IRELAND: RECORD LOW COST OF ISSUANCE

Economy continues to gain momentum

May 2014

Index

SUMMARY

Market pricing reflecting macro-fiscal recovery of the last three years

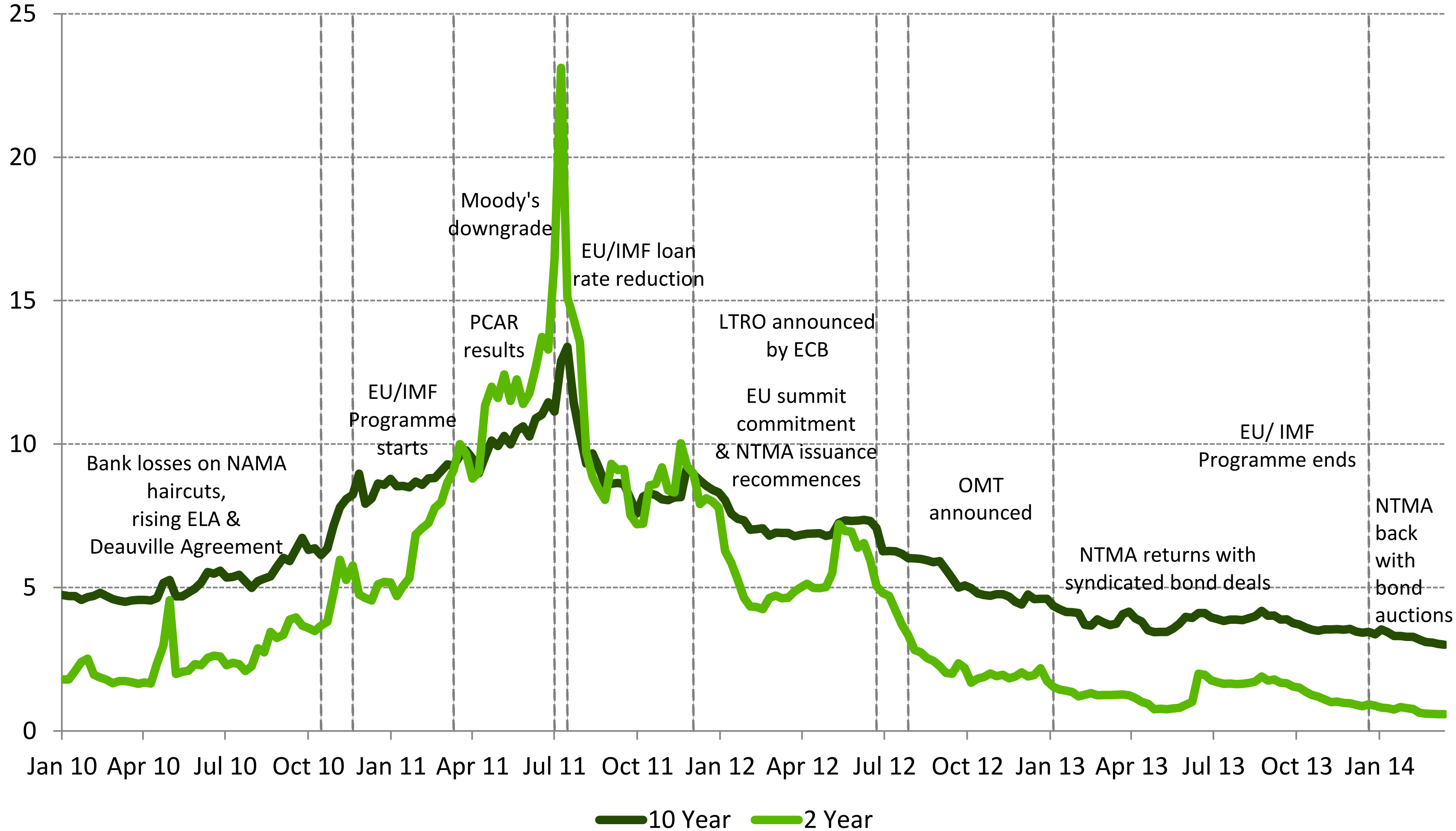
Ireland has emerged from its crisis

- **Government beat deficit target again last year: -7.2% of GDP v. -7.5% tgt.**
  - Full year cash Central Government fiscal data for 2013 were healthy; revenue was slightly ahead of target and expenditure control was tight
  - 2013 nominal GDP disappointed versus Budget day forecast (€164.1bn versus €165.9bn first official estimate), but equates to only 0.1pp higher deficit ratio
  - Third straight year of outperformance 2011-13: this time deficit 0.3pp better
- **Employment growth is the best guide to the recovering Irish economy**
  - Oddities in National Accounts - related to the pharma sector in particular - mean that employment (+2.4% in 2013) is better guide than real GDP (-0.3%)
  - PMI surveys have increased in Q1 2014: services PMI and consumer confidence at seven-year highs, retail sales bounced in H2, construction sector is growing for first time since 2007 and unemployment rate is down to 11.7% - low since March ’09
  - Trading partner growth has improved: UK and US stronger although EA lagging. Ireland’s GDP growth expected to rank among highest in euro area in 2014
- **Contingent liabilities for the State dwindling and net debt c. 100% of GDP**
  - Ireland's main contingent liability being steadily eliminated: NAMA has now repaid more than one-third of its Government-guaranteed senior bonds. There was potential for a second book on the back of the IBRC liquidation, however, this has been definitively ruled out.
  - IBRC liquidation may generate surplus for the State.
  - Net Government debt was 98% of GDP at end-2013, as Ireland husbands large financial resources to offset a large chunk of its gross debt

State has already tapped the market in 2014

- **More than 80% of 2014 funding completed, after first bond auctions in 3.5 years**
  - Ireland issued €2.75bn across three auctions, with consecutive record low 10-year yields - 2.97% in March; 2.92% in April followed by 2.73% in May.
- **Investor base has been broadening**
  - Sold €3.75bn of same 10-year bond via syndication in January 3.54%
  - Even broader investor interest than for previous benchmark issue (Mar. 2013): some 400 investors submitted bids, including fund managers, pension funds, banks and insurance cos. More than 83 per cent of demand was from overseas investors; including the UK (26% of total), the Nordic region (15%), Germany, Austria and Switzerland (14%), US and Canada (14%), Middle East & Asia (4%)
  - This followed the initial return to the T-Bill and bond market in 2012 and two forays in early 2013: sales of €7.5bn in total in 10-year and 5-year bonds
  - Ireland continues to engage with investors on a regular basis: the NTMA conducted two non-deal roadshows each year during 2011, 2012 and 2013
- **State exited Financial Assistance Programme at end-2013**
  - Last Troika mission of the *Programme* took place in early November 2013
  - Government did not apply for any support in the form of a credit line
  - Budget 2014 implemented on October 15th (brought forward under "2-pack")

Irish bond market best *investment-grade* euro area performer for third consecutive year in 2013 (yld: %)

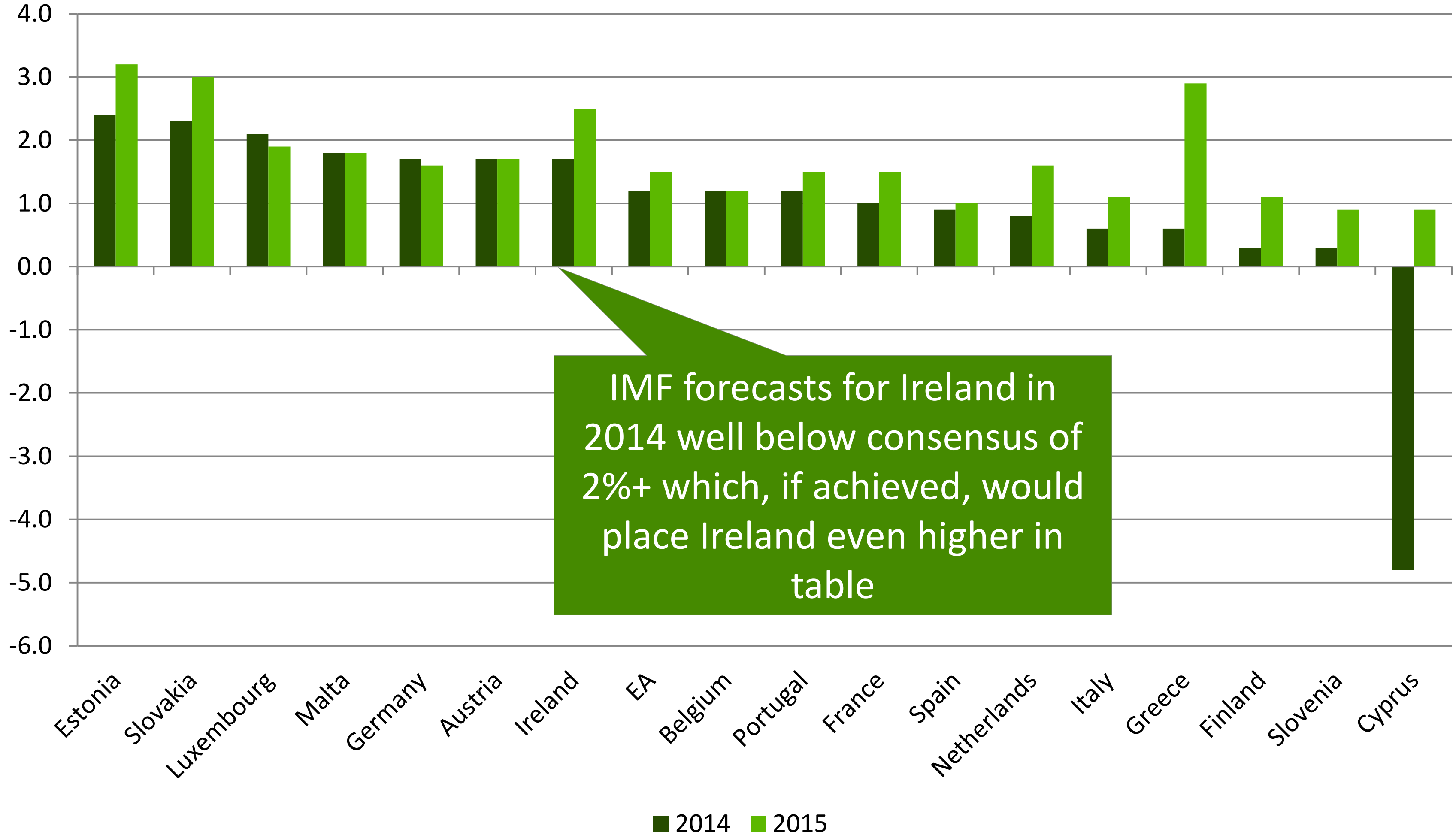


Source: Bloomberg (weekly data)

SECTION 1: MACRO

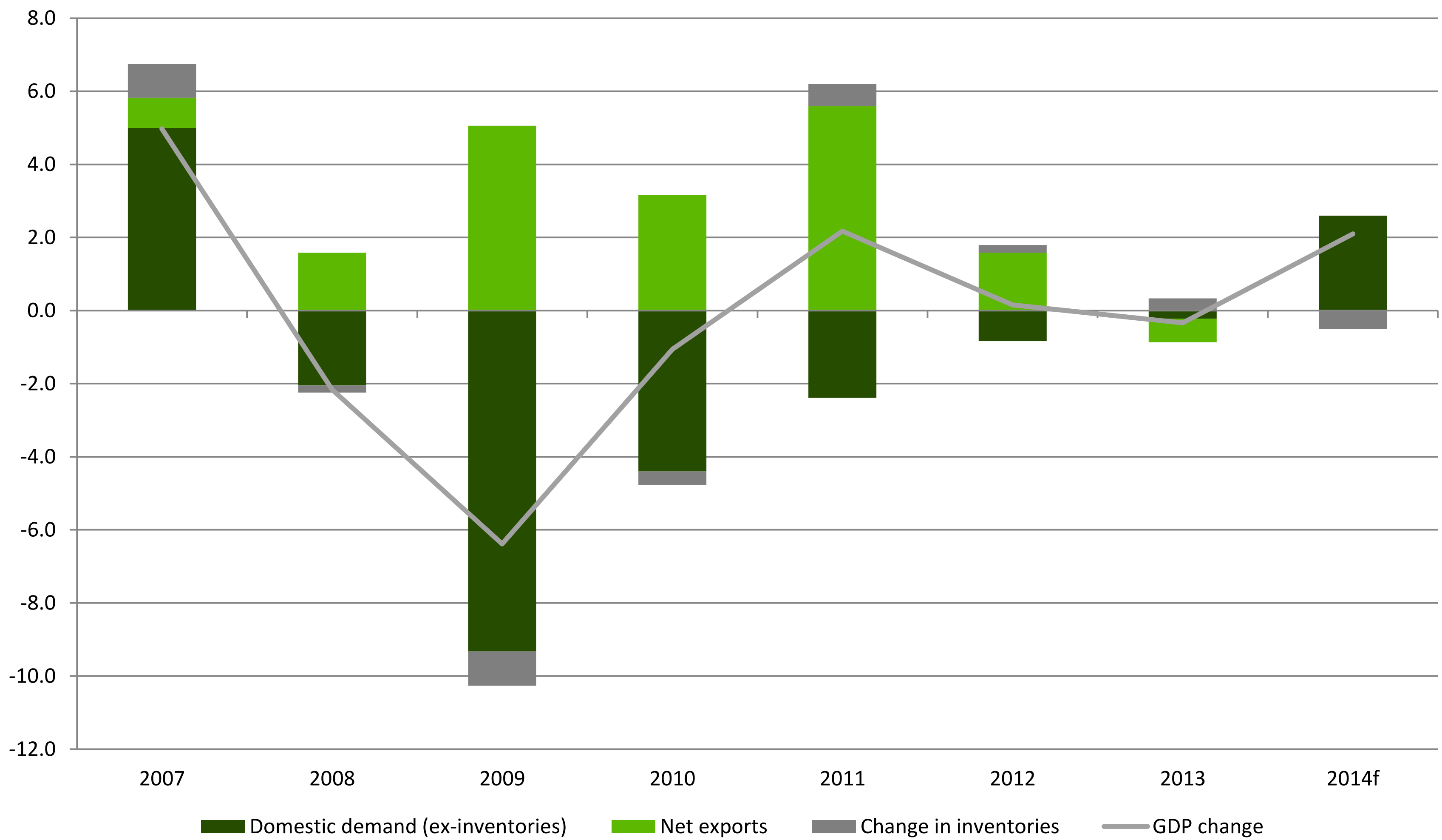
Domestic demand recovery commenced in 2013 after six-year recession; unemployment has dropped sharply from a peak of 15.1% to 11.7%

Ireland’s economy is expected to outperform the euro area in 2014; and to accelerate in 2015



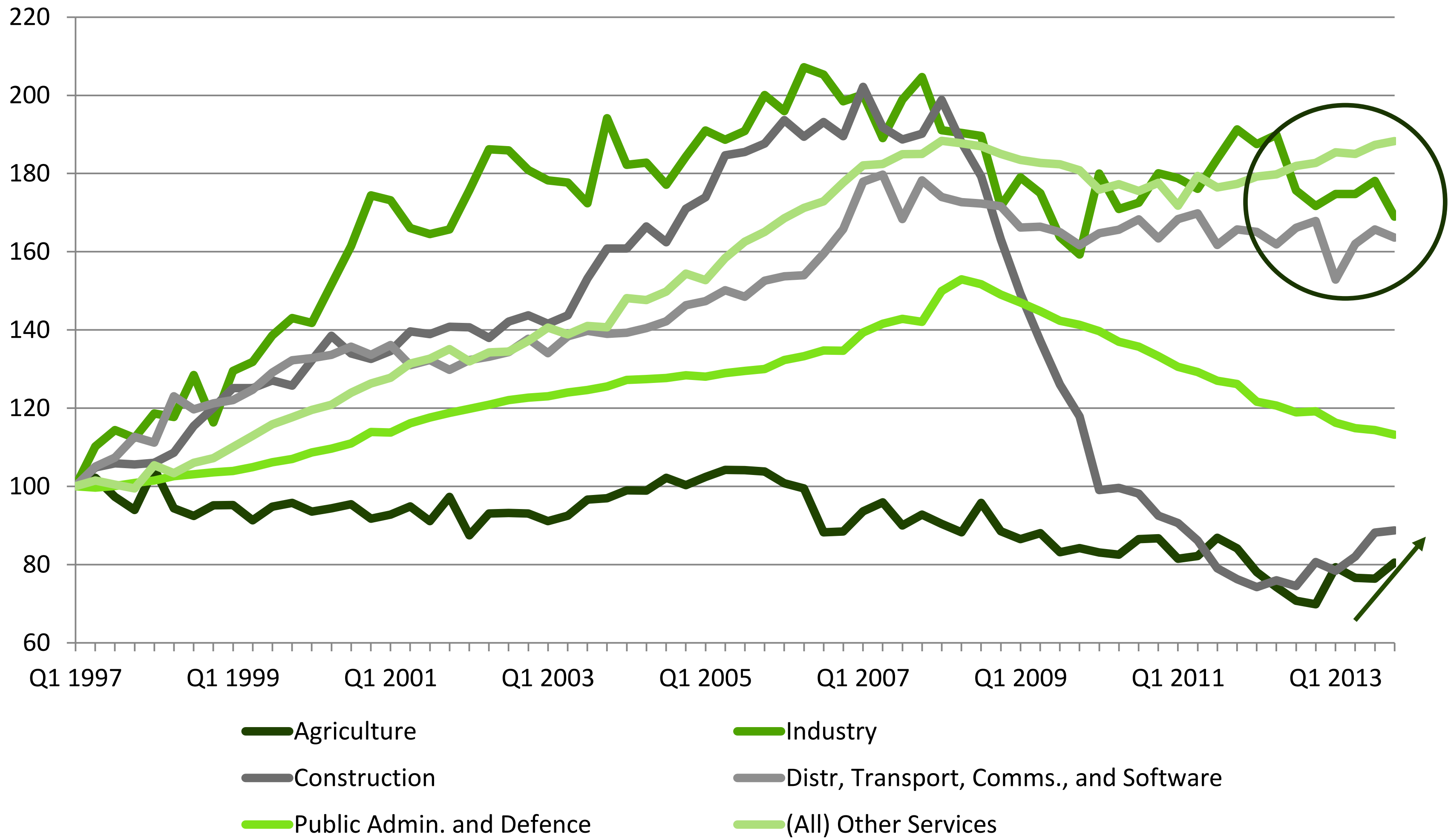
Source: IMF World Economic Outlook, April 2014

Domestic demand at inflection point, but net exports hit by patent cliff and rising demand for imports



Source: CSO; Department of Finance(2014 forecast from SPU 2014); NTMA workings

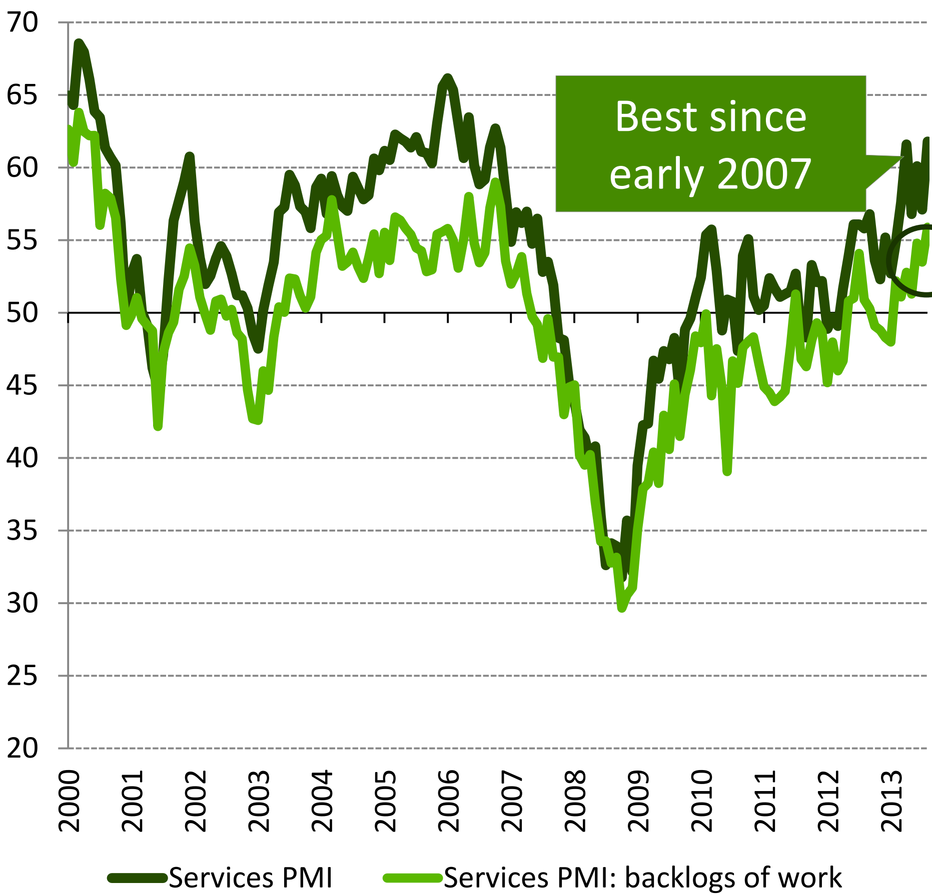
Ireland's tradable sectors perform best in long run (gross output) but domestic sectors now picking up



Source: CSO

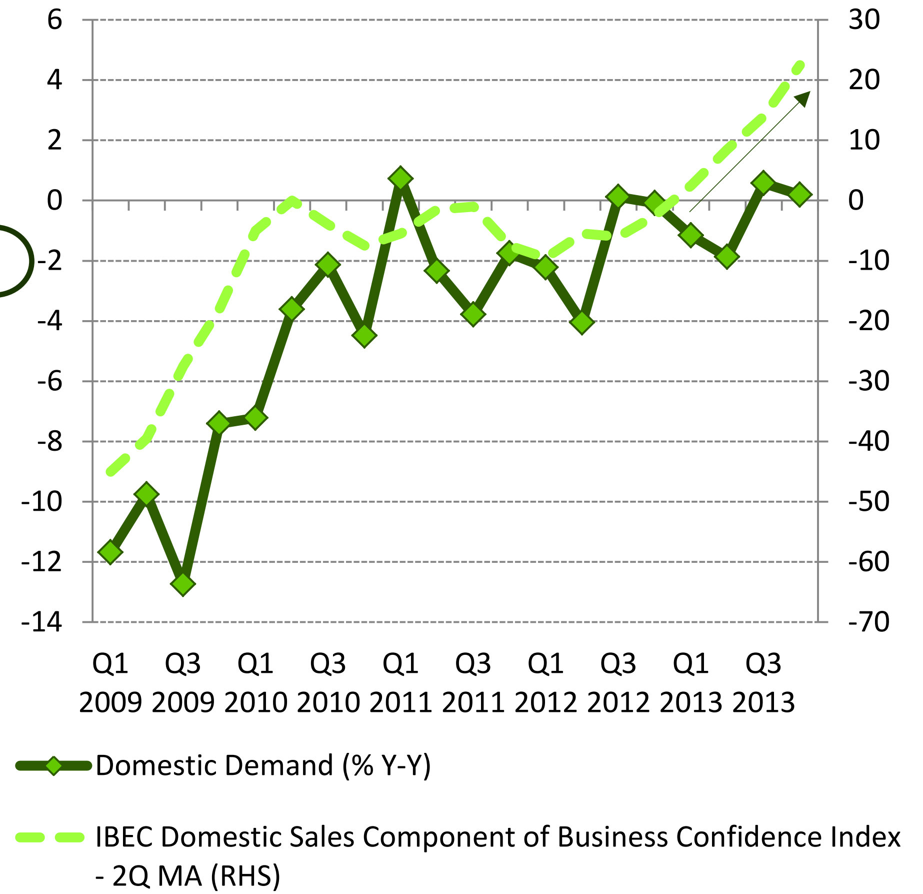
Business surveys point to sustainable recovery

Strength of services PMI likely to continue as backlogs build (50 is no change level)



Source: Markit; Investec

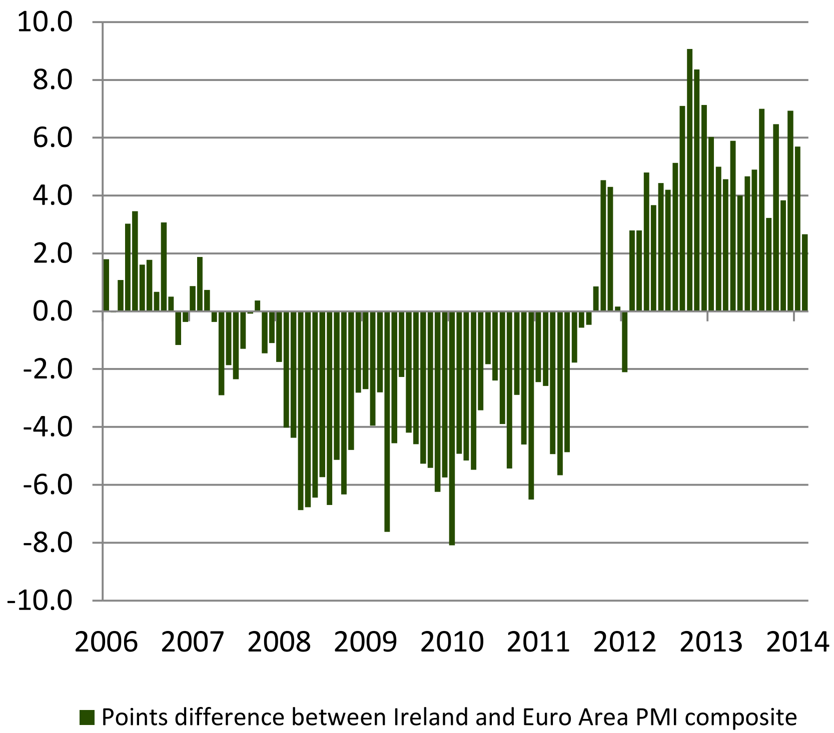
Domestic activity also expected to strengthen further in 2014 from low base



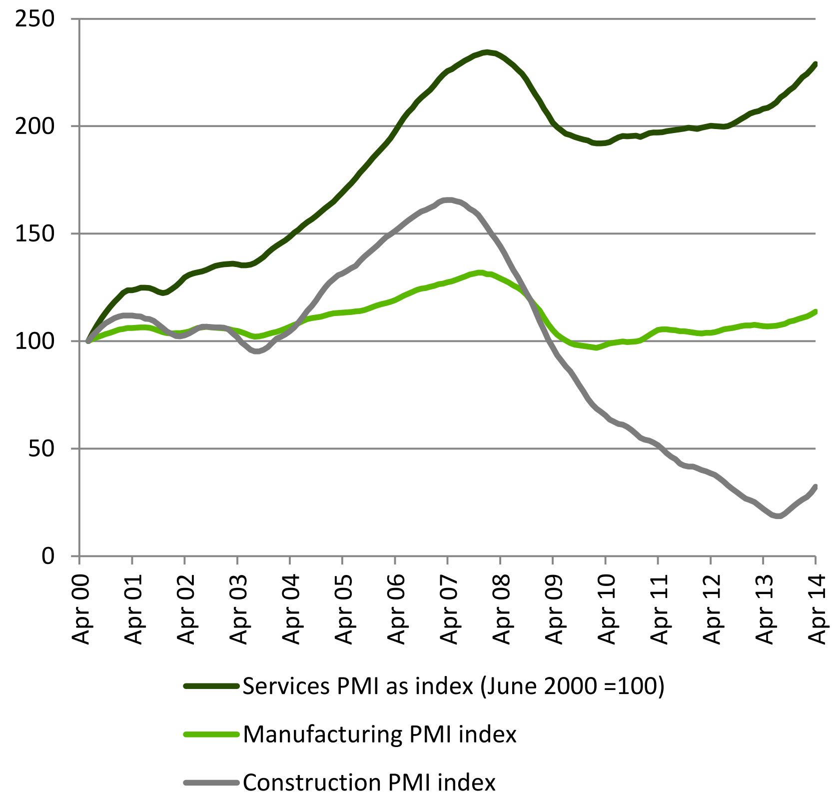
Sources: IBEC; CSO

Ireland continuing to outperform EA in short-term and broad-based recovery is in train

Ireland growing faster than euro area (PMI composite difference)



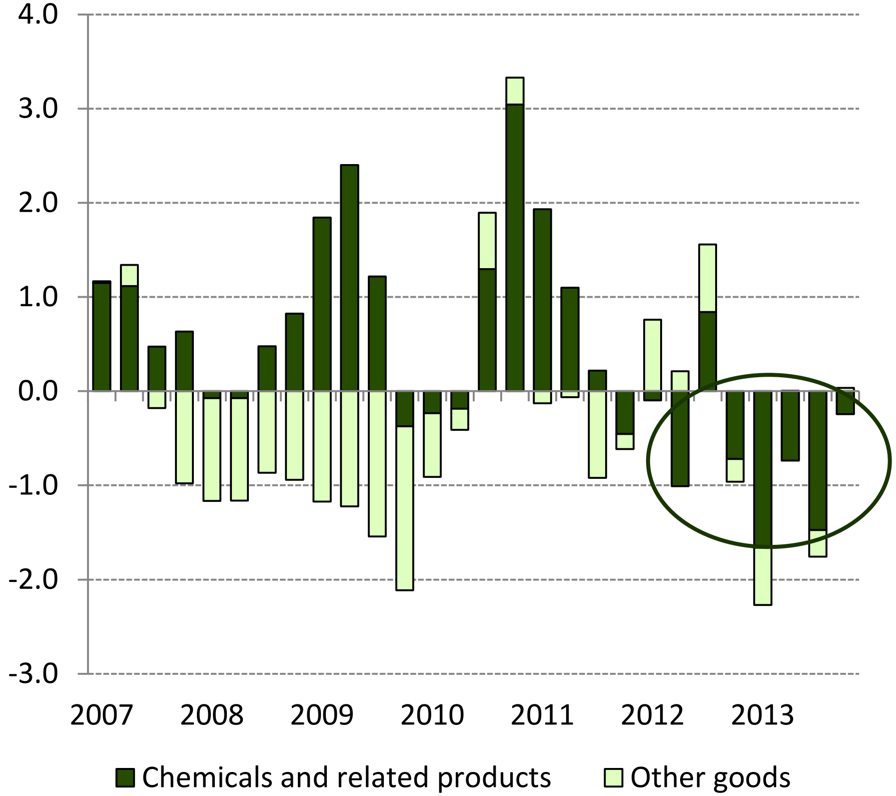
All sectors now growing (PMI change as cumulative index level, June 2000 = 100)



