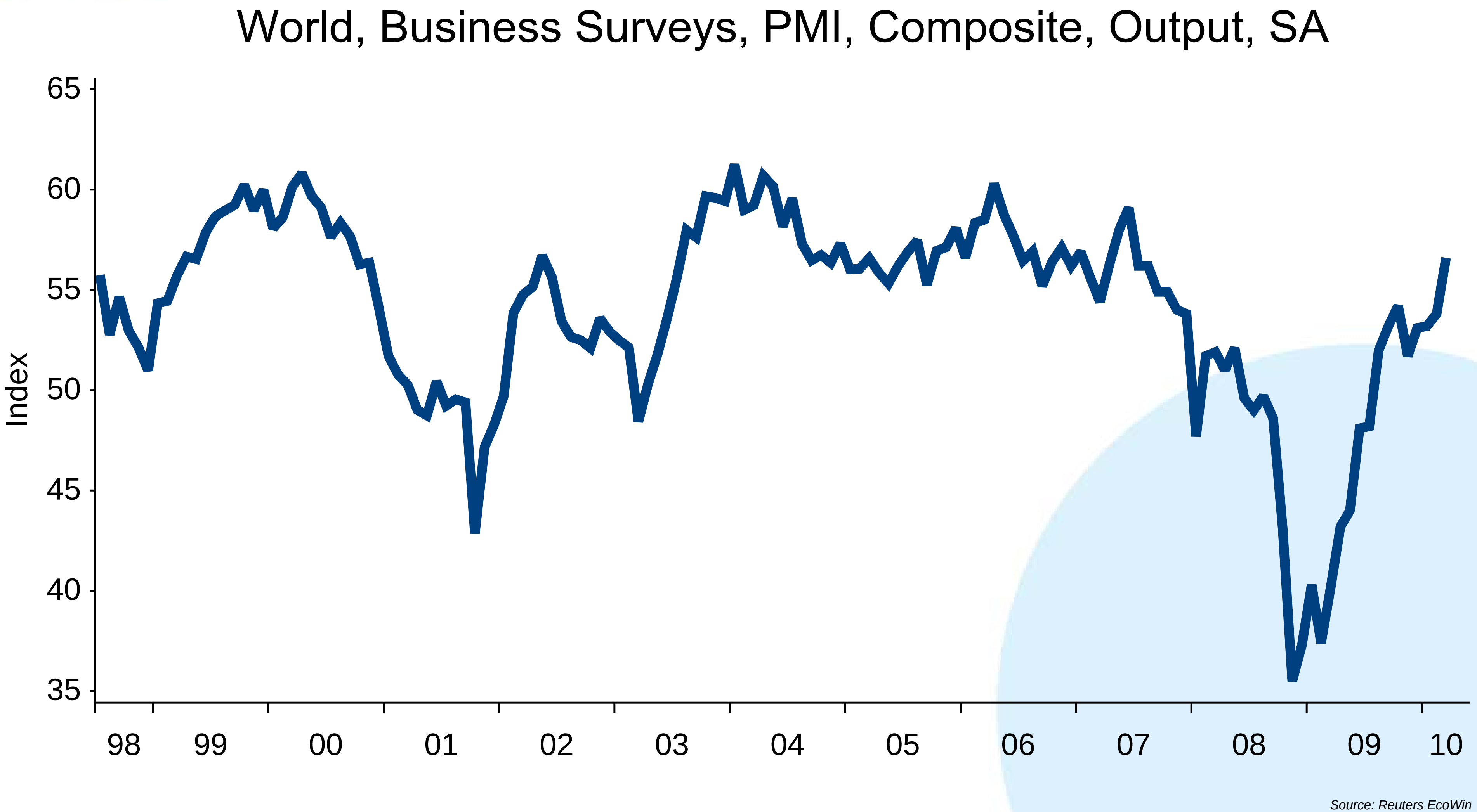
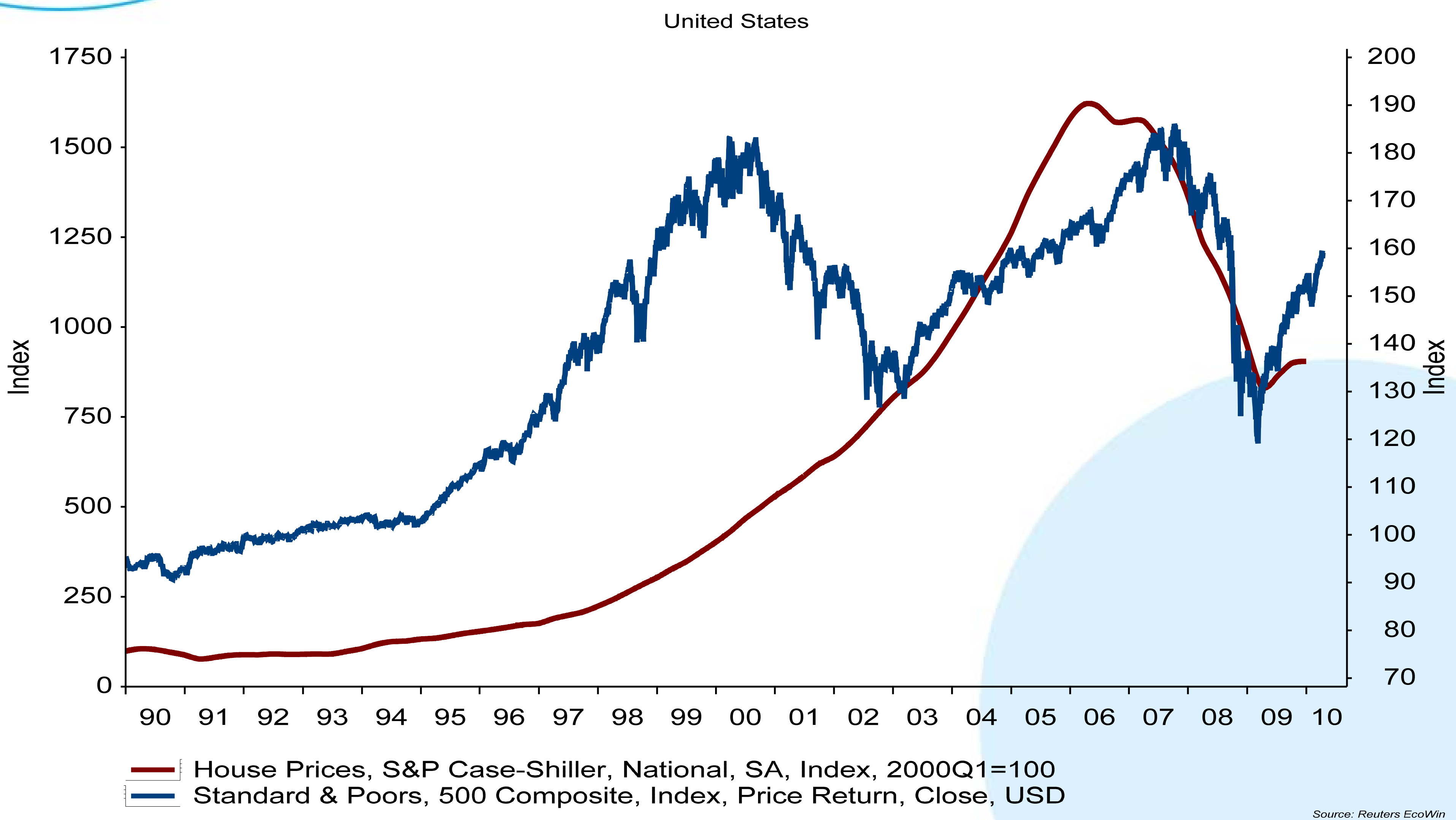
The Crisis Is Over, Now For The Hard Part

