IRELAND: OUTSTANDING GROWTH IN A SLUGGISH WORLD

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

March 2016

Index

SUMMARY

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

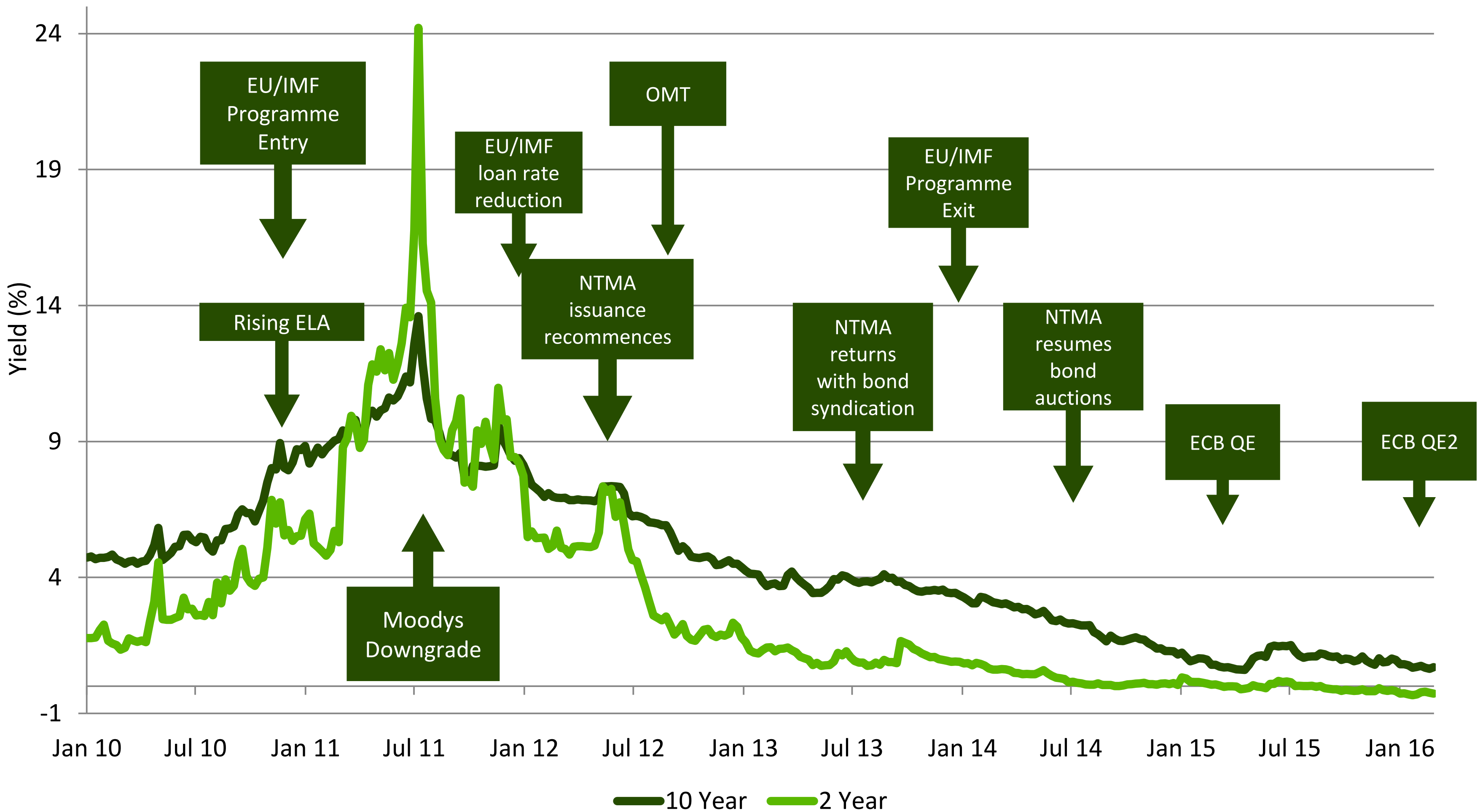
Ireland outperformed again in 2015

- **Ireland is growing faster than every other euro area country**
  - Ireland’s economy grew by 7.8% real and 13.5% nominal in 2015.
  - Consumer spending and investment have recovered. Spending is up for eight straight quarters. External forces have benefitted Ireland - the sharp depreciation of the euro following ECB quantitative easing, low interest rates and the dramatic decline in oil prices.
  - Unemployment is falling but the pace of improvement has slowed. The rate was 8.8% in February 2016, down from the crisis peak of 15.1% in Q1 2012.
- **Government exited the EDP in 2015 and posted deficit of around 1.5%**
  - The deficit beat the Government forecast of 2.1% of GDP for 2015. This allowed the Government an extra 2015 stimulus of 0.75pp. For 2016, deficit is forecasted to fall to 1.2%.
  - Ireland has beaten its target for five straight years. At end-2010, the EC set Ireland a 2015 goal to exit the Excessive Deficit Procedure (EDP): no extensions were required.
- **Government debt below 100% of GDP by end-2015, down from 120%**
  - The official forecast is for a ratio of 97% - it could be closer to 95% - helped by the large excess of nominal growth over interest cost and second primary budget surplus in a row.
  - The return of capital to the Government from sales of equity stakes in state-owned banks and the eventual wind-up of NAMA will reduce debt in the next few years.

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

- **Funding Plan for 2016**
  - NTMA plans to issue €6-10 billion of long-term bonds over the course of 2016
  - Funding is low thanks to falling deficits and late-2017 being the next major redemption
- **2016 Funding off to a successful start**
  - On Jan 7th, the NTMA issued a €3bn 2026 bond via syndication – at a yield of 1.156%. A further €1bn of the bond was auctioned on Feb 11th at 0.999% yield.
  - On Feb 29th, the NTMA purchased and cancelled €850m of the April 2016 bond.
  - The investor base continues to expand: international investors bought 88% of the bonds on offer, led by the UK (32%), the Nordics (13%) and Germany (11%).
  - Among investor categories, the bias of the deal was to real money: asset/fund managers (37%), banks (22%) and pension/ insurance (17%).
- **2015 was a strong year for the NTMA**
  - We raised €13bn from a stated range of €12-15bn at the outset of 2015. The lower-than-forecast Government deficit limited our need.
  - The NTMA completed the early repayment of IMF loans in 2015. A total of €18bn worth of loans was refinanced: total interest cost savings could exceed €1.5bn (0.8% of GDP) over 5 years. We issued our first ever 30-year bond last February.

Ireland's happy bond market story has lots of milestones



Source: Bloomberg (weekly data)

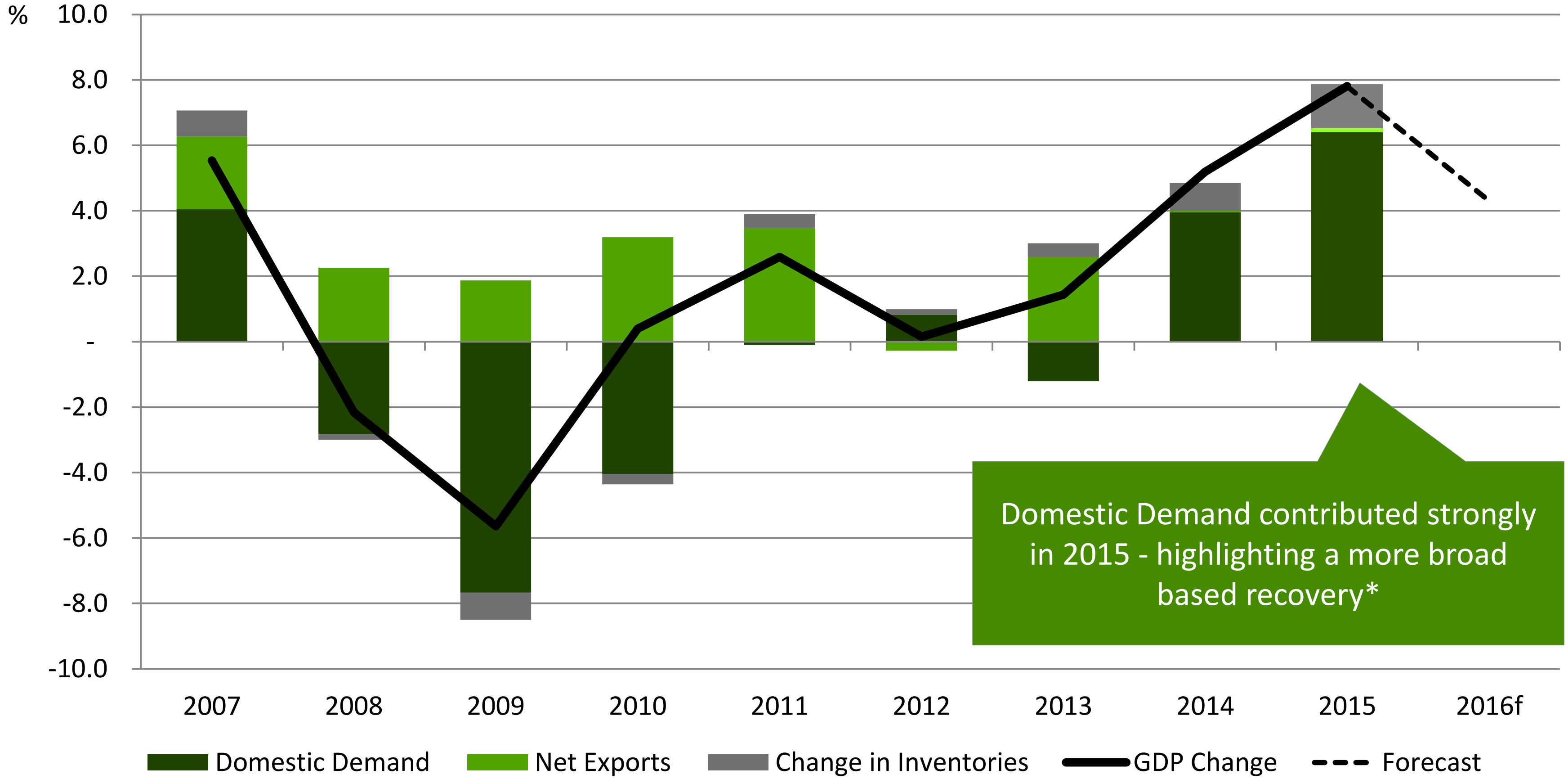
Trend is upwards in Ireland's sovereign credit ratings

Rating Agency	Long-term	Short-term	Outlook/Trend	Date of last change
Standard & Poor's	A+	A-1	Stable	June 2015
Fitch Ratings	A	F1	Stable	Feb. 2016
Moody's	Baa1	P-2	Positive	Sept. 2015
DBRS	A(high)	R-1 (middle)	Stable	Mar. 2016
R&I	A-	a-1	Positive	Dec. 2015

SECTION 1: MACRO

Recovery strengthened in 2015; Unemployment has dropped sharply from a peak of 15.1% of the labour force to 8.8% in February 2016

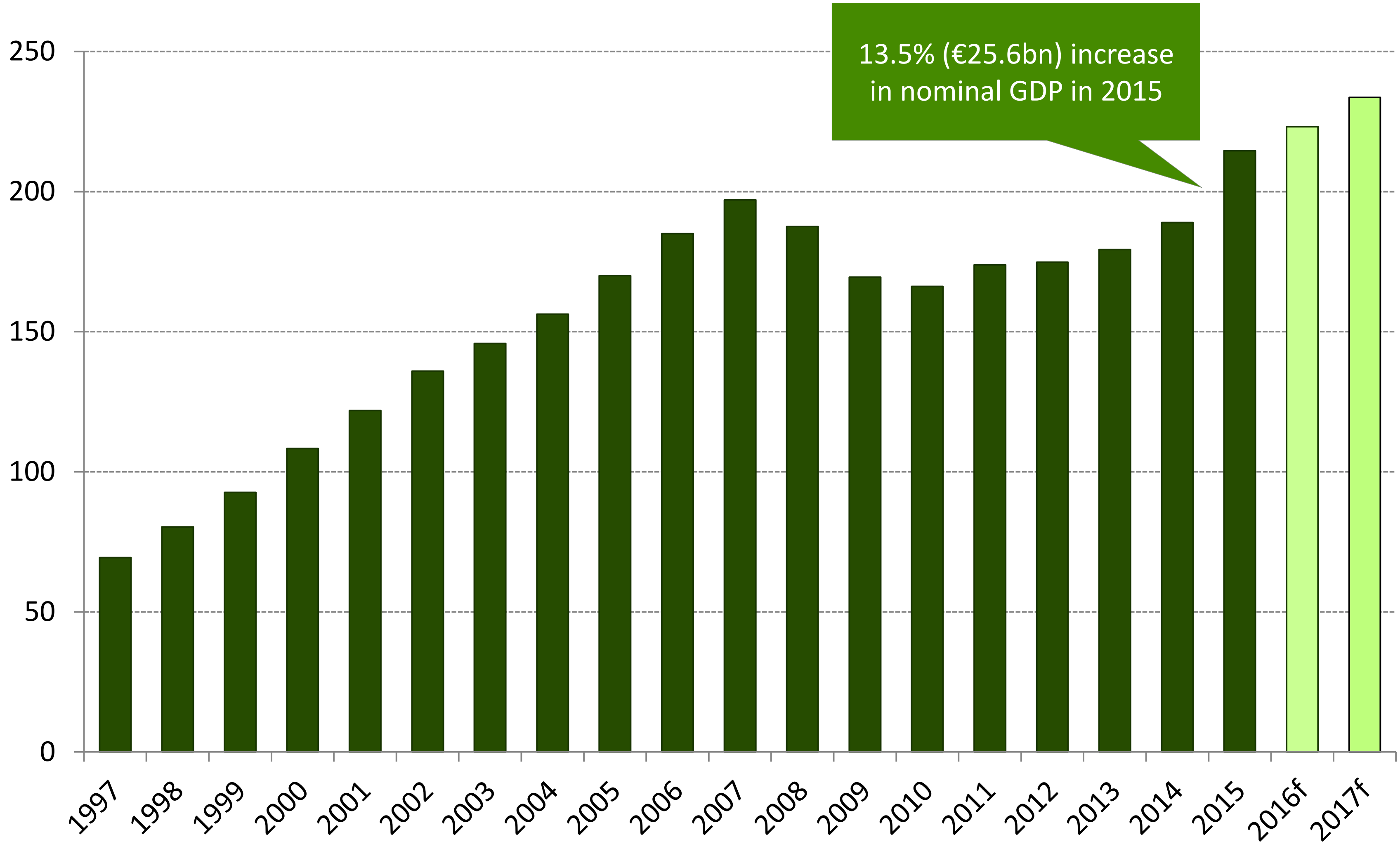
Personal consumption and investment drove GDP growth in real terms in 2015



Source: CSO; Department of Finance(Budget 2016);

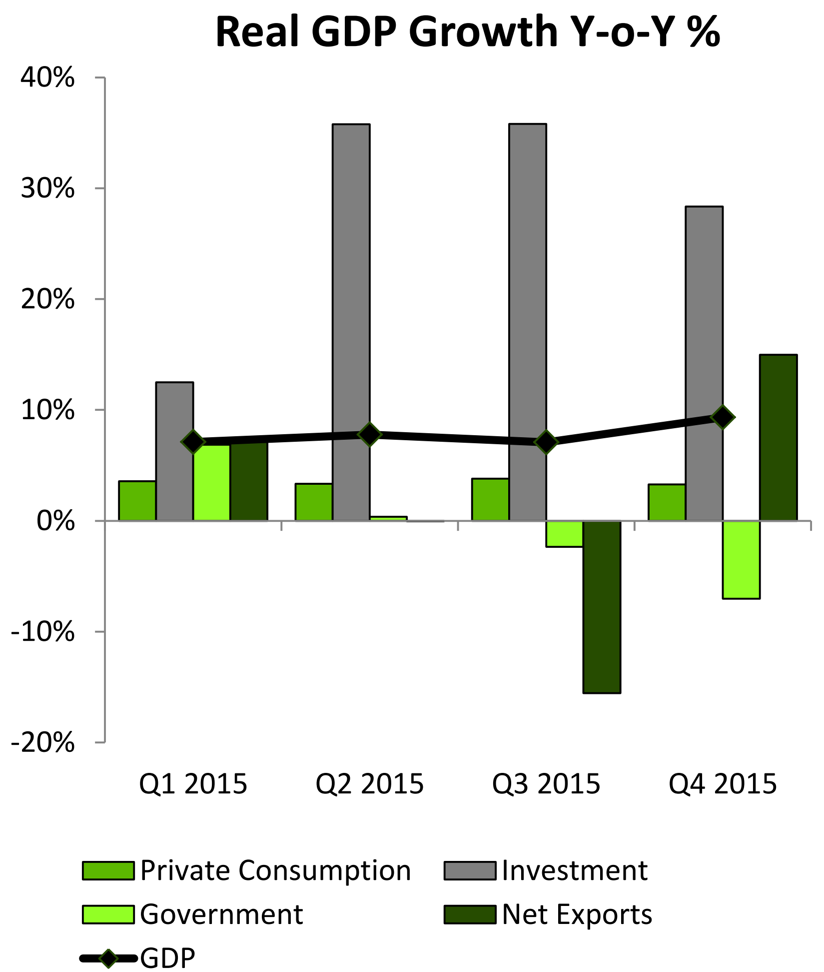
* Imports of intellectual property and aircraft trade exaggerate the contribution from domestic demand and underestimates the effect of Net Exports. Excluding these factors, the contribution of Investment is closer to 40% of GDP growth while Net Exports is closer to 30%. Please see slide 12 for more details.

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



Source: CSO; Forecasts from Department of Finance (Budget 2016)

Growth strong and broad based in 2015



Source: CSO; NTMA workings

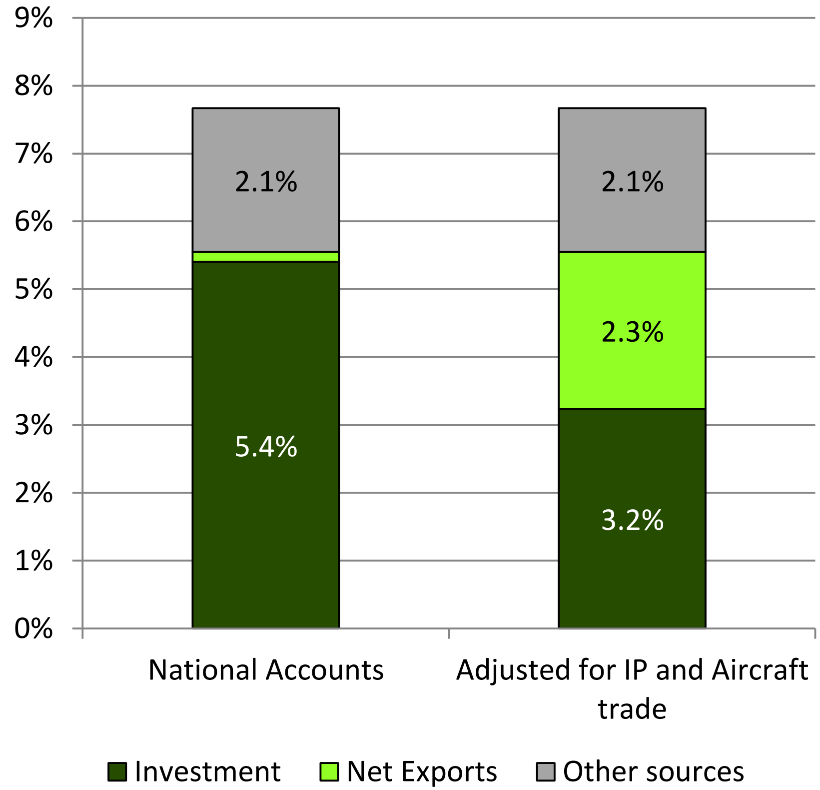
- 7.8% real GDP growth for 2015 – well above expectations.
- Q-Q real growth outturn for Q4 2015 was 2.7%, with Q3 2015 growth at 1.5%.
- Investment was nominally the driver in 2015 – although growth is overstated by the movement of intellectual property (IP) and aircraft trade into Ireland.
- Exports grew strongly in 2015 – particularly Q4 - but imports slightly outpaced exports for the year (due in part to IP and aircraft issues).
- Personal consumption is now a key driver of growth (3.5% for 2015).

Aircraft trade coupled with IP imports mean Irish National Accounts are distorted

Intellectual Property imports and aircraft trade by aircraft leasing companies* distort investment and net exports data in Ireland.

- Both lead to an increase in investment. At the same time there is an equal increase in imports. These impacts cancel each other at the aggregate level.
- **That is, these activities have no effect on GDP and GNP.**
- But they do overestimate investment and underestimate net exports in the national accounts.
- Excluding these two factors gives a better picture of the broad based GDP growth in 2015.

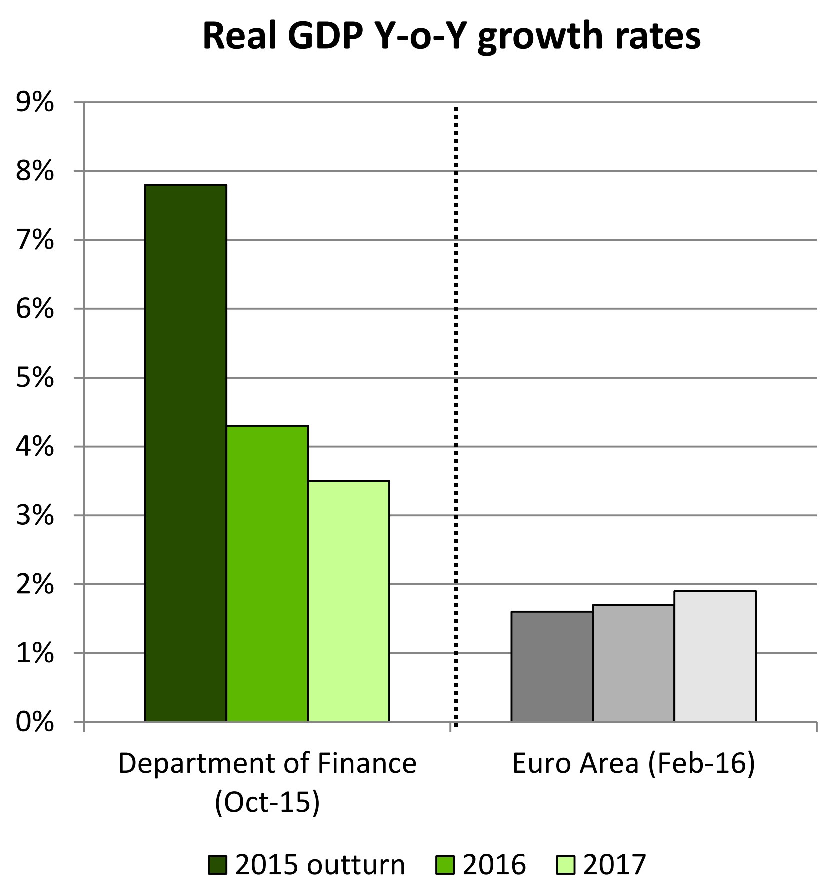
Investment is reduced & Net Exports increased in adjusted case for 2015

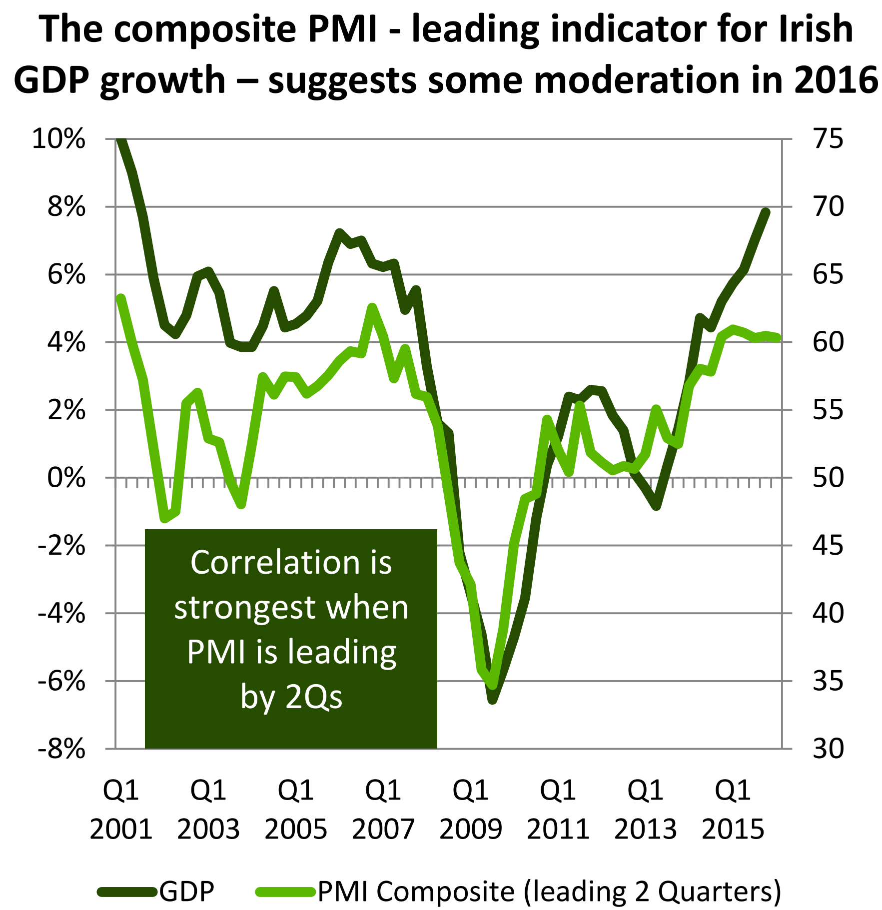


Source: CSO, NTMA analysis

*Trade in aircraft by Irish resident aircraft leasing companies is now recorded in the national accounts. This investment is generally global driven and has little impact on Ireland's economic growth.

Ireland's economy grew nearly 5x faster than the euro area in 2015; expected to outperform again in 2016



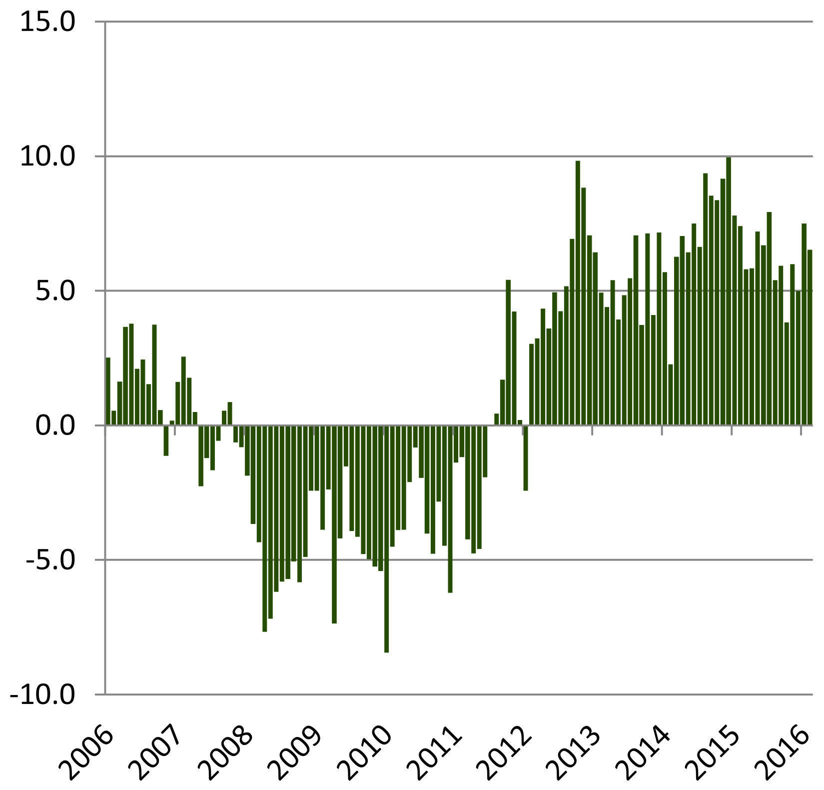


Source: Department of Finance; Euro area forecasts based on EU Commission Forecasts

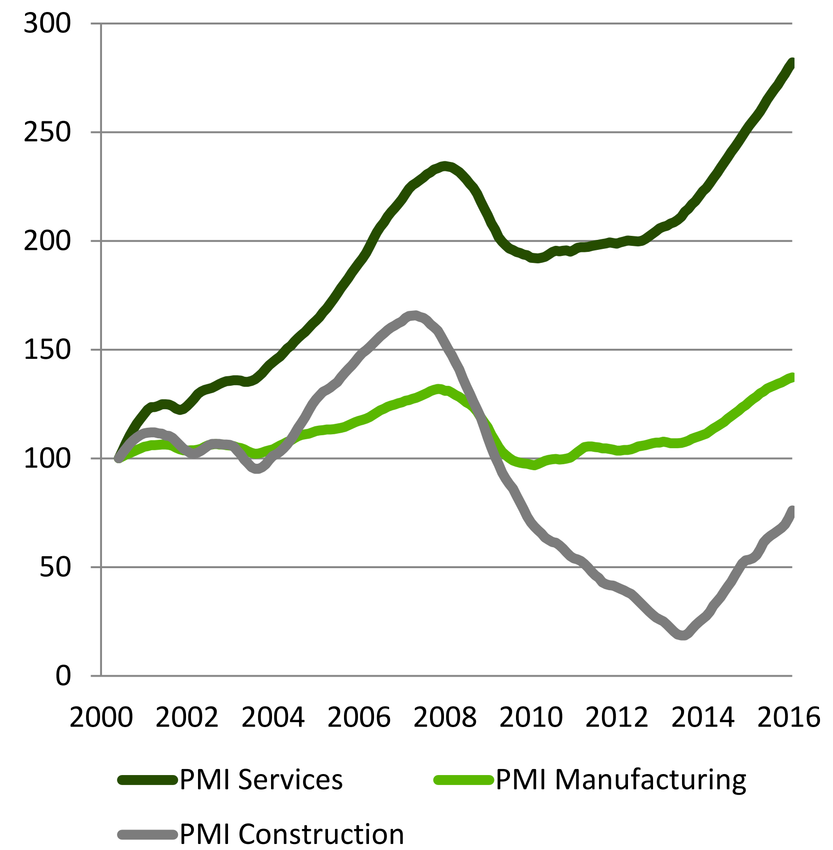
Source: CSO; Markit

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

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



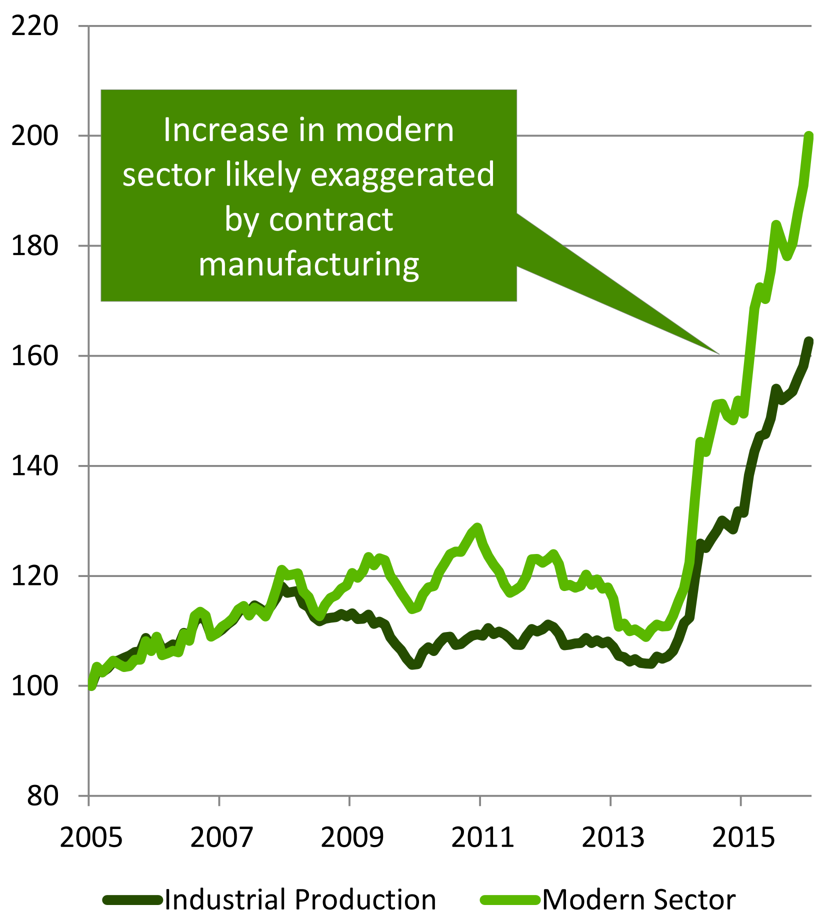
All sectors growing (PMI chg. as cumulative index level, June 2000=100)