Source: Bloomberg; Markit; Investec

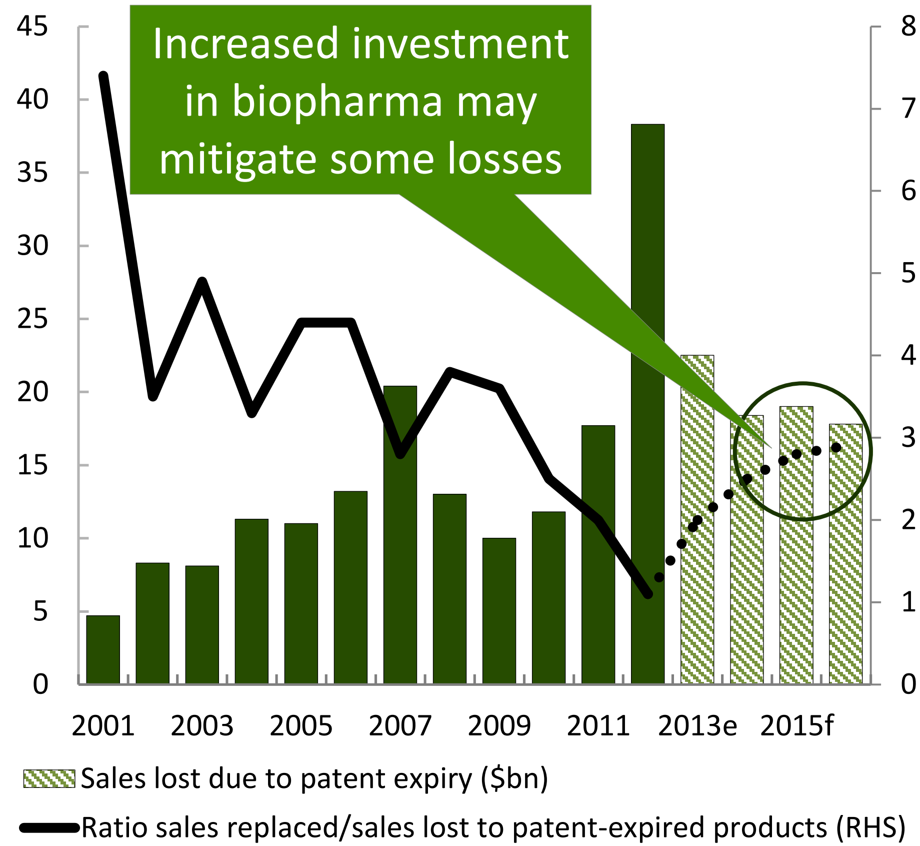
Structural changes in pharmaceutical sector have tempered export growth on goods side

Weak exports in pharma reflect patent expiry (Quarterly goods export values, change Y-Y €bn)



Sources: CSO; NTMA workings

Global losses owing to patent expiry expected to have peaked in 2012

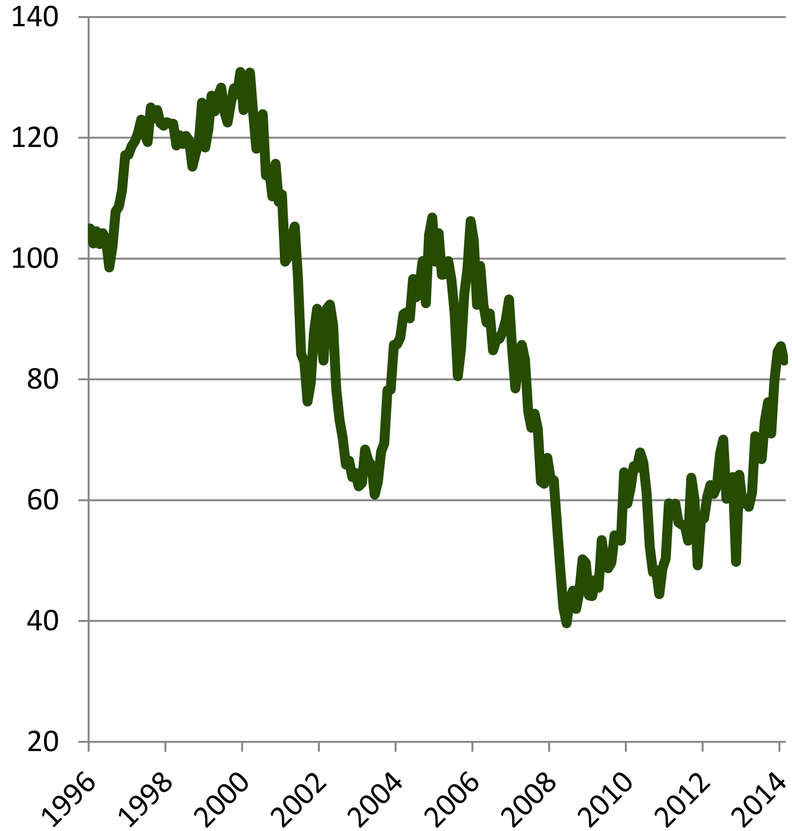


Source: Accenture

For more information see: Accenture (2012) [‘Biopharmaceutical Industry High Performance Business Study - 2012 Update’]

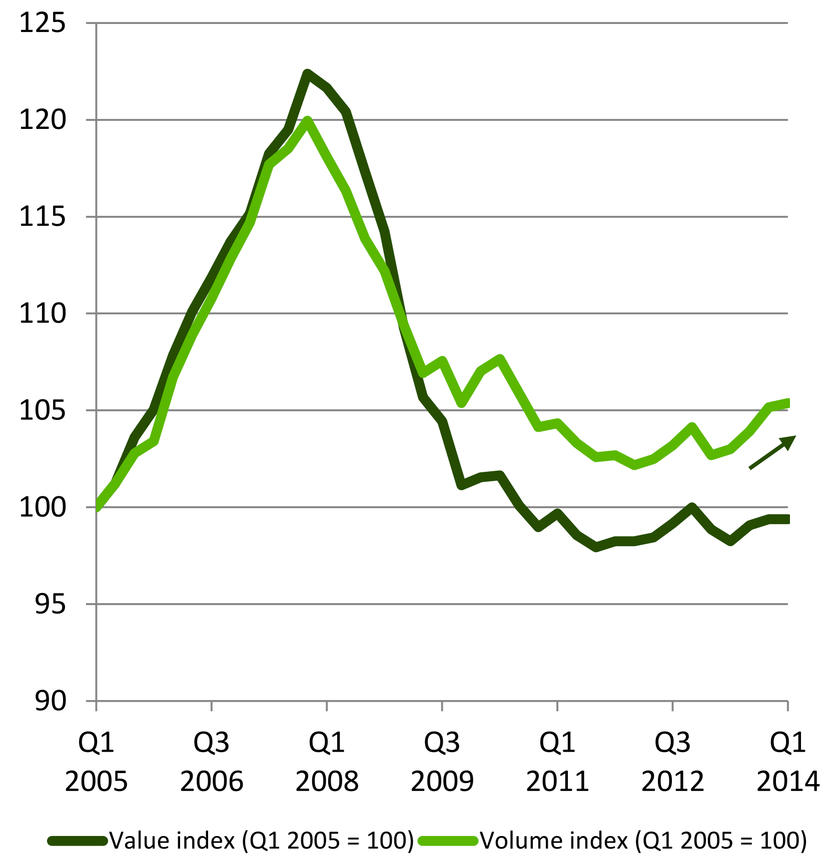
Employment and house prices rises underpin retail sales, but wages flat and taxes unlikely to fall soon

Consumer confidence recovers



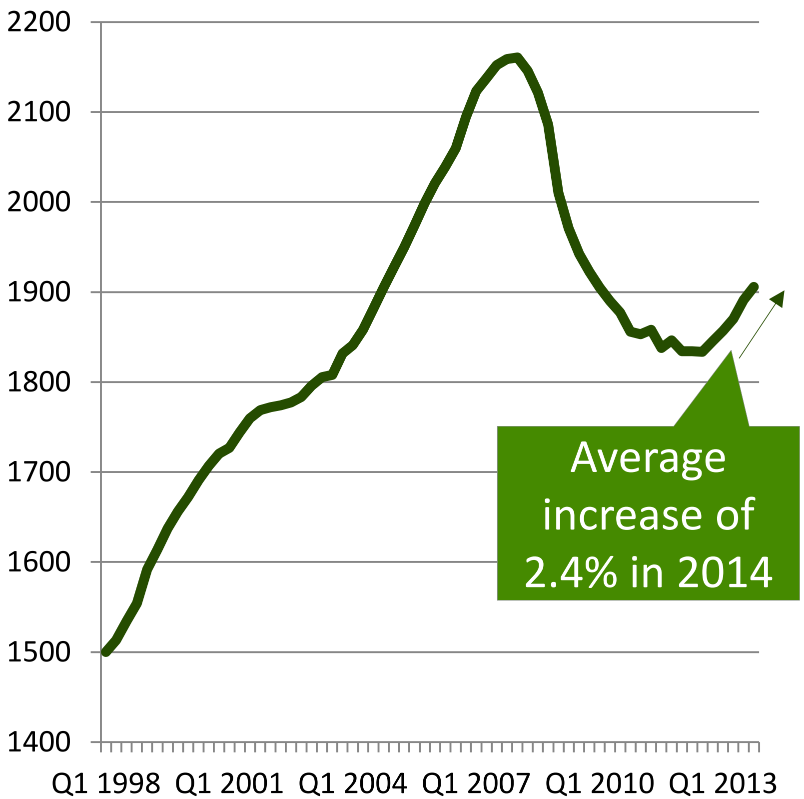
Sources: KBC, ESRI, CSO

"Core" retail sales rise steadily



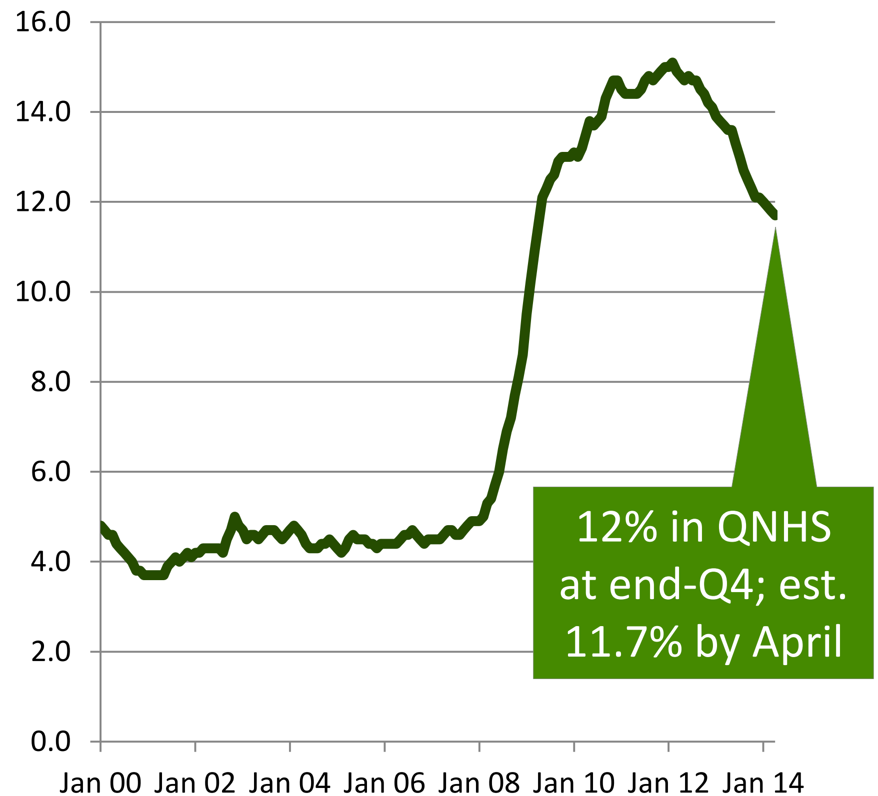
Labour market showing consistent improvement

Employment up 4% from cyclical low



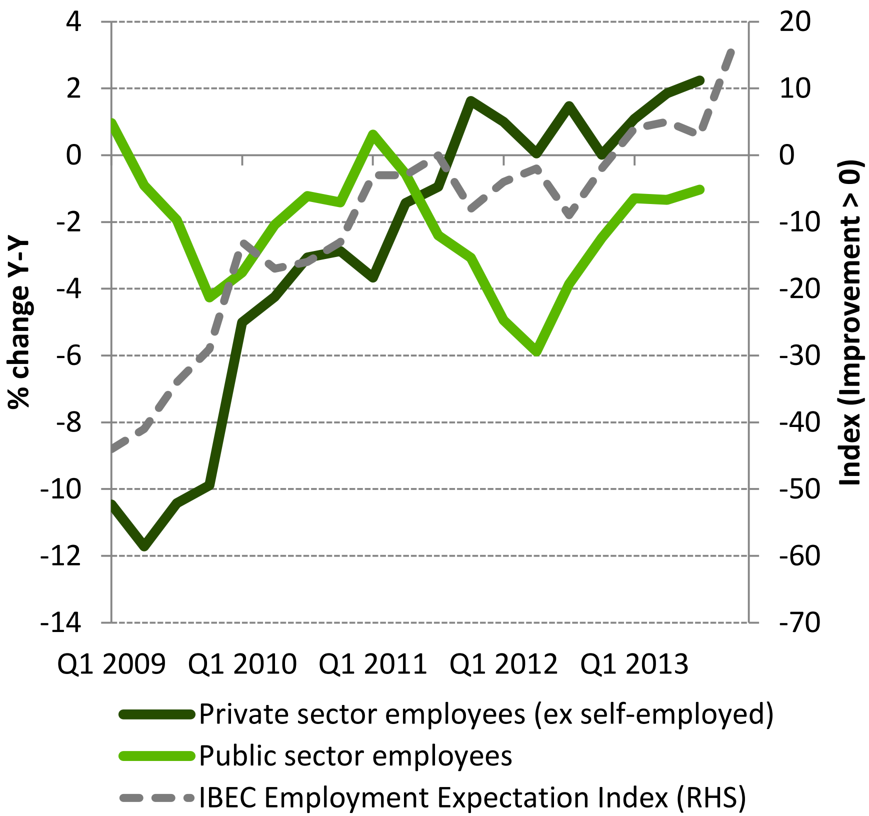
Source: CSO

Unemployment rate down to 11.7%



Private employment offsetting public sector declines; rise in participation rate signals improving confidence

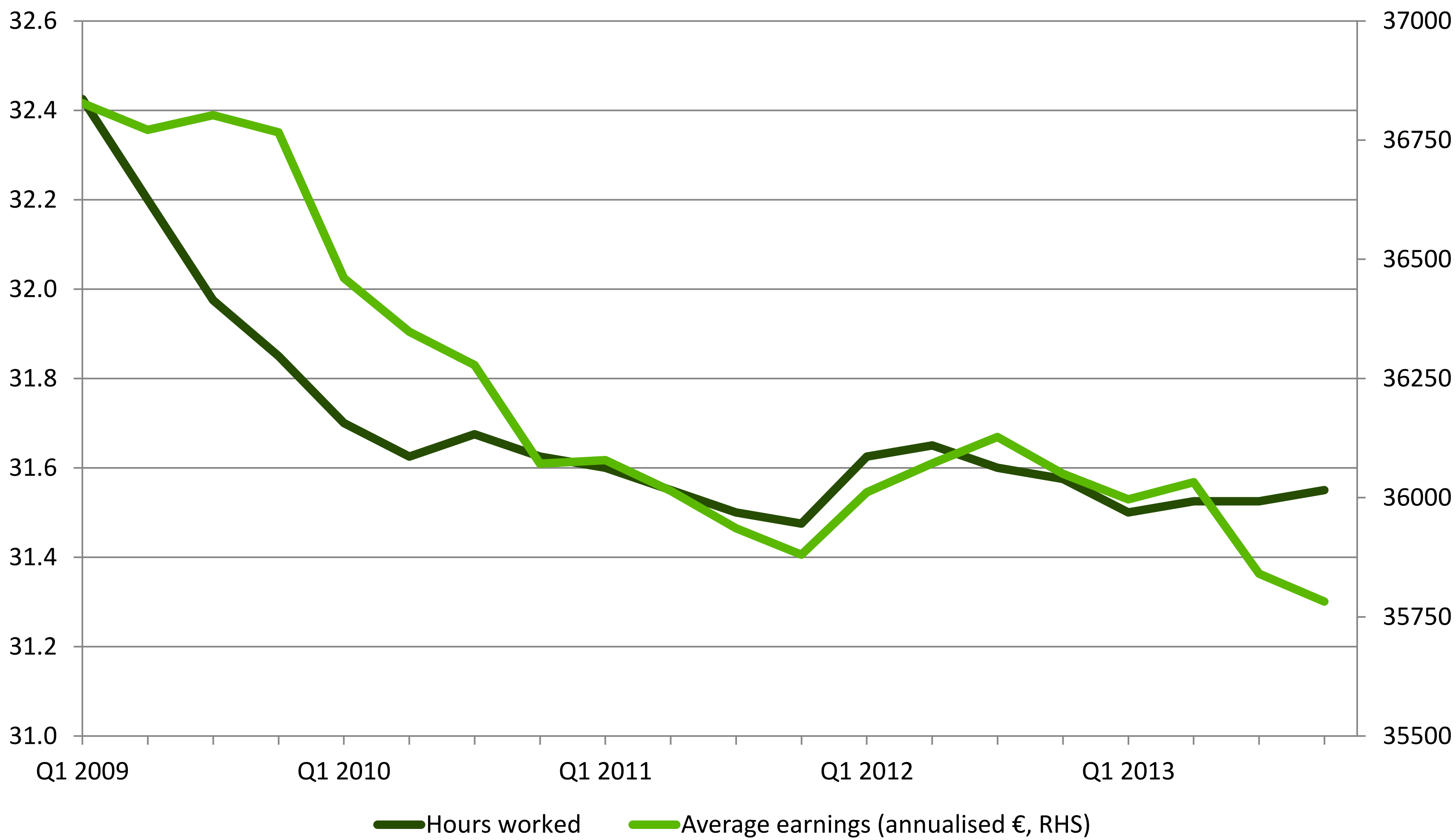
Private sector employees growing again; forward indicators robust



Sources: CSO; IBEC

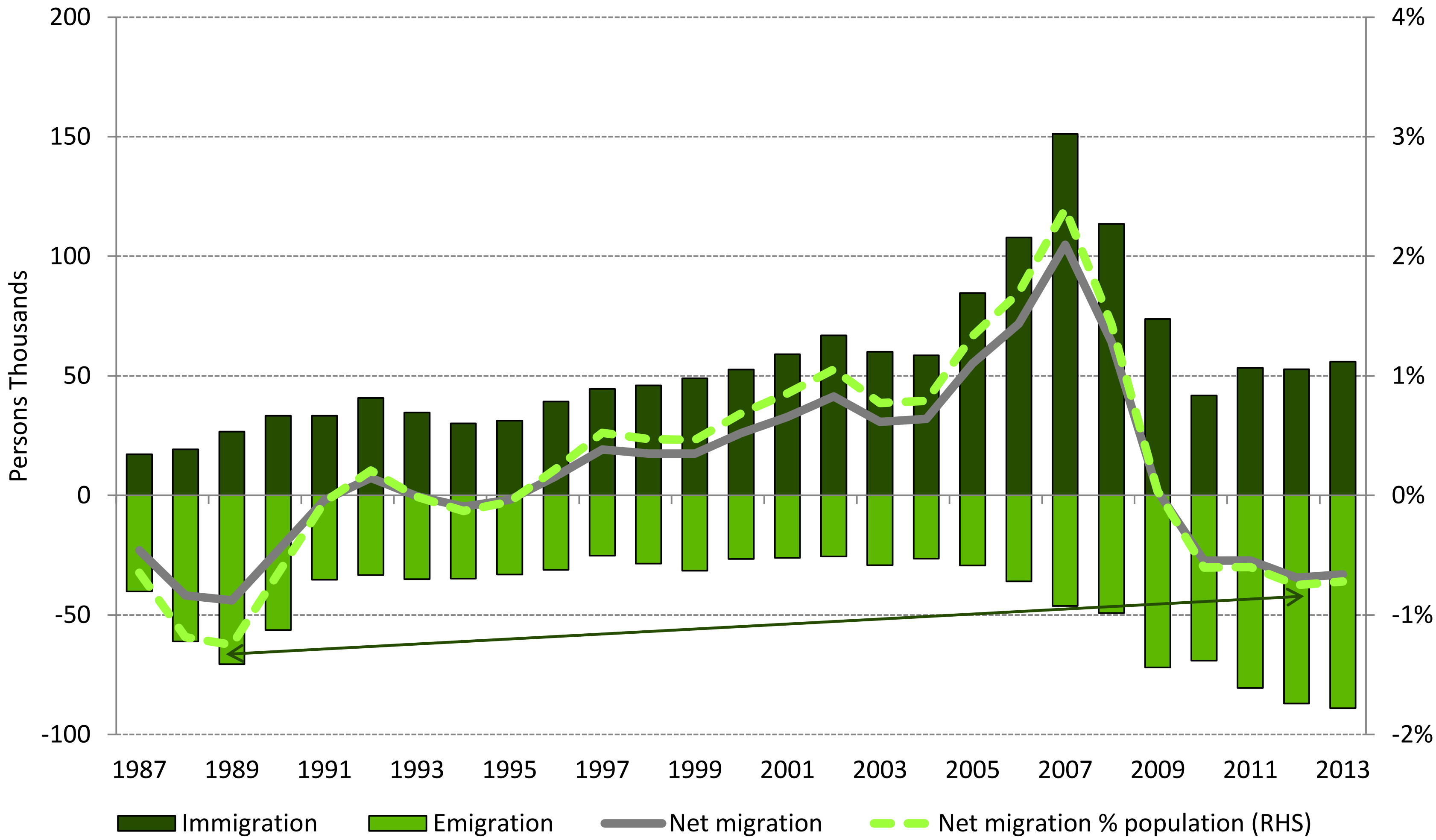
Labour force participation is rising

Wage growth still sluggish and hours worked flat, highlighting that excess capacity is still large



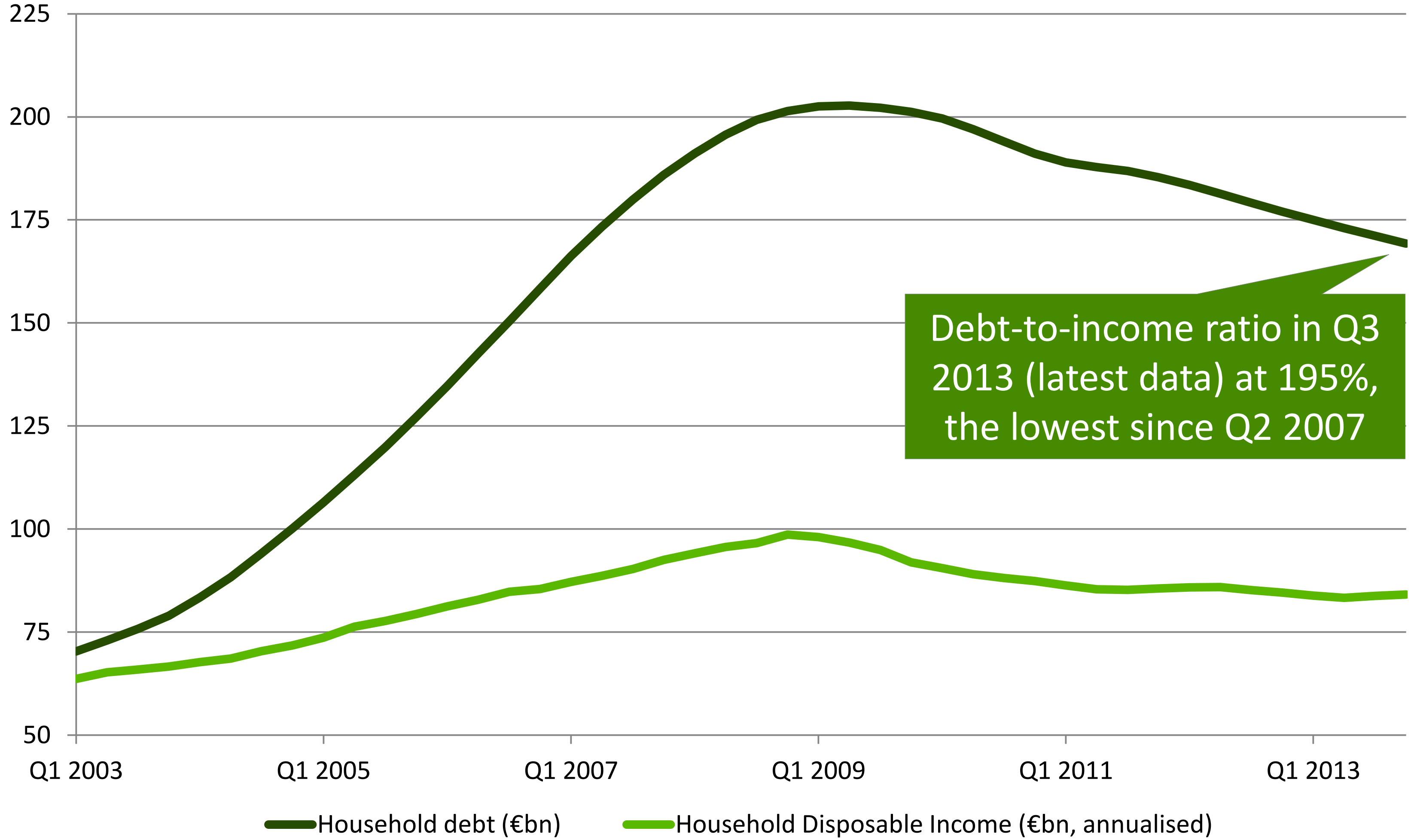
Source: CSO

Net emigration probably slowed over the last year, based on labour force trends (next data due in July)



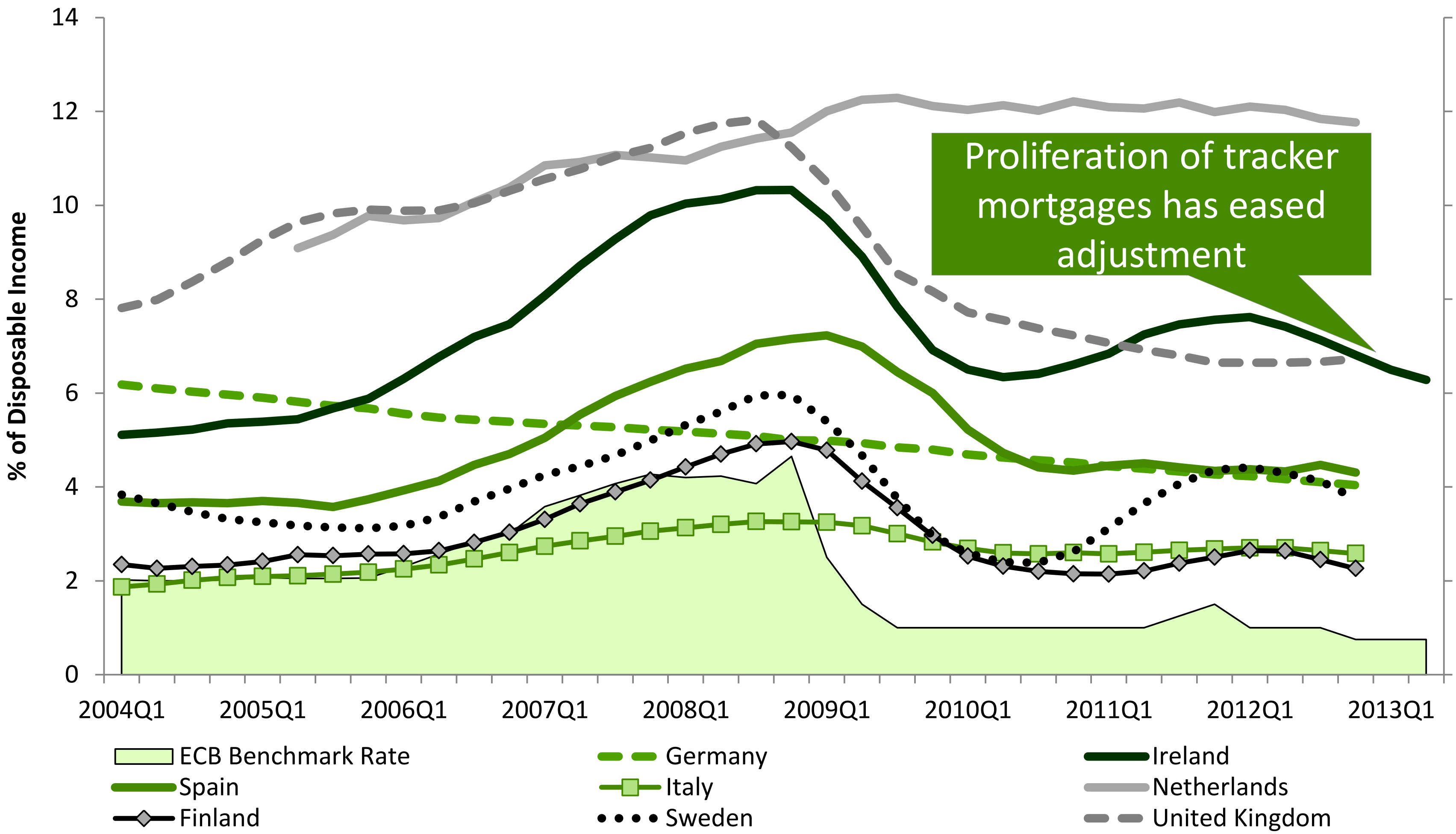
Source: CSO

Household deleveraging continues, but at slow pace; disposable income has bottomed at H1 2006 level



