TUARASCÁIL ón gComhchoiste Fiosrúcháin i dtaobh na Géarchéime Baincéireachta

An tAcht um Thithe an Oireachtais
(Fiosrúcháin, Pribhléidí agus Nósanna Imeachta), 2013

REPORT of the Joint Committee of Inquiry into the Banking Crisis

Houses of the Oireachtas
(Inquiries, Privileges and Procedures) Act, 2013

Volume 1: Report
Volume 2: Inquiry Framework
Volume 3: Evidence

NAMA: Core Book 43

January 2016

Table of contents – by line of inquiry

C4: Appropriateness and effectiveness of domestic policy responses

C4b: Establishment, operation and effectiveness of NAMA

THEME: C4

Appropriateness and effectiveness of the domestic policy responses

LINE OF INQUIRY: C4b

Establishment, operation and effectiveness of National Asset Management Agency (NAMA)

Summary

The National Asset Management Agency (NAMA) was established in December 2009 as part of the State's response to the 2008 banking crisis.

The core idea was for NAMA to acquire property-related loans from the commercial banks, to hold and manage the loans and related collateral — mainly property — and ultimately to dispose of all these assets in a manner that protected the State's interests. NAMA would then cease to exist.

The purposes and functions of NAMA are specified in the National Asset Management Agency Act 2009 (the NAMA Act). This Act requires the Comptroller and Auditor General to assess every three years the extent to which NAMA has made progress in achieving its overall objectives. This is the report of the first of those examinations. It considers progress in the context of the purposes of NAMA as set out in section 10 of the Act and of strategic objectives set by NAMA's Board.

Loan acquisition

One of NAMA's statutory purposes is to acquire property-related loans from banks and thereby contribute to the removal of uncertainty about the valuation of such assets.

NAMA acquired over 15,000 loans at a cost of €31.8 billion from the five banks that participated in the NAMA scheme. The face value of the loans and associated financial derivatives acquired was €74.4 billion. This crystallised losses in the banks of €42.6 billion or 57% of the amount owed by borrowers. These losses contributed significantly to the level of financial support required by the banking sector from the State.

Ultimately, NAMA acquired 90% of the identified eligible loans and the major uncertainty regarding the value of these loans was removed from the books of the banks. This was a significant achievement by NAMA in a relatively short time-span, given the scale of the task as well as the inadequate documentation and processes that it found in the banks.

NAMA issued government guaranteed bonds amounting to €30.2 billion to the banks to pay for the loans it acquired. The balance of 5% (€1.6 billion) was paid by the issue of subordinated debt. Payment of interest and value at redemption of the subordinated debt is dependent on NAMA's financial performance. Some uncertainty remains about the value to the banks of those subordinated debt assets.

Commercial objectives

The NAMA Act requires NAMA to obtain the best achievable financial return for the State from the assets acquired. The NAMA Board has set two related key commercial objectives

- at a minimum, to redeem senior debt and to meet all costs incurred by NAMA over its life — intermediate debt redemption targets were also set
- to optimise the realised value of assets.

Redeeming the senior debt

By the end of 2013, NAMA had met its first intermediate debt redemption target of €7.5 billion. In addition to meeting the target, it held almost €4 billion in cash and other liquid assets at that date.

NAMA annually prepares detailed estimates of its expected debtor cash flows. These estimates project a more favourable outcome than the minimum objective set by the Board. At the end of 2012, NAMA estimated it would, by 2020, generate sufficient cash to redeem all debt (senior and subordinated) and have a final surplus of around €300 million — a cash outturn around €1.9 billion better than the minimum target set.

Overall, taking account of NAMA's performance to date and its operating cash flow estimates for the period to 2020, it appears that, unless there is a further significant economic downturn in the next few years, NAMA will generate sufficient cash to meet its minimum key objective of redeeming the senior debt.

Realised value of assets

By the end of 2013, NAMA had realised around €10.5 billion from loan and property disposals. 75% of the disposals related to assets in Great Britain, with the bulk of these in London, and around 15% were in Ireland.

As part of this review, the disposal process for 144 properties with gross proceeds of about €1 billion was examined. Overall, the examination found evidence that almost all property disposals reviewed had been sold through an open competitive process, or with testing of disposal prices against market valuation. This provides reasonable assurance that the prices obtained were the best on offer in the market at the time a property was sold.

Rental return on property assets

NAMA has taken steps to ensure that debtors remit rental and other income to NAMA. In the three years to end-2012, NAMA realised €3.2 billion in rental and other non-disposal receipts. Almost €1.5 billion was received in 2012.[1] In 2013 it received a further €800 million approximately.

The expected gross rental yield from completed properties of NAMA-managed debtors is around 6.9%.[2] Property-related costs reduce this by almost 30%, giving an average net rental yield of 5%. The 15% of the portfolio held by debtors managed by the participating banks may have a different profile.

The NAMA Board does not set benchmarks against which to measure NAMA's performance with respect to the rental yields that its debtors' assets are achieving.

Investing to enhance properties

NAMA provides funding to develop or enhance properties. By the end of 2012, it had directly advanced around €1 billion to debtors. NAMA had also approved the retention, by debtors of a further €0.6 billion from rental income and property disposals. However, the extent to which the amounts approved for retention were applied by debtors is not known.

In 2012, NAMA set a minimum expected return of 15% on cost before a project proceeds. The expected return is an overall cash return and is not expressed as an annual expected rate of return.

1 Analysis by NAMA showed that 30% of this was related to one-off items.

2 Excluding land and development assets.

Rates of return

NAMA's focus has been on cash generation in order to meet debt redemption targets and to meet costs. However, the generation of cash does not, of itself, indicate whether the best achievable financial return has been obtained.

NAMA has not set expected or target rates of return on its investments and, therefore, the examination could not conclude on the extent to which NAMA has, to date, obtained the best achievable financial return.

In order to enable it to better measure its performance, the report recommends that the Board should set a number of key target financial return measures

- an overall expected or target rate of return against which to measure overall performance — this should be reviewed annually taking into account revised expectations for individual debtors and for property types and locations, including disposal values and rental income
- a target rate of return on disposals and on property held by debtors and insolvency practitioners.

The NAMA Board takes the view that such target rates of return would not be an appropriate metric for its business, on the basis that they would act as an unnecessary constraint on its flexibility, particularly given the imperative that it be open to commercially sensible disposal opportunities whenever they arise and given the stated objective of the Minister for Finance that NAMA should complete its work of deleveraging the portfolio as soon as possible.

Debtor management

Debtor strategies

Around 85% of the loans (by value) are managed directly by NAMA. The remainder are managed on NAMA's behalf by the participating banks.

By mid-2012, NAMA had management strategies in place for all debtors. It has adopted five broad strategic approaches including full or partial restructuring of loans (€9.5 billion of acquired debt), support for debtors subject to the achievement of certain milestones (€7.4 billion) and consensual disposal strategy (€7.6 billion). The remaining debtors (€7.3 billion) are subject to enforcement.

At the end of 2012, insolvency practitioners (usually receivers) had been appointed to some or all of the assets of around a quarter of debtors.

Debtor performance

By the end of 2012, the amount owed by debtors amounted to €26 billion before impairment charges. Cumulative impairment amounted to almost €3.3 billion or 12% of the debt. On the other hand, NAMA estimated that it would make gains (not recognised in the financial statements) of around €1.4 billion in present value terms from some debtors, in particular those with property in London.

There is an apparent inverse relationship between the level of debt and the relative impairment charges for individual debtors at the end of 2012. The rate of impairment for those debtors who owed €1 billion or more when their loans were acquired was just over 4% while for those whose debt was less than €75 million at acquisition, the impairment was around 21%.

NAMA made the assumption that the profile of the property collateral held by those debtors, and the associated cash flows, are broadly similar to those of all NAMA-managed debtors. However, this assumption may no longer be appropriate given the apparent inverse relationship between the size of a borrower's debt and the level of impairment. NAMA has commenced a detailed review of the portfolios managed by participating banks, and this will be supplemented by its semi-annual impairment review in June 2014.

Managing property assets

At end-2012, NAMA projected that it would realise €22.9 billion in disposal receipts between 2013 and 2016. Disposal receipts in 2013 amounted to €3.7 billion, leaving a further €19.2 billion to be achieved in the three years from 2014 to 2016. A significantly lower level of disposal will still allow NAMA to meet the intermediate debt redemption target it set for 2016.

Disposal receipts to the end of 2013 have been largely driven by the London market and, at the end of 2013, NAMA had disposed of over 60% of its London property.

Future sales will need to come from other markets — principally Ireland. About 10% of NAMA's Irish portfolio was sold up to the end of 2013, around half of which was in 2013. Over 70% is scheduled for disposal between 2014 and 2016. Projected disposal values are also predicated on significant recovery in Irish property values. This level of disposal receipts may be difficult to achieve in that timeframe.

NAMA has acknowledged that challenges remain in disposing of its Irish portfolio but has pointed to a heightened level of activity in the Irish property market in late 2013, increased interest from investors and the favourable location of much of its Irish property as positive factors that may facilitate disposals.

Other objectives

When disposing of properties, NAMA's primary objective is to achieve the best possible price. In addition, it has set two subordinate (or secondary) objectives — contributing to the social and economic development of the State and to a sustainable property market in Ireland.

Review of property disposals to public bodies and of residential properties to local authorities or housing associations for social housing showed that, in most instances, there was evidence that valuations had been carried out prior to disposal and the prices achieved equalled current market valuations. However, there has been limited use of two initiatives put in place by NAMA to stimulate activity in the property market — provision of vendor finance and NAMA's deferred payment initiative.

Report

1 Introduction

1.1 In April 2009, the Minister for Finance (the Minister) announced that the Government intended, as part of the State's response to the banking crisis that had emerged in 2008, to establish a body called the National Asset Management Agency (NAMA). NAMA was established in December 2009.

1.2 The National Asset Management Agency Act 2009 states that the Act's purposes are to address[1]

- the serious threat to the economy and the stability of credit institutions in the State generally
- the need for the maintenance and stabilisation of the financial system in the State and
- the compelling need for a number of matters set out in the Act, including to remove uncertainty about the valuation and location of certain assets of credit institutions of systemic importance to the economy.

1.3 The stated statutory purposes of NAMA are to contribute to the achievement of the purposes of the Act by

- acquiring impaired assets from the credit institutions participating in the NAMA scheme
- dealing expeditiously with the assets
- protecting, or otherwise enhancing their value, in the interests of the State
- insofar as possible and consistent with those purposes, obtaining the best achievable financial return for the State.[2]

1.4 Under the Act, NAMA was given extensive powers to enable it to carry out its functions in order to achieve its purposes. It is also required to comply with written directions of the Minister concerning the achievement of the purposes of the Act.

1.5 Five banks participated in the NAMA scheme.[3]

- Bank of Ireland (BOI) and each of its subsidiaries except Bank of Ireland (UK) plc
- Allied Irish Banks (AIB) and each of its subsidiaries except Bank Zachodni WBK SA
- Anglo Irish Bank Corporation Ltd (Anglo) and each of its subsidiaries
- Irish Nationwide Building Society (INBS) and each of its subsidiaries
- Educational Building Society (EBS) and each of its subsidiaries.

1.6 NAMA has established a subsidiary structure headed by a company, National Asset Management Agency Investment Limited, which is 51% owned by private investors, and currently NAMA has incorporated ten other special purpose vehicles within which to conduct its business.[4]

1.7 At the end of 2013, NAMA had 331 staff across five divisions. The largest of these was the asset recovery division with 190 staff, reflecting the focus on debtor and asset management.

1 Section 2 of the Act. See Appendix A.

2 Section 10 of the Act. See Appendix A.

3 This report refers to all participating credit institutions as banks.

4 Appendix B explains the NAMA group and organisational structures.

1.8 In addition, NAMA also uses a number of external service providers, including the banks, outsourced internal audit and loan administration functions, and external legal and expert advice. Around 550 staff are employed by participating banks to manage NAMA debtors and carry out day-today servicing of all NAMA loans.

Objectives and target setting

1.9 Responsibility for ensuring that NAMA's functions are carried out efficiently and effectively lies with the Board of NAMA. The Board comprises seven members appointed by the Minister and two ex-officio members, the chief executive officers of NAMA and of the National Treasury Management Agency.

1.10 The Board of NAMA is required to set the strategic objectives and targets of NAMA.[1]

1.11 NAMA's initial strategic plan, in June 2010, stated that a guiding principle of the Board is to pursue all debts owed to the greatest extent feasible and to set targets for the redemption of bonds from 2013 on with full repayment by the end of 2019.[2] In order to achieve these timelines, the Board determined a set of strategic and policy decisions relating to pursuit and support of debtors, collateral management, disposal strategies, and management of NAMA's debtors by the banks.

1.12 NAMA is currently operating under a revised strategic plan approved by the Board in March 2012. This is reviewed annually in the first quarter of each year, with the most recent review conducted in February 2014.

1.13 The 2012 strategic plan defined NAMA's primary commercial objectives as being to

- redeem, at minimum, the senior bonds issued as consideration for loans
- recover all State costs over the projected ten-year life of NAMA without recourse to further borrowing, meeting all of its future commitments out of its own resources, over the shortest possible time span
- optimise the realised value of the assets acquired.

1.14 In addition, the plan stated that, where consistent with the objective of recovering all State costs, NAMA's objective is to

- contribute to a sustainable level of activity in the Irish property market
- contribute to the social and economic development of the State.

1.15 The 2012 plan set a target of redeeming all NAMA debt by 2020, but noted that in an adverse scenario, the senior debt only would be repaid.[3]

1 Section 18 of the Act.

2 The 2010 plan was entitled 'Business Plan'. This report refers to it as a strategic plan. This plan was prepared when NAMA had only acquired 20% of the assets ultimately acquired.

3 Senior debt refers to government-guaranteed securities that NAMA issued to pay 95% of the loan acquisition price.

Focus and scope of this report

1.16 Section 226 of the Act requires the Comptroller and Auditor General, as soon as may be after 31 December 2012 and every three years thereafter, to assess the extent to which NAMA has made progress toward achieving its overall objectives. The review, therefore, considers progress in the context of the purposes of NAMA as set out in section 10 of the Act and of the strategic objectives set by the Board.

1.17 Two reports have previously been published under Section 9 of the Comptroller and Auditor General (Amendment) Act 1993. The first report, published in November 2010, reviewed the acquisition of bank assets, while the second report, published in May 2012, focused on the management of the loans acquired.

Report structure

1.18 Chapter 2 reviews the extent to which NAMA acquired eligible impaired assets from the banks participating in the NAMA scheme, the outcome of the loan acquisition process and its contribution to removing uncertainty regarding property-related loans held by participating banks.

1.19 Chapter 3 examines NAMA's financial performance and its progress towards meeting its debt redemption targets and obtaining the best achievable financial return.

1.20 The Act requires NAMA to deal expeditiously with the bank assets that it has acquired and to protect or otherwise enhance the value of the assets in the interest of the State. In its 2012 strategic plan, one of the key objectives set by NAMA is to manage assets intensively and invest in them to optimise their income producing potential and disposal value. Chapter 4 reviews the arrangements that NAMA has put in place for administering loans and the activities carried out by NAMA in managing its debtors, while Chapter 5 reviews steps NAMA has taken to protect and enhance the value of bank assets acquired and the underlying collateral.

1.21 Chapter 6 deals with the secondary objectives set by NAMA including to contribute to generating activity in the Irish property market and to contribute to the social and economic development of the State.

Developments in 2013

1.22 In February 2013, a Special Liquidator was appointed to the Irish Bank Resolution Corporation Limited (IBRC). Following receipt of directions from the Minister, NAMA issued €12.9 billion in the form of government guaranteed bonds which it used to acquire a loan facility deed between IBRC and the Central Bank of Ireland. The debt is secured by a floating charge over the assets of IBRC. NAMA also provided the Special Liquidator with working capital by way of a loan facility. These transactions and any issues arising are not within the scope of this report.

1.23 In the period to end-2013, 75% (by value) of property and loans disposals were in Great Britain, with the bulk of these in London. NAMA's principal focus from 2014 to 2020 will be in Ireland, where it has projected that almost 60% of property disposal receipts will arise during that period. In this regard, NAMA has reported that strong recovery has been evident in certain sectors of the Irish market during 2013 and that, in late 2013, there was a marked improvement in investor sentiment towards Ireland.

2 Loan Acquisition

2.1 One of the purposes of the Act is to remove uncertainty about the valuation and location of certain assets of credit institutions of systemic importance to the economy. In order to contribute to this purpose, the Act requires NAMA to acquire, from the banks participating in the NAMA scheme, such eligible bank assets as are appropriate.[1]

2.2 Eligible bank assets are, broadly

- loans to a debtor for the purposes of purchasing, exploiting or developing development land or where security offered for a loan is development land
- all other loans to that debtor (excluding credit card debt)
- all loans to associated debtors of the debtor[2]
- associated financial contracts to the debtor (e.g. an interest rate derivative that hedges interest rate exposure).

2.3 Under section 84 of the Act, NAMA had discretion to decide whether or not to acquire an eligible asset. In its June 2010 strategic plan, based on the information that had been provided by the five participating banks, NAMA anticipated that the total eligible loans were around €81 billion. At that time, NAMA anticipated that the loans would be acquired for around 50% of their book value and that it would also acquire associated financial derivatives.

2.4 Ultimately, the Government, having consulted with the NAMA Board and the European Commission, decided that NAMA would not acquire loans from Allied Irish Banks and Bank of Ireland where a borrower's total exposure was less than €20 million. The total face value of these loans was around €6.6 billion. NAMA also decided not to acquire certain other loans with a face value of around €2.6 billion.[3]

2.5 NAMA acquired loans and associated derivatives where borrower debt totalled €74.4 billion. This represented around 90% of the eligible assets that it ultimately identified (almost €84 billion).[4]

2.6 In total, over 15,000 loans were acquired from almost 800 'debtor connections' (which included over 5,000 borrowing entities) at a cost to NAMA of €31.8 billion.[5] The price paid represented a discount of 57% on the loans' face value of €74.4 billion.

Loan valuation process

2.7 The values at which eligible bank assets were acquired were determined in accordance with regulations made by the Minister for Finance in March 2010, using a methodology approved by the European Commission (the Commission).[6] The process valued loans by calculating the present value of the cash flows associated with the loans' underlying collateral. The rates used to discount the cash flows to present values (NAMA discount rates) were set down in the regulations.