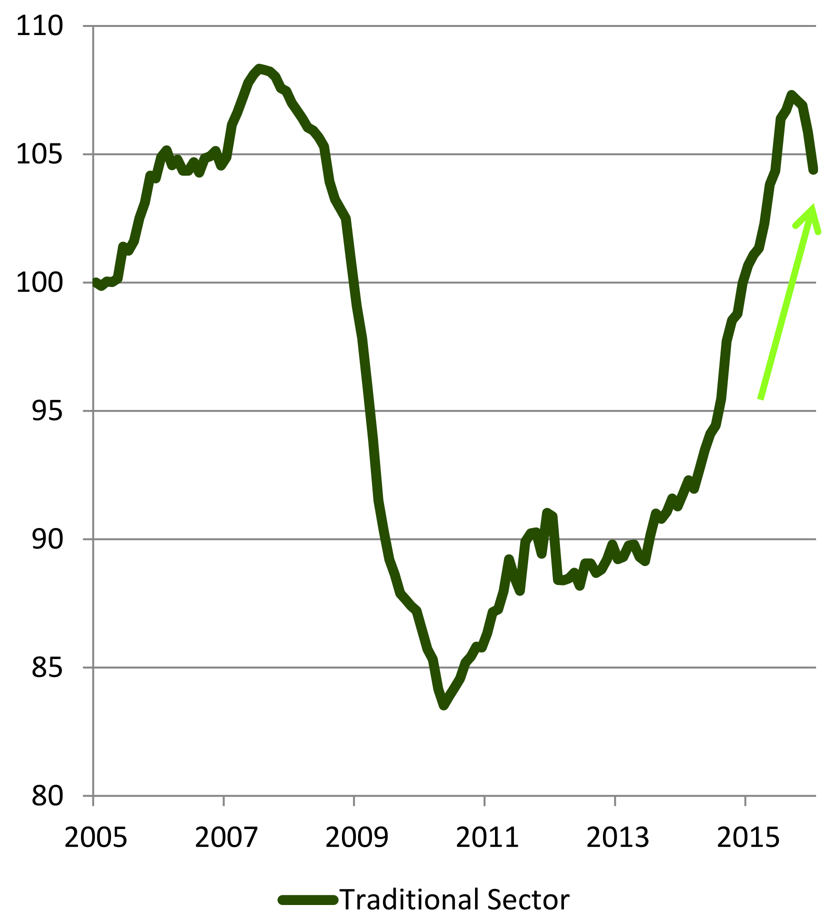


Source: Markit; Bloomberg; Investec ; NTMA workings

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

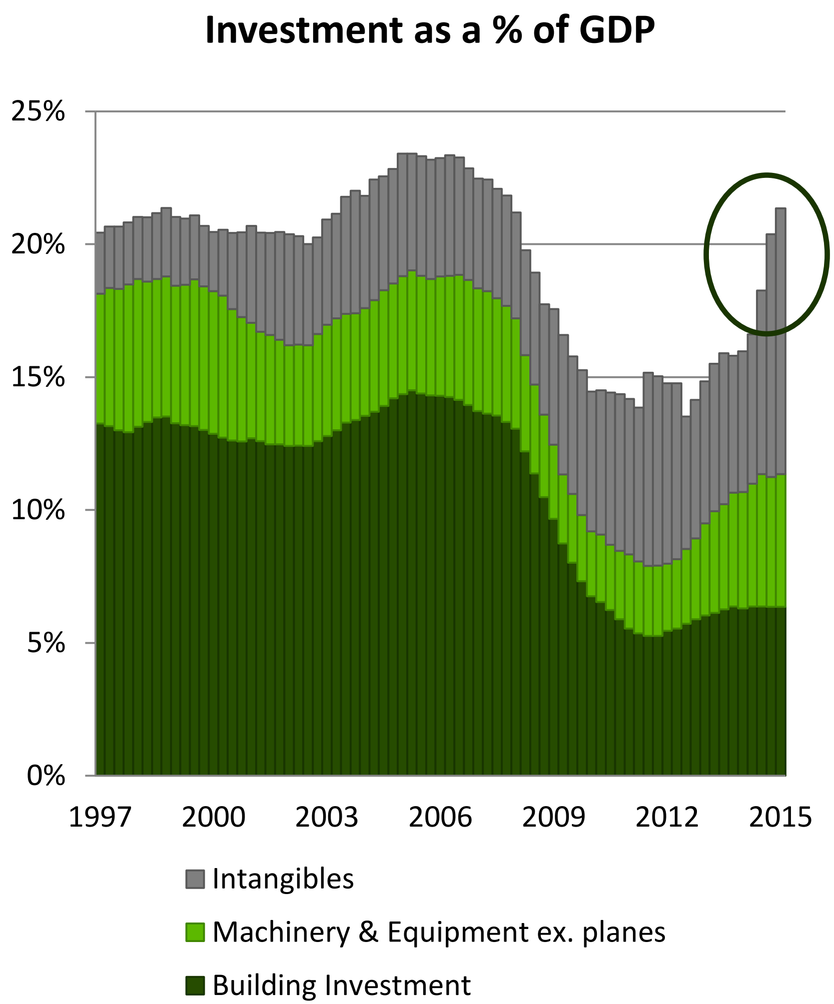
6 month moving averages (Jan 2005 = 100)





Source: [CSO]

Investment as a % of GDP back to pre-bubble levels; composition is different however



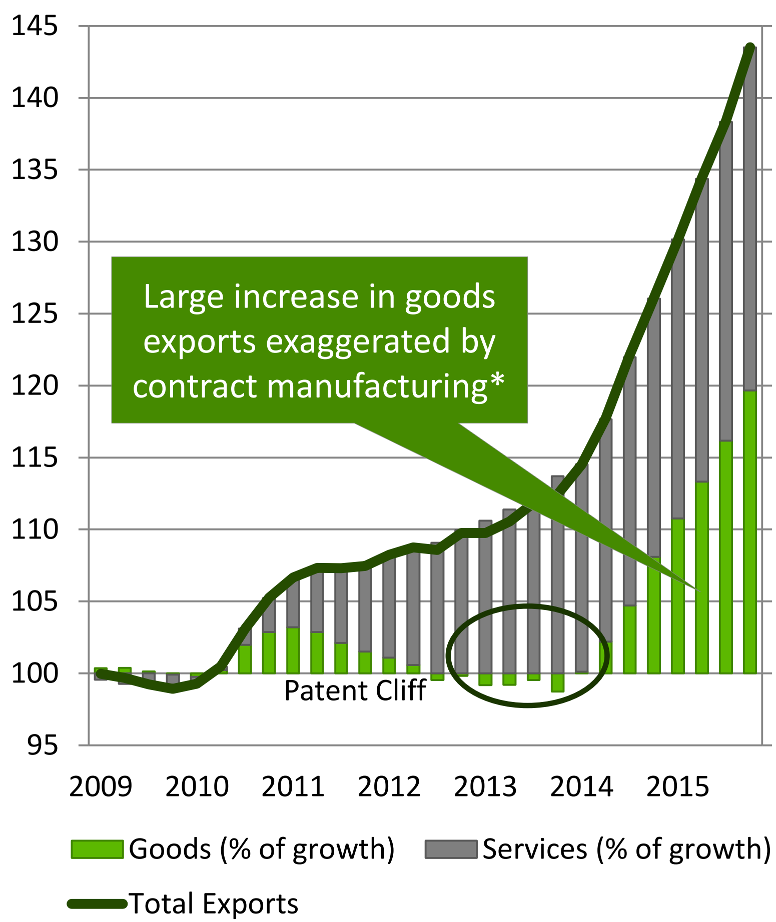
Source: CSO, NTMA analysis

- Investment as a percentage of GDP in 2015 was back to 1997-2003 levels.
- Building investment is now a much smaller part of overall investment - in 2015 it was 6.4% of GDP versus an unsustainable 14.5% in 2006.
- Intangible investment has become a much larger component of Ireland's investment picture as Ireland has become an ICT hub. Intangibles accounted for 2.3% of GDP in 1997 compared with 10% in 2015.
- The recent sharp increase in intangibles investment likely overstate Ireland's investment position (see pg. 12).

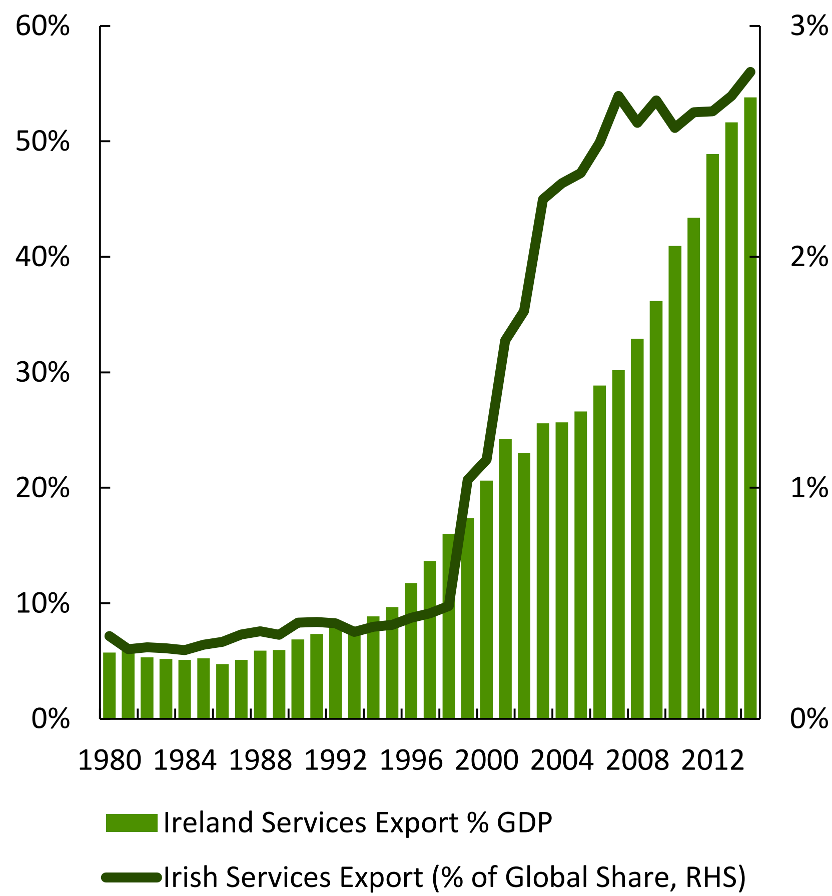
Please note that this quarterly data is volatile and not as reliable as the published annual data

Services exports have driven strong export performance post-crisis

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



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



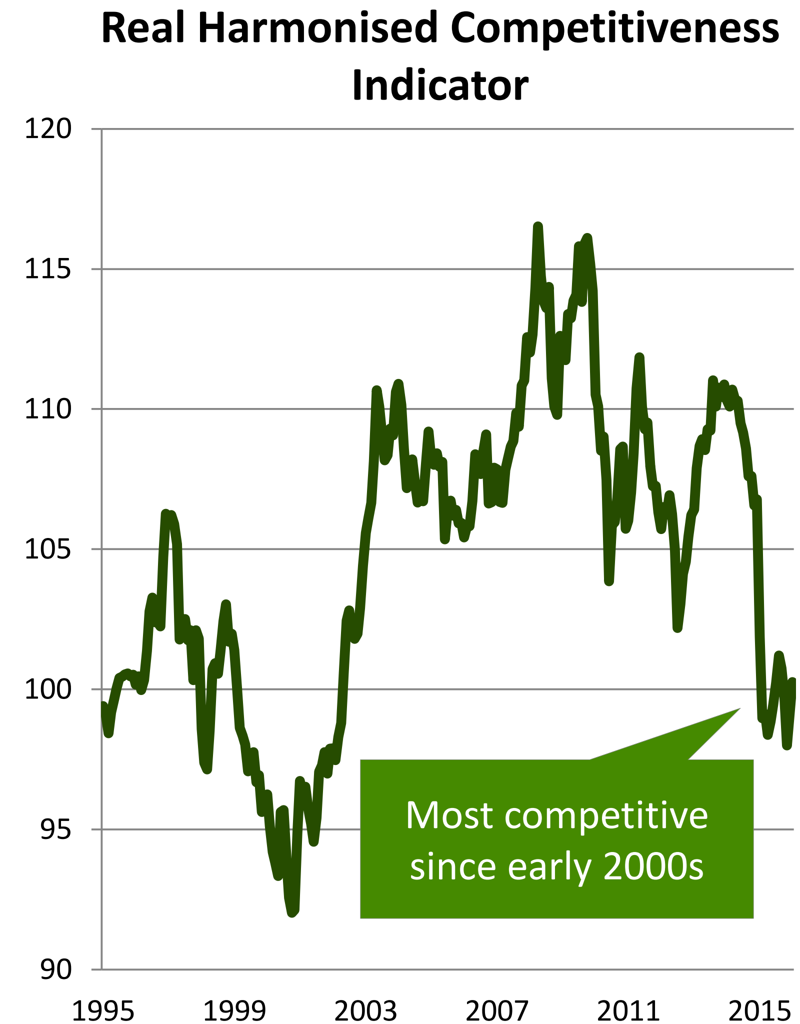
Source: CSO, NTMA calculations

Source: CSO, World Trade Organisation

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

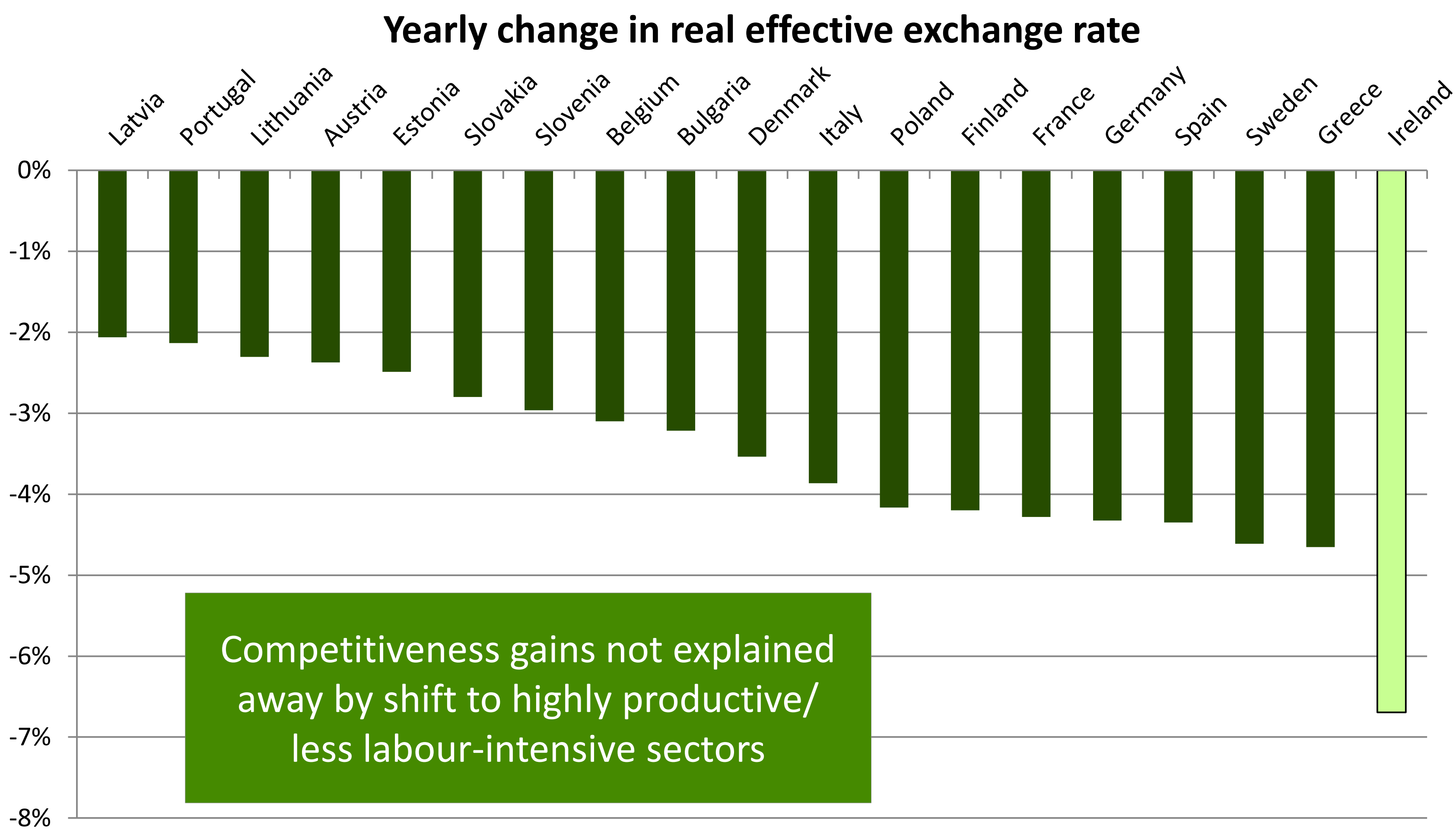
External factors such as energy prices and weaker euro boosted GDP growth in 2015

Source: Bloomberg



Source: CBI, NTMA workings

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



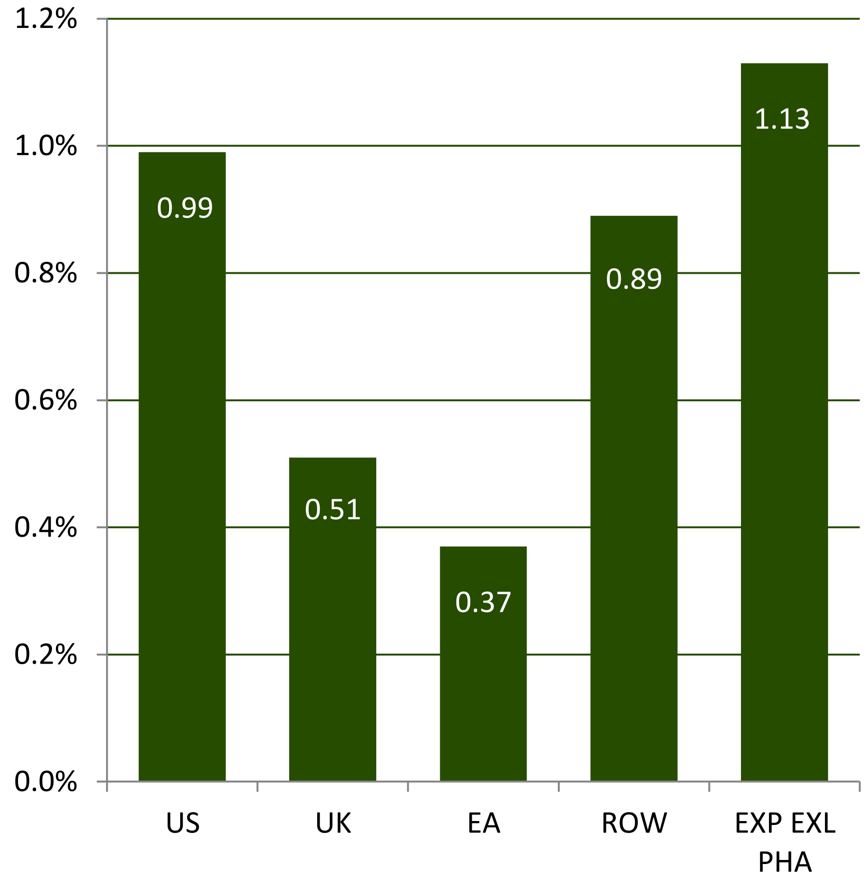
Source: Bruegel - 'Real effective exchange rates for 178 countries: a new database'; NTMA Workings

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

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

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

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



Source: CSO; NTMA empirical analysis

Note: All coefficients significant at 99% level

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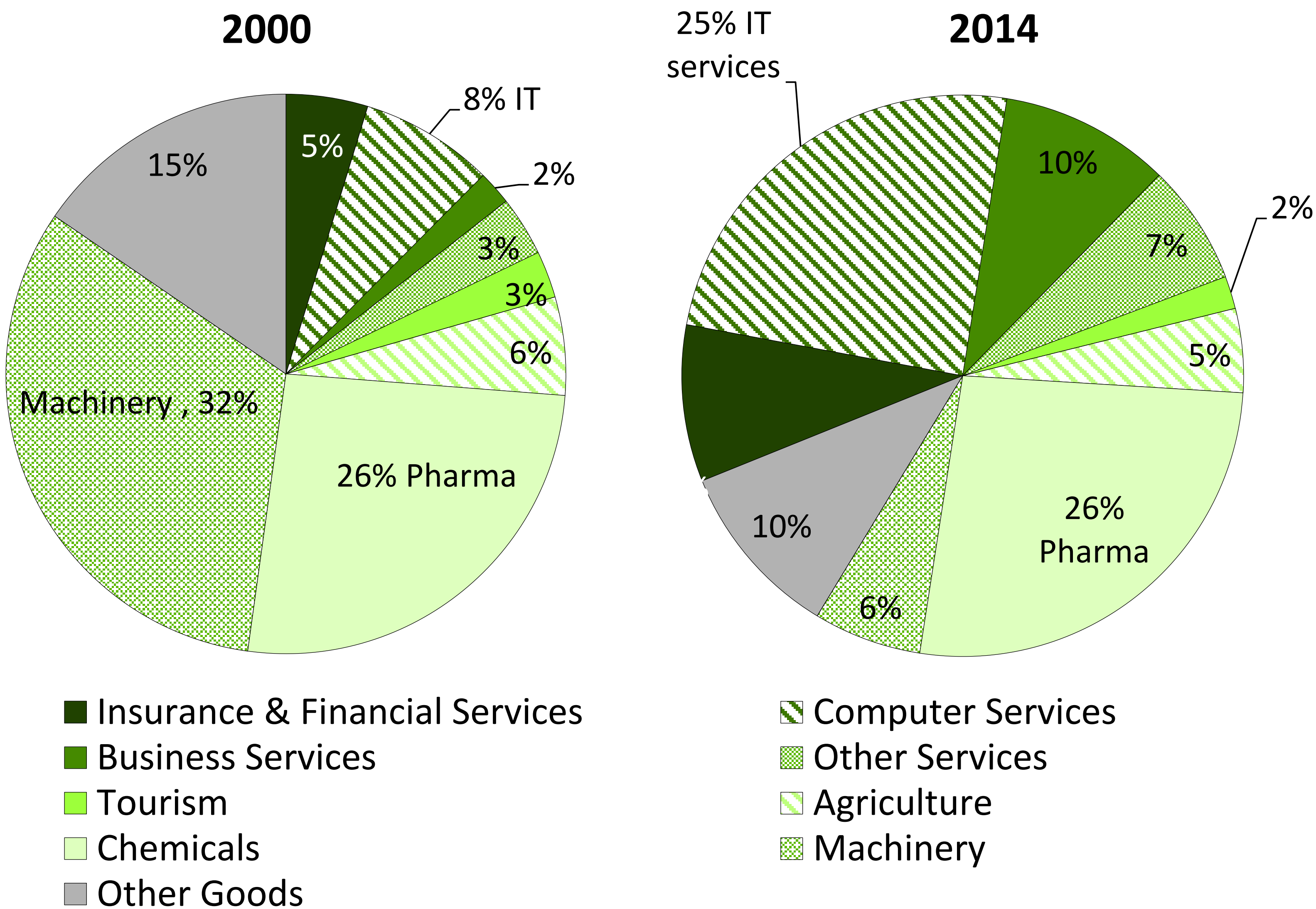
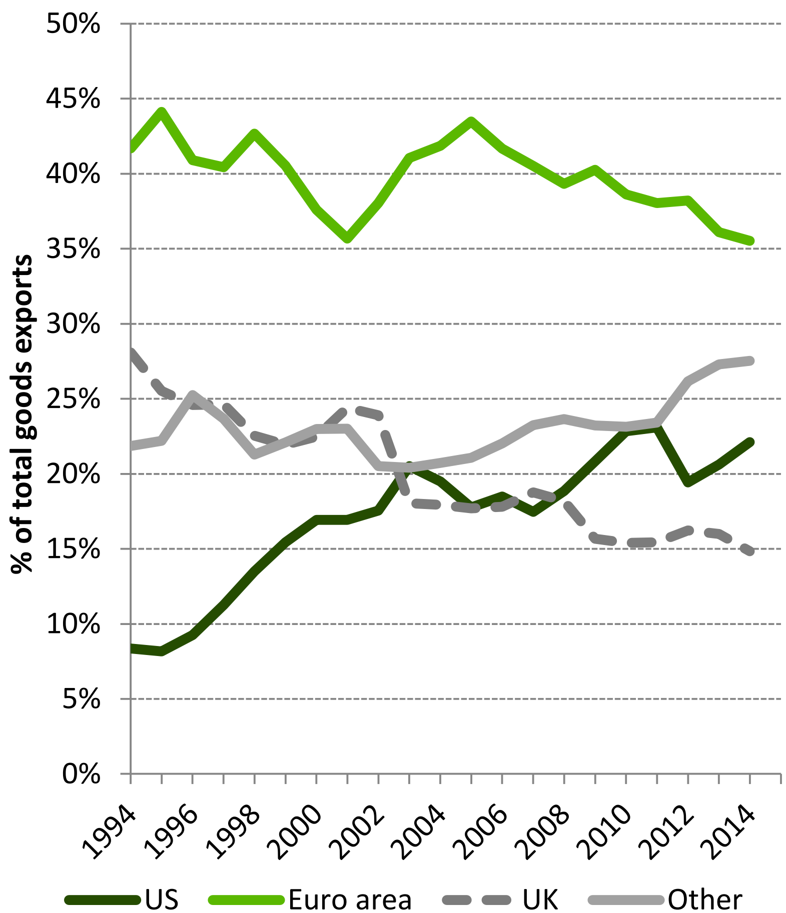
Export structure has changed dramatically, thanks to the arrival of new technology/ social media firms



Source: CSO, DataStream

Ireland’s openness has been critical to Irish success

Ireland benefits from export diversification by destination



Source: CSO

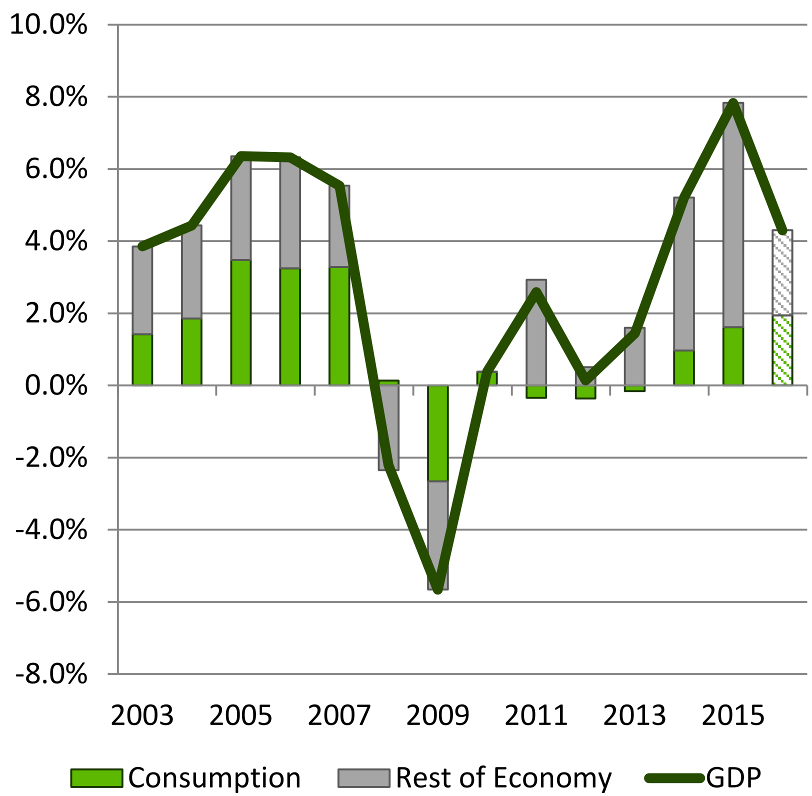
Breakdown of Irish trading partners - % of total

2014	Goods Exports	Goods Imports	Services Exports	Services Imports
US	22.0%	13.5%	8.3%	25.9%
UK	14.8%	28.7%	19.8%	10.4%
EA	35.4%	25.1%	31.8%	30.9%
China	2.3%	5.7%	1.3%	0.3%
Other	25.5%	26.9%	38.7%	32.5%

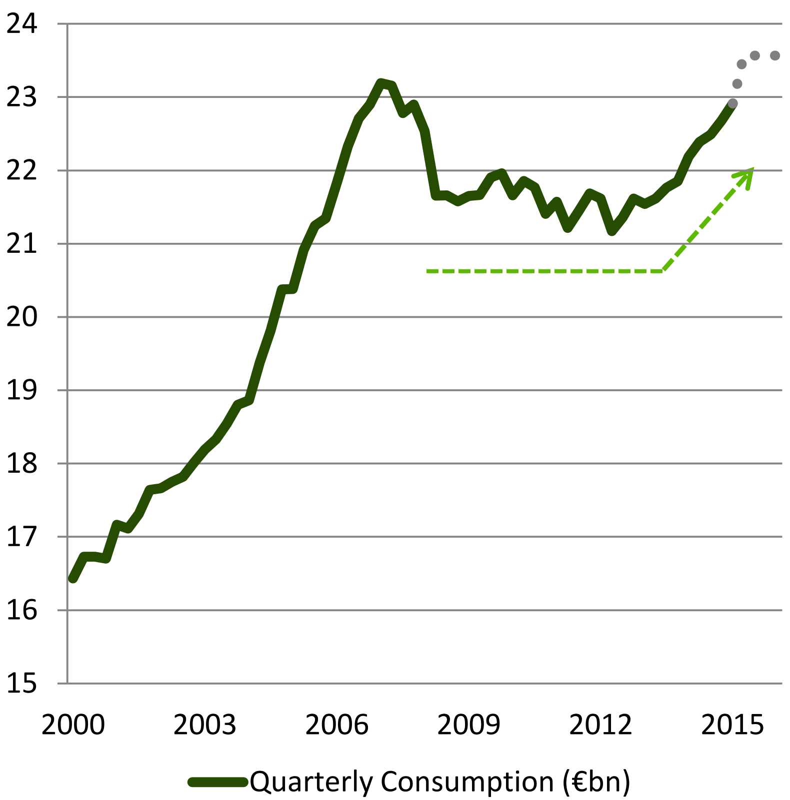
Source: CSO (2014)

