



**National Asset
Management Agency**

Margaret Falsey
Committee of Public Accounts Secretariat
Leinster House
Dublin 2

19 October, 2016

Dear Ms Falsey,

Thank you for your letter of 5 October 2016 to which you appended a list of information required following NAMA's recent appearance before the Committee.

The information sought is attached overleaf. I would ask that you bring the correspondence to the attention of the Committee's members on our behalf.

I trust that this information will be of assistance to the Committee.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Martin Whelan', is written over the typed name and title.

Martin Whelan
Head of Public Affairs

INFORMATION SOUGHT BY THE PUBLIC ACCOUNTS COMMITTEE
(as sought in PAC Letter of 5 October 2016)

- a) A note on the following (values should be in sterling)
- b) Par value (amount contractually owed) of the loans at time of purchase and at time of sale
- c) Amount paid at time of acquisition (acquisition value)
- d) Discount applied at time of acquisition
- e) Closing balance (based on acquisition values) before impairment at end of each year to end 2013
- f) Amount of impairment at the end of each year to end 2013
- g) Cash receipts from disposals from time of acquisition of Northern Ireland loan portfolio to end 2013
- h) Rental Income and any other cash receipts from time of acquisition of Northern Ireland loan portfolio to end 2013
- i) Details of any fair value calculation prior to the sale of Project Eagle
- j) Cash Advanced to debtors each year to end 2013.

RESPONSE:

1 a), b) and c): All values in sterling

- Par value of loans at time of purchase and time of sale
- Amount paid at acquisition
- Discount applied at acquisition.

Value	NAMA Debt (£bn)	Par Debt (£bn)
At acquisition	2.3	4.7
At date of sale June 2014	1.46	4.45

The discount applied at acquisition was 51%.

1 d) and e):

- Closing balance before impairment at end of each year to end-2013
- Amount of impairment at the end of each year to end-2013.

£bn	2010	2011	2012	2013
Closing NAMA Debt	1.91	2.10	2.0	1.96
Impairment	0.15	0.17	0.28	0.48
Closing Carrying value - GBP	1.76	1.93	1.72	1.48

1 f), g) and i):

- Cash receipts from disposals from time of acquisition of Northern Ireland loan portfolio to end-2013
- Rental Income and any other cash receipts from time of acquisition of Northern Ireland loan portfolio to end-2013
- Cash advanced to debtors to each year to end-2013.

**Cash Receipts and Advances -
Eagle Debtor Connections
Inception-2013**

	EUR	GBP	Total GBP Equivalent
	€m	£m	£m
Disposal receipts	33	297	325
Non Disposal receipts	56	271	319
Total Receipts	89	569	644
Cash Advanced by NAMA	(4)	(44)	(47)
Net Cash Movement	84	525	597

The £644 million disposal and non-disposal cash receipts figure above is the cash movement on all debtors in the Project Eagle transaction from inception to end-2013. **This analysis includes cash movements generated by both Northern Ireland based assets and non-Northern Ireland based assets during the period.**

Of the total cash generated by debtors included in the Northern Ireland Loan sale, the following table relates to disposals of assets¹ located in Northern Ireland only.

¹ Including loan redemptions.

Year	Total £m
2010	2.1
2011	30.1
2012	42.4
2013	37.9
Total GBP	112.5

1 h):

- **Details of any fair value calculation prior to the sale of Project Eagle**

NAMA had been using a discount rate of 10% to calculate the fair value of its loan portfolio prior to Project Eagle. The fair value calculation is an estimate of the current market value of the total NAMA loans and receivables portfolio and is estimated for disclosure purposes under IFRS.

In NAMA's end-2012 accounts which were audited by the C&AG and published in May 2013, the approach adopted by NAMA was to discount all future cash flows at a discount rate of 10%, which was deemed an appropriate discount rate at the time. Using the 10% discount rate increased the impairment provision at end-2012 by €1.8bn. This was offset by future unrealised gains of €0.8bn in the portfolio which were not recognised under IFRS. Therefore the net fair value adjustment to the carrying value of loans and receivables at 31 December 2012 was a reduction of €1bn. This fair value calculation was also applied in the case of the loans included in the Project Eagle portfolio, a subset of the overall NAMA loan portfolio.

