



National Treasury Management Agency

# IRELAND: 7% GROWTH IN SLUGGISH WORLD

Government debt ratio below 100%, fastest growing economy in EA

January 2016

# Index

[Page 3: Summary](#)

[Page 8: Macro](#)

[Page 33: Fiscal & NTMA funding](#)

[Page 49: Long-term fundamentals](#)

[Page 58: Property](#)

[Page 66: NAMA](#)

[Page 73: Banking](#)



# SUMMARY



Ireland's credit spread narrows to around half a percentage point

# Ireland outperformed again in 2015

- **Ireland is growing faster than every other euro area country**
  - ▶ Ireland's economy grew by 7% real and 11.7% nominal in the first three quarters of 2015.
  - ▶ Consumer spending and investment have recovered. Spending is up for seven straight quarters. Ireland has benefitted from the sharp depreciation of the euro following ECB quantitative easing, low interest rates and the dramatic decline in oil prices.
  - ▶ Unemployment is falling but the pace of improvement has slowed a little. The rate was 8.8% in December 2015, down from the crisis peak of 15.1% in Q1 2012.
- **Government exited the EDP in 2015 and posted deficit of around 1.5%**
  - ▶ The deficit will beat the Government forecast of 2.1% of GDP for 2015. This allowed the Government an extra 2015 stimulus of 0.75pp. For 2016, it is forecasted to fall to 1.2%.
  - ▶ Ireland has beaten its target for five straight years. At end-2010, the EC set Ireland a 2015 goal to exit the Excessive Deficit Procedure (EDP): no extensions were required.
- **Government debt below 100% of GDP by end-2015, down from 120%**
  - ▶ The official forecast is for a ratio of 97% - it could be closer to 95% - helped by the large excess of nominal growth over interest cost and second primary budget surplus in a row.
  - ▶ The return of capital to the Government from sales of equity stakes in state-owned banks and the eventual wind-up of NAMA will reduce debt in the next few years.

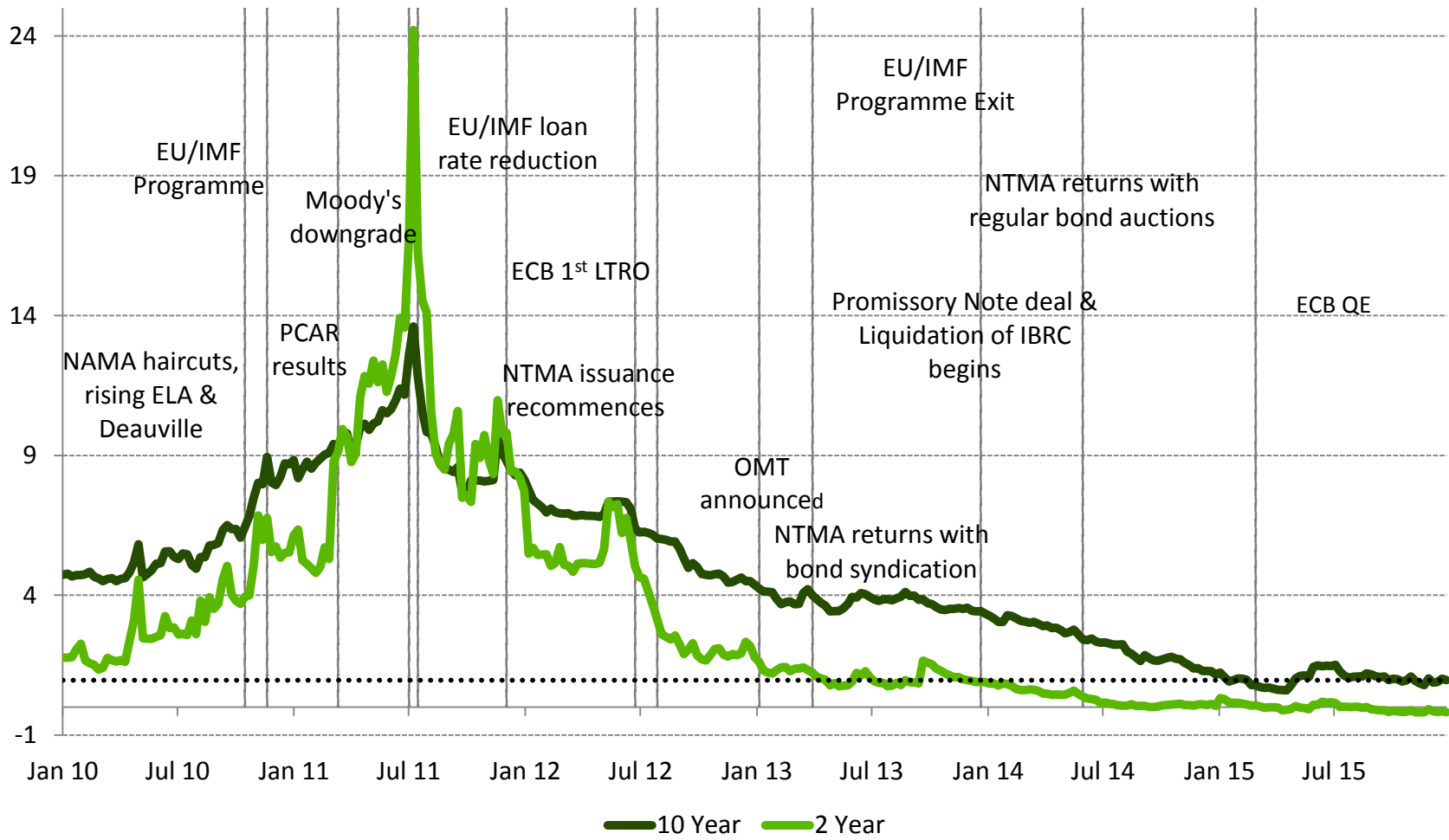


# Funding has begun in 2016; set to be lighter than 2015

- **Funding Plan for 2016 announced**
  - ▶ NTMA plans to issue €6-10 billion of long-term bonds over the course of 2016
  - ▶ Funding is low thanks to falling deficits and late-2017 being the next major redemption
- **2016 Funding off to a successful start**
  - ▶ On January 7<sup>th</sup>, the NTMA issued a €3bn 2026 bond via syndication – at a yield of 1.156%
  - ▶ The investor base continues to expand: 88% share of the syndication was bought by international investors, led by the UK (32%), the Nordics (13%) and Germany (11%).
  - ▶ Among investor categories, the bias of the deal was to real money: asset/fund managers (37%), banks (22%) and pension/ insurance (17%).
- **2015 was a strong year for the NTMA**
  - ▶ We raised €13bn from a stated range of €12-15bn at the outset of 2015. The lower-than-forecast Government deficit limited our need.
  - ▶ The NTMA completed the early repayment of IMF loans in 2015. A total of €18bn worth of loans was refinanced: total interest cost savings could exceed €1.5bn (0.8% of GDP) over 5 years. We issued our first ever 30-year bond last February.



# Ireland's happy bond market story has lots of milestones



Source: Bloomberg (weekly data)



# Trend is upwards in Ireland's sovereign credit ratings

Rating Agency	Long-term	Short-term	Outlook/Trend	Date of last change
Standard & Poor's	A+	A-1	Stable	June 2015
Fitch Ratings	A-	F1	Positive	Aug. 2015
Moody's	Baa1	P-2	Positive	Sept. 2015
DBRS	A	R-1 (low)	Positive	Sept. 2015
R&I	A-	a-1	Positive	Dec. 2015

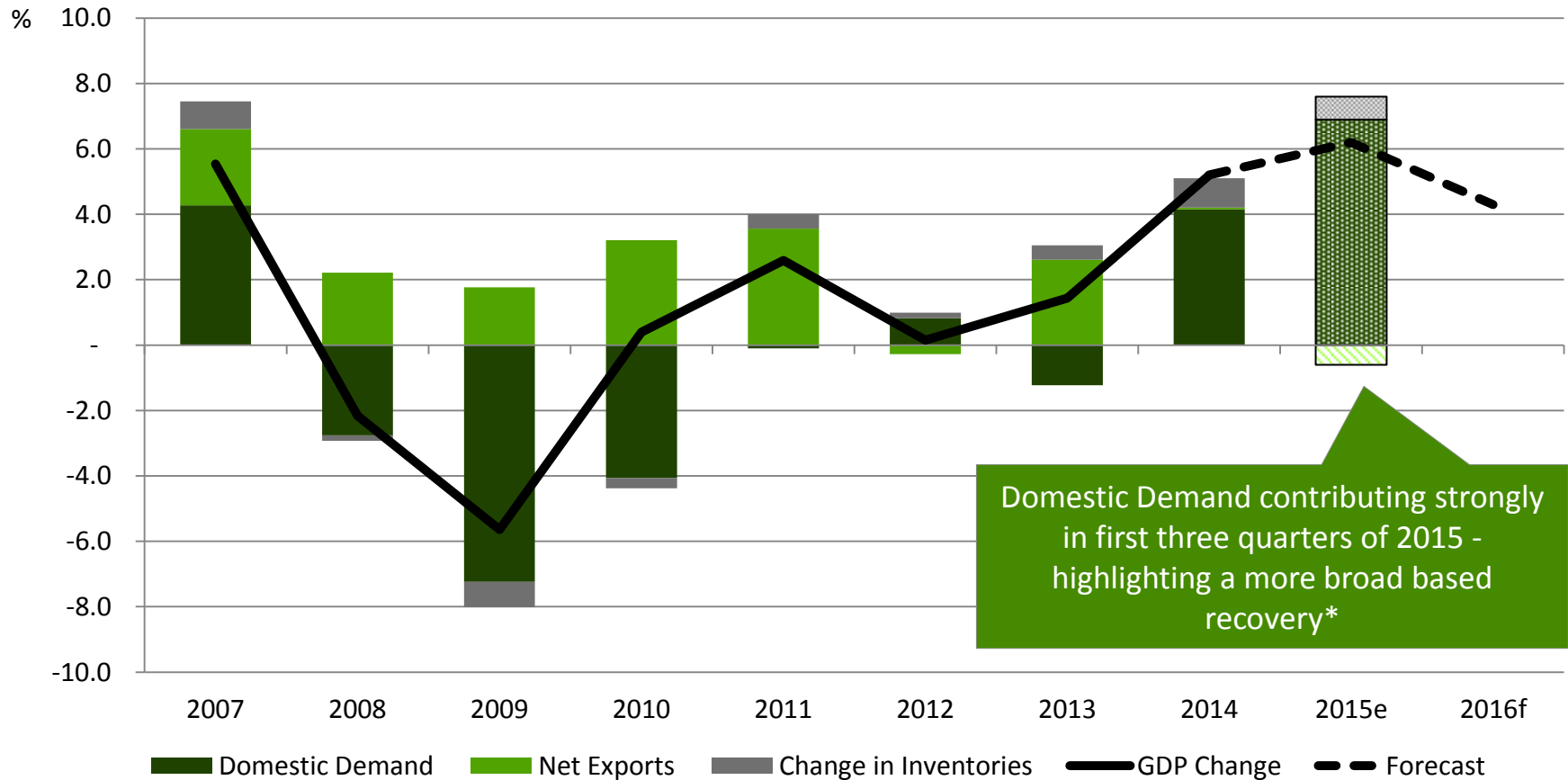
# SECTION 1: MACRO



Recovery strengthened in 2015; Unemployment has dropped sharply from a peak of 15.1% of the labour force to 8.8% in December 2015



# Personal consumption and investment drove GDP growth in real terms in 2015

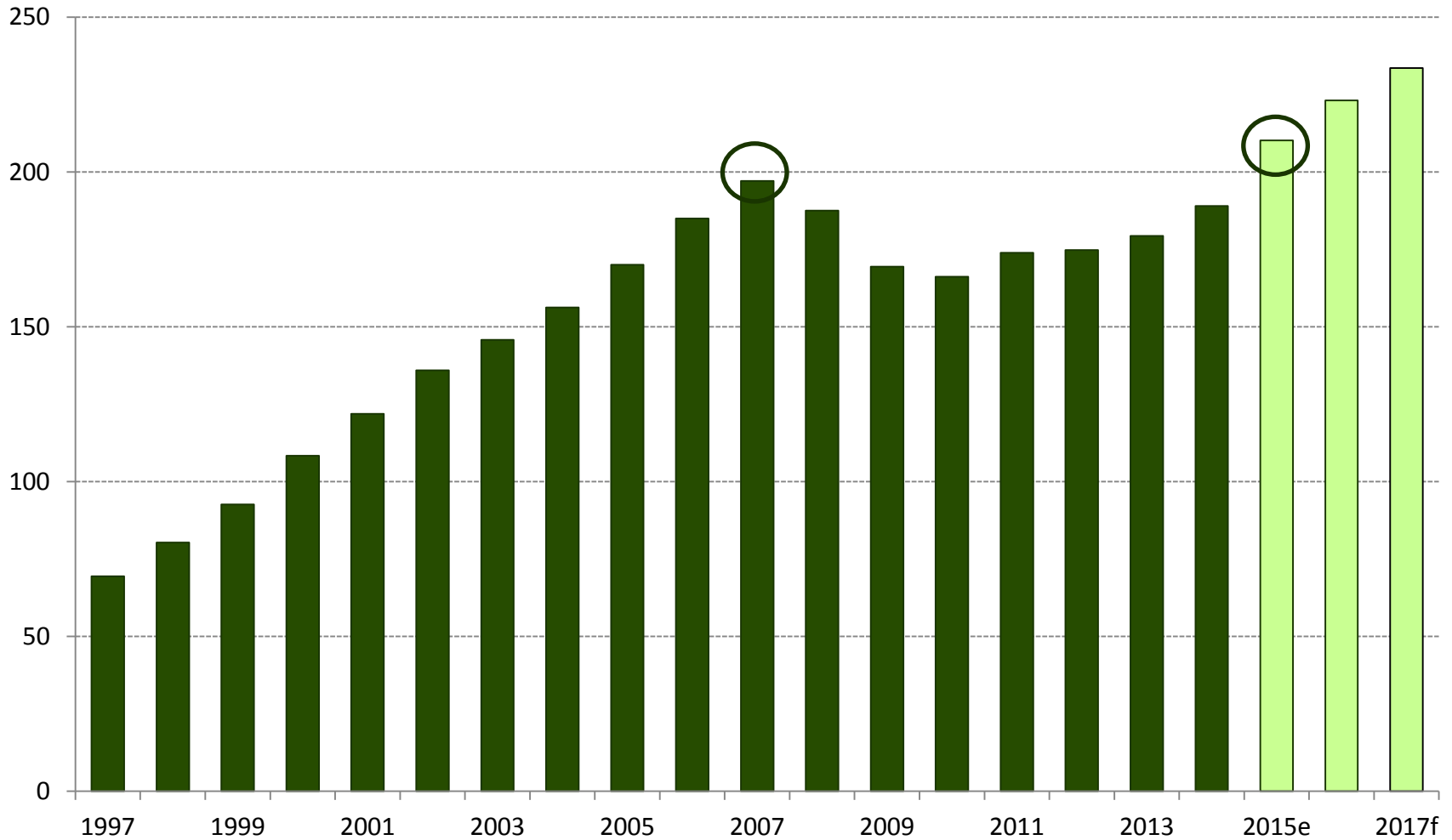


Source: [CSO](#); [Department of Finance\(Budget 2016\)](#);

\* Imports of intellectual property and aircraft trade exaggerate the contribution from domestic demand and underestimates the effect of Net Exports. Excluding this factors, the contribution of Investment is closer to 40% of GDP growth while Net Exports is closer to 20%, not a small negative. Please see slide 30 for more details.



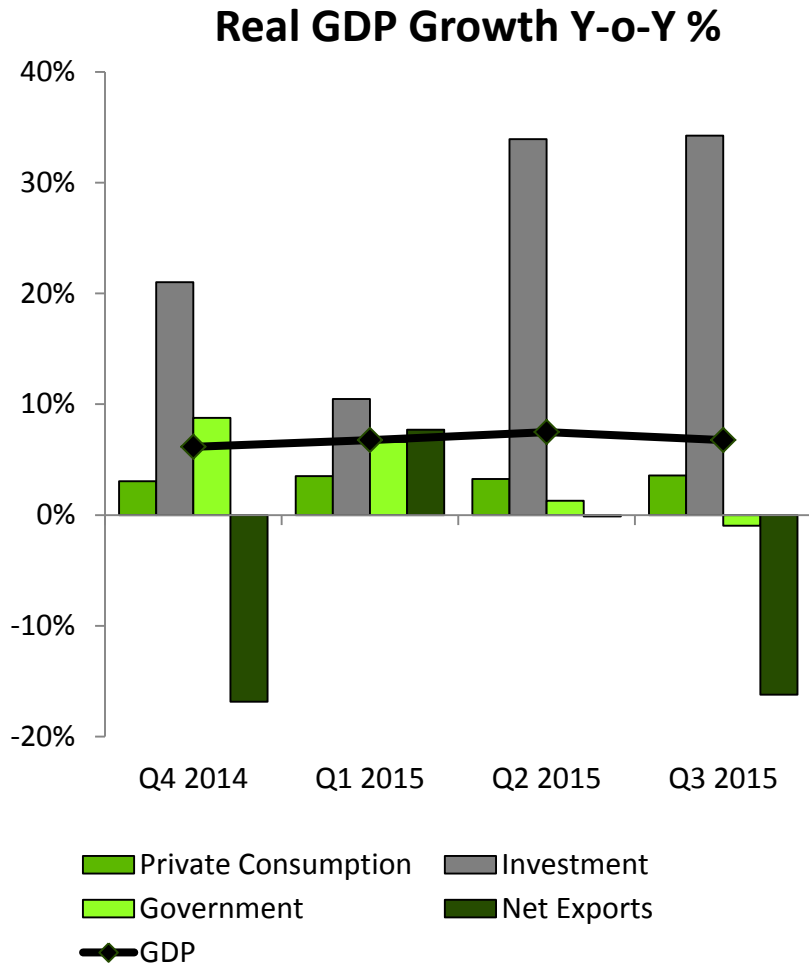
# Nominal GDP (€bn) exceeded pre-crisis peak in 2015



Source: [CSO](#); Forecasts from [Department of Finance \(Budget 2016\)](#)



# Growth remained strong in Q3 2015, after robust H1

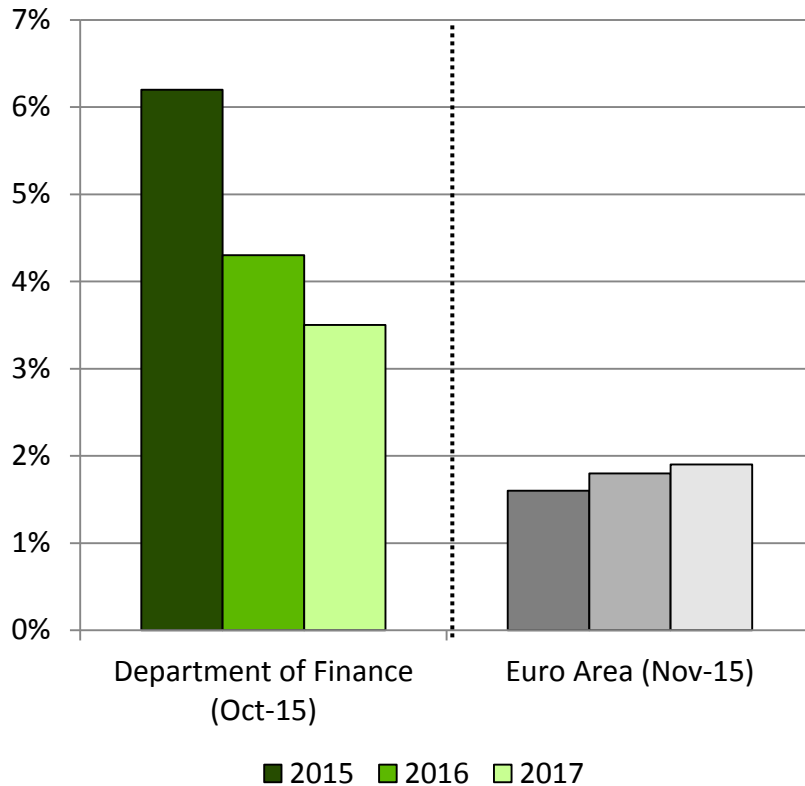


Source: [CSO](#); NTMA workings

- 7% real GDP growth for H1 2014 – well above expectations
- Q-Q real growth outturn for Q3 2015 was 1.4%, with Q2 2015 growth at 1.9%
- Investment was nominally the driver in 2015 – although growth is overstated by the movement of Intellectual Property (IP) into Ireland.
- Personal consumption is now a key driver of growth (3.6% y-o-y to Q3 2015).
- Exports grew strongly in Q3 2015 but imports outpaced exports (due in part to IP/ intangible asset issue).

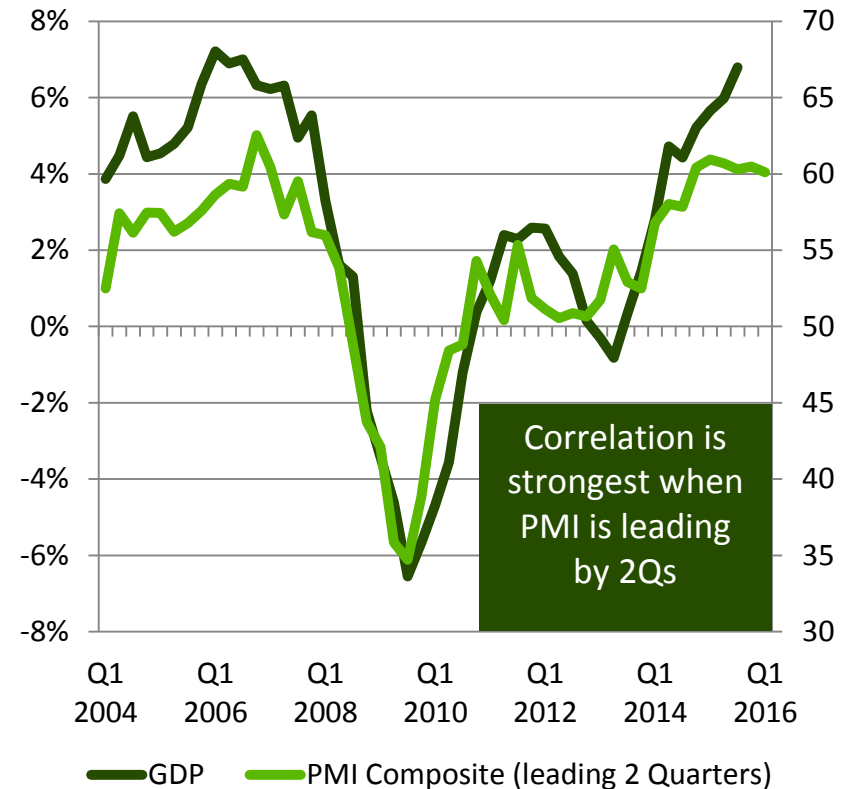
# Ireland's economy outperformed the euro area in 2015 and is expected to do so again in 2016

## Real GDP Y-o-Y growth rates



Source: [Department of Finance](#); Euro area forecasts based on [EU Commission Forecasts](#)

## The composite PMI is a strong leading indicator for Irish GDP growth

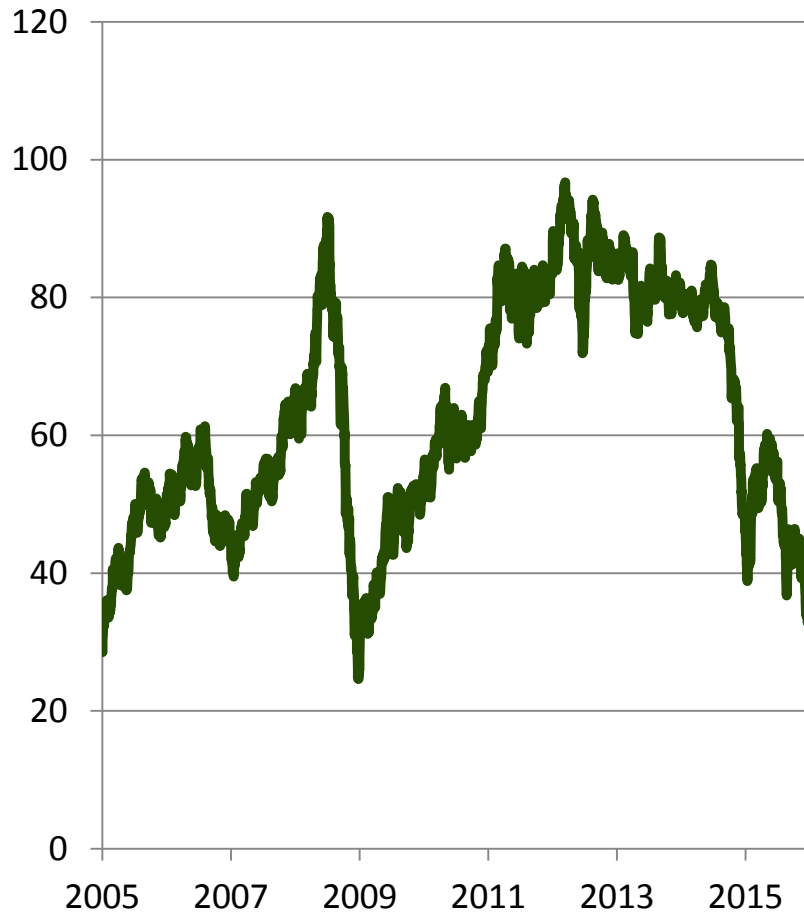


Source: [CSO](#); Markit



# External factors such as energy prices and weaker euro boosted GDP growth in 2015

## Brent Oil €/Barrel



Source: Bloomberg

## Real Harmonised Competitiveness Indicator



Most competitive since early 2000s

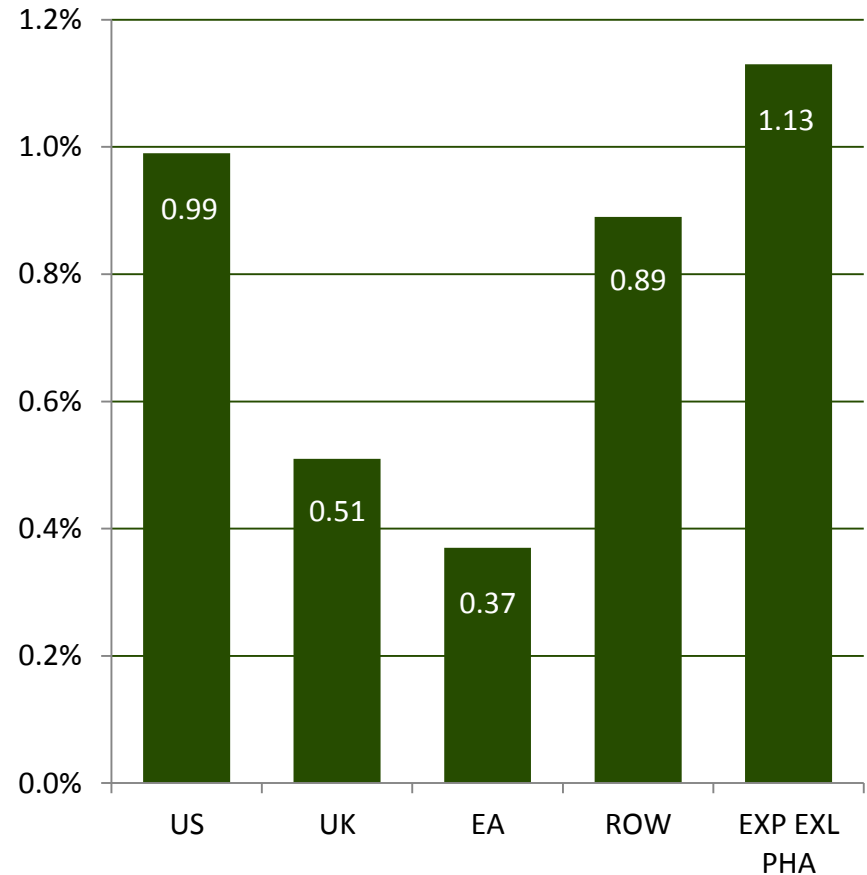
Source: [CBI](#), NTMA workings



# Ireland's goods exports respond vigorously to euro depreciation; GDP higher thanks to openness

- A 1% depreciation of the euro increases Irish goods exports to the US by 1%
- The equivalent response for exports to the UK is 0.5% and to the rest of world is 0.9%
- The EUR/USD exchange rate has a positive effect (elasticity of 0.37) on Irish goods exports to the euro area, due to Ireland-based multinational companies' exports to EA for onward sale to the rest of the world
- The elasticity of total goods exports excluding pharma to the exchange rate  $>1$

**Response of Irish goods exports to 1% depreciation of the euro**

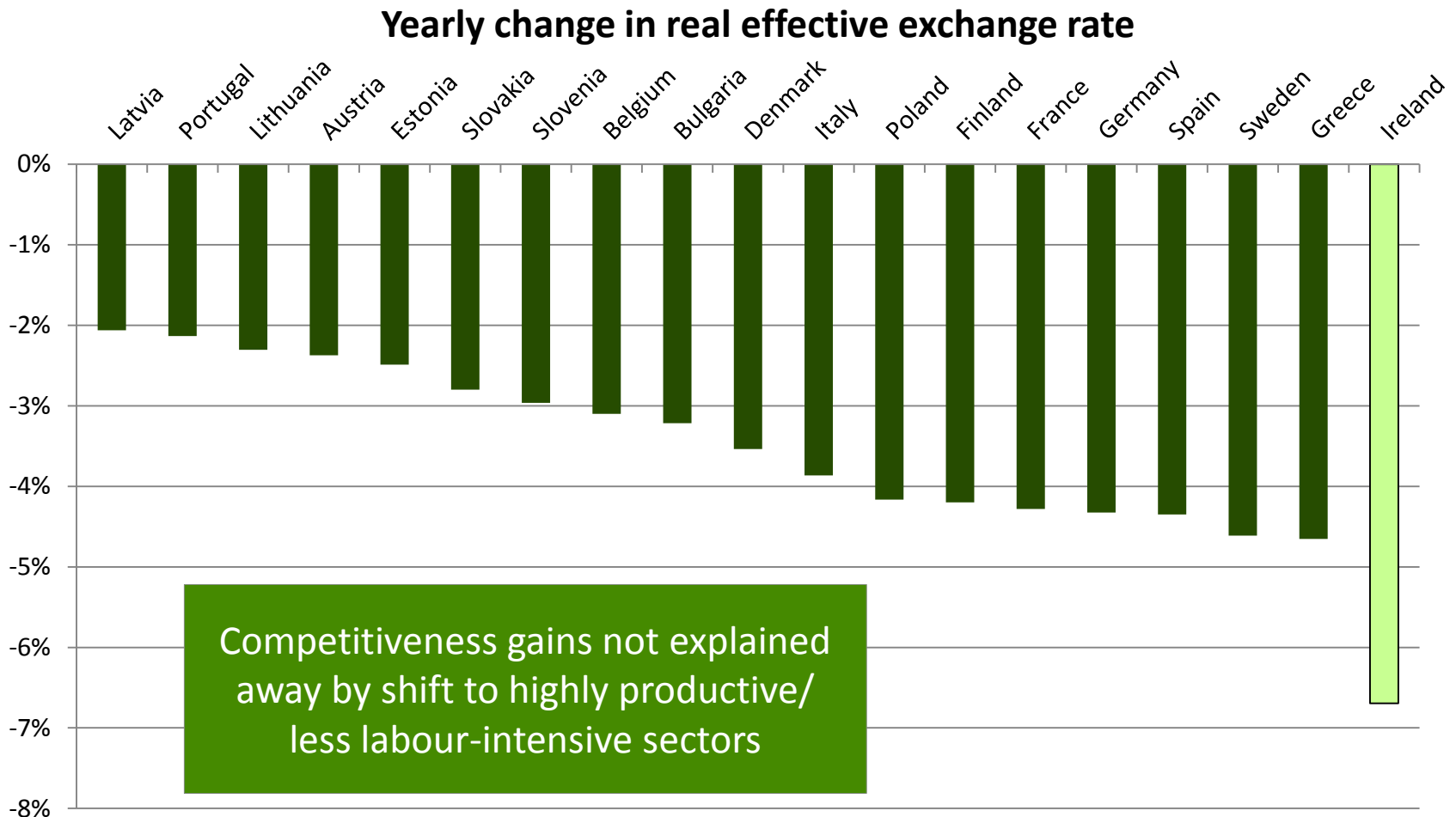


Source: CSO; NTMA empirical analysis

*Note: All coefficients significant at 99% level*



# Ireland has benefited the most in the euro area from the recent euro depreciation



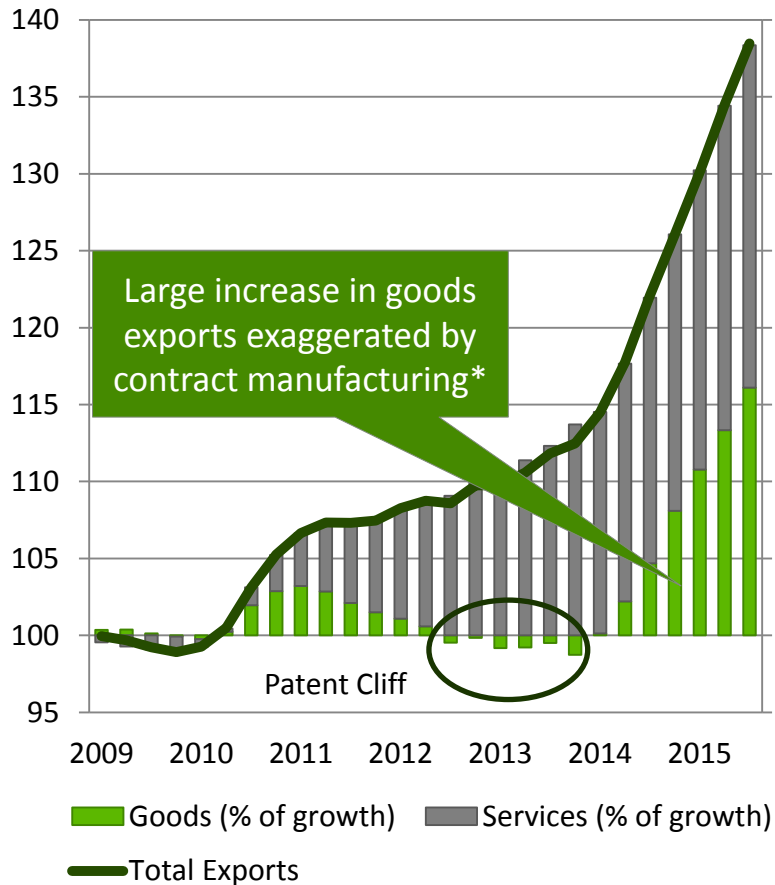
Source: Bruegel - 'Real effective exchange rates for 178 countries: a new database'; NTMA Workings

Note: REERs cover business sector excluding agriculture, construction and real estate activities and are calculated against 30 trading partners using fixed weights from Q1 2008. Data available to **Nov 2015**. See [Darvas, Z \(2012\)](#) for more details.