Consumption is now a large contributor to growth

Consumption contributed positively to GDP growth in 2013-2015



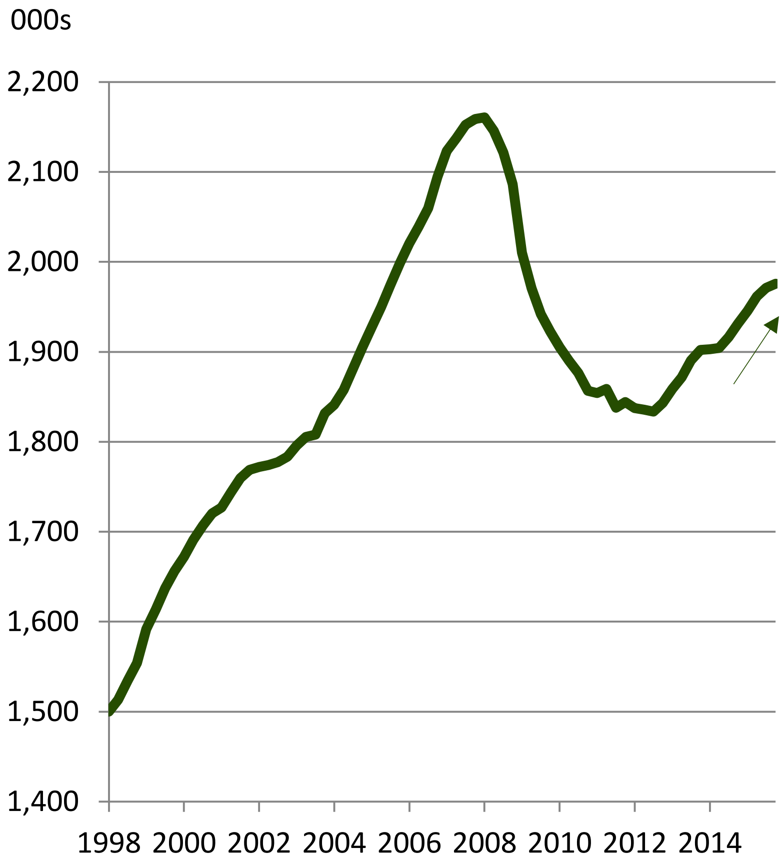
Eight consecutive quarters of positive q-o-q growth for the volume of consumption



Source: CSO, NTMA calculations, Department of Finance forecasts

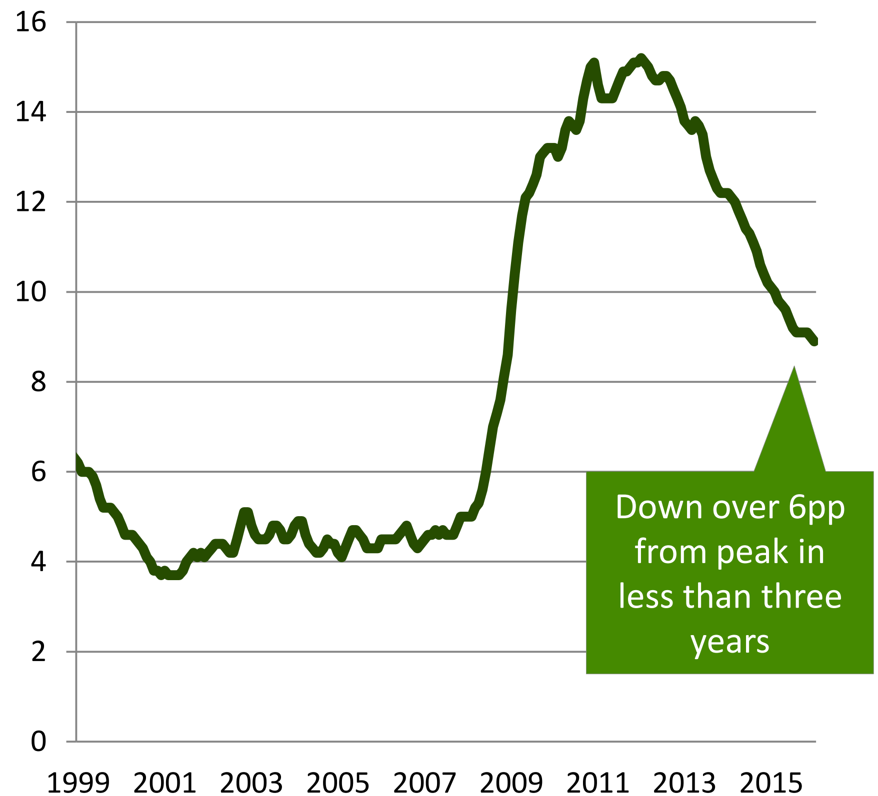
Labour market has rebounded since 2012

Employment up 7.8% from cyclical low



Source: [CSO]

Unemployment rate down to 8.8% in February 2016



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

Participation rate hovering around 60%

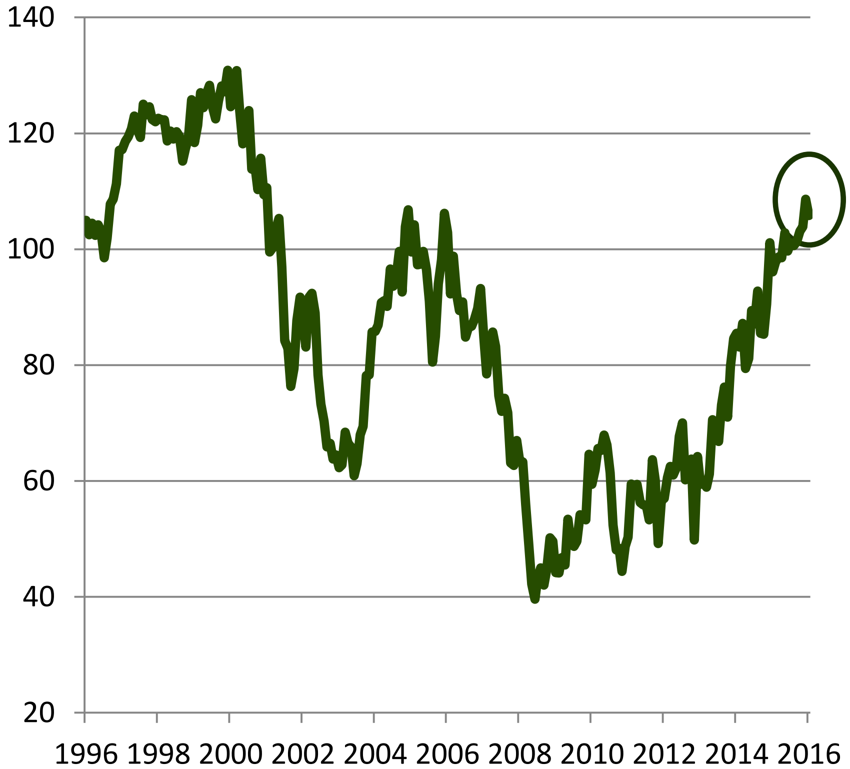
Source: CSO

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

Source: CSO

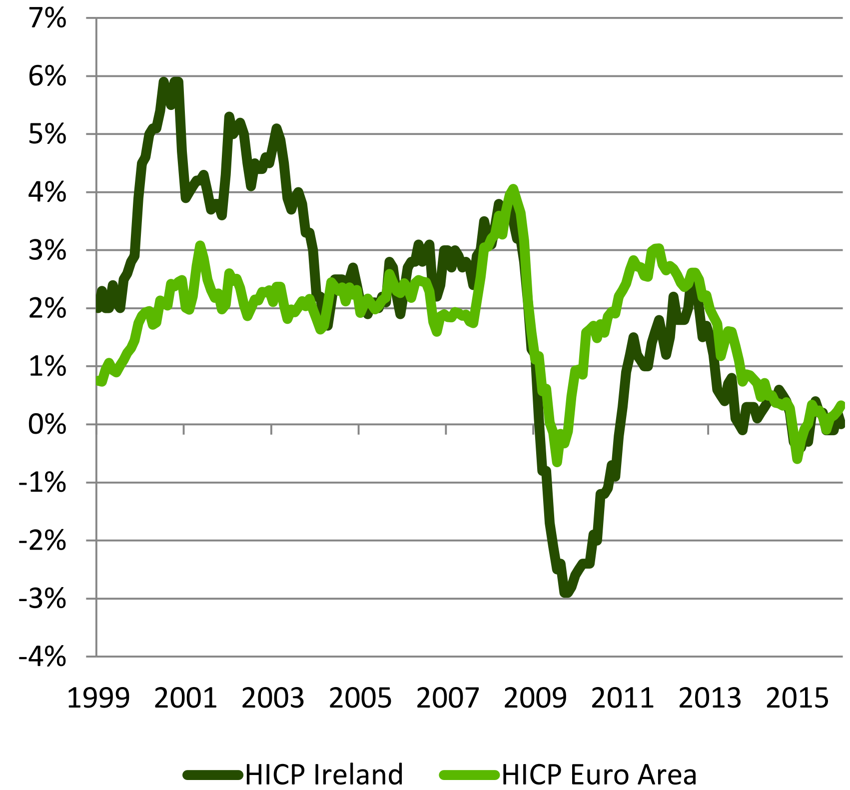
Rising employment and house price rises lift confidence; stagnating consumer prices underpinning real income…

Consumer confidence recovers



Source: KBC, ESRI, CSO; Eurostat

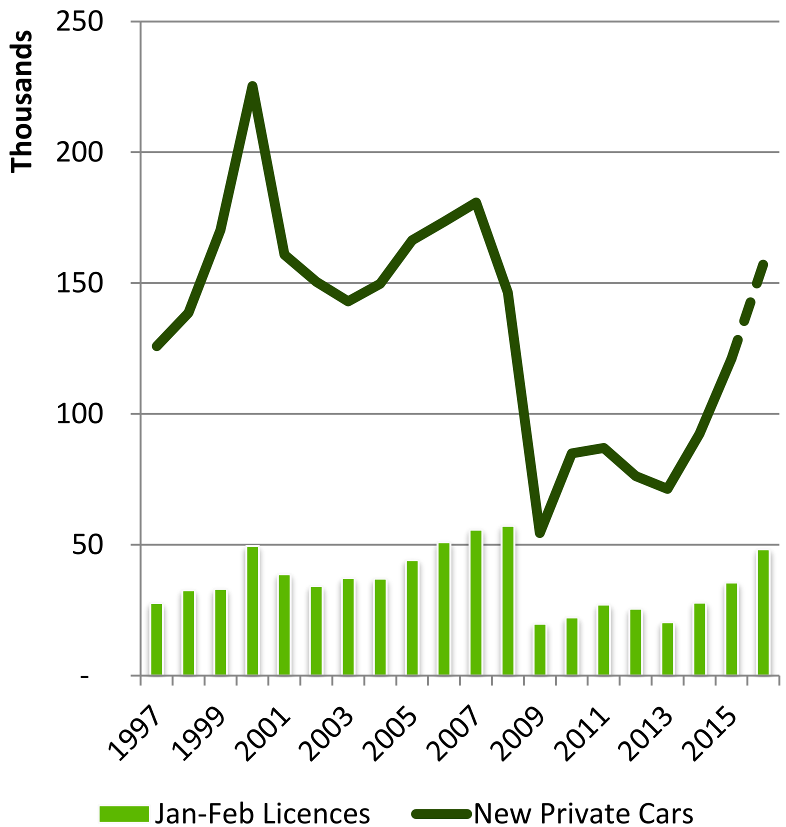
Inflation in Ireland similar to euro area



*Excluding motor trade; 3 month average used

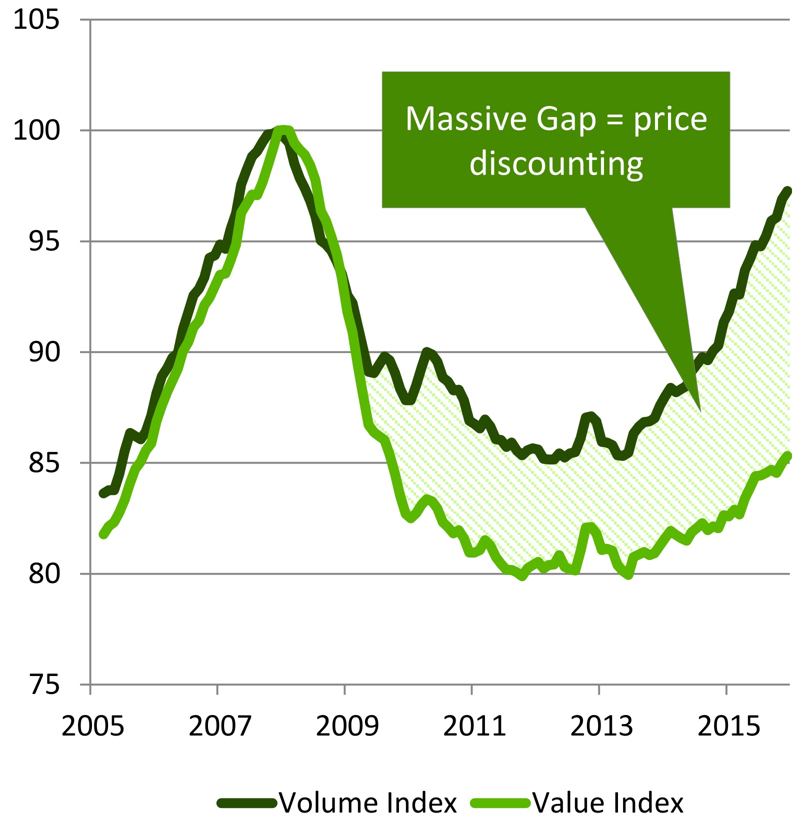
…with both car sales and core retail seeing the benefit

New car licences continue 36% increase in early months of 2016



Source: CSO (licences) CSO (retail sales)

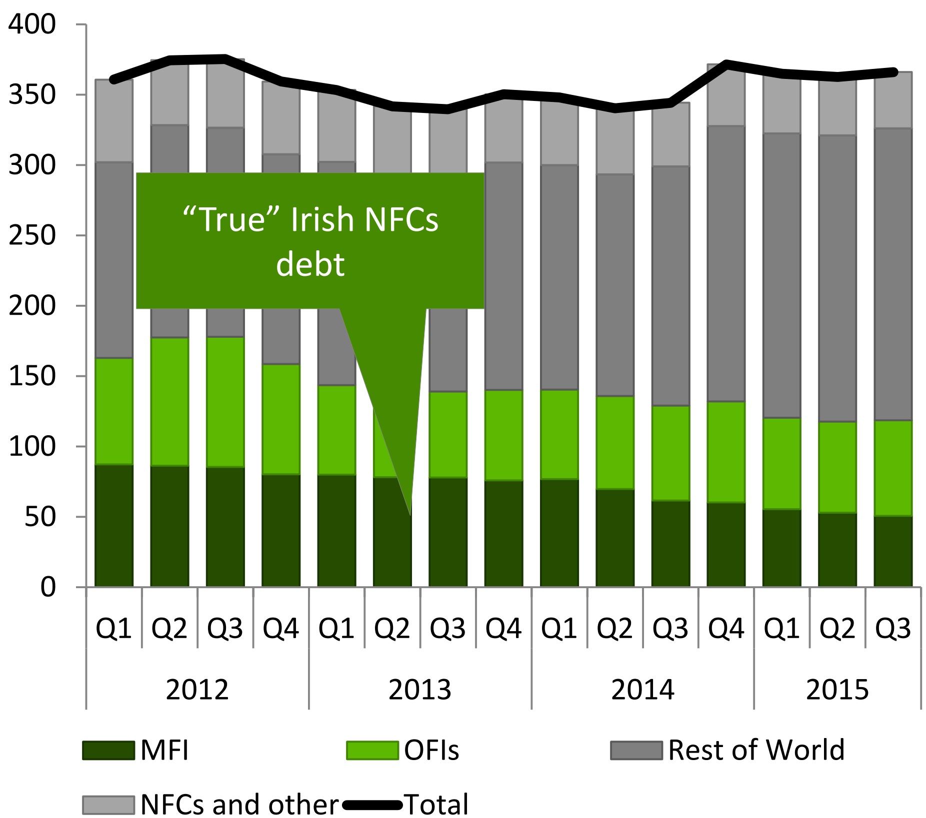
"Core"* retail sales jump (peak=100)



*Excluding motor trade; 3 month average used

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

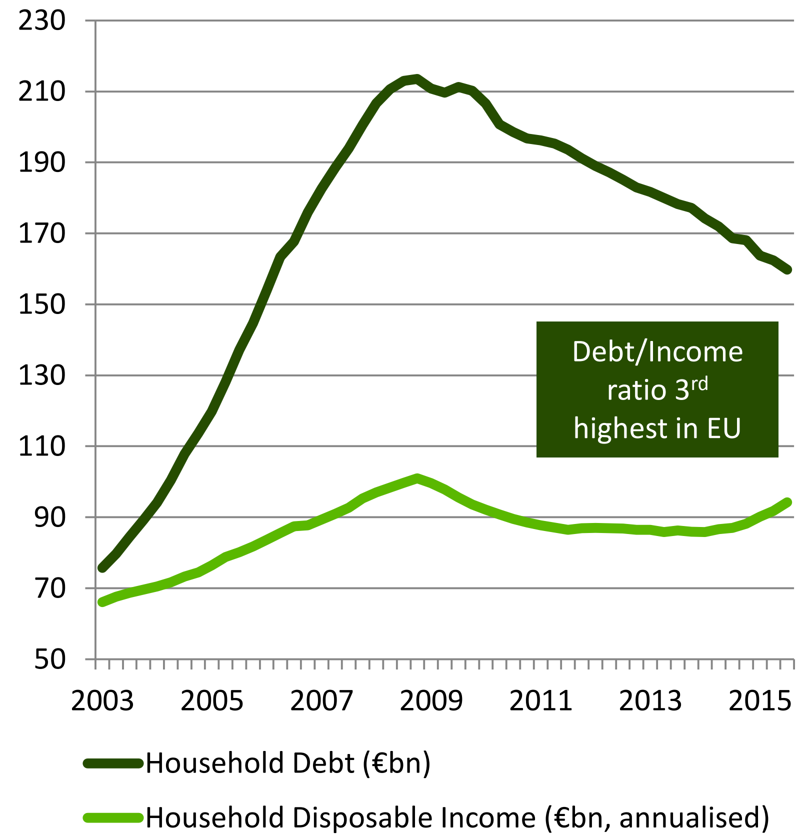
Irish Non-Financial Corporate (NFC) debt is distorted by multinationals (€bn)



Source: CBI

Note: OFI = Other Fin. Intermediaries

Debt-to-income ratio in Q3 2015 at 169%*, the lowest since Q2 2005



Source: CBI, CSO

* Measure includes both loans and other liabilities. Excluding other liabilities, debt-to-income ratio is 160%

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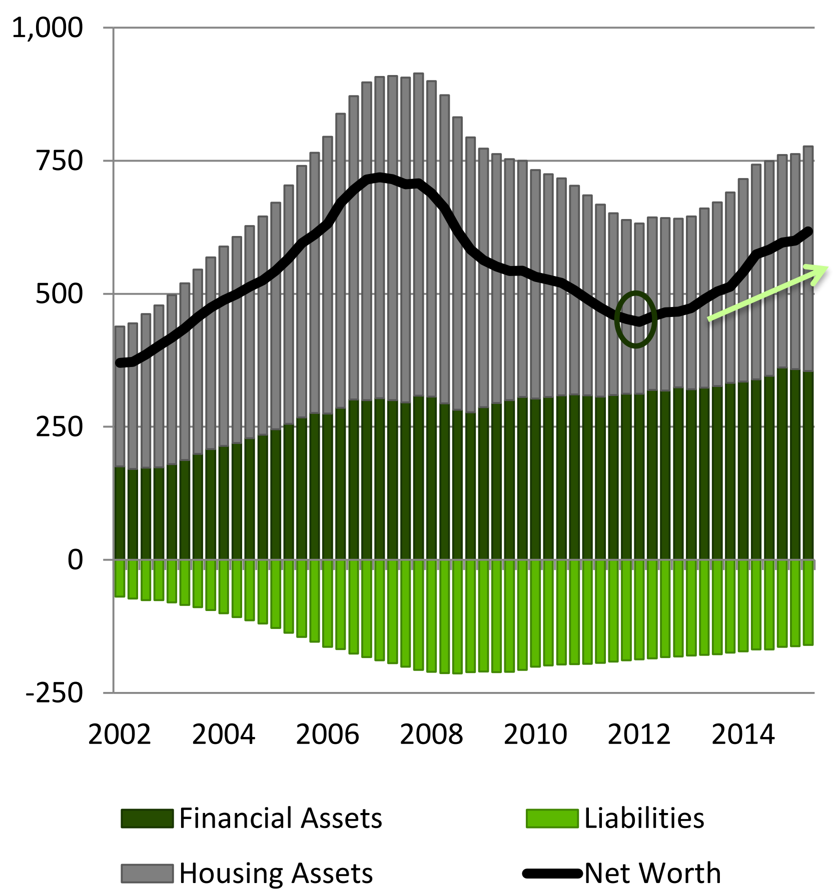
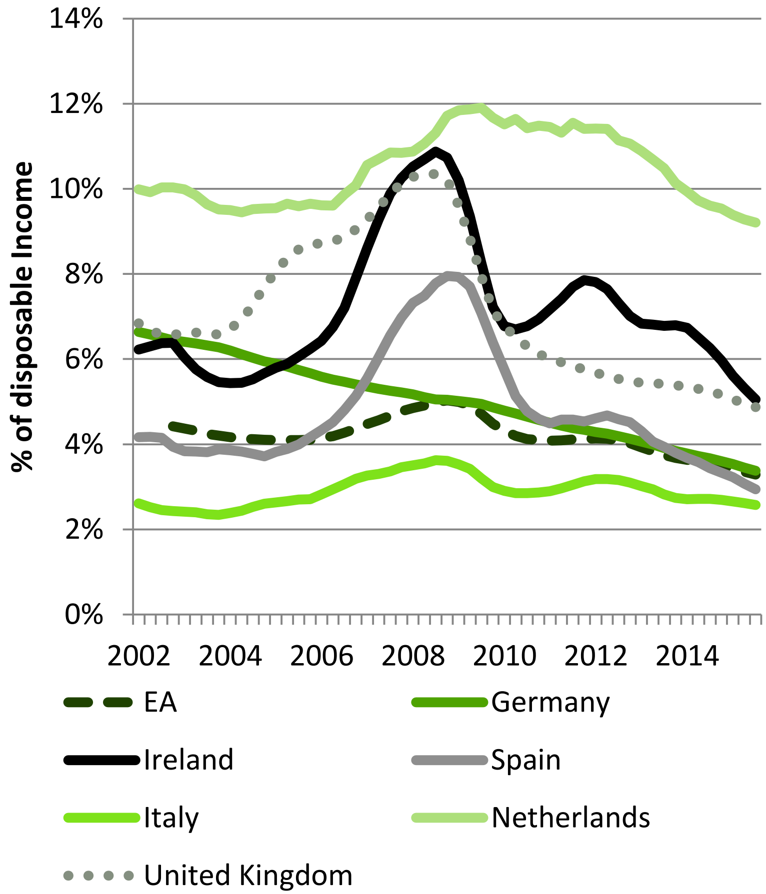
Household deleveraging continues, but at slow pace; Rising house prices bolster HH balance sheets

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



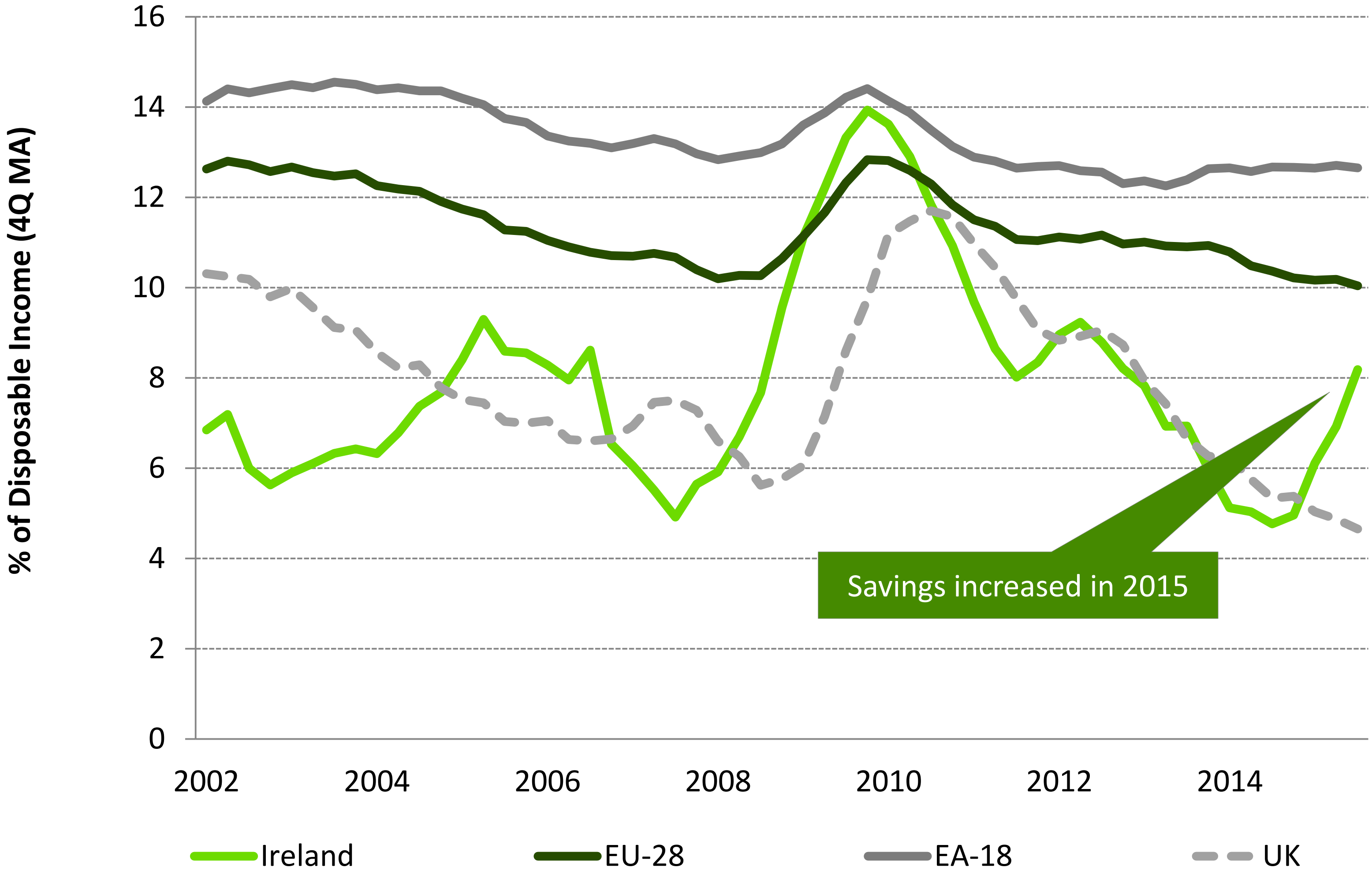
Source: CBI, NTMA Calculations

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



Source: CBI, NTMA calculations
Note: Non-trackers bare 80% of the interest burden

Gross household saving rate revised downwards significantly in recent release; increasing in 2015



Source: [Eurostat](), CSO

Economic and fiscal forecasts: Budget 2016

	2013	2014	2015	2016f	2017f
GDP (% change, volume)	1.4	5.2	7.8	4.3	3.5
GNP (% change, volume)	4.6	6.9	5.7	3.9	3.2
Domestic Demand (Contribution to GDP, p.p.)	-1.2	4.2	6.4	2.9	2.0
Net Exports (Contribution to GDP, p.p.)	2.6	0.1	0.1	0.2	1.2
Current Account (% GDP)	3.1	3.6	*4.4*	*6.2*	*5.4*
General Government Debt (% GDP)	120.1	107.5	97.0	92.8	*90.3*
General Government Balance (% GDP^)	-5.7	-3.9	-1.5	-1.2	-0.5
Inflation (HICP)	0.5	0.3	0.1	1.2	1.5
Unemployment rate (%)	13.1	11.3	9.5	8.3	7.7

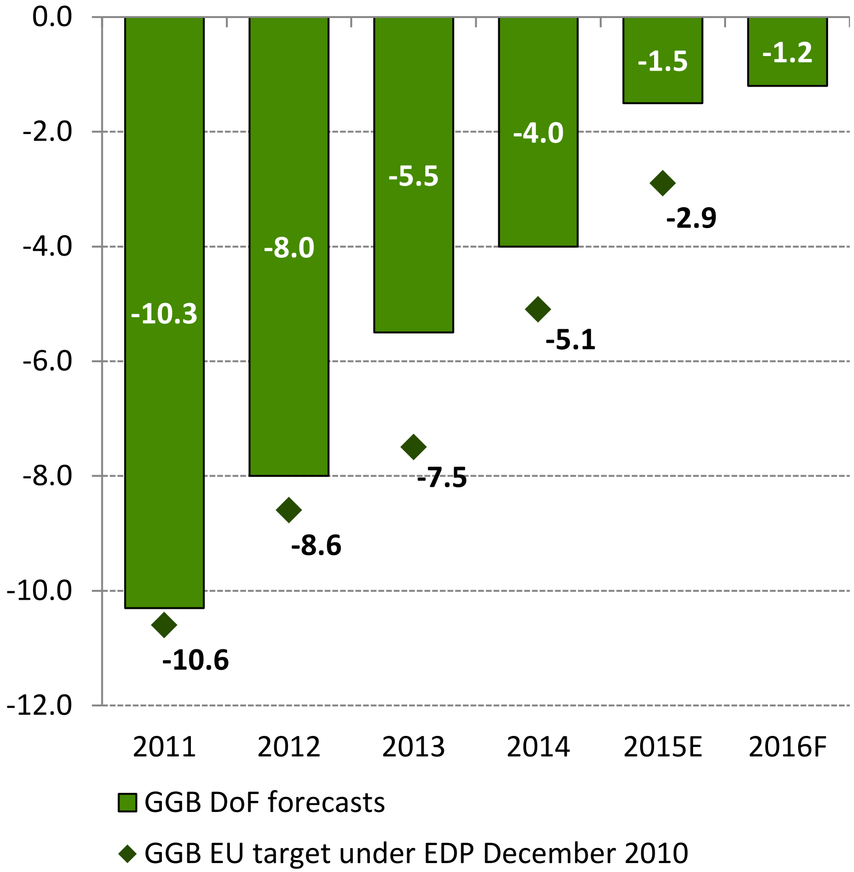
Source: CSO; Forecasts from Department of Finance (Budget 2016)

SECTION 2: FISCAL & NTMA FUNDING

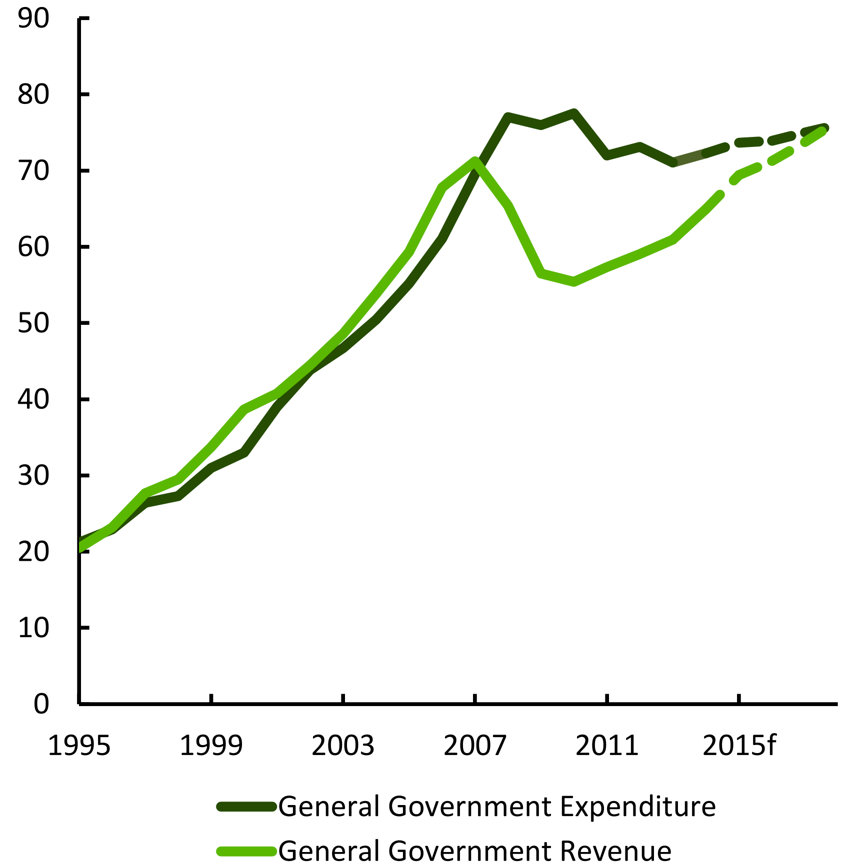
Ireland’s Government debt ratio dropped below 100% of GDP in 2015; reached landmark by exiting Excessive Deficit Procedure (EDP)

