National Treasury Management Agency

IRELAND: 6% GROWTH IN SLUGGISH WORLD

Government debt ratio falling, fastest growing economy in EA

November 2015

Index

SUMMARY

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

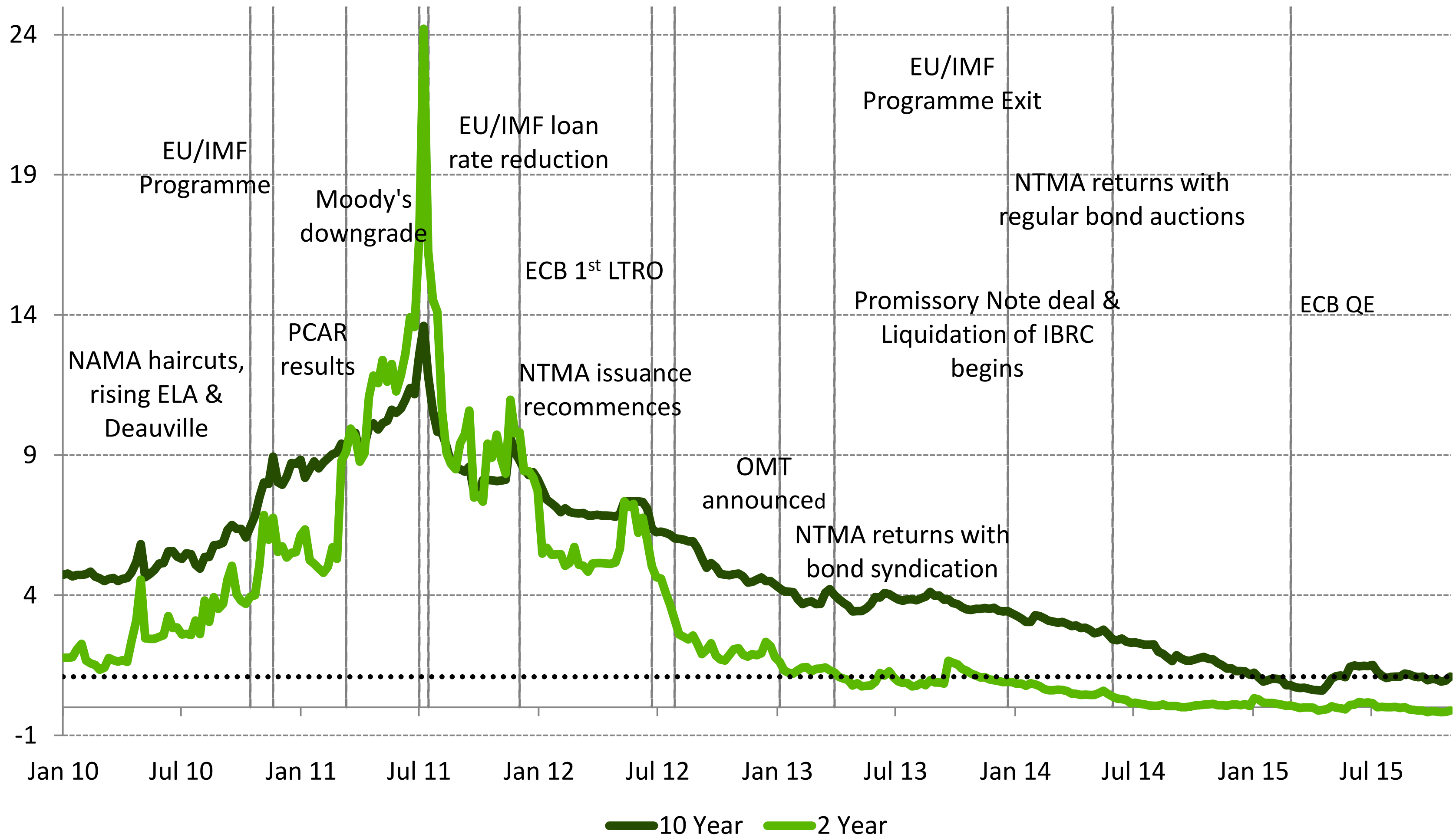
Ireland set for further outperformance in 2015

- **Government will post deficit of around 2% and exit the EDP on schedule**
  - In Budget 2016, the Government forecast a deficit outturn of 2.1% of GDP for 2015, falling to 1.2% in 2016. It allowed the Government an extra 2015 stimulus of 0.75pp.
  - 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.
- **Ireland is still growing faster than every other euro area country**
  - Ireland's economy grew by 7% real and 12.5% nominal in the first half of 2015.
  - Consumer spending and investment have recovered. Spending is up for six straight quarters. Yet Ireland is also benefitting from the sharp depreciation of the euro following ECB quantitative easing, low interest rates and the halving in oil prices.
  - Unemployment is falling but the pace of improvement has slowed a little. The rate was 9.3% in October 2015, down from the crisis peak of 15.1% in Q1 2012.
- **Gross Government debt fell to 108% of GDP in 2014, down from 120%**
  - Government debt is set to drop below 100% of GDP by end-2015 – one year ahead of schedule. The official forecast is for a ratio of 97%, helped by the large excess of nominal growth over interest cost and the 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.

State has tapped the market for €13bn in 2015

- **Funding plan for 2015 complete**
  - The NTMA has raised €13bn this year from a stated range of €12-15bn at the outset of the year. The lower-than-forecast Government deficit limits our need.
- **The NTMA completed the early repayment of IMF loans in 2015**
  - A total of €18bn worth of loans was re-financed during Q4 2014 - Q2 2015.
  - The total interest cost savings could exceed €1.5bn (0.8% of GDP) over 5 years.
  - In January 2015, the NTMA sold €4bn of a 7-year bond via syndication: the yield was 0.87%.
  - The NTMA issued its first ever 30-year bond in February, bringing in another €4bn. The yield was 2.088%.
  - An auction of €1bn of the 2045 bond took place in March, when the yield dropped to 1.31%. The NTMA also sold 7-year bonds in May and 15-year bonds in both June and September.
- **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 mgers. (15%), pension/ insurance (12%) and banks (11%).

Ireland's happy bond market story has lots of milestones



Source: Bloomberg (weekly data)

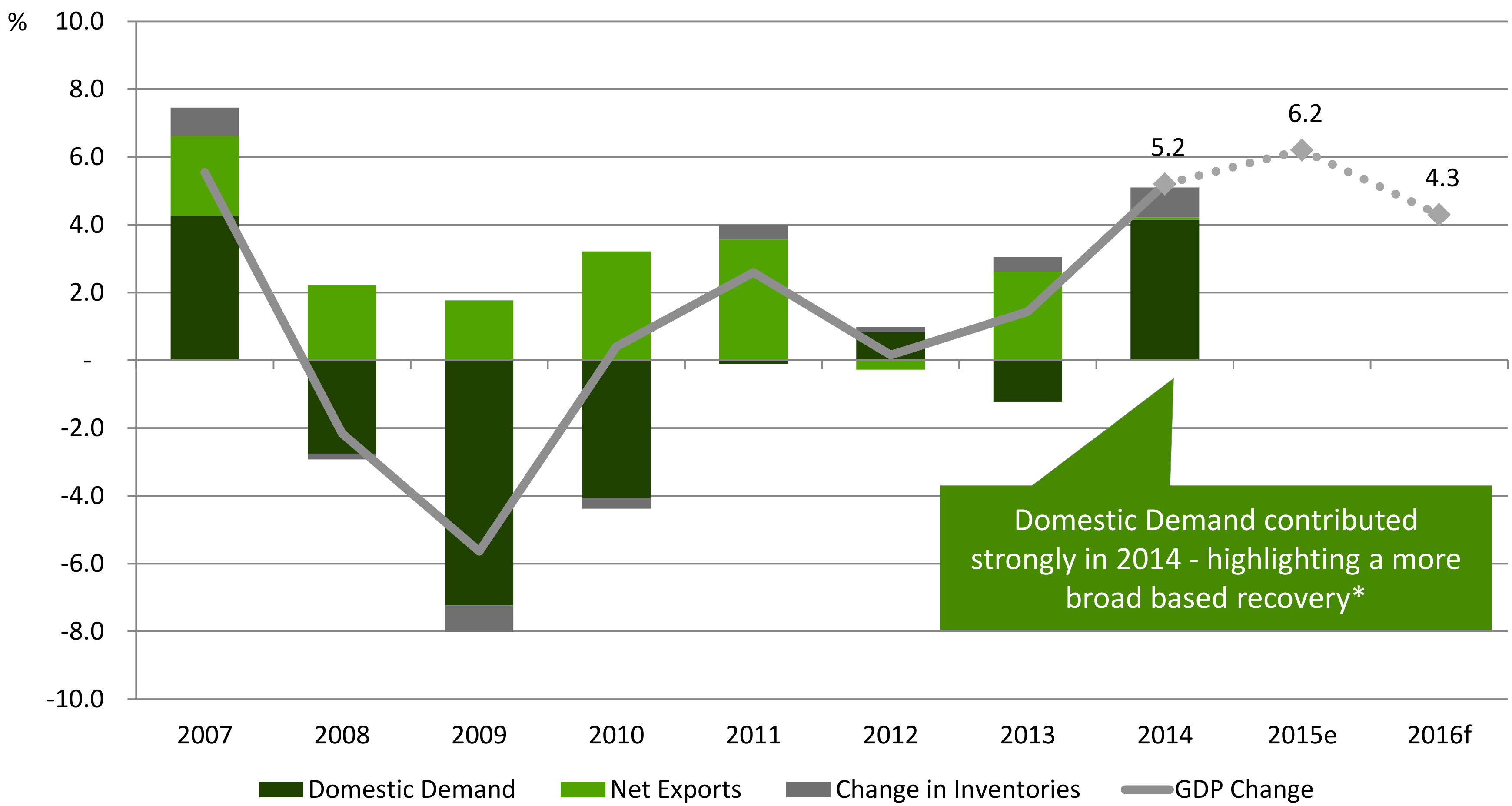
Trend is upwards in Ireland’s sovereign credit ratings

Rating Agency	Long-term	Short-term	Outlook/Trend	Date of last change
Standard & Poor's	A+	A-1	Stable	June 2015
Fitch Ratings	A-	F1	Positive	Aug. 2015
Moody's	Baa1	P-2	Positive	Sept. 2015
DBRS	A	R-1 (low)	Positive	Sept. 2015
R&I	A-	a-1	Stable	Dec. 2014

SECTION 1: MACRO

Recovery has continued in 2015; Unemployment has dropped sharply from a peak of 15.1% of the labour force to 9.3% in October 2015

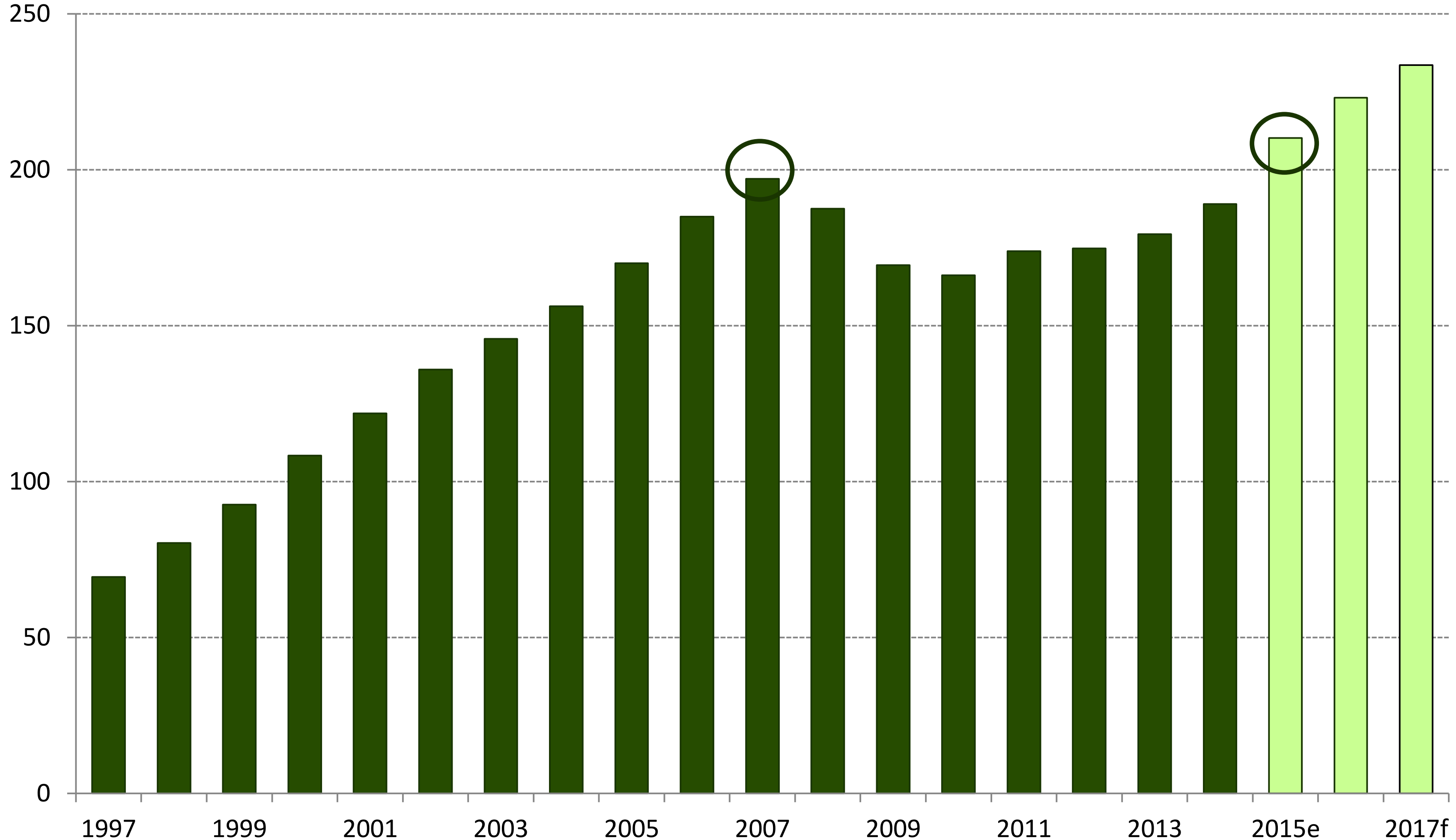
Personal consumption and investment drove 5.2% GDP growth in real terms in 2014



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

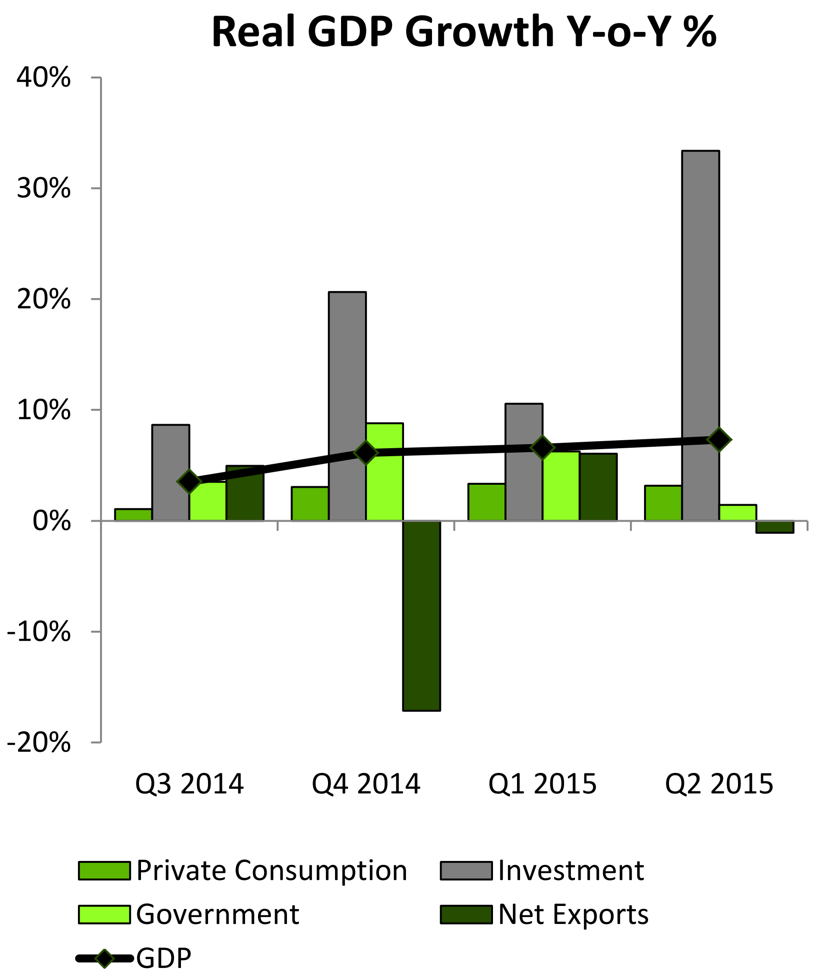
* The new accounting methodology surrounding aircraft trade exaggerates the contribution from domestic demand. Excluding aircraft trade, the contribution is closer to two-thirds of GDP growth. Please see slide 28 for more details.

Nominal GDP (€bn) forecasted to exceed pre-crisis peak in 2015 – real GDP is already above peak



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

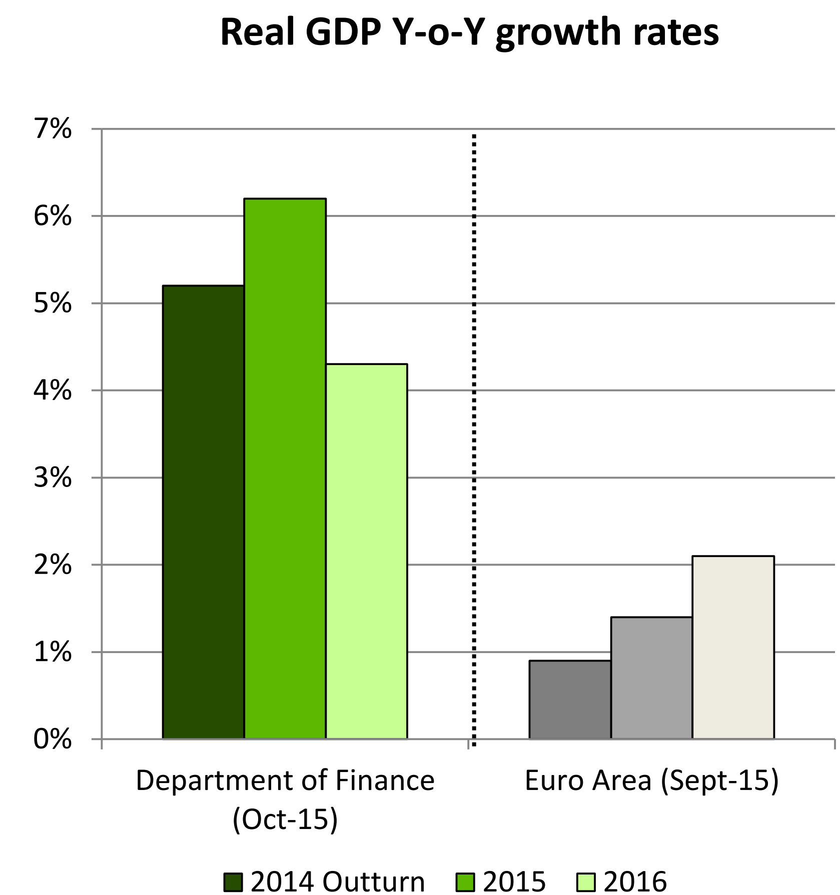
Growth remained strong in H1 2015, after similar growth in H2 2014



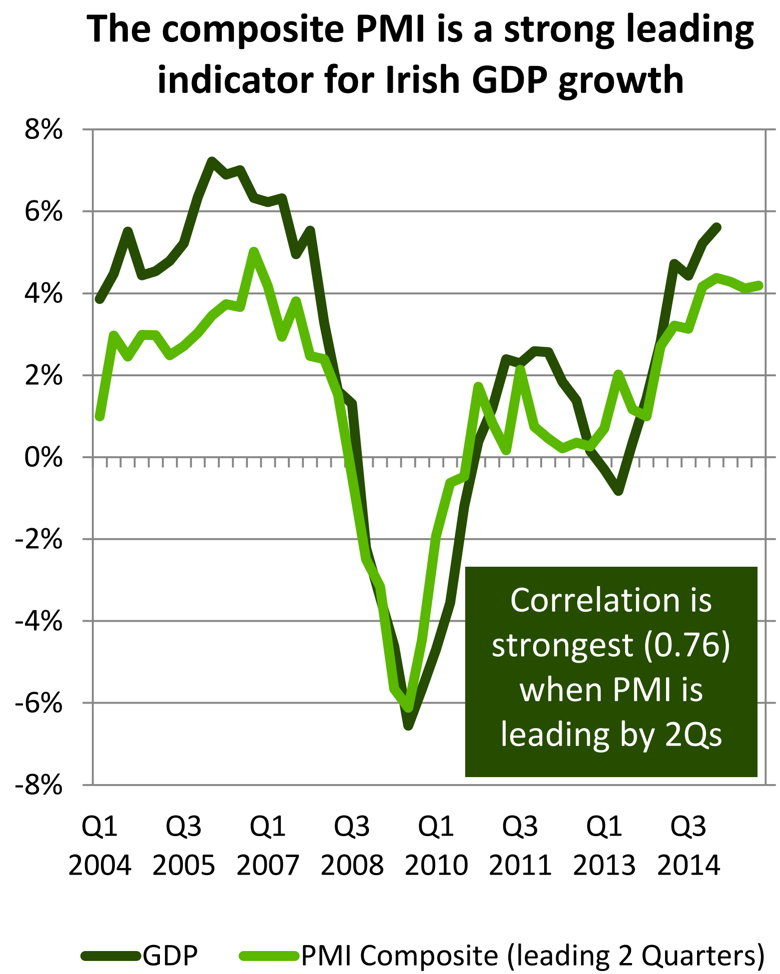
Source: CSO; NTMA workings

- 5.2% real GDP growth for 2014 –above the Government's previous growth forecast of 4.7%.
- Q-Q real growth outturn for Q2 2015 was 1.9%, while CSO revised Q1 2015 growth upwards to 2.1% also.
- Investment was nominally the driver in Q2 – although growth is overstated by one-off movement of Intellectual Property (IP) into Ireland.
- Personal consumption is now a key driver of growth (up 2.7% to Q2 2015).
- Exports grew strongly in Q2 2015 while imports grew also (due in part to IP/ intangible asset issue).

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



Source: Department of Finance; Euro area forecasts based on OECD projections



Source: CSO; Markit

External factors such as energy prices and weaker euro likely helping to boost GDP growth in 2015

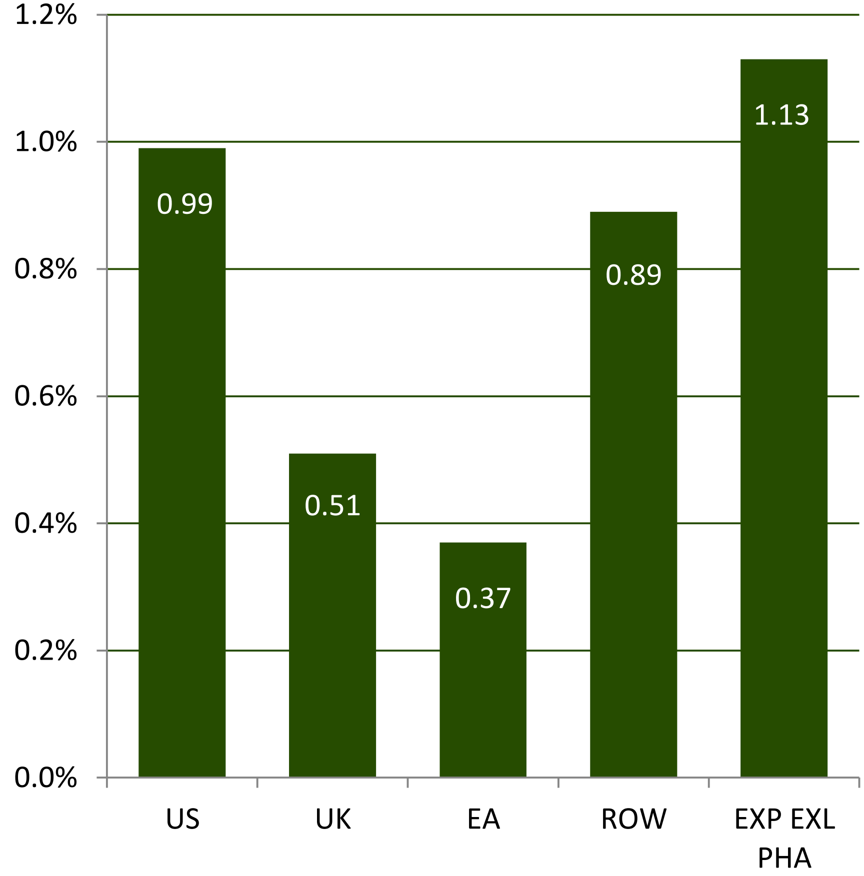
Source: Bloomberg

Source: CBI, NTMA workings

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

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

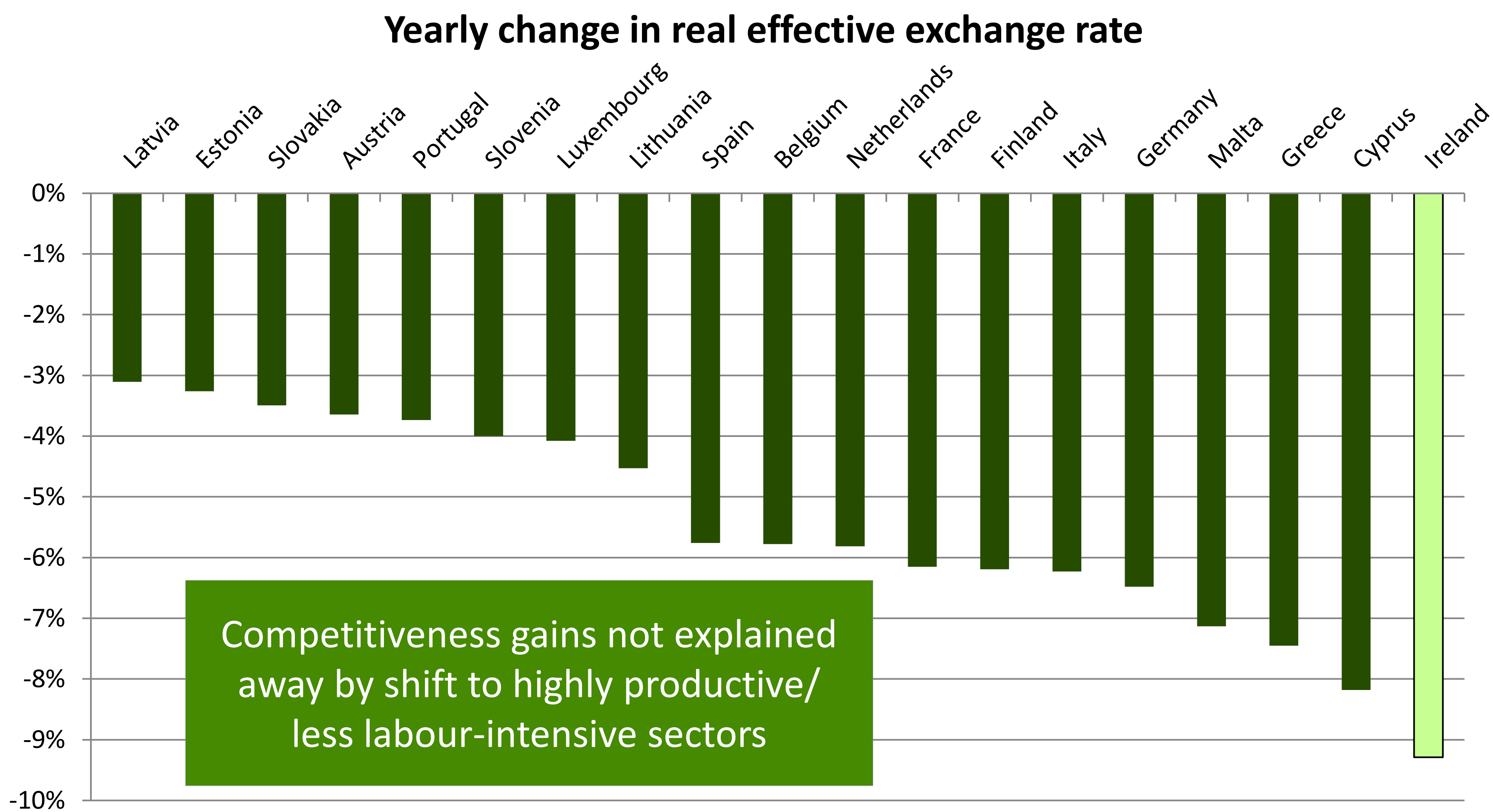
Response of Irish goods exports to 1% depreciation of the euro



Source: CSO; NTMA empirical analysis

Note: All coefficients significant at 99% level

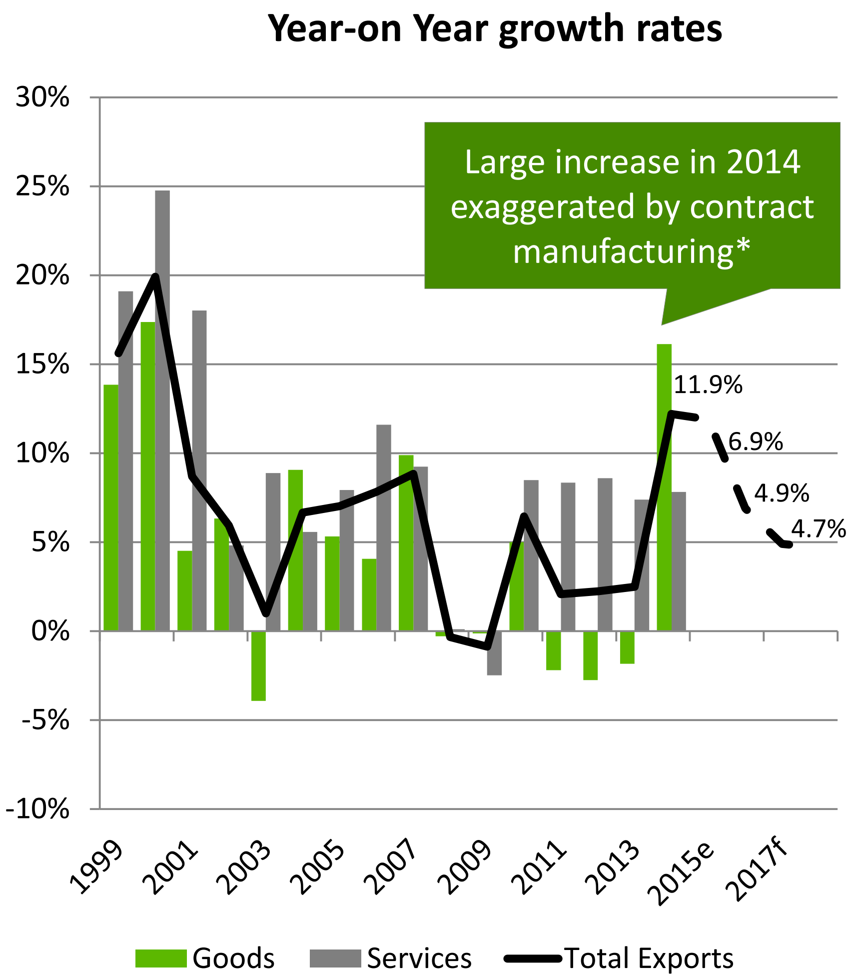
Ireland has benefited the most in the euro area from the recent euro depreciation

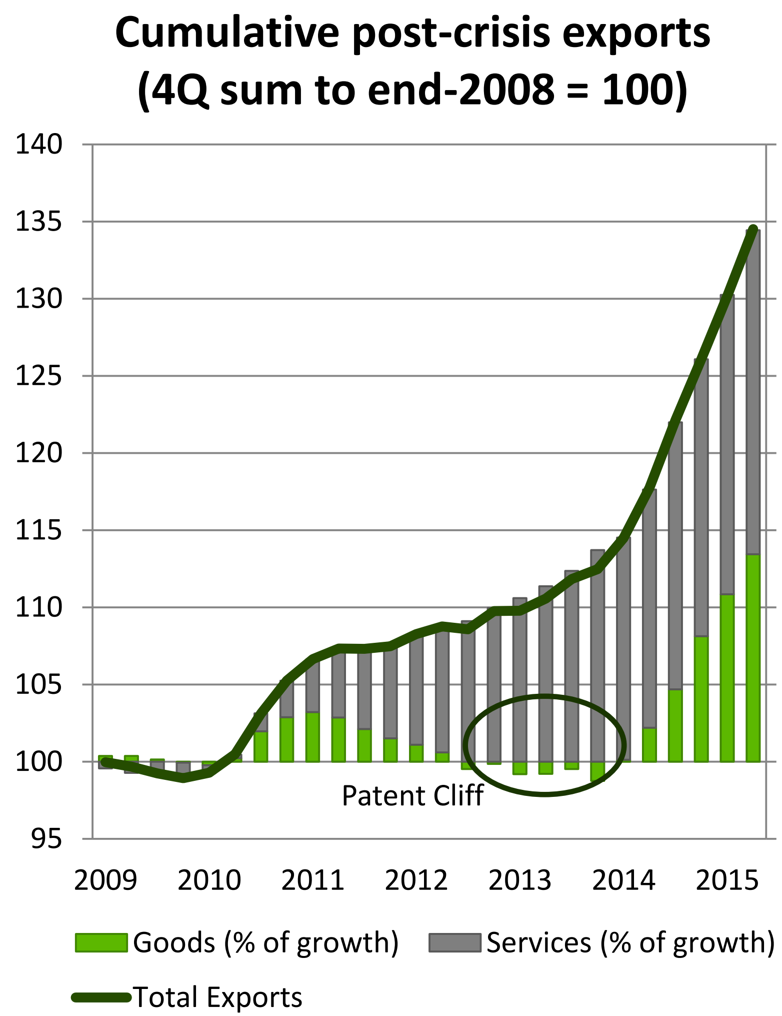


Source: Bruegel - 'Real effective exchange rates for 178 countries: a new database'; NTMA Workings

