IRELAND: PACE OF RECOVERY QUICKENS

Set for fourth straight year of fiscal outperformance

September 1st, 2014

Index

SUMMARY

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

Ireland has emerged from its crisis

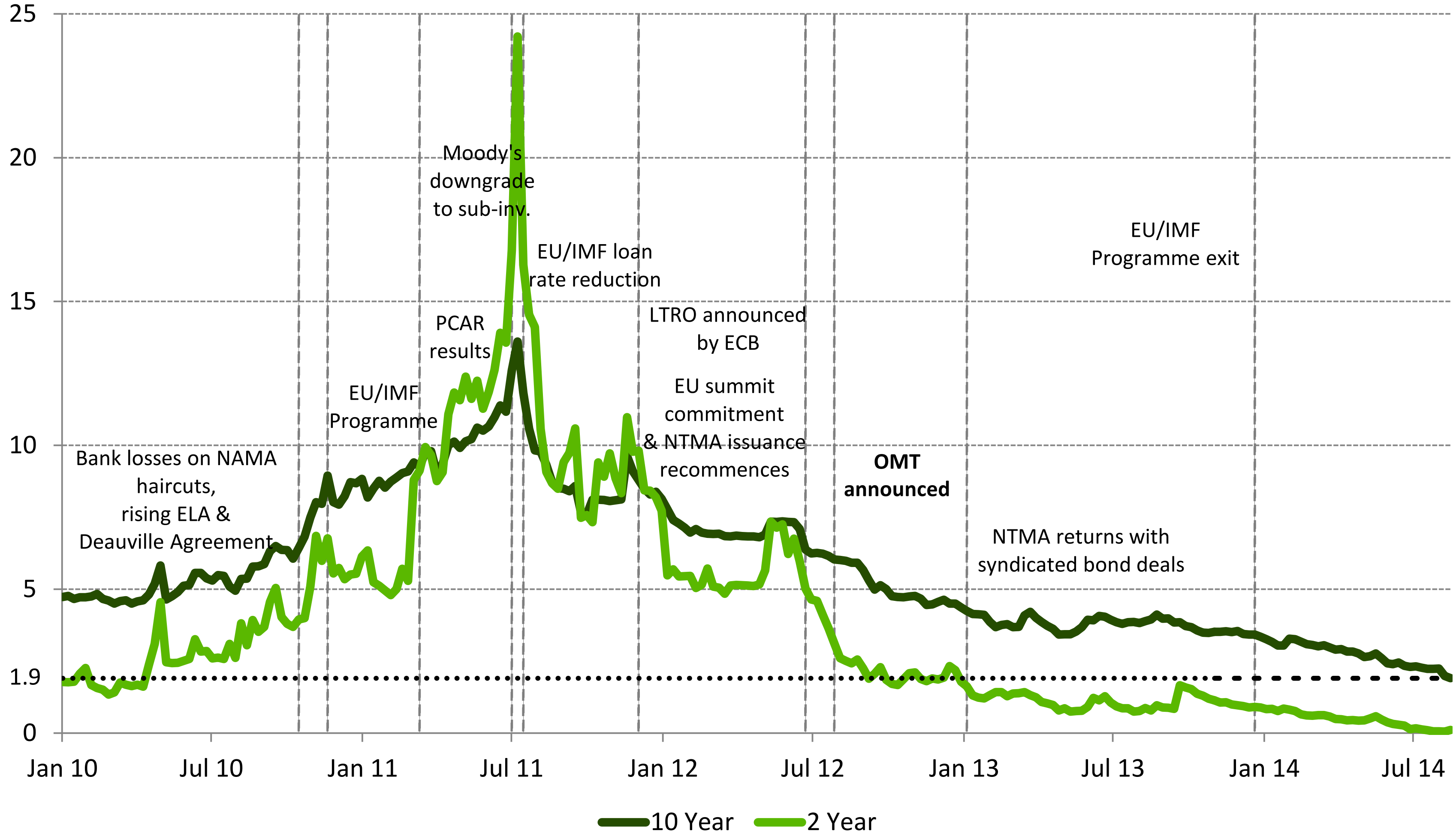
- **Ireland on track to beat full year 2014 target with plenty to spare**
  - July 2014 Exchequer (loosely Central Government) data show revenue ahead of target by about 0.6pp of GDP on an underlying basis and primary expenditure roughly in line
  - Ratios helped in 2014 by near 7% boost to GDP from introduction of ESA-2010 rulebook
  - Set for fourth year of outperformance 2011-14; EDP exit (-3% of GDP) slated for 2015
- **Ireland's GDP growth expected to rank among highest in euro area in 2014**
  - Strong first quarter (real GDP +2.7% qoq) of 2014, following revised -0.1% qoq in Q4 2013; high frequency indicators point to further gains in second quarter
  - Oddities in the national accounts related to the pharma sector meant that employment growth (+2.4% y-on-y in 2013) was not reflected in real GDP growth (0.2% in 2013)
  - Services PMI and consumer confidence up to early 2007 levels, "core" retail sales are growing at 3-4% year-on-year, industrial production has rebounded, the construction sector is recovering and unemployment rate is down to 11.3% - lowest since March 2009
  - Trading partner growth has improved: UK and US stronger although EA lagging badly
- **Contingent liabilities for the State dwindling and net debt c. 92% of GDP**
  - Ireland's main contingent liability being steadily eliminated: NAMA has now repaid almost 45 per cent of its original Government-guaranteed senior bonds. There was potential for a second book of loans on the back of the IBRC liquidation: this has now been ruled out.
  - IBRC liquidation may actually generate surplus for the State versus written-down value
  - Net Government debt was 91.4% of GDP at end-Q1 2014, as Ireland husbands large financial resources to offset a large chunk of its gross debt

State has already tapped the market in 2014

- **More than 85% of 2014 funding completed, after first bond auctions in 3.5 years**
  - Ireland issued €3.25bn across four auctions, each at a new record low 10-year yield: 2.97% in March; 2.92% in April; 2.73% in May and 2.31% in July
- **Investor base has been broadening**
  - Sold €3.75bn of same 10-year bond via syndication in January 3.54%
  - Even broader investor interest than for previous benchmark issue (Mar. 2013): some 400 investors submitted bids, including fund managers, pension funds, banks and insurance cos. More than 83 per cent of demand was from overseas investors; including the UK (26% of total), the Nordic region (15%), Germany, Austria and Switzerland (14%), US and Canada (14%), Middle East & Asia (4%)
  - This followed the initial return to the T-Bill and bond market in 2012 and two forays in early 2013: sales of €7.5bn in total in 10-year and 5-year bonds
  - Ireland continues to engage with investors on a regular basis: the NTMA conducted two non-deal roadshows each year during 2011, 2012 and 2013
- **State exited Financial Assistance Programme at end-2013**
  - Last Troika mission of the *Programme* took place in early November 2013
  - Government did not apply for any support in the form of a credit line
  - Budget 2014 implemented on October 15th (brought forward under "2-pack")

Irish bond market continues its strong performance

2013: Third consecutive year of being best *investment-grade* euro area performer (yld: %)

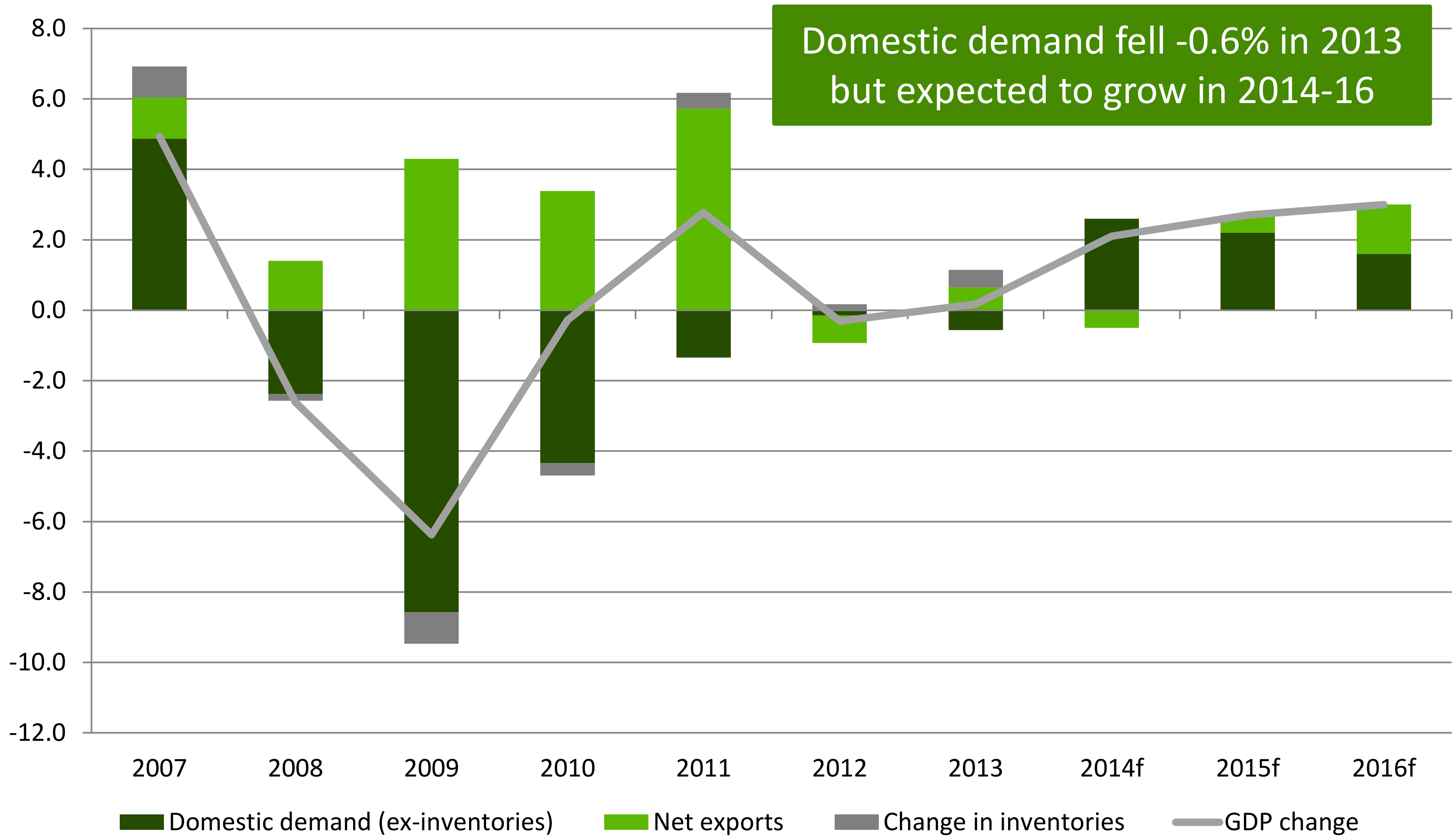


Source: Bloomberg (weekly data)

SECTION 1: MACRO

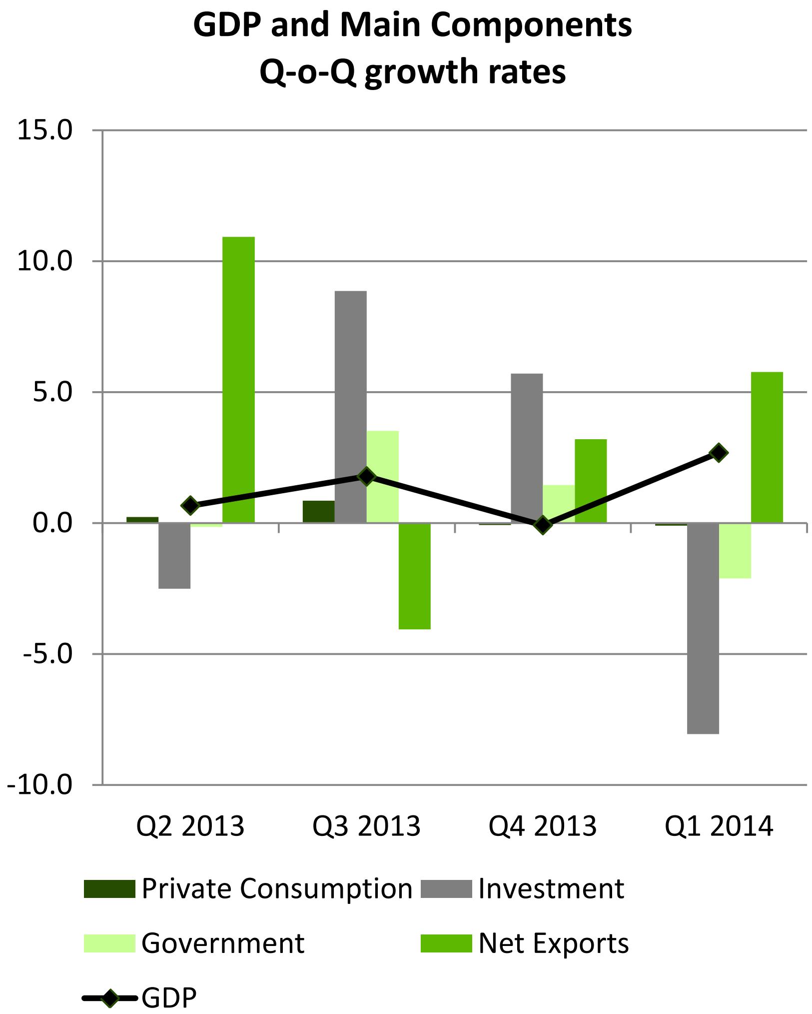
Recovery commenced in 2013 and has gained momentum in 2014; Unemployment has dropped sharply from a peak of 15.1% to 11.3%

Y-o-Y GDP growth for 2013 revised upwards to 0.2%; net exports was the driver despite patent cliff



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

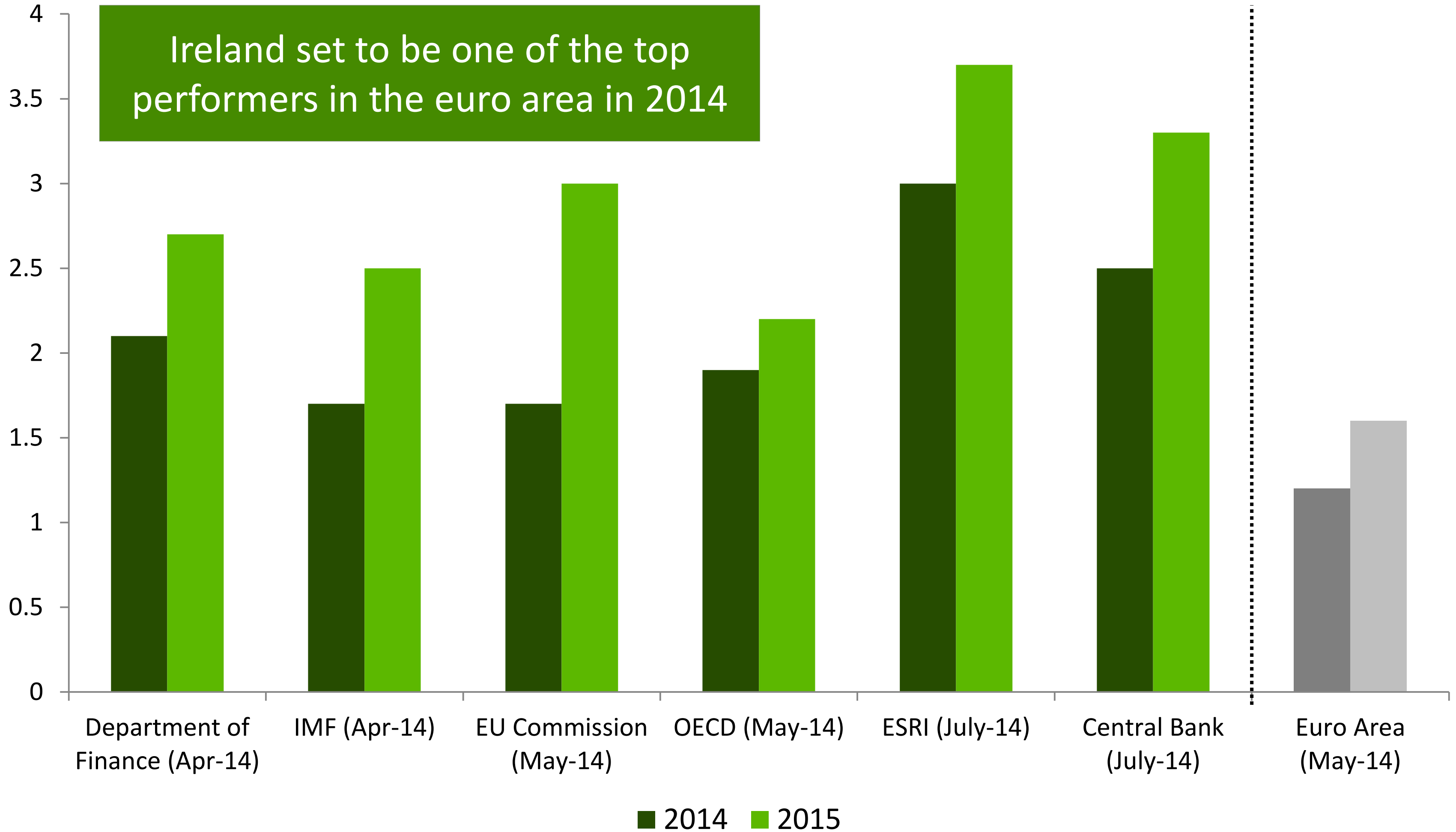
Q1 2014 GDP figures point to faster recovery, as also suggested by employment and soft data



Source: CSO; NTMA workings

- Q-Q growth for Q1 2014 was 2.7% and Q4 2013 growth was revised upwards to -0.1%; flat Q-Q change from here = ~4% full year real growth
- Net Exports was the main driver in Q1, increasing 5.8% Q-Q.
- The Q1 GDP release implemented the ESA 2010 standards for the first time; This resulted in an increase in the level of GDP to €174.8bn in 2013; and primarily reflects a new statistical treatment of R&D (as investment)
- These changes do not really affect GDP growth rates but lower Ireland's deficit and debt ratios

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

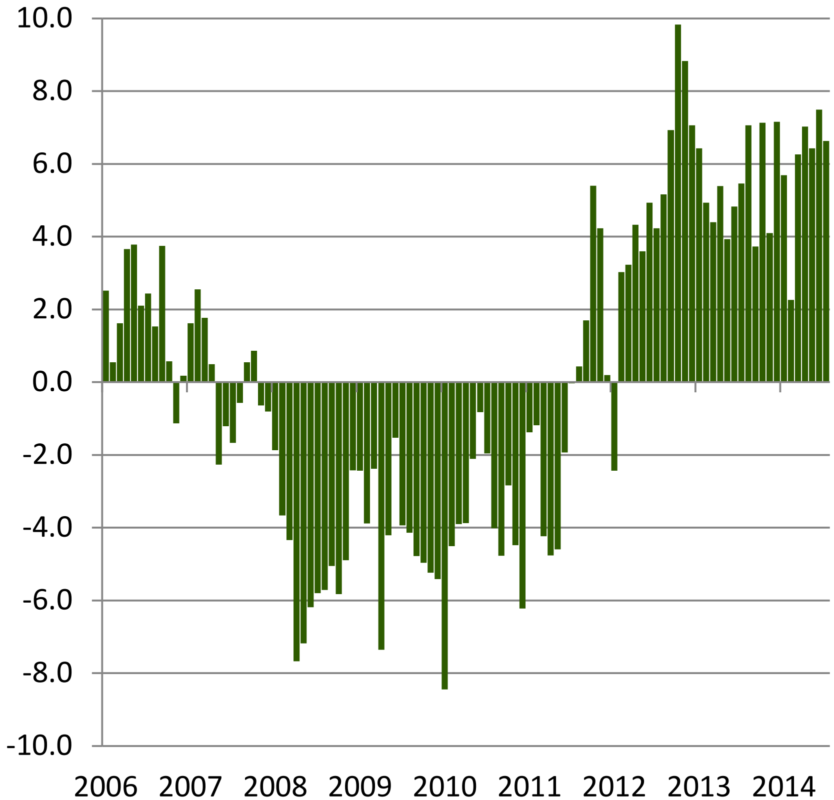


Note: Real GDP y-o-y growth rates forecast by various institutions

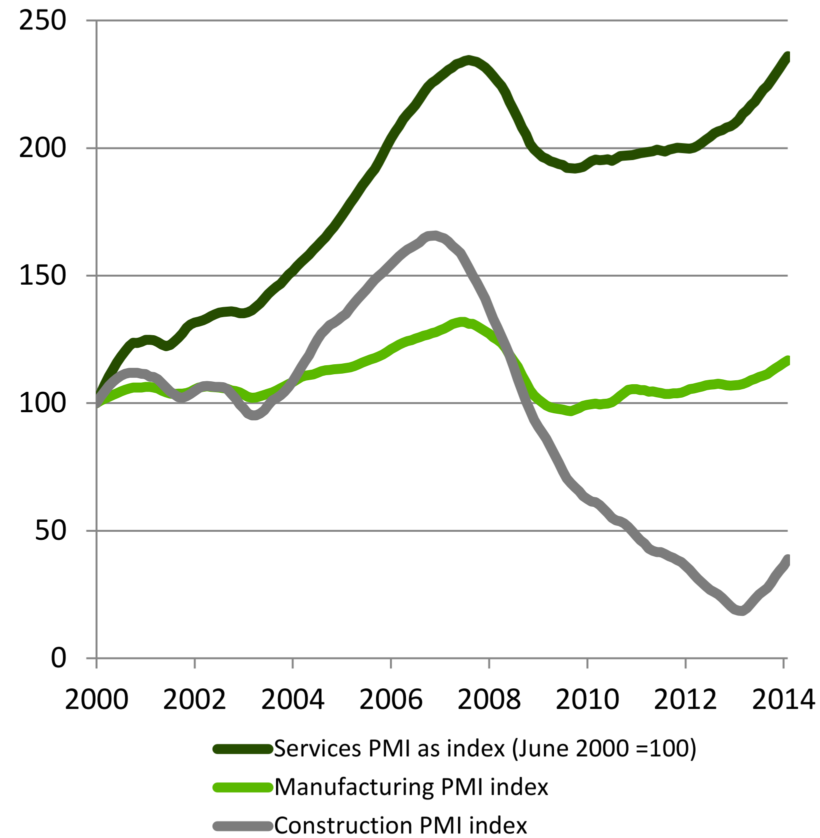
Sources: Various publications; Euro area calculated as average of IMF, OECD and EU Commission forecasts

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

Ireland growing faster than euro area (PMI composite difference)



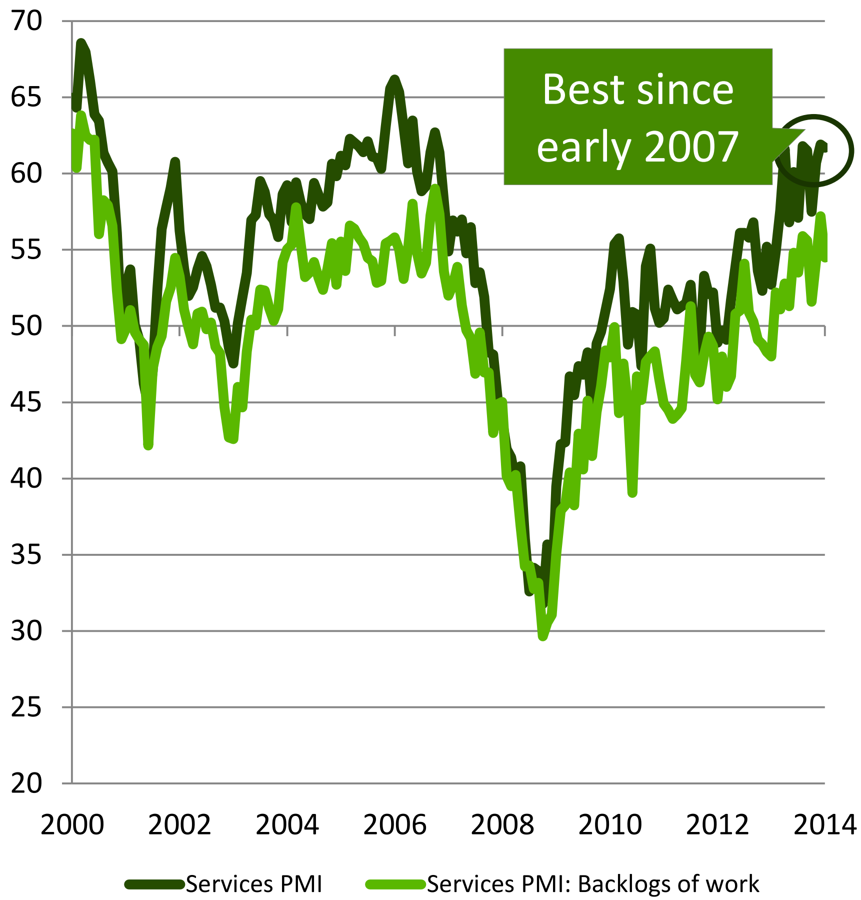
All sectors now growing (PMI change as cumulative index level, June 2000 = 100)



Source: Bloomberg; Markit; Investec

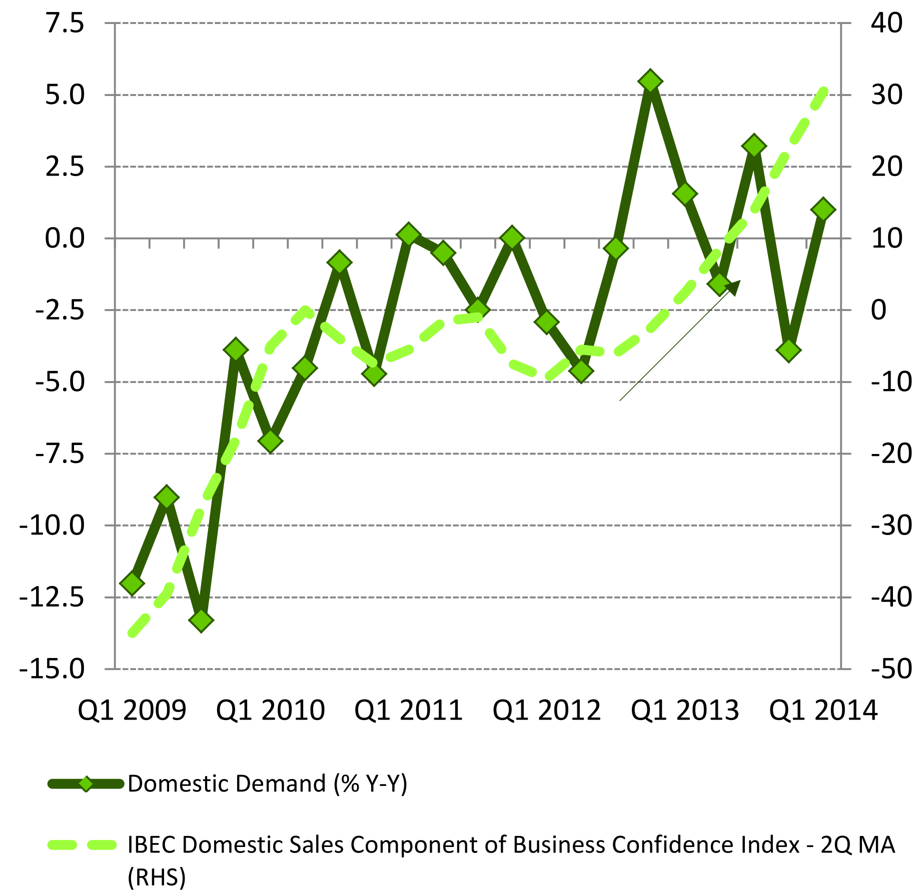
Business surveys point to sustainable recovery

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



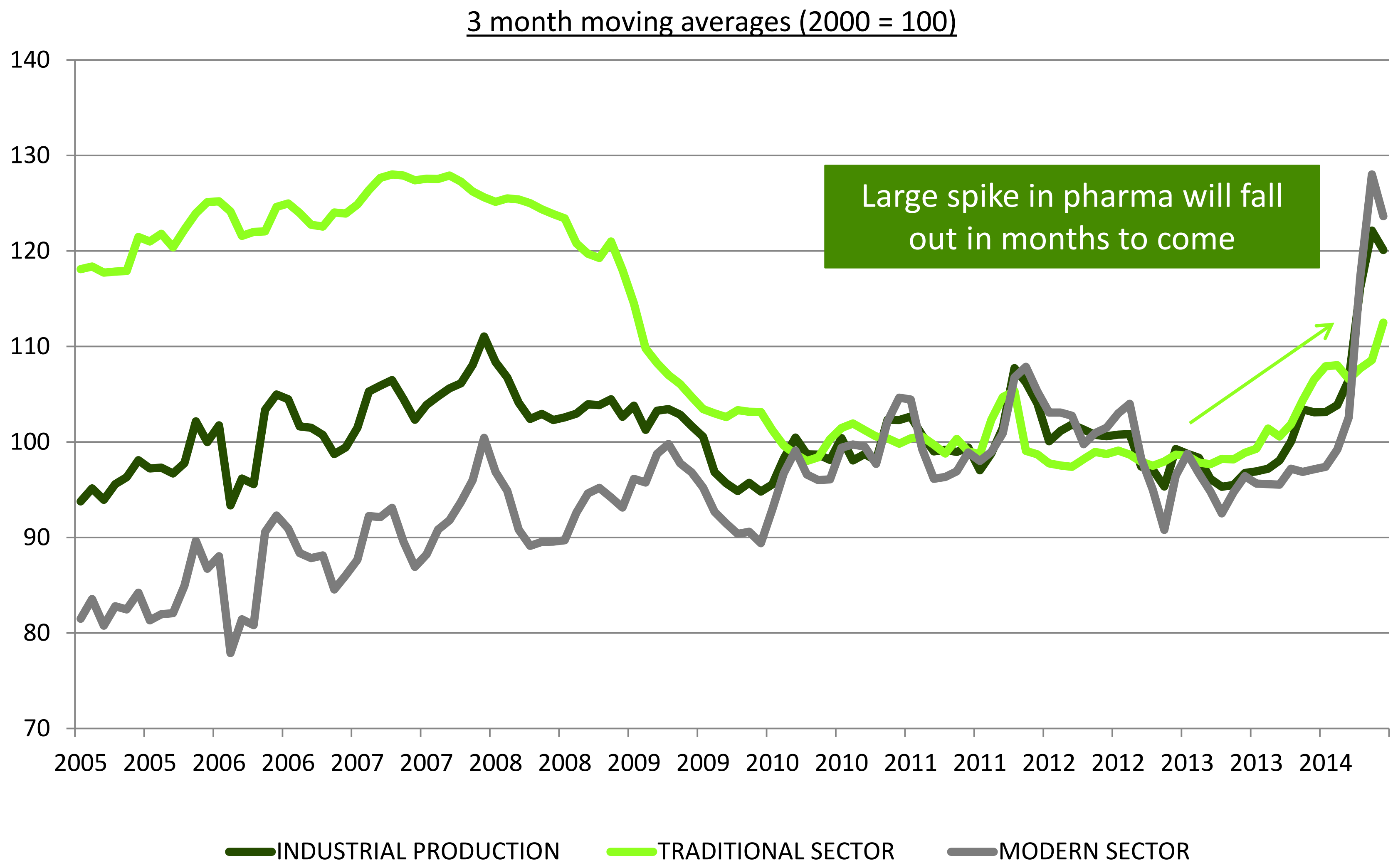
Source: Markit; Investec

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



Sources: IBEC; CSO

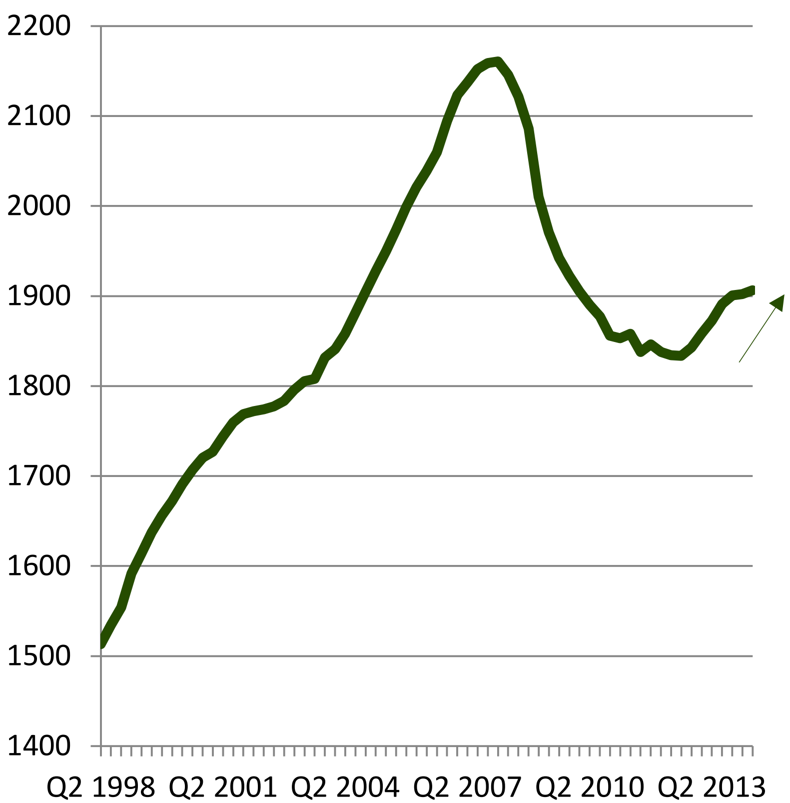
Industrial production especially volatile due to pharma; sustained growth from traditional manufacturing



