IRELAND: GOVERNMENT DEBT RATIO DOWN SHARPLY

Likely to remain euro area’s fastest growing economy

January 2015

Index

SUMMARY

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

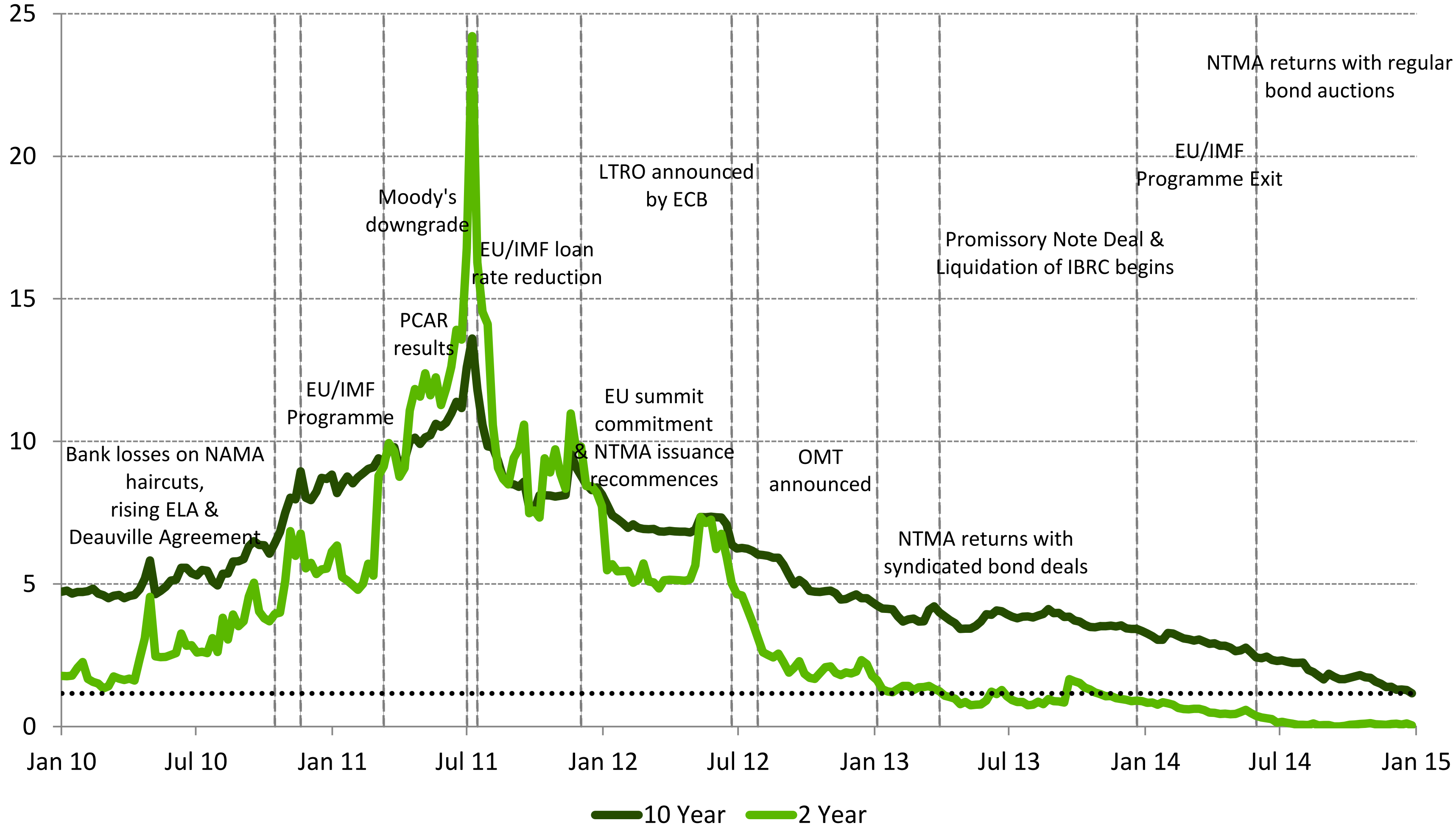
Ireland enjoys 2014: fast growth and decline in debt

- **Government to beat deficit target easily in 2014**
  - Deficit expected will be close to -4% of GDP in 2014 compared with the EU limit of -5.1%. Revenue will beat expectations by c.€2.1bn (1%+ of GDP), thanks in particular to the improving economy; expenditure control weakened in 2014.
  - GDP to top €183bn following €11bn statistical boost in 2013.
- **Ireland is growing faster than every other euro area country**
  - Ireland's economy will grow by around 5% on average in both real and nominal terms even if it does not expand in Q4 2014. Underlying growth is likely 1-2 pp lower.
  - Investment is rebounding from a low base. The UK and US recovery underpins Irish exports.
  - Unemployment is falling. The unemployment rate was 10.6% at year-end, down from the crisis peak of over 15% in early 2012. Employment is increasing in most sectors.
- **Gross Government debt will drop to 110% of GDP in 2014 from 123% in 2013**
  - Net Government debt was around 90% of GDP by end-2014. Ireland has significant financial resources: cash, fixed income assets in banks and the Ireland Strategic Investment Fund (ISIF). Further debt reduction from sales of equity stakes in Irish banks; the liquidation of IBRC; and NAMA: none of this is factored in yet

State has successfully tapped the market in 2014/15

- **100% of 2015 funding completed except for 2nd IMF tranche**
  - Ireland is prefunded after issuing throughout 2014 at record low yields
  - It expects to issue €12-15bn worth of long term bonds in 2015
  - NTMA plans two bond auctions and two bill auctions in Q1.
- **Early repayment of IMF loans commenced in 2014 and to continue in 2015**
  - It is expected that a total of €18bn worth of loans will be re-financed. €9bn has already been paid in Dec 2014.
  - The total savings to the government could exceed €1.5bn (0.8% of GDP) in the coming years.
  - Ireland raised €3.75bn through the syndicated sale of a new benchmark 15 year bond in November. The funds were raised at a yield of 2.487%.
  - A further €4bn was raised in January through the syndicated sale of a 7 year bond. The yield was 0.867% - a record low.
- **Investor base has strengthened**
  - 85% of the January syndication was distributed to international investors with prominent buyers in Mainland Europe (32%), the UK (29%) and Asia (6%)
  - In terms of investor categories: fund managers (42%), Banks including Central Banks (34%) and pension and insurance sector (27%)

Irish bond market continues its strong performance



Source: Bloomberg (weekly data)

National Treasury Management Agency

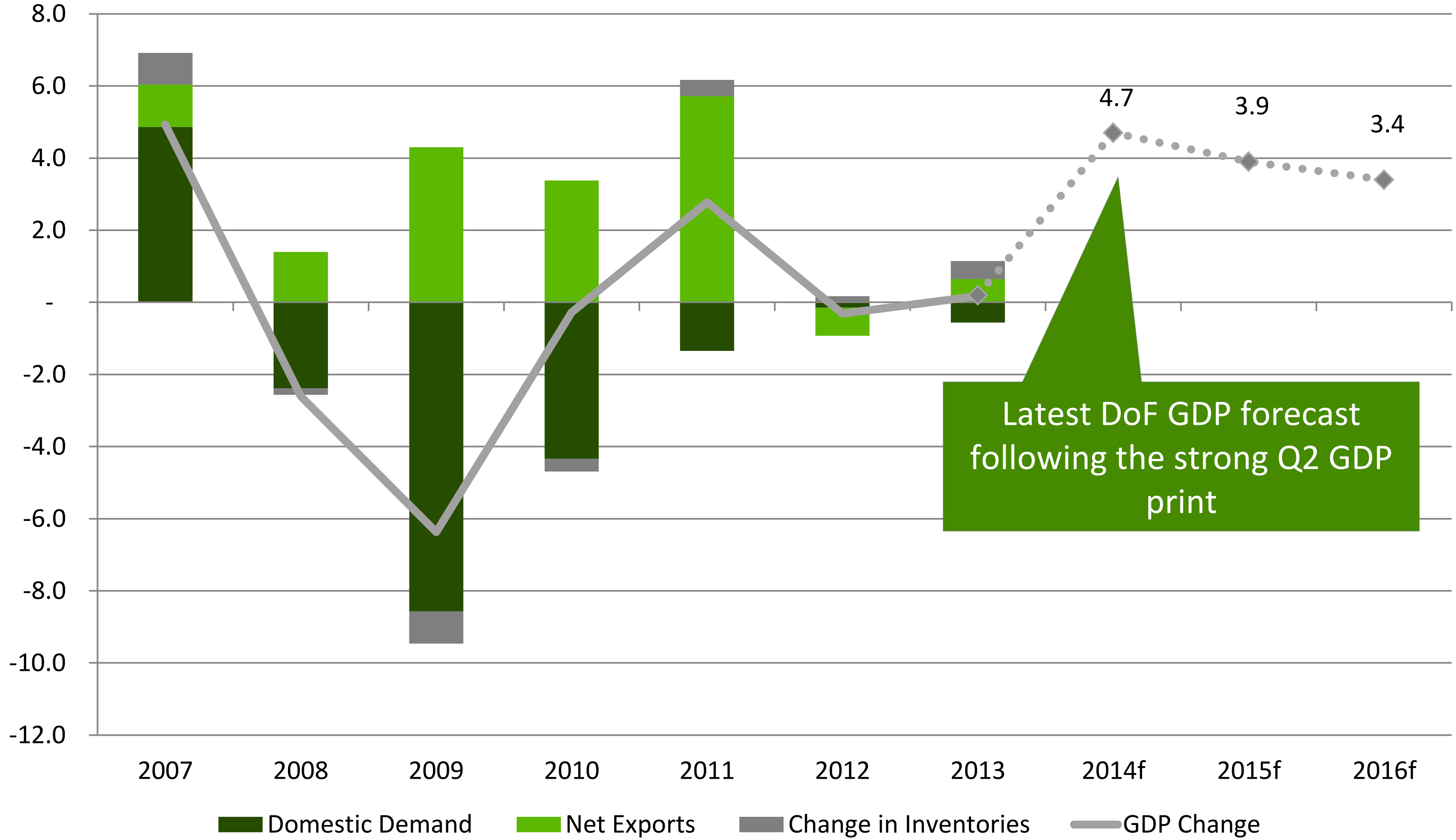
Ireland’s Sovereign Credit Ratings

Rating Agency	Long-term	Short-term	Outlook/Trend	Date of Update
Standard & Poor's	A	A-1	Stable	Dec. 2014
Fitch Ratings	A-	F1	Stable	Aug. 2014
Moody's	Baa1	P-2	Stable	May 2014
DBRS	A (low)	R-1 (low)	Positive	Sep. 2014
R&I	A-	a-1	Stable	Dec. 2014

SECTION 1: MACRO

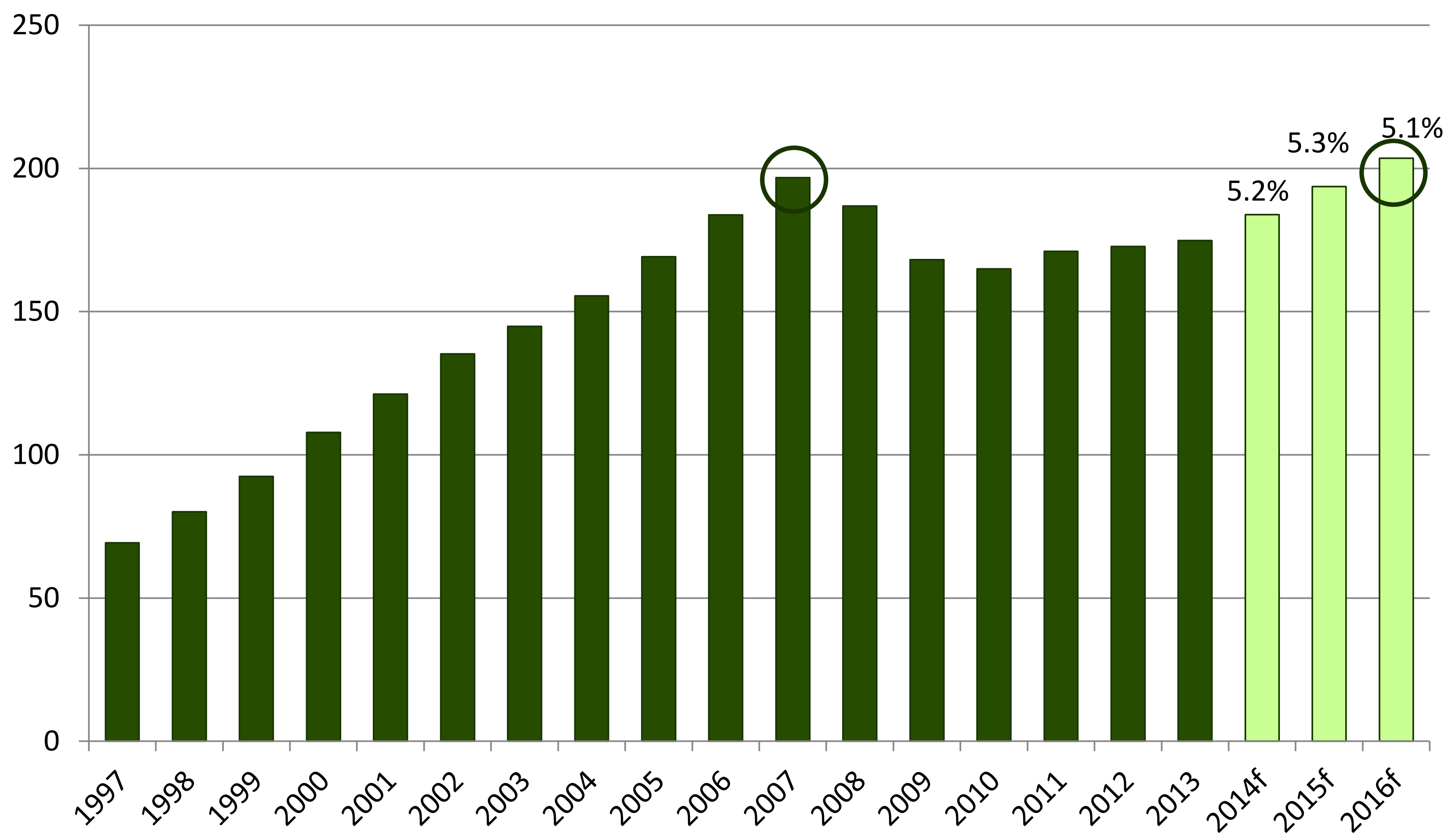
Recovery has gained strong momentum in 2014; Unemployment has dropped sharply from a peak of 15.1% to 10.6% at end-2014

Net Exports and investment drove 5% 2014 growth in real and nominal terms; underlying growth likely 1-2pp lower



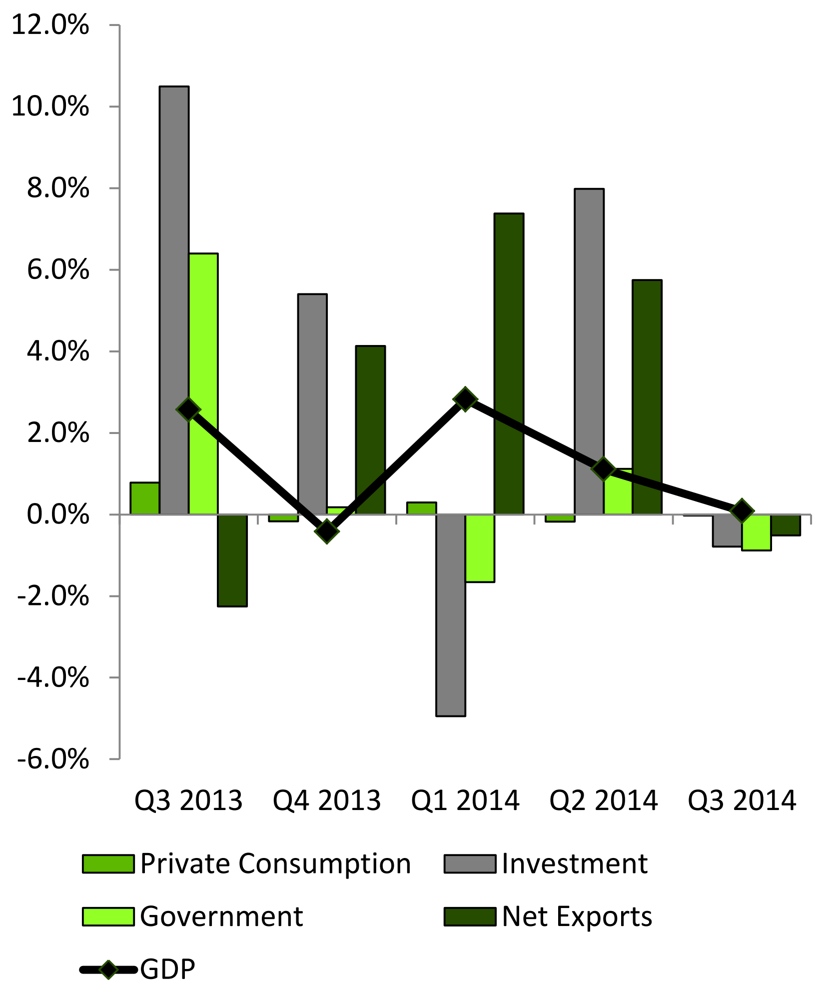
Source: CSO; Department of Finance(2014-16 forecast from Budget 2015 material); NTMA workings

Nominal GDP (€bn) forecasted to exceed pre-crisis peak in 2016



Source: Department of Finance (Budget 2015)

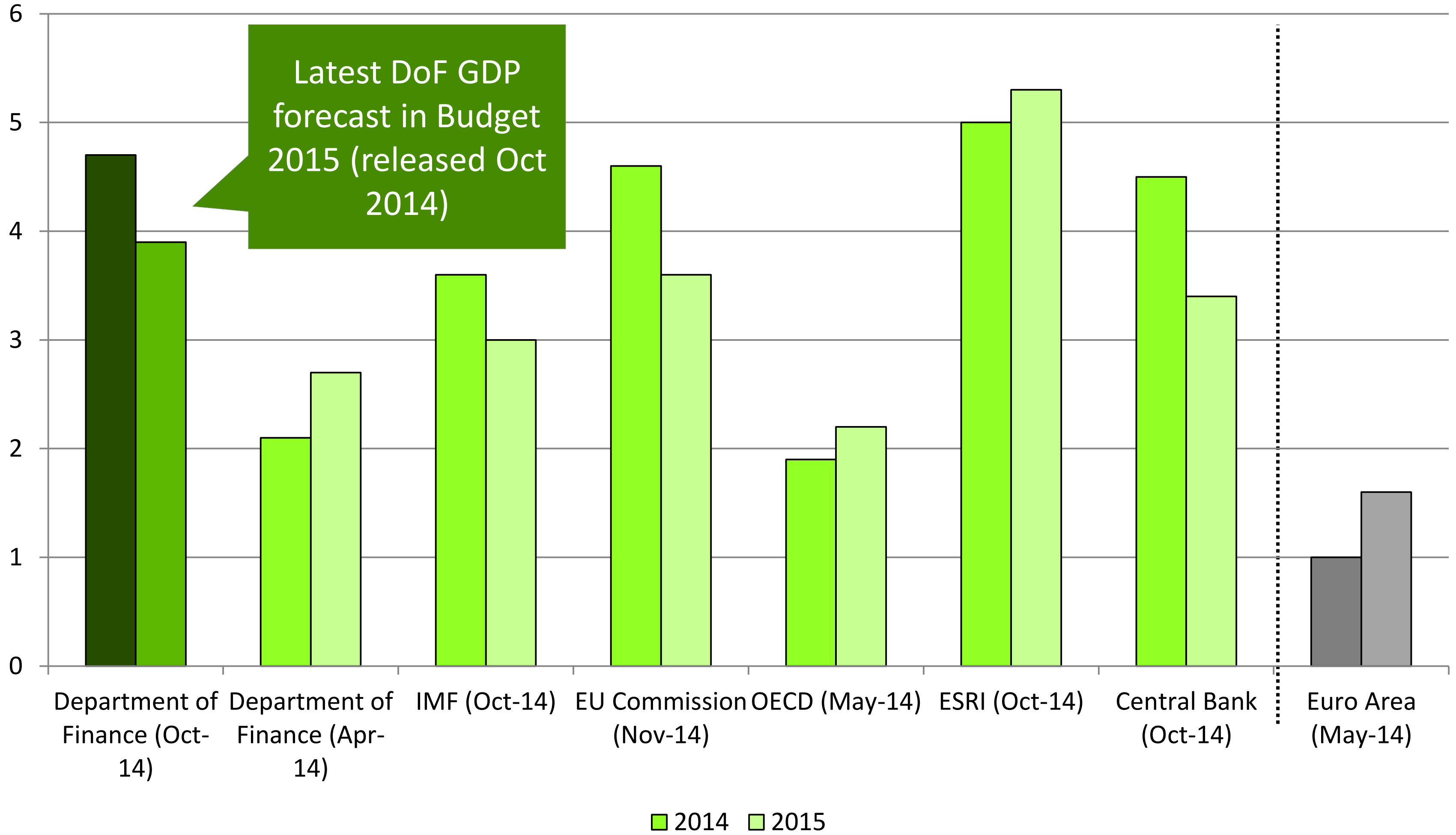
Q3 2014 GDP figures flat but Government forecast for 2014 still likely to be met



Source: CSO; NTMA workings

- Q-Q growth for Q3 2014 was 0.1% while Q2 2014 growth was revised downwards to 1.1%
- Flat Q-Q change from here = ~4.7% full year real GDP growth for 2014 – equal to the Government's growth forecast.
- Investment was subdued in Q3, following a very strong Q2.
- The same is also true for net exports.
- Personal consumption is slowly improving (0.7% Q1-Q3 y-o-y). There is still a lot of disparity between the headline GDP and consumption.

Ireland's economy is expected to outperform the rest of the euro area in 2014 and 2015

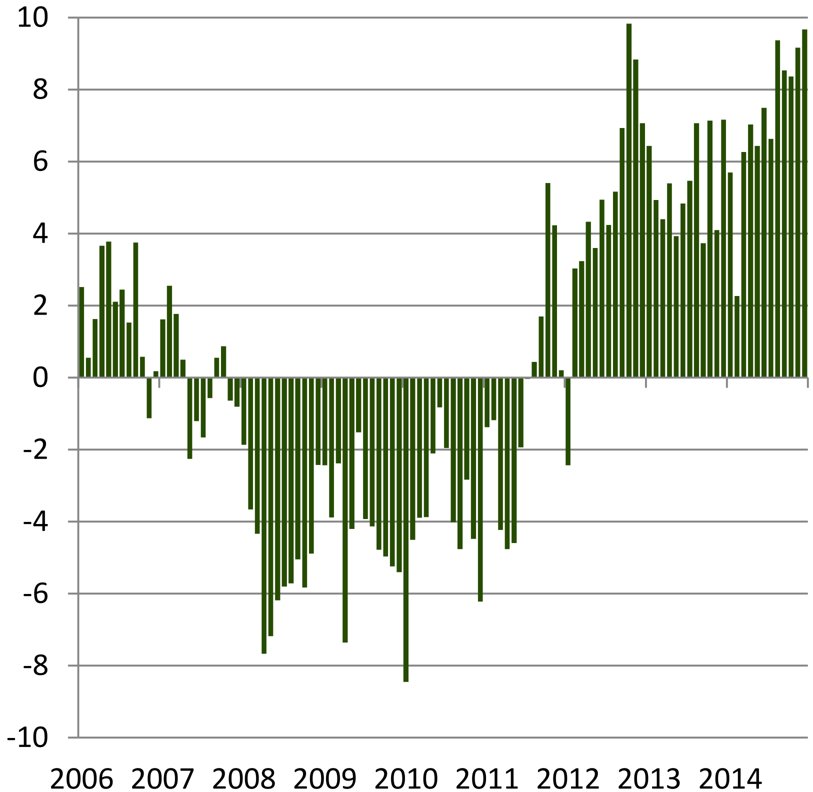


Note: Real GDP y-o-y growth rates forecast by various institutions

Sources: Various publications; Euro area calculated as average of IMF, OECD and EU Commission forecasts

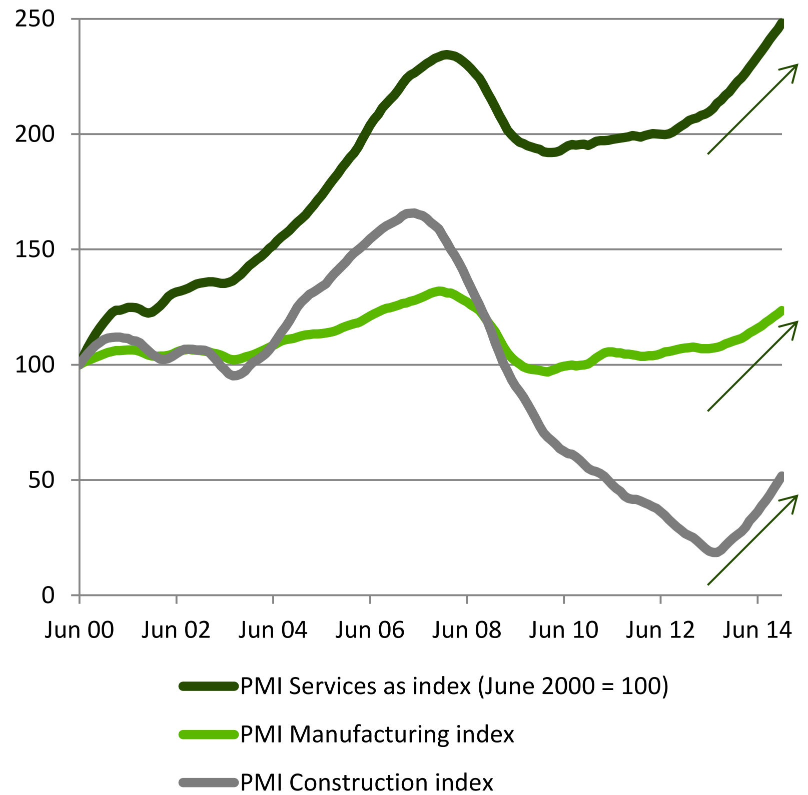
Ireland continuing to outperform EA in short-term and broad-based recovery is in train

Ireland growing faster than euro area (PMI composite difference)



Source: Bloomberg; Markit; Investec

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

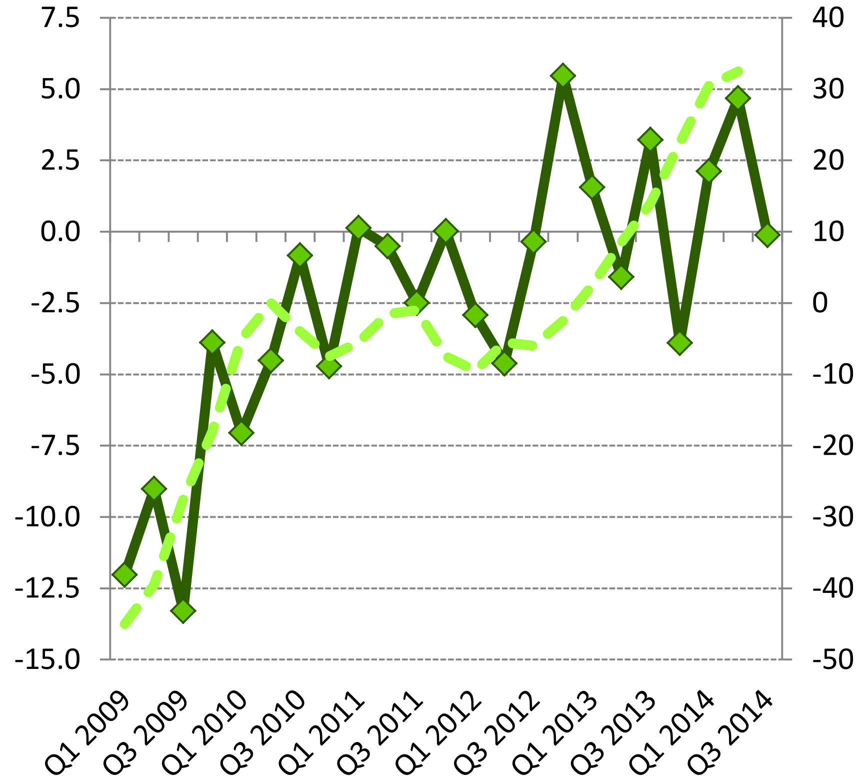


Business surveys point to sustainable recovery

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

Source: Markit; Investec

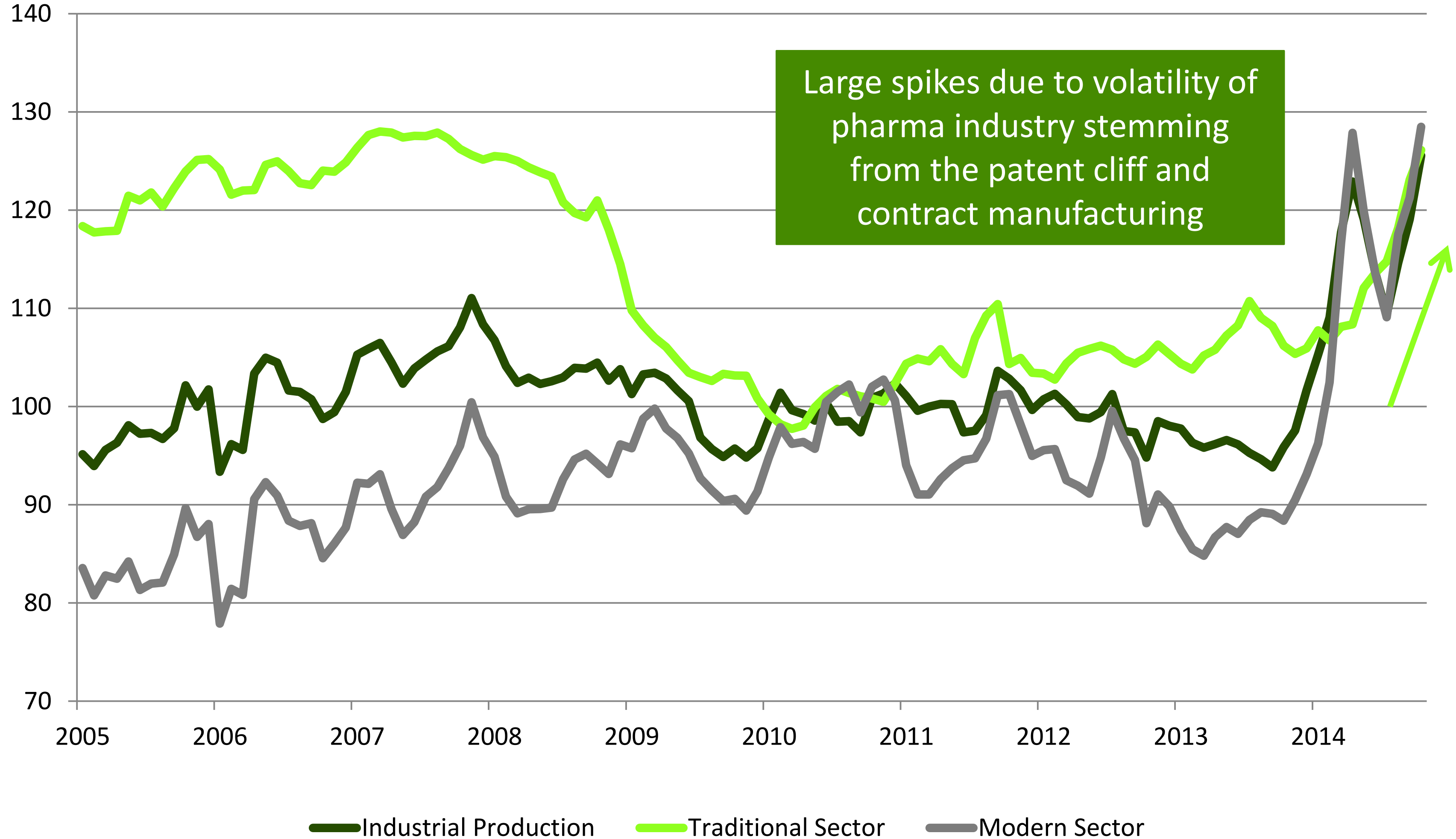
Domestic activity strengthened in 2013-14 from low base