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

Services exports have driven export performance post-crisis

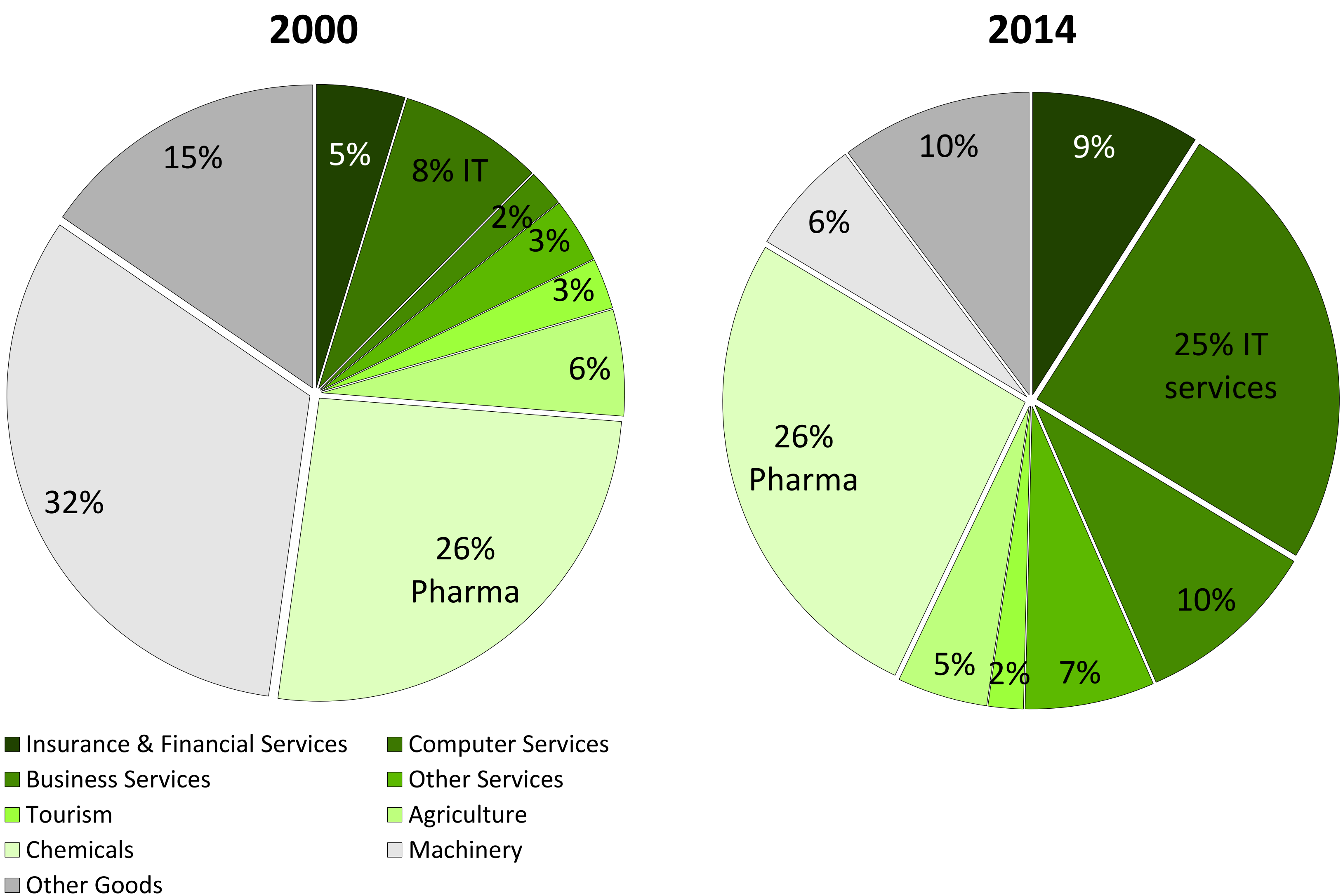




Source: [CSO](), forecasts from the [Department of Finance (Budget 2016)](), NTMA calculations

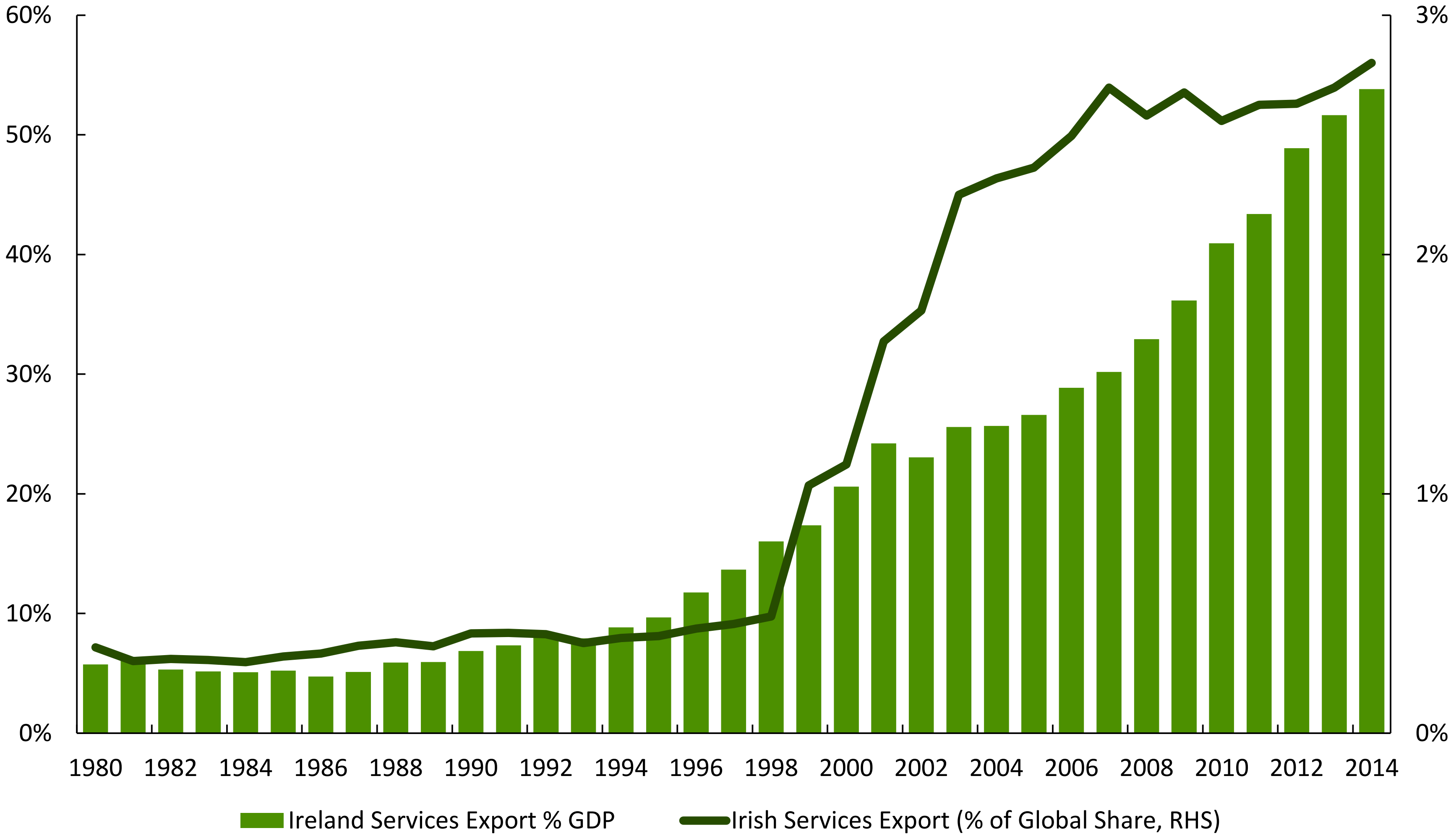
* For discussion on contract manufacturing and its limited effects on Ireland's National Accounts, please see [here]().

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



Source: [CSO](), DataStream

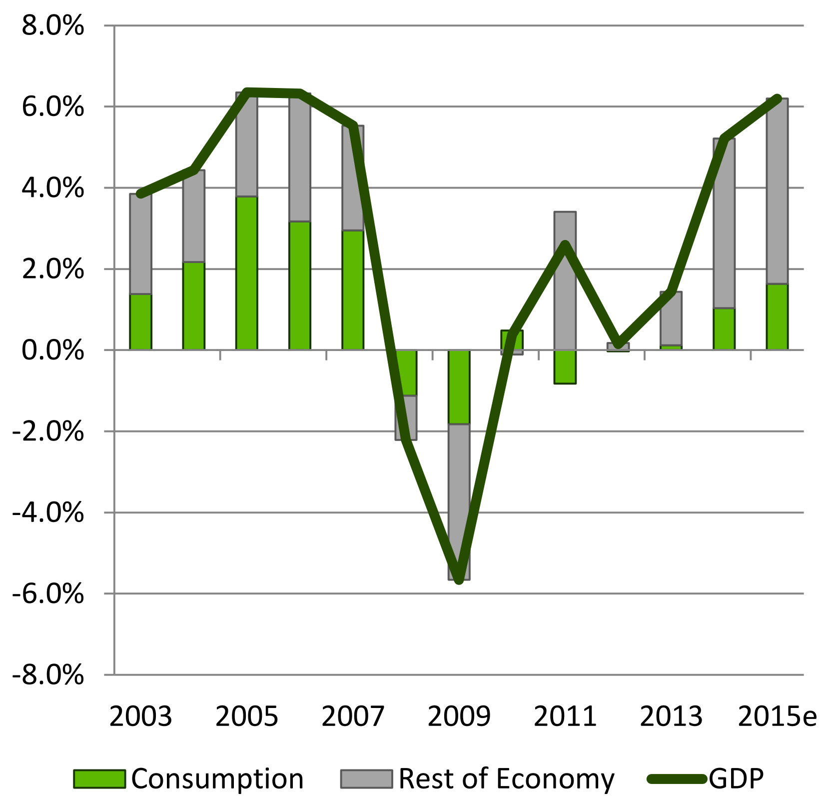
Ireland has tripled its share of service exports in the last 15 years



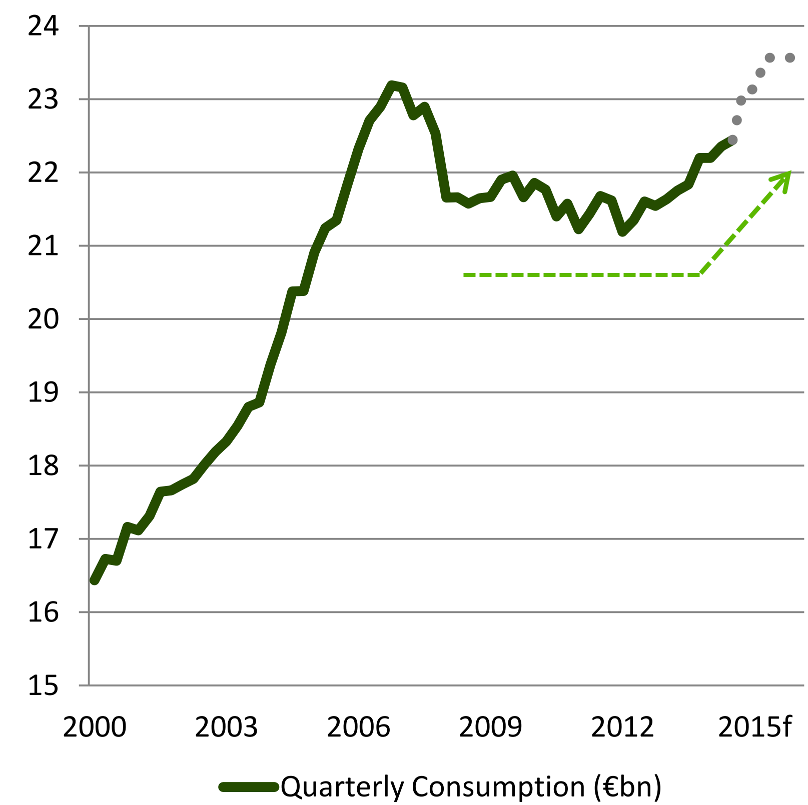
Source: CSO, World Trade Organization

Consumption is slowly recovering

Consumption contributed positively to GDP growth in 2014 - first time since 2010



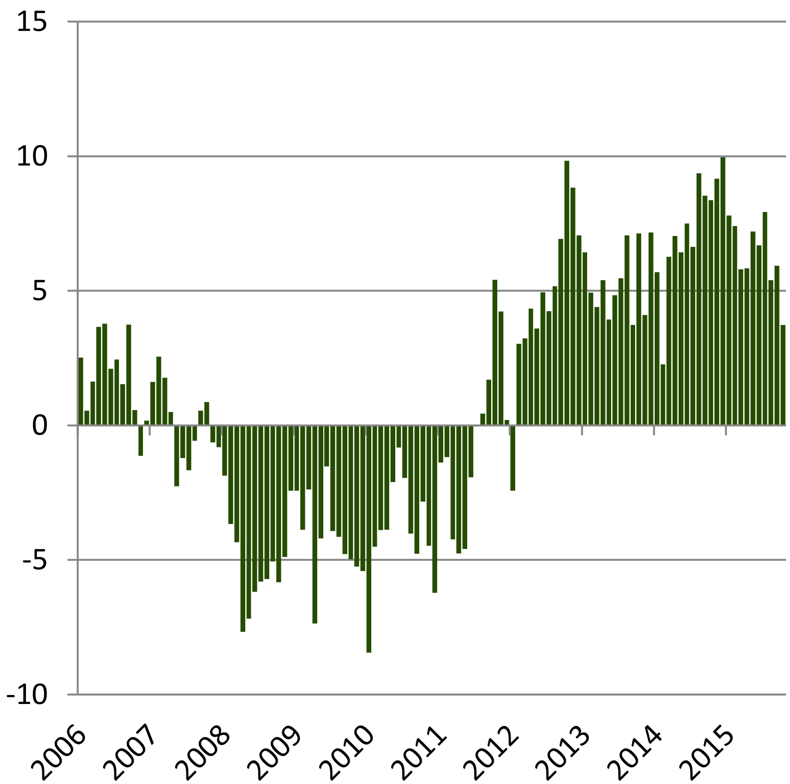
Six consecutive quarters of positive q-o-q growth for the volume of consumption



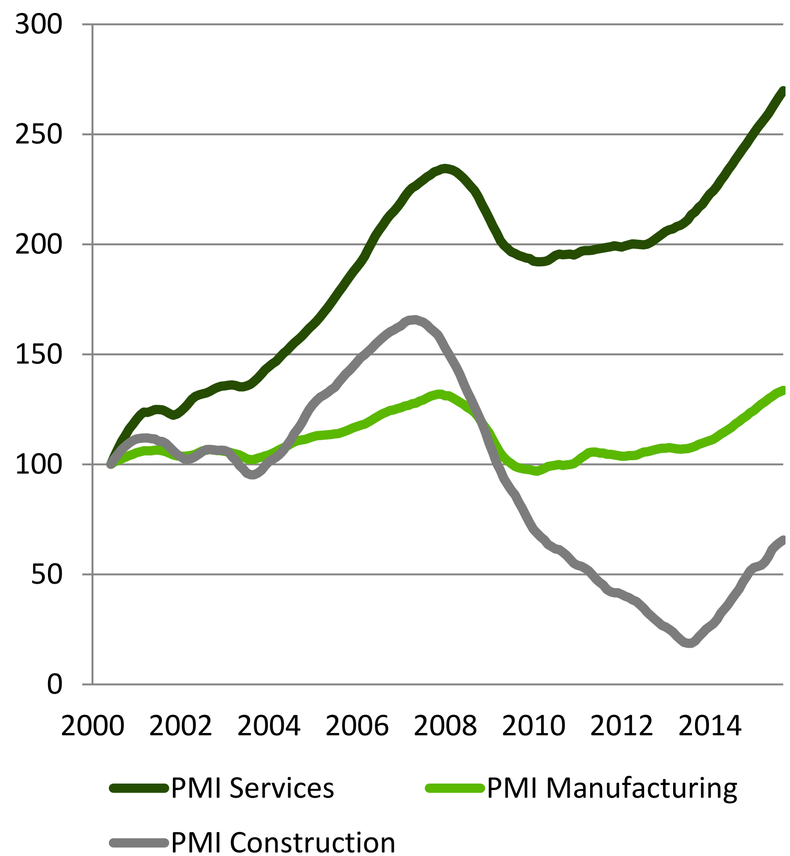
Source: CSO, NTMA calculations, Department of Finance forecasts

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

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



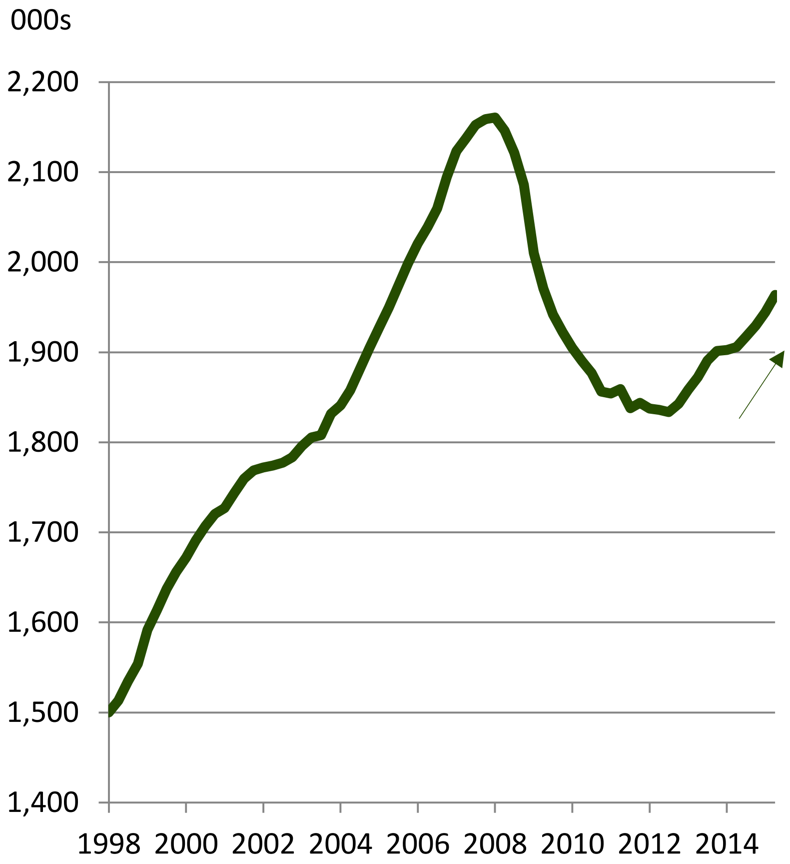
All sectors growing (PMI chg. as cumulative index level, June 2000=100)



Source: Markit; Bloomberg; Investec ; NTMA workings

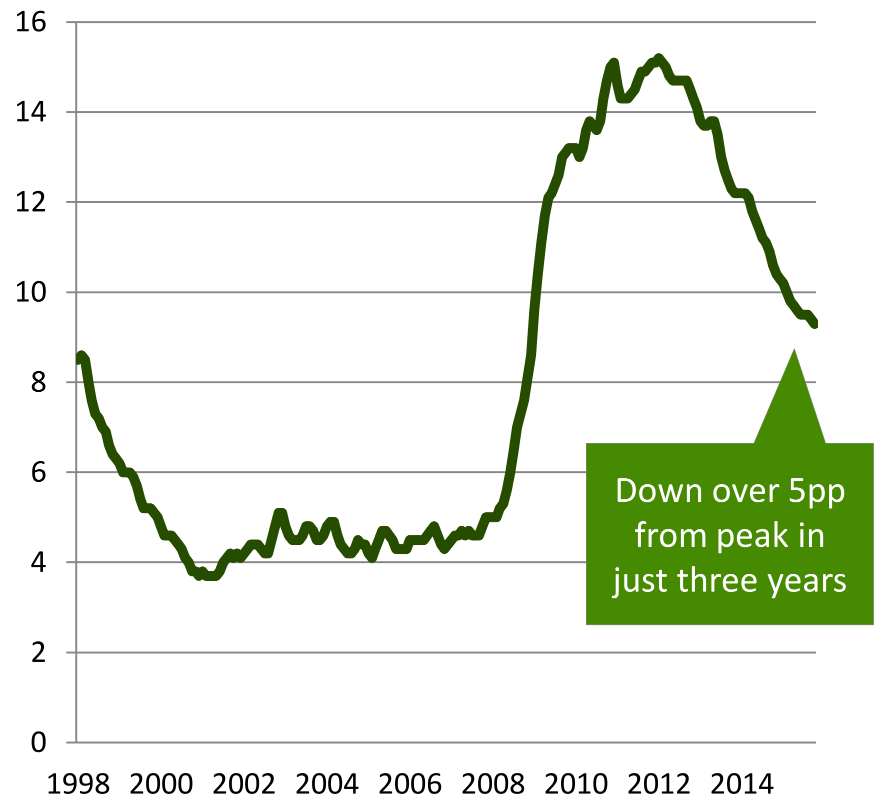
Labour market has rebounded since 2012

Employment up 6% from cyclical low



Source: [CSO]

Unemployment rate down to 9.3% in October 2015

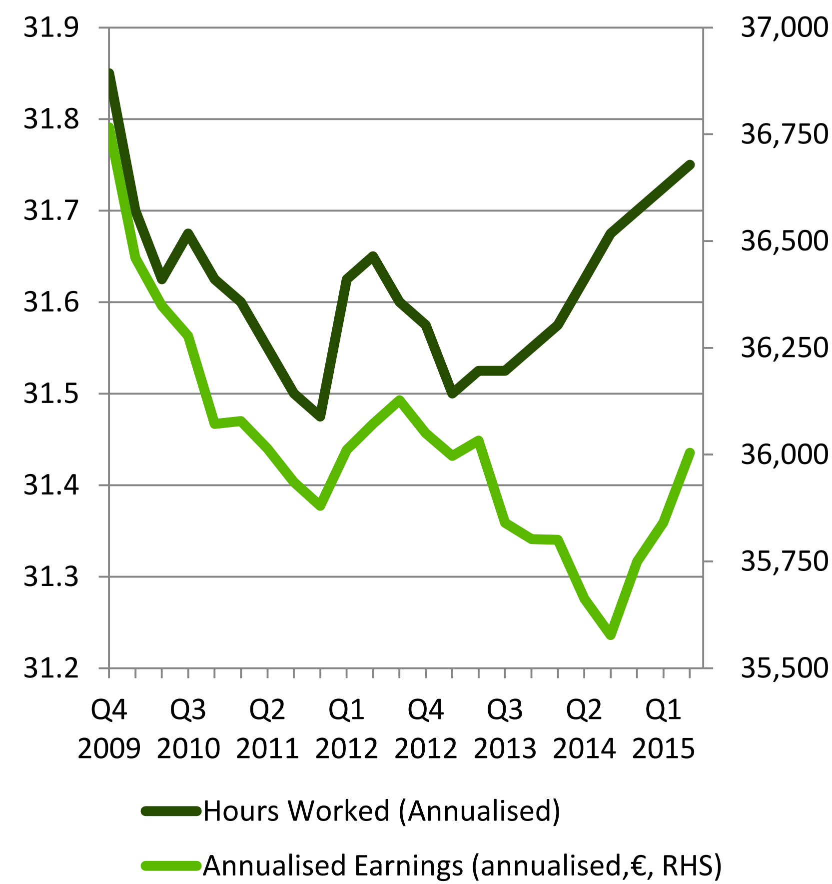


Labour participation has not yet recovered – similar to US; Wages only now rising, pointing to plenty of slack

Participation rate hovering around 60%

Source: [CSO]

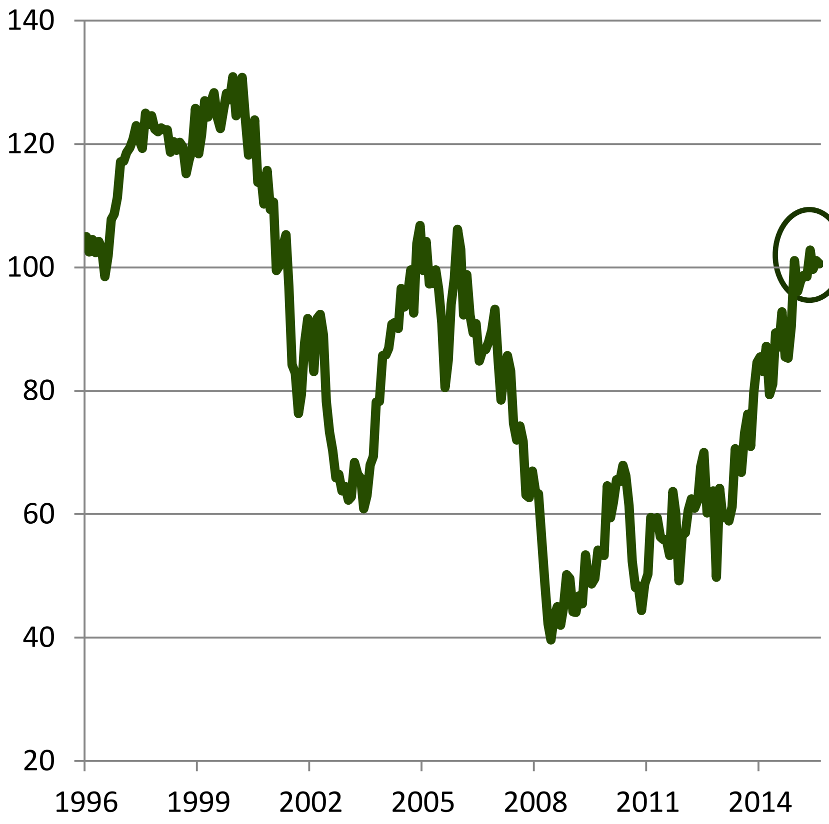
Wages and hours worked beginning to recover, although pockets of excess capacity remain



Source: [CSO]

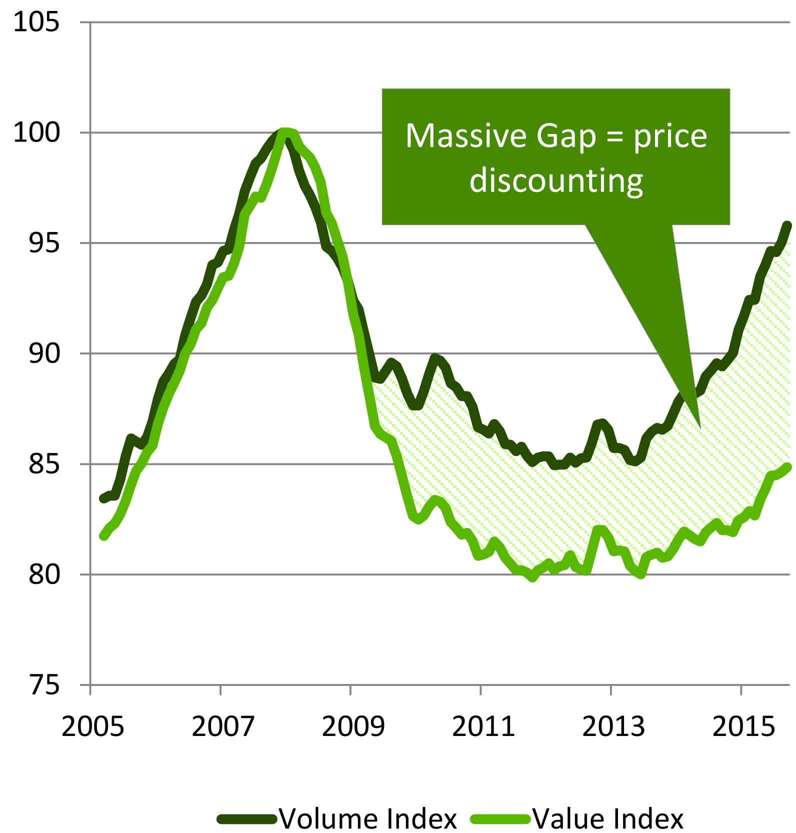
Rising employment and house price rises lift retail sales; confidence back at mid-2000s level

Consumer confidence recovers



Source: KBC, ESRI, CSO

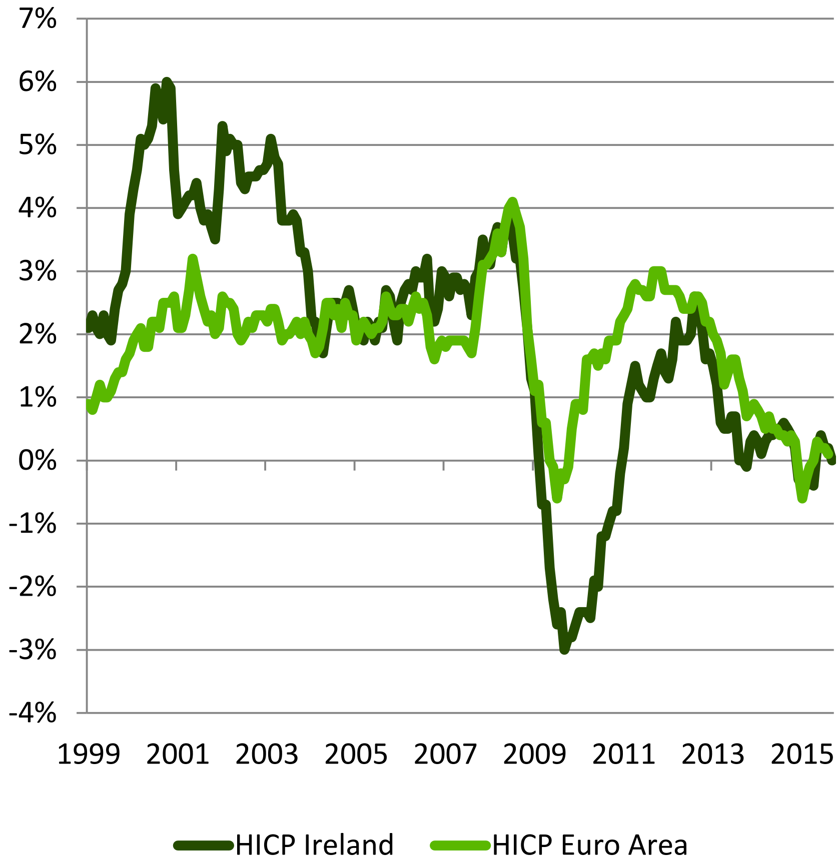
“Core”* retail sales jump (peak=100)



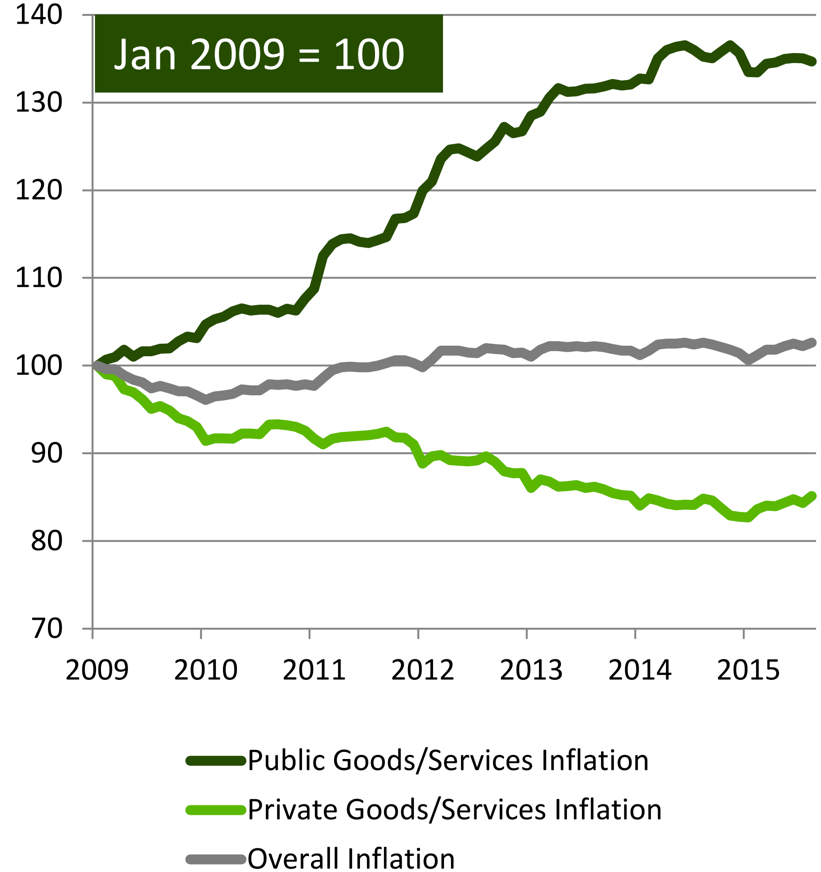
*Excluding motor trade

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

Inflation similar to euro area…

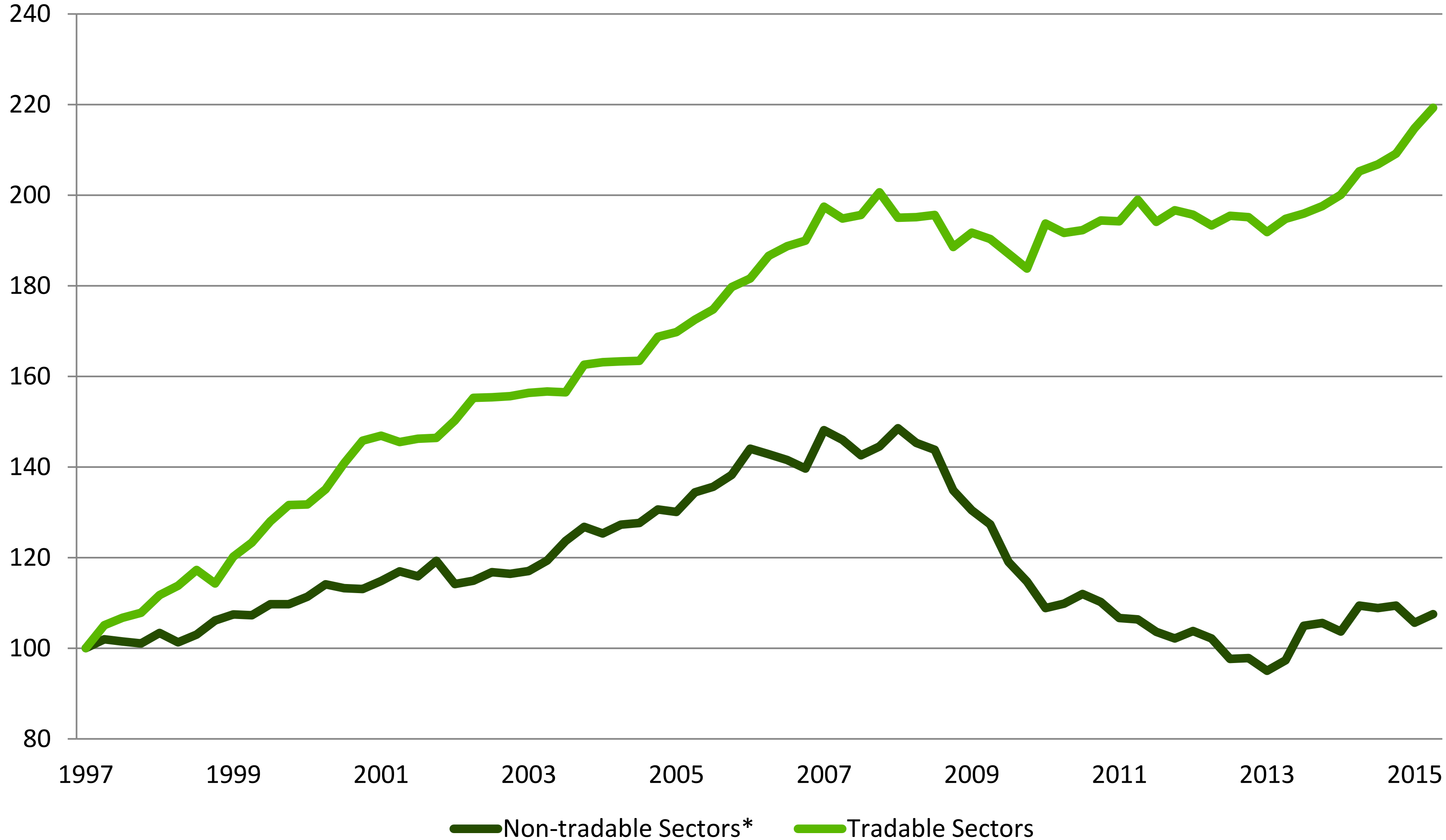


…and driven by public goods/ services



Source: [CSO]