1 The National Asset Management Agency (Designation of Bank Assets) Act Regulations 2009, made by the Minister under section 69 of the Act, prescribe certain classes of bank assets as eligible for the purposes of the Act.

2 Associated debtors are defined in section 70 of the Act.

3 NAMA considered a number of factors including the scale of debtors' exposure to land and development relative to their total exposure when deciding whether to acquire a loan.

4 Loans continued to accrue interest after they were identified as eligible assets by NAMA. Therefore, the cumulative value of the assets ultimately identified was greater than the €81 billion originally identified.

5 There are around 1,000 individual borrowers. NAMA manages the debt by reference to debtor connections - grouping closely connected debtors whose aggregate debt is considered by NAMA to be best managed as one cohesive connection rather than separately.

6 The National Asset Management Agency (Determination of long-term economic value of property and bank assets) Act Regulations 2010.

2.8 Key features of the loan valuation process were

- Property collateral was valued as at 30 November 2009.
- NAMA applied 'uplift factors' to each property, ranging between 0% and 25%, to reflect its long-term value, which was the price NAMA estimated the property would realise when market conditions stabilised.
- NAMA carried out a legal due diligence process, the primary objectives of which were to confirm the validity of loan security, whether legal actions were outstanding for loans, and the accuracy of loan information provided by the banks.
- It was assumed that future enforcement and acquisition due diligence costs would reduce projected disposal receipts by 5.25%. This was deducted from amounts paid to the banks.

2.9 Two values were calculated for each loan — its long-term economic value and its current market value (at the time the loan was transferred to NAMA).

- The NAMA discount rates were applied to the long-term economic value of property collateral and the rental incomes associated with the property when calculating a loan's long-term economic value.
- Commercial discount rates for distressed property were applied to the current market value of a property and its rental income when calculating a loan's current market value.

2.10 The price paid by NAMA for a loan was the lower of the amount owed by the borrower and the loan's long-term economic value.

2.11 The loans were acquired by NAMA in nine tranches, with most of the loans of the larger debtors being acquired first. In its June 2010 strategic plan, NAMA envisaged that it would have acquired all loans by the end of February 2011. However, in the course of 2010, NAMA found that the legal due diligence process would take much longer than initially envisaged. Significant contributory factors to the delay were the quality of the loan documentation held by the banks and the slower than expected pace of document submission.

2.12 In October 2010, the Minister made regulations under which the remaining loans to be acquired by NAMA were to be acquired prior to completion of due diligence.[1] NAMA paid an interim price determined in accordance with the revised regulations and criteria set by the Board of NAMA for these loans. By the end of 2010, almost all of the loans acquired from the participating banks had been transferred to NAMA. Following subsequent completion of due diligence, the price paid was adjusted — a net additional €0.5 billion (around 1.5% of the total consideration) was paid to the banks. The full valuation process was completed for all loans by March 2012.

State aid

2.13 The Treaty on the Functioning of the European Union (Lisbon Treaty) includes a general prohibition on the provision of state aid which distorts or tends to distort competition. There are some exceptions including aid to remedy a serious disturbance in the economy of a member state. Under the Lisbon Treaty, a new state aid scheme requires prior approval by the Commission.

1 Statutory Instrument No. 505 of 2010, National Asset Management Agency (Conferral of Additional Function) Order 2010.

2.14 In February 2009, in guidance issued to member states, the Commission defined an asset relief measure as arising where assets are transferred at a value higher than their current market value. The amount of state aid is the difference between a loan's current market value and its transfer value.

2.15 The Commission approved the establishment of NAMA in February 2010. The Commission pointed out that it would separately assess the compatibility with state aid rules (and, in particular, the actual transfer price) of the transferred assets when these were separately notified by the Irish authorities.

2.16 In August 2010, the Commission stated that it found the transfer of the first tranche of loans to be in line with the approved scheme and with its guidance on the treatment of impaired assets. It approved the valuations in the second tranche in November 2010. NAMA paid €13 billion for the loans transferred in the first two tranches — just over 40% of the total consideration paid. Commission approval for the transfer of the remaining two-thirds of the loans transferred had not been provided by mid-April 2014.

2.17 NAMA has pointed out that securing final European Commission approval for loan transfers is the responsibility of the Central Bank of Ireland (the Central Bank) and the Department of Finance and is beyond NAMA's direct control. The Department of Finance stated that it received the relevant documentation from the Central Bank in February 2014 and has submitted an application to secure European Commission approval for the loan tranche transfers.

Loan acquisition — outcomes

2.18 The total borrower debt acquired by NAMA amounted to €74.4 billion. The amount paid — €31.8 billion — represented a discount of 57% on the loans and crystallised losses of €42.6 billion for the banks. The discounts for individual banks varied between 44% and 61%, as shown in Figure 2.1.

2.19 In addition to the distressed property market, the size of the discounts applied also reflects the deficient administration of loans by the banks, including poor loan documentation, some collateral not being properly legally secured and inadequate stress testing of the borrowers and loans.

Figure 2.1 Loans acquired by NAMA

Participating bank[a]	Total borrower debt	NAMA payment for loans	Discount	
	€ billion	€ billion	€ billion	%
AIB	20.5	9.0	11.5	56
Anglo	34.4	13.4	21.0	61
Bank of Ireland	9.9	5.6	4.3	44
Educational Building Society	0.9	0.4	0.5	57
Irish Nationwide Building Society	8.7	3.4	5.3	61
Total	**74.4**	**31.8**	**42.6**	**57**

Source: National Asset Management Agency

Note: a In 2011, Allied Irish Banks merged with the EBS. Anglo merged with the INBS and was renamed the Irish Bank Resolution Corporation. The loan acquisitions were recorded under the names of each participating bank prior to the mergers.

2.20 The elements of the consideration paid for the loans together with explanations of each are set out in Figure 2.2.

Figure 2.2 Consideration for loans

	AIB	Anglo	BOI	EBS	INBS	Total
	€m	**€m**	**€m**	**€m**	**€m**	**€m**
Loan balance	20,381	34,261	9,867	903	8,739	74,151
Derivatives	74	145	44	-	-	263
Borrower debt	**20,455**	**34,406**	**9,911**	**903**	**8,739**	**74,414**
Market value of property (30 November 2009)	**9,261**	**13,310**	**5,681**	**399**	**3,766**	**32,417**
Long-term value of underlying property						
Land (including development property < 30% complete)	2,955	2,543	1,516	96	1,413	8,523
Residential property for resale	1,802	1,824	960	173	476	5,235
Investment property	4,051	8,202	2,788	151	1,072	16,264
Hotels	565	1,512	502	1	887	3,467
Development property (>30% complete)	564	397	423	6	217	1,607
Total	**9,937**	**14,478**	**6,189**	**427**	**4,065**	**35,096**
NAMA valuation						
Collateral associated with loans						
Present value of property cash flows	9,606	14,443	6,055	413	3,800	34,317
Cash security	94	319	61	4	10	488
Other security	577	619	137	8	27	1,368
Total collateral	10,277	15,381	6,253	425	3,837	36,173
Excess collateral	(978)	(1,189)	(483)	(19)	(205)	(2,874)
Legal discount	(86)	(283)	(2)	(1)	(122)	(494)
Collateral available to the State	**9,213**	**13,909**	**5,768**	**405**	**3,510**	**32,805**
Due diligence and enforcement adjustment	(360)	(510)	(206)	(16)	(158)	(1,250)
Net loan collateral	8,853	13,399	5,562	389	3,352	31,555
Qualifying advances	148	153	50	-	42	393
Initial consideration	9,001	13,552	5,612	389	3,394	31,948
Post-acquisition adjustment	(30)	(144)	(23)	-	27	(170)
Final consideration	**8,971**	**13,408**	**5,589**	**389**	**3,421**	**31,778**
Discount	56%	61%	44%	57%	61%	57%
Loan current market value [a]	7,403	11,162	4,590	317	2,679	26,150
State aid	**21%**	**20%**	**22%**	**23%**	**28%**	**22%**

Source: National Asset Management Agency and analysis by the Office of the Comptroller and Auditor General.

Note: a The current market value of the loans was calculated using a model developed by NAMA's financial advisors.

Figure 2.2 continued: Explanation of Elements

Loan balance	The amounts owed by borrowers at loan valuation date and including qualifying advances made after 7 April 2009.[1]
Derivatives	The market value at acquisition time of the performing financial derivatives for which NAMA gave consideration.
Borrower debt	This is the total of the loan balances and the value of the associated performing derivatives owed by the borrowers.
Market value of property	The market value of property at 30 November 2009 pledged as collateral by borrowers.
Long-term value of underlying property	The long-term value of land, residential and investment property, hotels and development property is the market value plus the uplift applied by NAMA to derive the property's long-term value. These are the proceeds that it is anticipated the properties would realise if disposed of when the market crisis conditions have normalised.
Present value of property cash flows	The present values of the real estate collateral cash flows associated with the loans that comprise the assumed disposal proceeds and any projected rental income discounted to present values using the NAMA discount rates.
Cash security	Cash held as collateral by the participating banks.
Other security	The collateral, other than property or cash, held as security by the participating banks.
Excess collateral	In some instances, the value of the collateral provided by borrowers exceeded amounts owed. Adjustments were made so that the consideration given did not exceed the loan balances and associated derivatives. In some cases, the legal structure of a borrower's loans prevented cross collateralisation to other loans.
Legal discount	The amount that has been deducted by NAMA arising from legal issues relating to the possible enforceability of NAMA's security and title rights over loan collateral.
Collateral available to the State	The net value of the collateral pledged by borrowers — the present value of property cash flows and the current market value of other securities less excess collateral and any legal discounts applied by NAMA.
Due diligence and enforcement[2]	A discount of 5.25% was applied to the long-term value of the properties to provide for due diligence (0.25%) and enforcement costs (5%) incurred or likely to be incurred by NAMA. This is the present value, after application of the discounts, of the amount by which the consideration paid to the participating banks was reduced for this provision.
Net loan collateral	The value of the collateral following deduction of the provision for due diligence and enforcement costs.
Qualifying advances	Advances made by a participating institution to borrowers after 7 April 2009 (the date on which the Minister for Finance announced the Government's intention to establish NAMA). Under direction from the Central Bank and the Financial Regulator, following direction from the Minister, no discount was applied to such advances if they were deemed to be part of normal commercial banking arrangements.
Initial consideration	The initial amount paid by NAMA for the acquired loans and associated financial derivatives, prior to adjustments made under the Act.
Post-acquisition adjustments	The Act allows for the adjustment of the acquisition value of a loan subsequent to its acquisition where there has been an error in the acquisition process or value attributed to the loan.
Final consideration	The final amount paid by NAMA for the acquired loans and associated financial derivatives, post adjustments made under the Act.
Discount	The percentage difference between the consideration paid and borrower debt at loan valuation date.
Loan current market value	The present value of the property cash flows, using the current market value of the property, discounted at market rates for distressed loans.
State aid	The difference between the final consideration and the loan current market value expressed as a percentage of the loan current market value.

1 NAMA paid the lower of the value of the collateral cash flows and the amount owed by the borrower, including derivatives, at a date specified by NAMA for each tranche and for each participating bank. For example, for the first tranche, the loan valuation date for all participating banks was 31 January 2010.

2 In implementing this provision, NAMA applied the 5.25% discount to the long-term value of property pledged as collateral for loans. There were some loans where the difference between the loan balance and the post-discount value of the collateral was less than the actual amount of the discount applied to the collateral. In these cases, not all of the discount was deducted from the consideration paid.

Valuation of underlying property collateral

2.21 Real estate accounted for almost 95% of the collateral provided by borrowers. The current market values of the property and the long-term uplift factors applied to those values were the key determinants of loan values.

2.22 Properties were valued initially by valuers acting for the participating banks. Valuations were provided for around 10,700 properties. Following review by NAMA-appointed valuers, NAMA accepted around 87% of the valuations by number representing around 73% of the total value.[1] In cases where the NAMA-appointed valuer did not accept the valuation submitted by the bank, a further valuation was carried out by an independent valuer and this valuation was accepted by NAMA. 90% of those valuations were lower than the valuations submitted by the banks while 5% were higher. The total net reduction in valuations was €2.3 billion, representing about 24% of the original valuations submitted by the banks in respect of those properties. The final valuation for all properties was €32.4 billion.

2.23 The uplift factors to derive the long-term economic value of properties were proposed by the NAMA-appointed valuers and reviewed by NAMA. The final decision for all uplift factors was made by NAMA. The average uplift factor was 8.3% (see Figure 2.3).

Figure 2.3 Property value uplift

	Proportion of property at current market value[a]	Average property uplift adjustment
Categorised by bank		
AIB	29%	7.3%
Anglo	41%	8.8%
Bank of Ireland	17%	9.0%
Educational Building Society	1%	7.0%
Irish Nationwide Building Society	12%	8.0%
Overall	**100%**	**8.3%**
Categorised by property type		
Investment property (complete)[b]	71%	8.4%
Development property (>30% complete)	5%	6.6%
Land (including development property < 30% complete)	24%	8.1%

Source: National Asset Management Agency - analysis by Office of the Comptroller and Auditor General

Note: a At November 2009 values.

b This classification includes all completed commercial and residential properties.

1 Valuers were appointed from a panel established by NAMA following a procurement competition.

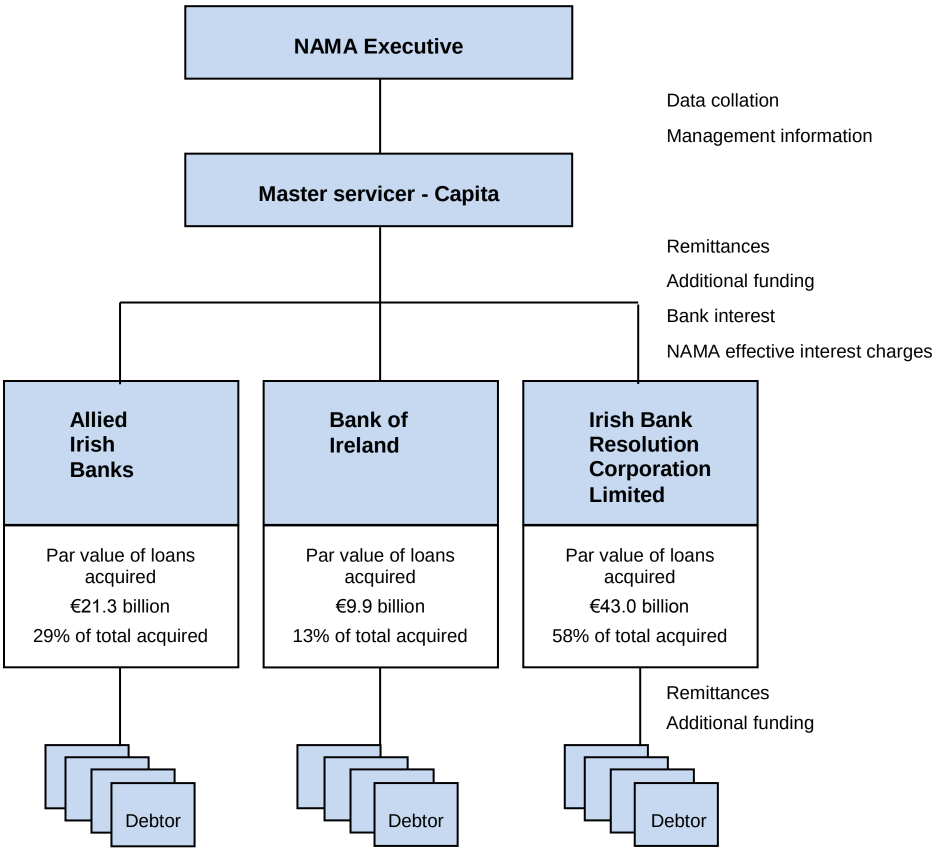
4 Debtor Management

4.1 One of the first steps NAMA needed to take was to put arrangements in place for administration of acquired loans. Because many borrowers had multiple loans with more than one of the participating banks, all loan data was collated in order to provide NAMA with a complete record for each debtor.

4.2 In 2010, NAMA appointed each of the participating banks to act as primary servicers and Capita Asset Management Services (Capita) as master servicer for the loans NAMA had acquired. In 2013, following the liquidation of the Irish Bank Resolution Corporation (IBRC), Capita was also appointed as primary servicer for the loans administered and managed by IBRC. The loan administration arrangements are set out in Figure 4.1.

4.3 The participating banks carry out their roles as primary servicers in accordance with directions issued by NAMA under section 131 of the Act. The primary servicer role includes maintaining and updating debtors' loan records, processing receipts from debtors and transferring cash received to NAMA, and reporting all transactions to the master servicer. Primary servicers' performance is measured against a series of indicators, for example in relation to the timely transfer of cash to NAMA. In 2012, almost all of the service level targets were met by all of the primary servicers. Primary servicer fees for 2012 amounted to €56 million.[1]

Figure 4.1 NAMA loan administration arrangements



Source: National Asset Management Agency

1 Total paid to primary servicers over the period 2010 to 2012 was €126 million.

4.4 The master servicer, Capita, is responsible for the collation and validation, by debtor connection, of all loan information submitted by the primary servicers. It also provides centralised reporting and management information services to NAMA. Capita's performance is also measured against a series of monthly performance indicators. In 2012, all targets were met. Capita's fees for the three years to end-2012 amounted to €9 million.

4.5 In 2012, NAMA's internal audit carried out a review of the master servicer and reported that, while there were a number of areas where improvement was needed, none of these were rated as high risk.

Debtor management

4.6 NAMA directly manages those debtors who owed approximately €75 million or more when their loans were acquired. The remainder are managed by the participating banks under delegated authority from NAMA and under NAMA's supervision.[1] At the end of 2012

- NAMA was directly managing 189 debtors, whose debt totalled around €61 billion at acquisition — 82% of the loans acquired. NAMA paid around €27 billion for this debt — a 56% write-down.
- The remaining 586 debtors are managed by the participating banks. Their cumulative debt at acquisition amounted to €13 billion for which NAMA paid around €4.8 billion — a 63% discount.

4.7 Appendix C sets out the management activities carried out by NAMA and the participating banks under each management arrangement.

Debtor strategies

4.8 Each debtor was asked to submit business plans setting out how they proposed to discharge their debt to NAMA. The plans submitted were reviewed by NAMA while the plans submitted by the NAMA-managed debtors were also reviewed by independent business reviewers appointed by NAMA.