Sources: IBEC; CSO

Industrial production volatile in 2014 due to pharma; sustained growth from traditional manufacturing

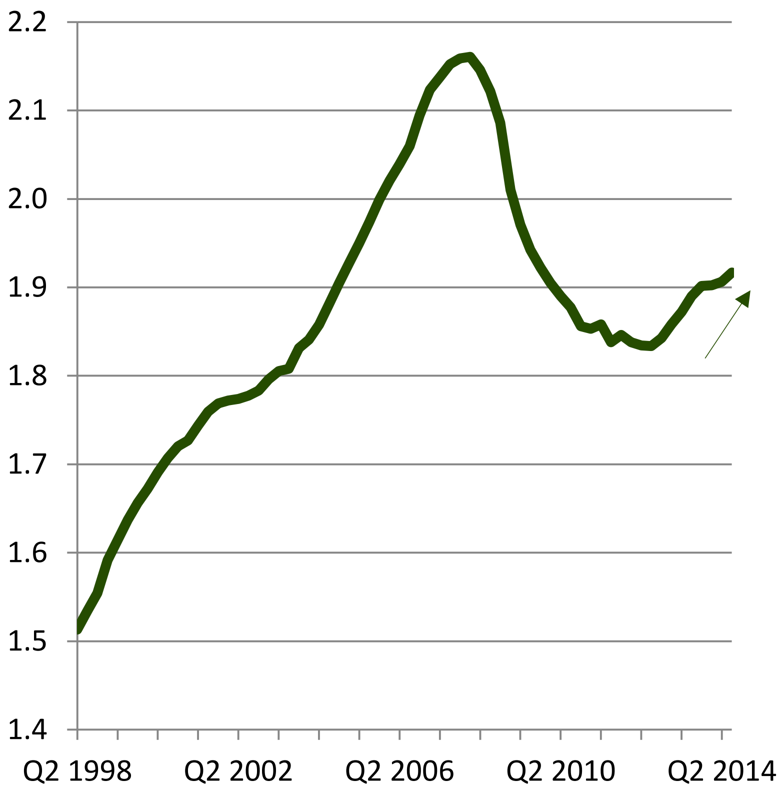
3 month moving averages (2000 = 100)



Source: CSO

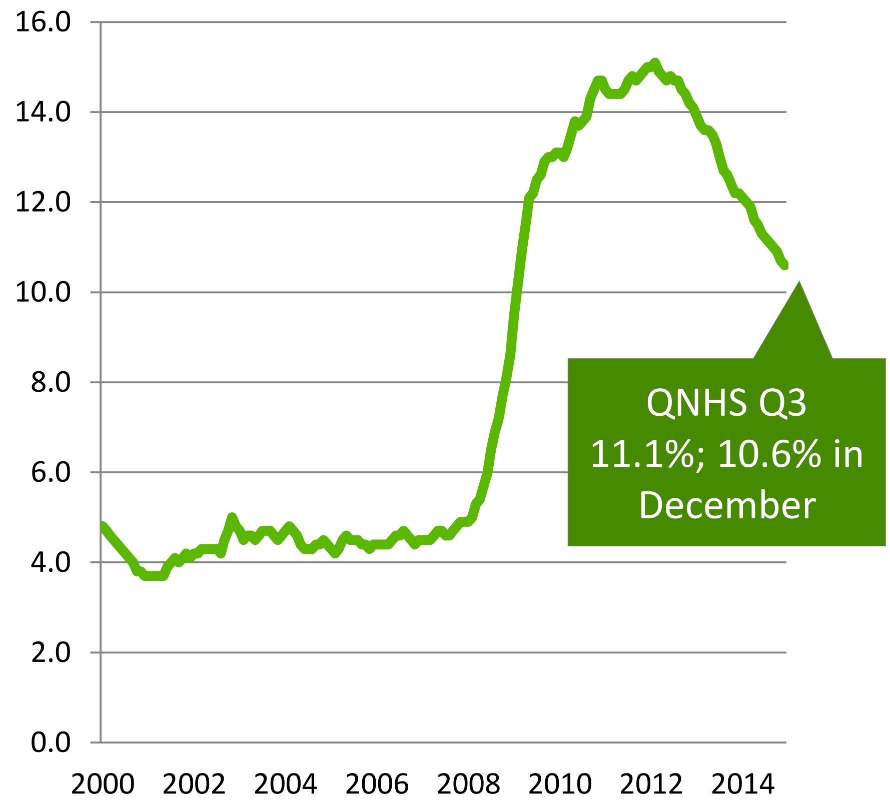
Labour market has recovered since 2012, though employment growth rate slowed in 2014

Employment up 4% from cyclical low



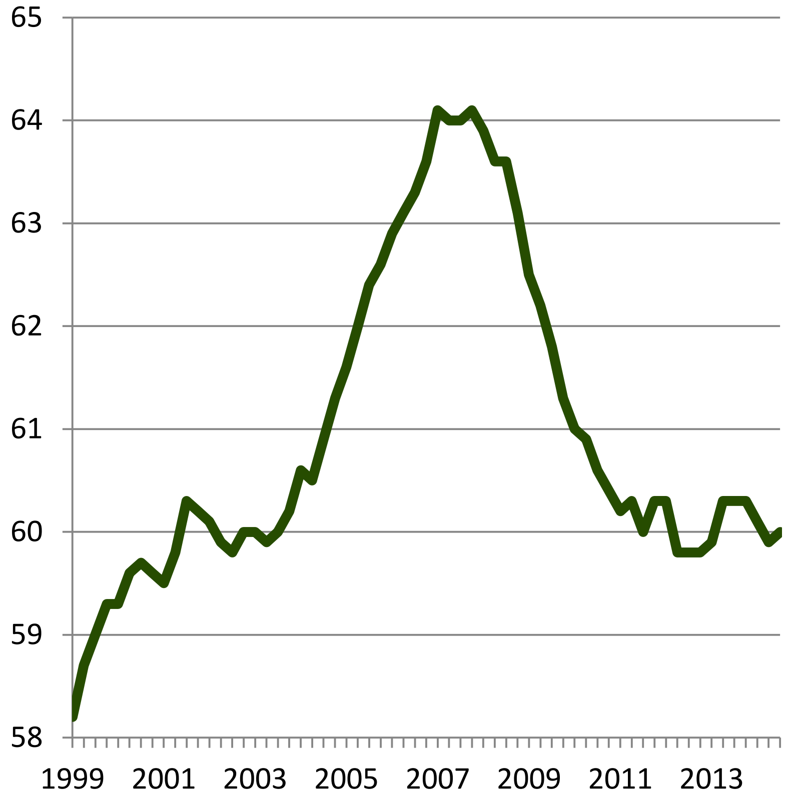
Source: CSO

Unemployment rate down to 10.6%; Long term unemployment over 6%

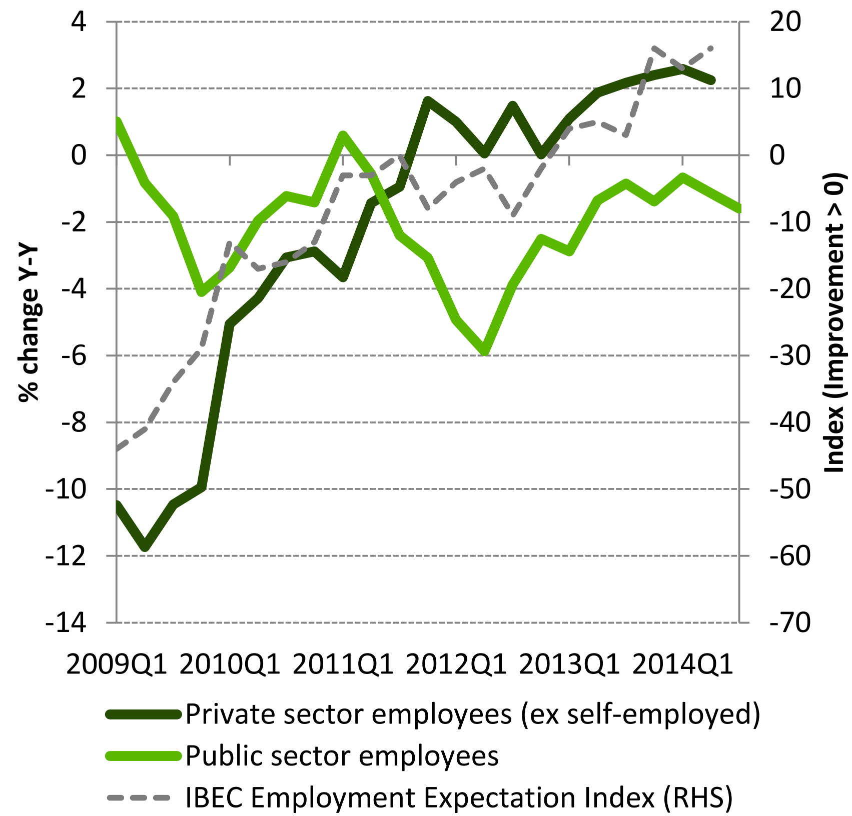


Although total employment has increased labour participation at lowest level since 2012

Participation rate hovering around 60%

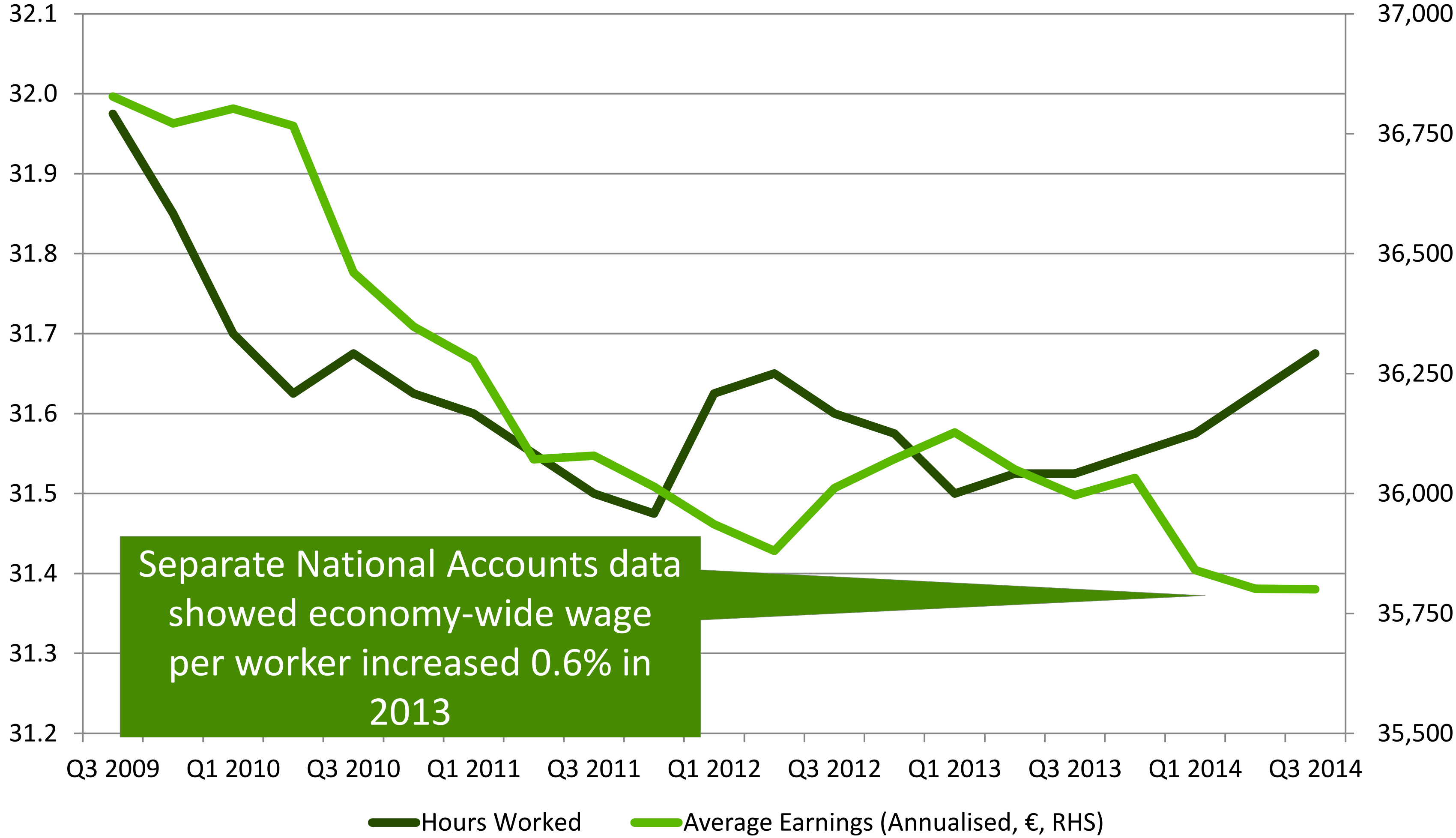


Private sector employment offsetting public sector declines; forward indicators encouraging



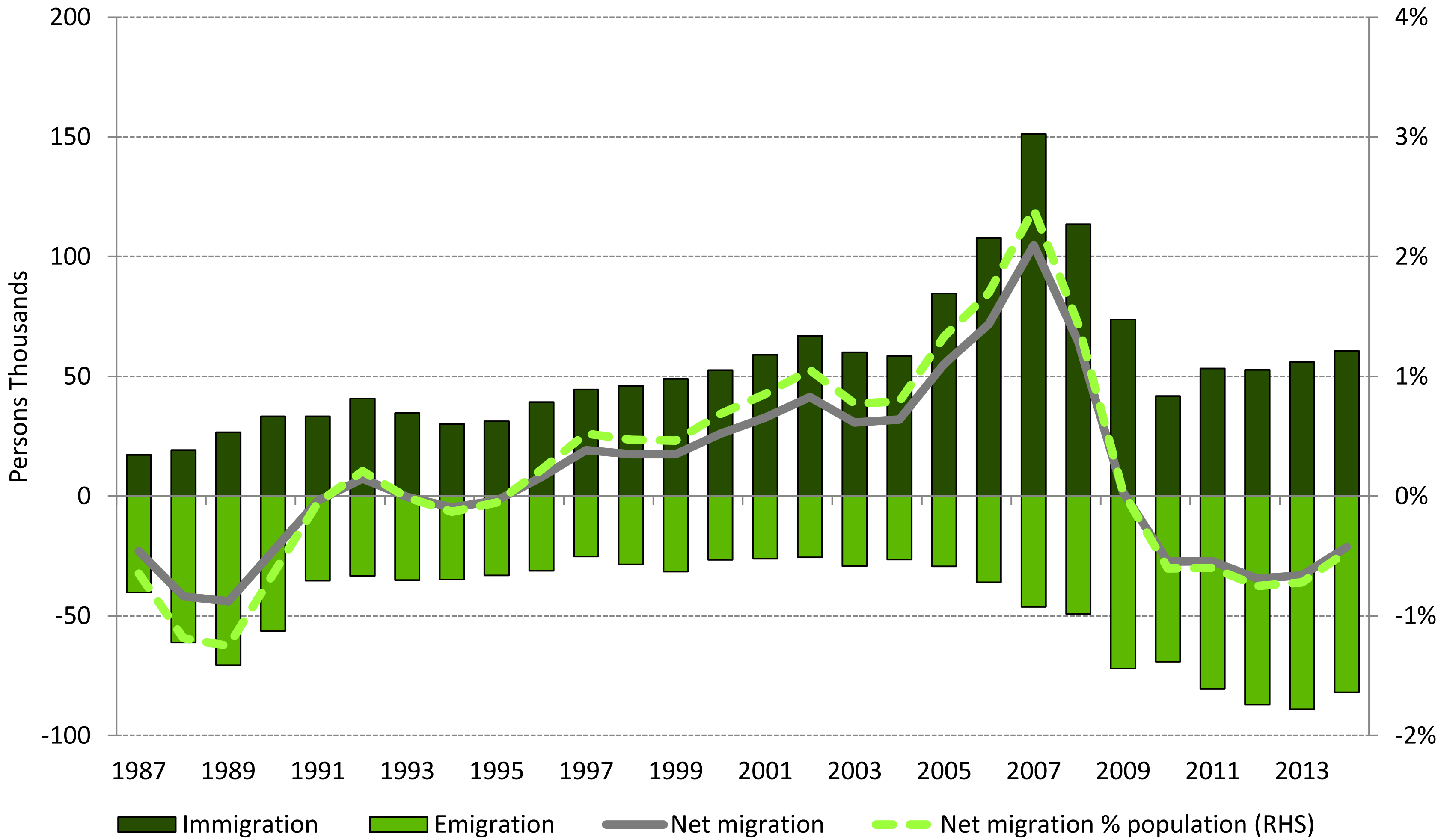
Sources: CSO; IBEC

Wage growth negative while hours worked flat, highlighting that excess capacity is still large



Source: CSO

Net emigration slowed over the 2013/14 as immigration increased and emigration decreased

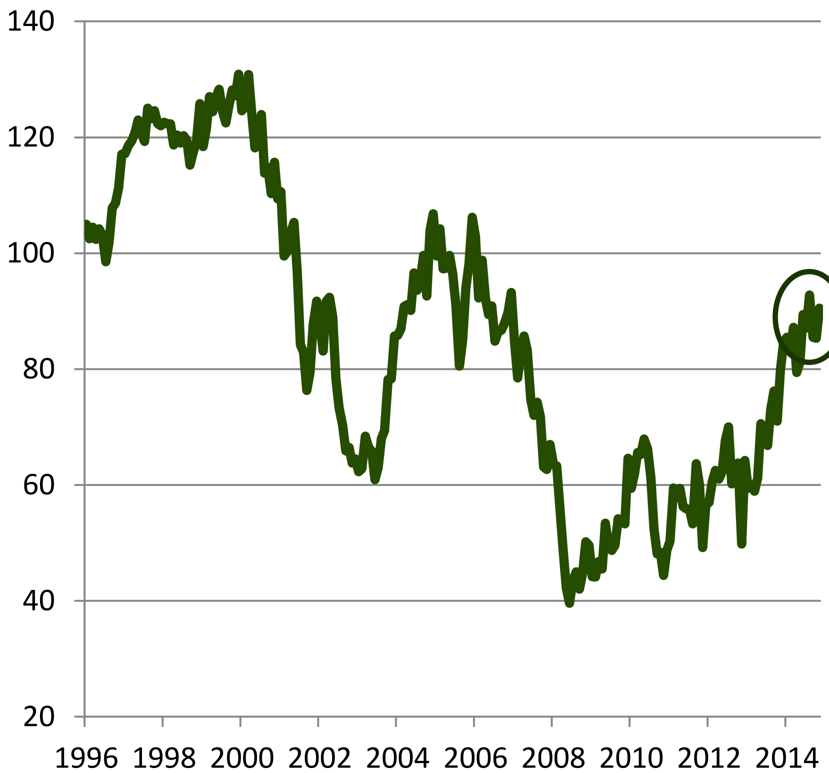


Source: CSO

Note: Each year runs to April e.g. 2014 data states figures from May 2013 to April 2014

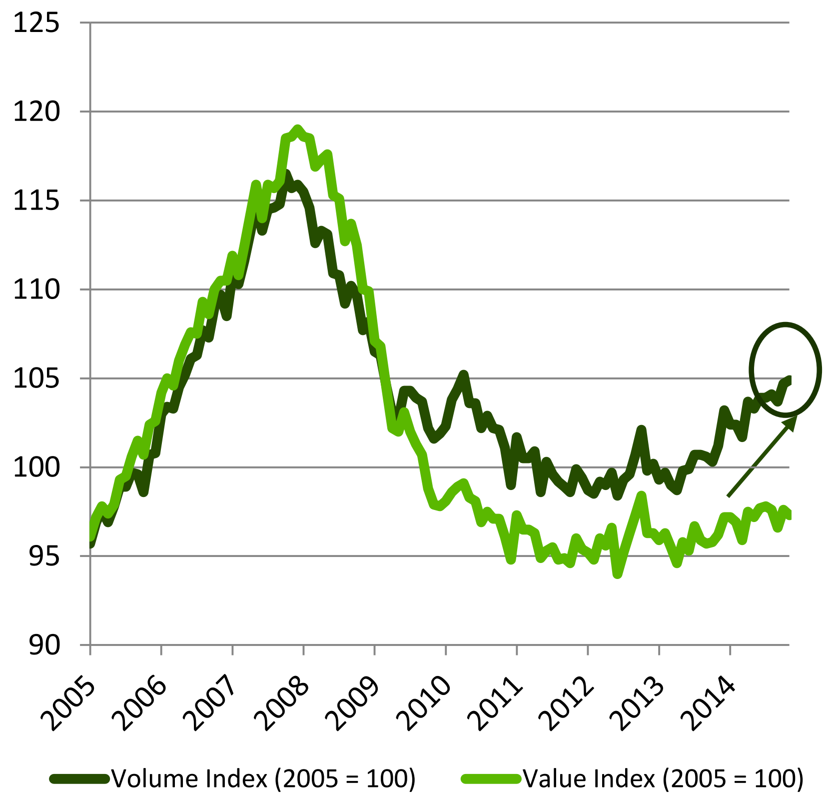
Employment and house price rises lift retail sales

Consumer confidence recovers



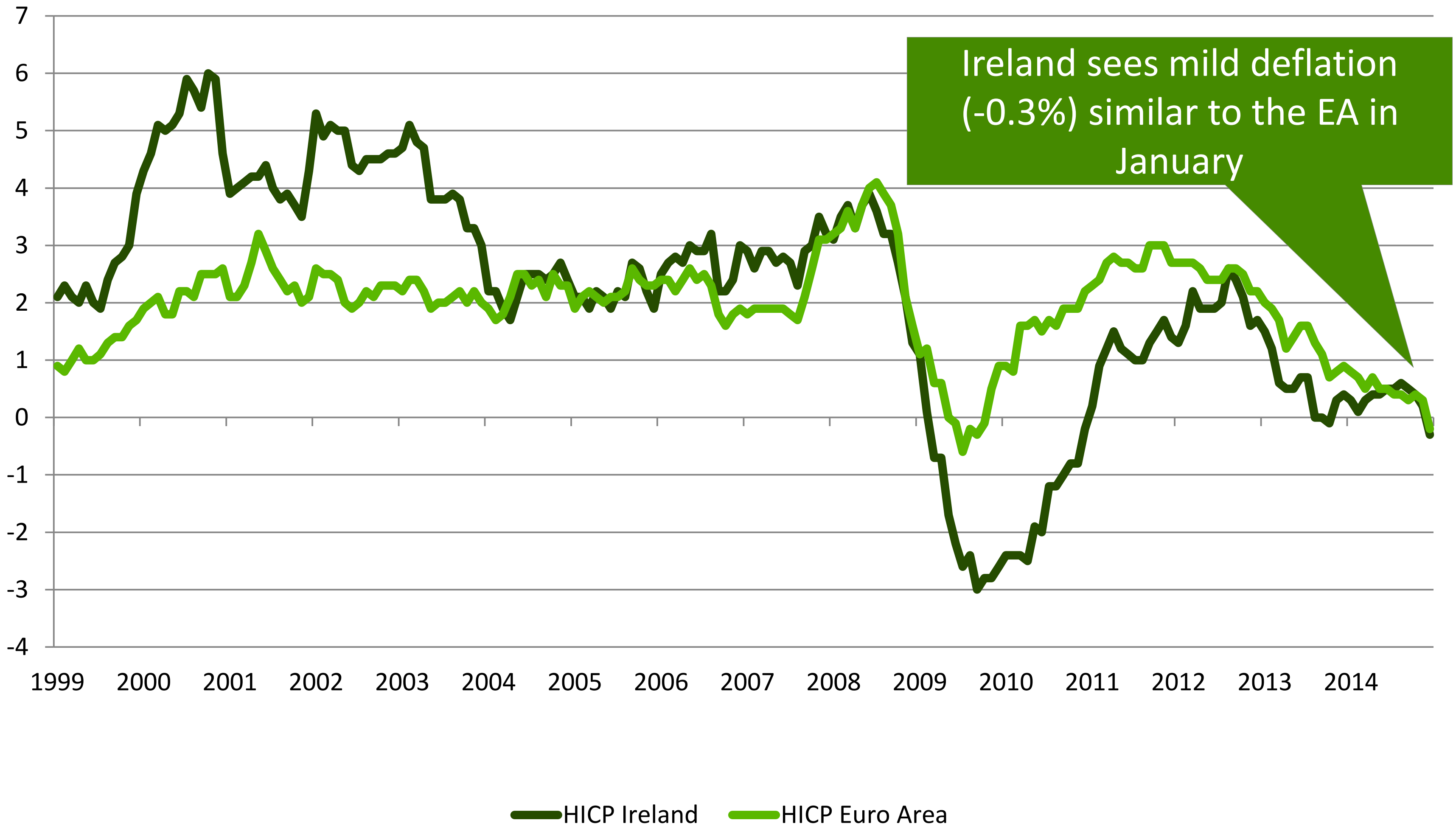
Sources: KBC, ESRI, CSO

"Core"* retail sales rise steadily



*Excluding motor trade

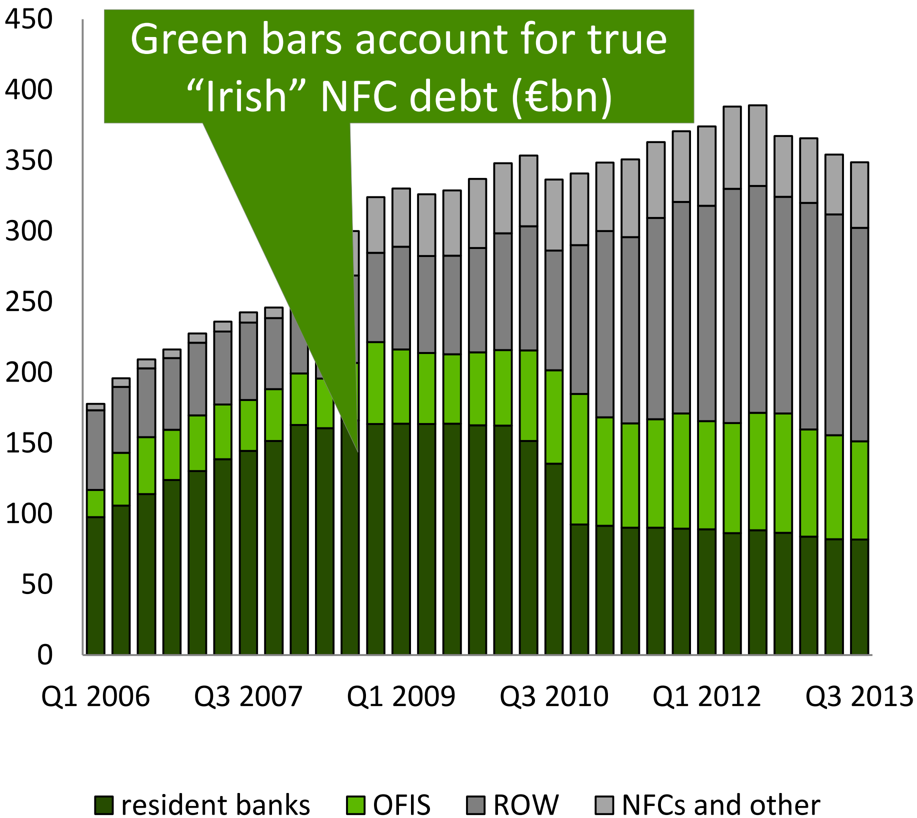
Inflation remains low, underpinning real incomes



Source: CSO

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

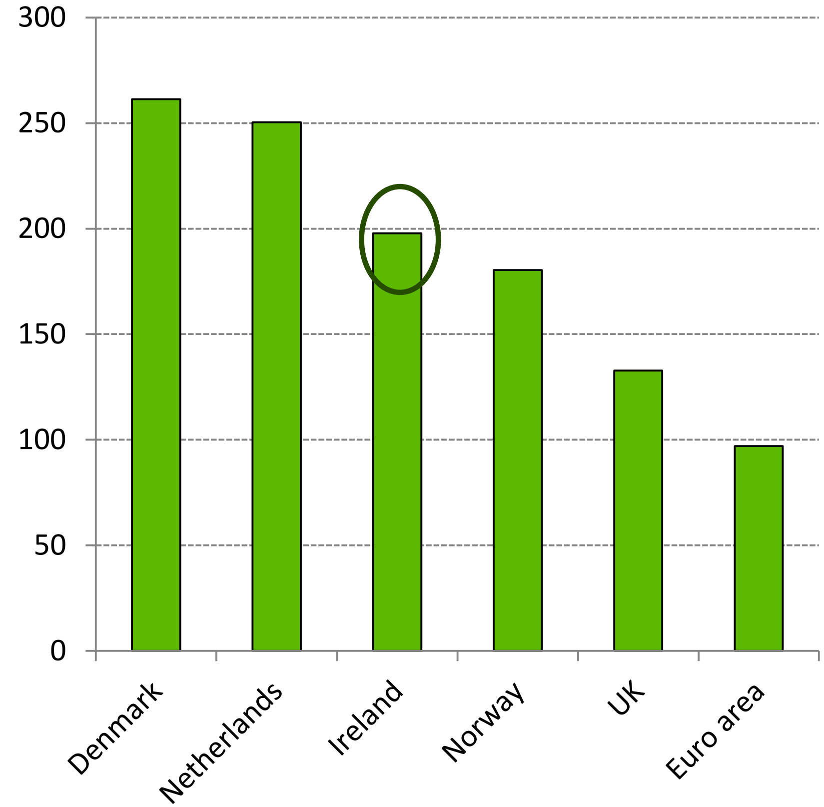
Irish Non-Financial Corporate (NFC) debt is distorted by multinationals (€bn)



Source: Cussen, M. "Deciphering Ireland's Macroeconomic Imbalance Indicators", CBI