Austin Hughes, KBC Bank

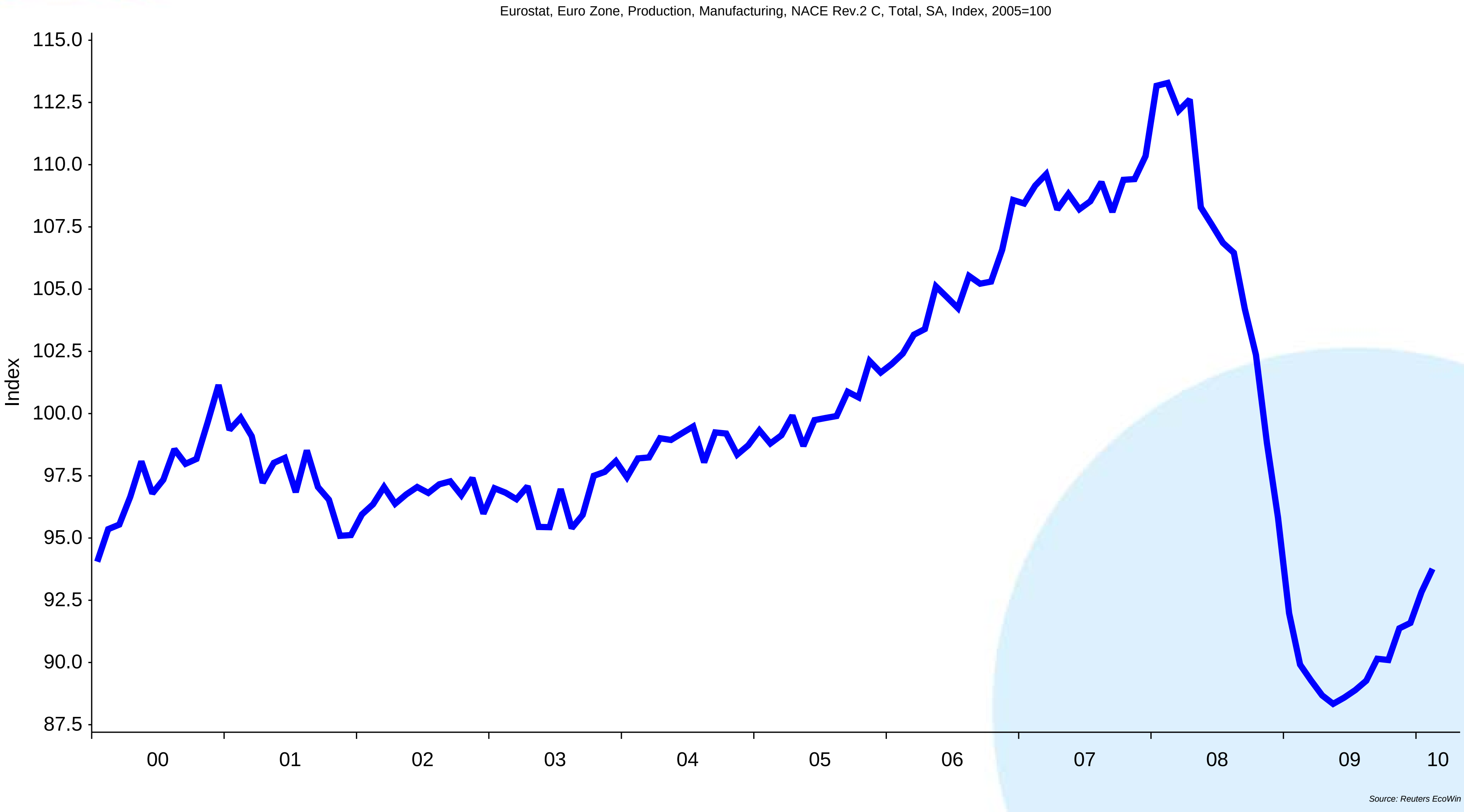
It's A Good Upturn, Not A Great Upturn



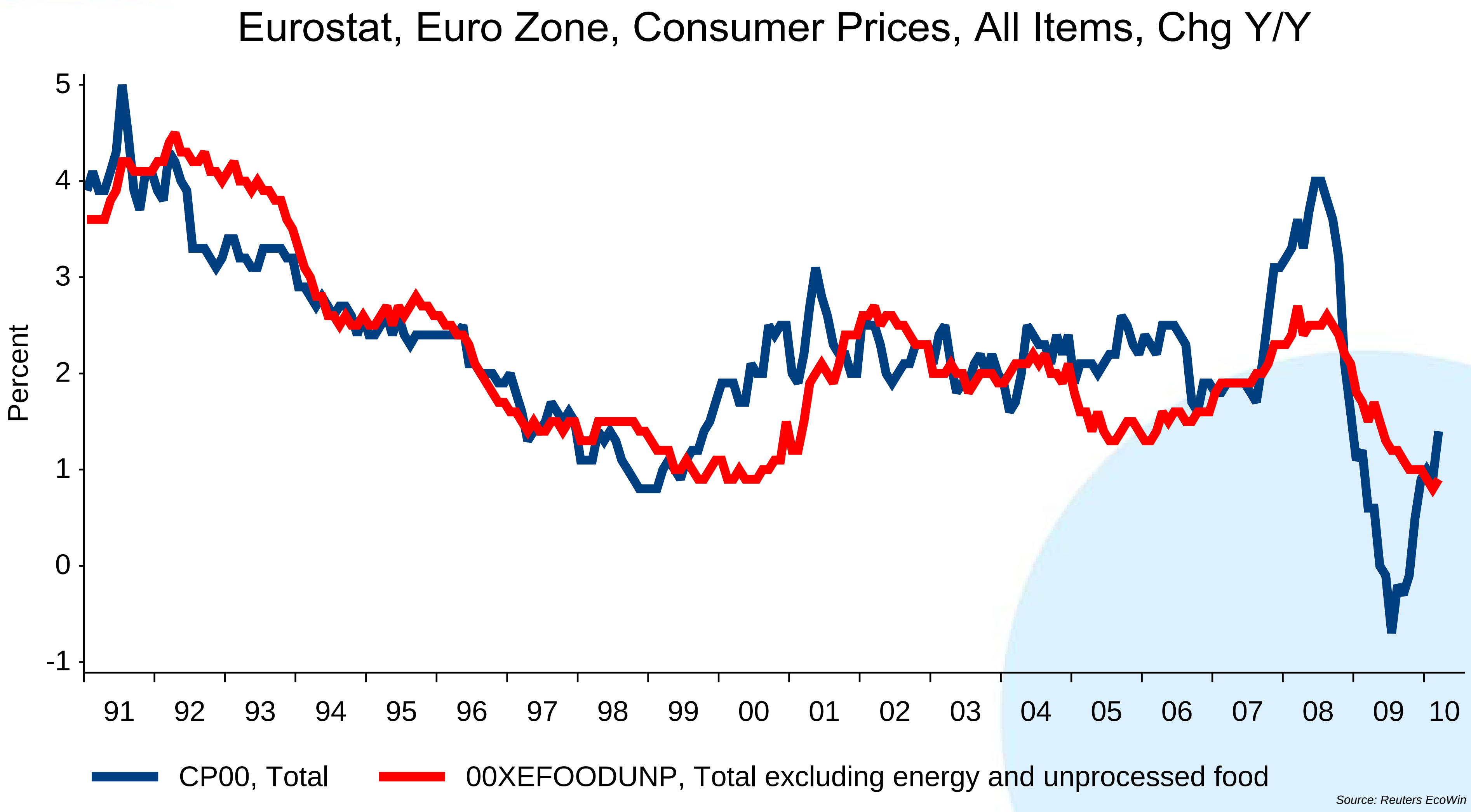