4.9 By July 2012, NAMA had reviewed the position of all debtor connections. This was broadly in line with targets set by the Board. NAMA has adopted five debtor strategy types. These are

- ***Full restructuring*** of debt occurs when existing loan agreements are replaced by new loan agreements with revised terms and conditions, including restructuring the loans into primary and secondary loans.
- ***Partial restructuring*** of debt is similar to full restructuring but new loan agreements are not put in place. A 'connection management agreement' between NAMA and the debtor sets out the terms for implementing the business plan.
- ***Support for the debtor*** subject to attainment of certain milestones set by NAMA.
- ***Consensual disposal strategy*** over a relatively short-term horizon.
- ***Enforcement*** usually occurs where either a plan that is acceptable to NAMA cannot be agreed or a debtor does not co-operate with NAMA.

Debtor strategies as at 31 December 2012 are summarised in Figure 4.2.

1 NAMA's Delegated Authority Credit Policy is approved by the Board.

Summary of Findings

The National Asset Management Agency (NAMA) was established in December 2009. Its purpose is to acquire assets in the form of property-related loans from banks. The overall objective of this process is to bring stability to the banking system by removing impaired loans from the balance sheets of individual banks.

This initial review of NAMA outlines the asset acquisition process that has been established, the outturn of the first loan acquisition round and the arrangements for governing and resourcing the Agency. Its purpose is to give an early account of the process based on documentation examined by my Office of the structure, systems and procedures put in place by NAMA. The systems and outturns are currently being audited as part of the financial audit of the first accounting year of NAMA.

The NAMA Scheme

Under the scheme, NAMA acquires loans from participating banks at a long-term economic value. The National Asset Management Agency Act 2009 and associated regulations made by the Minister for Finance prescribe the types of loans that NAMA may acquire and how they are to be valued. Five financial institutions applied to take part in the scheme. All were designated as participating banks by the Minister.

The scheme operated by NAMA required the approval of the European Commission as it involves the provision of state aid to the participating banks. The Commission gave its approval for the establishment of NAMA on 26 February 2010. It stated that it will reassess the aid granted in light of the adequacy of restructuring plans submitted by the banks. The Commission will also review the transfer prices of the bank assets on an ongoing basis. On 3 August 2010, the Commission stated that it found the transfer of the first tranche to be in line with the approved scheme and with its guidance on the treatment of impaired assets.

Acquisition Process

As part of the acquisition process, NAMA had to determine the bank assets that are eligible for transfer, gather and assess information related to those loans and borrowers and value the eligible loans.

In practice, the valuation of loans is, in most cases, directly related to the value of the associated collateral and much of the valuation process focuses on the establishment of a value for that collateral.

As an initial step, the participating banks identified the eligible bank assets and provided NAMA with information about the loans and borrowers using standard templates provided by NAMA. The information included legal due diligence reports, current market valuations of properties pledged as collateral for loans and information about security, other than real estate, pledged as collateral by borrowers. The current market valuation of properties was to be made at 30 November 2009, a date stipulated by the NAMA Board.

NAMA validated the information through a process which included

- legal reviews that examined the accuracy and completeness of the information supplied by the banks as well as the validity of loan security, the soundness of title and whether any legal actions were outstanding for loans

- There was €518 million of collateral in excess of borrower obligations. However, this would only be available to NAMA for offset against deficits in collateral in the case of other loans to the same borrowers in limited circumstances. No payment was made in respect of excess collateral.
- The consideration paid by NAMA was reduced by the application of a discount to the loan valuations to provide for due diligence and enforcement costs, the present value of this being €266 million.
- The estimated costs associated with a full enforcement process are 15%. It is not possible for NAMA to predict the extent to which full enforcement proceedings will be required. However, assuming a 15% enforcement cost, the amount deducted from the acquisition value of loans in the first tranche would cover the cost of enforcement proceedings for around 25% of the collateral.
- Following direction by the Governor of the Central Bank and Financial Services Authority of Ireland and the acting CEO of the Irish Financial Services Regulatory Authority, no discount was applied to advances made by banks to borrowers after 7 April 2009 provided that it could be shown that the moneys were advanced as part of normal commercial banking arrangements. For loans that transferred in the first tranche, NAMA accepted that €299 million of those loans, issued after 7 April 2009, qualified for payment in full.
- The value of state aid as represented by the difference between the net loan value for purchase purposes (€7.7 billion) and the current market value of bank assets was €1.7 billion or 28% greater than the loans' current market value.

Settlement Arrangements

The loans are acquired by a NAMA group entity, a majority privately owned special purpose vehicle NAMA Asset Management Ltd. This entity issues debt to fund the consideration payable. Debt issued to pay for the first tranche of loans comprised

- €7.3 billion in securities guaranteed by the Minister for Finance and
- €0.4 billion in subordinated debt.

The guaranteed securities pay interest at a variable rate, which is reset twice annually. The rate up to 1 September 2010 was 1%.

The subordinated debt carries an interest rate linked to the yield on 10-year Irish Government Bonds. Payment of interest on the subordinated debt and its ultimate redemption are dependent upon NAMA's financial performance.

Risk Management – Interest and Foreign Exchange Risk

NAMA faces the risk of adverse movements in exchange rates in cases where it has purchased loans denominated in foreign currencies. It has addressed this risk through the use of cross-currency swaps designed to give NAMA some certainty about the rate at which it will exchange future receipts in foreign currencies for euro.

NAMA also faces the risk of upward movements in interest rates. Interest rate swap contracts can give NAMA certainty about the interest rate it will pay on some of its borrowings. It has hedged a portion of its borrowings for the next four years using these swap contracts.

The hedging strategies have been adopted on the basis of certain assumptions about the timing of foreign exchange receipts and the proportion of performing loans. A residual risk related to the actual realisation of the predicted cash flows remains and gives rise to a need for NAMA to manage its hedging strategies actively in order to be able to respond appropriately to changes in predicted outcomes. On the interest side, there is some additional cost compared with interest rates prevailing at the contract date but this cost must be weighed against the certainty achieved.

Post-Acquisition Management

Borrowers will continue to owe the balances that are outstanding at the date their loans transfer to NAMA. NAMA requires each borrower to provide a detailed business plan setting out how the borrower intends to repay the amounts due. Following assessment of the plans, NAMA may continue to support the borrower or take enforcement proceedings. In circumstances where it takes enforcement proceedings, NAMA will acquire property which it will have to manage in a way that maximises the return to the State.

Structures and Resources

The report outlines the steps taken by the Board of NAMA to introduce systems and structures to assist it to govern and manage its operations. While these are evolving, the steps taken to date are reasonable and will be kept under review in the course of financial audit.

Since December 2009, NAMA has increased staff numbers to 75 with the aim of having a total staff complement of around 100 by end of 2010. Pending the recruitment of these full-time staff, NAMA uses the services of staff provided by accounting firms.

NAMA has also used the services of external advisors, either procured directly or on its behalf by the National Treasury Management Agency. Services procured include legal and financial services, real estate advice, financial derivative and loan valuations, loan valuation reviews and borrower business plan assessments. Procurement of providers of other services (e.g. enforcement and insolvency services) is currently taking place.

A major risk to be managed in NAMA's resourcing relates to its capacity to manage a very large set of services bought from private providers while at the same time integrating recruited personnel into a cohesive streamlined operation.

Next Steps in Audit

The practical operation of systems and practices established by NAMA are currently being reviewed in the course of ongoing financial audit by my Office and I will report on these in due course. That audit work is focused on the confirmation of the functioning of the controls and the evaluation of the transactions of NAMA.

Acquisition Process – Key Steps

The steps in the loan acquisition process are summarised below.

Identifying Eligible Assets

Banks participating in the NAMA scheme were required to notify NAMA of all eligible bank assets. NAMA intends to acquire eligible assets with a value in excess of €20 million in the case of Allied Irish Banks and Bank of Ireland, those in excess of €5 million from Anglo Irish Bank and all eligible assets from the smaller banks. By September 2010, the value of loans and associated derivatives that NAMA intended to acquire was estimated at around €73 billion.

↓

Gathering Loan and Borrower Data

Banks provide NAMA with data including legal due diligence reports which provide NAMA with specified information about each loan including details of loan balances, associated derivatives, property and other assets pledged as security for the loans as well as notifying NAMA of any legal issues associated with the loan or underlying security. The banks also provide their valuations for all real estate offered as security for loans.

↓

Assessing Loan and Borrower Data

NAMA has appointed legal advisors, property valuers, experts in financial derivatives and, where necessary, experts in other assets offered as security for loans to review the information provided by the banks and, in some instances, to carry out further valuations of property and other security. When NAMA is satisfied that the information provided about a loan is complete, it sends the loan for valuation to one of the firms on a panel of loan valuers it has appointed.

↓

Valuing Loans

Loan valuers, using a valuation model that derives from the Act and the asset valuation regulations made by the Minister and approved by the European Commission, value loans by calculating the present value of the cash flows associated with the loans' underlying securities. Two values are calculated for each loan – its current market value and its long-term economic value. Loan valuers send the results of their valuations along with supporting documentation to another firm, appointed by NAMA, referred to as the audit coordinator which carries out a series of validation checks to confirm the values calculated by the loan valuers.

↓

Acquiring Loans

When satisfied that the loan values are correct, the audit coordinator issues an acquisition schedule to the relevant bank setting out the loans being acquired by NAMA and the price it is paying for them. NAMA is acquiring the loans in tranches with all of a borrower's loans, regardless of which bank the loan is in, being acquired in the same tranche. The audit coordinator issues one acquisition schedule for each borrower to each bank.

↓

Payment

NAMA pays for the loans it acquires by issuing debt. It issues 95% of the debt in the form of Government Guaranteed Securities. NAMA pays interest to the banks on these securities while the banks may exchange the securities for cash by lodging them as collateral with the European Central Bank. The remaining 5% is issued in the form of subordinated debt, redemption of which is dependent on NAMA's financial performance.

National Asset Management Agency
Acquisition of Bank Assets

Chapter 1

Introduction

Introduction

1.1 Following the financial crisis, which came to a head in September 2008, Irish banks were left with considerable loans to property developers where the current value of the collateral was less than the amounts advanced together with any unpaid interest.

1.2 The establishment of an asset acquisition agency to acquire those impaired assets formed part of a set of measures taken to address the liquidity and solvency of Irish credit institutions. The evolution of the wider set of measures is outlined in Chapter 6 of my Report on the Accounts of the Public Services 2009.

1.3 The two major state interventions to address this crisis were

- the removal of impaired assets from the balance sheets of banks at a valuation that reflected their long term economic value – this involved giving state aid to banks
- the provision of new capital to banks to ensure that they met solvency requirements set by the Financial Regulator.

Capitalisation Measures

1.4 Up to the end of September 2010, the total cost to the State of measures aimed at recapitalising the credit institutions was €33.5 billion. In a statement on 30 September 2010, the Minister for Finance indicated that he expected to provide a further €12.8 billion in recapitalisation funds, bringing the total projected recapitalisation cost to €46.3 billion. Details are set out in Figure 1.1.

Figure 1.1 Capitalisation of Credit Institutions, September 2010

Credit Institution	Cost of Share Acquisition[a]	Cost of Preference Shares	Value of Promissory Notes Issued	Capital Provided to 30 September 2010	Projected Future Assistance	Projected Total Assistance
	€bn	€bn	€bn	€bn	€bn	€bn
Anglo Irish Bank	4.00	-	18.88	22.88	6.40	29.28
Allied Irish Banks	0.28	3.50	-	3.78	3.70	7.48
Bank of Ireland[b]	1.95	1.80	-	3.75	-	3.75
Irish Nationwide Building Society	0.10	-	2.60	2.70	2.70	5.40
EBS Building Society	0.10	-	0.25	0.35	-	0.35
Irish Life & Permanent	-	-	-	-	-	-
Total	**6.43**	**5.30**	**21.73**	**33.46**	**12.80**	**46.26**

Source: Department of Finance

Notes:

a This is the cost of the State's investment, not the market value of shares held. In 2010, Allied Irish Banks (€280 million) and Bank of Ireland (€250 million) paid the State dividends due on preference shares in the form of ordinary shares of the banks. These are included in the States investment at the value when the shares were acquired by the State.

b The State invested €3.5 billion in preference shares in Bank of Ireland. €1.7 billion of this was subsequently converted into share capital.

1.5 Capital for Allied Irish Banks and Bank of Ireland has been provided by way of investment by the National Pension Reserve Fund Commission. The Fund received €491 million in cash from

Bank of Ireland in respect of a buyback of warrants issued in conjunction with the preference shares.

1.6 The final cost of recapitalisation will be determined by a number of contingent events including the results of Allied Irish Banks' planned asset sales, the outcome of the sale process in the EBS, the results of negotiations with subordinated debt holders and the extent to which the central assumptions in stress tests of Anglo Irish Bank will be borne out[1].

State Response to Loan Impairment

1.7 Following an examination by a consultant of options to deal with impaired assets, the Minister for Finance (the Minister) announced on 7 April 2009 that the Government would establish a National Asset Management Agency (NAMA) under the aegis of the National Treasury Management Agency (NTMA) on the basis that it would be the most effective way to bring stability to the Irish banking system.

1.8 The Minister, when announcing the establishment of NAMA, stated that the Government had decided to bring forward measures to address the issue of asset quality in the banking system. He stated "*Assets will be transferred from the banks to the new National Asset Management Agency with the purpose of ensuring that the banks have a clean bill of health, their balance sheets are strengthened and uncertainty over bad debts is reduced. This will ensure a sustained flow of credit on a commercial basis to individuals, households and businesses in the real economy. The Agency will have a commercial mandate and will have the central objective of maximising over time the income and capital value of the assets entrusted to it.*"

1.9 The Minister stated that the initiative would be developed and implemented within the common European Union framework detailed in the European Commission (the Commission) guidance on the treatment of impaired assets[2] (Impaired Asset Communication) working closely with the Commission to obtain prior state aid approval.

1.10 The Minister also pointed out that all borrowers would be required to meet their full legal obligations for repayment.

Compliance with EU State Aid Rules

1.11 The Treaty on the Functioning of the European Union (the TFEU)[3] sets out a general prohibition on the provision of state aid which distorts or threatens to distort competition by favouring certain undertakings but exempts some categories of aid from the prohibition including aid to remedy a serious disturbance in the economy of a Member State. Under the TFEU, a new state aid scheme requires prior approval by the Commission even if the aid is justified by these considerations.

---

1 These include an assumption that a discount of 67% will apply to the remaining €19bn of Anglo's loans that are yet to be transferred.

2 Communication from the Commission on the treatment of impaired assets in the Community banking sector, February 2009 (2009/C 72/01).

3 The Treaty establishing the European Community was amended and renamed by the Treaty of Lisbon to become the Treaty on the Functioning of the European Union (TFEU). The TFEU came into force on 1 December 2009.

1.12 In October 2008, the Commission[4] stated that, in the light of the level of seriousness that the financial crisis had reached and of its possible impact on the overall economy of Member States, it considered that aid granted by way of a general scheme available to several or all financial institutions in a Member State could be allowed. The Commission issued guidance[2] to Member States, in February 2009, about the design and implementation of asset relief measures which had been prepared in consultation with the European Central Bank (ECB). In the same month the ECB issued guiding principles for asset support schemes[5].

1.13 In its February 2009 guidance, the Commission noted that

- in order for an asset relief measure to deliver relief to a bank, assets[6] needed to be transferred at a value higher than current market value
- the transfer value should be the real economic value of an asset based on its underlying cash flows over time
- the amount of state aid allowed would be the difference between the current market value of an asset and its transfer value
- the difference between the book value and the transfer value would be the loss that a bank would bear in order to share the cost of the asset relief measure with the taxpayers.

1.14 In August 2009, in response to a request from the Minister for an opinion on the National Asset Management Agency Bill, 2009, the ECB stated[7] that the NAMA asset removal scheme (the NAMA scheme) was broadly consistent with the guiding principles and welcomed the fact that it had been designed to comply with Community state aid rules.

1.15 On 26 February 2010, the Commission approved, under EU state aid rules, the establishment of NAMA. The Commission stated that it was satisfied that the scheme was in line with its guidelines on impaired asset relief for banks that allow state aid designed to remedy a serious disturbance in a Member State's economy and that the scheme would help address the issue of asset quality in the Irish banking system and promote the return to a normally functioning financial market.

1.16 Appendix A provides more information about EU rules on state aid, the guidance from the Commission and the ECB on the treatment of impaired assets in the banking sector and the Commission approval for the NAMA scheme.

Legislation

1.17 The National Asset Management Agency Bill was presented to Dáil Éireann on 8 September 2009. The Bill was enacted on 22 November 2009[8] and NAMA was established on 21 December 2009[9].

---

4 Communication from the Commission – the application of state aid rules to measures taken in relation to financial institutions in the context of the current global financial crisis.

5 European Central Bank/EuroSystem, Guiding Principles for Bank Asset Support Schemes, 25 February 2009.

6 The term assets, in the Commission's guidance, refers to loans issued by financial institutions and not to the underlying collateral e.g. real estate.

7 European Central Bank/EuroSystem, Opinion of the European Central Bank of 31 August 2009 on the establishment of the National Asset Management Agency (CON/2009/68).

8 National Asset Management Agency Act, 2009.

9 National Asset Management Agency Act, 2009 (Commencement) Order 2009.

1.18 Under the National Asset Management Agency Act, 2009 (the Act), NAMA's functions are to acquire eligible bank assets from banks participating[10] in the NAMA scheme and to hold, manage and realise those assets while, insofar as possible, obtaining the best achievable financial return for the State. NAMA is required to take all steps that are necessary or expedient to protect, enhance or realise the value of the acquired assets and is granted extensive powers under the Act in order to achieve this. These powers include the power to lend, to enter into joint ventures or partnerships, to invest, to purchase other property or rights, undertake land and property development in order to enhance the value of acquired assets, enforce securities and, in this connection, to borrow up to €5 billion.

1.19 Under the Act, the Minister has the power to make certain regulations. He has published two sets of regulations to date. These are in respect of eligible bank assets and the long-term economic value of property and bank assets.

Participation of Banks

1.20 Participation in the NAMA scheme is voluntary. Any bank could apply to the Minister within 60 days of the establishment day for it and its subsidiaries to be designated as a participating bank. The Minister, after consultation with the Governor of the Central Bank (the Governor) and the Financial Regulator, could designate a bank as a participating bank. In designating a bank as a participating bank, the Minister had to be satisfied that the applicant bank was systemically important to the financial system in the State and that the acquisition of eligible bank assets from the bank was necessary to achieve the Act's purposes. The factors under which the eligibility of applicant banks was assessed were specified by the Commission in its decision of February 2010 and are set out in Appendix B.

