30 September 2010

Mr. Brian Lenihan T.D.,
Minister for Finance,
Department of Finance,
Upper Merrion Street,
Dublin 2.

Section 53 Annual Statement - NAMA Act 2009

Dear Minister,

Please find attached the NAMA Annual Statement which is submitted to you pursuant to Section 53 of the NAMA Act, 2009. The report covers the financial year 2011 and outlines the various requirements specified in Section 53 (3) of the Act:

(a) the proposed objectives of NAMA’s activities and those of each NAMA group entity for 2011,
(b) the proposed nature and scope of the activities to be undertaken,
(c) the proposed strategies and policies for achieving those objectives, and
(d) the uses to which it is proposed to apply NAMA’s resources and those of each NAMA group entity.

The 2011 Annual Statement was amended following a Board meeting today to incorporate changes necessitated by your Statement on Banking issued this morning. The Board will now consider whether there are any other ramifications for the proposed 2011 work schedule arising from your Statement.

We trust the Statement meets the requirements of the Act. If you have any queries in this regard please do not hesitate to contact us.

Yours sincerely,

Mr. Frank Daly,
Chairman

Mr. Brendan McDonagh,
Chief Executive Officer
NAMA Annual Statement 2011
(in accordance with Section 53 of NAMA Act)

Under Section 53 of the National Asset Management Agency Act 2009, NAMA is required to prepare an Annual Statement and to submit it to the Minister for Finance three months before the financial year to which it refers. The Statement must specify:

a) the proposed objectives of NAMA’s activities and those of each NAMA group entity for the financial year concerned,
b) the proposed nature and scope of the activities to be undertaken,
c) the proposed strategies and policies for achieving those objectives, and
d) the uses to which it is proposed to apply NAMA’s resources and those of each NAMA group entity.

The Act confers various powers and functions on NAMA in order to achieve its objectives. The Board of NAMA has various statutory functions including ensuring that NAMA functions are performed effectively and efficiently, setting strategic objectives and targets and ensuring that appropriate systems and procedures are in place to achieve its targets and objectives.

For the purpose of this Statement, NAMA and its group entities are considered as one. The Appendix presents an outline of the NAMA corporate structure.
A. PROPOSED OBJECTIVES FOR 2011

Section 10 of the Act sets out three core objectives for NAMA:

(a) the acquisition from participating institutions of such eligible bank assets as is appropriate,

(b) dealing expeditiously with the assets acquired by it,

(c) protecting or otherwise enhancing the value of those assets, in the interests of the State.

In the context of the Minister’s Statement on Banking on 30th September 2010 and the requirement on participating institutions to submit due diligence on all eligible loan assets by the end of 2010, NAMA’s work in 2011 will focus on the following:

- Completion of the review of due diligence and the final valuation of eligible assets before February 2011
- Direct engagement with the major (i.e. the largest 150) NAMA debtors.
- Determination of strategies for the management of debtors considered to be viable.
- Initiation of enforcement proceedings against debtors deemed to be unviable.
- Establishment of arrangements with the participating institutions for managing the debts of other debtors (about 700 debtors outside of the largest 150).

Section B below outlines in more detail the proposed nature and scope of NAMA’s activities in 2011.
Section C sets out the proposed strategies and policies for achieving NAMA’s objectives and Section D outlines NAMA’s application of resources to achieve these objectives.
B. NAMA – ACTIVITIES IN 2011

Completion of loan due diligence and final valuation

- Participating institutions have been directed to submit all outstanding due diligence by the end of 2010. NAMA will complete its review of due diligence and assign final valuations to loans by the end of February 2011. As a result the NAMA universe will be just over €73 billion.

Engagement with debtors

- NAMA will continue the process of direct engagement with the major debtors (the largest 150 debtors, whose aggregate NAMA debt is of the order of €54 billion). As at end-September 2010, NAMA was dealing directly with 30 debtors (with debt of €27 billion) whose loans transferred in Tranches 1 and 2. That process will continue in 2011 as NAMA engages with another 120 major debtors whose debt exposures will be directly managed by NAMA. Detailed debtor business plans will be evaluated and the NAMA Board will make decisions on individual debtor viability. Efficient debtor monitoring and management arrangements will be put in place for each debtor.