Source: Central Bank of Ireland (CBI); CSO

Interest burden on households kept relatively low despite extent of indebtedness

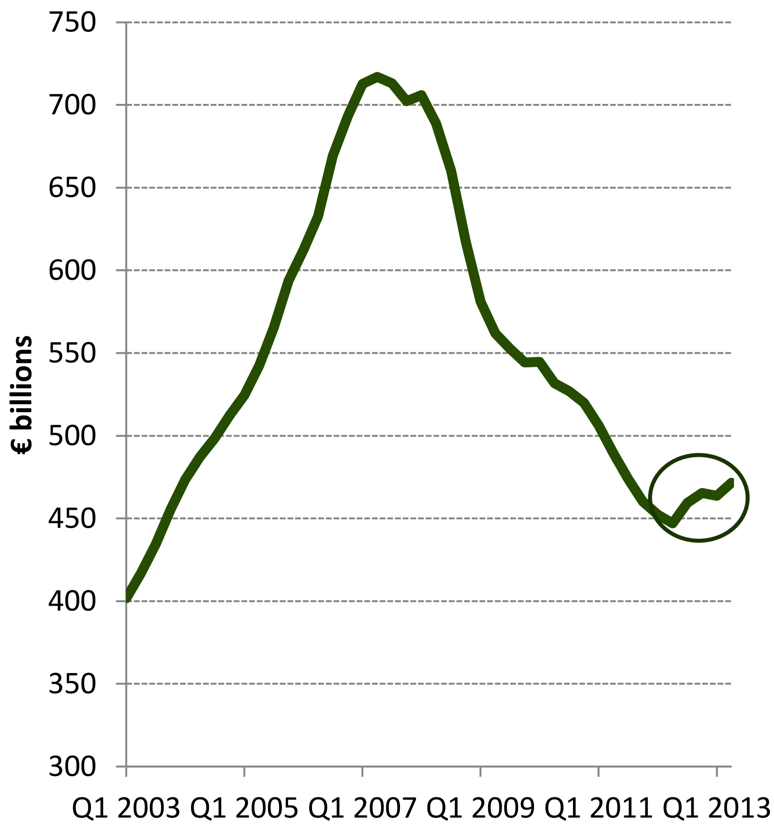


Sources: Eurostat; CSO

Note: Interest burden is 'actual' (i.e. excludes FISIM adjustment) and is calculated as a share of 4 quarter actual gross disposable income. FISIM estimates for Ireland in 2013 based on unchanged 2012 figures

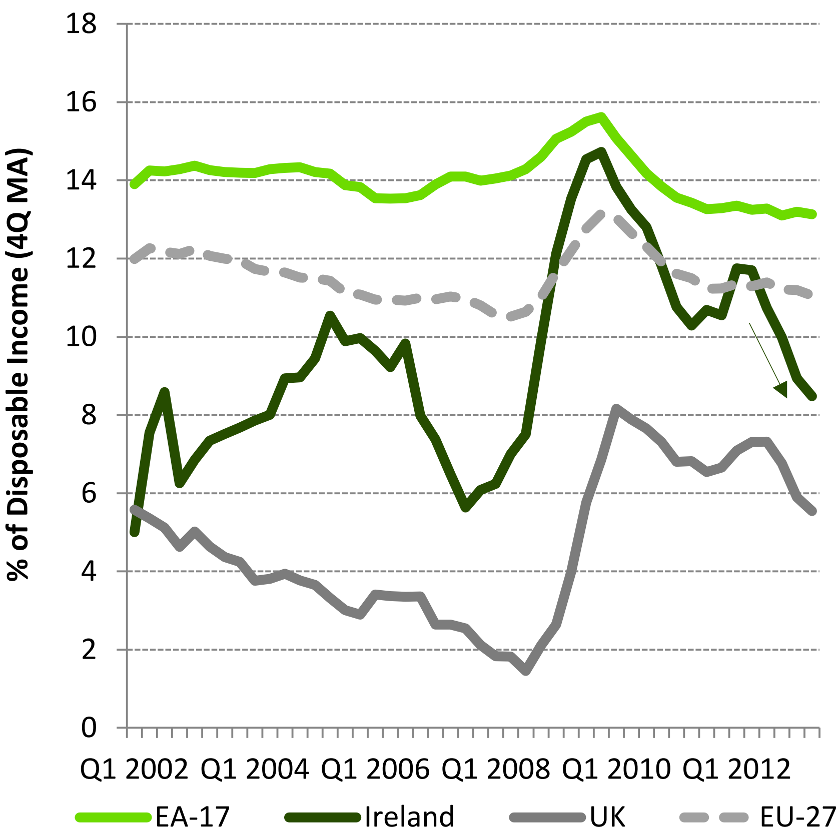
Deleveraging and negative wealth effects have harmed consumer spending

Household net worth has bottomed: this will underpin consumer spending



Source: CBI; DoEHLG; CSO; NTMA

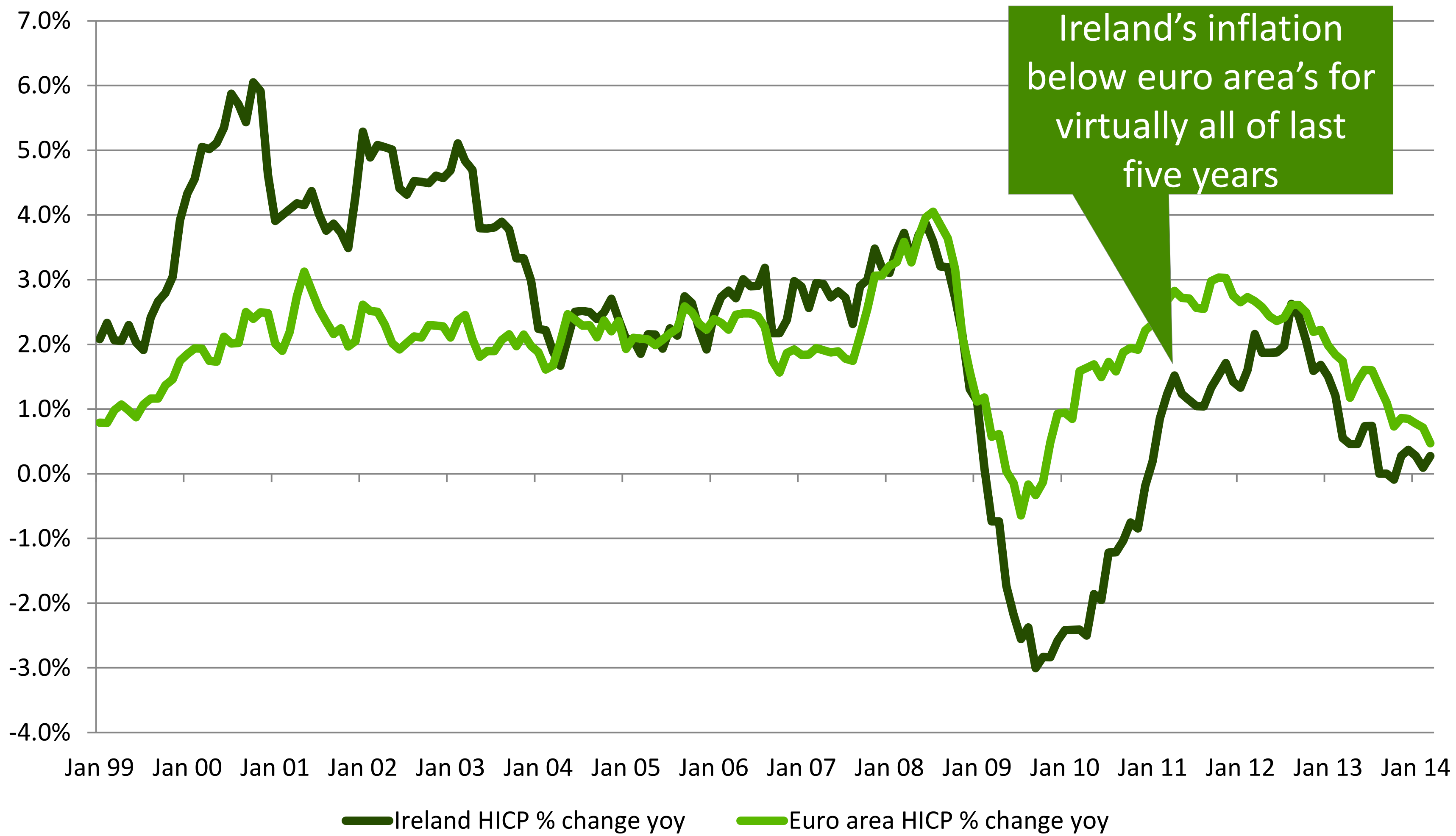
Gross household saving rate descending from historical highs *



Source: Eurostat

* Measured on ESA-95 basis

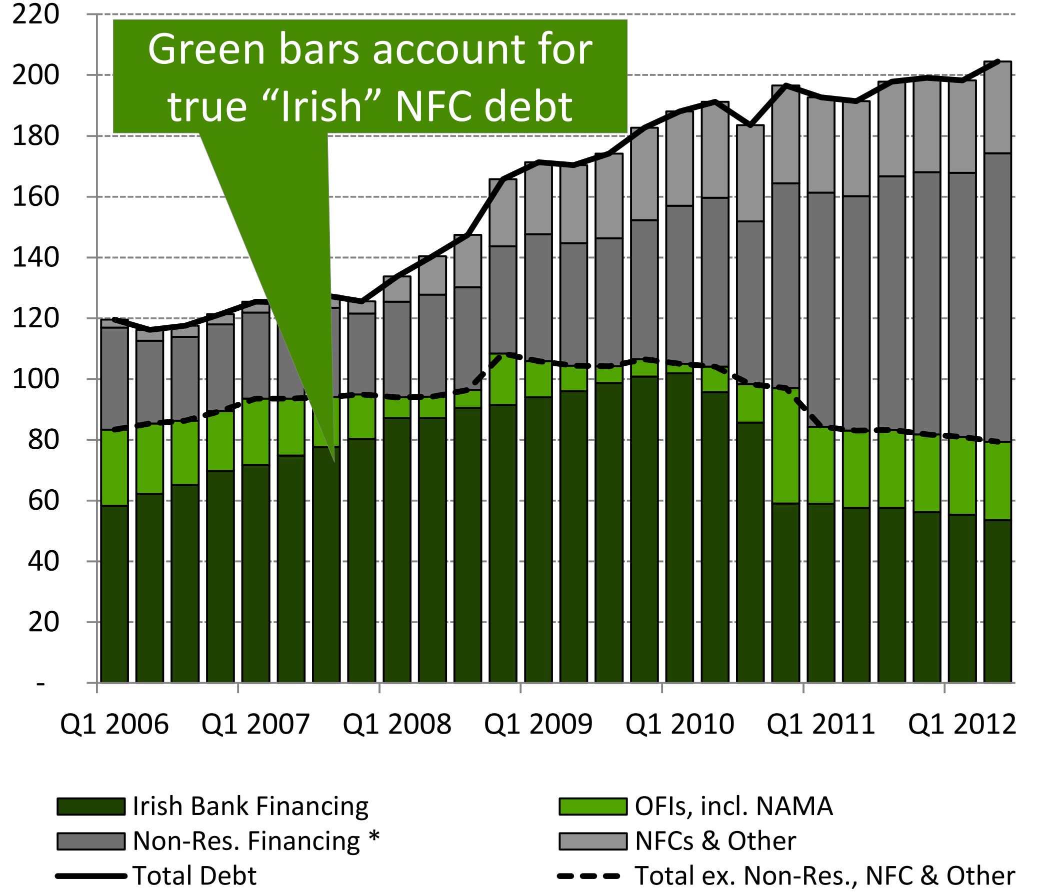
Inflation remains low, underpinning real incomes



Source: CSO

Private debt levels are high, apart from "core" domestic companies

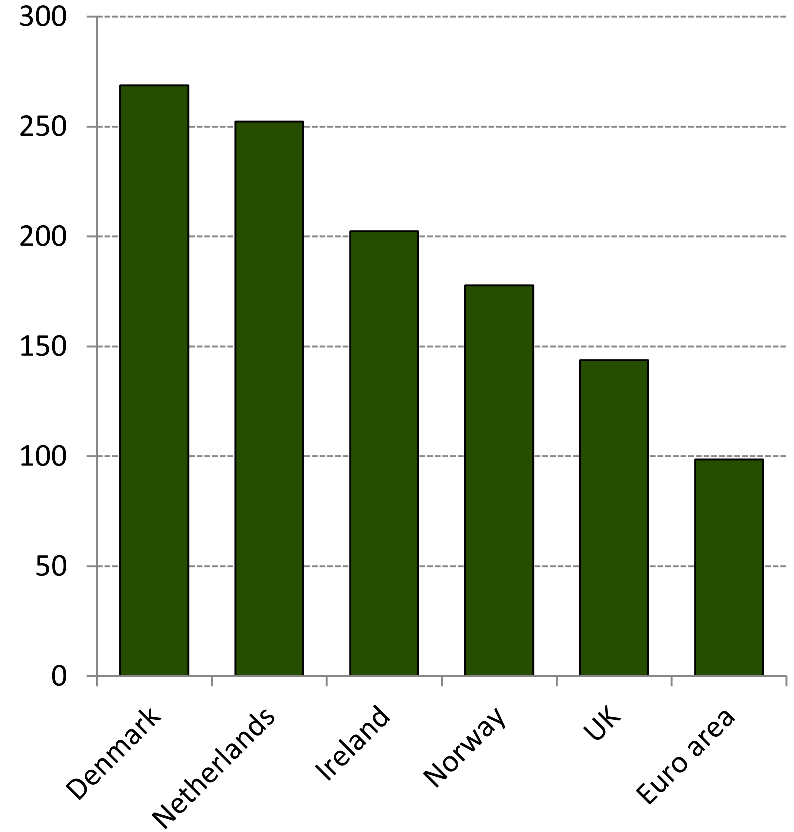
Irish Non-Financial Corporate (NFC) debt is distorted by multinationals (% of GDP)



Source: Cussen M. and B. O' Leary, Quarterly Bulletin Q1 2013, CBI

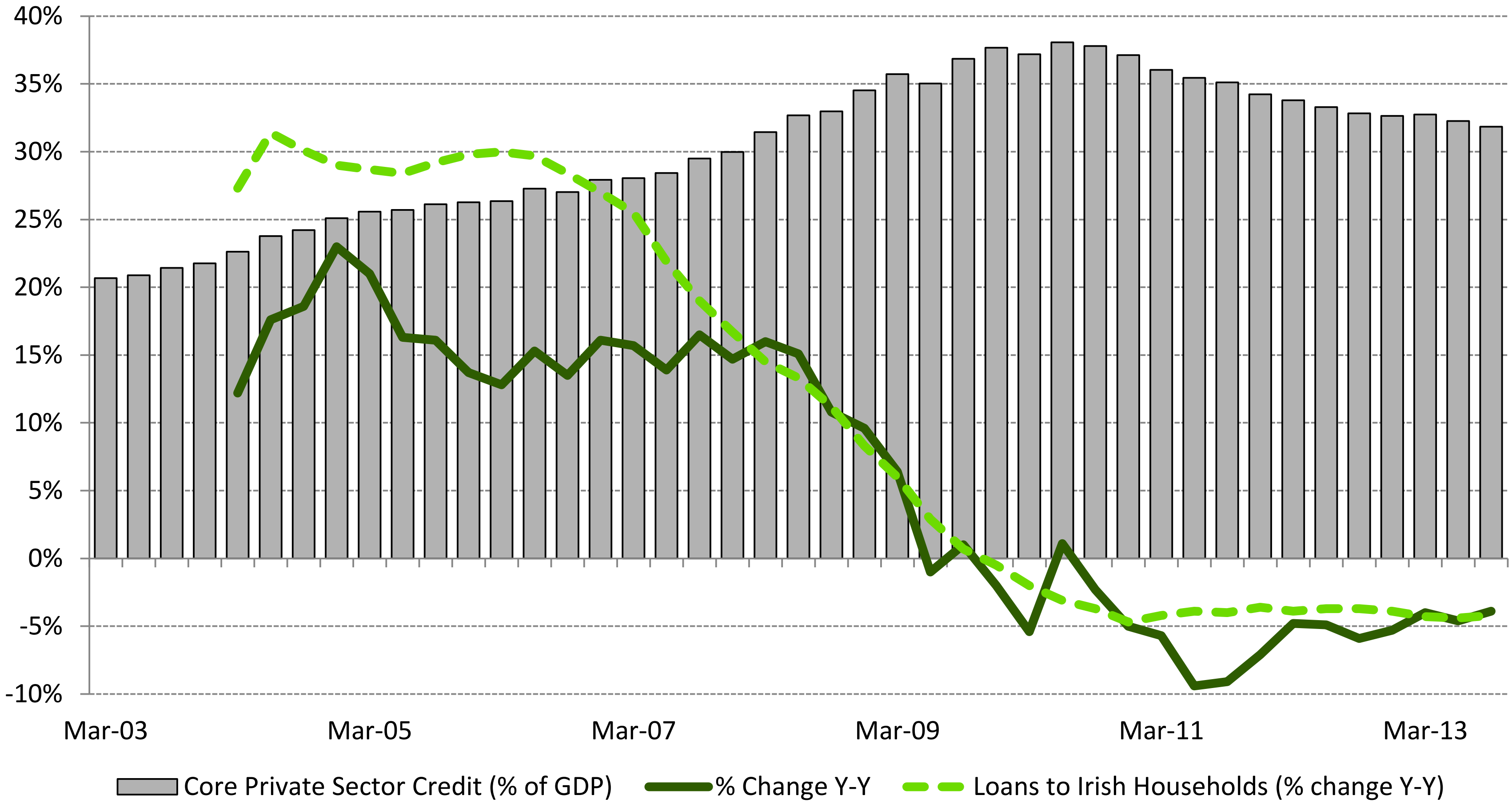
* Non-Res. includes global market financing; OFI = Other Fin. Intermediaries

Household debt ratio (% DI) declining (see slide 19) but still among highest in Europe



Source: Eurostat

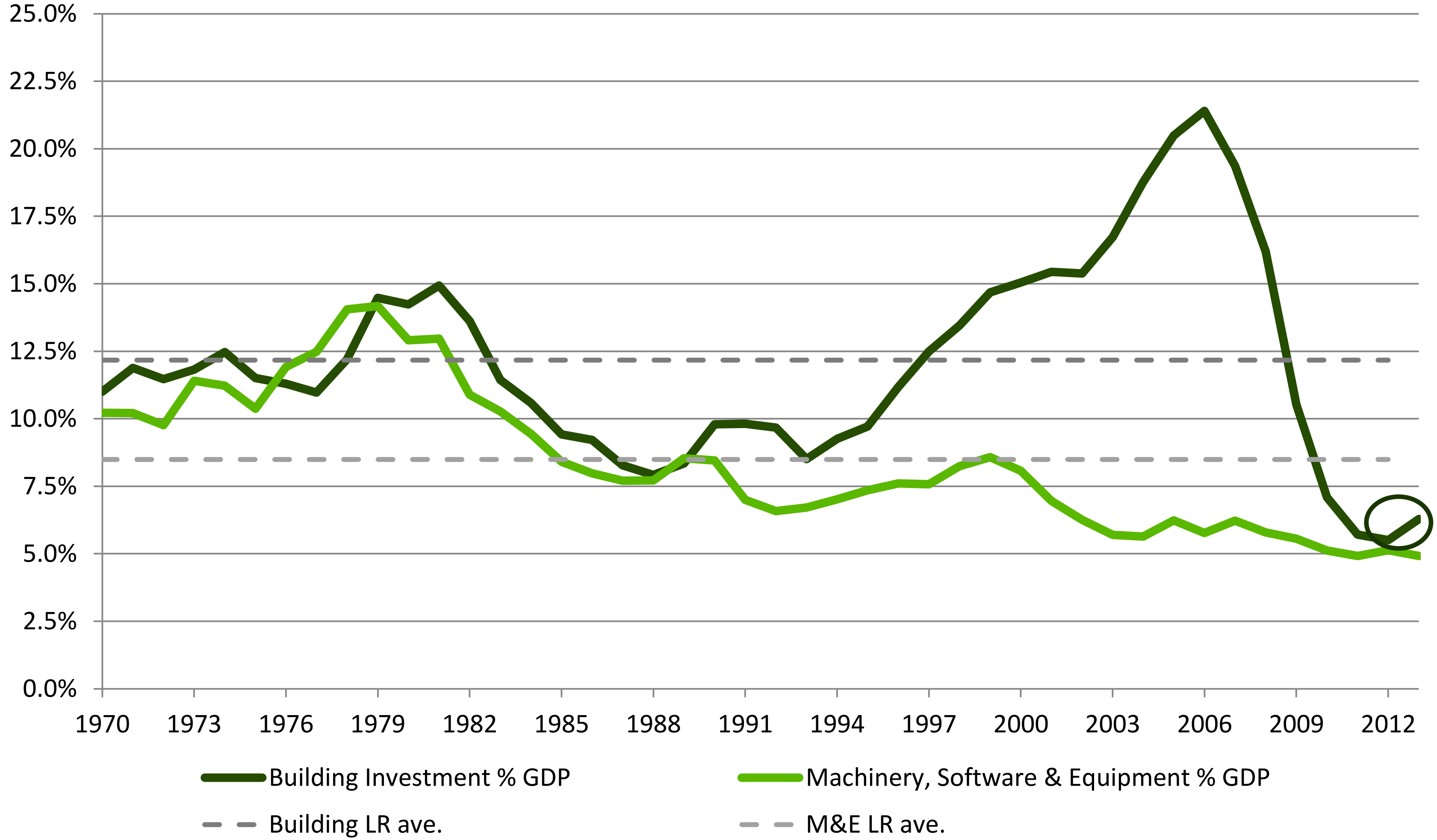
Core net lending volumes back at 2008 levels as pace of deleveraging is sustained



Sources: CBI; CSO; NTMA workings

Note: 'Core Private Sector Credit' covers credit advanced to Irish resident private-sector enterprises excl. fin. intermediation & property-related sectors. Data are non-consolidated and cover all credit institutions operating in Ireland. March 2003 outstanding credit is used as base and updated using cumulative transactions data. Both the latter and underlying growth rates are fully adjusted for non-transaction related effects (e.g. change in reporting population, revaluations, exchange rate movements) so as to reflect activity levels through time.

Building investment started to recover in 2013



Source: CSO

Economic and fiscal forecasts: SPU 2014

	2012	2013	*2014f*	*2015f*	*2016f*
GDP (% change, volume)	0.2	-0.3	*2.1*	*2.7*	*3.0*
GNP (% change, volume)	1.8	3.4	*2.7*	*2.3*	*2.5*
Domestic Demand (Contribution to GDP, p.p.)*	-1.6	-0.1	*2.6*	*2.2*	*1.6*
Net Exports (Contribution to GDP, p.p.)	1.8	-0.2	*-0.5*	*0.5*	*1.4*
Current Account (% GDP)	4.4	6.6	*5.8*	*5.2*	*5.3*
General Government Debt (% GDP)	117.4	123.7	*121.4*	*120.0*	*115.9*
Underlying General Government Balance (% GDP)**	-8.2	-7.2	*-4.8*	*-2.9*	*-2.2*
Inflation (HICP)	2.0	0.5	*0.5*	*0.9*	*1.4*
Unemployment rate (%)	14.7	13.1	*11.5*	*10.5*	*9.7*

Sources: CSO; Department of Finance (Stability Programme Update (SPU) 2014) and NTMA

** Includes stock changes*

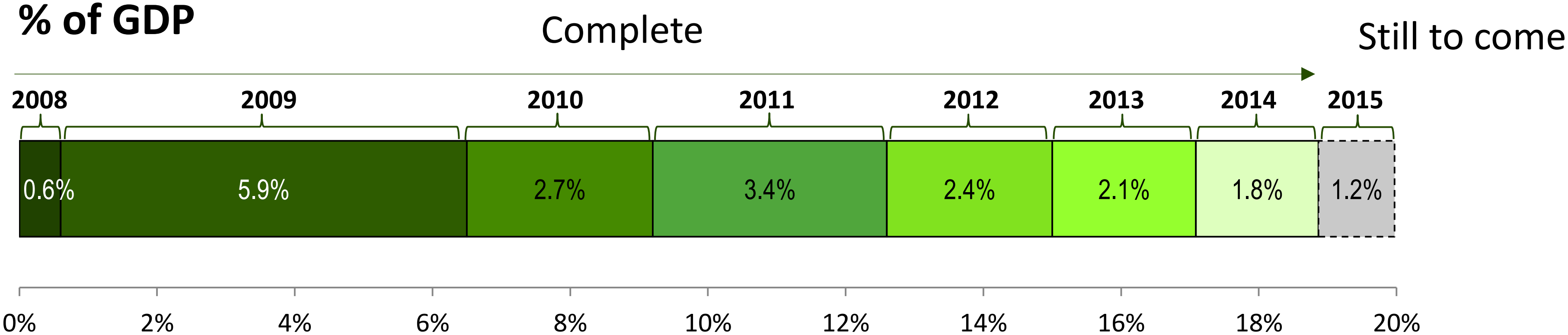
*** Underlying: ex-banking recapitalisation under EDP rules*

SECTION 3: FISCAL & NTMA FUNDING

Fiscal overhaul: debt ratio peaked in 2013 and all targets beaten

Fiscal Consolidation thus far...

