



National Pensions Reserve Fund
Quarterly Portfolio and Performance Update
at 30 June 2011

1. Fund Overview

Further to the announcement in late 2010 that the National Pensions Reserve Fund would contribute part of the State's €17.5 billion contribution to the EU/IMF Programme of Financial Support for Ireland ("the Support Programme") and on foot of Directions from the Minister for Finance, the Fund liquidated €10 billion of assets during the first half of 2011 to enable this contribution to be made.

As a result the Discretionary Portfolio (the Fund excluding the public policy investments in Bank of Ireland (BoI) and Allied Irish Banks (AIB) made at the direction of the Minister for Finance and the cash set aside for the Support Programme) has reduced in size to €5.3 billion.

The Directed Portfolio (public policy investments made at the direction of the Minister for Finance) is now valued at €15.5 billion and comprises both ordinary shares and preference shares in AIB and BoI in addition to the cash realized from asset sales and set aside for the Support Programme.

The Total Fund size at 30 June was €20.8 billion.

Fund at 30 June 2011	€ bn	% Fund
Discretionary Portfolio	5.3	25.5%
Directed - Bank Investments	5.5	26.4%
Directed - EU IMF Support Programme	10.0	48.1%
Directed Portfolio	15.5	74.5%
Total Fund	20.8	100.0%

2. Fund Performance

The Discretionary Portfolio earned a return of -0.7% in the three months to end June 2011. This is largely due to global equity markets being slightly down in euro terms over the second quarter. Since the Fund's inception in 2001, the annualised performance of the Discretionary Portfolio is +3.3% per annum. The Directed Bank Investments produced a return of -9.1% over the quarter which was attributable to movements in the ordinary share prices of AIB and BoI.

NPRF Performance	31 March to 30 June 2011	Year to Date 30 June 2011
Discretionary Portfolio	-0.7%	-0.3%
Directed - Bank Investments	-9.1%	-25.1%
Directed - EU IMF Support Programme*	0.1%	-0.3%
Total Fund	-2.6%	-8.1%
* Year to date is from 23 February to 30 June 2011		

3. Update on the Discretionary and Directed Portfolios

(a) Discretionary Portfolio

Due to concerns around current macroeconomic stresses and their potential to significantly impact on the value of equity markets, the Commission in June 2011 reduced the Fund's listed equity exposure by €500m (representing 10% of the Discretionary Portfolio). Subsequently the Commission purchased equity index put options which provide further protection against adverse price movements in equity markets. These options are for a two-year period and protect against adverse equity price movements on €1.3 billion of the Fund's quoted equities holdings of €1.7 billion, while still retaining the capacity to gain from any upward price movements on the entire €1.7 billion.

The Discretionary Portfolio asset allocation as at 30 June 2011 is set out below:

Asset Allocation 30 June 2011		
Asset Class	€ m	% of Discretionary Portfolio
Large cap equity	1,161	22.0%
Small cap equity	134	2.6%
Emerging markets equity	406	7.7%
Quoted Equity	1,701	32.3%
Eurozone government bonds	0	0.0%
Eurozone inflation linked bonds	73	1.4%
Eurozone corporate bonds	474	9.0%
Cash	767	14.5%
Financial Assets	1,314	24.9%
Private Equity	918	17.4%
Property	484	9.2%
Commodities	223	4.2%
Forestry	30	0.6%
Infrastructure	270	5.1%
Absolute return funds	180	3.4%
Alternative Assets	2,105	39.9%
Value of €1.3bn equity market protection (put options)	154	2.9%
Total Discretionary Portfolio	5,274	100.0%

(b) Directed Portfolio

The €10 billion generated by the Fund in asset sales to meet the Fund's required contribution to the Support Programme was placed on deposit with Irish commercial banks and is expected to be invested in July 2011 in further capital to be raised by both AIB and BoI.

Capital transactions

Bank of Ireland

The capital requirement identified for Bank of Ireland by the Central Bank and Financial Regulator in the Prudential Capital Assessment Review ("PCAR") exercise, the results of which were announced on 31 March 2011, was €5.2 billion. This requirement is made up of core equity of €4.2 billion and contingent capital instrument of €1.0 billion. The core equity capital requirement will be met through burden sharing with holders of subordinated debt, and a rights issue in July 2011 at €0.10 per share, with any residual balance to be provided by the Fund. A direction was received from the Minister for Finance in June 2011 in this regard. Depending on the amount of capital raised in the rights issue from private investors, and following the sale of part of the Fund's holding to a group of investors as announced on 25 July 2011, the Fund's ordinary share ownership of BoI will be between 15% and 32%.

Allied Irish Banks

The capital requirement identified for AIB (including EBS) in the PCAR was €14.8 billion, of which €1.6 billion may be in the form of contingent capital. The €13.2 billion core equity capital requirement will be met through further burden sharing with holders of subordinated debt, a €5 billion placing to the Fund at €0.01 per share and any residual balance to be provided in the form of capital contributions to the bank by the Fund and by the Exchequer. Directions have been received from the Minister for Finance in this regard. After the placing the Fund's ordinary share ownership of AIB will increase from approximately 93.1% to approximately 99.8%.

The Directed Bank investments as at 30 June 2011 are set out below¹:

	BOI	AIB	Total
As at 30 June 2011	€ m	€ m	Value € m
Preference Shares	1,459	2,047	3,506
Ordinary Shares	220	1,792	2,012
Total	1,679	3,839	5,518

July 2011

¹ Preference share valuations are unchanged from 31 December 2010. Ordinary shares are valued at market price.