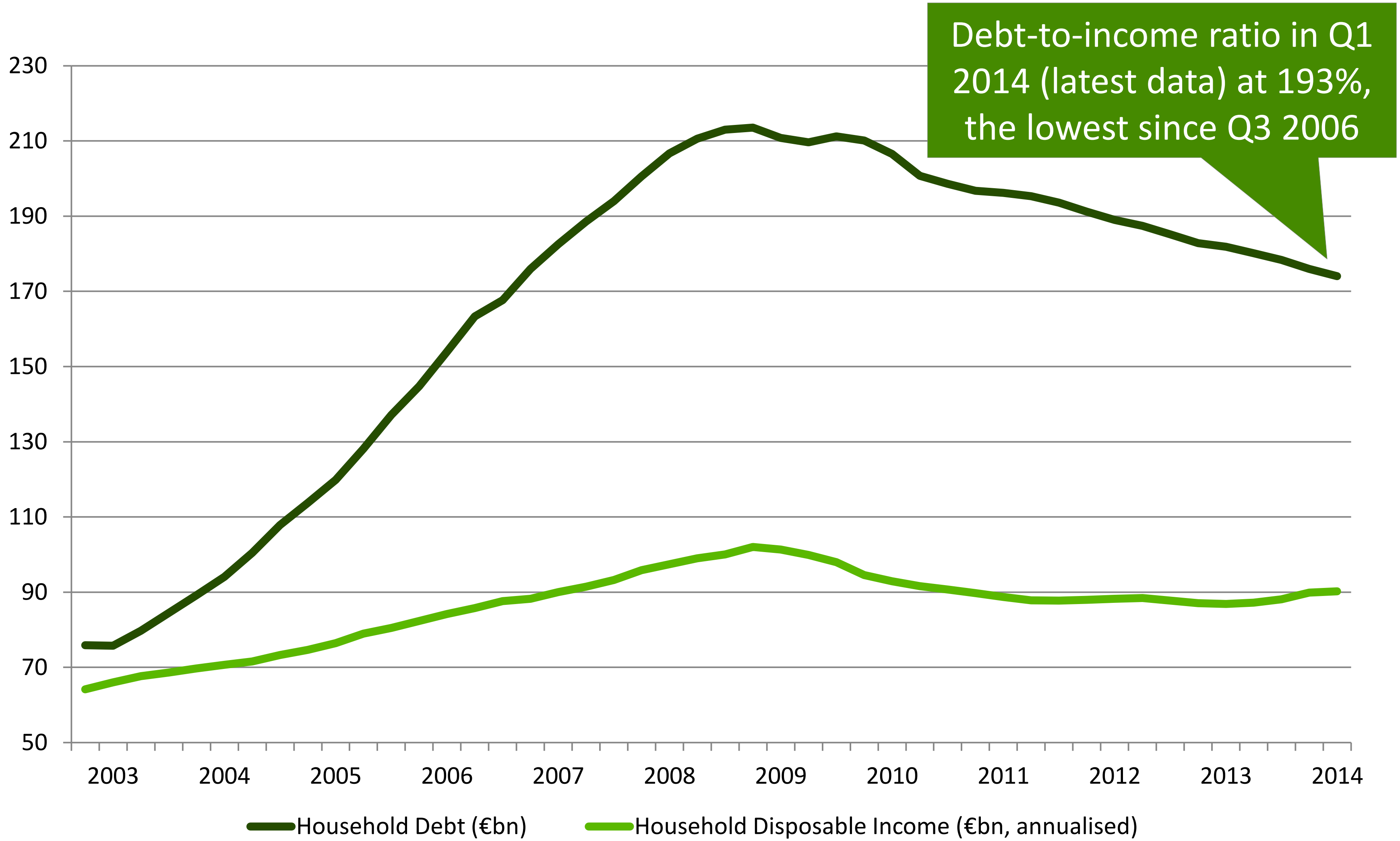
* OFI = Other Fin. Intermediaries

Household debt ratio (% DI) declining (see slide 23) but still among highest in Europe



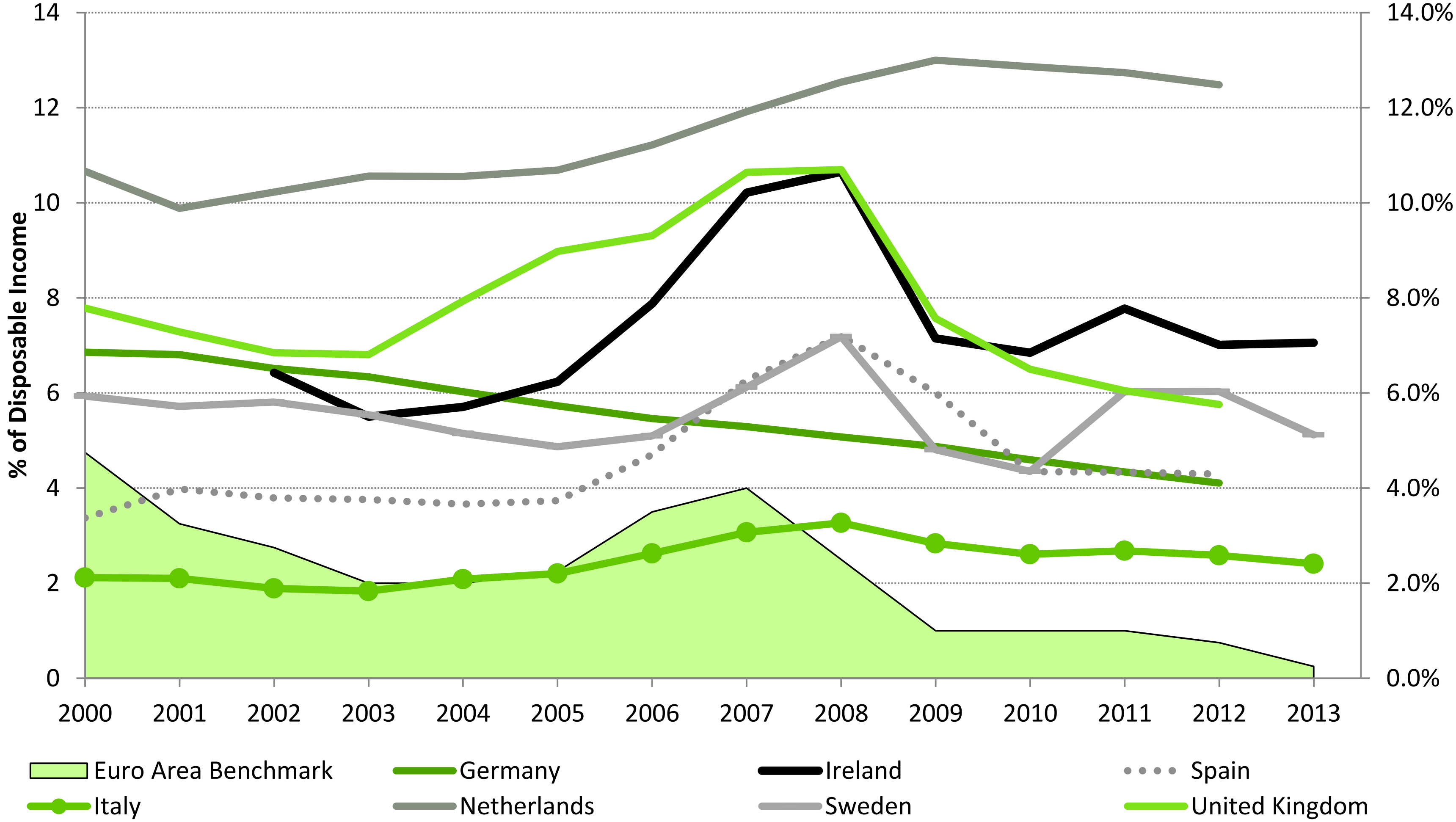
Source: Eurostat

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 has been suppressed by tracker mortgages

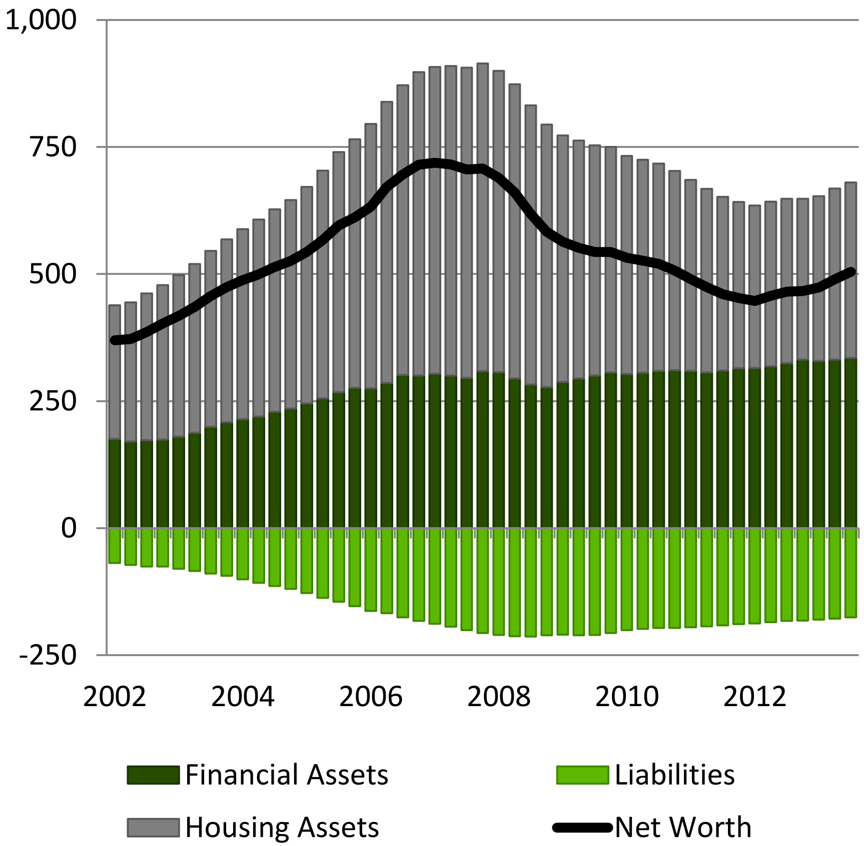


Sources: Eurostat; CSO

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

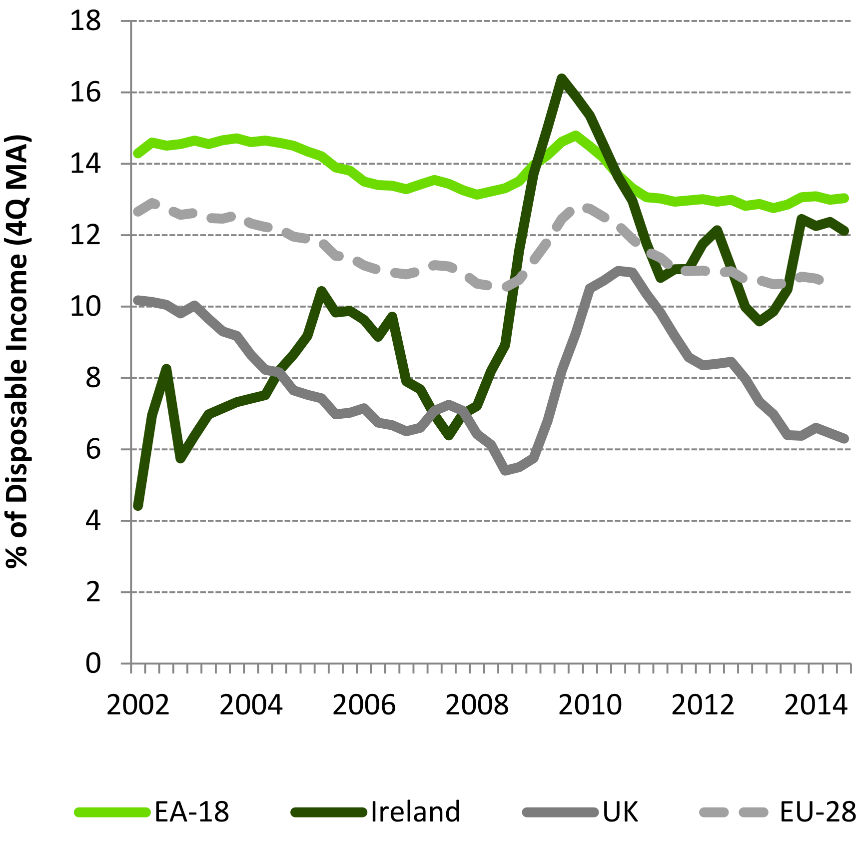
Property prices lift household net worth, while savings rate around euro area average

Household net worth (€bn) improving and will underpin consumer spending



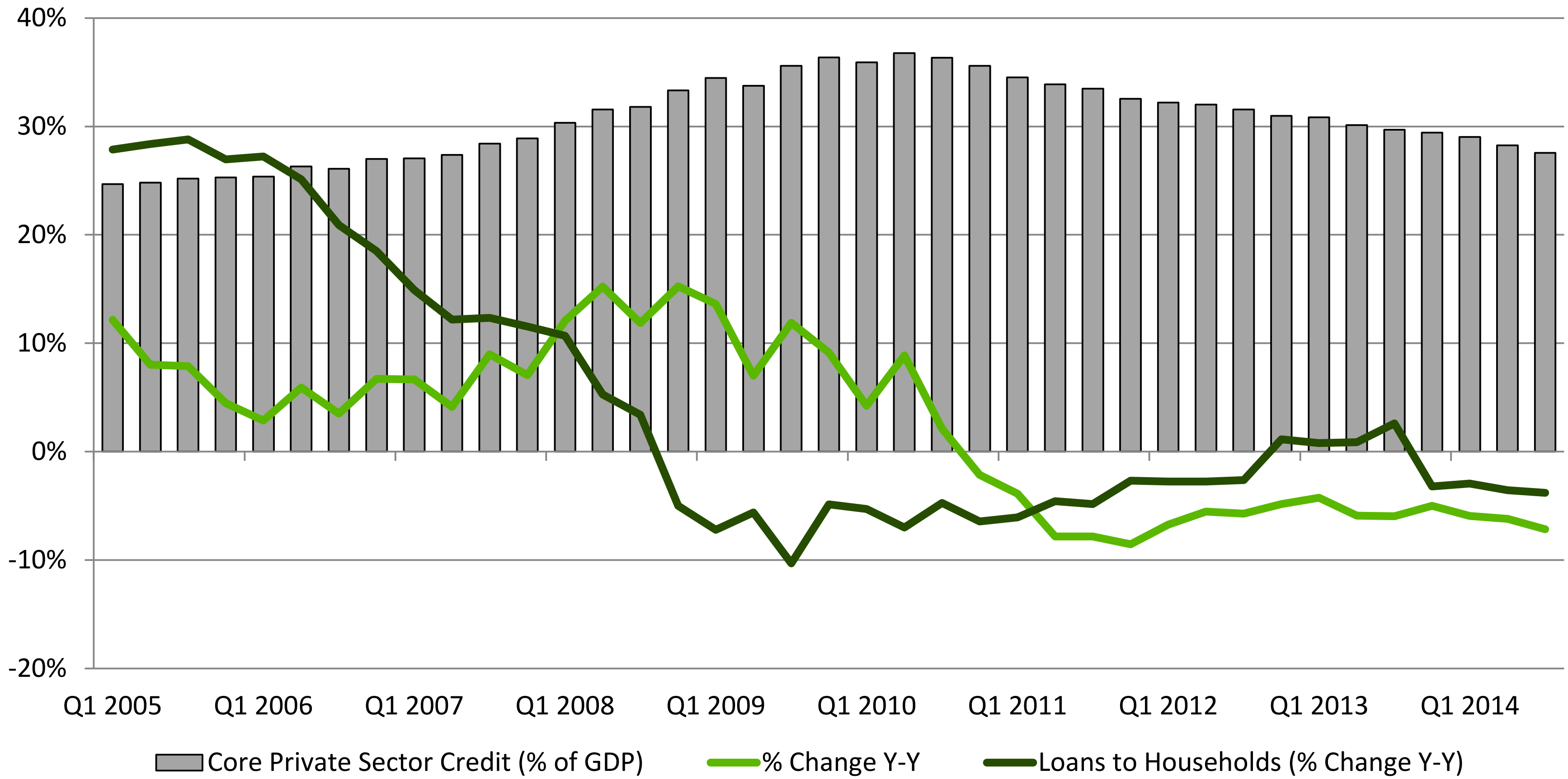
Source: CBI

Gross household saving rate* rises, despite improving income prospects



Source: Eurostat, CSO

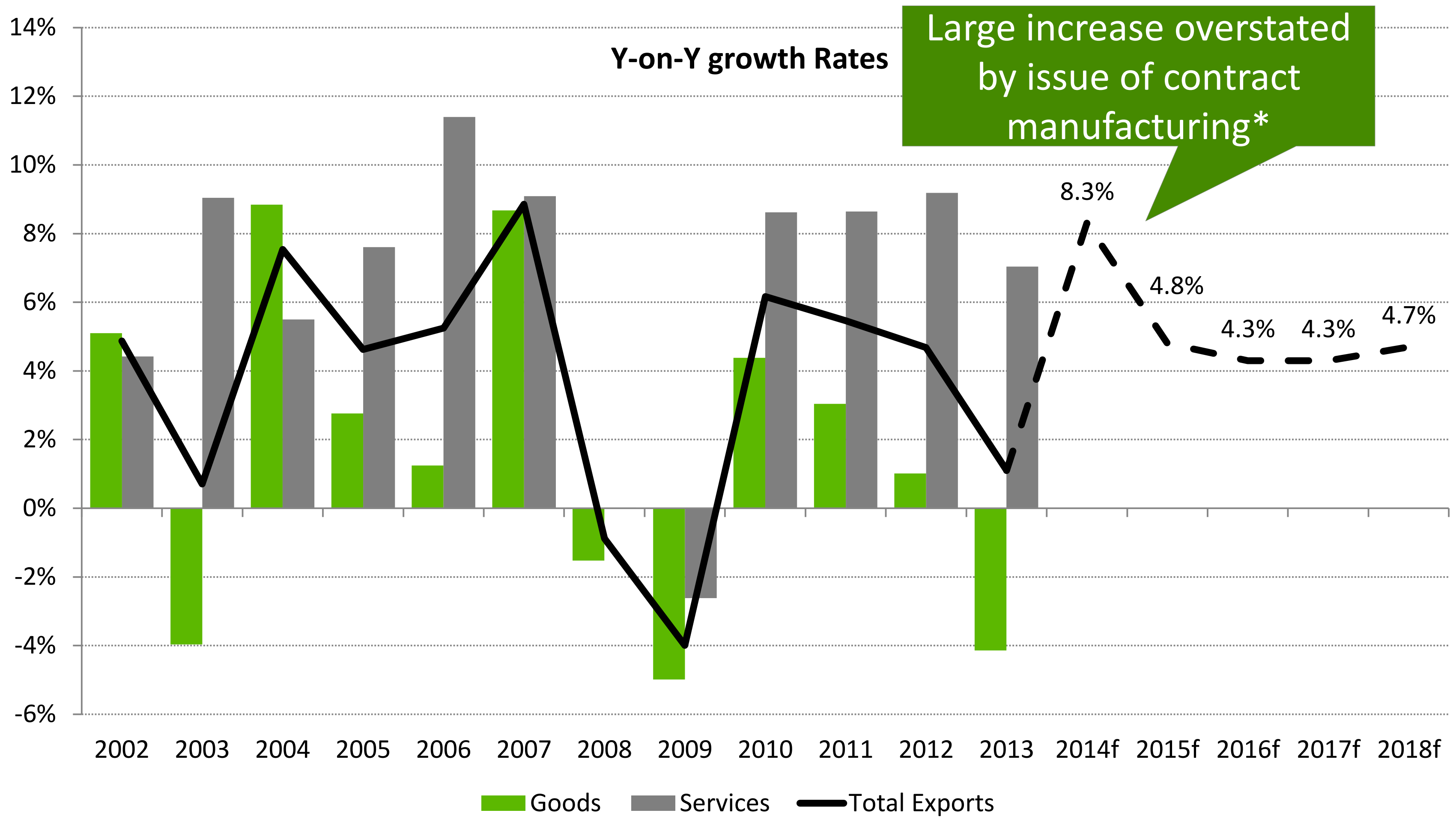
Core net lending volumes back at 2007 levels as pace of deleveraging is sustained



Sources: CBI; ECB; 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 over time.

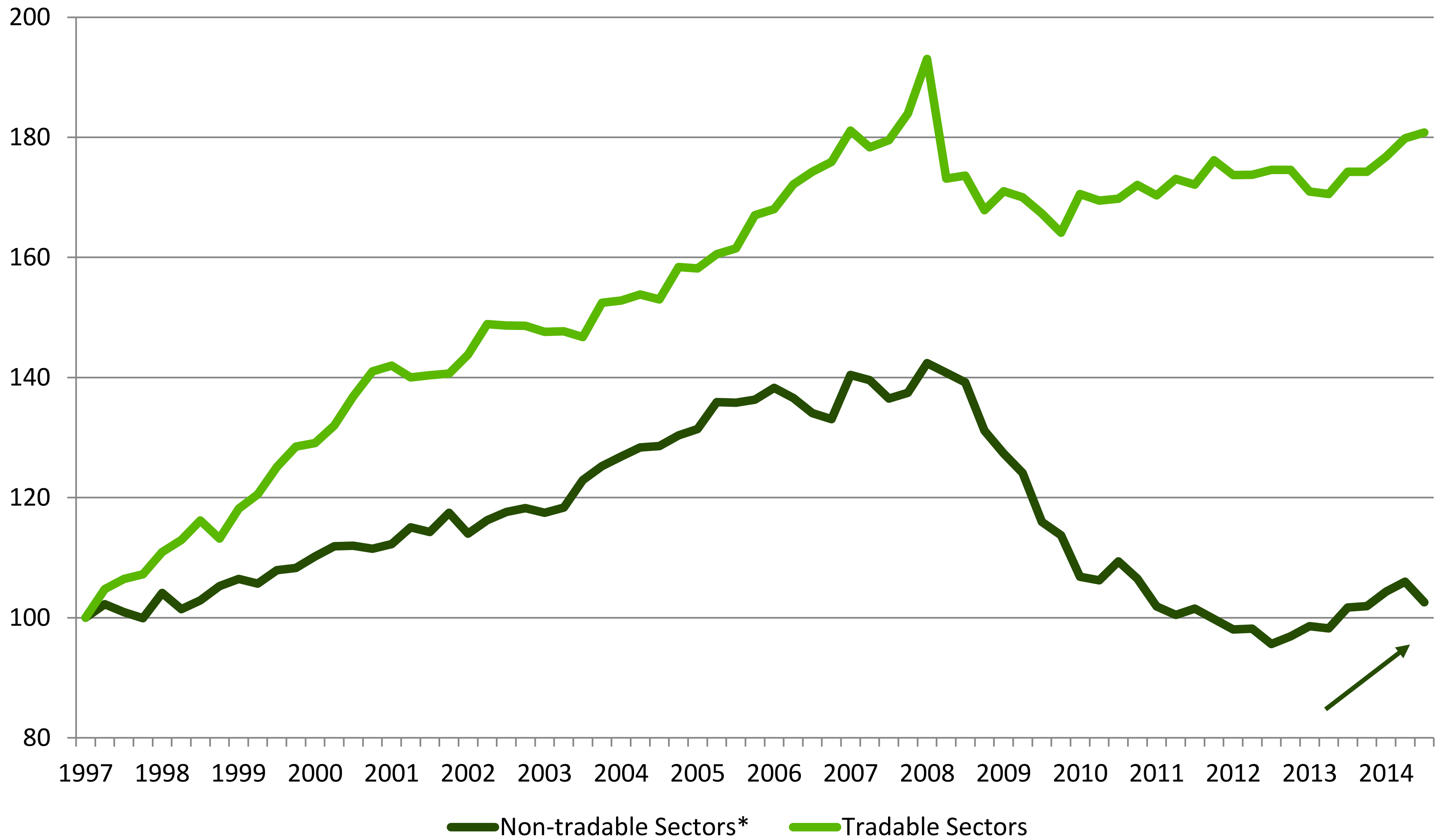
Exports led by services as technology multinationals continue to expand in Ireland



Source: CSO, forecasts from the Department of Finance (Budget 2015)

* For discussion on contract manufacturing and its distorting effects on Ireland's National Accounts , please see Box 1 in the Budget 2015 here and IFAC's Fiscal Adjustment Review here.

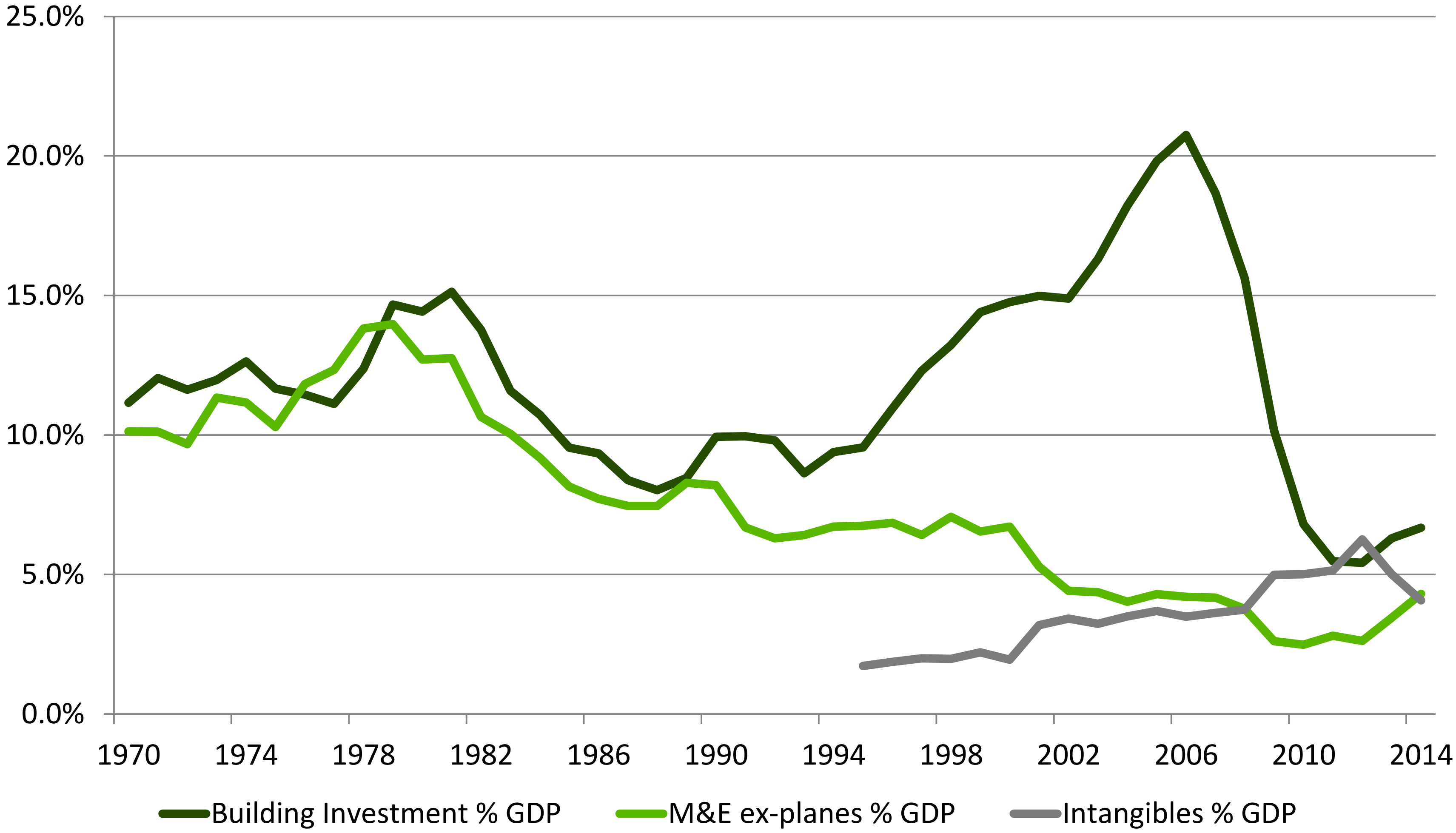
Ireland's tradable sectors perform best in long run (gross output) but domestic sectors now picking up



Source: CSO

*Non-tradable sectors = Agriculture, Construction and Public Sector

Investment rising but below long run average



Source: CSO

* 2014 figures estimated using first 3 quarters growth for 2014.

Economic and fiscal forecasts: Budget 2015

	2013	2014e	2015f	2016f	2017f
GDP (% change, volume)	0.2	4.7	3.9	3.4	3.4
GNP (% change, volume)	3.3	4.1	3.6	3.1	3.1
Domestic Demand (Contribution to GDP, p.p.)*	-0.6	3.5	3.4	1.9	1.9
Net Exports (Contribution to GDP, p.p.)	0.6	1.3	0.5	1.5	1.5
Current Account (% GDP)	4.4	4.9	4.4	4.9	5.2
General Government Debt (% GDP)^	123.3	110.5	108.5	104.0	100.5
Underlying General Government Balance (% GDP^)†	-5.7	-3.7	-2.9	-1.8	-0.9
Inflation (HICP)	0.5	0.5	1.1	1.4	1.4
Unemployment rate (%)	13.1	11.4	10.2	9.4	8.9

Sources: CSO; Department of Finance (Budget 2015)

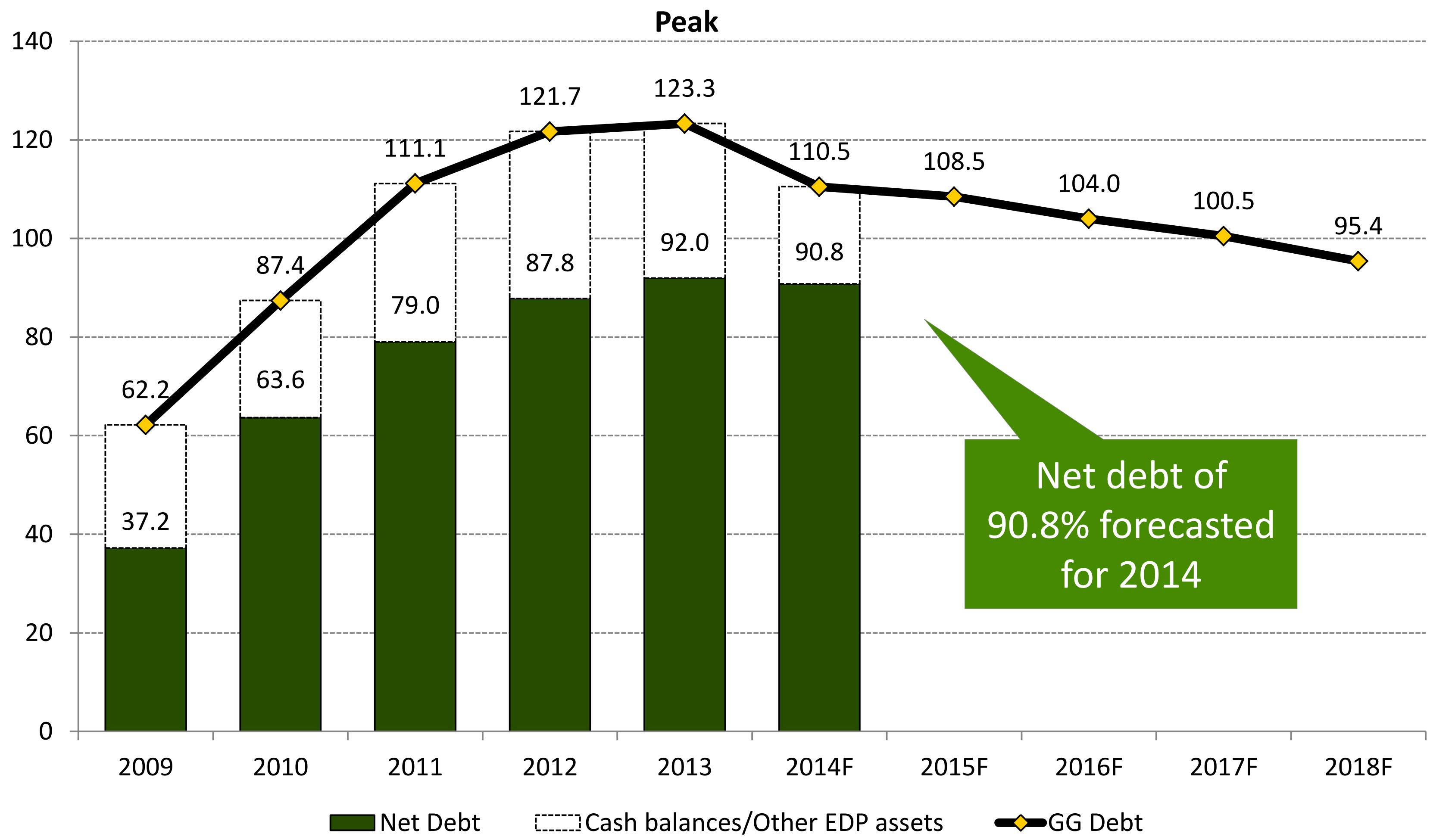
** Includes stock changes*

† Underlying: ex-banking recapitalisation under EDP rules

SECTION 2: FISCAL & NTMA FUNDING

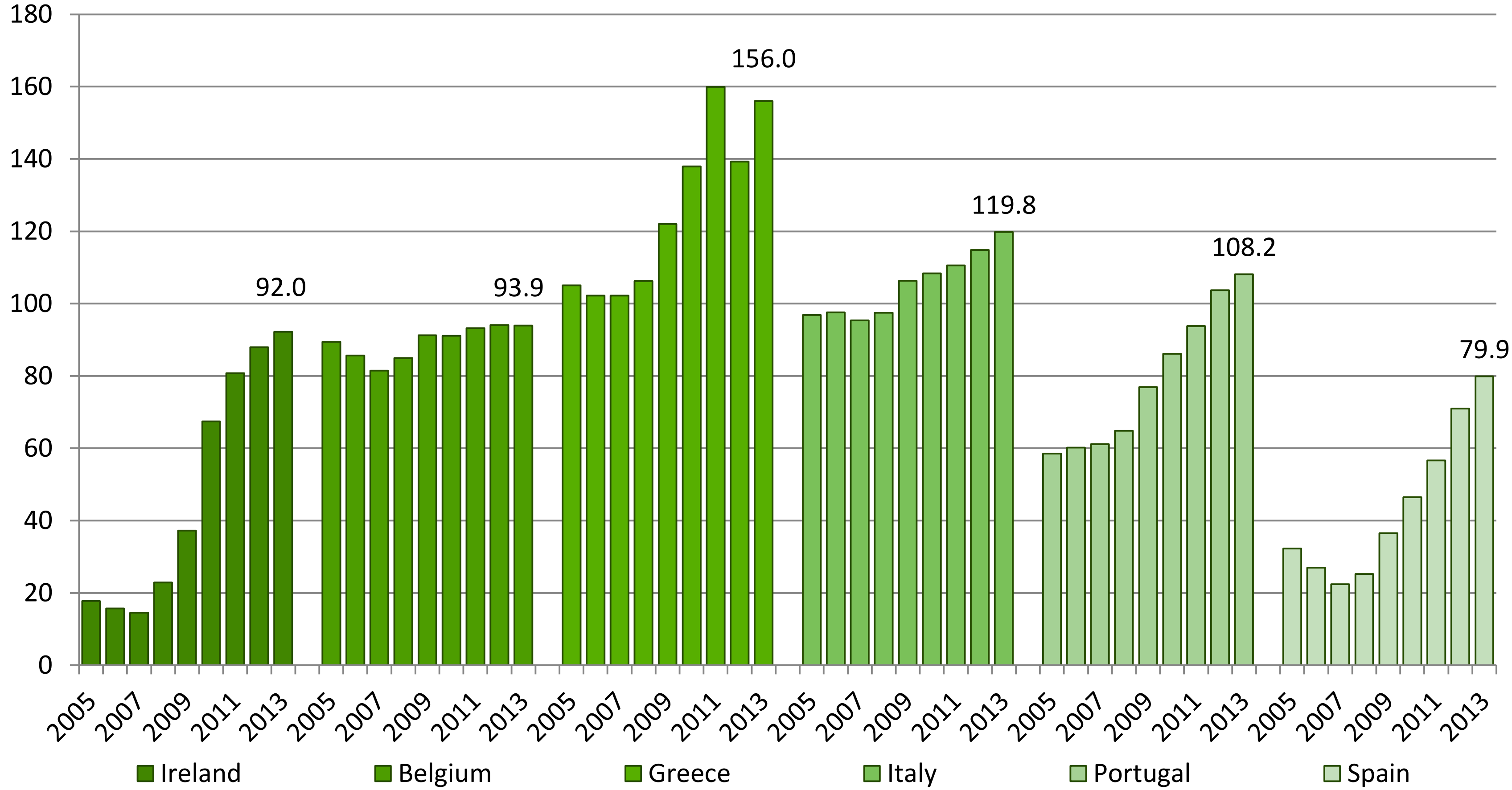
Fiscal overhaul: debt ratio falls in 2014 and all targets beaten