Source: CSO

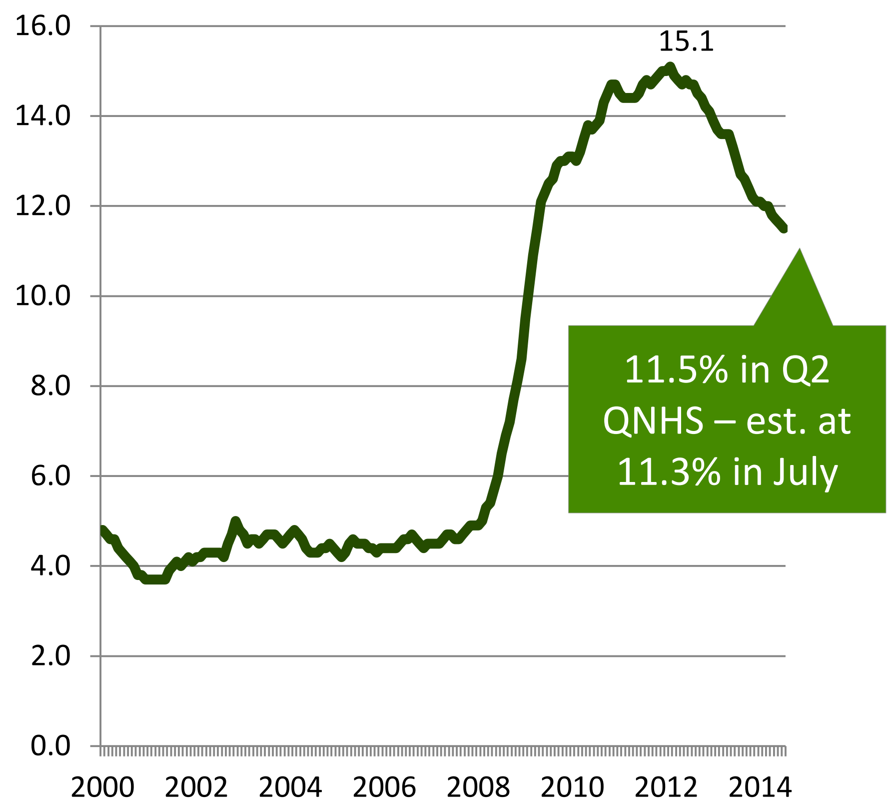
Labour market has recovered since 2012, though employment growth rate slowed in H1 2014

Employment up 4% from cyclical low



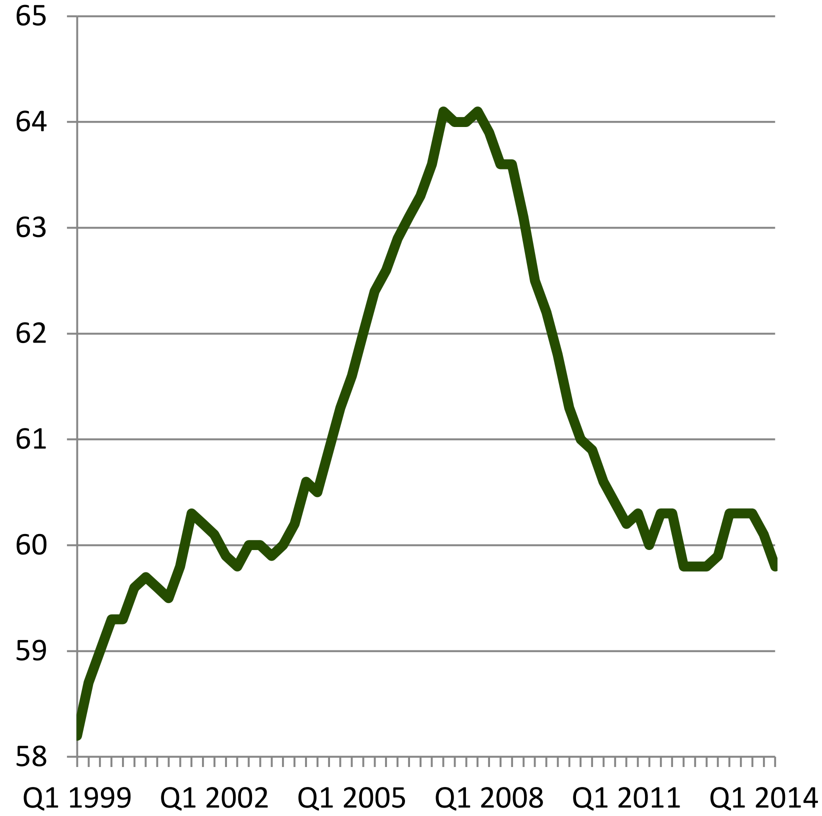
Source: CSO

Unemployment rate down to 11.5%; Long term unemployment at 6.8%

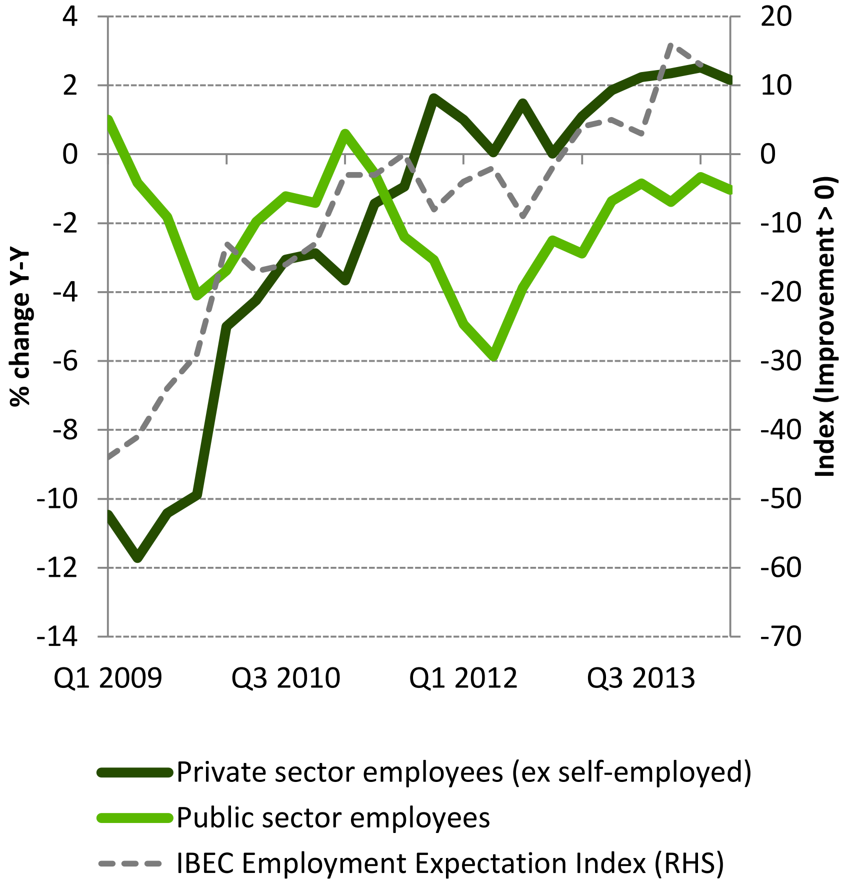


Although total employment has increased labour participation at lowest level for five quarters

Participation rate hovering around 60%

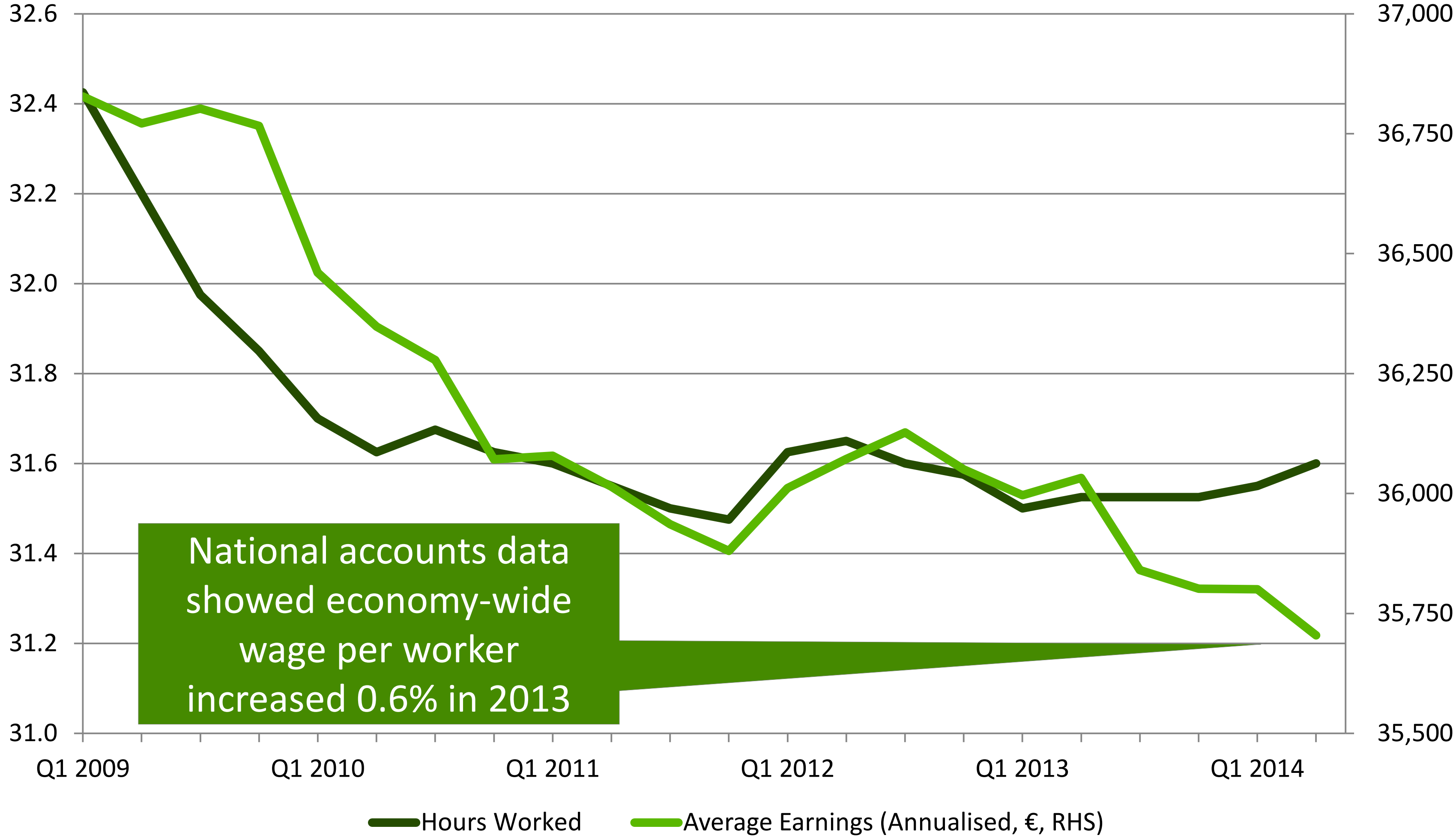


Private sector employment offsetting public sector declines; forward indicators encouraging



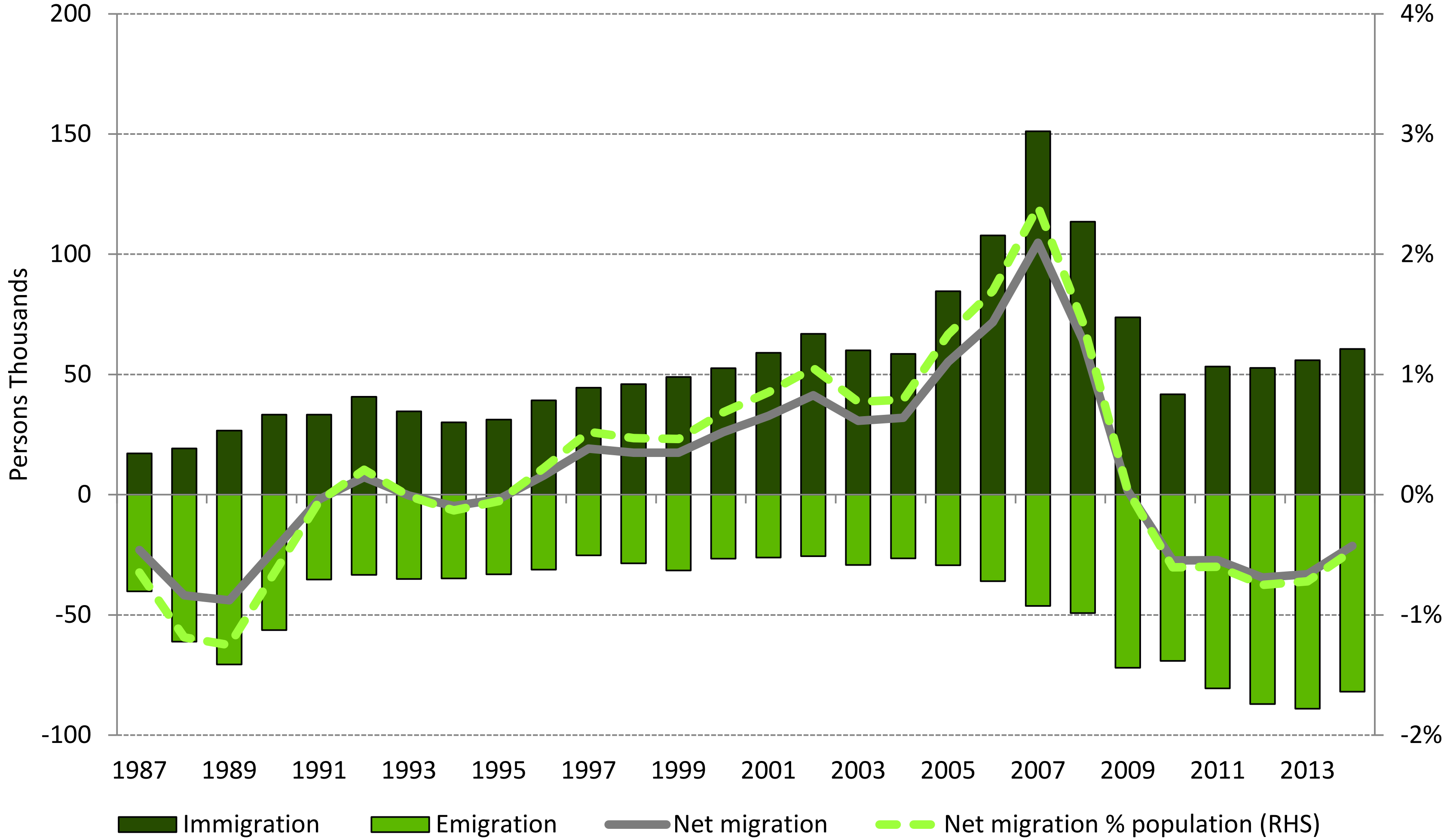
Sources: CSO; IBEC

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



Source: CSO

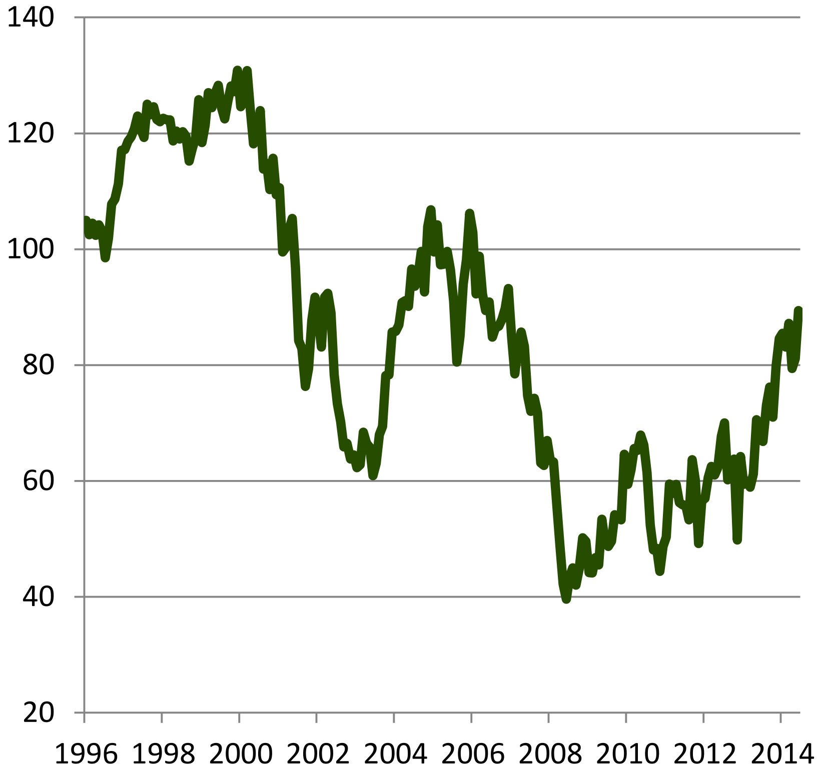
Net emigration slowed over the last year as immigration increased and emigration decreased



Source: CSO

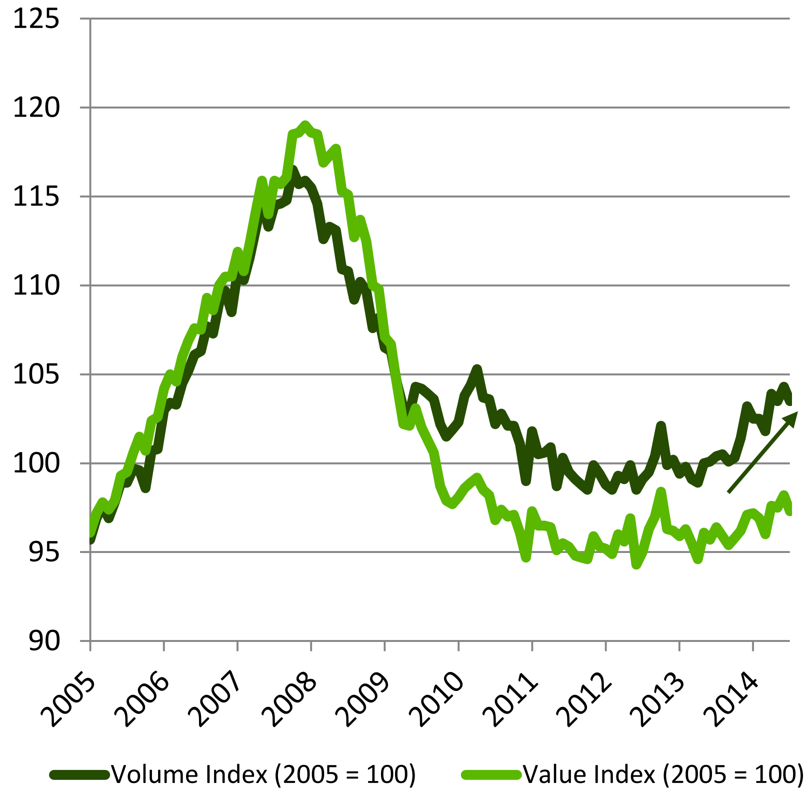
Employment and house price rises underpin retail sales

Consumer confidence recovers



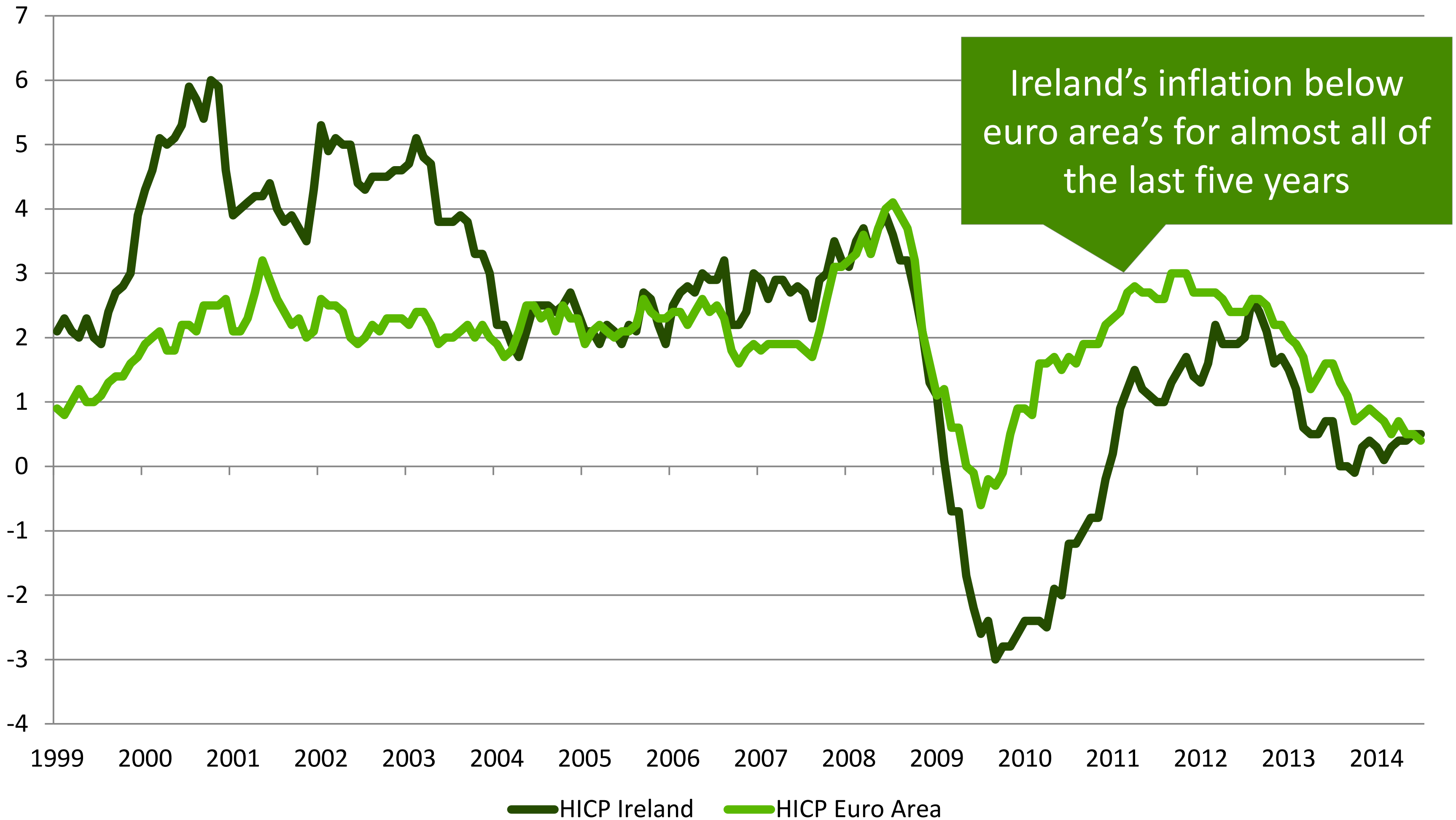
Sources: KBC, ESRI, CSO

"Core"* retail sales rise steadily



*Excluding motor trade

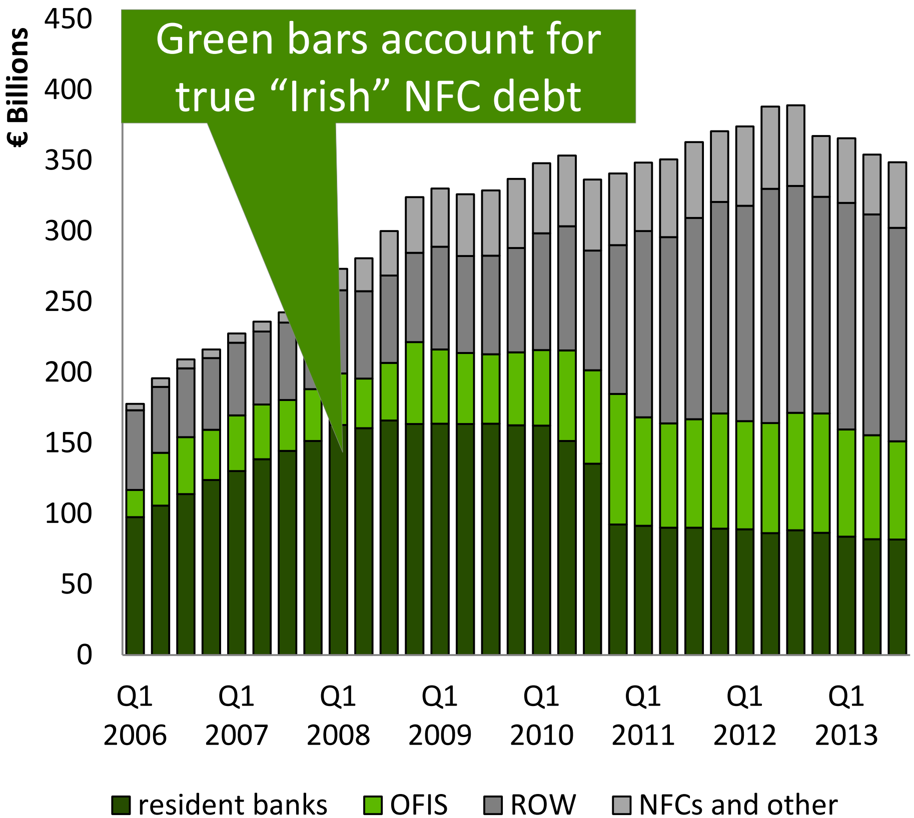
Inflation remains low, underpinning real incomes



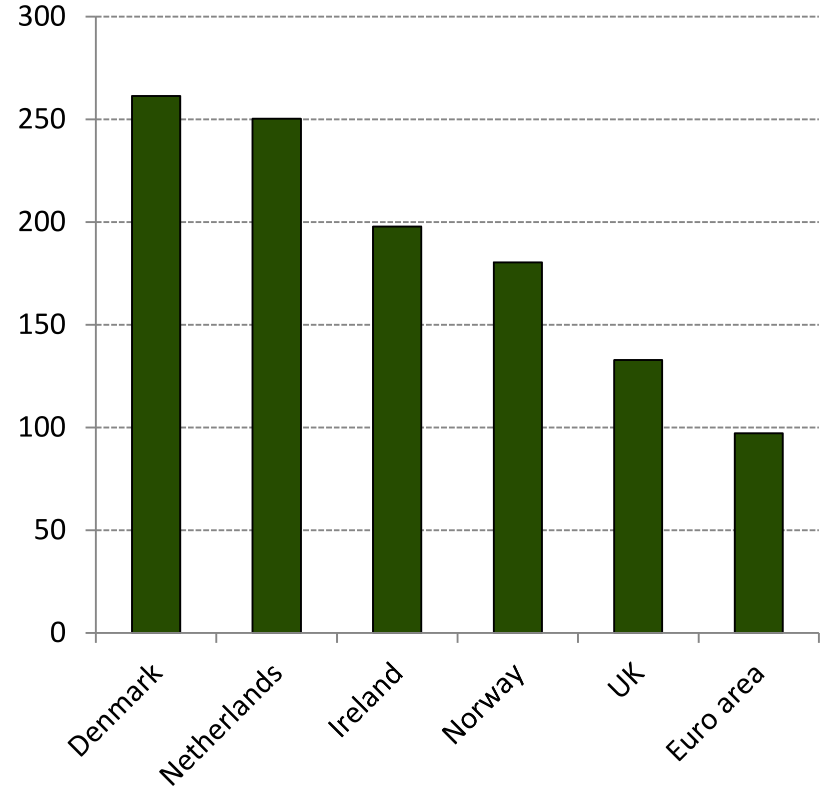
Source: CSO

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

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



Household debt ratio (% DI) declining (see slide 21) but still among highest in Europe

