Association of European Journalists

Address by

Mr Frank Daly, Chairman,

National Asset Management Agency

21st February 2013

Introduction

Ladies and Gentlemen, I am grateful for the opportunity to speak here today on NAMA.

The timing of the engagement is opportune. Two weeks ago, the Minister for Finance announced that NAMA's remit was to be extended following the liquidation of IBRC and that it will acquire the unsold loans in the IBRC portfolio after the Special Liquidator completes the current valuation and sales process. I will revert to this later in my talk.

The Minister's decision comes at a time when NAMA is up and running and well advanced in terms of achieving its main objectives. We were established just over three years ago and have made strong progress in the meantime, including the generation of nearly €11 billion in cash flows since inception. NAMA is profitable and, critically, is reducing its indebtedness. Our strong cash performance has enabled us, in addition to funding our operating costs and lending, to redeem €4.75 billion in senior bonds to date and we are on target to have repaid €7.5 billion or 25% of our debt by the end of this year.

Scale of NAMA acquisition

Given your own international background, it may be worth briefly looking at NAMA in the wider international context, not least to give a sense of the scale of the challenge facing us relative to similar entities which were established elsewhere.

Over recent decades, a number of countries have set up publicly-owned asset management companies to manage the disposal of assets transferred to State balance sheets in response to various domestic banking crises. In terms of the size of the task entrusted to it, NAMA is exceptionally large by comparison with similar entities. To put it in context, NAMA acquired bank assets with a nominal value of €74.2 billion, which corresponded to 47 per cent of Irish GDP in 2010. By comparison, the nominal value of bank asset portfolios transferred to State asset management companies in Finland, Sweden and the USA during the 1990s was generally of the order of 8% of GDP. It is expected that the new Spanish asset management entity, Sareb, will acquire bank assets which will also equate, in nominal value, to about 10% of Spain's GDP. We are very conscious, therefore, give the scale of our activity, of how crucial it is to the current and future wellbeing of the Irish economy that we do our job well.

The scale of NAMA's asset acquisition was caused ultimately by the exceptional growth in bank lending, particularly property lending, between 2004 and 2008. Over that period, credit for households and non-financial institutions expanded by an average of 30% each year in Ireland compared to a Eurozone annual average of 8% over the same period. Over 80% of this new lending in Ireland was property-related. The growth in Irish property lending was characterised by high-risk lending practices, including lending to individuals with little or no supporting corporate infrastructure, poor quality credit appraisal, a total absence of rigour in terms of analysis by banks of the sustainability of the property price bubble and, of course, serious regulatory failure. In layman's terms, the balance sheets of AIB and BOI doubled to €200 billion each and that of Anglo quadrupled from €25 billion to €100 billion within the space of five years.

Against this backdrop, the Government made the decision to transfer a large proportion of property loans from five institutions to the newly-established NAMA and the transfer was largely conducted in 2010. There were a number of strands to the Government's rationale for so doing. It was important to ensure that the property lending problem was, in so far as possible, removed from the banking system so that banks would be in a position to focus on more conventional lending activity to businesses and personal borrowers. It is fair to say, as an aside, that problems in bank balance sheets were not confined to property loans and it has taken them quite some time to get to grips with other impaired segments of their loan books. In transferring the largely impaired property loans to the State, the Government was also keen to ensure that taxpayers' interests would be well protected and, for this reason, it was decided that NAMA should have a strong commercial mandate to maximise recovery on behalf of the taxpayer.

NAMA's commercial focus is critical if it is to be successful. In public discussion, there is a wide range of views as to what NAMA's role should be but our legislation is very clear that our overriding objective is to "obtain the best achievable financial return for the State". Other objectives, no matter how worthy, are subservient to this.