1.21 On various dates during early February 2010, the Minister wrote to both the Governor and the Head of Financial Supervision at the Financial Regulator (the Head of Financial Regulation) enclosing applications from each of the five banks that applied to participate in the scheme. Subsequent to the correspondence, officials from the Financial Regulator and the Central Bank met with representatives of the Department of Finance (the "Department") to discuss the applications. Letters from both the Governor and the Head of Financial Regulation to the Minister, in respect of each of the applicant banks, confirmed that the applicants had met the criteria set out in the Act and that the designation of each was necessary to achieve the purposes of the Act.

1.22 On 12 February 2010, the Minister designated all five banks[11] that applied as participating banks. The designated banks are

- Bank of Ireland (BOI) and each of its subsidiaries except Bank of Ireland (UK) plc
- Allied Irish Banks (AIB) and each of its subsidiaries except Bank Zachodni WBK S.A.
- Anglo Irish Bank Corporation Ltd (Anglo) and each of its subsidiaries
- Irish Nationwide Building Society (INBS) and each of its subsidiaries and
- EBS Building Society (EBS) and each of its subsidiaries.

---

10 There are five credit institutions participating in the NAMA scheme – three banks and two building societies. This report refers to all participating institutions as participating banks.

11 The banks that applied to participate in the NAMA scheme were also covered by the Bank Guarantee Scheme. Two other institutions also covered by that scheme, Irish Life and Permanent and Post Bank, did not apply to participate in the NAMA scheme.

Eligible Bank Assets

1.23 Secondary legislation was used to set out what assets could be acquired by NAMA. The National Asset Management Agency (Designation of Eligible Bank Assets) Regulations 2009[12] (the eligible asset regulations) prescribe certain classes of bank assets as eligible bank assets. The Regulations are set out in Appendix C.

Classification of NAMA Group Entities

1.24 In order to ensure that debt issued to purchase eligible bank assets is not treated as part of the national debt under European accounting rules, the debt must be issued by an entity that is majority privately owned. In order to meet this requirement, NAMA has established a subsidiary structure headed by a company that is 51% owned by private investors[13].

1.25 This requirement stemmed from a Eurostat decision in mid-2009. In regard to the classification of new bodies, for the purposes of the national account, Eurostat stated that majority privately owned special purpose entities established for a short temporary duration and having the sole purpose of addressing the financial crisis, even if they receive a government guarantee, are to be recorded outside the general government sector if the expected losses that they will bear are small in comparison with the total size of their liabilities.

1.26 In late July 2009, the Central Statistics Office (CSO) informed Eurostat that, in line with the Eurostat decision, it considered that

- NAMA should be classified within the general government sector in the national accounts as it was publicly owned with a primary objective of arranging and supervising the removal of impaired property related loan books from the balance sheets of qualifying financial institutions
- the proposed special purpose vehicle should be classified within the financial corporations sector as it satisfied the requirements to be considered a separate institutional unit, could be considered to be a market unit and was 51% privately owned with the investors standing to lose capital if the special purpose vehicle did not make a profit
- on 16 October 2009, Eurostat gave its preliminary approval to the classification structure proposed by the CSO but reserved the right to reconsider its view if the structure actually implemented was different from that outlined by the CSO.

Valuing Loans Acquired

1.27 The NAMA concept involves paying an amount that is less than the book value of the loans acquired but recognises an uplift for the projected increase in long-term economic value. It also takes account of the enforceability of the related collateral.

- The price NAMA pays is the long-term economic value of the loans, which is, in turn, based on the value of the collateral (generally real estate – land and property) that borrowers have pledged for the loans. It strikes the price based on a valuation methodology that has been approved by the Commission.

---

12 Statutory Instrument 568 of 2009.

13 Each of the following invested €17 million: Irish Life Assurance plc, New Ireland Assurance Company plc, AIB Investment Managers Ltd.

- In addition, NAMA reviews the extent to which a participating bank has secured its legal right to realise the underlying security and, in circumstances where this has not been done to NAMA's satisfaction, the price paid for a loan is further reduced.

1.28 The National Asset Management Agency (Determination of Long-Term Economic Value of Property and Bank Assets) Regulations, 2010[14] (the asset valuation regulations) specify how the long-term economic value of property and associated loans should be derived. The regulations are set out in Appendix D.

Funding the Acquisitions

1.29 NAMA pays for the loans through the issue of Government Guaranteed Securities (95% of the cost) and subordinated debt (5%). The guaranteed securities carry an interest rate equivalent to six-month Euribor[15] while the subordinated debt carries a higher interest rate linked to the Irish 10 year Government Bond Yield. The debt for the purchase of the loans is issued by a private company known as National Asset Management Ltd. The company is a subsidiary of NAMA. Interest on the subordinated debt is not payable by NAMA unless certain objectives set by the Board of National Asset Management Ltd are achieved.

NAMA Group Structure

1.30 Six Special Purpose Vehicles (SPV) have been incorporated by NAMA. The function of each NAMA group entity is outlined in Figure 1.2.

Figure 1.2 Function of NAMA Group Entities[a]

Entity	Function
National Asset Management Agency Investment Limited	Facilitates making a return by way of dividend to private investors.
National Asset Management Ltd	A company that creates debt securities and subordinated debt transferred to the participating banks in return for the loans.
National Asset Loan Management Ltd	A company that acquires the loan assets from the participating banks.
National Asset Property Management Ltd	A company that holds property acquired after enforcement of security.
National Asset Management Services Ltd	An administrative company through which expenses will be paid.

Note:

a A further company National Asset Management Group Services Ltd was incorporated but has no current function. NAMA stated that it may be used in the future.

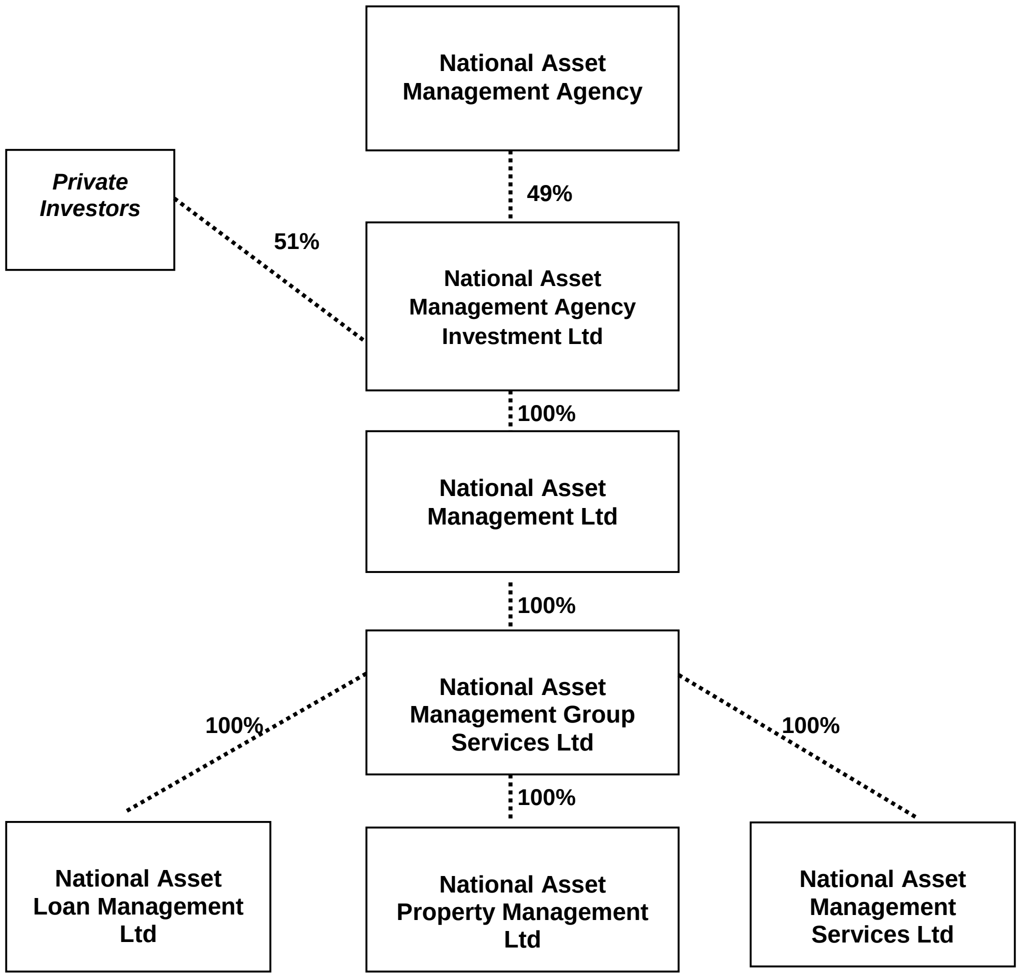
1.31 The structure of the NAMA group and the interrelationship of the NAMA group entities are set out in Figure 1.3. The group structure and its taxation arrangements are outlined in more depth at Appendix E.

---

14 Statutory Instrument 88 of 2010. This statutory instrument revoked a set of regulations that had been issued in December 2009 (Statutory Instrument 546 of 2009).

15 Euribor (Euro Interbank Offered Rate) is the rate at which euro interbank term deposits are offered by one prime bank to another within the Eurozone.

Figure 1.3 NAMA Structure[a]



Note:

a The percentages indicate the level of investment by each intermediate holding company or investor.

Post Acquisition Management

1.32 When NAMA acquires a loan the borrower continues to owe the full balance of the loan at the date of acquisition by NAMA. On acquisition of a loan, NAMA engages with the borrower in order to determine how the borrower intends to repay monies owed. Borrowers are requested to submit business plans for their projects and loans. On review of the business plans, NAMA makes decisions about the viability of projects and has a number of options including

- continuing to support the borrower through further lending to bring projects to completion, perhaps including a restructuring of the borrower's loans which might include the borrower divesting themselves of some assets in order to reduce borrowings
- taking enforcement proceedings where the borrower is in default and no realistic agreement can be reached. In these circumstances, NAMA will take control of the underlying properties and other collateral for the loans.

1.33 The arrangements for post acquisition management are set out at Appendix F.

Relationship with the NTMA

1.34 NAMA is an independent statutory body that operates under the aegis of the NTMA. NAMA shares services including IT, human resources and financial control with the other entities that operate under the NTMA's aegis (e.g. the National Pension Reserve Fund). The CEO of the NTMA is an *ex-officio* member of the NAMA Board.

1.35 The NTMA provides NAMA with, or procures for NAMA, those business and support services and systems that the NAMA Board determines are necessary for NAMA to perform its functions. At its meeting in January 2010, the NAMA Board decided that NAMA will make use of those business and support services.

1.36 As a result, all NAMA staff are employed by the NTMA which, in turn, assigns staff to NAMA. By early September 2010, NAMA had 75 staff members assigned by the NTMA and recruitment was continuing with the aim of achieving a complement of around 100 staff by the end of 2010. The costs of NTMA staff assigned to NAMA and other services provided by the NTMA are to be reimbursed by NAMA to the NTMA.

Pre-establishment Transactions

1.37 While NAMA was not established until December 2009, interim arrangements were put in place following the Minister's announcement that NAMA was to be set up. On 5 May 2009, the Minister appointed an interim Managing Director and a number of staff from the NTMA were appointed to assist him. In the period between the appointment of the interim Managing Director and the establishment of NAMA, advisors and consultants were appointed by the NTMA to provide services to NAMA. Any appointments of advisors and consultants after establishment have been made by NAMA. The procurement of advisors and consultants is reviewed in Chapter 5.

Report Focus

The transfer of the first tranche of loans (around 21% of the total) from the participating banks to NAMA commenced in late March 2010 and was completed in early May. The arrangements put in place to manage that transfer are reviewed in this report.

The report is set out in the four chapters that follow

- Chapter 2 examines the process for identification and valuation of acquired assets
- Chapter 3 sets out the outturn on transfers of the first tranche of loans
- Chapter 4 sets out the corporate governance structure
- Chapter 5 outlines the resourcing and procurement arrangements.

Because of the early stage of development of the workout, this report does not deal with the post-acquisition management of borrowers or arrangements to enhance or dispose of the assets acquired. It is intended to report on post-acquisition management during 2011. In addition, while preliminary testing and documentation of procedures has taken place, confirmation of their effectiveness in practice must await the audit of the first financial statements which will cover the period up to 31 December 2010 and which will be completed in 2011.

Asset Acquisition Process

2.1 NAMA is acquiring loans[16] issued to approximately 850 borrowers. The number of borrowers and the volume of loans made it impracticable for NAMA to value and acquire all eligible loans and associated derivatives at the same time. Its approach is to acquire them in tranches. Loans are acquired on a borrower-centric basis with all loans, both performing and non-performing, being acquired.

Borrower-centric Approach

Many borrowers have loans with more than one of the participating banks. NAMA, by acquiring all of the loans that a borrower has with those banks, is then in a position to make its decisions on the basis of the borrower's overall exposure. NAMA's approach, therefore, is to acquire all of a borrower's loans in the same tranche. Based on the information provided by the participating banks, NAMA ranked the borrowers according to the size of their overall borrowings and it has acquired acquiring the loans of those with the highest borrowings first. In the first tranche, for example, the loans of ten of the major borrowers were transferred[a].

Note:

a The list was drawn up on the basis of the preliminary information provided by the participating banks. In fact, the loans of one of the top ten borrowers were transferred in the second tranche.

2.2 A complicating factor that can arise is that in certain instances a borrower may have been lent funds by a bank that is not participating in the NAMA scheme. NAMA has drawn up, as is required under the Act, a code of practice setting out the manner in which it will take account of the commercial interests of credit institutions that are not participating in the NAMA scheme. The Code was approved by the Minister on 5 July 2010.

Features of the NAMA Scheme

2.3 Key elements of the NAMA scheme are

- NAMA acquires loans at their long-term economic value (Loan LTEV).
- NAMA takes over any existing security pledged as collateral by the borrower.
- In most instances, loan valuation entails valuing the associated collateral after applying an uplift to long-term economic value and making appropriate discounts for title defects and enforcement.
- Following acquisition, the borrower remains liable for the repayment of interest and capital on the balance outstanding at the time of transfer to NAMA.
- NAMA takes on the rights and obligations of the participating bank from which it acquires the loan.
- In managing the loans, NAMA is responsible for achieving the best financial return it can for the State, either through receiving repayment from borrowers, advancing further funds to borrowers to complete projects or foreclosing and taking control of the underlying assets or security.

---

16 Prior to the Ministers Statement on Banking on 30 September 2010, NAMA had anticipated that it would acquire over 14,000 loans from around 1,500 borrowers.

- Where NAMA takes control of underlying assets or security, its objective is to maximise their value. NAMA has a wide range of powers and options available in order to achieve this goal. It can, for example, dispose of assets or hold them for disposal at a later date, invest to carry out or complete projects or enter into arrangements with other investors through joint ventures.
- NAMA pays for the loans it acquires through issuing debt and it may also borrow to fund its ongoing activities.

2.4 In order to acquire the bank assets, NAMA had to identify and value eligible assets. Eligible assets[17] are, broadly,

- loans (or other credit facilities) to a debtor by one of the participating banks for the purposes (directly or indirectly) of purchasing, exploiting or developing development land or where the security offered for the loan is development land
- all loans to that debtor (i.e. non-land and development loans) excluding credit card debts
- all loans to associated debtors[18] of the debtor
- financial contracts between a debtor and a participating bank (e.g. an interest rate derivative that hedges interest rate exposure) that relate in whole or in part to acquired loans.

2.5 Loans and associated derivatives being acquired by NAMA are, generally, secured by collateral that borrowers have pledged to the lending bank. NAMA determines the price that it will pay for a loan by reference to the value of its underlying collateral – generally real estate.

2.6 Ultimately, the maximum that NAMA will pay for a loan is the lower of the outstanding balance on the loan or the present value of the underlying property cash flows adjusted for legal discounts, the value of non-real estate assets, qualifying advances and derivatives.

2.7 The price paid by NAMA for a loan is the Loan LTEV or, with the agreement of the Minister, a value between its current market value (Loan CMV) and its LTEV. In practice, all loans acquired to date have been at their LTEV. In order to calculate a Loan LTEV, NAMA needs to

- obtain the current market value of real estate collateral (Property CMV)
- identify the long-term economic value of the property (Property LTEV)
- obtain the current market value of any non-real estate collateral.

[17] The National Asset Management Agency (Designation of Eligible Bank Assets) Regulations, 2009, made by the Minister under section 69 of the Act, prescribe certain classes of bank assets as classes of eligible bank assets.

[18] Section 70 of the National Asset Management Agency Act, 2009 defines ‘associated debtors’.

- Anglo Irish Bank - €37 billion
- Allied Irish Banks - €23 billion
- Bank of Ireland - €12 billion
- Irish Nationwide Building Society - €9 billion
- EBS Building Society - €1 billion.

2.12 The Minister subsequently announced on 30 September 2010 that all remaining NAMA transfers should be completed in one single tranche for each of the participating banks. The Government decided, having consulted with the NAMA Board and the European Commission, that where the total exposure of a borrower is below a €20 million threshold in Allied Irish Banks and Bank of Ireland, that borrower's loans will not now be transferred to NAMA. This reduced the aggregate value of loans to be taken over to something of the order of €73.4 billion[24].

Provision for Objections by Participating Banks

2.13 Participating banks could, when providing details to NAMA about a possible eligible loan, object to its acquisition by NAMA on the basis that it was not an eligible bank asset as defined in the legislation. The banks were asked to indicate if they intended to object to the acquisition of any individual asset on these grounds and to give the reason for the objection.

2.14 In circumstances where NAMA intends to continue with the acquisition of an asset despite a participating bank's objections it must inform the participating bank of this as soon as possible and also refer the matter to an Expert Reviewer[25] whose function is to examine objections by the participating banks. The Expert Reviewer, a senior counsel, was appointed by the Minister on 15 January 2010.

2.15 By the end of May 2010, NAMA had referred five loans to the Expert Reviewer. These are related to the first two tranches of loans and further loans may be referred from the later tranches.

Interim Dealings in Eligible Assets

2.16 In order to mitigate the risk that participating banks might not act in NAMA's best interests in relation to an eligible asset prior to its acquisition by NAMA, the participating banks are obliged under the Act to act as a prudent lender in respect of eligible bank assets in the interim between application to apply to participate in the scheme and the transfer of loans to NAMA.