% of GDP



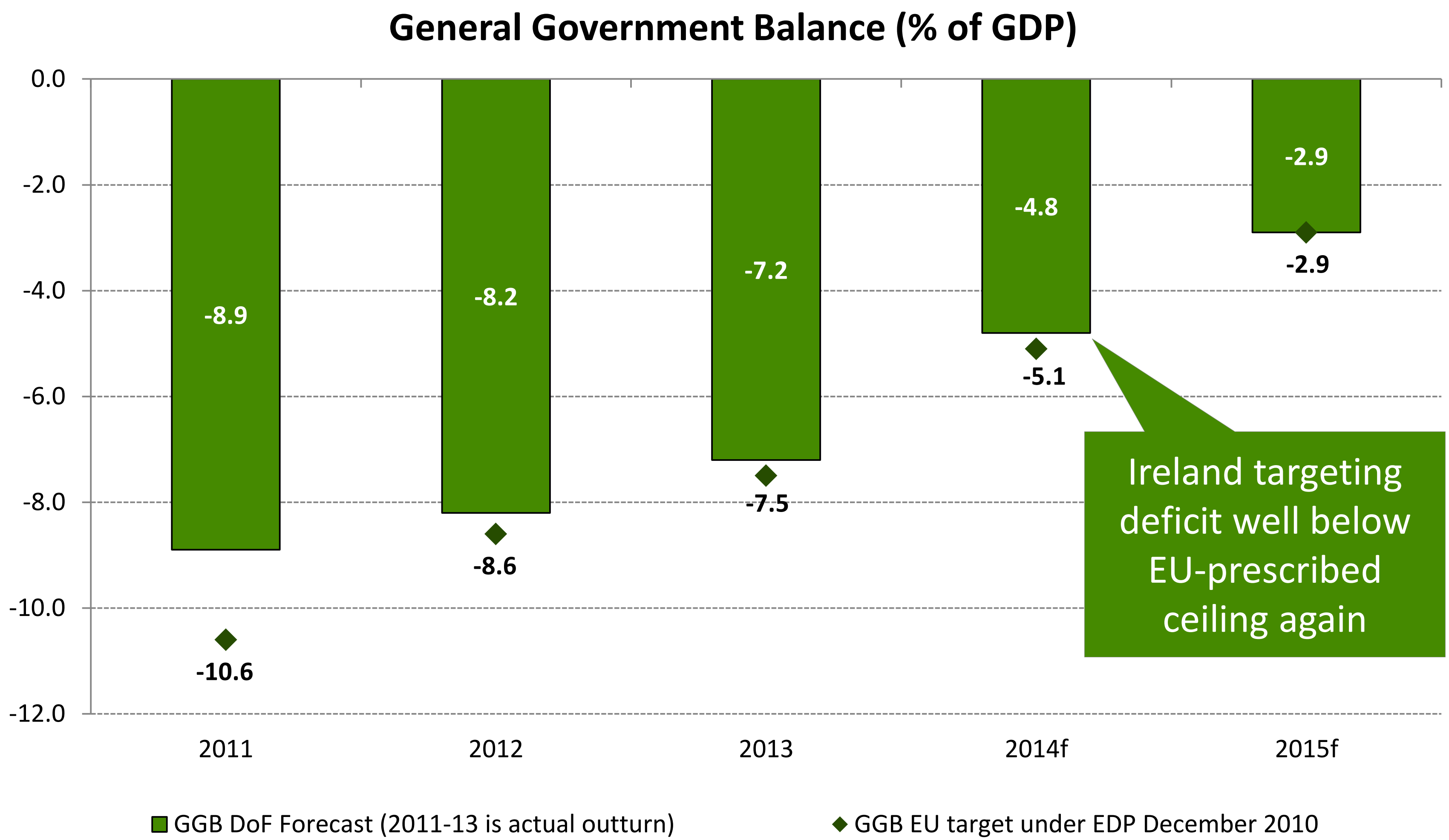
Breakdown of adjustment measures (€bn unless stated)

	2008	2009	2010	2011	2012	2013	**2014**	*2015 **
Revenue	0.0	5.6	0.0	1.4	1.6	1.4	**0.9**	*N/A*
Expenditure	1.0	3.9	4.3	3.9	2.2	1.9	**1.6**	*N/A*
Total	1.0	9.4	4.3	5.3	3.8	3.5	**2.5**	*2.0*
Total (% of GDP)	0.6%	5.9%	2.7%	3.4%	2.4%	2.1%	**1.8%**	*1.2%*
Progress to Date (% of Total)	3%	32%	45%	62%	74%	84%	**94%**	*100%*
Progress to Date	1.0	10.4	14.7	20.0	23.8	27.3	**29.8**	*31.8*
Progress to Date (% of GDP)	0.6%	6.5%	9.2%	12.6%	15.0%	17.1%	**18.9%**	*20.0%*

Sources: Department of Finance Report of the Review Group on State Assets and Liabilities, Budgets 2011-2014 and Stability Programme Update, April 2014

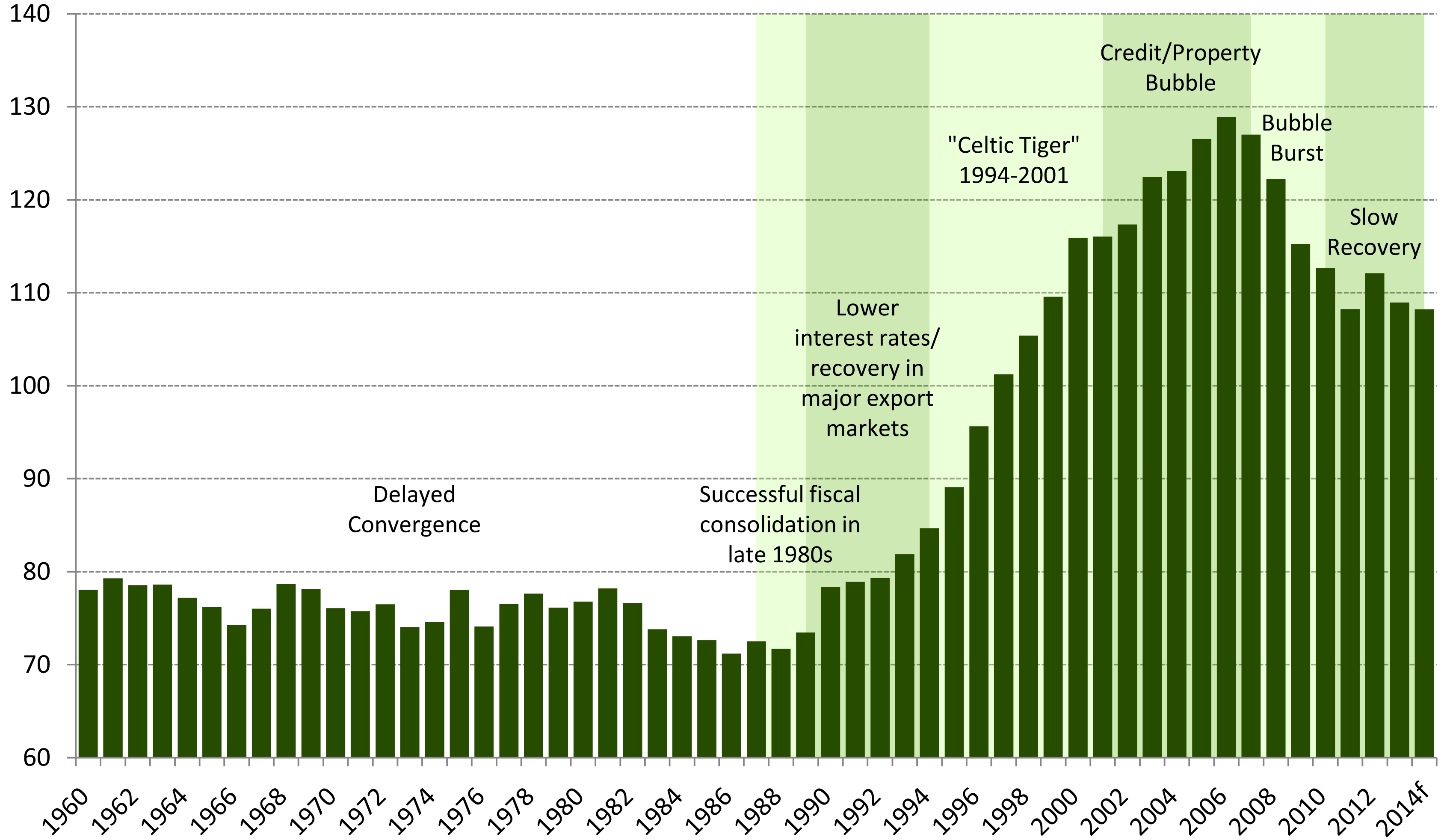
* Consolidation identified for 2015 at time of Stability Programme Update, April 2014

Three straight years of fiscal outperformance



Source: Department of Finance (as per SPU 2014); CSO; Eurostat

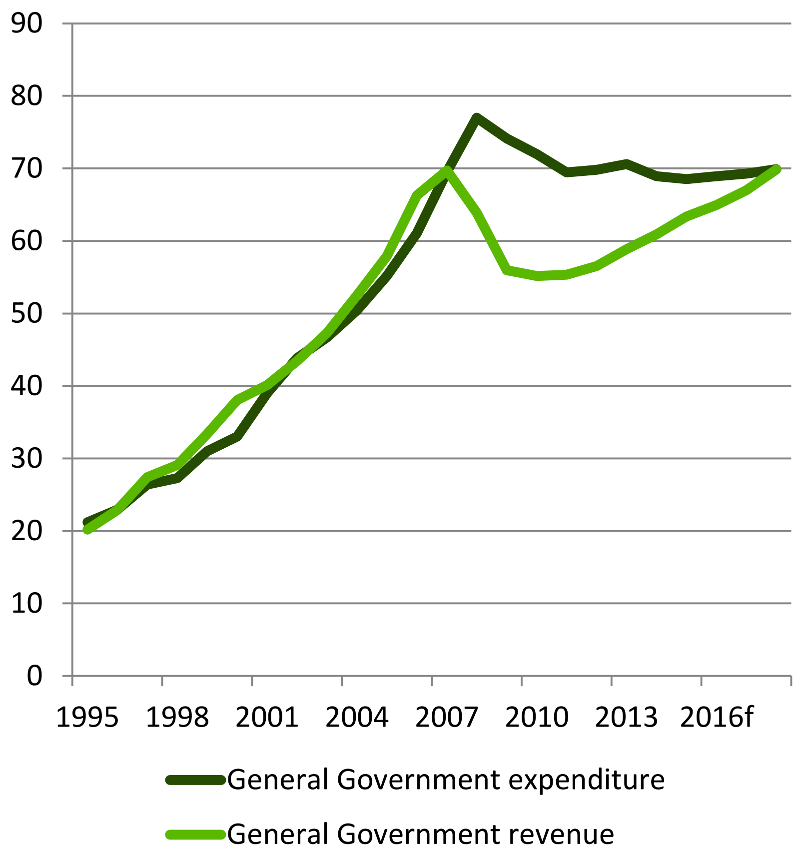
Gains from 2001-07 bubble lost, but living standards still c.8% above EU-15 (real GNI per capita EU-15=100)



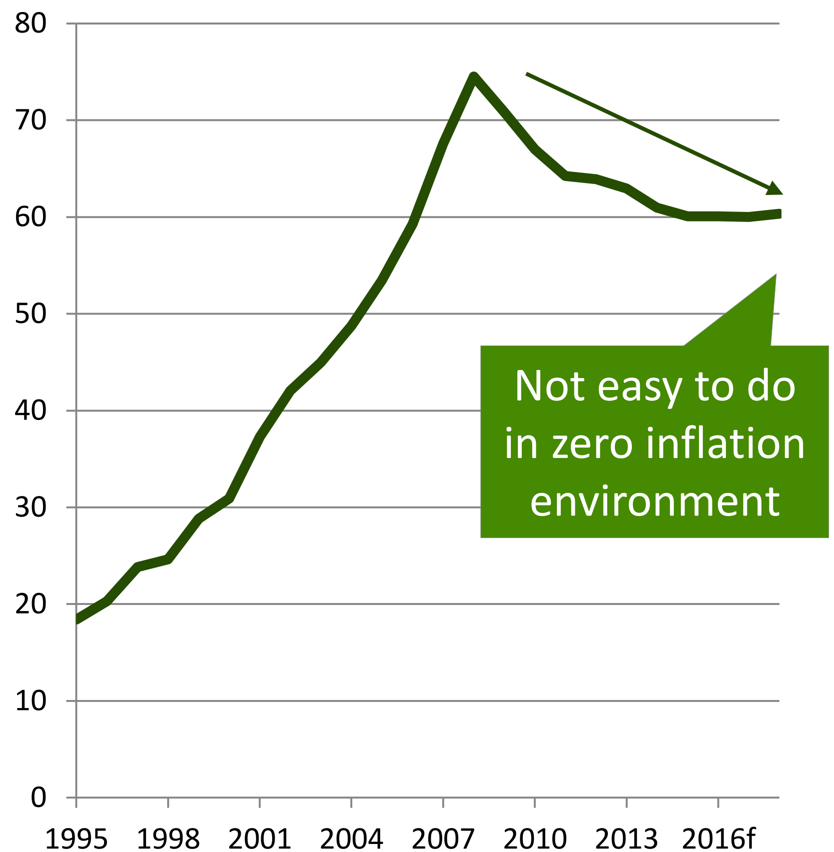
Sources: CSO; AMECO

Ireland's mammoth fiscal turnaround

Deficit to be fully closed by 2018 (€bn)

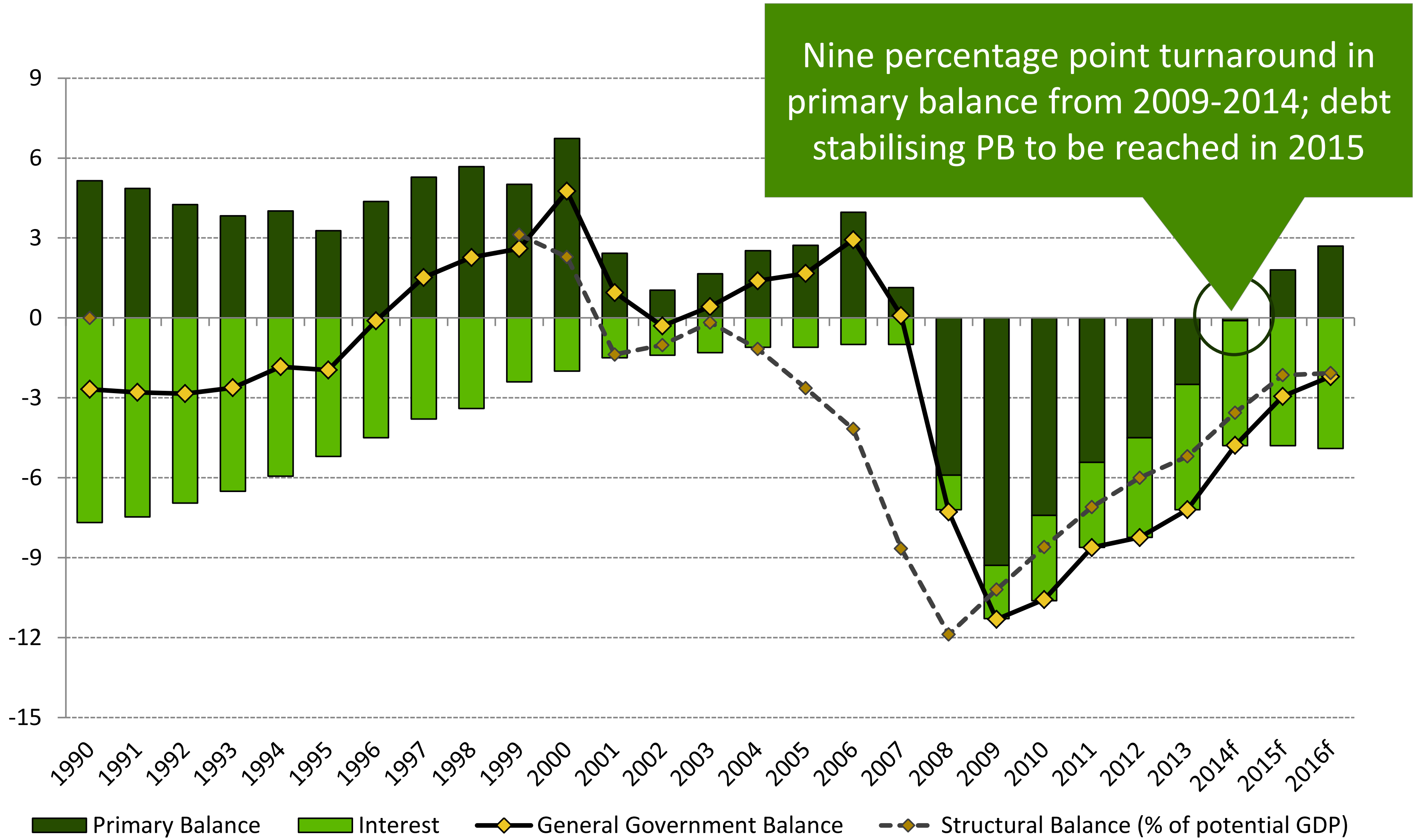


20% reduction in primary expenditure (€bn)



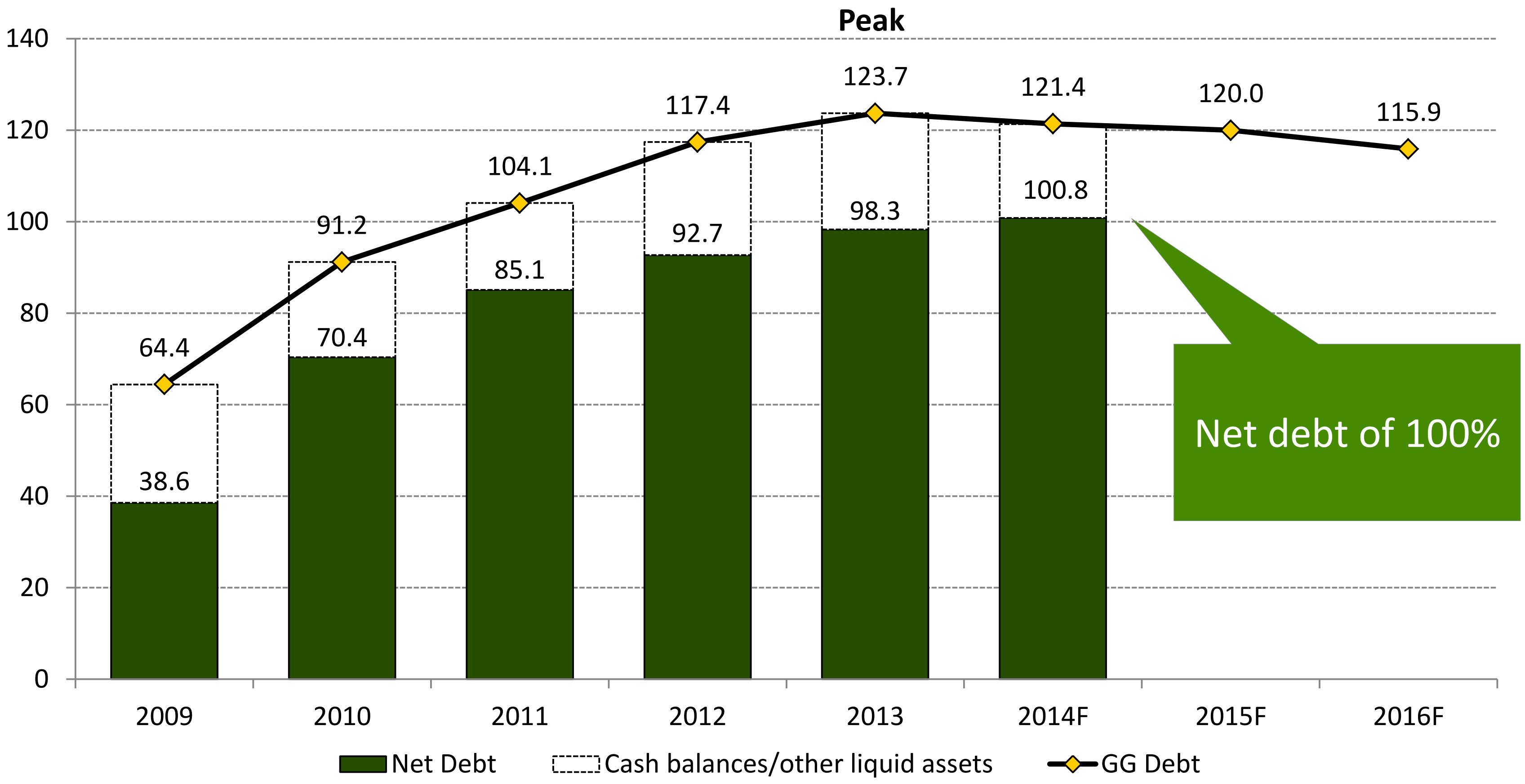
Source: CSO; Department of Finance

Ireland not far from confirming debt sustainability: primary balance (% of GDP) to be achieved this year



Source: Department of Finance; Eurostat; IMF

Gross Government debt stabilised below 124% of GDP in 2013



Gross debt ratio drops in 2014 compared with 2013 thanks to minimal natural increase (DSPB almost reached) and reduction in cash balance; debt stabilising primary balance achieved in 2015

Source: Department of Finance (as per SPU 2014); CSO

Cost to State of domestic bank recapitalisation; supports have yielded significant income return

Outgoing:	€bn
Recapitalisation total (including the now liquidated IBRC)	64.1
Other direct flows (Insurance Compensation Fund and Credit Unions)	1.2
Total	65.3
Incoming:	**€bn**
Sales of Securities	5.3
Other Income (cumulative):	
• CoCo investment	0.5
• CBI income	4.0
• Bank Guarantee Income	4.2
Total	14.0

Valuation of Remaining Assets (€bn)	BOI	AIB*	PTSB	Total
Equity (Government Stake)	1.1	6.5	N/A	7.6
Other (incl. preference shares)	-	3.5	N/A	3.5
Overall				11.1

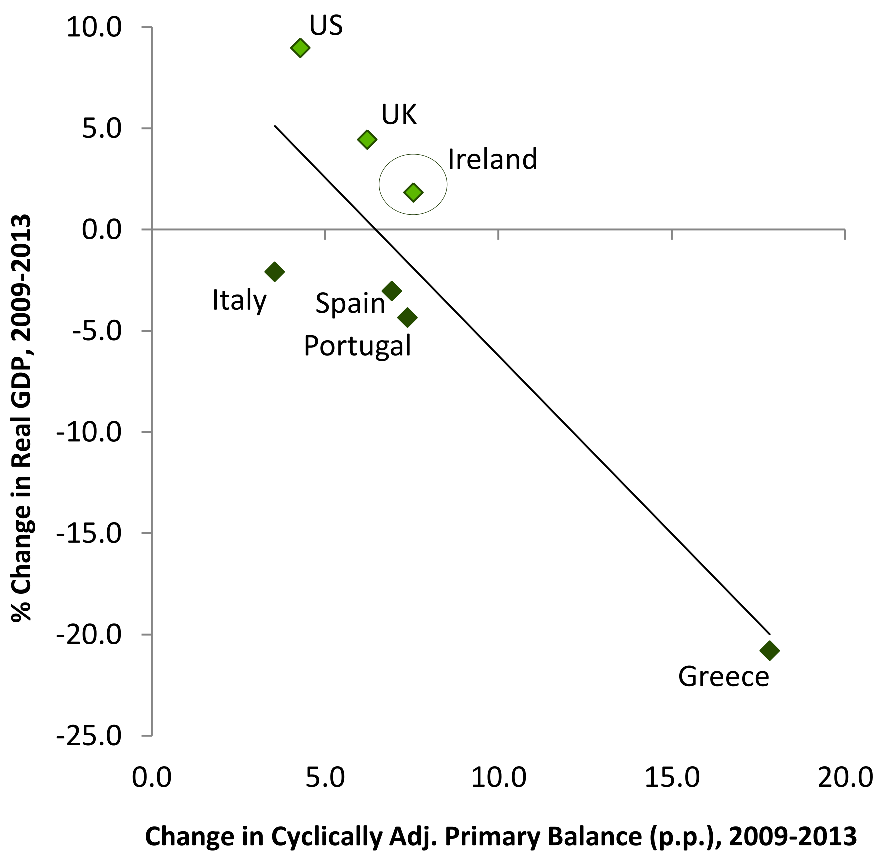
The third round of domestic bank recap by the State in 2011 (following earlier efforts in 2009 and 2010) was credible and fully transparent

The gross cost of explicit bank support in 2009-2011 amounted to c.41% of 2011 GDP, although the net cost was about 30% by end-2013

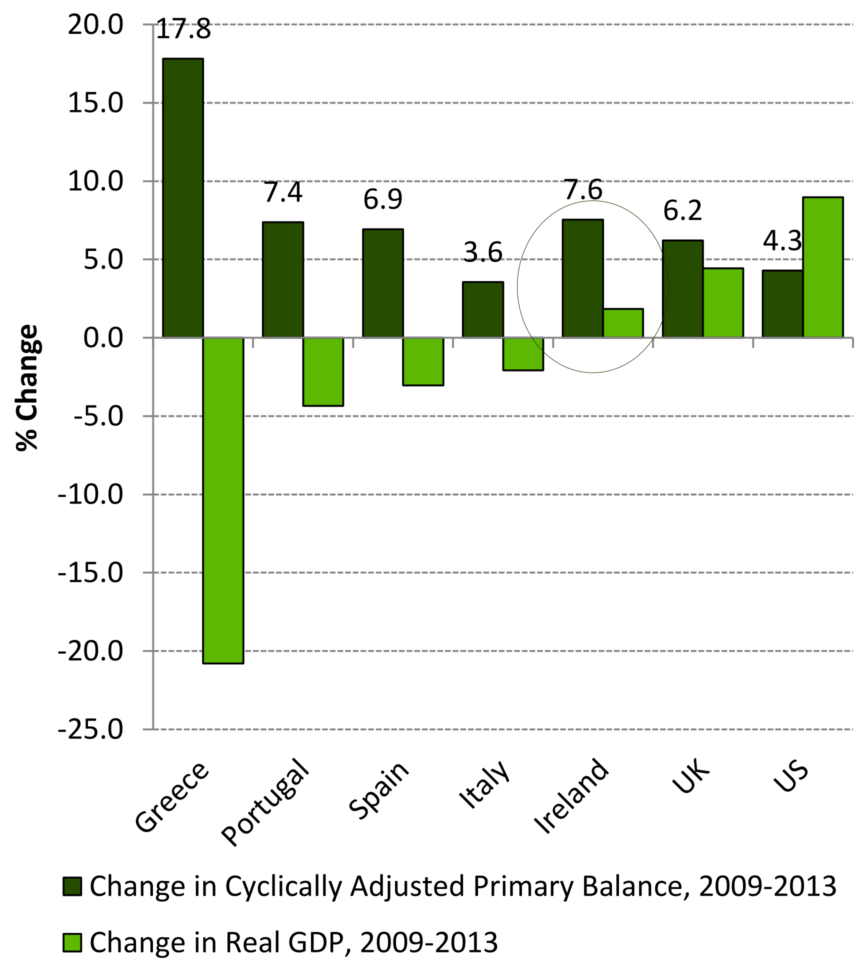
Source: Department of Finance; *NPRF end-year accounts; NTMA analysis

Ireland's adjustment easier on GDP because of relatively lower fiscal multiplier – thanks to openness

Growth has been possible with consolidation, unlike elsewhere in EA . . .



...while adjustment continues to deliver



Source: IMF; NTMA

Greater geographic balance in holdings of Irish Government Bonds (IGBs) after Promissory Note deal

€ million

End quarter	December 2013	January 2014	February 2014
1. Resident	55,672	53,708	54,402
(as % of total)	(50.2%)	(48.0%)	(48.6%)
– Credit Institutions and Central Bank*	50,057	49,305	49,552
– General Government	1,275	1,370	1,487
– Non-bank financial	4,030	2,178	3,019
– Households (and NFCs)	309	314	345
2. Rest of world	55,335	58,281	57,448
(as % of total)	(49.8%)	(52.0%)	(51.4%)
Total MLT debt	**111,007**	**111,988**	**111,851**

Source: Central Bank of Ireland

* Since March 2013 resident holdings have 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. The CBI sold €0.35bn of its 2025s by end-2013.

Breakdown of General Government debt

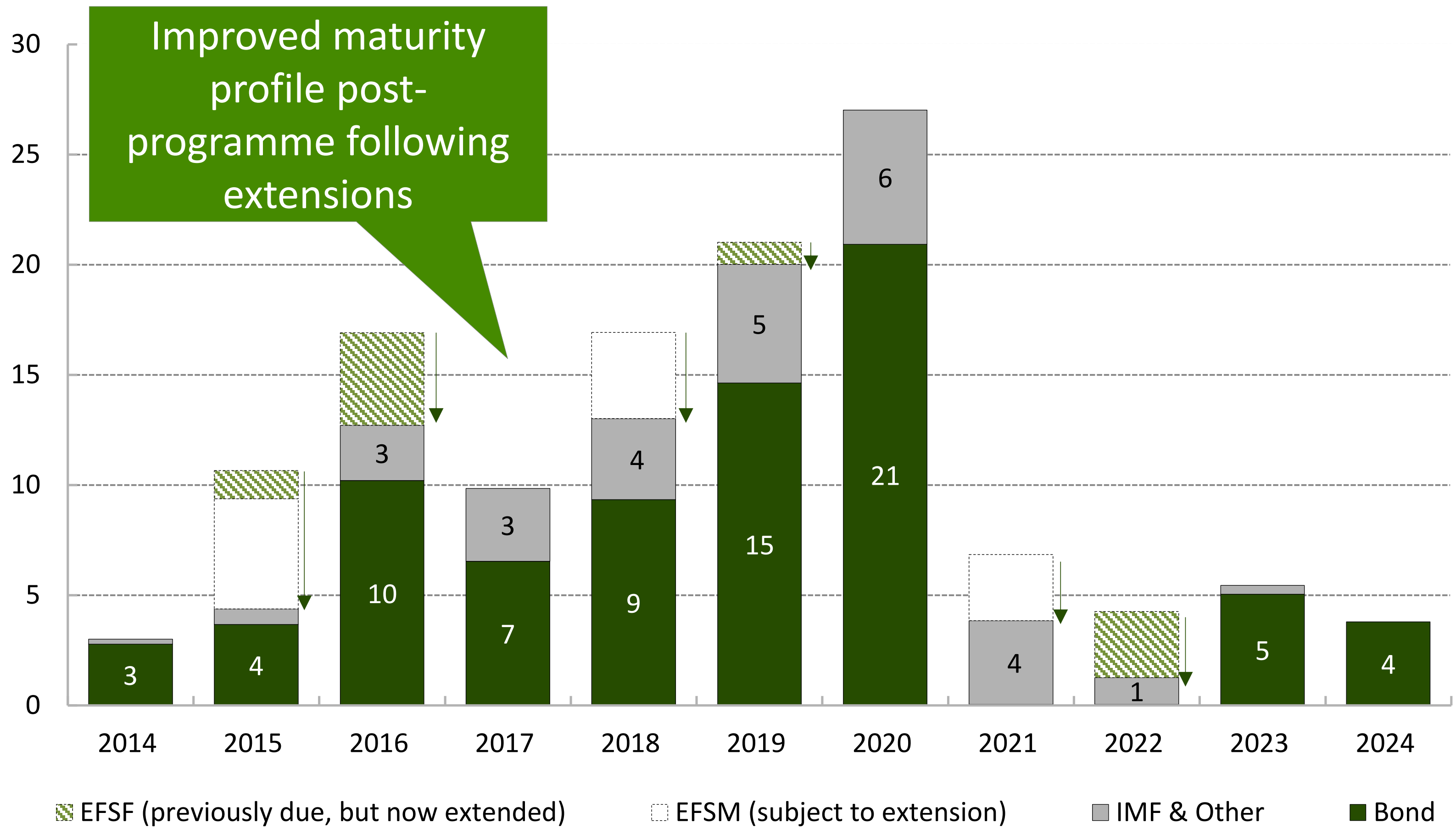
€ million	2009	2010	2011	2012	2013
Currency and deposits (mainly retail debt)	10,307	13,708	15,216	17,465	19,424
Securities other than shares, exc. financial derivatives	91,391	96,317	88,550	89,289	112,162
- Short-term (T-Bills, CP etc)	20,443	7,203	3,777	2,535	2,389
- Long-term (MLT bonds)	**70,948**	**89,114**	**84,773**	**86,754**	**109,772**
Loans	2,842	34,138	65,456	85,713	71,335
- Short-term	707	735	569	1,907	1,466
- Long-term (official funding and prom notes 2009-12)	2,135	33,403	64,887	83,807	69,869
General Government Debt	**104,540**	**144,163**	**169,222**	**192,467**	**202,920**
EDP debt instrument assets	*41,981*	*32,883*	*31,065*	*40,475*	*41,703*
Net Government debt	**62,559**	**111,280**	**138,157**	**151,992**	**161,217**

Source: CSO (April 2014)

Four-fold benefits from February 2013 Promissory Note deal

- NPV reduction in Ireland's General Government debt
  - Interest payments that leave consolidated "Ireland Inc." - General Government-IBRC-CBI-NAMA - key here
- Reduces NTMA funding need by c.€20bn over next decade
  - Rollover risk much lower on Programme exit
- General Government deficit lower statistically in 2014 and 2015 and for a number of years thereafter
  - Because IBRC was classified outside General Government
  - No real GGB benefit in 2013, thanks to up-front costs of IBRC liquidation
- Deal cements domestic buy-in to final years of fiscal consolidation
  - Market reaction was positive

Maturity profile envisaged under maturity extensions is much smoother (€bn)

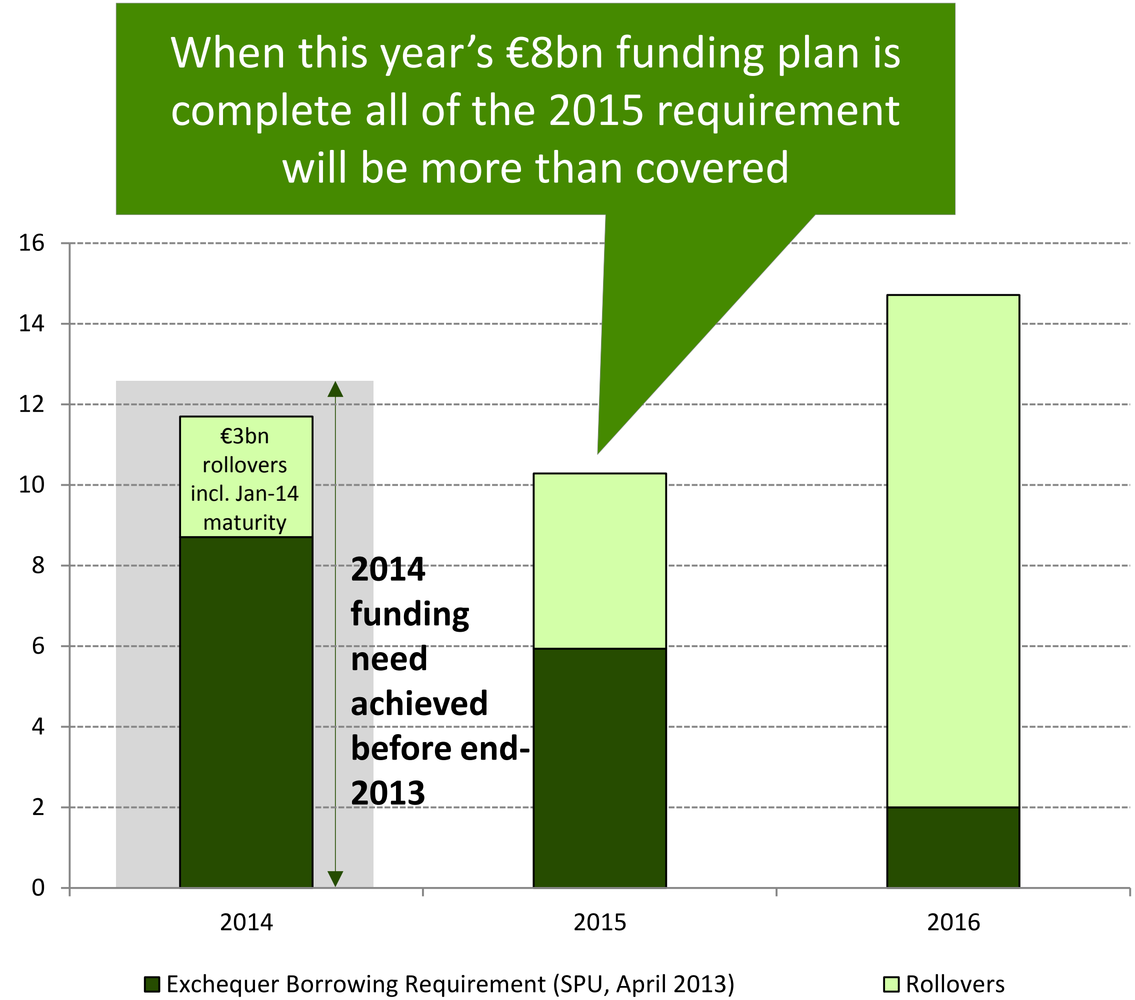


Source: NTMA

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 have to refinance any of its EFSM loans before 2027. However, the revised maturity dates of individual EFSM loans will only be determined as they approach their original maturity dates.