	10%
Increase in impairment	(4,268,397)
Actual specific impairment	2,750,682
Increased individually significant impairment	(1,517,715)
	19.2%
Collective at increased provisioning rate	(793,060)
Collective @ 12%	512,410
Increased collective impairment	(280,650)
Total increased impairment	(1,798,365)
NPV gains	816,848
Fair value adjustment	(981,516)
Loans and receivables per accounts	22,776,262
Fair value of loans and receivables	21,794,746

2. A note on the details of the contract entered with Lazards for the sale of the Project Eagle loan and the documentation provided to this organisation by way of briefing material.

RESPONSE:

Lazard was provided with a verbal briefing at a meeting on 13 January 2014 having originally signed a non-disclosure agreement (NDA) on 9 January 2014. This was an introductory meeting and its purpose was to establish Lazard's interest in, and capacity to undertake, the appointment. It was the first of a number of meetings and calls during which the scope of the assignment was set out in more detail.

On 21 January 2014, Lazard was granted access to the limited NAMA Project Eagle data room that was previously made available to PIMCO. This provided Lazard with information on the composition of the Eagle portfolio. At a meeting with NAMA on 22 January, Lazard gave a presentation ("Pitch Book") which summarised its understanding of the assignment and of NAMA's objectives, provided a high-level breakdown of the portfolio, described the proposed sales and transaction processes, outlined a proposed timetable for the transaction and proposed a list of suitable, credible bidders. In the Pitch Book presentation, Lazard emphasised **"that the overriding objective is to maximise the recovery for the Irish taxpayer."**

NAMA's contract with Lazard was executed on 3 February 2014 – a copy is attached (with commercially sensitive information redacted). **Schedule 1** of the contract sets out in detail the services to be provided by Lazard to NAMA.

Lazard interacted on a daily basis with NAMA during the sales process particularly during the period from February to April 2014. Interaction was mainly by email (to which the C&AG has had access) and by telephone. In addition, there was regular interaction during the period from April to June 2014 when the negotiations with the preferred bidder were being concluded. Lazard provided advice, along with NAMA's legal advisors, Hogan Lovells, during the transitional period, up to June 2014.

Lazard's formal advice to NAMA in relation to the sale of Project Eagle was recorded in a number of key letters received from Lazard over the course of the assignment. These are marked '**Confidential**' by Lazard and include the following prohibition: ***"other than as may be disclosed by you on a confidential basis to the Minister for Finance and to your auditors, [the letter] may not be used or relied upon by, or disclosed, referred to or***

communicated by you (in whole or in part) to any third party for any purpose whatsoever except with our prior written consent”.

On this basis, NAMA has sought Lazard’s prior written consent to providing the correspondence to the Public Accounts Committee.

In response, Lazard has stated that it would be willing to provide its consent subject to an undertaking from the Public Accounts Committee that the confidentiality of the correspondence would be respected and that the correspondence would not be published by the Committee as part of any Committee report on Project Eagle or otherwise. At the time of writing, the Committee’s response to NAMA on Lazard’s request is awaited.

3. A copy of the documents of undertaking between NAMA and Cerberus and related emails

These documents were provided to the Committee on 7 October 2016.

4. A note on the £100 million in sales of assets in the Northern Ireland loan book up to the end of 2013.

RESPONSE:

As set out in the table below, Project Eagle debtors and receivers had disposed of Northern Ireland assets² with a combined value of £74.6m by end 2012 and £112.5m by end 2013.

Year	Total £m
2010	2.1
2011	30.1
2012	42.4
2013	37.9
Total	112.5

² Including loan redemptions.

5. A note on the loan sale valuation and sales process expertise in NAMA along with information regarding the previous loan sales NAMA conducted.

RESPONSE:

NAMA recognised in 2011 that it needed specialist loan sales expertise. At that stage, it tendered and created separate loan sales advisory framework panels for Europe and the US. Furthermore, NAMA's recruitment policy has been informed by its commercial mandate. It has recruited staff with specialist skills and experience in banking, finance and property, including staff with specialist loan sales and property transaction experience. This included staff that had direct involvement in the sale of very substantial loan books, including, for example, the sale of the IBRC \$8.6bn US loan book in 2011 and the sale of RBS' first major UK loan sale, also in 2011. The staff recruited by NAMA had substantial experience across the full spectrum of loan sales, including data preparation and management, investor engagement and transaction execution.