2.17 NAMA instructed the participating banks, under section 71 of the Act, to comply with these requirements by acting at all times in good faith without reverting to it. However, in two situations approval is required on a case-by-case basis from NAMA. These relate to

- any action by a participating bank that might impair any security, right or priority held in connection with a bank asset
- varying or amending any contract relating to an eligible bank asset unless contractually obliged to do so.

[24] This is comprised of Anglo Irish Bank - €35 billion, Allied Irish Banks - €19 billion, Bank of Ireland - €10 billion, Irish Nationwide Building Society - €8.6 billion and EBS Building Society - €800 million.

[25] Appointed by the Minister under section 112 of the Act.

2010 were around 5%. This assessment does not take account of post December 2010 market movements. The market had deteriorated further in 2011. For example, the residential property index produced by the Central Statistics Office indicated that residential property prices had fallen by an average of 16.7% in Ireland during 2011.

In the case of income from rents, in 2011 most borrowers whose performance was reviewed were showing payments that were lower than the levels projected when the loans were valued or when a business case was agreed. For six borrowers, 2011 rental income was around 26% less than that projected at acquisition and, for this sample, only €8 million out of €10.5 million subsequently projected in business plans had been realised.

The difference between rental income anticipated at loan valuation and net rental income received during 2011 on the cases sampled was mainly due to property management costs that were not provided for in the loan valuations which were conducted in line with industry norms for immediate sales.

When NAMA acquired loans, it found that it was not the general practice to require debtors to remit rent collected from properties to controlled bank accounts. The approach adopted by NAMA where debtors are co-operating has been to have rental income paid into an account, which NAMA monitors. Methods of oversight include the use of rent collection agents and financial monitors.

NAMA needs to investigate the emerging income trends outlined above in order to ensure that the amount and timing of its income projections are realistic and that its income collection is maximised and any amounts held back are authorised and transparently accounted for.

In practice, NAMA has not, to date, disposed of property directly. Property that has been disposed of has been sold either by debtors or by insolvency practitioners. This means that most disposals are not governed by the NAMA Code of Practice for the disposal of bank assets or the Code of Practice for the Governance of State Bodies, both of which require competitive processes when disposals above a certain value are being made. However, in July 2011 the Board issued a guidance note setting out a framework for the disposal of assets by NAMA debtors and insolvency advisors under which property disposals should be carried out on a competitive basis.

By the end of December 2011, following adjustment for disposals that were no longer expected to proceed, NAMA had approved asset (loan and property) disposals amounting to €5 billion.

Overall, NAMA had received around €6.2 billion in cash to the end of 2011. Up to that point, €2.9 billion had been received from the sale of property and a further €0.9 billion was received from the disposal of loan assets while a number of debtors had refinanced their loans and remitted the cash to NAMA.

In the sample reviewed the gross receipts for properties in Britain exceeded the market value at acquisition by 2.5% while there was a corresponding shortfall of 5% in the case of Irish disposals. The costs of disposal including taxation in the two jurisdictions reduced the gross proceeds by 3.7% in Britain and 6.7% in Ireland.

Wider State Costs and Liabilities

The State has contributed €63 billion by way of capital to Irish financial institutions. This capital was, in large measure, injected to meet the gap left by the acquisition of the loans at a discounted value. The bulk of the cost of the acquisition of those loans has been met by NAMA through the issue of State guaranteed bonds.

Results of Property Valuation Process

2.12 In the case of loans that have been finally valued, the value of the associated property was uplifted from around €26.7 billion to just under €29 billion before discounting to present values.

2.13 71% of the value of all property comprised completed residential and commercial properties including hotels. The uplift adjustment to derive the long-term economic value of the property averaged 8.8%. The average uplift for the first tranche was 11% and this average has fallen for each of the subsequent tranches. The average property uplifts for each bank are set out in Figure 2.5.

Figure 2.5 Property Uplift Adjustments by Bank

	AIB	Anglo	BOI	EBS	INBS	Overall
Tranche 1	8.96%	11.68%	11.99%	8.10%	11.84%	11.01%
Tranche 2	8.86%	10.30%	9.75%	6.82%	11.16%	9.82%
Tranche 3	8.03%	7.57%	7.17%	7.68%	8.70%	7.91%
Tranche 4	6.46%	7.12%	8.08%	6.69%	7.87%	7.28%
Tranche 5	5.74%	6.66%	7.36%	6.20%	5.61%	6.37%
Average Uplift Adjustment	**7.8%**	**9.5%**	**9.0%**	**7.2%**	**8.3%**	**8.8%**

Source: NAMA – Analysis by Office of C&AG.

2.14 The level of uplift for long term economic value varied by type of property and the overall uplift was influenced by the relative proportion of each type of property in the overall portfolio. Figure 2.6 sets out the average uplift adjustments by property type for the first five tranches together with the relative proportion of the property in each category. Hotels had the highest average uplift of 9.6%, while development property that was more than 30% complete had the lowest average uplift of 7.2%.

Figure 2.6 Property Uplift Adjustments by Property Type – Completed Valuations

	Land (including development property < 30% complete)	Residential Property for resale	Investment Property	Hotels	Development Property (> 30% complete)
Average Uplift Adjustment	8.5%	7.3%	9.3%	9.6%	7.2%
Proportion of property collateral (CMV)	25.0%	13.7%	46.6%	10.5%	4.2%

Source: NAMA – Analysis by Office of C&AG.

2.15 For those loans that have been finally valued, the present value of the projected cash flows from the property, incorporating the presumed disposal proceeds of the uplifted long-term economic value of the property and any rental cash flows, was calculated at €28.3 billion.

2.16 The present value so derived exceeded the current market value of the properties using market valuation methods by around 6%. Figure 2.7 details this by financial institution.

Figure 2.9 Property Collateral for Loans – by region and asset type[a]

	Dublin	Rest of Ireland	Ireland Total	London	Rest of Britain	Britain Total	Northern Ireland	Rest of World	Total	%
Office	2,442	224	2,666	1,222	878	2,100	215	272	5,253	16.5%
Retail	1,514	1,395	2,909	279	878	1,157	216	145	4,427	13.9%
Other Investment[b]	1,300	1,110	2,410	399	826	1,225	343	504	4,482	14.1%
Residential[c]	2,313	1,383	3,696	375	914	1,289	133	156	5,274	16.6%
Hotels	455	479	934	1,344	465	1,809	12	282	3,037	9.6%
Total Completed Properties	8,024	4,591	12,615	3,619	3,961	7,580	919	1,359	22,473	70.7%
Land	2,417	1,757	4,174	1,356	490	1,846	279	158	6,457	20.3%
Development	521	608	1,129	888	446	1,334	61	327	2,851	9.0%
Total Land and Development	2,938	2,365	5,303	2,244	936	3,180	340	485	9,308	29.3%
Total	**10,962**	**6,956**	**17,918**	**5,863**	**4,897**	**10,760**	**1,259**	**1,844**	**31,781**	
%	**34.5%**	**21.9%**	**56.4%**	**18.5%**	**15.4%**	**33.9%**	**3.9%**	**5.8%**		

Source: National Asset Management Agency.

Notes: a While some loans had not been subject to the full due diligence process by the end of December 2011, the property collateral for the loans had been valued.

b Other investment property includes industrial property and properties with mixed uses.

c Includes property to the value of €452 million classified as residential investments.

2.23 From a geographic perspective

- over 56% of the property is located in Ireland, with just over one-third of all property being located in Dublin
- a further 34% is in Britain, including 18.5% in London.

2.24 The composition by category of development can be classified as follows

- investment property which accounts for over 44% of the portfolio (excluding residential investment property and hotels)
- residential property which makes up 16.6% of the assets
- hotels which account for 10%
- partly completed developments make up 9% of the property
- just over 20% is made up of land with almost 70% of that being located in Ireland.

Valuation of Assets

2.25 The property collateral for loans was valued at 30 November 2009[28] while the acquisition value of the assets (loans and associated derivatives) acquired under the NAMA scheme was calculated at the loan

[28] The Board of NAMA set this date in accordance with Section 73 of the Act.

Murtagh, Donal

From: Moran, Derek
Sent: 23 March 2009 09:18
To: Murtagh, Donal
Cc: Ryan, Paul
Subject: FW: Losses

FYI

-----Original Message-----
From: Moran, Derek
Sent: 23 March 2009 09:17
To: Cardiff, Kevin
Subject: RE: Losses

Kevin

Just to say that I mentioned this issue (and CIROC pension issue) to the Minister on Friday as part of the briefing on tax issues for yesterdays cabinet. I put it in the context of it being part of a possible "demonstration" effect measure in the Budget. He was keen for us to explore.

Regards

Derek

-----Original Message-----
From: Cardiff, Kevin
Sent: 23 March 2009 08:17
To: Brendan McDonagh
Cc: Moran, Derek
Subject: RE: Losses

Brendan
We have been talking here about this for a short while - our situation not as bad as some other places, because we allow more limited tax refunds in respect of prior years in the event of current year losses, however losses can be carried forward, so a big bank loss now would damage tax receipts for years to come - hardly seems right if we are taking the risk on some of those losses, and providing a route to profitability for the future. We would plan to do something on this in the next Finance Bill, subject to Govt, but could announce in advance if appropriate

KC

-----Original Message-----
From: Brendan McDonagh [mailto:BMcDonagh@ntma.ie]
Sent: 22 March 2009 14:22
To: Cardiff, Kevin
Subject: Losses

Kevin

The NPRF Chairman has raised a policy issue with respect to losses arising for banks if a bad bank structure is put in place whereby the banks will have to take upfront writeoffs. He maintains that such losses could give rise to tax refunds to banks which would make the current budgetary situation worse but also politically embarassing. However, he fully accepts that in the event of no such scheme and banks incurring losses the same issue would arise.

You will be aware that in the UK part of the fee paid by RBS to UK Government was in the form of a tax credit giveup on losses arising albeit under the risk insurance scheme.

I also ponted out to the Chairman that since the banks were engaging in substantial interest rollu [redacted] that banks were paying tax on this in prior years eventhough they did not have the cashflow benefit.

He also points out that where a bank moves against a client, that would give rise to losses for the client which the client could claim tax refunds on. I cannot be sure of this as most of these losses probably arise in limited partnerships or companies which if they go under the receiver or liquidator probably pursues such tax refunds.

Maybe you could ask the tax policy people to talk to Revenue about these matters to see if there is a real issue to be addressed.

Regards

Brendan

181 Key Financial Figures relating to NAMA's loan acquisitions and distribution

Distribution of largest debtors

Distribution of largest debtors

Table 2 provides a breakdown of all debtor connections by size of nominal debt exposure. It should be noted that many of the debtors are also indebted to financial institutions which are not part of the NAMA scheme.

Nominal Debt	Number of debtor connections	Average nominal debt per connection €m	Total nominal debt in this category €m
In excess of €2000m	3	2,758	8,275
Between €1000m and €2000m	9	1,549	13,945
Between €500m and €999m	17	674	11,454
Between €250m and €499m	34	347	11,796
Between €100m and €249m	82	152	12,496
Between €50m and €99m	99	68	6,752
Between €20m and €49m	226	32	7,180
Less than €20m	302	7	2,117
Total	772	96	74,015

Table 2: Distribution of NAMA debtor connections by size of nominal debt

NAMA Preliminary Questionnaire 20th May 2009

Land & Development Loan Book

Q1. What is the total Balance Sheet value of your institutions Land & Development (L&D) loan book as at your most recent audited financial year end?

Q2. Please provide a breakdown of the L&D Loans as at most recent audited financial year end as follows:

Balance Sheet Value	No. Of Borrowers	No. Of Loans
Less than 1m		
1m-10m		
10m-50m		
50m-250m		
250m-500m		
500m-750m		
750m-1,000m		
1,000m+		

Q3. Please provide a geographical breakdown of the L&D loans as at most recent audited financial year end (to nearest euro million).

Q4. What value of Risk Weighted Assets does the L&D loan book make up as most recent audited financial year end?

Q5. What percentage of this L&D loan book in value terms is on interest rollup at most recent audited financial year end?

Q6. What percentage of this L&D loan book in value terms is non performing at most recent audited financial year end?

***Associated Loans** (L&D borrowers which are also borrowers of other types of loans from your institution)*

Q7. What is the Balance Sheet value of your institutions associated loan book as at most recent audited financial year end?

Q8. Please provide a breakdown of the associated loans as at most recent audited financial year end as follows:

Balance Sheet Value	No. Of Borrowers	No. Of Loans
Less than 1m		
1m-10m		
10m-50m		
50m-250m		
250m-500m		
500m-750m		
750m-1,000m		
1,000m+		

Q9. Please provide a geographical breakdown of the associated loans as at most recent audited financial year end.

Q10. What value of the Risk Weighted Assets does the associated loan book make up as most recent audited financial year end?

Q11. What percentage of this associated loan book in value terms is on interest rollup at most recent audited financial year end?

Q12. What percentage of this associated loan book in value terms is non performing at most recent audited financial year end?

Capital & Provisions

Q13. Please provide the composition and value of your institutions core tier 1 capital, risk weighted assets and core tier 1 ratio most recent audited financial year end.

Q14. Please provide the amount of the cumulative accounting provisions your institution has taken as at most recent audited financial year end broken out as follows to nearest euro million

	Cumulative	Cumulative
Loan Book	**Specific Provisions**	**IBNR**
L&D Book		
Associated Loans		

FOLLOW-UP TO INVESTIGATORS BRIEFING TO THE JOINT COMMITTEE, 31st MARCH 2014

Additional analyses required

Reference Title: Core Documents – NAMA

Participating Institutions: AIB, Anglo, BoI, EBS, INBS

Sectors
Land (including development property < 30% complete)
Residential property for resale
Investment property
Hotels
Development property (>30% complete)
Reference: C&AG's Special Report, NAMA Progress Report 2010 – 2012. Figure 2.2 (p.22 of Core Documents – NAMA)

Table 1: Percentages and values of **non-performing loans** by Participating Institution
Reference: NAMA Press Statement launching Business Plan, 6 July 2010, p.1 of Press Statement, second last bullet (p. 11 of Core Documents – NAMA)

Percentages and values of performing and non-performing loans, defined as loan accounts greater than 30 days in arrears, as at 31 December 2010 are set out below by Participating Institution (PI).

Classification	PI	Number of Loans Count	Number of Loans %	Loan Nominal Value €m	Loan Nominal Value %
Performing		**3,550**	**25%**	**16,485**	**23%**
	AIB	1,435	10.1%	5,887	8.2%
	ANG	1,196	8.4%	6,815	9.5%
	BOI	586	4.1%	2,435	3.4%
	EBS	188	1.3%	257	0.4%
	INB	145	1.0%	1,090	1.5%
Non-Performing		**10,726**	**75%**	**54,912**	**77%**

	AIB	3,609	25%	12,557	17.6%
	ANG	4,308	30%	27,376	38.3%
	BOI	1,677	12%	6,815	9.5%
	EBS	286	2%	582	0.8%
	INB	846	6%	7,582	10.6%
Total		**14,276**		**71,397**	

Note: In July 2010 we estimated that 25% of the loan book was performing but at this time we had only acquired one third of the loan book. The table above reflects the position as at 31 December 2010 when we had acquired €71.4 bn of €74 bn of the loan book and at that date 23% of the loans were deemed performing. Subsequently in 2011 NAMA acquired additional loans which were closely linked to some of the loans already required. By the time acquisition was completed the total par debt was €74.2 billion. This did not materially change the performance ratios outlined above.

Table 2: Breakdown by 5 Participating Institutions of the €9 billion provision (preferably actual outturn) for **Interest Roll-up**
Reference: Briefing/Information booklet prepared by NAMA, 16 September 2009, p.8 (p.15 of Core Documents – NAMA)

This information was provided in NAMA's submission to the Banking Inquiry dated 11th March 2015 (p.7 of Core Documents – NAMA). As set out in that submission, the assumed breakdown of the €9 billion estimate of the amount of rolled-up interest attaching to the transferring loans by Participating Institution was:

AIB €3.1 billion
Anglo Irish Bank €3 billion
BOI €1.8 billion
INBS €1 billion
EBS €0.1 billion

Acquired Loan Assets

NAMA was established in December 2009 following the enactment of the National Asset Management Agency Act, 2009 in November of that year. Five institutions (and their subsidiaries) were designated as participating institutions by the Minister for Finance in February 2010: Allied Irish Bank, Bank of Ireland, Anglo Irish Bank, Irish Nationwide Building Society and EBS Building Society[4].

LOAN ACQUISITION

The first loan transfers occurred in late March 2010. **Table 2** below summarises the major phases of the loan acquisition process:

TABLE 2: Phases of loan acquisition

	€bn	Date of transfer
Tranche 1	15.3	March – May 2010
Tranche 2	11.9	June – August 2010
Bulk transfer*	44.0	October – December 2010
Transfers in 2011	2.8	March and October 2011
TOTAL	**74.0**	

**At the request of the Minister for Finance, the transfer of the third and later loan tranches was accelerated as part of a bulk transfer in the last quarter of 2010.*

96% of the portfolio (€71.2 billion) was acquired within a nine-month period between March and December 2010.

Transfers in 2011 took place in two phases: a transfer of €1.1 billion in March (loans which were deemed eligible by AIB in late 2010) and a transfer of €1.7 billion in October. After the Supreme Court judgements in the **Dellway** case, NAMA instituted a process of consultation in June 2011 with debtors whose loans had not, at that stage, yet been acquired. Debtors were invited to make written representations to NAMA in respect of the possible acquisition of their loans and, in particular, as to any adverse effect such acquisition was likely to have on their interests. Debtors were also provided with an opportunity to make representations as to the eligibility of the loans by reference to the criteria for eligibility set out in the Act and in the Regulations.

Following a review of submissions received from debtors, the NAMA Board exercised its discretion, under Section 84 of the Act, to acquire loans totalling €1.7 billion and this acquisition was completed in October 2011. In the case of another €400m, the Board exercised its discretion not to acquire the loans concerned. Loans totalling €260m were deemed to be ineligible following a review of additional information received in debtor representations.