Minimise costs

The consolidation of a significant volume of property loans in NAMA has also meant a consolidation of professional skills and resources and this has generated cost efficiencies relative to what would have been achieved had the banks been directed to establish their own individual workout subsidiaries. In 2012, NAMA's costs as a percentage of collections (i.e. cash generated) were of the order of 3%. Internationally, the costs/collections ratio for similar entities has typically averaged 6% and in some cases has been as high as 12%. A major advantage for NAMA is its purchasing power. We have made a very determined effort to push down business costs and this is now being recognised more generally. For example, a recent special report on the Irish legal market in a leading UK trade publication noted that NAMA is taking the lead in pushing down legal fees and that the market is following that lead. One contributor stated that "not only are NAMA fees low, the Agency is prone to pushing them down further where it can". There is a balance to be struck between costs and quality of service but we believe we are on the right side of that.

Maximise revenue

Our commercial, taxpayer-driven, focus has not necessarily endeared us to many of our debtors. When we initially acquired the loans, we were struck by the fact that the banks appeared to have very little control over rental or other income being received by debtors and it appeared that such income was often being diverted to fund extravagances rather than to service loan interest and capital repayments. As a matter of priority, we had to get visibility and control over these regular inflows on the assets and we are now in a position where we are generating recurring income of over €100 million per month (mainly rental income on debtor assets). This is in addition to cash generated from asset sales and loan repayments by debtors and receivers which are currently running at about €200m per month. Each month, therefore, we expect to collect about €300m on average.

Another priority was to ensure that all of a debtor's resources were applied towards repayment of their NAMA debt. For us, this meant looking at a debtor's unencumbered assets and also looking closely at cases where assets had recently been transferred by debtors to connected parties. Following negotiations with debtors on a case-by-case basis, we have made good progress on this front. As of now, we estimate, taking the combined value of new charges obtained by NAMA over unencumbered assets and of asset transfers which have been reversed, that we will ultimately realise about €750 million which will be used to pay down debt.

A commercial focus does not exclude the achievement of wider public policy objectives. In fact, we are committed to supporting initiatives for the common good, such as social housing provision, the provision of property for sports or community groups and the agreement of rent abatements with businesses which are under pressure.

Sales and investment

One of the strengths of NAMA is our capacity to take the longer view where that makes commercial sense. We are not in the business of warehousing assets for the long haul but we are not required to engage in fire sales either. Our job essentially is to oversee the disposal of assets in an orderly and phased manner, either through property disposals by our debtors and receivers or through our own loan sales or refinancings. Since inception, we have approved €11 billion in sales and completed some €7 billion to date, with a further €2 billion close to completion. Eighty per cent of these sales have been in Britain, reflecting favourable conditions in that market over recent years and the ongoing demand for good assets in the London region.

We are also overseeing the sale of properties in Ireland where there are currently €1.5 billion worth of properties for sale through our debtors and receivers. In addition, we have loan portfolio sales of over €1.1 billion in train. Our main strategy in relation to Irish assets is to actively manage and invest in them so as to enhance future cash flow and ensure that we optimise the price achieved on a future disposal. It makes no commercial sense to engage in a fire sale of many of the Irish assets given current high yields.

We have stated that we will invest up to €2 billion in Ireland over the next four years to fund the completion of projects currently in progress and to develop new projects to meet prospective supply shortages in certain sectors. Let me talk about one good example of this.

The Dublin Docklands has been a marked success from an investment perspective, already accommodating over 40,000 employees in the technology, banking, financial, commercial law and other service sectors. The area is expected to require significant new development over the medium-term, particularly of commercial office space, to accommodate the continued expansion of the financial services sector and the creation of new business and technology hubs in the wake of the move by companies such as Google and Facebook to the area. It is worth noting that we facilitated the purchase of a substantial building in the Docklands area by Google and the recent purchase of an unfinished building which is to become the Central Bank's new headquarters.

We hold security over a considerable number of properties and lands on both sides of the River Liffey and are currently assessing the commercial feasibility of a wide range of projects, not least those in the undeveloped part of North Wall Quay on the north Docklands. However, for a number of potential projects, their feasibility is inextricably linked to the resolution of planning and infrastructural issues, issues which are largely beyond our control and which could affect the timing of our investment.

