National Asset
Management Agency

# NAMA BUSINESS PLAN

## 30th JUNE 2010

# CONTENTS

# EXECUTIVE SUMMARY

The decision to establish NAMA was announced by the Minister for Finance on 7th April 2009 but NAMA only came into existence on its establishment on 21 December 2009 and its Board was appointed on 22 December 2009. NAMA is an unusual organisation in that it will start its existence with a portfolio of approximately €81 billion of eligible assets acquired from five participating institutions (consisting of about 1,500 individual debtors with about 15,000 individual loans) and will manage and realise these assets down to zero in the best interests of the State and to obtain the best achievable financial return. To attain these objectives, NAMA will pursue all debts owed by debtors to the greatest extent feasible. Since the Board held its first meeting on 23rd December 2009, a great deal of work has been undertaken by the Board and the Executive team to get NAMA established and operational. EU Commission approval for NAMA was obtained at the end of February 2010 and the Minister for Finance published the final valuation regulations on the 5th March 2010. The first loan transfers occurred on the 29th March.

The Board and the Executive team take their responsibilities very seriously and a substantial amount of time was spent in the first six months putting the necessary infrastructure and corporate governance in place so NAMA operates to the highest ethical and professional standards. Before the Board's appointment, a small core team within the NTMA had been involved in developing the legislation and putting the loan valuation and due diligence infrastructure in place. Recruiting the necessary skills from the market, both in Ireland and internationally, has been a major challenge as the NTMA (which provides HR services to NAMA) had to recruit NAMA officers who had the necessary skill sets but who were also able to meet significant prequalifying criteria, including full disclosure of their personal assets, interests and liabilities, as is required under Section 42 of the NAMA Act. As of the end of June 2010, NAMA has recruited 45 staff with another 33 staff at various stages of the recruitment cycle. NAMA's aim is to have a core staff in excess of 90 by the end of 2010.

NAMA recognises that the acquisition of assets with all the necessary due diligence and valuation is a complex and demanding task for both the participating institutions and for NAMA itself and it will be a major challenge to complete the acquisition within the timeframe envisaged by the EU Commission. The assurance that the Board of NAMA can provide is that the due diligence and valuations that NAMA applies on the assets is as complete and as correct as is possible and that the price paid by NAMA is in accordance with the NAMA Act, the statutory regulations and the terms of EU approval. The price reflects the fundamental asset value of the underlying collateral (in the majority of cases, property) that is the security for the bank assets NAMA has acquired. The Board is conscious of the commentary made about the average 50% discount paid on the Tranche 1 transfers and, for the purposes of its own Business Plan, it has applied this as a basis for its financial analysis and projections. However the price paid for future tranches may differ and this will have implications for the final price NAMA will pay for its assets and the amount it can be expected to realise on these assets over its expected life of 7 to 10 years.

NAMA has commenced an intensive engagement process with debtors and, as part of that, will be undertaking a detailed review of the debtor business plans submitted. The information NAMA has sought is comprehensive and granular and, subject to the review by NAMA's third-party professional advisors, the Board and the Executive team will make realistic assessments of debtors, their businesses, their assets and their liabilities. NAMA will endeavour to work with debtors wherever possible but in certain cases this may not be feasible. However, where NAMA does work with debtors, this will be because it is the optimal commercial decision to do so. This will only occur where debtors are co-operative, make full disclosure and are realistic in terms of asset funding and of the lifestyle implications for them of NAMA support. They must also accept close monitoring by NAMA of their activities.

This Business Plan is an update of the Draft NAMA Business Plan which was originally published on October 13th 2009. That original draft Plan included projections of a Net Present Value (NPV) gain of €4.8 billion arising from NAMA's activities over its expected lifespan. This was based on information available from the institutions in October 2009. In the interim, it has become clear that some important underlying assumptions provided by institutions were, in many cases, overly positive e.g. loan-to-value (LTV) ratios and the proportion of income-producing loans. In the case of the latter, the draft Plan assumption was that 40% of acquired loans would be income-producing; however, the level of debtor impairment evident from the first tranche loan transfers suggests that 25% may be a more reasonable estimate. Similarly, the actual LTV ratios that have become evident during the Tranche 1 due diligence process have been higher than those indicated by institutions last autumn.

In the revised Plan, the Board has produced a number of NPV scenarios based on a range of assumptions about the level of recoveries that NAMA can achieve from its assets, both the loan assets it will initially acquire and any underlying property and other assets it will acquire on foreclosure. On the assumption that NAMA recovers the long-term economic value of its acquired assets, the projected NPV outcome is a positive €1.0 billion. This Plan also includes two variations on this: one in which NAMA recovers the long-term economic value of assets plus 10% and one in which it recovers the long-term economic value minus 10%. The respective NPV results are €3.9 billion and minus €0.8 billion (the asymmetry is due to the fact that NAMA will not redeem subordinated debt unless it has made a cumulative gain over its lifetime).

The fees that NAMA will pay over its expected ten-year life amount to about €1.6 billion. A breakdown of the 2011 budget shows that a significant proportion of these fees will be incurred as payment to the participating institutions to administer loan assets on NAMA's behalf. It is likely that there will also be significant fees incurred arising from enforcement.

The Board has set out details about its operations in this document but stresses that the assumptions and policy decisions that it has made will have to be adapted over time to reflect changes in its operating environment and also in prevailing market circumstances.

# Introduction

The Government, as part of a range of measures designed to safeguard the viability of a number of systemically important financial institutions, decided in April 2009 to establish the National Asset Management Agency (NAMA). It was necessary to establish the Agency because the Irish banking system had engaged in excessive lending to the property sector and, with the significant decline in the Irish and UK property markets over recent years, loan impairments had begun to rise substantially. This caused a rapid depletion in bank regulatory capital and, as a result, it was necessary for the State to adopt appropriate remedial action to repair the balance sheets of a number of institutions.

After an extensive process of drafting one of the most complex pieces of legislation ever to be enacted by the Irish legislature, the **National Asset Management Agency Act, 2009** was passed into law in November 2009. The NAMA Act was enacted to address the serious threat to the economy and the stability of credit institutions in the State generally and the need for the maintenance and stabilisation of the financial system in the State.

NAMA has been established in order to protect the interests of the State and to remove uncertainty about the valuation of certain assets of credit institutions of systemic importance to the economy.

It also contributes partially or supportively to a number of other objectives including resolution of the problems created by the financial crisis in an expeditious and efficient manner thereby accelerating economic recovery, facilitating the restructuring of credit institutions of systemic importance to the economy, facilitating the availability of credit in the economy and restoring confidence in the banking sector.

It is intended that it will achieve these objectives by

(i) acquiring bank assets from participating institutions;

(ii) dealing expeditiously with the acquired assets; and

(iii) protecting and enhancing the value of assets acquired by it in the interests of the State.

**NAMA Mission Statement**

To manage acquired loans, efficiently, effectively and expeditiously and in the best interests of the State. NAMA aims to attain the best achievable financial return subject to acceptable financial risk. It will conduct its activities in a way which assists the property market to operate efficiently and in a way which achieves longer term sustainability while taking account of NAMA's wider societal objectives.

A key guiding principle of the NAMA Board is to pursue all debts owed to it by debtors to the greatest extent feasible.

NAMA was formally established and its Board appointed on 22nd December 2009. The NAMA Board is chaired by Mr. Frank Daly, former Chairman of the Revenue Commissioners and the NAMA Chief Executive Officer is Mr. Brendan McDonagh, formerly Director of Finance, Technology and Risk at the NTMA.

The NAMA initiative was developed within the common EU framework detailed in the European Commission *Guidance on the Treatment of Impaired Assets* (published in February 2009) and was approved by the Commission, in the context of its State Aid rules, at the end of February 2010. Within one month of EU approval, NAMA began to acquire the first tranche of loans.

*This Plan has been submitted to the Minister for Finance at his request in accordance with a commitment made while the legislation was being enacted. While NAMA is conscious of its obligations pursuant to section 11(6) to operate in a transparent manner to the extent that it can do so and in a manner which is consistent with the proper and efficient discharge of its functions, some of the information available to it cannot be publicly disclosed because of its commercial sensitivity.*

## Key features of the NAMA scheme

- NAMA operates as an independent commercial entity, with its own Board, under the aegis of the NTMA. Its objective, as set out in Section 10 of the Act, is to obtain the best achievable financial return for the State on the loan assets acquired by it. In doing so, it must have regard to the acquisition cost of the loans, any costs associated with developing or enhancing the assets underlying them, its own cost of capital and operating expenses.

- NAMA is an asset management agency, not a "toxic" or "bad" bank. It has the capacity and the time to take a longer term perspective on debtors and assets in so far as it makes commercial sense to do so.

- It will initially acquire loans but, to the extent that debtors are not in a position to service their debts and are not considered to be viable in the context of the debtor business plan process, NAMA will foreclose on those debtors and will take control of the underlying property assets. Income from the assets and the proceeds from their eventual sale will accrue to NAMA.