Sensible Saving Will Replace Conspicuous Consumption



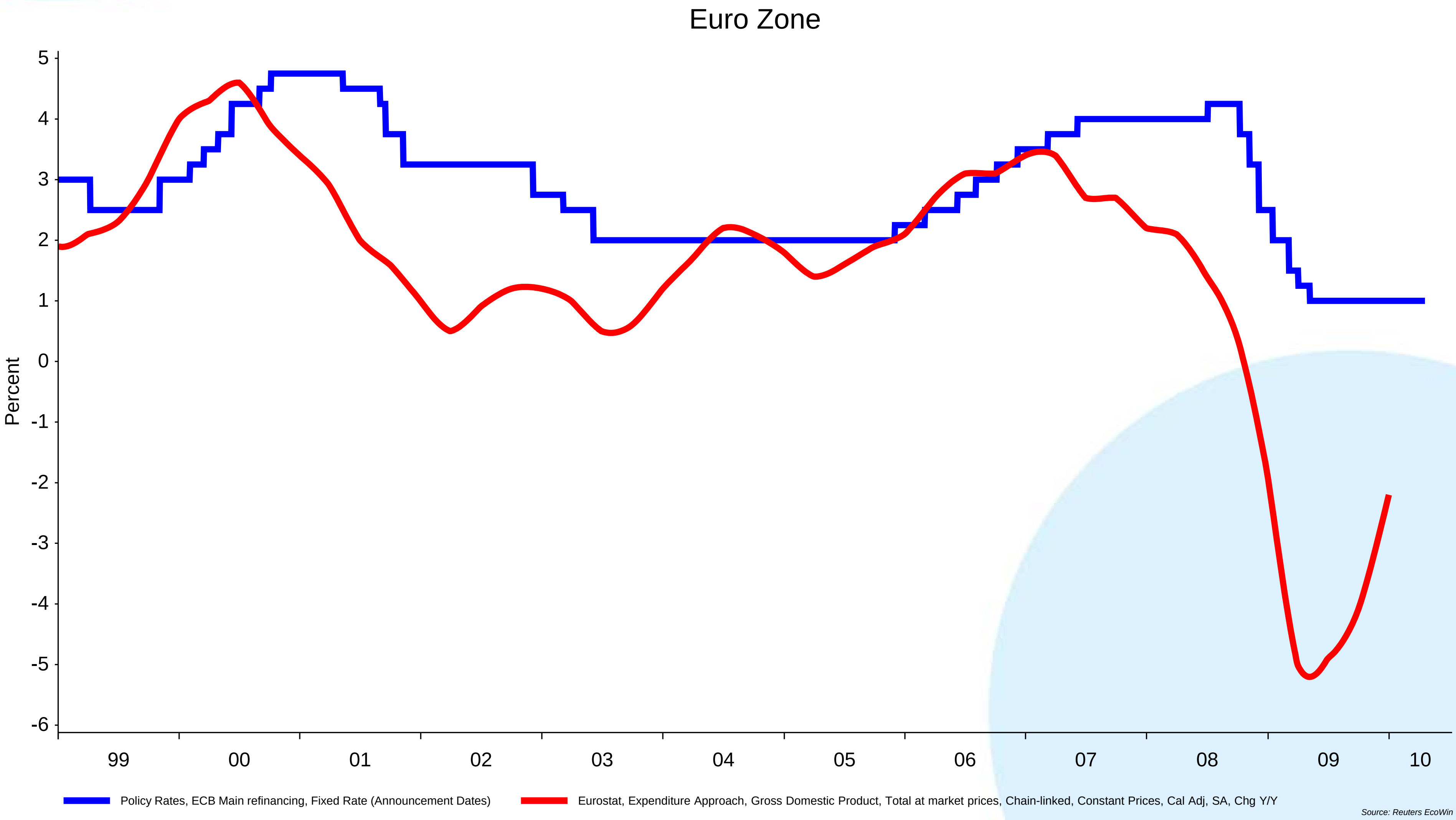
Business Will Be Cautious and Must Be Clever