Total funding requirements are steadily declining (€bn)

- Funding requirement improved following sale of BOI CoCos and Irish Life. Restructuring of IBRC Promissory Note and extension of EFSF/EFSM maturities also benefited significantly.
- NTMA pre-funded well into 2015 after this year's issuance of €6.5bn in total by end-April
- End-December *Exchequer cash and deposits of €18.5bn* already had provided a considerable funding buffer



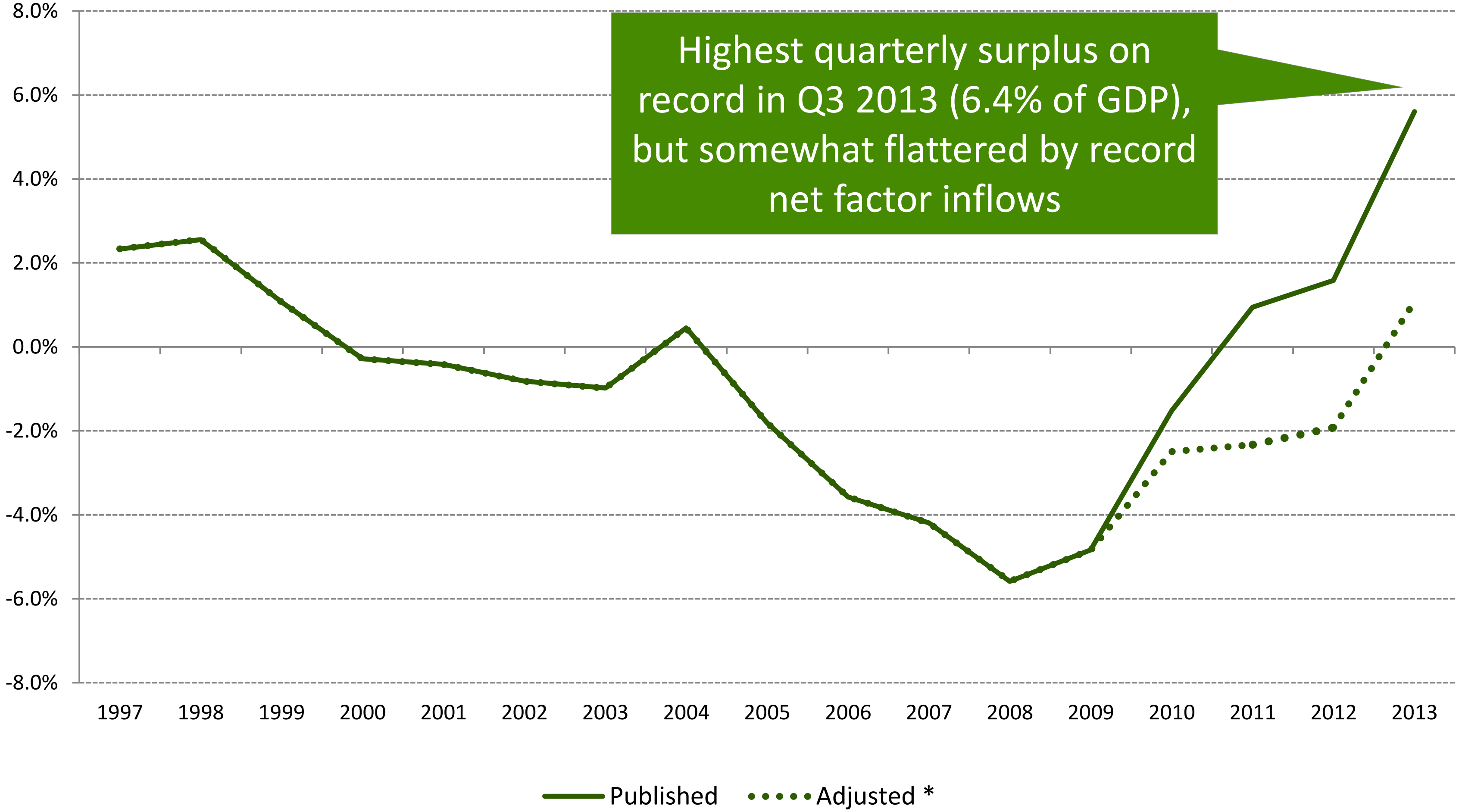
Source: NTMA; Department of Finance

1. Rollovers include maturing Government bonds and EU/IMF Programme loans.
2. EFSF loans have been extended by a weighted average 7 years . EFSM loans are also subject to a 7 year extension. It is not expected that Ireland will have to refinance any of its EFSM loans before 2027. A €5bn EFSM loan originally due to mature in 2015 is therefore no longer part of the "Latest Est. Funding Requirement" in 2015.

SECTION 4: REBALANCING

Ireland has accomplished the bulk of its “internal devaluation”: current account is in large surplus and price level is converging with EA average

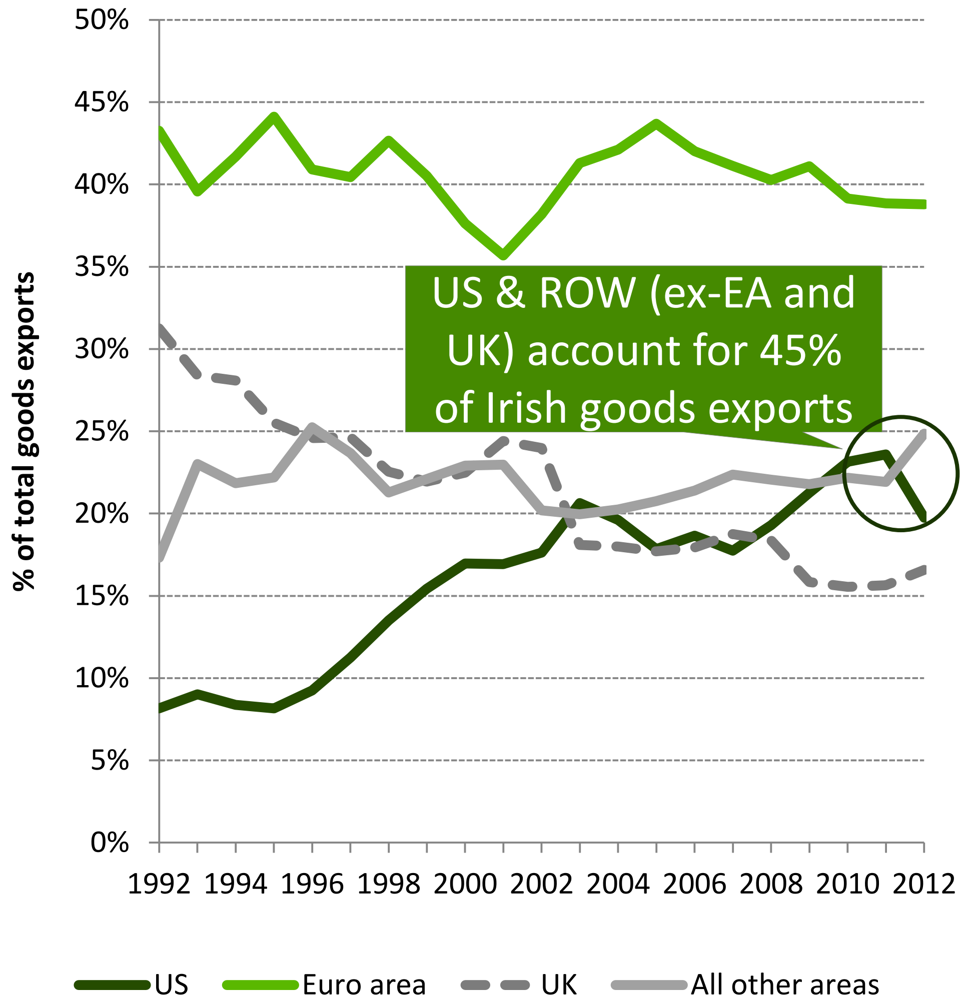
Ireland's BoP current account surplus reflects large-scale rebalancing of economy (4Q MA, % GDP)



Source: CSO

* Adjusted for estimates of the undistributed profits of redomiciled PLCs (for more information, see Fitzgerald, J. (2013), 'The Effect of Redomiciled PLCs on GNP and the Irish Balance of Payments')

Ireland benefits from trade diversification and openness relative to other non-cores



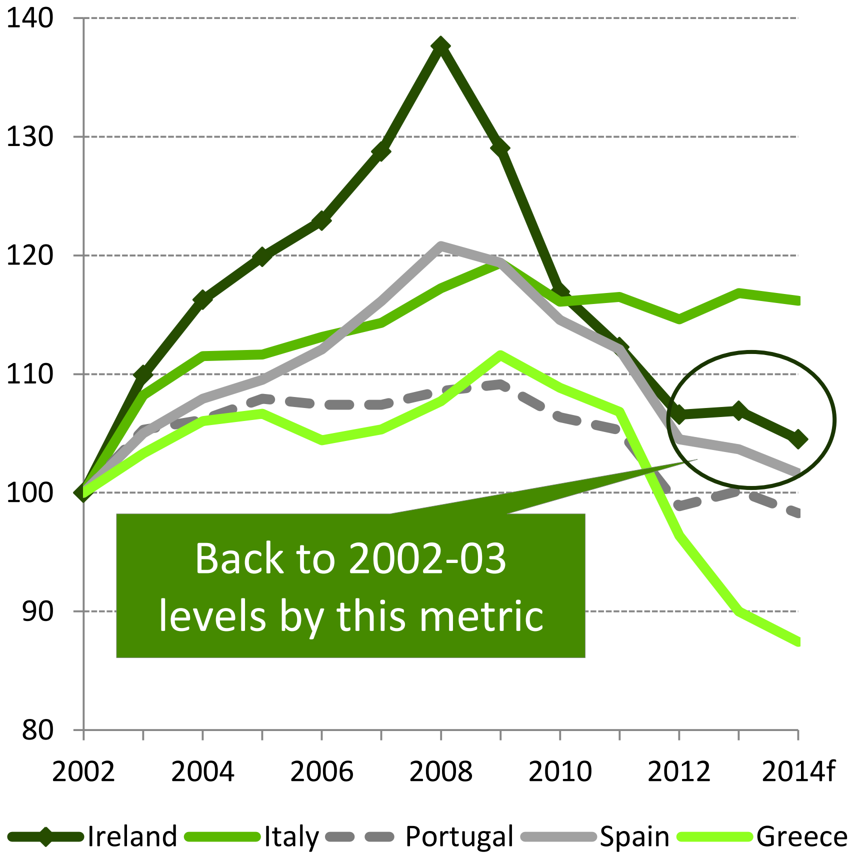
Source: CSO

	Exports (%GDP)	Imports (%GDP)	Openness proxy (X+M/GDP)
Ireland	108	84	1.92
Spain	32	31	0.63
Italy	30	29	0.59
Portugal	39	39	0.78
Greece	27	32	0.59

Source: Eurostat (based on 2012 data)

Ireland's competitive position is different to the other non-core countries

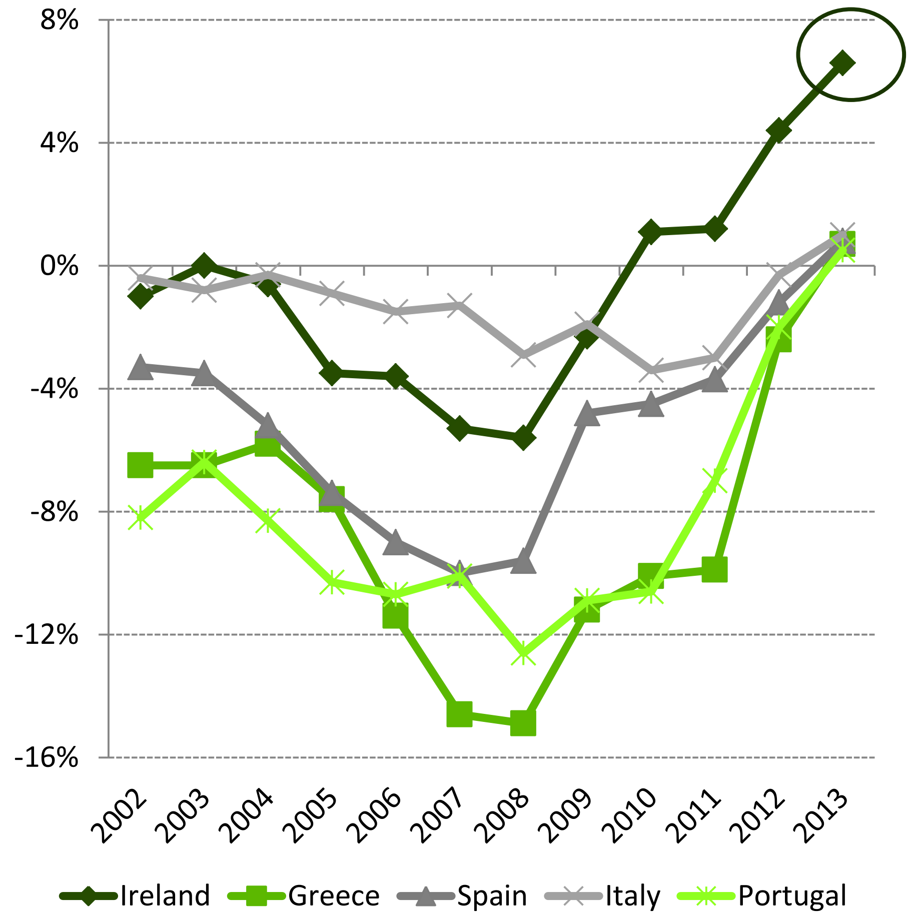
Relative Real Effective Exchange Rates have corrected sharply (Base:2002=100)



Source: AMECO

Note: REERs are deflated by unit labour costs and measure performance relative to 36 industrial countries - double export weights

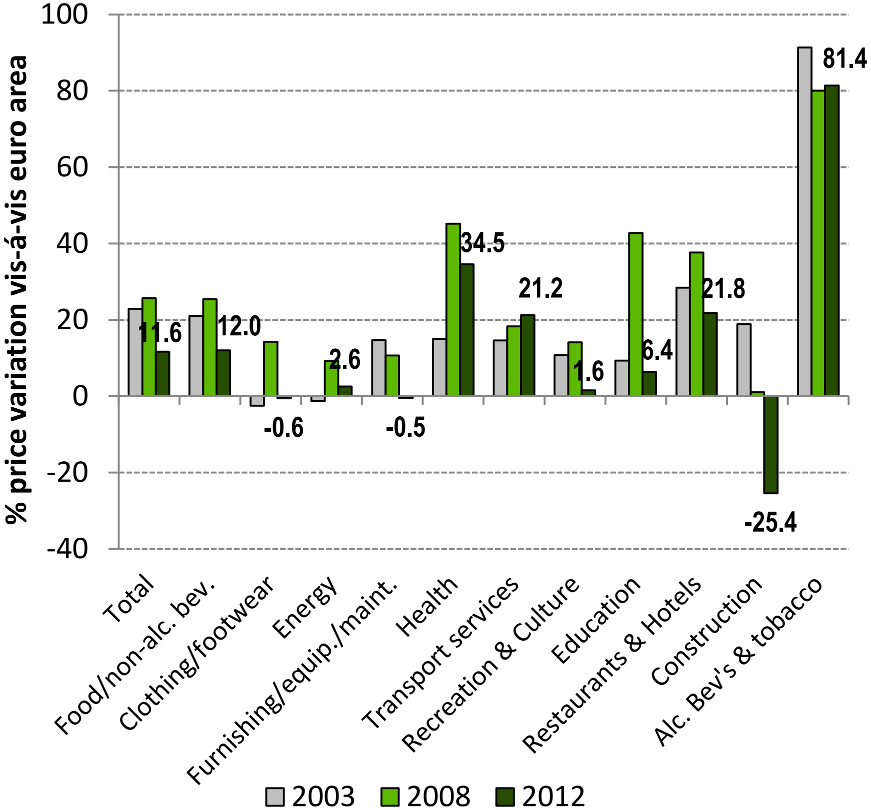
Current Account Balance (% GDP)



Source: Eurostat

'Internal devaluation' enabled recovery of lost price competitiveness, but low EA inflation slows progress

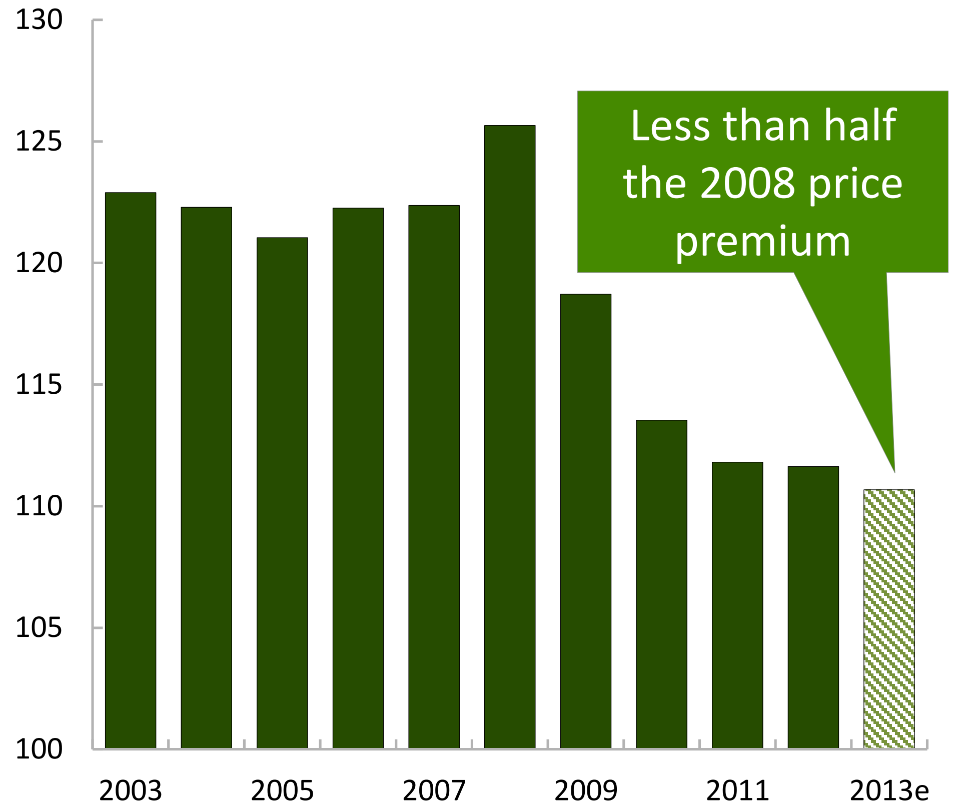
Prices have fallen across most consumer goods and services, yet some remain high



Sources: Eurostat; NTMA workings

Note: % price variations labelled are for Ireland compared to euro area in 2012

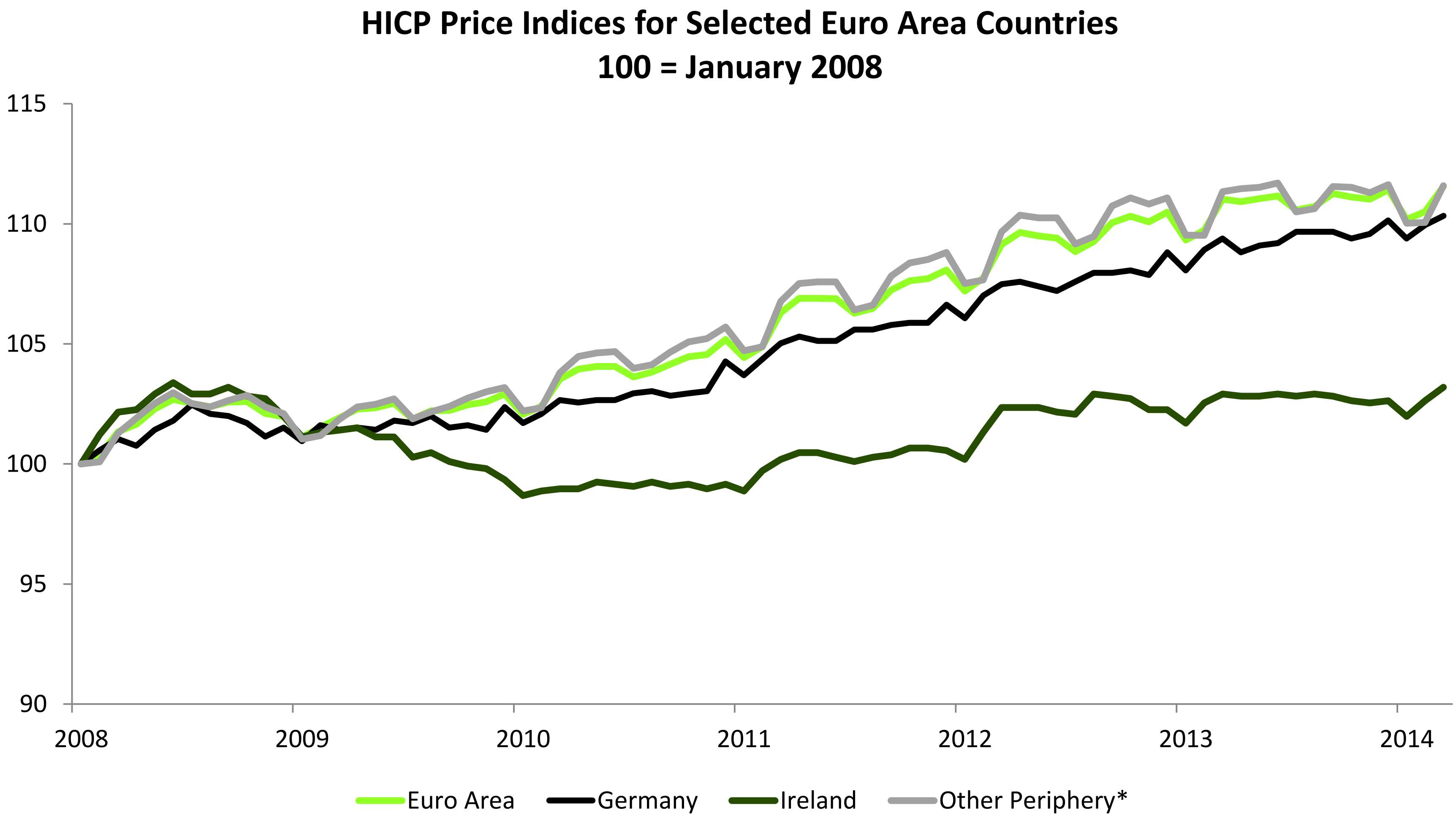
Undershoot of EA inflation entailed further improvement in 2013 (index: euro area=100)



Sources: Eurostat; NTMA workings

Note: Price levels are based on household final consumption expenditure. Euro area and Irish HICP inflation for first eleven months of the year are used to estimate level for 2013.