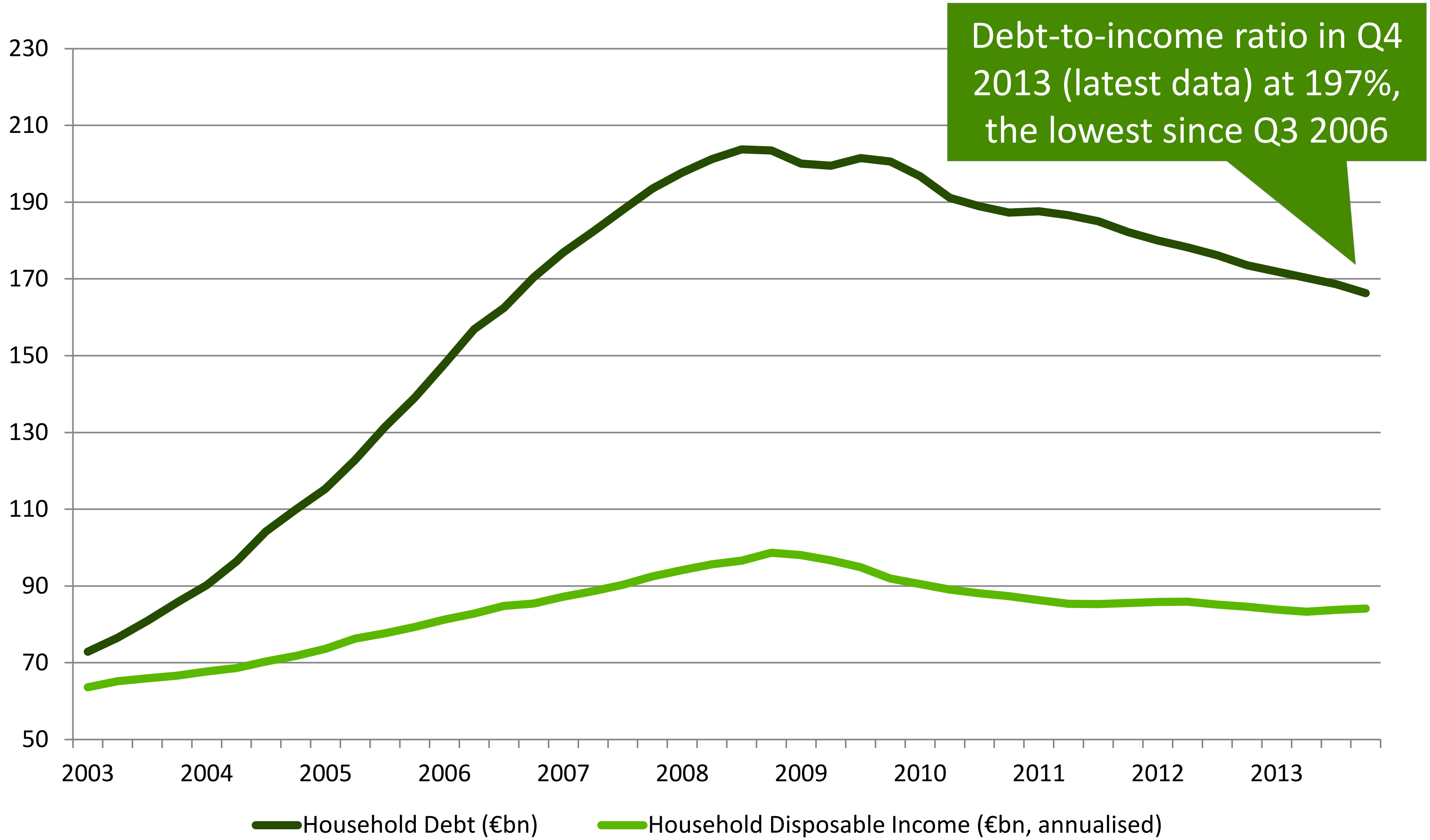


Source: Cussen, M. "Deciphering Ireland's Macroeconomic Imbalance Indicators", CBI

* OFI = Other Fin. Intermediaries

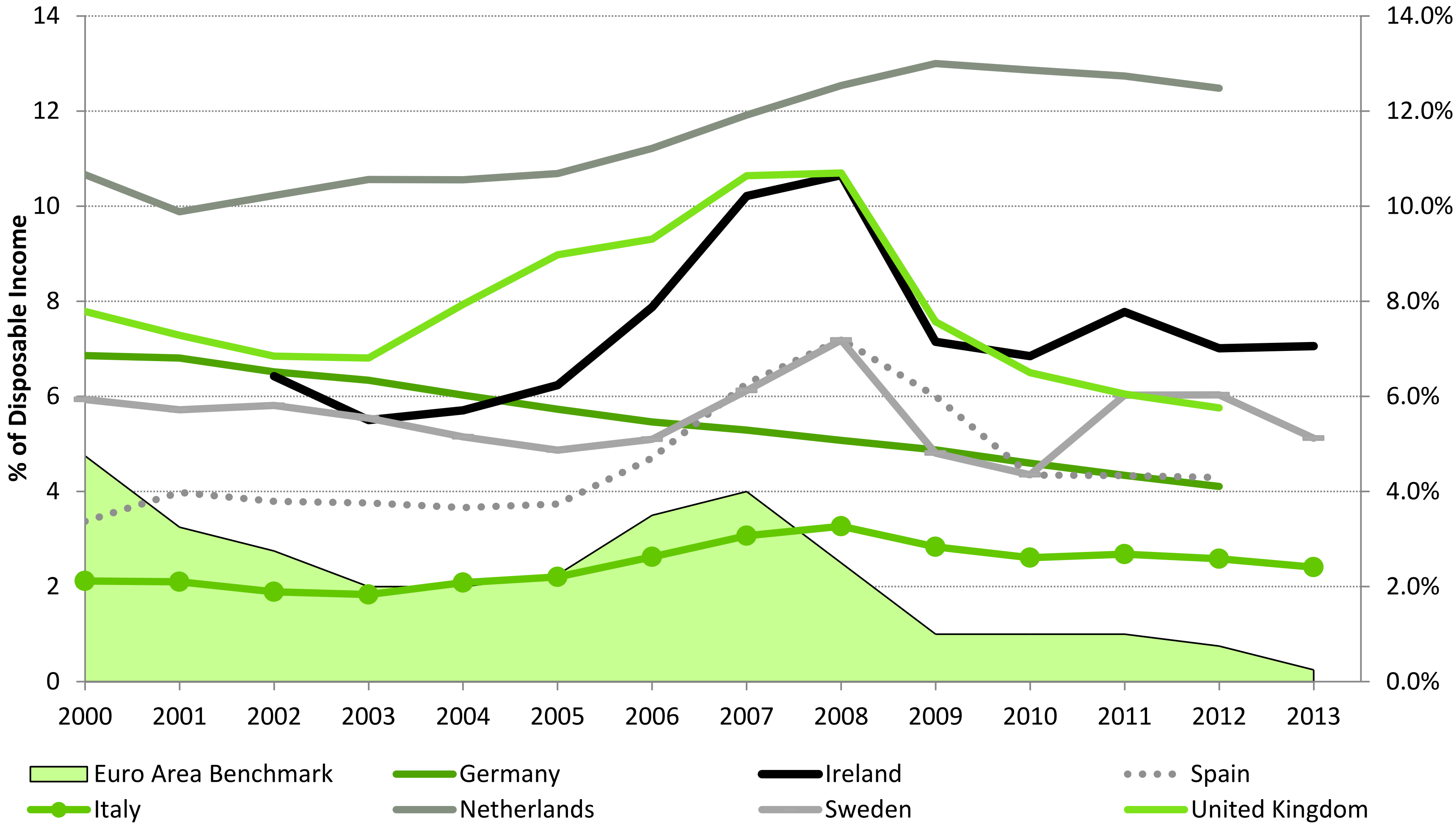
Source: Eurostat

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



Source: Central Bank of Ireland (CBI); CSO

Interest burden on households high despite help from tracker mortgages

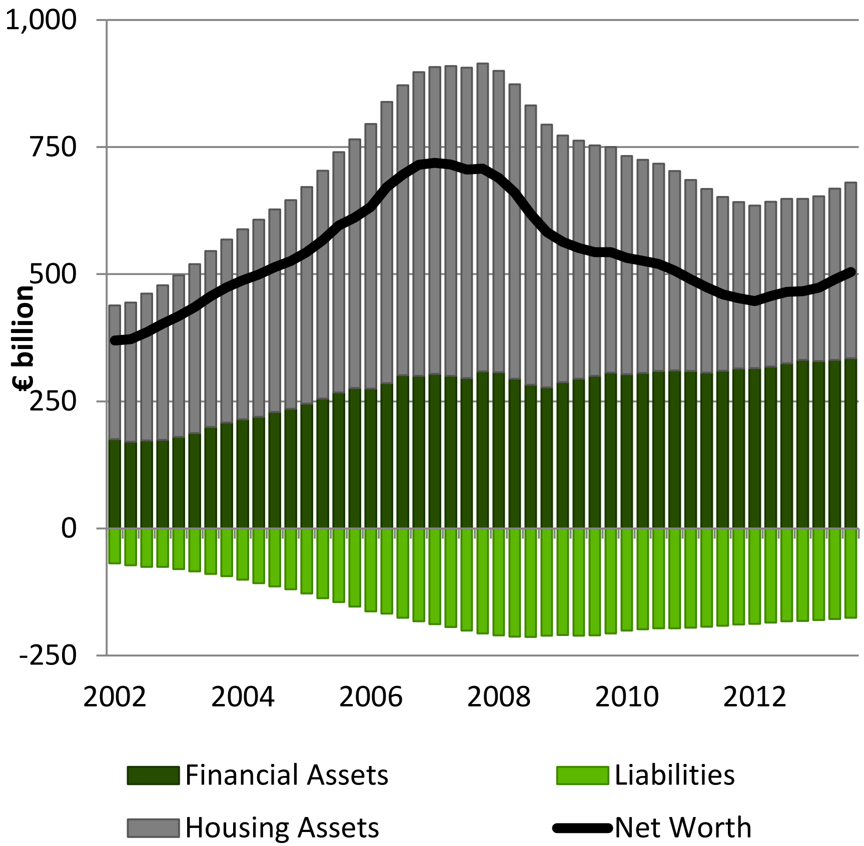


Sources: Eurostat; CSO

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

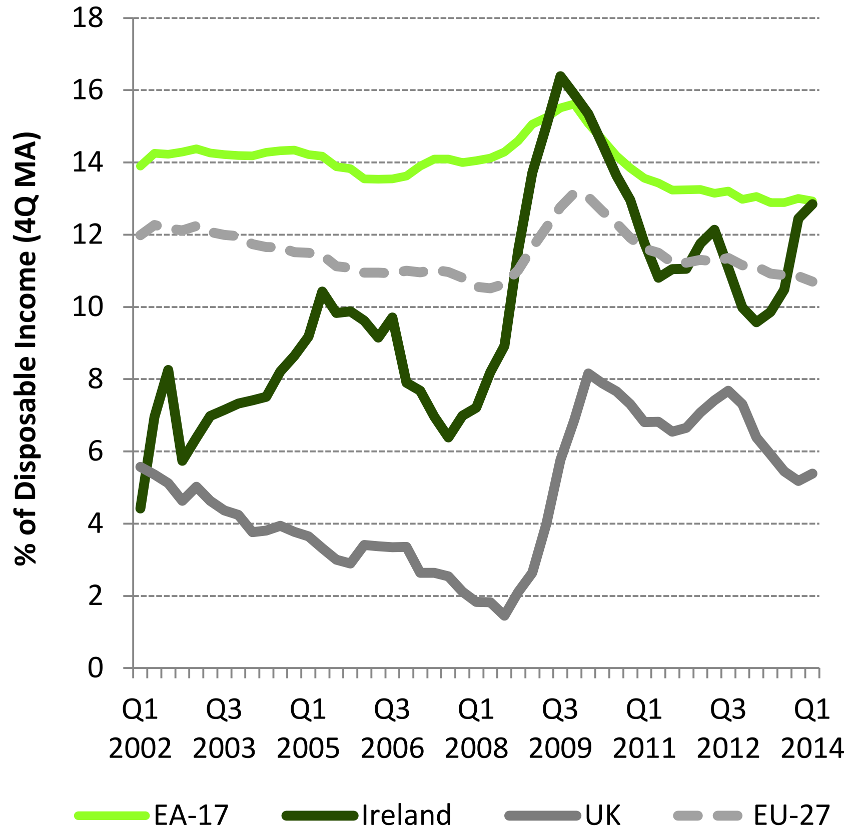
Property prices lift household net worth, while savings rate at euro area average

Household net worth improving and will underpin consumer spending



Source: CBI

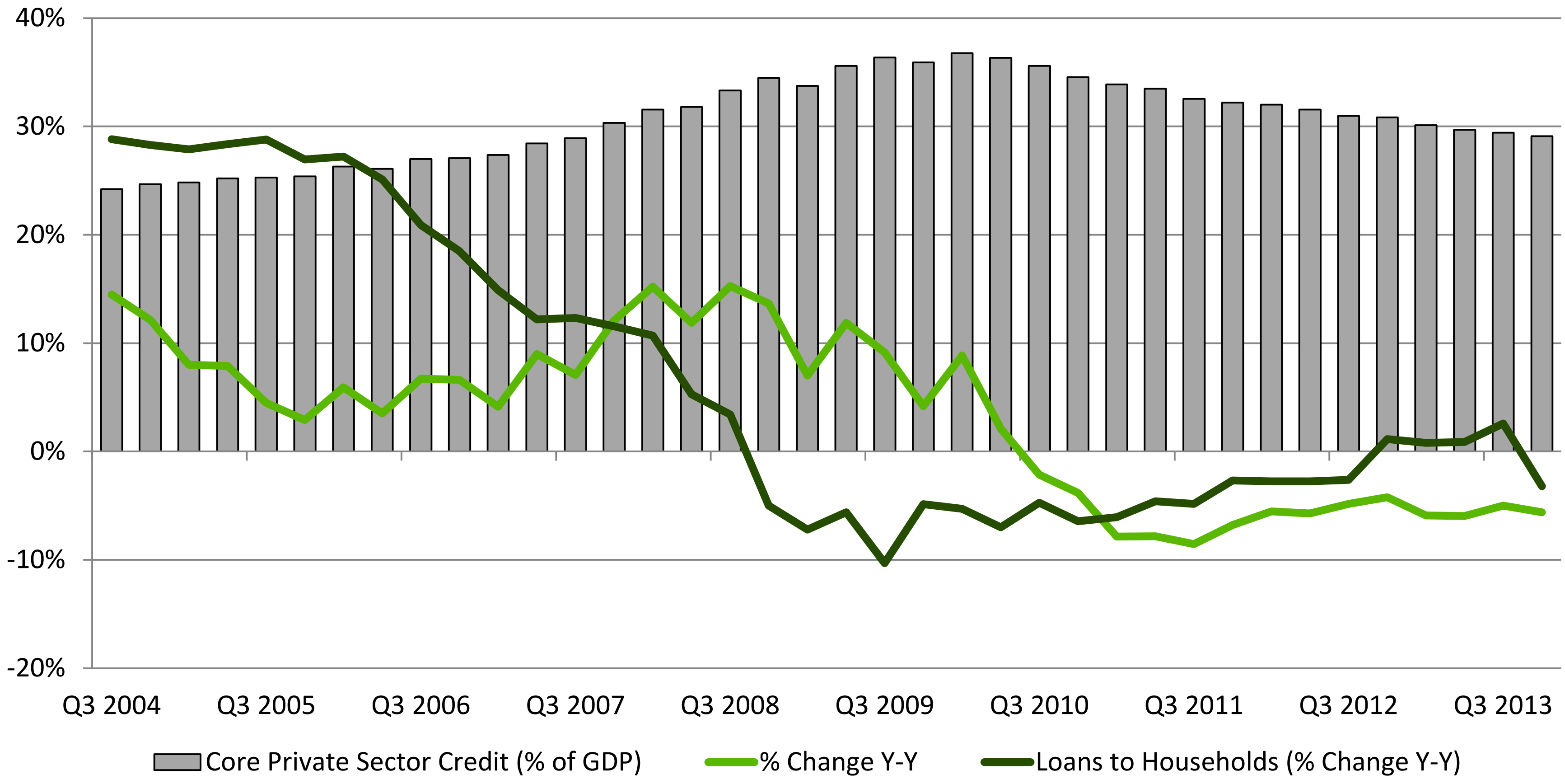
Gross household saving rate* increasing even as disposable income increases



Source: Eurostat, CSO

* Measured on ESA-95 basis

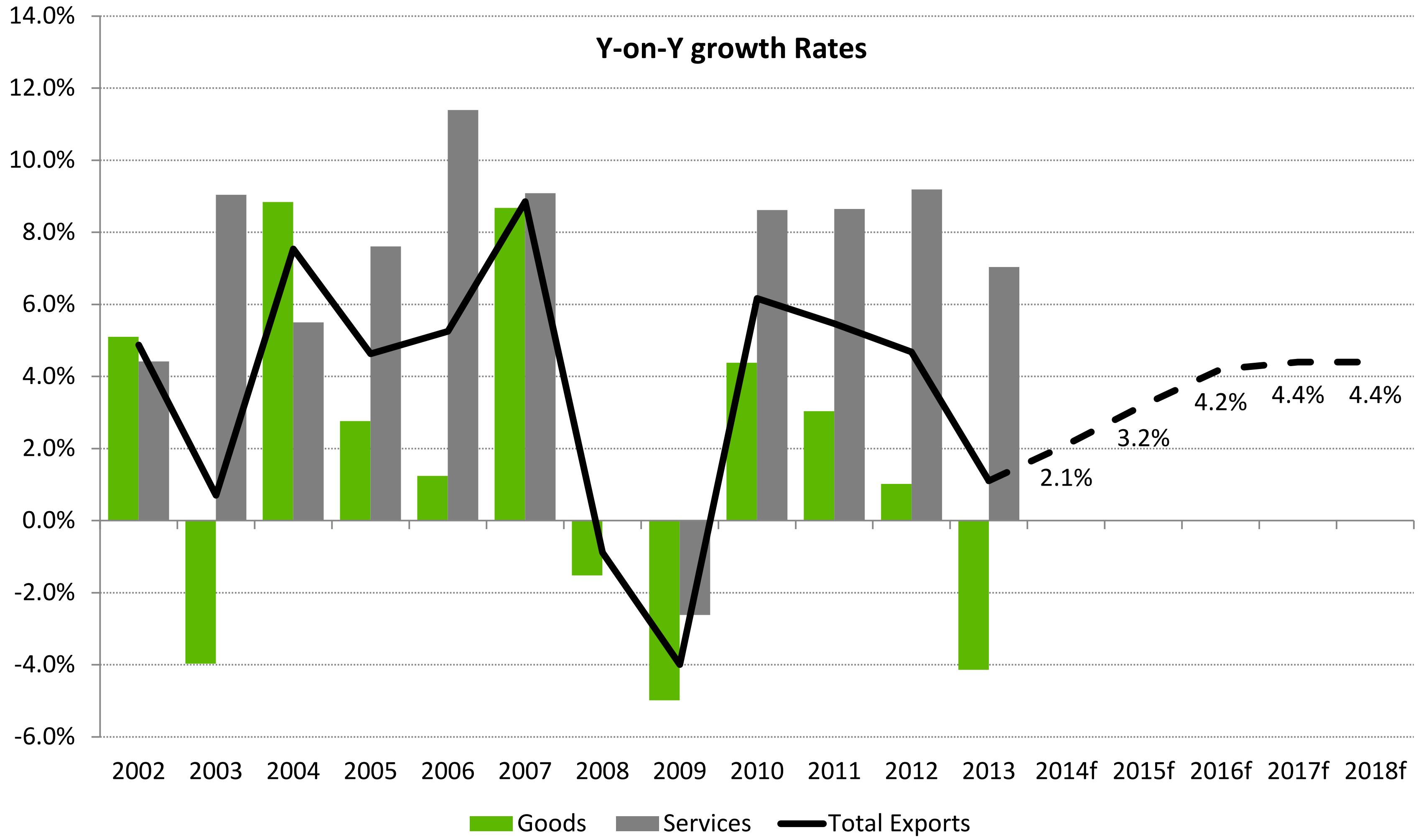
Core net lending volumes back at 2008 levels as pace of deleveraging is sustained



Sources: CBI; ECB; NTMA workings

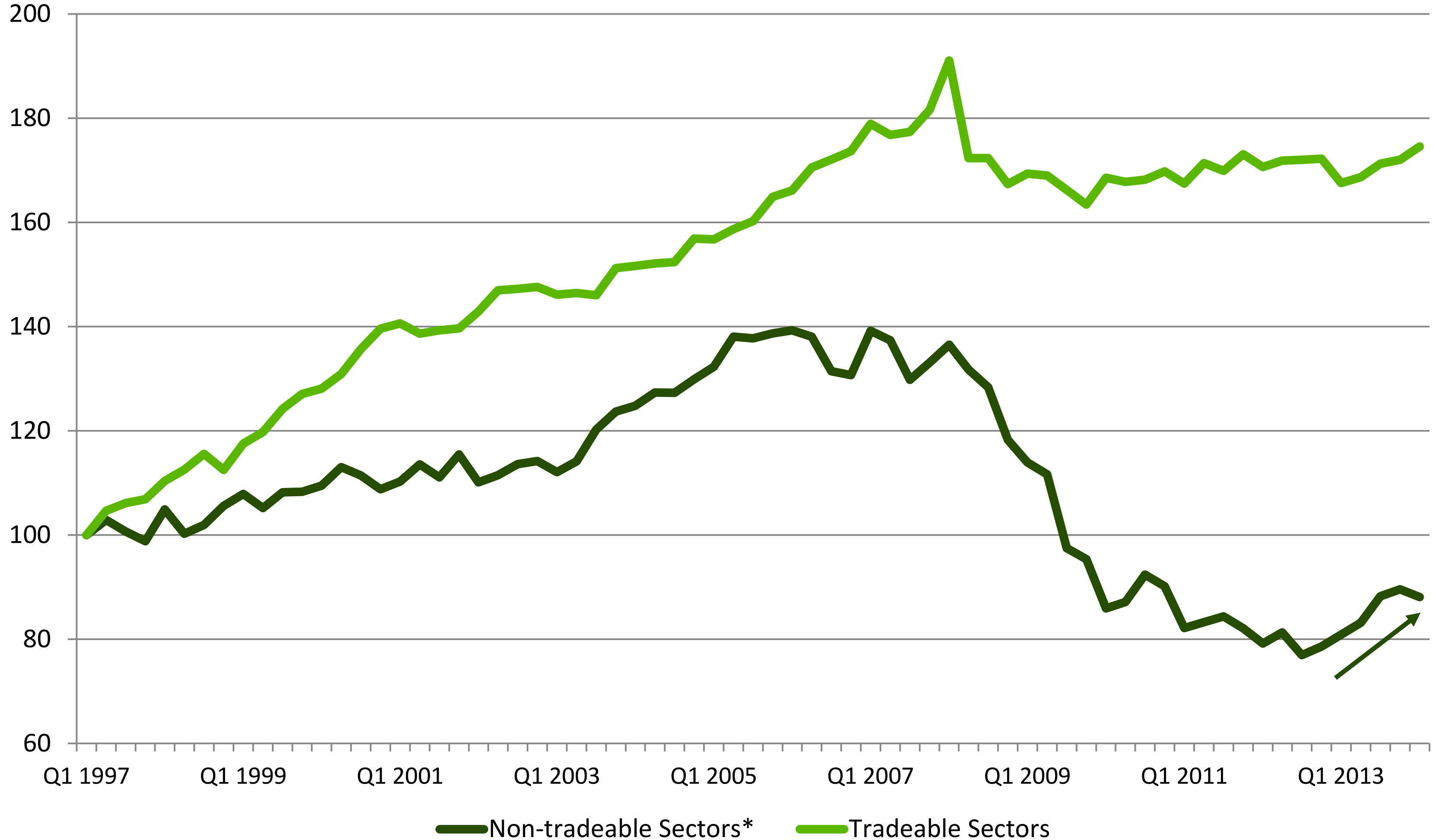
Note: 'Core Private Sector Credit' covers credit advanced to Irish resident private-sector enterprises excl. fin. intermediation & property-related sectors. Data are non-consolidated and cover all credit institutions operating in Ireland. March 2003 outstanding credit is used as base and updated using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

Exports led by services as patent cliff weighs on goods exports



Source: CSO, forecasts via Department of Finance SPU April 2014

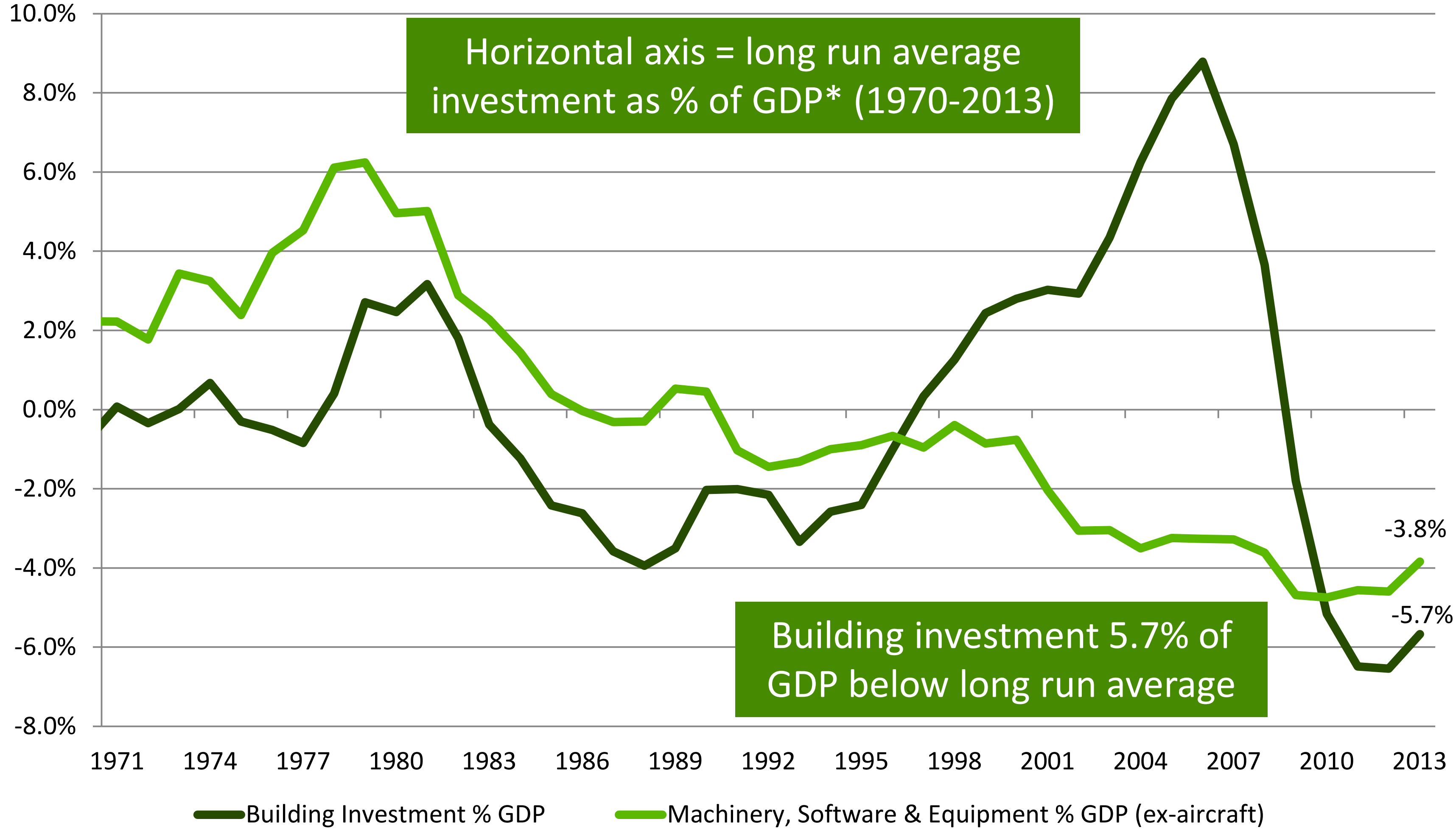
Ireland's tradable sectors perform best in long run (gross output) but domestic sectors now picking up



Source: CSO

*Non-tradeable sectors = Agriculture and Construction

Investment rising but well below long run average



Source: CSO

* Long run average for Buildings is 12.0% of GDP; Mach. Soft & Eq. = 8.1% of GDP

Economic and fiscal forecasts: SPU 2014

	2012	2013	2014f	2015f	2016f
GDP (% change, volume)	-0.3	0.2	2.1	2.7	3.0
GNP (% change, volume)	1.9	3.2	2.7	2.3	2.5
Domestic Demand (Contribution to GDP, p.p.)*	-0.2	-0.6	2.6	2.2	1.6
Net Exports (Contribution to GDP, p.p.)	-0.8	0.6	-0.5	0.5	1.4
Current Account (% GDP)	1.6^	4.4^	5.8	5.2	5.3
General Government Debt (% GDP)^	121.7	123.3	n/a	n/a	n/a
Underlying General Government Balance (% GDP^)†	-8.1	-5.7	-4.8	-2.9	-2.2
Inflation (HICP)	2.0	0.5	0.5	0.9	1.4
Unemployment rate (%)	14.7	13.1	11.5	10.5	9.7

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

** Includes stock changes*

^ Calculated using ESA 2010 compliant GDP

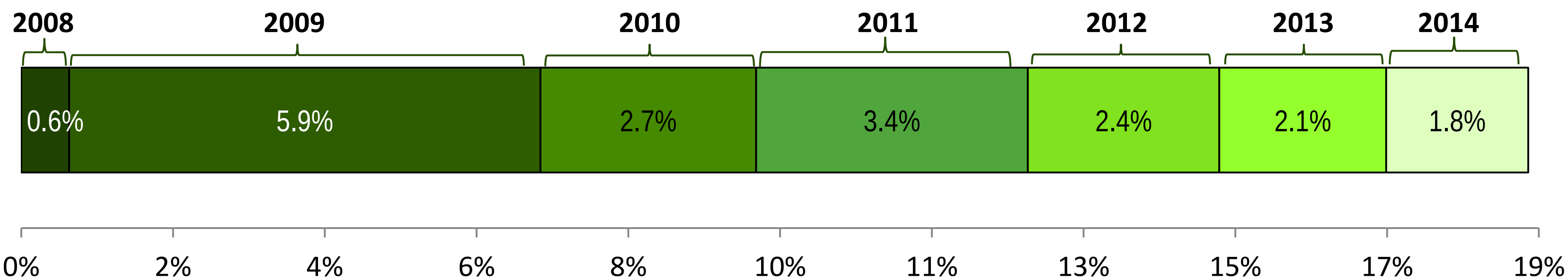
† Underlying: ex-banking recapitalisation under EDP rules

SECTION 3: FISCAL & NTMA FUNDING

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

Fiscal Consolidation thus far...