Gross Government debt stabilised in 2013; likely to be around 110% of GDP at end-2014



Source: Department of Finance (Forecasts from Budget 2015), CSO, NTMA workings

Net Government debt ratio (% GDP) now similar to that of Belgium



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

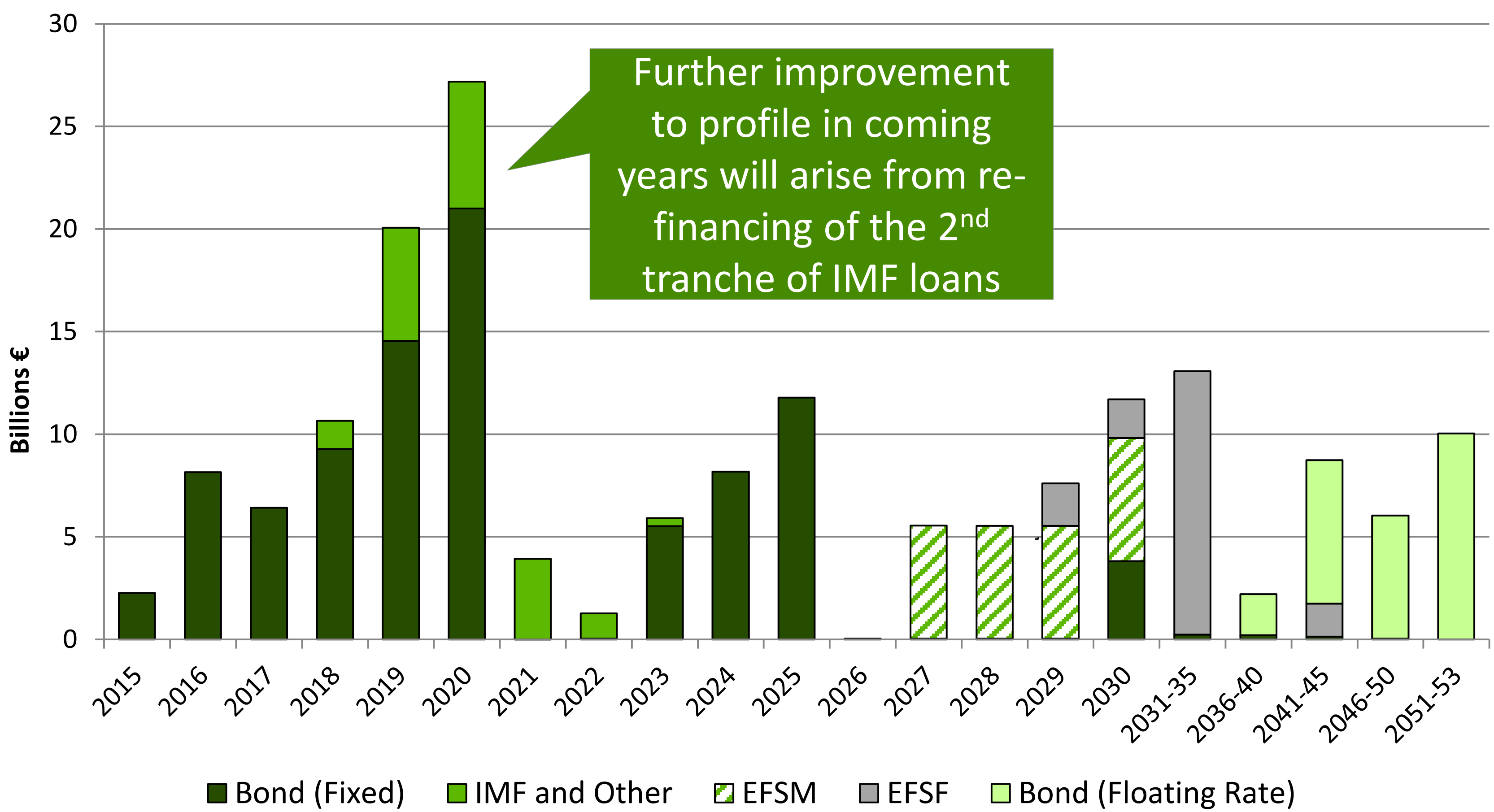
EDP Debt Instruments = Currency and Deposits + Securities other than Shares (excluding financial derivatives) + Loans

Source: CSO; Datastream; NTMA analysis

Ireland’s Sovereign Credit Ratings

Rating Agency	Long-term	Short-term	Outlook/Trend	Date of Update
Standard & Poor's	A	A-1	Stable	Dec. 2014
Fitch Ratings	A-	F1	Stable	Aug. 2014
Moody's	Baa1	P-2	Stable	May 2014
DBRS	A (low)	R-1 (low)	Positive	Sep. 2014
R&I	A-	a-1	Stable	Dec. 2014

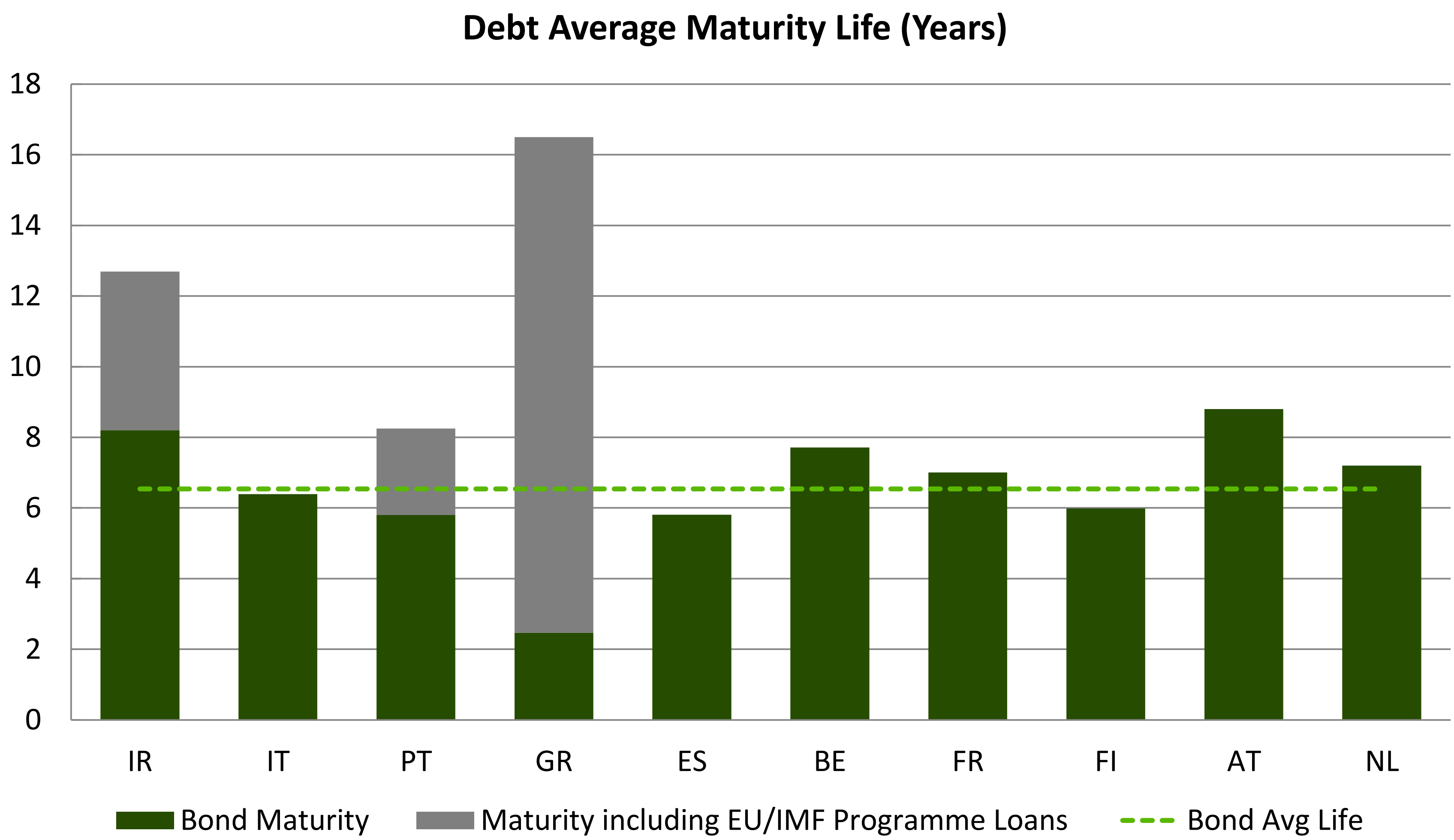
Improved maturity profile following post-programme operations



Source: NTMA

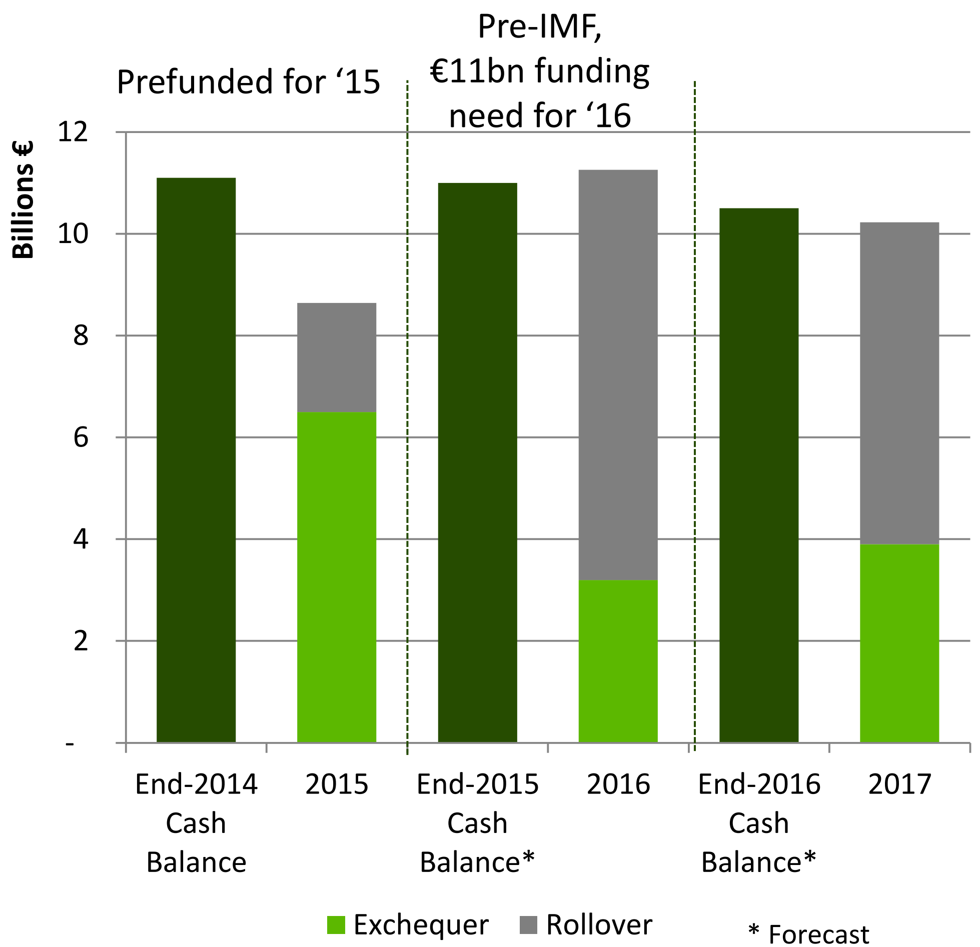
Note: EFSM loans are subject to a 7-year extension that will bring their weighted-average maturity from 12.5 years to 19.5 years. It is not expected that Ireland will refinance any of its EFSM loans before 2027. As such we have placed the loans 2027-31 range although these maturities may be subject to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

Ireland's average maturity favourable when compared with other euro area countries



NTMA has been funding approx. 12 months in advance; IMF repayments raise 2015 requirement

- Medium-term funding requirement improved following restructuring of IBRC Promissory Note, extension of EFSF/EFSM maturities and IMF deal
- €18bn worth of IMF loans to be repaid in 2014/15. First tranche of €9bn repaid in December 2014 through new issuance and existing cash balances.
- NTMA pre-funded for whole of 2015 (excluding 2nd IMF tranche). It expects to issue €12-15bn worth of long term bonds in 2015.
- Exchequer had €11.1bn of cash and other liquid assets at end-2014



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 of seven 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".

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

€ million

End quarter	Dec 2013	June 2014	Sept 2014
1. Resident	54,144	54,065	52,996
(as % of total)	(48.8%)	(47.8%)	(47.3%)
– Credit Institutions and Central Bank*	50,057	49,346	48,650
– General Government	1,275	1,490	1,386
– Non-bank financial	2,502	2,863	2,617
– Households (and NFCs)	307	364	343
2. Rest of world	56,863	59,142	59,136
(as % of total)	(51.2%)	(52.2%)	(52.7%)
Total MLT debt	**111,007**	**113,207**	**112,132**

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.

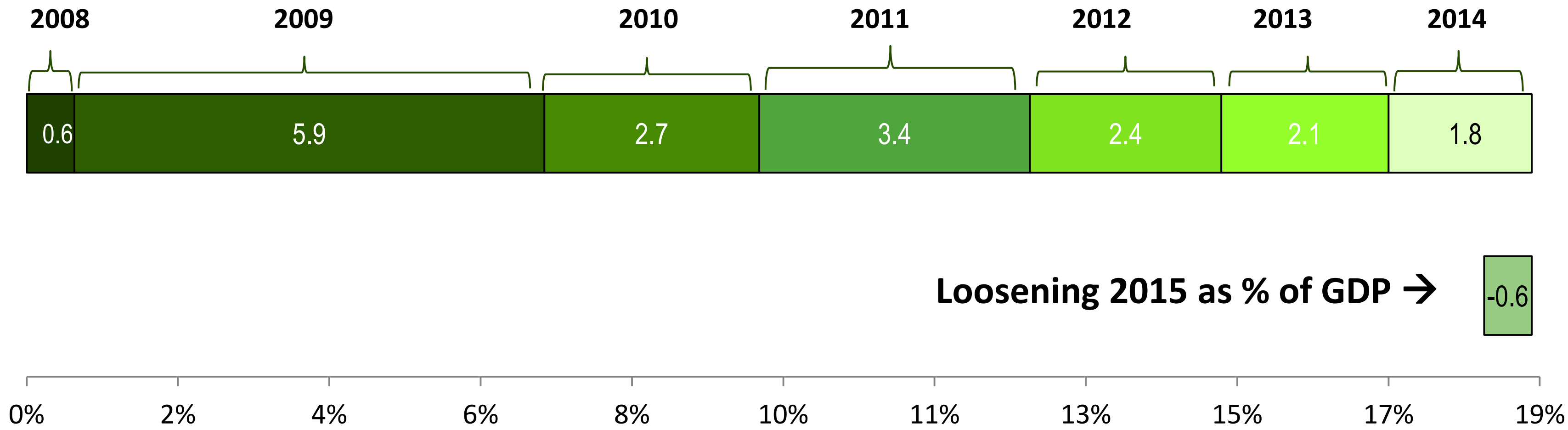
Breakdown of General Government debt

€ million	2010	2011	2012	2013	2014 Q3
Currency and deposits (mainly retail debt)	13,708	58,386	62,092	31,344	21,013
Securities other than shares, exc. financial derivatives	96,317	94,001	87,285	112,660	115,521
- Short-term (T-Bills, CP etc)	7,203	3,777	2,535	2,389	3,636
- Long-term (MLT bonds)	**89,114**	**90,224**	**84,750**	**110,270**	**111,884**
Loans	34,138	37,723	60,849	71,534	71,660
- Short-term	735	569	1,907	1,466	1,418
- Long-term (official funding and prom notes 2009-12)	33,403	37,154	58,942	70,069	70,242
General Government Debt	**144,163**	**190,111**	**210,226**	**215,538**	**208,194**
EDP debt instrument assets	*32,883*	*54,943*	*58,494*	*54,787*	*44,303*
Net Government debt	**111,280**	**135,168**	**151,732**	**160,751**	**163,891**

Source: CSO (July 2014)

Fiscal Consolidation 2008-2014 followed by small expansionary Budget for 2015

Fiscal Consolidation 2008-14 as % of GDP

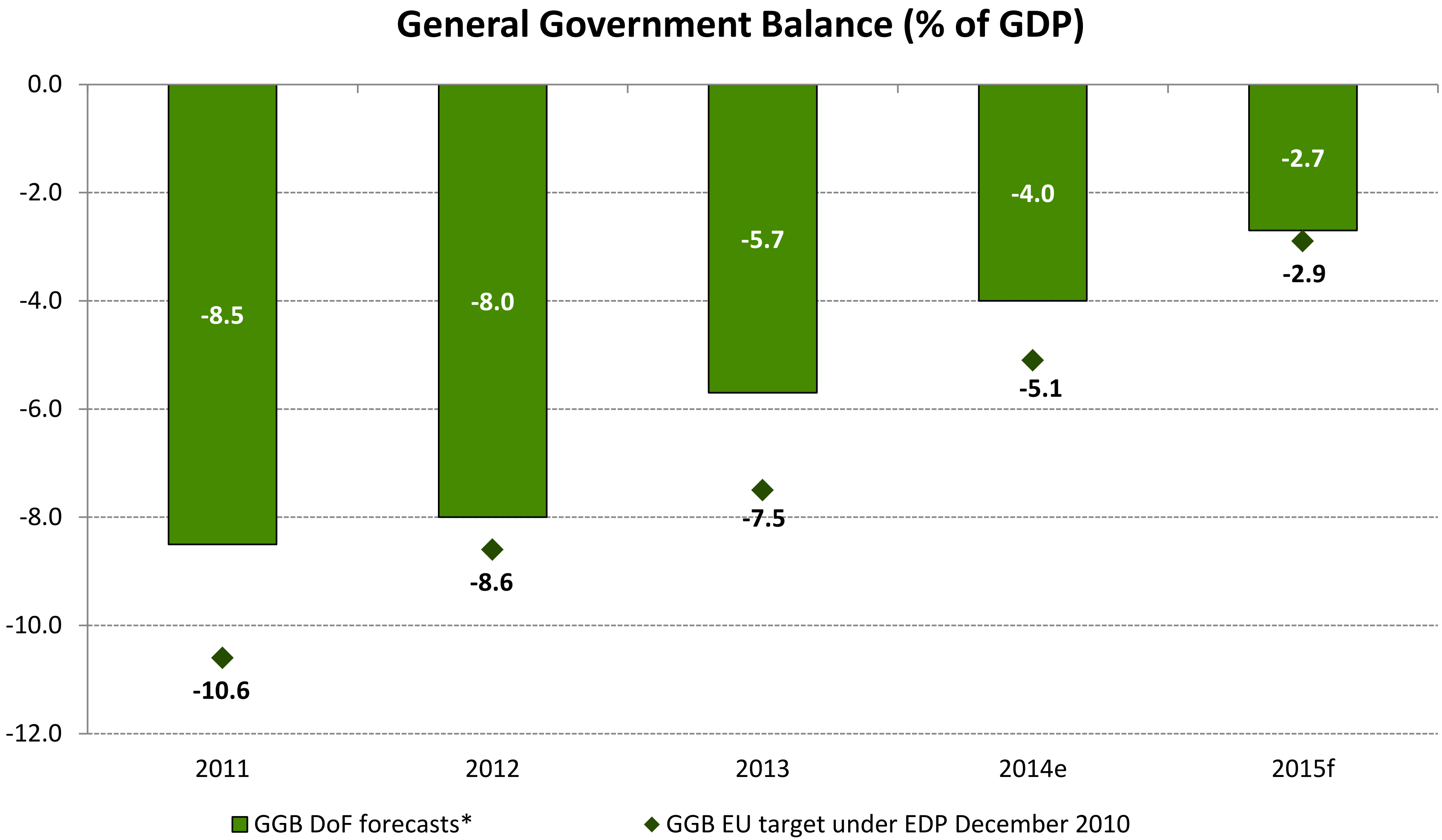


Breakdown of adjustment measures (€bn unless stated)

	2008	2009	2010	2011	2012	2013	2014	**2015f**
Revenue	0.0	5.6	0.0	1.4	1.6	1.4	0.9	**-0.4**
Expenditure	1.0	3.9	4.3	3.9	2.2	1.9	1.6	**-0.6**
Total	1.0	9.4	4.3	5.3	3.8	3.5	2.5	**-1.0**
Total (% of GDP)	0.6%	5.9%	2.7%	3.4%	2.4%	2.1%	1.8%	**-0.6%**
Progress to Date	**1.0**	**10.4**	**14.7**	**20.0**	**23.8**	**27.3**	**29.8**	**28.8**
Progress to Date (% of GDP)	0.6%	6.5%	9.2%	12.6%	15.0%	17.1%	18.9%	**18.3%**

Sources: Department of Finance: Budgets 2011-2015

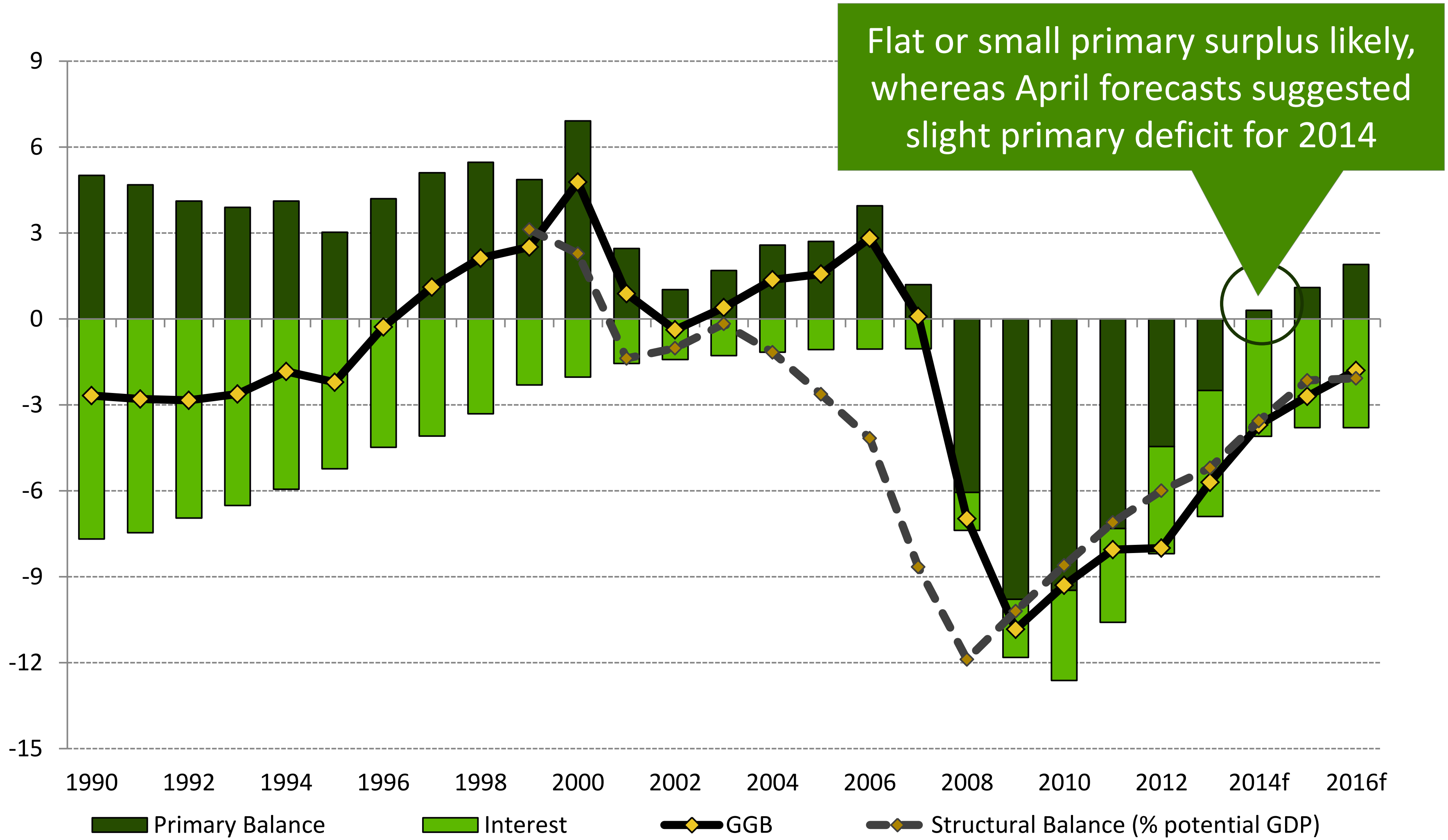
Four straight years of fiscal outperformance



Source: Department of Finance (Budget 2015) CSO; Eurostat; NTMA working

* 2011 – 2013 outturn calculated by NTMA using ESA 2010 compliant figures

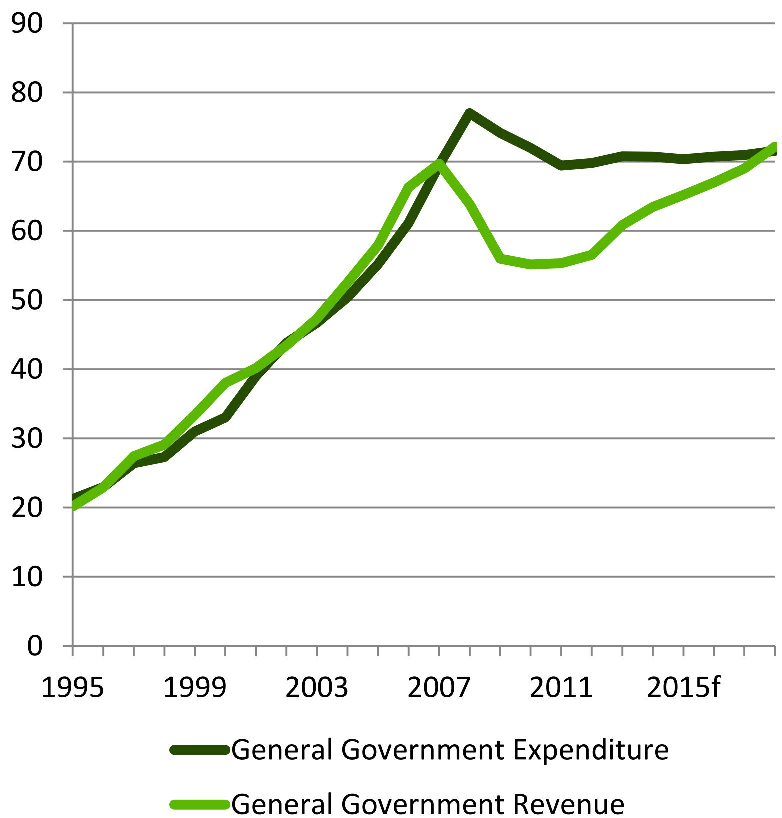
Ireland has confirmed debt sustainability: debt is falling naturally through “snowball” effect



Source: Department of Finance; Eurostat; IMF

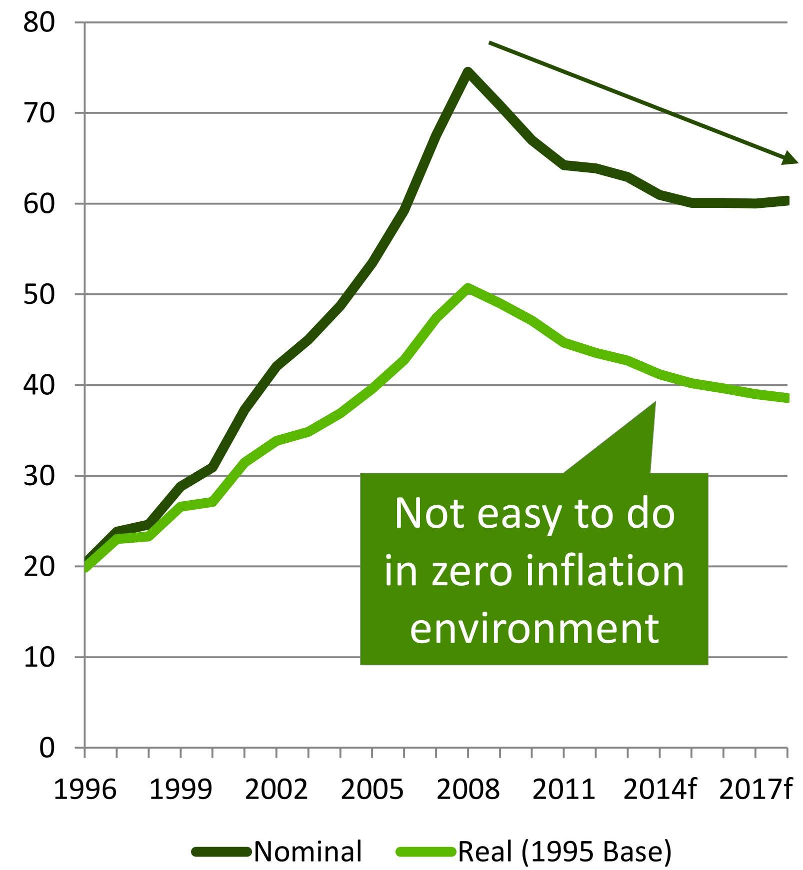
Ireland's mammoth fiscal turnaround

Deficit to be fully closed by 2018 (€bn)