- It will acquire about €81 billion in eligible assets from five participating institutions – AIB, Anglo, Bank of Ireland, Irish Nationwide Building Society and EBS. The loans acquired will be the performing and non-performing loans of debtors with significant exposure to the property sector. NAMA has begun to acquire loan assets: the ten largest systemic exposures, which aggregate to €15.3 billion, were transferred as part of the first tranche in March-May 2010. The loans were acquired at a consideration of €7.7 billion, a discount of 50% on the nominal amounts transferred - this represented a discount of 7.5% on the long-term economic value of the property and an uplift of 3.2% on the current market value of property securing loans. It is expected that about half of the overall loan transfer will have been completed by August 2010 and the remaining loans will be acquired no later than end February 2011. Tranche 1 data is used as the basis for computing financial projections in this Plan.

- In exchange for these assets, NAMA will pay consideration to the institutions in the form of senior and subordinated bonds. The institutions can then use these securities as collateral with the European Central Bank and with the market to secure liquidity. With the funds that they receive in return, it is anticipated that they will be in a position to revert to their core business of commercial and personal lending and thereby facilitate the process of economic recovery in Ireland. The securities will be issued by a NAMA SPV and, as such, will not constitute part of the National Debt as defined by Eurostat.

- Each asset acquired by NAMA is valued individually after an intensive property and legal due diligence process and the price paid is based, to a large extent, on the current market value of the underlying property. In the case of many properties, the current market value may be uplifted to reflect NAMA's view of its long-term prospects. The valuation also incorporates factors such as any additional collateral offered by the debtor and whether the loan is cash-producing or not.

- NAMA will manage the largest 100 debtors (€50 billion) directly and will delegate the management of another 1,400 debtors (€31 billion), within tight and specific authority limits approved by the Board, to the participating institutions which will act as primary servicers.

- Section 50 of the Act provides for a limit of €5 billion on the amount of funds that NAMA can borrow for purposes other than the payment of consideration for acquired bank assets. However, the limit can be adjusted by order of the Minister and Resolution of the Dáil, thus ensuring parliamentary accountability for borrowing levels.

- NAMA is expected to have a lifespan of seven to ten years and when, in the view of the Minister for Finance, it has made sufficient progress towards achieving its overall objectives, it will be wound up. If, by the time its work is finished, it has made a surplus, that surplus will accrue to the Exchequer. If, however, it has made a loss over its lifetime, the participating institutions will absorb the first loss through non-redemption of their holdings of NAMA subordinated debt. Section 225 of the Act provides that the Minister may impose a tax surcharge over a number of years on participating institutions to make up any shortfall after NAMA ceases operations.

## Strategic and Policy Decisions of the NAMA Board

The Board has determined a number of strategic and policy decisions. Some of these are set out below while others are confidential and commercially sensitive and it would be inappropriate to disclose them as this would not be consistent with the proper and efficient discharge of its functions.

| POLICY DECISION | EXPLANATORY NOTE |
|---|---|
| **NAMA will pursue all debts and debtors to the greatest extent feasible. The Board has set targets for debt reduction over its expected life.** | Debt Reduction Targets<br>Year — % of NAMA debt paid down<br>2013 — 25%<br>2015 — 40%<br>2017 — 80%<br>2018 — 95%<br>2019 — 100% |
| **Advances of new money** | New money is a limited and expensive resource. There will be occasions where it is necessary to advance new money to a debtor, on a risk adjusted basis (ROCE), so as to improve NAMA's overall financial position. NAMA has set a current minimum interest margin of 2.50% above the prevailing market interest rate. The return required by NAMA will increase commensurate with the risk associated with an asset. |

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| **Debtors** | NAMA may work with certain debtors where it takes the view that this is the optimal commercial strategy in the circumstances. However, this will only occur where debtors are co-operative, make full disclosure and are realistic in terms of asset funding and of the lifestyle implications for them of NAMA support. They must also accept close monitoring by NAMA of their activities. |
| **Dealing with undeveloped land and partially-completed developments** | NAMA will seek to reduce its exposure to undeveloped land and partially-completed developments as soon as is feasible and, where appropriate, via public auction. |
| **Dealing with unfinished estates** | The matter of unfinished estates is a complex one with no readily available solutions. While NAMA has to strive to achieve and set an overall strategy, solutions may need to be individually tailored to the environment and could include sale, rent or completion. In some cases, the only available option may be restoration to agricultural use. |
| **New loans to complete developments** | In certain situations, NAMA will acquire property which it will make commercial sense to complete and in such cases NAMA will proactively seek joint venture partners. |
| **Retail sector – "turnover-based" rents** | NAMA may offer and approve "turnover-based" rents as part of its asset management programme. |
| **Control of asset(s)** | Where management/debtor is not adding value and in default, NAMA will, where appropriate, seek to take control of the asset(s). |
| **Asset Disposals** | NAMA will reflect market conditions in its decision as to whether to sell individual properties with the goal of disposing of assets in a phased and orderly manner. However, NAMA will not engage in any speculative hoarding of assets. Strategy will be shaped by a neutral view as to future market movements on a portfolio basis. |

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| **Sale of loans** | NAMA will consider, on a case-by-case basis, the sale or assignment of loans or loan portfolios to third parties if it makes commercial sense to do so. |
| **Shortfall in Interest Servicing** | Debtors will be required to pay to NAMA 100% of their available cash flows when they are unable to fully meet their current interest/repayment obligations to NAMA. |
| **Unencumbered assets** | NAMA's policy will be to try to acquire unencumbered assets as additional security, taking account of the cost of pursuance and the legal risks involved. |
| **Transfer of unencumbered assets by debtors** | NAMA will pursue recovery of assets transferred to third parties |
| **Streamlining of loans and documentation** | NAMA will restructure and simplify existing loan structures and utilise NAMA's own legal documentation to standardise and consolidate loans. |
| **Hotels** | Where a number of NAMA-funded hotels are competing in a location where there is only potential for a single facility, NAMA will make its decision based on the optimal commercial outcome. |
| **Guarantor's/ Principal's Certification of Personal Assets** | NAMA Credit Policy requires debtors and principals/ guarantors to provide a certified schedule of all assets and liabilities. |
| **Enforcing personal guarantees** | NAMA will pursue all personal guarantees to the greatest extent feasible. |
| **Engagement with Planning Authorities** | NAMA will engage with Planning Authorities having regard to proper planning and sustainable development principles and to NAMA's commercial remit. |

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| **Engagement with Government entities and with local communities regarding their land needs** | NAMA will engage proactively with Government Departments, local authorities, State agencies and other appropriate bodies in relation to their possible need for land/properties. Such land will be offered at NAMA's minimum reserve price (independently appraised) to such bodies for four weeks, subject to a definite decision, contract and closing period of 90 days, prior to open market offering. |
| **Non-Participating Institutions** | NAMA will engage proactively with non-participating institutions, in accordance with the approved code of practice, in order to optimise returns on common assets and debtors. NAMA also expects non-participating institutions to operate in a reciprocal way taking account of NAMA's objectives. |
| **Northern Ireland / UK / USA / Europe** | NAMA will not adopt a specific policy to deal with any specific geographical area. Any asset/debtor activity and management has to be in accordance with attaining the best achievable returns. |

# Governance

**Board**

Under Section 18 of the Act, the functions of the Board are as follows:

a) to ensure that the functions of NAMA are performed effectively and efficiently;

b) to set the strategic objectives and targets of NAMA;

c) to ensure that appropriate systems and procedures are in place to achieve NAMA's strategic objectives and targets and to take all reasonable steps available to it to achieve those targets and objectives.

Six members of the NAMA Board were appointed by the Minister for Finance on 22nd December 2009. They are Frank Daly (Chairman), Michael Connolly, Eilish Finan, Brian McEnery, Willie Soffe and Peter Stewart. John Corrigan (Chief Executive of the NTMA) and Brendan McDonagh (Chief Executive of NAMA) are *ex-officio* members. The ninth member of the Board, Mr Steven Seelig, was appointed by the Minister on 26th May, 2010. The Board has established four statutory committees – Audit Committee, Credit Committee, Finance and Operating Committee and Risk Management Committee - under Section 32 of the Act and two advisory committees – Planning Advisory Committee and Northern Ireland Advisory Committee – under Section 33. Details are set out at Appendix A. The Board will adopt the Code of Practice for Governance of State Bodies.

NAMA will shortly appoint a firm to provide Internal Audit services after running a public procurement competition. This firm will report to NAMA's Audit Committee on internal controls within NAMA and the NTMA (as provider of services to NAMA) but will also report on the services being provided by the participating institutions as primary servicers for NAMA and the activities of the Master Servicer.

The NAMA Board and Board committees have held the following number of meetings 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** |

Details of NAMA's organisational structure are outlined at Appendices B and C. Appendix C also sets out NAMA's current projected staffing requirements. This may be affected by the extent to which NAMA decides to outsource services to the primary servicers and their performance of such services on behalf of NAMA.

