Annex I - Questions and Answers in Relation to the National Asset Management Agency (NAMA) initiative

1. Loans transfer

1.1 What loans will be transferred?

The eligible land and development loans of each bank involved will be transferred – that is the eligible loans secured on development land and property under development. In addition, the largest property-backed exposures of all the banks in the scheme will be transferred. The number will be decided based on detailed assessment of the loan books concerned. These will all be purchased by NAMA (National Asset Management Agency) at an appropriate price. The loan books will have to be worked out and reviewed in relation to each of the banks to ensure that the appropriate loans are transferred and that the banks are cleared of the identified riskiest loan portfolios. This process is subject to EU State aid approval.

1.2 Will land and development loans outside of Ireland be transferred to NAMA?

Yes land and development loans outside of Ireland will be eligible for transfer to NAMA, subject to consideration of the legal issues involved. This is essential to ensure that the banks are completely cleansed of their exposure to their identified riskiest loan category. UK exposure is a significant part of the bank's total Land and Development portfolios and therefore needs to be included in the transfer of NAMA as part of the overall solution.

The objective is to provide the banks with a clean bill of health, to strengthen their balance sheets, to considerably reduce uncertainty over bad debts and as a consequence ensure the flow of credit on a commercial basis to individuals and businesses in the real economy.

1.3 Will there be transparency in relation to loans transferred to NAMA?

Yes. NAMA will operate on a commercial and independent basis. In light of this, information regarding its exposures and their size is commercially sensitive so it will not be appropriate to disclose every detail. However, the total size of the loan book transferred from each institution will be made public as will the value of total bonds issued to each institution, together with considerable detail of the overall operations of the NAMA.

NAMA will be required to actively manage its loan portfolio ensuring that the optimal value for money is obtained for the taxpayer and that, like a bank, it will want loan agreements honoured in full. NAMA will be subject to detailed accountability requirements including in relation to accountability to the Oireachtas and public.

1.4 What will happen if individuals or companies who have performing loans do not want their loans to be transferred?

Legislation will address this and many other detailed issues. Generally speaking, it is not the intention that the individual borrowers will be able to opt out. Details will be developed as part of this process.

1.5 Will some borrowers just stop repaying their loans?

Just as any borrower from a bank must expect to have to repay his/her debts in full, the same will apply to those whose debts are transferred to NAMA. The NAMA will have a commercial mandate to recover debt and therefore its purpose will not be to relieve developers or any other borrowers – it is a matter of supporting the capacity of the financial institutions to maintain and grow lending in support of the recovery of the real economy. The continued commercial operation of the financial institutions is in the best long term interests of the taxpayer and the economy. NAMA will operate in a normal, commercial way, it will be staffed by professionals who will maximise returns and like any commercial entity it will want the loan agreements honoured in full. It will operate with an independent remit and will take the appropriate commercial decisions to optimise its return for taxpayers.

2. Valuation

2.1 What write-down will be applied to loans?

To ensure best value for money for the taxpayer loans will be transferred from the banks to the NAMA at an appropriate written down value depending on an assessment of the value of the loans and the risk being transferred to the State in line with European Commission guidance and subject to appropriate terms and conditions as well as EU State aid approval.

2.2 Will there be a fair discount or will the banks get off lightly?

The level of discount and the terms and conditions of the transfer of assets will ensure that the banks do not 'get off lightly'. Banks will have to take the appropriate write-down in value of loans taking account of the objective of NAMA which is to operate commercially and optimise the return on such loans over time.

2.3 Who will be footing the bill for the loans – the banks, the developers or the taxpayer?

NAMA acting for and on behalf of the taxpayer will not be paying book value for these assets, so on transfer of the assets the banks concerned will have to recognise losses on their books. Developers will be required to repay their loans and to the extent that they have made losses, they will have to recognise those – it will not be the function of NAMA to 'go easy' on them: NAMA's mandate will be a commercial one.

However, the stream of income from the assets and the proceeds from the eventual sale of the underlying asset will accrue to NAMA. The State will incur a loss only if the assets transferred to the State cannot over the long term repay the investment made by the State in their purchase from the banks. However, if NAMA make a loss over the long term, the Government intends that a levy should be applied to recoup the shortfall.