The loan sales team, which initially comprised 8-10 professionals with a mix of finance, legal, accountancy, banking and property backgrounds, originally formed part of a wider transaction execution team that also included property portfolio sales experts. In late 2014, the transaction execution team was split into a loan sales team and portfolio sales team.

The loan sales team is headed up by an experienced banking and finance lawyer who joined NAMA in 2011 having previously spent seven years in international law firms in London before returning to work in Ireland in various in-house legal and banking roles which directly involved the execution of large loans sales in Europe and the US.

Specialist loan sale staff, along with specialists from NAMA's CFO, Legal and Asset Recovery teams, sit on the cross-functional project management team for each loan sale. In addition, each loan sale has an external loan sales advisor appointed from NAMA's loan sale advisor panel, as well as external legal advisors from NAMA's legal panel. The role of the loan sale advisor includes:

- To advise on the overall strategy, timing and tactics of the sale
- To identify prospective purchasers
- To advise on the data room and process letter
- To engage in direct discussions with purchasers
- To manage the ongoing sales process
- To assess submitted bids
- To make a final recommendation to NAMA
- To manage the close-out of the process from the selection of the preferred bidder

Whilst Project Eagle was NAMA's first multi-connection loan sale, NAMA had, prior to June 2014, concluded substantial loan sales. Counting only loan sales with a par value in excess of €100m, NAMA had, by June 2014, completed 13 sales with an overall par value of €3.9bn. Loan sales prior to Project Eagle included:

Project Saturn:

This transaction, which was concluded in the first quarter of 2012, had a par debt value of £222m and was mainly secured by development land in the Greater London and Manchester regions. The sale was managed by Savills UK, as NAMA's loan sales advisor.

Project Quattro:

This transaction, which concluded in late 2012, had a par debt value of \$200m and was secured by a collection of hotels located along the east coast of the United States. The sale was managed by Eastdil Secured, as NAMA's loan sales advisor.

Project Aspen:

This transaction, which closed in Q2 2013, had a par debt value of €800m and was secured on a mixed portfolio of Irish assets. The sale was managed by Eastdil Secured, as NAMA's loan sales advisor.

Project Chrome:

This transaction, which concluded in Q2 2013, had a par debt value of £141m and was secured on a UK property investment portfolio. The sale was managed by Savills UK, as NAMA's loan sale advisor.

Project Holly:

This transaction, which completed in Q1 2014, had a par debt of €373 million and was secured by mainly Irish assets. The sale was managed by Cushman & Wakefield, as NAMA's loan sales advisor.

Although it concluded after the Project Eagle sale, and therefore is not included in the transactions set out above, **Project Tower** was ongoing at the same time (Q1/2014) that the Eagle portfolio was on the market. This portfolio had a par debt value of €1.8bn and was secured mainly on Irish and UK commercial and development assets and UK student accommodation. The sale was managed by UBS, as NAMA's loan sales advisor.

6. A note on the correspondence with Lazards regarding the whole loans sales process.

RESPONSE:

Please see response to Point 2 above.

Project Eagle - Contract Order for Services

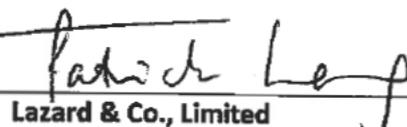
National Asset Management Agency

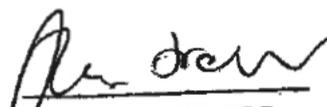
To Lazard & Co., Limited ("Lazard")

Date: 3 February 2014

1. The National Asset Management Agency ("**NAMA**") hereby appoints Lazard to perform the financial advisory services set out in Schedule 1 to this Contract Order for Services (the "**Services**") on the following basis:
 - 1.1 unless and except to the extent that this Contract Order expressly states otherwise, the terms and conditions of the agreement entered into between NAMA and Lazard on 3 January 2012 (the "**Agreement**") shall be read as a whole and deemed to form and be read and constructed as part of this Contract Order for Services (together the "**Contract**"). The terms and conditions of this Contract Order for Services shall prevail in the event of a conflict with or ambiguity in the terms and conditions of the Agreement; and
 - 1.2 the additional terms and conditions as set out in Schedule 2 shall apply to the Contract.
2. Lazard is hereby appointed to perform the Services on the basis of the foregoing conditions.
3. In consideration of the payments to be made by NAMA to Lazard, Lazard hereby covenants with NAMA to perform and complete the Services in conformity in all respects with the provisions of this Contract.