Five straight years of fiscal outperformance

General Government Balance (% of GDP)



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



Source: Department of Finance (Budget 2016) CSO; Eurostat; NTMA workings

New EU fiscal rules for Ireland – same resolution to meet them

2011 – 2015 EDP

Objective: Deficit reduction in nominal terms

2016 – 2019 Preventive Arm

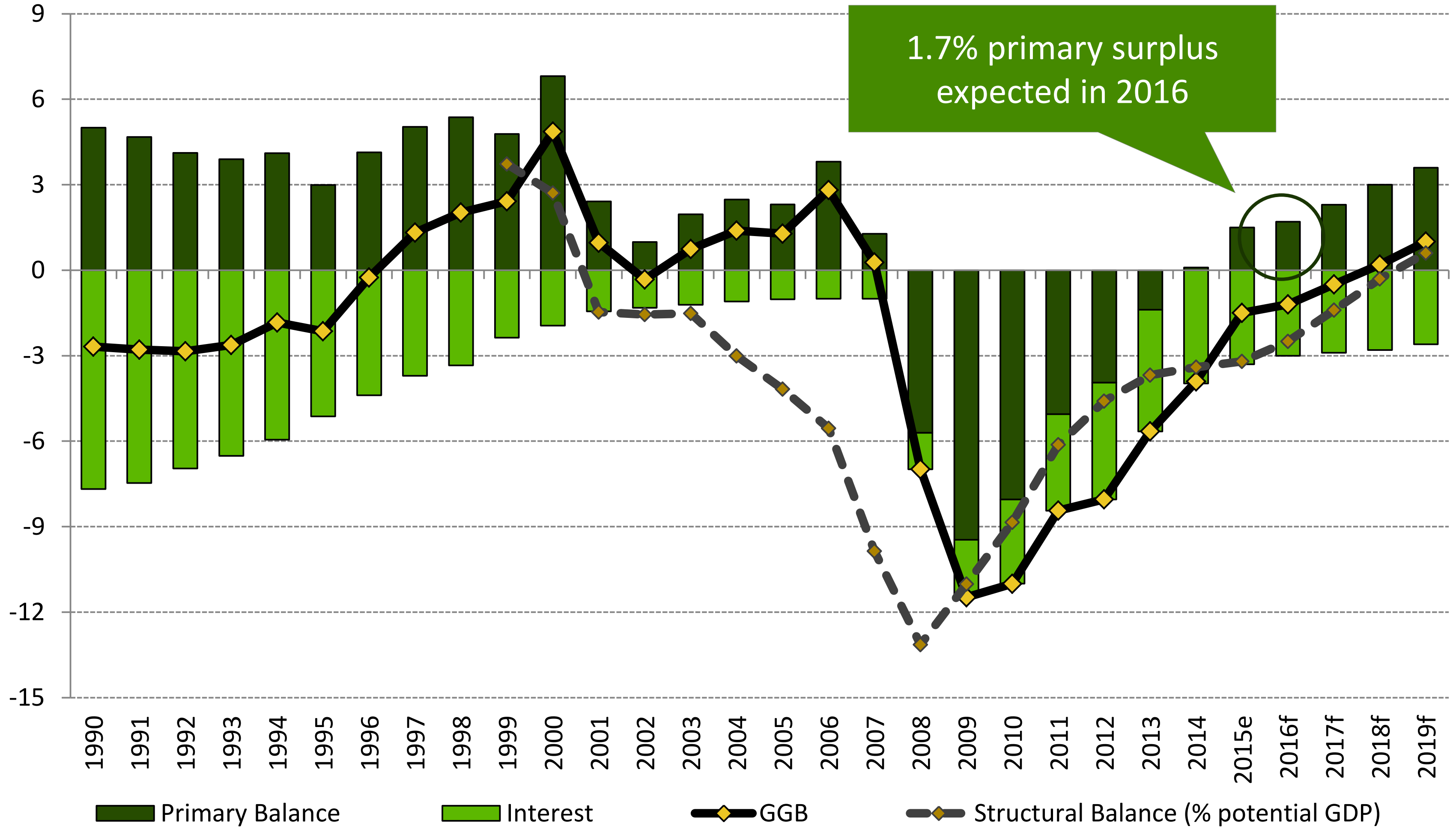
Objective: Balanced budget in structural terms

Requirements of Preventive Arm

1. Ireland must improve its structural balance by 0.6% of GDP in 2016 and be in balance by 2019.
2. Ireland must comply with the Expenditure Benchmark. The Benchmark explicitly sets the rate at which public expenditure can grow in the absence of revenue-raising measures.

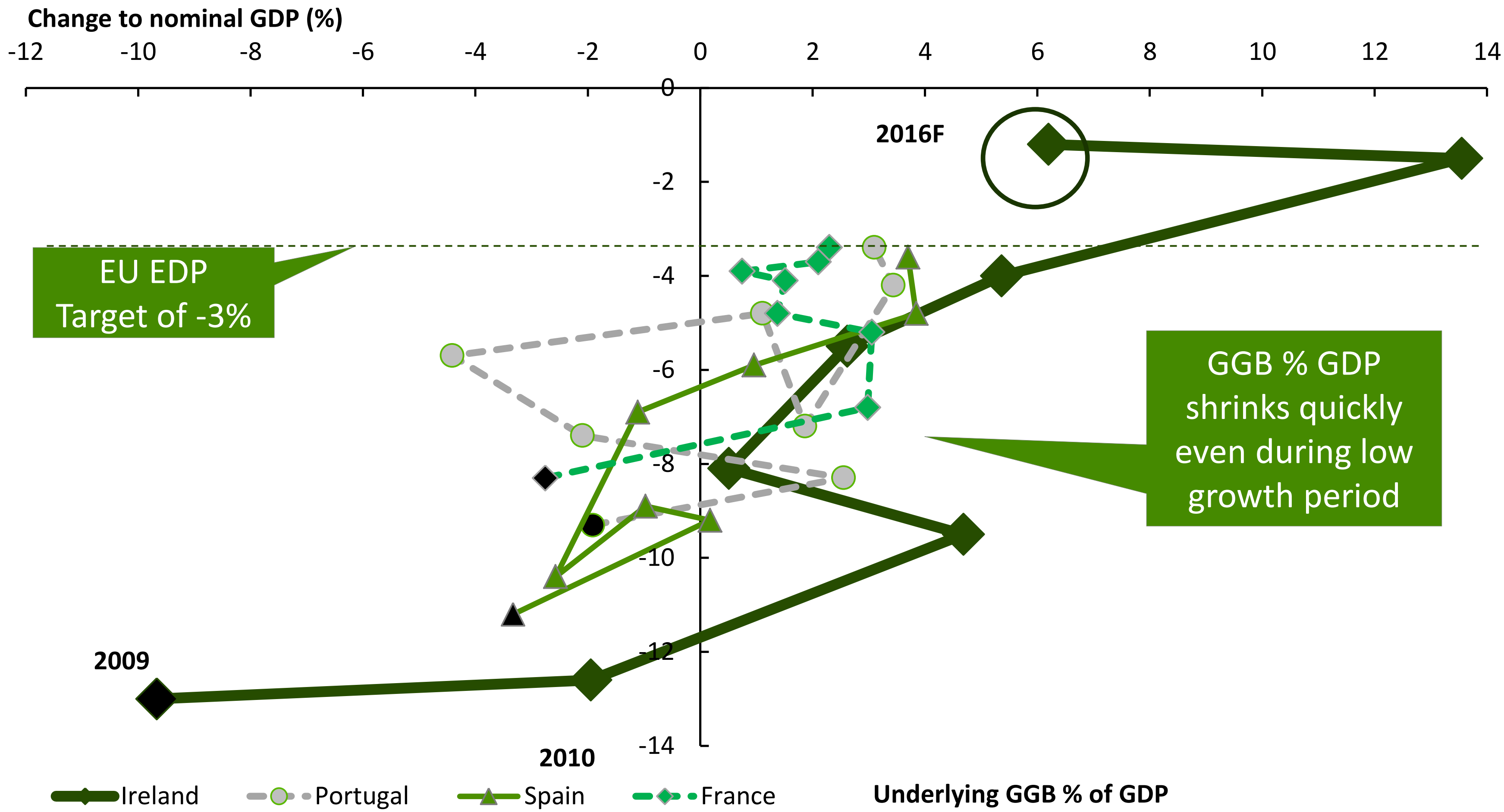
Adherence to Budget 2016 will ensure these conditions are met.

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



Source: Department of Finance; Eurostat; IMF

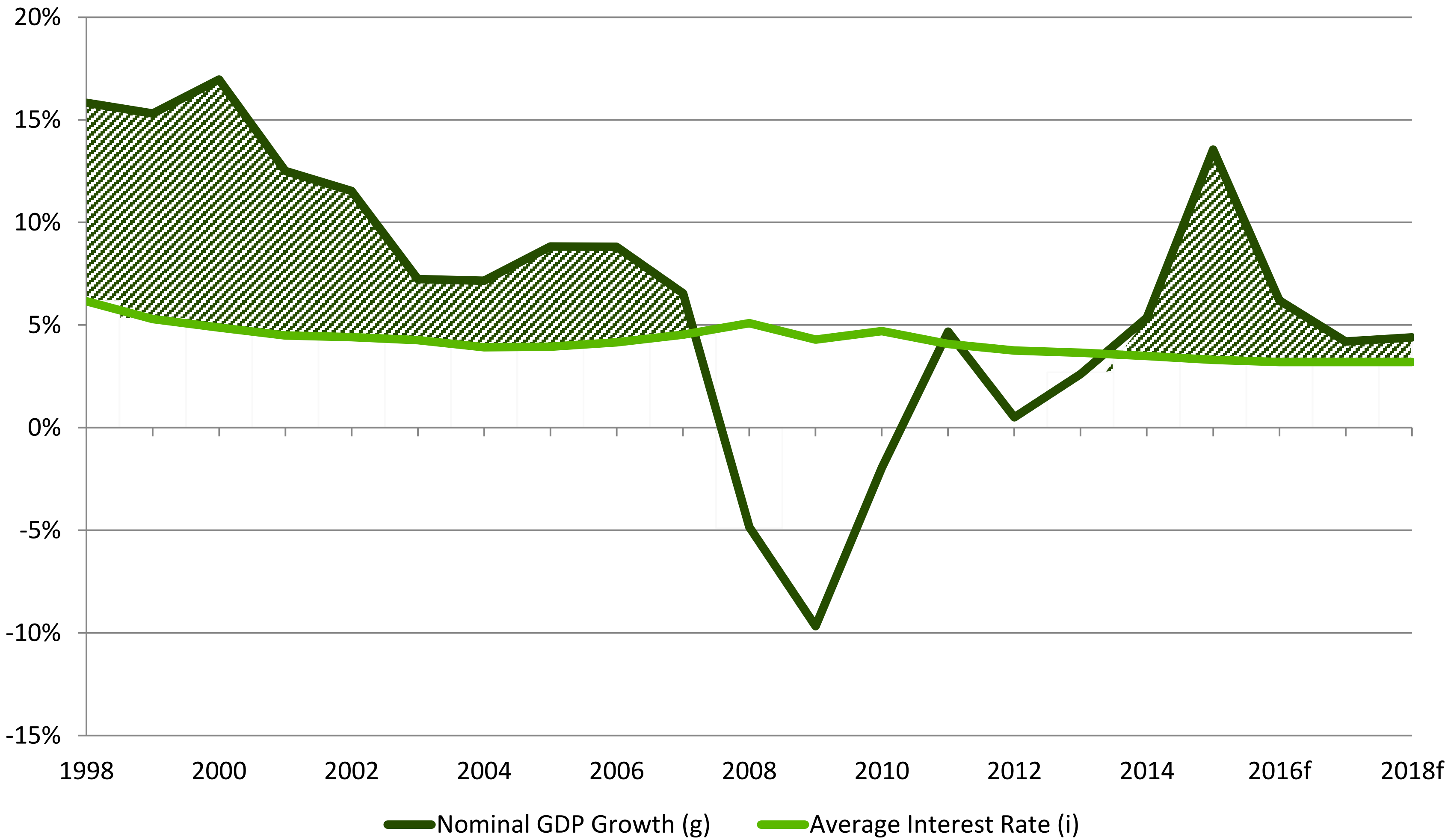
Ireland's fiscal adjustment route quicker than peers



Source: European Commission, DataStream

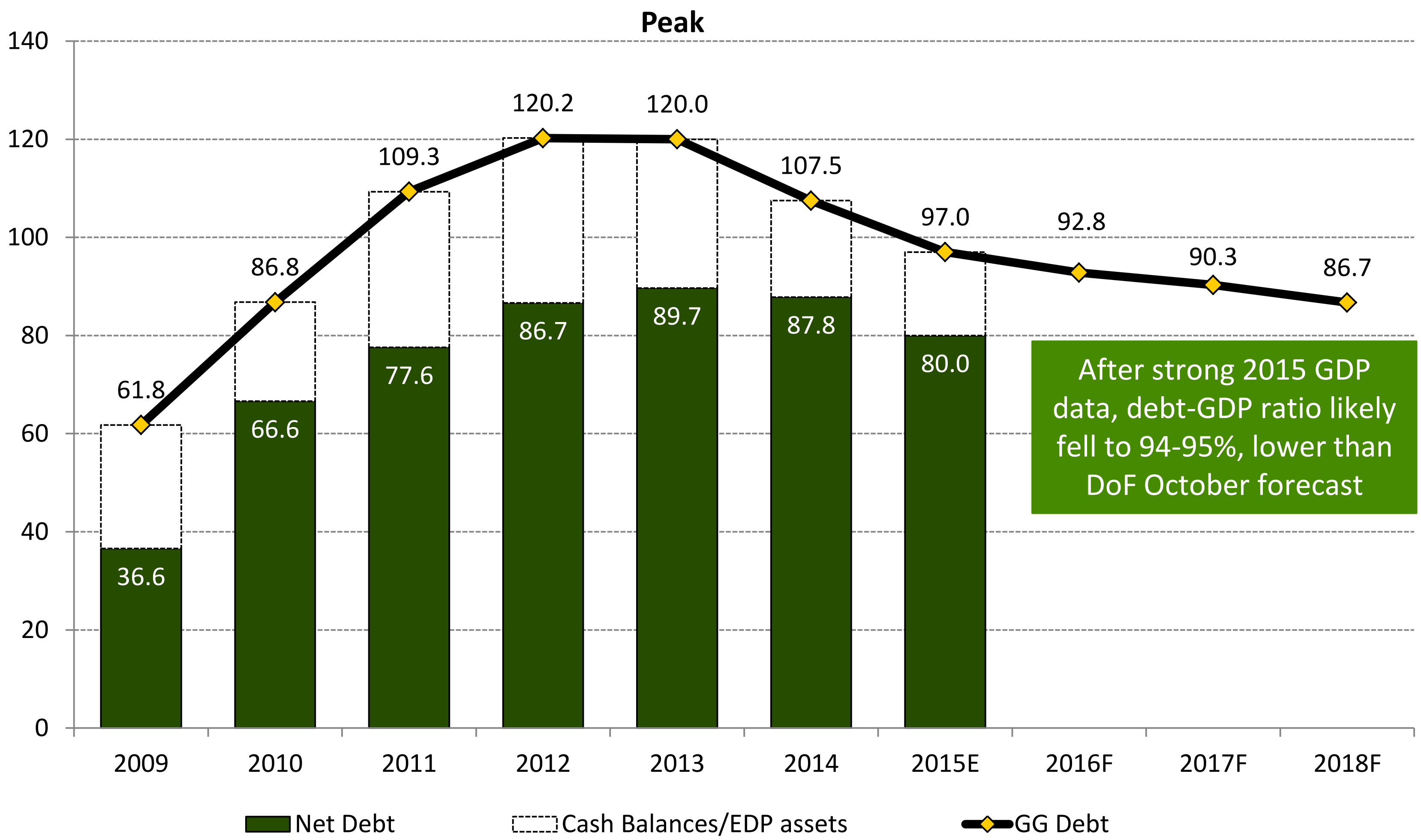
Note: All black markers are 2009 starting points

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



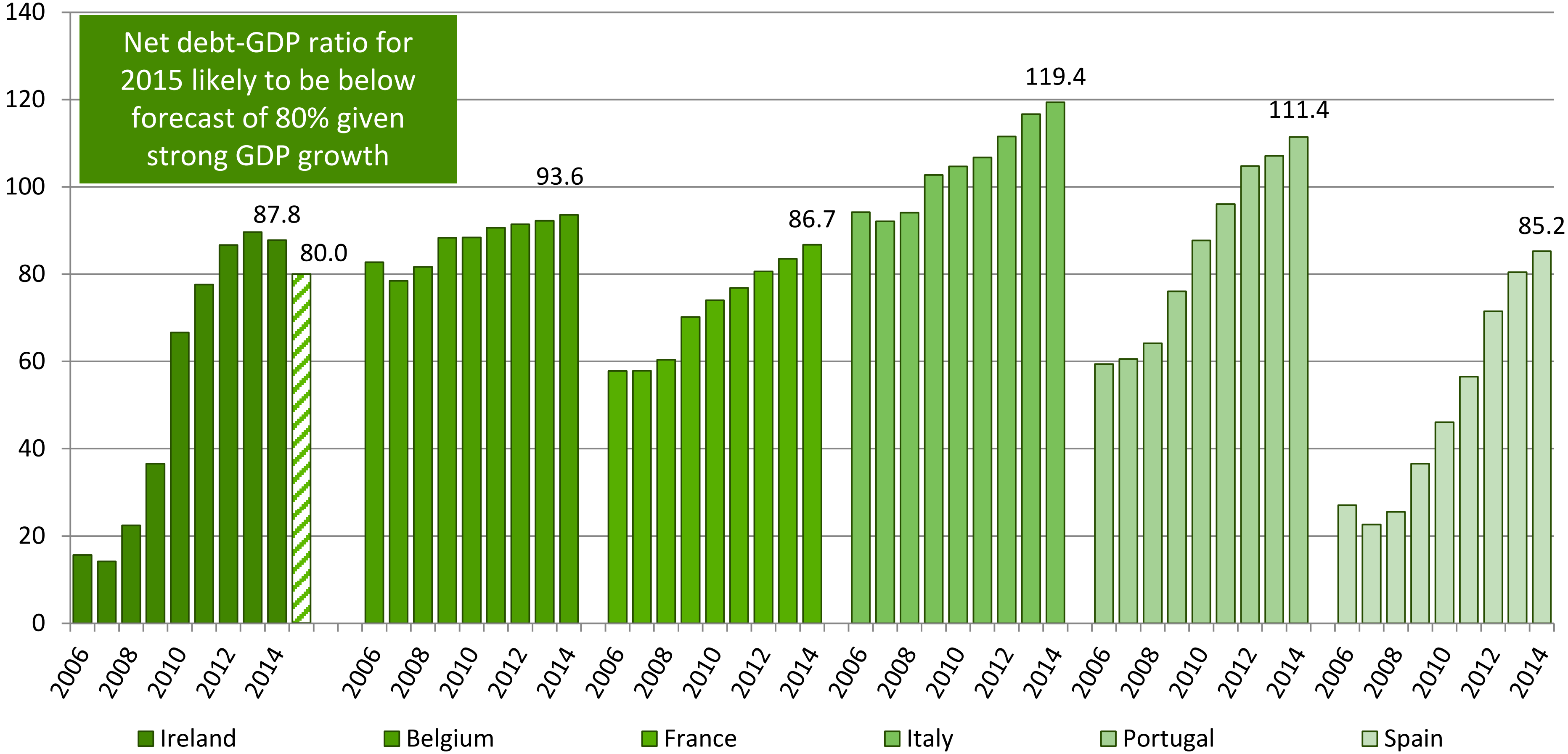
Source: Department of Finance; DataStream

Gross Government debt fell below 100% by end-2015



Source: CSO; Budget 2016 (Department of Finance)

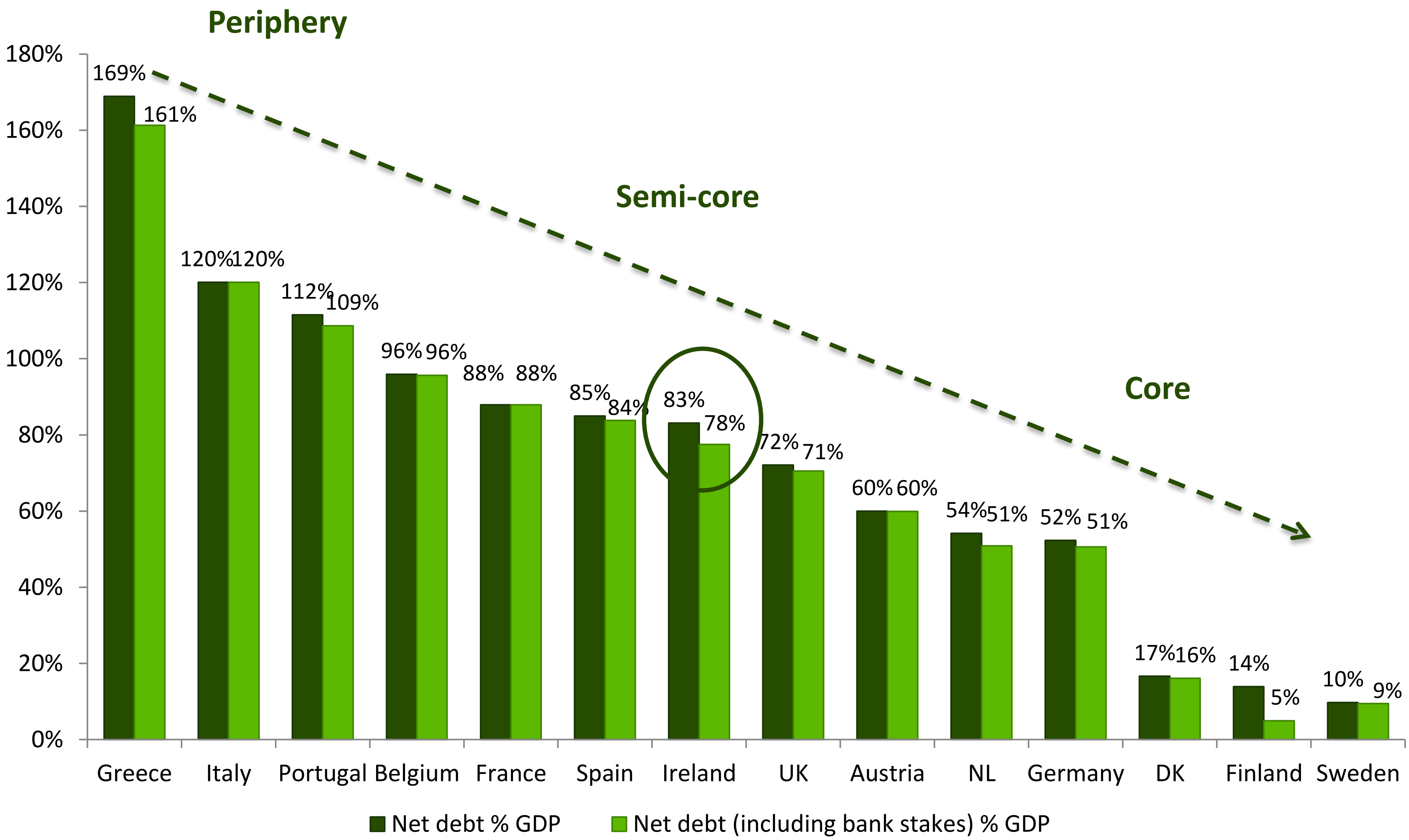
Net Government debt ratio (% GDP) now below that of Belgium – our closest bond market counterpart



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

Source: CSO, Eurostat, NTMA analysis

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

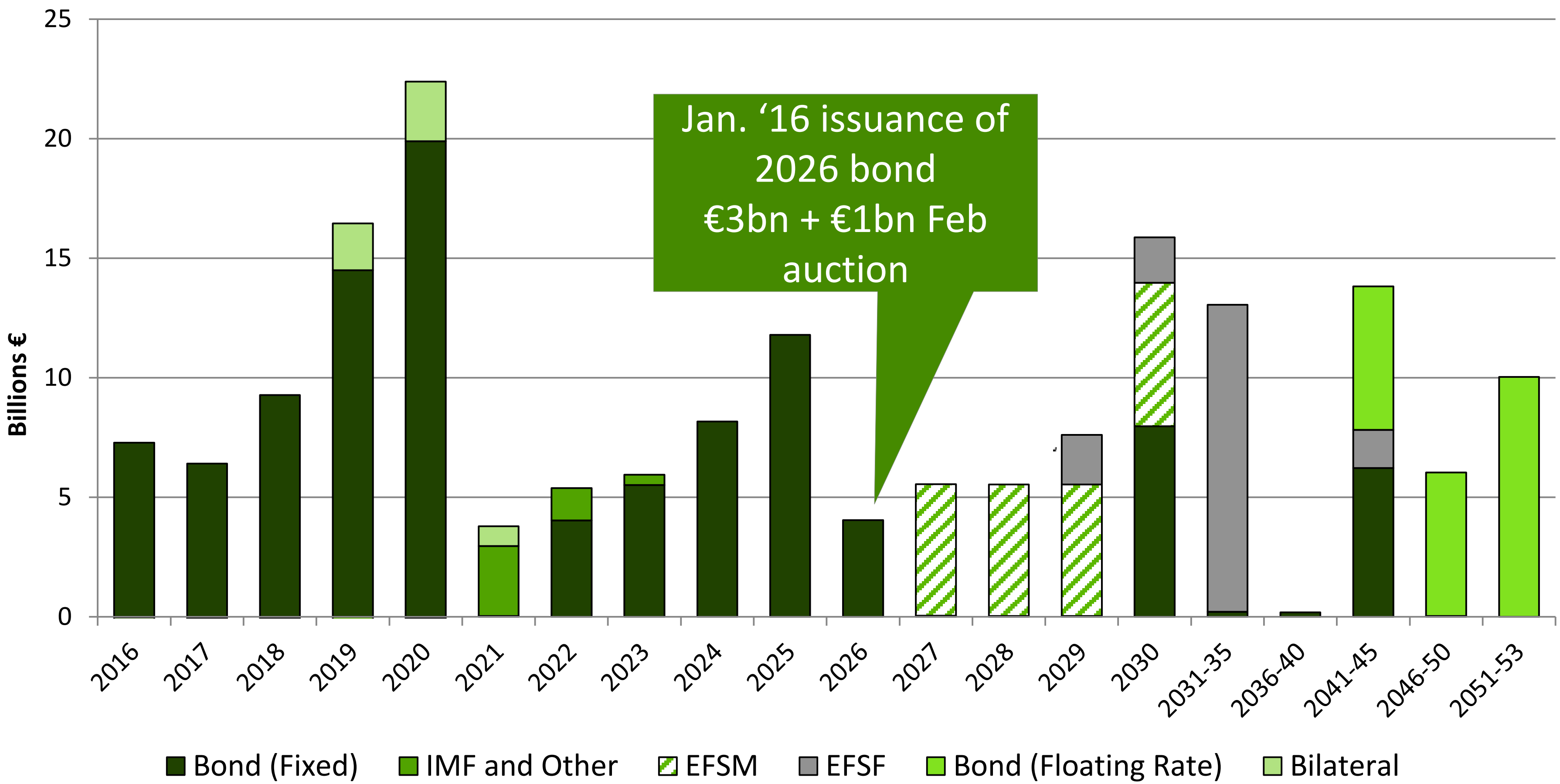


Sources: Eurostat, Banks' 2014 annual reports, each countries bank rescue fund, NTMA calculations

National Treasury Management Agency

H1 2015 data for Ireland

Improved maturity profile in recent years

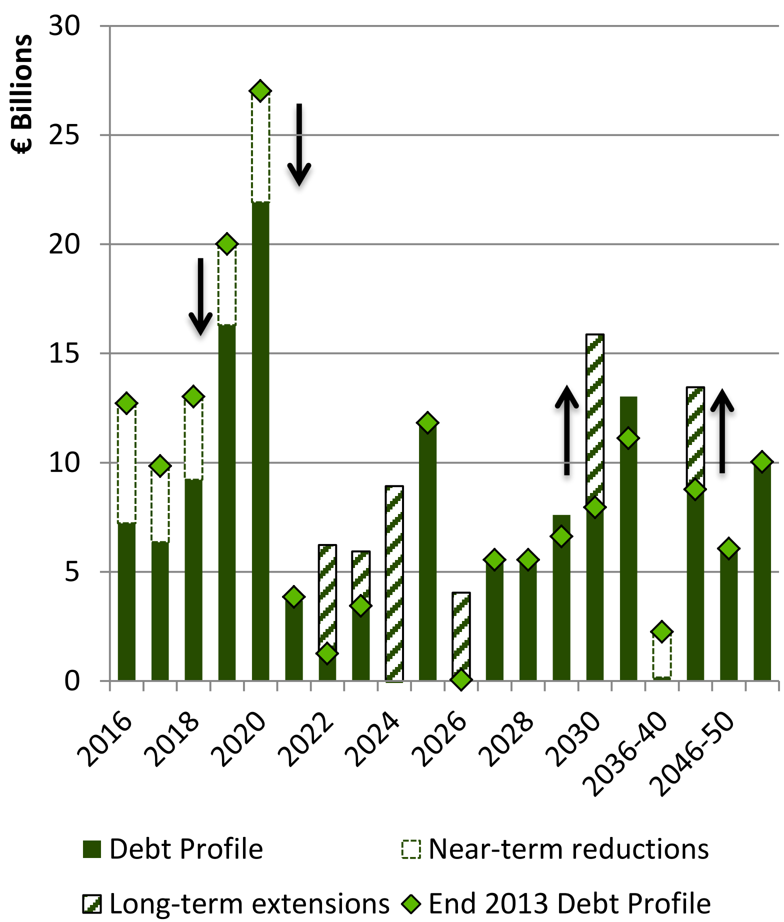


Source: [NTMA]

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

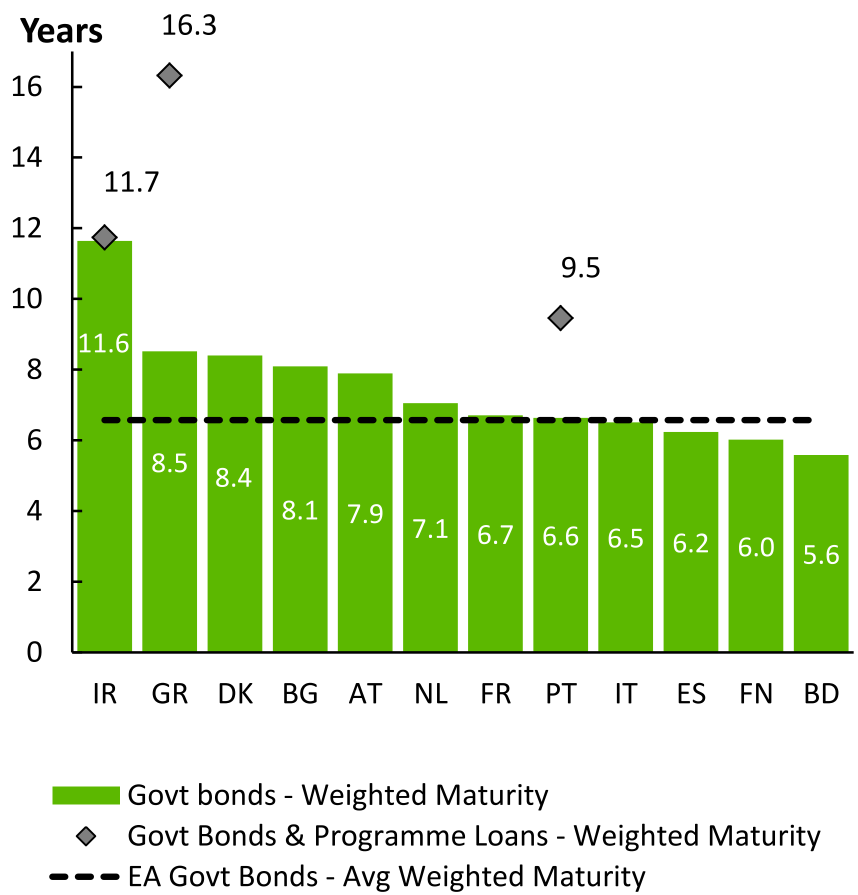
2016-2020 maturity profile improved significantly in recent years