3. Banks

3.1 NAMA isn't a toxic bank – why not?

NAMA is firstly an asset management company dealing with assets transferred from banks. NAMA will not be a bank as it will not be taking deposits from the public and will not have a banking licence. NAMA will have loans on its books based on real physical assets, and while some of these will undoubtedly be of better quality than others, they will be a mix of 'good or performing loans' and 'bad or non performing loans'. The reason why it is important to take these property loans off the balance sheets of the banks is not because they are inherently worthless, but because they are part of a class of assets whose worth is harder to assess in the current constrained economic environment. Financial and capital markets are uncertain about the overall impact of such property loans on the sustainability of the financial institutions concerned. NAMA will actively manage its loan portfolio over a period of years to ensure that the optimal value for money is obtained for the taxpayer and like a commercial entity it will want all loan agreements to be honoured in full. Where write downs are taken, this will reflect commercial reality and will be offset by other loans within the NAMA portfolio which do perform and may realise a greater value than the cost of acquisition.

3.2 Do the banks have to give up loans that they don't want to?

Legislation, which will be introduced shortly, will address the issue of a mandatory power to acquire assets from the banks. This process will allow the banks to be reinvigorated and restructured and it is anticipated that they will be anxious to take part. NAMA must be established and start its work quickly to have most impact and to help the economy to start to recover as soon as possible. The banks will have to co-operate fully with the State in making this happen.

3.3 Will Anglo-Irish Bank be used as a 'bad bank'?

The Government has previously stated that it does not intend to turn Anglo Irish Bank into a "bad bank". The Government will ensure that Anglo will remain as a going concern operating at arm's length from Government. The Government has reaffirmed its commitment to guarantees to Anglo that are already in place. The Government has also committed to any further support measures necessary in the future, consistent with EU State aid requirements.

3.4 Will Anglo be able to participate in this scheme?

The position of Anglo will be considered having regard to its individual particular circumstances and the business planning process currently under way. The Government will ensure, however, that all actions in relation to Anglo are closely co-ordinated with the initiatives being taken in relation to the sector as a whole.

3.5 How will the write off impact on the banks' capital ratios?

The Banks will be cleansed of risky categories of loans at a price less than their current carrying value on the banks' balance sheets. This will be financed by the issue of Government bonds. The impact of the difference or write-down on the banks capital ratios will undoubtedly affect individuals bank's capital positions, but so will the reduction in 'Risk Weighted Assets' that will arise for the banks in replacing commercial assets with Government bonds. Moreover, market expectations of capital requirements for the new ‘cleansed’ banks will be different to what would be expected for banks which had not been through the same process, and there may be opportunities for banks to generate core capital through appropriate balance sheet restructuring. Overall, therefore, the capital impacts on individual banks cannot be established in advance of the detailed valuation and pricing process between NAMA and the institutions.

It should be noted that it has already been decided that there is a capital requirement in relation to at least the two institutions in respect of which announcements were made in mid-February – AIB and Bank of Ireland. In the case of Bank of Ireland this recapitalisation process has already been finalised at the end of March and in the AIB case due diligence work is ongoing.

3.6 Will the Government be prepared to put more capital into banks, and on what conditions?

The Government will consider the position of banks on an individual basis in the light of the proposed establishment of NAMA, the capital requirements of the institutions concerned and the requirement to protect the position of the taxpayer. It is clear, however, that there is a limit to the extent to which Government capital injections where they take place can be by way of preference share issuance. Other mechanisms, including equity stakes, which ensure that Government risk-sharing can be appropriately rewarded, would have to be considered. But it is important to note that each institution is different and there is no *ex ante* prescription.

3.7 Will the loss of profits not further inhibit the capital position of the banks?

The aim of establishing an Asset Management Agency is to provide the banks with a clean bill of health, to strengthen their balance sheets, to considerably reduce uncertainty over bad debts and as a consequence ensure the flow of credit on a commercial basis to individuals and businesses in the real economy.

While the initial write down of loans may have an effect on the banks capital, there will be a corresponding reduction in risk weighted assets as a result of the transfer of the loans to NAMA. The setting up of NAMA and transferring the more difficult asset portfolio to it will leave the banks in a stronger position to lend to the real economy and to make profits which will assist the increase in the banks' capital bases over time.