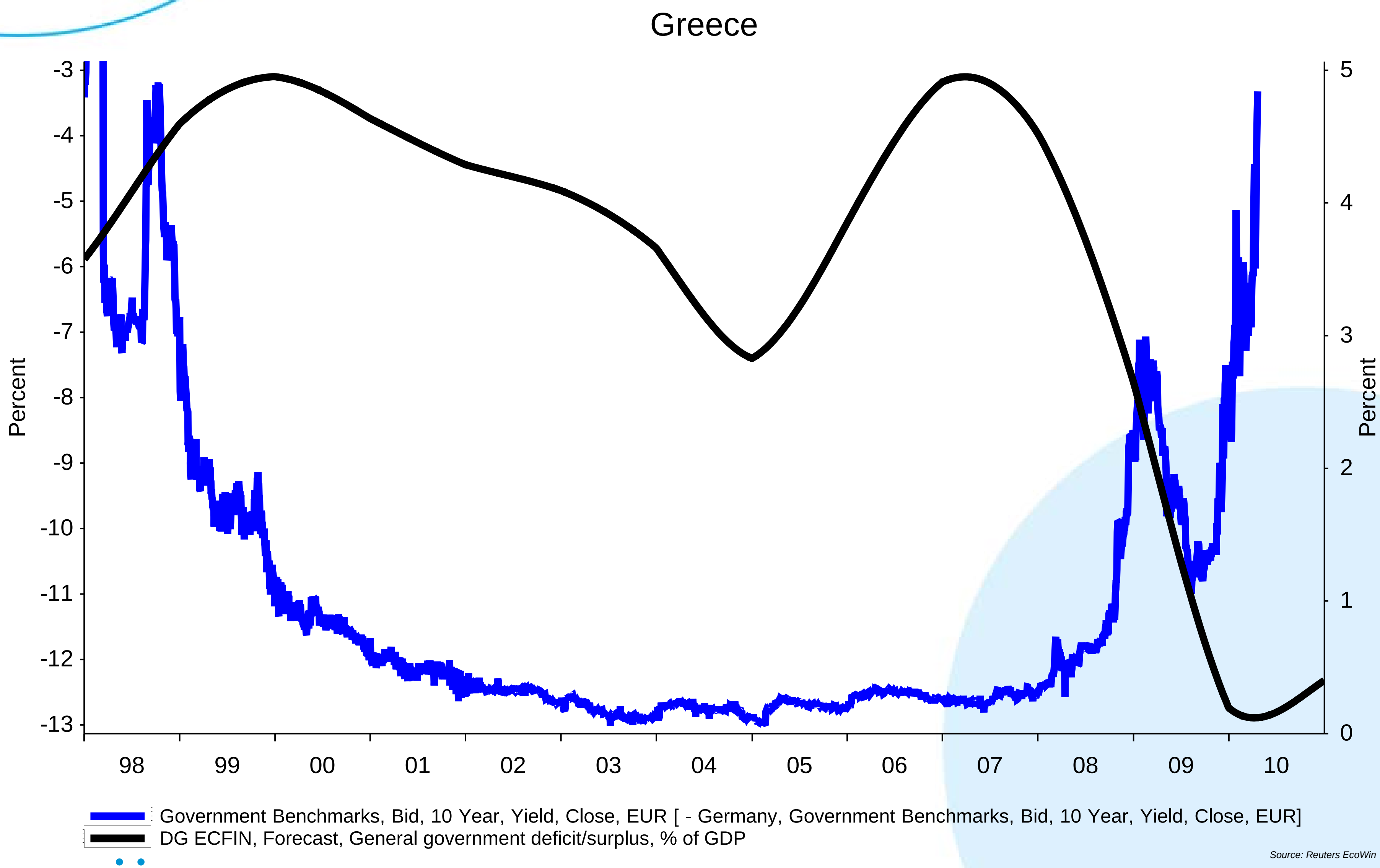
Inflation Will Be A Different Sort Of Problem



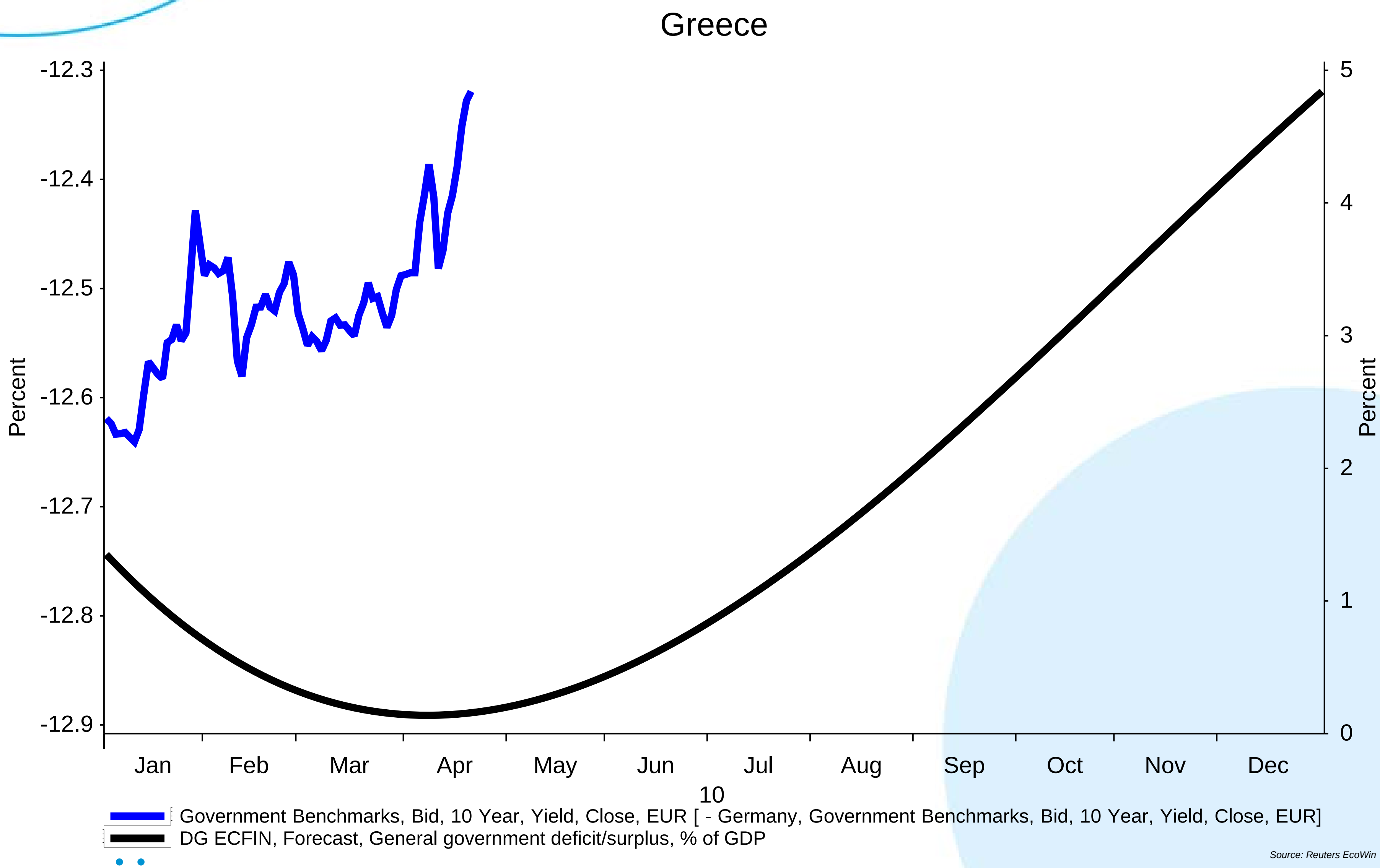
Interest Rates Won't Surge But Money Will Be More Expensive



