Opening Statement by

Mr. Brendan McDonagh, Chief Executive of NAMA, to the

Joint Committee on Finance, Public Expenditure and Reform

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Introduction

Chairman, Members of the Committee, I would like to thank you for the invitation to attend and give evidence before you today in relation to NAMA's functioning. My Chairman has covered a number of vitally important points in relation to the principles that guide NAMA's strategy and day-to-day activities and has articulated the Agency's commitment to supporting the national imperative of economic and employment recovery. As Chief Executive, I want to reiterate this commitment.

In terms of my own contribution, I want to outline for you today the milestones that have been reached by the Agency in the two years since its establishment and to signpost the Agency's evolving strategic direction. I will do so with reference to the facts about our work.

I will also highlight a number of, what I believe to be, misconceptions about the Agency, both in relation to the scale, composition and geography of our loan portfolios and underlying securities; and in respect of how the Agency goes about its daily work.

Today's engagement is timely for a number of reasons. Not least amongst these is the fact that the Agency has reached the next logical and very important juncture in its evolution.

We have concluded the first critical phase of our work. This has included purchasing and transferring loans with a face value of €74 billion whilst simultaneously constructing an organisational infrastructure capable of meeting the enormous challenges set for the Agency by the magnitude of Ireland's financial and property market crises.

The Agency is now in a new phase, focused on our core commercial objective of recovering for the taxpayer, at a minimum, what we paid for the acquired assets in addition to whatever we have invested to enhance property assets underpinning these loans. There are a number of strategies that NAMA is pursuing to achieve this overriding objective of which the main ones are:

* The agreement of detailed asset sales schedules with debtors
* Optimisation of NAMA cash flow from loans and debtors
* Adoption of an active loan sales strategy
* Innovations to attract international investor capital
* Measures to increase market activity in both commercial and residential property markets in line with the potential for recovery in both

We are also developing strategies to achieve our objectives in the broader context of the NAMA Act 2009 taking account of the need to contribute to the social and economic development of the State.

NAMA – the facts

NAMA is applying best practice in dealing with the decisions of banks and the borrowings of debtors that were at the root of the property market problems in this country, and which are continuing to frustrate economic recovery. An important aspect of NAMA's work, therefore, is the application of rigour in our dealing with debtors. This is not what many were used to in the banking and property development practices that have led us all here – but it is the only way that the mistakes of the past can be put right. NAMA rigour does not however mean, as some critics claim, that we are either slow or lumbering – the fact is we are neither, we are careful and the average decision time is 6 days or less. This is one of the key misconceptions about the Agency that I would like to address today.

I would ask you to consider the facts as I work through a number of key headings relating to the Agency's work.

Business plan assessments

189 NAMA managed business plans have now been assessed representing some €59 billion. There are three debtors to complete, amounting to €2bn. These were late acquisitions in Quarter 4 2011 but we expect to complete these by April.

541 Participating Institution (PI) managed business plans of the 599 smaller debtors have been assessed. There are now 58 to do.

We have, by these figures, completed the assessment of business plans covering 97% of the loans on our balance sheet with reference to Loan Acquisition Value (LAV) of €31.8 billion.

Chairman, I would also like to take the opportunity today to advise the Committee of the decision of the NAMA Board to establish dedicated teams comprising 15 existing NAMA staff which will monitor and supervise intensively the management of the 599 NAMA debtors which are currently being managed by some 500 staff within Bank of Ireland, AIB and IBRC which operate on NAMA's behalf. The teams concerned will be situated within the institutions and will ensure that the highest standards are applied by the institutions to the management of the €5 billion of NAMA debt which is involved. This decision is part of the evolving NAMA strategy referred to at the outset.

Approach to working with debtors

In cases where it makes demonstrable commercial sense from the perspective of the taxpayer, we work with debtors with the view to maximising the potential return from their loans and associated assets. This, in practice, means the sale of properties to support phased debt repayments; the assignment of rental income; the granting of charges over unencumbered assets; and the reversal of transfers to relatives and others.

The facts are that we have approved asset sales valued in excess of €7 billion and in the 22 months since we acquired our first loans, we have generated over €6.6 billion in cashflow.

We also have been granted charges over assets with an aggregate value of €221 million. This means that we have secured almost a quarter of a billion in new securities from our debtors since we began operations. It further protects the position of taxpayers.