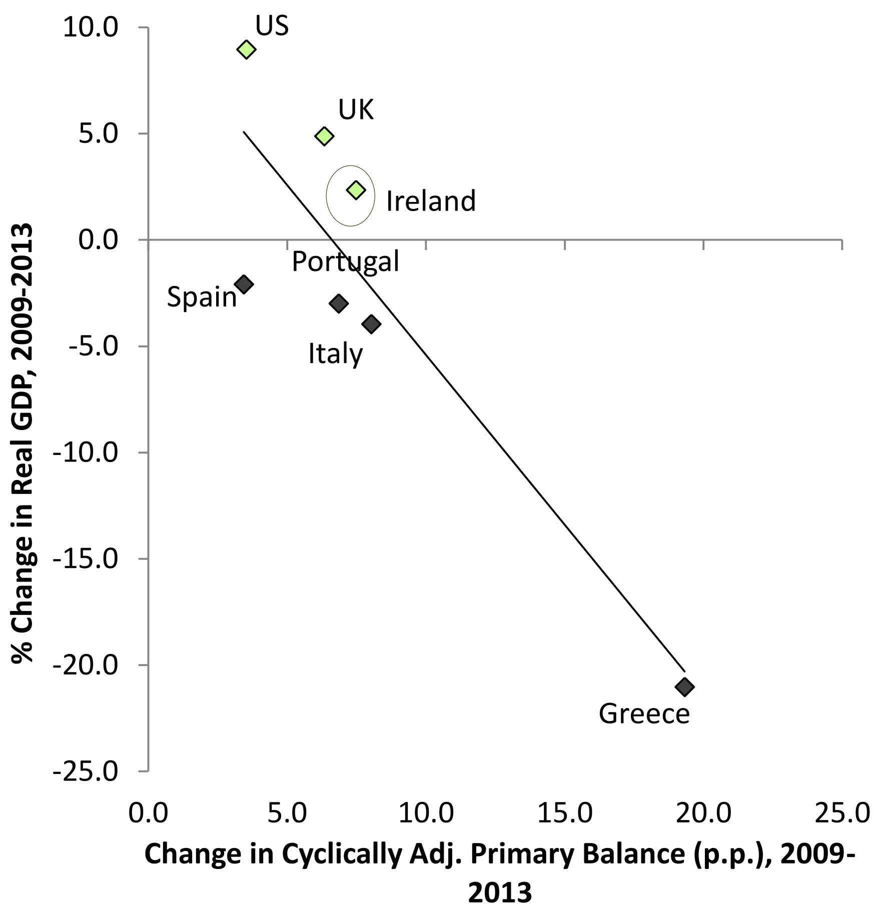
Source: CSO; Department of Finance

20% reduction in primary expenditure (€bn)



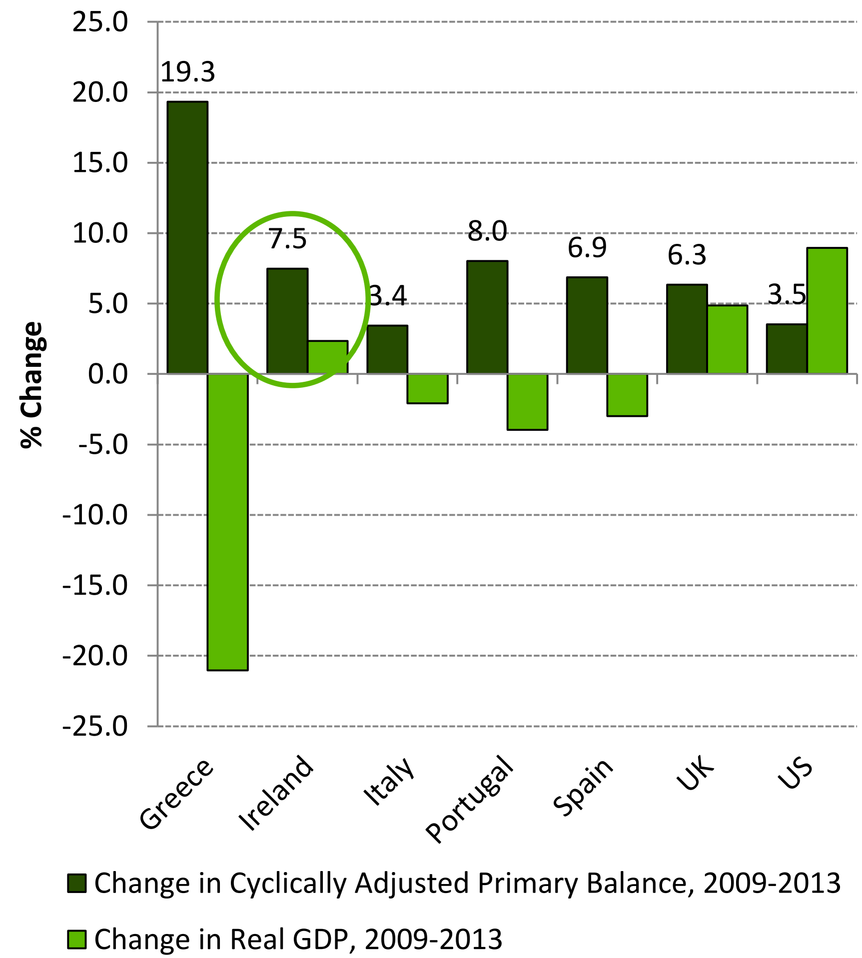
Ireland’s adjustment easier on GDP because of relatively lower fiscal multiplier – thanks to openness

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

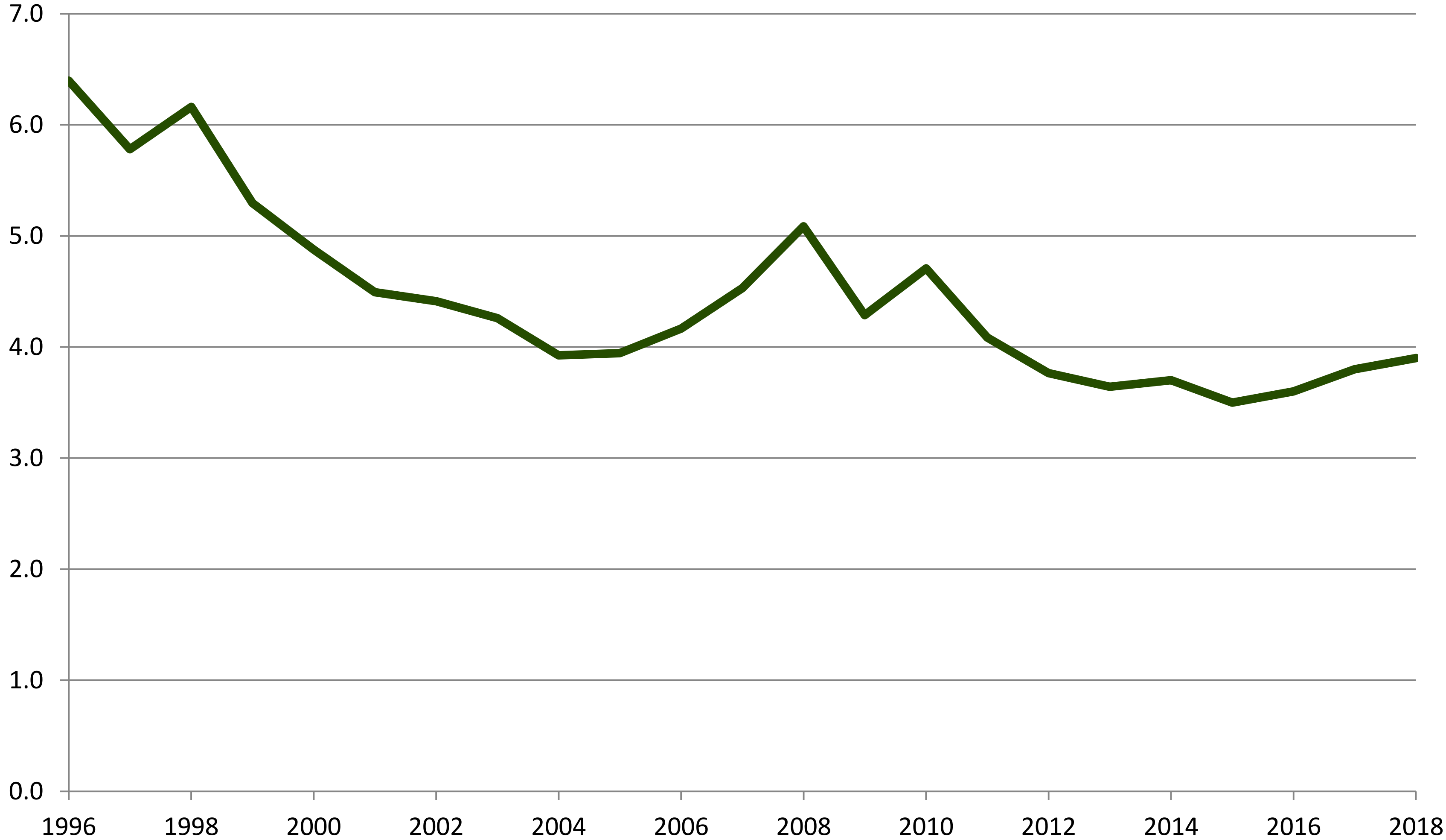


Source: IMF; NTMA

...while adjustment continues to deliver



Average interest on total Government debt below 4%; so interest rate-growth maths (i-g) in Ireland's favour



Source: Department of Finance forecasts; Datastream

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	0.6
• CBI income	3.9
• Bank Guarantee Income	4.2
• Net Interest (Interest receivable – interest payable*)	-3.6
Total	10.4

Valuation of Remaining Assets (€bn)	BOI	AIB	PTSB	Total
Equity (Government Stake)	1.4	N/A	N/A	N/A
Other (incl. preference shares)	-	N/A	N/A	N/A
Overall	1.4	11.7	N/A	13.1

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

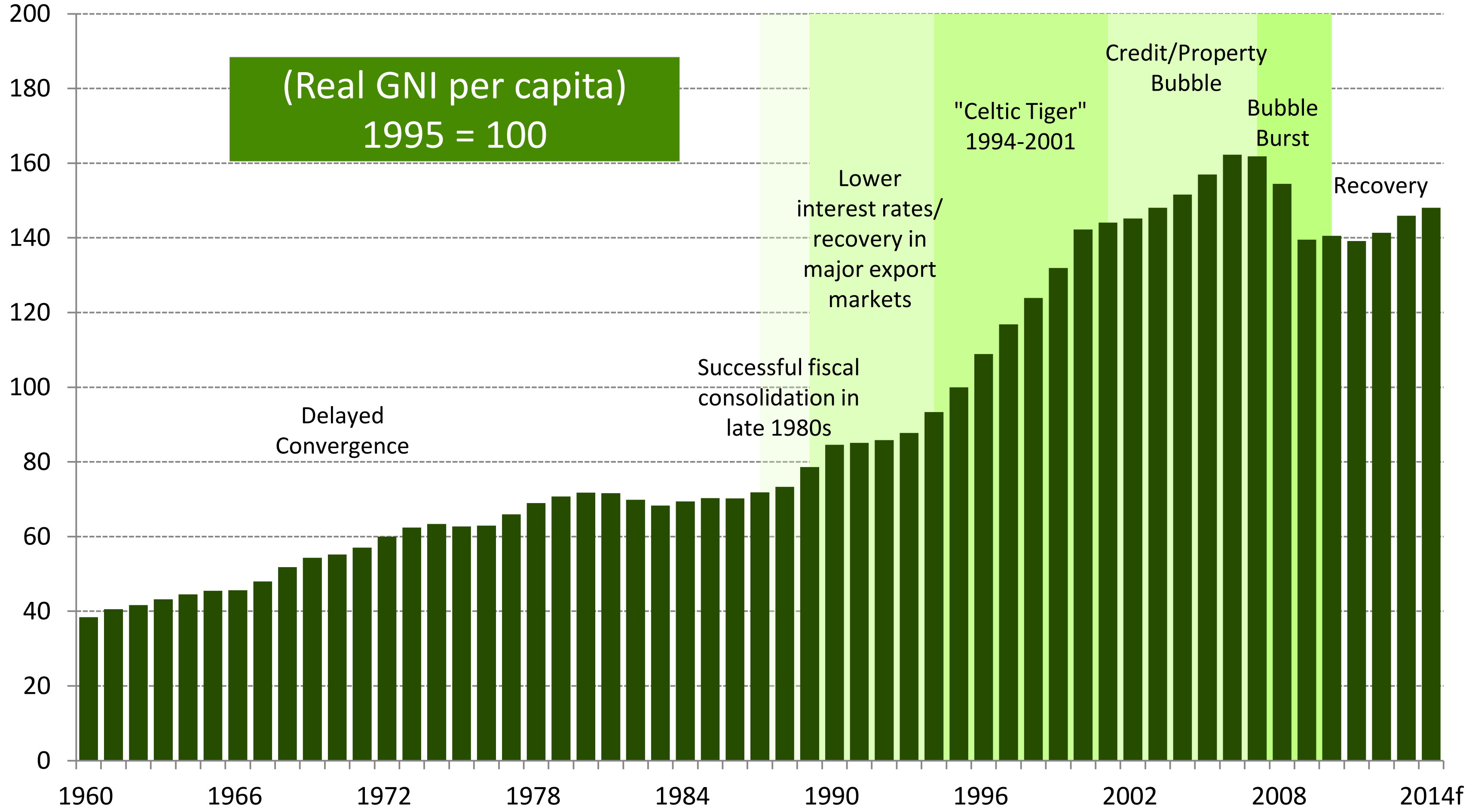
* Interest payable is estimated by the CSO as the bond risk premium paid by the Government for its banking support

Source: DoF; NPRF end-year accounts; CSO; NTMA analysis

SECTION 3: REBALANCING

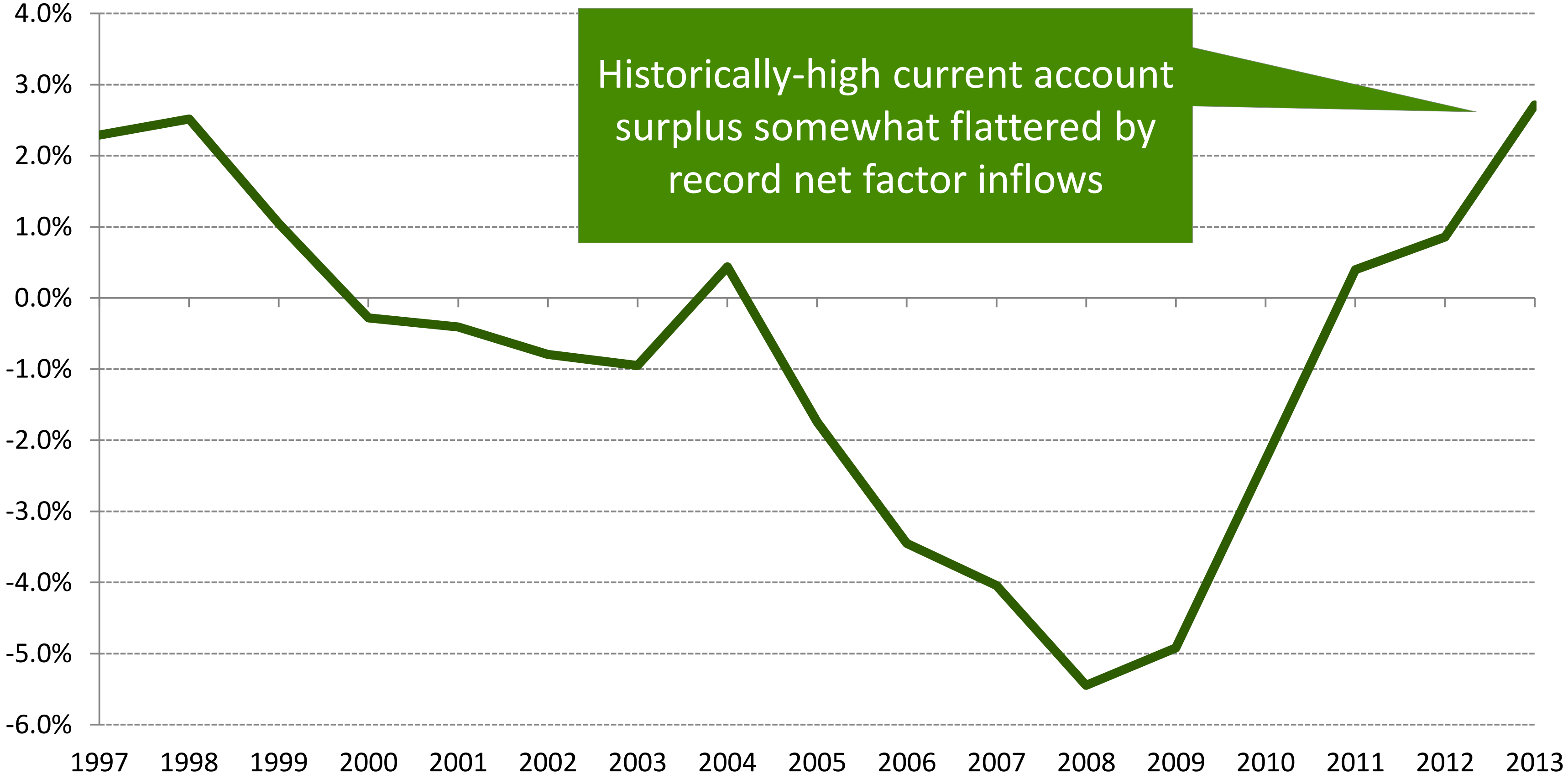
Ireland has accomplished the bulk of its “internal devaluation”: current account is in large surplus and price level is converging with EA average

Gains from 2001-07 bubble largely lost, but fruits of 1994-2001 “Celtic Tiger” remain



Sources: CSO

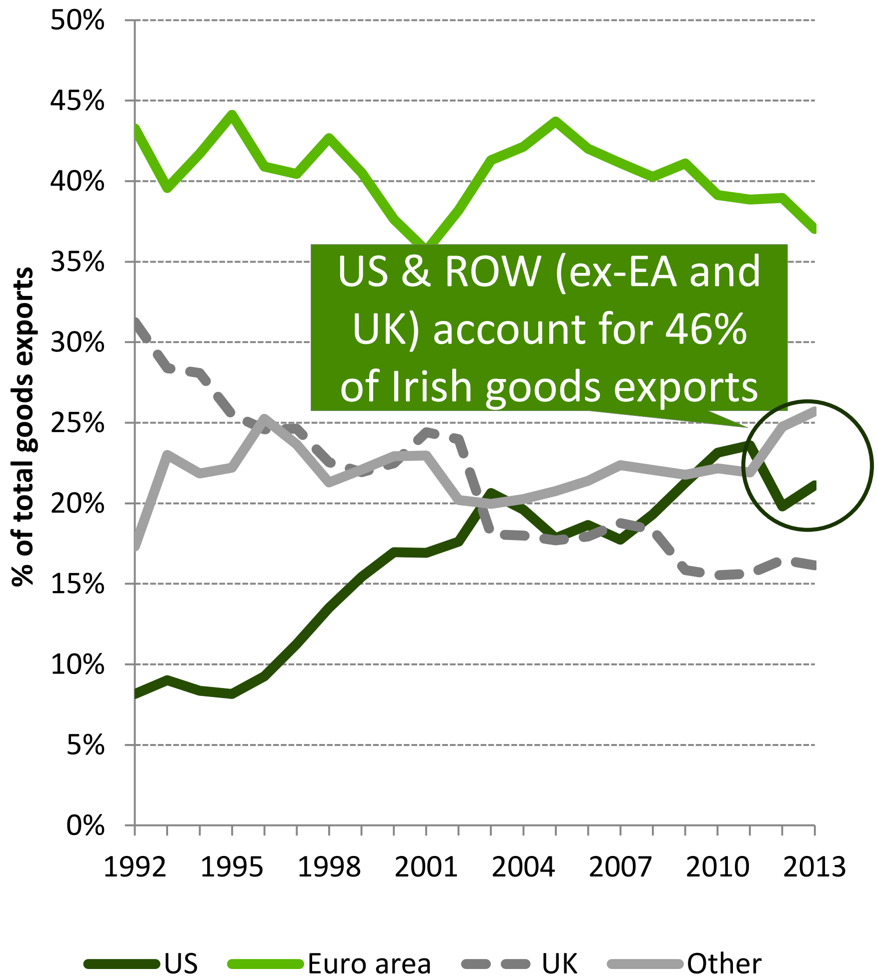
Ireland's BoP current account surplus reflects large-scale rebalancing of economy (% GDP)



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 export diversification by destination; and openness relative to other non-cores



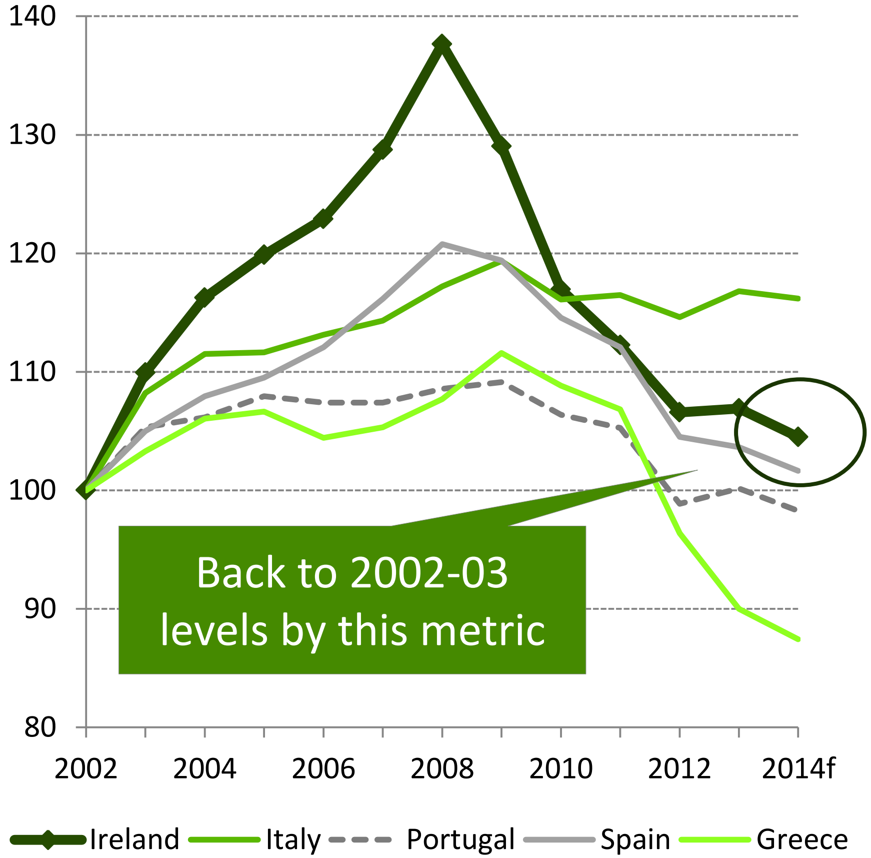
Source: CSO

	Exports (%GDP) 1999	Exports (%GDP) 2013
Ireland	87	**105**
Spain	27	34
Italy	24	30
Portugal	27	41
Belgium	70	86

Source: Datastream (value of exports)

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

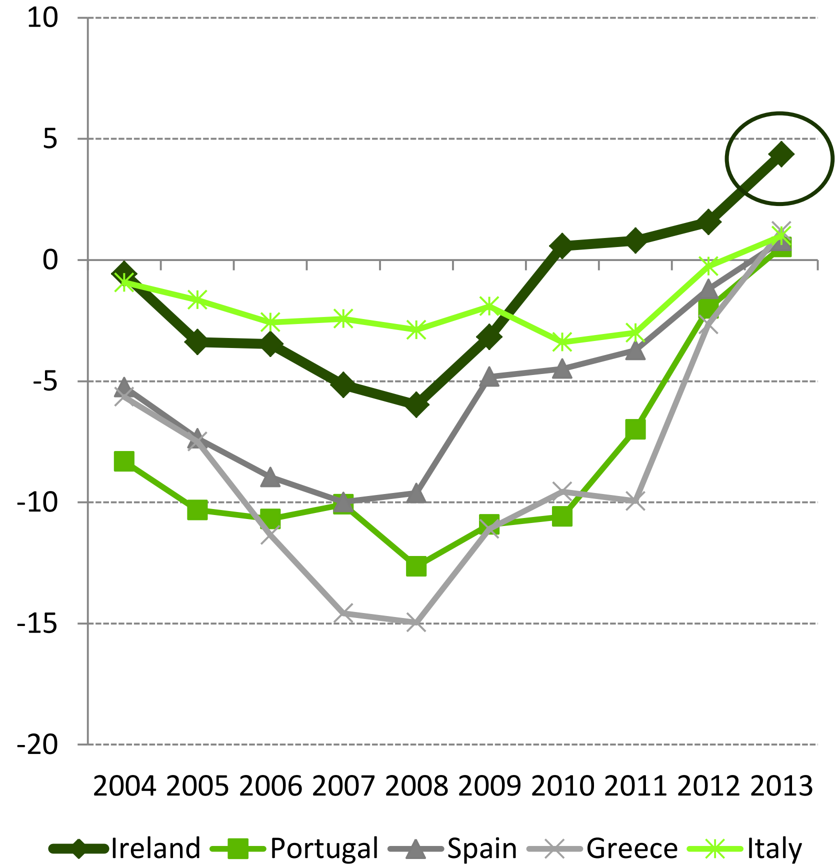
Relative Real Effective Exchange Rates have corrected sharply (Base:2002=100)



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; NTMA Workings

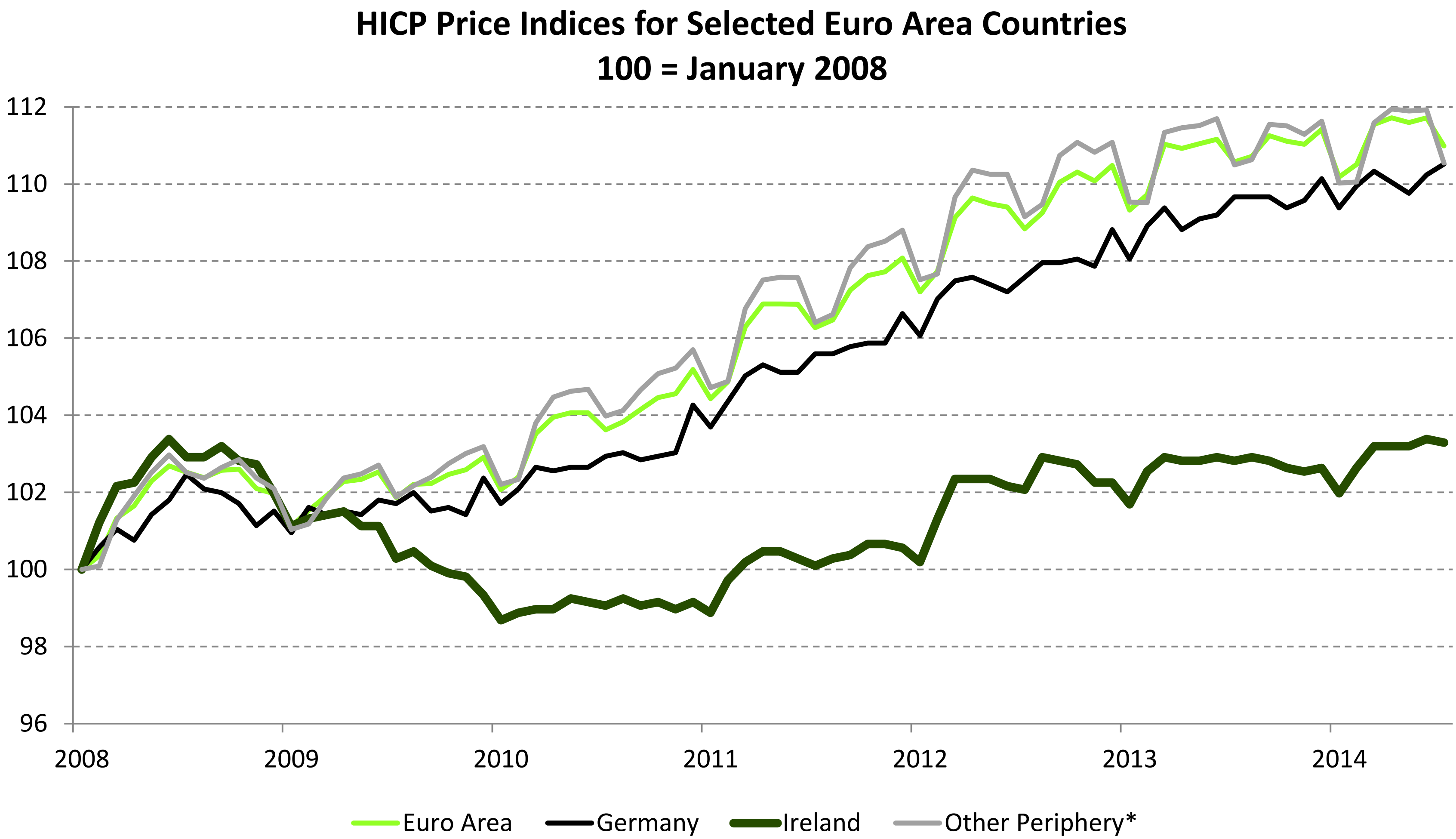
Note Ireland's CA Balance re-calculated using ESA 2010 compliant GDP series

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

Sources: Eurostat; NTMA workings

Note: Price levels are based on household final consumption expenditure including indirect taxes