National Asset Management Agency


Lazard & Co., Limited


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Item	Scope of Work
Preparation and Negotiation of Confidentiality Agreement with Prospective Bidders	<p>Using a template confidentiality agreement provided by NAMA you will assist NAMA in coordinating the agreement of appropriate confidentiality undertakings from potential buyers and the subsequent release of information to them.</p> <p>Lead discussions with negotiating the confidentiality agreement with prospective bidders.</p>
Preparation of Process Letter(s)	<p>Preparation of the process letter documenting the process which prospective bidders must adhere to. The key elements of the process letter will be as follows:</p> <ul style="list-style-type: none"> • Information to be received by bidders; • Confidentiality and no publicity; • Timetable; • Deliverables by bidders: pricing and any additional information.
Co-ordination of NAMA Act compliance letters	<p>NAMA requires that, on notification of the borrower's identity, each potential bidder signs a side letter confirming that they are not conflicted under the provisions of the NAMA Act.</p> <p>NAMA will provide you with a template letter. You will be required to obtain a signed copy from each potential bidder prior to any access being granted to the data room.</p>
Preparation and Dissemination of Due Diligence Material for Prospective Bidders	<p>Co-ordinate the dissemination of due diligence material to prospective bidders. You will work along with the NAMA transaction team and NAMA's legal advisors for uploading relevant documentation.</p> <p>You will assist, if required, with the preparation of the data tape, including advice of the form and content of the data tape.</p> <p>Assist NAMA to coordinate the work of other NAMA professional advisors in relation to the Transaction.</p>