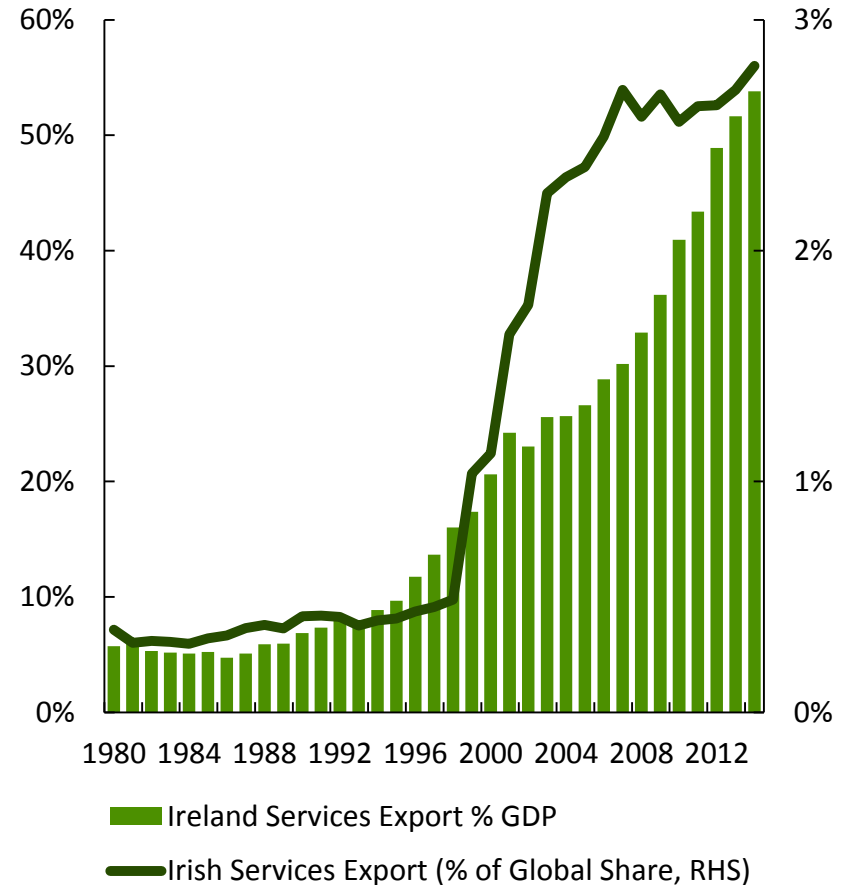


# Services exports have driven export performance post-crisis

**Cumulative post-crisis exports  
(4Q sum to end-2008 = 100)**



**Ireland has tripled its share of global service exports in the last 15 years**



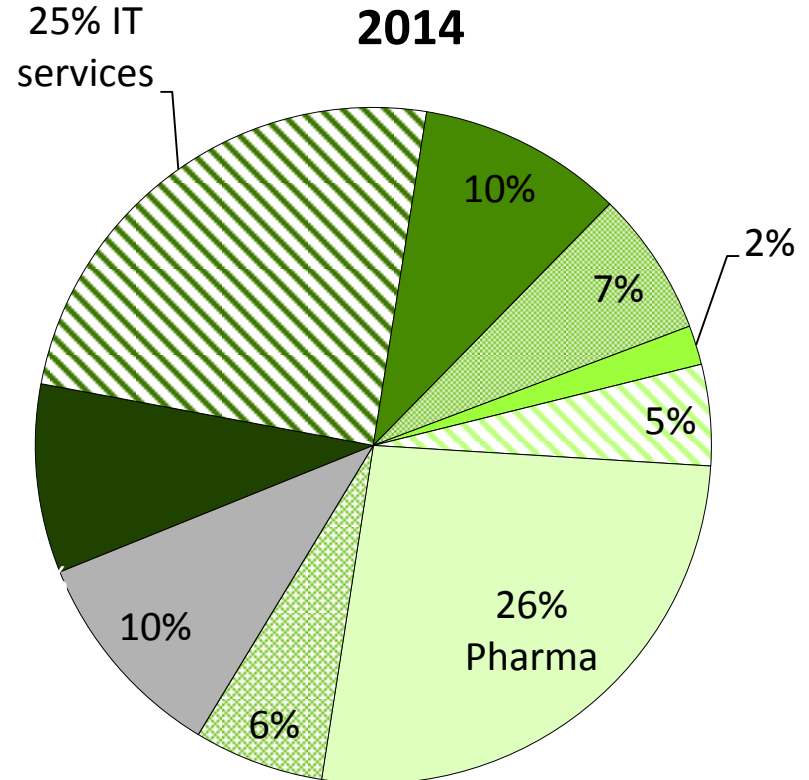
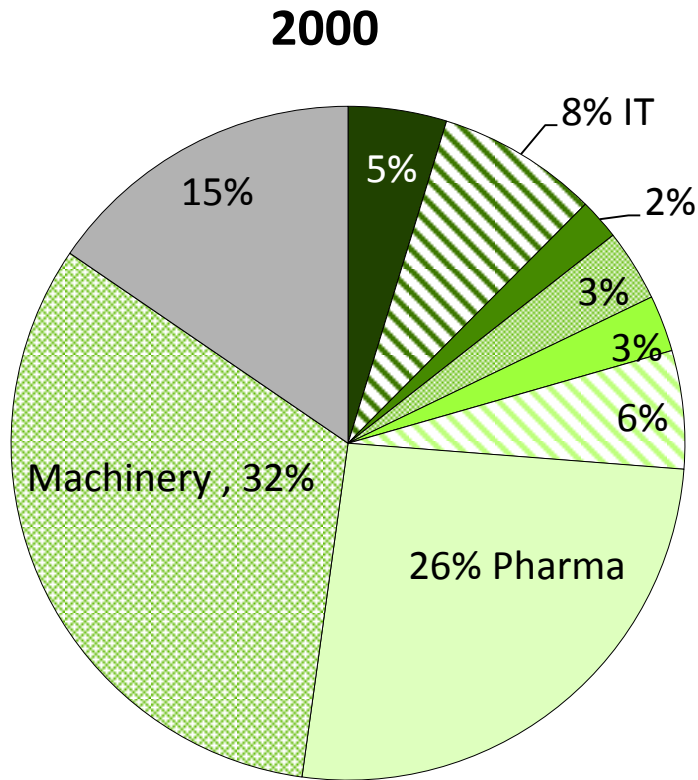
Source: [CSO](#), NTMA calculations

Source: CSO, World Trade Organisation

\* For discussion on contract manufacturing and its limited effects on Ireland's National Accounts, please see [here](#).



# Export structure has changed dramatically, thanks to the arrival of new technology/ social media firms



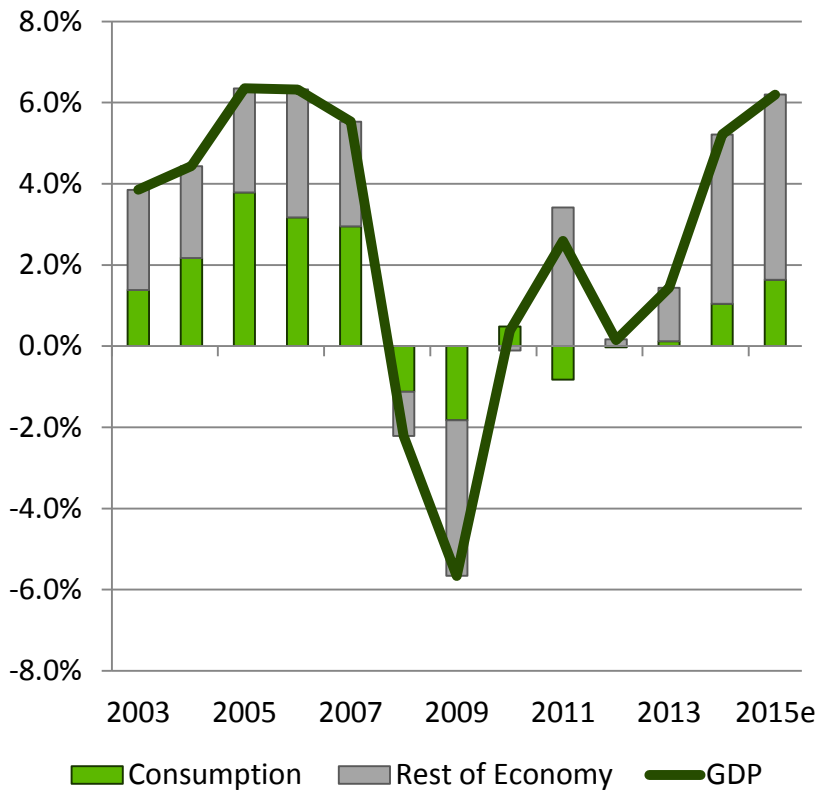
- Insurance & Financial Services
- Business Services
- Tourism
- Chemicals
- Other Goods

- Computer Services
- Other Services
- Agriculture
- Machinery

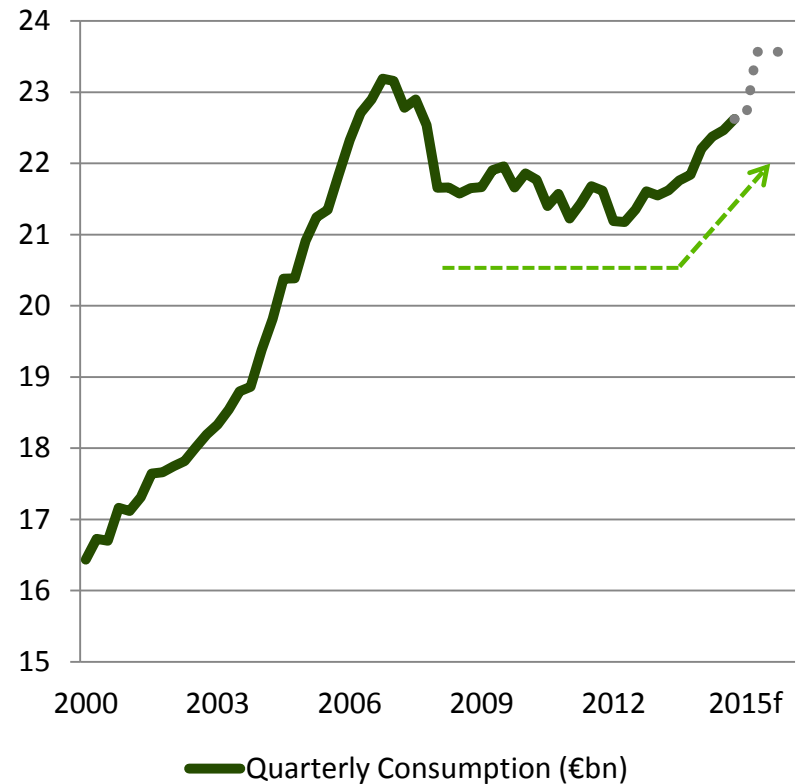


# Consumption is now a large contributor to growth

## Consumption contributed positively to GDP growth in 2014 and 2015



## Seven consecutive quarters of positive q-o-q growth for the volume of consumption



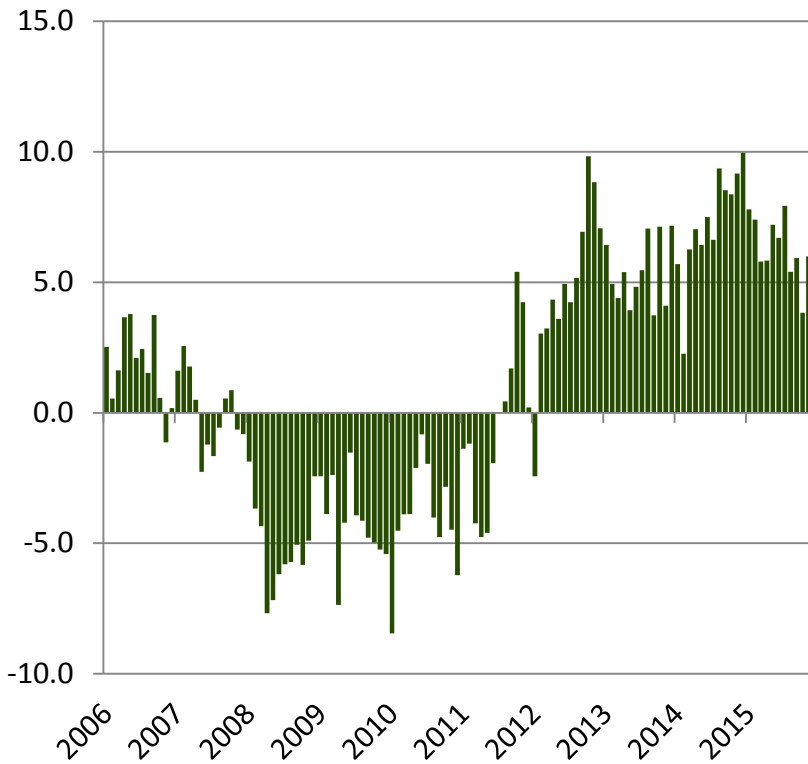
Source: [CSO](#), NTMA calculations, [Department of Finance forecasts](#)



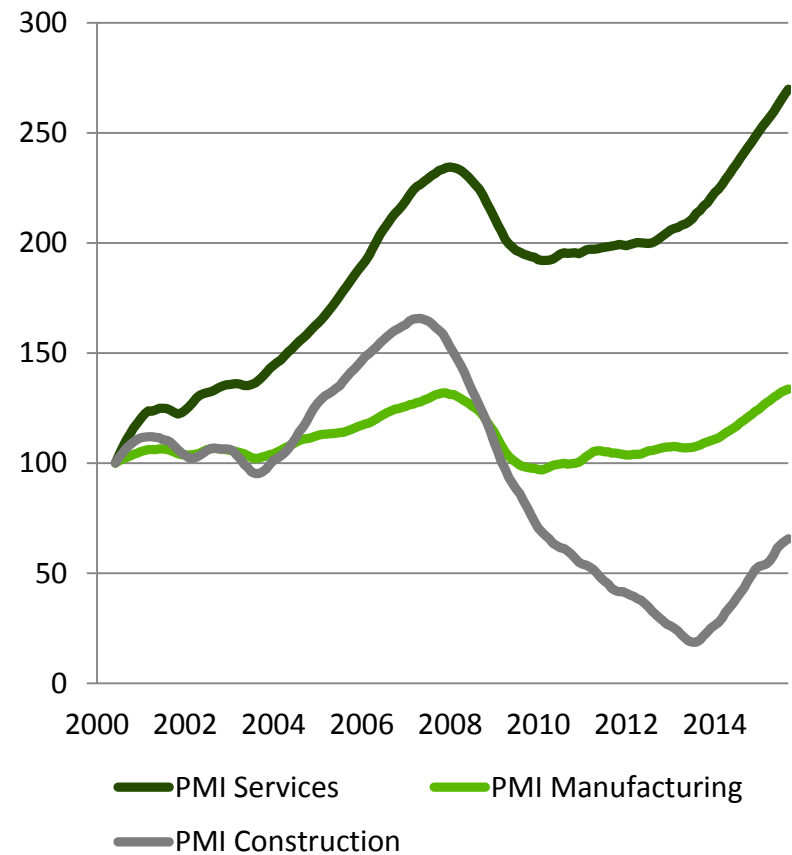


# High frequency indicators show Ireland's uniform recovery is much stronger than euro area's

### Ireland growing faster than EA PMI composite difference (pts.)



### All sectors growing (PMI chg. as cumulative index level, June 2000=100)

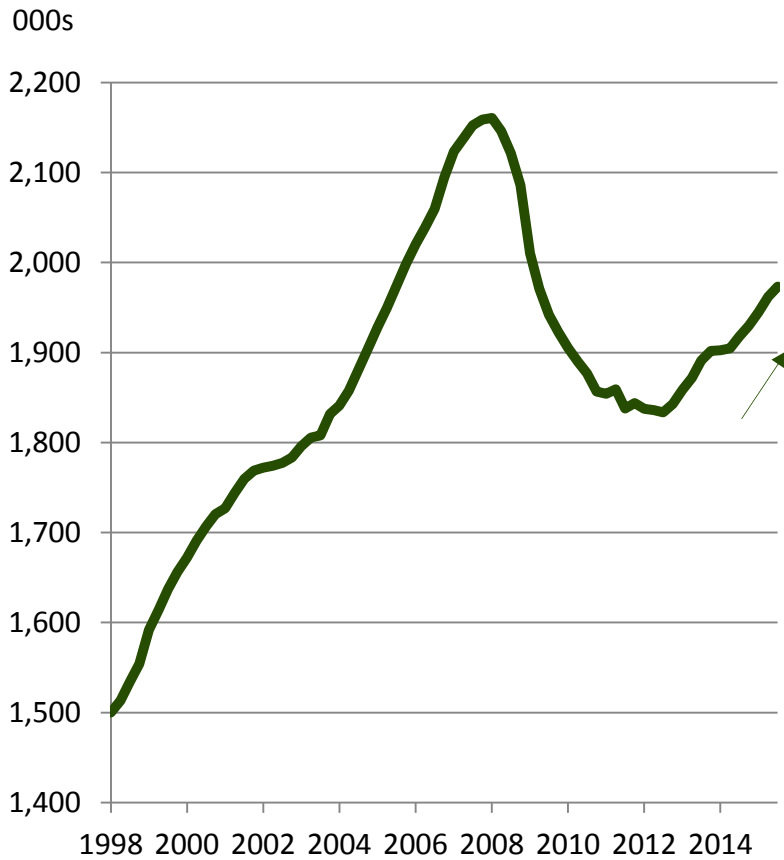


Source: Markit; Bloomberg; Investec ; NTMA workings



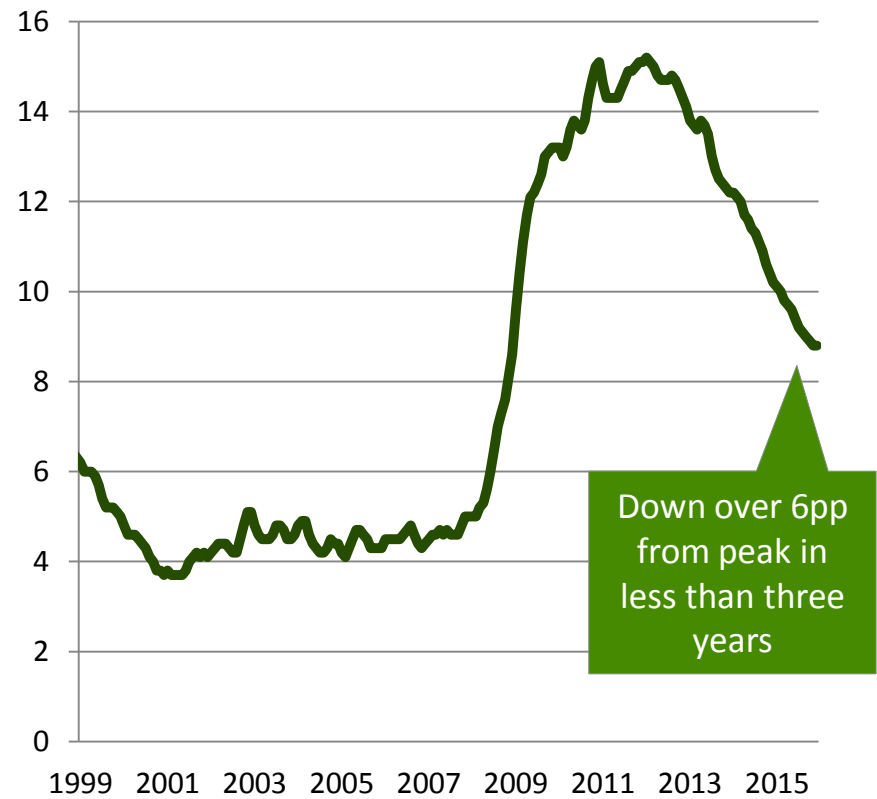
# Labour market has rebounded since 2012

## Employment up 6% from cyclical low



Source: [CSO](#)

## Unemployment rate down to 8.8% in December 2015



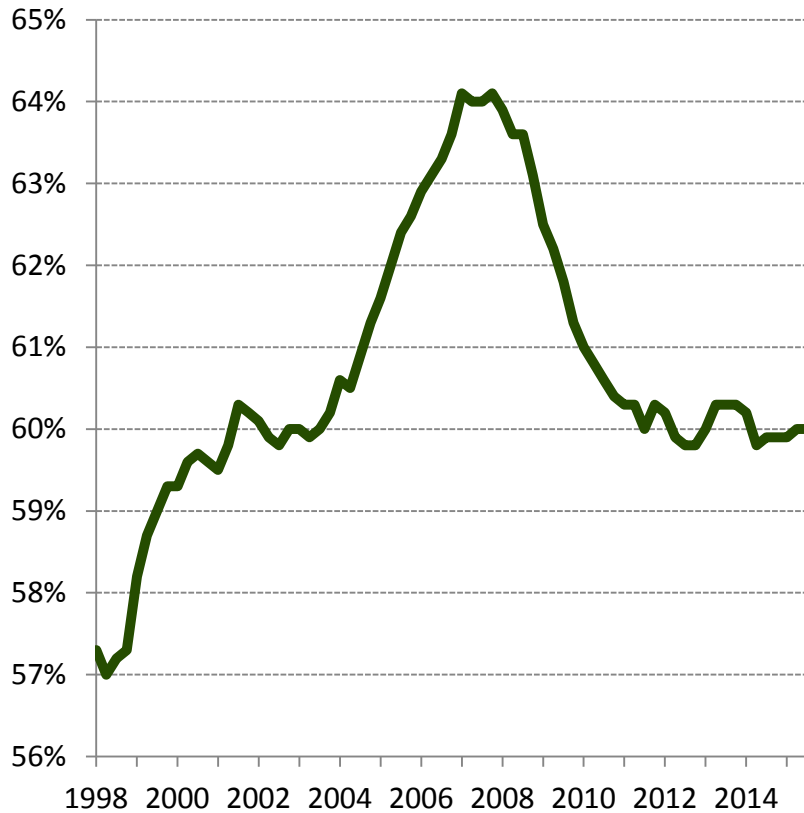
Down over 6pp from peak in less than three years





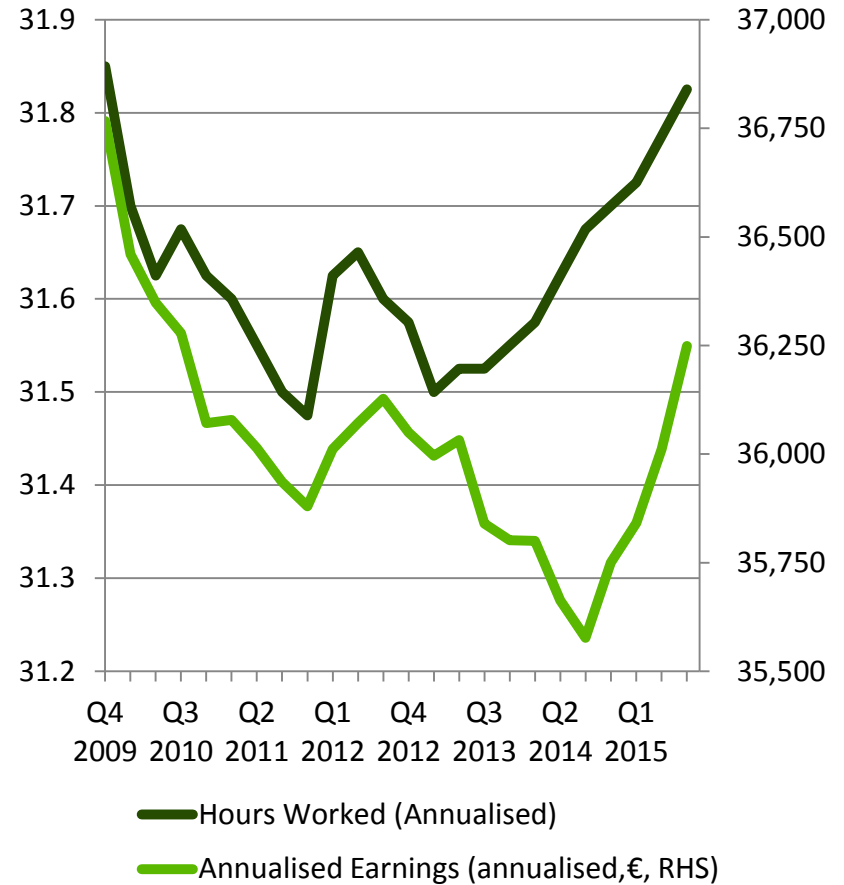
# Labour participation has not yet recovered – similar to US; Wages only now rising, pointing to slack in market

### Participation rate hovering around 60%



Source: [CSO](#)

### Wages and hours worked beginning to recover, although pockets of excess capacity remain



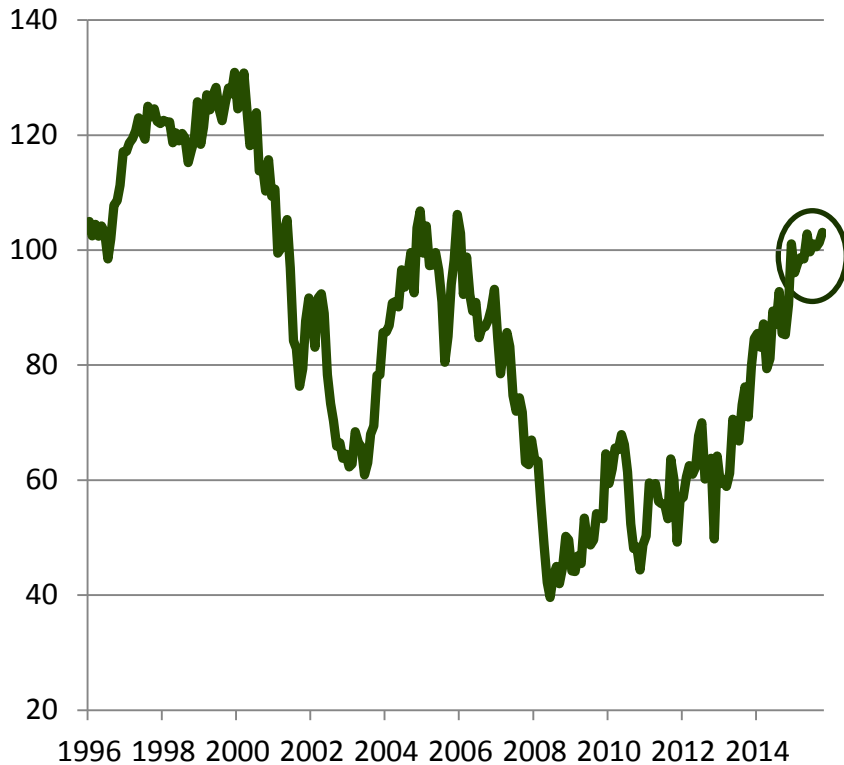
Source: [CSO](#)





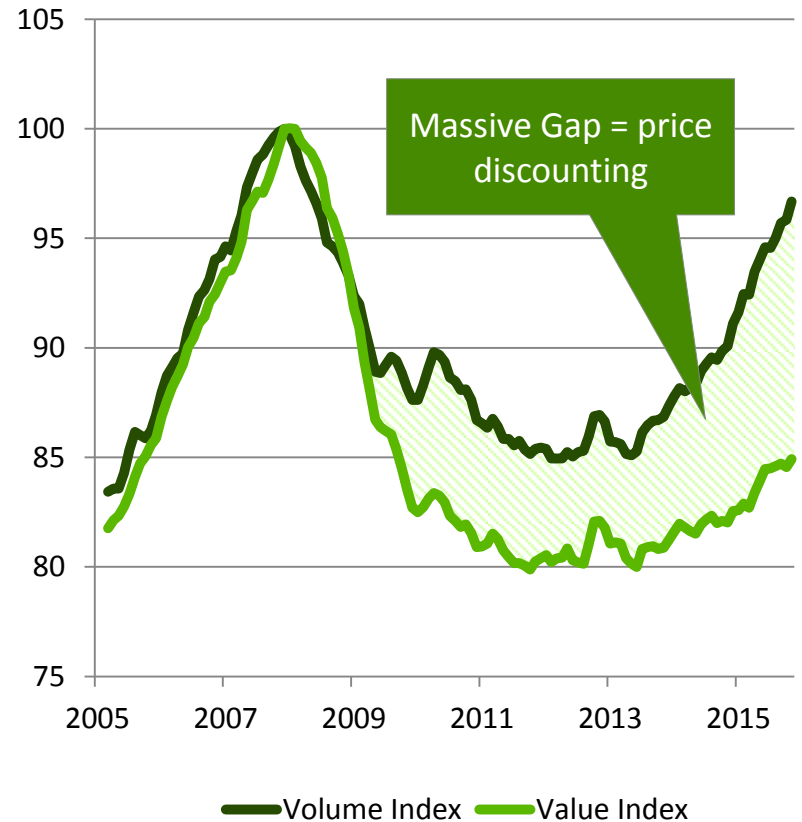
# Rising employment and house price rises lift retail sales; confidence back at mid-2000s level

### Consumer confidence recovers



Source: [KBC](#), [ESRI](#), [CSO](#)

### "Core"\* retail sales jump (peak=100)



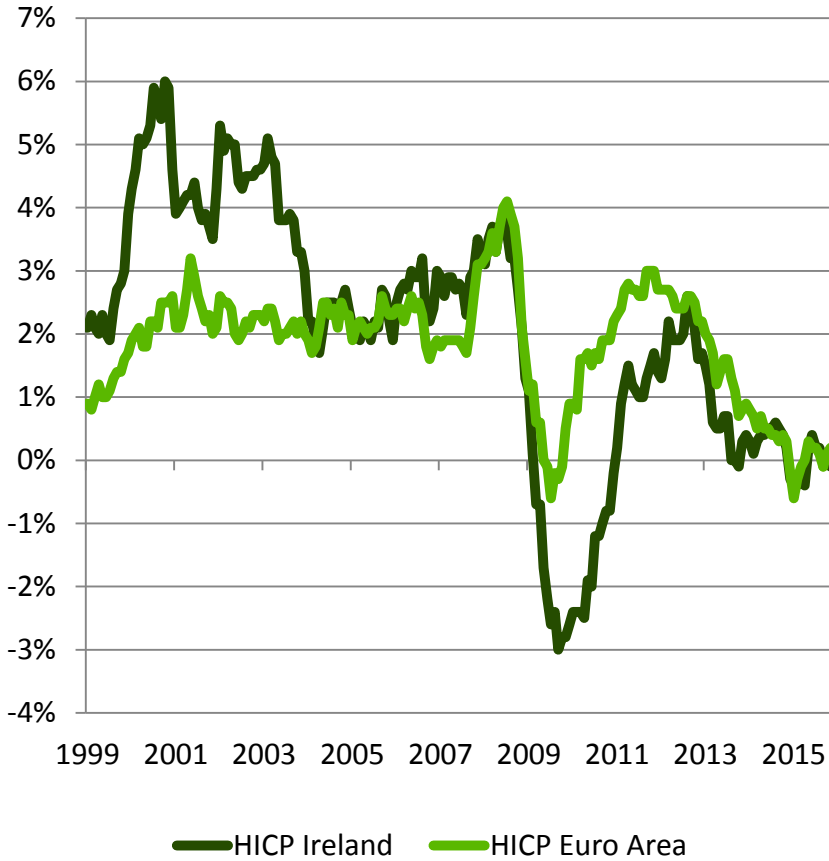
\*Excluding motor trade; 3 month average used





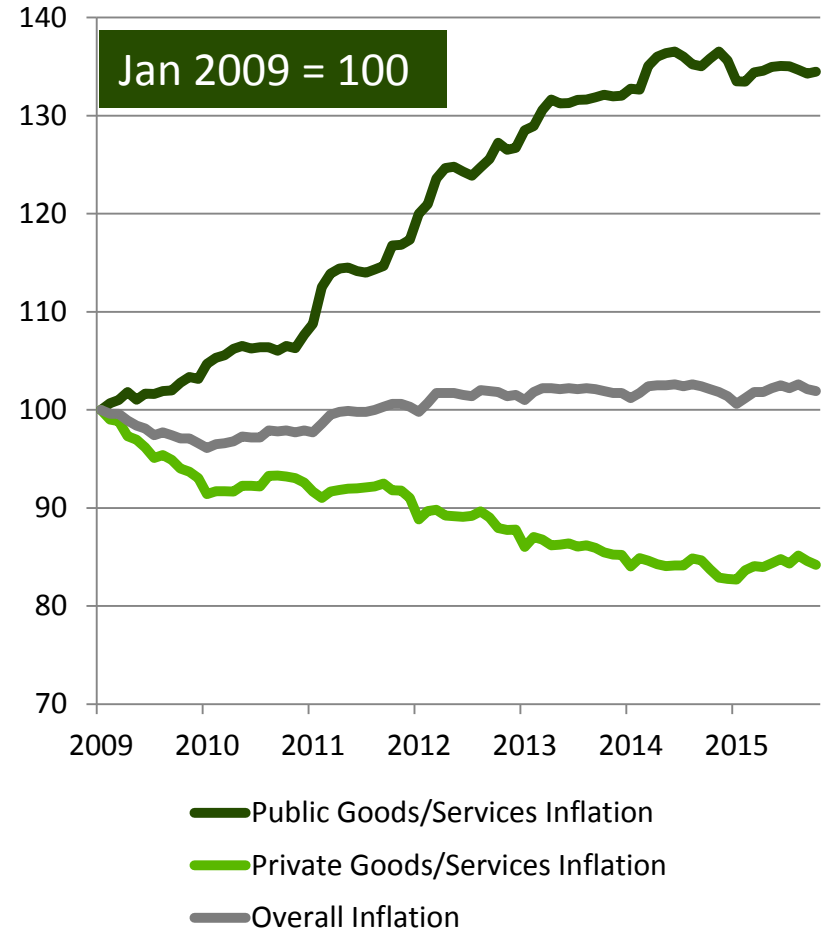
# Stagnation in consumer prices; good news that real incomes are underpinned by lower oil prices

