IRELAND: EURO AREA'S FASTEST GROWING ECONOMY

Government debt ratio set to fall further to 100% in 2016

May 2015

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SUMMARY

Ireland’s bond yields at record lows – in part because of huge structural turnaround

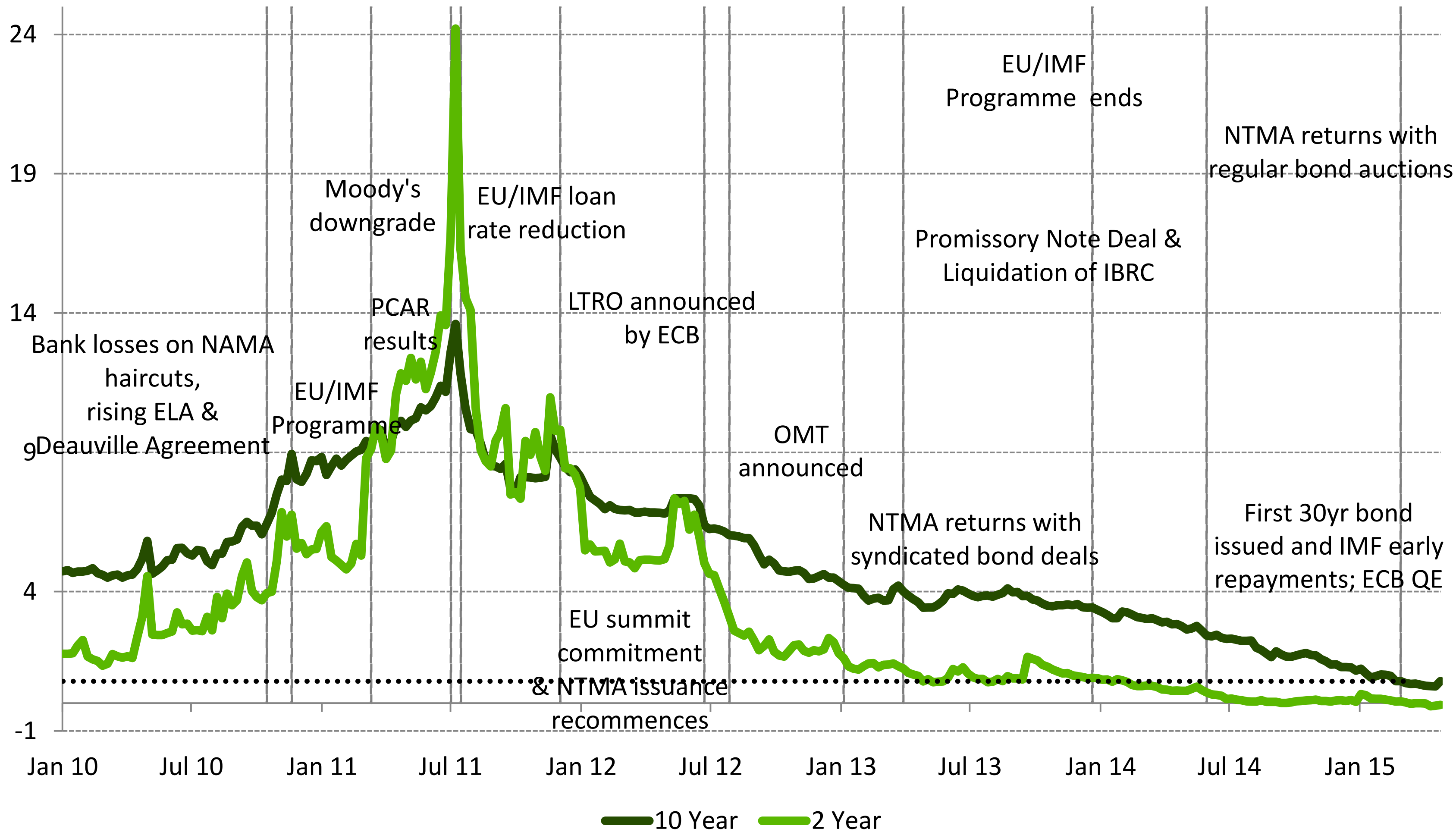
Ireland set for further outperformance in 2015

- **Government beat deficit target easily in 2014; four-year track record**
  - Deficit was -4.1% of GDP in 2014 compared with the EU limit of -5.1% (outperformance 2011-14). Revenue beat expectations by more than 1% of GDP, thanks to the improving economy. Expenditure control weakened a little in 2014.
  - In early 2015, tax revenue has continued to beat expectations with the forecasted deficit of -2.3% of GDP ahead again of target (-2.9%).
- **Ireland is growing faster than every other euro area country**
  - Ireland's economy grew by 4.8% and 6.1% in 2014 in real and nominal terms respectively (nominal GDP totaled €185bn in 2014).
  - Investment is rebounding from a low base. The trade-weighted depreciation of the euro and the drop in the oil price will lead to an even faster pace of growth this year.
  - Unemployment is falling. The unemployment rate was 9.9% in Q1 2015, down from the crisis peak of over 15% in 2012. Employment is increasing in most sectors.
- **Gross Government debt fell to 110% of GDP in 2014, down from 123%**
  - Net Government debt was around 90% of GDP by end-2014. Ireland has financial assets: cash, fixed income securities in banks and the Ireland Strategic Investment Fund (ISIF). Debt repayment will follow sales of equity stakes in Irish banks and the distribution of the IBRC surplus
  - NAMA have indicated that given current market conditions it is likely to make a profit of at least €1bn on wind-up. NAMA is also involved in new property development, given major under-supply.

State has successfully tapped the market in 2014/15

- **100% of 2015 funding completed; some pre-funding for 2016 to do**
  - Ireland is prefunded for 2015: it issued throughout 2014 at record low yields
  - The NTMA planned to issue €12-15bn worth of long term bonds in 2015 to pre-fund for 2016 and to finance early IMF repayments: €10.25bn has been issued
- **Early repayment of IMF loans commenced in 2014 and completed in 2015**
  - A total of €18bn worth of loans was re-financed over last 6 months.
  - The total interest cost savings could exceed €1.5bn (0.8% of GDP) over 5 years.
  - The NTMA 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%.
  - In January, a €4bn 7-year bond was issued through syndicated sale (yield 0.87%).
  - The NTMA issued its first 30-year bond in February, bringing in another €4bn. The yield was 2.088%. A further auction of €1bn of the 2045 bond took place in March at a yield of 1.31%. The seven-year 2022 bond was auctioned in mid-May.
- **Investor base has strengthened**
  - A 95% share of the February syndication was bought by international investors, led by the UK (29%), Germany (24%) and the US (7%)
  - Among investor categories, the bias of the deal was to real money: asset managers (45%), fund managers (15%), pension and insurance sector (12%) and banks (11%)

Ireland’s happy bond market story has lots of milestones



Source: Bloomberg (weekly data)

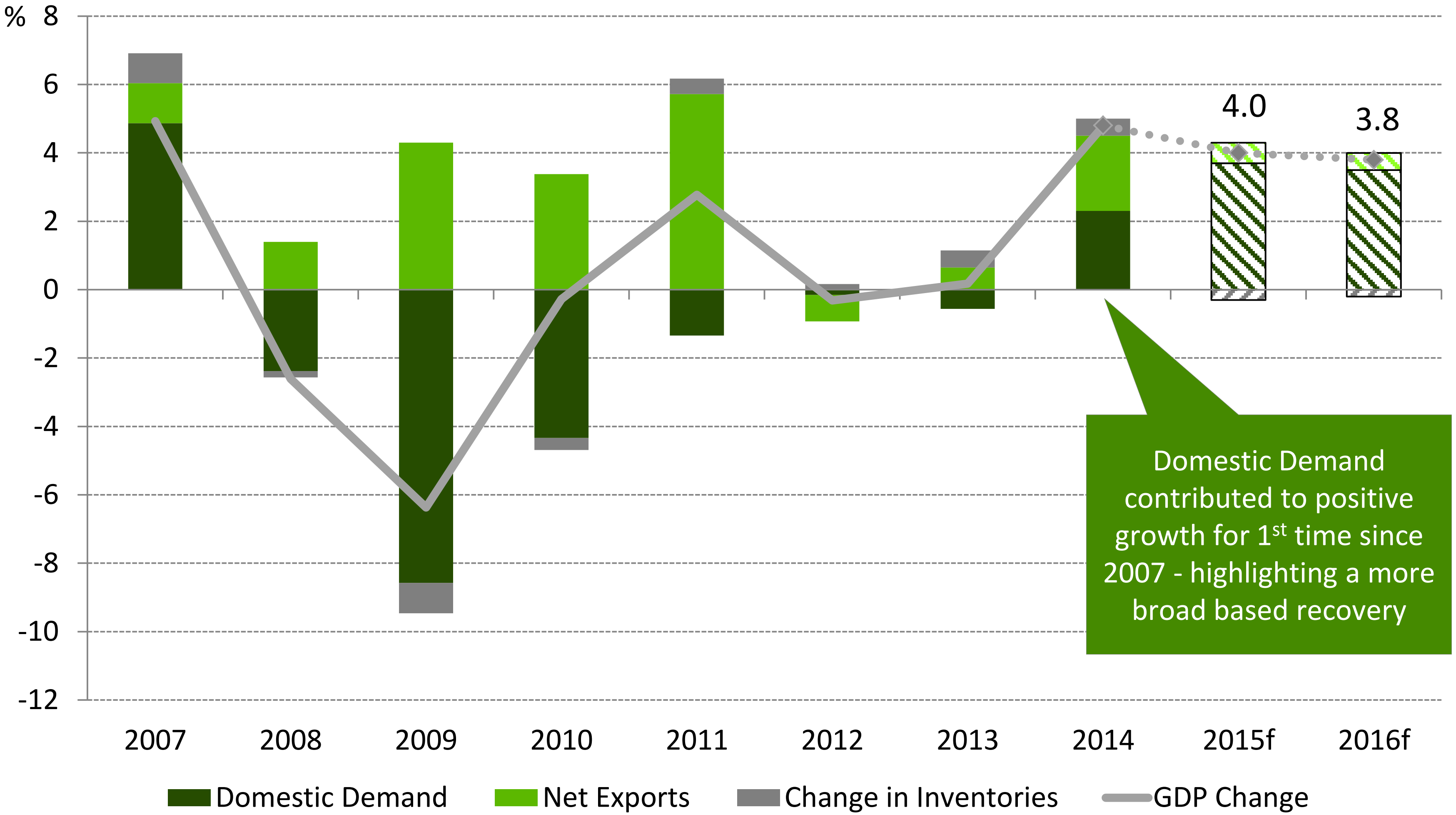
Ireland’s sovereign credit ratings

Rating Agency	Long-term	Short-term	Outlook/Trend	Date of last change
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	R-1 (low)	Stable	Mar. 2015
R&I	A-	a-1	Stable	Dec. 2014

SECTION 1: MACRO

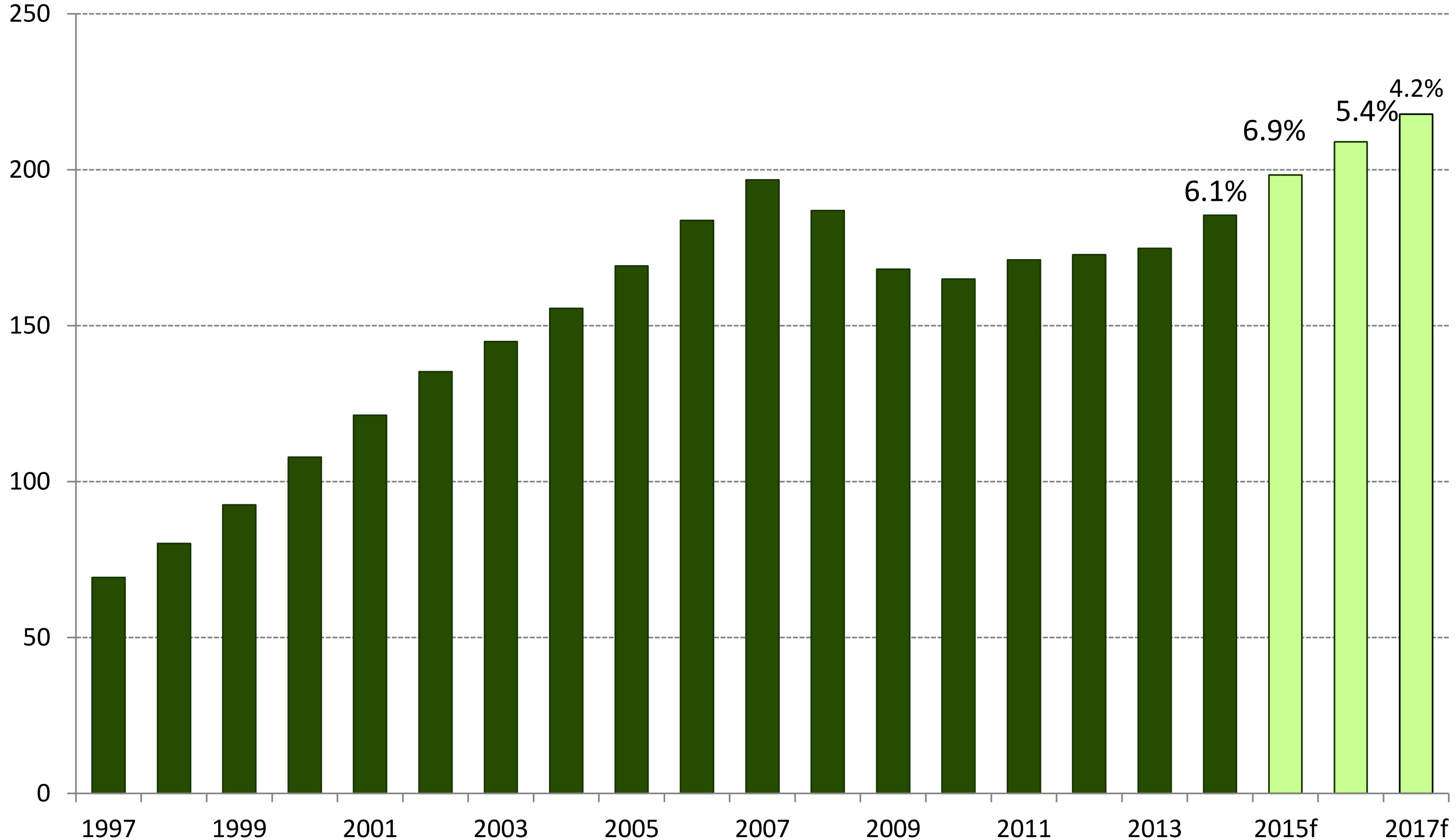
Recovery gained strong momentum in 2014; Unemployment has dropped sharply from a peak of 15.1% of the labour force to 9.9% in Q1 2015

Net exports and investment drove 4.8% growth in real terms in 2014; underlying growth likely 1-2pp lower



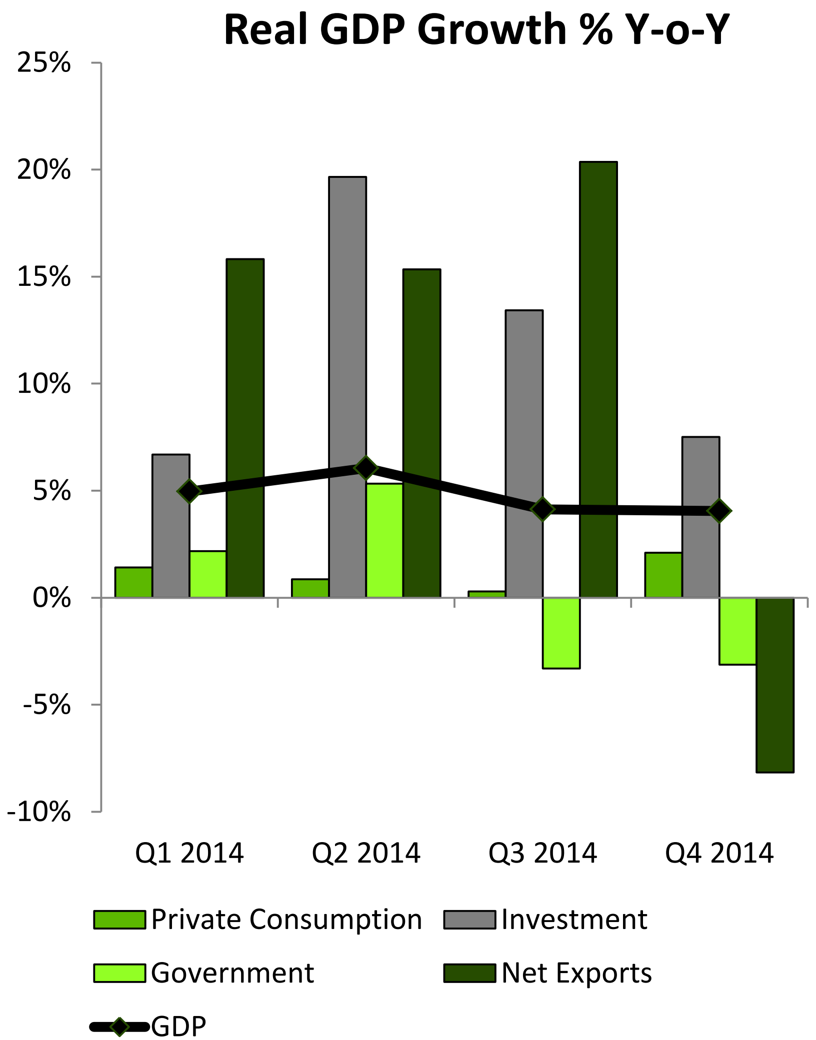
Source: CSO; Department of Finance(2015-16 forecast from SPU 2015 material); NTMA workings

Nominal GDP (€bn) forecasted to exceed pre-crisis peak in 2015



Source: Department of Finance (SPU April 2015)

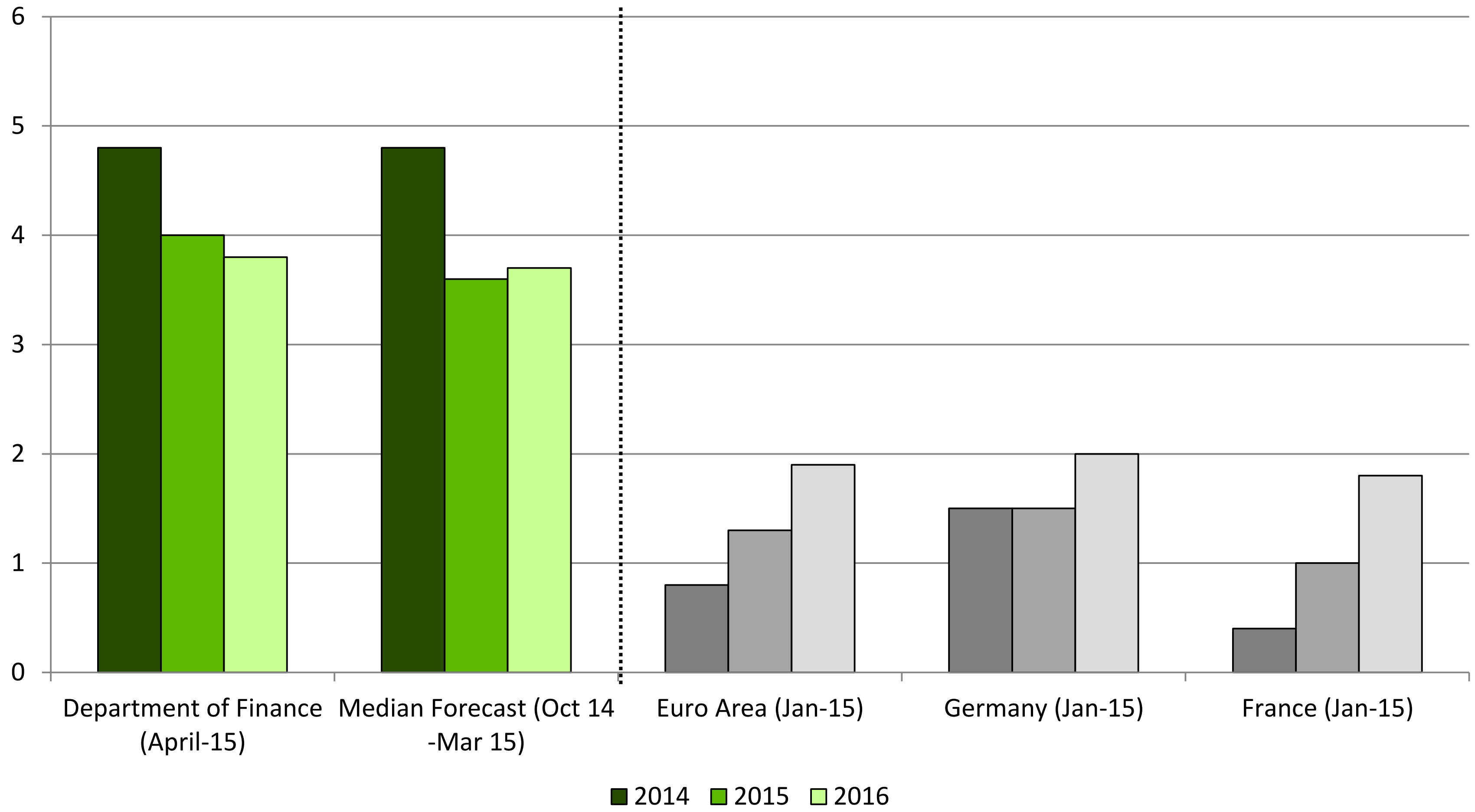
Growth slowed in H2 2014 but Ireland grew strongly by 4.8% in real terms for the full year in 2014



Source: CSO; NTMA workings

- 4.8% real GDP growth for 2014 – slightly above the Government's growth forecast of 4.7%.
- Q-Q growth for Q4 2014 was 0.2%, while Q3 2014 growth was revised upwards to 0.3%
- Investment was more subdued in H2, following a very strong Q2.
- The same is also true for net exports. The large decrease in Q4 (-15.7% q-o-q) was due to a surge in imports
- Personal consumption is slowly improving (up 1.1% over 2014). It is not yet the key driver of growth, but it is set to contribute much more

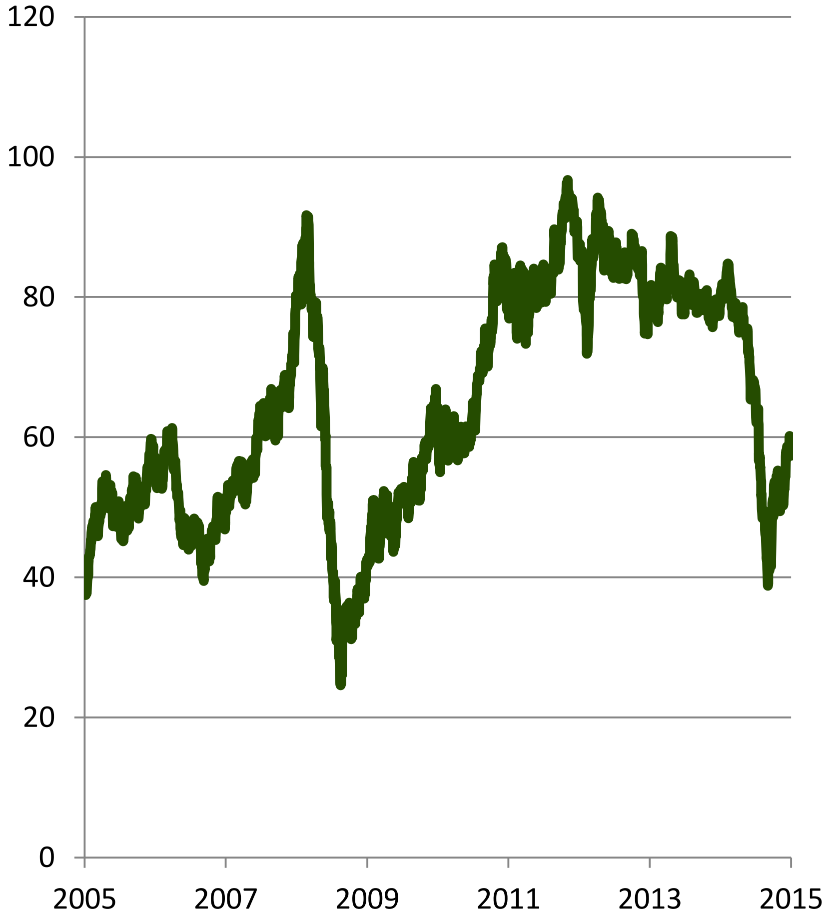
Ireland's economy outperformed the rest of the euro area in 2014 and expected to do so again in 2015/16



Note: Real GDP y-o-y growth rates forecast by various institutions
Source: Median forecast based on forecasts from IMF, EU Commission, ESRI and CBI. Euro area, France and Germany forecasts based on EU Commission projections.

Energy prices and weaker euro likely to boost GDP growth further in 2015

Brent Oil €/Barrel



Source: Bloomberg

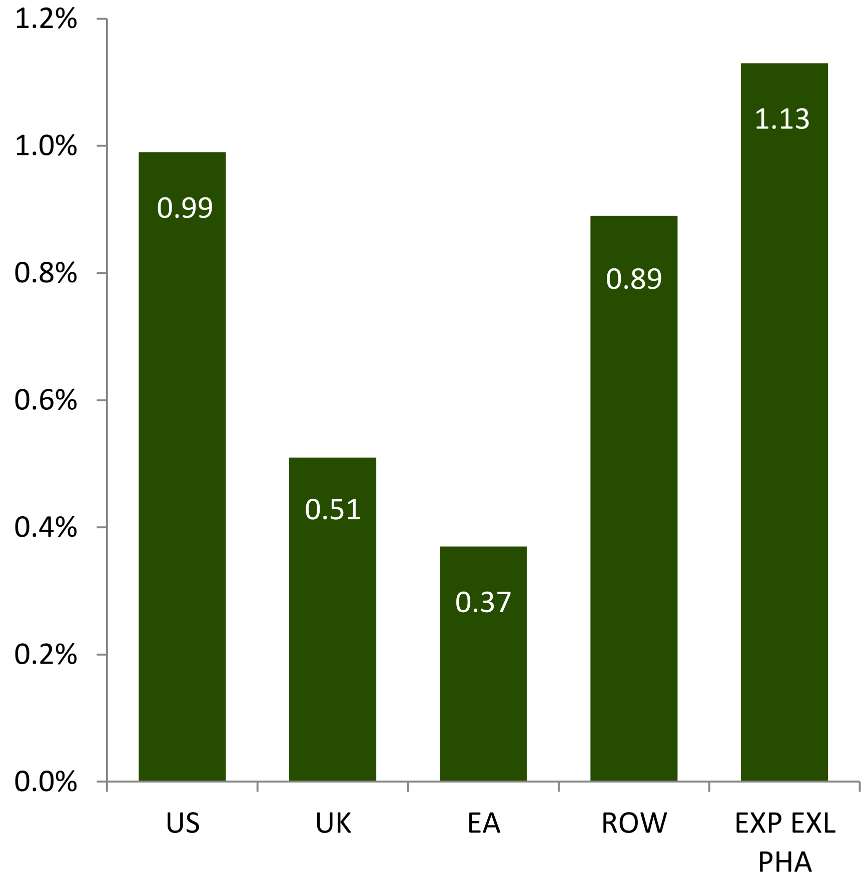
Ireland's trade-weighted € (Jan 95 = 100)

Source: CSO, NTMA workings

Ireland's open economy translates into a strong response of Irish goods exports to euro devaluation

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

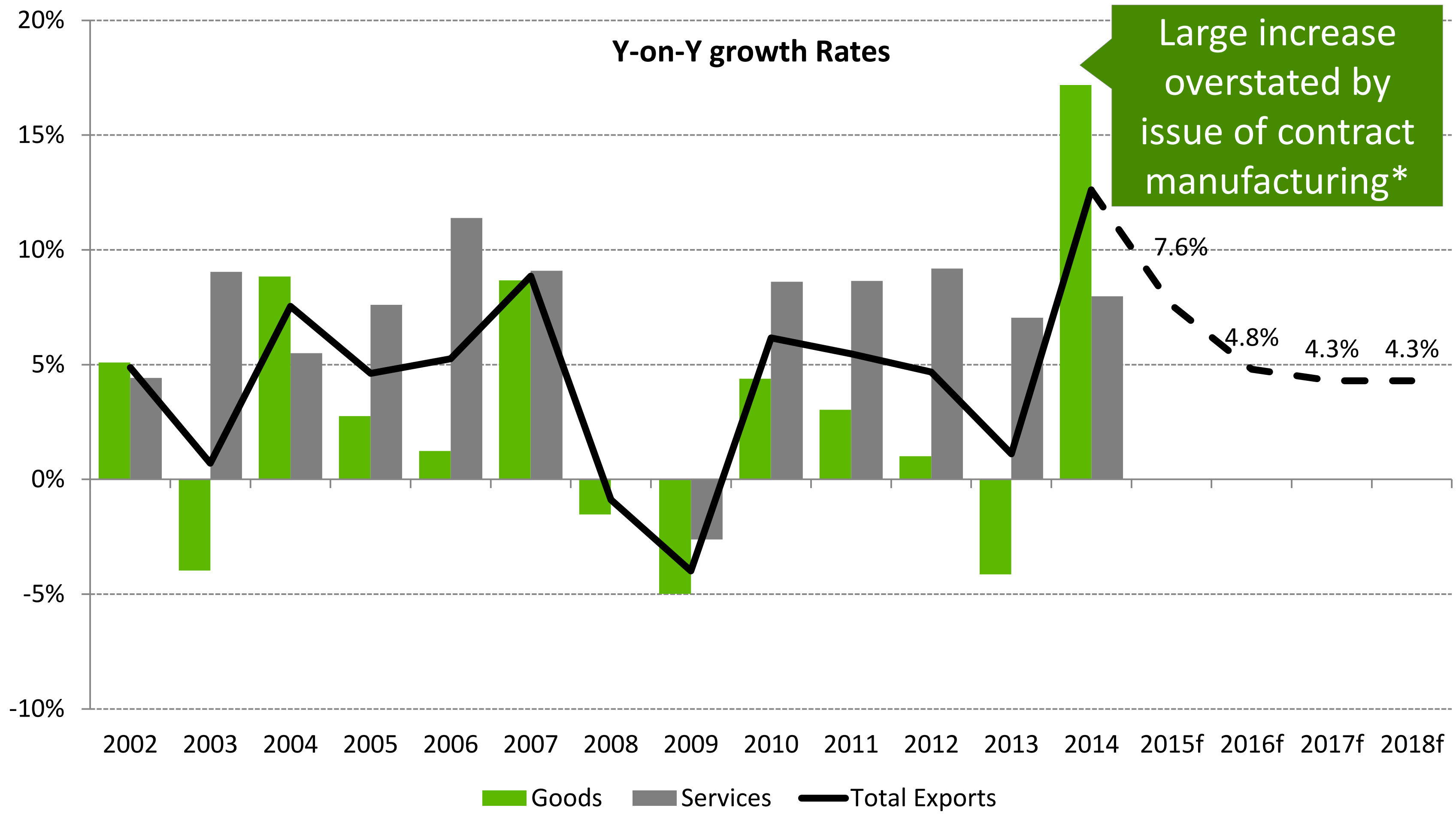
Response of Irish Exports to 1% Devaluation of Euro



Source: CSO; NTMA analysis

Note: All coefficients significant at 99% level

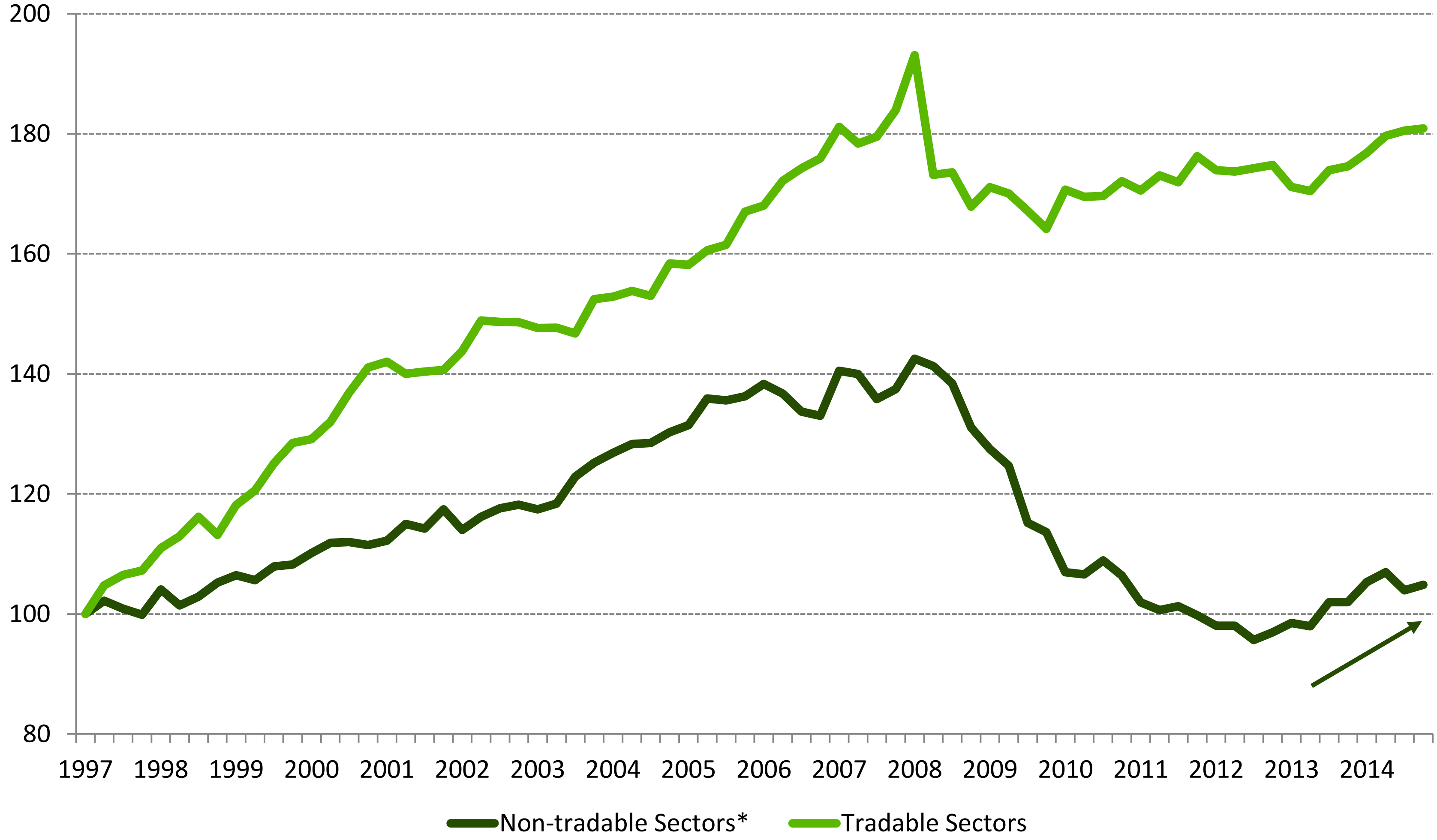
Contract manufacturing overstates growth in exports but underlying growth also strong



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

* For discussion on contract manufacturing and its limited effects on Ireland's National Accounts, please see here.