% of GDP

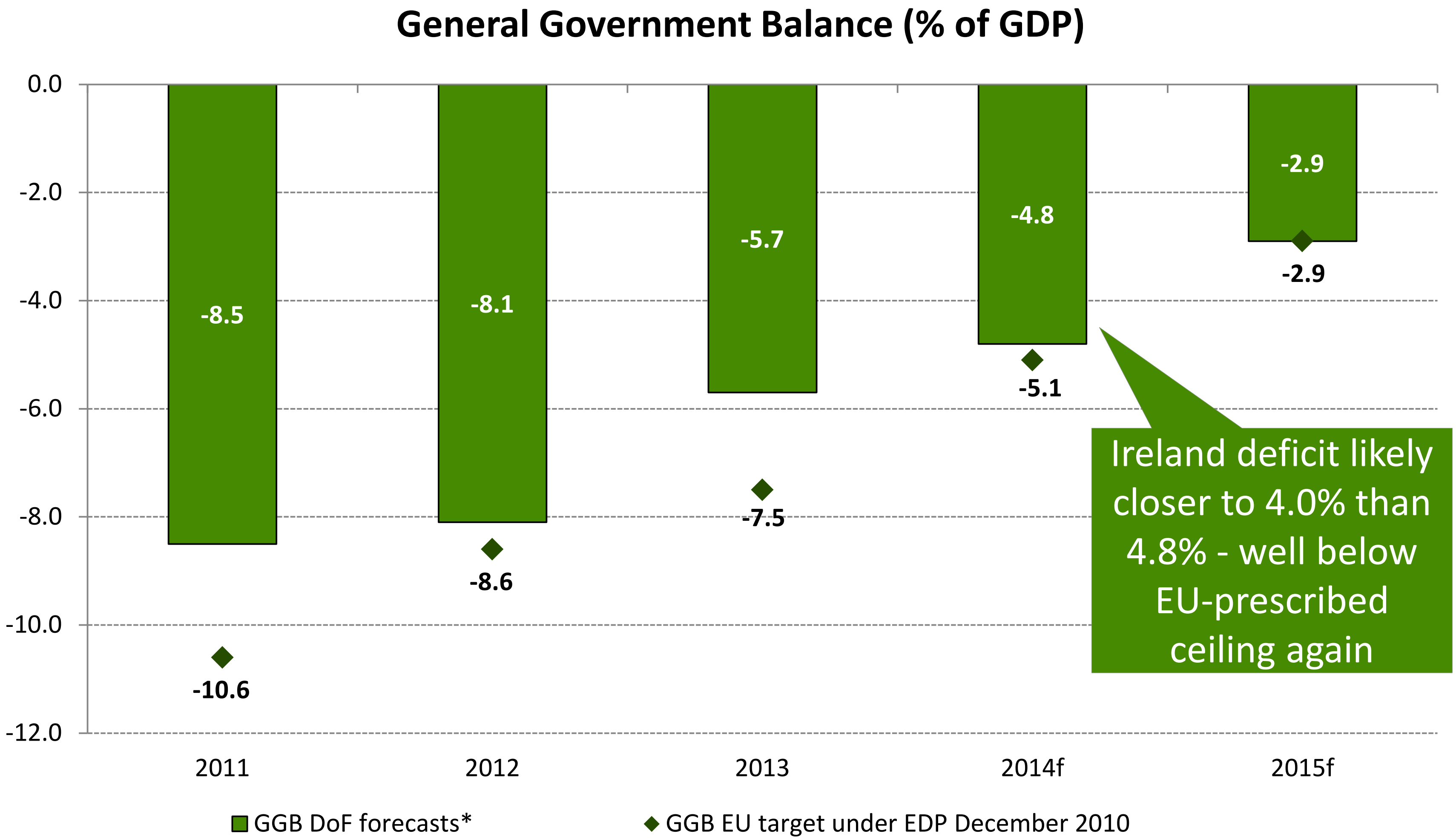


Breakdown of adjustment measures (€bn unless stated)

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

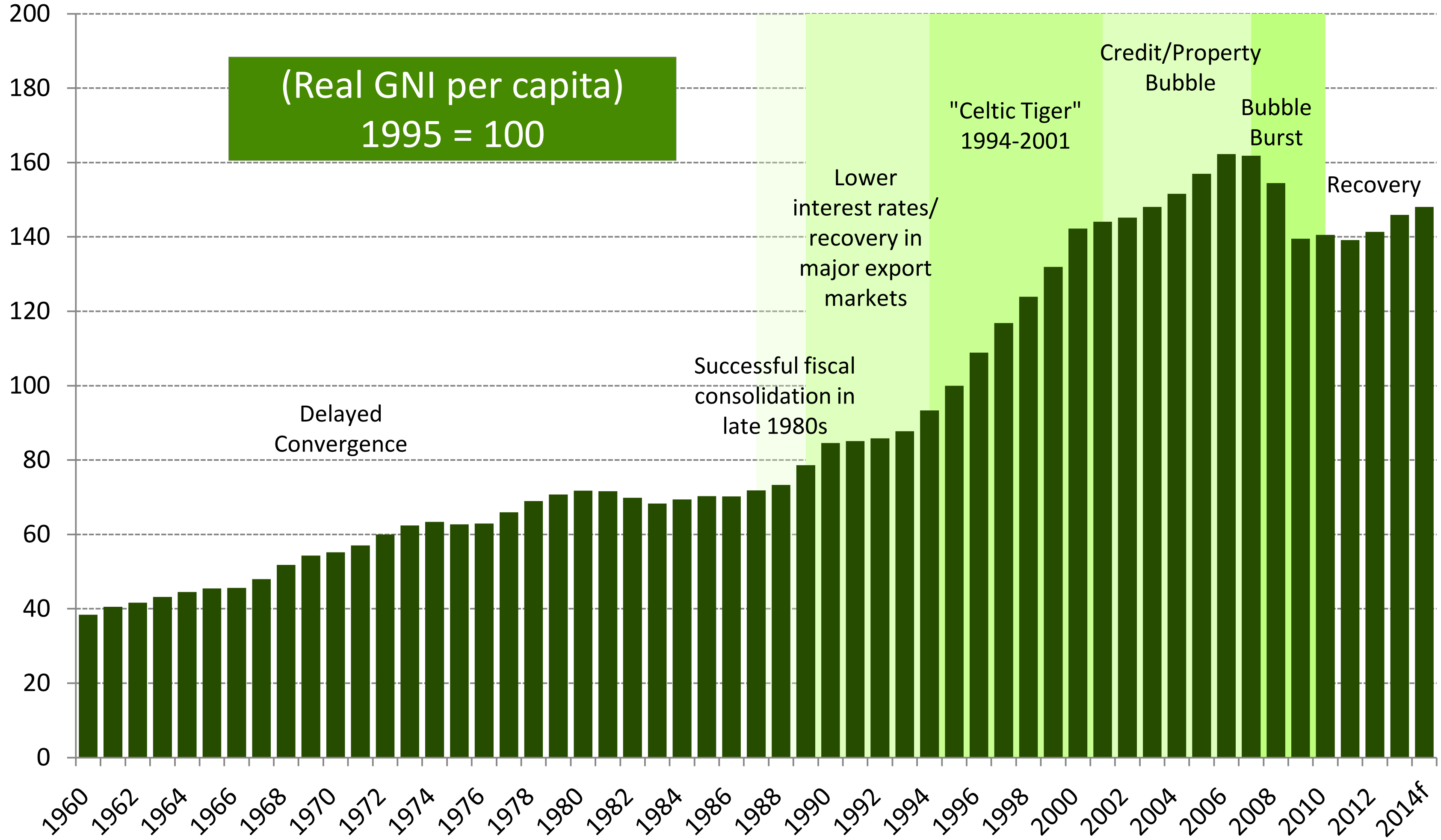
Sources: Department of Finance: Budgets 2011-2014 and Stability Programme Update, April 2014

Three straight years of fiscal outperformance – very likely to be four



Source: Department of Finance (as per SPU 2014); CSO; Eurostat; NTMA working
* 2011 – 2013 outturn calculated by NTMA using ESA 2010 compliant figures

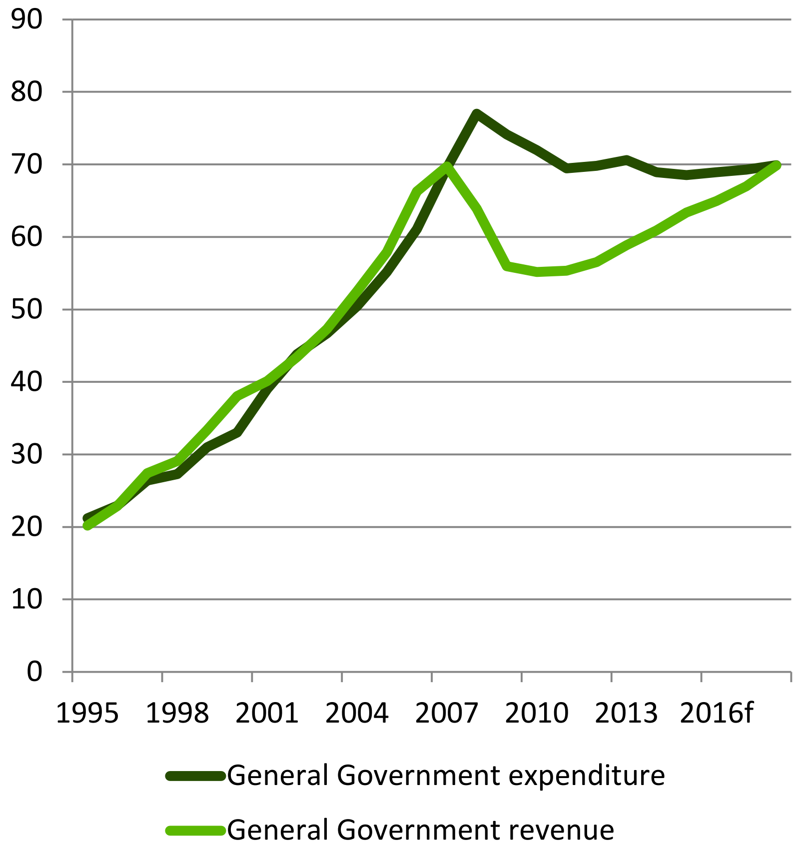
Much of gains from 2001-07 bubble lost, but living standards equivalent to 2003 levels



Sources: CSO

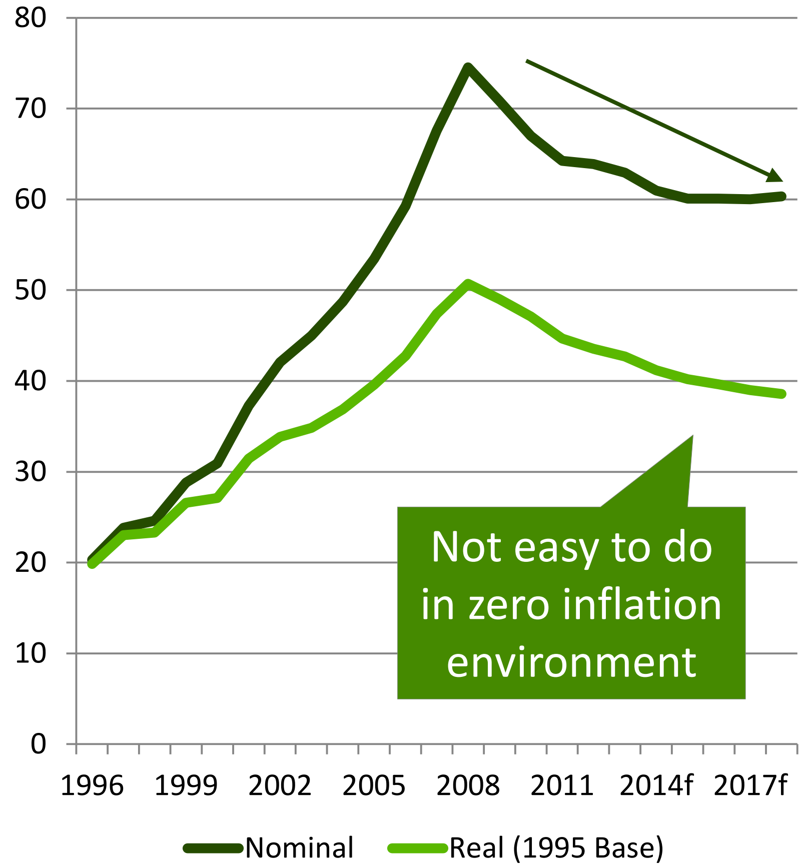
Ireland's mammoth fiscal turnaround

Deficit to be fully closed by 2018 (€bn)

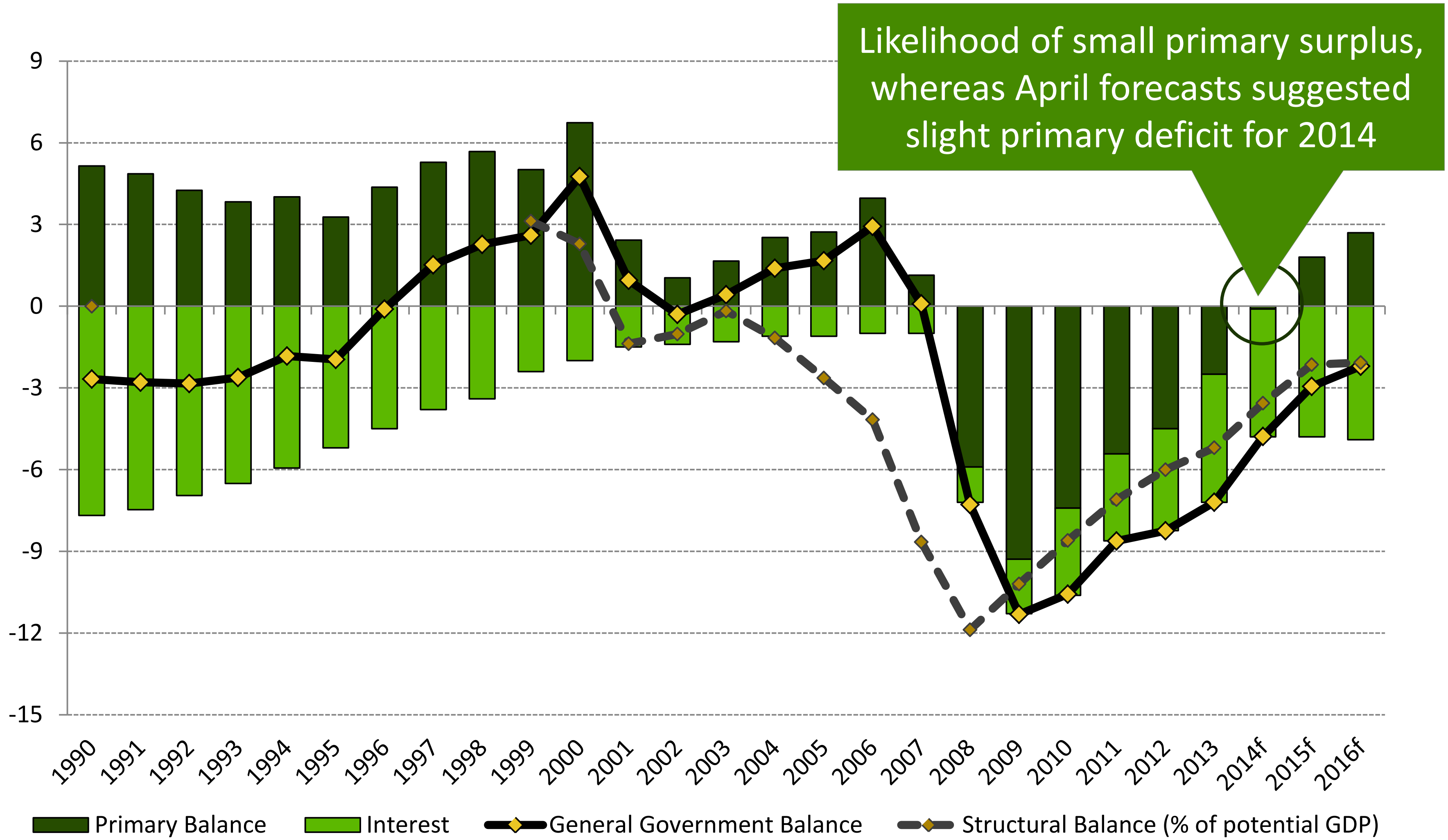


Source: CSO; Department of Finance

20% reduction in primary expenditure (€bn)



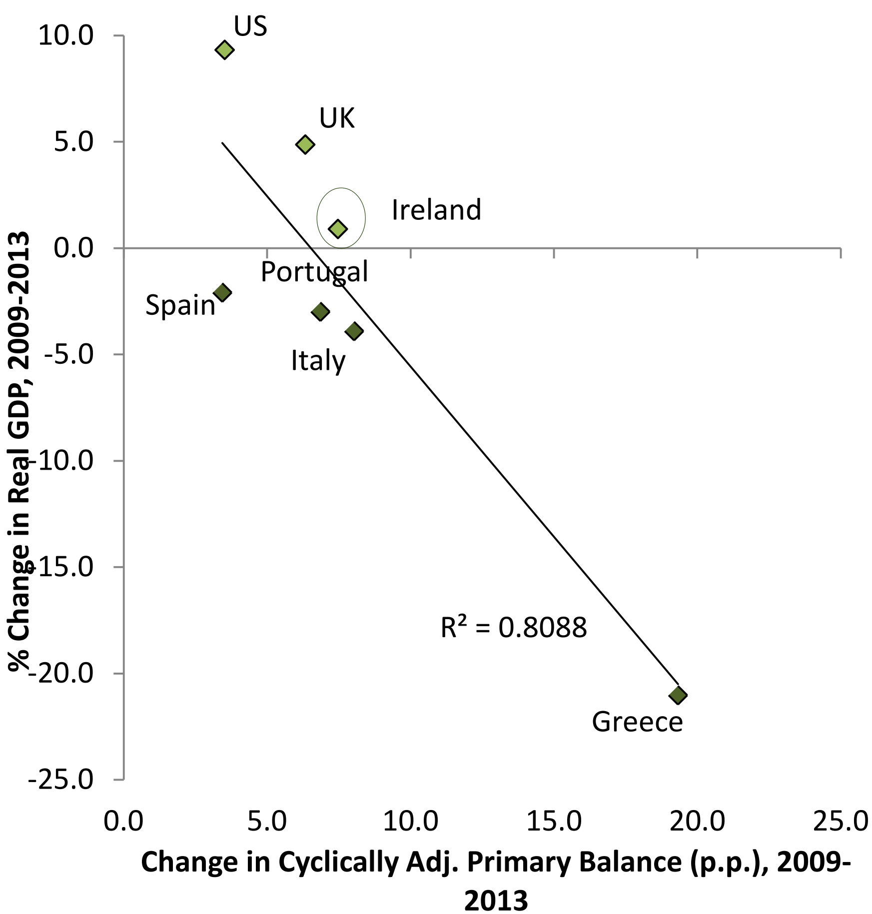
Ireland not far from confirming debt sustainability: primary surplus (% of GDP) to be achieved this year



Source: Department of Finance; Eurostat; IMF

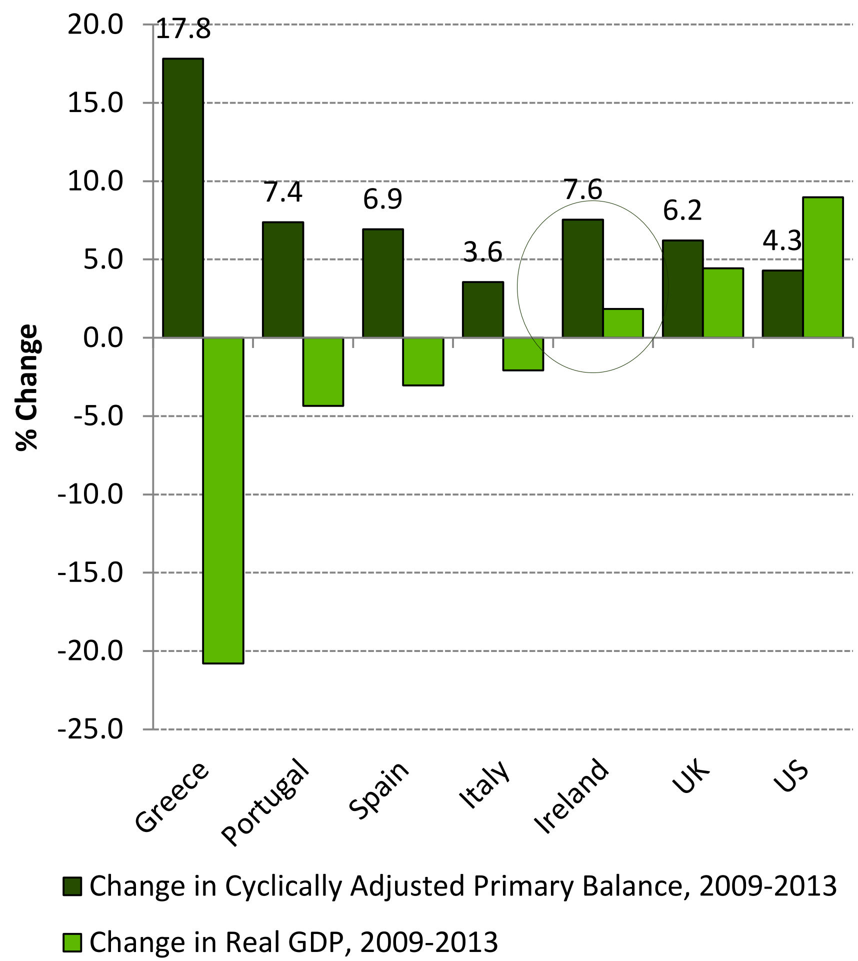
Ireland’s adjustment easier on GDP because of relatively lower fiscal multiplier – thanks to openness

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



Source: IMF; NTMA

...while adjustment continues to deliver



National Treasury Management Agency

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

Outgoing:	€bn
Recapitalisation total (including the now liquidated IBRC)	64.1
Other direct flows (Insurance Compensation Fund and Credit Unions)	1.2
Total	65.3
Incoming:	**€bn**
Sales of Securities	5.3
Other Income (cumulative):	
• CoCo investment	0.6
• CBI income	3.9
• Bank Guarantee Income	4.2
• Net Interest (Interest receivable – interest payable*)	-3.6
Total	10.4

Valuation of Remaining Assets (€bn)	BOI	AIB*	PTSB	Total
Equity (Government Stake)	1.4	6.5	N/A	7.9
Other (incl. preference shares)	-	3.5	N/A	3.5
Overall				11.4

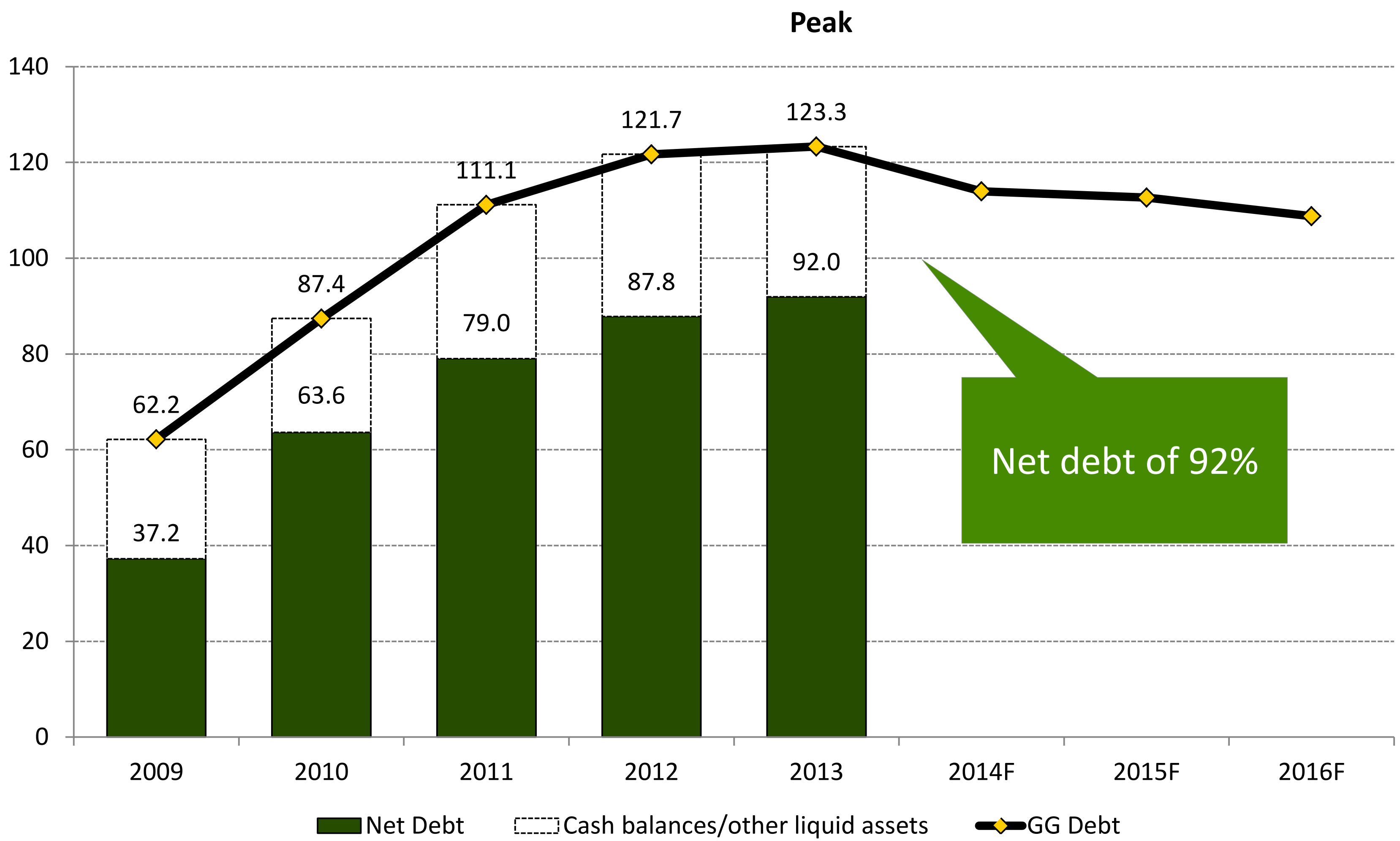
The third round of domestic bank recap by the State in 2011 (following earlier efforts in 2009 and 2010) was credible and fully transparent

The gross cost of explicit bank support in 2009-2011 amounted to c.41% of 2011 GDP

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

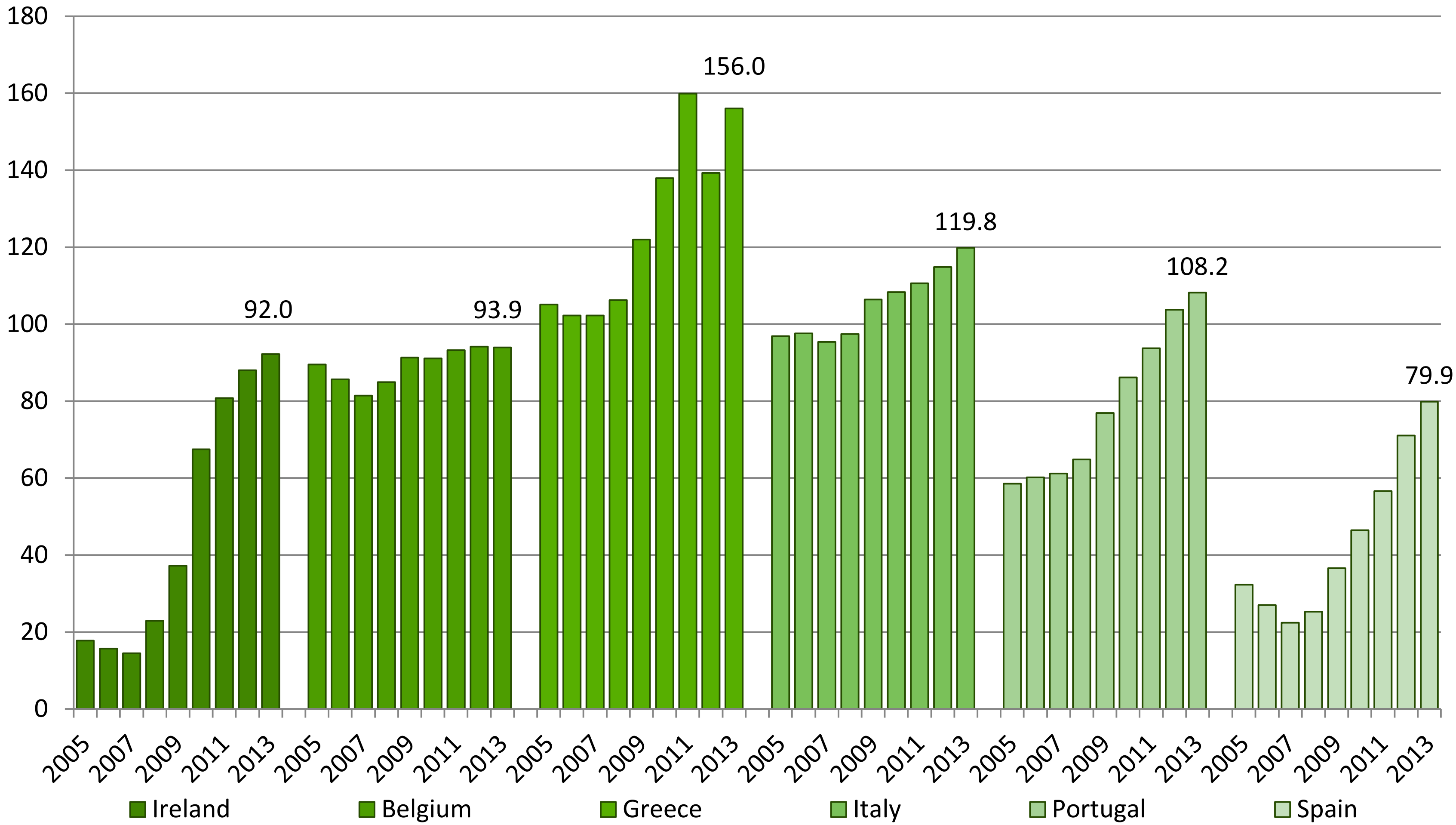
Source: DoF; NPRF end-year accounts; CSO; NTMA analysis

Gross Government debt stabilised at 123% of GDP in 2013



Source: Department of Finance (as per SPU 2014), CSO, NTMA workings

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



Net General Government Debt = Gross General Government Debt - EDP Debt Instruments
EDP Debt Instruments = Currency and Deposits + Securities other than Shares (excluding financial derivatives) + Loans

Source: CSO; Datastream; NTMA analysis

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

€ million

End quarter	Dec 2013	March 2014	June 2014
1. Resident	52,495	53,773	53,959
(as % of total)	(47.3%)	(47.6%)	(47.7%)
– Credit Institutions and Central Bank*	50,057	49,004	49,346
– General Government	2,153	1,642	1,490
– Non-bank financial		2,758	2,758
– Households (and NFCs)	284	368	364
2. Rest of world	58,512	59,124	59,247
(as % of total)	(52.7%)	(52.4%)	(52.3%)
Total MLT debt	**111,007**	**112,898**	**113,207**

Source: Central Bank of Ireland

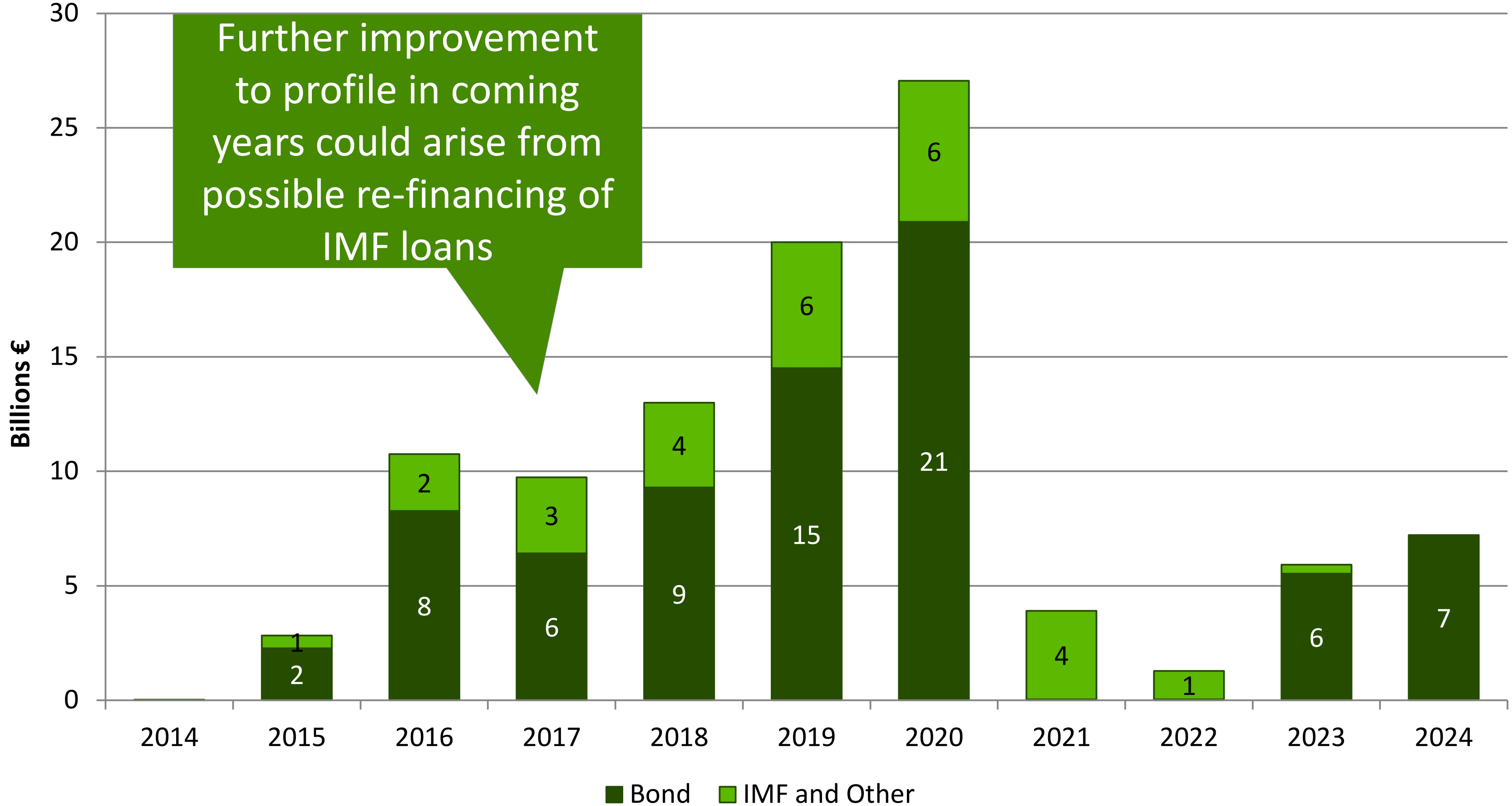
* Since March 2013 resident holdings have increased significantly thanks to the IBRC Promissory Note repayment (non-cash settlement) which resulted in €25.034bn of long-dated Government bonds being issued to the Central Bank of Ireland on liquidation of IBRC. The CBI also took €3bn of 2025 IGBs formerly held by IBRC. The CBI sold €0.35bn of its 2025s by end-2013.

