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Didier Reynders
ECOFIN President
Belgian Federal Finance Ministry
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9 December 2010

CONFIDENTIAL PROGRAMME LETTER

Dear Messrs. Juncker, Reynders, Rehn and Trichet,

Further to the Memorandum of Economic and Financial Policies and the Memorandum of Understanding on Specific Economic Policy Conditionality (together the Memoranda), the Irish authorities agree the following additional clarification regarding the implementation of the measures agreed.

These clarifications are being provided in respect of a limited number of specific issues which it is not possible to disclose publicly on account of legal risks, and commercial, market and financial stability considerations, which would undermine the authorities' ability to implement those measures or render implementation more costly. This information is intended to complement the content of the Memoranda and nothing in this letter should be interpreted to conflict with the agreed Memoranda.

Financial Sector Reforms

Downsizing and Structural Reorganisation

Viable Irish banks will undergo significant downsizing and operational restructuring. As part of this process, the banks will be required to shed non-core assets following an agreed timeline with the Irish Authorities, in consultation with the staff of the European Commission, the ECB and the IMF. The Irish Authorities shall draw up a schedule of assets to progress early deleveraging by asset disposals and/or credit enhancement, to be achieved by end March 2011. The schedule of assets shall be drawn up with consideration to the particular funding circumstances of the non-core assets to be identified. The Irish Authorities, in agreement with the staff of the European Commission, the ECB and the IMF, will immediately appoint external professional advisors to recommend the best structure, involving credit enhancement or other means that would achieve this timeline. The Irish authorities, in consultation with the European Commission (in liaison with the ECB) and the IMF would decide on whether this deadline may be achieved. The ECB would be consulted to ensure due consideration is given as whether this decision achieved more stable funding arrangements for the institutions.

After this early downsizing, further assets will be identified under the viability plans submitted under the terms of the Memorandum of Understanding. It is agreed that the size of the non-core assets to be disposed of will be sufficient to allow viable banks to achieve their PLAR milestones, in combination with the other agreed downsizing and operational restructuring measures. As agreed in the Memorandum of Understanding, compliance with the PLAR benchmarks will be monitored and enforced by the Central Bank of Ireland, in cooperation with the ECB, taking account of prevailing market conditions to avoid fire sale conditions. The Central Bank of Ireland agrees to cooperate with the staff of the ECB, EC and IMF regarding the assessment of market conditions that may determine any variation of banks' PLAR benchmarks.

In addition to, and in support of, non-core asset disposals, credit enhancement techniques will be deployed. Funding for the credit enhancement techniques will draw on the resources of the programme. These techniques will facilitate the sale or securitisation of assets and/or improve their collateral value with a view to improving the funding position of banks, thereby reducing their reliance on central bank and short-term funding. The Irish authorities agree to provide an implementation paper on credit enhancement, identifying specific asset portfolios and potential structures for enhancement, by the end of January 2011. The ECB, EC and IMF will be consulted prior to agreeing on the final nature of the credit enhancement programme.

Restructuring of Anglo Irish and INBS

Swift and decisive action will be taken to resolve the position of Anglo and INBS in a way that protects depositors and strengthens the banking system as a whole. As part of this process, legislation will be introduced to the Houses of the Oireachtas by end-January 2011 to provide powers to the Irish authorities to transfer assets and liabilities to viable institutions. Following the adoption of this legislation, the deposits and NAMA bonds of Anglo Irish and INBS will be transferred to other institutions in an open process, leaving the remaining loan books to be unwound in an orderly manner. It has been agreed that any additional capital requirements above the restructuring costs for Anglo Irish (EUR 29.3bn) and INBS (5.4bn EUR) announced by the Government on 30 September 2010 must be covered with cash injections by the Government.

Similarly any additional capital requirements for other credit institutions not announced by the Government on or before 30 September 2010 which may be provided by the Government will also be in cash and not as Promissory Notes.

All of the foregoing will be progressed in accordance with EU state aid and competition rules.

Fiscal Consolidation

In Budget 2011:

- Stamp Duty on property transactions will be radically reformed to encourage greater activity in the property market. The resultant lower transaction costs will help underpin prices and provide a first step towards a more sustainable property related Site Value Tax, and

- Provision will be made to increase the income ceiling for Pay Related Social Insurance Contributions (currently €75,000).

The relevant legislation will be amended to allow the annual 1% of GNP contribution from the Exchequer to the National Pensions Reserve Fund to be suspended.

We are copying this letter to Mr. Strauss-Kahn, Managing Director of the IMF.

Sincerely

Brian Lenihan
Minister for Finance

Patrick Honohan
Governor
Central Bank