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

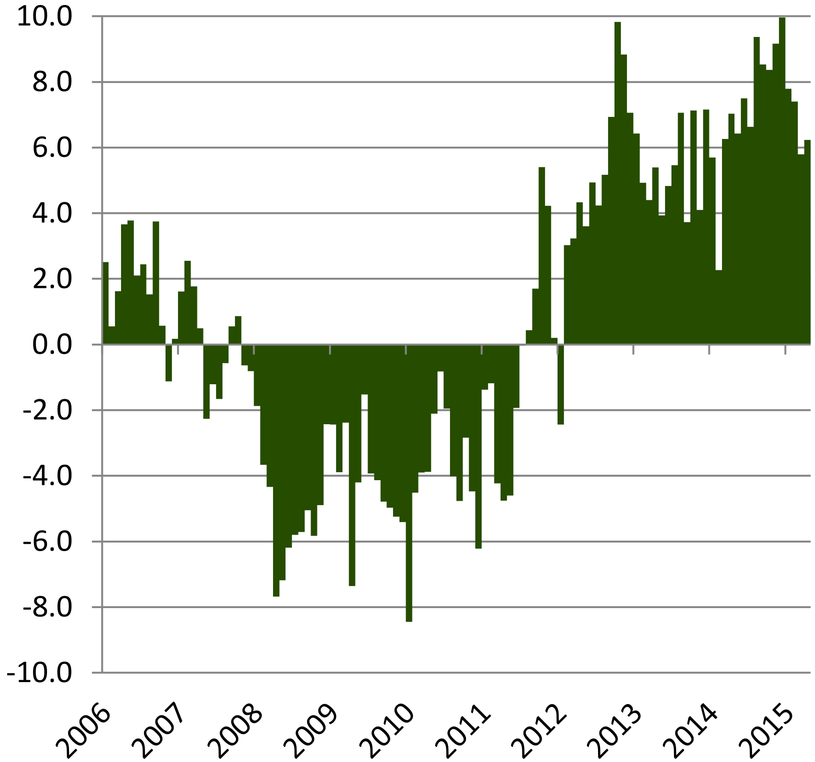


Source: CSO

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

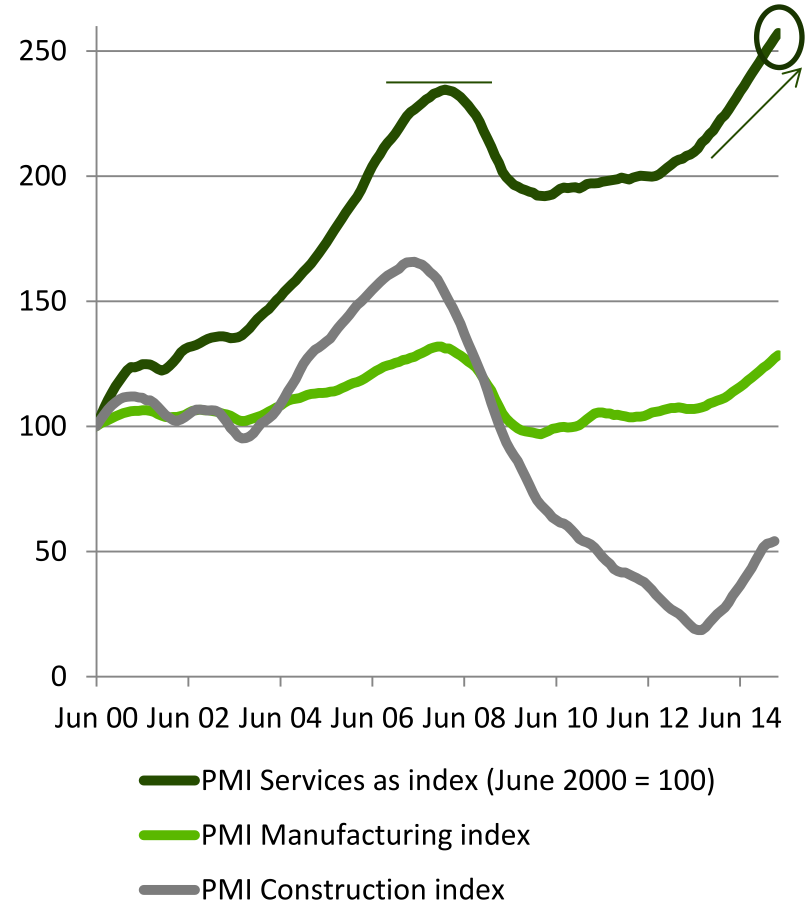
Ireland continuing to outperform EA and broad-based recovery is in train

Ireland growing faster than euro area (PMI composite difference)



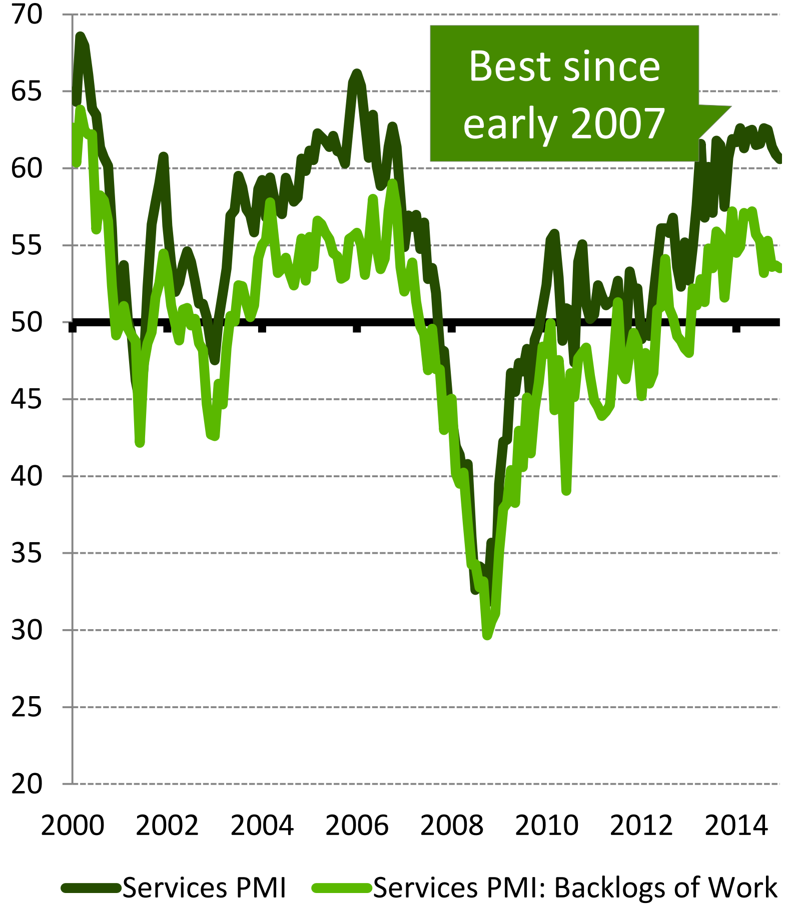
Source: Bloomberg; Markit; Investec

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



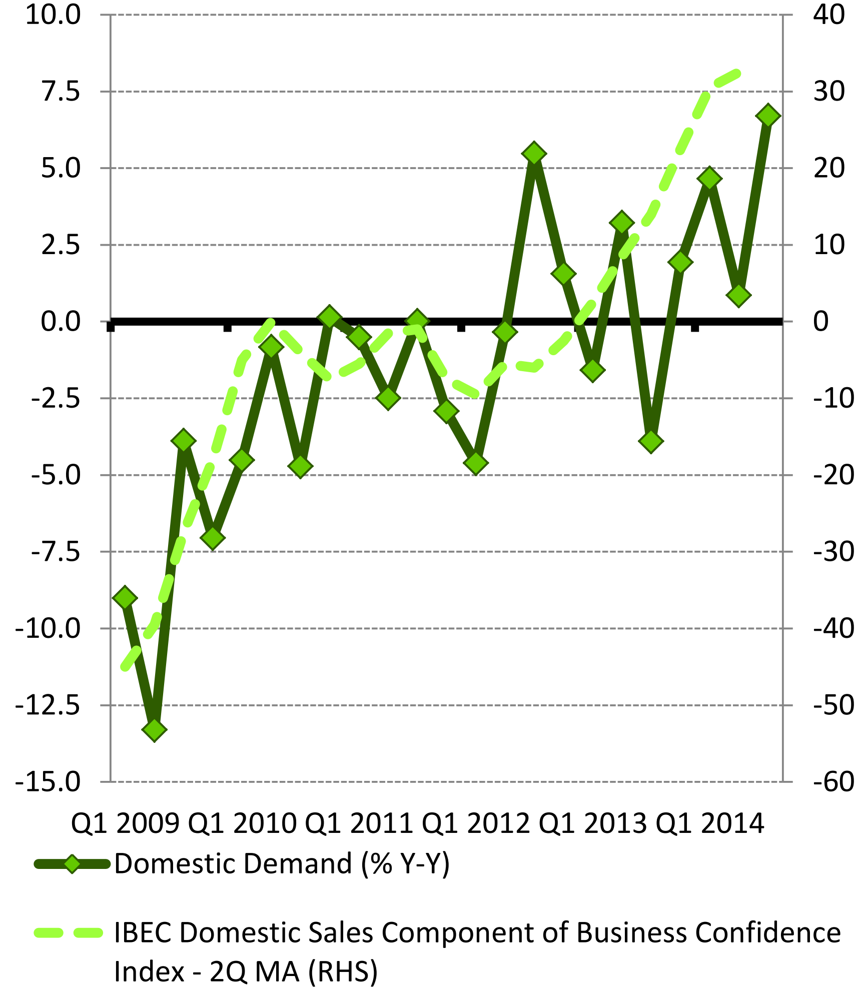
Business surveys point to sustainable recovery

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



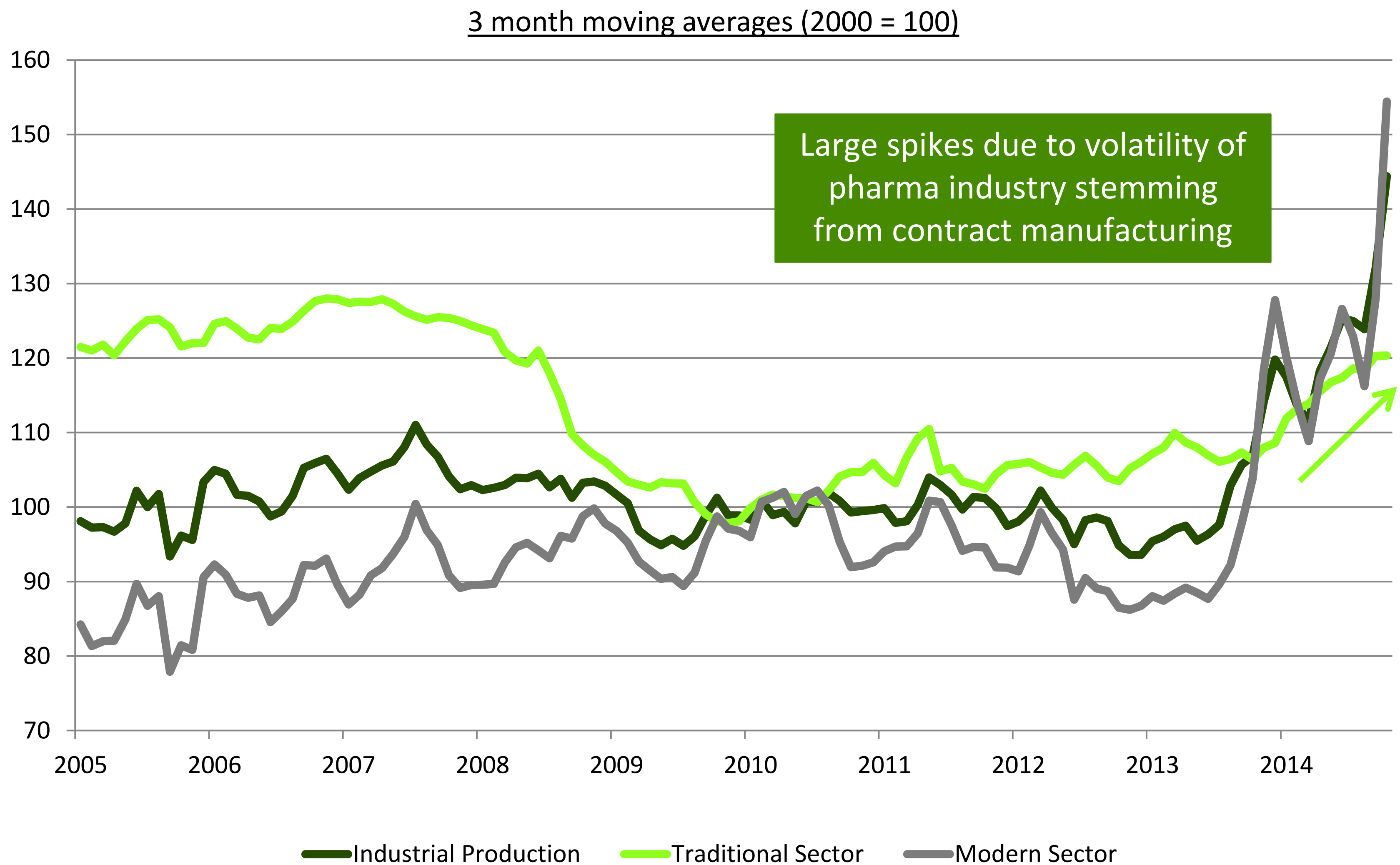
Source: Markit; Investec

Domestic activity strengthened in 2014 from low base



Source: IBEC; CSO

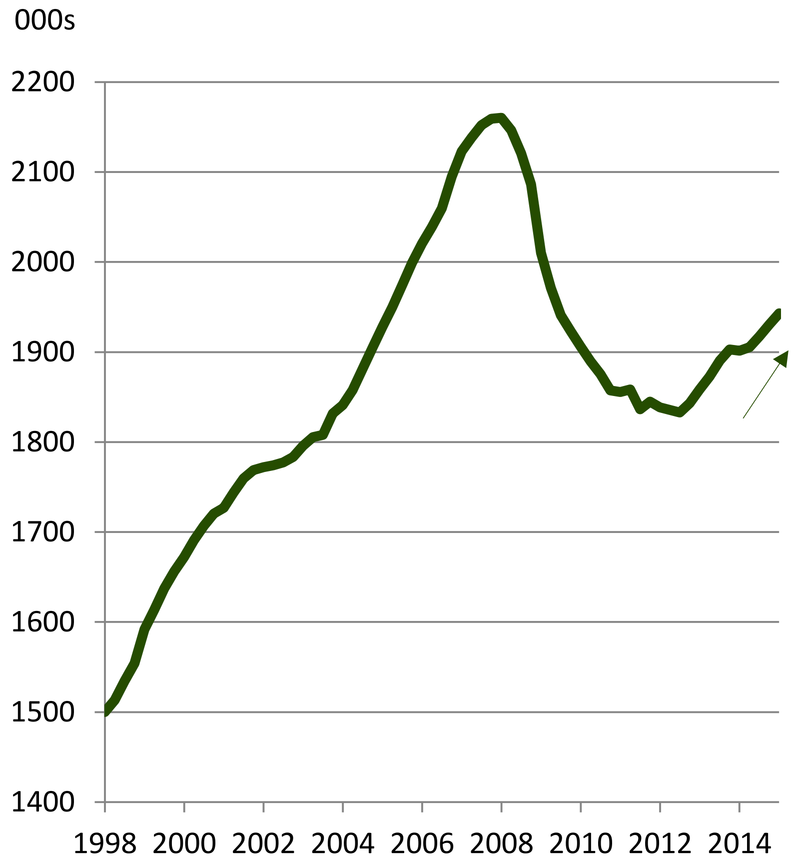
Industrial production volatile in 2014 due to pharma; sustained growth from traditional manufacturing



Source: CSO

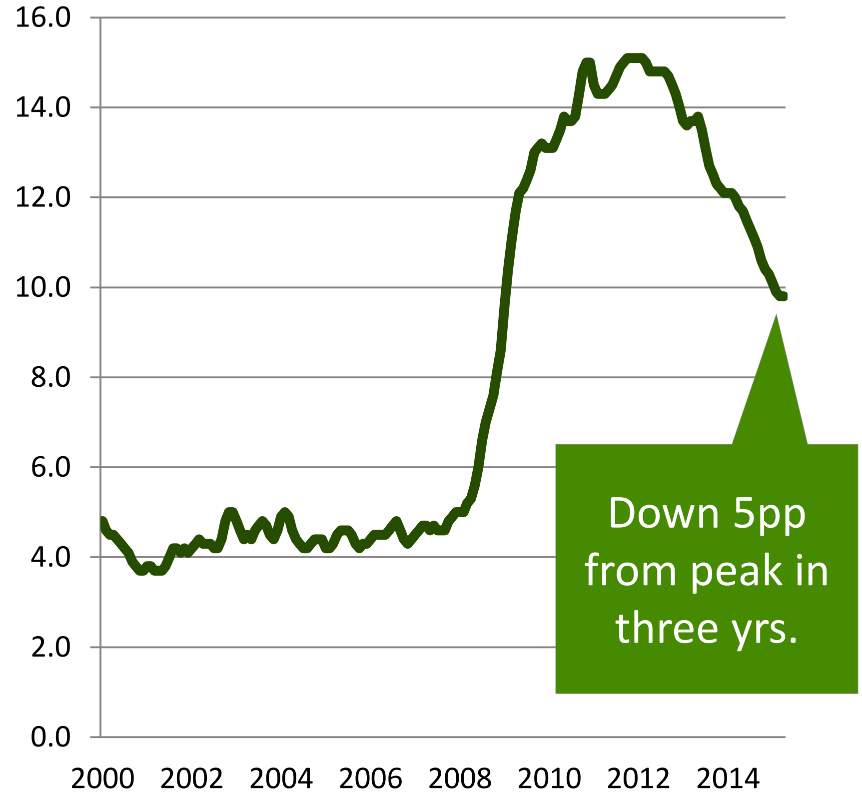
Labour market has recovered since 2012, though employment growth rate slowed in 2014

Employment up 6% from cyclical low



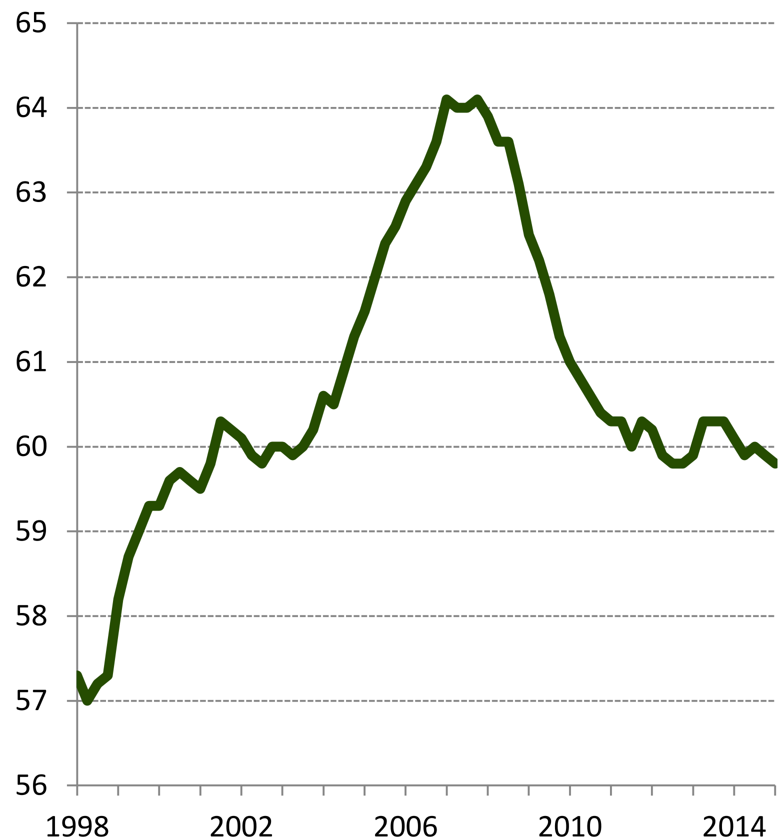
Source: CSO

Unemployment rate down to 9.9% in Q1 2015

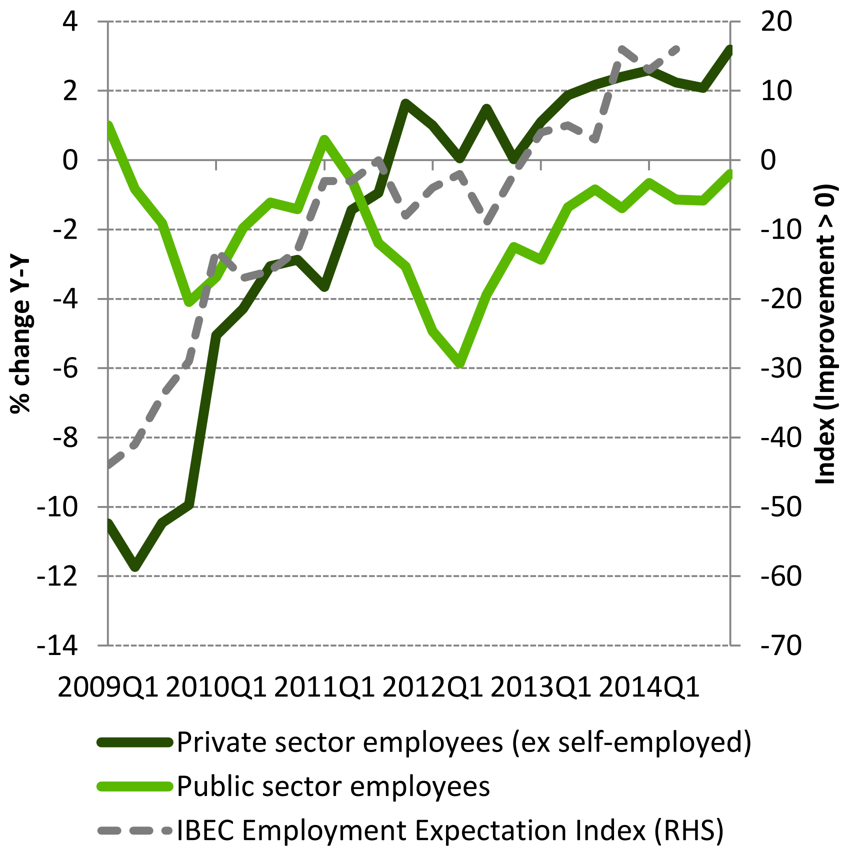


Although total employment has increased, labour participation has not yet recovered – similar to US

Participation rate hovering around 60%

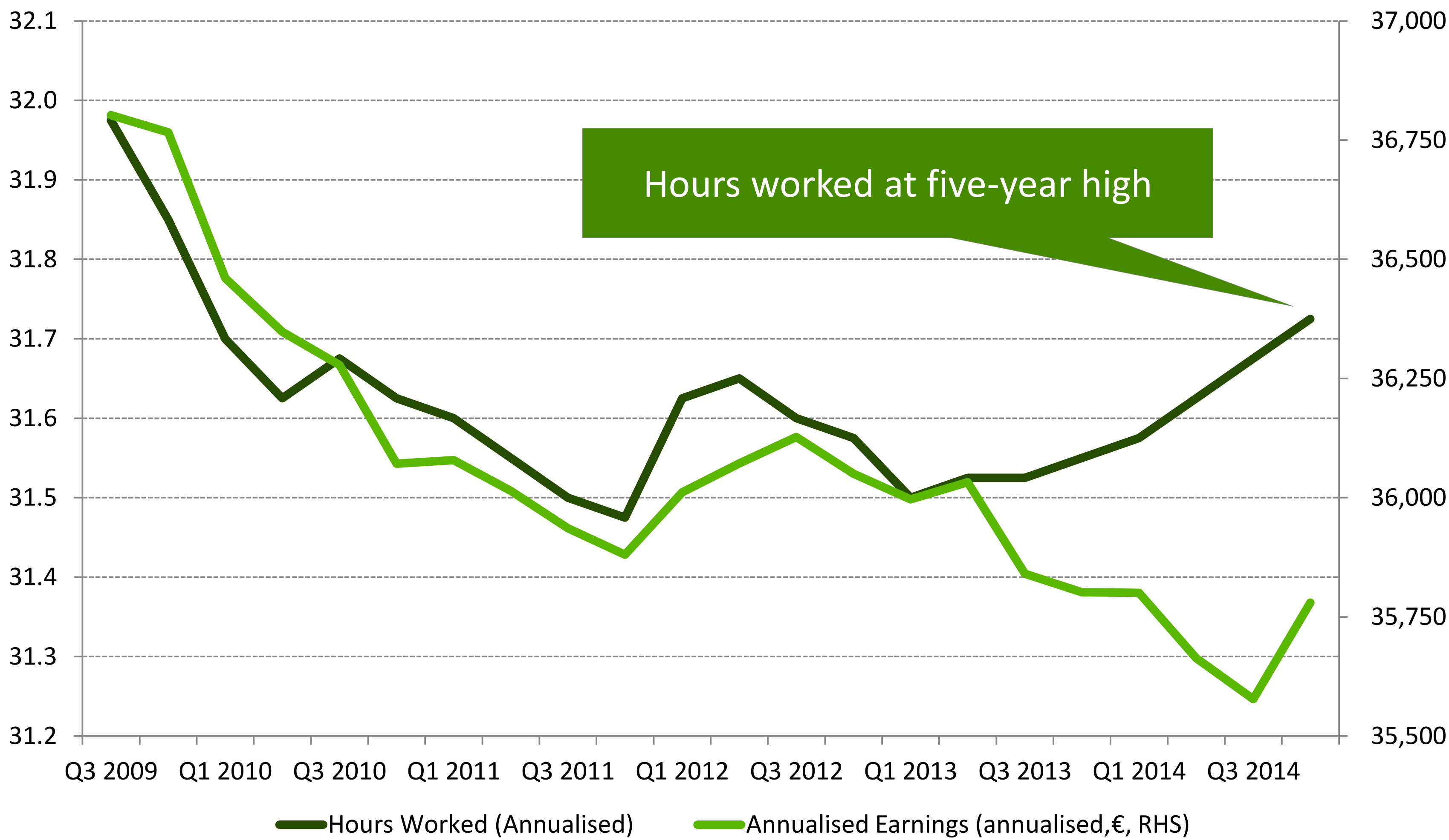


Private sector employment offsetting public sector declines; forward indicators encouraging



Sources: CSO; IBEC

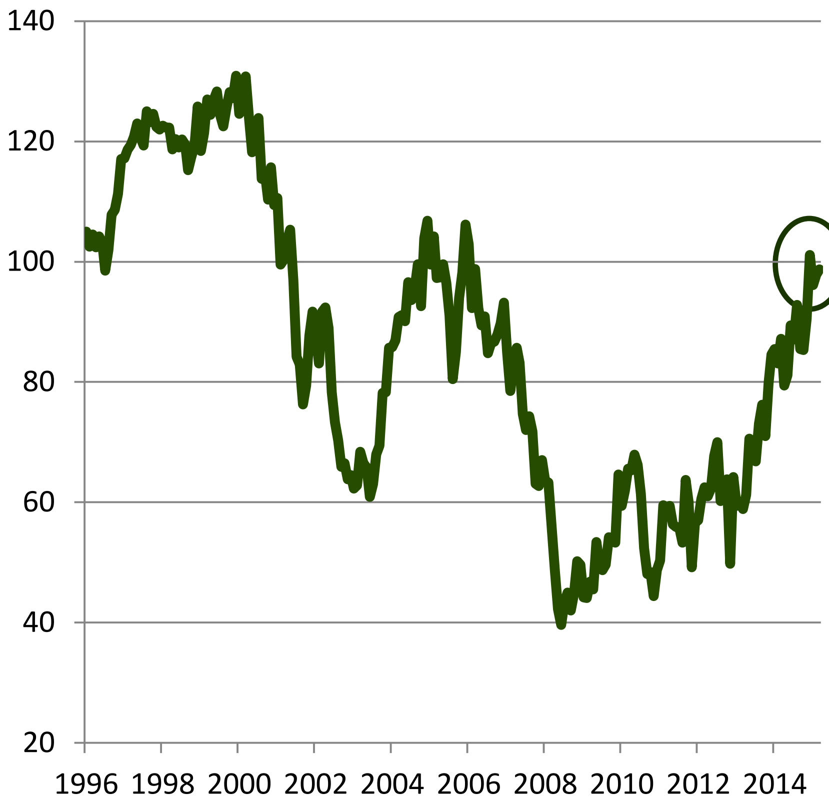
Wages and hours worked finally beginning to recover, although pockets of excess capacity remain



Source: CSO

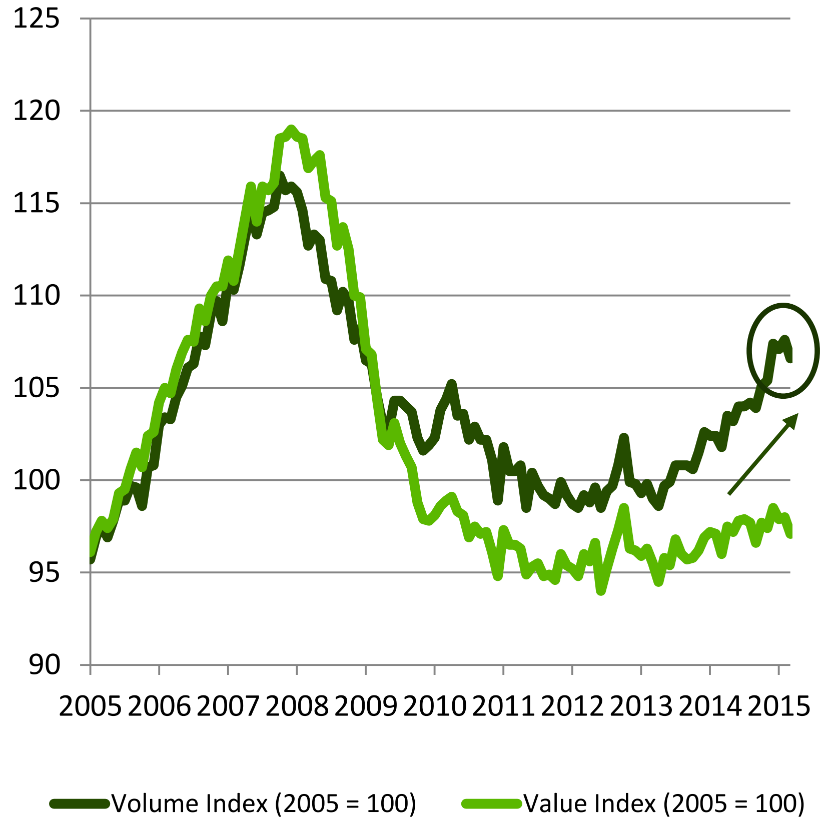
Rising employment and house price rises lift retail sales; confidence back at mid-2000s level