3.8 Will the terms and conditions of a loan transferred to NAMA change?

Existing terms and conditions will remain in place. The individual loan terms will be reviewed by NAMA as appropriate in line with the loan documentation. NAMA will have commercial independence in dealing with the loans acquired.

4. Developers

4.1 Is the Government just bailing out the Developers?

This initiative is about strengthening the financial system of the State as a whole and that this is vital for all sections of the economy. Developers whose loans are transferred to NAMA, like all other loan holders, will continue to be liable for their loan obligations, the loan counterparty merely changes from the relevant bank to NAMA.

4.2 Will the taxpayers have to pay for the banks' mistakes?

This initiative will make the loan books of the banks significantly smaller than they were and will oblige them to refocus on their traditional lending which will facilitate economic recovery. Everyone knows that the value of development land has fallen significantly in the downturn. Typically, the loan to value ratio on these properties started at something of the order of 70%, though it varied considerably from one loan to another. When NAMA acquires the loans, it will be at an appropriate discount from the face value of the loans held on the banks' balance sheets and banks will have to recognise a loss at the time of being transferred to NAMA. So NAMA's loan to value ratio will be considerably lower than that of the banks, prior to the transfer of the loans to NAMA, insulating it further against potential further losses. Moreover, NAMA will have the benefit of cross-collateralisation and guarantees which were contained within the loan contracts. NAMA will actively manage the loan portfolios acquired ensuring that the optimal value for money is obtained for the taxpayer and that like any commercial entity it will want loan agreements honoured in full and will take all necessary steps to extract the maximum value. One of the strengths of the NAMA proposal is that it can take a longer term view than the commercial market can in respect of a property cycle.

4.3 How much will this cost the tax payers?

To ensure best value for money for the taxpayer the loans will be transferred to NAMA at an appropriate written down value. The potential book value of loans that will be transferred to NAMA is estimated to be in the region of €80 to €90 billion. This is an indicative figure for now, as significant further detailed work and extensive due diligence on the loans books will be needed to ensure that the appropriate categories or portfolio of loans are transferred and that the banks are cleared of the identified riskiest loans by NAMA. A central feature of the arrangement is that the banks will have to play their part in a constructive, practical and demonstrable manner to achieve the best outcome for all stakeholders.

The stream of income from the assets and the proceeds from the eventual sale of the underlying assets will accrue to NAMA. If in wind up NAMA is profit making this profit will also accrue to the State. If however NAMA make a loss, the Government intends that a levy will be applied to recoup the shortfall.

5. General Government finances

5.1 What effect will this have on Government debt?

NAMA will be funded by means of a government bond issue. The arrangements for this will need to be determined in due course but it could be by way of a direct Government bond or a bond issued by NAMA with the benefit of a Government guarantee.

5.2 How will this effect the country's credit rating?

The assignment of credit ratings is a matter for the relevant agencies. However, the objective of the proposal is to provide the banks with a clean bill of health, to strengthen their balance sheets and to enable them to provide credit to viable businesses, householders and individuals. The realisation of that objective will help promote economic stability and this will have a positive impact on the quality of Ireland's economy and financial position. Ireland's Debt/GDP ratio at end 2008 was 43% gross or 20% net of cash and NPRF assets. Of course the NAMA bond will increase the ratio but it will still be considerably less than many other countries in the EU.

5.3 Can the country afford this?

Ireland is fortunate that it entered this economic downturn with a relatively low level of national debt. At the end of 2008 the Gross Government Debt to GDP ratio was only 43%, even before account is taken of the assets within the National Pension Reserve Fund and the cash holdings of the Exchequer, compared to the EU average of 69%. This ratio will rise over the coming years, but given that Ireland is starting from a lower than average base, there is greater scope than other countries to increase the level of debt to tackle the major problems in the banking system.

6. Credit Institutions Guarantee Scheme

6.1 What does the further initiative announced in the Supplementary Budget speech mean for the existing Guarantee Scheme?