Breakdown of General Government debt

€ million	2009	2010	2011	2012	2013
Currency and deposits (mainly retail debt)	10,307	13,708	58,386	62,092	31,344
Securities other than shares, exc. financial derivatives	91,391	96,317	94,001	87,285	112,660
- Short-term (T-Bills, CP etc)	20,443	7,203	3,777	2,535	2,389
- Long-term (MLT bonds)	**70,948**	**89,114**	**90,224**	**84,750**	**110,270**
Loans	2,842	34,138	37,723	60,849	71,534
- Short-term	707	735	569	1,907	1,466
- Long-term (official funding and prom notes 2009-12)	2,135	33,403	37,154	58,942	70,069
General Government Debt	**104,540**	**144,163**	**190,111**	**210,226**	**215,538**
EDP debt instrument assets	*41,981*	*32,883*	*54,943*	*58,494*	*54,787*
Net Government debt	**62,559**	**111,280**	**135,168**	**151,732**	**160,751**

Source: CSO (July 2014)

Improved maturity profile following post-programme operations

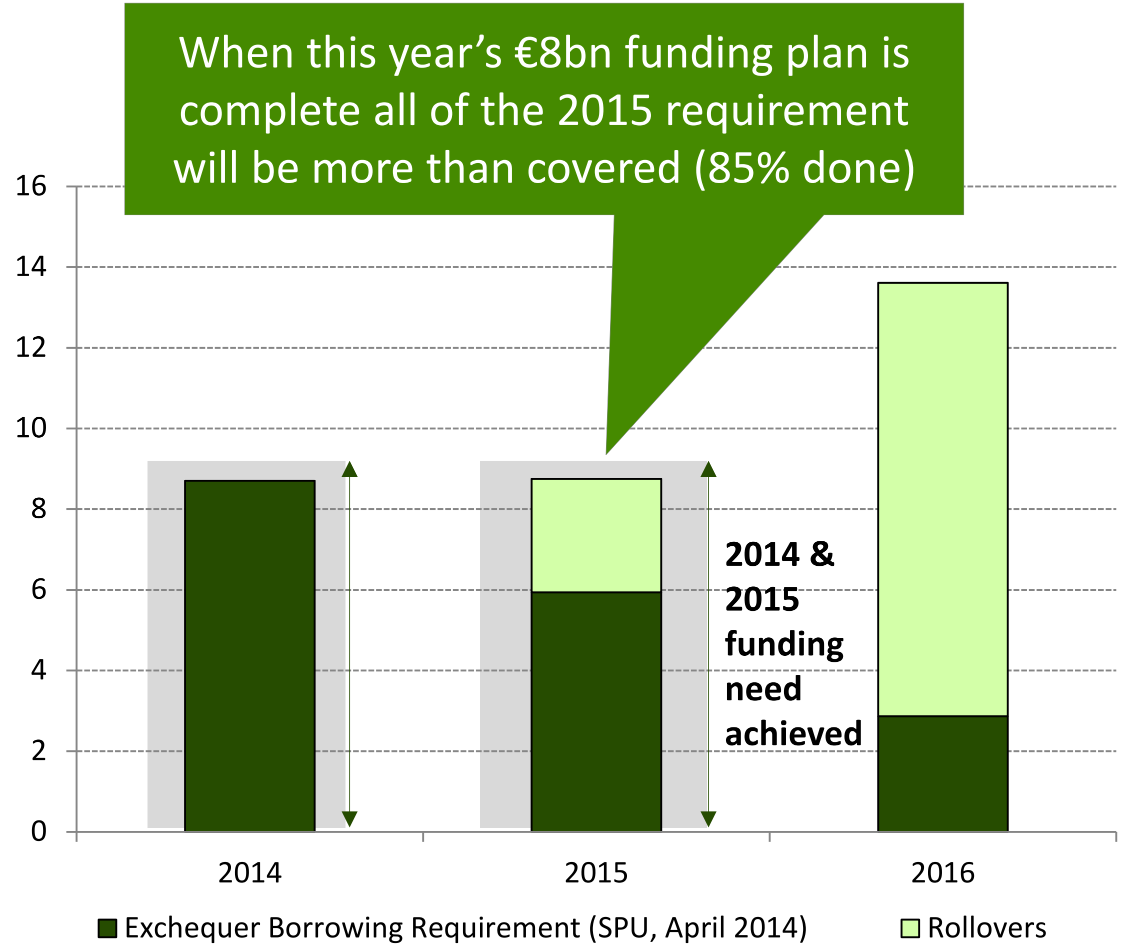


Source: NTMA

Note: EFSF loans have already been extended. EFSM loans are subject to a 7-year extension that will bring their weighted-average maturity from 12.5 years to 19.5 years. It is not expected that Ireland will have to refinance any of its EFSM loans before 2027. However, the revised maturity dates of individual EFSM loans will only be determined as they approach their original maturity dates.

Total funding requirements are steadily declining (€bn)

- Funding requirement improved following sale of BOI CoCos and Irish Life. Restructuring of IBRC Promissory Note and extension of EFSF/EFSM maturities also benefited significantly.
- NTMA pre-funded well into 2015 after 85 per cent of 2014 funding plan complete by August.
- End-December *Exchequer cash and deposits of €18.5bn* already had provided a considerable funding buffer



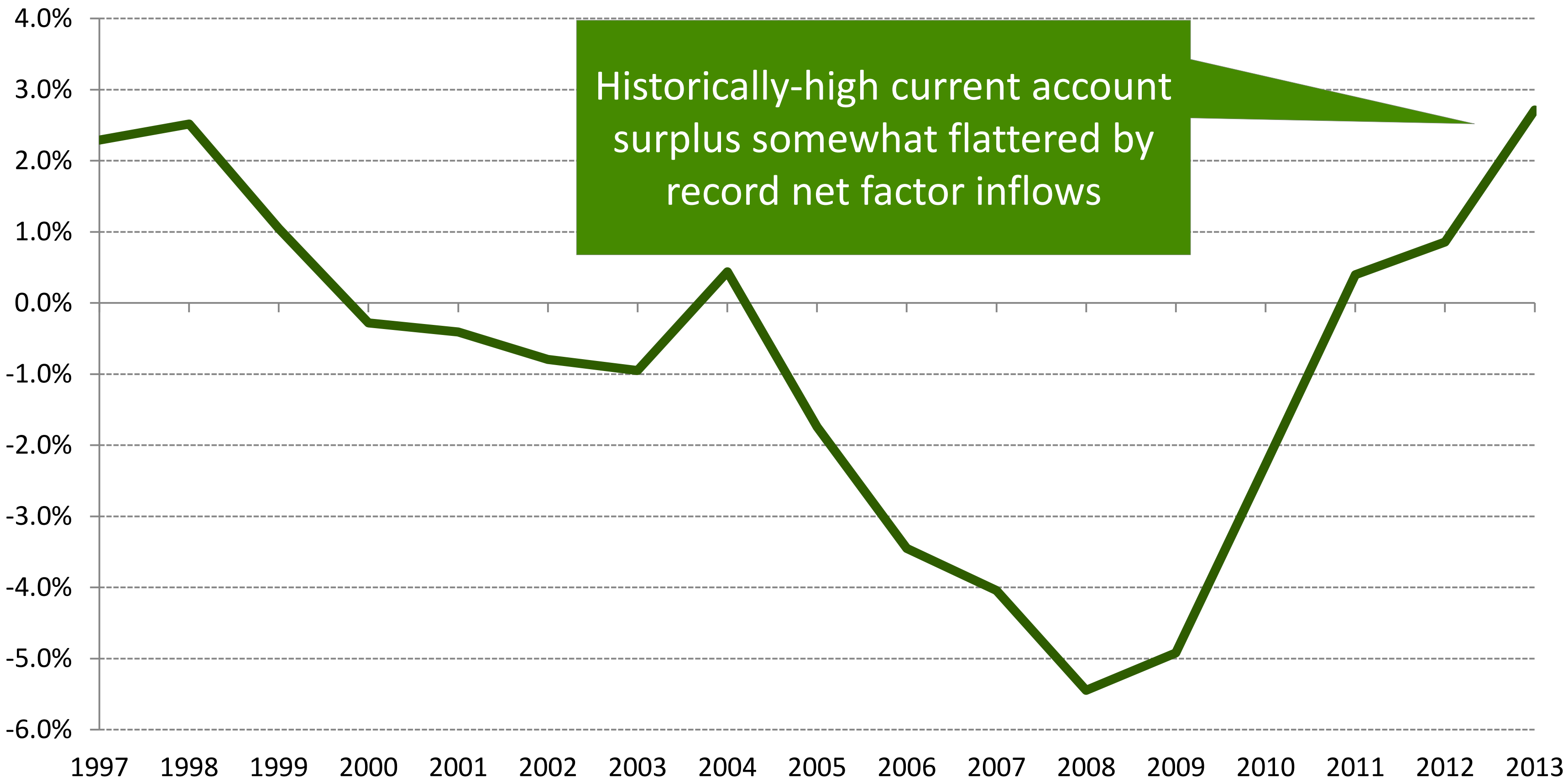
Source: NTMA; Department of Finance

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

SECTION 4: REBALANCING

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

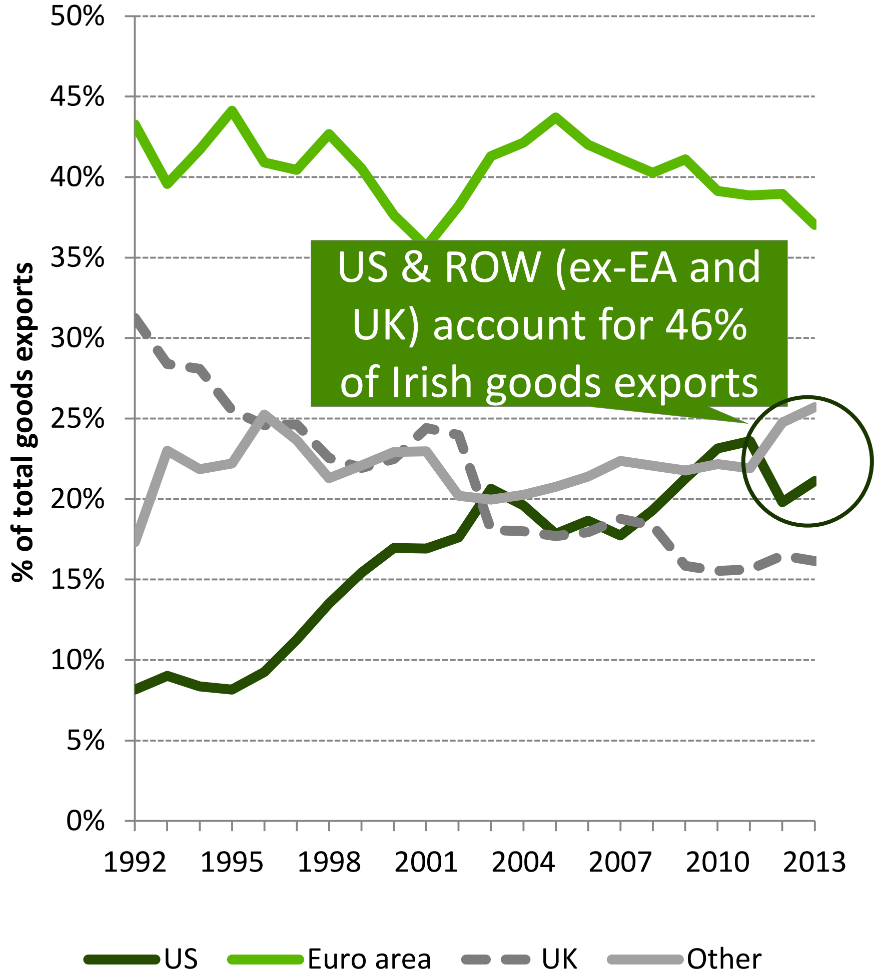
Ireland’s BoP current account surplus reflects large-scale rebalancing of economy (% GDP)



Source: CSO

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

Ireland benefits from export diversification by destination and openness relative to other non-cores



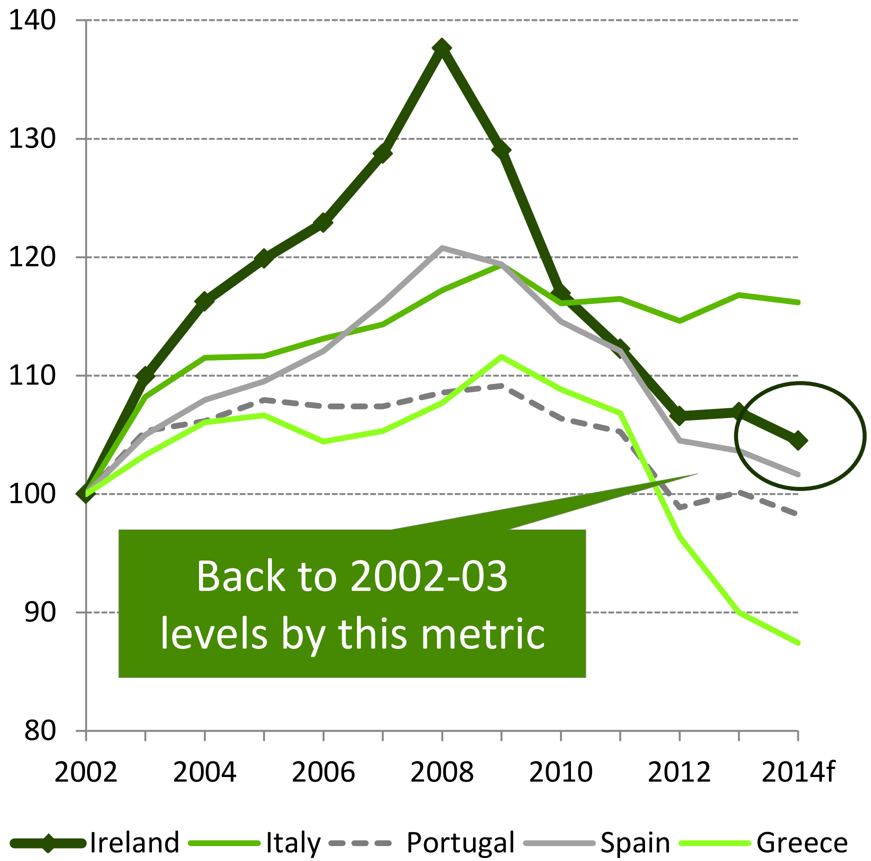
Source: CSO

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

Source: Datastream (value of exports)

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

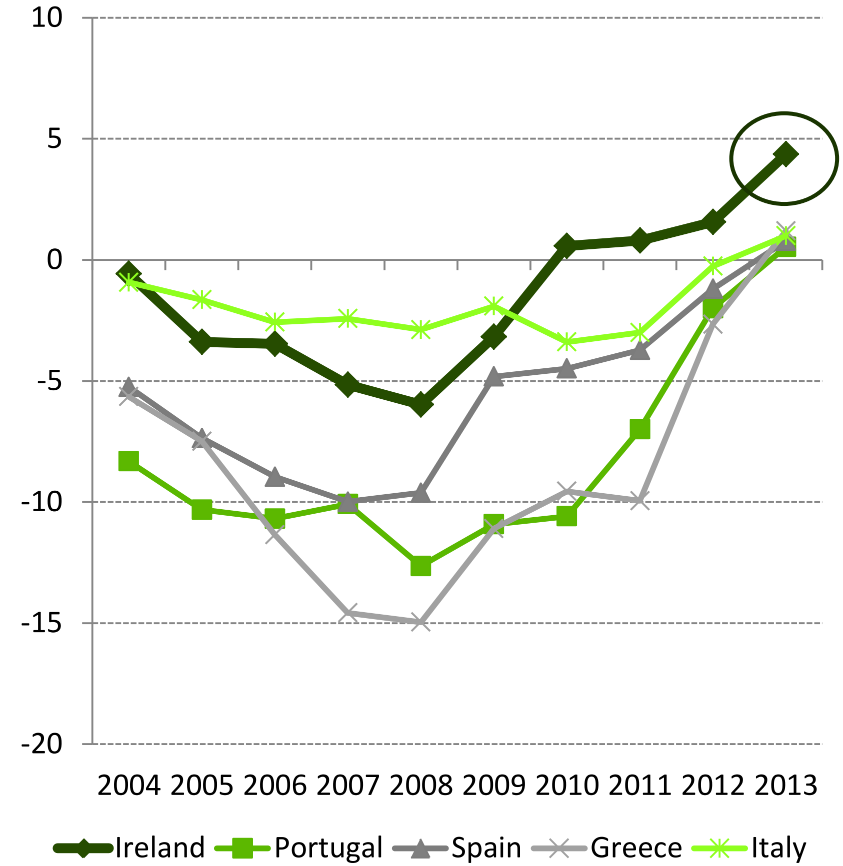
Relative Real Effective Exchange Rates have corrected sharply (Base:2002=100



Source: AMECO

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

Current Account Balance (% GDP)

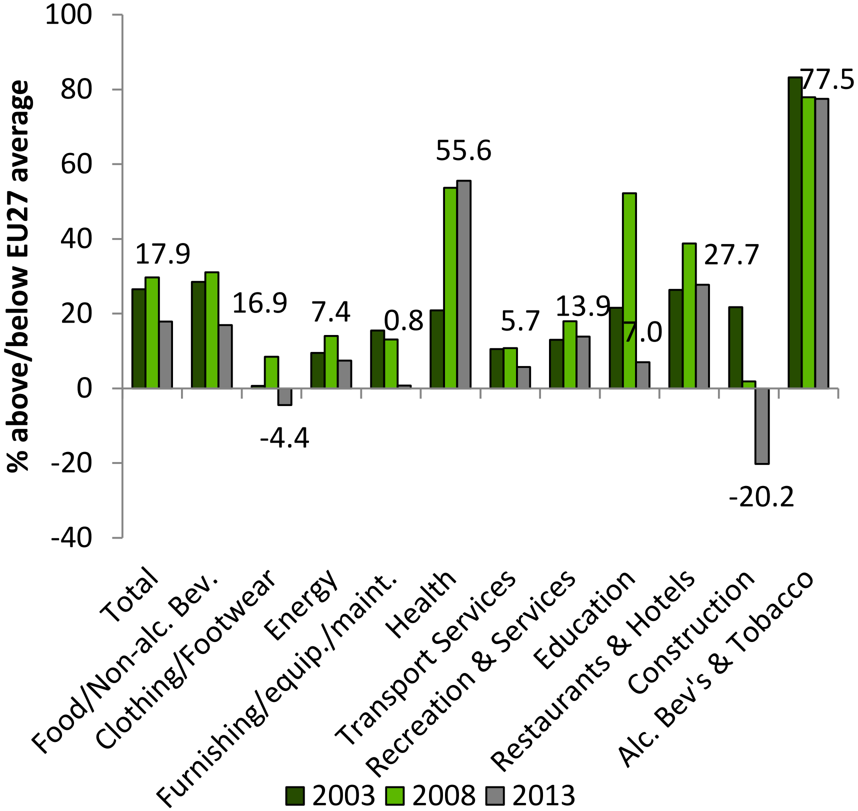


Source: Eurostat; NTMA Workings

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

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

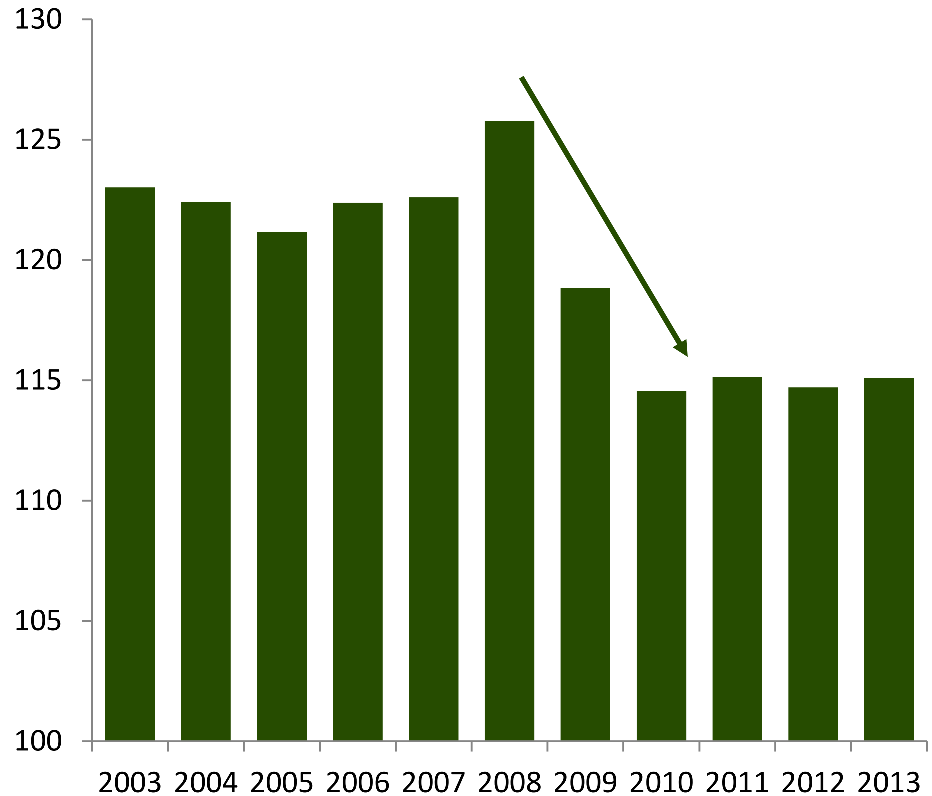
Prices have fallen across most consumer goods and services, yet some remain high



Sources: Eurostat; NTMA workings

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

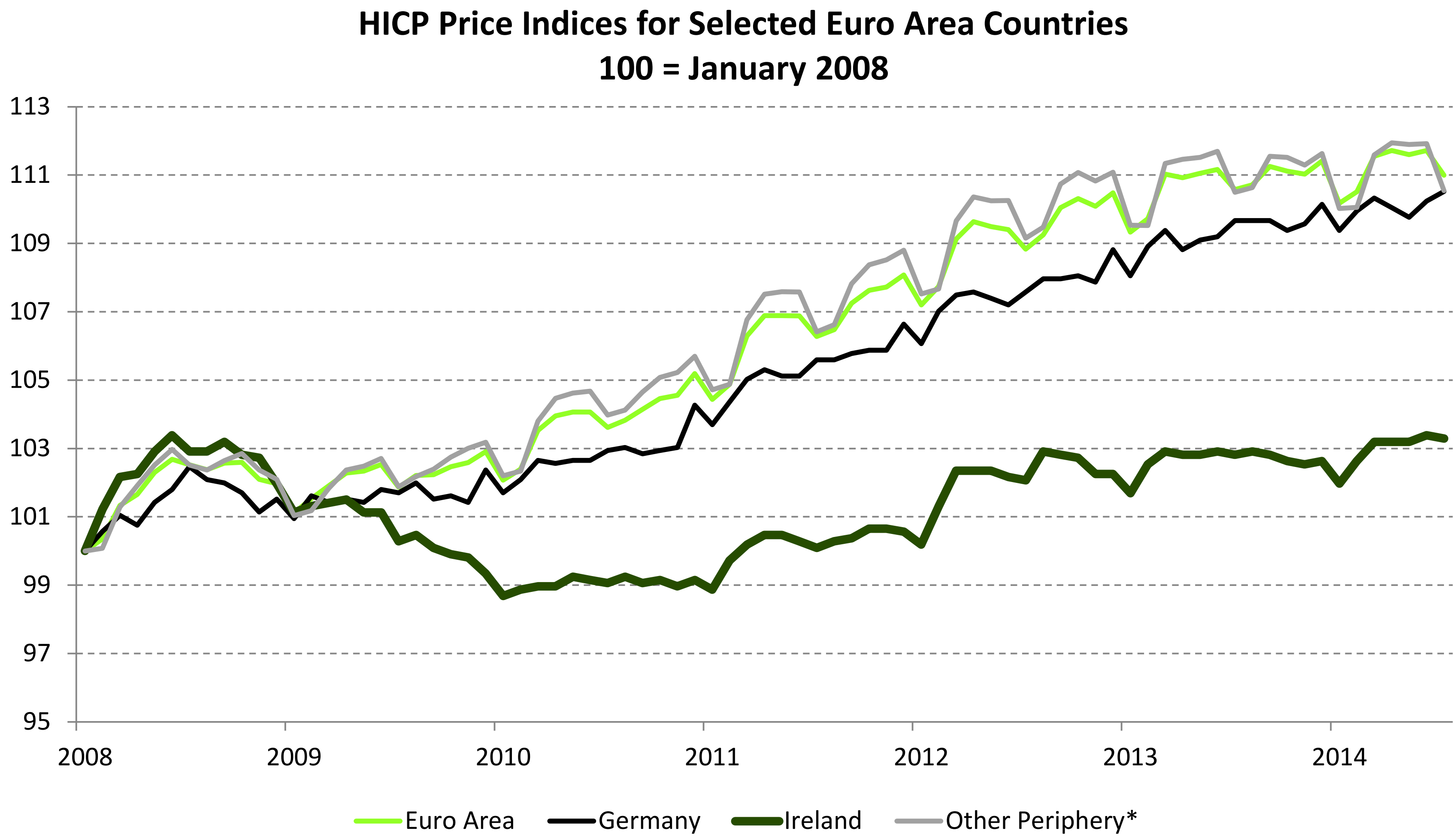
Ireland closed the gap quickly between 2008 and 2010 (index: euro area=100)



Sources: Eurostat; NTMA workings

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

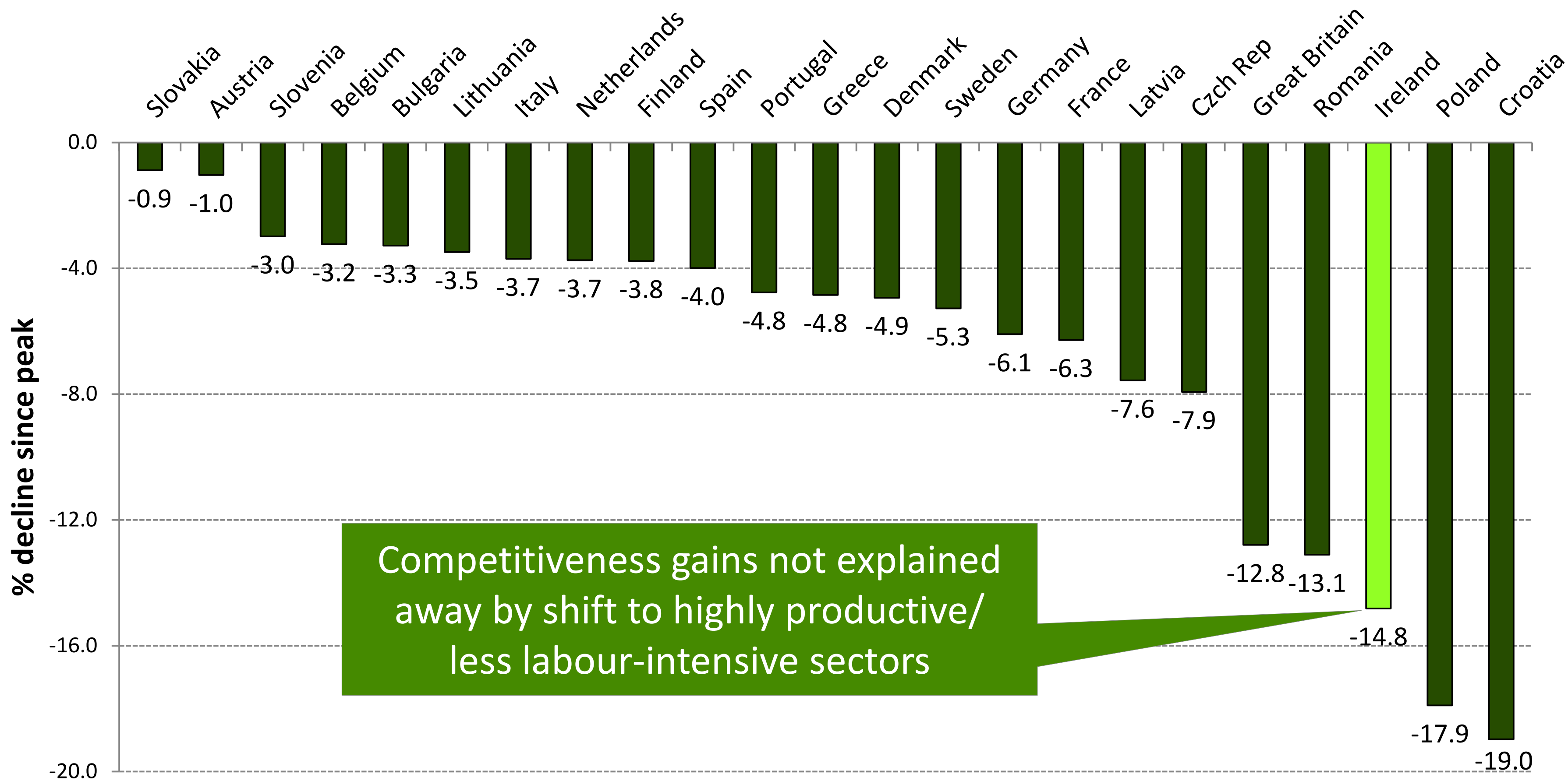
Ireland's price competitiveness recovery since 2008 outperforms other periphery countries