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

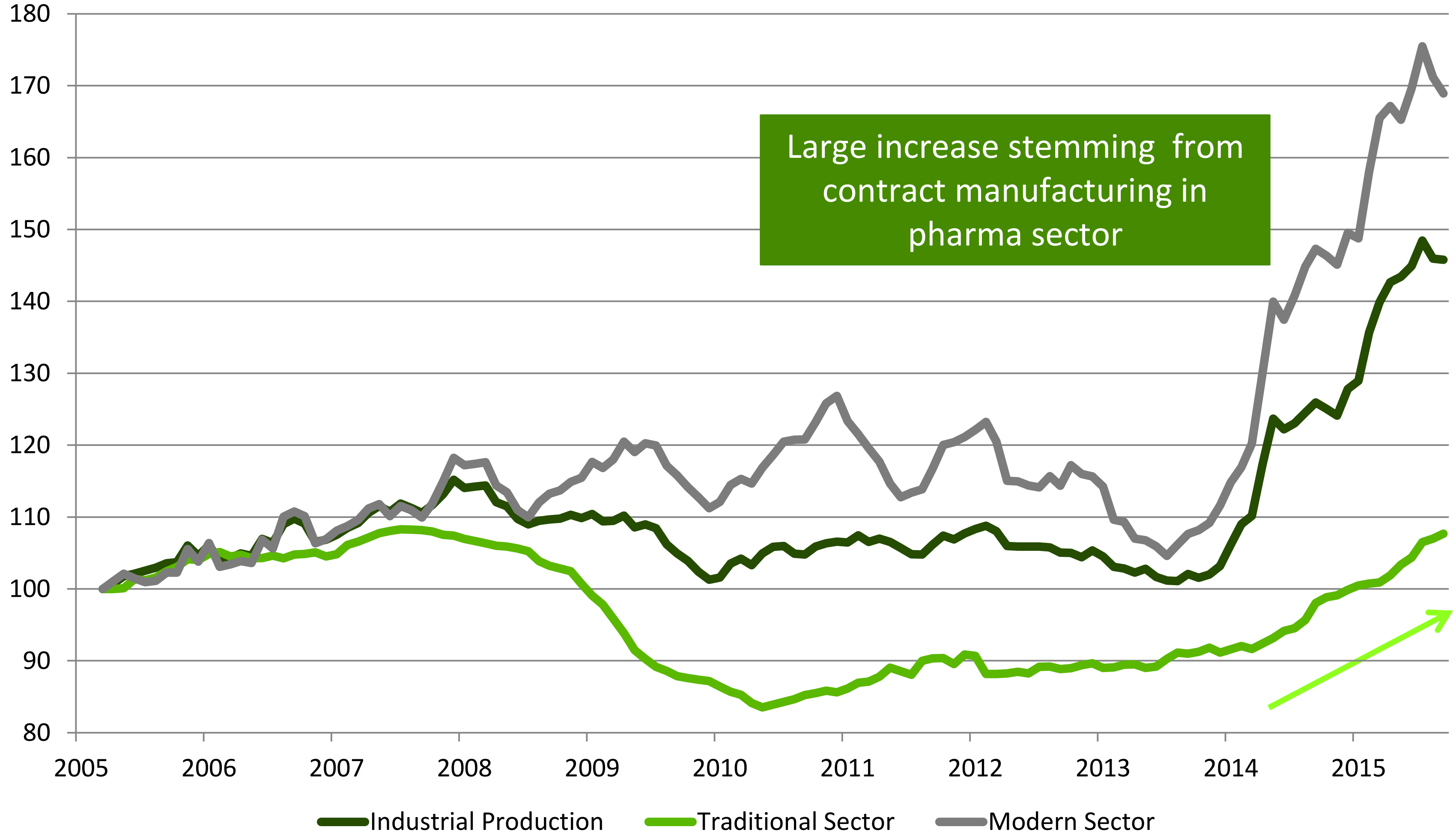


Source: [CSO]

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

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

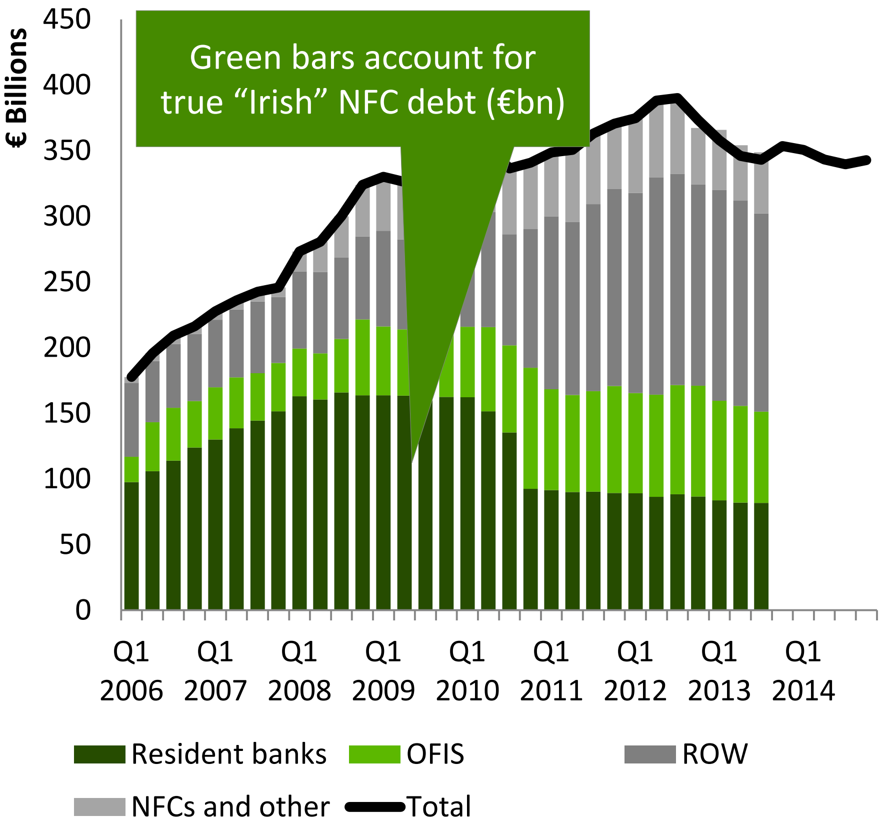
6 month moving averages (Jan 2005 = 100)



Source: [CSO]

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

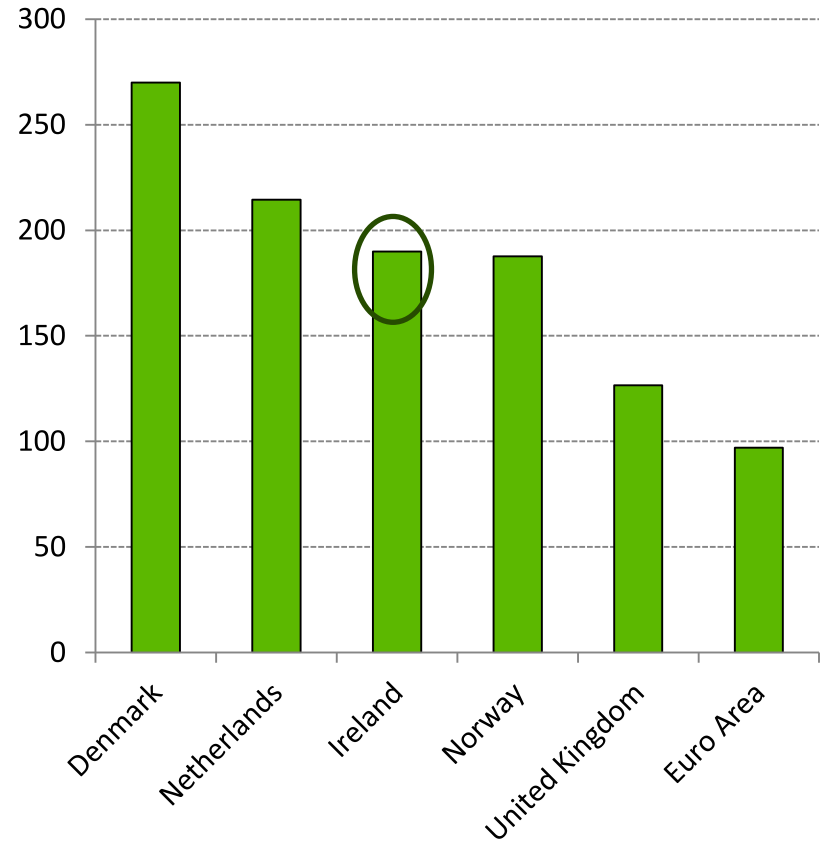
Irish Non-Financial Corporate (NFC) debt is distorted by multinationals (€bn)



Source: NTMA analysis; Breakdown from Cussen, M. "Deciphering Ireland's Macroeconomic Imbalance Indicators", CBI

* OFI = Other Fin. Intermediaries

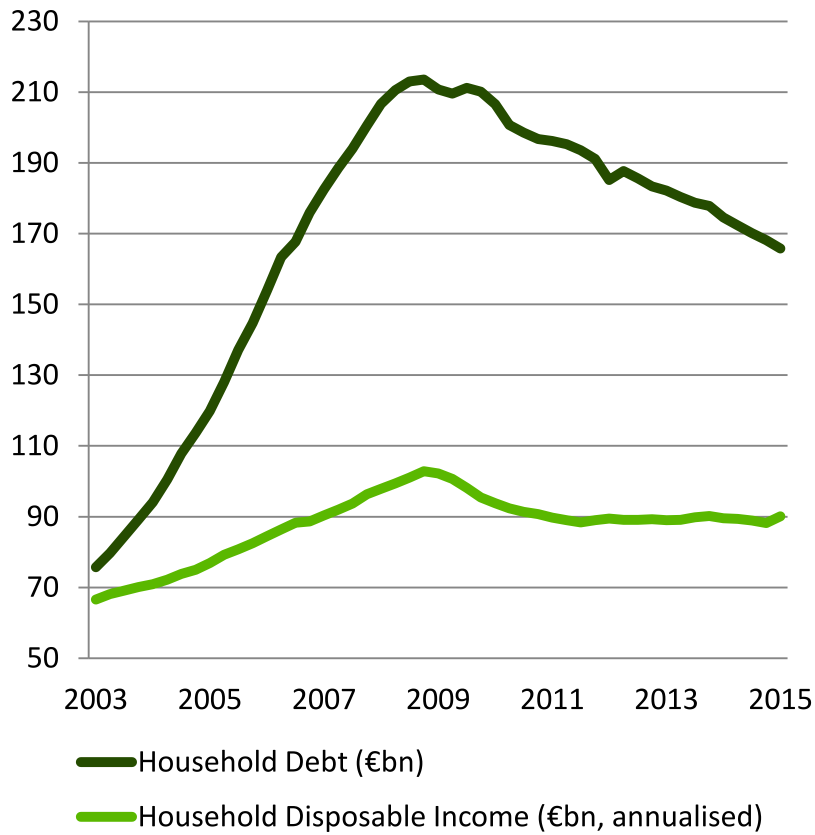
Household debt ratio (% DI) declining (see next slide) but still among highest in Europe



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

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

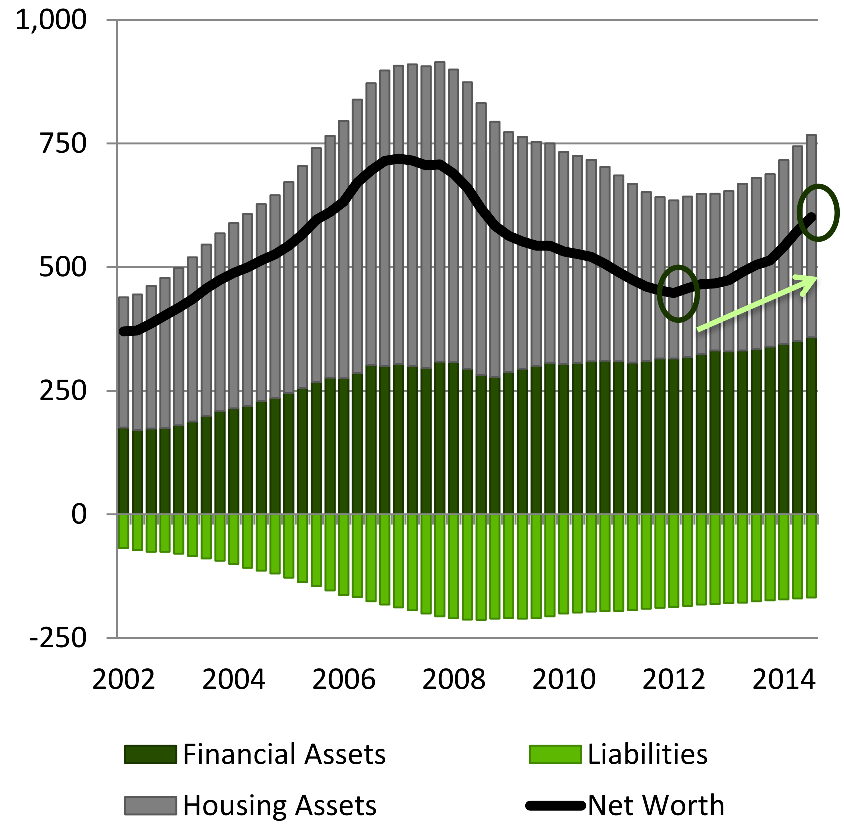
Debt-to-income ratio in Q1 2015 at 184%*, the lowest since Q1 2006



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

* Measure includes both loans and other liabilities. Excluding other liabilities, debt-to-income ratio is 172%

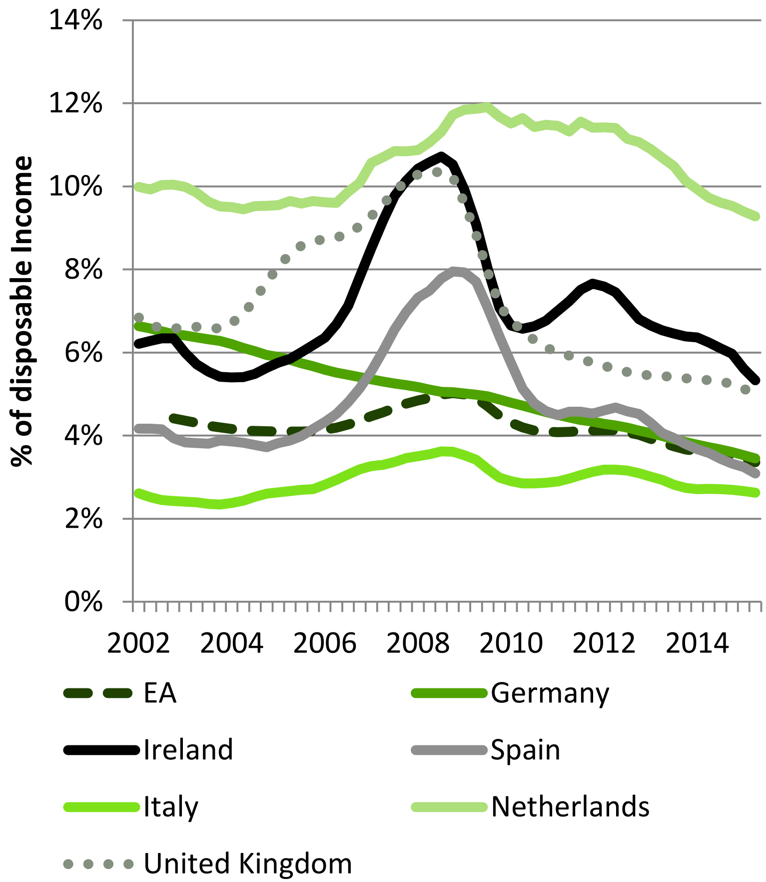
Household net worth (€bn) improved in 2014 and will underpin consumer spending



Source: [CBI](), NTMA calculations

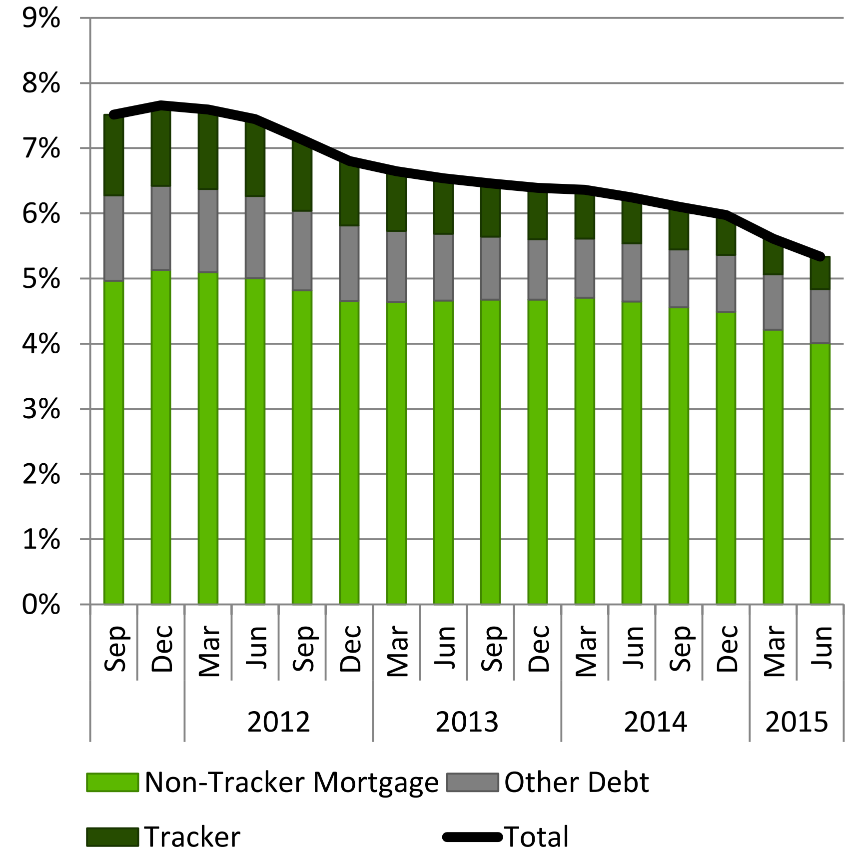
Interest burden high but suppressed by trackers; savings rate around euro area average

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



Source: Eurostat

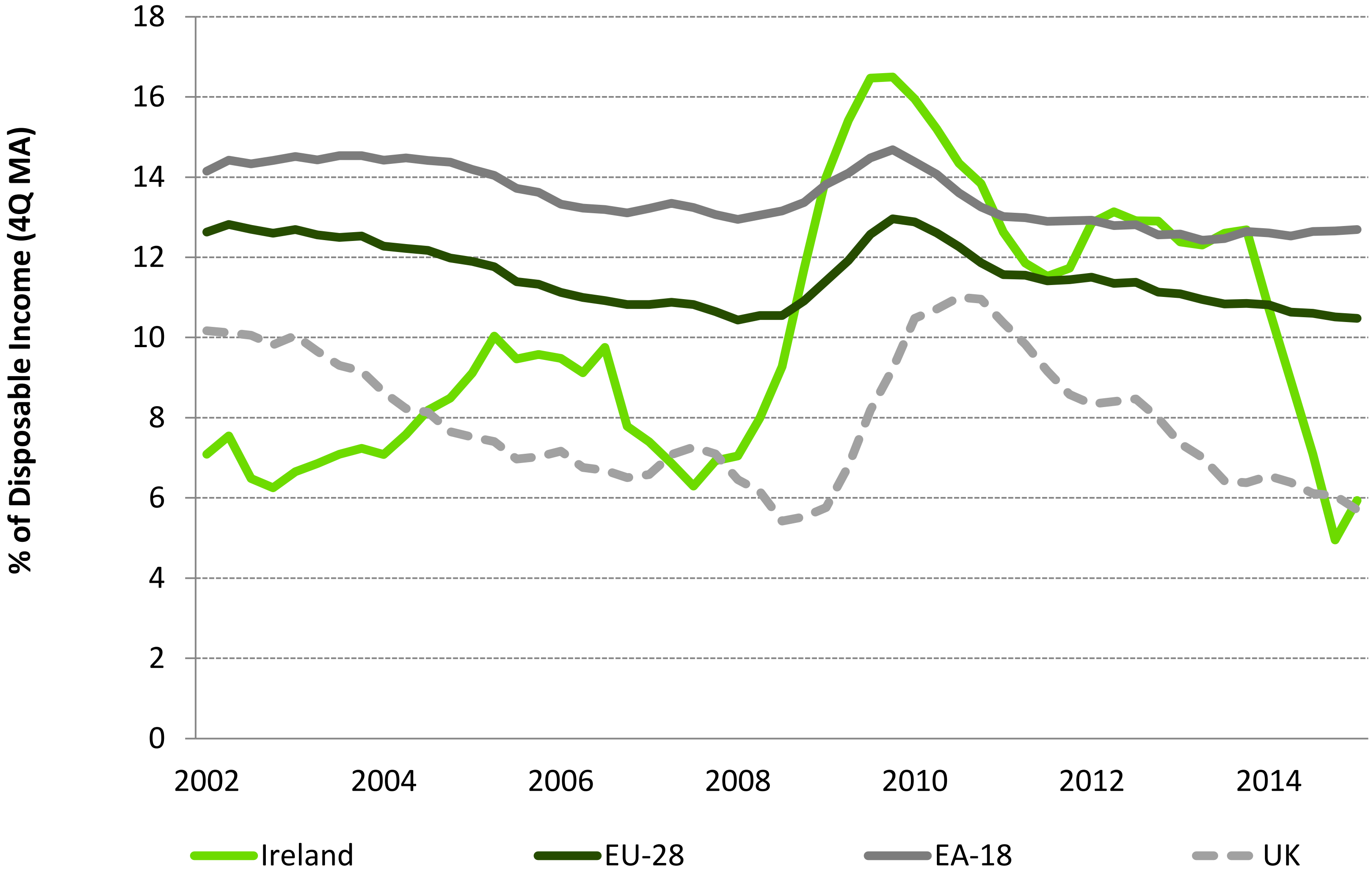
…and falls heavily on households with non-tracker mortgages



Source: CBI, NTMA Analysis

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

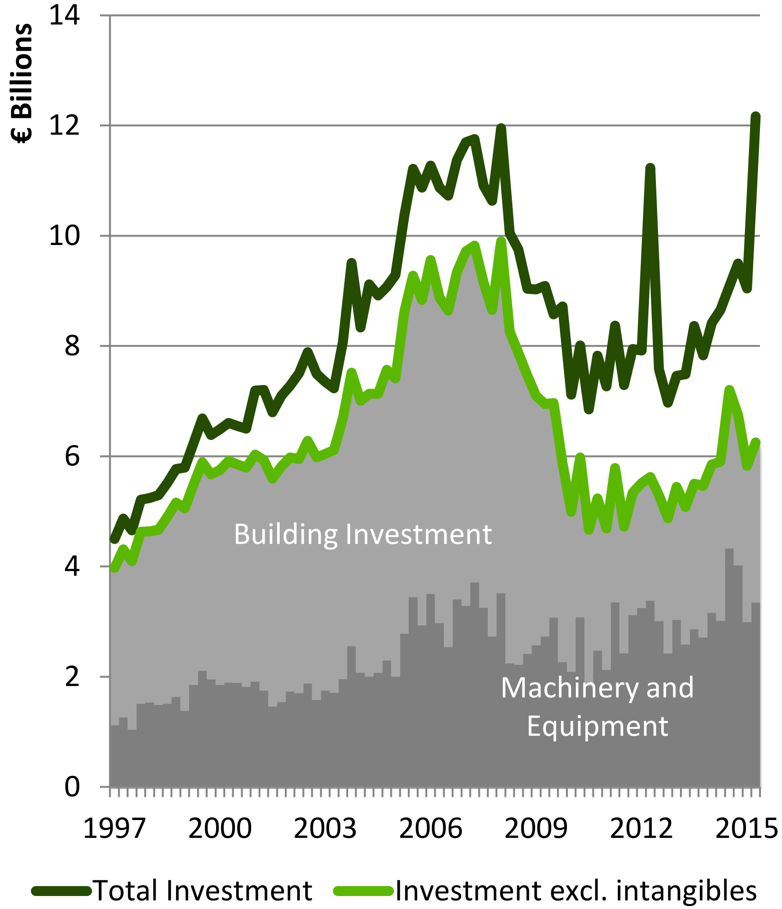
Gross household saving rate revised downwards significantly; helps explains consumption pick up

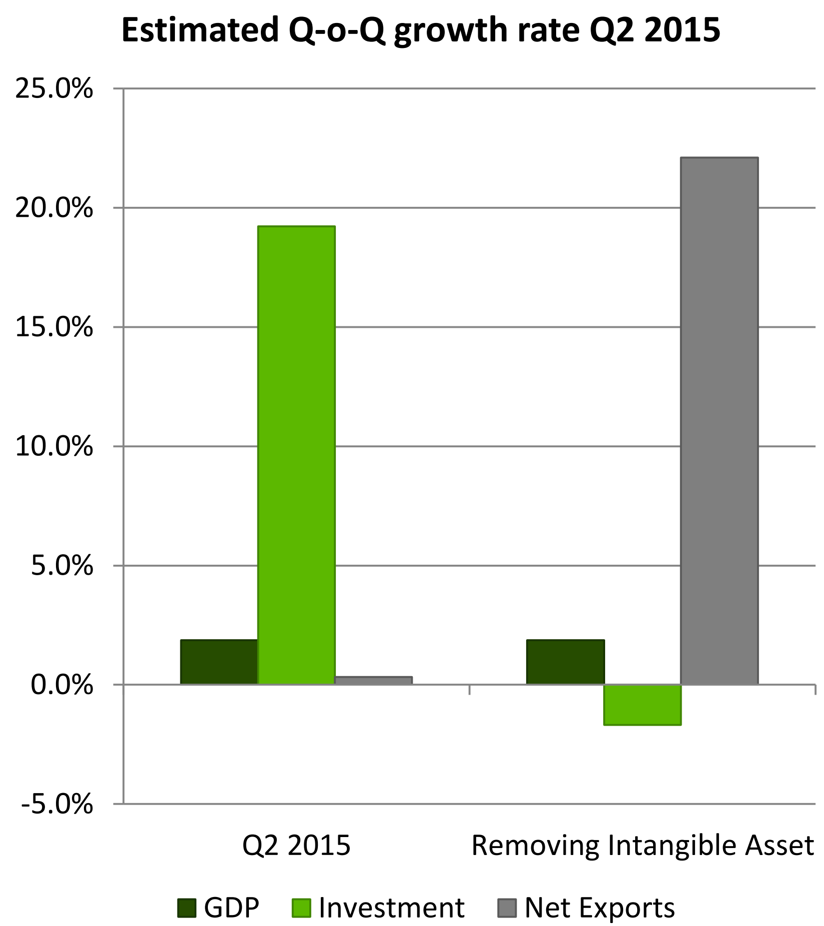


Source: [Eurostat](), CSO

Increase in Q2 investment overstated due to a one-off large transfer of IP

Intangible asset transfer hides the strength of Q2 net exports





Source: CSO, NTMA analysis

* Excl. intangibles in Q2, investment grew by 14% y-o-y

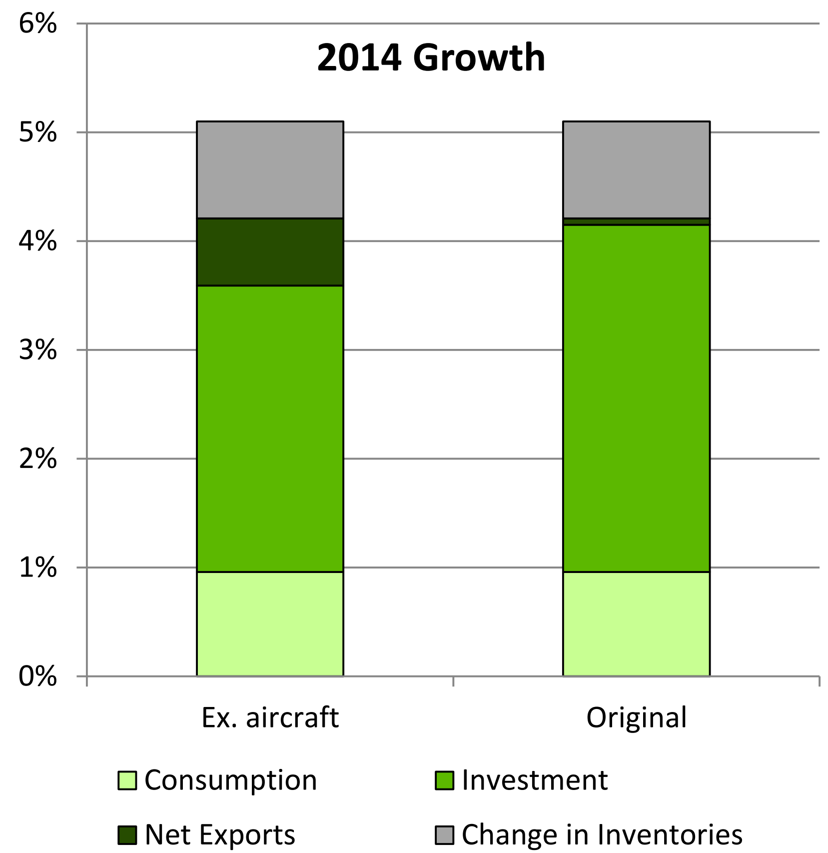
Please note that this quarterly data is volatile and not as reliable as the published annual data

New aircraft trade accounting means Irish national accounts are further complicated

Under the new methodology:

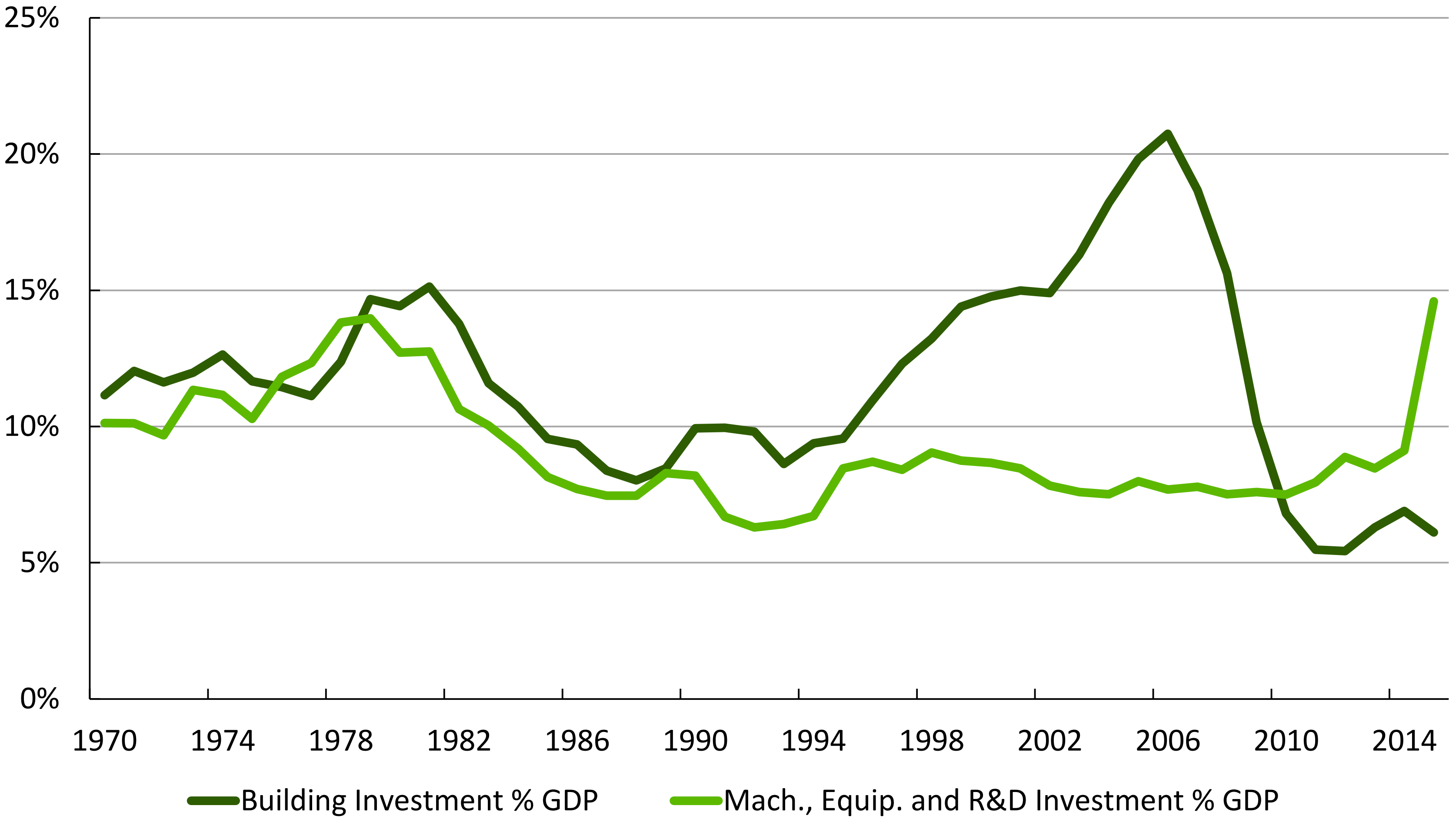
- Trade in aircraft by Irish resident aircraft leasing companies is now recorded in the national accounts.
- This leads to an increase in imports and a subsequent decrease in net exports.
- There is an offsetting increase in investment.
- **Thus, the new methodology has little or no effect generally on GDP and GNP.**
- There are larger Irish imports of goods, thus the Current Account surplus is lower in the Balance of Payments.

Investment is reduced; Net exports increased in excl. aircraft case



Source: CSO

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



Source: [CSO]

* 2015 figures estimated using first 2 quarters growth for 2015.