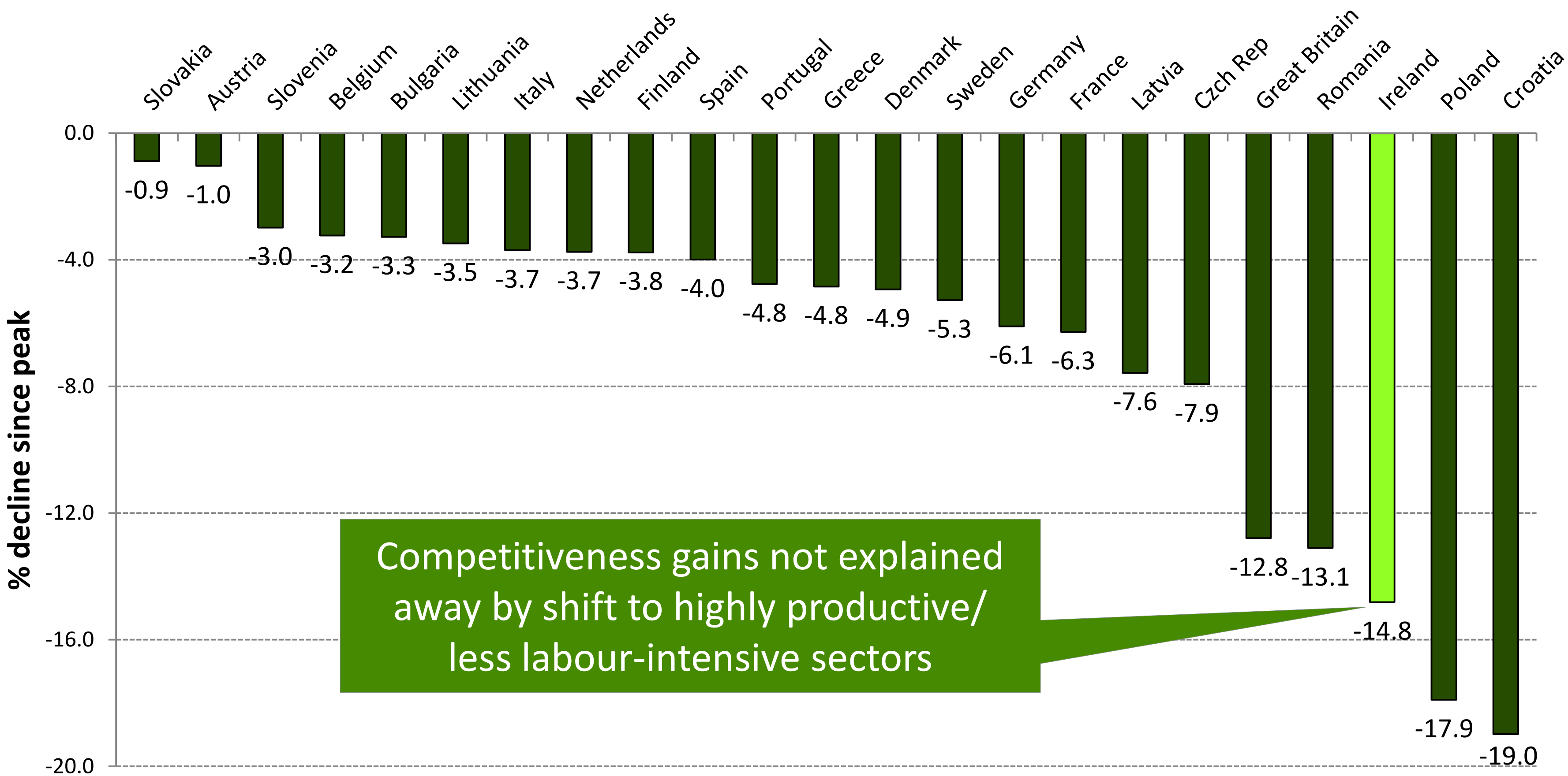
Ireland's price competitiveness recovery since 2008 outperforms other periphery countries



Sources: Eurostat; NTMA workings; Non Seasonally Adjusted Data

*Other Periphery is a weighted average of Spain, Italy, Greece, Portugal indices where the weights used are the individual countries weighting in the standard euro area HICP inflation calculation

Competitiveness recovery still exceptional even when compositional effects are corrected for

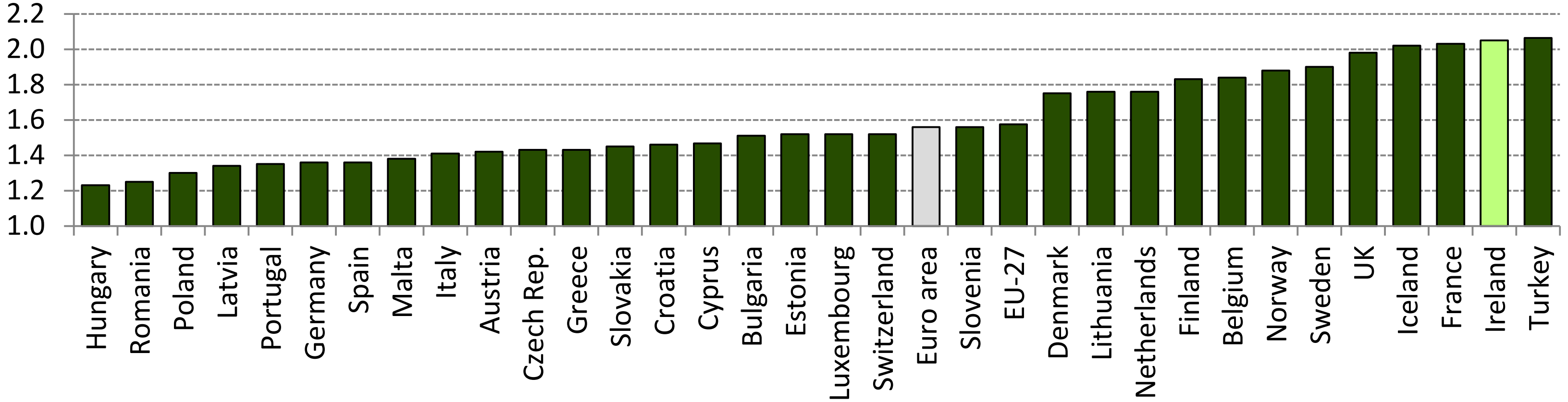


Source: Bruegel, 2014. 'Real effective exchange rates for 178 countries: a new database'

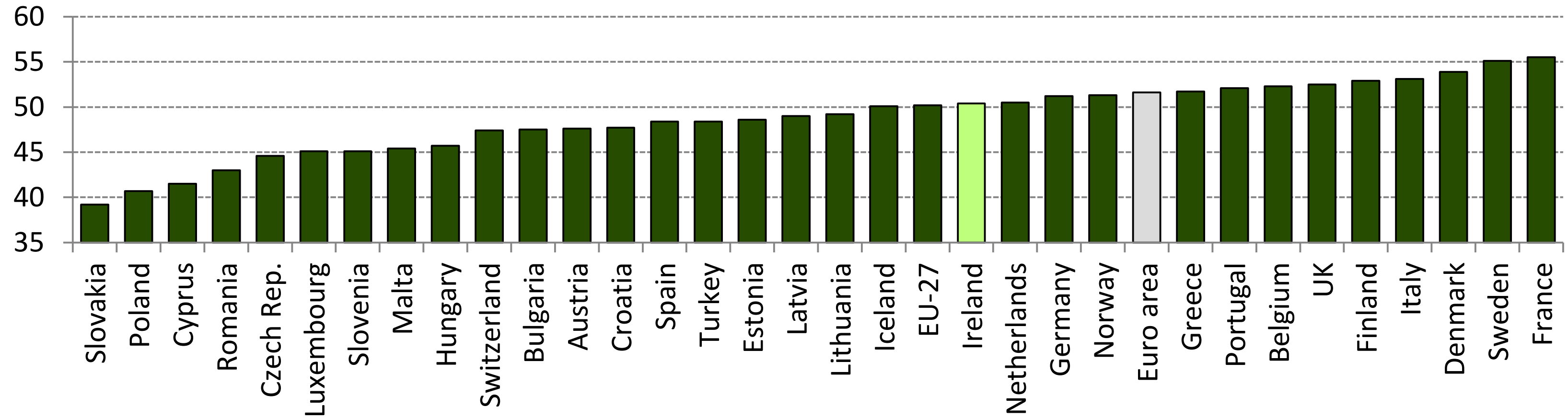
Note: REERs cover business sector excluding agriculture, construction and real estate activities and are calculated against 30 trading partners using fixed weights from Q1 2008. Data available to **Q1 2014**. See Darvas, Z (2012) for more details.

Favourable population characteristics underpin debt sustainability over longer term

Fertility rates in Ireland are above typical international replacement rates

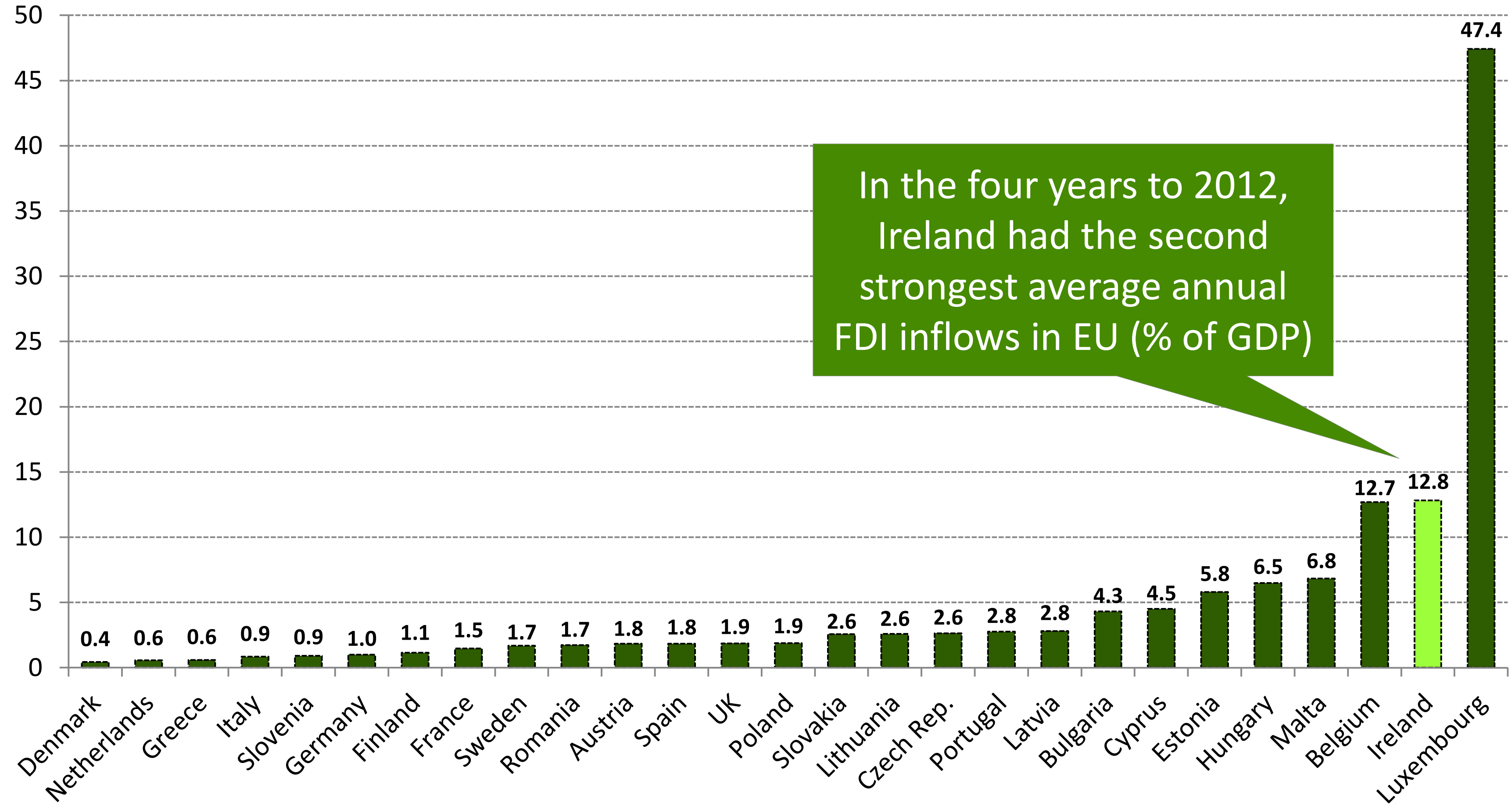


Dependency ratios (age <15 & 65+ : ages 15-64) also compare well against euro area



Sources: World Bank WDI; Eurostat

Ireland continues to attract foreign investment (average FDI inflows per annum as a share of GDP, 2009 – 2012)



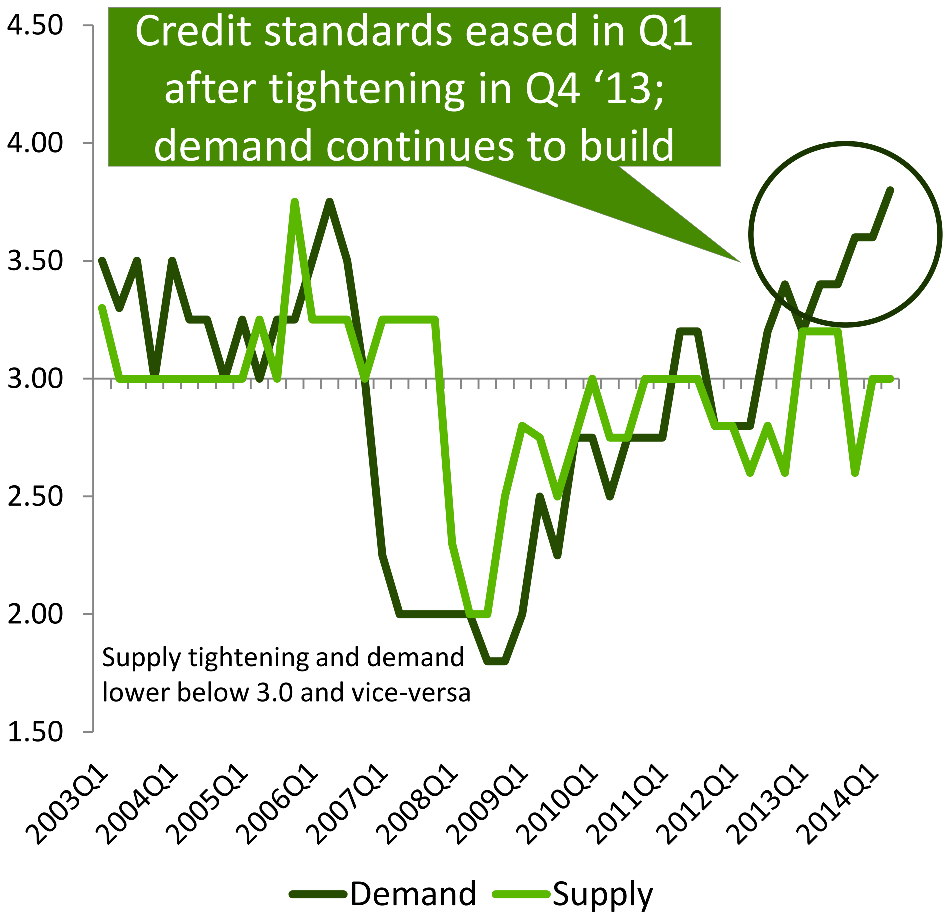
Sources: UNCTADStat

SECTION 5: PROPERTY

House prices have bottomed, thanks to lack of supply (and healthy household formation in Dublin); prime commercial property surge continues

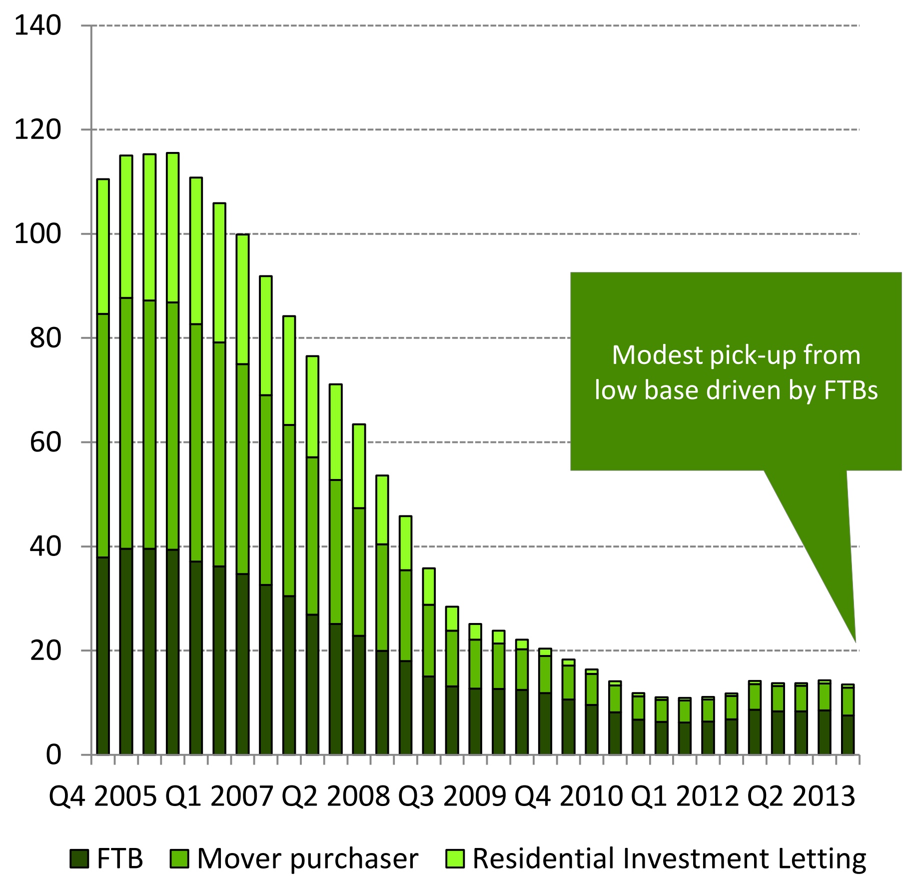
Mortgage demand rises for six consecutive quarters; credit standards show modest easing for 2013 as a whole

Demand conditions improving; credit standards



Source: ECB (Bank lending survey)

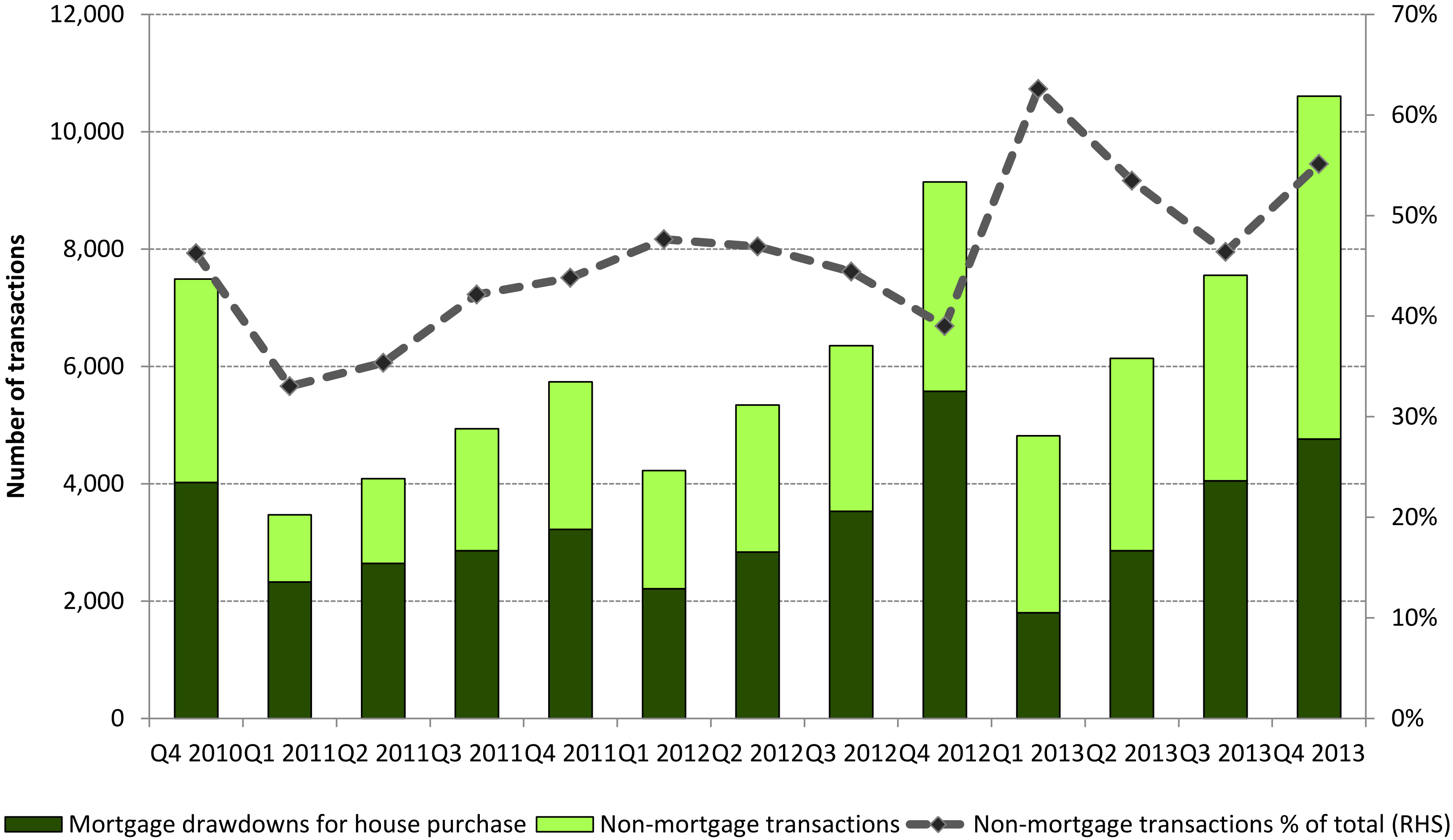
Annualised no. mortgage drawdowns for house purchases have bottomed ('000s)



Source: Irish Banking Federation

FTBs = First Time Buyers

Residential market was boosted by non-mortgage purchasers in H1 2013; demand broadened in Q3/Q4

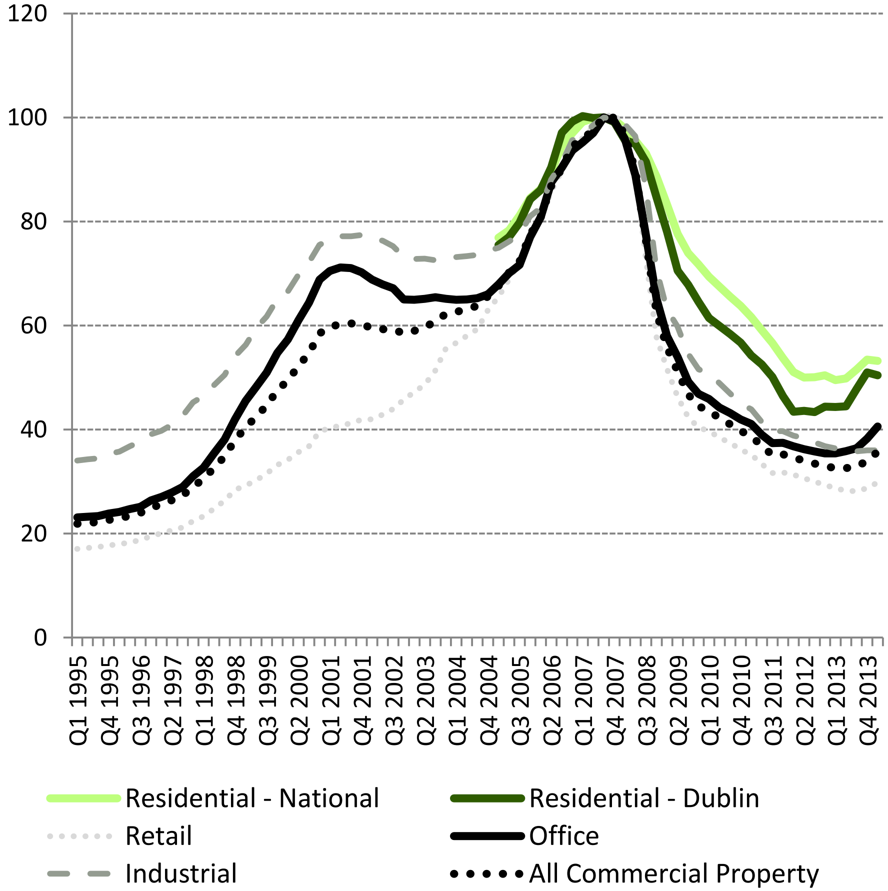


Sources: IBF; DoECLG; Property Services Regulatory Authority; NTMA

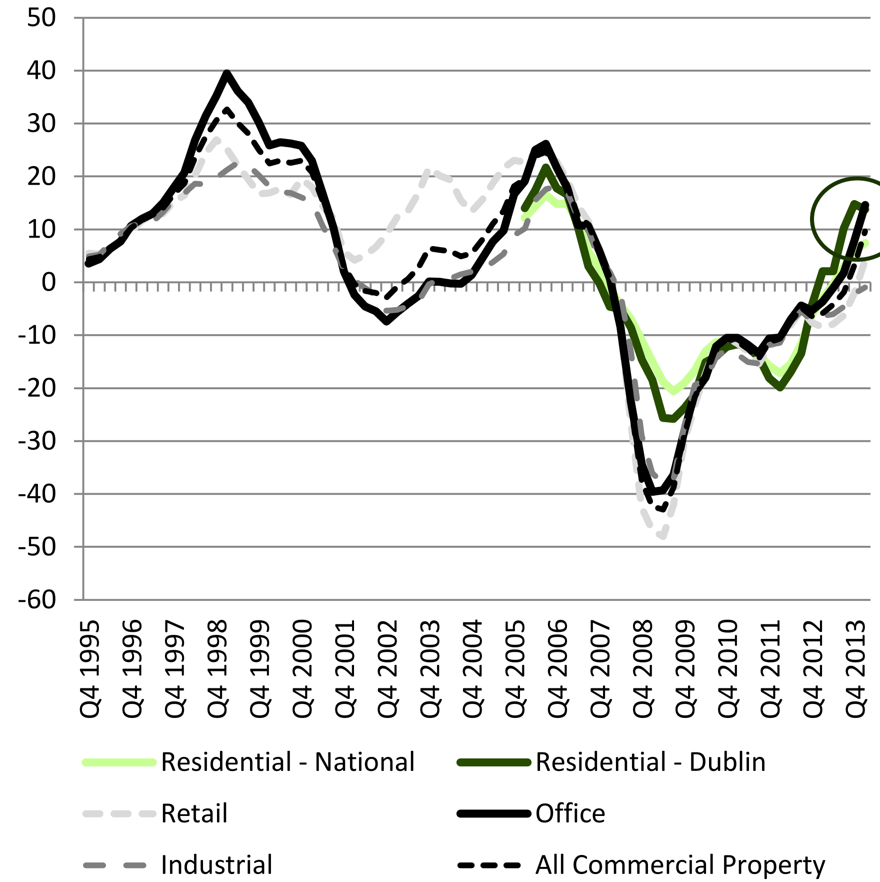
Note: Non-mortgage transactions are implied by difference between total transactions on property price register and IBF mortgage data

Prices rise for first time in over five years, but risks remain (Base: Q3 2007 = 100)

Property prices show broad stabilisation (Base: Q3 2007=100)



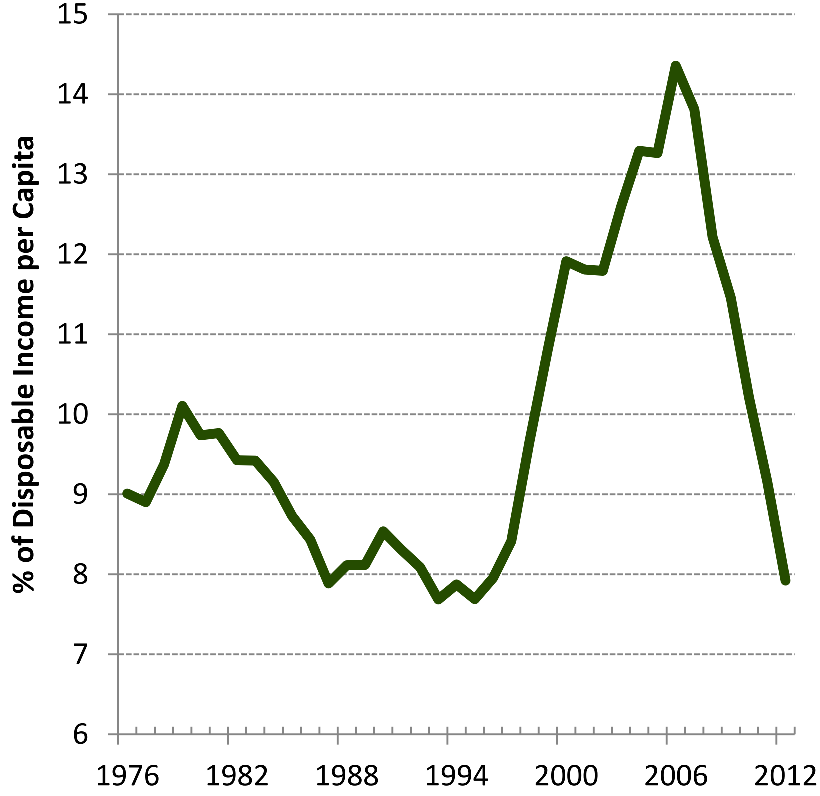
Market led by offices; Dublin residences (% change Y-Y)



Sources: CSO; IPD

Housing valuations are compelling

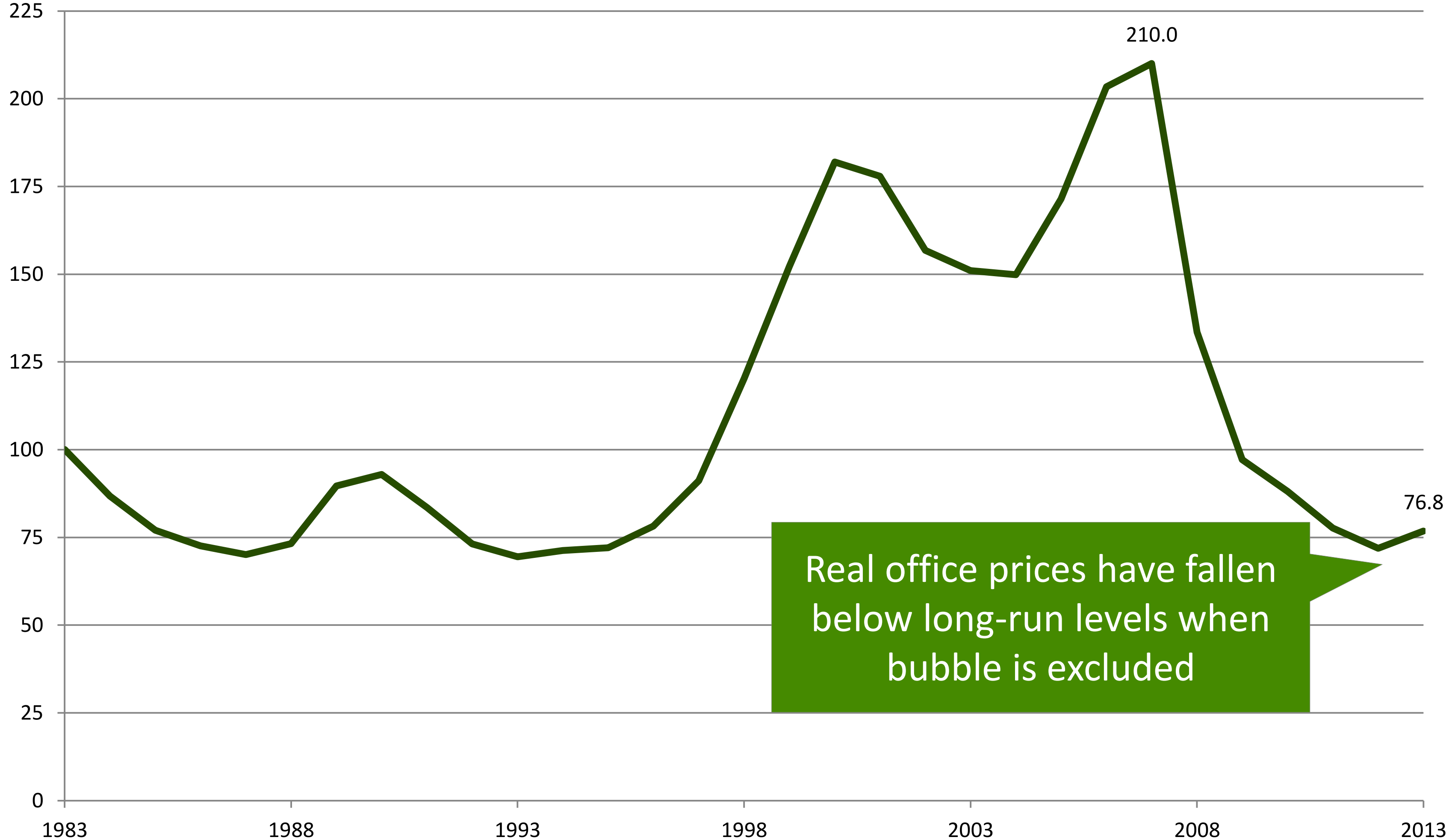
Valuations as attractive as 1980s: prices / disposable income per capita



