



EUROPEAN CENTRAL BANK

EUROSYSTEM

Mario DRAGHI
President

Mr Michael McGrath TD
Fianna Fáil Spokesperson on Finance
Dáil Éireann, Leinster House
Kildare Street, Dublin 2
Ireland

Frankfurt am Main, 20 March 2014

L/MD/14/157

Dear Mr McGrath,

Thank you for your letter dated 12 February 2014, in which you conveyed your views on the recent Balance Sheet Assessment conducted by the Central Bank of Ireland (CBI).

As you are well aware, the Irish banking sector has gone through a very challenging process of restructuring and downsizing, the ultimate objective of which is the attainment of a more stable and sustainable banking system. Despite the considerable progress made in recent years, there are several outstanding issues which still require to be addressed. These relate, in particular, to: (i) the completion of the banks' restructuring and reforms; (ii) addressing the still very large stock of non-performing loans; and (iii) ensuring the viability of all nationalised banks. Resolving these issues will be crucial in order to ensure the emergence of a sound banking sector that will support the domestic economy in the coming years.

As part of the EU/IMF programme, an Irish-specific balance sheet assessment was undertaken in 2013 to assess the capital adequacy of the three banks subject to the Prudential Capital Assessment Review ("PCAR"). The exercise also provided the CBI with information on the adequacy of each bank's provisioning and risk-weighted asset levels in view of the future financial planning and accounts of PCAR banks. It was undertaken by the CBI and conducted entirely under its own control. The outcome of the ensuing report, while identifying no capital shortfalls, pointed to the need for adjustments to both provisioning and risk-weighted assets.

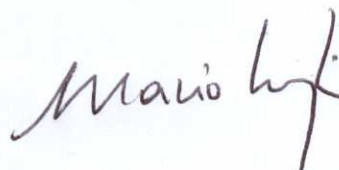
Please note that the decision on whether to provide a greater degree of detail regarding this exercise is the sole prerogative of the CBI, the competent body responsible for supervising Irish banks until the Single Supervisory Mechanism (SSM) takes over this role following the comprehensive assessment later this year. As stated on several occasions, the ECB is of the view that it would be preferable if these issues were to be addressed before the conclusion of the SSM comprehensive assessment.

I also wish to point out that the CBI Balance Sheet Assessment was different in nature from the upcoming SSM comprehensive assessment, as it was not forward looking and did not include a stringent stress test. The Irish banks, along with all other euro area banks selected for supervision by the future SSM, will be subject to all pillars of the SSM comprehensive assessment.

Finally, let me emphasise that Ireland continues to benefit from the support of the Eurosystem. That support has been quite extraordinary over recent years. The ECB remains in close contact with the CBI with regard to the situation of the Irish banking sector as well as the ongoing preparatory work for establishing the SSM.

I trust this answers your queries.

Yours sincerely,

A handwritten signature in dark ink, appearing to read "Mario Monti". The signature is written in a cursive, flowing style with a long, sweeping tail on the final letter.

Cc: Mr Patrick Honohan - Governor, Central Bank of Ireland - Dame Street, Dublin 2, Ireland