Consumer confidence recovers



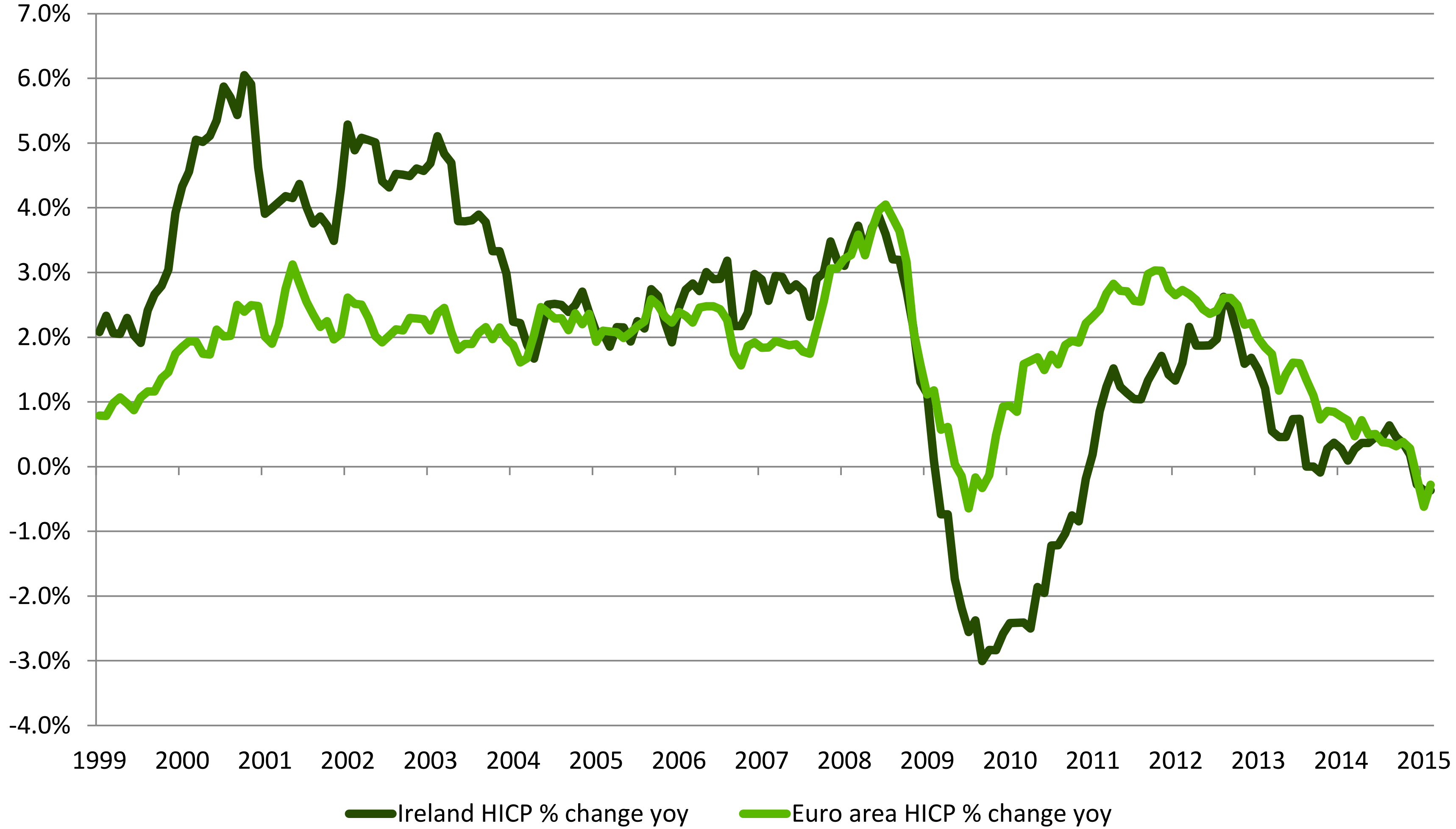
Source: KBC, ESRI, CSO

"Core"* retail sales rise steadily



*Excluding motor trade

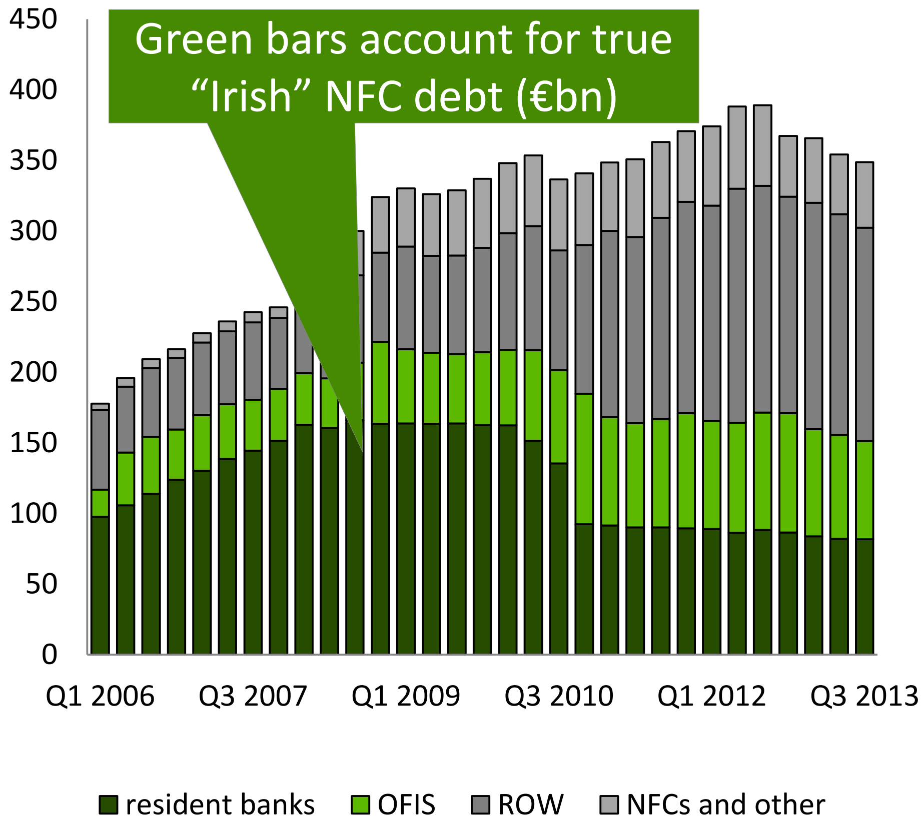
Mild deflation – driven by lower oil prices - underpinning real incomes



Source: CSO

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

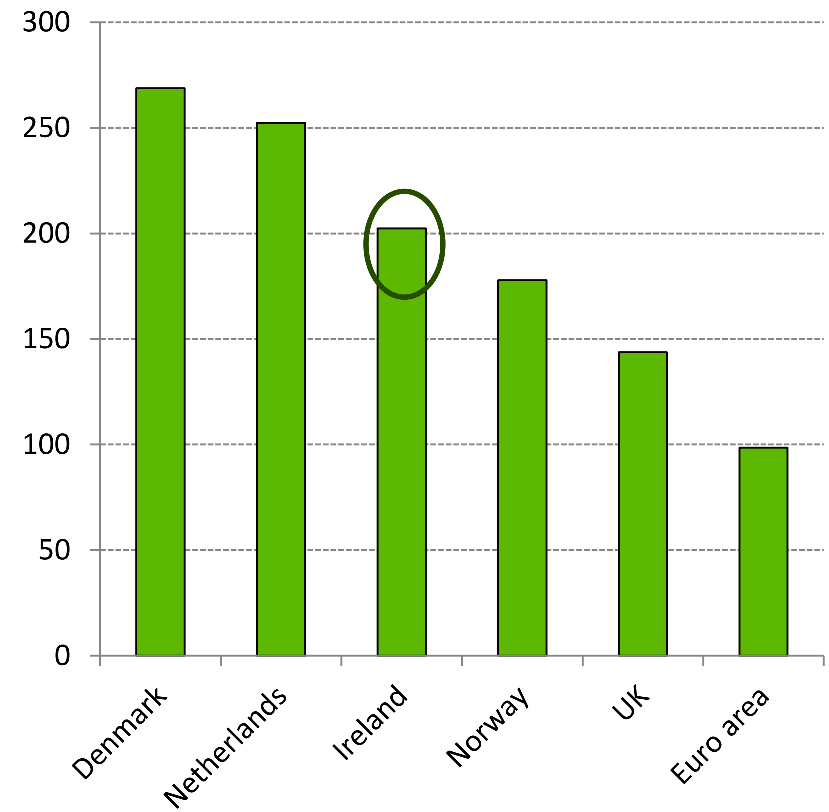
Irish Non-Financial Corporate (NFC) debt is distorted by multinationals (€bn)



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

* OFI = Other Fin. Intermediaries

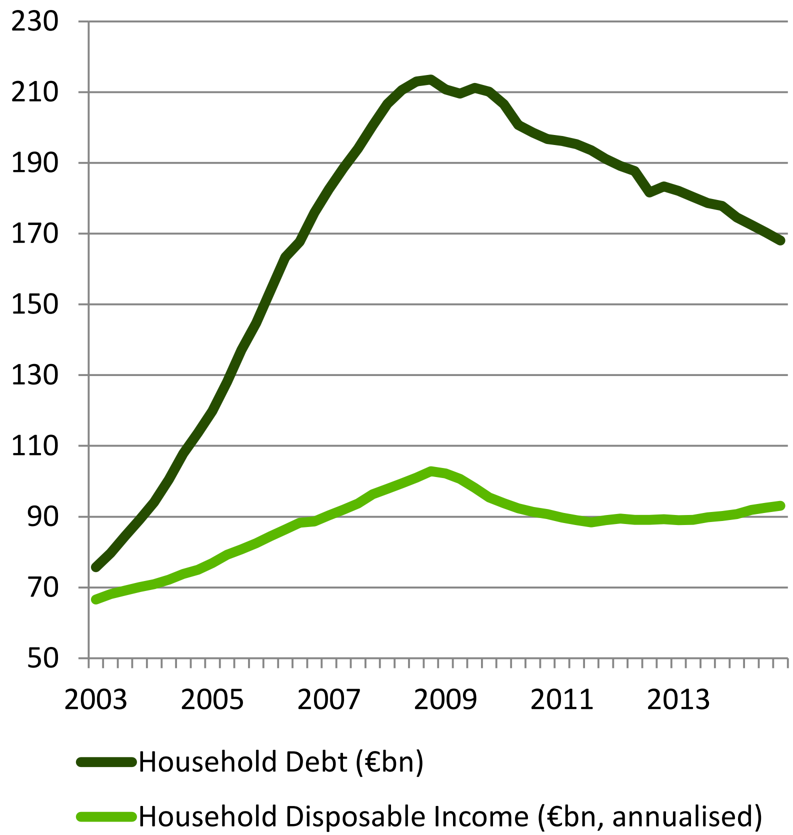
Household debt ratio (% DI) declining (see slide 26) but still among highest in Europe



Source: Eurostat (2013 data)

Household deleveraging continues, but at slow pace; Rising house prices has improved HH balance sheets

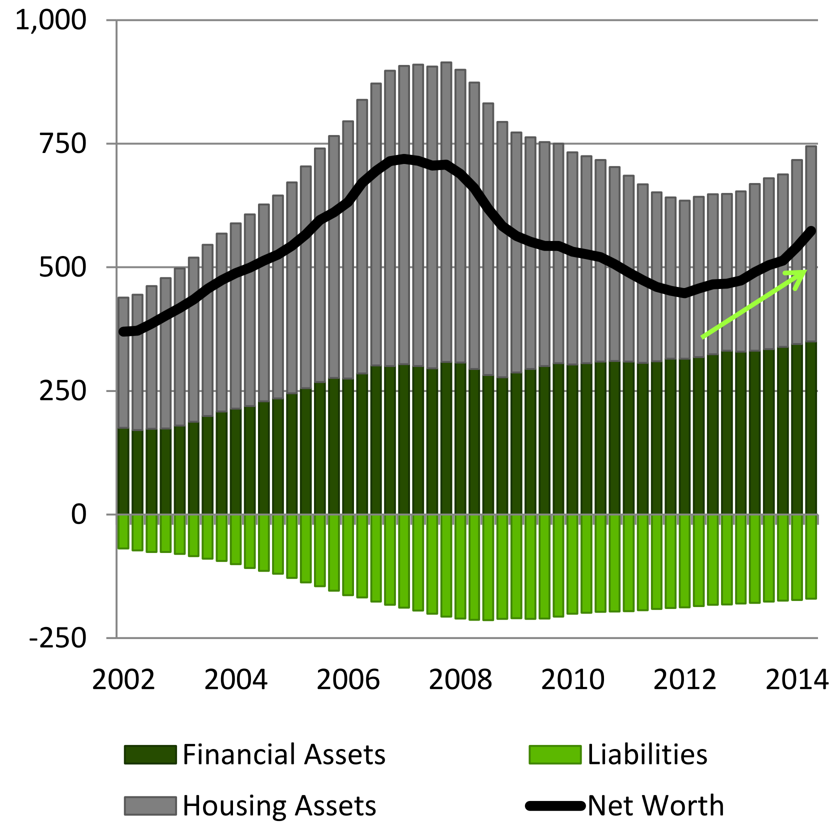
Debt-to-income ratio in Q3 2014 at 193%*, the lowest since Q3 2006



Source: CBI, CSO

* Measure includes both loans and other liabilities.
Excluding other liabilities, debt-to-income ratio is 177%

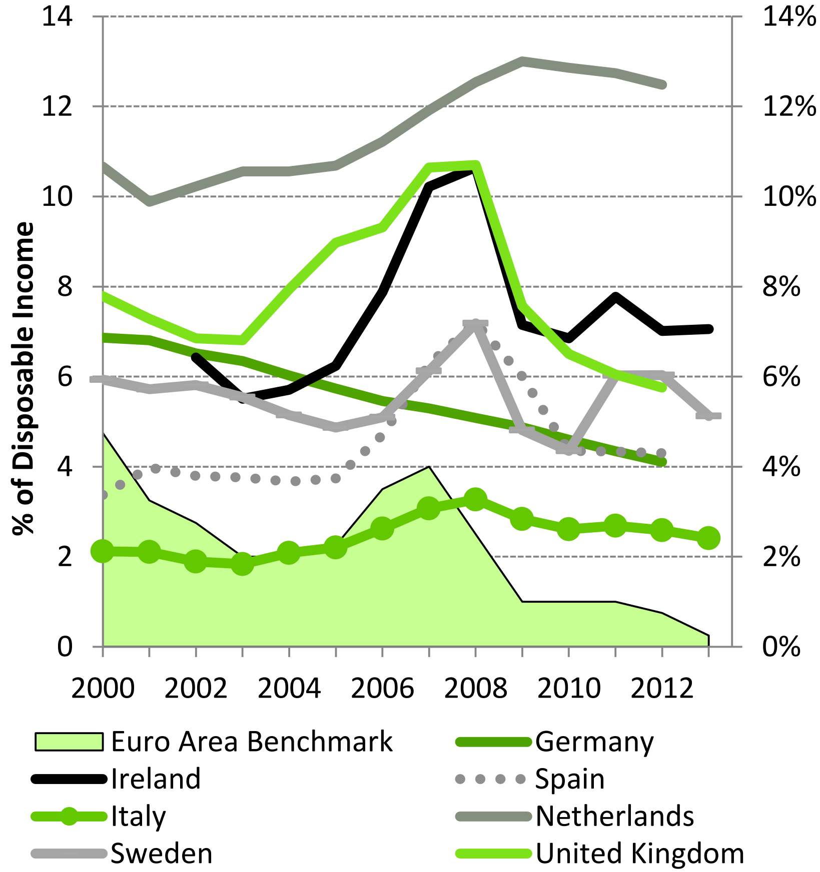
Household net worth (€bn) improved in 2014 and will underpin consumer spending



Source: CBI

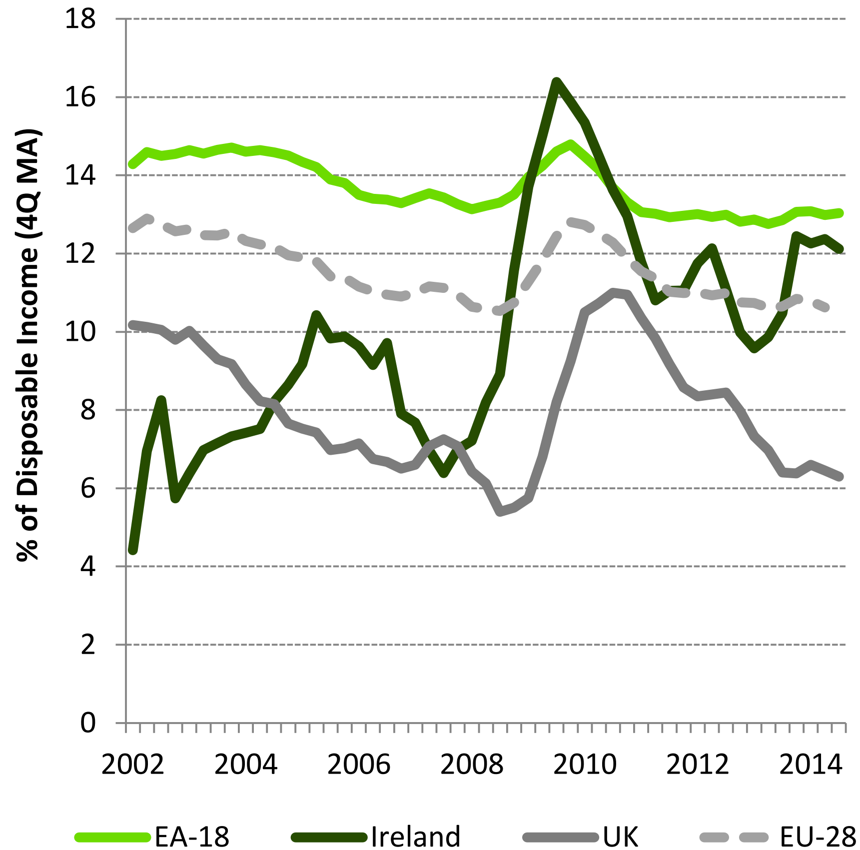
Interest burden high but suppressed by trackers; savings rate around euro area average

Interest burden on households has been suppressed by tracker mortgages



Source: Eurostat, CSO

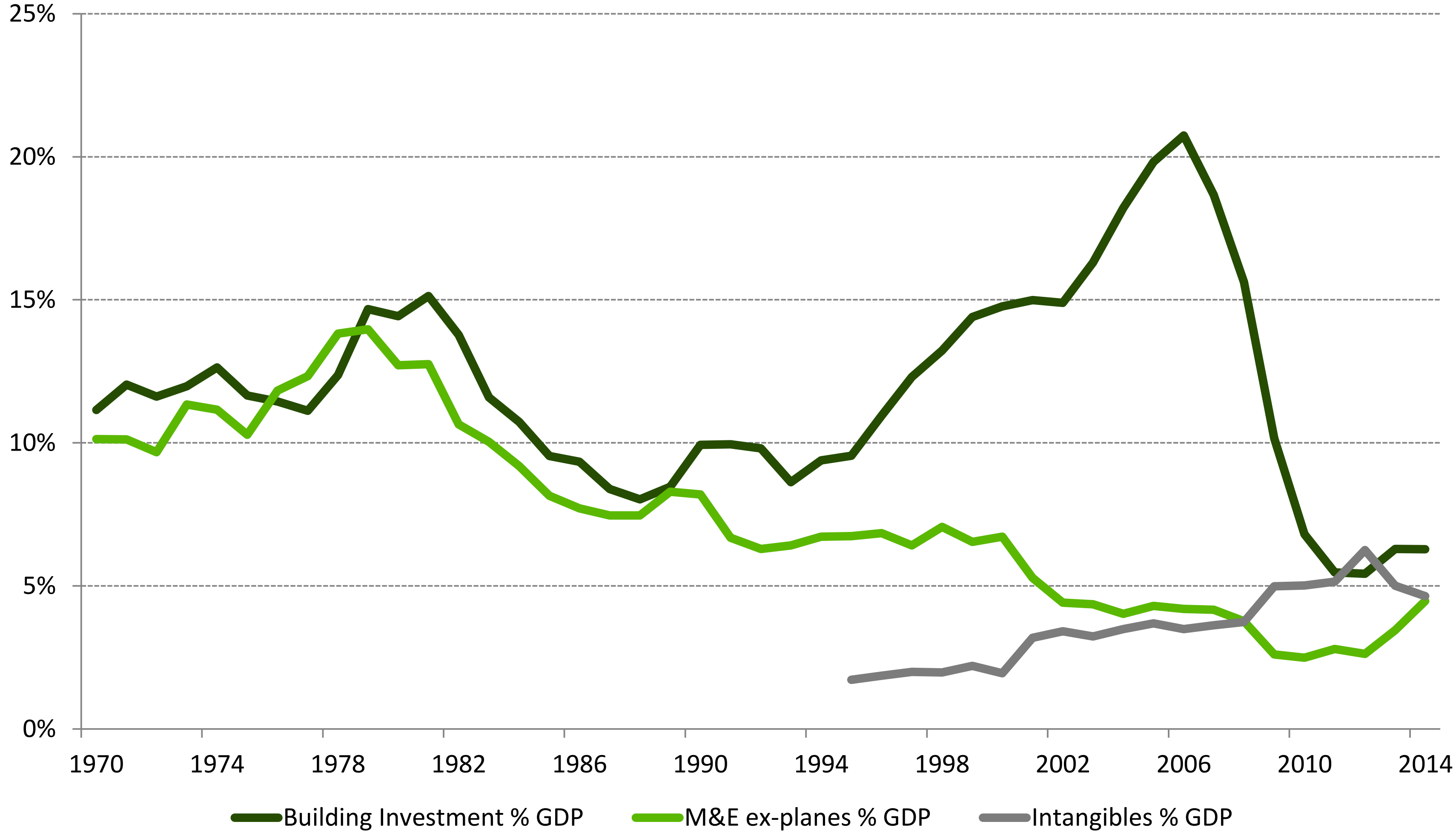
Gross household saving rate rises, despite improving income prospects



Source: 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

Investment is rising from a low base, but plenty of scope for further expansion



Source: CSO

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

Economic and fiscal forecasts: SPU 2015

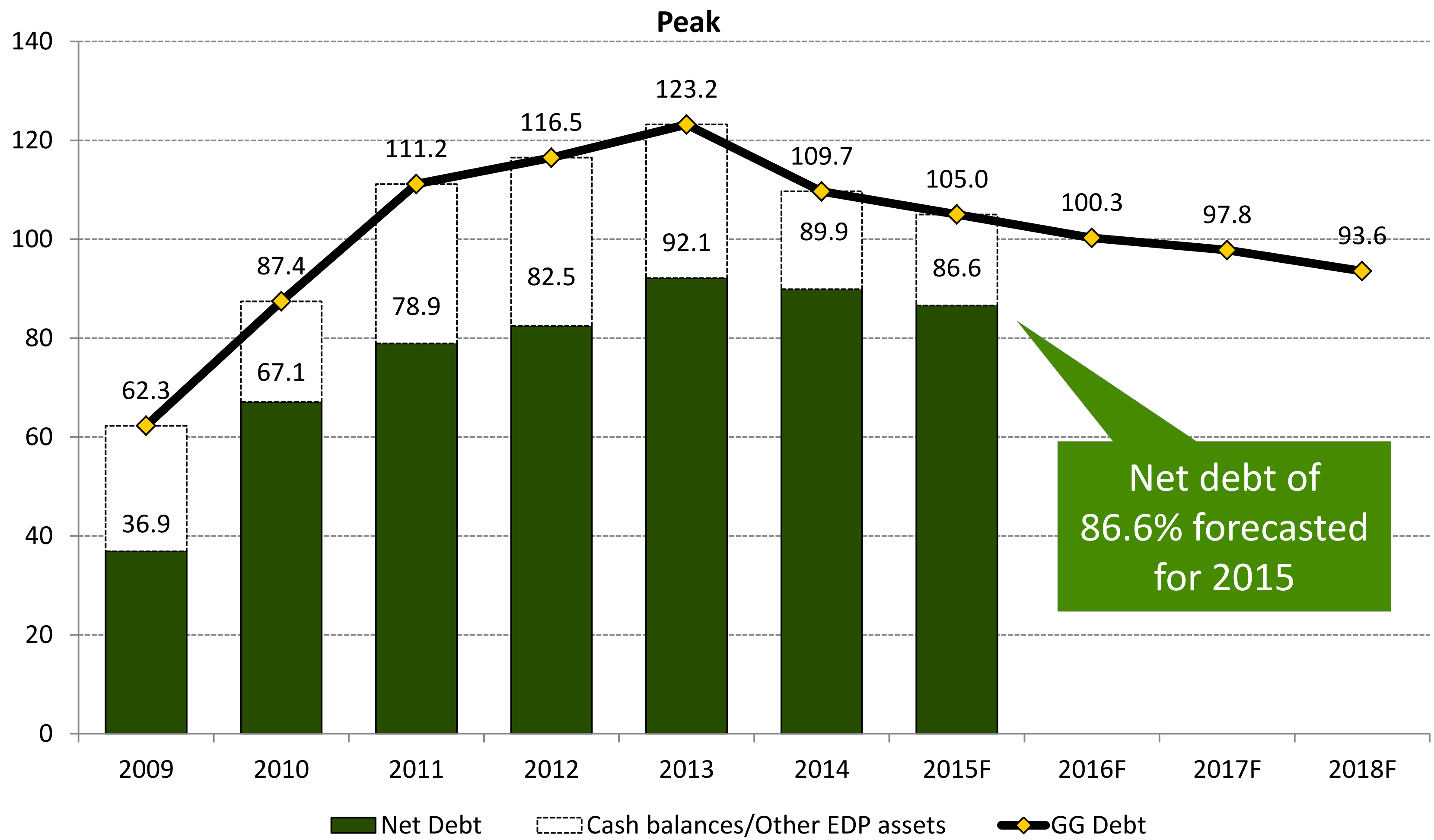
	2013	2014	2015f	2016f	2017f
GDP (% change, volume)	0.2	4.8	4.0	3.8	3.4
GNP (% change, volume)	3.3	5.2	3.9	3.5	2.7
Domestic Demand (Contribution to GDP, p.p.)	-0.6	2.3	3.7	3.5	2.3
Net Exports (Contribution to GDP, p.p.)	0.6	2.2	0.6	0.5	1.0
Current Account (% GDP)	4.4	6.2	7.2	6.4	5.5
General Government Debt (% GDP)	123.3	109.7	105.0	100.3	97.8
Underlying General Government Balance (% GDP^)*	-5.7	-4.1	-2.3	-1.7	-0.9
Inflation (HICP)	0.5	0.3	0.2	1.1	1.5
Unemployment rate (%)	13.1	11.3	9.6	8.8	8.4

Source: CSO; Department of Finance (SPU April 2015)
**Underlying: ex-banking recapitalisation under EDP rules*

SECTION 2: FISCAL & NTMA FUNDING

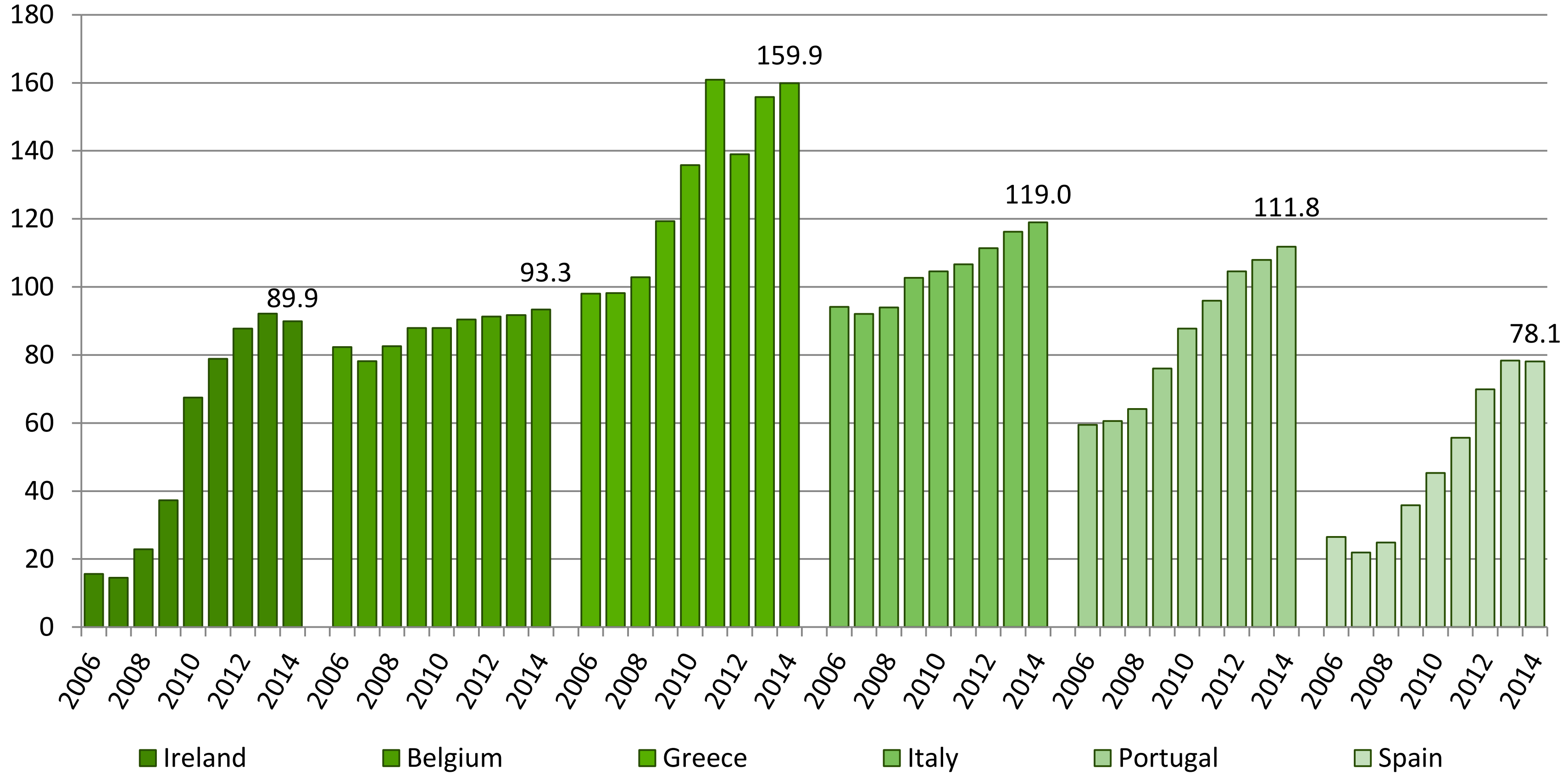
Ireland's Government debt ratio forecast to drop to 105% of GDP in 2015; it will reach landmark by exiting the Excessive Deficit Procedure (EDP) too

Gross Government debt stabilised fell to 110% of GDP at end-2014; likely to close to 105% by end-2015



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

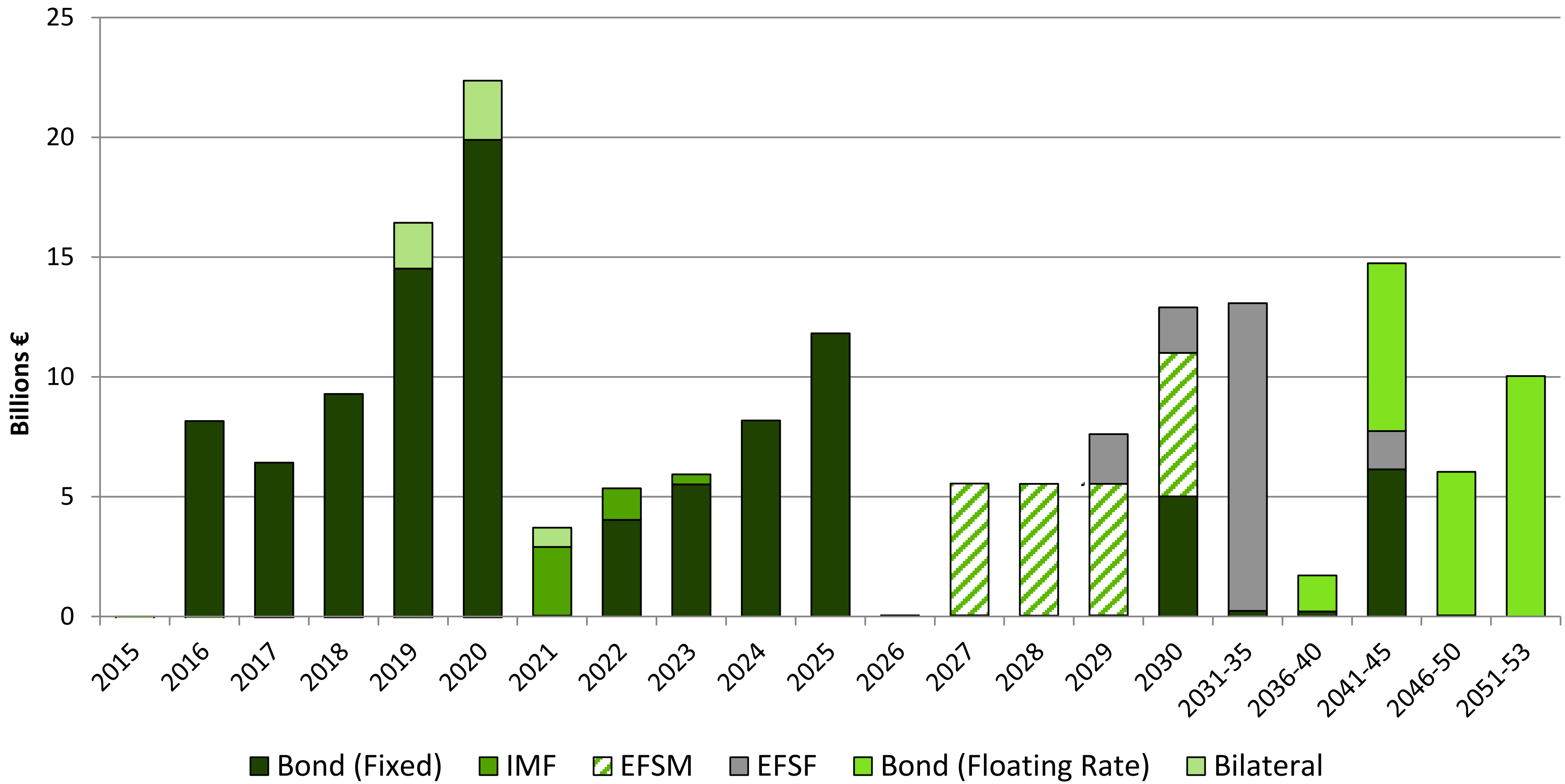
Net Government debt ratio (% GDP) now below that of Belgium – our closest bond market counterpart



Net General Government Debt = Gross General Government Debt - EDP Assets
EDP Assets = Currency and Deposits + Securities other than Shares (excluding financial derivatives) + Loans
Note: EDP assets are all financial assets (excluding equities) held by general government

Source: CSO; DataStream; NTMA analysis

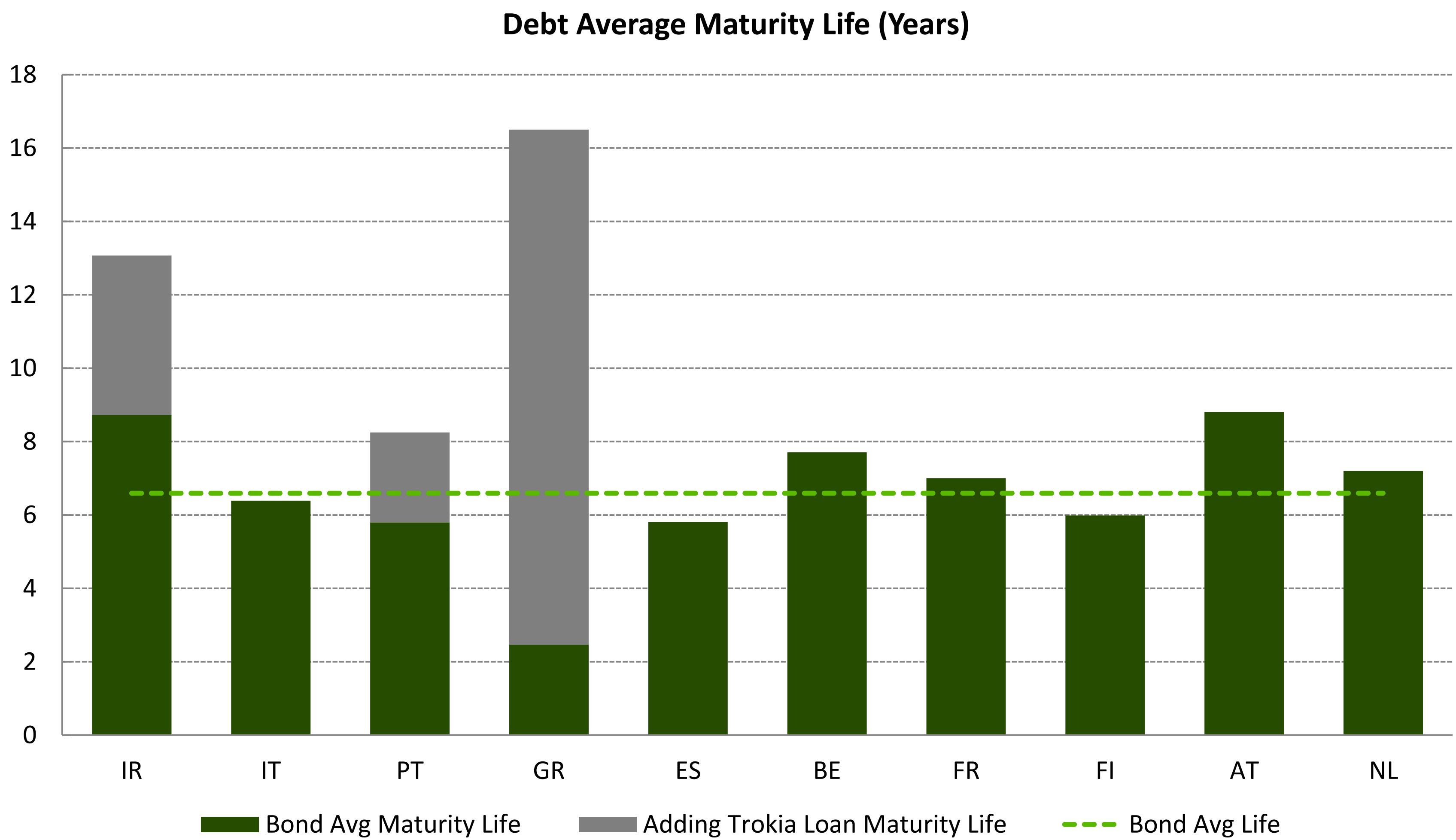
Improved maturity profile following IMF repayment