In order to achieve its objectives, NAMA established a special purpose vehicle (SPV), National Asset Management Limited, which is responsible for the purchase, management and disposal of loan assets from participating institutions and financing such purchases through the issuance of debt securities. The SPV is owned jointly by private investors (51%) and NAMA (49%) through an investment holding company, National Asset Management Agency Investment Limited. NAMA maintains a veto over all activities of the SPVs. The annual return to the private investors is capped as it is linked to the Irish Government 10 year bond yield at the time it is declared with the potential upside of 10% of capital invested to be paid at maturity if NAMA meets its objectives. All other profits and losses accrue to NAMA. The corporate structure is outlined in Appendix D.

**Role of Minister in relation to NAMA**

Under the Act, the Minister for Finance may issue guidelines (Section 13) or directions (Section 14) to NAMA and such guidelines or directions are subsequently published in *Iris Oifigiúil*. Up to June 2010, the Minister had issued one direction to NAMA – a direction in relation to the pricing of NAMA debt.

**Codes of Practice**

Under Section 35 of the Act, NAMA is obliged, within three months of its establishment, to prepare codes of practice for approval by the Minister in relation to the following matters:

a) the conduct of officers of NAMA;
b) servicing standards for acquired bank assets;
c) risk management, including with regard to debtors;
d) disposal of bank assets;
e) the manner in which NAMA is to take account of the commercial interests of credit institutions that are not participating institutions;
f) any other matter in relation to which the Minister directs NAMA to prepare a code of practice.

The draft codes were submitted by NAMA to the Minister in March 2010. These will be published on the NAMA website when they have been approved by the Minister.

**Lobbying**

Under Section 221 of the Act, it is an offence to attempt to lobby NAMA. An officer or Board member of NAMA is obliged to report any such attempt to a member of the Garda Síochána and failure to do so is itself an offence.

**Public Procurement**

Attached at Appendix E is a list of all procurement competitions run by NAMA, the number of responses to each and the number of service providers selected. A competition for Internal Audit services is currently close to conclusion.

Appendix F outlines NAMA's approach to the management of conflicts of interest in accordance with Section 45 of the Act.

## Accounting treatment of loans acquired by NAMA

The Financial Statements of NAMA will be prepared under International Financial Reporting Standards ("IFRS"). The consideration paid by NAMA for loans can be regarded as the Day 1 fair valuation under IFRS accounting rules. However, under IFRS, NAMA will be required to set its Day 2 onwards policy with respect to loan valuation. The relevant IFRS (IAS 39) permits a number of accounting policy choices (subject to meeting certain terms and conditions) in relation to the measurement and accounting for acquired loans. The policy decision must be effective from Day 1 (first acquisition date) by NAMA and cannot be changed thereafter.

The accounting policy choices available to NAMA included **Amortised Cost (Effective Interest Rate method**), **Fair Value with movement in fair value through Income Statement (FVPL)** and **Fair value with movement through equity.** NAMA decided to adopt the Amortised Cost (Effective Interest Rate) method. The Amortised Cost policy considers expected cash flows, not contractual cash flows, on loans. This means that the Profit & Loss account will reflect what is happening in reality in cashflow terms, rather than taking income to the Profit & Loss account that is not cashflow-based e.g. NAMA will not accrue interest rollup to its Profit & Loss account. It reflects an accounting approach which values the loans by taking the "actual" initial value plus future expected cashflows less potential impairments. Derivative transactions are valued at fair market value with any changes in valuation being taken directly to the Income Statement.

**Fair value** is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

**Amortised Cost** is the amount at which the asset or liability is measured at initial recognition (Day 1 cost) minus any repayments of principal, plus or minus the cumulative amortisation of the difference between that initial amount and the maturity amount (interest income accrued on an effective interest rate (EIR) basis and minus any reduction for impairment or incapacity to recover.

**Effective Interest Rate (EIR)** is the interest rate which exactly discounts the **estimated** cash flows to the net carrying amount at initial recognition, i.e. a constant rate on the carrying amount. The EIR is, in effect, the yield to maturity and is the internal rate of return of the financial asset or liability for its remaining life.

**Equity** is the residual balance in the assets of a company after deducting all liabilities. It is equivalent to "shareholders' funds", including minority interest. Movement through equity is equivalent to movement straight to reserves.

## NAMA – ACCOUNTABILITY AND REPORTING REQUIREMENTS

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|---|---|
| **Annual Statement**<br><br>**(Section 53 of the Act)** | • NAMA will be required to submit to the Minister, three months before the start of each financial year, a statement specifying the following:<br>    ○ Its proposed objectives for the year concerned<br>    ○ The nature and scope of activities to be undertaken<br>    ○ The strategies and policies for achieving its objectives<br>    ○ The uses to which it proposes to apply its resources.<br>• The Minister will lay copies of this statement before the Houses of the Oireachtas.<br>• The first such statement – for 2010 – is to be submitted by 1 July 2010. |
| **Annual Accounts**<br><br>**(Section 54)** | • The Agency will submit to the Minister annual accounts of its transactions including the following:<br>    ○ A list of debt securities issued<br>    ○ A list of securities issued to and redeemed by each participating institution<br>    ○ A list of all advances made by NAMA<br>    ○ A list of all asset portfolios held by NAMA<br>    ○ A statement of administration fees and expenses<br>    ○ Profit & Loss Account, balance sheets and other accounts.<br>• The first set of accounts will be for the year 2010. |
| **Quarterly reports**<br><br>**(Section 55)** | • Each quarter, NAMA will report to the Minister giving detailed information in relation to the following:<br>    ○ Loans outstanding, categorised as between performing and non-performing (including level of impairment)<br>    ○ A schedule of finance raised by NAMA<br>    ○ Income, including amounts recovered from property sales<br>    ○ A schedule of income and expenditure in the period.<br>• The Minister will lay copies of this statement before the Houses of the Oireachtas.<br>• The first such report – for the quarter ending 31st March 2010 – is to be submitted by 30th June 2010. |
| **Comptroller and Auditor General**<br><br>**(Section 57)** | • NAMA's accounts will be audited by the Comptroller and Auditor General. |
| **Oireachtas**<br><br>**(Sections 58 and 59)** | • The Chairman and Chief Executive Officer of NAMA will give evidence, whenever required to do so, to the Committee of Public Accounts and to any other Committee appointed by the Oireachtas to examine matters relating to NAMA. |

## NAMA portfolio

It is expected that NAMA will acquire €81bn in eligible assets from five participating institutions as follows:

| Institution | Total € bn |
|---|---|
| AIB | 23 |
| Anglo | 36 |
| BOI | 12 |
| EBS | 1 |
| INBS | 9 |
| **Total (€bn)** | **81** |

Derivative transactions with a nominal value of €14bn (principally interest rate swaps) will also be transferred. A substantial number of these derivatives are non-performing and NAMA will pay nil consideration to acquire them.

The eligible assets will be valued in line with a valuation methodology which has been approved by the EU Commission. Assets are evaluated using a discounted cash flow method taking into account the timing and reliability of the cash flows coupled with an appropriate discount factor to arrive at a current valuation. The discount factors are set out in the Valuation Regulations published by the Minister on 5th March 2010. The ultimate aim of such a cash flow valuation exercise is to determine the long-term economic value of the eligible bank asset which is defined as "the value that such asset (i.e. the loan) can reasonably be expected to obtain in a stable financial system when the crisis conditions prevailing are ameliorated". The transfer price of the assets will be no greater than the long-term economic value of the bank asset, so determined. The underlying property and other collateral is valued by professional valuers.

Four separate valuations are computed:

1. The ***current market value*** of the ***property*** or other collateral underlying the loans (the "Property CMV"), defined as "the estimated amount that would be paid by a willing buyer to a willing seller in an arm's-length transaction after proper marketing (where appropriate) where both parties act knowledgeably, prudently and without compulsion";
2. The ***long-term economic value*** (or real economic value) of the ***property*** or other collateral underlying the loans (the "Property LEV"), defined as "the value, as determined by NAMA, that it can reasonably be expected to attain in a stable financial system when the crisis conditions prevailing are ameliorated and in which a future price or yield of the property is consistent with reasonable expectations having regard to the long-term historical average";
3. The ***current market value*** of the transferred ***loan*** asset itself (the "Bank Asset CMV").
4. The ***long-term economic value*** (or real economic value) of the ***loan*** asset itself (the "Bank Asset LEV").

The fundamental building block of the valuation that NAMA will determine for any loan is the current market value of the property (CMVP) which is the security on the loan. The participating institution submits a CMVP from its property valuer (who also has a duty of care to NAMA) and NAMA requests its own property valuation reviewer to verify this in accordance with international property valuation standards (the "Red Book"). If the NAMA reviewing valuer agrees with the participating institution's CMVP, NAMA accepts this. If the NAMA reviewing valuer rejects the participating institution's own property valuation, NAMA commissions its own third party property valuation which is then used in the loan valuation.