Sources: Eurostat; NTMA workings; Non Seasonally Adjusted Data

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

Competitiveness recovery still exceptional even when compositional effects are corrected for

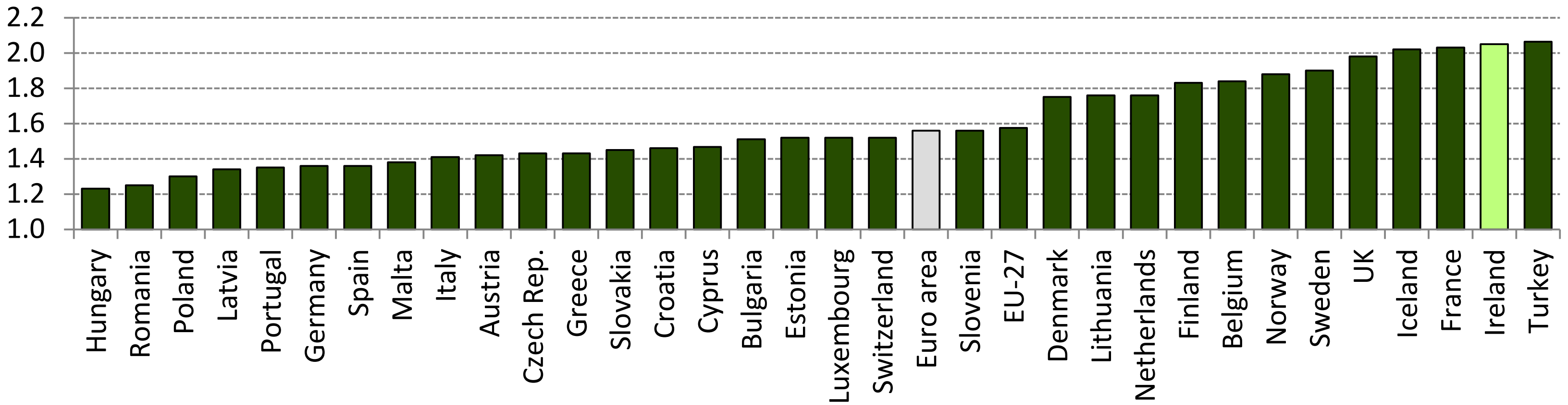


Source: Bruegel, 2014. 'Real effective exchange rates for 178 countries: a new database'

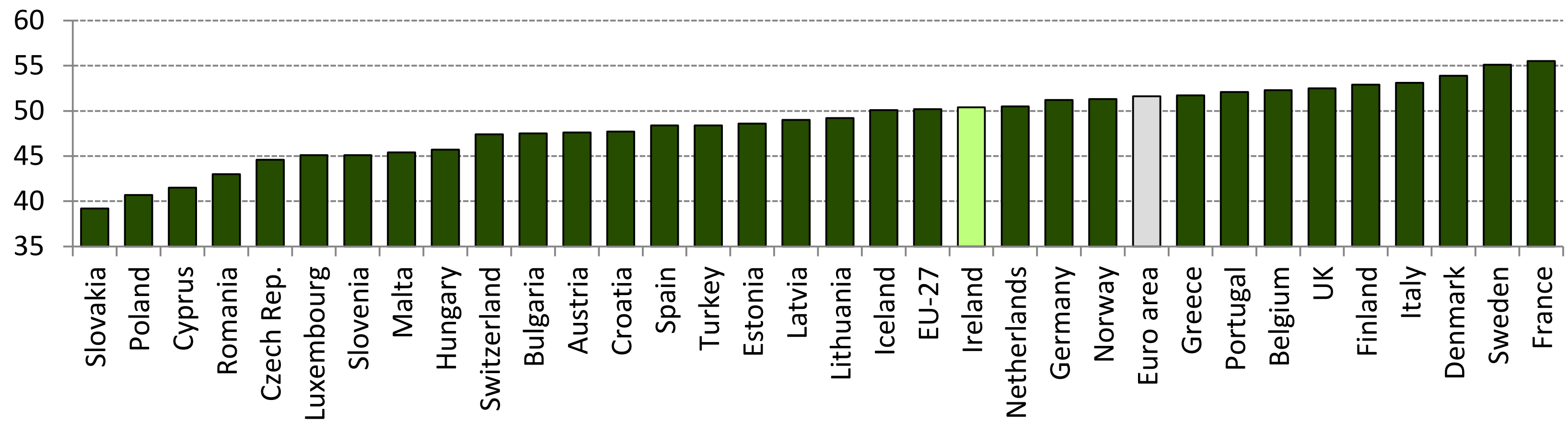
Note: REERs cover business sector excluding agriculture, construction and real estate activities and are calculated against 30 trading partners using fixed weights from Q1 2008. Data available to **Q1 2014**. See Darvas, Z (2012) for more details.

Favourable population characteristics underpin debt sustainability over longer term

Fertility rates in Ireland are above typical international replacement rates

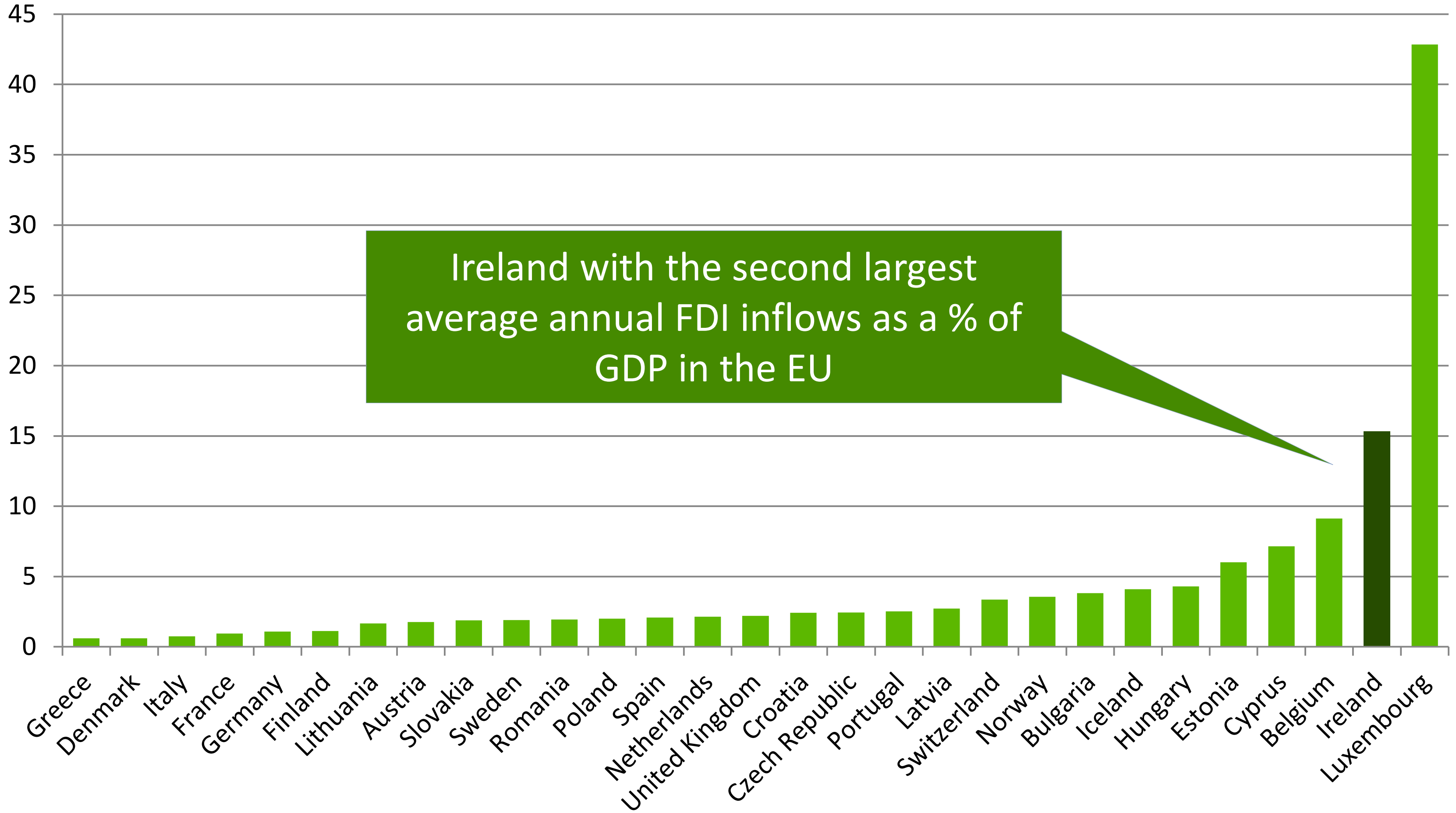


Dependency ratios (age <15 & 65+ : ages 15-64) also compare well against euro area



Sources: World Bank WDI; Eurostat

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



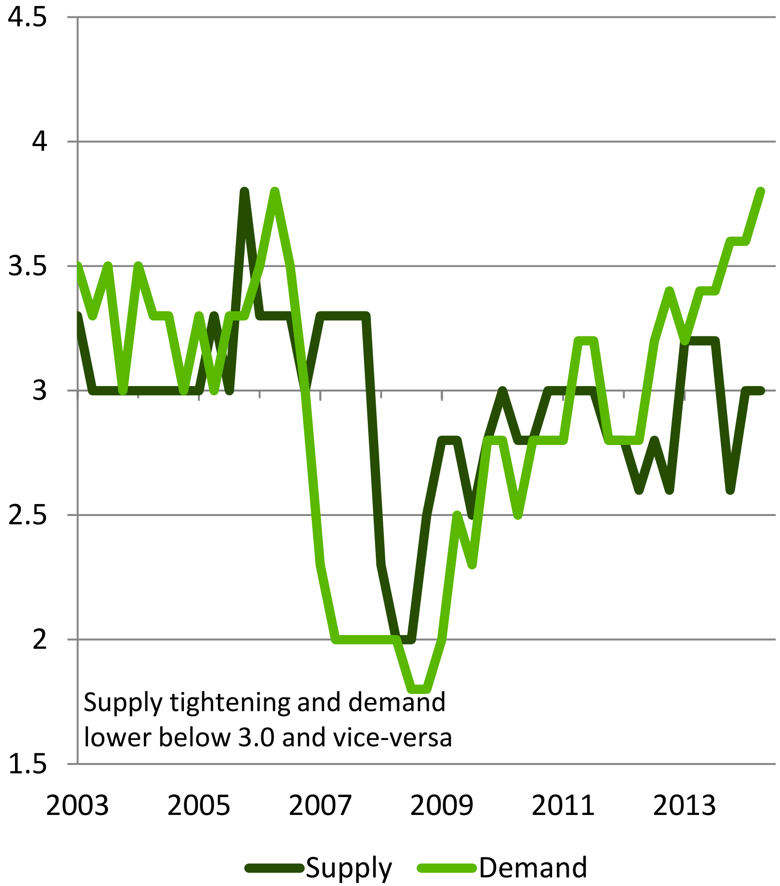
Sources: UNCTADStat

SECTION 5: PROPERTY

House prices have begun to rise, thanks to lack of supply and increased demand; prime commercial property surge continues

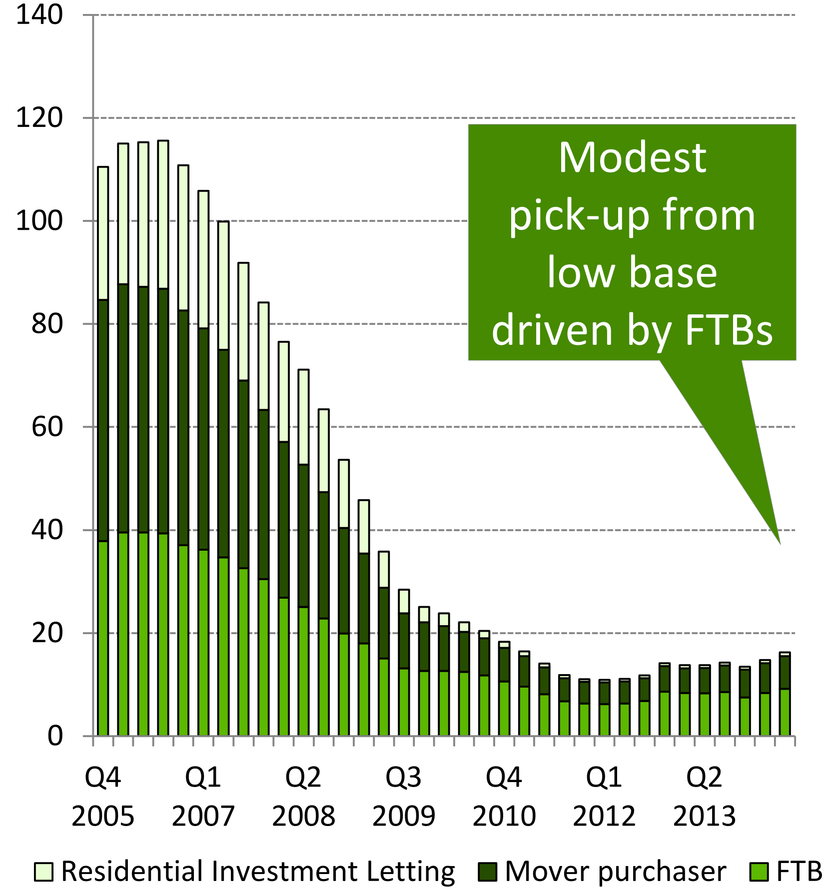
Mortgage demand rises for six consecutive quarters; credit standards stable in 2014

Demand conditions improving; credit standards tight but stable



Source: ECB (Bank lending survey)

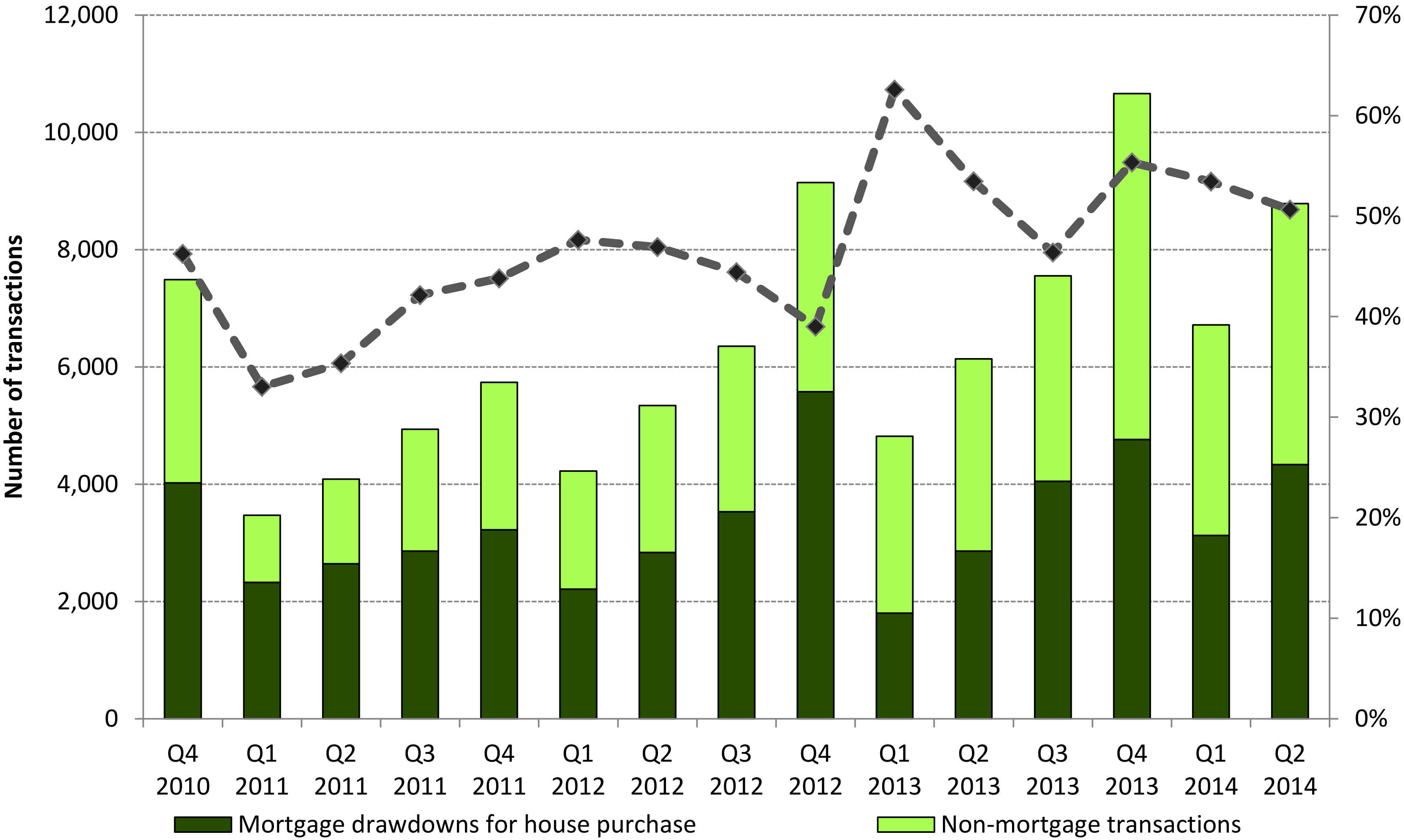
Mortgage drawdowns for house purchases have bottomed ('000s)



Source: Irish Banking Federation

FTBs = First Time Buyers

Residential market continues to be boosted by non-mortgage purchasers

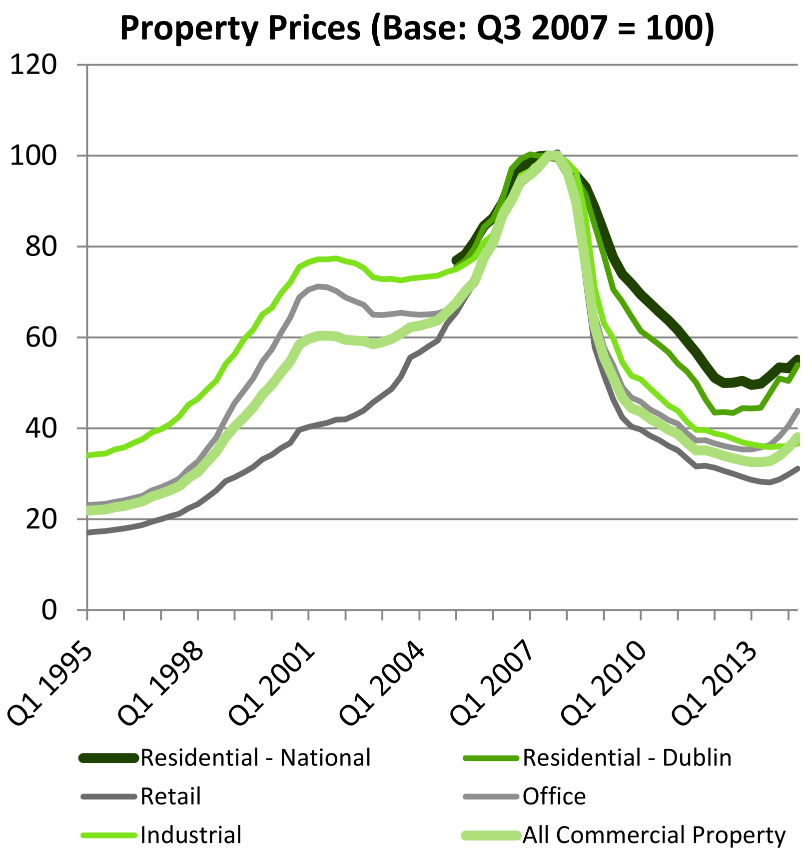


Sources: IBF; DoECLG; Property Services Regulatory Authority; NTMA

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

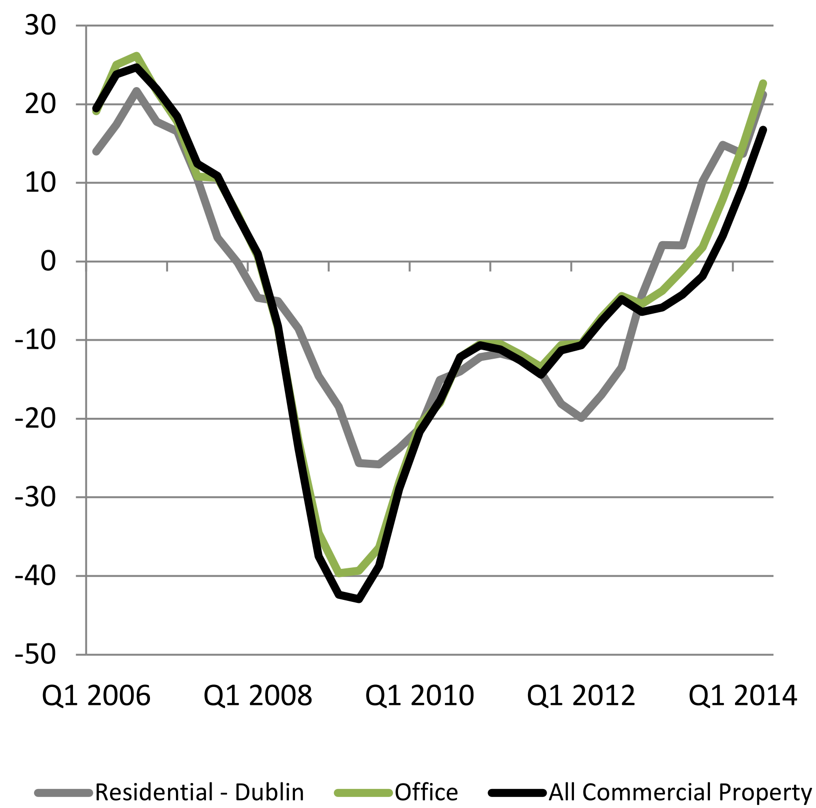
Prices rise for first time in over five years, but risks remain (Base: Q3 2007 = 100)

Pick up in property prices; in particular residential property in Dublin



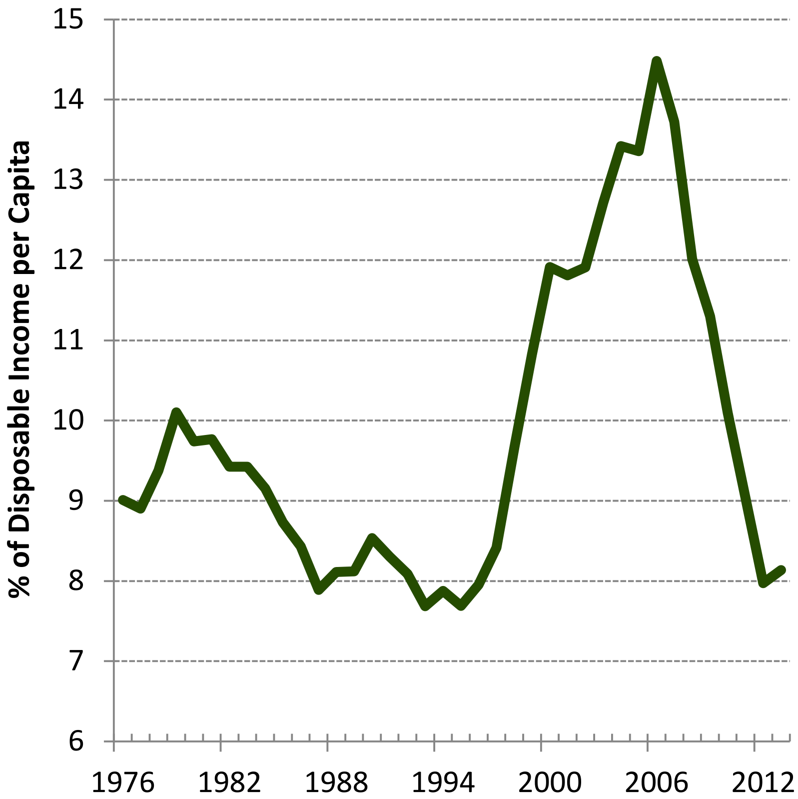
Sources: CSO; IPD

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

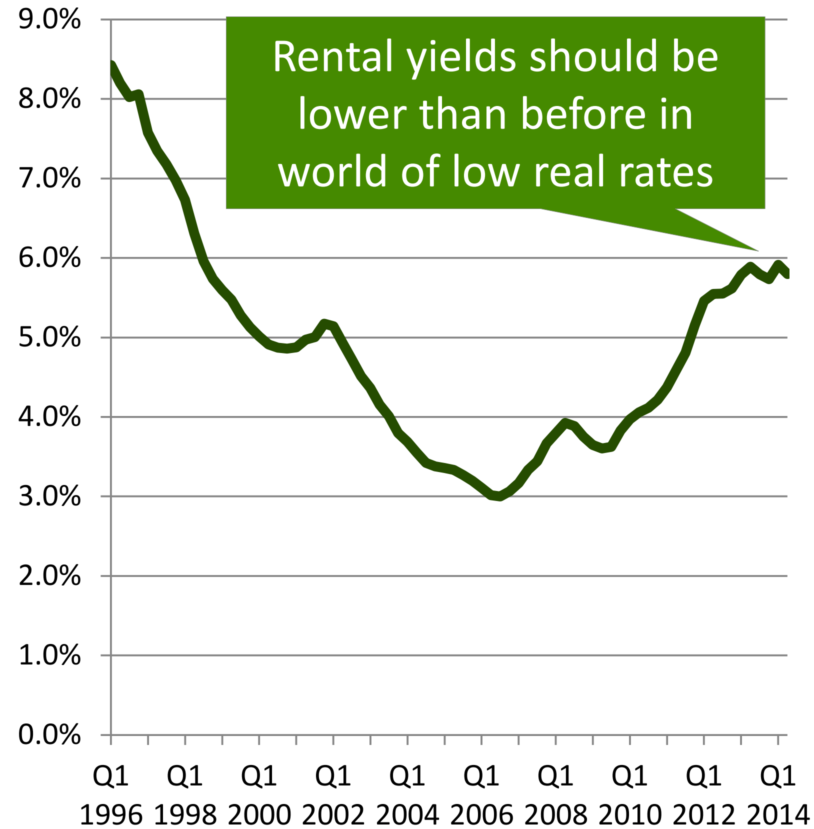


Housing valuations are attractive (rental yields)