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



Source: NTMA

… with Ireland comparing favourably to other European countries



Source: Eurostat; Q4 2015 figures

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

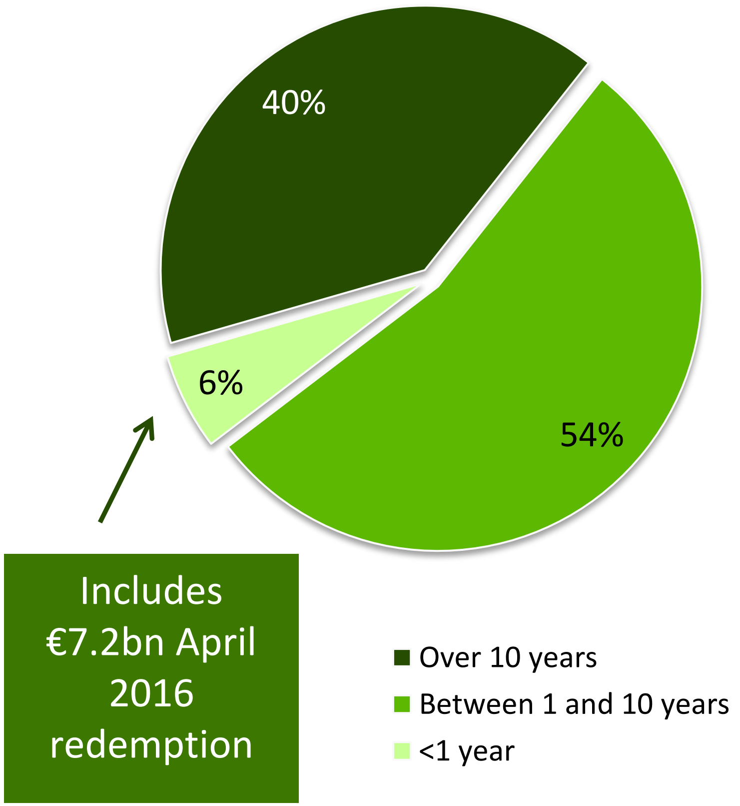
General Government Debt breakdown

	% share	€bn
Retail	10.1%	20.7
Bonds		
Short-term*	1.8%	3.7
Long-term	60.9%	124.5
Loans		
Short-term*	0.5%	1.1
Long-term	26.6%	54.3

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

Source: CSO (Q3 2015 data), NTMA

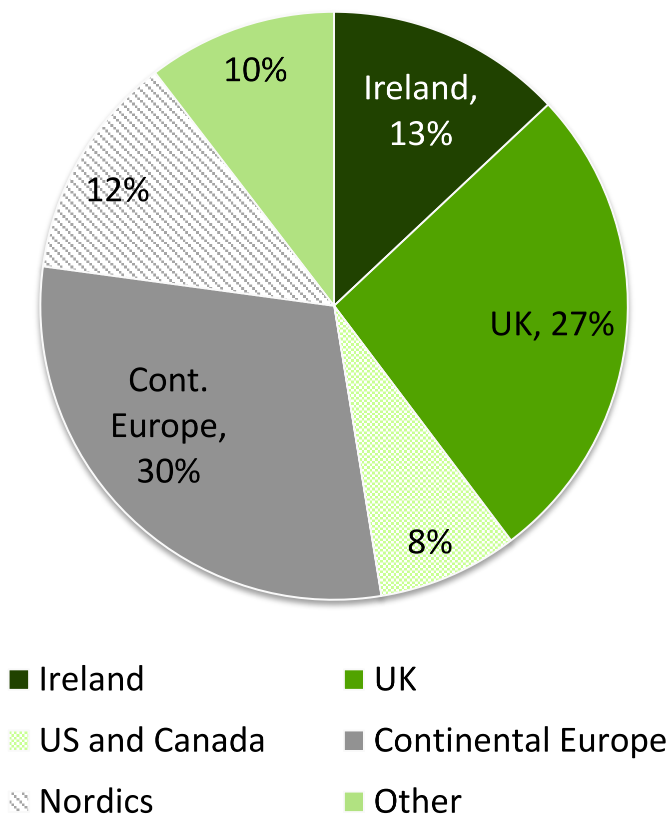
Ireland's maturity profile



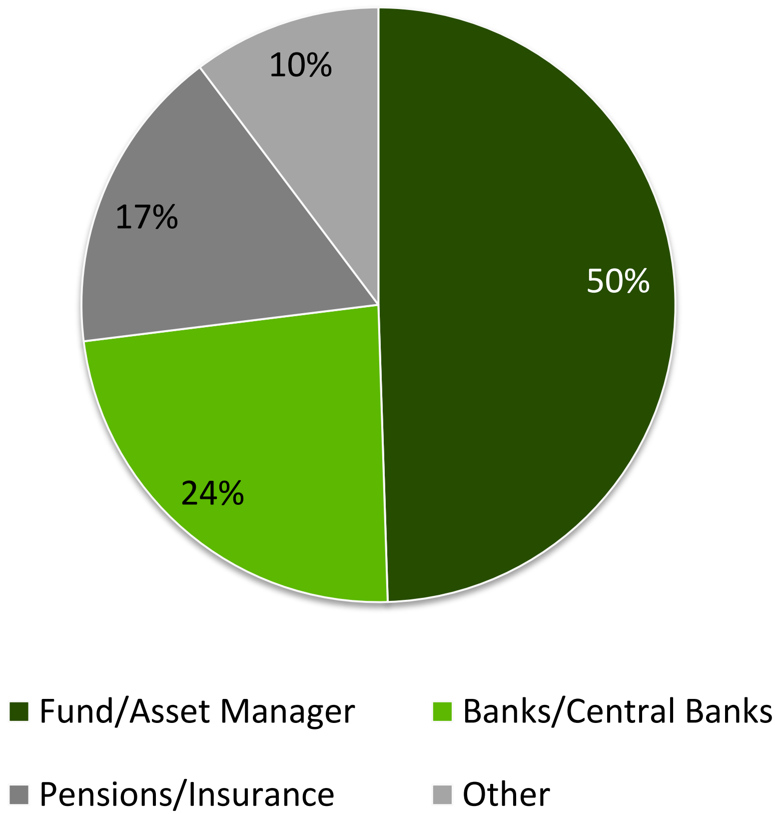
Source: NTMA (March 2016)

Investor base for Irish government debt is wide and varied

Country breakdown – Average over last 7 syndications



Investor breakdown – Average over last 7 syndications

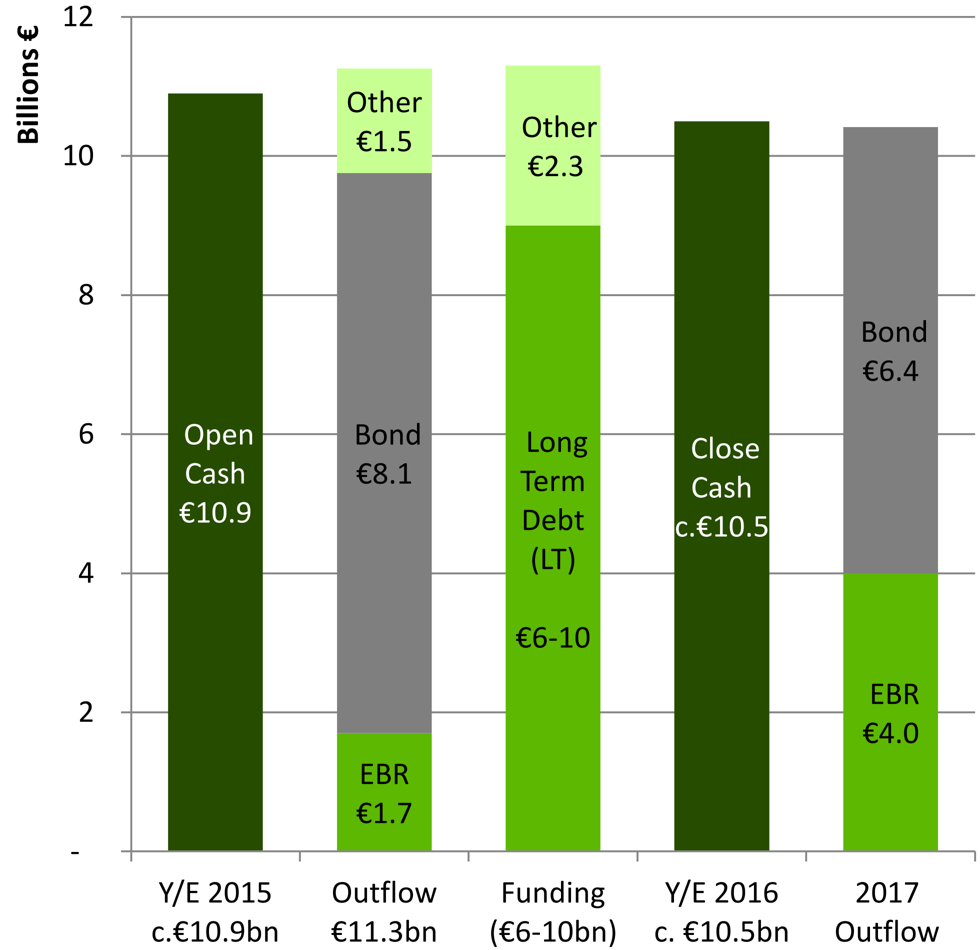


Source: NTMA

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

- With only two major redemptions in 2016/17 issuance is lower in 2016 than in recent years.
- The next bond redemption is the €8.1bn April 2016 bond. On Feb 29th, €850m of this bond was purchased and cancelled by the NTMA.
- NTMA expected to issue €6-10bn worth of long term bonds in 2016. €4bn has already been issued.
- Exchequer had €10.9bn of cash and other liquid assets at end 2015.

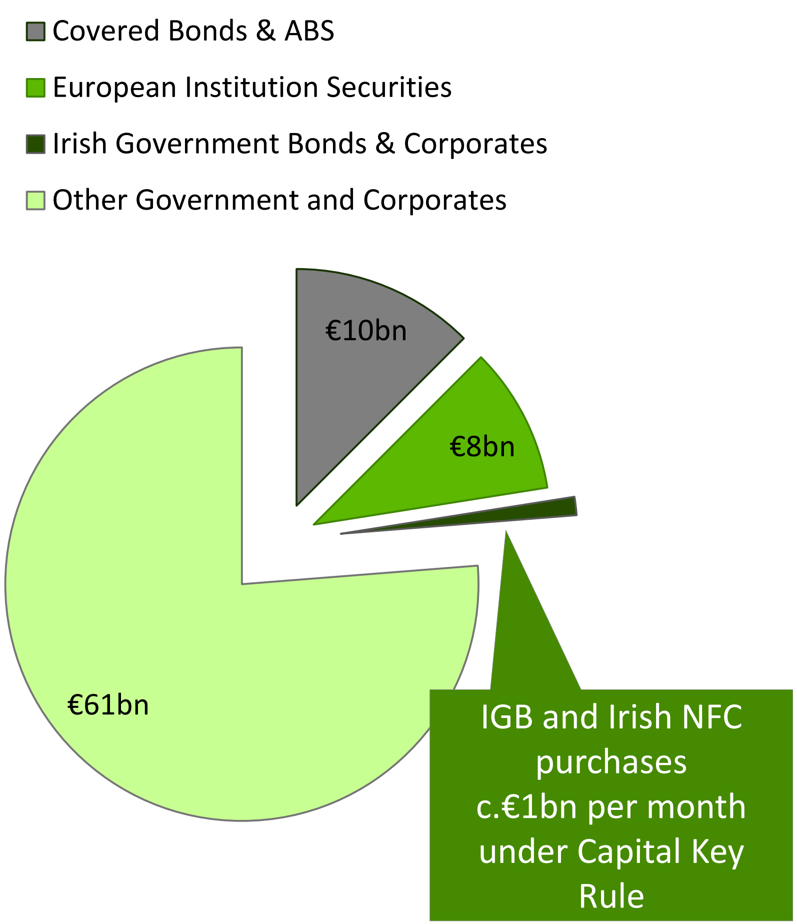
Source: NTMA; Department of Finance

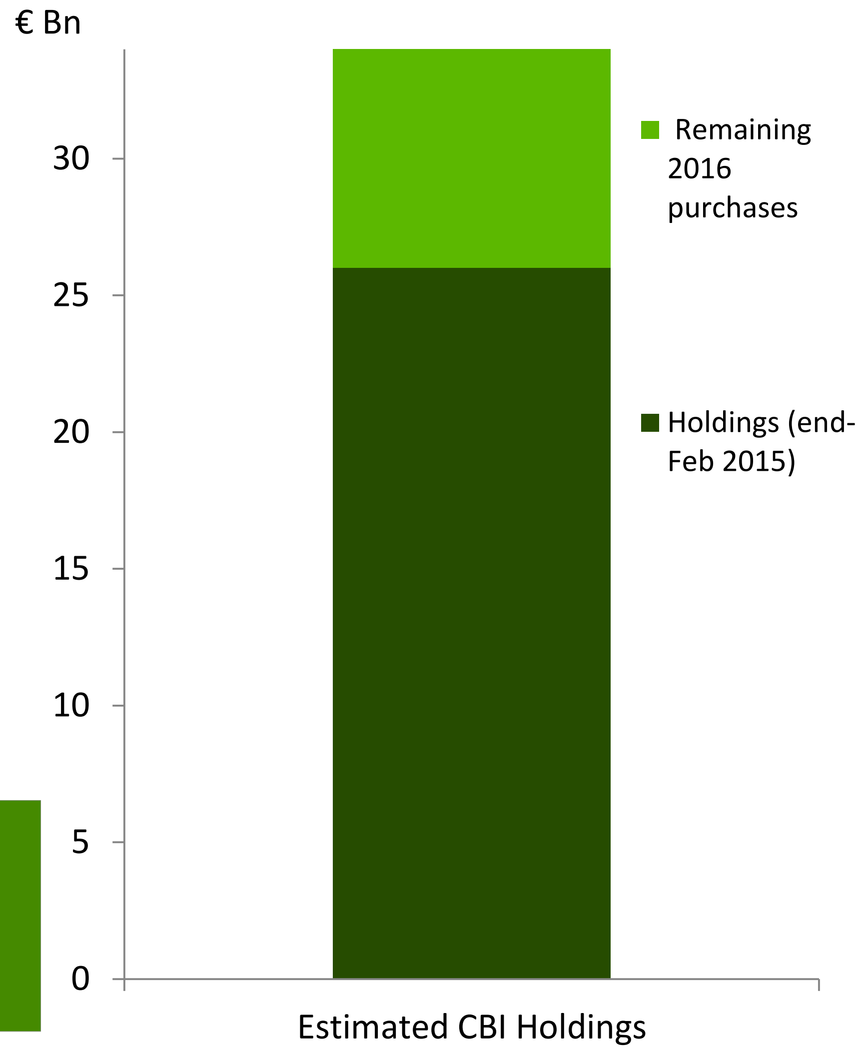


- EBR is the Exchequer Borrowing Requirement
- Cash balances excludes Housing Finance Agency (HFA) Guaranteed Notes and CSA Collateral Funding end-2015 balances . Total Cash and Other Financial Assets at end-2015 were €13.6 billion.
- Other outflows includes contingencies, including for potential bond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

Central Bank of Ireland set to purchase up to c.€1bn worth of IGBs per month under ECB's expanded QE

Estimated Composition of ECB's QE €80 billion/month programme





Source: NTMA; [ECB]

National Treasury Management Agency

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

€ million

End quarter	Dec 2013	Dec 2014	Dec 2015	Jan 2016
1. Resident	51,747	50,805	50,846	51,490
(as % of total)	(46.6%)	(43.7%)	(40.6%)	(40.2%)
– Credit Institutions and Central Bank*	49,240	45,875	46,949	47,513
– General Government	2,153	1,632	787	828
– Non-bank financial	-	2,870	2,773	2,804
– Households (and NFCs)	354	428	337	345
2. Rest of world	59,260	65,534	74,240	76,522
(as % of total)	(53.4%)	(56.3%)	(59.4%)	(59.8%)
Total MLT debt	**111,007**	**116,339**	**125,086**	**128,012**

Source: CBI

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

Breakdown of Ireland's General Government debt

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

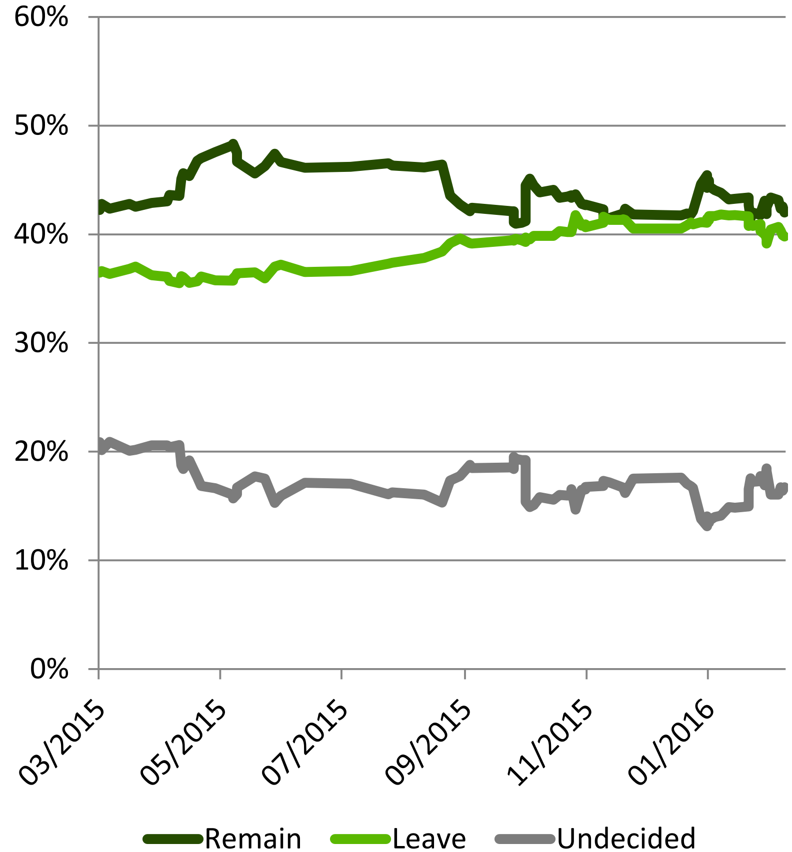
Source: CSO (Oct 2015)

SECTION 3: BREXIT

Overall Brexit would be a negative for Ireland but there are opportunities also

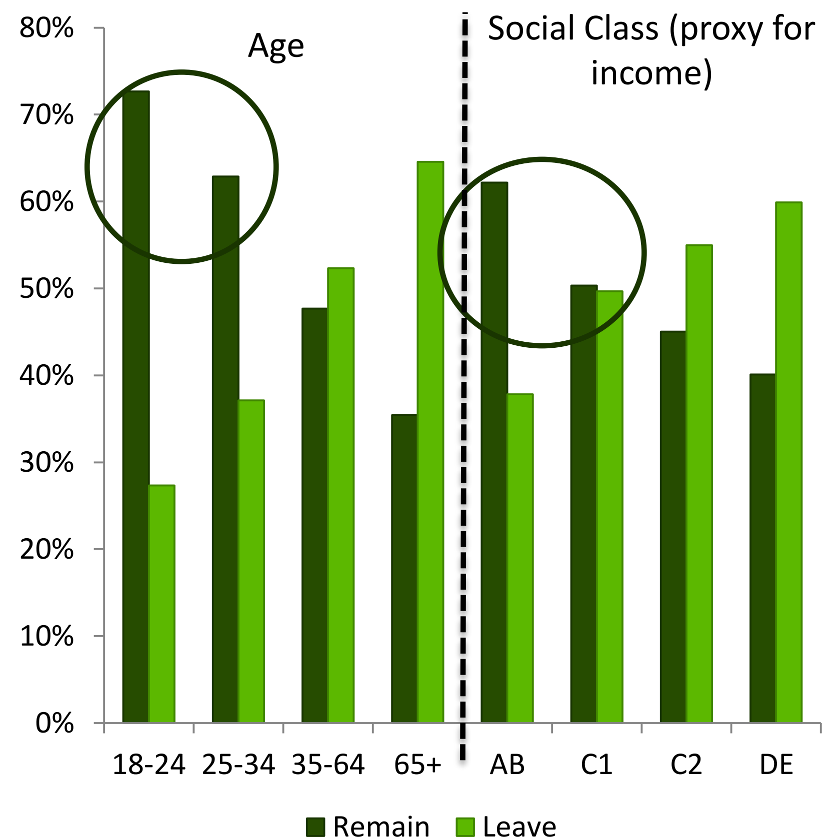
Brexit Polling Data - Result too close to call

Result too close to call – 51%/49% when undecideds are excluded



Source: Various Polls (10-poll moving average)

Higher income and younger voter turnout will be crucial for “Remain” victory



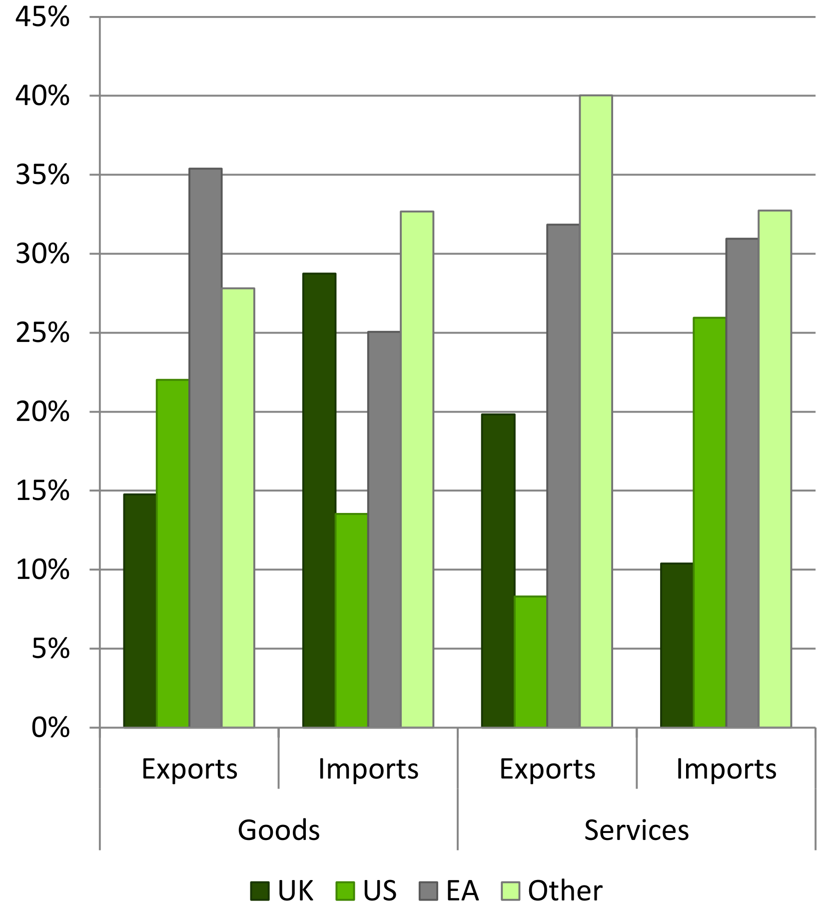
Source: ICM 26-29 Feb poll; undecided voters were excluded

National Treasury Management Agency

Trade channel is likely to be negatively impacted by Brexit

- **Irish/UK trade linkages would suffer following Brexit.**
  - The UK is the second largest single-country export destination for Ireland's goods and the largest for its services.
  - At the same time, Ireland imports 30% of its goods from the UK.
- **There is significant employment related to Ireland's trade with the UK.**
  - While the UK might only account for 16-17% of Ireland's total exports, 30% of all employment is in sectors which are heavily related to UK exports.
- **SMEs (particularly agri-food and tourism) likely to be more affected than larger companies by the introduction of tariffs and barriers to trade.**

Ireland's main trading partners



Source: CSO (2014)

Some impacts on Ireland may be positive

- **FDI Channel – possibly positive impact**
  - Foreign firms in the UK might consider relocation following Brexit. This may be especially pertinent for firms who use the UK as a base for its EU operations.
  - Ireland could be a beneficiary from this displaced FDI. Estimates suggest some €6 billion of FDI might be attracted to Ireland in the case of Brexit.
- **Financial Sector – opportunity for Dublin**
  - Following UK exit, some activity in London may be forced to move to within the EU in order to properly service the single market.
  - Dublin would be an obvious choice for relocation. The quantum of relocated activity would depend heavily on the outcome of post-exit trade discussions.
- **Energy Market – likely negative**
  - Ireland’s energy market is heavily reliant on the UK. 90% of Ireland’s energy imports are sourced from the UK. A tariff might apply on this trade post-Brexit.
  - Differences in regulatory environments in the UK versus the EU may in time see Ireland stuck trying to serve two sets of regulation with an increase in costs likely.

Migration/Labour flows might be affected by Brexit

- In the past, large migratory flows from Ireland to the UK have occurred. This has helped normalize the Irish labour market in times of stress.
- For example, approximately 60,000 people moved from Ireland to the UK between 2011-13.
- If the UK labour market was closed off to Irish emigrants following Brexit, the likely result is upward pressure on unemployment rates and downward pressure on wage rates.
- The ESRI (Irish economic think-tank) estimated the effect of an inflow of 60,000 labour force participants in Ireland i.e. 'non-outflow' due to migration restrictions, shows that unemployment would rise by 0.4% and wages in Ireland would fall by almost 4%.

ESRI simulation in which 60,000 person are added to Irish labour force

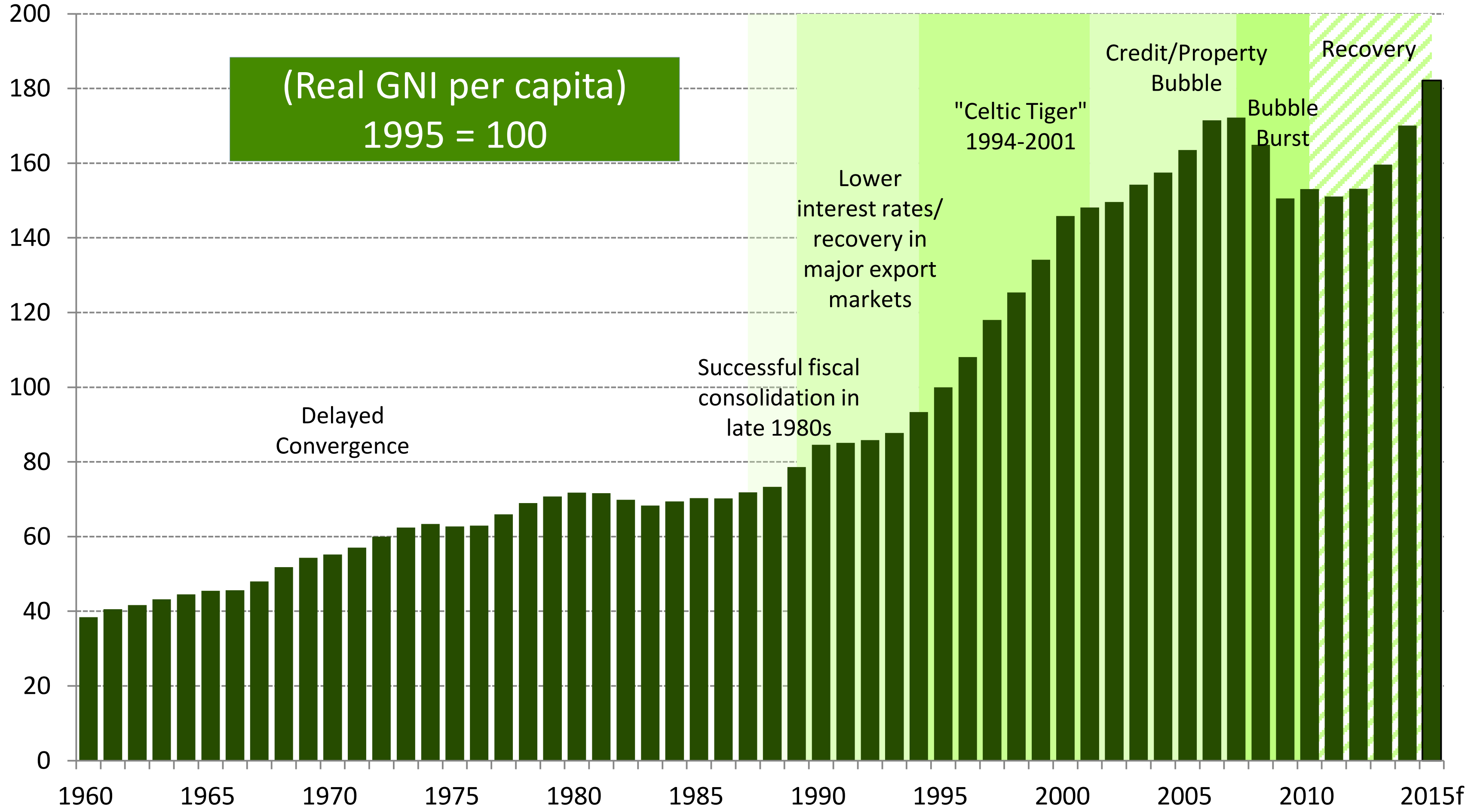
	Low-skilled unemployment adjustment	Low-skilled wages adjustment
	% Change	
Average wage	-3.9	-3.7
High-skilled	-5.0	-4.8
Low-skilled	0.0	0.8
Unemployment rate	-0.4	0.0

Source: [ESRI Brexit Report]