- Subject to close monitoring and control, participating institutions will manage another 700 debtors (€19 billion exposure) whose loans will have been acquired by NAMA. Institutions will operate under credit authority delegated on a restricted basis by NAMA. Interim primary servicing arrangements in place during 2010 will be replaced by detailed Service Level Agreements (SLAs) with each of participating institutions.
Funding/Treasury

- NAMA will raise funds, when required, through two funding programmes established in 2010. A €2.5 billion Euro Commercial Paper (CP) Programme will facilitate day to day liquidity management and the funding of working capital requirements (funding is typically less than one year maturity). This will be supplemented by a €2.5 billion Medium-Term Note (MTN) funding programme which will be used for project finance, joint ventures or longer term restructuring (funding is usually two to ten years in terms of maturity). Both programmes will be executed by the NTMA.

NAMA – completion of set-up phase

- Any residual recruitment not completed by the end of 2010 will be completed by the end of the first quarter of 2011.

- IT/MIS systems are crucial to the optimal management by NAMA of debtors and acquired assets. In the first quarter of 2011, NAMA expects to complete the implementation of a Portfolio Management System (PMS) which will store and process comprehensive data and analysis on its acquired loans and on the property and other assets securing them. A tendering process to acquire the system is at an advanced stage.

- The PMS will be supplemented by a Document Management System which will provide a single electronic source for all documents and reduce the movement of paper through implementation of a workflow system.

- The first quarter of 2011 will see the consolidation of a strong internal control structure in NAMA and in its service providers.
• NAMA’s Internal Auditor – Deloitte – will carry out an intensive audit of the internal activities of NAMA during 2011, which will be NAMA’s first year in full operation. Deloitte will also audit the participating institutions as primary servicers and Capita Asset Management as the Master Servicer by reference to SLAs agreed with them. NAMA will also be audited by the Comptroller & Auditor General.

C. STRATEGIES AND POLICIES

The NAMA Board has made a number of policy decisions which will guide the management of debtors and of assets during 2011 and subsequent years. Some of these are confidential and commercially sensitive and therefore cannot be disclosed. Other key policy decisions are outlined below:

Management of Debtors

• NAMA will pursue all debts and debtors to the greatest extent feasible. In line with the Board’s target of a 25% reduction in NAMA debt by 2013, it is expected that significant progress will be made in 2011 towards meeting this target.

• 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.

• NAMA may, on occasion, advance new money to a debtor, on a risk adjusted basis, so as to improve its overall financial position.

• Where management/debtor is not adding value and in default, NAMA will, where appropriate, seek to take control of the asset(s).
NAMA’s policy will be to acquire unencumbered assets as additional security, taking account of the cost of pursuance and the legal risks involved.

NAMA will pursue recovery of assets transferred to third parties.

NAMA will pursue all personal guarantees to the greatest extent feasible.

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.

**Management of assets**

- 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.

- 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.

- 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.

- 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.

- 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.
4. NAMA RESOURCES

By the end of September 2010, NAMA had recruited 80 of the 104 permanent staff that it expects to employ. Excluding the Chief Executive and a senior executive team of six, the following is the projected staff composition of each of the business units:

<table>
<thead>
<tr>
<th>NAMA Business Unit</th>
<th>Responsibilities</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Portfolio Management (42)</strong></td>
<td><strong>Portfolio Management</strong> has responsibility for the active management of NAMA’s loan portfolio with the objective of maximising recoveries. It develops debtor strategies based on its assessment of their long-term prospects.</td>
</tr>
<tr>
<td><strong>Credit and Risk (29)</strong></td>
<td><strong>Credit and Risk</strong> is responsible for independent oversight of the credit approval/monitoring and provisioning processes within NAMA and the participating institutions. It also has responsibility for developing and implementing best practice credit risk management and general risk management policies.</td>
</tr>
<tr>
<td><strong>Business Services (11)</strong></td>
<td><strong>Business Services</strong> oversees the performance of the participating institutions in their servicing of NAMA loans and the performance of the Master Servicer. It also has responsibility for the development of management information systems for loan monitoring, management and accounting and for statutory and other reporting.</td>
</tr>
<tr>
<td><strong>Legal and Tax (7)</strong></td>
<td><strong>Legal and Tax</strong> has responsibility for the management of the legal process for the acquisition of bank assets by NAMA, the management of NAMA litigation and for the provision of advice on enforcement and on disposal options for NAMA assets.</td>
</tr>
<tr>
<td>Business Unit</td>
<td>Responsibilities</td>
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<tr>
<td>----------------</td>
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<tr>
<td>Lending (5)</td>
<td><strong>Lending</strong> works in close conjunction with Portfolio Management to assess the commercial viability of debtors and, where viability is established, to devise appropriate loan and asset financing strategies.</td>
</tr>
<tr>
<td>Treasury (3)</td>
<td><strong>Treasury</strong> is responsible for developing asset and liability strategies in relation to NAMA’s balance sheet, including the management of funding and liquidity.</td>
</tr>
</tbody>
</table>
### NAMA Projected 2011 Budget