ACQUISITIONS BY INSTITUTION

Table 3 below summarises the transfers by institution:

TABLE 3: Loan acquisitions by institution (€ billion)

	AIB	ANGLO	BOI	EBS	INBS	TOTAL
Loan balances transferred	20.4	34.1	9.9	0.9	8.7	**74.0**
Consideration paid	9.0	13.4	5.6	0.4	3.4	**31.8**
Discount	56%	61%	43%	57%	61%	**57%**

Table 4 below provides a breakdown of debtor connections[5] by size of nominal debt acquired by NAMA (many of the debtors are also indebted to non-NAMA financial institutions).

TABLE 4: Distribution of NAMA debtor connections by size of nominal debt

Nominal Debt	Number of debtor connections	Average nominal debt per connection €m	Total nominal debt in this category €m
In excess of €2,000m	3	2,758	8,275
Between €1,000m and €2,000m	9	1,549	13,945
Between €500m and €999.9m	17	674	11,454
Between €250m and €499.9m	34	347	11,796
Between €100m and €249.9m	82	152	12,496
Between €50m and €99.9m	99	68	6,752
Between €20m and €49.9m	226	32	7,180
Less than €20m	302	7	2,117
TOTAL	**772**	**96**	**74,015**

4 The business of Irish Nationwide Building Society transferred to Anglo Irish Bank on 1 July 2011 and the merged entity now trades as Irish Bank Resolution Corporation Ltd. (IBRC). EBS Building Society was acquired by Allied Irish Banks plc. on 1 July 2011 and now operates as a subsidiary of AIB.

5 Debtor connections may consist of one debtor or a number of closely-connected debtors whose aggregate debt is considered by NAMA to be best managed as one cohesive connection rather than managed through separate debtor entities.

Opening Statement to Committee on Public Accounts
Brendan McDonagh, Chief Executive
Thursday, 13th January 2011

Chairman and Deputies,

I understand that I have been invited back here in particular to clarify responses I made to comments and queries raised by certain members of the Committee and particularly, Deputy McGrath at my last appearance here on 18th November 2010.

I have included in an appendix to this statement a transcript of the relevant extracts from that Committee meeting where Deputy McGrath and I discussed the matter of information supplied by the banks about the size of the likely discounts the financial institutions expected on the loans due to transfer to NAMA. Deputy McGrath and the Committee also raised the issue of whether or not further investigation of those matters is warranted. It is important at the outset to remind the Committee that this discussion referred only to information supplied during 2009 - specifically in August and September of that year – and that the NAMA legislation was enacted in November 2009, having been introduced into the Oireachtas in September.

Time does not permit me to re-read those extracts of the Committee's November proceedings into the record today but I would urge that anyone considering this matter or commenting upon it now or in the future should take the time to review these extracts again carefully.

Chairman, in recent weeks, I have read, with some concern, comments to the effect that I had somehow misled this Committee or Deputy McGrath or that I was backtracking on responses I made here on 18 November. As a Public Servant who holds this Committee and all the Committees and Members of the Houses of the Oireachtas in the highest esteem, I am deeply troubled that such claims, which are totally without any basis in fact, should be levelled against me.

I have made no public comment on these matters since 18 November so let me speak very clearly and very plainly now so as to clarify the matter beyond any doubt.

I unequivocally stand over all the replies to questions and queries which I made at the Committee meeting of the 18th November last.

One of the main points which I made, and which Deputy McGrath correctly questioned me on, was that the information put into the public domain by the listed financial institutions in Autumn 2009 **before** the NAMA legislation was enacted, anticipated that the haircut they expected to receive on their loans transferring to NAMA was actually going to be less than the 30% estimate in the Minister's September announcement. As it transpired, the real discount that has been applied across all five institutions, to date is, as we all now know, an average of 58%. The respective discounts applied up to the end of 2010 are: AIB (54%), Bank of Ireland (42)%, Anglo Irish Bank (62%), EBS(60%), and INBS [64]% . My opening statement on 18 November referenced this:

"...the 30% estimate was based on information provided by the financial institutions that their average loan-to-value ratio was 77% and, by implication, that there was on average a residual 23% equity in the portfolio. Property prices did decline substantially in Ireland during 2009 and that certainly would have contributed to the erosion in value but it is not the whole story. Equity releases as

asset values apparently rose certainly contributed to the equity erosion. I can only conclude that, notwithstanding the decline in property prices during 2009, the LTVs were much closer to 100% than the 77% represented."

Therefore, I think it was perfectly reasonable for Deputy McGrath to have suggested at the meeting on 18 November, that he would like to know how the financial institutions formed, around August/September 2009, the clearly incorrect opinion as to their likely discounts and that he considered that matter to be worthy of careful review. For my own part, and this is a point that Deputy McGrath picked up on, I would simply say that the original loan to value ratios of the prospective NAMA loans could not have been as positive as the LTV ratios which the financial institutions advised to me in late Summer and early Autumn 2009: in order to move from a projected discount of under 30% to the real discount of 58%, the real average loan to value could not have been anywhere close to an average of 77%. Certainly, I would accept that the technical detail of the proposed valuation methodology changed between September 2009 as the legislation was introduced and the time it was enacted in November 2009 and was further modified by the EU Commission approval in February 2010. However, the original loan to value ratios would not be affected by this.

Since our meeting with this Committee on 18 November last I and my Chairman have met with the Gardai and have exchanged correspondence with the Financial Regulator's office on this matter. We made it clear that our legal advice is that the loan to value information was provided at a time before the enactment of the NAMA legislation. As the NAMA Act did not exist at that time, any examination of the information provided prior to the Act could **not** be carried out under the NAMA Act or be actionable by NAMA under section 7 or section 203 of the Act.

That of course does not mean that it is not a matter worthy of consideration by other authorities with the relevant powers. The Financial Regulator as far as I am aware is responsible for the conduct of the financial institutions and is also responsible for ensuring that publicly quoted banks provide correct and timely information to the market. Initiation of any such investigation is of course a matter for the Financial Regulator but we have made it absolutely clear that if the Regulator, or any other investigating body, decided to pursue the matter NAMA would of course provide full cooperation insofar as possible and if requested to do so.

Surely it is reasonable Chairman, while acknowledging that NAMA does not have jurisdiction in this matter, for me to have said that I did not disagree with Deputy McGrath when he suggested that those bodies with the necessary powers and jurisdiction have a vital role in investigating this matter. I am disturbed that my replies to Deputy McGrath could have been interpreted in any other way.

Finally it is very important that I reiterate the fact that NAMA did not pay any institution on the basis of their estimated figures supplied in 2009. NAMA only paid on the basis of our own rigorous due diligence of each individual loan. Indeed NAMA received a great deal of criticism from some quarters for the level of due diligence materials we asked for and the steps we took to individually due diligence and value every single loan as is required under the legislation. I believe that our cautious approach has been fully vindicated. The valuation of the loans has been based solely on the Act, the Valuation Regulations and EU Commission approval. We did not accept at face value any of the information provided by the participating institutions but designed a process to enable us to carry out a forensic analysis to determine the correct valuation of the loans. NAMA has protected the taxpayer from the risk of overpaying for the loans and that is the most important fact to emerge. NAMA has done its job diligently and properly in accordance with its statutory mandate and that was acknowledged by Deputy McGrath and the Committee last November.

I trust this clarifies the matter. This concludes my opening statement.

13 January 2011

Appendix 1 – Extracts from PAC meeting 18th November 2010

Brendan McDonagh's opening statement:

"Some commentators have expressed surprise that the discounts that have emerged for each of the institutions and in overall terms may have been much higher than anticipated. However it must be remembered that the initial indications of an aggregate discount of 30% were necessarily based on aggregate information provided last year by the five participating financial institutions. Specifically, the 30% estimate was based on information provided by the financial institutions that their average loan-to-value ratio was 77% and, by implication, that there was on average a residual 23% equity in the portfolio. Property prices did decline substantially in Ireland during 2009 and that certainly would have contributed to the erosion in value but it is not the whole story. Equity releases as asset values apparently rose certainly contributed to the equity erosion. I can only conclude that, notwithstanding the decline in property prices during 2009, the LTVs were much closer to 100% than the 77% represented. My point is that if the LTV disclosed was more accurate this would have resulted in an estimated average NAMA discount of 53% i.e. 30% plus add back on 23% equity.

Furthermore, NAMA's own detailed due diligence on a loan by loan examination has revealed a picture of poor loan documentation, of assets not being properly legally secured and of inadequate stress-testing of borrowers and loans by the financial institutions. The legal documentation is capable of remedy and in fact the majority of the €1 billion of loans we did not acquire in tranche 1 have now been acquired by NAMA after we forced the institutions to remedy the legal issues with the borrower by advising we would apply 100% discount if they did not. I would acknowledge that the participating institutions have worked hard in tranches 2 and 3 to deal with these legal issues as they compiled their NAMA due diligence, this is the right course of action but it is frustratingly slow. It is much harder to fix a problem than to do it correctly in the first instance. We estimate that the final overall NAMA discount will be about 58% for the total acquired portfolio of €73 billion. "

Deputy McGrath in his opening querying stated the following:

"I would like to pick up on the point made by Deputy O'Keeffe on the quality of the information it got from the banks in 2009 and which fed into the draft business plan in October 2009. Some of the information must have come from fantasyland because if one considers the reality NAMA found when it went in and did a loan by loan analysis and a detailed probe, some serious questions need to be answered about the intentions behind.

...We know the reality is entirely different, the level of performing loans is 25% and the loan to value ratio, as Mr. McDonagh mentioned, is closer to 100%, something which is a matter of fact and which did not change because of the deterioration in the economic environment. How could they have gotten it so wrong?

In his response to Deputy O'Keeffe, Mr. McDonagh referred to a lack of systems but I would take a far more cynical view, namely, that the banks were concerned with trying to extract the maximum possible price from the taxpayer for the loans which we were acquiring."

Brendan McDonagh responded as follows:

"In terms of that, I do not disagree with the Deputy. The reality of our detailed loan by loan analysis showed up what it was. People sitting on the boards and senior management in those companies had responsibilities. I recall that when the Minister for Finance went into the Dail on 16 September 2009 and introduced the NAMA Bill there were Stock Exchange statements by the two major banks into the market telling it they expected their discount to be even less than 30%. The reality has turned out to be different. The Deputy is completely right. There are questions to be asked and answered.

We went in, found what the situation was and reported on it. The discounts are much higher than what could have been anticipated. Based on the information provided at the time, and given what we have been dealing with in terms of the banks over the past 10 months and the due diligence which is coming through, they are finding out things about borrowers and loans that they should have had at their fingertips before. They did not have this and there are huge systems failures on the back of that."

Deputy McGrath responded as follows:

"I think it is much more than that. If NAMA had not taken such a rigorous approach in going in and analysing every single loan individually and had taken the information it was given at face value, it would have dramatically overpaid for the loans it was acquiring."

Brendan McDonagh responded as follows: "Absolutely."

Deputy McGrath went on to state:

"That would have been at the net expense of the taxpayer. It seems to me that there was a clear pattern of false and misleading information being fed into NAMA by the main banks in Ireland during 2009. That has to be investigated. I do not know who has the function to refer that information to the Garda, the National Bureau of Fraud Investigation or the Office of the Director of Corporate Enforcement but it needs to be done. Some of the data would have changed with the deteriorating economic environment. I can understand the percentage of performing loans changing, for example and Mr. McDonagh referred to that in his opening remarks. However, getting the loan to value ratio so wrong across the board should have rung alarm bells that there was something more going on. *It needs to be investigated by the Garda and the Director of Corporate Enforcement. I do not know whether NAMA can make information available to them but there is a clear, systematic pattern of false and misleading information being fed into NAMA and that cannot go unaccounted for."*

Brendan McDonagh responded as follows:

"I do not disagree with anything the Deputy said. The first port of call in terms of looking at that must be the Financial Regulator, who has responsibility for supervising and knowing what goes on within the banks. We will provide whatever assistance we can to anybody. I can assure the Deputy that we have established the facts and will make that information available to any regulatory authority, if appropriate. That is where we are now. Other people have questions to answer on what was done in the past."

NAMA Publishes Business Plan

06/07/2010

The National Asset Management Agency (NAMA) has today published a Business Plan which details the Agency's financial projections for its expected lifetime.

The Plan published today updates and revises the interim Business Plan published in October of last year which was prepared on the basis of information supplied at that time by the five Participating Institutions (Anglo Irish Bank, AIB, Bank of Ireland, EBS and Irish Nationwide) and in advance of the detailed examination of any of the key loans by the Agency. The updated Plan has been approved by the Board of NAMA and was submitted to the Minister for Finance on 30 June 2010.

Plan informed by practical experience over past 8 months and due diligence of loans over the past 3 months

The plan has been informed by a number of factors, in particular:

- The Agency's detailed examination and acquisition and management of €16 billion of loans in Tranche I and the advance preparations made for the imminent acquisition of €13 billion of loans in Tranche II.
- The Agency's experience in the tendering of necessary services to support its work.

Key conclusions of the Plan include:

- The Plan projects that the Agency will return a profit to the taxpayer of €1.0 billion in Net Present Value (NPV) terms under its central scenario where NAMA recovers the LEV (Long Term Economic Value) of the assets. NAMA also examined two variations on this central scenario; one in which NAMA recovers the long-term economic value of assets plus 10% and one in which it recovers the long-term economic value minus 10%. The respective NPV outcomes are a profit of €3.9 billion and a loss of €0.8 billion.
- The Plan anticipates that the average discount applied to the full portfolio of loans acquired will be 50%, reflecting the discount paid on the loans acquired in Tranche I. Final discounts are of course applied loan by loan and will only be determined as individual loans are transferred.
- The percentage of loans which are "income producing" (i.e. loans which are at least paying the interest due on the monies borrowed) is, at 25%, significantly less than the 40% level indicated by the Participating Institutions last October. This has had a significant impact on the updated NPV figure.
- NAMA anticipates spending approximately €1.6 billion on services over its lifetime to support its activities. This figure is €1.0 billion less than had been forecast previously, partly due to the competitive and thorough public procurement process applied by the Agency.

Comments by Chairman – Frank Daly and Chief Executive Brendan McDonagh

Speaking today, Frank Daly, Chairman of the Board of NAMA, said that the Plan provided a robust framework for the challenges ahead: “We have enormous challenges in the months and years ahead but this Plan gives us a realistic expectation that we can manage this extraordinary project effectively and return a profit to the taxpayer. That – together with the rigorous pursuit of all outstanding loans – is our key objective."

Mr. Daly added that the Plan confirms that the Participating Institutions had not disclosed or had been unaware of the extent of the financial crisis afflicting their borrowers: "To say the least we are extremely disappointed and disturbed to find that, only months after being led to believe that 40% of loans were income producing, the real figure is actually 25%. We are equally taken aback to learn that the banks were not even using the full range of legal options available to them in order to secure income in respect of troubled loans. The banks displayed a remarkable generosity towards their borrowers. NAMA has no intention of maintaining that approach. We will pursue all avenues to ensure the fullest possible repayment of all outstanding monies from relevant borrowers and we will work towards increasing the income stream for NAMA as soon as possible as part of the Debtor Business Plan review process."

Brendan McDonagh said that NAMA is now operational and it had been an enormous challenge to bring NAMA to this point from a start-up operation at the beginning of 2010: "I would extend my appreciation to all my colleagues and the Board of NAMA for the huge effort made by all concerned. There have been and will continue to be many obstacles to be overcome. The economic environment continues to be challenging and this will have a significant bearing on NAMA’s ability to deliver on its targets but I am confident in the ability of the strong team at NAMA to protect taxpayers’ interests. Today NAMA publishes its Annual Statement, an updated Business Plan, its first quarterly report and the codes of practice approved by the Minister for Finance. There is a significant amount of other information available on the NAMA website."

Strategic and Policy Decisions

The Plan also sets out details of a number of strategic and policy decisions taken by the Board on 21 issues including NAMA debt reduction targets; advances of new money; hotels and unfinished estates; the land needs of Government authorities and local communities; and the sale of NAMA assets.

Progress in Infrastructure and Corporate Governance arrangements

NAMA has devoted a substantial amount of time in the first six months to putting the necessary infrastructure and corporate governance arrangements in place. The Board and its related committees are now fully operational and have met 57 times.

The recruitment of employees who have the necessary skills and who were also able to meet significant prequalifying criteria, including full disclosure of their personal assets, interests and liabilities as required under Section 42 of the NAMA Act, has been challenging. As of the end of June 2010, however, NAMA has recruited 45 staff, is in the process of recruiting a further 33 and aims to achieve its full complement of just over 90 by the end of the year.

8 June 2009

National Asset Management Agency (NAMA)

Dear

Thank you for your response to the initial NAMA questionnaire. It will be very useful for us in helping us to scope and determine the NAMA business model.

I wish to request further information from your institution to help us make further preparations. It would be appreciated if you could provide the information below in an Excel spreadsheet if possible.

Portfolio – Land & Development

List of top 100 borrowers by exposure in this category in your institution

(a) Name of Borrower
(b) Loan Facility name
(c) Loan Currency
(d) Loan Facility amount 31/12/08 – ccy amount
(e) Loan Facility amount 31/12/08 – euro equivalent
(f) Loan outstanding amount 31/12/08 – ccy amount
(g) Loan outstanding amount 31/12/08 – euro equivalent
(h) Derivates (list type and gross and net exposure) – euro equivalent

I would appreciate it if you could respond to by **5pm Monday 15 June 2009.** Responses can be emailed to info@nama.ie

Thank you for your cooperation.

Yours sincerely,

Brendan McDonagh
Interim Managing Director, NAMA

20 May 2009

X
Chairman
X Bank
Y address

National Asset Management Agency (NAMA)

Dear Chairman,

Over the forthcoming weeks and months I will be starting intensive engagement with executives from your institution re NAMA. Before I do this I need to establish some basic facts. You will be aware of this based on correspondence issued by the Minister for Finance in his letter to you dated 7th May 2009 re NAMA fact finding.

I attach a preliminary NAMA questionnaire which is intentionally brief and based around your institutions financial year end so that the provision of data requested in the questionnaire should be easier for you to compile.

I would appreciate it if you could respond to by **2pm Monday 25 May 2009** to the questionnaire. Responses can be emailed to info@nama.ie

I shall also issue the request via email to the Finance Director in your institution.

Thank you for your cooperation.

Yours sincerely,

Brendan McDonagh
Interim Managing Director, NAMA

Applying these factors NAMA estimates the current market value of the underlying assets as follows:

	Potential total €bn
Potential total book value for transfer to NAMA	77
Interest Roll up Estimate	9
Balance excluding roll up	68
Approximate average LTV	77%
Assets value at origination	88
potential decline in property prices approximate estimate	47%
Estimated current market value of underlying asset	**47**

- In doing so NAMA acquired more than 12,000 loans across a range of currencies, advanced to over 5,000 debtors (managed as 780 debtor connections) and secured by over 60,000 property units across a range of markets.