SECTION 4: LONG TERM FUNDAMENTALS

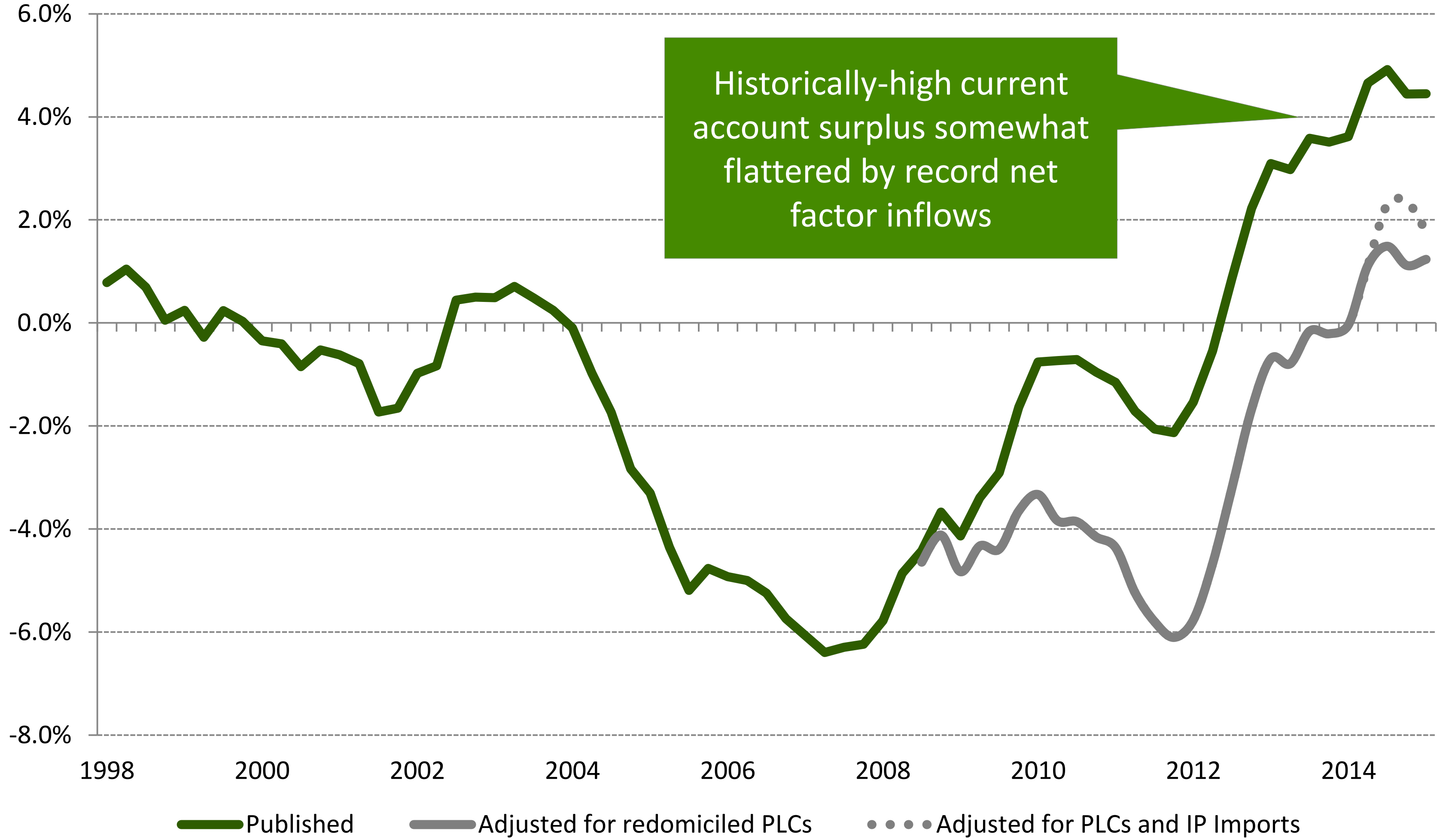
Rebalancing achieved; Fundamentals are in place but retaining competitiveness is crucial

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



Source: CSO

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

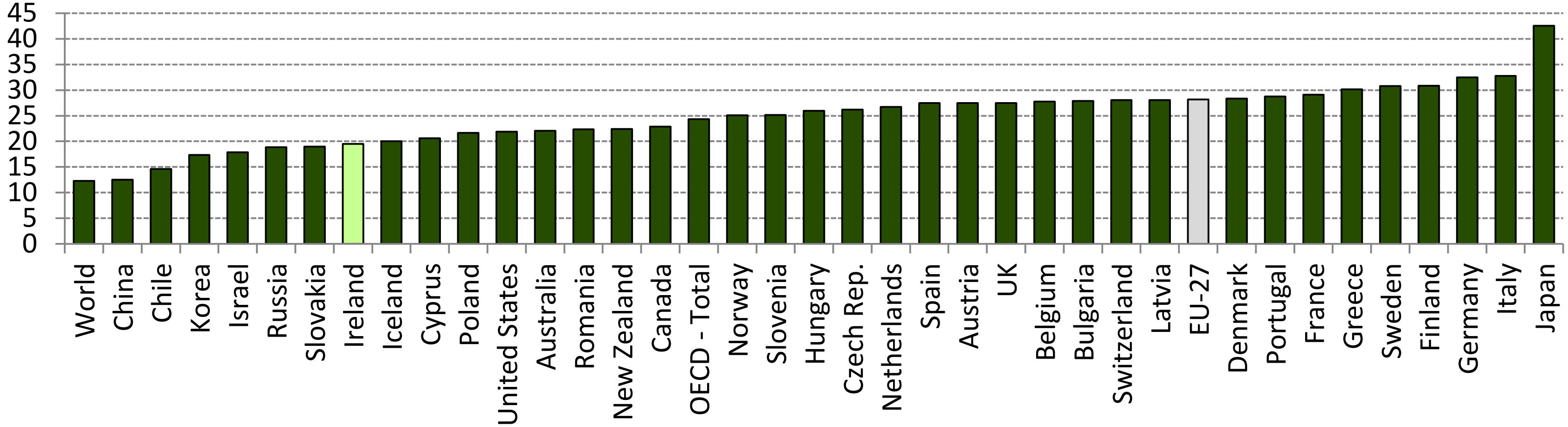


Source: CSO

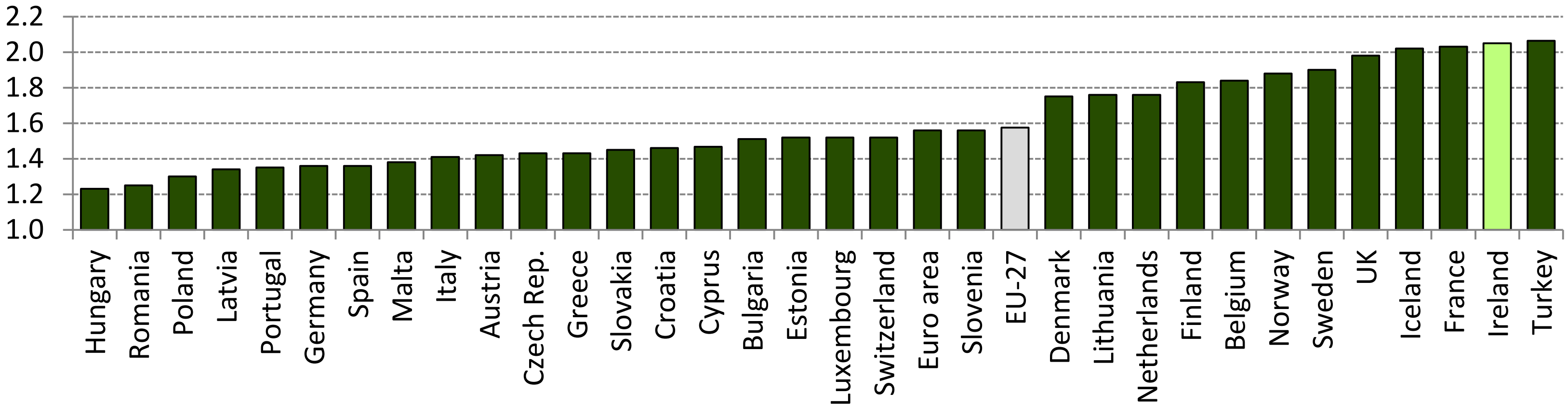
* For estimates of the undistributed profits of redomiciled PLCs see Fitzgerald, J. (2013), 'The Effect of Redomiciled PLCs on GNP and the Irish Balance of Payments'

Favourable population characteristics underpin debt sustainability over longer term

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



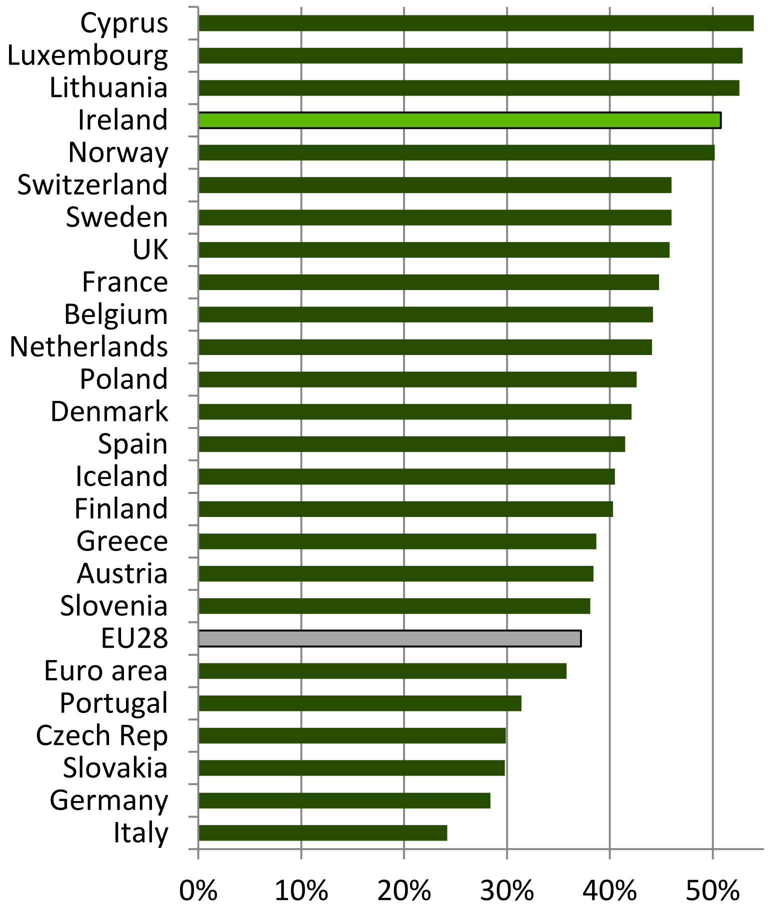
Fertility rates in Ireland are above typical international replacement rates



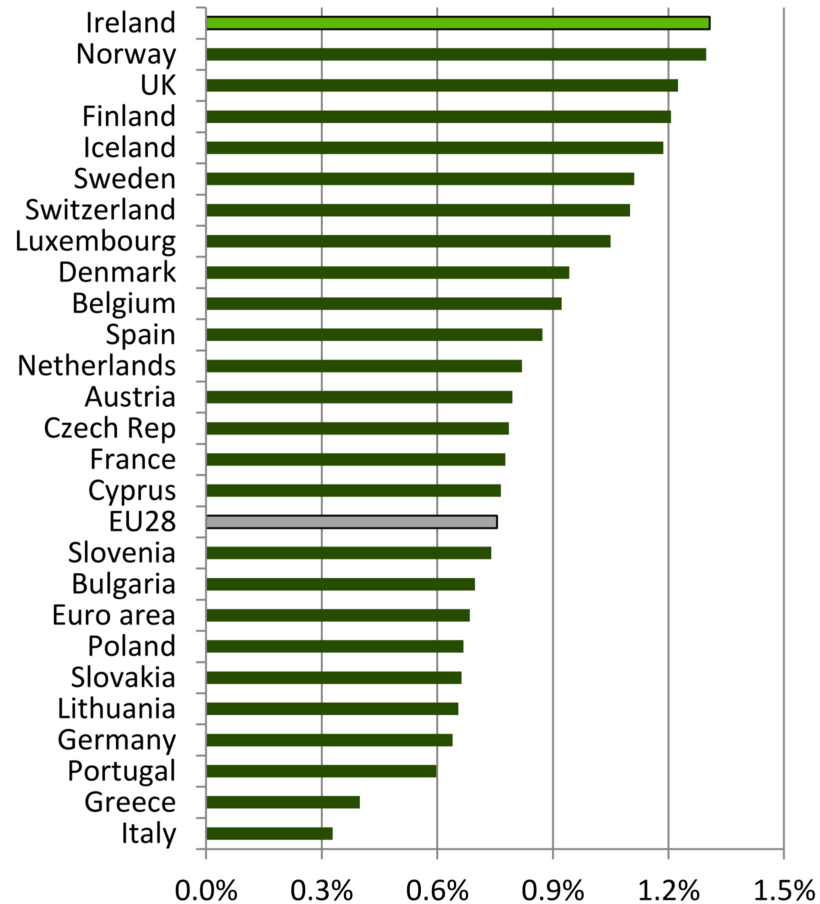
Source: World Bank WDI (2013); OECD (2014)

Workforce is young and educated - especially so in IT sector

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



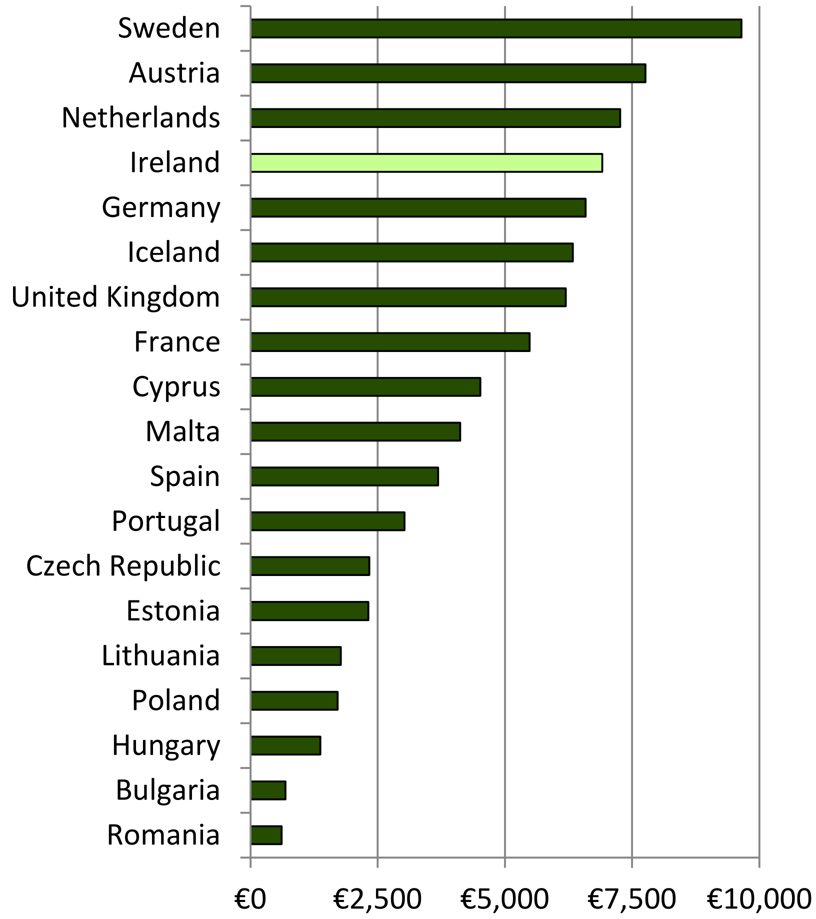
…and the highest % of population working in IT with a third-level degree



Source: [Eurostat]

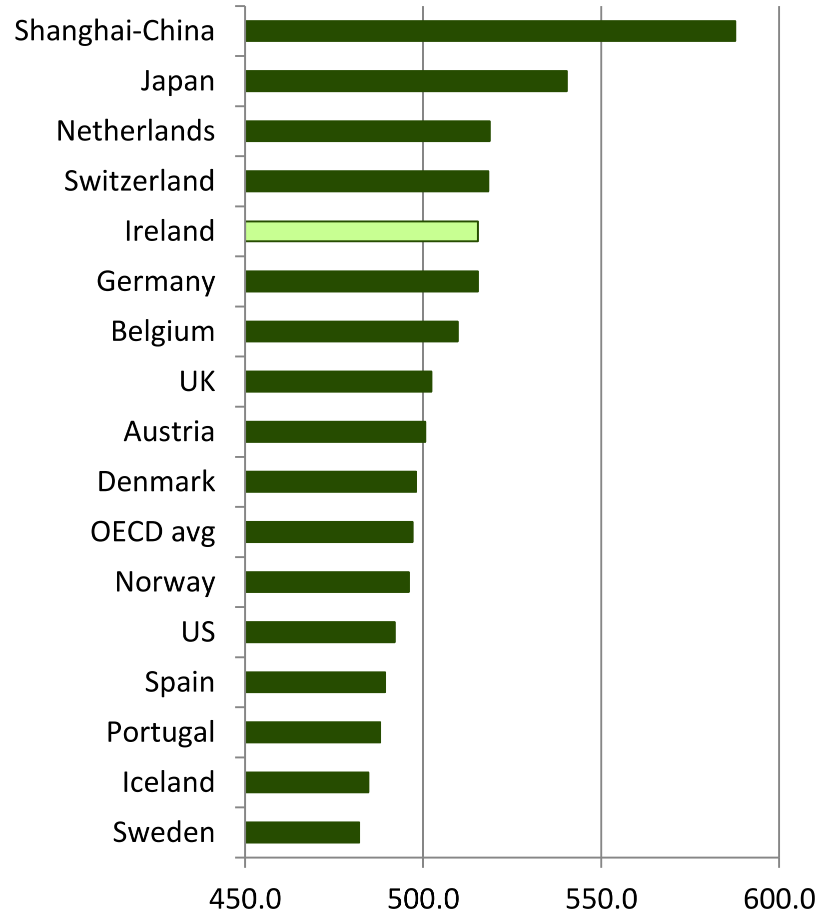
Ireland's education expenditure close to top in Europe – qualitatively competitive also

Public Education Expenditure per person aged less than 23 - Selected European Countries



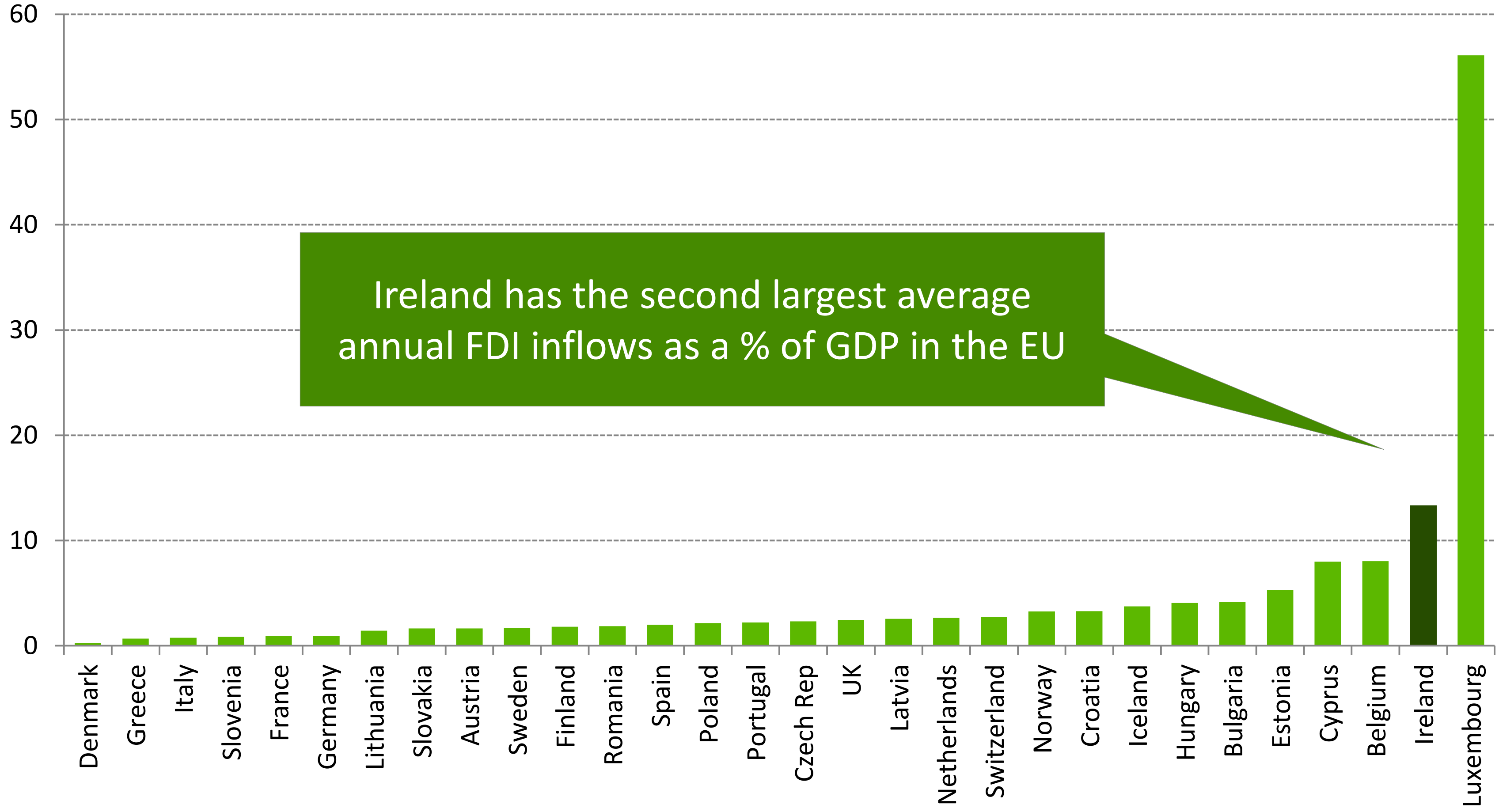
Source: Eurostat (2012)

Average PISA Score across Maths, Reading and Science



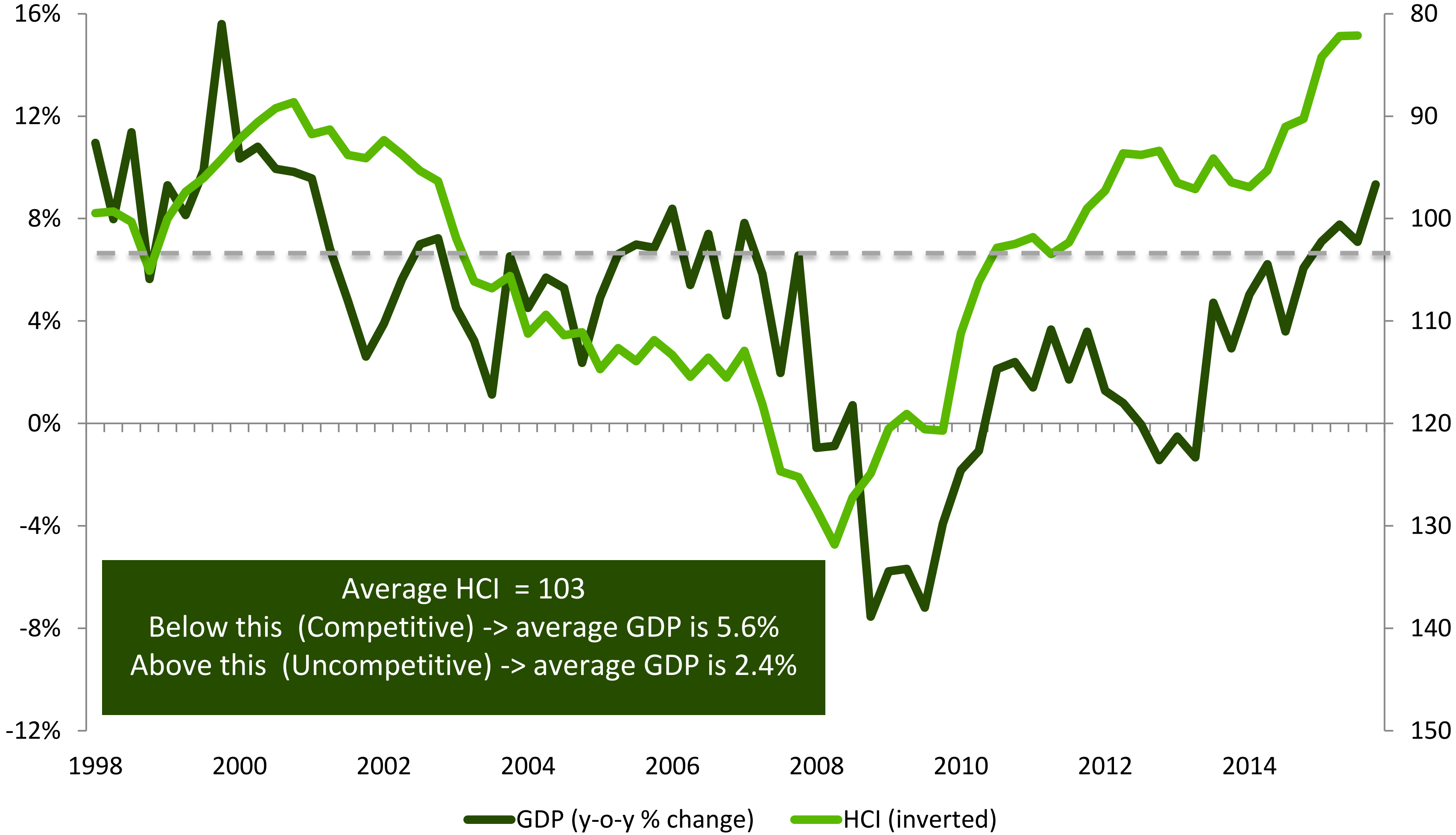
Source: OECD (2012)

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



Source: UNCTADStat

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



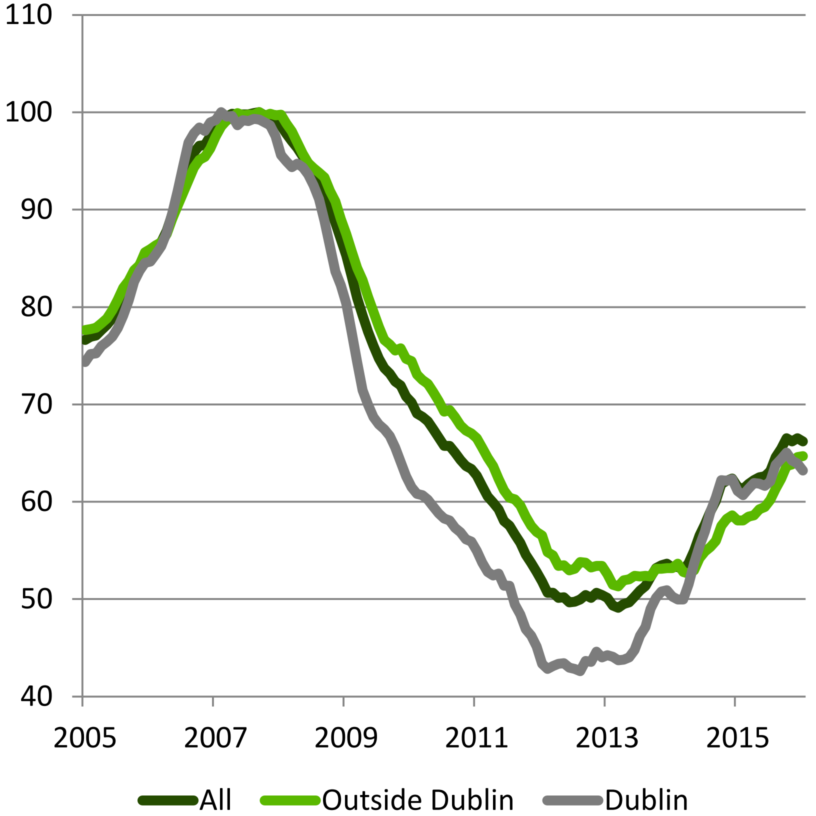
Source: CSO, CBI, NTMA analysis

SECTION 5: PROPERTY

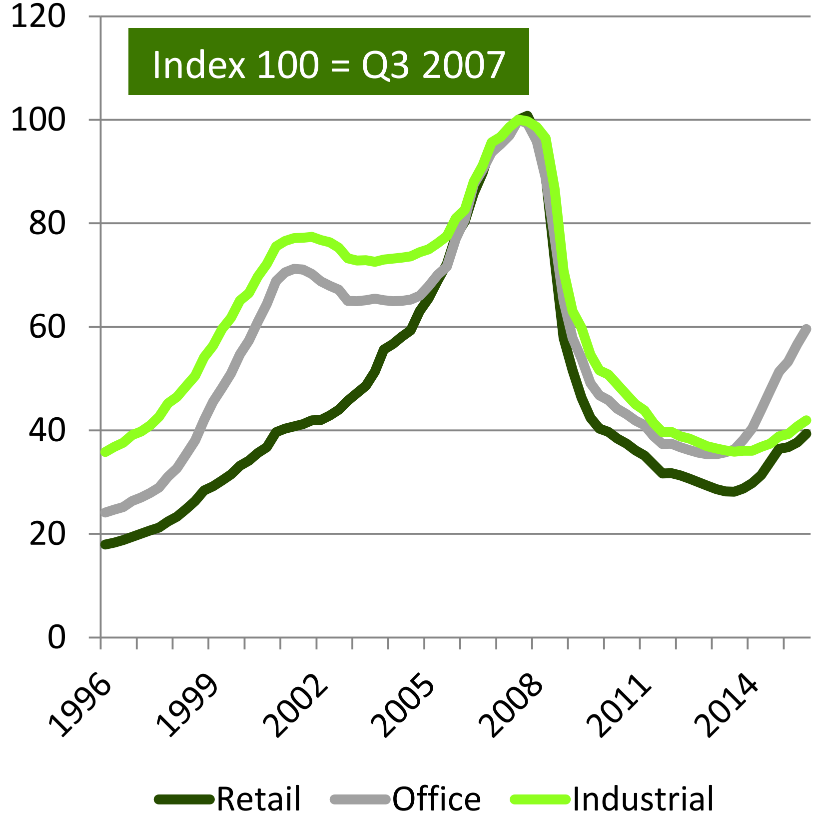
Property prices rising thanks to lack of supply, reasonable starting valuations and strong capital inflows

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

House prices surge has slowed in recent months



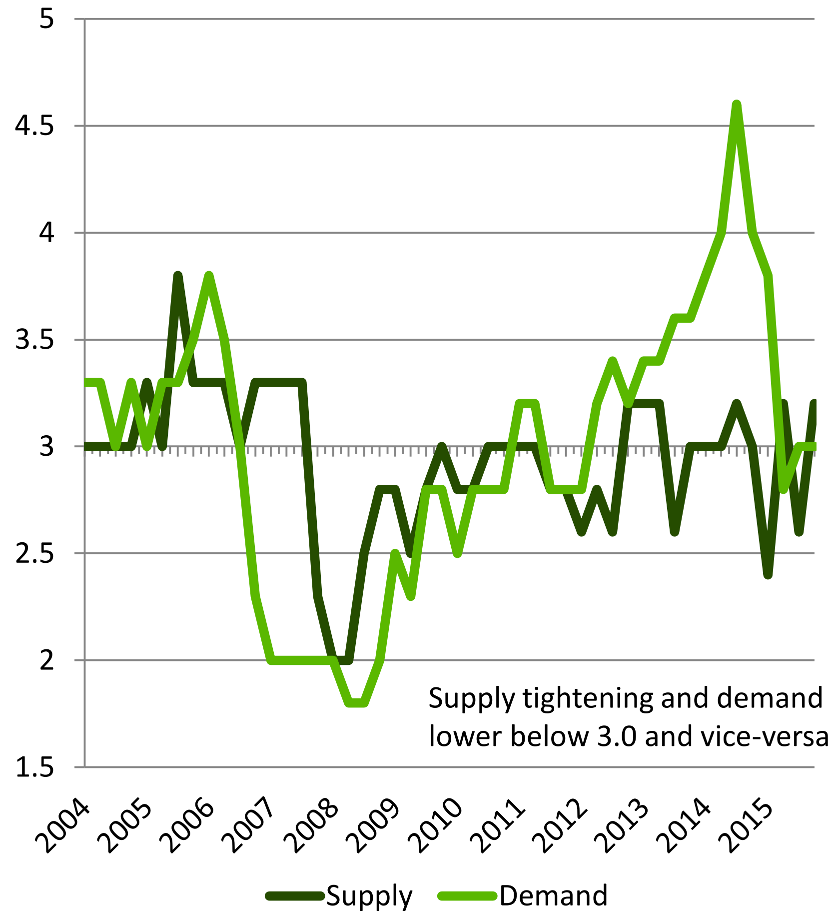
Office leads commercial property



Source: CSO; IPD

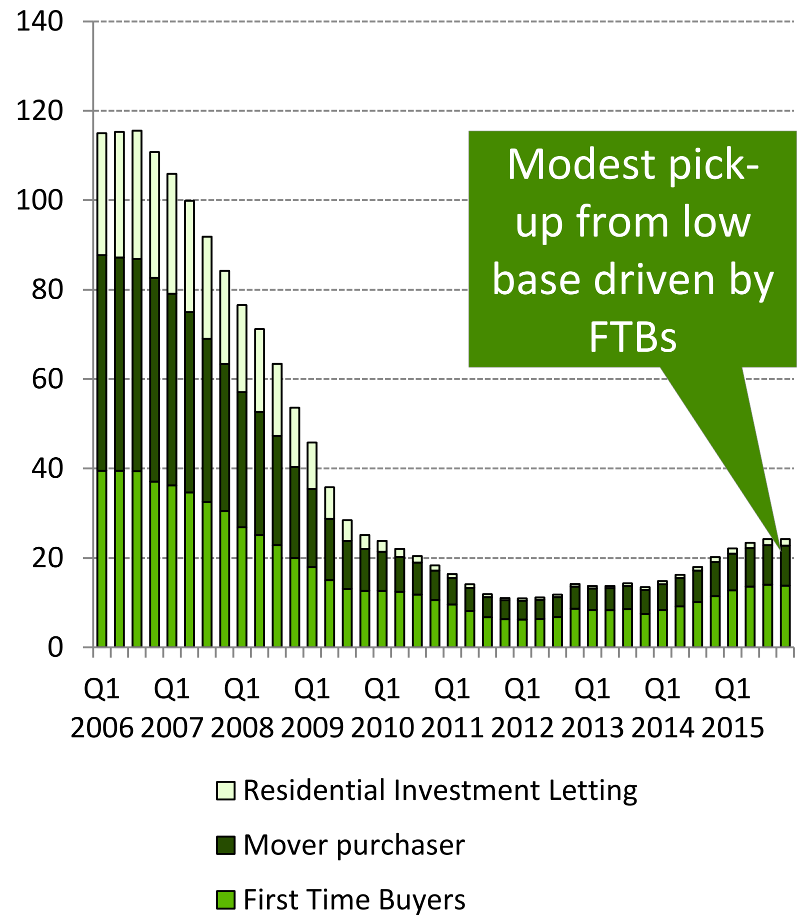
New CBI mortgage rules impacting demand

Demand & credit standards tighten following CBI rules



Source: ECB and CBI (Bank lending survey)