50 of our largest debtors transferred assets to family members or connected parties. 31 of these transfers, of assets worth €160 million, have been reversed - the highest single transfer reversed was worth €30 million. We are pursuing 22 others, some through the courts. And we are actively carrying out asset searches in relation to others outside this 50.

When completed, the aggregate value of these unpledged assets may prove to be in the region of €500 million.

There are clearly also circumstances where the Agency has had to take enforcement action, which is not a preferred option, where debtors have been unwilling to work with NAMA because they consider the Agency's terms to be too onerous and because of NAMA's objective commercial assessment of the best likely return for the taxpayer. In such cases the Agency explores the various enforcement options legally available to it, including the obtaining of judgement and seeking to attach this judgement to assets owned by the debtor concerned to the extent this is legally possible and having regard to the likely costs in doing so.

NAMA has taken enforcement action in 214 cases connected to 116 individual debtors.

At the start of this month, NAMA updated its website listing of properties that are subject to enforcement action by the Agency.

The total number of properties now listed is 1,119.

803 or 72% of properties are located in the Ireland, 143 or 13% in Northern Ireland, and 173 or 15% in Britain. The geographical breakdown can be somewhat misleading in that enforcement can relate to individual properties or multiple properties such as

apartment blocks. In Northern Ireland, for instance, the bulk of enforced properties relate to single units.

In the vast number of cases, the properties subject to enforcement are currently for sale or are under management and generating income. In some instances, receivers are working through outstanding title defect and ownership issues, and planning and compliance issues and these will be offered for sale as soon as is practicable and in line with NAMA strategy for the property.

Credit decisions

Since the end of March 2010, NAMA has made over 7,000 individual credit decisions - ranging from the relatively straightforward to substantial and complex applications. That is over 160 credit decisions every week.

The average turnaround for these decisions is 6 days and we work to a target turnaround of 7 days.

Working and development capital

Another misconception is that NAMA is simply a 'debt collection agency'.

The 7,000 credit decisions just referenced have underpinned over €1 billion approved in advances of working and development capital.

New advances of €1,127 million have been approved and are split between Ireland (45%), Northern Ireland (1%), Great Britain (45%) and other locations (9%). We will allocate capital wherever there is a commercial rationale for doing so.

A number of important points are worth making in respect of this split given some recent commentary.

The approval of advances in Britain must, for instance, be seen in the context of asset sales of about €3 billion of loan and property assets in that country, representing a significant net income flow for NAMA and the Irish taxpayer. Over 80% of NAMA's cash flow is currently generated in Great Britain. This reflects the liquidity in the

British market at present and the location and quality of the assets underlying NAMA's loan portfolio there. It makes sound commercial sense for NAMA to focus on liquid overseas markets at this point in the economic cycle.

In terms of Northern Ireland, the figures presented are not the full picture. The Agency has advanced significant additional working and development capital to Northern Ireland debtors in relation to projects elsewhere, mainly in Britain. Much of this capital is therefore accounted for with reference to data for Great Britain. It is also important to note the mix of assets in NAMA's Northern Ireland loan portfolio, which is characterised by a high proportion of land not under development, or 'dry land', and this limits the opportunity to advance new working and development capital at this stage.

In Ireland, we have approved working and development capital advances of over €506 million. This represents a significant injection of capital into the construction sector and more widely at a time when the economy here is experiencing a protracted credit drought. We anticipate that there will be significant opportunity in the coming years to advance working and development capital in respect of the Irish market.

In making this point, I am conscious of the misconceptions relating to NAMA's Irish loan portfolio. Whilst due diligence on acquired loans is not yet complete, based on preliminary analysis of the property assets securing NAMA loans (assets valued by reference to November 2009 valuations), 56% of such assets are located in Ireland, 34% in Britain, 4% in Northern Ireland and the residual 6% largely in Europe and the US. The property assets underlying our Irish loans are worth of the order of €18 billion with reference to November 2009, approximately €11 billion of which is located in the Greater Dublin Area. Our ongoing engagement with potential investors suggests that there is growing overseas interest in acquiring Irish commercial assets, particularly in prime office and retail properties in Dublin with good covenants and attractive yields. The scale of the fall in Irish commercial property prices from peak – 65% according to IPD data - has meant that yields on investment assets have reached very attractive levels (8% plus). Measures announced in the recent Budget, including the substantial cut in stamp duty and the new Capital Gains Tax incentive relief, are also likely to give the market a substantial boost.