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

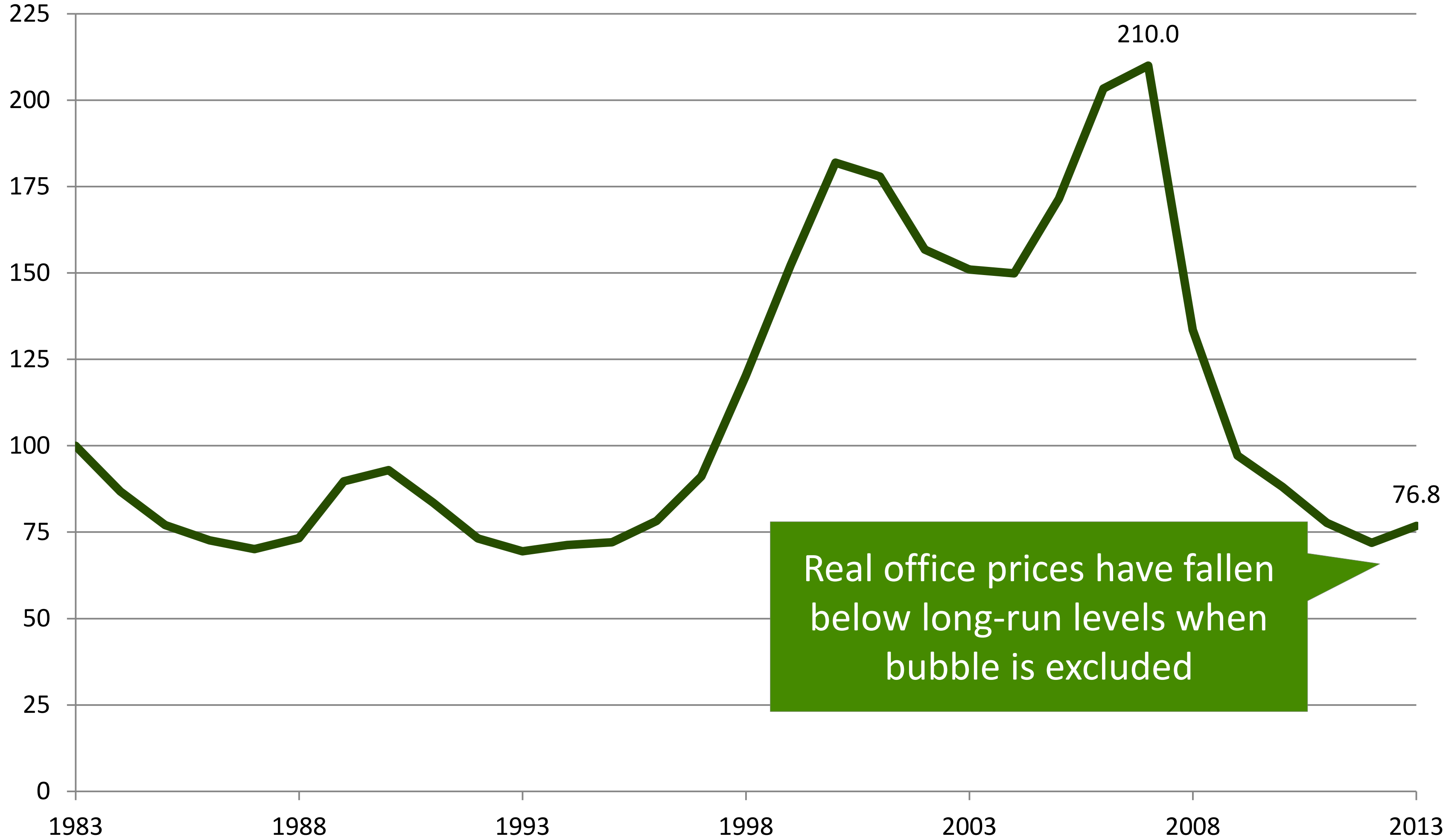


Rental yields near 6% in world of near zero real interest rates



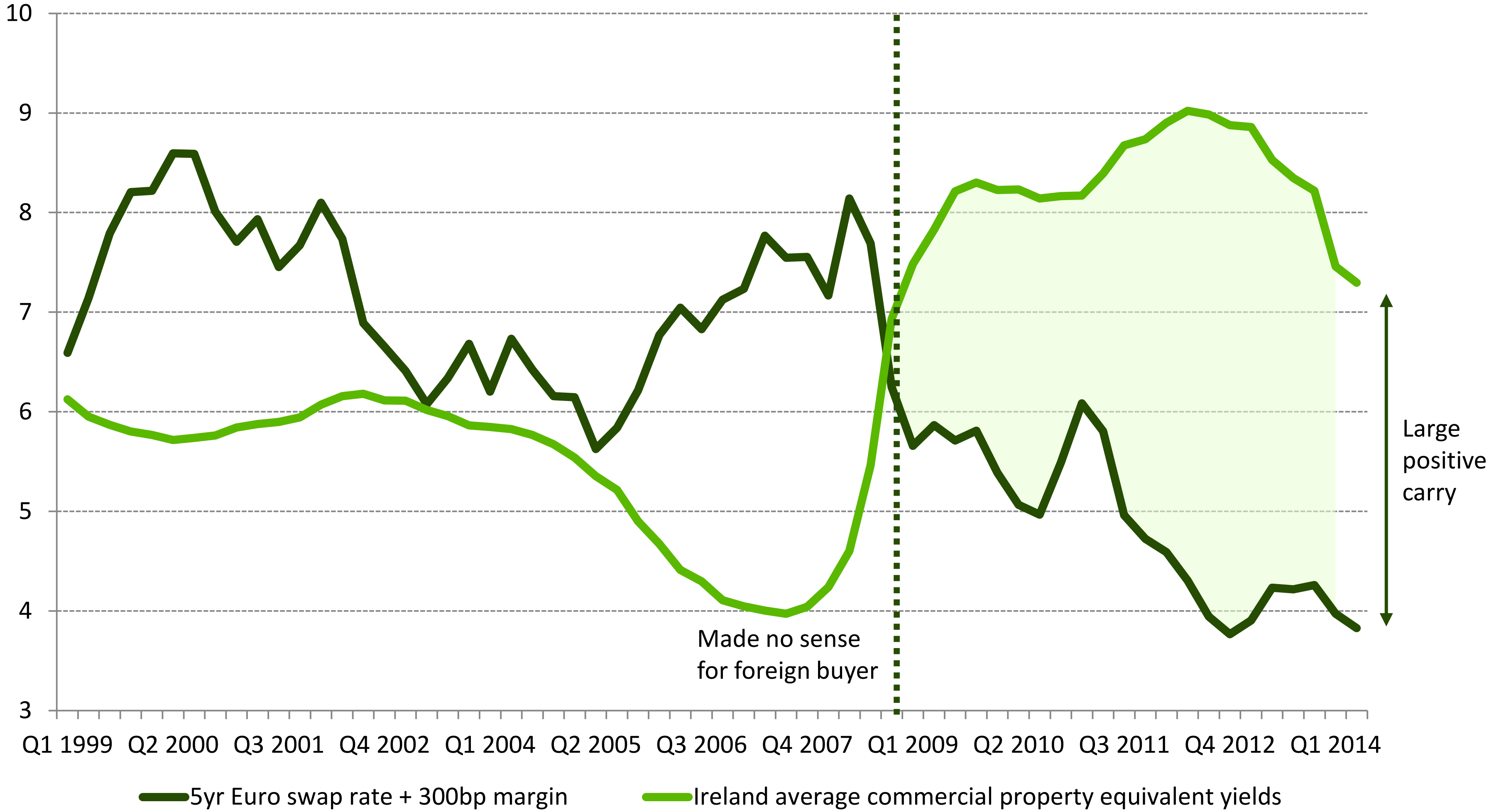
Sources: CSO; NTMA

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



Source: IPD; NTMA

Foreign buyers interested on valuation grounds



Source: IPD; NTMA

SECTION 6: NAMA

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

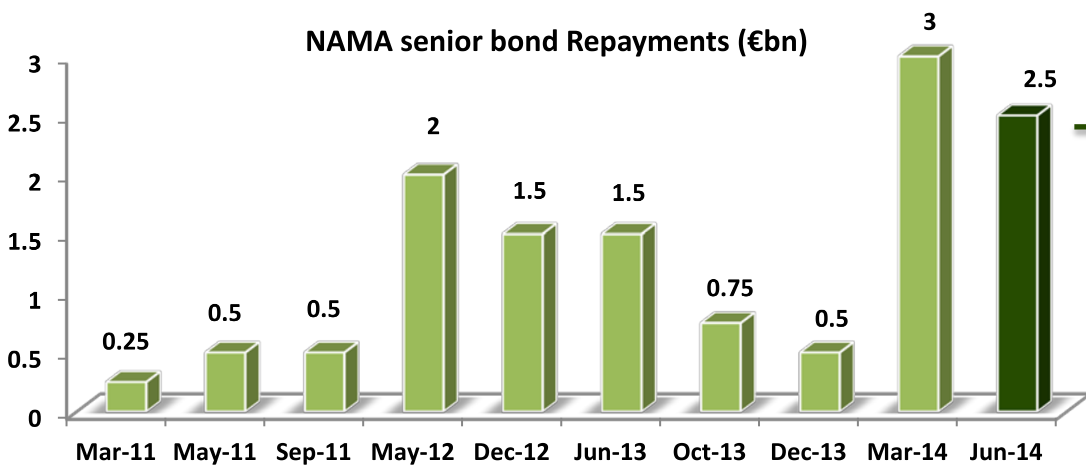
NAMA: one third of its original debt repaid

- **NAMA's operating performance is strong**
  - Successfully acquired 12,000 loans (over 60,000 saleable property units) related to **€74bn** par of loans of 758 debtors for **€32bn**
  - There was potential for a second book on the back of the IBRC liquidation, however, this has been definitively ruled out after liquidator asset sales went well.
  - Since inception, over 39,600 credit decisions made; completed Property and Loan Sales of €12.3 bn; over €2bn active disposal pipeline; currently 70% disposal income generated in UK; market in Ireland showing strong signs of recovery.
  - NAMA has, in aggregate, over €3.5bn in loan and property assets for sale in ROI.
- **Repaid €13bn (43%) of €30.2bn of original senior debt**
  - Repaid €2.5bn in July 2014, having met initial Troika target of €7.5bn by end-2013
- **Financing Strategy**
  - Approved advances of over €2.5bn in working/development capital to date, providing equity capital and credit facilities only where appropriate, to preserve and enhance value of assets securing Agency's loans
  - Over €1 billion in new advances have been drawn down, including €292m in 2013

NAMA: Financial summary
2011 - 2013 financial results (€m)

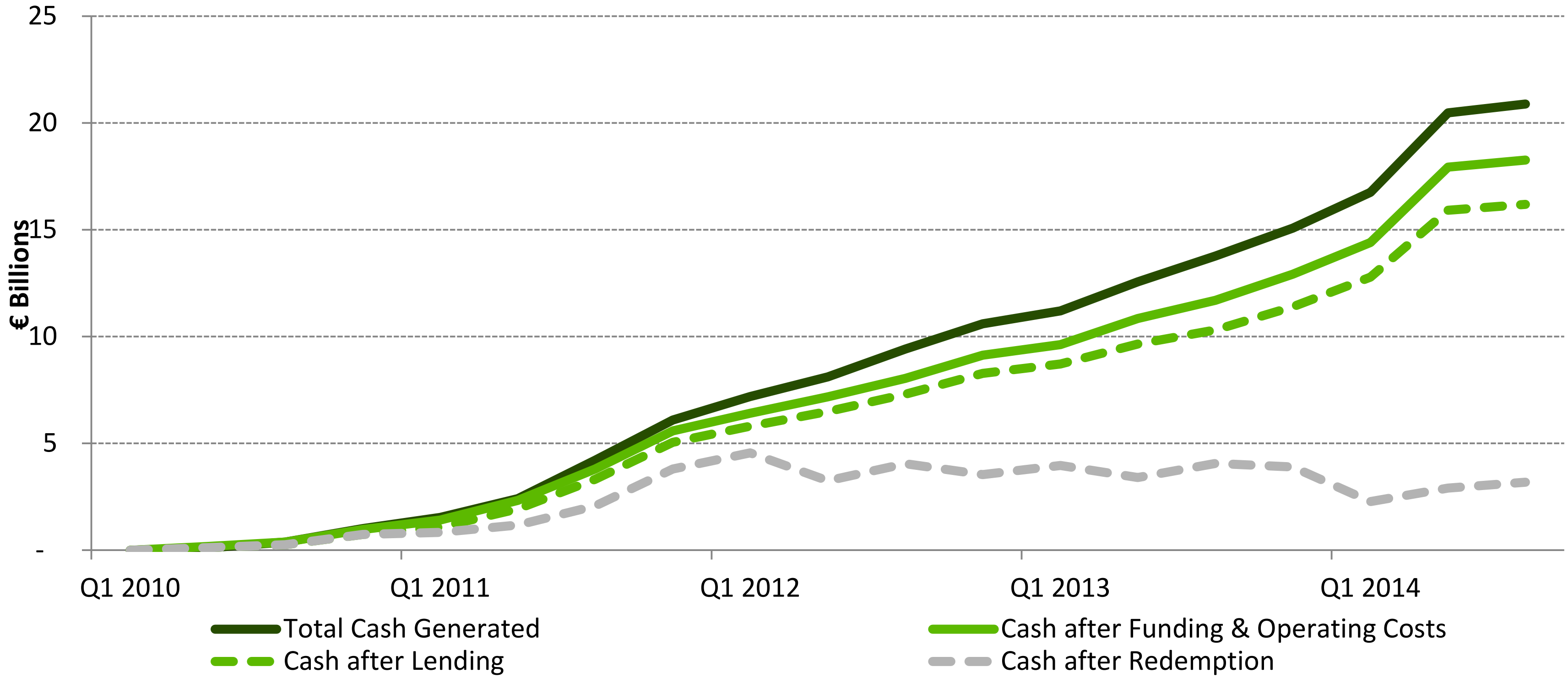
	2011	2012	2013
Net interest income	771	894	960
Operating profit before impairment	1,278	826	1,198
Impairment charges	(1,267)	(518)	(914)
Profit before tax and dividends	11	308	284
Tax (charge)/credit and dividends	230	(80)	(73)
Profit for the year	**241**	**228**	**211**

Source: NAMA



- **NAMA continues to generate net profits after impairment charges**, despite unfavourable market movements
- 2013 Operating Profits of €1,198m (before an impairment charge of €914m)
- July 2014: €2.5bn of NAMA senior bonds redeemed bringing total amount redeemed to €13bn (43% of Agency's senior debt liabilities)
- **All of €30.2bn in NAMA senior bonds expected to be redeemed by 2020**

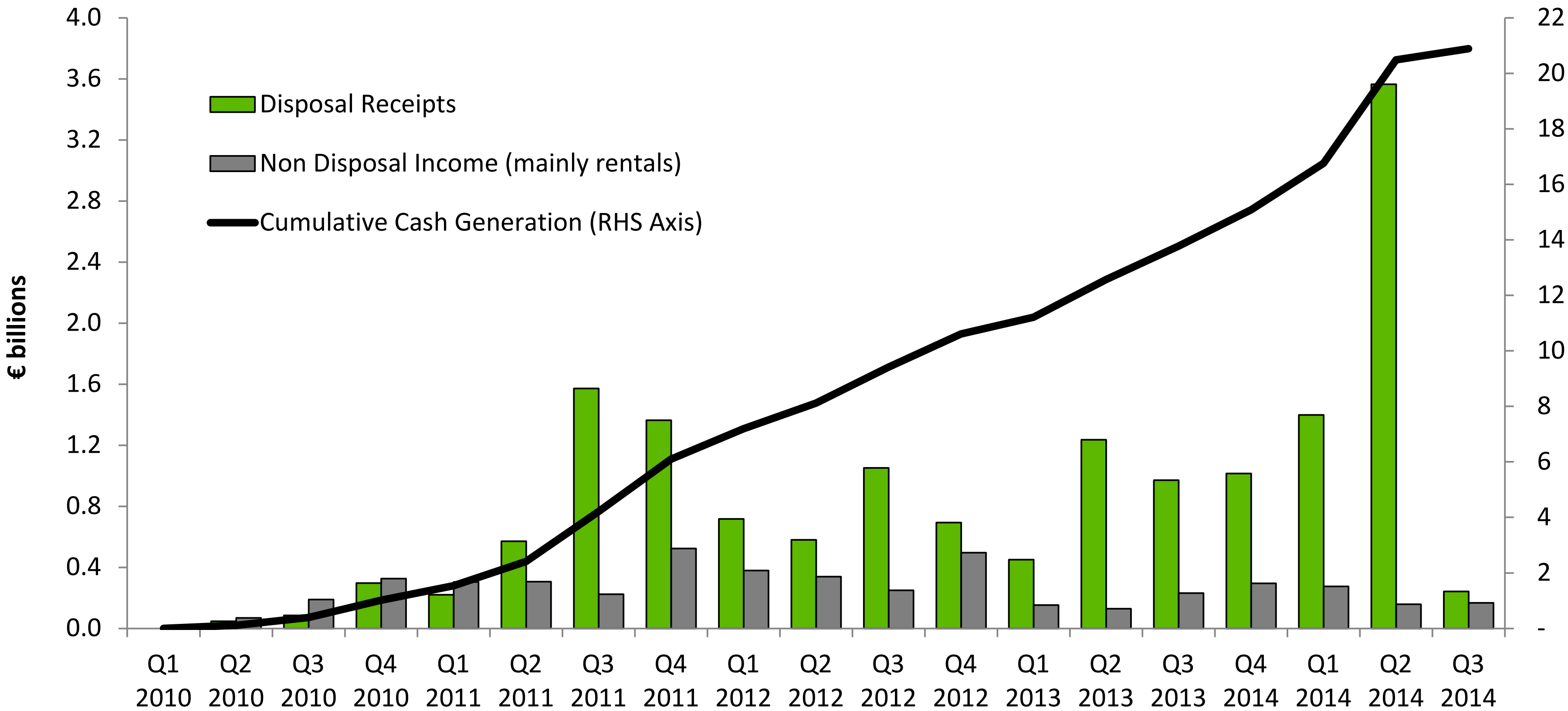
NAMA: Summary of cash flows from inception



Source: NAMA

- **Total cash generated of €21.3bn from inception to date**
  - Disposal proceeds €16.4bn to date
  - NAMA senior debt redemptions of €13bn by end-July 2014
  - Lending disbursement (new advances) of €2.5bn
  - Latest cash and equivalent balances of €2.8bn

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



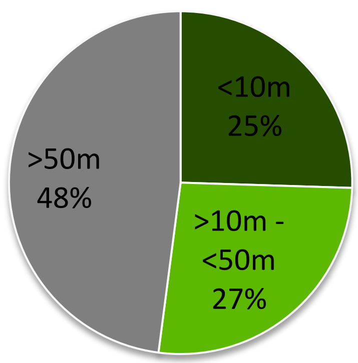
Source: NAMA

- **Note the high level of non-disposal income**
  - Cash generation is very important to NAMA's future strategy
  - €4.5bn in non-disposal cash generated (mainly rental income, despite the sale of €16.4bn of assets and loans)

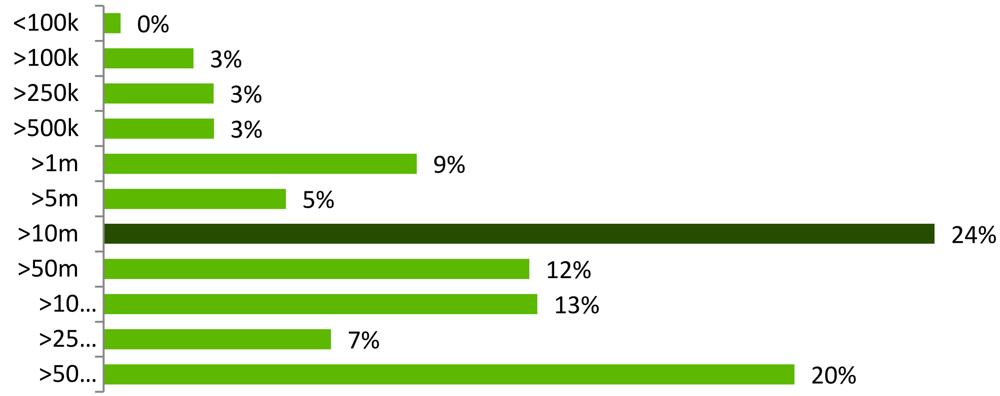
Disposal transaction analysis – inception to May 2014

	< €10m	>10m - <50m	> €50m	Total
Total Disposals (€m)	3,666	3,821	6,895.06	14,383
No. of Transactions	6,637	183	46	6,866
Average Disposal Value (€000s)	552	20,882	149,893	2,095

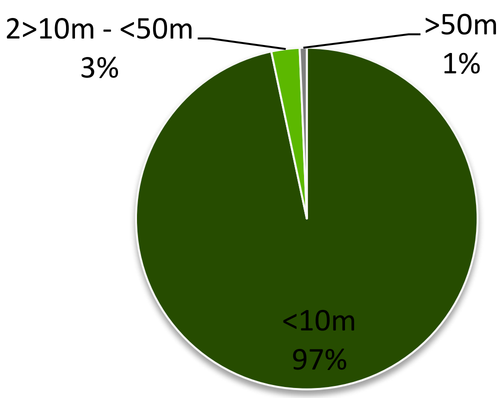
Disposal Proceeds by Value Range



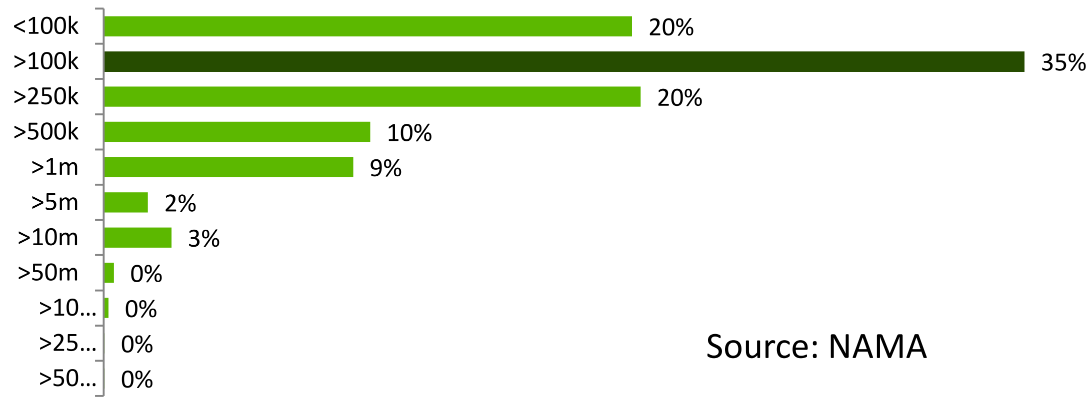
Disposal Proceeds Value by Range



Disposal Transaction Volume by Range



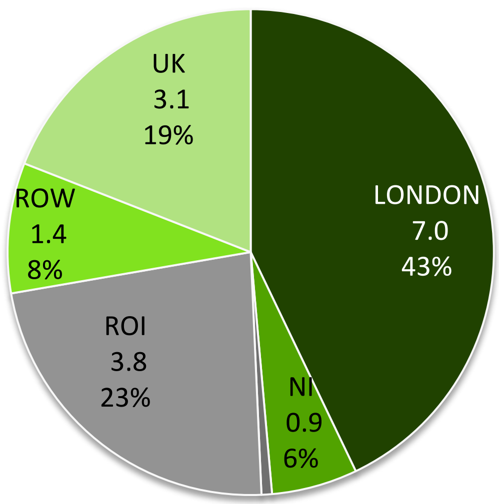
Disposal Transaction Volume by Range



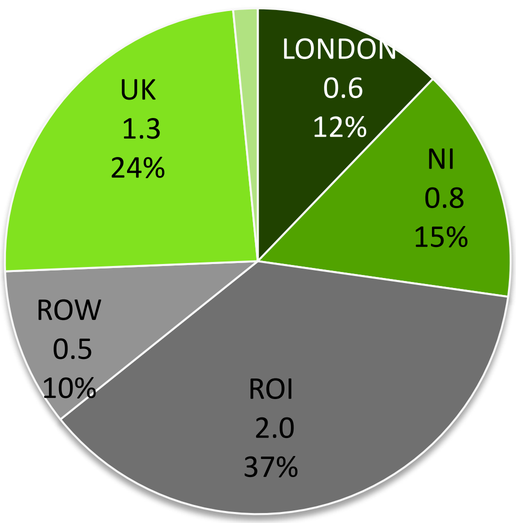
Source: NAMA

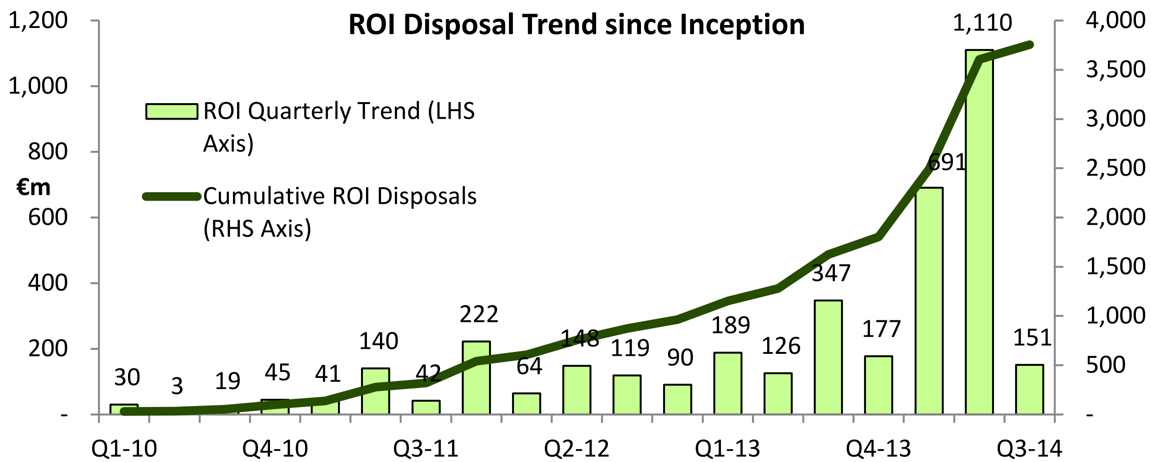
Disposal trend by location (to May 2014)

Disposals by Location since inception (€16.3bn)



Disposals by location 2014 YTD (€5.2bn)



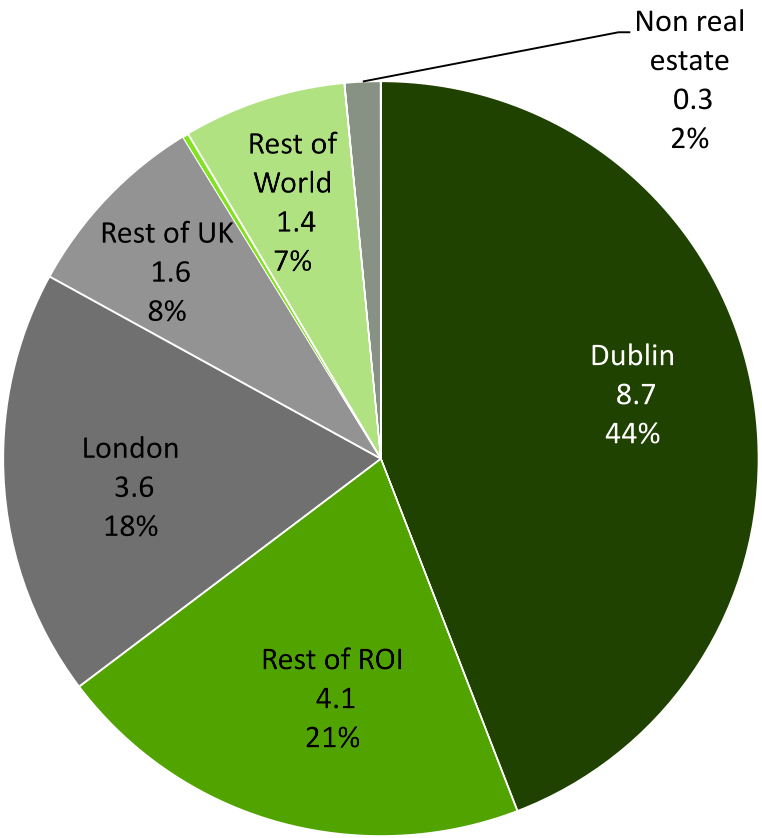


- Disposals of €14.4bn to end-May 2014.
- Deliberate NAMA focus on UK disposals during 2010 – 2013 period.
- ROI transactions have increased significantly since Q4 2013.

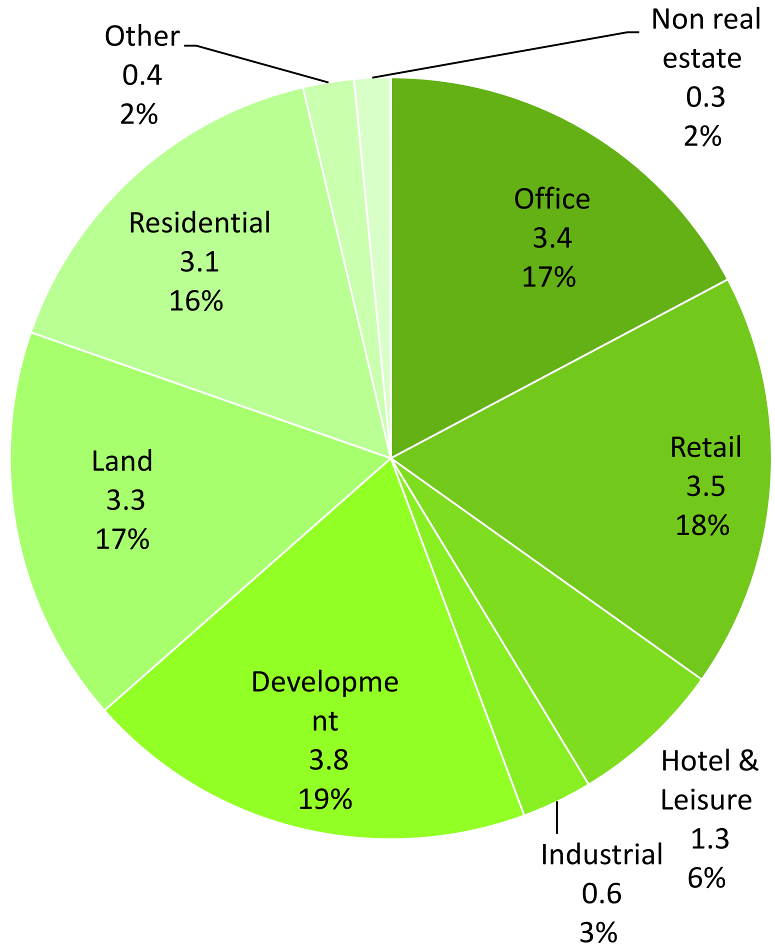
Source: NAMA

Breakdown of NAMA property portfolio, June 2014

Geographic Breakdown



Sector Breakdown



Source: NAMA

NAMA: Strategic initiatives

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

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

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

NAMA: favourable property market measures in Budgets 2013 and 2014

- **Budgets 2013 and 2014 contained a number of significant measures aimed at boosting the property market**
  - Helped to boost NAMA's book of loan assets, underpin collateral in the banking system and brought forward mortgage demand
- **Stamp duty on commercial property cut from 6% to 2%**
  - Now lower than the current UK rate. Has boosted demand from overseas
- **NAMA can directly approve rent reductions with tenants of commercial properties under its control**
  - Changes to upward-only rent legislation shelved
- **Tax incentive Scheme**
  - Property bought before the end of 2014 will be exempt from Capital Gains Tax (currently 33%) on sale as long as it is held for at least seven years
- **REITs**
  - Introduction of REIT legislation and proposal to include REITs in the Immigrant Investor Programme. Has stimulated interest from international investors.