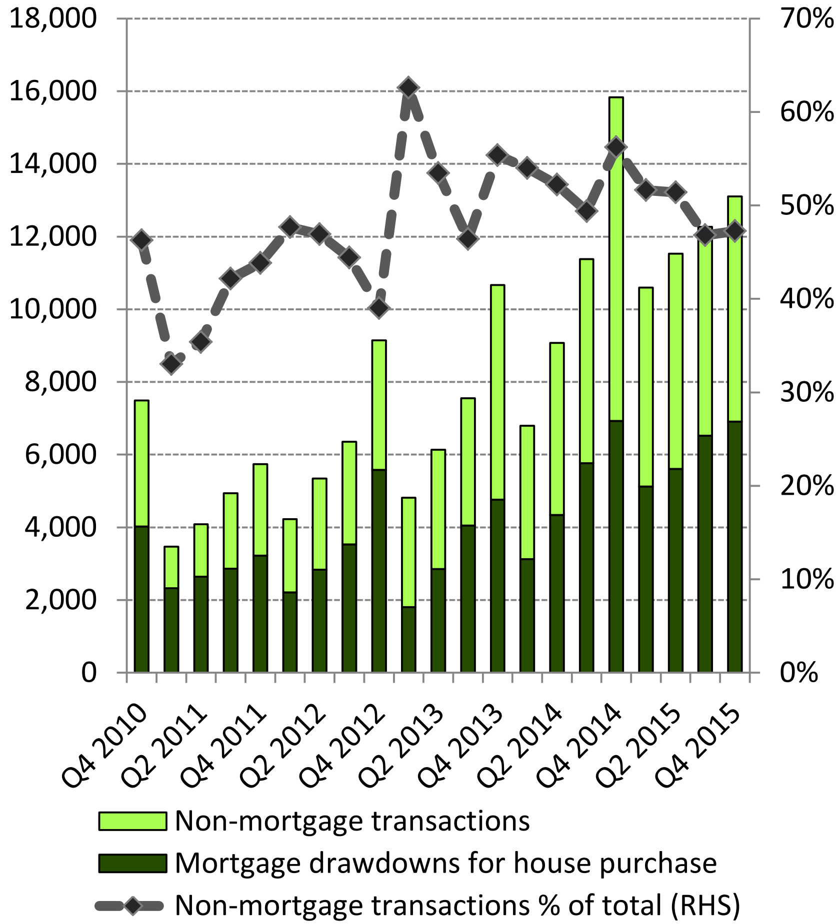
Mortgage drawdowns rise from deep trough ('000s)



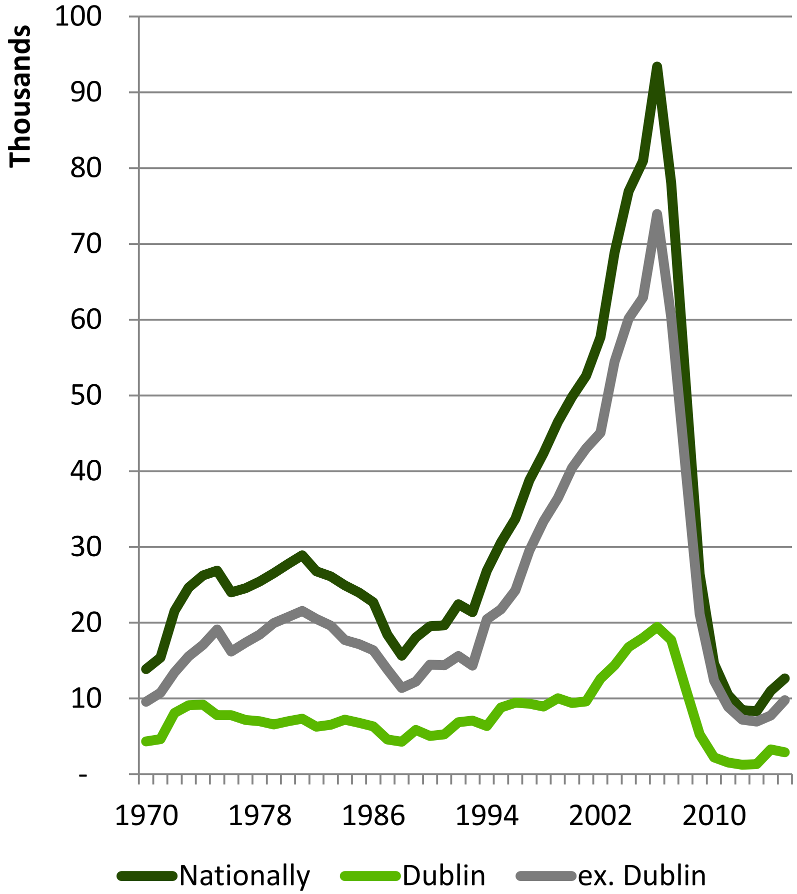
Source: BPFI

Residential market continues to be boosted by non-mortgage purchasers

Non-mortgage transactions roughly 50% of all property transactions



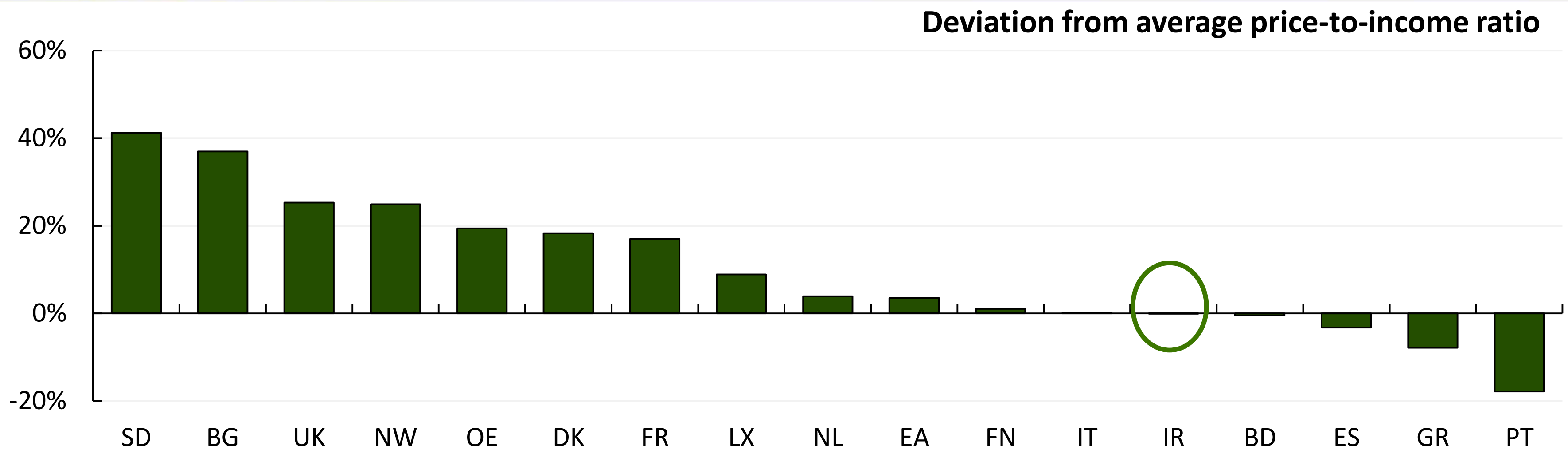
Housing Completions improving but very low historically

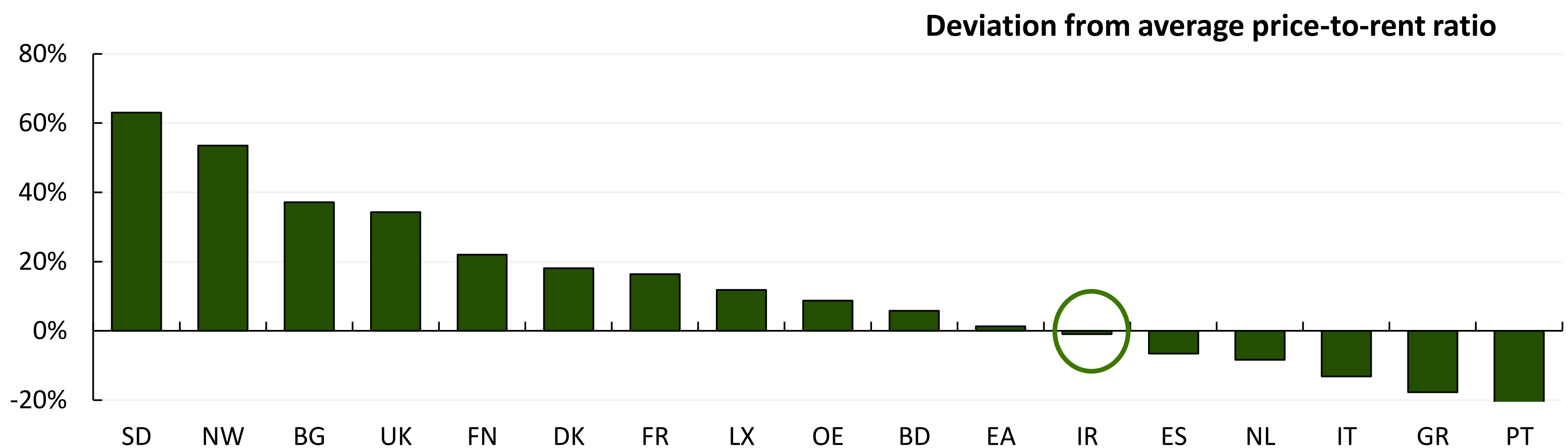


Source: BPFI; Property Services Regulatory Authority; NTMA

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

Irish house price valuation is still attractive versus European countries





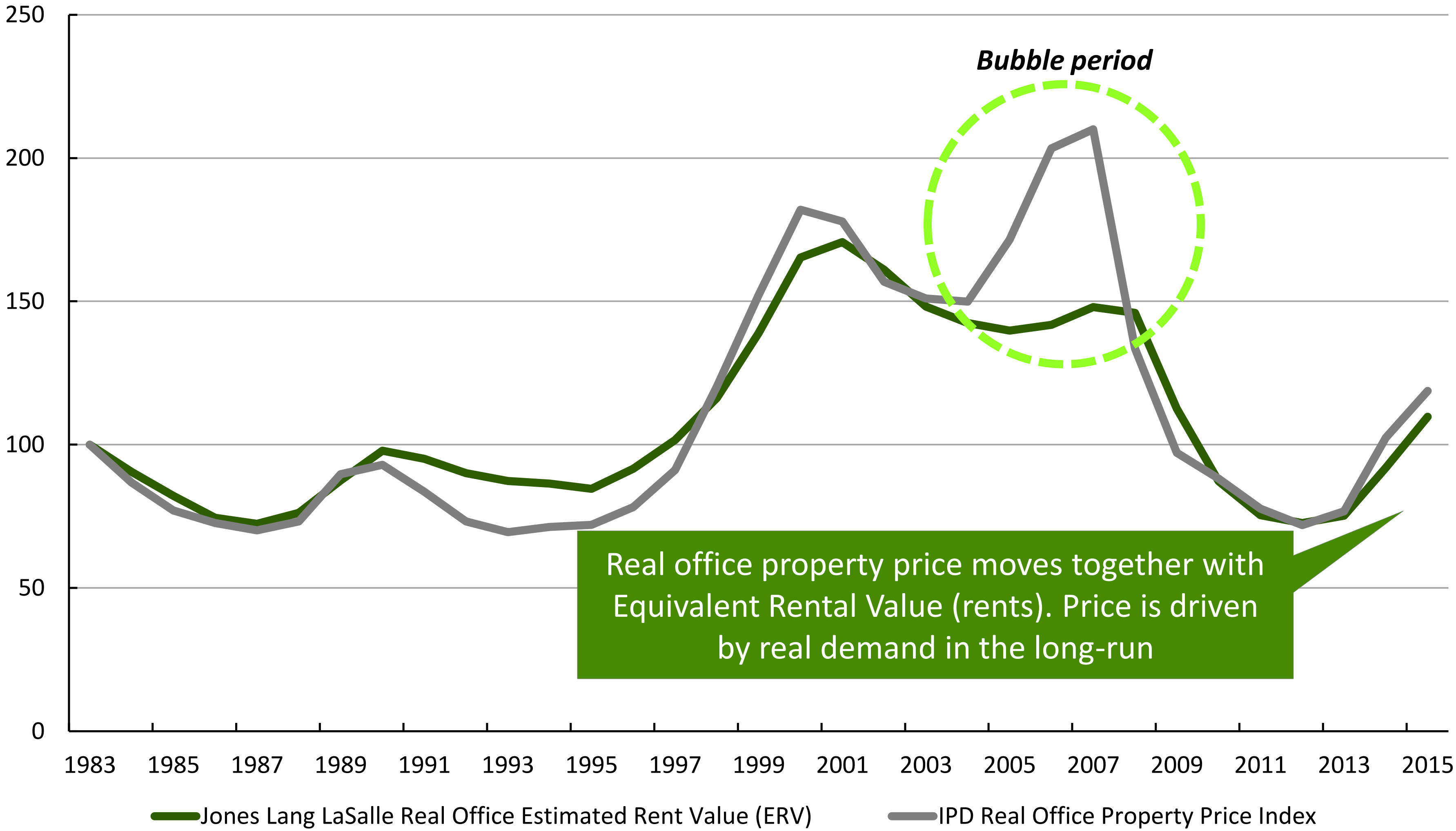
Source: OECD, NTMA Workings

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

National Treasury Management Agency

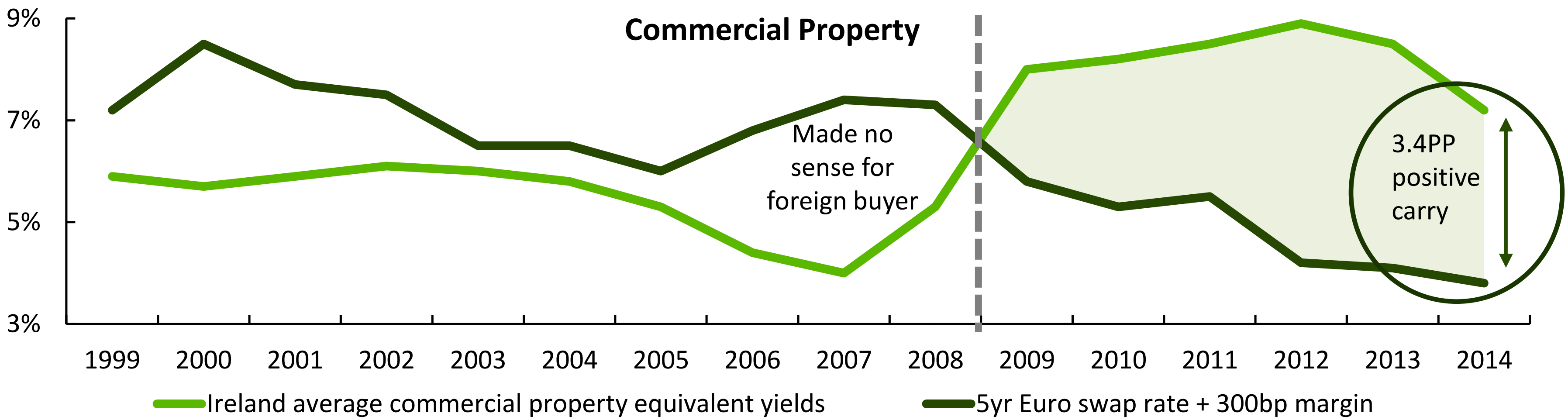
All data updated to 2015 Q2

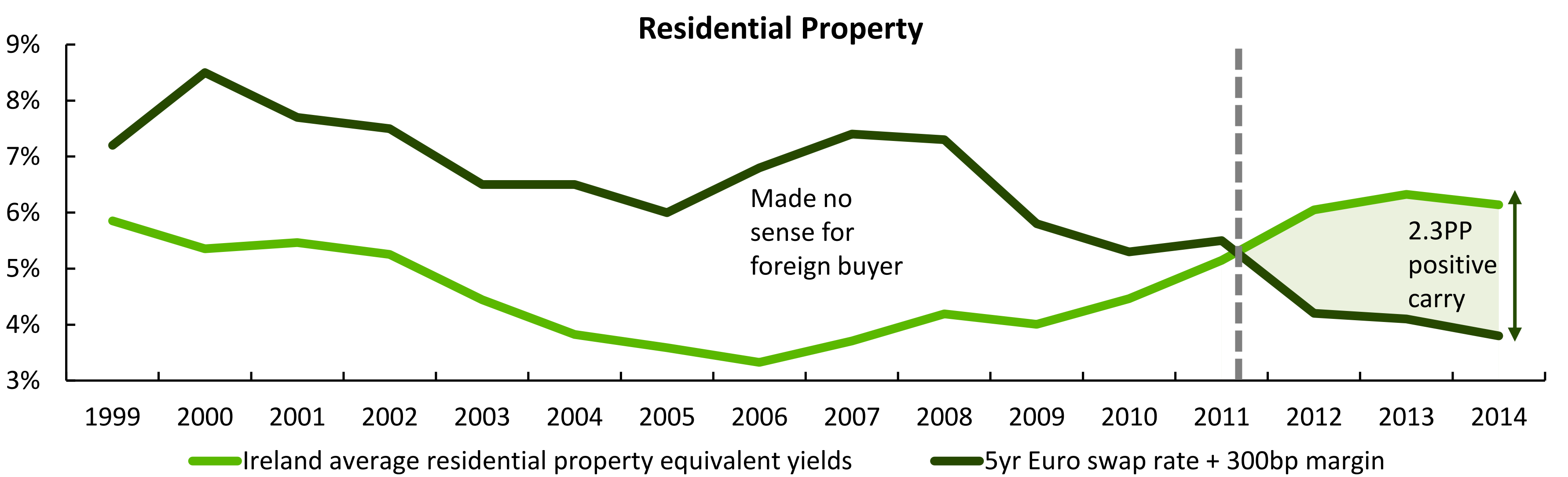
Real commercial property prices down 52% from peak (index 1983 = 100)



Source: Jones Lang LaSalle; IPD; NTMA

Foreign buyers interested on “carry trade” grounds





Source: IPD; NTMA

SECTION 6: NAMA

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

NAMA: over 70% of its original debt repaid

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

NAMA's Residential Development Funding Programme

- **In reaction to the lack of housing supply, NAMA hopes to bring up to 20,000 housing units to the market by 2020 under programme**

- **The focus will be on starter homes and will be concentrated in the Greater Dublin Area**
  - 75% of units will be houses, 25% apartments
  - 90% of units in Greater Dublin Area (Dublin, Wicklow, Kildare & Meath)

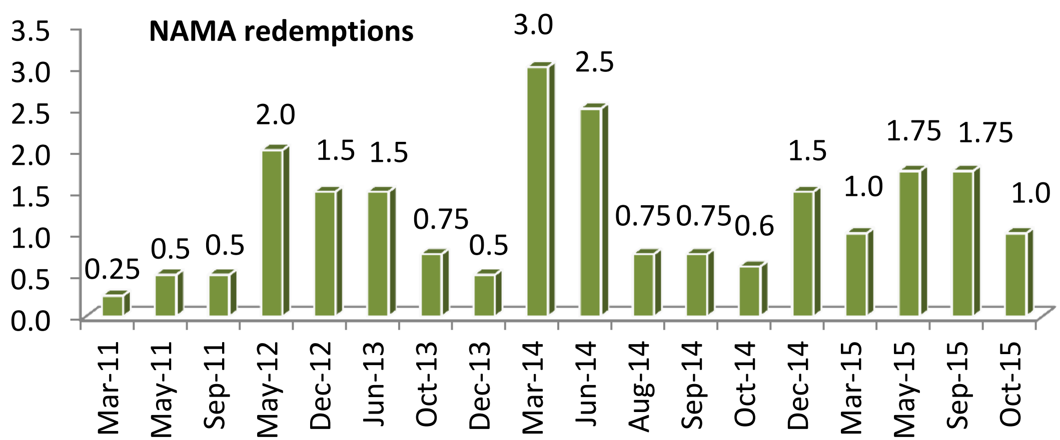
- **Progress so far has been strong**
  - In addition to the 2,300 units already delivered by NAMA, construction has begun on sites which will ultimately deliver another 3,000 units.
  - Another 5,000 units have received planning permission with construction expected to begin on the majority of these in 2016.
  - Planning applications have been lodged or will be lodged within 12 months for another 9,900 units. Another 32,500 units are at the pre-planning stage or feasibility stages.

- **Existing NAMA commitments are unaffected by this new programme**
  - Plans for all senior debt to be repaid by 2018 and subordinated debt repaid by March 2020 are still in train

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

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

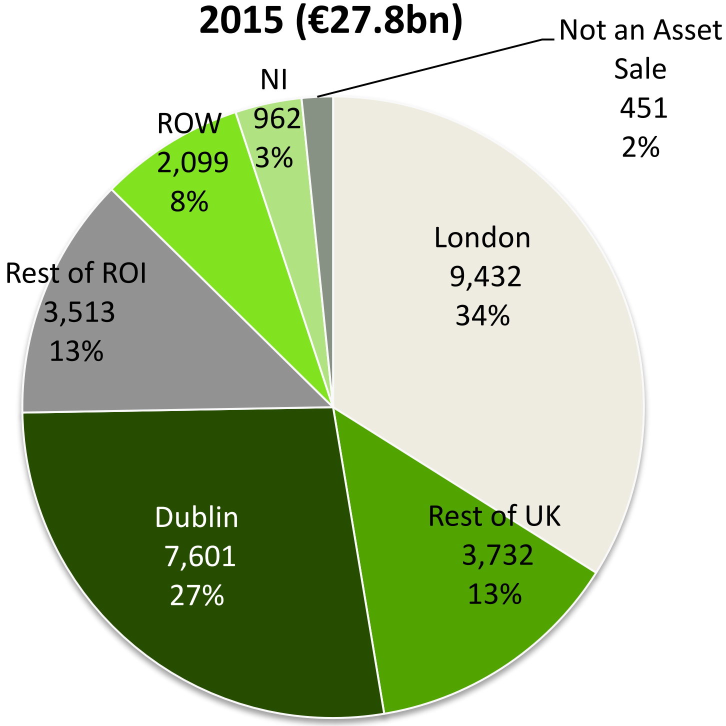
Source: NAMA



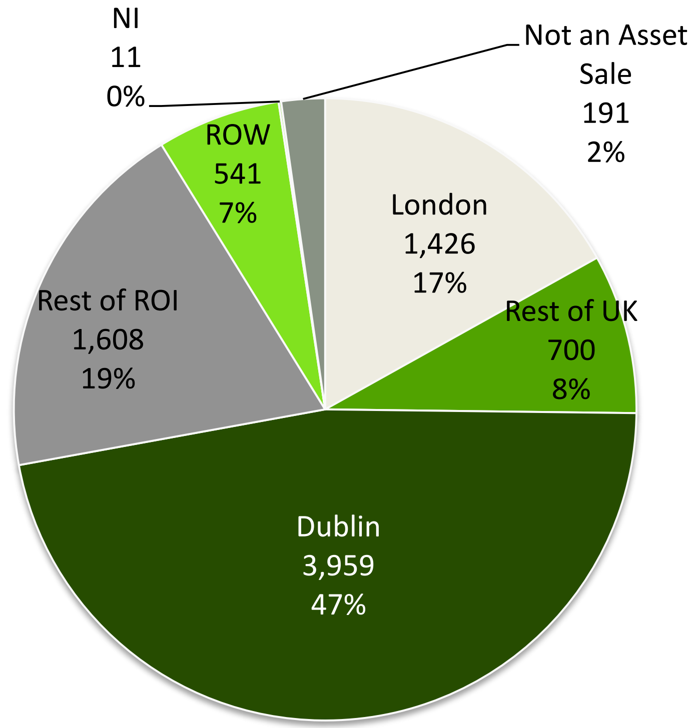
- **NAMA continues to generate net profit after impairment charges.**
- 2014 operating profit and impairment charges much lower than previous years
- €1bn of NAMA senior bonds redeemed in Oct 2015 bringing total amount redeemed to €22.1bn (73% of its senior debt liabilities)
- **All of €30.2bn in NAMA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

Disposal Trend by Location

Disposals by Location since Inception Dec 2015 (€27.8bn)



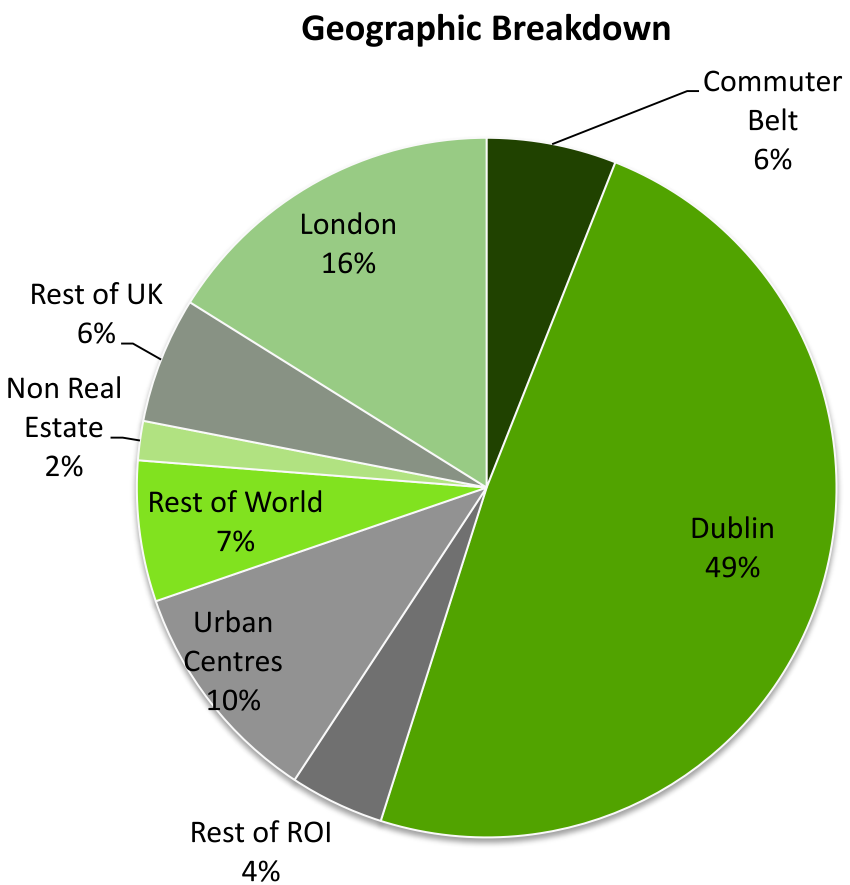
Disposals by Location Dec 2015 (€8.4bn)

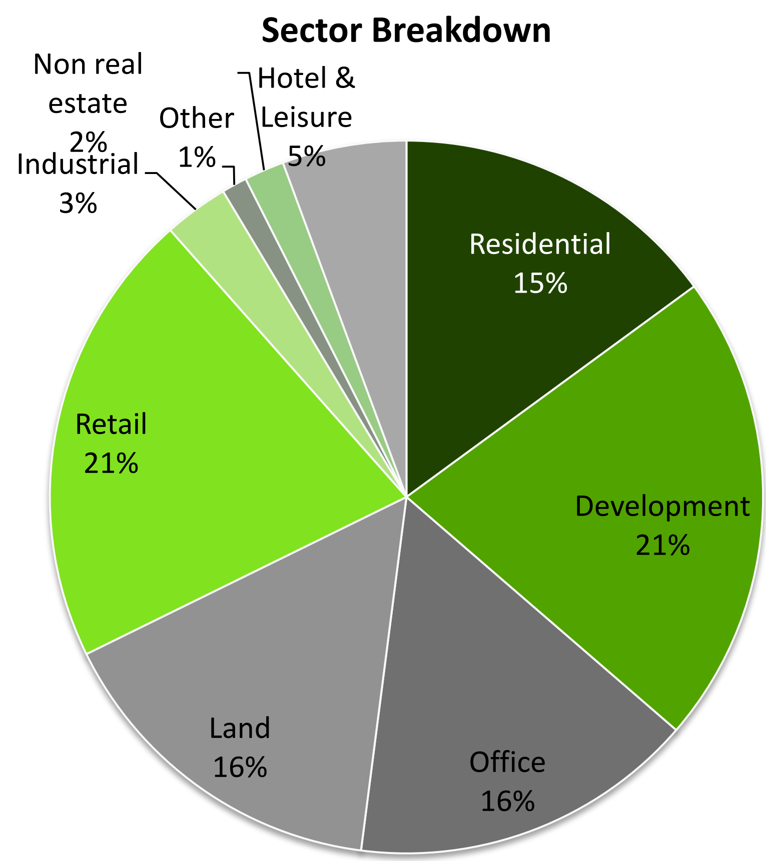


- Deliberate NAMA focus on UK disposals during 2010 – 2013 period.
- ROI transactions have increased significantly since Q4 2013 - from €1.8bn to €11.1bn.