Source: NTMA

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

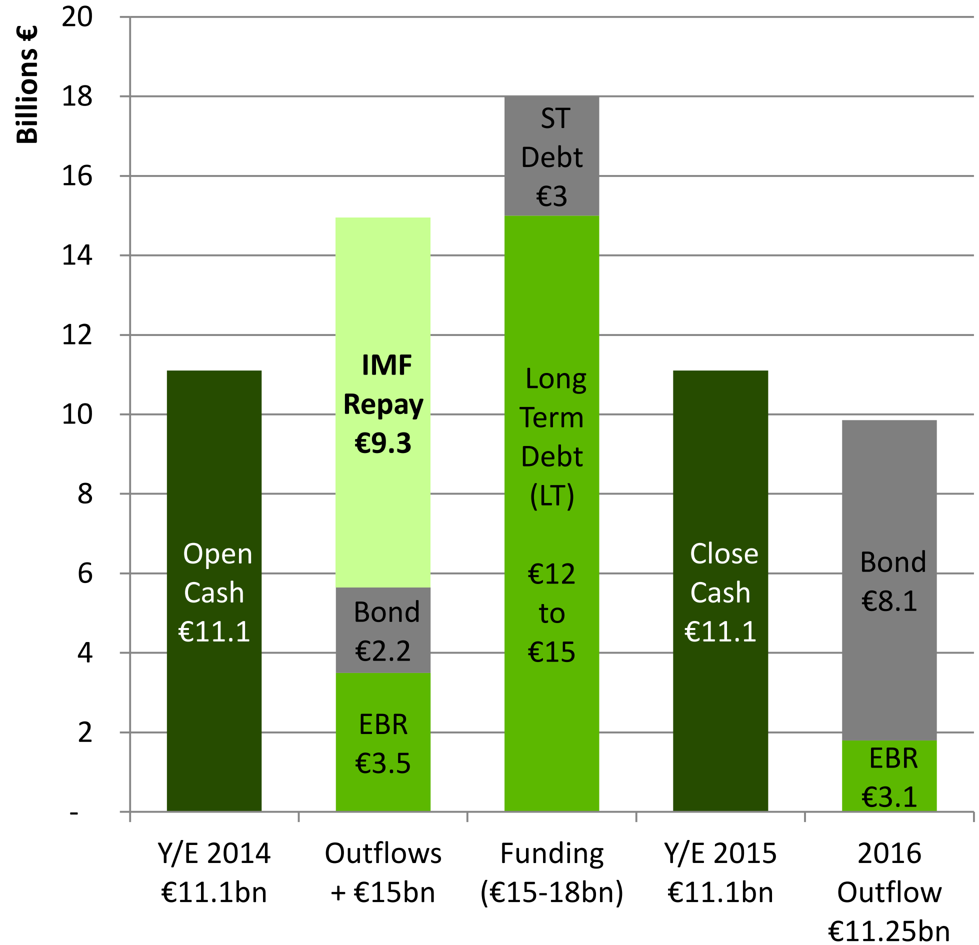
Ireland's average maturity favourable when compared with other euro area countries



Source: NTMA

NTMA has been funding approximately 12 months in advance; IMF repayments raised 2015 requirement

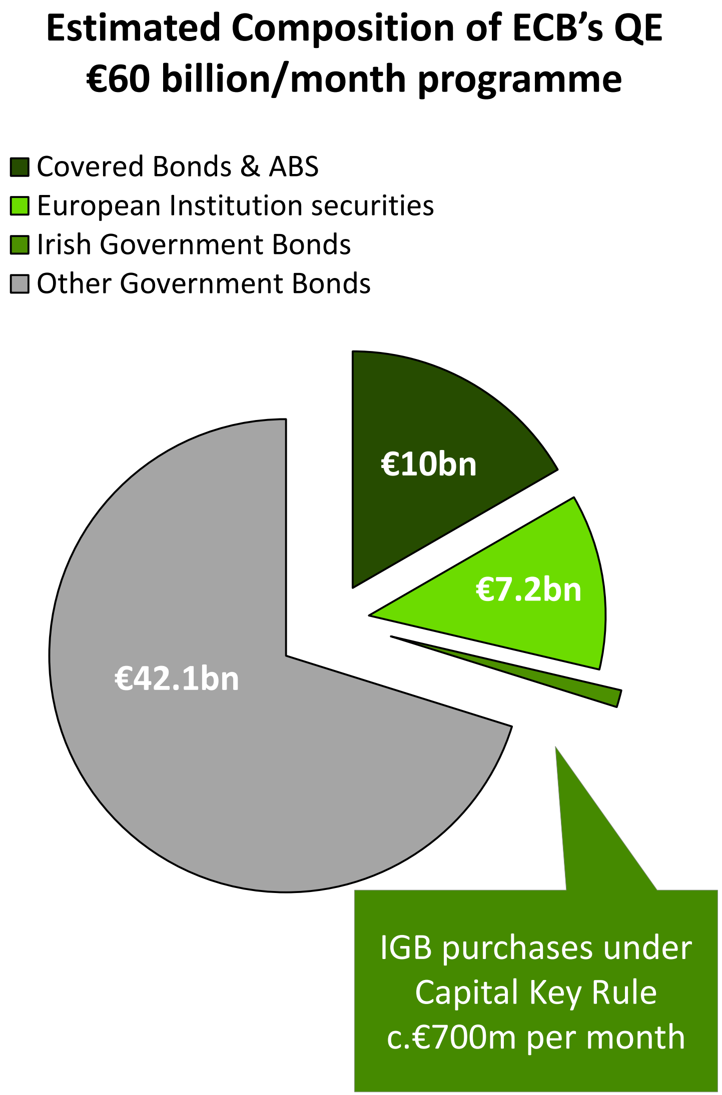
- Medium-term funding requirement improved following restructuring of IBRC Promissory Note, extension of EFSF/EFSM maturities and IMF deal
- €18bn worth of IMF repaid in 2014/15 through new issuance and existing cash balances.
- NTMA pre-funded for whole of 2015. It expects to issue €12-15bn worth of long term bonds in 2015. €10.25bn has been issued so far in 2015.
- Exchequer had €11.1bn of cash and other liquid assets at end-2014

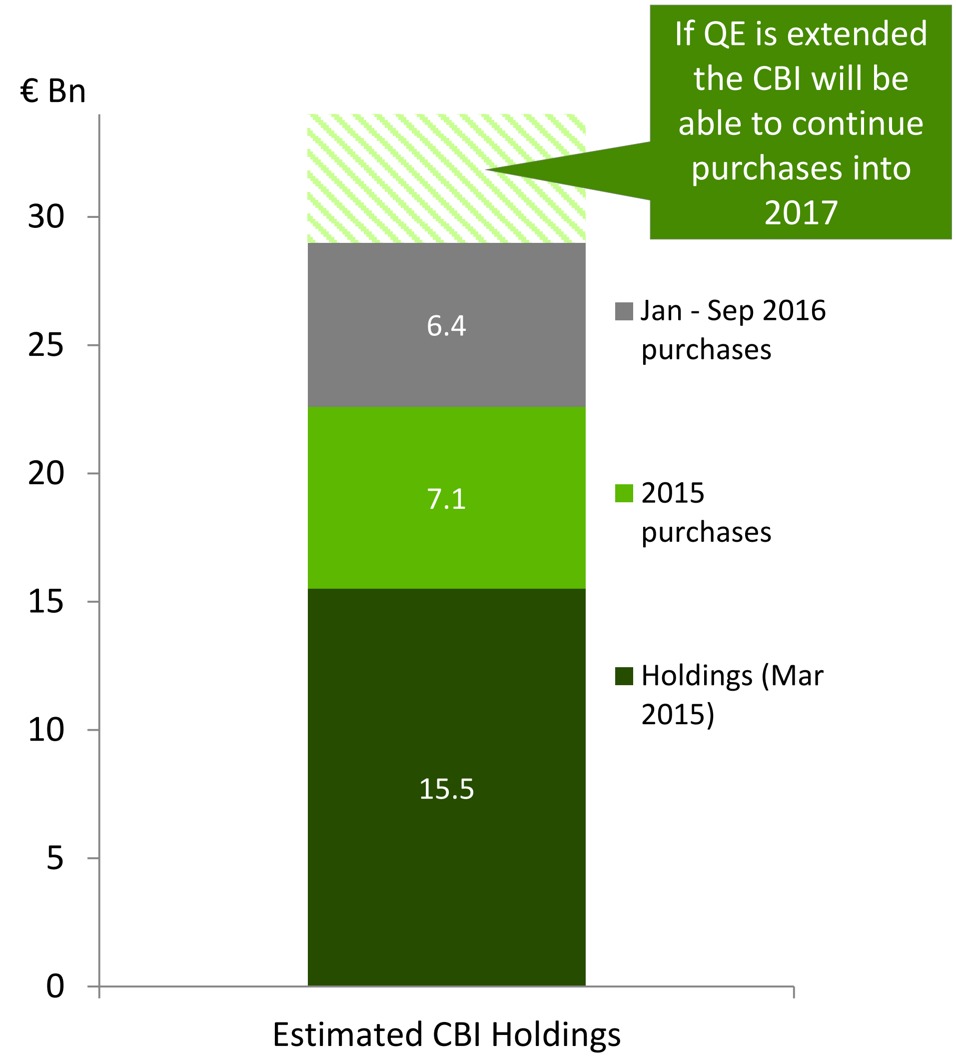


Source: NTMA; Department of Finance

1. EBR is the Exchequer Borrowing Requirement
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”.

Central bank of Ireland to purchase €700m worth of IGBs per month under ECB's QE programme





Source: NTMA

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

€ million

End quarter	Dec 2013	Dec 2014	Feb 2015
1. Resident	54,144	52,635	50,459
(as % of total)	(48.8%)	(45.2%)	(41.3%)
– Credit Institutions and Central Bank*	50,057	47,590	46,105
– General Government	1,275	1,632	1,234
– Non-bank financial	2,502	2,702	2,696
– Households (and NFCs)	307	352	424
2. Rest of world	56,863	64,063	71,679
(as % of total)	(51.2%)	(54.8%)	(58.7%)
Total MLT debt	**111,007**	**116,339**	**122,138**

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.

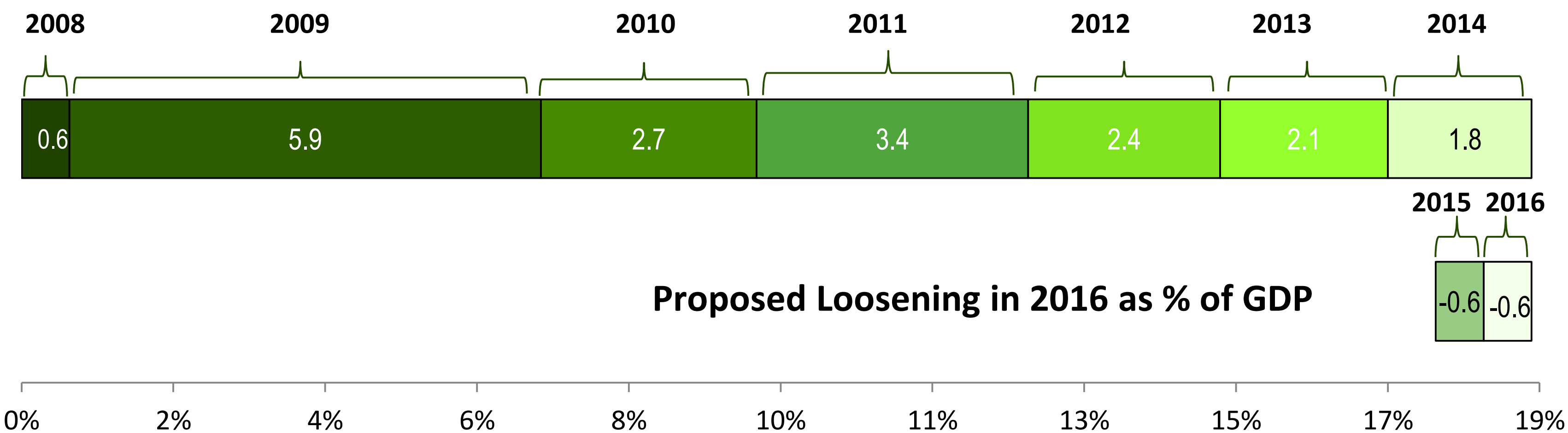
Breakdown of General Government debt

€ million	2010	2011	2012	2013	2014
Currency and deposits (mainly retail debt)	13,708	58,386	62,092	31,344	20,914
Securities other than shares, exc. financial derivatives	96,317	94,001	87,285	112,660	119,006
- Short-term (T-Bills, CP etc)	7,203	3,777	2,535	2,389	3,688
- Long-term (MLT bonds)	**89,114**	**90,224**	**84,750**	**110,270**	**115,318**
Loans	34,138	37,723	60,849	71,534	63,399
- Short-term	735	569	1,907	1,466	1,304
- Long-term (official funding and prom notes 2009-12)	33,403	37,154	58,942	70,069	62,096
General Government Debt	**144,163**	**190,111**	**210,226**	**215,538**	**203,319**
EDP debt instrument assets	*32,883*	*54,943*	*58,494*	*54,787*	*36,626*
Net Government debt	**111,280**	**135,168**	**151,732**	**160,751**	**166,693**

Source: CSO (April 2015)

Huge fiscal consolidation 2008-2014 followed by small expansionary Budget for 2015 and 2016

Fiscal Consolidation 2008-14 as % of GDP

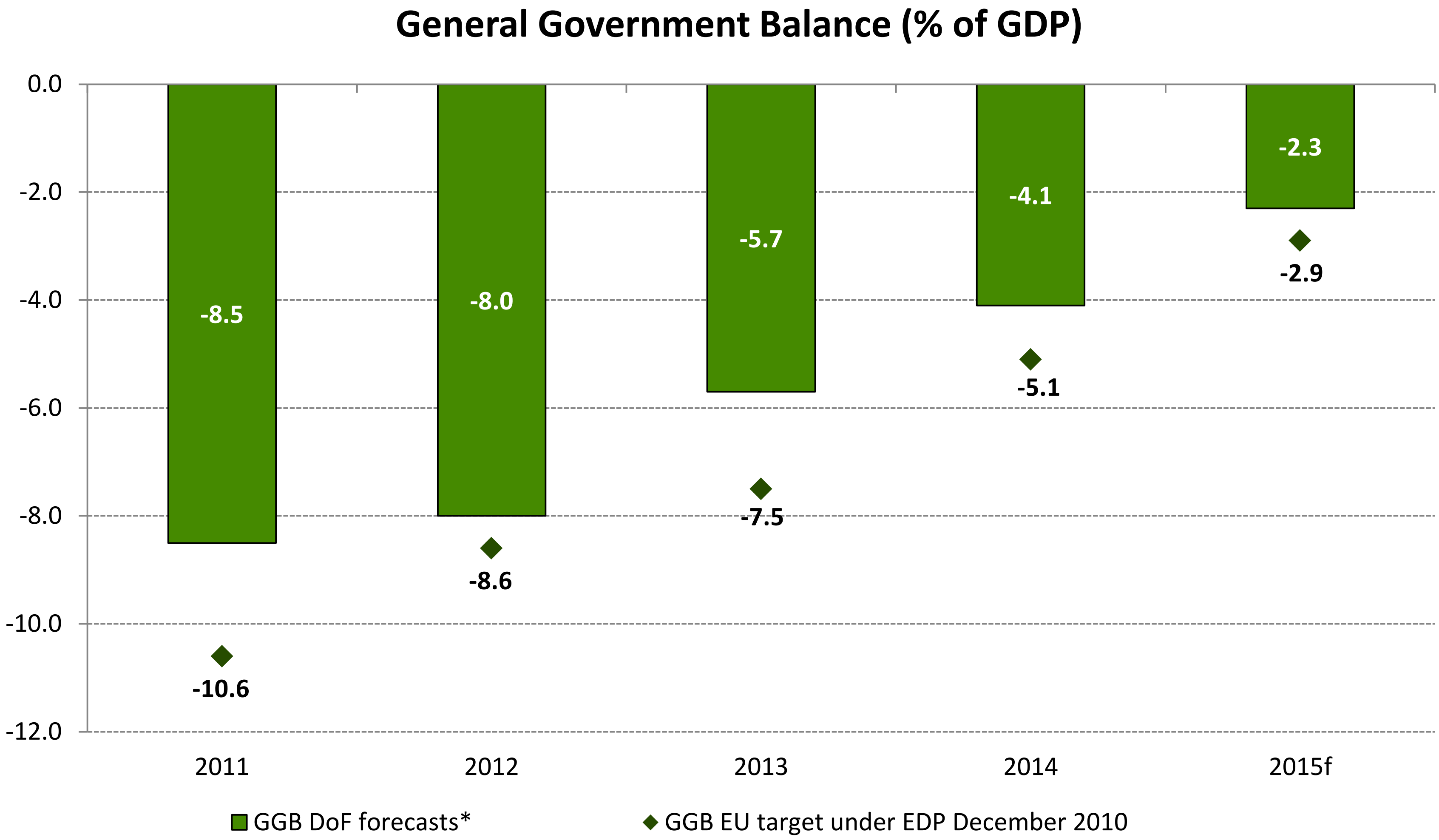


Breakdown of adjustment measures (€bn unless stated)

	2008	2009	2010	2011	2012	2013	2014	**2015E**
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%**

Source: Department of Finance: Budgets 2011-2015

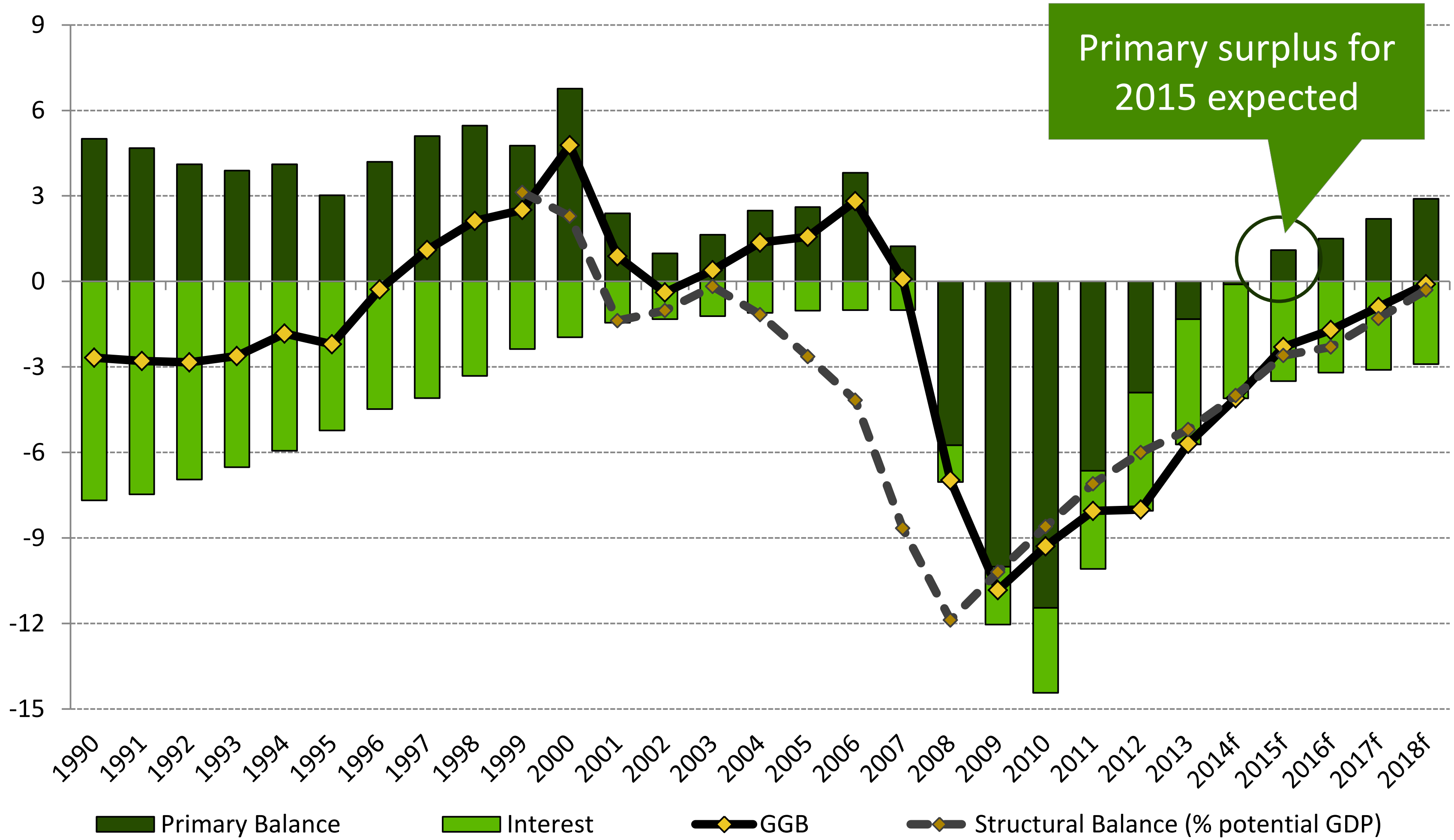
Four straight years of fiscal outperformance



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

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

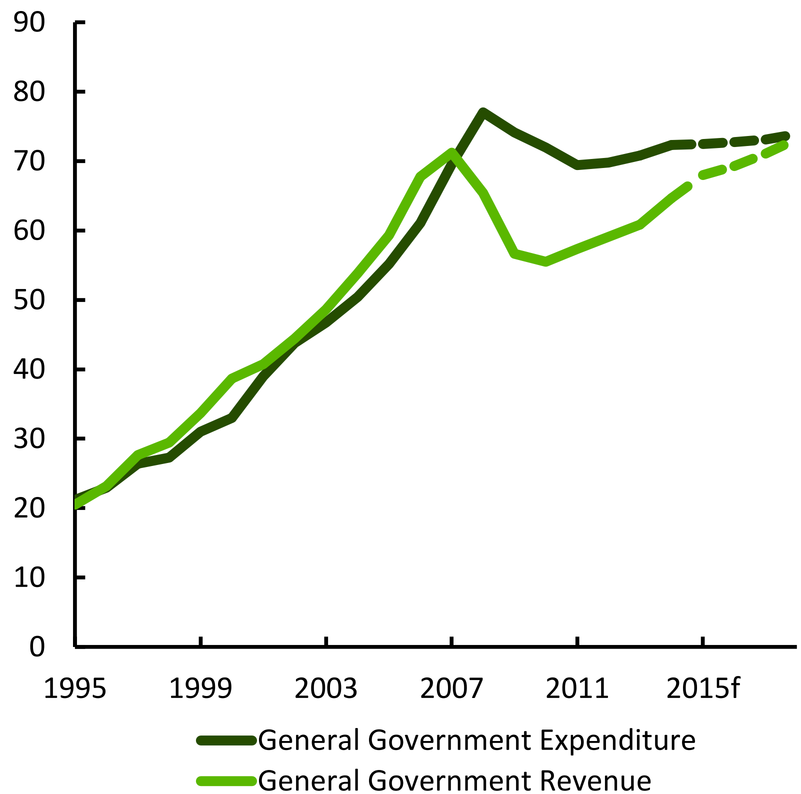
Ireland has confirmed debt sustainability: debt is falling naturally through “snowball” effect



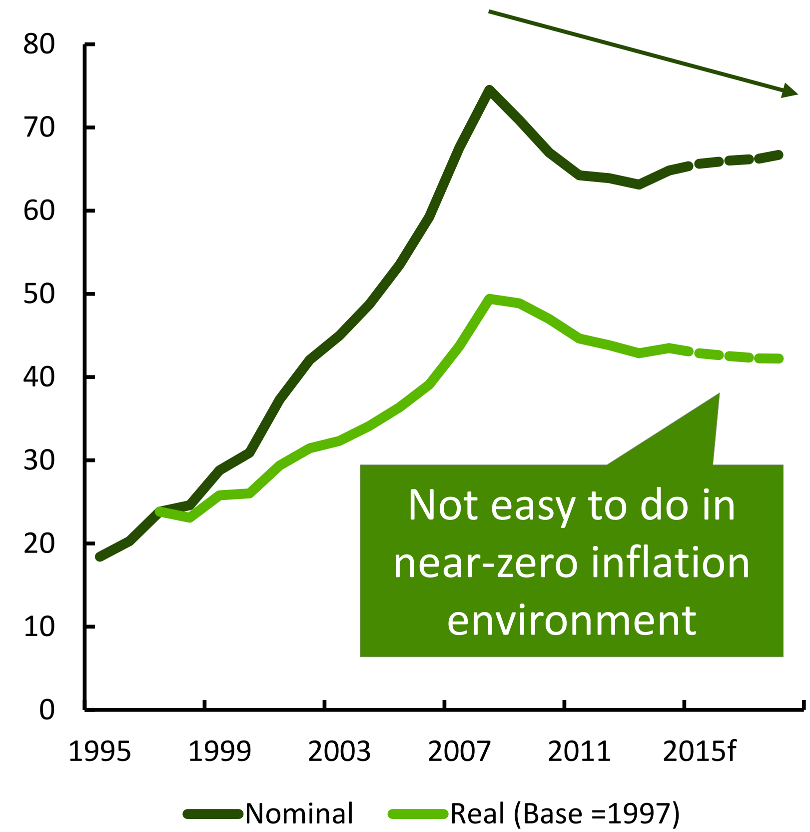
Source: Department of Finance; Eurostat; IMF

Ireland's mammoth fiscal turnaround

Deficit to be fully closed by 2018 (€bn)

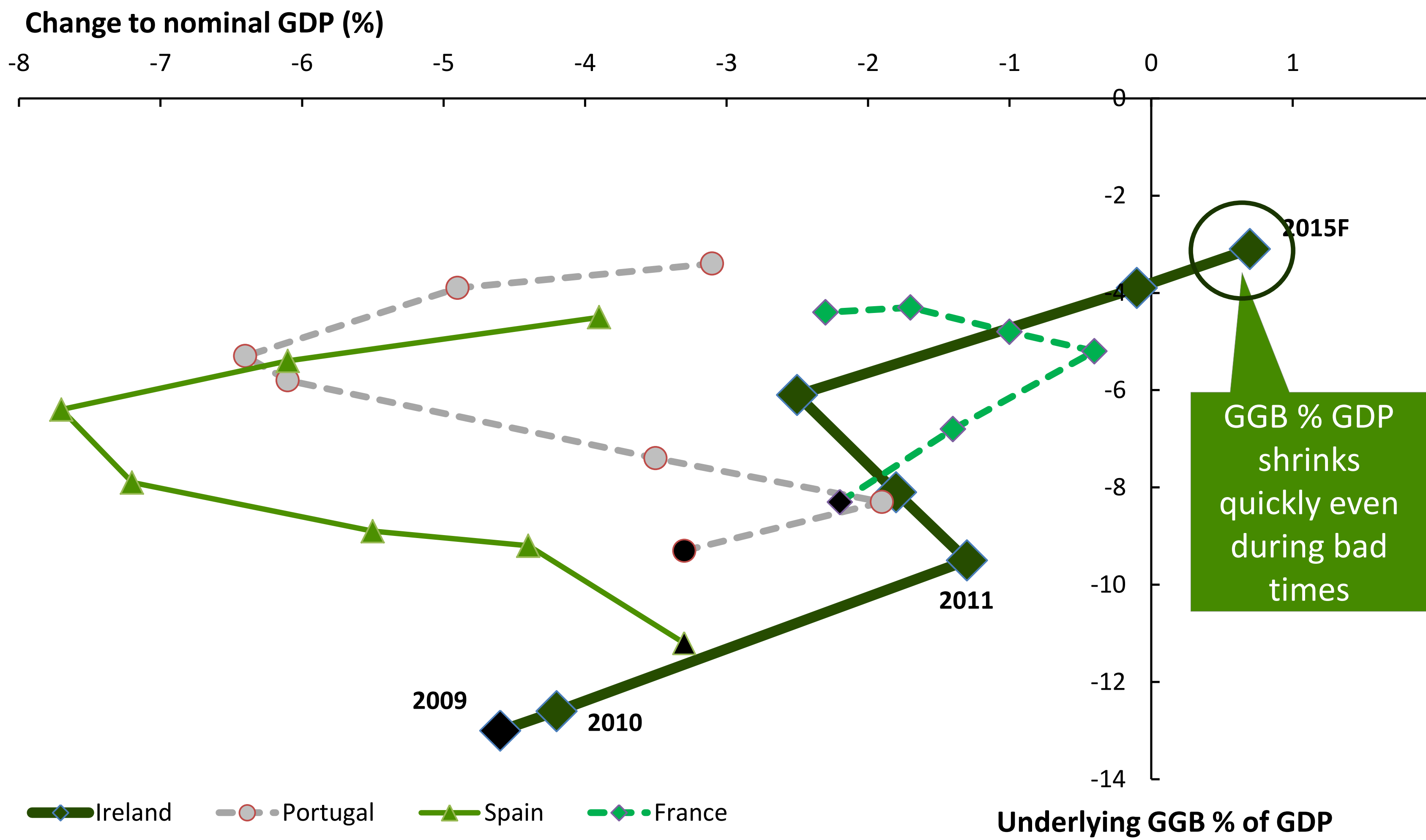


20% reduction in primary expenditure (€bn)



Source: CSO; Department of Finance

Ireland's fiscal adjustment route quicker than peers

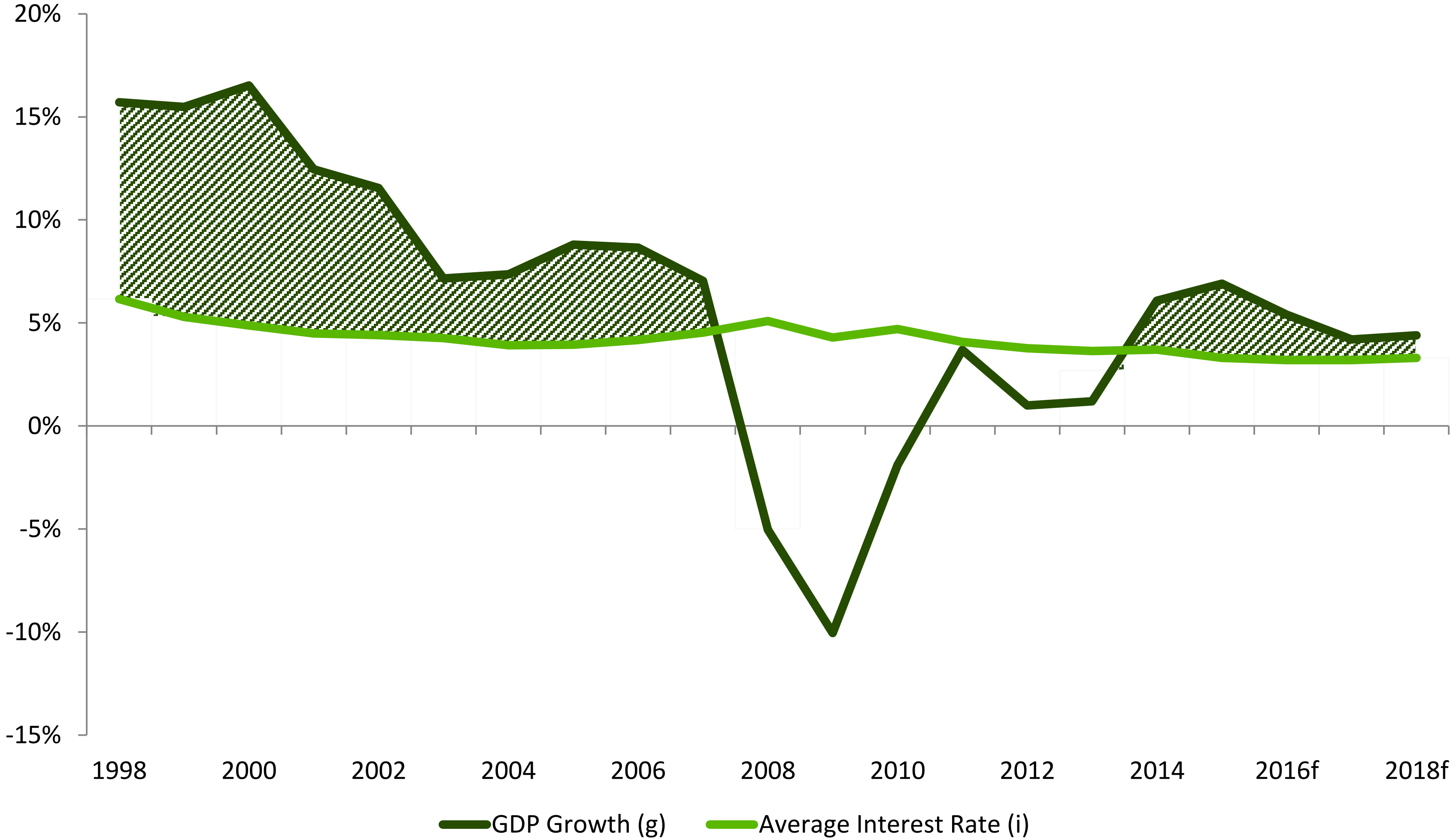


Source: European Commission

Note: All black markers are 2009 starting points

National Treasury Management Agency

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	7.0
Other Income (cumulative):	
• CoCo investment	1.4
• CBI income	5.1
• Bank Guarantee Income	4.2
• Net Interest (Interest receivable – interest payable*)	-3.4
Total	14.3