## Inflation similar to euro area...



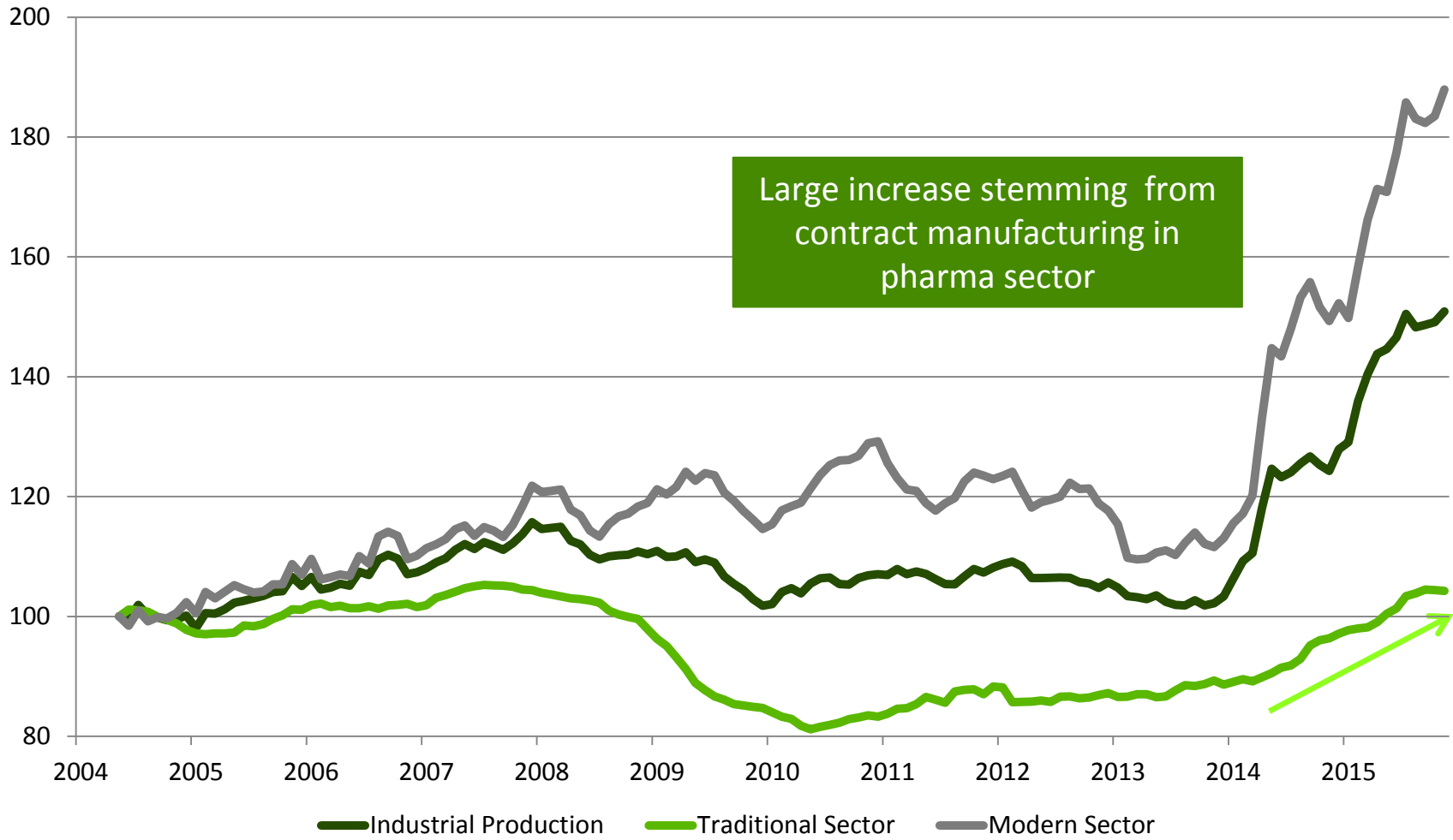
Source: [CSO](#)

## ...and driven by public goods/ services



# Industrial production increasing quickly due to pharma; growth from traditional manufacturing has slowed

6 month moving averages (Jan 2005 = 100)



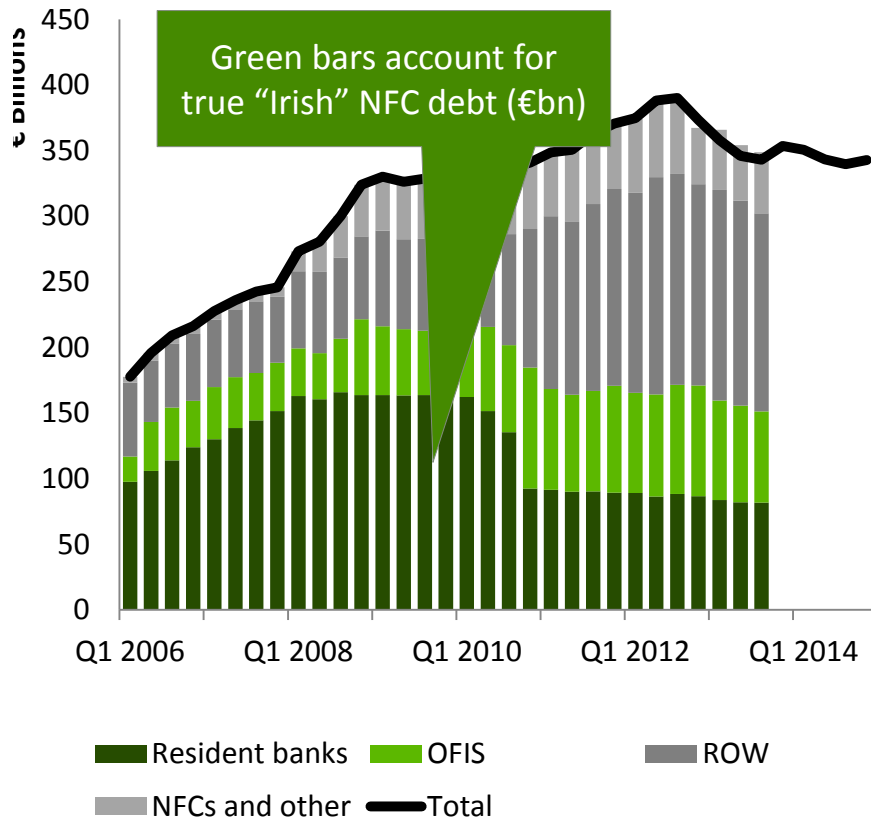
Source: [CSO](#)





# Private debt levels are high, apart from “core” domestic companies

**Irish Non-Financial Corporate (NFC) debt is distorted by multinationals (€bn)**

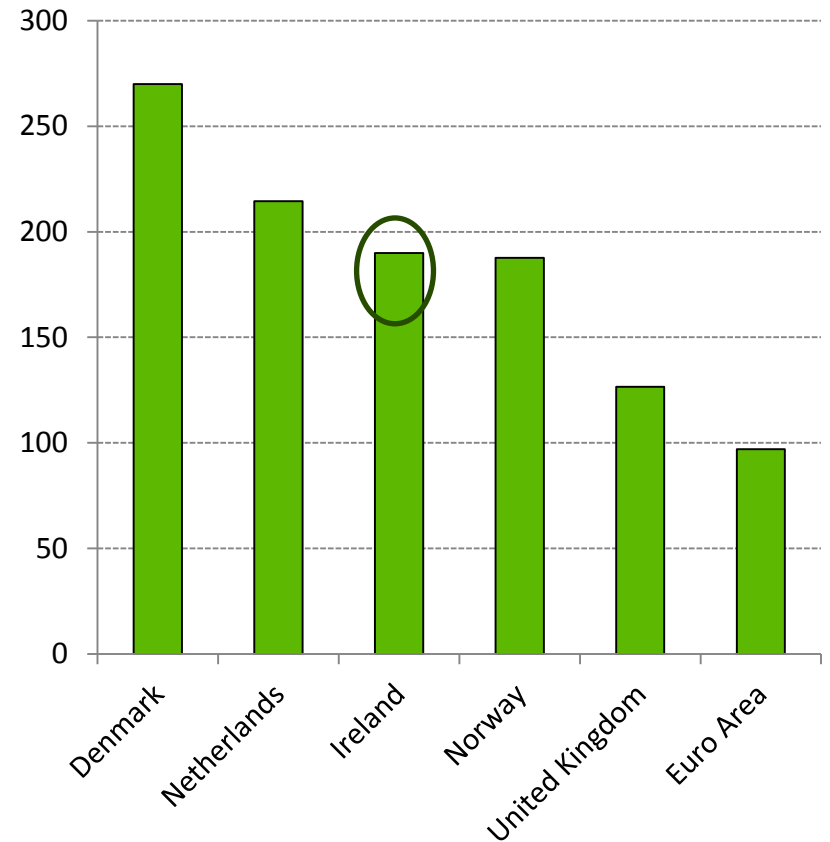


Source: NTMA analysis; Breakdown from Cussen, M. “Deciphering Ireland’s Macroeconomic Imbalance Indicators”, CBI

\* OFI = Other Fin. Intermediaries

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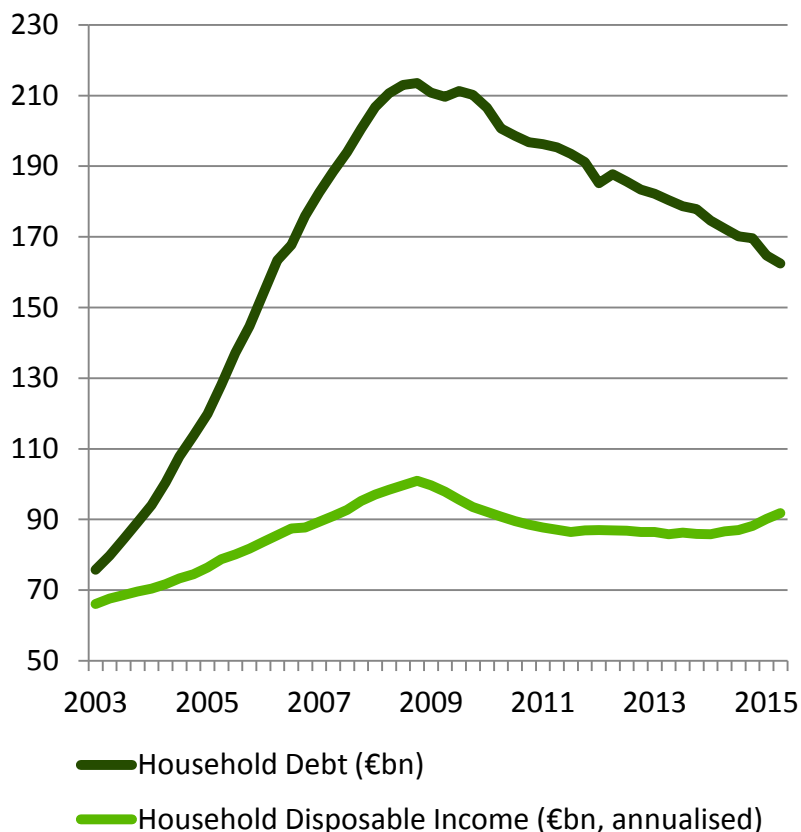
**Household debt ratio (% DI) declining (see next slide) but still among highest in Europe**



Source: Eurostat (2014 data except 2013 data for euro area)

# Household deleveraging continues, but at slow pace; Rising house prices bolster HH balance sheets

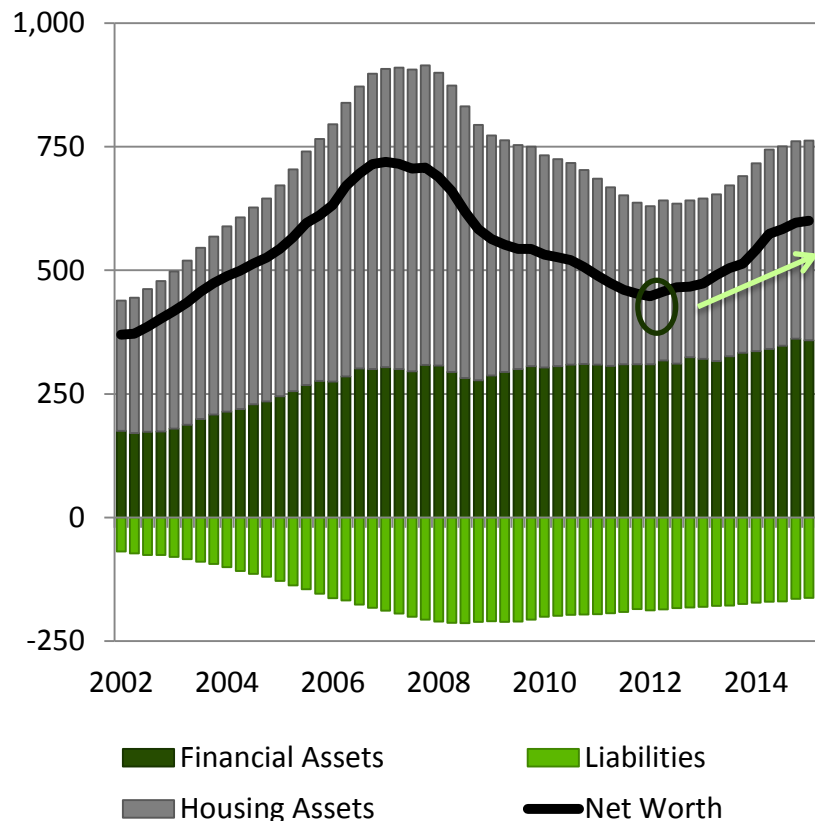
Debt-to-income ratio in Q2 2015 at 177%\*,  
the lowest since Q4 2005



Source: [CBI](#), [CSO](#)

\* Measure includes both loans and other liabilities.  
Excluding other liabilities, debt-to-income ratio is 167%

Household net worth (€bn) improved in 2015  
and has underpinned consumer spending

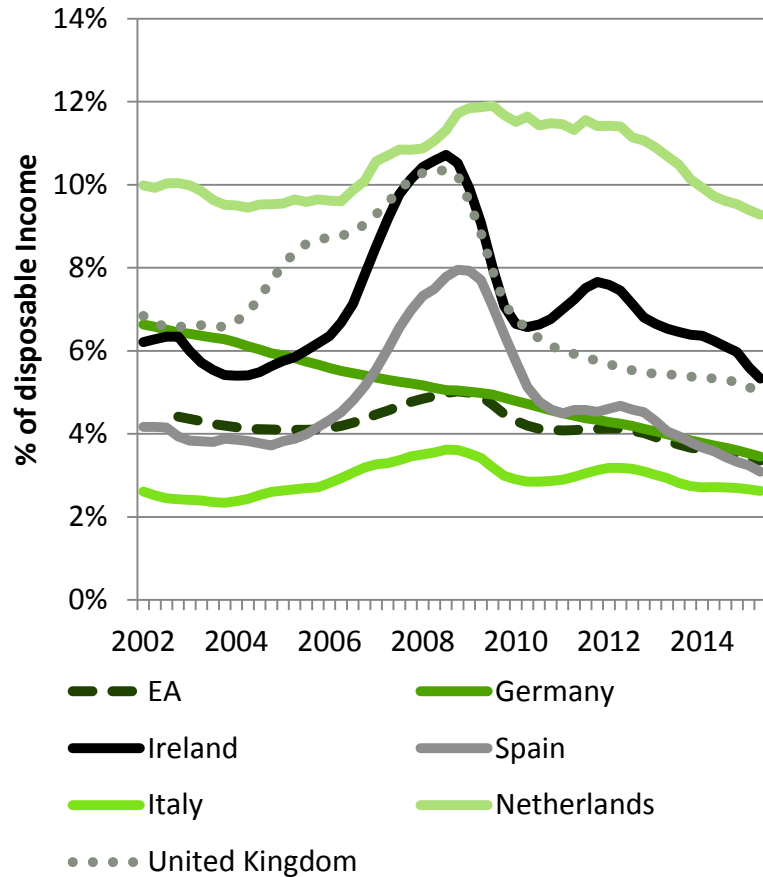


Source: [CBI](#), NTMA calculations



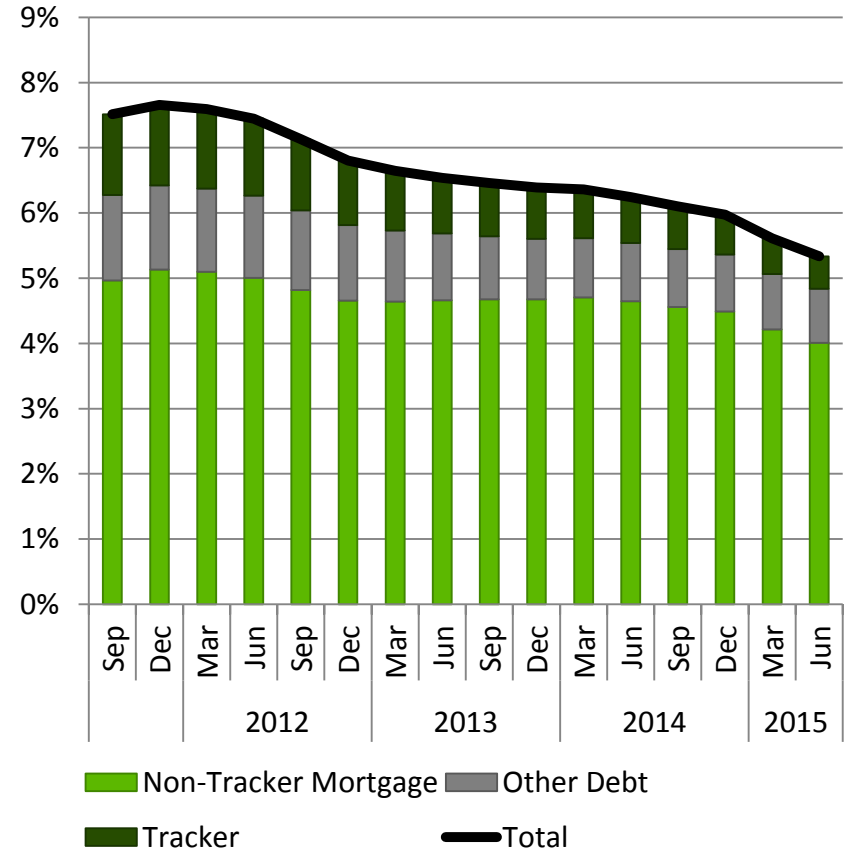
# Interest burden high but suppressed by trackers; savings rate around euro area average

Interest burden on households has been suppressed by tracker mortgages and ECB..



Source: Eurostat

...and falls heavily on households with non-tracker mortgages

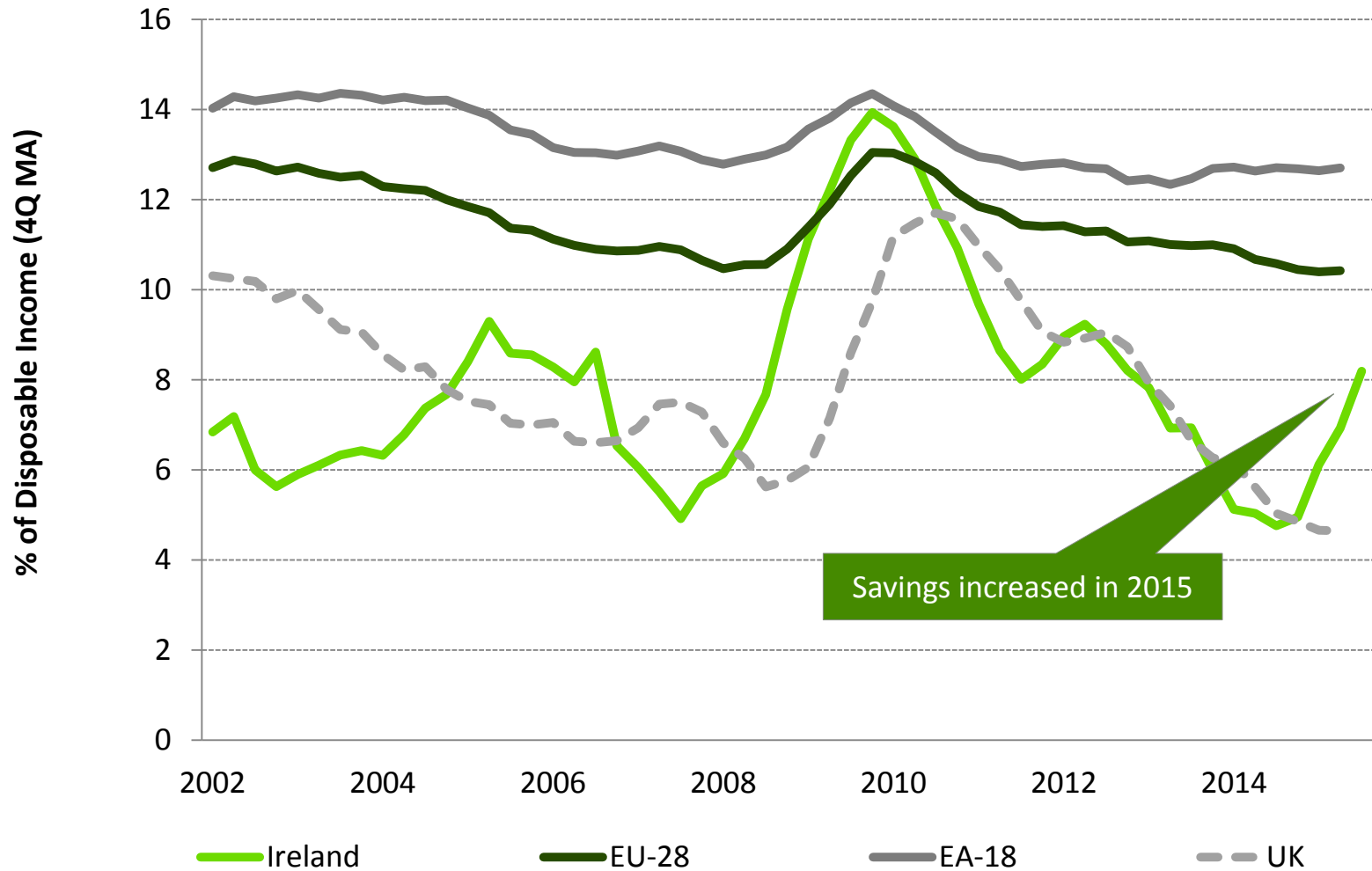


Source: CBI, NTMA Analysis

Note: Interest burden is 'actual' (i.e. excludes FISIM adjustment) and is calculated as a share of actual gross disposable income.



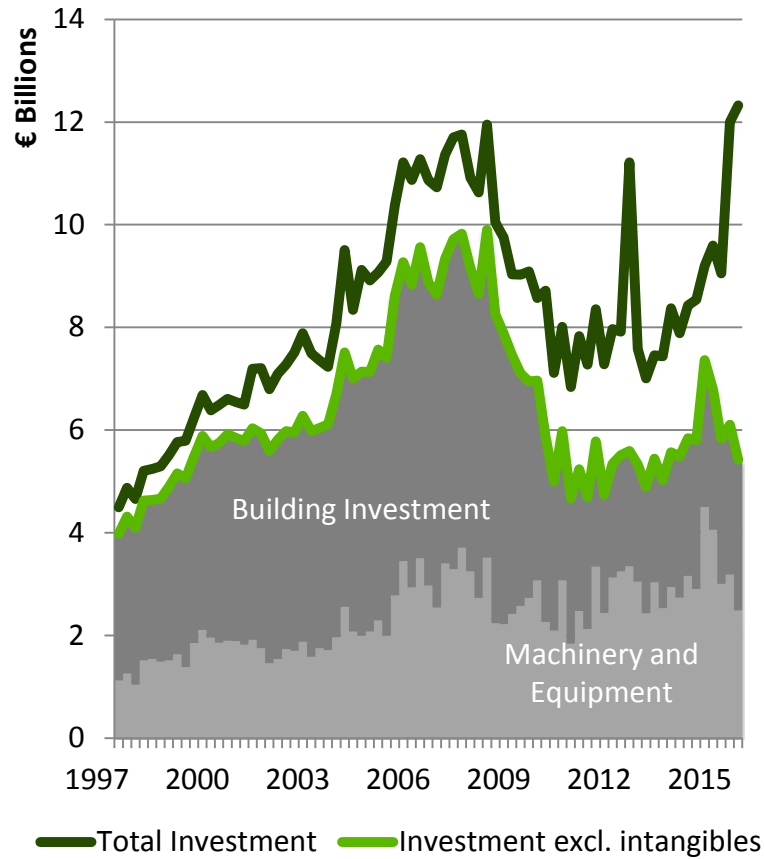
# Gross household saving rate revised downwards significantly; helps explains consumption pick up in '14



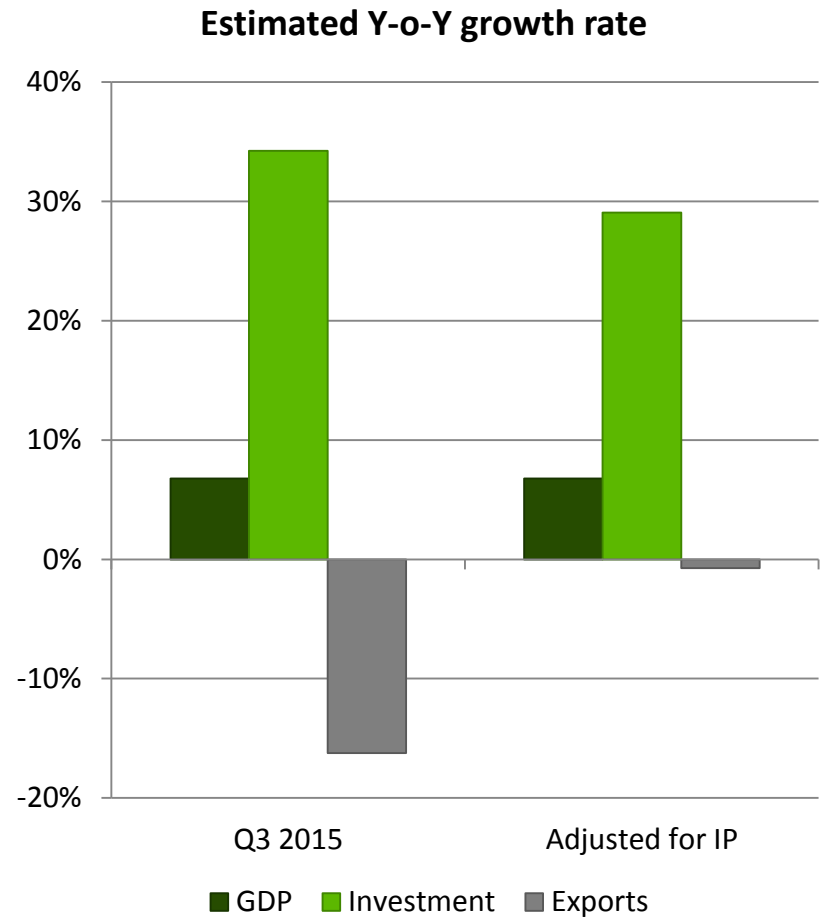
Source: [Eurostat](#), CSO

# Increase in investment in 2015 Q2/Q3 overstated due to large imports of Intellectual Property

## Intangible asset transfer increases investment and reduces net exports



Source: CSO, NTMA analysis



\* Excl. imported IP, investment grew by 29% y-o-y

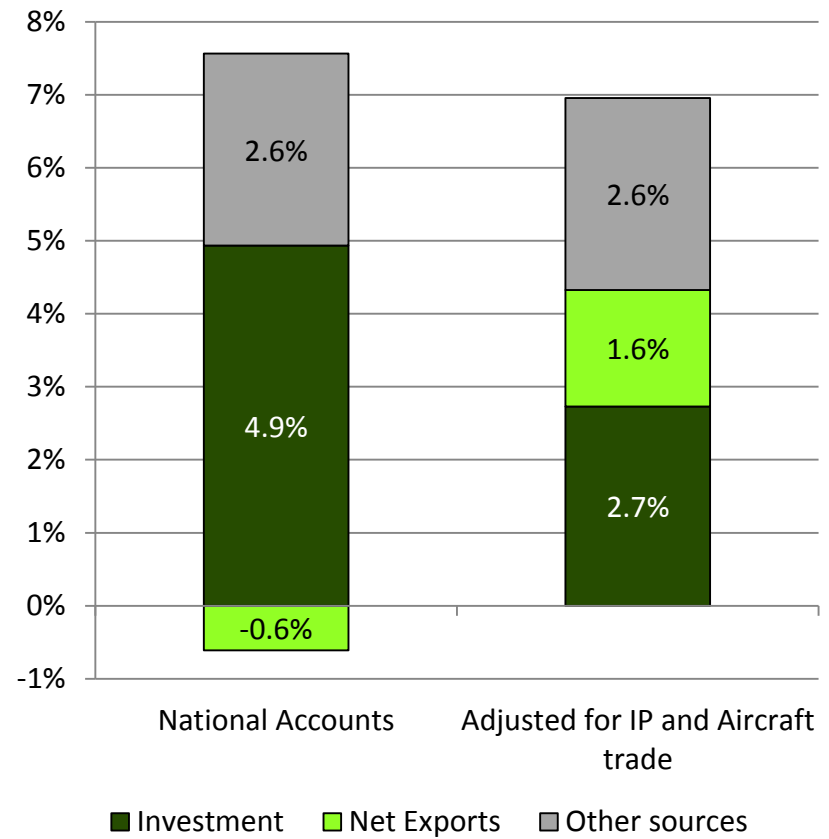
# Aircraft trade coupled with IP imports mean Irish National Accounts are further complicated

Further to issue of IP imports, investment and net exports are affected by the presence of aircraft trade in Ireland.

- Under new methodology, trade in aircraft by Irish resident aircraft leasing companies is now recorded in the national accounts.
- Like IP imports, this leads to an increase in imports and a subsequent decrease in net exports. There is an offsetting increase in investment.
- **Again this has no effect generally on GDP and GNP.**
- But excluding these two factors gives a better picture of the underlying drivers of GDP growth in 2015.

Source: CSO, NTMA analysis

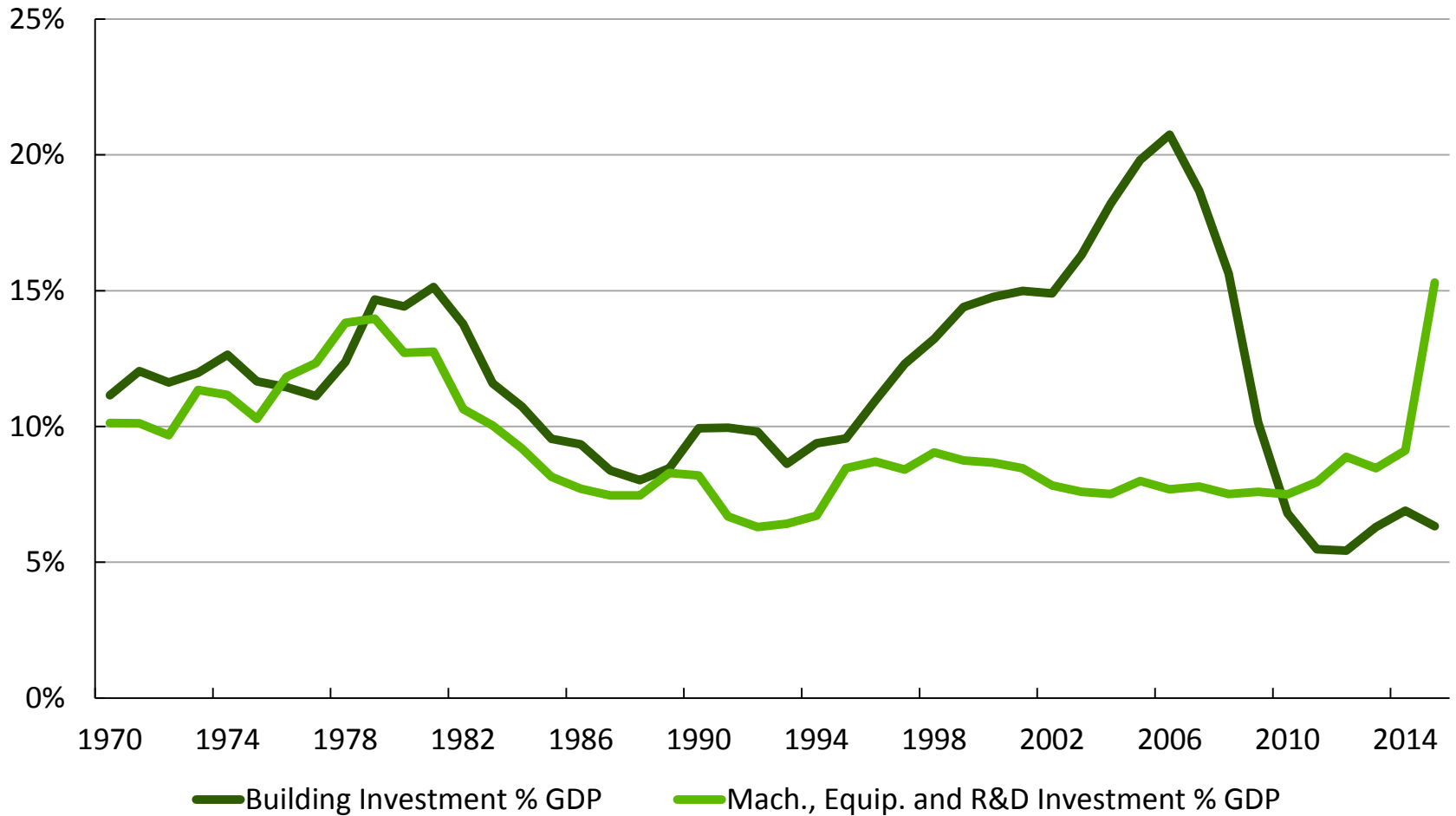
## Investment is reduced & Net Exports increased in adjusted case\*



\*Growth for first three quarters of 2015



# Investment overall is rising from a low base, but building remains mired at low levels



Source: [CSO](#)

\* 2015 figures estimated using first 3 quarters growth for 2015.



