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The Irish Experience – The National Asset Management Agency (NAMA)

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Ireland – A Classic Real Estate Bubble

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- Positive economic conditions promoted real estate investment by firms and households
  - 20 years of positive and mostly above trend GDP growth (1987-2007)
- Public policy measures also promoted real estate investment by households
- Cyclical acceleration in price promotes speculation and over-evaluation - volume of outstanding loans increases and mortgage credit accelerates
  - Lenders contribute to the bubble by supporting demand through arranging finance for potential buyers even for international purchases – Liquidity
  - Most investors and developers had little supporting corporate infrastructure or access to capital other than through bank lending and majority had little or no obvious professional capacity related to real estate
- Significant implications for the national economy and domestic banking sector
  - Distressed assets – non-performing real estate loans - need for urgent recapitalisation of the banks - sovereign debt crises and ultimately the EU/IMF bailout
- Private sector crises becomes a public sector one – poor regulation of domestic credit – inefficient banking system

Part of the solution a 'Bad Bank'

- A very simple concept
  - Put troubled assets into separate entity
  - Bad assets no longer contaminate the good
- But in practice there are considerable complexities in implementation
- Four basic types of Bad Bank Model
  - *On-balance-sheet guarantee*
  - *Internal restructuring unit*
  - *Special-purpose entity*
  - *Bad-bank spinoff*

The National Asset Management Agency (NAMA)

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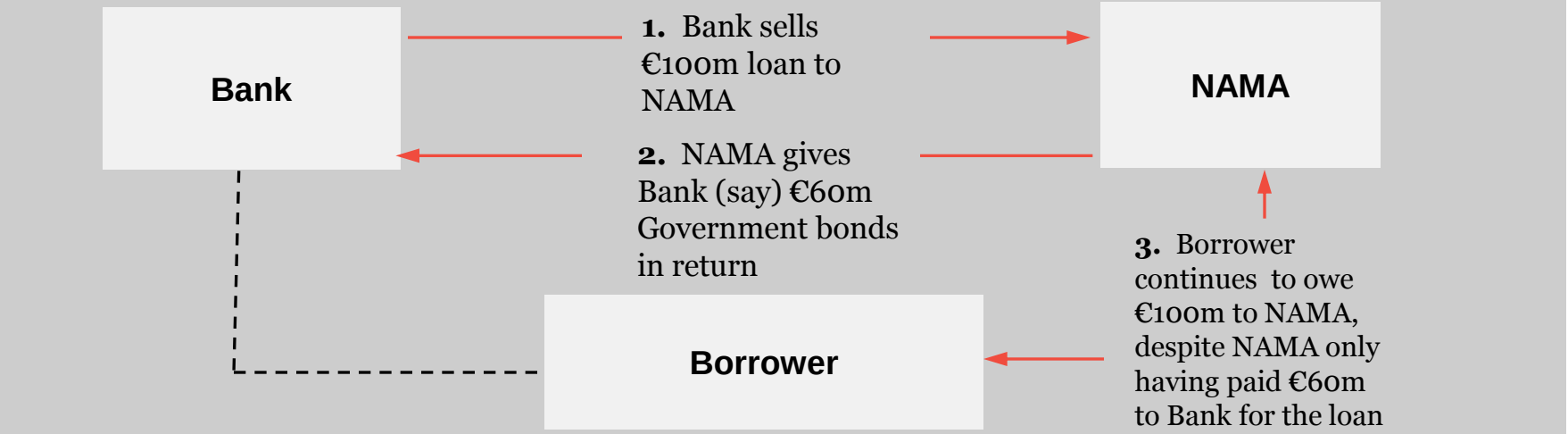
- A key element of the Irish Government's approach to bank re-capitalisation - A 'BAD BANK' Approach
- Remit acquisition of performing and non-performing real estate related loans from participating financial institutions
- Removes toxic real estate loans from balance sheets
- Institution receives a price based on NAMA's assessment of the assets potential '***long-term economic value***'
- Funds received recapatalise the institution
- Funding 51% Private Investors 49% Government - €30.2bn senior bonds

NAMA Business Model



NAMA Perspective	Bank Perspective
▸NAMA controls the relationship with the borrower and makes all decisions ▸NAMA receives income on the acquired loan portfolios (usually floating rate plus a profit margin) – to the extent that such is recoverable ▸NAMA pays an interest coupon on government bonds (floating interest rate)	▸Reduces risk weighted assets (RWA) which have a high weighting for capital ratio purposes (which will somewhat mitigate the impact of any valuation impairment upon transfer) ▸Removes the loans from the banks balance sheet that generally cannot be used for collateral purposes to access liquidity with Central Bank or other market counterparties ▸Receives government bonds which can be used as collateral with Central Bank or other market counterparties for liquidity (zero weighting RWA) ▸Banks will administer the loans on behalf of NAMA but control passes to NAMA