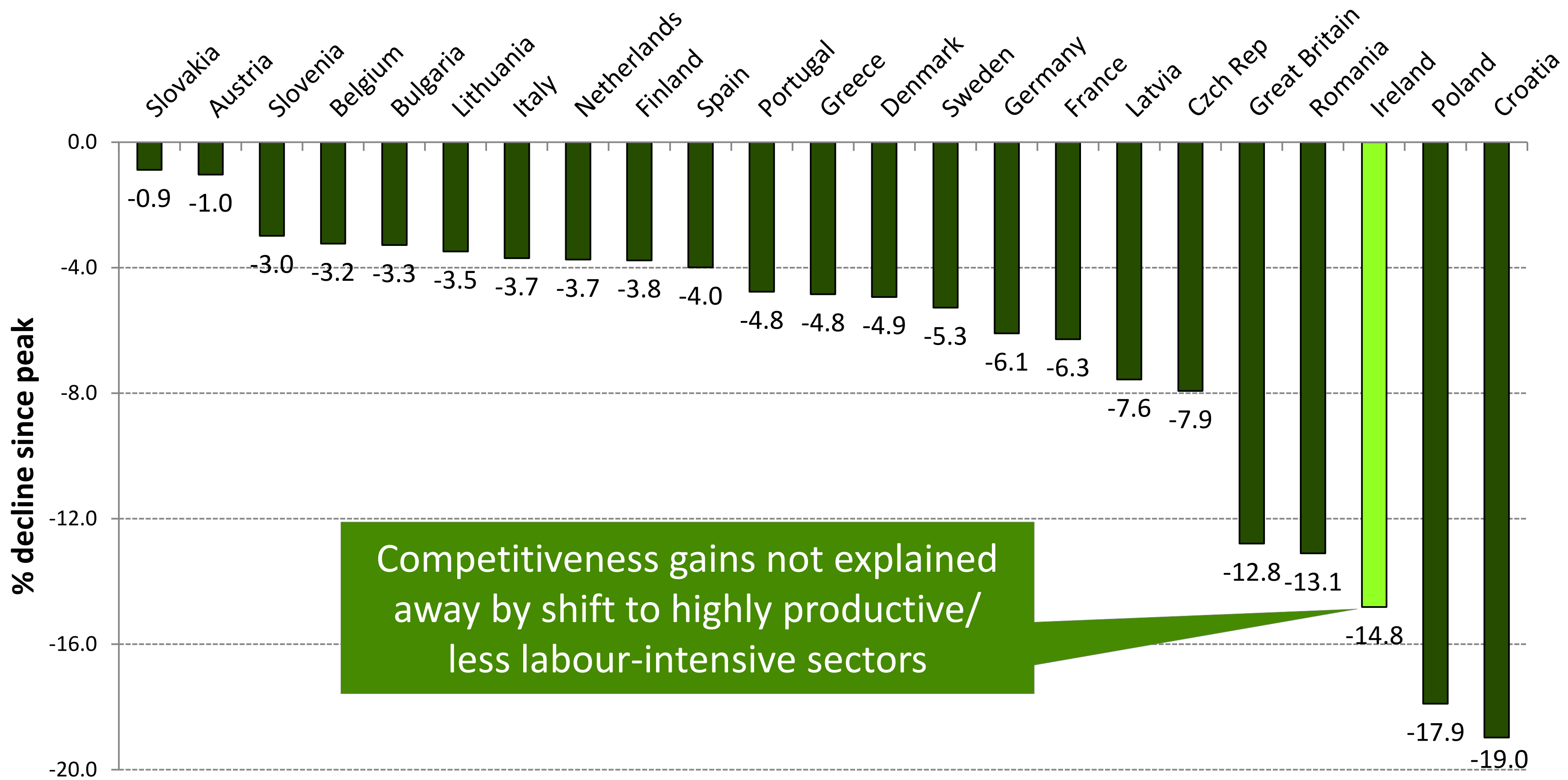
Ireland's price competitiveness recovery since 2008 outperforms other periphery countries



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

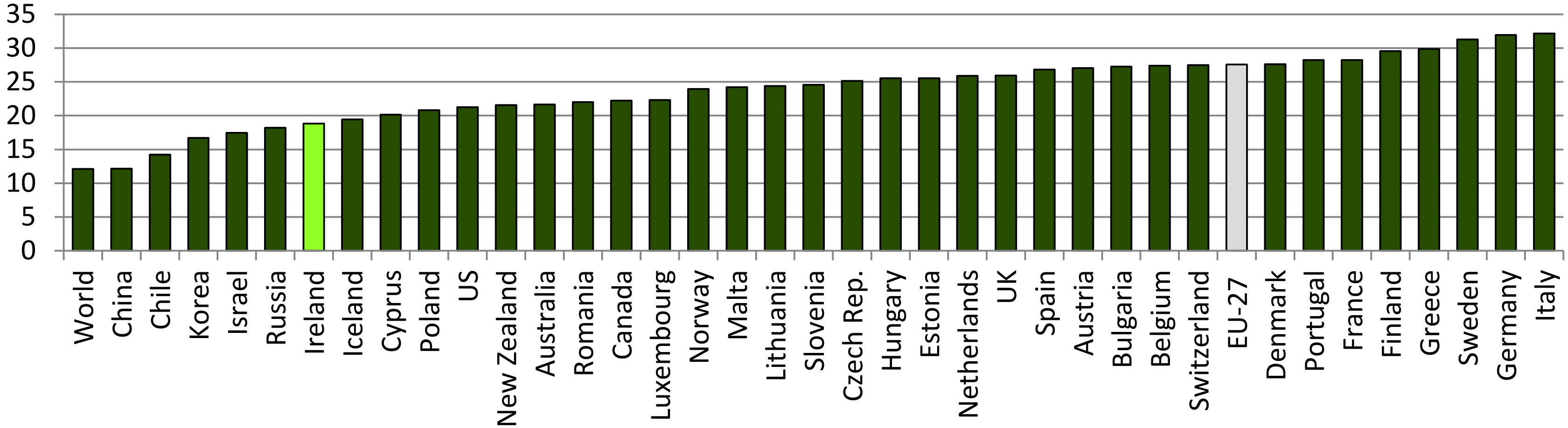


Source: Bruegel, 2014. 'Real effective exchange rates for 178 countries: a new database'

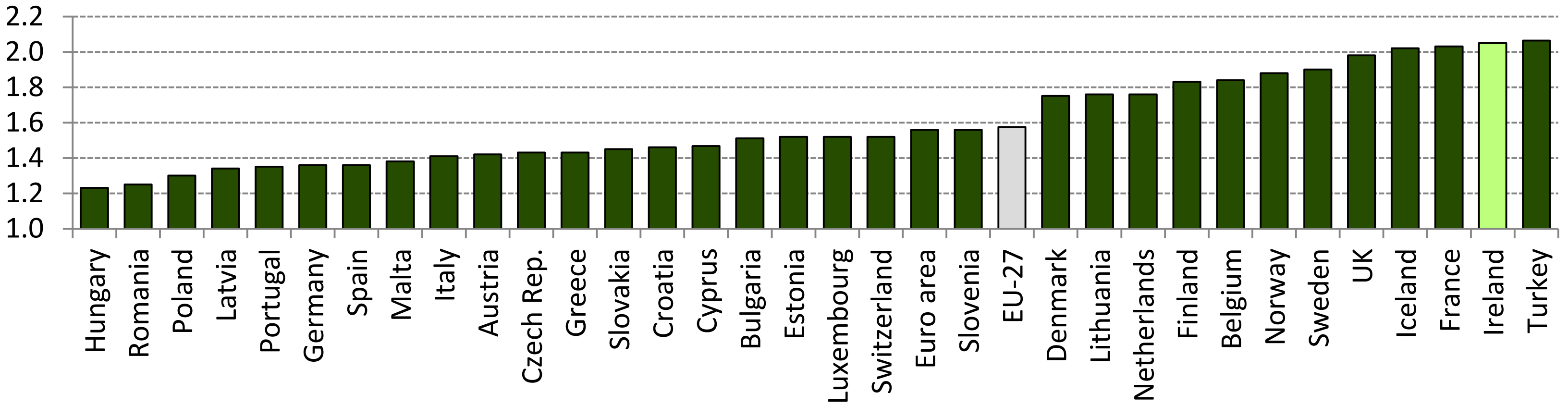
Note: REERs cover business sector excluding agriculture, construction and real estate activities and are calculated against 30 trading partners using fixed weights from Q1 2008. Data available to **Q1 2014**. See Darvas, Z (2012) for more details.

Favourable population characteristics underpin debt sustainability over longer term

Old Dependency ratio (65+ : ages 15-64) compares well against OECD/Europe countries

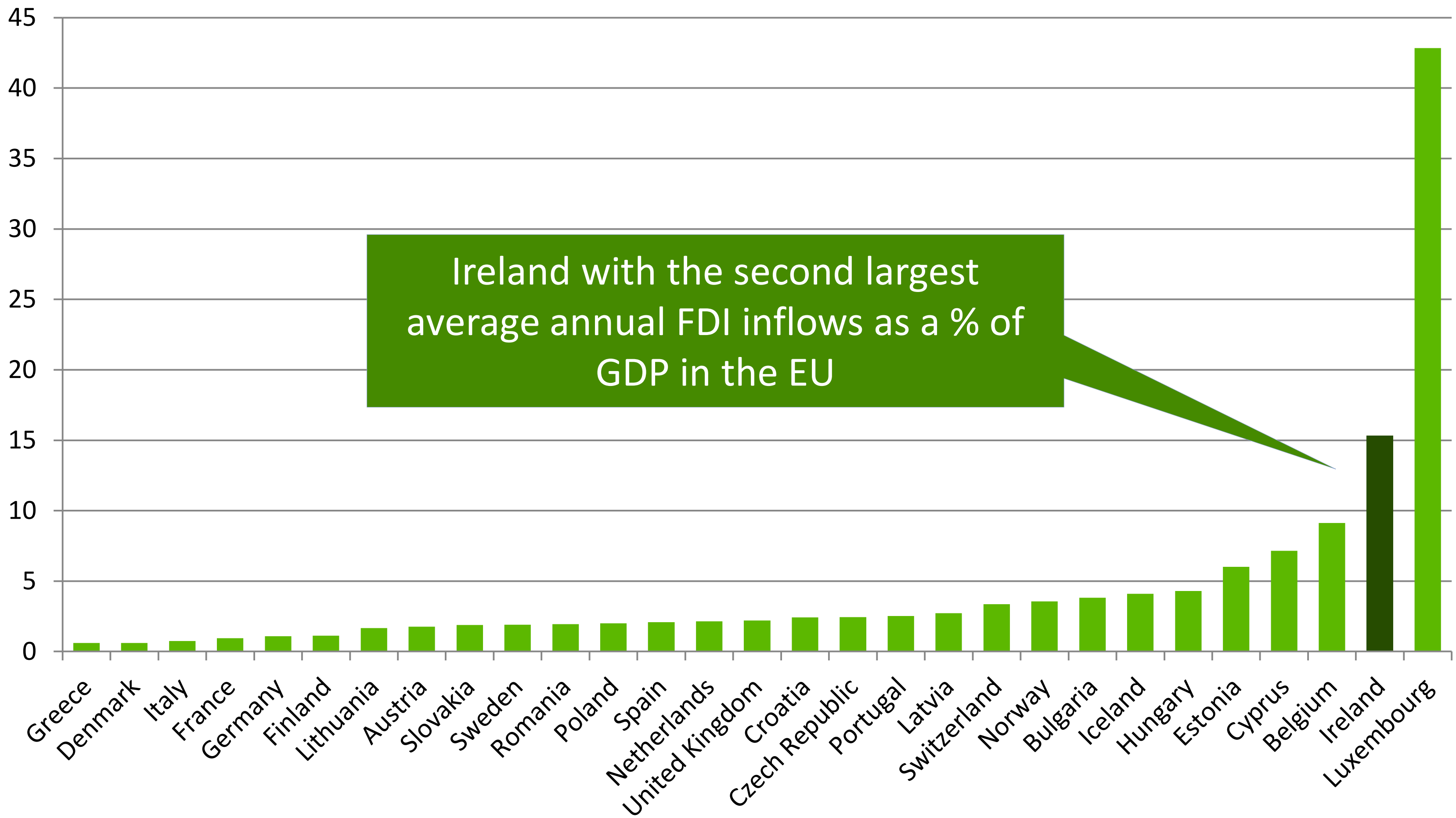


Fertility rates in Ireland are above typical international replacement rates



Sources: World Bank WDI; OECD

Ireland continues to attract foreign investment (average FDI inflows per annum as a share of GDP, 2009 – 2013)



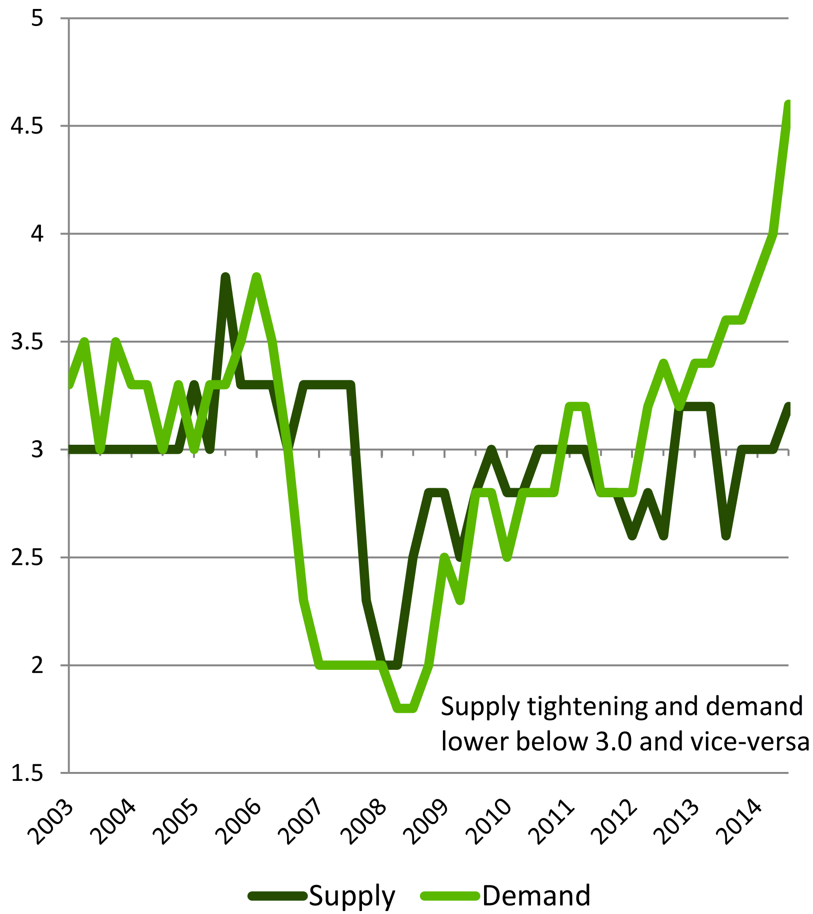
Sources: UNCTADStat

SECTION 4: PROPERTY

House prices rose rapidly from a low base in 2014, thanks to lack of supply and increased demand; prime commercial property surge continues

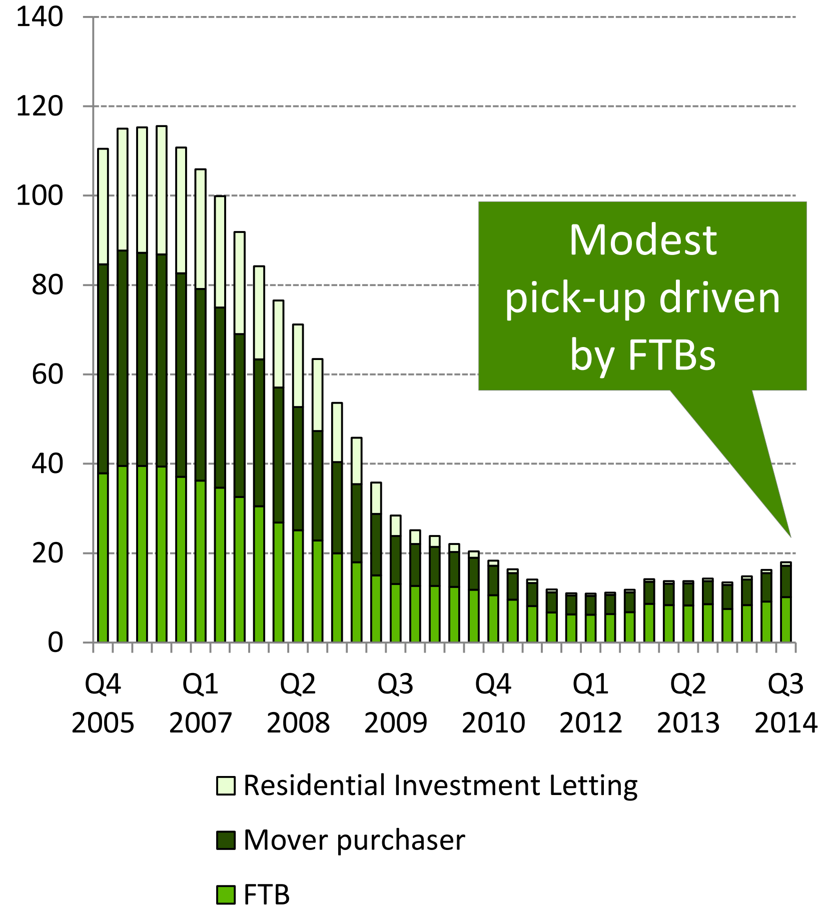
Mortgage demand rises for six consecutive quarters; credit standards stable in 2014

Demand conditions improving; credit standards tight but stable



Source: ECB and CBI (Bank lending survey)

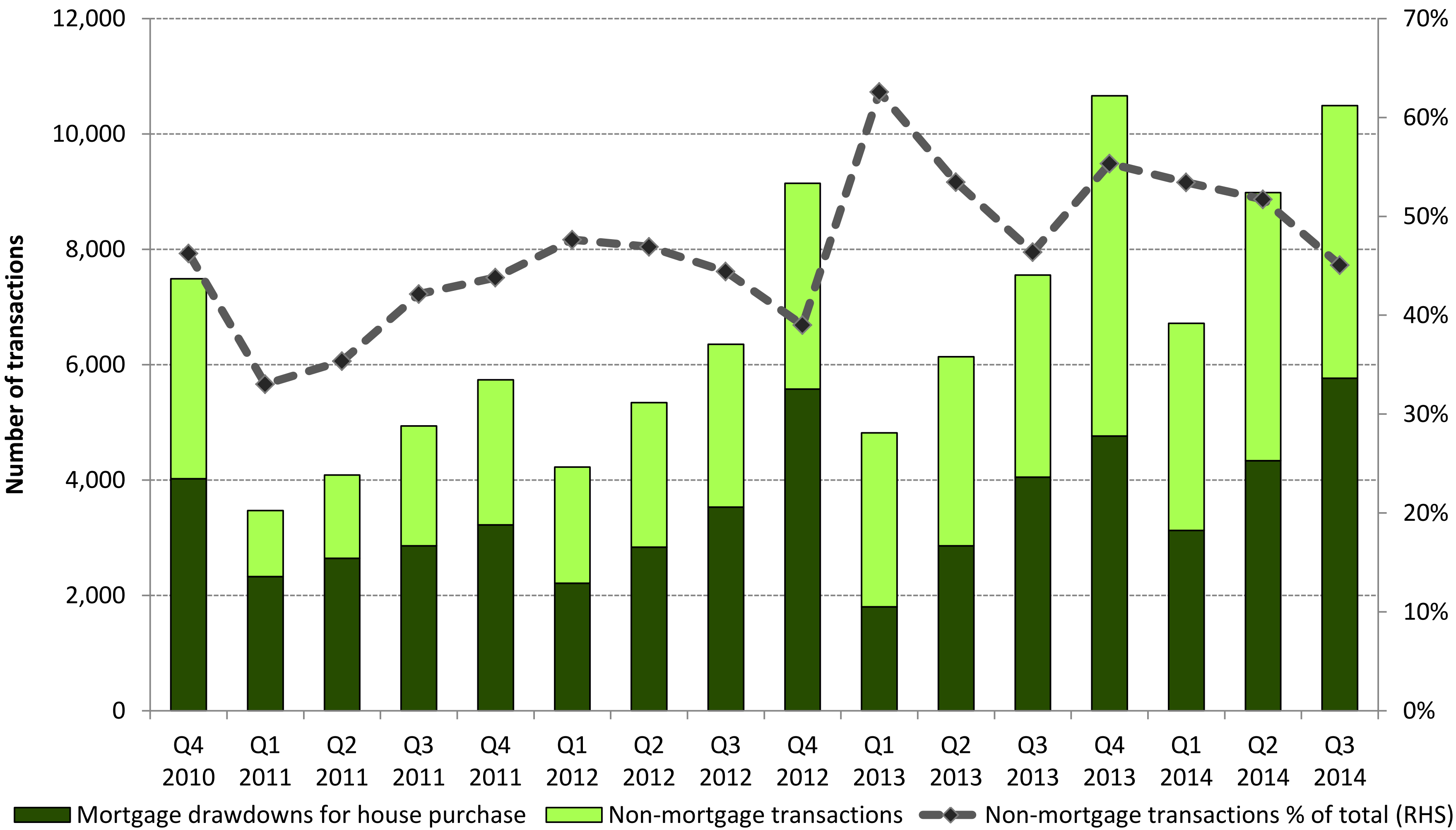
Mortgage drawdowns risen but from very low base ('000s)



Source: Irish Banking Federation

FTBs = First Time Buyers

Residential market continues to be boosted by non-mortgage purchasers

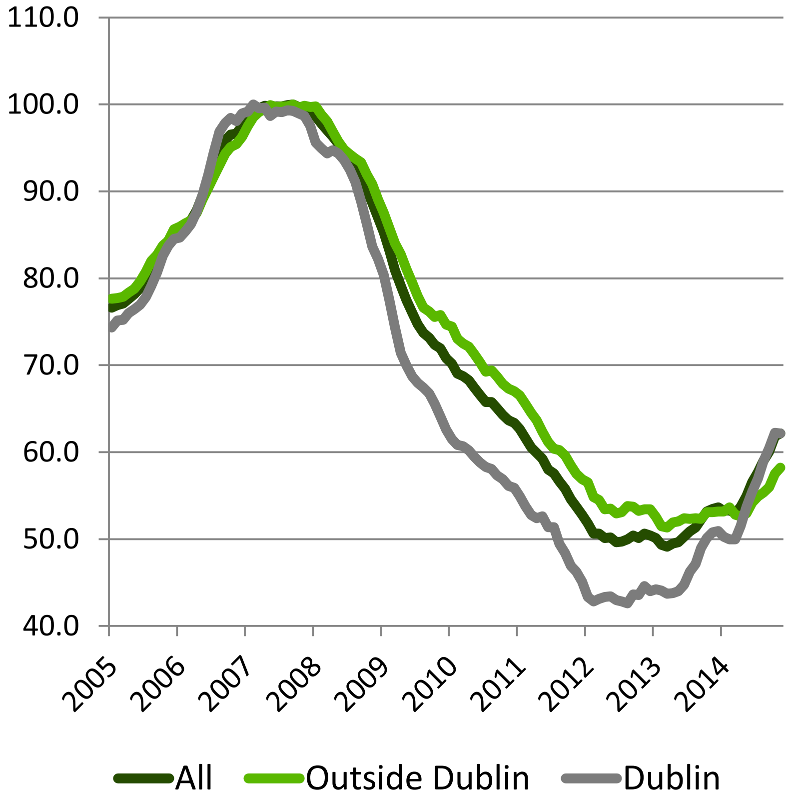


Sources: IBF; DoECLG; Property Services Regulatory Authority; NTMA

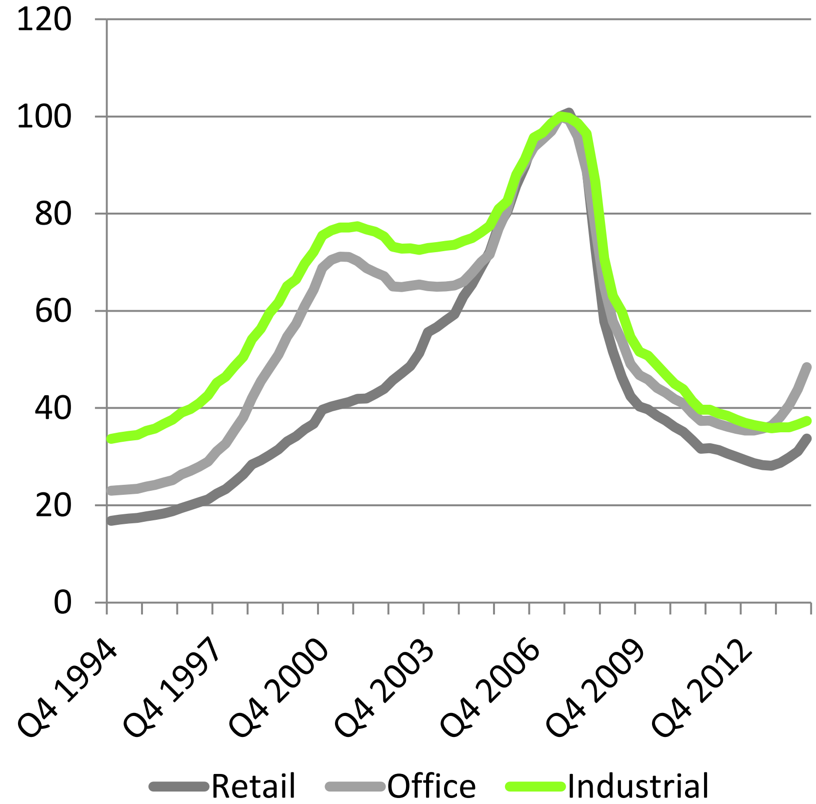
Note: Non-mortgage transactions are implied by difference between total transactions on property price register and IBF mortgage data