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

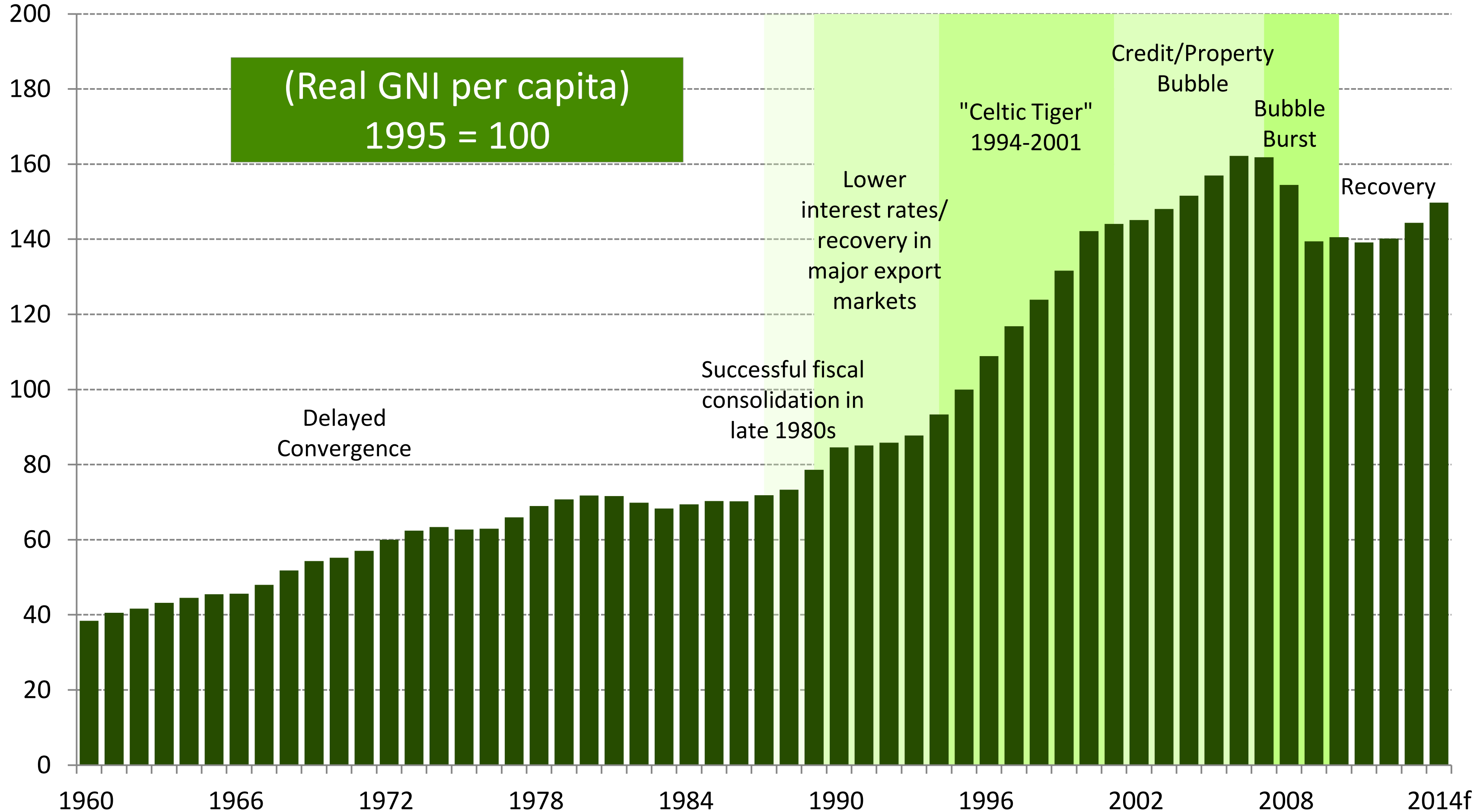
* Interest payable is estimated by the CSO as the bond risk premium paid by the Government for its banking support

Source: DoF; ISIF accounts; CSO; NTMA analysis

SECTION 3: REBALANCING

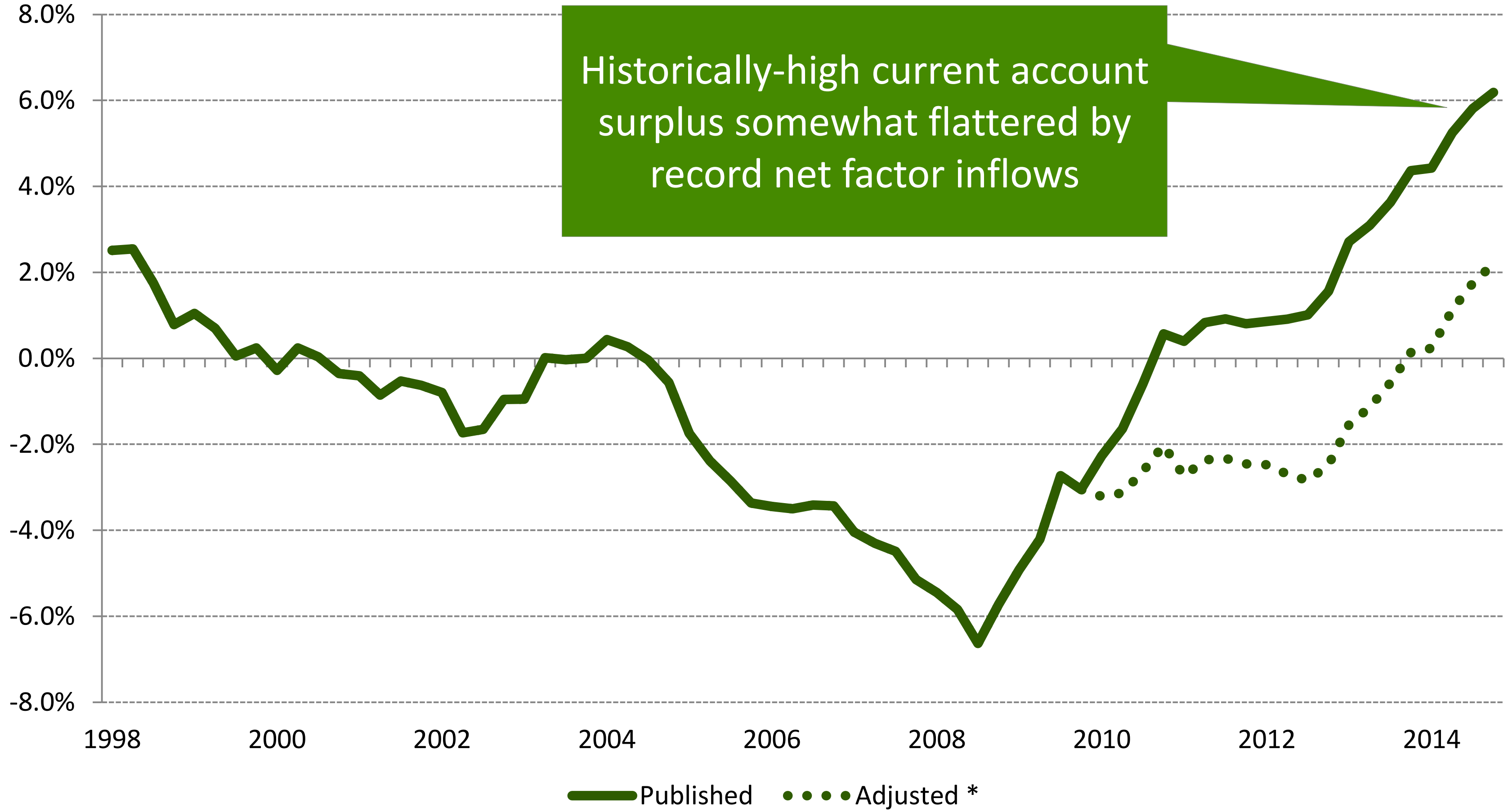
Ireland is more competitive than at any time since 2001-2002

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



Source: CSO

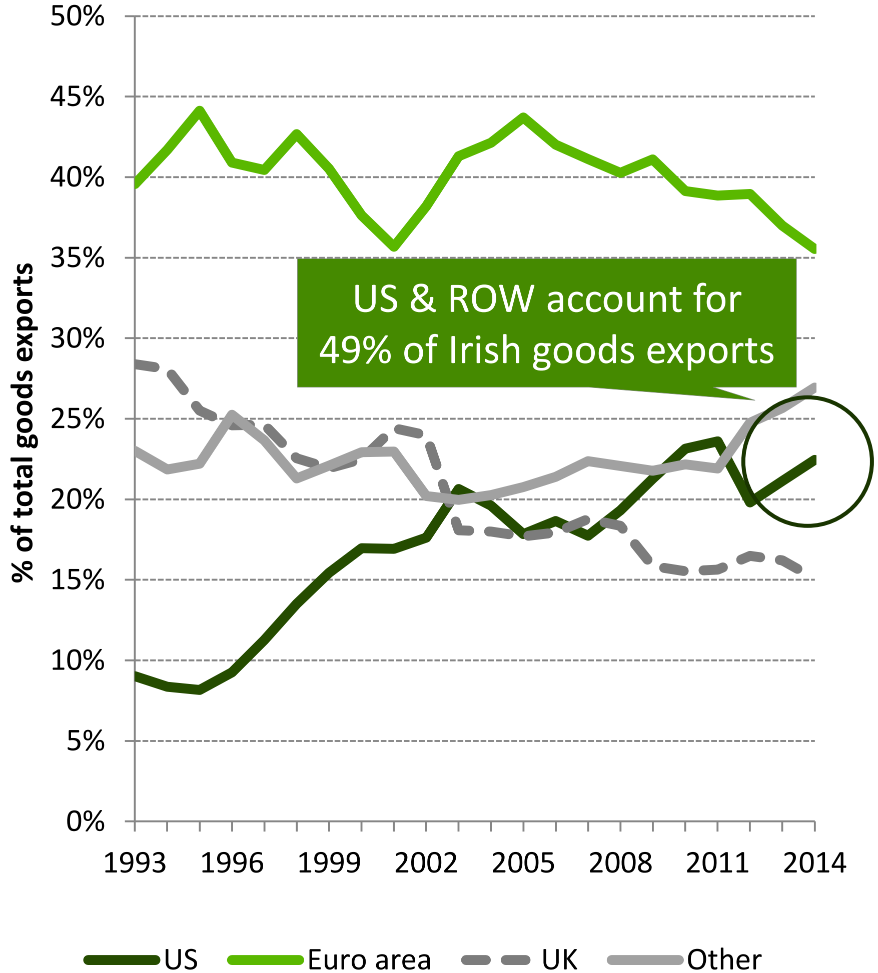
Ireland's BoP current account surplus reflects large-scale rebalancing of economy (% GDP)



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



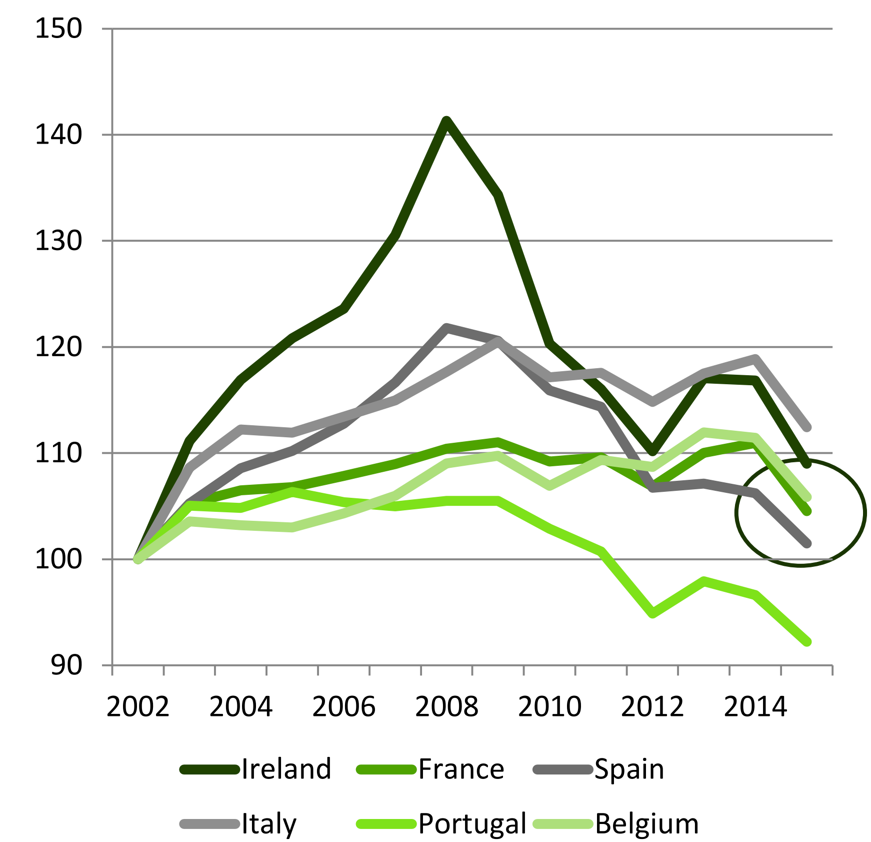
Source: CSO

	Exports (%GDP) 1999	Exports (%GDP) 2014
Ireland	87	**112**
Spain	26	32
Italy	23	29
Portugal	27	40
Belgium	64	83

Source: DataStream (value of exports)

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

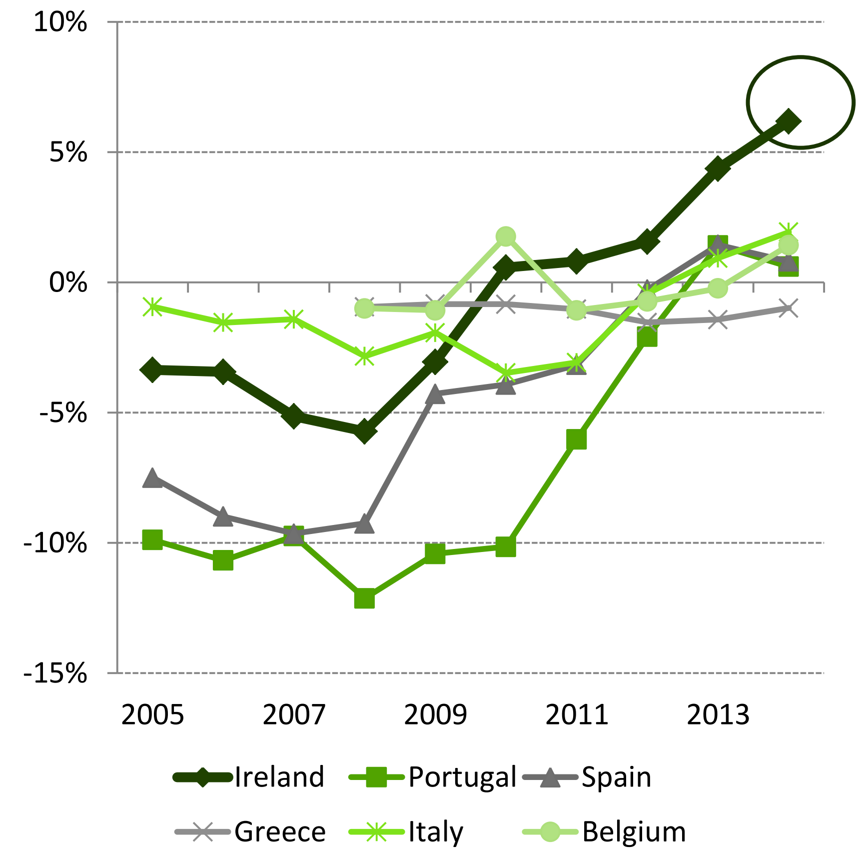
Relative Real Effective Exchange Rates have corrected sharply (Base:2002=100)



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

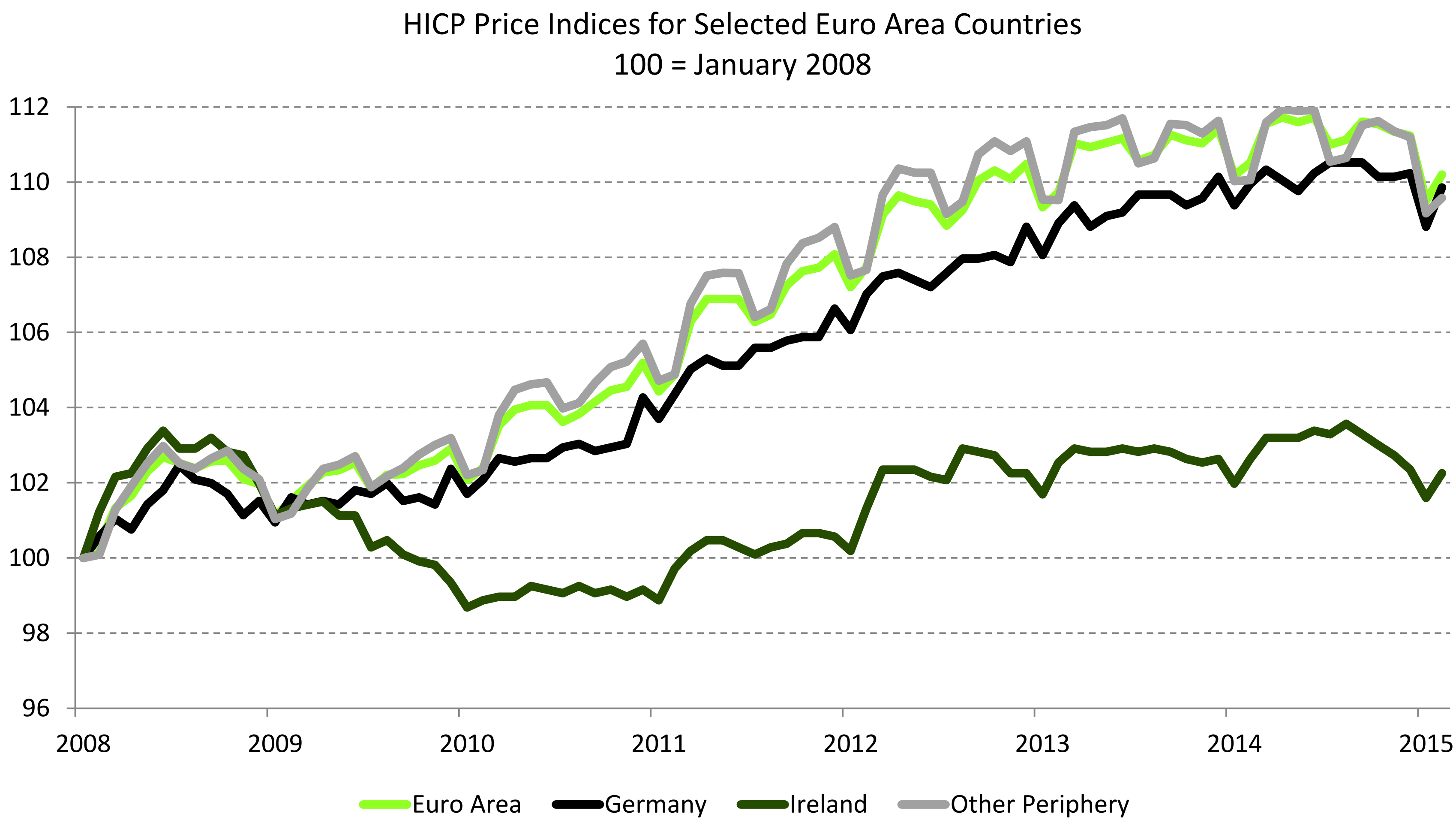
Note Ireland's CA Balance re-calculated using ESA 2010 compliant GDP series

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

Source: Eurostat; NTMA workings

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

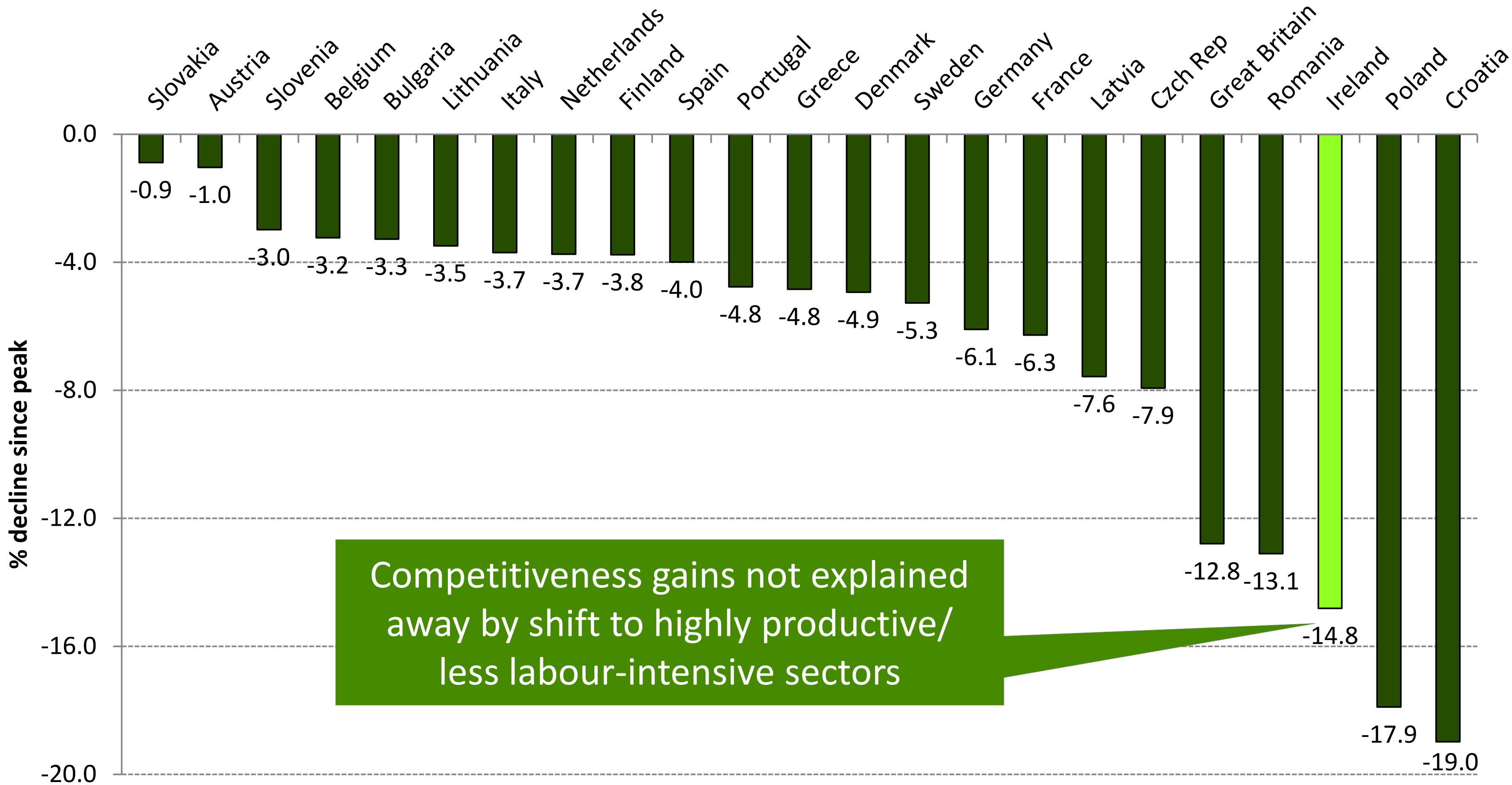
Ireland's price competitiveness recovery since 2008 outperforms other periphery countries



Source: 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

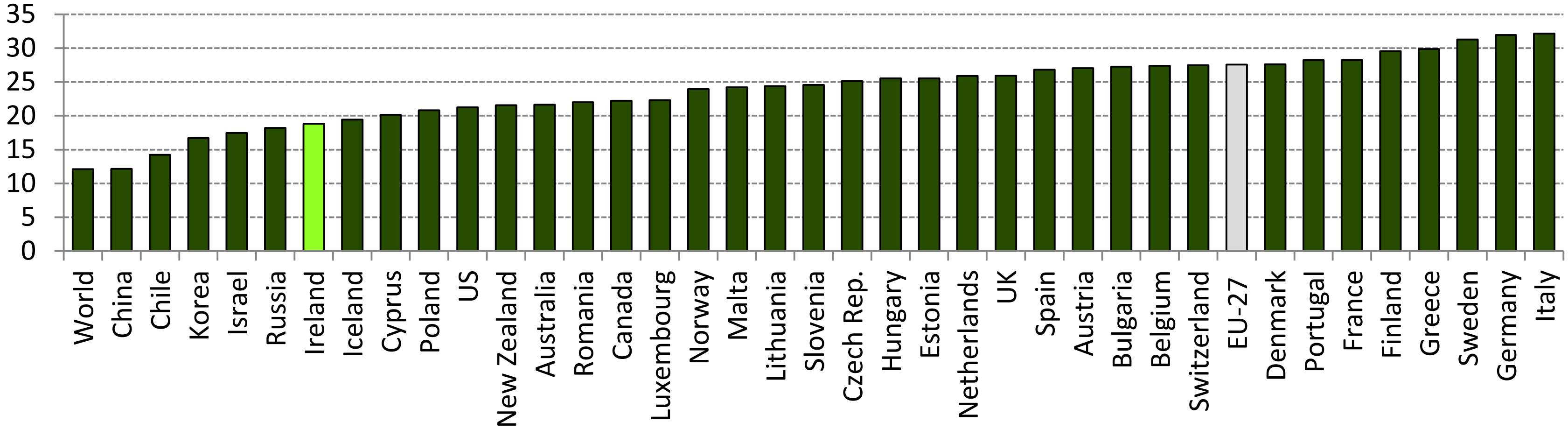


Source: Bruegel, 2014. ‘Real effective exchange rates for 178 countries: a new database’

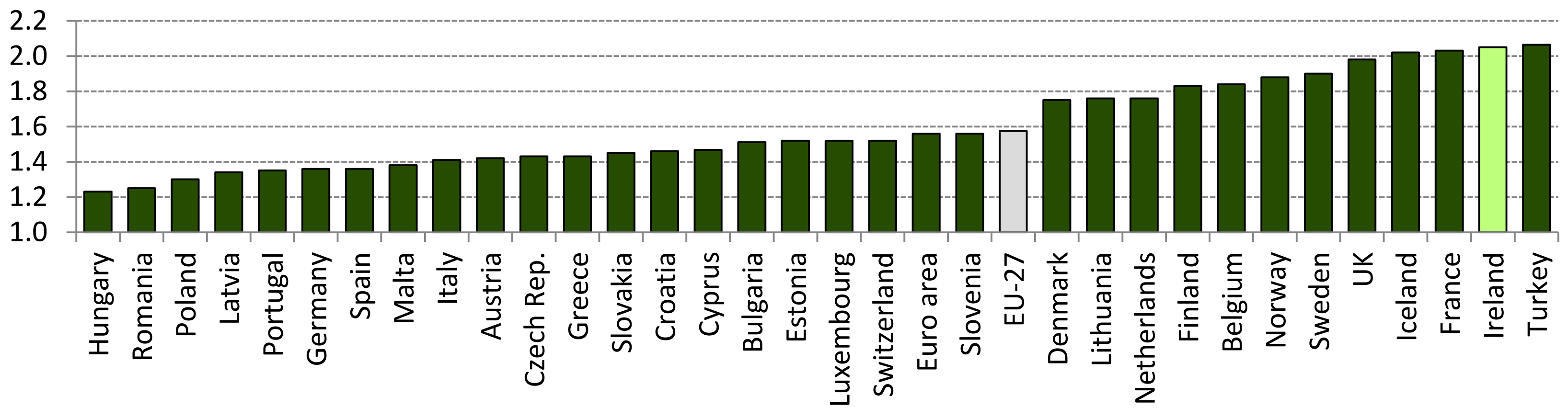
Note: REERs cover business sector excluding agriculture, construction and real estate activities and are calculated against 30 trading partners using fixed weights from Q1 2008. Data available to **Q1 2014**. See Darvas, Z (2012) for more details.

Favourable population characteristics underpin debt sustainability over longer term

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

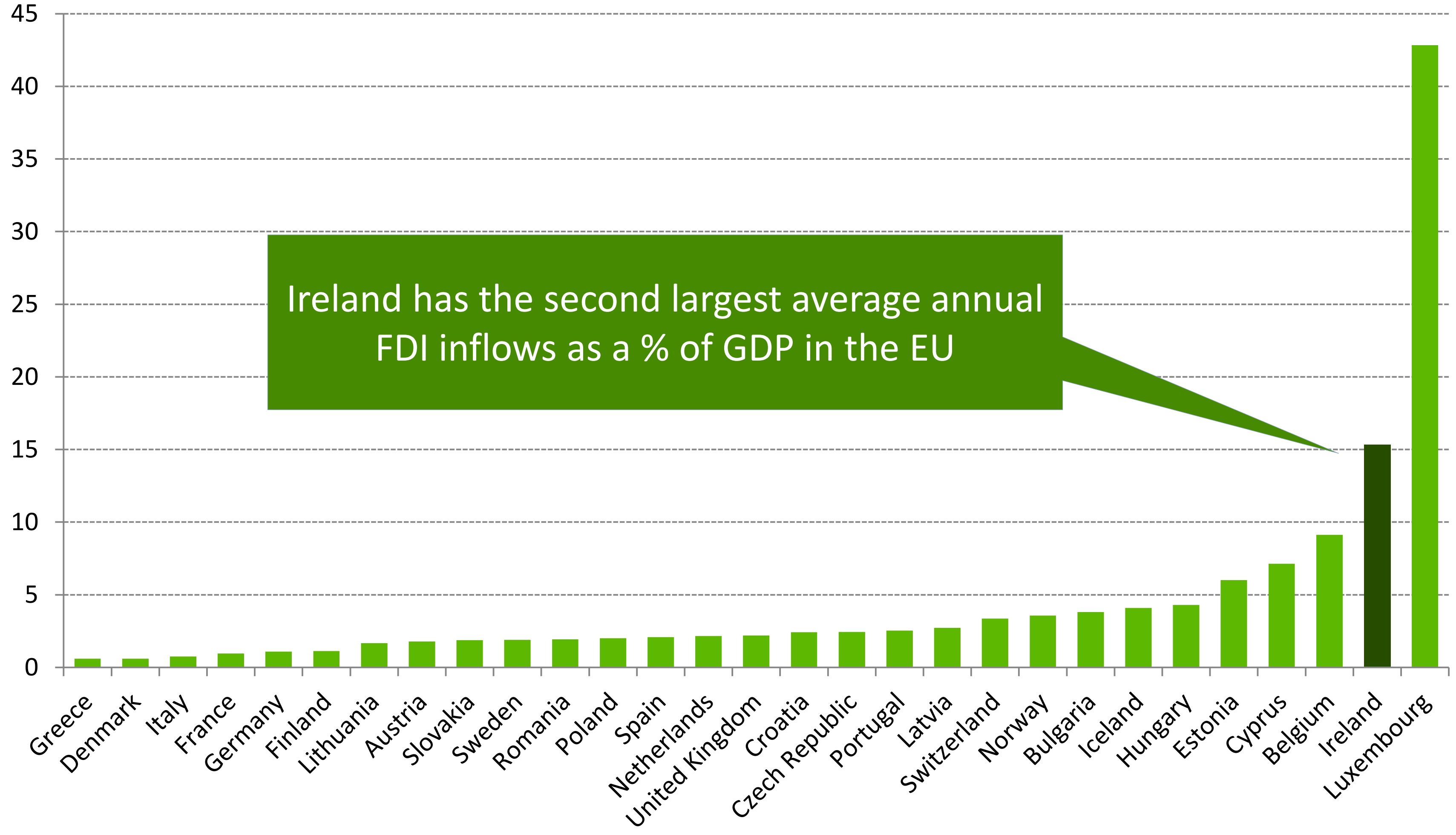


Fertility rates in Ireland are above typical international replacement rates



Source: World Bank WDI; OECD

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



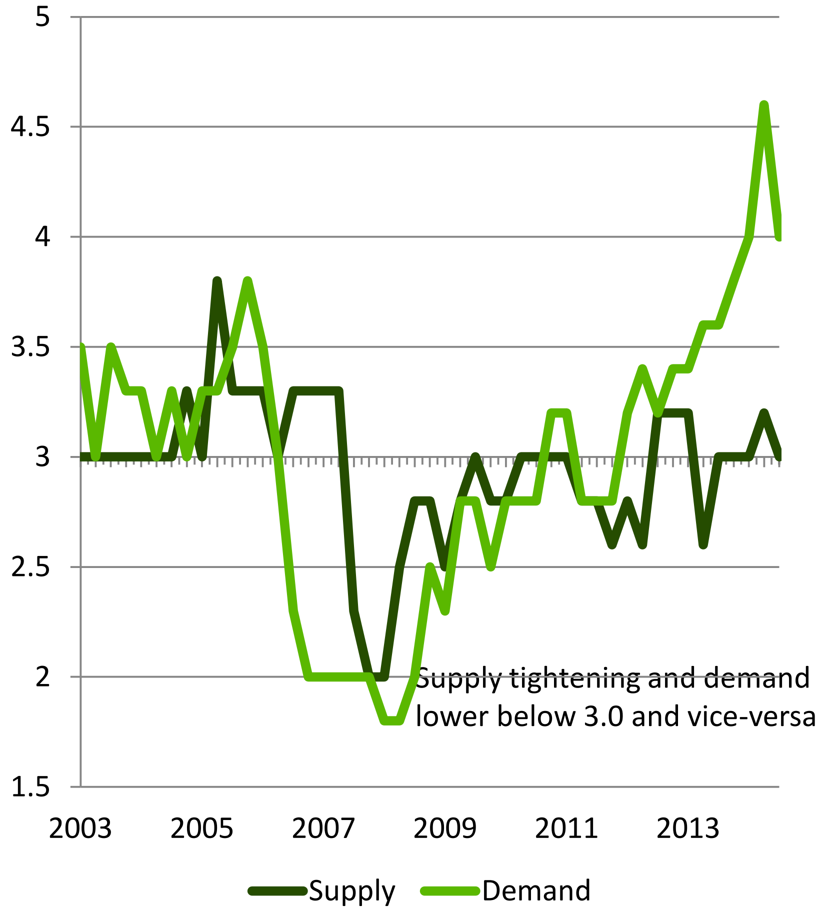
Source: UNCTADStat

SECTION 4: PROPERTY

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

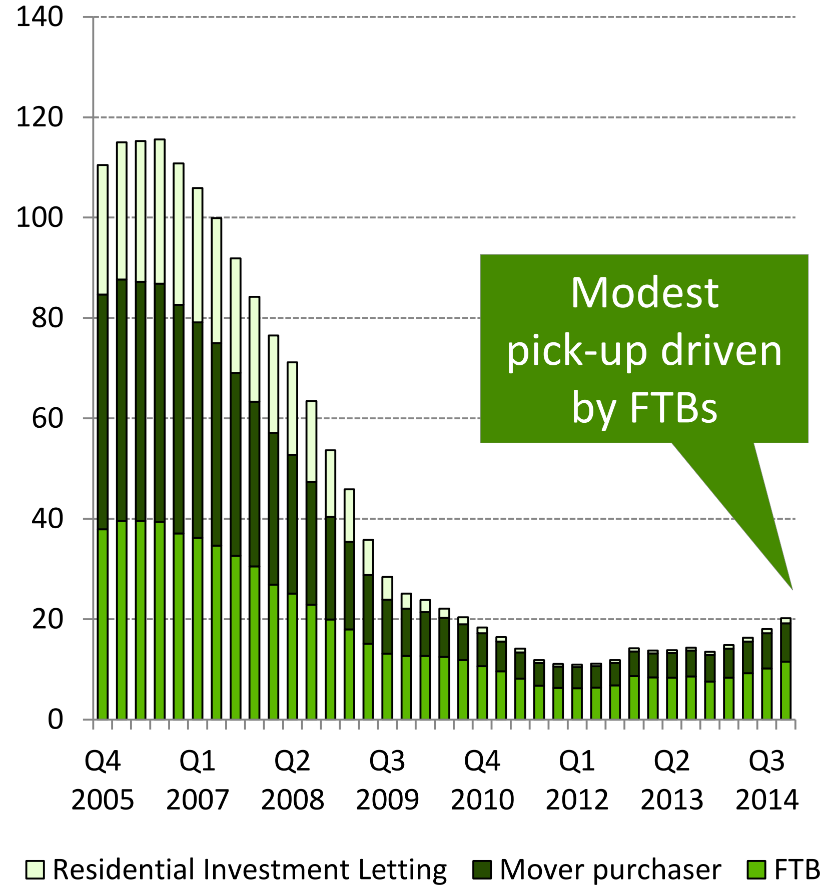
Mortgage demand rises for six consecutive quarters; credit standards stable in 2014