Sources: CSO; NTMA

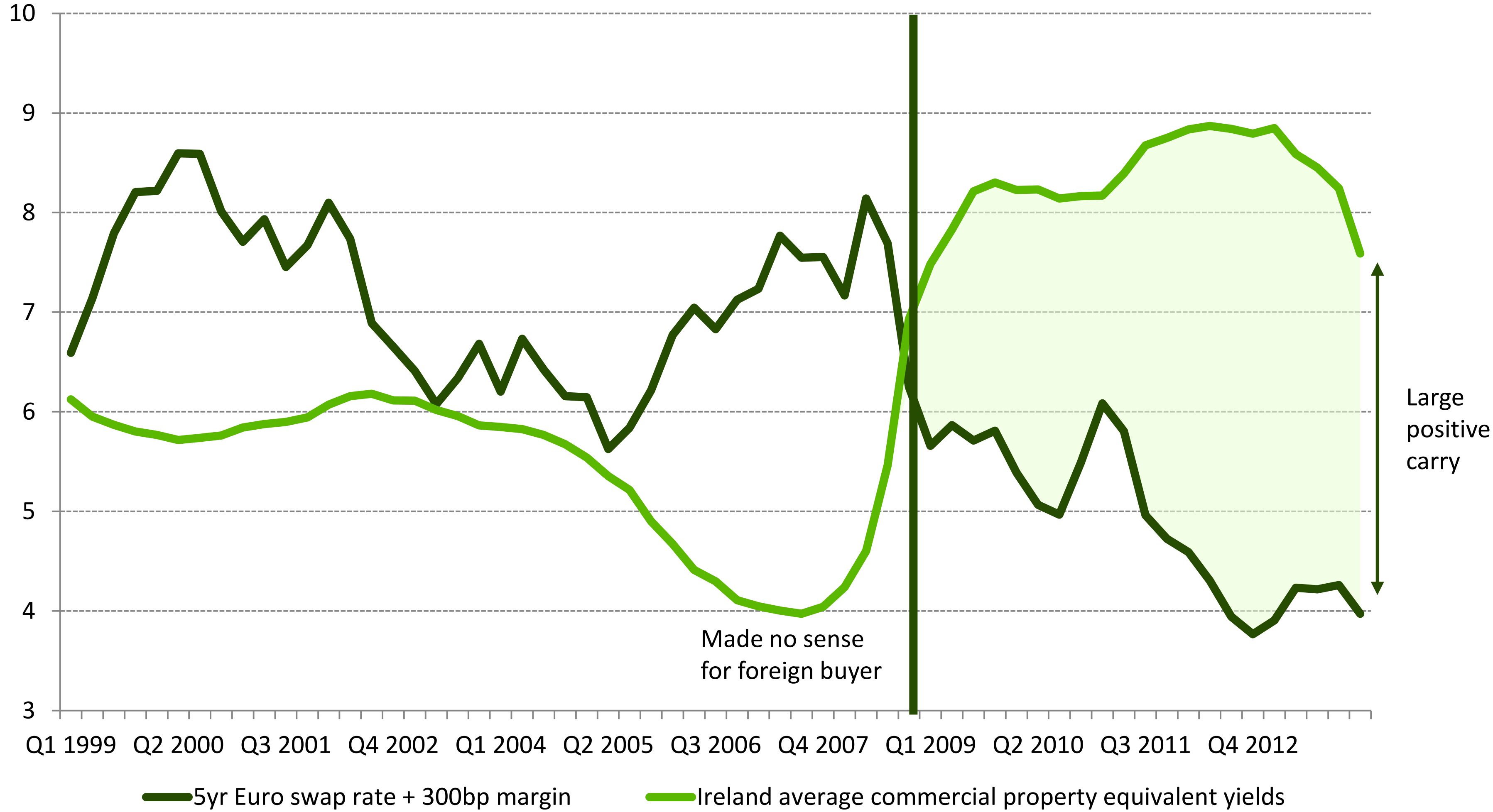
Rental yields near 6% in world of near zero real interest rates

Real commercial property prices as of Q4 2013 were down 63 per cent from their peak (index 1983 = 100)



Source: IPD and NTMA

Foreign buyers interested on valuation grounds



Source: IPD; NTMA

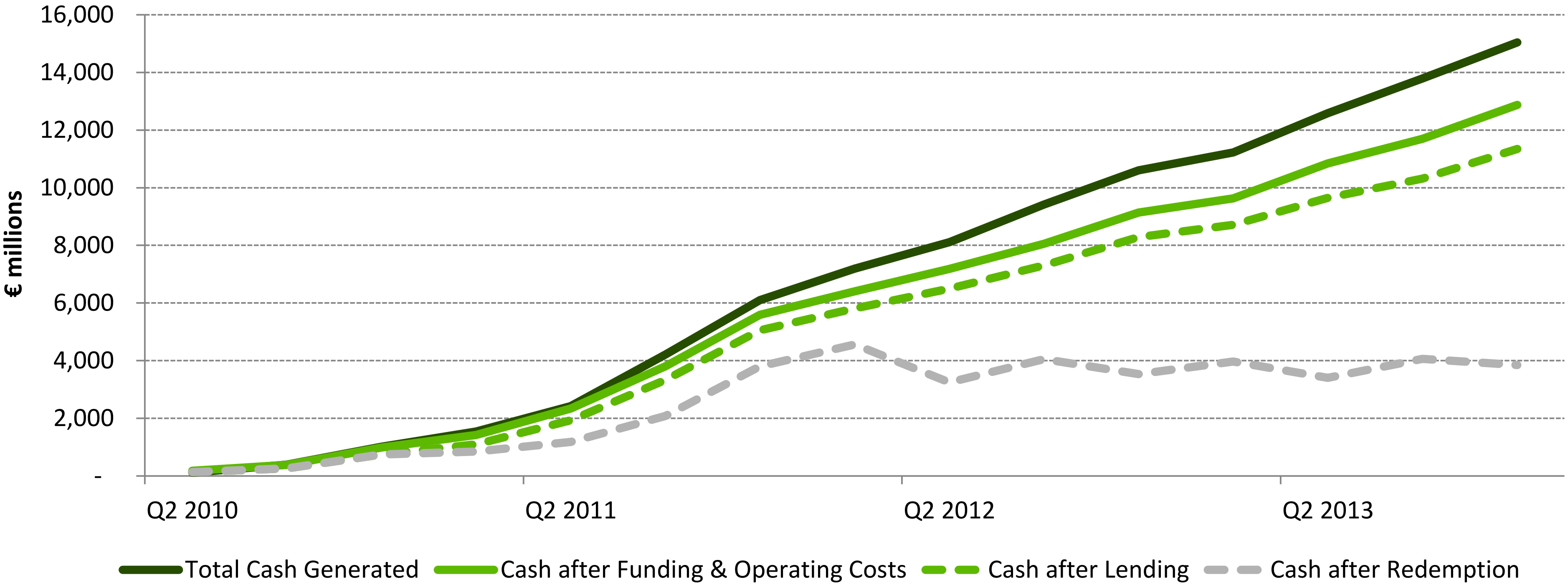
SECTION 6: NAMA

NAMA is profitable, generating healthy cash flow and repaying its debt

NAMA: one third of its original debt repaid

- **NAMA's operating performance is strong**
  - Successfully acquired 12,000 loans (over 60,000 saleable property units) related to **€73.8bn** par of loans of 800 debtors for **€31.8bn**
  - There was potential for a second book on the back of the IBRC liquidation, however, this has been definitively ruled out after liquidator asset sales went well.
  - Since inception, over 39,600 credit decisions made; completed Property and Loan Sales of €12.3 bn; over €2bn active disposal pipeline; currently 70% disposal income generated in UK; market in Ireland showing strong signs of recovery.
  - NAMA has, in aggregate, over €3.5bn in loan and property assets for sale in ROI.
- **Repaid €10.5bn (33%) of €30.2bn of original senior debt**
  - Repaid €3bn in March 2014, having met initial Troika target of €7.5bn by end-2013
- **Financing Strategy**
  - Approved advances of over €2.5bn in working/development capital to date, providing equity capital and credit facilities only where appropriate, to preserve and enhance value of assets securing Agency's loans
  - Over €1 billion in new advances have been drawn down, including €292m in 2013

NAMA: Summary of cash flows from inception

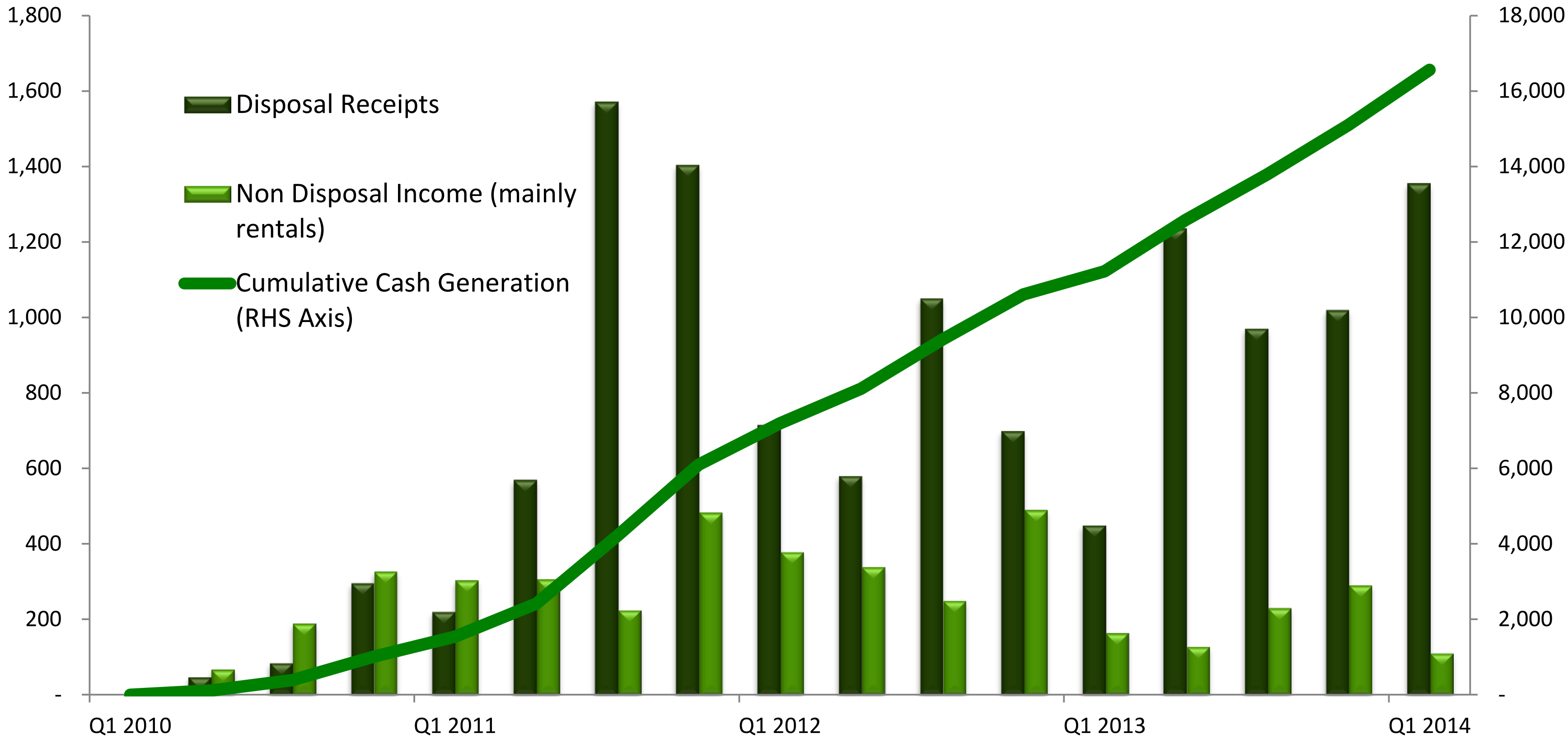


Source: NAMA

- **Total cash generated of €21.2bn from inception to date**

- Disposal proceeds €12.3bn to date
- NAMA senior debt redemptions of €10.5bn by end-March 2014
- Lending disbursement (new advances) of €2.5bn
- Latest cash and equivalent balances of €2.8bn

NAMA: cash received disposal v. non-disposal income, to date 2013



Source: NAMA

- **Key feature is the level of non-disposal income**
  - Cash generation is very important to NAMA's future strategy
  - €3.8bn in non-disposal cash generated (mainly rental income, despite the sale of €12.3bn of assets and loans)

NAMA: financial summary
2011 and 2012 financial results (€m)

	2011	2012
Net interest income	771	894
Operating profit before impairment	1,278	826
Impairment charges	(1,267)	(518)
Profit before tax and dividends	11	308
Tax (charge)/credit and dividends	230	(80)
Profit for the year	241	228

Source: NAMA

- **NAMA continues to generate net profits after impairment charges**, despite unfavourable market movements
- 2012 Operating Profits of €826m (before an impairment charge of €518m)

NAMA: Distribution of larger debtors

Nominal Debt	Number of debtors	Average nominal debt per debtor €m	Total nominal debt in this category €m
In excess of €2,000m	3	2,758	8,275
Between €1,000 and €2,000m	9	1,549	13,945
Between €500m and €999m	17	674	11,454
Between €250m and €499m	34	347	11,796
Between €100m and €249m	82	152	12,496
Between €50m and €100m	99	68	6,752
Between €20m and €50m	226	32	7,180
Less than €20m	302	7	2,117
TOTAL	**772**	**96**	**74,015**

Source: NAMA

NAMA: Strategic initiatives

- **Vendor Finance:**
  - €375m agreed in 6 transactions to date. Offers medium-term finance to commercial buyers. First transaction in April 2012 (Offices in Dublin 2). Number of further significant transactions concluded, e.g. Edward Square, Galway; Project Aspen (sale of Irish loan portfolio with par value of €800m). Others under consideration, including IFSC properties. Intended to loan over €2bn to end-2016

- **Qualifying Investor Fund & REITs:**
  - NAMA welcomes establishment of Ireland's first REITs (Green, Hibernia) as means of adding liquidity to market
  - NAMA partnering with Oaktree in respect of a new QIF authorised by Central Bank of Ireland in July 2013 that combines the parties' respective ownership of land with a development potential of up to 50,000 sq. m in Dublin's south Docklands.

- **Joint Ventures:**
  - NAMA will participate in JV projects with leading private investment firms to attract investment to Ireland. Two completed, more to follow.
  - Publicly seeking expressions of interest from credible counterparties to invest with NAMA

NAMA: Strategic initiatives (contd.)

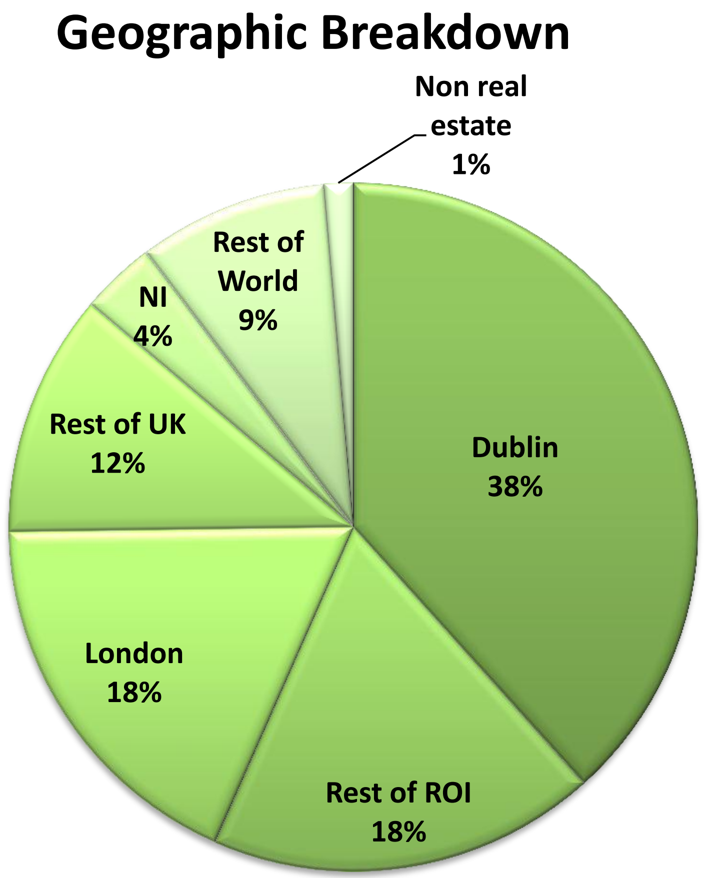
- **Portfolio Sales:**
  - NAMA investing to take advantage of market trends
  - Recently announced additional packaged portfolios of properties with minimum value of €250m will be offered for sale each quarter to help sustain positive momentum and provide investors with deal-flow certainty.

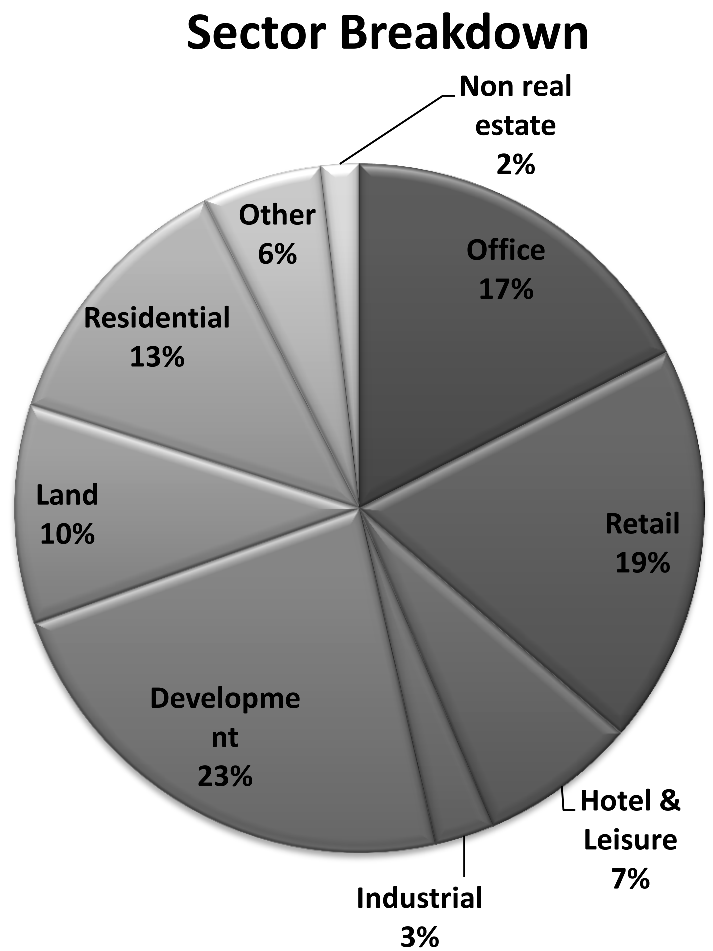
- **Deferred Payment Initiative:**
  - Piloted in May 2012 for family homes in Greater Dublin & Cork. Second phase launched in Oct. 2012, third phase in March 2013 - offering is now close to 400 properties in 13 counties. Strong up-take.
  - NAMA announced that the Initiative will be closed to new entrants with effect from 31 May 2014. Underlying basis for introduction of the Initiative – concerns about future housing values – has largely abated.

- **Social Housing:**
  - Offers long-term leasing options to local authorities. Over 4,650 properties identified. NAMA facilitates direct engagement between Local Authorities and debtors (or receivers)

Breakdown of NAMA property portfolio, December 2013

- **10,000+ properties, 60,000+ units**





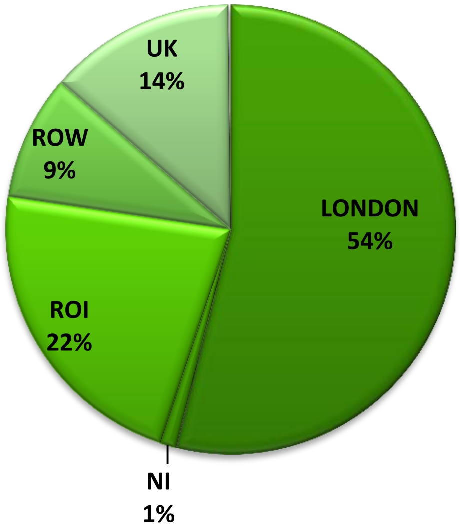
Source: NAMA

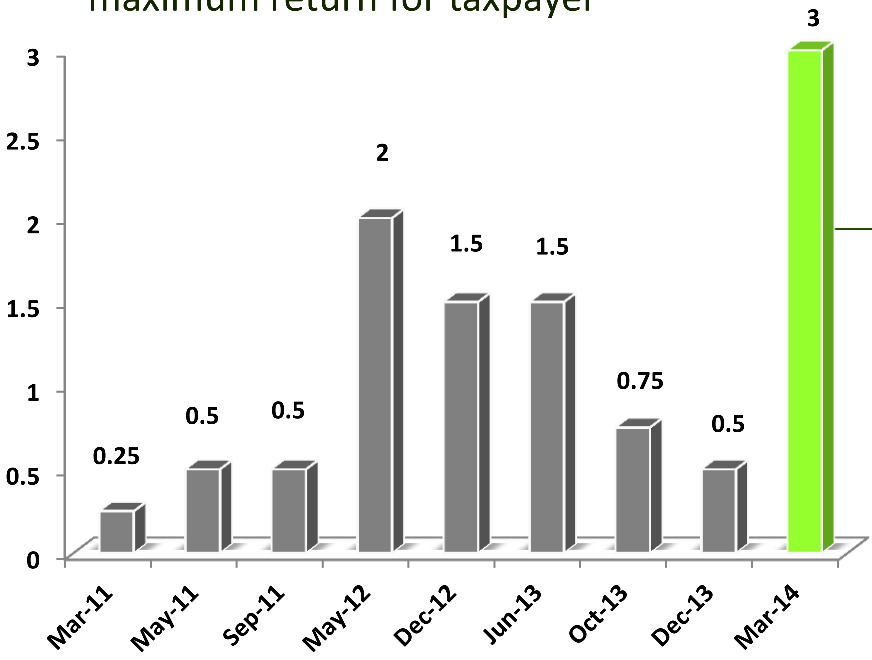
Asset disposals by location and bond repayments from inception

Asset Disposals (%)

- Main focus to date UK disposals due to liquidity etc.
- Increasing emphasis on Irish disposals in response to heightened international demand
- Orderly phased approach implemented to generate maximum return for taxpayer

Disposals by location 2013





NAMA Senior Bond Repayments (€bn)

- March 2014: €3bn of NAMA senior bonds redeemed bringing total amount redeemed to €10.5bn (33% of Agency's senior debt liabilities)
- **All of €30.2bn in NAMA senior bonds expected to be redeemed by 2020**

Source: NAMA

NAMA: favourable property market measures in Budgets 2013 & 2014

- **Budgets 2013 & 2014 contained a number of significant measures aimed at boosting the property market**
  - Helped to boost NAMA's book of loan assets, underpin collateral in the banking system and brought forward mortgage demand
- **Stamp duty on commercial property cut from 6% to 2%**
  - Now lower than the current UK rate. Has boosted demand from overseas
- **NAMA can directly approve rent reductions with tenants of commercial properties under its control**
  - Changes to upward-only rent legislation shelved
- **Incentive Scheme**
  - Property bought before the end of 2014 will be exempt from CGT on sale as long as it is held for at least seven years
- **REITs**
  - Introduction of REIT legislation and proposal to include REITs in the Immigrant Investor Programme. Stimulated interest from international investors.

NAMA: on track to achieve long-term objectives

- NAMA meeting senior debt redemption targets ahead of schedule. €3bn repaid in March 2014 bringing total redemptions to €10.5bn or 35% of senior debt.
- Vendor finance, deferred payments and social initiatives are building momentum and have been supplemented by other measures in 2013 & 2014
- Introduction of REIT legislation (launch of two REITs – Green and Hibernian - subsequently) and consideration of QIF options
- €2bn of vendor finance available between 2013 and 2016 to support disposal activities. The majority of new equity is expected early in the period, i.e. 2013-14. The initiative will widen potential investor base, even if finance is not ultimately used, and can help overcome weak credit availability
- NAMA to provide €2bn of development capital to projects in Ireland between 2013 and 2016 to support income generation
- Strong recurring cash position, reflecting both location and quality of assets and NAMA's asset management approach
- Focus on maximising income and managing debtors, receivers and assets to enhance value.

SECTION 7: BANKING*

Banks overhauled since late 2010; next target is euro area-wide stress tests in Q4 2014

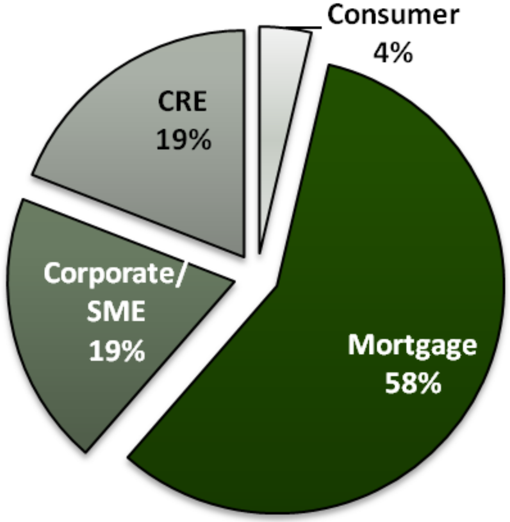
* Some information in this section is provided by the banking unit of the Department of Finance

Asset quality reflects huge losses already recognised

Impaired loans and provisions at PCAR banks (group and 3 banks)

PCAR Banks (€bn)	Dec-12	Jun-13	Dec-13
Total Loans	224.9	214.1	208.9
Impaired	53.3	54.3	53.9
(Impaired as % of Total)	24.5%	25.4%	25.8%
Provisions	27.2	28.2	29.4
(Provisions as % of book)	12.1%	13.2%	14.1%
(Provisions as % of Impaired)	49.5%	51.9%	54.5%

Loan Asset Mix (PCAR banks)

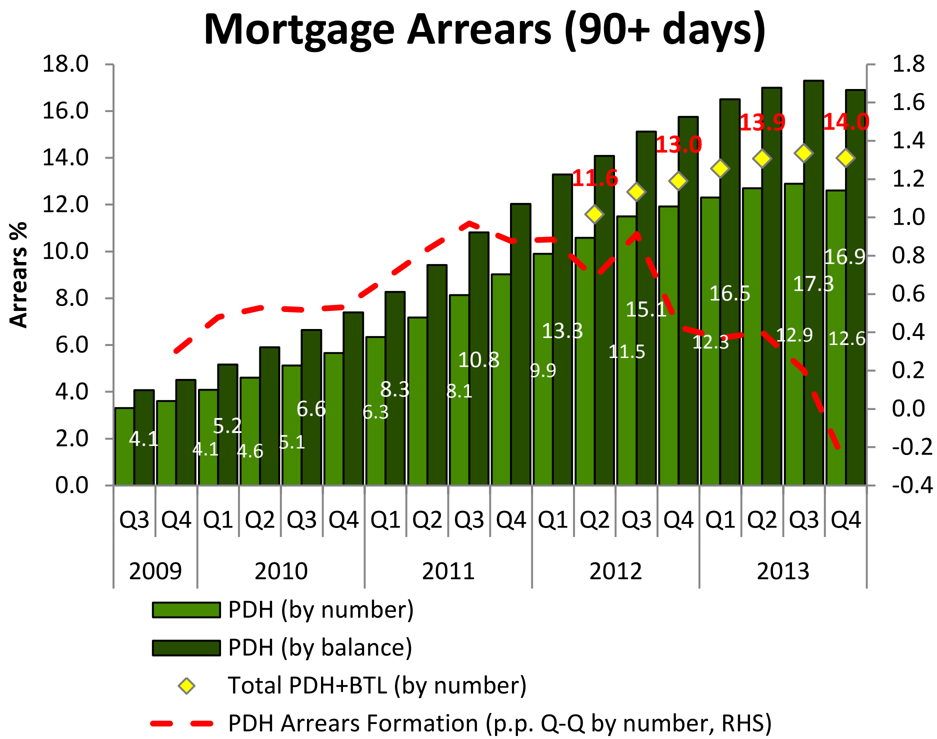


Sources: Published bank accounts and Department of Finance (DoF)

