on actions taken by the Irish Government to tackle the fiscal challenges
- The National Treasury Management Agency (NTMA) has already completed a significant proportion of Irish funding requirements for this year. By July, the NTMA had raised over 90% of its planned total issuance for the year - €18bn out of a target of €20bn
- The net sum (after bond redemptions) raised in the first seven months of the year was approx €18.5bn, compared with an Exchequer deficit of €10.2bn implying comfortable over-fund
- The NTMA retains large cash balances for prudent management of the Exchequer balance sheet during times of market turbulence. At end June, the Agency had cash balances of just over €20bn
- The NTMA have indicated that the Exchequer is completely funded through to Q1 2011 and they may now pre-fund for next year if market conditions are favourable
- Ireland is not impacted by refinancing risk. The State has a low level of debt maturing in the coming years. Between now and 2013, redemptions total €16bn (c.10% of 2009 GDP). By 2014 when over €10bn of Irish bonds are due to mature, the Government plans to have the General Government Deficit down to below 3% of GDP. This should mean less pressure on borrowing requirements to fund the deficit and support a smooth refinancing of maturing Irish debt
- Ireland's debt to GDP ratio is moving into line with the Euro Area average. Ireland's gross debt to GDP ratio was just

below 66% at the end of 2009 and is projected to rise to almost 87% by the end of 2010, in line with the Euro Area average of 85%. However, these numbers do not take into account the cash balances held by the NTMA and the assets of the National Pensions Reserve Fund (Ireland's net debt ratio was 38% at end 2009)

- Ireland's Current Account of the Balance of Payments is moving towards surplus. The economy ran a sizable Current Deficit from 2005 due to the domestically driven growth at the time. However, the Balance of Payments position has improved sharply from 2008 onwards, as the economy has rebalanced towards externally driven growth
- The Current Account Deficit is projected to be less than 1% this year and c.0.5% in 2011. This compares favourably with other European countries and highlights the export-orientated nature of the Irish economy

Irish bond redemptions manageable in coming years



Graph shows: Annual redemptions of Irish Bonds due to 2015 as of June 2010, in €bns
Source: Bank of Ireland ERU

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