# Economic and fiscal forecasts: Budget 2016

	2013	2014	2015e	2016f	2017f
GDP (% change, volume)	1.4	5.2	6.2	4.3	3.5
GNP (% change, volume)	4.6	6.9	5.5	3.9	3.2
Domestic Demand (Contribution to GDP, p.p.)	-1.2	4.2	4.3	2.9	2.0
Net Exports (Contribution to GDP, p.p.)	2.6	0.1	2.0	0.2	1.2
Current Account (% GDP)	3.1	3.6	6.9	6.2	5.4
General Government Debt (% GDP)	120.1	107.5	97.0	92.8	90.3
General Government Balance (% GDP <sup>^</sup> )	-5.7	-3.9	-2.1	-1.2	-0.5
Inflation (HICP)	0.5	0.3	0.1	1.2	1.5
Unemployment rate (%)	13.1	11.3	9.5	8.3	7.7

Source: CSO; [Department of Finance \(Budget 2016\)](#)



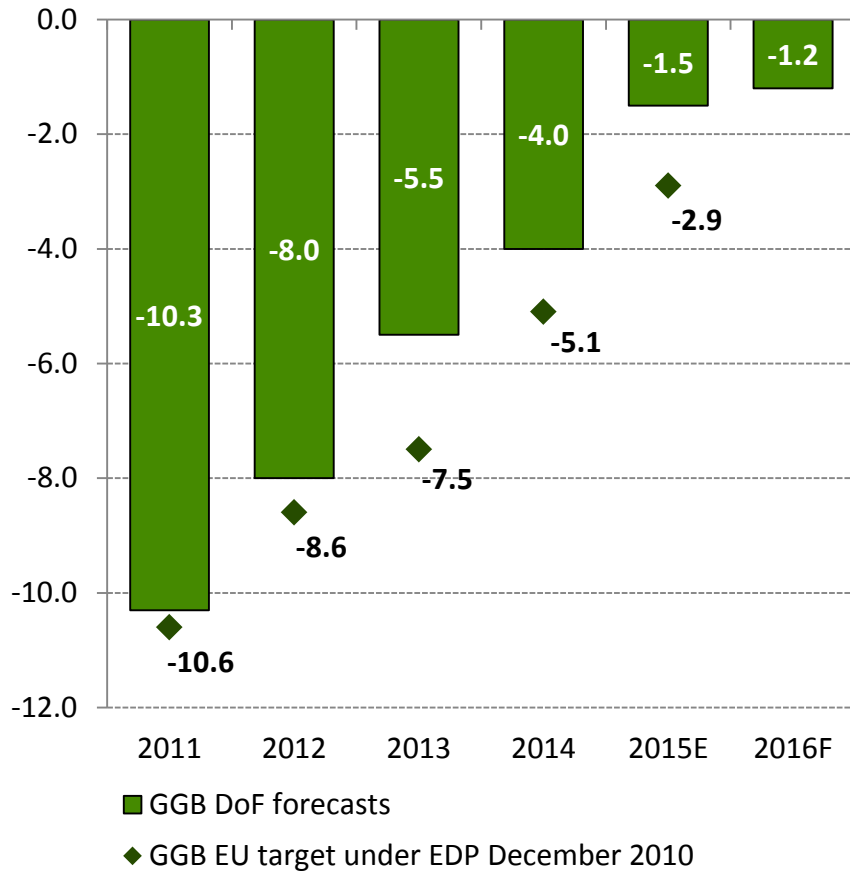
## SECTION 2: FISCAL & NTMA FUNDING



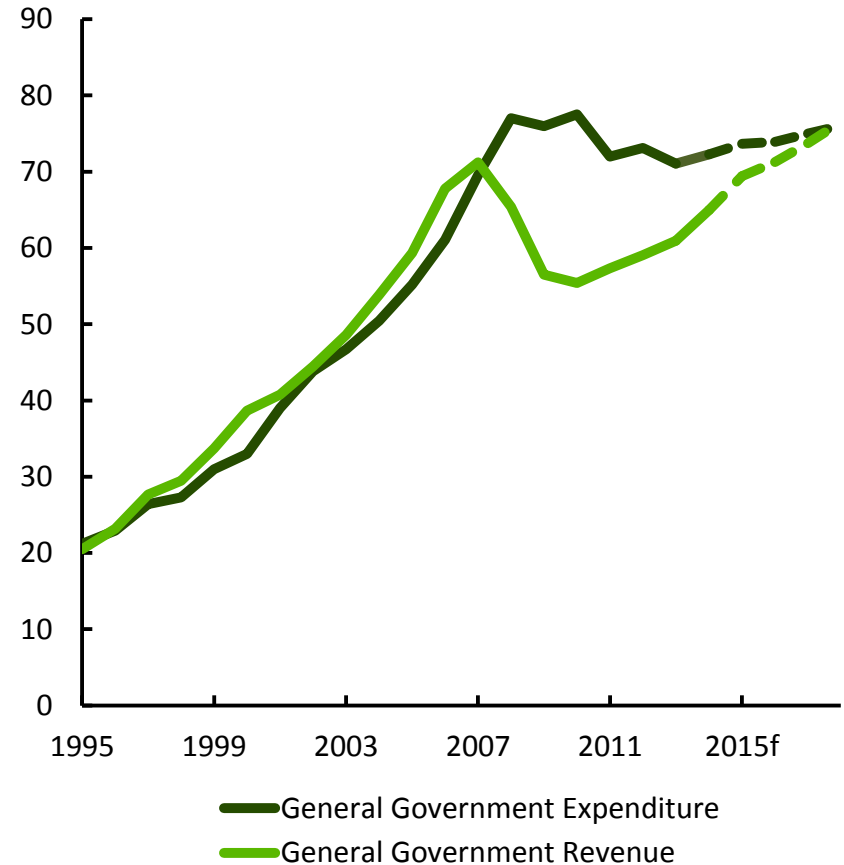
Ireland's Government debt ratio dropped below 100% of GDP in 2015; will reach landmark by exiting Excessive Deficit Procedure (EDP)

# Five straight years of fiscal outperformance

## General Government Balance (% of GDP)



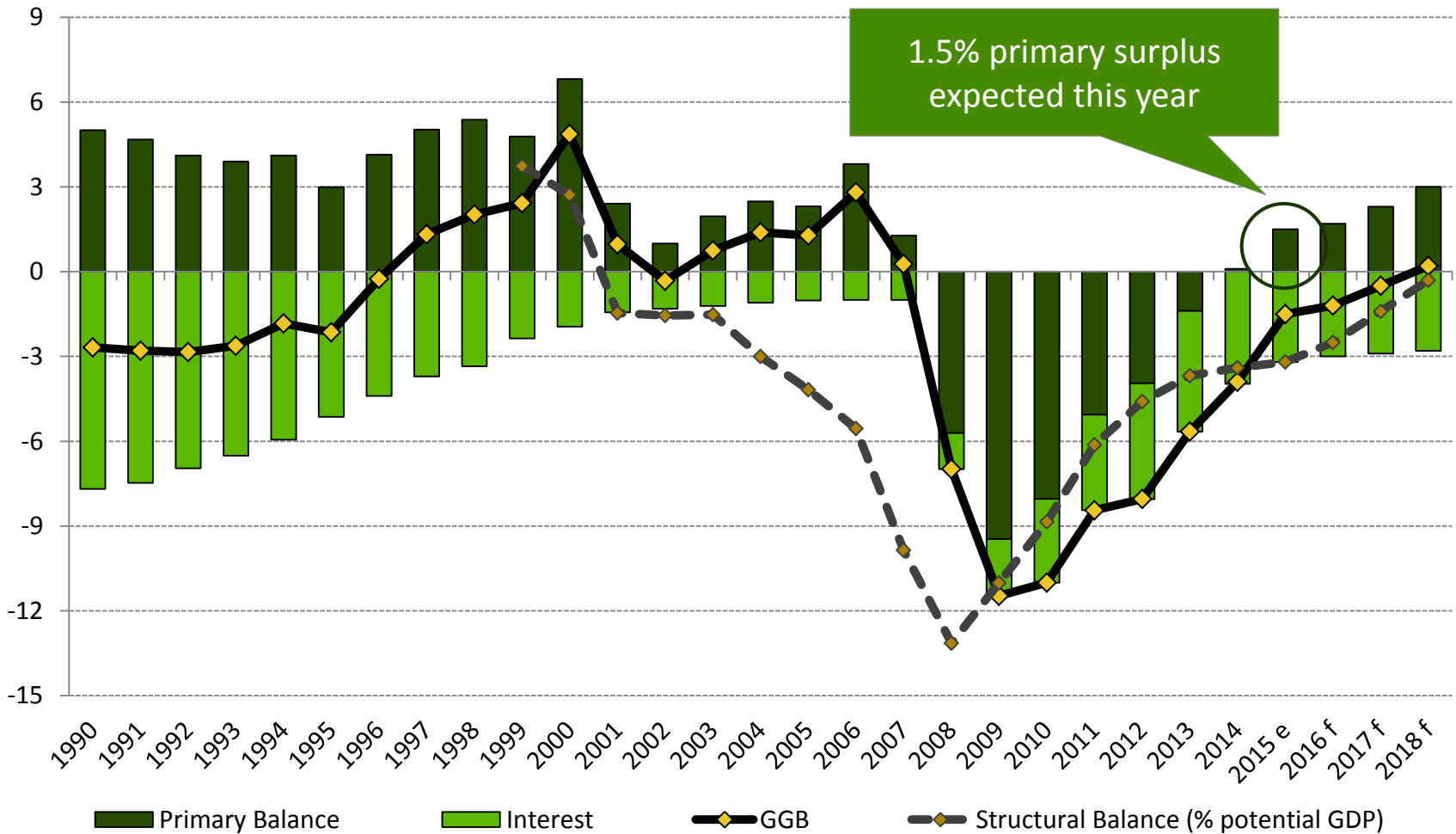
## Deficit forecast to be fully closed by 2018; recent improvement may bring this forward (€bn)



Source: [Department of Finance \(Budget 2016\) CSO](#); Eurostat; NTMA workings



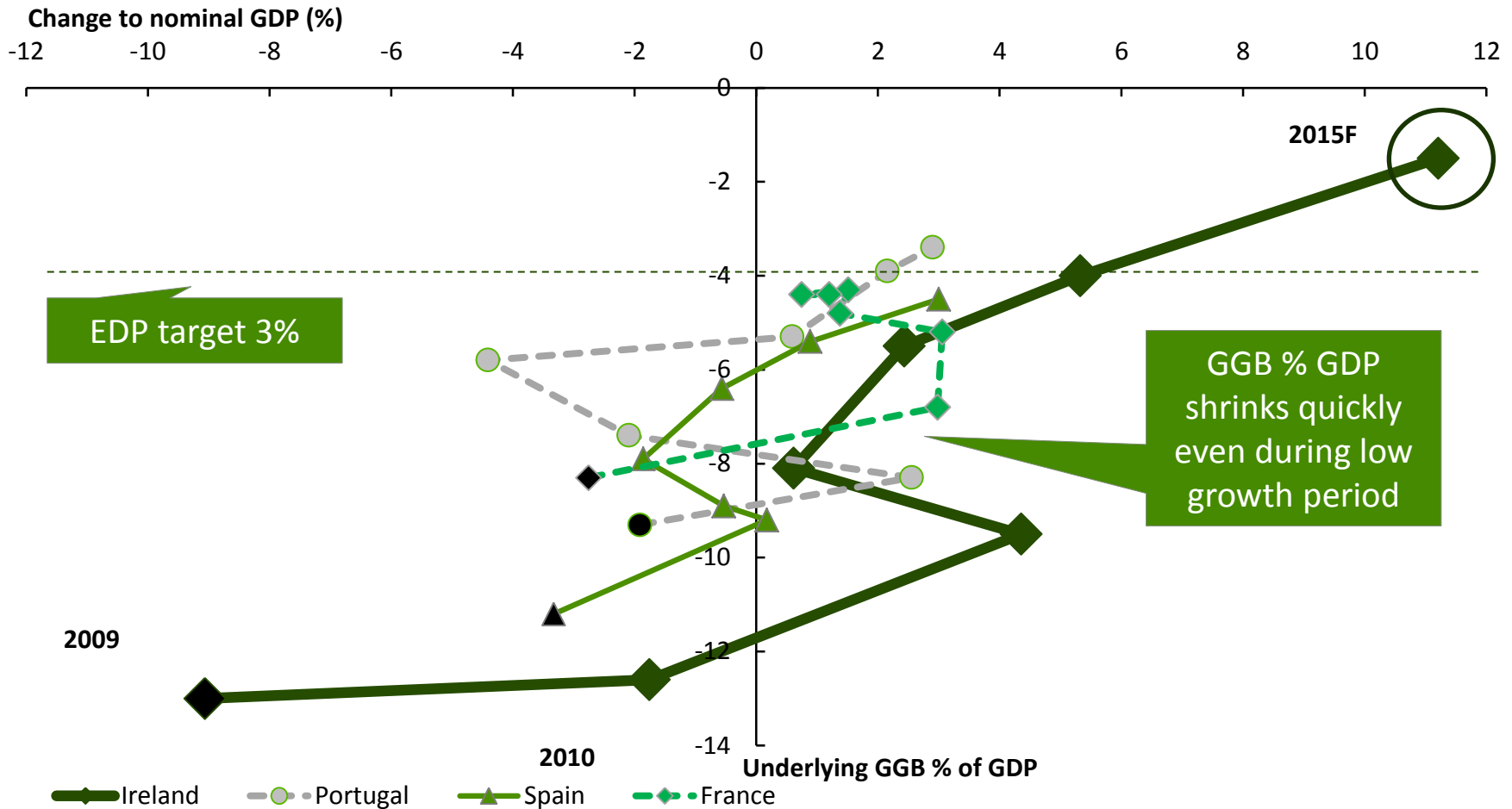
# Ireland has confirmed debt sustainability: debt is falling naturally through “snowball” effect



Source: [Department of Finance](#); Eurostat; IMF



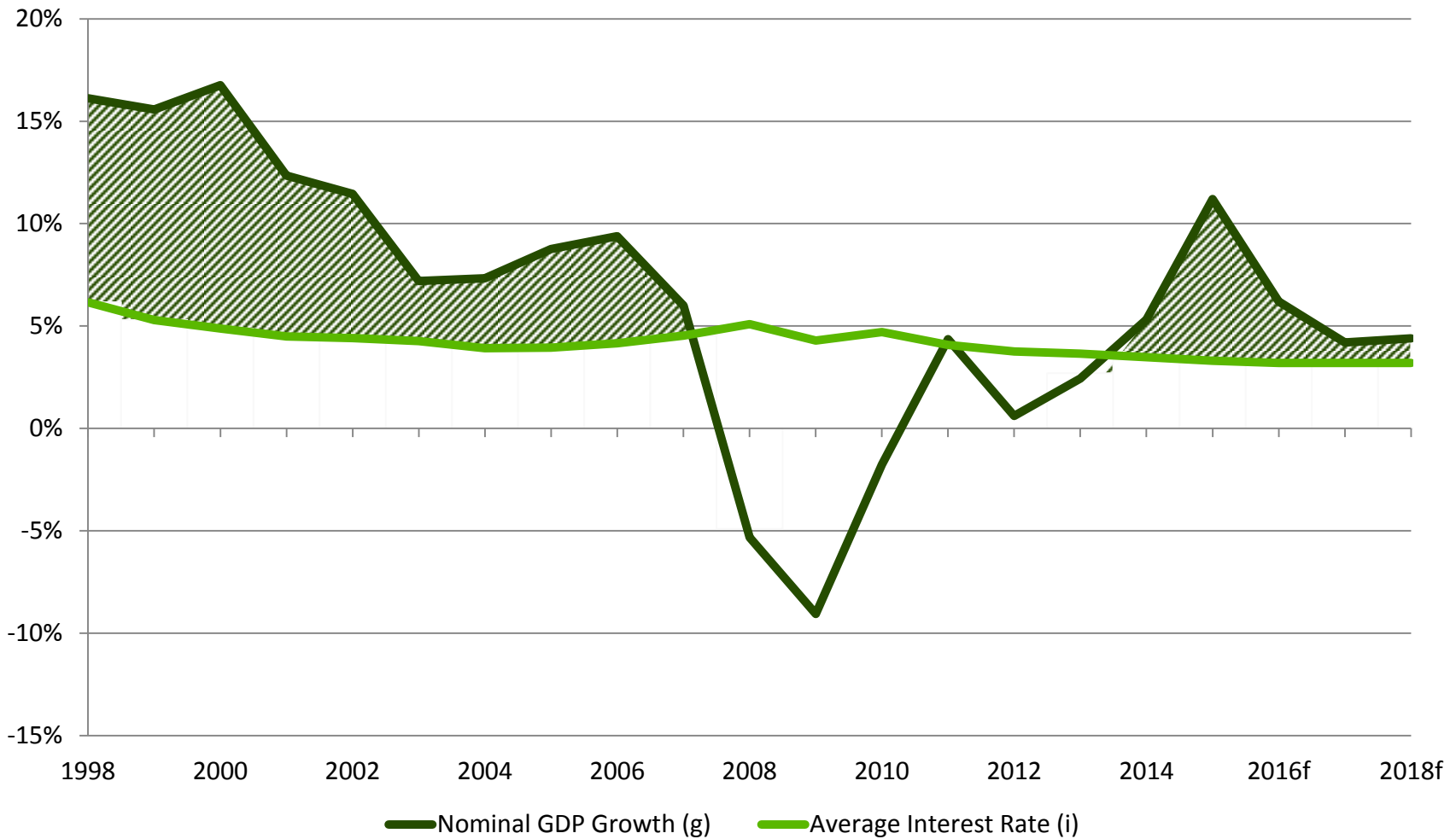
# Ireland's fiscal adjustment route quicker than peers



Source: European Commission, DataStream  
 Note: All black markers are 2009 starting points



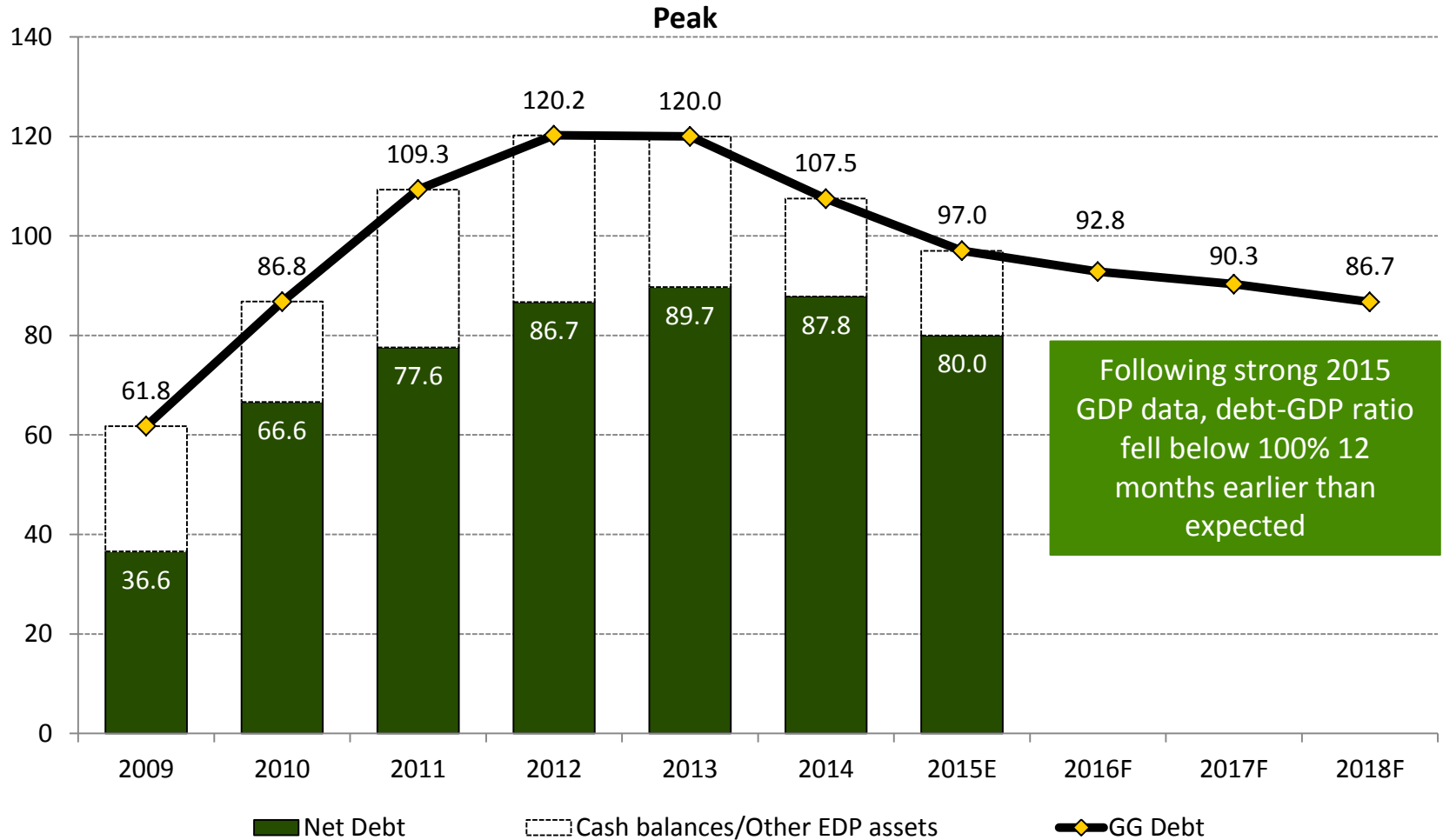
# Average interest on total Government below 3.5%; so interest rate-growth maths (i-g) in Ireland's favour



Source: [Department of Finance](#); DataStream



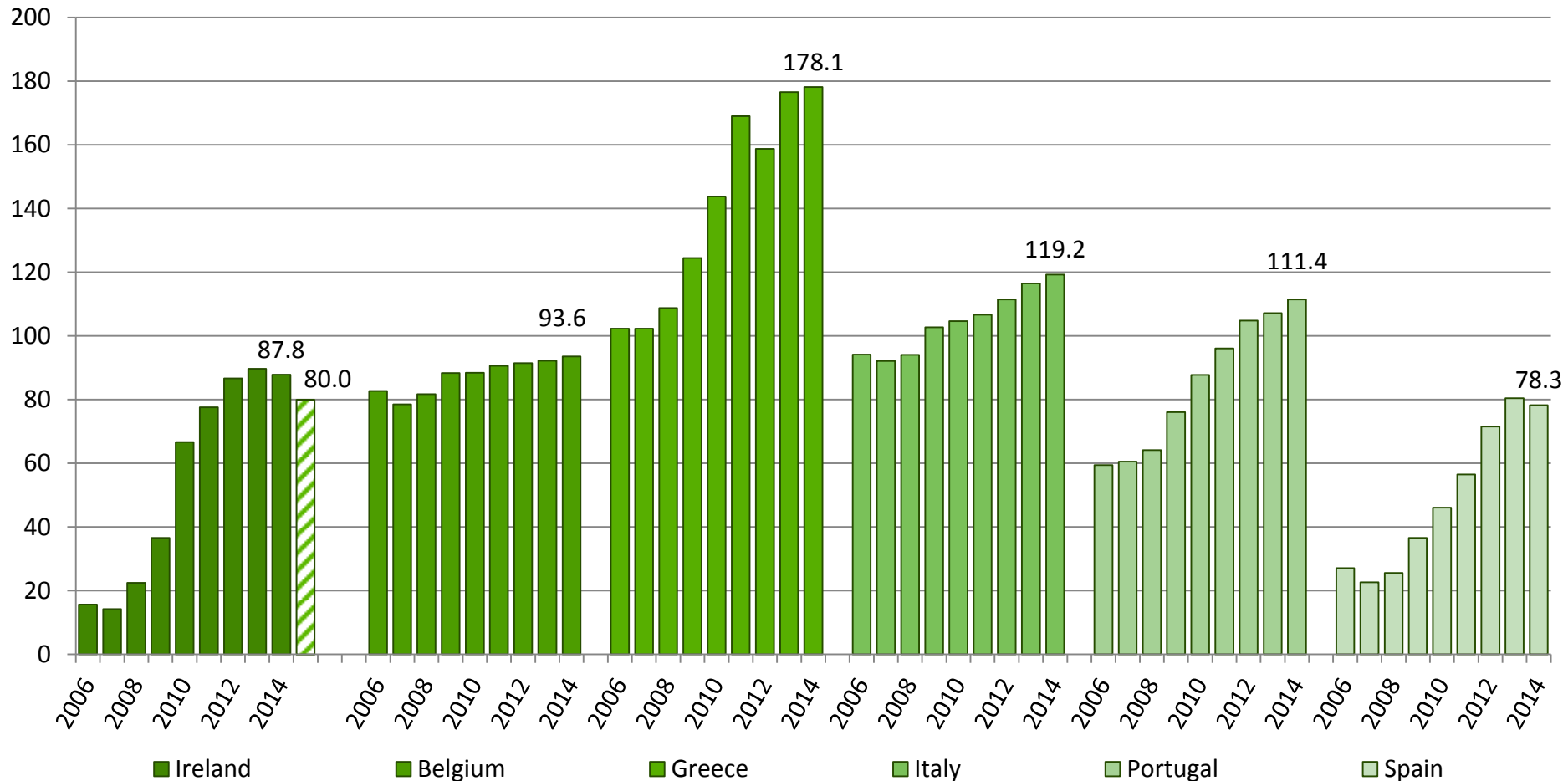
# Gross Government debt fell below 100% by end-2015



Source: [CSO](#); [Budget 2016 \(Department of Finance\)](#)



# Net Government debt ratio (% GDP) now below that of Belgium – our closest bond market counterpart



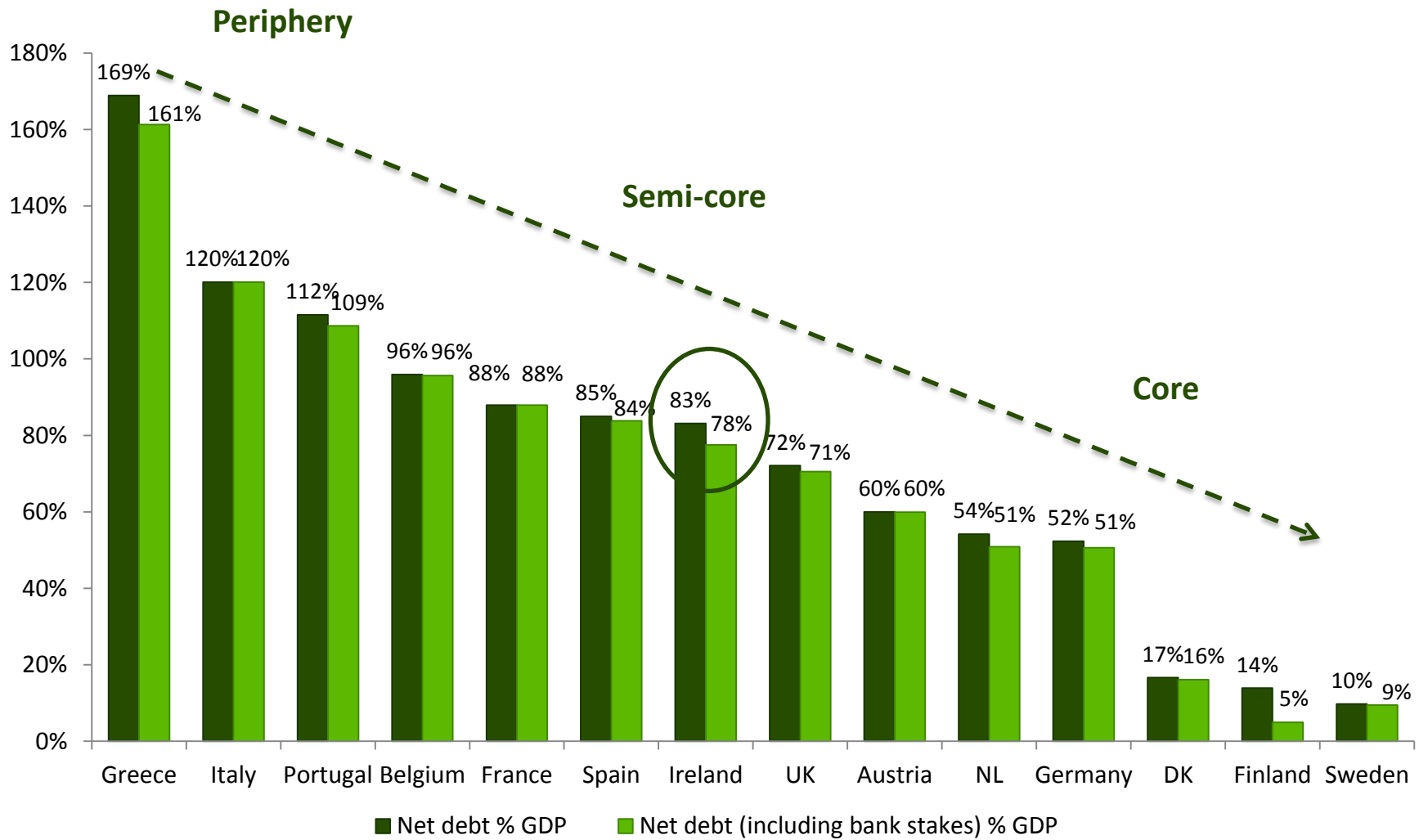
Net General Government Debt = Gross General Government Debt - EDP Assets

EDP Assets = Currency and Deposits + Securities other than Shares (excluding financial derivatives) + Loans

Note: EDP assets are all financial assets (excluding equities) held by general government

Source: [CSO](#), [Eurostat](#), NTMA analysis

# Irish Govt. bank stakes worth at least 5% of GDP

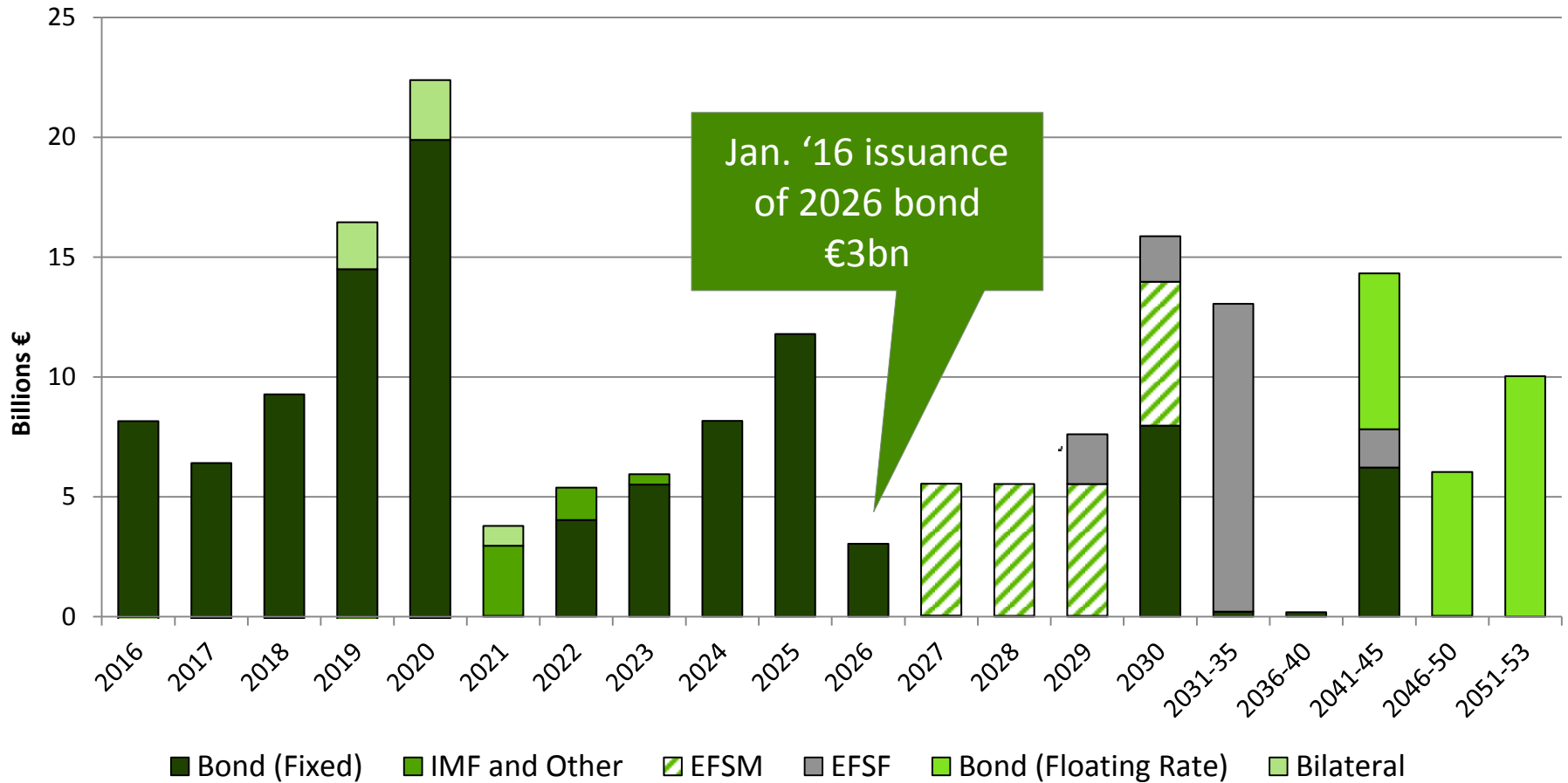


Sources: Eurostat, Banks' 2014 annual reports, each countries bank rescue fund, NTMA calculations