Furthermore if, for whatever reason, information comes to light after transfer of an asset by a participating institution to NAMA which indicates that NAMA has overpaid for an asset, there is scope, under Section 93 of the Act, for the amount of the overpayment to be subsequently clawed back by NAMA from the institution. The EU Commission is conducting a tranche-by-tranche review of loan transfers to ensure that valuations conform to the scheme approved by the Commission in February 2010.

**Table 1** below summarises the key results of the valuation conducted on loans transferred during the first tranche. While the average uplift on property is 11%, it may be noted that, due to the effect of the discounting of cashflows and the deduction of 5.25% of due diligence and enforcement costs, the consideration paid by NAMA for loans acquired in the first tranche exceeds the current market value of the underlying property and other collateral by only 3% (€7.7bn vs. €7.45 bn).

**TABLE 1: TRANCHE 1 SUMMARY**

| €m | AIB | BOI | Anglo | INBS | EBS | TOTAL €m |
|---|---|---|---|---|---|---|
| Loan balances acquired | 3,290 | 1,930 | 9,251 | 669 | 144 | 15,284 |
| Current market value (CMVP) of property | 1,872 | 1,264 | 3,860 | 363 | 95 | 7,454 |
| Long-term economic value (LEVP) of property | 2,040 | 1,415 | 4,311 | 406 | 103 | 8,275 |
| Average LEV uplift for property | 9% | 11.9% | 11.7% | 11.8% | 8.4% | 11.0% |
| Long-term economic value of loans/derivatives/collateral<br><br>**= NAMA Consideration paid to institutions** | 1,906 | 1,262 | 4,157 | 280 | 91 | 7,696[1] |
| Discount on Tranche 1 loans | 42% | 35% | 55% | 58% | 37% | 50% |
| Consideration as % of LEV of property | 93% | 89% | 96% | 69% | 88% | 93% |
| Consideration as % of CMV of property | 102% | 100% | 108% | 77% | 96% | 103% |

[1] Senior securities issued: €7,311m. Subordinated securities issued: €385m

**Table 2: Current market value of property – by asset class (Tranche 1)**

| | € m | |
|---|---|---|
| Land (including developments which are less than 30% complete) | 2,076 | 27.9% |
| Residential Property for resale | 1,069 | 14.3% |
| Investment Property | 3,893 | 52.2% |
| Hotels | 311 | 4.2% |
| Developments which are more than 30 % complete | 106 | 1.4% |
| Total | **7,454** | **100%** |

**It should be noted that investment property which constituted 52% of the first tranche is expected to make up about 30% of the final NAMA portfolio.**

**Table 3: Current market value of property – by geographical location (Tranche 1)**

| | €m | |
|---|---|---|
| Ireland | 4,944 | 66.3% |
| Britain and Channel Islands | 2,241 | 30.1% |
| US/Canada | 29 | 0.4% |
| Rest of Europe | 239 | 3.2% |
| Total | **7,454** | **100%** |

**The geographical breakdown of property assets in Tranche 1 is broadly in line with NAMA's expectations of the breakdown in the final portfolio.**

**Table 4: NPV Scenarios**

NAMA has run a number of scenarios which project the Net Present Value outcome of its activities over its expected lifespan. Scenario A is based on current expected asset recovery values. NAMA will pursue all debts and debtors to the maximum extent feasible. The results are summarised below:

| | **Scenario A**<br><br>**Recovery of long-term economic value** | **Scenario B**<br><br>**Recovery of long-term economic value plus 10%** | **Scenario C**<br><br>**Recovery of long-term economic value less 10%** |
|---|---|---|---|
| **Amount recovered from Assets** | €44.7bn | €49.2bn | €40.2bn |
| **Amount of debt securities to be redeemed by NAMA** | €40.5bn | €40.5bn | €38.5bn[2] |
| **Net Present Value** | €1.0 bn | €3.9 bn | -€0.8bn |

[2] Subordinated Debt (5% of consideration equal to €2 bn) would not be redeemed by NAMA under Scenario C.

## KEY ASSUMPTIONS USED IN SCENARIO ANALYSIS

- €81bn in eligible assets to be acquired by NAMA.
- Debtors will continue to be liable to NAMA for full loan balance recovery of €81bn. The recoveries assumed in the three scenarios outlined in the table are based on the amounts that would be recovered if NAMA foreclosed on debtors and underlying assets had to be realised by reference to the long-term economic value of the assets.
- Under Section 50 of the Act, NAMA may borrow, up to a limit of €5 billion, in order to perform its functions. This additional funding may be advanced to debtors/assets over the life of NAMA and will be repaid/realised – it will be advanced to preserve or enhance property or complete developments which make economic sense. For years in which NAMA has surplus cash flow, new funds will be advanced from cash; otherwise, funds will be borrowed by NAMA under its debt programmes for on-lending to projects.
- Based on the Tranche 1 weighted average discount of 50%, it is assumed that NAMA will issue €40.5bn as consideration in securities to the participating institutions for the €81 bn of eligible assets acquired from them - €38.5bn (95%) in senior debt and €2bn (5%) in subordinated debt. The overall NAMA discount on the €81bn portfolio will depend on the results of a loan-by-loan valuation.
- It is assumed that 40% of NAMA debt is paid down by 2015 and 80% by 2017.
- 25% of eligible assets in the portfolio are assumed to be cash-producing during NAMA's life (this assumption is based on analysis of the first tranche of acquired loans).
- NAMA interest rate costs and receipts based on current market rates and implied forward market interest rates as of mid-June 2010.
- A discount rate of 5.5% (based on the 10 year Government Bond yield as at 18th June 2010) was used to discount NAMA cash flows.
- Fees payable by NAMA will be approximately €215m for 2011 and are expected to decline significantly as the portfolio reduces. They are estimated to amount to €1.6bn over the whole life of NAMA. NAMA will incur due diligence costs in 2010 which are recovered from participating institutions in the form of reduced consideration at time of acquisition.
- In Scenario C, it is assumed that the €2bn subordinated bonds (5% of the consideration) will not be redeemed as NAMA has not attained a surplus.

## Table 5: NAMA – Projected Budget 2011

| **NAMA Direct Expenses** | **€m** |
|---|---|
| Primary Servicer/Master Servicer Fees | (51) |
| Legal Fees | (25) |
| Reimbursement to NTMA as Service Provider | (25) |
| Accounting/Audit fees | (2) |
| Property Advisory Fees | (12) |
| Financial Advisors (Debtor Business Plan reviews) | (15) |
| IT/MIS costs | (3) |
| Miscellaneous Costs – Contingency | (8) |
| **Total - Direct Expenses** | (141) |
| | |
| **NAMA Indirect Expenses** | |
| Recovery/Insolvency Costs | (75) |
| | |
| **Total Budget Direct and Indirect Expenses (including VAT)** | **(216)** |

•

**NOTES**

- NAMA will incur due diligence costs of about €100m (excluding VAT) during the eligible asset acquisition process in 2010/early 2011. This amount is recovered directly from the institutions as part of the loan valuation process – it is deducted from the NAMA consideration paid to participating institutions.
- Primary Servicer fees are paid for the day-to-day servicing of NAMA-acquired loans by participating institutions. The basis on which the fees are determined has been set by the EU Commission.
- The NTMA carries out a number of support services for NAMA, including HR, IT and accounting services. The costs of these services are reimbursed by NAMA to NTMA.
- The estimates in Table 5 are current best estimates. A number of services – valuation, legal and financial advisory – will be subjected to mini-tenders under a procurement framework agreement for each assignment in order to secure the most competitive pricing at the time the service is required.
- Costs are aligned to the size of the portfolio being managed and therefore can be expected to reduce in line with a reducing portfolio size over the life of NAMA. Over the ten-year expected life of NAMA, such costs are expected to amount to €1.6 billion.