Demand spikes from low base quarter-on quarter; credit standards tight but stable



Source: ECB and CBI (Bank lending survey)

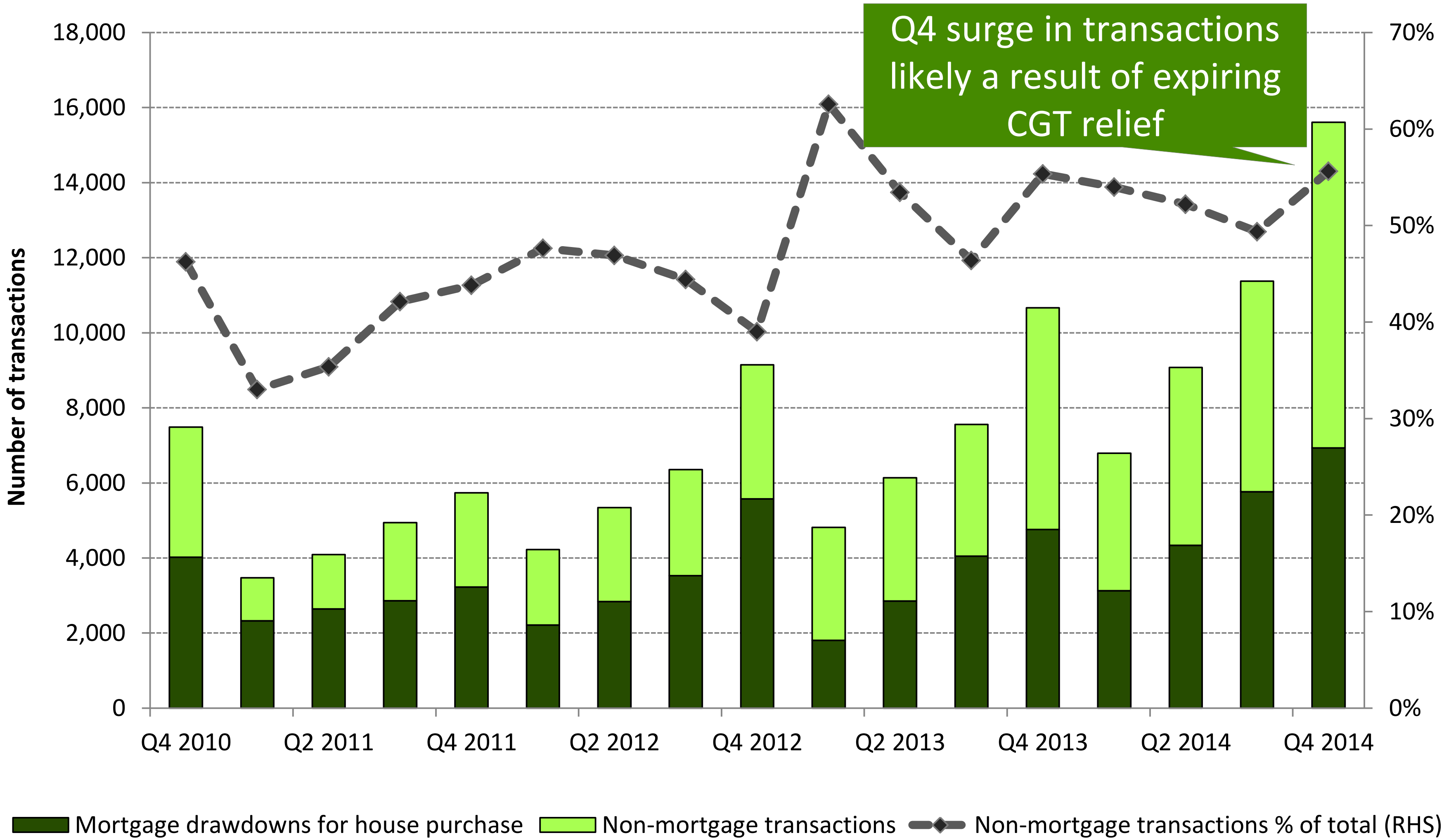
Mortgage drawdowns rise from deep trough ('000s)



Source: Irish Banking Federation

FTBs = First Time Buyers

Residential market continues to be boosted by non-mortgage purchasers

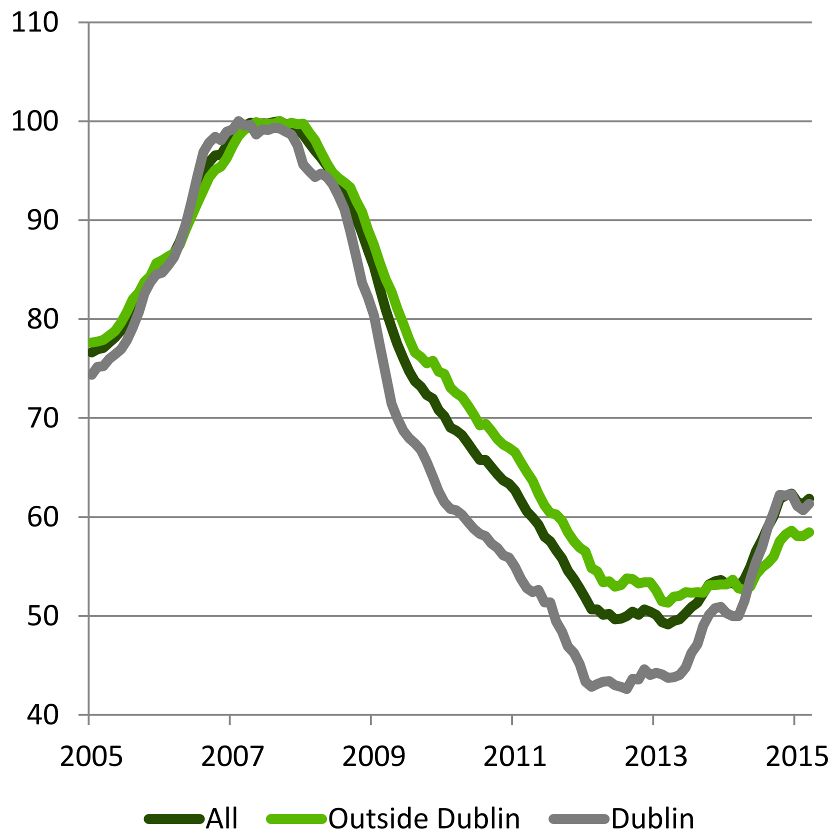


Source: IBF; DoECLG; Property Services Regulatory Authority; NTMA

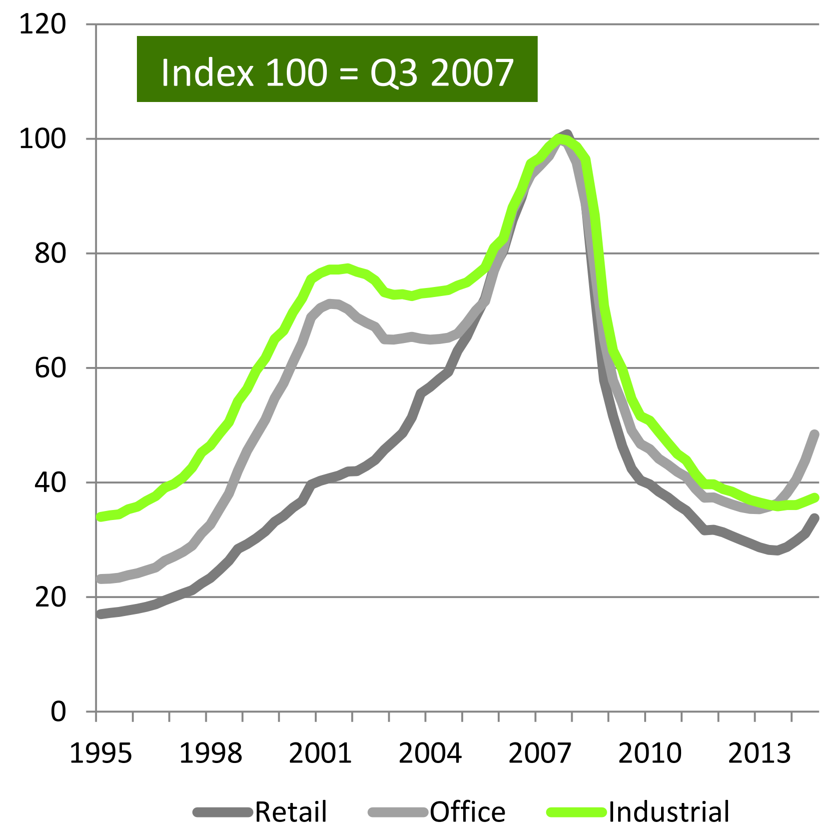
Note: Non-mortgage transactions are implied by difference between total transactions on property price register and IBF mortgage data

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

House prices surge, led by Dublin



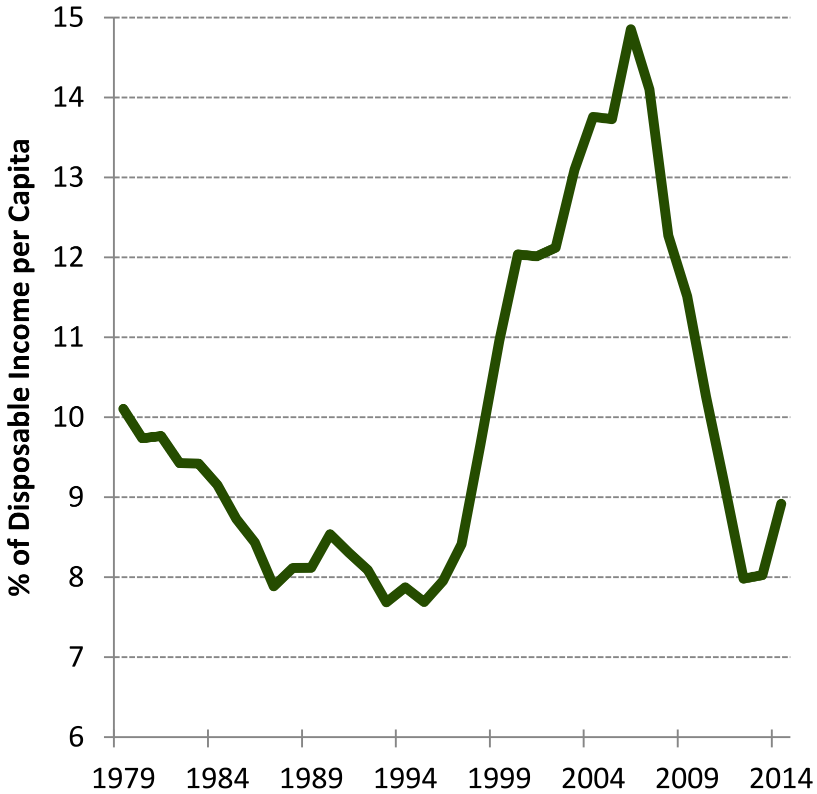
Office leads commercial property



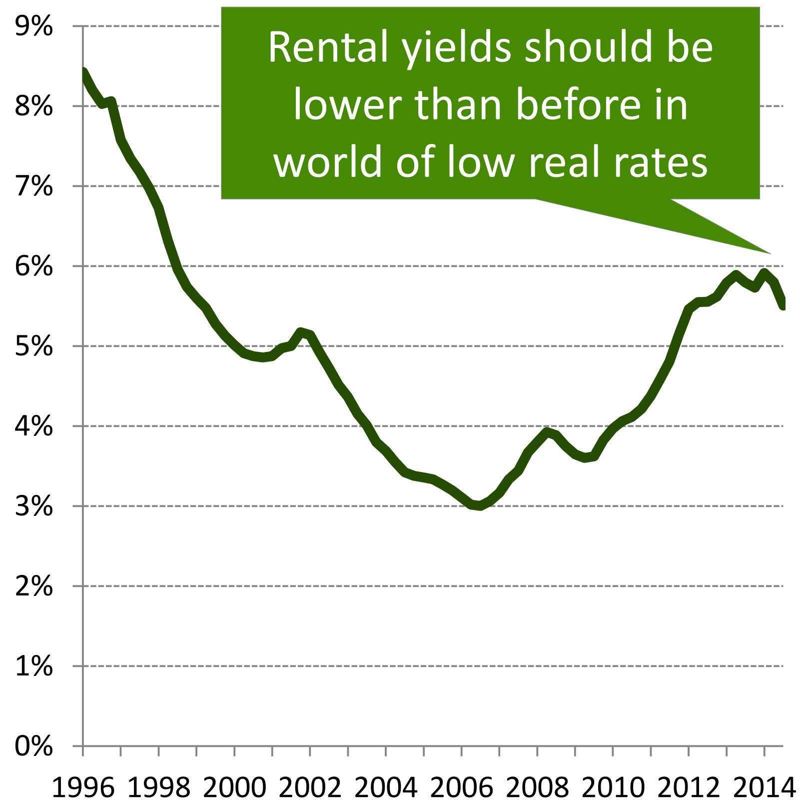
Source: CSO; IPD

Housing valuations are still relatively attractive

Valuations attractive on prices/disp. income per capita basis

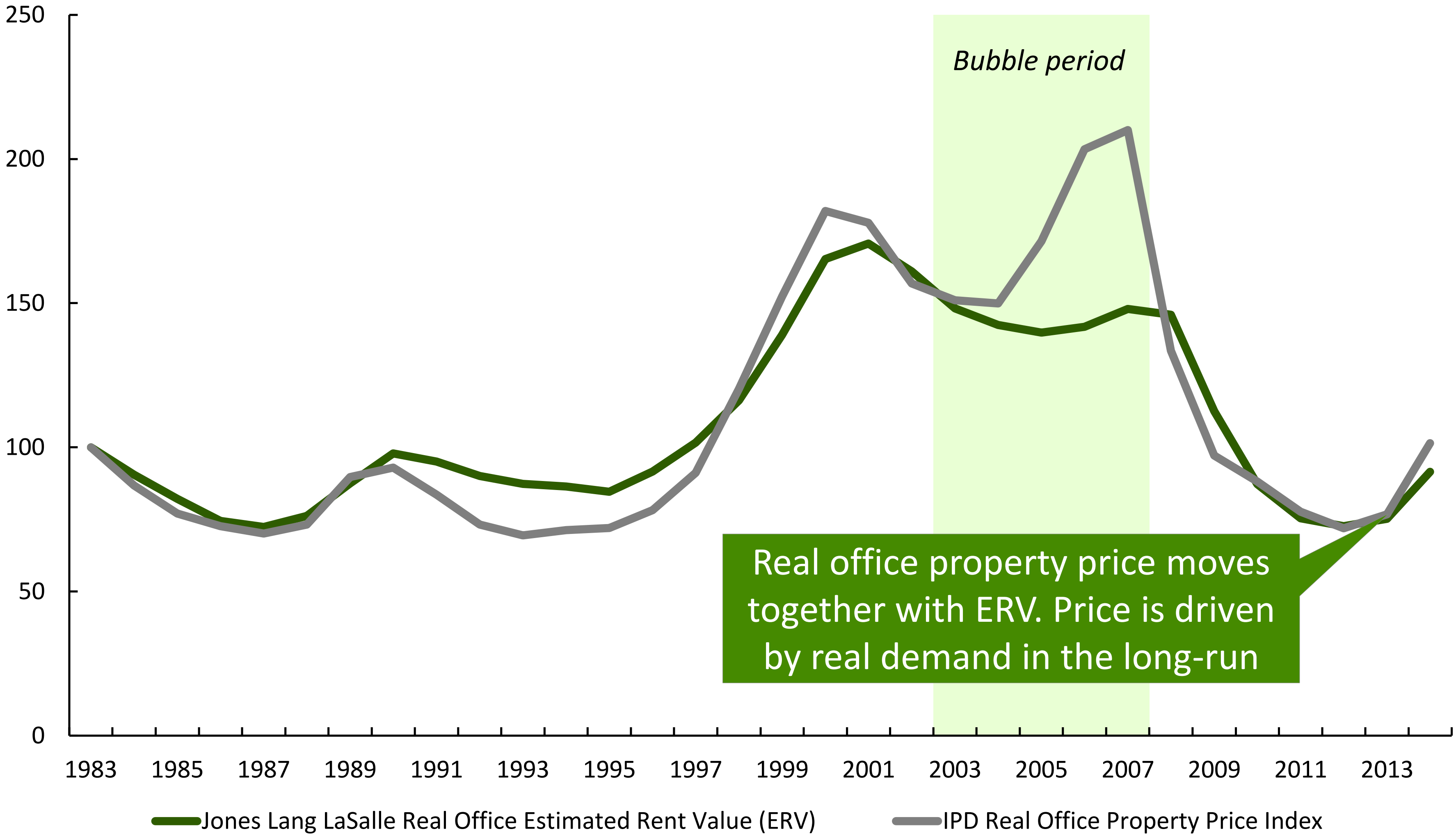


Rental yields still exceed 5%



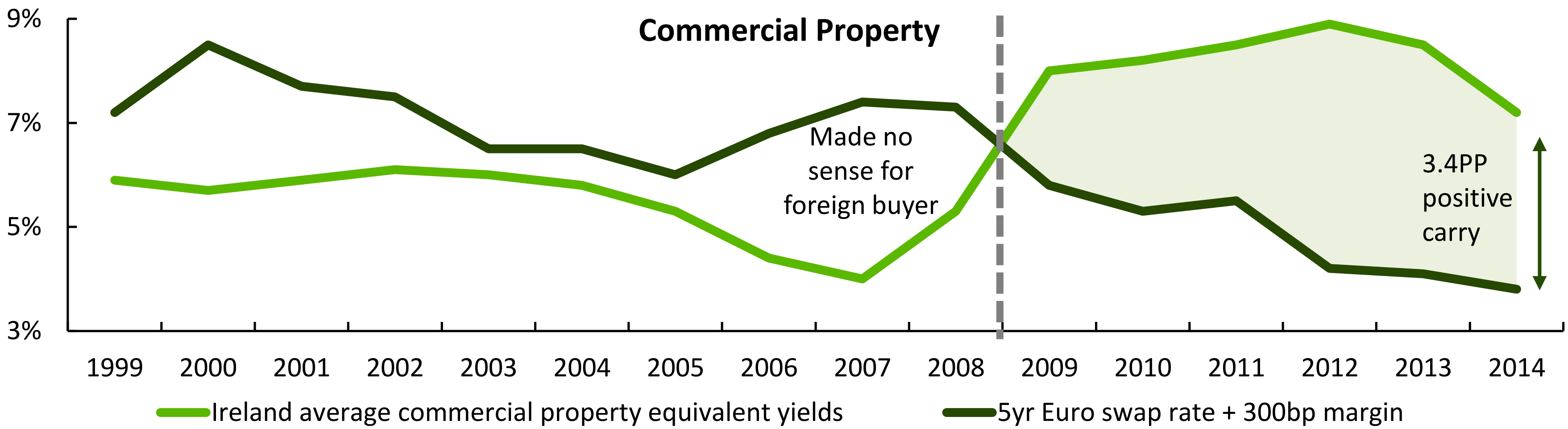
Source: CSO; NTMA

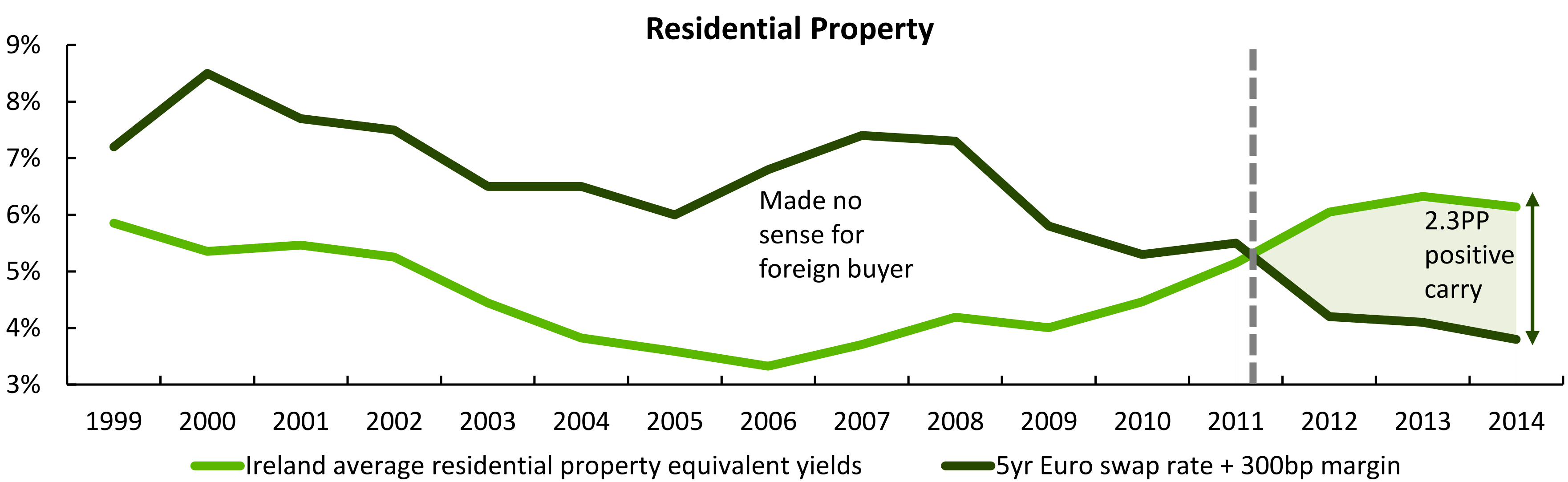
Real commercial property prices down 52% from peak (index 1983 = 100)



Source: Jones Lang LaSalle; IPD; NTMA

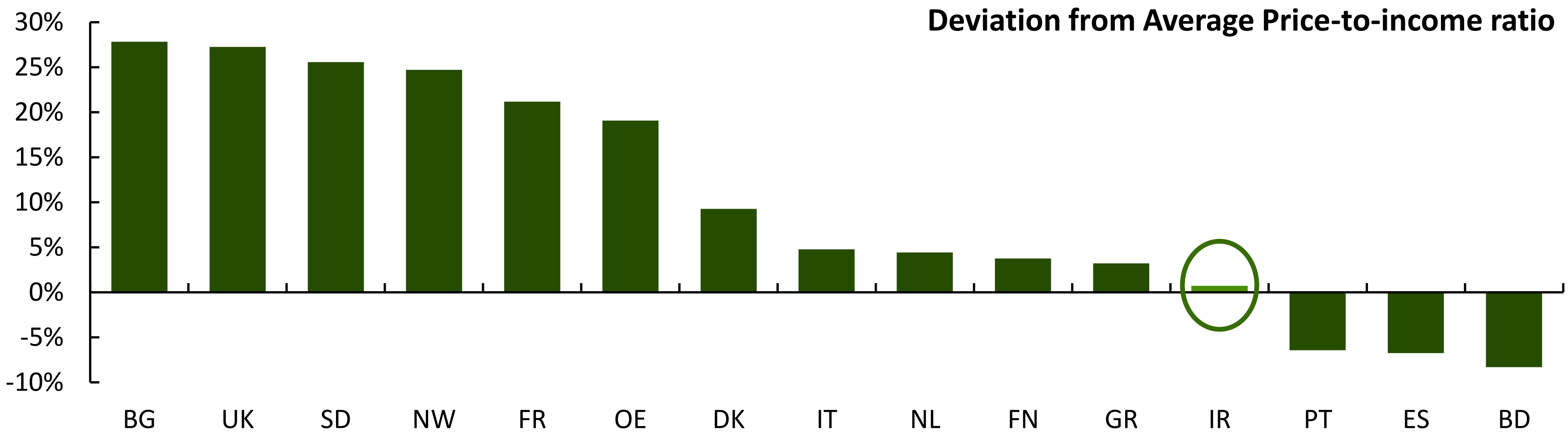
Foreign buyers interested on valuation grounds

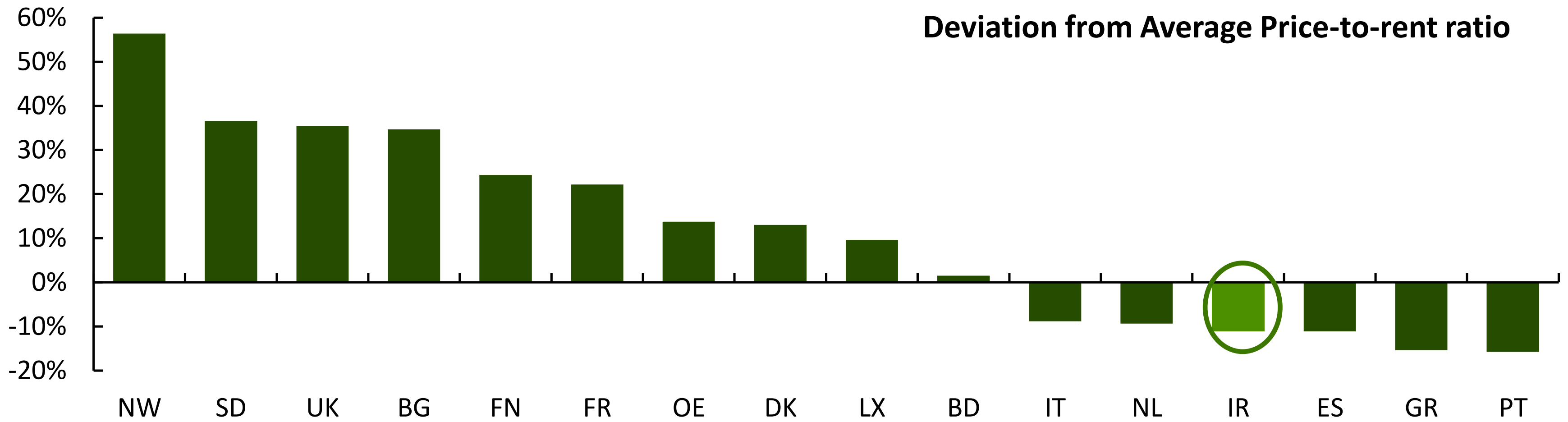




Source: IPD; NTMA

Irish house price valuation is still attractive versus European countries





Source: OECD, NTMA Workings

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

All data updated to 2014 Q3

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**
  - At one stage, there was potential for a second book on the back of the IBRC liquidation. This is no longer required after liquidator asset sales went well.

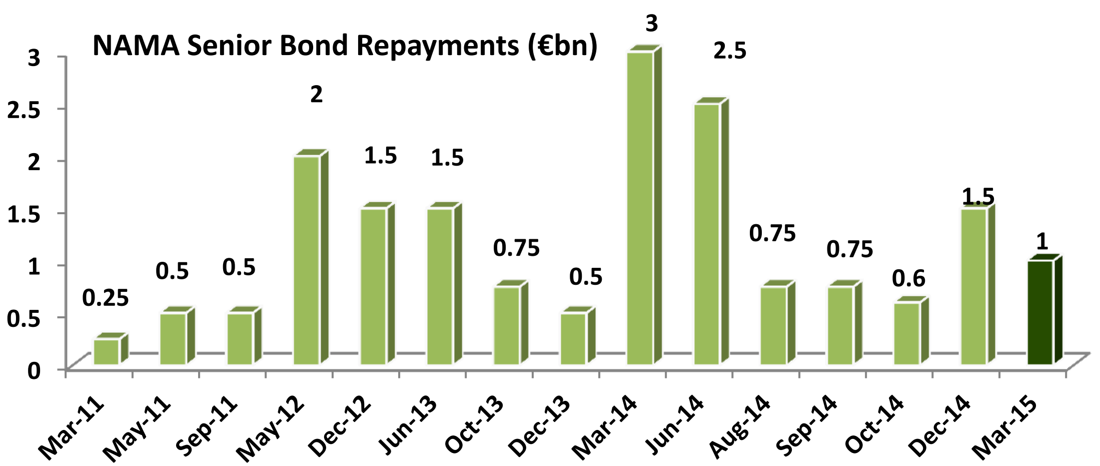
- **Repaid €17.6bn (58%) of €30.2bn of original senior debt**
  - Repaid €9.1bn in 2014 with a further €1bn in March 2015.

- **NAMA may realise a surplus of up to €1bn**
  - According to CEO Brendan McDonagh, NAMA may realise this surplus by the time NAMA completes its work (circa 2018).