# Improved maturity profile in recent years

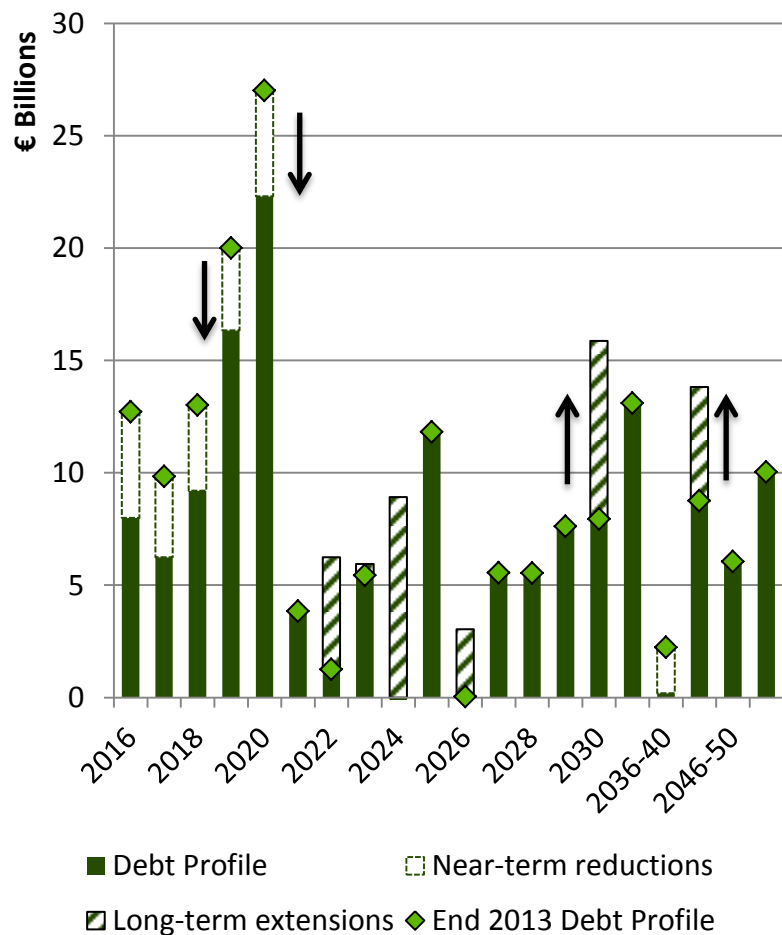


Source: [NTMA](#)

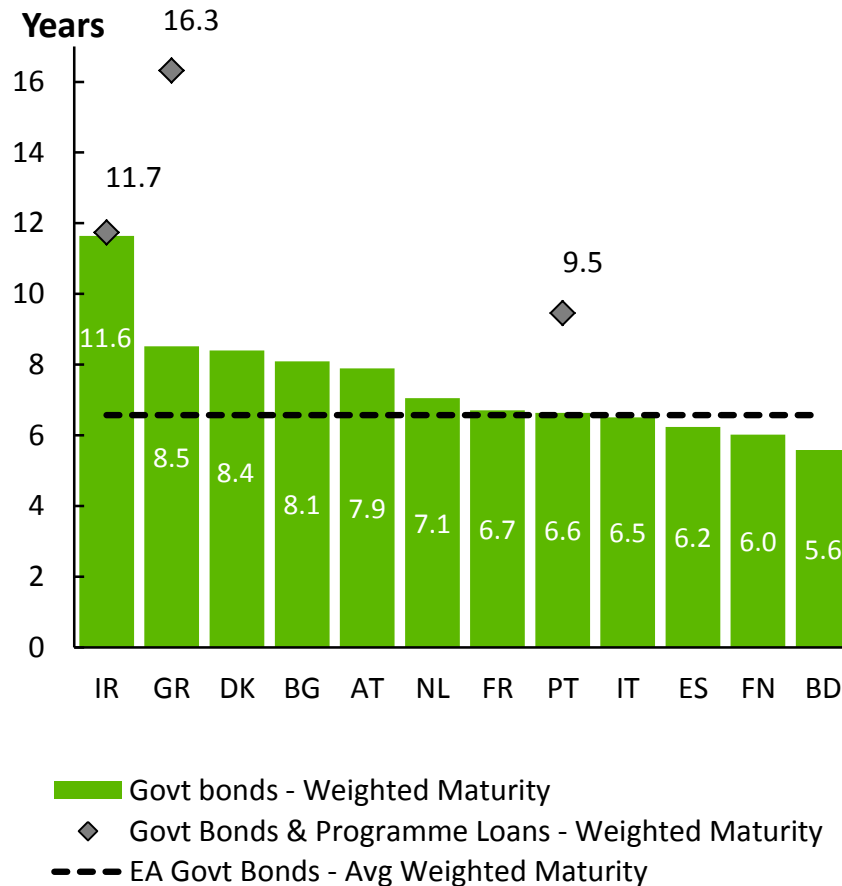
Note: EFSM loans are subject to a 7-year extension that will bring their weighted-average maturity from 12.5 years to 19.5 years. It is not expected that Ireland will refinance any of its EFSM loans before 2027. As such we have placed the EFSM loan maturity dates in the 2027-31 range although these may be subject to change.

# 2016-2020 maturity profile improved significantly in recent years

Various operations in last two years have led to an extension of maturity...



... with Ireland comparing favourably to other European countries



Source: NTMA; Eurostat; Q4 2015 figures



# Nearly 40% of Ireland's government debt has maturity over 10 years

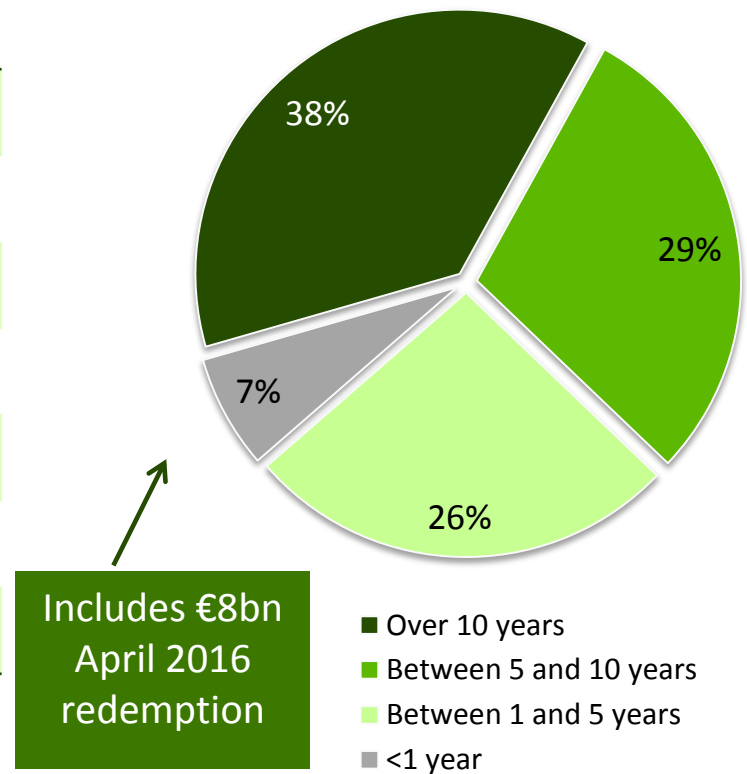
## General Government Debt breakdown

	% share	€bn
<b>Retail</b>	10.1%	20.6
<b>Bonds</b>		
<b>Short-term*</b>	2.3%	4.7
<b>Long-term</b>	60.8%	124.2
<b>Loans</b>		
<b>Short-term*</b>	0.7%	1.4
<b>Long-term</b>	26.1%	53.6

\*Short-term definition : Bonds issued with a maturity of less than 1 year

Source: [CSO \(Q2 2015 data\)](#), NTMA

## Ireland's maturity profile in €bn

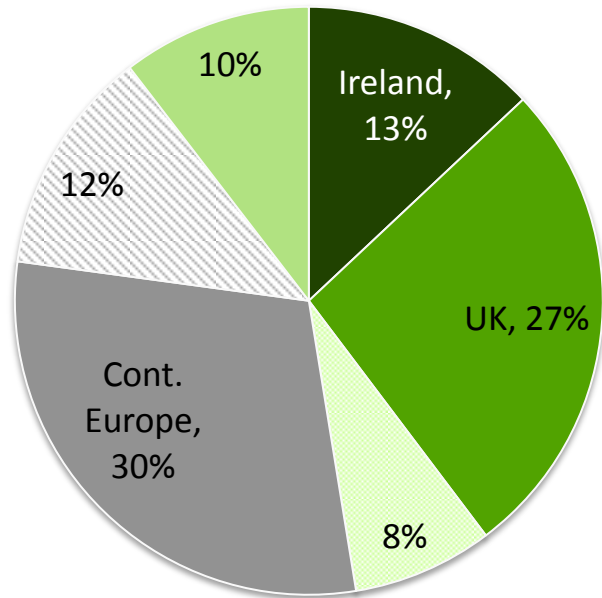


Includes €8bn  
April 2016  
redemption

- Over 10 years
- Between 5 and 10 years
- Between 1 and 5 years
- <1 year

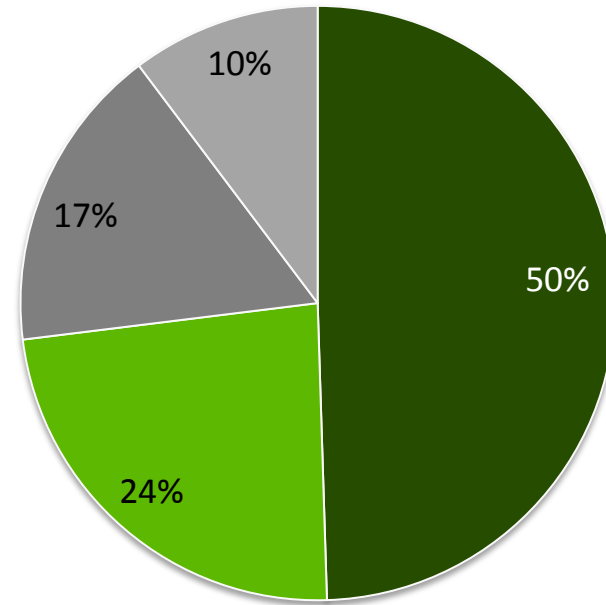
# Investor base for Irish government debt is wide and varied

## Country breakdown – Average over last 7 syndications



- Ireland
- UK
- US and Canada
- Continental Europe
- Nordics
- Other

## Investor breakdown – Average over last 7 syndications

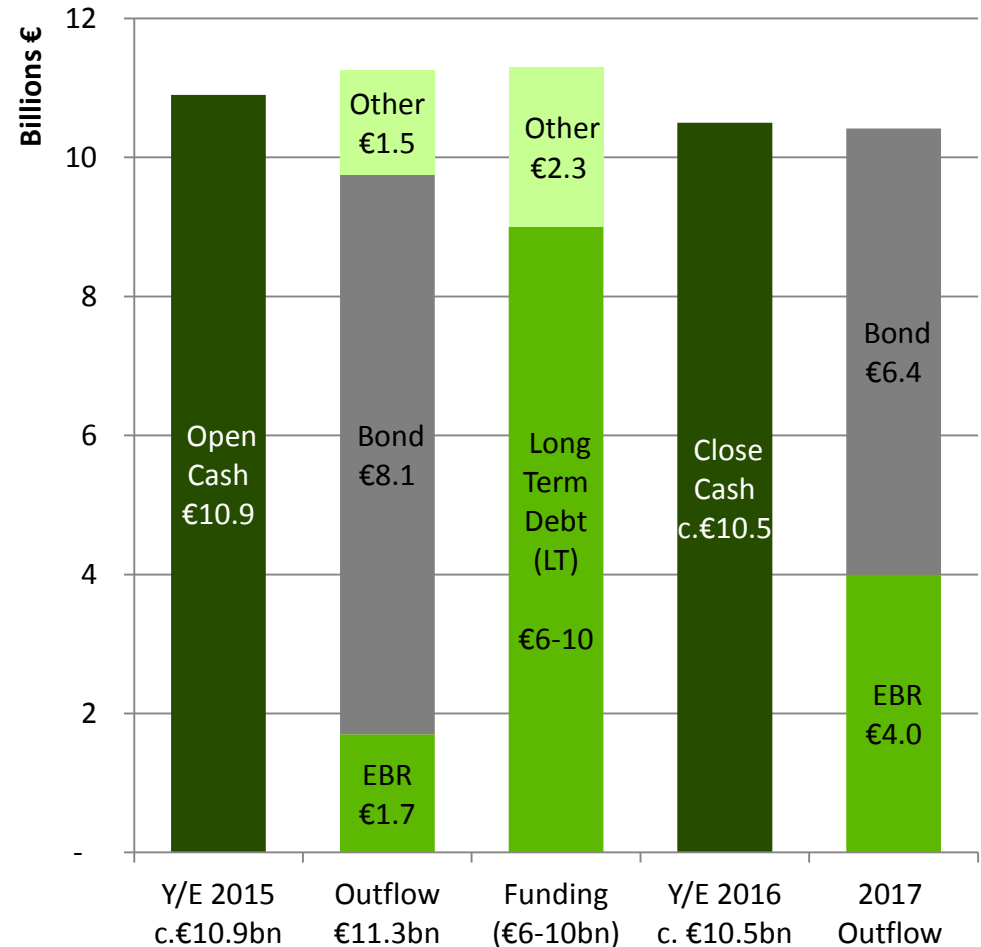


- Fund/Asset Manager
- Banks/Central Banks
- Pensions/Insurance
- Other



# NTMA has been funding approximately 12 months in advance; Less issuance needed in 2016

- With only two major redemptions in 2016/17 issuance is lower in 2016 than in recent years. The next bond redemption is the €8.1bn April 2016 bond.
- NTMA expected to issue €6-10bn worth of long term bonds in 2016. €3bn has already been issued.
- Exchequer had €10.9bn of cash and other liquid assets at end 2015.



Source: [NTMA](#); Department of Finance

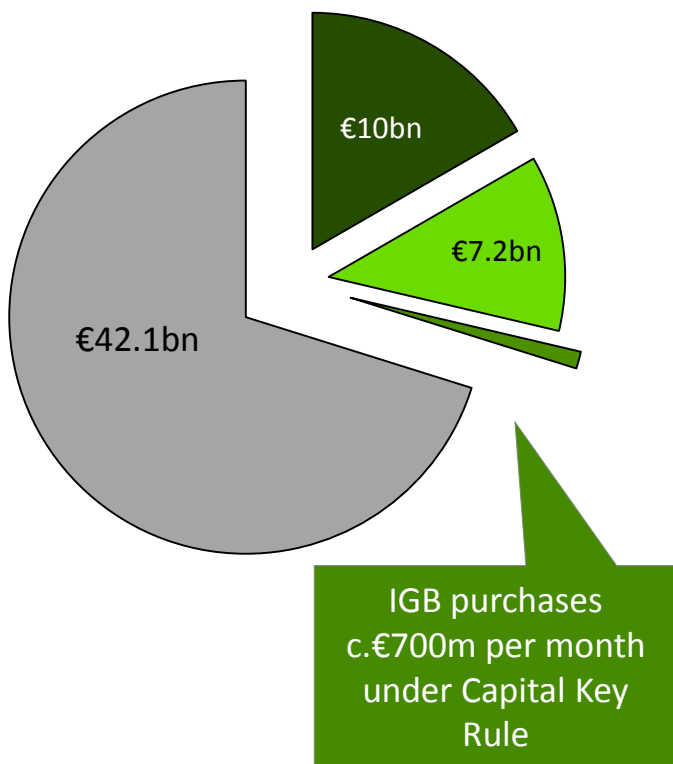
- EBR is the Exchequer Borrowing Requirement
- Cash balances excludes Housing Finance Agency (HFA) Guaranteed Notes and CSA Collateral Funding end-2015 balances. Total Cash and Other Financial Assets at end-2015 were €13.6 billion.
- Other outflows includes contingencies, including for potential bond purchases. Other sources Includes short-term paper, net State Savings (Retail) and other funding.



# Central Bank of Ireland purchasing c.€700m worth of IGBs per month under ECB's QE programme

## Estimated Composition of ECB's QE €60 billion/month programme

- Covered Bonds & ABS
- European Institution securities
- Irish Government Bonds
- Other Government Bonds



€ Bn



Source: NTMA; [ECB](#)

# Greater geographic balance in holdings of Irish Government Bonds (IGBs)

€ million

End quarter	Dec 2013	Dec 2014	Oct 2015
1. Resident	51,747	50,805	49,987
(as % of total)	(46.6%)	(43.7%)	(39.8%)
– Credit Institutions and Central Bank*	49,240	45,875	46,083
– General Government	2,153	1,632	757
– Non-bank financial	-	2,870	2,807
– Households (and NFCs)	354	428	340
2. Rest of world	59,260	65,534	75,554
(as % of total)	(53.4%)	(56.3%)	(60.2%)
<b>Total MLT debt</b>	<b>111,007</b>	<b>116,339</b>	<b>125,541</b>

Source: [CBI](#)

\* In March 2013 resident holdings increased significantly thanks to the IBRC Promissory Note repayment (non-cash settlement) which resulted in €25.034bn of long-dated Government bonds being issued to the Central Bank of Ireland on liquidation of IBRC. The CBI also took €3bn of 2025 IGBs formerly held by IBRC.



# Breakdown of Ireland's General Government debt

€ million	2010	2011	2012	2013	2014
Currency and deposits (mainly retail debt)	13,708	58,386	62,092	31,356	20,918
Securities other than shares, exc. financial derivatives	96,381	94,013	87,297	112,665	119,078
- <i>Short-term (T-Bills, CP etc)</i>	7,203	3,777	2,535	2,389	3,760
- <b>Long-term (MLT bonds)</b>	<b>89,178</b>	<b>90,236</b>	<b>84,762</b>	<b>110,276</b>	<b>115,318</b>
Loans	34,138	37,723	60,849	71,312	63,191
- <i>Short-term</i>	731	558	1,886	1,442	1,320
- <i>Long-term (official funding and prom notes 2009-12)</i>	33,407	37,166	58,963	69,870	61,870
<b>General Government Debt</b>	<b>144,227</b>	<b>190,123</b>	<b>210,238</b>	<b>215,333</b>	<b>203,187</b>
<i>EDP debt instrument assets</i>	<i>33,516</i>	<i>55,170</i>	<i>58,707</i>	<i>54,435</i>	<i>37,127</i>
<b>Net Government debt</b>	<b>110,711</b>	<b>134,953</b>	<b>151,531</b>	<b>160,898</b>	<b>166,060</b>

Source: [CSO \(Oct 2015\)](#)



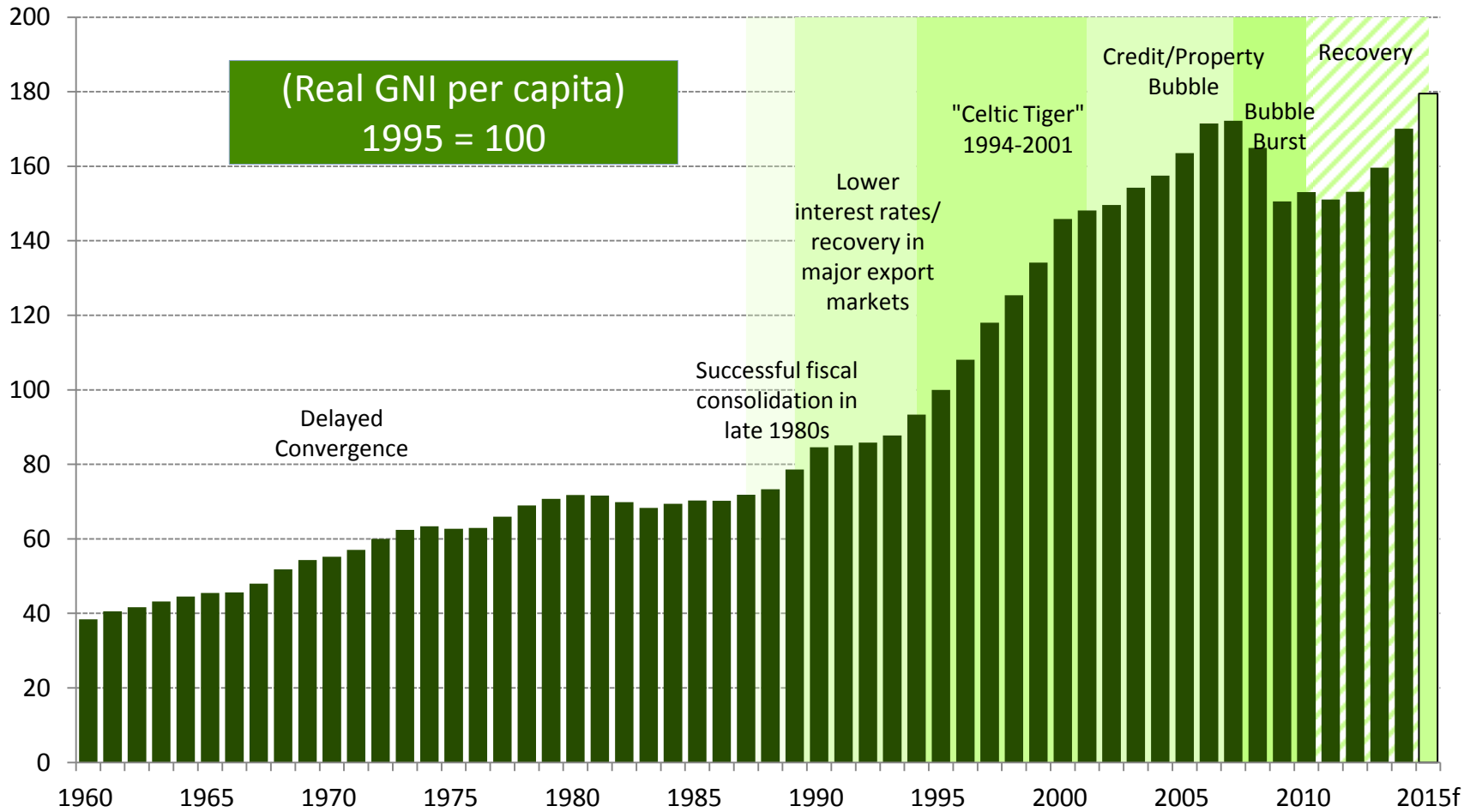


# SECTION 3: LONG TERM FUNDAMENTALS



Rebalancing achieved; Fundamentals are in place but retaining competitiveness is crucial

# Much rebalancing has taken place; 2007 peak in GNI per capita surpassed in 2015

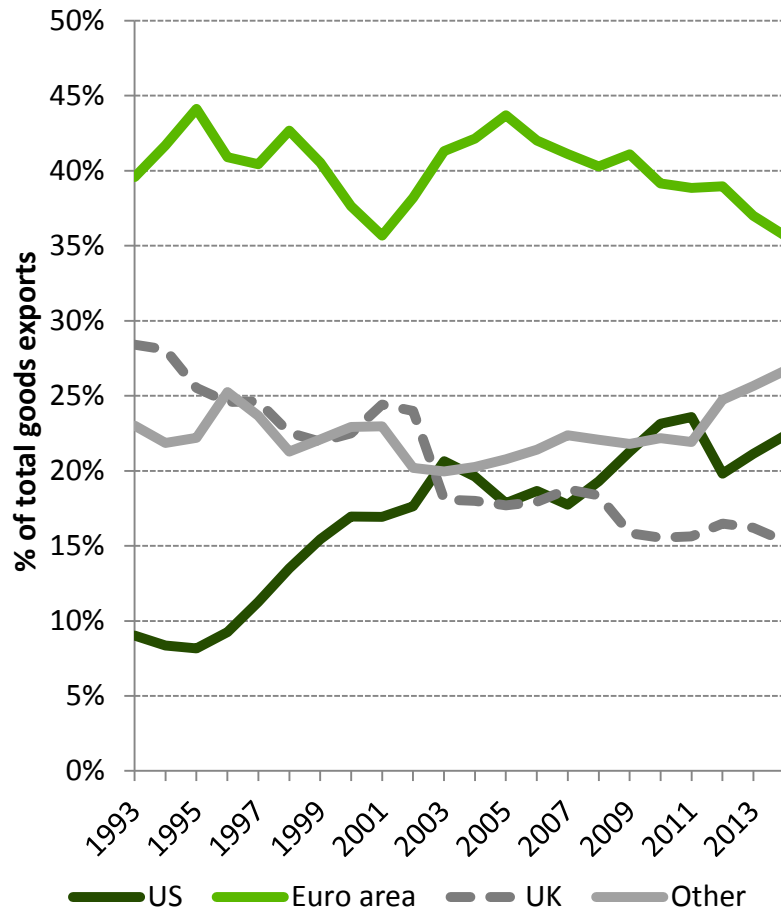


Source: [CSO](#)



# Ireland's openness has been critical to rebalancing

## Ireland benefits from export diversification by destination...



Source: [CSO](#)

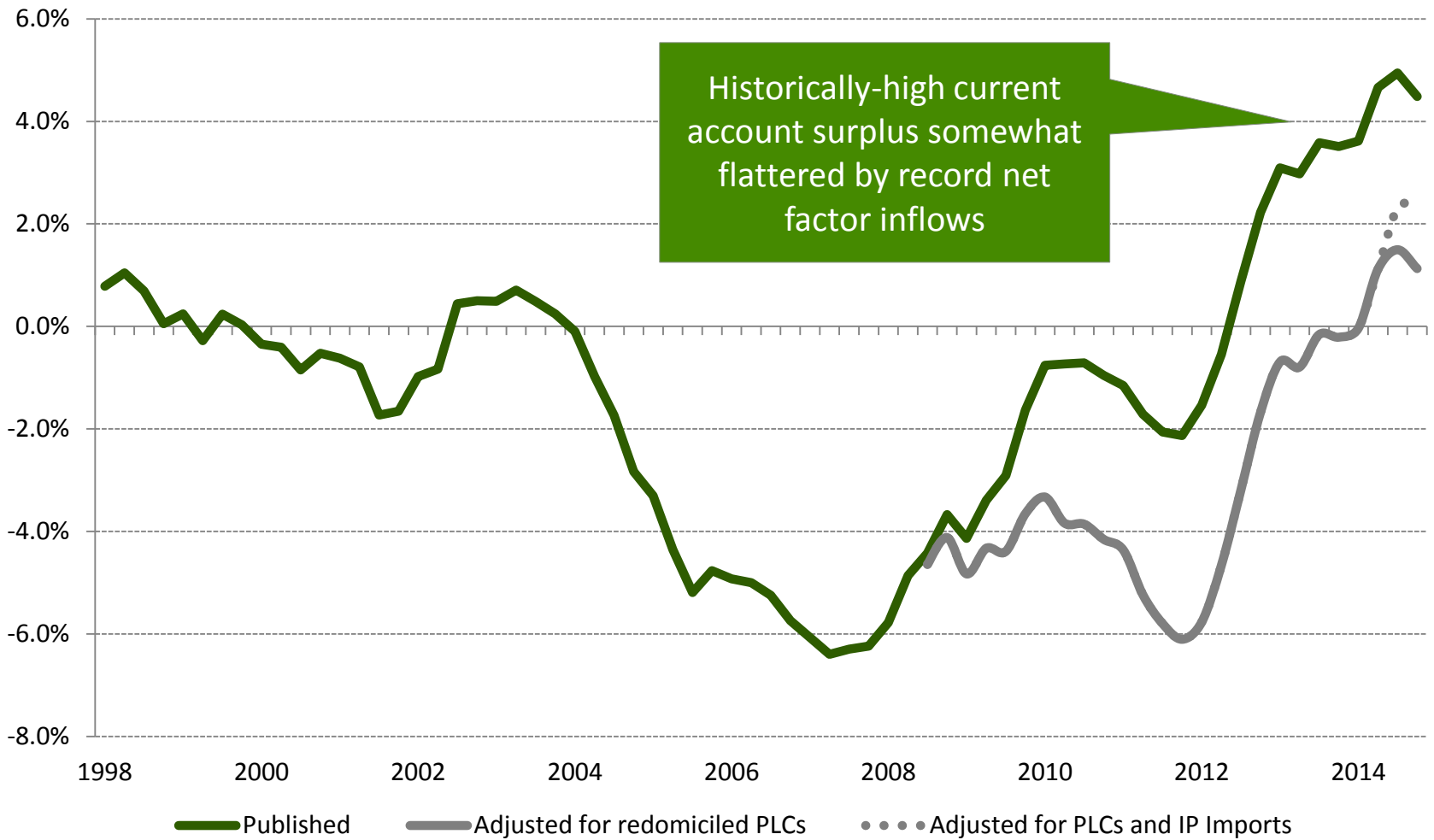
## ...and openness relative to other non-cores

	Exports (%GDP) 1999	Exports (%GDP) 2014
Ireland	85	113
Spain	25	32
Italy	24	29
Portugal	27	40
Belgium	67	86

Source: DataStream (value of exports)



# Ireland's current account in surplus but affected by IP imports and re-domiciled PLCs



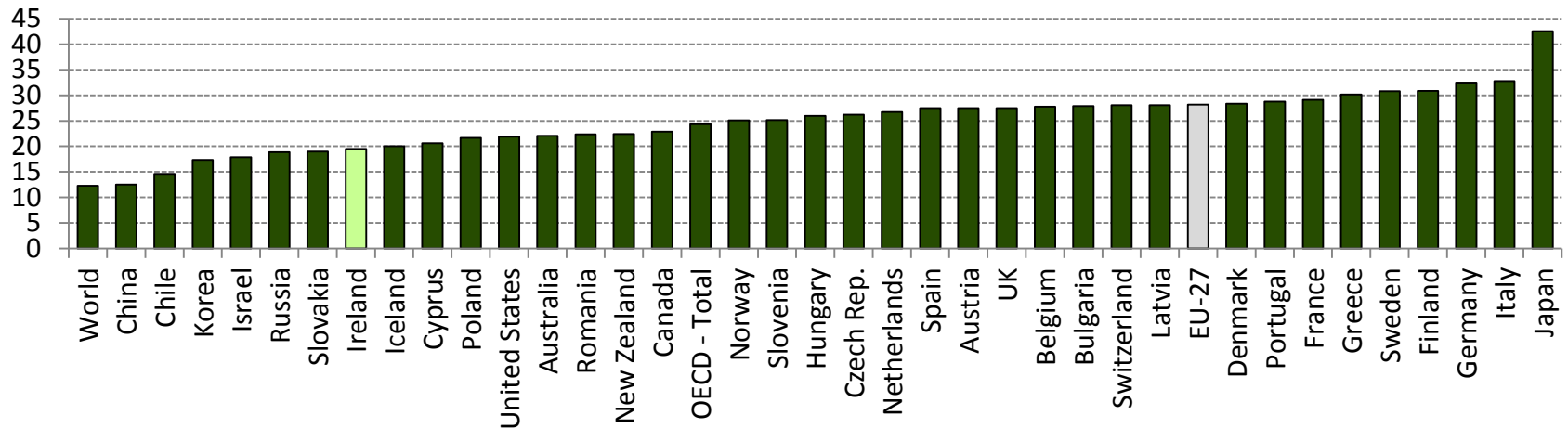
Source: [CSO](#)

\* For estimates of the undistributed profits of redomiciled PLCs see [Fitzgerald, J. \(2013\)](#), 'The Effect of Redomiciled PLCs on GNP and the Irish Balance of Payments'

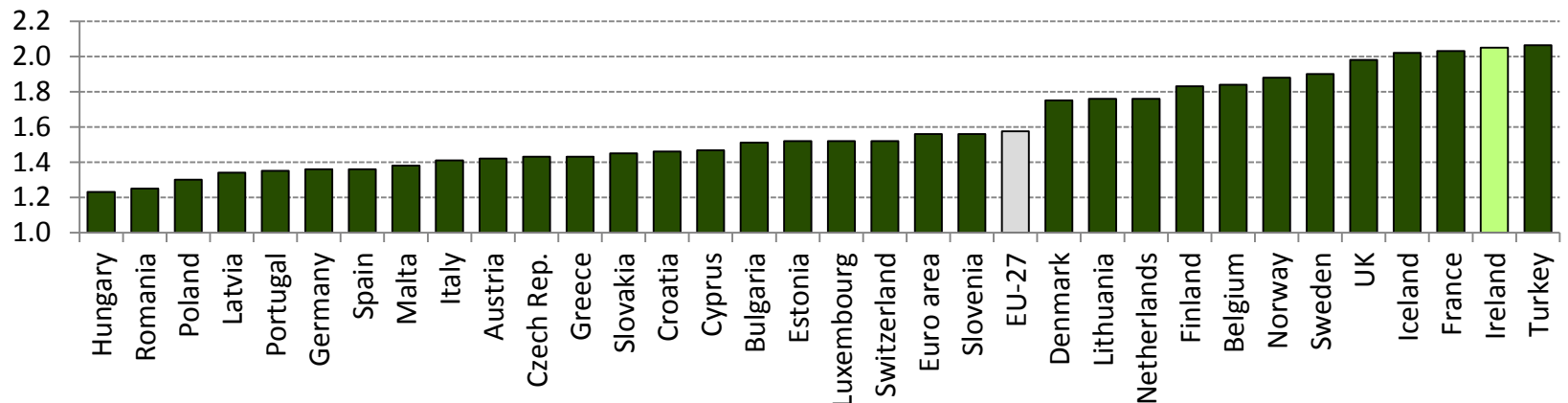


# Favourable population characteristics underpin debt sustainability over longer term

## Old age dependency ratio (65+ : ages 15-64) compares well against OECD countries



## Fertility rates in Ireland are above typical international replacement rates

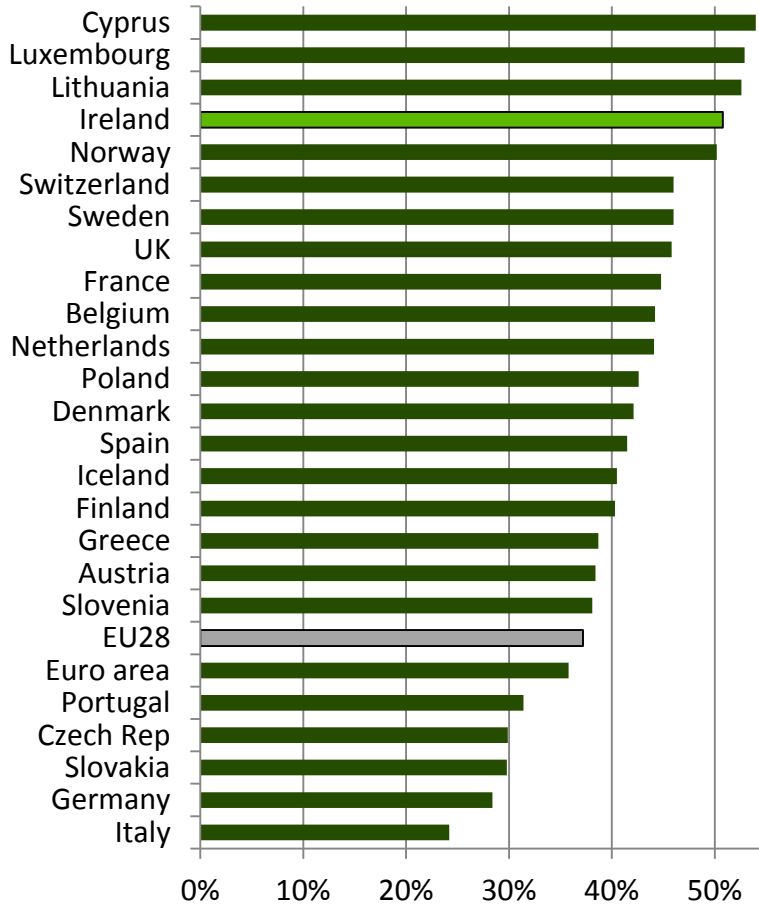


Source: [World Bank WDI \(2013\)](#); [OECD \(2014\)](#)