The existing Guarantee Scheme remains in place. The guarantee Scheme covers the specified liabilities of the participating institutions up until 29 September 2010. The amount of liabilities covered under the Scheme is €351 billion. (This does not include deposits covered separately under the Deposit Protection Scheme which amount to €85 billion, i.e. total €436 bn or 230% of GDP).

One of the important advantages of the NAMA initiative is that it is focused on reducing the main source of risk in the assets of the banking system. The implementation of the NAMA proposal will, therefore, strongly complement the guarantee Scheme by highlighting the extent to which the covered liabilities in the banks are solidly backed by good quality assets in the banks.

As required under EU State aid approval, the guarantee Scheme is to be reviewed after six months and the State authorities are now in discussion with the EU Commission on this matter.

6.2 Will the Bank Guarantee be extended?

The Government also intends in line with its previous indication to put a State guarantee in place for the future issuance of debt securities with a maturity of up to five years. This will not add to the overall stock of guaranteed liabilities. Access to longer-term funding in line with the mainstream approach in the EU - consistent with State aid rules – will contribute significantly to supporting the funding needs of the banks and to securing their continued longer term stability.

7. Management of NAMA

7.1 When will NAMA be established?

This is a priority for Government. It is intended to have legislation before the summer.

7.2 Who will run NAMA?

It is proposed to establish the NAMA on a statutory basis, under the aegis of the National Treasury Management Agency which has a proven track record in meeting the State's financial requirements in a number of different areas. Questions such as a Board, Chairperson and CEO will be addressed in the legislation.

7.3 Will it be run by the Government – will it be commercially run?

NAMA will be set up under the auspices of the National Treasury Management Agency. It will be an independent commercial entity run on an arms-length basis.

7.4 Who will be employed by NAMA?

NAMA will be staffed by professionals whose objectives will be to maximise returns and like any commercial entity it will want loan agreements honoured in full and will take all necessary steps to extract value from its acquired loan book.

8. State Aid

8.1 What are EU State aid implications of the NAMA proposal?

On 25 February 2009, the European Commission has provided guidance on the treatment of asset relief measures by Member States. Indeed, the Commission considers that a common European approach is presently needed to deal with the treatment of impaired assets, to make sure that foreseeable losses are disclosed and properly handled and banks can use their capital to resume their normal function of lending to the economy instead of fearing they would need this capital to cushion against possible losses.

Under this framework, Ireland has already started the cooperation with the Commission to ensure that the design and the implementation of the NAMA proposal will be consistent with EU State aid rules. The measure will be formally notified to the European Commission in due course.

9. Regulatory Structure

9.1 What are the proposals for improving regulatory structures?

The role of Central Bank of Ireland will be reformed to place it at the centre of financial supervision and financial stability oversight, providing a single integrated structure combining both these critical functions.

The Central Bank of Ireland will in the future be headed by a Commission, chaired by the Governor, whose membership will be authoritative, expert and experienced in the key areas required for it to effectively and efficiently discharge its challenging responsibilities.

9.2 How will the new structure improve the regulatory regime?

This new structure will ensure the full integration and co-ordination of the prudential supervision and stability of individual financial institutions with that of the financial system as a whole. A well regulated financial system is essential for domestic and international confidence and credibility.

It is a priority to restructure Ireland's regulatory and supervisory regime and introduce the necessary measures to allow the domestic banking sector to service effectively the needs of the real economy. A key objective is to ensure Ireland's reputation as a sound and stable centre of excellence in international financial services best in class among its peers and regulated to the highest EU and international standards.

9.3 How will the new Head of Regulation be recruited?

The process of recruiting the new Head of Regulation will take place under the auspices of the Central Bank and Financial Regulator. The Minister will be consulted closely at all stages. Sir Andrew Large, former Deputy Governor of the Bank of England and former member of the UK Monetary Policy Committee will advise on the recruitment process. The international search for the appropriate candidate will be wide-ranging in order to ensure that the person chosen will be of the calibre, reputation, experience and expertise to lead and drive the reform of financial regulation in Ireland.

9.4 Will the new structure be provided with additional resources?

Important structural changes to the regulatory system will be complemented with significant new resources and additional expert staff, to widen skill sets and enhance market based knowledge, which will underpin the restoration of confidence in Ireland's regulatory regime.