In this regard, the designation of part of the Docklands as a Strategic Development Zone (SDZ) by the Minister for the Environment is very welcome. The SDZ designation will help to provide clarity on the planning objectives of the local authority and represents a significant step forward in terms of unlocking potential investment through NAMA and other sources and delivering on the development potential of the area in response to the growth needs of the economy. While the SDZ is important, it is only one element and the provision of key infrastructural facilities such as water and effluent is essential so that this area can be developed to its full potential.

The planning system will loom large in our deliberations for the foreseeable future. Delivery of a number of projects within our portfolio, and by extension NAMA funding, is contingent on securing viable planning permissions. In the case of residential housing, some of our projects will become viable only if the densities approved as part of the original planning permissions are lowered. We support the policy that prioritises key locations for development but we need to see a related commitment to funding of infrastructure to ensure that those locations are capable of being developed. We are actively working with local authorities to look at how best to deliver their planning objectives in the context of NAMA development funding. For example, we are supporting and funding key infrastructure development works in North Dublin in conjunction with Fingal County Council to facilitate the building of a new link road that will unlock a number of strategic land banks that are security for NAMA loans. This is NAMA taking the broad view, that where we see potential for a viable project but key infrastructure is lacking, there may perhaps be a role for us in contributing to the resolution of that infrastructure deficiency – where of course, it makes commercial sense.

Property market initiatives

Part of our objective also is to contribute in a tangible way to sustainable recovery in the Irish property market. We have seen, over the past year, that there has been a substantial increase in the volume of overseas funds investing in Irish commercial property but the market continues to be restricted by the availability of credit. In terms of addressing this restriction, our contribution has been to make vendor finance available. We plan over the next four years to lend at least €2 billion in vendor finance to purchasers of commercial property securing our loans. The initiative has the potential, based on funding levels of up to 75%, to generate new investor equity of between €800 and €900 million. Much of this new equity is expected in 2013 and 2014, a critical period in terms of supporting market recovery. Vendor finance may be provided to new investors for periods of 7 years but typically for three to five years, with the expectation that it will be refinanced by the banking sector when more normal market conditions return. Our experience so far has been very positive – even where the offering is not taken up by the ultimate purchaser, the availability of financing, on competitive terms, has significantly widened the potential investor base.

We also support the Minister for Finance's decision to introduce legislation for Real Estate Investment Trusts (REITs). A REIT is an internationally recognised real estate investment structure which typically helps to increase liquidity, reduce the cost of capital and attract international inward investment in property markets. In the context of Ireland, the establishment of a REIT structure has the potential in the short-term to attract increased foreign investment into the Irish market but the long-term objective should be to offer domestic investors the opportunity to invest in real estate through an efficient structure that overcomes the traditional weaknesses of the asset class.

Although our exposure to residential property in Ireland is limited, we have sought to instigate some market activity through the introduction of a deferred payment initiative which essentially offers downside price protection to buyers. Interest in the initiative has been relatively strong to date and we expect shortly to announce a further increase in the number of properties included in the initiative.

NAMA promoting and funding ESRI study

A difficulty associated with the Irish residential market is the lack of independent professional research and data which would facilitate policy-making and commercial activity. In particular, there is an absence of reliable and unbiased information about the key factors that will influence the availability and cost of housing over medium- and long-term horizons. For this reason, NAMA has agreed to take a leading role in promoting and funding a two year research programme on housing to be undertaken by the Economic and Social Research Institute (ESRI). The objective is to produce practical market insights that will facilitate informed decision-making by all market participants, including potential purchasers, investors and the construction industry. It is surprising that this will be the first time that such an initiative is to be undertaken and we are delighted to be its key promoter.

Coordinating role in residential property market

NAMA is just one participant in the Irish property sector. There are many others. But it is not clear who is playing the lead. As a general comment, I would say that that there is now a need for some entity at national level to take a central, co-ordinating, policy development role in relation to the residential property market, particularly in terms of identifying the areas where future housing shortages are likely to arise and how such shortages might be addressed. One of the legacies of the boom is the regional mismatch between housing supply and demand: some parts of Ireland will be attempting to absorb excess supply for a long time to come whereas others are already showing signs of supply shortages, particularly parts of Dublin and some other cities. The international experience is worth noting here. In Denmark, for instance, which has a similar spatial and demographic structure to that of Ireland, a framework planning approach, co-ordinated at national level, appears to facilitate a greater match between supply and demand.