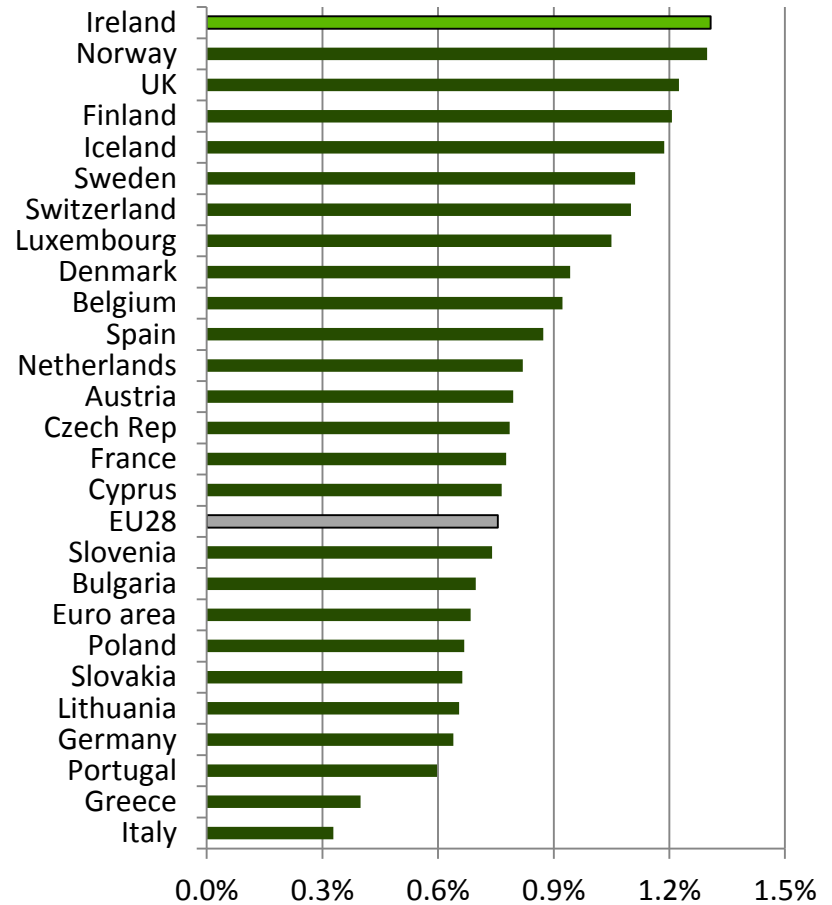


# Workforce is young and educated - especially so in IT sector

## Ireland has one of the largest % of 25-34 years old with a third-level degree...



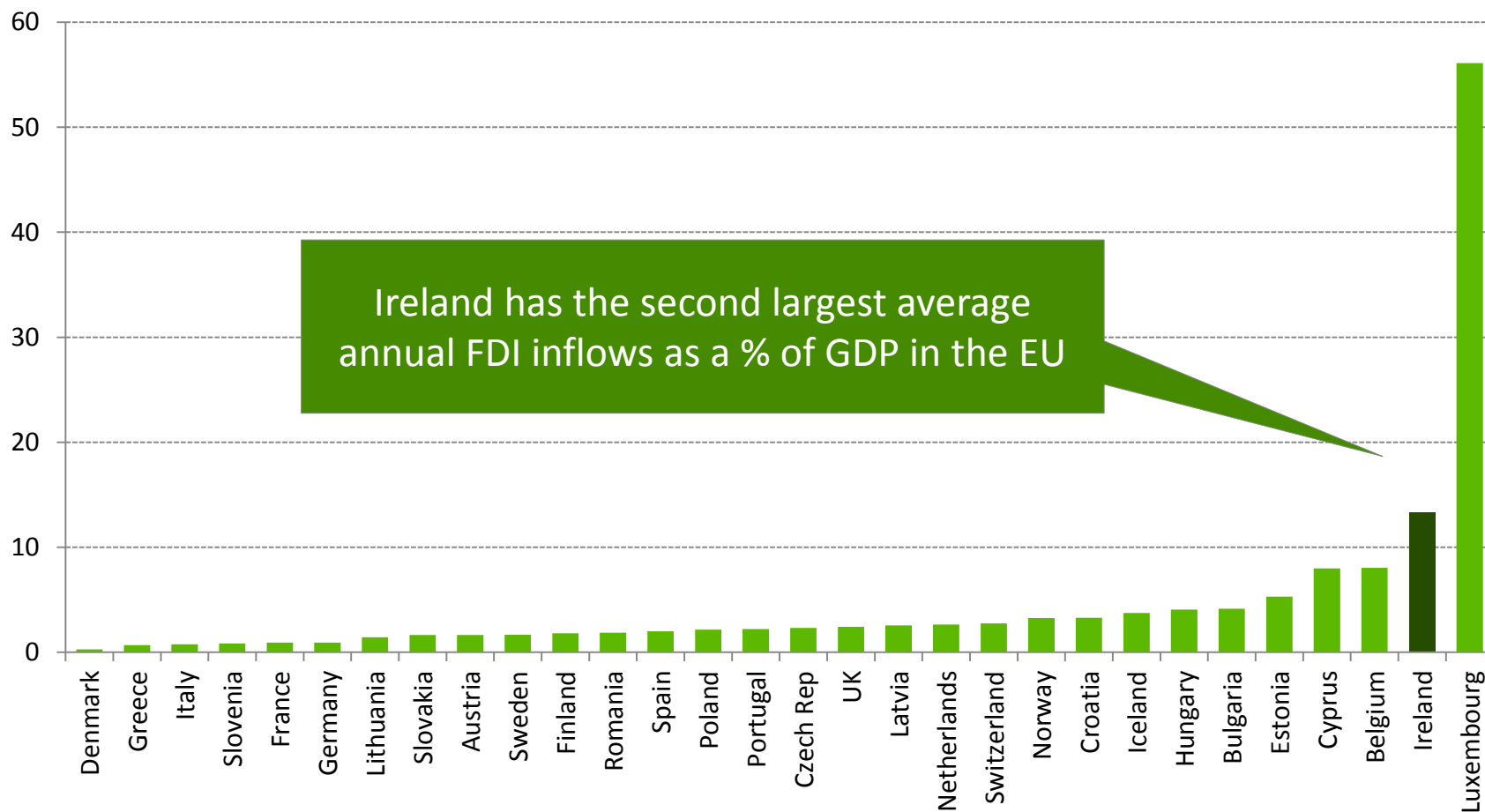
## ...and the highest % of population working in IT with a third-level degree



Source: [Eurostat](#)



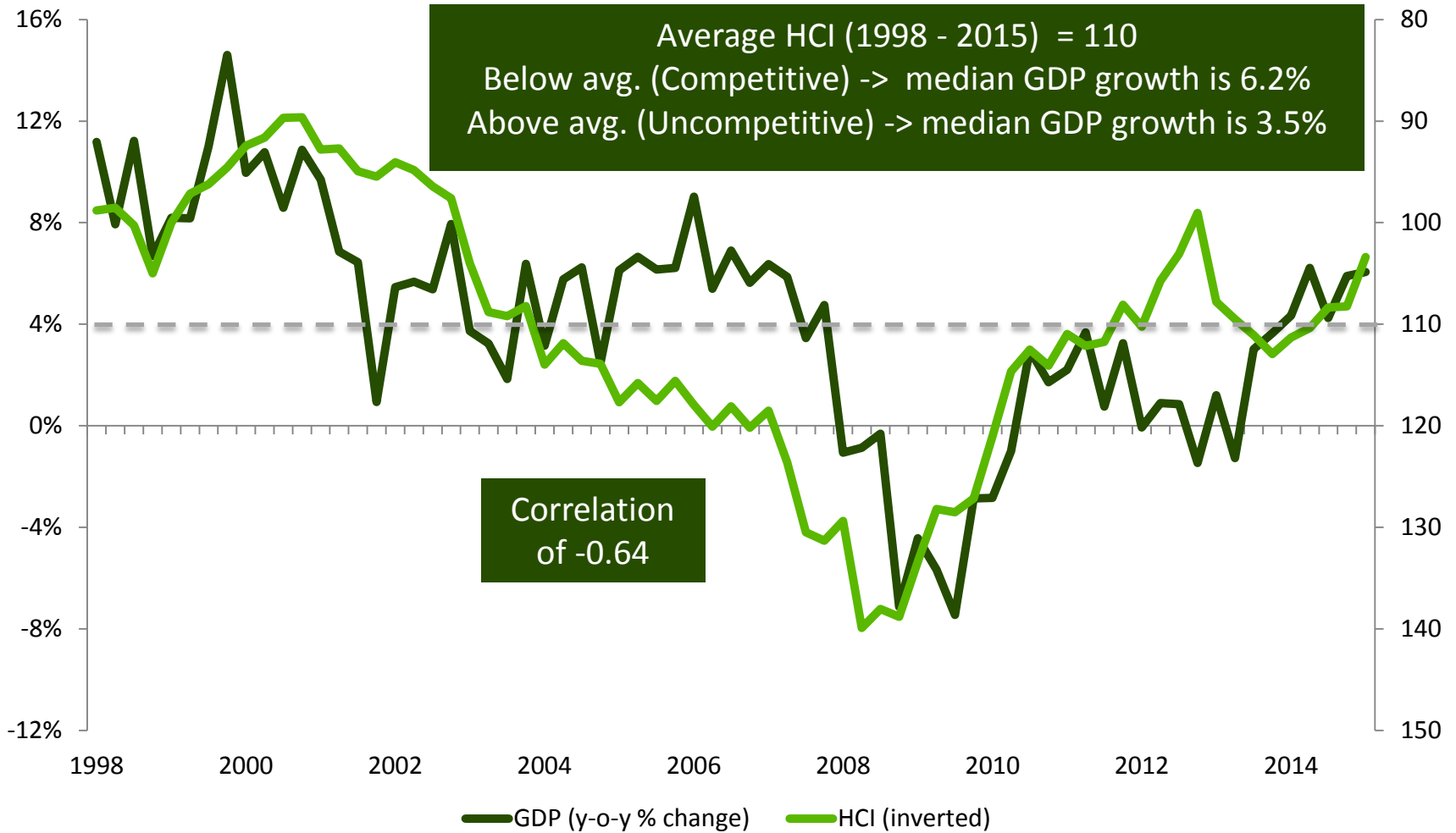
# Ireland continues to attract foreign investment (average FDI inflows per annum as a share of GDP, 2009 – 2014)



Source: [UNCTADStat](#)



# Despite the underlying fundamentals competitiveness is crucial for Ireland's future growth

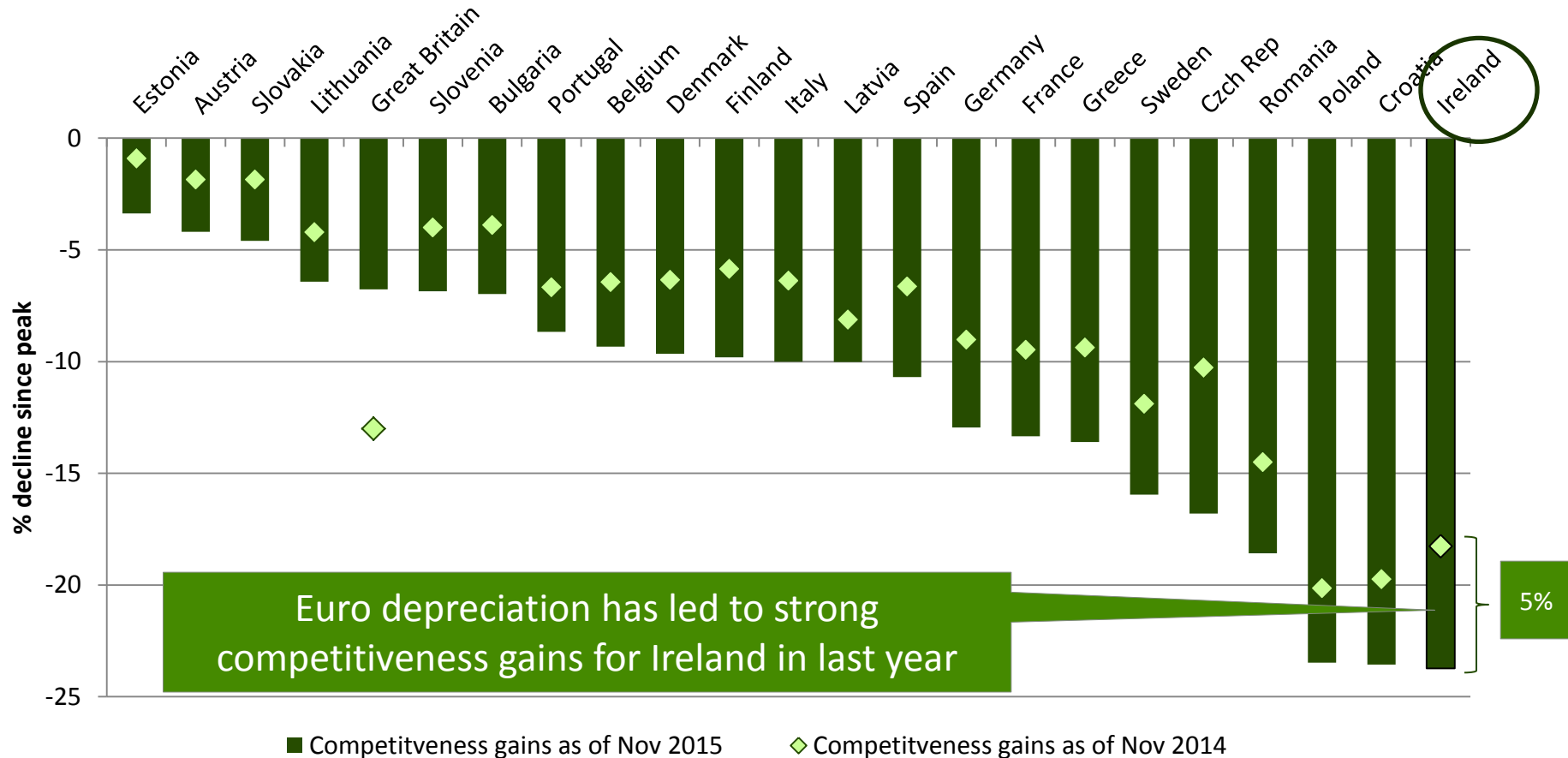


Source: [CSO](#), [CBI](#)





# Competitiveness recovery still exceptional even when compositional effects are accounted for



Euro depreciation has led to strong competitiveness gains for Ireland in last year

5%

Source: Bruegel - 'Real effective exchange rates for 178 countries: a new database'

Note: REERs cover business sector excluding agriculture, construction and real estate activities and are calculated against 30 trading partners using fixed weights from Q1 2008. Data available to **Nov 2015**. See [Darvas, Z \(2012\)](#) for more details.

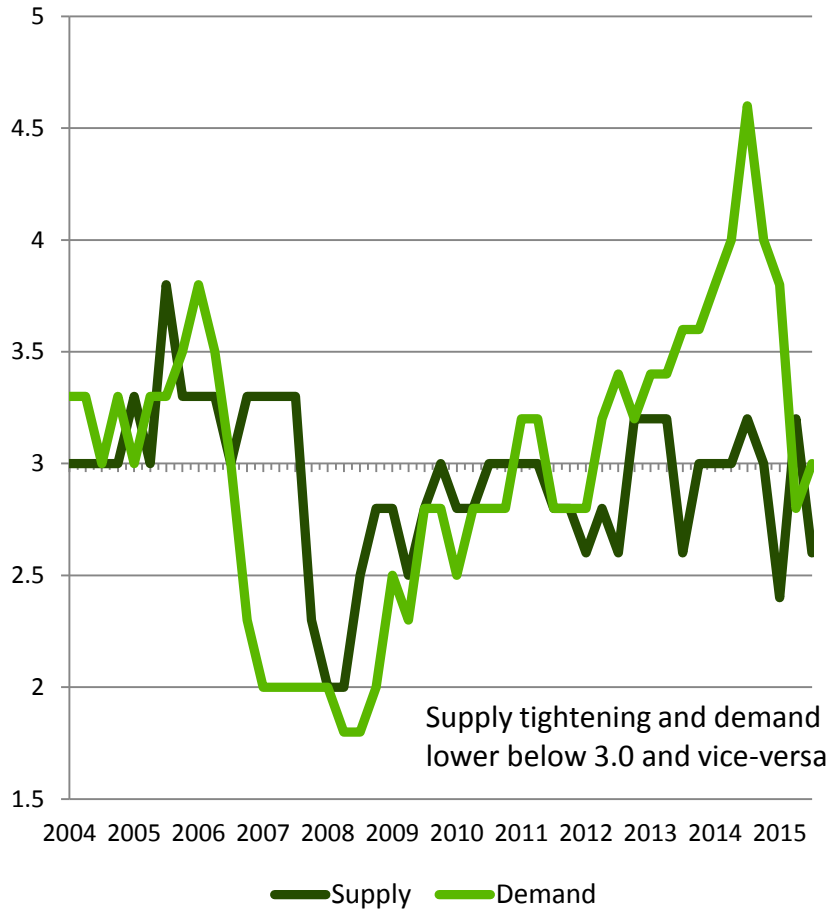
## SECTION 4: PROPERTY



Property prices rising thanks to lack of supply, reasonable starting valuations and strong capital inflows

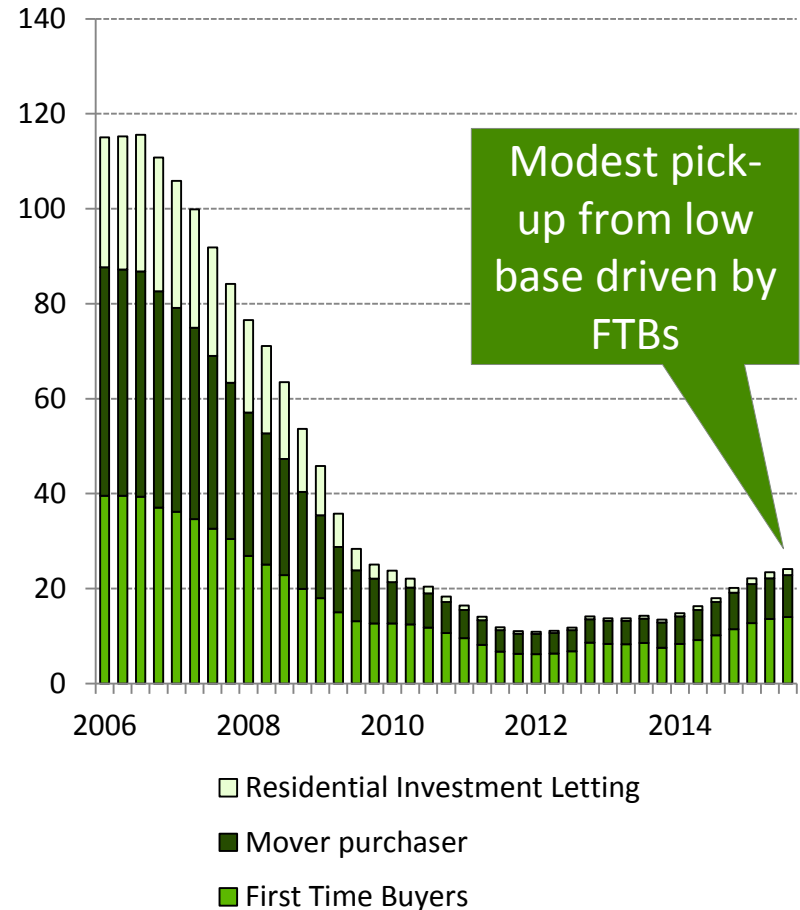
# New CBI mortgage rules impact demand before and after introduction

## Demand & credit standards tighten following CBI rules



Source: ECB and [CBI](#) (Bank lending survey)

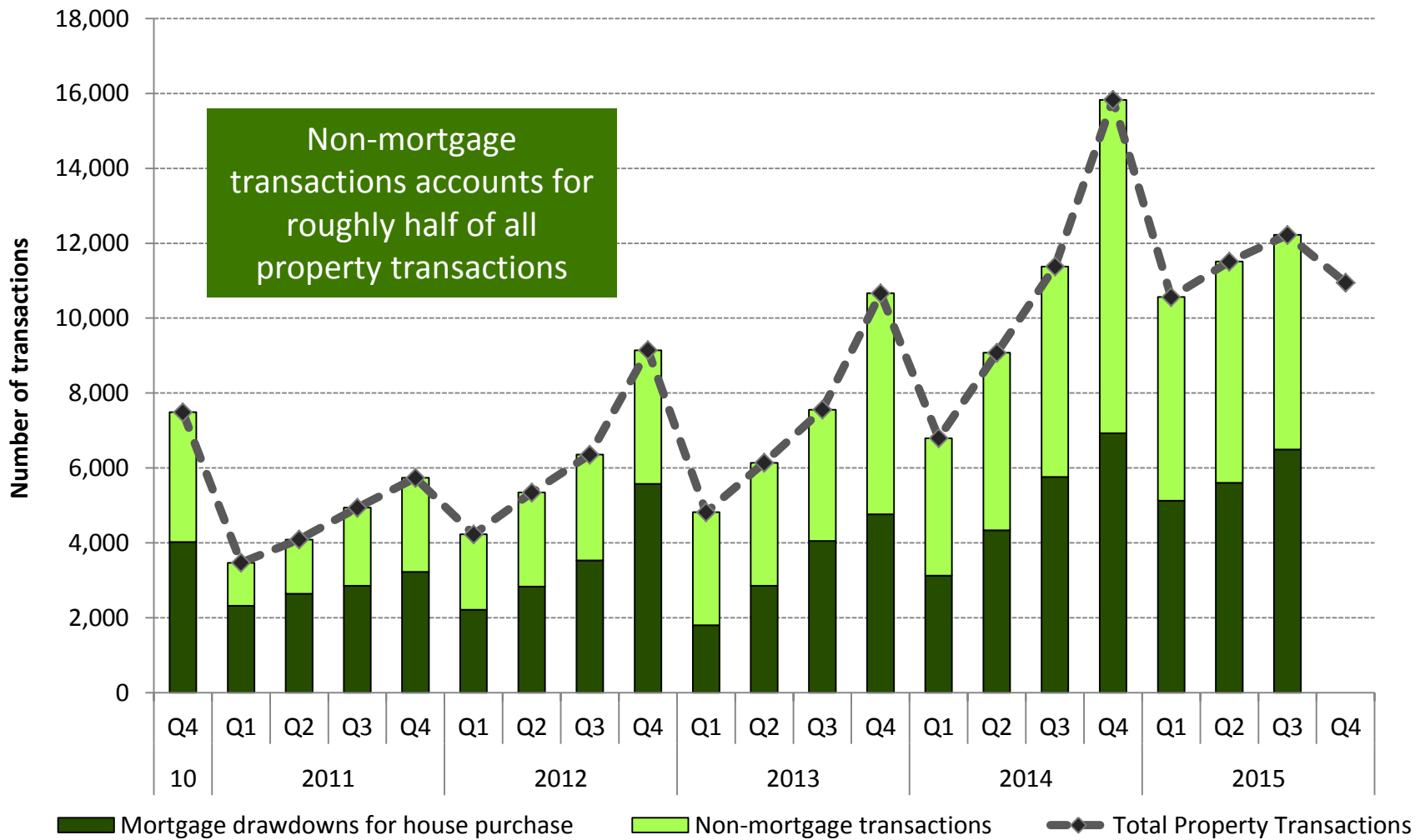
## Mortgage drawdowns rise from deep trough ('000s)



Source: [BPMI](#)



# Residential market continues to be boosted by non-mortgage purchasers



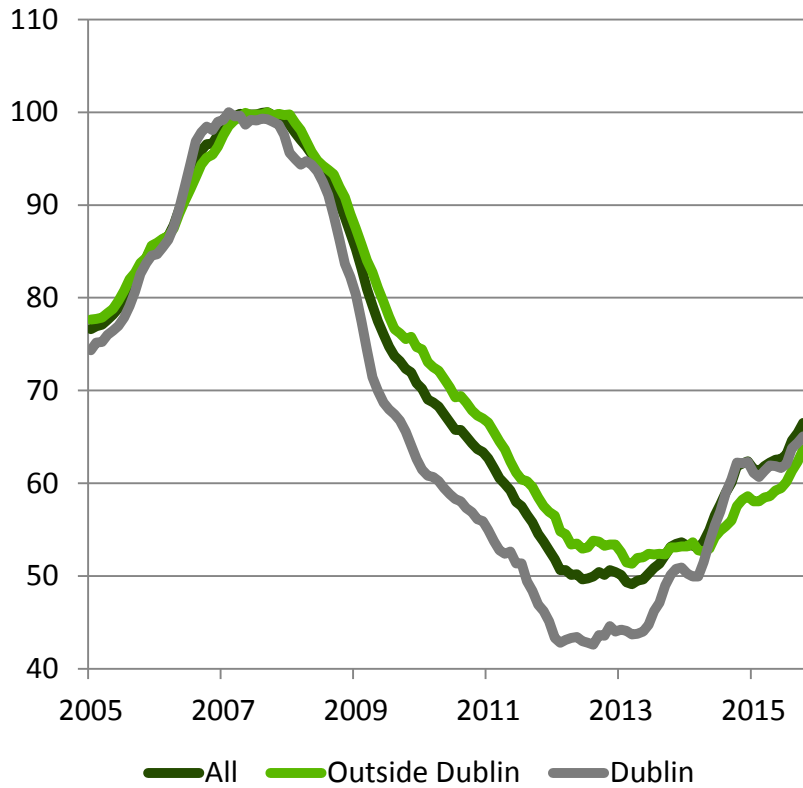
Source: [BPMI](#); [Property Services Regulatory Authority](#); NTMA

Note: Non-mortgage transactions are implied by difference between total transactions on property price register and BPMI mortgage data

