



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

1. Fund Overview

Further to the announcement in late 2010 that the National Pensions Reserve Fund (“the 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 its contribution to be made.

In July 2011, at the direction of the Minister for Finance,

- (i) this €10 billion was invested in Allied Irish Banks (€8.8 billion) and Bank of Ireland (€1.2 billion); and
- (ii) a portion of the Fund’s shareholding in Bank of Ireland shares was sold for €1.0 billion net of fees - of which €0.2 billion was received in August 2011 and was remitted to the Exchequer, with the balance of €0.8bn received in October 2011 and also remitted to the Exchequer.

The Discretionary Portfolio (the Fund excluding the public policy investments in Allied Irish Banks and Bank of Ireland) was valued at €5.3 billion at 30 September 2011.

The Directed Portfolio (public policy investments made at the direction of the Minister for Finance) was valued at €9.6 billion at 30 September 2011 and comprises ordinary shares and preference shares in Allied Irish Banks and Bank of Ireland.

The Total Fund size at 30 September was €14.9 billion.

Fund at 30 Sep 2011	€bn	% Fund
Discretionary Portfolio	5.3	35.4%
Directed Portfolio	9.6	64.6%
Total Fund	14.9	100.0%

2. Fund Performance

The Discretionary Portfolio earned a return of +0.2% in the three months to end September 2011. While equity markets performed very poorly during the quarter, the Fund’s return was broadly flat due to the Fund’s underweight allocation to equities and to the positive effect of the two year equity

index put options which the Commission purchased in June 2011. Since the Fund's inception in April 2001, the annualised performance of the Discretionary Portfolio is +3.2% per annum which compares with a performance over the same period of 0.4% per annum by the average Irish pension fund.

The Directed Portfolio produced a return of -36.5% over the quarter which was attributable to movements in the ordinary share prices of Allied Irish Banks and Bank of Ireland.

- Shares in Allied Irish Banks which were held at €0.14 at 30 June are, following the July recapitalization, valued at 30 September at €0.01.
- Shares in Bank of Ireland were held at 30 June at €0.12 and additional shares were acquired in the July recapitalization at €0.10. The share price at 30 September was €0.077.

NPRF Performance	30 June to 30 Sept	Year to Date 30 Sep 2011
Discretionary Portfolio	0.2%	-0.1%
Directed Portfolio	-36.5%	-45.4%
Total Fund	-27.2%	-33.1%

3. Update on the Discretionary and Directed Portfolios

(a) Discretionary Portfolio

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

Asset Allocation 30 September 2011		
Asset Class	€ m	% of Discretionary Portfolio
Large cap equity	1,047	19.8%
Small cap equity	114	2.2%
Emerging markets equity	334	6.3%
Quoted Equity	1,495	28.3%
Eurozone government bonds	0	0.0%
Eurozone inflation linked bonds	63	1.2%
Eurozone corporate bonds	275	5.2%
Cash	1,018	19.3%
Financial Assets	1,356	25.7%
Private Equity	888	16.8%
Property	510	9.7%
Commodities	213	4.0%
Forestry	30	0.6%
Infrastructure	275	5.2%
Absolute return funds	188	3.6%
Alternative Assets	2,104	39.8%
Value of equity market protection (put options)	328	6.2%
Total Discretionary Portfolio	5,283	100%

(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 invested in July 2011 in further capital raised by both Allied Irish Banks and Bank of Ireland.

Capital transactions

Allied Irish Banks

In July 2011, at the direction of the Minister for Finance, the Fund invested €8.8 billion in Allied Irish Banks – comprising €5.0 billion in ordinary shares at €0.01 each, and a €3.8 billion capital contribution to the bank. The Fund's ordinary share ownership of Allied Irish Banks is now 99.8%.

Bank of Ireland

In July 2011, at the direction of the Minister for Finance, the Fund:

- (i) invested €1.2 billion in Bank of Ireland – comprising participation in and underwriting a rights issue by the bank; and
- (ii) sold shares to the value of €1.0 billion (net of fees), of which €0.2 billion settled in August 2011 and €0.8 billion settled in October 2011.

After these transactions, the Fund's ordinary share ownership of Bank of Ireland is now 15.1%.

Valuations

The Directed Bank investments as at 30 September 2011 are set out below:

	Bank of Ireland	AIB	Total Value
As at 30 September 2011	€m	€m	€m
Preference Shares	1,459	2,048	3,506
Ordinary Shares	973	5,126	6,100
Total	2,432	7,174	9,606

Notes to Valuations:

- (i) Preference shares are valued using the fair market values included in the Fund's audited financial statements for the year ended 31 December 2010 (Allied Irish Banks 58% of par, Bank of Ireland 79% of par).
- (ii) Ordinary shares are valued as follows:
 - Allied Irish Banks at €0.01 per share, being the price at which the Fund acquired a substantial shareholding in July 2011;
 - Bank of Ireland at €0.077 per share, being the traded market price as at 30 September 2011.
- (iii) It is expected that an updated fair market valuation will be applied as at 31 December 2011 in respect of the preference shares of both banks and the ordinary shares of Allied Irish Banks.

November 2011