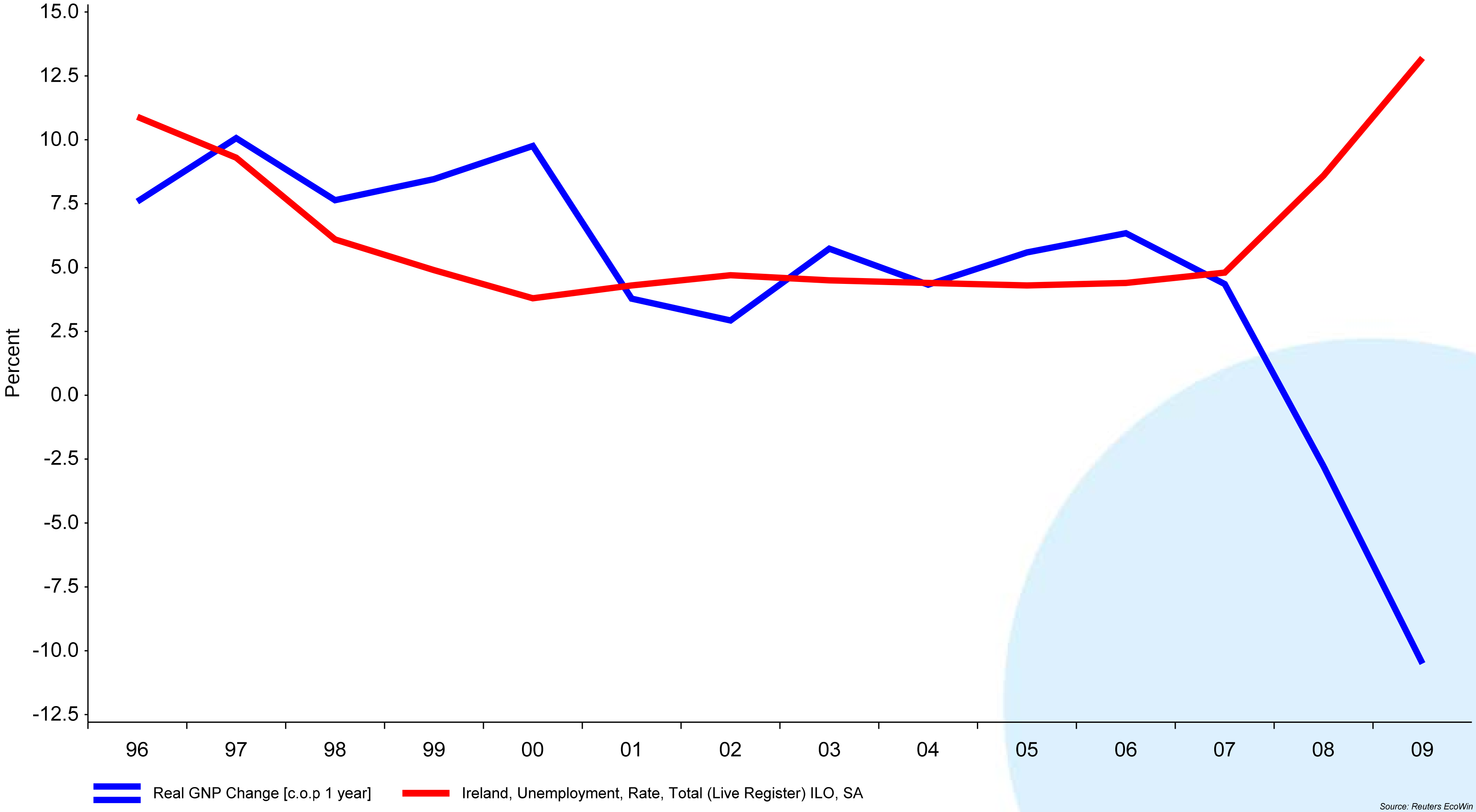
The Return of Risk



Markets No Longer Believe



Celtic Torture



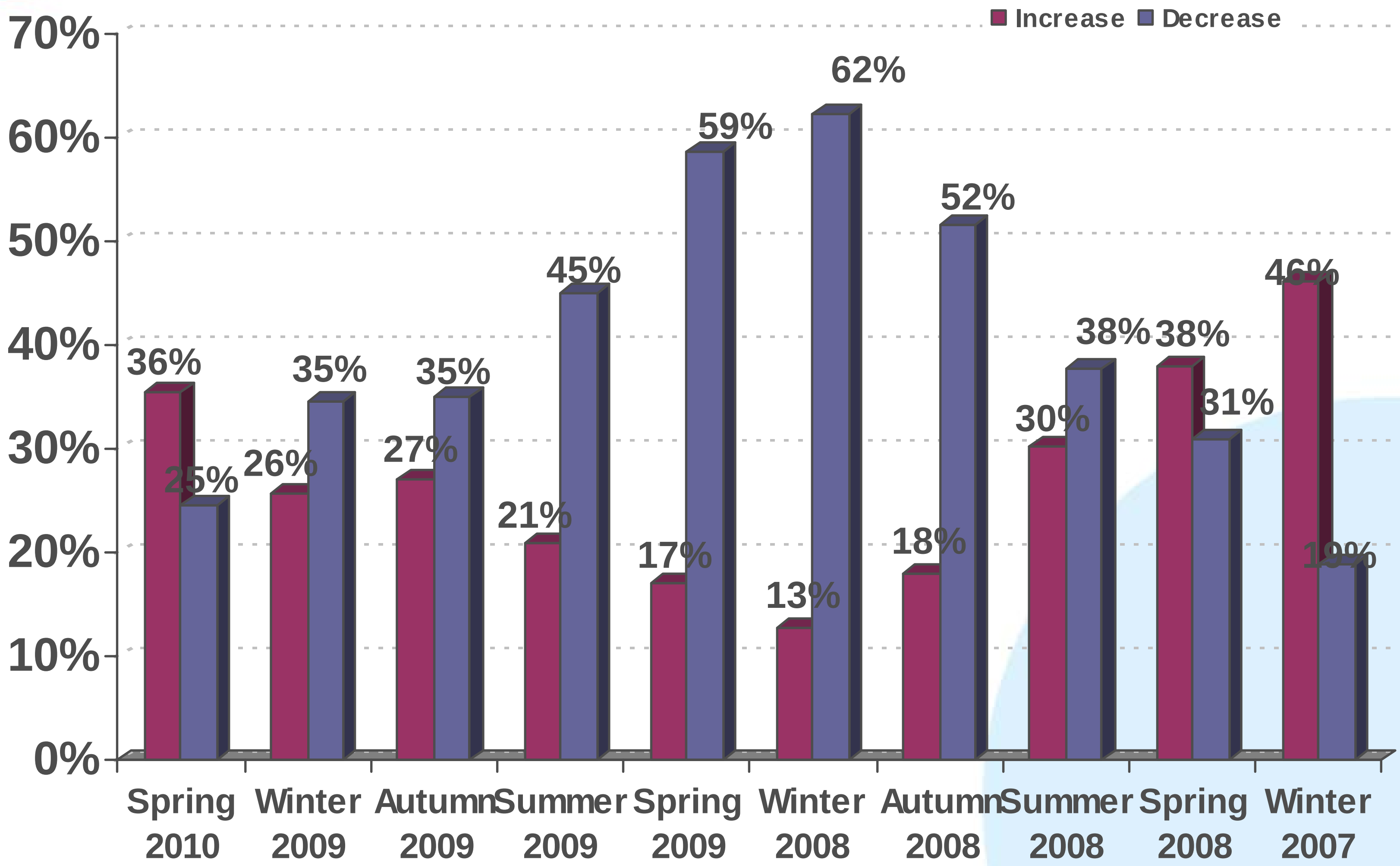
Source: Reuters EcoWin

The Great Panic Will Ease Only Slowly