- Loans acquired by NAMA were initially valued by reference to property values at November 2009.

- As is now evident, the Irish property market continued to deteriorate through 2012.

- The sale of these loans to NAMA at November 2009 values protected the PIs from the continued deterioration in value of Irish assets which secure these loans.

- Since being established in 2009, NAMA has developed an infrastructure to acquire, service and deal with a large and complex impaired loan portfolio.

- NAMA has negotiated and approved business plans with its 780 debtor connections representing over 5,000 borrowing entities and 60,000 property units and has taken over 20,000 individual credit decisions.

D. Expected Market Dynamics and Initial NAMA Strategy

- In mid 2010, NAMA established a business plan which incorporated a redemption target of 25% of NAMA debt by end 2013 which ultimately became a commitment under the EU – IMF Programme of Support.

- In the face of continued stress in the Irish property market during the first years of NAMA's existence, NAMA set out the only feasible strategy which would achieve the end 2013 senior bond redemption target of €7.5 billion while also preserving the best possible chance to redeem all €30.2 billion senior bonds by end 2020.

- This initial strategy was:

  a) to sell lower yielding, more appropriately valued, UK assets with limited prospects for significant value appreciation over the medium term, with the aim of achieving the end 2013 redemption target, and

  b) to offer relatively low levels of Irish assets for sale which may hold the prospect for significant value appreciation over the medium term.

- **A key assumption underlying the establishment of this initial strategy was that the fall in Irish property prices experienced since November 2009, would be recovered over the life of NAMA.**

- Following NAMA's portfolio valuation date of November 2009, Irish commercial property values continued to fall, while the UK commercial property market continued to appreciate.

- **This relative performance of the Irish and UK markets since November 2009 has borne out NAMA's strategic decision to focus on the early sale of appropriately valued UK assets and to defer the sale of Irish assets which held greater valuation upside potential pending a market recovery later in NAMA's life.**

E. Expected Outturn

- Based on NAMA's expected disposal values and the resulting surplus income over NAMA's remaining life, it is reasonable to expect that **NAMA will be in a position to repay not only**

Loans acquired by NAMA were initially valued by reference to property values at November 2009. As is now evident, the Irish property market continued to deteriorate through 2012. As a result, the sale of loans to NAMA at November 2009 values protected the PIs from the continued deterioration of Irish asset values securing these loans. This continued deterioration in Irish asset values is most clearly reflected through the €4.1 billion in additional impairment charges which NAMA has incurred to year end 2013. This impairment charge represents losses taken by NAMA above those recognised by the PIs at the time of the loan sales. It is likely that the PIs would have suffered similar losses on these loans with commensurate capital implications had the sales to NAMA not occurred.

PI loans were transferred to NAMA in a number of tranches in line with the completion of loan preparation, diligence and valuation which occurred at varying speeds for various portfolios given the enormity of the tasks. The transfer of tranche 1 (€15.3 billion) and tranche 2 (€12 billion) completed in May and August 2010 respectively. A bulk tranche transfer of €44 billion of loans completed in December 2010 with remaining smaller final tranches of outstanding borrowings totalling €2.8 billion completing in March and October 2011.

The European Commission has found that the loan sales to NAMA provided the PIs with approximately €5.6 billion of state aid reflected in the 22% aggregate premium above the November 2009 loan market value paid in consideration to the PIs[6]. The existence of state aid in these transactions indicates that NAMA paid above the inherent value of the assets and so provided the PIs with an economic benefit. Upon receipt of the relevant supporting information from the Central Bank of Ireland in February 2014, the Department of Finance submitted an application to secure final European Commission approval for the transfers of tranches 3 to 9. This submission is currently being reviewed by the European Commission. European Commission approval for these final tranche transfers is expected in July.

NAMA – A Model National Asset Manager

Acquiring €74 billion of nominal assets, NAMA was one of the largest external asset resolution vehicle ever established.

NAMA's nearest comparable at the time was Securum of Sweden established in 1992 to acquire c.3,000 non-performing loans worth c. €6 billion which was successfully wound up after 5 years.

Since establishment NAMA has received a great deal of attention from nations seeking to establish their own asset resolution vehicles incorporating NAMA's unique approach to removing uncertainty relating to distressed assets from a number of banks while retaining and enhancing the benefits of low cost bank financing.

In 2012, Spain's bad bank, SAREB, was established having been modelled after NAMA in many ways.

Please see Appendix B for a reproduction of Figure 2.2 from the C&AG Section 226 report detailing the consideration paid for loans and the resulting state aid. For further information regarding NAMA's acquisition of bank assets, please see the C&AG's special report published in October 2010 entitled "Special Report 76: National Asset Management Agency – Acquisition of Bank Assets".

Since being established by legislation in 2009, NAMA has developed an infrastructure to acquire, service and deal with a large and complex impaired loan portfolio. NAMA has established relationships with and has negotiated and approved business plans with its 780 debtor connections representing over 5,000 borrowing entities and 60,000 property units and has taken over 40,000 individual credit decisions.

For further information regarding the establishment of NAMA's infrastructure and initial management of its loan assets, please see the C&AG's special report published in February 2012 entitled "Special Report 79: National Asset Management Agency – Management of Loans".

[6] See Appendix B – Consideration

At that time, expectations for a short term recovery of the Irish property market were low, in light of the continued decline in property values since November 2009. UK commercial property prices, on the other hand, continued to rise. As set out in *Figure 5*, UK property prices had increased by c. 10% between November 2009 and March 2012[7], while Irish commercial property prices had fallen by over 20% during the same period[8].

In the face of continued stress in the Irish property market during the first years of its existence, NAMA set out a strategy, viewed at the time as the only feasible option, which would allow NAMA to achieve the end 2013 senior bond redemption target of €7.5 billion while also preserving the best possible chance to redeem all €30.2 billion senior bonds by end 2020.

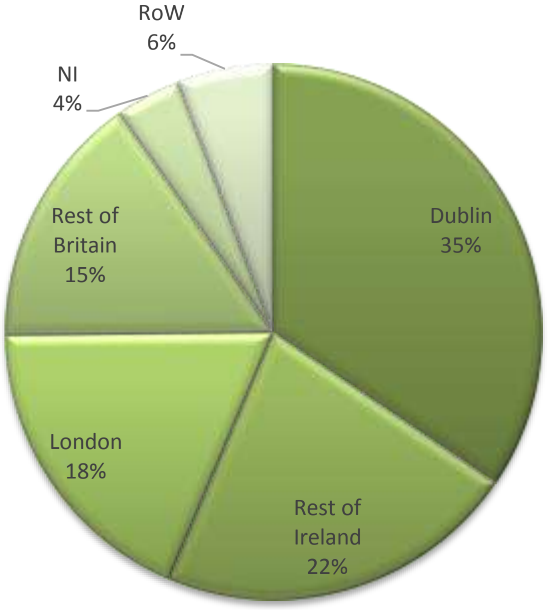
The NAMA board intended to (a) generate disposal income through the sale of assets which had not suffered excessive declines in value and so for which there were limited expectations for significant short term value appreciation; and (b) maximise the capture of non-disposal income from every NAMA connection.

This translated into a strategy:

- to sell appropriately valued, UK assets with limited prospects for further significant value appreciation over the medium term, with the aim of achieving the end 2013 redemption target, and
- to offer relatively low levels of Irish assets for sale which held the prospect for significant value appreciation over the medium term. Through limited sales and associated financing activity, NAMA intended to seed demand in the Irish market and stimulate further activity. NAMA also intended to increase occupancy levels and maximise rental income over the short term to help establish a foundation for a phased disposal of Irish assets after 2013.

FIGURE 6: PORTFOLIO CONCENTRATION BY LOCATION

YE 2009
Carrying Value: €31.8bn



Source: NAMA.

This geographic diversity within NAMA's portfolio provided the flexibility required to pursue this initial strategy. The geographic diversity of the property securing NAMA loans with a carrying value of €31.8 billion as at end 2009 is set out in Figure 6. At end 2009, c. 57% or some €18 billion of property assets were located in Ireland, c. 33% or some €10.5 billion were located in Britain and c. 10% or some €3.2 billion in Northern Ireland or elsewhere.

In establishing this initial strategy, NAMA assumed that the UK market would retain its improved valuations over the medium term but recognised potential downside risks around the sustainability of these values over the longer term in light of emerging challenges to the UK's general economic outlook. Figure 7 provides a

[7] Source: IPD UK Monthly All Property Capital Growth Index.
[8] Source: JLL Capital Values Index reflecting Irish Commercial Property Price trends.
[9] Portfolio concentration based on the expected disposal value of assets by geographic location.

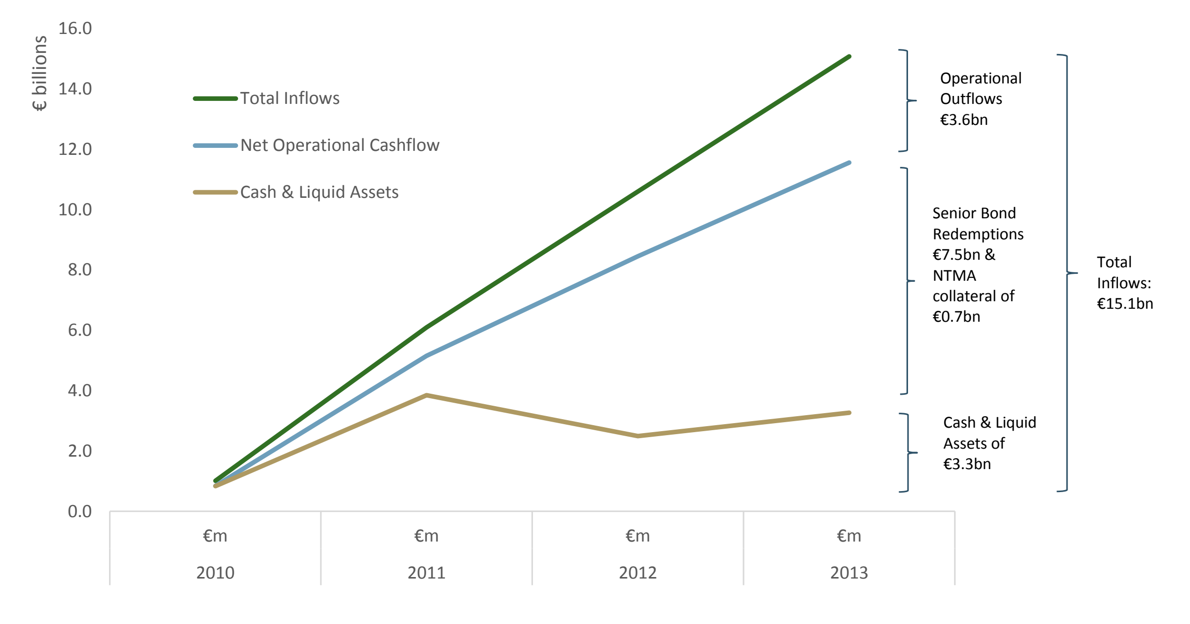
> • *The timing of the recovery of this loan principal (or any related property collateral), reflecting the time value of money implicit in the discounting of future cash flows.*
>
> *NAMA Annual Report 2011*

In light of this and given NAMA's limited financial complexity and relatively short expected life, greater insight into NAMA's performance can be provided through an evaluation of NAMA's outturn on a cash basis.

C. Cash Performance to YE2013

As set out in Figure 12 and 14, from establishment to end 2013, NAMA generated €15.1 billion in total cash inflows, through €10.9 billion of asset disposals, €4.2 billion of non-disposal income (mainly rental receipts) and other income[12].

FIGURE 12: SUMMARY CASH FLOWS (EXCLUDING NARL)



Operational outflows from inception to end 2013 totalled €3.6 billion, made up of NAMA's operating costs of €490 million; foreign exchange, debt servicing costs of €1.6 billion and capital drawdowns, vendor finance and other of €1.5 billion.

The net effect of these inflows and outflows result in cumulative net operating cash flow of €11.5 billion from inception to end 2013. This level of cumulative net operating cash flow allowed NAMA to achieve its end 2013 senior bond redemption target of €7.5 billion of which €2.75 billion was redeemed during 2013. Following the redemption of €7.5 billion of senior bonds, NAMA retained approximately €3.3 billion of cash and liquid assets, excluding c. €740 million of NTMA collateral.

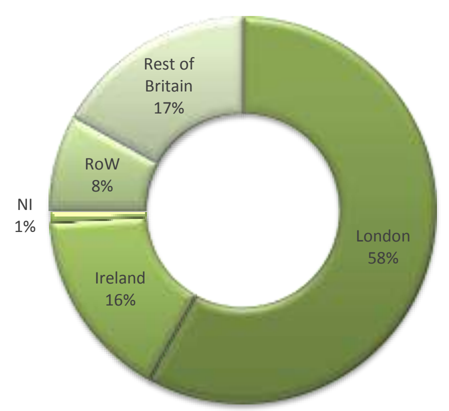
---

[12] Excludes €1.4 billion from payments of principal and interest received from the Special Liquidators to IBRC which is essentially a pass through item to redeem CBI held NAMA bonds issued as part of the Promissory Note transaction.

Disposal Income

NAMA has overseen the sale of €10.5 billion worth of loans, property and other assets held as security, including the sale of over 10,000 individual properties mainly across Ireland and the UK. As reflected in Figure 13, the majority of this disposal income, 58%, has come from the sale of London assets. In line with NAMA's strategy, the sale of Irish assets has accounted for only 16% of disposals since inception to end 2013.

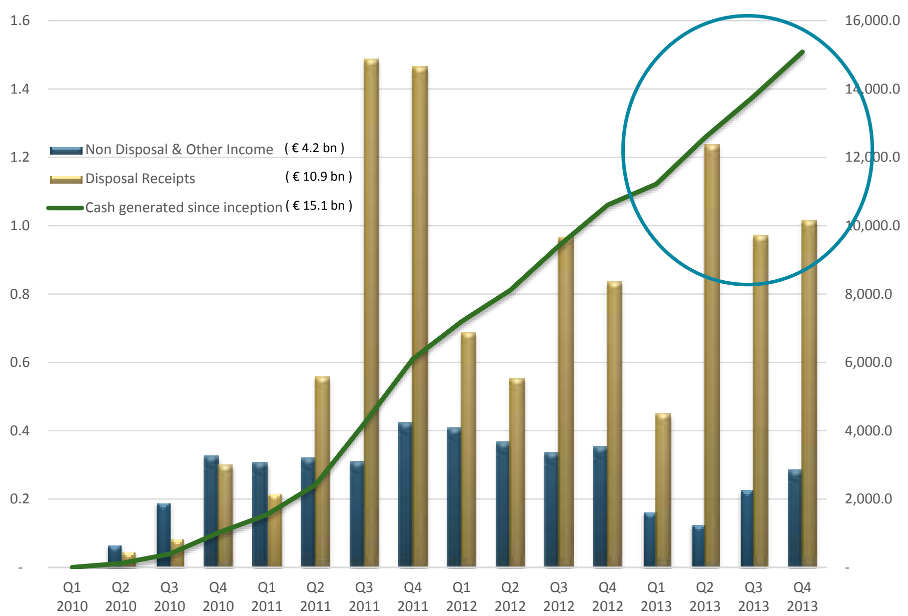
FIGURE 13: DISPOSALS BY LOCATION FROM INCEPTION TO END-2013



Source: NAMA

In 2013, improving market conditions enabled NAMA to sell substantial asset and loan portfolios, as is evident from the sustained high levels of disposal receipts in Q2, Q3 and Q4 of 2013 in Figure 14. Total sales in 2013 generated €3.7 billion of cash. This momentum has continued into 2014. In 2012 and 2013, Irish assets represented 13% and 22% of all NAMA disposals respectively, reflecting the deliberate increase in Irish sales activity in light of an improving market. To end June 2014, Irish assets have represented approximately 50% of 2014 total sales, a trend NAMA expects will continue with Ireland's continuing recovery.

FIGURE 14: DEVELOPMENT OF DISPOSAL AND NON-DISPOSAL INCOME (EXCLUDING NARL)[13]



Source: NAMA

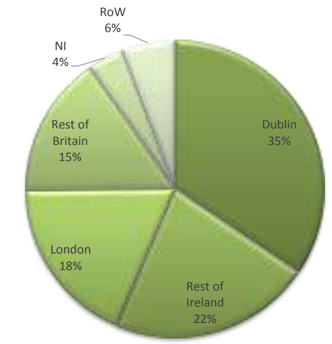
[13] Non-disposal income is net of NAMA approved debtor expenses, such as operating costs, property management costs, among others which are typically paid out of rental receipts prior to debt financing costs. All amounts retained from gross remittances by debtors are agreed by NAMA as part of the debtor business plan.

7. Portfolio Development to End 2013

By year end 2013, while the total carrying value of the NAMA portfolio had reduced by over €12 billion through a combination of disposals, provisions, and market movement, the geographical split of the expected disposal value of property had remained fairly consistent with c. 56% of property assets located in Ireland, c. 30% located in Britain, c. 4% in Northern Ireland[15] and c. 10% in the rest of the World.

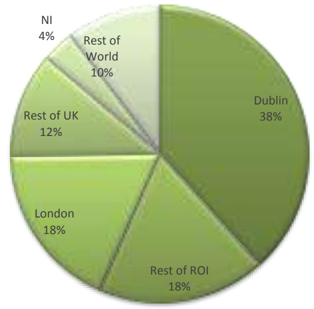
FIGURE 15: PORTFOLIO CONCENTRATION BY LOCATION[14]

YE2009 Carrying Value: €31.8bn



Source: NAMA.

YE2013 Carrying Value: €19.6bn

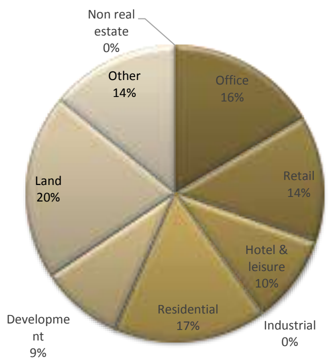


Source: NAMA.