Economic and fiscal forecasts: Budget 2016

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

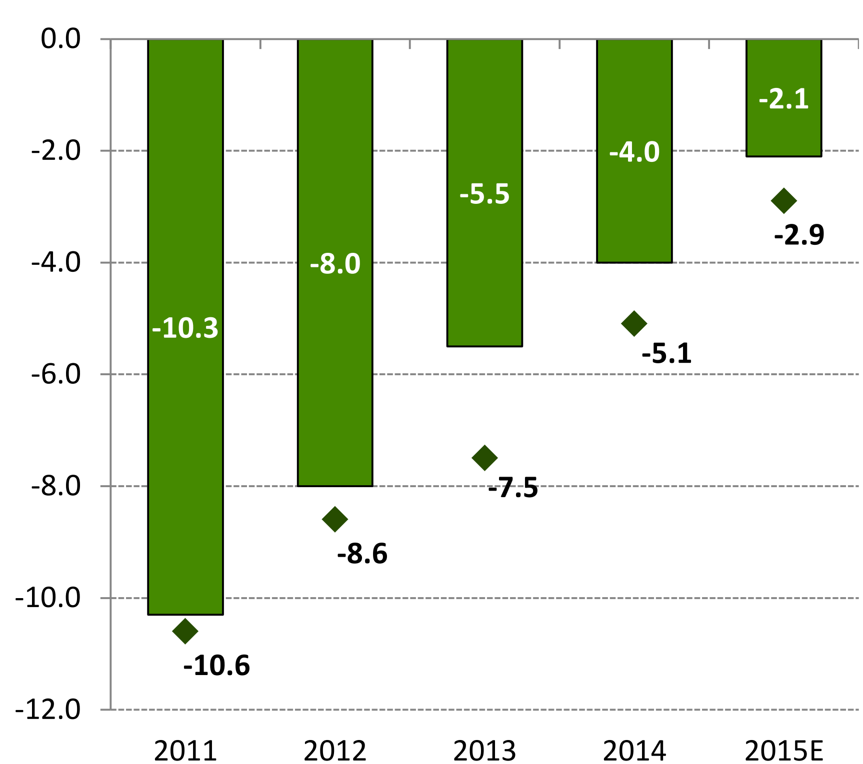
Source: CSO; Department of Finance (Budget 2016)

SECTION 2: FISCAL & NTMA FUNDING

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

Four straight years of fiscal outperformance – very likely to be five

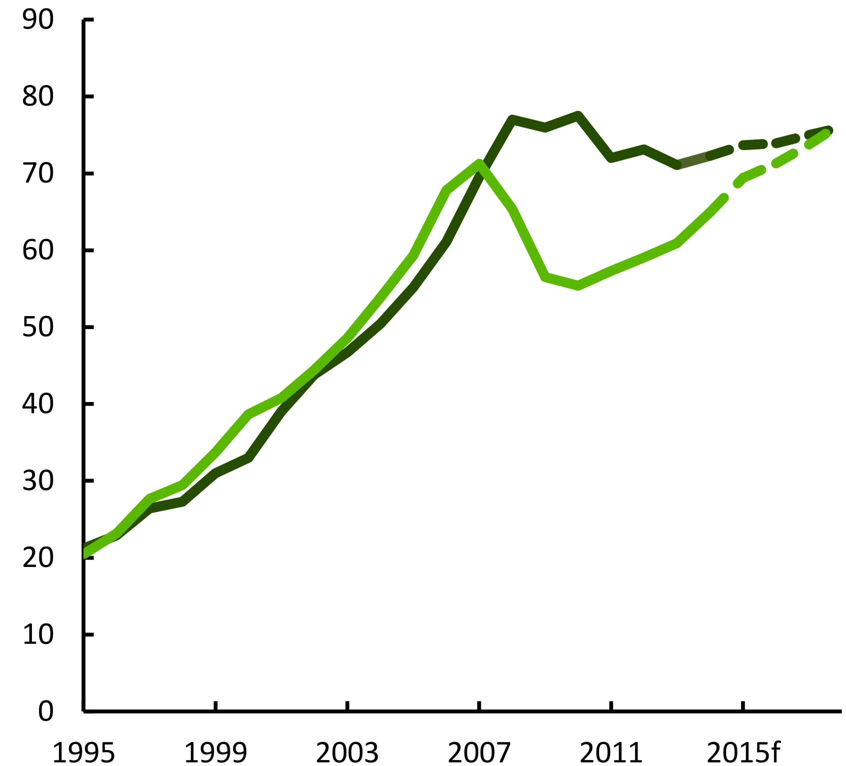
General Government Balance (% of GDP)



GGB DoF forecasts

GGB EU target under EDP December 2010

Deficit to be fully closed by 2018 (€bn)

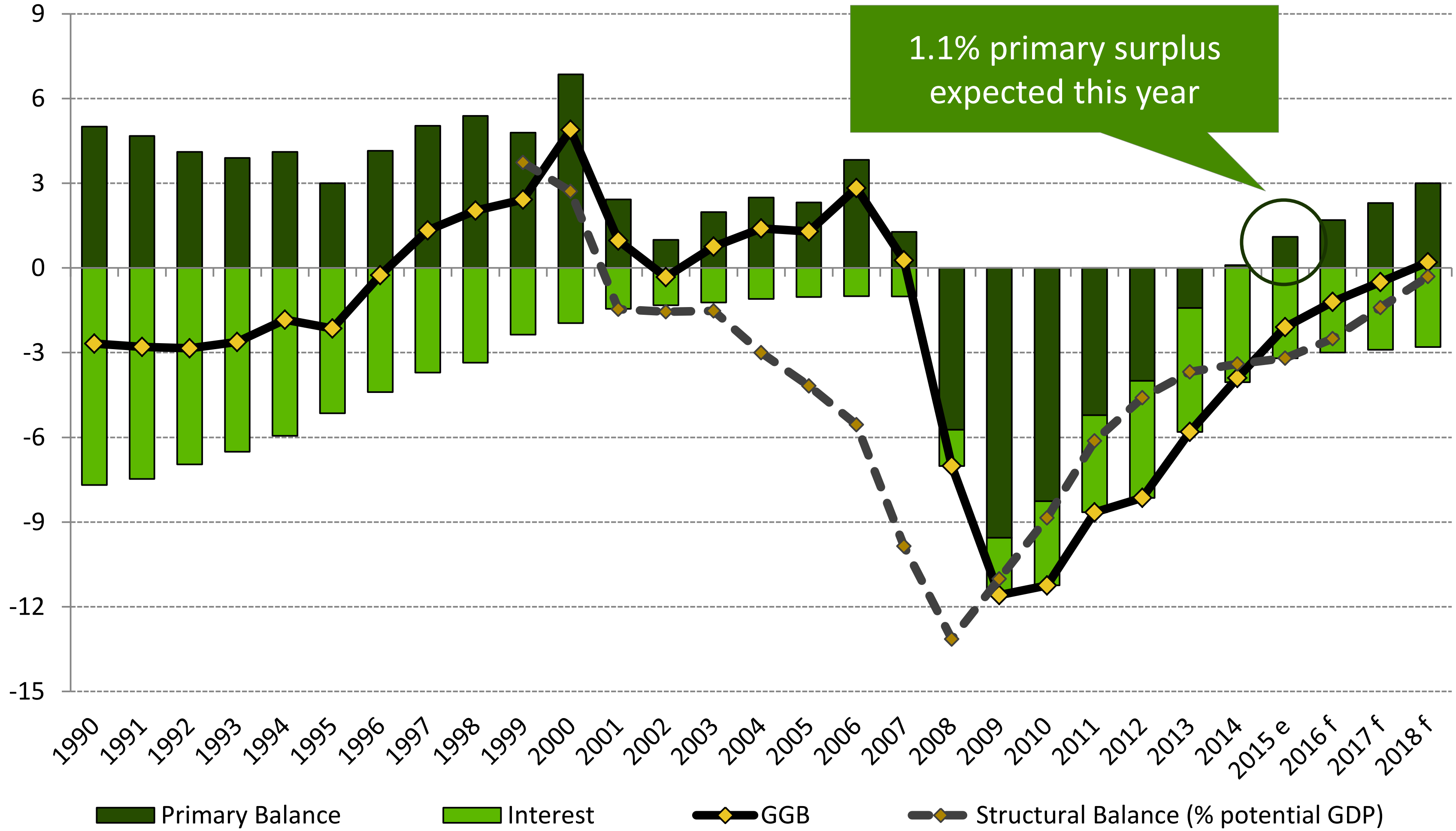


General Government Expenditure

General Government Revenue

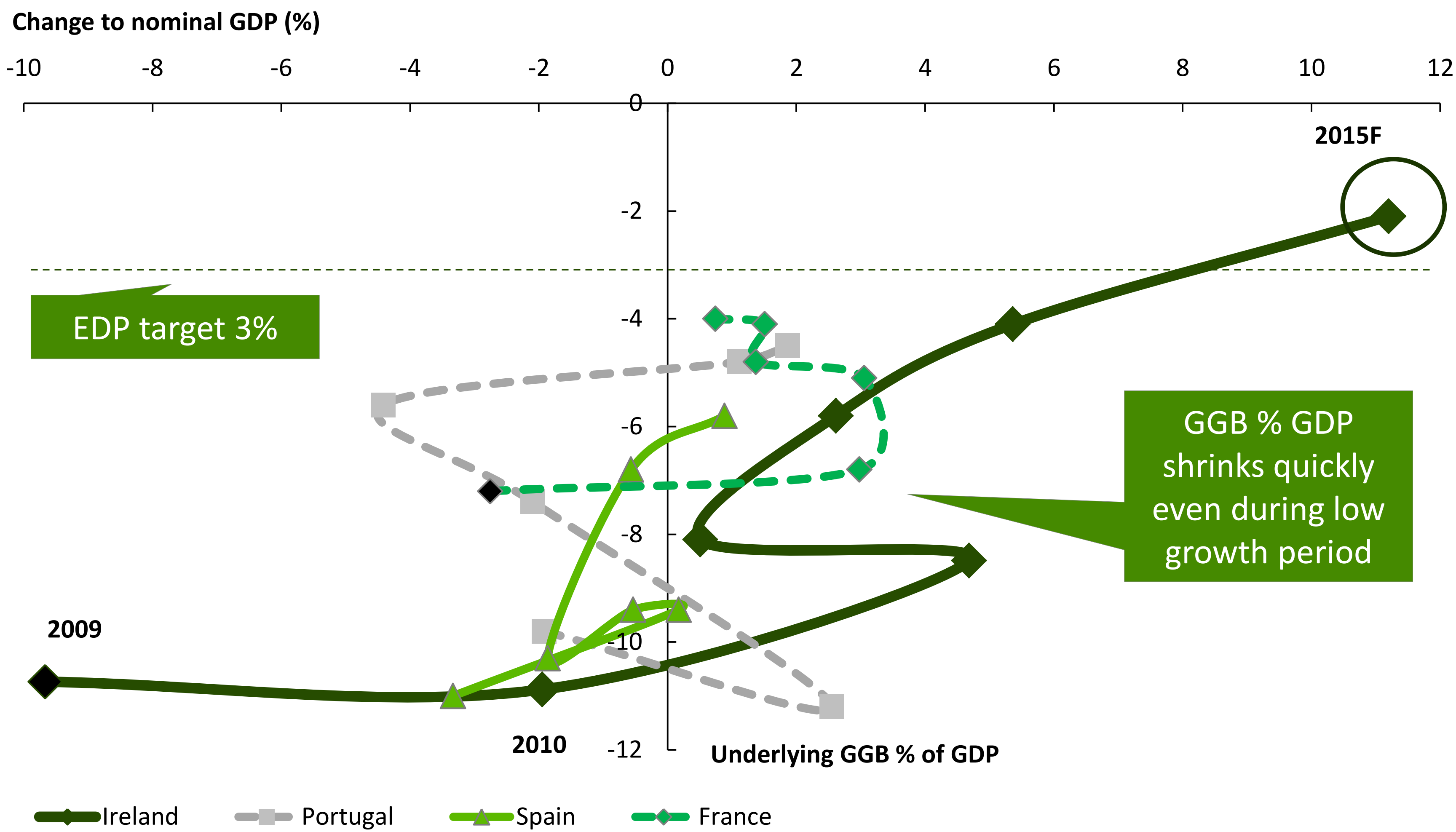
Source: Department of Finance (Budget 2016) CSO; Eurostat; NTMA workings

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



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

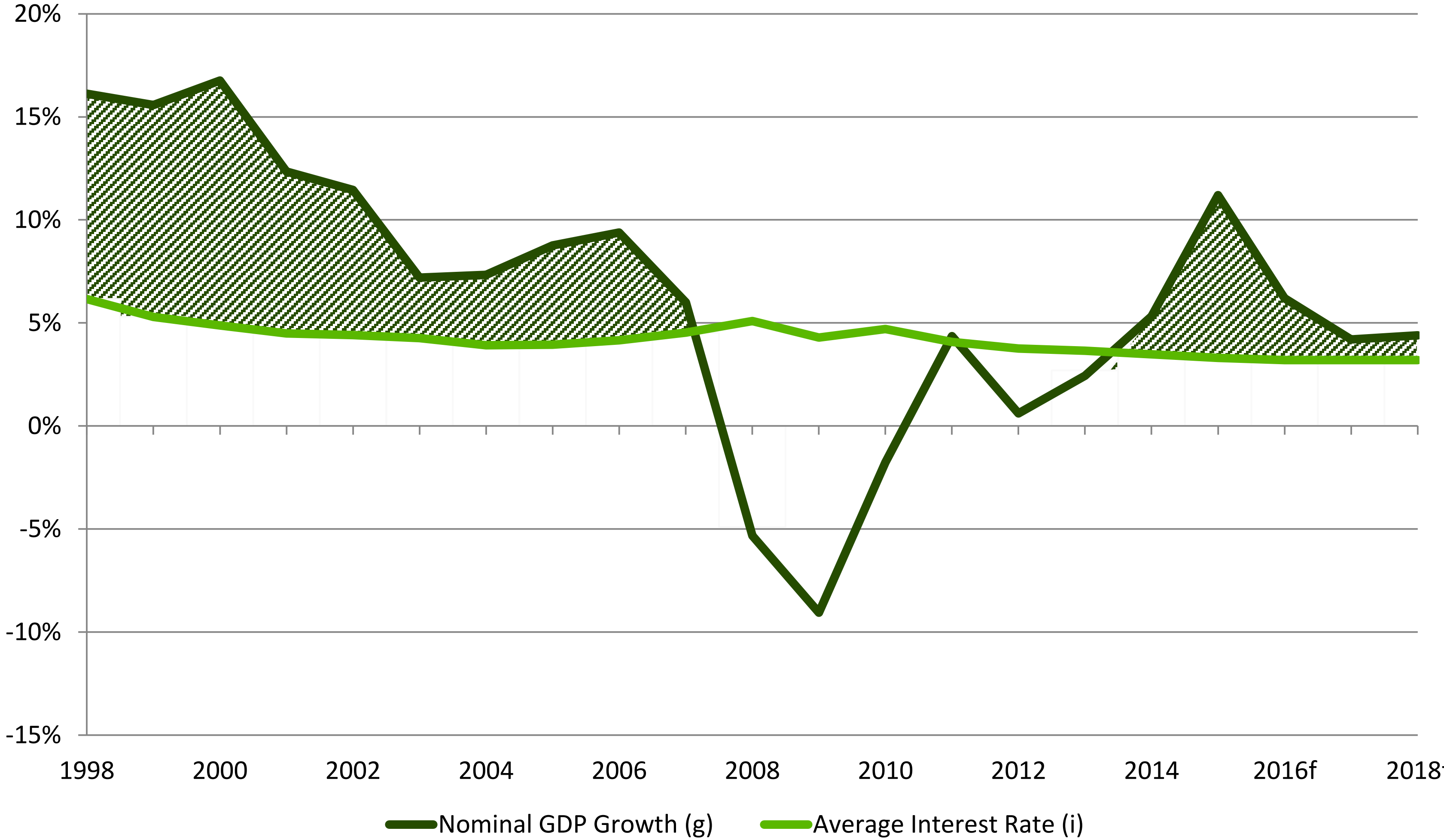
Ireland's fiscal adjustment route quicker than peers



Source: European Commission, DataStream

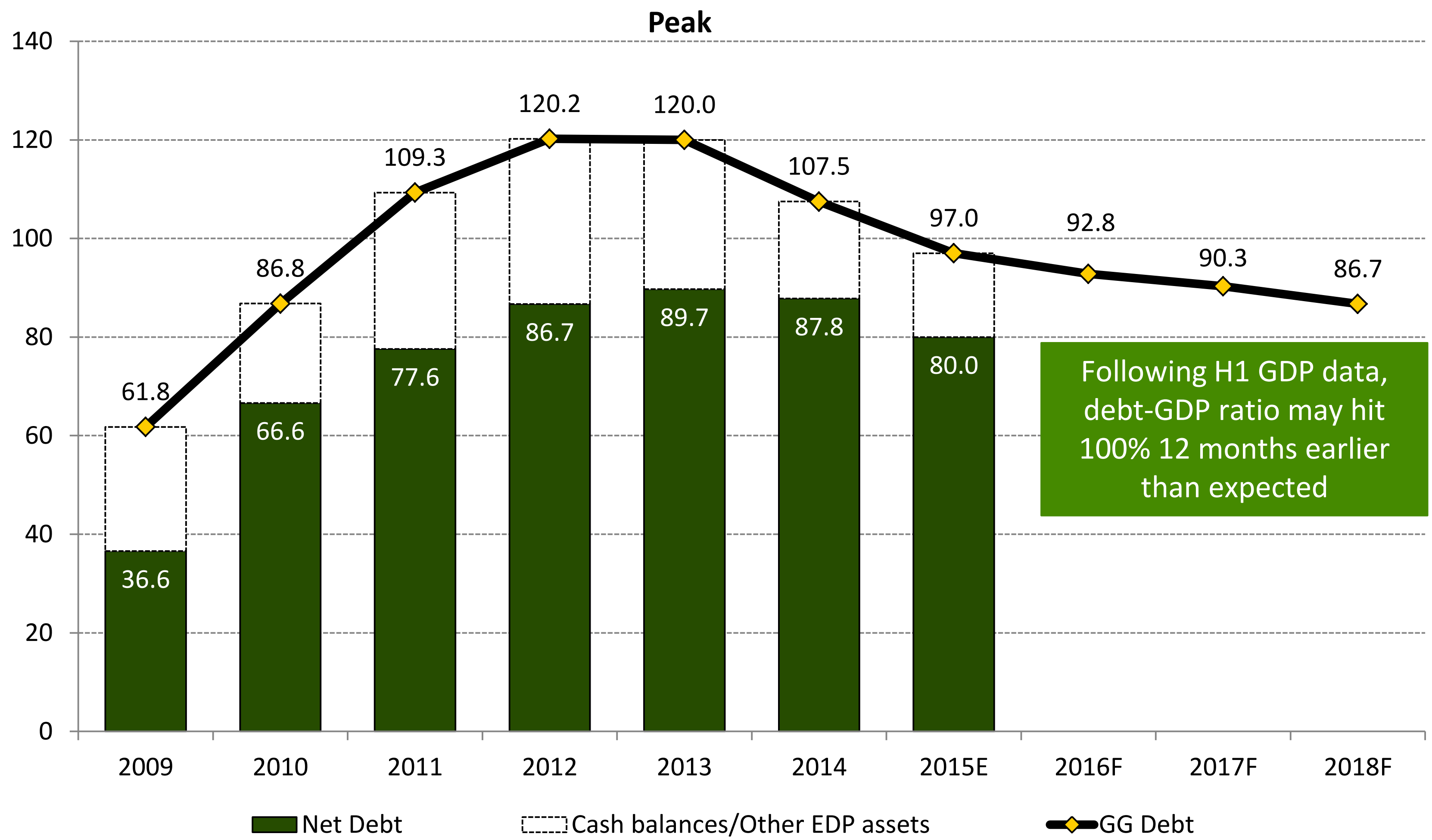
Note: All black markers are 2009 starting points

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



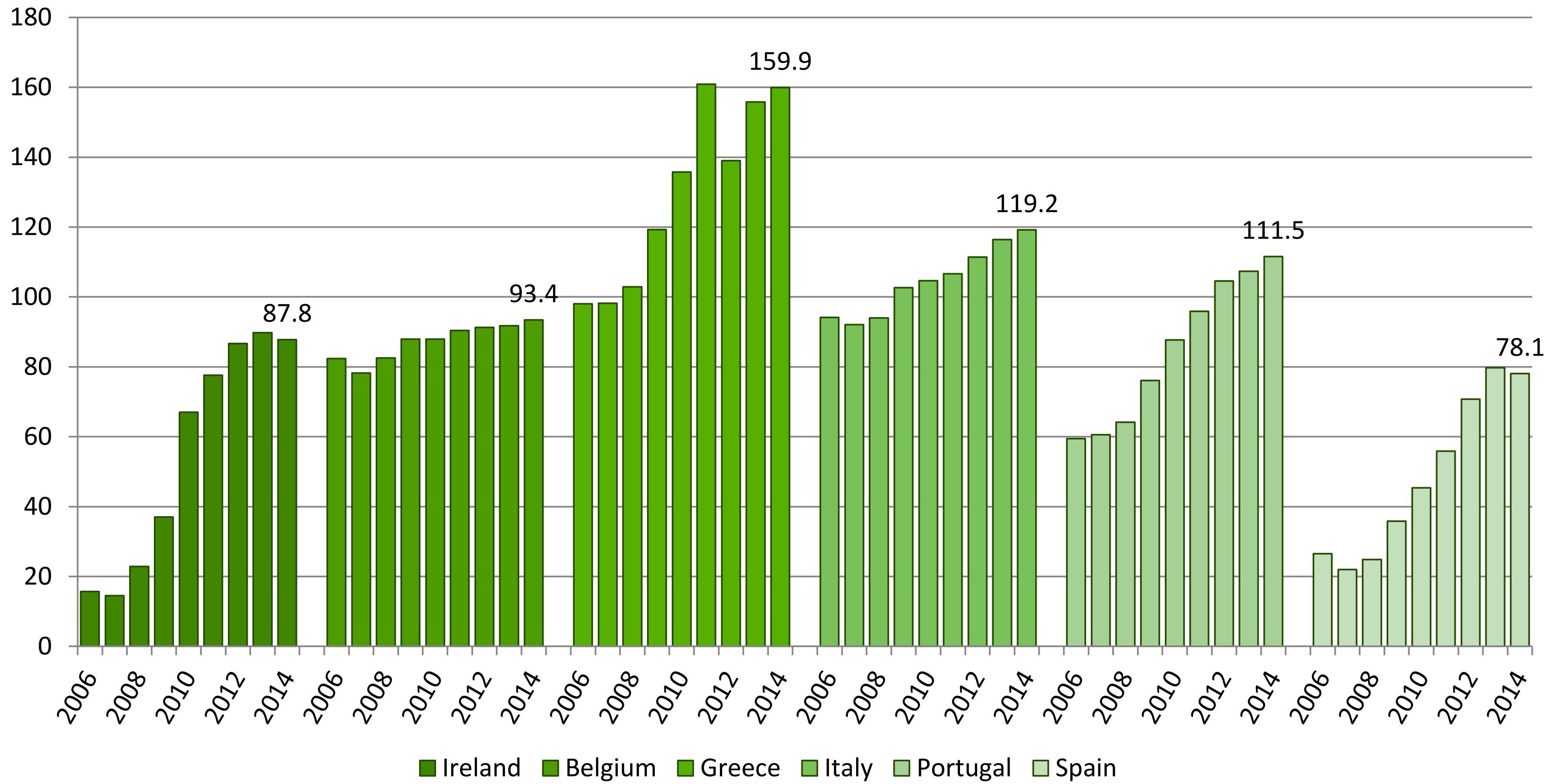
Source: [Department of Finance](); DataStream

Gross Government debt fell to 108% of GDP at end-2014; likely to drop below 100% by end-2015



Source: CSO; Budget 2016 (Department of Finance)

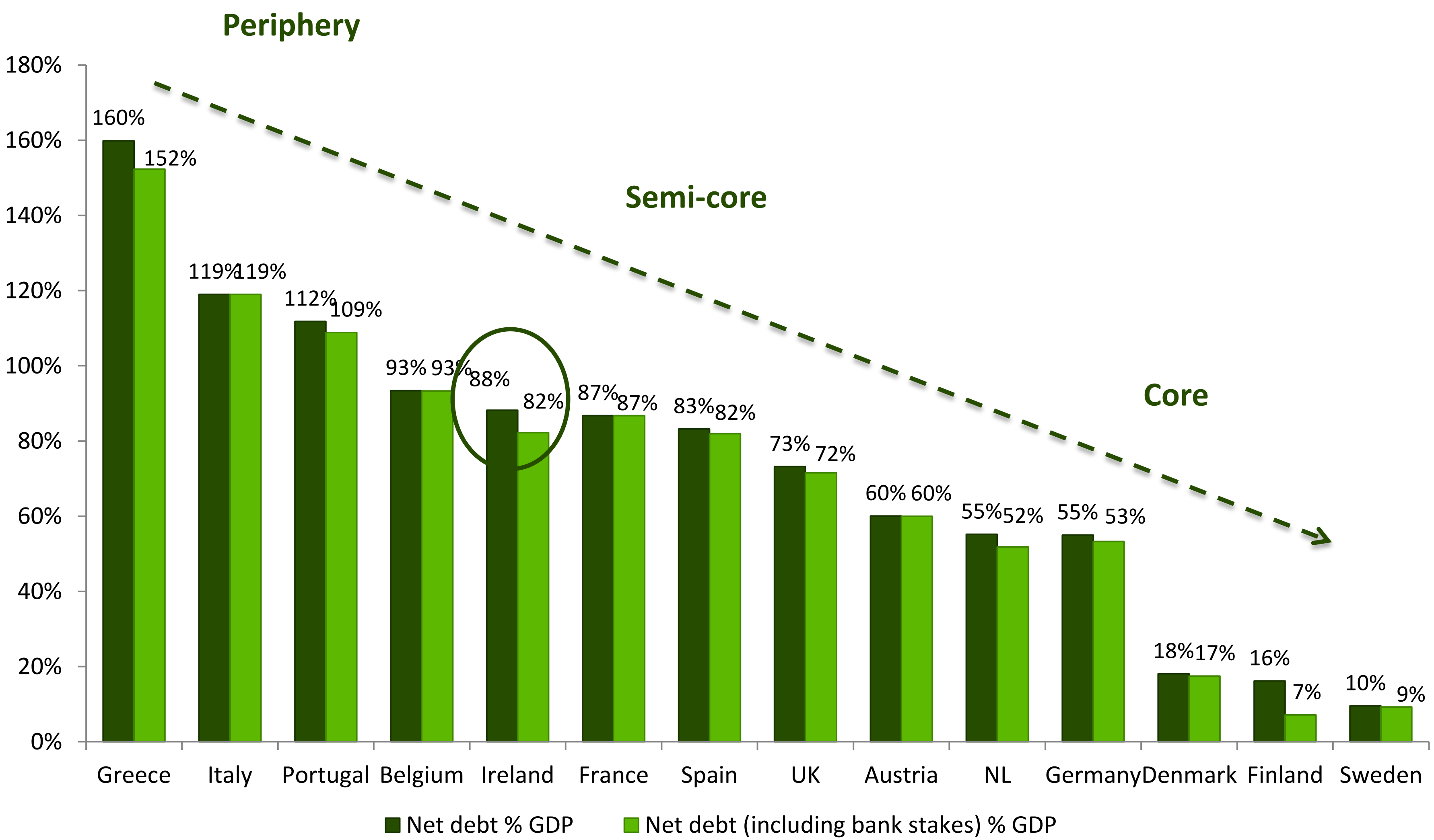
Net Government debt ratio (% GDP) now below that of Belgium – our closest bond market counterpart



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

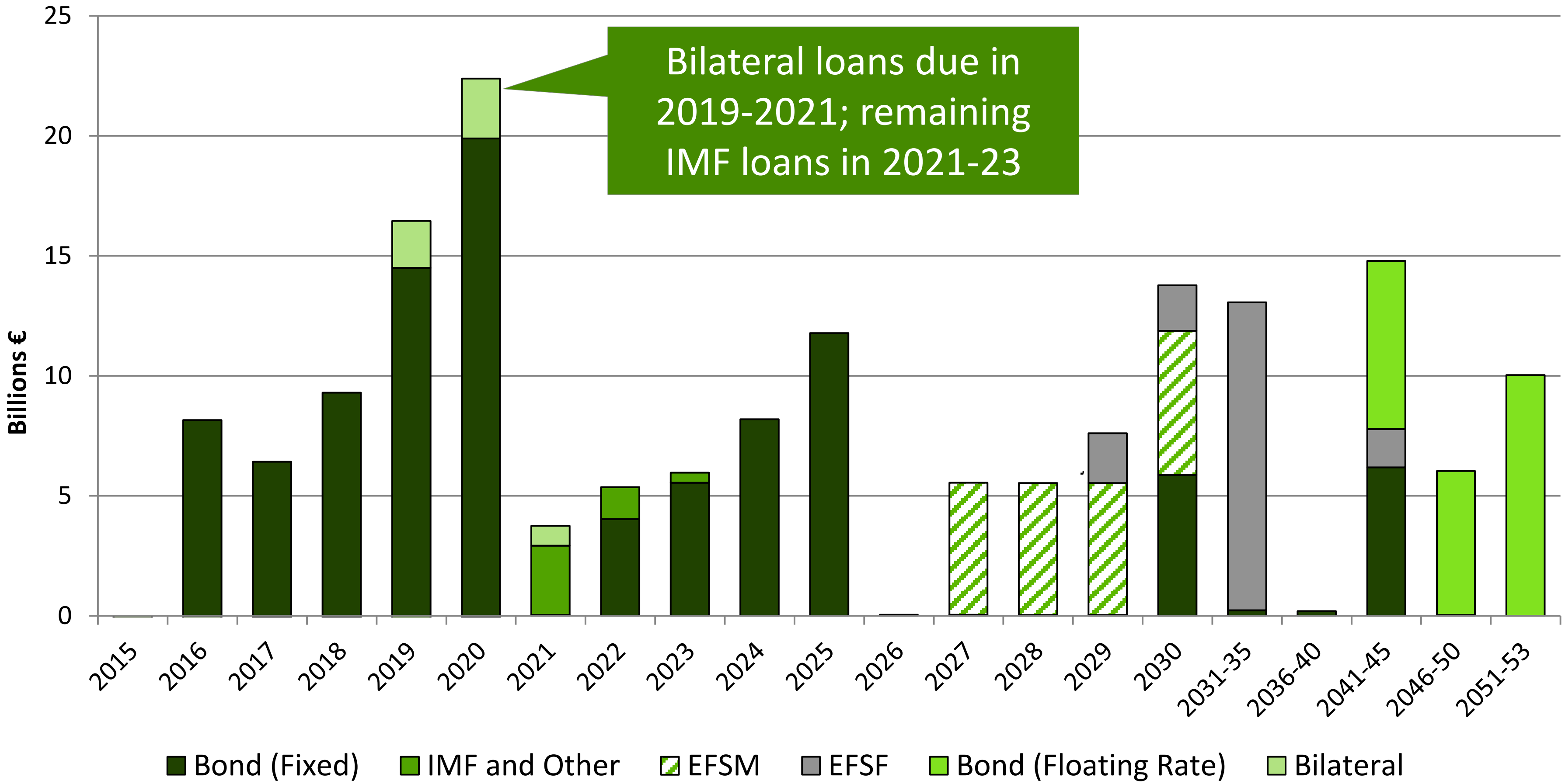
Source: CSO, Eurostat, NTMA analysis

Irish Govt. bank stakes worth at least 6% of GDP



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

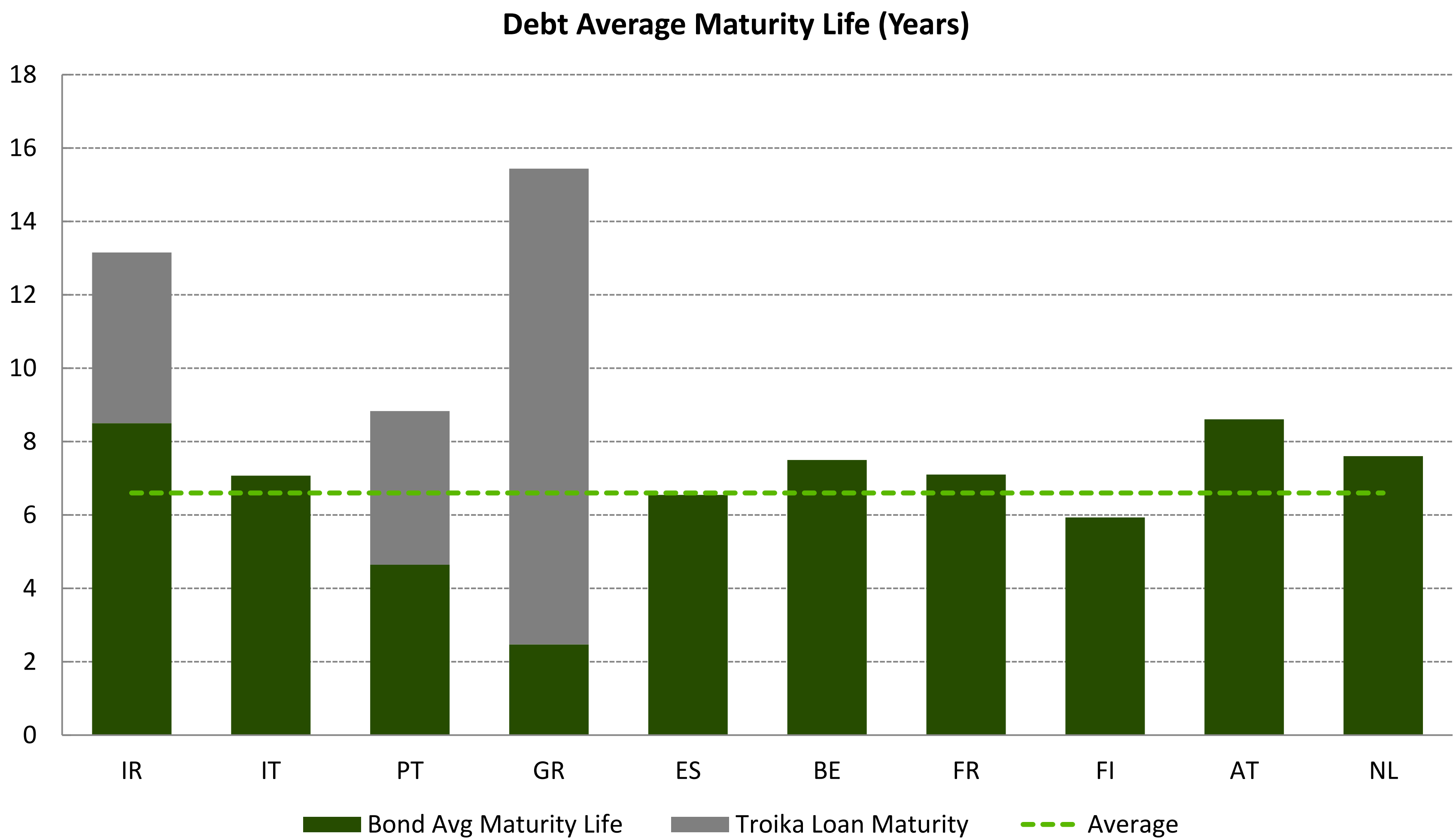
Improved maturity profile following IMF repayment