NAMA's residential portfolio is predominately located in the metropolitan growth centres of Dublin, Cork, Limerick and Galway, which are characterised by strong rental markets and emerging indicators of pent up demand for house purchase.

NAMA will only provide additional capital to projects that are commercially viable and only where the additional capital will deliver a better return to the taxpayer than would otherwise have been the case.

NAMA innovations – vendor finance, Qualified Investment Funds, loan sales and mortgage market initiatives

NAMA is constantly examining ways to encourage transactions in the property market here through the use of innovations such as vendor finance, or Qualified Investment Funds or initiatives for the mortgage market.

Vendor finance is an example of such and is an increasingly attractive option from NAMA's perspective. There is significant interest in our portfolio but the lack of finance is a major difficulty, in Ireland and internationally. Most buyers are unable to borrow at a margin of less than 4.5 per cent, even on a good asset. Because NAMA's cost of capital is lower, we are able to offer finance at a minimum margin of 2.5% and up to 70% loan to value. Vendor finance offers a number of advantages for NAMA, the most obvious being the opportunity to significantly de-risk our loan portfolio. It also brings more buyers into the market and adds price tension. This is true even where the option of vendor finance is not taken up by the eventual buyer. In a recent sale, the availability of vendor finance had a significant impact on the process even through the property was ultimately bought by a cash buyer.

The need for vendor finance is clear when you consider that most traditional lenders to the sector are pulling back from making new loans and other major financial institutions have announced moratoriums on lending to property altogether.

NAMA is not a bank and sees vendor finance as an aid to market participation only when applied to the right product and, critically, the right client. Applied correctly, vendor finance can play a positive role in attracting international investment into Ireland's commercial property market and supporting employment.

NAMA considers vendor finance on a case by case basis.

By the end of this year we also intend to have launched at least one sub-investment fund or **qualified investment fund (QIF)**. Sub-funds, based on regional or sectoral portfolios, are a way to attract institutional investors such as pension funds and sovereign wealth funds to buy properties on a phased basis.

We are also about to begin an active ***loan sales*** process, having recently established two sales advisory panels, one for Europe and one for the US. Loan sales will enable us to monetise the loan portfolio and thereby reduce our balance sheet. We will also pursue an active marketing strategy for loans and, with the consent of our debtors, for the property assets securing them.

We are also very close to launching a **pilot residential mortgage initiative with partner banks**, 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 Minister for Finance and Central Bank and are awaiting final approval from the European Commission, which we expect imminently.

In all cases the sale of loans or the assets underlying them will be conducted in a structured way. We will not sell off the portfolio cheaply. There have been attempts, driven by misconceptions about Ireland, to lowball us but we are not going to be a fire-seller. It is simply not in the interest of the taxpayer.

NAMA's wider socio-economic contribution

Within the context of its commercial remit, NAMA is at all times open to proposals, and actively contributes to public policy processes, aimed at supporting the achievement of wider social and economic objectives. There are wide-ranging examples of this but today I am going to focus on the Agency's engagement with the

Department of Environment, Community and Local Government and local authorities regarding unfinished estates and on the broader issue of social housing provision.

Following release of the Report of the advisory committee on unfinished housing developments last June, the Minister for State with responsibility for housing established a National Co-ordination Committee to oversee action on unfinished estates and to monitor and drive progress. NAMA has two representatives on this Committee, which meets regularly with the City and County Managers' Association.

The Committee has focused its initial attention on the 243 estates categorised by local authorities as the most problematic from a public safety perspective, Category 4. It is often assumed that the vast majority of ***unfinished estates*** are under the Agency's control. However, 29, or 12%, of Category 4 estates are controlled by NAMA debtors or receivers. NAMA is funding, through its debtors and receivers, the cost of urgent remedial work on these estates, which is estimated at €3 million. Very good progress has been made.

NAMA is also focusing attention on Category 3 estates. In this case, just 10% - 150 out of 1,500 estates in this category – are linked to NAMA debtors. Work is ongoing and at an advanced stage in relation to clarifying the status of each site and agreement of plans and timetables for optimum site resolution.

In December 2011, NAMA identified over 2,000 properties as being available for ***social housing***, representing, as the Minister for Environment, Community and Local Government described at the time as potentially "*one of the largest housing allocations made in the history of the State*". NAMA is working systematically with local authorities and the Housing Agency to determine the demand and suitability for the identified properties. This work is extremely well advanced and units will be coming on stream in the coming months.