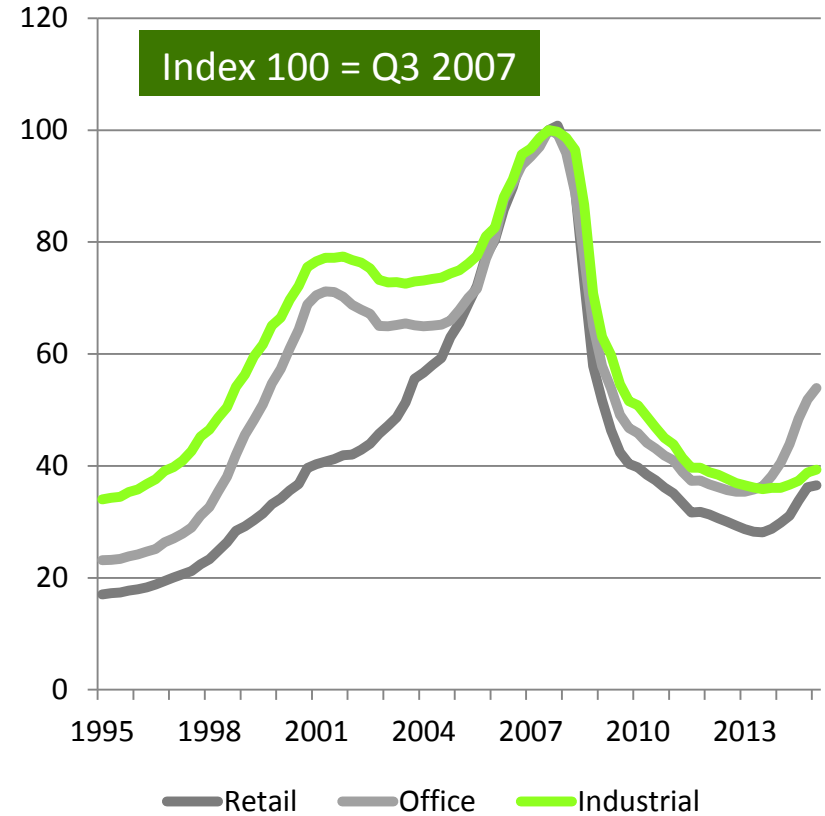


# Property prices have rebounded since 2012 (peak = 100 for all indices)

## House prices surge, led by Dublin



## Office leads commercial property

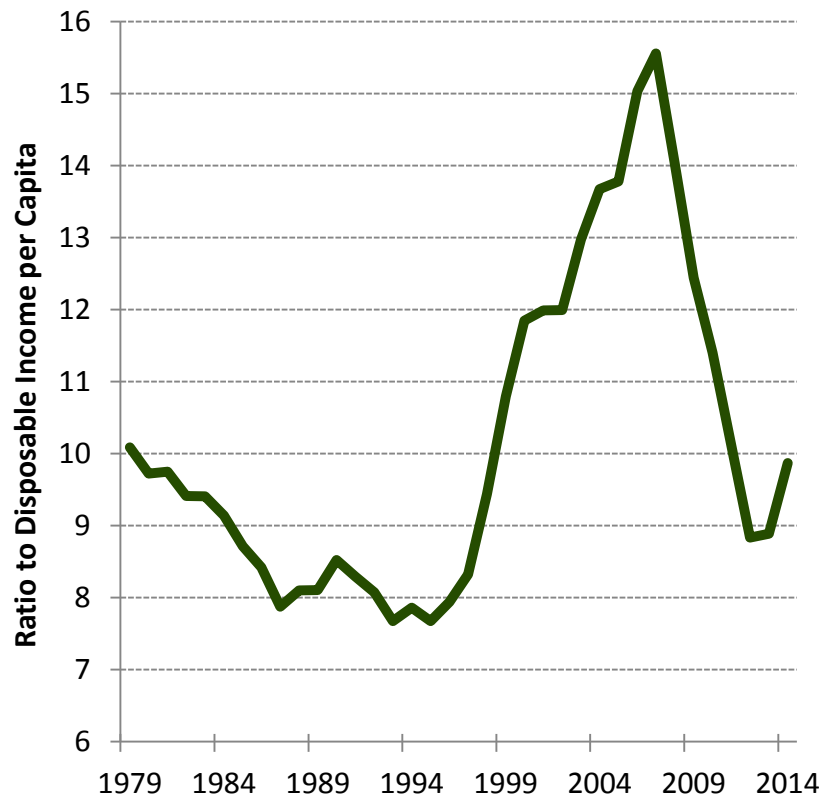


Source: [CSO](#); IPD

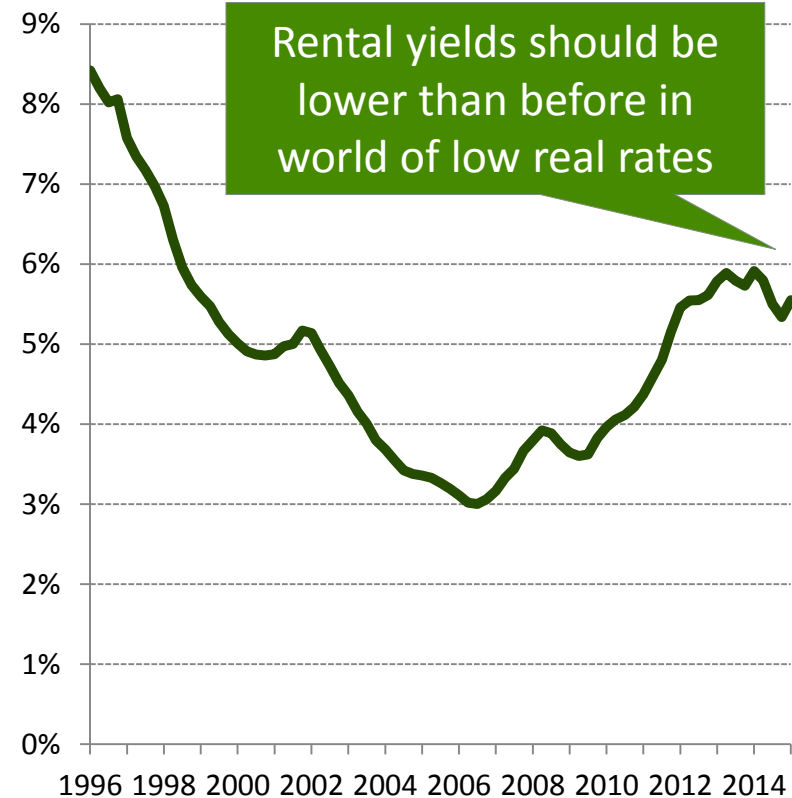


# Housing valuations are still relatively attractive

## Average Irish house prices/ disposable income per capita

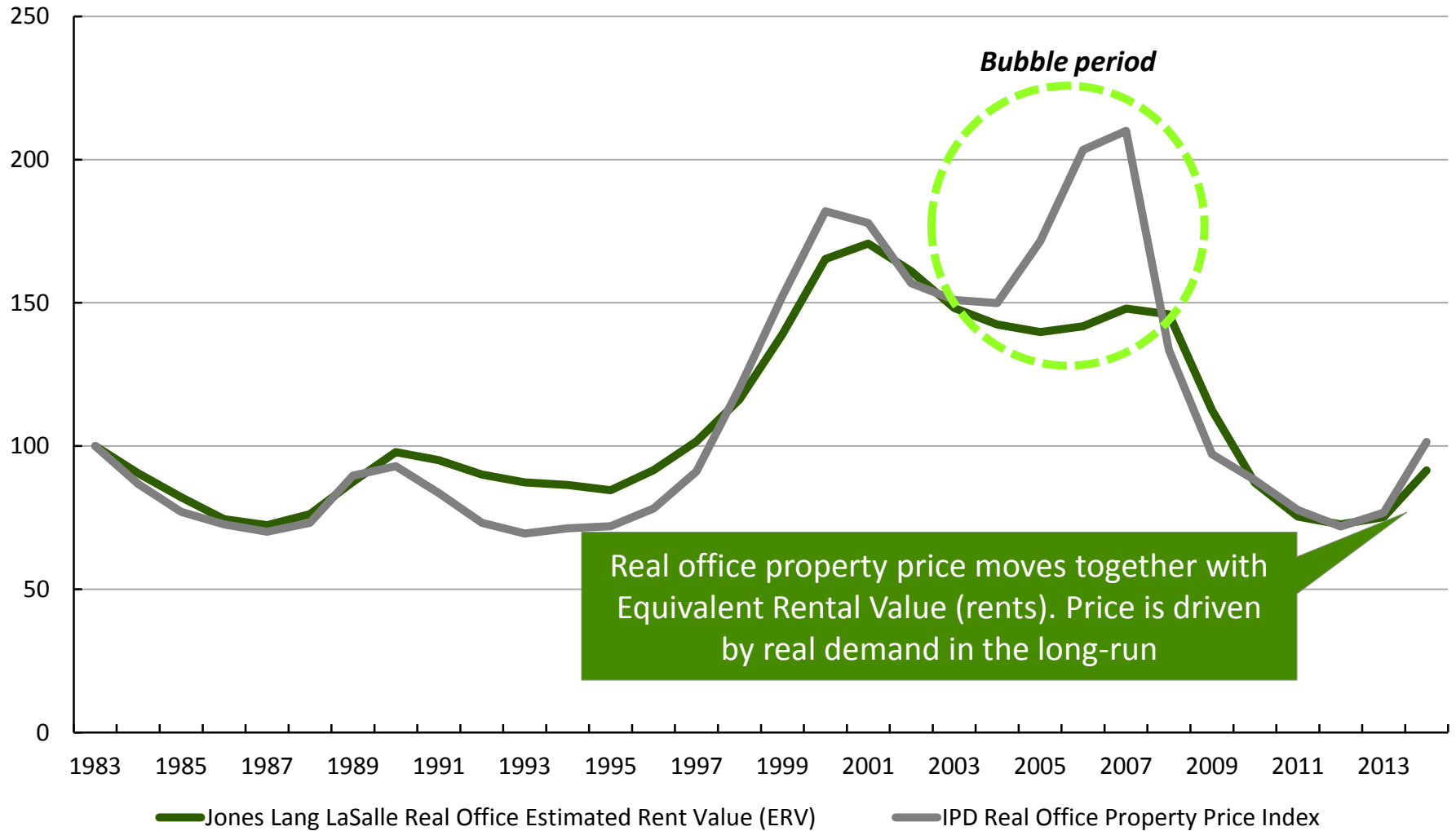


## Rental yields still exceed 5%



Source: CSO; NTMA, IPD

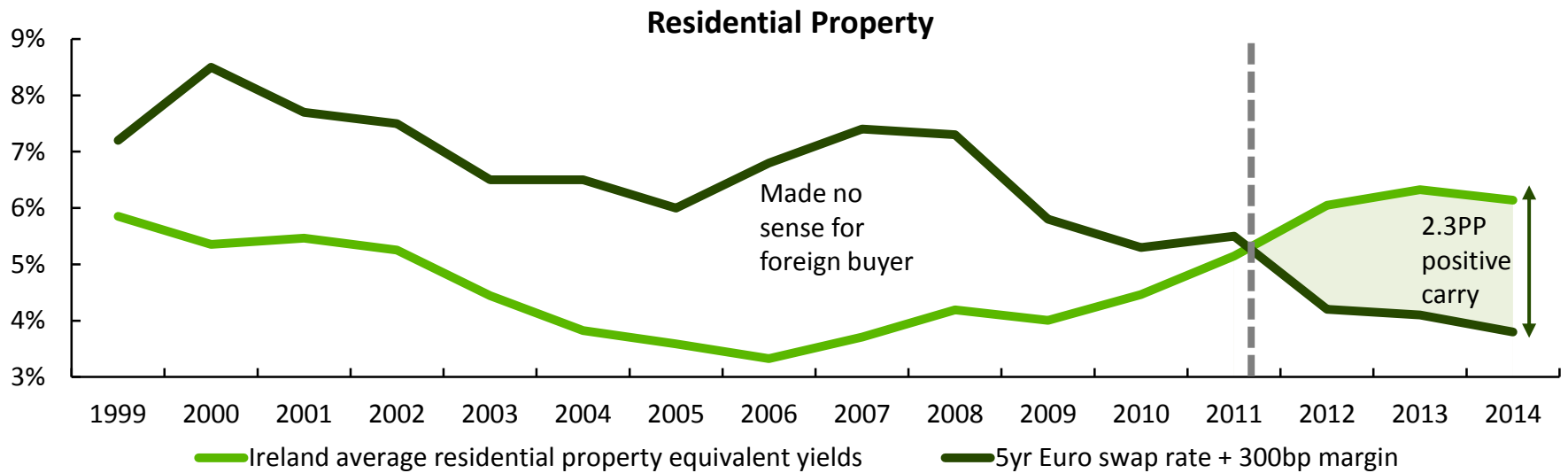
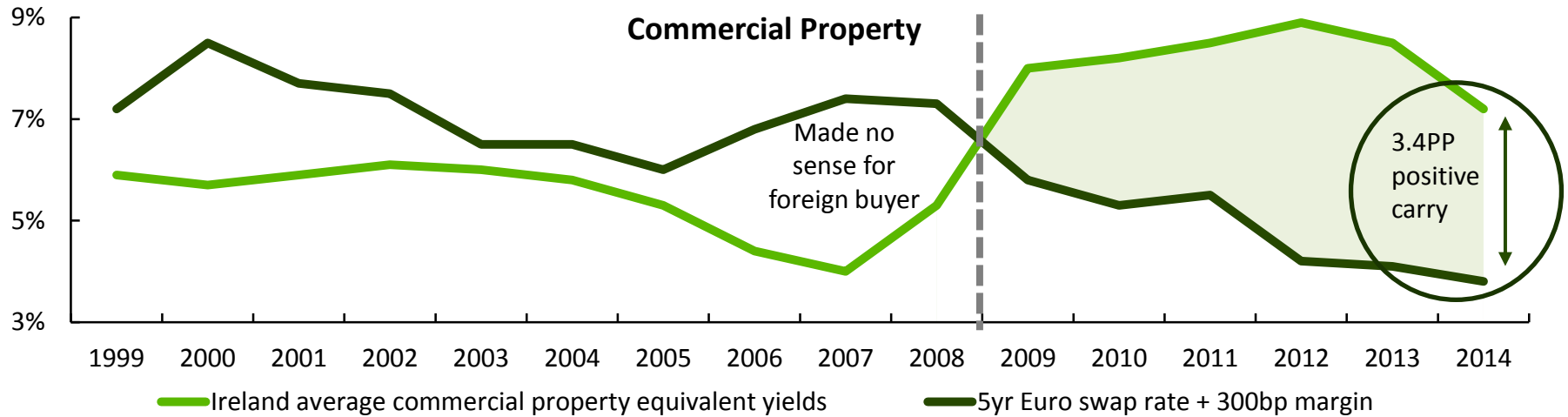
# Real commercial property prices down 52% from peak (index 1983 = 100)



Source: Jones Lang LaSalle; IPD; NTMA



# Foreign buyers interested on "carry trade" grounds

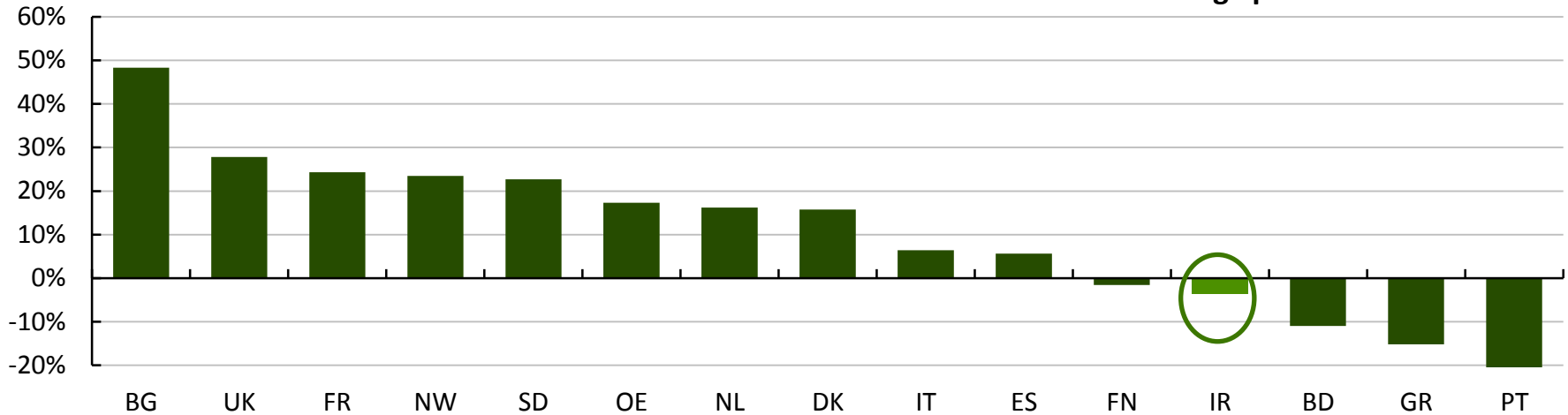


Source: IPD; NTMA

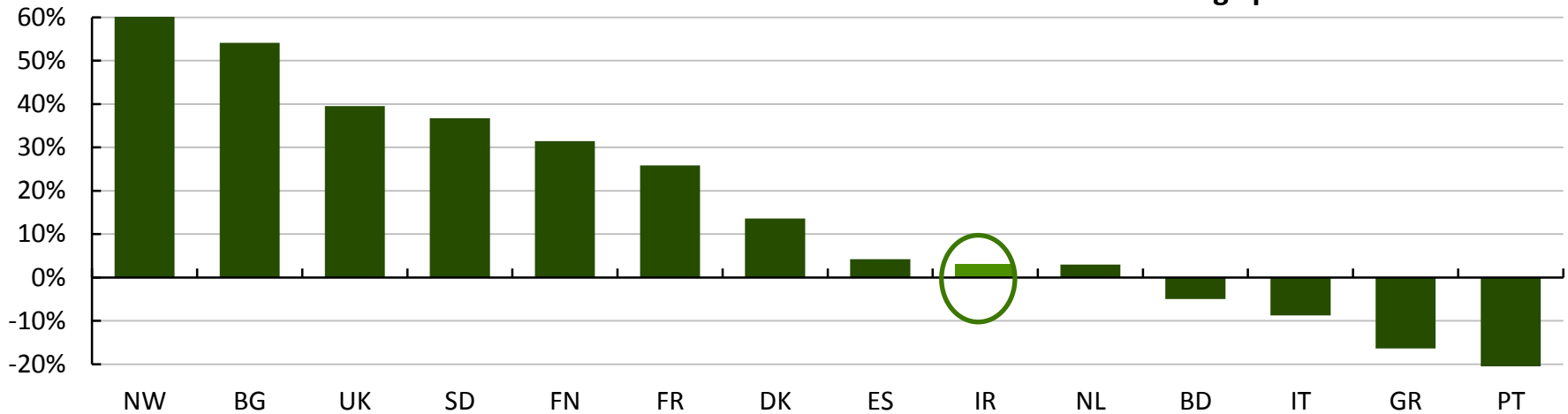


# Irish house price valuation is still attractive versus European countries

Deviation from average price-to-income ratio



Deviation from average price-to-rent ratio



Source: OECD, NTMA Workings

Note: Measured as % over or under valuation relative to long term averages since 1990.

# SECTION 5: NAMA



NAMA is set to make a profit of up to €2bn on wind-up

# NAMA: over 70% of its original debt repaid

- **NAMA's operating performance is strong**
  - ▶ Acquired 12,000 loans (over 60,000 saleable property units) related to €74bn par of loans of 758 debtors for €32bn
  - ▶ NAMA continues to generate net profit after impairment charges.
- **Repaid €22.1bn (73%) of €30.2bn of original senior debt**
  - ▶ NAMA is meeting its senior debt redemption targets ahead of schedule. Originally, a target of 50% of redemptions was set for 2016. The Agency now plans to redeem a total of 80% of its senior debt by 2016.
- **NAMA may realise a surplus of up to €2bn, market conditions remaining favourable**
- **In October 2015, NAMA announced a new initiative to develop up to 20,000 housing units by 2020.**



# NAMA's Residential Development Funding Programme

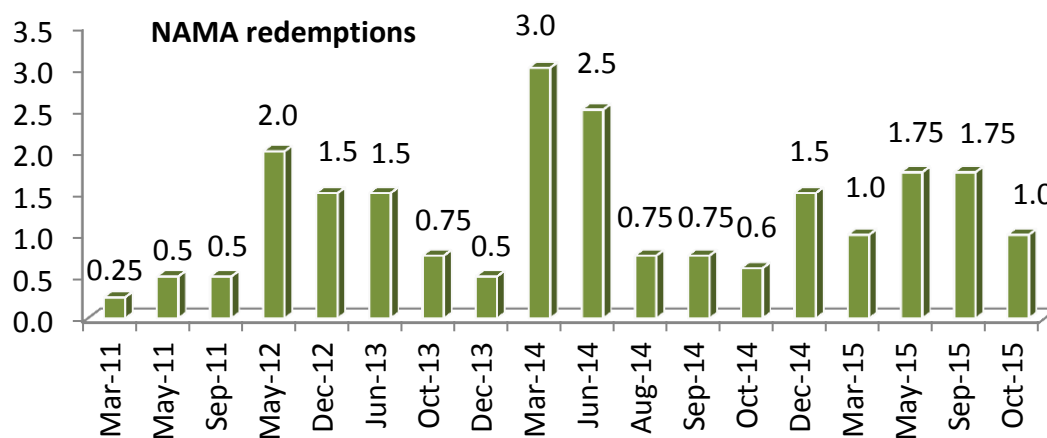
- ▶ **In reaction to the lack of housing supply, NAMA hopes to bring up to 20,000 housing units to the market by 2020 under programme**
  
- ▶ **The focus will be on starter homes and will be concentrated in the Greater Dublin Area**
  - 75% of units will be houses, 25% apartments
  - 90% of units in Greater Dublin Area (Dublin, Wicklow, Kildare & Meath)
  
- ▶ **Progress so far has been strong**
  - In addition to the 2,300 units already delivered by NAMA, construction has begun on sites which will ultimately deliver another 3,000 units.
  - Another 5,000 units have received planning permission with construction expected to begin on the majority of these in 2016.
  - Planning applications have been lodged or will be lodged within 12 months for another 9,900 units. Another 32,500 units are at the pre-planning stage or feasibility stages.
  
- ▶ **Existing NAMA commitments are unaffected by this new programme**
  - Plans for all senior debt to be repaid by 2018 and subordinated debt repaid by March 2020 are still in train

# NAMA: financial summary

## 2011 – 2014 Financial results (€m)

	2011	2012	2013	2014
Net interest income	771	894	960	642
Operating profit before impairment	1,278	826	1,198	648
Impairment charges	(1,267)	(518)	(914)	(137)
Profit before tax and dividends	11	308	283	510
Tax (charge)/credit and dividends	235	(76)	(70)	(52)
<b>Profit for the year</b>	<b>246</b>	<b>232</b>	<b>213</b>	<b>458</b>

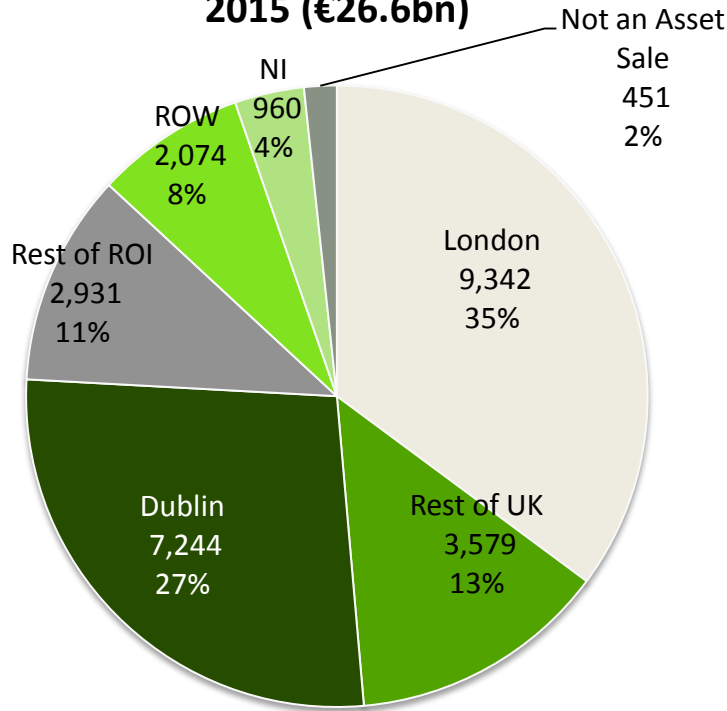
Source: NAMA



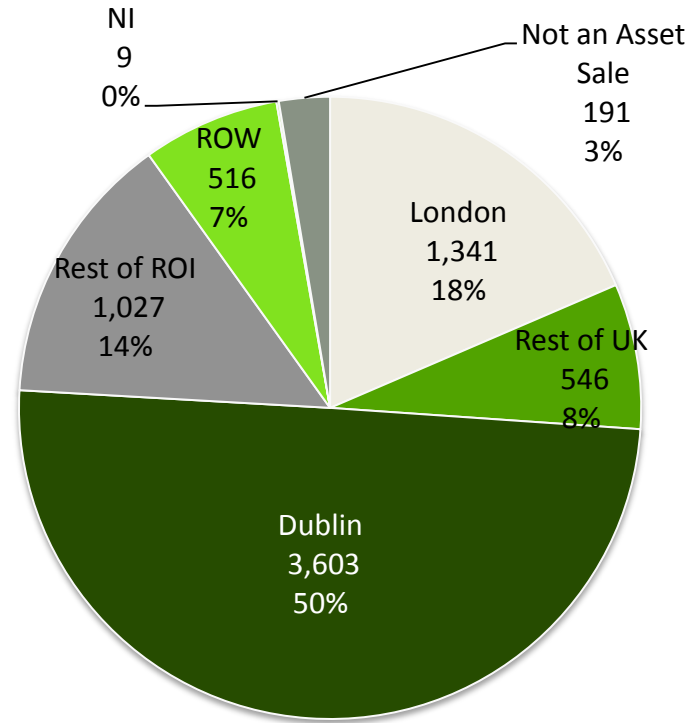
- **NAMA continues to generate net profit after impairment charges.**
- 2014 operating profit and impairment charges much lower than previous years
- €1bn of NAMA senior bonds redeemed in Oct 2015 bringing total amount redeemed to €22.1bn (73% of its senior debt liabilities)
- **All of €30.2bn in NAMA senior bonds expected to be redeemed by 2018**

# Disposal Trend by Location

**Disposals by Location since Inception Nov 2015 (€26.6bn)**



**Disposals by Location Nov 2015 (€7.2bn)**

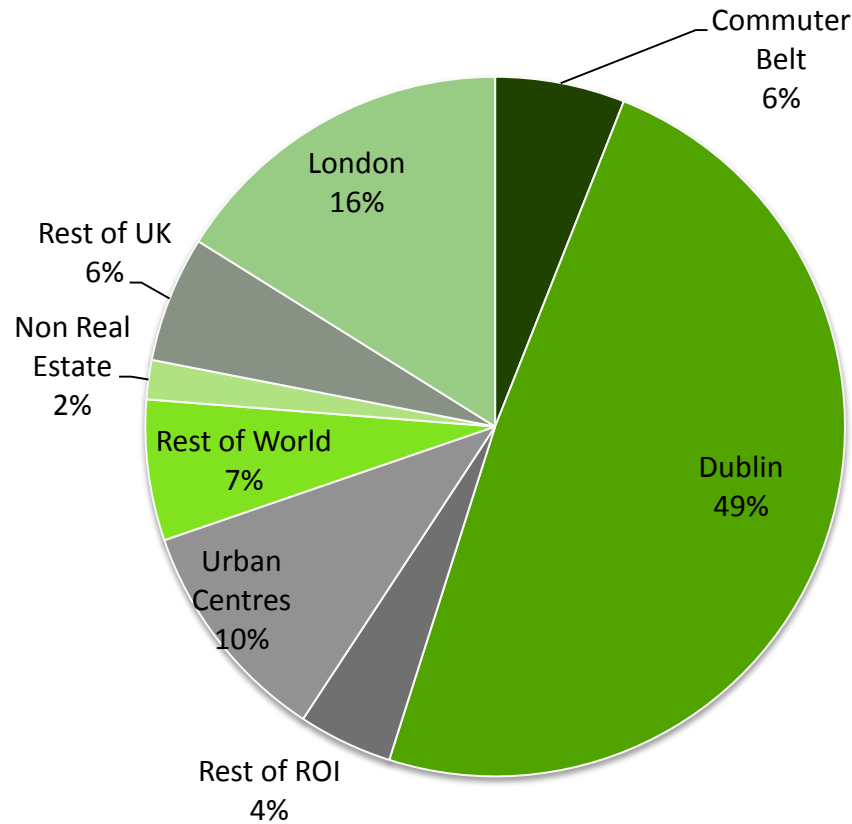


- Deliberate NAMA focus on UK disposals during 2010 – 2013 period.
- ROI transactions have increased significantly since Q4 2013 - from €2bn to €10.2bn.

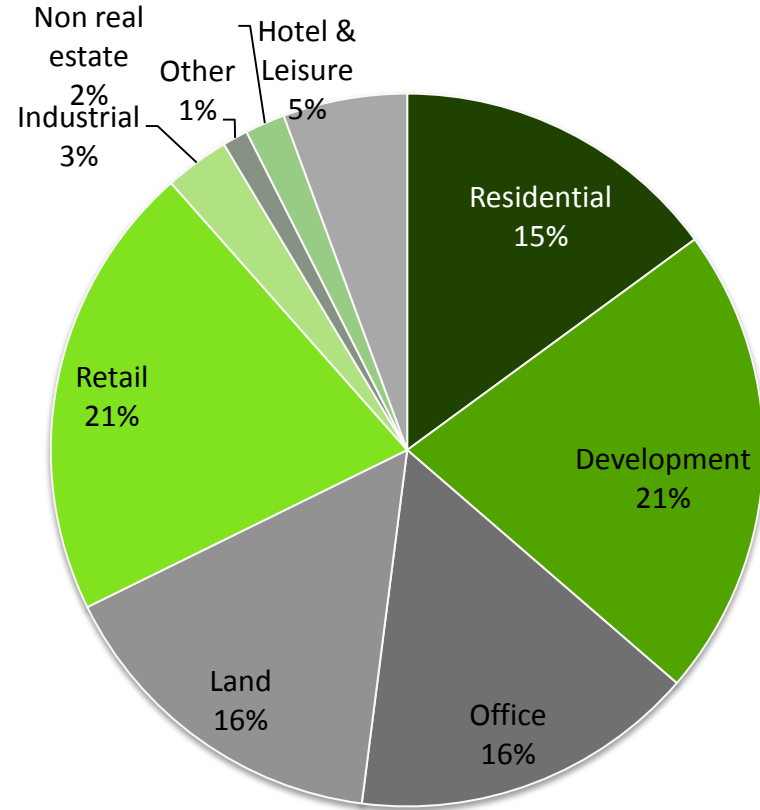


# Breakdown of NAMA property portfolio, June 2015

## Geographic Breakdown



## Sector Breakdown



Over 90% of remaining portfolio in Ireland is in Greater Dublin Area or in other urban centres

# NAMA: Other strategic initiatives also progressing

## ▶ **Dublin Docklands Strategic Development Zone (SDZ):**

- A core objective of NAMA's development funding is to facilitate the delivery of Grade A office accommodation in the SDZ.
- NAMA has an interest in 14 of the 20 development blocks identified in the SDZ and has developed detailed strategies for these blocks.
- It is estimated that up to 3.8m sq. ft. of commercial space and 2,000 apartments could be delivered in all sites. This includes one additional site at City Quay (just outside the SDZ). Planning achieved on 2.2m sq. ft., 0.36m sq. ft. in the planning system and over 1.2m sq. ft. at pre-planning stage

## ▶ **Social Housing:**

- A SPV – NARPSL – was established by NAMA to expedite social housing delivery. It acquires residential units from NAMA debtors and receivers and leases them directly to approved housing bodies (Department of the Environment, Community and Local Government; and the Housing Agency).
- By end-December 2015, 2,000 units were delivered under this initiative. Since the start of 2012, NAMA has identified over 6,600 houses and apartments, controlled by its debtors and receivers, as available for social housing. 2,578 of these units have been confirmed as suitable by local authorities.



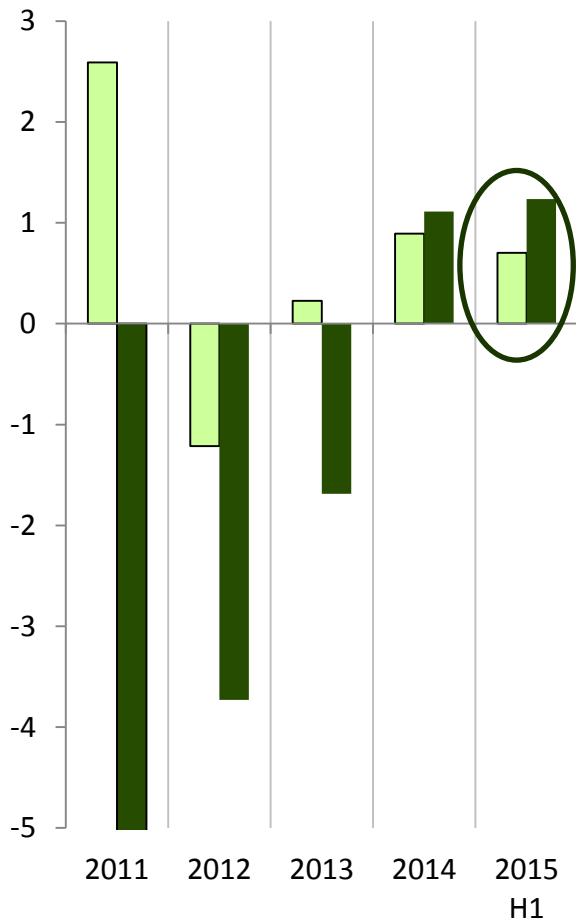
## SECTION 6: BANKING



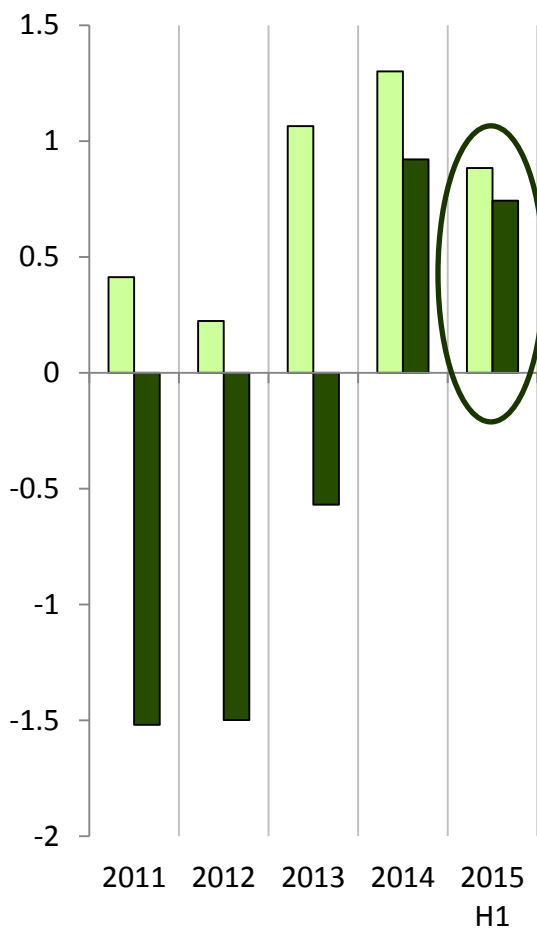
Banks overhauled and smaller; AIB, BOI and PTSB have returned to profit

# AIB and BOI returned to profit in 2014 (€bn); PTSB broke even in H1 2015

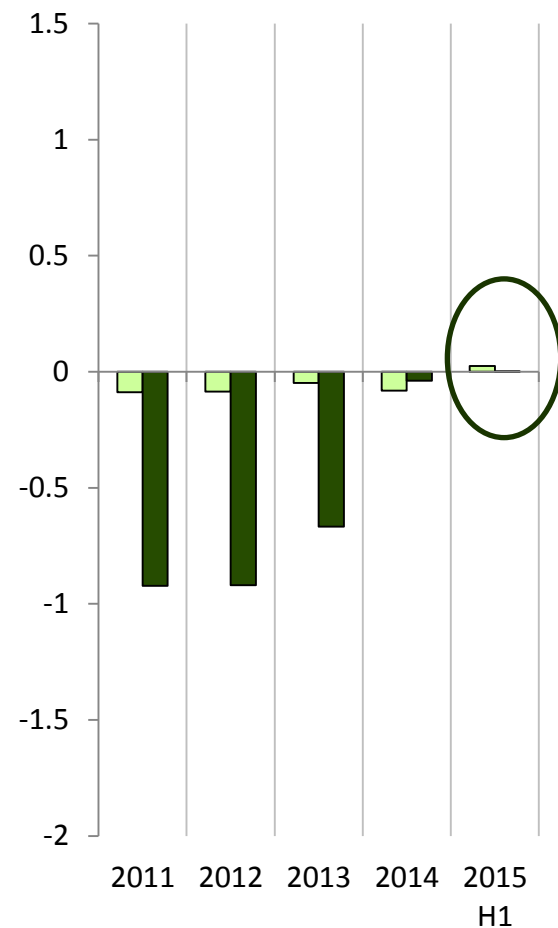
## Allied Irish Bank



## Bank of Ireland



## Permanent TSB

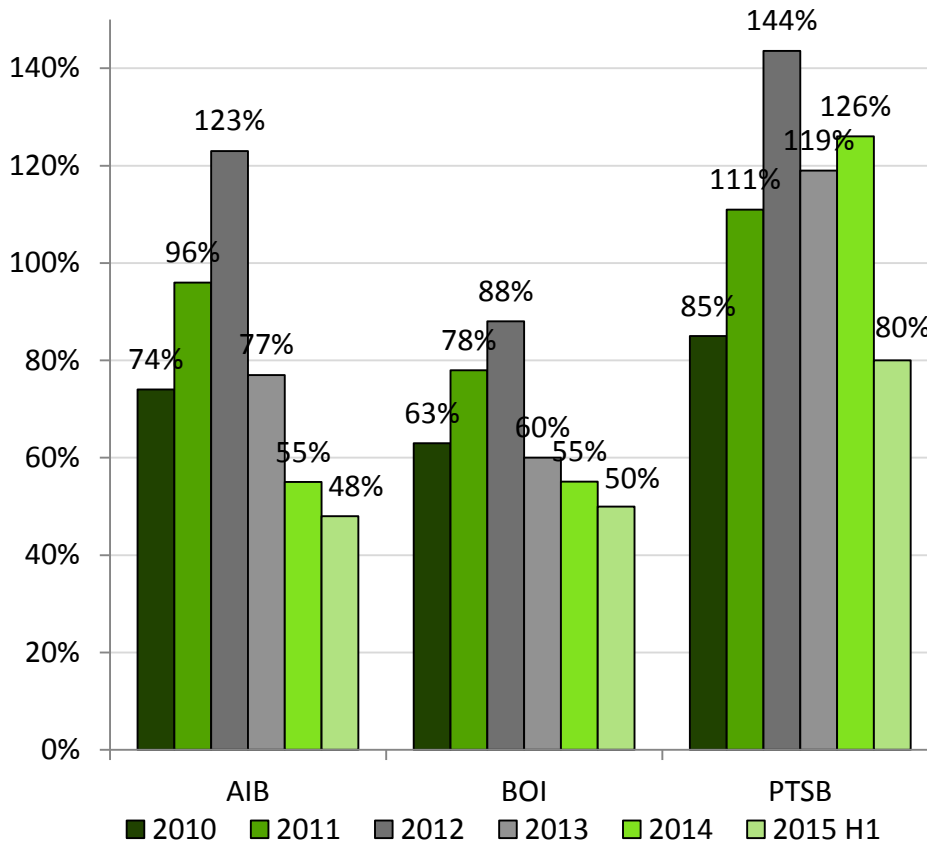


Pre-Provisions Post-Provisions



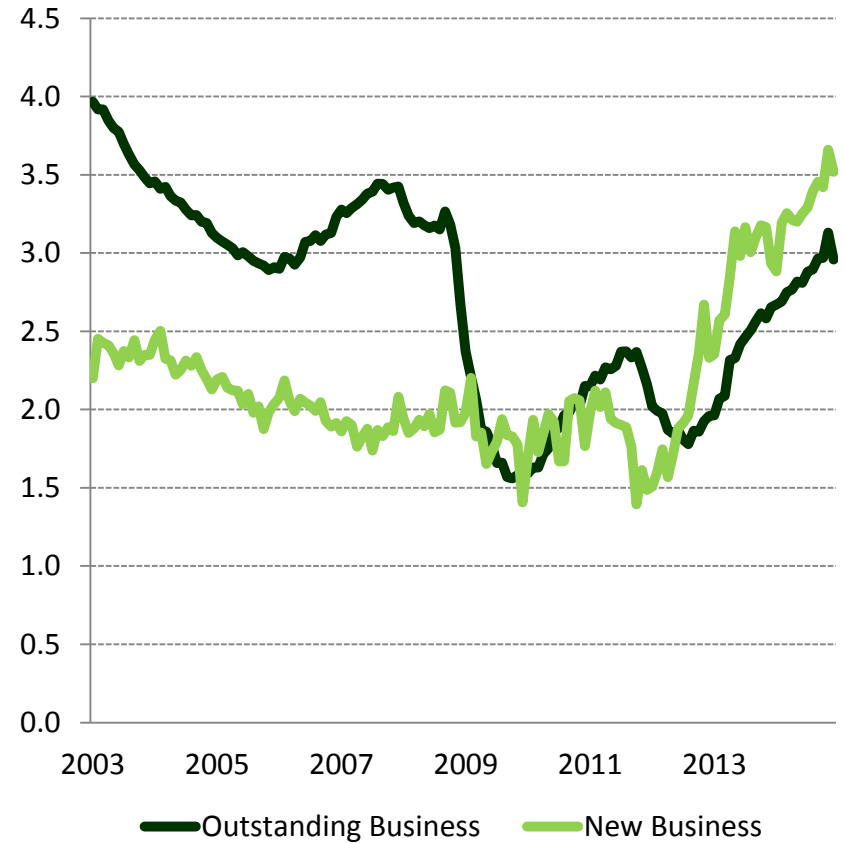
# Banks fundamentally rebuild profitability

## Cost income ratios improve dramatically



Source: Annual reports of Irish domestic banks

## Net interest margins recover %



Source: [Central Bank of Ireland](#)

Note: Margins are derived from weighted average interest rates on loans and deposits to and from households and non-financial corporations.



