Opening Statement by

Mr. Frank Daly, Chairman of NAMA to the

Joint Committee on the Implementation of the Good Friday Agreement

8th March 2012

Introduction

On behalf of the National Asset Management Agency (NAMA), I would like to thank the Joint Committee for the invitation to attend and give evidence before you today. We very much welcome the opportunity to engage with you on our work. The Good Friday Agreement, which is now fourteen years old, has helped forge a new future for Northern Ireland and for relations on the entire Island of Ireland and I would like to acknowledge the important work of this Committee in looking to harness the opportunities created by the Agreement, both North and South.

I am joined today by Ronnie Hanna, our Head of Asset Recovery, and Jonathan Milligan, Senior Divisional Manager at the Agency, both of whom have considerable financial experience and both of whom are very familiar with Northern Ireland. Ronnie is a Member of NAMA's Northern Ireland Advisory Committee and Jonathan also works with that Committee.

For the purposes of my address, I will focus primarily on NAMA's work in Northern Ireland and contribution to the economy there, but I will also touch briefly on our wider operations.

We see today as an important opportunity to hear your views first hand, and to update you on the progress that the Agency is making. NAMA is extremely conscious of the value of engaging proactively with our stakeholder audiences.

Stakeholder engagement

In Northern Ireland, we believe that we have established a good working relationship with the Northern Ireland Executive and Assembly. Meetings take place at regular intervals to allow for an open exchange of views. We have met with various Ministers, namely the Minister of Finance and Personnel and with the First and Deputy First Ministers. I note that in a speech to the Leinster Society of Chartered Accountants on 2 November the First Minister, Peter Robinson characterised the NAMA relationship as positive to date and this has been underpinned by similar comments from Minister Wilson.

We also have established very constructive communications with Northern Ireland Chamber of Commerce and with the Northern Ireland Assembly and Business Trust. We are also increasingly engaging with councils in Northern Ireland. Our approach in Northern Ireland is also informed by the expertise of local professional advisers.

One extremely valuable structure within NAMA is the Northern Ireland Advisory Committee. This Committee's contribution to our understanding of the issues and market is very important and I would like today to point especially to the contribution of the two external members of that Committee, Frank Cushnahan and Brian Rowntree, two highly respected business leaders in Northern Ireland, who are very generous with their time and advice.

As part of its objective of Working for Solutions in Northern Ireland, NAMA's Northern Ireland Advisory Committee is leveraging local input and experience through its members and in partnership with Public Sector bodies and by encouraging research Initiatives which will inform future solutions. A good example is the work with the University of Ulster on very innovative research initiatives to enable us to better understand the dynamics of Northern Ireland housing, such as housing affordability and the demand and supply of land throughout Northern Ireland. We are providing ongoing support for the University of Ulster Land Development Model and are facilitating exchanges between the Department of the Environment, Community and Local Government in the Republic and the University in terms of all all-Island Land Development Model.

Progress - commentary

Before dealing specifically with Northern Ireland, I will make the following brief comments to help contextualise the size, challenge and importance of the Agency's work, and the significant number of milestones that have already been achieved since its establishment.

I consciously make these comments against a background of some recent inaccurate, misleading and potentially damaging reports relating to the Agency.

There are different types of debtors.

There are those who may have the will, but who are simply incapable for whatever reason of contributing meaningfully to the workout of their loans.

There are those who want to co-operate and have something to contribute - thankfully these are in the majority and are the ones who will work with us into the future to help achieve the objectives set for NAMA.

There are also those who pretend to want to co-operate but who are unwilling do so, whether in terms of reducing overheads, mandating rent, reversing asset transfers or providing charges over unencumbered assets. Invariably it is from among this category of debtor that we hear the most noise either directly or indirectly, particularly when we have no option but to take enforcement proceedings. We have put on the record recently our concern that the number of baseless, critical stories about the Agency has increased as the level of enforcement activity by the Agency has increased, and as NAMA applies pressure on some debtors. NAMA did not lend the money that created the problem. NAMA is part of the clean up necessitated by the property market collapse - some people don't like what this means for them and they use whatever source they can to try to damage the Agency. We are not influenced by this commentary but we are sometimes surprised at the readiness of some commentators to accept baseless and sceptical stories about NAMA without themselves showing any semblance of scepticism about the vested interests peddling the stories in the first place.

Progress – facts

You know the context in which NAMA was established and the fact that in just two years, we have built up an entire infrastructure from scratch and have completed the enormous task of carrying out legal due diligence on, valuing, purchasing and transferring 11,500 loans from over 800 individuals with a face value of €74billion (c.Stg£61 billion). In the process, NAMA has successfully injected €31.6 billion or Stg£26 billion into the banking system. NAMA cannot control what the banks are doing with that liquidity nor can NAMA be held accountable for the fact that the banks needed a multiple of this amount to replace their lost funding since 2008. NAMA was and is only ever to be part of the overall solution.