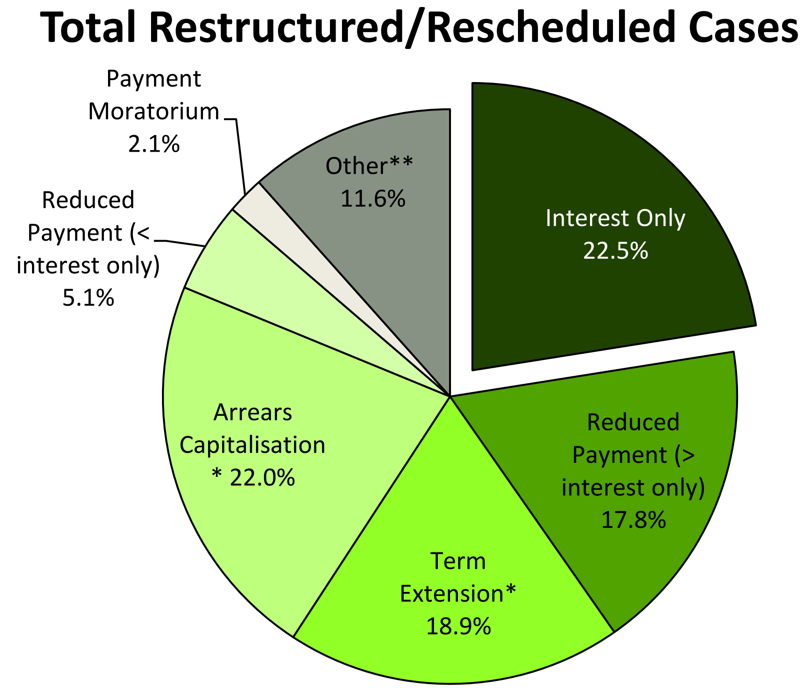
Impaired Loans % (Coverage %)[1] by Bank and Asset					
		Dec-12	Jun-13	Dec-13	*Book (€bn)*[2]
BOI	Irish Residential Mortgages	13.1 (40)	14.2 (44)	14.2(49)	26.7
	UK Residential Mortgages	2.3 (22)	2.4 (25)	2.4(24)	25.0
	Irish SMEs	26.5 (43)	26.5 (46)	26.7(50)	10.3
	UK SMEs	17.9 (37)	19.5 (43)	17.1(50)	3.3
	Corporate	10.1 (44)	13.5 (40)	7.5(41)	7.9
	CRE - Investment	35.9 (35)	41.9 (35)	42.3(38)	13.6
	CRE - Land/Development	89.5 (60)	93.6 (63)	89.3(68)	3.2
	Consumer Loans	9.4 (85)	9.0 (88)	8.4(90)	2.8
		17.7 (43)	**19.3 (44)**	**18.5(48)**	**92.8**
AIB	Irish Residential Mortgages	19.9 (38)	21.8 (38)	23.0(43)	38.1
	UK Residential Mortgages	9.2 (67)	10.8 (53)	11.3(53)	2.6
	SMEs	34.4 (67)	34.5(67)	34.6(68)	13.8
	Corporate	15.6 (73)	13.7 (71)	11.1(65)	4.5
	CRE	62.0 (59)	65.0 (60)	66.7(64)	19.7
	Consumer Loans	30.5 (80)	32.6 (81)	33.2(81)	4.2
		32.7 (56)	**34.3 (56)**	**34.9(59)**	**82.8**
PTSB	Irish Residential Mortgages	19.6 (45)	21.7 (48)	26.0(47)	24.1
	UK Residential Mortgages	1.7 (57)	1.4 (74)	1.3(85)	6.8
	Commercial	49.7 (66)	57.3 (64)	68.7(63)	2.1
	Consumer Loans	32.1 (105)	37.1 (107)	26.0(105)	0.4
		17.9 (51)	**20.1 (53)**	**23.6(51)**	**33.3**

[1] Total impairment provisions are used for coverage ratios (in parentheses)
[2] Book value before impairment provisions as at June 2013

Irish residential mortgage arrears – still challenging



Source: Central Bank of Ireland (CBI)

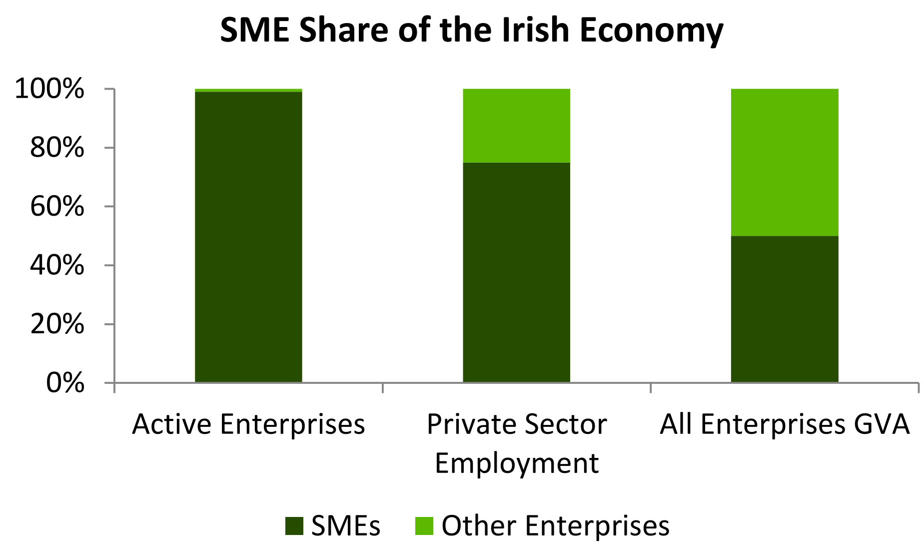


Source: CBI

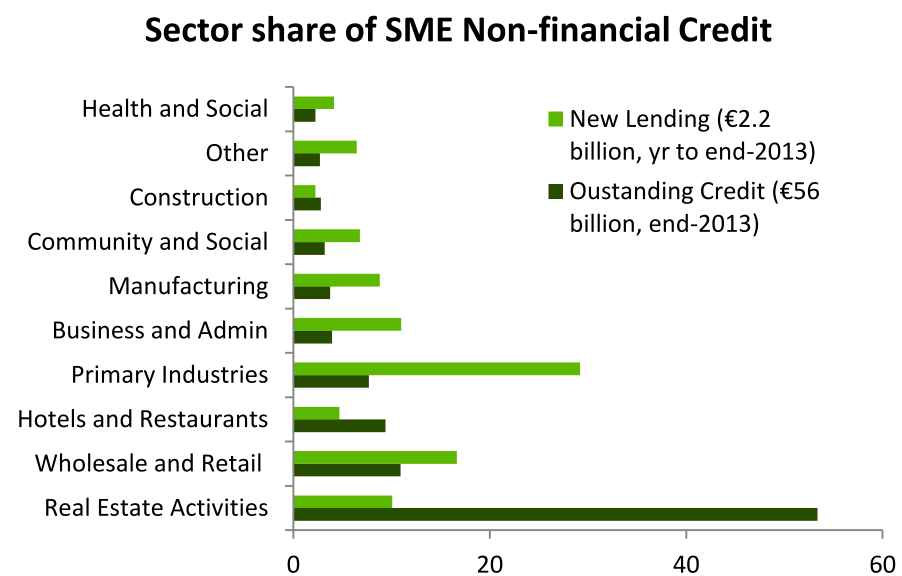
- PDH mortgage arrears fell in Q4 2013 versus Q3 2013. The smaller BTL market (c. 25% of total) shows relatively higher arrears but also saw a decline in Q4 2013.
- Forbearance strategies were initially short-term in nature, though some restructurings straddle several categories and interest only restructurings are now down to 22.5% of total from over 37% at end-2012. CBI mortgage arrears resolution targets will help progress on this front (see pg. 79).

* Only includes accounts with these restructurings and no other forbearance arrangement.
** 'Other' comprises accounts offered long-term solutions pending 6 months completion of payments. Figures are updated accordingly when these transition into permanent arrangements.

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



Source: CBI

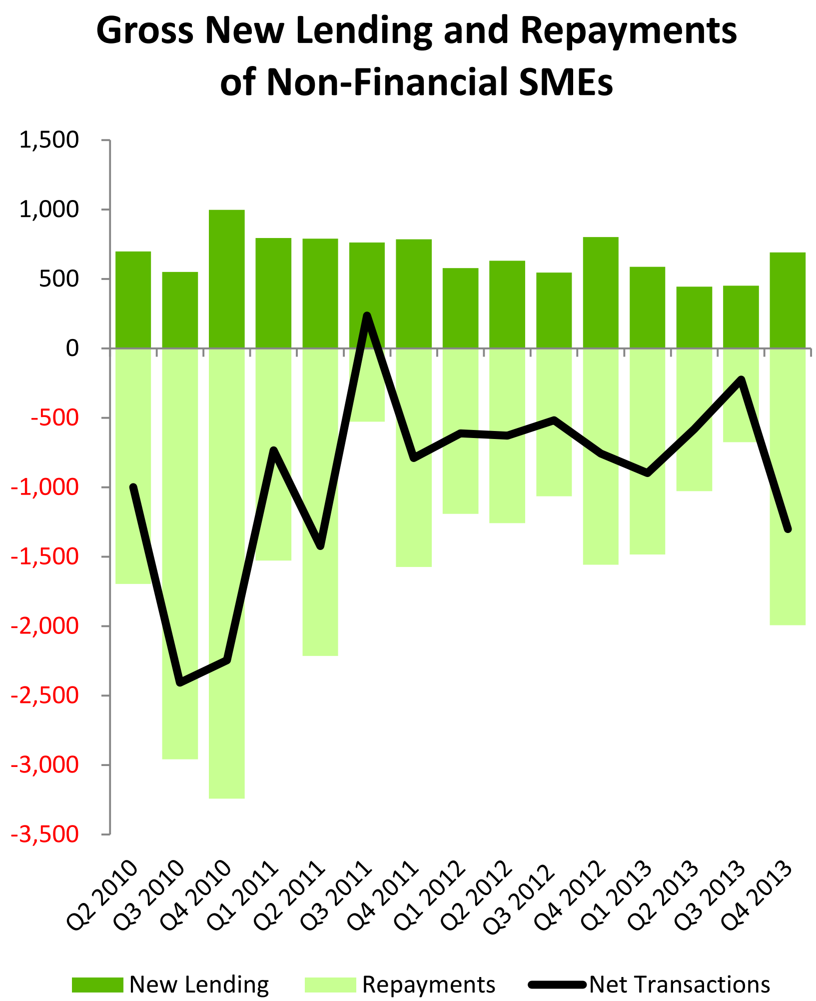


Source: CBI gross new lending figures excl. financial intermediation

- In 2013, the **NPRF introduced 3 new SME funds** to provide equity, credit and restructuring/recovery investment worth up to €850m with NPRF acting as a cornerstone investor alongside third-party investors.

- 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)

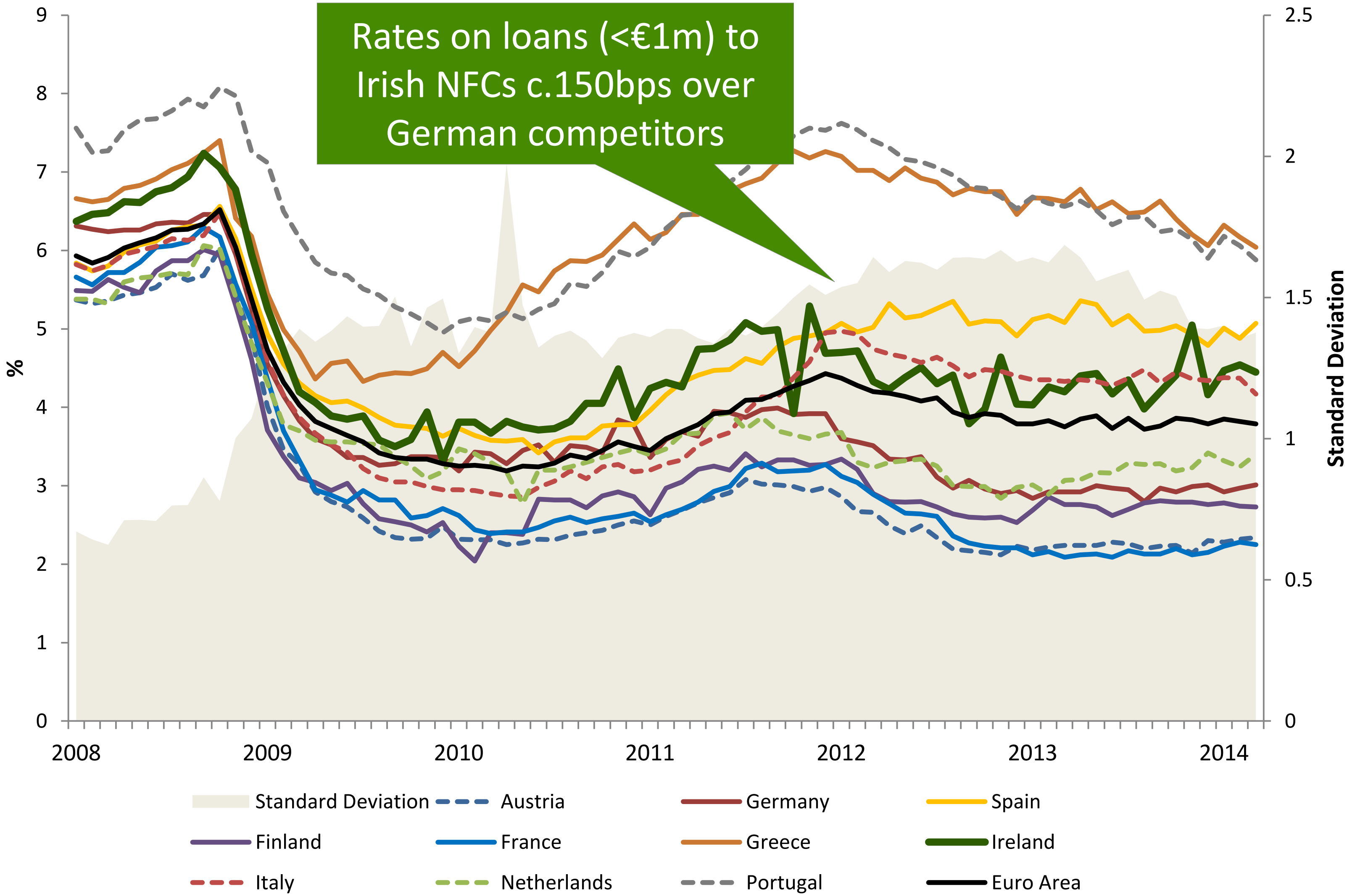
SME Deleveraging continuing as new lending remains steady



Source: CBI

- Necessary SME deleveraging is continuing with on average €1.6bn repaid per quarter.
- Repayments are persistent and wide-spread across sectors.
- Gross new lending (excluding financial intermediation) to SMEs has averaged €674m per quarter since Q2 2010
- It is notable that new lending advanced to property-related sectors is substantially lower than repayments (approx. 1/3) – highlighting the particular need to deleverage in this area.

Latest ECB data show dispersion in SME interest rates persisting (New NFC loans <1yr, <€1m)

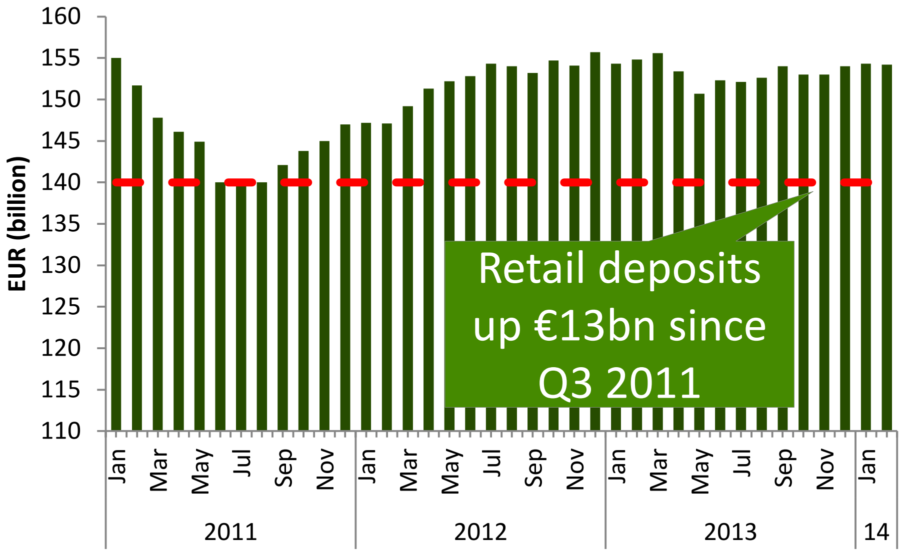


Source: ECB

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.'

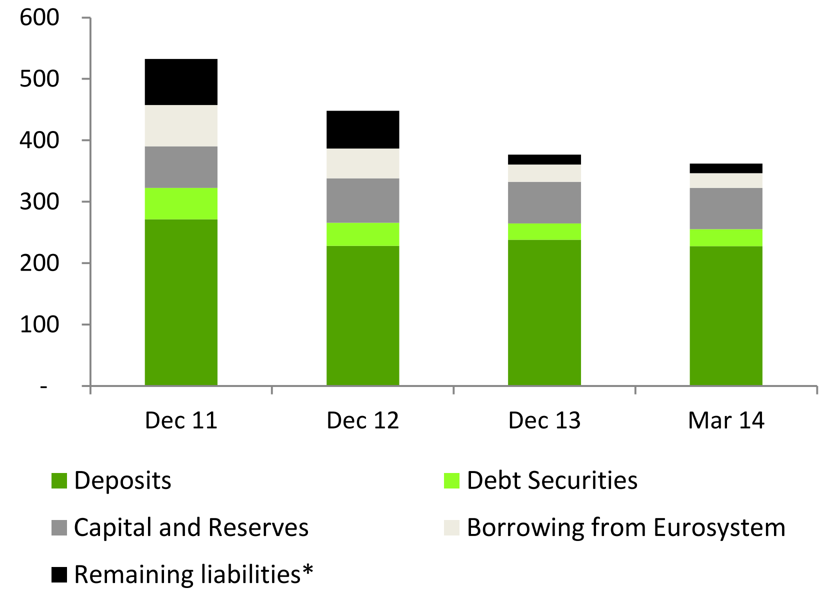
Bank deposits have stabilised; Drawings on ECB facilities reduced

Covered Banks' retail & corp. deposits



Source: CBI & DoF (excludes (i) NTMA pre-recapitalisation deposits, (ii) AIB Poland)

Covered Banks' Funding Structure (€bn)



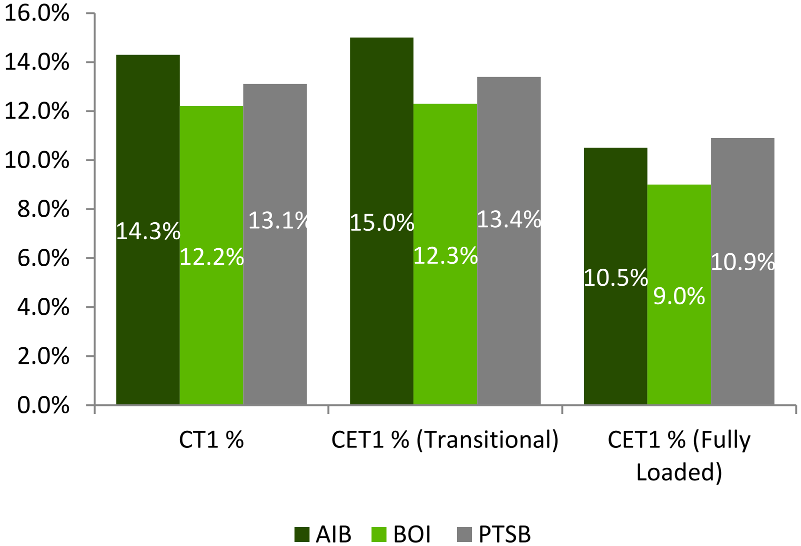
Source : CBI *including ELA until Feb. 2013

- Covered Banks' deposits up €14bn from Q3 2011 trough
- ELG scheme ended for new liabilities Mar 2013 with no significant impact on deposit volumes
- All three Covered Banks returned to market funding: since Nov 2012 >€3bn raised in term repo markets via private placements; €4bn in secured covered bond market transactions; €1.75bn in unsecured bonds; €0.25bn in LT2 debt; €0.5bn in first RMBS since 2007

- Irish-Headquartered Banks' usage of central bank facilities has fallen significantly following the end of ELA funding in 2013 and reduced recourse to the ECB repo facility.
- Deposits (both resident and non-resident) account for 63% of Irish-Headquartered Banks funding in Mar 2014 versus 51% in Dec 2011.

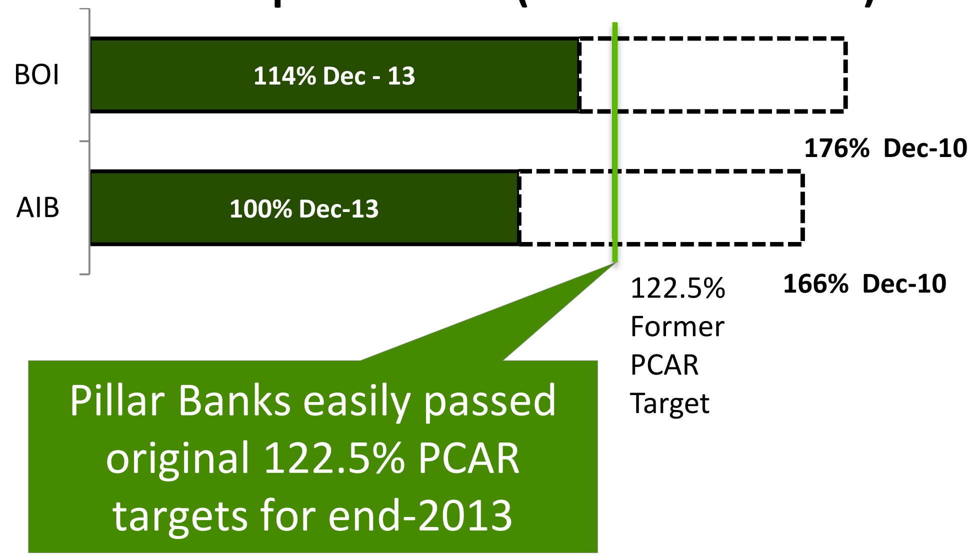
Capital and loan-to-deposit ratios strengthened

Core Tier 1 Capital Ratios (Dec-13)



Source: Published bank accounts

Loan-to-Deposit Ratios (Dec-10 to Jun-13)



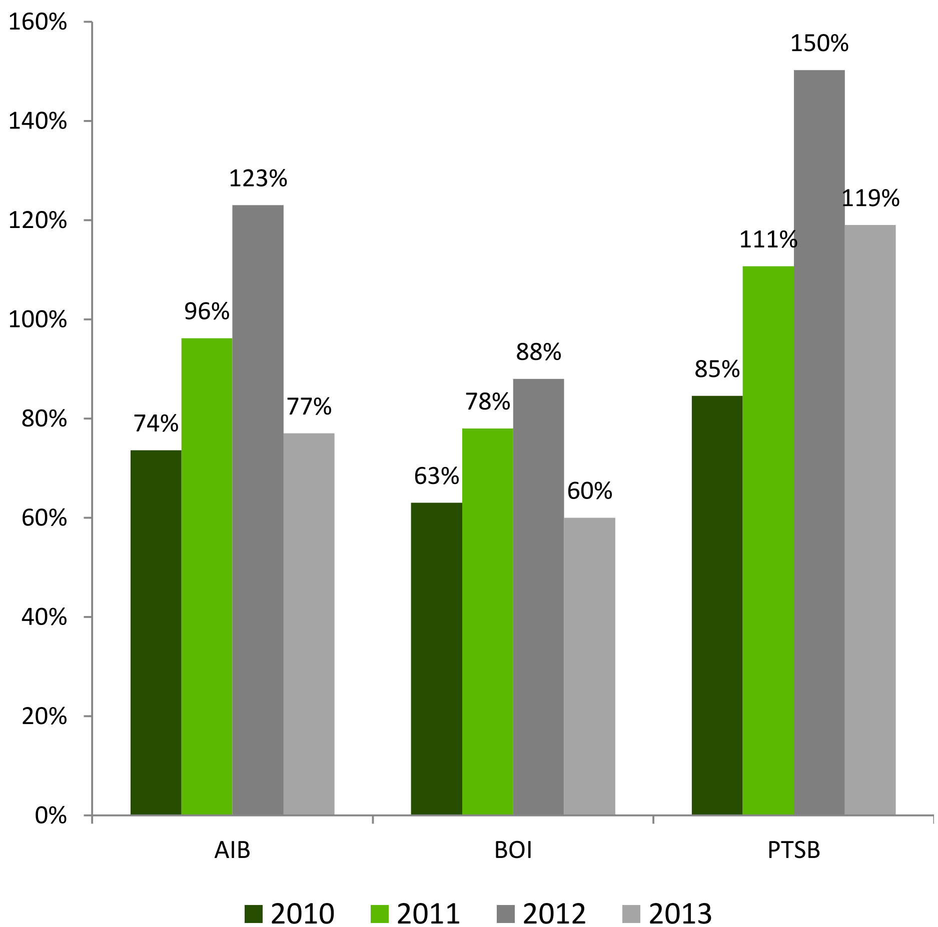
Source: Published bank accounts

- Core Tier 1 capital ratios at the PLAR banks remain well above minimum requirements.
- Pillar bank LDRs easily beat former PCAR targets for end 2013.
- Cumulative deleveraging at AIB, BoI & Permanent TSB to from year-end 2010 to end-Sept. 2013 of over €71bn, comprising almost €47bn of non-core net loan reduction

Note: "Transitional" refers to the transitional Basel III required for CT1 ratios.
"Fully loaded" refers to the actual Basel III basis for CT1 ratios

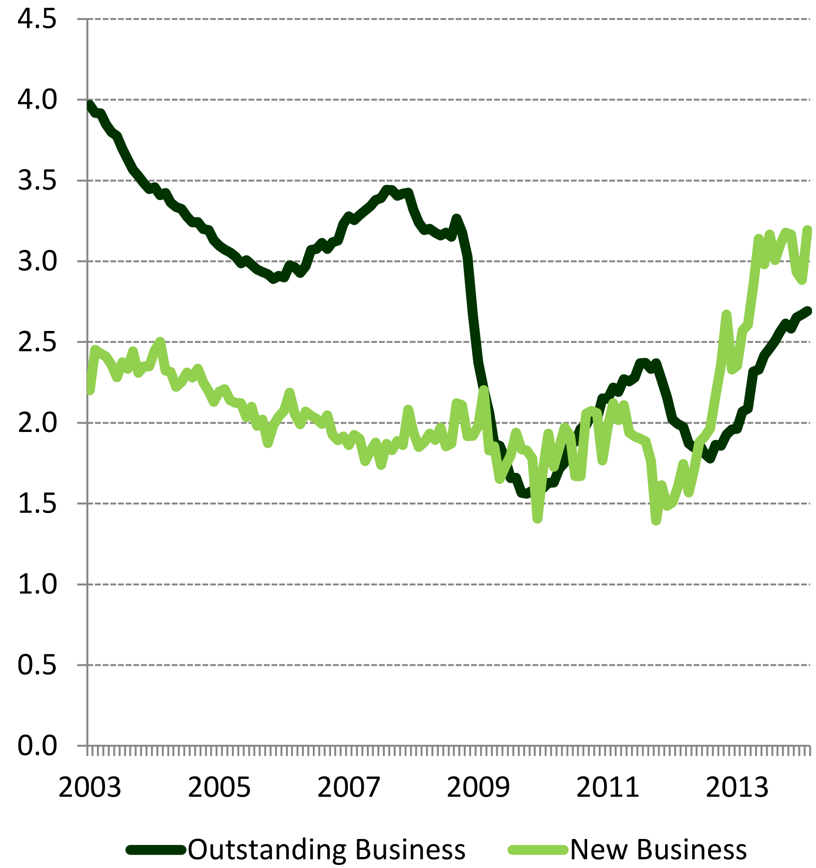
Profits are compressed; although net interest margins on new lending are more favourable

Cost income ratios beginning to improve



Source: Annual reports of Irish domestic banks

More favourable margins on new business are slowly feeding into overall book (%)



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.

National Treasury Management Agency

Mortgage arrears – policy responses

- **Engagement with the banks – Central Bank**
  - Lenders have submitted loan modification and resolution options
  - Ipsos MRBI engaged to conduct Household Income Survey
  - Debt resolution strategies in place:
    - Code of Conduct on Mortgage Arrears
    - Mortgage Arrears Resolution Process
    - Mortgage Arrears Resolution Targets
    - Pilot three month co-ordinated resolution approach for borrowers with multiple distressed secured/unsecured debts across various lenders
- **Mortgage to Rent Scheme – D/Environment**
  - Launched in June 2012
  - Involvement of 12 Approved Housing Bodies
  - Involves loss of ownership for those facing repossession by banks
  - Debtors become social housing tenants

…For more details on mortgage arrears policies, see Department of Finance Presentation Oct-12

Dealing with household debt – mortgage arrears resolution targets

- Central Bank has introduced strict quantitative targets for 'sustainable' resolution of distressed mortgages (PDH & BTLs > 90 days arrears)
  - **Target 1:** Sustainable proposals to be put in place (20% of distressed mortgages by end-June 2013 rising to 50% by end-year; 'vast majority' of cases by end-2014)
  - **Target 2:** Quarterly targets for conclusion of sustainable arrangements require banks to have concluded arrangements with 15% of 90day+ mortgage arrears customers by end-December 2013
  - **Target 3:** 75% of all concluded arrangements to have terms of agreements being met from Q1 2014
- Regulatory action considered for failure to meet targets, poor resolution strategies/implementation including additional capital requirements & more rigorous provisioning from January 2014
- Code of Conduct on Mortgage Arrears setting out how lenders engage with distressed borrowers has been revised to facilitate further resolution of arrears cases

Key Targets	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3	2014 Q4
To be Proposed [Target 1]	20%	30%	50%	70%	75%	*TBD*	*TBD*
To be Concluded [Target 2]	-	-	15%	25%	35%	*TBD*	*TBD*
Terms being met [Target 3]	-	-	-	75%	75%	75%	75%
Proposals issued to date	*33%*	*43%*	-	-	-	-	-

Main provisions of Personal Insolvency Act

Personal Insolvency Arrangement (PIA)

Insolvent Debtor
€20,000 - €3,000,000
Secured/ Unsecured (>6yrs)

Applies via personal insolvency practitioner to

Insolvency Service of Ireland

Approved → Debt settlement/restructuring mechanism provided. Family home protected, protected from action by all bound creditors & covered unsecured debts discharged after supervision period **if conditions met**

Not Approved → Exposed to creditor action and possible bankruptcy with discharge period of 3yrs

Alternative mechanisms:

Debt Settlement Arrangement (DSA)
>€20,000, Unsecured (>5yrs)
Debtor obliged to pay agreed amount for up to 5/6 years
Remainder of debts discharged at end of period

Debt Relief Notice
No income/assets
<€20,000, Unsecured
Write-off of qualifying debts subject to supervision period

- Approximately, 200 applications for PIAs were received in Q1 2014, with 4 arrangements approved by Irish courts by end March. The number of bankruptcies in Q1 2014 (66) is a record for a quarter in Ireland.
- The average percentage of secured debt proposed to be written off in a PIA is 19%, ranging from 0% to 39%. The average % of unsecured debt proposed to be written off in a PIA is 93%, ranging from 91% to 95%.