NAMA: on track to achieve long-term objectives

- NAMA meeting senior debt redemption targets ahead of schedule. €2.5bn repaid in July 2014 bringing total redemptions to €13bn or 43% of senior debt.
- Vendor finance, deferred payments and social initiatives are building momentum and have been supplemented by other measures in 2013 and 2014
- Floatation of a number of REITs and consideration of QIF options have favourably publicised Irish property
- €2bn of vendor finance available between 2013 and 2016 to support disposal activities. The majority of new equity was to be made available in 2013-14. The initiative widens the potential investor base, even if finance is not ultimately used, and can help overcome weak credit availability
- NAMA to provide €2bn of development capital to projects in Ireland between 2013 and 2016 to support income generation
- Strong recurring cash position, reflecting both location and quality of assets and NAMA's asset management approach
- Focus on maximising income and managing debtors, receivers and assets to enhance value

SECTION 7: BANKING*

Banks overhauled since late 2010; AIB and BOI returned to profit in H1 2014; next target is euro area-wide stress tests in Q4 2014

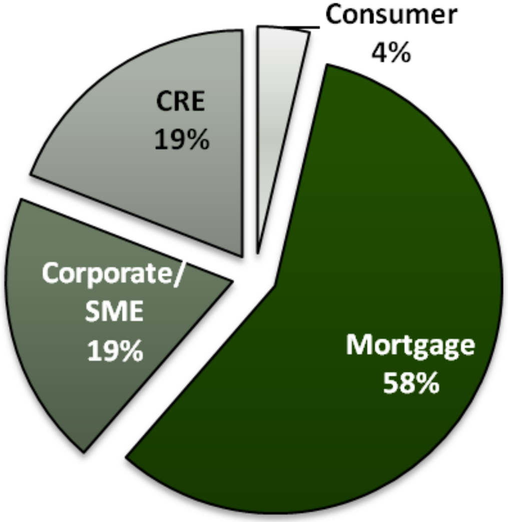
* Some information in this section is provided by the banking unit of the Department of Finance

Asset quality reflects huge losses already recognised

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

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

Loan Asset Mix (PCAR banks end '13)

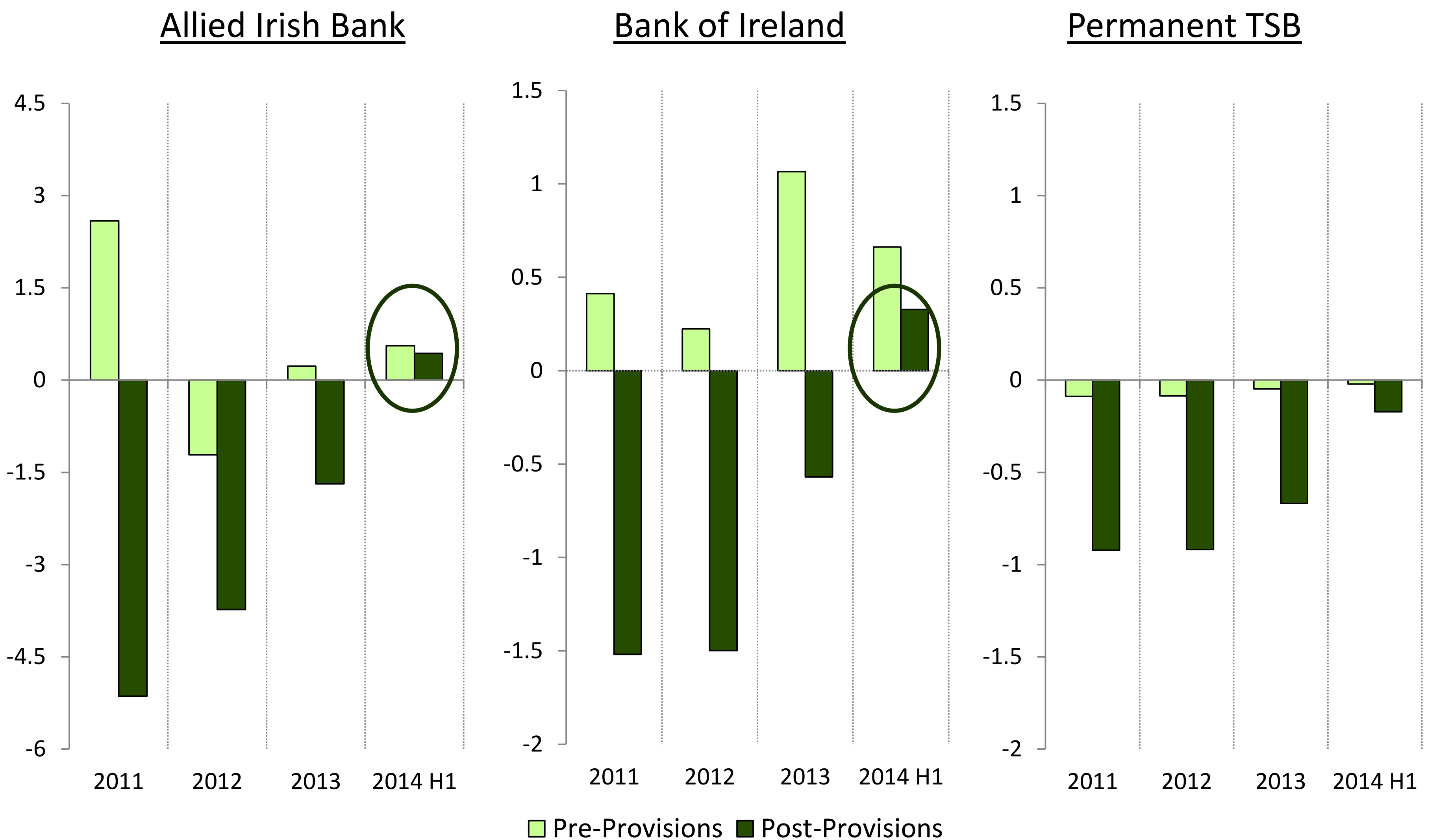


Impaired Loans % (Coverage %)[1] by Bank and Asset					
		Dec-12	Dec-13	Jun-14	*Book (€bn)*[2]
BOI	Irish Residential Mortgages	13.1 (40)	14.2(49)	14.1(51)	26.3
	UK Residential Mortgages	2.3 (22)	2.4(24)	2.3(22)	25.0
	Irish SMEs	26.5 (43)	26.7(50)	26.7(51)	10.0
	UK SMEs	17.9 (37)	17.1(50)	15.7(44)	2.7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

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

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

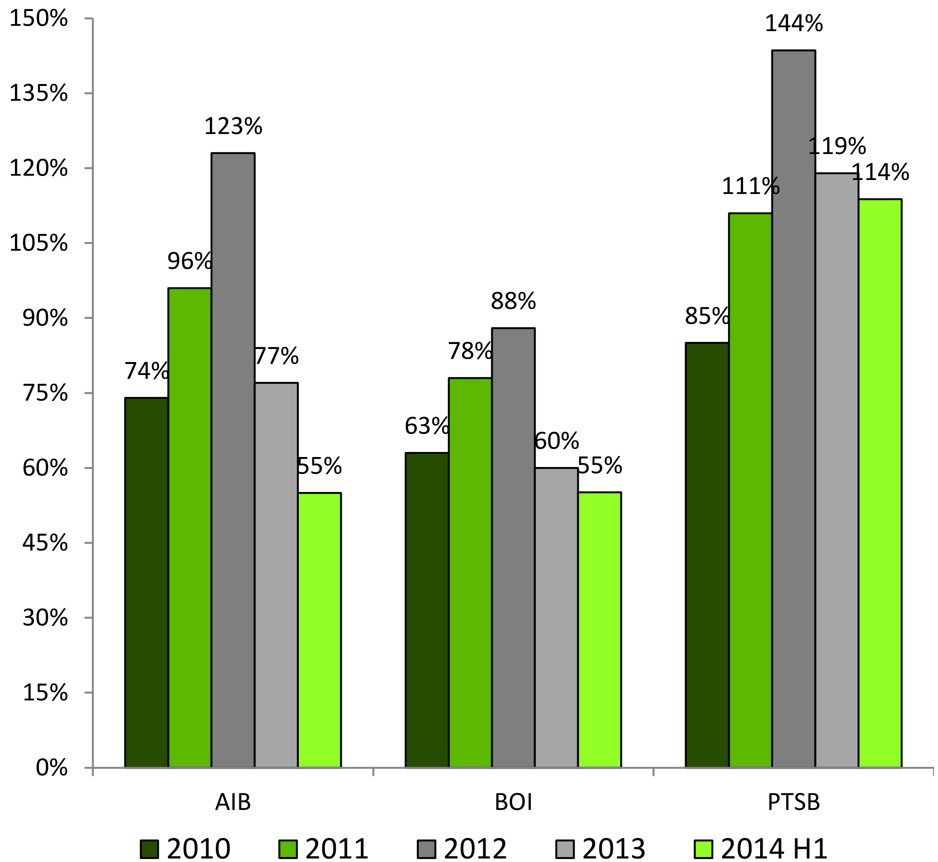
AIB and BOI have returned to profit in H1 2014 (€bn)



Source: Interim & annual reports of banks

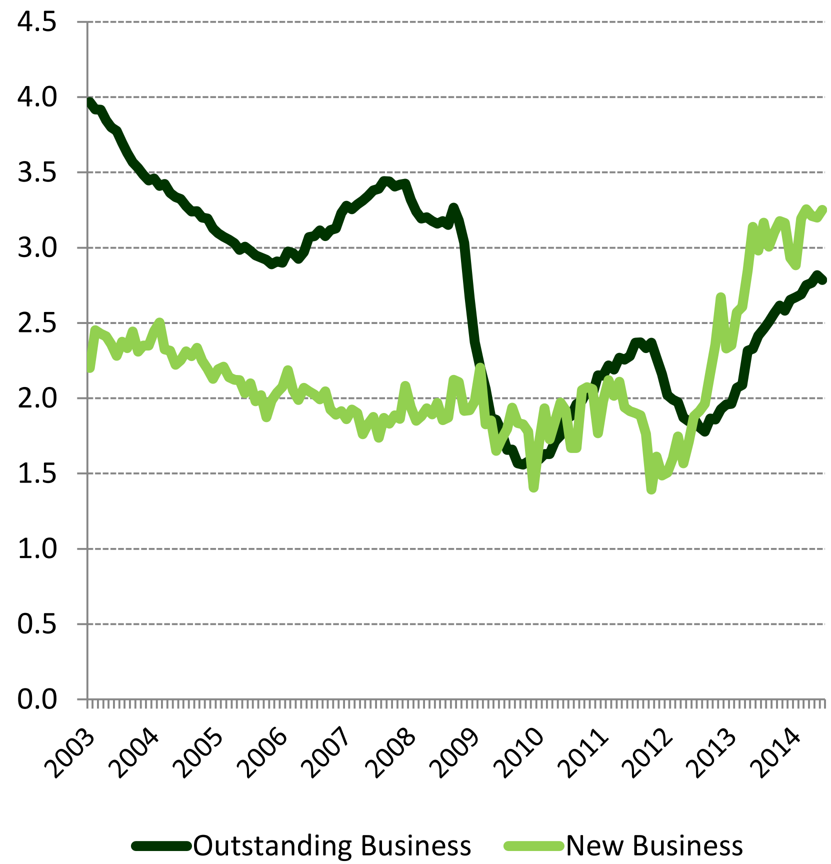
AIB and BOI returned to profit in H1 2014; net interest margins on new lending are favourable

Cost income ratios beginning to improve



Source: Annual reports of Irish domestic banks

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

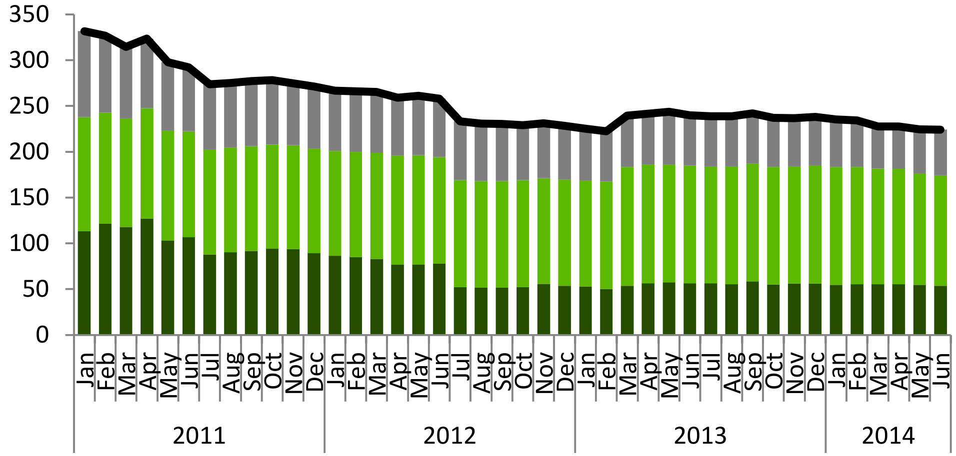


Source: Central Bank of Ireland

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

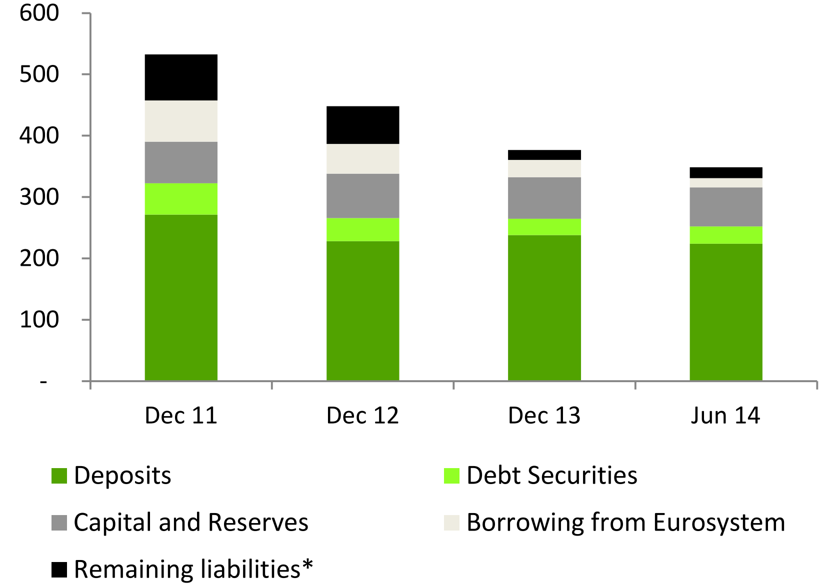
Bank deposits have stabilised; Drawings on ECB facilities reduced

Covered banks' deposit base (€bn)



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

Covered banks' funding structure (€bn)



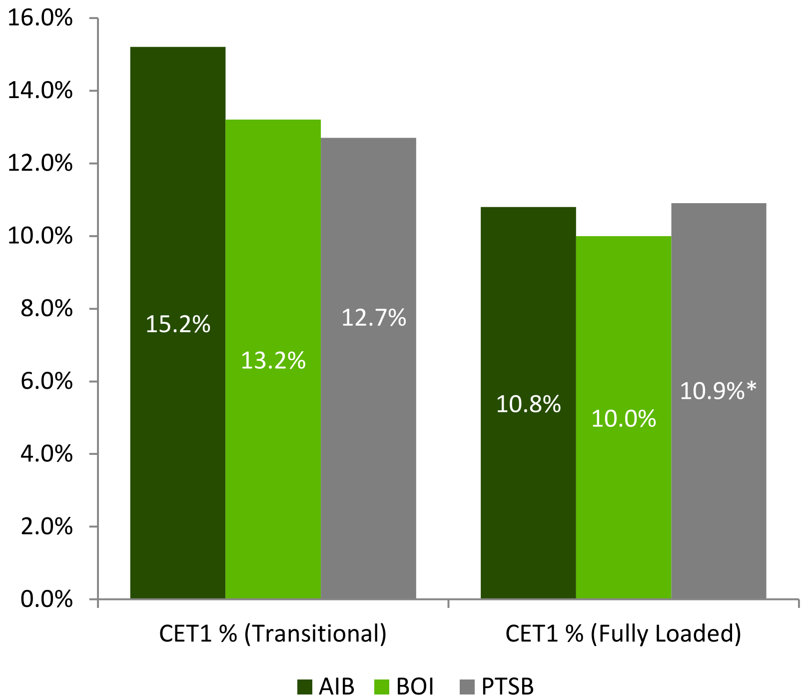
Source : CBI *including ELA until Feb. 2013

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

- Irish-Headquartered banks' usage of Central Bank facilities has fallen significantly following the end of ELA funding in 2013 and reduced recourse to the ECB repo facility.
- Deposits (both resident and non-resident) account for 65% of Irish-Headquartered banks' funding in Jun 2014 versus 51% in Dec 2011.

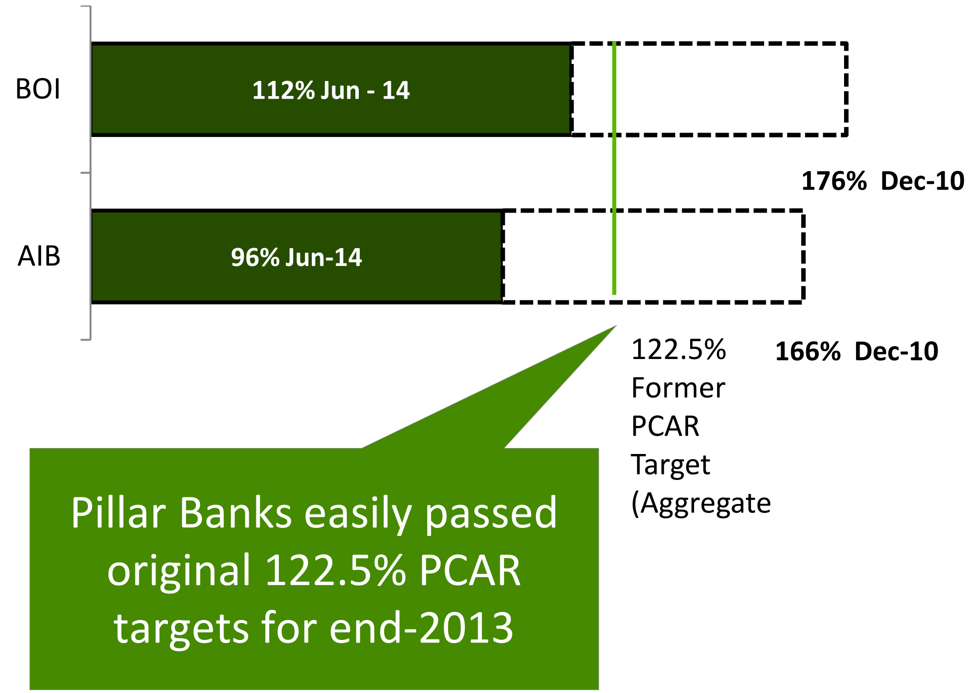
Capital and loan-to-deposit ratios strengthened

Core Tier 1 Capital Ratios (Jun-14)



Source: Published bank accounts

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



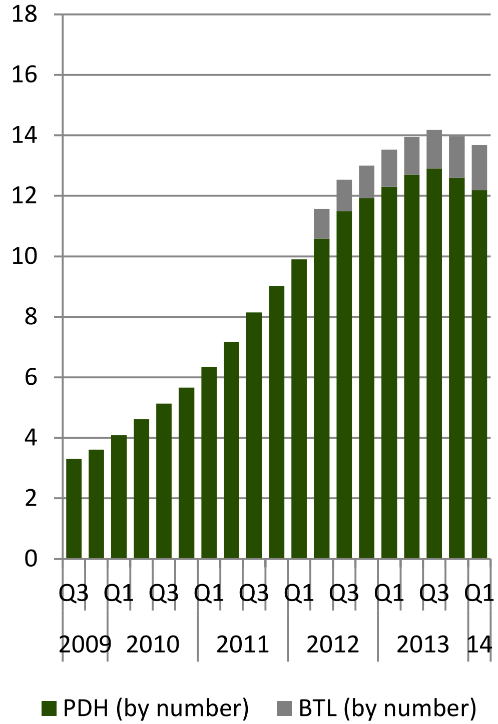
Source: Published bank accounts

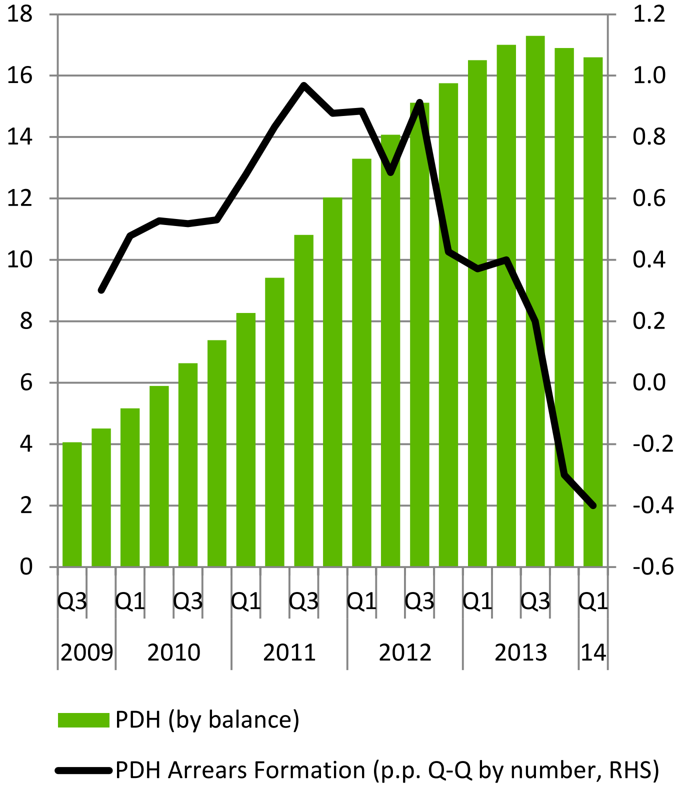
- Core Tier 1 capital ratios at the PLAR banks remain well above minimum requirements.
- Pillar bank LDRs easily beat former PCAR targets for end 2013.

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

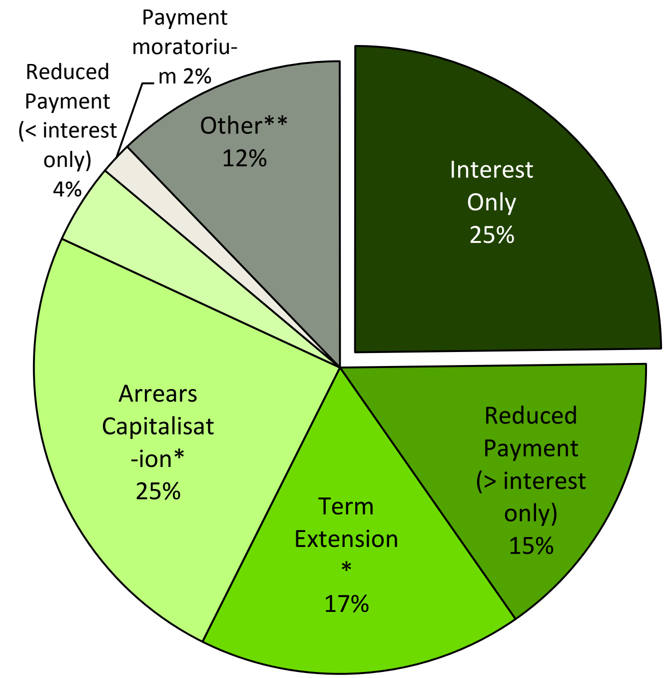
Irish residential mortgage arrears – still challenging

Mortgage Arrears (90+ days)





Total Restructured/Rescheduled Cases

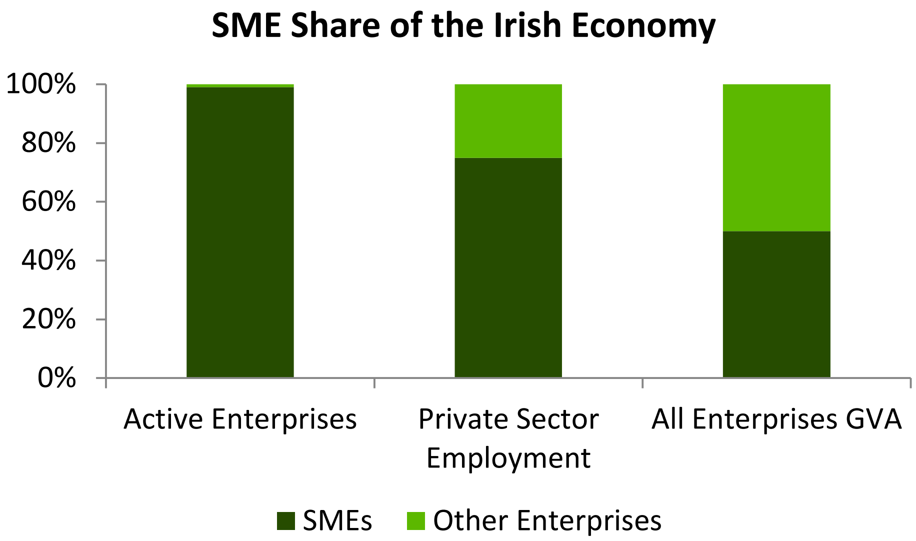


Source: CBI

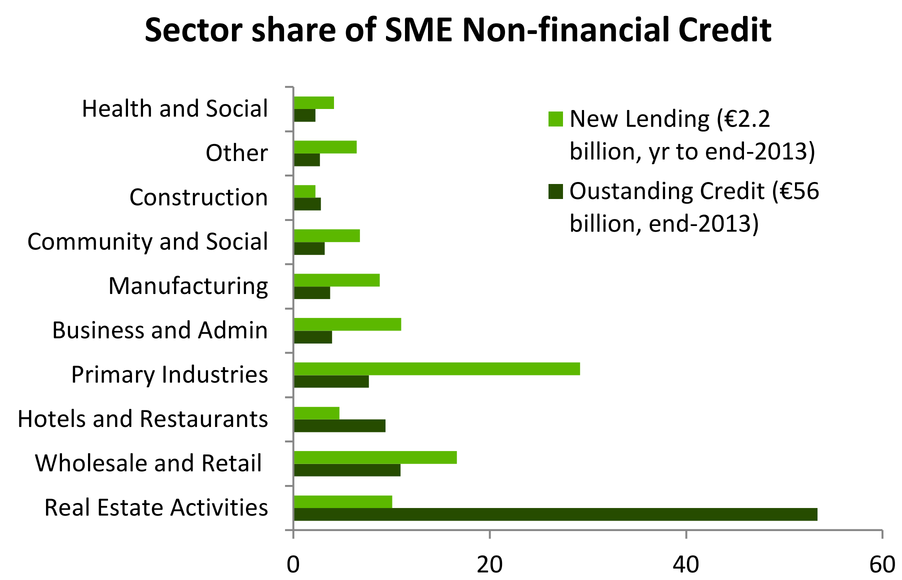
- PDH mortgage arrears have fallen in Q4 2013 and Q1 2014. The smaller BTL market (c. 25% of total) shows relatively higher arrears but also saw declines in the same period.
- Forbearance strategies were initially short-term in nature, though some restructurings straddle several categories and interest only restructurings are now down to 25% of total from over 37% at end-2012.

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

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



Source: CBI

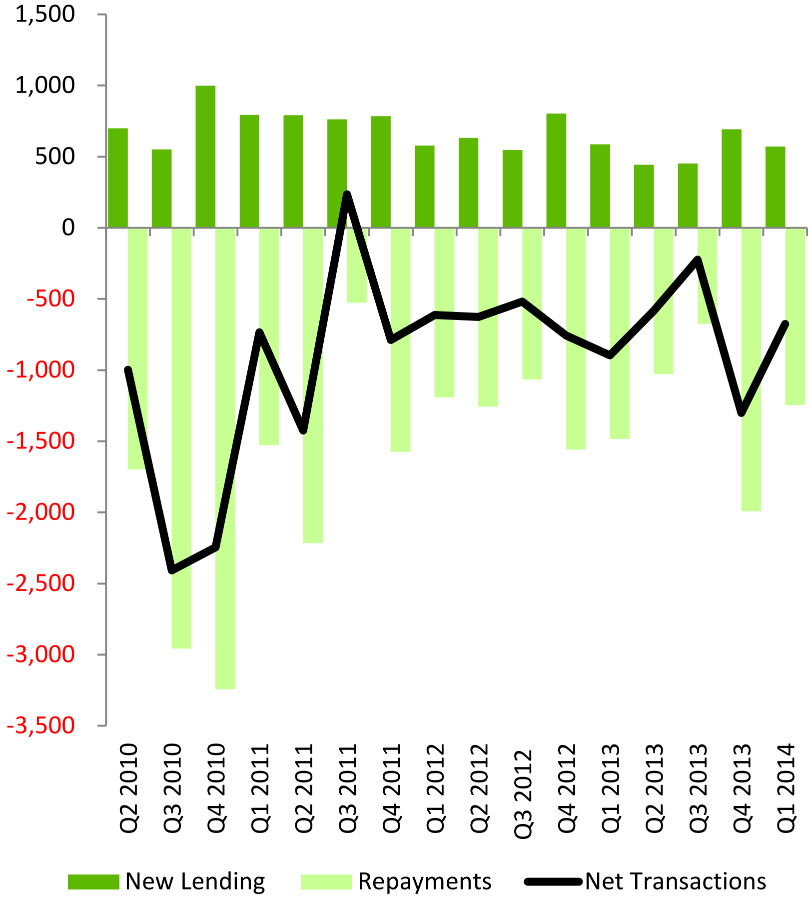


Source: CBI gross new lending excl. fin intermediation

- In 2013, the **NPRF introduced three new SME funds** to provide equity, credit and restructuring/recovery investment worth up to €850m: the NPRF (ISIF) acts as a cornerstone investor alongside third-party investors.
- Range of additional funding supports include:
  - MicroFinance Fund - €40m available over 5 years
  - Loan Guarantee Scheme - €150m per annum over 3 years
  - Enterprise Ireland – upwards of €200m in 2013
  - European Investment Bank , European Investment Fund (€80m through AIB) and Silicon Valley Bank partnership with the NPRF ($100m over 5 years)

SME deleveraging continuing as new lending remains steady

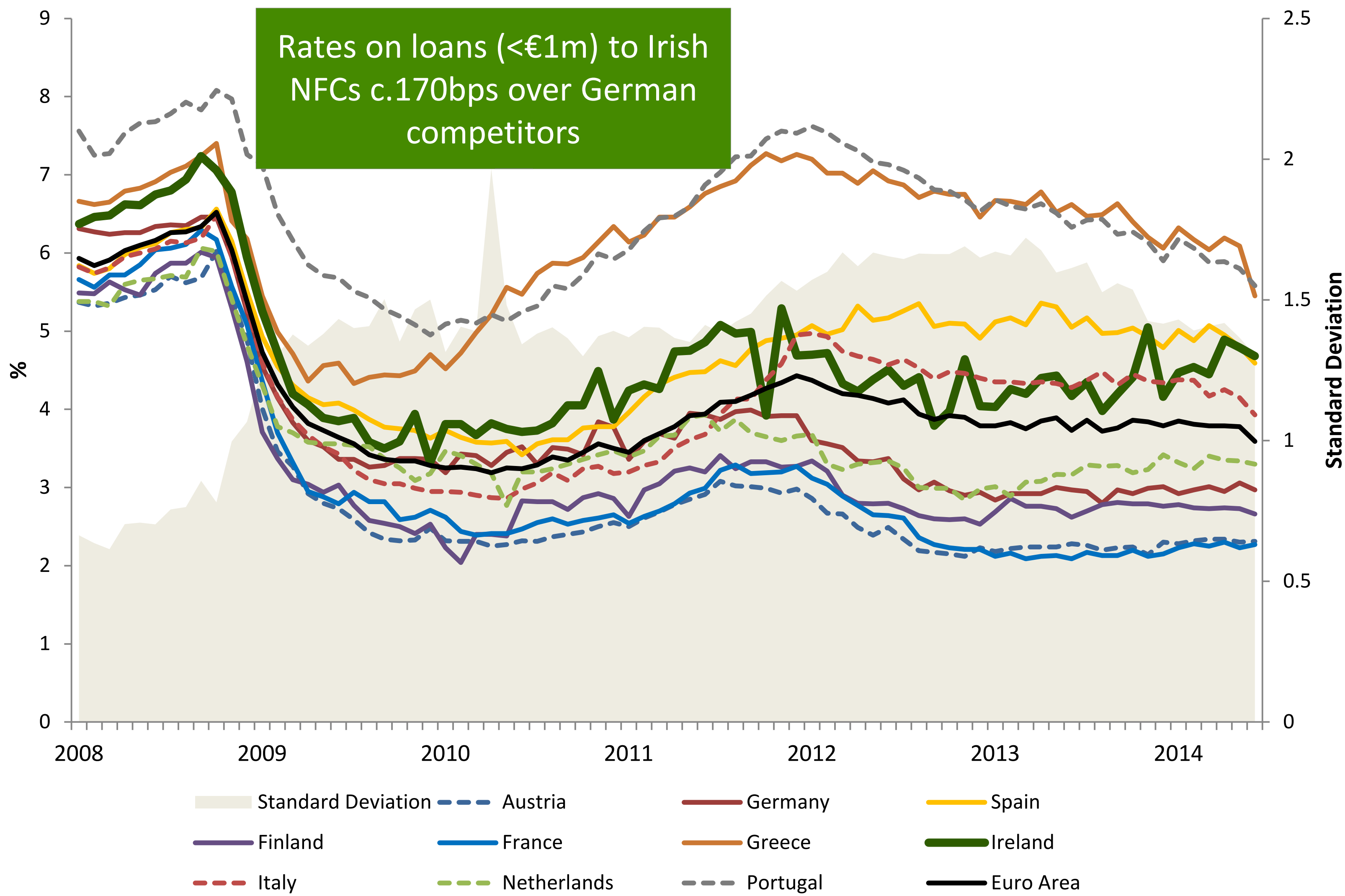
Gross New Lending and Repayments of Non-Financial SMEs



Source: CBI

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

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



Source: ECB

Note: Annualised Agreed Rate is defined by the ECB as 'the interest rate that is individually *agreed* between the reporting agent and the NFC for a loan, converted to an annual basis and quoted in percentages per annum. The rate shall cover all interest payments on loans, but no other charges that may apply.'

Main provisions of Personal Insolvency Act

Personal Insolvency Arrangement (PIA)

Insolvent Debtor

€20,000 - €3,000,000

Secured/ Unsecured (>6yrs)

Applies via personal insolvency practitioner to

Insolvency Service of Ireland

Approved

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

Not Approved

Exposed to creditor action and possible bankruptcy with discharge period of 3yrs

- Personal Insolvency legislation enacted and in use, but take-up has been slow
- 442 applications for PIAs were received in H1 2014 but only 32 arrangements were approved by Irish courts by end-June (note that there are approximately 121,000 mortgages in arrears > 90 days)
- The number of bankruptcies adjudicated on in H1 2014 - 164 - compares with 58 in the whole of 2013. The aggregate amount of debt involved in these adjudications totalled €278m of which €187m was secured (67%).