IBRC portfolio

I would like to make a few comments about the proposed transfer of the unsold residual element of the IBRC portfolio to NAMA. You will be aware of the recent Government decision to appoint Special Liquidators to IBRC and to replace the previous promissory note arrangement with one comprising long-term, non-amortising government bonds. From our particular perspective in NAMA, the government's plan has required us to purchase the IBRC debt to the Central Bank which is secured by a floating charge over the assets of IBRC and by the Ministerial Guarantee. In return, we expect to issue NAMA bonds to the value of close to €13 billion to the Central Bank. This new portfolio will significantly increase NAMA's workload: potentially, depending on the scale of loan transfer, the size of our balance sheet could increase by close to 50%.

The intention is that we will acquire the unsold element of the IBRC loan portfolio after a loans valuation and sales process undertaken by the Special Liquidators. Under the proposed schedule, the Special Liquidators have 150 days from the date of their appointment to value the loan portfolio and another 45 days in which to sell loans for which bids by third parties (including debtors) match or exceed the valuation prices which have been determined by the Liquidators. Where they fail to sell assets to third parties, the Special Liquidators will sell those assets to NAMA at their valuation price. Loans to current or former employees or directors of IBRC will not be transferred to NAMA.

The loan valuation and sales process is scheduled to complete in late August and NAMA will then acquire the residual loans. There will be a settlement of any difference between, on the one hand, the value of senior bonds that will be issued by NAMA to the Central Bank and, on the other, the value assigned to the residual loans plus the proceeds of assets sold by the Special Liquidators. To the extent that there is a surplus over the value of the senior bonds, the surplus will be applied to remaining unsecured creditors. If, on the other hand, the combined value of the sales proceeds and the residual loan book is less than the amount of NAMA senior bonds issued, the shortfall to NAMA will be met by the Minister for Finance.

NAMA will not have much visibility on the portfolio to be acquired until the valuation and sales process has been completed. Based on published financial information, a substantial proportion of the IBRC book comprises commercial property loans and, to the extent that we acquire it, I expect it will be complementary to our existing portfolio and to the expertise and skillsets of our staff.

Broadly speaking, our approach to date has been to encourage our debtors to avail of improved market conditions in Britain and other liquid markets overseas by disposing of commercial and residential assets located in those markets. In the Irish market, we have sought to instigate asset disposals by debtors to the extent that there is current demand for them and the market can absorb such new supply. While a similar approach might be warranted in the case of the commercial element of the IBRC portfolio, I am not sure that there is much point in speculating on how we might manage it until we have had an opportunity to assess it in some detail after its acquisition in late August.

I should mention that we have already put a credit facility of €1 billion in place to the Special Liquidators to meet their ongoing funding requirements.

There are also a number of other major issues to be resolved, including notably the staffing arrangements that will apply for the acquired portfolio. On this issue, the NAMA Board will be reviewing the available options as a matter of some urgency over the coming weeks.

Conclusion

While I cannot presume to speak on behalf of the Government, its decision to delegate the management of the residual IBRC portfolio to NAMA must reflect a level of satisfaction with our progress in managing the original portfolio of loans transferred to us and a confidence in our capacity to fulfil this expanded mandate. By the second half of last year, we had reached the 'business as usual' phase in the management of that original portfolio – all loans valued and transferred, business plans completed by our original 800 debtor connections, a programme of asset disposals in progress and well on our way towards achieving the initial major milestone that we had set for ourselves, the repayment of €7.5 billion in NAMA's Senior Bonds by end-2013.