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

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

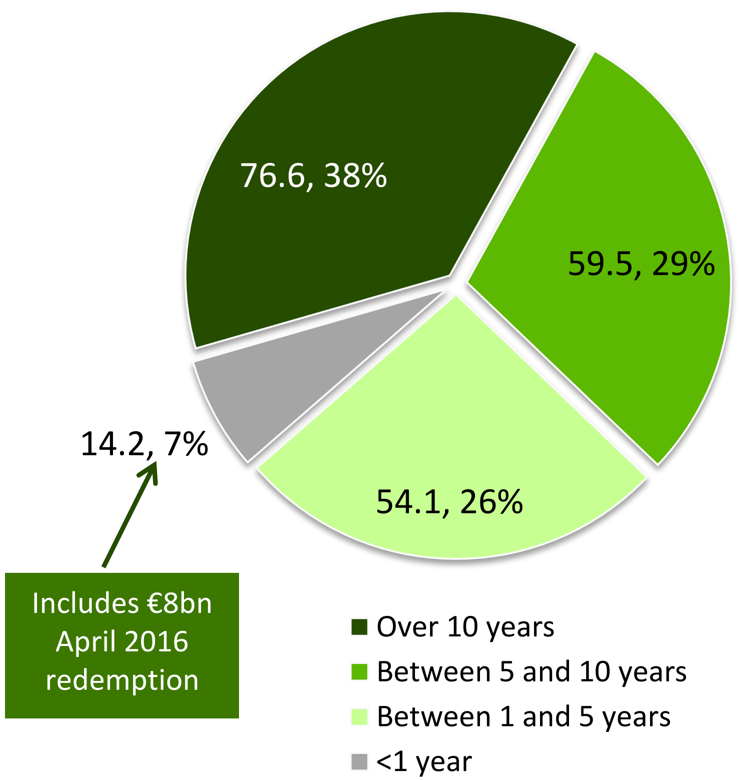
General Government Debt breakdown

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

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

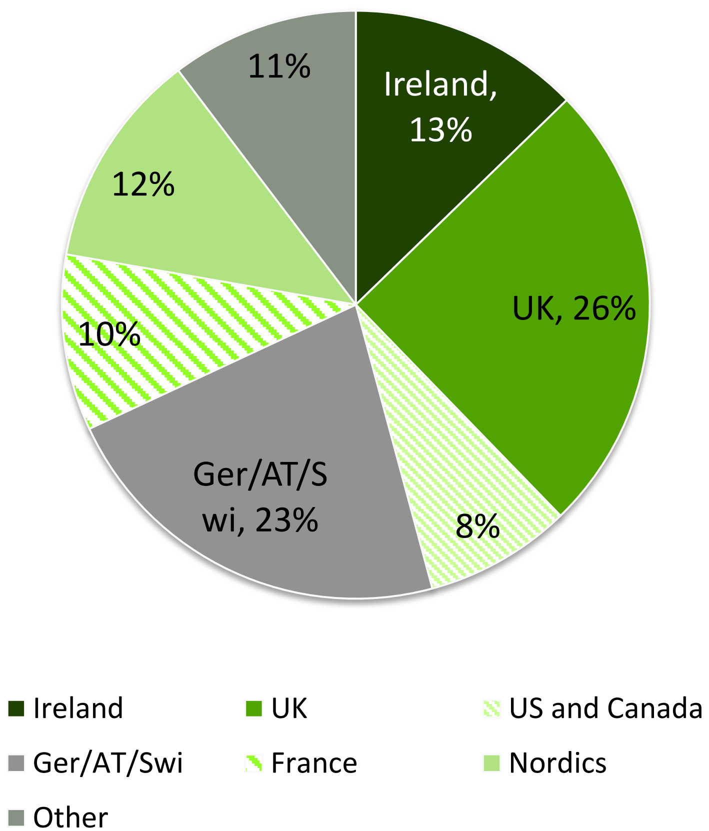
Source: CSO (Q2 2015 data), NTMA

Ireland's maturity profile in €bns

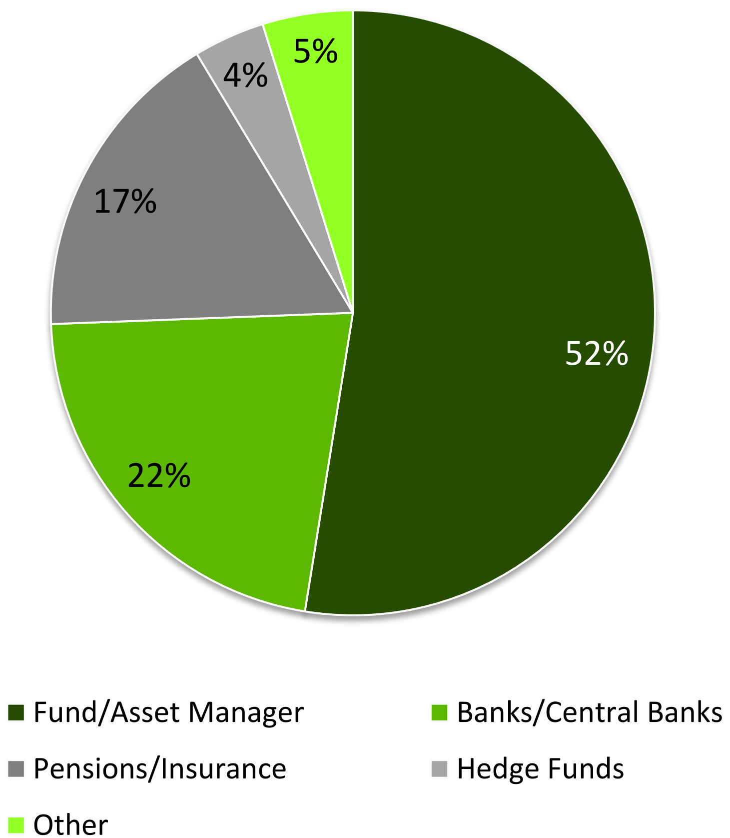


Investor base for Irish government debt is wide and varied

Country breakdown – Average over last 6 syndications



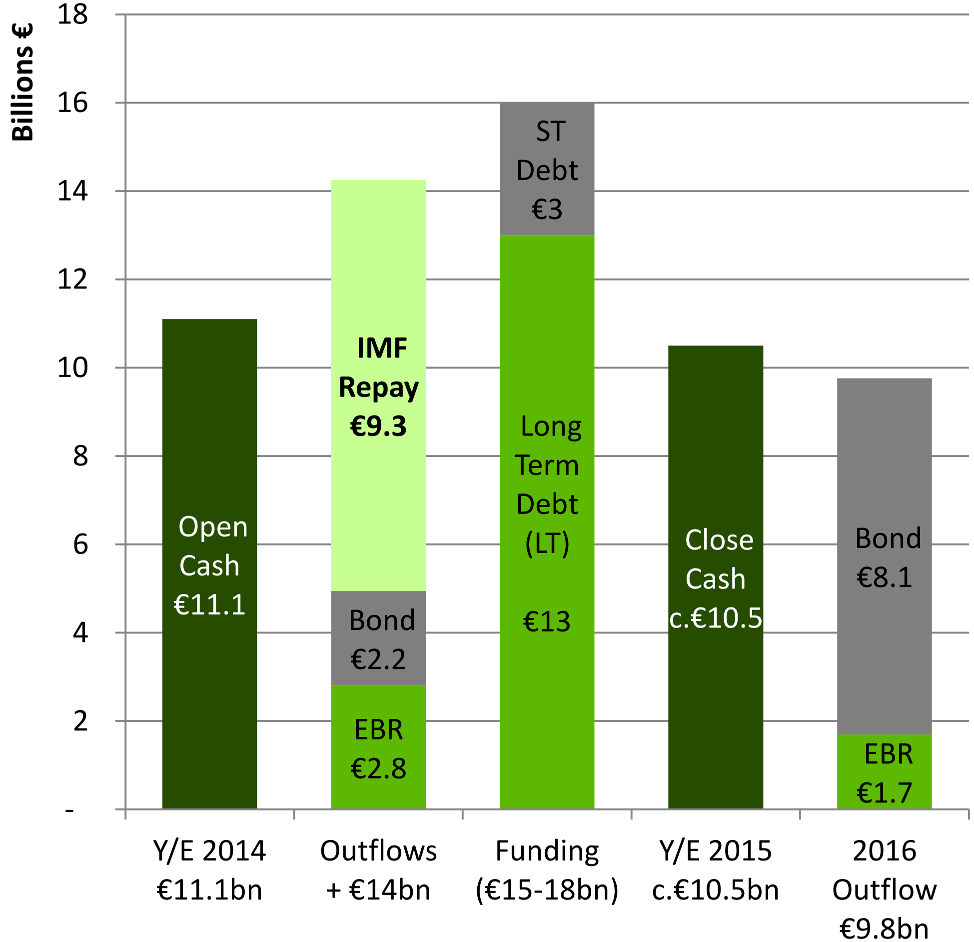
Investor breakdown – Average over last 6 syndications



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 expected to issue €12-15bn worth of long term bonds in 2015: €13bn has been issued so far this year.
- Exchequer had €15bn of cash and other liquid assets at end-Sept 2015.

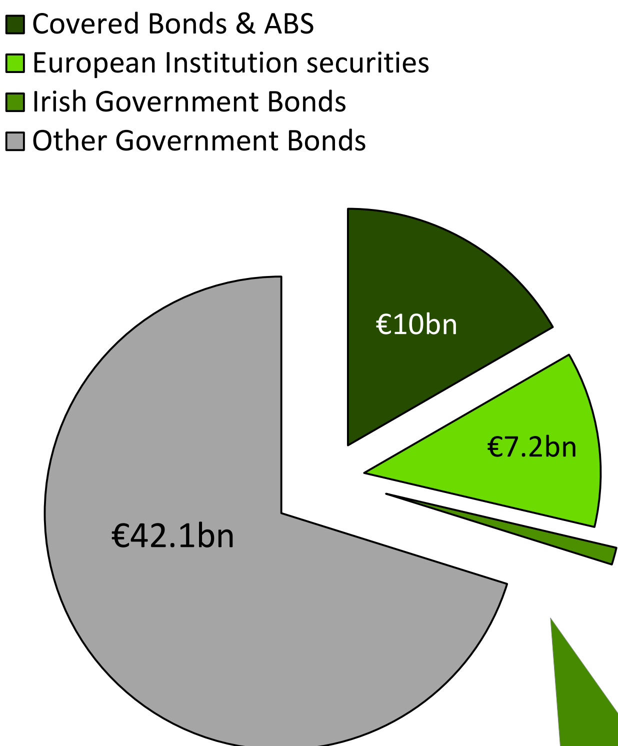


Source: NTMA; Department of Finance

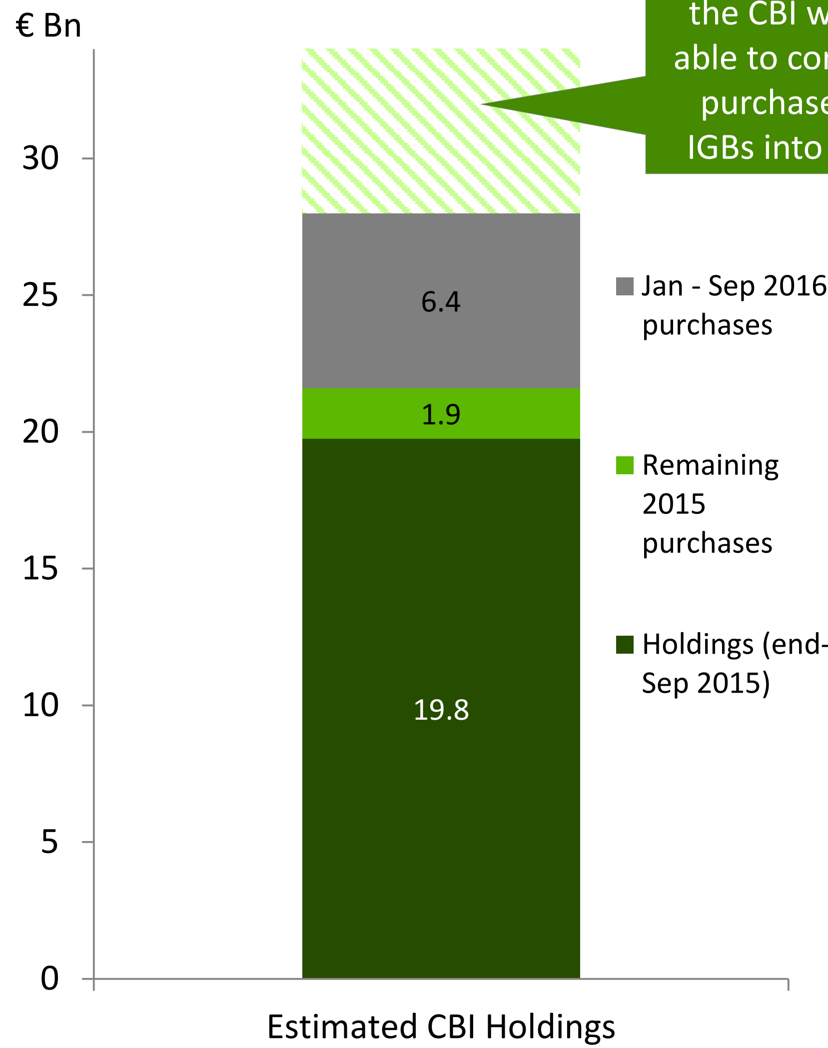
1. EBR is the Exchequer Borrowing Requirement.
2. EFSF loans have been extended by a weighted average of seven years . EFSM loans are also subject to a 7-year extension. It is not expected that Ireland will have to refinance any of its EFSM loans before 2027. A €5bn EFSM loan originally due to mature 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

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



IGB purchases c.€700m per month under Capital Key Rule



If QE is extended the CBI will be able to continue purchases of IGBs into 2017

Source: NTMA; ECB

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

€ million

End quarter	Dec 2013	Dec 2014	June 2015
1. Resident	52,495	52,276	50,046
(as % of total)	(47.3%)	(44.9%)	(40.2%)
– Credit Institutions and Central Bank*	50,057	47,590	46,379
– General Government	2,153	1,632	745
– Non-bank financial	-	2,702	2,627
– Households (and NFCs)	284	352	296
2. Rest of world	58,512	64,063	74,336
(as % of total)	(52.7%)	(55.1%)	(59.8%)
Total MLT debt	**111,007**	**116,339**	**124,382**

Source: CBI

* 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.

Breakdown of Ireland's General Government debt

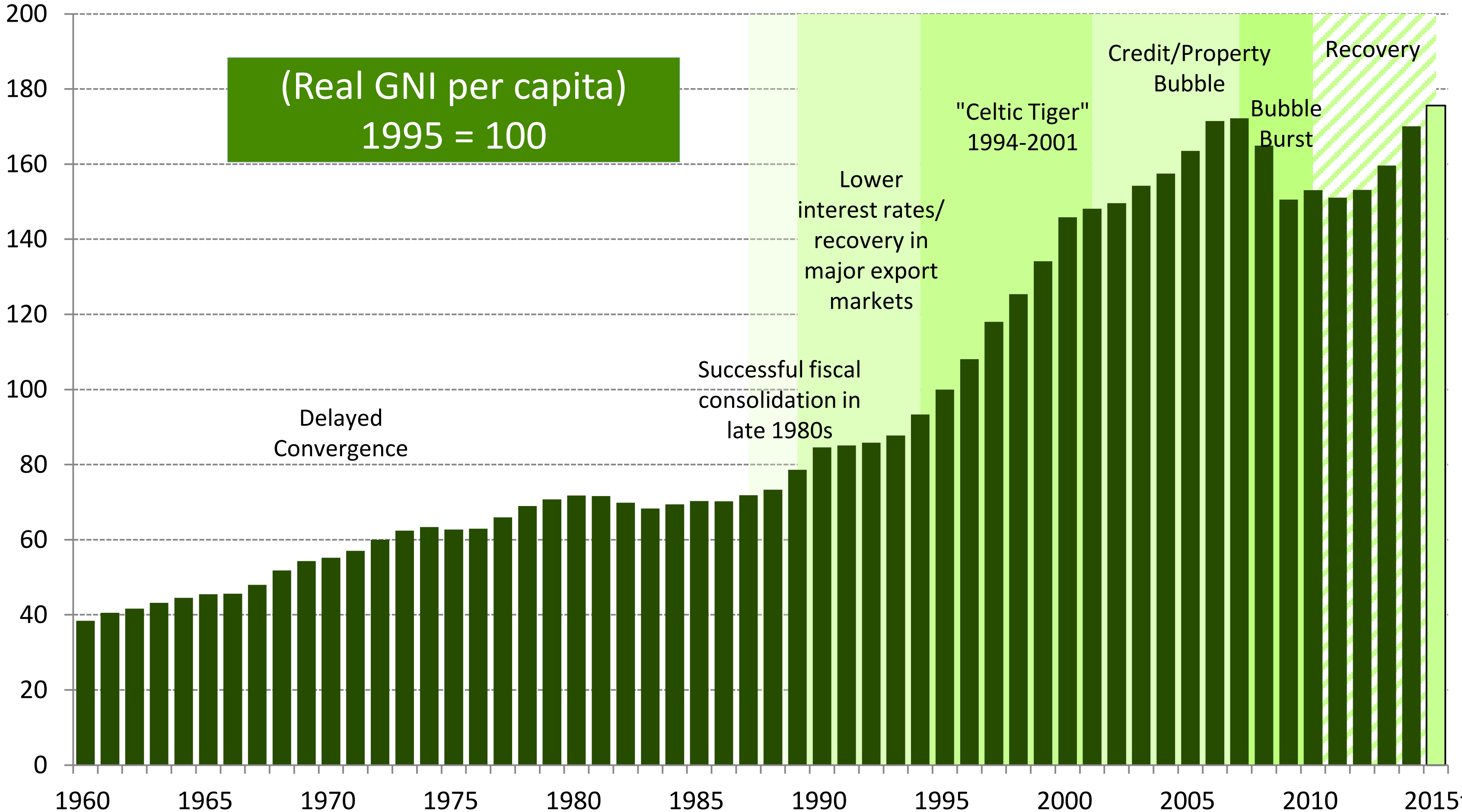
€ million	2010	2011	2012	2013	2014
Currency and deposits (mainly retail debt)	13,708	58,386	62,092	31,356	20,918
Securities other than shares, exc. financial derivatives	96,381	94,013	87,297	112,665	119,078
- Short-term (T-Bills, CP etc)	7,203	3,777	2,535	2,389	3,760
- Long-term (MLT bonds)	**89,178**	**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: LONG TERM FUNDAMENTALS

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

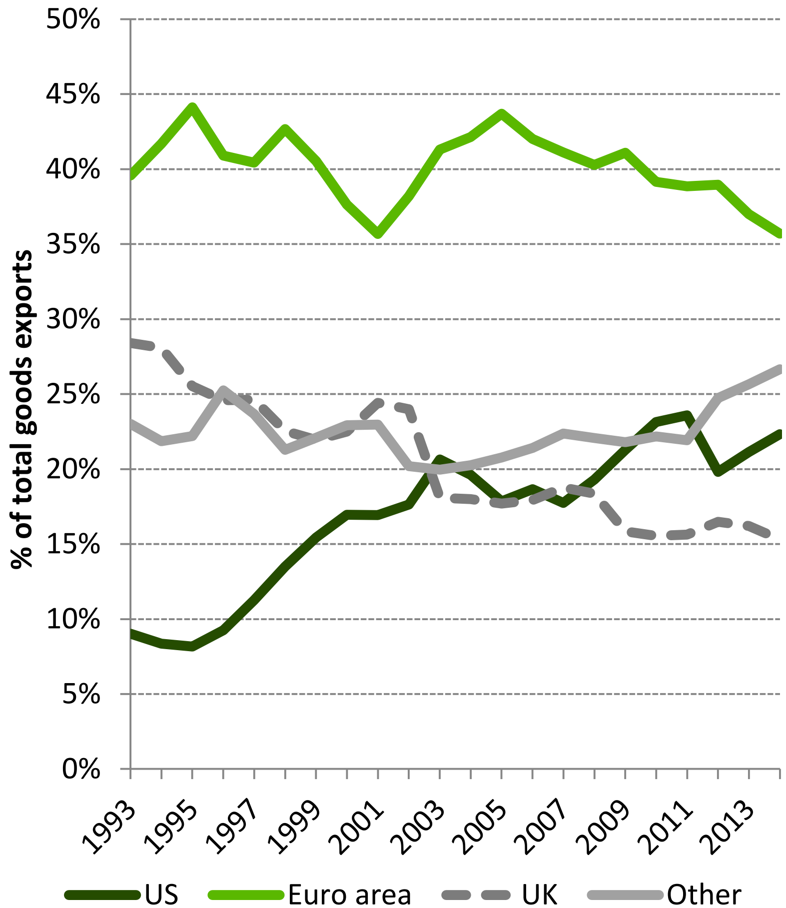
Much rebalancing has taken place; 2007 peak in GNI per capita to be surpassed in 2015



Source: [CSO]

Ireland's openness has been critical to rebalancing

Ireland benefits from export diversification by destination...



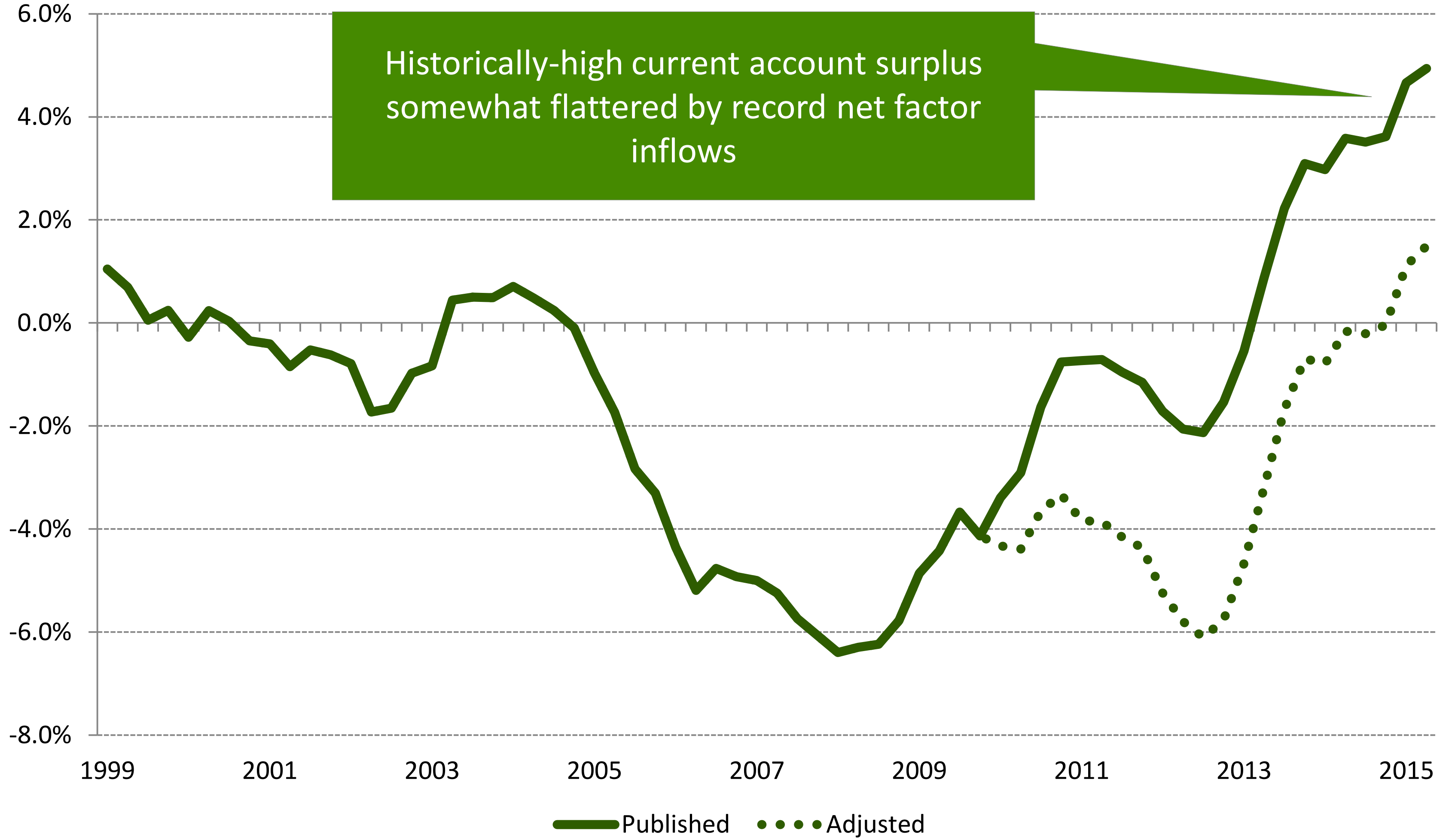
Source: CSO

...and openness relative to other non-cores

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

Source: DataStream (value of exports)

Ireland's current account surplus reflects rebalancing but affected by aircraft leasing and re-domiciled PLCs

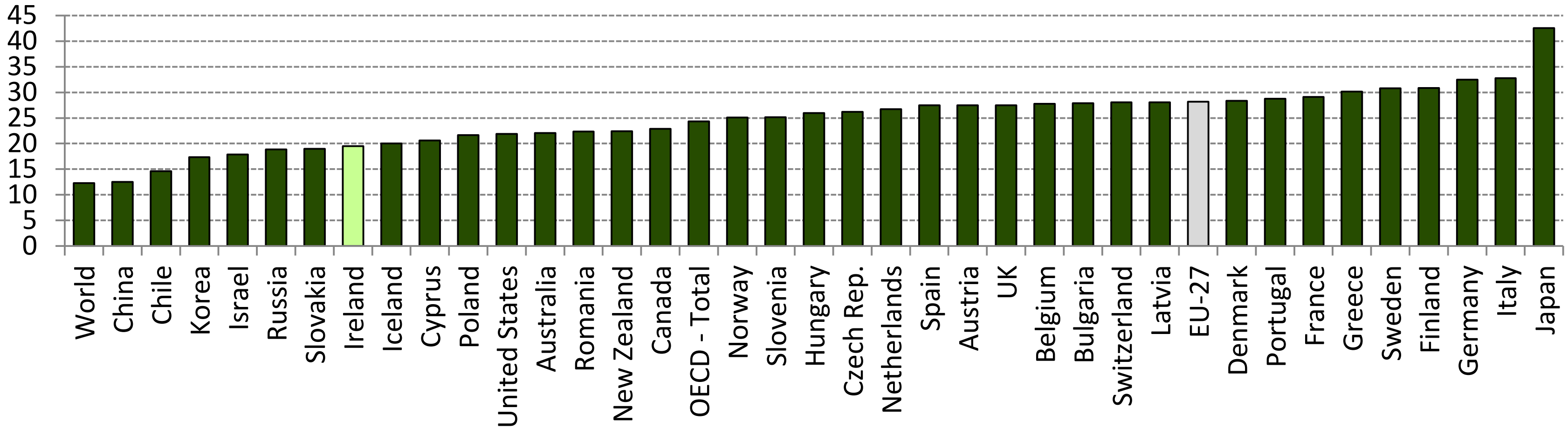


Source: [CSO](CSO)

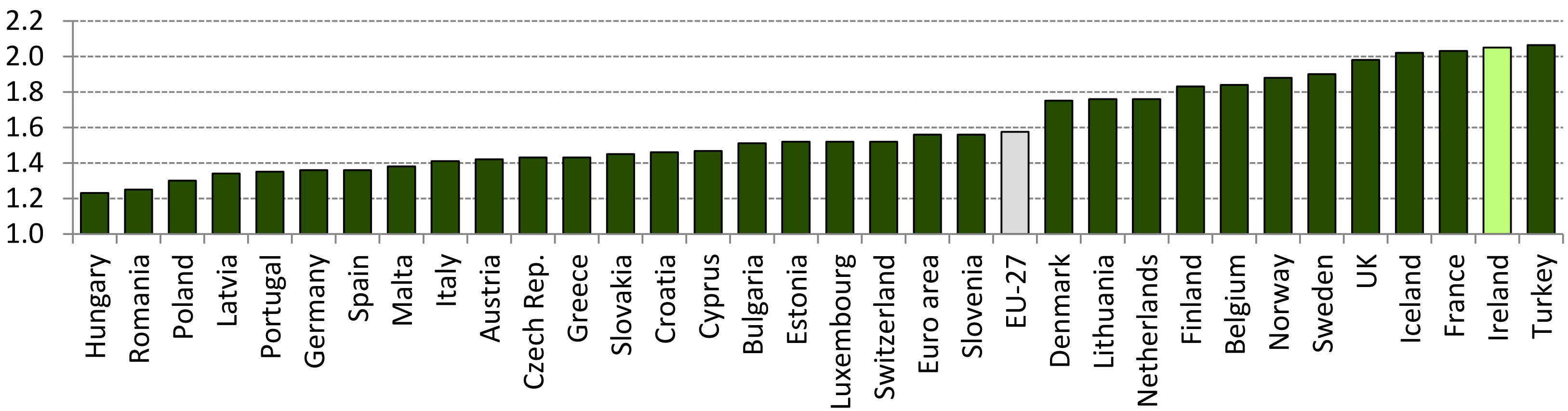
* Adjusted for estimates of the undistributed profits of redomiciled PLCs (for more information, see Fitzgerald, J. (2013), 'The Effect of Redomiciled PLCs on GNP and the Irish Balance of Payments')

Favourable population characteristics underpin debt sustainability over longer term

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



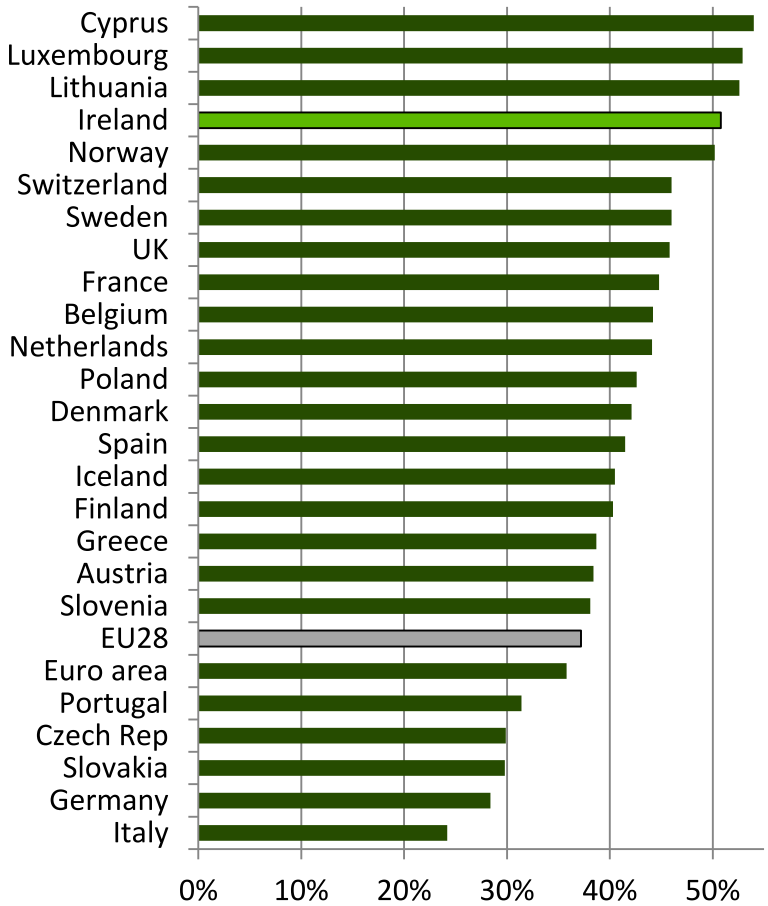
Fertility rates in Ireland are above typical international replacement rates



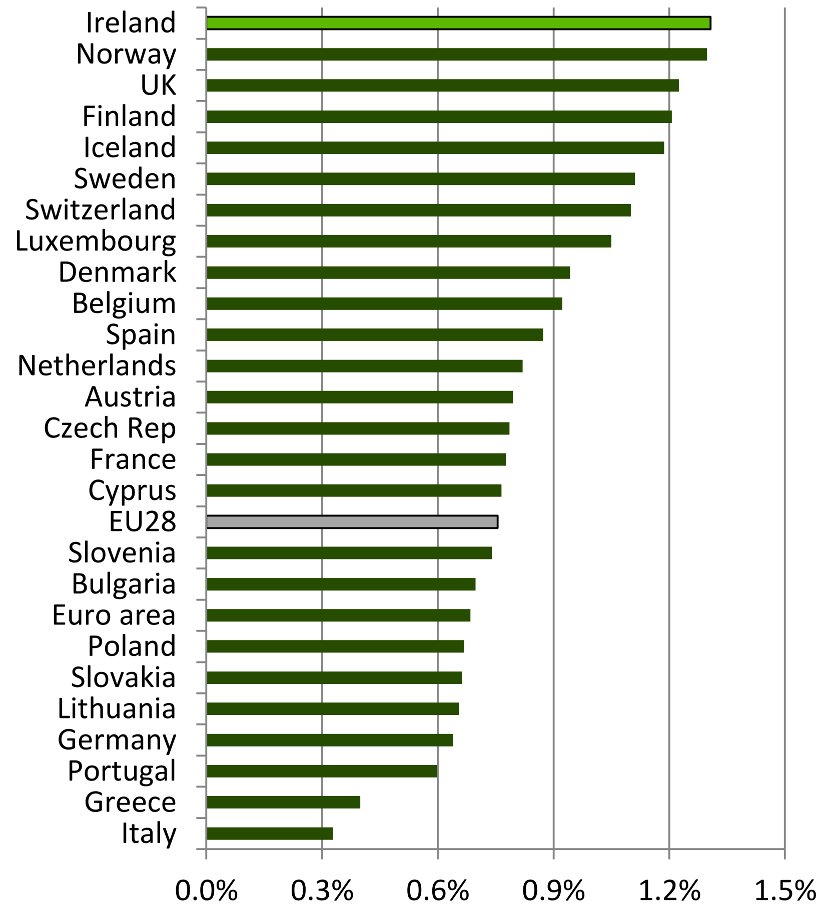
Source: World Bank WDI (2013); OECD (2014)