NAMA is now in the next logical stage in its development, which is focused on maximising value by working closely with debtors and, through the implementation of broader strategies, managing our portfolio of loans and underlying securities. Our objective is to achieve the best financial return we can over our lifespan – that's what the legislation requires us to do.

We have already assessed the business plans covering 97% of the loans on our balance sheets and over 700 of our debtors. While some of these 700 debtors may not like what they are hearing at least they all know where they stand with us. Indeed, in the majority of cases we are working with debtors to maximise the value that can be realised from their loans and associated assets. So they see the path ahead – however difficult that may be. And it is difficult because for many it means, in practice, the sale of properties to support phased debt repayments; the granting to us of charges over unencumbered assets; and the reversal of asset transfers to relatives and others. We have, to date, been granted charges over assets with an aggregate value of €221 million (Stg£186 million) and have succeeded in reversing asset transfers totalling €160 million (Stg£135 million). When completed the aggregate value of these unpledged assets may prove to be in the region of €500 million (Stg£420 million).

I have one final point to make about debtors, and that is to say that the enforcement approach is adopted only after all other options have been considered and that principle applies regardless of where the debtor is located. In relation to Northern Ireland, 15 cases have been subject to enforcement, one of which relates to a Republic of Ireland debtor. This is proportionate to the scale of the NAMA loan portfolio in Northern Ireland. Enforcement is always a last resort and some of you may have seen the headline in the Belfast Telegraph last week, referring to our monthly update of enforced properties, *'No Ulster properties seized by NAMA in latest tranche'* – ironically, generally our good media coverage comes from taking enforcement action against debtors even though for NAMA, the objective is the opposite to enforcement.

Decision Making

One of the regular unfounded criticisms thrown at NAMA is that we are slow in making decisions on credit applications and offers to purchase assets. When we ask people to back up these statements with factual instances we invariably get no response. So let's put some facts on the table.

We have made over 6,000 individual credit decisions since the end of March 2010. The average turnaround time for credit decisions is **6** days and we operate to a target decision turnaround time of 7 days.

Those decisions are the ones that underpin close to €1 billion (Stg£840 million) approved in advances of working and development capital to debtors and asset sales valued in excess of €7 billion (Stg£5.88 billion).

This process is not slow but I think what some people have difficulty with is the fact that NAMA is applying good practice - rigorous examination of credit proposals and realistic assessment of purchase offers - in dealing with applications for credit and offers to purchase. This, quite frankly, is not what many were used to in the banking and property development practices that got us to where we are today and led to the establishment of NAMA. We are, out of necessity, rigorous in our dealings with all parties. We are not, as these figures illustrate, either slow or lumbering.

Northern Ireland

Guiding principles

NAMA's mandate is to recover maximum amounts from all loans irrespective of where the underlying loans are located. Towards this objective, NAMA adopts a traditional commercial approach in each of the jurisdictions in which we operate, whilst recognising the distinctive differentials applying in these areas. We are particularly cognisant of the challenges specific to Northern Ireland and, as I pointed out at the outset, our approach here is informed by extensive engagement and local knowledge and expertise.

NAMA carries out its work with reference to a set of guiding principles, including taking a longer-term approach and avoiding fire sales, and our record over the last two years in Northern Ireland testifies to this.

Scale of loan portfolio/description of underlying assets

In Northern Ireland, NAMA initially planned to acquire loans that had a nominal or par value of €4 billion or Stg€3.35 billion, spread across 180 individual borrowers, some in common borrower groups. In the intervening period, reductions have been achieved via disposals, repayments and some loans which were not ultimately acquired. NAMA's remit was to acquire land and property and associated loans. In some circumstances it made sense not to acquire associated loans, particularly where trading businesses featured, and, reinforcing this approach, in September 2011 the NAMA Board decided not to acquire a further three eligible Northern Ireland debtors for this reason.

In summary, therefore, I now am in a position to advise the Committee today that the likely final figure for loans in Northern Ireland is of the order of €3.5 billion or Stg£3 billion nominal and an acquisition value (LAV) of €1.5 billion or Stg£1.26 billion. This represents less than 5% of our portfolio in terms of the par and loan acquisition value of loans acquired – somewhat less than originally envisaged.

We have provided the Committee with two slides showing the breakdown of NAMA's Northern Ireland loan portfolio by asset class. This breakdown is extremely relevant in terms of the types of strategies that will be applied over the life of NAMA to maximise value and support the Northern Ireland economy. This is a tailored strategy based on our portfolio mix.

With reference to the par (nominal) value of loans, **60% of the portfolio is secured by land not under development and a further 10% is secured by land under development.**

29% of the portfolio is secured by commercial investments.

Just 1% relates to residential investment. We don't have high concentrations of large unoccupied residential developments in the Northern Ireland portfolio. The same also applies to hotels with just three assets identified to date.