NAMA- An Outsourced Operating Model

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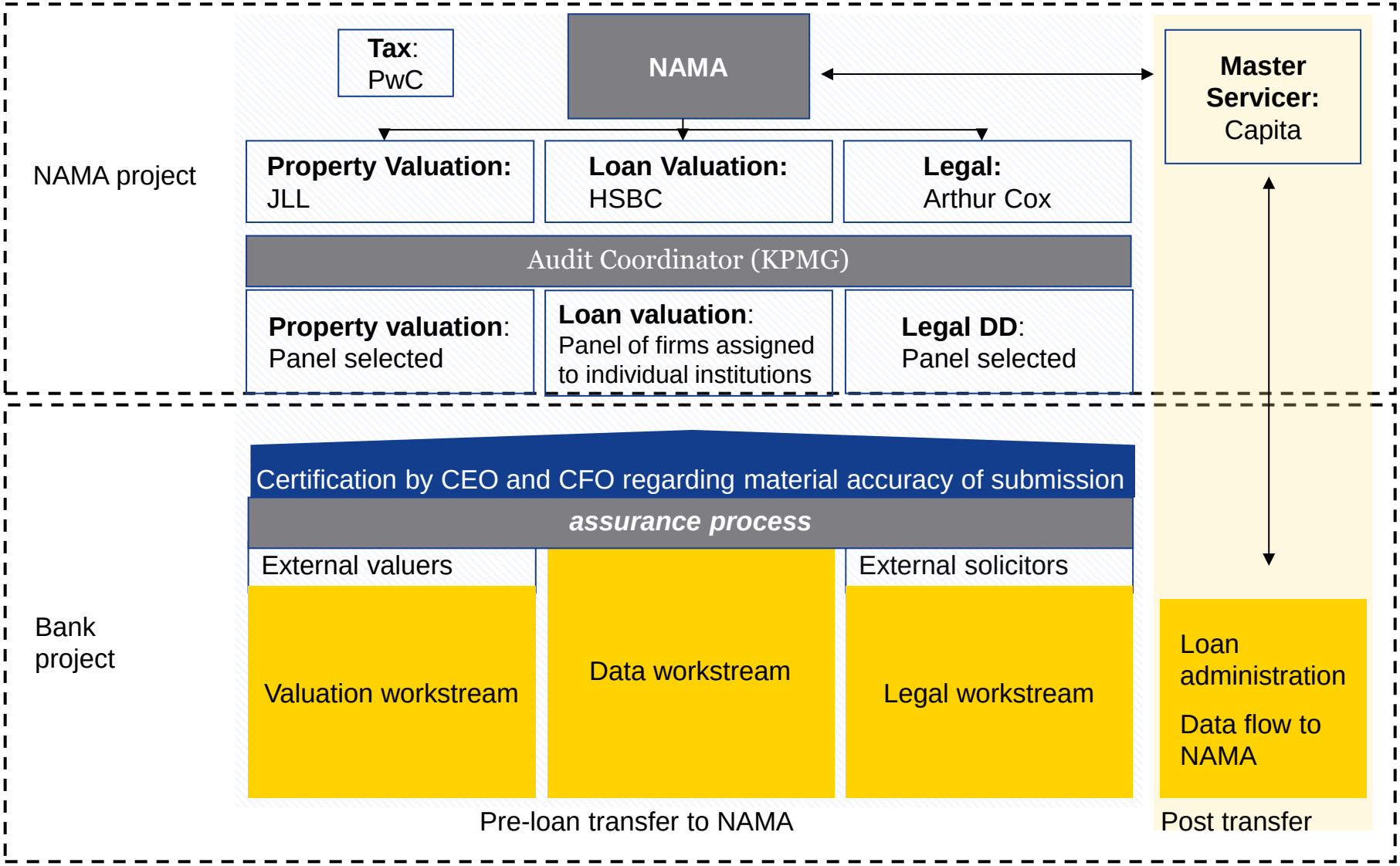

Asset Transfer

- Complex Process
  - Assessments of asset quality central to the transfer process because of the need to establish long-term economic values
  - Essential to get this right for the long-run ability of NAMA to achieve its goals
  - Discounts higher than initially expected
- Book value of loans transferred in the region of €74 bn.
  - Approximately two thirds of the assets were located in Ireland with the rest overseas (mainly UK)

Loan Transfers

Financial Institution	AIB	Anglo	BOI	EBS	INBS	Total
Loan balances transferred (€bn)	20.4	34.1	9.9	0.9	8.7	74
Consideration paid	9.0	13.4	5.6	0.4	3.4	31.8
Discount	56%	61%	43%	57%	61%	57%

NAMA – Assessing Performance

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- Learned from global best practice in particular with respect to asset management, repositioning and disposal strategies
  - Innovation – Packaging non-performing loans or assets
- Core objective of reducing contingent liability
  - 50% of senior bonds repaid – ahead of target
  - 80% by 2016
- € 4.0 BN Development funding for offices and residential
- Social Housing – potential to deliver up to 5,750 units
- Situation Helped by Irish Economic Recovery from 2013
  - GDP Growth 2014 +4.8%
  - €4.59 BN 2014 investment volume in CRE

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Wider Investment Market Implications

- Clear commitment by the authorities to intervene and stabilise the market
- Improved Transparency
  - Price Discovery
    - Evidence of pricing of distressed assets for investors
    - Pricing risk across a range of assets
- Supports Liquidity
- Pricing in non-NAMA segment of the market not effected by distressed situations
- Market segmentation – assets packaged for higher risk taking investors
- Evolution of an Irish REIT Market