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

House prices surge, led by Dublin



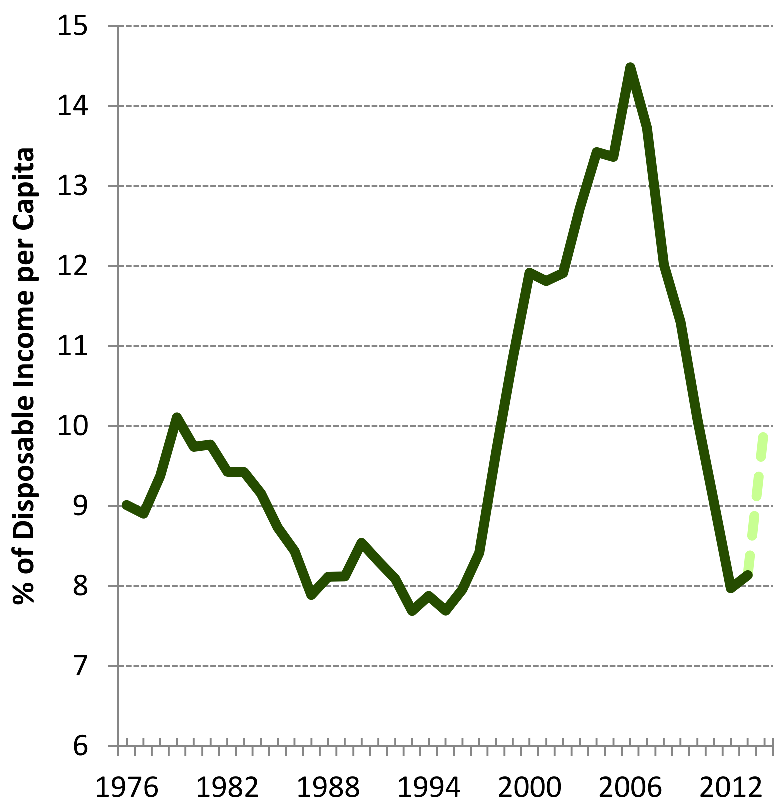
Office leads commercial property



Sources: CSO; IPD

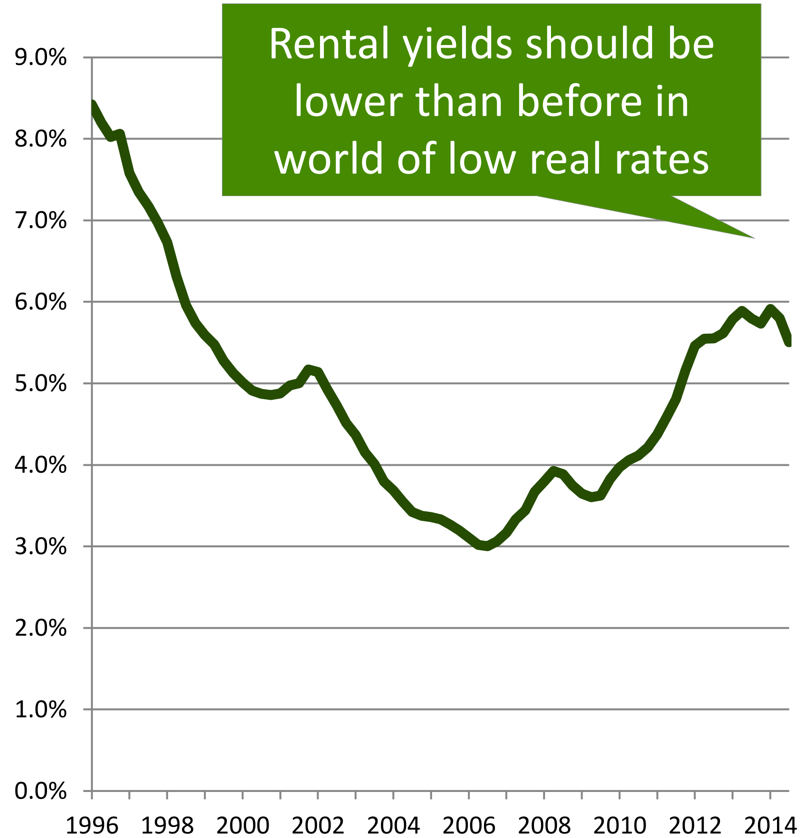
Housing valuations are attractive

Valuations attractive on prices/disp. income per capita basis

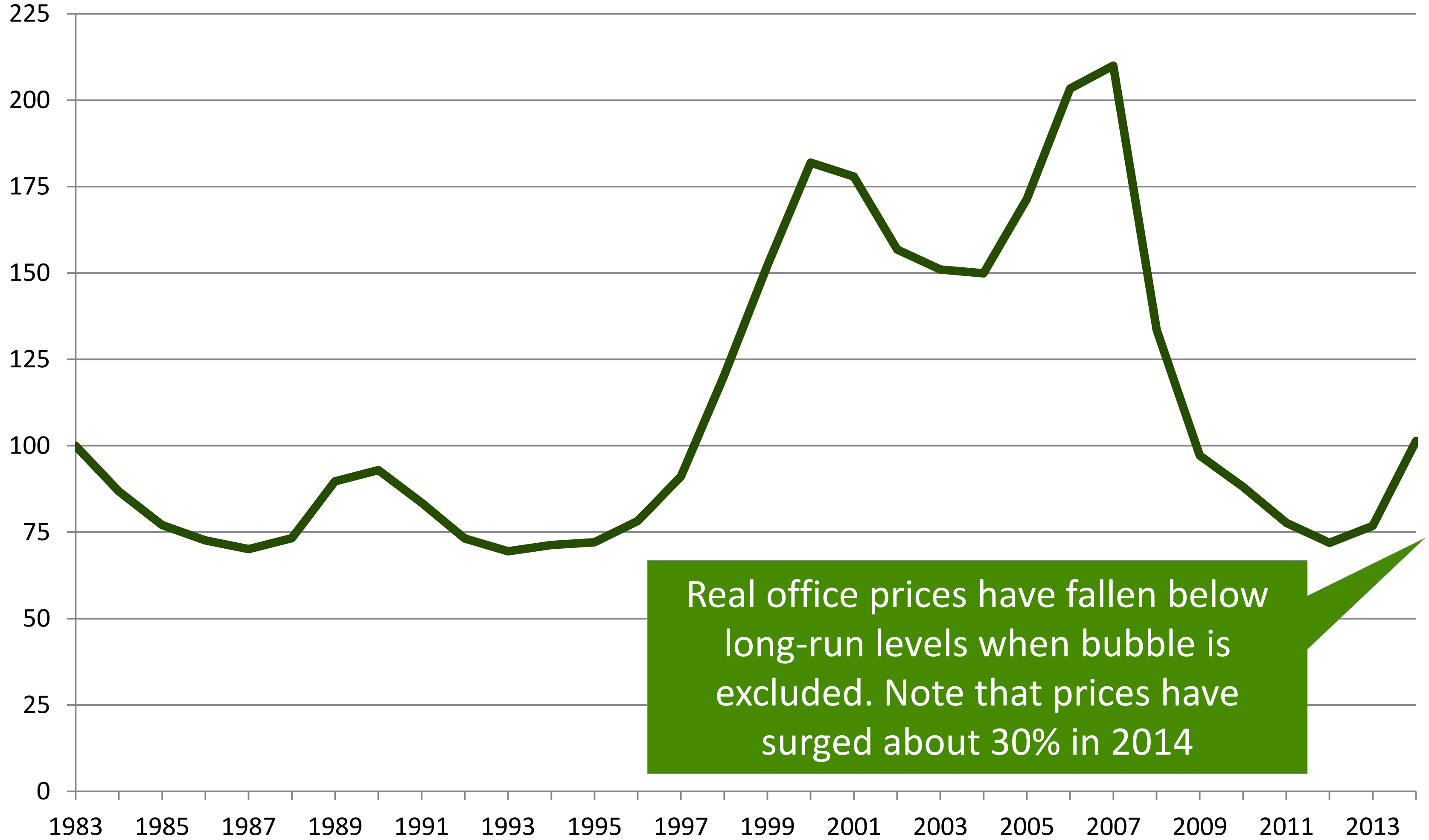


Sources: CSO; NTMA
Note: Dotted line is probable end-2014

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



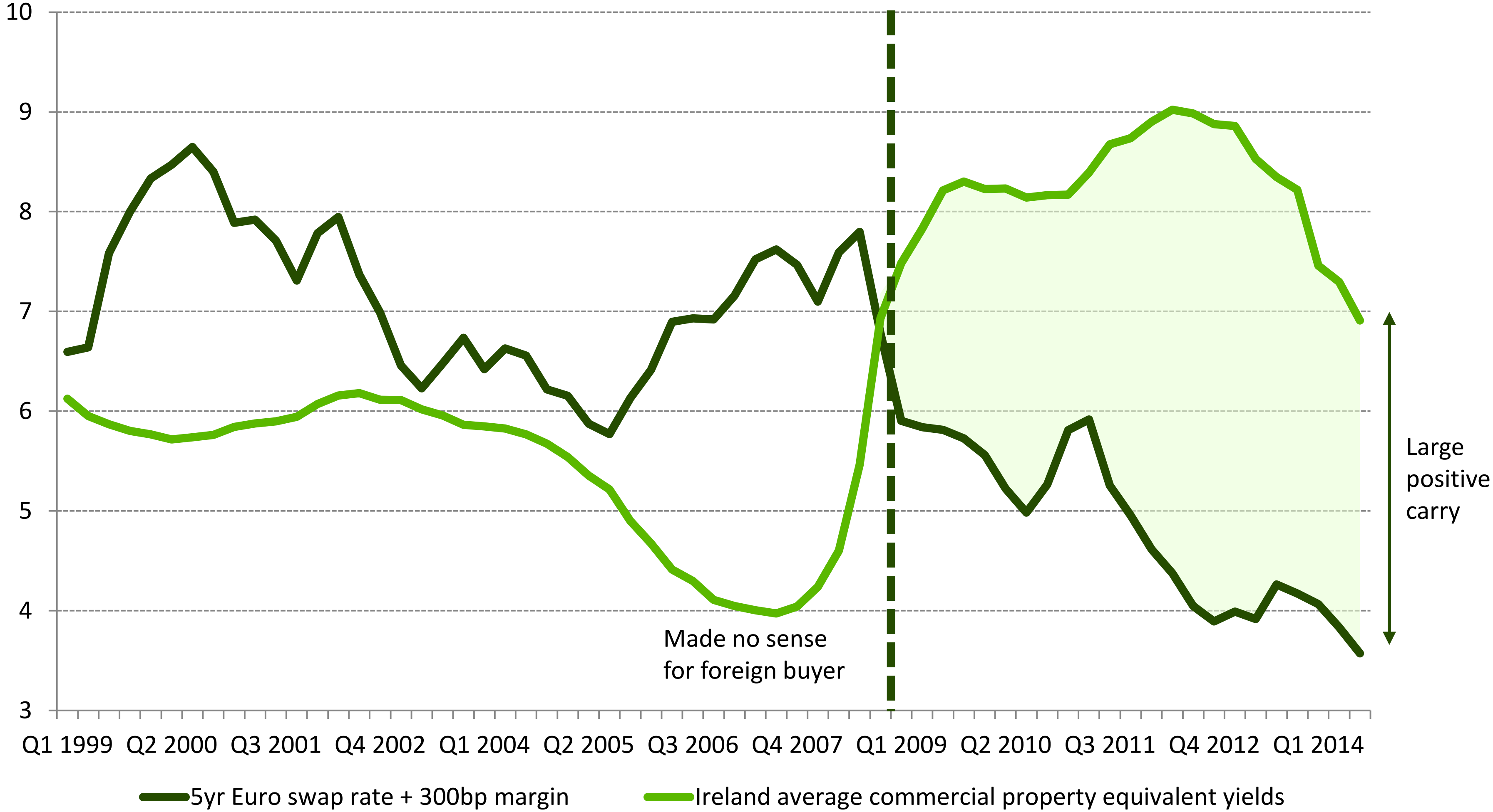
Real commercial property prices as of H1 2014 were down 57 per cent from their peak (index 1983 = 100)



Source: IPD; NTMA

* 2014 figure is an annualised estimate based on the quarterly growth rates for H1 2014

Foreign buyers interested on valuation grounds



Source: IPD; NTMA

SECTION 5: NAMA

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

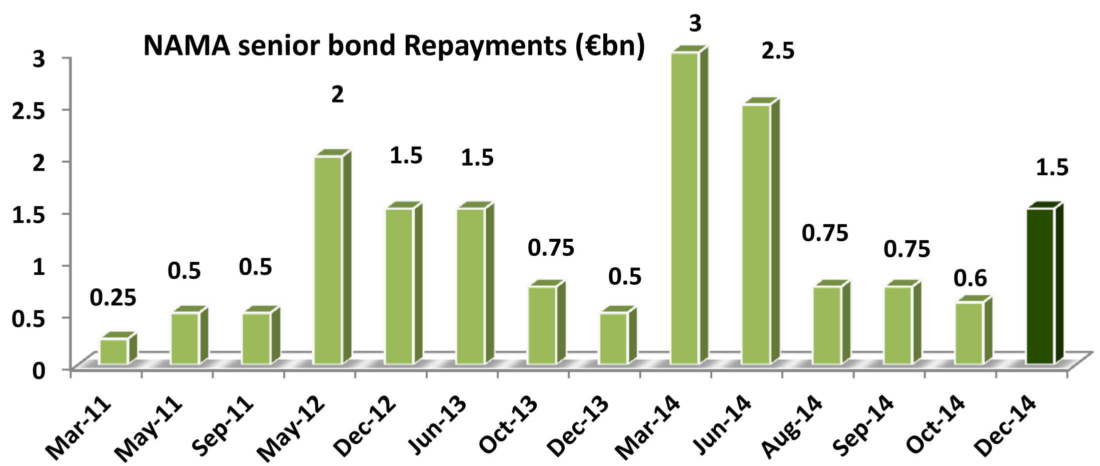
NAMA: Over half of its original debt repaid

- **NAMA's operating performance is strong**
  - Successfully acquired 12,000 loans (over 60,000 saleable property units) related to **€74bn** par of loans of 758 debtors for **€32bn**
  - 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, some 40,000 credit decisions made; completed property and loan Sales of €18.7 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 €16.5bn (55%) of €30.2bn of original senior debt**
  - Repaid €9.1bn in 2014, having met Troika target of €7.5bn by end-2013
- **Financing Strategy**
  - Approved advances of over €3.2bn 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 in Ireland.

NAMA: Financial summary
2011 – 2014 Q1-Q3 financial results (€m)

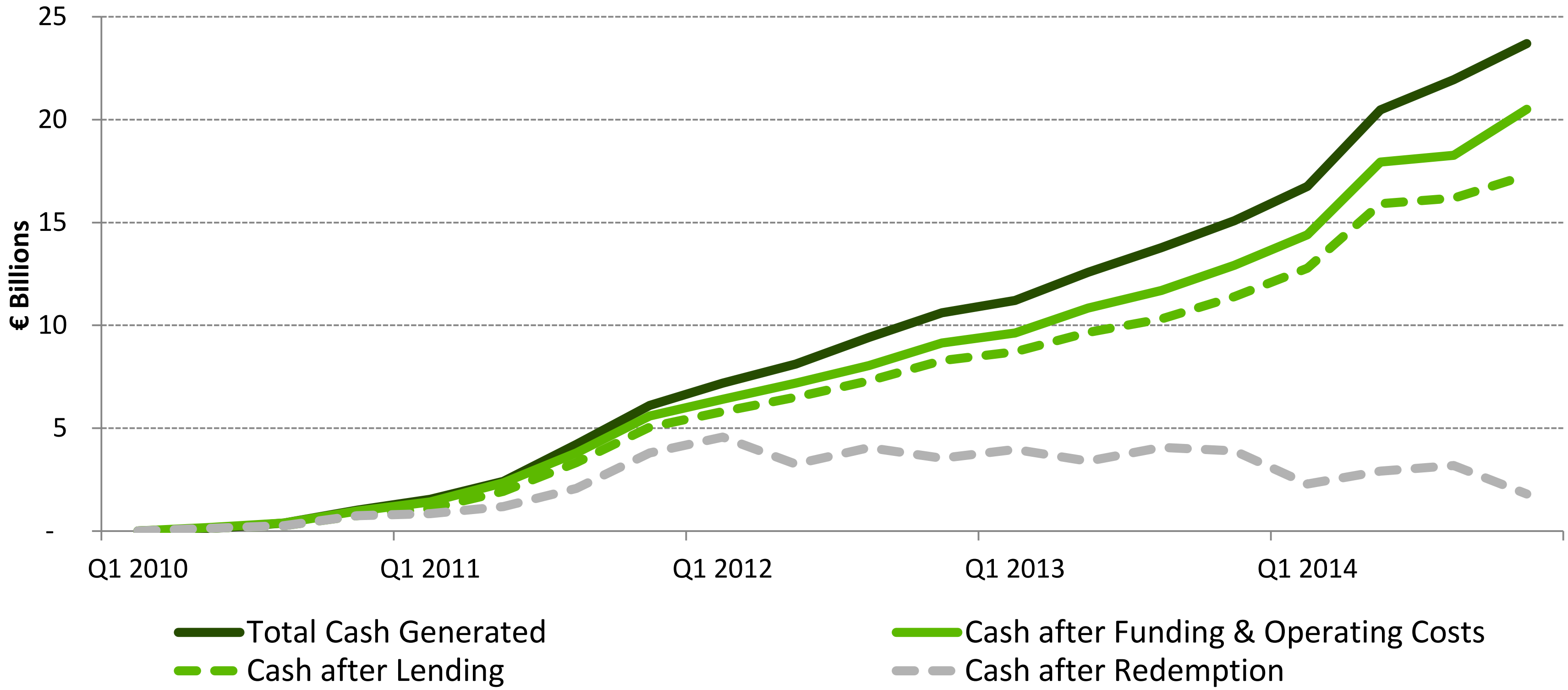
	2011	2012	2013	2014 Q1-Q3
Net interest income	771	894	960	525
Operating profit before impairment	1,278	826	1,198	145
Impairment charges	(1,267)	(518)	(914)	(57)
Profit before tax and dividends	11	308	284	89
Tax (charge)/credit and dividends	230	(80)	(73)	45
Profit for the year	**241**	**228**	**211**	**134**

Source: NAMA



- **NAMA continues to generate net profits after impairment charges**, despite unfavourable market movements
- 2014 Q1-Q3 Operating Profits and impairment charges much lower than previous years
- €9.1bn of NAMA senior bonds redeemed in 2014 bringing total amount redeemed to €16.6bn (55% of Agency's senior debt liabilities)
- **All of €30.2bn in NAMA senior bonds expected to be redeemed by 2020**

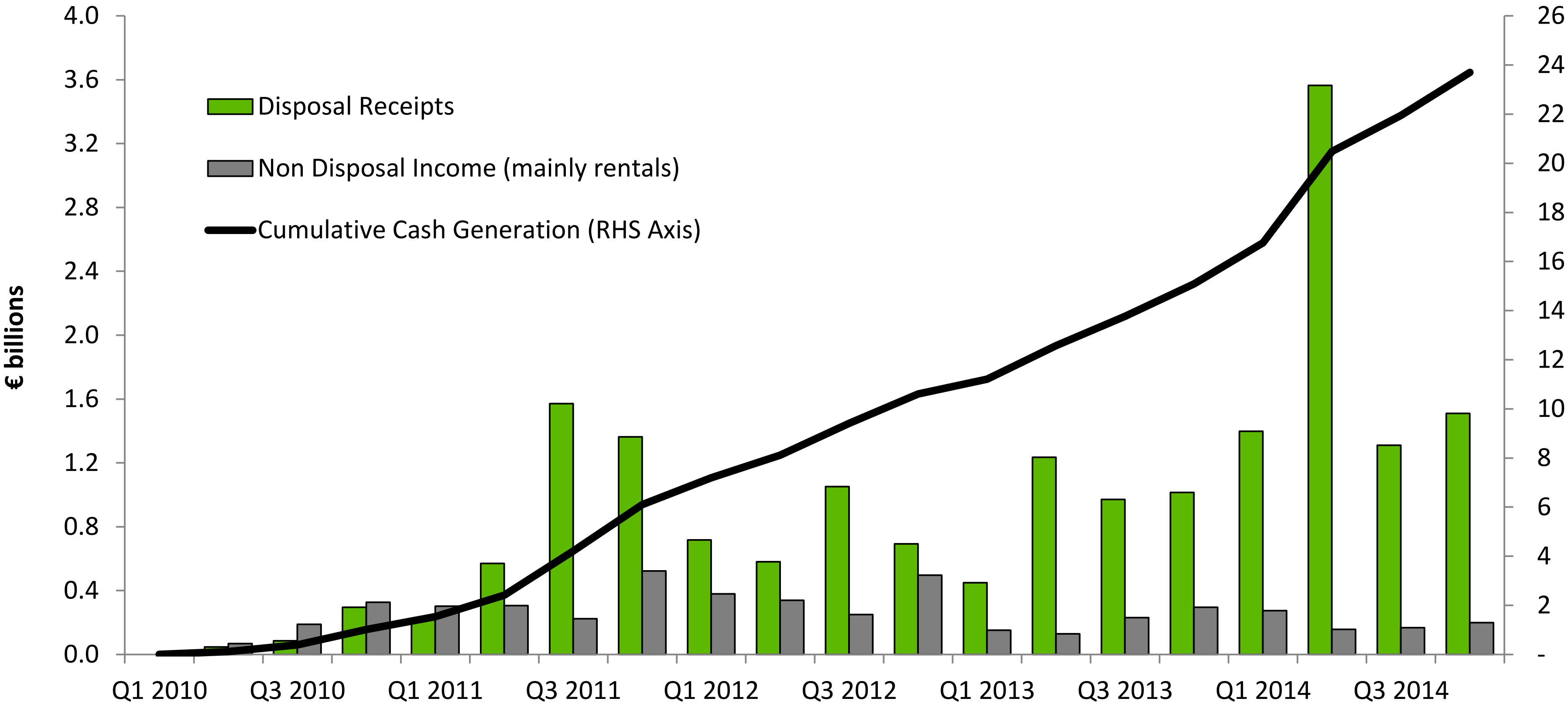
NAMA: Summary of cash flows from inception



Source: NAMA

- **Total cash generated of €23.7bn from inception to end-2014**
  - Disposal proceeds €18.1bn to date
  - NAMA senior debt redemptions of €16.6bn by end-2014
  - Lending disbursement (new advances) of €3.2bn
  - Latest cash and equivalent balances of €1.8bn

NAMA: disposal v. non-disposal income, to end 2014



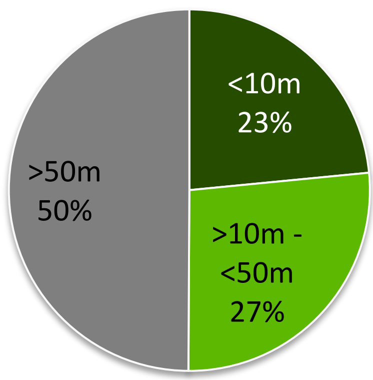
Source: NAMA

- **Note the high level of non-disposal income**
  - Cash generation is very important to NAMA's future strategy
  - €5bn in non-disposal cash generated (mainly rental income, despite the sale of €18.7bn of assets and loans)

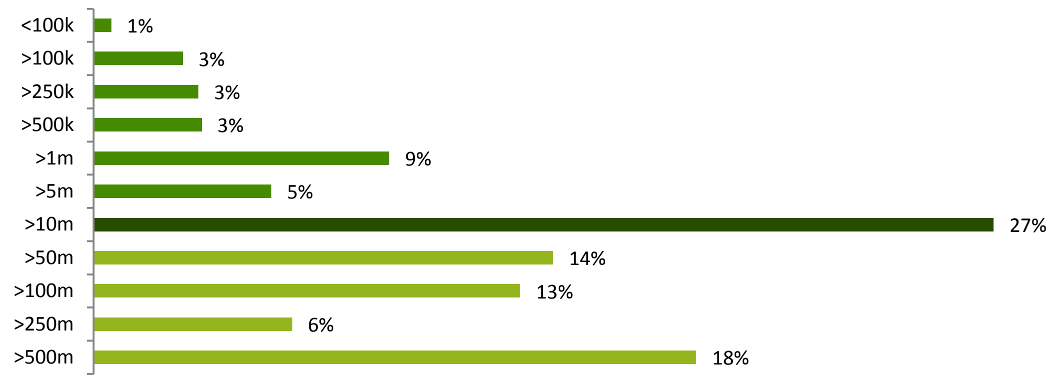
Disposal transaction analysis – inception to November 2014

	< €10m	>10m - <50m	> €50m	Total
Total Disposals (€m)	4,329	4,913	9,211	18,453
No. of Transactions	8,020	232	58	8,310
Average Disposal Value (€000s)	540	21,176	158,808	2,221

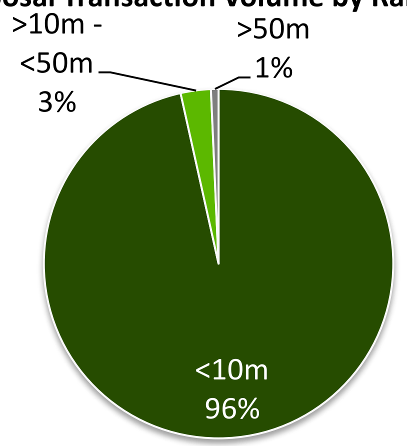
Disposal Proceeds by Value Range



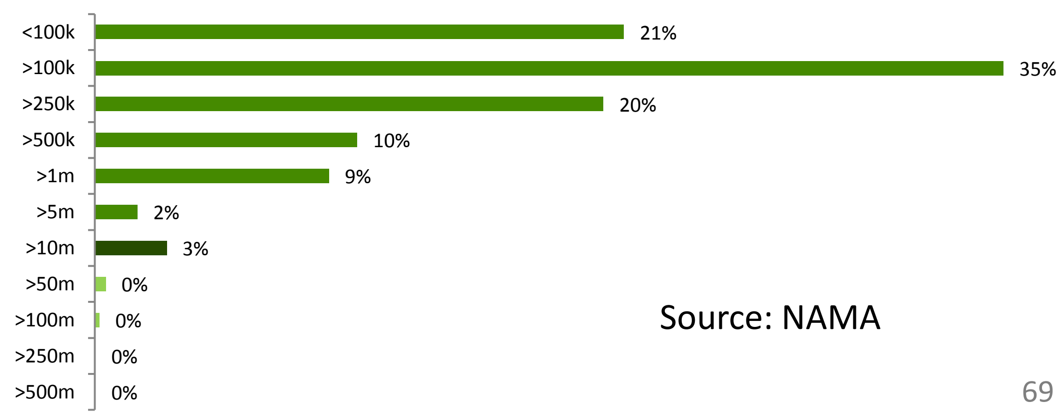
Disposal Proceeds Value by Range



Disposal Transaction Volume by Range

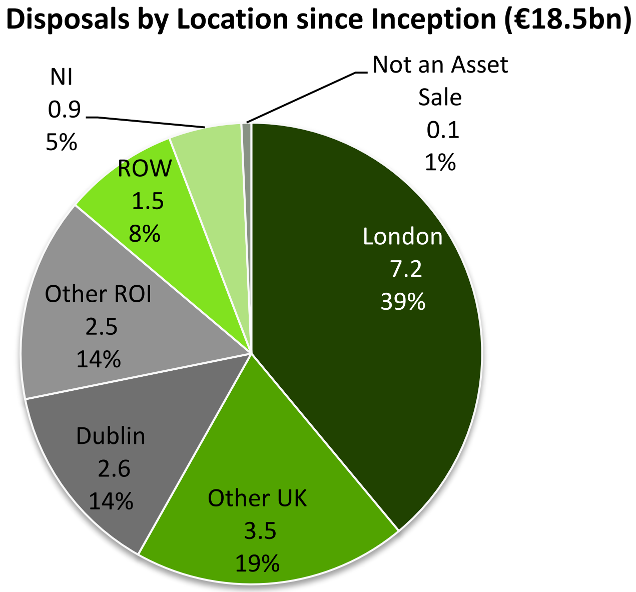


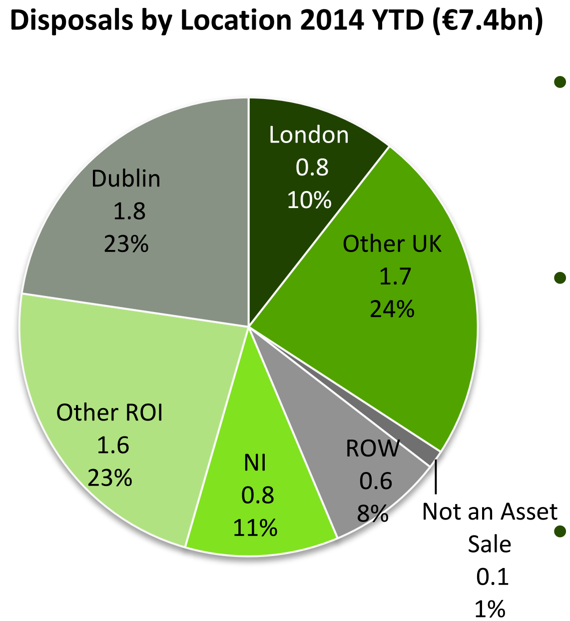
Disposal Transaction Volume by Range

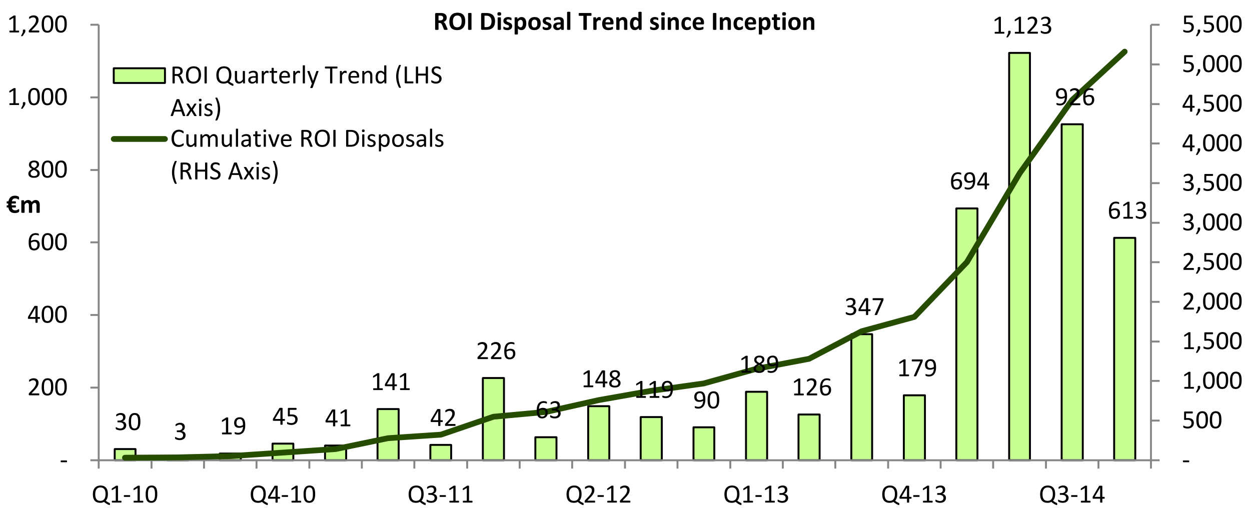


Source: NAMA

Disposal trend by location (to November 2014)





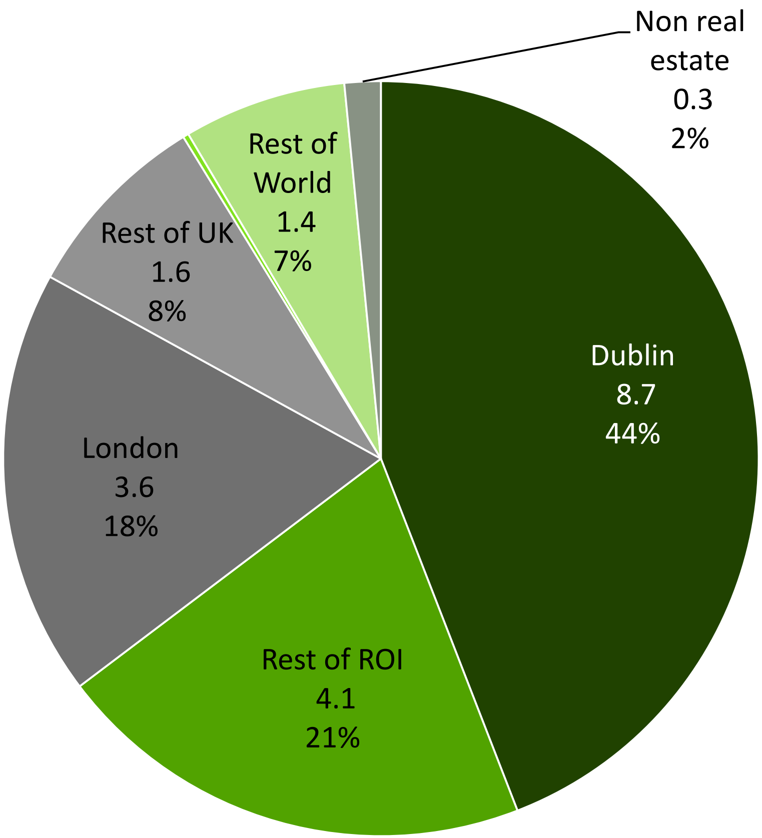


- Disposals of €18.5bn to end-November 2014.
- Deliberate NAMA focus on UK disposals during 2010 – 2013 period.
- ROI transactions have increased significantly since Q4 2013.

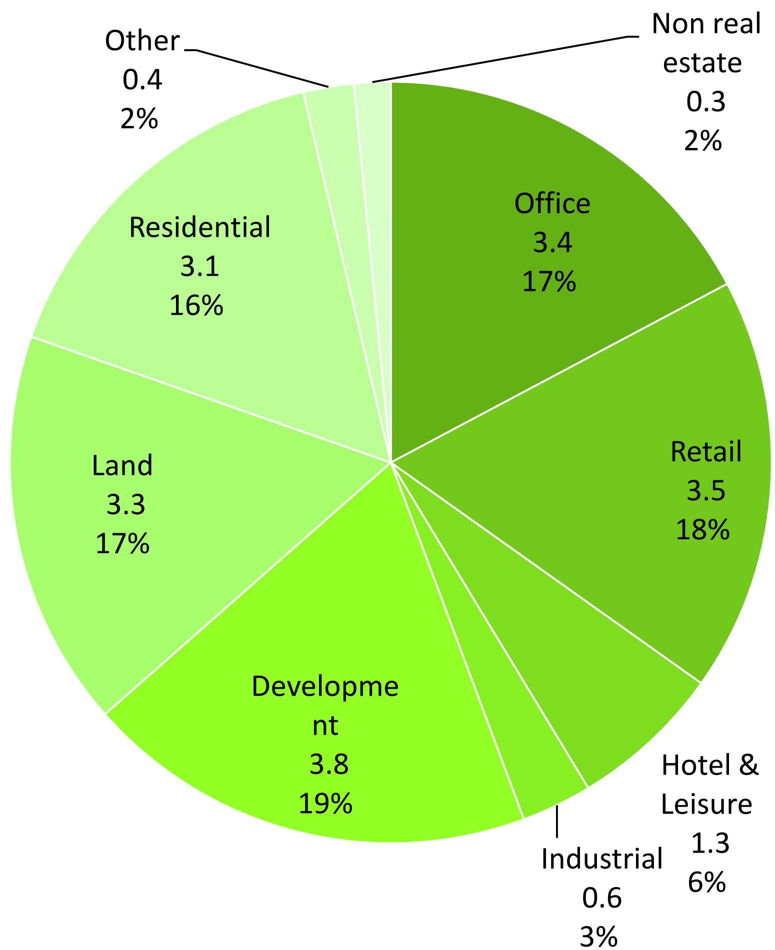
Source: NAMA

Breakdown of NAMA property portfolio, June 2014

Geographic Breakdown



Sector Breakdown



Source: NAMA

NAMA: Strategic initiatives

- **Dublin Docklands Strategic Development Zone (SDZ):**
  - In 2014, NAMA intensified preparatory work in relation to the development land within the SDZ in which it holds an interest.
  - It is estimated that up to 3.4m sq ft of commercial space and 1,848 apartments could potentially be delivered over the next five to seven years if fully developed
- **Social Housing:**
  - A SPV – NARPS - established by NAMA to expedite social housing delivery 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-2014, over 1,000 units were delivered under this initiative. NAMA expects that a further 1,000 houses and apartments to be delivered in 2015.
- **Residential Development:**
  - As part of its contribution to address emerging residential supply shortages in the Greater Dublin area, NAMA established a dedicated Residential Delivery team. NAMA is committed to facilitating the completion of 4,500 new residential units in the period to the end of 2016. The end-2014 delivery target of 1,000 units has been exceeded; it is expected that another 1,500 residential units will be delivered in 2015.