Workforce is young and educated - especially so in IT sector

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

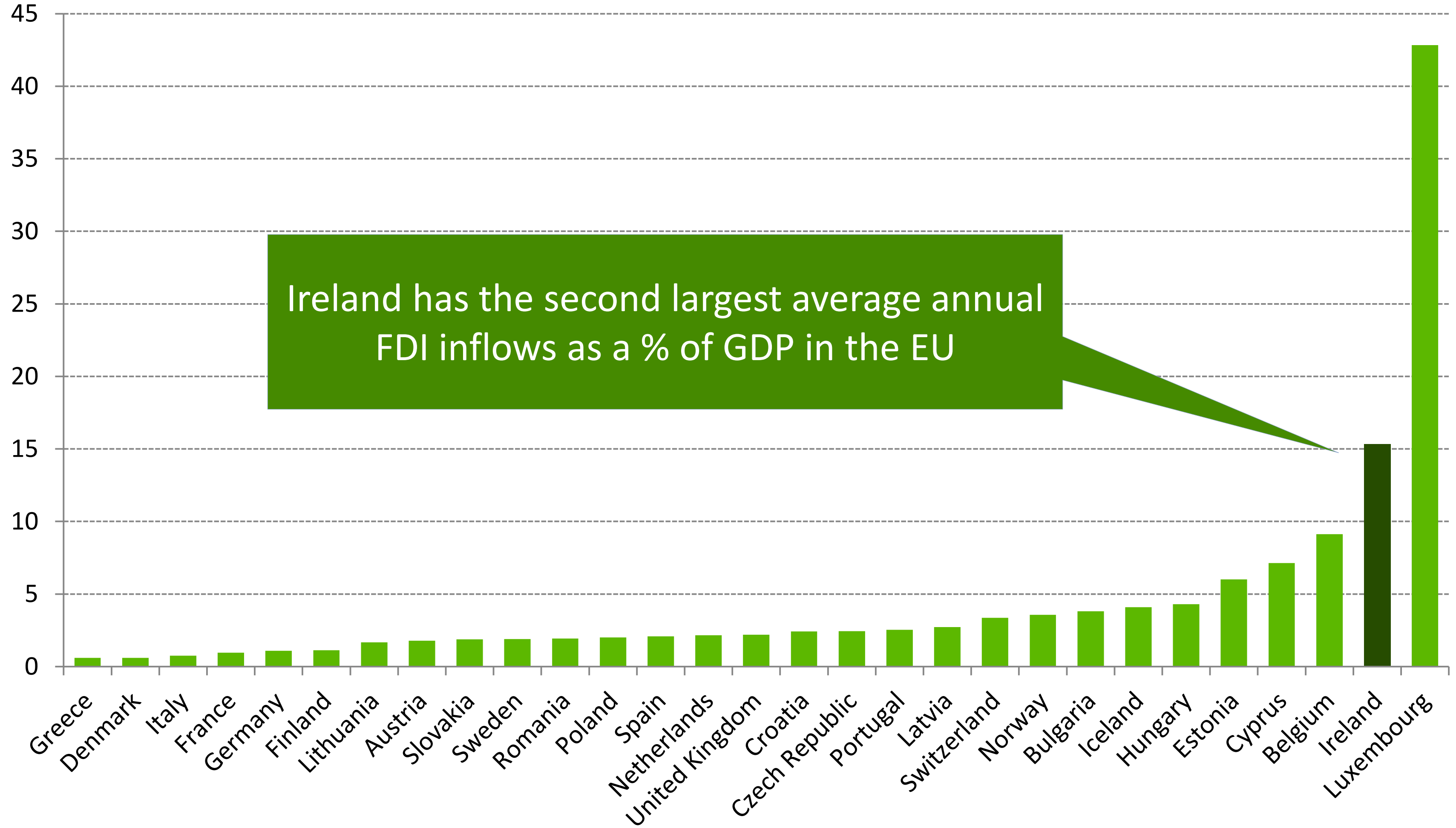


…and the highest % of population working in IT with a third-level degree



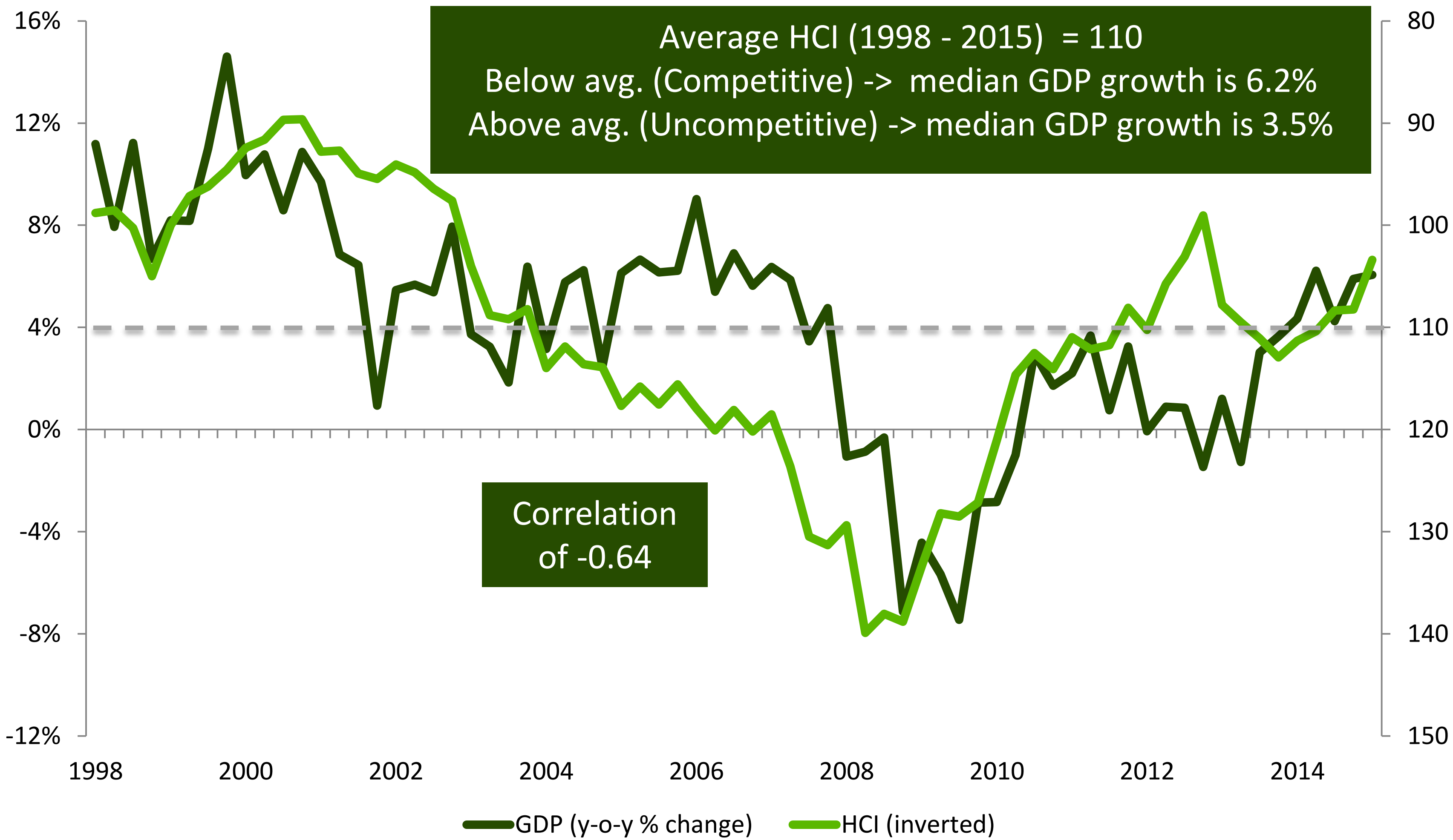
Source: Eurostat

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



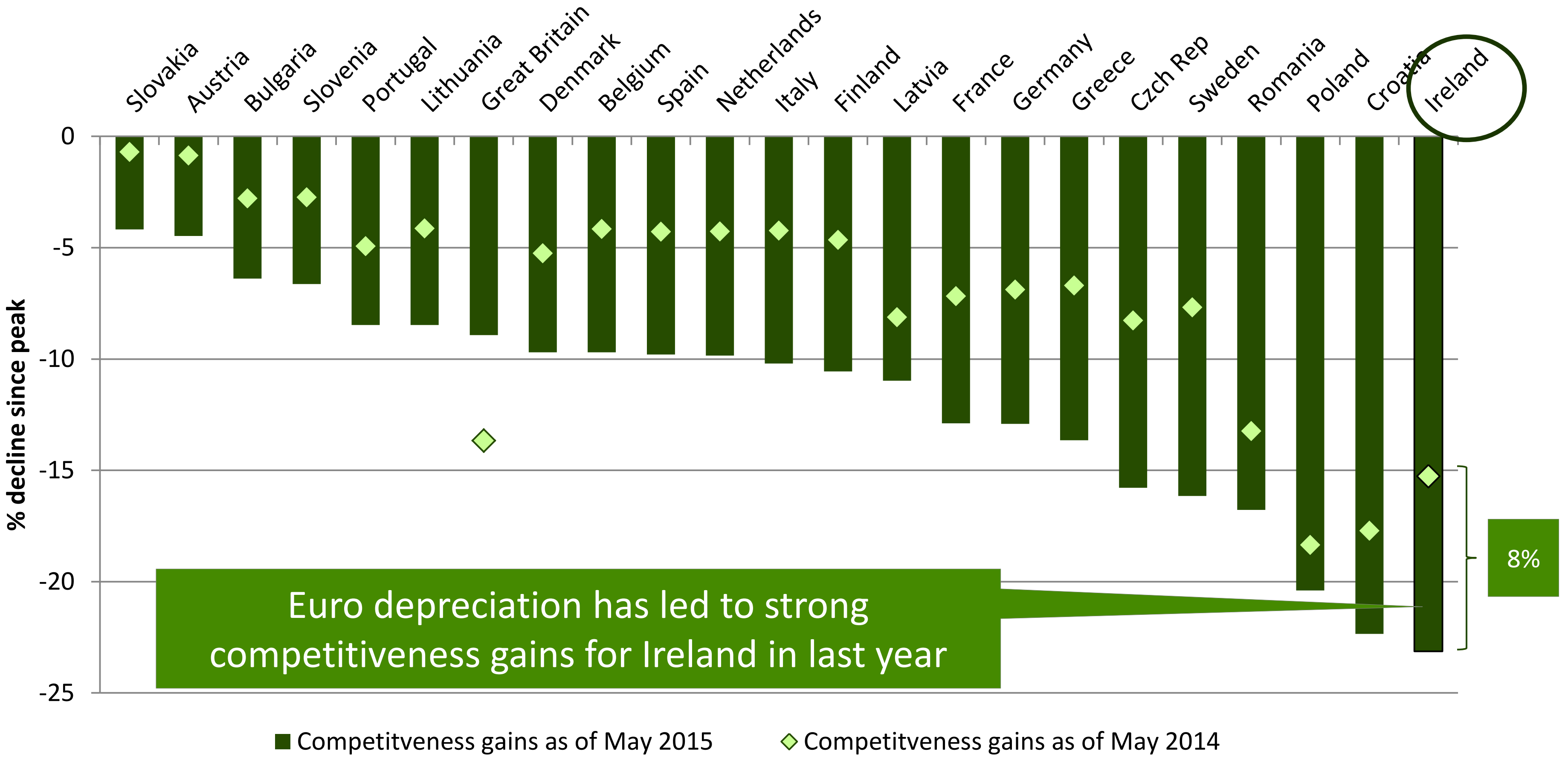
Source: UNCTADStat

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



Source: CSO, CBI

Competitiveness recovery still exceptional even when compositional effects are accounted for

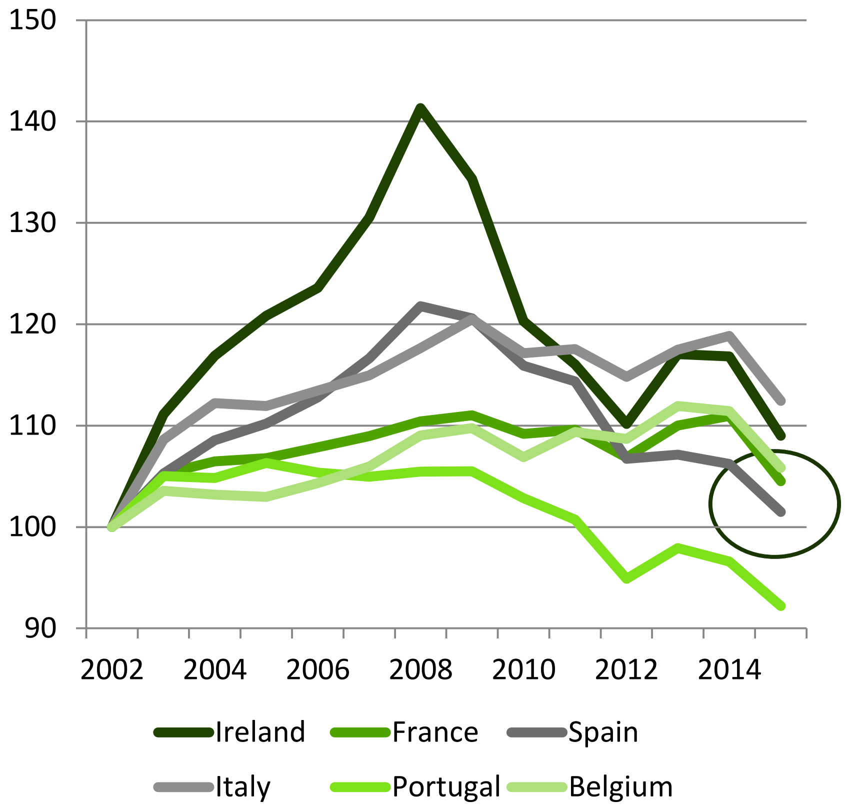


Source: Bruegel - 'Real effective exchange rates for 178 countries: a new database'

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

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

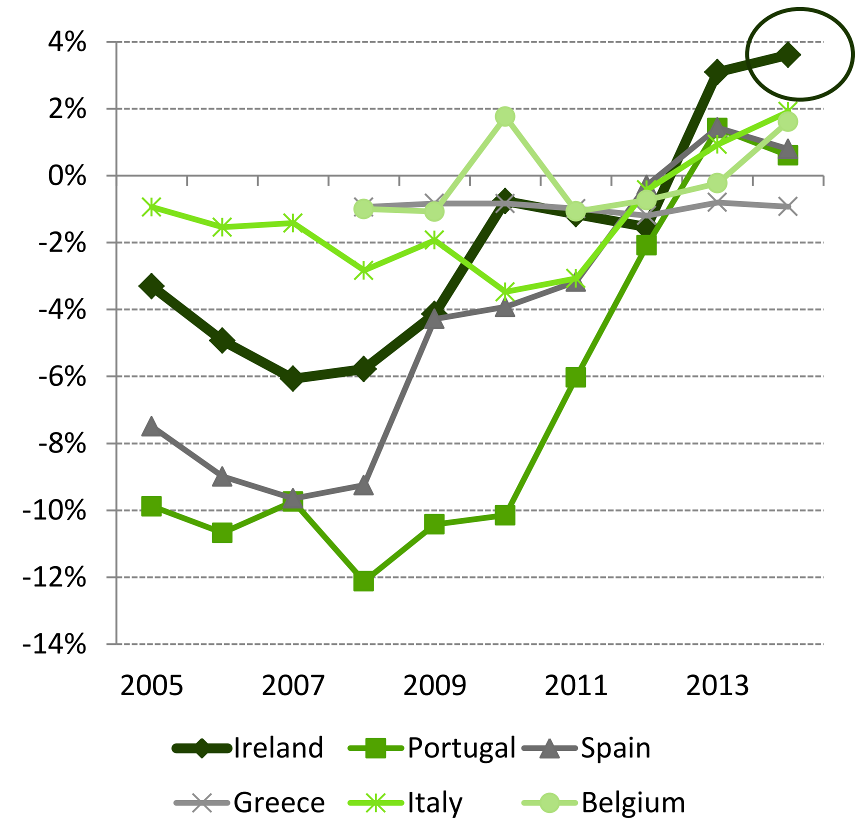
Relative real effective exchange rates have corrected sharply (base:2002=100)



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

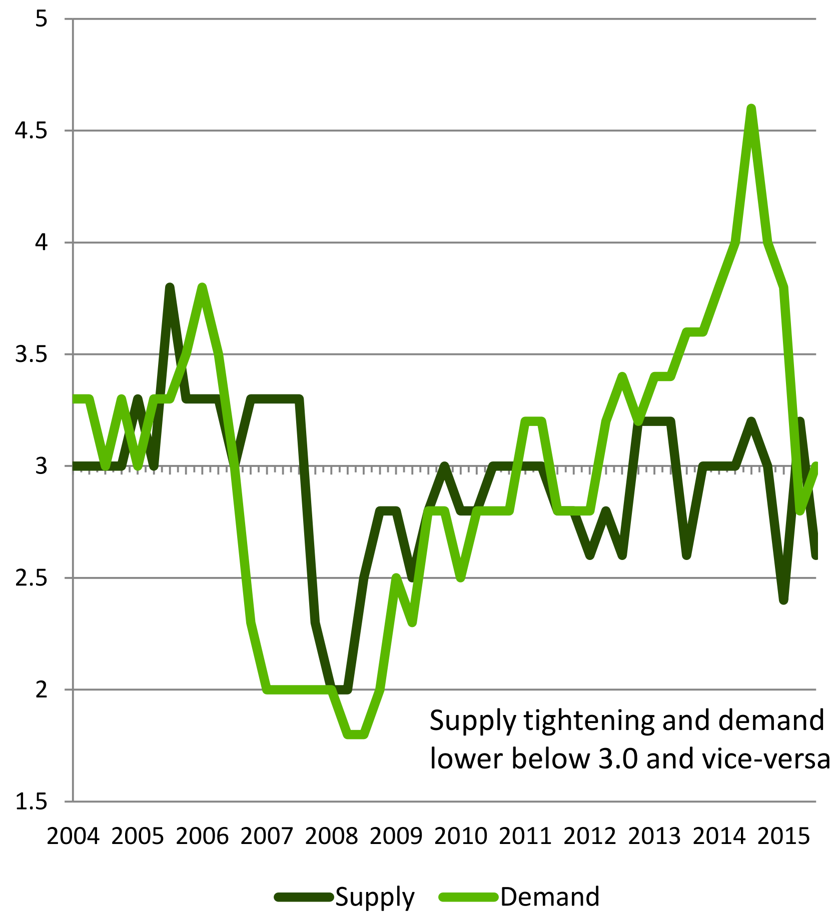
Note Ireland's CA Balance re-calculated using ESA 2010 compliant GDP series

SECTION 4: PROPERTY

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

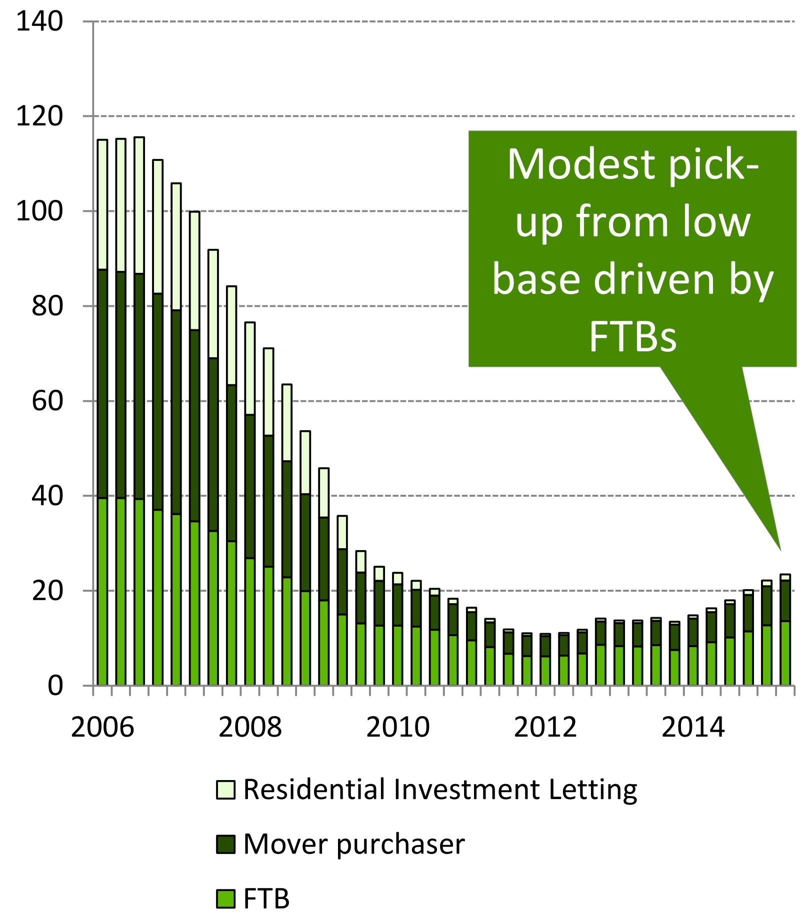
New CBI mortgage rules impact demand before and after introduction

Demand & credit standards tighten following CBI rules



Source: ECB and CBI (Bank lending survey)

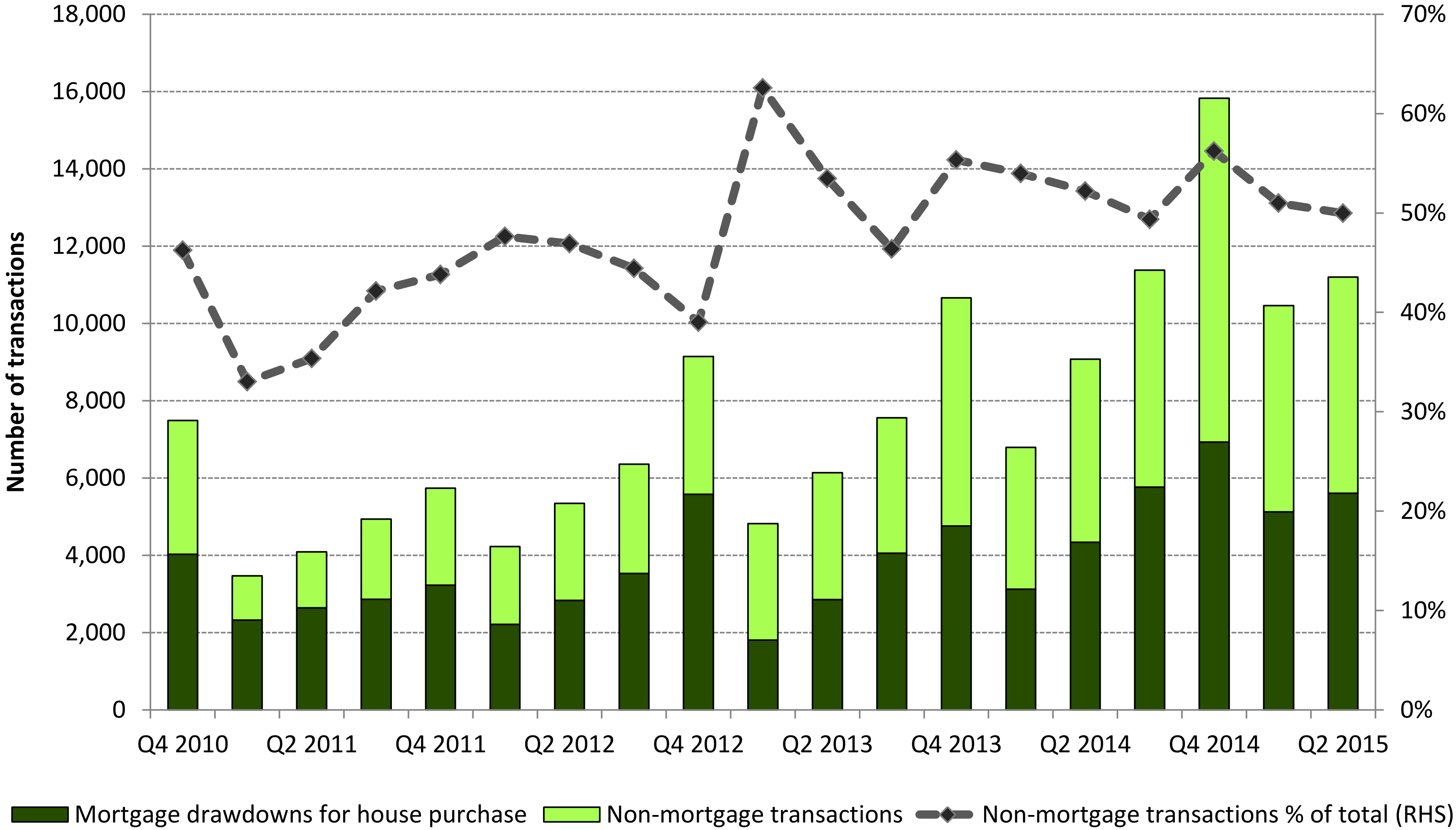
Mortgage drawdowns rise from deep trough ('000s)



Source: Irish Banking Federation

FTBs = First Time Buyers

Residential market continues to be boosted by non-mortgage purchasers

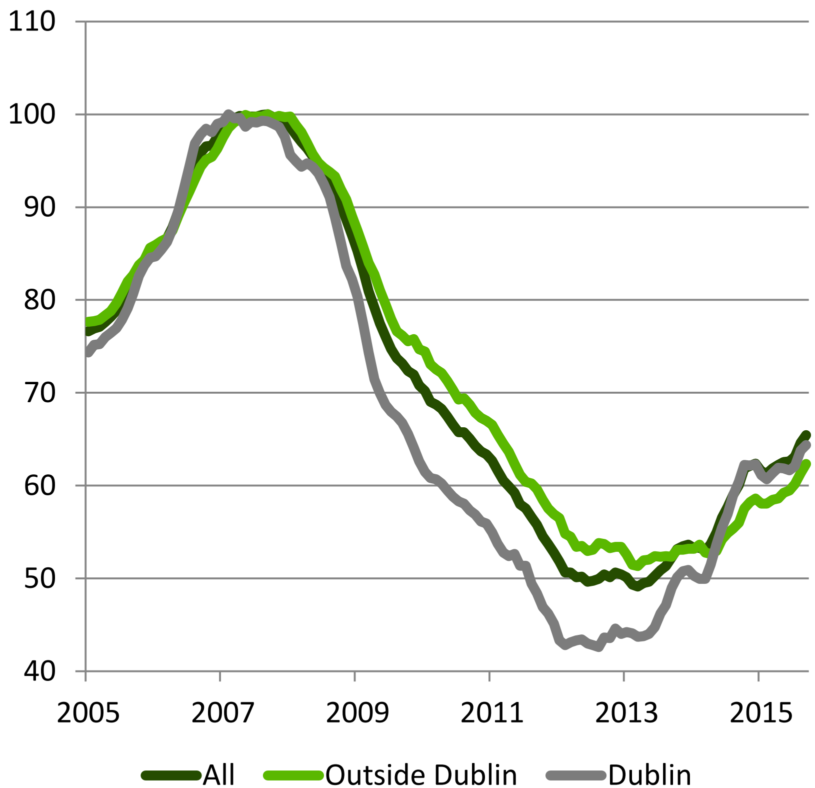


Source: IBF; Property Services Regulatory Authority; NTMA

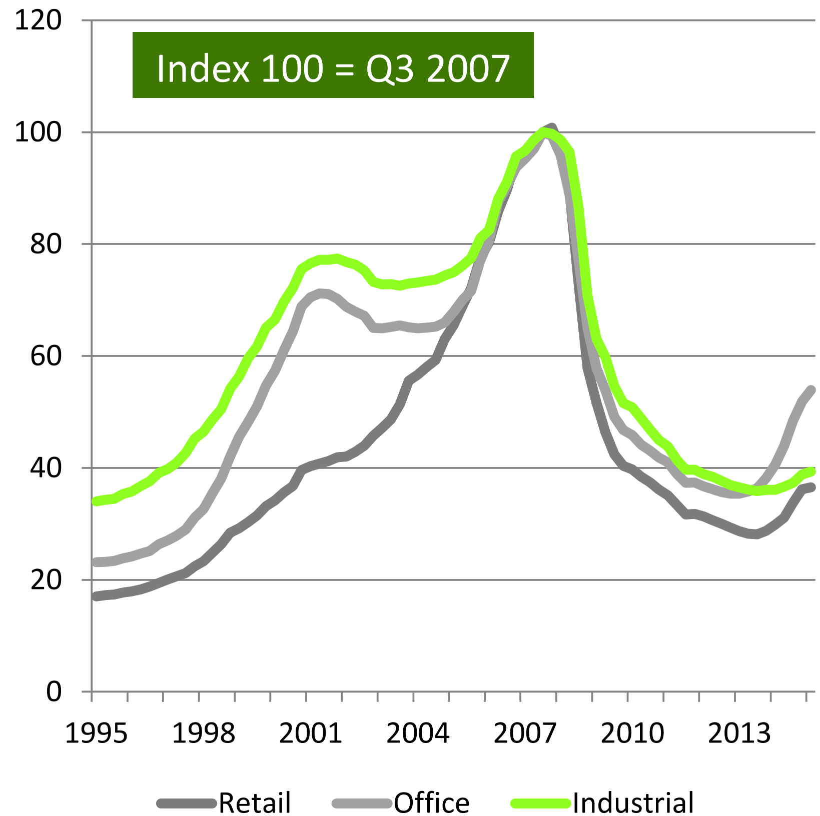
Note: Non-mortgage transactions are implied by difference between total transactions on property price register and IBF mortgage data

