IL&P Group Holding plc

PCAR / PLAR Results Conference Call Script

THURSDAY 31 MARCH 2011

Kevin Murphy, Group Chief Executive

Good evening everybody.

Slide 1 [SUMMARY]

Thank you for taking the time to join this call at such short notice. Clearly it's been a difficult time for our investors and we were keen to have this call this evening to bring you up to speed as quickly as possible on where things are at.

I'm joined this afternoon by David McCarthy – Finance Director.

We've prepared a slide presentation to detail some of the key facts and figures that are emerging today and those slides are available on the website.

I want at the outset to acknowledge that the turn of events we're facing this afternoon is very regrettable.

The net result of today's announcements is that the Group is facing a Gross Capital Shortfall of €4 billion and a Net Capital Shortfall after likely asset disposals and liability management exercises of some €2.9 billion. Clearly this will have major implications for the Group and our shareholders.

Having worked very hard to avoid having to take in any outside capital or having to engage with NAMA, this turn of events is very disappointing.

It had been our strong belief that the Group could avoid the type of outcome which has occurred today. Through recent months in general and through our preparations for these stress tests in particular we had set out a roadmap which we believed would have allowed us to fix our banking business over time without compromising the integrity of the Group or the position of shareholders.

Unfortunately it became clear in recent days that given the wider systemic crisis facing Irish banks and the Irish Sovereign, this Group would have to accept a solution designed to ensure international confidence that a line has been drawn under the Irish banking crisis.

Let me talk though the calculations which underpin these tests for a moment and discuss their implications for the Group then we'll be happy to take any questions.

Slide 2 [PCAR/PLAR Recapitalisation Summary]

This slide provides an overview of the outcome of the two exercises.

It shows that overall NET capital shortfall for the group is of circa €2.9bn. Let me talk you through how that figure was arrived at.

- We needed capital mainly for extra credit losses in the stress case of €1.1 bn.
- In addition the assumed deleveraging costs incurred to reduce our loan to deposit ratio to 122½% is €2.2 bn.
- In addition we have been asked to hold a prudential capital buffer of €0.7 bn after the stress losses.

This leaves the Group with a Gross Capital Shortfall of €3.9 bn.

- To fund this, our initial focus will be on separating and ultimately IPO-ing the Irish Life Assurance assets and undertaking with that a liability management exercise on our Tier 2 debt. Our best estimate of the yield from these actions net of the current value of the life company in the bank's Tier 1 capital is circa €1.1 bn.

Overall that leaves a balance of capital to be raised of €2.9bn of which includes our previous PLAR 2010 of €240m.

Based on this capital we will be able to meet the minimum of 6% standalone equity core Tier 1 based on the Blackrock loan losses in their stress case scenario.

Our loan to deposit ratio will decline to 122½%. Our target to achieve this is by the end of 2013.

Slide 3 [PCAR Macro Assumptions]

The third slide details the Macro Assumptions for both the BASE and STRESS case scenarios underlying the PCAR calculations.

On house prices we were asked to assume a 54% peak to trough fall in house prices for the base and 59% for the stress case.

In addition we were asked to assume a decline in unemployment numbers in the base case and an increase in unemployment numbers in the stress case and some modest increase in GDP plus a pretty modest scenario for commercial property in the base case…however in the stress case there
was a significant stress by adding in a further 22% fall to commercial property in 2011.

Slide 4 [CREDIT LOSSES 2011 – 2013]
So what was the outcome from these credit losses?

We applied these criteria to our current model and we estimated the overall aggregate provisions over the next three years in the stress case scenario would be €1.6 bn.

These were then subject to validation by BlackRock who re-ran the base and stress scenarios based on their internal models and they produced an outcome in the stress case which was €2.5 bn – or almost €1 billion worse.

That appears to have reflected a number of very conservative assumptions namely;

- That the number of new defaults in Ireland would double from our current expected levels
- That there would be a significantly higher number of repossessions and higher losses on repossession based on their model.
- And that no allowance should be made for the current forbearance structure which is currently in place in Ireland.

Slide 5 [DE-LEVERAGING BALANCE SHEET]
We turn then to deleveraging.

As you know we were asked to deleverage to below a 122.5% loan to deposit ratio by 2013.

Without deleveraging we calculated that we would have reached a loan to deposit ratio of circa 170% by 2013. But to get beyond that we had to envisage the sale of both our UK mortgage book and our commercial real estate book.

There was a significant cost involved in that.

Slide 6 [COST OF DE-LEVERAGING]

We had to assume discounts on book value of 25% in the UK and 50% in Ireland and that has led to a significant cost of €2.2bn.

As you know we had discussed this situation before and we had sought a warehouse in order to manage these assets cost effectively but this solution was not forthcoming.

Slide 7 [ADDITIONAL CAPITAL BUFFER REQUIREMENT]
Finally, we were requested to provide for a further prudential buffer on top of both the two previous costs and that totalled €0.7bn.

Slide 8 [ACTIONS TO RAISE CAPITAL]
Against this background we focussed on how effectively we could raise capital.

We have two potential solutions here. Firstly the separation and the IPO of the life businesses and secondly a liability management exercise for our subordinated debt.

Overall we feel these will raise circa €1.1bn in incremental capital.

Slide 10 [FUTURE OF BANKING BUSINESS]
So how does this position the two businesses?

Firstly on the bank. Clearly these moves will leave the bank extremely well capitalised. We estimate that at the end of 2013 after all the costs of deleveraging, the Core Tier 1 ratio of the bank will be 33% in the base case scenario and will have excess capital at that stage of €1.5bn.

There are few banks anywhere else in the world with a comparable level of capital.

And its loan to deposit ratio will fall to below 122%.

In dealing with the bank over the coming years, our priorities will be to maximise its profitability and to protect its very strong franchise.

As you know we have recently launched our Transformation Programme which will enhance our P&L over the next three years and hopefully that will enable us to meet our Operating Profit targets at the end of 2013.

It goes without saying that the bank would then be well positioned to both effectively lend and compete in the Irish market given its very strong capital ratio.

Slide 11 [FUTURE OF LIFE BUSINESS]

In terms of the life business there are three priorities:

- Maximising the contribution it can make to reducing our capital shortfall
- Safeguarding its market leader position in the Irish market
- Protecting the position of customers

We believe that the best solution lies in a public flotation of the business. Our aim is to have this done as soon as possible, hopefully by the middle of the year.

As you know we have restored the life business to profitability. It is very strongly capitalised. It is the market leading life assurer in Ireland and we feel it has all the ingredients for it to be a very successful flotation. We look forward to discussing it with you.

To conclude, I must restate my own regret at the news we have had to communicate today.

I think its clear that we have been subject to quite an extreme test both in terms of credit loss and in terms of deleverage and we regret very much the extremely negative impact this has on our existing shareholders.

However this is part of the broader response to restoring confidence in the sovereign and hopefully it will at least achieve that objective.