# NAMA 2010 Workplan

## 1. Work completed to date in 2010

| | |
|---|---|
| Governance | NAMA Board appointed 22nd December 2009<br><br>NAMA CEO, Mr. Brendan McDonagh, appointed 22nd December 2009<br><br>Four Board Committees and two advisory committees put in place and terms of reference approved.<br><br>NAMA SPV structure put in place and private investment secured<br><br>Codes of Practices submitted to the Minister. |
| Recruitment | Senior executive team has been recruited and appointed.<br><br>45 staff recruited by NTMA for the six NAMA divisions by end-June 2010. 33 additional people have been offered contracts. The Board is currently budgeting for the recruitment of over 90 staff by NTMA. |
| Loan acquisition and valuation infrastructure put in place | 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. |
| EU Commission Approval | Commission approval received on 26th February 2010 |
| Valuation Regulations | Statutory valuation regulations published on 5th March 2010. |
| Loan transfer | Tranche 1 transfers completed €15.3 bn (19% of portfolio) on 10th May 2010. |
| Procurement | Details of the services which have been procured since June 2009 are outlined in Appendix E. The following services are currently being sought through the procurement process:<br><br>• Legal Enforcement and Security Panel |

| | |
|---|---|
| | • Enforcement and Insolvency Panel<br>• Internal Auditor<br>• Document management system<br><br>Tenders will be conducted in the second half of 2010 for taxation advisory services and a Portfolio Management System. |
| Loan servicing | 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.<br><br>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. |
| Debtors | 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.<br><br>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.<br><br>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 considered by the Board of NAMA over the remainder of 2010. Parallel with this process, NAMA is also assessing the working capital requirements of certain assets and has a credit policy framework in place to make determinations on these matters. |
| Funding/Treasury | 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.<br><br>Three rating agencies (S&P, Moody's and Fitch) have rated the NAMA Senior Notes (guaranteed) in line with Ireland's sovereign rating. |

## 2. Work schedule: July to December 2010

| | |
|---|---|
| Loan transfer | Residual portfolio - €66bn – to be acquired from participating institutions |
| Recruitment | Completion of NAMA recruitment – additional staff to be recruited by end-year. |
| Compliance issues | Strong internal control structure developed in NAMA.<br><br>Primary servicers and the Master Servicer will be benchmarked to best practice and this will be verified using the Internal Auditor mechanism.<br><br>Appointment of Internal Auditor. Internal Auditor will commence audit work in the participating institutions immediately upon appointment. |
| Interaction with debtors and with participating institutions | Efficient debtor monitoring and management arrangements put in place by NAMA.<br><br>Direct management of the top 100 debtor exposures - business plans evaluated<br><br>Arrangements put in place to enable close monitoring of 1,400 debtors managed by institutions as primary servicers.<br><br>Interim primary servicing arrangements are in place and will be finalised by Q4 2010. Agree Service Level Agreements with participating institutions.<br><br>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. |
| Funding/Treasury | 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. |
| Systems | 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:<br><br>• Provide a single, consolidated view of all debtor information<br>• Facilitate the ongoing management of the NAMA assets:<br>  o Manage the transition of assets over time (from loans to property)<br>  o Facilitate the process of lending "new money" for further development<br>  o Aid in making informed decisions on disposal of assets<br>• Provision of Management Information and Key Performance Indicators (KPIs)<br>• Aid in decision making process through scenario modelling.<br><br>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. |

## Engagement with debtors

The largest 100 debtors (about €50bn of the €81bn to be acquired) will be managed directly by NAMA and each of them will be required to produce a Debtor Business Plan which will present a complete account of their financial affairs and provide a detailed plan of how and when all of the debtor's liabilities to NAMA will be redeemed.

The debtors have been provided with a template which prescribes areas that must, at a minimum, be covered in the Business Plan, and describes the key information and explanations that must be included in each area. The Business Plan will be reviewed by NAMA and its advisors and NAMA expects that it will be completed in utmost good faith with full disclosure of all facts, assumptions and issues likely to influence NAMA in reaching a decision on a course of action regarding the debtor.

In its evaluation of business plans, NAMA requires that debtors have set targets for a significant debt reduction over a three year horizon. Stabilisation or modest reduction of their debt over the medium-term is not sufficient. For most debtors, this means that they must identify assets which can be sold or re-financed to raise cash to repay NAMA debt. A debtor must convince NAMA that he has not only the financial capacity but also the managerial ability to deliver on any debt reduction target agreed with NAMA. Where a debtor cannot convince NAMA that he can meet the target, the likely option is foreclosure. NAMA will pursue all debts and debtors to the maximum extent feasible.

Arrangements for the management of debtors other than the largest 100 – an estimated 1, 400 debtors with debt of about €31bn – will be put in place with the participating institutions during the second half of the year. NAMA will oversee the management of its loans within the participating institutions to ensure that high servicing standards are being applied and will have its own staff in place in the institutions to ensure this. This oversight will incorporate approval of new loans, relationship reviews, adherence to agreed action plans, accurate credit grading and appropriate provisioning. One of the responsibilities of NAMA's Internal Auditor will be to audit the institutions' servicing of NAMA loans to ensure that it is in compliance with NAMA servicing standards.

## Credit review

NAMA has put in place a process which enables it to review applications for credit from debtors. Credit applications are initiated by the debtor and reviewed, in the first place, by the participating institution. If approved by the participating institution, the application then proceeds to NAMA's own credit approval process – Credit Committee or Board, as appropriate. Appendix C outlines the key responsibilities of the Credit and Risk function and Appendix G outlines NAMA's credit approval process.

# Asset management options

While NAMA will initially acquire loan assets, it will of necessity acquire direct control of certain property assets. The key asset management objectives will be to stabilise the acquired assets, to develop an asset management plan aligned to the overall approved strategy and to implement that strategy.

1. **Stabilising Direct Property Management**

Ensuring the efficient management of properties in multiple occupation, setting up appropriate control functions, operating of rent and service charge accounts and dealing with legacy issues that may not have been attended to for some time will be critical early activities. Some asset management and property level decisions may have been delayed as debtors struggled with both the reduced demand from occupiers and pressures of excessive leverage.

Some of the collateral underlying NAMA loan security would be widely regarded as management-intensive at the underlying property level. Key decisions will need to be made on the appropriate property management approach.

2. **Property and Asset Management Planning**

Key asset disposal targets will be identified across the whole portfolio. Property plans for major assets that reflect strategic asset disposal timing will be developed in parallel. Assets that are partially constructed will be particularly challenging. The economics of completing developments will be assessed on a case-by-case basis. If the asset management decision suggests completion, the property plan will need to take the project through construction completion, letting and sale. The decision not to complete a project could be either temporary or permanent.

The assessment of future demand for the end product, matching a revised planning application, securing planning permission and a disposal of the development land is anticipated in a number of locations. Some development, on the other hand, is likely to be assessed as non viable.

Some property and asset management activities may be carried out as part of third party joint ventures. These portfolios could attract third party debt and equity capital with perhaps NAMA securing an early partial debt reduction and retaining an ongoing percentage involvement in the joint venture, if appropriate.

## 3. Implementation of Strategy

NAMA expects to establish key performance milestones which will be reviewed in the context of overall business plan reviews. The strategy will be subject to periodic review from both a top down and bottom up perspective. From an overall portfolio perspective, NAMA will consider the balance between disposal of income-producing and non income-producing properties in the context of progress in reducing its own debt and the evolution of the economic and real estate cycle in key markets where underlying loan collateral is situated. Similarly at the asset level, opportunities may arise to dispose of assets resulting from a general improvement in demand for a particular asset type or submarket or the success of specific asset and property management strategies.

For assets that require intensive property management, NAMA expects to agree a set of key micro deliverables with third party property managers. These would be subject to frequent reporting targets. A limited number of assets, such as those fully let on long term leases at market rents, may require less intensive property and asset management with the key decision being the asset disposal timing.

It is expected that the property management function for post-foreclosure assets will be largely outsourced. Portfolio managers will have accountability for ensuring that property management and asset management are aligned and that both are implemented in accordance with agreed plans.

NAMA will adopt a commercial approach to property and asset management issues in the context of its statutory objective to expeditiously deal with assets and obtain the best financial return for the State.

## RISK MANAGEMENT

The Risk Management Committee and the NAMA Board have developed a Business Risk Register which is formally reviewed at each meeting of the Risk Management Committee. The risks which have been identified fall principally into the following categories:

- Operational risks
- Credit risks
- Liquidity risks
- Market and other financial risks
- Economic and property risks
- Fraud risks
- Strategic and governance risks
- Information Technology risks
- Legal and tax risks
- Human Resources risks
- Reputation risks