Ireland, Consumer Surveys, Consumer Sentiment Index (KBC Bank Ireland/ESRI), Index, 1995Q4=100

Source: Reuters EcoWin

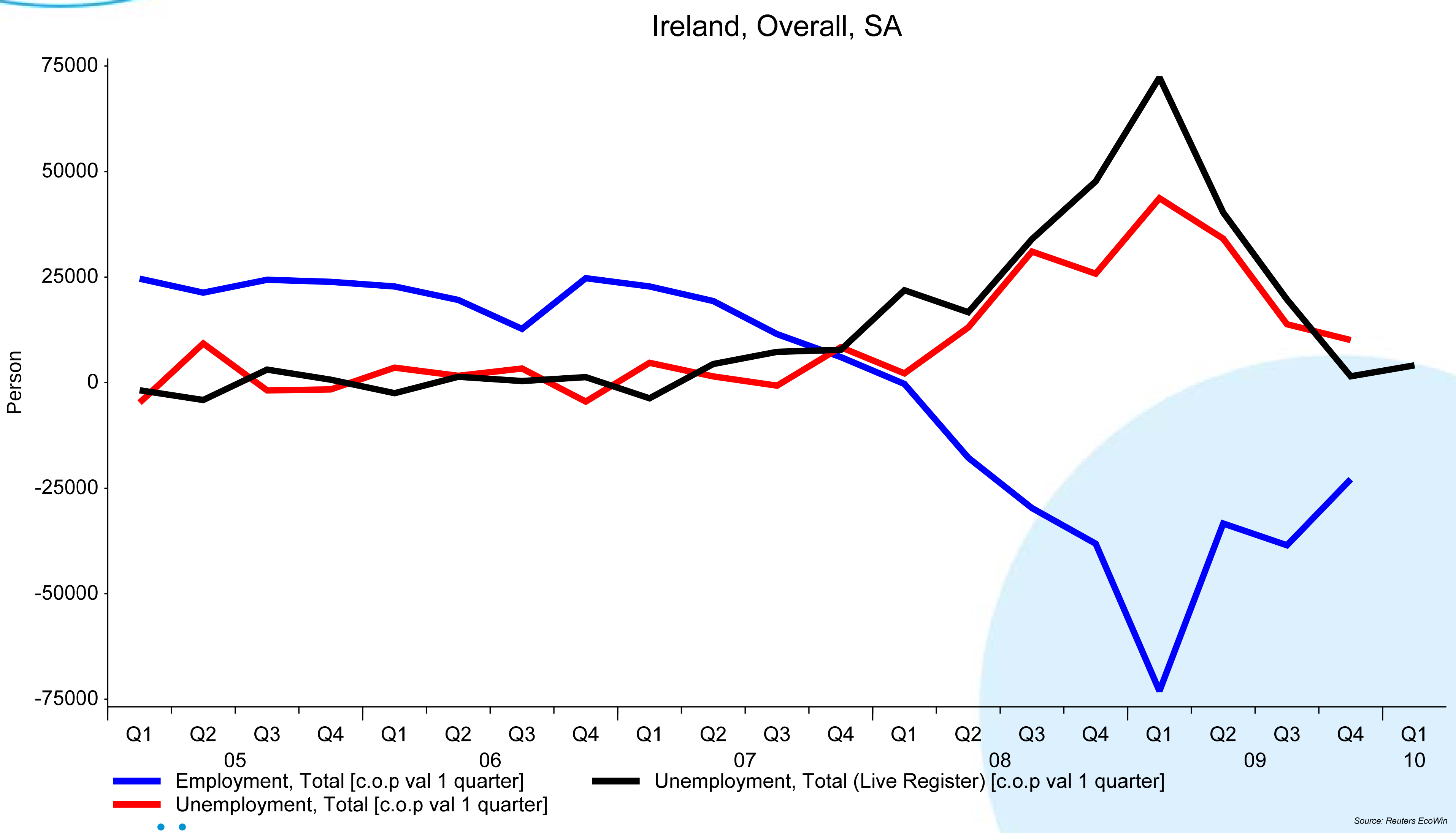
Some Businesses Looking Out Of The Trenches