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

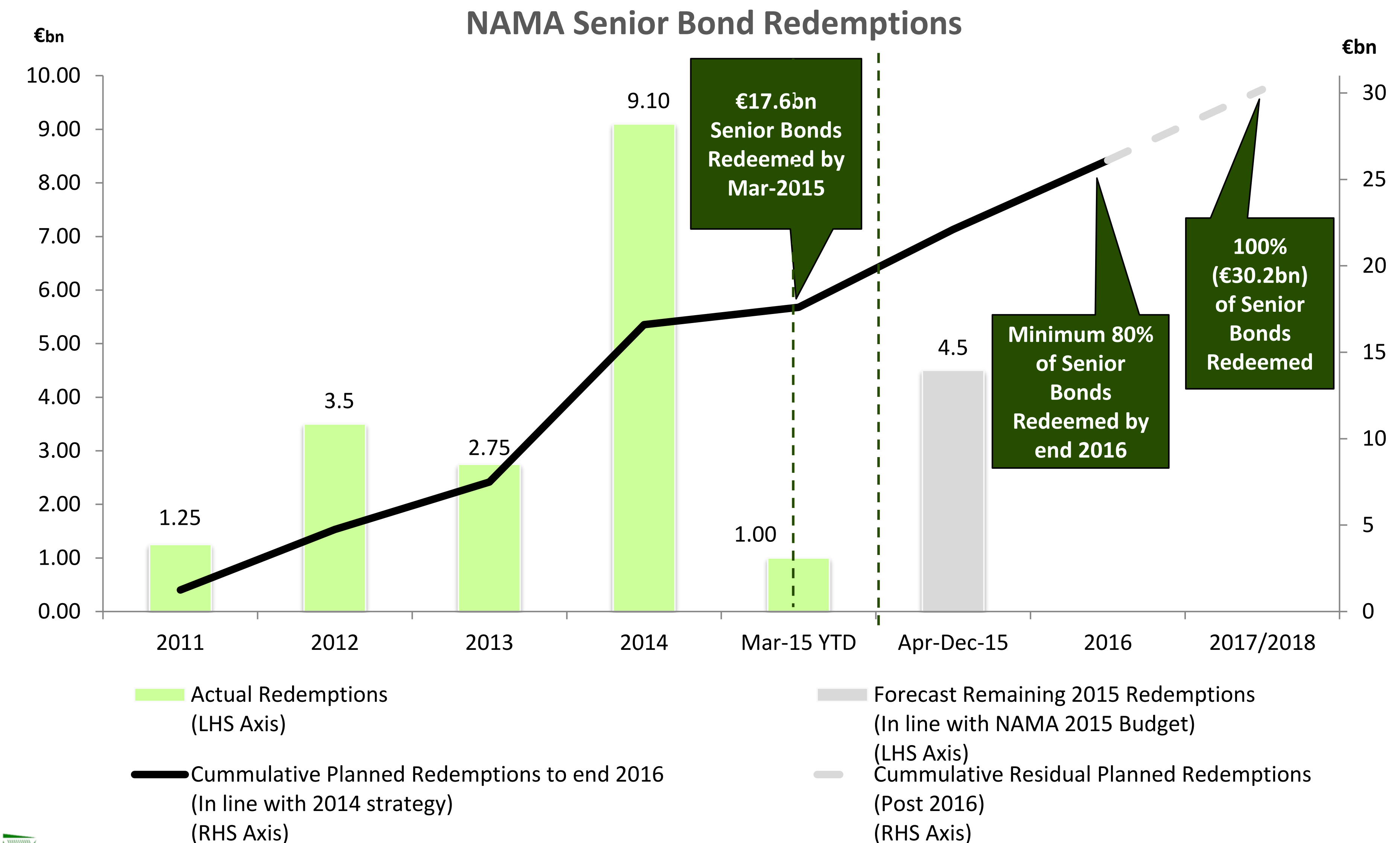
	2011	2012	2013	2014 Q1-Q3
Net interest income	771	894	960	525
Operating profit before impairment	1,278	826	1,198	145
Impairment charges	(1,267)	(518)	(914)	(57)
Profit before tax and dividends	11	308	284	89
Tax (charge)/credit and dividends	230	(80)	(73)	45
Profit for the year	**241**	**228**	**211**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

Source: NAMA

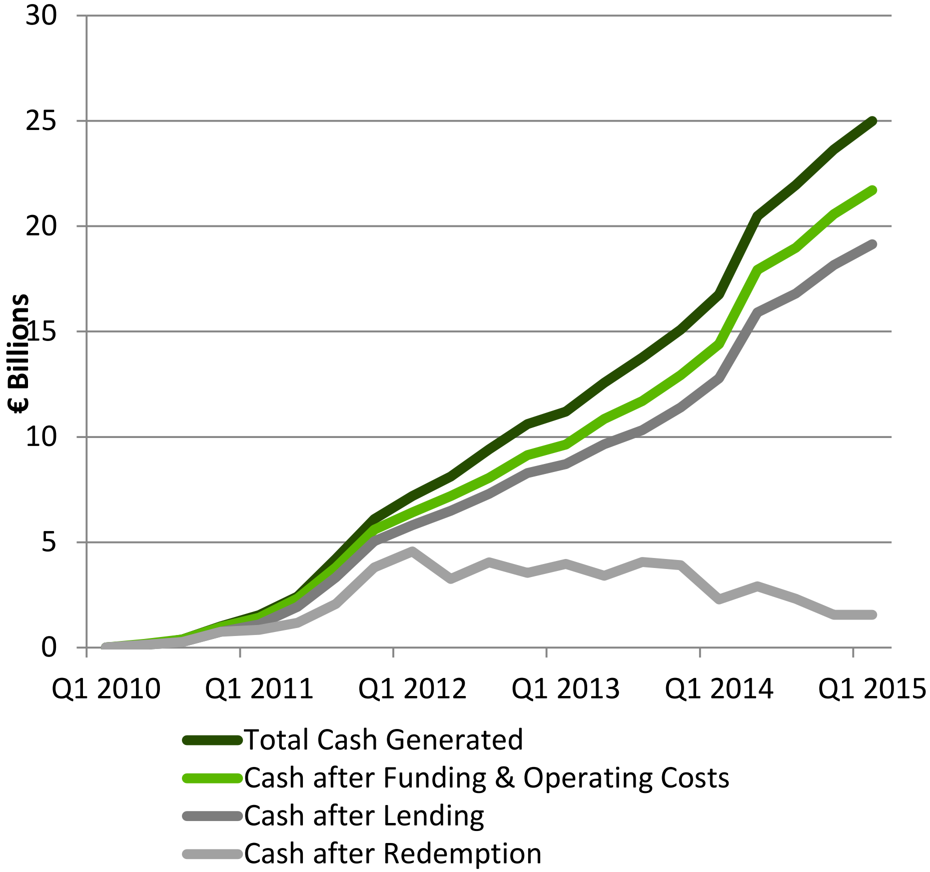


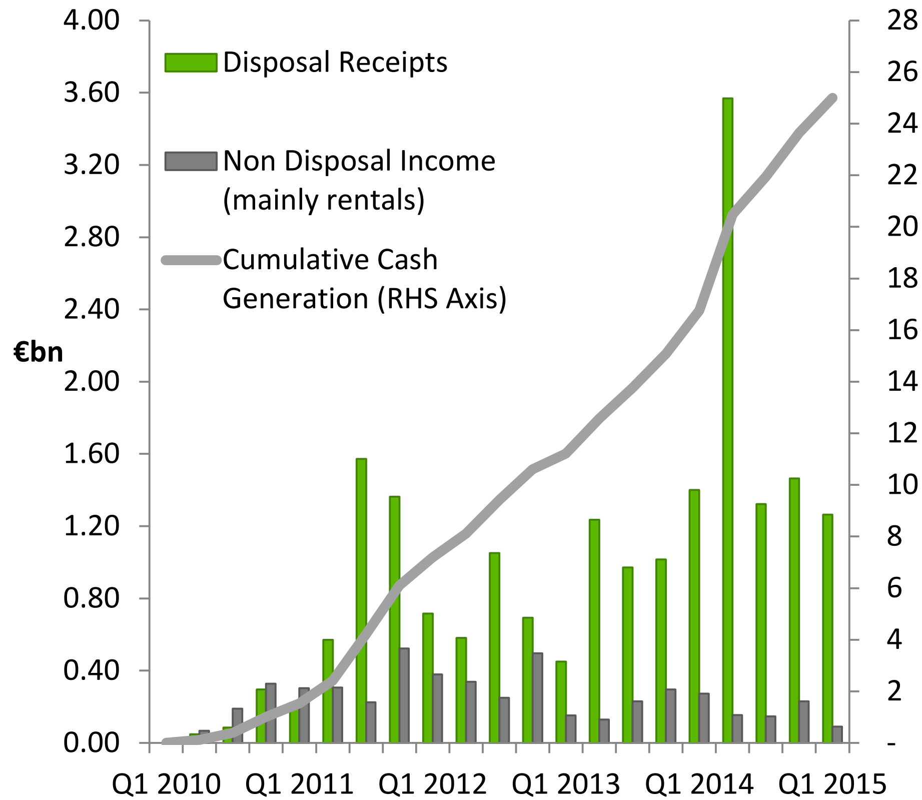
- **NAMA continues to generate net profit after impairment charges**, despite unfavourable market movements
- 2014 Q1-Q3 operating profit and impairment charges much lower than previous years
- €1bn of NAMA senior bonds redeemed in March 2015 bringing total amount redeemed to €17.6bn (58% of Agency's senior debt liabilities)
- **All of €30.2bn in NAMA senior bonds expected to be redeemed by 2020**

NAMA to repay senior bonds ahead of schedule



NAMA: Summary of cash flows from inception





- **Total cash generated of €25bn from inception to end Q1-15**
  - Disposal proceeds €19.9bn to end Q1-2015
  - Senior debt redemptions of €17.6bn by end Q1-2015
  - Lending disbursement (new advances) of €3.2bn
  - Latest cash and equivalent balances of €1.8bn

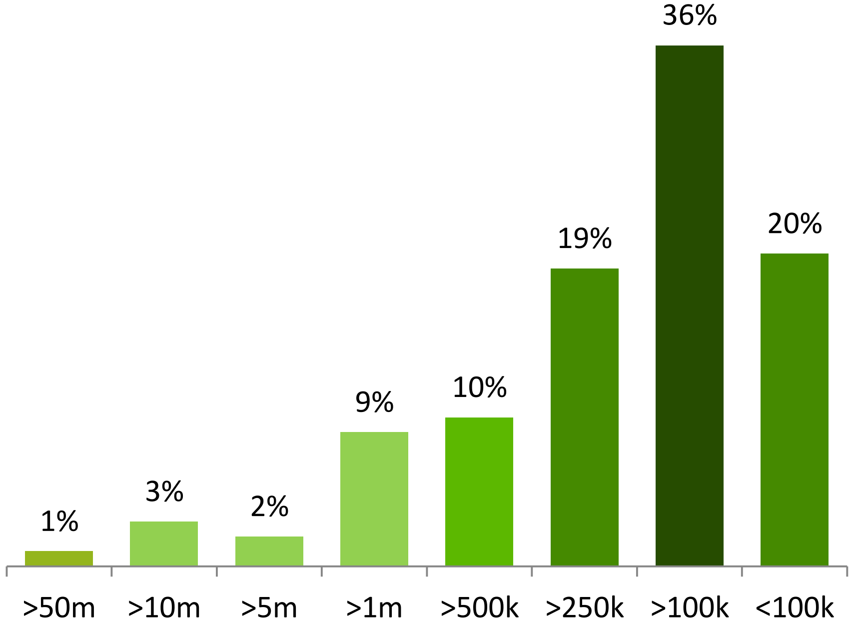
- **Note the high level of non-disposal income**
  - Cash generation is important to NAMA's strategy
  - €5.1bn in non-disposal cash generated (mainly rental income, despite the sale of €19.9bn of assets and loans)

Source: NAMA

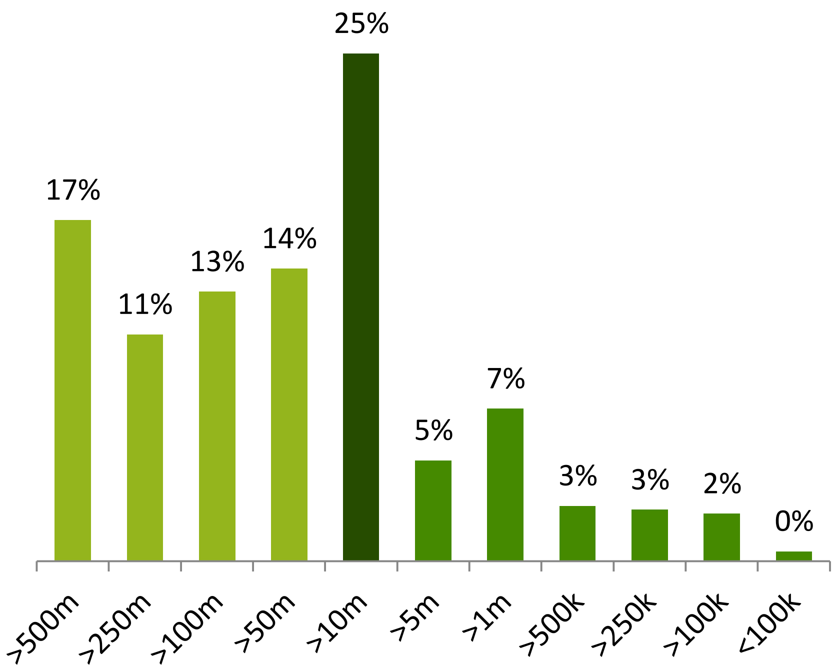
Disposal transaction analysis up to March 2015

	< €10m	>10m - <50m	> €50m	Total
Total Disposals (€m)	4,207	5,103	11,278	20,587
No. of Transactions	7,567	241	69	7,877
Average Disposal Value (€m)	556	21,173	163,453	2,614

Disposal Transaction Volume by Range



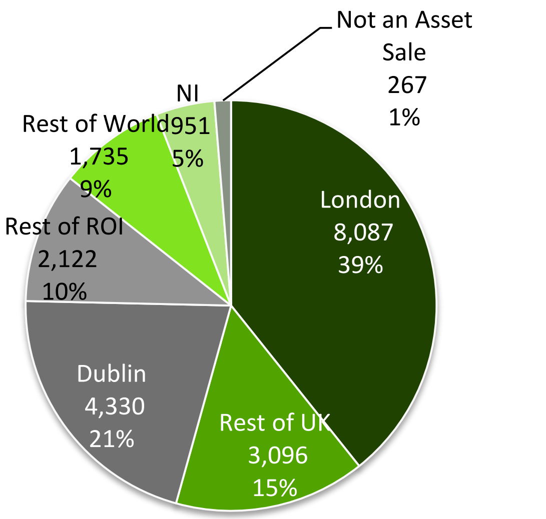
Disposal Proceeds Value by Range



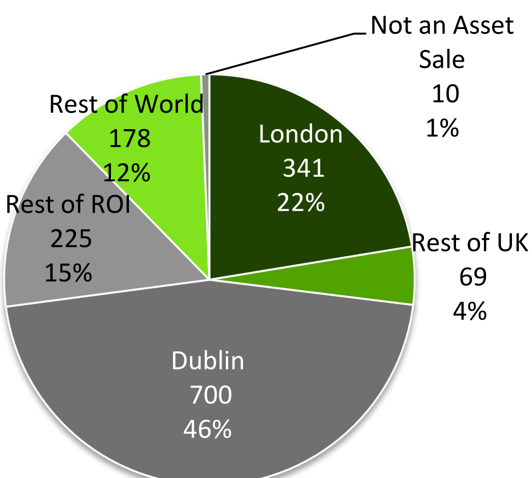
Source: NAMA

Disposal Trend by Location (to March 2015)

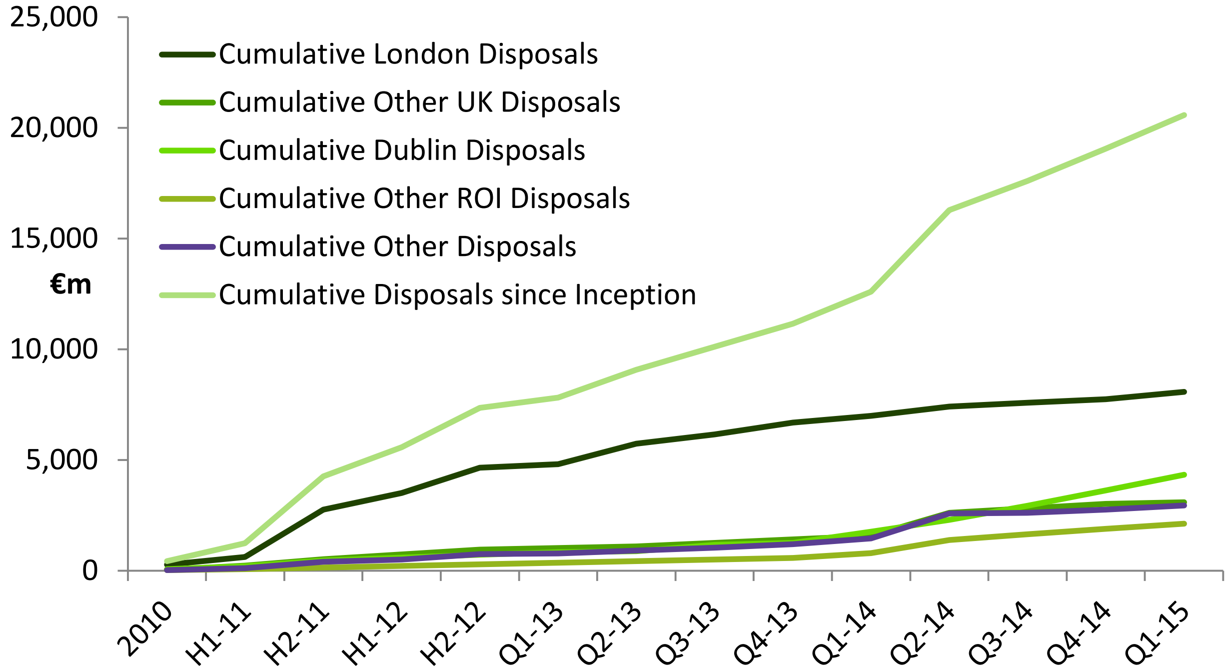
Disposals by Location since Inception (€20.6bn)



Disposals by Location 2015 YTD (€1.5bn)

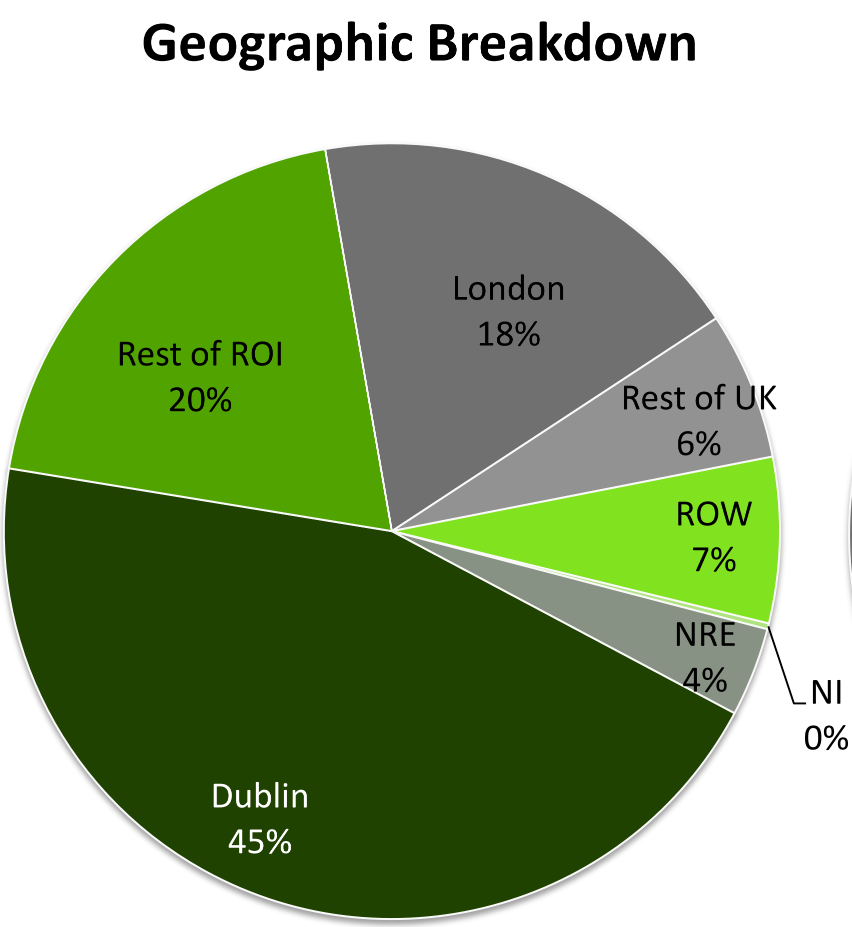


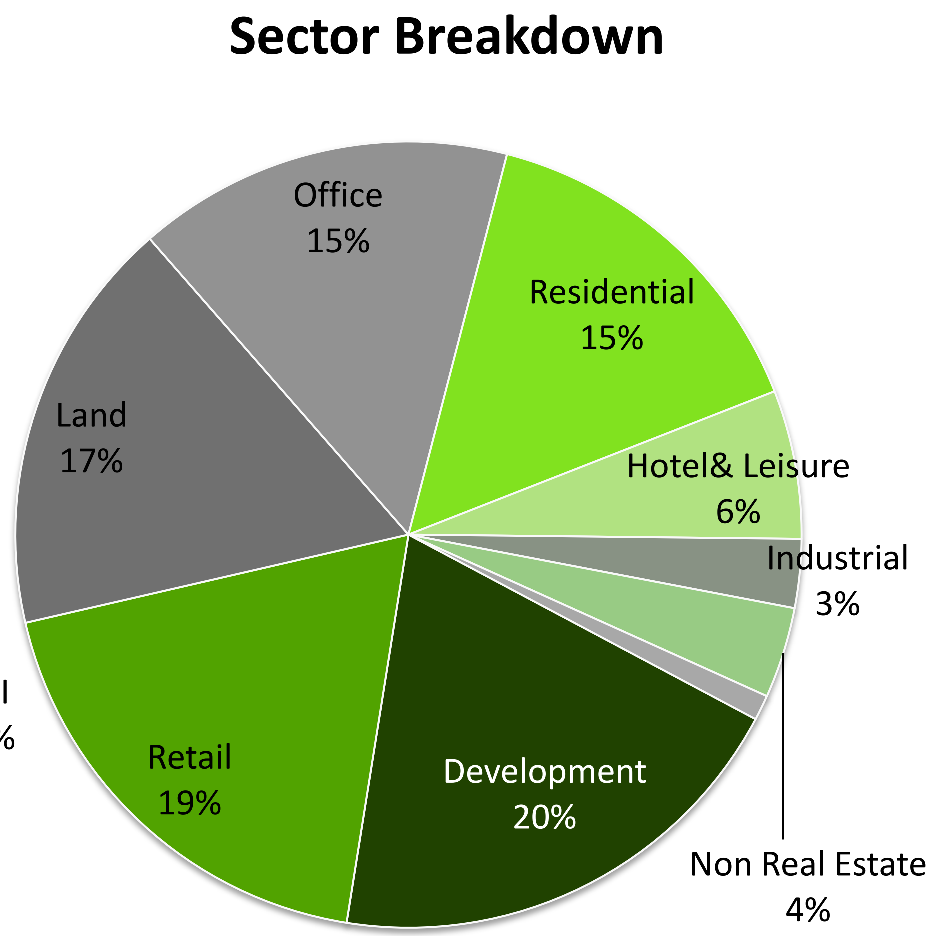
Disposal Trend since Inception



- Disposals of €20.6bn to end-March 2015.
- Deliberate NAMA focus on UK disposals during 2010 – 2013
- ROI transactions have increased significantly since Q4 2013.

Breakdown of NAMA property portfolio, December 2014

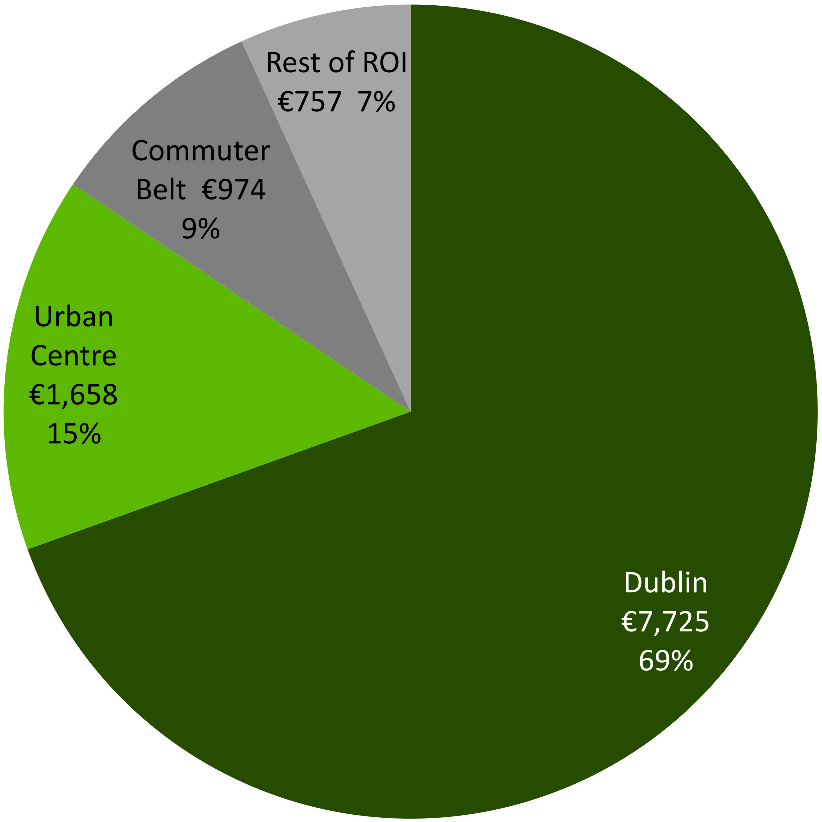




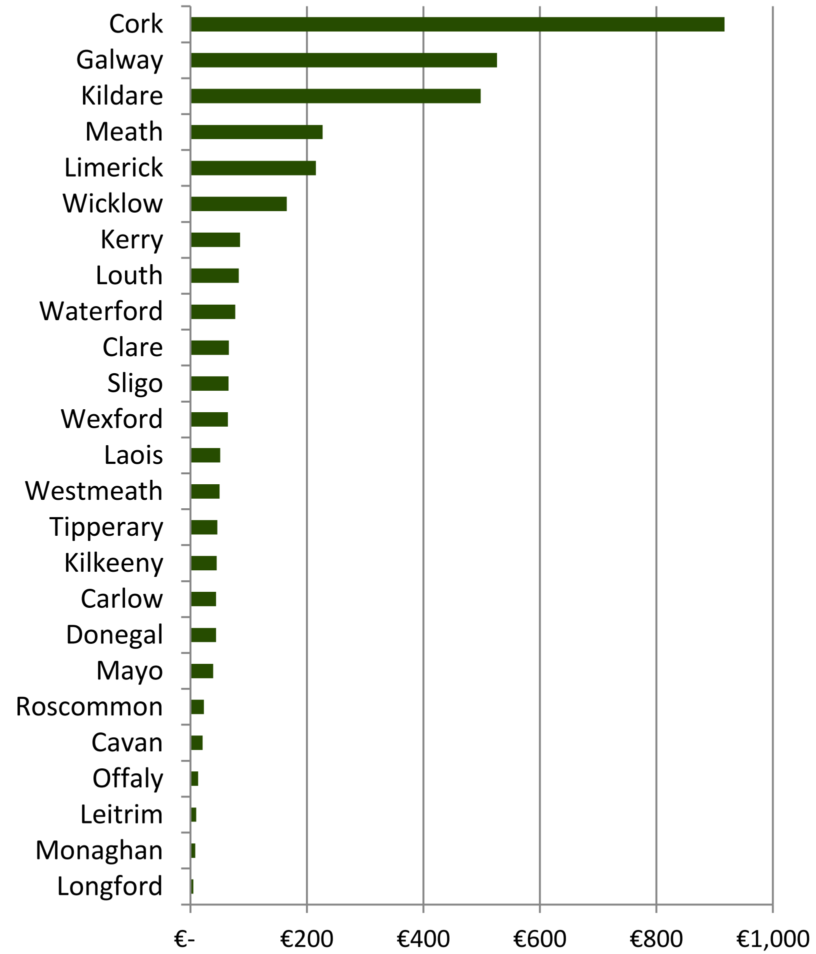
Source: NAMA

Remaining Irish portfolio by county (December 2014)

Remaining Portfolio = €11.1bn



Irish Portfolio by county excl. Dublin (€m)



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
- **Social Housing:**
  - A SPV – NARPSL - 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

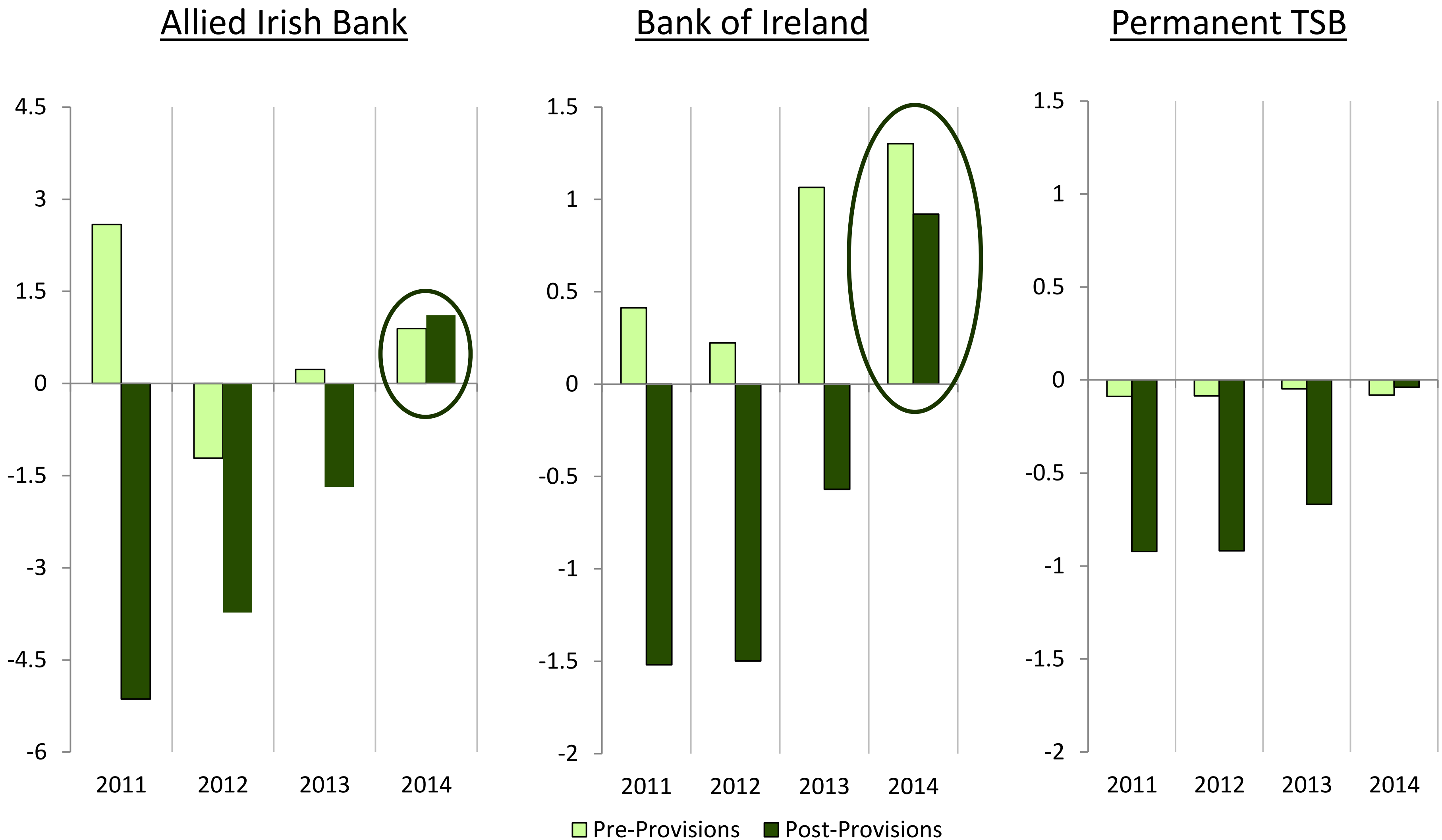
- NAMA meeting senior debt redemption targets ahead of schedule. €1bn repaid in March 2015 brings total redemptions to €17.6bn or 58% of senior debt.
- Originally, a target of 50% of redemptions was set for 2016. The Agency now plans to redeem a total of 80% of its senior debt by 2016.
- NAMA will continue 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 2014

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

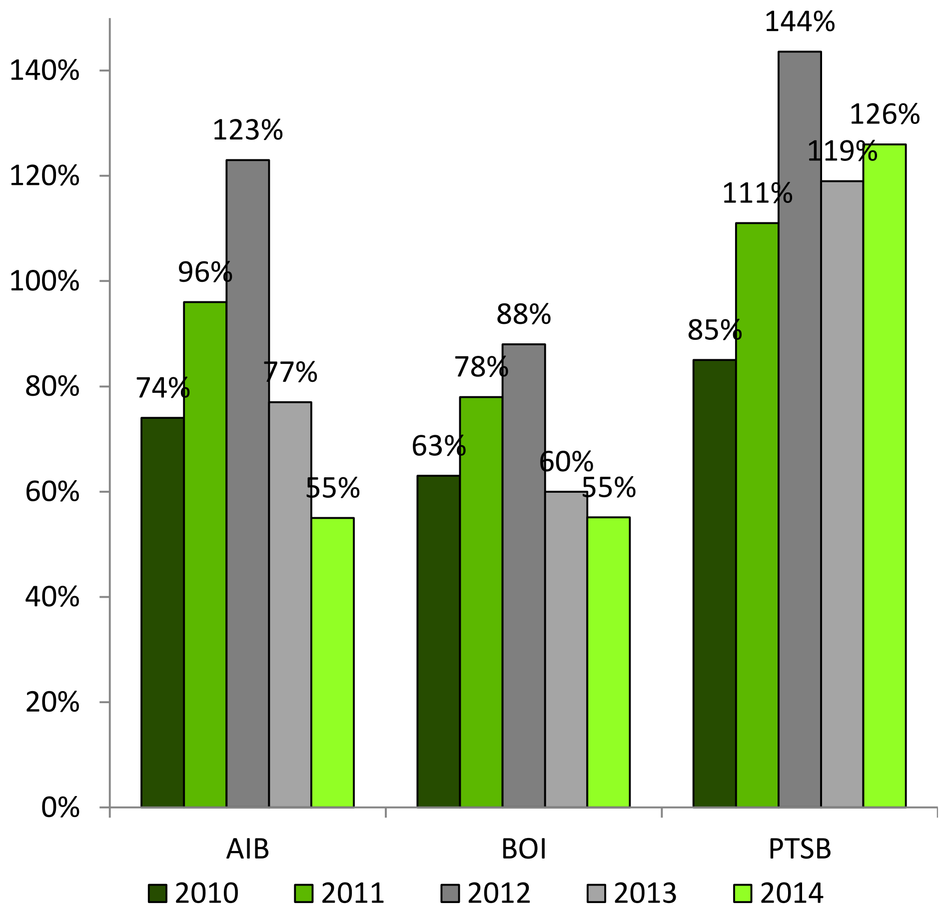
AIB and BOI returned to profit in 2014 (€bn)



Source: Annual reports of banks

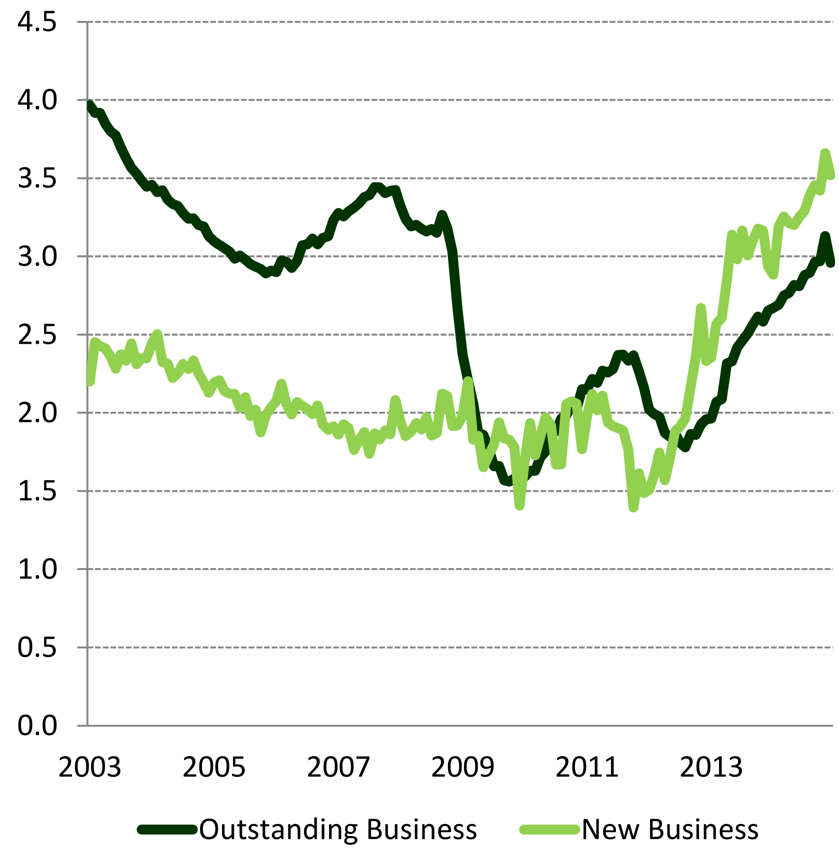
Net interest margins on new lending are favourable