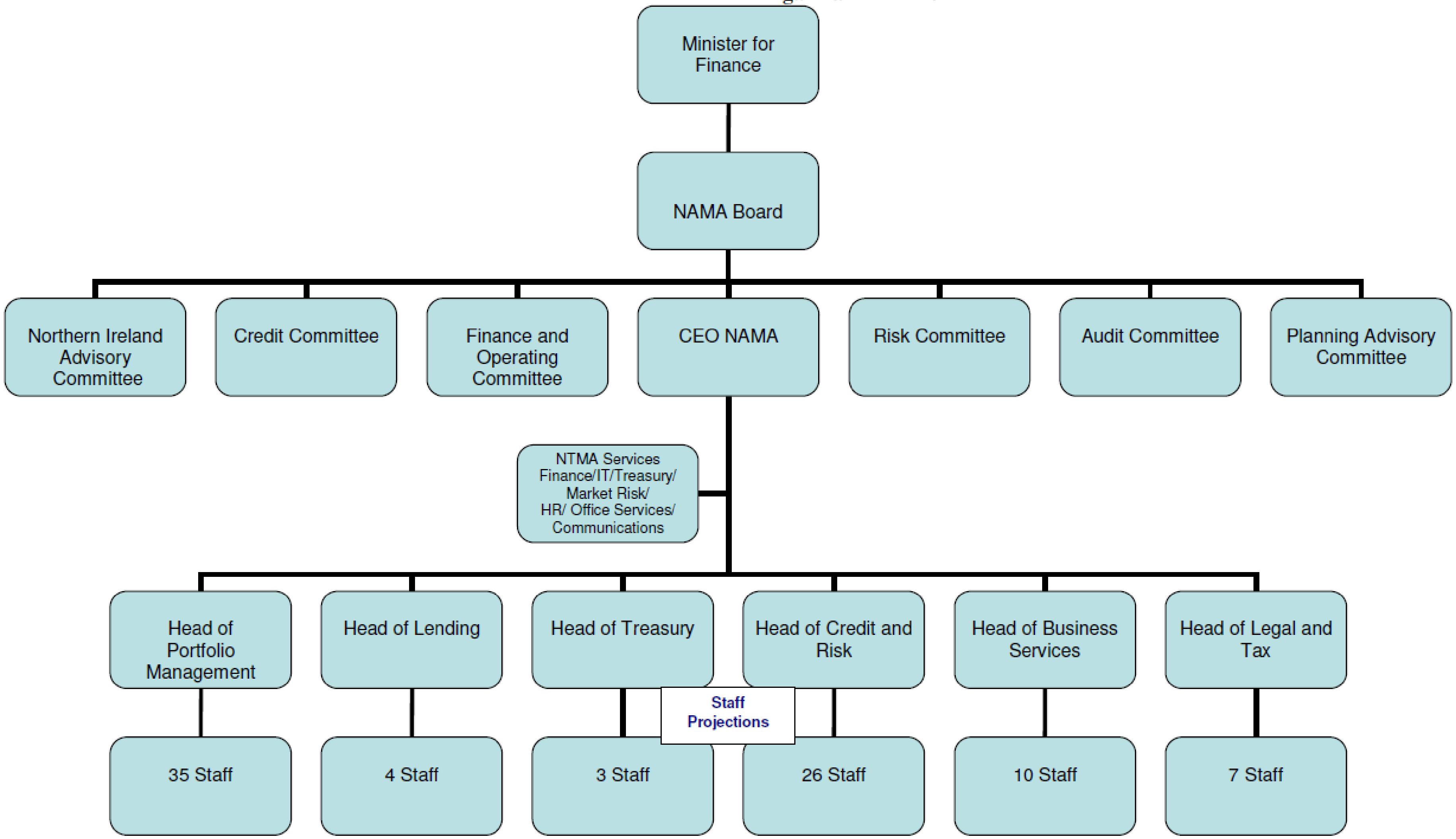
Attached at Appendix H is a copy of NAMA'S Risk Control Environment Framework.

## Appendix A: NAMA Board Committees

| Committee | Chair | Composition | Purpose |
|---|---|---|---|
| Credit Committee | Mr. Michael Connolly | Two non-executive Board members and five senior executives | Commensurate with the credit policy approved by the Board, and subject to agreed portfolio limits, the Credit Committee is responsible for the approval of credit applications which exceed the credit approval authority delegated to the NAMA CEO in a considered and timely manner so as to support efficient lending operations. The Committee operates under delegated authority from the Board which has ultimate responsibility for the credit risk of NAMA's portfolio. |
| Audit Committee | Mr. Brian McEnery | Four non-executive Board members | • Oversee the financial reporting process,<br>• Review the Executive Team's system of internal control,<br>• Review the internal and external audit process, and ensure the independence and integrity of external and internal auditors<br>• Review the Executive Team's process for monitoring the compliance of NAMA's loan service providers with their contractual obligations to NAMA.<br>• Review the processes, procedures and practices for ensuring compliance with all relevant legal, regulatory and taxation requirements as they affect NAMA<br>• Oversee the processes, procedures and practices for establishing the terms of employment (including remuneration) of the Executive Team<br>• Establish and keep under review a mechanism for 'good faith' reporting. |
| Risk Committee | Mr. Steven Seelig | Two non-executive Board members<br>Seven senior executives | The overarching purpose of the Risk Committee is to embed and oversee the implementation of the Board-approved risk policy. The Risk Committee is responsible for the ongoing review and oversight of the risk profile of NAMA within the context of approved risk policy. |

| | | | |
|---|---|---|---|
| | | | The Risk Committee reviews and oversees the Executive Team's plans for the identification, management, reporting and mitigation of the material risks faced by NAMA on an enterprise wide basis. The Risk Committee will oversee the implementation and review of Enterprise Risk management framework and will satisfy itself that appropriate actions are taken in the event that any significant concerns are identified.<br><br>The Risk Committee ensures that NAMA's risk management governance and organisational model provide appropriate levels of independence and challenge. |
| Finance and Operating Committee | Ms. Eilish Finan | Two non-executive Board members<br>Three senior executives<br>NTMA Finance Director | The purpose of the Finance and Operating Committee is to monitor the financial and operational management of NAMA and its budgetary and management reporting, including the preparation of annual budgets and other forecasts and financial and management reporting. |
| Planning Advisory Committee | Mr. Willie Soffe | Two non-executive Board members<br>Two senior executives<br>Two external members | The overarching purpose of the Committee is to advise the Board on planning, land and related matters that may exert an influence on the valuation and realisation of NAMA assets insofar as they relate to or impact upon the achievement of NAMA's purposes and functions as set down in Sections 10 and 11 of the Act.<br><br>The Committee may make recommendations to the Board concerning NAMA's objectives with respect to approved planning strategy and impact on NAMA assets. |
| Northern Ireland Advisory Committee | Mr. Peter Stewart | Three non-executive Board members<br>One senior executive<br>Two external members | The Committee will advise the Board on matters pertaining to Northern Ireland in the context of NAMA's objectives and functions as set down in Sections 10 and 11 of the Act.<br><br>This advice will include the Committee's view in relation to the impact on Northern Ireland of the implementation of the Board's strategy.<br><br>The Committee will make recommendations to the Board concerning strategy for NAMA in so far as it relates to the Northern Ireland assets. |

## APPENDIX B - NAMA Organisation Structure



## APPENDIX C: NAMA ORGANISATION – Current plans (subject to ongoing review to ensure it is fit for purpose)

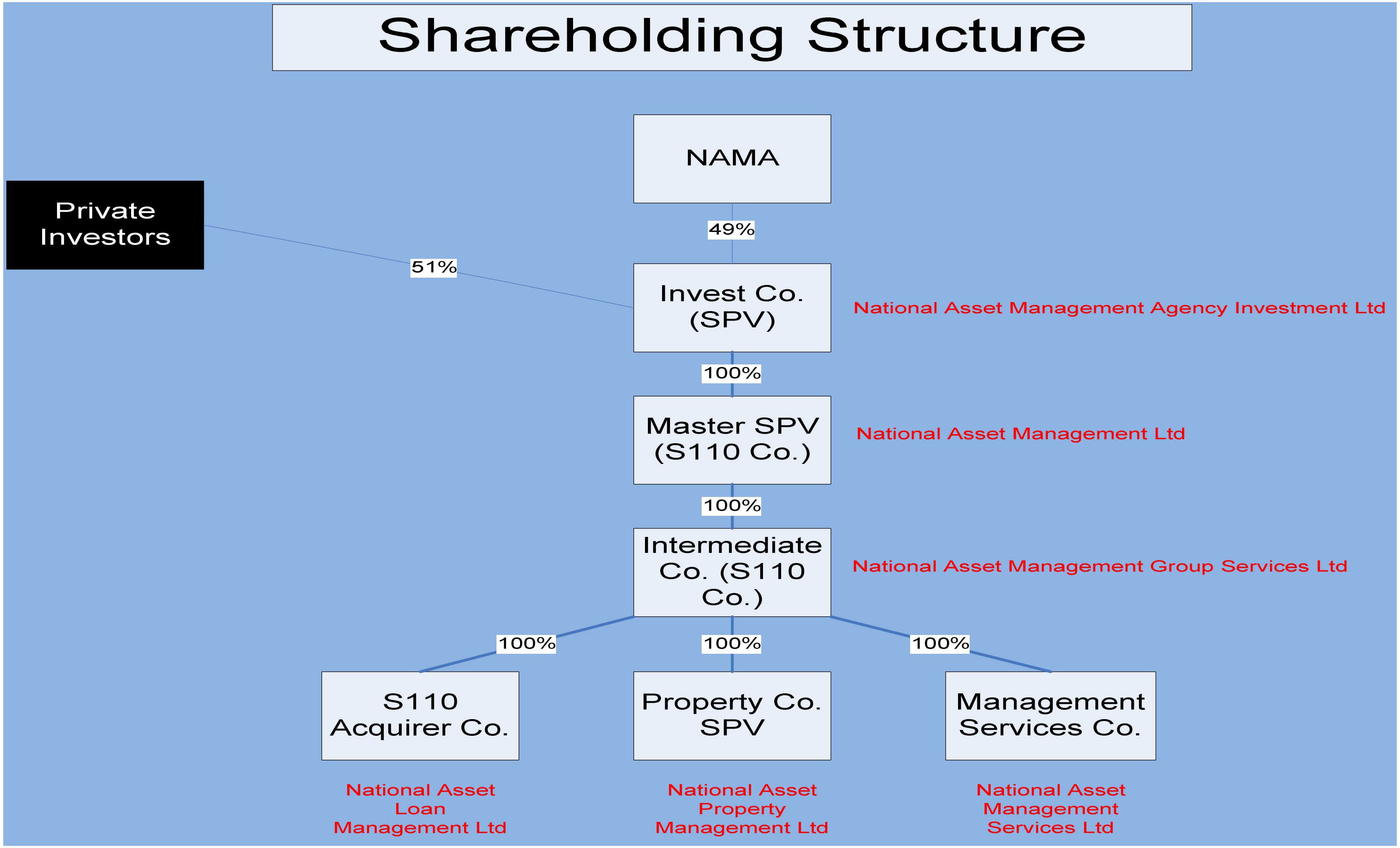
| Function | Est. staffing (FTE) | Key responsibilities |
|---|---|---|
| ***Portfolio Management*** | 35 | • Active management of the NAMA loan book in order to maximise recoveries<br>• The development of strategies for each sub-portfolio and for each of the major debtors<br>• Oversight of asset management, including lease negotiations, renewals, early surrenders, capital expenditure recommendations, implementation, tenant relations and planning consents, etc.<br>• Outsourced management of property where acquired, including rent collection, invoice payments, service charge budgeting, health and safety, etc.<br>• Control of assets and design of suitable structures to plan, manage and review workout.<br>• Assessment of capital investment proposals.<br>• Secure access to external capital markets and institutional investors, private investors and general purchasers.<br>• Plan institutional and retail platforms for equity raising and disposal; |
| ***Lending*** | 4 | • Work with Portfolio Management and other NAMA departments in assessing the commercial viability of the debtor asset business plans with particular reference to the terms, performance and sustainability of the current loan facilities.<br>• Devise loan strategies and methodologies for dealing with the stresses in those debtor business plans to include; existing debt restructuring, new money advances to enhance the value of security and/or the enforcement of our security so that NAMA's objectives are met;<br>• Determine an interest and fee pricing strategy where the appropriate interest rate basis and margin pricing is commensurate with the level of commercial risk to which NAMA is exposed in any deal; |