Similarly, the value of NAMA's portfolio is reasonably well distributed across a number of asset types. NAMA's exposure to land, development and other assets has declined from c. 43% of the entire portfolio at year end 2009 to c. 39% at year-end 2013. NAMA's ability to avoid an increased concentration on land and development assets while reducing the total portfolio carrying value by over €12 billion from inception has helped to improve the prospect of NAMA achieving its objectives.

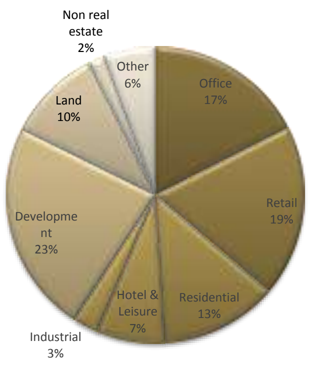
FIGURE 16: PORTFOLIO CONCENTRATION BY TYPE[16]

YE2009 Carrying Value: €31.8bn



Source: NAMA.

YE2013 Carrying Value: €19.6bn



Source: NAMA.

[14] Portfolio concentration based on the expected disposal value of assets by geographic location.
[15] The sale of the Northern Ireland portfolio to Cerberus was agreed in early 2014, which will remove NAMA's NI exposure.
[16] Portfolio concentration based on the expected disposal value of assets by geographic location.

Appendix B – Consideration for Loans

FIGURE 21: CONSIDERATION FOR LOANS

€ in millions	**AIB**	**BoI**	**IBRC**	**Total**
Loan Balance	21,284	9,867	43,000	74,151
Derivatives	74	44	145	263
Borrower Debt	**21,358**	**9,911**	**43,145**	**74,414**
Market Value of Property (30 November 2009)	**9,660**	**5,681**	**17,076**	**32,417**
Long Term Value of Underlying Property				
Land (including development property <30% complete)	3,051	1,516	3,956	8,523
Residential property for resale	1,975	960	2,300	5,235
Investment property	4,202	2,788	9,274	16,264
Hotels	566	502	2,399	3,467
Development property (>30% complete)	570	423	614	1,607
Total	**10,364**	**6,189**	**18,543**	**35,096**
NAMA Valuation				
Collateral associated with loans				
Present value of property cash flows	10,019	6,055	18,243	34,317
Cash security	98	61	329	488
Other security	585	137	646	1,368
Total collateral	10,702	6,253	19,218	36,173
Excess collateral	(997)	(483)	(1,394)	(2,874)
Legal discount	(87)	(2)	(405)	(494)
Collateral avaialable to the state	**9,618**	**5,768**	**17,419**	**32,805**
Due diligence and enforcement adjustment	(376)	(206)	(668)	(1,250)
Net loan collateral	9,242	5,562	16,751	31,555
Qualifying advances	148	50	195	393
Initial consideration	9,390	5,612	16,946	31,948
Post acquisition adjustment	(30)	(23)	(117)	(170)
Final consideration	**9,360**	**5,589**	**16,829**	**31,778**
Discount	56%	44%	61%	57%
Loan Current Market Value	7,720	4,590	13,841	26,150
State Aid	**21%**	**22%**	**22%**	**22%**

Source: C&AG S226 Report and NAMA

Q1 What forms of security existed in respect of assets and what was the respective enforceability of the various forms of security?

NAMA's EU Commission approved valuation methodology was based on the current market value of the property securing the loans and as a result, the legal due diligence was largely focused on whether the Participating Institution (PI) could confirm that there was a first ranking charge over the secured property.

The PI was given the opportunity to make material disclosures concerning any defects or flaws in the security held by it.

Save for such disclosures as were made by the PI in the legal due diligence report, the PI provided a warranty to NAMA that the loan and security documents were legal, valid and binding against the relevant debtor, associated debtor or surety (as appropriate), that the documents represented the entire agreement between the PI and the obligors in connection with the loan facility referred to in the documents and the documents were fully enforceable against the obligors (subject to stated exceptions such as statute of limitations, bankruptcy and the discretion of the courts).

Among the forms of security held in respect of loans were:

Fixed charges/mortgages
Share charges
Account charges
Floating charges
Guarantees and indemnities
Deposit of title deeds
Pledges of personal property
Judgment mortgages

Q2 Whether and if so, to what extent, the security or underlying collateral of acquired loans was enforceable?

The valuation of loans acquired from PIs was based on an extensive due diligence process carried out by NAMA on the security held for the loans and the assets securing them. Legal due diligence reports submitted by the PIs were reviewed by NAMA's external legal panel with a view to highlighting any issues which would give rise to legal difficulties for NAMA in managing the loans or in engaging in enforcement actions in respect of them. Arising from these reviews, questions were raised about the enforceability of security in certain cases and as a result, it was necessary to impose appropriate legal discounts. To account for these and to account also for financial obligations identified during the course of legal review, downward adjustments aggregating to €477m were made to the acquisition value paid by NAMA on these loans.

Defects in security have been found since acquisition. Not every defect is fatal to enforceability. Some defects are capable of remediation and where necessary that remediation was carried out. Where a defect was considered to render the security unenforceable (and was not capable of remedy), NAMA sought repayment from the PI under s93 of the NAMA Act. To date, NAMA has obtained a total of €334 million in overpayments in respect of unenforceable security and other issues that came to light after NAMA had taken over the management of the loans. A breakdown of s93 repayments by PIs is set out below:

s.93 adjustments	Amount reclaimed €'m
AIB	79.6
ANG	213.8
BOI	26.0
EBS	1.1
INB	13.5
Total	334.0

To date, security associated with about 30% the acquired loans, by value, has been enforced since acquisition.

Q3 From the documentation available to NAMA, what level of reliance was there by PIs on solicitors' undertakings?

Since 1 December 2010[1], it has not been permitted for a borrower's solicitor to give a relevant undertaking to a financial institution in the course of a commercial property transaction in connection with the provision by the financial institution of financial accommodation to fund the relevant commercial property transaction.

During the legal due diligence process NAMA did see examples of solicitors' undertakings to the PIs in connection with the funding of both commercial and residential property transactions.

Where an undertaking was outstanding at that time, it was generally a matter for the PI to either demonstrate full performance of the undertaking or pursue the solicitor for breach of that undertaking in the event the PI suffered loss as a result of the transfer of the loan to NAMA.

NAMA did not collect data on the total number of solicitors' undertakings to the PIs as part of the due diligence process.

[1] SI 366 of 2010

Q4 What is the total number and associated value of acquired loans that have been reported to the relevant authorities (e.g. An Garda Siochana or the Director of Corporate Enforcement) for investigation of possible criminal offenses?

No loans have been reported by NAMA for investigation of possible criminal offences.

[redacted]

[redacted]

Separately, for the Committee of Inquiry's information, as set out by the Minister for Finance in response to a number of Parliamentary Questions and in NAMA's 2012 Annual Report and Financial Statements, NAMA has referred two formal complaints to the Garda Bureau of Fraud Investigation arising from a possible failure by debtors, in contravention of Section 7 of the NAMA Act, to fully disclose their assets and liabilities in their statements of affairs to NAMA.

Q5. What is the number and percentage of developers with NAMA differentiated by scale (small, medium, large) that entered into receivership or bankruptcy after transfer of their loans to NAMA?

Following the acquisition of loans in 2010 and 2011, NAMA directly managed the engagement with the largest debtor connections [€61 billion in par debt – referred to as NAMA-managed Debtors] and delegated the day-to-day management, within specific delegated authority limits, of smaller debtor connections [€13bn in par debt – referred to as PI-managed debtors] to the PIs.

NAMA has, to date, taken either full or partial enforcement action against 108 or 52% of the 207 largest debtor connections managed directly by it and 244 or just over 43% of the smaller debtor connections managed on its behalf by PIs (Table 1). However, by value NAMA is in a consensual workout with 70% of its debtors.

Table 1: Receiverships/Administrations

	Total No. of Debtor Connections	Total Enforced (Full or Partial)	% Total Enforced (Full or Partial)	*Fully Enforced*	*Partially Enforced*
NAMA-managed Debtors	**207**	**108**	**52%**	44	64

PI-managed (Capita - IBRC)	**294**	**136**	**57%**	98	38
PI-managed (Capita - Bank of Ireland)	**57**	**23**	**40%**	19	4
PI-managed (AIB NAMA)	**212**	**85**	**40%**	61	24
Total	**770**	**352**	**46%**	222	130

Statistics relating to bankruptcy are set out in Table 2. 86 individual debtors across a number of debtor connections have to date been declared bankrupt. There has been at least one bankruptcy in 68 or 9% of the 770 debtor connections whose loans were originally acquired by NAMA. The 770 debtor connections comprised 5,000 borrowing entities, 12 loans and over 60,000 individual properties as security.

Table 2: Bankruptcies

	Total No. of Debtor Connections	*Total Individual Bankruptcies*	*Connection with at least 1 Bankruptcy*	% Total Connections	Location of Bankruptcy		
					Ireland	US	UK
NAMA-managed Debtors	**207**	31	24	**12%**	**2**	**1**	**29**
PI-managed (Capita - IBRC)	**294**	38	29	**10%**	**10**		**28**
PI-managed (Capita - Bank of Ireland)	**57**	1	1	**2%**			**1**
PI-managed (AIB NAMA)	**212**	15	13	**7%**	**5**		**10**
Total	**770**	85	68	**9%**	**17**	**1**	**68**

Q6 Provide a breakdown of 'loan uplifts' for the following geographical locations: Dublin, Ireland (excl. Dublin), Northern Ireland and Britain

The acquisition value of each loan is its long-term economic value. Various factors are taken into account in the calculation of the long-term economic value of loans, including the current market value of the security (typically property), the long-term economic value of the property and the current market value of the loans. In the case of a property asset, the Valuation Regulations (SI No 88 of 2010) required that NAMA apply an uplift adjustment factor ranging from 0% to 25% to its current market value to reflect its long-term economic value. The average uplift factor that was applied to property assets across the total portfolio was 8.3% and is set out in the table below by PI and by region.

Geographical Breakdown	Total	AIB	ANG	BOI	EBS	INB
Ireland						
Dublin	8.9%	8.2%	9.5%	8.8%	7.3%	9.2%
Rest of Ireland	7.2%	6.3%	7.7%	7.6%	6.6%	8.3%
Ireland (All)	8.2%	7.4%	8.9%	8.3%	7.0%	8.7%
Britain	8.9%	7.0%	9.4%	10.6%	8.0%	8.6%
Northern Ireland	8.1%	8.0%	7.6%	8.7%	0.0%	9.7%

Rest of Europe	5.9%	6.5%	6.3%	5.5%	5.0%	5.2%
US / Canada	10.1%	10.1%	9.6%	11.2%	0.0%	0.0%
Average Uplift	**8.3%**	**7.3%**	**8.8%**	**8.9%**	**7.0%**	**8.0%**

Q7 Please provide details of rolled up interest on developer loans that existed in PIs between the announcement to establish NAMA and the enactment of the NAMA Act. Provide a representative set of metrics, supported by explanatory text(s)

NAMA asked the prospective PIs in mid-2009 for aggregate information on the loans which were expected to transfer to NAMA as part of an initial data gathering exercise. The requested information included estimates of the amount of rolled-up interest attaching to transferring loans.

In response, the PIs provided estimates which aggregated to about €6 billion for interest rollup. However, they emphasised that they could not derive accurate figures from their IT and accounting systems.

NAMA considered that the €6 billion estimate may have understated the actual level of interest rollup and, in the Draft NAMA Business Plan which was published in October 2009, it assumed a higher estimate of €9 billion.

Based on the proposed volume of Land and Development loans which the various PIs expected to transfer to NAMA of €50m approximately, the following was the assumed breakdown of the €9 billion estimate by institution: AIB €3.1bn; Anglo €3.0bn; BOI €1.8bn; INBS €1.0bn and EBS €0.1bn.

Q. 8 From the documentation available to NAMA, did there appear to be differing approaches adopted by PIs as regards developers in terms of their working capital requirements between the announcement to establish NAMA and the enactment of the NAMA Act? Provide a representative set of metrics, supported by explanatory text(s)

In May 2009 the Central Bank and Financial Services Authority of Ireland issued a letter to all covered institutions of the Credit Institutions (Financial Support) Act 2008. This letter directed each covered institution to manage its loan portfolio in a prudent commercial manner, taking enforcement proceedings where necessary and appropriate, and to ensure that their overall security package or cross collateral arrangements were not compromised. As part of this direction, on acquisition of a loan by NAMA, no discount would be applied to those advances made by the PIs to debtors after 7 April 2009 where it was established to the satisfaction of NAMA that these advances were made on a commercial basis. The data available to NAMA relates to the period from 7th April 2009 until the date of acquisition of the loans. The table below sets out the total amount of advances claimed by each PI and the percentage, in each instance, which was determined by NAMA to be eligible and therefore subject to no discount on acquisition by NAMA. In summary, of the total €2.29 billion claimed, some €1.17 billion was deemed to be eligible by reference to the Central Bank criteria.

Qualifying Advances	Amount Claimed €'m	Amount deemed eligible €'m	Percentage deemed eligible
AIB	595.0	367.1	62%
ANG	1,158.7	422.3	36%
BOI	341.5	282.6	83%
EBS	2.3	0.4	19%
INB	197.3	97.0	49%
Total	2,294.9	1,169.5	

Q9 From the documentation available to NAMA, what is your assessment of the principal changes, if any, that has taken place in the operations of PIs since the establishment of NAMA

NAMA's remit in relation to the PIs is set out in the NAMA Act 2009. NAMA has no remit in relation to operations of the PIs following its acquisition of the eligible loans. Accordingly NAMA has no information in respect of the operations of the PIs in the period after the acquisition of the loans.

Q10 In respect of the each of the following please rate (good, average, poor or equivalent scale) and analyse that rating in an accompanying statement:

a) The filing and management processes supporting loan book operations broken down by individual PI
b) The IT systems supporting the management of loan book operations broken down by PI

NAMA has no direct experience which would enable it to rate the filing and management processes supporting loan book operations or the IT systems supporting the management of loan book operations as neither of these matters were part of NAMA's statutory remit. Ultimately, only the institutions concerned, their auditors and the Central Bank as the regulator, we suggest can provide definitive ratings and analysis of the adequacy or otherwise of their processes and systems.

Based on NAMA's interaction with the five PIs during the loan acquisition and due diligence phase from 2009 to 2011 the following comments may be made:

- Some of the institutions had numerous IT systems from which data had to be extracted for NAMA's purposes and the various systems appeared to have limited capacity to communicate with each other.

- Some institutions appeared to have only limited management information held centrally about loans advanced by branches or subsidiaries in Ireland or elsewhere.

- Not all of the requisite information was held in IT systems; some of the information required could only be obtained from hardcopy files or from corporate knowledge held by case managers or other bank staff, that is, there appeared to be no corresponding electronic records.

- In the early stages, particularly from late 2009 through to September 2010, the PIs were not able to provide accurate aggregate information on key metrics such as Loan To Value (LTV) to NAMA. As a result, it was very difficult to estimate what the eventual NAMA discounts would be.

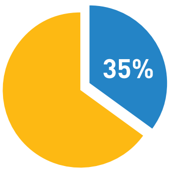
NAMA expressed concern at the time about the potential impact of PI data collation difficulties on the valuation and acquisition process. The Draft NAMA Business Plan which was published in October 2009 highlighted eight key risks faced by NAMA. The first of them referred to a protracted valuation process and referred to the risk that@

"***institutions would not be sufficiently prepared in terms of data collation and that this could lead to delay and disruption of the acquisition timetable".***

This risk assessment proved to be accurate. Overall, based on interaction with PI staff during this period, it was difficult to obtain key management information on the loan books, such as LTV, and this might suggest that their management information systems did not have the capacity to adequately monitor their exposures, both to individual debtor connections and in aggregate.

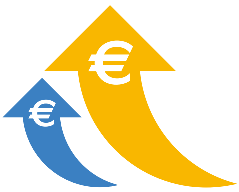
PROGRESS IN 2013

NAMA continues to be profitable, making an operating profit, before tax and impairment charges, of €1,198m in 2013, an increase of 45% over 2012. NAMA reports a profit after impairment, tax and dividends of €211m.



€10.5 BILLION IN SENIOR BOND REDEMPTIONS

- NAMA achieved its end-2013 target of redeeming €7.5 billion of Senior Bonds relating to its existing portfolio. €2.75 billion was redeemed in 2013. In March 2014, NAMA redeemed a further €3 billion of Senior Bonds bringing total amount redeemed to €10.5 billion – 35% of NAMA's Senior Bonds in issue.
- In addition, by end-March 2014, NAMA had redeemed €4.2 billion of the Senior Bonds issued in respect of the acquisition of the IBRC loan facility deed and floating charge.



€15.1 BILLION IN CASH FLOWS

- From inception to end-2013, NAMA generated €15.1 billion in debtor receipts (asset disposals and non-disposal receipts) from its original loan portfolio, including €4.5 billion during 2013.
- In addition, NAMA received €1.4 billion in repayments from the IBRC Special Liquidators ('IBRC SL') in 2013.

€10.9 BILLION IN ASSET AND LOAN SALES COMPLETED

- From inception to end-2013, NAMA generated sales of €10.9 billion worth of loans, property and other assets held as security, including the sale of over 10,000 individual properties.
- During 2013, NAMA completed the sale of its first major Irish loan portfolio – Project Aspen, an €800m par debt portfolio secured entirely on Irish commercial property.
- The Agency had completed loan sales with a par debt value in excess of €3.9 billion by end-2013.

SUMMARY 2013 FINANCIAL HIGHLIGHTS

Cash Generation	2013 €m	2012 €m	From inception to end-2013 €m
Total cash generated	**4,480**	**4,505**	**15,084**
Disposal receipts[3]	3,672	3,041	10,870
Non disposal income	792	1,210	3,607
Senior Bond Repayments			
Senior bonds redeemed - NAMA	2,750	3,500	7,500
Profitability			
Operating profit before impairment	1,198	826	
Impairment charge	(914)	(518)	
Profit for the year	211	228	
Loan Portfolio			
Total loans and receivables (net of impairment)	**31,314**	**22,776**	
NAMA Loans and receivables (net of impairment)	19,598	22,776	
IBRC loans and receivables (gross)[4]	11,716	-	

3 Prior period disposal receipts and non-disposal income receipts have been restated to reflect enhanced information available to NAMA on the classification of receipts as disposal or non-disposal (2012: €244m, inception to date €368m). This is a classification change only within total cash receipts.

4 NAMA issued bonds to the Central Bank to acquire the IBRC loan facility deed and floating charge when it was put into liquidation.