Source: NAMA

Breakdown of NAMA property portfolio, June 2015





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

Source: [NAMA]

NAMA: Other strategic initiatives also progressing

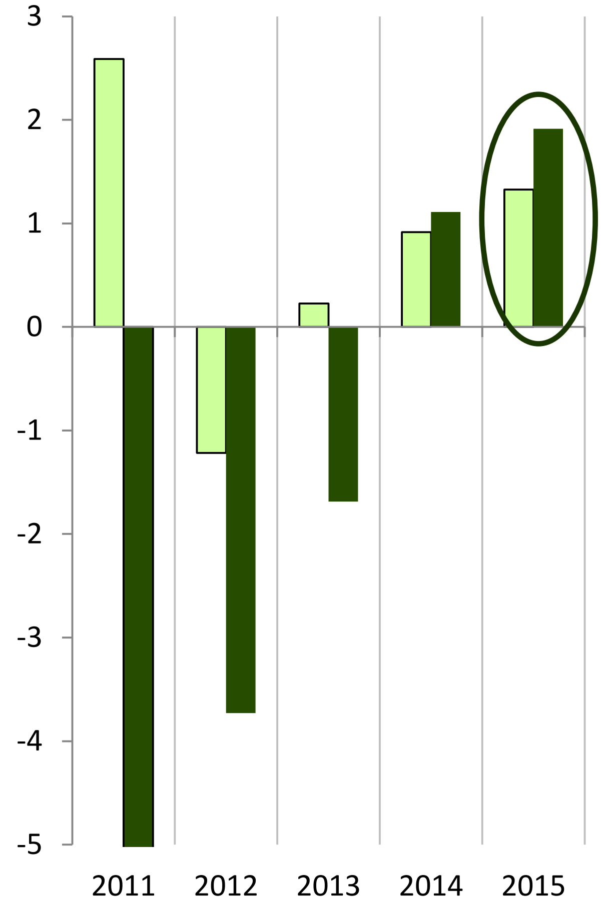
- **Dublin Docklands Strategic Development Zone (SDZ):**
  - A core objective of NAMA's development funding is to facilitate the delivery of Grade A office accommodation in the SDZ.
  - NAMA has an interest in 14 of the 20 development blocks identified in the SDZ and has developed detailed strategies for these blocks.
  - It is estimated that up to 3.8m sq. ft. of commercial space and 2,000 apartments could be delivered in all sites. This includes one additional site at City Quay (just outside the SDZ). Planning achieved on 2.2m sq. ft., 0.36m sq. ft. in the planning system and over 1.2m sq. ft. at pre-planning stage
- **Social Housing:**
  - A SPV – NARPSL – was established by NAMA to expedite social housing delivery. It acquires residential units from NAMA debtors and receivers and leases them directly to approved housing bodies (Department of the Environment, Community and Local Government; and the Housing Agency).
  - By end-December 2015, 2,000 units were delivered under this initiative. Since the start of 2012, NAMA has identified over 6,600 houses and apartments, controlled by its debtors and receivers, as available for social housing. 2,578 of these units have been confirmed as suitable by local authorities.

SECTION 7: BANKING

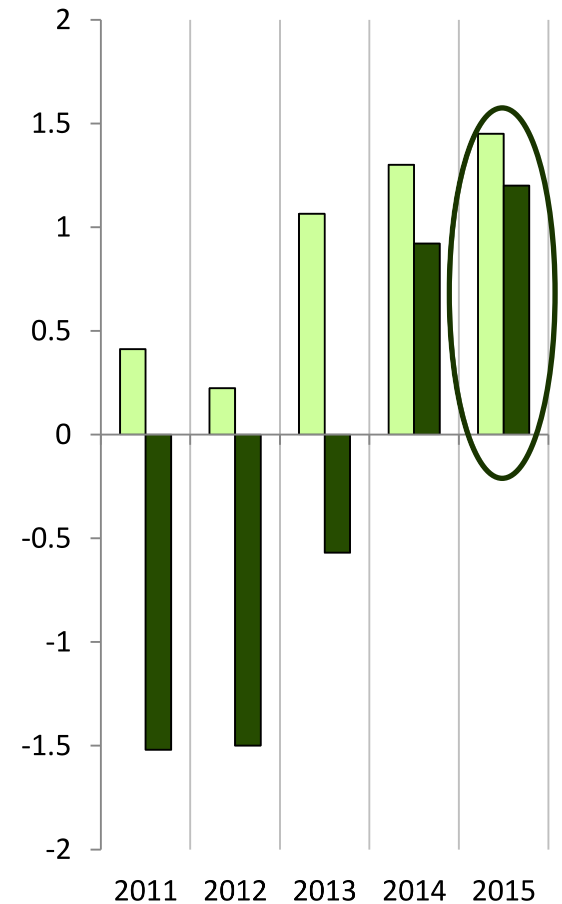
Banks overhauled and smaller; AIB, BOI and PTSB have returned to profit

All three pillar banks in profit in 2015*

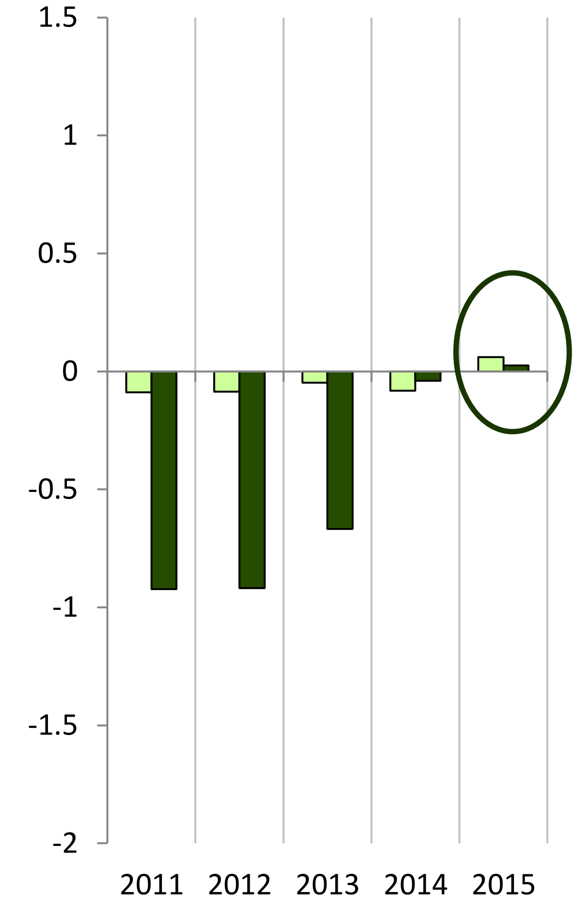
Allied Irish Bank



Bank of Ireland



Permanent TSB



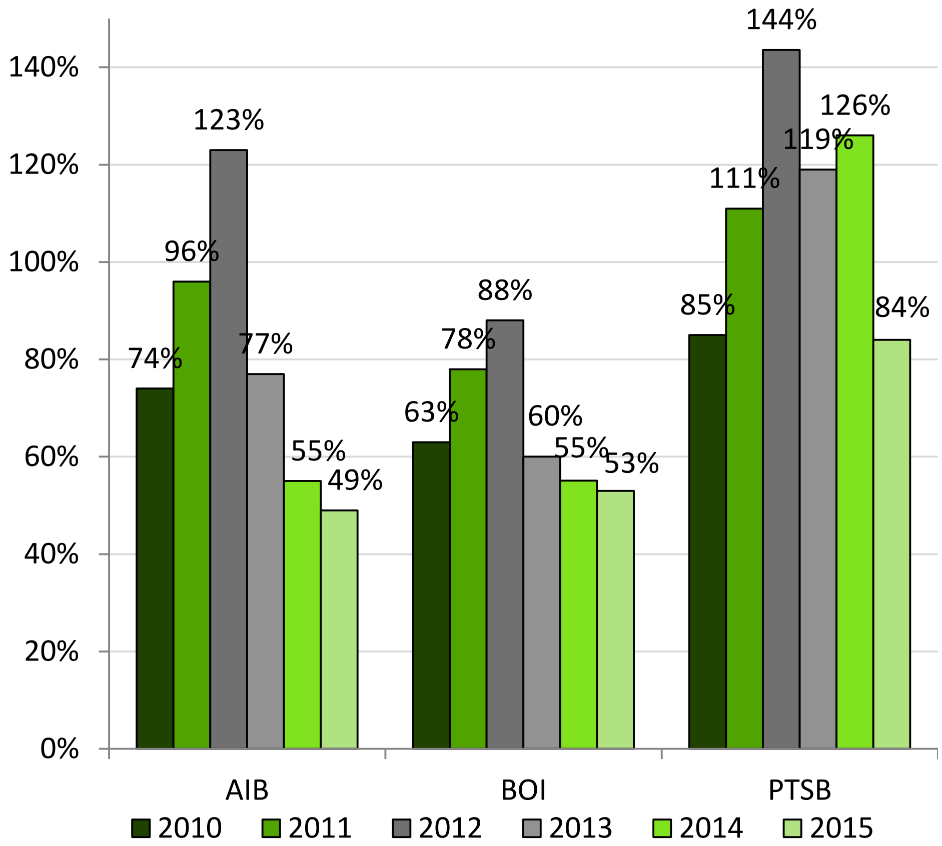
Pre-Provisions Post-Provisions

*PTSB had below-the-line losses worth €458m in 2015– operating profit was €26m before these items were included

Source: Annual reports of banks - BOI, AIB, PTSB

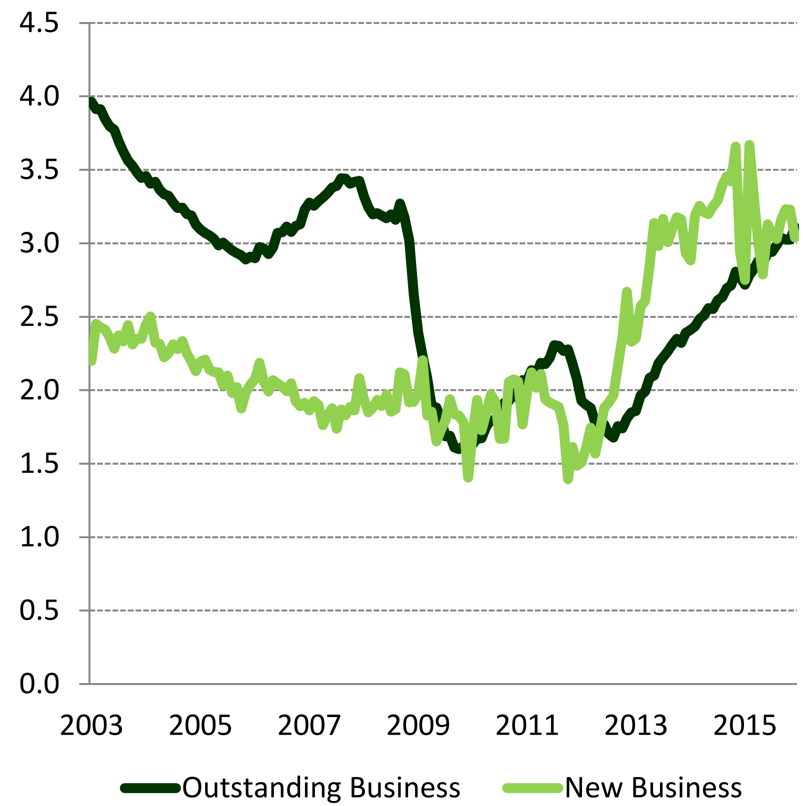
Banks fundamentally rebuild profitability

Cost income ratios improve dramatically



Source: Annual reports of Irish domestic banks

Net interest margins recover %



Source: CBI, NTMA Calculations

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

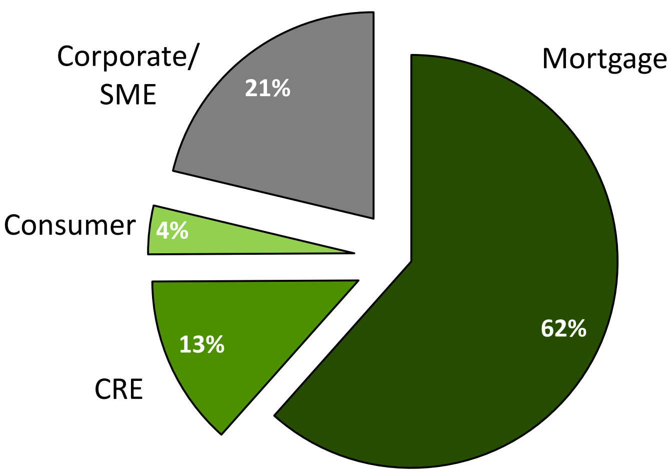
Asset quality continues to improve; impaired loans and provisions fall in 2015

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

PCAR Banks (€bn)	Dec-13	Dec-14	Dec-15
Total Loans	208.9	197.1	186.5
Impaired	53.9	43.1	29.0
(Impaired as % of Total)	25.8%	21.9%	15.5%
Provisions	29.4	23.5	14.7
(*Provisions as % of book)*	14.1%	12.0%	7.9%
(Provisions as % of Impaired)	54.5%	54.5%	50.6%

Impaired Loans % (Coverage %)[1] by Bank and Asset					
		Dec-13	**Dec-14**	**Dec-15**	***Book (€bn)***
BOI	Irish Residential Mortgages	14.2(49)	12.6(46)	9.3(52)	25.0
	UK Residential Mortgages	2.4(24)	2.0(23)	1.6(22)	27.9
	Irish SMEs	26.7(50)	25.6(51)	21.9(52)	9.3
	UK SMEs	17.1(50)	16.9(44)	11.1(51)	2.4
	Corporate	7.5(41)	5.6(54)	4.6(59)	9.3
	CRE - Investment	42.3(38)	37.2(46)	28.5(53)	11.4
	CRE - Land/Development	89.3(68)	89.5(74)	84.8(76)	2.0
	Consumer Loans	8.4(90)	6.4(98)	4.1(105)	3.3
		18.5(48)	**18.2(50)**	**11.6(56)**	**90.6**
AIB	Irish Residential Mortgages	23.0(43)	22.6(40)	16.6(38)	34.5
	UK Residential Mortgages	11.3(53)	11.6(59)	10.8(50)	2.4
	SMEs/Corporate	30.0(64)	21.4(68)	11.5(63)	18.3
	CRE	66.7(64)	56.9(62)	37.4(61)	11.5
	Consumer Loans	33.2(81)	27.2(69)	19.9(77)	3.5
		34.9(59)	**29.2(51)**	**18.6(47)**	**70.2**
PTSB	Irish Residential Mortgages	26.0(47)	25.5(46)	23.6(49)	21.5
	UK Residential Mortgages	1.3(85)	1.5(60)	3.9(39)	3.6
	Commercial	68.7(63)	74.0(60)	35.8(69)	0.4
	Consumer Loans	26.0(105)	29.7(94)	27.0(93)	0.3
		23.6(51)	**24.5(51)**	**21.1(49)**	**25.7**

Loan Asset Mix (3 banks Dec 15)

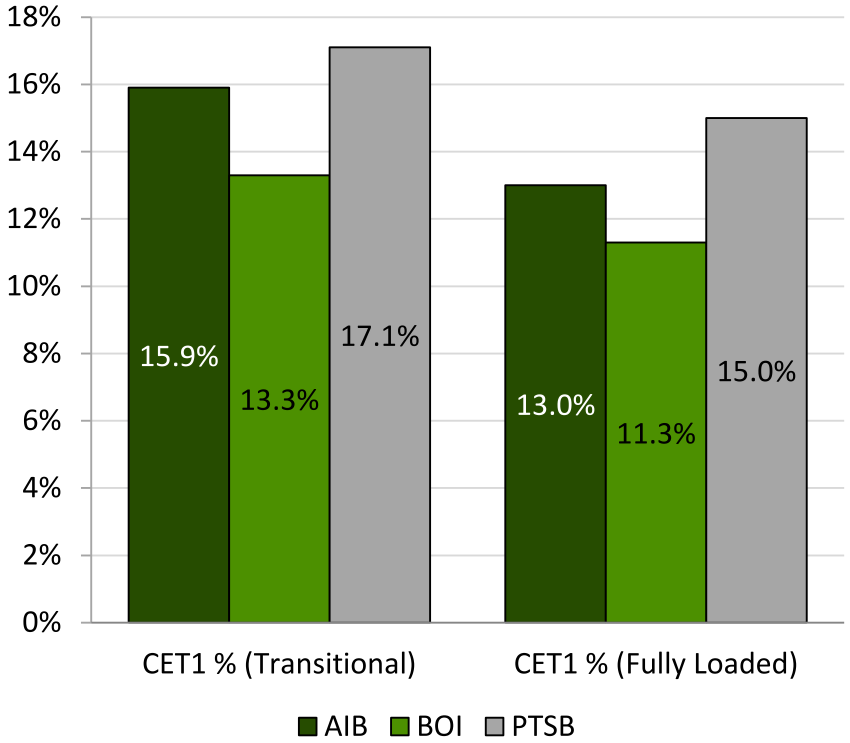


Source: Published bank accounts

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

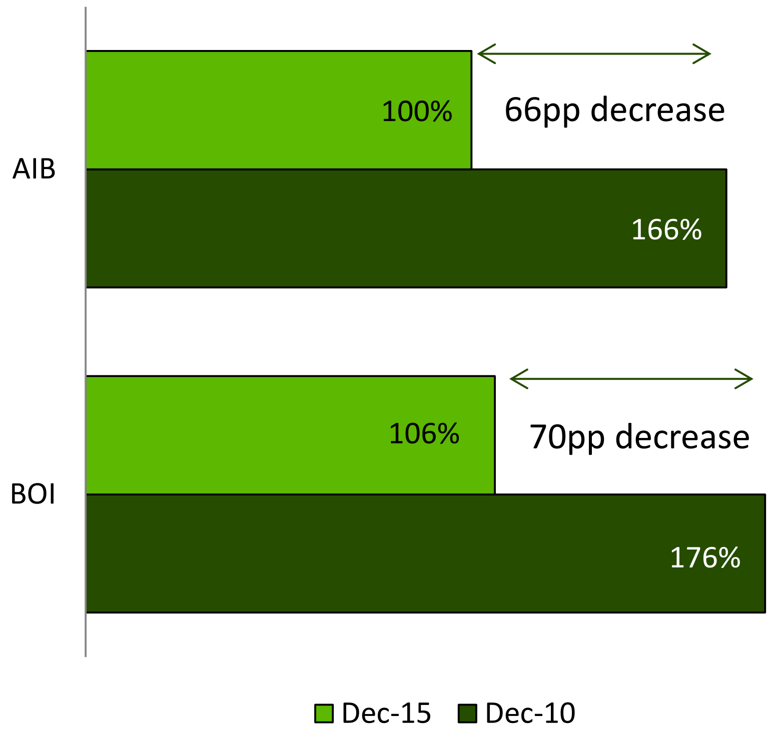
Capital and loan-to-deposit ratios strengthened

CET 1 Capital Ratios (Dec-15)



Source: Published bank accounts

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



Source: Published bank accounts

- Common equity tier 1 capital ratios at the PLAR banks remain well above minimum requirements.

Note: “Transitional” refers to the transitional Basel III required for CET1 ratios which came into effect 1 January 2014. “Fully loaded” refers to the actual Basel III basis for CET1 ratios.
* The fully loaded CET1 ratios exclude the 2009 preference shares.

Aggregated balance sheet of the "Covered" banks much slimmer and more solid

Total Assets: €249.6 bn	
Loans and receivables - loans to customers	170.7
Loans and receivables - loans to credit institutions	7.1
Loans and receivables - debt instruments	12.5
Available-for-sale financial assets	32.5
Cash & cash balances with central banks	10.7
Other	16.1

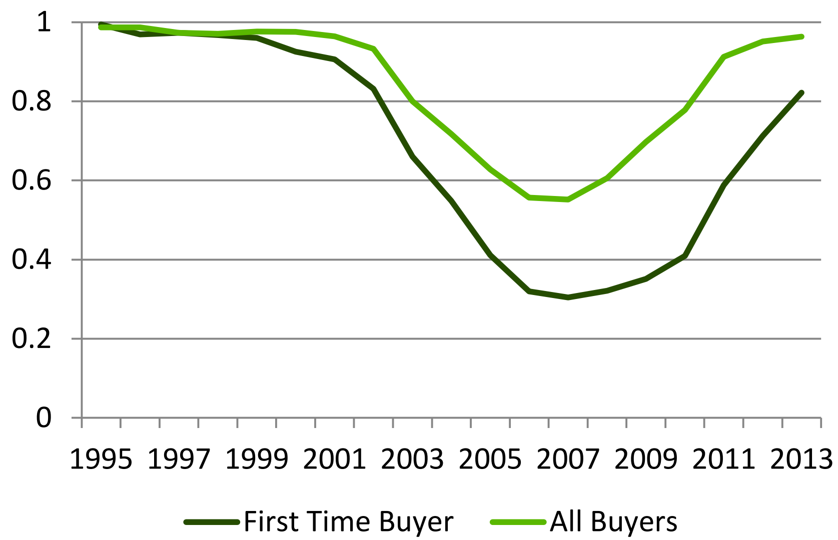
Source: CBI

Total Liabilities, Minority Interest and Equity: €249.6 bn	
Deposits excl. Credit Institutions	155.7
Deposits from Credit Institutions and Central Banks	26.4
Debt Certificates	25.4
Subordinated Liabilities	4.3
Other liabilities	12.4
Equity & Minority Interest	25.5
Total Liabilities, Minority Interest and Equity	257.6

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

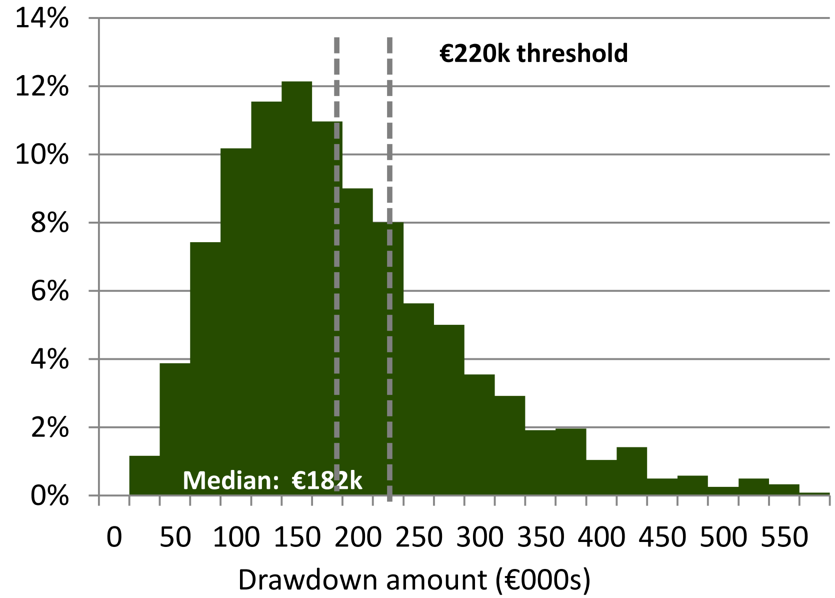
Introduction of CBI's macro-prudential rules will increase resilience of banking and household sector

Proportion of loans below 3.5 times LTI by year



Source: CBI

House price distribution for FTBs in 2014 H1

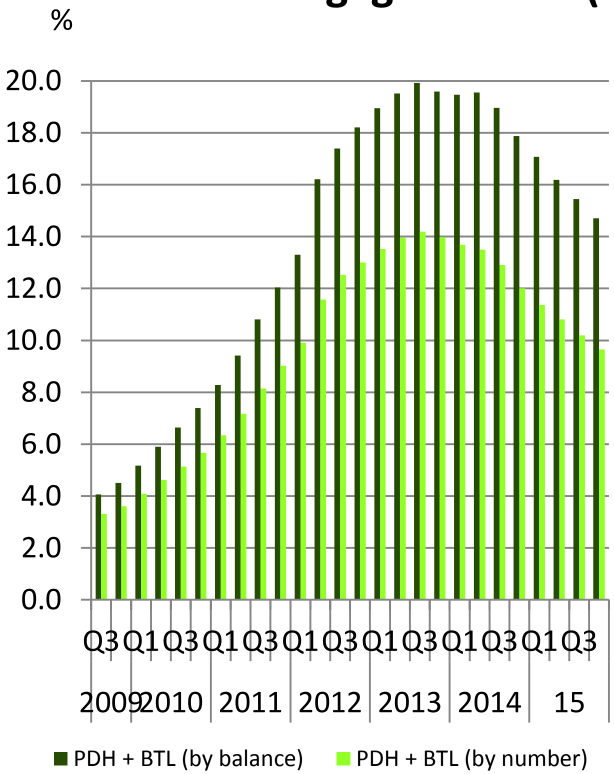


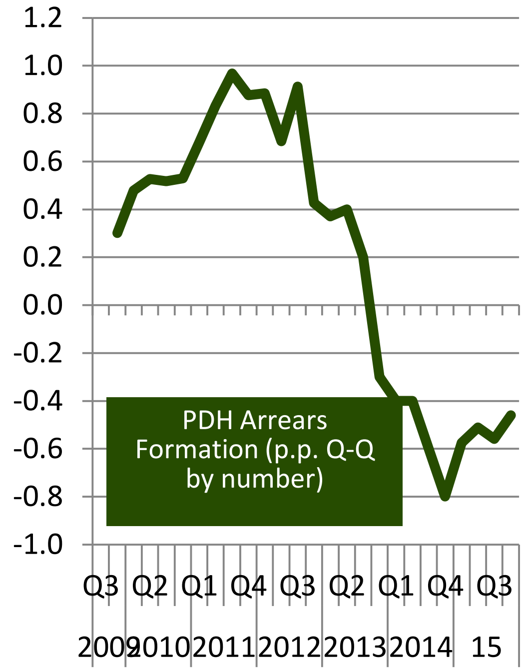
Key changes to lending rules
Banks must restrict lending for primary dwelling purchase above 80 per cent LTV to no more than 15 per cent of the aggregate value of the flow of all principal dwelling loans*
Bank must restrict lending for primary dwelling purchase above 3.5 times LTI to no more than 20 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

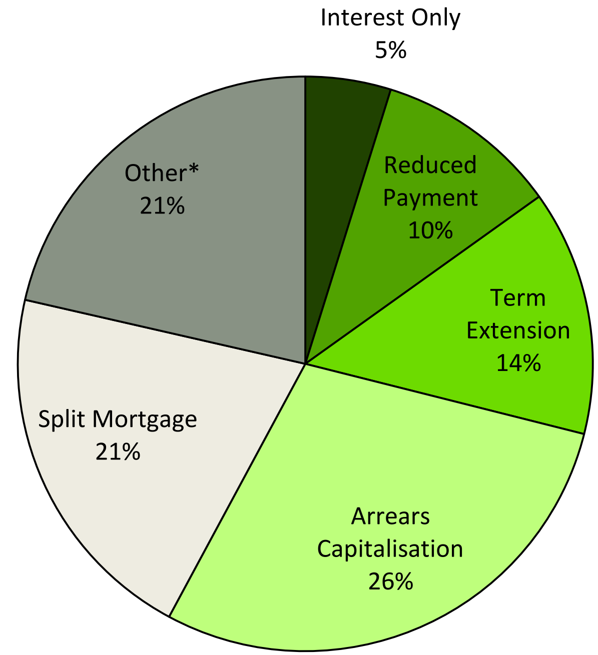
Irish residential mortgage arrears – improving but still challenging

Mortgage Arrears (90+ days)





Total Restructured/Rescheduled Cases

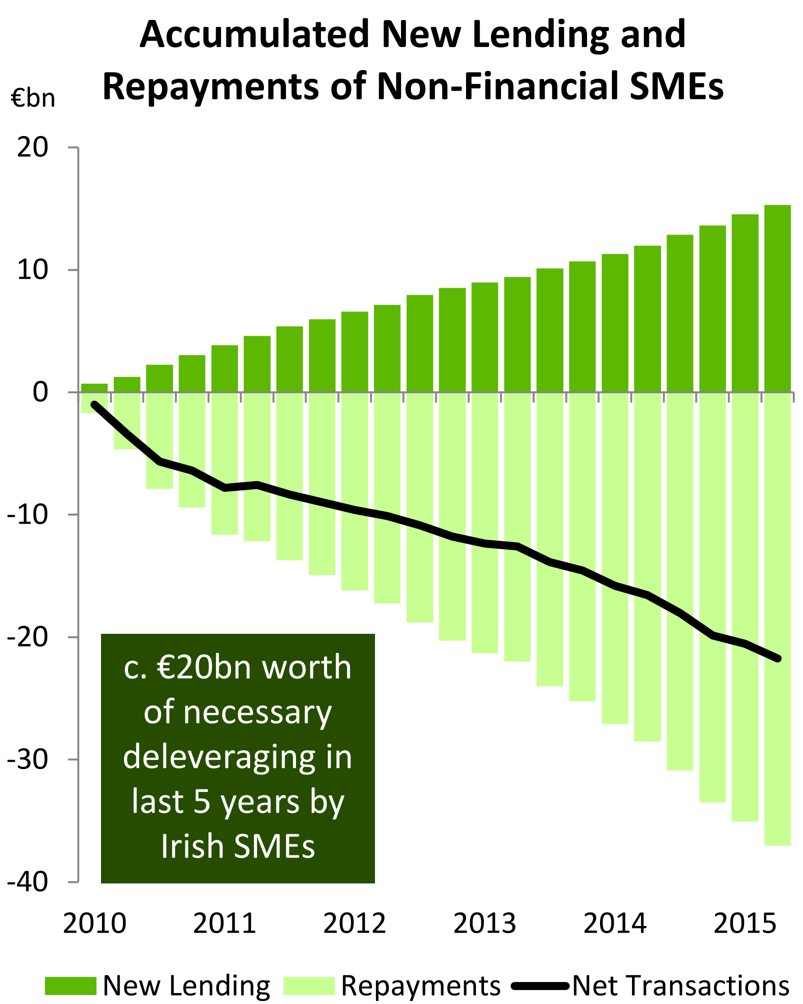


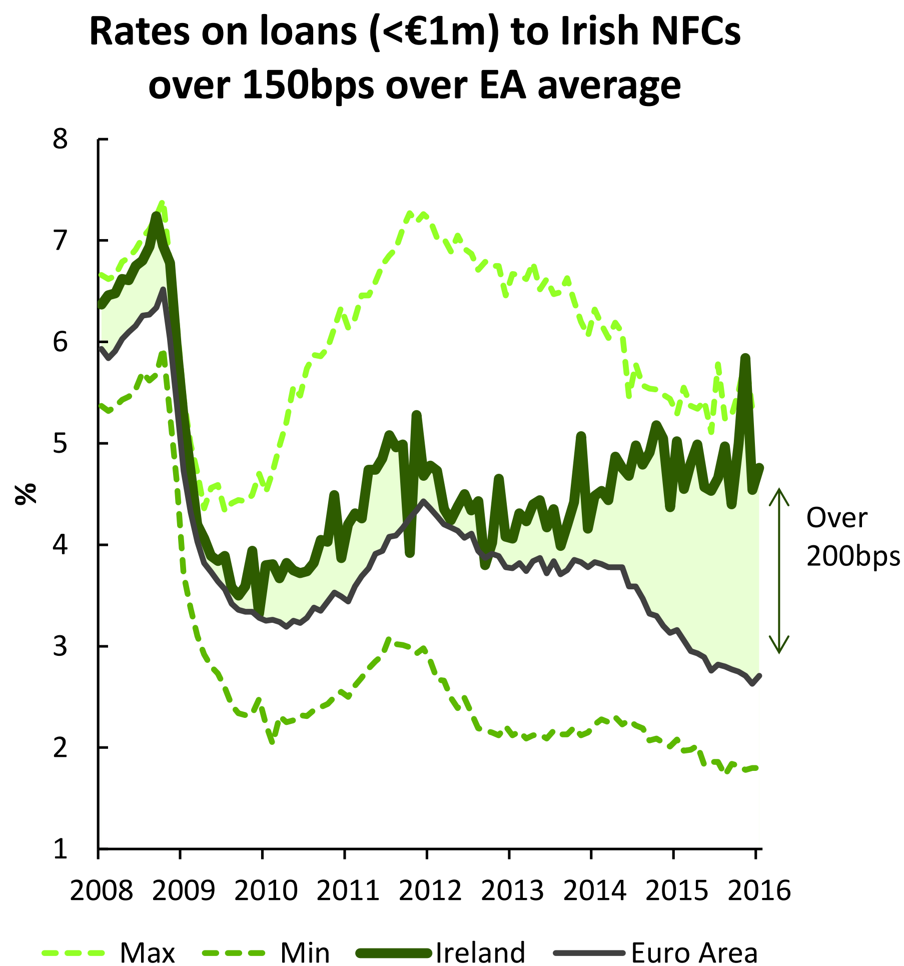
Source: CBI

- PDH mortgage arrears have fallen steady since Q3 2013. The smaller BTL market (c. 25% of total) has higher arrears but also saw declines in the same period.
- 121K PDH mortgage accounts were classified as restructured at end-2015. Of these restructured accounts, 86.4% were meeting the terms of the restructured arrangement.

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

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





Source: CBI; ECB

National Treasury Management Agency

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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