NAMA: well on track to achieve long-term objectives

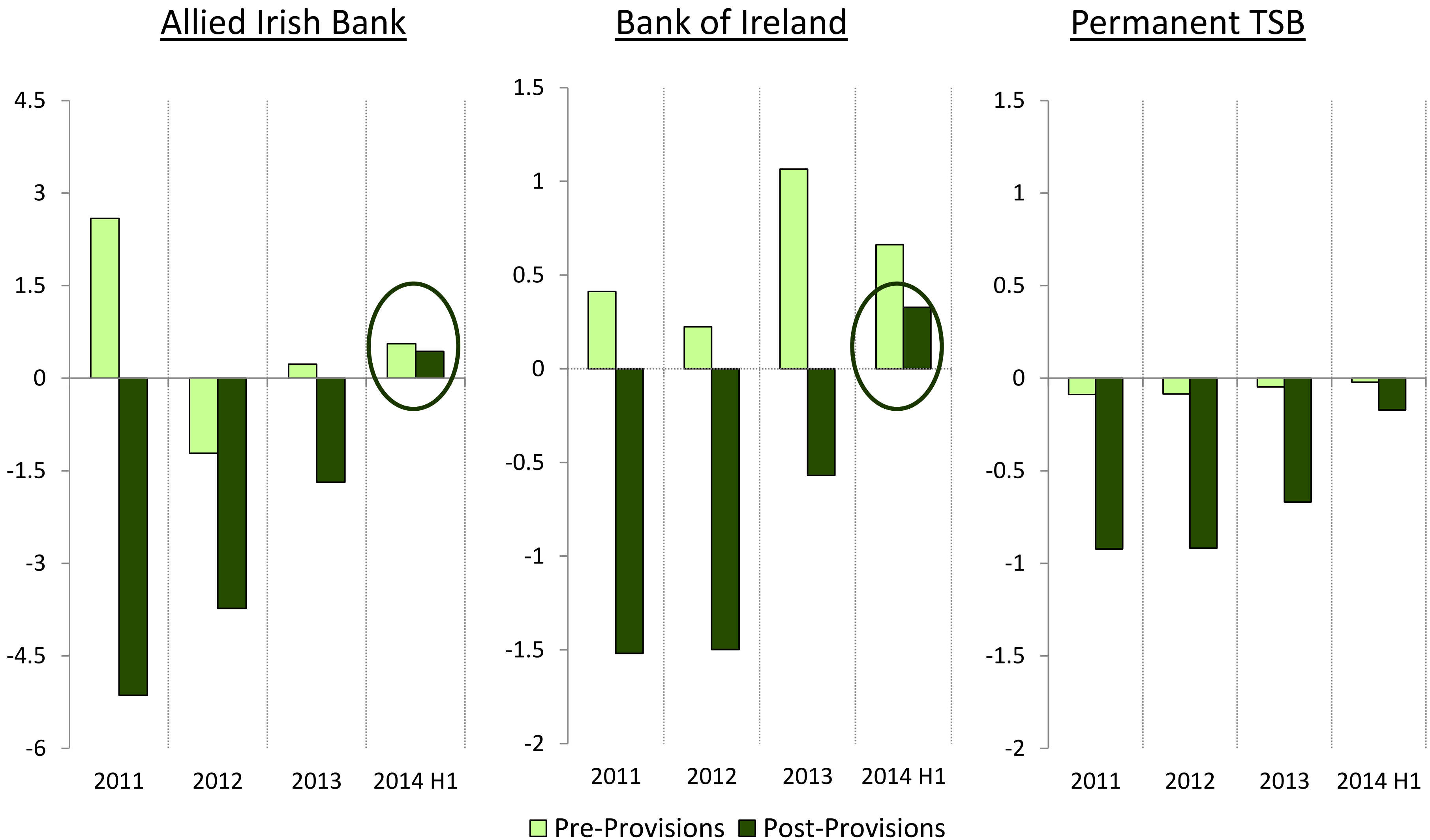
- NAMA meeting senior debt redemption targets ahead of schedule. €1.5bn repaid in Dec 2014 brings total redemptions to €16.6bn or 55% of senior debt.
- Originally, a target of 50% of redemptions was set for 2016. The Agency now plans to redeem a total of 80% of its senior debt by 2016.
- NAMA will continue to ensure that a strong flow of asset and loan portfolios will be offered to the market during the course of 2015, assuming that current investor interest is sustained.
- Focus on maximising income and managing debtors, receivers and assets to enhance value
- To date, NAMA has approved a total of €3.2 billion in advances to debtors and receivers. This includes €1.6 billion in approved funding for the completion of construction projects currently in progress in Ireland.
- NAMA is prepared to advance additional funding for commercially viable Irish projects including the Dublin Docklands development mentioned above.

SECTION 6: BANKING*

Banks overhauled since late 2010; AIB and BOI returned to profit in H1 2014; Results from euro area-wide stress tests as expected

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

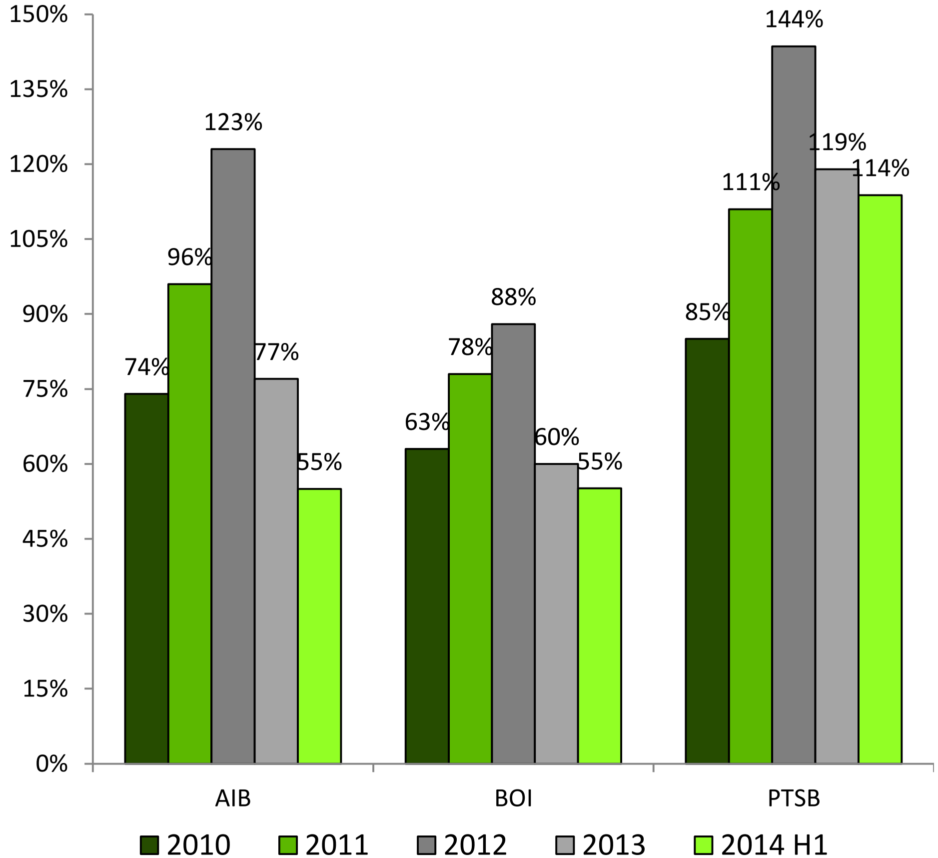
AIB and BOI returned to profit in H1 2014 (€bn)



Source: Interim & annual reports of banks

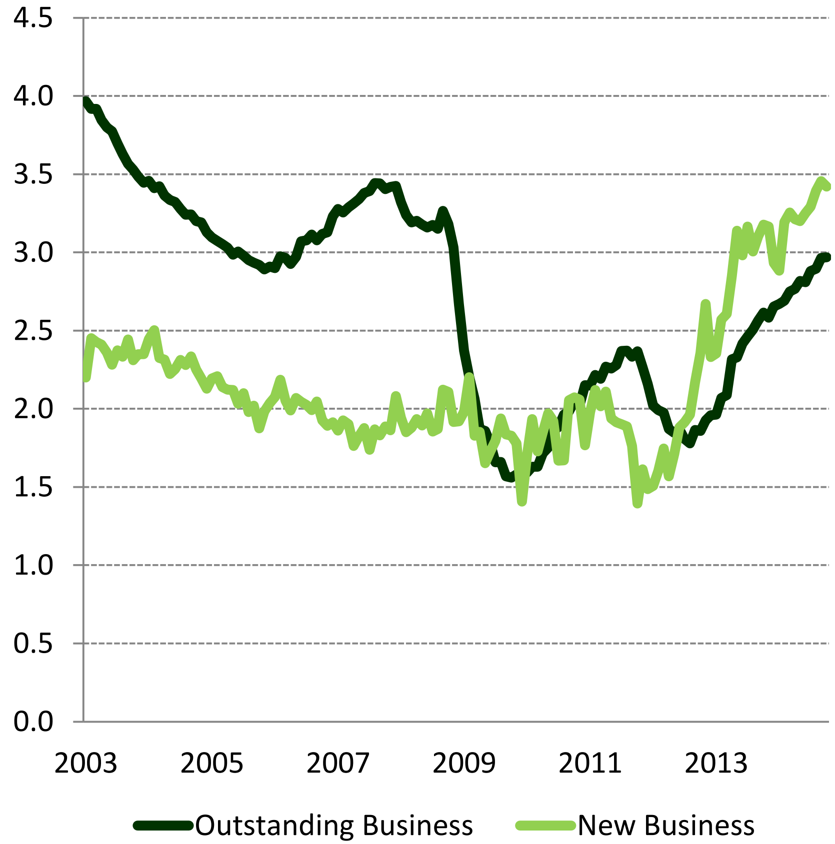
Net interest margins on new lending are favourable

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.

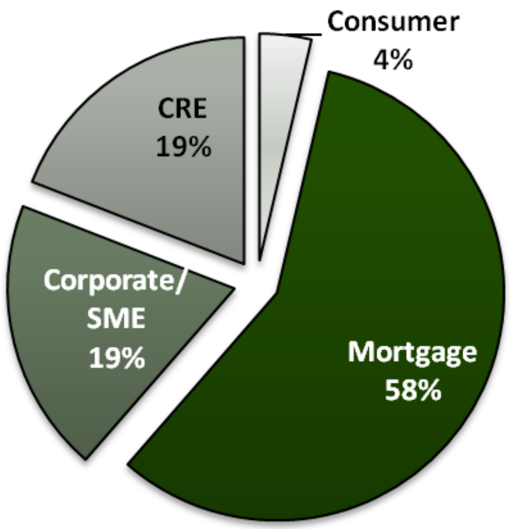
Asset quality reflects huge losses already recognised

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

PCAR Banks (€bn)	Dec-12	Dec-13	Jun-14
Total Loans	224.9	208.9	205
Impaired	53.3	53.9	50.8
(Impaired as % of Total)	24.5%	25.8%	24.8%
Provisions	27.2	29.4	27.8
(*Provisions as % of book)*	12.1%	14.1%	13.6%
(Provisions as % of Impaired)	49.5%	54.5%	54.7%

Impaired Loans % (Coverage %)[1] by Bank and Asset					
		Dec-12	Dec-13	Jun-14	*Book (€bn)*[2]
BOI	Irish Residential Mortgages	13.1 (40)	14.2(49)	14.1(51)	26.3
	UK Residential Mortgages	2.3 (22)	2.4(24)	2.3(22)	25.0
	Irish SMEs	26.5 (43)	26.7(50)	26.7(51)	10.0
	UK SMEs	17.9 (37)	17.1(50)	15.7(44)	2.7
	Corporate	10.1 (44)	7.5(41)	8.8(38)	8.2
	CRE - Investment	35.9 (35)	42.3(38)	41.9(41)	13.6
	CRE - Land/Development	89.5 (60)	89.3(68)	89.9(73)	3.1
	Consumer Loans	9.4 (85)	8.4(90)	7.6(91)	2.9
		17.7 (43)	**18.5(48)**	**18.2(50)**	**91.8**
AIB	Irish Residential Mortgages	19.9 (38)	23.0(43)	23.8(41)	37.3
	UK Residential Mortgages	9.2 (67)	11.3(53)	11.5(56)	2.6
	SMEs	34.4 (67)	34.6(68)	31.7(69)	13.7
	Corporate	15.6 (73)	11.1(65)	9.4(62)	4.4
	CRE	62.0 (59)	66.7(64)	59.7(67)	18.0
	Consumer Loans	30.5 (80)	33.2(81)	33.0(81)	4.1
		32.7 (56)	**34.9(59)**	**32.5(59)**	**80.1**
PTSB	Irish Residential Mortgages	19.6 (45)	26.0(47)	27.6(46)	23.7
	UK Residential Mortgages	1.7 (57)	1.3(85)	1.0(129)	7.0
	Commercial	49.7 (66)	68.7(63)	69.2(65)	2.1
	Consumer Loans	32.1 (105)	26.0(105)	23.2(103)	0.3
		17.9 (51)	**23.6(51)**	**24.5(51)**	**33.1**

Loan Asset Mix (PCAR banks end '13)



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

[1] Total impairment provisions are used for coverage ratios (in parentheses)
[2] Book value before impairment provisions as at June 2014

ECB Comprehensive Assessment finds €24.2Bn capital shortfall across top 130 EA banks

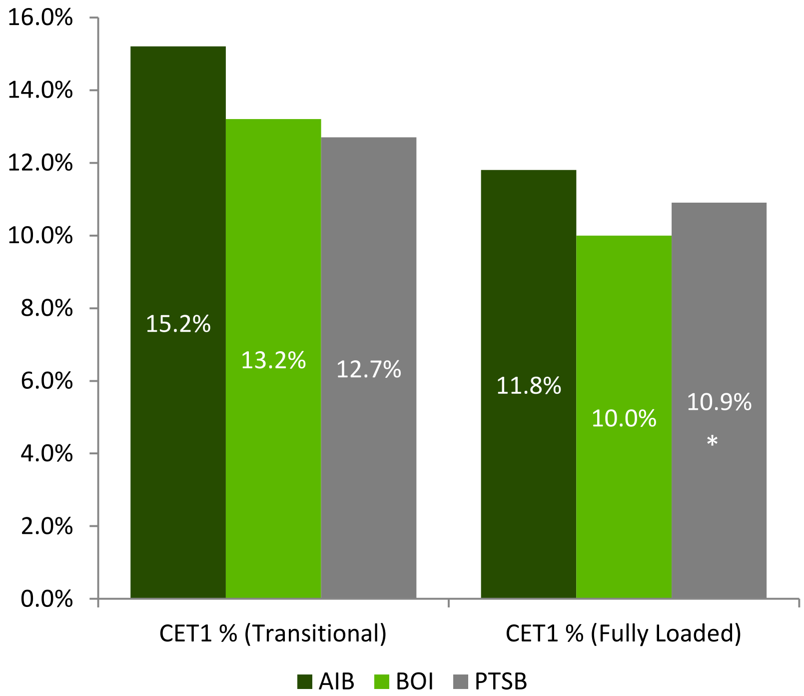
€ Billions	Capital Shortfall Adverse Scenario	Shortfall with capital raised in 2014
Austria	0.9	0.9
Belgium	0.5	0.4
Cyprus	2.4	0.2
Germany	0.2	
France	0.0	
Greece	8.7	2.7
Ireland	0.9	0.9
Italy	9.4	3.3
Portugal	1.1	1.1
Slovenia	0.1	0.1
Total	**€24.2**	**€9.6**

- Results generally well received with no major surprises in terms of troubled banks across Europe
- Permanent TSB the only Irish bank with capital shortfall - approximately €1bn under the adverse scenario. AIB and BOI well capitalised under adverse scenario.
- Existing CoCos and asset disposals in 2014 cover most of the shortfall in PTSB with likely €100-200m equity needed from the private sector in 2015 to cover the remaining capital gap.

Source: ECB

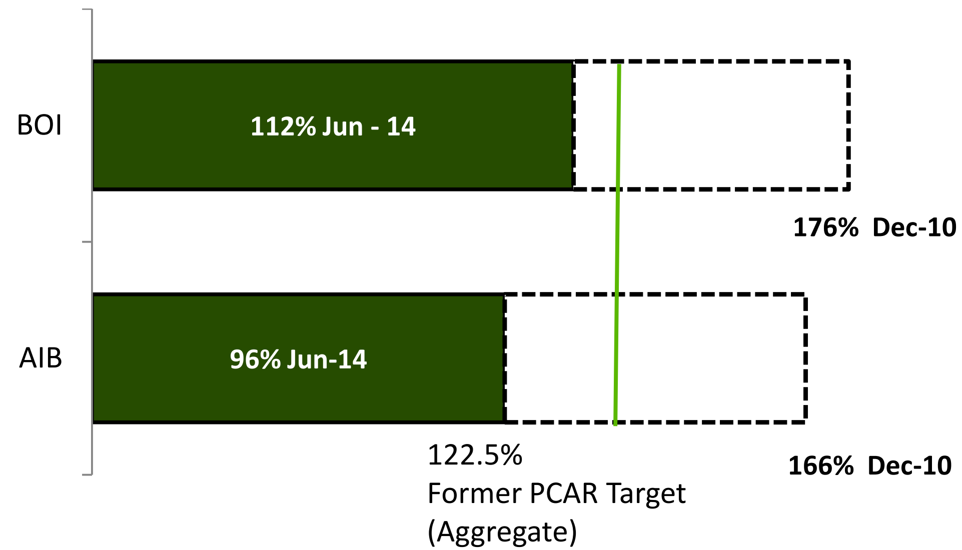
Capital and loan-to-deposit ratios strengthened

Core Tier 1 Capital Ratios (Jun-14)



Source: Published bank accounts

Loan-to-Deposit Ratios (Dec-10 to Jun-14)



Source: Published bank accounts

- Core Tier 1 capital ratios at the PLAR banks remain well above minimum requirements.
- With the expected tapping of private capital markets in 2015, PTSB will join the two other banks in being well capitalised against adverse scenarios.

Note: "Transitional" refers to the transitional Basel III required for CT1 ratios which came into effect 1 January 2014. "Fully loaded" refers to the actual Basel III basis for CT1 ratios. * Dec-13 Figure

Aggregated Balance Sheet of the "Covered" Banks has improved

Total Assets: €263.9 bn	
Loans and receivables - loans to customers	176.7
Loans and receivables - loans to credit institutions	6.4
Loans and receivables - debt instruments	15.3
Available-for-sale financial assets	37.3
Cash & cash balances with central banks	10.8
Other	17.4

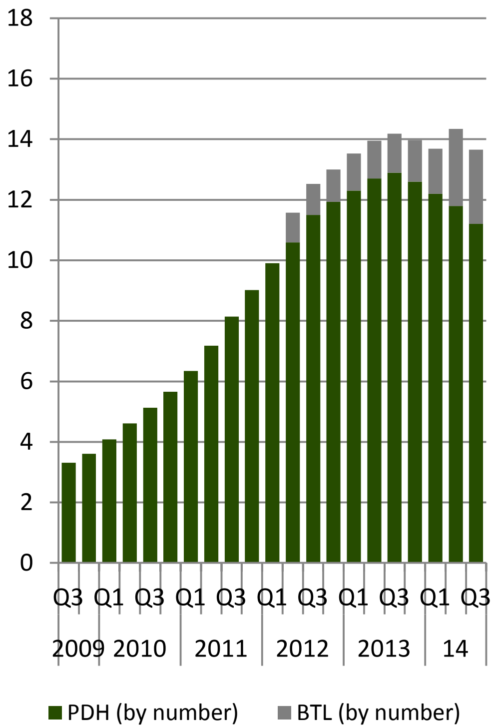
Source: CBI

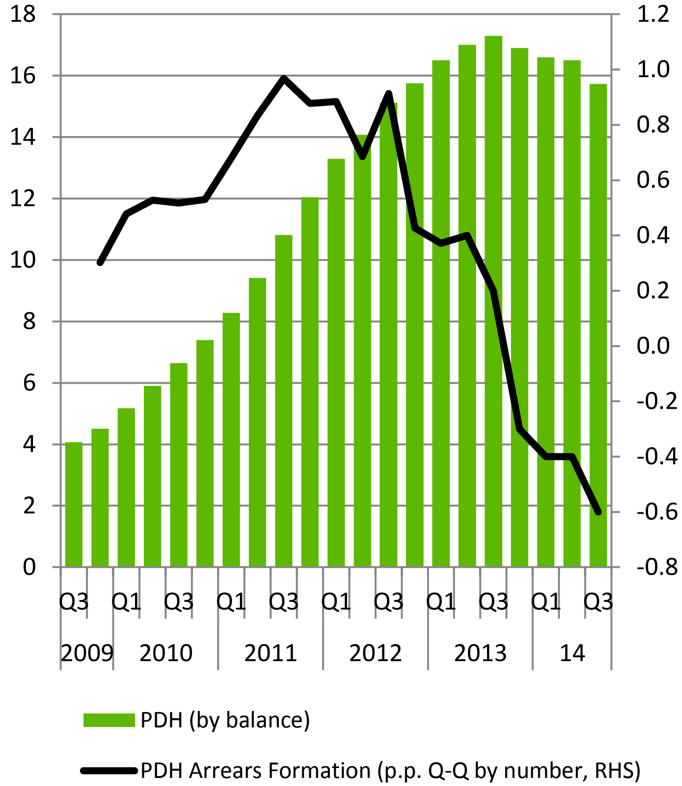
Total Liabilities: €263.9 bn	
Deposits excl. Credit Institutions	159.1
Deposits from Credit Institutions and Central Banks	33.1
Debt Certificates	32.0
Subordinated Liabilities	4.2
Other liabilities	12.8
Equity & Minority Interest	22.6
Total Liabilities, Minority Interest and Equity	263.9

Note: Banks included in this measure are outlined here; Balance sheet calculated on consolidated basis

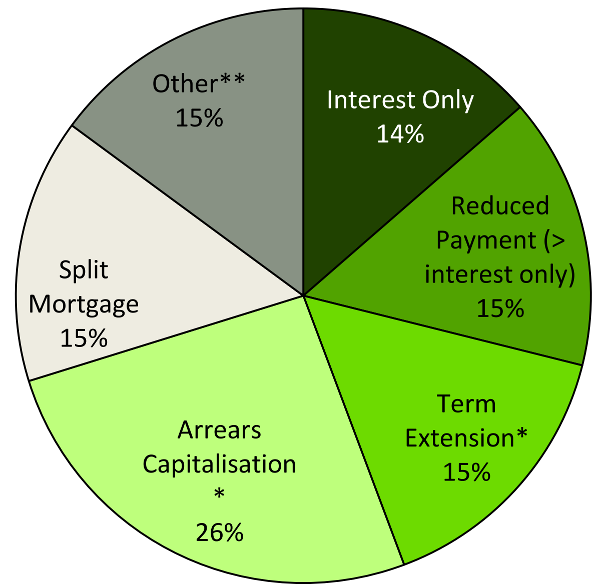
Irish residential mortgage arrears – still challenging

Mortgage Arrears (90+ days)





Total Restructured/Rescheduled Cases

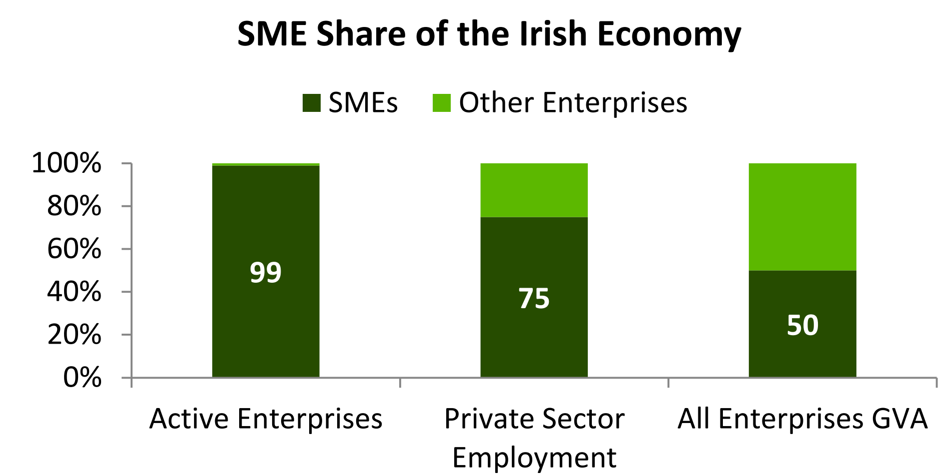


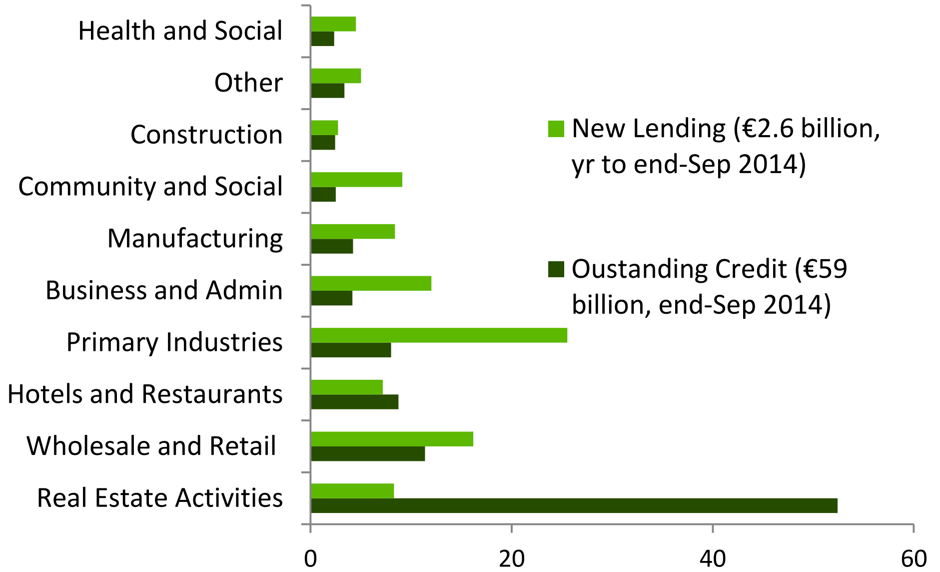
Source: CBI

- PDH mortgage arrears have fallen in Q4 2013 – Q3 2014. The smaller BTL market (c. 25% of total) shows relatively higher arrears but also saw declines in the same period.
- 109,911 PDH mortgage accounts were classified as restructured at end-Q3 2014, reflecting a q-o-q increase of 7.8%. Of these restructured accounts, 83.2% were meeting the terms of the restructured arrangement.

* 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





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).

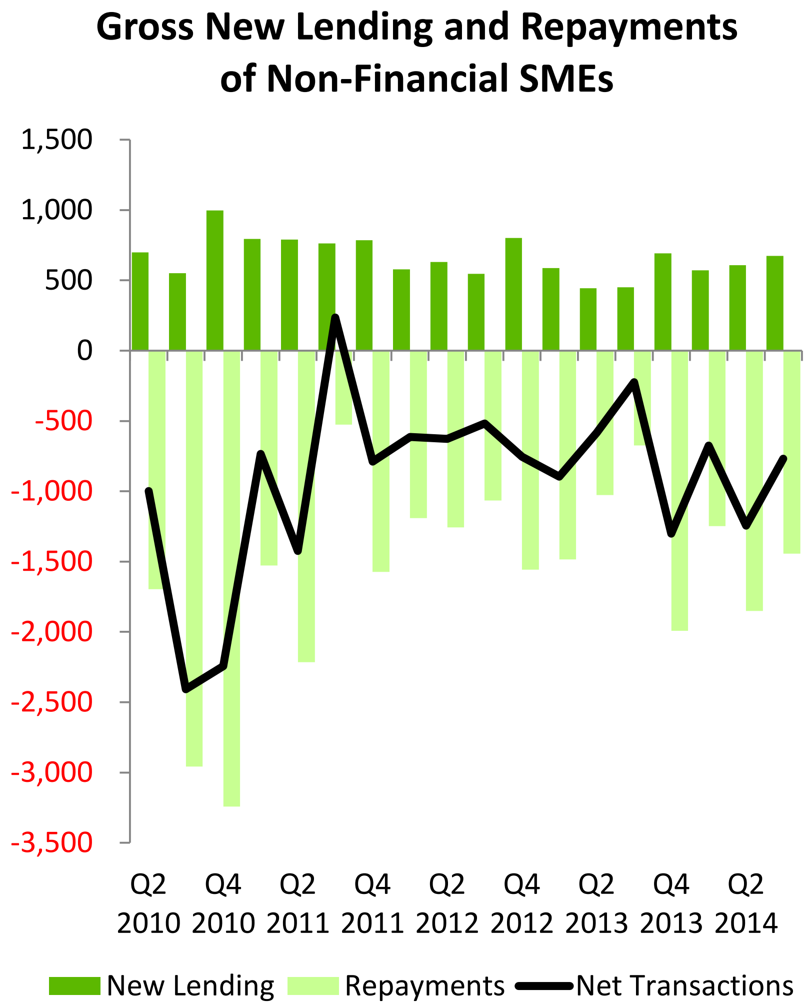
These partners are providing long-term funding at attractive rates to the SBCI which in turn will provide the funding to Irish SMEs through Irish-based credit institutions.

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)

Source: CBI

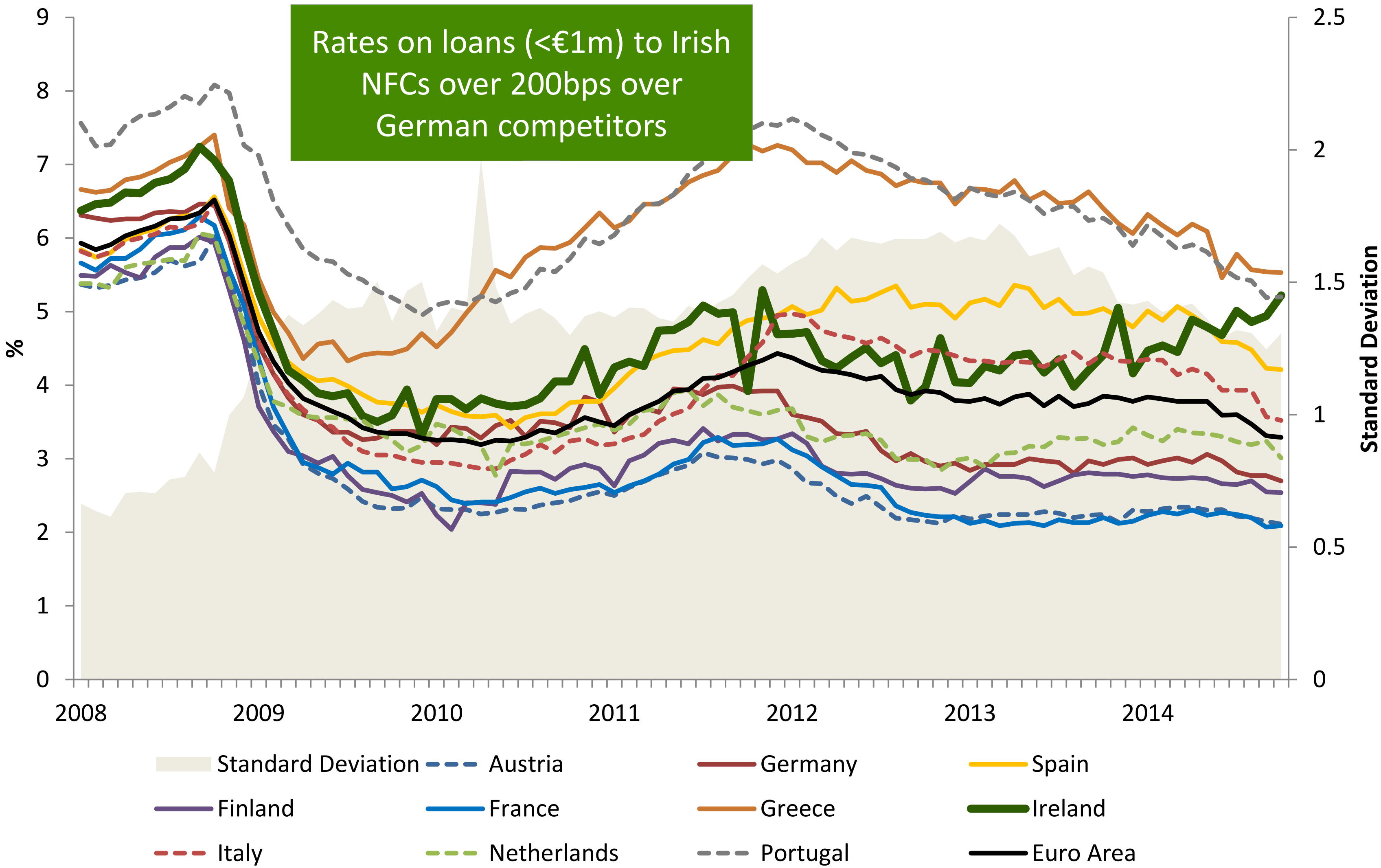
SME deleveraging continuing as new lending remains steady but low



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 approx. €670m per quarter since Q2 2010
- Weak SME credit demand appears to be a big driver here as survey evidence suggests access to finance is becoming less of an issue.

Latest ECB data show dispersion in SME interest rates persisting across EA (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.'

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

- Personal Insolvency legislation enacted and in use, but take-up has been slow
- Approx. 600 applications for PIAs were received in Q1-Q3 2014 but only 80 arrangements were approved by Irish courts by end-June (note that there are approximately 121,000 mortgages in arrears > 90 days)
- The number of bankruptcies adjudicated on in Q1-Q3 2014 – 301 - compares with 58 in the whole of 2013. The aggregate amount of debt involved in these adjudications totalled €402m of which €259m was secured (64%).

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