In that context, the prospective acquisition of the residual IBRC portfolio represents a major challenge for NAMA and, as with our original portfolio, we will be guided in that challenge by our primary commercial objective which is to obtain the best achievable return for the Irish taxpayer. I note from some media commentary the speculation that some IBRC debtors will make every effort to ensure that their loans are re-financed before the residual portfolio is transferred to NAMA. I take that as a back-handed tribute to the diligence with which we have pursued the taxpayers' interests in our work to date on the existing loan portfolio: we have sought to be hard-nosed but fair in our dealings with debtors and that will not change.

If I had been addressing you this time last year, I think the tone of my address would have been cautiously hopeful. But today there are many more reasons to be positive about the outlook for Ireland, although we seem to be more reticent about recognising this than do others, particularly the foreign investors who have invested heavily in our sovereign bonds in the past year and who are now looking at other ways in which they might participate in Ireland's recovery, including investing in Irish property assets. According to research carried out by Sherry Fitzgerald, there were €6 billion of property transactions carried out in Ireland in 2012.

The deal struck by the Government on the IBRC promissory notes will also enhance positive sentiment towards Ireland.

There is a long way to go but we are resilient and that resilience helped us to withstand the trauma of the crisis which enveloped us five years ago. Now is the time to unlock other qualities, such as creativity and dynamism, which will accelerate national recovery. Right now NAMA is contributing strongly to that recovery, and, for as long as it makes sense, and for as long as we are asked to, we will continue to leverage our experience and results *"to obtain the best achievable financial return for the State".*

Thank you.

NAMA – Factsheet

- NAMA was established as part of Ireland's response to the systemic banking and property crisis that combined to destabilise the country's finances and economy from the latter part of 2008.

- NAMA was established on 21 December 2009 following enactment of the National Asset Management Agency Act on 23 November 2009.

- Over the course of 2010 and 2011, NAMA acquired 12,000 property loans from five participating institutions.

- The value of loans transferred was €74.2 billion - consideration of €31.8 billion was paid (a 57% discount) in the form of Senior Bonds and NAMA subordinated debt.

- NAMA acquired loans from nearly 800 debtor connections, secured by approximately 56,000 saleable property units.

- The 189 largest debtor connections represent €61bn par debt and are managed directly by NAMA.

- Day-to-day relationship management of the other 583 debtor connections has been delegated by NAMA to the participating institutions. These connections represent €13bn par debt.

- In about two-thirds of cases, NAMA is working constructively with debtors.

- In the case of about a third of its debtors, a consensual approach has not been possible and, in those cases, NAMA has had no alternative but to take enforcement action to protect the value of its security and to maximise its realisation.

Property Portfolio

- In terms of geographical location, the breakdown of property securing acquired loans is as follows:

    - Ireland | 54%
    - Britain | 34%
    - Northern Ireland | 4%
    - Other countries | 8%

- In terms of sectoral breakdown, broadly speaking, 71% of property assets securing NAMA loans are classified as investment assets and 29% are land and development assets.

NAMA Objectives

1. Over the projected ten-year life of NAMA redeem, at minimum, the Senior Bonds issued as consideration for loans in addition to recovery of carrying costs and working and development capital expenditure advanced to debtors (this is in line with Section 10 (2) of the Act).

2. Consistent with the first objective, generate transactions which will aim to contribute to a renewal of sustainable activity in the property market in Ireland.

3. Meet its commercial objective (as at 1 above) over the shortest possible time span, having regard to market conditions and to optimising the realised value of its assets. Meet all of its future commitments out of its own resources.

4. Consistent with the first objective, aim to contribute to the social and economic development of the State.

5. Manage assets intensively and invest in them so as to optimise their income-producing potential and disposal value.

Financial Progress

- NAMA has made over **19,000 individual credit decisions since inception**, ranging from straightforward approvals for individual house sales through to highly complex and substantial applications.

- It has generated **€11 billion in cash flows** since inception: €7 billion generated in asset disposals (3,900 individual sales transactions) and €4 billion generated in non-disposal income.

- NAMA is firmly **on target to achieve end-2013 and 2020 debt reduction milestones**.