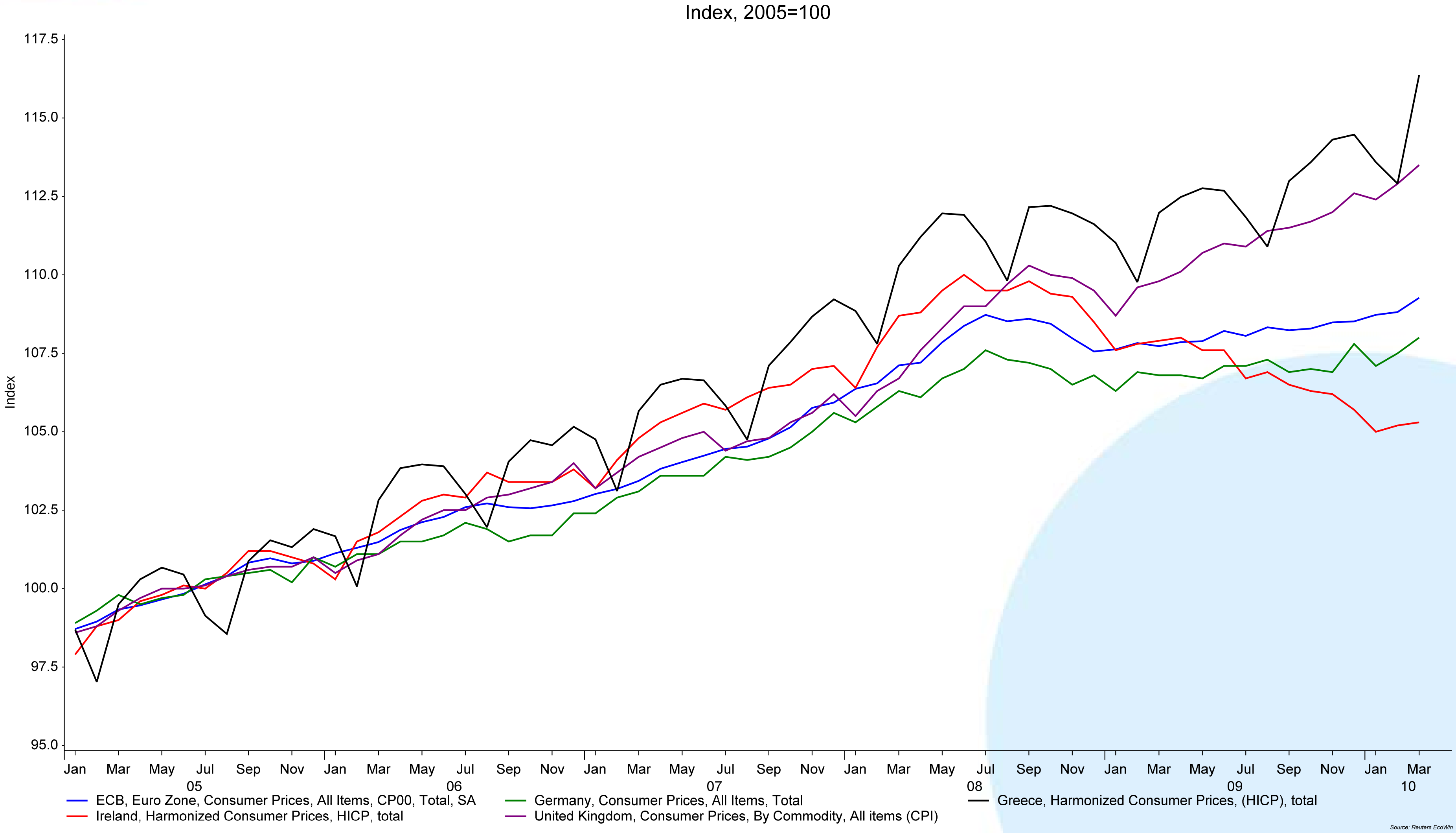
Expected change in activity in next 3 months

KBC Bank/Chartered Accountants Ireland Spring Survey

Were Job Cuts Front Loaded?