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 improving as impaired loans and provisions continue to fall

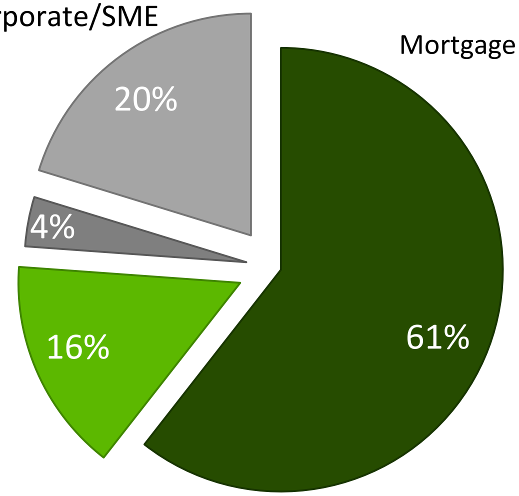
Impaired loans and provisions at PCAR banks (group and 3 banks)

PCAR Banks (€bn)	Dec-12	Dec-13	Dec-14
Total Loans	224.9	208.9	197.1
Impaired	53.3	53.9	43.1
(Impaired as % of Total)	24.5%	25.8%	21.9%
Provisions	27.2	29.4	23.5
(Provisions as % of book)	12.1%	14.1%	12.0%
(Provisions as % of Impaired)	49.5%	54.5%	54.5%

Impaired Loans % (Coverage %)[1] by Bank and Asset					
		Dec-12	Dec-13	Dec-14	*Book (€bn)*
BOI	Irish Residential Mortgages	13.1 (40)	14.2(49)	12.6(46)	25.6
	UK Residential Mortgages	2.3 (22)	2.4(24)	2.0(23)	25.4
	Irish SMEs	26.5 (43)	26.7(50)	25.6(51)	9.6
	UK SMEs	17.9 (37)	17.1(50)	16.9(44)	2.4
	Corporate	10.1 (44)	7.5(41)	5.6(54)	8.3
	CRE - Investment	35.9 (35)	42.3(38)	37.2(46)	12.5
	CRE - Land/Development	89.5 (60)	89.3(68)	89.5(74)	2.7
	Consumer Loans	9.4 (85)	8.4(90)	6.4(98)	3.0
		17.7 (43)	**18.5(48)**	**18.2(50)**	**89.5**
AIB	Irish Residential Mortgages	19.9 (38)	23.0(43)	22.6(40)	36.3
	UK Residential Mortgages	9.2 (67)	11.3(53)	11.6(59)	2.5
	SMEs	34.4 (67)	34.6(68)	26.3(61)	12.9
	Corporate	15.6 (73)	11.1(65)	8.0(50)	4.7
	CRE	62.0 (59)	66.7(64)	56.9(62)	15.5
	Consumer Loans	30.5 (80)	33.2(81)	27.2(69)	3.8
		32.7 (56)	**34.9(59)**	**29.2(51)**	**75.8**
PTSB	Irish Residential Mortgages	19.6 (45)	26.0(47)	25.5(46)	22.7
	UK Residential Mortgages	1.7 (57)	1.3(85)	1.5(60)	6.8
	Commercial	49.7 (66)	68.7(63)	74.0(60)	2.0
	Consumer Loans	32.1 (105)	26.0(105)	29.7(94)	0.3
		17.9 (51)	**23.6(51)**	**24.5(51)**	**31.8**

[1] Total impairment provisions are used for coverage ratios (in parentheses)

Loan Asset Mix (banks end '14)



Source: Published bank accounts

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

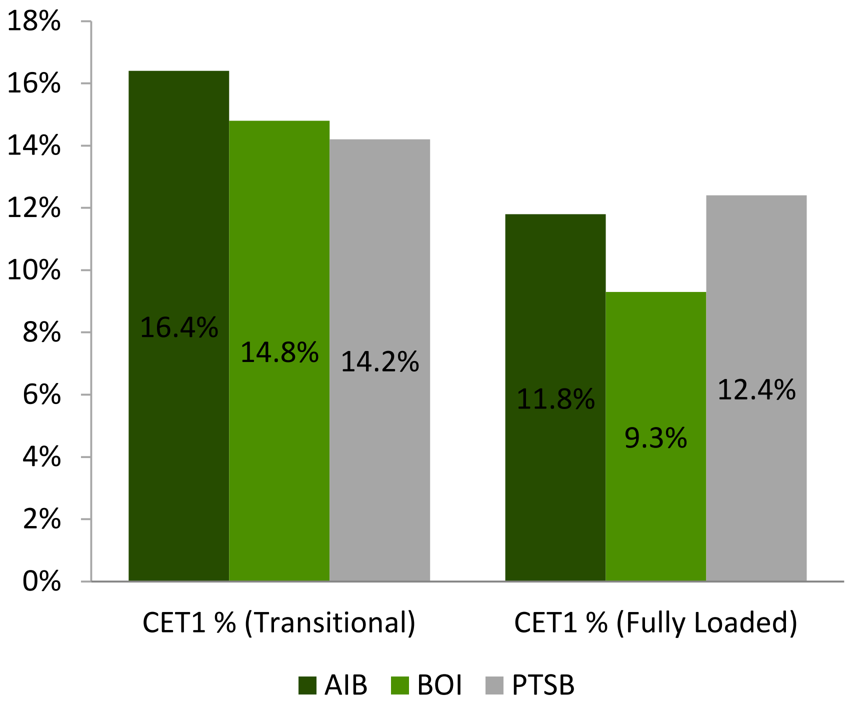
€ Billions	Capital Shortfall Adverse Scenario	Shortfall after capital raised in 2014
Austria	0.9	0.9
Belgium	0.5	0.4
Cyprus	2.4	0.2
Germany	0.2	
France	0.0	
Greece	8.7	2.7
Ireland	0.9	0.9
Italy	9.4	3.3
Portugal	1.1	1.1
Slovenia	0.1	0.1
Total	**€24.2**	**€9.6**

- 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.
- Permanent TSB has raised €525 million from capital markets in 2015 through the sale of €400 million worth of shares and €125 million via a debt instrument. Its capital plan is now complete, thanks to internal generation too.

Source: ECB

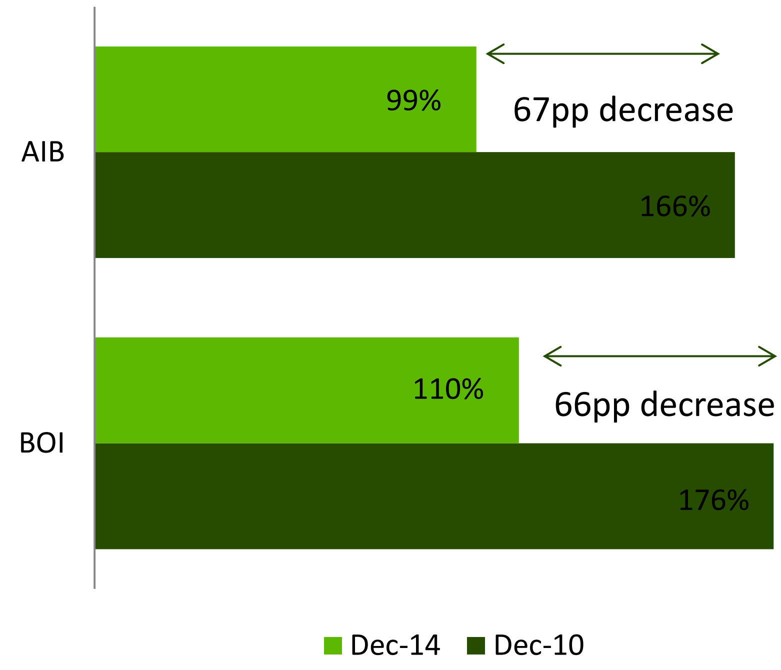
Capital and loan-to-deposit ratios strengthened

Core Tier 1 Capital Ratios (Dec-14)



Source: Published bank accounts

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

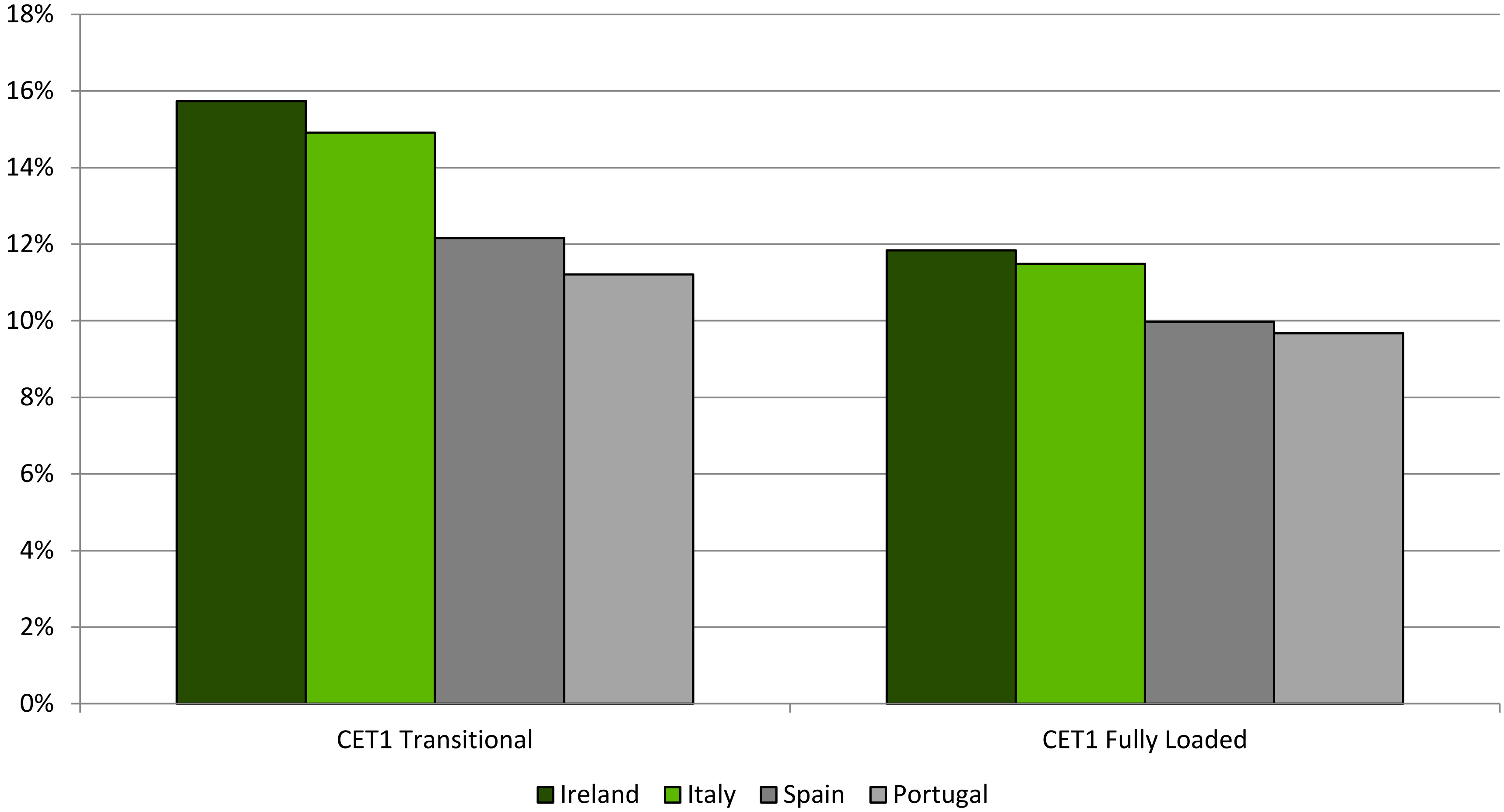


Source: Published bank accounts

- Core Tier 1 capital ratios at the PLAR banks remain well above minimum requirements.
- After successfully tapping private capital markets in 2015, PTSB has likely joined 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.

Irish banks have higher regulatory ratios than banks in non-core countries



Source: Various banks' financial reports, NTMA workings
Note: Based on the biggest 3 domestic banks in each country for 2014

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

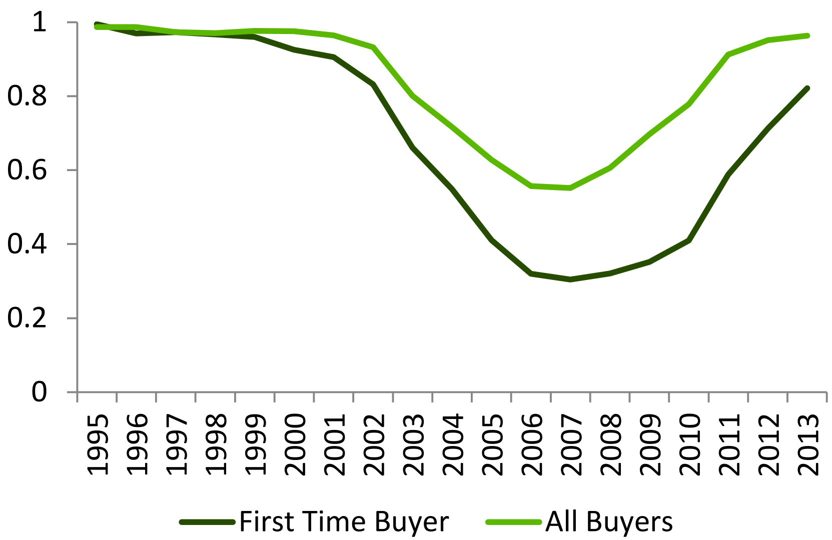
Source: CBI

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

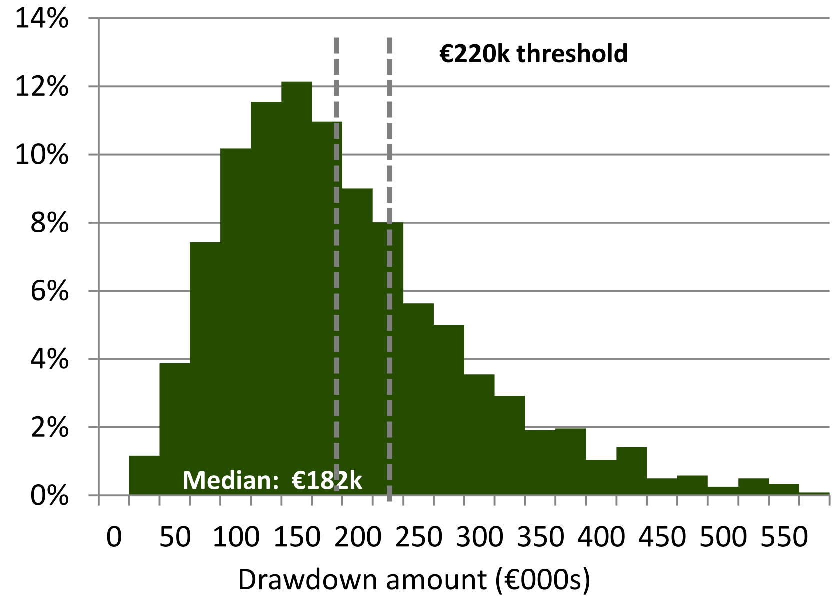
Introduction of CBI’s macro-prudential rules will increase resilience of banking and household sector

Proportion of loans below 3.5 times LTI by year



Source: CBI

House price distribution for FTBs in 2014 H1

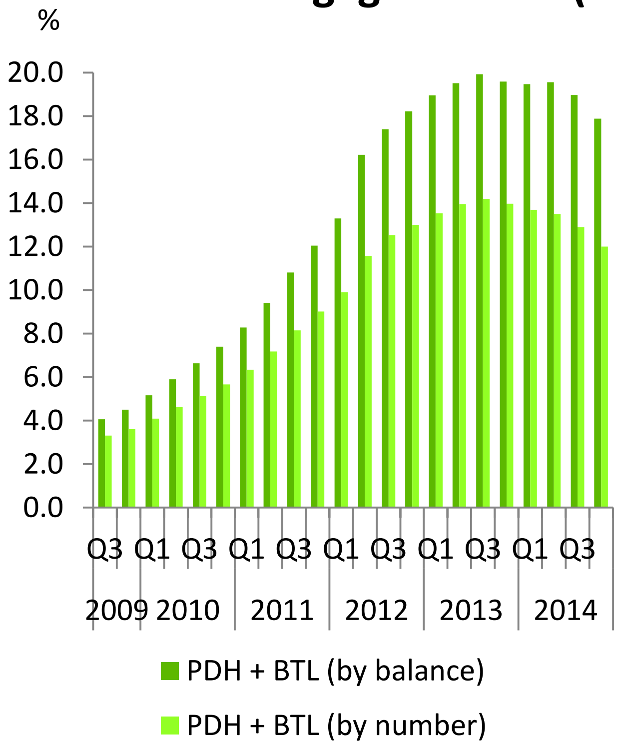


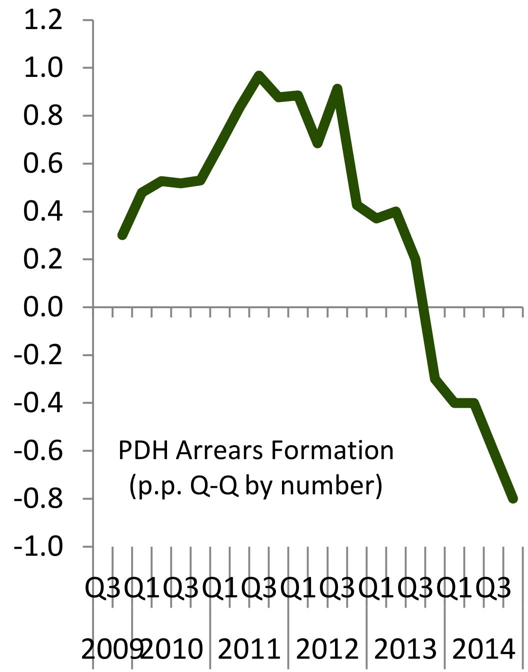
Key changes to lending rules
Banks must restrict lending for primary dwelling purchase above 80 per cent LTV to no more than 15 per cent of the aggregate value of the flow of all principal dwelling loans*
Bank must restrict lending for primary dwelling purchase above 3.5 times LTI to no more than 20 per cent of that aggregate value
Banks must limit Buy-to-Let loans (BTL) above 70 per cent LTV to 10 per cent of all BTL loans.

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

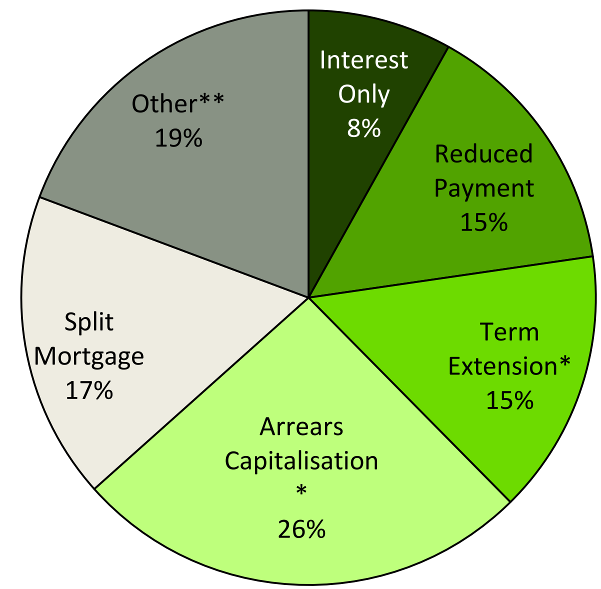
Irish residential mortgage arrears – improving but still challenging

Mortgage Arrears (90+ days)





Total Restructured/Rescheduled Cases

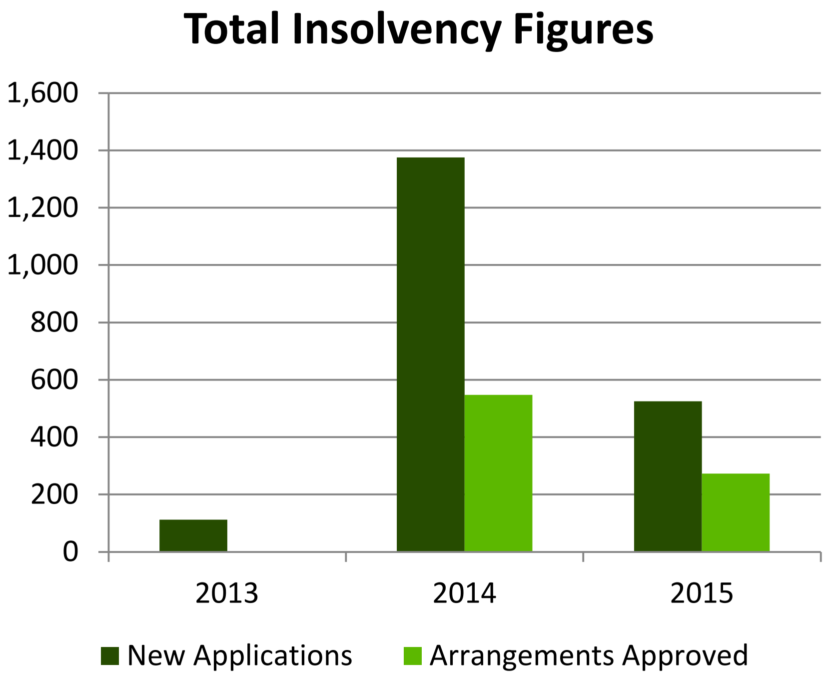


Source: CBI

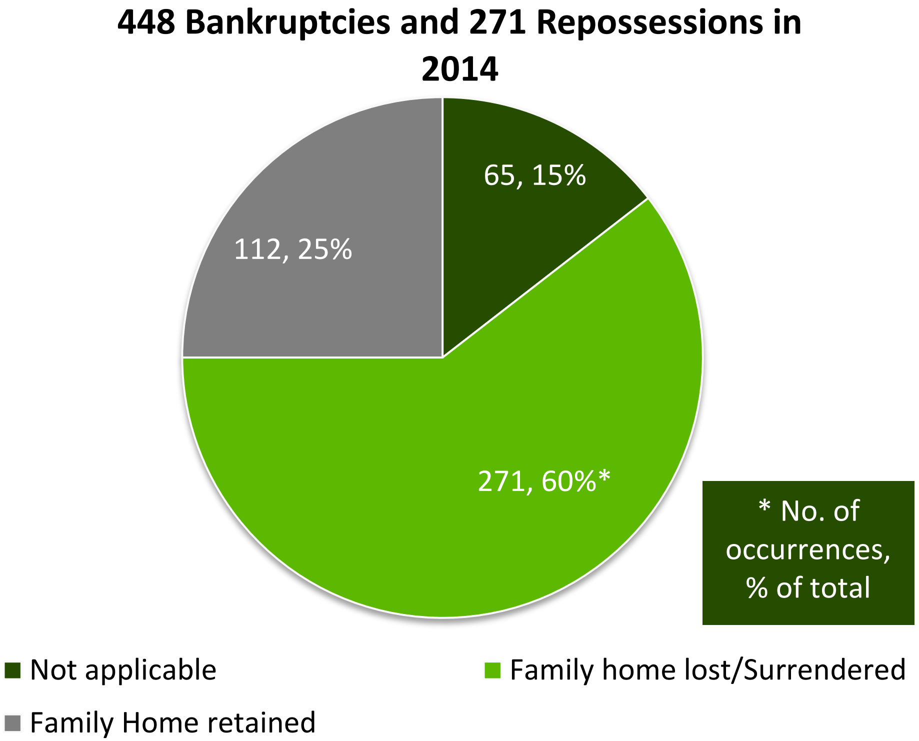
- PDH mortgage arrears have fallen steady since Q3 2013. The smaller BTL market (c. 25% of total) has relatively higher arrears but also saw declines in the same period.
- 115,000 PDH mortgage accounts were classified as restructured at end-Q4 2014, reflecting a q-o-q increase of 4.3%. Of these restructured accounts, 84.9% were meeting the terms of the restructured arrangement.

* Only includes accounts with these restructurings and no other forbearance arrangement.
** 'Other' comprises accounts offered temporary Interest rate reductions, payment moratoriums and long-term solutions pending six months completion of payments.

Personal Insolvency Arrangements (PIA) and bankruptcies on the rise

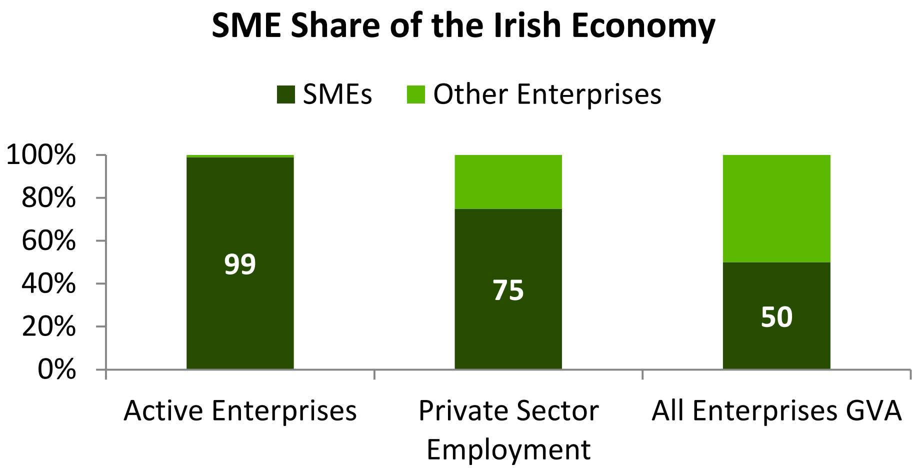


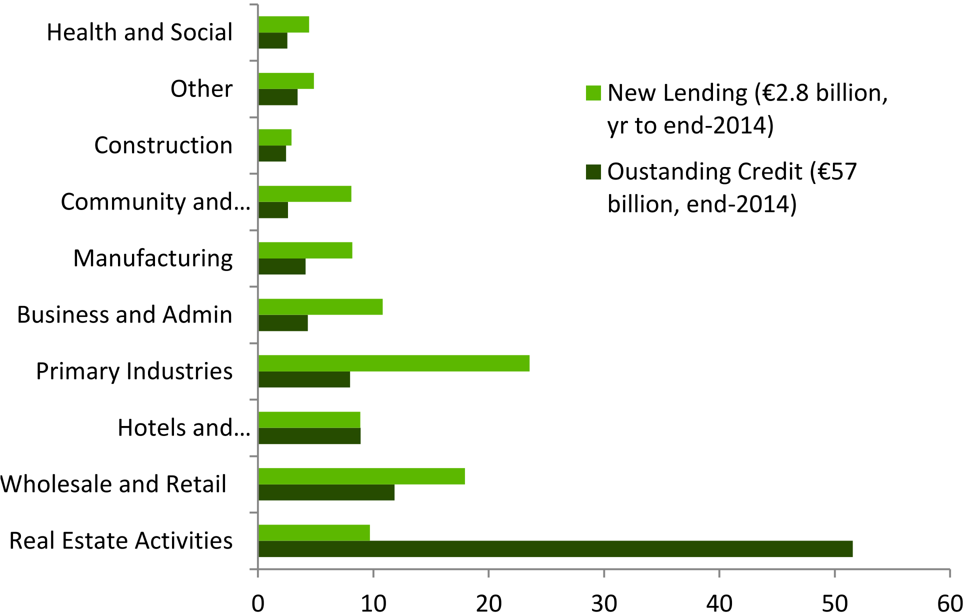
Source: ISI



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

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





Source: CBI

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

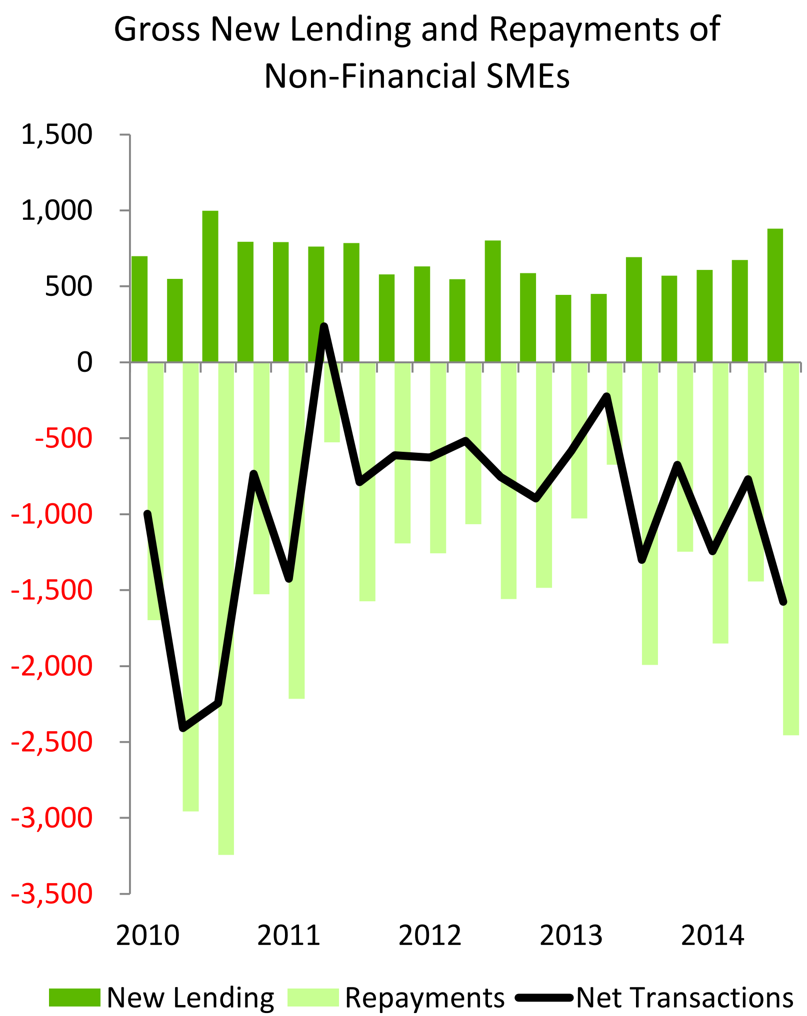
The SBCI's initial funding partners are the EIB, KfW (the German promotional bank) and the Ireland Strategic Investment Fund (ISIF).

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

Range of additional funding supports include:

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

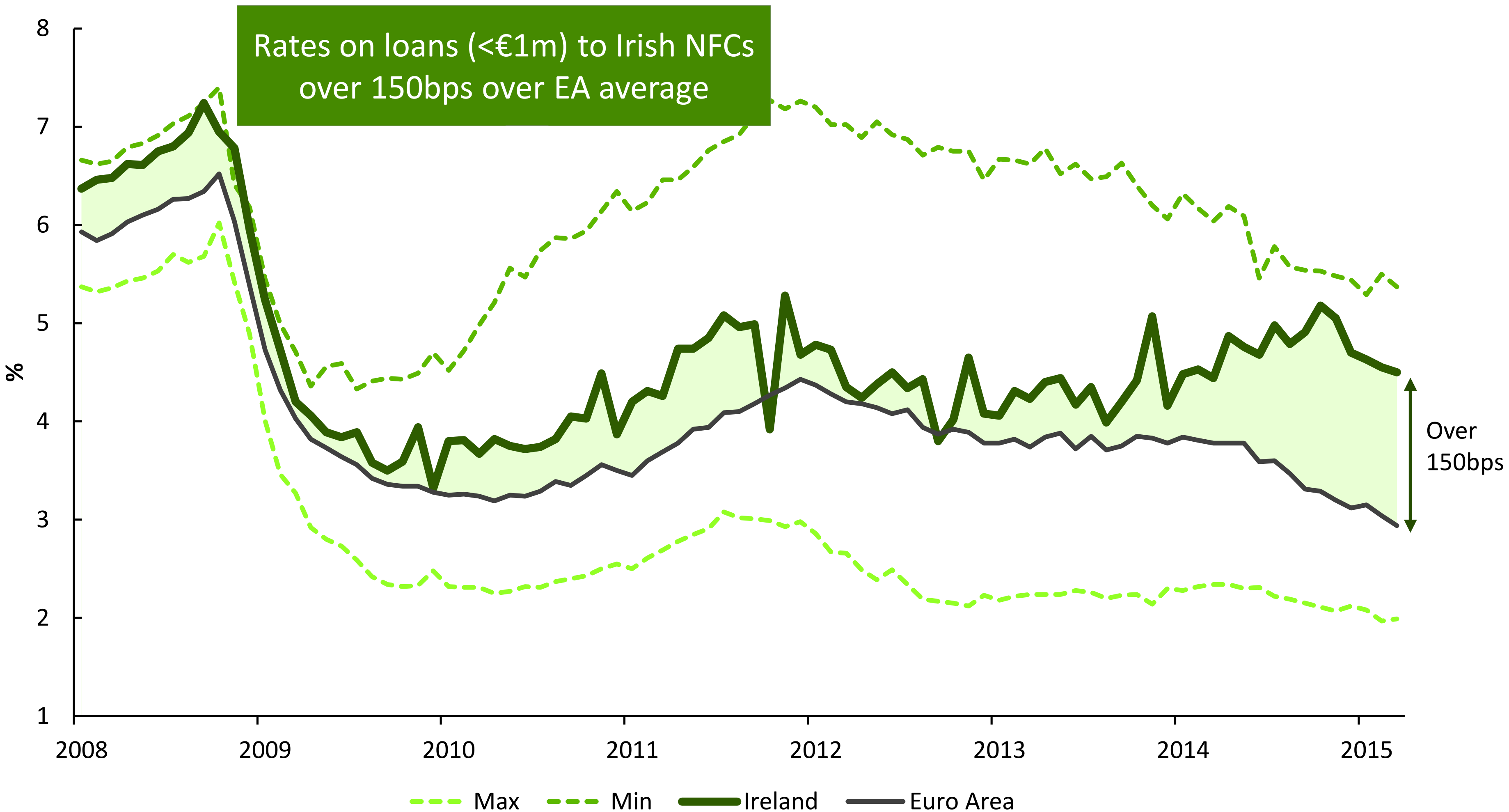
SME deleveraging continuing as new lending remains steady but low



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.’

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