| Function | Est. staffing (FTE) | Key responsibilities |
|---|---|---|
| | | • Work to minimise future loan provisions via the early identification of distressed loans;<br>• Liaise and advise asset managers, portfolio managers and other relevant stakeholders on the commercial terms of financing deals<br>• Identify assets where enforcement action and/or disposal is required and facilitate processes<br>• Identify external Joint Venture partners who can provide new capital or intellectual "know how", on an asset by asset, basis to enhance end values<br>• Coordinate the preparation of asset information and sale documentation;<br>• Oversee and monitor the delivery of individual debtor plans. |
| ***Treasury*** | 3 | • Develop asset and liability strategies in relation to NAMA's Balance Sheet;<br>• Ensure all market risk (currency and interest rate) is in line with policy limits and guidelines<br>• Assist the Head of Lending and NAMA Senior Management team in setting interest rate and margin pricing for NAMA assets and liabilities.<br>• Manage NAMA Liquidity needs, including projections of Liquidity requirements and the establishment of a prudential liquidity reserve.<br>• Devise and implement NAMA's strategy for raising third party funding;<br>• Liaise with key external partners particularly in relation to the rating of NAMA Bonds and funding programmes.<br>• Assist the Head of Lending and Portfolio Management on termination of existing customer derivatives and or the creation of new hedging strategies necessary in any restructuring of existing facilities<br>• Liaise with Master Servicer and participating institutions in relation to derivative transactions acquired by NAMA.<br>• In addition assist in pricing and structuring any portfolio of loan disposals and negotiating any transactions thereto including any liaison with advisors. |

| Function | Est. staffing (FTE) | Key responsibilities |
|---|---|---|
| | | |
| ***Credit and Risk*** | 26 | • Protect and enhance the value of loans/assets acquired through minimising losses and maximising recoveries<br>• Credit and Risk will perform an independent role within NAMA & PIs, including oversight of credit approval/monitoring process and provisioning<br>• Credit & Risk will ensure that there is a robust Quality Assurance function operating both within NAMA & PIs. This will incorporate adherence to credit policies, management of risk, implementation of terms & conditions of sanction, regular reviews, provisioning, etc.<br>• Development of NAMA's risk management systems.<br>• Establishment of robust policies, standards and practices to ensure effective and consistent credit and risk operation<br>• Define the credit and risk parameters and ensure that business operates within those parameters<br>• Develop the Credit and Risk control function in line with the changing economic environments, business conditions and regulatory requirements.<br>• Identify, manage and implement action plans.<br>• Develop best practice credit risk management including proactive credit portfolio management and strategy implementation<br>• Enterprise Risk Management – embed and oversee the implementation and effectiveness of the risk management framework<br>• Risk Management – adoption of a risk management approach which promotes best practice Credit and Risk Control across the business. |
| ***Business Services*** | 10 | • Interact with and monitor performance of Master Servicer to ensure efficient and cost-effective service delivery, including cash flow management and quality and timeliness of management information and reporting.<br>• Provide support services to the various NAMA Board Committees to ensure that they operate efficiently and effectively.<br>• Preparation, monitoring and reporting of NAMA annual budget, multi-annual budget projections, debt issuance and redemptions and NAMA operating costs.<br>• Statutory reporting - annual accounts/forecasting statements to Minister, quarterly reports to Minister and the triennial |

| Function | Est. staffing (FTE) | Key responsibilities |
|---|---|---|
| | | review of NAMA's progress.<br>• Portfolio valuation, including performance of key debtors, the bank portfolios acquired by NAMA and the performance of sub-portfolios by type and by geographic region.<br>• Management information systems for loan monitoring, management and accounting.<br>• Strategic planning including the development of a strategic framework within which the long-term performance of NAMA can be projected, measured and monitored.<br>• Development and reporting of key performance indicators for NAMA and for NAMA service providers.<br>• Information/public relations about NAMA's activities<br>• Development of NAMA controls and procedures |
| ***Legal & Tax*** | 7 | • Management of legal, tax, reputational and regulatory risk.<br>• Management of the legal process for the acquisition of bank assets by NAMA to include oversight of the legal due diligence process and management of outsourced legal services.<br>• Management of NAMA litigation.<br>• Management of the NAMA group structure to include formation and operation of group companies, intra-group contracts and servicing, company law compliance, tax planning and compliance with responsibility for relationship with the Revenue Commissioners and other relevant tax authorities.<br>• Management of the procurement of key services and contractual relationships with key service providers.<br>• Provision of advice on enforcement.<br>• Provision of advice on disposal options for NAMA assets to include securitisation or disposal of loan portfolios and disposal of NAMA's property portfolio.<br>• Management of NAMA legal documentation.<br>• Provision of advice on credit operations to include advising on refinancing and restructuring and advances of debt or equity. |

**APPENDIX D – NAMA CORPORATE STRUCTURE**



In order to achieve its purposes, NAMA has established a number of special purpose vehicles:

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

**National Asset Management Agency Investment Limited** (Investment Holding Company) was established to facilitate the participation of private investors in NAMA.

**National Asset Loan Management Limited** is an operational subsidiary of the Master SPV and is responsible for the acquisition, holding and management of the eligible bank assets acquired from participating institutions.

**National Asset Property Management Limited** will manage properties acquired as a result of enforcement proceedings in accordance with strategies adopted by the Board.

**National Asset Management Services Limited** is an administrative company through which expenses will be charged.

# APPENDIX E: 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 |
| Internal Audit Services | 5 | 1* |
| Legal Due Diligence Panel | 167 | 67 |
| Business Plan Review and Evaluation Services | 163 | 39 |
| Enforcement Services | 130 | 24* |
| **Total** | **970** | |

Full details are available on www.nama.ie

*** NAMA expects to appoint firms in July 2010**

## APPENDIX F: CONFLICTS OF INTEREST

Section 45 of the NAMA Act obliges NAMA to seek to ensure that each expert adviser or service provider it utilises makes every effort to avoid or manage conflicts of interest and to declare any such conflict (actual or potential) to NAMA. This is a statutory obligation that NAMA implements in its tender documentation and subsequently in any contract. An example of wording used in tender documentation is set put below. Section 45 also permits NAMA to audit the records of service providers as they relate to services provided to NAMA and service providers are obliged to co-operate with such audits.

**Statement of Relevant Client Relationships**

Prior to the award of any services contract order to a member of the panel, each tenderer will be required to provide a statement confirming that it has not acted for a relevant debtor, its related entities or advisers in the past five years in relation to assets or in any other capacity which may be relevant to the proposed service. This statement will be treated as confidential by NAMA.