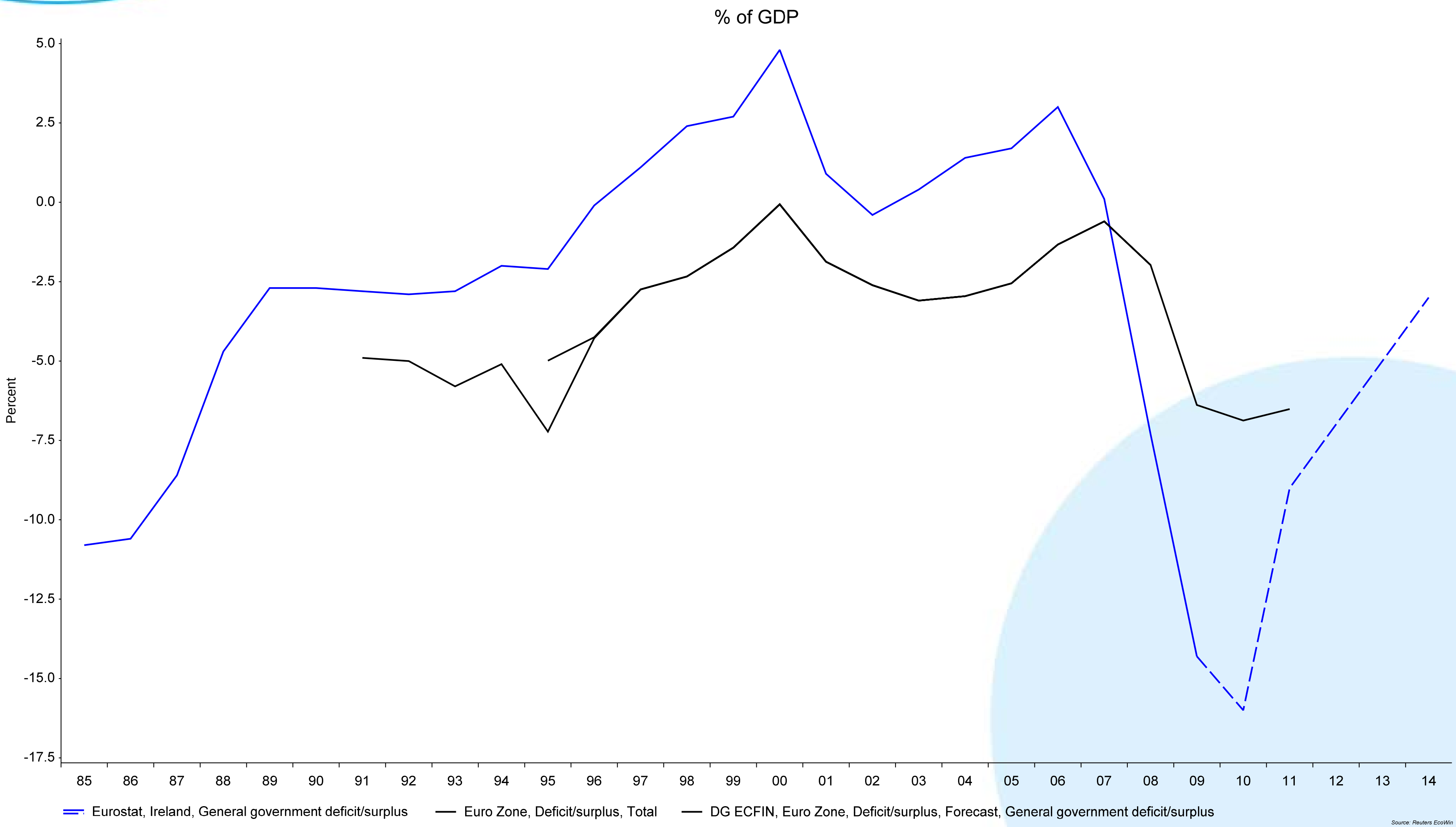
Costs Have Improved Slightly



Where Next?

5%
4%
3%
2%
1%
0%
4.2%
0.9%
Ireland
Germany
% average annual rise in private sector wages 1997-2009

How Much Will It Hurt And Who?



NAMA; Inept or Ingenious?

- A systemic solution in a less than perfect world
- Balance sheets cleaner
- EU scrutiny prevents excess payments
- Government refinancing risk minimised
- The gameplan is defensive
- Slow start – virtue and necessity
- Length and cost still unclear

Avoiding Adverse Selection

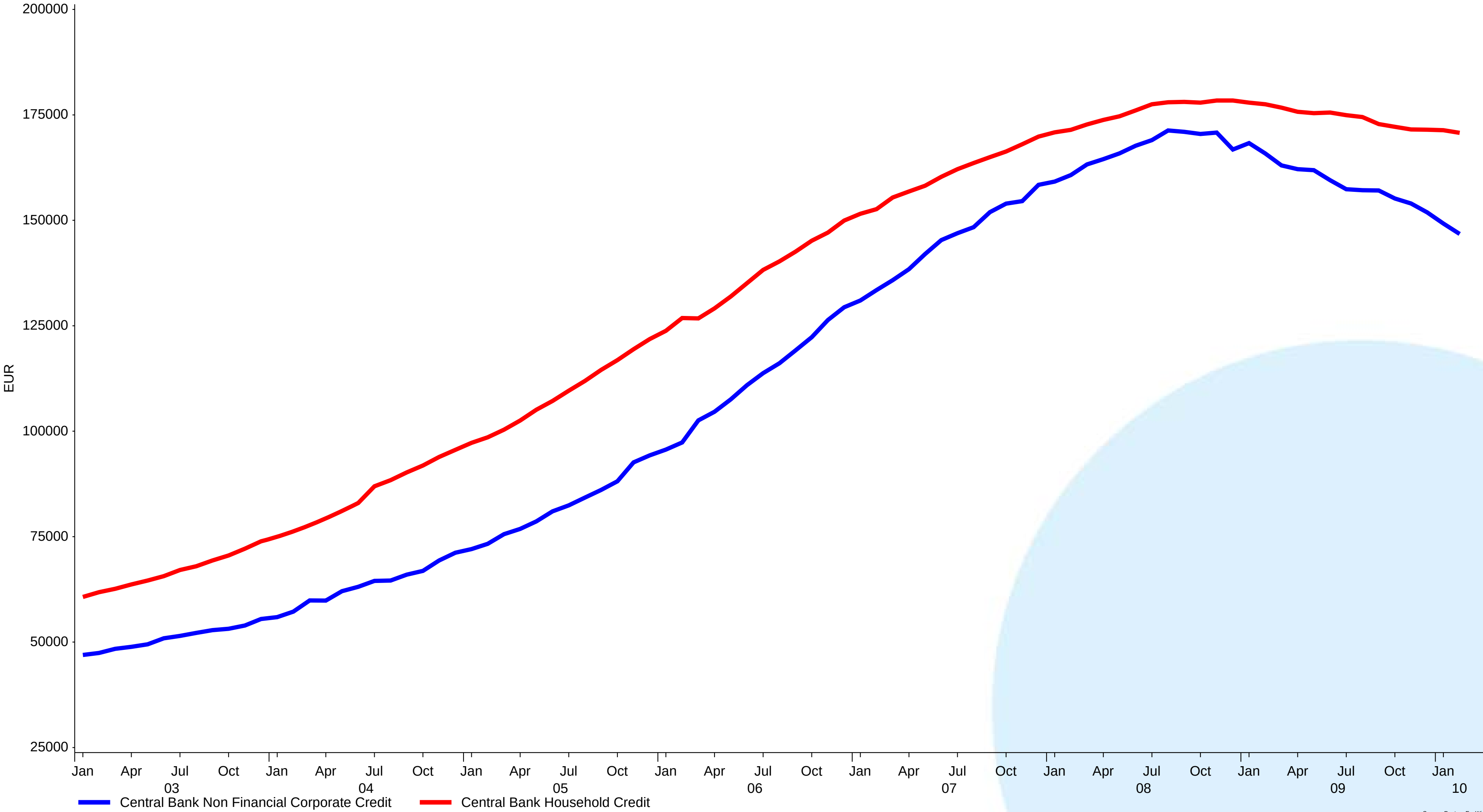
Month	Performing	Watchlist	Impaired
June 2008	85%	14%	1%
February 2009	78%	20%	2%
September 2009	68%	24%	8%
December 2009	65%	22%	13%
Movement (percentage points)	-20	8	12

Source: Department of Finance, Mazars Report

Where Did The Money Go?

	Dec 2009	Share of Credit Growth 2004/2009	Average Annual Increase 2004/2009
Personal Borrowing	167.7	37%	+13%
Real Estate	86.3	30%	+28%
Financial Intermediation	83.7	23%	+18%
Construction	15.0	3%	+10%
Wholesale/Retail	12.6	2%	+6%
Hotels/Restaurants	10.9	2%	+9%
Manufacturing	7.1	1%	+5%
Other Business	6.7	n/a	-1.6%
Total	406.3	100%	+15%

Lending To Fall Much Further



Source: Reuters EcoWin

The Next Set Of Questions

- Recovery will help but won’t heal all.
- Rates stay lower for longer but…
- … money will remain scarcer and more expensive.
- Sentiment excessively negative but will change only slowly.
- Budget adjustment has some way to run.
- We may have wasted the boom, we can’t waste the crisis.