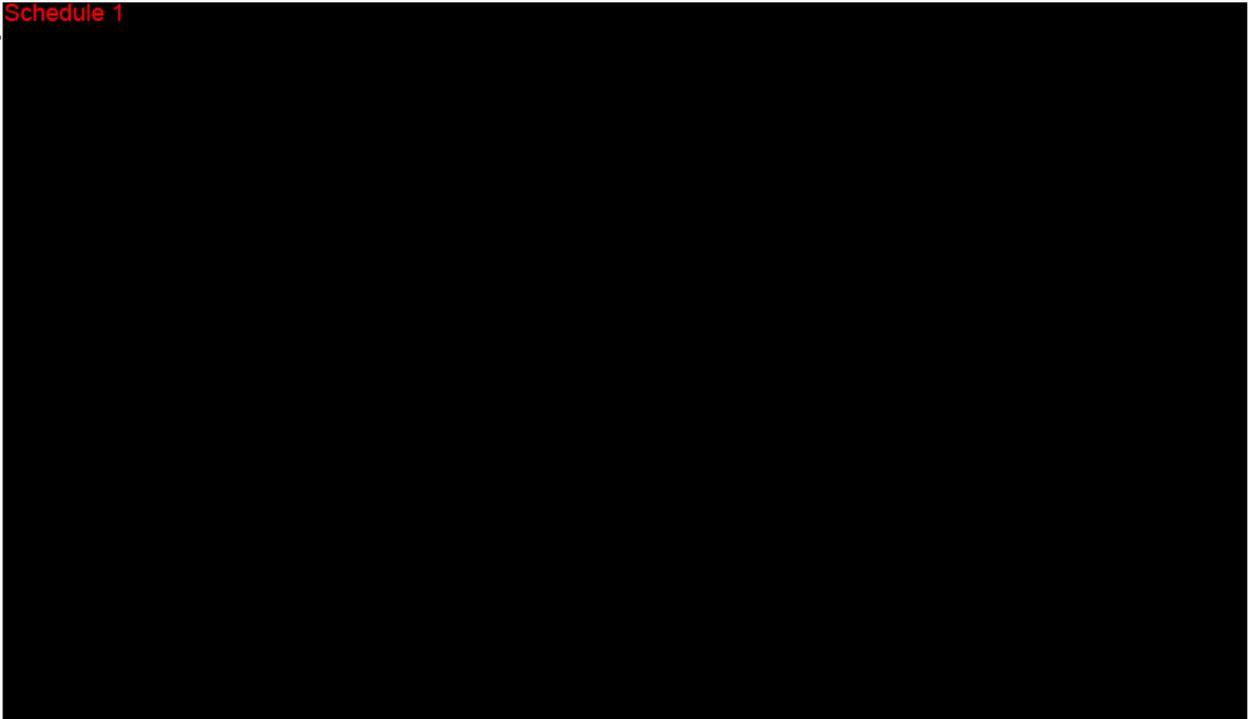
Item	Scope of Work
Process Control and Co-ordination of Bidders	<p>At all stages of the process, you should seek to impose process control on all bidders.</p> <p>You will be responsible for liaising with prospective bidders regarding due diligence queries and should post all answers to due diligence queries in the data room in order to ensure equal distribution of information to all bidders.</p> <p>Furthermore, you will be responsible for monitoring the progress of each potential bidder and depth of due diligence being undertaken.</p>
Negotiations with Bidders	<p>Lead initial negotiations with the chosen bidder.</p> <p>Advise NAMA, where appropriate, on the preparation of a memorandum of understanding or heads of terms with a potential buyer and on the structure of any post-closing services agreement or price adjustment mechanism.</p>
Selection of Successful Bidder	<p>Provide financial advice to NAMA regarding any bona fide offers received from potential buyers, including in relation to the valuation represented by any such offers.</p> <p>Market commentary regarding the bid prices of different bidders.</p>
Transitional Services Agreement	<p>Provide guidance and advice in relation to negotiating and structuring the transitional services agreement.</p>
Transaction Closing	<p>The successful bidder who gains exclusivity will be required (if possible) to place a 10% non-refundable deposit.</p> <p>Once the deposit has been provided (if possible) you should then take the lead in seeking to close the transaction including working with NAMA's external legal advisers and other advisers on the legal documentation.</p>
Reporting to and Liaison with NAMA	<p>You must provide regular updates to NAMA at all stages of the process. NAMA should always be fully apprised of transaction developments on a timely basis.</p>
Close out letter	<p>You must provide a letter to NAMA summarising the transaction process in line with the draft close out letter already submitted to NAMA.</p>

Schedule 2

Additional Terms and Conditions

1. Sole Representation – Lazard shall exclusively represent NAMA in connection with the Services until such time as the Contract is terminated;
2. NAMA reserves the right not to proceed with the Loan Sale at any stage during the Services;

3. **Schedule 1**



In the event that the Portfolio is altered in any way by disposals, additions, maturities or other adjustments, the Threshold will be adjusted pro-rata to reflect the value of the amended portfolio, such value adjustment to be agreed in good faith between NAMA and Lazard.

“Transaction Value” means the total amount of cash paid or payable (including amounts paid into escrow or deferred or contingent amounts) in connection with the Transaction (and in connection with any related transaction and/or any ancillary contract or arrangement entered into in association with the Transaction or relating to or otherwise arising howsoever from the Transaction) and includes, without limitation, amounts paid or payable in respect of convertible securities, warrants, stock appreciation rights, options or similar rights, whether or not vested.

(c) NAMA will also promptly reimburse Lazard for all reasonable costs and expenses (plus VAT), including the fees of external legal advisors, properly incurred by Lazard in relation to the Contract. Lazard will provide weekly updates of all such fees. All costs greater than GBP£1,000 are to be pre-approved by NAMA.

4. Arrangement Fee - Should no sale of the Portfolio complete within the term of the Contract no claim for fees on any basis will be made by Lazard (apart from costs detailed in clause 1(c);
5. Term - The term of the Contract shall expire on the earlier of (i) six months from the date of this Contract or (ii) the successful completion of the sale of the Portfolio; and

6. The Lazard Team involved is:

S37(1)