Hotels and Golf Courses

NAMA has exposure to 121 hotels in Ireland. There are over 900 in the country so we have a relatively small share. NAMA has exposure to 20 golf courses (mainly attached to the aforementioned hotels) – there are over 400 in the country. Clearly these figures show that despite the urban myths our debtors have relatively small exposures to the hospitality sector.

Additional points

I am conscious of time, Chairman, but there are a small number of additional issues that I would like to very briefly touch upon.

The first of these is the Agency's ***ongoing interaction with State Agencies***, including the IDA, to identify the potential for synergy between NAMA related properties and the requirements of inward and indigenous investment. The NAMA Chairman referred to the example where NAMA, contrary to some media reports, played a crucial role in negotiations to secure 230 jobs for Dublin last month and how NAMA's actions have also facilitated the sale of a second site in the vicinity which will see another high-technology computing operation proceed. In this specific case, NAMA worked closely with South Dublin County Council and the IDA in addressing legacy issues inherited by the Agency. We are furthermore developing communications systems to ensure the timely relay of information to NAMA from State Agencies who directly or through their clients interact with us.

In his Budget 2012 speech, the Minister for Finance referred to the NAMA policy guidance for dealing with tenants' difficulties arising from ***upward only rent reviews***. Our Guidance provides an opportunity for NAMA to approve rent reductions where it can be shown that rents are in excess of the current market levels and viability is threatened. The policy also provides for the appointment of an independent valuation of market rent where necessary. Where a qualifying tenant is unhappy with the negotiations with his NAMA landlord he can contact us directly. It is important to add that the guidance is not designed to accrue benefits to a tenant who may be in a position to bear the burden of rent under existing contractual arrangements they committed to because they are part of a Group with profitable trading outlets in and outside Ireland.

In the past month, we have advised of a number of ***changes in structure and responsibility at a senior level in the Agency***, including the proposed appointment of a Chief Financial Officer, the process for which is well underway. These changes will ensure that NAMA is correctly positioned for the challenges ahead and will enable NAMA to focus its full attention on the management of its portfolio of assets and maximising recovery of funds for the taxpayer.

NAMA's projected costs for 2012, at €194 million, are 0.6% of the consideration we paid for the loans. €74 million of NAMA's costs constitutes payment for the estimated 500 staff employed by the financial institutions that administer the NAMA portfolio.

NAMA is ***generating strong cash flows*** through a combination of debtor repayments and the sale of assets. This will be used to finance working and development capital and also towards paying down NAMA Bonds as part of meeting the €7.5 billion repayment target by end 2013.

In accordance with the IFRS accounting standards, the effective interest rate – the methodology for recognition of interest income on the NAMA loan portfolio - is set on the acquisition price of the loan. To the extent that subsequently there is an adverse change in the timing or amount of NAMA's cash flow expectations, whether it is favourable or unfavourable, NAMA adjusts the carrying value of the loan and recognises an impairment charge or gain in its income statement. The ***estimate of impairment*** is carried out on an annual basis and we are currently carrying out a detailed annual impairment review for end of 2011.

The requirement to apply the ***EIR methodology*** has been raised at this forum before. NAMA acquired a distressed loan portfolio at a significant discount to the original par value using a collateral based valuation model which projected the expected property related cash flows and the expected receipts from the ultimate disposal of the underlying property collateral. A significant portion of the loans that NAMA acquired are not expected to perform in accordance with their contractual terms. As a result NAMA expects that the most significant portion of the cash generated will be through the future disposal of the property collateral underlying the loans and not from the receipt of contractual interest. Interest income is therefore recognised on loans in accordance with the EIR method by reference to those expected property related cash flows on a proportionate basis over the life of the loans, rather than on a cash received or contracted interest basis, so as to accurately reflect the 'effective' rate of return over the expected life of the loans.

In addition to the ***public accountability*** provisions contained in the NAMA Act 2009, NAMA has implemented a number of strategies to support communications with the Oireachtas and the public. No person is more conscious than me of the huge responsibility we have at NAMA but I am fortunate in that I have been lucky enough to assemble a strong committed group of people and I have a supportive Board. Our objective every single day is to do the right thing; we recognise that others may have contrary views but many of the commenatators propose no realistic or credible alternatives. We are always open to receiving ideas and solutions on how best to optimise the portfolio.

I hope that you feel I have comprehensively addressed today the functioning of NAMA.

Thank you.