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

House prices surge, led by Dublin



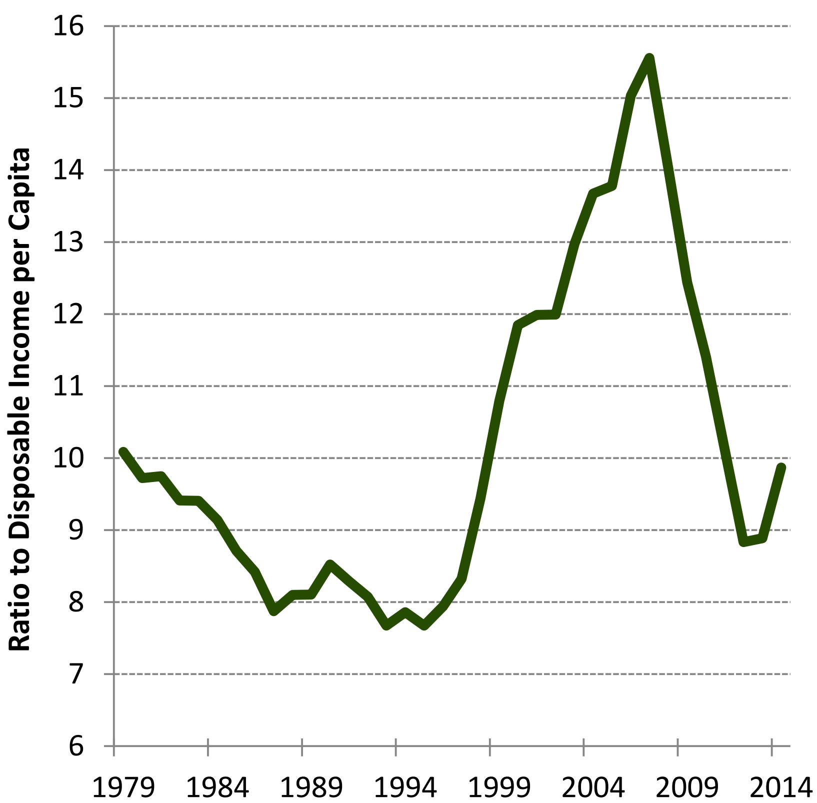
Office leads commercial property



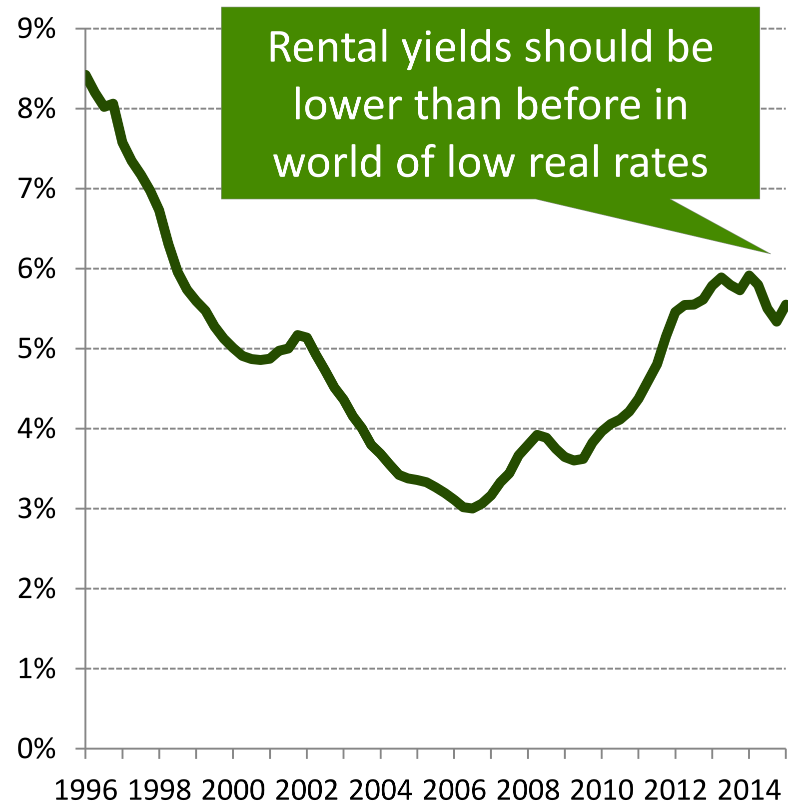
Source: CSO; IPD

Housing valuations are still relatively attractive

Average Irish house prices/ disposable income per capita

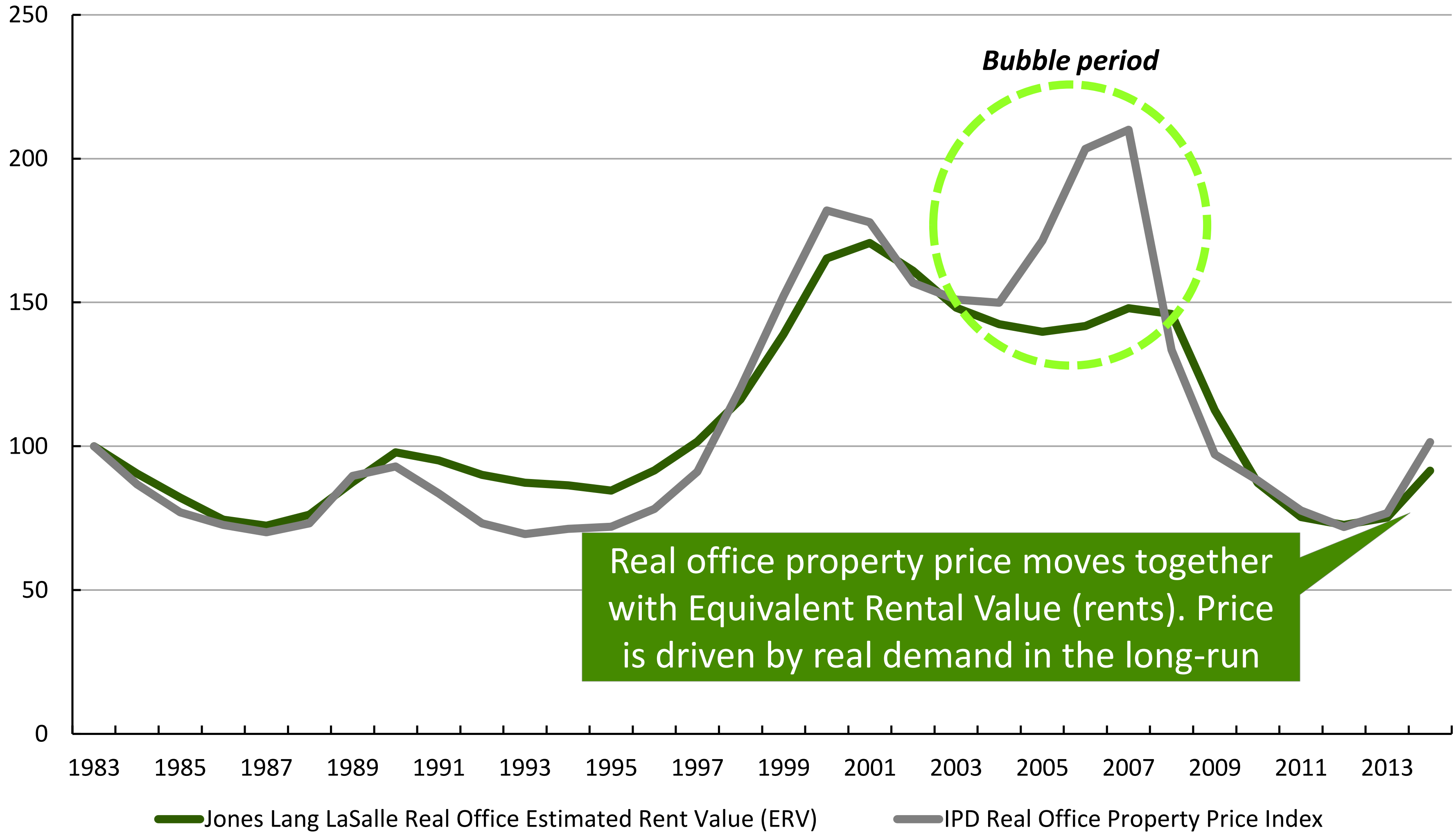


Rental yields still exceed 5%



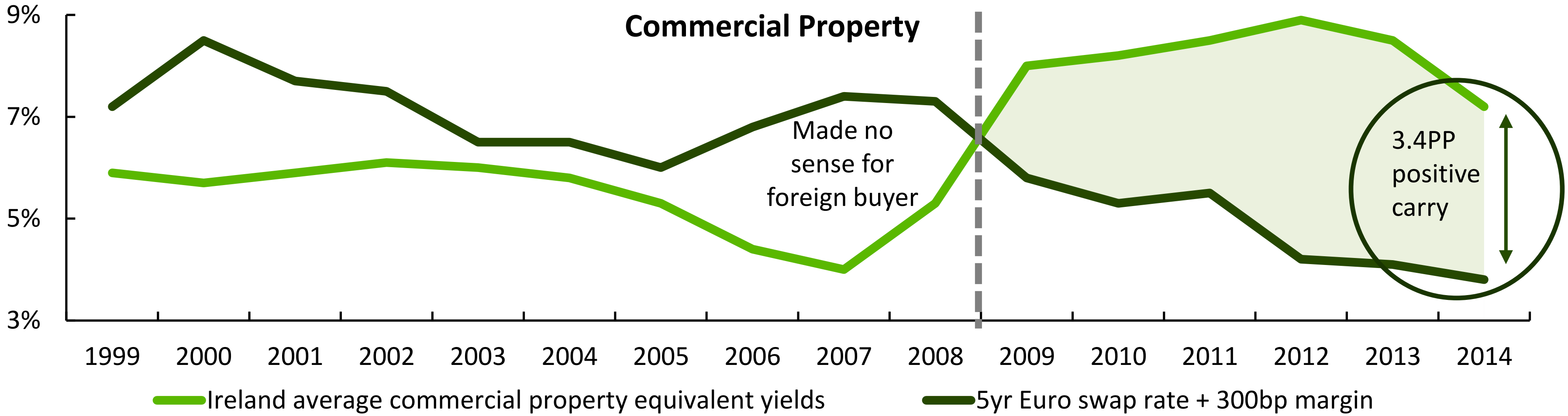
Source: CSO; NTMA, IPD

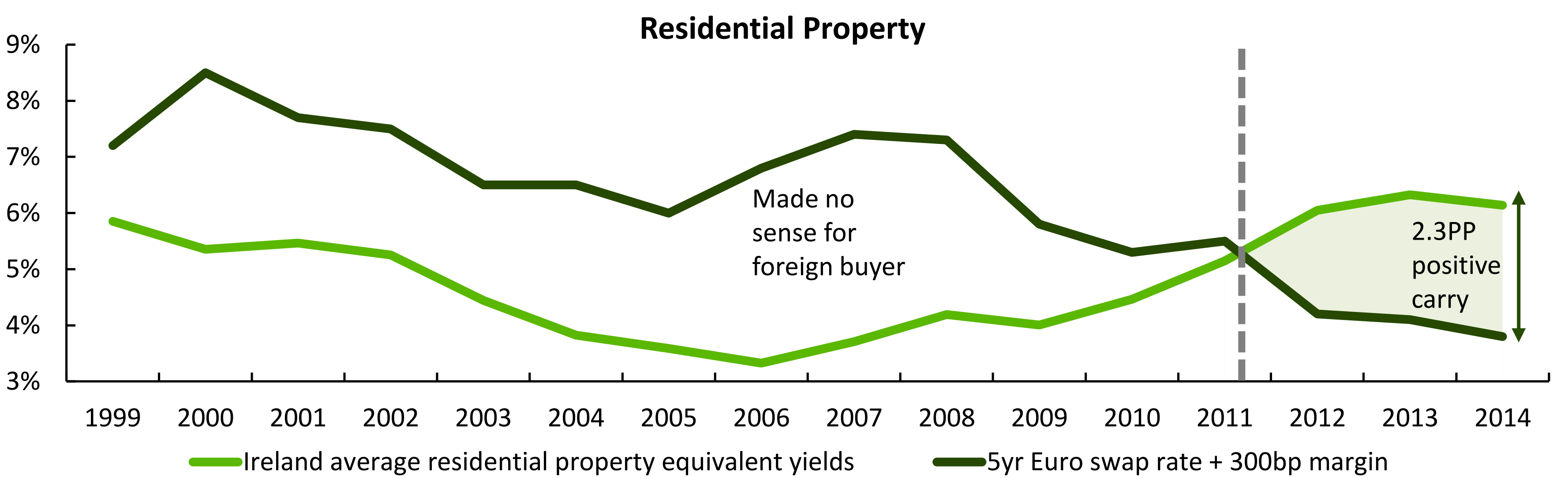
Real commercial property prices down 52% from peak (index 1983 = 100)



Source: Jones Lang LaSalle; IPD; NTMA

Foreign buyers interested on “carry trade” grounds

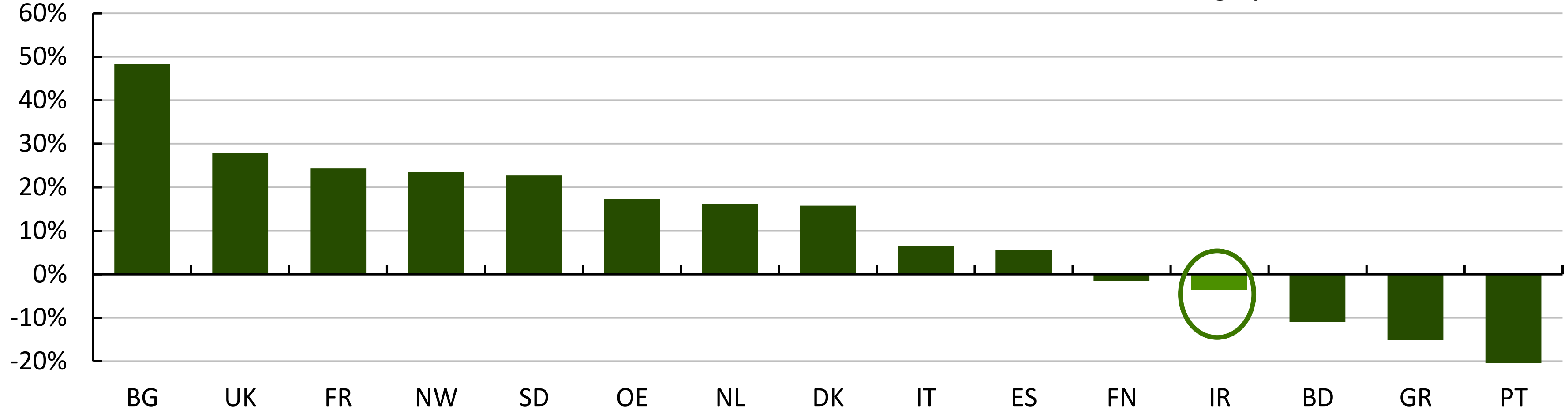




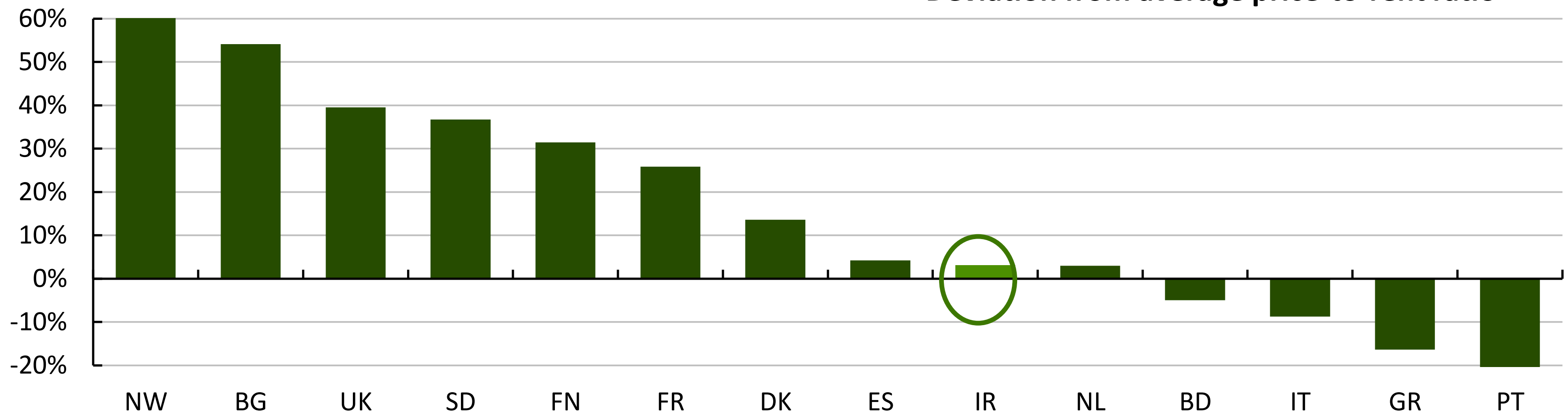
Source: IPD; NTMA

Irish house price valuation is still attractive versus European countries

Deviation from average price-to-income ratio



Deviation from average price-to-rent ratio



Source: OECD, NTMA Workings

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

All data updated to 2014 Q4

SECTION 5: NAMA

NAMA is set to make a profit of up to €1.75bn on wind-up

NAMA: over half 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 €1.75bn, market conditions remaining favourable**
- **In October, NAMA announced a new initiative to develop up to 20,000 housing units by 2020.**

More NAMA information available on www.nama.ie

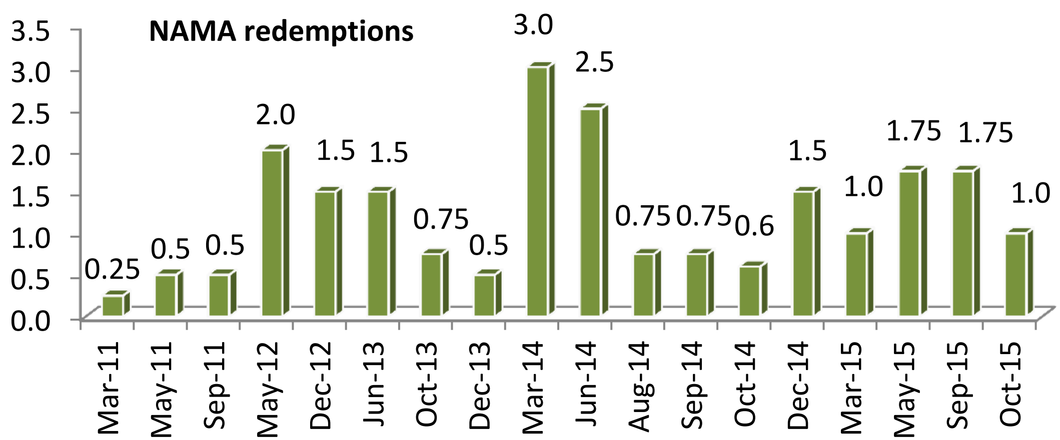
NAMA's Residential Development Funding Programme

- **In reaction to the lack of housing supply, NAMA hopes to bring 20,000 housing units to the market by 2020 under a new initiative**
  - NAMA estimates there are 14,000 housing units controlled by debtors and receivers that are currently viable to fund and develop
  - Also there are at least 6,000 more units that are currently marginal to develop but may become viable through intensive asset management by NAMA
- **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)
- **These figures do not include the 2,000 units already delivered in the Greater Dublin area in the last two years**
- **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

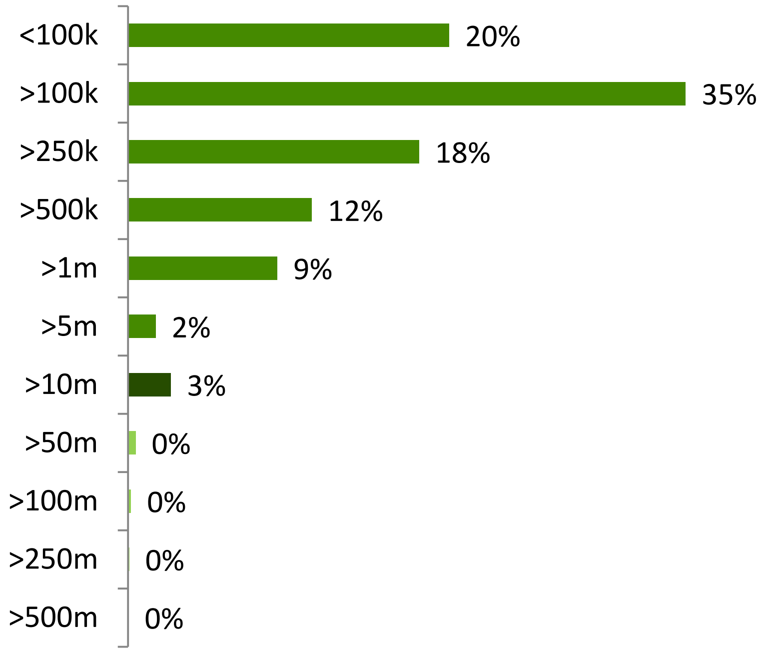


- **NAMA continues to generate net profit after impairment charges.**
- 2014 operating profit and impairment charges much lower than previous years
- €1bn of NAMA senior bonds redeemed in Oct 2015 bringing total amount redeemed to €22.1bn (73% of its senior debt liabilities)
- **All of €30.2bn in NAMA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

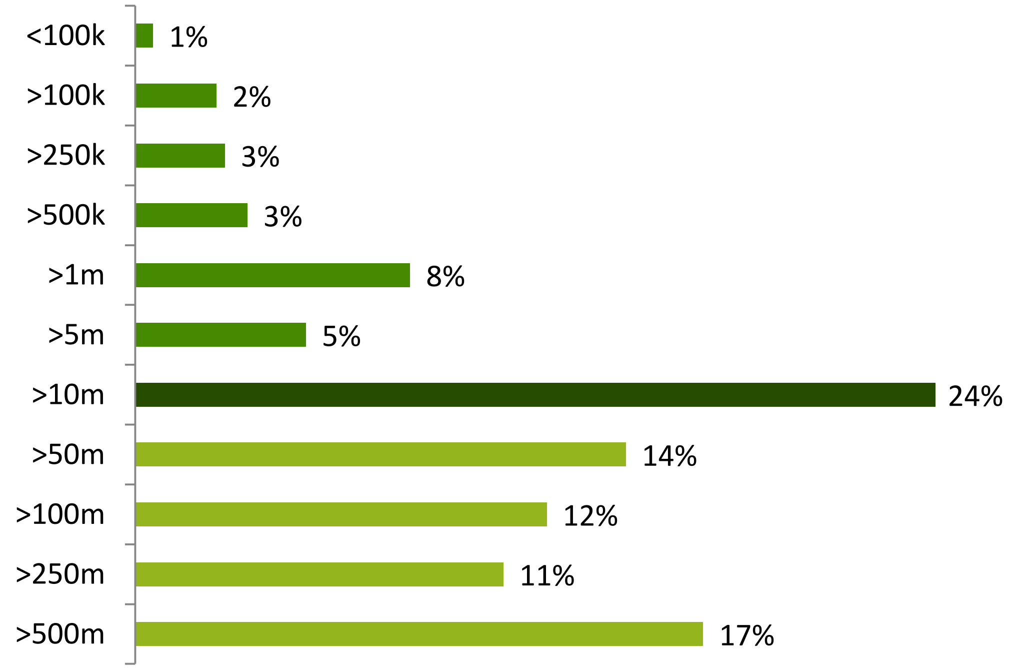
Disposal transaction analysis

	< €10m	>10m - <50m	> €50m	Total
Total Disposals (€m)	5,203	5,572	12,798	23,573
No. of Transactions	9,353	263	78	9,694
Average Disposal Value (€m)	.556	21.2	164.1	2.4

Disposal Transaction Volume by Range

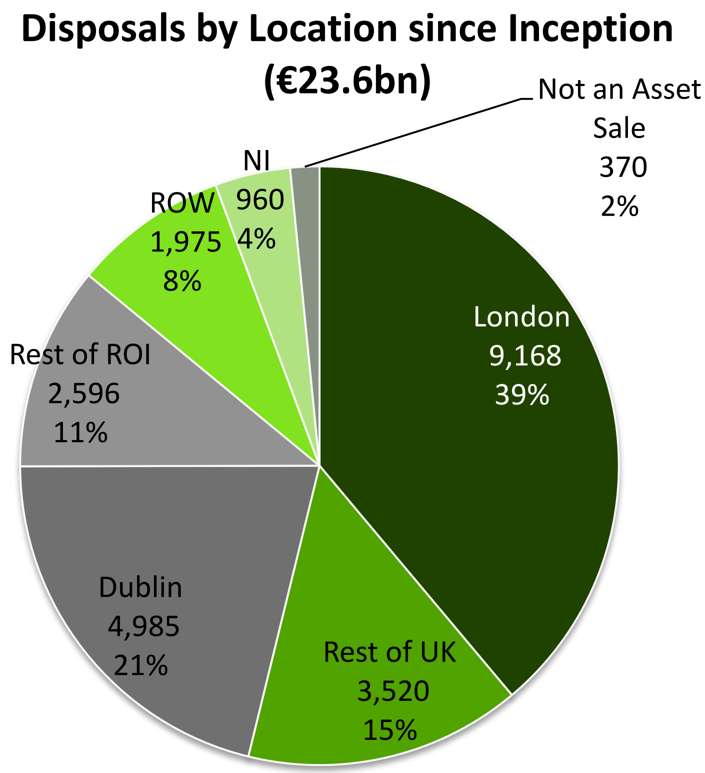


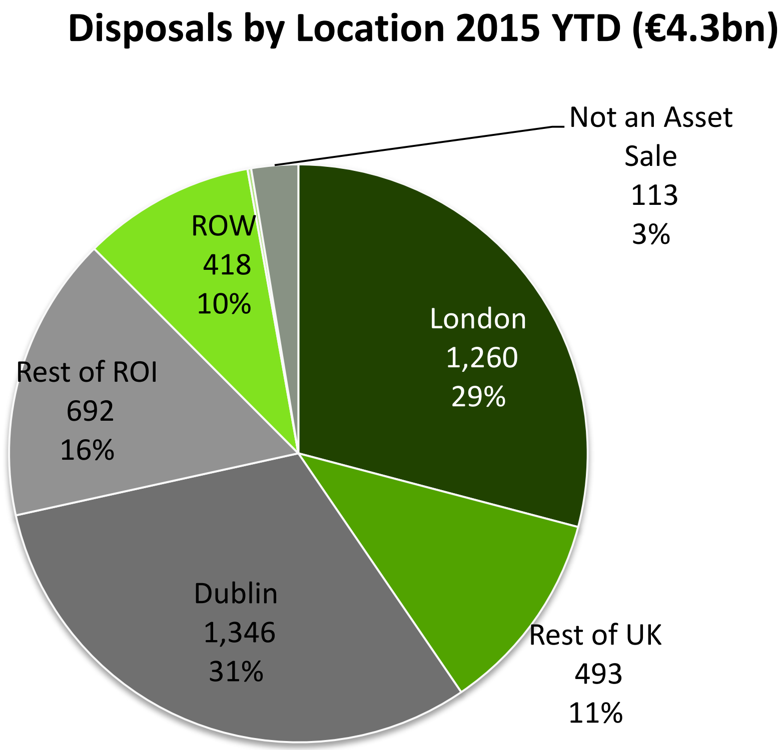
Disposal Proceeds Value by Range



Source: NAMA

Disposal Trend by Location

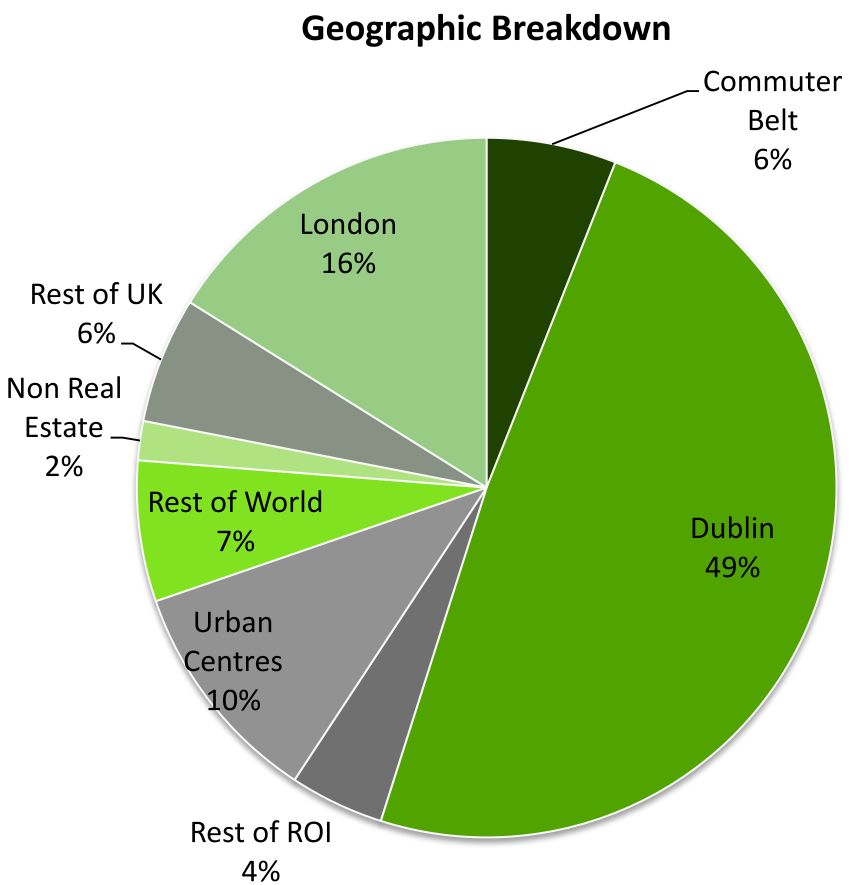


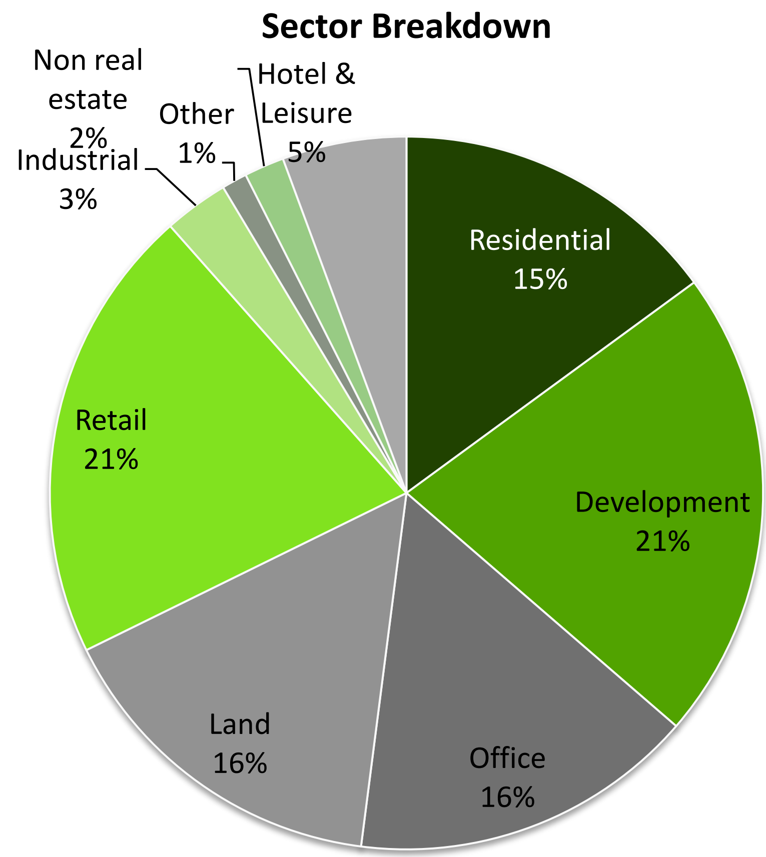


- Deliberate NAMA focus on UK disposals during 2010 – 2013 period.
- ROI transactions have increased significantly since Q4 2013 - from €2bn to €7.6bn.

Source: [NAMA]

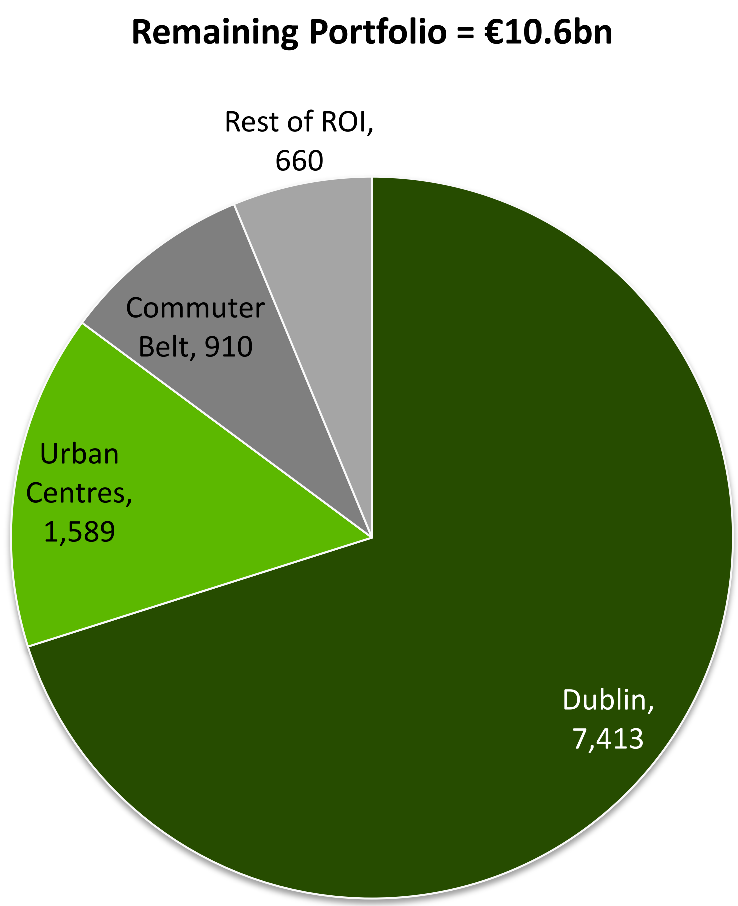
Breakdown of NAMA property portfolio, June 2015

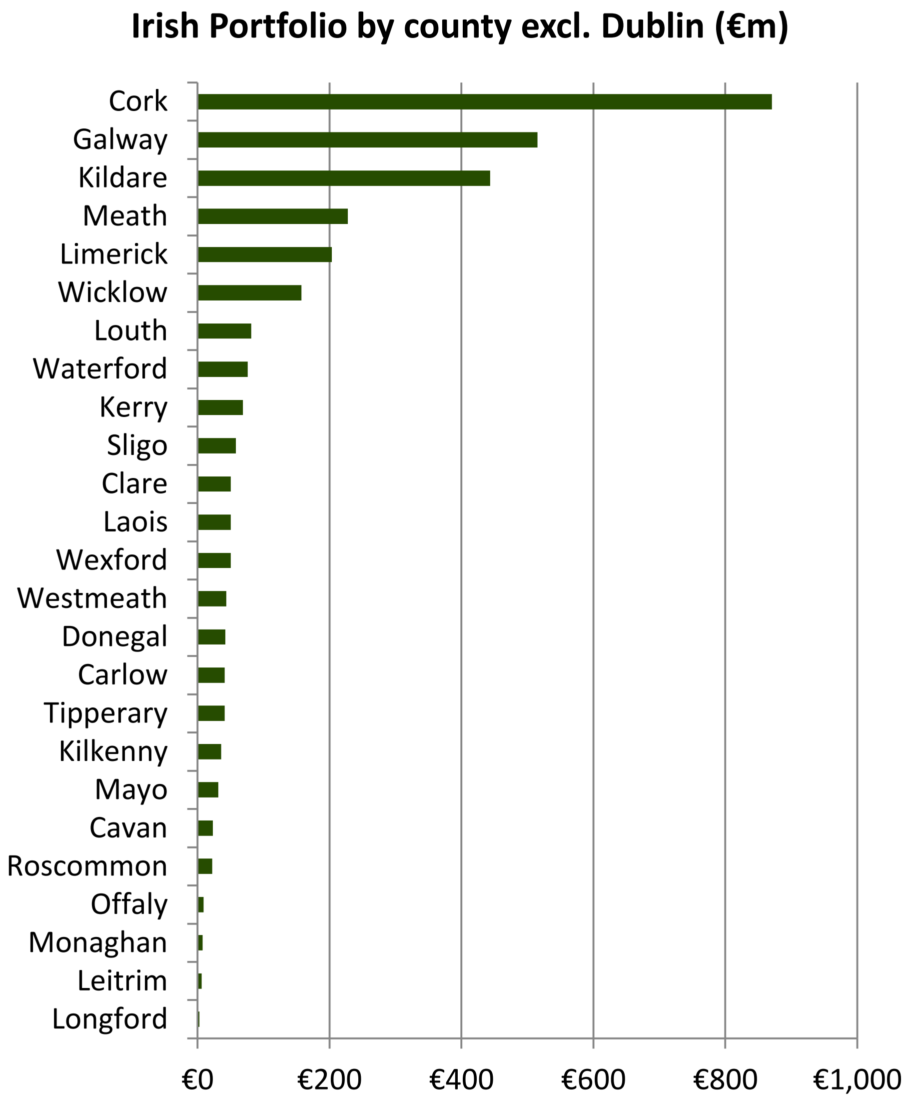




Source: NAMA

Remaining Irish portfolio by county (June 2015)





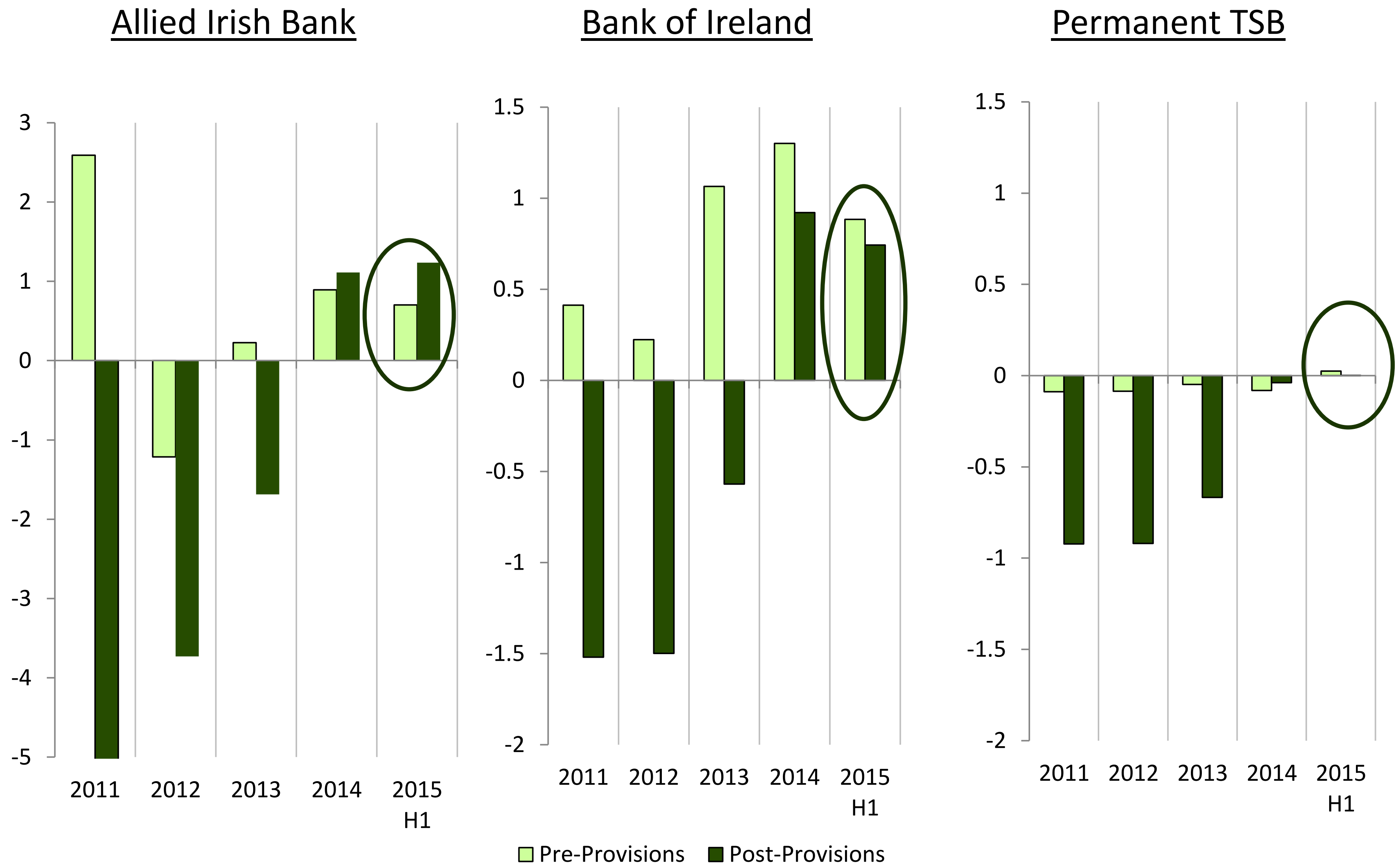
NAMA: Other strategic initiatives also progressing

- **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 15 of the 20 development blocks identified in the SDZ and has developed detailed strategies for these 15 blocks.
  - It is estimated that up to 3.8m sq. ft. of commercial space and 1,950 apartments could potentially be delivered over the lifetime of the Dublin Docklands SDZ Scheme.
- **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-June 2015, over 1,400 units were delivered under this initiative. NAMA expects that a further 600 units (which are in active negotiation) will be delivered in 2015.

