



National Asset Management Agency

NAMA Annual Statement 2010

in accordance with Section 53 of NAMA Act

NAMA's objectives are defined by reference to Section 10, specifically towards the achievement of the purposes specified in Section 2 of the NAMA Act 2009. Section 10 sets out three core objectives for NAMA: -

- (a) the acquisition from participating institutions of such eligible bank assets as is appropriate,
- (b) dealing expeditiously with the assets acquired by it,
- (c) protecting or otherwise enhancing the value of those assets, in the interests of the State.

The Act confers various powers and functions on NAMA in order to achieve those core objectives. The Board of NAMA, which was appointed on 22 December 2009, has various statutory functions including ensuring that NAMA functions are performed effectively and efficiently, setting strategic objectives and targets for NAMA, ensuring that appropriate systems and procedures are in place to achieve its targets and objectives and taking all reasonable steps available to it to achieve these.

As a start-up organisation, NAMA was expected to become operational very quickly. Immediately after NAMA's formal establishment by the Minister in late December 2009, the Board of NAMA, and the NTMA under whose aegis it operates, began the task, of setting up the NAMA organisation with the recruitment of professionally qualified and other suitably qualified staff. It set about putting all the necessary organisational and operational infrastructure in place in the context of two parallel workstreams.

The first NAMA workstream is designed to ensure that NAMA can acquire the eligible bank assets from the participating institutions in accordance with EU approval. The Board has the objective of acquiring these eligible assets in 2010 but no later than end February 2011. This in itself is an enormous undertaking as it involves 1,500 debtors, €81 billion in assets with approximately 15,000 individual loans. NAMA is dependent on receiving the requisite due diligence in correct form on a timely basis from the participating institutions in order to achieve this objective. Tranche 1 eligible assets of just over 1,800 loans have been acquired to date with a nominal value of €15.3 billion for a consideration of €7.7 billion. Tranche 2 eligible assets, with a nominal value of about €13 billion, will be acquired in July 2010.

The second NAMA parallel workstream in 2010 is to ensure that an operating and governance infrastructure is put in place by NAMA to manage the acquired assets over its expected life of 7 to 10 years. The legislation provided that NAMA could form group entities (subsidiaries) to manage its business. In 2009, the NTMA and the Department of Finance made a submission to Eurostat for NAMA to setup a subsidiary which would be majority-owned by private investors, in accordance with Eurostat rules, with the objective of NAMA being declared off Balance Sheet for European general government debt (GGD) and general government balance (GGB) reporting purposes. This was entirely in line with the treatment that was being achieved by other European countries for their own financial institution asset relief schemes. Eurostat made a preliminary ruling in October 2009 that NAMA satisfied the relevant criteria to achieve this objective. A final determination is expected shortly from Eurostat. In accordance with this ruling by Eurostat, the NAMA Board has set up NAMA Group entities to acquire and manage the acquired eligible assets with National Asset Management Agency Investment Ltd being majority-owned by private investors who have invested €51m for a 51% shareholding. The return to the private investors is an annual dividend linked to the Irish Government Bond yield at the time of dividend declaration, with the potential of an additional 10% of the contributed capital sum after 10 years – this is a capped return. However, despite NAMA contributing €49m for 49% of the shareholding which makes it a minority shareholder, NAMA has veto powers over all decisions of this Group entity. National Asset Management Agency Investment Ltd has a number of 100% owned subsidiaries namely:

- National Asset Management Ltd
- National Asset Management Group Services Ltd
- National Asset Loan Management Ltd
- National Asset Property Management Ltd
- National Asset Management Services Ltd

National Asset Management Agency Investment Ltd (Investment Holding Company) was established to facilitate the participation of private investors in NAMA. It is the sole member of Master SPV.

National Asset Management Limited (Master SPV) is responsible for issuing the Government guaranteed debt instruments which are used as consideration for the purpose of acquiring eligible bank assets. It also issues the subordinated debt instruments which are used to provide up to 5% of the acquisition value of acquired bank assets.

Master SPV has a number of operational subsidiaries, chief of which is National Asset Loan Management Limited which is responsible for the acquisition, holding and management of the eligible bank assets acquired from the participating institutions.