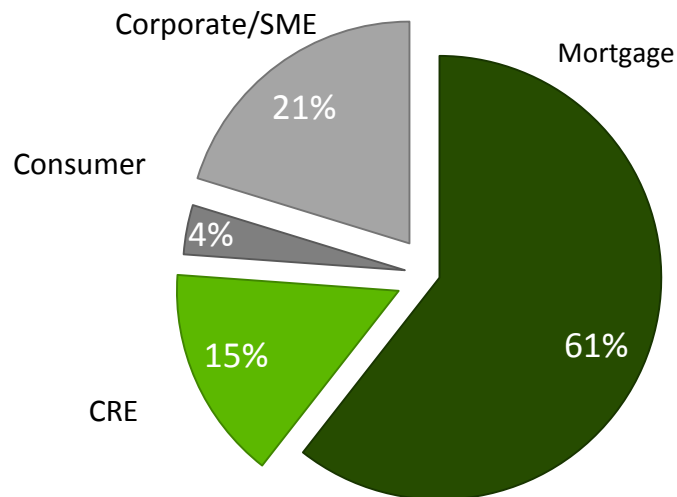
# Asset quality improving as impaired loans and provisions continue to fall

## Impaired loans and provisions at PCAR banks (group and three banks)

PCAR Banks (€bn)	Dec-13	Dec-14	Jun-15
<b>Total Loans</b>	208.9	197.1	192.6
<b>Impaired</b>	53.9	43.1	37.4
<i>(Impaired as % of Total)</i>	25.8%	21.9%	19.4%
<b>Provisions</b>	29.4	23.5	18.7
<i>(Provisions as % of book)</i>	14.1%	12.0%	9.7%
<i>(Provisions as % of Impaired)</i>	54.5%	54.5%	50.1%

Impaired Loans % (Coverage %) <sup>1</sup> by Bank and Asset					
		Dec-13	Dec-14	Jun-15	Book (€bn)
<b>BOI</b>	Irish Residential Mortgages	14.2(49)	12.6(46)	11.1(48)	25.3
	UK Residential Mortgages	2.4(24)	2.0(23)	1.8(24)	28.1
	Irish SMEs	26.7(50)	25.6(51)	24.3(52)	9.5
	UK SMEs	17.1(50)	16.9(44)	13.9(46)	2.6
	Corporate	7.5(41)	5.6(54)	5.1(59)	8.6
	CRE - Investment	42.3(38)	37.2(46)	35.8(48)	12.5
	CRE - Land/Development	89.3(68)	89.5(74)	90.1(75)	2.5
	Consumer Loans	8.4(90)	6.4(98)	5.3(100)	3.2
		<b>18.5(48)</b>	<b>18.2(50)</b>	<b>14.4(53)</b>	<b>92.4</b>

## Loan Asset Mix (banks Jun 15)



<b>AIB</b>	Irish Residential Mortgages	23.0(43)	22.6(40)	20.1(36)	35.3
	UK Residential Mortgages	11.3(53)	11.6(59)	11.5(58)	2.6
	SMEs/Corporate	30.0(64)	21.4(68)	16.8(63)	17.9
	CRE	66.7(64)	56.9(62)	48.6(62)	13.8
	Consumer Loans	33.2(81)	27.2(69)	23.3(75)	3.7
		<b>34.9(59)</b>	<b>29.2(51)</b>	<b>24.6(48)</b>	<b>73.3</b>

<b>PTSB</b>	Irish Residential Mortgages	26.0(47)	25.5(46)	24.0(47)	21.9
	UK Residential Mortgages	1.3(85)	1.5(60)	2.3(63)	3.8
	Commercial	68.7(63)	74.0(60)	71.3(61)	0.9
	Consumer Loans	26.0(105)	29.7(94)	28.7(93)	0.3
		<b>23.6(51)</b>	<b>24.5(51)</b>	<b>22.6(50)</b>	<b>26.9</b>

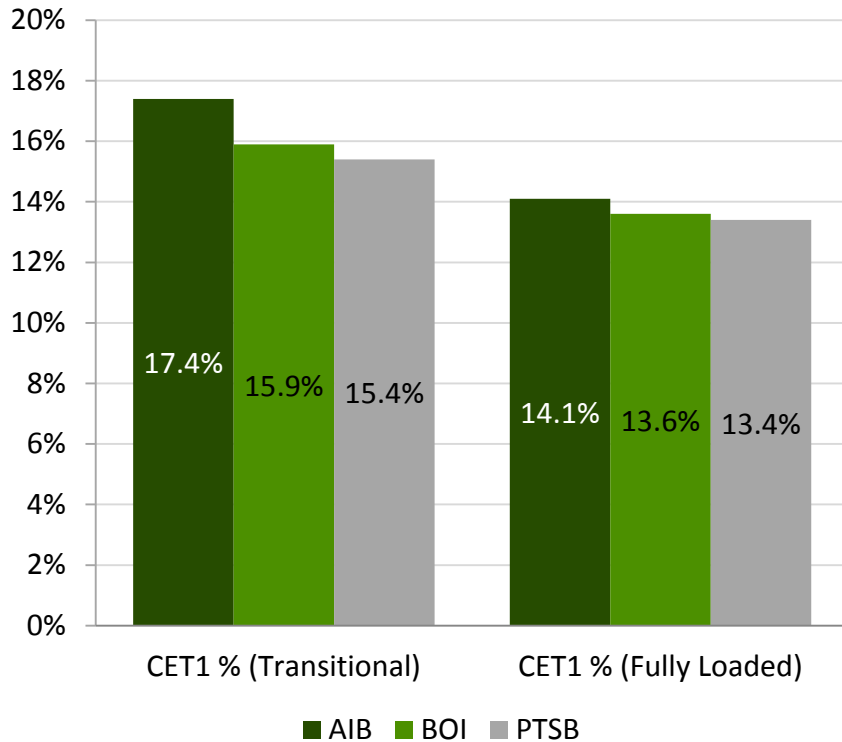
Source: Published bank accounts

<sup>1</sup> Total impairment provisions are used for coverage ratios (in parentheses)



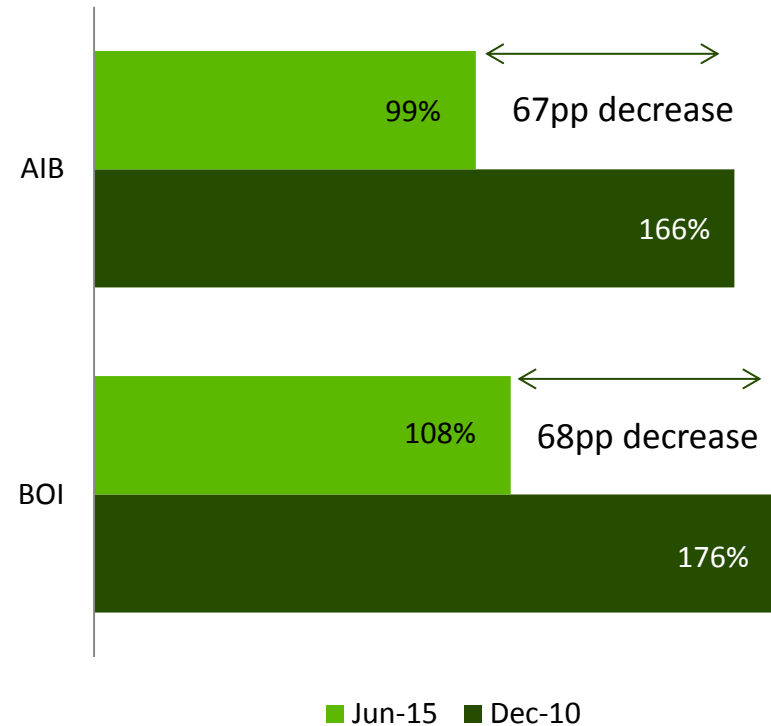
# Capital and loan-to-deposit ratios strengthened

## Core Tier 1 Capital Ratios (Jun-15)



Source: Published bank accounts

## Loan-to-Deposit Ratios (Dec-10 to Jun-15)



Source: Published bank accounts

- Core Tier 1 capital ratios at the PLAR banks remain well above minimum requirements.

Note: "Transitional" refers to the transitional Basel III required for CET1 ratios which came into effect 1 January 2014. "Fully loaded" refers to the actual Basel III basis for CET1 ratios.

\* The AIB and BOI fully loaded CET1 ratios include €3.5bn and €1.3bn of preference shares respectively. Excluding these preference shares, the ratio for AIB is 8.3% and for BOI is 11.1%.



# Aggregated balance sheet of the “Covered” banks much slimmer and more solid

## Total Assets: €249.6 bn

Loans and receivables - loans to customers	170.7
Loans and receivables - loans to credit institutions	7.1
Loans and receivables - debt instruments	12.5
Available-for-sale financial assets	32.5
Cash & cash balances with central banks	10.7
Other	16.1

## Total Liabilities, Minority Interest and Equity: €249.6 bn

Deposits excl. Credit Institutions	155.7
Deposits from Credit Institutions and Central Banks	26.4
Debt Certificates	25.4
Subordinated Liabilities	4.3
Other liabilities	12.4
Equity & Minority Interest	25.5
<b>Total Liabilities, Minority Interest and Equity</b>	<b>257.6</b>

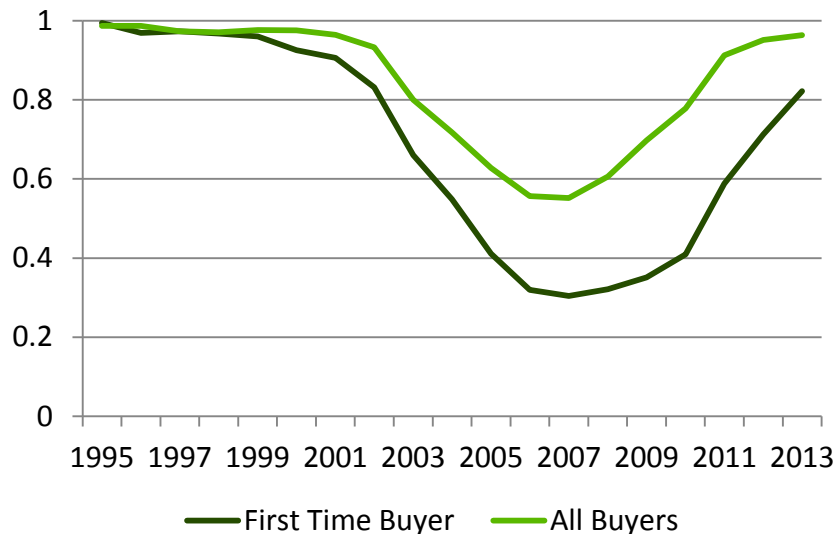
Source: [CBI](#)

Note: Banks included in this measure are outlined [here](#);  
Balance sheet calculated on consolidated basis



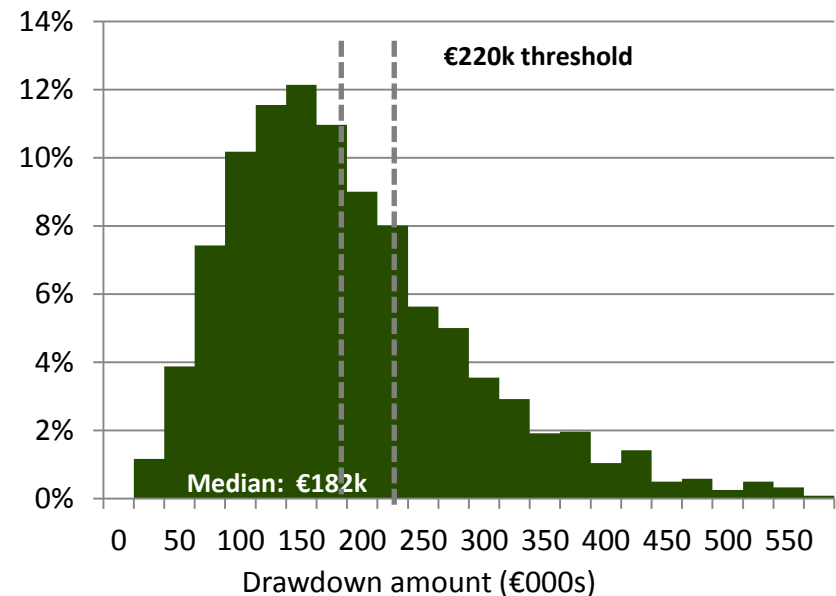
# Introduction of CBI's macro-prudential rules will increase resilience of banking and household sector

Proportion of loans below 3.5 times LTI by year



Source: CBI

House price distribution for FTBs in 2014 H1



## Key changes to lending rules

Banks must restrict lending for primary dwelling purchase above 80 per cent LTV to no more than 15 per cent of the aggregate value of the flow of all principal dwelling loans\*

Bank must restrict lending for primary dwelling purchase above 3.5 times LTI to no more than 20 per cent of that aggregate value

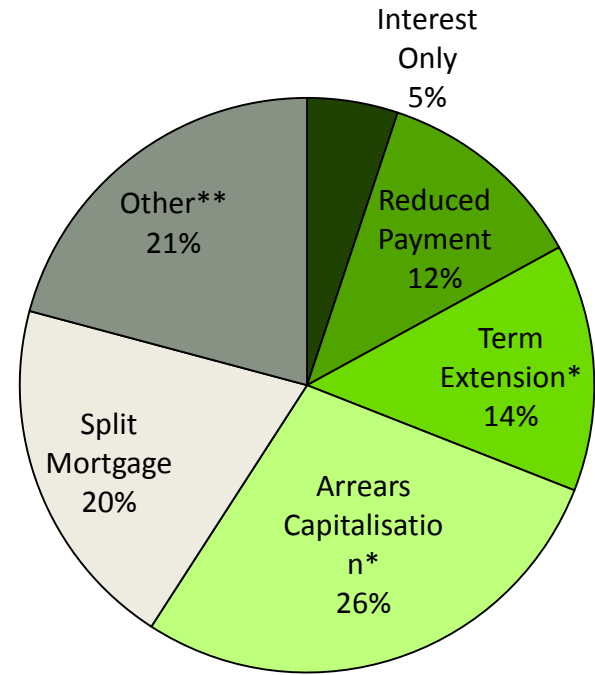
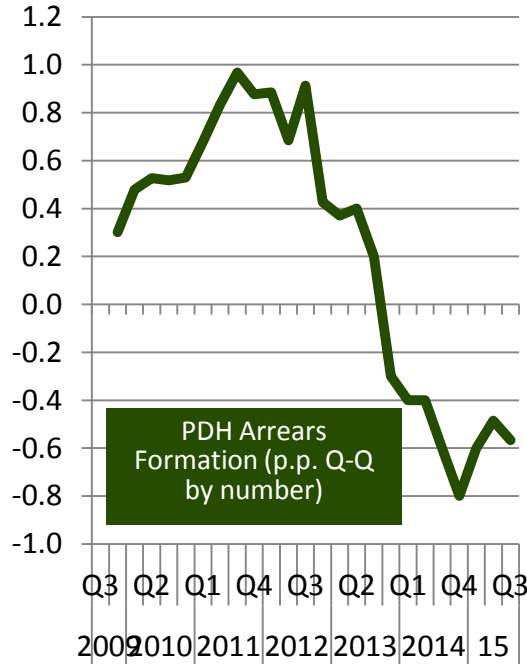
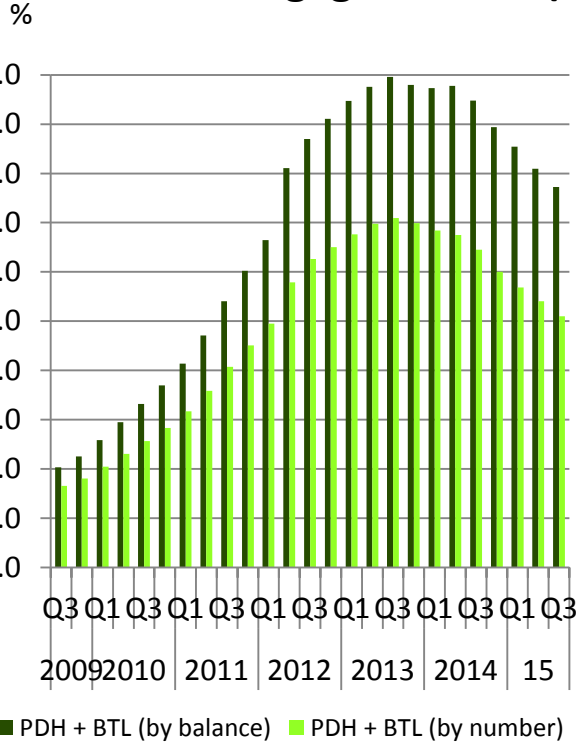
Banks must limit Buy-to-Let loans (BTL) above 70 per cent LTV to 10 per cent of all BTL loans.

\* First time buyers can borrow 90% of the first €220,000 and 80% of the remaining property value

# Irish residential mortgage arrears – improving but still challenging

## Mortgage Arrears (90+ days)

## Total Restructured/Rescheduled Cases



Source: [CBI](http://www.cbi.ie)

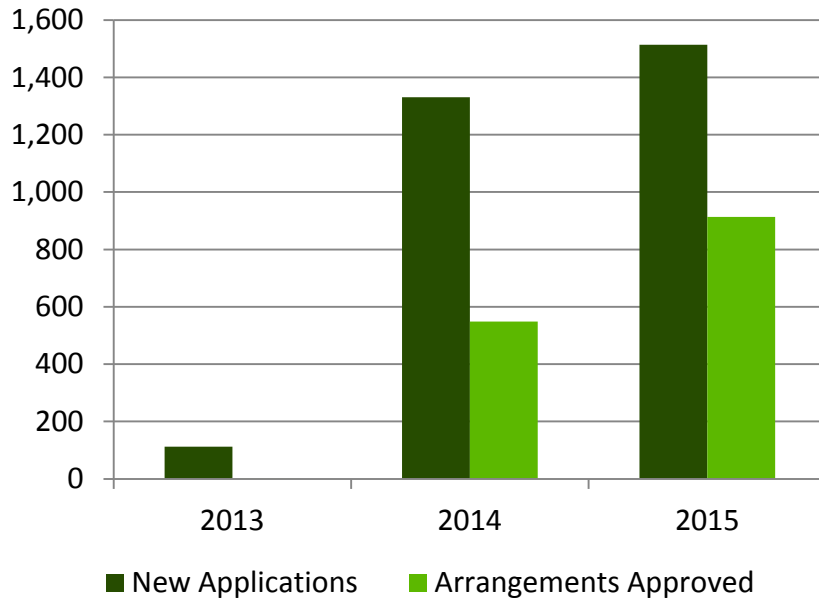
- PDH mortgage arrears have fallen steady since Q3 2013. The smaller BTL market (c. 25% of total) has higher arrears but also saw declines in the same period.
- 121K PDH mortgage accounts were classified as restructured at end-Sep, reflecting a q-o-q increase of 1.9%. Of these restructured accounts, 86.6% were meeting the terms of the restructured arrangement.

\* 'Other' comprises accounts offered temporary Interest rate reductions, payment moratoriums and long-term solutions pending six months completion of payments.



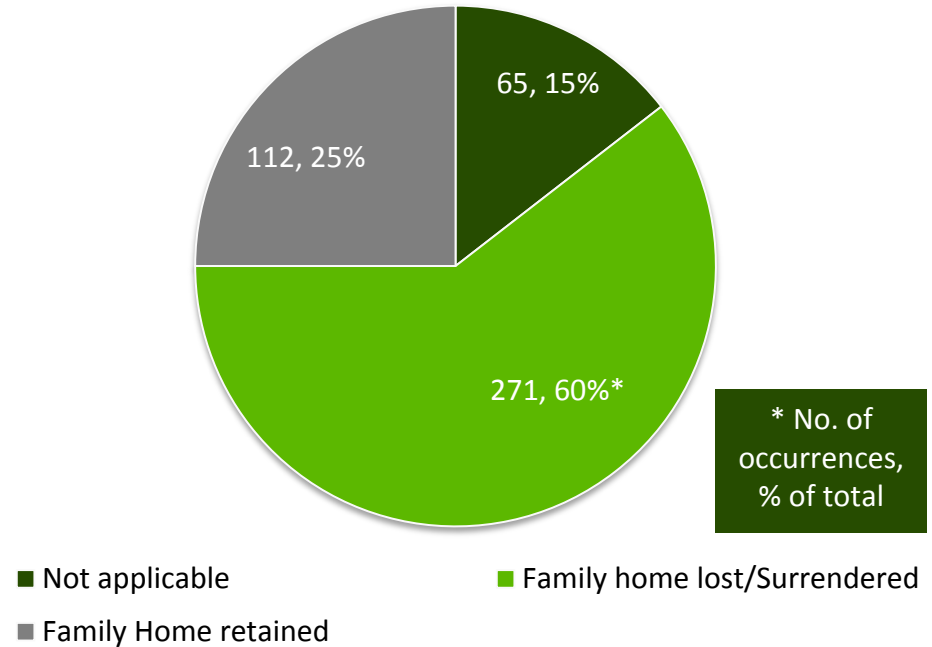
# Personal Insolvency Arrangements (PIA) and bankruptcies on the rise

## Total Insolvencies



Source: [ISI](#), Q3 2015 data

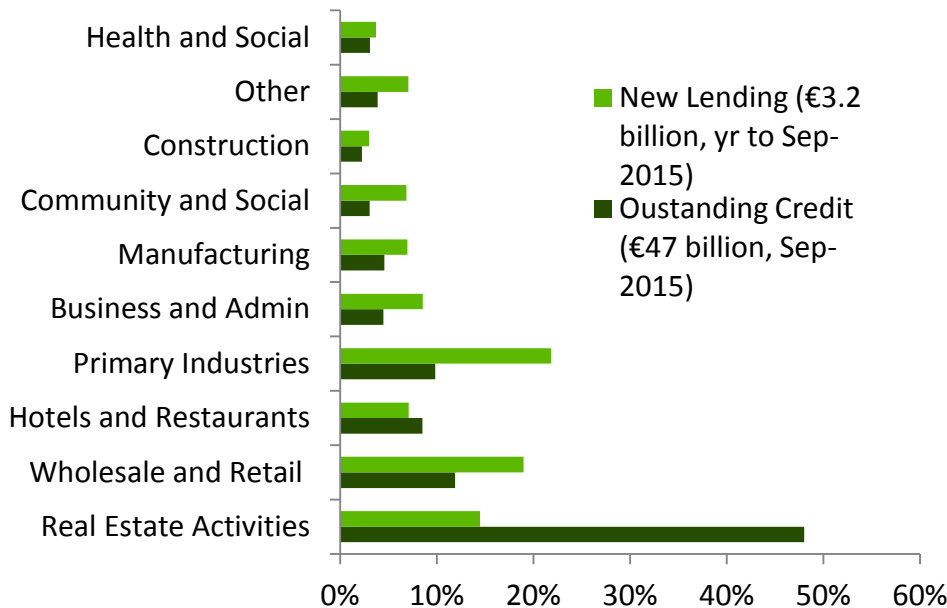
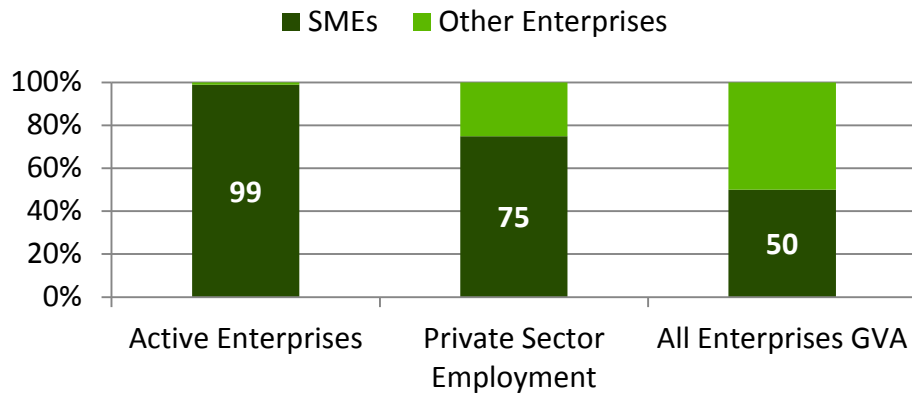
## 448 Bankruptcies and 271 Repossessions in 2014



- Personal Insolvency legislation enacted and in use, but take-up has been slow.
- In May 2015, the Government announced a number of new measures to support mortgage holders who are in arrears. It has agreed to give the courts the power to review and, where appropriate, to approve insolvency deals that have been rejected by banks.
- Court rules and procedures will also be streamlined to guide more cases towards the Insolvency Service.
- A Mortgage to Rent scheme will be expanded, including in particular by increasing the property value thresholds that apply.

# Small and medium-sized business (SME) credit trends and lending policy supports

## SME Share of the Irish Economy



In October 2014, the Strategic Banking Corporation of Ireland (SBCI) was formally launched with the goal of ensuring access to flexible funding for Irish SMEs.

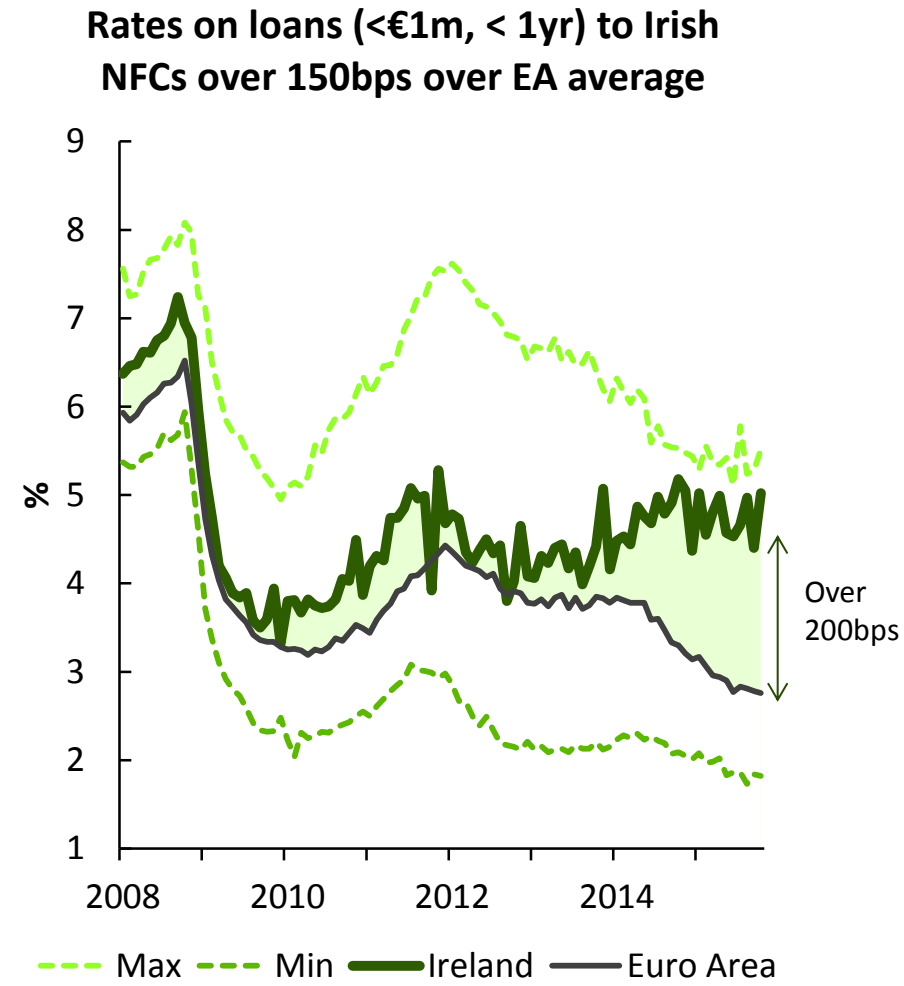
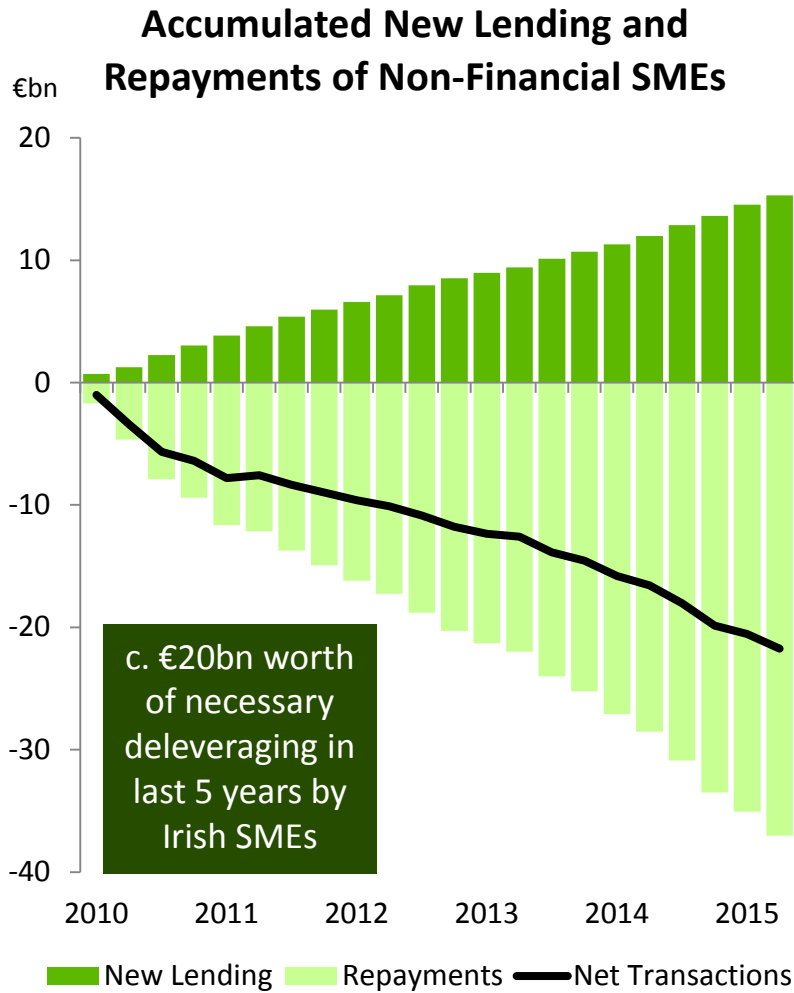
The SBCI's initial funding partners are the EIB, KfW (the German promotional bank) and the Ireland Strategic Investment Fund (ISIF).

These partners are providing long-term funding at attractive rates to the SBCI, which in turn will provide the funding to Irish SMEs through Irish-based credit institutions.

Range of additional funding supports include:

- Microfinance Fund - €40m available over 5 years
- Loan Guarantee Scheme - €150m per annum over 3 years
- Enterprise Ireland – upwards of €200m in 2013
- European Investment Bank , European Investment Fund (€80m through AIB) and Silicon Valley Bank partnership with the NPRF (\$100m over 5 years)

# SME deleveraging continuing as dispersion in SME interest rates persisting across EA



Source: [CBI](#); [ECB](#)

Note: Annualised Agreed Rate is defined by the ECB as 'the interest rate that is individually *agreed* between the reporting agent and the NFC for a loan, converted to an annual basis and quoted in percentages per annum. The rate shall cover all interest payments on loans, but no other charges that may apply.'

The top left corner of the slide features a photograph of a modern glass skyscraper, identified by a sign as the Treasury Building. The image is partially obscured by a green gradient that covers the top of the slide.

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