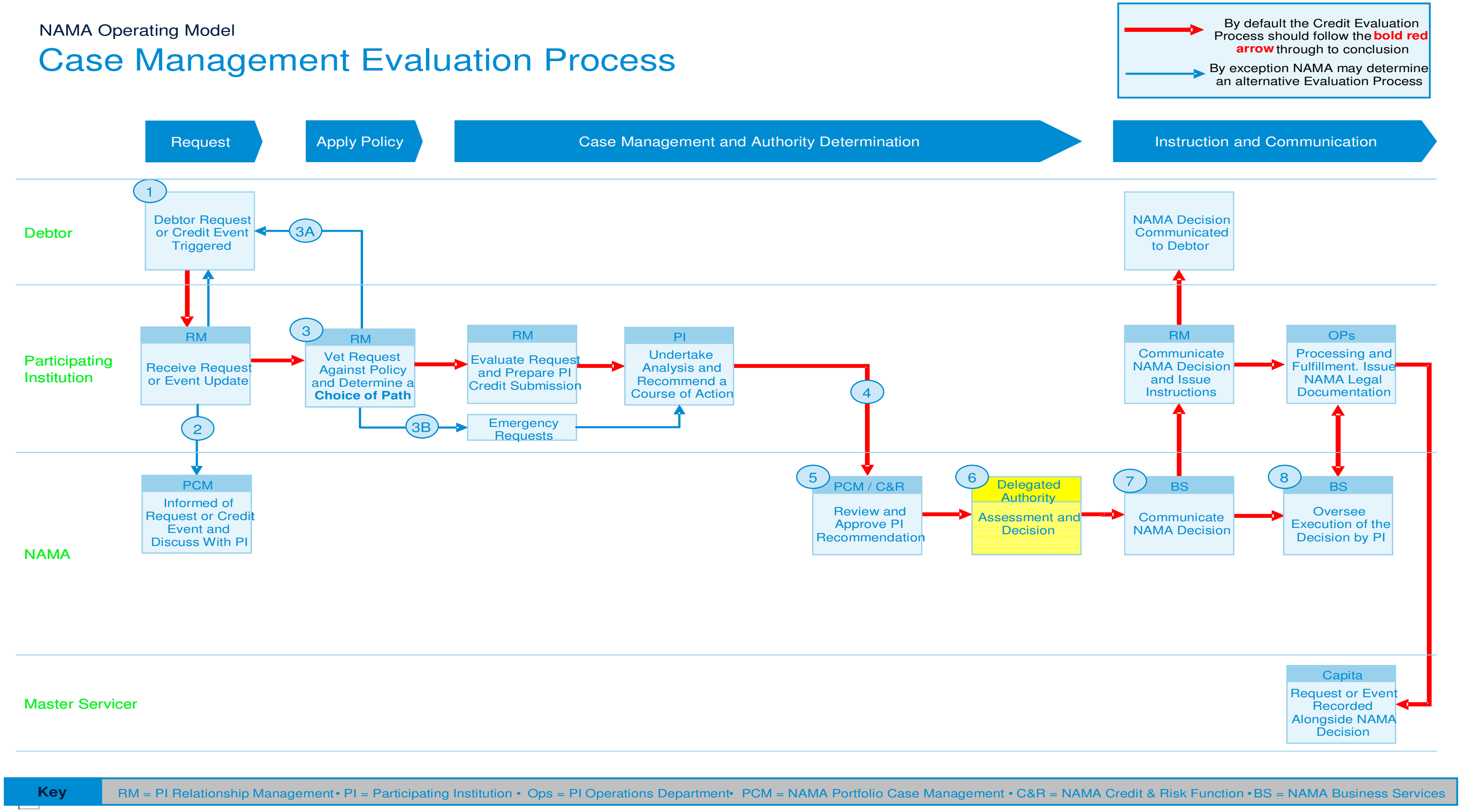
**Conflicts of interest**

Any conflict of interest or potential conflict of interest must be fully disclosed in writing to NAMA in the proposal and on an ongoing basis throughout the term of the panel and any applicable contract order as soon as such conflict or potential conflict becomes apparent.

In the event of a conflict or potential conflict of interest, NAMA will, in its absolute discretion, decide on the appropriate course of action, which may involve the exclusion of the relevant tenderer from the process.

It will be a term of appointment to the panel and any contract order awarded under it that the successful tenderer indemnifies NAMA for its additional costs and any other losses in the event that the tenderer has to cease acting for NAMA; or NAMA decides to terminate the panel or any applicable contract order in either case because of a conflict or potential conflict of interest that was not disclosed by the tenderer to NAMA before the panel or applicable contract order was established.

## APPENDIX G: NAMA Credit management process



## APPENDIX H: NAMA Risk Control Environment Framework

NAMA has established a risk control environment framework complementary to its overall risk management programme. The following framework provides common definitions of the elements that comprise NAMA's overall risk management activities and demonstrates the need for a holistic approach to risk management.

| Organisation | People | Process | Information Systems / Communications |
|---|---|---|---|
| • Tone at the top<br>– Values<br>– Ethics<br>• Board of Director Oversight<br>– Establish risk tolerance<br>– Approval of policies and risk limits<br>– Monitoring of activities and results<br>• Committee Oversight<br>– Approval of policies and risk limits<br>– Monitoring of activities and results<br>– Organisation reporting structure<br>• Monitoring<br>– Internal and external audit<br>– Loan Review<br>– Established MIS controls<br>– Risk Management Programme | • Strategy and objectives clearly communicated<br>– Strategic plans<br>– Risk Assessment<br>• Management Oversight<br>– Detailed review of activities<br>– Monitoring of results and activities<br>• Human Resources<br>– Competency of staffing<br>– Adequacy of staff levels<br>– Training and development of employees<br>– Resource planning<br>– Compensation<br>• Organisational Structure<br>– Segregation of Duties<br>– Decision Architecture<br>– Responsibility and Accountability<br>– Escalation and resolution of issues<br>– Access and Authority | • Policies & Limits<br>– Authorisation and delegation rules<br>– Risk position limits<br>– Key methodologies<br>– Decision making guidelines<br>– Risk parameters and pricing/risk guidelines<br>• Procedures<br>– Operational routines<br>– Contingency plans<br>– Risk procedures<br>– Risk information to be gathered and analysed<br>– Exception processing rules<br>• Internal Controls<br>– Reconciliation and Balancing<br>– Data Integrity Controls (Complete and Accurate)<br>– Document Tracking and Follow-up<br>– Authorisation and Approval<br>• Outsourcing Management<br>– Selection & Risk Management<br>– Service Level Monitoring<br>– Performance Assessment | • Management Information Systems<br>– Risk metrics<br>– Budgets & Forecasting<br>– Financial Reports<br>– Operating Reports<br>– Exception Reports<br>– Risk positions<br>• Automated IT Controls<br>– IT process flows<br>– Edit routines<br>– Programmed rejects<br>– Reconciliation<br>– IT capacity monitoring<br>• Formal and informal communication programs<br>– Committee structure<br>– Business Unit/Function meetings<br>– Communications<br>• Stress Testing Methods<br>– Assumption Support<br>– "What if" analysis<br>– Modelling sophistication |

| Strategic Risk | Operational Risk | Regulatory & Legal Risk | Credit Risk | Market & Liquidity Risk | Reputational & Political Risk | Economic & Property Risk |
|---|---|---|---|---|---|---|
| *Risk that financial or non-financial loss may arise from inappropriate or adverse strategic ns, or the inability to successfully implement selected strategies and related plans in accordance with NAMA governance protocols:*<br><br>• Governance<br>• Organisational structure | *Risk that losses may result from inadequate or failed internal processes and controls, people, systems and from external events. Operational risk events may impact NAMA in terms of financial loss, reputational damage or inefficiency:*<br><br>• Unauthorized activities<br>• Outsource management<br>• Information security<br>• Data management<br>• Business continuity<br>• Information technology<br>• Change management<br>• Service provider<br>• Process failure<br>• Policies and procedures<br>• Human resources<br>• Health & safety | *Risk that NAMA's ability to discharge its activities in an efficient manner are restricted by laws and regulation, including those in foreign jurisdictions; or that NAMA fails to adhere to such laws and regulations as well as financial loss as a result of an action/inaction by an external party:*<br><br>• Legislation<br>• Regulation<br>• Litigation<br>• Human resource regulation<br>• Contracts<br>• Fraud – internal & external<br>• Tax | *Risk of loss through exposure to bank counterparty and debtor default:*<br><br>• Credit strategies<br>• Credit sanctioning<br>• Portfolio concentration<br>• Terms and conditions<br>• Documentation<br>• Management information<br>• Pricing and risk alignment<br>• Risk information and analysis<br>• Verify collateral<br>• Derivatives | *Risk that financial loss may occur as a result of movements in financial market factors (e.g. interest rates and exchange rates) and other financial elements such as accounting and reporting:*<br><br>• Interest rate<br>• Currency<br>• Option<br>• Inflation<br>• Derivatives<br>• Funding & liquidity<br>• Financial management<br>• Accounting & reporting | *Risk that negative press and/or political comment may cause damage to the public perception in NAMA's ability to deliver against its intended performance and objectives:*<br><br>• Political<br>• Reputational | *Risk that the economic environment and property market in Ireland and other locations may result in NAMA not achieving its objectives as set out in the Act:*<br><br>• Economic<br>• Property market<br>• Construction<br>• Project management<br>• Asset management |