However when measured with reference to book or LAV value of the loan portfolio, rather than PAR, the breakdown of the portfolio changes, reflecting the respective quality of the asset classes underlying the loans rather than the loans themselves.

With reference to LAV, **22% of the portfolio is secured by land not under development and a further 5% is secured by land under development.**

62% of the portfolio is secured by commercial investments.

Just 11% relates to residential investment.

In reality then, much of the portfolio is good quality investment grade. The big problem was over leveraging – debtors paid too much for the assets in the first instance, even for the good quality assets. In this regard, in Northern Ireland and the other jurisdictions in which we operate, resolution is a matter of time.

We have already advanced €35 million or Stg£29 million in new working and development capital for projects in Northern Ireland. But this is not the full picture. We have also advanced significant additional advances to Northern Ireland debtors in relation to projects elsewhere, mainly in Britain, which also helps to support operations in Northern Ireland and by extension employment. When you account for all working and development capital advanced to Northern Debtors, the figure is €90 million or Stg£75 million. It is important to note that the high proportion of land not under development, or 'dry land' as it sometimes referred to, limits the opportunity to advance new working and development capital at this point in the cycle but again opportunities will come around in respect to much of this class.

The splits outlined are subject to change as, in some respects, this is a moving portfolio.

In a moment, I'll refer to NAMA initiatives aimed at facilitating greater participation in both the residential and commercial markets in Northern Ireland. In this respect, I believe that NAMA can be a force for good in Northern Ireland and the Republic in helping to support a normal functioning property market. We know that the property markets in both jurisdictions outgrew economic fundamentals to a significant degree but there are signs that perhaps the markets may now be overshooting in the opposite direction.

Plans and actions

NAMA's actions in Northern Ireland are informed by an understanding of the workings of the Northern Irish economy and cognisance of the ongoing plans and strategies of (1) the Northern Ireland Assembly, which has signalled a sizeable asset disposal programme over coming years and (2) the management by major non-NAMA financial institutions of substantial property portfolios in Northern Ireland, some larger than NAMA.

NAMA's strategy will see the realisation of its portfolio on a phased basis linked to where there is liquidity. We don't accept low ball offers. We do not nor do we intend to resort to fire sales or dumping of assets. We have the time and the capacity to take a longer-term view. NAMA's workings in Northern Ireland to date are confirmation of this approach.

In both Northern Ireland and the Republic of Ireland, the residential assets underlying the loan portfolios managed by NAMA tend to be located in strong rental markets. The challenge in both markets is to try to move potential clients from rental to purchase. There is evidence to suggest that there is pent up demand in key growth areas in the Republic of Ireland and Northern Ireland and the challenge is to move clients, from 'purchase consideration' over the line to 'purchasing'. NAMA is, in this context, very close to launching a pilot mortgage initiative in the Republic, which, in simple terms, will provide potential purchasers with a level of protection against housing values falling from current levels over the next five years. We have received approval from both the Department of Finance and Central Bank and are awaiting final approval from the European Commission, which we expect imminently. If this mortgage initiative works on the basis of the pilot scheme in the Republic we are very open to seeing if we can introduce a similar initiative in Northern Ireland with our partner banks.

Lack of finance and unfavourable terms are also issues in the commercial property markets. NAMA has made and will continue to make vendor finance available in this market. Vendor finance will help bring international capital into both the Republic of Ireland and Northern Ireland market and add price tension. NAMA is not a bank and sees vendor finance as an aid to market participation but applied to the right product and right client, it can be a significant positive for investment and employment in Northern Ireland.

The Agency is also examining a number of other options, including establishing a Qualifying Investment Fund (QIF). The point in this regard is that any initiative available in the Republic of Ireland market will, where possible, be made available and tailored to suit the economic circumstances in Northern Ireland.

Conclusions

I have tried to give an overview in the time allotted to me of NAMA's general progress and our activities in Northern Ireland and to emphasise impacts relative to the wider economy.

It is important to stress than NAMA is part of the solution, not the problem. NAMA is dealing with the decisions of banks and borrowings of debtors that were at the root of the property market's problems.

Further bad decisions now would only exacerbate the problem.

NAMA is not a debt collection agency but let's not be naïve enough to think that we don't have debts to collect on behalf of our people. But we are working constructively with debtors in every case that we can because that is the only way to deliver a successful outcome.

I've outlined our initiatives in terms of residential and commercial property markets. A stable, normally functioning property market will be positive not just for NAMA but for the wider Northern Ireland economy. NAMA wants to see transactions, buyer confidence and liquidity restored and employment and economic activity growing.

Chairman, again I would like to thank you for the invitation to address the Committee and to thank you all for affording me the opportunity to outline the key points relating to NAMA's work and contribution in Northern Ireland.

As Chairman of NAMA I am always available to engage with Public Representatives, North and South, in whatever manner you consider useful.

Thank you.