National Asset Management Group Services Ltd and National Asset Management Services Ltd are subsidiaries that will be used to facilitate group activities for the administration of the group and possible future group financing structures.

National Asset Property Management Ltd is likely to be used for the purposes of any property activities that NAMA may engage in throughout its life. While NAMA itself is tax exempt, the special purpose vehicles have tax equivalence to any other commercial entity.

The NTMA provides NAMA with business and support services and will assign staff to NAMA as deemed necessary. NAMA reimburses the NTMA for the costs of staff and services provided.

The first Section 53 statement is in respect of 2010 and has to be submitted to the Minister for Finance by 1 July 2010. For the first 6 months of 2010, the majority of the work of NAMA was geared towards getting the necessary infrastructure and governance in place. Outlined below are the activities completed to date for the first half of 2010 and a subsequent list of the activities that NAMA intends to undertake over the rest of 2010. NAMA has also submitted a Business Plan to the Minister for Finance which provides additional information.

1. Activities completed to date in 2010

Governance	<p>NAMA Board and CEO appointed by the Minister for Finance on 22nd December 2009</p> <p>Four Board Committees and two advisory committees put in place and terms of reference approved.</p> <p>NAMA Group entity SPV structure put in place and private investment of €51m secured</p> <p>Codes of Practices under section 35 of NAMA Act submitted to the Minister by 21 March 2010 deadline.</p>
Recruitment	<p>The six-member Senior Executive team reporting to CEO has been recruited and appointed.</p> <p>45 staff recruited by NTMA for the six NAMA divisions by end-June 2010. 33 additional people have been offered contracts and are expected to join at various stages before the end of September 2010. The CEO and Board are currently budgeting for a complement of more than 90 staff by NTMA by the end of 2010.</p>
Loan acquisition and valuation infrastructure put in place	<p>Audit Co-ordinator, loan valuers, legal due diligence and property valuation review panels appointed to conduct valuations of the €81bn in assets to be acquired by NAMA in accordance with EU approval.</p>
EU Commission Approval	<p>Commission approval for NAMA scheme received on 26th February 2010. Approval of eligible asset transfers will take place as NAMA acquires from participating institutions.</p>
Valuation Regulations	<p>Statutory valuation regulations published on 5th March 2010.</p>
Loan transfers	<p>Eligible Asset transfers commenced at end of Q1 of 2010 and tranche 1 was completed - €15.3bn (19% of portfolio) - on 10th May 2010. Tranche 2 due diligence and valuation of eligible assets of €13bn is underway and is expected to transfer by July 2010.</p>

Procurement	<p>Details of the services which have been procured since June 2009 are outlined in Appendix 1. The following services are currently being sought through the procurement process:</p> <ul style="list-style-type: none"> • Legal Enforcements and Security Panel • Enforcements and Insolvency Panel • Internal Auditor • Document management system <p>Tenders will be conducted in the second half of 2010 for taxation advisory services and Portfolio Management IT/MIS systems.</p>
Loan servicing	<p>Capita Asset Services appointed as Master Servicer. The role of the Master Servicer is to provide a consolidated financial reporting platform based on data provided by the five participating institutions.</p> <p>A direction has been issued to the participating institutions under Section 131 of the Act which requires them to service acquired loans on behalf of NAMA.</p>
Debtors	<p>NAMA will pursue debtors for the maximum extent possible. NAMA has put in place a number of mechanisms to deal with debtors pre- and post-acquisition.</p> <p>Section 71 is the NAMA pre-acquisition process put in place for loans to be acquired in future tranches – this requires participating institutions to obtain NAMA’s prior approval for any action they propose to take in relation to a loan asset which NAMA is scheduled to acquire in future tranches.</p> <p>Post-acquisition NAMA immediately commences engagement with debtors. Meetings have been held with all ten Tranche 1 debtors. Business plans have been received and are currently being reviewed by NAMA. The results of these will be reviewed and considered by the Board of NAMA over the next six months in 2010. Parallel with this process, NAMA is also assessing the working capital requirements relating to certain assets and has a credit policy framework in place to make determinations on these matters.</p>