SECTION 6: BANKING

Banks overhauled since late 2010; AIB and BOI returned to profit in 2014

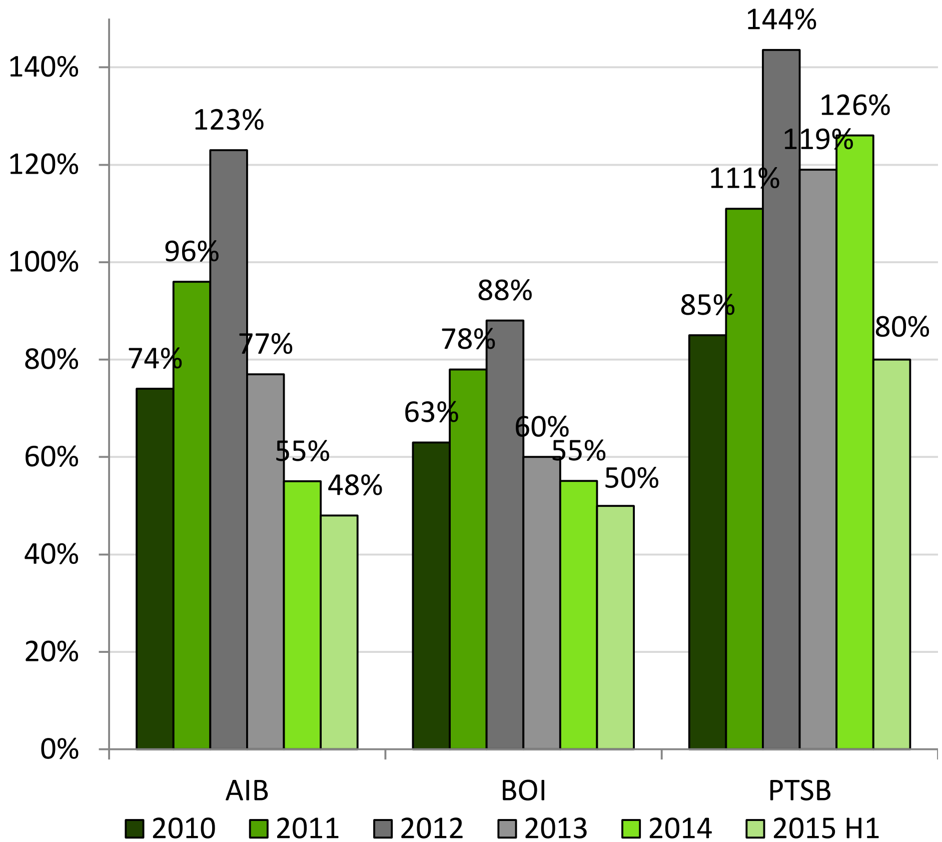
AIB and BOI returned to profit in 2014 (€bn); PTSB breaks even in H1 2015



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

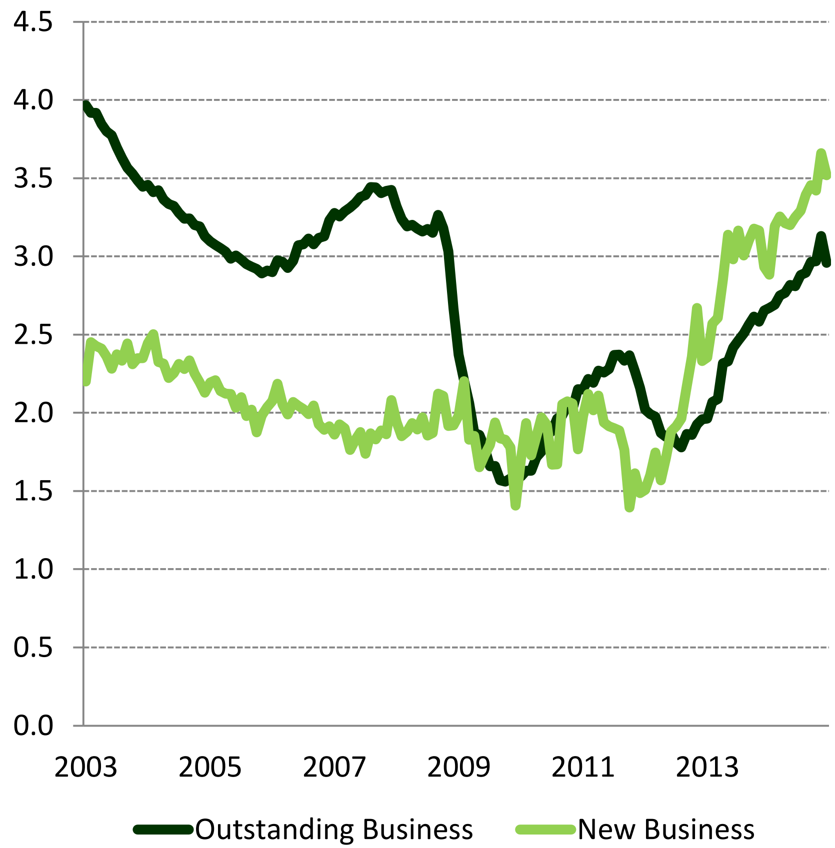
Banks fundamentally rebuild profitability

Cost income ratios improve dramatically



Source: Annual reports of Irish domestic banks

Net interest margins recover %



Source: [Central Bank of Ireland]

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

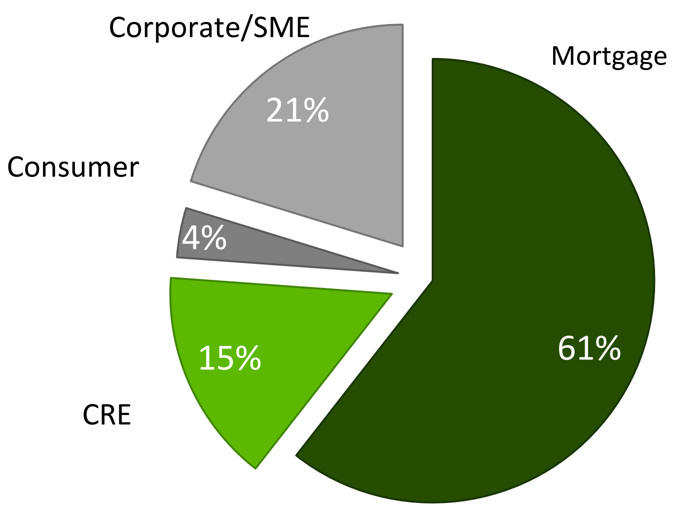
Asset quality improving as impaired loans and provisions continue to fall

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

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

Impaired Loans % (Coverage %)[1] by Bank and Asset					
		Dec-13	**Dec-14**	**Jun-15**	***Book (€bn)***
BOI	Irish Residential Mortgages	14.2(49)	12.6(46)	11.1(48)	25.3
	UK Residential Mortgages	2.4(24)	2.0(23)	1.8(24)	28.1
	Irish SMEs	26.7(50)	25.6(51)	24.3(52)	9.5
	UK SMEs	17.1(50)	16.9(44)	13.9(46)	2.6
	Corporate	7.5(41)	5.6(54)	5.1(59)	8.6
	CRE - Investment	42.3(38)	37.2(46)	35.8(48)	12.5
	CRE - Land/Development	89.3(68)	89.5(74)	90.1(75)	2.5
	Consumer Loans	8.4(90)	6.4(98)	5.3(100)	3.2
		18.5(48)	**18.2(50)**	**14.4(53)**	**92.4**
AIB	Irish Residential Mortgages	23.0(43)	22.6(40)	20.1(36)	35.3
	UK Residential Mortgages	11.3(53)	11.6(59)	11.5(58)	2.6
	SMEs/Corporate	30.0(64)	21.4(68)	16.8(63)	17.9
	CRE	66.7(64)	56.9(62)	48.6(62)	13.8
	Consumer Loans	33.2(81)	27.2(69)	23.3(75)	3.7
		34.9(59)	**29.2(51)**	**24.6(48)**	**73.3**
PTSB	Irish Residential Mortgages	26.0(47)	25.5(46)	24.0(47)	21.9
	UK Residential Mortgages	1.3(85)	1.5(60)	2.3(63)	3.8
	Commercial	68.7(63)	74.0(60)	71.3(61)	0.9
	Consumer Loans	26.0(105)	29.7(94)	28.7(93)	0.3
		23.6(51)	**24.5(51)**	**22.6(50)**	**26.9**

Loan Asset Mix (banks Jun 15)

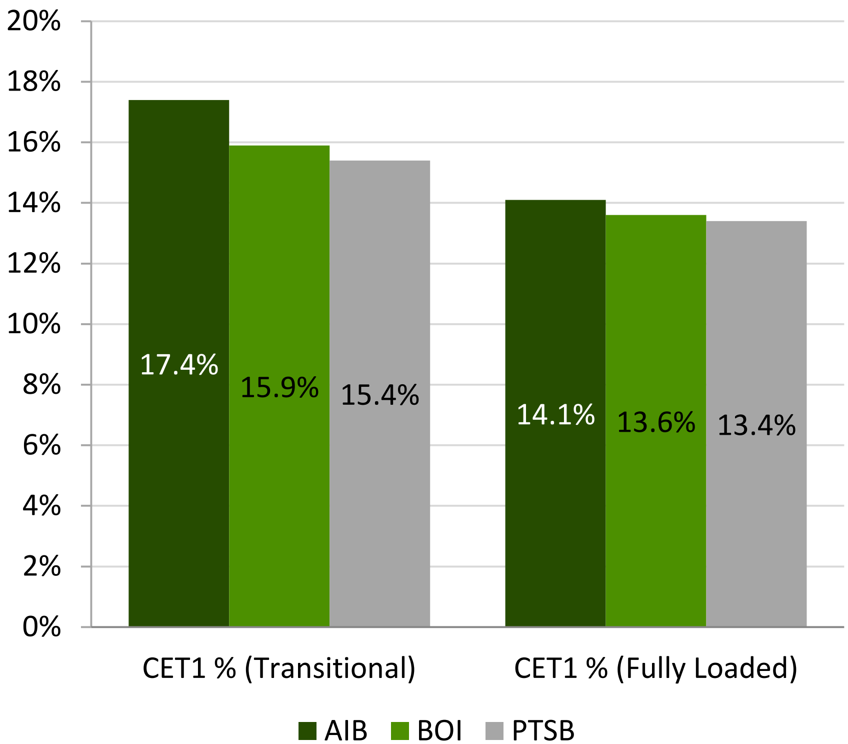


Source: Published bank accounts

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

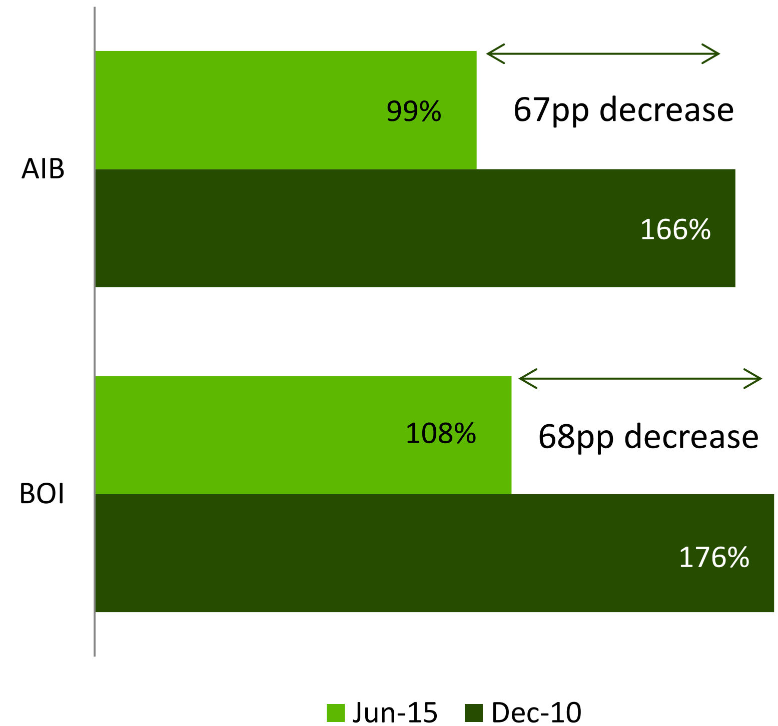
Capital and loan-to-deposit ratios strengthened

Core Tier 1 Capital Ratios (Jun-15)



Source: Published bank accounts

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



Source: Published bank accounts

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

Note: "Transitional" refers to the transitional Basel III required for CET1 ratios which came into effect 1 January 2014. "Fully loaded" refers to the actual Basel III basis for CET1 ratios.
* The AIB and BOI fully loaded CET1 ratios include €3.5bn and €1.3bn of preference shares respectively. Excluding these preference shares, the ratio for AIB is 8.3% and for BOI is 11.1%.

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

Total Assets: €257.6 bn	
Loans and receivables - loans to customers	172.3
Loans and receivables - loans to credit institutions	8.3
Loans and receivables - debt instruments	14.2
Available-for-sale financial assets	31.5
Cash & cash balances with central banks	12.3
Other	18.8

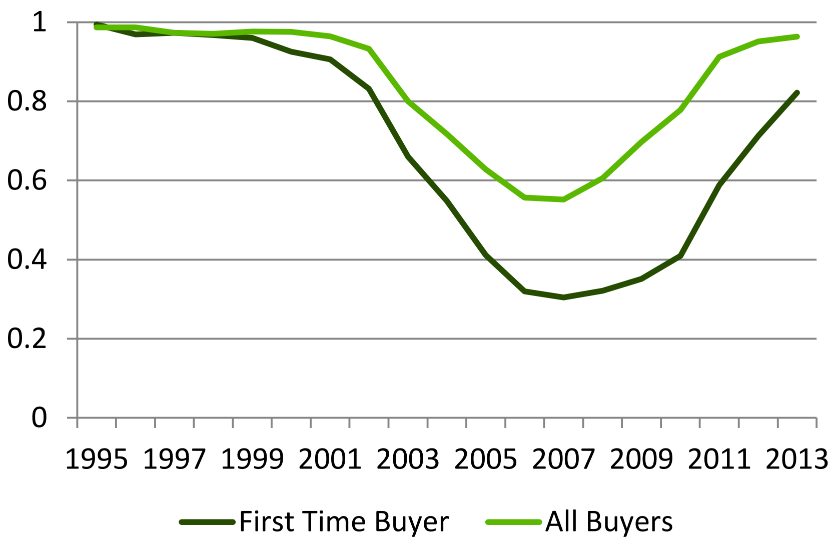
Source: CBI

Total Liabilities, Minority Interest and Equity: €257.6 bn	
Deposits excl. Credit Institutions	160.6
Deposits from Credit Institutions and Central Banks	29.2
Debt Certificates	24.8
Subordinated Liabilities	4.5
Other liabilities	13.5
Equity & Minority Interest	24.9
Total Liabilities, Minority Interest and Equity	257.6

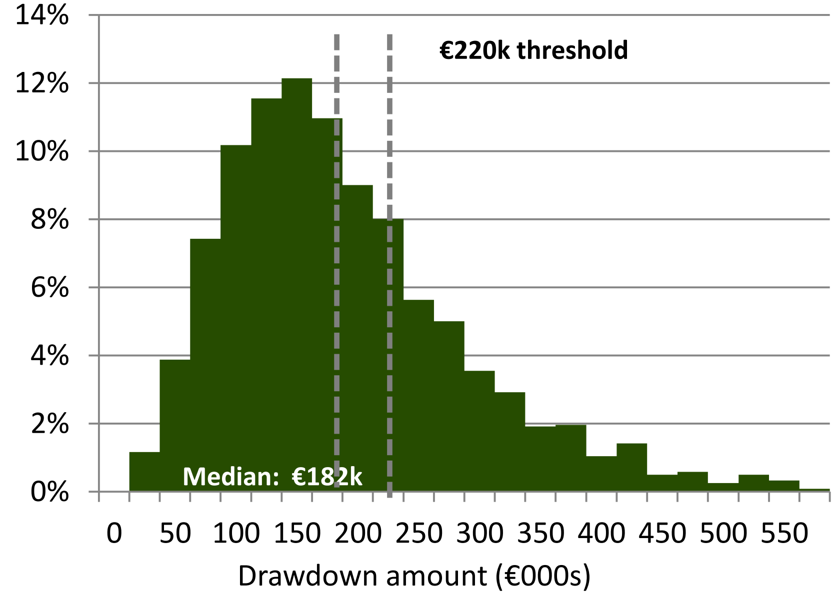
Note: Banks included in this measure are outlined here; Balance sheet calculated on consolidated basis

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



House price distribution for FTBs in 2014 H1



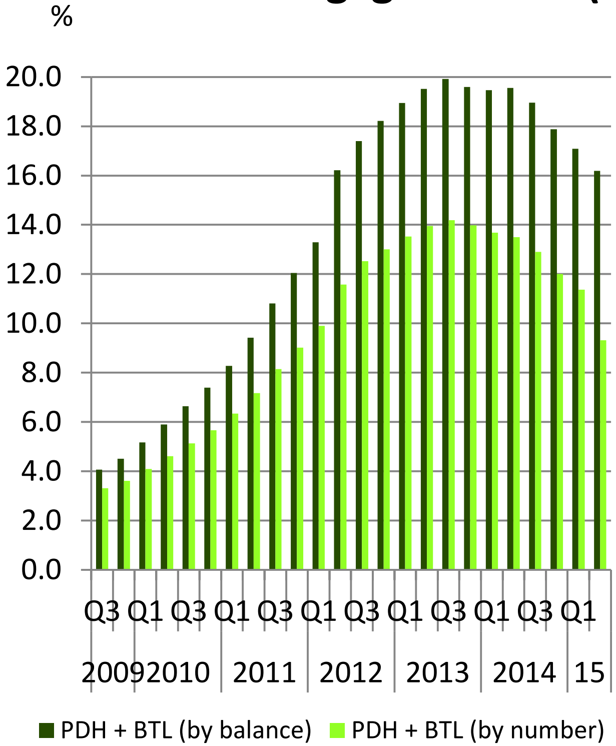
Source: CBI

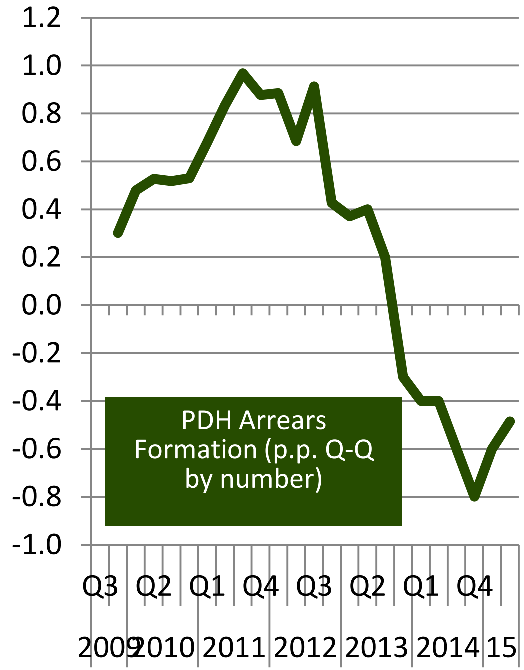
Key changes to lending rules
Banks must restrict lending for primary dwelling purchase above 80 per cent LTV to no more than 15 per cent of the aggregate value of the flow of all principal dwelling loans*
Bank must restrict lending for primary dwelling purchase above 3.5 times LTI to no more than 20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

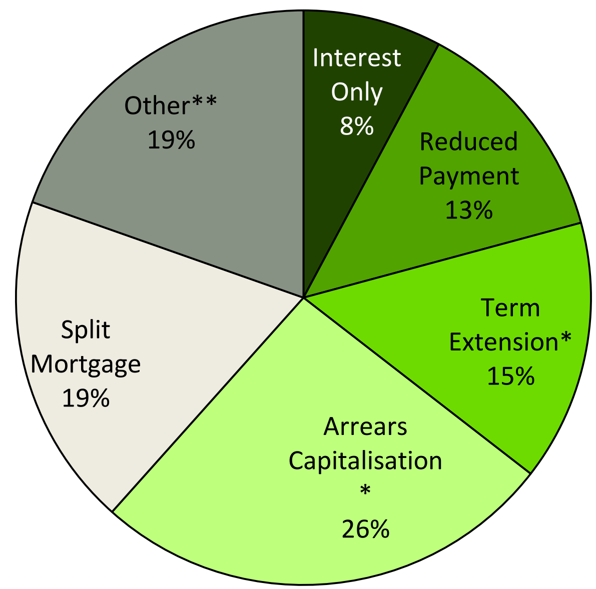
Irish residential mortgage arrears – improving but still challenging

Mortgage Arrears (90+ days)





Total Restructured/Rescheduled Cases

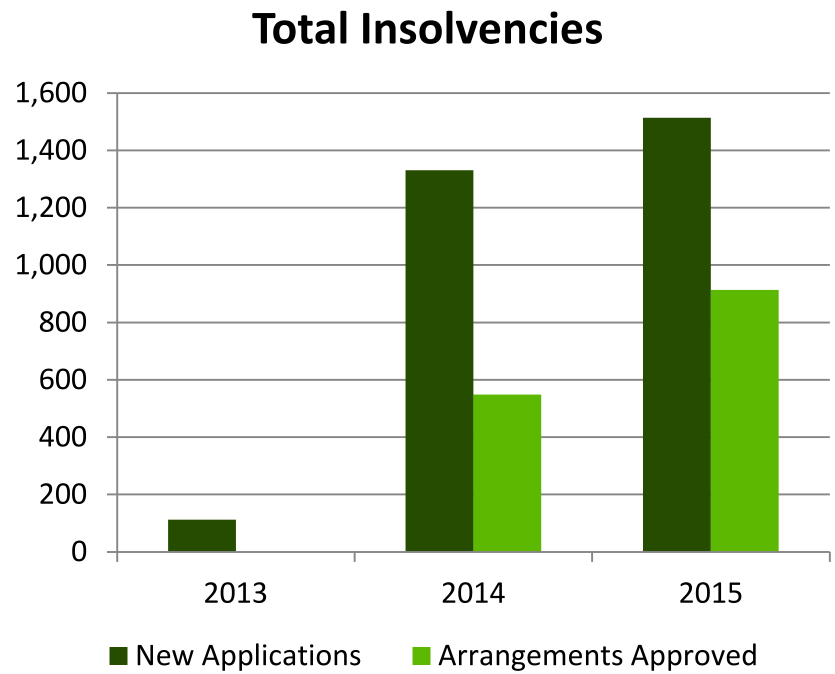


Source: [CBI]

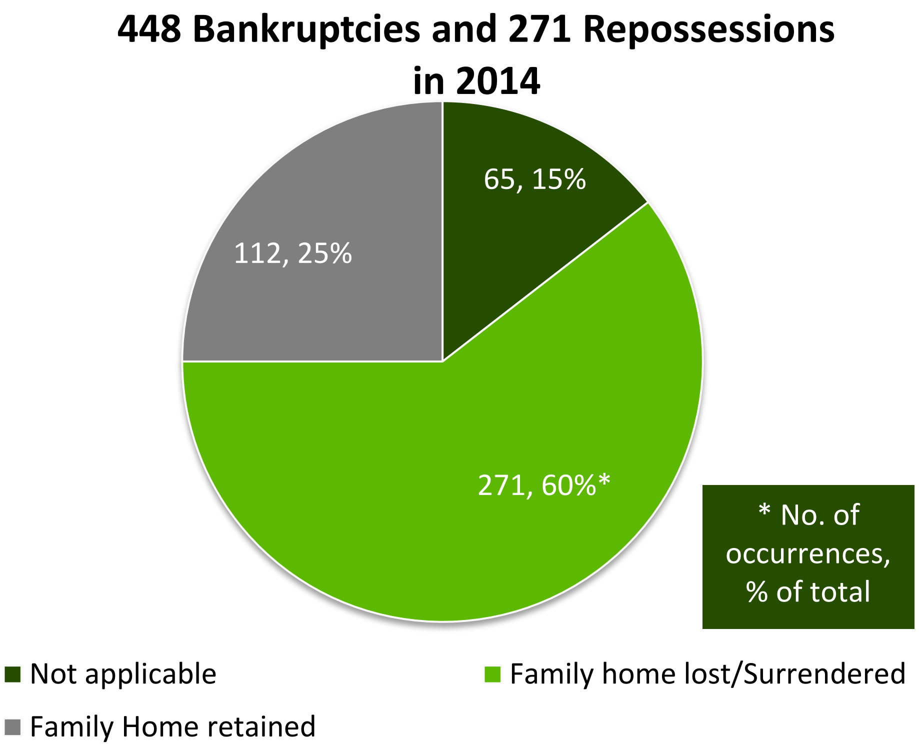
- PDH mortgage arrears have fallen steady since Q3 2013. The smaller BTL market (c. 25% of total) has higher arrears but also saw declines in the same period.
- Some 118,593 PDH mortgage accounts were classified as restructured at end-June, reflecting a q-o-q increase of 1.9%. Of these restructured accounts, 86.3% 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

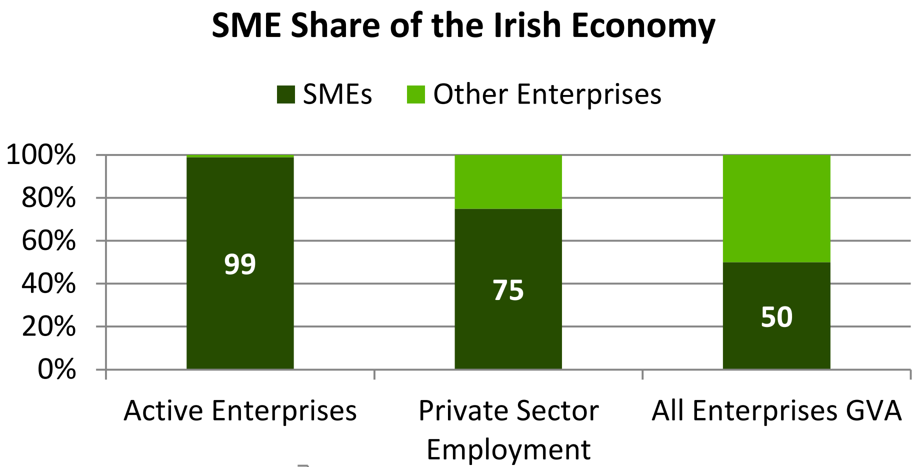


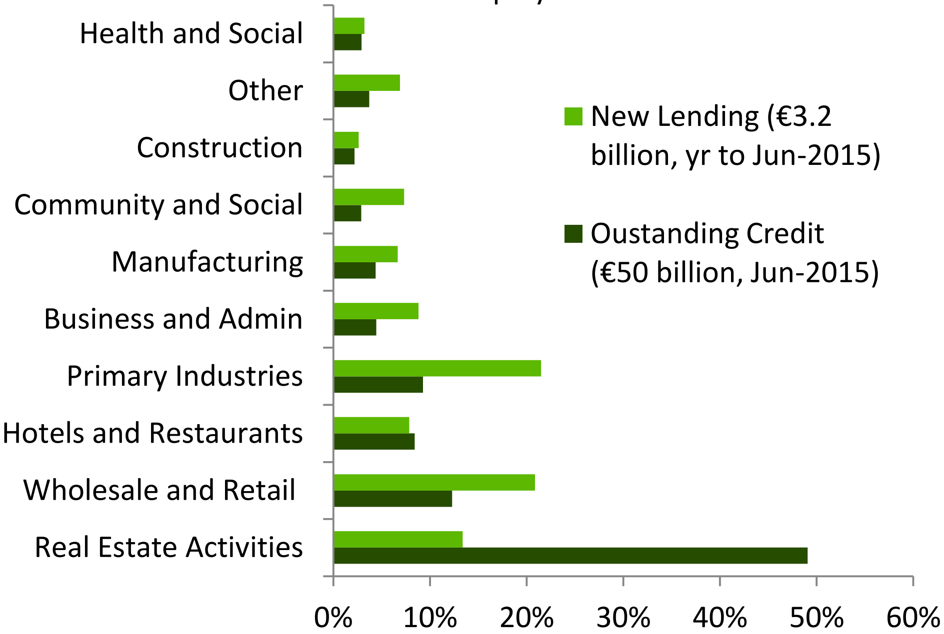
Source: ISI



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

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





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.

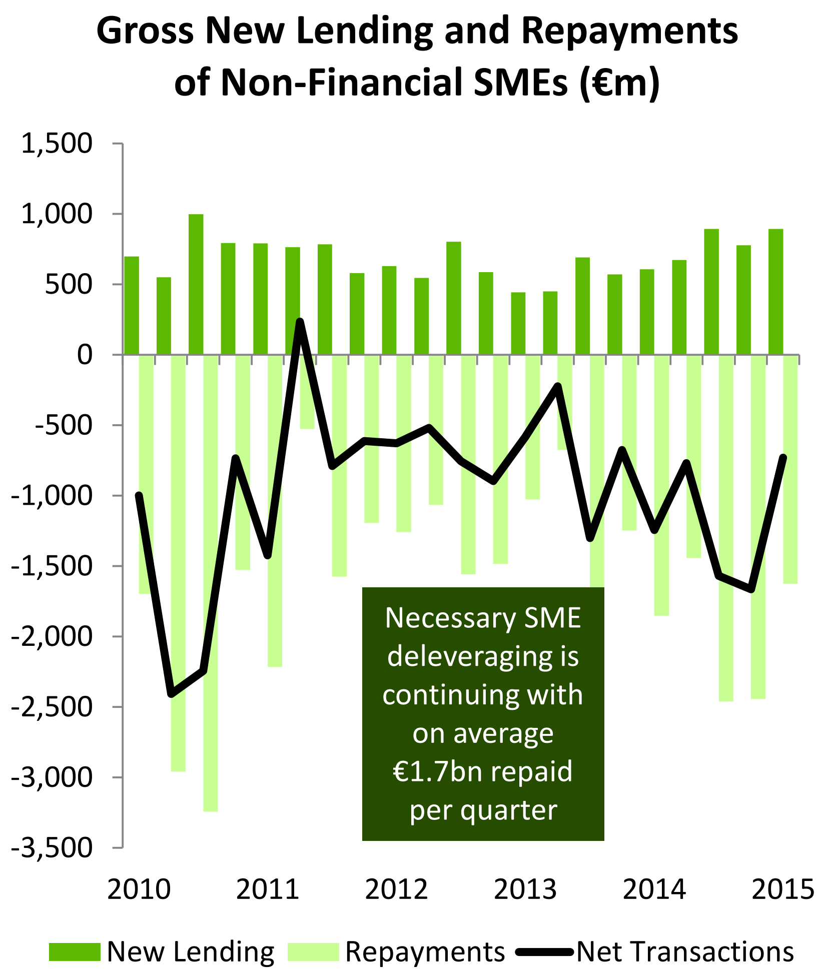
The SBCI's initial funding partners are the EIB, KfW (the German promotional bank) and the Ireland Strategic Investment Fund (ISIF).

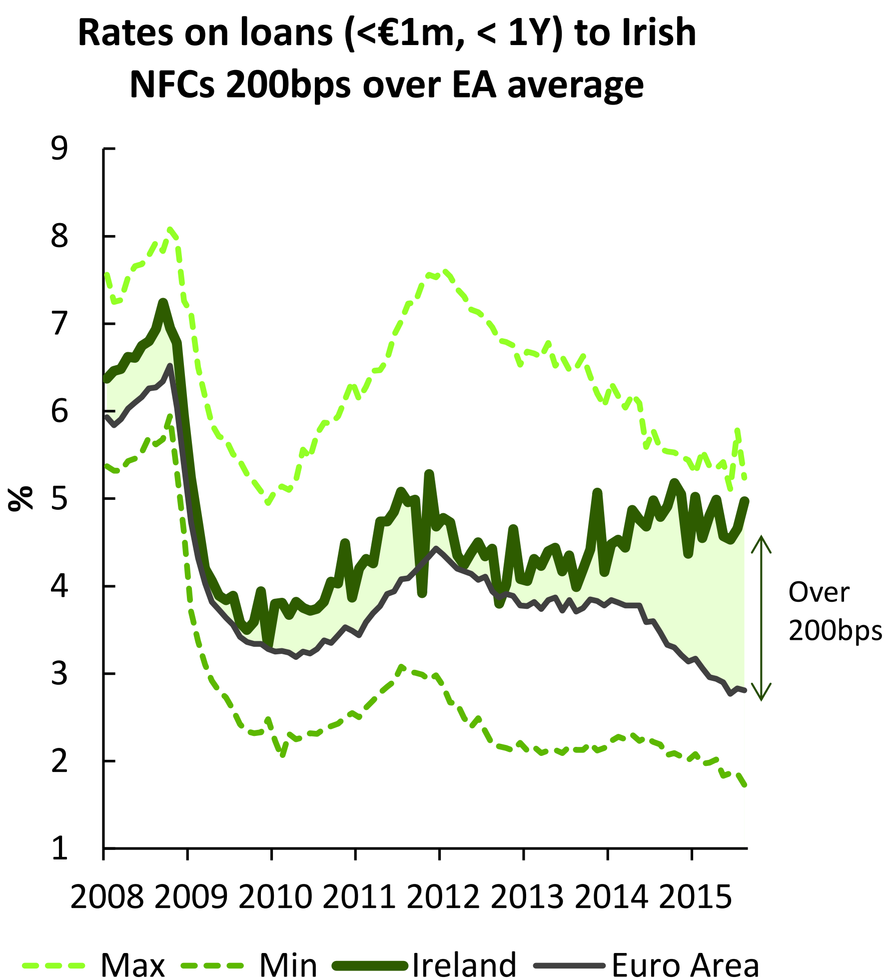
These partners are providing long-term funding at attractive rates to the SBCI, which in turn will provide the funding to Irish SMEs through Irish-based credit institutions.

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 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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