<table>
<thead>
<tr>
<th>NAMA Direct Expenses</th>
<th>€m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary Servicer/Master Servicer Fees</td>
<td>(51)</td>
</tr>
<tr>
<td>Legal Fees</td>
<td>(25)</td>
</tr>
<tr>
<td>Reimbursement to NTMA as Service Provider</td>
<td>(25)</td>
</tr>
<tr>
<td>Accounting/Audit fees</td>
<td>(2)</td>
</tr>
<tr>
<td>Property Advisory Fees</td>
<td>(12)</td>
</tr>
<tr>
<td>Financial Advisors (Debtor Business Plan reviews)</td>
<td>(15)</td>
</tr>
<tr>
<td>IT/MIS costs</td>
<td>(3)</td>
</tr>
<tr>
<td>Miscellaneous Costs – Contingency</td>
<td>(8)</td>
</tr>
<tr>
<td><strong>Total - Direct Expenses</strong></td>
<td>(141)</td>
</tr>
</tbody>
</table>

### NAMA Indirect Expenses

| NAMA Indirect Expenses                                  | |
|---------------------------------------------------------||
| Recovery/Insolvency Costs                               | (75) |

| **Total Budget Direct and Indirect Expenses (including VAT)** | (216) |
NOTES

- Any due diligence costs incurred by NAMA during the eligible asset acquisition process in early 2011 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 estimates above 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.
APPENDIX: NAMA Group entities

The Act provides that NAMA may form group entities (subsidiaries) to manage its business. In 2009, the NTMA and the Department of Finance made a submission to Eurostat that NAMA would establish a subsidiary which would be majority-owned by private investors, in accordance with Eurostat rules, with the objective of being deemed to be off-Balance Sheet for European general government debt (GGD) and general government balance (GGB) reporting purposes. This was to bring the Eurostat treatment of NAMA into line with the treatment that was being achieved by other European countries for their asset relief schemes. Eurostat made a preliminary ruling in October 2009 that NAMA satisfied the relevant criteria to achieve this objective.

In line with Eurostat’s ruling, the NAMA Board set up Group entities to acquire and manage the loan assets acquired from participating institutions. The investment holding company, National Asset Management Agency Investment Ltd, is majority-owned by private investors who have invested €51m for a 51% shareholding. The return to the private investors is an annual dividend linked to the Irish Government Bond yield at the time of the declaration of the dividend, with the potential of an additional 10% of the contributed capital sum after 10 years – this is a capped return. NAMA has contributed €49m for a 49% shareholding but has veto powers over all decisions of this Group entity.

National Asset Management Agency Investment Ltd has a number of 100% owned subsidiaries, namely:

- National Asset Management Limited (the Master SPV) is responsible for issuing the Government-guaranteed debt securities which are used as consideration for the purpose of acquiring eligible bank assets. It also issues the subordinated debt instruments which are used to provide up to 5% of the acquisition value of acquired bank assets. National Asset Management Agency Investment Ltd is the sole member of the Master SPV.
• The Master SPV has a number of operational subsidiaries, chief of which is National Asset Loan Management Limited which is responsible for the acquisition, holding and management of the acquired bank assets.

• National Asset Management Group Services Ltd and National Asset Management Services Ltd are subsidiaries which will be used to facilitate group activities for the administration of the group and possible future group financing structures.

• National Asset Property Management Ltd is likely to be used for the purposes of any property activities that NAMA may engage in throughout its life. While NAMA itself is tax-exempt, the special purpose vehicles are tax-equivalent to any other commercial entity.