Funding/Treasury	<p>A comprehensive programme has been conducted to hedge the foreign exchange and interest rate exposure associated with loans acquired by NAMA and the payment of consideration in Euro.</p> <p>Three rating agencies (S&P, Moody's and Fitch) have rated the NAMA Senior Notes (guaranteed) in line with Ireland's sovereign rating.</p>
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The Board of NAMA was appointed on 22 December 2009 and held its first meeting on 23 December 2009. The schedule below sets out details of the number of meetings of the NAMA Board and Board committees up to end-June 2010:

	Number of meetings
Board	10
Credit Committee	24
Audit Committee	8
Finance and Operating Committee	9
Risk Committee	2
Planning Advisory Committee	3
Northern Ireland Advisory Committee	1

2. Activity schedule from July to December 2010

Loan transfer	As much as possible of the residual eligible asset portfolio - €66bn – to be acquired from participating institutions. This is subject to the readiness of the individual participating institutions and the timely submission by them of the requisite due diligence in the correct format required by NAMA.
Recruitment	Completion of NAMA recruitment – remaining staff to be recruited by end-year.
Compliance and internal control issues	<p>Strong internal control structure developed in NAMA and at all NAMA service providers.</p> <p>Appointment of Internal Auditor to NAMA to cover all internal activities of NAMA and its main service providers – participating institutions as primary servicers and also Capita Asset Management as the Master Servicer. The internal auditor will be appointed in July 2010 after a public procurement process and will commence work on the primary servicers immediately upon appointment.</p>
Interaction with debtors and with participating institutions	<p>Efficient debtor monitoring and management arrangements put in place by NAMA.</p> <p>Direct management of the top 100 debtor exposures - business plans evaluated</p> <p>Arrangements put in place to enable close monitoring of 1,400 debtors managed by institutions as primary servicers.</p> <p>Interim primary servicing arrangements are in place and will be finalised by Q4 2010. Agree Service Level Agreements with participating institutions.</p> <p>Work closely with Master Servicer in establishing operational arrangements with participating institutions to ensure efficient and cost-effective service delivery and the provision to NAMA of management information.</p>

Funding/Treasury	<p>NAMA is in the process of putting funding programmes in place and has commenced work on a combined €5 billion (the limit set under the Act) short term Commercial Paper (CP) and Medium Term Note (MTN) programme. These will be executed by the National Treasury Management Agency (NTMA) and credit ratings will be sought. Issuance under CP is typically less than one year maturity while the MTN programme is usually 2-10 years. Therefore the CP programme will be used to fund short term cash flow mismatches and liquidity buffers, while the medium term notes will be used for project finance, joint ventures or longer term restructuring.</p>
Systems	<p>IT/MIS systems are an integral part of the NAMA infrastructure and the scoping and specification of requirements is underway. In particular, NAMA will acquire a Portfolio Management System which will provide the following:</p> <ul style="list-style-type: none"> • Provide a single, consolidated view of all debtor information • Facilitate the ongoing management of the NAMA assets: <ul style="list-style-type: none"> ○ Manage the transition of assets over time (from loans to property) ○ Facilitate the process of lending “new money” for further development ○ Aid in making informed decisions on disposal of assets • Provision of Management Information and Key Performance Indicators (KPI's) • Aid in decision making process through scenario modelling. <p>It will also procure a Document Management System will provide a single electronic source for all documents and reduce the movement of paper through implementation of a workflow system.</p>

APPENDIX 1 – NAMA Procurement

Tender	Number of Applicants	Number of firms appointed
Financial Advisory Services	72	1
Tax Advisory Services	13	1
Legal Advisory Services	16	1
Loan Service Provider (Master Servicer)	18	1
Audit Coordinator	9	1
Derivative Valuation Services	24	1
Loan & Associated Valuation Services	24	5
Real Estate Valuation Services:	329	32
Legal Due Diligence Panel	167	67
Business Plan Review and Evaluation Services	163	39
Internal Audit Services	5	1 ¹
Enforcement Services	130	24 ²
Total	970	

Full details are available on www.nama.ie

¹ Likely to be appointed in July 2010

² Likely to be appointed in July 2010